

Belt and Road Initiatives: China and South Korea's Economic Ties with South Asia and Nepal

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I. Introduction

China and South Korea are rapidly growing economies of Asia. China's economic growth remained at 7 percent in 2017/18 while this figure for South Korea stood at 3.1 percent for this period (FocusEconomics, 2020). Korea's economic growth for 2018 had been forecasted to remain at 3 percent, while exports remain buoyant and unemployment at less than 4 percent (Harris, 2018). However, South Korea's GDP growth dropped to 2.7 percent in 2018 compared to that of 3.1 percent in 2017. The Korean economy grew by 2.0 percent in 2019 and was forecasted to grow by 2.0 percent in 2020. But due to the COVID-19 outbreak the hopes for a pick-up in South Korean trade and manufacturing have been ruined. As a result Korea's GDP forecast figure of 2.0 percent growth for 2020 has been downgraded to 1.8 percent (Chan L., 2020). South Korea is now the 11th largest economy in the world, the 4th largest economy in Asia and a key contributor to the International Development Association (IDA), a fund established by the World Bank to support the world's poorest countries (AVPN, n.d.). It is expected that the average GDP growth rate of China, India and South Korea in 2014 to 2050 will remain at 3.4 percent, 4.9 percent and 2.4

percent respectively (PWC, 2015). By this time, the economic prosperity in South Asian countries such as Bangladesh and Pakistan will also reach the satisfactory growth of 5.1 and 4.3 percent respectively.

South Asia covers about 11.54 percent of the Asian continent or 3.4 percent of the world's land surface area. The population of this region is 1.7 billion or about one fourth of the world's population, making it the most densely populated geographical region in the world. Nepal occupies just 0.03 percent of South Asia and shares borders with India and China. China also provides these South Asian countries with low-cost financial capital. The largest beneficiaries of such economic assistance are Pakistan, Bangladesh, Sri Lanka and Nepal (Wani & Chawre, 2017). Moreover, China's Belt and Road Initiative (BRI) entails multiple overland routes through South Asia, and South East Asian lanes through the Indian Ocean.

The relationship between South Asia and South Korea dates back centuries. There were trade and cultural ties between South Korea and South Asia via the Silk Road. In the past, people-to-people contact was held via the Trans-Himalayan route adjoining with the Silk Road,

extending from India to Nepal via Tibet/China to the Korean Peninsula. Although Nepal and South Korea are at a large geographical distance, the relationship between the people of Korea and Nepal is very close. Nepal has kept in mind the efforts made by South Korean people towards their nation building particularly after the 1950s. The Korean population is attracted to Nepal due to its significance as the birthplace of Lord Buddha and the mighty Himalayas that spread from east to west in the northern belt. South Korea has been supporting Nepal's development drive through its aid and technical assistance programs.

II. China's Economic Interest in South Asia/Nepal VS Korea's New Southern Policy

China's broad term objectives in South Asia are to raise multi-dimensional cooperative ties: diplomatic, fiscal and security interests with all countries of the region. However, the attraction of the region lies in its natural wealth, which China sees as vital in order to boost its status as a regional and global power (Umbreen, 2016). China is steadily extending its reach in South Asia. It has huge trade surpluses with all the South Asian countries and it reciprocates these surpluses with massive investment in infrastructure development, socio-economic needs and energy production in these countries. It also provides them with low cost financial capital. The largest beneficiaries of such economic assistance were Pakistan, Bangladesh, Sri Lanka and Nepal (Wani & Chawre, 2017). South Asia is important for China for two main reasons. Firstly, China wants stability within its state along with peace in bordering areas. Secondly, China's interaction with neighboring states is necessary in order to enhance its trade (Bukhari & Bakht, 2013).

In September 2013, China's President Xi Jinping officially initiated the "Belt and Road Initiative (BRI)," one of the most ambitious foreign economic strategies of modern times. This is aimed to fundamentally alter the economic, political and social relationship between Eastern and Western societies (Hwang B. Y., 2016). It links countries and regimes that account for about 60 percent of the world's population and 30 percent of global trade. President Xi Jinping has portrayed the BRI as the "project of the century" to integrate the Chinese economy with the development of Asia, Europe, Africa and the beyond (Chan S. , 2017). The aim of the BRI initiative is to promote five major goals among the constituent nation/states: policy coordination, facilitating connectivity, unimpeded trade, financial integration and people-to-people bonds (Haggai, 2016). Thus, this initiative aims at promoting orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets. The BRI project is a manifestation of China's intention to become the next global power as well as assume a new regional role. Put differently, China is eager to link and influence every part of the world from Europe to Asia through this initiative (Kumar & Narayan, 2017).

President Park Geun-hye's launch of the Eurasian Initiative (EAI) was an effort to exert South Korea's growing strength and its geographical connection to Western Europe with the eastern-most pillar of Asia, the southern tip of the Korean Peninsula. President Park's EAI contains new and more focused elements for regional cooperation by calling for resurrecting the ancient Silk Road in order to link energy supplies with the key transportation infrastructures, including electricity grids between Europe and Asia. These physical linkages would form the basis for gradually eliminating trade

barriers and ultimately leading to the establishment of a vast free trade zone encompassing both continents (Hwang B. Y., 2016). President Moon Jae-in declared the “New Southern Policy (NSP)” in the Indonesian-Korea business forum in November 2017:

“The Korean government will strongly push forward this policy, which will improve cooperative ties with ASEAN economies by achieving a community for the people that connects people to people and minds to minds. It will bring a community of peace that can contribute to the peace across Asia and a community of co-existence and co-prosperity where ASEAN countries thrive together with reciprocal economic cooperation.” (Easley, 2018)

The objective of the New Southern Policy is to elevate Korea’s relationship with ASEAN to the level of its relations with the four major powers around the Korean Peninsula, namely U.S.A, China, Japan and Russia (Ha & Ong, 2020). As a whole, the NSP represents continuity from previous ROK’s policies vis-a-vis South East Asia, which first took off under President Kim Dae-jung in the late 1990s. Then in 2009, President Lee Myung-bak unveiled his new Asian initiative as “South Korea’s bid to diversify its diplomatic focus from the US and other regional powers ... due to the growing influence and importance of Asia.” (Duk-kun, 2009)

The New Southern Policy emphasizes the so called “3P community,” which stands for a community of people, prosperity and peace. The people-centered values stipulated in the ASEAN Constitution and the basic principles espoused by the current administration, which emphasizes that “people at first,” are in line with the New Southern Policy in pursuit of a people-centered community (Kwak, 2018). Under the New Southern Policy, the Republic

of Korea has invested significant efforts and resources to connect itself with South East Asia, at both multilateral and bilateral levels. Economic cooperation is quite remarkable. As of 2018, trade between ROK and ASEAN amounted to USD 159.74 billion (USD 100.11 billion in exports and USD 59.63 billion in imports), which make the region Korea’s second largest trading partner. Besides, the ROK has been actively involved in poverty reduction activities in South East Asia. From 1987 to 2017, Korea extended USD 1,823 million in ODA grants and USD 2,605 million in loans to ASEAN countries (Vannarith, 2019). Korea’s New Southern Policy, which attempts to reposition Seoul as a major economic player in South East Asia, creates new potential synergies with Japan and the United States. The other half of Moon’s foreign policy – the New Northern Policy mirroring China’s Belt and Road Initiative and Russia’s New Eastern Policy visions for Eurasian connectivity – reveals an additional pathway towards cooperation with Tokyo and Washington (Silverberg & Park, 2020).

South Korea seeks to expand its trade with India (which comes under the scope of the NSP), presently estimated at about USD 20 billion, to increase by USD 50 billion by 2030 (Ock, 2018). Moon’s current focus is on how to expedite the manufacturing base to reenergize innovative growth in the South Korean economy. South Korean companies are also intensifying their strategic search and looking for new models of investment opportunities in emerging economies. They judge rising India as a good destination of their investment-related ventures (Panda, 2020). In fact, the Moon administration is gearing up to expand cooperation with India with equal, if not more, emphasis on strategic understanding, cultural appreciation, and people to people engagement (Park, 2018).

III. South Korea's Economic Relations with Asia/South Asia

1. South Korea's Aid Relations with Asia/South Asia:

South Korea transformed from an aid recipient to aid donor country for the majority of the developing countries of the world since the 1970s decade. In 1987, South Korea attained the status of a donor country to the World Bank and in 1991 it established the Korean International Cooperation Agency (KOICA) for aiding other countries. In the 2000s, it became the first ODA donor among developing countries (Lee, Kim, & Kim, 2017). In 2018, the bilateral aid stake

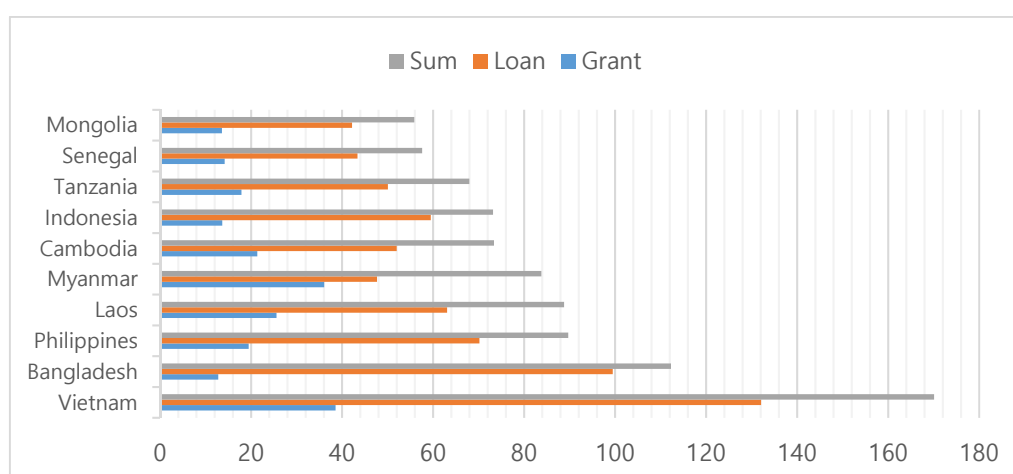
in total aid remained at 82.4 percent and multi-lateral stake at 17.6 percent (Moon, 2017). Out of the total aid of South Korea, the countries of Asia received 35%, followed by Africa (18.4%), Middle East (11.2%), Latin America (7.5%), Oceania (0.2%) and others (27.0%) respectively. Countries such as Vietnam, Bangladesh, Cambodia, Laos, Myanmar, Indonesia, Philippines, Ecuador, etc., are the major aid beneficiary countries from South Korea. South Korea's total volume of ODA and its ODA/GNI remained relatively small when compared with other traditional donor countries of America, Western Europe and in particular, the Nordic countries. Indeed, South Korea has been ranked at or near to bottom of many quantitative measurements of the ODA of DAC member countries.

Table 1. Republic of Korea's Aid – 2018 (in Hundred Million KRW)

	Type	Asia	Africa	Latin America	Middle East	Oceania	Others
Volume	Loan	5,192	2,366	886	2,136	-	-
	Grant	4,038	2,483	1,096	798	185	7,108
	Total	9,230	4,849	1,982	2,934	185	7,108
Proportion (%)	Loan	49.1	22.4	8.4	20.2	-	-
	Grant	25.7	15.8	7.0	5.1	1.2	45.2
	Percent in Total	35.1	18.4	7.5	11.2	0.2	27.0

Source: Moon, Kyangyon. (2019). "South Korea's Policy towards the Least Developed Countries," Korean Association of International Development and Cooperation, ESCAP, NP.

Figure 1. Major Recipients of Korean ODA – 2019 (US\$ in billion)



Source: Jaehyon, Lee. (2019). "Korea's New Southern Policy: Motivations of 'Peace Cooperation' and Implications for the Korean Peninsula," Seoul, Asan Institute for Policy Studies, en.asaninst.org.

2. South Korea's Trade Investment and Other Relations with Asia/South Asia:

In 2018, South Korea's export and import trade with China stood at US\$ 162,125.0 million and US\$ 106,448.6 million respectively. South Korea has more trade transactions with the South Asian countries namely India, Bangladesh, Pakistan and Sri Lanka. But, Korea has less amount of both export and import trade with other South Asian countries such as Afghanistan, Bhutan, Maldives and Nepal. South Korea's export and import trade with India in 2018 remained at US\$ 15,606.2 million and US\$ 5,884.7 million respectively. This figure for Bangladesh remained at US\$ 1,238.3 million and US\$ 346.5 million respectively. Likewise, South Korea had US\$ 1,018.0 million worth of exports and US\$ 379.9 million worth of imports with Pakistan in 2018. In this regard, South Korea had just US\$ 35.0 million worth of exports and US\$ 2.0 million worth of imports with Nepal in 2018. South Korea is implementing strategies to strengthen engagement with India's market. There are two primary reasons for the shift in South Korea's outlook in India. One is that Seoul sees India and the ASEAN countries as new economic partners under its NSP; by strengthening ties with these countries, South Korea intends to reduce its over-dependence on its traditional trade allies that are China and partially, the United States. The other reason is that South Korea is making a subtle move to endorse the “Indo-Pacific” geo-political construct by aligning with India and the ASEAN countries without officially saying so. Central to this shift, however, is the mitigation of its China-related risks (Kumar R. , 2018).

With the growth of South Korea's economy over the past decades, its trade, investment and other relations with South Asian countries have begun to take shape. Overseas investment of

South Korean firms in 2018 rose by 11.8% from the previous year to US\$ 49.48 billion, which seems to be the highest since the 1980s. South Korean firms' investment made in manufacturing accounted for the largest share of 32.6%, real estate 10.2%, wholesale and retail 4.9% and mining 4.3%. The biggest share of FDI by Korean businesses went to Asia at 34.1%, followed by Europe at 23.3%, Central and South America 16.3%, Middle East 1.7% and Africa 0.3%. By nations, the USA took the largest 21.7% share in Korea's offshore investment, followed by the Cayman Islands 12.4%, China 9.6%, Hong Kong 7.0% and Vietnam 6.4% (Lim & Mira, 2019). Korea was able to grab the 16th position in terms of FDI equity inflow to India with investments of US\$ 2.26 billion between March 2000 and April 2017.

IV. Nepal-South Korea Economic Relations

1. Nepal-South Korea Aid and Trade Relations

Korea and Nepal have enhanced bilateral cooperation through concluding various agreements like the Agreement on Korea Youth Volunteer (January 1992), the Economic Development Cooperation Fund (EDCF) Agreement (September 1997), etc. Similarly, the Nepalese and South Korean governments signed an MOU on the Employment Permit System (EPS) in 2007 for recruiting Nepali workers according to Korean law (Ministry of Finance, 2018). South Korea's major assistance sectors in Nepal are water management, health, sanitation, education, energy and rural development. From 2010/11 to 2016/17, around US\$ 100 million in ODA funds was disbursed by South Korea to Nepal. Between 1991 and 2018, a total of

\$104.7 million aid was provided by South Korea to Nepal, including 29 percent in education, 28 percent in health and 20 percent in public administration. These areas were chosen by KOICA as per the development strategy of Nepal (The Rising Nepal, 2019). The Korean government has been carrying out several development projects through KOICA in Nepal. Currently, there are various ongoing projects worth around US\$ 56.3 million across the country in many areas including ICT, health, childcare, rural development, empowerment of women and young girls, disaster recovery and technical and vocational education (New Spotlight, 2019).

Nepal-South Korean bilateral trade began to take shape only after the 1990s decade. Nepal imports more goods from Korea than its exports to Korea. The Trade Promotion Centre in Kathmandu shows that the exportable items from Nepal to Korean market are less than 25 items while the import items from Korea are more than

70 items. As a result, balance of trade is in favor of South Korea. The major exportable items from Nepal to Korea are coffee, tea, spice, yachagumba, sparkling wine, rum essential oil, woodprints, wool, animal hair, carpet, jewelry, handicraft goods, etc. Likewise, the major import items from Korea by Nepal are frozen fish, green tea, pepper, olive oil, sausages, animal/vegetable fats, juice, soya sauce, wine, cement, paints, perfume, toys, cream, shampoo, camera, mobile, plastic goods, electrical goods, etc. In 2011/12, Nepal's export to Korea stood at NRs 8.5 million; it increased up to NRs 226.0 million in year 2018/19. Similarly, import from Korea remained at NRs 5461.0 million in 2011/12 but ballooned up to NRs 9,362.7 million in 2018/19. By this time, total Nepal-Korea trade stood at NRs 9,588.7 million in 2018/19 with the trade deficit at Nepal NRs 9,136.7 million. Foreign trade of Nepal is always in favor of South Korea due to Nepal's stagnant nature of exportable items and annual growing trend of imported items from the Korean market.

Table 2. Present Nepal-Korea (Republic) Bilateral Trade Status

(unit: 1,000 KRW)

Years	Export	Import	Total Trade	Deficit/Balance
2011/12	38,582	5,461,033	5,499,615	-5,422,451
2012/13	61,216	4,599,478	4,660,694	-4,538,262
2013/14	110,898	4,100,945	4,211,843	-3,990,047
2014/15	86,618	4,088,153	4,174,771	-4,001,535
2015/16	120,412	5,016,038	5,136,450	-4,895,626
2016/17	160,536	8,938,056	9,098,592	-8,777,520
2017/18	169,049	10,164,688	10,333,737	-9,995,639
2018/19	226,015	9,362,735	9,588,750	-9,136,720

Note: (1,000 KRW=98 NPR).

Source: TPC, Nepal Foreign Trade Statistics, Various Issues, Trade Promotion Centre, Kathmandu, 2019.

2. Nepal-South Korea Investment and Tourism Relations

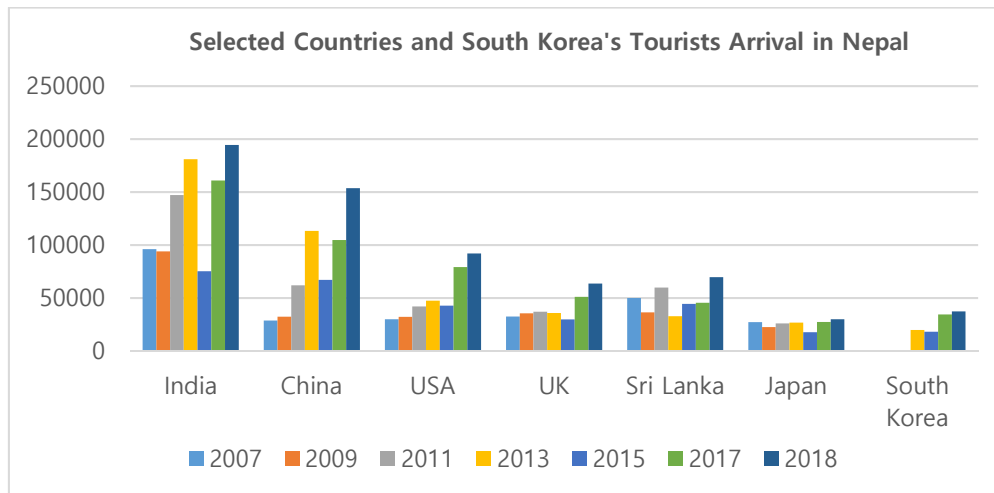
Table 3. Foreign Investment by Countries in Nepal

Countries	No. of Enterprises	Proposed Employment	Total Foreign Investment (In NPRs million)
China	1,462	67,645	111,458
India	772	72,280	93,496
UK	192	13,049	13,508
South Korea	350	11,721	12,251
USA	409	18,519	9,053
Singapore	50	3,500	4,507
Mauritius	11	1,055	3,435
Japan	264	10,147	3,042
Switzerland	60	1,575	292
UAE	20	1,877	2,985
Other Countries	1,106	50,321	23,309
Total	4,696	251,689	279,963

Source: MOI, Department of Industry, Kathmandu (2019).

China, India, USA, Korea and UK are the major investor countries in Nepal. In 2019, China's investment in Nepal remained at NRs 111,458 million with proposed employment for 67,645 persons; India's investment remained at NRs 93,496 million with proposed employment for 72,280 persons. The number of projects proposed and initiated by these countries stood at 1,462 and 772 enterprises respectively, in the sectors of agriculture, tourism, industry and service. Similarly, South Korean joint-venture enterprises proposed and running in Nepal stood at 350 with the investment amount at NRs 12,251 million, projected to yield employment to 11,721 persons in different enterprises. The

data obtained from the Ministry of Finance, Kathmandu, shows that the number of joint venture projects in Nepal increased to 350 with NRs 1,225.1 million proposed investment in 2018/19 and would provide employment opportunity to some 11,721 persons in different enterprises in Nepal (Ministry of Finance, 2019). Korea occupies 7.45 percent stake on total joint venture projects initiated in Nepal while this stake for China remained at 31.1 percent in 2019. South Korea's investment in Nepal is concentrated in the sectors of energy, education, health, tourism, etc. The Korean Electric Power Company (KEPCO) and its subsidiary companies are working in around 40 projects in 24 countries around the globe.

Figure 2. Tourist Arrivals from Different Countries to Nepal

Source: Ministry of Finance, Kathmandu, 2019.

India ranks number one in terms of tourists visiting Nepal by nationality, followed by China, USA, UK, Sri Lanka, Japan, South Korea, etc. The number of tourists from these countries on July 2018 remained at 194,323, 153,633, 91,895, 63,466, 69,640, 29,897 and 37,218 respectively. The number of total tourists that have visited Nepal in July 2018 stood at 1,173,072 persons; the South Korean tourists that visited Nepal during this period remained at 3.2 percent; while the proportion of Chinese and Indian tourists remained at 13.0 percent and 16.6 percent respectively. The purposes of Korean tourists visiting in Nepal are trekking, leisure and pilgrimage. Some of the South Korean tourists visit Nepal for promoting business and future joint-venture investment in various enterprises. Nepal could attract more cultural outbound tourists from South Korea, as it is the birthplace of Lord Buddha, adding to the increasing inflow of Korean tourists in Nepal particularly after 2013. Despite having abundant natural and cultural resources, Nepal is not succeeding much to manage such opportunities.

V. Way Forward for Korea's Economic Relations with South Asia and Nepal

Confessing a major bottleneck for its low profile of development, Nepal joined the BRI coined by China. The main expectation from this initiative was to expand the road network along with the railway line adjoining with Southern India's bordering areas. Under the NSP, South Korea should also accommodate other South Asian countries such as Bangladesh, Pakistan, Sri Lanka, Bhutan, Maldives and Afghanistan gradually as it engages ASEAN plus India on the front of aid, trade, investment and other economic activities. This in turn supports these countries' economies to upgrade their socio-economic status, supports on the involvement of unemployed mass labor force available in South Asian countries, supports on poverty reduction drive and open the venue for penetration of Korean firms under foreign investment initiatives.

Owing to the COVID-19 pandemic, South Korea may not be in a position to continue its aid programs to South Asia and Nepal with the same vigor as in the past. It has been found that South

Korea's aid is mainly concentrated in big infrastructural projects, such as hydro power projects, irrigation canals, ports, mining, etc., and industrial clusters, agro-farming, etc. Such projects have the dual effect of generating employment and contributing to increase gross domestic product.

The COVID-19 crisis is likely to disproportionately hit the developing countries of South Asia in years to come. Therefore, South Korea and other developed countries need to focus towards restoring their economies and livelihood of vulnerable and marginalized groups. South Asia is a capital-scarce and labor-abundant region. In the absence of viable employment opportunity domestically, a large majority of youths have sought foreign employment, thereby supporting their families and bringing foreign exchange to the countries. It would therefore be highly valuable if South Korea's future aid to Nepal and other South Asian countries is focused in areas such as rural development, agricultural extension small-scale enterprises, etc., which will have a multiplier effect on production and the employment in rural areas and poverty reduction. Korea has been the priority country for Nepalese youths seeking foreign employment. A large proportion of Nepalese youths that leave the country for foreign employment go to South Korea.

South Korea needs to adopt favorable employment policies in the years to come to resurrect its economy after the COVID-19 crisis. It is projected that South Korea may face labor shortages for future socio-economic sustainability for two reasons. First, the population of South Korea is projected to decline to 43 million by 2050 (D'Costa, 2018), and second, the fertility rate in Korea is in a declining trend. This would imply that South Korea would have to encourage foreign manpower from developing countries including Nepal. But, Nepalese youths as well as

youths of other South Asian countries may be scared to fly to Korea for employment under the EPS program due to COVID-19 fears. It is, therefore, necessary for the concerned authorities of Korea to assure the foreign workers of their safety and introduce an attractive employment package.

Korea's investment has been concentrated in India, Bangladesh, Sri Lanka among the South Asian countries. There is a tremendous prospect for South Korean joint-venture investment in Nepal in the areas of animal husbandry, food processing and herb plantation/processing plants. There is a huge market of such products in South Asian countries like India, Bangladesh, Bhutan, etc. Moreover, there is a high demand for aromatic products in South Korean markets, especially among women. South Korean and Nepalese entrepreneurs can jointly establish such industries in Nepal for export to South Korea and other countries, thereby benefitting both the countries. Additionally, entrepreneurs could also jointly invest in the health tourism business in Nepal. As there is direct air connectivity between Nepal and China high value products have no transportation constraint in trade.

It is expected that Korea's trade and investment activities will increase in the South Asian region in the coming years with further opening up and policy reforms towards economic liberalization and capital account convertibility especially in China, India and Nepal. Openness to trade will facilitate the reallocation of production away from sectors where competition is stronger, such as manufacturing and tourism (Stracca, 2013). China is bound to overtake US as the superpower of the 21st century in upcoming years and it is spending billions of dollars in the development and better technologies which will challenge the authorities of South Korea in electrical goods and its production. In addition, Japan has become alert to the growing power of China and

hence it is also developing high-tech products and creating strategies to compete with China in terms of exports. Thus, it is crucial for South Korea to match up with China and Japan, otherwise it will lose its position in the world's economy in coming years (Lee S. , 2017). The situation urges South Korea to attract the best technical work force, which is available in South Asian countries. Thus, the concerned authorities of South Korea could induce various incentive packages for such a targeted work force.

South Asia can learn from the Korean development experiences that for higher growth and employment generation, the manufacturing sector should grow much faster and increase its share in the economy. Countries like India, Bangladesh, and Nepal with abundant cheap labor should promote strategically selected industries, which could have considerable spillover effects on industrial dynamism in their regions (Kim, 2015).

Hydro power is also one potential area for investment in Nepal as power shortages remain in Indian states such as Uttar Pradesh and Bihar and even Bangladesh. In addition, hotels, resorts and restaurants constitute other potential sectors for investment because of Nepal's unique touristic attractions.

While it is important for Korea to expand trade, investment and labor employment ties with South Asia as well as ASEAN, for mutual benefit as a part of its NSP, it should also back up China's BRI for a stronger and vibrant Asia by supporting countries to build up projects connected with the BRI. **KIEP**

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