

Emerging Countries Strategy for China: Focusing on BRI

Pyeong Seob Yang 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 (ykj@koreaexim.go.kr)

I. Introduction

Recently, important of advance into emerging markets has increased to Korea as the change in U.S. trade policy and the proliferation of divine protectionism around the world. In order to diversify the export market and diplomacy, we are pursuing New Northern Policy(NNP) and New Southern Policy(NSP). China's Belt and Road Initiative (BRI) is a new regional development strategy internally as well as a cooperative initiative externally. BRI is a depiction of the new Silk Road Economic Zone covering the land and the sea, is to be carried out comprehensively in cooperation with China's domestic and overseas development projects as a long-term ultra-large project, and the economic ripple effect is expected to be substantial. China is working on the BRI that establishes cooperative systems and plans, including infrastructure connections, and pro-motes collaborative projects with five emerging regions; 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' national strategy and as the countries subject to Korea's NNP and NSP closely aligned with countries along the China's BRI route and the possibility is very

high.

This study was conducted with the aim of overview an emerging regional strategy based on China's BRI, in-depth analysis of emerging countries economic cooperation policy toward China and driving implications for Korea.

II. BRI Core Issues and Prospects in Emerging Markets

In Southeast Asia and South Asia, a number of BRI projects are being pursued, and some of which have been suspended or delayed due to lack of economic feasibility, lack of transparency, deteriorating fiscal soundness, reexamination of the regime change. Nonetheless, BRI projects are expected 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 local tier nations in Southeast Asia and South Asia, which are developing countries. Especially, it seems that the need for economic and social development will be more actively promoted in South Asia.

However, some projects that have been exposed to problems or projects that have been discontinued due to reconsideration seem to require a lot of time and process.

If 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 contribution to the economies of Central Asia and Mongolia. The criticism is largely due to the perception of the local people that it is not directly beneficial to the economic development and social development of BRI due to the delay of infrastructure development. The inability of local labor to be utilized, China's development is the cause of environmental pollution and associated with bureaucratic corruption is a major factor of negative public opinion.

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 rapidly deployed in Africa and the Middle East. In Southeast Asia and South Asia, BRI is partly a bit stiff but in Africa and the Middle East, it can be evaluated as being very well-underway.

In CEE, if the BRI and the 16 + 1 system continue to be used politically only then the BRI in this region will be stagnant and the interest will gradually dis-appear. In order to secure

the momentum of the BRI project in the future, continue to strengthen 16 + 1 system, it is necessary to achieve a progressive China-EU cooperation and therefore a successful transition of the BRI through the EU-level cooperation model.

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

The meeting of BRI, the global strategy of China and Latin America, has been most recent but has attracted attention due to its geographical location in Latin America and the presence of the U.S. supremacy. Strengthening China's relations with the Latin America through BRI, a new concept of linking air and digital, as well as maritime recalls the Monroe Doctrine, which was criticized by US foreign policy. In other words, Monroe Doctrine which rejected Europe's policy of intervention in the U.S. was revived by the Trump government, and China's advance into Latin U.S. in the midst of deepening U.S. - China trade conflicts.

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 	<ul style="list-style-type: none"> - Thailand, Cambodia, South Asia: Active approach - Malaysia, Sri Lanka, Myanmar and Pakistan: Consideration for Changeover - India, Vietnam: A Sensitive Response due to Territorial Disputes - Singapore: Seeking a joint ven- 	<ul style="list-style-type: none"> - External expansion strategy required (inclusive of South Asia region to NSP) - Active support for the 4 areas of NSP cooperation (traffic, climate change, water conservancy and smart city) - Participation in Joint Entry with

Region	Key Issues and Implications	positions of major countries	Implications for Korea
	Force, and Local Cooperation	<ul style="list-style-type: none"> ture with China - Japan: Responding to BRI as an active development and cooperation strategy 	<ul style="list-style-type: none"> China to Third-Party Markets (Requires support for the company's entry into Third-Party Infrastructure Market) - establishing a selective investment promotion strategy and risk hedging strategy is important
Central Asia ·Mongolia	<ul style="list-style-type: none"> - Consider Cooperation with Russia-led EAEU - Successful promotion in Kazakhstan as a core model - external debt problem - Concerns about China's increasing excessive influence to the region - Increase the role of international organizations 	<ul style="list-style-type: none"> - Kazakhstan, Uzbekistan, Mongolia: Active - Russia: vigilance and cooperation - EU: prudent cooperation - U.S.: Difficult to exercise influence, Criticism of negative effects on economic of counterparty 	<ul style="list-style-type: none"> - Necessity of Linkage 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"> - accelerating BRI's drive by expanding trade and investment cooperation in large-scale aid projects is expected - 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 are 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 strengthen China's military presence in Africa and expand its influence on the network 	<ul style="list-style-type: none"> - using BRI as leverage - "Choice and Focus" 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"> - expect to expand cooperation scope such as foreign and military as well as energy, infrastructure, trade and investment - In particular, the prospects for the BRI project in Iran(pro-China, crude oil resources, political stability, and large markets.) 	<ul style="list-style-type: none"> - Almost all countries welcome - Israel: concerned 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"> - 16+1: BRI Decrease of Interest - issue of Complies with EU regulations and international standards - Establishment of China-EU Cooperation Framework - Succession of BRI in, make a difference of BRI in EU 	<ul style="list-style-type: none"> - EU/West Europe: Discretion - CEE: Welcome, expectations, disappointments, political use - Russia: wait and see, vigilance, and partial cooperation - U.S.: Front-facing 	<ul style="list-style-type: none"> - CEE Prepared for optimistic scenarios on BRI - Attention to the Trend of the Establishment of China's GVC - Take advantage of GVC building experience in EU
Latin America	<ul style="list-style-type: none"> - Impact on economic, political and security aspects - Increase investment to infrastructure, logistics and information technology from the field of energy and resource development - Regional Integration in Latin America 	<ul style="list-style-type: none"> - More active in countries with weak economic structure and high dependence on exports to China - Mexico, Brazil: Somewhat reserved 	<ul style="list-style-type: none"> - Integration of Asia and Latin America - Looking forward a framework for third-party cooperation - Advanced into Latin America based on Korea-China cooperation

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

Korea has been pushing for a NNP and NSP that encompasses Southeast Asia and India since the second half of 2017 as an external expansion strategy which is needed 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. Second, an active entry and preoccupation strategy for promising infrastructure projects in Southeast Asia and South Asia is needed through the expansion of public funds and the rapid execution of them. China is aggressively supporting public finance for BRI through various policy financial institutions, (including the AIIB, Silk Road Fund, etc.), the Sino-ASEAN Infrastructure Fund, and the Export-Import Bank. Korea also needs to expand public funds, quickly implement them, and actively utilize the Korea Overseas Infrastructure Development Assistance Corporation (KIND), which was launched in June 2018. Third, it is necessary for Korea to participate in the flow of seeking joint venture with third countries as China cooperate with Japan and Singapore. In this regard, it is also important to hold a 'Korea-China Third-Party Market Co-operation Forum (tentative name)' to support companies' entry into the third-country infrastructure market. Finally, most countries in Southeast Asia and South Asia, which countries along the China's BRI route, have a common characteristic that private sector competitiveness is extremely low except Singapore. Therefore, Korea's investment or support should be made in way that contributes to the development of small and medium-sized businesses and sup-

porting industries in those countries, and those countries also need to strengthen their technological capabilities through cooperation with Korea in the R&D field. This is also the way to implement the 'Survival Community' that the New South Defense Policy emphasizes.

BRI provides implications related to the Korea's NNP as well. This is because the South Korean government's NNP is aimed at Central Asia and Mongolia along with Russia. Therefore, it is necessary to look for concrete measures to cooperate BRI with the NNP. The main challenges of the NNP are the logistics and energy sectors, as well as BRI. This will enable mutual cooperation in logistics and energy. First, in logistics cooperation, Korea will be able to directly utilize the logistics networks of Central Asia and Mongolia. In addition, the Sino-Monger transport corridor will be linked to the eastern region, such as Hunchun and Zagavino of the Far East Russia, which will enable joint cooperation in ports or transport networks in the Far East Russia 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 North-east Asia Super grid. This discusses power production through the new renewable energy of Mongolia. Third, cooperation in the North-South Korea project. Improvements in North-South relations have increased the likelihood that projects in North Korea will be pursued. There is also a possibility of building railroads, road infrastructure, and port development as well as the exceptional recognition before the resolution of the sanctions against North Korea. 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, 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 BRI as leverage. Given Korea's realistic capabilities (such as financial strength, experience in advancement, etc.) in economic cooperation with Africa, "choice and focus" are important, therefore the primary target market is the eastern region of Africa. The eastern region of Africa is politically stable and emerging as a new hub for African economic growth apart from being the most active in BRI projects. Infra-structure and industrial parks are the areas where BRI cooperation is on-going or potential field for cooperation. China's large-scale infrastructure construction is receiving great favorable responses and welcome from its counterparts, but its image of Chinese projects has been greatly undermined as it reveals many problems in maintenance (technology maintenance), system operation and post management. 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 try through the BRI project is to enter industrial complexes. The construction of industrial complexes is bound to cost a lot of money and risks, so it is necessary to explore ways to advance through cooperation with China. China constructs a large industrial park in the main market, including Ethiopia, which is called as "Africa's China", manufactured products (apparel, textiles, footwear, leather, etc.) are exported to the offshore markets, as well as to Europe and the US, which offer trade preferences through the transport network. The BRI project in the Middle East is expected to focus on the energy sector with China's vital interests at stake and logistics sectors with high

development needs from Middle Eastern countries, so 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 to closely monitor the development needs of these countries. However, it is necessary to take a cautious and long-term approach to Korea's economic cooperation, which uses BRI economic cooperation in the Middle East, considering the political landscape such as relations with the U.S.

China's successful promotion of the BRI in the CEE means that concerns over uncertainty raised so far; deepening corruption, violating EU rules, and the risk of bankruptcy of countries subject to BRI can be re-solved through cooperation between China and the EU. In other words, EU's position may change as a proactive partner if the normative requirements are met, unlike the United States, which declares a frontal confrontation with the BRI. The outlook for optimistic scenarios of BRI can cause fluctuations in the foreign economic environment, which is very important to us, even if that possibility is not large. If the Chinese BRI are working with the EU to meet a new phase of revitalization in the Eurasian continent, Korea need to be more proactive to interface with BRI in our NNP and NSP. Korea is in a high-level and comprehensive FTA framework with the EU and already has close industrial cooperation with central European countries such as Poland, the Czech Republic, Slovakia and Hungary to build a GVC for European markets. The incentives for Korea and China to cooperate with China are not large at the latest slow progress in the CEE from the stand-point of Korean companies, but it needs to be noted for the GVC that China will build

in Europe if the CEE region BRI is pushed rapidly in the future. 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 a lot of experience in close GVC cooperation in East Asia, and Korea will be able to play many roles in promoting the BRI in CEE if China requests.

The success of China's entry into Latin America through BRI depends on encouraging Latin America to actively support China, overcoming its critical view on BRI. As one such measure, China reevaluated the BRI for the past five years and has proposed a third-party cooperation similar to triangular cooperation. It is a concept that a third country enters into the counter area (Latin America) through cooperation with China. Korea-China joint venture in Latin America is very limited, but the Venezuelan refinery plant modernization project showed the possibility of third-party cooperation. In other words, the combination of construction capacity, experience, and know-how of Korean and Chinese construction companies and support of Chinese finance are typical examples. Korea can play an intermediary role in Central and South America which seeks to diversify into China and Asian markets if BRI is used as an interactive cooperation mechanism rather than a one-way flow by China. In particular, the cooperation of Korea, which will be embodied in the new southern strategy and northern strategy, will be a channel linking Latin America to Asia and Eurasia.

IV. Conclusion

Korea's NNP and NSP may be a competitive

or cooperative with China's BRI in the third country. Recently, Korea and China government have held consultations to push for joint third-party market entry in order to strengthen the cooperative relationship between the two strategies. It is necessary to expand cooperation in the third country market based on mutual advantages of the two countries in the future. Also, it is necessary to extend the cooperation target area in the third country to the Middle East, Africa, Central and South America and Eastern Europe beyond BRI as well as 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 the China's BRI. Cooperation in a very hostile country about BRI is virtually undesirable to us. It is possible to distinguish between active cooperation countries, passive cooperation countries (or positional viewpoint), and countries with a negative stance.

In the selection of possible areas of cooperation, cooperation should meet 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 the cooperation of the two countries to be successful in the third country, BRI project needs to be considered in the beneficiary perspective. Countries along the BRI route are mostly developing countries, suffering from 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 able to benchmark BRI areas that China and Japan are

pursuing to cooperate in related businesses. China and Japan signed the 52 projects which include food, automation equipment, medicines, HIV prevention, oriental medicine, medical support and medical services, solar energy, electricity, renewable energy, building materials, aluminum, smart city(Thailand), engineering (petro-chemical and AI), petrochemicals, human resources (entertainment) fields at the Interim Third Country Market Cooperation Forum in October 2018. Third, it is also necessary to examine what kind of cooperation China hopes to cooperate with in third countries. China is emphasizing global industrial equipment cooperation in promoting BRI. In November 2015, the State Council of China issued "Guidelines on the Promotion of International Production Capabilities and Equipment Manufacturing Cooperation" 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 field of cooperation between Korea and China in a third country. In the field of infrastructure, it is the most urgent task in the beneficiary's position, but the cooperation is limited in that large funds are needed and economic efficiency is not easy to secure. Therefore, it is necessary to start cooperation in traditional manufacturing areas, that can be substantially cooperative and which benefit the beneficiary countries such as 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 cooperated in the 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.

The project to jointly build an industrial complex in a third country, which has recently been re-discussed between the two countries, is not relatively easy to carry out. However, it is necessary to take a different approach that the Korean company move in the industrial complex and the counter country grants various benefits.

In particular, considering the increasing number of companies seeking to relocate their factories to third countries due to China's recent rising labor costs, Korea and China may consider creating an industrial park that can be relocated by these companies together. For example, in Southeast Asia, it is necessary to first review the joint launch of the industrial complex in Vietnam, Indonesia, the Philippines, Myanmar, Thailand and India, which are highly interest to Korean companies. Korea and China may consider jointly constructing an industrial complex or moving into an industrial complex built by other countries for which Korean and Chinese companies are increasing investments.

Korean companies seek opportunities for participate in the project through financial cooperation, such as co-financing with Chinese financial institutions that support the BRI project or co financing with foreign financial institutions. Energy projects often face difficulties in carrying out projects because of the need for large-scale funding. For example, a Korean company in Uzbekistan succeeded in winning a GTL (natural gas liquefaction Refining) project of about 3.1 billion dollars in 2013. However, the project could not be done because the financial procurement plan was not available. In 2017, Chinese Development

Bank supported the financing of 1.2 billion dollars, and the financial support in Korea EX-IM bank and Trade Insurance Corporation, therefore the project was substantially promoted.

BRI platform is a platform for the expansion of cooperation between Korea and China in northeast Asia, which is centered on the Korean peninsula, and its possibilities are very high. In China, it is very important to connect BRI and Korea's NNP in cooperation in Northeast Asia. The recent peace settlement on the Korean Peninsula provides the opportunity to deepen economic co-operation between Korea and China by using a BRI platform. **KIEP**