

Chapter 3

China-ASEAN Cooperation Under the BRI



3.1 Southeast Asia and ASEAN

Southeast Asia has historically been a loose, pluralistic and non-uniform region that has never had a single name or a single geographical identity. Different people of the region have different perceptions and different interpretations. People across Southeast Asia have only ascribed the term “Southeast Asia” to the part of the region they understand or are interested in and have never identified with the whole. According to the historian Wang Gungwu (2021), “Southeast Asia” today, as a geographical whole, is a concept defined by British colonisers to separate this region from China and India and protect British interests in this former colony. As he claims:

The name Southeast Asia was originally absent in history, and the name originated from World War II, when the British used Southeast Asia as the code name of the war zone in this region. After that, it became customary in the international community to become the new region of Southeast Asia in their minds, so Southeast Asia was a geographical area concept that only existed after World War II.

Southeast Asia is a highly differentiated region, as reflected in the diversity of topography and geomorphology; geographically, about one-third of Southeast Asia is continental, and two-thirds are islands. Geographically and topographically, Association of Southeast Asian Nations (ASEAN) member countries can be divided into continental (Laos, Cambodia, Myanmar, Thailand, Vietnam) and maritime countries (Indonesia, Philippines, Singapore, Malaysia, Brunei).

Southeast Asia has both mainland and island characteristics, and different geographical conditions have nurtured different ethnic groups, cultures, languages, lifestyles and religious traditions in what is a highly diverse region. For example, the Thai culture is based on Buddhist culture. Buddhism was introduced to Thailand from India in the third century BC. In the mid-thirteenth century, after the establishment of the Sukhothai Kingdom, in order to establish a culture compatible with political independence, Ramakhanhen not only unified the written language, but also vigorously promoted Buddhism, introduced Theravada Buddhism, as transformed by Ceylon,

and combined it with the original religion, which quickly spread across Thailand. Today, 95% of the country's people follow Buddhism, in a "country of yellow-robed Buddhas". Buddhism therefore influences many aspects of society, politics, culture and daily life in Thailand.

In addition, the countries in Southeast Asia vary greatly in their level of development, politically, economically and socially. On the one hand, this diversity reflects the huge development potential of this region. On the other hand, it reflects the difficulty of governing ASEAN and the great challenges facing its development.

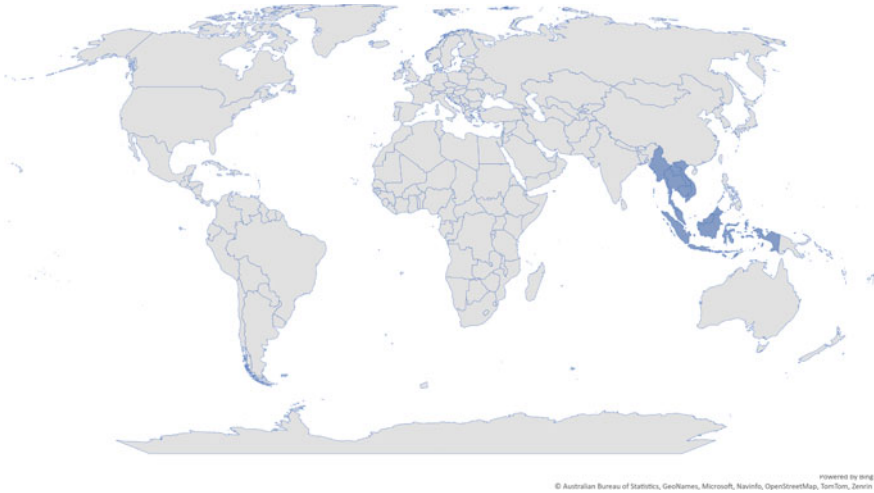
While the ASEAN is a political concept, its establishment will strengthen the overall identity and political independence of the countries and peoples of the Southeast Asia region. Bordered by the Pacific Ocean to the east and the Indian Ocean to the south, ASEAN is at the crossroads between Asia, Oceania, the Pacific Ocean and the Indian Ocean. ASEAN member countries guard the Strait of Malacca, which is the world's busiest shipping route and therefore of great strategic importance to the region.

Before the founding of ASEAN, Southeast Asia was in turmoil, its countries stricken by domestic and interregional conflicts. For example, in 1963, the former Federation of Malaya joined forces with former British colonies Singapore, Sabah and Sarawak to form Malaysia. This was opposed by Indonesia based on claims of British neo-imperialism, while the Philippines opposed it due to a dispute over the sovereignty of Sabah. Even within the Federation of Malaysia, the situation was unstable, intensified by racial contradictions between the Chinese and Malays. Tensions between the federal government of Malaysia and the state government of Singapore reached a peak in 1965, leading to Singapore being expelled from Malaysia by the federal government in August 1965 and having to seek independence.

In August 1967, Indonesia, Thailand, Singapore, the Philippines and Malaysia jointly issued the "Declaration on the Establishment of the Association of Southeast Asian Nations" in Bangkok, Thailand, officially announcing the establishment of ASEAN. Brunei then joined in 1984, Vietnam in 1995, Laos in 1997, Myanmar in 1997 and Cambodia in 1999. ASEAN is now an influential regional organisation with ten member countries (Please see Map 3.1 for geographical location). In 2022, the ASEAN Leaders' Summit expressed "agreement in principle" to admit Timor-Leste as its newest member, granting it observer status and allowing it to participate in all ASEAN meetings. Hence, the ASEAN could soon have 11 full member countries.

Based on accession date, ASEAN members can be divided according to the first six ASEAN countries (Indonesia, Thailand, Singapore, the Philippines, Malaysia and Brunei) and the new four member countries (Vietnam, Laos, Cambodia and Myanmar). The differences among the ASEAN countries, between the continental and maritime, or the first six member countries and the four new countries, are not only conceptual, but also reflected in differences in their economic development level, foreign policy, stance on regional economic and trade agreements, geopolitics and regional free trade.

Through ASEAN, as a political organisation, the ten member countries collectively exercise power based on consensus, to determine the destiny of Southeast Asia, find their own place in the great power competition, and strive to maximise the



Map 3.1 Location of the ASEAN countries

region's development while minimising geopolitical risks. The unity of the Southeast Asian countries is key to their taking control of their own destiny and avoiding being forced into the sphere of influence of major powers. The economies of ASEAN's member countries are small and single they have no say in the international arena.

Only when acting as a unified whole can ASEAN have the strength to influence international affairs. The basic idea adhered to by the Southeast Asian countries is that in this complex globalised economy, small countries cannot survive independently, and must be unified, at least in some aspects, to speak with a common voice, to have the right to speak and fight for international living space, which was the starting point of their contract. "The ASEAN Charter", which was signed in Singapore in November 2007, is ASEAN's first universally legal and binding document since its establishment in 1967 and needs to be adhered to by all member countries. This Charter, which came into force in December 2008, sets out the direction and objectives for building the ASEAN Community. The strength of the ASEAN community lies in it being able as a whole to exert its influence in the international arena.

Building the ASEAN Economic Community requires creating a unified market within the ASEAN and a competitive region that is integrated into the global economy and industrial chains. The ASEAN Economic Community will also help its members achieve more balanced development and narrow the development gaps between the different countries.

The establishment of ASEAN heralded the countries of the Southeast Asian region's intent to become capable of determining their own destiny and finding their place and room for manoeuvre among the major powers. Based on geopolitical relations and establishment of various regional dialogue mechanisms such as "10 + 1", "10 + 3" and "10 + 6", ASEAN has become an important force, capable not only of influencing but also taking a lead in regional and international affairs.

Southeast Asia's countries have experienced rapid economic growth in recent years, and it has become one of the world's fastest-growing regions. Across the ten ASEAN countries as a whole, the economic growth rate has averaged 5.7% per year over the past two decades. Regarding the less developed economies of ASEAN (including Vietnam, Laos, Cambodia and Myanmar), the annual economic growth rate has been even more prominent in the past two decades, reaching an average of 7.8%. ASEAN's economic strength and regional influence cannot be underestimated, since the ten ASEAN member states occupy a total area of about 4.44 million square kilometres and have a population of about 650 million. Moreover, ASEAN has a young population and a large and growing middle class.

3.2 China's Relations with ASEAN: From the Past to Present

The Southeast Asian countries are China's immediate neighbours. China and Southeast Asia are connected by land and sea and lie within the East Asian region. China's Yunnan Province and Guangxi are bordered by Laos, Vietnam and Myanmar. The 4900-km-long Mekong River flows through five ASEAN countries: China, Laos, Myanmar, Thailand, Cambodia and Vietnam. In addition, China and some ASEAN countries are adjacent to the South China Sea. China's southbound sea passage to the Indian Ocean, the South Pacific region, Europe and Africa is through Southeast Asia. The ASEAN countries' geographical proximity to China makes it keen to develop strong ties with these countries. Given its geographical proximity, Southeast Asia will always be important to China.

China has a long history of interaction with Southeast Asia. The ancient Silk Road, Zheng He's voyage to Southeast Asia during the Ming Dynasty, and the historically tributary systems (Annam, Sumatra, Java, Siam, etc.) all contributed to forging links between this region and China. Meanwhile, due to its vast geographical and population size, as well as its economic prowess and military might, China has always been impossible for its smaller Southeast Asian neighbours to ignore.

The Chinese authorities describe Southeast Asia as an important commercial hub along the maritime Silk Road route, with an indispensable role in expanding China's external trade with the outside world. In the past, China sold its silk, and porcelain products to this region in exchange for foreign commodities. In the early fifteenth century, under the command of Admiral Zheng He, the Ming emperor dispatched a series of naval expeditions and treasure ships to foreign countries, reaching as far as the South China Sea, Indian Ocean and the African continent (Wang 2010; Page 2013). Hence, the trade links between China and its neighbouring littoral states in the region can be traced back to ancient times.

However, the Chinese government's version of the significance of Zheng He's voyages to the Southeast Asia during the Ming Dynasty should be treated with caution as it contains some myths. Zheng He's main mission was not to promote trade and

build friendly relations with countries and regions along the route, but instead to demonstrate China's sea power and the formidable imperial rule of Emperor Yongle (Wang 1970).

In fact, most of the maritime trade across the Silk Road routes was not initiated by the Chinese, and imperial China's trade with the Southeast Asian littoral states was limited, as was its maritime prowess. The historian Wang Gungwu's studies (2008; 2009) show that expansion of the Chinese empire had been consistently landwards and Chinese rulers were consistently passive about forging maritime contact with the outside world, despite sporadic maritime trade links with Southeast Asian ports during Emperor Yongle's era. After his death, his successors showed little interest in maritime trade with the outside world. The Dutch and Portuguese played an important role in maritime trade with Southeast Asia along the Silk Road, while by the eighteenth century the British had started to play a dominant role in the maritime routes in the region.

In 1991, China and ASEAN formally established dialogue relations. In July 1991, then Chinese Foreign Minister Qian Qichen attended the 24th ASEAN Foreign Ministers' Meeting, which was a diplomatic move by China to try to break its isolation and economic blockade by the West and also to mark the opening of a new chapter in China-ASEAN relations. In 1996, China became a comprehensive dialogue partner of ASEAN. In 2003, China took the lead in signing the "Treaty of Amity and Cooperation in Southeast Asia" with ASEAN and a bilateral strategic partnership was established.

The bilateral cooperation between China and ASEAN has breadth, depth and intensity. China and ASEAN are each other's most important economic and trade partners. China was the first foreign country with which the ASEAN established a strategic partnership, and the China-ASEAN Free Trade Area is also the first bilateral free trade area established by ASEAN. Cooperation between China and ASEAN countries includes bilateral cooperation at the national level as well as multilateral and subregional cooperation.

Comprehensive cooperation between China and ASEAN has become well-established. China has been proactively participating in the multilateral cooperation mechanisms, which are initiated or organised by the ASEAN since the 1991. Major bilateral cooperation mechanisms include the China-ASEAN Summit ("10 + 1" cooperation mechanism), China-ASEAN Free Trade Area, China-ASEAN Expo, the BRI and China-ASEAN maritime cooperation mechanism. In addition, China has made efforts to forge strong bilateral ties with individual ASEAN countries over the years. Under the framework of multilateral cooperation, China and Southeast Asian countries have also established multilevel, all-field and institutionalised bilateral cooperation in fields such as diplomacy, economy and trade, health, tourism, cultural exchanges, military, law enforcement agencies, infrastructure and water resources management.

Since China is one of the world's largest consumer markets, ASEAN countries expect greater market access and to expand their business operations and investment space in China. In terms of breadth and depth, China's economic ties with ASEAN are stronger today than ever before. The rise of China, leveraged on its position as

the world's second-largest economy and the largest trading nation, has exerted a powerful pull on the ASEAN economies. China is among the most important trade, investment and economic partners for all Southeast Asian countries. Meanwhile, due to the increasing importance of ASEAN to its foreign policy interests, China is keen to deepen its political, economic and people-to-people ties with the ASEAN countries.

China accounts for over 18% of the global economy. It is also the world's largest buyer of resources since it needs resources to achieve sustainable economic growth and industrial development and has insufficient resources of its own to meet demand. However, ASEAN is rich in energy and other mineral resources. For example, some ASEAN countries are among the world's leading producers of natural rubber. According to the International Rubber Research Organization, the global total natural rubber production in 2019 was 13.76 million tonnes, and Thailand, Indonesia and Vietnam were the world's top three natural rubber producers, accounting for 5.09 million tonnes, 3.16 million tonnes and 1.23 million tonnes, respectively. China is the world's largest consumer of natural rubber, accounting for 40% of global natural rubber consumption. Moreover, China's natural rubber imports account for 75% of its total domestic consumption.

China has also become one of the important foreign investors in ASEAN. ASEAN countries have huge potential in the consumer market and steady economic growth. The middle-class population in the region is expanding and the population is relatively young and energetic. As a result, the region is attracting more and more attention from Chinese companies and other multinational companies. China's direct investment in ASEAN countries increased from US\$2.06 billion in 2009 to US\$13.02 billion in 2019, with Singapore, Indonesia and Vietnam attracting the most Chinese investment, amounting to US\$4.82 billion, US\$2.22 billion and US\$1.64 billion, respectively, in 2019 (See Table 3.1).

As of the end of December 2019, the stock of two-way investment between China and ASEAN was US\$236.9 billion. China had invested a total of US\$113.3 billion in ASEAN, while ASEAN's cumulative investment in China was US\$124.6 billion. Chinese enterprises and business people are very active in Southeast Asia, and Chinese companies are involved in many large-scale infrastructure construction projects in the region. Imports from China also play an important role in the Southeast Asian countries' domestic consumption. "Made in China" products range from consumer goods and food, household appliances, to high-end train locomotives, smartphones and telecommunication equipment.

The ASEAN is accelerating its internal economic integration and building a unified regional market to achieve the free flow of goods, services, people, investment and technology. These efforts will inevitably bring new business opportunities for Chinese companies and increase direct investment in ASEAN. Many Chinese enterprises, such as Huawei, ZTE, TCL, Midea, and BYD, have already set up factories and regional headquarters in Southeast Asia. Improvements in interregional connectivity infrastructure, as well as reductions in non-tariff barriers brought about by the implementation of the Regional Comprehensive Partnership (RCEP) from January 2022, and additional measures to enhance trade and investment facilitation will encourage

Table 3.1 China's FDI in ASEAN, 2009–2019 (in US\$100 million)

Country	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Singapore	10.49	6.99	54.66	59.70	25.08	41.67	39.91	43.71	66.80	37.61	48.25
Indonesia	3.59	3.53	2.15	3.35	5.91	10.68	3.23	3.54	19.94	21.42	22.23
Vietnam	1.11	1.15	3.82	1.90	9.48	2.09	3.81	9.69	8.52	10.77	16.48
Laos	0.36	0.45	2.78	N/A	N/A	6.14	6.65	7.10	13.13	10.45	11.49
Cambodia	0.97	1.27	1.79	3.67	2.86	5.54	5.37	5.01	6.18	7.98	7.46
Thailand	1.69	6.33	0.21	5.98	9.39	— 2.21	2.38	10.72	0.07	6.62	13.71
Philippines	— 0.03	0	— 0.04	— 0.01	0.06	0.46	0.59	0.17	0.29	1.98	— 0.04
Malaysia	— 1.21	— 0.06	— 0.15	0.33	0.94	3.02	3.23	14.07	15.88	1.77	11.09
Myanmar	3.70	15.21	6.70	4.80	7.90	0.71	0.52	2.05	5.54	0.75	— 0.42
Brunei	0	0	0	0	0	0	0	0	0	0.02	— 0.04
Total	20.67	33.87	71.92	79.72	42.84	68.10	65.69	96.06	136.35	99.37	130.21

Source ASEAN Secretariat database

Chinese companies to further expand their direct investment in Southeast Asian countries.

In 2022, China's leading electric vehicle company, BYD announced that it will set up an electric vehicle factory in Thailand, which is expected to reach an annual production capacity of 150,000 electric vehicles in 2024 to supply the market in Thailand and other ASEAN countries. The Thailand plant will be BYD's first electric vehicle manufacturing plant in Southeast Asia and the company's first passenger car plant overseas. Based on its optimism about the foundations of Thailand's local auto industry, rich human resources and technical reserves, BYD is targeting Thailand's new energy vehicle market and also values the export potential of Thailand's auto industry. BYD's investment is not only conducive to the development of Thailand's new energy vehicle industry and strengthening Thailand's position as a Southeast Asian automobile manufacturing hub, but also helping Chinese enterprises to benefit from relevant technological advantages, increase foreign investment and expand ASEAN's market opportunities, thereby helping to deepen cooperation between China and ASEAN in the field of manufacturing.

Thailand has traditionally been the largest automobile manufacturing centre and car sales market in Southeast Asia. With the new trend towards developing green new energy vehicles and the growth of the global new energy vehicle market, the Thai government has issued support policies for the production and sale of green energy vehicles, to boost production to 30% (or 750,000 vehicles) of the total domestic automobile production by 2030, develop Thailand as an important new energy vehicle market centre in Southeast Asia and also to build a mature supply chain system.

In the face of the global trend of renewable energy transition and the rapid rise of electric vehicles in recent years, Thailand, as a major automobile manufacturing centre in Southeast Asia, is seeking new investment to achieve sustainable development and diversification of the automotive industry.

Thailand has consequently become one of the most active countries in the whole of Southeast Asia in terms of electrification transition. It is not only embracing new energy, as represented by pure electric vehicles, at the local market level, but also vigorously driving this transformation through policies, including battery production and other industrial chains. In addition, the Thai government's policy incentives cover the production and sales of electric vehicles, including tax breaks, subsidies, supporting facilities construction, etc., to attract foreign car companies to invest in Thailand and improve local consumption power.

Chinese car companies, such as BYD and Great Wall, have entered the Southeast Asian market, which is geographically close to China, has lower labour and land costs, and where preferential state policies are in place, such as tax reduction subsidies and tariff exemptions. Hence, many Chinese carmakers choose to buy factories or build manufacturing plants locally.

3.3 China-ASEAN Free Trade Area

The China-ASEAN Free Trade Area (CAFTA) covers about 2.04 billion people, accounting for 26.8% of the global population. The CAFTA has a combined economy of over US\$23 trillion, accounting for about 20% of the global economy. China and the ASEAN countries have their own industrial structures, strong industrial complementarity and obvious advantages that offer great potential for bilateral production capacity cooperation. China and ASEAN have reached a bilateral free trade area agreement to make it easier for domestic enterprises to enter each other's markets as a result of significantly reduced tariffs.

The CAFTA promotes bilateral trade and investment exchanges and also enables the two sides to participate more closely and play stronger roles in the regional industrial supply chain. Under the framework of the bilateral free trade area, more than 90% of the goods and products now have zero tariffs, which has effectively reduced the cost of the trade system, making it easier to allocate production factors across the region and achieve efficiency improvement.

ASEAN is an export-oriented economy that is highly dependent on foreign trade and investment. The establishment of the CAFTA will help ASEAN countries expand exports of advantageous products (such as agricultural products, resources and electronic products) to the Chinese market. It will also help Chinese companies export electronic products and machinery to ASEAN countries at a lower cost. China's share of ASEAN countries' total exports increased from 11.4% in 2012 to 16.4% in 2021. For example, China is Vietnam's largest export market for agricultural and aquatic products and aquatic exports to China account for more than 16% of Vietnam's total seafood exports. Growth in the Chinese population's consumption power has led to

huge demand for imported seafood in China. Hence, the Chinese market is one of the main drivers of development of the aquaculture industry globally, as well as in Vietnam.

Accelerated industrialisation and urbanisation are taking place in many ASEAN countries. These countries have a huge need for external capital, technology and talent. China, on the other hand, has surplus capital and other advantages in many industrial sectors. Under the framework of the China-ASEAN Free Trade Area, there is room for complementarity between the industries of China and ASEAN countries.

The establishment of the CAFTA in 2010 led to rapid growth in the scale of bilateral trade. Since 2009, China has maintained its position as ASEAN's largest trading partner. Since 2020, ASEAN has been China's largest trading partner, and ASEAN is also China's second-largest source of foreign investment. The COVID-19 pandemic has not affected bilateral trade and the ASEAN has maintained its position as China's largest trading partner, with bilateral economic and trade ties becoming even closer during the COVID years.

China is actively promoting trade liberalisation and seeking to reach free trade agreements with more countries/regions, with the aim of expanding its share in regional markets and global trade. This was the original intention of China's promotion of the FTA with ASEAN and its participation in the RCEP. China's domestic economy will benefit under the framework of the bilateral free trade area through Chinese enterprises being able to expand their overseas business space and find new markets for China's exports of goods and services. Meanwhile, close economic and trade ties with ASEAN based on bilateral free trade areas will also help China expand its geostrategic space and strengthen its influence on regional integration.

Trade between China and ASEAN countries has a deep historical foundation, and the two sides have developed close economic and trade partnerships with breadth, depth and resilience. Since the implementation of the CAFTA, bilateral trade increased from US\$41.6 billion in 2001 to US\$970 billion in 2022 (Table 3.2), during which time bilateral trade increased by more than 23 times. China has remained ASEAN's largest trading partner for 13 consecutive years, and ASEAN has remained China's largest trading partner for three consecutive years. In particular, in 2022, the bilateral trade total was US\$970 billion, but it bucked the trend and increased by 5.7% during the pandemic years, with ASEAN accounting for 15% of China's total foreign trade.

Nevertheless, there are several increasingly acute problems and complex challenges facing economic and trade cooperation between China and ASEAN countries. First, China and some ASEAN countries have similar industrial structures and similar export destinations, so they still compete fiercely in overseas export markets. There are high levels of overlap in the structure of China and some ASEAN countries' export commodities, causing homogeneity in competition. In the industrial sectors where competition is intense, the impact on China is relatively small (about 12.8%), as China's industrial structure is more diversified, while 40% of the total exports of ASEAN countries come from these sectors.

China and ASEAN both have fast-developing emerging economies, dependent on export trade, and located at the middle and low end of the value chain/supply

Table 3.2 China-ASEAN bilateral trade, 1991–2022 (in US\$100 million)

Year	Total trade	China's exports to ASEAN	China imports from ASEAN	Balance of trade
1991	84.0	44.6	39.4	5.2
1992	90.8	46.7	44.1	2.6
1993	116.4	53.4	63.0	– 9.6
1994	143.3	71.6	71.7	– 0.1
1995	203.7	104.7	99.0	5.7
1996	211.6	103.1	108.5	– 5.4
1997	251.6	127.0	124.6	2.4
1998	231.0	110.3	120.7	– 10.4
1999	270.4	121.7	148.7	– 27.0
2000	395.2	173.4	221.8	– 48.4
2001	416.2	183.9	232.3	– 48.4
2002	547.7	235.7	312.0	– 76.3
2003	782.5	309.3	473.3	– 164.0
2004	1058.8	429.0	629.8	– 200.8
2005	1303.7	553.7	750.9	– 196.3
2006	1608.4	713.1	895.3	– 182.2
2007	2025.5	941.8	1083.7	– 141.9
2008	2311.2	1141.4	1169.7	– 28.3
2009	2130.1	1062.9	1067.1	– 4.2
2010	2927.8	1382.2	1545.6	– 163.4
2011	3630.8	1700.7	1930.2	– 229.5
2012	4000.9	2042.7	1958.2	84.5
2013	4436.0	2440.4	2003.4	437.0
2014	4803.9	2720.7	2083.2	637.5
2015	4721.6	2777.0	1944.6	832.4
2016	4518.0	2555.7	1962.2	593.5
2017	5147.7	2790.7	2356.9	433.8
2018	5878.7	3192.4	2686.3	506.1
2019	6414.6	3594.2	2820.4	773.8
2020	6845.9	3837.2	3008.7	828.5
2021	8782.0	4836.9	3945.1	891.8
2022	9700.0	5600.0	4100.0	1500.0

Source China Customs; Ministry of Commerce of China

chain under economic globalisation. Due to the high degree of similarity in their export commodities and export markets, competition in terms of export commodities and export destinations is inevitable. For example, China competes with Vietnam, Cambodia, Indonesia and Laos in the textile and garment industries and with Vietnam in wood manufacturing, leather and footwear. However, due to China's rising production costs and industrial transfer strategy, ASEAN has become increasingly competitive in low-end labour-intensive manufacturing based on lower production costs, cheap labour and natural resource advantages. Competition between China and ASEAN in this area is slowing down.

Nevertheless, industrial competition between China and ASEAN also exists in industries such as electronic information, automobile manufacturing, petrochemical, machinery and equipment manufacturing, and office equipment manufacturing, with medium- and high-end added value. As China accelerates its industrial upgrading, the degree of competition between the two sides in these industrial fields has increased. For example, China and Vietnam compete in the electronics industry and smartphone manufacturing, while China competes with Thailand and Malaysia in the field of automobile manufacturing.

China's competitive advantage lies in its large number of skilled and hardworking industrial workers, improved transportation and power infrastructure, upstream and downstream supporting supply chains, stable domestic political situation and huge consumer market. Since the launch of the CAFTA, Chinese-made goods have had a greater impact on the home markets of ASEAN countries, especially Vietnam, the Philippines and Indonesia, because of their relatively low cost and scale advantages. The influx of large numbers of Chinese-made goods into the markets of ASEAN countries has caused great pressure on local enterprises, resulting in bankruptcy due to the inability to compete and rising unemployment among local workers.

Second, many ASEAN countries, such as Vietnam, the Philippines, Indonesia and Thailand, have widening trade deficits with China. This is not conducive to the sustainable development of bilateral economic and trade cooperation in the long run. Especially since the implementation of the CAFTA in 2010, with the expansion of bilateral trade, there has been much faster growth in China's exports to ASEAN than in imports from ASEAN, resulting in ASEAN going from surplus to deficit in bilateral trade, which has expanded year by year. China's trade surplus with ASEAN soared from US\$8.45 billion in 2012 to US\$150 billion in 2022 (see Table 3.2).

ASEAN's bilateral trade with China was already in deficit before the signing of the CAFTA agreement, but since the CAFTA came to enforcement in 2010, the bilateral trade imbalance between China and ASEAN has gradually expanded. China has transitioned from being a trade deficit country to a surplus country. The widening of the trade deficit, which reached a new high in 2022, will ultimately be detrimental to industrialisation of ASEAN countries.

The main reasons for the imbalance between trade between China and ASEAN are, first, the Chinese goods are more cost-effective to produce and are able to meet the current consumption needs of ASEAN people. Second, in ASEAN countries there is great demand for intermediate products produced in China, which are processed and assembled in ASEAN and sold to developed markets in Europe and the United States.

Third, regarding institutional factors, the Chinese market is not open enough, and strict market access thresholds restrict ASEAN products from entering the Chinese market. This uneven playing field has exacerbated the trade imbalance.

These three factors have led to bilateral trade imbalances in China's favour that will intensify bilateral economic and trade frictions between China and ASEAN. This huge trade deficit is the biggest obstacle to further development of bilateral economic and trade relations and cooperation between the two sides.

However, as China's economic transformation and industrial upgrading accelerate, some of the low-value-added manufacturing industries will be transferred to ASEAN countries with relatively low production costs, which will drive Chinese investment in ASEAN and provide new opportunities for industrial development in the ASEAN countries. In addition, updating and expanding the content and scope of the CAFTA Agreement, to improve interregional connectivity and transportation infrastructure, as well as to reduce non-tariff barriers and introduce more trade and investment facilitation measures will enable Chinese enterprises to expand their direct investment in ASEAN. At the same time, ASEAN is accelerating internal economic integration and building a large regional unified market to achieve the free flow of goods, services, people, investment and technology. These efforts are bound to increase the need for investment in infrastructure and other industries. This will bring new business opportunities for Chinese companies and direct investment in ASEAN.

In November 2021, China and ASEAN held a summit commemorating the 30th anniversary of the establishment of dialogue relations. Chinese President Xi Jinping has proposed the development of a China-ASEAN Free Trade Area Version 3.0 to further enhance investment liberalisation and facilitation and expand bilateral cooperation in new fields such as digital economy.

3.4 The Impacts of China-US Rivalry on ASEAN

Southeast Asia is open for business, and it has developed multiple external links. The economic and trade development of Southeast Asian countries can, however, be easily affected by external factors. The situation regarding the United States is the most important external variable affecting the development of China-Southeast Asian relations, and the spillover effects of the great Sino-US power competition are increasingly affecting bilateral relations.

The Sino-US trade war has impacted regional and even global supply chains/industrial chains. The Sino-US trade dispute has so far had a polarising impact on Southeast Asian countries. The impact of the Sino-US trade war will depend on the industrial development levels of the different ASEAN countries and their respective positions in the regional/global industrial chain.

Due to the rise in China's production costs in recent years, the trend of dispersion and restructuring of regional industrial chains, and the Sino-US trade war, the regional

industrial chain has tended to relocate from China, particularly in the case of labour-intensive industries. The primary destinations for these labour-intensive industries are Southeast Asian countries adjacent to China, especially Vietnam. China's outward direct investment and exports of intermediate semifinished products triggered by China's relocation of industrial chains have become the leading forces driving the growth of bilateral trade between China and ASEAN.

Due to the impact of the Sino-US trade war and the tariffs imposed by the United States on Chinese exports, a large number of Chinese enterprises have been driven to export Chinese goods to ASEAN countries for simple processing, OEM and customs declaration locally, before exporting the finished products to the United States. ASEAN developing countries such as Vietnam and Indonesia enjoy low tariff treatment in trade with the U.S. under the most-favoured-nation (MFN) agreement. This encourages Chinese companies to avoid the high tariffs by obtaining local certificates of origin for their products.

In recent years, the rise in production costs has forced some foreign and Chinese companies to transfer their labour-intensive industry and some processing and manufacturing activities to relatively low-cost areas. Southeast Asia, which is geographically close to China and has strong economic growth momentum, has become the preferred destination for industrial relocation by China.

Multinational and Chinese companies are increasingly looking to Southeast Asia as a new regional manufacturing base. Due to the abundance in natural resources and low production costs, Southeast Asian countries are fully equipped to play a more important role in the global industrial chain. Taking the Chinese company Xiaomi as an example, in order to reduce logistics and transportation costs and improve supply efficiency, in 2020, it began construction of a foundry in Vietnam to produce smartphones, data transmission equipment and circuit boards, its products being mainly supplied to the local market in Vietnam and other ASEAN countries.

Nevertheless, the industrial chain/supply chain in Southeast Asia is incomplete, the supporting industries are incomplete, and for a large number of raw materials and intermediate manufactured goods ASEAN is reliant on imports. In contrast, China has a complete industrial chain and is one of the few countries in the world engaging in all industrial activities in the United Nations Industrial Classification. Based on ASEAN's imperfect supply chain, infrastructure bottlenecks, and insufficient labour, it will be difficult in the short term for Southeast Asia to fully accommodate the production capacity transferred by China to become the next world factory.

From the perspective of long-run development, Southeast Asian countries generally have a high degree of economic dependence on China and the United States, so the Sino-US trade war will inevitably have a negative impact on the economic growth of these countries. As World Bank Vice President Mari Elka Pangestu said at the 2019 Summer Davos Forum: "China and the United States are two fighting elephants, and we don't want to be trampled to death". She believes that while the Sino-US trade war has led to the transfer of production capacity out of China, which seems to benefit Southeast Asian countries, the latter are actually being put at long-term risk; the order in this region will be dominated in the longer term by the intensifying Sino-US competition.

3.5 The Belt and Road Initiative in Southeast Asia

China's grand diplomacy, especially its neighbourhood diplomacy, is strongly focused on ASEAN. The ASEAN countries are the core regions for China to promote the construction of the Belt and Road Initiative. BRI implementation depends on the support and participation of the countries involved, and the ASEAN countries are particularly vital to the initiative.

ASEAN countries are geographically close to China, it was the first region to sign an agreement to participate in the joint construction of the BRI, and the ASEAN countries, as a group, were founding members of the China-founded Asian Infrastructure Investment Bank. Therefore, Yu (2017b) argues that ASEAN's response and support for the Belt and Road Initiative is an important litmus test for the Initiative's success internationally.

Poor infrastructure and inadequate logistics capacity hinder rapid economic growth in many ASEAN countries. According to a study published by the Asian Development Bank in 2017, in order to achieve the annual average economic growth target of more than 5% and address the challenges posed by climate change, Southeast Asia alone will need a total of US\$2.75 trillion by 2030. The regional countries must urgently address the thorny issues of inefficient and insufficient infrastructure in order to unleash their economic growth potential.

To improve local infrastructure, the Southeast Asian countries urgently need investment. The ASEAN countries' governments believe that the BRI will help to attract Chinese infrastructure investment and address their infrastructure development needs. Many countries have aligned their development strategies with the BRI, such as Indonesia's "Global Marine Fulcrum" development strategy, Cambodia's "Four Corners" Strategy, Laos' "Land-linked Countries" development plan, and Vietnam's "Two Corridors and One Circle" development strategy.

For the developing countries in the ASEAN, infrastructure shortages and inefficient logistics and transportation are major obstacles to realising their regional economic potential through regional integration. Meanwhile, China has demonstrated strong international competitiveness in infrastructure construction, equipment manufacturing, metallurgy, and manufacturing building materials and communication equipment. Under the framework of the Belt and Road Initiative, China is supporting the construction of the ASEAN Community through development of connectivity by providing substantial financing for infrastructure projects, especially in the ASEAN's less developed countries such as Laos and Cambodia. It is, however, worth noting that the ASEAN countries collectively had made some headway on promoting connectivity even before the launch of the BRI in 2013. For example, the regional countries initiated the Master Plan for ASEAN Connectivity back in 2010, in pursuit of regional integration.

By providing loans and setting up special cooperation funds, as well as working with multilateral development institutions, including the Asian Development Bank and the Asian Infrastructure Investment Bank, China is stepping up efforts to help regional countries improve their infrastructure and logistics and

transportation efficiency. Chinese enterprises have provided large-scale overseas operations and investments, becoming important players in improving infrastructure in Southeast Asia. The China-Laos Railway, Indonesia's Jakarta-Bandung High-Speed Railway, Cambodia's Sihanoukville Port Upgrade, and the Phnom Penh-Sihanoukville Expressway Project are some large-scale infrastructure projects financed and built by China under the BRI in the region. The construction of these infrastructure projects is of great significance in terms of strengthening connectivity between countries in the region and improving the socio-economic situation and local people's livelihoods. Beijing is very keen to see the decline of American hegemony and dominance in the Southeast Asia through its push for the BRI.

BRI implementation in the region remains on track, despite the impacts generated by changes in the regional and geopolitical environment and the global COVID-19 pandemic. Among the 358 BRI projects launched in Southeast Asia between 2013 and 2021, 210 (58.6%) have already been completed. Another 90 projects are currently under construction, while 54 projects are in the planning stage. In contrast, only four (around 1%) of the projects have been cancelled or terminated. The two countries hosting the most BRI projects are Indonesia and Cambodia, with 63 and 47 projects, respectively. The BRI is expected to have a long-term impact on infrastructure development, industrialisation and economic growth in Southeast Asia.

Setting aside for the moment the geostrategic and geoeconomic considerations behind China's push for the initiative, there is evidence of the pervasiveness of economic benefits derived from the BRI by the ASEAN countries. ASEAN is the key region for China's outbound investment under the BRI umbrella. According to the "China Global Investment Tracker" statistics, the accumulated value of Chinese investments and contracts in the ASEAN under the BRI umbrella rose to US\$125.26 billion between 2013 and 2022, accounting for 34% of China's investments and contracts under the BRI during the same period. Singapore, Indonesia and Malaysia were the three top recipients of Chinese investment in ASEAN countries, with US\$32.57 billion, US\$29.97 billion and US\$18.67 billion, respectively (Fig. 3.1).

One of the landmark projects of the BRI in Southeast Asia is the railway connecting China and Laos (China-Laos Railway). Laos is surrounded by mountains and is the only landlocked country in Southeast Asia. For a long time, roads have been the main mode of transportation in Laos and the backward transportation conditions and high costs have restricted Laos' domestic economic growth. The first railway in Laos was built by France in 1920, is about 7 km long, and connects the islands of Dongde and Dong Khong in the South of Laos. From 1983 to 1949, the railway was narrow gauge (600/1000 mm) only. Another railway in Laos, funded by Thailand in 2009, is located in the border area between Laos and Thailand, and is only 3.5 km long. These two railways are incapable of meeting Laos' freight demand.

The 1035-km China-Laos Railway, funded and built by China, connects Kunming, Yunnan Province, China, with Vientiane, the capital of Laos. This railway is also connected to China's domestic railway network. The official operation of the China-Laos Railway has effectively reduced the logistics and transportation costs in Laos

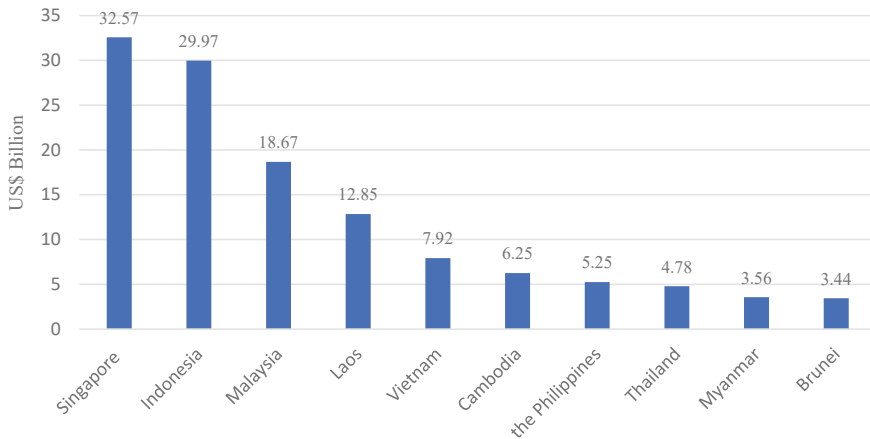


Fig. 3.1 Chinese investments and contracts in ASEAN countries under the BRI umbrella. *Source* American Enterprise Institute (2023)

and across the border between China and Laos, promoted the development of logistics and transportation, commerce and tourism industries along the Laos, and provided employment opportunities for many Lao people.

The Laotian government has endorsed the railway project as part of its national strategy to boost infrastructure development and drive economic growth. The railway is regarded by the Lao government as the key to Laos’ transformation from a “land-locked country” to a “land-linked country” development strategy since it will fully exploit Laos’ advantageous geographical location between China and the Southeast Asian mainland. In December 2021, Chinese President Xi Jinping and Lao President Thonglun jointly attended the official opening ceremony of the China-Laos Railway online, witnessing the completion and opening of this flagship project of the “Belt and Road” in Southeast Asia.

Since its opening at the end of 2021, the China-Laos Railway had transported nearly 3 million tonnes of cross-border goods by February 2023 (National Development and Reform Commission of the People’s Republic of China 2023), making bilateral trade between China and Laos more convenient and faster, and increasing the scale of trade between the two countries. Through this railway, more Chinese products, such as fertilisers, electronic communication products and auto parts, will be exported to Laos. In addition, more advantageous agricultural products from Laos, such as rubber, rice and cassava, will be exported to the Chinese market. Cross-border passenger transport was opened in April 2023, after the ending of COVID-19 pandemic restrictions, and the number of passengers transported by the China-Laos railway reached 13,310 people in May 2023 alone (Xinhua News 2023).

According to a study released by the World Bank in 2020, the opening of the China-Laos Railway will reduce domestic transportation costs in Laos by 20–40%, and cross-border cargo transportation costs between China and Laos by 40–50%. The benefits of the railway in terms of improving logistics and transportation efficiency

and reducing the time and cost of cargo transportation are becoming increasingly apparent.

The construction of the 142-km Jakarta-Bandung High-Speed Railway by Chinese companies is another landmark project of the Belt and Road Initiative in Southeast Asia. When completed, the Jakarta-Bandung railroad will be the first high-speed railway in Indonesia and the entire Southeast Asian region. For a long time, the inadequacy of its transportation infrastructure has seriously restricted Indonesia's domestic economic development and, therefore, local living standards. Jakarta, the capital city and main centre of industry and commerce, has a population of more than 10 million and is blighted by traffic congestion. It is expected that the opening of the Jakarta-Bandung high-speed railway in 2023 will greatly alleviate Jakarta's urban traffic congestion problem and generate new growth points in urban service industry and business development. The high-speed railway will thus become a symbol of Indonesia's rise as an emerging regional power.

This high-speed railway, from project exploration and design, engineering construction, raw material procurement, engineering equipment manufacturing to project operation and management, will be entirely based on Chinese standards and technical solutions. The Jakarta-Bandung high-speed railway, which will reach an operating speed of 350 km/h, marks the first project in which a Chinese company has undertaken to build a complete high-speed railway network overseas. The construction machinery, rails, rolling stock, communication signals and train operation control equipment used in the construction of the railway are all being manufactured and produced by Chinese enterprises (Yu 2021).

Under the framework of the Belt and Road Initiative, China and ASEAN countries have cooperated in areas such as modern agriculture, information technology industry, infrastructure, energy, finance, logistics, law, accounting, culture and tourism, human resources development, environmental protection and public health. These areas also provide important business opportunities for Chinese enterprises to expand their outbound investment and exports.

In addition, under China's push for the Digital Silk Road (DSR), China and ASEAN countries are also exploring ways to expand cooperation in the field of digital economy, especially e-commerce, artificial intelligence, smart city construction and cloud computing. Leveraging on its booming digital economy, China seeks to create synergy between traditional infrastructure facilities and digital infrastructure and technologies (e.g. telecommunication equipment, cloud computing and artificial intelligence) under the DSR umbrella.

China's digital economy¹ has developed rapidly over the past decade, accounting for almost 40% of GDP in 2020. The number of Chinese netizens has grown to 989 million. The scale and speed of its 5G telecommunication network are among the best in the world, with the total number of 5G terminals reaching over 200 million. China's digital economy is focused on data-related industries and technologies,

¹ Digital economy refers to the e-commerce platform economy, manufacturing and services related to digital devices, application of digital and data technology in non-digital sectors, such as finance and agriculture.

including e-commerce, smart city, big data, Internet of Things, cloud computing, 5G telecommunication network and artificial intelligence.

The ASEAN countries have a total population of 650 million, among whom more than 440 million are Internet users with growing demand for various digital services. Chinese-made smartphones, such as Huawei, Vivo, Xiaomi, and OPPO, have already become popular in many Southeast Asian countries. In 2021, the size of the digital economy in the Southeast Asian countries was about US\$174 billion and is expected to reach \$1 trillion by 2030 (Temasek 2021).

Over the past several years, various ASEAN countries have successively formulated and implemented blueprints for digital economy development, anticipating to accelerate economic restructuring by improving digital connectivity. Examples include Singapore's Smart Nation 2025 Plan of 2014, Malaysia's national industry 4.0 policy framework (2018) and "Digital Malaysia Blueprint" (2021), Indonesia's Indonesia Manufacturing 4.0 Strategy (2018), and Cambodia's Digital Economy and Digital Society Policy Framework (2021–2035), proposed in 2021.

Both China and the ASEAN countries view the digital economy as the focal point of future development. There is a great desire for China and ASEAN countries to collaborate and cooperate in digital sectors, such as cross-border e-commerce, big data, smart cities and artificial intelligence. In 2021, during the commemorative summit for the 30th anniversary of the establishment of China-ASEAN dialogue relations, the two sides vowed to strengthen cooperation in the field of digital economy by exploring the synergy between ASEAN's Master Plan on ASEAN Connectivity 2025 and China's Belt and Road Initiative.

Leveraging on its competitive digital economy, Chinese tech firms have targeted Southeast Asia as a key market to invest, operate and seek business collaboration via investment, partnership with local firms and acquisitions. In many Southeast Asian countries, the digital economy is at a nascent stage when compared to China. Moreover, there is a huge gap between the more developed member countries (e.g. Singapore) and the least developed member countries (e.g. Myanmar, Cambodia and Laos) in terms of digital infrastructure. Chinese capital, technology and talents could help boost digital economy development in the region. The huge potential for expanding the scale and momentum of Southeast Asia's digital economy has attracted the attention of Chinese high-tech enterprises, and Chinese companies such as Tencent, Alibaba, Huawei and ZTE have moved into Southeast Asian countries.

It is fair to say that the entire Southeast Asian e-commerce sector has basically been wrapped up by Chinese companies. Almost all of the e-commerce giants in the region are somehow linked with Chinese e-commerce firms or actually funded by Chinese capital, such as Shopee, J&T Express, Lazada, Tokopedia, TikTok, Shein and Tmall Global. Shopee's parent company is Donghai Group, and Donghai Group's largest shareholder is Tencent. Although Tokopedia was founded by an Indonesian native and its largest shareholder is Japan's SoftBank, its second-largest shareholder is Alibaba, and it can also be regarded as Alibaba's e-commerce platform. TikTok is a leading social media network dedicated to short-form video, developed and owned by the Chinese technology firm ByteDance, and mainly engaged in live streaming e-commerce, and Shein's business originated in Guangzhou, China.

Founded in 2015, J&T Express is the world's fastest-growing logistics company, in operation for 6 years, and in the first quarter of 2021, it was the top-ranked logistics service in Southeast Asia. Jitu Express is also widespread across Indonesia, Malaysia, Singapore, the Philippines, Thailand, Vietnam, Cambodia and other Southeast Asian countries.

Under the framework of the RCEP, China and Southeast Asian countries can work together to strengthen cooperation in the digital economy, especially in the fields of e-commerce and mobile payment. In addition, China has formally applied to join the Digital Economy Partnership Agreement, which will bring new opportunities for China to expand its participation in the development of the digital economy and rule-making in the region.

3.6 Challenges for BRI Implementation in Southeast Asia

Given the sheer size of the Chinese economy and the scope and coverage of the BRI initiative, China could become the dominant force in shaping the future economic landscape of Southeast Asia (Yu 2017b). However, although the participating countries along the Belt and Road routes welcome the increased investment and infrastructure improvements brought about by the BRI, many countries have doubts about China's strategic considerations behind the initiative.

With the implementation of the initiative, Chinese enterprises are facing increasing challenges in carrying out economic and trade activities such as outbound investment, mergers and acquisitions, and industrial transfer to overseas markets. Compared with 2013, when the Belt and Road Initiative was launched, the regional and international geopolitical environment facing China is undergoing profound changes (Yu 2019). From a geopolitical point of view, despite the close bilateral economic and trade cooperation, there is insufficient mutual trust between Southeast Asia and China. On the one hand, although Southeast Asian countries believe that the BRI will accelerate their infrastructure development, which will improve their economies and people's livelihoods, some countries are also concerned about the high cost, low practicality and internal corruption linked with the BRI infrastructure projects.

For example, the Export-Import Bank of China has provided loans of around 80% loan for the construction of the China-Laos railway (construction cost estimated at around US\$5.9 billion). Laos has subsequently experienced a sharp increase in external debt which can be attributed to the BRI project. Moreover, China is by far its largest sovereign creditor, with Laos' debt to China accounting for nearly 50% of its total debts. Moody's Investors Service, the ratings agency, downgraded Laos's credit rating to Caa3, due to the combined factors of high debt burden, poor economic management, and insufficient foreign exchange reserves to cover maturing external debt. According to Moody's estimation, Laos is on the brink of default (Springfield 2022).

It remains to be seen how economically viable the railway will be and how much economic benefit it will generate for the Laotian government and Laotian people.

The success of the railway will depend on its achievement of smooth and efficient customs clearance and timeliness of shipments. In addition, most of the raw materials and equipment for the railway's construction will need to be sourced from China, as Laos' domestic manufacturing industries lack the capability to supply these. Laos also has little experience in building large railway projects on its soil and has very few skilled rail engineers and construction workers.

On the other hand, Southeast Asian countries also have voiced concern that China will use the promotion of the Belt and Road Initiative to gain geostrategic advantages and strengthen its influence in the region. They are concerned that the initiative will also pull Southeast Asia into China's development track, and eventually Southeast Asian countries will lose autonomy over their development. Both maritime and mainland Southeast Asian nations have always been aware of an asymmetrical relationship that might swing in China's favour. As Womack (2017) argues, compared with any single ASEAN country, China has absolute advantages in terms of economic strength and national power:

As the center of Asia, China's status and power put it in an asymmetrical relationship with other countries. If not properly controlled, this can also be a source of anxiety and tension in other countries. Because of China's unequal size and power with each of its neighbors, China is always the less risky party in its bilateral relations with its neighbors and has more leverage to use.

There is concern that Southeast Asia will be drawn into a China-centric form of regional integration architecture, weakening the ASEAN's role in the regional integration process. According to the 2021 State of Southeast Asia Survey Report, which was released by the ISEAS-Yusof Ishak Institute (2021), more than 45% of respondents in Southeast Asia believe that China is a "revisionist country" that intends to change the current international order and try to draw Southeast Asia into its sphere of influence, especially in Vietnam, the Philippines and Singapore. The report also shows that 51.5% of respondents in Southeast Asian countries distrust China more than any other major country. The report reflects that the "China threat theory" is widespread and has considerable public support in Southeast Asian countries.

The maritime and territorial disputes in the South China Sea have affected bilateral relations between China, and several ASEAN countries, including the Philippines and Vietnam. The ASEAN claimant states are alarmed by China's shift in policy and its aggressive stance towards them in the South China Sea disputes. The BRI could be seen as serving China's aim to project its growing sea power and naval capabilities globally. Some scholars (e.g. Crisp 2010) believe that the main purpose of the maritime Silk Road proposal is to safeguard China's maritime trade route along the South China Sea which is vital to its importation of energy and resources.

There have been increased numbers of clashes and confrontations involving Chinese coastal guards and fishing boats and coastal guards from the Philippines and Vietnam over the past several years. For example, in May 2014, the Philippines condemned China's action on land reclamation to build new facilities on a SCS reef that is the subject of a dispute between the two countries (Reuters 2014). On 11 May 2014, several large-scale rallies and protests took place in Vietnam's major cities,

where people vented their anger over a deepwater oil drilling operation conducted by a state-owned Chinese company in disputed waters of the SCS (South China Sea) (Wall Street Journal 2014). These protests, which were reportedly the largest anti-China protests in Vietnam in recent years, then escalated into rioting and looting, with the rioters setting fire to up to 15 foreign business premises in southern Vietnam. Some of these companies were even forced to halt production and evacuate their employees from Vietnam for safety reasons. The Vietnamese leader accused China's oil drilling operation of "dangerous and serious violations" (New York Times 2014).

China's assertiveness in territorial and maritime disputes in the SCS since 2009 has been an alarm bell for many ASEAN countries. All or part of the Paracel/Xisha and Spratly/Nansha Islands, as well as their surrounding waters and resources in the SCS, are claimed by China, Vietnam, the Philippines, Brunei and Malaysia individually. China has massively stepped up its efforts in land reclamation and infrastructure construction activities in the SCS in the past few years, and its increasing assertiveness in the SCS is a signal to the ASEAN that China will not hesitate to safeguard its territorial sovereignty and protect its maritime interests, taking unilateral action if necessary (Yu 2017a). The ASEAN countries have consequently become very wary of any move made by China in the region. China's perceived aggressive behaviour has not helped its attempts to establish cooperative relations with its neighbours in the region.

From the ASEAN perspective, China's growing military power is widely perceived as a threat to free movement of cargo and a form of deterrence to endorse its sovereignty claim over the SCS. As one scholar points out, China's vast size, huge market potential, and growing military capabilities have presented both opportunities and threats to the ASEAN (Ho 2001). With the rise of China as a global power, these Asian countries are concerned that China will become more aggressive and eventually use or threaten to use force to solve its territorial disputes with neighbouring countries. The neighbouring Asian countries fear that China will reestablish the "Chinese empire" by imposing a Sino-centric order and a new tributary system in the region, while China views the actions and maritime claims by the Philippines and Vietnam in the SCS as a challenge to its territorial integrity and "core interests".

The Chinese government has insisted on dealing with SCS territorial disputes with the ASEAN member states on an individual bilateral basis and rejected intervention by a multilateral ASEAN negotiating framework. Meanwhile, the ASEAN countries are cautious about the potential implications of Chinese-financed infrastructure projects for their national security.

Consequently, mutual trust between the ASEAN countries involved and China has been eroded. Concern over China's actions in the South China Sea disputes could impede China's push for the BRI in Southeast Asia, because the development of large-scale infrastructure projects under the initiative requires both political commitment and strategic trust from the ASEAN governments.

There is no sign of the South China Sea issue being resolved in the near future, and the tensions surrounding the South China Sea are likely to persist and even escalate. It is imperative for Chinese authorities to work closely with their ASEAN counterparts

to regain mutual trust and manage their disputes peacefully by keeping the lines of communication open.

The construction of dams in the upper reaches of the Mekong River by the Chinese enterprises has become another contentious issue between China and the South-east Asian countries along the Mekong River. The Chinese-constructed dams have impacted negatively on the local environment, water resources and livelihoods of the riparian states located lower down the Mekong.

Lower Mekong countries depend on Mekong water for their agriculture and fisheries development, and the livelihoods of farmers and fishermen along its banks depend on Mekong water. In recent years, fish catches in the Mekong basin have declined, water use for agricultural irrigation has declined, and climate change has brought about rapid changes in water flows. Downstream ASEAN countries see this as related to China's new hydropower projects upstream along the coast, where dam storage reduces downstream volume. China has built and operated 11 controversial hydropower dams in the upper reaches of the Mekong River. From China's point of view, the construction of hydropower plants will help to use the abundant hydropower resources of the Mekong River basin to generate electricity, thereby alleviating the shortage of electricity in China's southwestern provinces like Sichuan and Yunnan.

However, from the perspective of Southeastern countries located in the lower Mekong River basin, China's damming actions are unilateral and self-serving, ignoring the water needs of downstream countries, the latter arguing that China's construction of hydropower plants in the upper Mekong River basin has reduced the amount of water in the basin, resulting in water scarcity, drought, environmental damage and depletion of fishery resources in downstream countries.

In addition, many ASEAN countries are concerned that their economic dependence on China through the BRI's implementation could cause them eventually to lose autonomy over their foreign policy by being forced to adopt pro-China diplomacy. China's political and economic influence loom large in the region and beyond through the BRI platform. There is a widely shared perception among the governments, academia and media in Southeast Asia that the BRI also carries geopolitical implications in terms of China's strengthening military buildup.

Southeast Asia becoming a privileged sphere of influence for China would be a nightmare scenario for the regional countries. Hence, to avoid the emergence of a China-centric regional order, the Southeast Asian countries are keen to maintain a geostrategic balance among the major powers, without tilting too far towards either China or the United States.

Safeguarding national security by deploying a "balance of power" strategy to keep China's growing influence in check has been an indispensable element of Southeast Asian nations' relations with China. Maintaining close relations with China under the BRI is important for the ASEAN countries and they want to maintain a pragmatic approach towards China. Meanwhile, building on relations with other powers including the United States, Europe, Japan, India and Australia is equally crucial. The "balance of power" hedging strategy is the best option for the ASEAN countries to respond to the pressure created by the intensifying China-U.S. rivalry. By adopting

this hedging strategy, the Southeast Asian countries are placing their national interests above those of either China or the United States.

To counterbalance China's rising influence, ASEAN countries are looking for infrastructure investment from other major powers, for example, Japan's High-Quality Infrastructure Development Plan with a value of more than US\$100 billion, and the Korea-ASEAN Strategic Initiative proposed by the Yoon Suk Yeol administration. Both Japanese and Korean construction firms are active in expanding their business operations in the lucrative infrastructure sectors of the ASEAN countries.

Japan and Republic of Korea have paid increasing attention to strengthening their relations with the ASEAN countries during recent years. With the implementation of the New Southern Policy by then South Korean President Moon Jae-in in 2017, Republic of Korea has started to focus on enhancing economic, investment and trade cooperation with the ASEAN countries.

The year 2023 marks the Golden Jubilee of Japan-ASEAN Friendship and Cooperation. The Kishida administration will host the Japan-ASEAN summit with the ASEAN countries' leaders in Tokyo in late 2023. Japan's Prime Minister Kishida is expected during the summit to renew the Japanese commitment to forge close ties with the ASEAN countries and to pledge more ODA (official development assistance) and grants to support the infrastructure development of the less developed Southeast Asian countries.

Southeast Asia has moved to the forefront in the power rivalry between China and the United States, the world's two largest economies and systemic rivals (Shambaugh 2018, 2020). China is ASEAN's largest trading partner for merchandised goods. According to the "ASEAN Statistical Yearbook 2022", which was published by the ASEAM Secretariat, in 2021, China's trade with ASEAN was almost twice higher than that with the US. Nevertheless, the United States is the largest foreign investor for the ASEAN countries, and the European Union is the second largest. The stock of US investment in ASEAN is substantially larger than China's. Both China and the United States are competing for influence in ASEAN countries.

Third, BRI implementation has been weak in terms of compliance with internationally recognised standards on such as transparency and opening bidding, and labour and environmental protection safeguards. After the completion of many BRI projects, the environmental and social impacts are becoming visible.

Indonesia is rich in laterite nickel ore reserves and production, but its weak infrastructure, backward technology, insufficient talents and engineers are among factors that have restricted the development of its local nickel ore processing industry. The China Tsingshan Holding Group, whose main business is stainless steel production, entered Indonesia in 2009. In October 2013, a contract was signed to start construction of the Morowali Park project. While the park's activities will mainly be related to infrastructure construction, it will also attract Chinese ferronickel smelting enterprises with complementary industrial chains, which will invest together, share risks and develop in groups. According to statistics for 2021, China's Tsingshan Group, which mainly relies on nickel ore resources from Indonesia, was ranked among the top companies in the world on annual output of stainless-steel crude steel and nickel products.

Boosted by Chinese investors, Indonesia has become one of the world's major stainless-steel producers. Nickel is not only an essential raw material for the manufacture of stainless steel in traditional industries, but also an important component of the manufacture of nickel-metal hydride batteries in new energy industries. Since 2017, Tsingshan has joined up with China Enterprise Huayou Cobalt and Grammy to carry out a new energy battery ternary precursor material manufacturing project in the two parks of Morowali and Weidabei for the development of the electric vehicle industry. These parks currently employ more than 100,000 Indonesian workers, and the rapid development of the parks has also boosted the development of commercial facilities and surrounding employment, thereby promoting local economic and social development.

The China-Indonesia Industrial Park Castle Peak Park (operational since 2013) is located in Morowali District, Central Sulawesi and Castle Peak Weidabe Park (operational since 2018) is located in Vida County, North Maluku Province. As claimed by China, investment in these industrial parks by Chinese firms has brought economic benefits for all parties. On Indonesia's part, its natural resources have been effectively utilised and value added, and its manufacturing industry has achieved a breakthrough in industrial upgrading. Meanwhile, Chinese enterprises entering the park are exempted from the costs of preliminary investigation and research, and the nickel ore resources required for production are immediately available. The developers of the parks, Tsingshan, also share the rewards deriving from these enterprises' development and growth.

Nevertheless, the critics argue that the Chinese-invested industrial parks in Indonesia were to be blamed for causing local environmental pollution and threatened the health of local Indonesians. A damning investigative report was written by Timmerman (2022), titled "The Dirty Road to Clean Energy: how China's electric vehicle boom is damaging the environment" found this,

The report mentioned that due to the global development of new energy vehicles, especially China's new energy vehicle industry, the Chinese-funded nickel industry has a dominant position in Indonesia, but a number of Chinese-funded nickel industrial parks located in Tsingshan Industrial Park (IMIP) in Morowali County, Sulawesi Island and Wakedabe Industrial Park (IWIP) on Maluku Island have also seriously impacted the local natural and social environment, often causing large-scale destruction of ecological vegetation around the park, loss of habitat for rich biological species, and dusty roads on the road. A large amount of coal was burned in the industrial park, causing respiratory diseases among nearby villagers, especially children; It also causes the disappearance of fish in nearby rivers and seas. The compensation paid for local land requisition is too low, and ordinary villagers are unable to rely on their livelihoods.

The pollution and human health risks for the locals brought by the industrial parks in Indonesia are causing irreversible ecological and public health damage. The environmental pollution of Chinese-invested BRI industrial projects in Indonesia has triggered local anger and protests, which has put pressure on China to adopt a greener approach to BRI implementation.

Infrastructure projects have long development cycles and high risks due to national sovereignty, economic and strategic security implications; therefore, many countries

are wary of China's efforts to expand its influence through the Belt and Road Initiative, regarding both China's motivations behind the initiative and the debt traps caused by borrowing for BRI projects.

In addition, the COVID-19 pandemic has had a huge impact on the domestic economic and financial situation of many developing countries, and, due to financing difficulties, construction of some BRI projects cannot continue according to the terms of the original contract. According to the Global Economic Prospects report released by the International Monetary Fund, 60% of low-income countries and 30% of emerging market countries are on or near the point of national debt crises due to the impact of the new crown pneumonia epidemic and the world energy crisis caused by the conflict between Russia and Ukraine.

In this context, many BRI developing countries, including the ASEAN countries, have experienced severe domestic economic recession, debt crises and social instability, while some countries have experienced difficulties in repaying their foreign debts, particularly debts owed to China.

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