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**JOINT STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE**

Foreign Affairs Subcommittee

Monday, 7 November 2005

Members: Senator Ferguson (*Chair*), Mr Edwards (*Deputy Chair*), Senators George Campbell, Eggleston, Hutchins, Johnston, Kirk, Moore, Payne, Scullion, Stott Despoja and Webber and Mr Baird, Mr Barresi, Mr Danby, Mrs Draper, Mrs Gash, Mr Gibbons, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Snowdon, Mr Cameron Thompson, Mr Turnbull, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Foreign Affairs Subcommittee members: Mr Jull (*Chair*), Senator Payne (*Acting Chair*), Senator Kirk (*Deputy Chair*), Senators Eggleston, Ferguson (*ex officio*), Hutchins, Johnston, Moore, Payne, Stott Despoja and Webber and Mr Barresi, Mr Danby, Mrs Draper, Mr Edwards (*ex officio*), Mrs Gash, Mr Hatton, Mr Sercombe, Mr Snowdon, Mr Cameron Thompson, Mr Turnbull, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Members in attendance: Senators Ferguson, Kirk, Moore and Stott Despoja, and Mr Barresi, Mr Hatton, Mr Snowdon, Mr Cameron Thompson and Mr Wakelin

Terms of reference for the inquiry:

To inquire into and report on:

Australia's relationship with the Republic of Korea; and developments on the Korean peninsula.

The Committee shall review political, strategic, economic (including trade and investment), social and cultural issues; and consider both the current situation and opportunities for the future.

WITNESSES

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Subcommittee met at 9.33 am**O'BRIEN, Mr Peter Julian, Managing Director, Oceanis Holdings Ltd**

ACTING CHAIR (Senator Kirk)—Welcome. I declare open this public hearing inquiry into Australia's relationship with the Republic of Korea and developments on the Korean peninsula by the Foreign Affairs Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. The subcommittee will review the political, strategic, economic, social and cultural aspects of the bilateral relationship between Australia and Korea, considering both the current nature of the relationship and the opportunities for it to develop. This morning the subcommittee will be receiving evidence from just two witnesses. Firstly, they will be a telephone conference with Mr Peter O'Brien, Managing Director, Oceanis Holdings Ltd. This company owns and operates the Busan aquarium in the Republic of Korea.

The subcommittee will be keen to explore with Mr O'Brien his views on Korean business culture and how to successfully conduct business in the Republic of Korea. The subcommittee will also be talking to Mr Mack Williams, a previous Australian ambassador to the Republic of Korea. Mr Williams's insights into the Korean culture and his views on recent developments on the Korean peninsula will be welcomed by the subcommittee. Finally, I remind any members of the media who may be observing the public hearing of the need to report fairly and accurately the proceedings of the subcommittee as required by the Senate order concerning the broadcasting of Senate and committee proceedings.

On behalf of the subcommittee I welcome Mr Peter O'Brien, Managing Director, Oceanis Holdings Ltd. Although the subcommittee prefers that all evidence be given in public, should you, at any stage, wish to give any evidence in private, you may ask to do so and the subcommittee will give consideration to your request. Although this subcommittee does not require you to give evidence on oath, you should be aware that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the chambers. Before proceeding to questions, would you like to make a short opening statement to the subcommittee?

Mr O'Brien—Do I need to refer to my original submission?

ACTING CHAIR—We do have your submission, but you might want to make a brief opening statement to perhaps summarise it for us.

Mr O'Brien—I will be happy to do that. I think my clear message to the subcommittee is that Korea is very important to Australia, but it is a difficult country to do business in for Australians and, I think, for most non-Koreans, in fact, due to the history of the country. We are in a number of other venues, including Thailand and the Middle East. We have new projects starting in other parts of the Middle East, in the UAE, and Europe and Toronto, so I have about 10 comparisons. I would say it would be the toughest, even though it has the most potential. I have spelt out in my submission why it is a good business for us with our aquariums, given their economic disposable income and their social and education focus. Notwithstanding that, though, we have learnt a lot about our relationship there of late, I suppose on the back of the unfortunate decision of the National Australia Bank to scale back its presence in Asia to two representative offices only, in Singapore and Hong Kong.

We have found it very interesting to see that we are still very much Australian in Korea when it comes to refinancing. We have found that we have had to deal with another foreign bank rather than any one of a dozen of Korean banks that we were eligible to deal with, but, at the end of the day, have not been able to. I have the front page of the *Joong-Ang Daily*, which co-publishes the *International Herald Tribune*, for Saturday, 15 October. I think it is of interest to all of us to refer to the front page of that newspaper. The lead article reads, 'Koreans cast a wary eye on world'. There are five key statistics that I will quickly read to you based on a poll. It is saying that traces of the hermit kingdom mentality are still lingering and that we need to be very conscious of those. It says that nearly 69 per cent of Korea are against the opening of the rice market at all costs, 70 per cent believe that Korea is mistreated in the international arena, 66.5 per cent believe it should be nuclear armed, 57 per cent believe that foreign business giants are harming its economy and 37 per cent believe that Korea should follow an international organisation's decision differing from Korea's position.

I am not saying those things to be negative, but I think Australians going to do business in Korea really need the strong support of the embassy and Austrade and, probably, a foreign bank if they are going to have capital intensive facilities in the country, as we do. With the duplication of our current business in North Seoul, we have just agreed the terms of that investment with the Korean government. I might add that the officials in the government who are promoting the tax-exempt investment facilitation—in this case, five years at 100 per cent and 50 per cent for two further years—are highly cooperative and not indicative of the statistics that the newspaper has published.

When you get below the top echelon, I think there is definitely a challenge for all foreigners in Korea, notwithstanding the fact that Australia is probably very well placed as a foreigner. We are not Russians or Chinese or Japanese or Americans, and I think we are probably as well placed as any community to do business with Koreans. Personally, I have enjoyed many great relationships there, and it will be the only country outside Australia where we have done a second investment. We propose to have another \$US35 million or \$US40 million invested there next year, which would make it our heaviest investment in any of the 10 countries we work in.

I am not trying to cast a pall over the inquiry but I think you need to be culturally very alert to the society. It is not an open, outward-looking society to the extent that you might think, given the profiles of LG and Samsung. I am not sure there is anything further I can add to my written statement.

ACTING CHAIR—Thank you. We will go to questions from members of the committee, and I will begin. Towards the end you alluded to the cultural issues that you have faced as a businessman in Korea. Can you elaborate further on that for us and tell us how you have been able to address the cultural issues that you have faced?

Mr O'Brien—There is no doubt the country is on an upward trend, and not only economically. Although it had a little reverse with the credit card crisis, it is certainly back on trend now. I think that politically there is a strong awareness amongst the senior bureaucrats that they cannot go back to where they were 20 or 30 years ago and that they must engage with the rest of the world and must globalise. When dealing with government officials, there is a strong mentality in the agencies we deal with and among the senior municipal officials on the ground

that they need foreign investment and they need to upgrade their services sector. Their focus has been entirely on value added manufacturing, as you would know.

They have coming up to 50 million people in a very small area, with an absolute hunger for culture, entertainment, edutainment—any outlet of a family nature. In fact, three of the 10 biggest theme parks in the world are based in Seoul already, and all of them are Korean owned. There is a fourth one to be built opposite our next aquarium, which is to be the showcase for Korean movies—a Korean Movie World, if you wish. That is going to cost \$US2 billion and will be funded by Gyeonggi-do province, the province that encompasses the whole of Seoul.

We have confidence about our sector, because working hours and working days are to a five-day week and there is no doubt that they are on same escalator that we got on ourselves in the fifties. They have a great interest in the subjects we have expertise in, which is nature, environment and the ocean. In fact, as a peninsula country, they have an enormous interest in matters maritime. I think there are other areas there that I have heard Austrade talk of, such as boating and other leisure sectors, that should come up in the same way as the economy continues to mature.

Senator FERGUSON—Thank you, Mr O'Brien. Right from the very first public hearing we held the issue of this so-called cultural divide has been one that has been raised by practically everybody who has given evidence. I remember hearing from the Korean ambassador and others themselves. One of the problems seemed to be that there were a lot of Koreans who wanted to come to Australia, particularly on quick English-language-learning courses, but it is fair to say that Korea is not the first, second, third, fourth or fifth choice of many Australians when it comes to learning another language or understanding a country culturally. There are many other countries which are higher on their priorities. How much impact does this so-called cultural divide have on our ability to trade and do business in Korea, because it seems now that over a number of years we have managed to trade successfully in spite of the cultural divide? I know our ambassador, Colin Heseltine, is just finishing his term in Korea and the new ambassador, Peter Roe, who is doing his third stint in Korea, has been appointed. How much more help it is to someone who is as familiar with Korea and Korean culture as our new ambassador must be?

Mr O'Brien—Taking the last point first, I do not know the new ambassador, but I certainly know that the embassy has been of enormous assistance to our company in some very tricky moments. As I said earlier, I think that the higher the expertise and knowledge that our ambassador and his officers have of a country, the better. It is a country where you really need to have your A-team in place. I am not picking countries. I realise that you could say that underneath the veneer of the smiles of Thailand, there are complexities; in China, you still get back to the Communist Party officials when you move down the chain; and we are still having many interesting issues in Istanbul on a day-to-day basis, depending on issues of transparency and the like. But I do encourage the government to send its A-team to Korea. There is no doubt that relationships and cultural understanding are critical.

On your first point, I guess there never was a massive migration to Australia of Korean gold diggers or any other such association culturally, so we do not have that connection. I think in Melbourne there are only 6,000 Koreans. Maybe there are 20,000 or 30,000 in Sydney, but it is a tiny presence in the two major cities. So you do have to try harder. Among my own employees, we have several dozen key people—technical experts, such as engineers, architects, scientists

and the like—who travel and have all found it a very interesting experience to live in Korea. Some of them have just contacted me to go back to Korea for the next project, which is quite encouraging, because I guess it is fair to say that some were keen to be posted out. It is a bit like kimchi, which I do not eat—apparently it has a taste that does grow on you. I take your point: whatever we have done with trade, it would be bigger if we could grapple with this cultural issue. But for an Australian to learn that language compared with Japanese or Chinese is problematic. One of my own daughters has done that. She is just not interested in learning Korean because it is of such limited application in comparison with the other two languages globally.

Senator FERGUSON—The question I was asking was: do you think that the so-called cultural divide does have an impact on our ability to trade and do business in Korea? They are our fourth-largest trading partner, so it seems as though it is not an impediment for us to do trade. It might be an impediment to understanding Koreans better, but it does not seem to impede our trade.

Mr O'Brien—You would know better than I the break-up of that trade. I have not looked at anything lately, but I think a lot of it is still commodities.

Senator FERGUSON—Yes, it is.

Mr O'Brien—I think that is not so hard. It is like people saying, 'You must be doing well in China,' when it is actually our worst business. But it is easier to send things to China that are paid for by LC. It is another thing to run a business and collect revenues inside China. I think there are impediments to our Korean business. In the sector I am in, the services sector, we should be doing a hell of a lot more than we are, and there is no doubt that we can be very competitive in that sector. Macquarie Bank in financial services has proven that, and we have proven that in our tourism sector. I am not saying we challenge them on manufacturing, but I have heard the Korean ambassador repeatedly say to me that he would like to see more collaboration between Australian innovators and inventors and Korean exploiters, if you like. Globally they have a better capacity to exploit some of our new technologies whereas we are probably better inventors or better at coming up with the ideas. So I think, despite the limitations, there are several sectors where we do have a lot more potential. I think it is just a matter of persistence.

Mr SNOWDON—I notice that in your submission you refer to our peers the EEC and the US. Could you give us an idea of how they go about organising their business in comparison to what we are doing and how we might improve our performance in relation to them?

Mr O'Brien—I think it is just a matter of scale. The Australia New Zealand Chamber of Commerce is highly organised and energised but it is small. I guess the parent countries have 25 million people collectively at the most. The Europeans are very visible and very strong because the British, Germans and French are each triple our size, and do not forget it is only 11 hours across to Europe over the pole. It is the same distance as it is to come down here. As for the Americans, clearly they occupied the country as a consequence of the Korean war, and their larger corporations have been very well established there over the last 50 years. We are very much coming from a small scale situation and I do not know that you could criticise any of our people in that regard. As I say, they are highly visible and energetic; it is just that we do not have

the scale that these other economies have. We are seen to be exporters of major commodities. We have one bank left there, the ANZ. It has a very good manager, but it does not seem to extend a lot of credit as such. All these other countries have their major banks there as well, so that is another impediment.

Mr HATTON—You said that there were serious opportunities for consumer oriented companies to focus on. Given the state of Korean infrastructure, it being a country that has one of the highest uptakes of broadband in the world and is a centre for international gaming, do you think there are any significant possibilities for us to tap into that information market and the related stratification of that market, and is there a significant difference between the older groups and the young group, who are primarily into that kind of entertainment?

Mr O'Brien—I am sorry, the phone cut in just as you were referring to the markets and I missed a word.

Mr HATTON—I am sorry?

Mr O'Brien—The phone cut in and I missed the adjective you used when you were describing markets.

Mr HATTON—I was talking about the fact that there is a young market, that there is a stratification of the market between different market segments—the older people and the younger people.

Mr O'Brien—Before that, did you mention the gaming market?

Mr HATTON—Yes, the gaming market in particular. World wide, Korea is one of the leading centres for gaming, in part because it has put incredibly sophisticated broadband infrastructure in place and has made itself a world leader in that.

Mr O'Brien—You are right that there is a major distinction between the younger market and the older market. There is no doubt that there are two Koreas: those who think in terms of the Korean War and their parents and their poverty, and the young ones under 30—the Y generation, or whatever they are called—who are not the slightest bit concerned about those things and are busy getting their third Samsung phone for the year. I am not an authority on gaming but, as I understand it, the law in Korea is still that Korean nationals are not allowed to visit casinos on the mainland of South Korea. I once took my manager to the casino at Pusan and they allowed him to remain there for only 30 minutes, which was a special favour. They physically came and took him from the premises after 30 minutes. So there is a strong cultural push from the government to avoid any economic diversion into gaming, but I do not know what is happening in terms of formal casinos.

Mr HATTON—No, it is a different type of gaming. I mean electronic games, not casinos.

Mr O'Brien—I realise what you are saying but, as to how legal that is in that country, I think the answer to your question would depend on whether the Korean government is going to tolerate that. It has never tolerated it on the high street.

Mr HATTON—In a way, kids involved in electronic gaming tend to be in a closed world, and you have argued that Korea is in a closed world as well. But they do have significant cultural links with Japan—and that is also the case for Taiwan, because they were occupied prior to and during the Second World War. There is a significant cultural effect on those two countries from young Japanese culture—DoKoMo culture and so on. Have you seen any evidence of that? If so, do you think that provides a lead-in for Australian services to ride on the back of Japanese popularity to provide some similar or associated services that will link culturally through another avenue?

Mr O'Brien—I have certainly seen what you are talking about. There is no doubt that the younger generation is totally open-minded about Japan, and it is reciprocated. One of the most popular TV shows in Japan is a local version of *Neighbours*. In the younger generation there do not seem to be any issues, although at the level of President it is still an issue. It is rare that you see a front page of a newspaper on which the President is not ranting at the historic iniquities of Japan or China. As to the second half of your question, Australians exploiting that through the Japanese linkage is a good idea. I guess it can be done through our platform in Japan. There is certainly a big Korean platform there already, as you probably know—I think seven million are living there—so I would say there is merit in that proposition.

Mr HATTON—Is there a different mind-set in that younger generation? Given what you have argued in relation to the cultural difficulties, are they a discernibly different enough market with a different enough mind-set for us to adopt a different approach to that segment and to concentrate on that rather than on where there is a bigger cultural problem?

Mr O'Brien—Absolutely; I think they really are as different as chalk and cheese. It is hard to imagine another country where there is such a divide, although I suppose you see it as well with China and the new Shanghai, but this country does not have the ideological overhang of China. I think your point is absolutely correct.

Mr CAMERON THOMPSON—You refer to the withdrawal of the National Australia Bank and you also made some comments just then about the impact of banking services. Are we going in the wrong direction in this regard?

Mr O'Brien—If you are an exporter or if you are simply licensing technology or managing projects and you need LCs, I am sure you can get those organised. We are in the business of actually building, own, operate, on BOOT schemes, large tourism infrastructure such as aquariums, so we definitely need finance on the ground. We do have the Export Finance and Insurance Corporation and they have offered in principle to assist us with our next project, just as they are assisting us with the project we are opening next month in Bangkok, which is on an identical scale—\$US30 million. I commend that organisation to the committee. It does do a lot of good work and it does fill a real market void.

But, taking up your principal point, I am absolutely of the view that we Australians—and I suppose I am putting on my Australian Chamber of Commerce and Industry hat here—suffer for want of a global bank. There is no Australian global bank once you get outside of English-speaking countries. Banks have focused their energies internally in Australia. We have seen those that have gone offshore all come back with their tail between their legs, so for that reason I do not think they enjoy a particularly high credibility offshore. There is no doubt it is a problem

for SMEs such as ours. It is not for a top 100 company, because they can raise their capital in New York or London on the end of an email, but, as for the rest of us, I do not think anybody could argue that it is helpful. I do not know how you resolve it. The ANZ do have a lot of representative offices. I think they have got 13 in Asia, which is great. It is a question of whether they will actually empower them and how far they will extend credit risk. The area is apparently not well regarded by the Australian share market. That is what the banks tell me. They would prefer to be banking in England or America or Ireland but, as we know, none of that has been such a great success either.

Mr CAMERON THOMPSON—In contrast to that, I feel, you have mentioned that you have insisted on Australian corporate governance and that that is an advantage. It seems strange to me that the banks are finding themselves not successful there, yet Australian corporate governance appears to appeal in those markets.

Mr O'Brien—I think there are many well-run entities there. There are a lot of foreign banks there—American banks, British banks, European banks—and there are Korean banks that now, if not controlled by, certainly have major shareholdings in them since the crash. By the way, I have had plenty of Asians point out to me some of our failings, going through a range of experiences that some of our own banks have had in terms of probity in recent years which we are all well aware of. We are probably not in a perfect position to point the finger. There is an article in the recent *BRW* on the National Australia Bank's cultural issues, which are well known to all of us. They have probity problems ranging onwards from the mortgage business in America, where they lost \$3 billion.

I do not think there is any contradiction. We just refuse to breach the corruption of foreign officials act—whatever its correct title is—anywhere in the world, whether it be Korea or Turkey, both places where you could find yourself tempted, because we feel that there is a slippery slope to perdition. But I have been told by senior Western bankers, including highly respected Australian bankers, in Korea that there are some pretty opaque practices in the banking sector in terms of relationships that come to exist between borrowers and lenders and between the credit officers and the chief financial officers respectively. The committee could pursue those if it wished. I guess it is a fairly sensitive subject, but it seems to be well acknowledged.

ACTING CHAIR—As there is no further questions, thank you for your evidence today, Mr O'Brien. If there are any matters on which we might need additional information, the secretary will write to you. Thank you for your evidence today.

Mr O'Brien—My pleasure.

[10.14 am]

WILLIAMS, Mr Mack Geoffrey, Private capacity

ACTING CHAIR—Welcome. Although the subcommittee prefers that all evidence be given in public, should you at any stage wish to give any evidence in private you may ask to do so and the subcommittee will give consideration to your request. Do you have any comments to make on the capacity in which you appear?

Mr Williams—I am here in a personal capacity, although I am a member of the Australia-Korea Foundation board, the Australia Korea Business Council and a number of other Australian-Korean organisations, including community organisations.

ACTING CHAIR—Thank you. Although the committee does not require you to give evidence under oath, you should be aware that these hearings are legal proceedings of the parliament and therefore have the same standing as proceedings of the chambers themselves. Before we proceed to questions, would you like to make a short opening statement?

Mr Williams—Yes, thank you. First of all, I would like to commend the subcommittee for having broken the ice and taken up this challenge of how to get more substance in the relationship between Australia and Korea, which has become almost a lifetime challenge for me. Korea, as you will have found out, does not fit easily into the categories of countries that Australia usually has its relationships with. It has not been on the major transportation routes to Europe, we do not speak the same language and we have had very little connection, except for a long-term Presbyterian relationship in the south of Korea.

But economically the complementarity is enormous. You know the facts; I will not go over them. At a very important conference the Australia Korea Business Council held just two weeks ago, it was very interesting to hear the likes of BHP Billiton and Rio Tinto say that POSCO was their biggest customer in the world, and for both those major resource companies to underline that Korea is still a much bigger market for them collectively than China is. That is not recognised in Australia. Koreans have suffered for a long time, I think, by being under the shade of Japan. In my time, Japan was our No. 1 market and Korea was our No. 2 market; now China is creeping over the top.

We have had remarkable political synergy with Korea throughout the times. We have, I think even to this day, no major political issue on the deck between the two countries. For those of you who get the opportunity to go, you will see that social and societal similarities are developing very rapidly. Korea is entering into the sorts of issues which we are addressing domestically in Australia, such as education, health, ageing, intergenerational change et cetera.

We have a very interesting and very influential Korean community in Australia. It is a community which is a little different to many of the other ethnic communities in that it has been very careful about having any high political profile. The people are very conscious of the fact that they want to build themselves into Australian society.

Having read all the submissions you have received, I have one note of caution, based on my experience in Korea through the years: try to get Australians, particularly in the private sector but also in government, to not be swayed too much by volumes and figures in the important areas of tourism and education. In both those areas we continue to run a serious risk of opting for the cheap end of the market. To my mind, that has long-term, broader concerns for Australia's branding in Korea. We did it with beef, and it has taken us 15 to 20 years, and BSE in the United States, to get Australia out of the bottom—cheap Aussie beef—market and into the top. We are struggling at the moment with both tourism and education. Although the figures that you have been presented with are accurate and look impressive, we are not getting the best students from Korea and the value that is coming out of Korean tourism is still very thin.

There are also a couple of issues that came up in the discussion with the previous witness which I might comment on because that might be useful for you. There was a question about gaming, which I think Mr Hatton asked, and he did not really understand what you were talking about.

Mr HATTON—I should have said 'electronics'.

Mr Williams—He said he thought there were still some legal constraints—far from it. Korea is a mile ahead in gaming in that sense, and there have been some significant Australian successes—with Samsung, in particular. In my time, which is now eight or nine years ago, we took a couple of trade delegations in the gaming area to Korea. Samsung hooked up with a couple of young inventors in Australia and got them to develop a product, which Samsung then launched in Japan. It became the best gaming software in Japan. It was created by Australians but released through Samsung into Japan.

He said there was a marked difference between the older and young generations. In fact, there is a huge gap. But there is not on Japan—there is still very strong anti-Japanese feeling among the youth in Korea. It is a traditional thing, actually, and you will find that you will scratch it very quickly. It is also, I suppose, almost hypocritical because, yes, they love Japanese comics, which were banned for years, and Japanese pop music is now in, but Korean pop music is actually killing Japanese pop music in China and Vietnam. Korea now has the major part of the film industry in Asia. A Vietnamese friend told me recently that the No. 1 actress in Vietnam is in fact a Korean.

Intergenerational change is a very interesting thing that is happening. We in the Australia-Korea Foundation are holding a conference in two weeks time in Sydney just on comparing intergenerational change between Australia and Korea, particularly in ageing but also in a whole host of other areas.

With regard to Australian banks, the background to their reluctance to get heavily into the banking industry in Korea was much as it was described by your previous interviewee. I was there for the collapse and saw each of the Australian major banks get hurt very quickly and badly by having had debts that major Korean companies had to default on. So they all ran away. They did not stay there when the going got tough; they had made lots out of it previously through letters of credit; and they have found it hard to get back in again because there was a feeling that the Australian banks let the Korean market down. That was an idle comment prompted by the previous witness. I would be happy to answer anything that I could help you on.

ACTING CHAIR—Thank you, Mr Williams.

Senator FERGUSON—I think you were probably here when you heard me ask Mr O'Brien about the emphasis being placed on cultural divides. I said to him that there is understandably more interest from young Koreans wanting to come to Australia, particularly for English language courses and things like that, than there is from young Australians wishing to go to Korea. Korea is not high on their radar. They have lots of other preferences before wanting to learn Korean, in particular, and it would be someone with a special interest in Korea who would want to go there.

This cultural divide does not seem to have had any effect on their ability to trade and do business—maybe it has and I just do not realise it. The figures that we see show that the major contributor to our trade is raw commodities. How do you feel about the emphasis that is placed on the cultural divide and any impact it might have on our relationship, which is what we are looking at as a committee, but particularly on our trading relationship and business opportunities?

Mr Williams—I think the big end of town recognised that there was a cultural divide and spent a lot of time and effort understanding it. The resource people have legends about some of the negotiations on iron ore, coal and the like, which were long drinking sessions, the Koreans being tough bargainers and all of the other things that one would have heard. A lot of that has passed as Korea has modernised itself. These days, people like Macquarie Bank, for example, believe that a lot of the talk of cultural divide is exaggerated and that, yes, there are difficulties, but if you put yourself to it you can actually break your way through it. That is one thing.

The second thing is that for any Australian who does not know Korea or who has not been to Korea it is a pretty big cultural shock, because not only do they speak a foreign language but they have very large, almost graffiti like signs all over town in this foreign script that keeps hitting you in the face. I think, in the first blush, many Australians find that hard to cope with. There are some Korean cultural traditions which are hard to work with; it is a Confucian society. But I do not think any of them have any significant long-term problems. For the small and medium companies it is more difficult because they have to expend more effort to understand and be sensitive.

Frequently, people ring me now from both sides. They try to do correspondence and email in English and they bump into each other or they pass each other in the correspondence. Because of where Korea is, between Japan and China, and because of the war it is a struggle society. The people are tough; they have had to struggle to survive. So they do not mince their words when they are talking. They are very direct. When you are walking in the street you will feel like you are being bumped all the time because people just do that. Space is not something that they are very careful of. Australians, who pride themselves on being very direct and straightforward, no bullshit and all that sort of stuff, often get offended by the directness of the Koreans. Sometimes that is a difficulty. Of course there are corrupt practices in places but, as he also conceded, we are not all that clean ourselves in that area.

It is harder. I think the biggest thing for the small companies is the structure of the Korean industry, the fact that for so long the chaebol governed the way things were done in Korea. If you came into the market with a small to medium company, even with a product of their size, the

chances were that Samsung or Hyundai or one of the others would take a look at it, take a shine to it and say, 'We wouldn't mind one of those.' Samsung has a fantastic set of funparks in Korea.

Senator FERGUSON—A set of what?

Mr Williams—Huge parks like Disneyland. And if they take a shine to it then the chance is that they are liable to want to buy you out on their terms or they will run you into the ground in competition terms. That is a very difficult thing to handle. We always used to suggest to people that they choose carefully who they go in with and that they do not try to do it by themselves, because if they do then it is a tough environment. But that is not so much a cultural environment, it is more a business culture.

Senator FERGUSON—How do you look at things such as the cultural divide but then talk about societal similarities? Are these societal similarities outside of the cultural divide? I was interested when you talked about the societal similarities.

Mr Williams—If you could look at the model, the difference between Australian and Korean 20-year-olds is probably not that much, if you come up to the 40 to 60 age group it is about here and the business communities are up around here. We had a group of 110 young Korean university students who were funded to come to Australia for three weeks by SK Telecom. There were 20,000 students who applied for this and they were top-class students. We had them at Sydney university for three weeks. When I asked to have their personal details so that I could communicate with them and they all gave me their email addresses, you would not have thought those were Korean kids. Their emails addresses were made up of cool expressions like 'hot dog'. They were very similar to Australians their age. The music they like is similar; they dress very similarly. At that age range it is very close.

Senator FERGUSON—What about social standards—for instance, family situations?

Mr Williams—Interestingly, in the last five years it is just becoming acceptable for young women to move away from home in a flat or to share a house. There has in fact been a feature movie about that, which was done very well, called *Singles*. I had a long discussion with some Korean community leaders on this the other day. They said to me, 'How come we don't seem to understand what is happening in Korea?' We had this great discussion because not only has it gone like that but they have actually gone out here. So the Korea they knew is long gone. In the Korea they knew, girls were expected to stay at home until about 26, get married by 27 and stop work as soon as they had children and if they were marrying the eldest son in a family they had to move into his parents' house and look after his parents. That still does continue in some areas, but it is rapidly breaking down.

A couple of the girls in the embassy were proud to tell me the last time I was up: 'We've got our own flat.' I said, 'How the hell did you get away with that?' They said, 'We get paged all the time.' We had our young daughters staying with us after university—that was about seven or eight years ago when they were in their early 20s—and the Korean girls they met all had pagers and they were paged by their parents to be home by 10.30 and all that sort of stuff. That is almost gone five or six years later. That sort of change is rapid.

Arranged marriages are very interesting. They have come down very quickly, but in the last two or three years they have picked up again. There is some very interesting debate going on amongst sociologists, because it probably relates to broadband.

Senator FERGUSON—What about unmarried mothers?

Mr Williams—You do not hear much about them. If they are there the family just envelops them. Korea has rapidly risen in divorce rates in the last 10 years to be No. 2 or 3 in the OECD in divorce rates. So there are good sides and bad sides that you see happening. Again, that is down here; up here it is still very strong.

Mr HATTON—I will start with your observations on my observations and questions.

Mr Williams—I hope I got them right.

Mr HATTON—Very much. About broadband and the potential that is there: given that there have already been a couple of instances of electronic games being developed in cooperation with Korea, one of the fundamental problems for Australia is that there is just not enough development money and there has been a bit of compaction in the market but we are very reliant upon America. Given the significance of that gaming market in Korea, and through Japan and increasingly in China, it would seem to be an extremely good way for Australian developers to get a linkage where the intellectual capital is in Australia but the exploitation of that could be through Korea as a front-door entry into not only Korea but the rest of the region. How much potential do you think there is there and, based on the success of the other two ventures, has it been picked up much?

Mr Williams—It is a bit hard because I am not right up to date on the latest figures. Through the Australia-Korea Foundation we funded some gaming conferences. There has been a big gaming conference in Melbourne and we brought Koreans down for that. We have not seen how that has germinated, but certainly that is still going on. In the Australia-Korea Foundation, our focus, as you may have seen in our submission, has been on broadband summits. We have had two now and we need a third. Frankly, part of the problem has been this end rather than the Korean end. It is partly bureaucratic, in that it is in either in one department's or another department's interest and no-one seems to have the money, but I think DCITA have now decided that it is worth doing more of.

The initial interest was in e-health. One of our board members had arranged for the Samsung hospital in Seoul to run Australian e-health pilot programs. But now the focus is on multimedia. The CEO of the Australian Film Commission is also on our board and we have now had a lot of exchange in that area. The focus of the AKF on broadband has really gone into multimedia and is less on gaming. Austrade has continued the interest in gaming. I think there is still considerable interest there, but it is a question of marrying up the right people at the right time.

Mr HATTON—Carnegie Mellon University is just starting up—the concept has been approved—and a couple of years time they will be operating in South Australia. It is the hope of the South Australian government that they will bring in to South Australia a considerable amount of income. It is probably the first in a series of overseas institutions that will be set up. Of the two areas they are going to start with, the first will be IT. The second will be in the engineering

area, I think. These courses will be at the masters level. It occurs to me that there could be a strong connection between that university's courses and what would be interesting for Koreans. Instead of going to the United States, they could, for less money, come down to Carnegie Mellon. Do you think there is a great deal of potential in that area? We have not been able to establish that.

Mr Williams—Logically there ought to be, but at the same time—and, again, it is something that I am not sure you have come across in your papers—there has been a very big push by the Koreans to establish a new Silicon Valley near Incheon Airport. Next to that Silicon Valley they are actually putting in a special area for world-renowned institutions. Harvard Business School is opening there, for example. The competition will be great, I think, from American and European universities there on the ground.

I must say that I have always argued with Koreans against that. I have said, 'What is the point of sending your kid to Harvard Business/Incheon?' The whole idea of going to Harvard Business is to get networked and get all of the other stuff that comes with it, not so much the piece of paper. So I think there is an interest but the competition is pretty thick and fast.

Mr HATTON—Korea and Taiwan are probably the best examples we have of countries that made it by going into advanced manufacturing and putting a great deal of their resources into that. But they have taken further steps forward by globalising in terms of people who work for them going to Indonesia but then centrally being involved now in China and using the advantages of that. How much deeper do you think that penetration into China will be by both of those countries but particularly Korea? I will go on a bit later to the security question.

Mr Williams—I will take Taiwan first. I do not know how much deeper it can be, actually. I go to Shanghai regularly. One of our daughters lives and works in Shanghai with family. On the last visit I was told that there were 250,000 Taiwanese living in Shanghai. The extent of that connection is huge. The Koreans are still, I think, the largest foreign investor in China collectively, certainly in that whole north-east area, which is the industrial zone. Do not forget also that the Koreans are very much into India as well. They have taken India on much earlier than most people. Hyundai Motors is the second biggest producer of cars in India. I think it will grow. In a sense, the joker in all of this is North Korea. North Korea is sitting there, setting itself up to be a second economic mini-miracle run by South Korea and China. There they will have a very well-trained work force which will be very cheap, Korean speaking and disciplined. I would expect to see them withdraw things from, say, some of the South-East Asian countries and put them into North Korea. Already Hyundai has this big industrial zone they are building or have opened in North Korea. Buses go from Seoul every day taking workers to North Korea. The trains go in there. They have just laid in very high-quality telecommunications lines et cetera. That is the one that I think shows some particular interest. But as to China, they will continue to persevere in China.

Senator FERGUSON—You say they have buses taking workers into North Korea from South Korea?

Mr Williams—From Seoul, yes.

Senator FERGUSON—You were talking about cheap labour, but they are taking labour into North Korea.

Mr Williams—This is the skilled people—the managerial staff.

Mr HATTON—That is a very interesting development. The broader question, though—the crunch question—for all of us going forward in the relationship with China is China's emergence to superpower status and the fact that, with the increasing economic might, all of the rest of that is expected to come with it and there is expected to be a significant confrontation with the United States. Just on the basis of all great-power conflicts in the past you would expect that to happen. How do you see the Koreans and others in the region situated in those terms? They would be right at the very key or nodal point of that. Do you think they have tried to work their way through how they would finesse that situation? For Koreans in particular, as with the Taiwanese, they are at that fulcrum point and it is very difficult.

Mr Williams—The Koreans have had 500 years of working as a vassal to the Chinese. Ever since 15 years ago they have worked hard at developing a new relationship with China. I recall visiting China 10 years ago and being told by one of the strategic research institutes: 'The country that best understands us is South Korea.' South Koreans understand what happened in the war. It was the Chinese that saved the North Koreans. But they do not harbour resentment as such about it. They understand it. Many South Koreans, particularly younger South Koreans, are more concerned about what sorts of problems might arise from a rogue America chomping around their region rather than from China. China they see as always there in the long term. It is a long strategy—it is a case of slowly, slowly. You work to accommodate it and you find your places to do it. Particularly with the 'axis of evil' and all of that sort of stuff, there have been serious concerns that the US does not understand it.

The South Koreans' long-term worry has always been that, if the US and China were to come to grips over Taiwan, the Chinese could always activate North Korea, whichever way they would like to do it. There is leverage there that concerns them. That would then mean that the resolution of the Korean peninsula problem would become a byplay of the larger US-China-Taiwan exercise. That, I think, is a nightmare for most thinking Koreans.

Mr CAMERON THOMPSON—There is a view that a move to one Korea over time is an inevitability. Do you agree with that? From what you are saying, these industrial links seem to be heading that way. What is your view on that?

Mr Williams—I do not think there is much chance that there will not eventually be a unified Korea, but it will take a long time. I think people focus a bit too much on reunification and not enough on reconciliation, and I think they are moving slowly into reconciliation. There might be 20 or 25 years of reconciliation before they make the political jump, which becomes very difficult to make. But I think de facto reunification in economic terms, and even perhaps social terms, is inevitable.

Mr CAMERON THOMPSON—The sorts of industrial links that you were describing a minute ago would seem to indicate that that is an awful lot further down the track than most of us would have believed.

Mr Williams—I would not want to overexaggerate this particular complex, but the South Korean strategy of working with North Korea, which used to be called the sunshine policy, is really the only option that South Koreans have. Implosion would be disastrous for them. They see that, certainly, as the way things have to go. You find, for example, that the South Koreans have continued to pump food aid into North Korea. There is some criticism in some parts of the United States that they have let them off the drip feed. You may have read that this year North Korea have said they do not need any World Food Program food. The US argument is: ‘You’ve removed one of our levers.’ The South Korean argument is: ‘They needed the food, so we gave them food.’

South Korea are also negotiating with the North Koreans to provide electricity to them. In the longer term, South Korea and China want the railway line put back and will do that. South Korea and China and possibly Russia would like to see gas pipelines run through North Korea. That will happen. It will happen, perhaps, with two steps up and one step back—it will not be a linear thing—but that is the way things are going.

Senator FERGUSON—I am interested to hear you say about reunification and reconciliation that it might be 25 years way. I guess it is fair to say that in 1985 there were not many Germans who predicted that they would be reunified in 1990.

Mr Williams—That is true, although the knock-on effect of what happened in Germany frightens Koreans. They really want to keep the North Korean workers in North Korea. They do not want to go to a single currency and all of that very quickly because of the economic impact on them. But I think you are right.

Senator FERGUSON—It can happen quickly.

Mr Williams—That is right, yes.

Mr HATTON—But they have also learnt the key lesson that, if you do not have a differential wage base, given the different levels of development between east and west or north and south, then you have significant problems—which is what the Germans have found.

Senator FERGUSON—They kept the differential wage for a fair while.

Mr HATTON—But not long enough.

Mr Williams—The other thing to bear in mind when you do the comparison is that there was a crumbling Soviet Union at the back of East Germany.

Senator FERGUSON—That is right.

Mr Williams—There is a dominant China here—

Senator FERGUSON—Not a crumbling China.

Mr Williams—and China will want a piece of that action. I think the South Koreans and the Chinese see that they will work together on that.

Senator FERGUSON—It seems to me that your comments are apt because the other half of this inquiry is not just about South Korea—it is about developments on the Korean peninsula, and you have probably covered more of the developments on the Korean peninsula than anybody else we have spoken to.

Mr CAMERON THOMPSON—You mentioned China and Russia perhaps being interested in gas pipelines going through there. Is it a concern, given our trade in gas there, that they will establish other sources through those—

Mr Williams—We do not have exclusive gas into South Korea and we never will have. They want to have diversity of resources. And all our gas people are very cognisant of that fact. But at the moment they believe that the price differentials are such that that will not happen for a long time. There are also major problems getting gas out of Russia, I am told, because of the mafia control of the pipelines and all that sort of stuff. So there are some structural problems and there are some pricing problems, but over time there will be Russian gas in Korea, I do not have any doubt about that.

Mr CAMERON THOMPSON—So would you say that Russian gas would be more expensive?

Mr Williams—That is what they are saying.

Mr CAMERON THOMPSON—Really? More expensive than shipping it?

Mr Williams—Yes, because of putting pipelines through the permafrost. It is not easy pipeline country.

ACTING CHAIR—You mentioned the success of Macquarie Bank in South Korea, and you seemed to indicate that they had found the secret of success, almost. Could you give us some idea as to what you think they have done right and what advice could be given to other businesses which are looking to break into the market?

Mr Williams—As I was saying to John, there was a very good presentation by Macquarie Bank at our recent business council conference, and I hope he can get that off the web for you and show you before you go to Korea, because it sets out the statistics very well. The answers? Timing—it was just the right time: they were looking for something to do; Korea was coming off the financial crisis; there were real gaps there. Guts—Macquarie Bank takes risks. In that sense, it is not like the conventional banks that run for cover. It was not worried too much by its shareholders. It does not use much of its money: a large percentage of the money that they have got invested in South Korea—and it is huge; billions—is, in fact, other people's money, which they manage. Dispersion—they do not go in and put up the Macquarie Bank flag and build a building and say, 'That is Macquarie Bank building'. You will not find that in Seoul. You might find, now, a coordinator office. They started very small. Five or six years ago they had about 40 or 50 people; they have just touched 300. Most of those are Korean. They have localised a lot of their jobs and picked up very good young Korean graduates—and taken quite a few Australian-Korean graduates as well. They have chosen partners very carefully. They have made mistakes: they have had some problems, but they have been very sensitive to all of this being a Korean partnership. So you will find that some of their biggest investments do not have the Macquarie

Bank name on them. It will be 'Shinhan Bank', which is a large bank using Macquarie technology and Macquarie people. I think it is a combination of all those factors. And no-one else was there. So now they are the biggest infrastructure investor in Korea. They own roads, and tunnels, and bridges, and railways; they are trying to buy another airport; they own skyscrapers—the lot. And they are doing more and more. After London and New York, it is their third largest overseas operation.

Senator FERGUSON—What is the salary structure like for these executives?

Mr Williams—Pretty good.

Senator FERGUSON—We saw that there was a program on *Four Corners*, I think, about salaries in shipyards. They were very high. So, in general terms, is their salary structure similar to ours?

Mr Williams—The Koreans'?

Senator FERGUSON—Yes, the Koreans'.

Mr Williams—I can recall going down to the big Hyundai motor plant in Ulsan and comparing what it was that a car worker got at that plant and what they were getting in Australia, and it was roughly the same—there was not a lot of difference.

Senator FERGUSON—But that was for a 44-hour week. They still work 44-hour weeks, don't they?

Mr Williams—They have backed off that. They are doing only five-day weeks too, which was part of the plan to develop the service industry so that you would have weekends and people would start to spend things at weekends.

Senator FERGUSON—And we are just starting to do away with them.

Mr HATTON—Chillingly accurate.

Senator FERGUSON—It is not our fault. They were doing away with them for years with seven-day trading.

Mr CAMERON THOMPSON—Has that been a conscious effort by the Koreans?

Mr Williams—To go to a five-day week?

Mr CAMERON THOMPSON—To use that as a strategy to develop the service industry?

Mr Williams—Yes, very much so. It was pushed by the unions but also by the economists, so it was a conjunction of interests. Big business tried to oppose it but then realised, I think, that the economics were there. Traditionally, if you were a Korean senior executive, you had four days leave a year, like in Japan. So when Korean executives come to Australia on business, they try to get a day off playing golf, and everyone says, 'You bastard, you are swanning,' but, in fact, these

are the days they have off. They also had a larger number of national days than us. I think we have 13 and they had 17 or something like that. The trade-off in all this for the five-day week is to give up a lot of the national days. The net loss is not as high as it seems. The whole concept of Koreans taking a holiday and taking enough time at a weekend to go somewhere, not just go to church on a Sunday and do something afterwards, has seen real development in the tourism industry and the hotel industry in Korea, but also now in Japan and other places.

Senator FERGUSON—How long are the days when they work a five-day week? Are they working longer hours to fit their hours in?

Mr Williams—I could not really tell you off-hand. No, there was not a significant change in that. The other thing about the Korean working tradition was that people spent long hours in the office but not always very productively. Also, in many companies, indeed in government, you were expected to network on one or two nights, if not more, a week, which meant going out and drinking heavily with your work colleagues or your business colleagues until midnight and then going home smashed and expecting your wife to have the noodles waiting for you. That sort of thing is another big change that is going on. Just as an aside, when a couple of the Korean women who worked in the embassy got married, they emigrated to Canada. When you asked them why, they said, ‘We couldn’t live with a Korean husband, with those long hours, coming home drunk and all that.’ Their husbands realised that they would not get on if they did not do that. So breaking that tradition has been quite important.

Mr HATTON—I move on to broadband. Korean infrastructure development has been incredible. They are not afraid to build their infrastructure, whether it is roads or broadband. Their penetration was incredibly high by world standards—way in front of anyone else. The key question then became: how much were they going to use it? In the electronic gaming area they certainly have. Are you able to say what effect that penetration has had? Has it led to a series of new businesses that people did not expect before, particularly in small internet related businesses, or not? What are the dynamics of the usage?

Mr Williams—It certainly has in a couple of areas—politics, for example. Korean politicians all have web sites. Most, if not all, send weekly emails to their constituents, telling them what they did in parliament this week et cetera. They were into that much earlier than most people. It has come to play a very large role in the election process. In the national assembly elections before last, there was a big changeover in the house, because for the first time the young vote came out. Lots of Koreans here said to me, ‘This is awful. This is distorting democracy—all these young people are voting now,’ as though they were not supposed to vote.

That lesson was then carried through to the last presidential election and this current president got into largely assisted by the internet—both campaigning and on the day. He had a series of volunteers who were basically watching the elections and when they saw that there was not much of a young vote by about 12 o’clock they really hit the net and got out to the internet cafes, the young people, the blogs and the whole lot and got the vote up. The young voted in heavy proportions in the afternoon as a result of being prompted by the net. They all have it at home. It is an interesting concept.

Korean housewives use the internet a lot. It is not just a young generation thing. Marketing is done on the net and also on television. The other day I saw a figure showing that the average

Korean housewife spends two hours a day watching home sales on either television or the net. The climate is not one that gets you out. There are those sorts of things. I did not finish my story in detail about arranged marriages. That seems to be a Korean version of net dating. My guys in Sydney say, 'Don't come down heavily on all this Internet dating, Dad. It is better than going to the meat shop at the pub where there are 30-year-old women looking for a bloke. Get them to sort it out for you and you can pick through.'

That sort of Korean thing has had an impact there. It has had impact certainly on internationalising younger people with music, cartoon and film. It is miles ahead. A classic case which I am sure will not be all that impressive to you guys but it was for me is that if you want to play golf you do not have to ring up the golf course. You go to the net and log onto your golf club and see when there is an opening and put your name down. There is none of this having to go to the golf course a week beforehand to get your name down for a game. Those sorts of things are very much there.

Senator FERGUSON—Mind you, the game costs a bit more there.

Mr Williams—A hell of a lot more, yes. The other area is travel. So much now is done on internet bookings from home.

Mr CAMERON THOMPSON—What about your groceries? Do these housewives watching the sales shows then go bling, bling, bling and they come around with the gear?

Mr Williams—Yes. Hypermarkets have taken off on the fringes of the cities. They really have not had the small suburban supermarket complex. They have convenience shops and what they call 'mom and pop' shops—the corner stores. They went from there to convenience shops and then megamarts. The cost of the land is such that you cannot really put in a Woolworth's like you would have in Manuka, or somewhere like that. You cannot get the land to do that.

Senator FERGUSON—I understand that there is a fair bit of promotion of Australia in Korea to entice Koreans to come as tourists to Australia. I do not see a lot of advertising by Korea trying to get Australians to go to Korea. Is there a reason for that?

Mr Williams—I think it is because Australia is such a small market. Their big sources of tourists have been Japan and China and still are. There are overwhelming numbers coming from Japan and China into Korea. In my time—and they are working on it again—there was the use of Korea as a transit point to China and to Europe. Flying via Shanghai, Beijing or Seoul is about 20 minutes quicker to Europe than flying via Singapore or Bangkok. That sort of great circle thing has not really taken off yet but will soon do so, I think. Korean Air and Asiana are now running three-day stopovers and two-day stopovers on route to Europe.

Senator FERGUSON—Flying over the pole?

Mr Williams—No, they fly north across Russia. Their figures are growing quite well from a very modest base. I think they are up to about 40,000 or 50,000 this year. It has certainly increased but nothing like the other way around. Here, a lot of the business is run by small and medium people in the Korean community. So it tends to be—and this is a problem the community has—too introspective in that sense. They bring some wonderful things to Australia

but it is usually the community that pays for it to come down. You go along and 95 per cent of people are from the community but there are not many Australians.

Senator FERGUSON—They used to own quite a number of hotels in Sydney, didn't they, but they seem to have got out of that.

Mr Williams—They still have that one at the Cross.

Senator FERGUSON—They did have another one which is no longer there. I used to stay there, but I have forgotten what it is called. I noticed that there was quite a strong Korean presence.

Mr Williams—In Pusan there was an old travelodge hotel which was opened by Bolte a few years ago, but it is no longer Australian.

Senator FERGUSON—This has been very interesting.

ACTING CHAIR—Mr Williams, thank you very much for your attendance here today. I think all of us would agree that it has been very useful for us. If there are any other matters that we might need information on, we will write to you.

Resolved (on motion by **Senator Ferguson**):

That, pursuant to the power conferred by paragraph 16 of the committee's resolution of appointment, this subcommittee authorises publication of the evidence given before it at public hearing this day.

Subcommittee adjourned at 11.01 am