Abstract

China has been South Asia’s strategic consort with economic, diplomatic, and developmental influence. China’s support for South Asia has been seen as truly strategic. It has started to overview the countries of its periphery in a more consolidated may rather than focusing on a separate strategy. FDI, especially for South Asia, is a vital source and means of funds, technology transfer, and skill development. To boost up domestic private and public investment, FDI is essential to carry out steady growth of south Asia. In this research paper, China’s FDI in South Asia has been analyzed and examined from the perspective of China’s expansionary integration, key foreign policy objectives, and key achievements. Empirical analysis has been done. Book, journal articles and reports are reviewed. The key global impacts of China’s economic ascendance and achievements of its FDI diplomacy in South Asia are derived in conclusion. Beijing leverages Belt and Road Initiatives in nearly every country having geo-strategic implications, especially at ports through the Indian Ocean. Moreover, China has made significant effort to assuage periphery diplomacy in the region. Going forward, the South Asian countries should be aware of what Beijing is precisely attempting to achieve in the region, with a view of long-term consequences of the novel plan. To reduce the imbalance of FDI tendency, South Asia should reform their policy to maintain steady growth of FDI and to encourage a large size of capital abandoning export of labor force.

Keywords: Diplomacy, Economic Diplomacy, Foreign Divestment Investment,
Foreign Policy, and Gross Domestic Product.

Introduction

China’s Economic Diplomacy has not only impacted the corporate world but has also challenged westerners’ supremacy in South Asia. Its increasing influence, as well as encirclement strategy in its periphery, has ensured greater Chinese involvement in the imminent decade (Shahnawaz, 2011). Shahnawaz (2011) further claims that India’s strategy itself has left China as a key counter-partner and a key actor in the region. In the tide, South Asia embedded extremely as hostile land eventually from Portugal’s voyages to full-fledged British imperialism and today’s idealized position under westerners’ domination. As a consequence, China is in the process of increasing its economic and political stability forging greater economic linkages in South Asia. China as in the path of supreme economic power has not only been noticed but has also been marked as a legitimate power of Asia.

China’s diplomacy has clearly significant memorous benefits notably in the trade realm followed by returns of debt and Foreign Direct Investment (FDI). China’s integration in South Asian countries has greater importance for China to improve and define its relations, and clarify it’s Foreign Policy objectives (Economy, 2005). China’s initiatives have promoted far more integration of to the whole of its existence. Exceedingly, China’s diplomacy is appealing to regional actors to make significant progress. China has not only planned to predispose direct interference in global affairs but also used economic diplomacy to drive for national interests (Zhang, 2016). China has tried to relate them to the world in the belief that it’s an inherently peaceful actor and it has never used strategic propaganda aggressively. As the most significant tool, economic diplomacy has safeguarded China’s dream worldwide today promoting its foreign policy objectives.

FDI is a long-term investment from one country source into a business or corporation in another country. It can be made by purchasing a long-term stake in a company or expanding its operations into a different country. It might be taken as a vital foreign source of funds in developing countries in the absence of low potentials for exports with, impacts economic, political, and social impacts whether this is favorable or adverse is a debatable matter. There are a lot of FDI forms like horizontal, vertical, or conglomerate, and it may be classified into consumptions perspectives like import-substituting and export-oriented. The FDI impact on the host country may differ on the country’s risk which has to be reflected in economic and political risk
too. In some developing economies, the dominations of multi-national companies are quite overemphasized. They are undertaking specific roles not only in the business deals but also in the evaluation and monitoring of the performance overreaching the government agencies.

In this scenario, China has exerted significant effort to enhance periphery diplomacy, However, its greater presence and involvement in trade might be inadequate necessity in complancy instead of using ED. Straightforwardly, economic diplomacy confirms the mutual support like give and take offers and aims to raise academic support to strengthen Asian oriental cultures. For this work, China’s FDI, and their achievements of expansionary integration in South Asia have been analyzed from the perspectives of China’s FP objectives. For the analysis, the books, journal articles, reports, and news and opinions based on experts’ comments are reviewed which exclude just an understanding of China’s economic assessments without substantial evidence.

China’s Ascendance with FDI in South Asia: Evolution and Expansion

FDI, especially for South Asian nations, is a vital source and means of capital funds, technology transfer, and skill development. In developing countries, domestic capital is not adequate to increase economic activities like employment, production, or exports. Without enhancement of possible sources, the limited scale of economic exploitation of the nations does not cause economic growth or help increase Gross Domestic Product (GDP). Eventually, to boost up domestic private or public investment in a nation, FDI is essential to ensure steady growth. It does contribute GDP growth, additional employment generation, technological improvement as well as human capital development in developing countries like South Asia.

China’s position in the global economy has been widespread. As the second-largest economy, its economic transformation, advancement, and enhanced multi-national companies have continued to promote the investment outflows and played important role in the different region including the European Union (Li et al., 2019). Straightforwardly, Megbowon et al. (2019) asserted, China’s Outflow FDI has significantly increased and yielded huge financial dividends outside. Contradictory, the author further argued, its FDI is insignificant to impact on rapid industrialization instead of having positive backward and effective forward linkages of production efficiency of domestic entrepreneurs. In recent years, the Chinese initiatives significantly have promote outside deals, Whether Belt and Road Initiatives (BRI)’s
magnitude have a tremendous impact on outflow FDI needs to be analysed. Yu et al. (2019) argue BRI has contributed 45 percent incremental to outflow FDI outside and participating countries have received the funds with 60 percent incremental than usual.

As the main vehicle for the Chinese government to pursue its economic plans, multi-national companies are more responsive to the BRI outflow in terms of investing abroad. These enterprises have been reserving their FDI decisions and willingness to participate in the BRI, waiting for signals, and suitable timeframe, from the host countries. China is quite different from other advanced economies that state itself has been playing a vital role to expand FDI in international business (Buckley et. al., 2018). China, today, has been drawing global attention and providing a mirror to global merchants for exploring suitable investment options. Not only the state but also the ethnic Chinese entrepreneurship digging in-depth and wider space of investment options. They have been justifying on courageous theory-driven approach for exploring their relationships as well as understanding how things might be conducted differently in different places and times.

Comparatively, FDI in South Asia is lower than in the outer world and its contribution to economic growth is limited. Potentially, India is the heavyweight economic power of the region, The politically unsteady and conflicts in this sector have restricted to attract meaningful FDI (Dentinho & Silva, 2017). Incompatibly, Wacker et. al (2016) stated FDI has a detrimental effect on improving economic activities which are seems other developing regions like East Asia. Truthfully, the FDI environment in South Asia has significantly changed and the region has been transforming itself as an important destination of FDI instead of having procedural delays and restrictions with reserved industries (Sahoo, 2006). Similarly, China’s FDI growth has resulted in significant concentration on consumer needs beyond promotion. FDI has had a positive impact on service creation, employment generation, production, and steady economic activities. However, the current size of FDI in South Asia is not capable of replacing imports or enlarging the boundary of exports significantly. Sahoo (2006) stated, instead of that lack of adequate infrastructure and good governance, the investment concentration in South Asia has increased in the manufacturing and services sectors.

Similarly, FDI has played supportive role to reduce poverty and is consistent with the human development index as well as real GDP in South Asia (Ahmad et al., 2019). The author has further stated; the fusion of human capital and FDI should
achieve tremendous improvement in human development (Ahmad et al., 2019). South Asia as agriculture-dominated, might attract FDI in agriculture and other labor-intensive sectors helping to reduce inequalities by ensuring proper income distribution. However, the governments have not been able to develop their bargaining power and improve effective FDI policies to promote FDI in the deprived sectors. As a versatile and volatile region with it’s religious, political, and social context, they could specify bilateral and multilateral investment security and political stability to steadily improve FDI inflows. GDP’s growth does attract FDI (Rao et al., 2020). However, FDI and economic growth have mixed impacts which can be seen in South Asia. It indicates that trade compacts are not essential to breakthrough economic constraints and structural bottlenecks rather than FDI initiations.

As a counter, it is stated, FDI represents new colonialism and results in domination over sovereignty frequently. FDI and their source country policy also often play a proactive role to obtain larger incentives from the host countries (Moosa, 2002). As policy interventions, they exist and determine the climate of investment of host country which is so bad beyond real cause of their existence. FDI leads and advocates to host benefits for source country the results of which may jeopardize national independence. Similarly, FDI erases the localization and domestic pattern of production efficiency. It ensures the transfer of capital, technology, and skills non etheless, it demoralizes some social value of the host country and diminishes the specific value of uniqueness. In self counter, Moosa (2002) has accepted that FDI is the process where a country acquires the capital and provides ownership of business assets to an overseas firm or entity. Precisely, has numerous benefits to both; a host country may achieve rapid growth, and the source country may utilize the ideal funds for generating ownership and investment opportunity.

Indeed, GDP and democratic institutions of a country have a greater impact on FDI in the East and Pacific Asian regions. However, education and business intelligence have been found to be much more effective in South Asia because of has a large market size, absorptive capacity, stronger democratic institutions, and lower inflation rate (Sabir & Khan, 2018). It means, the impact may vary and not single treatment efficiently run anywhere. Obviously, South Asia is comparatively poor and institutionally more unstable with FDI spillovers having more impact in the Asia Pacific region as compared to South Asia. China intentionally has been scrutinizing the country’s macroeconomic factors, institutions, human capital, and other determinants of FDI to forward their investment in South Asia.
Human Capital and political stability are the key factors where a stable democratic institution is able to accelerate and attract foreign investors. In spite Stability, political ideology, size, growth of the economy, availability of resources, cost of production, openness, access to international markets as well as technological advancement are the factors affecting to attracting FDI in South Asia. The amendment of policies to attract FDI inflows is needed from a long term perspectives (Dinh et al., 2019). Moderately in developing countries, there are countless opportunities to attract FDI retaining human capital to improve the country’s economic policy measures and political stability. FDI definitely may hamper a country’s growth in the short-run, however, it has a significant impact on economic growth for developing economics.

South Asia’s FDI Status and China’s integration

China’s involvement in South Asia’s economies is much lower than other strategic geography and general thought. The reasons, China’s FDI in South Asia is not only constrained by an incapability to actualize the investment outflows but is also undetermined to mitigate the obstacles of the regions. The politics and overwhelms on the agendas in South Asia are major factors for receiving a lower scale of FDI. South Asia particularly holds relatively low-income economies. India itself has a few competent powers, however, its position in the global economy maintains far lower than China instead of ranking among the third largest global economies.

India is the largest FDI receiver since its favorable policy which is safeguarding the investment environment and FDI security. For India, FDI is a major non-debt financial resource for its economic development. The government initiatives are enabling FDI supporting annexes across sectors like defense, oil refineries, power exchanges, information technology, communications, and many more. Likewise, Pakistan is also carrying out an active FDI policy, however, it is ruing the foreign investors to invest as of their political unstable. As an emerging destinations, Bangladesh and Sri Lanka have taken several types of funds rewarding their economic measures and initiated more attractive policies. Contradictory, Nepal’s FDI inflows are lower than its neighbors stating fundamental indicators. In the Maldives, it has been granted as the third-largest recipient of FDI among small island developing states.
Table 1

Country-wise GDP, FDI and FDI Indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>Year 2018</th>
<th>Year 2019</th>
<th>Year 2020</th>
<th>Average of 6 Years (2015 to 2020)</th>
<th>FDI net inflow (2019)</th>
<th>Total FDI Stock up to 2019</th>
<th>China’s FDI in 2019</th>
<th>FDI inflows 2019/GDP (%)</th>
<th>Total FDI Stock/GDP (%)</th>
<th>FDI inflows/GDP (%)</th>
<th>China’s FDI inflows/GDP (%)</th>
<th>China’s FDI in total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>18,401</td>
<td>18,876</td>
<td>19,132</td>
<td>18,922</td>
<td>39</td>
<td>1,595</td>
<td>0.21</td>
<td>8.45</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh</td>
<td>273,300</td>
<td>302,396</td>
<td>329,120</td>
<td>261,843</td>
<td>1,597</td>
<td>16,385</td>
<td>1,159</td>
<td>5.42</td>
<td>0.38</td>
<td>72.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bhutan</td>
<td>2,411</td>
<td>2,488</td>
<td>2,503</td>
<td>2,286</td>
<td>7</td>
<td>141</td>
<td>0.28</td>
<td>5.68</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>2,701,110</td>
<td>2,870,500</td>
<td>2,708,770</td>
<td>2,554,927</td>
<td>50,533</td>
<td>426,928</td>
<td>164</td>
<td>14.87</td>
<td>0.01</td>
<td>0.32</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maldives</td>
<td>5,293</td>
<td>5,632</td>
<td>3,755</td>
<td>4,649</td>
<td>565</td>
<td>4,775</td>
<td>10.03</td>
<td>84.79</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nepal</td>
<td>33,112</td>
<td>34,187</td>
<td>34,465</td>
<td>29,937</td>
<td>185</td>
<td>1,892</td>
<td>0.54</td>
<td>5.54</td>
<td>0.26</td>
<td>47.57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>313,073</td>
<td>276,114</td>
<td>262,799</td>
<td>284,130</td>
<td>2,218</td>
<td>34,798</td>
<td>423</td>
<td>12.6</td>
<td>0.15</td>
<td>19.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>87,922</td>
<td>83,978</td>
<td>80,700</td>
<td>83,828</td>
<td>758</td>
<td>13,058</td>
<td>0.9</td>
<td>15.55</td>
<td>0.11</td>
<td>12.53</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* GDP value are based on national currency converted to U.S. dollars using market exchange rates (yearly average).

Table 1 represents country-wise GDP, FDI, and FDI-related indicators likening China’s FDI contribution towards South Asia. Maldives ranks the highest position and India secures next of Maldives in terms of FDI to GDP that accounts for 10.03 and 1.76 percent respectively. Similarly, Maldives, Sri Lanka, and India are the top three FDI stockiest holding 84.79, 15.55, and 14.87 percent of GDP respectively. Nepal and Bangladesh are positioned the lowest FDI upholds in terms of GDP ratio which accounts 5.54 and 5.42 respectively. The FDI Stock in Nepal has been increasing, however, it indicates a lower FDI presence in Nepal’s economy (Nepal Rastra Bank [NRB], 2018). Similarly, FDI reserves remain a key element in FDI inward stock which has accounted for 53.55 percent (Nepal Rastra Bank [NRB], 2018). In this sense, China’s incremental FDI has led to Nepal’s overall increment in FDI stocks.

Table 2:

Top Five South Asian Countries on FDI Indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>FDI net inflow (2019) (US$)</th>
<th>Total FDI Stock on 2019 (US$)</th>
<th>FDI Inflows in terms of GDP (%)</th>
<th>Total FDI Stock in terms of GDP (%)</th>
<th>China’s FDI inflows on GDP (%)</th>
<th>Share of China’s FDI inflow on 2019 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India; 50533</td>
<td>India; 426928</td>
<td>Maldives; 10.03</td>
<td>Maldives; 84.79</td>
<td>Bangladesh; 0.38</td>
<td>Nepal; 0.26</td>
<td>Bangladesh; 72.6</td>
</tr>
<tr>
<td>Pakistan; 2218</td>
<td>Pakistan; 34798</td>
<td>India; 1.76</td>
<td>Sri Lanka; 15.55</td>
<td>Nepal; 0.26</td>
<td>Pakistan; 0.15</td>
<td>Nepal; 47.57</td>
</tr>
<tr>
<td>Bangladesh; 1597</td>
<td>Bangladesh; 16385</td>
<td>Sri Lanka; 0.90</td>
<td>India; 14.87</td>
<td>Nepal; 0.26</td>
<td>Pakistan; 0.15</td>
<td>Nepal; 19.05</td>
</tr>
<tr>
<td>Sri Lanka; 758</td>
<td>Sri Lanka; 13058</td>
<td>Pakistan; 0.80</td>
<td>Pakistan 12.60</td>
<td>Nepal; 0.26</td>
<td>Sri Lanka; 0.11</td>
<td>Sri Lanka; 12.53</td>
</tr>
<tr>
<td>Maldives; 565</td>
<td>Maldives; 4775</td>
<td>Nepal; 0.54</td>
<td>Afghanistan; 8.45</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Table 2 represents the top five countries’ FDI inflows, stock, and their ranking on China’s FDI contributions. As an FDI performer, India’s exertions have seemed lower Priority on China. Bangladesh, Nepal, Pakistan, and Sri
Lanka are the top four countries in order to receive FDI from China. From the table, it can be seen that Sri Lanka has the highest FDI Stocks after Maldives in terms of its ratio on GDP, however, China’s share of Sri Lanka’s FDI inflows and Stocks seems fourth on ranking on its ratio with GDP. Bangladesh, Pakistan, Nepal, and Sri Lanka are the top four countries having a share of China’s FDI which accounts for 72.6, 47.57, 19.05, and 12.52 respectively. Individually, in Nepal, India is remained the largest source accounted for 31.5 percent of total FDI stock and followed by China with 15.1 percent in Nepal (Nepal Rastra Bank [NRB], 2021).

Particular in Bangladesh, Singapore and United States hold top-two economics in positions with the cumulative amount of capital investment of 16.7 and 16.0 percent of total cumulative equity Capital inflows (Bank of Bangladesh [BB], 2020). Malaysia and China secure next of two the largest FDI stockiest having 6.9 and 6.7 percent of total cumulative equity Capital inflows. Noteworthily, China and Bangladesh have emphasized strengthening mutual trust for building strategic relations. They also agree to deepen the interaction, cooperation on security, and people-to-people connectivity and cultural exchange. China also wanted to join good hands with Bangladesh.

For Pakistan, Beijing today has become the largest FDI and third-largest trading partner, and become a counter partner to thrill India’s economic exposure in the region. All of these territories are inner and immediate neighbors where China’s attempt is not deniable to South Asia. China has perceived Pakistan is more critical and important to China than anything else, so it has increased its FDI frequently. Since linking Gwadar is more advantageous where ties with other nations are just to keep balancing for strategic move forward. Gwadar links China directly from the Indian Ocean and the Persian Gulf. Pakistan also has accepted China Pakistan Economic Carrodor (CPEC) as a country’s pride among FDI acceptance where China has entered not only in bilateral projects but also in supporting the panel of its sovereign claims of Kashmir. The new height of China- Pakistan relationship indicates that there is an increasing possibility of China establishing a new economic influence in the region through investment.

Moreover, China’s involvement in Pakistan upkeeps its economic status. China’s attention has extended with intense trade expanding to presence up on Arab sea through Gwadar port. In economic ties, a continuing investment
agreement has created an opportunity of integrating deeper into each other’s interests. China’s involvement in Pakistan has been surprising a lot of investment in telecommunication infrastructure and construction of CPEC. Khetrana and Saeed (2017) articulated, “CPEC may create open vistas of regional economic cooperation if it is carried through”. As a part of BRI, it has planned to comprise a highway to connect China with the shortest distance from the Arab Sea and gulf countries.

In counterpart, the strategic and cooperative partnerships between India and China have further deepened with exchanges and cooperation in all sectors. These two have maintained close coordination and collaboration with motives of peace and prosperity in regional and global affairs. Purushothaman (2021) remarked there is enough space for both to grasp opportunities through enhancing better economic relationships. However, each other should self-clarifies the importance to attach or realign in friendly relations and diplomatic ties. Forthrightly, Beijing has seemed to pursue stronger relations in an innovative way to New Delhi, and it can be observed more sound economic integration than the rest countries of SA combined. Indicating China’s turn into productive patterns, Shambaugh (2005) affirmed that China’s ongoing efforts are forging a strategic partnership parallelly with Russia, India, and other economic countries to increase bilateral cooperation. Likewise, Beijing has lessened and excited from its success in building FDI ties with South Korea and Vietnam which has mutually benefited.

Confidently, China and India have formalized dialogue mechanisms including Joint Working Group on trade, Skill Development, information, and communication technology including High Technology (Hi-tech) and many joint working groups. Besides economic tie-up, these two are more serious in jointly forming many associations under five emerging economies Brazil, Russia, India, China, and South Africa (BRICS) and other exchange common forums. Both have agreed to establish study centers in both countries and are involved in BRICS Network University as well as BRICS think tank council. BRICS is working with five supportive extents like Communication and IT, Economics, Climate Change, Water Resources and Pollution, and BRICS study. In these strategic cooperative alliances, FDI exchange is quite far from making premeditated relations than the rest of South Asia. In the economic assimilation, the Indian and Chinese diaspora in each other countries are growing and they become a major factor to make dynamic FDI relations.
China might have a new strategy of creating many multilateral economic corridors under Belt and Road Initiatives. It has already indicated such a potential strategy that is expected to excursion the speed of China with or without India’s involvement. India wants to catch up with China’s speediness that is not possible while negating China. They have bonded with almost the same neighbors and both have intended to support their immediate neighbors. Thus, India and its neighbors must create an optimum chance, for the long term, to analyze cost and benefits before involvement, and have the attitude finally to ensure their participation in China’s strategy. In this sense, India wants to fasten up China as much as cooperative partners and too much as competitive partners. Mutually, they have endorsed to remove each other’s development challenges including the sustainable development goals, climate change, and global terrorism. All these efforts have been achieved exclusively by the successive enhancement of the economic ties which may lead to further FDI decisions.

Beijing’s interest in Sri Lanka is more strategic than economic. Repetition of the Rajapaksa family’s tenure in Sri Lanka has also been an opportunity to push up the Chinese agendas, interests, and investment. In Sri Lanka, the Rajapaksa family and their political privileges have been quite favorable for China. Undeniably, Sri Lanka has continued in the alliance of China in terms of supporting beneficiaries of its immediate neighbor India. Indeed, Sri Lanka has recently given adequate credit to Xi for growing economic activities in the country to China’s successive investment. Deyshappriya (2019) inscribes that “Sri Lanka’s strategic location in the Indian Ocean has particularly attracted China’s attention” (p. 365). Defiantly, it lies on the bank of the Indian Ocean where China has dreamed out an important harbor of the Maritime Silk Road as a part of BRI. It speared over through Africa from the South China Sea for abandoning higher and richer resources like oil and gas supplies from the Gulf miner. Relating to Sino-Ceylon economic relations with the needs of the country, Deyshappriya (2019) remarks that “...Sri Lankan–Chinese relations in the twenty-first century can be considered the era of China-centric infrastructure development” (p. 368). A strategic pursuit, China today is providing billions of loans and investments to Sri Lanka including the cost of Hambantota Airport and Seaport.

Similarly, China and Afghanistan have enjoyed the growing strategic mutual trust and sustained progress in cooperation. Tahiri (2017) postulated that Afghanistan’s geography has been seen as a viable doorway for access to oil and gas of Central Asian Republics like Uzbekistan, Tajikistan, and Turkmenistan.
Indeed, Afghan territory is the most important for China as it has envisioned using Afghanistan as a strategic corridor of the Silk Road to trade with the Indian Subcontinent. As an immediate response, these two have signed a lot of agreements on technical and economic cooperation as well as peacekeeping and reconstruction supports. Similarly, Afghanistan has agreed to integrate into CPEC, which was the most strategic and valuable part of regional BRI. Interestingly, China has become the largest FDI partner since the last decade for Afghan and it has continually supported technological equipment to US-invested companies during the US remained in Afghanistan. It has been increasing its economic activities with an announcement of Metallurgical Corporation of China (MCC), the company that has been mining copper. Furthermore, two countries have agreed to build a cross-border train and air connectivity, oil extracting plans and mutual works on optical fibers cables connectivity too. Besides mutual memorandum, BRI has aimed to develop the shortest route and link the territory of Afghan for China to the Middle East, Gulf, and the Arabian Sea.

China, in the Maldives, has invented a lot of technological, economic, and development assistance to promote social and economic uplift as well as infrastructure and human resource development support. From the Maldives, China has announced to construct a joint ocean observation station that India and some opposition countries are in favor of new construction of such a station. Similarly, some of the activities of Free-Tibet supporters in Nepal also are seen as suspicious and taken cautiously all the accomplishments and their strategic applications. As a tribute to Nepal’s one-China Policy, China is well supported on many kinds of investment and development supports taking assurance with security promises comprising its own bilateral agreements (Sangroula, 2018).

The overseas reaction also plays a significant role to yield the impact in South Asia. The foreign policy of these countries has assorted and preserved numerous reactions. India-China collaboration has often been complicated by distrust and rivalry. China and India have a complex and sometimes openly contentious relationship whereas these two countries’ relations as complementarities (Shambaugh, 2005). India is trying to outstrip China’s presence but it appears far behind Beijing’s existence. China’s role in Sri Lanka has grown remarkably where participation of Nepal and Bangladesh in BRI is taken as good development in the realm of economic diplomacy (Lanteigne, 2019).
Today, China’s approach to policy has seemed nothing more than conceptual in comparison to the foreign policy of United States (Kissinger, 2014). China set out general principles and analyzes where and how they are to be led. It has been trying to shape its thinking partly towards left-centric ideologies and embraces a traditionally Chinese way of thought to an increasing extent. However, FDI in South Asia today considerably has militarized a relative factor of GDP growth. South Asia does not score to FDI in its economic influence matter like of external aid or loan. It is taken also as more preferable than borrowings. In this scenario, China has been creating an FDI gride linking with BRI and implemented FDI policies keeping a balance of exchange and domestic capability. It has seemed that China has been critically evaluated and its focuses on further investment are carried out with BRI initiatives. Thus, Bangladesh, Pakistan, Nepal, and Sri Lanka are choosing on the basis of their commitment over the BRI.

**Global Impact of China’s Economic Ascendance**

China’s relation with the particular South Asian nation varies, and the relation has heightened up with diverse strategic interests. The situation of the post-Covid-19 has been seen as more favorable for China since it has well-positioned to grow influence despite some challenges remaining ahead. The scenario has seen that no other global or regional anti-Chinese power will be capable of fulfilling the economic demand like investment and economic aid. With limited alternative power for sharing competitive advantages, South Asia’s dependency on China has been increasing.

The growing attention towards China is a response to the new global order allowing the ‘rise of China’ with securing historical destiny through its nexus among the global economy. (Zhang, 2016). China’s influence today does not peek at an optimum level whereby Chinese preferences assimilate all external affairs through its principles and belief. In general, Chinese policy actors do not refute the direct influence of the economic agendas, rather they absorb and adapt to it. In addition, South Asia asserts influence at different stages of the preference formation and implicitly proves itself as an integrated policy actor in Beijing. Against this backdrop, China accelerates its FP incorporating the dream of expanding economic diplomacy with growing togetherness and sets a strategy to steadily expand the influence through FDI.

President Xi has considerably enhanced major FP initiatives including
the economic diplomacy for its periphery. In indicating the complaint, according to Szczudlik-Tatar (2013), the destinations of China’s leaders’ foreign trips are trying to enhance cooperation with its periphery seems to develop ‘new silk road’ diplomacy”. Interestingly, the leader’s ambitions have intentionally tried to ensure the country’s position in the uppermost rank of the world to impact globally through the use of economic services including FDI.

Beijing is more methodological since it espouses the strategy after analysis of potential international forces first and then negotiates (Zhang, 2013). Zhang decoded their characteristics as, “consensus-based decision-making culture that involves inter-agency discussion and bargaining” (p. 325). These types of precautions contrast with the existing scholarly assumptions that the decision-making could be an opaque and highly autonomous process immune from external impacts. Exactly, China is very risk-averse and it tends to have strict processes to make decisions that adhere closely. Thus, their FP decisions are always attributed to their strong nationalism and sovereignty.

As an impact, China may have been influenced and been able to evolve its indigenous model of development, political ideology, and thoughts in order to boost up economic and infrastructural growth. South Asian region remains diverse which involves a core of three heavyweight economies like India, Pakistan, and Bangladesh and surrounded by smallest ones such as the Maldives, Bhutan, and Nepal, as well as moderate one like Sri Lanka. The quality of infrastructure improves significantly in India, Bangladesh, and Sri Lanka, while it stalls in Nepal and deteriorates in Pakistan. Thus, the expectation of South Asian nations is varying but all are hunger to gear up for rapid infrastructural setup in the country. The economic growth and equitable distribution of wealth and other preconditions of human development may be detached from the understanding between socialist China and liberal South Asia.

Achievements of China’s FDI Diplomacy in South Asia

FDI inflows obviously lead to economic growth and might earn excessive gains in the host country. FDI inflows contribute more investment calls and GDP growth. To the extent capital in an economy, FDI is more preferable than foreign borrowing. Exactly, South Asia and China have more equivocated and there have massive emotions on nationalistic agendas. Having a limited access on new advancement and adequate resources, the domestic investors have been unable to make the anticipated contributions to technology, capital flows, and operational
efficiency in the country. Thus, FDI diplomacy in South Asia is essential that foreseen the huge benefits for the independent and regional economy.

The increase in FDI in South Asia has been contributing to scale up the local investors. In developing countries like Nepal, Sri Lanka, and Bangladesh, the FDI policy mandatorily provisioned to align with local partners through restrictive on FDI shares. This provision was probably worked for scale-up domestic investors in partnership with foreign direct investors which leads to FDI partnership culture. In the meantime, China’s presence in Sri Lanka, Nepal, and Bangladesh has grown remarkably as BRI members and has affirmed the “one China” policy of People Republic of China. These partners view China as a dependable player in the realm of ED. However, China and India’s success in economic strength-hold has been understood as a potential influence to thrive on global ED, which might influence the global economy faster than expected. Economic diplomacy is a quest for harmonious relation and has surprisingly managed many tensions, which proves that collaborating economic and strategic aims in the periphery mights help. In this sense, China and India today are trying to enhance the multilateral trading system supporting and strengthening each other efforts, endorsing development challenges including sustainable development goals, climate change, and terrorism.

Nepal’s one-China policy has also assisted in extending its relation with China in a superior and good-natured way (Sangroula, 2018), where China is being admired to it’s constant support to Nepal’s sovereignty and territorial integrity. On the other hand, Nepal has an opportunity to accelerate the dream of connectivity like land-linked connectivity with China. China in Nepal has engaged with constructive relations that are designed to serve as per the need of Nepal. Nepal has also enthused continuous dialogue on THCRC that is astounding for both.

Economic activities of South Asian Countries are interdependent whilst India’s economic policy seems to have an impact on the relative improvement in the economies of these countries. India has invested heavily in infrastructure and encouraged state-owned businesses, including rapid privatization. Its growth rate has surpassed all other countries in the world by developing economic accelerating double digits even in post covid 19 situation. It seems possible with rise in private investment, FDI, and high level of consumer spending. But it is unthinkable that India will continue to be indirectly powerful making the economic condition of other neighbors miserable.
India policy towards FDI has restricted FDI approach and proposal from China that might help improve production efficiency through the transfer of technology. Accurately, China’s FP contends elites with an ambition of self-contradictory to turf-conscious administrative officials like to elsewhere in its own geography first, then it fights off with domestic challengers who may want to change them. Thus, China retaliates with a full-on escalation and full spectrum of economic tools that are endorsed in Beijing’s FP today.

India is emerging as a global investment destination while, FDI in Sri Lanka, Nepal, or Bangladesh is shrinking. Therefore, it is necessary for South Asia to emphasize the policy of competing the economic crisis for using regional opportunities equally. To increase FDI efficiency in Sri Lanka, Nepal, Pakistan, and Bangladesh, China’s FDI might be helpful to their economy which is necessary to come up with common strategies and programs on regional visions. Both, China and India are leading destinations of Asia, and others are given lower priority by FDI seekers.

**Conclusion**

China feels comfortable by joining multilateral elements to expand its economic power tremendously. China has sought an increased opportunity to exchange development potential as an all-weather and all-timer strategic partner as well as a substantive contributor to this region. Under the leadership of Xi, economic diplomacy has been considerably streamlined as a policy instrument where South Asia has appeared as truly strategic geography not only to balance the political institutions but also to maximize corporate profit attributing a large size of the human population.

Despite the successes in the economy, China’s role in the world has been seen not only as benevolent but also suspicious. Now it seems increasingly willing to use its interest and power to stake the highest rank in global affairs. In this sense, China has intensified its efforts to reform foreign policy incorporating ambition of global scale and investing heavily in the world’s infrastructure to prove it’s becoming of leading economic giant. Besides intensive thought, China’s investments in this region are foreseen quite small as compared to other regions. But it has significant effort to promote periphery diplomacy from the viewpoint of state security.
China has intensely South Asia’s strategic partnership with economic, diplomatic, and developmental clout. However, in the lack of connectivity, China’s easy presence in South Asia looks strained now. It has to be strengthened through BRI. China before Xi’s ascendancy has also appeared to be keen to play a special role in this territory. Indicating these consequences tie-up as multilateralism, the embrace of multilateralism appears to be the most remarkable change in China’s exercise of economic statecraft. It started mobilizing multilateral frameworks to exercise its economic instruments and even diffuse these instruments to be used by newly set up multilateral institutions.

As a way forward, to reduce the imbalance in FDI inflows, the country policy should focus on redirecting China’s and India’s FDI initiatives towards their periphery. Similarly, other South Asian nations should reform their policy to maintain steady growth in FDI by encouraging large size capital and abandoning labor exports.

References


