

DIPLOMAT  
3 March 2021

# **Vietnam, ASEAN, and the US-China Rivalry in the Indo-Pacific**

An interview with Le Hong Hiep.

By **Jongsoo Lee**

How do Vietnam and the broader Association of Southeast Asian Nations (ASEAN) navigate the pressure to choose sides in the U.S.-China rivalry? What are the main challenges for Vietnam's national security and economy as it seeks rapid growth and development? For a perspective on these matters, Jongsoo Lee interviewed Le Hong Hiep, fellow in the Vietnam Studies Program and the Regional Strategic and Political Studies Program at the ISEAS-Yusof Ishak Institute, Singapore.

**How would you assess the prospects for ASEAN becoming more like the European Union in developing a common foreign policy? In what areas do ASEAN member states want to achieve deeper integration?**

ASEAN member states have little appetite for turning ASEAN into a supra-national body like the EU due to their obsession with national sovereignty. Brexit further reinforces their conviction. Therefore, even as ASEAN integration accelerates with the establishment of the ASEAN Community in 2015, there are limits to how far ASEAN can go in this regard. So far, economic integration remains its priority, while political and security integration, including the development of a common foreign policy, remains an elusive process. The common goal is to utilize ASEAN-led mechanisms to maintain regional peace and stability, as well as ASEAN Centrality. We should be realistic here because even efforts to forge an intra-ASEAN consensus on certain regional political and security issues have proven futile. However, it's true that if ASEAN really wants to play a bigger and more substantive role in regional security affairs, having a common foreign policy will be essential for the grouping.

**Many nations face a dilemma as they are caught in the rivalry between the United States and China and come under pressure to choose sides. Is there a consensus within ASEAN on how ASEAN as a whole should relate to the United States and China? Or do individual ASEAN member states pursue their own interests and policies?**

ASEAN and individual member states would not want to choose sides. There is generally a consensus that ASEAN and its members should maintain a neutral stance so that they can benefit from their relationships with both great powers. However, if the U.S.-China rivalry intensifies to the point that they will force regional countries to choose sides, individual countries will have to do whatever is relevant to protect their national interests. However, my view is that, as U.S.-China competition is more about strategic rather than ideological interests, they will not try — at least in the next 10 to 20 years — to force regional countries to align themselves with rigid blocs like in the Cold War.

**How does Vietnam pursue its interests as it finds itself caught in the China-U.S. rivalry? As Hanoi pursues a strategic partnership with the U.S., what can it do to reassure Beijing that it is not leaning unacceptably close to Washington?**

Like its ASEAN peers, Vietnam also wants to maintain a balance between the two powers. However, due to China's aggression in the South China Sea, Vietnam has been trying to strengthen strategic ties with the U.S. and other major powers to balance against China's pressures. But Vietnam has been prudent, only doing so slowly and quietly. China may not feel comfortable if Vietnam pursues stronger security ties with the U.S. and its allies, but it is China's aggressive behaviors in the South China Sea that have pushed Vietnam into this course of action. China should adjust its approach or risk pushing Vietnam and other regional countries further toward the United States.

**To counter China in the South China Sea, which nations other than the U.S. can be helpful to Vietnam?**

Vietnam is diversifying its strategic relations and trying not to rely on any single partner to counter China in the South China Sea. By 2020, Vietnam had established three comprehensive strategic partnerships, 14 strategic partnerships, and 13 comprehensive partnerships with different countries, many of whom have strong interests in the South China Sea. All of them are important to Vietnam's South China Sea policy in different ways. However, in terms of maritime capacity building and pushing back against China's aggression in the South China Sea, Japan, India, Australia, the U.K., France and Germany, among others, appear to be more important to Vietnam than other partners.

**Other than the South China Sea, what are the main challenges for Vietnam's national security? What are the chief sources of tension with its neighbors? How can these tensions be resolved?**

The South China Sea dispute is currently the most serious national security challenge for Vietnam due to China's increasing assertiveness there over the past 10 years. Managing the land border with China, Laos, and Cambodia used to be a significant challenge for Vietnam as well, but as these borders have been demarcated, they no longer present major problems. However, border issues with Cambodia may flare up again if there are significant political changes in Cambodia and anti-Vietnam sentiments are stoked up by certain Cambodian politicians to serve their domestic agenda. In recent years, the Mekong River is also gaining increasing prominence as a security challenge for Vietnam, especially from a non-traditional security perspective. Domestically, maintaining political stability, especially in the Northwest and the Central Highlands, is another security challenge. However, so far, the Vietnamese government has been rather successful in handling it.

**As Vietnam seeks rapid economic growth and development, is China's continuing economic ascendancy a boon or a detriment to Vietnam?**

China's economic rise is both a boon and a bane to Vietnam. As both countries have similar political systems, China's economic reforms offer useful lessons for Vietnamese policymakers. Vietnam's decision to open up the economy in 1986 was partly influenced by China's similar decision eight years earlier. More importantly, like many other countries, Vietnam benefits from trade and investment ties with China. China is currently Vietnam's largest trading partner, with two-way trade turnover reaching \$133 billion in 2020. China is also the seventh largest foreign

investor in Vietnam. With China projected to maintain robust economic growth in the coming years, bilateral trade and investment ties will continue to strengthen. Such mutually beneficial economic ties tend to discourage the two sides from taking actions that may disrupt their economic exchanges. However, as China translates its growing economic power into military might, the northern giant presents an increasingly formidable security challenge for Vietnam. China's expanding military power in the South China Sea is a primary example. Vietnam has no choice but to live with this fact, trying to maintain bilateral economic ties while standing up to China in the South China Sea when it must.

**Has the China-U.S. rivalry led foreign firms to relocate their operations from China to Vietnam for supply chain diversification? In what ways has this rivalry been a gain to Vietnam's economy?**

Many investors have been diversifying their manufacturing base away from China for some time, and the intensified U.S.-China rivalry only accelerated this trend. Vietnam stands to benefit from this trend as many investors have decided to relocate part of the operations to Vietnam due to certain factors, such as Vietnam's geographical proximity to China, political stability, relatively young and inexpensive work force, improving infrastructure, as well as Vietnam's rather strong economic fundamentals and investment incentives offered by the Vietnamese government. However, Vietnam also has to compete with other countries for such investors, especially in the high-tech sector. The challenge is for Vietnam to quickly upgrade the infrastructure and the workforce to meet the increasing demands, and to deal with certain unintended consequences, such as Vietnam's increasing dependence on foreign investment and export, and its widening trade surplus with the U.S. due to its expanded manufacturing base and export capacity.

**How can the U.S., EU, and others such as Japan and South Korea increase their economic ties with Vietnam in ways that can promote Vietnam's growth and diversify its sources of capital, technology and know-how?**

Vietnam is one of the most open economies in Asia in terms of the trade-to-GDP ratio (around 200 percent), only behind Hong Kong and Singapore. This is partly because Vietnam has long emphasized the strategy of diversifying its economic partners. So far, it has concluded 17 free trade agreements (FTAs) and various investment pacts, including with Japan, South Korea, and the EU. The most recent one is the Vietnam-U.K. FTA signed on December 29, 2020. These important trade and investment ties have enabled Vietnam to sustain a rather strong economic performance and reduce its economic reliance on China. Although the openness may expose Vietnam to certain vulnerabilities, so far this strategy has worked well for the country. For example, Vietnam's economy grew 2.9 percent in 2020 despite the COVID-19 pandemic partly thanks to the improved export performance and sustained investment inflows facilitated by such agreements.

**Vietnam recently went through a leadership transition. How would you assess the prospects for Vietnam to implement the political and socioeconomic reforms necessary for achieving its development goals?**

Vietnam aims to become an upper-middle-income economy by 2030 and a high-income economy by 2045. This means that the next 10 years are crucial for Vietnam. It remains to be seen how well the new leadership will implement the country's socioeconomic development plans, but at least setting such ambitious goals means that they have no choice but to continue pursuing further economic reforms to bring their plans to fruition. Politically, certain reforms

may also be explored, but mainly to streamline and increase the efficiency of the political system, not to democratize it. Vietnamese leaders believe that political stability is a precondition for economic development, and they will not tolerate any developments that may destabilize the political system. Their conviction is further strengthened by recent developments in the region, such as the coup in Myanmar last month. As such, Vietnam will likely become a further liberalized economy in the coming decades, but, politically, it will remain more or less the same as long as the Communist Party of Vietnam can handle the potential tensions arising from the mismatch between the economic and political liberalization processes.