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**Address to the Conference
The Chinese Economy: Impact on Korea and Australia**

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- . Ambassador Cho, KAF Chairman Kenneth Park, AKF Chairman Don Stammer and Allan Gyngell, Chief Executive of the Lowy Institute, Distinguished Guests, Ladies and Gentlemen, it is a pleasure to welcome you to this important conference organised by the Australia-Korea Foundation. A key theme of this conference is how Australia and Korea, two roughly similar economies that share similar values and democratic institutions, are responding to the rise of China.
- . In my view, China's current economic ascendancy and its growing strategic footprint marks the return to an historically more familiar state of affairs
 - The long decline of China during the late Qing and nationalist periods, and its self-imposed international isolation in the early decades of Communist rule, may appear to future generations to be much more of an historical aberration than perhaps it does to many of us here today.
- . Nonetheless, the ascendancy of a newly emerging power inevitably brings with it challenges for other powers and regional partners. In view of China's size and its potential for further economic growth its continued rise will generate new challenges for countries in the Asia-Pacific region and beyond. For the US, as the world's greatest power, the adjustment to China's emergence will inevitably be particularly complex. But for Australia, Korea and many others China is also presenting major conundrums alongside massive opportunities

The Australia-Korea Relationship

- . Amid the boom in the Australia-China relationship, it is worthwhile recalling the longevity and complementarity of the Australia-Korea relationship. Since the early 1960s Australian resources and energy products have helped to power the Korean economic miracle.
 - By 1983, 4% of our exports were bound for Korea, by 1994 the figure was up to 7% and by 2004 8%.
 - In 2004, Korea was our fourth most important export market and the Korean steelmaker POSCO was our single largest corporate customer in the world.
- . The Korea-Australia economic relationship is also broadening into services with some 18,000 Korean students studying in Australia in 2004 and 200,000 plus Korean tourists visiting Australia (these numbers make Korea Australia's second most important source of overseas students and seventh most important source of tourists).
 - Australian service providers are also thriving in the Korean market, most notably Macquarie Bank now has 260 staff in Korea and manages Korea's first private road infrastructure fund; and the highly successful Busan Aquarium is Australian built, owned and operated.

Australia-China Economic Relationship

- . Australia's economic relationship with China has also been a classic complementary relationship, with Australia exporting ever increasing amounts of resources, energy and agricultural products and importing manufactured goods
 - We have benefited from both expanded volumes and favourable terms of trade effects;

- As a result of these forces, the share of Australian exports going to China has risen from 2% in 1983 to 9% per cent in 2004, with China now our second largest export market after Japan
 - : meanwhile, mainly as a result of strong Chinese demand for minerals and energy our terms of trade are at their highest point in 30 years.
- China has also been quick to take a highly strategic view of the economic relationship. For example:
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 - through the Guangdong LNG contract it negotiated an equity stake in our North-West shelf gas reserves; building on earlier investments, for example in the Mt Channar iron ore mine and Portland Aluminium Smelter
 - China has also entered into FTA negotiations with Australia, the first major developed country for China.

Korea-China Economic Relationship

- Korea's economic relationship with China has also grown spectacularly, which is not entirely surprising given the geographic proximity of the two countries
 - since 2000, Korean exports to China have more than doubled, with China rising from Korea's 3rd largest trading partner to be its largest in 2004
 - China has become the main destination for Korean FDI;
 - There were also almost 24,000 Korean students studying in China in 2004, making China Korea's second most important destination for study after the USA
 - : We know from our own experience with internationalising our education sector that these students will become a source of further dynamism in the Korea-China relationship as they return to Korea and utilise their deep knowledge of China in their chosen professional field.

- . However, Korea's economic relationship with China has a higher element of competitiveness than Australia's has
 - While Korea's exports of parts and capital equipment to China are booming, Chinese goods, spurred by massive inflows of foreign investment, are quickly climbing the value chain
 - For Korea to maintain competitiveness against the rapidly evolving Chinese economy, it will be crucial that Korean firms, markets and economic policies remain flexible
 - : One area of particular vulnerability for Korea is agriculture where China can easily supply at a fraction of the price all the key Korean farm products, such as rice, chilli, garlic and cabbage.

How is the Korea-Australia Relationship Faring Amidst the Rise of China?

- . In the context of the rapidly expanding economic relationship between Australia and China it is important for the Australian and Korean Governments to ensure that the bilateral relationship does not suffer from 'benign neglect'
 - That is a situation where traditional areas of commerce continue to grow based on well established complementarities but where we think less about each other than we once did
 - In such circumstances, we need to look for new opportunities to broaden and deepen economic relations.
- . At the same time, as Australia has expanded its relationship with China, it has also increased its economic and security engagement with key allies and trading partners.
 - Cases in point here would be our FTA's with the US and Thailand and the commencement of an FTA study with Japan.

- . We believe that, while both our countries are developing their relationships with China, it is in the interests of both Australia and Korea to work together to find ways of broadening and deepening the trade and investment opportunities in each others markets.

- . Although sensitivities over agriculture have made it difficult to discuss what we might do on the trade front; we do need to look at ways to get around these sensitivities
 - One way of stepping up our bilateral dialogue would be to commence joint work on a trade and economic framework.

- . Looking beyond the economic relationship it is important not to lose sight of the affinities between Australia and Korea
 - Australia and Korea both share democratic values and institutions with each other and, in the region, with Japan
 - We have also been strong supporters of multilateral institutions, such as the UN and WTO
 - And regional bodies such as APEC, where Australia has worked closely with Korea on the mid-term review of APEC, which is being led by Korea in its role as APEC host in 2005.

- . Korea and Australia also share alliance relationships with the United States that serve our respective national interests very well
 - The US presence in North Asia has underpinned regional stability
 - It has helped crucially to avoid an arms race in North-east Asia
 - For Korea and Australia, as for Japan, our long term security depends on continuing US engagement in the region.

Managing our Relationships with the United States and China

- . While China is emerging as a driver of economic growth in North-east Asia, China's own growth depends heavily on US growth
 - It is not that the region has become de-linked from the US, it is just that the linkages have been rearranged

- . For its part, China has been increasingly willing to provide regional leadership and to work with the United States on major issues
 - At this moment the most topical example of this is China's crucial role in the ongoing efforts to resolve the North Korean nuclear issue through hosting the six-party talks and leading efforts in the current round of talks to draft an agreed statement of principles
 - Washington and Beijing have also done much together to wind back tensions over Taiwan.

- . To date, Korea and Australia have successfully and dramatically expanded our commercial and people-to-people relationships with China, while also strengthening our long-standing alliance relationships with the United States
 - Korea and Australia have both been strong supporters of the US in Iraq and Afghanistan
 - Korea has also agreed with the United States on a realignment of US forces in Korea that both fits with Korea's desire for increased defence self-reliance and with worldwide changes in the global posture of US forces.

- . For Australia, the key to expanding our relationship with China has been, in the words of Prime Minister Howard, not to pretend that the Australia-China relationship 'has a character that it does not have'
 - “We have focused on those things that we can build together for the future, understood and respected our differences and recognised that we would always disagree on a number of strategic political issues.”

- . Australia and Korea recognise that they have important and enduring interests in their relations with both Washington and Beijing; the challenge will be to continue to recognise the common interests and potential mutual benefits to be derived from the Australia/Korea bilateral relationship.

Conclusion:

- . China's emergence as a major economic power obviously offers tremendous opportunities for both Australia and Korea
 - Opportunities which both Australia and Korea have moved quickly and decisively to realize.

- . But Australia and Korea remain significant to each other and in our respective responses to China we should not lose sight of this. With the irresistible pull of China, Australia and Korea need to look for ways to inject new momentum into the bilateral relationship. We need to work at broadening it beyond its heavy focus on traditional patterns of trade into areas such as services and technology
 - More broadly, as we all adapt to the increased economic and diplomatic weight of China, old friendships and alliances will remain important.