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## **Two Sessions: How China's Ambitious Transformative Economic Plan Will Impact Southeast Asia**

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### **SYNOPSIS**

*China has just concluded its biggest annual political event – the “Two Sessions” or Lianghui. Among other points that emerged from the event was China's deep interest in Southeast Asia. **XUE GONG** highlights the huge implications for Southeast Asia arising from China's ambitious push for an innovation-driven economy and its engagement with the region.*

### **COMMENTARY**

On 4 March 2024, Beijing began its most significant annual event – the “Two Sessions” (Lianghui). This is a series of parliamentary gatherings where the Chinese government unveils its work report and outlines policies pertaining to the economy, foreign policy, and security.

In the work report delivered on 5 March, Premier Li Qiang highlighted a plan to enhance the [Western Land and Sea New Corridor](#), which serves as an important component of China's Belt and Road Initiative (BRI). The corridor is envisaged to link Europe and Southeast Asia through railways, maritime ports, and airports to facilitate the movement of cargo. Other than connectivity, Premier Li also emphasised that China would continue negotiations for the [ASEAN-China Free Trade Area \(ACFTA\) 3.0](#).

Highlighting ACFTA and connectivity plans with Southeast Asia at such a politically significant event underscores China's deep interest in Southeast Asia.



Chinese Premier Li Qiang highlighted plans to enhance connectivity with Southeast Asia and emphasised the ongoing negotiations for the ASEAN-China Free Trade Area (ACFTA) at the recently concluded Two Sessions (Lianghui) on 5 March 2024 in Beijing, demonstrating China's deep interest in Southeast Asia.

*Image from Wikimedia Commons.*

## **Southeast Asia in China's Transformative Economy**

China's economy has undergone remarkable transformation over the past decade. To further foster "[high-quality development](#)", Premier Li introduced in his report 10 "[new areas of priority](#)", which include hi-tech supported "[new productive forces](#)", renewable and green energy, and new infrastructure. These 10 areas of priority aim to address China's most severe challenges, such as slow economic growth, demographic change, and local government indebtedness.

As China's top trading partner, Southeast Asia has played a critical role in the country's economic transition over the years, especially as China gradually shifts towards innovation-driven growth fuelled by hi-tech advancements such as artificial intelligence (AI). Southeast Asia has become an increasingly attractive location for Chinese firms to re-shore their labour-intensive and cost-sensitive industries, owing to the region's abundance and [low-cost labour](#). The region has also mutually benefited from Chinese investments in areas like railways and hydropower plants.

The Chinese leadership also hopes that "high-quality development" could help foster China's technological self-reliance at a time when the West has curtailed China's access to cutting-edge technology through [de-risking](#). As Beijing seeks to expand its market presence for digital infrastructure products and access talent and resources, Southeast Asia becomes a "[natural partner](#)", as the late Premier Li Keqiang put it, [to enhance China's engagement](#) with the region.

Southeast Asia's leaders are generally positive about China's economic role in spite of its [economic slowdown](#). For instance, Singapore's deputy prime minister, Lawrence Wong, said that "[they \[China's economic headwinds\] have not impacted collaboration](#)". Indonesian President Joko Widodo said he expected that China, as the second-top investor in Indonesia, [would contribute to Indonesia's economic development](#) in areas such as green energy.

But while Southeast Asian countries welcome the influx of Chinese economic contributions, namely in areas such as supply chain, green energy investment, and digital governance, they will also have to deal with some lingering concerns.

## Supply Chain

Being part of multiple multilateral trade treaties, Southeast Asian countries can offer Chinese firms easier access to other markets beyond the region. For instance, Chinese firms are [moving their supply chains to Southeast Asian countries](#) such as Vietnam and Thailand, from which they re-export their products to bypass US tariffs.

China's interest in moving its supply chain to the region holds promising opportunities for Southeast Asia, but economic and geopolitical challenges are likely to persist.

One concern is the Southeast Asia countries' overdependence on Chinese supplies for intermediate goods and their [widening trade deficit](#) with China. In fact, for all the countries in the region, Southeast Asia's largest trading deficit is with China. For instance, the World Trade Organization recorded that Vietnam's import of intermediate goods from China accounted for [over 35%](#) of its total imports of such goods in 2019. And Vietnam's heavy dependence on China for sophisticated machinery and equipment is expected to continue.

Also, the increasing market shares of Chinese firms in Southeast Asia have led to [anxieties about the competition and pressure](#) on local supply chains. Such [local anxieties](#) have already surfaced in the form of complaints about the Chinese dominance of the BRI.

Although China has pledged to prioritise "[small but beautiful](#)" BRI projects such as digital trade, Southeast Asian governments need to assess the impacts of these on local suppliers. For instance, rather than create a marketplace for local suppliers, Chinese companies like [Temu operate with suppliers in China](#). Also, reports show that popular e-commerce companies such as [TikTok and Shopee](#) source their products mostly from China.

With the emphasis on "new productive forces" as China's development mantra at the Lianghui, it is likely that China's technology in robotics, AI, and advanced machinery will help increase production efficiency. Such a development could place Southeast Asia's emerging economies at a disadvantage.

The other concern is the geopolitical impacts for Southeast Asia relating to deep linkages with China. As strategic competition between the United States and China intensifies, products assembled in Southeast Asia but sourced from China are increasingly being scrutinised. For instance, from June 2024, the Biden administration will [impose duties](#) on solar products from Southeast Asia where Chinese companies are known to have been involved in minor processing to evade US import duties.

This measure is in addition to the [tariff threats](#) issued to Southeast Asian countries in the context of the US trade war with China during the Trump administration. Southeast Asia may need to brace itself for stricter rules of origin from the United States should Donald Trump clinch the presidency in the November 2024 US election.

## Green Energy Investment

As China enters its high-quality economic transformation through green energy such as electric vehicles (EV) and renewable energy, Southeast Asia can anticipate continuing Chinese green energy investment in the region.

In the annual report during the Lianghui, Premier Li pointed out that China has produced [over 60%](#) of the world's alternative fuel vehicles. According to [Global Times](#), China's EVs account for 75% of the Southeast Asian EV market. For instance, Chinese EV producer [BYD invested US\\$495 million](#) in a new facility in Thailand in 2024. In January 2023, Chinese energy companies pledged investments totalling [US\\$13.76 billion](#) in the Philippines' renewable energy sector, encompassing the solar, wind, and energy storage sectors.

Altogether, China's green energy investments in the region can offer [major opportunities for environmental goods and services](#).

But ASEAN's vision of building a green economy will also face challenges. Although President Xi [pledged in 2021](#) that China would not invest in any new coal-fired power projects overseas, China's investments in extractive energy and resources are expected to continue. Contrary to the 2021 pledge, at the Lianghui session, Premier Li reaffirmed the importance of energy security by calling for "[accelerating exploration and development of oil, gas, and strategic mineral resources](#)". He stressed the importance of sufficient energy supplies and added that "[full play will be given to the role of coal and coal-fired power](#)".

Premier Li's statement is an indicator that Chinese investments will continue in resource- and energy-abundant countries like Indonesia and Vietnam, which are currently hosting Chinese coal-fired power plants amounting to billions of dollars.

China's emphasis on green energy investments will also sustain the country's ongoing hydropower investments in the Mekong region. As the upstream country and the primary financier, China's previous hydropower investments in the Mekong sparked enduring [tensions](#) regarding social, environmental, and ecological issues.

To alleviate such tensions, China [agreed](#) in December 2023 to share real-time hydrological data from the major dams with the other five Mekong countries. However, given the Mekong's status as [a locus of great power rivalry](#), [concerns](#) persist that increased hydropower financing could exacerbate conflicts over water resources. Amid these concerns, ASEAN's role in managing contentious water politics has been [questioned](#).

## Digital Governance

Tracking digital trade data between China and Southeast Asia poses challenges. But [studies](#) indicate that Southeast Asia has been a primary beneficiary of China's Digital Silk Road.

To enhance its digital economy in the region, China has assumed a leading role in establishing standards for digital trade, especially in areas such as data localisation. It has leveraged platforms such as the ACFTA and bilateral free trade agreements (FTAs) with the ASEAN countries to take the lead in establishing standards.

While Southeast Asia is benefitting from the digital trade and investment networks with China, there is an image issue for some ASEAN members in having close digital alignment with China in the area of data localisation, which is a [restrictive data governance model](#). It is debatable whether ASEAN countries have been adopting China's restrictive measures. Yet, countries like [Malaysia, Brunei, Indonesia, and Vietnam](#) have already applied tighter data localisation laws, which do not help with establishing a data governance model for ASEAN that promotes digital trade.

The geostrategic competition between China and the United States has led regional countries to exercise caution in adopting digital governance standards. The notion of "[technological neutrality](#)" has emerged in policy and public conversations as a means of striking a balance.

Such technological neutrality calls for ASEAN's autonomy in choosing technology partners and requires ASEAN member states to "[promote cross-border data flows and to grow digital trade](#)", according to Singapore's minister for communications and information, Josephine Teo. However, slow progress in regional data governance, such as differences in [restrictions to digital data](#), has impeded regional digital trade, and more importantly ASEAN's efforts and image in liberalising trade.

To investors, data localisation by Southeast Asian countries can impose additional compliance costs on companies as they need to spend on servers and other related digital infrastructure. Restrictions on data flows also [deter innovation](#) as they impact access to digital services. For smaller economies in the region, the [digital literacy gap](#) may continue to widen in the absence of sufficient data to support research and development.

## Conclusion

As China embarks on transformative economic development, its expanding presence in Southeast Asia has reshaped regional supply chains, investment portfolios, digital governance, and geopolitical relationships in the region. While China's transformative economic growth presents opportunities, Southeast Asian governments need to take timely and effective actions to address the accompanying challenges.

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