Notes de l'Ifri
Asie.Visions 120

The Economic Pillar of Korea's New Southern Policy

Building on Existing Assets

Françoise NICOLAS

February 2021

Center for Asian Studies

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ISBN: 979-10-373-0305-9

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How to quote this document:

Françoise Nicolas, "The Economic Pillar of Korea's New Southern Policy: Building on Existing Assets", *Asie.Visions*, No. 120, Ifri, February 2021.

Ifri

27 rue de la Procession 75740 Paris Cedex 15 – FRANCE

Tel.: +33 (0)1 40 61 60 00 – Fax: +33 (0)1 40 61 60 60

Email: accueil@ifri.org

Website: Ifri.org

Author

Françoise Nicolas is the Director of the Center for Asian Studies at the French Institute of International Relations (Ifri). With Ifri since 1990, she teaches at Langues O', Sciences Po (Paris) and Sciences Po (Lyon), and is a consultant to the Directorate of Financial, Fiscal and Enterprise Affairs (DAF) of the OECD, focusing on non-member countries in Southeast Asia.

In the past she has been an assistant professor in international economics at the University of Paris-Est (Marne-la-Vallée, 1993–2016) and has taught at the Graduate Institute of International and Development Studies (GIIDS, Geneva – 1987–1990), at the Ecole Nationale des Ponts et Chaussées (1991–95), as well as the HEC School of Management (2000–2002).

Françoise Nicolas holds a PhD in international economics (1991) and a MA in political science from the Graduate Institute of International Studies (Geneva, Switzerland). She has also studied at the University of Sussex (1980–81) and was a visiting fellow at the Institute of Southeast Asian Studies (ISEAS) in Singapore (1999) and at the Korea Institute for International Economic Policy (KIEP) in Seoul (2004).

Executive Summary

Diversification is a key tenet of South Korea's New Southern Policy (NSP). In the economic sphere, however, the need for diversification is apparently less pressing as, unlike what is observed in the diplomatic and security domains, Korea's economic partnerships are less unbalanced and are not (or not as clearly) polarized on the big Four (China, Japan, the US, and Russia), with close neighbors such as ASEAN countries already ranking high in the list of Korea's economic partners.

However, although Korea's economic relations with its "South" seem to be relatively strong, there is still scope for further development. First, heavy Korean economic involvement in ASEAN is to some extent an optical illusion; within ASEAN, Vietnam looms large, while the other countries remain relatively marginal targets from the trade and ODI perspective. Secondly, India remains a marginal economic partner for Korea and may be deemed the weak pillar in its economic strategy so far. Thirdly, except through ODA, the role of the government has remained limited so far in supporting the expansion of economic links between Korea and ASEAN, and to a lesser extent India. While the economic pillar of the NSP can be said to be resting on solid ground, the key question is to determine what the added value of the strategy can be beyond existing private sector-based economic relations.

From the Korean government's perspective, one major motivation underlying the NSP is to reduce what is perceived as Korea's excessive economic dependence on China. This objective of risk mitigation is to a large extent shared by the private sector, although for private companies the objective of economic efficiency may tend to prevail over economic security. Be it as it may, through the NSP the Korean government provides financial support to facilitate the expansion of private companies' activities in Korea's "South", in particular in sectors in which they would not necessarily engage on their own. The diversification objective of the NSP's economic pillar is thus not only geographical but also sectoral.

An important objective of the Korean government is to help companies participate in infrastructure development projects in ASEAN and India. However, realizing that Korea has lost competitiveness to China in simple overseas construction and plant projects, but also that it cannot compete in terms of financial means with China nor with Japan, the Korean government is shifting its focus to niche activities in which it may have a competitive advantage. One such niche is the market for smart-city projects.

In addition to such financial support, the Korean government has opted for indirect support through the negotiation and implementation of various trading arrangements (FTAs or Comprehensive Economic Partnership Agreements – CEPAs), including the recently concluded Regional Comprehensive Economic Partnership (RCEP).

The chance of success of the NSP can be deemed relatively high as it does not start from scratch and as Korean private companies' and government's interests dovetail quite nicely. Moreover, Korea's focus on infrastructure is aligned with the recipient countries' interests, in particular ASEAN's. However, several qualifications are also worth noting. First, for the time being, not much has been done to correct the lopsided economic relations in favor of Vietnam, to facilitate the expansion of Korean companies into higher value-added activities, or to help develop their economic presence in India. Lastly, and more importantly perhaps, a major weakness of the strategy is the absence of a powerful and convincing narrative to go with it, which makes Korea's endeavor less attractive for its potential partners. But, of course, this weakness goes beyond the economic dimension of the NSP and would need to be addressed at a more general level.

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Introduction

South Korea's[1] New Southern Policy (NSP) aims at deepening the country's relations with some of its partners in Southeast Asia and South Asia. To that end, three pillars have been identified: the three "Ps" of peace, prosperity and people. An important objective of the NSP is to go beyond economics, where relations are already quite developed, but the NSP also aims at deepening and strengthening these existing economic relations.

While diversification is a key tenet of the NSP, in the economic sphere the need is apparently less pressing. Indeed, unlike what is observed in the diplomatic and security domains, Korea's economic partnerships are less unbalanced and are not (or not as clearly) polarized on the big Four (China, Japan, the US, and Russia); close neighbors such as ASEAN countries already rank high in the list of Korea's economic partners. The economic pillar thus seems to be relatively strong, even if the devil lies in the details and much remains to be done to reach the goal of a strong and diversified economic partnership.

One sure thing is that Korea is not starting from scratch in its attempt to intensify and deepen its economic relations with ASEAN; in contrast, the objective seems more distant in the case of India.

The objective of the paper is to assess what can be the added value of the NSP and how it will be implemented, based on the already substantial achievements. To that end, the respective roles of the private and public sectors need to be examined. So far, private Korean companies have been the major players, supported to some extent by enabling public policies in the form of tariff liberalization under the ASEAN-Korea and Korea-India FTAs. However, with the NSP, the government aims to step in to play a much bigger role and shape the bilateral economic relations. This paper assesses the form and possible contribution of this government-led endeavor, with a view to sketching the further development of Korea's economic relations with its southern neighbors.

The following section provides a thorough analysis of economic linkages between Korea and its southern partners (ASEAN and India), highlighting the strengths and weaknesses of the relationship. As a second step, the paper seeks to delineate the contribution the government strategy

1. Hereafter Korea.

can make to an already strong private-sector-led partnership. In doing so, it will also factor in external influences such as the competition stemming from the two other big players in the region, Japan and China. The paper concludes with an assessment of the prospects for the economic part of the NSP.

An overview of Korea's economic presence in its "South"

The NSP was launched in November 2017 as President Moon's signature project, with the objective of placing the importance of Korea's relations with ASEAN and India on a par with its relationships with the United States, China, Japan and Russia. Three years on, it is far too early to assess the impact of the policy, but the details of its implementation are now in place. Focusing on the economic dimension of the NSP, the objective of this section is to take a step back to assess the context in which the policy will be deployed, with a view to highlighting the assets that it can be expected to build upon and the pitfalls it will have to address.

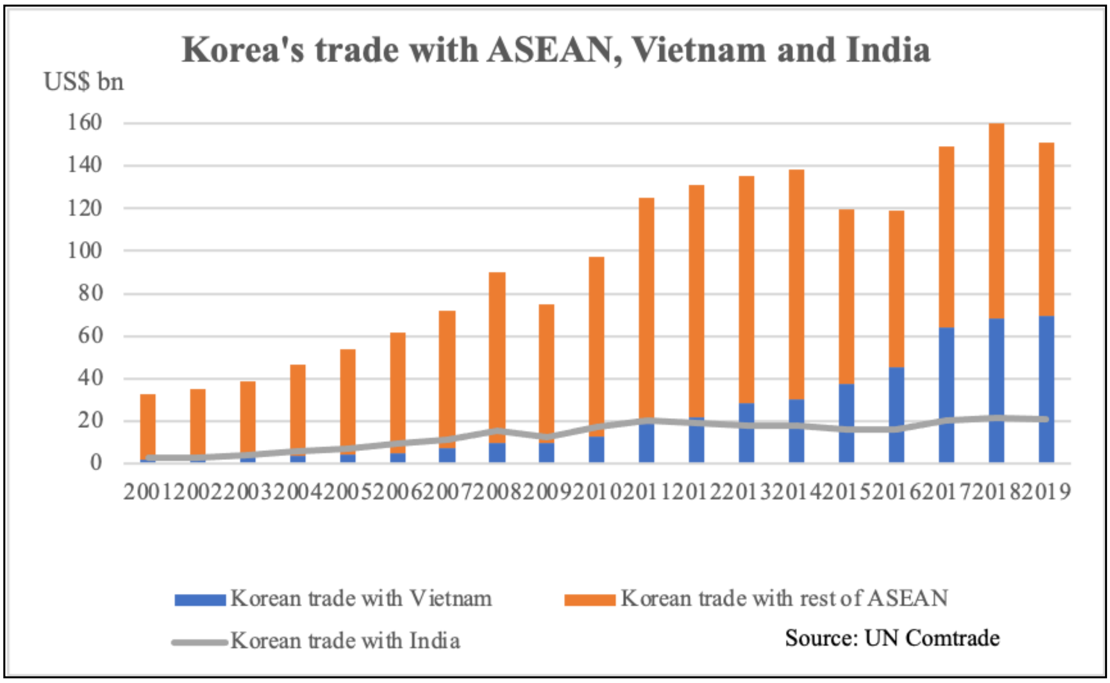
Korea's tightening economic relations with ASEAN and India

Trade

Since 1989, Korea's trade with ASEAN countries has soared dramatically. From about US$8 billion in 1989 it reached US$38.3 billion in 2000 and US$160 billion in 2018,[2] close to a twentyfold increase in thirty years. As a result, ASEAN's share in Korea's trade rose from 8 percent in 1990 to 14 percent in 2018, on a par with the EU, but ahead of the United States (11 percent) and Japan (8 percent), and second only to China (23 percent). ASEAN thus now stands as Korea's second largest trading partner, while Korea is ASEAN's fifth largest trading partner, behind China, the United States, the European Union, and Japan.[3] In 2019 ASEAN was also the most popular region for Korean travelers, with more than 10 million Koreans visiting Southeast Asian destinations.

2. But it fell back to US$150 billion in 2019.
3. Korea's exports have grown more sharply than imports, and Korea has maintained a substantial trade surplus with its ASEAN partners.

Figure 1



More importantly, the structure of trade between Korea and ASEAN underscores their high complementarity; Korea is rich in capital and technology while ASEAN countries are rich in labor and natural resources. The two partners are, indeed, connected through regional value-chains, with Korea importing raw materials from ASEAN (coal and oil from Indonesia in particular) and exporting intermediate products to ASEAN (electronic integrated circuits to Malaysia, Thailand and, more importantly, Vietnam), and reimporting final products from ASEAN (telephone sets from Vietnam in particular).

The complementarity can be also seen in the financial sphere, with Korean savings being channeled to ASEAN through bank loans granted either to Korean companies operating in ASEAN or directly to ASEAN financial institutions (Lee 2020).

By country, Korea's trade with Vietnam grew at the most rapid pace. In 2018 Vietnam accounted for 42.7 percent of Korea-ASEAN trade (37.5 percent for imports and 50.7 percent for exports). While Vietnam was Korea's 59th largest export partner in 1989, it became its fourth largest partner in 2018. Korea-ASEAN trade is thus heavily skewed towards Vietnam.

By contrast, India is still a relatively marginal trade partner for Korea, ranking as its 20th largest source for imports and seventh largest market. Trade relations between India and Korea have gathered momentum only recently; annual bilateral trade crossed the US$20 billion mark for the first time in 2018. However, India still lags far behind ASEAN, with a share in Korea's total trade of less than 2 percent (1.89 percent) in 2018. As with ASEAN, Korea records a trade surplus with India.

Outward direct investment

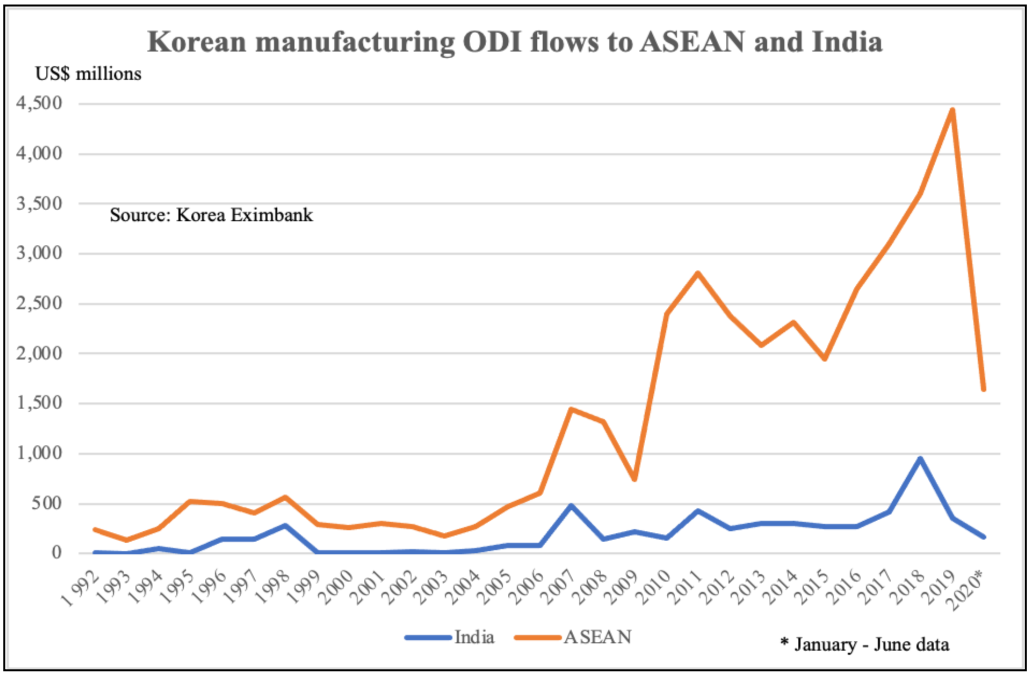
In line with the trade flows described above, Korea and ASEAN are also tightly connected through direct investment. Over the period 1980 to 2018, cumulative Korean outward direct investment (ODI) in ASEAN has been on a par with Korean ODI in China (Moon *et al.*, 2020), making Korea ASEAN's fifth biggest source of foreign direct investment. In 2019 alone, Korea's investment in ASEAN was US$8.3 billion, while about 10,000 Korean companies employ millions of ASEAN workers.

Large Korean companies investing in ASEAN are often accompanied by Korean small and medium-sized enterprises (SMEs), which act as suppliers.[4] In other words, smaller companies tend to go where bigger ones do. In addition, Korean SMEs are investing in labor-intensive activities such as the textile industry, as in Cambodia or Indonesia, or in services activities (restaurants, beauty salons) as in Singapore. However, most SMEs tend to show a low average sales or profit ratio, suggesting that government support might be necessary (Moon *et al.*, 2020).

As for the sectors targeted by Korean companies in ASEAN, they differ substantially across countries. Indonesia and Myanmar, for instance, attract substantial investments in the mining sector, while manufacturing ODI dominates in Malaysia and Vietnam. Over time, the share of manufacturing has risen, and Korean companies have also tended to change their strategies; they are no longer using the region exclusively as a production base but are increasingly advancing into service sectors and targeting growing local consumption markets.

4. This is a standard strategy for SMEs, to carve out niches as suppliers of a narrow range of items to particular chaebols (large family-owned business conglomerates).

Figure 2



As can be seen in Figure 2, Korean manufacturing ODI in ASEAN and India is a relatively recent phenomenon. It started to rise in the early 2000s but dropped sharply in the wake of the global financial crisis before regaining momentum, starting in 2010. Overall, however, ASEAN has gained importance as a destination for Korean manufacturing ODI since the early 2000s: ASEAN's share in Korea's total flows rose from about 5 percent in 2001 to 30 percent in 2010. Ever since that date, its share has hovered between 20 and 30 percent.[5] As in the case of trade, in the most recent period the sharp rise in ODI in ASEAN is heavily driven by a single country, Vietnam.

As for India, it lags behind ASEAN as a destination for Korean ODI as it does with trade, although the trend has also been rising since 2010. India's share remains modest, at less than 5 percent of total Korean manufacturing ODI. Korea's total ODI to India crossed the US$1 billion mark in 2018,[6] while the average investment over the period 2014–17 was US$370.8 million per year.

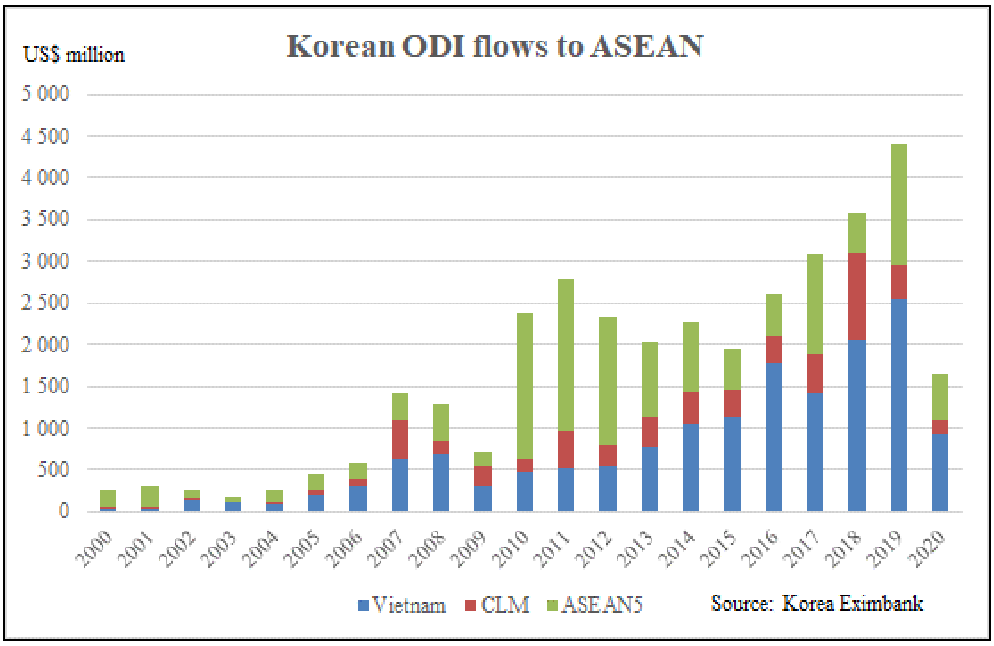
Today, Korean investment in India focuses primarily on manufacturing industries (which account for more than 80 percent of the total). Most Korean investments are through wholly owned subsidiaries,

5. ASEAN's share in Korea's total ODI was about 14 percent over the period 2008–2018.
6. It fell back to less than US$500 million in 2019 (Keximbank).

while joint ventures with Indian companies are rare. This strategy is in contrast with the Japanese model, which followed the typical process of technical tie-ups, participation as minority stakeholder, and subsequent expansion of stakes. Large Korean companies, including Samsung, LG, Hyundai and Kia, have a huge presence in the automobile, mobile-phone and electronic sectors in India.[7]

The expansion of Korean ODI in ASEAN and India reflects Korean companies' strategy of relocating production to maintain competitiveness, but also to leverage complementarities between the two regions. Several Korean companies indeed decided to move away from China and into Vietnam in response to a range of factors (rising labor costs and hardening political context). Samsung's decision to pick Vietnam as an alternative production location, made in 2013, was based on the perceived attractiveness of the country as a production base. As a result, Korean manufacturing ODI in Vietnam crossed the US$1 billion mark in 2014. As of today, Samsung is the single largest foreign investor in Vietnam, with investments totaling US$17 billion. But other companies made similar calculations; Hyundai Motor for instance has increased production of automobiles in Vietnam while suspending a manufacturing line in Beijing.

Figure 3



7. Several of these companies have become household names in India (Kesavan *et al.*, 2020).

The Covid-19-associated crisis is likely to further reinforce this trend since engaging in the diversification of supply chains and more generally of economic partnerships is increasingly perceived as the best way to minimize exposure to future trade disruptions and enhance supply-chain resilience.

Next to manufacturing, Korean companies are traditionally active in infrastructure development, a sector in which they received government support. As of 2018, with US$98.9 billion in orders, the New Southern region has become more important for Korean construction companies than the Middle East (US$85.7 billion), where they have been historically heavily invested. A major issue, however, is that Korean construction companies, which are often small and medium-sized, tend to be primarily involved in simple sub-contracting, with little value-added (Kwak and Lim, 2019).

While the trends described so far generally reflect independent private-sector activities, public policies may have also shaped them to some extent. The free-trade agreements (FTAs) negotiated by Korea and its Southern partners probably contributed to the expansion of bilateral trade and investment, although the trend predates the entry into force of these FTAs.[8]

Official development assistance (ODA)

Until recently, the major form of Korean public economic intervention in ASEAN and India was through its official development assistance policy. The Korean ODA policy is based on two separate instruments: first, the Economic Development and Cooperation Fund (EDCF), founded in 1987, and secondly the Korea International Cooperation Agency (KOICA), founded in 1991. The policy of concessional loans, which is the Ministry of Finance's responsibility, is implemented by the EDCF fund managed by the Korean Import-Export Bank (KEXIM). The grants policy is set by the Ministry of Foreign Affairs and then implemented by KOICA.

The Korean government has a strong interest in developing relations with ASEAN and in helping less advanced ASEAN countries develop. Naturally, due to its geographical location and cultural proximity Asia has been the largest recipient of Korean bilateral ODA (grants and loans), attracting 78 percent of the total in the early 2000s. Although Asia's share has tended to decline over time, in 2018 the region still accounted for 46.3 percent of the total,[9] ahead of Africa (27.9 percent). Within Asia, Southeast

8. The Korea-ASEAN FTA on goods entered into force in June 2007 and the Korea-India comprehensive economic cooperation agreement (CEPA) was set in place in 2010.
9. In 2009, 54 percent of total Korean ODA was channeled to Asia and 32 percent to Southeast Asia.

Asia is the primary target (with 25.4 percent of the total), ahead of Central and South Asia (14.3 percent), according to EDCF data (EDCF, 2019). In terms of activities, Korean ODA in ASEAN focuses today on infrastructure and sustainable development projects.

Figure 4

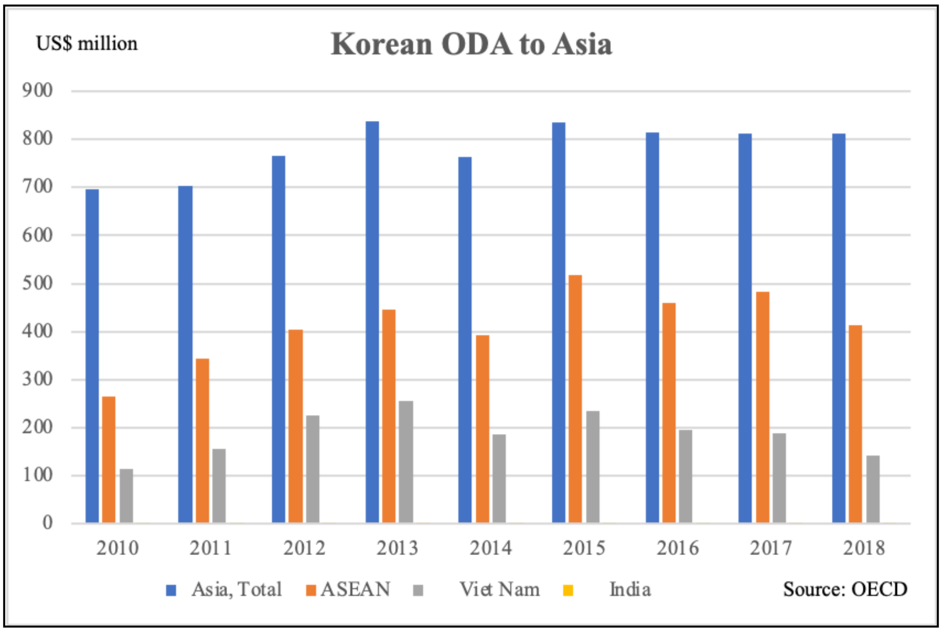
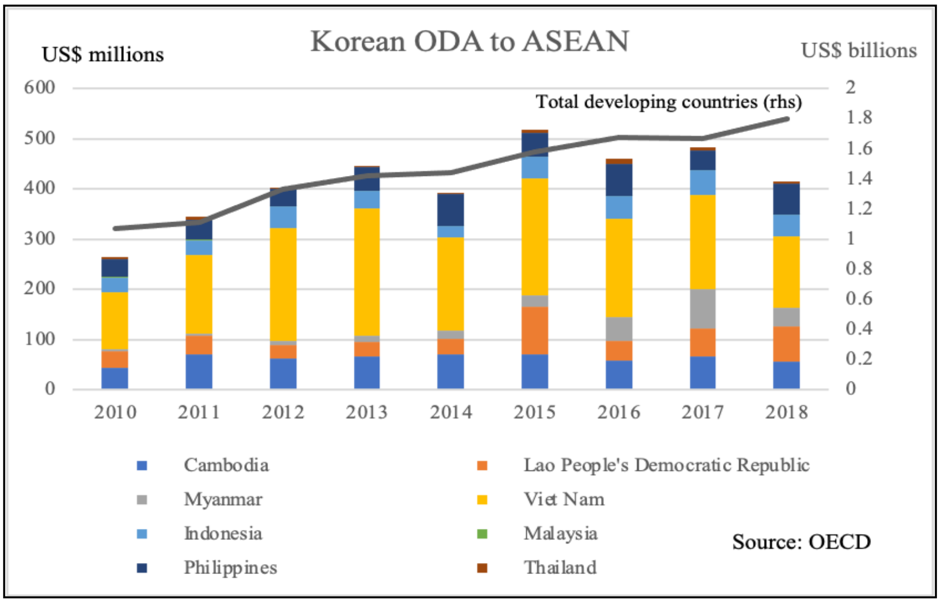


Figure 5



Six ASEAN countries are among Korea's priority partners: the four CLMV countries (Cambodia, Laos, Myanmar, and Vietnam), Indonesia and the Philippines. Among these countries, Vietnam receives the lion's share, with some 44 percent on average of Korean ODA in ASEAN over the last decade (2010-18).[10]

In 2018, Vietnam still accounted for 7.8 percent of total Korean ODA disbursements (grant equivalent sum of grants and loans) after peaking at close to 18 percent in 2013 (OECD, figures). The same holds true for EDCF's financing: as of December 31, 2019, Vietnam accounted for 18.4 percent of Korea's total loan disbursements, ahead of Bangladesh, the Philippines, Cambodia, and Myanmar (Han, 2019).

By contrast and not surprisingly, although India is not among the major recipients of Korean ODA, it receives development assistance and concessional credit from Korea, with a focus on infrastructure projects.

Assessing Korea's economic involvement in ASEAN and India

The figures relating to trade and investment reflect the state of play before the NSP was implemented. They also reflect long-term trends. Several lessons emerge from these observations.

First, while ASEAN is an important partner for Korea, Korea is a relatively marginal partner for ASEAN, lagging far behind its traditional Asian competitors, China and Japan. Due to its small size, Korea is not able to compete head-to-head with China and Japan on these markets and must find a way to set its contribution apart from its competitors.

Secondly, heavy Korean economic involvement in ASEAN is to some extent an optical illusion; within ASEAN, Vietnam looms large, while the other countries remain relatively marginal targets from the trade and ODI perspective. In other words, while Korea has managed to cultivate strong trade and investment relations with Vietnam, it has been far less successful in more developed countries like Singapore, Malaysia, and Thailand. Focusing almost exclusively on a few fast-growing countries is certainly a source of vulnerability and would call for appropriate measures to rebalance the situation. On a more positive note, however, the heavy bias in favor of Vietnam suggests that there is ample scope for further deepening Korea-ASEAN economic relations through a diversification of partners within ASEAN.

10. In the early 2000s, China was the primary target of Korean ODA.

Thirdly, India remains a marginal economic partner for Korea and may be deemed the weak pillar in its economic strategy so far. Despite its much larger size, India is even a much smaller partner for Korea than Vietnam, both in terms of trade and ODI. To be sure, this should not come as a surprise. For one thing, Vietnam is geographically closer to Korea than India, and it has a robust Korean community, with 7,000 Korean companies and 200,000 Korean expatriates.[11] Moreover, Vietnam has many favorable conditions for manufacturing industries, including qualified and cheap labor, good infrastructure, and well-developed industrial zones. Most importantly, when considering reorganizing supply chains, companies tend to favor countries that provide a solid administrative and legal framework for businesses. On this specific point, India is deemed to be at a disadvantage compared to Vietnam. While India is potentially one of many attractive destinations, Korean companies would be inclined to shift to countries that are more predictable.

Fourthly, except through ODA, the role of the government has remained limited so far in supporting the expansion of economic links between Korea and ASEAN, and to a lesser extent India. Korea's economic presence and activism in ASEAN and India is nothing new, but it is primarily the result of private-sector initiatives, with large Korean companies investing increasingly in the region to take advantage of welcoming business conditions and to reduce their dependence on (and vulnerability to) China. And, despite generous reshoring incentives granted by the government, Korean companies chose to relocate in ASEAN or India rather than back home, based on economic and profitability considerations. As a result, until now, Korea's economic presence in the region does not result from, nor reflect, a well-structured approach to these two regions.

Incidentally, the key role played by the private sector may to a large extent explain why Korea's presence in ASEAN is heavily skewed towards a single partner. Obviously, from the government's perspective, there are limits to what Korean companies can achieve. There is thus a clear need for some form of public intervention to reorient Korean flows and to achieve a better balance. Among other things, this is what the NSP is getting at. While the initiative can capitalize on existing assets, to be successful it must also bring some form of added value. This will be examined in the next section.

11. Shin Bongkil, South Korean Ambassador to India, in an interview with *The Sunday Guardian* on October 31, 2020. See A. Mishra, "Red Tape, Air Pollution Hurdles to South Korean Investment in India".

The economic pillar of the NSP: An interim assessment

Stronger rationale for economic diversification

One of the major objectives of the NSP in its economic dimension is to seek to reduce what is perceived as Korea's excessive economic dependence on China. From the Korean government's perspective, the risk associated with such a dependence was highlighted in 2017, when, following Korea's deployment of the Terminal High-Altitude Area Defense (THAAD) anti-missile system, China launched a campaign against Korean economic interests. The asymmetry in the bilateral relationship made Korea particularly vulnerable. China accounted for approximately 25 percent of Korea's merchandise and service exports at the time of the dispute, while Korea was the source of just 10 percent of Chinese merchandise imports and did not feature among the mainland's top service suppliers (Lim, 2019). It was thus easy for China to use Korea's state of dependence in a coercive way. Although the goal is ultimately a geopolitical one, it is achieved through economic means.

This objective of risk mitigation is to a large extent shared by the private sector, although for private companies the objective of economic efficiency may tend to prevail over economic security. Moreover, the macroeconomic condition of interdependence does not create uniform microeconomic vulnerability within an economy.[12] However, risk diversification may also be sought for purely economic reasons associated, for instance, with the rise in production costs.

This rationale for diversification away from China has undoubtedly been further reinforced by the Covid-19 crisis, for several reasons. First, the disruption of supply chains triggered by the Chinese government's response to the pandemic, with the complete lockdown of a large part of the country and the economy's grinding to a halt, reverberated quickly on neighboring economies, and more specifically on those that were tightly

12. More than the mere existence of interdependence, it is the asymmetrical nature of the interdependence that may be a source of vulnerability.

linked with China, with Korea as a case in point.[13] The crisis laid bare the vulnerabilities resulting from vertically integrated supply chains and called for means to reduce them, be it through reshoring, relocating production or diversifying suppliers.

However, other (more political) considerations have further reinforced the rationale for seeking to diversify away from China. The vulnerability generated by economic interdependence may indeed be weaponized at the expense of one of the parties, and such was again the case in the wake of the Covid-19 crisis. The recent measures taken by the Chinese government against Australia, after Canberra asked for an independent investigation into the origin of the coronavirus, have also clearly shown that a high degree of economic reliance on China can be risky inasmuch as it provides the Chinese government with an opportunity to use economic coercion.

The reassessment of the China risk has led the Korean government to seek to reduce its exposure to China's coercive pressure, and Korean companies to seek alternative production bases and to tap other fast-growing markets such as ASEAN and India. In this respect, the objectives of diversification on the part of the private and public sectors dovetail, at least to some extent.

Next to the diversification objective, the NSP also aims at facilitating the further expansion of private-sector-based economic integration between Korea and its southern partners through various means, including providing financial support, but also in sectors in which private companies would not necessarily engage on their own. The diversification objective of the NSP's economic pillar is thus not only geographical but also sectoral.

While the initial version of the NSP merely provided very general guidance regarding the expansion of Korea's economic activities in the two Southern partners, at the 21st Korea-ASEAN Summit held on November 12, 2020, President Moon Jae-in unveiled the NSP Plus, which is an upgraded version of the earlier one, providing more details about the tools to be used as well as the sectors to be privileged.[14]

13. Hyundai had to temporarily suspend production lines at its factories in Korea because of shortages of Chinese parts resulting from the coronavirus outbreak in China.
14. The seven core areas of cooperation are as follows: i) cooperation on comprehensive health and medicine post-Covid-19; ii) supporting human resource development and sharing South Korea's education model; iii) promoting mutual cultural exchange; iv) establishing the foundation for mutually beneficial and sustainable trade investment; v) supporting infrastructural development of rural and urban areas; vi) cooperation on future industries for mutual prosperity; and vii) cooperation in non-traditional security sectors.

New financial instruments targeting niche activities

In addition to the diplomatic arena where efforts are deployed to reduce dependence on China and avoid losing out too much to the other Asian players also operating in the region (Japan and China), the NSP sets several economic objectives in terms of trade or investment. While reaching the US$200 billion goal for ASEAN-Korea trade may be expected to be relatively easy, given the pre-existing dynamics, other targets may be more complex and require the mobilization of financial means. To that end, several mechanisms have been put in place targeting specific sectors.

At the ASEAN-Korea commemorative summit held in Busan in November 2019, two years after the official launch of the NSP, the Korean government promised to double down on efforts to develop economic ties. As a result, the annual budget of the ASEAN-Korea Cooperation Fund (AKCF, established as early as 1990) was raised from US$7 million to US$14 million.[15] The objective is to support ASEAN's development through implementing projects and activities under the new ASEAN-RoK Plan of Action (2021-2025).

Another important objective of the Korean government is to help companies participate in infrastructure development projects in ASEAN and India. To that end, President Moon established the Korea Overseas Infrastructure Urban Development Support Cooperation (KIND) in 2018. The KIND, which was inspired by Japan's Overseas Infrastructure Corporation for Transport and Urban development (JOIN), established in 2014, is a government agency whose role is to foster public-private partnerships internationally and to support Korean companies at all stages of project implementation (planning, feasibility study, profitability assessment). It focuses on establishing well-connected measures to develop overseas infrastructures.

While its scope is not limited to the New Southern region, the KIND started out operating in Asia and has offices in India and Vietnam.[16] As explained earlier, in the infrastructure sector, Korean construction companies were found to be losing ground; moreover, they are primarily active in relatively low value-added projects in ASEAN, and the

15. The objective of the fund is to contribute to the realization of the ASEAN Vision 2025.
16. The KIND has another office in Uzbekistan; in July 2019, it opened an office in Nairobi, the fourth one in the world and the first one in Africa.

establishment of the KIND aims precisely at helping them sharpen their competitive edge (Kwak and Lim, 2019).

Korea has been a long-time partner of ASEAN in the infrastructure sector. Since 2013, the ASEAN-Korea Centre has been organizing the annual ASEAN Connectivity Forum to allow the Korean business community to become an active participant in the region's development by introducing physical connectivity-related projects, with a special focus on digital innovation. To be more specific, Korea lends its expertise in connectivity projects in transportation, energy, and ICTs, where Korean companies are highly competitive. Korea also provides assistance and facilities to improve infrastructure links throughout the region through a PPP scheme.

In 2018, the Korean government committed to raise US$200 million for a Global Infrastructure Fund by 2022, in order to revitalize the overseas construction industry. Many of the Korean construction companies involved in infrastructure development are SMEs, which may be hesitating to go abroad for lack of funds and would benefit from government financial support provided through the Global Infrastructure Fund. In this respect, the KIND plays a key role in the effective allocation and utilization of the funds.

About half of the fund (US$92 million) will be earmarked for infrastructure development financing in NSP partner countries (Han and Ong, 2019).[17] The ASEAN-Korea Infrastructure Fund will target transportation, energy, water resources and smart-city development. Examples of bilateral collaboration include light-rail expansion and renewable energy projects in Indonesia; plant construction in Vietnam; a new harbor construction in the Philippines; an electrical station construction in Myanmar; smart-city development in Singapore; and the implementation of an ICT master plan in Cambodia.

The focus on infrastructure is aligned with ASEAN's interests. Policymakers in Southeast Asia have recognized the growing importance of enhancing connectivity in the region, with infrastructure improvements as a priority. The Master Plan for ASEAN Connectivity (MPAC) calls for such improvements to spur regional integration and the fulfillment of the ASEAN Economic Community.

Interestingly, realizing that Korea has lost competitiveness to China in simple overseas construction and plant projects, but also that it cannot compete in terms of financial means, and that it is not able to compete with

17. The rest covers the CIS region, Russia, Eastern Europe and Mongolia.

Japan's Quality Infrastructure Partnership initiative, the Korean government is shifting its focus to niche activities in which it may have a competitive advantage. One such niche is the market for smart-city projects. The positive aspect of this choice is that it squares perfectly with demand in ASEAN and India. Although several projects have already been launched in India and in some ASEAN countries, there is scope to do more.

To that end, Korea plans to set up a new fund worth KRW 1.5 trillion (US$1.2 billion), the so-called Global Plant, Infrastructure and Smart City Fund (PIS), through the recently established KIND, to support Korean companies' exports of smart-city technologies, as part of efforts to foster smart cities as one of the country's future growth drivers. About US$300 million of the fund will be earmarked to back promotion of Korean smart-city projects in ASEAN.

Moreover, following the launch of the Korea Smart City Open Network (K-SCON), a collaborative network for smart-city development, four ASEAN countries will be selected through an open process and provided with funding for master plan or pre-feasibility study development for smart-city projects. ASEAN and Korea have also built 23 cooperative relationships on smart-city development since the launch of the ASEAN Smart Cities Network (ASCN) in 2018.

Laying the ground for further trade and ODI expansion

A major objective underlying the NSP is to help the development of Korean companies' operations in ASEAN and India. But the NSP merely provides a general direction, without giving any details about the implementation.

Interestingly, in contrast to Japan,[18] Korea has not chosen to provide financial support to Korean companies (wishing) to shift away from China to Southeast Asia or India. In 2013, the government made changes to the legislation that would give more support to reshoring companies,[19] and in early 2020 it extended its reshoring subsidies to a larger number of sectors (services and IT). This strategy seems to be ill-targeted. Indeed, the early measures did not prove particularly successful; few companies availed of the incentives. Moreover, anecdotal evidence suggests that firms

18. Japan has earmarked US$2.2 billion of its record economic stimulus package to help its manufacturers shift production out of China as the Covid-19-associated crisis led to disruptions in the supply chains between the major trading partners.
19. These incentives took the form of tax breaks and support covering part of the reshoring investment costs.

considering cutting back operations in China are looking to relocate in ASEAN or India rather than back home.[20]

Instead of explicit subsidization (or incentivization), the Korean government has opted for indirect support through the negotiation and implementation of various trading arrangements (FTAs or Comprehensive Economic Partnership Agreements – CEPAs). In addition to the Korea-ASEAN FTA in force since 2007, Korea has concluded a CEPA with Indonesia and is negotiating with the Philippines. Korea also signed a CEPA with India, which entered into force in 2010. In the latter case, however, bilateral trade has not been growing as expected following the entry into force of the agreement. Both countries believe that the full potential of bilateral trade has not been tapped so far (Kesavan *et al.*, 2020). They have thus taken measures to review the CEPA and implement corrective measures. Despite the political will on both sides, recent developments do not bode well for the further deepening of the bilateral trade relations. India's turn inward does not lay the ground for stronger cooperation.

In this respect, the recent conclusion of the Regional Comprehensive Economic Partnership (RCEP) signed by 15 countries[21] will also contribute to give substance to the economic part of the NSP. The implementation of the agreement will undoubtedly help further strengthen trade and investment relations between Korea and ASEAN. By contrast, India's decision to keep out of the RCEP suggests that flourishing Korea-India trade and economic relations will remain elusive in the years to come.

20. Obviously, the high labor costs in Korea do not make it an attractive destination for companies engaged in labor-intensive activities.
21. They include the 10 ASEAN members and their five dialogue partners: South Korea, China, Japan, Australia and New Zealand.

Conclusion: What chance of success for the NSP's economic pillar?

In contrast to the initial version of the NSP, the NSP Plus is a more concrete strategy. Its major contribution is to provide a framework, clear objectives, and instruments to achieve them. The jury is still out about the possible success of the economic pillar of the strategy. While the objective of US$200 billion in trade is reasonably realistic, the prospects are more uncertain in other areas.

Until the NSP was launched, it was up to the Korean private sector to deepen ASEAN-Korea economic relations. With the NSP, the government is gradually taking the lead, with cooperation from the private sector and civil-society organizations. One obvious way might be for Seoul to offer financial incentives to companies to move away from China and relocate in Southeast Asia, as Japan has done. The probability that these incentives would be successful is quite high as they would match Korean companies' expectations. But this is not the option chosen so far.

However, the convergence of views between the private and public sectors certainly bodes well for the further expansion of economic relations through trade and investment. To be successful, the public support should act as a complement to private-sector initiatives and activities.

In this regard, the identification of niche activities in which Korea is widely perceived as holding a competitive advantage is a positive point. Moreover, the cooperation between a large number of players (inter-ministerial cooperation) should help to make the endeavor more effective.

Lastly, the probability that the NSP will outlive President Moon is reasonably high. In Korea, presidents usually want to leave a mark and have their name attached to an initiative or a strategy,[22] but due to the one-term limit these initiatives often disappear once the president leaves office. The NSP may be an exception and have more chance to endure. First, as explained at length, the NSP does not develop in a vacuum but will help deepen and strengthen already existing trends. Secondly, there seems to be

22. Lee Myung-Bak's "New Asia Initiative", Park Geun-hee's "Northeast Asia Peace and Cooperation Initiative" (NAPCI) for instance.

a real convergence of views and goals between the private sector and the government. Their respective objectives dovetail quite nicely, even if the complementarity between the two levels can be enhanced. Thirdly, and perhaps more importantly, the strategy also aligns rather well with the recipient countries' interests and objectives. This is particularly true in the case of infrastructure development in ASEAN. Lastly, institutional changes (in particular through the establishment of special committees, for instance) will help this new policy toward ASEAN and India remain intact in the future, regardless of a new government.

However, several less positive signals should not be underestimated. First, for the time being, not much has been done to correct the lopsided economic relations in favor of Vietnam, to facilitate the expansion of Korean companies into higher value-added activities, or to help develop their economic presence in India.

Another major weakness of the strategy is the absence of a powerful and convincing narrative to go with it. In other words, the communication around the NSP has been badly wanting so far. This probably accounts for the overall relatively negative perception of Korea by ASEAN populations for instance, as well as for the lack of visibility of the strategy. Of course, this weakness goes beyond the economic dimension of the NSP and would need to be addressed at a more general level.

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