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Trends in Southeast Asia

CHINESE CAPITALISM AND ECONOMIC INTEGRATION IN SOUTHEAST ASIA

YOS SANTASOMBAT

YUSOF ISHAK INSTITUTE

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FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

The **Trends in Southeast Asia** series acts as a platform for serious analyses by selected authors who are experts in their fields. It is aimed at encouraging policymakers and scholars to contemplate the diversity and dynamism of this exciting region.

Chinese Capitalism and Economic Integration in Southeast Asia

By Yos Santasombat

EXECUTIVE SUMMARY

- China's rise exerts a powerful pull on ASEAN economies and constitutes an impetus for a resinicization of Overseas Chinese in Southeast Asia.
- China has become a skilled practitioner of "commercial diplomacy", and as long as it continues to lead the way in regional integration, China's state-led capitalism will seek to integrate itself into the ASEAN Economic Community. This in effect becomes China's essential strategy of desecuritization for the region.
- With increasing trade and investment between China and ASEAN countries, the ethnic Chinese economic elites have managed to serve as "connectors and bridges" between the two sides, and benefited in the process from joint ventures and business investments. The impact of new Chinese Capitalism on SMEs, however, has not been equally positive.
- As China rises, Southeast Asia has witnessed increased complexity and variations of "hybrid capitalism", including alliances between state-led capitalism, transnational entrepreneurs emanating from China's "going out" policy and ethnic Chinese in Southeast Asia.
- Three main forms of Chinese Capitalism in Southeast Asia are neoliberal capitalism, flexible capitalism and Confucian capitalism. These intermingle into a range of local varieties under different socio-economic conditions.

Chinese Capitalism and Economic Integration in Southeast Asia

By Yos Santasombat[1]

INTRODUCTION[2]

The Association of Southeast Asian Nations (ASEAN) was founded in 1967 to coordinate its members' security policy during the Cold War as part of the anti-communist containment strategy led by the United States of America. At the same time, historically and geopolitically, China has always viewed ASEAN as an integral part of its security environment.

Over the last two decades, a changing global context has however provided opportunities for China and ASEAN countries to forge closer ties with each other. The constructive role played by the government

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[2] This essay synthesizes findings from a research project on "Chinese Capitalism in Southeast Asia". The author would like to acknowledge the generous support provided by the Thailand Research Fund. An extended version of this essay is to appear as the Introduction to *The Sociology of Chinese Capitalism in Southeast Asia: Challenges and Prospects*, edited by Yos Santasombat (forthcoming). As in a previous work (Yos and Lee 2017), the term "Chinese Capitalism" is used here to refer to the historically and geographically specific form of economic organization of the Overseas Chinese in Southeast Asia. The term also refers to the new (state-led) capitalism entering the region from China, and to the interaction and hybridization between Chinese Capitalism from China and Chinese Capitalism in Southeast Asia. The essay thus uses the terms "Chinese migrant", "PRC Chinese", "transnational Chinese" and "Chinese diaspora" interchangeably to refer to the new waves of Chinese entrepreneurs and investors who have migrated from Mainland China to Southeast Asia since 1978.

of China in dealing with the Asian Financial Crisis coupled with changing U.S. priorities in Asia during the late 1990s led to a marked improvement in relations between ASEAN and her northern neighbour. The considerable distrust that once defined their relationship has thus been replaced by a more positive and intimate economic and political connectivity.

However, China's territorial claims in the South China Sea reveal its increasing naval capabilities and its willingness to deploy these for politico-economic purposes; and hence the contemporary relationship between China and ASEAN is marked by a combination of cooperation and tension.

China's rise exerts a powerful gravitational pull on ASEAN economies. Since the full enactment of the ASEAN-China Free Trade Area (ACFTA) in 2010, ASEAN's trade with China has gone from a surplus to a deficit that reached US$45 billion in 2013. More significantly, poorer ASEAN members depend heavily on China. For example, Vietnam's share of Chinese export and import flows with ASEAN has increased substantially while Singapore's share has dropped (Liu 2016, pp. 314–16).

ASEAN REGIONAL INTEGRATION AND CHINESE CAPITALISM

The establishment of the ASEAN Economic Community (AEC) at the end of 2015 is an attempt to strengthen ASEAN's bargaining power. It is aimed at the transformation of ASEAN into a single market, a single production base, a highly competitive economic region of equitable economic development, and a region that is fully integrated into the global economy. As of 2017 many indicators show that such a level of economic integration will not be accomplished anytime soon. A single market and a single production base require that all members have common interests and a high degree of cooperation. In reality, however, the primacy of the domestic political economy overshadows regional integration and cooperation.

With the United States under President Donald Trump's "America First" banner exhibiting isolationist leanings, ASEAN countries are witnessing another round of power shifts in the global geopolitical landscape which can potentially lead to heightened tension between the superpowers on various issues ranging from Taiwan, the South China Sea, North Korea, and currency manipulation to unfair trade and protectionism. With the end of Obama's rebalance policy and U.S. involvement in the Trans-Pacific Partnership (TPP), ASEAN countries will have little choice but to focus more on bilateral relations with China. However, growing bilateralism between China and ASEAN countries implies the latter's fragmentation rather than its integration.[3] This is in addition to the tension sustained by the regional development gap, and by inequalities within each member state.

China's rise and its growing economic engagement with ASEAN may have presented new investment and business opportunities for local Chinese communities in Southeast Asia, but at the same time, this situation also generates anxieties, ambivalences and new politico-economic realignments. What are some of the creative strategies — desinicization, resinicization, rebalancing — employed by local Chinese communities and ASEAN countries to cope with the challenges of Chinese Capitalism?

This paper begins with a discussion of the relations between Chinese Capitalism from China and the AEC, from a perspective of desecuritization (Sung 2018). Desecuritization concepts problematize security as discursively established, dismissing the idea of objective threats. China defines desecuritization as a critical strategy that tries to relocate the question of power and domination to a context of economic integration and development in which political relations are not perceived on the basis of existential insecurity. With this perspective in mind, we can ask what kind of strategies are employed by Beijing to remove obstacles to a relationship of mutual trust between China and ASEAN member

[3] China's rising influence in the region or what Jones (2016, p. 24) calls the "the sinification of the ASEAN way" has profoundly and negatively affected the capacity of ASEAN to strengthen its integration. ASEAN's connectivity master plan, for example, will be funded indirectly or directly by China to the extent that infrastructural development projects serve Chinese interests, which are not necessarily those of ASEAN.

countries. Although China remains a vital security concern for ASEAN and the issue of territorial disputes and naval bases in the South China Sea worries a number of member states, China still actively participates in every movement of regional integration.

Over the past two decades, Beijing has proved to be well aware of the complex intertwining of between political and economic situations and has in fact tried to reshape ASEAN's perception of China as regional threat. The path for achieving its overall policy goal is desecuritization based on regionalism and soft power. After the 1997 Asian Financial Crisis, China has been able to dismiss the anxiety about objective threats with promises of economic cooperation (trade, investment, foreign aid), regionalization and global connectivity. China has taken advantage of the new regionalism and has become a skilled practitioner of "commercial diplomacy" (Frost 2007, p. 95). As long as China continues to lead the way in regional integration, state-led Chinese Capitalism will integrate itself into the ASEAN Economic Community, and this will become China's essential strategy of desecuritization.

There is no doubt that China is now a superpower. But how effective does China make use of its growing power (resources, including the military) and influence (exercise of power) to achieve its goals? As Drezner (2009) cogently argues, China has been unable to exert much meaningful leverage over U.S. financial policy in spite of its position as the leading holder of U.S. debt. Similarly, China has been unable (or unwilling) to change North Korea's nuclear policies despite increasing economic dependency. China has also been unable to persuade Vietnam to abandon its territorial claims in the South China Sea. Conversely, increasing dependency on China has pushed Myanmar's Tatmadaw towards a more balanced posture and led it to diversify its strategic relations with Japan, the United States and Europe.

Economically, China has used its central position in regional production networks and its huge market potential to influence ASEAN countries' choices. China's ultimate goal is to consolidate its position as the region's economic driver by initiating East Asian regionalism (Ravenhill 2006), AEC (Jetin and Mikic 2016) and the One Belt One Road (OBOR) global economic order linking Asia to the Middle East, Africa and Europe. China is using its economic influence to induce, coerce and force ASEAN countries into actual regional economic integration. It has increased its economic power and influence over ASEAN Economic Community (Goh 2014, p. 834) in two fundamental ways: by stimulating economic growth in the least developed countries in the region and by moving the more developed parts toward a trading bloc.

Liu and Zhou (2018) examine the historical and politico-economic contexts of Chinese Capitalism in Southeast Asia and its relations with the Chinese diaspora. They contend that China's rapid economic growth and overseas foreign direct investment (OFDI) have lent themselves to a new wave of Chinese Capitalism that increasingly blurs the boundaries between state, private, and public interests. This new Chinese economic statecraft or the state's intention to provide impetus for Chinese entrepreneurs to generate business ventures that are conducive to state and public interests has been the essence of China's "going out" policy, one aimed at promoting outward investment and elevating China's status as a global superpower.

How has Chinese economic statecraft (Norris 2016) interacted with the AEC? Taking Indonesia, Malaysia and Singapore — the more developed parts of AEC — as case studies of both private and state-sanctioned Chinese investments, Liu and Zhou delineate the geographical and sectoral distribution of Chinese OFDI and discuss how these Chinese enterprises penetrate into ASEAN countries and with whom they have collaborated in their business endeavours.

From these cases, the authors find that the new Chinese Capitalism is transnational and foreign. While the Overseas Chinese entrepreneurs were migrants who settled down and integrated with their new "homes" and identified themselves as Chinese-cum-Southeast Asian, members of the new Chinese diaspora are highly mobile and they retain a strong identification with the homeland. The rise of China and trade and investment opportunities provide an impetus for a resinicization process in ethnic Chinese communities and a reproduction of Chinese cultures and identities among the ethnic Chinese in ASEAN countries.

Chinese economic statecraft and the transnational Chinese entrepreneurs may not have disrupted the pre-existing structure of Chinese enterprises, but they have been able to establish networks of cooperation in the form of joint ventures for the benefit of both sides. In their examination of the business practices in the top echelons of Chinese business, Liu and Zhou conclude that the new Chinese Capitalism is reflective of both a new consciousness among China's big businesses and also the state about their mutual goal of enhancing China's international image as a peaceful and responsible world power.

DOMESTIC POLITICS AND ECONOMIC REGIONALISM

Contrary to Yeung's assertion that the future of Chinese Capitalism will no longer be "sustained by politico-economic alliances with powerful political elites" (Yeung 2004, p. 254), we find that the pre-existing alliances between ethnic Chinese capitalists and ruling power elites have not been disrupted by China's rise. In addition, alliances have also been extended to include closer ties between new Chinese entrepreneurs/ investors from China and the power elites, with the local ethnic Chinese serving as bridges. In reality, political elites in ASEAN may have greater ability to shape policy directions towards trade and investment than Yeung's assertion above may suggest. The question is, how does China's rising influence over regional integration affect the transformation of ASEAN political elites and domestic politics? Lessons learned from Thailand, the Philippines and Cambodia provide a partial answer to this question.

The Chinese have been the prominent economic minority in Thailand for hundreds of years. Traditional Thai political elites ethnicized key economic roles to the Chinese entrepreneurs while simultaneously denying them access to political power (Wongsurawat 2018). In this context, the Chinese economic elite became what Hamilton (1978) calls "pariah capitalists". Contrary to popular contention, the Chinese have not been fully assimilated (Skinner 1957, 1958) to their host country. The Chinese in Thailand and elsewhere in Southeast Asia have over time developed various forms of double "social embeddedness" (Liu and Ren 2017, pp. 58–59), thus managing to reaffirm their Chinese identity while maintaining their Thai identity at the same time.

In the 1950s, the Chinese constituted about half the total population of the greater Bangkok area. The community focused itself inward, controlled as it were by ethnic associations, secret societies and the Chinese Chamber of Commerce (Skinner1957, pp. 203–7). The question of the political loyalty of the *huaqiao* and the fear of Communist China resulted in strained relations between the Chinese and Thai communities throughout the successive military regimes in the 1950s to the late 1970s. These military governments were short of economic capital and therefore turned to the Sino-Thai entrepreneurs who could provide it. Leading Sino-Thai businessmen were able to mobilize resources within the Chinese community through their connections, and this economic elite began to develop an alliance with the military and the revitalizing monarchy.

On the one hand, Sino-Thai expression of total submission to the monarchy and the royal family made them a trusted ally of the military and bureaucratic elites who were also exploiting their loyalty to maintain the status quo. All successful Chinese tycoons of the post-World War II generation — Sophonpanich, Sahapathanapibul, Charoenphokphand, Sirivadhanabhakdi, to mention just a few families — who dominated all sectors of the Thai economy have expressed their loyalty to the monarchy and maintained a strong alliance and partnership with the military and the bureaucratic elites. On the other hand, the image of the Sino-Thai has undergone considerable change, from that of a once stigmatized minority to one that overtly reaffirms its Chinese cultural roots. With the rise of China and the growing economic power of transnational Chinese entrepreneurs, younger members of the Sino-Thai economic elite are reclaiming their ethnicity and reconstructing it to fit regional and global definitions.

In the case of the Philippines, political elites and domestic politics may have greater ability to profoundly shape policy directions towards bilateral relations with China. Ellen Palanca and Austin Ong (2018) demystify the dynamics of China–Philippines relations by disentangling domestic factors from external ones, and by illustrating how bilateral relations have been shaped, influenced and managed by domestic politics but tempered by the global market. An examination of the different trajectories of China–Philippines relations under the administrations of presidents since Corazon Cojuangco Aquino, including those of Fidel Ramos and Joseph Estrada with special emphasis on those of Gloria

Arroyo, Benigno Aquino III and Rodrigo Duterte, clearly shows volatility in bilateral relations and a lack of a coherent China policy.

For example, the Asian Financial Crisis and the deepening of China's economic involvement in Southeast Asia during the Arroyo's administration (2001–10) resulted in an unprecedented level of Chinese investment, economic partnerships and joint ventures in the fields of infrastructure, power, mining and agriculture. The Philippines was among the three Southeast Asian countries with the largest total Chinese aid flow and investment projects. This total reached US$5.4 billion between 2002 and 2007; in the same period the total for Vietnam was US$3.4 billion and for Myanmar US$3.1 billion). In 2004, China's overseas development assistance (ODA) represented 60 per cent of the Philippine's total ODA. Despite China's economic power and strategic diplomacy, however, it had not been successful in getting the cooperation of the Philippines in terms of security. In this, China seemed to have underestimated the strength of Philippine domestic politics and the effect of China's strong stance on territorial issues, which the Philippines perceives as the flexing of the muscles of the emerging state's newfound power. On the other hand, Philippine domestic politics prevented the country from fully capitalizing on China's economic charm offensive. Ultimately, this has led to a roller-coaster ride in Philippine–China relations — the manifestation seen in how relations went from a "Golden Age of Partnership" (Arroyo: 2000–10), to antagonistic relations (Aquino: 2010–16) to friendly relations (Duterte: 2016–22).

Domestic factors manifested in personality-based politics and rampant corruption, coupled with the negative public perception of China, have largely driven the roller-coaster China policy that changes with every new president. Although territorial disputes choked off the flow of major Chinese investments, other aspects such as trade were driven by global trends and market forces. Indeed the bilateral trade data is better explained through global phenomena such as the impact of the global supply network, the Global Financial Crisis, and the rebalancing of China's economy (Palanca and Ong 2018).

While Philippine–China relations changed with every new president, Cambodia's long-time authoritarian ruler consistently moved on a pro-China trajectory over the past two decades. Cambodia is now without a doubt one of China's closest allies in Southeast Asia. The reasons behind Cambodia's embrace of China are complex and interwoven with political, security and economic factors. China's ties with Cambodia involve political and military alliances, business collaboration and generous financial aid. In political and security terms, Cambodia's inexorable anxiety that Vietnam and Thailand's growing economic superiority will threaten its sovereignty has been a key reason for its embrace of China (Chong 2017, p. 1). In economic terms, China is the top investor and a major aid provider in Cambodia. Chinese investment in Cambodia, in turn, has received political protection and privilege from the ruling elite (Chheang 2017, pp. 2–3).

Siphat Touch (2018) has examined the relations between Chinese investments and the rise of the Chinese Cambodians who serve as linkages between Cambodia and China. Cambodian elites see the formation of AEC as an opportunity for rapid economic development through foreign direct investment. Members of the Chinese Cambodian community have been prominent in the business sector for generations, and they are still playing a key role in current economic development. The rise of Chinese Cambodians is an important factor contributing to Cambodia's embrace of China and to Chinese influence in the country. As a global economic power, China has been positioning itself as Cambodia's most important economic partner while Cambodia's elites need China's supporter for both economic and political reasons.

Over the past decades, the resiliency of ethnic Chinese in different political regimes of Cambodia has allowed them to dominate the national economy. They integrated themselves into Khmer cultures through intermarriage and, with the exception of the Khmer Rouge period, have been fully accepted as an integral part of society. Increasing economic regionalism creates further opportunities for the Chinese Cambodians as they become key actors in the regional competition for investment. Chinese Cambodian business tycoons have served as intermediaries between the Khmer elites and transnational Chinese investors. Through them, direct investment from China has steadily increased, especially in real estate, energy, agriculture, textile, mining, railways and highways construction. Political trust and interests, strategic and economic interests are the basis of China–Cambodia relations. China is perceived as Cambodia's most important strategic and economic partner, in giving its government performance legitimacy and serving as a countervailing force against neighbours perceived as threats to Cambodian sovereignty.

SOEs AND LARGE-SCALE CHINESE ENTREPRENEURS

ASEAN leaders have by no means shed their anxiety about China's rise. In fact, they believe that they are competing with China for investment and that China is winning. The drive to achieve a more integrated regional market is a practical effort to ride on China's economic wave instead of being drowned by it. Political elites are convinced that they have no choice but to be a part of a more integrated market with China in order to increase their own exports and to make their economies more attractive to foreign investors.

China has however taken advantage of the new regionalism to enhance its position through skillful use of commercial diplomacy. Networks of economic cooperation in the form of megaprojects, concessions and joint ventures between China's state-owned enterprises (SOEs) and ASEAN economic elites are fostering continued economic growth to the benefit of China and AEC's business tycoons and large-scale entrepreneurs.

But as ASEAN and China become increasingly integrated through trading and investment linkages, what are the drivers of the internationalization of Chinese multinational corporations (MNCs) and the interactions with host governments, local ethnic Chinese partners and suppliers? Wong and Zhang (2018) shed light on this by studying China's Chery Automobile in Malaysia. Their research finds that the local ethnic Chinese community has benefited by playing an intermediary role between China's MNCs and politically dominated government-linked companies (GLCs) in Southeast Asia. Nevertheless, local firms owned by ethnic Chinese have not developed a strong production capability by extensively collaborating with China's manufacturers to forge a regional production network. Therefore, despite Chinese firms having increasingly invested in Southeast Asia, the domestic business environment has not been fundamentally improved for the local ethnic

Chinese business community. On the contrary, Chery's experience in navigating complex state-society relations in Malaysia suggests that Chinese MNCs tend to be more attracted by hostile developing countries where productive alliances can be established in institutional settings that are not necessarily transparent and well governed.

Similarly, Romyen Kosaikanont (2018) finds that political connections are fundamentally important for joint ventures between Chinese SOEs and Southeast Asia's economic elites. She examines China's "going out" policy in practice and how a joint venture between a Chinese SOE and a Thai large-scale business enterprise developed, by using Thai-Chinese Rayong Industrial Zone as a case study. This site was chosen because it is one of the fifty-six Chinese government-supported cooperation zones situated worldwide, and Zhongce Rubber (Thailand) Co., Ltd was chosen because it is a subsidiary of the largest SOE in the rubber sector ever to have extended its operations outside of China.

Romyen's work reveals that the "going out" policy in practice has been a part of the Beijing's One Belt One Road (OBOR) or Belt and Road Initiative (BRI) and that it has received various forms of support from the Chinese government: (a) BRI and related policy implementation; (b) institutional infrastructural establishment and setting up the mechanism to facilitate the trajectory of "going out"; (c) subsidies from central and provincial government; and (d) support from various ministries and departments. The motivation for the Thai side is to find ways and means of uplifting the economy to escape the middle-income trap, which can easily be interpreted as a welcoming message for Chinese investments and much needed OFDI. The political support of the Thai government and Thailand's Board of Investment can be seen as a mechanism for the China's establishment of businesses in Thailand.

The joint venture positively generated more than 2,000 jobs for the Thai and Chinese staff, but details about the working conditions and business practices are still unclear. The Chinese management style clearly divides Thai and Chinese employees in managerial practices and unequal treatment and in the end creates friction and conflicts instead of people-to-people connectivity under the BRI.

This study also finds that the joint venture received support from both Thai and Chinese government. From Thailand, it has received political support through a government-initiated business matching programme and subsequent tax privileges provided by the Board of Investment. On the Chinese side, both the national government and the local government of Hangzhou provided subsidies for the "going out". The Chinese investors have strategically used political and business connections with the Rayong Chamber of Commerce, the Chinese Embassy, Thai politicians and a cluster of Chinese suppliers in order to minimize business investment risks. In addition, the Chinese investors are directly linked to and benefit from the grand strategy of the Chinese government's "going global" and BRI. Romyen illustrates that the joint venture is highly profitable to investors on both sides. However, the local community has gained only limited benefits from this industrial zone.

Large-scale investment from China remains in close contact with, and to a large degree is directed by the state. Interacting in the foreign market opens more room for Chinese investors to create business opportunities by establishing new connections with the Chinese diaspora, tying up with the crony capitalists and political elites in the host country, and making good use of the privileges provided by them. The support of "going global", backed up by the BRI strategy through the establishment of industrial zones in Southeast Asia and other regions, is an indicator that China is strategically moving one step closer to becoming a world economic superpower.

As we have seen from the cases of Singapore, Malaysia and Thailand, ethnic Chinese MNCs have captured the opportunity to serve as "connectors and bridges" between the host countries and China (Suryadinata 2006, p. 4) and benefited from the joint ventures and business investments.

The impact of new Chinese Capitalism on the SMEs in AEC member countries, however, has not been equally positive.

SMEs AND TRANSNATIONAL CHINESE IN SOUTHEAST ASIA

Since the beginning of the new millennium, trade, investment and foreign aid between China and ASEAN countries, especially the least developed countries, have been expanding rapidly. Megaprojects resulting from economic cooperation have stimulated increasing numbers of "overland" Chinese migrants (Aranya 2015) flowing into the region, especially to CLMV countries. The flows of these new Chinese migrants are closely related to the "going out" policy and the various ways the Beijing and provincial governments have subsidized and supported the movement of the new transnational Chinese diaspora (Yos 2015, pp. 2–3; Liu 2016, p. 313). Nguyen Van Chinh (2018) explores the complexity of the new Chinese diaspora to CLMV countries within the context of China's rising political and economic power in the region. In line with Sung's desecuritization concept, Nguyen contends that China has forged closer ties to its former "adversaries" to the south through increased economic cooperation. From late 1990s to 2010, China's bilateral trade and investment in the CLMV countries increased dramatically, and China has gradually become these countries' largest economic partner especially in terms of trade, investment and foreign aid; and along with this economic transition, Southeast Asia has also witnessed increasing numbers of Chinese migrants to the region. Supported and encouraged by the central and provincial governments, these new transnational Chinese — mostly operators of small and medium enterprises — are becoming one of the most economically powerful groups in the region. Through their networks with Overseas Chinese, China is actively influencing and participating in every facet of the movement toward regional integration. This new Chinese diaspora plays an increasingly pivotal role in the future of the AEC.

How has China's increasing penetration into the region affected local Chinese communities and their economic activities? Khine Tun (2018) discusses the impact of economic regionalism on Myanmar-Chinese SME businesses and their adaptive strategies. Over the past several decades, China has been Myanmar's largest trading partner , and the increase in bilateral trade has affected the SMEs in both positive and negative ways. Those SMEs whose businesses involve border trade have benefitted from expanding volumes of trade, while those in the producing goods that are similar to the imports of Chinese entrepreneurs are losing out. From case studies of local Chinese entrepreneurs, the author finds that a number of the Myanmar-Chinese SMEs feel they are at risk in open competition with the incoming transnational Chinese entrepreneurs because of limited access to capital and technology. Local SMEs contend that they have to be more flexible and adaptive to be able to cope with increasing competition from transnational Chinese. As one local entrepreneur told Khine Tun, for example, the inflow of Chinese sweaters into the local market has a great impact on his business. Chinese sweaters are cheaper, more modern and desirable. The market for local production has decreased by 70 per cent in a few years and within a few more years locally produced sweaters will lose its entire market. This entrepreneur is moving into the tourism business in order to capitalize on the increasing numbers of Chinese tourists coming into Myanmar.

Similarly, Wasana La-orngplew (2018) reports the concerns of local Chinese entrepreneurs in Laos over the future of their business after the arrival of new Chinese migrant traders. Wasana paints a picture of the business trajectories of new Chinese migrants in Pakse, Champasak Province, in southern Laos. The first trajectory is the establishment of businesses through interpersonal connections with pioneer migrants. The second involves new migrants who are employed as wage labourers in Chinese shops as they seek to accumulate capital for future business investments of their own. The third path, which is the least common, is that of migrants who travel to and explore the potential for business investment in Laos.

Drawing on interviews and data collection from small-scale traders at Dao-heuang market in Pakse, Wasana reconfirms the observation previously made by Chiang (2015) and Aranya (2015) that the biggest group of overland Chinese migrant traders in Laos comes from Hunan Province. The presence of Hunan migrant traders is related to the success of the pioneer migrants from the same area and to their extended business networks, which attract other Chinese migrants to seek business opportunities in Laos. There is a perception of less pressure and competition in the country. The increasing numbers of Chinese migrants have, however, led some local merchants to worry about the future of local business. Some local Chinese traders are concerned that their businesses will soon be replaced by those of the new migrants. In fact, even members of the new Chinese diaspora are facing difficulties or suffering losses because of the increasingly competitive business environment.

The voices of small-scale Chinese migrant traders in Myanmar and Laos do not speak uniformly. Rather, they make conflicting and overlapping claims. Differences arise from their various positions in the structures of inequality in class, gender and age in China and Southeast Asia. For example, a few migrant owners of small businesses complain that China's policy and development projects seem to provide benefits for large-scale business enterprises rather than for their small business. These entrepreneurs feel left out and have to depend on family networks in order to survive. In Laos, Chinese migrant families are normally composed of husband, wife and young children. Women do all the work — from taking care of the shop, selling merchandise, cooking, to cleaning and tending to the children — while their husbands play the strategic role of establishing business networks and connections. Women often say that their lives are no better than in China and complain that in the new setting, they lack the support of their families and friends.

Small-scale businesses are indeed centred on family and family networks. Family, along with relatives and friends, is the basis of accumulation, not only of financial capital but also of social capital in the form of networks, and cultural capital in the form of knowledge and skills. Many Chinese families who intend to do business in Southeast Asia send their children to schools and universities abroad in order to accumulate cultural capital in academic degrees and language skills, and social capital through networking with local friends. If conditions in the country to which they have sent their offspring are more advantageous, then there is a good chance the family will relocate to start a business there. This strategy of "flexible capitalism" (Nonini 2003, p. 83) characterizes the transnational practices of new migrant businesses in establishing independent small-scale trade enterprises managed by family members, with the father or the oldest son in charge. The size and scale of these enterprises usually remain at the lower end because of a scarcity of money for investment. If the family enterprises do well, the size and scale of trade will expand. If not, the family moves its business to a new location, across regional or even national borders.

In contrast to Myanmar and Laos, the majority of new Chinese migrant entrepreneurs operating SMEs in Thailand have a middle-class background. They are better educated, well-informed, technology-oriented, more individualistic and highly mobile. Aranya Siriphon (2018) examines the increasingly important impact of Chinese migrant entrepreneurs in tourism-related businesses in Chiang Mai, their business strategies and the roles of Chinese and Thai states and their policies on tourism. She contends that these migrants with middle-class background are part of an emerging transnational entrepreneurial class. They share common entrepreneurial strategies in applying professional and modern Western-style managerial practices and organizational structures, adopting and intensively utilizing equipment and advance technology.

These entrepreneurs usually travel back and forth between China and Thailand, and they employ Thai and Western employees and professionals to assist them in both routine jobs and specific tasks of sales, marketing and management. They use high-tech equipment such as online CCTV surveillance system at their offices, restaurants and hotels to monitor their staff. They use online booking systems for their guesthouses and hotels and allow customers to use electronic bill payment systems, money transfers by credit card, or online payment platform like Wechat pay or Alipay service for the convenience of customers and to facilitate accounting, payments and record-keeping. The use of advanced technology not only allows these Chinese migrant entrepreneurs to manage their businesses from afar, but it also reduces the risk of encountering cash flow issues. They can audit their daily income online. Some Chinese entrepreneurs are exploring new e-commerce markets for buying and selling merchandise from Thailand for export to China. Aranya also finds that the new transnational Chinese entrepreneurs in Thailand tend to diversify their business and investments, embed themselves socially, and redefine *guanx*i relations to support their positive business images.

Another important finding from this paper is that the roles of the Chinese and Thai states and their policies differ. While the Chinese state plays an active role in adopting policies and strategies to encourage recent Chinese emigrants to pursue business, the Thai state is, in contrast, slow to respond to the increasing influx of transnational Chinese entrepreneurs. The ineffectiveness of the Thai state leads to increasing concerns among Thai entrepreneurs in tourism-related businesses, who are confronted with mounting competition from transnational Chinese entrepreneurs and their business ventures in Thailand.

How do the Sino-Thai entrepreneurs cope with the influx of new transnational Chinese entrepreneurs? Lee Kian Cheng (2018) focuses on Thai-Yunnanese[4] SMEs and their multiple strategies to mitigate challenges and maximize the opportunities posed by the penetration of the new Chinese diaspora into Chiang Mai. His data come from in-depth case studies of four medium-scale Yunnanese entrepreneurs operating different types of business enterprises and using different adaptive strategies.

Like the small-scale entrepreneurs in Laos and Myanmar, Yunnanese medium-scale entrepreneurs in Chiang Mai are concerned with increasing competition from newly arrived entrepreneurs who have greater financial resources. However, the Thai-Yunnanese entrepreneurs demonstrate great versatility in meeting the challenges posed by Chinese entrepreneurs. One Yunnanese entrepreneur, for instance, employs institutional and interpersonal networking tactics and greater local knowledge to mitigate the effect of the predatory businesses of transnational Chinese entrepreneurs, while another utilizes the Thai legal framework to gain the upper hand when collaborating with Chinese investors. In other words, the Yunnanese entrepreneurs are not passive in the face of Chinese encroachment and economic regionalism. Rather, they apply a range of negotiation strategies to cope with increasing challenges and have in the process benefitted from competition and cooperation with members of the new Chinese diaspora.

One of the issues concerning Chinese Capitalism revolves around competing assumptions that ethnic Chinese business success in Southeast Asia relies *either* on ethnic affiliation and shared cultural values, or on the strategic deployment of resources, power relations and co-optation. Bien Chiang and Jean Chih-yin Cheng (2018) shed light on how the

[4] In Northern Thailand and Myanmar, a group of caravan traders from southern China have been on the move for several centuries, following seasonal migration routes, pursuing trade, and making new settlements. One group that put down roots in Chiang Mai after the Communist revolution are the Yunnanese called “Ho” or “Chin Ho” in Thai. The Yunnanese in Chiang Mai today are descendants of the Chin Ho.

“Chineseness” actually works to contribute to the economic and business strength in Singkawang, West Kalimantan. With ethnographic examples from the Sino-Indonesian business community of Singkawang, the authors illustrate the ways in which “Chineseness” works as both liability and asset in business operations. They argue that the “Chineseness” retained by Sino-Indonesian entrepreneurs allows them to convert the accumulated financial capital into cultural capital, which is then commodified to generate further business revenue. The Sino-Indonesian community of Singkawang arrived at its current economic and political status by surviving decades of governmental persecution, social expulsion and secondary diaspora. The “Chineseness” that its members manage to retain, though in a sense closely embedded in their cultural identity, is at the same time capital-cum-commodity with significant value in today’s neoliberal market.

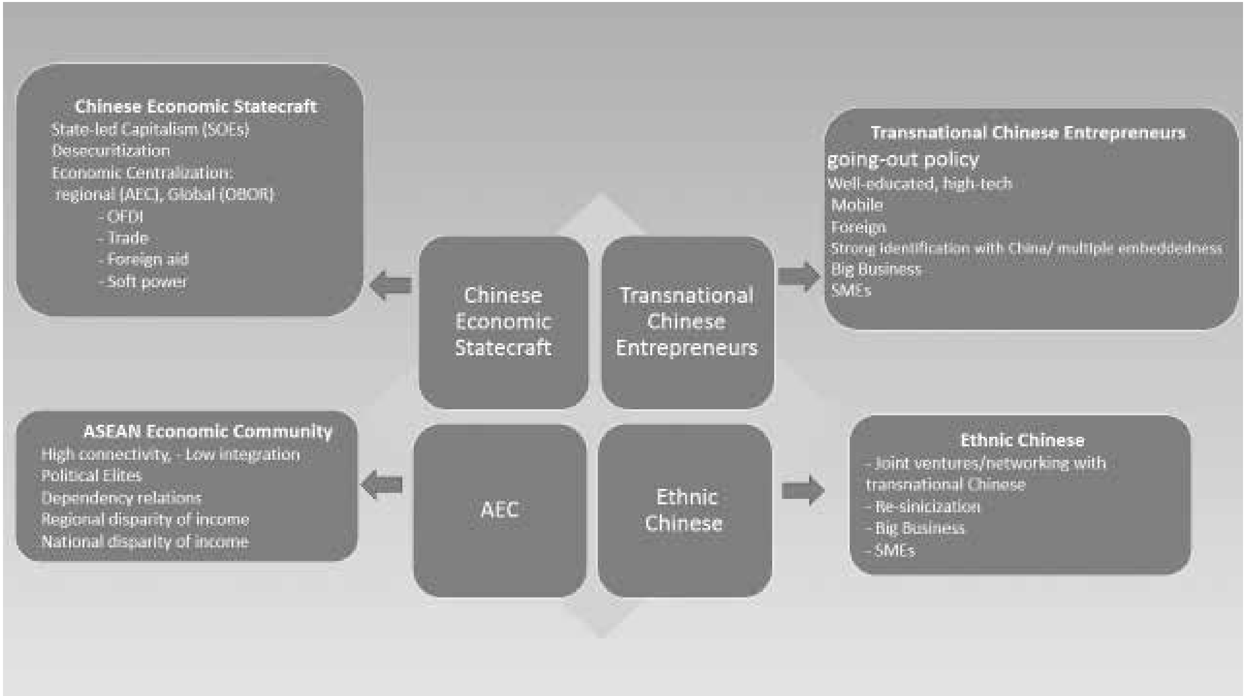
DYNAMISM OF CHINESE CAPITALISM

Our research on Chinese Capitalism in Southeast Asia has served as a canvas on which to paint various ideas, concepts and experiences from different AEC members. The dynamism of Chinese Capitalism in Southeast Asia is predicated on four interrelated factors: Chinese statecraft, the transnational Chinese entrepreneurs, the ethnic Chinese and AEC regionalism. See Figure 1.

In many Southeast Asian economies in which Chinese Capitalism has been a dominant form of economic organization, the penetration of new Chinese economic statecraft and the accompanying transnational Chinese business corporations and entrepreneurs have posed serious challenges to ethnic Chinese long established in the region. They have triggered multiple and transformative changes to the organization and dynamics of Chinese Capitalism in the context of increasing regionalization and globalization.

The “going out” policy initiated in 1999 by China to promote investments abroad has introduced numerous means of support to assist Chinese companies in developing global strategies to exploit and utilize opportunities in local and international markets. Since the launch of the policy, interest in overseas investment on the part of SOEs and private

Figure 1: Dynamism of Chinese Capitalism in Southeast Asia



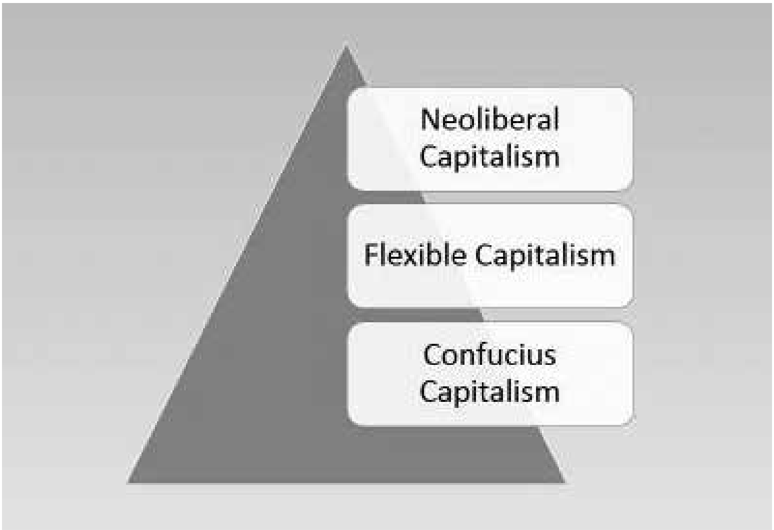
companies has exponentially increased. Some of the most prominent Chinese businesses and professional institutions are expanding their investments in international markets and, along with this expansion, the world has encountered a massive movement of PRC Chinese out of their homeland. Far from a tightly structured political organization that controls every fabric of the social life of its citizens, the new Chinese economic statecraft and its "going out" policy have been an active coordinated machine with all its agents acting in unison to facilitate the Chinese to their efforts to "go global". Since 2001, the PRC has pushed its SOEs and national champions to venture overseas to develop Chinese brands that can overwhelm the world market (Callahan 2011, p. 9).

The rise of China as an economic power, coupled with increasing regionalization and globalization, presents opportunities for Chinese Capitalism to survive and adapt over the past two decades. Southeast Asia has witnessed increasing complexity and variations of "hybrid capitalism" (Yeung 2004), including alliances between state-led capitalism, transnational entrepreneurship emanating from China's "going out" policy, and local ethnic Chinese expertise. See Figure 2.

We can highlight three particular forms of Chinese Capitalism in Southeast Asia: neoliberal capitalism, flexible capitalism and Confucian capitalism. These are by no means mutually exclusive, and are rather intermingled by virtue of the different socio-economic conditions in which they have functioned.

Neoliberal capitalism is broadly generalizable to large-scale Chinese businesses operating in all AEC member countries. This form of capitalism integrates the financial resources of state-led enterprises and of market-oriented upper-class executives investing heavily in infrastructure megaprojects and export-oriented industrial development projects promoted by state investment policies and often operated by SOE-private sector joint ventures. Neoliberal Chinese Capitalism is redistributive in the sense that it strategically exploits political connections and joint investments with host country GLCs or MNCs owned by local ethnic Chinese in order to obtain contracts, concessions or projects with highly favourable conditions. Chinese SOEs and MNCs are motivated by the "going out" policy, by preferential trading arrangements such as the China–ASEAN Free Trade Agreement and by

Figure 2: Chinese Hybrid Capitalism in Southeast Asia



economic regionalism to relocate operations to Southeast Asia. Local big businesses owned by ethnic Chinese serve as links between China and host countries. Neoliberal SOEs and MNCs tend to be more attracted by authoritarian countries where productive alliances can be fostered in institutional settings that favour connections and patronages in order to minimize investment risks.

Large-scale business investment from China remains in close contact with, and to a large degree is directed by the state. Interacting in foreign markets opens more room for business opportunities in the form of new connections among ethnic Chinese economic elites who, in turn, link large-scale transnational investors with local crony capitalists and political elites. They thereby maximize the privileges provided by the host countries. The Golden Triangle Special Economic Zone on the northern border of Laos run by the Chinese tycoon Zhao Wei (Pinkaew 2015); Union Development's Seven Dragon SOE in Koh Kong, Cambodia (Touch 2015); and the high-speed railway projects in Laos and Thailand (Chen and Haynes 2015) are just a few examples of the large-scale neoliberal capitalist investment seen all over Southeast Asia.

Flexible capitalism is broadly generalizable to small- and medium-scale operations by transnational Chinese entrepreneurs in all AEC member countries. The term "flexible capitalism" is used interchangeably with qualities such as adaptability and versatility. The middle-class Chinese transnational entrepreneurs in Southeast Asia are well educated, well travelled, highly individualistic, high-tech oriented, highly mobile and risk-taking investors. They are highly flexible in diversifying their businesses. They can set diverse business processes in motion readily in response to market demand, and yet they are able to quickly move their capital to new lines of business or trade when the market changes. A greater dispersal of investment, production and recruitment of labour allows for greater flexibility in capital accumulation, the production process and the organization of labour.

In recent years, these transnational entrepreneurs have increasingly turned their attention to the "creative economy" and to "innovative industries" at the crossroads of art, culture, business and technology. The creative economy can be highly transformative: expanding employment, increasing exports and generating income. Postmodern product design and production process entail higher measures of specialization such as "tailor-made", "chic", boutique, "nouveau", "fusion", "niche market" and online trading, which require a high level of skill. Flexible capitalism undermines work as a source of identity, and traditional social relationships and groupings are eroded (Kjaerulff 2015, pp. 5–8). New transnational entrepreneurs no longer ascribe to the kind of economic activity that provides a measure of stability. They would rather embrace a process of individualization and fragmentation that spans the workplace and the global space. Electronic payment systems, credit cards, or online payment platforms help the entrepreneurs deal with accounting and e-bill paying systems as well as gather data and keep records of daily accounts. They give these flexible entrepreneurs greater mobility in managing their multiple businesses remotely.

Confucian capitalism is broadly generalizable to small-scale overland Chinese businesses constructed around family connections in Laos, Myanmar and Vietnam. These small-scale Chinese migrant entrepreneurs are arguably the epitome of “Confucian capitalism” (Yao 2002, p. 2). They use *guanxi* relations and connections to develop trust and mutual assistance in business arrangements among themselves and with others. They rely equally on family and ethnic affiliation, shared cultural values, and the strategic deployment of resources, power relations and co-optation. What we witness in these small-scale entrepreneurs is a mixture of pragmatism and strategic use of Chinese cultural values.

These new migrant small-scale entrepreneurs came to the region originally as contracted workers and technicians working on road construction, rubber plantations and industrial development projects. Many have stayed on and set up small businesses with personal and family savings. Some small-scale entrepreneurs came to work as shop assistants, while others stayed on after visiting friends and relatives already settled in host countries. Some are petty traders who load commodities on trucks to sell in rural villages and at local market fairs. It is common that, while Chinese entrepreneurs may settle down in a city, they all have relatives, friends or family members running similar businesses somewhere else. The main commodities sold in Chinese shops are mostly inexpensive, low-quality products — including clothes, home appliances, mobile phones, cosmetics, automobile and motorbike parts and accessories, sports equipment, agricultural tools and machinery. The increasing numbers of small-scale migrant entrepreneurs in many urban centres have led to intensifying business competition. A result of vulnerability to increasing competition and the related insecurity of trade is an inexorable tendency towards mobility and increasing exploitation of family members and hired labours (Yao 2003; Nonini 2003).

In many parts of the Greater Mekong Subregion, small-scale Confucius capitalism is rapidly changing. The future is an open-ended question. In fact, all forms of economic arrangements and organizations here grouped under the label of Chinese Capitalism are drifting and strategically adapting to the ever-changing socio-political and economic situation. The transformation of Chinese Capitalism in the AEC member countries is deeply linked to the regional integration of their economies with China through trade and investment flows. It remains to be seen whether these forms of hybrid Chinese Capitalism will endure as regionalization accelerates.

There is growing concern about whether ASEAN economies will be increasingly centralized and absorbed into the state-led economic organization of China. There is also a great deal of anxiety over ASEAN's resilience in the face of a rapidly shifting balance of power in the Asia-Pacific. In the years to come, the AEC will have to face new tests of how to avoid falling into the Thucydides Trap.

THE THUCYDIDES TRAP

The Athenian historian Thucydides once lamented on the Peloponnesian War that it was the rise of Athens and the fear that this inspired in Sparta that made conflict inevitable (Hanson 2005). The phrase "Thucydides trap" has thus come to refer to the tensions between an established hegemon and a rising challenger. Over the past several decades, ASEAN countries have witnessed increasing tensions in U.S.–China relations in a wide range of areas. The defining question of global and regional order in the years ahead will be whether the United States and China can escape the Thucydides trap to strike a balance between competition and cooperation, and work together to rectify and meet global economic, political and security challenges.

China's rise and expanding political and economic interests have resulted in a drastic change in the regional order. It has adopted a more assertive approach towards multilateral organizations, which it considers to be controlled by and for Western powers, and also towards ASEAN, a grouping of its southern neighbours. Are we witnessing the formation of a regional economy that is specifically Chinese and dominated by the PRC? Are we seeing the extension of a Greater China Economic Zones that originally comprised China, Taiwan, Hong Kong and Singapore to cover other Southeast Asian countries?

The China Dream project — One Belt, One Road — can be seen as the extension and "institutionalization" of Chinese Capitalism which will lead naturally to the speculation that an extremely powerful and extensive Chinese trade network is likely to develop across Asia, the Middle East, Africa and Europe. This economic centralization is also a project of transnational governance, a Chinese version of the world economic order, and a resinicization of regional and global economies. The OBOR represents both a symbolic and a direct challenge to the world economic order established and sustained by the United States and its partners. It is a potential reason for increasing competition.

Increasing competition between the United States and China is of serious concern for AEC member countries. Changing U.S. priorities in Asia over the past several decades coupled with China's increasing efforts to deepen its relations with ASEAN are factors mitigating U.S. influence in the region. Increasing ties between members of the new Chinese diaspora and new Chinese investors on the one hand and older regional ethnic Chinese economic elites on the other are leading ASEAN Chinese communities towards a resinicization process and toward attaching increasingly positive value to China as an economic partner. China's desecuritization and economic centralization strategies are designed to reassure AEC member countries that China continues to value close relationships with its southern neighbours despite uncertain and changing global politics and U.S.–China continuing competition.

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