

## **Barton Deakin Brief: Republic of Korea-Australia Economic Relationship**

**11 September 2015**

The Minister for Foreign Affairs the Hon Julie Bishop MP and the Minister for Defence the Hon Kevin Andrews MP today will meet with their Republic of Korea (**ROK**) counterparts Minister for Foreign Affairs Yun Byung-se and Minister for National Defence Han Min-koo to discuss strengthening the bilateral relationship.

This Barton Deakin Brief outlines the current state of the Korea-Australia economic relationship.

### **Republic of Korea-Australia Relationship**

The ROK is one of Australia's most significant trading partners. Data from 2014 shows that the ROK is Australia's 3<sup>rd</sup> largest export market, representing 7.7 per cent of Australia's total export market (behind China and Japan). This represents AU\$20,432 million worth of exports. Principal commodities exported to the ROK include iron ore and concentrates, coal, beef, aluminium and electrical goods. Australia also exports a total of AU\$1,621million in services, representing 2.7 per cent of service exports, including significant export of education-related travel and general travel.

Australia's imports from the ROK are worth a total of AU\$11,866, 4.7 per cent of Australia's total imports. Major imports from the ROK include refined petroleum, passenger motor vehicles and vehicle parts, and heating and cooling products and components.

The level of Australian-ROK investment is relatively small compared to the developed trade relationship. However in recent years this base has experienced growth and diversification. It is forecast that along with the facilitation of greater trade between the two countries the KAFTA will encourage stimulate increased investment.

Politically, Australian and the ROK have shared strong and longstanding relations, due in part to Australia's involvement in the Korea War. Full diplomatic relations were established in 1961, although the ROK has operated a Consulate-General in Australia since 1951. Australia and the ROK also share strategic and security interest in the Asia Pacific region. Both nations have contributed to various regional efforts including sending military forces to Afghanistan, Iraq and East Timor.

In addition to bilateral ties, Australia and the ROK work cooperatively through a number of multilateral forums. These include the G20, the Asia Pacific Economic Cooperation (**APEC**) forum, and the MIKTA partnership nations (along with Mexico, Indonesia and Turkey). Australia has also signed a [Memorandum of Understanding on Development Cooperation](#) on bilateral efforts to strengthen and develop the Asia Pacific region.

### **Australian Business Opportunities**

The Department of Foreign Affairs and Trade (**DFAT**) notes that the ROK is a key market for Australian exports, in particular minerals, energy and travel and education services.



The KAFTA will be an important building block for increasing investment opportunities in the ROK, particularly through raising of the foreign capital investment caps in a various industries in the ROK.

### **Financial Services**

With the ROK's relatively high gross domestic product (GDP) per capita and aging population, there is an increasing demand for products and opportunities to improve long term financial securities. There are also only a small number of financial professionals for the ROK's population so there is a demand for asset management professionals and investment firms.

The ROK is home to the world's 4<sup>th</sup> largest pension fund, the National Pension Fund. The Fund plans to increase its investment in international investment products to above 10 per cent by the end of 2016.

### **Wine and Spirits**

The KAFTA eliminated the 15 per cent import tariff on Australian wine, and dramatically increased the profitability of the wine exports to the ROK. Australia is also well placed to take advantage of the long term trend of increased domestic wine consumption (although this stalled after the 2008 financial crisis). While red dominates the market (72 per cent of imports), other types of wine such as sparkling and white varieties have increased their share of the market in recent years.

There has also been an increase in the domestic ROK demand for beer, with foreign brands offering a greater choice for consumers. Australia breweries have potential to grow in this expanding marketplace.

### **Aged Care**

As noted previously, the ROK has a rapidly aging population. Current forecasts suggest that more than 15 per cent of the population will be over 65 by the year 2020. This portion of the population will control an increasingly large buying power. The Korean Health and Industry Development Institute has noted that there will be a greater demand for aged care service providers in the form of home assistance and facility providers in the coming decade, as well as for medical devices and medicines used by the elderly, such as diabetes medication and hearing devices.

Experience with dealing with used with twice the emerging demographics in an Australian context makes the ROK an appealing business opportunity for Australian products.

### **Agricultural and food products**

Australia is regarded by ROK consumers as a quality provider of meat and dairy products. As the demand for 'premium' food increases so will the demand for Australian beef, butter, frozen cream, and cheese. The cheese market in particular has experienced growth in recent years as a wider variety of types become available.

While import tariffs have traditionally been very high for food products, the KAFRA has progressively cut these over a 15 year period, improving the comparativeness of Australian imports.

### **Biotechnology and Pharmacy**



The profitability of pharmaceutical exports to the ROK has grown after the KAFTA began; by 2016 all tariffs on pharmaceutical products will be removed. The aging population has led to an increase in the demand for pharmaceuticals, especially those that related to oncology, cardiovascular and metabolic diseases. Australian medicine and vitamin producers have considerable opportunities in these areas.

### **Education**

Education-related travel is Australia's largest service export to Korea. While this market is becoming increasingly more competitive, it retains major potential for growth. Australian universities in particular are popular options for wealthy Korean students, providing Australia's higher education sector remains among the top international providers.

To access Austrade's Doing Business in the Republic of Korea page, click [here](#).

### **Korea-Australia Free Trade Agreement**

The KAFTA was signed in April 2014 by Australia's Minister for Trade and Investment, the Hon Andrew Robb AO MP and the ROK Minister for Trade, Industry and Energy Yoon Sang-jick. KAFTA has ensured that:

- 84 per cent of Australian merchandise exports enter the ROK duty free;
- 88 per cent of Australian resource and energy products enter the ROK duty free;
- All Korean tariffs on Australian sugar, wheat, wine, some pharmaceuticals and other products have been removed;
- Australian law firms are now able to establish representative offices in the ROK; and
- The monetary threshold at which Australia's Foreign Investment Review Board (**FIRB**) will review Korean investments in non-sensitive Australian assets, businesses or commercial real estate has been raised to AU\$1.078 billion.

To access Barton Deakin's Brief on the Korea-Australia Free Trade Agreement click [here](#).

### **Republic of Korea Overview**

The ROK is a democratic capitalist state, with a population of approximately 50 million people, the majority are ethnic Koreans. The country holds Presidential elections every five years. The current President Park Geun-hye took office in 2013 after winning an election in 2012. President Park is the ROK's first female President. The Government is made up of an elected National Assembly, an elected President and appointed cabinet, and an independent judiciary.

The ROK's most significant trading partner is China, which represents 25 per cent of total exports and 17 per cent of total imports, the highest of any country in both indicators (2014 statistics). Other major trading partners include the United States, which is the 2<sup>nd</sup> largest export destination and 3<sup>rd</sup> largest import source, and Japan, the 3<sup>rd</sup> largest export destination and 2<sup>nd</sup> largest import source.

In addition to the KAFTA, the ROK has an extensive network of Free Trade Agreements (**FTAs**). These include FTAs operating with Chile, Singapore, the European Free Trade Association (Iceland, Norway, Liechtenstein and Switzerland), the Association of Southeast Asian Nations (**ASEAN** – Brunei,



Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Thailand and Vietnam), the European Union, India and Peru. An FTA with the United States has not yet entered into force.

## **Further information**

To access the media release from the Minister for Foreign Affairs and the Minister for Defence on the 2 + 2 Consultations, click [here](#).

To access the Department of Foreign Affairs and Trade Korea-Australia factsheet click [here](#).

To access Barton Deakin's Brief on the Singapore-Australia Economic Relationship click [here](#).

To access Barton Deakin's Brief on the Australia-India Economic Relationship click [here](#).

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