

The Parliament of the Commonwealth of Australia

Report of the Australian Parliamentary Delegation to

JAPAN

and the

REPUBLIC OF KOREA

8 – 19 December 2003

March 2004

© Commonwealth of Australia 2004

ISBN 0 642 71345 6

This document was printed by the Senate Printing Unit, Department of the Senate, Parliament House, Canberra.

# MEMBERS OF THE DELEGATION

## **Leader**

**Senator the Hon. Paul Calvert**  
President of the Senate  
Senator for Tasmania  
Liberal Party of Australia

## **Deputy Leader**

**Senator the Hon. Nick Bolkus**  
Senator for South Australia  
Australian Labor Party

## **Members**

**Senator David Johnston**  
Senator for Western Australia  
Liberal Party of Australia

**Mrs Margaret May, MP**  
Member for McPherson (Queensland)  
Liberal Party of Australia

**Mr Paul Neville, MP**  
Member for Hinkler (Queensland)  
The Nationals

**Mr Brendan O'Connor, MP**  
Member for Burke (Victoria)  
Australian Labor Party

## **Delegation Secretary**

**Ms Andrea Griffiths**  
Department of the Senate

## **Private Secretary to the President**

**Mr Don Morris**



# TABLE OF CONTENTS

<b>MEMBERS OF THE DELEGATION.....</b>	<b>iii</b>
<b>PREFACE.....</b>	<b>vii</b>
<b>INTRODUCTION.....</b>	<b>ix</b>
Objectives of the delegation .....	ix
Acknowledgements .....	x
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>JAPAN .....</b>	<b>1</b>
Japan at a glance .....	1
Political overview .....	2
Reinforcement of bilateral parliamentary links.....	3
Economic overview .....	4
Bilateral relations.....	5
Defence, security and foreign policy.....	14
Conclusion.....	18
<b>CHAPTER TWO .....</b>	<b>19</b>
<b>REPUBLIC OF KOREA .....</b>	<b>19</b>
Republic of Korea at a glance .....	19
Political overview .....	20
Reinforcement of bilateral parliamentary links.....	22
Economic overview .....	23
Bilateral relations.....	24
Defence, security and foreign policy.....	33
Conclusion.....	37
<b>APPENDIX ONE .....</b>	<b>39</b>
<b>DELEGATION PROGRAM.....</b>	<b>39</b>
Japan .....	39
South Korea .....	40



## PREFACE

Japan and the Republic of Korea (South Korea) are significant to Australia because of their proximity, their economic strength and their importance for regional security and stability.

The visit of the parliamentary delegation to Japan and South Korea in December 2003 provided a timely opportunity to extend and evaluate Australian ties with a region currently undergoing significant challenge and change in the strategic, economic and political arenas. Both Japan and South Korea are currently seeking to address in their distinct way the delicate situation on the Korean peninsula; economic recovery and reform, and dealing with the economic rise of China; and the ongoing political approaches to achieve these aims.

The current nuclear crisis on the Korean peninsula has threatened the region with potential military conflict and/or the collapse of the Democratic People's Republic of Korea (North Korea), both of which would prove costly in economic and humanitarian terms. The crisis has also increased contemplation of the long-term strategic future of the region. The nuclear crisis has placed South Korea in a difficult situation necessitating a balance between support for its traditional alliance partner, the United States, and its ongoing efforts to maintain contact and reconciliation with North Korea.

Japan is also facing a difficult situation with increased public concern as a result of the refusal of North Korea to return kidnapping victims' families and the perceived military threat of North Korea. This has resulted in a military upgrade program which has included the launching of intelligence gathering satellites, a more rapid installation of a missile defence program and the consideration of acquiring a cruise missile capability.

The global economic slowdown has affected both Japan and South Korea. Both states have been affected by downturns in investor and consumer confidence, which has been exacerbated by uncertainty over the geopolitical situation in North Korea. Further, the rise of China as the growth engine of the Northeast Asian economy has presented both challenges and opportunities for each state. Support is growing for increased economic regionalism in both states, with a Japan-South Korea Free Trade Agreement (FTA) a distinct possibility. Further economic regionalism including progress towards ASEAN + 3 (an FTA involving ASEAN, China, Japan and South Korea) is of vital interest to Australia.

There are currently distinct similarities in the political situation in Japan and South Korea. Both states are currently undergoing a period of reform with relatively young leaders who enjoy a great deal of support from the youth vote. However, neither leader is assured of success given the scale and opposition to reform in both states. The success of attempted reform in South Korea will hinge upon the success of supporters of President Roh Moo-Hyun in the April 2004 Parliamentary elections and

the outcome of the inquiry into alleged political bribery during the 2002 presidential elections.

In Japan, Junichiro Koizumi was re-elected as Liberal Democratic Party (LDP) leader in September 2003. Following the 9 November 2003 elections the LDP-led coalition retained government albeit with a slightly reduced majority. Mr Koizumi has claimed the election results give him a mandate to take forward structural reform, but continued resistance within some factions of the LDP may make this difficult.

The aim of this report is to inform members of the Australian Parliament and other interested parties about this region, particularly in the areas of economic and political development and the prospects for future stability and trade.

The delegation returned from its visit with the firm conclusion that Australia enjoys a strong and warm relationship with both Japan and South Korea. However, the delegation felt that there are a range of prospects potentially available for further co-operation between Australia and both countries, both in trade and cultural exchange. The delegation urges government, business and other sectors, particularly those involved in education, to closely examine Japan and South Korea; we are confident that there are significant opportunities waiting to be tapped.

The delegation expresses its sincere thanks to all those involved in Japan and South Korea for making the visit such a memorable one. I also thank the members of the delegation, the Deputy Leader, Senator the Hon. Nick Bolkus; Senator David Johnston; Mr Paul Neville MP; Mrs Margaret May MP and Mr Brendan O'Connor MP; my Private Secretary, Mr Don Morris and the Secretary to the delegation, Ms Andrea Griffiths, for their cooperation and assistance in ensuring the success of the visit.

(Paul Calvert)

President of the Senate and Delegation Leader



# INTRODUCTION

1.1 This report details the activities and observations of a delegation from the Parliament of Australia which visited Japan and the Republic of Korea (South Korea) between 8 and 19 December 2003 to attend a series of meetings to discuss issues of importance to both countries, and to inspect sites of economic and social relevance to delegation members.

## Objectives of the delegation

1.2 The delegation agreed to the following objectives:

- review the bilateral relationships and prospects for further development in respect to trade and security;
- project an image of Australia as an advanced economy with a strong interest and proven track record (bilaterally and through APEC) in regional participation;
- assess the approaches of Japan and South Korea to resolution of the North Korean nuclear crisis (and longer term efforts to ensure stabilisation of the region);
- assess the levels of support in Japan and South Korea for both US efforts to resolve the current nuclear crisis and US efforts in the global war on terror;
- encourage South Korean efforts to continue engagement with North Korea and assure continued Australian in-principle support for these efforts;
- express support for multilateral trade liberalisation in the DOHA round and progress towards achievement of the APEC BOGAR goals;
- review the success and enthusiasm for economic reform in Japan and South Korea and encourage continued support for reform processes;
- develop enhanced contact with the ‘new generation’ of parliamentarians in Japan and South Korea and develop contact with newly elected/re-elected parliamentarians in Japan’s lower house;
- reinforce with Japanese Diet members the importance of bilateral parliamentary links, including by encouraging official visits by both parliaments; and
- assess the implications of the April 2004 South Korean parliamentary elections for the support base of President Roh.

## **Acknowledgements**

### ***Australia***

Before departure, the delegation received detailed oral and written briefings from staff from the Department of Foreign Affairs and Trade, Austrade and the Department of the Parliamentary Library. The assistance provided by relevant officials is acknowledged with thanks.

The delegation records its appreciation for the hospitality of the Japanese Ambassador in Australia, HE Mr Kenzo Oshima and Mrs Oshima, and the Ambassador for the Republic of Korea in Australia, HE Mr Cho Sang-Hoon, prior to its departure.

Thanks are recorded to the Parliamentary Relations Office, in particular, Mr Max Kiermaier, Ms Brenda Herd, Ms Julia Searle and Ms Denise Picker for administrative assistance prior to departure from Australia and to the Synergi travel staff located in Parliament House.

### ***Japan***

The delegation records its appreciation to the Government of Japan for the hospitality and courtesy extended to it during its visit, in particular:

- President of the House of Councillors, HE Mr Hiroyuki Kurata
- Speaker of the House of Representatives, HE Mr Yohei Kono
- Mr Ichita Yamamoto, Chairman, House of Councillors Committee on Foreign Affairs and Defence
- Diet Members who met with the delegation
- Officials from the Ministry of Foreign Affairs
- Officials from the Ministry of Economy, Trade and Industry
- Mr Nobuyoshi Hasegawa, Vice-Governor, Aichi Prefecture
- Mr Keiji Yamada, Governor of Kyoto Prefecture.

The delegation thanks the Australian Missions in Japan for the excellent support provided throughout the delegation's visit. In particular the delegation thanks:

- Australian Ambassador, HE Mr John McCarthy AO; Ms Penny Richards, Deputy Head of Mission; Mr Marco Salvio, Second Secretary and the delegation liaison officer; Ms Janet Tomi, Minister-Counsellor (Political); Mr Ron Foster, Minister-Counsellor (Economic); Mr Allen Grant, Minister-Counsellor (Agriculture); Mr Tom Connor, Counsellor (Strategic-Political); Ms Gayle Milnes, Counsellor (Trade and Economic); Mr James Wiblin, First Secretary; and Ms Giselle Whiteaker and Noriko Kusakabe who assisted with the spouses program.

- Mr Denis Zolin, Australian Consul, Nagoya Office
- Mr John Montgomery, Australian Consul-General and Ms Barbara Hilder, Deputy Consul-General, Osaka.

The delegation also thanks:

- Australian and New Zealand Chamber of Commerce in Japan, in particular: Mr Chris Atwell, Chairman ANZCCJ and General Manager Japan, ANZ Banking Group; Mr Don Carroll, President, BHP Billiton Japan Ltd; Mr David Devlin, President, systemsGo Corporation; and Mr Tim Lester, Vice Chairman ANZCCJ.
- Economic policy specialists: Dr Paul Sheard, Mr Tetsuro Sugiura, Dr Martin Schulz, Dr Naoki Tanaka and Mr Yutaka Kosai
- Mr Hisayuki Inoue, General Manager, Oceania Division and Mr Hideo Suzuki and Ms Naoe Someya of the Australia Group, Toyota Motor Corporation.

## ***Republic of Korea***

The delegation records its appreciation to the Government of the Republic of Korea for the hospitality and courtesy extended to it during its visit, in particular:

- Prime Minister, HE Mr Goh Kun
- Speaker, HE Mr Park Kwan-Yong
- HE Dr Yoon Young-Kwan, Minister of Foreign Affairs
- Mr Kim Hyun-Chong, Deputy Trade Minister
- Mr Ahn Taek-Soo, Chairman, National Assembly Finance and Economy Committee
- Mr Suh Chung-Hwa, Chairman and Mr Cho Woong-Kyu, Vice-Chairman, National Assembly Unification, Foreign Affairs and Trade Committee
- Mr Chough Soon-Hyung, Chairman, Millennium Democratic Party and Rep Shim Jae-Kwon, Rep Kang Un-Tae and Yang Sun-Mook
- Rep Han Hwa-Gap, Millennium Democratic Party
- Mr Choe Byung-Yul, Chairman, Grand National Party and Rep Chung-Jey-Moon, Rep Yim Tae-Hee and Rep Park Jin
- Rep Mr Kim Taek-Kee, Rep Kim Boo-Kyum, Rep Kim Geun-Tae, Uri Party.

The delegation thanks the Australian Embassy in Seoul for the excellent support provided throughout the delegation's visit. In particular the delegation thanks:

- Australian Ambassador, HE Mr Colin Heseltine; Ms Jean Dunn, Minister; Ms Mary-Jane Liddicoat, Acting Counsellor (Political); Mr Bill Brummitt, Counsellor (Economic); Squadron Leader Ray Smith, RAAF; and Ms Helen

Bailey, Ms Moon-Sun Choi and Mr Brian Dunn, who assisted with the spouses program.

The delegation also thanks:

- Security specialists: Dr Baek Seungjoo, Dr Lee Chung Min, Dr Song Young-Sun, Dr Paik Haksoon
- Lieutenant-Colonel Kurt Taylor, Assistant Secretary, United Nations Military Armistice Commission
- Major-General Bjorn Elmér, Swedish Member, and Major-General Adrien Evéquo, Swiss Member, Neutral Nations Supervisory Commission
- Dr Kim Han-Suk, Head of Global Business, Korea Telecom
- Mr Shim Kyu-Sang, Executive Vice President, Daewoo Shipbuilding & Marine Engineering Co. Ltd
- Mr Han Soo-Yang, Senior Executive Vice President, POSCO Gwangyang Works
- Mr Richard Oh, Managing Director, and Mr Ashley Scivyer and Mr Craig Smith, Busan Aquarium
- Mr Byun Seung-Kok, Ambassador, United Nations Military Cemetery, Busan
- Mr Nick Reilly, President and Chief Executive Officer, GM Daewoo Auto & Technology.

# CHAPTER ONE

## Japan

### Japan at a glance<sup>1</sup>

Population	127.7 million (2003)
Capital	Tokyo
Surface area	378,000 sq km (about 5% of that of Australia)
Head of State	H.M. Emperor Akihito
Head of Government	H.E. Prime Minister Mr Junichiro Koizumi
Principal export destination	United States
Principal import source	China



<sup>1</sup> Information in part of this chapter is based on written briefings from the Department of Foreign Affairs and Trade (DFAT) and information contained in DFAT's website [www.dfat.gov.au](http://www.dfat.gov.au).

## **Political overview**

### ***System of Government***

1.1 Japan adopted a Westminster style bicameral Parliament or National Diet under its 1947 Constitution. There are 480 seats in the House of Representatives (Lower House) and 247 seats in the House of Councillors (Upper House). Members of both Houses are elected by universal adult suffrage. The Prime Minister is elected by a majority vote in both Houses. If the Houses disagree, the decision of the House of Representatives takes precedence. The Prime Minister is then formally appointed by the Emperor.

1.2 Members of the House of Representatives are elected for four-year terms, although in practice the House is generally dissolved and elections called before its term is ended. The next House of Representatives election must be held before November 2007. Members of the House of Councillors are elected for six-year terms, with half the members having to stand for election every three years. The next House of Councillors election is due to occur in July 2004.

1.3 A bill becomes law on passage through both Houses of the Diet. When a bill is passed by the House of Representatives, but not by the House of Councillors, it becomes law if passed a second time by a two-thirds majority of the House of Representatives. Budget bills and treaty bills pass automatically 30 days after clearance through the House of Representatives, regardless of the decision of the House of Councillors.

1.4 The Liberal Democratic Party (LDP) has held power in Japan for almost the entire period since the Party's formation in 1955, with the LDP President usually being installed as Prime Minister by the Diet. Cabinets are formed in the first instance following the election of a new Prime Minister and after each election of the House of Representatives. Factional politics have previously ensured that Cabinet posts have been reshuffled frequently. Cabinet appointments may be filled from outside the Diet (i.e. non-parliamentarians) and in the current Koizumi Cabinet there are two non-parliamentarian Cabinet appointees.

### ***The Koizumi Administration***

1.5 Junichiro Koizumi was first elected as Prime Minister by the Diet on 26 April 2001 after being elected LDP president following Yoshiro Mori's resignation. Mori had been Prime Minister since April 2000. The Koizumi administration is a coalition formed between the LDP, New Komeito and the New Conservative Party.

1.6 Koizumi was elected on a platform of 'structural reform without sanctuaries'. Since gaining election, he has undertaken moderate fiscal consolidation, cutting outlays on public works, and reducing government subsidies to public corporations. He has brought about several changes to health care policies including cuts in doctors' fees, a lowering of pharmaceutical price schedules and an increase in premiums for public health insurance. Concrete achievements have also been made in the key areas

of financial institution reform, reduction on non-performing bank loans, postal service corporatisation and taxation reform.

1.7 There has been significant progress on the security front, with the passage of National Emergencies legislation and legislation enabling the Japan Self Defence Forces to support reconstruction in non-combat areas in Iraq and to provide logistical support to US and British military stationed there.

1.8 Prime Minister Koizumi was re-elected as LDP party President for a further three years on 20 September 2003. On 10 October, Mr Koizumi dissolved the House of Representatives and a lower house election was held on 9 November. The LDP-led coalition retained government with a slightly reduced margin, securing 278 seats out of 480 (down 9 seats). Mr Koizumi has claimed the election results give him a mandate to take forward structural reform, but continued resistance within some factions of his own party, the LDP, may make this difficult.

### **Reinforcement of bilateral parliamentary links**

1.9 The objective of reinforcing with Japanese Diet members of the importance of bilateral parliamentary links and encouraging an official visit was met when President Calvert passed to the Speaker of the House of Representatives, HE Mr Yohei Kono and the President of the House of Councillors, HE Mr Yiroyuki Kurata, official invitations for representatives of the House of Representatives and the House of Councillors (HOC) to visit Australia.

1.10 In meeting the delegation, Mr Kono outlined his thinking on the conflict in Iraq and missile defence which, he stressed, was not representative of Japanese Government policy. Mr Kono said he did not agree with the decision by the Japanese Government to give diplomatic support for the US-led invasion of Iraq and to dispatch the Japan Self Defence Forces to Iraq. Mr Kono also said it was unwise for Japan to develop a missile defence capability as this would spur other countries – such as North Korea – to develop more advanced ballistic missile capabilities to counter defensive measures. Mr Kono also conveyed to the delegation his sorrow at the tragedy of the Bali bombing.

1.11 At its meeting with the President of the HOC, Mr Kurata, the delegation was also pleased to meet Mr Shoji Motooko, Deputy President of the HOC; Mr Hideki Miyazaki, Chairman of the HOC Committee on Rules and Administration; Mr Yoshinori Kawamura, Secretary-General of the HOC; and Mr Hitoshi Honda, Director-General of the International Division of the HOC.

1.12 President Calvert thanked President Kurata for his warm hospitality and encouraged Members of the House of Councillors to visit Australia. He said that the bilateral political relationship was very important to both countries, particularly given the strength and depth of the economic relationship. Regular and high-level exchanges between parliaments were a crucial element of the political relationship. President Calvert said that Australia had not had an official delegation from Japan for many years and encouraged the Japanese Diet to send one again. President Kurata

said he agreed and asked Mr Miyazaki, Chair of the HOC Committee on Rules and Administration to take the process forward.

1.13 Other areas of discussion included security matters; the export of abalone; the importance of the Australia-Japan relationship at local government level and the success of the 'sister cities' in both countries. Mr Kurata expressed his appreciation of Australia's message of condolence on the loss of the two Japanese diplomats in Iraq and congratulated Australia for its role in the Solomon Islands.

## **Economic overview**

1.14 Japan has the world's second largest economy, at US\$4,190.7 billion in 2003. The Japanese have a high per capita income of approximately US\$32,859. The Japanese economy currently accounts for over 7 per cent of global GDP and is approximately 8.7 times larger than the Australian economy (2003).

1.15 Japan is still by far the largest economy in East Asia accounting for 58 per cent of the total GDP of the region. In contrast, China is next with GDP of US\$1420.1 billion or 19.9 percent GDP share of East Asia.

1.16 Japan experienced growth of 'miracle' proportions in the 1950s and 1960s, with real GDP consistently growing by around 10 per cent per annum. Through the late 1970s and the 1980s the economy continued to grow strongly, despite the negative impact of the two oil-price shocks. In the 1970s, Japan's real GDP growth averaged 4.4 per cent per annum. In the 1980s, this figure fell slightly to average 4.0 per cent per annum. In the 1990s, however, real GDP growth fell sharply to average only 1.2 per cent per annum. In 2001, the economy contracted further, with GDP of -0.5 percent. Japanese financial year (FY) 2002 saw a return to growth, with GDP recorded at 1.5 per cent.

## ***Recent Economic Developments***

1.17 Towards the end of 2003, there were a number of encouraging economic indicators for the Japanese economy. For example, in September 2003, Japan recorded its seventh consecutive quarter of growth, with GDP rising 0.6 per cent, quarter-on-quarter. Exports, a main driver of growth, grew 2.8 per cent between July and September, as shipments to Asia strengthened after the containment of SARS (Severe Acute Respiratory Syndrome). Business sentiment remained positive, with capital investment for the September quarter growing 2.8 per cent, the fifth successive quarterly increase. The good results have prompted analysts to revise upwards their forecasts for FY2003 growth from less than 1 per cent to between 2 and 3 per cent.

1.18 Since 2001, unemployment has hovered near the post war record high of 5.5 per cent, moving between 5.2 per cent and 5.5 per cent for 23 months. The unemployment rate for October 2003 was 5.2 per cent.

1.19 It will be some time before it can be determined whether the latest economic upswing represents a trend towards sustained recovery. Some analysts remain



pessimistic in view of ongoing concerns about the outlook for domestic demand and private investment and continued persistent deflation.

1.20 Another factor that could threaten permanent recovery is a fragile financial system. Structural inefficiencies and non-performing loans (NPLs) continue to be major problems for the Japanese economy. The massive amount of bank NPLs, (approx. 38 trillion yen or A\$517 billion as of March 2003) continues to restrict the banking sector's ability to stimulate economic activity through new lending. In May 2003, Japan's top seven banks reported a combined record loss of 4.65 trillion yen for Japanese FY2002. Government policy aims to have the problem fixed by the end of FY2004. Japanese Government debt is the highest of the OECD countries and continues to mount, currently standing at around 150 per cent of GDP.

1.21 It is also questionable whether Japan's economy has undergone sufficient restructuring to enable sustained economic growth in the medium-term. Inefficiencies and oversupply across sectors of the economy such as construction, distribution and agriculture are constraining economic activity and preventing resources from being directed toward more productive activities.

### ***Government Policy***

1.22 While some Japanese politicians have been calling for a more expansionary fiscal policy to stimulate the economy, Prime Minister Koizumi continues to pursue fiscal policy restraint. The high level of government debt is limiting the government's options for promoting economic recovery, a position reflected in the 81.79 trillion yen FY2003 budget, which includes cuts to public spending.

1.23 Tax reform is also a major objective of the Koizumi administration. The government's introduction of a broader, flatter, simpler tax system in FY2003 aims to stimulate economic activity and bring about recovery in the Japanese economy. The tax reform package, which forms part of the FY2003 budget, includes front-loaded tax cuts of 1.8 trillion yen, and focuses on reducing the rate of tax on R&D and business investment.

1.24 Mr Koizumi continues to emphasise structural reform as the key to long-term sustainable growth in Japan. Many private sector firms are restructuring, although this is occurring slowly. The process of restructuring, however necessary, will continue to limit growth and is likely to result in more pain in the short-term - through job cuts and lower salaries - before long-term gains become evident. Nevertheless, the restructuring process may have seen renewed foreign investor confidence in Japanese stocks. The Nikkei 225 Index, which lost nearly a third of its value over Japanese FY2002, rebounded over the March and June Quarters by around 40 per cent, a recovery largely led by foreign buyers.

### **Bilateral relations**

1.25 Australia and Japan enjoy excellent relations. Japan is of fundamental importance to Australia for political, strategic, and economic reasons. There has been a dramatic growth over recent decades in Australia's and Japan's familiarity with each

other's society and culture, enabling the strengthening and deepening of a bilateral relationship founded on the convergence of complementary national interests. As Prime Minister Koizumi stated during Prime Minister Howard's July 2003 visit to Japan:

Our bilateral relations are in a very good state ... Japan and Australia in many respects share values and positions and in the future in the economic arena or in the security domain, I hope to further promote closer ties between our two countries, bearing in mind the importance of our bilateral relations.<sup>2</sup>

In response Mr Howard said that:

The relationship between our two countries is very deep. It is built on a great deal of mutual respect and a very closely shared exchange in so many fields over the last 40 to 50 years. It is not only an economic relationship. It has increasingly become a people to people relationship. ... It is a relationship which increasingly is concerned with the strategic challenges of our region.<sup>3</sup>

1.26 Our relationship with Japan sets the pace for cooperation and integration in the Asia Pacific. It brings manifold benefits to Australia and Japan and contributes to the prosperity and stability of the region.

### ***The Political Partnership***

1.27 Australia has approached its relations with Japan in a bipartisan way. Since the 1980s, Australia and Japan have developed as natural partners in the region. The partnership has been built on long-established commonalities: we are both industrialised democracies in the same region, and key allies of the United States, supporting its strategic engagement in the Asia Pacific region.

1.28 In the late 1980s, Australian and Japanese interests in the region were drawn closer together by the possibility of the United States' moving towards bilateral trading arrangements which could erode the multilateral trading system, as well as the challenge of sustaining stability in Asia in the post-Cold War period. These interests encouraged our cooperation in developing the regional architecture of the Asia Pacific Economic Cooperation (APEC) forum and the ASEAN Regional Forum (ARF). These cooperative efforts have demonstrated commitment to an open and fair global trading system and the capacity to generate the ideas and do the hard diplomatic work to make regionalism succeed.

1.29 The strength of our relationship with Japan was reflected in the May 1995 'Joint Declaration of the Australia-Japan Partnership' by then Prime Ministers Keating

---

2 Transcript of the Prime Minister the Hon John Howard MP, Joint Press Conference with Prime Minister Koizumi, Prime Minister's Official Residence, Japan, 16 July 2003.

3 *ibid.*

and Murayama. The declaration described the relationship as of ‘unprecedented quality’, and stated that Japan welcomed Australia as an ‘indispensable partner in regional affairs’.

1.30 The decision, announced during then Prime Minister Hashimoto’s meeting with Prime Minister Howard in Australia in April 1997, to hold annual Prime Ministerial meetings, marked another important development in bilateral relations. The Partnership Agenda, finalised at the Australia-Japan Ministerial Committee Meeting in Tokyo in 1997 (covering cooperation in 18 specific areas of the relationship), has also been important in shaping the direction of our bilateral relationship.

1.31 These developments have been complemented by many ministerial visits to Japan over the years.

1.32 More recently, Australia and Japan have been looking at ways to ensure the relationship continues to develop to its full potential. At the instigation of Prime Minister Howard and the former Japanese Prime Minister Keizo Obuchi, the Australia Japan Conference for the 21<sup>st</sup> Century was held in April 2001 in Sydney. Leading representatives for the private and public sectors, academics, the arts and sciences in both countries held wide ranging discussions covering economic, political, strategic and cultural ties, resulting in key recommendations for updating the relationship. These included support for a new trade and economic agreement, and closer contacts on security and defence issues. A follow up conference was held in Tokyo in November 2002. This resulted in further recommendations on trade, economic, defence and security issues, as well as recommendations on bilateral collaboration in the new areas of e-learning and science and technology for the ageing.

1.33 In April-May 2002, Prime Minister Koizumi paid an official visit to Australia. The visit launched the ‘Australia-Japan Creative Partnership’ joint statement which outlines how Australia and Japan will work to strengthen further the relationship, in order to take maximum advantage of the opportunities and challenges of the new international environment in the early 21<sup>st</sup> century.

1.34 During his visit to Japan in 2003, Prime Minister Howard and Prime Minister Koizumi signed the Trade and Economic Framework Agreement committing the two countries to work towards trade and investment liberalisation on a comprehensive and balanced basis.

1.35 During the same visit, Australia’s participation in the 2005 World Exposition in Aichi, Japan in recognition of the importance of the Australia-Japan relationship, was also announced.

### **2005 World Exposition in Aichi**

1.36 Aichi Expo 2005 will be held at eastern hills of Nagoya City (Nagakute Town, Toyota City and Seto City) from 25 March - 25 September 2005 (a total of 185 days).

1.37 Australia's objectives at the Aichi World Expo are to:

- project a contemporary image of Australia as culturally diverse and harmonious, technologically sophisticated with a dynamic forward-looking economy;
- increase awareness of Australia as an exciting travel destination, highlighting eco-tourism, adventure and sports tourism, and targeting students and seniors;
- promote bilateral trade and investment through an active business liaison program in key sectors;
- raise the Australia's profile as an educational services provider;
- promote Australia's environmental credentials and commitment to sustainable development, in line with the themes of the Expo;
- strengthen and deepen ties between Australia and Japan by reinforcing existing bilateral contacts including promoting the Year of Australia-Japan Exchange in 2006 which marks the 30th anniversary of the Basic Treaty of Friendship and Cooperation between Australia and Japan; and
- attract at least 20 per cent of Expo visitors (i.e. 3.5 million) to the Australian pavilion.

1.38 Australia's participation at the Aichi World Expo will open up opportunities for Australians doing business in Japan. The business promotion program that the Australian Government will conduct at the Australian pavilion will focus on the following key sectors: agribusiness, food and wine; information, communication and technology; biotechnology; energy and natural resources; environmental technology; and automotives.

1.39 In addition, there will be activities involving fashion, design and arts exports and health and wellness products and services.

### **Meeting with the Vice-Governor of Aichi, Mr Nobuyoshi Hasegawa**

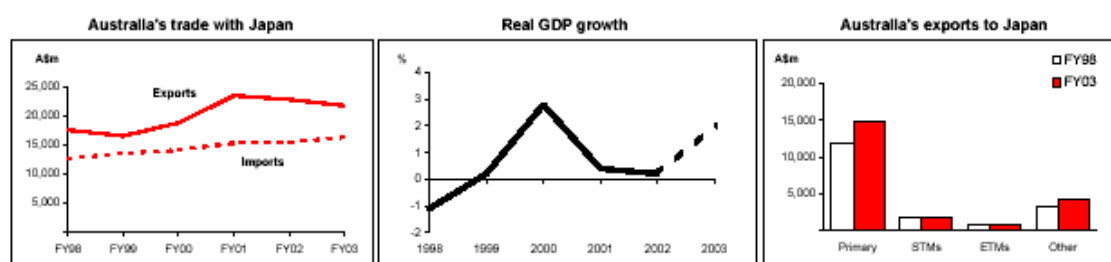
1.40 The delegation met with the Vice-Governor of Aichi, Mr Nobuyoshi Hasegawa. He expressed his appreciation on behalf of the Aichi Prefectural Government for Australia's decision to participate in the Aichi International Exposition in 2005 and advised that he was happy with Australia's preparation thus far. He outlined that the Exposition would highlight Japan's ability to merge economic growth and environmental sustainability. Mr Hasegawa said that it was anticipated that 125 countries and 8 international organisations would participate and that at least 15 million people would attend the Exposition.

### ***Trade and Investment***

1.41 Australia's trade relationship with Japan is of fundamental importance. Japan has long been our largest export destination. In 2003, Australia's total exports to Japan were valued at nearly A\$22 billion. Total imports from Japan were valued at A\$16.3 billion in 2003. Japan continues to be key source of foreign investment.

1.42 The total stock of Japanese investment in Australia was A\$49 billion as at 30 June 2002, making Japan the third largest investor in Australia. Japanese investments are concentrated in real estate, mining, commerce and the services sector. By comparison, Australian investment in Japan is small - A\$20 billion as at 30 June 2002. Even so, Japan is the fourth most important destination for Australian outward investment. The bulk of this investment represents capitalisation of banks and financial institutions, and the establishment of regional offices by Australian exporters. Japan's importance to Australia as an economic partner is unlikely to change in the foreseeable future.

### Australia's largest export market



#### Australia's trade relationship with Japan:

Major Australian exports, 2002-2003 (A\$m):		Major Australian imports, 2002-2003 (A\$m):	
Coal	5,048	Passenger motor vehicles	5,880
Iron ore	2,191	Motor vehicles for transporting goods	1,337
Aluminium	1,468	Motor vehicle parts	699
Bovine meat	1,400	Civil engineering equipment	476
Crude petroleum	924	Computer parts	447

Australian merchandise trade with Japan, 2002-2003:				
		Total share:	Rank:	Growth (yoy):
Exports to Japan (A\$m):	21,738	18.8%	1st	-4.6%
Imports from Japan (A\$m):	16,335	12.3%	2nd	5.6%
Total trade (exports + imports) (A\$m):	38,073	15.3%	1st	-0.5%
Merchandise trade surplus with Japan (A\$m):	5,403			

Australia's trade in services with Japan, 2002-2003:			Total share:
Exports of services to Japan (A\$m):	3,377		10.4%
Imports of services from Japan (A\$m):	2,100		6.4%
Services trade surplus with Japan (A\$m):	1,277		

#### Japan's global trade relationships:

Japan's principal export destinations, 2002:			Japan's principal import sources, 2002:		
1	United States	28.5%	1	China	18.3%
2	China	9.6%	2	United States	17.1%
3	Korea, South	6.9%	3	Korea, South	4.6%
4	Taiwan	6.3%	4	Indonesia	4.2%
5	Hong Kong	6.1%	5	Australia	4.1%
13	Australia	2.0%			

Compiled by the Market Information and Analysis Section, DFAT, using the latest data from the ABS, the IMF and various international sources.

(a): all recent data subject to revision; (b): EIU forecast.

1.43 Japan has long been Australia's largest merchandise export market (18.8 per cent of total merchandise trade) and second largest source of imports (13 per cent). Imports from Japan are comprised largely of valued-added manufactures, such as motor vehicles and parts. Australia's two-way merchandise trade with Japan was worth A\$38.1 billion in 2002-03, making Japan Australia's largest bilateral merchandise trading partner. Australia's trade with the United States was worth A\$32.9 billion over the same period.

1.44 Australia's exports are heavily concentrated on five products - coal, liquefied natural gas (LNG), iron ore, beef and aluminium - which account for more than 50 per cent of merchandise exports. Minerals and fuels, Australia's major export items to Japan accounted for A\$6.7 billion in the calendar year to September 2003. Japan buys 43 per cent of our total coal merchandise exports, 42 per cent of our total iron ore exports, 30 per cent of our beef exports and 34 per cent of our aluminium exports.

1.45 Export of manufactures fell in 2002, declining by 15 per cent or A\$469 million. Elaborately transformed manufactures (ETMs) such as technologically advanced equipment fell by 9.4 per cent (2002) whilst simply transferred manufactures declined by 23 per cent (2003). Opportunities for Australian technology exports continue in niche areas in Japan such as software development. With increased domestic deregulation in Japan more opportunities are opening up for Australian exporters. Recent deregulation and reform has already resulted in increased exports of wine, cheese (almost one quarter of all cheese produced in Australia goes to Japan), fruit and vegetables.

### **Tourism**

1.46 Japan is Australia's third largest market for services exports. In 2003, services exports were valued at \$3.4 billion. Receipts from tourism account for the bulk of this (around 60 per cent). Japan remains the second largest source of overseas visitors to Australia, behind New Zealand. The number of Japanese visitors to Australia increased to 715,500 for the year to December 2002, a rise of 5.7 per cent.

### **Education**

1.47 Education links between Australia and Japan make a significant contribution to the economic, political and social relationship. In 2002 some 2 per cent of Australia's total overseas university student population came from Japan, numbering 3,174 students. This figure is expected to level off in 2003. Education services to Japan remain a priority of the government.

### ***Economic briefings***

1.48 In order to assess the economic situation in Japan and prospects for further trade, the delegation received background briefings from the Australian Embassy in Tokyo; members of the Australia and New Zealand Chamber of Commerce who outlined the challenges and rewards of doing business in Japan; the Ministry of Trade, Economy and Industry; and several Japanese economic policy specialists. The delegation also visited the Toyota Motor Corporation's plant in Kaikan and the Tsukiji Wholesale Market in Tokyo.

### **Japanese Economic Policy Specialists**

1.49 The delegation was pleased to receive a briefing from the following Japanese economic specialists:

- Mr Yutaka Kosai, President, Economic and Social Research Institute;

- 
- Dr Naoki Tanaka, President, 21<sup>st</sup> Century Policy Institute;
  - Dr Paul Sheard, Chief Economist, Lehman Bros;
  - Mr Tetsuro Sugiura, Chief Economist, Mizuho Research Institute; and
  - Dr Martin Schultz, Senior Economist, Fujitsu Research Institute.

1.50 The delegation was told Japan was enjoying a stronger than expected recovery period. However, the extent of recovery should not be overestimated. Household demand was yet to become a major contributor to growth. Growth in this sector would need to commence to sustain the recovery beyond 2004. In itself, high public debt was not a problem but could become one if deflation and non-performing loans were not addressed. The preferred option was to institute policies that reflat the economy, a direction towards which the Koizumi Government was moving. To achieve long-term growth, Japan had to address an ageing society and create flexible internal markets for labour, services and distribution.

### **Ministry of Economy, Trade and Industry**

1.51 The delegation appreciated the detailed briefing it received from: Mr Satoshi Kuwahara, Deputy Director-General, Trade Policy Bureau, Mr Nobuo Tanaka, Director-General, Multilateral Trade System Department and Mr Masahiro Nagai, Director for International Energy Research.

1.52 Mr Kuwahara identified three distinct periods in Australia-Japan post-WWII trade relations. The first period was characterized by a rapid increase in resources trade. Trade diversified from the 1980s to include services and manufactures and took on a greater regional flavour for both Japan and Australia resulting in the establishment of APEC. Since 2000, bilateral trade flows had been influenced by economic globalization and we have seen an increased policy focus on regionalism and FTAs.

1.53 Japan had signed an FTA with Singapore in 2002 and from 2004 would be actively negotiating FTAs with Mexico, Korea, Thailand, the Philippines and Malaysia. Japan would begin FTA negotiations with ASEAN in 2005. Mr Kuwahara said Australia and Japan were looking to strengthen bilateral trade and economic relations through the Trade and Economic Framework with a view to an FTA in the long-term.

1.54 Japan's energy self-sufficiency is low in comparison to other nations (around 4 per cent or 20 per cent including nuclear power). As world demand for energy continues to increase, resource poor Japan faces the possibility of being seriously affected by future changes to the global energy situation. Japan's energy policy is based on market principles, but at the same time seeks to ensure a stable supply and environmentally friendly production and consumption of energy.

1.55 Mr Nagai underscored the importance of Australia as an energy supplier to Japan (oil, coal and LNG). He said that even though most of Australia's crude oil exports go to Japan; Japan still has to import 86 per cent of its oil from the Middle East, so would like to import more crude oil from Australia. Japan is almost 100 per

cent reliant on imports for its coal which provides 19 per cent of the nation's energy needs. Australia is the largest exporter of coal and the third largest exporter of LNG to Japan after Indonesia and Malaysia. Mr Nagai outlined the Japan-Australia High Level Group on Energy and Minerals Consultations and other arenas where Japan and Australia cooperate on energy matters, such as APEC and the International Energy Forum.

1.56 Mr Tanaka spoke of Japan's multi-layered approach to trade policy. Japan continued to believe the multilateral trading system was necessary and where trade should be regulated. There was, however, increasing pessimism about the prospect of completing the WTO Doha round by 2005. As to outcomes from the round, Japan was looking to achieve a good balance between improved market access and new rules (on investment and anti-dumping). In the absence of a successful conclusion to the round, Mr Tanaka expected a greater focus on enforcing compliance with existing rules and on FTAs.

1.57 Conservation issues and Japan's ratification of the Kyoto Protocol were also discussed.

### **Meeting with the Governor of Kyoto, Mr Kenji Yamada**

1.58 The delegation also had the opportunity to discuss the Kyoto Protocol at a meeting with the Governor of Kyoto, Mr Kenji Yamada. Mr Yamada urged the Australian Government to ratify the Kyoto Protocol and cooperate with international efforts to deal with global warming. President Calvert said Mr Yamada's letter on this issue had been passed to the Prime Minister and would be responded to shortly. He explained that the Australian Government is strongly committed to meeting its greenhouse emission targets regardless of its decision not to ratify the protocol at this stage. Even though there are different political views on the ratification of the Kyoto Protocol in Australia, all agree that the target should be met. Senator Bolkus outlined the Opposition's position on the Protocol and measures to deal with climate change.

### **Toyota Motor Corporation – Tour of Kaikan plant**

1.59 Toyota Motor Corporation is the world's third largest automobile manufacturer. As of March 2003, Toyota employed 264,000 people worldwide and markets vehicles in more than 140 countries. Australia is the second largest export destination after the US (approx. 111,500 vehicles were exported in 2002) and Australia is also second to the US in the top sales of Toyotas in overseas markets. Toyota Australia commenced operations at its Melbourne plant in 1963. At 2002 it employed 4,660 people and produced 86,600 vehicles (Avalon and Camry).

1.60 The delegation's tour of the Kaikan plant included a floor tour of the machining and assembly operations. Toyota endeavours to build production lines that can quickly and easily be changed to accommodate customer needs. This involves creating a flexible 'Just-in-Time' manufacturing system that allows various types of cars to be produced in one production line. The company's high levels of efficiency were evident on the factory floor, with many innovations having been introduced at the suggestion of the workers.



1.61 The exhibition hall featuring Toyota's environmental, automotive safety and intelligent transport systems included the new hybrid gas/electric car, the Toyota Prius, which is now available in Australia. The delegation was impressed with the efforts of Toyota in offering solutions to produce cars that have less environmental impact at every stage of the car's life cycle from development, production, use and disposal; and its safety technologies.

### **Tsukiji Wholesale Market**

1.62 One of the highlights for the delegation was its visit the Tsukiji Wholesale Markets early one morning to observe the tuna auctions. The Tokyo Metropolitan Government has established 11 central wholesale markets to ensure that the fresh foods transported to market are delivered to consumers in safety, at a reasonable price and promptly. The Government administers the construction, maintenance and management of the facilities, including hygiene inspections.

1.63 The wholesaler's commission is fixed by municipal ordinance which is 5.5 per cent for seafood; 8.5 per cent for vegetables; 7 per cent for fruit; 9.5 per cent for flowers and 3.5 per cent for meat.

1.64 Fish is auctioned in Tokyo at the Tsukiji, Ota and Adachi Markets 272 days a year. The Tsukiji market is one of the largest fish markets in the world. The total volume of marine produce handled by the three markets is approximately 719,745 tonnes a year. 63,178 tonnes (2002 figures) of tuna is auctioned. Japan imported 27,637 tonnes of marine produce for these markets in 2002, which included 6,600 tonnes of salmon/trout; 2,800 tonnes of big-eyed tuna; 1700 tonnes of tuna; and 486 tonnes of southern bluefin tuna.



*Tuna auctions at the Tsukiji Wholesale Market*

## ***Economic outlook***

1.65 Japan remains the second-largest economy in the world and Australia's most important trading partner. Significant opportunities for Australian exporters and other businesses exist in Japan, including as a result of the Japanese government's reforms removing regulatory barriers and freeing up various sectors of the economy.

1.66 Some key objectives for our trade relationship include an expansion of Australia's commercial presence in Japan; increased food exports through reform specific entry requirements; recognition of standards; an increase in the number of Japanese tertiary students studying in Australia; the development of a higher information, communications and other technology profile in Japan for Australian technology producers; and increasing the level of Japanese foreign direct investment in Australia.

## **Defence, security and foreign policy**

### ***Brief overview***

1.67 Japan renounces the threat or use of force as a means of settling international disputes under Article 9 of its Constitution. However, within this framework Japanese

defence policy allows the right to self defence but prohibits the use of collective self defence outside of the bilateral US-Japan relationship (the US-Japan Mutual Security Treaty underpins Japan's self defence).

1.68 Japan's defence policy is based on four guidelines:

- exclusively defence-oriented policy;
- not becoming a military power;
- adherence to the three non-nuclear principles (prohibiting possession, production, and introduction into Japan, of nuclear weapons); and
- civilian control.

1.69 As a result of the Government's interpretation of the Constitution, Japan cannot send Japan Self Defence Forces (JSDF) to foreign countries, except for peacekeeping operations and international humanitarian relief activities, sponsored by the United Nations or other international bodies.

1.70 Japan can take part in those UN endorsed activities abroad, under certain preconditions, and has an Engineer unit deployed in East Timor as part of UNMISSET. It needs to enact a special temporary law every time the Government wants to dispatch SDF personnel overseas for Japan's contribution to multinational operations without specific UN requests, such as the US-led coalition operation in Afghanistan. The scope of JSDF support on this occasion was strictly limited to selected areas outside designated combat zones.

1.71 Japan's defence budget for 2002-03 was approximately A\$72 billion. Since 1976, the defence budget has remained constant at an unofficial cap of approximately 1 per cent of GDP.

1.72 In June 2003, the Japanese Diet enacted a set of bills that gave the country its first full legal framework to respond to a foreign attack.

1.73 In July 2003, the Japanese Government introduced the Special Law for Iraqi Reconstruction and Stabilisation Assistance, for the dispatch of the JSDF to Iraq for humanitarian and security assistance. The new law, which is valid for four years, for the first time enables Japan to send JSDF troops to an occupied country where small-scale fighting continues, while it limits the area of JSDF activities to the 'area in which no combat activities are actually occurring or which is recognized as an area in which no act of combat will arise while JSDF troops are engaged in operations'.

1.74 On 9 December 2003, the Cabinet approved a basic plan to dispatch JSDF personnel to Iraq, paving the way for up to 600 ground troops in southeastern Iraq early in 2004, to engage in medical assistance, reconstruct schools and other public buildings and to provide water supply. The use of weapons will be strictly limited to self-defence.

1.75 The announcement signalled a historic foreign policy shift for Japan with Prime Minister Koizumi becoming the first leader since World War II to dispatch

troops to a nation effectively at war. The key factors behind Prime Minister Koizumi's decision were cooperating with the international community in efforts to rebuild Iraq and maintaining a solid Japan-US security alliance. The decision also came at a time of heightened public concern over the security situation in Iraq following the deaths of two Japanese diplomats in Iraq on 29 November 2003. Prime Minister Koizumi said at a press conference on 9 December:

As a responsible member of the international community, Japan must help the people of Iraq so that they can reconstruct its nation with hope.<sup>4</sup>

1.76 The plan did not specify when the troops would be sent because the Koizumi Government's new coalition partner New Komeito is against their early dispatch. Opposition parties are not supportive of the proposal and from the initial public reaction while the delegation was in Japan, many citizens appear also to be critical of the proposal.

### ***North Korea policy***

1.77 The close cooperation of Japan and Australia in dealing with North Korean nuclear and missile issues and the abduction issue was reaffirmed during Mr Howard's July 2003 visit to Japan.

1.78 Throughout the delegation's meetings, it was clear that the abduction of Japanese citizens by North Korea is among the highest priority issues outstanding between Japan and North Korea. The policy of the Japanese Government is that, unless the abduction issue is resolved, there will be no normalisation of relations with North Korea. In other words, the Government of Japan shall resolve outstanding issues such as the abduction cases in a comprehensive manner and based on the Pyongyang Declaration, to achieve normalisation with North Korea in a way that would promote the peace and stability of the region.<sup>5</sup>

### **Meeting with the House of Councillors Committee on Foreign Affairs and Defence**

1.79 In order to assess the bilateral relationship and prospects for further development in respect of foreign affairs, defence and security matters, the delegation met with the House of Councillors Committee on Foreign Affairs and Defence and the Ministry of Foreign Affairs.

1.80 Delegation members were welcomed by the Chairman of the Foreign Affairs and Defence Committee, Mr Ichita Yamamoto (LDP) and Mr Yoichi Masuzoe (LDP); Mr Tsuyoshi Saito (DPJ); Mr Hiroshi Takano (Komeito); Mr Chikashi Koizumi (Communist).

---

4 *The Japan Times*, 10/12/03, p 1.

5 *Abduction of Japanese Citizens by North Korea*, Government of Japan, December 2003, pp 4-5.

1.81 Mr Yamamoto expressed appreciation for the visit of the Australian delegation and emphasized the importance of the bilateral relationship given security challenges in the region. President Calvert expressed condolences for the recent deaths of two Japanese diplomats in Iraq.

1.82 The Committee outlined differing political views in Japan on the deployment of the JSDF to Iraq. The Committee members acknowledged that while there was bipartisan agreement that Japan should be involved in the reconstruction and humanitarian assistance of Iraq, the views of some concerning Article 9 of the constitution and a UN mandate for the US-led intervention had contributed to different political positions between the Government and Opposition. Mr Masuzoe said that up to 70 per cent of the Japanese people had been opposed to the use of military force against Iraq.

1.83 The Committee expressed interest in Australian political views on the conflict in Iraq and the deployment of military forces. The Committee indicated that, despite political differences over the war in Iraq, there was bipartisan support for members of the Australian Defence Force deployed in Iraq.

1.84 On missile defence, the Committee outlined that the threat posed by North Korea developing a nuclear missile capability meant that missile defence was not as contentious a political issue as Iraq in Japan. The abduction of Japanese citizens by North Korea was also a contributory factor for the public's support of missile defence.

### **Briefing by the Ministry of Foreign Affairs**

1.85 The delegation also received a briefing from the Ministry of Foreign Affairs on security and defence matters.

1.86 Japan's foreign policy interests were outlined to the delegation by Mr Shinichi Nishimiya, Deputy Director-General of Asian and Oceanian Bureau, Ministry of Foreign Affairs. Mr Nishimiya stated that Japan enjoyed excellent relations with Australia, both in the economic/trade area of long historical significance and also in the political/security field where the two nations had much in common. Australia and Japan were working closely together in the region, and also in relation to global issues such as counter-terrorism and human trafficking.

1.87 Mr Nishimiya said that the 30<sup>th</sup> anniversary of Australia and Japan's bilateral friendship treaty in 2006 was a major opportunity to celebrate the relationship and that the young people of Australia and Japan were of critical importance to the future. He advised that the visa arrangements were working well with over 100,000 Australians on working holidays in Japan. Australia was a major supplier of young English teachers.

1.88 Elsewhere, US-Japan relations were the best they had been in the post-war period. Relations with China were developing rapidly, particularly on the economic front, but 'issues of history' were still a focus of attention. Problems with North Korea – including nuclear weapons and Japanese abductees – were high on Japan's agenda. Finally, relations with ASEAN were progressing well, with the Japan-

ASEAN Summit in December setting a formal program of cooperation between the two sides for the coming years.

## **Conclusion**

1.89 The visit to Japan was highly successful and the delegation confidently believes that the aims and objectives of the visit have been met. During its busy schedule of meetings the delegation had the opportunity to explore a number of important issues with the political leaders of Japan and members of the Diet, business leaders and security and economic experts.

1.90 The visit was beneficial in increasing the understanding of the political and economic challenges facing the country and the many opportunities that are available to both countries. The visit strengthened Japan and Australia's already strong relationship and created opportunities for it to develop further.

## CHAPTER TWO

### Republic of Korea

#### Republic of Korea at a glance<sup>1</sup>

Population	48.3 million (July 2003)
Surface area	99,000 sq km (roughly half the size of Victoria)
Capital	Seoul
Head of State and Head of Government	H.E. Roh Moo-Hyun
Principal export destination	United States
Principal import source	Japan



<sup>1</sup> Information in part of this chapter is based on written briefings from the Department of Foreign Affairs and Trade (DFAT) and information contained in DFAT's website [www.dfat.gov.au](http://www.dfat.gov.au).

## **Political overview**

### ***System of Government***

2.2 Koreans were subject to dictatorial rule until 1987, first by colonial Japan (1911-1945) and then by a series of Korean military regimes. Throughout this period, Koreans struggled, often at great personal sacrifice, to establish a democratic political system. With the first democratic election of a president in 1987, successive governments have incrementally overhauled political and government institutions to ward off corruption and abuse of power, traits of the former regimes. Even today, with their fourth democratically elected president, Koreans engage actively in debate about their political system, as they seek to refine their hard won democracy.

2.3 Regionalism runs deep in Korean politics. Most Koreans traditionally vote according to their regional and personal affiliations – loyalty to the people from the place they were born or educated, rather than according to any class or ideological viewpoint. The comparative absence of traditional ideological markers has led to the sudden formation of new political parties. Since 1980, there have been over 25 different parties in mainstream politics alone. Currently the two major parties, the Millennium Democratic Party (MDP) and the Grand National Party (GNP) are each less than 10 years old.

### **Presidential System**

2.4 The President, within the constraints of the Constitution, holds supreme power regarding all executive functions of government. The President and his secretariat are commonly referred to collectively as the Blue House (after his official residence). The President is the leader of the ruling political party and, as head of state, symbolises and represents the nation in administration and foreign relations.

2.5 As chief administrator, the President enforces the laws passed by the National Assembly, directs the various agencies of the executive government, and appoints public officials, including the Prime Minister, Ministers and the heads of other executive agencies. Cabinet Ministers need not be National Assembly Members, and invariably are appointed from outside the Assembly.

2.6 The President's length of office is limited to a single five-year term. The next presidential election is due on 19 December 2007.

### **Unicameral National Assembly**

2.7 Legislative power is vested in the unicameral National Assembly, comprising 273 members elected by popular vote for a four-year term. Assembly members elected by popular vote total 227 seats with the remaining 46 seats distributed proportionately among parties winning five seats or more in the direct election. There are fixed dates for elections with the next National Assembly election due on 15 April 2004.



2.8 A bill may be introduced by any Assembly member with the concurrence of 20 others, or by the Government. When a bill is proposed, the Speaker refers it to a committee for consideration. There are 20 standing committees that deal with specific areas of government administration. Once a bill has been approved by committee, it then goes to the National Assembly plenary for approval, rejection or amendment. Each bill passed by the Assembly is sent to the President. The President is required to promulgate the bill within 15 days or return it to the National Assembly for reconsideration with a statement explaining its rejection. The Assembly can, however, override the President's veto with the attendance of more than half of the membership and with a two-thirds majority vote of those present. The bill then becomes law.

### **Presidential elections – December 2002**

2.9 In a close race, Roh Moo-Hyun, Kim Dae-Jung's ruling Millennium Democratic Party candidate, won the South Korean presidential election on 19 December 2002. Roh won with 48.9 per cent of the vote, just 2.3 per cent ahead of Lee Hoi-Chang from the majority opposition Grand National Party.

2.10 Since Roh's inauguration as South Korea's eighth President, the word 'reform' has become a catchphrase of his administration. Roh has pledged to reform the markets and systems in a 'fair and transparent manner based on international standards'. He has promised to build Korea into a 'hub of Northeast Asia' and to lead the region to an 'an era of peace and prosperity'. He has also promised to decentralise power to the provinces.

2.11 With calls for inclusion and consultation to be the hallmarks of his administration, Roh has promised to reform the office of the Prime Minister. Instead of nominating a candidate himself, Roh has hinted he would allow the majority party in the National Assembly after the 2004 election to decide the Prime Minister.

### ***Outlook***

2.12 Roh's next major task will be winning the general elections for the national Assembly in April 2004 to enable him to pass legislation. It is unclear if he will succeed, not least because the South Korean party system is now in some flux. After the MDP did poorly in several by-elections, and after failing to reach consensus on how to reform itself, Roh's supporters split from the MDP to form their own party called the Uri (means 'our') Party. Shortly after, Roh resigned as a member of the MDP. The Uri Party has only 46 of the 273 seats in the National Assembly. Its membership represents a more even regional spread and it bills itself as being based on progressive ideologies rather than on regional sympathies. As such, it has succeeded in attracting members from other parties, including five from the majority opposition GNP. However, the Uri structure, policies and election strategy are still in their infancy. The other parties are facing their own dilemmas.

2.13 In addition, President Roh's proposal to hold a referendum to gauge public confidence in his presidency, the ongoing investigations by the Prosecutor's Office

into alleged political bribery during the 2002 presidential elections, and the independent counsel appointed to investigate alleged bribery by three of the President's former aides, have further compounded the complex political landscape. It is unlikely that the referendum will go ahead, but Roh's offer, which he made in response to steadily declining opinion poll ratings and relentless attacks by the opposition, has lifted his public support and put the opposition on the back foot. This boost did not extend to the Uri Party, however, it could well come to some agreement with the MDP to combine in some way to thwart the GNP. These maneuverings are likely to continue in the lead up to the April 2004 general elections, which will see much more complicated contests, with the vote splitting between three major parties, several smaller parties and independents.

### **Reinforcement of bilateral parliamentary links**

2.14 The parliamentary links between Australia and South Korea were strengthened through a number of meetings with a range of senior political figures:

- HE Mr Goh Kun, Prime Minister;
- HE Mr Park Kwan-Young, Speaker of the National Assembly;
- HE Dr Yoon Young-Kwan, Minister for Foreign Affairs;
- Dr Kim Hyun-Chong, Deputy Minister for Trade;
- Mr Suh Chung-Hwa and Mr Cho Woong-Kyu, Chair and Vice-Chair of the National Assembly Unification, Foreign Affairs and Trade Committee;
- Mr Ahn Taek-Soo, Chair of the Finance and Economy Committee;
- Rep Kim Geun-Tae, Floor Leader, Rep Kim Boo-Kyum and Rep Kim Taek-Kee, Uri Party;
- Mr Choe Byung-Yul, Chair, Rep Chung Jey-Moon, Chair, International Relations Committee and Rep Yim Tae-Hee, Chief of Staff to the Chair, Grand National Party;
- Mr Chough Soon-Hyung, Chair, Mr Kang Un-Tae, Secretary-General, Rep Shim Jae-Kwon, Chief of Staff to the Chair, Rep Han Hwa-Gap, member of the Executive Council, and Mr Yang Sun-Mook, Director General, Millennium Democratic Party.

2.15 At each meeting, the delegation sought views on foreign policy issues, including North Korea, Iraq, terrorism and trade, and the current domestic political situation in South Korea. In particular, the delegation encouraged support for a future bilateral exchange program between young political leaders. Both sides agreed to pursue an inaugural visit to Australia by young South Korean leaders after the National Assembly general election in April 2004.

2.16 The delegation also heard about South Korea's preparations to host APEC in 2005, its plans to sign its first Free Trade Agreement with Chile and to pursue FTAs with Singapore and Japan, and its views on the WTO and agricultural liberalization.

2.17 The Prime Minister talked about the close relationship with Australia and South Korea and the cooperation between the two countries in the provision of troops to East Timor. He also spoke about the economic and cultural benefits of tourism and Korean students studying in Australia.

2.18 Political donations to political parties and the lack of transparency was one of the top news items while the delegation was in South Korea. President Roh Moo-Hyun embarrassed by the political scandal surrounding political donations, made a commitment that we would “resign if it is shown that the illegal funds my party collected were more than a tenth of those gathered by the Grand National Party”.<sup>2</sup>

2.19 Party representatives, aware of the damage the issue was having on public confidence in political parties, outlined to the delegation their policies for political reform.

## **Economic overview**

2.20 South Korea has made remarkable progress in the last half-century. When the Japanese occupation ended in 1945, South Korea’s economy was an impoverished and agrarian economy. By 1960, South Korea’s per capita GDP was still below that of Zambia and Bangladesh. Since then, sustained high growth has seen living standards rise steadily and South Korea has emerged as a highly industrialised and internationally competitive economy. South Korea is the 13<sup>th</sup> largest economy in the world (Australia is 15<sup>th</sup>), with a per capita GDP of about \$US9,918 (compared to \$US20,143 in Australia). The size of Korea’s economy and the complementarities between its manufacturing strength and Australia’s resource exports, make it a critical market for Australia.

## ***Recent Economic Developments***

2.21 The South Korean economy is currently in reasonably good shape although there are signs that growth is moderating. The Bank of Korea lowered its 2003 growth forecasts from 4.1 per cent to 3.1 per cent less than half last year’s growth rate of 6.3 per cent. Consumer confidence and the external environment are the key determinants of growth, with North Korea’s negative impact on the international security situation and financial market instability in the United States being the main external downside risks.

2.22 Rapid export growth and high rates of consumption and construction investment (mainly housing) have been the main contributors to South Korea’s rapid economic growth in recent years. In 2003 signs of the economic slowdown had become more evident, as demonstrated by contracting production and an accumulation of inventories amid sluggish domestic demand. South Korea’s large domestic economy and diversified export base should provide a measure of protection from potential external turbulence.

---

2 *Joong Ang Daily*, 15 December 2003, p 1.

## ***Government Policy***

2.23 President Roh Moo-Hyun's economic policy priorities include: reform of the chaebols (large conglomerates); restructuring the Korean financial sector and improving labour relations. Roh needs to address the challenges posed by internationalisation of the Korean economy and foreign participation in the market. Despite substantial reforms since the 1997 economic crisis, one-third of the financial sector remains state-controlled and corporate-sector debt limits economic growth. Ongoing reform, particularly in corporate governance and labour market flexibility are essential.

2.24 South Korea's traditional trade and financial linkages with the United States are being gradually supplanted by closer ties with other Asian nations. For example, in 2002 Korean exports to China, Hong Kong and Taiwan overtook those of the United States for the first time. Analysts consider that one of the keys to Korea's medium-term outlook is its handling of its relations with China. Korea's exports to China (including Hong Kong) were worth US\$33.9 billion in 2002, principally in industrial machinery, petrochemicals, ICT equipment and plastics. Although Korean exports to China grew by 60 per cent in the first quarter of 2003, the strengthening of the won is undermining Korea's competitiveness in the China market.

2.25 Despite these trends, as its main supplier of key products such as computer chips, the United States is likely to continue its central role in South Korea's economy for the foreseeable future.

## **Bilateral relations**

2.26 The first contacts between Australia and Korea took place in 1884 when Australian missionaries landed at Busan. In 1947 Australia was a founding member of the United Nations Temporary Commission on Korea (UNTCOK, later UNCOK), sending the first Australian officials to Korea in 1948. Following the outbreak of the Korean War, 18,000 Australian troops served under the United Nations command (sustaining 339 deaths).

2.27 Relations between Australia and the South Korea in recent years have been increasingly complementary and productive, reflecting a growing commonality of interests, shared emphasis on the importance of the Asia-Pacific region and mutual recognition of the benefits of close cooperation. The convergence of our views in international and regional affairs has led to the initiation of a broad spectrum of inter-government contacts, including talks on economic, trade, political, military, aid and regional issues. South Korea's growing role in Asia Pacific Economic Cooperation (APEC), the World Trade Organisation (WTO), Association of South East Asian Nations (ASEAN), Regional Forum (ARF) and the Organisation for Economic Cooperation and Development (OECD) make it a valuable partner for Australia in multilateral processes. These opportunities for dialogue and cooperation will be further enhanced as South Korea becomes more influential in regional and international fora and pursues a more active role in global issues such as disarmament, arms control and the environment.

## ***The Political Partnership***

2.28 Australia has taken a bipartisan approach in its relations with South Korea. Australia has strong government-to-government relations with South Korea manifested by wide-ranging consultative mechanisms. These include bilateral political and military talks, nuclear policy consultations, quarantine talks, senior officials' talks, aid cooperation talks and pre-UN General Assembly talks.

2.29 The pattern of Australian-South Korean high-level contact is diverse and expanding. Former President Kim Dae-jung visited Australia in September 1999. Specific outcomes of the visit included: a Joint Statement recording some key components of the relationship and its future directions; a statement on cooperation in E-commerce; the signing of agreements on Science and Technology and Judicial Assistance; the conclusion of a MOU on Cooperation in Energy and Mineral Resources; and development of a Mutual Recognition Agreement.

2.30 Prime Minister Howard paid his second Prime Ministerial visit to South Korea in July 2003 and met Korean President Roh Moo-Hyun, as well as a number of Korean ministers and business leaders. Talks focused on North Korea, the strength of the Australia-Korea trading relationship and Australia's credentials as a supplier of LNG.

2.31 In September 2003, the Third Australia Korea Ministerial Joint Trade and Economic Commission (MJTEC) meeting was held to discuss bilateral trade and economic issues of mutual concern. The delegates discussed ways to develop the trading links between Korea and Australia, the opportunities for collaboration in new technologies and the outlook for the regional and international trading environment.

2.32 The Australia-Korea and Korea-Australia Business Councils hold joint annual meetings to allow members to network and exchange views about recent developments in the relationship. The meetings have been a valuable contributor to private sector linkages across the relationship.

### **Meetings with economic and trade experts**

2.33 To gain a closer perspective of the economic situation in South Korea, the delegation met with:

- Mr Lee Seung-Hoon, Vice President, JP Morgan;
- Mr James Rooney, President and CEO, Market Force;
- Dr Cheong In-Kyo, FTA Research Team, Korea Institute for International Economic Policy; and
- Dr Choi Sei-Kyun, Research Fellow, Korea Rural Economic Institute.

There were some interesting exchanges on important issues for Australia, such as agriculture and various approaches to privatization and structural reform.

2.34 The delegation also met with representatives of the Australian business community in Seoul and discussed issues facing Australian businesses operating in South Korea.

### Trade and Investment

2.35 Australia's trading relationship with South Korea developed rapidly during the 1960s as Seoul pursued ambitious industrialisation policies that required large amounts of raw materials that it did not possess. The two countries now share a complementary trade structure, with Australia providing raw materials and foodstuffs to South Korea and importing finished products (e.g. cars, telecommunications equipment and computers) from South Korea.

2.36 Total Australian exports to Korea in 2002-03 were worth A\$13.9 million. South Korea was Australia's third largest export market in 2002-03 comprising 7.9 per cent of total exports; ahead of China, New Zealand, Singapore and the United Kingdom. South Korea was our fourth-biggest trading partner overall in 2002-03, accounting for 5.6 per cent of total Australian trade. Raw materials continue to dominate exports from Australia, with the top 5 items from Australia in 2002 comprising crude petroleum, coal, non-monetary gold, iron ore and aluminium.

### Australia's trade with Korea



#### Australia's trade relationship with Korea:

Major Australian exports, 2002-2003 (A\$m):		Major Australian imports, 2002-2003 (A\$m):	
Crude petroleum	1,216	Telecommunications equipment	859
Coal	1,176	Non-monetary gold	483
Non-monetary gold	927	Passenger motor vehicles	447
Iron ore	759	Televisions	226
Aluminium	561	Computers	205

Australian merchandise trade with Korea, 2002-2003:			Total share:	Rank:	Growth (yoy):
Exports to Korea (A\$m):	9,116		7.9%	3rd	-7.2%
Imports from Korea (A\$m):	4,753		3.6%	7th	0.7%
Total trade (exports + imports) (A\$m):	13,869		5.6%	4th	-4.6%
Merchandise trade surplus with Korea (A\$m):	4,362				

Australia's trade in services with Korea, 2002-2003:			Total share:
Exports of services to Korea (A\$m):	837		2.6%
Imports of services from Korea (A\$m):	409		1.2%
Services trade surplus with Korea (A\$m)	428		

#### Korea's global trade relationships:

Korea's principal export destinations, 2002:			Korea's principal import sources, 2002:		
1	United States	20.2%	1	Japan	19.5%
2	China	14.6%	2	United States	14.9%
3	Japan	9.3%	3	China	10.9%
4	Hong Kong	6.2%	4	Saudi Arabia	5.0%
5	Taiwan	4.1%	5	Australia	3.9%
14	Australia	1.4%			

Compiled by the Market Information and Analysis Section, DFAT, using the latest data from the ABS, the IMF and various international sources.

(a) All recent data subject to revision; (b) EUU forecast.

2.37 Australia's traditional trade in energy resources with South Korea, worth around A\$6 billion in 2002-03, is set to grow as the South Korean economy and its demand for energy strengthens. Coal is a critical requirement of the South Korean

---

economy and liquefied natural gas (LNG) is the next strategic fuel for South Korea's economic growth. Australia is a major world player in the LNG field and has the capacity and experience to be a reliable supplier to meet South Korean energy needs.

2.38 In January 2003, Australia won a contract to supply Korea with more than 3 million tonnes of LNG. The contract, worth A\$1 billion, is a vote of confidence in Australia's long record as a competitive, stable and reliable supplier of Korea's key resource needs. Australia LNG (ALNG Pty Ltd) will sell the Korean Gas Corporation (KOGAS) half a million tonnes of LNG annually between 2003 and 2004.

### **Daewoo Shipbuilding and Marine Engineering– Okpo Shipyard**

2.39 The delegation visited the Daewoo Shipbuilding and Marine Engineering (DSME) shipyard at Okpo Bay, Geoje Island, on the southeastern tip of the Korean Peninsula. Established in 1978, DSME has developed into the world's premium specialized shipbuilding and offshore contractor. It builds various vessels such as LNG ships, oil tankers and cargo ships; destroyers, luxury passenger ships and submarines; as well as offshore platforms, drilling rigs and floating oil production units.

2.40 DSME employs approximately 20,000 workers who build more than 40 per cent of the world's ships. Its sales exceeded 4 trillion won (US\$33.5 billion in 2003).

2.41 The Opko shipyard has the reputation of having the 'cleanest shipyard' in the world and from what the delegation observed, it agrees. With excellent facilities such as the world's largest dock of 1 million ton class and 900-tonne Goliath crane, and effective production system based on its IT technology and JIT (Just-in-Time) system, DSME builds about 40 vessels a year. DSME strictly follows safety and environment rules and regulations.



*Daewoo Shipbuilding and Marine Engineering – Okpo Shipyard*

2.42 DSME is leading the world market in LNG carrier construction (43 per cent in 2001) and is currently building one LNG carrier for Australia for North West Shelf ALNG, which the delegation was able to see firsthand. LNG carriers have to transport high vaporable natural gas in liquid at  $-163^{\circ}\text{C}$ . DSME's membrane type LNG ship shows excellent features in terms of low building cost and fuel cost, high speed compared to other same class vessels and superb manoeuvrability and convenient repair and maintenance.

2.43 The delegation was told that DSME has built nine submarines and four navy vessels for the Korean Navy. The largest ship built at DSME to date was a 450,000 ton oil tanker that can carry three million barrels of oil at one time.

2.44 Mr Shim Kyu-Sang, Executive Vice President, DSME, outlined the labour relations policies adopted by the company. He said that there were harmonious relations with the unions and the company had not experienced labour strikes like some other companies. The delegation was impressed with DSME's employment conditions. Wages are reviewed annually with the average salary approximately \$US40,000. The company owns apartments which are rented by the workers. Meals are available at the shipyard for workers and their families. A gymnasium and occupational therapies such as massage are also available on site at no cost. Schooling up to university entrance level is also provided.



## **POSCO Gwangyang Steelworks**

2.45 Bilateral investments have not been historically strong, but this is changing. Highlights include Korea Zinc's A\$1 billion investment in the Sun Metals Corporation refinery in Townsville, Queensland and POSCO's announced investment in a A\$500 million investment in BHP-Billiton's iron ore resources in WA.

2.46 The delegation visited the POSCO steelworks at Gwangyang Bay, the world's largest steelworks. POSCO is the single largest commercial purchaser of Australian product in the world and sources 60 per cent of its raw materials, primarily iron ore and coal from Australia.

2.47 From its humble beginnings in 1968 as a small, government-owned steel company, POSCO (formerly Pohang Iron and Steel Company), it has now flourished to become the one of the world's leading steel producers and is poised to surpass the 30 million tonne mark in annual production and reach its goal of attaining 36 trillion won in corporate value by the year 2007.

2.48 Headquartered in the south-eastern port city of Pohang, POSCO employs approximately 19,200 (2001). Growing from a single plant in the early 1970s, it now operates two of the world's premier steel producing facilities, the Pohang and Gwangyang Works, and has forged strategic alliances and partnerships with numerous companies in Asia, the Americas and Europe.

2.49 POSCO produces some 26 million tonnes of steel products each year, enough to produce about 100,000 compact cars a day. POSCO exports these products to over 60 countries around the globe.

2.50 Operating a total of five hot strip mills and one mini-mill, POSCO produces some 21.24 million tonnes of hot rolled sheet annually, of which 9.35 million tonnes is delivered to customers in the form of finished products for use in automobiles, steel structures, steel pipe, home appliances and a variety of other products. A portion of the hot rolled sheet output is further processed into value-added products such as cold rolled products and electrical sheet.

2.51 POSCO achieved record-breaking performance results for 2003, recording annual sales of 14.36 trillion won (\$US12.16 billion ), operating profits of 3.06 trillion won (\$US2.59 billion) and net profits of 1.98 trillion KRW (\$US1.68 billion).

2.52 Mr Han Soo-Yang, Senior Executive Vice President, outlined POSCO's Gwangyang operations and Australia's critical importance as a reliable supplier of raw materials. Following an overview of the scale and extent of automation of the steelworks, the delegation was taken on an extensive guided tour of the plant where it had the opportunity to observe steel making and rolling processes.



*Manufacturing of hot rolled steel sheet at POSCO Gwangyang Steelworks*

## **Busan Aquarium**

2.53 Macquarie Bank operates a managed portfolio of over A\$1 billion in investment funds in South Korea and Oceanis Australia Pty Ltd manages Australia's largest investment in the Korean leisure industry, the US\$35 million Busan Aquarium.

2.54 The delegation enjoyed its tour of the Aquarium with Mr Richard Oh, Managing Director. Busan Aquarium is a joint project between Oceanis Australia and local government. Oceanis Australia has extensive experience in aquarium operations. The company owns three other businesses, two in Australia and one in China.

2.55 The Busan Aquarium project was the first major tourism undertaking with a local government under the Private Investment Promotion of Infrastructure Law. The aquarium has been highly successful and has received over 2.5 million visitors since it opened in late 2001.

## **GM Daewoo**

2.56 Australian automotive firm, Holden, announced in October 2002 it would assume a role as General Motors' shareholder in a new joint venture in Korea, GM Daewoo. This US\$251 million investment will provide Holden with a base for it to

capitalise on growing opportunities in the Asian automotive market and allow continued sales of four-cylinder engines from Holden's Broadmeadows plant to GM Daewoo.

2.57 The delegation visited the GM Daewoo plant at Incheon, which is a major importer of Australian car engines. GM Daewoo Auto and Technology was established in 2002. Mr Nick Reilly, President and CEO, outlined to the delegation GM Daewoo's vision and technology innovations and the importance of Australia as a market both as a supplier of engines and as strong buyers of the finished product.

2.58 In its tour of the factory floor, the delegation was impressed with the efficient operations of the production line and the research being undertaken on vehicles of the future which are more energy efficient, environmentally friendly and safer to drive.

### **Korea Telecom**

2.59 Australia's exports to South Korea are predominately in the form of bulk commodities. However, there are emerging new opportunities in the economic relationship, particularly in public infrastructure development, IT broadband access and technology-based services.

2.60 Australia's spending on IT is around 3 per cent of GDP – the second highest in the world, setting Australia among world leaders in computer, internet and mobile phone usage. *Cyber Korea 21*, the South Korean Government's program to digitise homes, will offer Australian internet firms significant opportunities, in particular in the implementation of broadband technologies in urban areas.

2.61 Korea Telecom (KT) was 100 per cent government-owned in January 1982. By May 2002, it was completely privatized. It employs 39,000 people and grossed \$US10.5 billion revenue (December 2002).

2.62 In its initial stage, KT focused on supplying telephone facilities to the general public. The company expanded about 4.5 million telephone lines in 1982 to about 20 million lines in 1993. By May 2003, there were 22.3 million telephone subscribers and 10.2 million mobile subscribers.

2.63 As a telephone service provider that began operations with a nationwide fixed-line communication network covering over 20 million subscribers, KT has grown into a worldwide Internet corporation that is founded on constant technology development and management innovation. There are now 10.4 million (69 per cent) broadband subscribers in South Korea compared with 7.8 million (17 per cent) in Japan and 6.6 million (1.9 per cent) in China. Seven out of every 10 homes in South Korea have broadband Internet services.

2.64 Although KT was a late entrant into the high-speed Internet market, it was ranked first in the domestic industry in June 2000, a year after starting their operations. By January 2003, KT had secured more than 5 million subscribers for the first time in the history of high-speed Internet, which has catapulted KT into the world's best broadband service provider.

2.65 The delegation visited KT's headquarters in Bundang (a satellite city of Seoul) and engaged in a detailed discussion about Korea's telecommunications policies with Dr Kim Han-Suk, Head of Global Business and other executives. KT is developing new services to lead the world into the age of 'Digital Convergence' and will build the necessary related infrastructure to connect every corner of South Korea with its telecommunications network. By 2005 KT is aiming to have fibre optic access to most homes in South Korea where people will be able to access the bandwidth at 100 megabytes per second.

2.66 The delegation toured KT's Home Digital Service Hall which showcased new and emerging technologies for home digital services based on high-speed infrastructure, e.g. PDA, web pad and Internet accessible goods like refrigerators and television, home security applications, home medical check-up devices and global positioning systems.

2.67 KT is expanding its broadband projects internationally, so far in Malaysia, China and Japan and is also hoping to partner with a company in Australia.

### **Tourism**

2.68 In 2002-03, 173,000 South Korean tourists visited Australia. The industry still has some way to go, however, before returning to the levels of 1997 when 230,000 South Korean tourists visited Australia. In the five years prior to the 1997 economic crisis, South Korea had been the fastest growing market for inbound Australian tourism. The Australian Tourist Commission predicts strong growth in the number of South Korean tourists to Australia.

### **Education**

2.69 In 2002, South Korea was Australia's sixth largest source of overseas students, with over 13,000 Korean student visa holders spending at least part of the year in Australia. It was Australia's fifth largest source of export income from overseas students earning a total of A\$243 million (including spending on both fees and goods and services).

### **People-to-People and Institutional Links**

2.70 The Australia-Korea Foundation (AKF), established in May 1992, complements the broad foreign, economic, trade and political objectives of the Government through the pursuit of second-track diplomacy - promoting individual and group visits and exchanges and fostering institutional links in commerce and industry, science and technology, education, and the arts, media and sport. The AKF has worked to provide financial and other support to initiatives that hold promise of strengthening bilateral relations.

## Defence, security and foreign policy

### *Brief overview*

2.71 Australia and South Korea share a number of key security interests in North Asia and the Asia-Pacific region. Both support a nuclear-free Korean peninsula and regard the continued commitment of the United States to the Asia-Pacific as contributing to stability and prosperity in the region.

2.72 Regular bilateral official consultations include Pol-Mil meetings among senior diplomatic and defence officials, Mil-Mil talks, annual Chief of General Staff Exercises and exchanges with the Australian Defence Force (ADF) staff colleges and ADF Peacekeeping Centre. The Royal Australian Navy makes routine biennial ship visits to Korea, conducts exercises with the Korean Navy and holds Navy-to-Navy talks. Australia also engages in security dialogue in multilateral forums such as the ASEAN Regional Forum (ARF).

2.73 Peace and stability on the Korean peninsula is critical to Australia and South Korea's economic performance and security. Australia strongly supports South Korean efforts to secure such stability. Australia normalised relations with North Korea in 2000, to demonstrate support for engagement between the two Koreas. Australia maintains dialogue with North Korea but will not take the bilateral relationship forward until the North takes steps to meet Australia's concerns over its nuclear program. Australia welcomed the trilateral discussions held in Beijing between the US, North Korea and China in April 2003 and the six-party talks in August 2003.

2.74 South Korea has supported Australia's regional and global initiatives in the war on terrorism. The South Korean Government gave unconditional support to the campaign against terrorism and pledged "all necessary cooperation and assistance as a close United States ally". It contributed air and sea transport craft and a medical unit in support of the military action in Afghanistan. It also provided humanitarian relief and reconstruction funds to help rebuild that country. South Korea has strengthened its domestic legislation and institutions to combat financial support for terrorism, including the creation of a financial intelligence unit. South Korea supported the war in Iraq, by sending 675 non-combat troops and providing US\$10 million in assistance to the reconstruction of Iraq and has made the in-principle decision to dispatch combat troops.

2.75 South Korea's participation in East Timor represented a new dimension in regional security cooperation. Its commitment to the Australian-led force, INTERFET, and the follow-on UN Peace Keeping Operation (PKO), UNTAET - the *Evergreen Force* - comprised 444 troops, including a medical team and military police squad.

## ***North Korea policy***

2.76 Since the end of the Korean War, South Korea has been preoccupied with the military threat from North Korea and has relied on the United States to guarantee its security. With the end of the Cold War, these links have been held in place by continuing North Korean intransigence, including on its suspected nuclear weapons program. About 38,000 US troops remain stationed in South Korea.

2.77 Following the collapse of the Soviet Union and the end of the Cold War, South Korea no longer needed to regard the rest of the world purely in terms of its relationships with the United States and North Korea. Nevertheless, by virtue of geography and economic influence, relations with the major powers - China, the United States, Japan and Russia - remain the most important foreign policy priorities for South Korea. The most dynamic element in South Korea's foreign policy in recent years has been its policy on North Korea.

2.78 The Roh administration also made considerable efforts to ensure South Korea secured a place in the international community commensurate with its growing economic status. South Korea is the 13th largest exporter and 12th largest importer of manufactures trade world-wide. South Korea entered the ASEAN Post Ministerial Conference as a full dialogue partner in July 1991, became a member of the United Nations in September 1991 and successfully chaired the third APEC Ministerial Meeting in November 1991, skillfully handling the admission of the three Chinese economies, and joined the OECD in 1996.

2.79 Foreign policy under the Kim Dae-jung administration (1998-2002) emphasised the 'sunshine' policy of engagement with North Korea and the need to renew international confidence in the Korean economy. Diplomatic activities focused on diversifying export markets and promoting Korea as an investment destination. President Kim's overriding objective was to secure regional peace and stability and build a firm foundation for reconciliation and eventual reunification of the Korean peninsula. South Korea pursued a consistent approach towards developing economic and political contacts with North Korea to induce it to reform and adopt international practices.

2.80 President Roh Moo-hyun's inauguration speech of 25 February 2003 emphasised enhancing North-east Asian cooperation. He has promised to improve inter-Korean relations through rapprochement. President Roh has encouraged regional partners to urge North Korea to seek a peaceful, diplomatic route to engagement with the international community and to abandon its nuclear weapons aspirations. During his visit to the United States in May 2003, President Roh and President Bush jointly declared that a nuclear North Korea would not be tolerated and that the US-South Korea alliance would remain a cornerstone of South Korea's security policy.

2.81 The fact remains, however, that South Korea and North Korea are technically still at war. The Korean War ended in 1953 with the signing of an Armistice Agreement, not a Peace Treaty. Complicating matters, South Korea did not become a

signatory to the Agreement. The two Koreas maintain two of the largest armies in the world and the demilitarized zone (DMZ) is the most heavily fortified border in the world. Although peace has been largely maintained for over 50 years, there have been sporadic incidents. Contact between North Korea and the United Nations Command continues in the blue hut (which the delegation visited) in the Joint Security Area at Panmunjom on the line dividing north and south. Australia is a contributing country to this United Nations mission (UNMAC).

2.82 In order to assess the security situation on the peninsula and regional security in general, the delegation received a wide ranging briefing from security experts:

- Dr Lee Chung-Min, Graduate School of International Studies, Yonsei University;
- Dr Song Young-Sun, Director of Security Policy and Dr Baek Seungjoo, Chief of North Korea Research Team, Korea Institute for Defence Analyses; and
- Dr Paik Haksoon, North Korea Specialist, The Sejong Institute.

The delegation appreciated their frank assessments of the historical and contemporary situation in North and South Korea and of other security and defence matters.

### **Neutral Nations Supervisory Commission in Korea**

2.83 The cease-fire agreement between North and South Korea gives the Neutral Nations Supervisory Commission in Korea (NNSC) the functions of supervision, observation, inspection and investigation. In addition, it has to ensure that the parties to the agreement observe the obligations they have undertaken, not to increase their war potential existing at the time when the agreement was made. The NNSC monitors the relief of military personnel and the import and export of war material at the points of entry designated in the agreement. However, today the NNSC no longer conducts inspections as foreseen in the mandate. Rather, its main task is to show presence on the inner Korean border and thus show that the cease-fire is still in force.

2.84 Originally, the NNSC was stationed on both sides of the 38th parallel - the demarcation line between North and South Korea, within what is called the 'demilitarized zone'. On the North Korean side, Poland and Czechoslovakia monitored the cease-fire from 1953 into the nineties. Then, these two countries withdrew from Korea because of the political upheavals in Eastern Europe. On the South Korean side of the border, in the border village of Panmunjom, Swiss and Swedish personnel have been stationed since 1953 up to the present day. Today five Swiss representatives and five Swedish representatives are on duty for the NNSC.

2.85 Although NNSC delegates work on the basis of a UN mandate, they are regarded neither as blue helmets nor as military observers (blue berets). As military personnel of their own country, they are called to impartially fulfill a military-diplomatic mission of negotiation and mediation.

2.86 The delegation appreciated the opportunity to visit the DMZ, accompanied by Lieutenant-Colonel Kurt Taylor, Assistant Secretary, United Nations Military



Armistice Commission. It was warmly welcomed by Major-General Bjorn Elmér, Swedish Member, and Major-General Adrien Evéquo, Swiss Member, Neutral Nations Supervisory Commission, who provided a detailed briefing on the historical and current situation in the DMZ. The delegation also observed construction work underway on the West Transport Corridor. One fascinating experience was a visit to one of the so-called ‘infiltration tunnels’ North Korean forces had laid into South Korean territory.

### **The War Memorial of Korea**

2.87 The delegation toured the War Memorial of Korea in Seoul, where President Calvert laid a wreath to commemorate the Australian troops who participated in the Korean War and pay homage to the 339 Australians who lost their lives.

2.88 The War Memorial, which was opened on 10 June 1994, was built for the collection, preservation, and exhibitions of various historical relics and records for the many wars fought to defend the country from foreign invasions.



*The President of the Senate, Senator the Hon. Paul Calvert, at wreath laying ceremony,  
Korean War Memorial*

### **United Nations Memorial Cemetery in Korea**

2.89 The delegation was honoured to visit and lay a wreath at the United Nations Memorial Cemetery, Daeyon-dong, Busan. It also appreciated the overview given by Ambassador Byun Seung-Kook, UNMCK, and the fact that local residents take it as a personal responsibility to tend to the graves.

2.90 The 14 hectare Cemetery is a permanent tribute to all those who laid down their lives in the cause of freedom and world peace. In the Cemetery today lie the bodies of 2,300 men, including 281 Australians.



2.91 It was evident from visiting both memorials, and in discussions with political leaders, how highly regarded Australia is for being one of the first nations to commit troops to the United Nations Forces in the Korean War.

## **Conclusion**

2.92 The delegation confidently believes that the aims and objectives of the visit have been met. During its busy schedule of meetings in South Korea, the delegation had the opportunity to explore a number of important issues with the political leaders of South Korea and members of the National Assembly, business leaders and security and economic experts.

2.93 From the positive reaction the delegation received and the candid discussions in which it participated, the delegation is firmly of the view that the visit was beneficial in increasing the understanding of the political and economic challenges facing the country and the many opportunities that are available to both countries. The visit reinforced Australia's close ties with South Korea as an important partner in the Asian region.



# **APPENDIX ONE**

## **DELEGATION PROGRAM**

### **Japan**

#### **Monday, 8 December 2003**

- 1200 Embassy staff briefing at the Residence, hosted by the Ambassador
- 1400 Meeting with the House of Councillors Committee on Foreign Affairs and Defence
- 1830 Dinner and briefing hosted by the Australia-New Zealand Chamber of Commerce in Japan

#### **Tuesday, 9 December 2003**

- 0530 Tour of Tokyo Tsukiji Fish Markets
- 1100 Call on HE Mr Yohei Kono, Speaker of the House of Representatives
- 1130 Call on HE Mr Hiroyuki Kurata, President of the House of Councillors
- 1200 Lunch hosted by the President of the House of Councillors with Japanese Diet Members
- 1330 Tour of the Diet
- 1500 Briefing by the Ministry of Foreign Affairs
- 1830 Dinner hosted by the Ambassador with Japanese Diet Members

#### **Wednesday, 10 December 2003**

- 1030 Briefing by the Ministry of Economy, Trade and Industry
- 1230 Lunch with Japanese Economic Policy Specialists

#### **Thursday, 11 December 2003**

- 0813 Depart Tokyo Station for Nagoya
- 1110 Tour of Toyota Kaikan
- 1210 Lunch at Toyota Kaikan hosted by Mr Hisayuki Inoue, General Manager, Oceania Division

- 1330          Tour of Toyota Plant
- 1615          Meeting with Vice-Governor Hasegawa, Aichi Prefectural Government
- 1734          Depart Nagoya Station for Kyoto

**Friday, 12 December 2003**

- 0945          Meeting with Governor Keiji Yamada, Governor of Kyoto
- 1015          Kyoto Tour

**Saturday, 13 December 2003**

- 0955          Depart Kyoto for Seoul

**South Korea**

**Saturday, 13 December 2003**

- 1150          Arrive Seoul
- 1340          Tour of Itaewon
- 2000          Contemporary Korean Performance at Cookin' Theatre

**Sunday, 14 December 2003**

- 1100          Tour of the War Memorial and wreath laying ceremony
- 1215          Delegation lunch in Itaewon
- 1400          Tour of Insadong arts and crafts district
- 1700          Embassy staff briefing at the Residence, hosted by the Ambassador

**Monday, 15 December 2003**

- 0800          Breakfast meeting with Uri Party members
- 0945          Tour of National Assembly
- 1000          Call on HE Mr Park Kwan-Yong, Speaker of National Assembly
- 1045          Call on Rep Suh Chung-Hwa, Chairman, and Rep Cho Woong-Kyu, Vice Chairman, Unification, Foreign Affairs and Trade

- 
- 1110 Call on Rep Ahn Taek-Soo, Chairman, Finance and Economy Committee
- 1200 Lunch hosted by HE Mr Park Kwan-Yong, Speaker of the National Assembly
- 1400 Meeting with Rep Chough Soon-Hyung, Chairman of Millennium Democratic Party (MDP)
- 1500 Courtesy call on the Prime Minister, HE Mr Goh Kun
- 1600 Meeting with Mr Choe Byung-Yuel, Chairman of the Grand National Party
- 1640 Meeting with Rep Han Hwa-Gap, Member of the Executive Council, MDP
- 1930 Delegation hosts dinner for security specialists

**Tuesday, 16 December 2003**

- 0900 Arrive Camp Bonifas, briefing and tour of the Joint Security Area at the DMZ
- 1030 Tour Operation Dora and view the western transport corridor
- 1200 Lunch hosted by Major General Björn Elmér and Major General Adrian Evéquoz, Swiss Delegation to the Neutral Nations Supervisory Commission for Korea
- 1500 Meeting with Dr Yoon Young-Kwan, Minister for Foreign Affairs
- 1600 Meeting with Mr Kim Hyun-Chong, Deputy Trade Minister
- 1900 Delegation hosts dinner for economic reform and regional/multilateral trade experts

**Wednesday, 17 December 2003**

- 0800 Breakfast with Australian business representatives
- 1045 Tour and presentation at KT, Bundang
- 1200 Depart Bundang for Gimpo
- 1400 Depart Gimpo airport for Yeosu

- 1600 Tour of POSCO Gwangyang Steelworks
- 1830 Dinner hosted by Mr Han Soo-Yang, Senior Executive and Vice President, POSCO Guesthouse

**Thursday, 18 December 2003**

- 1100 Arrive at Daewoo Shipbuilding and Marine Engineering (DSME), Okpo Shipyard
- 1145 Tour of Okpo Shipyard led by Mr YT Kim, General Manager, Public Relations Team
- 1220 Lunch hosted by DSME, Mr Shim Kyu-Sang, Executive Vice President
- 1400 Depart Jang Seung Po Ferry Station for Busan
- 1640 Tour of Busan Aquarium

**Friday, 19 December 2003**

- 0845 Tour and wreath laying ceremony of United National Memorial Cemetery in Korea (UNMCK)
- 1230 Depart Gimpo airport for GM Daewoo Auto & Technology, Incheon
- 1340 Tour GM Daewoo Auto plant
- 1600 Arrive Incheon airport for departure to Australia

