

VOL  
24



## Korea and Australia: Building an infrastructure partnership for a stronger Indo-Pacific

Dr Kyungjin Song



Perth USAsia Centre

INDO-PACIFIC ANALYSIS BRIEFS 2021

## INDO-PACIFIC ANALYSIS BRIEFS 2021

The Perth USAsia Centre's Indo-Pacific Analysis Briefs seek to provide perceptive and contemporary insights from across the region. The series features leading analysts from Asia, Australia and the US to deliver up-to-the-minute assessments on issues of national and regional importance. This series will shine a light on the issues that remain critically important to Australia and the Indo-Pacific at a time when global events may otherwise dominate the news cycle.



AUTHOR **Dr Kyungjin Song**  
Director of the Innovative Economy Forum

Dr. Kyungjin Song is Director of the Innovative Economy Forum and was President of the Institute for Global Economics in Seoul.

She served the Government of the Republic of Korea in various capacities. From 2009-2011 she served as special adviser to the Chairman of the Presidential Committee for the Seoul G20 Summit in the Office of the President. She oversaw the entire production of the official White Paper of the G20 Seoul Summit in 2010. She worked as special assistant to the Special Economic Adviser to the President in the Office of the President 2008-2009. From 2004 to 2008, she worked in the Ministry of Finance and Economy as foreign press spokesperson. She also served as special adviser to the Chairman & CEO of the Korea International Trade Association from 2011-2012.

Dr. Song writes columns for Korea's daily newspapers in Korean and English. She also writes for international newspapers occasionally.

Dr. Song was awarded the Korean Government's Order of Civil Service Merit for her outstanding achievements in June 2011.



## KEY POINTS

- Despite the clear correlation between infrastructure development and economic benefits, the Indo-Pacific faces a vast infrastructure investment gap.
- China's infrastructure diplomacy has led to new projects across the region. However, many of these face difficulties due to regulatory constraints and weak financial commitments.
- Australia and Korea have complementary advantages for infrastructure investment, including experience and expertise, well-established public funds and relatively low business constraints.
- Cooperation between Australia and Korea should be supported by collective dialogue between think tanks, experts and the leaders of government and businesses.
- Korean leadership should aim for greater transparency and public awareness of its foreign policy to gain greater domestic support for Korea's international engagement in the Indo-Pacific.

### Renewed interest in infrastructure investment

There is a positive correlation between infrastructure development and economic growth and social development. This has been clearly displayed in the development stories of some Asian countries, including the Republic of Korea (RoK). Korea's economic development accelerated with the construction of its first highway, Gyeongbu Expressway in 1970. The construction project itself created more than 100,000 jobs and increased the nation's productivity in the long run. High growth periods coincided with high spending on infrastructure, especially from the mid-1970s until the Asian financial crisis in 1997-98.



Countries hit hard by the COVID-19 pandemic across the world are expanding investment in infrastructure to drive economic recovery and lift job creation and growth out of deep economic downturns. The IMF **predicts** that increased infrastructure investment over the next four years could increase global output by close to 2 percent.<sup>1</sup>

Infrastructure investment as a way of green recovery will be led by developed economies with fiscal space. In the US, the Biden administration and a group of Senators authorized the US\$1.2 trillion Bipartisan Infrastructure Framework in June, the largest long-term infrastructure investment in nearly a century.<sup>2</sup> In Korea, the **Korean New Deal** aims to increase large-scale infrastructure investment in digitalising, greening and strengthening the economy and society, with KRW220 trillion (US\$192 billion) to be injected until 2025.<sup>3,4</sup> Australia has also **allocated AU\$225 billion of its budget** for infrastructure funding from FY2020-21 to FY2023-24, which is a 26 percent increase from the FY2019-2020 budget.<sup>5</sup>

However, developing countries are lagging in infrastructure investment. In Indonesia, for example, despite having introduced a **fiscal stimulus package** worth 3.8 percent of its gross domestic product (GDP) in 2020<sup>6</sup>, this is still far below what is needed to respond to the COVID-19 pandemic and ramp up growth.

The global infrastructure investment gap is **estimated** to be around \$2.5-3 trillion per year.<sup>7</sup> Developing countries in the Indo-Pacific account for a substantial chunk of this gap. The Asian Development Bank (ADB) **estimated** in 2017 that its 45 developing member countries would need to invest \$1.7 trillion per year from 2016 to 2030, whereas the actual spending on infrastructure is estimated to be only about half as much as required.<sup>8</sup>



## Indo-Pacific infrastructure initiatives on the rise

The Indo-Pacific has a huge demand for physical and social infrastructure. For example, the region is largely underdeveloped with **low urbanisation**. As of 2019, with the exception of Singapore, Brunei and Malaysia, other countries in ASEAN are well below the world's average urbanisation rate of 55.7 percent. Indonesia lies at about the world's average (56 percent).<sup>9</sup>

### China, ambitious to become the region's hegemonic power, quickly seized the opportunity for infrastructure diplomacy in the Indo-Pacific.

China launched the Belt and Road Initiative (BRI) in 2013 as a powerful vehicle for this strategic purpose. Twenty-five countries in the Indo-Pacific have joined the BRI by signing a memorandum of understanding with China, along with 114 other countries around the world. China also led the multilateral endeavor to launch the **Asian Infrastructure Investment Bank (AIIB)** in 2016 with fifty-seven founding members including Korea and Australia. By the end of 2020, AIIB had 103 members, representing 79 percent of the global population and 65 percent of global GDP.<sup>10</sup>

Given the massive infrastructure financing gap, China's large financial firepower through BRI and AIIB was welcomed by some Indo-Pacific countries, mostly developing and emerging economies in pressing need of infrastructure investment. Despite the alleged risk of debt traps, China's financial assistance is in increasing demand, recording around **\$25 billion in investment** in Asia alone last year.<sup>11</sup> In light of Cambodia's high external debt, the **remarks** of Prime Minister Hun Sen at a recent international forum is testament to this demand: *"If I don't rely on China, who will I rely on?"*<sup>12</sup>

China's initiatives have subsequently led to the addition of a great number of national, bilateral, plurilateral and multilateral initiatives in and around the Indo-Pacific, on top of the existing initiatives such as the Greater Mekong Subregion Cooperation Program (launched in 1992) and the Master Plan on ASEAN Connectivity (initiated in 2010). These additional initiatives include Japan's Partnership for Quality Infrastructure (2015), Korea's New Southern Policy (2017), the US-Japan-Australia Trilateral Partnership for Infrastructure Investment in the Indo-Pacific (2018), the Blue Dot Network (2019), the Japan-US Mekong Power Partnership (2019) and the Mekong-US Partnership (2020).

The growing number of initiatives for the region is a welcome development, as more players means more competition for infrastructure projects and better transparency. However, many of them are on a much smaller scale and have not yet specified financial commitment. Thus, the total financing availability is still far from meeting infrastructure demand in the region. There also remains the critical question of ensuring transparency and accountability in infrastructure investment, aligning with the rules-based order.

## Korea and Australia: Partners for cooperation in the Indo-Pacific

Korea and Australia are well positioned to cooperate in boosting transparency and accountability in infrastructure investment in the Indo-Pacific. Both are non-threatening and non-interfering strong democracies, respect the rules-based international order, and have driven important initiatives for infrastructure development at the G20. Korea made "development" with nine pillars including infrastructure a G20 agenda at the 2010 G20 Summit in Seoul, and the Global Infrastructure Hub, a G20 development initiative established in 2014, is in part based in Sydney, Australia.

In 1974, Australia became the first non-ASEAN country to formally establish relations with ASEAN on a multilateral basis<sup>13</sup>. Australia's long presence has strengthened its understanding and knowledge of the region greatly to share with latecomers like Korea, which established full dialogue partnership with ASEAN only in 1991.

In recent years, Korea's efforts to solidify its ASEAN partnership have doubled down with its NSP to reduce economic and trade dependence on China and other great powers. In less than three decades, ASEAN has become one of Korea's largest trading partners, second only to China, with a trading volume of US\$153.4 billion as of 2019. It is Korea's third largest investment destination next to the US and the EU, with US\$9.54 billion invested in 2019. It is also Korea's largest overseas construction market, growing to US\$8 billion in **total orders** in 2019.<sup>14</sup>

Such fertile ground for cooperation gave rise to the bilateral "ROK-Australia Senior Officials' Policy Dialogue on Our Support for Southeast Asia and ASEAN". Newly launched in February 2021, ROK-Australia Policy Dialogue is aimed at strengthening and exploring opportunities for cooperation between Korea's NSP and Australia's Indo-Pacific strategy.

Issues discussed at the first meeting included the region's response to COVID-19 and public health, the Mekong region, economic recovery, digital innovation, and maritime affairs. Although no concrete action plan was agreed upon, its significance lies in the creation of a policy dialogue for strengthening bilateral cooperation, including identifying concrete deliverables and setting up consultative dialogues between both countries and within ASEAN.

For the ROK-Australia Policy Dialogue to become a meaningful mechanism, it is expected to develop a more concrete cooperation program that is clearly focused and result-oriented in partnership with the Master Plan for ASEAN Connectivity. Toward this end, the ROK-Australia Policy Dialogue needs to be supported by a bilateral 1.5 track dialogue of think tanks, experts, government officials and business leaders.

While the importance of infrastructure investment is well known, there is a lack of long-term investors in the region, public or private, due to various reasons such as regulatory constraints and the investment of regional savings elsewhere, including in US Treasuries.

Korea and Australia have **advantages** in this sphere, too. Both are ranked high in the World Bank's Ease of Doing Business Index as of 2019. Korea is ranked fifth, and Australia sits at fourteenth, while other Indo-Pacific countries ranked much lower, with exceptions to New Zealand (first) and Singapore (second).<sup>15</sup>

### **Australia and Korea can work together with other Indo-Pacific countries to create a more business-friendly regulatory environment to attract more infrastructure investment in the region.**

The two partners also have well-established public funds. Public funds are long-term investors with deep pockets, so they are suitable for infrastructure investments that often require long-term and large-scale investment. Korea's National Pension Service has an **asset value** of US\$784.2 billion, the third largest in the world, with a five-year (2016-2020) return of 6.4 percent as of March 2021<sup>16</sup>. Australia's Future Fund is a sovereign wealth fund with an **asset value** of A\$179 billion and a 10-year return of 9.1 percent as of March 2021<sup>17</sup>.

Australia and Korea's large public funds, both having great investment experience and expertise, should be invited to identify and promote joint investment projects in the Indo-Pacific. A joint water management project in the Mekong would make a good starting point. Such possibility should be explored bilaterally at the institutional level, possibly within the framework of the ROK-Australia Policy Dialogue. This joint investment program would help attract attention from other public funds and private investors for joint activities, multilateralise infrastructure investments, and help stimulate other regional infrastructure initiatives to deliver the commitments.

Korea and Australia, with a shared history of working with major multilateral development banks such as the ADB, the World Bank and more recently with the AIIB, should support joint efforts of these banks to make better use of their limited resources. The AIIB's consolidation of its position as a key multilateral development bank - backing 122 projects for a total of US\$24 billion in financing since 2016<sup>18</sup> - shows that it is here to stay.



As founding members of the AIIB with similar voting powers<sup>19</sup>, Korea and Australia have the responsibility to make the AIIB operate in a transparent and accountable manner and in a rules-based order. The two countries should do more to ensure that it operates in accordance with the economic, social and governance (ESG) principles to avoid risk of debt traps caused by over-lending to economically weak countries. They should also encourage the World Bank to be more engaged in the Indo-Pacific.

### Foreign policy is domestic policy

Korea's infrastructure engagement in the Indo-Pacific will nurture a stronger Indo-Pacific and enhance Korea's image as a credible, balanced partner in the region and the world. It will also strengthen its relatively weak visibility as a provider of leadership in the Indo-Pacific. Korea-Australia cooperation in the Indo-Pacific can boost Korea's visibility and psychological proximity between Korea and regional countries.

It is also in line with the aspirations for Korea to re-engage more actively in regional and global affairs, as it previously did under the banner of "Global Korea".

In this new era when foreign policy and domestic policy inform one another, foreign policy will not succeed without public awareness and support. Hence, Korean public awareness of the geoeconomic, geopolitical and geostrategic importance of forging sound Korea-Indo-Pacific and Korea-Australia-Indo-Pacific partnerships is a critical prerequisite. The Korean leadership must earn public support by explaining its policy and strategy to the people in earnest and all honesty.

## Endnotes

- 1 International Monetary Fund (2020), 'How a collective infrastructure push will boost global growth', November 24, <https://blogs.imf.org/2020/11/24/how-a-collective-infrastructure-push-will-boost-global-growth/>
- 2 The White House (2021), 'Fact Sheet: President Biden announces support for the Bipartisan Infrastructure Framework', 24 June, [www.whitehouse.gov/briefing-room/statements-releases/2021/06/24/fact-sheet-president-biden-announces-support-for-the-bipartisan-infrastructure-framework/](http://www.whitehouse.gov/briefing-room/statements-releases/2021/06/24/fact-sheet-president-biden-announces-support-for-the-bipartisan-infrastructure-framework/)
- 3 Ministry of Economy and Finance, Republic of Korea (2020), <http://www.knewdeal.go.kr/>
- 4 Office of the President (2021), 'Korean New Deal 2.0', 14 July, <https://www1.president.go.kr/articles/10724>
- 5 Infrastructure Partnership Australia (2020), 'Australian Infrastructure Budget Monitor 2020-2021', <https://infrastructure.org.au/wp-content/uploads/2020/12/Australian-Infrastructure-Budget-Monitor.pdf>
- 6 Minsuk Kim and Robin Koepke (2021), 'Indonesia has an opportunity to boost growth', *International Monetary Fund*, 3 March, <https://www.imf.org/en/News/Articles/2021/03/03/na030321-indonesia-has-an-opportunity-to-boost-growth>
- 7 US Treasury (2021), 'Remarks by Secretary of the Treasury Janet L. Yellen at the G20 Infrastructure Investors Dialogue: Challenges and Opportunities in Environment, Social, and Governance-aligned Infrastructure Investment', 3 June <https://home.treasury.gov/news/press-releases/jy0210>
- 8 Sungsup Ra & Zhigang Li (2018), 'Closing the Financing Gap in Asian Infrastructure', *ADB South Asia Working Paper Series*, <https://www.adb.org/publications/closing-financing-gap-asian-infrastructure>
- 9 World Bank Open Data (2021), 'Urban population (% of total population)', <https://data.worldbank.org/indicator/SP.URB.TOTL.IN.ZS?view=chart>
- 10 Asian Infrastructure Investment Bank (2021), 'Introduction', <https://www.aiib.org/en/index.html>
- 11 Paola Subacchi (2021), 'China is changing the way money is lent to countries in need', *Project Syndicate*, 24 May, <https://asia.nikkei.com/Opinion/China-is-changing-the-way-money-is-lent-to-countries-in-need>
- 12 Nikkei Asia (2021), 'Cambodia's Hun Sen: "If I don't rely on China, who will I rely on?"', 20 May <https://asia.nikkei.com/Spotlight/The-Future-of-Asia/The-Future-of-Asia-2021/Cambodia-s-Hun-Sen-If-I-don-t-rely-on-China-who-will-I-rely-on>
- 13 Alison Broinowski (Edited), *Understanding ASEAN*, p145 (London: Palgrave, 1982)
- 14 ASEAN-Korea Center (2020), 'ASEAN & Korea in Figures', [https://www.aseankorea.org/kor/Resources/ASEAN\\_Talks.asp](https://www.aseankorea.org/kor/Resources/ASEAN_Talks.asp)
- 15 World Bank Data (2021), 'Ease of Doing Business Index', <https://data.worldbank.org/indicator/IC.BUS.EASE.XQ>
- 16 Korea National Pension Service (2021), 'National Pension Statistics', [https://www.nps.or.kr/jsppage/etc/data/data03\\_02.jsp](https://www.nps.or.kr/jsppage/etc/data/data03_02.jsp)
- 17 Australia Future Fund (2021), 'Quarterly Portfolio Updates', <https://www.futurefund.gov.au/investment/investment-performance/portfolio-updates>
- 18 Author's calculations, from Asian Infrastructure Investment Bank (2021), <https://www.aiib.org/en/projects/list/index.html?status=Approved>
- 19 Asian Infrastructure Investment Bank (2021), 'Members and Prospective Members of the Bank', <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>

## About the Perth USAsia Centre

The Perth USAsia Centre located at The University of Western Australia is a non-partisan, not-for-profit institution strengthening relationships and strategic thinking between Australia, the Indo-Pacific and the USA. The Centre is a leading think tank focusing on geopolitical issues, policy development and building a strategic affairs community across government, business and academia. Since the Centre's inception in 2013, we have collaborated with over forty partners to convene more than four hundred programs across sixteen cities in eight countries, engaging a world-class community of over 10,000 strategic thinkers and policy leaders.

For more information, contact: **Dr Jeffrey Wilson**, Research Director, [jeffrey.wilson@perthusasia.edu.au](mailto:jeffrey.wilson@perthusasia.edu.au)

### Disclaimer

This publication is designed to provide accurate and authoritative information in relation to the subject matter covered. It is provided on the understanding that the publisher is not engaged in rendering any form of professional or other advice or services. No person should rely on the contents of this publication without first obtaining advice from a qualified professional individual or agency.

### © Perth USAsia Centre 2021

This publication is subject to copyright. Except as permitted under the Copyright Act 1968, no part of it may in any form or by any means (electronic, mechanical, microcopying, photocopying, recording or otherwise) be reproduced, stored in a retrieval system or transmitted without prior written permission. Enquiries should be addressed to the publisher. Notwithstanding the above, educational Institutions (including schools, independent colleges, universities, and TAFEs) are granted permission to make copies of copyrighted works strictly for educational purposes without explicit permission from the Perth USAsia Centre and free of charge.



Perth USAsia Centre

M265, 3<sup>rd</sup> Floor, Old Economics Building,  
The University of Western Australia,  
35 Stirling Highway, Crawley WA 6009, Australia

@ perthusasiacentre@uwa.edu.au

📍 @PerthUSAsia

f PerthUSAsia

in [linkedin.com/company/perth-usasia-centre](https://www.linkedin.com/company/perth-usasia-centre)

[perthusasia.edu.au](http://perthusasia.edu.au)





perthusasia.edu.au

M265, 3<sup>rd</sup> Floor, Old Economics Building, The University of Western Australia, 35 Stirling Highway, Crawley WA 6009, Australia



Perth USAsia Centre

- @ perthusasiacentre@uwa.edu.au
- 🐦 @PerthUSAsia
- f PerthUSAsia
- in linkedin.com/company/perth-usasia-centre
- 📍 perthusasia.edu.au