

SUBMISSION

THE AUSTRALIAN GOVERNMENT

DEPARTMENT OF FOREIGN AFFAIRS
AND TRADE

PROPOSED FREE TRADE AGREEMENT

AUSTRALIA AND THE REPUBLIC OF KOREA

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AIM:

The aim of this submission is to highlight some of the problems raised with the possibility of a Free Trade Agreement between Australia and the Republic of Korea.

INTRODUCTION:

Australia, as a regional power in the Asia-Pacific, is drawn toward favourable trade with other countries in the most dynamic sector of the global economy. The Republic of Korea, with its highly developed industrial base, offers many opportunities for the business-classes.

A number of serious problems arise, however, with other factors based on the increased influence and power of China and a changing balance of forces across the Asia-Pacific region.

The proposals for an FTA between Australia and the Republic of Korea, therefore, are likely to create conditions for serious problems and cannot be viewed favourably.

BACKGROUND:

The Republic of Korea during the immediate post-Second World War period was given a strategic position in United States defence and security planning for the defence of Japan and other regional interests.

Australia, as a regional power and part of the US-based alliance, also regarded the ROK as part of its defence and security provision.

During the past thirty years, however, the economic development of China has altered the balance of forces across the Asia-Pacific region. Old thinking and agreements have required serious scrutiny in a rapidly changing and highly volatile situation.

The changing balance of forces across the region has proved to have far-reaching implications for the Korean peninsula. The ROK and China are now major trading partners. The fact that China is also a major backer of the northern Democratic Republic of Korea (DPRK), has raised serious issues.

The new economic considerations accompanying the changing balance of forces have also created conditions for radical political and diplomatic initiatives.

During the period of the ROK presidency of Roh Moo-hyun from 2003-08, significant moves took place toward reconciliation with the DPRK. The moves drew on earlier 'sunshine policies' of engagement. In the background of these major political and diplomatic initiatives lay the establishment and development of a free trade zone at Kaesong in the DPRK which had attracted investment from China, the ROK business-classes and elsewhere.

Joint economic projects between the ROK and DPRK attracted estimated tens of billions of dollars as the Seoul-based business-classes eagerly sought to exploit the well-educated DPRK workforce; a country offering almost endless opportunities for those fortunate to be regarded as suitable for consideration by the reclusive and introspective Pyongyang administration.

The Bush administration, in Washington and the Pentagon, were not supportive of the developments. They had, however, been alienated from many of the centres of decision-making. Their influence in the ROK over many years had conspicuously diminished. Numbers of US troops based in the country had dwindled; their popularity had ebbed away. In fact, declassified US intelligence and security reports produced by Colin Powell and Richard Armitage concluded with the analysis the ROK was to be regarded as an 'ally of sorts' although not necessarily dependable.

The reports also warned a unification of the two countries on the Korean peninsula was possible by 2020.

The election of President Lee Myung-bak, early in 2008, however, opened opportunities for the US to attempt to reassert their hegemony in the ROK. An FTA recently negotiated between the US and the ROK has laid the basis for greater US involvement. President Lee continues to take a pro-US stance on many issues and is known to have developed a good working relationship with the Bush administration.

In moves which greatly pleased the Bush administration President Lee recently stated he will review all existing trade deals supported by previous administrations. The announcement raised many issues within the corridors of power in Seoul and

considerable disquiet among the business-classes who planned to prosper from the Roh initiatives with the DPRK.

The developments, together with other problems perceived by Pyongyang as confrontational and aimed at destabilising their country, have exacerbated difficulties and problems. Threats by the DPRK, to seal its border with the ROK, restrict access to the trade zone at Kaesong and effectively cool diplomatic relations between the two countries, have been taken seriously by observers. They herald rising tensions across the Korean peninsula and a resumption of Cold War posturing.

The two Koreas face each other across one of the most heavily fortified borders in the world. The present situation on the Korean peninsula could best be described as sensitive with serious security problems potentially with far-reaching implications. Koreans, culturally, tend to possess little difficulty embarking upon drastic steps to deal with difficulties and problems. The current situation therefore requires extremely sensitive and careful diplomacy to prevent exacerbation and proliferation of problems.

While the ROK remains a society in rapid transition from an authoritarian past to a yet to be clearly defined future, the DPRK has proved strangely resilient in the so-called New World Order. Despite appearing a relic of the past, US-led hostilities directed toward Pyongyang have proved largely irrelevant.

It remains highly significant and a matter for serious consideration both the ROK and DPRK remain heavily armed with well-equipped defence and security systems linked inextricably through numerous treaties and alliances to counterparts within a region itself undergoing rapid militarisation.

The Australian in 2009, however, now sees fit to begin moves to establish an FTA with the ROK within a quagmire of political and diplomatic intrigues marked by decades of hostilities and rivalries.

REPORT:

The proposed FTA between Australia and the ROK has a veneer of being an economic agreement. It is, however, more than it appears. The proposed FTA rests upon defence and security agreements based within US-led initiatives; relics of Cold War hostilities.

While the practicalities of the setting have to be considered, other factors also have bearing upon the present situation. The so-called New World Order, while portrayed as a free trade panacea, has been marked by over three hundred bi-lateral, multi-lateral, regional and other trade agreements aimed at providing preferential treatment to privileged participants. Many have not achieved the stated outcome, if that ever was the original intention.

Research into the effect of trade agreements upon the Australian economy have shown problems to include:

- a. a decline in trade imbalances;
- b. negative implications for our manufacturing base;
- c. a decline in manufacturing employment prospects.

There is no reason to believe the proposed FTA between Australia and the ROK will provide any different outcome.

The proposals for an FTA between Australia and the ROK have serious implications for Australia, for four reasons:

1. Recent problems within the US economy and their proliferation.

Recent economic problems in the US have far-reaching implications for new trade agreements. Fears the problems possess a contagious quality and the ability to spread through international banking systems have proved well-founded.

While the fetish of privatisation, liberalisation and de-regulation opened economies toward the four corners of the globe to problems beyond their control, the proposed FTA between Australia and the ROK increases the likelihood of difficulties for the former through links to the US being achieved with the latter.

2. The Car and Components Industries

Our car and components industries have historically provided a major part of the Australian manufacturing base of the economy. Today, following problems in the US economy, the future of our industries remains uncertain.

In South Australia, the car and components industries provide regular employment for a large sector of the workforce in a local economy not renowned for dynamism. It would be very difficult to establish the accurate linkage of Australian industries to ROK counterparts although reliable estimates suggest the links are extensive. A freeing of the movement of trade and services between the countries is unlikely to prove beneficial for Australia.

3. Labour costs

The Seoul-based business-classes in the ROK have eagerly pursued investment prospects in the DPRK. Their motives were purely economic. Potentially huge profits are achievable from exploitation of the DPRK workforce through outsourcing procedures conducted by Korean companies fortunate enough to establish outlets in the north.

The DPRK is generally considered to possess one of the best educated and trained workforces in the world. The Pyongyang administration provides high levels of state support for education and training.

While the present border closures have created problems for ROK business prospects in the DPRK, the problem is unlikely to continue into the foreseeable future. The patient diplomacy pursued by the Seoul-based business-classes over many years was aimed toward creating openings in the north that were mutually beneficial. Both sides have a vested interest in the eventual resumption of trade.

The prospect of Australian workers being pitted against DPRK counterparts in an economic competition to achieve the lowest possible labour costs is a scenario few would consider with ease. A race to the bottom with Korean counterparts remains a potential nightmare situation for sensible observers.

4. Defence and security

The situation across the Korean peninsula remains fraught with hostilities and rivalries decades old. While recent diplomatic initiatives have contributed toward a climate of attrition by those seeking to replace the old order, they have merely masked very real differences between the two countries.

Most sensible observers, when assessing the Koreas, urge caution. The potential problems are huge.

It should be noted both the ROK and DPRK have historically felt more comfortable with Republican administrations in the US. They are regarded as more predictable. The incoming Obama administration, with its widespread Democrat support, is perhaps regarded as a departure from the certainties both Seoul and Pyongyang have come to expect and rely upon for planning and decision-making.

The next few years are likely to be a period marked by conflict and adjustment for the ROK and DPRK.

Both Seoul and Pyongyang governments will inevitably have to seek to contain their own internal dissent together with historical rivalries between them following implementation of existing and new trade agreements. Australia, with its relatively small defence capability and ever greater responsibilities thrust upon it, potentially faces very real prospects of having to counter perceived hostilities from the Korean peninsula.

Australia, in this context, is entering into a situation akin to sailing through uncharted waters in a boat too small to deal with the potential deluge.

CONCLUSION:

In conclusion, a proposed FTA between Australia and the ROK is not to be considered desirable.

In fact, any moves to establish an FTA between the two countries is likely to create huge problems for Australia and our workforce.

RECOMMENDATION:

The Australian government conveniently shelve the proposals for the FTA between this country and the ROK until the situation across the Korean peninsula appears clearer, more stable and secure.