

Bachelorarbeit

über das Thema

***Sino-Vietnamese Relations and Cross Border Economic Cooperation
-The Socioeconomic Determinants to Chinese OFDI in Vietnam-***

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1953年冬，胡志明主席在百忙中前往中国军事顾问团驻地看望韦国清同志，恰逢韦国清同志到前方考察战场，没能见面，胡主席因此留下一首诗，赠给韦国清同志。
诗曰：

百里寻君未见君，
马蹄踏碎领头云。
归来偶过山梅树，
每朵黄花一点春。

(Ho Chi Minh, 1953)

Contents

Acknowledgments	5
1. Introduction	5
2. Sino-Vietnamese Relations	6
2.1 Historic Overview	7
2.1.1 Before the Colonial Period	8
2.1.2 The Colonial Period until the end of WWII	9
2.1.3 The Vietnam War, or 对法/美救国抗战	13
2.1.4 Worsening of Relations after Vietnam War	17
2.1.5 Normalization of Relations after 1991	20
2.2 Economic Relations	22
2.2.1 Cross Border Trade	23
2.2.2 Current Problems	27
3. Vietnam as Destination of FDI	29
3.1 The Vietnamese Market	29
3.1.1 Population and Work Force	29
3.1.2 Market Reform “Doi Moi” and WTO	30
3.1.3 Infrastructure	31
3.2 Legal and Tax Issues	32
3.3 Investing in Vietnam	35
3.3.1 ODA in Vietnam	36
3.3.2 FDI in Vietnam	36
4. 走出去; China’s Going Global	40
4.1. The New Role of China as International Investor	41
4.2 Chinese OFDI in Vietnam	44
5. Conclusion	48
Works Cited	50

Tables

Table 1. China-Vietnam: Total Import-Export Turnover 1998 - 2008
(page 21)

Table 2: Number of Tourists crossing the border in both directions (1993 - 2001)
(page 24)

Table 3: 2006年中国出口越南主要产品
(page 25)

Table 4: 2006年越南出口中国主要产品
(page 25)

Table 5: Structure of Vietnam's export markets 2010
(page 27)

Table 6: FDI in 2011 by kind of economic activity, in million USD
(page 37)

Table 7: Licensed FDI Projects in 2011
(page 38)

Table 8: Chinese OFDI Distribution in 2012
(page 42)

Table 9: Distribution of Chinese OFDI in industries (in Billion USD)
(page 43)

Table 10: FDI inflows, 2005-2011 (in Billion USD)
(page 45)

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During the writing of this Bachelor Thesis I was especially impressed by the person of Ho Chi Minh. Before I had come to Vietnam and conducted the research for this work, I mistakenly assumed the Vietnamese Communist leader to be Vietnam's Kim Il-sung; a Communist politician backed by the international Communist camp, a mere puppet of international politics that is. The consultation of Western, Chinese and Vietnamese literature however, enlightened me that Ho Chi Minh is to Vietnam what Sun Yat-sen is to China; the father of the nation; a universal scholar who loved his people and sacrificed his life to fight for its freedom.

1. Introduction

For decades, Vietnam, a beautiful country located in central Southeast Asia, on the Eastern part of the Indochinese peninsula, was a country long synonymous with war. Today, Vietnam has become a popular destination for tourists as well as investors. When the "Doi Moi" Policy was launched in 1986, Vietnamese national economic and political reform has significantly and steadily developed.

At present, Vietnam is officially member of 63 international organizations, including the United Nations (UN) (1977), the Association of Southeast Asian Nations (ASEAN) (1995), the Asia-Pacific Economic Cooperation (APEC) (1998) and the World Trade Organization (WTO) (2007), as well as having diplomatic relations with more than 160 countries.

This Bachelor Thesis is written from the perspective of a scholar of Modern Chinese Studies for the Chinese Department of the Faculty of Language, Culture and Translation Studies of the Johannes Gutenberg University Mainz. A broad introduction of relevant Vietnamese History will first be provided, followed by the investigation of Sino-Vietnamese relations. Chapter 3 introduces the Vietnamese Market and Vietnam as destination of foreign direct investments (FDI) and chapter 4 will investigate China as

source of FDI and in particular, Vietnam as host of Chinese FDI. Given the writer's and contemplated reader's academic origin, this work will go into detail at points where it is deemed necessary to understand ancient and modern Vietnamese history and culture, background knowledge of Chinese language, society and history on the other hand can assumed to be familiar with the reader. Therefore, Chinese names of persons and places as well as quotations will be used in the continuous text without translation.

The aim of this work is to introduce the Vietnamese Market and the Vietnamese economy in general and as recipient of Chinese FDI. For this purpose, a wide range of literature about Vietnamese History, Sino-Vietnamese Relations, Vietnamese Economics and the relevant data by institutions such as the United Nations Conference on Trade and Development (UNCTAD), the Ministry of Commerce People's Republic of China (MOFCOM) and the Foreign Investment Agency of Vietnam (FIA) have been consulted. It is important to note that the writer of this work is not an economist himself and that as a consequence no calculations nor considerations about economic and investment development are made. This work is merely an evaluation of the consulted literature on history, social studies, politics and economics aiming to provide a better understanding of Vietnam as host country for FDI and what opportunities and obstacles Chinese enterprises have to face when investing in Vietnam.

Since FDI from mainland China does not yet play a major role in Vietnam, the central question of this work is, what are the reasons for the relatively low level of Chinese FDI in Vietnam?

2. Sino-Vietnamese Relations

China and Vietnam share a long history; a history of collaboration and friendship, tumult and hostility, dating back as far as the first century BCE. Since 1991 the world has seen a gradual normalization of the two countries' relations. However, border disputes emerged in 2009, when China claimed 80% of the South China Sea (the Vietnamese refer to it as East Sea), involving the possession of two island groups: the Paracels and the Spratlys. It is

estimated that the Spratly and Paracel Islands could bear potential oil resources of as much as 213 billion barrels.¹

After 1991, bilateral trade between the two countries has grown from USD 32 million to USD 28 billion in 2010, making China Vietnam's largest trade partner, followed by the United States, the European Union and Japan. On the other hand, Vietnam counts for less than 1 percent of China's total export rate. (cf. McCornach)

This chapter will have a closer look at the historic relations between the two neighboring countries, aiming to reveal the necessary insights to understand each country's modern foreign policies towards the other and its effect on economic relations, which will be discussed later in this chapter.

2.1 Historic Overview

从古代历史来看，越南有1000多年被纳入中国封建王朝的版图。根据记载，公元前221年，秦始皇统一中原后，越过五岭，平顶岭南，并在这里设置了南海，桂林和象群，范围包括今越南的北部和中部的部分地区。[...] 公元前111年，汉武帝派伏波将军灭南越国，设交趾（或称交州，唐朝称安南），都下辖九郡，并派刺史进行统管，从此，该地区由中央王朝派员直接管辖。因而，秦、汉、东吴、晋、宋、梁、陈、隋、唐、五代及明朝永乐时期，越南都在中国的版图内，时间长达1202年。因而，在这段时间里，中越之间的关系实际上是一个国家之内的中央和边远地区的关系。（潘金娥 138）

According to the historic perspective Pan provides in the section quoted above, Vietnam has been part of China's feudal dynastic territory for over 1000 years. From a Chinese point of view, Sino-Vietnamese Relations during this period are regarded as domestic relations between the central and remote areas of one country.

It becomes apparent that the Vietnamese point of view on this period is quite different when we have a look at how Ha Thi Hong Van and Do Tien Sam describe the Chinese rule in the chapter "Domination of Northern Feudalists" in "*A Brief Chronology of Vietnamese History*":

¹ Beijing's attempts to exert longstanding claims over the islands and waters of the South China Sea have done more than any other single issue to raise fears about Chinese expansionism in East and Southeast Asia. It has brought China into real or potential conflict with Vietnam, the Philippines, Malaysia and Brunei, each of whom claim all or part of the area [...]. [In] 1974 Beijing was able to evict troops of the government of South Vietnam from the Paracels. A further 14 years passed before China's second big move south: the capture of 6 islands in the Spratly group from the government of united Vietnam. During this conflict several lives (most of them Vietnamese) were lost in a brief naval battle. (Hutchings 392)

Each district was headed by a Chinese district chief and a Chinese governor supervised several districts. [...] The old annals paid tribute to Governors for their merit in civilizing the country and educating the people about morals and rites [...] whose greed and ruthlessness caused immense sufferings for the local people. (Ha, Thi Hong Van, and Do, Tien Sam p. 17f)

It appears that Chinese and Vietnamese have diverging notions of their common history. These diverging notions of ancient history provide evidence of unresolved conflicts between the two nations that may have a lasting effect on today's politics. In order to better understand the diplomatic situation today, this chapter will have a closer look at Vietnamese history while considering the role China played during the various historic periods.

2.1.1 Before the Colonial Period

Originally, Austronesians, remote relatives of the peoples of Southeast Asia and the Pacific, inhabited what is today Vietnam. Approximately four thousand years ago people from what is now Southern China migrated to the south and brought with them their language and culture, where they interacted with the indigenous South East Asian population. The Vietnamese language has a Mon-Khmer origin, with additional Tai influence, which later produced the Thai and Laotian languages.

Approximately three thousand years ago, a distinctive culture emerged in the midlands and surrounding valleys of the Red River Delta.

According to ancient myth, the Vietnamese are descended from dragons and fairies. When the Dragon Lord of the Lac fathered a hundred children by a mountain princess of fairy blood named Au Co, he returned to the sea with half their offspring while she settled in the midlands of the Red River with the other half. (Jamieson 7)

As quoted above, the northern part of Vietnam fell under Chinese rule for the first time during the Qin Dynasty in 220 BCE. During the Han Dynasty, the plains of northern Vietnam became a province of China, but indigenous cultural patterns mostly prevailed and the effect on local leadership was minimal.

In the centuries that followed, the population inhabiting the Red River Delta and northern coastal regions was step by step sinicized, while simultaneously, ethnic Chinese in the region were heavily influenced by local customs. "Genes and cultures mingled to produce a new Sino-Vietnamese elite. For seven hundred years this region would be Giao Chau [交州], a province of China. But a distinctive local identity was retained". (cf. Jamieson 8)

Revolts and turmoil broke out periodically. Under the weaker Tang Dynasty, the Vietnamese regained their independence in A.D. 939.

The Vietnamese Ly Dynasty (1009-1225), which encouraged Buddhism and Confucianism, began to shape what is today regarded as traditional Vietnam. The Ly Dynasty was succeeded by the Tran Dynasty (1225-1400), during which Vietnam continued to expand in population and territory. In 1407, weakened by an economic crisis and peasant revolts, Vietnam fell back to Chinese rule. The Ming administrators regulated village government, economic affairs, religious ceremonies, and even hair styles and modes of dress. Furthermore, they promoted Neo-Confucian doctrines, which became a vital influence on Vietnamese thought in the decades and centuries to follow.

The Vietnamese Le Loi Dynasty expelled the Ming invaders in 1428, but Neo-Confucianism became nevertheless a dominant element in Vietnamese ideology. The Nguyen Dynasty, holding power from 1802, sought to make Neo-Confucianism the foundation of the national culture.

Over many centuries, Taoism, Buddhism, and Confucianism had become intertwined, simplified, and Vietnamized to constitute – along with vestiges of earlier animistic beliefs – a Vietnamese folk religion shared to some extent by all Vietnamese. But over time, beginning in the late fifteenth century and becoming most extreme in the nineteenth century, Neo-Confucianism came to be a dominant influence. (Jamieson 11)

It was under the Nguyen Dynasty that traditional Vietnamese culture would reach its final form, which would persist into the 20th century to confront and interact with Western influences. (cf. Jamieson p 6f)

2.1.2 The Colonial Period until the end of WWII

The French conquest and colonization of Indochina started in 1859 and was completed by 1883. Indochina then consisted of three neighboring countries: Vietnam, Laos and Cambodia, Vietnam being the most populous of them. In the 1880's, a large portion of the Vietnamese population were working in the agricultural sector as rice farmers. The biggest centers of cultivation were the Red River Valley and the densely populated area around Hanoi in the North and the Mekong River Delta with Saigon in the South.

The French established three administrative zones; a northern zone with Hanoi, a central zone with Hue and a southern zone with Saigon as the capital.

The colonial government began to transform the village economy towards a capitalist system after 1900. Originally, up to 2/3 of the land belonged to the village and were rented

to peasants without land. The village council would rent this land to poorer families at reasonable prices. “In most Vietnamese villages in 1888, the rich were rich but the poor could live” (Neale 9). Under French rule, the government took most of the land and gave it to French businessmen. Furthermore, the government raised taxes on agricultural products to approximately 20% in order to finance a strong and modern state.

Since the colonial government needed workers to build up a strong state, a head tax was established. As long as the peasants could grow enough rice to live, they would not leave their villages to work in the cities and factories for low wages. Urbanization occurred so that families can earn enough money to survive. “Traditional Vietnam already had a head tax, but it was paid in rice and the emperor cancelled it in years of bad harvest. The French doubled the tax, refused to reduce it in bad years, and insisted on cash” (Neale 9).

In order to strengthen their power in the villages, the French increased the stand of the landlords, giving them more authority. In return, the landlords would support the French government and strengthen the colonial order. This inequality helped to consolidate the colonial government and sent workers and rice to the cities. But at the same time this inequality triggered bitterness and resistance. (cf. Neale 8f)

For much of Asia, the nineteenth century was a traumatic time. A powerfully expanding Western civilization compelled the entire world to participate in an international market economy. This self-amplifying blend of science, industry, and Christianity was driven by competition among its member nations for raw materials and markets and was expanded by force of arms when necessary. (Jamieson 42)

With the turn of the century, Vietnamese grew aware of their weakness and concluded that they had to master Western culture and its scientific advances. These thoughts were triggered by intellectual circles from Shanghai. By 1904, a Vietnamese elite openly discussed Chinese publications that promoted a “self-strengthening” movement. “A new era began in Vietnam with the founding of an Association for the Modernization of Vietnam in 1903”. (Jamieson 57)

Anyone who is acquainted with Chinese Contemporary History will find that this situation and these events are very similar to the events that finally lead to the May Fourth

Movement in 1919²: A new generation of scholar activists reflected on the ideas of Rousseau, Voltaire, Montesquieu, Darwin and Herbert Spencer and the Association for the Modernization of Vietnam was founded in 1904. Like many Chinese, Vietnamese students went to Japan to learn from the first modernized Asian nation. Many more followed after Japan became the first Asian power to triumph over a Western Power when they defeated Russia in the Russo-Japanese War of 1905. In 1927, the Vietnamese Nationalist Party (VNQDD) was formed. It was loosely bound on the teachings of Sun Yat-sen³. It however, paid little attention to legal reforms but instead prepared an armed uprising. It was during this time that Ho Chi Minh⁴, a founding member of the French Communist Party in 1920, was sent to Canton as a Comintern agent, where he organized a Vietnamese Revolutionary Youth League and published a small newspaper. (cf. Jamieson 42ff)

In 1931, as a senior official in the Far Eastern Bureau of the Comintern, Ho Chi Minh was captured in Hong Kong by British intelligence. After a notorious legal battle, Ho was classified as a political refugee and released in 1932, because there were no evidence that he had broken any laws in Hong Kong. He went from Hong Kong to Shanghai, pursued by French security agents and managed to get into contact with the Chinese Communist Party, which helped him to get back to Russia. He received further training from elite

² The May Fourth Movement of 1919, a culmination of two decades of intellectual ferment and desperation over China's weakness, gave birth to modern Chinese nationalism. Students took to the streets in the country's first example of mass urban protest. Intellectuals debated solutions to China's problems with a passion – and a freedom – they would not experience again during a century [...]. [T]he May Fourth Movement was China's equivalent of Europe's Enlightenment. Its ideas and ideals echoed down the century and retain their appeal. (Hutchings 306)

³ The leading figure of China's first generation professional revolutionaries, Sun Yat-sen, remains a potent symbol to many Chinese of their country's desire for revival, unity and national power. (Hutchings 400)

Sun Yat-sen's solution to China's agricultural problems began with rent and tax reductions and graduated to the equalization of land rights. (Hutchings 25)

⁴ 胡志明是越南人民的伟大领袖。

胡志明1890年5月19日出生于越南兴安省南檀县的一个农民家庭；一个爱国的汉学世家。胡志明从小受到良好的教育特别是爱国主义的教育，并立志“帮助同胞”，做一番救国救民的伟大事业。

1919年为了寻找革命的道路，胡志明前往法国，在那里生活、学习和锻炼，并投身法国工人斗争运动，还参加了法国共产党。十月革命爆发后，胡志明到了俄国，终于为越南人民的解放事业找到了一条革命道路。正如胡志明自己说的：“我在斗争中，一边研究马克思主义列宁主义理论，一边实际工作，逐渐地懂得：只有社会主义、共产主义才能够把被压迫民族和全世界劳动人民从奴隶的枷锁解放出来。

胡志明是越南共产党的缔造和领导者。1930年2月3日胡志明以国际共产党代表的身份在中国香港主持召开了印度支那共产党[...]。

胡志明一生无私无畏，为越南人民的独立解放和社会主义建设奋斗到生命的最后一刻，赢得了越南人民最崇高的敬意和无限的爱戴，给越南人民留下一个完美无暇和高大无比的光辉形象。

(古小松 92f)

communists at the famous Lenin School in Moscow. At the same time, “war loomed over Europe [and] some Vietnamese came slowly to realize that out of the darkest of scenarios might yet come an exceptional opportunity to escape their colonial status” (Jamieson 176). When Nazi Germany invaded Paris and forced France to surrender in June 1940, Ho Chi Minh returned to China, Kunming, with the Communist 8th Route Army (八路军). “It was on a mission from that legendary unit that he traveled toward the southern border in early 1940” (Jamieson 177).

In September Japan joined the Axis powers, emboldened by the shaky world situation to expand its own empire in Asia. Already in control of Korea, Manchuria, Inner Mongolia, and northeastern China, Japan now set out to conquer all of East Asia. The Japanese quickly took over French Indochina [...]. (Jamieson 177)

The Japanese Occupation during World War II had an impact on Vietnam, but compared with the suffering and destruction in most Asian and European countries, the impact was relatively mild. No major fighting occurred on Vietnamese soil, instead “Japan exerted its authority with indirection and restraint [...]. The French colonial apparatus continued to administer the country” (Jamieson 182). Officially, Vietnam and its French rulers were simply put under the authority of the Vichy government. Thus protocol dictated them to obey to Japanese instruction.

In May 1944 Ho Chi Minh returned to Vietnam to lead the Viet Minh⁵ and organize a revolution. After the surrender of Japan in July of 1945 to the Allied powers, in accordance with the agreements made in Potsdam, Chinese armies (of the Guomindang) moved into Vietnam from the north and British troops landed in the south to disarm the Japanese and to preserve order serving as a temporary occupying force. (cf. Jamieson 176 ff)

到1945年，已经为发动革命好了思想战线和组织力量，群众时刻准备发动起义。日本帝国主义投降后，越共抓住了千年不遇到的好时机。[...]在短短的一周多时间里就打跨了帝国主义及其走狗的统治，取得了八月革命的胜利。接着就在东南亚地区建立了第一个独立共和国 – 越南民主共和国。从此，越南人民才享有了独立和自由。（潘金娥 37）

⁵ Die Ideologie der Viet Minh wurzelte in Lenins Theorie eines nationales Bündnisses aller “fortschrittlichen und anti-imperialistischen Kräfte” in kolonialen Gesellschaften. Von Mao Tse-tung, der seit Ende der zwanziger Jahre einen Guerillakrieg gegen die Nationalchinesen führte, entlehnten sie die Übertragung des Kommunismus auf asiatische Verhältnisse. Sie orientierten sich an seinen Schriften über die Mobilisierung der Bauern und über den Guerillakrieg. Insbesondere aber wirkte auf die Anhänger der Viet Minh die Betonung eines vietnamesischen Nationalismus. Was diesen von nationalistischen Bewegungen in anderen Ländern Südasiens unterschied, war die Tatsache, dass ein vietnamesischer Nationalismus bereits vor der Ankunft der Franzosen vorhanden gewesen war. Der Kolonialismus in Vietnam förderte somit nicht erst die Entstehung eines Nationalbewußtseins, sondern er kanalisierte es entlang anti-kolonialistischer Vorstellungen. (Frey 15)

By 1945, the ideological front and organizational ability were set for the revolution. The Vietnamese masses were ready for an uprising. After the surrender of Japan and the end of Japanese imperialism, the Vietnamese Communist Party took the best and only chance of the century. During the victorious August Revolution, the imperialist lackey rule was destroyed in less than two weeks. As a result, the new found Democratic Republic of Vietnam was the first independent republic in South East Asia, and the Vietnamese people could finally enjoy independence and freedom.

As we can see from the facts above, led by Ho Chi Minh, Vietnam succeeded to rid Vietnam of foreign occupation, be it French or Japanese. During this fight against colonialism, the Soviet Union and the Chinese Communist Party together with the Comintern, assisted Ho Chi Minh in his efforts. At the same time, The Republic of China assisted Vietnam in its efforts to fight the Japanese in Indochina.

2.1.3 The Vietnam War, or 对法/美救国抗战

“1945年，越南成立了民主共和国，开始建立人民民主制度。但殖民统治者并不甘心失败。1946年，法国再次占领了越南。”（潘金娥 37）

In the 5 months between March and August of 1945, before the surrender of Japan, the Viet Minh became official allies of the Office of Strategic Services (OSS), precursor of the Central Intelligence Agency (CIA). The OSS provided the Viet Minh with weapons and in exchange, OSS agents in Vietnam could use Vietnamese infrastructure and had access to Viet Minh intelligence. When Ho Chi Minh proclaimed the Republic of Vietnam in 1945, the Americans and the Viet Minh had a history of successful cooperation. However, their war coalition was soon to end.

In the summer of 1944, after Allied Forces had liberated parts of France, General Charles de Gaulle announced that France would by all means try to regain her former colonies. In 1945 French troops landed in South Vietnam, which by then was still under control of the British, a WWII ally of the French. After the surrender of Japan, the British left the South of Vietnam to the French. In addition, the Chinese troops stationed in the north as well were eager to withdraw and fight the Chinese Communists in China.

The Chinese wrested numerous economic and political concessions from the French and repaid them by agreeing that between March 1 and March 15 the Chinese occupation force in northern Vietnam would be replaced by French troops. On March 1 French ships left Saigon bound for Haiphong. British forces, too, were to begin withdrawing on March 4, leaving the French with a free hand to impose their will on the Vietnamese once again. (Jamieson 200)

When French troops attacked the seaport of Haiphong on November 23, 1946, the Viet Minh, until then was trying to find a diplomatic solution, fought back and open war broke out in Vietnam, which would last for almost 30 years.

In the years to follow, the United States gradually changed sides from “pro Viet Minh” to “pro French”. This was mainly due to the emerging Cold War in Asia and Europe:

Der Sieg Maos über Tschiang Kai-schek in China und die Flucht der Nationalchinesen nach Taiwan im Herbst 1949 hatten erhebliche Rückwirkungen auf die Indochinapolitik der Vereinigten Staaten. Im Kongreß in Washington machte die republikanische Opposition die Truman-Administration für den “Verlust Chinas” verantwortlich. Sie warf der Regierung vor, Tschiang Kai-schek nicht genügend unterstützt und den Kommunismus nicht entscheidend bekämpft zu haben. (Frey 25)

In January 1950, the new found People’s Republic of China (PRC) and the Soviet Union recognized the Viet Minh as the legitimate government of the Republic of Vietnam, which Washington saw as ultimate evidence for the close cooperation between the Vietnamese, Chinese and Soviet communists. The United States in reaction recognized “The State of Vietnam” on February 7, 1950, five days after the ratification of the Elysee Agreement, as an independent country within the French Union and transferred USD 15 million as war aid to Paris. (cf. Frey 17ff)

Three days after the establishment of diplomatic relations between “North” Vietnam and China, on January 18, 1950, Zhou Enlai, Foreign Minister of the PRC declared: “中华人民共和国中央人民政府认为，越南民主共和国政府是代表越南人民意志的合法政府，中华人民共和国中央人民政府愿意和越南民主共和国建立外交关系”。(林明华 156)

Shortly after this announcement, in the end of January 1950, Ho Chi Minh went on a secret journey to Beijing, where he met with Zhou Enlai. In Beijing together they took a train to Moscow to meet with Stalin and Mao Zedong. In Moscow, Stalin, Mao, Zhou and Ho discussed the next steps of the “Vietnamese Revolution”, i.e. the war against the French in Saigon:

“[胡志明和周恩来]与斯大林和正在苏联访问的毛泽东主席共同商定了有关越南革命的一些重大问题”。（林明华 156) Back in Beijing, Ho asked the CCCPC⁶ for military assistance.

据有关资料统计，在1950—1954年间，为支援越南的抗法战争，中国共向越南提供了各种枪支15.5万（挺）、大炮3,690多门、枪弹5,780多万发、炮弹108万余发，手榴弹84万多枚、汽车1230多辆、油料2.6万余吨，此外还有其他军用物资、医药，粮食、副食品等等。（林明华 157f)

On 7 May 1954 the French troops surrendered to the Viet Minh. Coincidentally, the Geneva Conference was scheduled the next day, marking the end of the Korean War. The Geneva Conference marked the first time since 1947 where the foreign ministers of the big four former allies, the Soviet Union, France, Great Britain and the United States met. Also, for the first time in history, China was represented by the Communists through Zhou Enlai. South Vietnam was represented by the French-established Bao Dai Regime⁷ and the North by the Viet Minh. In Vietnam, the Viet Minh were undisputed winners of the war, but in Geneva, the Viet Minh were mere chessmen in international politics. The results of the Conference did not at all reflect the actual political realities in Vietnam but the interests of great powers who themselves did not have much to do with Vietnam. But because of Chinese persuasion⁸, the Viet Minh accepted the American demands, which again divided the country into north and south, even though they already had captured two thirds of the

⁶ The Party's leading body is the Central Committee [...]. In ordinary circumstances a new Central Committee is elected at the end of each national congress, held every five years. The Central Committee *approves*, but the Politburo, and in particular its powerful Standing Committee, *decides* all major questions of policy. The Politburo Standing Committee is the apex of formal power in the Party and thus in China. Only marginally less powerful is the Party's Central Military Commission, the command organ of the People's Liberation Army. Historically, the commission was the main source of both Mao's and Deng's political power. (Hutchings 70)

⁷ In sharp contrast to the Democratic Republic of Vietnam (based as it was on the Vietminh) [...] the Bao Dai government, although authoritarian in the extreme, was not at all totalitarian. It was instead relatively open, poorly defined, and ideologically bland if not impoverished. It had laws, edicts, regulations, and administrative guidelines by the thousands. It generated mountains of memoranda. This was a bureaucratic coalition government based on compromise, ambiguity, caution, and intrigue

⁸ Im Wesentlichen war es die chinesische Führung, die die Viet Minh zu erheblichen Zugeständnissen drängte. Mao und Tschou En-lai hatten ein alles überragendes Interesse: Sie wollten ein wie auch immer geartetes Engagement der USA in Vietnam verhindern. Schließlich brauchte China nach den langen Jahren des Krieges nichts dringender als eine Periode außen- und innenpolitischer Stabilität. Außerdem fühlte sich die kommunistische Führung Chinas von den mit den Vereinigten Staaten verbündeten Nationalchinesen auf Taiwan bedroht, deren Propaganda lautstark die Rückeroberung des Festlandes forderte. Tschou trat daher nicht nur für eine Teilung Vietnams ein, sondern auf für ein Verbot der Stationierung fremder Truppen. So war der kommunistische Norden einer Intervention entzogen, und der Süden des Landes konnte ebenfalls nicht von amerikanischen Soldaten besetzt werden. (Frey 37f)

south. Furthermore the Viet Minh had to cede big parts of Laos, which they also controlled after they had liberated it from the French. At the end of the conference, on 20 July 1954 the Democratic Republic of Vietnam and France signed an armistice: The Viet Minh had to return to their territory north of the 17th parallel. The 17th parallel had to be regarded as demilitarized zone. For the U.S. the Geneva Conference meant that they took the place of France in South Vietnam, now being responsible for the security of South Vietnam, Laos and Cambodia. (cf. Frey 36ff)

In the years to follow, the story of “pre-war” Korea⁹ repeated itself in Vietnam, but this time the U.S. played a more active role in setting up an American friendly government in the South, while the Viet Minh in the north tried to expand their communist influence over the 17th parallel.

Good accounts of the events that lead to the war, as well as the course of the war between the United States and North Vietnam were given by Jonathan Neale’s *“A People’s History of the Vietnam War”* and Marc Frey’s *“Geschichte des Vietnamkriegs”*.

Different to the war against the French, the Chinese this time assisted the Viet Minh not only with weapons, but also with active fighting troops. On December 20, 1967, Mao Zedong announced to the Vietnamese People (North and South of the 17th. parallel): “7亿中国人是越南人民的坚强后盾，辽阔的中国土是越南人民的可靠后方。”（林明华 160)

Throughout the entire war, China provided Vietnam with over 170 aircrafts, 500 tanks, 370.000 pieces of artillery, 2.160.000 firearms, two hundred million bullets, 9.000.000 artillery shells and other military equipment, including 5.000.000 tons of food, 2.000.000 tons of fuel, several hundreds of millions of meters of cotton, 160.000 vehicles, more than 700 naval vessels, over a hundred locomotives, over one thousand train coaches and built more than 3.000 kilometers of railway for North Vietnam. These numbers do not include

⁹ In August 1945, after the surrender of Japan, the responsibility over the Korean Peninsula was divided between the Soviet Union and the United States. During the Potsdam Conference (July 17 - August 2, 1945), the 38th parallel was decided upon, leaving the capital Seoul as well as two ports of entry, namely Incheon and Busan, on the US side.

The United States was now facing the Soviet Union across several artificial demarcation lines around the world. The defeat of the Axis powers in 1945 was not to bring peace. The Western Allies were soon to find themselves engaged in a new, more subtle, but equally vital struggle with their former ally, the Soviet Union [...].

After a re-unification under a Joint Commission had failed in 1946, the obstacle being that each nation wanted a Korean government friendly to itself, the 38th parallel hardened into a boundary line. (Ernst 10)

the weapons and equipment carried by Chinese soldiers during the war. It is estimated that in the period of 1950 to 1978, China spent over USD 20 billion to assist the Viet Minh, most of it as nil consideration assistance. Furthermore, China sent more than 320.000 engineers and construction workers to build road, railways and communication lines. Over 3000 Chinese soldiers passed away fighting side by side with the Vietnamese: “和越南军民一起，用鲜血和生命保卫越南北方、支持南方抗战，3000多名中国军人为此献出了宝贵的生命。”（林明华 160）

Considering the above, China appears to be the closest ally the Viet Minh could have. Interestingly enough, the Chinese literature consulted for this paper neglected any form of animosity between China and Vietnam, displaying the two nations as “good communist friends”. The next chapter will deal with the worsening of relations between China and Vietnam after the war.

2.1.4 Worsening of Relations after Vietnam War

Mao Zedong regarded the cause of Communism in Vietnam as vital to China’s future. [...] Yet in this, Beijing had more in mind than securing advantages over Moscow and Taipei. It was growing apprehensive about the prospects of a united Vietnamese state and perhaps a Vietnamese-dominated Indochina. China disliked the fiercely independent nature of the Vietnamese Communist Party. Paradoxically, it also feared that Hanoi was subservient to Moscow. China’s behavior did much to make the last fear a reality. (Hutchings 456f)

In spring of 1975, all of Indochina, namely Vietnam (North and South), Cambodia and Laos, became Communist. “The American War” was over. But Vietnam soon found itself facing enormous economic problems. During the war, both the Soviet Union and China supplied North Vietnam not only with weapons, but also with food. Now that the war was over and Vietnam united, both parts of the country had to be fed, but the “war aid”, including rice, was suspended. During the war, both China and the Soviet Union, who were competing for leadership over the world’s communist camp, wanted to be seen supporting the Vietnamese. “After all, Vietnam was the place in the world where Communists were fighting American imperialism” (Neale 188).

During the war, the Vietnamese succeeded in achieving neutrality between the Soviet Union and China, thus receiving supplies from both countries. Triggered by the rivalry with the Soviets, the Chinese welcomed President Richard Nixon in 1972 and were beginning a slow turn towards market capitalism. Chinese rulers took the opportunity to establish an alliance with the United States against USSR.

After the Communist victory in Vietnam in 1975, the Chinese leadership no longer needed to be seen as supporting the Vietnamese. With the war over, Vietnam no longer made a difference in the international Communist movement. Neither Moscow nor Beijing any longer needed to be seen as supporting the Vietnamese. Neither Moscow nor Beijing any longer needed to be seen as Vietnam's big brother. (Neale 188)

After 1975, the Chinese were concerned that Vietnam- which was allied with USSR- would become too strong and influential in South East Asia.

In November 1978, Hanoi established a peace treaty with the Soviet Union, which provided Vietnam protection against China. One month later, Vietnam invaded Cambodia. Within only one week, the Vietnamese-Cambodian war was over, as most Cambodian troops were reluctant to fight: "The Vietnamese had received a warm welcome. Anybody was better than the Khmer Rouge, and if ever an invasion of another country was justified, the Vietnamese invasion of Cambodia was" (Neale 204). However, Pol Pot and his Khmer Rouge Regime¹⁰ were China's only ally in the region.

It is important to note that Chinese literature rarely mentions the 1979 Sino-Vietnamese War that followed. While the Chinese war aid that was given to Vietnam during the war against the United States, together with the Chinese blood that was shed by Chinese soldiers on Vietnamese soil deserves many pages of mentioning, the conflict is shortly described as:

越南抗美救国战争取得最后胜利，国家统一事业完成后，受当时国际政治格局的制约，由于众所周知的原因，中越关系出现了令人痛心的曲折，两国关系陷入了历史逾10年的低潮。1970年代末期和1980年代中期，中越两国先后实行改革开放和革新开放，并逐步调整各自的对外政策，中越关系逐渐呈现转机。（林明华 161）

Lin Minghua, after delivering a very detailed account of the war against the United States, jointly fought by Chinese and Vietnamese soldiers with enormous Chinese financial aid, does not mention the Sino-Vietnamese War and merely describes it as "worsening of relations". Lin Minghua further states that in the period of late 1970's to mid-1980's both

¹⁰ Pol Pot, the Khmer Rouge Leader, was a devotee of Mao's revolutionary methods and sought to replicate the Great Leap Forward and the Cultural Revolution simultaneously on Cambodian soil. More important for a China whose leaders were by then growing weary of revolution themselves, he shared their dislike of Vietnam's ambition to dominate Indochina. Pol Pot's presence at the rear of a newly united Vietnam was a strategic gift.

The Vietnamese invasion of 1978 ended Cambodia's utopian nightmare, but upset the regional balance of power. (Hutchings 55)

nations each implemented a set of reforms and policies ¹¹ that improved relations between China and Vietnam. (see also chapter 3.1.2 *Market Reform “Doi Moi” and WTO*)

The term “war” in regards to the Sino-Vietnamese war may be an exaggeration, it was however open military conflict. The Chinese invasion along the northern border of Vietnam was intended “to teach Hanoi a lesson and force it to retreat from Cambodia” (Neale 203). Another aim was to expose Soviet weakness; should the Soviets not intervene in the conflict and help Vietnam, USSR would appear weak and reluctant to help its allies. “The real question for local Chinese military planners was to what extent the objective of teaching Vietnam a lesson could be achieved or measured” (Zhang 861)

By mid-January 1979, the People’s Liberation Army of China (PLA) had assembled up to one quarter of its field armies, about 320.000 troops, along the Sino-Vietnamese border in the provinces of Guangxi and Yunnan. The Chinese approach on Vietnam is known as “牛刀杀鸡“ ; which translates to “use a butcher knife to kill a chicken”. Similar to the Korean War, the PLA employed an absolute superior force to ensure victory. The Chinese “campaign” against Vietnam lasted only 30 days, in which the PLA captured three provincial capitals and more than a dozen border cities. Beijing later asserted that the war against Vietnam ended with China’s victory. (Zhang 863 ff). But given the strong resistance the Vietnamese were able to hold against Chinese invading forces with only very few regulars in the area between Hanoi and the Chinese border, inflicting many casualties on the Chinese side, it is questionable who taught whom a lesson. Also the war with Vietnam exposed many deficiencies in the PLA’s modern warfare. (cf. Zhang 861ff)

Beijing surprised Hanoi not only by waging massive attacks, but also by its quick withdrawal without becoming bogged down in Vietnam. Its gauge of the Soviet response to the invasion also succeeded in exposing Moscow’s inability or unwillingness to back Vietnam. Vietnam’s reliance on the Soviet Union for security was clearly a disappointing experience (Zhang 867)

By the end of May 1979, the PLA had demobilized to normal status, but Vietnam remained on guard, deploying large numbers of troops along the border with China. Although not in form of open conflict, Vietnam was forced to fight two wars for the next decade, one in

¹¹ The revolutionary nature of this undertaking was clear from the start. After decades of condemning the capitalist world, China decided to tap its financial and technological resources. After years of stamping out every vestige of enterprise at home, it encouraged the profit motive – first in agriculture, then in industry, and finally in almost every area of life. After repeated crackdowns, the Party rehabilitated intellectuals and recruited them to the cause of national rejuvenation. And, after thirty years of ignoring its swelling population, Beijing introduced a drastic, one-child-per-family policy to control it. (Hutchings 12)

Cambodia and one along the Chinese border. These conflicts came at a high national economic cost, thus, slowing down Vietnam's efforts to modernize its economy. Nevertheless, Vietnam went on siding with the Soviets as ally until the Soviet Union collapsed in 1991. "If there are any lessons that the Vietnamese should draw from the 1979 war with China it is that Vietnam must learn to live with [its] big neighbor" (Zhang 868), as a Vietnamese general later remarked.

2.1.5 Normalization of Relations after 1991

"1988年10月6日，越南外交部门发言人发表谈话称：作为两个社会主义邻国，越中两国的长远利益是和平与友好。”于向东 121) Beginning from 1988, Sino-Vietnamese relations started to normalize. On October 6, 1988, the speaker of the Vietnamese Foreign Ministry announced that the two neighboring socialist countries in the long term would benefit (only) through peace and friendship. The turning point however can be made out as the secret meeting of Vietnamese and Chinese leaders in Chengdu in 1991. The aim of the meeting was the solution of the "Cambodia Problem"

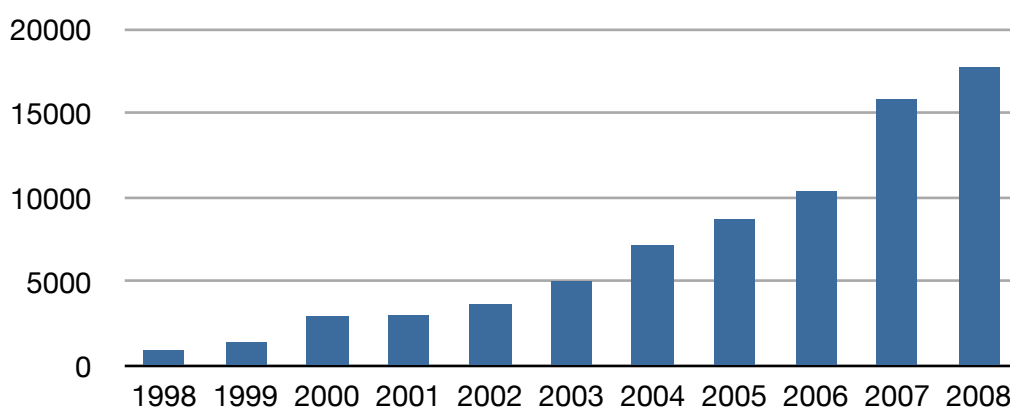
在此基础上，中越双方就政治解决柬埔寨问题和恢复两国正常关系达成共识。越共中央书记阮文灵在成都秘密会晤时，向江泽民，李鹏等中国领导人说：“我们决心纠正过去的错误政策，绝不忘恩负义，要重新恢复胡志明主席对华政策，恢复两党两国的传统友谊。”（于向东 123）

On 10 August 1991, the Vice Prime Ministers of the two nations announced, that from then on the former economic and trade relations shall be resumed as well as the lines of transportation and telecommunication shall be reestablished. Later that year, on November 1991, the two parties further signed two agreements on a second secret meeting in Beijing, namely the "中华人民共和国政府和越南社会主义共和国政府贸易协定"和"中华人民共和国政府和越南社会主义共和国政府关于处理两国边境事物的临时协定"。（于向东 124）

Sino-Vietnamese relations after initial normalization in 1991 can be split in two periods. In the years from 1991 until the end of 1998, the main goal was to reestablish the former friendly relations between China and Vietnam and to strengthen diplomatic relations and mutual trust. The second period are the years from 1999 until today. Now the aim is to promote a variety of economic and political cooperation and to better understand each other as basis of a long lasting and stable future. (cf. 于向东 125)

During the period of 1999 until today, trade relations for instance improved remarkably. In the year 2000, the import-export value between the two countries amounted to USD 3 billion. Only three years later, the import-export rate made up USD 5 billion, in the year 2006 USD 10.4 billion and in the year 2008 USD 17.8 billion. The following chart may illustrate the trade growth between the two countries in the decade from 1998 to 2008:

Table 1. China-Vietnam: Total Import-Export Turnover 1998 - 2008 (Unit: Billion USD)



Source: General Statistics Office of Vietnam; Tin Kinh te Tham khao, Thong tan xa Vietnam, Number 308, 2009

In the next chapter we will have a closer look at the economic relations and the cross border trade between Vietnam and China. However, as we already can see from the chart below, the import-export turnover made a tremendous increase in the 6 years from 2003 to 2008, during which it more than tripled.

After relations were successfully improved, there are now four additional strategies to strengthen and further develop relations between the two nations.

The first strategy is to hold high level diplomatic visits between China and Vietnam. “关系正常化以来至今，中越两国高层领导人每年都要进行互访，推动双方政治，经济和其他方面的关系发展“（于向东 125). Since 1994 the leaders of both China and Vietnam have frequently visited each other.

The second strategy is to deepen the two nations’ economic cooperation and to boost technological exchanges between Vietnamese and Chinese companies in the form of cross border investments, i.e. FDI. Chapters 3 and 4 of this paper will further examine the

economic cooperation and FDI flows between the two countries. The focus will, however, lie with investments from China into Vietnam.

截至2007年6月，中国对越直接投资有效项目407个，合同总额10.69亿美元（未含港澳台对越投资，下同），在对越投资国家地区中国排第14位。截至2006年底，中国在越南累计签署承包工程合同额56亿美元，在越劳务人员约6300人。截至2005年底，越南在华企业424家，协议投资额4.07亿美元。（于向东128）

The third strategy is to promote academic exchange and further bolster the mutual understanding between the two cultures. This includes cooperating through sports, education and research. Vietnam now ranks among the top 5 countries who sent the most exchange students to China.

The fourth strategy encourages joint military exercises between the Chinese and Vietnamese Navy. In April 2006 the two nations jointly concluded naval patrols in the Northern Bay (北部湾) of the South China Sea. This was the first time that the PLA's Navy participated in such an international exercise. The same year in December, the two nations held the second joint exercise of this kind. (cf. 于向东 125ff)

Although diplomatic relations soured in the years that followed, especially due to the territorial disputes in the South China Sea, the joint military drills continued in irregular intervals, the last time on 20 June 2011. As Nguyen Van Kiem, deputy chief of staff of Vietnam's Navy stated: "Respecting the signed agreements is one of the factors that will promote the friendly and neighborly relations between the two countries and ensure security and stability at sea" (Peoples's Daily Online: China, Vietnam engage in joint naval patrols).

Despite territorial disputes in the South China Sea, China and Vietnam continue to see a period of restored friendship and growing economic ties since 1991. There is an overall climate of cooperation in many fields like academics and education, sports, business, military etc.

2.2 Economic Relations

中越两国政府都十分重视双边经贸合作，从1991年11月至1995年5月，两国政府签定了16个有关经贸合作与经贸合作相关的协定，这些协定为双方发展合作，互利，双赢，共荣的经济关系提供了法律依据（郭明 65）

Since the beginning of the 21st century, Sino-Vietnamese economic and trade cooperation mainly lies in the fields of investment, engineering contracts for Chinese companies and cross border trade. Until the end of 2012 there were over one thousand Chinese projects in

effect, with a contract value of over USD 4 billion. The engineering projects carried out by Chinese companies include bridges, sea ports, power plants, and irrigation works. The products China is exporting to Vietnam are mostly electronic products and further consumer goods as well as industrial raw materials. Vietnam mostly exports mineral resources as well as agricultural and agricultural side products. (cf. 林明华 164).

In the following chapters the cross border trade between Northern Vietnam and Guangxi Province shall be further investigated as well as possible obstacles to the two nations' economic cooperation.

2.2.1 Cross Border Trade

“越南中国，山连山水连水”

goes a famous saying well-known on both sides of the Chinese-Vietnamese border. It is indeed these two features, mountains and water, that best describe the topography of the border region between the two countries. Two Chinese Provinces, Yunnan and Guangxi share a border with Vietnam. The border with Yunnan is mountainous and the border with Guangxi features both mountains and water, namely the Beilun river and finally the Gulf of Tonkin or 北海湾 separate Vietnam from Hainan Island, China's smallest Province.

The border between China and Vietnam stretches over 2.363 km. Since most of the 1.343 km border with Yunnan is mountainous, much as the entire Yunnan Province itself, international transportation is usually more convenient along the 1.020 km border between Guangxi and Vietnam. Up to 80% of the two countries' cross border trade goes via Guangxi Province.

The combined population of Yunnan and Guangxi amounts to about 92 million (46 million each), while on the other side of the border there live about 90 million Vietnamese.

Most of the transportation links that had already existed or been built during the 抗美援朝 were reopened and improved after 1991. There are two railroad connections between China and Vietnam, the 418 km long Nanning-Hanoi railroad and the 761 km Kunming-Hanoi railroad, which was built 1910 by the French. Furthermore there are 10 streets connecting the two countries. The fastest and most convenient connection between China and Vietnam is the 6 lane Nanning-Hanoi connection crossing the border at Dongxing. “The other roads could generously be described as two-lane, paved, local throughfares” (Gu and Brantly 1044).

River Transport between Yunnan and Vietnam over the Red River is negligible, but there are tourist connections between Ha Long Bay and Fangcheng and many more between Vietnamese destinations and Hainan. (cf. Gu and Brantly 1043f)

On 4 April 1994, the two countries signed the “旅游合作协定” which actively promoted an increase of tourism between China and Vietnam. While there was no cross-border contact during the 1980’s “except for occasional furtive expeditions by border residents” (Gu and Brantly 1050), cross border travels exploded after 1994:

Table 2: Number of Tourists crossing the border in both directions (1993 - 2001)

年份	1993	1994	1995	1996	1997	1998	1999	2000	2001
游客数量	17509	14381	62640	377555	405271	420743	480000	600000	697000

资料来源：郭明 225

A major role played the growing Chinese prosperity, and hence more dispensable income, which made it affordable for many Chinese to travel to Vietnam. Most of the Chinese travelers come from the border cities of Dongxing and Pingxiang. While most of tourism still counts as “border tourism”, there are of course increasing numbers of Chinese tourists arriving from all parts of China on the international airports in Hanoi and Ho Chi Minh City. “两国旅游合作的加强和两国人民往来的不断增多，不仅增进了两国人民的相互了解和促进了两国经贸关系的发展。”（郭明 226）

The single most important economic reality of normal border relations is trade. Without trade, a border region suffers the disadvantage of being on the edge of a closed national economy. With it, location becomes an advantage and the border region becomes the most convenient place to buy and sell goods with the neighboring country. (Gu and Brantly 1047)

Since commercial relations were reopened, Vietnam has had a trade imbalance with China. Both number and type of products being imported and exported by Vietnam over the Chinese border provide insight why that is.

Table 3: 2006年中国出口越南主要产品

商品名称	数量 (万吨)	金额 (万美元)
机电产品 (另类总计)		66177
摩托车	123万套	41944
成油品	83	20029
纺织品		10506
钢坯及粗锻件	47	8220
钢材	9	2761
谷物	17	2161
摩托车及自行车零配件		2036
医药品		1712

资料来源: 郭明 222

Table 4: 2006年越南出口中国主要产品

商品名称	数量 (万吨)	金额 (万美元)
原油	321	74900
天然橡胶	11	6640
合成纤维纱线		1011
其他植物油	2	974
铁矿砂	31	482
棕榈油	1	388

资料来源: 郭明 223

While Vietnam mostly imports manufactured goods like electronic products, motorbikes and bicycles plus accessories, iron and steel, medicaments and so on, the products that Vietnam exports to China include crude oil, natural rubber, iron ore, palm oil etc., which all are raw materials. On the one hand China is exporting bigger amounts of goods than Vietnam. On the other hand the goods that China exports are manufactured goods, which are sold at higher prices than the used raw materials. China in this case has the role of a developed country with modern machinery and equipment. The iron ore and rubber that Vietnam exports to China, for instance, will be manufactured to motorcycle parts and tires,

which add value, and are afterwards sent back to Vietnam to be sold (see also chapter 4.2: Chinese OFDI in Vietnam).

In 1992, Vietnam adopted protective embargoes to reduce the trade deficit as well as to fight the threat that Chinese products place on local production. These measures, however, could not be sustained due to high consumer demand and the emergence of smuggling and were therefore put out of force.

Nevertheless, the gross imbalance of trade is in itself a major limit to the growth of trade, because Vietnam has to pay for what it buys and does not earn nearly enough from what it sells. Trade with China is only 10% of its total trade, but Vietnam runs deficits with other trading partners as well. (Gu and Brantly 1048)

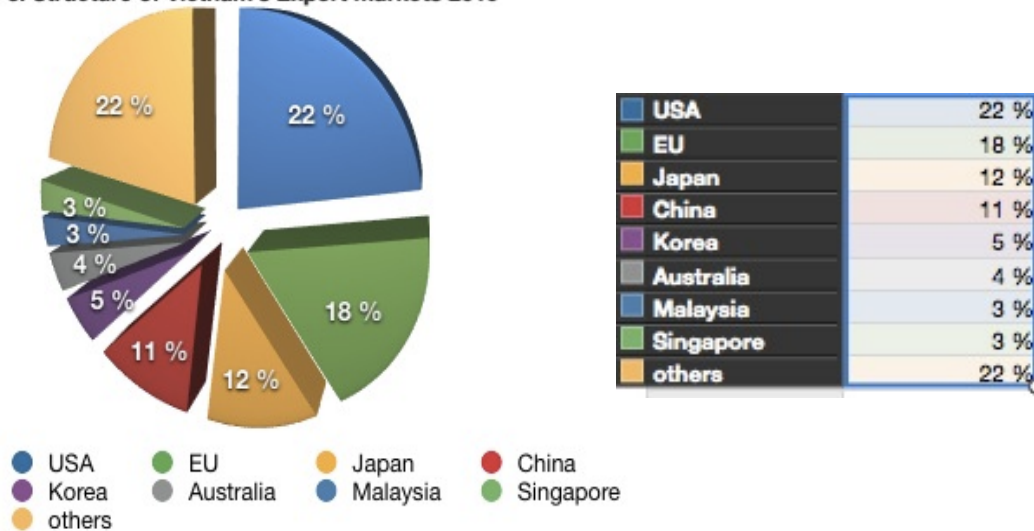
In the late 1990's the two governments agreed to establish "Economic Cooperation Districts", in its function similar to Special Economic Zones (SEZs)¹² on both sides of the border. The aim was to "reduce tedious and unnecessary formalities, promote exchange and trade, bring about progress in local economies, and promote friendly intercourse between the peoples of the two countries" (Gu and Brantly 1051). Now there are two main Economic Cooperation Districts, the "Beilun River" and the "Pingxiang-Lang Son" Economic cooperation districts. The former includes Dongxing on the Chinese side and Mong Cai on the Vietnamese side of the border. The two cities are the largest pair of border cities, which are separated by the Beilun River. Transportation over land and water is possible. Both governments attach great importance to the establishment and further development of the two cities. The "Pingxiang-Lang Son" economic cooperation district is only 150 km away from Hanoi and connected to the Vietnamese capital by railway, which makes transportation convenient. (cf. Gu and Brantly ff).

¹² China's Special Economic Zones [...] sparked controversy from their inception in the early 1980s, but were soon flattered by imitations in almost every province. Arguments over their political significance could not disguise their importance as catalysts of reform and symbols of China's hunger for development [...]. The location of the zones was crucial. They were chosen to access the world economy and tap the wealth and experience of prosperous areas south of their frontiers [...], Accordingly, the zones were given special policies ranging from tax exemptions to the freedom of managers to hire and fire staff. (Hutchings 198)

2.2.2 Current Problems

As the above chapter shows, Sino-Vietnamese Border trade is increasing, but still behind other nations:

Table 5: Structure of Vietnam's Export markets 2010



Source: Brendel, Christian A. and Maier, Christine and Walde, Marko. *German Vietnam Business Handbook & Directory 2012*. Hanoi: German Industry and Commerce Vietnam, 2012.

This chapter will investigate what current problems there are that hinder or slow down further economic cooperation between China and Vietnam.

Chinese nationalism and irredentism have recently become a potent feature of China's foreign policy. As China becomes a global superpower, its government and people see an increasing need for China to be more assertive in defending its sovereignty. (Lun, East Asia Forum)

Today, with the implemented normalization of relations after 1991, the tensions in the South China Sea between the two nations remain one of the main obstacles to a closer cooperation and economic growth.

Vietnamese nationalism is very closely linked to anti-China sentiment. This anti-China sentiment roots back to ancient times when Vietnam was part of the Chinese empire for over one thousand years and was revived by the Sino-Vietnamese War and most recently through the South China Sea dispute. The last time the situation escalated was in 1988, almost one decade after the Sino-Vietnamese War and three years before the normalization, when "the Chinese and Vietnamese navies clashed after the Vietnamese forces sought to disrupt Chinese construction on the Spratly Islands. The Chinese navy sank three Vietnamese vessels, resulting in the deaths of 74 Vietnamese sailors" (Lun, East Asia Forum). As we already know from chapter 2.1.5 relations have considerably improved

since then such that that the Chinese and Vietnamese Navy have conducted several joint Naval Exercises since 2006. The recent years, however, have not yet made up for a millennium of imperialism and the 1979 war which give the Vietnamese a reason for a deep sense of mistrust and resentment toward China. Furthermore many Vietnamese politicians get tempted to antagonize China aiming at domestic votes. “[P]resident Nguyen Van Thieu, for example, sought to provoke a conflict with China over the Spratly and Paracel Islands in 1974 to rally nationalist sentiment and bolster his faltering political position” (Lun, East Asia Forum).

Due to the above reasons, there is still much room for confidence-building among the two nations’ governments and companies.

[A]nd there is ignorance of existing opportunities. For instance, Mekong rice is noted for being of high quality, but little of it is sold to China [...]. Chinese businesspersons have many problems with investment in Vietnam because they are unfamiliar with its regulations, while Vietnamese officials are often overly anxious about investment from China. As a consequence, there are few big Chinese firms engaged in trade and investment activities in Vietnam. (Gu and Brantly 1056)

Another mistake of the last 20 years is that China and Vietnam have paid too much attention to trade but have neglected cooperation in the fields of developing technology, industrial activities as well as in finance and transportation.

Finally, the long border between China and Vietnam, which is difficult to control, gives many opportunities for illegal activities. Due to this, smuggling of cars, guns and drugs has emerged. It is also estimated that up to 10.000 Vietnamese women immigrated illegally into China during the 1990’s. This number, however, includes the customary pattern of cross-border local marriage as well as large scale trafficking after the One-Child Policy induced relative shortage of women in China¹³. (cf. Gu and Brantly 1056f)

这阶段双方贸易不平衡，中方顺差较多，越方逆差交大；边贸有违章经营和走私现象；双方交换商品质量有待提高；相互投资少，规模小；多种形势经济合作没有充分发挥；在经营活动中缺乏仲裁机构，产生问题得不到及时处理。（郭明 72）

¹³ The cumulative effect of all these methods of avoidance [of girls being born] is a marked skewing of the gender ratio among Chinese children. Whereas the worldwide ratio of male to female births is 106 males for every 100 females, the ratio in China rose to a disturbing 111 males for every 100 females in 1990 [...]. Newspaper accounts describe the plight of unmarried Chinese men unable to find a spouse because of the shortage of unmarried women; The 1990 census showed three unmarried males for every two unmarried females. (Starr 200)

3. Vietnam as Destination of FDI

Chapter 2 investigated Sino-Vietnamese Relations from ancient times until today. Further insights were provided into current economic cooperation and its difficulties. In this chapter we will see into Vietnam as business location and the Vietnamese Market and determine Vietnam's qualities as destination of FDI.

3.1 The Vietnamese Market

Since the beginning of the Renovation (Doi Moi) in 1986, and especially the 1990s, Vietnam has shifted toward a socialist-oriented market economy and global economic integration. These changes have brought forth economic growth and attracted many international enterprises to invest in the Vietnamese Market. The following chapters will shortly introduce several aspects that account to the force of attraction of Vietnam as economic and industrial location.

3.1.1 Population and Work Force

In 2011, Vietnam's population exceeded 90 million people and at the current population growth rate, Vietnam is expected to reach a population of over 100 million by 2020. The "young, hardworking, skillful and eager labor force" (Bendel, Maier and Walde 8) in Vietnam counts 47 million people, 9.6% of which work in the state-owned, 88.8% in the non-state-owned and 1.6% in the foreign-invested sector (as of 2011). The "young" Vietnamese population is on average 25.9 years old (Germany 42.6 years) and 50% of the population is under 25. In 2010, 48.7% were employed in the field of agriculture, 14.3% in the industrial sector and 37% in the service industry. "The growth of socioeconomic development of Vietnam is further emphasized in the average life expectancy of its population, which has reached 76 years (Germany 78 years)" (Bendel, Maier and Walde 9). The Vietnamese are furthermore committed to develop their skills and response to new tasks and challenges relatively fast. The necessity of bilingual approaches in business is accepted with a growing importance of English.

School education is free of charge and compulsory for 5 years. Hence about 94% of the population older than 15 years is literate. Almost every child in Vietnam receives primary education, however less than 50% complete a secondary education, which is mostly due to shortage of facilities in the mountainous areas. (c.f. Bendel, Maier and Walde 8f)

3.1.2 Market Reform “Doi Moi” and WTO

Vietnam’s economy used to be dominated by traditional agriculture, and based on central planning and collective ownership. Close central control, concentration on heavy industry, import-substitution policies and poor management of the economy led to stagnant economic growth. Faced with a severe shortage of food and basic consumptive goods, high budget deficit, three-digit inflation, chronic trade imbalance and deteriorating living standards, the Sixth National Congress of the ruling Communist Party of Vietnam, held in 1986, initiated an overall economic renovation policy - popularly known as “Doi Moi”. (Nguyen 11)

“Doi Moi” (Renovation) describes the 1986 during the 6th Party Congress passed market oriented policies on wages, prices and banking. These new economic policies paved the way towards a more open Vietnamese market with foreign investment as major part of its development.

The “Doi Moi” reforms have three main targets, namely (1) restructuring to build a multi-sector economy, (2) financial and administrative reform and (3) the development of external economic relations. Regarding Vietnam’s economic relations, the trade with more than 50 countries increased as a result of “Doi Moi” through an open policy of cooperation. The disintegration of the Soviet established “Council For Mutual Economic Assistance” (COMECON) prompted Vietnam to establish hard currency relations with China, Hong Kong, Japan, Singapore, South Korea, Taiwan, Thailand and Western nations. The implementation of the “Doi Moi” policies in the late 1980’s yielded remarkable economic success with growing levels of income and visible improvements of living standards for a large portion of the population.

To pursue economic openness and global economic integration, Viet Nam signed cooperation treaties, such as preferential treaties with the EEC (now EU), in 1992 and membership treaties with ASEAN and AFTA in 1995. In 1998, Viet Nam officially joined APEC and submitted an Action Plan that paralleled the group’s liberalization standards. In November 2004, Viet Nam and the EU signed a bilateral treaty during its negotiations for WTO membership. (Do and Vo 141)

The 2007 WTO accession marked another step towards Vietnam’s international integration. The signed commitments include agreements on: non-discrimination, transparency on private and public companies, reduction of trade barriers, abolition of existing quota as well as protection of intellectual property. Particularly, the new laws on enterprises and investment create a more equal and competitive environment for both domestic and foreign businesses. The above described economic structural transition is expected to create nearly 1 million jobs per year. The WTO membership status has further motivated Vietnamese enterprises to observe and if necessary adopt international practices.

Despite the significant improvement of Vietnam's business and investment framework, the liberalization of trade as encouraged by the WTO is still in progress. Obstacles mostly come from state agencies which are in charge of licensing. Many limitations for foreign investors result from still inflexible handling of WTO commitments [...]. In addition, various WTO commitments overlap or even conflict the Vietnamese law, which leads to complex discussions prior to the restructuring and consequently, the re-issuance of the relevant framework. (Bendel, Mayer and Walde 11)

Vietnam today still faces various challenges while fully implementing the WTO-standards. But since Vietnam demonstrates sincerity and desire to further work on these standards and with the cooperation of other countries who offer their experiences and know-how to the relevant authorities, specialists from the World Bank, the Asian Development Bank and the International Monetary Fund as well as other senior consultants agree that Vietnam has a bright future. (cf. Bendel, Mayer and Walde 10f)

3.1.3 Infrastructure

While Vietnam's economy is growing fast, the infrastructure is lacking behind and becoming more and more an obstacle to further growth. While the traditional form of government finance still dominates the states' project funding, Official Development Assistance (see also chapter: 3.3.1 ODA in Vietnam) is becoming increasingly important in the funding of infrastructure projects. Furthermore, additional finance structures such as Public Private Partnership (PPP) and Build Operate Transfer (BOT) have been implemented in Vietnam to build new highways, bridges and major buildings.

Vietnam's roads are in poor shape which makes transportation in Vietnam slow and exhausting. Road traffic is chaotic with bicycles, motorcycles, cars, buses and trucks vying for space and right of way. By now, only 23.000 km of 210.000 km are paved. The main national road, Highway One from the Chinese border down to Ho Chi Minh City only partially has two lanes or more. The 1.850 km journey from Hanoi to Ho Chi Minh City takes more than two days.

The 3.260 km Vietnamese railway system connects the main cities Ho Chi Minh and Hanoi and the bigger cities lying between the two major cities like Da Nang, Hue and Nha Trang as well as other cities in the North like Hai Phong. Prior railway projects in the future will be North-South, inter-city and Trans-Asia lines. Currently, trains are often congested offering low comfort on the 32 hours journey between Hanoi and Ho Chi Minh. A Japanese ODA will be realized only until 2036 connecting the North and the South with an express

railway built on parallel standard gauge tracks which will allow trains to run at the speed of 300 km/h, cutting the traveling time between Hanoi and Ho Chi Minh to ten hours. Alongside this project, Japanese investors will upgrade normal trains until 2020. Further railway projects in urban areas are aiming to counter the rising numbers of motorbikes in urban traffic such as the development of Ho Chi Minh City's light rail system, for which the German Government provides technical assistance.

Vietnam has fourteen domestic airports and three international airports, namely Ho Chi Minh, Da Nang and Hanoi, Ho Chi Minh being the biggest of the three. Facilities such as runways and terminals are currently being upgraded in order to tackle the growing demand for both domestic and international air travel. Recently, three new domestic airline licenses have been granted besides the flag carrier Vietnam Airlines which will yield service quality and efficiency as well as lower prices due to competition.

Vietnam offers seven major seaports which play a major role in both domestic and international trade. The biggest ports are Hai Phong, Da Nang and Ho Chi Minh City. The Vietnamese waterway system mainly consists of the Red River Delta in the north with 2.500 km length and five ports and the Mekong River in the south with 4.500 km in length and 30 ports. (cf. Bendel, Mayer and Walde 11f)

Until the early 1990s, freight forwarding was monopolized by a few SOEs such as VIETRANS and VINATRANS. Since the mid 1990s, the market has been opened to newcomers. There are now hundreds of freight forwarders in Vietnam including SOEs, foreign JVs and private companies.

The freight forwarding business is more developed in and around Ho Chi Minh City, where not only foreign JVs but also a few Vietnamese companies can provide international standard service (Nguyen 42)

As we can see above, Vietnamese infrastructure is in many areas still underdeveloped, posing some obstacles on shipping, individual mobility and economic growth in general. On the other hand, this situation also implies that there are many investment opportunities for domestic and international investors in both the construction and logistics sector.

3.2 Legal and Tax Issues

In order to better understand the Vietnamese market and its preconditions for foreign investment, this chapter will provide a superficial insight into some of the relevant laws and regulations that are linked to FDI in Vietnam.

According to the foreign policy of “being the friend of all countries” Vietnam now maintains diplomatic relations with 160 nations and trade links with 180 countries and territories. Vietnam furthermore has signed agreements on double taxation and on investment guarantee with relevant countries. Vietnam has been member of the United Nations since 1977, the Association of Southeast Asian Nations (ASEAN) and the ASEAN Free Trade Area (AFTA) since 1995 as well as the Asia Pacific Economic Cooperation (APEC) and the Asia-Europe Meetings (ASEM) and finally the World Trade Organization (WTO) in 2007.

As already mentioned, the Economic System nowadays resembles that of China¹⁴:

Vietnam is now in transition from a centrally-run to a market economy. The country’s Constitution recognizes a socialist oriented multi-sector economy operating under both the market mechanism and management by the State. Foreign and domestic private sectors are among the economic sectors constitutionally recognized in Vietnam. There are currently state-owned enterprises, state-private joint-stock companies, foreign invested enterprises, domestic private firms, cooperatives and household businesses operating in the country. (Nguyen 31)

Vietnam’s legal system is based on the civil law system, which mainly originates from French Civil Law, but also has been influenced by other legal systems, notably China. Under the legal system of Vietnam, legal instruments are organized in the following hierarchy:

- (1) the Constitution is the highest instrument governing general areas of activities;
- (2) the Law which includes both general laws such as Civil Code and Commercial Law and specialized laws governing specific areas such as Law on Investment, Law on enterprises, Law on Credit Institutions, Law on Insurance Business, etc. (cf. Desautels and Thierry 1f)

Since July 2006 the Common Investment Law (CIL) regulates all forms of foreign or domestic investment of individuals or legal entities. The Vietnamese Law on Investment is considered to be one of the most liberal investment laws in South East Asia. According to the new CIL, foreign and domestic investors no matter from which economic sectors shall be treated equally, which is a novelty and contrary to previous regulations. “In particular, foreign investors shall be principally permitted to invest in all sectors and in all industries

¹⁴ As it exists today, “socialism with Chinese characteristics” is an economy moving rapidly and sometimes painfully from central planning to market decision making. It is an economy with a large but shrinking state-owned sector, a substantial and growing collective sector, and a rapidly burgeoning private sector. Liberal use has been made of capitalist methods to jump-start and then fuel truly remarkable growth since the reforms began. (Starr 73)

and trades using all legal forms of investment that are not prohibited by Vietnamese law” (Bendel, Mayer and Walde 27).

Under the CIL and the United Enterprises Law (UEL) the main modes for foreign invested entities are:

- (1) Business Cooperation Contract (BCC)
- (2) Limited Liability Company (LLC)
- (3) Shareholding Company/ Joint Stock Company (JSC)
- (4) Partnership
- (5) Private Enterprise
- (6) Representative Office (RO)
- (7) Branch Office
- (8) State-Owned Enterprises (SOE)

Furthermore, other forms of FDI include: Built-Operate-Transfer (BOT), Built-Transfer-Operate (BTO) and Build-Transfer (BT). (cf. Bendel, Mayer and Walde 27)

Under the CIL, foreign participation in business activities is generally allowed in certain sectors, however there are restrictions. These sectors are: sectors with impact on social order, safety and national security; banking and finance; sectors having impact on public health; culture, information, the press and publishing; entertainment services; real estate business; survey, prospecting, exploration and mining of natural resources; development of education and training and other sectors stipulated by law.

The CIL refers to direct and indirect investment. The distinction between direct and indirect investment is not entirely clear. Direct investment appears to refer to the investment of and participation in the activities of the business, while indirect investment appears to be limited to holding shares in a company without involvement in the management or activities of the business. As a matter of practice, however, an indirect investor holding a certain percentage of shares can effectively manage a company. (Desautels and Gougy 59)

There is no separate act for protection of foreign investments articulated in the CIL, it however includes various provisions providing guarantees to foreign investors’ assets in Vietnam. These provisions stipulate that the Vietnamese State may not nationalize or confiscate lawful assets and invested capital. Only in case of real necessity for the purpose of national defense and security or in the national interest the Vietnamese State may acquire an asset of a foreign investor. “In such cases, the investor should be compensated at prevailing market prices. Compensation should be made on a non-discriminative basis and in a freely-convertible currency which can be remitted abroad” (Desautels and Gougy

62). In general, foreign investors are also protected by the bilateral investment protection treaties between the investor's home country and Vietnam.

Furthermore, foreign investors are protected in terms of their intellectual property and the right to remit their capital and assets out of Vietnam. "The CIL however states clearly that remittance of profit and other gains by foreign investors may only be done after satisfaction of all financial obligations (including applicable taxes)" (Desautels and Gougy 62).

Organizations or individuals doing business or having income in Vietnam shall discharge tax obligations in accordance with the laws on taxation currently in force, such as: corporate income tax; various withholding taxes; value added tax (VAT); import and export duties, personal income tax; social security and health insurance premiums for Vietnamese employees; special sales tax (SST); royalties/natural resources tax; land use rights. (cf. Bendel, Mayer and Walde 38).

Previously, foreign investors were required to pay separate corporate income tax (CIT) and other taxes in accordance with the law and regulations on FDI. Since 1 January 2004 a new law on CIT is in effect. According to the new law on CIT withholding and capital assignment tax applicable to foreign investors are forbidden. Hence Vietnamese and foreign invested companies are now subject to the same tax system.

The standard CIT rate is 28%. The rate is applicable to companies operating in the areas of prospecting, exploration and exploitation of petroleum and gas, and other rare and precious natural resources ranges from 28% to 50%.

Investment projects which satisfy certain specified conditions may enjoy incentive tax rates of 20%, 15%, or 10%, and tax holidays and reductions for certain periods of time. (Nguyen 43)

3.3 Investing in Vietnam

越南劳动力资源丰富，基础设施日益改善，具有较强的竞争力。近年来，外国资本在越南投向做多的三大领域是房地产业、加工制造业以及水电和天然气生产销售业。然而，房地产价格持续高位运行，导致外国投资发生微妙得变化：2011年第一季度越南加工、制造领域吸引的FDI投资为15.5亿美元，占越南FDI总额的65.4%。另外，越南即将实施的限制外资介入矿产资源领域的政策提高了矿产投资的门槛。（林明华 116）

Vietnam has risen from a relatively poor and backward country with low domestic capability to a country with strong economic development and a great deal of foreign development assistance. The following two chapters consider the role of the two principal foreign sources of assistance - Official Development Aid (ODA) and Foreign Direct Investment (FDI) - in Vietnam.

3.3.1 ODA in Vietnam

“Before 1989, Viet Nam could only turn to the USSR, eastern European countries, some northern European capitalist countries, and several UN organizations for financial assistance” (Do and Vo 57). With the collapse of the USSR and the socialist countries of Eastern Europe, Vietnam lost a large source of foreign assistance. But in line with the new *Doi Moi* principles, Vietnam was able to find new sources of assistance, namely official development aid (ODA) from developed countries and international organizations.

ODA is a collaborative development activity between the Vietnamese government and the donors, whether foreign governments or international bodies [...]. ODA includes grants and preferential loans. Vietnam received ODA in three main forms: aid to the government balance, aid to programs, and aid projects. (Do and Vo 58)

By 2004, Vietnam had established relations with 25 donors, amongst them the closest are Japan, South Korea, Australia, the UK and the United States. Vietnam furthermore established relations with 15 international organizations like the Asian Development Bank, the World Bank and the International Finance Corporation and with over 350 non-governmental organizations (NGOs).

In order to receive ODA, Vietnam signed treaties with the donors for the implementation of projects and programs.

ODA has helped Vietnam to achieve its socioeconomic goals of eradicating hunger, reducing poverty and to industrialize and modernize the country. ODA also supports key projects at national and provincial levels, such as building roads, sea ports, hydroelectric power plants etc. (see also chapter 3.1.3 Infrastructure). (cf. Do and Vo 57ff)

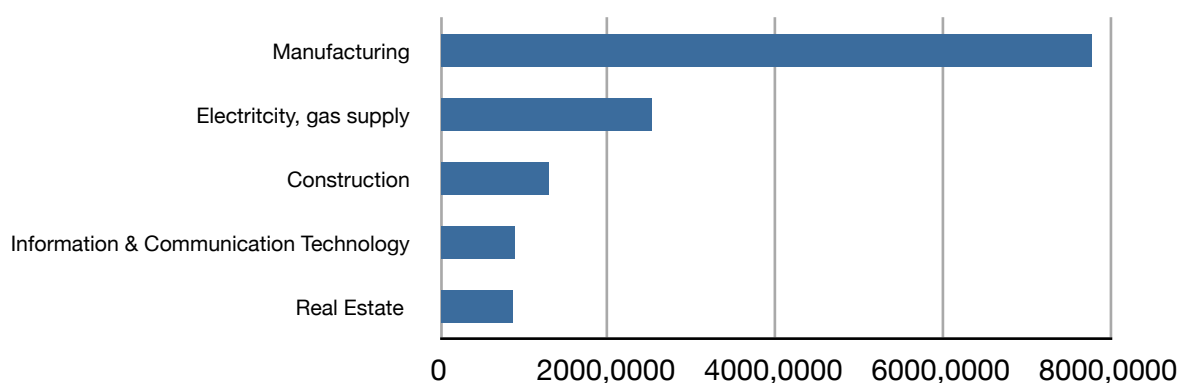
3.3.2 FDI in Vietnam

The Countries of South-East Asia are seen as an alternative or complementary investment destination to China, they offer a reasonably efficient and competitive infrastructure with similarly low labor costs. This is one of many reasons why Foreign Direct Investment (FDI) has played such a significant role in Vietnam’s extraordinary economic transformation process. (Bendel, Mayer and Walde 19f)

We can divide FDI operations in Vietnam into four periods; in the period from 1988 to 1990, total registered capital reached USD 1.5 billion. During this period the government required many procedures for FDI, which limited the invested amount. In the period from 1991 to 1997, FDI grew rapidly and began to contribute to the socioeconomic development

of Vietnam. In 1997, FDI reached USD 15 billion of registered capital and USD 6 billion of invested capital. In the years 1998 - 2000 FDI fell to its lowest level with an average implemented FDI of only little over USD 2.2 billion per year. From 2001 until present, levels of FDI were growing again. (cf. Do and Vo 87) In 2007, Vietnam issued new FDI licenses of USD 20 billion. In 2010 Vietnam managed to attract USD 18.59 billion and in 2011 another USD 15.60 billion were registered.

Table 6: FDI in 2011 by kind of economic activity, in million USD



Source: General Statistic Office of Vietnam: (http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3&ItemID=13117)

As we can see from Table 6, the biggest part (USD 7788.8 million) of FDI in the year 2011 went into the manufacturing sector. Another big part (USD 2528.8 million) was invested into Electricity and Gas supplies. Further important sectors are Construction, Information and Communication Technology and Real Estate activities. Altogether there were 1186 projects registered with a total invested amount of USD 15.60 billion.

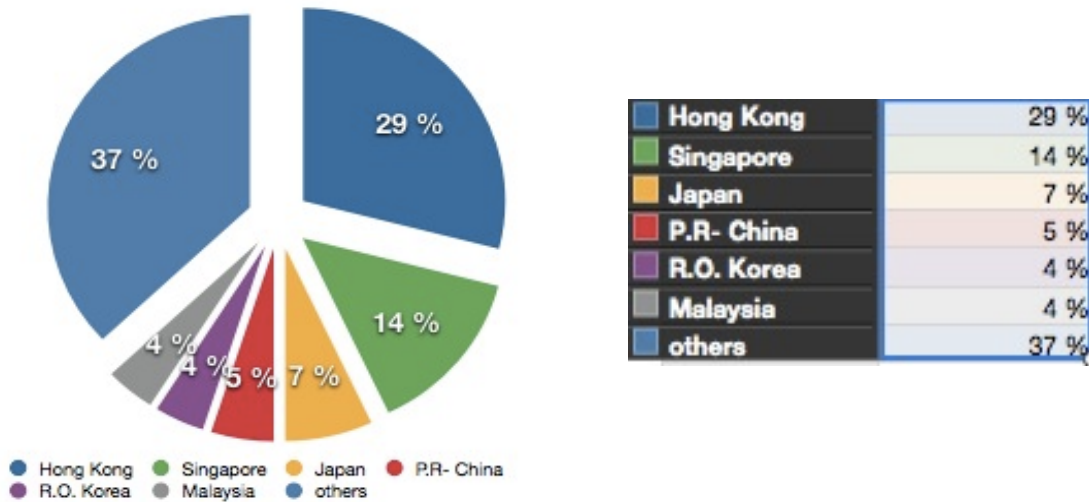
Currently, FDI represents about 18% of Vietnam’s GDP. Since there are numerous high-cost infrastructure projects planned for the next few years, the country will continue to rely on FDI. “Thus, the government commenced to offer additional economic sectors to foreign companies, such as healthcare-education, post office-telecoms as well as maritime and airways industries” (Bendel, Mayer and Walde 20).

Over the last 20 years, Ho Chi Minh City and the surrounding provinces have been the economic hub of Vietnam, attracting USD 30 billion in 3.617 projects. The southern coastal province of Ba Ria - Vung Tau further attracted USD 26.3 billion in 255 projects

and the capital Hanoi so far attracted USD 20.5 billion in 1.993 projects. (cf. Bendel, Mayer and Walde 20)

The main investors in Vietnam are from Asian countries, such as Hong Kong, Singapore and Japan:

Table 7: Licensed FDI projects 2011



Source: General Statistic Office of Vietnam (http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3)

Chapter 4.1 (The New Role of China as International Investor) will take a closer look not only at FDI from mainland China, but also at FDI flows from Hong Kong that may be rooted back to mainland China or other parts of the world. Table 7 simply illustrates that 63% of FDI in Vietnam derive from Asia and that the major part of it comes from Hong Kong.

FDI has contributed to Vietnam’s socioeconomic development in many ways. Since 1988, FDI provided the necessary capital to efficiently exploit the country’s development potential. During the 1990’s, FDI comprised up to 25% of Vietnam’s total investment. FDI also played an important role in Vietnam’s shift towards Industrialization and Modernization. As we already know, most FDI flows into the manufacturing sector which includes infrastructure, oil production and processing, chemicals and equipment as well as consumer goods. At the same time, FDI has created incentives to modernize agriculture and develop rural areas. Furthermore, FDI was able to resolve unemployment, develop workforce and increase incomes.

There are, however, some negative effects, for instance does FDI tend to serve as import substitution rather than export production.

The economy is moving toward openness and protections remain for many industries, so FDI investors use those protections to create monopolies and reap the benefits of reduced competition. The production activities of these fields tend to pursue import substitution. For example, a high import tax makes Viet Nam's motorbikes and automobiles the most expensive in the world. As a result, consumers suffer loss and investors enjoy profits; such were the cases with Honda, Yamaha, Ford, Mercedes and Toyota. (Do and Vo 94)

Another negative aspect is that Vietnam cannot receive advanced technology through FDI. As we have seen in Table 7, besides some investment from Japan and Korea, the investment comes from Asian countries that are not as developed as the US or the EU. In addition, technological monopolies and intellectual property rights have made it difficult for domestic producers to acquire advanced technology. In addition, the mentioned job creation generated through FDI only provides direct employment to relatively skilled workers. FDI usually favors the efficient use of capital and technology in developed areas in terms of infrastructure, leaving behind most of the workforce in rural areas. Furthermore, "FDI is causing a severe brain drain within Viet Nam: workers choose foreign-funded workplaces because they pay higher salaries and provide better working conditions" (Do and Vo 95). This "brain drain" however, is greatest where the Vietnamese domestic labor market would need these "brains" the most; information technology, telecommunications, electronics, finance, insurance and banking.

Despite these view negative aspects, FDI remains one of the most important income sources for the Vietnamese national economy. With a population of over 80 million and a high economic growth rate, Vietnam's investment market has great potential. Although the real income of the Vietnamese is not big compared with its neighbors, the consumption ability is large. (cf. Do and Vo 86ff)

According to the above one can conclude that Vietnam is a developing country with an underdeveloped workforce and rudimentary infrastructure, lacking the capital, technology and skilled workers necessary to shift the economic structure towards an industrialized nation. Therefore ODA and FDI play important roles providing both the capital and the skilled workers required to develop the infrastructure of a modern industrialized economy.

4. 走出去; China's Going Global

This often heard slogan which encourages Chinese Enterprises to invest abroad goes back to Jiang Zemin¹⁵ and may be understood as the answer to the question: “向何处去?”:

30年来的改革和开放，改变了中国的社会经济结构，促成了中国在全球经济地位的上升，也对世界历史进程产生了深刻的影响。

然而，近年来，中国却似乎走到了历史发展的一个新十字路口。一方面，被改革开放解放出来的活力使中国经济蒸蒸日上；另一方面，权力腐败几乎蔓延到社会的各个角落，贫富悬殊的程度使世人震惊，而且这一些大有愈演愈烈之势。

从这里，就提出了一个“中国向何处去”的严肃问题。（吴敬琏，马国川 1）

After the successful implementation of the Reform and Opening Policies in the late 1970's and early 1980's, which meant the amendment of planned economy, China was step by step integrated into the global division of labor. This opening policy attracted investments mostly from Western developed countries, which contributed to China's economic growth and increase of living standards. 30 years after the implementation of these key economic policies, the PRC is now not only one of the biggest recipients of FDI, but also the second biggest economy in the world. (cf. Poerner 37) The question “向何处去“ hence may be understood as “where to go next?”, now that China successfully has become the second biggest economy in the world, the answer is to go global and to invest abroad following the example of the western developed world.

Another incentive for the “走出去战略” was the increasing unilateral dependence of foreign capital which mostly was directed towards the labor intensive processing and manufacturing industries along the coastal areas of China, which then again make up a major part of China's exports:

Vor diesem Hintergrund verfolgt die VR China seit dem Beginn des 21. Jahrhunderts eine Außenwirtschaftspolitik, die neben der Förderung ausländischer Direktinvestitionen in China eine aktive Unterstützung chinesischer Unternehmen bei der Expansion ins Ausland vorsieht [...]. Die Entwicklung von ersten grundsätzlichen Überlegungen bis hin zu einer verbindlichen außenwirtschaftspolitischen Maxime dauerte allerdings bis kurz vor dem Beitritt Chinas zur Welthandelsorganisation Ende 2001. Als offizielle Geburtsstunde gilt dabei die dritte Sitzung des neunten Nationalen Volkskongresses im März 2000 in Peking, auf dem erstmals neben einer Strategie der Steigerung von chinesischen Direktinvestitionen im Inland (引起来) explizit auch eine Strategie der Steigerung von chinesischen Direktinvestitionen im Ausland (走出去) beschlossen wurde. (Poerner 37f)

¹⁵ “走出去”战略，是20世纪90年代中期党中央在深刻分析国际国内政治经济形势的基础上做出的关系我国经济社会发展全局和长远发展的重大战略决策。它是江泽民同志提出来的，经历了萌芽酝酿、正式提出、丰富发展三个阶段。提出并实施“走出去”战略，是我国面临国际国内新形势下更好地利用国际国内两个市场、两种资源的必然选择，是应对经济全球化挑战、提高我国经济实力和国际竞争力的必然选择。其战略意义在于：有利于我国在更广阔的空间里进行经济结构调整和资源优化配置，更好地从全球获取资金、技术、市场、战略资源，拓展我国经济发展空间，提升我国经济的国际竞争力，增强我国经济发展的动力和后劲，促进我国经济的长远发展。（陈扬勇；人民网）

This chapter will examine the new role that China as an international investor plays, to what extent the above described policies have successfully implemented and finally investigate the appearance and effects of Chinese OFDI in Vietnam.

4.1. The New Role of China as International Investor

Over the last decade, Chinese OFDI has become one of the most keenly followed stories in international economics. The main reason for this remarkable interest is that Chinese OFDI is a novelty; historically, the PRC has not deployed capital abroad. Another reason for this increasing interest in China's global investment activities might be that it is understood as an indicator for the nation's geopolitical intent of asserting its new international politics strategy. Recently, newspaper headlines stated that in Latin America, Africa and other developing countries, China was acting as a new kind of colonial power, hence influencing the internal affairs of those countries with the use of its financial resources.

This comparison of colonial power and FDI may on first sight seem a little farfetched. In fact, the beginnings of international trade and investment were closely linked to colonialism.

Foreign economic involvement has a long history. Traders of silk, slaves, and spices across the Arabian Peninsula, Asia and Europe; the commendas of medieval Europe; the Hanseatic league; the East India Company; and the Medici of Florence are some of the better-known examples of early merchant capitalism. The era of "industrial capitalism" arrived in the 1800s, and as the industrial revolution began, firms from Europe and North America began to invest in foreign plantations, mines, factories, banking, sales and distribution facilities in large numbers. (Sagafi-Nejad and Dunning 10)

The development of advanced production and organizational methods as well as new forms of transportation helped Western Europe and the United States to widen their international economic influence. One can conclude that FDI evolved out of the advanced managerial innovations in structure and strategy of enterprises and the technological innovations of the early 20th century; "Host countries – the recipients of FDI – had location-specific advantages (primarily natural resources), while multinational enterprises acted by and large as economic colonists, often aided and abetted by their mother countries" (Sagafi-Nejad and Dunning 11).

These days, a shift in the perception of China has to take place; China is not only the world's production site and export hub, but also becoming a significant country of origin of FDI. The financial crisis of 2008 contributed to this shift towards a more positive evaluation of Chinese global investment activities. While worldwide foreign investments

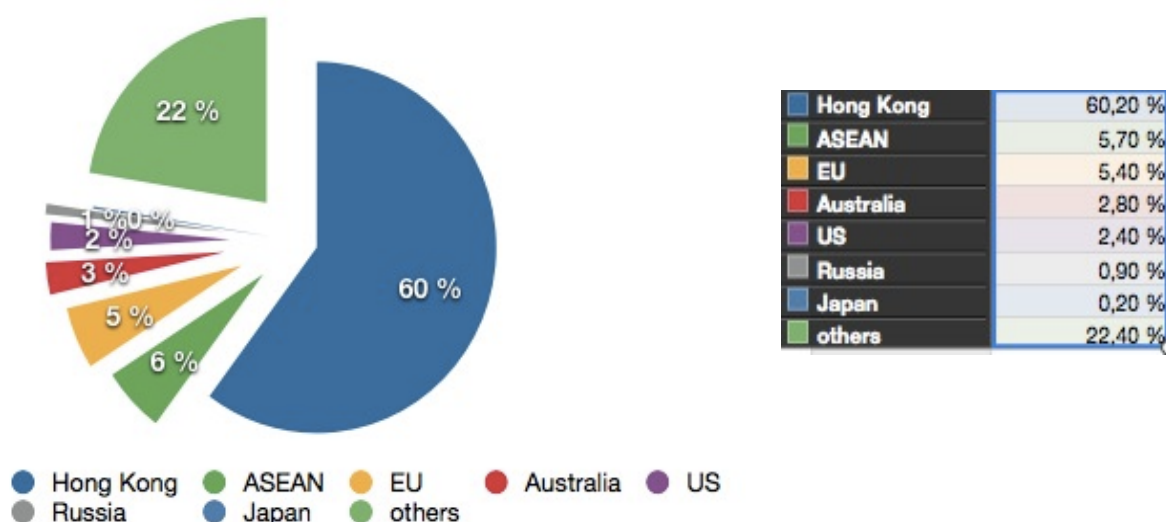
were declining, Chinese investments rose in the years 2008 and 2009. Since the accession of the WTO in 2001, Chinese enterprises have been expanding their outward investments, which lead to many sensational Merger and Acquisitions (M&E's) in the years that followed.

As already mentioned above, the access to raw materials plays an important role for Chinese investors. Investments into these sectors are mostly made by SOE's which illustrates how China is trying to assert foreign raw materials by the help of those enterprises. Another strategy of Chinese SOE's is the acquisition of technology-intensive industries with the aim to compensate the technological backlog of Chinese Companies. (cf. Schüler-Zhou, Schüller and Brod)

In 2012, Chinese enterprises invested USD 77.22 billion (an increase of 28.6% to 2011) into 4425 companies in 141 countries. These numbers have China ranking among the 13 biggest foreign investors in the world.

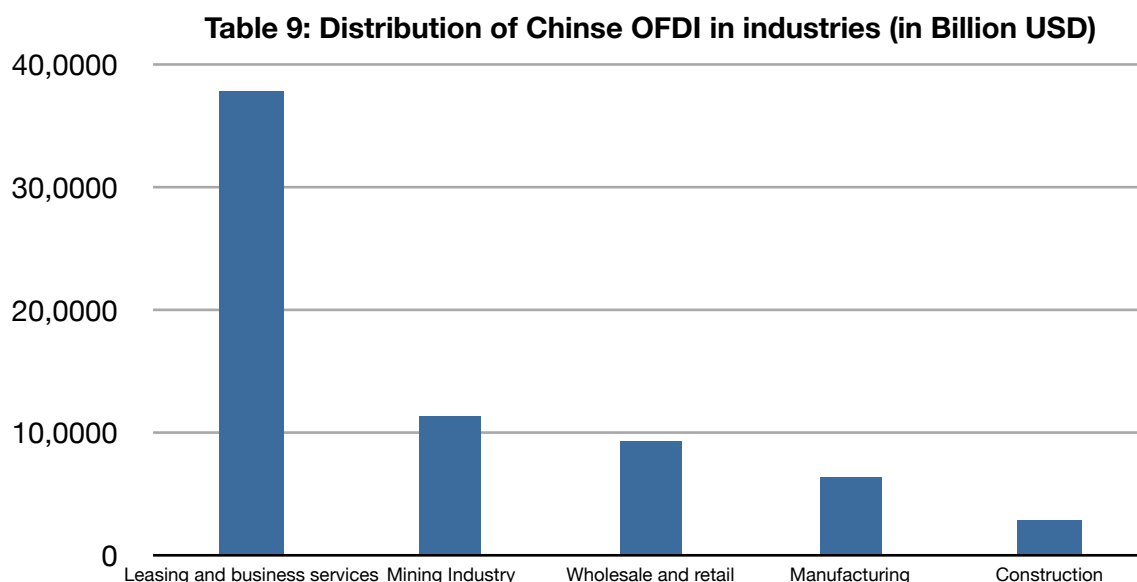
The most important recipients of Chinese FDI in 2012 were Hong Kong, ASEAN, the EU, Australia, US, Russia and Japan, accounting for USD 59.99 billion or 77.6% of China's total OFDI. Among the seven biggest recipients, Hong Kong received the bulk, i.e. USD 46.51 billion (60.2%), followed by ASEAN with USD 4.42 billion (5.7%), the EU with USD 4.19 billion (5.4 %), Australia with USD 2.16 billion (2.8%), the US with USD 1.88 billion (2.4%), Russia with USD 660 million (0.9%), Japan with USD 170 million (0.2%).

Table 8: Chinese OFDI distribution in 2012



Source: MOFCOM (商务部召开“中国企业走出去履行社会责任”专题新闻发布会)

The distribution of Chinese OFDI by industry was as follows: USD 37.81 billion (49%) went into leasing and business services, USD 11.35 billion (14.7%) went into the mining industry, USD 9.25 billion went into wholesale and retail (12%), USD 6.37 billion went into manufacturing (8.2%) and USD 2.85 billion went into Construction (3.7%)



Source: MOFCOM (商务部召开“中国企业走出去履行社会责任”专题新闻发布会)

In 2012, M&A (instead of greenfield) has become the favorite form of Chinese foreign investment with 455 projects and a transaction amount of USD 42.62 billion. (cf. 中华人民共和国商务部：商务部召开“中国企业走出去履行社会责任”专题新闻发布会)

It is of course notable that 60% of Chinese OFDI went to Hong Kong. One can assume that a major part of the FDI from mainland China to Hong Kong was invested with the purpose of either capital flight or so called round-tripping¹⁶. “This process involves firms sending capital abroad only in order to bring it back under the semblance of ‘foreign’ investment to enjoy special government benefits and lower taxes” (Sutherland and Matthews 2). Hence Hong Kong plays an important role in both, the capital flight out of the PRC and the

¹⁶ The evidences suggest that a large part of the capital originally created in PRC has managed to go abroad and has stayed abroad waiting for opportunities to return back to PRC. On average the round tripping FDI, e.g. the returning Chinese capital, is about 20% to 30% of the capital flight of various estimations [...]. When a developing economy like PRC is creating new capital, a significant part of the new capital is likely to find its way abroad through mis-invoicing in internal trade, smuggling, and other channels of capital flight since the people who are creating the new capital have strong incentives to diversify domestic risks and to seek better protection of property rights. The accumulated capitals flight then forms a base for sustained round tripping FDI back home when the opportunities to make profits and create new capital at home continue to exist. (Xiao 2)

round-tripping FDI back to the mainland. In the past three decades, every year 40%-60% of PRC's FDI inflows were from Hong Kong. If we look at the Chinese FDI outflow to Hong Kong (60% in 2012) the connection between leaving and returning (i.e. round-tripping) capital becomes obvious¹⁷. But Hong Kong is not alone with this phenomenon. Offshore financial centers, like the British Virgin Island, the Cayman Islands and Bermuda, have become increasingly important for Chinese round-tripping capital. (c.f. Xiao 2f)

For this work it is on the one hand important to be aware of round-tripping and more importantly capital flight from the PRC to be able to effectively assess the FDI numbers given by official statistics like those from MOFCOM. The allegedly small amounts of Chinese FDI in Vietnam (5%) may in reality not be so small if one considers the capital from Hong Kong to Vietnam (29%) as originally rooting back to the mainland (see Table 7: Licensed FDI Projects in 2011).

In conclusion we can say that China's growing investments abroad match with its increasing assertiveness in international politics. This process becomes all the more visible as the West's¹⁸ economies are staggering. China emerged from the Financial Crisis unscathed with high growth rates like before. Over the last years, the perception of China as global investors shifted towards a more positive image with China becoming a welcomed investor especially in weaker European economies such as Bulgaria, Hungary, Greece, Cyprus, Slovakia, and Spain. (cf. Schüler-Zhou, Schüller and Brod 5f)

The next chapter will, taking into account the above elaborated new Chinese image as investor, investigate Chinese OFDI in Vietnam.

4.2 Chinese OFDI in Vietnam

Chapter 3 provides detailed information about the Vietnamese Market and Vietnam's investment environment. Based on chapter 3 and the in chapter 4.1 elaborated new role of

¹⁷ Hinzu kommt, dass mehr als die Hälfte aller Auslandsinvestitionen in Hongkong beziehungsweise auf Offshore-Finanzplätzen wie etwa den British Virgin Islands beziehungsweise den Cayman Islands getätigt werden, um daraufhin wieder mehrheitlich in die Volksrepublik zu fließen. (Poerner 40f)

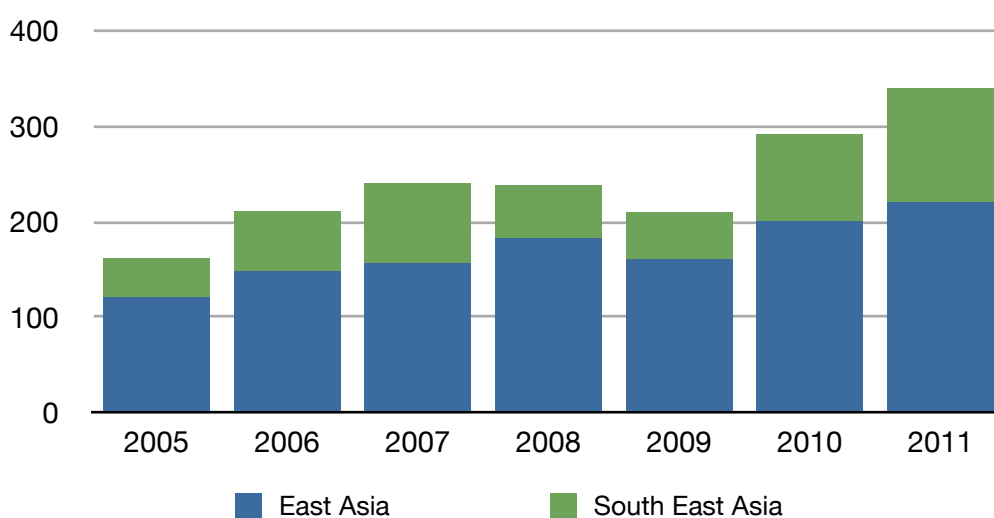
¹⁸ In order to explain the current reaction of the Western world to the undeniable rise of Asia, we need to first take a look at the nature and the history of the West. Territorially defined, it is a collection of states in North America (the United States and Canada) and Europe (the twenty-seven EU member states), Australia and New Zealand that self-consciously define themselves as members of the Western community. (Mahbubani 101)

China as global investor, chapter 4.2 will investigate and evaluate Chinese FDI activities in Vietnam.

As already introduced in chapter 3, Vietnam as destination of FDI has to be seen in the context of South East Asia and the ASEAN region as destination of FDI. With a 14% increase of total FDI inflows to both South East and East Asia in 2012 amounting to USD 336 billion, the region could attract 22% of total FDI flows worldwide. During the last 4 years since the financial crisis, South East and East Asia have become a much more significant destination of FDI, with a share of global FDI of only 12% before the global financial crisis. In terms of growth, South East Asia outperformed East Asia. Generally speaking, “South East Asia is catching up” (UNCTAD 2012 43). Inflows to South East Asia reached USD 117 billion (26% growth), while East Asia’s attracted FDI amounted to USD 219 billion (9 percent growth).

One explanation for the emergence of South East Asia, globally and in comparison to East Asia, can be found in the already high wages and production costs in countries like the Republic of Korea and Japan, and rising wages and production costs, particularly in China. Hence, “the relative competitiveness of ASEAN in manufacturing has been enhanced. Accordingly, some foreign affiliates in China’s coastal regions are relocating to South-East Asia, while others are moving their production facilities to inland China” (UNCTAD 2012) 43).

Table 10: FDI inflows, 2005-2011 (in Billion USD)



Source: UNCTAD 2012 42

Table 10 may illustrate how South East Asia is “catching up” to East Asia. While East Asia entered a phase of slow growth, South East Asia is growing much faster, especially most recently in the years 2009 to 2011.

Currently, Greenfield investments still dominate in East and South East Asia, but M&As are becoming increasingly important. Most Greenfield investments were made in the sector of manufacturing of chemical products, electronics, automotive and metal products while M&As were aimed at electronics and food and beverages companies. (cf. UNCTAD 2012 42ff).

As already mentioned above, Western observers of Chinese OFDI activities tend to only note two ways of investments: resource seeking FDI in Africa and the M&A activities in developed countries with MNEs such as Lenovo’s acquisition of IBM’s PC section. “This focus has hidden the fact that a large share of Chinese OFDI remains within Asia and in Southeast Asia in particular” (Kubny and Voss 1). In Cambodia, for instance, China was the biggest investor in 2009, and in Laos and Myanmar, China is becoming increasingly important as well.

In general, FDI can have a variety of direct and indirect effects on host countries.

We define direct effects as the immediate consequences of an MNE’s activity in the host country, which includes employment and income effects. Indirect effects result from the interaction of an MNE or its employees with other enterprises or non-business entities in the host country and comprise spillovers and linkage effects. (Kubny and Voss 6)

Direct effects are for example the creation of new jobs, i.e. employment effect and the consequent generation of income, i.e. income effect. The income effect is increased if foreign companies pay higher wages as domestic companies, which very often is the case in developing countries. The indirect effects of FDI in host countries are Spillover effects, an “unintended transmission of knowledge and skills from the FDI enterprise to domestic enterprises via demonstration effects and/or worker mobility” (Kubny and Voss 7). Linkages are exchanges between legally independent firms in form of cooperation, formal and informal. That can also include non-business entities like research institutes, universities and government institutions.

In Vietnam, Chinese FDI mostly concentrates on low-skill, labour-intensive manufacturing and is usually of rather small scale. The average Chinese company in Vietnam employs 304 employees, about 95% of which are Vietnamese. In Vietnam, in contrast to the

neighboring countries like Laos and Cambodia, a high percentage of lower and middle management staff is also Vietnamese. While Chinese companies in the aforementioned countries tend to employ a large scale of Chinese supervisors and managers, in Vietnam, almost 63% of managerial positions are covered by Vietnamese.

The main reason for this [...] can be attributed to differences in educational levels [...]. In Vietnam, Chinese companies require less costly training to hire local staff in management positions. For many positions within managements, it therefore pays off to employ Vietnamese management staff instead of costly Chinese expatriates. (Kubny and Voss 11)

On first sight, Vietnamese wages are not significantly different to Chinese wages (around USD 86 per month). They are however significantly lower than in the Eastern coastal provinces of China (around USD 300 per month), which is where most Chinese investing companies come from. Chinese companies in Vietnam tend to provide a low level of training, because the types of production, for example assembling motorcycles, is not considered to require a high level of education.

Except of a few export oriented garment companies, Chinese OFDI in Vietnam is usually oriented towards the local market. Hence, production activities may be fragmented, nationally and internationally, with the last manufacturing step being located in Vietnam. This way, high import tariffs can be avoided and labour cost differences can be exploited (see also chapters 3.2 and 3.3). (c.f. Kubny and Voss 3ff)

One characteristic of Chinese OFDI in Vietnam is, that the home and host countries both are developing countries. Furthermore, both nations' governments are considered socialist and share a similar recent history of economic reforms (see also chapter 3.1.2 Market Reform "Doi Moi" and WTO). According to 罗有亮 and 君琳, these factors contribute to the preferential FDI environment Chinese investors find in Vietnam.

In 2012, China invested USD 371 million in Vietnam, spread over 76 projects. This number has China ranking number 9 on the list of biggest investors, which is lead by Japan (USD 5.593 million), Singapore (USD 1.938 million) and the Republic of Korea (USD 1.285 million). These numbers are in accordance with Table 7 (Licensed FDI Projects 2011). After the phenomenon of round-tripping has been introduced earlier, it is of no surprise to find the BVI (USD 822 million) and Hong Kong (USD 729) ranking ahead of China (cf. FIA 2012). If we keep in mind that a major part of the FDI from the BVI and Hong Kong can be traced back to mainland China, this could easily have China rank as

number four on the list of biggest investors in Vietnam, between Singapore and the Republic of Korea.

Given the above one can conclude that Vietnam, together with its ASEAN neighbors, continues to attract growing numbers of FDI. A defining characteristic of Chinese OFDI in Vietnam is that the capital flows from one developing country to another. Chinese OFDI to Vietnam predominantly flows into labor intensive industries such as the garment industry and assembling of motorbikes which do not necessarily require a highly educated workforce. This, however, may have positive effects regarding the in chapter 3.3.2 (FDI in Vietnam) introduced “brain drain” which suggests that foreign investments attract the skilled workers in Vietnam, leaving behind the less educated population. The aims of Chinese investment flows are, similar to FDI from other western countries, either for the low wages, or to avoid high import taxes (market seeking). As we already know from chapter 2.2.1 (Cross Border Trade), China is Vietnam’s most important trading partner. Given the high capital flight from mainland China to Hong Kong and the BVI, and the high FDI in Vietnam from these two “tax havens”, it becomes clear that China is indirectly also one of the biggest contributors of FDI in Vietnam.

5. Conclusion

Sino-Vietnamese relations today, over 20 years after the normalization of relations in 1991, are still tense. The year 1991 can only be made out as the beginning of the normalization, a progress which is not yet completed. In order to understand the origins of these tensions it is essential to take into account the entire Sino-Vietnamese History of over 2000 years. Even though there are still conflicts between China and Vietnam like the disputes over islands in the South China Sea, efforts of both sides can be made out to further enhance political relations. Measures like joint naval exercises, student exchange and increasing trade and tourism promoted by state institutions on both sides of the border are first steps towards a real normalization.

Cross Border Trade between the two neighboring nations is becoming increasingly important and supported by free trade institutions like the ASEAN-China Free Trade Area (ACFTA). For both, cross border trade and FDI, it is important to see Vietnam in the context of the ASEAN and connected trade and investment regulations and partnerships.

Vietnam is an attractive market and destination for investment offering solid legal preconditions, a young and relatively educated work force, a big market with many potential customers and dispensable income and finally, a high potential for further growth, which will boost international trade and investments in the years to come.

As China is still in the process of asserting the stand in the world it now has, i.e. the second biggest economy in the world, Chinese OFDI is becoming increasingly important. In the emergence of China as an international investor lie many opportunities for countries all over the world. However, Vietnam is so far not experiencing high numbers of Chinese OFDI. One reason for this is that countries like the Republic of Korea and Japan have been actively emerged into trade and investment with Vietnam for the last two decades, hence being much more established in Vietnam by now. Another reason is that many Chinese companies still find all the possible advantages Vietnam has to offer to foreign investments in China and do not yet need to invest into Vietnam. After all, China and Vietnam are for many international projects competing for FDI from Western countries (cf. Brendel, Maier and Walde 5ff)

The key finding of this work is the possible connection between capital flight from mainland China to tax havens like Hong Kong and the BVI and then again high investments into Vietnam from those two destinations. Certainly, the BVI and Hong Kong do not exclusively provide services to Chinese customers, and Chinese investments are at the same time going to other destinations via the BVI and Hong Kong. This thesis may provide answers to the relatively lower levels of Chinese FDI in Vietnam observed today. Reasons for this could be the evasion of taxes and a beautification of statistics, keeping in mind potential animosities of Vietnamese against Chinese and Chinese enterprises.

It is my hope that this thesis may act as a primer for future research. The next relevant topics that may be explored include a further investigation of Sino-Vietnamese Relations with regard to Economic cooperation, the competition for FDI between China, Vietnam and further ASEAN members as well as more detailed numbers on investment flows via Hong Kong and the BVI.

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Erklärung

Ich versichere hiermit, dass ich zur Anfertigung vorliegender Arbeit keine anderen als die angegebenen Hilfsmittel benutzt und keine fremde Hilfe in Anspruch genommen habe.

Germersheim, den 26.06.2013

