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## **Recommended Citation**

"Australia and South Korea: New Governments...New Opportunities?", APSNet Policy Forum, August 14, 2008, <https://nautilus.org/apsnet/australia-and-south-korea-new-governmentsnew-opportunities/>

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# **Australia and South Korea: New Governments...New Opportunities?**

## **Introduction**

Colin Heseltine, former Australian ambassador to the Republic of Korea, notes that despite substantial economic ties between Australia and Korea, their relationship "lacks a sense of the long-term strategic importance of the relationship which drives Australia's relationships with its two other north-east Asian partners, Japan and China". Both countries, Heseltine argues, have lost opportunities. "Korea's perception is that while Australia is a great supplier of iron ore and coal to Korean steel companies, its market for Korean manufactured products is small and limited. Hence the previous Korean administration relegated Australia well down its list of priorities for a bilateral free trade agreement." Heseltine concludes that remedying this situation will require "some changes in the mind-sets of opinion makers in both countries. Indeed power shifts in regional politics and the economics of energy including growing pressures in energy markets may well force such changes."

## **Essay: Australia and South Korea: New Governments...New Opportunities?**

For most Australians, South Korea appears on their radar screen intermittently at best. Korea's hosting of the 2002 soccer world cup, volatile political demonstrations, crises with North Korea and its success in the current Beijing Olympics are some such occasions. But the future of the Korean peninsula, in particular the outcome of negotiations with North Korea involving South Korea, the United States, China, Japan and Russia, has enduring importance for Australia. No-one can predict at this stage how successful these six-party talks will eventually be, but there are signs that something workable can emerge. With new governments in Australia and South Korea, and a new

US administration early next year, the political landscape in the region from an Australian perspective is changing. Now is an appropriate time for Australia to be rethinking its long term policy interests in Korea.

By most measures Australia's relationship with South Korea is strong and highly beneficial for both sides. South Korea is Australia's fourth largest export market and its overall sixth largest trading partner in goods and services. Australia provides Korea with essential resources, energy and agricultural products in return for quality manufactured goods from Korea such as autos, telecommunications equipment and electronics. Education and tourism links are substantial. There is a relatively small but useful and growing defence relationship which has the potential to see increased defence sales in both directions. Both countries are allies of the United States, see eye-to eye on most regional and global security issues and are active supporters and participants in regional organisations. Australia and Korea were at the forefront of creating APEC in 1989. High level political contacts such as Prime Minister Rudd's visit to Seoul this week continue to be an important part of the relationship.

And yet the relationship lacks one of the most important elements which drives Australia's relationships with its two other north-east Asian partners, Japan and China. In both of these the partners share a sense of the long-term strategic importance of the relationship and have shaped their policies accordingly. Australia's role as a major reliable supplier of essential energy and resources products to fuel these countries' economic growth has been vital (as it has with South Korea). Importantly though, the strategic dimensions of the relationship between Australia and Japan, and Australia and China, has taken on greater importance with the changing political and security environment in the Asia Pacific region, mainly due to the economic and political rise of China. The role of the United States in the region, and Australia and Japan's formal security alliances with the US, have also played into this development.

Why then has this longer term strategic dimension been less prominent in the Australia-Korea relationship than in the other two despite the many similarities in the basic building blocks of all three relationships?

One of the reasons often put forward from an Australian perspective is that in relative terms the sheer size and international weight of China and Japan simply overshadow Korea despite the latter's status as an economic powerhouse. Thus, it is argued, Australia and Korea as middle powers can only do so much together, and their priorities need to focus on key strengths and interests. It is of course undeniable that the lure of large, dynamic and growing markets such as Japan in the early post-war period and China more recently is extremely strong, and relationships with other countries tend to play second fiddle. However this is not altogether a satisfactory explanation since neither Australia nor Korea are so lacking in human and intellectual resources that they could not direct more of them to the relationship if there were a will to do so.

A more pointed explanation is that Korea itself is understandably preoccupied with its immediate neighbourhood and simply cannot look beyond it in shaping its strategic outlook. Since the devastation of the Korean war over fifty years ago, South Korea has had two abiding objectives: to achieve massive economic reconstruction, growth and prosperity; and to achieve peace and avoid another war on the Korean peninsula. In the first of these, resource-rich countries like Australia played an important role, hence the successful long-term relationship which has developed between Australian resources companies and the Korean steel industry.

But with the second objective, which involves not just simply avoiding war but embraces complex emotional issues of national psyche and identity, the United States and China are the key external partners. Other near neighbours such as Russia and Japan also play important roles but countries

like Australia play only a minor support role. Australia's participation in the Korean war is remembered with much gratitude in South Korea but this does not shape its current assessment of Australia's role in north-east Asia.

Thus it is not surprising that, in Korean eyes, while Australia is a valuable supplier of much needed resources and energy to help it achieve economic prosperity, it has little to offer on Korea's other important national issue. For its part, however, Australia, because of its geographic location, will always have a greater strategic imperative to reach out in the region than will Korea with its understandably narrower geopolitical focus. There is therefore something of a strategic disconnect between the two countries.

But it's not just the political and security relationship. Even in regard to the trade and economic relationship, which has grown impressively over recent decades, Korea and Australia have not tapped the long-term strategic potential to the same extent, even allowing for the differences of size, as we have seen in Australia's relations with China and Japan. Why this has not happened is perhaps more puzzling than the case of the political and security relationship. The Australian and Korean economies are highly complementary. Australia has land, resources and energy, an educated English-speaking population which can add value to Korea's strengths; Korea has limited land, is resource/energy deficient, but has tremendous manufacturing and IT strengths which include large and successful international companies. But even here it seems that Korea's perception is that while Australia is a great supplier of iron ore and coal to Korean steel companies, its market for Korean manufactured products is small and limited. Hence the previous Korean administration relegated Australia well down its list of priorities for a bilateral free trade agreement.

The case of liquefied natural gas (LNG) exports to Korea is illustrative. Australia is, and continues to be, a major supplier of LNG to Japan, which happily snaps up every bit of additional Australian supply as it come on stream; and China, as a new entrant to the LNG market, is signing up big new deals with Australia. And yet Korea, which is the second largest LNG buyer in the world, has thus far signed only one modest-sized contract with Australia despite considerable efforts by Australian companies and governments to secure new contracts. Most estimates of Korea's energy requirements in coming years indicate significant LNG shortfalls with the likely result that unless Korea moves quickly it will be forced to buy expensive short term and spot supplies.

Why has Australia not been able to sell more LNG to Korea at a time of considerable demand pressure in international markets, and with both Japan and China acting far more pro-actively to secure Australian supplies? Part of the answer lies in the fact that in the past Korea, unlike Japan and China, has seen greater economic returns from purchasing LNG from Middle Eastern countries where Korean engineering and contracting companies could export their services to large infrastructure and other projects. Given the nature and structure of its economy, Australia does not offer such opportunities to Korean companies. Australia's attraction as a reliable supplier from a safe region free of political volatility, and the opportunity it provides to build a long-term energy relationship has proved less compelling. Both countries have lost opportunities.

## **Future opportunities in Australia-South Korea Relations**

What are the prospects for the future? Undoubtedly the relationship will continue to be strong, broad-based and mutually beneficial. Australia should, however, be looking for more than this. In its first nine months the Rudd government has signaled two key elements of its foreign policy: Australia's relations with China will be pivotal to Australian interests; and Australia should take the initiative in the Asia Pacific region to develop regional architecture that will better serve the broad range of regional interests and aspirations. Given the vital importance of the Korean peninsula to China and, more broadly, to peace and stability in the Asia Pacific region, it follows that Australian

foreign policy would be strengthened by working more closely with South Korea and other key partners on Korean peninsula issues in pursuit of the government's foreign policy objectives.

The timing for doing this is good. There is a new government in South Korea, with a more pragmatic and hard-headed approach to North Korea than its predecessor, and there will soon be a new administration in the United States which, even if it doesn't change the direction of US policy on North Korea, will at least want to bring some fresh thinking on it.

It should be noted that prior to the collapse of the Korean Energy Development Organisation (KEDO) following North Korea's admission in 2002 that it was developing a highly enriched uranium program, Australia had played an active policy role on North Korea, including regular dialogue with the United States and South Korea, and by contributing to the supply of heavy oil to North Korea as part of the KEDO arrangements. Without seeking here to assess the value or otherwise of KEDO, the point is worth making that Australia's contribution and role at that time served it well diplomatically by building Australia's north-east Asian credentials with key countries. This experience of only a few years ago is worth drawing on in the current context.

In seeking to build a more strategically focused relationship between Australia and South Korea both sides can take advantage of a number of emerging factors.

### **A more outwardly focused South Korea**

While realistically South Korea will remain highly focused on the immediate demands of settling issues on Korean peninsula for a long time to come, the more positive environment in which the six-party talks are proceeding may offer some hope that a lessening of tensions will enable South Korea to think more about its wider external relationships.

In fact South Korea has at times demonstrated a commendable interest in looking beyond its immediate region. Korea played a pivotal role in establishing APEC in 1989 and, more recently, during President Kim Dae-jung's administration (1998-2003), Korea was active in developing and promoting ideas on regional integration although these were not a high priority for the succeeding administration of Roh Moo-hyun (2003-2008) whose foreign policy interests were more focused on the immediate Korean peninsula.

The appointment in 2006 of former South Korean foreign minister Ban Ki-Moon as UN Secretary General may also contribute to a greater sense in Korea of its place in the wider world and of international issues beyond north-east Asia. Moreover, the new Korean president, Lee Myung-bak, had a long and successful career as a senior executive with one of Korea's major international companies. It can be assumed that he has a strong sense of Korea's wider interests in the world.

### **New areas of regional and international cooperation**

The Rudd government has signaled its interest in developing new ideas on regional integration as a top foreign policy priority. Just as Korea played a pivotal role with Australia in creating APEC, the contribution that joint Korean and Australian collaboration can make in advancing regional integration should not be under-estimated. Both countries could also benefit by discussing tactics and mutually supporting each other's claim to participate in an expanded G8 forum.

### **Evolution of the six-party talks**

There have been suggestions that the six-party talks could form the basis of some sort of continuing regional security forum after Korean nuclear issue has been settled. Should it evolve into a body focusing on north-east Asian security, Australia, with its substantial long-term strategic interest in

this region, would no doubt have an interest in being part of it. Given South Korea's central role in these talks it makes sense for Australia to be talking actively to South Korea about this.

### **A bilateral Free Trade Agreement (FTA)**

There may be greater movement towards an FTA with the new governments. Importantly, progress on an Australia-Japan FTA should provide an important stimulus to moving forward on an Australia-Korea FTA. Given the difficulties in South Korea over the United States FTA and sensitivities over agriculture, we cannot expect early progress but the start of discussions would form the basis for developing a more strategically focused economic relationship.

### **Energy cooperation**

Despite the slow progress so far in building a long-term forward-looking and strategic energy relationship, the growing demand pressures in world energy markets and their impact on Korea, will continue to offer the opportunity to introduce some new action in this area of the relationship. It is also worth noting that if the six-party talks achieve a successful outcome, energy will be a significant element in the settlement. Australia, as a significant energy player in the region, will have a lot to offer North Korea, in concert with other regional partners, including South Korea.

### **Conclusion**

To build a more strategically focused bilateral relationship between Australia and South Korea there will need to be some changes in the mind-sets of opinion makers in both countries. Indeed power shifts in regional politics and the economics of energy including growing pressures in energy markets may well force such changes. We might also hope that the advent of new governments in both countries, and the high level contacts that will occur between the two, will provide the opportunity to talk about these matters and to bring about some new thinking on the relationship.

### **About the author**

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