

**PERSPECTIVES**

---

**NEW GOVERNMENTS, NEW  
BEGINNINGS: AN OUTLOOK ON KOREA-  
AUSTRALIA RELATIONS**

**DR MALCOLM COOK**

---

**J U L Y 2 0 0 8**

**The Lowy Institute for International Policy** is an independent international policy think tank based in Sydney, Australia. Its mandate ranges across all the dimensions of international policy debate in Australia – economic, political and strategic – and it is not limited to a particular geographic region. Its two core tasks are to:

- produce distinctive research and fresh policy options for Australia's international policy and to contribute to the wider international debate.
- promote discussion of Australia's role in the world by providing an accessible and high quality forum for discussion of Australian international relations through debates, seminars, lectures, dialogues and conferences.

Lowy Institute Perspectives are occasional papers and speeches on international events and policy.

The views expressed in this paper are the author's own and not those of the Lowy Institute for International Policy.

## **New governments, new beginnings: an outlook on Korea-Australia relations**

### **Outcomes report**

**Prepared by Dr Malcolm Cook**

On 20 June, the Lowy Institute hosted a conference on the prospects for closer relations between Australia and the Republic of Korea (ROK) given the recent changes of government in both countries. The discussion during the day came up with a variety of feasible proposals built upon the strong and often unremarked upon bases for cooperation. The Institute is very grateful to the Australia-Korea Foundation for its generous support. The conference could not have been held without it. The discussions during the day were held under the Chatham House rule of non-attribution to ensure frank exchange.

The conference first focused on the state of the relationship as it stands now and the forces that have helped shaped it. This included a section on the Korean population in Australia and its potential role in bringing the two countries closer together. The rest of the day focused on the potential for greater cooperation in three areas: security and diplomacy where the Korean peninsula was, of course, the focus; commercial relations, where the proposal for a bilateral FTA was a focus; and finally, official development aid, a policy area undergoing great change in both countries.

The genesis of the conference was the perception that the ROK-Australia relationship, while a comfortable one underpinned by strong trading relations and a similar “middle power” position in East Asia, was not living up to its full potential to the cost of both countries. The outcomes of the conference summarized below identified some of the regional and domestic reasons for this untapped potential, how the two countries were changing in ways to provide more scope for cooperation, and ideas on how to advance these through government action. The overall tone was one of cautious optimism for stronger, deeper relations in the future.

#### ***Sources of attraction***

At first glance the conventional sources of attraction between South Korea and Australia are quite powerful. Both are self-identified middle powers and are the smallest, weakest members of “strategic squares” featuring the United States, Japan and China. The two countries are alliance partners of the United States while Japan is our most important economic partner and China our largest trading partner. Both governments are involved in trilateral security dialogues with the United States and Japan and both have a keen interest in regional architecture and worries about being overlooked.

The South Korean and Australian economies are roughly the same size with South Korea’s population more than double that of Australia and Australians more than twice as wealthy as South Koreans. The two economies are also highly complementary with Australia particularly strong in primary resources and services like asset management, tertiary education and project management and the ROK economy particularly strong in manufacturing, technology development and construction. Reflecting this, Korean investment into Australia is booming, growing more than 400% last year. Australian investment into the ROK increased by more than 40%. Hyundai is the major sponsor of the A-League (Australia’s football competition) and Kia is a major sponsor of the Australian Open tennis tournament. The Macquarie Group of Companies Korea is a major sponsor of Taekwondo, the national sport.

Two other important sources of attraction are less known. South Koreans and Australians have some important cultural similarities. Both cultures embrace direct forms of communication, even at risk of offending the other side and a robust sense of humour. Both also have a practical bent of mind which in Korea is encapsulated in the *bali-bali* (quickly, quickly) ethos. Second, Australia is home to a large, growing and maturing Korean population. There are roughly 60,000 residents in Australia of Korean descent, while there are roughly 30,000 students from South Korea studying in Australia at any time (the third largest group of foreign students) and 25,000 South Koreans in Australia on working holiday visas. The permanent South Korean community in Australia features a growing number of bi-cultural second-generation Korean-Australians.

### ***Sources of stasis***

Many of the sources of stasis are the flip-sides of these sources of attraction. The fact that both countries' foreign policy outlook is heavily shaped by relations with Washington, Tokyo and Beijing mean that there is little room left for each other. The concept of the "middle power" is a vertical one more tailored to managing relations with great powers than a horizontal one focused on greater cooperation among middle powers.

On the economic front, economic differences encourage trade but can make official trade agreements hard to reach as the less competitive sectors lobby their governments for continued protection. The demonstrations that have taken over large parts of Seoul are a powerful demonstration of this as are Australia's remaining, but declining, tariffs in the manufacturing sector. Surprisingly, even in the resources sector, ROK-Australia ties are not as strong as they could be. Australia only supplies about 2% of South Korea's LNG imports and South Korea only accounts for 1% of Australian LNG exports, despite South Korea being the second-largest importer of LNG globally.

A source of stasis particular to South Korea is the huge amount of energy, time and resources the problems of the Korean peninsula consume for the government in Seoul and its approach to the world. This detracts from relations with Australia as Canberra is not a major player on the Korean peninsula today, unlike Japan, China, the United States and North Korea itself. Australia of course participated in the Korean War to the tune of 17,000 soldiers and was part of the UN Command. This inability to "look beyond" the peninsula means that the Australia-South Korea relationship lacks a long-term political and strategic shared vision that is key to allowing it to reach its full potential.

At the other end of the scale, despite the huge numbers of South Korean people-to-people ties with Australia (over a quarter of a million South Korean visitors to Australia last year), South Korea rarely registers in Australia and South Korea does not have a well-defined image in Australia. This lack of a popular image may be partially due to the fact that over 80% of South Koreans in Australia are in New South Wales with most of these concentrated in Sydney. Despite many fewer Australians in South Korea (only about 100 Australians are studying in Korea at the moment), the image of Australia in South Korea has been aided by the distribution of an Australia study kit, *Investigating Australia*, to Korean middle schools as a teaching aid.

<i>Intense Korea</i>
----------------------

One of the strongest differences between the two countries highlighted by the conference was how many of the common factors are more intense in South Korea. South Korea's relations with China and Japan are deeper and more defining, as is its alliance relationship with the United States. The alliance has been central to the formation and survival of the South Korean state. Likewise, South Korea's interest in nuclear non-proliferation is more immediate. Politics in Seoul has much sharper elbows and larger, less predictable emotional swings while the pace of social change in South Korea is faster. The Korean population is aging very quickly. While now a member of the OECD, only a generation or two ago, South Korea was a poor, agrarian economy. South Korea received official development aid until 1995.

### ***The new governments***

Two factors about the new Rudd government in Canberra and the new Lee Myung-bak government in Seoul are likely to build upon the sources of attraction. In 2007/8, for the first time in 12 years in Australia, Labor returned to government and for the first time in a decade, the conservative GNP government returned to power in South Korea. In both cases, the new governments had strong mandates from the electorate and significant parliamentary majorities. Both new governments have returned to traditional ALP and GNP foreign policy approaches that were also in place when South Korea and Australia worked to established APEC together two decades ago. These two foreign policy approaches overlap well as on the South Korean side, the approach also calls for stronger relations with Japan and the United States. Lee Myung-bak's first two overseas visits were to the United States and Japan respectively. ALP policy calls for greater regional engagement and support for regional bodies, now including the Northeast Asian security forum that may evolve from the six-party talks. It is unclear though where the idea for an Asia Pacific Community announced by Prime Minister Rudd in June fits into the ALP's embrace of regional multilateralism.

Second, both new governments have ambitious foreign policy agendas that have taken front stage in the early days of both administrations. South Korea is keen to boost its international image as a global and regional player and develop a stronger and more consistent foreign policy approach beyond the Korean peninsula headlined by Lee Myung-bak's New Asia Initiative. The Rudd government is keen to be an activist and creative middle power playing a role in addressing the main regional and global challenges. Climate change, nuclear non-proliferation and energy security seem to be three global concerns where greater cooperation is most feasible. In the case of climate change, South Korea did not face any emission reduction responsibilities under the Kyoto Protocol as it was defined as a developing country, but will likely face strong international pressure to commit to reductions under its replacement.

More speculatively, if the Korean peninsula problem can be "solved" then South Korea could focus more attention on "out of area" foreign policy concerns. If the peninsula were to unite under a previously South Korea-only regime, then Korea would become a friendly regional country that is no longer simply a middle power. However, if the reunification process was not well managed, quite a likely outcome, it could be destabilizing for Northeast Asia, the US-ROK alliance and the role of China in the region. A key question after reunification would be whether a unified Korea would give up its nuclear weapons capabilities.

## ***Action agenda***

Six actionable proposals for bilateral cooperation emerged from the conference. The most immediate was that South Korea and Japan could work together at the G-8 Summit in Toyako from 7-9 July to support the expansion of the G-8 to a G-10 (or more) including Australia and South Korea. Free trade negotiations as a first step to closer economic integration was the most discussed, the least surprising and the one that would involve the most domestic interests. The discussion of strategic affairs and security threw up the two most ambitious ideas: a conference of regional middle powers including Australia, South Korea and Indonesia; and the fusion of the South Korea-Japan-United States trilateral dialogue and the Australia-Japan-United States one into a new quadrilateral dialogue. Finally, in the cases of official development assistance and multiculturalism, Australia could serve as a useful model for South Korean policy planning.

### *Toyako agenda*

Australia and South Korea will both attend the G-8 summit in Toyako Hokkaido as invited guests, the first time either government has been invited to attend this annual forum. The timing is fortuitous as the G-8 is considering institutional reform to allow it to better reflect the globalised world of today and not the Atlanticist world of a few decades ago. As middle powers with dynamic economies and as members of the G-20 meeting of finance ministers and central bankers, Australia and South Korea are well-placed to promote an expanded G-8 and not simply one that includes China and India. An expansion of the G-8 process to include more countries, including some middle powers, would bring the G-8 process and the G-20 process closer together and provide South Korea and Australia "seats at the expanded global table."

### *Free trade negotiations*

One of the reasons that this was the most discussed was that a number of factors were identified that support the idea and hinder it. On the positive side, the Lee Myung-bak government has set the ambitious target of completing 55 free trade agreements by 2015. The Blue House sees free trade agreements as key to economic restructuring both in the aging agricultural sector and in the modern manufacturing and service sectors where second-generation *chaebols* (diversified conglomerates) are the major local players. Canberra's and Seoul's schedule of free trade negotiations have also deepened fears about trade diversion and thus given more impetus to a South Korea-Australia deal. On the Australian side, South Korea's deal with the United States has raised concerns among Australian agricultural producers and services firms. For South Korea, Australia's negotiations with Japan and China have raised concerns about future access to energy and food supplies. Finally, Australia hosts many large Korean firms and South Korea some significant Australian concerns that can help facilitate negotiations and encourage progress.

On the negative side, it is unclear where Australia ranks in South Korea's list of potential free trade partners. South Korea is focused on the fate of the KORUS trade deal and is involved in negotiations with the European Union, Mexico and India among others. Their dance card is quite full. The huge demonstrations in Seoul ignited by the US beef import issue and the uncertain fate of the trade deal with the United States (will Congress ratify it?) may reduce the political room the Lee Myung-bak's administration has to pursue future trade agreements, especially with major agricultural exporters. On the Australian side, South Korea is a major target of Australian anti-dumping cases at the WTO, particularly in the manufacturing sector and a Labor government may be more open to local manufacturing concerns.

The Korean delegation identified two issues that, if included, could accelerate movement towards a trade deal; the Kaesong industrial park located in North Korea and labour mobility. While production from the Kaesong zone was a major, and still unresolved, stumbling block for negotiations with the United States, it should be less of an issue for Australia. Including Kaesong in a deal may also help spur investment in and around Kaesong to make it a more effective industrial park. Two-way labour mobility would fit the Australian call for a comprehensive deal and could help address skill shortages in engineering and other areas.

#### *A concert of middle powers*

One of the most intriguing ideas to come from the conference was the suggestion that Australia and South Korea could jointly convene a meeting of middle powers in East Asia to consider shared interests in regional integration and their respective relationships with great powers, particularly the United States, China and Japan. Indonesia was identified as another important regional middle power. Such a meeting could take place at the sidelines of the annual APEC leaders' summit or the East Asia Summit meeting to ease logistical concerns. Such a meeting would help moderate the vertical tendencies of middle power diplomacy and be a useful way to share perceptions and concerns on relations with great powers and the relations among great powers.

#### *A new quadrilateral?*

The Rudd government has committed itself to strengthening the trilateral strategic dialogue between the foreign ministers of Australia, the United States and Japan. The election of the Lee Myung-bak government has reignited the trilateral dialogue between South Korea, Japan and the United States. While South Korea was not considered for the quadrilateral dialogue proposal particularly pushed by former Japanese prime minister Abe Shinzo, its status as a fellow ally of the United States and democracy and its location in Northeast Asia make it a more suitable candidate. The strong relations between Seoul and Beijing and Canberra and Beijing and the improving relations between Washington and Beijing and more recently Tokyo and Beijing could counterbalance any Chinese concerns about such a grouping. The development of this quadrilateral could also strengthen Australia's case for being included in a Northeast Asian security forum and enhance its potential to play a larger role on the Korean peninsula.

#### *Official development aid*

Both the Lee and Rudd governments are committed to substantially increasing their country's foreign aid budgets by 2015. In the case of Australia, the target is for the aid budget to reach 0.5% of gross national income (at the moment it is about 0.3%, the average for the OECD Development Assistance Committee members). South Korea's ambitions are greater as South Korea wants to join the OECD's Development Assistance Committee by 2010 and achieve the Committee average for aid budgets by 2015. This would require a 50% increase in the South Korean budget annually until 2015.<sup>1</sup>

Not only is South Korea committed to rapidly expanding its aid profile, the government is aware of the criticism that Korean aid is too commercially oriented. While Japan has served as the model for the development of South Korean aid since its aid agency was set up in 1991, South Korea is now looking for other models as it is now facing the same criticisms traditionally made of Japan. Australia with a single

---

<sup>1</sup> South Korean aid statistics do not include assistance to North Korea. In 2006, South Korea's aid budget equaled US\$455 million, 20% of the OECD Development Assistance Committee average of 0.3% of GNI.

aid agency and an aid program heavily focused on grant aid could act as model for South Korea. South Korean aid is roughly half in concessional loans and half in grant aid with separate bodies responsible for loan and grant aid. South Korean and Australian aid programs are both active in the Mekong as well as providing more funds to regional and multilateral aid agencies. Closer coordination through these mechanisms may be a good place to start.

#### *Multiculturalism*

South Korea's economic success, urbanisation and aging society are all contributing to a growing foreign-born population in South Korea. There are now more than 1 million foreign-born residents in South Korea, more than 2% of the population. In the case of Australia, this figure is over 24%. South Korea's manufacturing prowess and its aging population also mean that the South Korean economy will likely have to increase labour immigration to sustain itself. Yet, South Korea traditionally has been extremely homogenous and South Korea has defined itself as a mono-cultural society and polity. Australia's history as a multicultural country open to labour immigration may serve as a good model for South Korea as it plans for its future workforce, as would our skilled immigration points system.



**LOWY INSTITUTE**  

---

**FOR INTERNATIONAL POLICY**

**[WWW.LOWYINSTITUTE.ORG](http://WWW.LOWYINSTITUTE.ORG)**