

澳洲與南韓優惠貿易協定之 談判：政治經濟的僵局

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中文摘要

過去十年澳洲與南韓都是積極參與亞太地區簽訂優惠貿易協定 (preferential trade agreements, 簡稱 PTAs) 熱潮的國家。所以，或許會令人驚訝的是，澳韓優惠貿易協定的談判卻相對起步得比較遲。且儘管當澳洲總理吉拉德 (Julia Gillard) 在 2011 年 4 月訪問南韓時，與李明博 (Lee Myung-bak) 總統曾發表聯合公報稱「澳韓自由貿易協定的談判已至最後階段」，並「再度確認在該年內完成談判是他們共同的目標，然而直至作者完成此篇文章之際兩國仍未達成協議。

作者認為澳韓自由貿易協定談判之所以陷入僵局主要是受到以下幾個因素的影響，其一是澳洲並非南韓的重要出口市場，簽訂澳韓自由貿易協定對南韓國內的潛在利益不大，以致於以出口為導向的利益團體不易被政府動員來支持該協定的簽署。其二是時機對澳韓自由貿易協定談判不利，尤

其是澳韓自由貿易協定的自由化有可能給南韓來帶來比澳洲較大的負面政治衝擊。澳韓自由貿易協定要想成功地完成端賴兩國政府是否有能力與意願來擋住農業利益團體的遊說。

The Australia-Korea Negotiations for a Preferential Trade Agreement: The Political Economy of Stalemate

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Both Australia and the Republic of Korea (hereafter Korea) have been enthusiastic participants in the rush to negotiate preferential trade agreements (PTAs) that has occurred across the Asia-Pacific region in the last decade.¹ It is perhaps surprising, therefore, that negotiations between the two countries for a PTA were relatively late in beginning. And despite President Lee Myung-bak and Prime Minister Julia Gillard issuing a communiqué in April 2011, when Gillard visited Korea, which asserted that “negotiations on an Australia-Korea free trade agreement were now in their final stage” and “reaffirmed their joint

¹ I prefer the term “Preferential Trade Agreement” to the more conventional “Free Trade Agreement” because many of the agreements negotiated in the Asia-Pacific region over the last decade are far from comprehensive in their “freeing” of trade. The term “preferential” also underlines the discriminatory character of these agreements.

goal to conclude the negotiations this year”², an agreement still had not been concluded at the time of finalizing this article (September 2012).

Several reasons might be suggested for the relatively tardy start to the talks. Until Korea's negotiation of an agreement with the United States, its PTAs had been of relatively low quality, certainly not the type of comprehensive, WTO-Plus agreement that the Australian government favours. The popular protests that followed the signature of the PTA between Chile and Korea, and the difficulties that the National Assembly had in ratifying that agreement, suggested that it would be very difficult for the Australian government to extract any significant concessions from Korea on agriculture in any bilateral agreement. Moreover, even though Korea is Australia's third largest export market, it was regarded as far less significant a partner than the country's top two markets: China and Japan. Canberra gave priority to negotiating PTAs with Korea's North East Asian neighbours. And relations between the Howard government in Australia, and the Roh Moo-hyun administration in Korea were cooler than those that had often prevailed between the two countries.

Similar reservations prevailed on the Korean side. Policy-makers clearly worried that negotiations with Australia would unleash a further round of furious popular

² Prime Minister of Australia, “Joint press statement with the President of the Republic of Korea” (25 April 2011), <http://www.pm.gov.au/press-office/joint-press-statement-president-republic-korea> accessed 16 September 2012.

protests against agricultural trade liberalisation, especially given the strength of the Australian beef industry. There were several other reasons why Australia was a relatively unattractive partner for Korea. It was only the 14th largest export market for Korea, consuming only 1.5% of Korea's total exports over the previous decade. The average applied MFN tariff in Australia was less than 5%. Those areas of manufacturing that continued to enjoy higher levels of tariff protection—principally automobiles and textiles, clothing, and footwear—did so for understandable domestic political economy reasons that may have made concessions in a bilateral agreement difficult. Two-way trade was running substantially to Australia's advantage: in 2005, Australia's trade surplus with Korea exceeded \$6 billion. Korea appeared to have no difficulties in sourcing essential raw materials from Australia; neither did there appear to be any significant barriers to Korean investment in Australia, which was the sixth largest recipient of Korean FDI. At the end of 2006, the accumulated stock of Korean investment in Australia was valued at US\$ 3.1 billion.³ Policy-makers in Seoul might easily have perceived that the potential economic gains to Korea would be outweighed by the political costs of a PTA with Australia.

³ Data from ITS Global/Korea Institute for International Economic Policy (2008) "Australia - Republic of Korea Free Trade Agreement Feasibility Study". Canberra: Commonwealth of Australia, Department of Foreign Affairs and Trade, <http://www.dfat.gov.au/geo/rok/fta/rok-au-study-report.pdf>. See also Harvie, Charles (2004) "Prospects for an FTA between Australia and Korea". Seoul: Conference on "Korea and the World Economy", 3-4 July <http://faculty.washington.edu/karyiu/confer/seoul04/papers/Harvie.pdf>.

Developments in the trade policies of their potential partner subsequently had a profound impact on the attitudes of the two governments. Canberra was concerned that Korea's agreement with Chile placed Australian wine exports at a disadvantage in the Korean market. Australia's then Treasurer, Peter Costello, while visiting Seoul in September 2005, responded by raising the possibility of Australia and Korea concluding a PTA, a call that was echoed by then Foreign Minister, Alexander Downer, on a visit two months later. This Australian initiative thus came even before Korea began its negotiations for a PTA with the United States in February 2006.⁴ But it was the prospect of a Korea-US trade agreement that most worried Canberra.⁵ Of particular concern was the potential loss of the lucrative market for Australian beef in Korea. In 2006, the value of Australian exports of chilled and frozen beef exceeded \$900 million.

⁴ "Australia seeks FTA with Korea", *Korea Times* (10 September 2005); "Downer to push for S Korea FTA", *ABC News* (14 November 2005).

This, however, was not the first occasion on which the Australian government had proposed a PTA to Korea. Australian Prime Minister, John Howard, made the first proposal to President Kim Dae-Jung while visiting Seoul in May 2000. "Australia expresses hope for free trade agreement with Korea", *Korea Herald* (20 May 2000). In 2002, senior Korean presidential advisor on the economy, Lee Ki-ho, had listed Australia, along with Mexico and New Zealand, as the next targets for trade agreements, once the negotiations with Chile had been concluded. "ROK seeks FTA with Australia, NZ, Mexico", *Korea Times* (10 July 2002). In September of the same year, the Federation of Korean Industries had called for FTAs to be negotiated with Australia and ASEAN. "Korea proposes FTA with ASEAN, Australia", *Korea Herald* (16 September 2002).

⁵ See, for instance, Rowan Callick, "US-Korea agreement shows Australia is losing out in bilateral deals", *The Australian* (9 April 2007).

Korea was the third largest market for Australian beef, exports of which had benefited from the mad cow disease problems that had led the Korean government to ban American beef exports in 2003.⁶

The terms of the KORUS agreement provided for the removal of Korea's 40 percent tariff on beef imports from the US over a 15 year period.⁷ Australia's National Farmers' Federation commissioned a study that suggested that Australia's agricultural and food exports would be 12.4 percent lower by 2030 if KORUS was implemented and Australia did not sign an equivalent agreement with

⁶ Data from ITS Global/Korea Institute for International Economic Policy (2008) "Australia - Republic of Korea Free Trade Agreement Feasibility Study". On concerns for Australian beef exports to Korea should the KORUS agreement go ahead, see, for instance, "Aust beef prices plummet in Korea before FTA - ABC News" (Australian Broadcasting Corporation). (2007, March 30). *ABC News*. Retrieved April 25, 2010, from <http://www.abc.net.au/news/stories/2007/03/30/1885590.htm>, and "NFF urges action here as US-Korea conclude FTA". *The Age* (4 April 2007).

⁷ Treatment of most other agricultural products was more generous. According to the ITS Global/Korea Institute for International Economic Policy (2008: 57-8) "Australia - Republic of Korea Free Trade Agreement Feasibility Study": "More than half (or \$1.6 billion) of current US agricultural exports to the ROK will become duty-free immediately on entry into force, including wheat, corn for animal feed, soybeans for crushing, hides and skins, and cotton, plus a broad range of high value agricultural products such as almonds, pistachios, bourbon whiskey, wine, raisins, grape juice, orange juice, fresh cherries, frozen French fries, frozen orange juice concentrate, and pet food. Those products with two-year tariff phase-outs include avocados, lemons, dried prunes, and sunflower seeds. In addition, the product category with five-year tariff phase-outs include food preparations, chocolate and chocolate confectionery, sweet corn, sauces and preparations, breads and pastry for example."

Seoul.⁸ There was also concern that a Korea-US agreement might jeopardise Australian exports of automotive engines to Korea. At the time these were by far the most important single category of Australian manufactured exports to Korea, worth more than \$A300 millions in 2006.

Korea's decision to open negotiations with the United States did carry some positive implications for Canberra, however. That Seoul would negotiate with the US despite Washington's predilection for imposing a comprehensive yet inflexible template on its PTA partners suggested a new willingness on the part of the Korean government to enter into high quality PTAs that matched the aspirations of Canberra.

For its part, Korea was also alarmed by changes in Australia's trade relationships with other countries. Two developments were of particular importance. The first was the implementation of the PTA between Australia and Thailand in 2005. This agreement provided the Thai-based subsidiaries of Japanese car assembly companies with free access to the relatively heavily-protected Australian car market, and placed their Korean competitors at a

⁸ Davis, Lee, Kevin Hanslow, and Andrew Stoeckel (2007) "Impact of KORUS on Australian Agriculture...and What an Australian-Korea FTA Could Mean". Canberra: Centre for International Economics; Philip Hoskins, "Australia urged to make haste toward Korea free trade agreement", *The Age* (5 September 2007). The Davis et al. study suggested that if KORUS was implemented and Australia was able to negotiate a similar arrangement, Australian agricultural exports to Korea would be over 50 percent higher than in the absence of an agreement.

disadvantage (assembled cars and automotive components are the largest single category in Korean exports to Australia, worth over \$US 4.5 billion in 2006).⁹ In the first three years of the Thai-Australian agreement, Australian imports of cars and pick-up trucks from Thailand tripled in number, with both Honda and Nissan switching their sourcing for the Australian market from Japan to Thailand.

The second major development was the commencement of negotiations for a PTA between Australia and China, the first round of which was held in May 2005 following the completion of a joint feasibility study. For Korea, the principal concern was that China would attempt to use the negotiations to gain favoured access to Australia's mineral resources, possibly through gaining a similar relaxation of Australian scrutiny of foreign investment to that which Australia had granted to the United States under the Australia-US Free Trade Agreement.¹⁰ China was also pushing in the negotiations for security of supply of raw materials at "equitable" prices—although such demands appeared to betray a

⁹ Tariffs on assembled vehicles and components were halved by the Australian government on 1 January 2010 and now stand at 5 percent. Even with the tariff disadvantage, Korean cars have still been priced lower than their Japanese counterparts in the Australian market in the years since the implementation of the Australia-Thailand PTA.

¹⁰ Under the investment chapter of the AUSFTA, the threshold above which screening of investment from the US would take place (other than in sensitive sectors that include urban land, the media, telecommunications, and transport) was raised from \$A100 to \$A800 million. All US "greenfield" investments in non-sensitive sectors were exempted from scrutiny.

misunderstanding of the powers at the disposal of the Australian government in a market economy.¹¹ A PTA between Australia and China would also further enhance the competitiveness of China's manufactured exports vis-à-vis their Korean equivalents in the Australian market.

Throughout 2006, Australian representatives in Seoul continued to push for negotiations on a trade agreement, pressure that was supported by statements from the business communities in the two countries. President Roh Moo-hyun responded to the pressure by agreeing, on the occasion of a visit to Australia in December 2006, to the commissioning of a joint study of the feasibility of a PTA. Following the election of Prime Minister Rudd in November 2007, the Australian government set out to upgrade its relations with South Korea, including enhanced defence as well as commercial ties.¹² The initiative was welcomed by the new administration of President Lee Myung-bak, who had personally advocated stronger ties between the two countries. On a visit to Seoul in August 2008, the two government leaders announced that preparatory talks for a PTA would begin in the near future. It took almost another year, however, before actual negotiations commenced (in June 2009), the delay a consequence of the difficulties that the Lee Myung-bak administration experienced in advancing its trade policy agenda (especially with a

¹¹ Ravenhill, John, and Yang Jiang (2009) "China's Move to Preferential Trading: A New Direction in China's Diplomacy." *Journal of Contemporary China* 18, 58: 27-46.

¹² See, for instance, "Smith smooths way for stronger Seoul ties", *The Australian* (9 May 2008).

country that is a major exporter of agricultural commodities) in the face of the popular protests that occurred in Korea at the signing of the trade agreement with the United States.

In the interim, both Australia and Korea had been active in negotiating PTAs with other partners. As Table One indicates, there is a remarkable degree of overlap between the agreements that the two countries have reached. The most significant difference is Korea's success in negotiating pacts with the two European trade groupings—EFTA and the EU—which have not (yet) entered into Australia's consideration of potential PTA partners. Australia has gone further than Korea in its negotiations with Japan (the Korea-Japan talks essentially being stalled) and with China, and has moved forward more rapidly in its relations with individual ASEAN countries.

**Table One: PTAs Involving Australia or Korea
(situation at 09/2012)**

<i>Partner</i>	Australia	Korea
ASEAN	Implementing (2009)*	Implementing (2007)
Canada		Negotiating
Chile	Implementing (2009)	Implementing (2004)
China	Negotiating	Study Group
Colombia		Implementing (2012)

EFTA		Implementing (2006)
EU		Signed
Gulf Cooperation Council	Negotiating	Negotiating
India	Negotiating	Implementing (2010)
Indonesia	Negotiating	
Israel		Study Group
Japan	Negotiating	Negotiating
MERCOSUR		Study Group
Malaysia	Concluded	Study Group
Mexico		Negotiating
New Zealand	Implementing (1983)	Negotiating
Peru		Implementing (2011)
Russia		Study Group
Singapore	Implementing (2003)	Implementing (2006)
South Africa		Study Group
South Pacific	Implementing (1981)**	
Thailand	Implementing (2005)	Study Group

Turkey		Negotiating
United Arab Emirates	Negotiating	
USA	Implementing (2005)	Implementing (2011)
Vietnam		Study Group
Trans-Pacific Partnership Agreement***	Negotiating	

Notes: * Joint agreement with New Zealand

** Currently SPARTECA, a non-reciprocal trade agreement between Australia/New Zealand and member countries of the Pacific Islands Forum. Currently being re-negotiated as PACER Plus.

*** Brunei, Chile, New Zealand, Peru, Singapore, Vietnam, United States

Source: ADB, Asia Regional Integration Centre,
<http://aric.adb.org/FTAbCountryAll.php>
 Department of Foreign Affairs and Trade,
 Commonwealth of Australia,
<http://www.dfat.gov.au/trade/ftas.html>

The Australia-Korea Negotiations in the Context of Australian Trade Policy

Australia, like Korea, traditionally was a strong upholder of non-discriminatory approaches to trade

cooperation. Although it had one of the earliest preferential trade agreements in the Asia-Pacific region, the Closer Economic Relations agreement with New Zealand (1983), this was generally regarded as one of the “cleaner” PTAs that met the expectations of the GATT/WTO. Its coverage extends considerably beyond merchandise trade and, indeed, is WTO Plus in that the two parties have made commitments considerably beyond their obligations under the WTO agreements. Besides the New Zealand agreement, the only other arrangement (SPARTECA) that Australia had entered into was with the islands of the South Pacific Forum, a non-reciprocal agreement aimed at facilitating a diversification of the exports of the developing island economies.

Although an emphasis on bilateralism was very much in accord with the principal thrust of the Howard government's foreign policy agenda as articulated in its White Paper, *In the National Interest*,¹³ the government was a somewhat reluctant convert to preferential trading agreements. In 1987, it had rejected a proposal from the Clinton administration for a bilateral agreement with the United States. The government reversed its policies on PTAs when its efforts to negotiate a tie-up between the Australia-New Zealand Closer Economic Relations Trade Agreement and ASEAN were vetoed by then Malaysian

¹³ Department of Foreign Affairs and Trade (1997) “In the National Interest: Australia's Foreign and Trade Policy White Paper.” <http://www.dfat.gov.au/ini/wp.html> August. For discussion see Cotton, James, and John Ravenhill eds. (2001) *The National Interest in a Global Era: Australia in World Affairs 1996-2000*. South Melbourne, Vic.: Oxford University Press in association with the Australian Institute of International Affairs.

Prime Minister Mahathir. This rebuff occurred in a context in which East Asian governments were for the first time seriously considering negotiating preferential trade agreements.¹⁴

Australia had traditionally shared the antipathy of most East Asian governments towards preferential trading agreements, having been a victim of the discriminatory trading policies of the European Union, and had always feared that it would be adversely affected by any fragmentation of the global economy into closed regional blocs. There was also a keen sense of the realities of power in bilateral negotiations: when Australia had been invited by the United States in the early 1980s to enter into negotiations for a bilateral agreement, commentators had warned that the likely outcome would be one where Australia as a relatively small economy was compelled to make the most concessions.¹⁵ Australian trade interests would be best pursued at the global level where it might reasonably hope to pool its negotiating resources with those of “like-minded countries” that shared its interests in liberalization, particularly of agricultural trade—a strategy that the Hawke government pursued effectively during the Uruguay Round of WTO negotiations through the promotion of the Cairns Group.¹⁶

¹⁴ John Ravenhill, (2003) “The New Bilateralism in the Asia-Pacific.” *Third World Quarterly* 24, 2: 299-317.

¹⁵ Snape, Richard H. (1986) “Should Australia Seek a Trade Agreement with the United States?”. Canberra: Economic Planning Advisory Council, EPAC Discussion Paper 86/01.

¹⁶ Kenyon, Don, and David Lee (2006) *The Struggle for Trade Liberalisation in Agriculture: Australia and the Cairns Group in the Uruguay Round*. Canberra: Dept. of Foreign Affairs and Trade.

After the failure of the original CER-ASEAN negotiations in October 2000, Australia became an energetic participant in the negotiation of PTAs. Negotiations with Singapore were launched at the APEC Leaders' Meeting in Brunei merely a month after the breakdown of the CER-ASEAN negotiations. By far the most controversial agreement has been that with the United States—not least because the negotiations forcefully underscored earlier fears about Australia's vulnerability when bargaining bilaterally with a much more powerful partner. Australia's bargaining position was further weakened when Prime Minister John Howard overrode the advice of his negotiating team and that of the Department of Foreign Affairs and Trade more generally in accepting terms that excluded some of those areas that had been identified in early economic modelling as likely to bring greatest benefit to the Australian economy.¹⁷ With the US making only limited concessions on Australian agricultural exports, the overall value of the agreement to the Australian economy was estimated by the economist Philippa Dee, in a study commissioned by the Senate Select Committee on the Free Trade Agreement between Australia and the United States, to amount to only \$53 million annually.¹⁸ And the agreement caused widespread

¹⁷ Centre for International Economics (2001) "Economic Impacts of an Australia-United States Free Trade Area". Canberra: Centre for International Economics, Study Prepared for the Department of Foreign Affairs and Trade, http://www.dfat.gov.au/publications/aus_us_fta/aus_us_fta.pdf. For further discussion see Capling, Ann (2005) *All the Way with the USA: Australia, the US and Free Trade*. Sydney: UNSW Press.

¹⁸ Dee, Philippa (2005) "The Australia - US Free Trade Agreement: An Assessment". Canberra: Australia-Japan Research Centre, Pacific Economic Paper 345, <http://apseg.anu.edu.au/pdf/pep/pep-345.pdf>.

concerns that its provisions on intellectual property and on pharmaceuticals would impose significant costs on Australia in the medium to long term.¹⁹

Scepticism about the economic benefits from PTAs arising from the Australia-US Free Trade Agreement was reinforced by the apparently negligible aggregate economic benefits from the agreements that Australia had earlier signed with Singapore and Thailand. In the former case, most Australian exports (with some significant exceptions in services) already enjoyed unimpeded access to the Singaporean market; in the latter case, Australia's most valuable exports (principally raw materials) already entered the Thai market duty-free. Moreover, the Thai government succeeded in establishing a long phase-in for duty reductions on Australian products regarded as sensitive, and unlike the case with Singapore, did not accept Australian proposals for a "negative list" approach to services liberalization (under a "negative" list approach, liberalization applies to all sectors except for those specified; under a "positive" list it is only those sectors that are specifically identified that are liberalized). Australia also failed to negotiate a change in Thailand's tax policies that discriminate against cars with larger engine sizes,

¹⁹ Faunce, Thomas, and Kathy Shats (2008) "Bilateral Trade Agreements as Drivers of National and Transnational Benefit from Health Technology Policy: Implications of Recent US Deals for Australian Negotiations with China and India." *Australian Journal of International Affairs* 62, 2; Weiss, Linda, Elizabeth Thurbon, and John Mathews (2004) *How to Kill a Country: Australia's Devastating Trade Deal with the United States*. Crows Nest, N.S.W.: Allen & Unwin; Capling, *All the Way with the USA: Australia, the US and Free Trade*.

which characterizes most of Australia's exports of assembled vehicles.

By the time of the 2007 national election in Australia, there was a wellspring of concern that was widely shared across business, policy, and academic circles—that contemporary Australian trade policy was afflicted by a certain malaise. One indicator of apparent policy problems was the country's poor export performance despite a commodities boom.²⁰ The commodities boom, of course, created its own set of problems—by virtue of the appreciation of the Australian dollar (although this appreciation came later and was initially less pronounced than in previous mineral booms, thanks to the floating of the dollar)—for exporters of manufactures and services. And poor export performance could be attributed in part to domestic weaknesses—infrastructure bottlenecks, shortages of skilled labour, etc.

But there was also a sense that the government had its trade policy priorities wrong—in particular that it had privileged the negotiation of bilateral trade agreements at the expense of efforts to bring the Doha Round of WTO negotiations to a successful conclusion. Such a suggestion was strongly denied by the Department of Foreign Affairs and Trade, which argued that it is perfectly capable of conducting effective negotiations simultaneously at both bilateral and global levels, and pointed to the significant increase in resources given to its trade negotiation branch

²⁰ Capling, Ann (2008) "Australia's Trade Policy Dilemmas" *Australian Journal of International Affairs* 62, 2.

in recent years. And any reasonable observer would concede that multiple issues have prevented agreement being reached in the Doha negotiations, and that as a relatively small player Australia was not well-placed to broker an agreement among the major protagonists.

Nonetheless, perceptions persisted—and the point was strongly asserted by then shadow minister of trade, Simon Crean—that the government was investing a disproportionate share of scarce resources in the negotiation of bilateral agreements from which the country had gained little advantage, and whose discriminatory and incomplete provisions potentially undermined the pursuit of Australia's objectives in global trade negotiations. Trade policy previously had seldom featured in Australian election campaigns. Indeed, since a largely bipartisan consensus emerged in the mid-1980s over the desirability of Australia's pursuing a policy of unilateral liberalization, trade policy has rarely figured prominently in public debate. The new consensus embraced not just a commitment to liberalization (albeit gradual for those sectors such as automotive and textiles, clothing and footwear that were regarded as politically sensitive) but also that priority should be given to an active promotion of Australian interests through the World Trade Organization.²¹

Whether trade policy actually had any significant effect on the outcome of the 2007 election is doubtful. But having made an issue of it during the campaign, the

²¹ Capling, M. Ann (2001) *Australia and the Global Trade System: From Havana to Seattle*. Cambridge: Cambridge University Press.

incoming Labor government had little alternative but to announce that it would commission a review of Australian external economic policies. Two reviews were set in train: one focusing on the role of the government's export promotion agency, Austrade, and the Export Market Development Scheme, and the other on Australian trade policy more generally. The second review, known by its proper name of the *Review of Export Policies and Programs* or, more informally, as the Mortimer Review, after its Chairman, David Mortimer, was generally regarded as a particularly bland statement that offered few practical guidelines for the future development of policy.²² The report did endorse the WTO's new Transparency Mechanisms for PTAs,²³ advocated Australian participation in the P4 PTA as a basis for negotiating an Asia-Pacific regional trade agreement (which has materialized in the form of the Trans-Pacific Partnership negotiations), and argued for the development of "new benchmarks for determining Australia's future FTA partners that emphasise the importance of achieving ambitious levels of trade and investment liberalisation while ensuring outcomes are delivered in a timely manner and position Australia to play a role in the emerging Asia-Pacific economic architecture". Nonetheless, the Report continued, such benchmarks should be applied "in a flexible and pragmatic manner consistent with the goal of pursuing an

²² Commonwealth of Australia (2008) "Winning in World Markets: Meeting the Competitive Challenge of the New Global Economy: Review of Export Policies and Programs". Canberra: Commonwealth of Australia, 1 September http://www.dfat.gov.au/publications/mortimer_report/mortimer_report.pdf.

²³ http://www.wto.org/english/tratop_e/region_e/trans_mecha_e.htm

active and forward-looking bilateral trade strategy.”²⁴

The proposed flexibility imposed few constraints on government action. In opposition, the Labor Party had been particularly critical of what it regarded as the poor quality of some of the PTAs that its predecessor had negotiated. Like the WTO itself, the Mortimer Report eschewed any concrete guidelines of what a high quality PTA would look like. The new government faced an immediate test of its commitment to high quality outcomes in the negotiations that it conducted, jointly with New Zealand, for a PTA with ASEAN. The agreement, concluded in March 2009, can reasonably claim to have extracted more concessions on liberalization from ASEAN than any of the Southeast Asian grouping's previous PTAs. Nonetheless, it included significant carve-outs on such sensitive areas as agriculture and automobiles, and failed to address questions relating to government procurement. ASEAN's commitments on services and competition policy were essentially no greater than the ten countries had made at the WTO. A review by the consultancy firm, Minter Ellison, awarded the agreement a mark of 6 out of 10, and labelled the deal “mediocre”.²⁵ Meanwhile, the proposal in 2009, that Australia should negotiate a PTA with India, notorious for the poor quality of its PTAs (including the one it negotiated with Korea)²⁶ failed to

²⁴ Commonwealth of Australia (2008) “Winning in World Markets” p. 6.

²⁵ Callick, Rowan (2009, April 4). “Our FTA with South-East Asia labelled 'mediocre'”. *Bilaterals.org*. Retrieved April 9, 2009, from http://www.bilaterals.org/article-print.php3?id_article=14759

²⁶ Weigand, M. (2009, August 12). Korea, India Sign Cautious FTA. *Korea IT Times*. Retrieved April 25, 2010, from

inspire confidence that the government was firmly committed to negotiating only agreements that met the criteria for “high quality” designation.

A PTA with Korea, in contrast, did offer an opportunity to reach a high quality agreement. Because both Australia and Korea had already concluded agreements with the United States, they had a template that they could use for most of the chapters in the agreement (Korea's subsequent agreement with the EU arguably goes further in liberalization than KORUS, at least according to EU negotiators).²⁷ As some commentators have pointed out, however, there is a need to be careful in evaluating the template that the US imposes on its PTA partners. It may be comprehensive but it is not necessarily “high quality” in all of its dimensions. The US often carves out key import-competing sectors from its agreements (most notably agricultural products such as sugar, beef and dairy).

Moreover, in their provisions on intellectual property, the agreements are not necessarily welfare-enhancing, especially where they excessively extend the duration of the rights of property holders at the cost of property users. Australia has also had particular concerns about how the intellectual property provisions can be used to undermine its state-subsidized pharmaceutical benefits scheme.²⁸

<http://www.koreaittimes.com/print/story/4476/korea-india-sign-cautious-fta>

²⁷ Interviews, Brussels, May 2009.

²⁸ Harvey, KJ, et al. (2004) “Will the Australia-United States Free Trade Agreement Undermine the Pharmaceutical Benefits Scheme?” *Medical Journal of Australia* 181, 5 (September): 256-9.

And in some ways, the recent US PTAs, given the absence of provisions for investor-state arbitration, and of limited provisions on the environment, back away from some of the more comprehensive and innovative features of the NAFTA treaty. These qualifications notwithstanding, the US template is typically more comprehensive in its coverage than that employed by other Asia-Pacific countries.²⁹

Explaining the Origins of the Australia-Korea Negotiations

The conventional wisdom among students of PTAs is that they are often driven by, in Baldwin's terminology, a "domino" effect. The dominant logic here is that once a significant trading country negotiates a preferential trade agreement, firms in other countries will lobby their governments to negotiate equivalent agreements so as to "level the playing field" with their competitors. A proliferation of agreements follows. Once this proliferation occurs, however, companies will find that the specific rules of origin for the individual agreements will complicate the management of their supply networks with the consequence that they will lobby governments to consolidate the agreements.³⁰

²⁹ Ravenhill, John (2008) "The Move to Preferential Trade on the Western Pacific Rim: Some Initial Conclusions." *Australian Journal of International Affairs* 62, 2 (June): 129-50.

³⁰ Baldwin, Richard E. (1995) "A Domino Theory of Regionalism." *Expanding Membership of the European Union* eds. Richard E. Baldwin, Pertti Haaparanta and Jaakko Kiander. Cambridge: Cambridge University Press, Chapter Two; Baldwin, Richard E. (2006) "Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade." *World Economy* 29, 11: 1451-1518.

Although persuasive in the European context, I argue that the logic is less compelling in examining the proliferation of PTAs that occurred in East Asia in the first decade of the 21st Century. Baldwin's argument rests on several key factors that, I suggest, were not present in the Asian case: (1) The agreements must create significant preferential advantages for their beneficiaries and, conversely, significant disadvantages for non-participants (which would encourage them to lobby for equivalent agreements); (2) The agreements must be with partners that provide a substantial market for domestic exporters; (3) There must be a clear mechanism through which business conveys its trade policy preferences to governments.

In contrast, I find that many of the PTAs negotiated in Asia create few significant advantages/disadvantages given the prevailing low levels of tariffs and the availability of other trade measures (duty-drawback arrangements, sectoral agreements such as the Information Technology Agreement) that essentially free up the movement of components (and in some instances, final products) across countries in the region. Second, the evidence that we have available suggests that business has made little use of the agreements that are in force across the region. Third, many of the early agreements that Asian countries negotiated were with relatively minor trading partners (this was true of Korea, too, until its negotiations with the United States and the EU—but it has yet to begin negotiations with its most important market, China). Consequently, the agreements had little impact on the overall market for domestic exporters. Fourth, in many Asian countries, there was little evidence of significant input from business into

trade policy-making. Governments drove the PTA agenda, sometimes establishing priorities that were contrary to those expressed by the business community.

Rather than being driven by the logic of an economic domino effect, I suggest that many PTAs in East Asia are better explained as following from the logic of a political domino effect.³¹ Here the dominant factor has been the competition between China and Japan for regional leadership: this sparked a competition between them for concluding (in the case of China often low-quality) trade agreements around the region. Other countries jumped on board the PTA bandwagon, concerned at the possible damaging effects of being excluded from this new dimension of regional diplomacy. Choi and Lee note, for instance, that the Korean government expressed increasing alarm in the early years of the new millennium at being isolated as the only WTO member besides Mongolia that had not entered into a PTA.³² With the economy in disarray in the immediate post-financial crisis period, Korea had experienced difficulties in finding potential partners willing to negotiate with it.³³ And once

³¹ John Ravenhill, "The New East Asian Regionalism: A 'Political Domino' Effect", *Review of International Political Economy*, vol. 17, no. 2, 2010, pp. 178-208.

³² Choi, Byung-il, and Kong-Jin Lee (2005) "A Long and Winding Road: Ratification of Korea's First FTA." *Korea and International Conflicts: Case Studies--Volume 1* ed. Byung-il Choi. Seoul: Institute for International Trade and Cooperation, Ewha Womans University, 11-47 at page 15.

³³ Park, Sung-Hoon, and Ming Gyo Koo (2007) "Forming a Cross-Regional Partnership: The South Korea-Chile FTA and Its Implications." *Pacific Affairs* 80, 2: 259-78.

the bandwagon was under way, it was increasingly difficult for governments to knock back requests from their regional neighbors to enter into negotiations for an agreement, regardless of how (un)enthusiastic they may have been about a proposed partnership.

I am confident that the “Political Domino” explanation has widespread applicability to the first decade of East Asian PTAs. But it is far less relevant to the proposed Australia-Korea agreement. In general we are seeing higher quality PTAs across the region today than was the case at the beginning of this century—and this is certainly true of Korea's recent agreements (with the exception of that with India). Although both countries—self-proclaimed “middle powers”—saw advantages in closer collaboration, there is little reason to think that this was the predominant consideration in launching the negotiations for a PTA. All the evidence available suggests that the original proposal for a PTA between the two countries stemmed directly from Australia's fear of the potentially damaging effects on its exports of a PTA between Chile and Korea—in other words, a classic example of an *economic* domino effect.

What we are seeing in the proliferation of preferential trade agreements is often less a matter of governments being concerned with *aggregate* welfare losses and gains than responding to the particular concerns of one or more sectors (and sometimes even those of individual firms) which perceive that they have been disadvantaged by concessions available to their competitors. For Australia, the initial concern was the wine

industry in the case of the anticipated agreement between Korea and Chile; this concern was then re-focused on the beef industry when it became clear that talks between Korea and the United States would eventuate. For New Zealand, also anxious to secure a PTA with Korea, the concern was the competitive advantage that the PTA with Chile would give to rival kiwifruit exporters in that country.

Besides a small number of areas where relatively high tariffs exist, few PTAs create substantial welfare gains for their beneficiaries from the removal of border barriers—which explains the relatively low rates of utilization of the agreements. For Australia, its most important exports—coal, petroleum, iron ore, aluminium and zinc—all enter the Korean market at zero or negligible tariff rates. It is only agricultural products that face substantial tariffs. The only manufactured export in Australia's top fifteen exports to Korea was automotive engines (which face an 8 percent tariff in Korea). Education is Australia's principal service export to Korea—but here the principal barrier to further exports is not one that is imposed by the government but the society's strong preference for undertaking higher education in the United States.

Any competitiveness-enhancing effects of PTAs through the removal of tariffs are often more than offset (or compounded) in a short period of time by changes in exchange rates. With relatively few aggregate gains to be made from reductions in tariffs in the Australia-Korea relationship, the case for substantial welfare gains rests predominantly on optimistic assumptions about enhanced investment between the parties and the benefits from

increased competition.

Conclusion: Why Has Finalization of the Australia-Korea Trade Agreement Proved So Elusive?

Much to the surprise of many observers, Korea has succeeded in negotiating comprehensive, high quality preferential trade agreements with the European Union and the United States. Its success in doing so stands in marked contrast to the ongoing inability of the Japanese government to overcome entrenched domestic protectionist interests that prevent it from entering into such agreements, seen most recently in the protracted debate in Japan on whether it should attempt to join the Trans-Pacific Partnership.³⁴ The Korean government, like its Japanese counterpart, has faced strong opposition from domestic interests to liberalization in the agricultural sector. But unlike Japan, pro-liberalization forces have succeeded in prevailing in trade policy-making despite resistance from agricultural producers. Choi and Oh have made a persuasive case that the cross-country variance in outcomes can be largely explained by the differences in the institutions and processes of trade policy-making across the two economies. Korean governments have centralized trade policy-making in the Ministry of Foreign Affairs and Trade whereas in Japan the fragmented character of trade policy-making enables protectionist interests, championed by the Ministry of Agriculture, Forestry and Fisheries, to act as veto players in trade

³⁴ Capling, Ann, and John Ravenhill (2011) "Multilateralising Regionalism: What Role for the TPP?" *The Pacific Review* 34, 5: 553-75.

negotiations.³⁵

The puzzle for analysts of Korean trade policy then is why, if the institutional framework is in place to enable entrenched protectionist interests to be overcome in trade negotiations, the preferential trade agreement with Australia has stalled for so long. Several factors have contributed to this outcome. First, as detailed above, Australia is not a significant market for Korea: the potential benefits of the agreement for domestic interests in Korea are inevitably very substantially lower, given the size of the Australian economy, than those likely to be generated by the EU and US agreements. Consequently, exporting interests are less likely to mobilize in support of the proposed agreement and thereby offset the lobbying by those agricultural interests in Korea that inevitably will be adversely affected by a comprehensive agreement with Australia.

Second, issues of timing have worked against the agreement. Two dimensions are important in this context. The first was the two year delay in ratifying the Korea-US agreement, a hiatus during which the Korean government was reluctant to finalize any additional trade agreement that might have generated a backlash from domestic interests. Thus while negotiations went ahead and agreements were signed with India, Colombia and Peru, whose exports were not expected to generate problems for

³⁵ Choi, Byung-il and Jennifer Sejin Oh (2011) "Asymmetry in Japan and Korea's agricultural liberalization in FTA: domestic trade governance perspective." *The Pacific Review* 24, 5: 505-27.

any significant sector of the Korean economy, the talks with Australia stalled. The second was that by the time that KORUS was finally ratified in the National Assembly on 22 November 2011, attention was already turning to the Presidential and National Assembly elections to be held in the following year. In the lead-up to national elections, candidates were particularly unwilling to antagonize significant domestic interests.

In the case of the Australia-Korea agreement, liberalization seems likely to cause far more political pain for Korea than for Australia. Of the traditionally heavily-protected sensitive manufacturing sectors in Australia, the tariff level on autos has already been substantially reduced (indeed, to below the level prevailing in Korea). The PTA with Thailand has had the effect of ensuring that small car assembly will disappear from Australia. For textiles and clothing, the other sector traditionally heavily protected in Australia, most tariffs were reduced to 10 percent on 1 January 2010, and will fall to 5 percent in 2015; the tariff on footwear was reduced to 5 percent on 1 January 2010. With the possibility of PTAs with China and Indonesia in the coming years, the most politically sensitive sectors of the Australian economy effectively will be fully exposed to international competition. No doubt they will resist more rapid liberalization under an agreement with Korea ... but their political capital has long since been diluted.

In contrast, the agricultural lobby continues to exert disproportionate political influence in Korea (despite the reorganization of domestic trade policy-making institutions and despite being weakened by the precedent established

by the signature of KORUS). Yet, it is in this most sensitive of sectors that a PTA is likely to generate the most significant gains for the Australian economy in the short term. Having disappointed the agricultural sector by the concessions that were made during the negotiation of the Australia-US Free Trade Agreement, the Australian government will find it very difficult to agree to any significant exclusions from an agreement with Korea (not least because it would set a dangerous precedent for the negotiations with China and Japan that Australia is conducting simultaneously). A successful outcome of the negotiations between Australia and South Korea may well depend on the capacity and willingness of both governments to disappoint their agricultural lobbies.