REPUBLIC OF KOREA

What’s happening in this economy

The Republic of Korea is a mature, industrialised economy that has grown rapidly in recent decades to become the world’s 11th largest economy and sixth largest exporter.

The country’s economic growth is reliant on exports, particularly in shipbuilding, automobile manufacturing, electronics, steel and chemicals.

Fourth Industrial Revolution

Under this banner, the Korean government aims to drive the next phase of economic growth and boost job creation by supporting innovations in science and technology, and in areas such as artificial intelligence, robotics, block chain, big data and the internet of things.

According to the OECD, Korea has the second highest gross domestic spending on research and development globally. Investment from government, the business sector and universities will ensure that Korea will be at the forefront of developments in self-driving cars, smart cities, smart homes and smart factories. Korea expects to be the first country to deploy commercial 5G mobile technology in early 2019, which will create the enabling environment for it to lead in the digital economy.

The Korean Government is also fostering innovation by supporting start-ups and small to medium sized enterprises.

Energy policy

Initiatives are underway to gradually decrease Korea’s dependency on traditional energy sources and transition to a cleaner energy mix by generating 20 per cent of energy from renewable sources by 2030 (currently less than five per cent) and increasing emphasis on LNG.

There is also growing interest by Korea in renewable hydrogen. The government is developing a national hydrogen roadmap and has pledged significant investment to nurture the hydrogen industry.

Demographic trends

Korea is an aged society with over 14 per cent of its total population over 65. By 2025 Korea is projected to be ‘super aged’ with 20 per cent of the population aged over 65.
Korea’s demographic challenge is driven by longer life expectancy and a fertility rate of 1.05 per cent, which is the lowest in the OECD. Government policies aim to boost women’s workforce participation by supporting their return to work after starting a family.

Under its New Southern Policy, Korea is seeking new trade and economic cooperation opportunities with ASEAN and India.

Trade, investment, and commercial opportunities and activities

- Korea is Australia’s third largest export market and fourth largest trading partner, largely in energy, resources and agriculture trade.
- Australia’s trade relationship with Korea is underpinned by the Korea–Australia Free Trade Agreement (KAFTA) which entered into force in December 2014:
  - KAFTA resulted in improved goods market access to Korea for Australian exports including beef, sugar, wheat, malting barley, oil seed, cheese, corn, potatoes, wine, and dairy products such as butter and cheese, and
  - Australian services exporters received the best treatment Korea has agreed with any trading partner, including improved market access for legal, accounting, and telecommunications services providers.
- Korean investment in Australia is valued at AUD 26.3 billion (2017) making it Australia’s 15th largest foreign investor.
- Korean engineering and construction firms have strong interest in Australian infrastructure projects:
  - major Korean investments include the AUD 6 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 AUD 19.9 billion (2017) making Korea the 14th largest destination for Australian foreign investment.
- Australian financial services providers—including Macquarie, ANZ, Pepper Savings, Millennium Inmark and IFM Investors—are active in Korea in areas such as funds management and infrastructure investment.
- Korea is Australia’s seventh largest source of international students, with nearly 30,000 enrolled in Australian educational institutions in 2017.

Opportunities for Australia

Major trade and investment opportunities exist in sectors where Australian is already present, as well as in emerging sectors. These include:

- 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. This will be further enhanced with changes in legislation that will permit Korean pension funds to invest into long-term alternative investments, such as infrastructure.
• 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.

• 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.

• Resources, energy and renewables – Korea is one of the leaders in the manufacture of lithium batteries, which is creating opportunities for Australian supplies of critical minerals such as lithium, cobalt and nickel. There is also Korean investment interest in renewable energy (solar, energy storage systems), LNG and hydrogen.

• Technology – Korean industry has a strong appetite for solutions that optimise processes or can be applied to existing technology platforms. Areas such as virtual and augmented reality content, blockchain, fintech, cybersecurity solutions and big data analysis for the energy and transport sectors are in demand.

• Science, health and medical sector – 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 medical and clinical trials. There is also scope for Australia and Korea’s collaborative approach to scientific research to further deepen.

• Defence – Korea’s seven per cent increase in the defence budget seeks to address gaps and obsolescence issues in their defence capabilities by early 2020. 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.

• Agribusiness and food sector – Korea’s dependence on external supplies of food and agricultural commodities is creating opportunities in premium food, wine and e-commerce. Food safety and security concerns in Korea are also leading to investment interest in agribusiness assets.

Major initiatives to capitalise on opportunities

In 2018, the Australian Embassy and Austrade have showcased Australian capabilities through the following initiatives:

– Australian Grand Wine Tasting, September 2018
– Australian Future Unlimited Education Exhibition, October 2018, and
– Publishing Korean language directories of Australian food, beverage, wine and vegetables.

The Australian Embassy and Austrade also supported the Australia-Korea Business Council (AKBC) / Korea-Australia Business Council (KABC) Joint Meeting in Busan in October 2018.

The following major initiatives are scheduled for early 2019:

– Australian Open in Seoul – the biennial Australia Day event will recreate the atmosphere and entertainment of centre court and feature Australian hospitality, food and drink
– Australian Food and Beverage product showcase, March 2019, and
Throughout 2019, a Team Australia public diplomacy and trade promotion campaign will raise awareness and enhance understanding of Australia, Australian products and services. The campaign will showcase Australian innovation and creativity across a range of focus areas, including science, technology and research; food and beverage excellence; arts and culture; education and sport.

Trade policy and negotiations

KAFTA entered into force on 12 December 2014 and enjoys high usage rates. More than 80 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 has met twice and is due to meet again in late 2018. 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.

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.

Australia also asked to bring forward the phase III schedule of Korea’s legal services commitments to allow our firms to form joint ventures with Korean businesses. Currently Australia will only gain access from January 2020, three years after the EU and the US.

Korea is a member of the WTO, APEC, G20 and OECD. Korea is also a participant in the WTO e-commerce initiative and negotiations on services domestic regulation. It is consulting domestically to consider whether or not it will seek membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP-11).

Korea is a party to the Regional Comprehensive Economic Partnership (RCEP) which is being negotiated between ASEAN and six other countries including China, India, Japan, New Zealand and Australia. RCEP provides an opportunity to strengthen the regional trade and investment environment, boost regional economic confidence and benefit consumers.
Disclaimer

The Department of Foreign Affairs and Trade (DFAT) has taken great care to ensure the information contained in this publication is correct and accurate.

DFAT does not guarantee, and accepts no legal liability arising from or connected to the accuracy, reliability, currency or completeness of any material contained in this publication.

Readers should exercise their own skill and care in using the material contained in this publication and carefully evaluate the accuracy, currency, completeness and relevance of the material for their purposes.