ECONOMIC RELATIONS BETWEEN EAST AND SOUTHEAST ASIA AMID THE COVID-19

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Executive Summary

1. The world is still reeling from the economic impacts of COVID-19. Southeast Asian countries have not been spared despite becoming China's top trading partner. The growing inward foreign direct investment from East Asia has made Southeast Asia an important supply node to the regional production network.

2. Southeast Asian countries have strong economic ties with East Asian countries, especially in trade. In 2018, East Asia made the most contribution (26.1%), followed by intra-Southeast Asia (24.1%), the United States (11.2%) and EU (10.9%) to total ASEAN export. ASEAN exports were hit badly, from -15% in April to -25% in May, when East Asia imposed lockdowns to counter the COVID-19 pandemic.

3. However, ASEAN became China's largest trading partner with 5.6% year on year increase, which was close to 15% of China's total foreign trade in the first half of 2020.

4. East Asian countries have also become the top investors, especially in the manufacturing sector, for Southeast Asia. Some ASEAN countries, Vietnam in particular, are still the preferred destinations for investments from East Asian countries, especially China in the first half of 2020, though investments have clearly declined amid the COVID-19 pandemic.

5. Southeast Asian countries are also eyeing projects that are moving out of China due to the disruption in regional supply chain amid the pandemic outbreak.

6. The COVID-19 outbreak hit first the service-related industries such as tourism in Southeast Asian countries before crushing the manufacturing sector in East Asian countries, leading to factory shutdowns and disrupting the regional supply chain.

7. Southeast Asian tourism dived to 36% in the first quarter of 2020. Southeast Asian countries depend greatly on tourists from East Asia for their tourism figures, which accounted for one third of total tourist arrivals in 2018.

8. Like Thailand and the Philippines, Vietnam has announced measures such as increasing local fights' frequency to push up domestic tourism under the remaining international travel restriction in order to counter the loss of travellers from East Asian countries.

9. Southeast Asian countries, interlocked with East Asia's economic recovery, have repeatedly lowered economic growth estimates and enhanced their fiscal stimulus packages to mitigate the shock of the COVID-19 pandemic, but there are no foolproof measures.

10. The ongoing pandemic with supply chain disruption, the economic integration slowdown, the US-China tension and the South China Sea dispute will redirect the development of East and Southeast Asian economic relations.

ECONOMIC RELATIONS BETWEEN EAST AND SOUTHEAST ASIA AMID THE COVID-19

KONG Tuan Yuen[*]

In the Same Boat

1.1 More than half a year has passed since COVID-19 has been reported in China and the world is still reeling from the impact it has wrought on economies. That the world recorded one million new COVID-19 cases within 100 hours and countries which had flattened the curve of COVID-19 cases are now reporting second waves of COVID-19 cases have doomed the prospect of a quick economic recovery for the region and for the world at large.[1] Southeast Asian countries have not been spared, despite the strong economic relations with East Asia.

1.2 The high economic interdependency between East and Southeast Asian countries explains the intense economic integration while unveiling the vulnerability of regional supply chain in times of a pandemic. The expansive exports from Southeast Asia to East Asia and the growing inward foreign direct investment (FDI) from East Asia make Southeast Asia an important supply node to regional production network. The lockdowns imposed in several countries have led to a standstill in trade, production and consumption activities. East Asian countries, including China (-6.8%), Japan (-3.4%) and Korea (-1.4%), were reportedly in dire economic straits as indicated by their first quarter gross domestic product (GDP) in 2020. Southeast Asian countries which depended heavily on exports to East Asia were thus hard hit. When exports to East Asia reported its worst quarter, the worst was yet to come. Exports to East Asia further worsened in the following months of April and May (Figure 1).

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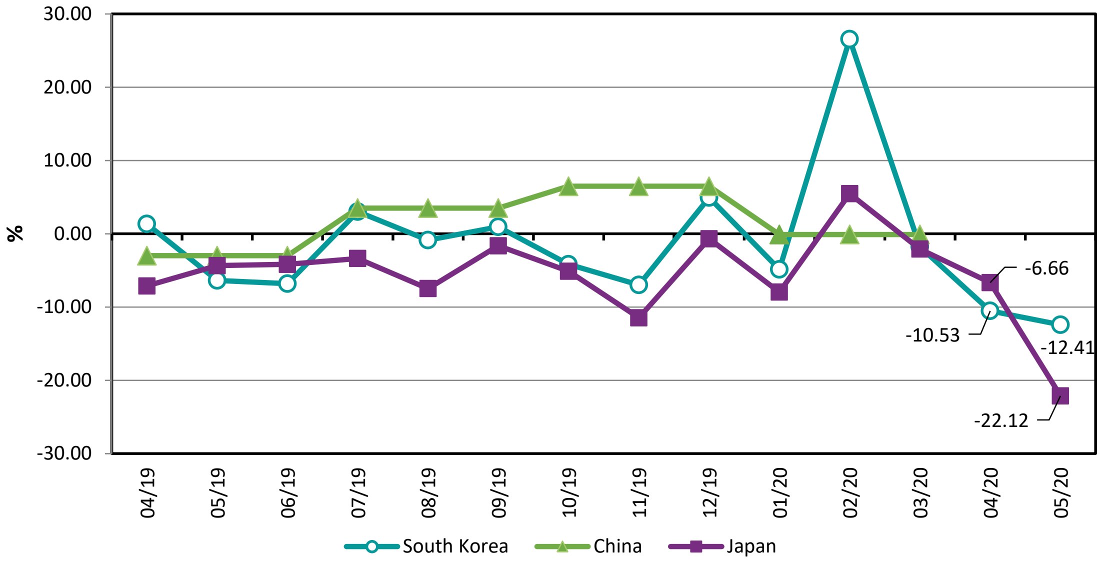
[1] https://www.straitstimes.com/world/united-states/for-first-time-world-records-1-million-coronavirus-cases-in-100-hours-reuters (accessed 20 July 2020).

FIGURE 1 ASEAN'S MONTHLY EXPORT TO EAST ASIA



Note: The ASEAN 6 includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.
Source: CEIC data, https://insights-ceicdata-com.libproxy1.nus.edu.sg/Untitled-insight/views (accessed 25 September 2020).

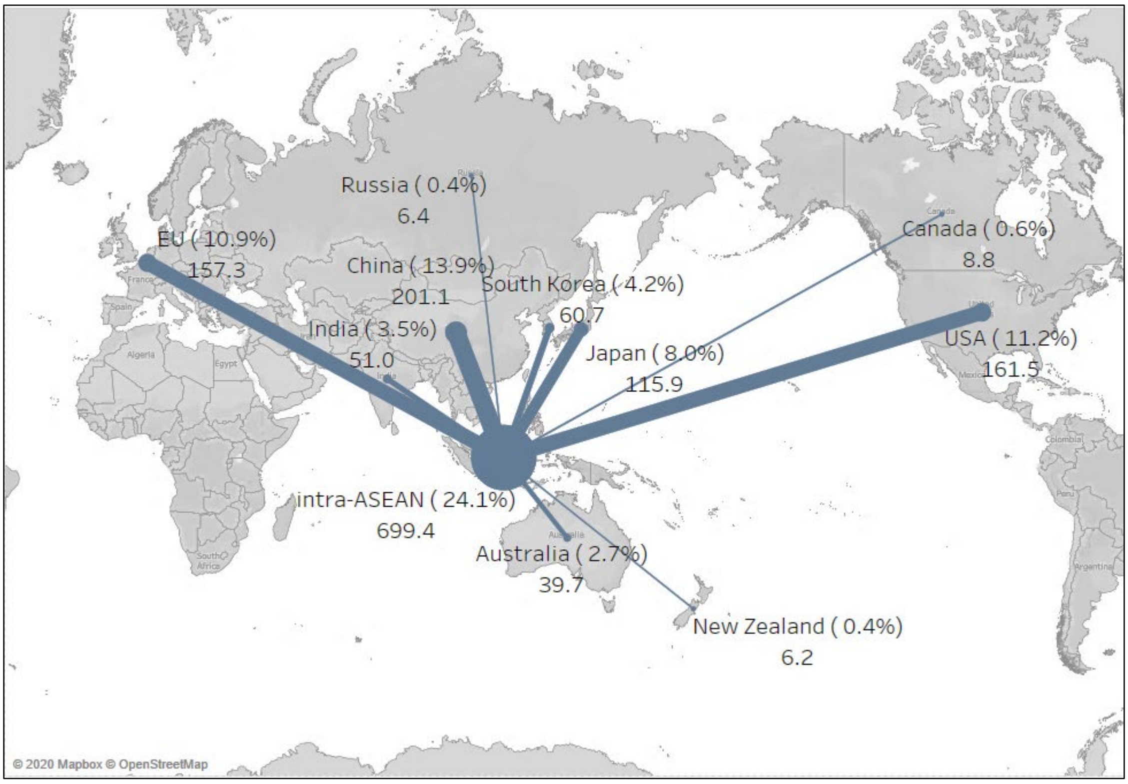
1.3 With East Asia registering its lowest level of factory output since 2009, this has generated a spillover effect on most Southeast Asian countries which have also recorded their lowest readings of Purchasing Manager Indexes (PMI) in history; this was despite China lifting its lockdown and gradually reopening its factories. The COVID-19 pandemic had disrupted the supply of raw materials from East Asian countries for months, resulting in business closures in many Southeast Asian countries.[2]

1.4 Southeast Asian countries have strong economic ties with East Asian countries, especially in trade. The East Asian countries group, including China, Japan and Korea, has the most contribution (26.1%), followed by intra-Southeast Asia (24.1%), the United States (11.2%) and EU (10.9%) to total ASEAN export (Figure 2). Particularly, China has been the largest trading partner for most Southeast Asian countries since 2009.

[2] "Asia's Factories Plunge to Record Lows as Global Lockdowns Inflict Widespread Damage". *The Japan Times*, 4 May 2020. Source: https://www.japantimes.co.jp/news/2020/05/04/business/economy-business/asia-factories-record-lows-coronavirus/#.Xs45JWgzbIU (accessed 27 May 2020).

FIGURE 2 ASEAN'S EXPORT TO MAIN TRADE PATNERS (2018)

(Unit: Percent of total ASEAN export; billions USD)

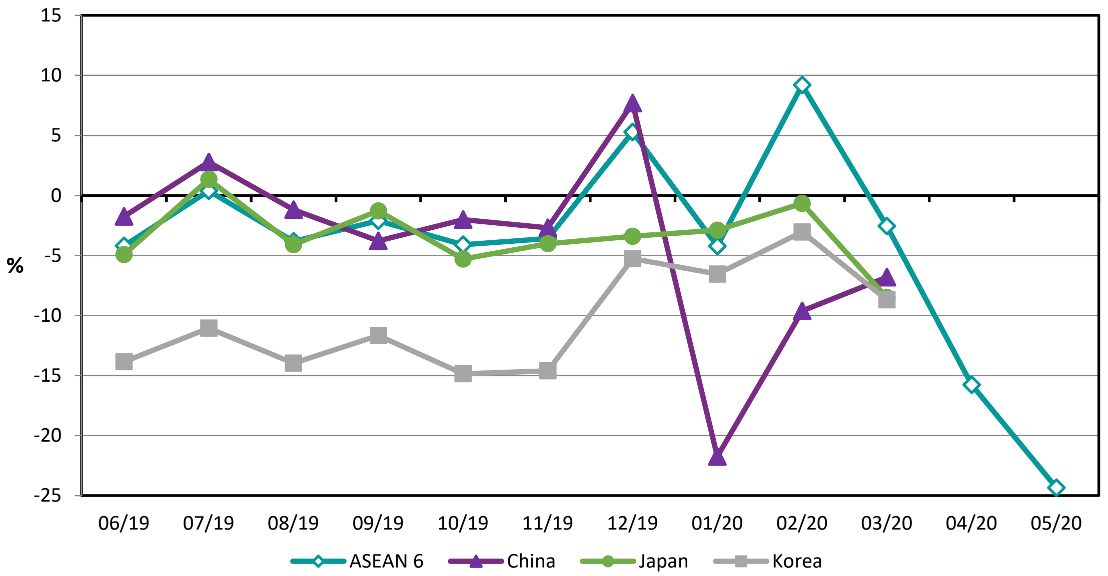


Source: Data retrieved from ASEANstats (https://data.aseanstats.org/) (accessed 21 September 2020).

1.5 ASEAN exports were hit when East Asian countries imposed lockdowns during the pandemic. The export growth of ASEAN highly correlates with the performance of East Asian countries (Figure 3). The export performance of China, Japan and Korea as well as ASEAN was weak in the second half of 2019, registering negative growth for most of the months before the COVID-19 outbreak.

1.6 The negative export growth of China had deepened after the coronavirus outbreak in January 2020. The situation in Japan, Korea and ASEAN had also worsened in the February and March following the initial COVID-19 outbreak in China; ASEAN's export growth in particular dipped by 15% in April and 25% in May, hitting hard on export-oriented ASEAN countries such as Singapore and Malaysia.

FIGURE 3 MONTHLY EXPORT GROWTH (YOY)



Note: The ASEAN 6 includes Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.
Source: CEIC data, https://insights-ceicdata-com.libproxy1.nus.edu.sg/Untitled-insight/views (accessed 21 July 2020).

1.7 Malaysia's export in April 2020 plunged by -23.8%, the largest since the September 2009 global financial crisis, possibly due to the enforcement of the Movement Control Order on 18 March as a containment measure for COVID-19. Imports by Malaysia's main trading partners including the EU, the United States, India, Singapore and Thailand had dived, but surprisingly exports to China registered a surge to more than US$100 million (YOY) in April.[3]

1.8 In May, Thailand recorded the lowest in exports in the last four years, a trend that is set to bring export figures down by 6.3% for the year of 2020. However, China-Thai trade continues to grow five per cent despite the COVID-19 pandemic, according to Prakhan Kordumrong of the Overseas Market Development Office.[4] The increasing demand for Thailand's fresh products, durian in particular, upholds China-Thai trade in the period of the pandemic.

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[3] "Sharp Decline in Malaysia's Exports", *New Straits Times*, 4 June 2020. Source: https://www.nst.com.my/business/2020/06/597855/sharp-decline-malaysias-exports (accessed 24 July 2020).

[4] http://www.xinhuanet.com/english/2020-06/24/c_139164588.htm (accessed 12 August 2020); https://www.worldbank.org/en/news/press-release/2020/06/30/major-impact-from-covid-19-to-thailands-economy-vulnerable-households-firms-report (accessed 13 August 2020); and https://www.khaosodenglish.com/politics/2020/08/24/sino-thai-trade-continues-to-grow-despite-pandemic/ (accessed 13 August 2020).

1.9 Even Vietnam, which has a good record among ASEAN 6 countries of putting the coronavirus outbreak under control, reported a huge dip of 6.7% in exports in the first half of 2020 compared with the same period last year. Almost all exports of commodities slid, with the exception of machine and equipment, computers and components export to East Asian countries, particularly China for assembly, which registered outstanding demand.[5]

1.10 Although a meltdown in total trade has been evident since the epidemic, ASEAN has surpassed the EU to become China's largest trading partner with 5.6% year on year increase, which is close to 15% of China's total foreign trade in the first half of 2020.[6] Notably, export and import of integrated circuits between China and countries like Vietnam, Malaysia and Singapore grew by over 20% in the same period.

1.11 China-ASEAN trade remains resilient despite the pandemic because China was the first economy to reopen from the lockdown and to activate normal business activities and manufacturing operations; the geographical proximity is another plus in the intense economic relations.

1.12 Southeast Asian countries, together with other East Asian countries, have urged the finalising of the negotiation of Regional Comprehensive Economic Partnership (RCEP), which covers 15 countries in the Asia-Pacific region, this year. Four Southeast Asian countries, including Brunei, Malaysia, Singapore and Vietnam, have also joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which involves Japan, to form a high-standard bloc to facilitate economic activities.

1.13 To enhance economic integration, Southeast Asian countries as a group have signed free trade agreements with China, Japan and Korea to relax trade restrictions.

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5 " FDI Data Shows Vietnam's Steady Performance in First Half of 2020", Vietnam Briefing, 16 July 2020, source: https://www.vietnam-briefing.com/news/fdi-data-shows-vietnams-steady-performance-first-half-2020.html/ (accessed 24 July 2020).

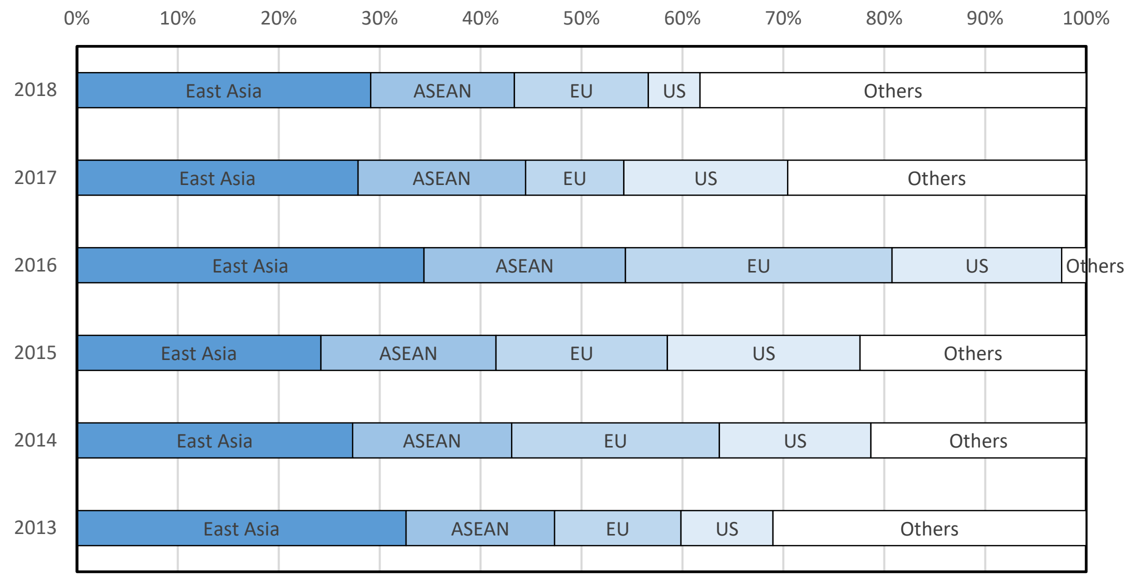
6 "Economic Watch: China's foreign trade beats estimate in H1 as economy recovers", *Xin Hua*, 14 July 2020. Source: http://www.xinhuanet.com/english/2020-07/14/c_139212101_2.htm (accessed 23 July 2020).

Notably, Singapore has also signed free trade agreements bilaterally with East Asian countries to enhance economic partnership.

COVID-19's Impact on Investment

2.1 East Asia, the United States and EU, with similar export structure, are the top three investors for Southeast Asian countries. While the source of Southeast Asia's inward FDI has shown a diversity in recent years, along with a progressive reduction in FDI inflow from the United States and EU, East Asia has contributed roughly 30% to Southeast Asia's inward FDI (Figure 4).

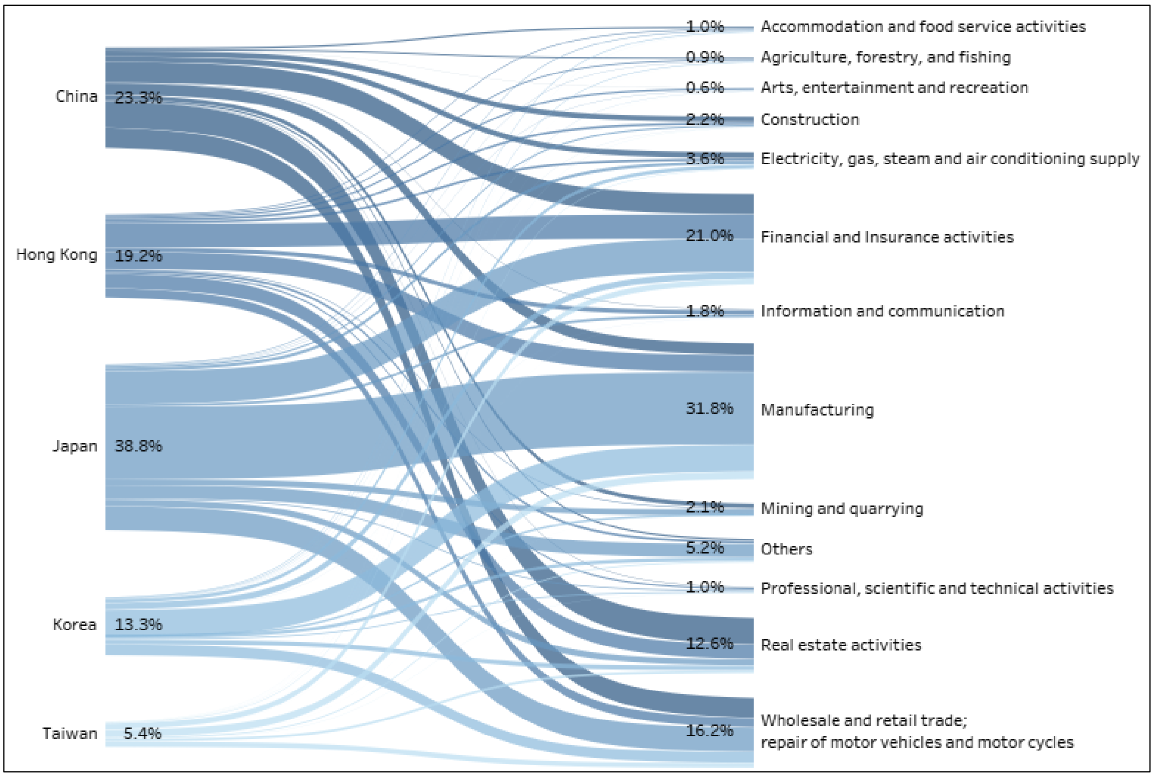
FIGURE 4 INWARD FOREIGN DIRECT INVESTMENT (FDI) TO ASEAN



Note: East Asia includes China, Hong Kong, Taiwan, Japan and Korea.
Source: Data retrieved from ASEANstats, https://data.aseanstats.org/ (accessed 3 September 2020).

2.2 Japan is still Southeast Asia's largest investor, even though China has markedly increased infrastructure investment in some Southeast Asian countries through the Belt and Road Initiatives. A good 38.8% of Southeast Asia's inward FDI in 2018 came from Japan, followed by China (23.3%), Hong Kong (19.2%), Korea (13.3%) and Taiwan (5.4%) (Figure 5).

FIGURE 5 EAST ASIA'S FDI TO ASEAN (2018)



Source: Data retrieved from ASEANstats, https://data.aseanstats.org/ (accessed 3 September 2020).

2.3 East Asia's investments in Southeast Asia are mainly in manufacturing (31.8%), followed by financial and insurance activities (21.0%), whole and retail sales (16.2%), and real estate activities (12.6%). These four industries accounted for fourth fifths of Southeast Asia's total inward FDI. Japan and Korea's investment is in manufacturing while China and Hong Kong's is more in real estate, and financial and insurance activities.

2.4 While there were concerns of divestment by East Asia in Southeast Asia particularly for heavily virus-infected Indonesia and the Philippines, there were reports of some Southeast Asian countries receiving FDI from East Asia in the first quarter of 2020. Compared with the same period last year, Japan and Korea had reached or surpassed their investment in Malaysia's manufacturing sectors, even though the country registered a lower net inflow.[7]

[7] "Malaysia Eyes Japan Projects", *The Star*, 24 July 2020, source: https://www.thestar.com.my/business/business-news/2020/07/24/malaysia-eyes-japan-projects (accessed 28 July 2020).

2.5 Vietnam's FDI was down four per cent in the first seven months of 2020; interestingly, China's investment in Vietnam has unprecedentedly accelerated despite China-Vietnam tension on the South China Sea issue. China, Japan and Korea remain the top five investors in Vietnam in the first half of 2020 in terms of value or the number of projects. The inward FDI of Vietnam in the period was chiefly in manufacturing and processing, electric gas and steam, air production and distribution, retail and wholesale, and real estate.[8]

2.6 Southeast Asian countries are also eyeing projects from Japan. Due to the disruption of China's supply chain amid the pandemic outbreak, Japan's Prime Minister Shino Abe had encouraged Japanese companies to relocate their production base back to Japan from China or diversify the production line to other countries including ASEAN.[9]

2.7 One bright spark in this period of gloom came from McKinsey Asia Chairman Oliver Tonby who said in an interview with CNBC that global supply chains are shifting to Southeast Asia given the ongoing geopolitical tensions and the coronavirus pandemic. According to Tonby, 70% of the firms in a South China survey saw Southeast Asia as the preferred choice. Singapore's economic success built on its political stability, rule of law, availability of skills and prevailing central position in the supply chains have put it in good stead to benefit from this shift.[10]

2.8 Indonesia for instance is getting ready to welcome manufacturers who are relocating out of China. It is building one of its largest industrial parks in Brebes, Central Java. The 4,000 hectares proposed park already has a road link to the capital and two nearby ports. Other countries in the region are resorting to different measures to revive their economies. Cambodia for instance is banking on free trade agreements

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8 "FDI Data Shows Vietnam's Steady Performance in First Half of 2020", Vietnam Briefing, 16 July 2020, source: https://www.vietnam-briefing.com/news/fdi-data-shows-vietnams-steady-performance-first-half-2020.html/ (accessed 28 July 2020).

9 "Is Japan pulling its companies out of China?", *The Japan Times*, 13 May 2020, source: https://www.japantimes.co.jp/opinion/2020/05/13/commentary/japan-commentary/japan-pulling-companies-china/ (accessed 28 July 2020).

10 "More Opportunities for Singapore as Companies Prefer a Shift to Southeast Asia: McKinsey", CNBC, 13 July 2020.

with its trade partners, while the Philippines is eyeing new taxes to fill its revenue shortfall and Thailand is setting up a special committee to study the feasibility of joining the CPTPP.

2.9 On the other hand, the Vietnamese National Assembly approved the EU-Vietnam FTA (EVFTA) and the EU-Vietnam Investment Protection Agreement on 8 June. A World Bank report dated 19 May forecast that the EVFTA, which took effect from 1 August, will propel growth of Vietnam's GDP by 2.4% and exports by 12% by 2030. [11] The EU factory relocating out of China is one of the reasons for the push to sign the EVFTA.

COVID-19 Impact's on Tourism

3.1 The service-related industries in Southeast Asian countries, including travel, hospitality and event management, are the hardest hit sectors after China imposed swift and aggressive lockdowns and other East Asian countries imposed international travel restrictions in late January.

3.2 Except for exchange visits between people in Southeast Asia, East Asia, including China, Japan and Korea, constitutes the main origin of tourist arrivals to Southeast Asian countries, or one third (nearly 50 million tourists) of the total in 2018 (Figure 6). While Indonesia, Malaysia and Singapore attract more ASEAN visitors, East Asian tourists, particularly from China, are critical for the tourism sectors in Thailand, Vietnam and the Philippines.

3.3 Compared with last year, tourism in Southeast Asian countries dived 36% in the first quarter of 2020,[12] devastating economies that are highly dependent on tourism-

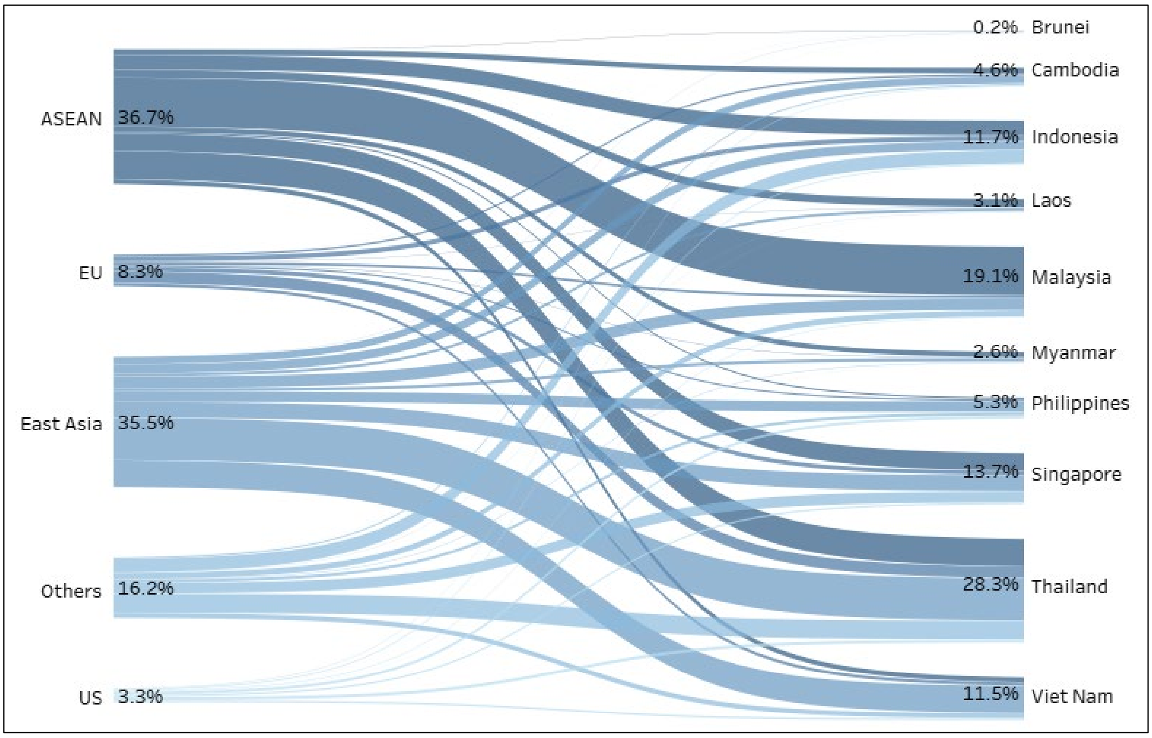
[11] https://www.fbicgroup.com/sites/default/files/Asia%20Sourcing%20Southeast%20Asia%20JUL%2020.pdf, (accessed 15 July 2020).

[12] "ASEAN Agrees Seven Tourism Cooperation Efforts Amidst the COVID-19 Pandemic", *PR Newwires*, 2 May 2020. Source: https://en.prnasia.com/releases/apac/asean-agrees-seven-tourism-cooperation-efforts-amidst-the-COVID-19-pandemic-279097.shtml (accessed 25 May 2020).

related industries (at least 10% of GDP), including Cambodia, Laos, Malaysia, the Philippines and Thailand.[13]

FIGURE 6 VISITOR ARRIVAL TO ASEAN (2018)

(Unit: %)



Source: Data retrieved from ASEANstats, https://data.aseanstats.org/ (accessed 5 September 2020).

3.4 According to World Bank's senior country economist for Thailand Kiatipong Ariyapruchya, Thai tourism accounts for close to 15% of its GDP.[14] To revive its flailing economy, from 1 July the Thai government has allowed the entry of 50,000 foreigners, including those with work permits, residency and families in the country, but with a 14-day mandatory quarantine for all arriving tourists. Taweesilp Visanuyothin, spokesperson for the Centre for COVID-19 Situation Administration, explained that of the 50,000, 30,000 foreigners would be medical and wellness tourists (those who are there for cosmetic surgery or fertility treatment). For business travellers from Japan, South Korea, Singapore, mainland China and Hong Kong, the

[13] "ASEAN Tourism Strategic Plan, 2016-2025", *Association of Southeast Asia Nations*, 2015. Source: https://en.prnasia.com/releases/apac/asean-agrees-seven-tourism-cooperation-efforts-amidst-the-COVID-19-pandemic-279097.shtml (accessed 25 May 2020).

[14] https://www.voanews.com/east-asia-pacific/thailand-still-tepid-tourists-virus-fears-linger (accessed 12 July 2020).

showing of certificates of their COVID-19-free status and tested upon arrival will exempt them from the mandatory 14-day quarantine.[15]

3.5 While Thailand badly needs the tourist dollars to boost its economy, it is cautious about its opening up. The Travel Authority of Thailand is conservative about the number of tourists it would welcome in 2020 —10 million, which is barely a quarter of the 39.8 million it had in 2019.[16] It hopes to offset the loss by boosting domestic tourism.

3.6 For Vietnam, foreign visitors dropped by 38% to 3.7 million for the first four months compared with that of last year, driving tourism revenue down to US$340 million, or down 45%. Like Thailand, it is looking at nine to 10 million visitors when it eases travel restrictions for 2020, down from 18 million in 2019.

3.7 Domestic tourism fared no better, plunging by nearly 50% to 23 million for the first six months of 2020 according to Vietnam National Administration of Tourism.[17] Hotels are offering rooms at half price. Like Thailand, the Philippines and other tourism-oriented Southeast Asian countries, Vietnam has announced measures such as increasing local fights' frequency to push up domestic tourism given the international travel restrictions, especially travel from East Asian countries.

3.8 Countries in Southeast Asia are also planning "travel bubbles" with their neighbours. Known also as "corona corridors" and "free travel zones", "travel bubbles" allow travel across countries that have successfully flattened the curve of virus infections and done away with the 14-day quarantine period upon arrival. A report by HSBC, a retail and investment bank, quoted four countries in ASEAN as

[15] "Thailand Looks to Allow Entry to Some Foreigners, Including Medical Tourists from China", *South China Morning Post*, 30 June 2020.

[16] https://www.voanews.com/east-asia-pacific/thailand-still-tepid-tourists-virus-fears-linger (accessed 12 July 2020).

[17] https://www.ttrweekly.com/site/2020/07/vietnams-tourism-drops-through-the-floor/ (accessed 14 July 2020).

potential candidates for implementing the "travel bubbles", namely, Vietnam, Thailand, Singapore and Malaysia.[18]

3.9 Singapore and Malaysia have implemented two schemes of cross-border travel since 10 August: the Reciprocal Green Lane (RGL) and Periodic Community Arrangement (PCA). The RGL caters to cross-border travelling for essential business and official purposes while the PCA allows Singapore and Malaysia residents on long-term immigration passes to enter the country to work.[19] The RGL will be extended to other East Asian countries including China and South Korea by reciprocal principle to restore the bilateral exchange and business. Notably, China sent its top diplomat Yang Jiechi to discuss with Singapore about the Fast Line arrangement for essential business in late August 2020.[20]

3.10 For those on the RGL scheme, they will have to undergo polymerase chain reaction (PCR) swab tests and to detail their itinerary to the country of their visit and to stick strictly to that itinerary. For the PCA scheme, it would be a cycle of three consecutive months in their country of work, followed by a short-term break in their home country before the whole cycle of three consecutive months of work restarts. All travellers would have to adhere to prevailing COVID-19 prevention and public health measures as agreed by the two countries.

Uncertainties Ahead

4.1 The World Health Organisation (WHO) had declared the outbreak of COVID-19, which was first reported in China last December, a Public Health Emergency of international concern on 30 January 2020. It spread at alarming speed from the East Asian region to nearly 190 countries worldwide, infecting over 32 million people and resulting in almost one million deaths as at the end of September 2020.

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18 https://www.voanews.com/covid-19-pandemic/after-collapse-tourism-asean-eyes-domestic-travel-weighs-travel-bubble (accessed 14 July 2020).

19 https://sg.yahoo.com/news/plans-for-10-aug-start-for-2-crossborder-travel-schemes-between-singapore-malaysia-031920634.html (accessed 14 July 2020).

20 https://news.cgtn.com/news/2020-08-21/Yang-Jiechi-China-will-promote-regional-global-peace-with-Singapore-T7VBp9b9Cg/index.html (accessed 25 August 2020).

4.2 Southeast Asian countries, interlocked with East Asia's economic recovery, have repeatedly lowered economic growth estimates and enhanced their fiscal stimulus package to mitigate the shock of the COVID-19 pandemic. Affected Southeast Asian countries are swiftly redirecting resources to the health sector and formulating economic stimulus packages, especially for the disruption of supply chain and essential business. Among Southeast Asian countries, Singapore (20%) followed by Malaysia (17%) and Thailand (12%) have forked out the largest amount (GDP ratio term) of fiscal stimulus package to mitigate the negative economic impact of COVID-19 so far.[21]

4.3 The fiscal stimulus packages are not foolproof measures. Most of the measures are short-term or inward-looking measures which aim at increasing current health spending and reducing the panic that arises from local business closures. They do not take the changing external environment, especially the disruption of regional supply chain, into full consideration amid the COVID-19 pandemic. Most of these packages neglect the long-term view on collaborative development under regional economic integration, particularly with the East Asian countries. Southeast Asian countries are facing difficulties in recovering from the economic downturn on their own.

4.4 Many Southeast Asian countries, including Singapore, Vietnam, Malaysia and Thailand, are export-oriented economies with an export ratio that accounted for more than 50% to their GDP; they are passionate about pushing regional economic integration for economic development.[22] Four Southeast Asian countries are signatories to the CPTPP which entered into force on 30 December 2018; some others including Malaysia and Brunei have yet to complete their domestic ratification. East and Southeast Asian countries have concluded the final text-based negotiation of RCEP last year, but the progress of the agreement, which is expected to come into force this year, is likely to be delayed by the COVID-19 pandemic and China-US decoupling.

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21 The stimulus packages of the Philippines (9%), Indonesia (6%) and Brunei (3%) are relatively moderate and those of CLMV countries (Cambodia, Laos, Myanmar and Vietnam) are less than 1%.

22 Kong Tuan Yuen and Sarah Y Tong, "The Long-Awaited Regional Comprehensive Economic Partnership: Significance and Challenges", *EAI Background Brief*, No. 1513, 5 March 2020.

4.5 The external uncertainties have certainly been aggravated by the heightened China-US tension. The increasing China-US rivalry may cause an economic split that jeopardises global economic integration that is desirable for market expansion, technology sharing and cross-border investment. The impact of China-US decoupling on Southeast Asian countries is mixed. Southeast Asia would be required to take sides if the US-China trade war persists. Some countries may lose orders from the United States and its alliance if they depend on trade relations with China, while some may benefit from the factory relocation from China.

4.6 The disruption to the global supply chain amid COVID-19 pandemic and China-US tension not only depresses many countries' domestic economic development, but also leads political leaders to reconsider unilateralism instead of global integration. Some countries may prioritise development of domestic industrial chain over global economic interdependency. The region has always been keen on promoting regional integration and participating in the global production network. However, it would be a challenge for the region to continue the momentum given the complexity of its domestic politics.

4.7 Southeast Asian countries are also keeping a close watch on China's economic resilience and industrial restructuring. China's economic growth unprecedentedly plunged to negative 6.8% in the first quarter of this year and Premier Li Keqiang abandoned the annual growth target in 2020. However, China is refocusing on its Western Development Strategy initiated two decades ago and has announced an estimated US$1.4 trillion plan to develop "New Types of Infrastructure", including AI, 5G and cloud computing, based on long-term dual circulation strategy.

4.8 Another flashpoint that has caught headlines recently is the territorial disputes between Southeast Asia and China in the South China Sea, including fisheries issue and oil exploration. China and Southeast Asian countries have agreed to draft a Code of Conduct to ensure peace and stability of the South China Sea since 2018; the endeavour was put on hold due to the COVID-19 pandemic. The worsening US-China tension and the geopolitical uncertainties in the South China Sea are set to hamper efforts for strengthening economic ties in the region.