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### **SPEECH**

#### **CHOOSING OPENNESS: HOW REGIONAL PARTNERSHIPS BOOST ECONOMIC DYNAMISM**

**YONSEI UNIVERSITY, SEOUL  
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#### **Introduction**

Thank you to the Institute of East and West Studies at Yonsei University for inviting me to speak here today.

And to all attending students, thank you for coming along to listen.

I am honoured to be representing the Treasurer as Australia's Governor to the Asian Development Bank for its 56th annual meeting of the Board of Governors.

It is a pleasure to be making my first visit to the Republic of Korea. Not just because my wife and I compulsively watched Squid Game. And not only because our three boys hope that their dad will return from South Korea fully 'Gangnam Style'. They're also hoping I'll snap a selfie with NewJeans – whose performance at the Asian Development Bank reception will show the VIPs who the real VIPs are. OMG indeed.

In Australia, the cultural influence of the Korean Wave (Hallyu) is phenomenal.

In fact, South Korea's cultural importance is on par with its economic importance to Australia.

Our bilateral relationship is underpinned by a shared vision for an open, prosperous and resilient Asia-Pacific region.

South Korea is Australia's fourth-largest two-way trading partner and third-largest export market (DFAT 2023).

Growing our economic, trade and investment ties with South Korea is a key priority for the Australian Government.

We operate under a free trade agreement, which I will discuss later in more detail.

We also benefit from the Australia–Korea Comprehensive Strategic Partnership, which is a program of enhanced bilateral cooperation under three pillars – strategic and security; economic, innovation and technology; and people-to-people exchange.

### **Why choose openness?**

The topic of my talk today is about choosing openness and regional partnerships to boost economic dynamism.

Since the agricultural revolution, one of the keys to prosperity has been specialisation. None of us make our own running shoes, fix our own teeth or build our own cars. We gain from living in societies where people specialise in what they do best, and work together to produce complex goods and services.

So too it makes sense for countries to specialise and encourage global commerce. The free flow of goods and services has the potential to make people around the world healthier, wealthier and wiser.

For medium-sized economies such as Australia and South Korea, the benefits of specialisation are all around us.

Hospitals are packed with imported products, from machines to vaccines.

Much of what is sold in modern supermarkets comes from overseas. Trade brings new ideas, and challenges local firms to serve their customers well.

New migrants and foreign capital have helped fuel the economic success of South Korea, Australia and the world.

Openness isn't a panacea.

Openness on its own won't solve climate change, social inequality or a lack of trust.

But openness helps push societies in the right direction. As United States founding father Benjamin Franklin famously put it, 'No nation was ever ruined by trade'.

Today, in Incheon, the Board of Governors at the Asian Development Bank's Annual Meeting is about to start discussing these issues.

The theme of this year's Annual Meeting is 'Rebounding Asia'.

Member countries are looking for the best way forward to rebound from the global economic downturn.

For Australia, the rebound will require us to focus on building resilience and dynamism into our economy.

We choose openness, engagement and strong regional partnerships to achieve this goal.

By doing so, Australia aims to lift its living standards while bolstering our capacity to navigate uncertainty around future pandemics, food security, climate change and shocks such as Russia's invasion of Ukraine.

South Korea and Australia are strong voices for engagement. And right now, engagement needs all the friends it can get.

The pandemic was good for isolationists and xenophobes, and bad for globalisers and internationalists.

That's dangerous because openness doesn't just deliver faster economic growth. International engagement can also help alleviate poverty and extend the buying power of low-income families (Leigh 2022).

It is my belief that Australia and the Republic of Korea should continue to work together to maintain strong and sustainable regional trade, investment and migration.

By doing so, we can continue to lift domestic living standards while bolstering our economic resilience and, as Australia's Foreign Minister Penny Wong says, 'strengthening our ability to exercise agency, contribute to regional balancing, and decide our own destinies' (Wong 2023).

The remainder of my talk will focus on three areas.

First, I'll provide a short comparative analysis of our country's recent economic histories.

Second, I'll discuss Australia and South Korea's two-way trade relationship.

Third, I will examine our participation in regional and multilateral fora, including the Asian Development Bank (ADB), International Monetary Fund (IMF) and World Trade Organization (WTO).

### **Different paths to liberal democracy**

As an economist, South Korea's post-war economic success is, frankly, mind-blowing.

In 1960, the average income per person in South Korea was US\$120 (in today's dollars). Today, the figure is over US\$35,000.

In 1960, South Korea's economic development was similar to the average African country. Today, it is similar to the average European nation.

In 1962, South Korea ranked 56th in the world for average incomes out of the 74 countries recorded by the World Bank. Today, it ranks 16th against the same set of countries.

South Korea's success is not just an economic story.

In 1960, life expectancy in South Korea was 54. Now it is 83.

In 1972, South Korea was considered as an electoral autocracy. Now it is a rated a liberal democracy, ranked among the top fifth of democracies worldwide (V-Dem Institute 2023).

The South Korean people faced hardships on their path to liberal democracy and economic success – occupation, wars, coups and geographical division.

A factor in South Korea's economic success was its decision to follow the policy of outward-oriented economic development over import substitution in the early 1960s.

This is also true for the other seven Tiger and Tiger Cub economies. Export markets and global economic engagement have proven a reliable path to prosperity.

South Korea's decision to draw on funds provided by multilateral development banks, including the Asian Development Bank, World Bank and OECD, played a role in its transformation.

As President Yoon said when he launched the Republic of Korea as a Global Pivotal State following his election in May 2022, South Korea has undergone a remarkable journey from post-war aid recipient to global development co-operation partner.

In 2009 South Korea became the first former aid recipient to join the OECD's Development Assistance Committee (Ferro and Nishio 2021). Many other low-income countries look to the Republic of Korea as a country to emulate.

Over the same period, the economic story of Australia is not so transformative as South Korea's. Nonetheless, Australia has a strong history of undertaking economic reforms aimed at creating a flexible and resilient economy.

These include the floating of the Australian dollar, the deregulation of financial markets, the broadening of the tax base and reform of the Reserve Bank of Australia.

An integral part of the reform agenda has been the deliberate and sustained liberalisation of trade barriers (CIE 2017).

In 1973 the Australian Government cut all tariffs by 25 per cent.

Prime Minister Gough Whitlam was driven by his concerns that protectionism raised prices for consumers, caused Australian companies to become lazy and uncompetitive, and hurt workers in low-income nations who struggled to sell their products to Australia (Leigh 2002).

For many nations, trade liberalisation is conditional. To use the metaphor of the great economist Joan Robinson, countries typically only agree to take the rocks out of their harbours if their trading partners take the rocks out of their harbours.

During the 1980s and 1990s, Australia committed to a policy of unilateral trade liberalisation. We went ahead and took the rocks out of our harbours without making it conditional on what our trading partners did.

The ideal is no rocks. But fewer rocks are better.

As a social democrat, I'm sceptical of calls to increase consumption taxes, because I know that consumption taxes are typically regressive.

Likewise, tariffs are consumption taxes on imports. So in most cases, they're as regressive as regular consumption taxes.

Today, international trade and investment is critical to Australia's economy. It creates jobs and prosperity. It opens up opportunities for Australian businesses to expand.

Australia and South Korea have come to recognise the value of lower tariffs and capital imports in stimulating and sustaining economic growth and dynamism.

Both countries are highly engaged with the world. Exports comprise around one-fifth of national income for Australia, and around two-fifths of national income for South Korea. According to the World Trade Organization's *2022 World Tariff Profiles* report, the average applied tariff was 2.4 percent in Australia and 13.6 percent in South Korea.

Australia's living standards, relative to the rest of the world, have been highest in eras of economic openness.

Over the past two centuries, Australia's economic performance on the global stage has been strongest when we are most engaged with the world (Leigh 2022). In the late-nineteenth and late-twentieth centuries, we opened up to the world, and prosperity followed.

### **The role of immigration in Australia**

While Australia only became a nation in 1901, we are home to the world's oldest continuing culture. Indigenous Australians can trace their history back more than 60,000 years, a lineage that predates Ancient Greece and Ancient Rome by tens of thousands of years.

Australia is also one of the most multicultural countries in the world. Over one-quarter of Australians were born overseas, and another quarter had a parent born overseas. Nguyen, Kim and Chen are among the most common Australian surnames, alongside surnames such as Smith, Adams and Jones.

These changes have continued apace during my lifetime. As a child, when I told my last name to someone on the telephone, they often assumed it had the Anglo spelling 'Leigh'. Now, they invariably assume the Asian spelling 'Lee'.

This diversity provides Australia with a variety of beliefs, traditions and cultures. We regard cultural diversity as one of our greatest strengths and assets.

Australia now has one of the highest educated migrant populations among OECD countries.

According to Australia's 2021 Census, 38 per cent of adults born overseas had a university degree, compared with 23 per cent of those born in Australia (ABS 2021).

South Koreans are now the 15th largest overseas-born population in Australia.

Australia's last Census recorded more than 100,000 people who were born in South Korea (ABS 2021).

They are even more highly educated than the average immigrant, with 48 per cent holding a university degree – twice the share among those born in Australia.

Sadly for Australia – but happily for K-Pop fans – Australia's South Korean-born population no longer includes Roseanne Park (Park Chaeyoung) from Melbourne.

These days she lives here in South Korea and is better known as Rosé from Blackpink.<sup>[1]</sup>

## Powered by trade

Earlier I touched on the fact that South Korea is one of very few nations that has made the leap from low-income to high-income status.<sup>[2]</sup>

This transition had a lot to do with its export-oriented development strategy, which built on the principle of specialisation that I discussed earlier.

A wonderful symbol of this relationship is in front of you right now.

Look at your tablet, smartphone or smartwatch.

There's a good chance the components inside it were manufactured for a South Korean-owned company using lithium and bauxite mined in Australia.

However, this trading relationship is also a reminder of what Australian economic policymakers can learn from our South Korean counterparts.

The Economic Complexity Index, devised by Ricardo Hausmann and a team at the Harvard Kennedy School of Government, estimates the economic complexity of a country based on the diversity of exports a country produces and their ubiquity (meaning the number of other countries that can produce those exports).

Countries are ranked highly on the index if they export a diverse range of sophisticated goods, including products that few other countries can make.

South Korea ranks 4th, nestled between Germany and Singapore.

Australia ranks 91st, nestled between Kenya and Namibia.

This isn't just a mining story. Even before the commodity price surge of the early-2000s, Australia ranked low on the economic complexity index. But we have slipped down the rankings in the past generation.

In this regard, we can learn from the world's fourth most complex economy, and from South Korea's leadership in advanced manufacturing, including magnets, batteries and electric vehicles.

Australians are proud of our mining sector, but we recognise the need to develop a more diverse industrial base if we are to grow the economy, create new jobs, and remain resilient in the face of global shocks.

Including evolving from a simple dig-and-ship approach in the resources sector to grow downstream industries. A good example is the rare earths sector, moving further downstream to minerals processing and some specialty alloy and metals production.

South Korea is a key partner in this endeavour.

In February last year, the Minerals Council of Australia and the Korea Mine Rehabilitation and Mineral Resources Corporation signed a Memorandum of Understanding.

The memorandum states that we will strengthen cooperation on exploration and development of mining resources in Australia, particularly critical minerals.

Last October, a trade delegation of Australian critical minerals businesses accompanied our Minister for Trade, Senator the Honourable Don Farrell, to a critical minerals roundtable with the Republic of Korea's Minister for Trade, Industry and Energy, Lee Chang-yang.

### **Korea–Australia Free Trade Agreement**

Next year will mark a decade since the entry into force of the Korea–Australia Free Trade Agreement (KAFTA).

The agreement eliminated tariffs of up to 300 per cent on many Australian agricultural imports to South Korea such as beef, wheat, sugar, dairy, wine, horticulture and seafood (DFAT KAFTA 2023).

KAFTA also removed tariffs on resources, energy and manufactured goods. This was great news for Australians who are now more likely than ever to drive a Hyundai.

Of course there's more to our relationship than turning beef into bulgogi, and bauxite into batteries.

The Australian Government is keen to develop critical technologies such as biotechnology, cyber security, artificial intelligence and quantum computing.

These are emerging technologies that enhance national security, economic prosperity and social cohesion.

Last October we announced the creation of the National Reconstruction Fund – a A\$15 billion (approximately US\$10 billion) government-funded independent financier of commercially driven projects (Department of Industry, Science and Resources 2022).

The Australian Government is setting aside A\$1 billion (approximately US\$670 million) specifically for developing critical technologies.

We are working with industry to develop co-investment plans that identify high-level investment opportunities and broader reforms to support growth across priority areas.

Our two governments are also progressing other discussions.

Australia has a small number of market-access interests in South Korea, including dairy, beef and horticulture.

Australia will continue to work with South Korea to improve engagement on our respective trade priorities, including through our joint participation in regional initiatives such as APEC, the Regional Comprehensive Economic Partnership Agreement, and the Indo-Pacific Economic Framework which is currently under negotiation.

## **Multilateral cooperation**

As well as being linked through KAFTA and our Comprehensive Strategic Partnership, South Korea and Australia are connected through many multilateral institutions.

These include the ADB, World Bank, IMF and European Bank for Reconstruction and Development.

Australia and South Korea hold the Executive Director and Alternate Executive Director position in our constituency at the World Bank and IMF, alternating every two years, across institutions.

Australia currently holds the Executive Director role at the IMF, and South Korea the Executive Director role at the World Bank.

Our World Bank and IMF constituencies are largely comprised of Pacific Island countries.

Holding the Executive Director position in these institutions makes Australia and South Korea especially attuned to the needs of these countries – which are among the most exposed and vulnerable to climate change. We work and cooperate in these institutions to the benefit of the region.

The IMF's new Resilience and Sustainability Trust has a remit to target climate change adaptation with a focus on proactive and ongoing funding. This makes it well placed to assist countries in our region, including those within our constituency.

Australia has recently signed agreements with the IMF to lend approximately US\$1.3 billion to the Resilience and Sustainability Trust.

Australia and the Republic of Korea are advocating for reform of multilateral development banks to ensure that their activities and funds are directed to addressing key global challenges such as climate change.

A key area of our advocacy is ensuring that banks such as the World Bank can provide additional financing to support countries in our region to meet their climate goals and climate transition initiatives.

Our joint efforts, including through G20 initiatives, are aimed at ensuring critical development finance is available to support vulnerable and developing member countries in tackling these challenges.

It will also support member countries' development needs, at a time when their economies have been battered by compounding economic shocks caused by the pandemic and the war in Ukraine.

## **Headwinds against openness**

South Korea and Australia are strong voices for engagement, but we face strong economic headwinds.

Global growth is projected to decelerate sharply in 2023 to 0.7 per cent, well below its average of 3.1 per cent over the past three decades (World Bank GEP 2023).



Still, that's only a projection, and the reality could be better or worse. Indeed, it is sometimes said that the only justification for economic forecasting is to make astrology look respectable. And right now, the economic crystal ball is especially cloudy.

In my view, there are four major forces contributing to economic uncertainty.

First, climate change has caused natural disasters to become more common and more severe.

Second, global instability has been heightened by Russia's invasion of Ukraine.

Third, it remains unclear whether the world's central banks can bring inflation under control without causing unemployment to surge.

Fourth, breakthroughs in artificial intelligence could have massive impacts on society, politics and jobs.

Add to that a few immediate challenges – bank failures on both sides of the Atlantic, the impact of interest rate rises on government budgets, and a looming fight over raising the US debt ceiling – and it's easy to see how the global economy could slow even further.

Stability is a pre-condition for economic growth. Stability also means resisting moves towards what the IMF terms 'gloeconomic fragmentation' – a policy-driven division of countries into geopolitical blocs (IMF 2023).

The costs of gloeconomic fragmentation are potentially very large.

Welfare gains associated with trade, investment and migration could be reversed and the costs and challenges of responding to common global threats could become prohibitive.

In an extreme scenario, the IMF estimates that trade fragmentation alone could reduce long-term global output by up to 7 per cent (IMF 2023).

In a recent report the ADB recommended regional cooperation to prevent harms from export bans and trade restrictions on food and energy prices (ADB 2023).

This is because countries that are major food importers are among the poorest economies in the region.

To mitigate food security risks posed by supply shocks and logistical hurdles, the ADB report recommends policy makers strengthen international cooperation to eliminate trade restrictions, streamline commodity supply chains, promote trade facilitation, and cultivate alternative transportation routes (ADB 2023).

## **Australia and the WTO**

In this environment, the WTO plays a vital role, helping to promote and protect the open global trading system. Yet the WTO is under intense pressure. It has now been nearly thirty years since it last concluded a comprehensive trade round.

The Doha Round of negotiations failed to deliver comprehensive trade liberalisation. It is, as they say, dead as a Doha. It is hard to imagine a comprehensive trade round being concluded anytime soon.

Meanwhile, the United States' decision to veto the appointment of new judges has caused the WTO Dispute Settlement Body to lose its quorum to adjudicate appeals of trade disputes. This blocking stance, which began under the Trump Administration, has been harmful to the international rules-based trading order.

As a workaround, Australia has joined a group of 47 countries to form the Multi-Party Interim Appeal Arbitration Arrangement, whose members agree to use this mechanism to arbitrate any WTO disputes among themselves. But this is only a temporary solution.

It would be better if the United States was to lift its veto on appointing new judges to the appeal court, so that trade disputes could again be settled through the WTO Dispute Settlement Body. Australia, South Korea and other members could then continue to work on improving the Dispute Settlement Body knowing we still had a mechanism available to resolve disputes with any WTO member, regardless of their participation in the interim arrangement.

A fully functioning WTO, an effective Dispute Settlement Body and a new global trade deal are all in the interests of medium-sized economies such as Australia and South Korea.

## **Conclusion**

Today, I've been so busy talking about economics that I haven't had a chance to discuss one of my other passions: marathon running.

So let me conclude by talking about one of my running heroes.

In 1936, Sohn Kee-chung became the first ethnic Korean to receive a medal at the Olympics, winning gold in the marathon.

He was also the world record holder for the men's marathon for an extraordinary twelve years, from 1935 to 1947. No-one has ever held the marathon world record for longer than Sohn Kee-chung.

Yet in 1936, Korea was under Japanese colonial rule. At the Olympic medal ceremony, Sohn Kee-chung took the brave stance of refusing to acknowledge the Japanese anthem. He told reporters he was ashamed to run for Japan.

The story reminds me of the black power salute given by African American runners Tommie Smith and John Carlos – supported by Australia's Peter Norman – in 1968.

After retiring from elite running, Sohn Kee-chung's career was spent coaching other runners, including Suh Yun-Bok, who would break his coach's world record in Boston in 1947.

Justice took a long time coming. It was only in 2011 that the International Olympic Committee recognised Sohn Kee-chung's nationality in his official profile.

The story of Sohn Kee-chung, like the story of modern South Korea, is one of remarkable accomplishment on the world stage, of standing up for one's beliefs, and of giving back to the next generation.

Sohn Kee-chung's accomplishments, like the achievements of the South Korean economy in the post-war era, are a source of pride to many South Koreans today – and a story that continues to inspire people around the world.

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