

# **VIETNAM IN 2014**

## **Crisis with China Makes Headlines**

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### **Introduction**

The defining event of 2014 was the crisis between Vietnam and China relating to the activities of a Chinese drilling rig in areas to the west of the Paracel archipelago. The crisis and related tension lasted from early May to mid-July. Although differences relating to disputes in the South China Sea do cause periodic tension between the two countries, a crisis of this scale has not occurred since the 1990s and no previous crisis has such ramifications within Vietnam, both in terms of popular protests against China and through riots targeting foreign companies in May. This overview of Vietnam in 2014 will examine these key developments in the context of Vietnam's domestic developments as well as its foreign relations.

### **Crisis with China and Its Repercussions<sup>1</sup>**

The relationship with China continues to be of paramount importance to Vietnam in terms of both a multifaceted collaboration in various fields and the geo-strategic challenge posed by China, in particular regarding the South China Sea. The disputes with China in the South China Sea, that is, overlapping sovereignty claims to the Paracel and Spratly archipelagos as well as to maritime areas between the Vietnamese coast and the two archipelagos within the “nine-dash line” claimed by China, continued to pose a major challenge in bilateral relations in 2014. This was highlighted by the crisis and tensions caused by the dispatch of drilling rig HD-981 to areas west of the Paracel archipelago by the

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China National Offshore Oil Corporation on 2 May. The crisis and related tension lasted until mid-July when China announced the withdrawal of the drilling rig. Prior to the crisis, there had been no tension between Vietnam and China since mid-2013. The period from mid-2013 to April 2014 was characterized by deepened bilateral cooperation and by a seemingly successful bilateral dispute management approach relating to the disputes in the South China Sea.<sup>2</sup>

### ***Vietnam's and China's Viewpoints and Actions during the Crisis***

Vietnam denounced the stationing of the drilling rig as illegal and demanded its withdrawal. In addition Vietnam claimed that the rig's area of operation was within Vietnam's exclusive economic zone and continental shelf as measured from its coastline; it also reasserted its claim of sovereignty to both the Paracel and Spratly archipelagos. Vietnam further accused China of using force against its ships in the waters near the Paracel archipelago and of arresting Vietnamese fishermen. It repeatedly requested negotiations and kept up diplomatic pressure on China through bilateral channels as well as by attempts to gain international support for its position not only on the issue of the drilling rig, but also more broadly relating to the status of the Paracel archipelago.<sup>3</sup>

China's position was that the drilling operation was carried out "totally within waters off China's Xisha islands," the Chinese name for the Paracels. China also reiterated its position that the islands are Chinese territory and that there is no dispute related to them. China accused Vietnam of trying to disrupt the drilling operations and demanded that Vietnam cease such activities and withdraws its vessels from the area. In mid-May, China sought to deflect attention to the "anti-China" riots in south and central Vietnam targeting companies operated by East Asian investors and which resulted in several Chinese casualties. In response to Vietnam's active attempts to gain international support for its position, China eventually publicized its official stand on the drilling operation and the status of the Xisha islands on 8 June.<sup>4</sup>

### ***Ending the Crisis***

Despite attempts to ease the tension, as highlighted by the visit to Hanoi of China's top diplomat State Councillor Yang Jiechi in connection with a meeting of the China-Vietnam Steering Committee for Bilateral Cooperation

held on 18 June and his meetings with Vietnamese leaders during his visit,<sup>5</sup> China refused to withdraw the rig and Vietnam continued to raise objections to its presence.

Eventually the crisis was defused when China on 16 July announced the withdrawal of the drilling rig after the completion of its operation.<sup>6</sup> Already the week before China's official media had highlighted that the sixth round of departmental-level talks between the two countries on "low-sensitivity areas" at sea had been held in Beijing on 9–10 July.<sup>7</sup> Subsequently China also released Vietnamese fishermen that had earlier been detained in the waters of the Paracels.<sup>8</sup> Vietnam responded positively to China's announcement of the withdrawal and verified that the rig had been removed.<sup>9</sup> This withdrawal put an end to the incident and related tensions.

In assessing the way out of the crisis, it can be argued that it had gradually become apparent that a withdrawal of the drilling rig was the only way that could be presented as an acceptable development by both sides. Both Vietnam and China could claim that they achieved their goals, Vietnam by maintaining pressure on China until the rig was eventually withdrawn and China through the completion of the drilling operation.<sup>10</sup>

### ***Political and Socio-economic Implications and Repercussions***

The drilling rig crisis had political and socio-economic repercussions for Vietnam. Politically, through the many demonstrations against China and its actions in the South China Sea targeting in particular the Chinese Embassy in Hanoi and the Chinese Consulate General in Ho Chi Min City. Vietnam's tough stand against China during the crisis appeared to be in line with public sentiments in Vietnam. The "anti-China" riots in mid-May were of political, socio-economic, and international relations relevance. They made headlines as foreign owned companies operated by East Asian investors were targeted in the South and Central parts of Vietnam. Two industrial parks in Southern Vietnam were targeted, both joint ventures between Singapore and Vietnam. Although it appeared that the intended targets were factories linked to mainland China, Taiwanese, Singaporean, Malaysian, South Korean, and even Japanese factories were also affected. The riots caused casualties and some Chinese nationals were among them.<sup>11</sup> China made several critical statements relating to these events, bilateral talks were held, and China dispatched ships to repatriate Chinese nationals from Vietnam.<sup>12</sup>

Uneven trade relations characterize the economic relationship between Vietnam and China with Vietnam having a considerable trade deficit, which continues to be an issue between the two countries, in particular since the stated goal is that economic relations should be based on a 'win-win' formula. In fact Vietnam's trade deficit with China keeps increasing.<sup>13</sup> At the same time Vietnam would also like to see more investment by Chinese companies. In 2013 Chinese investment in Vietnam increased considerably to US\$2.3 billion compared to US\$345 million in 2012. This trend apparently continued in 2014 despite the riots of mid-May. According to figures from Vietnam's Ministry of Planning and Investment's Foreign Investment Agency, Chinese foreign direct investment (FDI) in Vietnam had reached US\$7.94 billion as of 5 December 2014.<sup>14</sup>

### ***Vietnam-China Relations after the Crisis***

Following the withdrawal of the drilling rig the two countries have initiated a process aimed at rebuilding trust, normalizing the overall relationship, and addressing the territorial differences. This has been reflected in the meetings between the Vietnamese and Chinese leaders. The first step was the dispatch of a Special Envoy to China in late August by the Secretary General of the Communist Party of Vietnam (CPV).<sup>15</sup> Vietnam's Prime Minister Nguyen Tan Dung met with his Chinese counterpart Li Keqiang on the sidelines of the Asia-Europe Meeting (ASEM) Summit held in Italy in October.<sup>16</sup> Also in October Vietnam's Defence Minister Phung Quang Thanh headed a delegation to visit China for talks with his Chinese counterpart Chang Wanquan.<sup>17</sup> Later the same month the seventh meeting of the Steering Committee for Bilateral Cooperation was held in Hanoi. Notable in the latter case was that China's top diplomat, State Councillor Yang Jiechi headed the Chinese delegation.<sup>18</sup> In November, Vietnam's President Truong Tan Sang met with his Chinese counterpart Xi Jinping in Beijing. The Vietnamese President was in China to attend the Asia-Pacific Cooperation (APEC) Summit.<sup>19</sup> In late December a delegation from the National Committee of the Chinese People's Political Consultative Conference, headed by its Chairman Yu Zhengsheng, visited Vietnam. Yu met with Vietnam's leadership, the maritime issues and ways to manage them were discussed.<sup>20</sup>

This active bilateral diplomacy was aimed at re-establishing the cooperative relationship between the two countries following the drilling rig crisis. Vietnam's leadership evidently strove to build a cooperative and mutually beneficial

relationship with China. However, Vietnam did not refrain from officially complaining about Chinese actions in the South China Sea including expansion of the runway construction in the Paracels, land reclamation in the Spratlys, and China's Position Paper on "the Matter of Jurisdiction in the South China Sea Arbitration initiated by the Philippines".<sup>21</sup>

## Socio-economic Developments

The attacks on foreign companies in mid-May raised fears of possible negative repercussions in Vietnam's efforts to attract foreign investors since the owners of the companies from Taiwan, Singapore, and Malaysia, are important contributors to FDI in Vietnam's economy. As investors from Japan and South Korea were also affected, the potential damage could be even greater.<sup>22</sup> Attracting FDI takes place in a competitive setting and thus the ramifications could be far-reaching for Vietnam and impact negatively on Vietnam's economy at large. The revenues from the FDI sector account for two-thirds of Vietnam's total export revenue and give a significant positive contribution to Vietnam's trade balance.<sup>23</sup>

The General Statistics Office of Vietnam (GOSV) reported a decrease of 16.7 per cent in total registered capital of both newly and additionally financed FDI projects as of November 2014 compared to the same period in 2013. However, the number of projects increased by 21.4 per cent compared to 2013.<sup>24</sup> These figures indicate a tendency towards smaller projects in terms of invested capital. The downward trend in new investments started earlier during 2014, well before the riots in May, which implies that there could be some concerns over the investment climate in Vietnam in general, rather than solely related to the riots.

The Minister of Planning and Investment, Bui Quang Vinh, has given an optimistic interpretation of the developments by pointing to the fact that several large-scale FDI projects were licensed in 2013 and that a number of international corporations are now preparing major projects for the coming years, for example, Intel, Samsung, Bridgestone and LG Electrics. Thus, lower FDI figures during 2014 are not seen by Vietnam as representing a long-term trend. However, one concern is that Vietnam's important export markets in the United States and in Europe are still waiting for the full recovery of their economies. Other concerns include Vietnam's poor infrastructure, a shortage of skilled workforce, and the shortcomings in the legal and administrative systems that confront the investors.<sup>25</sup>

Vietnam has gone from being one of the world's poorest nations into one of Southeast Asia's most dynamic and fastest growing economies, with aspirations to be a developed nation by 2020. Since the policy of renovation and reform — "*Doi Moi*" — was launched in late 1986, Vietnam has succeeded in making an impressive shift from the dominance of low-productivity agriculture to industry and other modern trades. Vietnam has been achieving rapid economic growth and poverty reduction and is expected to keep up its growth rate at close to 6 per cent in 2014.<sup>26</sup> Vietnam's yearly per capita income was estimated to have reached US\$1,960 in 2013.<sup>27</sup> Other indicators of steadily improving living conditions are the Industrial Production Index (IPI) up by 7.5 per cent, labour employed Index (LEI) up 5.1 per cent, and sales of consumer goods and services up 6.5 per cent — inflation excluded — in the year ending November 2014.<sup>28</sup> The consumer price index (CPI) was up 6 per cent during 2013 — the lowest in a decade<sup>29</sup> — and dropped to as low as 2.6 per cent during the year ending November 2014.<sup>30</sup>

The International Monetary Fund (IMF) compliments Vietnam for its macroeconomic stabilization and inflation containment. Furthermore, the Vietnamese Government has increased its international reserves during 2014, flexibly managed the exchange rate, and made efforts to restructure the state-owned enterprises.<sup>31</sup>

However, in its recent Annual Results Report on Vietnam (2013) the Resident Coordinator of the United Nations Development Program (UNDP) gives a different picture: five years of macroeconomic instability, a prolonged economic slow-down and rapid demographic changes that contribute to new forms of multi-dimensional poverty, affecting among others migrant and informal workers in urban areas and households in ethnic minority-dominated areas.<sup>32</sup> Already the UNDP Annual Results Report for 2012 had expressed concern over the social costs of the rapid growth and the social and economic disparities preventing certain groups from enjoying essential quality education and health services. Other problems mentioned in the report are corruption and mismanagement within the public sector.<sup>33</sup>

These assessments by well-placed observers indicate that business as usual with high FDI and workers leaving agriculture to fill the new factories will not be enough to meet the modern market economy. The issue of the workforce has been given special attention in the World Bank's "Vietnam Development Report 2014".<sup>34</sup> The World Bank states that capital investments rather than productivity have become the new source of economic growth in Vietnam and this is not a

sustainable model. The youth population is shrinking and the workforce lacks the skills needed for the country to accelerate economic growth.<sup>35</sup>

The World Bank has done a survey among employers in Vietnam. Many of them have said that a shortage of workers with adequate skills is an obstacle to their activity. The situation is described as one where the employers are seeking workers, but they cannot find the workers that match their skills needs. These skills needs are technical, cognitive, and behavioural relating to teamwork, critical thinking and problem-solving, capabilities that are usually expected to be found in job descriptions in the developed world.<sup>36</sup>

Based on the survey, the World Bank made three step-by-step recommendations. First, promote school readiness through early childhood development, starting at the age group of 0–3 years — breastfeeding, child stimulation and social assistance for poor parents — followed by universal access to pre-schools. Second, build the cognitive and behavioural foundation in general education, including full-day instruction, expansion of access to secondary education, and curriculum and teaching that foster cognitive and behavioural skills. Third, build job-relevant technical skills through a more connected system between employers, students and universities, and vocational schools.<sup>37</sup>

The World Bank's framework for strategic skills development has its origin in a clear understanding of what human resources development requires. Expecting Vietnam to implement it can be interpreted as a sign of great confidence in the Vietnamese people and government. Many countries in the developed world are still far from achieving it. The fact that considerable parts of the Vietnamese industry have already matured to a situation where such skills are needed is in itself impressive.

## **Political Developments**

The main political development in Vietnam during 2014 were the preparations for the Tenth Plenum of the Central Committee of the CPV which will be a major step in the preparations for the 12th National Congress of the CPV scheduled for early 2016.

The drilling rig crisis with China also had domestic political repercussions in Vietnam. There were two main repercussions. The first one, seen as positive from the perspective of the Vietnamese authorities, is the display of popular support for the tough stand taken by the Vietnamese Government against China during the

crisis. The display of such support was largely peaceful and directed at China's embassy in Hanoi and its consulate in Ho Chi Minh City. The manifestation of public support for the stand taken by the Vietnamese authorities and the rejection of China's stand and actions was extensively publicized in the official Vietnamese media, for example, *Nhan Dan*, the daily newspaper of the CPV, carried numerous articles about public support for Vietnam and criticism of China during the crisis.<sup>38</sup>

The other more negative repercussion, from the perspective of the authorities, was that the "anti-China" riots were not only potentially harmful to Vietnam's economy which has been discussed above, but could also be seen as posing a political challenge in undermining the marketing efforts of the Vietnamese authorities to portray Vietnam as a safe and stable destination for foreign investors. It appears evident that the Vietnamese authorities were caught off-guard by the riots, and even China did not suggest that the Vietnamese authorities were behind the riots. Instead China focused its criticism on the failure to prevent and contain the riots. Thus, it is possible that anti-government and anti-CPV elements were involved in organizing the riots, which must be a cause for concern for the Vietnamese authorities even if this has not been publicly highlighted. In fact, the official media provided minimal coverage of the riots themselves and limited coverage of subsequent trials of rioters. *Nhan Dan* can again illustrate this trend and it can be contrasted to the wide coverage of the perceived positive aspects as highlighted above.<sup>39</sup>

In general, the socio-economic challenges outlined in the previous section also have political ramifications. Therefore the Vietnamese authorities and the ruling CPV must address them through both economic and political policies. Uneven development between different parts of the country is one of the challenges for the Vietnamese authorities in their plans for national development. The emergence of a disparity in wealth distribution among social strata in Vietnamese society is another challenge. Disparity in wealth is a sensitive issue in a socialist country like Vietnam and hence a political issue.

## Foreign Relations

In 2014, Vietnam continued to pursue its foreign policy of befriending other nations through bilateral relations, regional organizations and initiatives, and multilateral organizations. Vietnam has expanded and deepened its collaboration with major powers such as India, Japan, Russia, South Korea, and the United States. Vietnam has also continued its active participation in the



Association of Southeast Asia Nations (ASEAN). Also notable is Vietnam's engagement in ASEM, and in APEC. The only relationship in which Vietnam encountered notable problems was, as noted above, the one with China.

From a geo-strategic point of view, the countries bordering Vietnam are of particular importance in Vietnam's foreign relations. This is reflected in the attention paid to relations with China and to relations with the member states of ASEAN. Well-established party-to-party relations and collaboration are particularly important with China and Laos and also of relevance in relations with Cambodia.

During the drilling rig crisis with China, Vietnam turned to ASEAN for support, but did not request or expect ASEAN to publicly criticize China. This was reflected in the official ASEAN position on the matter. This strategy ensured that ASEAN could display a unified position that was in both Vietnam's and in ASEAN's best interest.

Relations with the United States continued to expand during 2014, although U.S. criticism of Vietnam's human rights record was a source of friction.<sup>40</sup> During the drilling rig crisis with China, Vietnam welcomed the position taken by the United States, as it was widely understood as being critical of China's action. There has also been speculation that Vietnam might try to balance China off by moving closer to the United States. The decision by the United States to partially lift its weapons embargo against Vietnam reinforced such speculation.<sup>41</sup> Vietnam has thus far been reluctant to move too close to the United States *vis-à-vis* China. Vietnam's relationship with the United States attracts considerable attention domestically both in the United States and Vietnam due to the legacy of the Vietnam War and also the economic embargo imposed by the United States in response to Vietnam's military intervention in Cambodia in late December 1978. However, following normalization of relations in 1995, cooperation between the two countries has gradually been expanded with the collaboration in the military field attracting widespread attention.

Vietnam's relations with key Northeast Asian countries remain overall stable. Japan is an important counterpart not only because it is a major trading partner and an important source of FDI to Vietnam, but also because Japan is a major source of Overseas Development Assistance (ODA). In March 2014 Vietnam's President paid an official visit to Japan which expanded and elevated the strategic partnership between the two countries.<sup>42</sup> Also notable was that Vietnam's Prime Minister met his Japanese counterpart Shinzo Abe in connection with the ASEM Summit in October.<sup>43</sup> Also in October, the fifth

Vietnam-Japan Strategic Partnership Dialogue was held in Hanoi.<sup>44</sup> Vietnam appreciates that Japan has been critical of China on the South China Sea issues. However, this should not be interpreted as Vietnam seeking to align itself with Japan or offering public support to Japan in the Sino-Japanese dispute.<sup>45</sup>

Vietnam's relations with South Korea continue to be expanded through their strategic cooperation partnership. South Korea has become the second largest donor through its ODA to Vietnam. South Korea is also a major source of FDI. In early October, the Secretary General of the CPV Nguyen Phu Trong made an official visit to South Korea at the invitation of South Korean President Park Geun-hye.<sup>46</sup> In December, Vietnam's Prime Minister visited South Korea to attend the 25th anniversary of ASEAN-Republic of Korea (RoK) Dialogue Relations and for a working visit.<sup>47</sup>

Vietnam also continues to enjoy privileged relations with India. The two countries have continuously enjoyed good relations since the Cold War Era. This has created a relationship in which Vietnam considers India to be a friendly country that is not a geo-strategic challenge to Vietnam. The highlight of 2014 was the visit by Vietnam's Prime Minister to India in late October at the invitation of his Indian counterpart Narendra Modi. In connection with the visit PetroVietnam signed agreements with two of its Indian counterparts.<sup>48</sup>

The relationship with Russia continues to be expanded and the importance of the relationship to Vietnam was highlighted by the visit to Russia by the Secretary General of the CPV in late November 2014 at the invitation of Russian President Vladimir Putin.<sup>49</sup> Reportedly, during the visit the two countries signed an inter-governmental agreement easing restrictions on the entry of Russian military vessels into Cam Ranh Bay.<sup>50</sup>

## Conclusion

During 2014 Vietnam continued to pursue its foreign policy with the aim of developing good relations with all countries on the basis of mutually beneficial cooperation. This policy continues to be successful. However, the situation remains more complex with China. China is Vietnam's major trading partner and political collaboration between the two countries is extensive. At the same time, China is Vietnam's main strategic challenge due to the disputes in the South China Sea, as illustrated by the drilling rig crisis and related tensions.

The crisis with China also had domestic repercussions: both peaceful manifestations of support of Vietnam's territorial claim and the authorities' tough response to China and more violent expressions through the so-called "anti China riots" targeting foreign companies in southern and central Vietnam.

More broadly the socio-economic developments indicate that Vietnam continues to make progress while at the same time facing challenges that have not only social and economic implications but also political ramifications. These challenges, if not properly handled, may weaken the legitimacy of the Vietnamese authorities and the ruling CPV.

## Notes

1. For a broader overview of the crisis and its outcome, see Ramses Amer, “China-Vietnam Drilling Rig Incident: Reflections and Implications”, *Policy Brief* no. 158 (Nacka: Institute for Security and Development Policy, 2014).
2. For studies about the bilateral approach to managing disputes, see Ramses Amer, “Sino-Vietnamese Border Disputes”, in *Beijing’s Power and China’s Borders: Twenty Neighbors in Asia*, edited by Bruce Elleman, Stephen Kotkin and Clive Schofield (Armonk, New York and London: M.E. Sharpe, 2012), pp. 295–309; and Ramses Amer, “China, Vietnam and the South China Sea — Disputes and Dispute Management”, *Ocean Development & International Law* 45, no. 1 (2014): 17–40.
3. For an extensive list of references from official Vietnamese sources, see Ramses Amer, *Dispute Management in the South China Sea*, National Institute for South China Sea Studies, 2015, available at <[http://en.nanhai.org.cn/uploads/file/file/20150302\\_Ramses.pdf](http://en.nanhai.org.cn/uploads/file/file/20150302_Ramses.pdf)> (accessed 6 March 2015), pp. 53–54.
4. For an extensive list of references from official Chinese sources see *ibid.*, pp. 52–53.
5. Ministry of Foreign Affairs of People’s Republic of China, “Yang Jiechi Holds Heads-of-delegation Meeting of China-Viet Nam Steering Committee for Bilateral Cooperation with Deputy Prime Minister and Foreign Minister Pham Binh Minh of Viet Nam”, 18 June 2014, available at <[http://www.fmprc.gov.cn/mfa\\_eng/wjb\\_663304/zzjg\\_663340/yzs\\_663350/gjlb\\_663354/2792\\_663578/2794\\_663582/t1167408.shtml](http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/yzs_663350/gjlb_663354/2792_663578/2794_663582/t1167408.shtml)> (accessed 23 June 2014). For additional reports, see Ministry of Foreign Affairs of People’s Republic of China, available at <[http://www.fmprc.gov.cn/mfa\\_eng/wjb\\_663304/zzjg\\_663340/yzs\\_663350/gjlb\\_663354/2792\\_663578/2794\\_663582/](http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/yzs_663350/gjlb_663354/2792_663578/2794_663582/)>.
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8. “China releases VN fishermen”, *Viet Nam News*, 16 July 2014, available at <<http://vietnamnews.vn/society/257531/china-releases-vn-fishermen.html>> (accessed 15 August 2014).

9. *Nhan Dan*, “PM Affirms Resolute Measures to Protect Nations’ Sacred Sovereignty”, 16 July 2014, available at <<http://en.nhandan.org.vn/politics/item/2651402-pm-affirms-resolute-measures-to-protect-nations'-sacred-sovereignty.html>> (accessed 18 July 2014).
10. This line of argument draws on the one used in Amer, “China-Vietnam Drilling Rig Incident”, p. 2.
11. On this issue see Ramses Amer, “Looting Chinese factories won’t help the Vietnamese economy”, *The Conversation*, 16 May 2014, available at <<https://theconversation.com/looting-chinese-factories-wont-help-the-vietnamese-economy-26782>> (accessed 16 May 2014).
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