

ASEAN's Looming Anxiety

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The rise of China generally presents both opportunities and challenges, particularly in economic terms. In the past several years, new kinds of challenges have been emerging and are looming larger in ASEAN countries. While ties with Beijing are, by and large, cordial, there are several signs that relations below the state level are increasingly worrisome. First, Chinese foreign direct investment (FDI) is largely not oriented towards manufacturing. A considerable amount tends to be in non-real sectors, such as real estate and casinos, which may not generate much employment and can be unhealthy to local economies. Second, the way Chinese businesses expand tends to be predatory, as demonstrated in tourism-related businesses and the acquisitions of fruit businesses in Thailand. As a consequence, new Chinatowns are emerging as more Chinese are moving into the region. Third, even business expansion through the Chinese government, e.g., the train projects, is far from smooth. ASEAN countries find themselves in uneasy deals – including onerous loan terms, undue requests for land usage along the train lines, stringent technology transfers, and imported Chinese labor. Moreover, the recent COVID-19 outbreak reveals not only the fragility of economic overdependence on China, but also public resentment towards the Chinese. Overall, the relations at the level of business and the people are far from promising, which can become a risk factor in state-to-state relations. The situation apparently demands good management from both Beijing and the counterpart governments.

For Southeast Asia, the rise of China since the mid-1990s has also come with the "China Threat" theory, particularly due to the reemergence of the South China Sea disputes between China and four claimant countries in ASEAN. The 1990s saw increasing armaments in some ASEAN countries such as Malaysia and Vietnam, while the Philippines signed the Visiting Forces Agreement with the United States in combination with the Balikatan military exercises. However, thanks to the efforts of both ASEAN and China, the disputes, by and large, subsided from the late 1990s to the 2000s. China not only became ASEAN's dialogue partner in 1992, but also joined the ASEAN Regional Forum (ARF) from its beginning in 1994. Later on, China-ASEAN relations significantly improved through a few developments, ranging from the ASEAN+3 process and subsequent regional architecture in the wake of the Asian Financial Crisis, the China-ASEAN FTA signed in 2001, and the Declaration on the Conduct of Parties in the South China Sea (DoC), issued in 2002.

Overall, during the 2000s China came up with the "policy of reassurance" represented by the discourse on "peaceful rise" and "peaceful development" under the Hu Jintao government.¹ Through frequent high-level meetings and various cooperation schemes, Southeast Asia, by and large, enjoyed cordial relations with China throughout the decade.² Yet, the 2010s onwards witnessed resurgent tensions, particularly on South China Sea issues, which came back acutely with U.S. involvement and China's more assertive policy. As such, the rise of China tends to be viewed and discussed in security terms. In fact, the rise of China also came with quiet concerns and tensions in economic terms as well. The concerns, if not yet tensions, are increasing, as China is expanding its economic presence in the region, particularly through investment, tourism, and train projects. China's Belt and Road Initiative (BRI) is indeed the grand project of the century that has both economic and security aspects.

Thus, this chapter focuses on economic concern with the rise of China in the region, emphasizing the case of Thailand, which is important for at least two reasons. First, Thailand is not only the second largest economy in ASEAN, but also usually plays a leading role in

the regional grouping. Second, it is one of the ASEAN countries with the closest relations with China. If one wants to check concerns towards China, it is worth looking at a country that has good relations with China, since a hostile country tends to have a pessimistic view towards China anyway.

ASEAN's economic concerns towards China have been diversifying over the past three decades. During the 1990s, ASEAN feared competition from China in terms of investment attraction, given low wages at that time and the sheer size of the Chinese market. As a response to this concern, the ASEAN Free Trade Area (AFTA), signed in 1992, aimed to integrate the market to keep appealing to foreign direct investment (FDI). In any case, FDI was continually being massively poured into China, making China a formidable ASEAN rival in terms of exports to other countries. From the 2000s onwards, an influx of imports from China has also been threatening to ASEAN economies, following the ASEAN-China Free Trade Agreement (ACFTA) which was signed in 2001. Trade deficits became even more severe after the ACFTA took full effect in 2010. This is particularly true for Indonesia, rendering a larger trade deficit for the Southeast Asian giant. In 2017, ASEAN's total trade deficit to China reached as high as \$43.4 billion.³

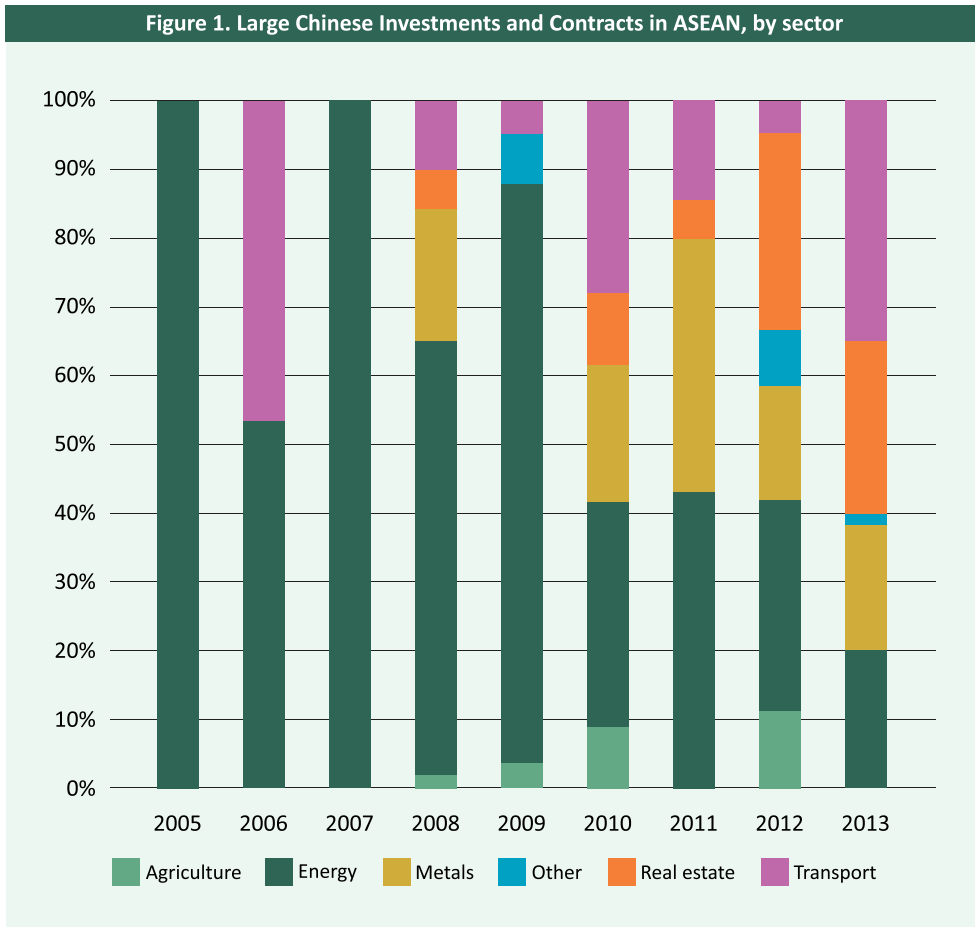
Although the concerns on trade deficits and export competition remain for most ASEAN countries, from the 2010s there emerged a different kind of economic concern towards China, which has embarked on a variety of new economic interactions with ASEAN. If the race for FDI and exports represents concern 1.0 towards China, while trade deficits epitomize 2.0, now ASEAN is having concern 3.0, which is not purely economic but also involves socio-cultural aspects.

Below, in four parts, I cover current key economic interactions between China and Southeast Asia. The first section deals with China's FDI in Southeast Asia, which tends to have distinct characteristics. The second portrays Chinese business practices, which have not only economic implications, but also socio-cultural ones. The third takes a closer look at the train projects in the region, which are under way in Laos, Thailand, and Indonesia. The last section gives an initial assessment on the impact of the novel coronavirus (COVID-19) pandemic on China-ASEAN relations. All of the issues have ramifications for relations with China, both bilaterally in Southeast Asian countries, and with ASEAN.

Characteristics of Chinese FDI

China's investment in ASEAN used to be very small, with the total at less than \$5 billion as of 2001.⁴ FDI started to increase in Southeast Asia in the 2000s after China's accession to the WTO. As China had to open up its economy while wages were rising, there emerged a demand for production-base relocation in some labor-intensive industries. Cambodia represents a major recipient country of Chinese FDI in ASEAN, particularly in garments and other light industries. As Cambodia is still eligible for the Generalized System of Preferences (GSP), China could take advantage of cheaper tariff rates upon exporting from the country to developed nations. The majority of this investment went into small- and medium-sized enterprises (SMEs).⁵

As shown in Figure 1, during the 2000s, large-scale investment from China concentrated in energy, transport, and metals. Towards the 2010s, China's FDI diversified to agriculture and real estate.

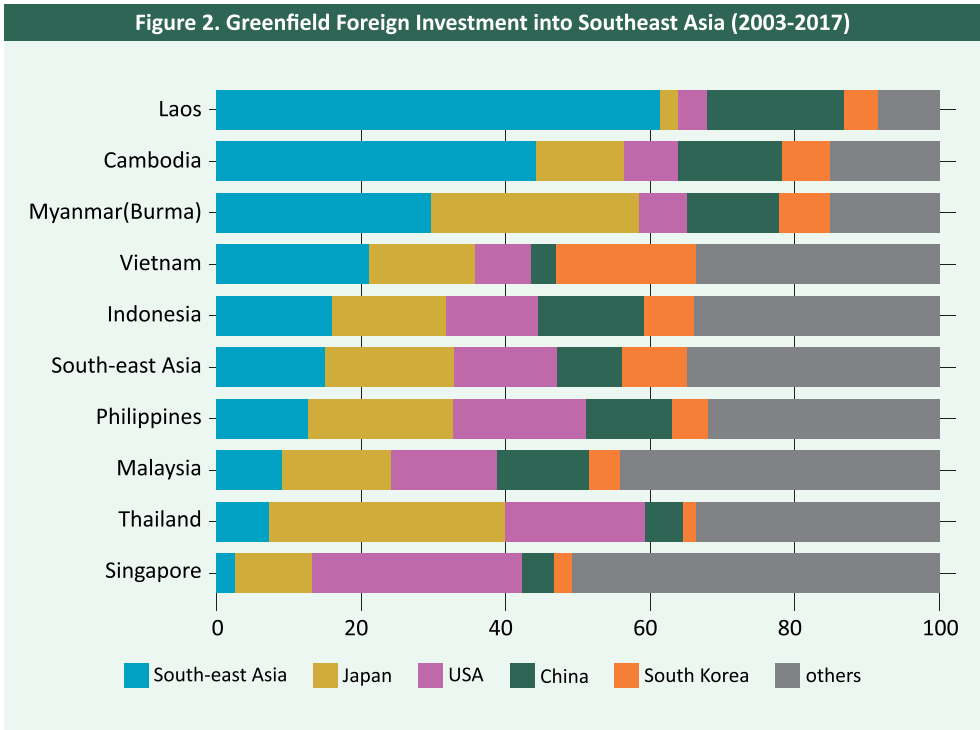


Source: Heritage Foundation, American Enterprise Institute⁶

Later, Chinese investment expanded to tourism-related businesses following the increase in the number of Chinese tourists to the region. In the early stage, China invested in casinos along the Laos border and the Golden Triangle (the border area adjacent to Myanmar, Laos, and Thailand) to attract both Chinese and Southeast Asians. Then, several casinos sprang up in Cambodia, even in the capital of Phnom Penh. By the late 2000s, the number of Chinese tourists was steadily increasing, bringing about investment in travel agencies, restaurants, souvenir shops, services catering to those Chinese personnel, and related businesses. Accordingly, new Chinatowns are emerging, as these Chinese tend to live in the same area.

Overall, the considerable amount of Chinese FDI tends to be in non-real sectors, e.g., real estate and casinos.⁷ According to the ASEAN Investment Report 2018, Chinese investment is high in construction and real estate.⁸ The picture is clearer when compared with other investing countries like Japan, whose FDI has been prevalent in Southeast Asia since the late 1980s. In the real sector, while Japan has been investing extensively in manufacturing industries, particularly automobiles and electronics, China tends to invest in low-tech industries, agricultural plantations and mining. Laos represents a major host country for mining and agricultural plantations, particularly rubber following the boom in Chinese

automobile industries in the past two decades. Japanese FDI has generated massive employment with quite decent conditions, thus creating a sense of interdependence between Japan and the host country. Chinese FDI, meanwhile, has yet to deliver substantial employment, not to mention good conditions. This is inevitable because the early generation investors from China tend to be SMEs and less-established firms.



Source: The Financial Times⁹

As displayed in Figure 2, although China’s greenfield FDI to Southeast Asia during 2003-2017 was increasing, the amount was still far less than that from Japan. It is also obvious that China’s FDI concentrated in less developed countries such as Cambodia, Laos, Myanmar, and Indonesia, except for Vietnam, which received a relatively small amount.

Towards the end of the 2010s, however, China came to invest more in the manufacturing industry, such as in automobiles, which can generate considerable employment. MG passenger cars and Dongfeng light trucks represent the first genre of this investment in Thailand. Recently, the Great Wall Group has completed a deal to take over a Chevrolet plant in Thailand, so as to make inroads into the Southeast Asian market for its SUVs and electric cars. Huawei, meanwhile, has established its Southeast Asian headquarters in Thailand. CGTN (China Global Television Network) also set up a news studio in Bangkok. Xiaomi, which produces multiple hi-tech products, is stepping up its marketing activities in Southeast Asia. In the digital economy, Alibaba, JD.com, and Tencent have been actively investing and expanding in the region. Alibaba took over Lazada, the largest e-commerce in Southeast Asia, in 2016. JD.com and the Central Group, Thailand’s largest retail conglomerate, have established a joint venture, JD Central, to provide online shopping with the guarantee of authentic products. Moreover, the protracted trade war between the United States and

China is pressuring many Chinese manufacturing companies to relocate overseas, including in ASEAN countries, to evade high U.S. tariffs and also to save on costs. A larger amount of higher quality FDI is, therefore, expected in the near future.

	Sector	Value (\$ million)
1	Energy	8,380
2	Transport	7,060
3	Metals	3,200
4	Real estate	1,740
5	Technology	1,240
6	Entertainment	1,080
7	Others	900
8	Agriculture	461
9	Tourism	200
10	Utilities	200
	Total	24,460

Source: American Enterprise Institute's China Global Investment Tracker¹⁰

Table 1 displays the most recent data on Chinese FDI in ASEAN. Energy remains the largest sector (34%), followed by transport equipment (29%) which is represented by the train projects (discussed below). Metals (13%), real estate (7%), and entertainment (4%) occupy quite a considerable share. Interestingly, technology emerged as a sizable share of Chinese FDI at 5%. ASEAN, of course, hopes for an increase of FDI in technology, which would benefit the regional countries.

In any case, ASEAN relies on China more than China relies on ASEAN, both in trade and investment. China has become the number one trade partner and largest export market for most ASEAN countries, surpassing the United States for more than a decade now. The less developed the country in ASEAN, the more dependent on China. This is also true for aid.¹¹ High dependence on China has political ramifications as well. In the 2012 ASEAN summit in Phnom Penh, the organization failed to issue a declaration for the first time, due to the disagreement between Cambodia and the Philippines on whether to incorporate the South China Sea issues into the communique. By that time, Cambodia had relied substantially on China's aid, trade, and investment, thus choosing to side closely with Beijing.

Chinese Business Practices

Since most Chinese investment to date is in either the non-real sector or less advanced manufacturing industries, business practices tend to have distinct characteristics. As SMEs represent a large proportion of Chinese FDI in the region, it is hard to expect a well-established work system, organization, or labor standards. Their remuneration also cannot match large and established local and international firms. Though there have not been many complaints yet, most Chinese companies are not ranked high as popular employers. Many Thai university graduates majoring in the Chinese language or Chinese studies struggle to find a good job. Conditions and welfare at Chinese companies are less favorable.

Moreover, a large number of Chinese companies tend to hire Chinese who can speak Thai, rather than Thais who can speak Chinese, particularly in services catering to Chinese tourists and customers.¹²

A prominent feature of Chinese enterprises, unfortunately, is predatory business practices, as they tend to dominate the whole production process, from upstream to downstream. In the case of durian, a popular tropical fruit among Chinese, Chinese capital came to take over the whole business and supply chain in Thailand. Chinese entrepreneurs are penetrating deeply into the durian production process, using Thai surrogates to drive purchase orders, set prices and harvest times, and even buy out many orchards. Though this has been a boon for many small-scale farmers, China's dominance over supply chains has made farmers nervous about the potential to fix prices and reduce incomes.¹³ A similar trend can also be seen in longan, another popular fruit. In this manner, Chinese capital dominates the production, order, wholesaling, distribution, and even marketing, in Chinese markets. It is easier for Chinese agents to export fruit to China, rather than local firms.

Likewise, the fact that massive numbers of Chinese tourists visit Southeast Asia does not translate into abundant business opportunities for local people. Tourism-related businesses are dominated by Chinese capital, whether in businesses such as travel agencies, tour buses, tour guides, restaurants, hotels, or souvenir shops. Chinese capital also organizes cultural shows, particularly Thai classical dance and Muay Thai (kickboxing), which invite local complaints that the shows might be inauthentic. Moreover, products popular to Chinese tend to be produced and marketed by Chinese-funded firms. Such products are widely available at convenience stores in tourist areas. Even for popular local products, the Chinese are quick to produce similar ones. Chinese capital has also poured into the real estate business to accommodate Chinese tourists and long-term vacationers. Chinese demand for condominiums caused prices to bloat, which could lead to a real estate bubble. The TC-Green condominium complex in Thailand is representative. Located in the new central business district in the Rama IX area, the cluster of some 10 skyscraper condominiums is practically not for sale to Thais. The fact that the complex is sited close to the new Chinatown, accounts for alienation and uneasy feelings among the local people.

In Cambodia, meanwhile, some Chinese investment in real estate fails to meet construction standards. There are quite a few cases of buildings collapsing, rendering a considerable number of casualties. During a period of only eight months leading up to and including June of 2019, there were as many as three tragic cases: in Sihanoukville, Siem Reap, and Kep Province. The total death toll was 67, with more than 100 injured.¹⁴ Five Chinese were charged in the building disaster case in Sihanoukville last June.¹⁵

In some cases, Chinese investment penetrates into the host country with Chinese labor and long-term land leases. The investment in Laos for mining, agricultural plantations, and a train project, is a case in point. Since Laos has a small population, local labor is far from sufficient. Chinese investment thus brings in its own Chinese labor. The lease of land for 99 years made it easy for Chinese settlements, which created new Chinatowns. Predictably, a concentrated Chinese population alienated local people. In an interesting episode, a shopping center in Vientiane's Chinatown was allegedly burned down by arson so as to be replaced by a new building, while neighborhood residents were helpless.¹⁶ Similar antagonism has happened in Cambodia, as the Chinese are allowed to settle in many areas.¹⁷ Given less leverage and

bargaining power than China, the less developed countries in ASEAN have no choice but to keep quiet. The frustration among the local people is only kept under the surface. This can become a bigger problem in the future, when additional ASEAN countries perceive a Chinese presence as threatening.

In Bangkok, a new Chinatown is emerging in Huaykwang District, close to the Chinese embassy. According to Haiqiu Yu, there were approximately 5,000 Chinese living there in 2015, constituting 6% of the local population. About 2,000 persons worked in 100 travel agencies, while 500 worked in restaurants and other services which served the needs of the travel agencies. Meanwhile, 800 persons provided language training, Thai language for Chinese people and Chinese language for Thai people. About 1,000 persons worked as either purchasing agents or in logistics services for e-commerce, while 500-700 persons were long-time dwellers, who were either relatives of the groups mentioned above or might not have a permanent job.¹⁸

The number was estimated in 2015 when around 8 million Chinese tourists visited Thailand.¹⁹ As the number rose to almost 11 million in 2019, the current size of the new Chinatown could be something like 8,000 people. New Chinese residents live in seclusion in their own community, not mingling with local people. This is in contrast with the earlier generations of Chinese migrants, who tended to be part of their local communities, many involved in charity, setting up foundations at both the local and national levels. Accordingly, even local ethnic Chinese came to be wary about the increasing presence of new Chinese migrants and the demeanor of Chinese tourists.

This tendency is not unique to Chinese investment. Earlier Japanese FDI also had a similar shortcoming, which partially led to anti-Japanese movements in the 1970s. The Japanese, however, were swift to respond with the Fukuda Doctrine, which emphasized cultural exchange and economic assistance in the heart-to-heart policy. By the mid-1990s, Japan managed to win the hearts of Southeast Asians by its strong soft power through cultural attractions such as manga, anime, games, fashion, J-Pop, and food. Japan's soft power, in combination with interdependence through massive employment, helped to improve the Japanese image and reputation. Here, China still lacks a clear direction or even sufficient awareness to resolve existing and potential antagonism, as well as to prevent the problems from worsening.

From the ASEAN perspective, in fact, China has both strengths and weaknesses in its pursuit of soft power. Though the degree of receptivity differs due to the diversity in ASEAN countries, it can be said that China is strong in terms of traditional culture (e.g. traditions, art, Chinese medicine, and *fengshui*). However, China's pop culture such as movies, TV series, and celebrities, has yet to gain substantial popularity, owing to persisting censorship and less liberal contents. The Confucian Institutes (CI), which sprang up in several ASEAN countries, are still not an answer. It is not unusual that CIs are poorly managed, prone to misunderstanding and discord with host institutes. The situation is not helped by a high number of inexperienced Chinese language teachers, who have just graduated from university.

According to Joseph Nye, soft power is about not only cultural resources, but also values and foreign policy posture.²⁰ China's values, meanwhile, are far from outstanding. Talk of a "harmonious world" seems less convincing when considering territorial disputes and China's increasing assertiveness. The "Beijing Consensus," which refers to China's development model that yields high growth, remains problematic, as it is accompanied by pollution and corruption.²¹ For foreign policy, China has had a strong profile with various initiatives and active engagement with ASEAN countries, e.g. the BRI, the Asian Infrastructure Investment Bank (AIIB), and the Lancang-Mekong Cooperation (LMC). Yet, challenges remain prevalent, owing to how China deals with territorial disputes, which is perceived as very assertive, if not always aggressive. China has to overcome the above-mentioned weaknesses in order to tap into its soft power potential augmented by economic and political influence. Fundamentally, Beijing has to be serious about regulating predatory business practices, as most ASEAN countries have neither sufficient capability nor bargaining power to properly deal with its big capital.

The Train Projects

Since the latter half of the 2010s, China has been proposing medium- and high-speed train projects to countries in the region, namely Laos, Thailand, and Indonesia. The train line that runs through Laos and Thailand is aimed to connect southern China with Southeast Asia. The one in Indonesia is of shorter distance, linking Jakarta and Bandung. The Laos case seems to be going most smoothly, at least on the surface. As part of BRI, the 414-km train project links the Yunnan capital, Kunming, and the Laos capital, Vientiane. By the end of 2019, 80% of the line had been completed, and it is expected to be operational in 2021. The costly project estimated at \$5.95 billion has been carried out with little public consultation, as the country has no independent media, and limited civil society groups. Internationally, questions are being raised about the necessity and profitability of the project.²² Many observers are concerned about Laos's ability to repay China, and a "debt trap," which could force Vientiane to relinquish all rights to China on train management.

There are many criticisms over how the project is being carried out. First, the interest rates and terms of payment are not that friendly. Beijing insisted that interest rates could not be much different from the domestic rates in China. Second, the Chinese side demands considerable usage rights for land at the train stations and along the line. The Laotian government could easily expropriate land from farmers, forcing them off their land. Third, China has brought in massive numbers of Chinese laborers, who settle down in Chinatowns in Laos. Fourth, there is no clear stipulation on technology transfer from China, understandable in Laos which still lacks the capability to absorb technology. Yet, this is different in the case of Thailand where technology and human capabilities are more advanced.

As the Laos project began before the one in Thailand, Bangkok was aware of the situation and became very cautious in dealing with China. In tough negotiations, Thailand needed to bargain 19 rounds until both sides reached an agreement for a mere initial 3.5 km.

The proposed total distance is about 600 km connecting Bangkok to Nong Khai in the far Northeast bordering Vientiane. The first phase of the train is expected to run to Korat, 252 km from Bangkok. The \$5.7 billion value of the project was split into 14 separate contracts.²³ There were considerable delays and protracted debates exactly on the concerns facing the train project in Laos. That Thailand had to go through so many rounds of negotiations with China is surprising indeed. China proposed the project in the early years of the military junta government, which was boycotted by most advanced countries and had many reasons to be close with China. In fact, since the 1980s, Thailand has long positioned itself as a brotherly state with China.

Apparently unhappy with the delays, China punished Thailand by not inviting the Thai prime minister to the BRI summit in Beijing in May 2017, while leaders from most ASEAN countries were welcomed. General Prayut Chan-ocha, the Thai prime minister, needed to call on the super authority clause in the interim constitution to overrule legal and other obstructions in order to proceed with the project. Shortly afterwards, both sides managed to conclude the contract to build the initial railway of 3.5 km. After that, Beijing offered a carrot to Bangkok by inviting the Thai leader to the BRICS summit in Xiamen a few months later. Yet, Thailand still needs to iron out many items in the contracts, including on loan terms, the warranty period, and fines. China put tough conditions in the loan contract, demanding that the Chinese government could seize other assets of the Thai government in case of debt default. China's negotiators argued that it would apply the conditions accepted by the Lao government, which agreed that the Chinese government would be able to seize five mine assets if Vientiane failed to repay the debt. China's government is also demanding a high interest rate from Thailand, higher than it granted Indonesia for a similar project, despite the fact that Thailand has a higher sovereign credit rating. Bangkok thus decided to minimize the loan portion from China on this project, not more than 25%.²⁴ It is also very cautious on bringing in Chinese labor.

The Indonesian case is also problematic and invites antagonism from locals. Most of the concerns mentioned above are prevalent in Indonesia as well. Even though Indonesia still has abundant labor, China opted to bring in Chinese labor on the grounds that they have more expertise and can carry out the project faster than using local labor alone. The project took off earlier than Thailand's, but has been much delayed by such concerns, as well as the difficulties in expropriating land for railway construction. The 150-km rail project was supposed to be operational in 2018, but by the middle of 2019, the land necessary for the railway and stations had been only 54% acquired.²⁵ The completion date was moved to 2020, but with no certainty. Overall, the problems over rail projects become more apparent in countries such as Indonesia and Thailand, that have more bargaining power and more democratic space.

Japanese infrastructure projects in the region tend to proceed more smoothly. Japanese companies were reluctant to proceed on several inter-city lines, worrying about unclear profitability and the feasibility. They pay more attention to city trains and subway lines, like those in Jakarta and Bangkok, which promise to have abundant daily commuters. Soft loans from Japan International Cooperation Agency (JICA) and Japan Bank of International Cooperation (JBIC), in combination with the consortiums led by Japanese big companies such as Mitsubishi, Mitsui, and Tokyu, are instrumental in such projects. In fact, Japan, not China, is the biggest investor in Southeast Asia's infrastructure, with projects valued at

\$367 billion, while China's account for \$255 billion.²⁶ Japan is now bidding on long-distance train projects as well. Therefore, regional countries seem to place higher hope and trust on Japan's technology and funding, which come with more lenient conditions.

The Impact of COVID-19

The year 2020 harshly rocked the world with the global outbreak of COVID-19, originating from China. Although at the time of this writing, the spread is still severely intensifying, some impact can be observed as far as China-ASEAN relations are concerned, both in economic vulnerability, particularly in terms of tourism, and in socio-political relations with China.

First, the outbreak reveals ASEAN's economic overdependence on China, which can be fragile and unhealthy for each country's economy. Many countries in ASEAN are increasingly relying on tourism income. Among nearly 130 million tourist arrivals to ASEAN in 2018, around 25 million were Chinese.²⁷ Thailand, Vietnam, and Indonesia represent the top three destinations for Chinese tourists. The number of Chinese tourists has also been continuously rising in the Philippines, Malaysia, Singapore, Myanmar, Cambodia, and Laos. Thailand's economy is highly dependent on Chinese tourists, as almost 11 million traveled there in 2019. While tourism accounts for 18% of the country's GDP, almost one-third of inbound arrivals are Chinese, whose spending is crucial for the Thai economy.²⁸ Following the outbreak, as the number of foreign tourists dropped by over 60%, the number of Chinese tourists dropped as much as 90% in February 2020.²⁹

Even though the number of tourists from elsewhere also fell, the data still reveal the vulnerability of overdependence on Chinese tourists. A Korean case is indicative in this regard. In 2017, after Seoul decided to install the U.S.-made anti-missile system known as Terminal High Altitude Area Defense (THAAD), Beijing ordered Chinese travel companies to stop selling popular group trips to South Korea, in protest. The ban saw Chinese visits to South Korea drop 48% in one year to 4.2 million, which was a major blow to the country's tourism industry.³⁰ A similar situation can happen with ASEAN countries that have territorial disputes with China, in case tensions are heightened.

Another vulnerability appears in terms of trade. The initial spread of COVID-19 in China made it difficult for imports and exports with China, as logistics and value chains were disrupted. Both production and consumption were scaled back. Fruit growers in Thailand were among the first casualties. As China represents almost 14% of ASEAN's merchandise exports, ASEAN manufacturers would be negatively affected soon. On ASEAN's imports, China constitutes 20.5%, the second largest source.³¹ Accordingly, ASEAN countries would inevitably suffer from shrinking trade with China. All of the above signify that business diversification, particularly in tourism and trade, is a necessary strategy for ASEAN countries.

Furthermore, COVID-19 has caused considerable delay in the train projects mentioned above. The outbreak continues to curb the supply of raw materials from China. In the cases of Indonesia and Laos, the pandemic stops workers from returning to the projects. Chinese workers who had returned to the mainland for the Chinese New Year celebration are yet to come back. For Indonesia, there is no certainty when they can do so since the country has closed its borders to all travelers from China. It is highly likely that the train projects in the three ASEAN nations will face a significant delay, not in months but in years.

Second, there seems to be a mixed impact on socio-political relations between China and ASEAN. Once the outbreak hit China, there was a debate in most ASEAN countries on whether the entry of Chinese nationals should be banned. Concerned with tourism income and relations with Beijing, most ASEAN countries refrained from a ban. Although some later came to prohibit entry, they did so towards several foreign nationals, not Chinese alone. ASEAN, by and large, unwaveringly poses a friendly posture towards China, in contrast to the United States and Australia, which adopted strong measures against Chinese entry outright. In late February 2020, ASEAN and China held a Special Foreign Ministers' Meeting on Coronavirus Disease (COVID-19) in Vientiane, in which they firmly agreed to work together closely and support each other to overcome difficulties with strong confidence. Modeled on the special meeting over the SARS (Severe Acute Respiratory Syndrome) outbreak in 2003, ASEAN and China showed their strong solidarity. Singapore leaders also wrote a letter to their Chinese counterparts to give moral support, together with sending medical equipment, supplies, and diagnostic test kits.

The public, meanwhile, was increasingly alarmed and criticized their government for not imposing a ban on Chinese visitors. Importantly, many had Chinese-phobia, trying to avoid Chinese for fear of infection. Yet, many segments of society gave encouragement to China to overcome the epidemic. There were fund-raising activities in several ASEAN countries to help China. On Valentine's Day, 3,000 Thai students gathered in Ayutthaya, Thailand, to send best wishes to the Chinese people. A Thai musician composed a song to cheer up China. Earlier in January, the CP conglomerate swiftly donated \$7 million to China to fight the epidemic.³²

In short, while government ties between ASEAN states and China are mostly proceeding well, people-to-people relations can be challenging, but are perhaps a bit improved by awareness of the increasing number of bullying incidents against Asians in a number of Western countries, which may help boost sympathy and "we-feeling" towards "comrades." As the outbreak eventually encroached more into ASEAN, China became a key source of support through its accumulated experience in fighting the disease, apart from possible contributions of equipment and funding. China managed to control the epidemic quite well, compared to several Western nations, though with draconian closure rules which were proven necessary in time of crisis. By late March 2020, the number of infections in the United States had already exceeded that in China. China is likely to come up with some packages and projects to help ASEAN recover from economic recession. This is not surprising, considering that ASEAN has now surpassed the United States as China's second largest trade partner, partly as a consequence of the U.S.-China trade war.³³ Beijing is also clever in regularly emphasizing ASEAN centrality, while giving due attention to the organization. Thus, the pandemic is a crisis that can help cement the bond between China and ASEAN, similar to the 1997-98 Asian Financial Crisis, which gave rise to the ASEAN+3 process, the China-ASEAN FTA, and various cooperation schemes. It remains to be seen, however, to what extent the goodwill among states will trickle down to popular sentiment towards Chinese people, given the overall concerns mentioned above.

Conclusion

The rise of China presents both opportunities and challenges for ASEAN in economic terms. While state-to-state relations between ASEAN and China are, by and large, cordial, several signs reveal that relations below the state level are increasingly worrisome. The challenges have been pronounced in ASEAN's trade deficit to China and the export competition between China and ASEAN to other countries. A number of dams constructed on the upper Mekong pose grave concerns to downstream countries in ASEAN in terms of drought and flood, which would affect agriculture and fishery in the region. In the past several years, new challenges have been revealed in different forms.

Chinese FDI tends to have distinct characteristics, that focus on construction, real estate, and casinos, which are not so healthy to the host economy, and do not involve hi-tech manufacturing, while concentrated in less developed ASEAN countries. Moreover, Chinese FDI tends to be mercantilist, prioritizing the benefits of China, while demanding many things at the expense of host countries and local people. Chinese tourism-related investment, by and large, is dominated by Chinese interests, offering few benefits to locals. Accordingly, most Chinese enterprises fail to establish themselves as good sources of employment and welfare. The situation is not helped by the fact that Chinese businesses tend to have fewer interactions with host countries, the local community, and the local population. The emerging Chinatowns are secluded and different from typical Chinatowns, where local people go to shop or eat at Chinese restaurants. The China train projects also come with stringent conditions in regard to loan terms, technological transfer, parts purchases, and even labor. However, the recent flow of high-quality investment in automobile manufacturing and tech companies into the digital economy can help to alleviate the situation.

This less than win-win phenomenon is attributable to China prioritizing the well-being of a vast Chinese population and their businesses. Accordingly, Southeast Asians increasingly have come to view Chinese investment with considerable hesitation, if not outright antagonism. As of now, China-ASEAN relations at the level of business and the people, are far from promising, which could become a risk factor in state-to-state relations. The COVID-19 pandemic also exposed the serious vulnerability of economic overreliance on China. The asymmetry of size and power can be a source of anxiety and mistrust, which may negatively affect political relations as well. Without improved management from both Beijing and the counterpart government, it is a matter of time before this time bomb could explode. Control measures are needed to avoid negative consequences to China-ASEAN relations as well as to promote the role of China as a responsible great power. China will need to combine positive economic power with augmented soft power to turn the situation around. Although the pandemic may come with a blessing, as far as relations between Beijing and ASEAN are concerned, China has yet to win the heart of Southeast Asians.

Endnotes

- ¹ Jia Qingguo, "Peaceful development: China's policy of reassurance," *Australian Journal of International Affairs* 59, no. 4 (2005): 493-507, <https://www.tandfonline.com/doi/abs/10.1080/10357710500367299>.
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