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China's Economic Diplomacy in South Asia: Emerging Dynamics and Regional Implications

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ABSTRACT

China is assertively developing its relations with South Asian states. Constructions of huge projects and massive economic investments demonstrate China's intentions for long term presence in the region. Apart from seeking lucrative trade opportunities, the regional seaport facilities initiated by China primarily for economic purposes have also been brought secure and easy access of China into Indian Ocean via South Asia region. Interestingly most of these regional projects are being financed by Chinese state owned enterprises which seem to be a reflection of China's global intentions of dramatic economic expansion in different regions. However, China's true concerns in South Asia can possibly be explored only by identifying the dynamics of its economic integrations with regional states. Certainly it would assist further to anticipate about regional implications escalating by China's regional integrations. That is the foremost purpose of this study to understand the dynamics of China's economic diplomacy in South Asia and identifying its possible implications for the region.

Keywords: *China, South Asia, economic diplomacy, opportunities, integrations.*

Introduction

China is desperately inclined to develop broader economic engagements with South Asia certainly because of geo strategic importance of the region which is expected to ensure maximum economic benefits for China (Childs, Goldstein, Jiao, & Beall, 2005). China is vigilantly developing its ties with South Asian states particularly following by the bilateral economic engagements. China's multifaceted engagements with South Asian states are exclusively derived by its economic concerns (Stevens et. al., 2016). However, the other concerns of China are not easily recognizable until exploring the nature of its economic integrations and bilateral investments with regional states. Certainly it would help further to anticipate about regional implications escalating by China's regional integrations. China growing involvements in the region are not without developing consensus with regional states which is an important strategy of China's economic diplomacy to acknowledge the (economic) concerns of other states (Stevens et. al., 2016). That is why the particular purpose of this study is to understand the nature of China's expansion in the region by developing economic integrations with regional states. Moreover, it is also important to comprehend if China's increasing access into

Indian Ocean is purely derived by economic purposes or there are some other hidden agendas behind it. These are some significant aspects of this research work which make this study able to develop a rational and comprehensive concept about the nature of China's economic diplomacy in this region. These considerations will not only help to understand the motivations behind China's real politics in the region but also highlight its role for developing regional stability.

Dynamics of China's Economic Diplomacy with regional States

China is deterministically concentrating on developing its formal diplomatic ties with South Asian states. After Initiating "Go Global" policy in 2002, Chinese high officials have frequently visited to South Asian countries for multiple reasons of strengthening ties, deepening relations and promoting friendship (Garver, 2012). Resultantly when in 2005 South Asian states granted China an observer status in South Asian Association for Regional Cooperation (SAARC), the intensity of diplomatic ties and trade exchange further increased. After this development China is more assertive and interested to seek a permanent status of SAARC membership in order to expand its economic presence in the region. Pakistan, Bangladesh and Nepal are in favor to give permanent status to China in SAARC but it is opposed by India, Bhutan and Afghanistan (Kumar, 2015).

China's Economic concerns to SAARC membership

Although, India continues to hold its reservations regarding China's full membership to "South Asian Association for Regional Cooperation (SAARC)" but the chances for China to be a full member are relatively high and it will not only be valuable for China alone but also for the overall progress of the forum because being one of the largest emerging economy of the world China has a potential of exerting strong gravitational pull in South Asia, especially smaller Asian Countries (Kumar, 2015). Here are the arguments that suggest that probabilities are favoring China.

Firstly, those who support China's membership to SAARC argues that it is part of South Asia because It has been widely suggested by numerous scholars that based on its location China is not a separate region due to its geographical closeness to the area (Ahmar, 2011). There are also several other factors that support the argument like the China's strong political and historical bond and socio-economic exchanges within the region.

Secondly, India has not been successful to limit China's rising influence in forum and all its efforts have been futile so far. Clearly, the opposition has been exceedingly counterintuitive, because greater the India has opposed the more support China has received (Ahmar, 2011). To India's disappointment neither the member states nor the observing member countries have vouched for its opposition. During the 2011 SAARC summit, India was pressured by the other member states to agree with the proposed method of its engagement with the observer states of the SAARC forum making it almost impossible for India to Stop China from being a full member (Kumar, 2015).

Third, over the years, China has continuously received unequivocal support from other member states like Sri Lanka, Bangladesh, Pakistan and Nepal. China Received full support from Nepal on 2014 SAARC summit when it argued how China has a right to membership because its presence will accelerate the overall development of the region (Mahapatra, 2011). Also, China has always shared an

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exceedingly cordial relation with Pakistan and Pakistan has always extended its support for China's right to full membership. On the 18th SAARC summit Pakistan advocated for a better participation of the observer states, indirectly supporting China's wish for full membership (Ahmar, 2011).

Fourth, there has been a continuous upsurge from within the India in China's support. The senior Bharatiya Jantaya Party's leader voiced his support for China to receive the full membership of the SAARC forum arguing it will be beneficial for everyone on the forum (Kumar, 2015). Although, chances are relatively low for the current government to agree with China's interest to join the forum.

Fifth, being the largest emerging economy in the world China has appeared as the biggest trade partner for South Asia. It has signed a major agreement with Pakistan for free trade between the two countries and a similar process is underway with Sri Lanka. On November 2014, China announced a \$45.6B investment for China Pakistan Economic Corridor (CPEC) which will increase industrial development and chances of livelihood for people in the region (Dey & Neogi, 2015).

Sixth, China has been continuously announcing lucrative projects at SAARC forum like CPEC, Asian Infrastructure Investment Bank (AIIB), Bangladesh-China-India-Myanmar (BCIM) corridor, and the Maritime Silk Road project to complement Silk Road economic belt which focuses on infrastructure development across Central Asia (Scobell, Ratner & Beckley 2014). China also announced several scholarships for students to study in China, training programs to provide technical assistance and cultural exchange programs to better its relationship with the other Asian Countries (Dey & Neogi, 2015). China has been quite successful to garner huge popularity and attention from the concerned countries so far. For instance, Nepal agreed to join Silk Road Economic Belt, realizing its importance for Nepal while Pakistan, Maldives and Sri Lanka have already joined hands with China over the Maritime Silk Road project.

Seventh, despite India's continuous opposition for China's full membership the two countries share stage on other forums like BRICS and G-20. Also, both India and China are the key actors in the BCIM, an initiative that connects China and India through Myanmar and Bangladesh (Zakaria & Fida, 2016). Thus both countries share a common desire to have a mutually beneficial socio-economic relationship and this entire scenario can be a diplomatic quid pro quo. India wants to become a member of Shanghai Corporation Organization just as China wants full membership of SAARC. The prime minister of China expressed his support for India to become a member of China and asked for India's support to help become a full member of SAARC (Shi-sheng, 2010).

Eight, there has been a realization that overall economic growth of the region can't be achieved without the improvement of infrastructure. Thus at 18th SAARC conference held on 2014, in Kathmandu, "deeper integration for peace and activity" was the chosen theme of the conference. Although summit ended without coming to any consequential agreement regarding the transportation infrastructure but it was stressed to increase connectivity between the SAARC member states for an easier transport in the South Asia (Gipouloux, 2011). China Demonstrated its potential to be an unmatched option for infrastructure development by making investments in Pakistan, Nepal and Sri Lanka.

Ninth, China's inclusion as a full-fledged member of SAARC forum will bring strength; stability and economic growth for smaller countries in general like Maldives, and in particular for Bhutan due to its border conflict with China (Saez, 2012).

Growing Trade Relations with South Asia

China's initiatives for the promotion of business into South Asia have been endorsed officially by the business community of the regional countries in order to expand the scope of regional economic ties. China is building bridges and developing transportation links to make the trade exchange fast and secure among the regional countries (Zakaria & Fida, 2016). Further plans to make international airports and railway infrastructures are under process. China's exports to South Asia are rapidly increasing but its imports from South Asia are of small importance to China trade profile (Das, 2017). The pattern of trade flow shows China's geopolitical motives in the region. The increasing import dependency of the regional countries on China is also rapidly growing its influence over their trade economies. China's growing share of trade in the region also capturing the business opportunities of India with these countries (Das, 2017).

China's Outward Direct Investment patterns in South Asia

China officially adopted its open door policy after 1978 and then started to establish its international firms. During Asian financial crisis in 1997 China compelled its state owned enterprises to follow low level of Outward Direct Investment (ODI) by devising strict government approvals on expanding business to foreign countries (Sahoo, Nataraj, & Dash, 2014). But in 2001 China has implemented "Go Global" initiative by adopting flexible procedures and giving permissions to invest internationally (Sahoo et al., 2014). Since then, China's ODI has expanded rapidly from \$3 billion to \$70 billion only within eight years from 2003 to 2011 respectively (Kamal, Li, Akhmat, Bashir, & Khan, 2014). Mostly China's public and private enterprises have invested in telecommunication, shipping, petroleum and construction. In 2003 China has also shifted its focus toward South Asia and started to expand its diplomatic and economic ties with the regional states. (Kamal et al., 2014).

China's ODI flows into South Asia are multifold in nature. For instance, China is actively investing in electricity, mining, and chemical industries of Bangladesh. On the other hand, China is opening its "China House" supermarkets in different locations and also investing in natural resources extraction in Nepal (Kamal et al., 2014). Interestingly Chinese investments in Sri Lanka have sought more attentions not only in South Asia but also in USA. China's ODI flow is increasing very rapidly in Sri Lanka because of its strategic location and trade route importance in Indian Ocean. As compare to Bhutan and Maldives, China has further increased its ODI flow and Foreign Direct Investment (FDI) in Sri Lanka especially after the end of its civil war in 2009 (Bhavan, Xu & Zhong, 2011).

Big Projects Initiated by China in South Asia

Construction of huge Chinese projects in South Asia particularly in transportation, telecommunication, energy and agriculture sectors show China's long term economic interests in the region. After Pakistan, China's investments and construction of big projects are highest in Sri Lanka as compare to other regional

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countries (Brunjes, Levine, Palmer & Smith, 2013). China has conducted many large projects in Sri Lanka for instance cricket stadium, international airport and deep seaport in Hambantota. Interestingly the works and the material which are being used in these projects come from Chinese companies (Brunjes et al., 2013).

Similarly, China has also initiated several large scale projects in Bangladesh including a deep sea ports in Chittagong. China has also a plan to connect its city Kunming with Chittagong (Bangladesh) through Myanmar by constructing a road and rail link. China has also hugely invested \$226 million in agriculture sector and \$559 million in fertilizer industry of Bangladesh (Ghani, 2011). . China with same intentions of conducting huge projects is heavily investing in transportation and energy sectors in Nepal including hydropower plants, railroad networks, container depots and international airport.

Scope of China's Economic Ties with particular Regional States:

Sri Lanka

China's huge infrastructure projects in Sri Lanka worth of 15 billion started from 2009 has left India far behind. Moreover, China has also constructed Hambantota port in Sri Lanka which has not only strengthened their bilateral economic growth but also give an opportunity to China to increase its access into the Indian Ocean (Kelegama, 2014). These recent developments have further increased China's trade opportunities with Sri Lanka. While India perceives China's easy access to Indian Ocean through Hambantota port is a strategic threat to its interests (Kelegama, 2014).

Bangladesh

Bangladesh imports huge amount of cotton for its garments industry from China. At first it was imported by India but in 2004 China took its place. China has not only captured Bangladesh's cotton market from India but also replaced many other Indian products from Bangladesh's market (Islam, 2012). China has also allocated two special economic zones to Bangladesh in Chittagong and Dhaka for seeking more economic benefits through trade. Along with the Bay of Bengal in Indian Ocean, China has also heavily invested in seaport infrastructure of Bangladesh (Sahoo, 2013).

Nepal

Economically and Strategically Nepal is an important buffer zone for China because of its location between India and Tibet. However as compare to Sri Lanka and Bangladesh, Nepal does not provide port facilities to China as it a landlocked country which mostly depends upon India's transit trade route facilities for its economic activities (Reeves, 2012). China is also developing it economic integrations with Nepal by providing it transit trade facilities. China not only has opened its trade routes and port facilities to Nepal but also provided adequate economic assistance to strengthen its economy (Kumar, 2011). China's rapid response to Nepal especially after its 2015 earthquake devastations has further developed their mutual goodwill in broader context. Consequently, in order to seek more opportunities, Nepal has signed new treaties and agreements with China to fulfill its energy demands and to seek access to China's ports (Sapkota, 2017).

Pakistan

Although India is one of the motivational factors for strengthening security nexus between China and Pakistan but their increasing economic integrations especially through “China-Pakistan Economic Corridor” (CPEC) has further broaden the scope of their bilateral ties (Irshad, 2015). CPEC begins a simple access for China to satisfy its enormous energy requirements from Middle East oil assets and gives China a chance to quickly send out its export items to Middle East, Africa and Europe. Additionally, CPEC gives China increasingly secure and more affordable elective exchange course through Pakistan by lessening its dependence upon profoundly helpless and incredibly costly check focuses in India Ocean and South China Sea (Sial, 2014). Moreover, terrorism in Afghanistan is another potential threat to China’s regional interests. In order to diffuse the spillover effects of terrorism, China is wisely developing its close economic and security ties with Afghanistan via Pakistan (Raza, Mohiuddin, Zaidi, & Osama, 2018).

India

The composition of trade between China and India primarily is the manufactured goods which have profitable margins such as steel and iron, electrical machinery, nuclear reactors, power equipment and organic chemicals exported by China to India. While India’s export items to China are resource based with having less profit margins such as copper and minerals (slags, iron ore), mineral fuel, cotton and other raw materials (Athwal, 2007). However, the trade diversification is gradually increasing positively from last few years such as export of pharmaceutical, machinery items and auto components. The presence of Indian companies in China is gradually increasing in multiple sectors such as iron and steel, automobile components, chemicals, textiles and pharmaceuticals (Dahlman, 2011). While Indian companies are also actively proving multiple restaurants, entertainment, cultural, IT and banking services into Chinese markets. Apart from India’s investments in different sectors and projects in China, some huge Chinese companies have also initiated many joint ventures with pharmaceutical and IT software companies as well as in manufacturing sector of India (Khurana, 2015). However, there are multiple economic and political limitations which severely undermine the possibilities of increasing bilateral trade volume from a certain level. Their territorial dispute, trust deficit and China’s growing relations with Pakistan are the main hurdles which continually undermine the pace and scope of Sino-India bilateral economic ties (Khurana, 2015).

Energy as a crucial factor in China’s regional involvements

The increasing energy demands of China have intense implications over its domestic and foreign policy. Certainly the energy requirement has potential reflection in China’s concerns for developing durable and peaceful relations with those states who can assist or fulfill its emerging concerns regarding accessing natural resources for economic purposes (Zeshan, & Ahmed, 2013). For that purpose, China is diplomatically inclined to advance cordial relations especially with concerned states by employing different tools such as financial assistance, massive economic investments, infrastructure development and big projects etc. China fulfills almost 85 percent its oil related demands through the Strait of Malacca via Indian Ocean

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(Zeshan, & Ahmed, 2013). Tankers which bring gas usually in liquid form and crude oil to China from the region of Middle East have no other option but travel through unsaved routs of Malacca region which is notoriously famous for the origin of pirates and other militant activities (Andrews-Speed, Liao, & Dannreuther, 2014). China is wisely inclined to establish port facilities for secure and save trade routes especially in those states which are closely adjacent to northern part of Indian Ocean long term trade purposes. For instance, in Pakistan China has established the Gwadar port and linked it to its southwestern region, similarly in Sri Lanka China has established a fuel station at its southern region near to adjacent to Indian Ocean and furthermore developed a container facility in Bangladesh's Chittagong region (Andrews-Speed, Liao, & Dannreuther, 2014). China has plan to link the Bay of Bengal with Yunnan the southern region of China by developing rails, roads and other naval facilities particularly for commercial purposes in Myanmar. In spite of the fact that these improvements do have a key measurement, particularly in India's territorial arrangement counts, they are essentially intended to tie down China's entrance to vitality and different assets, keeping in see its accentuation on financial advancement and social soundness (Mohsin, Zhou, Iqbal, & Shah, 2018). Quest for economic growth and supremacy are two similar factors for China's growing activism in South Asia. China views stable economic development is a fundamental for keeping the objectives of national security by fulfilling its energy demands.

Growing access into Indian Ocean via South Asia

China's plan to effectively get access into Indian Ocean has a distinguish place in her broader economic strategy in the region. Increasing energy needs of China compel her to seek a secure, less expensive and fast access to the resources of other regions (Cheng, 2010). China seems vigilant about finding new market opportunities and exploitation of new resources through Indian Ocean. China's domestic economic stability and the completion of its huge infrastructure projects in the region depend upon the availability of the excessive quantity of new resources (Yoshihara, 2012). China is also inclined to expand its influence in the Indian Ocean Region in order to secure its maximum economic interests through sea lines. For this purpose, it is compulsory for China to develop cordial relations with South Asian States as a peaceful environment in the region is conducive for China's interests (Yoshihara, 2012). Much of China's diplomatic efforts to seek goodwill in the region are motivated by these concerns. In addition, China's intentions to pursue its interests are not limited to diplomatic efforts only. But China is also gradually upgrading People's Liberation Army (PLA) operating abilities in Indian Ocean Region in order to robustly secure its interests in case of facing any hard challenge to them (Qu & Huang, 2012). Following are some important reasons which China uses to justify for its growing military presence in the Indian Ocean Region.

China's 2015 defense white papers demonstrate China's shift in maritime security concerns. Although China did not mention the name of Indian Ocean but these white papers clearly show that China is strategically inclined to extend its maritime domain from traditional level (Brewster, 2017). In the Gulf of Aden, PLA navy's efforts are praise worthy along with international antipiracy combat operations to eradicate piracy in the region. Although now there is a certain decline in piracy but China seems unwilling to bring its PLA navy back from the region (Brewster, 2017).

Since 2013, by officially claiming its contribution to antipiracy combat efforts in the Indian Ocean, PLA has conducted almost four submarines patrols. China permanent military base in Djibouti for the purpose of upgrading its troop and for providing immediate navel services to PLA, demonstrate China's growing intentions to secure its interests in the Indian Ocean region militarily (Hornat, 2016). But all these concerns do not demonstrate the China's aggressiveness against any state. China economic engagements and infrastructure developments are broader than these military deployments in Indian Ocean exclusively for its limited security concerns (Hornat, 2016).

Regional Implications

China is extensively investing in large scale projects primarily in sectors of transportation, telecommunication, energy and agriculture particularly in Pakistan, Sri Lanka, Bangladesh and Nepal. Most of these projects are funded by Chinese state owned Export-Import Bank (Das, 2017). Moreover, the contracts of these big projects are being given to Chinese state owned enterprises. These companies are also bound to use the Chinese government workers in these projects and even provide the required material for construction purposes (Das, 2017). Certainly these projects are beneficial for the South Asian states but these outdoor big projects are also strengthening the domestic economy of China. These regional projects are quite similar in their nature to projects running domestically by Chinese government.

China has also built eight "Friendship Bridges" throughout Bangladesh and heavily funded them to demonstrate their intentions of developing friendly diplomatic ties. Similarly, there are also several Chinese big projects in Nepal purely based on economic benefits. For instance, China's investments in hydropower plants in Nepal also help China to fulfill its growing energy demands (Sapkota, 2017). In order to increase its logistical access into Nepal multiple road projects are under process by China. Interesting China's \$3 billion investment for the renovation of Buddha's birth place is considered an attempt to undermine Dalai Lama's political and spiritual influence by increasing its economic access to the site (Sapkota, 2017).

China's increasing involvements in the region are unignorable causes of anxiety for India because India is already trying to balance China growing influence in the region. India's concerns not only limited to economic interests but India also wants to secure its strategic opportunities which it seeks through the Indian Ocean (Pardesi, 2018). Both China and India are inclined to seek their maximum strategic and economic interests in Indian Ocean. Certainly the outcome of their concerns in the region is to make the environment competitive even for the small regional states by exerting their influence on them (Pardesi, 2018).

China's growing economic involvements with particular regional states clearly demonstrates that China is gradually developing its economic ties with these countries by exploiting possible trade opportunities. Certainly these states are also welcoming China's access to their domestic markets for certain reasons. South Asian states are in favor of developing relations with China as they are desperate to diffuse the pressure of India's regional sole supremacy (Das, 2017). They have also welcomed massive cheap Chinese products in their markets as these bring less expensive variety options for the influx of middle and lower middle class living in these states. It also brings significant small business opportunities for their people about which their own states have not sufficient capacity to provide (Javaid, 2016).

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The regional economic network which is being developed by China through sea-ports, railways & road links and transport & communication facilities has also developed trade and business ties between regional states and it has also brought import-export oriented regional economic opportunities for them (Javaid, 2016). Certainly these efforts have also brought many regional economic benefits even for Chinese economy. However, China is developing a kind of economic network in region in which all regional states are participating according to their national capacities and taking benefits accordingly. Resultantly it is inevitable for the successful running of this vision to acknowledge the concerns of almost all regional states as it is in also in favor of developing regional stability.

Conclusion

China is actively increasing its trade relations with South Asian countries. The huge constructions in South Asian countries made by China like convention centers and cricket stadiums clearly demonstrate China is also inclined to develop long term economic integrations. The multifaceted engagements of China certainly give her a distinctive capacity to play an active role in setting the regional trends according to its vision. China's regional priorities are also frequently motivated by its international concerns of being a prominent actor in global affairs. Seaports in Pakistan, Sri Lanka, Bangladesh & Nepal and other massive regional economic investments and huge infrastructure developments are exclusively for seeking broader economic opportunities and energy resources as it is also necessary for China's domestic economic growth. China Increasing export into South Asian markets and financial investments are the reflections of China's economic intentions in the region. Other south Asian states are also taking advantages from China's economic diplomacy and ultimately it is strengthening regional stability in positive manner.

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