

# Economic Cooperation Policies of China, Japan and India towards South Asia and Their Implications for Korea

Jeong Gon KIM Research Fellow, India and South Asia Team, Center for Area Studies (jgkim@kiep.go.kr)

## I. Introduction

With the Indo-Pacific region increasingly gaining recognition for its strategic importance, countries such as China, Japan, and India are seeking close economic cooperation with South Asian countries. This report focuses on the strategic perspectives and cooperation policies of the major countries in South Asia (Pakistan, Bangladesh, Sri Lanka) under the rapidly changing international political and economic environment, and examines Korea's future economic cooperation strategies and policies. Korea's economic cooperation with South Asian countries is mainly focused on ODA. Although trade and investment have been focused on some manufacturing industries, they have recently shown a shrinking trend. While competition among major countries in South Asia is in full swing, it is necessary to establish a new direction for economic cooperation and promote policies in South Asia from a strategic perspective.

## II. Major Countries' Cooperation Policies towards South Asia

### 1. China

China attaches great importance to South Asia as a strategic point. Geopolitically, bordering a number of South Asian countries, China seeks to contain India's influence on the region. Economically, China focuses on the possibility of economic growth based on the high population growth rate of South Asian countries. Accordingly, China is making efforts to expand the market by actively strengthening trade and investment relations with South Asian countries. After signing an FTA with Pakistan, it is also actively entering into FTAs with Bangladesh and Sri Lanka, which combines diplomatic, security and economic purposes.

Meanwhile, China has been supporting the infrastructure construction of South Asian countries through loan-oriented large-scale

**Table 1. China and South Asian Countries in International/Regional Organizations**

	China	India	Pakistan	Bangladesh	Sri Lanka
SCO	○	○	○	-	Dialogue Partner
SAARC	Observer	○	○	○	○
CICA	○	○	○	○	○
IORA	Dialogue Partner	○	-	○	○
AIIB	○	○	○	○	○

Notes: SCO = Shanghai Cooperation Organization, SAARC = South Asian Association for Regional Cooperation, CICA = Conference on Interaction and Confidence Building Measures in Asia, IORA = Indian Ocean Rim Association, AIIB = Asian Infrastructure Investment Bank.

Sources: Each organization's webpage.

development financing in response to the economic and development needs of the countries. As China's influence in South Asia grows, so do the concerns of South Asian countries. Pakistan, Bangladesh, and Sri Lanka have large-scale trade imbalances with China, and their debt to China is also high. As a result, the promotion of cooperative projects that are economical viable and necessary for the local business community are gaining momentum.

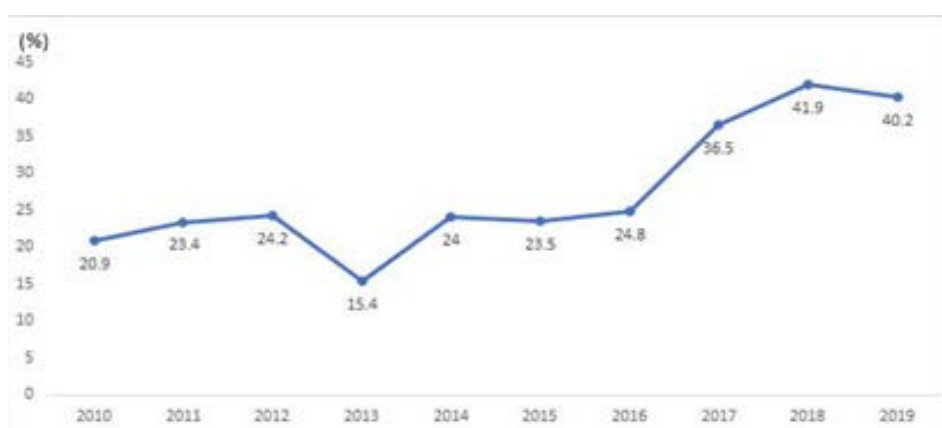
## 2. Japan

Japan is expanding economic cooperation with South Asia with a strategic eye on the Indian Ocean region. Japan's ultimate goal is to counter China's influence in South Asia while solidifying Japan's presence as an alternative cooperation partner. Japan established a "comprehensive partnership" with Bangladesh and Sri Lanka, respectively in 2014 and 2015, strengthening diplomatic ties. With the implementation of the Free and Open Indo-Pacific

(FOIP) strategy, Japan has expanded its ODA to India, Bangladesh, and Sri Lanka, and South Asia has become Japan's No. 1 ODA recipient outside of Southeast Asia. In addition, Japan is actively signing FTAs with Bangladesh and Sri Lanka based on economic and strategic considerations.

Meanwhile, Japan has been very active in promoting projects with neighboring countries in cooperation with India. The joint statement issued during Prime Minister Kishida's visit to India in 2022 specified Japan-India cooperation in the Indo-Pacific region. While Japan has revealed its willingness to check China's influence in South Asia, it intends to maintain its existing comparative advantage by emphasizing not only physical connectivity, but also human and institutional connectivity. In particular, Japan emphasizes the "high-quality infrastructure investment development cooperation model" to highlight its strengths as an alternative to China.

Figure 1. Share of South Asia in Japan's total ODA (% , million USD)



Source: Ministry of Foreign Affairs of Japan (2021), 「南西アジア地域に対する我が国ODA」.

Table 2. OECD DAC Countries' ODA towards South Asian Countries (million USD)

	South Asia	India	Bangladesh	Sri Lanka	Nepal	Maldives	Pakistan	Bhutan
1	Japan (3,996.2)	Japan (2,231.9)	Japan (1,297.7)	Japan (200.6)	USA (174.5)	Japan (4.1)	USA (470.7)	Japan (18.8)
2	Germany (1,212.1)	Germany (876.5)	USA (327.5)	USA (55.6)	UK (127.7)	Australia (1.6)	UK (444.4)	Australia (4.4)
3	USA (1,167.2)	France (351.6)	UK (255.4)	Korea (30.5)	Japan (115.7)	Italy (0.93)	Germany (132.6)	Austria (2.5)

Source: Ministry of Foreign Affairs of Japan (2021), 「南西アジア地域に対する我が国ODA」.

### 3. India

After coming to power, India's Modi government has begun to strengthen economic and diplomatic cooperation with neighboring countries in earnest. This is because China's influence has greatly expanded amid growing demand for economic growth support in South

Asian countries. The Modi government's Neighborhood First Policy aims to expand economic and security ties with South Asian countries and presents cooperation tasks in various fields such as economy, technology, transportation, energy, security, and the environment.

Table 3. India' LoC (Line of Credit) by Region (Million USD, %)

Region	Africa	Asia	S. America	Oceania	South Asia	The others
Total	11,017.2	3,161.9	749.8	155.8	12,326.4	503.6
Share	39.5	11.3	2.7	0.6	44.2	1.8

Source: India EXIM Bank.

India is actively supporting infrastructure construction in South Asia using Line of Credit. Currently, India's share of loans to South Asia has risen to the highest level (about 44% of total lending) compared to other regions. Meanwhile, India is striving to revitalize its regional partners, SAARC and BIMSTEC. India is promoting projects and humanitarian assistance using its technology through SAARC, and is expanding regional connectivity through 267 projects through BIMSTEC as it seeks to strengthen connectivity between member countries. India is paying more attention than ever to South Asian countries in terms of economy and security issues, and is actively cooperating with third countries such as Japan.

### III. Policy Suggestions for Korea

In fact, Korea has never pursued economic cooperation strategies or policies for South Asian countries other than India. Although the New Southern Policy has achieved remarkable results, it has lacked consideration for South Asian countries other than India. While the Korean government announced the Korean version of the Indo-Pacific strategy in November 2022, this paper proposed the direction and tasks of economic cooperation in South Asia, focusing on Pakistan, Bangladesh, and Sri Lanka, which have high independent economic and strategic importance.

First, the importance of South Asia's economic security dimension should be consid-

ered. It cannot be overlooked that the most important factor in intensifying competition among major countries in this region is strategic importance. Pakistan, which is located in a geopolitically strategic point connecting Asia and the Middle East, Sri Lanka, which is key to maritime transportation as a gateway to the Indian Ocean, and Bangladesh, which can serve as a strategic point due to its location near Sri Lanka, China, and India and its maritime connectivity through the Bay of Bengal, all have high strategic value for Korea. In particular, it is necessary to establish strategic partnerships with Bangladesh and Sri Lanka and diversify its areas of cooperation with these countries.

Second, it is necessary to actively consider the potential of South Asian countries as markets and production bases. It is well known that major countries are already paying attention to South Asia, so if Korea neglects economic relations with South Asian countries, it is likely to suffer significant losses in the mid- to long-term. This is because the radius of Japan and India is likely to expand as South Asian countries are expected to diversify their economic cooperation. In particular, it is necessary to advance the FTA with Bangladesh by paying attention to its new production base and market potential, and to promote the entry of Korean companies into special economic zones of Bangladesh.

Third, support for economic and social issues common to South Asian countries, such as improving infrastructure, diversifying industrial

structure, and responding to climate change, should be strengthened. In the case of Pakistan, it is necessary to communicate Korea's strength as a partner in industrial development. Pakistan has a very strong will to foster its manufacturing sector, and has great potential as an export and production base in terms of its initiatives for industrial development (e.g., Make in Pakistan), low wages, and geographical advantages.

Further, cooperation between companies, such as joint investment to support Pakistan's manufacturing fostering policy, and programs to strengthen industrial capabilities using ODA funds will be effective. In the case of Bangladesh, the proportion of budget expenditure to GDP is scheduled to more than double for water resource development related to climate change response, thus making the need for cooperation in this area very high.

It is necessary to identify large-scale, high-impact projects that can illustrate Korea's role in all ODA projects in South Asia. In the case of Sri Lanka, which has experienced great controversy over ineffective projects, PPP projects were given attention for efficient financing and project implementation by intensifying the management of foreign investment projects even before the official declaration of default. This phenomenon is expected to continue while the size of ODA sources in South Asian countries is on the rise, making it an urgent task to scale up these projects using the

PPP method.

Fourth, the time is ripe for cooperation with India and BIMSTEC, given recent moves to expand ties between South Asian countries and similarities in demand for diversification of external economic cooperation and areas of cooperation. Economic cooperation in South Asia linked to India is already under way by Japan through mechanisms such as the New East Forum, and Japan is working closely with the Indian government. Korea must also actively seek its role as a cooperative partner.

Of particular note is the "Master Plan for BIMSTEC Traffic Connectivity." This master plan consists of 267 projects and is also a comprehensive plan that includes the construction of soft infrastructure, which is expected to serve as a key platform for regional cooperation. Since the Indian government has prioritized the development of the Northeast region, which is racially and culturally similar to Korea, and has committed to spending more than 10 percent of its federal budget on the development, this is an area that Korea should actively focus on. In addition, as BIMSTEC is promoting cooperative projects related to trade vitalization, investment and tourism promotion, technology cooperation, and energy resource development, the possibility of cooperation with BIMSTEC in various fields should be explored. **KIEP**