

南韓與澳洲 FTA 談判的軌跡

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中文摘要

進入 21 世紀以來，影響國際關係的五大主要變數為國際關係經貿化、世界經濟區塊化、中國崛起、中美兩強競合與南北國家經濟競合。在此背景下，南韓總統李明博（Lee Myung-bak）在 2009 年 3 月訪問印尼時發表「新亞洲外交構想」（New Asia Initiative，簡稱 NAI）。李明博表示全球經濟中心正移向亞洲，但南韓以往過份集中於強化與美中日俄四強的關係，而未與亞洲國家大膽推進外交活動。他強調亞洲時代即將來臨使南韓有必要擴大與澳洲、紐西蘭和東盟等泛亞洲地區國家加強合作，其主要目的是為今後南韓在國際社會扮演能代表亞洲各國利益的區域主要國家的角色鋪路，並提升南韓的國際地位與影響力。

本文主旨即在從李明博政府外交戰略的角度檢視南韓與澳洲經貿關係，首先是當前國際關係五大特徵與韓澳的政經互動，尤其是澳洲對李明博政府的特殊意義、澳洲在

李明博政府外交戰略中所扮演的角色與功能，其次為韓澳雙邊自由貿易協定（FTA）談判現況。另一方面，澳洲的回應則是另一項兩國關係能否大幅改善以及李明博政府外交能否成功的關鍵。因此，本文亦將論及澳洲工黨政府 2007 年上臺以來陸克文（Kevin Rudd）政府與吉拉德（Julia Gillard）政府的對南韓 FTA 政策以及亞洲經濟整合的策略，終而剖析兩國 FTA 談判未來展望。

An Analysis of FTA-Centered South Korea-Australia Economic Relations

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Abstract

Australia and South Korea inaugurated FTA negotiations in June 2009. After almost five years of talks, the two countries struck a free-trade deal in December 2013. The Korea-Australia Free Trade Agreement (KAFTA) negotiations began with the Australian Labor Party Government under Kevin Rudd and did not conclude until the Liberal Party Government of Tony Abbott. This paper explores Australia-South Korea FTA negotiations under the premise that the converging foreign policy orientations focusing on Asian regionalism under Australian Labor Party Governments and South Korean President Lee

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Myung-bak brought about the inauguration of their bilateral FTA negotiations. It begins by examining each country's approach to rising China and the acceleration of Asian economic integration. It then highlights their perceptions of each other and their economic interactions, identifies their converging national interests, goals and regional diplomatic demarches, and finally explores the driving forces that brought about the conclusion of the trade deal, the prospects for Australia-South Korea economic relations under the FTA, and the implications of the deal for each state and for economic integration in Asia.

Four major characteristics of International Relations in the Asia Pacific

With the advent of the 21st century, four major characteristics can be identified in the evolving regional development in Asia Pacific, namely the economization of international relations, the regionalization of the world economy, the rise of China, as well as Sino-US cooperation and competition. Those variables have contributed to shaping Australia's and South Korea's converging foreign policy orientations.

The first characteristic of contemporary international relations is that economic interests tops a country's national interests *vis-à-vis* political and strategic interests. This development is due largely to the acceleration of globalization since the inauguration of economic reforms by the two Communist giants, China in 1979, followed by the Soviet Union's economic reform program (dubbed *glasnost* [openness] and *perestroyka* [reform]) in 1985.

The Soviets' decision to borrow capitalist mechanisms by following China's example signified that the market economy prevailed over the command economy and that the global economy was characterized by market economics. Globalization thus has been in full swing. The growing importance of economic affairs in international relations has transformed patterns of international interactions. Major powers tend simultaneously to pursue engagement policy directly and preventive diplomacy (hedging strategy) indirectly.¹ During the Cold War era, there was virtually no economic interdependence between the American and Soviet superpower archrivals. However, unlike the Cold War period, there is now strong and ever-increasing economic interdependence among the major political powers.

The traditional realist view emphasizing the 'high' politics of diplomacy and the use of force while downplaying the 'low' politics of economic affairs contradicts the current reality in which economic interdependence heavily influences international politics.² According to the liberal perspective, because there is high potential for profits states would rather trade than invade because all states can benefit from international trade.

¹ The best example is Nye Initiative in 1994, named after former Assistant Secretary of Defense Joseph S. Nye, Jr., officially known as the US Security Strategy for East Asia in 1995. The security strategy stresses constructive engagement with China, while enhancing US-Japan alliance simultaneously as a counterweight against an assertive China, in case.

² Aharon Barth, "Econo-Realism: Putting Economics at Center Stage. How Does, and Should, IR Research React to Expanding Economic Interdependence?" International Studies Association 41st Annual Convention Los Angeles, March 14-18, 2000, p. 1.

Due primarily to increasing economic interdependence, no country in the Asia Pacific can afford to wage a trade war or trigger a military conflict. This is particularly true of relations among the major powers. Due to heavy economic interdependence, China and the US have shown a great deal of restraint when bilateral political frictions occur. Their bilateral relations are further complicated by the coexistence of strategic and political competition as well as economic interdependence. In other words, with the rapid acceleration of globalization, the growing importance of economic affairs in international relations and a rising China, the national interests of most Asian countries are no longer monolith, in contrast to the Cold War period, when economic interests and security interests were identical in giving first priority to ideological and strategic considerations. However, this is no longer the case in international relations in the post-Cold war era. It is quite common that a country's economic interests conflict with its political and security interests. Japan's relations with China and Taiwan's relations with China are salient examples. Australia's and South Korea's relations with China are no exception. China is generally the most important trading partner of these four countries. However, those countries view China's ballooning military capacity as a major security concern.

The second major characteristic of the current international milieu is the regionalization of the world economy. The European Community's 1986 Single European Act resulted in the emergence of an European bloc of economies in the late 1980s. In response, the U.S. and Canada signed CUSFTA in 1987 (which took effect in

1988) and joined with Mexico to form the North American Free Trade Agreement in 1994. The Single European Act and CUSFTA alarmed countries in the Asia Pacific. In particular, the US at the time was the largest export market for almost all the East Asian countries. A discriminated US market would deal a heavy blow to all of them. The blocization of the world economy means that a single country is no longer the basic unit of competition in the global economy. Against this background, when Australian Prime Minister Bob Hawke and South Korean President Roh Tae-woo proposed to set up an economic forum for the Asia Pacific in 1989, their proposal was immediately accepted by countries in the region. The Asia Pacific Economic Cooperation Forum (APEC) was thus established. Given the global financial tsunami of 2008, minor economies (as exemplified by the Iceland crisis in 2009 and the following Greek financial crisis) can hardly survive by themselves. Regional financial support is a must for minor economies' survival.

The third major characteristic of today's international environment is the rise of China.³ China has been the fastest growing major economy for the past thirty years (until 2014) at an annual growth rate of about 9%. As a consequence, China is now the second largest economy in the world after the U.S. China's per capita income has

³ To-hai Liou, "Asia's Response to China's FTA Strategy: Implications for Asian Economic Integration," *Journal of East Asian Affairs*, Spring/Summer 2007, pp. 195-232.
http://www.inss.re.kr/app/board/view.act;jsessionid=049CCDBFDE9AA68D5E193D4FE2EC1D47?metaCode=en_m_pub&boardId=82ac7629036b792536928154

increased 10 times since 1978. In 2003, China's GDP per capital broke US\$1,000 and increased up to US\$3,999 in 2010.⁴ In just five years, it more than tripled. China's total foreign trade boomed from US\$20 billion to more than US\$1.76 trillion in 2006 and its ranking in global trade also shot up from 32nd in 1979 to the first in 2010. In addition, China has the world's largest foreign reserves, with US\$3.82 trillion in assets under management by the end of 2013.⁵ Moreover, China attracts the largest amount of foreign direct investment (FDI) in the world. For countries in the region, a rising China has brought about both positive and negative results. The positive is that China can serve as both a manufacturing base for global business operations and a huge market for exporting products. The negative is how to deal with such an enormous China on all the other dimensions, with the biggest concern constituted by the question of whether China will become a hegemon.

The fourth major characteristic of international relations in the 21st century is the coexistence of cooperation and competition between the American and Chinese superpowers due to their deepening economic interdependence. Except for a few countries such as North Korea and Myanmar, the majority of East Asian countries heavily relies economically on China, while strategically depending on the US. The *Cheonan* incident in 2010, the

⁴ <http://www.dfat.gov.au/geo/fs/chin.pdf>

⁵ "ECONOMIST: In 2014, China's External Imbalance Will Be A Problem For Beijing And The World," February 7, 2014, <http://www.businessinsider.com/chinas-external-imbalance-is-a-problem-2014-2>

Sino-Japanese *Diaoyutai* dispute and the South China Sea issues are all related to a strategic tit for tat between Washington and Beijing. In contrast, the combined economic scales of the G2 currently account for almost 40% of the total global GDP in 2015,⁶ an increase from 33% in 2009.⁷

Given a rising China, declining American hegemony coupled with the pendulum of the Sino-US condominium and competition, such middle powers as Australia and South Korea have attempted to work together, minimizing the possible negative impact of the Sino-US condominium and competition while looking for chances to expand their influence, to upgrade their international status, and to increase their leverage in dealing with the two superpowers.⁸ With the advent of the 21st century, the biggest challenge confronting Australia and South Korea is how to “reconcile their alliances with the United States with their growing economic and political relations with China.”⁹ As a leading South Korean newspaper editorial put it, “(T)ensions between the U.S. and China will not explode any time soon. But it is clear that the security and

⁶ In 2015, the US is 24.44% (US\$17.9 trillion) of the global GDP, while China is 15.49% (US\$11.3 trillion). International Monetary Fund World Economic Outlook (October-2015),

<http://statisticstimes.com/economy/projected-world-gdp-ranking.php>

⁷ The Restoration of G2 Economies is Slow, the Global Economy is Shattering?” *The Chosunilbo*, June 4, 2011,

⁸ Bruce Gilley, “Middle Powers during Great Power Transitions,” *International Journal*, Spring 2011, p. 264.

⁹ William T Tow, Ajin Choi, “Facing the Crucible: Australia, the ROK, and Cooperation in Asia,” *Korea Observer*, Spring 2011. Vol. 42, Iss. 1; p.2.

economic order in Northeast Asia is in for a rollercoaster ride.” The editorial concluded by indicating that “The biggest concern is that countries in Northeast Asia may eventually have to choose sides. That would be a treacherous decision for South Korea. Already controversy over the deployment of Terminal High Altitude Area Defense batteries in South Korea has pointed in that direction.”¹⁰

Australia-South Korean Political Interactions

Because both Australia and South Korea are middle powers,¹¹ market economies and democratic countries, they can easily interact with each other and locate common interests on the world stage due to their shared values. Against this background, Australia and South Korea have become closer than ever since the inauguration of the 21st century.¹² Since the global financial crisis of 2008, countries in the West have become preoccupied with their financial turmoil and their external influence has declined; consequently, the middle powers in Asia have taken proactive and independent foreign policy stances and actively undertaken military buildups to take advantage of these changes. In particular,

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- ¹⁰ “Editorial: U.S. and China Must Not Force Allies to Take Sides,” *The Chosunilbo*, June 8, 2016, http://english.chosun.com/site/data/html_dir/2016/06/08/2016060801483.html
- ¹¹ See Yul Sohn, “South Korea’s Drive for Middle-Power Influence,” and Paul Evans, “Middle Powerism in the 21st Century: Mission Impossible?” *Global Asia*, Spring 2016.
- ¹² Young Whan Kihl, “Australia-Korea Relations,” *Taiwanese Journal of Australian Studies*, Vol. 2, 2001, p. 180.

Australia, Indonesia and South Korea have attempted to enhance the collaboration of middle powers in order to prevent their national interests from being undermined during the systematic global transformation into multipolarity, according to the London-based International Institute for Strategic Studies (IISS) in September 2010.

Nevertheless, economic relationships remain the cornerstone of the Australia-South Korean bilateral relationship. With a strong complementarity, the ROK is Australia's fourth-largest overall trading partner (total two-way trade was worth A\$31.9 billion in 2010-11 from A\$23.5 billion in 2009-10). Australia provides raw materials, manufactured products, food and services to the ROK in exchange for importing products such as cars (A\$1.9 billion), refined petroleum (A\$1.4 billion), telecommunications equipment (A\$444 million), and computers. The ROK was Australia's third-largest goods export market in 2010-11 (A\$22.6 billion). Resource commodities such as energy and mineral products, plus simply transformed metals such as aluminum and copper, account for around two-thirds of Australian merchandise exports to South Korea.¹³ The top items exported from Australia to South Korea in 2010-11 were iron ore and concentrates (A\$6 billion), coal (A\$5.9 billion), crude petroleum (A\$2.1 billion), and aluminum (A\$873 million). Tourism and education exports have also increased strongly in recent years. The ROK was Australia's third-largest goods export market (A\$16.4 billion). South Korea

¹³ "Australia and Korea launch FTA negotiations," March 5, 2009, http://www.trademinister.gov.au/releases/2009/sc_019.html

was the second largest source (A\$15.6 billion) of Australia's total trade surplus, second only to Japan. The ROK remains an important market for Australian beef, with exports valued at A\$714 million in 2010-11.

The ROK was also Australia's third largest market for goods and services combined in 2010-11. With a trade surplus of A\$1.1 billion, Australian exports of services to the ROK totalled A\$1.7 billion in 2010-11, mostly in the form of recreational and education-related travel. Education has been a major export, with the ROK ranked as Australia's third largest source of foreign enrolments after China and India for the last three years. In 2010, enrolment figures for ROK students in Australian institutions were 33,986 (down from 35,656 in 2009). Australia's export of education-related travel services to the ROK in 2010 totalled A\$10 million, similar to the previous two years. Tourism is also very important, with 214,000 ROK visitor arrivals in Australia in 2010 (a good recovery from a low of 181,000 in 2009, but slightly fewer than the 218,300 arrivals in 2008). In 2010, Australian tourists listing the ROK as their main overseas destination numbered 45,100 - up 19 per cent from 2009.¹⁴

The Evolution of the Australia-South Korea FTA

The Australia-South Korea free trade agreement (FTA) was initially proposed by Canberra. While visiting Seoul in May 2000, Australian Prime Minister John Howard proposed to South Korean President Kim Dae-jung (1998-

¹⁴ http://www.dfat.gov.au/geo/rok/brief_index.html

2003) that the two countries form a FTA.¹⁵ Even though President Kim shifted his trade policy from the traditional focus on a WTO-based multilateral approach to one emphasizing bilateral FTAs, he preferred a very careful and incremental approach. He carefully handpicked Chile as the first target to pursue his FTA policy. Obviously, he was trying to minimize the political and economic impact of the most sensitive issue-- the opening of the agricultural market which would follow the signing of FTAs. Chile is located in the Southern Hemisphere, where the agricultural season cycle is opposite to that of South Korea in the Northern Hemisphere. Obviously, the Kim Dae-jung Government deliberately managed to shy away from signing FTAs with countries like Australia, which is a strong exporter of agricultural products.

With the inauguration of the Roh Moo-hyun government in 2003, South Korea entered into a second phase of its FTA policy. This phase featured a great leap forward. President Roh engaged in FTA negotiations with more than twenty countries simultaneously, with a particular focus on the US. At the same time, Australia under John Howard also focused its energy on FTA negotiations with Washington. Another reason why Australia and South Korea were lukewarm in their bilateral FTA negotiations during this period was that the two governments happened to be at opposite ends of the political spectrum. Prime Minister Howard was an intimate ally of US President George W. Bush, while ultra-liberal

¹⁵ O. Yul Kwon, "Australia-Korea Economic Cooperation in the 21st Century: Challenges and Prospects," p. 14, <http://arts.monash.edu.au/korean/ksaa/conference/02oyulkwon.pdf>

Roh Moo-hyun was viewed by the neo-conservative Bush as no less than an enemy.

Nonetheless, Australia and South Korea found converging interests under Prime Minister Kevin Rudd and President Lee Myung-bak. With the victory of Kevin Rudd's Labor Party in the federal election of November 2007, Rudd (in the capacity of Prime Minister) proposed in June 2008 to form the Asia-Pacific Community by 2020. Despite a lukewarm response from ASEAN countries, Rudd's proposal received a positive reaction from South Korean President Lee Myung-bak. Hence, as former Australian Trade Minister Simon Crean pointed out, the Rudd Government regarded South Korea as one of three major targets to sign FTAs (China and Japan were the others). Nevertheless, initially South Korea's attitude remained inactive because it was worried by increasing domestic opposition to the liberalization of the agricultural sector in the wake of the Korea-US FTA. After all, Australia is a powerful exporter of agricultural products. Its annual export volume of agricultural products totaled A\$32 billion,¹⁶ in large part due to its large volume of beef exports. South Korea is Australia's third largest beef market. Another reason why Australia was not attractive to South Korea was that Australia was South Korea's 14th largest export market accounting for merely 1.5% of the

¹⁶ "Farmers slam report on free trade," *The Australian*, July 16, 2010, <http://www.theaustralian.com.au/news/breaking-news/farmers-slam-report-on-free-trade/story-fn3dxiwe-1225892888381>

ROK's total export portfolio.¹⁷ Moreover, South Korea's huge trade deficit with Australia also prevented Seoul from expediting an FTA with Canberra because a bilateral FTA would further worsen the deficit problem. The ROK-Australia trade volume in 2009 totaled US\$19.9 billion, with Seoul racking up a trade deficit of US\$9.5 billion.¹⁸

Korean FTA Strategies under Lee Myung-bak and Park Geun-hye

The 2008 global financial tsunami made President Lee Myung-bak believe that FTAs were more important than ever, for they were a powerful weapon against rising protectionism. As a result, he turned South Korean FTA policy toward the third phase of consolidation by further accelerating FTA negotiations with major trading partners.¹⁹ It was against this background that President Lee promulgated the New Asia Initiative (NAI) in March 2009 when he visited Indonesia.²⁰ Given that the global economic center was shifting toward Asia, South Korea had to change its traditional diplomatic priority from focusing on the four major powers to extending its

¹⁷ "Australia Wants Early FTA Signing With Korea," *Korea Times*, June 18, 2009,

http://www.koreatimes.co.kr/www/news/biz/2009/11/123_47099.html

¹⁸ http://www.tax-news.com/news/Australia_South_Korea_Nearing_FTA_Conclusion43508.html

¹⁹ To-hai Liou, "Australia-South Korea FTA Negotiations under Lee Myung-bak," *Taiwanese Journal of WTO Studies*, Vol. 22, 2012, p. 116.

²⁰ "Summit and S. Korea's 'New Asia Initiative'," *The Korea Herald*, March 30, 2010, http://www.koreaherald.co.kr/NEWKHSITE/data/html_dir/2009/06/01/200906010103.asp

influence to pan-Asia, including Australia, New Zealand and ASEAN countries by forming FTAs. This *demarche* was obviously designed to respond to a rising China and the regionalization of the world economy by encouraging the close collaboration of Asia's middle powers.²¹ Coincidentally, this new policy was in accord with Rudd's proactive middle power diplomacy.²² When visiting Australia in March 2009, South Korean President Lee Myung-bak and Australian Prime Minister Kevin Rudd agreed to launch bilateral FTA negotiations and to consult closely on the Asia Pacific Community Initiative.²³

Another reason Lee Myung-bak paid special attention to Australia and decided to change Korea's traditional FTA approach to Australia from passive to positive was related to his energy policy. Ever since the presidential election campaign of 2007, Lee Myung-bak had stressed energy security and energy diplomacy, given that South Korea is the tenth largest energy consumer, the fourth largest oil importing country in the world, and 97% of its energy relies on imports; inter alia, 100% of its oil is imported. Indeed, oil accounted for 43% of South Korea's total energy imports in 2006.²⁴ As an export-oriented economy, South Korea has long paid special attention to energy. With the

²¹ "Lee Myung-ba's New Asia Initiative, a Challenge to China and Japan," *The Chosunilbo*, October 26, 2009.

²² To-hai Liou, "Kevin Rudd's Asia Pacific Community," *Taiwanese Journal of WTO Studies*, Vol. 14, 2010, p. 148.

²³ David Hundt, "Middle Powers and the Building of Regional Order: Australia and South Korea Compared," *Korea Observer*, Spring 2011. Vol. 42, Iss. 1; 85.

²⁴ <http://www.keia.org/Publications/Other/KangFINAL.pdf>

advent of the 21st century, this attention was further heightened by skyrocketing oil prices, which rose from 20 dollars a barrel in 2000 to 100 dollars a barrel in March 2008 due to rising demand from emerging economies led by China and India, as well as the September 11 terrorist attack, America's invasion of Iraq, China's active energy diplomacy since 2003 and so on. Against this background, Lee Myung-bak was convinced that energy security was the prerequisite for economic recovery.²⁵ Moreover, he viewed energy security as a long term strategy, in the form of building a mechanism to cope with the fluctuation of energy prices.

Australia is rich in such energy resources as high quality coal, iron ore, natural gas, and uranium. Thus, Australia was a readily identifiable target of Lee Myung-bak's energy diplomacy focusing on overseas resources. Against this background, Korea Electric Power and POSCO successfully bought coal mining rights. Korea Electric Power signed an agreement to purchase Bylong coal mining in New South Wales with US\$350 million from the Anglo American Group. POSCO also bought 70% of Sutton Forest coal mining output (which is suitable for making steel) from the Anglo American Group with US\$4,400 from Sutton Forest. South Korea had no choice but to struggle to secure raw material and energy overseas under the Lee Myung-bak presidency.²⁶

²⁵ <http://www.keia.org/Publications/Other/KangFINAL.pdf>

²⁶ "Without Securing International Resources, Korea Will have No Future," *Korea JoongAng Daily*, July 6, 2010, <http://news.joins.com/article/4291958>

In June 2010, a coup took place inside the Labor Party. Deputy Prime Minister Julia Gillard replaced Kevin Rudd as Prime Minister. The Gillard Government regarded promoting FTA negotiations as the most effective tool for ensuring Australia's export-oriented economic growth. A joint non-Government report found that an Australia-Korea FTA could boost Australia's GDP by up to US\$22.7 billion over 14 years (A\$30 billion using the 2005 exchange rate). Australia's objective in the negotiations was to put Australian exporters on an equal footing with US and EU competitors, who had already obtained improved access to the Korean market through their FTAs with South Korea. Till May 2010, five rounds of FTA negotiation were held since the inauguration of formal negotiations in May 2009.²⁷ The implementation of South Korea-US FTA on March 15, 2012 raised concerns among Australian agricultural producers and services companies that they would be shut out of South Korea's marketplace.²⁸ Australia believed that it should be a ble to conclude its FTA with South Korea before concluding its FTA with Japan. This would give Canberra leverage to push Tokyo to reach an FTA earlier.²⁹

²⁷ John Ravenhill, "The Australia-Korea Negotiations for a Preferential Trade Agreement: The Political Economy of Stalemate," *Taiwanese Journal of WTO Studies*, Vol. 22, 2012, p. 77.

²⁸ Hyun Seok Yu, "The Korea-Australia Free Trade Agreement and Its Security Implications," *Korea Observer*, Spring 2011. Vol. 42, Iss. 1; 64.

²⁹ "Australia moving closer to South Korea trade pact," November 11, 2010, <http://www.businessspectator.com.au/bs.nsf/Article/Australia-moving-closer-to-South-Korea-trade-pact--pd20101110-B3REQ?opendocument&src=rss>

In September 2013, Tony Abbott led the Liberal Party to victory over the Labor Party. The Coalition Government and farm leaders were pushing hard for Australian Free Trade Agreements to be finalised speedily with big customers, such as Japan, China, Indonesia and India. Against this background, the long-awaited KAFTA negotiations were finally concluded on December 5, 2013, taking advantage of China's air defense identification zone (ADIZ) incident. China's decision to declare an ADIZ in an area including the disputed *Diaoyutai* (*Senkaku* to Japan, *Diaoyu* Islands to China) islands; South Korea claimed *leodo* in November 2013.³⁰ For maintaining good relations with the US and increasing bargaining chips *vis-à-vis* China, the Park Geun-hye Government decided to join the US-led Trans-Pacific Partnership (TPP) talks. Nevertheless, the US responded with an unsatisfactory answer by telling South Korea to join the TPP talks after they concluded the rule-making negotiations. As a result, South Korea swiftly shifted its strategy to conclude as soon as possible FTAs with those TPP member countries, including Australia, New Zealand, Canada, Mexico and Japan, with whom South Korea did not already have FTAs. Australia thus luckily emerged as the first beneficiary of this strategic shift. KAFTA represents the first such deal for both the Park Geun-hye and Abbott governments. The Australia pact is the 11th FTA for South Korea, which at the time had free trade ties with 48 economies. Alternatively, for the Abbott government, this was the first valuable FTA for Australia, providing it with its first FTA

³⁰ "China Is Surprisingly OK with South Korea's New ADIZ," *The Diplomat*, December 10, 2013, <http://thediplomat.com/2013/12/china-is-surprisingly-ok-with-south-koreas-new-adiz/>

with Northeast Asia, Australia's primary source of trade surpluses.

As for South Korea, there is an immediate benefit for its auto-industry. Australia agreed to lift tariffs on South Korean compact and midsize passenger cars—the country's No. 1 export item to Australia—as soon as the pact takes effect. South Korea exported US\$2.1 billion of cars to Australia in 2012, accounting for 23% of its total exports to the country, according to the Korea International Trade Association. In addition, during the negotiations South Korean negotiators pushed hard for Canberra to raise to A\$1 billion from A\$248 million the threshold that triggers an automatic review of inward investments by Australia's treasurer and secretive Foreign Investment Review Board. Australia acquiesced to this concession in the final agreement, giving South Korea the same inflation-linked investment trigger that the U.S. and New Zealand had won in their trade deals with Australia. Another of South Korea's gain on the investment front under the FTA was the inclusion of an investor-State dispute settlement (ISDS) clause.

According to the Australian government, KAFTA could boost annual trade between the two states by as much as A\$5 billion (US\$4.5 billion) between 2015 and 2030 and boost the Australian economy by around A\$650 million annually after 15 years. The FTA delivers some impressive opportunities for Australian agriculture given that tariffs of up to 300% would be eliminated on key Australian agricultural exports such as beef, wheat, sugar, dairy, wine, horticulture, and seafood, as well as resources,

energy, and manufactured goods.³¹ Annual two-way trade between Australia and South Korea at the time was worth A\$32 billion, dominated by Australian resource exports including coal and iron ore.

However, some Australians are concerned by the pact's ISDS clause, which grants South Korean companies (such as mining and farming ventures) the right to initiate dispute settlement proceedings against Australia under international law if local rules or land use restrictions are changed and prove detrimental to their business.³² In other words, KAFTA opens up the potential for South Korean-domiciled corporations to sue Australian governments — federal, state and local — over decisions that a company believes have unfairly affected investments they have made in Australia. What is even worse is the spillover effect from KAFTA to Australia's later FTAs with Japan, China, and TPP.³³ The previous Labor Government had refused to include ISDS provisions in trade agreements, stating that it would not support provisions that conferred greater legal rights on foreign businesses than those available to domestic businesses, or constrained the ability of the Government to make laws on matters of public interest. In contrast, the Coalition

³¹ "Australia, South Korea Reach Free-Trade Deal," *The Wall Street Journal*, December 5, 2013, <http://www.wsj.com/articles/SB10001424052702303997604579239151626094582>

³² "Questions linger over FTAs," *Stock Journal*, January 15, 2014, <http://www.bilaterals.org/?australia-questions-linger-over&lang=en>

³³ "Free trade agreements not the great deal we've been sold," *Sidney Morning Herald*, June 22, 2016, <http://www.bilaterals.org/?free-trade-agreements-not-the&lang=en>

Government argues that it handles the inclusion of ISDS provisions on a case-by-case basis, and that the right of governments to take decisions in the public interest can be protected provided that trade agreements include appropriate safeguards.³⁴ A Senate committee in August 2014 rejected the bill to ban ISDS clauses from future treaties put forward by the Greens. Business groups backed the Abbott government's decision as good for investors, but the Greens and trade-law specialists warn that the ISDS clauses inserted into treaties pose a serious threat. They say they have already cost the government unknown sums in its fight with Philip Morris over plain-packaging laws, which is currently making its way through international arbitration courts in The Hague. They now say such disputes could cost the government further millions after Labor reversed its promise to oppose the provisions following the action from Philip Morris. According to the United Nations Conference on Trade and Development, the number of ISDS cases internationally has doubled in the past 10 years to 568, with claimants from the EU and United States accounting for 75 per cent of such actions. The OECD estimates that the average cost of an arbitration case arising from investor-state disputes is \$8 million. ISDS provisions are perceived as removing a nation's right to set its own laws. Nevertheless, the Australian Chamber of Commerce and Industry says a ban on ISDS provisions would prevent Australian companies from being able to protect their international

³⁴ "Text of Korea-Australia FTA released – ISDS provisions revealed," *Lexology*, February 18 2014, <http://www.bilaterals.org/?text-of-korea-australia-fta&lang=en>

interests.³⁵ Recent Australian governments have refused to allow ISDS provisions into most FTAs - including the pivotal Australia-US FTA (AUSFTA) signed by the Howard government.³⁶

Conclusion

With the advent of the 21st century, the changing international environment (in particular the emergence of the G-2 era) has brought about converging national interests between Australia and South Korea; thus their bilateral relationship has become closer than ever and has transformed from an economically centered bilateral relationship into a relationship marked by a more dynamic, multi-dimensional interdependence and collaboration embracing not only economic cooperation, but also broader political and strategic engagement. With their common concerns over a rising China and the negative implications of that development, these two middle powers have enhanced their bilateral, political, and strategic engagement as well as their strategic alliance with the US to counterweigh China. Nevertheless, the effort to forge an Australia-South Korea FTA could not initially reach consensus owing to stiff opposition on the South Korean side due to concerns over the opening of the agricultural market. In addition, President Lee changed his government's FTA focus from NAI to putting Korea-China

³⁵ "Trade treaties expose Australia to costly litigation, experts warn," *WA Today*, August 29, 2014, <http://www.bilaterals.org/?trade-treaties-expose-australia-to&lang=en>

³⁶ "ISDS: the devil in KAFTA's detail," *Farm Weekly*, February 24, 2014, <http://www.bilaterals.org/?isds-the-devil-in-kafta-s-detail&lang=en>

FTA as his government's first priority after Taiwan (South Korea's arch rival in the Mainland China market) signed the Economic Cooperation Framework Agreement (ECFA) with Beijing in June 2010. As a result, the Korea-Australia FTA was put on the back burner until the end of the Lee Myung-bak presidency. This policy of procrastination could have been an attempt by the Lee Government to force Australia to make concessions in the FTA negotiations, given that South Korea's FTAs with the EU and the US (Australia's major rivals in the agricultural export sector) had already taken effect. However, because South Korea under President Park changed FTA strategy in the wake of China's ADIZ incident, Australia was able to eventually sign an FTA with South Korea. Moreover, KAFTA paved the way for South Korea to accelerate entry into FTAs with Canada (in September 2014) and New Zealand (in November 2014) because those two countries are major competitors of Australia in the global agricultural market.³⁷

Abbott's government honored promises to Australian voters that within a year of winning the election in September 2013 it would conclude trade talks not only with South Korea, but also with China and Japan. Australia has emerged as the biggest beneficiary of the Sino-US strategic tit-for-tat, or to be more specific, America's pivot to Asia through TPP. Against this background, Australia was able to conclude FTAs with its top three export markets and top three largest sources of

³⁷ Sarah Salmond, "Dissecting the NZ-Korea 'catch-up' trade deal," *International Trade and Investment*, December 3, 2014, <http://www.russellmcveagh.com/Publications/ViewPublication/tabid/176/Title/dissecting-the-nzkorea-catchup-trade-deal/pid/350/Default.aspx>

trade surpluses (China: A\$24.3 billion in 2014-2015; Japan: A\$26.2 billion in 2014-2015; South Korea: A\$8.6 billion in 2014).³⁸ Among the three FTAs, KAFTA serves as a game-changing agreement which significantly enhances business opportunities for Australia by improving access to the Korean market and strengthens the general competitiveness of Australian firms there. Furthermore, KAFTA not only secures Australia's first major market in Northeast Asia but also provided bargaining leverage for Canberra to conclude FTA talks with the other two Northeast Asia countries, Japan in April and China in November 2014. Consequently, three landmark agreements in the region were concluded within less than a year. The China FTA deal was proving particularly problematic for Canberra, with Beijing in December 2013 lambasting Mr. Abbott's government for criticizing China's newly declared air-defense zone over the East China Sea as a potential source of regional instability. This demonstrates that it is very difficult for middle powers like Australia to strike a balance between its strategic interest in the US and economic interest in China in an era of G2.

With the FTA now operational for more than a year, a preliminary result is now available. According to Australian statistics, in terms of overall bilateral trade volume South Korea has benefited more than its counterpart, given that Australia's exports (A\$18.2 billion) to South Korea decreased by around 10.3%, while its imports from Korea (A\$14.9 billion) increased by 24% in 2015. Nonetheless, Australia has gained more on the investment front *vis-a-*

³⁸ <http://dfat.gov.au/trade/resources/Documents/rkor.pdf>

vis South Korea.³⁹ The level of investment between Australia and South Korea was relatively small, but has grown over the last decade. The stock of Australian investment in the ROK totaled A\$6.3 billion in 2009, whereas the stock of ROK investment in Australia totaled A\$8.7 billion in 2009. However, up to 2015, the total amount of South Korea's investment in Australia (A\$23.3 billion) was larger than that of Australia's investment in South Korea (A\$15 billion).

When it comes to imports from Australia, South Korea bought \$1.09 billion worth of beef and other meat products in an 11 month span, up 18 percent from a year earlier. In particular, boosted by South Korea's domestic demand, Australia's beef exports of to the country surged to a record high of US\$972 million in 2015, placing it ahead of the US (US\$749 million), New Zealand (US\$77.8 million) and Canada (US\$7.56 million). According to data from the Korea Customs Service (KCS), South Korea imported more than \$1.81 billion worth of beef in 2015, a figure which that exceeded the previous record of \$1.67 billion in 2014. South Korea's surging domestic demand for beef was related to its government's policy of controlling the number of cattle to prevent price fluctuations. Despite a decline in the supply of Korean-bred beef over the past few years, the growing popularity of camping and other forms of outdoor recreational activities spurred demand for beef, driving up *hanwoo* prices, and compelling consumers to turn to imports.⁴⁰

³⁹ <http://dfat.gov.au/trade/resources/Documents/rkor.pdf>

⁴⁰ "Beef imports hit record high in 2015," *The Korea Herald*, January 20, 2016, <http://www.koreaherald.com/view.php?ud=20160120001138>

Due to sluggish demand in the global market, South Korea's overall exports fell 7.4 percent in the January-November 2015 period. Nevertheless, its exports to Australia rose 7.5 percent in the same period, owing to Australia's sharply increased demand for offshore facilities, according to the KCS. From last January to November, Australia placed orders for \$1.26 billion worth of offshore facilities with such Korean shipbuilders as Hyundai Heavy Industries, Samsung Heavy Industries, and Daewoo Shipbuilding & Marine Engineering. On the other hand, South Korea's traditional main exports to Australia, such as vehicle shipments to the country, did not turn out to be as positive as the South Korean side had expected. Its auto exports to Australia fell 3.5 percent from a year earlier to \$1.65 billion in the 11-month period, though tariffs on cars delivered to the country were fully lifted in the first year of the FTA. This phenomenon could continue this year, given that South Korean carmakers have faced fierce competition with their Japanese rivals such as Toyota, which benefited from the weakening yen beginning last year. The Korean won remains relatively strong against the dollar compared with other currencies.⁴¹

⁴¹ "Exports to Australia up 7.5% on FTA," *The Korea Times*, December 29, 2015, <http://www.koreatimes.co.kr/www/common/vpage-pt.asp?categorycode=488&newsidx=194258>

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