**REPUBLIC OF KOREA**

**Business Conditions Snapshot**

- The Republic of Korea (ROK) is a mature, industrialised economy that has grown rapidly in recent decades to become the world’s 12th largest economy and fifth largest exporter.

- The economy has performed well relative to other OECD member countries following the onset of COVID-19. Key risks include impacts of the US–China trade tensions, increasing competition in Korea’s key export markets and softening consumer demand due to COVID-19.

- Korea has outlined plans for a Korean New Deal to aid its COVID-19 economic recovery and transform the economy to become a ‘digital powerhouse’ and promote green initiatives to reduce emissions. Korea has the second highest spending on research and development (R&D) to GDP ratio in the world, according to the OECD.

- Increasing government and private sector investment will ensure that Korea will be at the forefront of developments in future vehicles, bio health, artificial intelligence, smart cities, smart homes and smart factories. The government is also fostering innovation by supporting start-ups and Small Medium Enterprises (SMEs).

- Korea is aiming to lift renewable energy generation from seven per cent to 30-35 per cent by 2040. In November 2020, President Moon announced that the Korean government would set a 2050 net-zero carbon emissions target and foreshadowed revisions to Korea’s energy transition targets.

- The Hydrogen Economy Act (2020) provides action on R&D for fuel cells and vehicles, establishing supply chains, and identifying prospective markets for Korean technology to realise Korea’s ambition to become a hydrogen economy.

- Korea is an ‘aged’ society. More than 14 per cent of its population is over 65. By 2026, Korea is projected to be ‘super aged’ with 20 per cent of its population aged over 65. Life expectancy is increasing and the fertility rate of 0.92 (2019) is the lowest in the OECD.

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**Key facts and figures**

- Population: 51.6 million (2018)
- GDP growth: 2 per cent (2019)
- GDP per capita: US$31,431
- Political system: Republic
- Two-way trade: A$41.4 billion (2018-19)
- Key goods exports to Korea: coal, iron ore, LNG and beef (2018-19)
- Key services exports: education and personal travel
- Key goods imports from ROK: refined petroleum, motor vehicles, electrical machinery, and electronic integrated circuits
- Key services imports: maintenance and repairs and transport
Australia’s trade relationship with Korea is underpinned by the Korea–Australia Free Trade Agreement (KAFTA), which entered into force in December 2014.

KAFTA provided improved goods market access to Korea for Australian exports including beef, sugar, wheat, malting barley, oil seed, cheese, corn, potatoes, wine, as well as dairy products such as butter and cheese. The Agreement provided Australian services exporters with the best treatment Korea had agreed with any trading partner, including improved market access for legal, accounting, and telecommunications services providers.

Trade and Investment Opportunities

- Korea is Australia’s third largest export market and fourth largest trading partner, largely in energy, resources, motor vehicles and agriculture trade.
- Australian major commercial interests represented in Korea include Macquarie, ANZ, Pepper Savings and IFM Investors, Woodside Energy, Meat and Livestock Australia, Herbert Smith Freehills and others.
- Major trade and investment opportunities exist in sectors where Australian is already present, as well as in emerging sectors. These include:
  - Agribusiness and food: Korea’s increasing wealth and dependence on external supplies of food and agricultural commodities is creating opportunities in premium food, wine and e-commerce. For many commodities, Korea represents a valuable opportunity for those Australian producers and exporters looking to build resilience against over-exposure to more volatile markets. Food safety and food security concerns in Korea are also leading to investment interest in agribusiness assets.
  - Resources, energy and renewables: Korea’s ambitions to develop a hydrogen economy present opportunities for Australian energy and logistics companies. Korea is a leader in the manufacture of lithium batteries, which is creating opportunities for Australian supplies of critical minerals such as lithium, cobalt, nickel and graphite. Rare earths for magnets, EVs etc will also become increasingly important. There is also Korean investment interest in renewable energy (solar, energy storage systems), LNG and hydrogen.
  - Financial services: Korea’s National Pension Service—the third largest pension fund in the world—and other Korean financial institutions are seeking higher yields offshore, creating opportunities for Australian fund managers, including in long-term alternative investments, such as infrastructure, commercial real estate and renewables.
  - Infrastructure, engineering and construction: Korean firms in these sectors are seeking overseas growth. This is creating opportunities for Australian legal services and project advisory services.
  - Technology: Korean industry has a strong appetite for solutions that optimise processes or that can be applied to existing technology platforms. Areas such as
virtual and augmented reality content, block chain, fintech, cybersecurity solutions and big data analysis for the energy and transport sectors are in demand. Opportunities for ‘contactless’ solutions also exist due to COVID-19.

- Science, health and medical: Korea’s pharmaceutical industry, research units of Korean conglomerates (“chaebols”) and universities are showing interest in developing new drugs and health-related technology. This is creating opportunities for Australian firms, in biotech, digital health, regenerative medicine and clinical trials. There is also scope to further deepen Australian and Korean collaboration to scientific research.

- Start-ups: Korea’s push to develop start-ups and an environment for scaling-up is creating collaborative opportunities for Australian and Korean accelerators and incubators, as well as partnerships between Korean companies and Australian start-ups.

- Defence: Korea’s defence budget increase of 7.1 per cent annually over the next five years seeks to address gaps and improve its defence capabilities by 2024. This presents opportunities for Australian providers of niche technologies and solutions that can help meet these goals. There is also Korean interest in bidding for Australian defence projects and scope for R&D partnerships.

- Aged care-related goods and services: Korea’s demographic challenge is increasing demand for medical devices, pharmaceuticals, tele-health and other technology solutions.

- Korea is Australia’s seventh largest source of international students, with over 21,000 Korean students studying in Australia in 2019. More than half of these students are enrolled in vocational education and training. As of 2018, there were over 300 formal university partnerships between Australian and Korean institutions.

- Korean investment in Australia is valued at AUD27.4 billion (2018) making it Australia’s 16th largest foreign investor.

- Korean engineering and construction firms have strong interest in Australian infrastructure projects:
  - major Korean investments include the AUD6 billion iron ore project at Roy Hill in Western Australia in which POSCO—a Korean owned steel-making company—holds a 12.5 per cent share.

- Australian investment into Korea is valued at AUD21.6 billion (2018) making it the 15th largest destination for Australian foreign investment.

- In 2021, the Australian Embassy and Austrade plan to showcase Australian capabilities through the following major initiatives to capitalise on opportunities:
  - a virtual Australian wine business matching program and an Australian Wine masterclass, Feb-Apr 2021
- Australia-Korea Hydrogen workshops to promote specific project opportunities, Jan-Jun 2021
- an Australian pavilion at the Bio Korea 2021 International health and biotech conference, May 2021
- a Study in Australia virtual exhibition, Feb 2021.

2021 marks the 60th anniversary of diplomatic relations between Australia and Korea. Throughout 2021, a public diplomacy campaign will promote Australia’s economic, creative and cultural, food and beverage, sporting, innovation and science, and education assets to underline Australia’s credentials as a destination for innovation, business, investment, tourism and study, and emphasise Australia’s engagement with the Indo-Pacific region and the ROK.

Trade Policy and Negotiations

- KAFTA entered into force on 12 December 2014 and enjoys high usage rates. More than 93 per cent (by value) of eligible merchandise trade benefits from KAFTA tariff preferences. KAFTA implementation has been smooth, driven by the two countries’ complementary economic structures.

- The KAFTA joint committee will meet for the fourth time in December 2020. KAFTA’s built-in agenda ensures both Australia and Korea continue to get the maximum benefit out of the agreement. Committees and working groups have been established across trade in goods, energy and mineral resources cooperation, financial services, rules of origin and trade facilitation, and professional services. The Committee on Agricultural Cooperation will meet for the first time in 2021.

- Australia is pursuing its commercial interests through KAFTA’s built in agenda. For example, Australian beef exporters have used the KAFTA preferential tariff quota every year since entry into force. Australia has advocated that the safeguard not be activated automatically, as this disadvantages both Australian exporters and Korean consumers.

- Korea is a member of the WTO, APEC, G20 and OECD. It is also a participant in the WTO e-commerce initiative and negotiations on services domestic regulation. Korea has undertaken informal consultations to consider whether or not it will seek membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

- Korea is a signatory to the Regional Comprehensive Economic Partnership (RCEP) agreement, which was signed on 15 November 2020. RCEP is an ASEAN-centred regional free trade agreement that builds on Australia’s relationships with 14 Indo-Pacific countries. These account for almost a third of world population and GDP and more than half of Australia’s two-way trade. RCEP countries will commence their domestic procedures to ratify the Agreement before it can enter into force.
The Australian Embassy and Australian Government are working with Korean officials to improve market access and address non-tariff barriers (NTBs) faced by Australian exporters, particularly in the agriculture sector.

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This Insight is current as at December 2020.