


Korea's New Southern Policy: Vision and Challenges



Sungil Kwak

Ph.D., Director General, New Southern Policy Department
Korea Institute for International Economic Policy 

The Vision of the New Southern Policy

The Korean government's New Southern Policy aims to cultivate its relations with ASEAN and India as key partners in the southern region, raise this partnership to the level of Korea's traditional four major diplomatic partners (the U.S., China, Japan, Russia), develop values that can be empathized with others, and build a mutually prosperous "people-centered" community. The New Southern Policy aims to form a multilateral economic and diplomatic framework to adjust to the U.S.'s priority on domestic concerns, which has been in full swing since the inauguration of the Trump administration, and to the expansion of China's influence across East Asia. Korea's trade has been heavily dependent on the United States and China. Over the last three years (2015–2017), the United States and China accounted for 38.1% of Korea's total exports. In terms of total value of exports and imports also, China and the U.S. accounted for 35 percent. This concentration on a certain few countries in its trade structure has made Korea susceptible to changes in their foreign policy strategies and constrained the range of changes in its foreign economic policies. South Korea experienced difficulties in its relations

with China in 2016 due to the THAAD issue, and has also experienced difficulties in exporting to the U.S. due to the strong nationalistic trends it has shown since the inauguration of the Trump administration. If Korea is to establish a foreign economic policy that maximizes its profits with confidence, it should first diversify its trade structure centered on a few certain countries and reduce its external risks. The New Southern Policy does not merely aim to replace the U.S. and China with new southern regions, but rather to expand its scope of cooperation while maintaining relations with the U.S. and China. Therefore, the vision of the New Southern Policy can be summarized as a strategic foreign policy that pursues the nation's practical interests along with its traditional four major diplomatic partners (the U.S., China, Japan, Russia) and new southern regions, based on a more balanced form of diplomacy.

The New Southern Policy emphasizes the so-called "3P community," which stands for a community of People, Prosperity and Peace. The people-centered values stipulated in the ASEAN Constitution and the basic principles espoused by the current administration, which emphasizes that "people are first," are in line with the New Southern Policy in its pursuit of a people-centered community. In addition, in order to build a mutually prosperous community, the Korean government is seeking greater regional trade and common prosperity through revision of the FTAAP and Comprehensive Economic Partnership Agreement (CEPA). Finally, the New Southern Policy aims toward a community of peace. Although there remain uncertainties in Northeast Asia due to the nuclear development of North Korea, President Moon Jae-in has confirmed his support for the New Southern Policy and the establishment of a peace regime on the Korean Peninsula during his visits to ASEAN and India. ASEAN members, as key partners in the New Southern Policy, have diplomatic relations not only with South Korea but also with North Korea. If ASEAN could communicate to North Korea from a neutral perspective the various effects we can expect with a peace regime established on the Korean Peninsula, and work to relieve the pressure applied on North Korea from international powers, this would accelerate the process of denuclearization and establishment of a peace regime on the Korean Peninsula.

Once a peace regime has been established on the Korean Peninsula, it can serve as a bridge that connects the economic achievements of the southern region to the northern region, and provide new opportunities for prosperity in Asia, not to mention for Korea as well. The Korean Peninsula serves as a path for the northern region to supply energy and power to the southern region, and serves as a channel for the southern region again to export produced goods to the northern region. It can also be a bridge to send agricultural and fishery products produced in the northern region to India and the ASEAN market with a population of

2 billion. This newly formed logistics flow in East Asia will greatly contribute to Asian prosperity.

The New Southern Policy will offer new growth strategies for Korea, as well as for Asia, through the combination of the Korean government's "New Economic Map for the Korean Peninsula" and its New Northern Policy. If countries discover and develop each other's strengths to build a mutually prosperous community, which is the goal of the New Southern Policy, this in itself could serve as a new growth engine. For example, India, a key partner of the New Southern Policy, has very high levels of basic science, but low levels of applied science to commercialize science projects. Applying our commercialization technology and experience to India's basic science can foster high-tech manufacturing industries, resulting in both countries becoming leaders in this field. In the same vein, President Moon expressed high hopes for the formation of a Future Vision Strategy Group during his visit to India in July. If Korea and India conduct joint research in the fields of ICT, software, bio, cyber security, healthcare, energy, future cars, and space field, and expand exchanges of excellent human resources, this is highly likely to yield economic results, maximizing the strengths of both countries.

Implications of the U.S.-China Trade Conflict and the New Southern Policy

Unlike the Obama administration in the past, the Trump administration has raised various issues against China, including intellectual property rights, security and technology issues as well as trade imbalances between the two countries. The U.S., concerned that China could become a leading player in the future high-tech sector through its "Made in China 2025" agenda, appears to be applying trade pressure to prevent this. In an interview with Bloomberg in March, Peter Navarro, National Trade Council Director of the U.S., directly mentioned that the U.S.'s Section 301 investigations were targeting Made in China 2025. In May, the United States announced a 25 percent tariff measure on related products worth \$50 billion, explicitly targeting the Made in China 2025 initiative, and imposed the first set of tariffs worth \$34 billion on July 6.

China has remained true to the principle of resolving U.S. trade pressure through negotiations, but is strongly opposed to issues that violate its core interests. Even though Chinese President Xi Jinping announced conciliatory measures at the Boao Forum in April – introducing the four major measures of easing restrictions on market entry, improving investment environment, strengthening protection of intellectual property rights, and expanding imports – the U.S. imposed its first set of tariffs on China in July. As a result, China also imposed an

additional 25 percent retaliatory tariffs on \$3 billion worth of U.S. exports. There is a high possibility this conflict will be prolonged because comprehensive measures are required to resolve the U.S.-China trade conflict, based on China's concessions, such as the removal of subsidies and support restrictions relating to its Made in China 2025 strategy, reduction of trade imbalance, opening of agricultural and service markets, and protection of intellectual property rights.

For Korea, the effect of the first tariffs imposed by the United States and China on goods worth \$34 billion is limited in the short term. This is because among the intermediate goods exported to China, only 5 percent of them are exported back to the United States. However, we should prepare for a prolonged period of turmoil. The New Southern Policy holds value as a long-term response to the U.S.-China trade dispute as it seeks diversification of economic cooperation. Professor Paul Krugman from the City University of New York also emphasized at the Jeju Island Forum this year that regional trade systems such as the European Union are important, when considering that Korea could suffer greatly if the U.S.-China trade dispute is prolonged. The protracted trade conflict between the two major powers could constrict global trade, reduce Korea's competitiveness in exports due to the depreciation of the yuan, and increase instability in the international financial market. Therefore, we should try to expand sustainable trade and investment relations with ASEAN and India based on the New Southern Policy to counteract protectionism.

In addition, the stronger that the U.S. applies pressure against the Made in China 2025 agenda, the higher becomes the possibility that China's development of high-tech industries will be delayed. Such a delay in Chinese development could serve as a golden opportunity for Korea to foster its high-tech industries along with the new southern regions. The government should utilize cooperation in future innovative industries as a momentum for the advancement of the Korean industry with partners in new southern regions. Meanwhile, the anti-American movement in China, U.S. product boycotts, and a decrease in sales of Chinese products due to the U.S. tariffs are also an opportunity for Korea. If Korea produces products to replace Chinese ones by utilizing Korea's commercialization technology, the labor force in ASEAN, and India's basic science and technology, these will be able to target the U.S. market. As Korea's history has never revealed any imperial ambitions, unlike China or Japan, ASEAN and India would have no reservations against cooperating with the nation.

Challenges for the New Southern Policy

We have looked at the economic significance and implications of the New Southern Policy. However, if Korea fails to properly implement the New Southern Policy, the policy could become nothing more than a specious idea. In order to push ahead with the New Southern Policy based on the current public support, the following tasks should be resolved in a short period of time. First, since the 1990s, Korean corporations such as Samsung, Hyundai, LG and Daewoo have continued to advance into the ASEAN region, such as Thailand, Indonesia, Singapore, Malaysia, and Vietnam, and the advance of Korean companies into ASEAN and investment in the region have steadily increased despite the Asian financial crisis in 1997 and the global financial crisis in 2008. The government has only taken intermittent interest in the region, unlike Korean corporations that have continued to advance into the ASEAN region with the aim of aligning themselves with ASEAN growth, and the government's performance has failed to meet expectations while private enterprises in the region have achieved good results. Therefore, the New Southern Policy should be pursued as a strategy where the government completes the axis of prosperity through links with the New Northern Policy ultimately from a long-term perspective and prepares for the era of peace on the Korean Peninsula. This will require the establishment of a system that can sustain progress toward these goals. A specific roadmap should be drawn up and carried out responsibly through a clearly established system. In line with the New Southern Policy, we should look back on the achievements of the leaders in Indonesia, the Philippines, Vietnam, India and Singapore and reflect them into our mid- to long-term roadmap if needed. If the New Southern Policy Roadmap is systematized and organized, not only the Korean people but also the countries in new southern regions will gain high trust in this policy. Also, performance indicators should be prepared to evaluate the long-term progress of the New Southern Policy as a continuous strategy, rather than fluctuating between hopes and fears over short-term performance. Only then can the New Southern Policy and New Northern Policy assume a significant position as Korea's new global growth strategies, along with the New Economic Map for the Korean Peninsula.

Second, we need to make efforts to increase the understanding of the Korean people and at the same time to promote ASEAN and India's understanding of us as well. The Korean people are the key players in promoting policies such as the New Southern Policy with an emphasis on human exchanges and national diplomacy. Therefore, how well the Korean people understand the New Southern Policy will determine its success or failure. Unfortunately, there still remains doubt over whether we are prepared to play this role. Korea should quickly

shake off the notion that the ASEAN region and India are in any way inferior to Korea. Only by treating these regions as true partners in cooperation can Korea receive a corresponding level of treatment from ASEAN and India. Korea should also put into action various projects to mitigate any false prejudices held by ASEAN and India against Korea. In this respect, the government should actively utilize the soft power of Korea and use this to push for the New Southern Policy, such as by actively opening Korean Studies classes throughout ASEAN and India.

Third, Korea's recent trade and investment with ASEAN are concentrated in Vietnam, despite the New Southern Policy being a strategy to diversify its economy and diplomacy. Vietnam accounted for about 19.9% of Korea's total investment in ASEAN in 2010, but this percentage rose to 40.3% in 2017. Vietnam also accounted for 13.3% of Korea's total ASEAN trade volume in 2010, but its share expanded to 42.9% in 2017. This is evidence that Vietnam has established itself as the hub of Korea's entry into ASEAN, and that Korea's trade and investment centered on Vietnam should be diversified into other countries in the ASEAN region and India. This is because the New Southern Policy contributes to the formation of complementary relations without hurting ASEAN centrality in the ASEAN region, and aims to promote the joint growth of Korean companies along with regional trade. Furthermore, if this achievement is linked to India, the New Southern Policy will yield even higher economic results. Doing so would also help preparations for the ASEAN Economic Community (AEC), which is scheduled for launch in 2025. [KIEP](#)