

The economic relationship

Introduction

- 3.1 The Australia–RoK economic relationship is a complementary one. Australia provides the RoK with energy, minerals and other raw materials. In return, Korea sells a substantial amount of telecommunications equipment, household electronics and motor vehicles to Australia.¹
- 3.2 Australian service exports such as education and tourism and direct investment have also become important aspects of the Australia–RoK economic relationship. Liberalisation of the RoK foreign investment system following the 1997 financial crisis has resulted in a rise in Australian direct investment in the RoK. Australian companies are now operating successfully in the RoK’s tourism, financial, legal and accounting services sectors.
- 3.3 RoK direct investment in the Australia has increased in recent years, with investment occurring in the resource, forestry and electronics sectors.²
- 3.4 Despite the strength of the economic relationship, there is still room for growth. The RoK Embassy believed that there existed a great potential to expand the relationship through the enhancement of ‘bilateral investment activities and science & technology cooperation

1 Mr Peter Baxter, *Transcript 31 August 2005*, p. 3.

2 DFAT, *Submission No. 21, Vol. 1*, p. 287.

on the basis of a complementary industrial structure.’³ DFAT similarly noted that ‘significant growth potential remains for Australian exporters in the Korean market,’ and cited the rural, energy and manufacturing sectors as areas for potential growth.⁴

- 3.5 This chapter will focus primarily on Australia’s business relationship with the RoK. Nevertheless, the Committee will note RoK business activities with Australia wherever possible.

Established and emerging areas of trade

- 3.6 Established exports from Australia to the RoK include:

- processed food and food ingredients;
- dairy products;
- beef;
- automotive components;
- timber and building materials; and
- educational services.⁵

- 3.7 In the RoK, increased consumer purchasing power, changing lifestyle patterns and a growing preference for imported goods have led to new opportunities for Australian exporters of:

- organic food;
- wine;
- information technology;
- biotechnology;
- sports services and products;
- children’s literature and learning tools; and
- cosmetics, jewellery and fashion.⁶

3 Embassy of the RoK, *Submission No. 18, Vol. 1*, p. 236.

4 DFAT, *Submission No. 21, Vol. 1*, p. 288.

5 DFAT, *Submission No. 38, Vol. 2*, p. 496.

6 DFAT, *Submission No. 38, Vol. 2*, p. 497.

Business representation

- 3.8 Over the course of the inquiry, the Committee was advised of five Australian representative bodies with links to the RoK:
- Austrade Seoul;
 - Australia–Korea Business Council;
 - Overseas Korean Traders Association;
 - Australia Electrical and Electronic Manufacturers’ Association; and
 - Meat & Livestock Australia.

Austrade Seoul

- 3.9 Success in the current Australia–RoK economic relationship, and any future expansion, rests in part on the ability of Australian and Korean companies to introduce and maintain a level of in-country representation as a means of establishing close trading relationships. Austrade Seoul plays an important role in this process, especially for those businesses that do not have the capacity to maintain their own in-country representation. However, even large, representative bodies turn to Austrade Seoul to assist in this regard.
- 3.10 Austrade’s mandate is to help Australians succeed in export and international business. Austrade assists ‘a wide range of existing and emerging [Australian] exporters to tap into areas of new opportunity’ in the RoK market and facilitates the ‘conversion of those opportunities into ongoing business,’⁷
- 3.11 Austrade’s performance was noted by the Managing Director of Oceanis Holdings Ltd (an Australian company that owns and operates the Busan Aquarium) who commented that Oceanis’ success in the RoK ‘has been aided in no small part by the excellent support received from ... our Austrade Commissioner.’⁸
- 3.12 Austrade Seoul employs 15 full-time staff, three of whom are Australian Trade Commissioners (including a Senior Trade Commissioner) and 12 who are Korean marketing staff. In 2003–04, Austrade Seoul assisted 894 companies of which 244 experienced

7 DFAT, *Submission No. 38, Vol. 2*, p. 496.

8 Oceanis Holdings, *Submission No. 27, Vol. 1*, p. 286.

export success. In 2005, Austrade Seoul was one of the highest performing offices in Austrade's North East Asia region.⁹

The Austrade Seoul business plan

3.13 Austrade Seoul has based its business plan on the following drivers of new business in the RoK. They are the:

- 'well-being' boom;
- five day work week;
- broadband and digital content explosion;
- domination of the discount store and hyper-market;
- discovery of wine;
- increased globalisation and foreign ownership of Korean companies; and
- emergence of Korea as a hub for the arts.¹⁰

3.14 For each of these drivers, Austrade Seoul has developed a promotional strategy and can isolate specific business successes within each category. Main successes include:

- the Australian-Broadband Summit – technology partnership between CSIRO and Korea's Electronics and Telecommunications Research Institute;
- assistance to the Oceanis Group in establishing and operating the Busan Aquarium; and
- negotiating assistance to Holden to facilitate bulk sale and purchasing agreements for Holden engines.¹¹

3.15 Several participants in the inquiry have noted either contact with or support from Austrade Seoul. In addition to Oceanis Holdings Ltd and Meat & Livestock Australia (which have been previously noted), the Australian Broadcasting Corporation; the Department of Communications, IT and the Arts; the Media, Entertainment and

9 DFAT, *Submission No. 38, Vol. 2*, p. 496.

10 DFAT, *Submission No. 38, Vol. 2*, pp. 497-501.

11 DFAT, *Submission No. 38, Vol. 2*, pp. 497-501.

Arts Alliance; and the Australian Wine and Brandy Corporation have all acknowledged positive relations with Austrade Seoul.

Committee comment

- 3.16 The Committee recognises the valuable assistance that Austrade Seoul has given to its clients. The key to Austrade Seoul's success is, in the Committee's opinion, the systematic way it has developed its business plan through identifying the principal drivers for business success in the RoK.

Australia-Korea Business Council

- 3.17 The Australia-Korea Business Council (AKBC) was established in 1978 with the purpose of 'enhancing the scope for trade and economic cooperation between Korea and Australia,' through the provision of dialogue opportunities between leaders of the business community.¹²
- 3.18 Dialogue opportunities are generated by the annual joint meeting between the AKBC and its Korean counterpart – the Korea-Australia Business Council. In addition, the AKBC arranges conferences, roundtable discussions and meetings between Australian and RoK business representatives, which are intended to 'enhance understanding of relevant current developments or issues facing business.'¹³ In its activities the AKBC works closely with the Australian Government.¹⁴
- 3.19 AKBC membership includes large Australian corporations as well as government and non-government organisations that are involved in trade with the RoK.¹⁵ The AKBC membership list includes:
- BHP Billiton;
 - Freehills;
 - Woodside Energy;
 - Austrade;
 - Rio Tinto;

12 Mr William Shields, *Transcript 20 September 2005*, p. 18.

13 AKBC, *Submission No. 17*, p. 201.

14 Mr Peter Baxter, *Transcript 31 August 2005*, p. 16

15 Mr William Shields, *Transcript 20 September 2005*, p. 18.

- Meat & Livestock Australia;
- Macquarie Bank; and
- Hyundai Motor Co. Australia.¹⁶

Overseas Korean Traders Association

- 3.20 Unlike the AKBC, the Overseas Korean Traders Association (OKTA) is much more representative of small, individual traders (mostly of Korean origin) who reside and operate businesses in Australia.¹⁷ The Association gives advice on trade opportunities and other trade related information to its members and has three branches in Australia – Sydney, Perth and Adelaide.¹⁸
- 3.21 The OKTA believes that small-scale, individual traders play an important role in the Australia–RoK business relationship, as they are often responsible for the initial introduction of Australian products to the Korean market. This effectively allows Australian companies to test the ‘marketability of Australian goods and services in Korea.’¹⁹ The importation of small quantities of Australian chilled beef into the RoK was cited as an example of Australian–Korea traders establishing a market in the RoK for Australian chilled beef prior to a large contract being signed between Daesang (a Korean food processing company) and Meat & Livestock Australia (MLA).²⁰
- 3.22 The OKTA encouraged the Australian government to ‘vigorously’ capitalise on the ability of Korean Australians to pioneer Korean markets. It has called for greater government support for the OKTA membership in its endeavours to introduce and advertise Australian products and services in the RoK. When asked by the Committee to expand on the type of government support that might be required, the OKTA provided the following example:

We organised [a] Korean trading school that was held last July for two and a half days and was heavily subsidised by the Korean government. The reason that they supported and subsidised that event was that they want to capitalise on the

16 AKBC, *Submission No. 17*, p. 201.

17 Mr Sihyun Paik, *Transcript 20 September 2005*, p. 12.

18 Mr Sihyun Paik, *Transcript 20 September 2005*, p. 11.

19 Mr Sihyun Paik, *Transcript 20 September 2005*, p. 12.

20 Mr Sihyun Paik, *Transcript 20 September 2005*, p. 12.

work, experience and knowledge of Korean-Australians to sell more products from Korea to Australia. The reciprocal way is also available to OKTA Sydney. By getting support from the Australian government, we could stage exactly the same kind of trading school ... in order to develop and sell more Australian goods and services overseas – not just to Korea.²¹

- 3.23 Austrade responded noting that it held a seminar series for Korean-Australian business people in 2003, in which OKTA members participated.²²

Committee comment

- 3.24 The Committee is aware of Austrade's support for small Australian companies but understands OKTA's desire for greater Australian Government support for small businesses exporting to the RoK market. The Committee agrees that small business has the potential to expand the trade relationship with the Republic of Korea.

Recommendation 3

- 3.25 **The Department of Foreign Affairs and Trade provide all possible assistance, via organisations such as the Overseas Korean Traders Association, to small businesses exporting or wishing to export to the Republic of Korea.**

Australian Electrical and Electronic Manufacturers' Association

- 3.26 The Australian Electrical and Electronic Manufacturers' Association (AEEMA) is an industry association representing Australia's infrastructure providers in three principal areas: electronics, electrical manufacturing and information and communication technology (ICT).²³
- 3.27 AEEMA seeks to 'form strategic alliances with kindred industry associations' in various countries with whom its members wish to

21 Mr Sihyun Paik, *Transcript 20 September 2005*, p. 17.

22 Austrade, *Submission No. 55, Vol. 3*, p. 589.

23 Mr Angus Robinson, *Transcript 1 September 2005*, p. 17.

have a relationship for business development purposes. The RoK is one such country.²⁴

- 3.28 AEEMA's engagement in the RoK is based on its role of leading and implementing the Commonwealth Government's Electronics Industry Action Agenda, which has been singled out by the Minister for Communications, IT and the Arts as one of two areas (the other being a digital content action agenda) for formal engagement with the RoK.²⁵
- 3.29 AEEMA and ICA Korea (the RoK government agency which helps to develop collaboration between Korean and non-Korean companies) signed an MoU in 2003. The impetus behind the MoU was the first Australia Korea Broadband Summit and the result has been a document that has 'provided the basis on which ... a constructive and increasing relationship with Korea' has been formed.²⁶
- 3.30 In addition to the ICA Korea MoU, AEEMA has relationships with the Korean IT Security Association, the Korean Electronics Association and has recently agreed to sign an MoU with the Korean Electrical Manufacturing Association.
- 3.31 AEEMA strongly endorses a model for engagement with the RoK similar to the model it has employed successfully in Taiwan. It is a 'holistic engagement which involves Invest Australia, Austrade, five state governments, CSIRO and the National ICT Industry Alliance.'²⁷ The framework is based on five principles:
- research and product development collaboration;
 - high value ICT manufacture;
 - strategic alliances;
 - trade facilitation; and
 - investment attraction.²⁸

24 Mr Angus Robinson, *Transcript 1 September 2005*, p. 17.

25 Mr Angus Robinson, *Transcript 1 September 2005*, p. 17.

26 Mr Angus Robinson, *Transcript 1 September 2005*, p. 17.

27 Mr Angus Robinson, *Transcript 1 September 2005*, p. 21.

28 AEEMA, *Submission No. 4, Vol. 1*, p. 34.

Meat & Livestock Australia Limited

- 3.32 MLA is a producer-owned company, partially funded by the Federal Government. It provides two key services to the Australian beef, sheep meat and goat industry:
- marketing activities; and
 - research activities.²⁹
- 3.33 The Australian beef trade to the RoK is the focus of MLA's work in the RoK.³⁰ MLA has been able to develop the image of Australian beef as 'clean and safe' as well as 'nutritious and delicious,' and has projected this image to RoK retail, food service and trade industries.³¹
- 3.34 MLA takes a co-operative approach to its work. It is supportive of close liaisons with Australian Government agencies and relevant Korean industries. In-country representation is used in the RoK to 'foster trade relations, monitor market access arrangements and expand networks and relationships.'³²
- 3.35 MLA voiced its support during the inquiry for any Australian attempt to negotiate a free trade deal with the RoK. MLA's support is based on both offensive and defensive grounds. Offensively, a Free Trade Agreement (FTA) would address problem regulations facing Australian exports and defensively, an FTA with the RoK would place Australian beef exports in a more competitive position should the RoK sign an FTA with the US or Canada.³³ However, MLA recognises that any FTA negotiation with the RoK will involve very difficult negotiations over agricultural products.³⁴

29 MLA, *Submission No. 1, Vol. 1*, p. 3.

30 Specifics of the beef trade are noted later in the chapter.

31 MLA, *Submission No. 1, Vol. 1*, p. 8.

32 MLA, *Submission No. 1, Vol. 1*, p. 9.

33 Dr Peter Barnard, *Transcript 20 September 2005*, p. 68.

34 Dr Peter Barnard, *Transcript 20 September 2005*, p. 70.

Business engagement—energy, resources and primary produce

Energy and resources

- 3.36 Demand for energy and mineral resources in the RoK is high. Australia has benefited from this demand and is a major supplier of energy and mineral resources to the RoK. In 2004, Australia supplied the RoK with five and a half billion dollars worth of energy, minerals and metals exports.³⁵

Liquefied Natural Gas

- 3.37 Australian liquefied natural gas (LNG)³⁶ is represented by North West Shelf LNG Pty Ltd (NWSLNG) which owns and operates the North West Shelf Venture (NWSV) resource project. NWSLNG is owned by six companies:
- BHP Billiton Petroleum;
 - Chevron Australia;
 - Shell Development Australia;
 - BP Development Australia;
 - Japan Australia LNG; and
 - Woodside Energy.
- 3.38 Australia is a leading supplier of LNG to the Asia-Pacific region but is only one of several countries that supply LNG around the world. Countries such as Indonesia, Russia, Malaysia, Yemen and Qatar all compete with Australia for share of the LNG market in the Asia-Pacific. The marketability and competitiveness of Australian LNG is based on its ability to supply a safe, reliable and secure product.³⁷
- 3.39 In 2003, the NWSV secured a seven year contract with the Korean Gas Corporation (KOGAS) to supply over three million tons of

35 Mr John Karas, *Transcript 31 August 2005*, p. 79.

36 For an explanation of the LNG supply process see, *Transcript, 20 September 2005*, pp. 11-18.

37 NWSLNG, *Submission No. 14, Vol. 1*, p. 188.

LNG. This contract represents five per cent of the NWSV's current production.³⁸

- 3.40 RoK demand for energy, including LNG, is great and is predicted to increase by almost four per cent a year until 2017.³⁹ As a result, NWSLNG is confident that, because of its existing contract with the RoK, it is 'well-placed to build significantly on [its] position as an existing LNG supplier ... and secure new opportunities.'⁴⁰
- 3.41 While new opportunities exist, there have been disappointments. In 2004, NWSLNG bid on a contract to supply additional LNG to the RoK and was unsuccessful. A further discussion of that bid, and the challenges that the LNG industry in Australia face in the RoK, can be found in the next chapter.

Coal

- 3.42 Australian coal exports to the RoK made a substantial jump in 2004 when China re-directed its coal exports away from the RoK to satisfy its growing internal demand.⁴¹
- 3.43 Rio Tinto Coal Australia (RTCA) supplies POSCO (a RoK steel making company) with millions of tons of coking coal each year. The volume of trading between RTCA and POSCO has led to the establishment of the Mount Thorley Joint Venture. This joint venture represents a new, 'partnership approach ... above and beyond the traditional seller/buyer relationship.'⁴²
- 3.44 In addition to coking coal, RTCA exports thermal coal to a group of Korean companies called the Gencos. Exports of thermal coal to the RoK have fallen in recent years due to the supply of lower priced coal from China and the defaulting of contracts by the Gencos in favour of the lower priced Chinese coal.⁴³ The Department of Industry, Tourism and Resources (DITR) believes this situation has the potential for change as China's ability to sustain its current thermal coal export levels decreases.⁴⁴

38 Mr John Banner, *Transcript 21 September 2005*, p. 11.

39 NWSLNG, *Submission No. 14, Vol. 1*, p. 187.

40 NWSLNG, *Submission No. 14, Vol. 1*, p. 185.

41 DFAT, *Submission No. 21, Vol. 1*, p. 284.

42 Rio Tinto Australia, *Submission No. 31, Vol. 2*, p. 439.

43 Rio Tinto Australia, *Submission No. 31, Vol. 2*, p. 439.

44 Mr John Karas, *Transcript 31 August 2005*, p. 80.

Mineral resources

3.45 Key Australian mineral exports to the RoK are:

- gold;
- iron ore;
- lead; and
- uranium.

Gold

3.46 DFAT statistics cite non-monetary gold as one of the four largest Australian export items to the RoK.⁴⁵ DITR ranks the RoK as Australia's third largest export market but notes a downward trend in gold exports since 1996 when the RoK was Australia's largest gold export market.⁴⁶

3.47 Australia also imports non-monetary gold from the RoK. DFAT categorises RoK exports of non-monetary gold as 'highly volatile' – a statement that is substantiated by statistics showing a 72 per cent decrease in Korean non-monetary gold exports to Australia in 2004.⁴⁷

Iron Ore

3.48 Australia supplies 50 per cent of the RoK's iron ore, making it Australia's third largest market for iron ore after Japan and China.⁴⁸

3.49 The history of iron ore trade between Australia and the RoK dates back to the 1970s when POSCO agreed to a 130 000 ton purchase from Australian iron ore producer, Hamersley Iron. Today, POSCO is Hamersley Iron's largest customer.⁴⁹

3.50 Iron Ore exports to the RoK will continue to grow in the future. POSCO has announced plans to increase its production capacity and in response, Australian iron ore companies have committed to expanding their supply and port capacity.⁵⁰

45 DFAT, *Submission No. 21, Vol. 1*, p. 283.

46 Mr John Karas, *Transcript 31 August 2005*, p. 80.

47 DFAT, *Submission No. 21, Vol. No. 1*, p. 285.

48 Mr John Karas, *Transcript 31 August 2005*, p. 79.

49 Rio Tinto Australia, *Submission No. 31, Vol. 2*, p. 437.

50 Rio Tinto Australia, *Submission No. 31, Vol. 2*, p. 437.

Lead

- 3.51 The RoK is Australia's largest market for refined lead and the second largest market for lead concentrates. The total value of lead exports to the RoK in 2003–04 was \$140 million.⁵¹

Uranium

- 3.52 The RoK is Australia's fourth largest export market for uranium. Australian companies such as Energy Resources Australia have long standing relationships with Korean companies. This ensures Australia is well placed to meet the RoK's demand for uranium, which is expected to increase by 50 per cent over the next several years.⁵²
- 3.53 Historically, Australian uranium producers have entered into long-term contracts with the RoK. These contracts have ensured the supply of Australian uranium at very low prices and, as the contracts expire, Australian producers must compete with other uranium producers. This affects Australia's market share but can be countered by the extension, rather than re-negotiation of contracts. The existence of long-term contracts for Australian uranium plays a pivotal role in decisions to extend uranium mining operations in areas such as South Australia.⁵³

Additional resource trade

- 3.54 In addition to the afore mentioned mineral resources, Australia supplies the RoK with:
- bauxite;
 - aluminium;
 - copper; and
 - salt.

51 Mr John Karas, *Transcript 31 August 2005*, p. 80.

52 Mr John Karas, *Transcript 31 August 2005*, p. 80.

53 Committee, *Transcript 31 August 2005*, p. 83.

Committee comment

- 3.55 The Committee is aware of the large role that energy and resource exports play in the Australia-RoK business relationship. **These exports represent a vibrant area of trade that can be capitalised on to further develop the overall Australia-RoK relationship, particularly in areas such as value added manufacturing and service sectors.**

Primary produce

- 3.56 The RoK's agricultural policy is based on the desire for self-sufficiency. Consequently, the RoK Government heavily subsidises its agricultural industry. This poses issues for Australian exporters that will be discussed in the next chapter, but in spite of high agricultural protection in the RoK, Australia supplies the RoK with a range of primary products including:

- beef;
- wheat; and
- wood.⁵⁴

Beef

- 3.57 MLA cites the Korean market as one of its most important international markets. Last year, Australia exported 93,000 tonnes of beef to the RoK, making it Australia's fifth largest export to the RoK.⁵⁵
- 3.58 Sales to the RoK market have been growing steadily over a long period of time, and recently, growth in the chilled, grain fed and cuts trade has increased – all areas that are at the 'value end of the business'. MLA believes this represents positive growth at the 'right end of the business.'⁵⁶
- 3.59 Australian beef has benefited greatly in recent years by the absence of US beef in the market, due to BSE cases found in US beef. US beef has returned to the Korean market and the Committee inquired if there were efforts to consolidate the market advantage Australian beef had enjoyed during the absence of US beef.

54 DAFF, *Submission No. 35, Vol. No. 2*, p. 472.

55 Dr Peter Barnard, *Transcript 20 September 2005*, p. 66.

56 Dr Peter Barnard, *Transcript 20 September 2005*, p. 66.

- 3.60 The Department of Agriculture, Fisheries and Forestry (DAFF) noted that production of beef in Australia had increased to meet Korean demand,⁵⁷ and counter 'supply constraints [that] have restricted Australia's capacity to capture all of the market vacated by the US.'⁵⁸
- 3.61 To successfully compete with the US, the Australian beef industry must counter the image of Australia as a supplier of poorer quality, grass-fed beef. The US beef industry capitalised on the Korean preference for high-marbled, grain-fed beef and specific cuts for barbeque cooking and, as such, dominated the market. The MLA is actively marketing alternate cuts of Australian beef that would fit well with traditional Korean dishes in an effort to compete with the return of US beef to the market.⁵⁹

Wheat

- 3.62 Although the Committee received little information regarding the wheat trade with the RoK, wheat is second only to beef on the list of agricultural exports to the RoK, and is therefore noteworthy. Wheat is excluded from Australian agricultural export lists due to confidentiality, but DAFF estimates that in 2004, Australia exported \$338 million worth of wheat to the RoK.⁶⁰

Forestry

- 3.63 Forestry is an area of the trade relationship that is expected to grow in the coming years. In 1997, the RoK Forestry Administration (now known as the Korea Forest Service) signed an arrangement of cooperation with the then Department of Primary Industries and Energy. The arrangement established a cooperative committee that meets every two years to discuss forestry issues.⁶¹
- 3.64 Korea depends, in large part, on imports for its timber products and the RoK Government has actively supported Korean companies wishing to invest in overseas plantations. As a result, the RoK

57 Ms Nicola Gordon-Smith, *Transcript 31 Wednesday 2005*, p. 57.

58 MLA, *Submission No. 1, Vol. 1*, p. 5.

59 MLA, *Submission No. 1, Vol. 1*, p. 5.

60 DAFF, *Submission No. 35, Vol. No. 2*, p. 475.

61 DAFF, *Submission No. 35, Vol. No. 2*, p. 479.

company, Hansol, has made a substantial investment in plantation forestry in Western Australia.⁶²

- 3.65 The State of Queensland recognises that opportunities exist to develop trade with the RoK in the areas of forestry exports and forestry management research collaboration. The Queensland Government intends to pursue these opportunities through its newly established trade and investment office in Seoul.⁶³

Committee comment

- 3.66 Like energy and resources, exports of primary produce constitutes an important part of the Australia–RoK business relationship.
- 3.67 Australia has profited from recent opportunities in the RoK beef market and the Committee is satisfied with the steps taken to secure or maintain greater market share for Australian beef in the RoK.
- 3.68 The Committee encourages RoK investment in Australian plantation forestry and expects that forestry business between Australia and the RoK will grow in the future.

Business engagement—goods and services

- 3.69 As the Korean lifestyle begins to change, so too do the opportunities for new Australian business ventures in the RoK. In recent years, the RoK has introduced a five day work week, which has led to an increase in leisure time and spending in the RoK. Australian companies providing goods and/or services have had some success capitalising on these opportunities.
- 3.70 The profile of Korean companies in Australia has increased at an even greater rate. Through sponsorship and direct marketing, Hyundai, Kia, LG and Samsung have become household names in Australia and supply the country with quality, affordable products such as telecommunications equipment, motor vehicles, computers and televisions.⁶⁴

62 DAFF, *Submission No. 35, Vol. No. 2*, p. 479.

63 Mr Malcolm Letts, *Transcript 31 August 2005*, p. 71.

64 DFAT, *Submission No. 21, Vol. 1*, p. 285.

- 3.71 The term 'goods and services' is used in a broad manner for the sake of this report. It covers a wide range of products and activities that have come to the attention of the Committee. They include:
- Holden *Statesman* motor vehicles;
 - motor vehicle parts;
 - wine;
 - education services;
 - tourism services; and
 - collaborative ventures.

Goods

- 3.72 Because the Australia–RoK business relationship has traditionally been one whereby Australia is a supplier of raw materials, manufactured goods do not feature prominently on the list of Australian exports to the RoK. There are a few exceptions. Internal combustion engines and motor vehicle parts make the list of major exports,⁶⁵ and in May 2005, Holden began exporting its *Statesman* vehicles to the RoK.⁶⁶
- 3.73 Wine, while not a major export as yet, is an export opportunity for Australia and is a good example of how emerging trends in the RoK market represent the potential for an increase in Australian goods exports to the RoK.
- 3.74 The Australian Wine and Brandy Corporation (AWBC) classifies the RoK as an 'emerging and embryonic market,' for Australian wine. Australia currently holds a seven per cent market share but, through the implementation of a strategic plan for the period between 2005 and 2008, the AWBC expects market share to grow to 20 per cent by 2010.⁶⁷
- 3.75 Growth potential is based on an increasing per capita consumption of wine in the RoK. Increased wine consumption is attributed to changes in the Korean diet (wine is considered a 'well being' product), a growing middle class, and a generational shift.⁶⁸

65 DFAT, *Submission No. 21, Vol. 1*, p. 283.

66 Embassy of the Republic of Korea, *Submission No. 18, Vol. 1*, p. 231.

67 AWBC, *Submission No. 30, Vol. 2*, p. 431.

68 AWBC, *Submission No. 30, Vol. 2*, p. 429.

- 3.76 Part of the AWBC plan for expansion in the RoK market calls for the implementation of several strategic initiatives, including:
- inviting key Korean representatives to visit Australia during the 2006 vintage to increase awareness of Australian wine and establish business relationships;
 - developing a comprehensive wine promotion for the RoK (Austrade will assist in its development);
 - providing key information about the Australian wine industry in the Korean language; and
 - recruiting of an executive officer with responsibility for the RoK market.⁶⁹
- 3.77 With the assistance of the AWBC and Austrade Seoul, Australian wine merchants have already achieved success in the RoK market. While challenges exist, (which will be discussed later in the chapter) the following example highlights the trade which is occurring between the Australian wine industry and the RoK.
- 3.78 Austrade Seoul introduced Korean wine distributor Kil-Jin International to the Grant Burge wine range through the use of wine notes and independent reviews. As a result of this exposure, Kil-Jin sent eight staff to Australia to train and subsequently purchased two freight containers of Grant Burge wine. A third container purchase is pending.⁷⁰

Services

- 3.79 There is significant potential for increases in the Australian services trade to the RoK. Education and tourism currently dominate Australia's services exports; however, service providers such as Macquarie Bank and Oceanis Holdings Ltd are also having success in the RoK.⁷¹ Collaboration between RoK and Australian companies in areas such as the gaming industry, and the opportunity for Korean companies to use Australian post-production film facilities represent avenues of trade that have shown great potential for further development.

69 Mr Steve Guy, *Transcript 21 September 2005*, pp. 28-9.

70 DFAT, *Submission No. 38, Vol. 2*, p. 500.

71 DFAT, *Submission No. 21, Vol. 1*, p. 287.

- 3.80 Korea is the second largest source country for international students in Australia. Twenty-four thousand Korean students were studying in Australia in 2005. The majority of those students were attending English Language Intensive Courses for Overseas Students with a smaller number attending Australian higher education and vocational training institutions.⁷²
- 3.81 The education market for Koreans studying in Australia is discussed in Chapter 6.
- 3.82 Like education, tourism accounts for a large portion of Australia's services exports to the RoK. Korea is Australia's seventh largest tourism market, the highest yielding market and the fastest growing. It has, however, dropped from the first ranked to fourth ranked aspirational destination for RoK tourists.
- 3.83 When asked by the Committee why Australia had fallen from first to fourth, DITR, after consultation with Tourism Australia, noted that marketing activity in the RoK was suspended after the 1997 Asian Crisis. Following the crisis, competitors such as the USA and Europe began marketing before Australia. In addition, Koreans generally associate Australia with its natural and physical environment and know little else of Australia and therefore do not consider it as a holiday destination.⁷³
- 3.84 In response to these findings and in recognition of the importance of the RoK market to Australian tourism, Tourism Australia has elevated the RoK market from Tier 2 status to Tier 1, thereby increasing marketing in the RoK. DITR has responded by commissioning a report titled *Korea: Building the Framework for Sustainable Inbound Tourism*, which was released in June 2005. The report identified three key areas that needed to be addressed in order to achieve the continued high growth and expansion of the Australian share in the RoK market:
- marketing and promotion;
 - product quality; and
 - aviation.⁷⁴

72 Ms Shelagh Wittleston, *Transcript 31 August 2005*, p. 36.

73 DITR, *Submission No. 51, Vol. 2*, p. 573.

74 Ms Patricia Kelly, *Transcript 31 August 2005*, p. 28.

- 3.85 The Committee queried DITR as to the effectiveness of the report. DITR responded that the report was received favourably in the RoK as a means of demonstrating Australia's seriousness about meeting the needs of Korean consumers and was strongly supported by the Australian tourism industry.⁷⁵
- 3.86 Education and tourism represent established, albeit growing, areas of the services trade between Australia and the RoK. It is also a one-way trade structure – Australian students and tourists generally do not go to the RoK. The future potential for two-way services trade rests in the ability of Australian and Korean companies to cooperate on a range of collaborative ventures, which will most likely occur in the ICT field.
- 3.87 In 2003, President Roh identified ten next generation growth engines that are expected to spur economic development in the RoK. The RoK Government is investing heavily in the research and development of these 'engines'. This presents an opportunity to expand the Australia–RoK relationship through joint business investment cooperation.⁷⁶
- 3.88 This has already begun in the services sector as RoK and Australian companies capitalise on scientific and technology synergies to develop products. The combination of Australian ideas and Korean capabilities would appear to be the template for this type of cooperation.
- 3.89 For example, former Australian Ambassador to the RoK, Mr Mack Williams, told the Committee about some Australian gaming inventors that 'hooked up' with Samsung 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.'⁷⁷

Committee comment

- 3.90 The Committee recognises the potential to expand the Australia–RoK business relationship beyond its current profile to include increased activity in the goods and services sector and encourages Australian goods and services providers to enter the RoK market.

75 Ms Patricia Kelly, *Transcript 31 August 2005*, pp. 29-30.

76 Embassy of the Republic of Korea, *Submission No. 18, Vol. 1*, p. 236.

77 Mr Mack Williams, *Transcript 7 November 2005*, p. 9.

- 3.91 Education and tourism service provision continues to be an Australian strength and the Committee commends the initiative of Australian education and tourism representatives who have chosen to increase their focus on the RoK market.
- 3.92 The Committee looks forward to the expansion of collaborative links between Australian and RoK businesses.

Business engagement—direct investment

- 3.93 Direct investment has not been a strong element of the Australia-RoK business relationship in the past. This is gradually changing. Since the 1997 Asian financial crisis, the RoK has liberalised its foreign investment system, through the introduction of new programs to attract investment and the removal of most restrictions.⁷⁸

Australian direct investment in the Republic of Korea

- 3.94 Australia now boasts some very successful investment ventures in the RoK. The Committee was advised that Macquarie Bank is a major investor in Korean infrastructure with 250 locally engaged employees. The Busan Aquarium, owned and operated by Melbourne based company Oceanis Holdings Ltd, has also successfully capitalised on the growing leisure market in the RoK.⁷⁹
- 3.95 The success of Oceanis's investments in the RoK indicates that, regarding tourism and leisure, Australia 'cannot afford to ignore such a prosperous society which is ... crying out for quality Australian tourism and leisure expertise.' Oceanis advised the Committee that the preoccupation of RoK companies with manufacturing and exporting presents 'serious opportunities for consumer oriented companies to focus on.' Oceanis cautioned, however, that Australia faced serious competition from Europe and the United States.⁸⁰

78 DFAT, *Submission No. 21, Vol. 1*, p. 287.

79 Embassy of the Republic of Korea, *Submission No. 18, Vol. 1*, p. 231.

80 Oceanis Holding Limited, *Submission No. 27, Vol. 1*, p. 385.

Republic of Korea business direct investment in Australia

- 3.96 The RoK Embassy submission noted that Korean companies have focused much of their Australian investment 'in the area of resource development,' to 'secure reliable supplies of Australian mineral and energy resources.'⁸¹ Both the Embassy and DFAT cite the electronics and forestry sectors as other areas of Korean investment in Australia.
- 3.97 Korean companies with Australian investments include:
- Korea Zinc;
 - Sun Metals;
 - POSCO;
 - Daewoo;
 - Samsung;
 - LG; and
 - Hansol PI.⁸²

Committee comment

- 3.98 The Committee concurs with Oceanis's view that Australian investors should not ignore the RoK market. The Committee has received other evidence which confirms the fact that opportunity exists for expanded trade and investment in emerging business areas in the RoK.
- 3.99 Austrade's support in promoting new areas of trade has been noted in this chapter and the Committee encourages the continued promotion, from all relative government agencies, of emerging trade opportunities in the RoK.
- 3.100 The Committee believes that in order to grow the Australia-RoK business relationship new areas of trade need to be explored. The Macquarie Bank and Oceanis Holdings Ltd examples prove that direct investment can be successful.

81 Embassy of the RoK, *Submission No. 18, Vol. 1*, p. 231.

82 Embassy of the RoK, *Submission No. 18, Vol. 1*, p. 232; DFAT, *Submission No. 21, Vol. 1*, p. 287.

- 3.101 The Committee recognises the level of investment of RoK companies in Australia and encourages other RoK companies to look to Australia for investment opportunities.

