

Strategies for Cooperation with China in Emerging Countries: Focusing on the BRI

Pyeong Seob Yang Senior Research Fellow/Vice President, Center for Area Studies (psyang@kiep.go.kr)

Young Ho Park Research Fellow, Africa and Middle East Team, New Northern Policy Department (parkyh@kiep.go.kr)

Jaewan Cheong Principal Researcher, India and South Asia Team, New Southern Policy Department (jwcheong@kiep.go.kr)

Cheol-Won Lee Principal Researcher, Americas and Europe Team, Advanced Economies Department (cwlee@kiep.go.kr)

Jino Kim Principal Researcher, Americas and Europe Team, Advanced Economies Department (jokim@kiep.go.kr)

Su Yeob Na Principal Researcher, China Team, Chinese Economy Department (syna@kiep.go.kr)

Hyo Jin Lee Researcher, China Team, Chinese Economy Department (hyojinlee@kiep.go.kr)

Youngkwan JO Senior Research Fellow, Overseas Economic Research Institute, Export-import Bank of Korea (yjk@koreaexim.go.kr)

I. Introduction

Recently, the need to advance into emerging markets has increased for Korea with changes in U.S. trade policy and the proliferation of trade protectionism around the world. In order to diversify its export markets and diplomacy, Korea is pursuing its New Northern Policy (NNP) and New Southern Policy (NSP). China's Belt and Road Initiative (BRI) is a new regional development strategy from an internal perspective and a cooperative initiative from an external perspective. The BRI is a realization of the new Silk Road Economic Zone covering land and sea, to be realized comprehensively in cooperation with China's domestic and overseas development projects as a long-term mega-project, and which is expected to generate substantial economic ripple effects. China is working on the BRI to establish cooperative systems and plans, including infrastructure connections, and to promote collaborative projects with the five emerging regions of Central and Eastern Europe, the Middle East and Africa, CIS and Central Asia,

South Asia and ASEAN. There is a need to link Korea and China's national strategy and the target countries of Korea's NNP and NSP, closely aligned with countries along China's BRI route. This plan holds high potential for all countries involved.

This study performs an overview of emerging regional strategies based on China's BRI and an in-depth analysis of emerging countries' economic cooperation policy toward China, with the aim of drawing important implications for Korea.

II. BRI Core Issues and Prospects in Emerging Markets

A number of BRI projects are being pursued in Southeast Asia and South Asia, while some have been suspended or delayed due to lack of economic feasibility, lack of transparency, deteriorating fiscal soundness, or regime change. Nonetheless, BRI projects are ex-

pected to be carried out on schedule based on the need for economic and social development in Southeast Asia and South Asia, China's strong momentum, and the cooperation of developing nations in these regions. The urgent need for economic and social development in South Asia will likely add momentum to BRI projects in the region. However, some of the projects that are undergoing problems or have been put on hold will likely require a great amount of time and processes before they can be resumed.

If the BRI is China's strategy for expanding foreign cooperation to the Eurasian region, this strategy will conflict with Russia's strategy toward Central Asia. The BRI of China is criticized locally despite its contributions to the economies of Central Asia and Mongolia. This criticism is largely due to the perception by the local people that it is not directly beneficial to the economic development and social development of BRI areas due to the delay of infrastructure development. Other reasons for these negative public sentiments include how local labor is not utilized in BRI projects, how China's development has led to an increase in environmental pollution, and perceptions that the project is associated with bureaucratic corruption.

China's BRI initiative is a "comprehensive long-term strategic project" that integrates Asia, the Middle East, Africa and Europe through land and sea routes, and is proceeding rapidly throughout Africa and the Middle East. The BRI is undergoing some obstacles in Southeast Asia and South Asia, but in Africa and the Middle East, it can be evaluated as being very well underway.

In Central and Eastern Europe (CEE), if the BRI and the 16+1 system continue to be used for political means only then the BRI in this region could become stagnant and gradually lose support. In order to secure the momentum of the BRI project in the future, and continue to strengthen the 16+1 system, it is necessary to achieve a progressive China-EU cooperation and through this a successful transition of the BRI through a cooperation model at the EU-level.

Ultimately, the integration of the EU-level cooperation model with China's BRI should lead to the development of EU-China cooperation and successful transition of the BRI in order to secure momentum for future BRI projects in CEE and continue to work with 16+1 countries and strengthen cooperation. To this end, BRI alternatives should be proposed and selectively stronger cooperation in specific BRI projects will need to be presented with the EU-China Connectivity Platform.

The Latin American economy has joined with the BRI only recently, but this has attracted attention due to the geographical location of Latin America and the proximity of the U.S. Strengthening China's relations with Latin America through the BRI is a new concept that utilizes maritime and sky routes as well as digital connections, and brings to mind the Monroe Doctrine, long ago discarded by U.S. foreign policy. In other words, the Monroe Doctrine, which rejected Europe's policy of intervention in the U.S., has been revived by the Trump administration, and China's advance into Latin America is being checked in the midst of deepening trade conflicts between the U.S. and China.

Table 1. Key Issues and Implications for BRI by Major Emerging Regions

Region	Key Issues and Implications	Positions of Major Countries	Implications for Korea
Southeast Asia, South Asia	<ul style="list-style-type: none"> - Rising negative effects such as lack of economic feasibility and transparency, deteriorating fiscal soundness, and suspension of regime change - Progress as scheduled according to necessity of economic and social development, China's driving force, and local cooperation 	<ul style="list-style-type: none"> - Thailand, Cambodia, South Asia: active approach - Malaysia, Sri Lanka, Myanmar and Pakistan: transition in consideration - India, Vietnam: sensitive response due to territorial disputes - Singapore: seeking a joint venture with China - Japan: responding to BRI as an active development and cooperation strategy 	<ul style="list-style-type: none"> - External expansion strategy required (inclusive of South Asia region in NSP) - Active support for the 4 areas of NSP cooperation (traffic, climate change, water conservancy and smart city) - Participation in joint entry with China to third-party markets (support required for the company's entry into third-party infrastructure market) - Establishment of a selective investment promotion strategy and risk hedging strategy is important
Central Asia, Mongolia	<ul style="list-style-type: none"> - Considering cooperation with Russia-led EAEU - Successful promotion in Kazakhstan as a core model - External debt problem - Concerns about China's increasing excessive influence in the region - Increase the role of international organizations 	<ul style="list-style-type: none"> - Kazakhstan, Uzbekistan, Mongolia: active - Russia: vigilance and cooperation - EU: cautious cooperation - U.S.: difficult to exercise influence, criticism of negative effects on economic of counterparty 	<ul style="list-style-type: none"> - Need to link with the NNP - Cooperation in land and shipping logistics - Energy cooperation and establishment of super-grid in Northeast Asia - Assistance to inter-Korean cooperation
Africa	<ul style="list-style-type: none"> - Expected to accelerate the BRI's drive by expanding trade and investment cooperation in large-scale aid projects - Debt risk is the biggest concern (BRI project through commercial loans to Djibouti, Kenya and other major countries' exposure to debt risk) - China's military and security positions expected to strengthen 	<ul style="list-style-type: none"> - Positive stance over other regions as a whole (high expectations for economic development by large-scale aid) - U.S.: vigilance against stronger Chinese military presence and expanding influence in Africa 	<ul style="list-style-type: none"> - Use of the BRI as leverage - "Choice and Focus" strategy based on experience and funding - Infrastructure (railroad operation and management) and industrial complexes (can overcome geographical disadvantage)
Middle East	<ul style="list-style-type: none"> - Expected to expand cooperation scope in foreign and military as well as energy, infrastructure, trade and investment sectors - Particularly promising prospects for BRI projects in Iran (pro-China, crude oil resources, political stability, and large markets.) 	<ul style="list-style-type: none"> - Almost all countries welcome - Israel: Concern about China's core infrastructure construction, purchase of high-tech technologies and access to national infrastructure. - Iran, Saudi Arabia, Egypt, UAE, Jordan, etc.: Active 	<ul style="list-style-type: none"> - Strengthening cooperation in logistics
CEE	<ul style="list-style-type: none"> - Decrease in interest in 16+1/BRI projects - The issue of compliance with EU regulations and international 	<ul style="list-style-type: none"> - EU/West Europe: caution - CEE: welcome, expectations, disappointment, political use - Russia: wait and see, caution, 	<ul style="list-style-type: none"> - Need to prepare for optimistic scenario of BRI projects in CEE - Also necessary to observe

Region	Key Issues and Implications	Positions of Major Countries	Implications for Korea
	al standards - Establishment of China-EU Cooperation Framework - Success of BRI in CEE important for overall BRI prospects	and partial cooperation -U.S.: open opposition	trends in China's GVC establishment - Utilize Korea's GVC building experiences in EU
Latin America	- Impact on economic, political and security aspects - Increase investments from energy and resource development to infrastructure, logistics and information technology - Regional integration in Latin America	- More active in countries with weak economic structure and high dependence on exports to China - Mexico, Brazil: somewhat reserved stance	- Integration of Asia and Latin America - Explore frameworks for third-party cooperation - Promote advance into Latin America based on Korea-China cooperation

III. Strategies for Emerging Markets by Utilizing China's BRI

Korea has been pushing forward its New Southern Policy (NSP) since the second half of 2017, aiming to bring Southeast Asia and India into an external expansion strategy that includes not only India but all of South Asia. South Asia, including India, is a huge economy with a population of 1.77 billion people as of 2017, and its growth potential is huge. First, an active entry and early occupation strategy for promising infrastructure projects in Southeast Asia and South Asia is needed through the expansion of public funds and their rapid execution. China is aggressively supporting public finance for the BRI through various policy financial institutions (e.g. the AIIB, Silk Road Fund, etc.), the Sino-ASEAN Infrastructure Fund, and Export-Import Banks. Korea also needs to expand public funds, quickly implement them, and actively utilize the Korea Overseas Infrastructure and Urban Development Support Corporation (KIND), which was launched in June 2018. Second, it is necessary

for Korea to participate in the flow of seeking joint ventures with third countries as China cooperates with Japan and Singapore. In this regard, it will also be important for Korea and China to hold a forum to support their companies' entry into third-party markets and most particularly into third-country infrastructure markets. Finally, most countries in Southeast Asia and South Asia, and particularly countries along China's BRI route, share the common characteristic of extremely low competitiveness in the private sector, with the exception of Singapore. Therefore, Korea's investment or support should be made in a way that contributes to the development of small and medium-sized businesses and supporting industries in these countries, and these countries also need to strengthen their technological capabilities through cooperation with Korea in the R&D field. This is also a good way to implement the "mutually prosperous community" that the New Southern Policy envisions.

The BRI provides implications related to Korea's New Northern Policy (NNP) as well. The Korean government's NNP is aimed at Central

Asia and Mongolia along with Russia. Therefore, it is necessary to look for concrete cooperation measures between the BRI and the NNP. The main challenges for both the NNP and the BRI lie in the logistics and energy sectors, indicating that mutual cooperation should be possible in these areas. First, in logistics cooperation, Korea will be able to directly utilize the logistics networks of Central Asia and Mongolia. In addition, the Sino-Mongolian-Russian transport corridor will be linked to the eastern region, such as Hunchun and Zagalino in the Russian Far East, which will enable joint cooperation in ports or transport networks in the Russian Far East region. Second, it will be possible to promote cooperation in the energy sector as well. One of the main projects of the NNP is the Northeast Asia Super Grid. This project involves power production through new and renewable energy sources in Mongolia. The third possibility is to conduct inter-Korean cooperation projects. Improvements in North-South relations have increased the likelihood that projects in North Korea will be pursued. There is also the possibility that building railroads, road infrastructure, and port development could be recognized as exceptions even before the issue of North Korean sanctions is fully resolved. Korea's NNP and China's BRI have the potential to work together in logistics, energy and inter-Korean cooperation, and this possibility is expected to increase further as inter-Korean relations improve.

In Africa and the Middle East, the BRI is expected to gain more momentum. Korea needs to look for ways to gain more strategic access to Africa and the Middle East using the BRI as leverage. Given a realistic assessment of Ko-

rea's capabilities (e.g., financial strength, market entry experience) in economic cooperation with Africa, a strategy of "choice and focus" should be opted for, with the eastern region of Africa set as the primary target market. In addition to being the most active in BRI projects, the eastern region of Africa is politically stable and emerging as a new hub for African economic growth. Infrastructure and industrial parks are areas where BRI cooperation is already ongoing or are potential fields for cooperation. China's large-scale infrastructure construction projects have received very favorable responses and are greatly welcomed in counterpart countries, but at the same time the perception toward Chinese projects has suffered much as numerous problems in maintenance (technology maintenance), system operation and post management have been exposed. Korea will be able to cooperate in this field as long as it has a competitive edge in the operation and management of infrastructure systems such as railways. As far as entering Africa is concerned, another area of cooperation that Korea as a latecomer can attempt to enter through BRI projects is in the area of industrial complexes. The construction of industrial complexes is bound to require large amounts of money and risk, so it is necessary to explore ways to advance into these markets through cooperation with China. China constructs large industrial parks in major markets within the region – including Ethiopia, sometimes referred to as “Africa's China” – and the products manufactured here (apparel, textiles, footwear, leather, etc.) are exported to offshore markets, as well as to Europe and the U.S., which offer preferential treatment through the transport network. The BRI project in the Middle East is expected to focus on

the energy sector, in which China's vital interests are at stake, and logistics sectors where development needs are high in Middle Eastern countries. As such, Korea needs to establish practical cooperation measures to participate in these areas. Since many Middle Eastern countries, including Saudi Arabia, Egypt, the UAE and Jordan, have expressed their intention to link the project with their own economic development strategies, efforts must first be made to closely monitor the development needs of these countries. At the same time, however, it will be necessary for Korea to take a cautious and long-term approach to economic cooperation projects linked with the BRI in the Middle East when considering the political landscape, such as its relations with the U.S.

China's successful promotion of the BRI in the CEE regions signifies that concerns over uncertainty raised so far – e.g., lack of transparency, deepening of corruption, violation of EU rules, and risk of bankruptcy in countries pursuing the BRI – can be resolved through cooperation between China and the EU. In other words, the EU could change its position into a proactive partner if the normative requirements are met, unlike the United States which has openly declared its opposition to the BRI. The outlook for optimistic scenarios for the BRI can cause fluctuations in the foreign economic environment, which is very important to Korea, even if that possibility is not large. If the Chinese BRI successfully cooperates with the EU to realize a new phase of revitalization in the Eurasian continent, Korea will need to be more proactive to interface the BRI with its NNP and NSP. Korea has established a high-level and comprehensive FTA framework with the EU and already enjoys

close industrial cooperation with central European countries such as Poland, the Czech Republic, Slovakia and Hungary to establish a GVC in European markets. From the standpoint of Korean companies, the incentives for Korea and China to cooperate with each other in the CEE region are not large in light of the slow progress of BRI projects, but there is a need to note the GVC that China will build in Europe if BRI projects begin to pick up pace in the CEE region. Korea has accumulated enough experience in adapting to the EU's various regulations and international standards such as environment, labor and technology standards since the Korea-EU FTA took effect. In addition, Korea and China have accumulated experience in close GVC cooperation in East Asia, and Korea will be able to play a much larger role in promoting the BRI in CEE if China requests.

The success of China's entry into Latin America through the BRI depends on encouraging Latin America to actively support China, overcoming critical views on the BRI. As one such measure, China has reevaluated progress of the BRI over the past five years and proposed third-party cooperation similar to triangular cooperation. This concept involves a third country entering into the target area (Latin America) through cooperation with China. Korea-China joint ventures in Latin America are very limited, but the Venezuelan refinery plant modernization project showed the possibility of such third-party cooperation. In other words, the combination of construction capacity, experience, and know-how of Korean and Chinese construction companies and support by Chinese financial institutions could serve as a typical example. Korea can play an

intermediary role in the Central and South American region, which is seeking to diversify into the Chinese and Asian markets provided that the BRI is used as an interactive cooperation mechanism, not in a unilateral direction by China. In particular, the support for cooperation provided by Korea in line with its New Southern and New Northern Policies will serve as a channel linking Latin America to Asia and Eurasia.

IV. Conclusion

Korea's NNP and NSP may be in a competitive or cooperative relationship with China's BRI in third countries. Recently, the Korean and Chinese government held consultations to push for joint third-party market entry in order to strengthen the cooperative relationship between the two strategies. This is necessary to expand cooperation in third country markets based on mutual advantages of the two countries in the future. It is also necessary to extend the cooperation target area in third countries to the Middle East, Africa, Central and South America and Eastern Europe beyond the BRI as well as the NNP and NSP.

It is necessary to take into consideration the favorability of BRI cooperation, the economic relationship with China, and the existence of conflict factors other than history and other economic factors in the selection of the target countries. In selecting the partner countries, it is necessary to consider the position of the target country in China's BRI. Cooperation in a country that is very hostile toward the BRI is undesirable to Korea as well from a practical standpoint. It is possible to distinguish be-

tween actively cooperative countries, passively cooperative countries (or those undecided as of yet), and countries with a negative stance.

When selecting possible areas of cooperation, it should be ensured that cooperation meets the needs of beneficiary countries and mutual complementarity is maintained between Korea as a cooperative partner and China as a driving force. First, in order for cooperation between the two countries to be successful in a third country, the BRI project needs to be considered from the beneficiary's perspective. Countries along the BRI route are mostly developing countries, suffering from insufficient logistics, transportation infrastructure, power and water resources. Some countries have abundant mineral and energy resources, but there is absolutely no technology or funding to develop them. Second, it will be possible to benchmark BRI areas that China and Japan are pursuing to cooperate in related businesses. China and Japan signed an agreement on 52 projects which include the areas of food, automation equipment, medicines, HIV prevention, oriental medicine, medical support and medical services, solar energy, electricity, renewable energy, building materials, aluminum, smart city projects (Thailand), engineering (petrochemical and AI), petrochemicals, human resources (entertainment) at the interim Third Country Market Cooperation Forum held in October 2018. Third, it is also necessary to examine what kind of cooperation projects China hopes to conduct in third countries. China is focusing on global cooperation in the field of industrial equipment as it promotes the BRI. In November 2015, the State Council of China issued its "Guideline on boosting international cooperation in production capacity and equipment manufacturing" and selected

10 industries, including steel, non-ferrous metals, dry materials, railways, power, chemicals, light industry and textiles, automobiles, telecommunications, machinery, aerospace, shipbuilding and marine processes, as the main focus of overseas investment. Fourth, we should gradually expand the fields of cooperation between Korea and China in third countries. In the field of infrastructure, while the beneficiary might consider the project to be of the highest urgency, cooperation ends up being limited by the large funds needed and difficulty of securing economic efficiency. Therefore, it is necessary to start cooperation in traditional manufacturing areas, in which the two countries can be substantially cooperative in a way that benefits the beneficiary countries as well, such as by providing technical guidance to emerging economies and projects to foster joint technological talent. Finally, it is very important for Korea and China to create a successful case of cooperation. So far, it is hard to find a case where the two countries have successfully cooperated in a third country market. In order to cooperate in a third country, it is necessary to actively pursue a pilot project in which individual companies cooperate under the support of intergovernmental or bilateral governments.

Projects to jointly build an industrial complex in a third country, as are recently being discussed again between the two countries, are relatively difficult to carry out. However, it is necessary to take a different approach where Korean companies move into the industrial complex and the counterpart country grants various benefits.

In particular, considering the increasing number of companies seeking to relocate their fac-

tories to third countries due to recent rises in China's labor costs, Korea and China may consider cooperating to create an industrial park where Korean and Chinese companies can both relocate. For example, in Southeast Asia, it is necessary to first review the joint launch of industrial complexes in Vietnam, Indonesia, the Philippines, Myanmar, Thailand and India, which are of keen interest to Korean companies. Korea and China may consider jointly constructing an industrial complex or moving into an industrial complex built by other countries in countries where Korean and Chinese companies are increasing their investments.

Korean companies are seeking opportunities to participate in projects through financial cooperation, such as co-financing projects with Chinese financial institutions that support the BRI project or co-financing with foreign financial institutions. Energy projects often face difficulties because of the need for large-scale funding. For example, a Korean company in Uzbekistan succeeded in winning a gas-to-liquids (GTL) project of about 3.1 billion dollars in 2013. However, the project was put on hold due to the lack of a viable financial procurement plan. In 2017, the Chinese Development Bank supported the financing of 1.2 billion dollars, and further financial support was provided by the Korea EXIM Bank and Korea Trade Insurance Corporation, putting the project back on track.

The BRI platform holds high potential for the expansion of cooperation between Korea and China in the Northeast Asian region centered on the Korean Peninsula. It is very important for China to connect the BRI and Korea's NNP when it comes to cooperation in Northeast

Asia. The recent mood of peace on the Korean Peninsula provides the opportunity to deepen economic cooperation between Korea and China through the BRI platform. [KIEP](#)