



# AUSTRALIA AND KOREA: MIDDLE POWER PARALLELS

Our experts explore the unique position of Australia and Korea in regional geopolitics, trade, and economics

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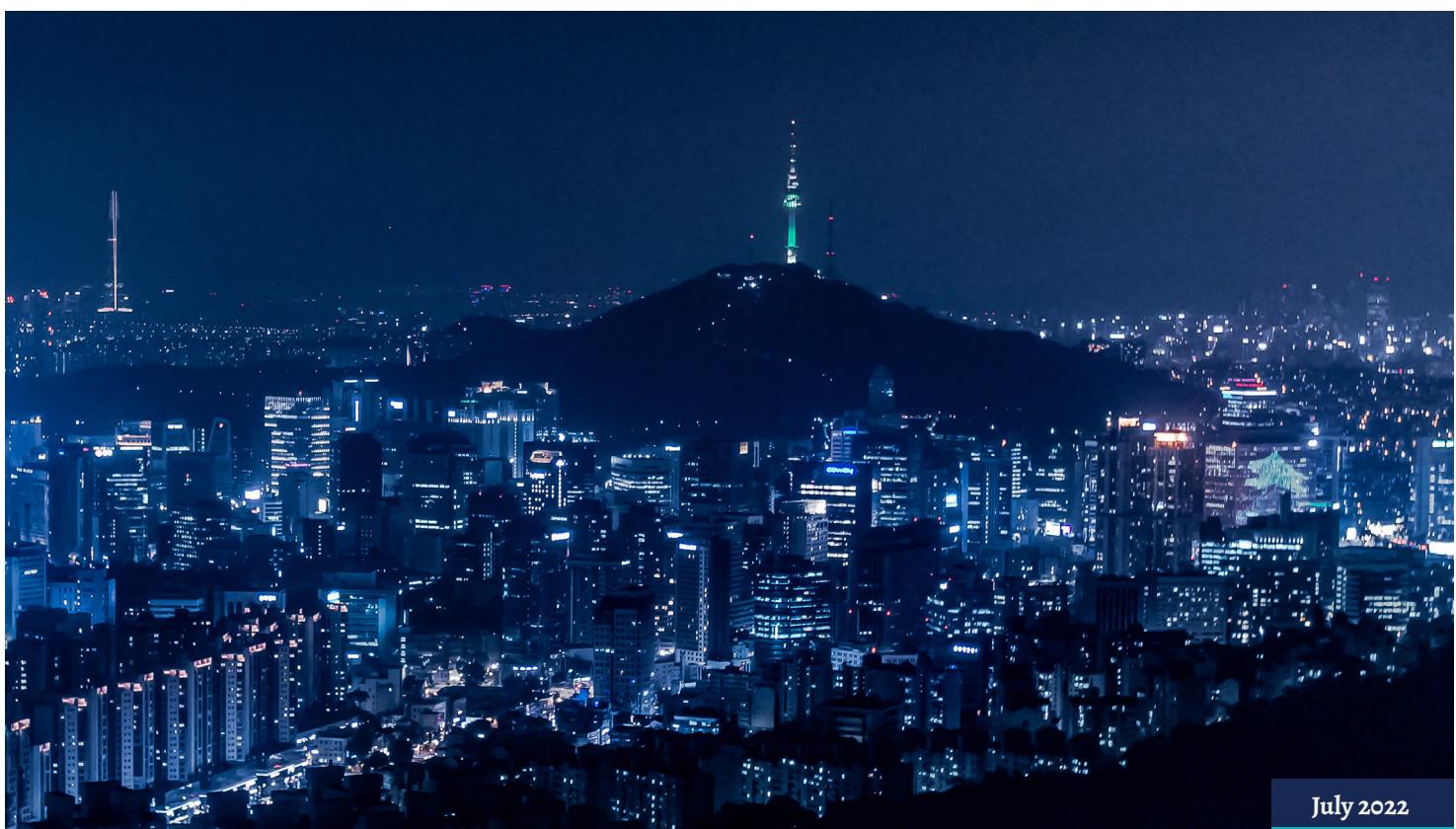
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'Australia and Korea: Middle Power Parallels' is a three-part project by Asia Society Australia and Asia Society Korea seeking to provide new understanding to the unique position of Australia and Korea in regional geopolitics and how it intersects with their respective trade and economic status. Both nations must balance their relationships with the United States and China, are seeking to diversify their trade dependencies, and remain vulnerable to tensions on the Korean Peninsula.

The project focuses on these three parallel challenges and brings together leaders from government and corporate sectors in Australia and Korea to strengthen alignment and understanding, exchange lessons and to inform the next phase in our bilateral relationship.

Supported by the Australia-Korea Foundation in the Department of Foreign Affairs and Trade, the project includes public programs, private briefings, policy briefs and the appointment of Australia and Korea based Fellows will offer subject-matter expertise.



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# AUSTRALIA AND KOREA: MIDDLE POWERS IN UNCHARTED WATERS

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## TIES THAT BIND TOGETHER >

Despite the relative distance between Canberra and Seoul geographically, Australia and the Republic of Korea (ROK) share common ground through their mutual fundamental democratic values and their convergent strategic interests in promoting an international order based on free trade, multilateralism, and rule of law. Both countries are also closely intertwined via comprehensive trade and investment links based on a high degree of economic complementarities: Korea is Australia's fourth largest trading partner, a growing source of foreign investment, and an important provider of manufactured goods, such as electronics, machinery, and capital goods. Likewise, Australia's major exports to Korea, such as energy, raw materials, and food products, are increasingly critical to the Korean economy. Australia is also a popular international study destination for many young Korean students, owing to the high quality of Australia's education system.

On the diplomatic front, Seoul and Canberra have been closely engaged bilaterally, as well as in regional and multilateral forums, such as the East Asia Summits (EAS), APEC, G20, OECD, UN and most recently, G7 Plus meetings. In fact, the close ties that bind the two countries date back seventy years when some 18,000 Australians fought on the Korean Peninsula to defend the freedom of an impoverished people and provide protection from the aggression of North Korea. While often forgotten in Australia, the sacrifices and contributions made by Australians for a country, with which it did not have diplomatic relations at the time of engagement, are well remembered and widely cherished in Korea today. In this sense, Australia played no small part in the international efforts that have helped to lay the foundations of contemporary Korea. A prime example of an East Asian success story, South Korea is now both a vibrant democracy and a modern economic powerhouse with increasing soft power and cultural influence on the global stage.

## TOWARD A COMPREHENSIVE STRATEGIC PARTNERSHIP >

Considering the multifaceted ties between Seoul and Canberra, it comes as no surprise that President Moon and Prime Minister Morrison agreed at the G7 Plus Summit in Cornwall last June to elevate the bilateral relationship to a “comprehensive strategic partnership” in celebration of the 60th anniversary of diplomatic relations. In particular, at another meeting on the sidelines of the UN General Assembly in New York last September, the two leaders outlined ambitious plans for a ‘reinvigorated collaboration’ across a wide range of key issues including trade, investment, infrastructure, industry, defense and arms development, and a renewed focus on expanded cooperation in the renewable energy sector, including the use of hydrogen. This will add fresh momentum to the advance of bilateral relations in the years ahead.

The decision to upgrade the relationship also reflects the growing needs and increasing opportunities that Seoul and Canberra find in their mutual relations, as well as the strategic imperatives and challenges they both face given the current geopolitical shifts of the Indo-Pacific. As open, trading nations, both Korea and Australia face growing pressures to mitigate the geo-economic risks and challenges associated with their dependence on foreign trade. For example, their heavy economic dependence on China exposed both Korea and Australia to China’s targeted measures of economic coercion. In response, the Moon and Morrison governments decided to pursue an economic diversification strategy that aims to reduce their external economic risks from China. In this respect, each country stands out as an ideal partner to the other in their shared pursuit of economic diversification.

Korea is arguably one of the biggest beneficiaries of the free trade system established after World War II. As such, it has a strong case to uphold free trade, both at the regional and global level that has been seriously weakened in recent years. Seoul needs to work more closely with Canberra in two key regional trade agreements i.e., RCEP and CPTPP. While Australia is one of the key members of both RCEP and CPTPP, Korea participates in only RCEP and is currently bidding to join CPTPP. Given Seoul’s extensive trade ties with most member countries, Korea is an ideal candidate to join CPTPP, and Australia can play a role in the accession process by collaborating with Korea. As well-documented by the recent “2+2 dialogue,” Canberra and Seoul should also explore greater opportunities in the new frontiers of bilateral cooperation, i.e., low emission technologies (hydrogen and clean steel), cyber and critical technologies, climate change, and resilient supply chains, among others.

As both the ROK and Australian defense and foreign ministers noted at the “2+2 dialogue”, it is imperative for the two like-minded partners to engage in a higher level of strategic and defense coordination to deal with “existing and evolving security threats in a strategic environment with increasing uncertainties.” As treaty allies of the US, both have invested interests in keeping the strategic stability of the international rules-based order. In addition, both share concern over the stability of the Indo-Pacific in light of an increasingly assertive China and the US’s declining relative military position in the region. Like Australia, Korea is concerned about potential disruptions to trade and energy supply routes and the erosion of international maritime laws and norms.

## SHARING AND ALIGNING DEEPER STRATEGIC PERCEPTIONS >

Given their shared values, close economic links, and convergent strategic interests, Korea and Australia should do well to partner with each other at a much deeper strategic level. However, as noted by Kyle Springer, “while the two countries collaborate effectively as peers, they have yet to elevate their diplomatic interactions to advance shared interests in bilateral, regional and global fora.” Some Australian scholars with keen interests in advancing bilateral security ties between Seoul and Canberra have pointed out that the key challenge is Seoul’s reluctance to engage on issues of regional peace and security. From this perspective, Seoul’s lack of ‘strategic vision’ confines its strategic priorities within the Korean Peninsula. Also, Seoul’s narrow strategic framework discourages it from taking a part in shaping regional peace and security in the Indo-Pacific.

For example, Bill Paterson, former Australian Ambassador to ROK, argues that “the imperative Korea feels to be seen to balance between China and the US” is the key factor behind President Moon’s reluctance [toward the Quad] that can “minimize the importance of its other regional interests.” In a similar vein, Peter Lee argues that “Koreans have tended to see security partners through an economic prism,” and because of Korea’s historical focus on immediate threats, especially from North Korea, “thinking on wider strategic interests has been less developed.” More straightforwardly, Hayley Channer argues that “South Korea’s current foreign and defense policy is narrow in focus... (and its) foreign policy neglects its capacity for regional-order shaping and security contribution.”

These perspectives offer useful insights into understanding Seoul's constrained strategic ambition and its untapped potential in the Indo-Pacific. However, in order to decipher the deep-seated motivations behind Seoul's regional security roles, or lack thereof, it is necessary to have a deeper understanding of the complexities and sensitivities in Korea's own strategic perceptions and priorities. As mentioned, Seoul and Canberra share the same strategic interests in upholding the rules-based order. They are also on the same page in acknowledging that it is imperative to work together to deal with geopolitical risks, such as US-China strategic competition. However, Koreans differ from Australians in the strategic lens through which they define the surrounding environments and accordingly prioritize their responses. In this respect, it is very important to understand Koreans' own considerations, sensitivities, complexities, and perceptions that stem from thousands of years of history and interactions with China. Korea's geographical adjacency to mainland China, with both South and North Korea sharing maritime and land borders with it, should also be put into perspective. For this reason, Korea's perception of China has historically been quite different from other countries like Japan.

To Australians, the most pressing issue at hand is how to stand firm against and deter China's aggressive and increasingly disruptive behaviors that threaten the existing rules-based order. In contrast, the prevailing perception in Seoul is that Korea has fallen into a new 'geopolitical ditch' of being caught in the crossfire between the two great powers. The most pressing challenge for Seoul, therefore, is how to manage its relations with, and secure a degree of autonomy from, both Washington and Beijing. Based on this strategic framework, Seoul under President Moon's leadership adopted an approach of 'balanced diplomacy,' in which the diplomatic priority is given to 'maintaining a solid alliance with the US and at the same time keeping a strategic partnership with China.' The balanced diplomacy approach is based on the recognition that, given China's dominant influence over North Korea as well as its economic importance to Korea, Korea must secure China's trust and cooperation.

## NSP AND SEOUL'S EVOLVING STRATEGIC CONSIDERATIONS >

When Seoul's brand-new regional initiative, the New Southern Policy (NSP), was launched in November 2017, it was designed and implemented as a functional cooperation agenda engaging with ASEAN and India. The Moon administration did not intend to present the NSP as a strategic agenda dealing with regional strategic and security matters to regional partners. In this sense, by design, the NSP is devoid of any strategic and hard security elements in its operational programs. From its inception, Seoul chose to strategically leave sensitive security and defense issues out of the scope of the NSP. Of course, the primary motivation for this stems from the strategic framework of 'balanced diplomacy' as noted above. The single most important driver to design the NSP in such a way was to minimize any risks of being drawn into the pitfalls of US-China strategic rivalry. On the contrary, Seoul chose deliberately to prioritize development cooperation as the central tool of NSP engagement because it finds its competitive advantage vis-à-vis other major countries in the area of development cooperation. For this reason, Korea has developed extensive programs and projects in the domain of the NSP's 'people and prosperity' pillar.

As several Australian scholars have accurately indicated, the strategic framework of 'balanced diplomacy' by the Moon administration has limited the operational boundaries of the NSP, as well as Seoul's engagement in regional security affairs. However, it is important to note that Seoul's strategic considerations are not fixated on the 'balanced diplomacy' framework. Rather, Seoul's strategic stance is evolving reflecting its changing perceptions as well as shifts in the strategic situations. For example, at the Korea-US summit held last May, President Moon and President Biden agreed on deepening and expanding bilateral cooperation based on the US's Indo-Pacific initiative. In particular, the two countries agreed to expand the geographical scope, role, and agenda of the ROK-US alliance to regional and global levels. They also agreed to work together "to align the ROK's New Southern Policy and the United States' vision for a free and open Indo-Pacific" to create "a safe, prosperous, and dynamic region." Given its passive positions in the past, the Moon administration has now become much more proactive and engaged towards the US Indo-Pacific initiative. A similarly positive momentum should be expected on the frontiers of Korea-Australia collaboration as well.

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## KEEPING SUSTAINED ATTENTIONS IN DIPLOMATIC AND STRATEGIC PRIORITIES >

Finally, in order to advance their partnership forward in the future, both Seoul and Canberra need to address some remaining gaps and inconsistencies in how they consider each other as priority partners. From the ROK perspective, President Moon's top foreign policy priority is set on dealing with North Korea and managing relations with the US and China. His foremost focus has been on forging a durable détente with North Korea and making efforts to discourage Jong-un Kim from pursuing nuclear ambitions. Consequently, President Moon's diplomatic attention and resources have been primarily devoted to managing inter-Korean relations and maintaining support from Washington and Beijing.

While Australia has always been supportive of peace and stability on the Korean Peninsula and extended strong support for Seoul's campaign of peace toward Pyongyang, it is not a direct party to Korean Peninsula affairs as it does not have diplomatic resources or international standing to play such a role. In addition, Australia is currently left out of the scope of Seoul's regional initiative, NSP, which focuses on only Southeast Asia and India. Seoul needs to fix this problem any time soon.

Indeed, Canberra has consistently identified Seoul as one of the key partners in its Indo-Pacific outlook in recent years. However, Korea has not always been accorded Canberra's sustained attention in its overall foreign policy and strategic considerations. In fact, compared to the diplomatic attention and strategic priorities that Canberra has afforded the Quad and its members, the US, Japan and India, and now AUKUS, as well as its closest neighbor, Indonesia, Australia's diplomatic overtures toward Korea over the years have been at most sporadic. Given Canberra's keen strategic interests to draw Seoul's strategic gaze to the south, it needs to maintain consistency and sustained attention in its approach toward Korea and make strenuous efforts to engage Seoul as a 'comprehensive strategic' partner in the future.



# A NEW AGENDA FOR AUSTRALIA-KOREA COOPERATION: BUILDING A DEVELOPMENT-FRIENDLY TRADE AND INVESTMENT REGIME

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The recent visit to Australia by South Korea's President Moon Jae-in has been welcomed as the dawn of a new era of cooperation between our nations, no less than 60 years after the commencement of formal diplomatic relations.

As established middle powers in a region beset by hegemonic rivalry, Australia and Korea have much to gain from closer collaboration on major strategic challenges. December's dialogue focused on two of the most high-profile of these: bolstering our nations' military capabilities and defence interoperability and enhancing resource and energy security in an increasingly unpredictable geo-strategic climate. Yet, while these 'hot button' issues are important, there is another, equally pressing challenge that demands our cooperative action – and that could deliver rich rewards for all involved. This is the challenge of turbocharging the rapid and sustainable economic

development of our regional partners, from India to Indonesia and Papua New Guinea.

For Australia and Korea, cooperating to address this challenge is not just a moral imperative, but a strategic one as well. The rapid development of our neighbours would enable Australia and Korea to further diversify our regional economic relationships and reduce our trade and investment dependence on China. And by cooperating to become more proactive and productive development partners, Australia and Korea could boost our neighbours' trust in our commitment to shared economic prosperity as the necessary foundation of regional stability and security.

However, instead of cooperating more closely, over the past five years we have witnessed a large and growing gulf emerge between Australia's and South Korea's

foreign economic policy approaches. Moreover, when it comes to the goal of promoting our neighbours' rapid economic development, both countries' approaches are far from perfect, insofar as they both involve risks and missed opportunities.

So, if Australia and Korea wish to cooperate more closely to promote rapid regional development - and to reap the associated strategic rewards – we must start by opening a dialogue about our countries' current foreign economic policy approaches, and the limitations of those approaches from a development perspective. Only then we can then begin to develop a new agenda for Australia-Korea economic cooperation – one with true transformative potential.

## AUSTRALIA'S AND KOREA'S DIVERGENT APPROACHES TO FOREIGN ECONOMIC POLICY >

Since 2017, Australia's approach to foreign economic policy has been to position itself as a fierce defender of the US-led 'rules-based international order' (RBIO) and the related idea of a 'Free and Open Indo-Pacific' (FOIP). Defending the RBIO now forms a core pillar of Australia's foreign policy strategy. And as China's sabre rattling has intensified since that time, so too has Australia's defense of the established rules of the international economic game.

Prior to the COVID-19 crisis, Australian diplomats were strongly urging other countries – including South Korea – to step up and do more to defend the existing RBIO. In the economic arena, this approach meant defending the economic rules enshrined not just in the WTO, but also in the newer so-called 'gold standard' trade and investment agreements, like the Comprehensive and Progressive Transpacific Partnership (CPTPP), originally the centrepiece of the Obama administration's 'Pivot to Asia'.

In the wake of COVID-19 and China's fierce reaction to Australia's call for an international investigation into the origins of the virus - including trade sanctions - Australia has only strengthened its calls for a defense of the US-led RBIO. Following the surprise announcement of the new AUKUS Security Pact between the US, UK and Australia in September 2021, Australia issued a joint statement with the US pledging to 'strengthen the rules based international order' – including the existing trading order – not least to protect against China's growing unilateralism.

Korea, by comparison, has chosen a very different foreign economic policy approach. To avoid 'picking sides' between the US and China, it has embraced the idea of 'strategic ambiguity'. Following China's punitive reaction to Korea's decision to host the

THAAD missile defense system in 2016, the Korean government has been especially wary of upsetting its powerful neighbour. In practical terms, this has meant avoiding strident public declarations of support for the US-led RBIO or a 'Free and Open Indo Pacific', while stressing where possible the compatibility between Korea's approach to regional engagement and those of both the US (FOIP) and China (the Belt and Road Initiative). It has also meant declining to join trade and investment deals like the CPTPP that might be seen as 'anti-China' (or else waiting for China's lead; in late 2021, Korea indicated its intention to join the CPTPP, but only after China had indicated the same).

In contrast to Australia's loud and proud of support for a 'free and open Indo-Pacific', Korea has tended to argue in more general terms for an 'inclusive' regional economic order while seeking to deepen its bilateral relationships with India and ASEAN nations under its New Southern Policy Plus initiative. Effectively, Korea has chosen to play it safe – insofar as it has sought to avoid articulating a substantive vision for an alternative regional and/or international economic architecture – lest it inadvertently offend China or the US.

## LIMITATIONS OF AUSTRALIAN AND KOREAN APPROACHES FROM A REGIONAL DEVELOPMENT PERSPECTIVE >

Despite their growing differences since 2017, our countries' foreign economic policy approaches do share one important characteristic: they both have their limitations from a regional development perspective, and entail significant risks and missed opportunities that deserve serious consideration.

The major flaw in Australia's approach is that many aspects of the RBIO it is defending actually make it harder – not easier – for our neighbours to develop their economies. As we explain in more detail below, many existing trade rules severely limit the policy space that governments need to transform their economies and lay the foundations for sustainable growth. Australia's foreign economic approach thus risks undermining its strategic objective of strengthening regional allies and becoming their development partner of choice, especially in light of China's growing influence.

At the same time, Korea's approach represents a somewhat missed opportunity. As one of the world's most successful late developers, Korea actually understands what it takes to rapidly transform an economy and lift millions of people out of poverty, thereby enhancing social security and political

stability. However, as we have already indicated, many of the policies that Korea relied on to develop its economy are now made more complex or outlawed completely by international and regional trade and investment rules that work against the goal of development.

For example, a number of WTO agreements, such as the Trade Related Investment Measures (TRIMs) Agreement, the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement, and the Government Procurement Agreement (GPA), outlaw many of the industrial development policies successfully employed by South Korea in its rapid industrialization phase, including policies to induce technology transfer and the use of local content. Many of the WTO's development-unfriendly rules are reinforced and even extended in regional and bilateral trade deals.

Korea is thus in the perfect position to help design and promote a more development-friendly trade and investment regime - one that would provide more space and scope for the industrial and innovation policies needed to advance its allies' rapid development. To be sure, Korea is already sharing its development experience and expertise bilaterally with its developing country neighbours, especially through its ODA policies and more recently its New Southern Policy.

However, when it comes to reforming the existing international trade and investment architecture that can constrain local development initiatives, Korea remains wary of adopting a more ambitious and high-profile leadership role. Korea's ODA-focused approach to advancing regional development is also limited because it is not just developing countries that could learn so much from Korea's experience of successful techno-industrial transformation, but developed countries as well – not least Australia.

## CHARTING A WAY FORWARD: A NEW AGENDA FOR AUSTRALIA-KOREA COOPERATION FOR DEVELOPMENT >

Here, then, is a perfect opportunity for Australia and Korea to re-think their existing foreign economic policy approaches and to collaborate to address a major strategic challenge: that of both envisaging and helping to build a truly development-friendly trade and investment regime in the region.

The first practical step would be for our governments to acknowledge and seek to understand more deeply the complex ways in which existing trade and investment

rules can frustrate the pursuit of rapid and sustainable economic development.

As noted above, it is already well documented, that many existing trade and investment agreements limit the policy space for developing country governments, making it harder for them to ensure that freer trade and investment delivers positive development outcomes, such as the establishment and/or upgrading of local industries and the creation of well-paying jobs on the ground.

However, less well understood are the ways in which existing trade and investment rules may be exacerbating some of the most pressing economic, social and environmental challenges of our time.

Take four of the most significant – and deeply interrelated – challenges facing our developing country neighbours (not to mention our own economies): financialisation, de-industrialisation, health insecurity and climate change. Financialization occurs when the financial sector abandons the 'real' or 'productive' economy in favour of short-term speculative investments and was a key cause of the 2008 global financial crisis. By starving manufacturing investment andavouring dividends payment against re-investment and worker bonuses, financialisation is also a key driver of de-industrialization (i.e. the hollowing out of manufacturing capacity and capability), low investment and growth, and rising inequality in both developed and developing countries.

Taken together, financialisation and de-industrialisation pose major economic, social, political and geostrategic challenges. Not only do they undermine economic development by thwarting the creation of higher-wage, higher skilled jobs, diminishing export earnings and throttling investment for innovation. They also intensify inequality, fracture social cohesion, make democratisation less likely or more fragile in developing nations, and fuel populist sentiment across the board. In our own region, two of the countries worst affected by premature de-industrialization are also the most populous and strategically significant – India and Indonesia – which should be a major concern for Australia and Korea.

Moreover, as we've seen during the COVID-19 pandemic, countries with higher levels of inequality and weaker local manufacturing capability have been far less able to meet major health challenges. And the economic, social and political instabilities and inequities associated with financialisation, de-industrialisation and global health crises will only be exacerbated by the growing number of environmental catastrophes wrought by climate change.

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From a trade and investment policy perspective, it is thus vitally important to understand the ways in which trade and investment rules can exacerbate the problems of financialisation, deindustrialization, health insecurity and climate change. For example, agreements that require rapid capital account liberalization and financial sector privatization and deregulation can increase speculative activities and starve the productive sector of funds, amplifying financialisation and de-industrialisation. Agreements that promote the privatization of health services and limit the accessibility of IP protected medicines (including vaccines) can worsen health insecurity. And agreements that enable unrestrained trade in fossil fuels can worsen climate change.

Yet rarely do we hear Australian and Korean leaders or diplomats discuss the pressing problems of financialisation and de-industrialisation facing our regional neighbours – or how existing trade and investment rules might be exacerbating these challenges and complicating national responses to these and other pressing problems, such as climate change and pandemic management.

We therefore see an urgent need for policymakers to better understand the complex relationships between trade and investment rules on the one hand, and the pressing problems of financialisation, deindustrialization, health insecurity and climate change on the other. We also see an urgent need for policymakers to better understand the potential for new kinds of innovative trade and investment rules to help address these challenges.

## SO WHERE TO FROM HERE? >

If there can be anything positive to come out of the devastating pandemic currently ravaging the globe, it is likely to be that crisis can open minds to change.

So rather than continuing to defend a broken system – or shying away from systemic reform – Australia and Korea must seize the opportunity and open the door to serious and sustained cooperation on this major common challenge. The first step would be to open a meaningful dialogue between our countries about the limitations of the current trade and investment regime, and about what a truly development-friendly alternative might look like.

Embracing this change – and collaborating to realise it – is in both our interests.



# BETWEEN ENGAGEMENT AND DETERRENCE: NAVIGATING TENSIONS ON THE KOREAN PENINSULA

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## MOON JAE-IN AND NORTH KOREA: ENGAGEMENT VS DETERRENCE >

North Korea's nuclear weapons program and the volatile inter-Korean relationship are persistent flashpoints in the regional security landscape. When South Korea's outgoing president Moon Jae-in came to power in 2017, the Kim Jong-un regime was rapidly traversing new technical thresholds in its nuclear weapon and ballistic missile programs. Amid the heightened security tensions on the peninsula, Moon had pledged in his presidential campaign to usher in a new approach to dealing with North Korea. Signalling a departure from the hardline stance of his predecessor Park Geun-hye's stance towards Pyongyang, which was predicated on

isolating the regime, Moon's North Korea policy was characterised by an openness to engagement and dialogue. In contrast to Washington, he regarded the denuclearisation of North Korea as an end game rather than a starting point. A central premise of his policy was that the Kim regime's development of nuclear weapons had been driven by a sense of insecurity. The primary objective of Moon's policy was therefore to establish a peace regime on the Korean peninsula, entailing such measures as ending the Korean War through the conclusion of a treaty. A second pillar of Moon's engagement strategy was to deepen bilateral economic ties with Pyongyang. This was based on the logic that increasing economic interdependence between the two Koreas would disincentivise the Kim regime from engaging in belligerent behaviour.

While Moon Jae-in devoted whole-of-government resources to enacting his North Korea policy, the initial efforts of his administration were encumbered by a number of factors. First, while Moon had pledged during his electoral campaign to reconsider the installation of the Terminal High Altitude Missile Defense (THAAD) system, which was intended to intercept North Korean missiles, the advancements in Pyongyang's nuclear weapons program compelled him to proceed with its deployment. Second, Moon struggled to elicit support for his North Korea policy from his erratic US ally, Donald Trump. In fact, Trump took to his Twitter account September 2017 to rebuke Moon's diplomacy vis-à-vis Pyongyang: 'South Korea is finding, as I have told them, that their talk of appeasement with North Korea will not work, they only understand one thing!' At the same time, Moon was forced to reckon with an escalating rhetorical war between Trump and Kim Jong-un, which threatened to escalate to a de facto war.

Media reports from the United States indicated that Trump was considering launching unilateral military action in the form of a preventive attack against North Korea — a so-called 'bloody-nose' strike. In this context, Moon had little option but to focus on deescalating the tensions between Trump and Kim. His success in this regard is arguably one of the most important legacies of his North Korea policy; had Trump gone ahead with his plans to strike North Korea, the military consequences for the Korean peninsula and the region more broadly would have been devastating. Trump's frequent derisions of Seoul's policy toward Pyongyang furthermore forced Moon to go into damage control on the alliance front, and strive to better coordinate the US-South Korea defence posture. Towards this end, Moon expressed his support for the US-led United Nations sanctions on North Korea and affirmed that denuclearisation was a priority for his administration.

## SUMMIT DIPLOMACY: A SHORT-LIVED RAPPROCHEMENT >

Following the period of diplomatic turbulence that characterised Moon's early presidential tenure, a regional rapprochement with North Korea was ushered in through an unprecedented round of summit diplomacy. In the lead up to Seoul's Winter Olympics in 2018, Kim Jong-un made an overture to Seoul in his New Year's speech, which Moon grasped as a lifeline amid the tensions on the Korean peninsula. His willingness to accept Kim's conciliatory gesture was premised in part on a desire to carry out his engagement policy vis-à-vis Pyongyang, but also on the assumption that Kim might disrupt the Winter

Olympics if his overture was dismissed. Over the course of three high-level meetings, officials from the two sides agreed that North Korea would dispatch a 140-member orchestra to perform at the games, a joint women's ice hockey team would be established, and athletes from both sides would march together under a single unification flag in the opening ceremony.

The success of the joint-Olympics venture triggered a series of diplomatic developments in Seoul–Pyongyang relations, leading to a decision to hold an inter-Korean summit meeting for the first time in over a decade. Moon capitalised further on this achievement to broker an agreement between Trump and Kim to convene a historic US–DPRK summit, which eventually took place in June 2018. These events combined became the impetus for an unprecedented succession of summit meetings between Kim Jong-un and regional leaders, including Donald Trump, Moon Jae-in, Xi Jinping and Vladimir Putin. Japan's Shinzo Abe was conspicuously absent from the summitry.

This round of summit diplomacy represented a new regional approach to addressing North Korea's nuclear weapons program. The last significant effort in the region to encourage denuclearisation was the Six-Party Talks, a multilateral diplomatic initiative conducted between 2003 and 2007. These talks were hampered, among other factors, by the differential prioritization of denuclearisation in the respective North Korea policies of the six parties. Similarly to the outcome of the Six Party Talks, the regional diplomatic summitry failed to produce substantive gains on the denuclearisation front. While Moon was able to reach an in-principle agreement with Kim to formally end the Korean War, an official peace treaty has yet to be signed. On the one hand, the approach of summit diplomacy overcame the problem of the differential priorities that characterised the Six-Party Talks; yet on the other hand, it gave Kim Jong-un the upper hand in negotiations by enabling him to play the summits off against one another.

Ultimately, the inter-Korean and regional rapprochement with North Korea led by Moon Jae-in was relatively short-lived. The latter half of Moon's term saw a return to the status quo on the Korean peninsula, with Kim Jong-un retreating from his willingness to engage and resuming missile tests. Recent satellite imagery of North Korea also indicates that construction and repair work have begun at a nuclear test site that had been closed in 2018.

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## CHALLENGES FOR MOON'S SUCCESSOR: IS A PEACE REGIME FEASIBLE? >

An era of conservative party rule in the South was ushered in on March 9th 2022, with the election of opposition candidate Yun Suk-Yeol by a razor-thin margin. Heralding a departure from Moon's engagement strategy, incoming President Yun has pledged to take a hardline posture toward North Korea that will emphasise international sanctions. He has also indicated his intent to strive for greater policy alignment with the United States in dealing with the Kim regime and hopes to acquire technology that would enable South Korea to launch a pre-emptive attack against North Korea in the event of an impending nuclear threat. He has furthermore suggested that his administration will be less accommodating of China's interests than his predecessor.

If Yun follows through on his electoral promises regarding North Korea, he is likely to face a number of challenges. First, it will be rather difficult for Yun to align his North Korea policy with a US government that is preoccupied with the Russia-Ukraine conflict in Europe and is dealing with the ongoing domestic fallout from the pandemic. North Korea is likely to exploit this state of affairs, along with the strained ties between Seoul and Tokyo, to push ahead with its nuclear weapons program. This probability of this will increase if the relationship between Seoul and Beijing further deteriorates under the Yun administration.

Secondly, with the escalation of the Russia-Ukraine conflict, which has seen Vladimir Putin threatening to use nuclear force, the prospects of North Korea taking steps toward denuclearisation have diminished. Moreover, in response to the Russian invasion of Ukraine, former Japanese prime minister Shinzo Abe—who maintained a highly adversarial relationship with Kim Jong-un—has called for Japan to consider hosting US nuclear warheads. In South Korea, meanwhile, public and official support for the development of an indigenous nuclear weapons arsenal has been gaining traction over recent years. According to a recent poll, “71 percent of respondents are in favour of South Korea developing its own nuclear weapons while 56 percent support deployment of U.S. nuclear weapons to the South’s soil.” While it remains unlikely that South Korea or Japan will host US nuclear weapons or develop their own arsenal in the foreseeable future, the nuclear discourses in these neighbouring countries will lend legitimacy to North Korea’s claims that it requires a nuclear deterrent capability.

In short, despite the promise of policy change from President Yun Suk-yeol, it is unlikely that we will see tensions on the Korean peninsula subsiding under his leadership. Rather, tensions will likely be on the rise. In light of the single five-year term limit on South Korean presidents, which imposes limits on the continuation of foreign policy, it is difficult for them to achieve anything beyond the management of tensions with Pyongyang. The North Korea policy pursued by Moon Jae-in required a long-term approach. Perhaps, then, the real challenge for incoming presidents lies in bridging the conservative-progressive divide on North Korea policy in Seoul, which tends to lead to a policy swing between isolation to engagement every five years.



# SOUTH KOREA'S GREEN NEW DEAL: A VERY BIG DEAL FOR AUSTRALIA

As one of Australia's largest trading partners – and one of the largest buyers of Australia's fossil fuel exports – South Korea's plans to green its economy have major economic implications for Australia. And as Korea is currently one of the world's largest greenhouse gas (GHG) emitters, its greening plans also have significant environmental implications for the world.

Korea's Green New Deal (GND) should be of serious interest to Australian policymakers, businesses, and citizens alike – insofar as it represents one of the world's most ambitious plans to promote a rapid clean energy shift. In this briefing paper, we identify the key features of Korea's GND, and the complex set of problems it is designed to address. We then canvas what we see as the main risks and opportunities presented by Korea's GND for Australia. We conclude by discussing two major recent political developments – Russia's invasion of Ukraine and its impact on fuel prices, and the election of Korea's new President Yoon Suk-yeol – and their implications for the future of Korea's green energy shift and the opportunities it presents for Australia.

## KOREA'S GREEN NEW DEAL: KEY FEATURES >

Korea's GND was introduced in July 2020 by former President Moon Jae-in, as part of his administration's broader Korean New Deal ("K-New Deal"), launched in response to the Covid-19 crisis. The K-New Deal comprised US\$135 billion in investments in both green and digital technologies, including US\$96.3 billion from the Korean Treasury, US\$21.2 billion from local governments, and US\$17.3 billion from the private sector.

As a key pillar of the K-New Deal, the GND allocated US\$61.9 billion to green initiatives and aims to create 659,000 jobs by 2025. More importantly however, job creation is not the sole – or even primary – driver of the GND. At its core, the GND is a techno-industrial transformation strategy aimed at rapidly establishing Korea as a leader in the new technology-intensive, higher-skilled, higher-wage, export-oriented industries of the future. As we discuss in more detail below, the ultimate goal of this strategy is to solve Korea's pressing economic, energy and environmental challenges in one hit by essentially manufacturing economic, energy, and environmental security.

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To this end, Moon's GND set some ambitious targets for 2025, aiming to:

- expand local solar panel and wind turbine capacity to 42.7 gigawatts by 2025, up from 12.7 gigawatts in 2019;
- install solar panels on 225,000 public buildings;
- rapidly roll out "smart grids" – a digital technology that allows an energy utility to communicate with and respond to its customers, and vice-versa;
- install "smart meters" in five million more apartments, to help consumers reduce their electricity use;
- invest heavily in the creation of microgrid communities in regional areas and on Korea's many islands. The vision is to create decentralised, low carbon energy systems (combining renewable energy generation and storage systems) in areas not linked to the grid – and a model that can be exported to the globe;
- have 1.13 million electric vehicles (EVs) and 200,000 hydrogen-powered fuel-cell EVs on Korean roads by 2025. This will not only help to reduce carbon emissions but create a domestic market for Korean car manufacturers such as Hyundai;
- roll out 45,000 electric vehicle recharging stations (15,000 rapid and 30,000 standard) and 450 hydrogen refuelling units, benefiting homegrown firms such as EM Korea;
- implement circular economy initiatives such as reducing and recycling energy using advanced computerised power grids in factories. The plan also involves technology to capture and store carbon emitted from industrial processes and re-using industrial materials.

Alongside these green industry creation efforts of the GND, the Moon administration also introduced measures to expedite fossil-fuel industry dismantling, including commitments to:

- achieve Net Zero by 2050;
- secure a 100 percent renewable energy (RE) future, including 20% RE production by 2030. To put these targets into perspective, under the former LNP government, Australia did not establish any RE targets beyond 2020;
- phase out coal-fired power by 2050 and nuclear power by around 2060;
- reduce the nation's dependence on oil and gas imports by gradually replacing the same with clean hydrogen. With its major emphasis on Hydrogen, the GND lent fresh momentum to Korea's landmark Hydrogen Economy Roadmap (2019). The long-term emphasis of this plan

is hydrogen derived from zero emissions / renewable sources (i.e. green hydrogen). Clean hydrogen is predicted to become Korea's largest energy source by 2050, making up 70 percent of total hydrogen use. Korea's state-owned utility KOGAS will be transformed from a natural gas supplier into a hydrogen platform operator.

With its dual emphasis on clean energy industry creation and fossil-fuel industry phase-out, Korea's GND stands out as one of the most ambitious national greening strategies in the world. The Deal thus attracted significant global attention upon its announcement – showing the world what a smart green recovery from COVID-19 could look like.

## THE GND AS A STRATEGIC STATE RESPONSE TO PRESSING SECURITY CHALLENGES >

While the scale and scope of the Korean government's GND is striking, the ambition it embodies should not surprise, at least for those familiar with Korea's modern economic history.

Since the early-1960s, Korea has built its reputation as a state that is both willing and able to respond to pressing security challenges via strategic, long-term economic development plans. In the wake of the devastating Korean War that left the country divided in two, Korean policymakers formed the view that building a strong, manufacturing-based, export-oriented economy was the key to national survival.

From the 1960s to the early 2000s, Korea stunned the world with its ability to rapidly catch up with and then surge ahead of many developed countries, first in traditional heavy industries like automobiles, shipbuilding, and petrochemicals, and then in information-technology (IT) related industries like telecommunications, semiconductors and computer hardware.

But there was a major problem with Korea's rapid growth model as it emerged and consolidated in the second half of the twentieth century – its overwhelming reliance on cheap fossil fuel imports. As a resource-poor nation, Korea was – and remains – almost entirely dependent upon imports of oil, coal, and gas to meet the needs of its energy-hungry manufacturing-led economy. This dependence leaves Korea vulnerable to the inevitable fluctuations in international energy prices; when energy prices spike, so the competitiveness of Korean exports declines, often plunging the country into crisis.

Korea's traditional fossil-fuelled growth model also has major environmental consequences; the particulate pollution that spews from the country's manufacturing and power generation plants often shrouds the country in a hazardous smog, causing disastrous health and environmental problems for

the Korean people, and major political problems for Korean governments at all levels. These environmental challenges have only been amplified by growing climate change concerns.

In light of these complex and interrelated challenges, since the 2008 Global Financial Crisis, Korea has been on a mission to transform its traditional 'brown growth' model into a new 'green growth' model via the rapid development of the clean, green industries of the future. Korea's concern to remain competitive with China's increasingly aggressive economic expansion and its own green push in export industries has also been a major (if often unspoken) driver of Korea's increasingly ambitious greening push since 2008.

Viewed in this light, the GND represents both continuity and change in Korea's approach to strategic economic governance. The Korean government continues to view a strong, technology-intensive, manufacturing-led economy as the key to its long-term prosperity and national security. And Korean policymakers continue to envisage a strategic role for the state in helping to build and sustain new manufacturing-related industries, in close partnership with the private sector. However, in a significant break with the past, policymakers are now seeking to transform the fossil-fuelled energy system that has long underpinned its manufacturing intensive economy, in order to simultaneously advance its interrelated energy, economic and environmental security goals

## THE GND: RISKS AND OPPORTUNITIES FOR AUSTRALIA >

Korea's GND poses significant risks and opportunities for Australia. As one of the largest markets for Australian fossil fuel exports, including coal and gas, Korea's green shift will inevitably serve to throttle sales of these commodities – and arguably sooner than later. Korea has already ruled out a future for coal, pledging to phase it out completely by 2050. As for gas, Korea currently envisages a role for it as a 'bridging fuel', a medium-term reliance viewed as a means of avoiding stranded gas infrastructure assets. However, with the recent change in US leadership, Korea will be under increasing pressure to honour its net zero pledge. And as methane emissions from gas production are the worst culprit when it comes to climate change, the idea of gas as a bridging fuel cannot be justified on environmental or climate grounds.

Moreover, continued investment in gas projects diverts funds away from investments in renewable energy sources – not least green hydrogen – delaying the cost reductions that would inevitably follow from more aggressive investment efforts. Insofar as Korea wishes to establish itself as a pioneer in the green hydrogen arena, and reap the first-mover rewards, there is every chance that Korea will move more quickly to replace

gas-fired hydrogen with green hydrogen. Evidence of its ambitions in this regard can be seen in Korea's moves to pioneer the development of a clean (read: carbon neutral) hydrogen certification system to guarantee that its hydrogen imports are truly green.

Fortunately, while Australia's fossil fuel industries face a grim future, Korea's GND – and its emphasis on green hydrogen in particular – creates ample economic and environmental opportunities for Australia and its exporters. As we have argued elsewhere, the sheer scale of these opportunities is well appreciated among Australia's policy elite, both federally and at state level, and are clearly outlined in Australia's 2019 National Hydrogen Strategy. This landmark document shows that by turbocharging a clean hydrogen industry, Australia could dramatically reduce its fossil-fuelled energy imports and vastly expand its clean energy exports, creating around 7,600 skilled and semi-skilled jobs, and adding about AU\$11 billion each year to Australia's GDP by 2050. Moreover, should more ambitious technological advances arrive more rapidly than anticipated, the upside could be even greater: 10,000 extra jobs and at least AU\$26 billion increase in GDP per annum.

To these opportunities we can add the probable rapid reduction in local energy prices, which would help to revive Australia's techno-industrial base. By making energy-intensive manufacturing viable for Australia, lower energy prices could also see the re-shoring of the country's long-lost materials-processing industries. Once again, Australia could emerge as a world-leading exporter of (clean) steel and aluminium, derived from green hydrogen use in place of coal. This would further diversify Australia's value-added export base and open new market opportunities abroad – not just in Korea, but beyond.

To these economic opportunities of a green hydrogen shift we would add the geostrategic opportunity to diversify Australia's export base away from China, and to signal to the Pacific region that by moving away from natural gas Australia – finally – is serious about tackling climate change. China's newly invigorated courtship of Australia's Pacific neighbours renders this path not just desirable, but imperative.

## DO NEW DEVELOPMENTS MEAN A NEW DIRECTION FOR KOREA'S GND? >

In March 2022, Russia's invasion of Ukraine sent shockwaves through global energy markets, pushing the price of gas to new highs, and significantly inflating the price of oil – two key Russian exports. The pain of these higher fossil fuel prices is now being felt acutely across the Asia Pacific and especially in Korea. Currently, Korea relies on Russian imports to meet around five percent of both its oil and gas needs, and around 17 percent of its coal requirements.

Insofar as the Russia crisis has amplified Korea's longstanding energy security concerns, there is every chance that it will lend even greater momentum to the country's push to reduce its reliance on fossil fuel imports via a more aggressive clean energy shift. Indeed, upon coming to power in early 2022, the Yoon administration announced its intention to reduce the share of coal and gas in the energy mix to between 40 and 45 percent by 2030, and to ramp up the country's efforts to transition to a hydrogen society.

The Russia crisis is also serving to shape the direction that the clean energy shift takes in Korea, not least by exposing the risks of reliance on gas as a 'bridging fuel', and by heightening local tensions over the most desirable pathway towards decarbonisation.

Under former President Moon (2017-2022), the Korean government had pledged to phase out coal and nuclear. To realise this goal, Moon proposed to rely on gas as an affordable 'bridging' fuel while the country ramped up renewables. While the idea of coal phase-out proved politically popular given Korea's perilous particulate pollution problems, abandoning nuclear proved far more contentious. Some experts and politicians remained adamant that nuclear had an important role to play in Korea's long-term quest for energy, economic and environmental security.

The Russia crisis exposed the risks in Moon's strategy; by the time the crisis hit, Korea had emerged as the world's fourth largest importer of LNG, and so felt the pain of higher gas prices acutely. The Russia crisis thus lent momentum to Korea's pro-nuclear voices, including then Presidential hopeful Yoon Suk-yeol.

President Yoon came to power pledging to expand the role of nuclear power in Korea's 'clean energy' mix. According to Yoon, meeting Korea's Net Zero by 2050 pledge via 100 percent renewables would be too costly for the country, especially for industry. Yoon has thus promised to expand domestic investment in nuclear, and to develop the newest generation of small modular reactors as a strategic export industry.

Yoon's new emphasis on nuclear has sparked fears of a reduction of investment in renewables, and a reversal of Korea's Net Zero commitments. However, Yoon will face many domestic obstacles to reviving nuclear locally, in light of the divisiveness of this issue. Moreover, Yoon remains firmly committed to Korea's 2030 carbon reduction targets, and any move to alter the country's 2050 obligations would meet fierce global criticism, not least from Korea's major strategic partner, the United States.

At the same time, international investments in renewables will continue to drive costs down, and the Korean government and businesses remain steadfast in their desire to maintain and extend the country's competitiveness in the global renewables race, and to stay ahead of China in the green hydrogen race. To scale back investment would be to cede ground to China in this crucial advanced technology industry. Since the Russia crisis, China has been ramping up its renewables to offset associated price shocks. Most recently, China announced a major push into green hydrogen, which is expected to expand rapidly in the coming years.

Like China, Korea will be anxious to capitalise on the more vigorous pursuit of renewables, including green hydrogen – already underway in Europe, again as a consequence of the Russia crisis. In early-March 2022, the EU announced a plan – REPowerEU – to become independent from Russian oil and gas by 2030, largely through the promotion of renewables. This plan will potentially increase already significant demand in the EU for renewable energy products from Northeast Asia's powerhouse economies (such as EVs, batteries, fuel cells). This in turn will further drive down the costs of renewables and green products, encouraging greater domestic uptake.

Regardless of Yoon's nuclear plans, Korea's electricity operators will still have to work within the ambitious renewable energy targets set by the Moon administration. As recently as October 2021, the Ministry of Trade Industry and Energy (MOTIE) revised the country's renewable energy portfolio standard, mandating that energy companies source at least 25 percent of their energy from renewables by 2026, up from 9 percent previously. Then in January 2022, MOTIE announced that it would finally allow renewable energy providers to sell electricity directly to industrial and retail consumers – removing a longstanding obstacle to the widespread roll-out of renewables. For these reasons, the revival of the nuclear debate in Korea is unlikely to come at the expense of renewables plans.

For all these reasons, we see Korea's ambitious clean energy push as likely to continue under Yoon, for reasons not just environmental, but economic and geostrategic as well. Australia's new government is well aligned with the Yoon administration on all these fronts. Finally, Australia seems well placed to seize on the opportunities presented by Korea's clean energy shift, and to start learning from the Korean experience of manufacturing environmental, energy and economic security.

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## ASIA SOCIETY AUSTRALIA

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