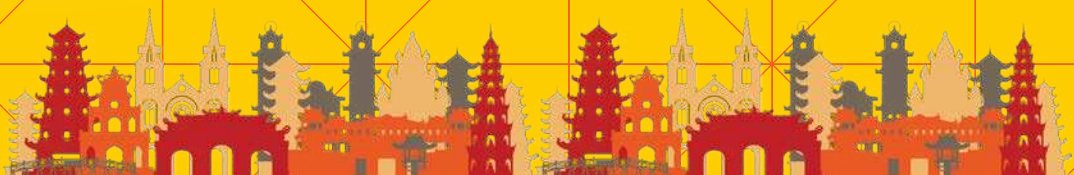


Vietnam in the Indo-Pacific: Challenges and opportunities in a new regional landscape

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FOREWORD

For Australians of my generation, the mention of Vietnam almost always conjures up images of the War and the 1970s.

This comes as no surprise, given it was the time of our youth and University education. Attitudes to Vietnam in those days shaped attitudes to foreign policy and domestic politics. In the immediate post-war aftermath, the influx of Vietnamese refugees into Australia and Australia's development assistance and reconciliation efforts in Vietnam itself, are the stand out memories. Indeed, one word - bridge – stands as the visual image to those assistance efforts.

Successive Australian Governments since the early 1970's, starting with diplomatic recognition of Vietnam in 1973 by the Whitlam Government, have sought to enhance our bilateral relations with Vietnam. While such efforts became easier with the effluxion of post-war time, it is also true that such efforts have never been more concentrated than in the last decade or so.

I had the great privilege as Australia's Foreign and then Defence Minister to work with my Vietnamese counterparts to play a part in these efforts, including the move to a Comprehensive Partnership Agreement between our countries and the holding of the Inaugural Defence Ministers' Dialogue.

I was very pleased to see that these and other similar efforts saw, on the cusp of the 45th Anniversary of our diplomatic relations late last year, the elevation of our bilateral relationship to Strategic Partnership.

The forging of the Strategic Partnership is for good reason: it is simply in Australia's national economic and security interests to have a closer relationship with Vietnam. A country with a population of over 90 million, with whom we have strong people to people links, holds out great opportunities for Australia.

In an age where Australian memories are much more of growing up with vibrant Vietnamese communities, great restaurants in our cities, and of backpackers touring Vietnam in numbers, the people-to-people contact between our countries is readily recognised by Australians.

Less well recognised, but now growing in understanding by Australians, is Vietnam's great potential to be an economic tiger in the Indo Pacific and a strategic influence in ASEAN. The growth in our bilateral relationship has also seen greater cooperation in our important regional forums, including APEC, the East Asia Summit and the



ASEAN Defence Ministers Plus Meeting. The growth of Vietnam's economy will see it at some stage become one of the world's top-20.

The bilateral developments I describe above could not have been achieved without ongoing Australian diplomatic efforts. Nor could they have been achieved without a Vietnam which had a forward looking view of Australia as a partner.

Vietnam's long history has taught it to sometimes be wary of great powers, including modern powers like China, the United States, and during the Cold War era, Russia.

Australia is not and has no pretensions to be a great power. Our involvement in the "American War" is understood and acknowledged by Vietnam as an historic fact, which does not get in the way of a 21st century Australia-Vietnam bilateral relationship.

How Vietnam manages its relationship with China, and its expanding bilateral relationship with the US, will be a key contemporary challenge for Vietnam. Growing and reforming its economy to maximise the benefits to flow to its people will also be a significant and ongoing challenge. Accepting in due course its capacity to be a strategic influence in the Indo-Pacific will also cause a Vietnamese policymaking to rethink their very strategic identity.



There is no Australian institution better placed to examine these issues in their Indo-Pacific context than the Perth USAsia Centre. The Centre's brief is to examine significant geostrategic issues from the vantage point of Australia's Indian Ocean capital, Perth.

Much of the Indo-Pacific discussion is led by the rise of India as a great power, and the emergence of Indonesia as a global influence, not just a regional influence. A 100-million strong Vietnam, with a vibrant people and economy, will necessarily be a vital part of the Indo-Pacific as well.

The compendium of authors and their respective articles in this Perth USAsia Centre publication is a significant contribution to understanding that, and the opportunities and challenges that poses for Australia, Vietnam and the Indo Pacific.

Stephen Smith

Distinguished Fellow, Perth USAsia Centre, former Minister of Defence, former Minister for Foreign Affairs



INTRODUCTION

In the early years of the 21st century, Vietnam has emerged as one of Asia's newest regional powers. After two decades of high-speed growth unlocked by economic reforms, it has already become a middle-income country and will soon join the ranks of the major economic powers. Its growing levels of confidence, capacity and importance has seen it adopt a more active diplomatic posture in key regional fora such as ASEAN, APEC and the East Asia Summit. It has also become a central player in security developments in the region, particularly in the maritime and non-traditional security spaces. For the first time since the conclusion of the Indochina Wars in the late 1980s, Vietnam is again central to the international politics of Asia.

Yet much has changed in the region over this time. US hegemony in Asia has given way to a more multipolar balance of power, with China, Japan and increasingly India all aspiring to regional leadership. Consistent economic growth has seen several countries from developing Asia become

regional powers in their own right. Security relations have also become more contested, such as the increasing rivalry between the US and China alongside emerging maritime disputes in the South China Sea. Indeed, the very concept of who and what constitutes the Asian region has also changed, with the new 'Indo-Pacific' concept extending the region to encompass the Indian Ocean. Vietnam is re-emerging as a power within a regional context that is itself very much in flux.

This Perth USAsia Centre Special Report examines Vietnam's role in the evolving Indo-Pacific regional order. Bringing together a mix of leading Australian and Vietnamese authors, it offers an up-to-the-minute analysis of the opportunities and challenges facing Vietnam's economic, security and diplomatic role in the Indo-Pacific. By exploring the drivers, dynamics and implications of Vietnam's rise as a regional power, it aims to help policymakers and government and business leaders develop stronger relationships between Australia, Vietnam and the wider Indo-Pacific region.



KEY QUESTIONS

1. What dynamics – including economic, security, and diplomatic transformations – are driving Vietnam's increasing importance in the Indo-Pacific region?
2. How are domestic reforms changing Vietnam's political and economic systems, and what is the future trajectory for the country's development?
3. How does Vietnam see its place in the Indo-Pacific? What are its core regional interests, and its position vis-a-vis existing and emerging institutional architectures?
4. How can Vietnam manage its complex relationships with the major powers in the region, including China, Japan and the US?
5. What can Australia do to improve and better-institutionalise its economic, security and people-to-people relations with Vietnam?





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CHAPTER I.

From enmity to
strategic partnership:
Australia-Vietnam
relations since 1976

From enmity to strategic partnership: Australia-Vietnam relations since 1976.

Author: Peter Edwards

The diplomatic relationship between the Commonwealth of Australia and the Socialist Republic of Vietnam over the past forty years has undergone a difficult and tortuous transformation from enmity to strategic partnership. This overview outlines the major elements in that transformation, as a background to efforts to consolidate and develop the partnership¹.

From conflict to diplomatic relations

The relationship started from the worst possible base, a combination of enmity and ignorance. Australia's commitment to the conflict that Western countries call the Vietnam War, the Vietnamese call the American War and many historians call the Second Indochina War, was based in part on an analogy with the Malayan Emergency of 1948-60. In the late 1940s and early 1950s the Malayan Communist Party, which was closely aligned with its Chinese counterpart, mounted an insurgency against the British colonial rulers. Australian forces joined those from Britain and other Commonwealth countries to combat the insurgency and assist the transition to power of an independent, pro-Western government. By 1960 the communist insurgency had been defeated and Malaya had an independent, anti-communist government with strong nationalist credentials and broad popular support. That outcome suggested to Australia's political and military leaders that it was both possible and desirable for the West to intervene in the decolonisation of a Southeast Asian country to ensure that the newly independent, post-colonial government was sympathetic to the West rather than to either or both of the major communist powers, China and the Soviet Union.

Only gradually and painfully did Australians realise that they knew much less about Indochina than about maritime Southeast Asia, the islands and peninsulas that today form Malaysia, Indonesia, Timor Leste, Brunei, Papua New Guinea and the Philippines. Distance, augmented by numerous political, cultural and economic ties in peace and war, meant that many Australians had some familiarity with the British, and to a lesser extent the Dutch, territories to their north, but much less with the French colonies that are today Vietnam, Laos and Cambodia. As the decolonisation of all three European empires intersected with the global Cold War and the pre-existing tensions and rivalries in the region, Australia had diplomatic representation in Kuala Lumpur, Singapore and Jakarta from early years, and



later in Saigon, but none in Hanoi or Beijing. Consequently, when Vietnam became the focus of attention, Australian policy-makers were much more reliant on their great power allies, lacking the independent access to information or opportunities for influence that they had closer to home. As a result, Australia was able to apply its 'forward defence' strategy in a nuanced and graduated manner in the Malayan Emergency, as well as in the 'Confrontation' between Indonesia and Malaysia between 1963 and 1966, that was not matched by its commitment to the Vietnam War².

When Australian forces were first committed to the war Gough Whitlam, as Deputy Leader and then Leader of the Opposition, expressed only mild criticism and at one point appeared close to coming out in support. By the early 1970s, however, he was clearly looking towards a victory by Hanoi. After Labor's victory in the December 1972 election and the signing of the Paris Peace Accords in January 1973, Whitlam moved rapidly to open diplomatic relations with the Democratic Republic of Vietnam (DRV, commonly called North Vietnam). Australia had a *chargé d'affaires* in Hanoi by mid-1973, although accommodation difficulties delayed the arrival of the first ambassador until March 1975. During the last two years of the war, Australia had diplomatic relations with the governments of both the DRV in Hanoi and the Republic of Vietnam (RVN, or South Vietnam) in Saigon, without using the term 'recognition', as each claimed to be the rightful government of all Vietnam.

Whitlam claimed that his government took an 'even-handed' approach to the competing sides, but messages he sent to Hanoi and Saigon in the last weeks of the war clearly implied that he thought the DRV's victory was not only inevitable but welcome. Immediately before and after the fall of Saigon on 30 April 1975, Whitlam personally adopted an unsympathetic attitude towards South Vietnamese seeking refuge in Australia, even including those who had worked with Australians, to an extent that many on his own side of politics felt was dishonourable. The tensions over this issue helped to initiate the political crisis that led to the dismissal of the Whitlam government in November 1975.

Whitlam's goal was to establish a normal relationship with Hanoi as quickly as possible after a war in which Australia had supported the losing side, and in particular to avoid the error of non-recognition of the People's Republic of China for two decades after the communist victory in 1949. In later years the recognition of China was often cited as one of the great achievements of the Whitlam government, but by the time he came to office that was virtually inevitable. His



courageous masterstroke on China had been his visit there, as Leader of the Opposition, in 1971. Whitlam's move to open diplomatic relations with Hanoi was more characteristic of his desire to take bold steps that demonstrated a sharp difference from his conservative predecessors. The speed with which Whitlam opened relations with Hanoi, and his overt welcome for the DRV's victory, alienated the United States, contributing substantially to the greatest crisis in the Australian-American strategic relationship since the signing of the ANZUS treaty in 1950³. It also disturbed the founding members of the Association of Southeast Asian Nations (ASEAN) – Indonesia, Malaysia, Singapore, Thailand and the Philippines – each of which had its own reasons for fearing an extension of Hanoi's influence in the region⁴.

Obstacles to a developing relationship

When the Hanoi government brushed aside the Provisional Revolutionary Government in the south and united the two halves of the country as the Socialist Republic of Vietnam (SVN) in 1976, Whitlam's successor, Malcolm Fraser, promptly recognised the achievement of the result that he, as Minister for the Army (1966-68) and Minister for Defence (1969-71), had worked hard to prevent. Nevertheless, and despite the continuation of bilateral trade, Australia's relations with the SVN remained extremely strained for a decade after Hanoi's victory, for two principal reasons.

The first was the Indochinese refugee crisis, which had started even before the fall of Saigon. The desperation of thousands of Vietnamese who sought to flee the communist regime was exacerbated by the SVN's repressive and vindictive policies. The victorious government punished anyone associated with the RVN government, sending hundreds of thousands to 're-education camps', imposing Stalinist economic policies of collectivised agriculture and forced industrialisation, and even obliterating the cemeteries of the defeated army. Thousands of refugees from Vietnam, as well as Laos and Cambodia, fled to camps in Thailand. From early 1976 Australia faced the first influx of 'boat people', as hundreds of unofficial refugees began appearing on Australia's northern shores, having fled their homeland crowded into all manner of craft, with the lucky ones having survived the dangers of tropical storms, unseaworthy vessels, unsympathetic regional governments and Thai pirates.



Acting as far as possible in co-ordination with the United Nations High Commissioner for Refugees (UNHCR) and the ASEAN countries, Australia accepted thousands of Vietnamese refugees, seeking to organise an 'orderly departure' program but also admitting many boat people. Relations with Hanoi were further strained in 1979, when it became evident that the SVN, which had long condemned the attention given to Vietnamese refugees as an American plot, was covertly assisting the departure of the boat people. The Indochinese refugee crisis was further exacerbated by the thousands of Cambodians who fled after Vietnam invaded Cambodia in late 1978. Not until 1982 did Australia and Vietnam agree on an orderly departure program, which effectively ended the influx of boat people. By this time Australia had tens of thousands of residents of Vietnamese origin, who were strongly opposed to the SVN government and, by implication, of a close relationship between Hanoi and Canberra. Contrary to the fears held by many in 1975, the Australian population generally accepted this sudden and unexpected influx of Asian immigrants, expressing sympathy for the hardships they had endured. While the SVN's policies were not as harsh as those of the genocidal regime of the Khmer Rouge, which had taken power in Cambodia in 1975, neither policy-makers in Canberra nor the wider Australian population had much reason to seek a particularly amicable relationship.

The Australian people thus had a highly visible context in which to place the geostrategic complexities of the region, which might otherwise have been less salient in domestic politics. The ideologically rigid economic policies imposed by the SVN in its early years impoverished most of Vietnam's population, a catastrophe exacerbated by the decision of the United States not to implement a secret promise to provide billions in aid for post-war reconstruction, but instead to impose a strict trade and investment embargo. During the SVN's first decade, famine was averted only by massive financial support and food aid from the Soviet Union. In a closely related development, Vietnam signed a military alliance with the Soviet Union in 1978. In the early 1980s, as new tensions rose in the global Cold War, this alliance, which gave Moscow access to maritime and air facilities in Vietnam, was cited in an assessment of the strategic basis of Australian defence policy as 'a cause for concern' for Australia's defence planners⁵.

Soon after signing the alliance, Vietnam invaded Cambodia, deposing the 'Democratic Kampuchea' (DK) regime of the Khmer Rouge, led by Pol Pot, and imposing a more sympathetic government. The DK government, whose extreme Maoist policies were responsible for the death of about a quarter of its own population and the hideous political and economic repression of the remainder,



was nevertheless supported by China. Vietnam's action in Cambodia was the principal cause of a brief but bloody conflict between China and Vietnam in 1979, known to historians as the Third Indochina War, the first two having been against the French (1946-54) and the Americans and their allies (at its peak between 1965 and 1975).

From this time onwards, there was open rivalry for influence in Indochina between China on one hand, and Vietnam with the support of the Soviet Union on the other. After three decades of a Cold War between the 'free world' and the 'communist bloc', many in the West, although well aware of the split between Moscow and Beijing, found it difficult to adjust to the intensity of this struggle for hegemony between communist powers.

Resolving the Cambodian issue

During the Fraser government (1975-83), Australia's regional policies were shaped principally by its relationship with the members of ASEAN. Notwithstanding the global revulsion over the horrific actions of the Pol Pot regime, ASEAN had the support of both the United States and China in its opposition to Vietnam's actions in Cambodia. Consequently Australia did not recognise the Vietnam-supported government in Phnom Penh, the People's Republic of Kampuchea (PRK), and suspended its aid and cultural programs in Vietnam. For some years, not without internal tensions between Prime Minister Fraser and Foreign Minister Andrew Peacock, the Australian government aligned its policy with that of ASEAN, while indicating that it would work constructively towards an agreed settlement in Cambodia. In 1981, in a major adjustment to this policy, the Fraser government unilaterally derecognised the DK regime, thereby breaking ranks with both the United States and ASEAN, but did not recognise the PRK and continued to support the search for a broadly acceptable settlement in Cambodia.

The Hawke government came into office in 1983 with the avowed aim of shaping a foreign policy that was more independent of the American alliance, and more oriented towards Australia's Asian neighbours, than those of its conservative predecessors, but without provoking the same tensions between Canberra and Washington as the Whitlam government. Part of this stance was a desire to establish better relations with Hanoi, including the restoration of aid, but the government soon concluded that this could only be achieved in the context of, and not in advance of, a comprehensive settlement of the Cambodian issue. Foreign Minister Bill Hayden worked energetically and travelled widely with this goal,



holding discussions with the governments of Vietnam, Laos, the ASEAN countries, China, and leaders of Cambodian groups other than the Khmer Rouge. His efforts achieved no major breakthroughs, however, in the face of the harsh realities of global, regional and national politics.

In the late 1980s a number of developments combined to provide a more sympathetic environment. The domestic and foreign policy reforms initiated by Mikhail Gorbachev, the head of the Soviet communist party from 1985 to 1991, and his relations with conservative leaders in the United States, Britain and Germany, reduced Cold War tensions, while Soviet support for Vietnam was undermined by an economic crisis and, in 1991, the unexpected collapse of the Soviet Union. In 1986 the death of Le Duan, general secretary of the Communist Party of Vietnam (CPV) since 1960 and the principal author of its authoritarian and rigid policies in war and peace, opened the way for a major set of economic policy reforms, known as Doi Moi, as well as new directions in international relations. For a variety of strategic and economic reasons, the United States and the ASEAN countries, led by Thailand, Vietnam's longstanding rival for influence in Indochina, were more prepared to countenance a settlement in Cambodia that would, among other benefits, open the way to better relations with Vietnam. The relationship forged by Hayden's successor as Australia's Foreign Minister, Gareth Evans, and his Indonesian counterpart, Ali Alatas, further contributed to the more positive environment. From 1989 onwards Evans and his department played an active role in the regional, at times global, diplomacy that led to the 1991 comprehensive settlement of the Cambodian issue, under the aegis of the United Nations, and to elections in Cambodia in 1993.

The subsequent history of Cambodia did not meet all the hopes that had been raised by the 1991 settlement, but the way was now open for more productive and stable relations in the region. In the subsequent years Vietnam normalised relations with China, established diplomatic relations with the United States in 1995 and joined ASEAN the same year, joined the Asia Pacific Economic Cooperation (APEC) grouping in 1998, and normalised aid and economic relations with both Japan and the European Community. The climate for Australian-Vietnamese relations was also improved, although Australian businesses in Vietnam now faced more international competition than they had during the 1980s.



From engagement to strategic partnership

Reciprocal visits at the highest level of government became possible, beginning with a visit to Australia by Vietnam's Prime Minister Vo Van Kiet in 1993. In 1994 Paul Keating made the first visit by an Australian Prime Minister to Vietnam since John Gorton visited Australian troops in the south in 1968, and only the second visit by any Western head of government to the SVN. In 1995 the general secretary of the CPV, Do Muoi, visited Australia, after the government carried out extensive consultations with the Vietnamese community to minimise protests. This visit initiated substantial discussions on trade, investment, human rights and regional relations. Human rights in Vietnam became the focus of diplomatic dissension in the mid-1990s, but thereafter a *modus vivendi* was established with Australia proceeding on the basis that it would strengthen its relations with Vietnam, maintain pressure on Vietnam over human rights, and encourage Vietnamese-Australians to play a major role in the relationship.

After Paul Keating succeeded Hawke as head of the Labor government in 1991, his government proclaimed its success in 'engagement' with Asia. During the 1996 election campaign Keating alleged that, if the Liberal-National Party coalition were returned to office under John Howard, the new government would have great difficulty engaging with Asia. There were good reasons to wonder how a Howard government would handle relations with Vietnam. Howard himself had entered Parliament in 1974, witnessing the dramatic events surrounding the fall of Saigon and subsequent developments at close quarters. Throughout and even after his long career, he never wavered in his belief that his hero and founder of the Liberal Party, Robert Menzies, had been right to commit Australian forces to the war in Vietnam. As leader of the Opposition in 1995, Howard had refused to meet Do Muoi, apparently in deference to the views of the Vietnamese-Australian community. On gaining office, Howard's government abolished the Development Import Finance Facility (DIFF), a concessional finance scheme applied to Vietnam among other countries.

Doubts were also raised about the new government's attitude to the My Thuan bridge project, a joint Vietnamese-Australian venture designed to link two provinces in the Mekong delta in southern Vietnam. After initial hesitations, the government was persuaded to proceed with the project, Australia's largest single development assistance project to that time. The bridge, completed under budget, ahead of schedule and with an excellent safety record, was opened in 2000 by Vietnam's Prime Minister Phan Van Khai and Australia's Foreign Minister



Alexander Downer. Bringing considerable economic and environmental benefits to southern Vietnam, the My Thuan bridge was pronounced a great success by both governments.

As noted above, two of the major obstacles to closer Australian-Vietnamese relations were the attitudes of Australia's substantial Vietnamese community and international geostrategic considerations. By the early twenty-first century, both were changing. The children and grandchildren of the first waves of Vietnamese arrivals were no longer preoccupied with issues associated with the war and its immediate aftermath. Many were looking for ways in which to contribute to the relationship between their new home and that of their forebears⁶. For many other young Australians, Vietnam was no longer associated with a costly and controversial war, but was simply a beautiful holiday destination.

The rise, or more properly resurgence, of China appeared on the international agenda in the 1990s and dominated international discourse in the early twenty-first century. In this context Australia and Vietnam, despite their numerous political, cultural and economic differences, had good reason to seek a closer strategic relationship. Each respected China's resurgence, not least for its impact on economic growth, but sought to deter Beijing from assertive actions, especially in the South China Sea, with the potential to disrupt regional stability. Vietnam eschewed military alliances and wanted no foreign forces on its soil, but was determined to defend its own interests, as demonstrated by its reaction to China's installation of an oil-rig in the South China Sea in 2014. Since joining ASEAN, Vietnam had consistently sought to act in conjunction with its fellow members, but in recent years Cambodia has acted as a virtual proxy for China. Given ASEAN's preference for acting by consensus, Cambodia has prevented any effective action by the group over the South China Sea. Australian strategists, it has been suggested, might learn much from Vietnam's skill amid these difficulties in defending its national interests against the powerful neighbour on its border⁷.

Despite the common ground, progress towards a new strategic relationship has been slow. In 1997 the Howard government opened a bilateral dialogue on security issues. The countries exchanged defence attachés in 2000, and soon senior defence officials were exchanging reciprocal visits and Vietnamese military officers were being trained in Australia. In 2009 Australia rejected a Vietnamese proposal for a strategic partnership, but the Vietnamese accepted the Australian counter-proposal for a Comprehensive Partnership agreement. In 2010 ministers signed



a Memorandum of Understanding on Defence Cooperation, leading to annual talks at both official and ministerial levels. In 2014 the two countries signed an Enhanced Comprehensive Partnership and in November 2017 the leaders finally agreed on a strategic partnership⁸. In January 2018 Australia and Vietnam were among the eleven countries that agreed to a scaled-down version of the Trans-Pacific Partnership, without the United States, which the Australian government saw as having strategic as well as economic implications for the region.

Over the past four decades, leaders in both Australia and Vietnam have displayed energy and maturity in their efforts to bring the relationship from open enmity in a bitter and controversial war to an avowed strategic partnership. In 2018, the fiftieth anniversary of the Tet offensive and other dramatic wartime events, policy-makers in both countries face both the challenge and the opportunity to put more substance into that partnership, as they seek to promote national interests that are not identical, but share much common ground.



CHAPTER II.

Vietnam's State-Owned Enterprises Reform

Vietnam's State-Owned Enterprises Reform

Author: Ngan Collins

The history of Vietnam's socialist economy is closely connected with that of the Vietnamese government's state-owned enterprises (SOEs) which dominate the most important sectors of electricity, finance, and transportation⁹. Together with national infrastructure firms and important financial institutions, Vietnam's SOEs form a major part of the nation's state-managed economic system. A large proportion of capital and natural resources have been invested in the SOEs, which help the Vietnamese government to control the economy and ensure a 'socialist orientation'.

It has long been recognised that SOEs operate ineffectively under a bureaucratic and subsidised governance system¹⁰, and there is abundant scope for policy innovations to underpin a dramatic improvement in their operational practices. Improving and decentralizing the administrative system, and increasing the effectiveness of SOEs' activities, therefore have become a crucial element of the economic reform agenda.

Vietnam began taking its first step forward in 1986 when the Sixth National Congress of the Vietnamese Communist Party introduced major economic known as Doi Moi. The goal was to gradually transform Vietnam into a socialist-market economy through stepped reforms¹¹. Particularly significant policy reforms were designed for SOEs. An examination of the transformation in SOE policies and practices is therefore crucial to our understanding of the country's reform process.

Post-socialist economic reform in Vietnam commenced at a time when other Asian countries such as China were already progressing well, and communist rule was coming to an abrupt end in Eastern Europe. Many former socialist economies integrated with the global economy during this period. However, in Vietnam, the government was attempting to remain the main actor, with its reform policies calibrated to secure its own political and economic interests¹². The main focus of Doi Moi activities were directed towards the single goal of helping the government to retain power, with a gradual approach adopted that included a combination of top-down and bottom-up approaches¹³. Doi Moi introduced policies designed to promote the development of a multi-sector economy, together with reduced subsidies to allow market forces to play a more significant role.



This chapter reviews key information about the SOE reform process in order to demonstrate how the reform of SOEs has impacted on Vietnam's economy. It will also explore the role of this reform on the country's trajectory for future economic development. It argues that while Doi Moi gave much more freedom for SOEs to operate independently of government control, SOEs were faced with unprecedented challenges in operating in a competitive and market-based economic system. The remnants of government controls through SOEs, and the lack of experience in leading reform, made the government choose a gradualist approach for this transformation process.

The role of SOEs in the Vietnamese Socialist Economy

The history of Vietnam's SOEs is closely linked with the establishment of the Socialist government in the north in 1954 and in the south in 1975. Under the leadership of the Communist Party of Vietnam, the country adopted a centrally planned economy with SOEs as the sole economic units¹⁴.

In common with other socialist countries, the organisational structures of the Vietnamese economy prior to Doi Moi had five main characteristics:

1. Public ownership of the means of production;
2. The existence of a market for consumption of goods;
3. Centralized control of the rate and direction of economic growth;
4. Drastic reduction in the role of prices as information signals; and
5. Prices and price limits for all goods sold through the state controlled commercial channels were decided by the planning authorities¹⁵.

SOE activities were controlled by the central government according to a pre-set plan, with the highest objective being to create material goods and create employment, instead of maximising profits. Rather than emphasising SOEs meeting their planned targets, such targets were reduced to match the SOE's capability. Central planners were able to this because they controlled the supply of materials for products and set wage levels for employees¹⁶. The outcome was that surplus labour was a common phenomenon¹⁷.



Gradual restructuring of SOEs during Doi Moi

In the late 1970s, the economy was suffering from an extremely difficult period in which drastic cuts in foreign aid led to a subsequent shortage of consumer products and raw materials. The government budget was in deficit, with hyperinflation at over 300 per cent¹⁸. This led to the need for new solutions for the economic management system.

In response many informal businesses - termed 'fence-breaking' (*pha rao*) - were developed outside government control¹⁹. For example, in the agriculture sector, several provinces encouraged farmers to increase their productivity above the government targets, and created new supplier contracts directly with the farmers to buy surplus rice at market prices. This led to farmers being motivated to increase their productivity. In the industrial sector, SOEs also increased their productivity above the government production targets, and sold the surplus to the free market for extra income to improve employees' living conditions (*cai thien sinh hoat*). This experience created a strong motivation to improve productivity and efficiency²⁰. These initiatives were later accepted by the government as viable solutions to overcome economic difficulties²¹.

In 1979 The Sixth Plenum of the Fourth Party Congress formalised these initiatives, and established a goal of gradually reforming SOEs to a more market oriented approach known as the 'three plans system'. This policy had a significant economic effect. Industrial growth increased from an average of 0.6 per cent per annum between 1980 and 1985 to about 7 per cent per annum in the late 1980s²². However, it also led to SOEs suffering greater financial losses than under the centrally controlled economic system. This demonstrated the need for further comprehensive reform.

The first formal stage of the Doi Moi economic reform program was officially started in December 1986²³. Doi Moi policies were designed to rectify the inefficiencies of the state industrial sector, streamline the development of the non-state agricultural sector, and grant firms the ability to respond to market forces. It sought to restructure SOE operations, liberalise the economic system and reduce the monopoly of the state sector²⁴. The process of SOE reform generally can be divided into three main stages: pre-1998, from 1998-2006, and 2006 to present.



Pre-1998 reform: Developing SOE autonomy

The key initial reform for SOEs was to place more controls on their financial borrowing, give more management autonomy, and decrease the number of SOEs²⁵.

- › First, SOEs had large deficit imbalances that were automatically financed by subsidies from central bank credits. In the 1998 reforms SOEs were forced to try to find ways to operate effectively, with decreasing financial support from the government. Managers of SOEs were given greater authority to make decisions and greater responsibility for their performance.
- › Second, one of the fundamental problems hindering the effective operation of SOEs was their number. In the late 1990s there were 12,084 SOEs operating across many industries and locations²⁶. The state budget could meet less than 30% of the working capital required, forcing them to resort to expensive borrowing²⁷.
- › Third, at a macro level, the opening up of prices to market forces, which made it easier for other economic sectors, had led to the development of a 'dual price' system. This system of official prices and market prices led to extremely high inflation during this period²⁸.

The situation led to the government deciding on further restructuring and administrative changes to SOEs. Many SOEs were deemed to be inefficient or no longer required, and were closed down. This resulted in the total number of SOEs dropping to 6,264 by April 1994²⁹. Another way of reducing the number of SOEs was to encourage many of the smaller SOEs to merge into larger, more powerful enterprises and general corporations (*Tong cong ty*). In 1998 there were 91 large general corporations comprising 1,400 member enterprises. The corporations owned 66% of SOE capital, were involved in 47% of turnover, and made 70% of the contributions to the government budget³⁰.

A further reform was to decentralize the authority of SOEs into two groups. The first group was comprised of those SOEs which were making an operating profit. They were given autonomy in all fields of operation, including competing with other economic sectors and selling at prices set by the market. The second group comprised those SOEs defined as being significant for national security. This group included industries such as electricity, mining, cement, civil aviation, railways, telecommunication and postal services. Their activities came under the direct control of the Council of Ministers (*Hoi dong bo truong*), and they continued to receive government subsidies³¹. This group ensured the government retained



power during the reform process as it maintained its control over key industries. This policy had a long lasting influence on SOE reform in later stages as it guided the government to establishing further reforms³².

1998-2006 reforms: Restructuring the SOE management system

During this period the reform process suffered from both internal and external pressure, including the Asian Financial Crisis in 1997 and the establishment of the ASEAN Free Trade Agreement (AFTA). Under AFTA, Vietnam was required to implement significant tariff reductions. The heavy losses suffered by many Asian economies during the crisis were attributed to their heavy reliance on external sources of investment. This was a significant lesson for Vietnamese policy makers who wanted to devise a new economic strategy that has paid more attention to the development of domestic economic forces³³.

In 1994, an 'equatization' program (*Co phan hoa* – the Vietnamese term for privatization) was introduced to mobilise capital from the employees of enterprises, and external sources such as foreign companies and other organizations. The key purpose of this reform was to change the ownership structure of SOEs and to invest in their technological modernization. Equatization was permitted to take two forms: by public offering or by government-employee partnerships. Many small and medium size SOEs were changed into joint-stock (JS) companies. The government stated clearly that it only maintained a 'controlling' or 'special' interest in large SOEs which provided 'public' services such as Vietnam Airlines, Vietnam Post and Communications, Petrol Vietnam, Electricity Vietnam, and the Saigon Brewery³⁴.

2006 - present day reform: Developing the SOE legal framework

In the early 2000s the government introduced new approaches to restructuring the management system of the larger existing general corporations. They were merged to become either 'parent-child corporations' or 'one-member limited' (Ltd.) companies. The legal framework guiding the restructuring process was gradually completed via a set of new SOE regulations. Under these laws, the government has gradually increased SOE autonomy in various aspects. It removed centralised control of prices and SOEs were allowed to set their prices following market conditions. They were also granted the power to determine employees' salaries and benefits³⁵.



The Ltd. companies have 100 percent state capital, while JS companies have some private shareholders though the government is the largest shareholder. The latter is under less state control with more freedom to operate autonomously. However, there are also some instances in which the Ltd. companies have an advantage, particularly in relation to financing, due to their close relationship with the state.

In addition, SOEs are able to establish social welfare funds (*Qui bao hiem xa hoi*), which offer social insurance, medical insurance, and unemployment insurance³⁶. The social welfare funds are independent of the government budget, and operate under a rule of rewards based on contributions. Control was completely released in 2013 when SOEs were asked to build their own wage scales to suit their conditions³⁷. Currently, employee salaries are completely decided by the individual SOE's management. At the same time, changes in the government compensation policies have created several issues in SOEs' practices. SOEs have to take full responsibility for employees' compensation; this has put more pressure on SOEs whose budgets are closely supervised by the government³⁸.

Current challenges for the Vietnamese SOE sector

While the reform process over the past twenty years has been largely beneficial to the state-owned sector, SOEs have also encountered many difficulties. Reform has not entirely fulfilled the government's expectations. In 2010, SOEs received 45 per cent of total financial investment of the whole economy, but only contributed 29 per cent to GDP; while private firms received 28 per cent of the total investment but contributed 46 per cent of the GDP (See Table 1)³⁹.

Table 1: Share and GDP growth rate by SOEs 2007-2017

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
GDP composition (at current prices)	100	100	100	100	100	100	100	100	100	100	100
SOEs	35.35	35.07	34.72	29.34	29.01	29.39	29.01	28.73	28.69	28.81	
GDP growth rate (at constant prices)	7.13	5.66	5.4	6.42	6.42	5.25	5.42	5.98	6.68	6.21	6.81

Source: GSO, 2017



A key challenge is the slow pace in the government's provision of policies and guidelines for SOE reform. There are many policy documents (decrees, circulars, or decisions) which provide guidelines for implementation. For example, an important policy on managing Ltd. and JS SOEs was issued in 2013; but it took two years for the guide for implementing this policy to be released, which even then was only for Ltd. SOEs. Another guide was issued for JS SOE practices a year later. This process has slowed the immediate effects of laws, and occasionally has prevented SOEs from making changes to adapt their business to market conditions⁴⁰.

In addition, SOEs also have faced unconsolidated interpretations and guidelines from different government documents. For example, Ltd. SOEs operating in public services have to follow two different policies to determine their employee's salaries. The first policy requires a calculation method based on existing financial sources supported by the government; while the second policy requires the SOEs to set salaries based on the Ltd. SOE's efficiency⁴¹.

Moreover, SOEs are facing a situation of the 'ownerlessness' (*vo chu*) due to overlapping management of competing government bodies. For example, according to the Enterprise Laws, the Prime Minister, Minister, or Head of Provincial People's Committee might take responsibility for ownership of SOEs⁴². In reality, this task is often delegated to subordinate officers by appointing representatives from within the SOEs themselves. These representatives do not have real power, and are considered normal government officers in the SOE's administrative system. The representatives, therefore, do not have any incentive to take responsibility for financial losses⁴³. This reduces competitive pressures to increase efficiency⁴⁴.

In addition, SOE leadership has had a lot of power during the Doi Moi period. Through the reform process, some have used the networks of acquaintances to achieve private benefits outside the immediate operations of the SOE. Due to the centralization of management, the state has limited means of preventing such activities.

In February 2013, the central government established the Central Steering Committee for Anti-Corruption (Ban chỉ đạo trung ương về phòng, chống tham nhũng) headed by the Party **General Secretary Nguyen Phu Trong**. This was an important step showing that the government acknowledged the issue of mismanagement in the state-owned sector. This committee is responsible to **the Politburo** and **the Secretariat** for steering, coordinating, inspecting and



supervising the prevention of and fight against corruption throughout the country. Since then, the Committee has investigated many SOE leaders who were identified as having mismanaged their companies. In 2016, some important economic cases have been brought to trial which all involved leadership of large SOEs across different industries.

State-SOE compromises and the future of reform

There have been several positive aspects of SOE reform during Doi Moi which point to the relative success of Vietnam's economic reforms. This success of Doi Moi proved the gradualist approach to economic reform was suitable for the country's political and economic conditions. The political system in Vietnam has not been challenged by the reforms. The state still holds the decisive role in the Vietnamese economy. As a result the Vietnamese state is still strong and has the power to make its own policy decisions. Despite the many policy changes during SOE reform, overall harmony between workers and management has been maintained.

Many new economic laws and policies for SOE reform have been gradually introduced throughout Doi Moi which are designed to enable the sector to operate successfully in the more competitive environment. This shows that Vietnam has retained its own effective way of gradually transforming operation of SOEs.

Despite their successes, SOEs in Vietnam do not currently have a clear direction for their future development. During the process of progressive independence from state control, SOEs have on one hand been under pressure to carry out the state's policy agendas while, on the other hand, they are faced with pressure from market forces. These often produce conflicting pressures. The process of reform, therefore, is not always smooth. Reform has created differences between the interests of the SOEs and the state, because the SOEs interests have changed with market reform, but the state's desire to control Vietnam's economy remains. The process of adopting any new management models is the process of compromise between the SOEs and government's interests.

The growing independence of the SOEs means that they share some interests with the state, but have distinct ones of their own too. Without a clear direction for future development, the immediate tasks of SOEs today are to manage these differences in order to maintain the socialist principle of providing social and economic stability for the community, while simultaneously competing in a newly liberalised market system.





CHAPTER III.

Vietnam's rise
under Doi Moi
and its regional
implications

Vietnam's rise under Doi Moi and its regional implications

Author: Le Hong Hiep

The unification of Vietnam under communist control in 1975 opened up a new chapter in the country's history. The ruling Communist Party of Vietnam (CPV) was determined to rebuild the war-torn economy and lead the country into socialism. At its fourth national congress in 1976, the Party declared that the national economy would transition into socialism through three phases lasting from 1976 to 2010.

However, the CPV's expectations were soon challenged by the adverse domestic as well as external conditions. Domestically, the Second and Third Five-Year Plans (1976-80 and 1980-85) failed to achieve most of the expected results⁴⁵ and the disastrous price - wage - currency reform launched in 1985 caused inflation to skyrocket to 487.3 per cent in 1986. By then, economic failures had virtually plunged Vietnam into a socio-economic crisis and put the CPV's credibility and political legitimacy into question. In the Political Report to the CPV's sixth congress, General Secretary Truong Chinh admitted that economic difficulties and the CPV's failure to improve the people's living standards had contributed to "the undermining of the people's confidence in the Party's leadership and the managerial capability of state agencies"⁴⁶.

Externally, military intervention in Cambodia since late 1978 exhausted Vietnam's economic resources. It also laid obstacles to its national development, due to the diplomatic isolation and economic embargo imposed by the United States, ASEAN and Western countries. At the same time, the decline and eventual demise of communism in the Soviet Union and Eastern Europe in the late 1980s and early 1990s caused the ideological basis of the CPV's legitimacy to be further undermined.

Against this backdrop, at its sixth national congress in late 1986, the CPV launched an ambitious economic reform program under the *Doi Moi* (renovation) policy. Together with wide-ranging economic transformations over the past thirty years, Vietnam has adopted certain political reforms, mainly to facilitate economic growth, improve the efficiency of the bureaucracy, and strengthen the Party's governing capacity. The government has also pursued an extensive overhaul of its foreign policy, and upgraded its military capabilities to deal with new security challenges. All these factors have contributed to Vietnam's enhanced national power, and thus its role in regional affairs.



This chapter reviews Vietnam's economic reforms under Doi Moi and its implications for the country as well as the region, especially the accompanied changes in Vietnam's political system, foreign policy and military capabilities. The chapter argues that Doi Moi has been the single most important source of Vietnam's national revitalization and a key driver behind Vietnam's enhanced national status over the past thirty years.

Vietnam's economic reforms under Doi Moi

Doi Moi was primarily designed to turn Vietnam's centrally-planned economy into a market-based one. The economic reforms undertaken by the Vietnamese government were wide-ranging, including developing a multi-sector economy, renovating the economic structure, stabilizing the socio-economic environment, promoting science and technology, and deepening international economic integration.

Doi Moi was adopted in 1986, but it was not until the early 1990s that the economy really took off. Between 1990 and 2017, Vietnam achieved an annual average GDP growth rate of roughly 6.7 per cent⁴⁷. In 2009, by achieving the gross national income (GNI) per capita of US\$1,030, Vietnam elevated itself into the 'low-middle income' group of economies. Economic growth over the past three decades has also lifted some 28 million people out of poverty. Vietnam's poverty rate decreased consistently from 58.1 per cent in 1993 to 11.1 per cent in 2012⁴⁸.

As economic reforms took root, Vietnam began to expand economic cooperation with other countries in order to attract foreign resources for its economic development. In particular, foreign direct investment (FDI) and exports played an increasingly important role in Vietnam's economic success. By November 2017, the total registered FDI stock in Vietnam reached US\$316.9 billion, of which US\$170.85 billion had been implemented⁴⁹. FDI projects have contributed to Vietnam's economic growth by helping the country expand its production base, improve workforce skills, absorb new technologies, and enhance the general performance of non-FDI sectors due to spillover effects. Meanwhile, Vietnam's exports have also increased rapidly over the past three decades, to reach US\$213.8 billion in 2017⁵⁰. With a total trade turnover of US\$424.9 billion in the same year, Vietnam is one of the most open economies in the region: with the share of exports and imports to GDP reaching around 160 per cent⁵¹.



Since the adoption of Doi Moi, Vietnam's international economic integration has witnessed three major landmarks:

1. In 1995, Vietnam joined ASEAN, paving the way for its accession to the ASEAN Free Trade Area (AFTA) and involvement in the five other ASEAN Plus FTAs⁵².
2. In 2001, the Vietnam-US Bilateral Trade Agreement (BTA) came into effect. Under the BTA, Vietnam's exports to the US increased almost twenty times to reach \$41.5 billion in 2017, making the US Vietnam's single largest export market.
3. In 2007, Vietnam joined the WTO. This helped further improve the country's export performance, and signified its full integration into the global trade regime.

In February 2016, Vietnam together with eleven other countries signed the Trans-Pacific Partnership (TPP) Agreement, a multilateral trade agreement of high standard. Although the Trump administration has withdrawn the US from the Agreement, the eleven remaining members decided to press ahead by suspending a number of provisions of the original agreement. If the 'TPP-11', now officially rebranded as the 'Comprehensive and Progressive Agreement for the Trans-Pacific Partnership' (CPTPP), comes into force, it will be seen as yet another landmark of Vietnam's international economic integration.

Over the past ten years, Vietnam's economic reforms have faced new challenges. The 2007-08 Global Financial Crisis slowed Vietnam's economic growth. From 2008 to 2014, Vietnam registered an average annual GDP growth rate of only 5.8 per cent, significantly lower than the 7.6 per cent rate for the period 2000-07. Hostile global economic conditions, together with poor management and widespread corruption, brought many Vietnamese businesses - especially state-owned enterprises (SOEs) - to the verge of bankruptcy. The banking system also amassed a large number of non-performing loans.



In order to overcome these challenges, in October 2011 the Vietnamese government officially adopted an economic restructuring blueprint (đề án tái cơ cấu kinh tế), which consists of reforms in three key areas: (1) public investment; (2) reform of the banking system; and (3) reform of SOEs. In 2017, all three pillars of the restructuring program were still underway:

- › The share of public investment in the economy's total investment tended to decline because of the private sector's increased involvement as well as the government's constrained budget. At the same time, a revised law on public investment, with stricter regulations designed to make public investment more efficient, was passed by the National Assembly in June 2014 and took effect on 1 January 2015.
- › Meanwhile, bad debts within the banking system have decreased but remained substantial. According to the National Financial Supervisory Commission, by December 2017, the total bad debts had decreased from 11.5 per cent down to 9.5 per cent of the whole banking system's outstanding loans⁵³. A number of weak banks with high levels of bad debts were merged together or acquired by stronger ones in order to make the banking system leaner and healthier.
- › In terms of SOE reforms, the equitization and divestment of SOEs were initially slow, but has gathered pace since 2016, driven by the government's wish to use the proceeds from divestments to cover the expanding budget deficit. In 2017, for example, the government's divestments of SOEs reached a record value of 144,577 billion dong (US\$6.4 billion), exceeding the target set by the National Assembly by 2.4 times⁵⁴.

Under the government, led by Prime Minister Nguyen Xuan Phuc, which took office in April 2016, further efforts have been made to improve the business environment. Soon after assuming office, Mr Phuc signed off a resolution on improving the business environment and enhancing national competitiveness in late April 2016⁵⁵. Just two weeks later, on 16 May 2016, his government issued another resolution on developing Vietnamese enterprises by 2020 with the target of achieving one million enterprises by 2020 and increasing the private sector's share in the GDP to 48-49 per cent, and private investment's share in total social investment to 49 per cent. More importantly, it sets the target of having 30-35 per cent of Vietnamese enterprises engaging in innovative activities annually.

Such reform efforts have been acknowledged internationally. For example, Vietnam climbed nine spots in the World Bank Doing Business Report 2017, which



measures the ease of doing business in 190 countries worldwide⁵⁶. If maintained, such reforms will contribute significantly to Vietnam's growth momentum in the future.

In the coming years, Vietnam is likely to maintain and expand its economic reforms towards greater innovation and sustainability. The gradual fiscal stabilization and clearing of bad debts, together with the continuous strengthening of the banking system and the privatization and divestment of SOEs, will facilitate Vietnam's further economic growth. During this process, Vietnam's deeper international economic integration, especially through a wide range of FTAs, will continue to play an important role in enhancing the country's competitiveness and attracting more international resources for its economic growth.

Vietnam's economic reforms over the past three decades have brought about positive changes to not only the country's economic performance, but also its politics, foreign policy and military capabilities.

Political reforms

The CPV has not engaged in widespread liberalization of the political system. However, it has been willing to adopt certain carefully tailored political reforms to improve its governing capability and to facilitate economic development. For example, at its tenth national congress in 2006, the Party adopted a new policy allowing its members to own private businesses. Meanwhile, in order to hold its officials accountable, the CPV started to conduct confidence votes on office holders elected or approved by the National Assembly (NA) and the local People's Councils in 2013 and 2014. The same procedure was later adopted for the Party system, with the Central Committee of the CPV conducting an unprecedented confidence vote on 20 top party officials in January 2015.

In 2013, Vietnam revised the 1992 Constitution to introduce some political reforms. In addition to having more provisions on human rights and citizens' rights, the revised Constitution also provides for various changes, such as the creation of a National Election Council (Article 117), or provisions for the possible abolishment of the People's Council at local levels and the direct election of chairpersons for local People's Committees (Article 111). The revised Constitution, however, has drawn some criticism from political dissidents and democracy activists for maintaining the CPV's monopoly of power and the state sector's status as the leading driver of the economy⁵⁷.



More recently, the CPV has been piloting a scheme to merge the positions of Party Secretary and Chairman of People's Committee⁵⁸. Although the scheme is now being experimented at commune and district levels, it may be applied to provincial and even central levels later on. The move is designed mainly to remove overlaps between party and government systems, and to enhance the efficiency and accountability of officials in terms of policy making and implementation. At the same time, the proposed reform, which will reduce the wages bill, is also a response of the CPV to the expanding budget deficit which originates partly from the maintenance of two parallel systems of party and government functionaries.

Foreign policy transformations

When Vietnam started to open up its economy in 1986, the country was still facing international diplomatic isolation and economic embargos, due to its hostilities with China, the US and ASEAN member states. Apart from adverse Cold War conditions, Vietnam's prolonged engagement in the Cambodian conflict was a major source of tensions that were obstructing Vietnam from economic, diplomatic and security engagement with the region's major powers.

Against this backdrop, reforming Vietnam's foreign policy to create a favourable external environment became an imperative for the country. During the late 1980s, foreign policy changes gradually set in as the CPV started to abandon its ideology-based foreign policy, which placed an emphasis on the country's relations with communist and socialist countries, in favour of a more pragmatic one.

On 9 July 1986, the CPV Politburo passed Resolution No. 32 that sought to, among other things, "proactively create a stable environment to focus on economic development"⁵⁹. In 1987, the CPV Politburo adopted Resolution No. 2, which stated that Vietnam would completely withdraw its forces from Cambodia and Laos, and to reduce the country's armed forces to save resources for economic development⁶⁰. On 20 May 1988, the CPV Politburo adopted Resolution No. 13 on 'Tasks and foreign policy in the new situation'. Resolution No. 13 highlighted the policy of getting "more friends, fewer enemies" and called for diversifying the country's foreign relations. At its seventh congress in 1991, the CPV declared that Vietnam would "[D]iversify and multilateralize economic relations with all countries and economic organizations", and seek "equal and mutually beneficial cooperation with all countries *regardless of differences in socio-political regimes based on the principles of peaceful co-existence*" (emphasis added)⁶¹.

These foreign policy shifts provided momentum for Vietnam to expand its



external relations. By 2017, the country had established diplomatic relations with 180 countries, and secured membership in most major international and regional institutions. In a bid to deepen relations with important countries, Vietnam has established a ‘special partnership’ with Laos, and ‘strategic partnerships’ with Russia (2001), India (2007), China (2008), Japan, South Korea, Spain (2009), the United Kingdom (2010), Germany (2011), Italy, Thailand, Indonesia, Singapore, France (2013), Malaysia and the Philippines (2015)⁶². It also entered into ‘comprehensive partnerships’ with South Africa (2004), Chile, Brazil, Venezuela (2007), Australia, New Zealand (2009), Argentina (2010), and the United States (2013).

At the regional level, ASEAN has been the primary focus of Vietnam’s multilateral diplomacy. The government made efforts to turn its ASEAN membership into a diplomatic tool to manage its South China Sea disputes with China, by trying to keep the South China Sea issues high on the Association’s political and security agenda⁶³. Vietnam’s ASEAN membership has also elevated its international standing and bargaining power, while facilitating the country’s strengthening of political and security ties with other ASEAN member states. As such, despite ASEAN’s difficulty in reaching a common position on regional security issues, especially the South China Sea dispute, Vietnam considers its ASEAN membership as a cornerstone in its overall foreign policy as well as the management of its relations with China.

Military modernization

A notable consequence of Doi Moi was that the greater wealth generated by economic development has enabled Vietnam to pursue one of the most significant military modernization programs in Southeast Asia. Although Vietnam has successfully settled its land borders with neighbouring countries, the intensifying South China Sea dispute has made it necessary for Hanoi to upgrade its naval and air forces, as well as coastal defence capabilities, to protect its territorial and maritime interests there.

Vietnam’s efforts to modernize its armed forces started in the mid-1990s. In May 1995, then CPV General Secretary Do Muoi called for the modernization of the country’s navy and stated that “we must reinforce our defence capacity to defend our sovereignty, national interests and natural marine resources, while



at the same time building a maritime economy"⁶⁴. Vietnam's earlier defence modernization attempts, if any, were largely constrained by the country's limited defence budget. According to the Stockholm International Peace Research Institute (SIPRI), Vietnam's defence budget in 1992 was merely \$745 million (in 2011 US dollars), but already accounted for 3.4 per cent of the country's GDP.

Economic growth achieved under Doi Moi, however, has enabled the Vietnamese government to expand its defence budget while maintaining its share of the GDP within a range of 2 to 2.5 per cent. For example, from 2003 to 2012, Vietnam's military expenditure increased at an annualized average rate of 10.3 per cent. More recently, SIPRI data shows that Vietnam's total arms imports between 2011 and 2015 represented a 699 per cent increase from 2006 to 2010, turning Vietnam into the eighth largest arms importer in the world during the same period⁶⁵.

Most of the increased budget was dedicated to the procurement of advanced weapons systems. Vietnam's most notable arms acquisition so far has been six Kilo-class submarines, worth approximately \$2 billion from Russia. Other major naval acquisitions include four *Gerpard*-class frigates and more than a dozen *Tarantul*-class corvettes and *Svetlyak*-class patrol vessels. In terms of coastal defence, Vietnam has acquired K-300P Bastion-P systems and associated missiles worth \$300 million⁶⁶. Meanwhile, Vietnam's air force is now boasting a fleet of thirty-six Su-30MK2s and 11 Su-27SK/UBKs, one of the largest in Asia⁶⁷. These enhanced naval and air capabilities have provided Vietnam with an improved level of deterrence against potential military threats in the South China Sea.

Vietnam is also trying to develop its own defence industry. So far, Vietnam has been able to produce a range of weapons and equipment, such as small arms, mortars, automatic grenade launchers, fuel components for Scud missiles, radar-absorbent paint, military-grade communication equipment and basic unmanned aerial vehicles (UAVs)⁶⁸. Vietnam has also developed the capabilities to build small warships. It is now actively seeking technology transfers from foreign partners in order to develop its domestic defence industry more quickly.

For example, Vietnam obtained a license from Russia to assemble up to ten Project 1241.8 *Molniya*-class missile boats.⁶⁹ Another major deal with Russia was an agreement to jointly produce anti-ship missiles in Vietnam in 2012⁷⁰. Other important defence partners of Vietnam include Belarus, India, Israel, the Netherlands and the Ukraine. Through cooperation with the Netherlands's Damen Shipyards Group, for example, Vietnam successfully built a DN2000-class patrol vessel in 2012, which later became one of the largest patrol vessels of the Vietnam



Coast Guard⁷¹. In 2015, Vietnam and the United States signed a Joint Vision Statement on Defence Relations, calling for, among other things, an expansion of defence trade between the two countries and the co-production of new technologies and military equipment⁷².

In sum, the military modernization program has strengthened Vietnam's overall military capabilities and provided the country with a credible level of deterrence in the South China Sea, thereby turning Vietnam into a significant military actor to be reckoned with in the region. All these significant transformations would not have been possible without the increased wealth generated by Vietnam's economic reforms under Doi Moi. In this sense, Doi Moi has brought about far-reaching economic and strategic implications for not only Vietnam but also the broader region.

Future challenges

Vietnam has been emerging as one of the important strategic players in the Indo-Pacific region. Central to the country's rise are the economic reforms that it has undertaken over the past thirty years under the banner of Doi Moi. Vietnam's economic success has been accompanied by some political reforms as well as shifts in its foreign policy which seek both to mobilize external resources for domestic economic development and to enhance the country's international status. Stronger economic foundations have also facilitated Vietnam's military modernization efforts. Its enhanced capabilities, especially regarding its naval and air forces, have turned Vietnam into one of the major militaries in Southeast Asia.

How can Vietnam maintain and deepen these economic reforms in coming years? The old growth model, based on resource and labour-intensive industries, has arguably exhausted its momentum. There have been calls by economists, experts and entrepreneurs for a 'second Doi Moi' which aims to drive the country's economic growth through greater innovation, green and technology-intensive industries⁷³.

In order to materialize this vision, Vietnam will need to upgrade its education system to produce a better quality workforce with relevant skill sets, and invest more in R&D capabilities. Further economic reforms to develop the private sector, enhancing the efficiency of SOEs and reducing the country's reliance on foreign investment, will also be essential. Upgraded infrastructure systems, especially in major cities and economic hubs, is another priority. Now that the low-hanging fruit of the economic reforms have been picked, Vietnam needs to be



more aggressive in its reforms to maintain high-paced and sustainable economic growth in the future.

At the same time, Vietnam will need to explore further political reforms, especially to enhance its institutional capacity and to reduce corruption. Low institutional capacity has been impeding the effective implementation of many policies issued by the central government, while widespread and deep-seated corruption⁷⁴ is obstructing the development of businesses and undermining the people's trust in state institutions. In the absence of political reforms, economic development will likely suffer.

Such political reforms may include the promotion of a merit-based bureaucracy, the removal of overlapping zones between party and government systems, mechanisms to control the power of government officials, and measures to make government agencies and state-owned enterprises more transparent. The relaxation of control over the civil society and the improved protection of human rights, especially in the political domain, will also help promote civilian incentives to pressure government institutions to become more responsive to popular demands. Implementing these measures has proven to be politically challenging. While they may help promote good governance and economic performance, they may also weaken Party control over the political system and the society at large. The delay of such political reforms, however, is likely to impede economic development and hurt the CPV's performance-based legitimacy in the long run. A careful balance will need to be struck for political reforms to be sustainable and successful.

Militarily, acquiring new capacities to match rising threats in the South China Sea will be a challenging task, given Vietnam's expanding budget deficits and high levels of public debts. Developing an indigenous defence industry will take time and require large investments. Moreover, while Vietnam upgrades its military, other countries are also doing the same. China's military build-up, especially its construction and militarization of seven artificial islands in the Spratlys, is a case in point. As some analysts have pointed out, although Vietnam has achieved a certain level of deterrence against Beijing in the South China Sea, it is probably unable to sustain an extended, large-scale, or high-intensity conventional conflict in the region on its own⁷⁵. As such, while continuing the military modernization program is important for Vietnam, creating a strategic environment in which the risk of military clash is minimized remains the optimal choice.



As such, calibrating foreign policy to better manage the South China Sea disputes, and to maintain a stable and favourable external strategic environment, will be an important but difficult task. Key challenges for Vietnam will be how to deepen and add more substance to the country's strategic relations with the major powers - especially the United States, Japan and India - while minimizing the potential strategic fallout of such efforts. Given the intensifying strategic competition between China and the United States, Vietnam will also have to handle a question faced by many of its peers in Asia: how to balance between the two superpowers, while reaping the most benefits from its relationships with both? How Vietnam handles these challenges will have implications for not only the country itself, but also the geo-strategic landscape of the broader Indo-Pacific region.



CHAPTER IV.

Vietnam and the New US: Developing 'Like-minded' partners

Vietnam and the New US: Developing ‘Like-minded’ partners

Author: Huong Le Thu

Half a century ago, few countries would have been happier with the idea of the ‘American decline’ than the North Vietnam. Forty years later, however, a few in the Asia-Pacific region appear to be more disappointed about American ‘abdication’ from strategic presence in the region than Vietnam (that unified under formerly North Vietnam in 1975). While the change seems paramount, one thing is constant – the relationship has never been free from geopolitics.

This chapter explains how the former adversaries have become the “like-minded partners” and what implications for regional power balance would that have. It argues that Trump’s presidency, while not without concerns, is not likely to hamper the positive momentum in the bilateral security cooperation. Vietnam is likely to play a stronger role in American vision of the free and open “Indo-Pacific”, and it is the maritime cooperation that will draw the two parties closer.

History is what made us

A long and painful process of reconciliation precluded the current state of cooperative relations. While many see the current bilateral relationship as the best ever experience with unified Vietnam⁷⁶; there are also those (who often personally experienced the war, displacement and denial of their political entity) who refuse to accept the North Vietnamese regime, and to whom the current Hanoi-Washington relations are only based on practical needs, and who consider the current situation to be far from true reconciliation.⁷⁷ But the diversity of opinions only testifies to the complexity of the relationship where state interests coexist with people’s interests, and where imperatives of the past, present and future are often contradictory. That is what makes this particular set of relationships interesting, not only for the parties involved, but also for many who indirectly participated the conflict, as well as those whose geo-economic considerations were shaped by the Cold War.

From 1995, the Clinton administration’s diplomatic movements were slow-paced and tailored to the domestic sensitivities, which were still strong within the American Congress. Security cooperation was in a very nascent stage. Two years after formal normalization in 1995, the two governments appointed military attachés and gradually moved towards developing a keen interest in military cooperation, but defence forces in Vietnam had been cautious not to move too



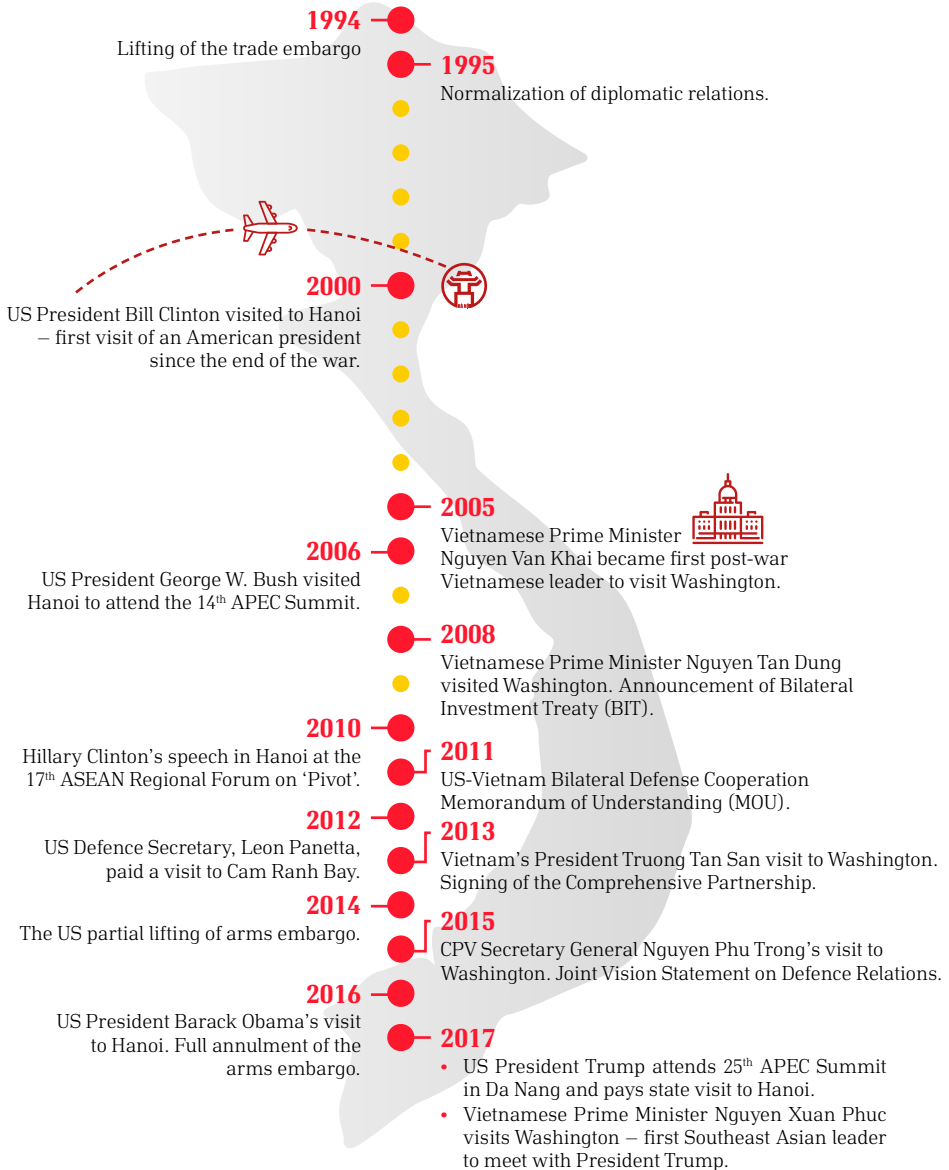
fast. The military-to-military relations between Vietnam and the United States remained rather slow-paced, which invoked a perception in Washington that Hanoi was rather reluctant to take the relationship further⁷⁸. The legacy of war, a deficit of trust, as well as considerations about China's reaction contributed to that vigilant attitude.

Among the sensitivities, addressing the legacy of war was always the most difficult, particularly in dealing with the issue of Agent Orange. During the war US forces reportedly sprayed nineteen million gallons of herbicides, mostly Agent Orange (dioxin) on Vietnamese soil. Approximately four million civilians were exposed to the chemicals resulting in casualties, permanent disabilities and leaving long-term health complications, including at least half million children born with genetic defects years after the dioxin was sprayed⁷⁹. Only in 2000 was Vietnam accepted into the US Humanitarian Demining Program; since then the two have extended cooperation in addressing UXO and Agent Orange. The US has gradually become involved in addressing the repercussions and has provided assistance in clearing specific areas – including Da Nang airport.

Diplomatic relations, however, developed more smoothly. Vietnam had gone through consequential reforms in the late 1980s which reoriented its foreign policy towards a more pragmatic approach being 'friends and partners with everyone' replacing the formerly ideology-based understanding of friends and enemies. The change did not come easily as it required significant adjustment in the leadership's strategic thinking. Within the Vietnamese Communist Party leadership, there was disparity in opinions regarding the rapprochement with the US. As Foreign Minister, Pham Binh Minh, diplomatically explained "There is not yet a consensus within the Party regarding a number of issues in foreign policy direction"⁸⁰.



Figure 1: The evolution of Vietnam-US Relations since the Normalization



Washington-Hanoi Relations under Obama's Rebalance

Vietnam was among the most receptive to Obama's 'Pivot Policy', later renamed 'Rebalance', which responded to China's growing maritime assertiveness. In 2010, US Secretary of State Hillary Clinton made a strong statement that the US had a national interest in the South China Sea and supported the peaceful resolution of the disputes during a meeting of the 17th ASEAN Regional Forum (ARF) held in Hanoi. Among the Vietnamese, who had grown increasingly concerned about China's maritime assertiveness since 2009, it was received as a breakthrough in US-Vietnam security relations. Secretary Clinton implicitly addressed China's posture as unwelcomed in saying "we oppose the use of force or threat of force by any claimant" and that "legitimate claims to maritime space in the South China Sea should be derived solely from legitimate claims to land features".⁸¹

Her speech was very well received in Hanoi, not only the content but also her choice of location to deliver it – a diplomatic victory. Later, Vietnamese Minister of Foreign Affairs, Pham Binh Minh stated:

We welcome the policy of increasing cooperation [...] anything that happens in South China Sea will affect the freedom of navigation, and so, of course other countries, not only the United States. So we see that – the efforts by countries inside and outside to make that stable. We appreciate that effort.⁸²

The recognition of efforts in sustaining regional stability was mutual. The US also acknowledged Vietnam's increasingly important strategic role. As a matter of fact, the Southeast Asian region gained more prominence in the Obama's Rebalance Policy. According to a study compiled by the Council on Foreign Relations⁸³, in the period between 2010 and 2015 the growth was observed only in three Southeast Asian countries: Myanmar, Laos and Vietnam. Vietnam was the biggest beneficiary of American defence aid with almost USD 11 million growth in this period. Overall, however, as a region, Southeast Asia experienced a drop in US defence aid, from USD 182 million in 2010 to USD 147 million in 2015. In general, only the Middle East noted an increase from USD 6.7 billion to 8.08 billion in the same period.

As mentioned earlier, bilateral defence cooperation has been perceived as lagging behind compared with other areas like diplomatic, economic or people-to-people cooperation. On this there was little progress until the late 2000s. However, coinciding with increased Chinese assertiveness since 2009, the Obama administration was keen to pursue the advancement of defence relations with Vietnam under the Rebalance framework. In 2009 the US provided foreign military



financing (FMF) to Vietnam worth USD 500,000, and by 2015 the amount had reached USD 10 million⁸⁴.

On 20th September 2011 Hanoi and Washington signed a Memorandum of Understanding on Advancing Bilateral Defence Cooperation that tackled specifically the following five areas of cooperation:

1. Regular high-level dialogues;
2. Maritime security;
3. Search and rescue;
4. United Nations Peacekeeping Operations (UNPKO); and
5. Humanitarian and Disaster Relief (HADR).

The following year witnessed some significant developments. In 2012 Leon Panetta was the first US Defence Secretary since the war to visit the Cam Ranh Bay. During the visit, he established an Office of Defence Cooperation in the US Embassy. The same year, Vietnam became an observer at the Rim of the Pacific Exercise (RIMPAC-2012), the largest navy exercise in the world. These developments were essential leading up to the then President Truong Tan San's visit to Washington in 2013, when a comprehensive partnership⁸⁵ was signed between the two nations. A comprehensive partnership is a framework of a wide-range of cooperation and is considered a step toward a more binding and deeper commitment than a strategic partnership.

While some see the comprehensive partnership as already a breakthrough for bilateral relations, others were unsatisfied with the lack of a strategic partnership. The existing differences in the terminology and commitment related to these were the underlying reasons for the two governments settling on a 'comprehensive' rather than a 'strategic' partnership. Human rights issues were believed to be one of the remaining issues of controversy. The US government continued to be insistent on respecting human rights and has had concerns about the Vietnamese government's treatment of local dissidents. Many prominent political activists in Vietnam have sought political asylum in Washington. Some Vietnamese Americans, many of them dissidents of the former South Vietnam, remain vocally opposed to the US government's relations with, in their view, the repressive Hanoi regime⁸⁶.

For Hanoi, the comprehensive partnership was one of its biggest diplomatic achievements. Not only did the partnership provide a positive outline for the



future direction of cooperation in many areas; more importantly it meant the two governments reached a certain level of comfort and trust. The US has been successful in convincing Hanoi about its constructive intentions and has managed to break through the initial barrier of vigilance. Naturally, Washington appreciated Hanoi's position and usefulness in keeping China's regional ambitions in check. Vietnam gained an alternative ally to strengthen its position amid ongoing disputes with China.

An illustration of this mutually beneficial relationship was the HYSY-981 oil rig crisis. In May 2014, China *National Offshore Oil Corporation (CNOOC)*, a **state-owned enterprise**, deployed the HYSY-981 oil rig within the Vietnamese claimed Exclusive Economic Zone (EEZ) around the Paracel islands. Relations rapidly deteriorated and were on the verge of escalation. Soon after the incident the US government decided to partially lift the arms embargo in place since the Second Indochina War. Two years later, President Obama, in one of his final overseas trips, visited Hanoi in May 2016 and announced the full annulment of the arms embargo. Lifting the arms embargo brought closure to once antagonistic relations and full normalization of the relationship, to, in Obama's words, "allow Vietnam to fully defend itself"⁸⁷.

Beyond symbolically opening a new chapter in bilateral relations⁸⁸, the ban lift has also opened doors for Vietnam to modernize and diversify its military supplies. Any shift, however, towards different markets will be a gradual one given the language and training program related to the equipment. Japan and India – whose major exporter is the US – are increasingly interested in supplying Vietnamese defence forces, and can potentially be an intermediary motivation for Hanoi's turn to American equipment. An area for future development is in the field of command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR). Vietnam is shifting towards a stronger focus on kinetic capabilities to build a more robust maritime ISR capability⁸⁹.



Trump, Trans-Pacific Partnership and trade war

The end of Obama's administration marked one of the highest point of the bilateral relations, but the victory of Donald Trump in the presidential elections in November 2016, to many posed the risk of a loss of momentum. Donald Trump's presidency started with some alarming signals, namely announcing the withdrawal of the US from the Trans-Pacific Partnership (TPP) and that the Rebalance was dead⁹⁰; which only accentuated anxiety among the Southeast Asians about American commitment to the region. In fact, one year on, despite recent releases of the National Security Strategy and National Defence Strategy, the Asia policy is still to be clarified. The North Korean nuclear crisis has absorbed most of Washington's Asia-Pacific attention. Moreover, Trump's initial talks with Chinese President Xi Jinping have led many in Southeast Asia to think that the South China Sea could become a bargaining chip for Beijing's cooperation in addressing Pyongyang. All of which has made Vietnam nervous – particularly the potential of America's fading voice in the South China Sea matters⁹¹.

Moreover, the withdrawal from the TPP and continuous emphasis on American interests first suggested that there is reluctance in Trump's America to engage in the economic dynamics of the region. For Vietnam, the TPP's significance was not only access to the American and Pacific markets, it was a means to break away from 'China's orbit' particularly in regard to the economic dependency. The TPP had already required some serious concessions on Vietnam's side with serious reforms under way to meet the regulations. Trump's decision to withdraw came as a very bad news for Vietnam and in the eyes of many in the region, it damaged the US's reputation⁹². Despite initial disappointment, the remaining eleven TTP partners overcame their doubts and resurrected the deal without American participation. The TPP Eleven, with apparent leadership from Japan, anticipate signing the deal later 2018⁹³.

As exciting as the revived TPP is (with some hints that Washington may reconsider joining⁹⁴), the economic agenda remains the main worry in dealing with the US. The US ranks 9th on the list of top investors in Vietnam. Given how inter-connected economic capacity, defence and foreign policies are, and that the promise of the TPP has been broken, the US government should consider a response to address that.



Vietnam's top FDI source countries

Country	Registered FDI by end of 2016
South Korea	50.70
Japan	42.00
Singapore	37.80
Taiwan	31.56
British Virgin Island	21.15
Hong Kong	16.93
Malaysia	12.29
China	10.50
US	10.14
Thailand	7.80
Figures in billion USD	

Source: Author's compilations based on data from the Vietnam Foreign Investment Agency

The Trump administration has repeatedly signalled dissatisfaction with imbalanced trade relations. At the Asia-Pacific Economic Cooperation Summit in Danang in November 2017, President Trump reiterated much of what he had announced during his presidential campaign: a stronger emphasis on protectionism in trade policies. He presented a view of countries based on a simple categorization: those who take advantage of the US on trade, and those who play by the rules, saying:

I will make bilateral trade agreements with any Indo-Pacific nation that wants to be our partner and that will abide by the principles of fair and reciprocal trade. What we will no longer do is enter into large agreements that tie our hands, surrender our sovereignty, and make meaningful enforcement practically impossible⁹⁵.

That speech has had a transformative effect on the US global position in that it is the first time in history that an American president has spoken against the liberal trade. This vision was reiterated in The National Security Strategy released in December 2017 after Trump's Asia trip. The new US economic priority is to "pursue bilateral trade agreements on a fair and reciprocal basis"⁹⁶. This is not necessarily good news for Vietnam which seeks an economic boost from trade, as not only a strategy for development but also a matter of national resilience in the wake of defence challenges. Vietnam's trade relations with the US has progressed



exponentially in the past few years creating a surplus for Vietnam worth USD 32 billion in 2016; and hence, is listed 16th on the US list of biggest trade deficit partners.

During the state visit a day later in Hanoi, however, Mr Trump acknowledged the progress as well as potential for bilateral relations in committing to further advance the existing comprehensive partnership. He concluded the visit by signing deals worth US 12 billion that include an aircraft engine maintenance and purchasing contract and a liquified natural gas supply and storage projects⁹⁷. This seems to be the type of framework that President Trump prefers. But elsewhere, concerns grow about Trump's potentially radicalising direction with dooming 'trade wars'⁹⁸ or American protectionism-isolationism tendencies that can cost it many hard-earned friends and partners.

Vietnam's position in the 'Indo-Pacific'

An important part of Trump's first Asia trip was to attend the APEC Summit, where he promoted the term 'Indo-Pacific' - notably replacing 'Asia-Pacific' which had figured prominently under the Obama administration's 'Rebalance' policy – an early expression of what could develop into his Asia strategy. While by no means new⁹⁹, the term has generated a considerable amount of debate on what strategic implications it might have. Aside from the elusiveness of the term, there are signs suggesting that Trump's Washington will have a tougher stance on China; e.g. the NSS defines China as a strategic rival who seeks to “replace the US in the Indo-Pacific region”¹⁰⁰, determining the region as in scope of the rivalry.

Vietnam is obviously within the geographical scope of both Asia and the Indo-Pacific but how does that impact on its geo-strategic meaning? The key issue for the Vietnamese remains the maritime focus on the South China Sea. Trump's foreign policy, one year on appears rather less active, with the exception of the focus on North Korea, Washington is not likely to reduce the importance of the Freedom of Navigation Operations (FONOPs) as Trump's administration is committed to these¹⁰¹. Perhaps, a more important question is not just frequency, but what is the use of those FONOPs and how effective are they in sustaining the maritime order given China's straight-forward ambitions with increased militarization of the artificial islands it builds.



While most analysts are projecting the US's strategy on Asia based on Trump and his personal preferences and interests, both the NSS and NDS recognize the strategic importance of Vietnam. The National Security Strategy listed "Vietnam, along with Indonesia, Malaysia and Singapore as growing security and economic partners of the United States"¹⁰². With such a view, Washington has committed to strengthening its partnership with these countries, while also re-energizing alliances with the Philippines and Thailand, to "help them become cooperative maritime partners".

This view was doubled-down by the Defence Secretary General Jim Mattis during his visit to Indonesia and Vietnam in late January 2018. Secretary Mattis referred to the importance of the Asian region when he stated, "The point I want to make is, we respect Asia's sovereign nations with a sovereign voice and sovereign decisions, and we don't think anyone else should have a veto authority over their economic, their diplomatic or their security decisions"¹⁰³. In addition, the Vietnamese Defence Minister Ngo Xuan Lich paid his first visit to the Pentagon in August 2017, during which it was promised that a US aircraft carrier would visit Vietnam in 2018¹⁰⁴.

The key agenda for Mattis' meeting in Vietnam was freedom of movement in the South China Sea - an issue of current interest as China opposed the FONOP around twelve nautical miles from the Scarborough Shoal. What was a 'regular and routine' sail of the destroyer USS Hooper, the Chinese saw as a violation of territorial integrity. The incident's timing was sensitive, as after three months since the last FONOP, this one took place only two days after the Pentagon released the National Defence Strategy (NDS) in January 2018, which refers to China as a 'strategic competitor'.

The NDS signals a more hard-line response to China's assertiveness, including in the maritime domain. There is rather little surprise that the PRC Foreign Ministry Spokesman Lu Kang reacted by saying, "What the US vessel did violated China's sovereignty and security interests, put the safety of Chinese vessels and personnel who were in the relevant waters for official duties under grave threat, and contravened the basic norms for international relations". He went on to state, "China is strongly dissatisfied with that and will take necessary measures to firmly safeguard its sovereignty"¹⁰⁵.



2018 began with some signals of harsher, or even confrontational, Sino-US relations, be it the FONOP example or the growing trade war rhetoric¹⁰⁶. In such a context, defence cooperation with the US is not limited to bilateral arrangements. General Mattis' visit to Indonesia and Vietnam signals that the US strategic priorities are likely to be based on targeted cooperation, rather than traditional alliance arrangements. Vietnam, elevated to a 'like-minded partner'¹⁰⁷ in Mattis' language, is playing an important role in pursuing such a pragmatic policy. Hanoi's closer relations with the US and its allies and partners have been critical in improving its defence capabilities as well as the diplomatic cloud in the region. In particular, strengthened bilateral ties with maritime-interested powers, namely India¹⁰⁸, Japan¹⁰⁹ and Australia¹¹⁰ have been a key area of focus for Hanoi. And it is this set of actors that are bringing some new developments to regional security.

At the sidelines of the APEC Summit in November 2017 as well as at the East Asia Summit (EAS) in the Philippines the following week, the Asia-Pacific leaders had an opportunity to engage and elaborate on forms of cooperation. Among the most interesting ones was the revival of the Quadrilateral Security Dialogue, often referred to as the 'Quad'. Australia, India, Japan and the United States is not a new idea, but it seems to be enjoying a revival. Earlier, in June 2017, at the 16th Shangri La Dialogue in Singapore, the Australian PM, Malcolm Turnbull, and the Japanese PM, Shinzo Abe, raised initial themes of cooperation that would include: a rules-based order, freedom of navigation, respect for international law and maritime security – the principles that Vietnam has also consistently subscribed to.

The debate on the Quadrilateral Security Dialogue has yet to overcome initial scepticism and main the reservation – namely China's response. In fact, while promoting the common agenda of maritime democracies, the Quad has had rather thin success in distancing itself from the notion that it is an attempt to encircle Beijing¹¹¹ as prevalent public opinion would have it, variously labelling it as "an anti-China bulwark"¹¹², "an anti-China security grouping"¹¹³ or "gaging-up against China"¹¹⁴.

As much controversy as this concept evokes, for actors like Vietnam, the idea is exciting. Given its growing perception of China as a threat perception, an active, concerted and supposedly more frequent presence of the Quad in the maritime domain, including the South China Sea, would be reassuring for Hanoi. While there are reservations among the Quad participants, Vietnam is arguably, even



more enthusiastic about the formation, as it would provide a much needed balancing effect, without directly jeopardizing its relations with its northern neighbour. Having said that, Vietnam will remain watchful of Beijing's reaction to any consequential strategic developments in the area. Like the four powers involved, Hanoi hopes the Quad is not received as a confrontational grouping against Beijing.

Conclusion

It was after the end of the war with Vietnam that America retracted from Southeast Asia. Currently, Hanoi is making an active effort to keep Washington focused on the region. With the recent developments, particularly under the banner of the Rebalance, a rapprochement with Vietnam, the two became textbook examples that there are no permanent foes or allies. However, Trump's surprising presidential victory and early revisionist decisions, e.g. the withdrawal from the TPP, questioned not only the US-Vietnam momentum, but also American commitment in the region.

President Trump's unpredictability, which many attribute to his unconventional treatment of long-standing arrangements, for Hanoi however, can create some room to manoeuvre. For a long time, the Vietnamese leadership has had reservations about a formal commitment to security arrangements. Shifting towards 'too much' reliance on the US would not be ideal, not because of former conflict, but because it would invoke serious strategic risks from the north. Trump's elusive strategic commitment to Southeast Asia gives Hanoi more time and a level of comfort. What would be ideal though is to have both comfort and assurance.

For the US to significantly advance its bilateral relations with partners including Vietnam, is to invest in their self-help. Resilience being the theme of 2018 ASEAN is by no chance coincidental, it is an issue of concern for all regional actors. Vietnam needs to face its security challenges, with considerable help, but on its own – not relying on others. It is not in the US' interests to make a commitment of security guardianship, as in the case of previous alliances it has committed to in the Asia-Pacific region. It is, however, in the US' interest that in the Indo-Pacific, partners remain strong and stable, and able to resist external coercion and support the rules-based-order. It is crucial that the US new Asia strategy include sufficient reassurance measures towards its long-term as well as the newly-found partners and allies.



US-Vietnam ties in the new Indo-Pacific are likely to only further progress. With what pace, however, will depend on President Trump's insistence of reciprocal trade. Washington first needs first to reconcile immediate and longer-term interests. Bearing in mind that General Mattis stressed in his launch of the NDS help from the allies and partners in its global endeavours and that American security has been based on joint efforts from friends. President Trump keeps reminding us that allies and partners need to contribute their share rather than expecting the US to take care of their security. The best way for the Trump administration to ensure help from partners and allies and for them to 'take up burden' is to increase their self-reliance. The way to achieve that is to keep their economies strong and healthy. No economies prosper by curbing trade.



CHAPTER V.

United States-Vietnam
Relations: Strategic
convergence but not
strategic congruence

United States-Vietnam Relations: Strategic convergence but not strategic congruence

Author: Carlyle A. Thayer

In recent years, the security and defence relationship between the United States and Vietnam has grown rapidly. In 2013, the presidents of the United States and Vietnam issued a joint statement on a comprehensive partnership setting out the framework for bilateral relations. Section six of the joint statement affirmed that “(t)he two leaders agreed that the United States and Vietnam would continue to cooperate on defense and security”. In 2017, President Donald Trump reaffirmed his commitment to the comprehensive partnership and continued defence cooperation.

While this chapter focuses on bilateral relations, it is important to note that since 1991 Vietnam has pursued a policy of “diversifying and multilateralizing” its foreign relations¹¹⁵. Since 2001, Vietnam has sought to structure its bilateral relations through agreements on strategic partnerships, particularly with major powers such as Russia (2001), Japan (2006), India (2007) and China (2008). By 2017, Vietnam had negotiated strategic partnerships with seventeen countries and comprehensive partnerships with ten others, including Australia and the United States.

Strategic partnerships are broad in scope and cover cooperation in a variety of areas such as diplomacy, trade and investment, science and technology, education, people-to-people relations as well as defence and security. Vietnam’s web of strategic and comprehensive partnerships are designed to give each partner equity in Vietnam’s development and strategic autonomy in order to prevent Vietnam from being pulled into a rival’s orbit.

This chapter is divided into four parts. Part 1 provides a brief historical overview of relations from the end of the Vietnam War in 1973 to 2013. Part 2 reviews the evolution of bilateral defence relations under the Obama Administration. Part 3 discusses bilateral relations under the Trump Administration that reflect continuity with past policy rather than abrupt change. Part 4, the conclusion, argues that although there is a growing convergence on strategic issues between Vietnam and the US their strategic interests are not congruent.



Background

In January 1973, the United States and the three Vietnamese parties signed the Agreement on Ending the War and Restoring the Peace in Vietnam¹¹⁶. After the withdrawal of US military forces the ceasefire broke down and in 1975 the communist-led Vietnam People's Army swept to victory in an offensive that led to the fall of Saigon on April 30, 1975. The following year Vietnam was politically reunified under the name the Socialist Republic of Vietnam. For the next twenty years the responsibility of both parties to meet their obligations under Articles 8 (accounting for missing in action) and 21 (heal the wounds of war and post-war construction) of the 1973 Agreement proved a major obstacle to the normalization of relations.

In July 1995, the Socialist Republic of Vietnam normalized diplomatic relations with the United States and joined the Association of Southeast Asian Nations (ASEAN) as its sixth member. Nonetheless, bilateral relations between Washington and Hanoi were slow to develop. The United States accorded highest priority to the return of all prisoners of war (POWs) and a full accounting for all personnel missing in action (MIAs). Eventually Vietnam agreed to treat the full accounting of POWs and MIAs as a humanitarian issue. And the United States continued to maintain an embargo on trade with Vietnam dating from 1964.

In 2001 the two countries reached a bilateral trade agreement and in 2007 they signed a Trade and Investment Framework Agreement (TIFA). It was only in 2003 that both countries agreed to initiate triennial exchange visits by defence ministers on an alternate basis. In 2009, the United States made its first naval port visit to Vietnam. The following year Vietnam and the US initiated their first annual Defense Policy Dialogue at deputy defence minister level.

In 2011, Vietnam and the United States signed a landmark Memorandum of Understanding (MOU) on Advancing Bilateral Defense Cooperation at the 2nd Defense Policy Dialogue. The MOU set out five priority areas for cooperation: maritime security, search and rescue, humanitarian assistance and disaster relief, exchanges between defense universities and research institutes, and UN peacekeeping operations. This MOU remains the foundation for US-Vietnam defence engagement up to the present.



Bilateral relations under the Obama administration

Relations between Vietnam and the United States markedly improved during President Obama's second term in office. In July 2013, Vietnam and the United States adopted the Joint Statement on Comprehensive Partnership during the state visit by President Truong Tan Sang to Washington¹¹⁷. The joint statement included nine area of cooperation, including defence and security¹¹⁸. The two leaders expressed their satisfaction with the implementation of the 2011 MOU, and agreed to continue their annual Defense Policy Dialogue as well as the separate Political, Security, and Defense Dialogue, and to expand efforts to enhance Vietnam's capabilities in search and rescue (SAR) and disaster response.

With respect to security cooperation, the joint statement declared:

The Presidents also underscored the importance of enhanced cooperation in non-traditional security matters and agreed to work more closely to counter terrorism; enhance maritime law enforcement cooperation; combat transnational crime including piracy, and narcotics, human, and wildlife trafficking; and address high-tech crime and cyber security¹¹⁹.

The United States was quick to follow up on President Obama's commitment to assist Vietnam's capability in SAR. In October 2013, the heads of the US and Vietnam coast guards met and identified search and rescue as one of their priorities. In December 2013, Secretary of State John Kerry announced that the United States would provide \$18 million in new assistance to Vietnam to enhance the capacity of its Coast Guard units to deploy rapidly for search and rescue, disaster response, and other activities.

In October 2014, the US State Department announced the lifting on the sale of lethal weapons to Vietnam on a case-by-case basis. This partial lifting of arms sales was restricted to defence articles related to maritime security and was aimed at improving Vietnam's maritime domain awareness and maritime security capabilities. This decision met, in part, Vietnam's long-standing request that the United States lift restrictions on arms sales included in its International Trafficking in Arms Regulations (ITAR) adopted in the 1980s. Vietnam, nevertheless, continued to press for the removal of all restrictions.



In June 2015, defence engagement between Vietnam and the United State was taken to a new level when Vietnam's Minister of National Defence General Phung Quang Thanh and his US counterpart Secretary of Defense Ashton Carter adopted the Joint Vision Statement on Defense Cooperation. This statement outlined twelve areas of cooperation:

- 1.** Conduct increased cooperative activities to enhance trust and mutual understanding;
- 2.** Collaborate in multilateral fora and organizations – including ASEAN – when it is in their common interest;
- 3.** Strengthen the capabilities of our defense institutions and militaries to enhance cooperation, promote security, and address non-traditional security threats;
- 4.** Expand defense trade between our countries, potentially including cooperation in the production of new technologies and equipment, where possible under current law and restrictions;
- 5.** Expand collaboration on maritime security and maritime domain awareness, including where possible, port visits and voyage repair visits to ports and facilities of each country, as mutually identified;
- 6.** Expand training and educational opportunities of each country's military academic institutions;
- 7.** Strengthen the ability of each country to conduct search and rescue activities and respond quickly to disasters and provide humanitarian response;
- 8.** Assist in building capacity to conduct successful United Nations peacekeeping operations;
- 9.** Increase exchanges of information and best practices on topics of mutual interest, including science and defense technology exchanges;
- 10.** Enhance cooperation to overcome the legacies from the war;
- 11.** Continue strategic-level discussions by senior leadership from each side's defense ministry on international security issues of mutual interest; and
- 12.** Welcome regular exchanges of defense leadership to each country¹²⁰.



The following month bilateral relations between Vietnam and the United States reached a turning point with the historic visit of Nguyen Phu Trong, the Secretary General of the Vietnam Communist Party (VCP), to Washington to meet with President Obama at the White House. After their meeting the two leaders issued a Joint Vision Statement in which they affirmed “their continued pursuit of a deepened, sustained, and substantive relationship on the basis of respect for the United Nations Charter, international law, *and each other’s political systems*, independence, sovereignty, and territorial integrity (emphasis added)”¹²¹.

The capstone in US-Vietnam bilateral relations was set in May 2016 when President Barack Obama made an official visit to Vietnam at the invitation of his counterpart, President Tran Dai Quang. Prior to their meeting Obama announced the lifting of all ITAR restrictions on arms sales. During Obama’s visit officials from both sides signed a letter of intent to establish a working group for the Cooperative Humanitarian and Medical Storage Initiative (CHAMSI) to consider prepositioning supplies in Vietnam to deal with disaster relief and humanitarian assistance.

During 2016, Vietnam’s leaders became increasingly concerned by rhetoric emanating from the US presidential campaign. Candidate Donald Trump pledged to withdraw the United States from the Trans Pacific Partnership (TPP) multilateral trade agreement as one of his first acts if he took office. He also accused Vietnam of stealing jobs from Americans. Candidate Hillary Clinton’s lukewarm and equivocal stance on TPP ratification proved equally unsettling.

Vietnam was a keen supporter of the TPP because it would give Vietnam preferential access to the United States, its biggest export market. In 2016, two-way trade reached an all time high of \$52 billion dollars (up from \$451 million in 1995). US exports to Vietnam grew by 77 percent between 2014 and 2016 making Vietnam the United States’ fastest growing export market. US exports to Vietnam in 2016 reached \$10 billion. However, there was one fly in the ointment, in 2016 Vietnam exported \$42 billion to the United States, giving it a trade surplus of \$32 billion.

In order to allay their concerns, Hanoi dispatched Dinh The Huynh, a member of the Politburo and standing member of the VCP Central Committee’s Secretariat, to Washington in October for consultations with Obama Administration officials¹²². Huynh informed his American hosts that Vietnam’s National Assembly was preparing to ratify the TPP and called on the United States to accelerate its ratification. Huynh also expressed the hope that the United States “will soon recognise Vietnam’s economy as a market economy, open its market to more Vietnamese agricultural products, and reduce trade barriers”¹²³.



Huynh urged US officials to “foster comprehensive cooperation for development by increasing visits at all levels, expanding consultation mechanisms on issues of shared concern and boosting the effectiveness of existing cooperation mechanisms”¹²⁴. Huynh specifically called for the enhancement of “economic, trade and investment partnerships” and the strengthening of cooperation in “science, education, health care, environment, infrastructure connectivity, renewable energy, and climate change response... defence-security links... people-to-people exchanges, while prioritising the settlement of war consequences and humanitarian aid”¹²⁵. In sum, Huynh sought reassurance that the United States would continue to support and advance their comprehensive partnership as the foundation for future bilateral relations after the election of the next US president.

Huynh, perhaps in response to candidate Trump’s America First campaign rhetoric, welcomed “the active role of countries inside and outside the region, including the US, in keeping peace and stability in the East Sea (South China Sea)” and stressed Vietnam’s willingness “to work with the US and relevant countries to boost ASEAN’s central role and build ASEAN-led mechanisms to form regional architecture in the 21st century”¹²⁶. Huynh also urged the US to continue its collaboration with countries in the Asia-Pacific region. Finally, Huynh invited the next US president to visit Vietnam in 2017 when Vietnam was scheduled to host the Asia Pacific Economic Cooperation (APEC) Leaders’ Summit.

Bilateral relations under the Trump Administration

Vietnam’s relations with the United States were further consolidated during President Trump’s first year in office through high-level exchange visits. In May, President Trump received Vietnam’s Prime Minister and in November Trump made an official visit to Hanoi after attending the APEC Leaders’ Meeting in Da Nang. In August, Vietnam’s Minister for National Defence visited Washington and in January 2018, the US Secretary of Defense journeyed to Hanoi. This section discusses these events.



Vietnam's Prime Minister Visits Washington

On January 23, 2017, three days after he assumed office, President Trump issued an Executive Order withdrawing the United States from the TPP¹²⁷. This was a major disappointment to Vietnam's leadership. But Vietnam readjusted swiftly and successfully engineered an invitation from the White House for Prime Minister Nguyen Xuan Phuc to make an official visit to Washington, the first by a government leader from Southeast Asia.

On 31 May 2017, President Trump met with Prime Minister Phuc in the Oval Office. At the conclusion of their half hour meeting the two leaders issued a joint statement reaffirming their commitment "to chart an agenda for United States-Vietnam relations, building on the positive momentum of the Comprehensive Partnership between the two countries" adopted by the Obama Administration¹²⁸. The joint statement affirmed that the two leaders would respect their "respective political systems" and "strengthen existing dialogue mechanisms, including party-to-party ties"¹²⁹. Importantly, Trump informed his guest that "he looked forward to visiting Vietnam and attending the APEC Leaders' meeting in November"¹³⁰.

It was obvious that detailed consultations had occurred prior to this meeting as the joint statement outlined in detail their agreed agenda for future cooperation. Both sides addressed the concerns of the other. For example, the two leaders addressed trade and investment issues head on. Prime Minister Phuc set the stage by announcing \$8 billion in new commercial deals prior to his meeting with President Trump. When the two leaders met Phuc told Trump that Vietnam would create "favorable conditions for foreign companies, including those of the United States, to do business and invest in Vietnam; protecting and enforcing intellectual property; and bringing its labor laws in line with Vietnam's international commitments"¹³¹. Trump noted Vietnam's interest in acquiring market economy status and agreed to set up a bilateral working group to consult on this issue.

Trump and Phuc skirted around the issue of Vietnam's trade surplus and together:

Affirmed the importance of promoting bilateral trade and creating favorable conditions for the businesses of both sides, particularly through the effective use of the Trade and Investment Framework Agreement to address issues in United States-Vietnam relations in a constructive manner¹³².

The joint statement contained lengthy sections on cooperation in defence, and the South China Sea. Trump and Phuc pledged to strengthen defence cooperation in line



with the 2011 MOU and 2015 Joint Vision Statement. They took note of the “recent transfer to Vietnam of a Hamilton-class Coast Guard cutter”, while Phuc “expressed interest in acquiring more defense equipment from the United States, including additional Coast Guard cutters”¹³³. The two leaders “looked into the possibility of a visit to a Vietnamese port by a United States aircraft carrier and discussed steps to further cooperation between the naval forces of the two countries”¹³⁴.

Trump and Phuc took note of “the signing of the Memorandum of Understanding on the establishment of the working group on the Cooperative Humanitarian Assistance and Medical Storage Initiative, and pledged to implement the arrangement expeditiously”¹³⁵. The joint statement endorsed cooperation in security, intelligence, counter-terrorism and cyber-enabled crimes. Further, the two leaders agreed to give priority to humanitarian cooperation (locating the remains of MIAs on both sides), war legacies (dioxin remediation at Bien Hoa airport and unexploded ordnance removal) and maritime security.

There was a marked convergence of views on the South China Sea. The joint statement included a lengthy exposition that blended the views of both parties. Finally, the joint statement touched on other areas of cooperation included in the 2013 comprehensive partnership including human rights and environmental issues and climate change mitigation. Both leaders reaffirmed support for ASEAN and the Lower Mekong Initiative.

VIETNAM’S DEFENCE MINISTER VISITS WASHINGTON

General Ngo Xuan Lich, Minister of National Defence, visited Washington from 7-10 August to meet with his counterpart Secretary of Defense James Mattis. According to a readout of their meeting issued by The Pentagon:

The two leaders agreed that a strong US-Vietnam defense relationship promotes regional and global security. This relationship is based on mutual respect and common interests, including the freedom of navigation in the South China Sea and globally, respect for international law, and recognition of national sovereignty¹³⁶.

President Trump Makes Official Visit to Vietnam. President Trump made an official visit to Vietnam from 11-12 November after addressing the APEC Leaders’ Meeting in Da Nang. The two presidents issued a 14-point joint statement that reiterated many of the issues included in the much longer joint statement between Trump and Phuc issued in May. The November 2017 joint statement for the first time



included reference to promoting “peace, cooperation, prosperity, and security in the *Indo-Pacific region* (emphasis added)”¹³⁷.

Trade issues featured prominently with no less than three full paragraphs devoted to economic issues. Point two stressed the shared desire of both leaders “to create jobs and favorable conditions for commerce and business in both countries”¹³⁸. In point three the two presidents agreed to expand bilateral trade and investment through formal mechanisms such as TIFA. The two leaders also welcomed the expansion in energy ties, particularly the export of US liquefied natural gas to Vietnam, and US support for developing Vietnam’s solar power generation industry.

Defence cooperation came next in priority. Both leaders once again endorsed the 2011 MOU, the 2015 Joint Vision Statement and the Plan of Action for 2018-20 that supported bilateral cooperation in maritime security, humanitarian assistance and disaster relief, peacekeeping operations, and overcoming war legacy issues. In a new development, they welcomed the first visit by a US aircraft carrier to Vietnam as well as an early visit by the US Secretary of Defense.

War legacy issues were addressed in paragraph seven. Once again the two leaders agreed to continue with dioxin remediation (Bien Hoa airport), assistance in locating the remains of MIAs from both sides, and the removal and disposal of unexploded ordnance. President Quang welcomed additional assistance from the US for persons with disabilities arising from exposure to Agent Orange.

Presidents Trump and Quang also addressed regional security and the South China Sea. The statement largely repeated the wording of the May 2017 joint statement quoted above. Additionally, the two leaders underscored their convergence of views on how the South China Sea dispute should be settled.

US SECRETARY OF DEFENSE VISITS VIETNAM

Defense Secretary Mattis made his first official trip to Vietnam from 24-25 January 2018. Prior to his arrival in Hanoi Mattis told accompanying reporters, “Obviously, we want to know what level of engagement they want with us: Is it professional military education; is it joint training? I want to sit down and just talk with them, get a better sense of the pragmatic steps we can take as we move the relationship forward into one of trust and collaboration”¹³⁹. Mattis also expressed his thanks to Vietnam for supporting UN sanctions on North Korea.



On arrival in Hanoi Mattis first met with the Defense POW-MIA Accounting Agency. On the same day Vietnam and the United States inaugurated the first phase of dioxin remediation at Bien Hoa airport outside Ho Chi Minh City. Mattis met his counterpart General Lich on 25 January. Secretary Mattis also met with Secretary General Trong as well as President Quang. The Vietnamese media reported that Trong “suggested both sides address war consequences, including bomb and mine clearance, environmental detoxification, humanitarian aid and search for soldiers missing in actions and strengthen mutual trust and understanding to further develop bilateral ties”¹⁴⁰.

The consolidation of US-Vietnam relations under the Trump Administration is remarkable because it was unexpected. Clearly the growing convergence of strategic interests between Washington and Hanoi has served to dampen potential friction over trade and other differences. For example, the US *National Security Strategy* issued in late 2017 singled out Vietnam (along with Indonesia, Malaysia and Singapore) as a growing security and economic partner¹⁴¹.

Convergence but not congruence

Since diplomatic normalization in 1995, relations between Vietnam and the United States have evolved gradually. As late as 2002, for example, the VCP Central Committee considered that China was a friend while the United States was Vietnam’s strategic enemy¹⁴². The following year the VCP Central Committee revised this assessment by placing greater emphasis on national interests over ideology. The Central Committee now declared that Vietnam would cooperate with states that respected Vietnam’s national interests and Vietnam would struggle against states that harmed Vietnam’s national interests. This new approach adopted the dialectic concepts of “objects of cooperation” (Đối tác) and “objects of struggle” (Đối tượng) to justify this new orientation¹⁴³. In sum, the United States was no longer a strategic enemy but a potential partner of cooperation. This development signalled Hanoi’s recognition of the growing convergence of strategic interests with the United States.



Over the next decade Vietnam and the United States managed to accommodate contentious issues arising from the Vietnam War. For example, cooperation between Vietnam and the United States to locate the remains of American servicemen missing in action became routine. This search was extended to include locating the remains of Vietnamese MIAs. The United States responded positively to Vietnamese requests to address the way legacy issues such as dioxin contamination and the removal of unexploded ordnance are handled.

As noted above, Vietnam and the United States negotiated a bilateral free trade agreement and a Trade and Investment Framework Agreement. The United States became Vietnam's largest export market and Vietnamese exports soon generated a trade surplus of over \$30 billion by 2014 that nearly balanced Vietnam's trade deficit with China. Vietnam was an early supporter of the TPP a key plank of President Obama's Rebalance Asia policy.

The congruence of strategic interests was reinforced by Vietnam's emergence as an important diplomatic partner. For example, Vietnam supported ASEAN unity and centrality and played a constructive role in ASEAN-centric organisations. Vietnam hosted the inaugural meeting of the ASEAN Defence Ministers' Meeting-Plus and supported US membership in the East Asia Summit. Vietnam also played a positive role as non-permanent member of the UN Security Council (2008-09)¹⁴⁴. Further, in 2014 Vietnam backed the US Proliferation Security Initiative's Statement of Interdiction Principles.

However, no issue was more important in shaping the congruence of strategic interests between Vietnam and the United States than maritime disputes in the South China Sea. Both countries shared an interest in maritime security, including freedom of navigation and over flight. Both shared the same policy position that territorial disputes should be settled peacefully without the threat of use of force on the basis of international law, including the United Nations Convention on the Law of the Sea. Both supported the full implementation of the Declaration on Conduct of Parties in the South China Sea and a legally binding Code of Conduct.

Despite growing strategic convergence US and Vietnamese interests are not congruent.¹⁴⁵ For example, the election of Donald Trump as US president brought trade issues and US protectionism to the fore. Instead of Vietnam's planned smooth sailing into the TPP with enhanced access to the US market, Vietnam now faces a prolonged series of negotiations leading to a new "free and fair" bilateral trade agreement. As noted above, Vietnam's request to be designated a market economy has been relegated to a working group.



Even in the area of defence and security cooperation, where US and Vietnamese strategic interests have increasingly converged, their interests are not congruent. Vietnam has a defence policy of “three ‘nos” – no alliances, no foreign bases, and no joining a second country to gang up on a third country¹⁴⁶. Senior Vietnamese officials welcome the presence of the US Navy in the South China Sea as long as it contributes, in their view, to regional peace and stability. Vietnam will host the first visit of a US aircraft carrier this year, for example. But Vietnam has so far refrained from participating in military exercises with the US Navy.

Vietnam will not sign on to the Trump Administration’s national security and defence strategies and join an anti-China coalition. Vietnam may quietly welcome the emergence of the Quadrilateral Security Dialogue, a nascent security arrangement involving Australia, India, Japan and the US, because of its potential role to counter-balance China. But Vietnam is unlikely to join the Quad. Vietnam prefers to leverage off differences between Beijing and Washington in what one Vietnamese diplomat called the “Goldilocks formula”, that is, Vietnam prefers relations between China and the US to remain “not too hot, not too cold”¹⁴⁷.

Vietnam and the United States are both wary of Sino-Russian collaboration in the Indo-Pacific. But Vietnam will not cooperate with the United States to oppose Russian revisionism because it has close political and defence relations with Moscow¹⁴⁸. The United States views competition by China and Russia as its main strategic threat, whereas Russia is Vietnam’s most important defence partner. Russia currently provides eighty-eight percent of Vietnam’s arms purchases. Russian naval vessels have been given special access to the military port at Cam Ranh Bay, while the other major powers are permitted annual visits to other ports such as Haiphong, Da Nang, the civilian-run Cam Ranh International Port and Ho Chi Minh City.

Further, Vietnam seeks to leverage its strategic partnerships with the major powers to bolster its foreign policy of independence and self-reliance. Vietnam wants each major power to have equity in Vietnam’s development. Vietnam does not want to be drawn into the orbit of any major power. So Vietnam leverages its relations with each major power by playing an independent and constructive role in regional affairs; if any major power fails to support Vietnam’s autonomy it will risk Vietnam being pulled into a rival’s orbit. For example, as noted above, Vietnam hosted Defense Secretary Mattis in January but just before Mattis arrived Vietnam also hosted an official visit by Russia’s Defence Minister, General Sergei Shoigu.



In sum, Vietnam and the United States share a growing convergence of strategic interests but these interests are not congruent. Vietnam is content to structure its bilateral relations under the framework of the 2013 Joint Statement on Comprehensive Partnership and the 2015 Joint Vision Statement on Defence Cooperation. A review of how these documents have been implemented reveals that defence engagement has been largely confined to the five areas listed in the 2011 MOU on defence cooperation. Vietnam will continue to welcome enhancing its comprehensive partnership with the United States so long as its priority interests are addressed but only at a pace it is comfortable with.

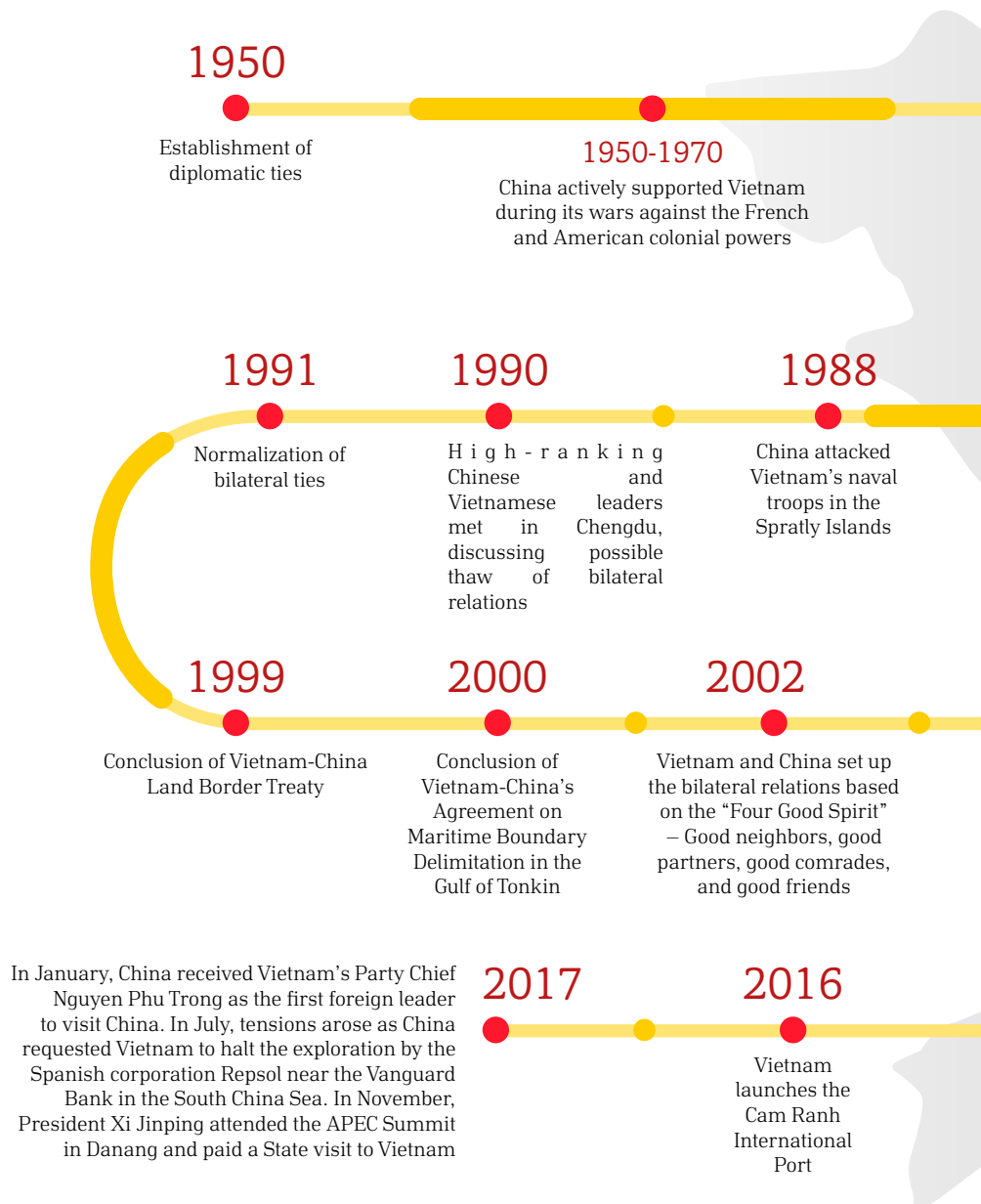




APPENDIX.

Timeline of Vietnam- China's relations (1950-2017)

Appendix. Timeline of Vietnam-China's relations (1950-2017)



1958

China took over the Eastern part of the Paracels

1974

China took over the Western part of the Paracels

1975

Unification of Vietnam. Sino-Vietnamese relations started to derail

Sino-Vietnamese border war

1979

1979-1989

China opposed Vietnam's intervention in Cambodia

Vietnam signed the Mutual Assistance Treaty with the Soviet Union. China ceased all aids to Vietnam

1978

1976-1978

China-backed Cambodia launched border skirmishes in the Southwest border of Vietnam. Large number of ethnic Chinese Vietnamese left Vietnam

2004

The "two corridors, one economic belt" initiative to connect China's Southern provinces and Vietnam's Northern region is launched

2008

Vietnam and China upgraded their bilateral relations to a "comprehensive strategic partnership" framework

2011-2012

Vietnamese boat Binh Minh 2 has its cables cut by Chinese maritime patrol ships and fishing boats twice in two consecutive years while carrying out its underwater survey in the South China Sea

2015

President Xi Jinping visits Vietnam – the first state visit by Chinese Head of State and Party Chief to Vietnam after 9 years. Vietnam becomes a founding member of China-led AIIB

2014

the HD-981 oil rig crisis. Activities to repairs ties were conducted shortly afterwards, including the establishment of a military hotline and the organization of Vietnam-China Border Defense Friendship Exchange



CHAPTER VI.

Understanding Vietnam's China Policy: A historical and geopolitical perspective

Understanding Vietnam's China Policy: A historical and geopolitical perspective

Author: Thuy T. Do

Of all its foreign relations, managing the bilateral relationship with China presents the most important and daunting task for Vietnam. As a big power and an ancient civilization, China has exerted great influence on Vietnam in numerous aspects. Yet Vietnam's view toward China is often complicated, if not ambiguous. On the one hand, no East Asian countries are more culturally and ideologically similar to China than Vietnam. On the other hand, few other countries have been as defiant as Vietnam in resisting Chinese bullying to preserve its own independence. Andrew Forbes once captured Vietnam's perspective vis-à-vis China in a love-hate metaphor¹⁴⁹. Studies on the more recent dynamics of Sino-Vietnamese relations termed it as "best 'frenemies' forever"¹⁵⁰.

It is this contradiction that has contributed to shaping the Vietnamese identity and worldview over time and explains the fluctuations of the bilateral relationship in the past decades. During the Cold War, Sino-Vietnamese relations dramatically shifted from one spectrum to another, from 'lip-and-teeth allies' in the 1950s to 'arch enemies' in the late 1970s. Since their normalisation of ties in 1991, Vietnam has adopted a dual strategic position towards China: it sees China as an indispensable economic and security partner and simultaneously it seeks to hedge against China's possible territorial encroachment by gradually beefing up its military and cautiously forging strategic ties with other powers. While being vigilant of China's increased assertiveness in the South China Sea, such as the HD-981 incident in 2014, thus far Hanoi remains very reluctant to enter a military alliance to counter China's rise.

This chapter explores Vietnam's China policy, particularly its contradictory view of China, primarily from a historical and geopolitical perspective. It posits that Vietnam's strategic thinking vis-a-vis China has its roots in the self-evaluation of the country's geopolitical position as well as historical learning from past mistakes in its China policy. The parameters of Vietnam's China policy, meanwhile, are influenced by China's Vietnam policy and the dynamics of big power relations. The interplay of these factors results in Hanoi's current strategic ambivalence towards China. Given the constant influence of history and geography on Vietnam's strategic thinking, this paper argues that unless there were sea changes in China's policy and/or big power relationship, Vietnam's China policy will see a continuation and adaptation rather than radical change.



The historical and geopolitical heritage

Vietnam has a long history of coexistence with China. Carlyle A. Thayer argues that since Vietnam's emergence as a nation more than 2,000 years ago, it has had to contend with “the tyranny of geography”¹⁵¹. The term refers to Vietnam's geographical traits – a small country living under the shadow of a giant Northern neighbour. Once annexed to Chinese territory for nearly ten centuries, Vietnam has been struggling to preserve its territorial sovereignty and political autonomy. Although Vietnam's land borders are principally with Laos and Cambodia, its narrower 1,400 kilometre long land border with China is a vulnerable point in Vietnam's security given its proximity with the capital Hanoi and the important Northern provinces. It also shares a vast and strategic maritime boundary with China, particularly in the Gulf of Tonkin and the South China Sea.

Not only fated to coexist with China, Vietnam also suffers from disparities in power and capacities in the bilateral relationship¹⁵². Throughout history, China constantly sought influence over Vietnam through various attempts to conquer and assimilate it. Vietnam, in its turn, has relentlessly fought to resist such Sinicizing efforts by Chinese empires so as to preserve its independence and identity. Although the Vietnamese did absorb important aspects of Chinese culture over time, which has shaped the cultural affinity between the two countries, their nationalism in regard to China remains strong, largely because of the heritage of past conquests by Chinese regimes.

Territorial issues, therefore, have always been a point of sensitivity and a source of conflict in the bilateral relationship. In 1974 when the two countries were still ‘defacto allies’, China took the opportunity towards the end of the Vietnam War to take over the Western part of the Paracel islands which was then controlled by Southern Vietnamese troops. Bilateral relations quickly deteriorated afterwards when China-backed Cambodia continuously launched border skirmishes across Vietnam's Southwestern border and many ethnic Chinese Vietnamese left Vietnam between 1976 and 1978. China then vociferously opposed Vietnam's intervention in Cambodia in early 1979. The two countries subsequently fought a border war in February 1979 and clashed again in the Spratly islands in 1988. At the height of their 1979 border war, Hanoi published a document revealing ‘the truth’ about the three times China had betrayed the Vietnamese people since the establishment of ties in 1950¹⁵³. For these geographical and historical reasons, “Vietnam's mistrust of China has become an underlying factor in bilateral relations”¹⁵⁴.



As one of the Asian countries having an intensive experience in dealing with China, Vietnam has learnt from its own successes and failures in the past and has utilized this knowledge in designing its current foreign and China policies. Looking at Vietnam's diplomacy over the years, it can be seen that China often occupies a central place in Hanoi's worldview. The success and/or failure of Vietnam's diplomacy, more often than not, relies on the handling of its China policy. During the early Cold War, Vietnam managed to expand on its brotherhood with China and thus mobilized Beijing's support for its struggle against the French and the Americans. In the latter half of the Cold War, however, the bilateral relationship deteriorated sharply, culminating in a decade of open hostility (1979–1989) that plunged Vietnam's diplomacy into its worst crisis since the establishment of the country in 1945.

Geography also places Vietnam at the crossroads of civilizations and as a venue for great powers' competition for spheres of influence. There have been many times when Vietnam has been, as the Vietnamese call it, 'a victim of great power politics', particularly when it came to the issue of entering a military bloc aimed at counter-balancing China. In the course of this, Vietnam has learnt precious lessons as to how to manage relations with China amid great power rivalries.

In the 1950s, Vietnam retained a fine balance between its two major allies, the Soviet Union and China, and thus managed to mobilize the material and ideological support of both powers for its wars against French and American imperialism. During the late 1960s and 1970s when these two powers were at odds, Hanoi faced a tough choice between its two allies and increasingly lost this balance in favour of the Soviet Union, given its skepticism of China's aforesaid behaviors in the South China Sea and the Cambodian issue. Its decision to formally enter a military alliance with the Soviet Union in 1978 and its subsequent intervention in Cambodia in early 1979 prompted China to launch a border attack in 1979 to 'teach Vietnam a lesson', as Deng Xiaoping bluntly stated it.

Vietnam managed to stall the attacks from both ends, China in the north and the pro-China alliance against Vietnamese occupation in Cambodia in the south. Yet, it came at the price of a decade-long economic stagnation due to the state of external conflicts and international isolation, not to mention another military attack by China in 1988 to take over a number of islets controlled by Vietnam in the South China Sea. And all these incidents happened without any substantial action from Vietnam's then most important ally, the Soviet Union. Similarly, in 1974, the South Vietnamese government had a formal alliance with the US but the Seventh Fleet



did nothing when China took control of the western part of the Paracel islands from South Vietnamese troops.

Moreover, haunted by big powers' dealings in the past, such as their compromises during the 1954 Geneva Conference on Restoring Peace in Indochina, as well as those between Mao Zedong and Richard Nixon in 1972 regarding peace and unification in Vietnam, Vietnamese leaders are always concerned that a similar agreement could take place in the South China Sea which could harm Vietnam's interests. As a result, since the end of the Cold War, Vietnam has been geared towards an autonomous, non-aligned, and omni-directional foreign policy based on the central "three nos" defence policy: no military alliances with foreign countries, no foreign military bases on Vietnamese soil, and no collusion against a third country; an assertion largely seen as a reassurance to China.

Key developments in contemporary Vietnam-China relations

In designing their post-Cold War China policy, Vietnam's policy-makers understand that for Vietnam to preserve stability and development, it ought to handle well the 'China factor' in its relations with other powers. As learnt from the past, China is not just a neighbour but also a great power which could have a significant impact on Vietnam's future development. A workable, if not good, relationship with China has thus been considered a priority for Hanoi.

Therefore, Vietnam has proactively sought normalization with China. Given the concern for regime security after the fall of socialism in Eastern Europe, Hanoi requested a re-establishment of the alliance with China. Beijing rejected such proposals and declared instead that post-Cold War China and Vietnam are 'comrades but not allies', a relationship that can be described as "intimate but not so close, distant but not so far, and having disputes but no conflicts"¹⁵⁵.

Bilateral relations since the normalization of ties in 1991 have been quite vibrant and multifaceted. Politically, reciprocal visits by top-ranking leaders have been frequent. Apart from annual leadership visits, there have been numerous exchanges between governmental and non-governmental officials on an almost daily basis. Hanoi and Beijing have also established a high-level hotline for consultations on major issues, the first of its kind between a Vietnamese leader and a foreign counterpart. Since 2008, the two countries have forged a 'comprehensive strategic partnership', the highest level of bilateral relationship, which so far Vietnam has only had with China, Russia, and more recently, India. This partnership is governed by the symbolic "16-word guideline" of "friendly



neighbourliness, comprehensive cooperation, long-term stability, and future orientation” and the “four good guiding spirits” of “good neighbours, good friends, good comrades, and good partners”.

As can be seen, Vietnam and China are facing many similar problems which have, in turn, fostered their bilateral cooperation. These include coping with economic risks posed by decades of rapid development; responding to social risks; guarding against domestic and external security threats; and exploring how to take the capitalist road with their respective socialist characteristics. The two countries have repeatedly stated that their “mountains and rivers are adjacent, cultures similar, ideologies shared, and destinies interrelated”. Particularly, the last point, ‘interrelated destinies’, implies mutual national survival. As William Duiker has noted, “the historical relationship between China and Vietnam has had an almost symbiotic character”¹⁵⁶. This is true, even now.

Economically, China has been Vietnam’s leading trading partner for the past 10 years, serving as its most important import market and second largest export market after the US. Since the normalization of ties, two-way trade has grown from US\$32 million in 1991 to US\$93.7 billion in 2017. China is also an important foreign investor (ranking eighth among the largest foreign investors in Vietnam, as of 2017)¹⁵⁷ and a frequent provider of loans and aid for Vietnam in the fields of industry, mining, railways, energy, textiles, and chemical products. The two countries are also closely connected via the ‘two corridors’ between China’s Yunnan and Guangxi provinces with Vietnam’s northern region and ‘one economic belt’ in the Gulf of Tonkin. Cooperation in the ‘Greater Mekong Sub-region’ (GMS) is also robust, particularly in those fields of infrastructure, transportation, and water resources.

Given such economic interdependence, it can be said that although the Sino-Vietnamese relationship can hardly come back to the ‘lip-and-teeth’ alliance of the 1950s, neither does Hanoi want to let it fall to the level of ‘arch enemies’ of the late 1970s and early 1980s. Vietnam recognizes the importance of maintaining an effective and stable relationship with China, and hence “it doesn’t want to antagonize China unnecessarily”¹⁵⁸.



Territorial disputes, however, remain the most serious source of tension in the bilateral relations. This was reflected during arduous negotiations on the settlement of the land border treaty and the delimitation of the Tonkin Gulf which were eventually concluded in 1999 and 2000 respectively¹⁵⁹. Since these negotiations, the South China Sea disputes have become a thorn in the side of Sino-Vietnamese relations and the biggest source of tension. China's intention to assert aggressive maritime territorial claims presents a great security threat for Vietnam.

Whilst maintaining that security challenges in the South China Sea, caused by China's assertive policies, are the greatest security threat, Vietnam has few strategic options vis-a-vis China. In the past, Hanoi has both allied itself with and opposed Beijing, but neither strategy seems to work nowadays. A deference policy is undesirable given Vietnam's strong determination to preserve its independence and territorial sovereignty, as well as the anti-China sentiment among the public. But a confrontation strategy is also unwise, as it would worsen relations with China and bring Hanoi great economic hardship and insecurity, possibly disrupting overall foreign relations as happened during the decade following the 1979 border war.

Therefore, Hanoi has employed a mixed strategy in the South China Sea dispute—seeking to internalize the issue through ASEAN and to bring in non-claimant powers, while still leaving the door open for a bilateral settlement with Beijing.¹⁶⁰ Until early 2014, this strategy seemed to be working, as Beijing agreed to set up a number of conflict management mechanisms, including the establishment of a fishery hotline between the two agricultural ministries, a direct phone line between their defense ministries, and joint maritime development in waters off the mouth of the Tonkin Gulf. But the changing geopolitical landscape in Asia stemming from China's increased assertiveness and the new dynamics in big power relations increasingly created pressure on Hanoi to rethink its China policy.



The evolving US-China geopolitics and Vietnam's strategy

Without a doubt, US-China rivalry is the key underlying factor that will shape Asian security architecture in the time to come. China's rapid rise and its escalating assertiveness in the South China Sea since 2009 have raised a common concern among regional states. With the US announcement of its pivot to Asia under Obama's administration, Japan's recent efforts to increase its political role in Asia under Abe's administration, and the Indian Act East policy, the region has witnessed heightened strategic competition for spheres of influence among these powers. Most recently, this coalition of the willing has manifested itself through the re-emergence of the Indo-Pacific initiative under President Donald Trump's administration.

These evolving dynamics pose a significant challenge for smaller countries in the region in keeping a balance between the major powers. Heightened US-China geopolitics on the one hand help increase the leverage power of smaller states. On the other hand, however, they also spark off fears of a new era of great power rivalry at the expense of smaller states' interests and forcing them into a daunting balancing act. Thailand offers a good example of how a small country should manage its relations with major powers, with its skilful 'bamboo diplomacy', always solidly rooted but flexible enough to bend whichever way the wind blows to survive.

The Vietnamese, through their historical learning, have found another diplomatic philosophy to engage great powers, an independent, self-reliant, omni-directional, and balanced diplomacy. The aim is to forge as many equidistant and mutually dependent relations with all major powers without leaning too much on any one side. The logic, as former Deputy Prime Minister and senior Vietnamese diplomat Vu Khoan succinctly puts it, is that "the more interdependent ties we can cultivate, the easier we can maintain our independence and self-reliance, like an ivory bamboo that will easily fall by standing alone but grow firmly in clumps"¹⁶¹.

This 'clumping bamboo' philosophy looms large in Vietnam's arrangement of its strategic partnerships. Post-Cold War Vietnam has no formal allies but has so far secured a dozen strategic partnerships with major world powers and important ASEAN neighbours including Russia (2001); Japan (2006); India (2007); China (2008); South Korea and Spain (2009); the United Kingdom (2010); Germany (2011); Italy, France, Indonesia, Singapore, and Thailand (2013), the Philippines (2015); and three 'comprehensive partnerships', including with Australia and New Zealand (2009), America (2013), and Canada (2017).



This makes Vietnam one of the few countries in the world, and the only ASEAN country, that is either a 'strategic' or 'comprehensive' partner to all five UN permanent members. It is Hanoi's hope that forging interdependent ties with major powers, particularly in economic and security domains, will help broaden the common denominators of interests between Vietnam and other powers, thus deepening mutual trust and enmeshing these powers in defending their common interests with Vietnam.

This finely balanced diplomatic philosophy has functioned relatively well over the past two decades, but China's increasing assertiveness in the South China Sea has resulted in a deterioration in Sino-Vietnamese relations and drawn Vietnam closer strategically to the US and its allies in recent years. Mutual concerns about China's assertiveness on maritime issues have recently brought Washington, Tokyo, and Hanoi together. Given Vietnam's historical experience in resisting China's influence, its relatively sizable military, and its strategic location right at the heart of the trade route passing through the South China Sea, Vietnam has become the focus of increased attention in these big powers' Asian policies.

Tokyo and Washington have courted Hanoi in a number of ways. Economically, these include boosting economic ties to help Vietnam reduce reliance on the Chinese import market and including Vietnam (the only socialist country) in the Trans-Pacific Partnership (TPP) negotiations. Strategically, the US and Japan have offered equipment including patrol vessels, know-how, and capacity building to strengthen Vietnam's coast guard and military; and calling for Hanoi to play a more active and constructive role in maintaining peace and stability in the region. Both Washington and Tokyo have also openly expressed their interest in using Vietnam's Cam Ranh Bay for military purposes, a move that must have startled Beijing. Understandably, China was not happy about these developments and in summer 2014 Beijing gave a warning to Hanoi by creating the HD-981 oil rig incident, the most serious crisis in Sino-Vietnamese relations in the post-Cold War era.



In early May 2014, Vietnam saw the worst maritime tension with China since their 1988 naval clashes in the South China Sea. China's sudden deployment of its giant oil rig Haiyang Shiyu 981, and about 80 naval and surveillance ships to protect it, sparked off unprecedentedly large anti-China protests throughout and beyond Vietnam. Some of these demonstrations turned violent with a number of Chinese and foreign companies (mistaken as Chinese) damaged and several Chinese nationals killed. In response, the Vietnamese government called for public restraint, arrested hundreds of suspected rioters and China evacuated its workers. After nearly ten weeks of tense vessel confrontation between the two coast guards, including a Vietnamese boat reportedly being rammed and sunk, China finally withdrew the oil rig in mid July 2014. The crisis precipitated a heated internal discussion within Vietnam on the need to rethink its China policy. As a result, for the first time since 1991, top-ranking Vietnamese leaders made very bold statements in denouncing China's assertiveness and expressed their resolve in defending Vietnam's territory. Furthermore, Prime Minister Nguyen Tan Dung, after what he saw as a blatant violation of Vietnam's sovereignty and legitimate interests, bluntly stated that "Vietnam never barter sovereignty for an unrealizable or conditional peace and friendship"¹⁶². Vietnamese diplomats also engaged in regular consultations with Washington, Tokyo, and their ASEAN partners on how to react to the crisis. Several countries in Vietnam's dense network of 'strategic partnerships' such as the US, Japan, the Philippines (under President Aquino), India, and Australia have joined Hanoi in denouncing China's growing unilateralism and aggressiveness.

The crisis also sparked off unprecedented anti-China protests among the public, culminating in the damage of Chinese and Taiwanese companies in Vietnam. Most radically, some intellectuals have even suggested that the country build strategic allies with the US and its partners as a counter-measure against China's possible territorial encroachment¹⁶³. While all these developments stirred up predictions about a shift in Vietnam's strategic thinking vis-a-vis China¹⁶⁴, Hanoi's strategy for resolving the oil rig incident and the ongoing South China Sea disputes thus far has been moderate, seeking to mend fences with China and reiterating its longstanding 'three nos' defense policy. Why?



Explaining Vietnam's China policy after the HD-981 crisis

First and foremost, this nuanced reaction reflects the historical roots of Vietnam's strategic thinking, one that views a workable relationship with China as vital to ensure Vietnam's stability and security. While other regional countries (e.g. Japan and the Philippines under Aquino's administration) have adopted a hard-line strategy in their territorial disputes with China, Hanoi's interactions with Beijing are more complicated and its response to China's increased assertiveness in the South China Sea is also more sophisticated. As a small country that shares both land and maritime borders with China, relies on Chinese imports, and has a significant power imbalance with the country, Vietnam attaches critical importance to preserving a friendly and stable relationship with China. While seeing the South China Sea disputes as the country's most serious security concern, Vietnamese leaders also believe that these challenges can be resolved by engagement with China through diplomatic channels.

This explains why following the settlement of the 2014 oil rig crisis, Hanoi has proactively sought to repair ties with China. During subsequent high-ranking visits, the two countries' top leaders have repeatedly pledged to exercise restraint on the South China Sea issue, including the establishment of a military hotline to forestall incidents like the oil-rig dispute in the future. The guiding principle for managing disputes, they agreed, is to look at the big picture of the overall bilateral relationship and the future development of the two countries¹⁶⁵.

China has courted Vietnam by warmly receiving Vietnam's Party Chief Nguyen Phu Trong as the first foreign leader to visit China in 2017 (in January) President Xi also chose Vietnam for his first foreign trip after the 19th Party Congress of the Chinese Communist Party. In a meeting with President Xi in Da Nang during the APEC Summit in November 2017, Prime Minister Nguyen Xuan Phuc reportedly said that "the Vietnamese Government treasure the comprehensive strategic partnership with China, considering it a consistent policy, a strategic choice and a top priority in Vietnam's foreign policy" and that "Vietnam is the largest trade partner of China in ASEAN"¹⁶⁶.

Second, the management of the South China Sea disputes with China, from a Vietnamese perspective, has been successful thus far. Compared to other countries which are also engaging in territorial disputes with China (e.g. Japan and the Philippines), Vietnam has an important asset and that is its party-to-party contacts and hotline exchanges with Beijing. Furthermore, Hanoi is confident that they understand China well enough. For example, Foreign Minister Pham Binh



Minh posits that the two factors that contributed to the peaceful resolution of the oil rig tensions were Vietnam's experience in dealing with China and the support it received from the international community. Minh further asserts that, "other countries, for example the Philippines may not predict [China's behaviour] but we do, we know China"¹⁶⁷. This reflects Hanoi's confidence in its China policy, particularly its understanding of the parameters of strategic manoeuvres that China can accept.

Vietnam's policymakers understand that strengthening relations with other powers will facilitate Hanoi's goal of internalising the disputes so as to restrain China's unilateral actions. The downside of this, however, is that Vietnam possibly risks becoming a proxy for other powers to contain China's assertiveness in maritime disputes. The involvement of Vietnam in the TPP under the Obama administration, for example, has already been seen as a form of economic containment of China. If Hanoi moved too close to Washington or Tokyo, it would be easy for Beijing to interpret further enhanced interactions between Washington, Tokyo and Hanoi as a strategic encirclement of China which would certainly entail countermeasures from China. This would only worsen the vicious circle of the arms race and security competition in the region. That said the 'China factor' will have both a push and pull effect in Vietnam's relations with other powers and Hanoi will need to walk the tightrope more carefully¹⁶⁸.

Third, economic benefits matter. As China remains the key market and raw materials supplier for Vietnamese products and an increasingly important investor, Vietnam should tread carefully. Reportedly, the ten-week HD-981 crisis in 2014 might have cost Vietnam's economy US\$1-1.5 billion, the equivalent to 0,7% of the country's GDP¹⁶⁹. This cost was calculated based on the incident's indirect impact on Vietnamese tourism and trade sectors, most seriously agriculture and seafood exports. Clearly, Vietnam's economic development will suffer immensely should tensions with China continue. This danger has created pressure for Vietnam to reduce its economic dependence on China. There have been positive developments towards this end in recent years. As Le Hong Hiep has pointed out, "Vietnam's shrinking trade deficit vis-à-vis China and China's increased investment in Vietnam have made bilateral economic ties more balanced, providing further incentives, especially for Vietnam, to maintain close bilateral relations"¹⁷⁰.

Hanoi also cannot ignore the 'carrots' Beijing is offering, including the Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB). Vietnam was a founding country of the AIIB in 2015 and its President Jin Lique



pledged in early 2017 that the bank would invest in infrastructure development, particularly railways, highways and seaports, in Vietnam¹⁷¹. Hanoi has suggested that Beijing include the 'two corridors one belt' project between China and Vietnam in the broader framework of the BRI. Vietnam is also a key player in Chinese plans for the Maritime Silk Road as it controls a number of key military strong points and supply stations, such as Cam Ranh Bay. As Tetsuya Abe and Atsushi Tomiyama have observed, "China must foster a stable relationship with Vietnam to maintain its regional clout"¹⁷².

Forging resilience to navigate uncertain water in the Indo-Pacific region

While Vietnam has recently successfully mended ties with China, the unresolved South China Sea disputes and strong negative public sentiment in regard to China remain a point of concern about possible renewed clashes in the future. Most recently, China's continued flexing of its muscles in the South China Sea through various reclamation activities and the deployment of anti-ship cruise missiles and an advanced surface-to-air missile system in the disputed Paracel Islands is a major security concern for Vietnam. In June 2017, tensions re-emerged as China demanded that Vietnam call a halt to Spanish corporation Repsol's oil and natural gas exploration around **Vanguard Bank** in the South China Sea, which is under **Vietnamese control**. Hanoi finally had to back down at Beijing's behest. Apart from the South China Sea disputes, China's upper mainstream dam building in the Mekong river may threaten the food security and geo-ecological developments in Southern Vietnam.¹⁷³

Although the general patterns of this fluctuating bilateral relationship imply that new disputes may not lead to armed conflicts¹⁷⁴, the worst scenario cannot be ruled out. With Duterte's recent pivot to China, Vietnam is singled out as the key regional player to check China's assertiveness in the South China Sea. For this reason, Vietnam continues to rank high in the Australia, Indian, Japan and US Indo-Pacific strategy. Vietnam has tried to beef up its armed forces (including the procurement of 6 kilo-class submarines from Russia) as well as continuing to foster military ties, such as allowing a US aircraft carrier visits to Cam Ranh Bay and organizing 2+2 foreign and defence ministerial strategic consultations with the US, Japan and India¹⁷⁵.



The latest Australian Foreign Policy White Paper, issued in November 2017, also considers fostering stronger bilateral ties with Vietnam as one of a number of priorities in its Southeast Asian policy¹⁷⁶. Australia and Vietnam share common interests in preserving the regional order and maritime security in the South China Sea, as well as promoting Indo-Pacific regionalism. Bilaterally, at the 2017 APEC Summit in Da Nang, Prime Ministers Malcolm Turnbull and Nguyen Xuan Phuc announced that the two countries will upgrade their relationship to a 'strategic partnership' framework in the time to come. At the multilateral level, Canberra and Hanoi have proactively worked to revive the TPP in the wake of the US withdrawal, turning it into the current form of Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). In the longer term future, cooperation among regional middle powers, including Australia, Japan, Vietnam, and other ASEAN countries will serve as an important pillar in sustaining Asian security order.

However, the extent to which Hanoi may move further toward the US and its Asian allies largely depends on two factors: the dynamics in big powers' relations and the degree of assertiveness China would exercise in the South China Sea. While Hanoi will not change its non-alignment policy to enter a military bloc any time soon, the "balancing" dimension in Hanoi's China policy will become more evident if Beijing persists to push Hanoi into a corner. Hanoi, however, understands that they should not naively rely on US commitment to defend Vietnam's interests given the lack of an alliance treaty with the US. Similarly, there is no hope that the US would intervene if there were a clash between Vietnam and China in the South China Sea.¹⁷⁷ Only by adopting an independent and self-reliant foreign policy can Vietnam avoid becoming a victim of great power politics once again.

Towards that end, it is necessary for Vietnam to be "firm in principles, flexible in strategies and tactics". The "principles" refer to the preservation of Vietnam's independence, sovereignty, and national interests, whilst "flexible strategies and tactics" are employed to deal with the "various changes" of the evolving regional geopolitics. When being questioned on how Vietnam could protect its independence and sovereignty in the South China Sea without relying on an alliance with a big power, Vietnamese Foreign Minister Pham Binh Minh replied: "In so doing, it is necessary to forge strategic trusts with big powers. On the basis of developing economic, trade, and investment with big powers, they will have an interest in protecting their own interests in Vietnam."¹⁷⁸



Given this logic, Hanoi has rejected repeated requests by external powers to gain military access to its key strategic outpost – the Cam Ranh Bay. Instead, it decides to turn Cam Ranh into a logistic and service provider for ships (including military ships) passing through the South China Sea. The inauguration of the Cam Ranh International Port on March 8, 2016 is the first step towards that end. From the geopolitical standpoint, Vietnam has a strategic location connecting maritime and continental Asia and, hence, it can serve as an interchange between the two subregions. In particular, Vietnam's contribution in maintaining the stability and effectiveness of the strategic trade route passing through the South China Sea may be its biggest competitive advantage.¹⁷⁹

More importantly, Vietnam should strive to strengthen its internal strength as well as relying on multilateral platforms to enhance its aggregated power to cope with the uncertain future of China's rise. On the former, institutional and structural reform of the economy should be pursued. On the later, Vietnam should further promote its proactive role in ASEAN and APEC forums. In particular, its efforts in promoting a series of new multilateral and bilateral free trade agreements, most importantly the Comprehensive and Progressive Trans Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) is expected to give new impetus for the rebalancing of Vietnam's economy, particularly facilitating the development of home-grown industry so as to reduce its reliance on Chinese imports. Hanoi has also unceasingly worked with its ASEAN partners and relevant stakeholders in pushing for a conclusion of a Code of Conduct of Parties in the South China Sea to manage the disputes between China and ASEAN claimants as well as maintaining regional maritime security. These are important pillars for Vietnam to navigate the uncertain water amid the evolving geopolitics in the Indo-Pacific region.



Conclusion

Unlike other bilateral relationships, one can hardly understand the dynamics of contemporary Sino-Vietnamese relations without going back to their thousand-year long history of uneasy co-existence. As this chapter has pointed out, understanding Vietnam's China policy requires the appreciation of two things – the Vietnamese dual strategic thinking vis-à-vis China and the accumulation of historical lessons it has learnt in the dealings with China and other powers in the past. Given Vietnam's complex history, its leaders have chosen to pursue an independent and self-reliant foreign policy to avoid being caught between China and other powers once again. If anything, the experience of living next to China for two thousand years has taught Vietnam that nurturing Sinophobia and engaging in military alliances to balance China won't serve its long term interests.

Therefore, while being skeptical of China's escalating assertiveness in the South China Sea disputes for historical reasons, Vietnam has not adopted a hard-line policy, such as entering a military alliance, to counter China's escalating assertiveness. Instead, Hanoi has tried to engage with China and simultaneously employed various internal and external "soft balancing" measures to hedge its bets against China's possible territorial encroachment. Internally, Vietnam has tried to beef up its military to keep a minimum deterrence to China. Externally, it has been cautiously but steadily forging economic and strategic ties with various strategic partners with the hope that they will take actions when their common interests with Vietnam are endangered.

In this light, Vietnam's recent launch of Cam Ranh International Port has significant strategic implications for Vietnam's future development. If exploiting the Port's competitive advantage to the fullest, Vietnam can resolve the curse of the "tyranny of geography" and "power asymmetry" in its relations with China. By turning Cam Ranh into an international maritime interchange, Hanoi does not break its long-standing "three Nos" policy; yet it still can involve external powers in preserving peace and stability in the South China Sea for common interests, thus further "internalizing" the disputes and deterring China from using force. Beijing, in its turn, also acknowledges Vietnam's important role as China's largest ASEAN trading partner and is courting Vietnam with its infrastructure diplomacy.¹⁸⁰



Such a nuanced and balanced strategy has been effective thus far; hence, there are grounds to believe that Vietnam's current China policy will be continued onto the future. Yet Hanoi may find it increasingly difficult to maintain this approach should China continue crossing red lines or should the US-China geopolitics exacerbate. All these things suggest that the improvement of Vietnam-China ties in recent years might be encouraging, but not sustainable and Hanoi needs to handle this fluctuating relationship more carefully.





CHAPTER VII.

Vietnam-China Relations in Xi Jinping's 'New Era'

Vietnam-China Relations in Xi Jinping's 'New Era'

Author: Andrew Chubb

Introduction

On February 8, Chinese Communist Party (CCP) General Secretary Xi Jinping sent a lunar new year's greeting to his Vietnamese counterpart, declaring 2017 to have been 'a year of major significance in the development of China-Vietnam relations'.

The greeting was given an unusual degree of fanfare in the PRC state media: top billing on the CCTV 7pm news broadcast on February 8, as well a front-page slot in the *People's Daily*.¹⁸¹ Going public with this highly positive analysis, attributed to Xi himself, suggests China is more confident in the direction of its relations with Vietnam than it has been for many years. It was no coincidence that Vietnam was the destination for Xi's first overseas state visit in the 'new era' he declared at the CCP's 19th Congress in October — one defined by his own unrivalled political dominance.

This chapter assesses Vietnam's relationship with China in the context of Xi's 'new era' in China, and Donald Trump's Presidency in the United States. The first section offers an overview of the relationship in terms of the peculiar diplomatic rituals between the leaders of the two Communist Parties, their bilateral trading relationship, and their security competition in the South China Sea. The second section examines what the CCP's 19th party congress, held in October 2017, is likely to mean for Vietnam-China ties. The third section turns to the international and domestic risk factors that could affect the recent warming of Vietnam-China ties.

The short- to medium-term prospects for Vietnam-China relations remain positive for two key reasons. One is Xi's personal investment in the Vietnam relationship, which stands as a strong incentive for discipline among sub-state actors that have been an irritant on occasions in the past. The other is the President Trump's 'America First' agenda, and the concomitant collapse of the TPP and diminishment of US diplomatic standing in the region. This helps explain Vietnam's positive response to Xi's overtures. However, a range of future uncertainties — from developments on the Korean peninsula, to a US-China trade war, and domestic politics in either country — might either reinforce or undermine this trend.



Sino-Vietnamese relations: the state of play

The ruling parties of Vietnam and China have inherited a fraught history as neighbouring dynastic states, along with similar revolutionary nationalist heritages, Leninist organizational structures, and post-Cold War paths of economic reform. In the twenty-five years since they established diplomatic relations, they have formed a suite of unique diplomatic practices, developed extensive economic ties, and avoided repeating the clashes of the 1970s and 1980s.

Meetings of the top leaders of the two ruling parties are a core institution of the Vietnam-China relationship, and have been a regular feature at all but the worst of times. A basic idea of the state of relations, and their trajectory, can be gleaned by comparing the wording of the joint statements issued following these meetings (see Table 2).

Table 2: Comparison of joint statements and communiqués from Vietnam-China party leaders' meetings, 2011-2017. Compiled by author from Chinese-language official text.

		"Strengthen friendship"				
		Cooperation in diplomacy, defense, security and law enforcement				
		Coast Guard cooperation				
		Bilateral negotiations over maritime disputes				
		Actively discuss joint development as temporary solution				
Atmosphere						
Oct. 2011	Friendly & candid	✓	✓	✗	✓	✓
June 2013	Friendly & candid	✓	✓	✓	✓	✓
Oct. 2013	Sincere, friendly & understanding	✓	✓	✗	✓	✓
April 2015	Friendly & candid	✓	✓	✗	✓	✓
Nov. 2015	Friendly & candid	✓	✓	✓	✓	✓
Sept 2016	Friendly & candid	✗	✓	✓	✓	✗
Jan. 2017	Close & friendly	✗	✓	✓	✓	✓
May 2017	Friendly & candid	✓	✓	✓	✓	✗
Nov. 2017	-	✓	✓	✓	✓	✗



The most evident trend is that the tempo of the leaders' meetings has increased. Xi Jinping's visit to Hanoi in November 2017 was the sixth bilateral summit since 2015, compared with just three between 2011 and 2014.

The joint statements also indicate a shift in the overall tone of bilateral relations in 2017. Statements have previously described the 'atmosphere' of the leaders' meetings as 'friendly and candid', indicating roughly equal prominence of both agreements and disagreements. But with Vietnamese Communist Party (VCP) Secretary Nguyen Phu Trong's visit to Beijing in January 2017, the official description changed to 'close and friendly', suggesting a predominance of cooperative content. This was the formulation that prevailed in the early-to-mid 2000s, before China has begun pressing its territorial claims in the South China Sea.¹⁸²

Another addition the two parties' vocabulary from January 2017 was the mutual recognition of 'new historical conditions' — an allusion to the rise of populism and economic protectionism in many Western countries. Amidst these 'profound and complex changes in the region and around the world', Vietnam and China explicitly declared that 'maintaining communist party leadership and the socialist road is the correct choice that accords with the fundamental interests of both peoples'.

During Xi's state visit in November, the two sides announced the signing of nineteen cooperative agreements covering defense, economics, cadre training, energy, health, banking information, media and culture.¹⁸³ The Vietnamese government ensured crowds of youth were on hand to greet Xi at each of his many stops. On China's side, positive publicity was lavish: the official 7pm TV news broadcast was extended to pack in more than 30 minutes of reports on the pomp and ceremony — longer than the normal running time of the entire bulletin.¹⁸⁴

Meanwhile, however, other members of Vietnam's top leadership were meeting with China's strategic competitors. The day after Xi's visit, President Tran Dai Quang met with US President Donald Trump and released a joint statement expressing their 'common desire to promote peace, cooperation, prosperity and security in the Indo-Pacific region', and calling for 'free and open access to the South China Sea'.¹⁸⁵ On November 14, Prime Minister Nguyen Xuan Phuc met Indian Prime Minister Narendra Modi in Manila, backing India's 'greater role in the region' and jointly asserting the importance of 'aviation and maritime freedom in the South China Sea'.¹⁸⁶ This deliberately visible form of hedging suggests that Vietnam's basic strategy of simultaneously balancing against yet simultaneously reassuring China remains unchanged.¹⁸⁷



Economic relations

Despite their strategic misgivings, China is easily Vietnam's largest trading partner, with nearly US\$66 billion in two-way trade in 2015. Since 2014, Vietnam has sought to mitigate its vulnerability to Chinese economic sanctions, particularly in areas such as inputs for its textile industry, tourism, and export markets for fruits and other agricultural products.¹⁸⁸ Nonetheless, trade has continued to boom. In his lunar new year greeting to Trong, Xi said two-way trade exceeded US\$100 billion in 2017.

Vietnam's economic vulnerability to China should not be overstated. While foreign direct investment from the China has been increasing, it has so far been relatively minor, totaling only \$11 billion through 2016. This is well behind South Korea (\$50 billion), Japan (\$42 billion), Singapore, Taiwan, Malaysia and even Hong Kong.¹⁸⁹ In addition, the balance of trade is heavily skewed, with China supplying 30% of Vietnam's imports, but only absorbing 10% of its exports.¹⁹⁰ Vietnam may thus be less susceptible to the kind of economic pressure that China has used against other trading partners in recent years, such as South Korea and the Philippines.

China's ability to wield the threat of restrictions on important exports also should not be exaggerated. Reductions in PRC rare earth metal exports to Japan in 2010 amidst tensions over disputed islands triggered a worldwide move to open up alternative supplies, resulting in China's export 'weapon' vanishing almost as soon as it was deployed.¹⁹¹ The deterioration of relations in 2014 led Vietnam to do the same for a range of imported Chinese manufacturing inputs, particularly textile threads.¹⁹² The withdrawal of the US from the Trans-Pacific Partnership was a setback to these efforts, but Vietnam has quickly adjusted, and is now pursuing a bilateral free-trade deal with the US, and the Comprehensive and Progressive TPP (CPTPP) amongst the remaining eleven partners.¹⁹³

Vietnam's confidence in its ability to manage the risk of economic coercion is suggested by its enthusiastic welcoming of the 'Belt and Road' initiative (BRI). Vietnamese planners hope to obtain infrastructure such as a north-south high-speed rail line, and east-west highways connecting its seaports to the Southeast Asian hinterland.¹⁹⁴ The BRI also stands to invigorate the 'Two Corridors and One Circle' initiative launched in 2004, which aims to integrate northern Vietnam — and particularly the port of Haiphong — with China's southern provinces of Yunnan, Guangxi and Hainan.



Territorial and maritime disputes

The South China Sea issue has calmed since the Philippines' abrupt pro-China turn under Rodrigo Duterte from 2016. Many of China's rivals now regard its Spratly Island construction project as a *fait accompli*, and China is keen to avoid a repeat of the July 2016 UNCLOS arbitration ruling. However, bilateral maritime tensions did briefly return to the international media headlines in 2017 when it was reported that China had successfully pressured Vietnam to suspend drilling in a promising gas prospect inside the disputed 'nine-dash line' area.

The first hints of trouble emerged in mid-June 2017, as the Vietnamese-Spanish consortium began its drilling operation in the concession, known as Block 136/03.¹⁹⁵ On June 20, People's Liberation Army (PLA) General Fan Changlong cut short a visit to Vietnam, and cancelled planned friendly exchanges along the two countries' land border.¹⁹⁶ This followed an acrimonious meeting in Hanoi, in which Vietnamese leaders reportedly rebuffed Fan's demand that the project be suspended.¹⁹⁷ Fan had been in Spain immediately prior to this visit, suggesting China may also have made direct representations to Vietnam's foreign partner, Repsol.¹⁹⁸ However, other Vietnamese offshore developments within the 'nine-dash line', notably the multi-billion dollar Blue Whale gas project in partnership with ExxonMobil, have so far proceeded without PRC opposition.¹⁹⁹

On the multilateral cooperative side, China and the ten ASEAN member states announced on August 6 that they had agreed on a 'framework' within which to begin negotiating the long-awaited Code of Conduct (CoC) for the South China Sea.²⁰⁰ This would codify principles and processes to guide states' activities and control incidents in the area. China has made clear that it will not agree to a code that is legally binding, and this in turn will severely limit any strategic reassurance it could provide for Vietnam. However, even a non-binding CoC has the potential to create a useful crisis management protocol, which would help build confidence that incidents and frictions at sea can be controlled.

The official accounts of bilateral party leaders' meetings also contain clear signs of the reduction in tensions over the issue. China appears to have eased or reduced the scope of its demands for joint development of resources on what Vietnam considers to be its continental shelf; while Vietnam has agreed to cooperation and confidence-building measures with the Chinese Coast Guard (Table 2).



And while the joint statements from leaders' visits in 2011 and 2013 included a call for 'calmness and restraint,' this language has been absent from more recent documents. This suggests the two party-states consider the present level of tension in the disputed area to be lower than in the past — and it also implies a mutual recognition of each other's policy status quo. Chinese Vice Foreign Minister Liu Zhenmin even stated that in the May 2017 summit between Xi and Quang, the two sides discussed the issue, but 'neither side raised any criticisms of each other'.²⁰¹

Beijing's decade-long push in the South China Sea have enabled it to temporarily ease the intensity of its advances there.²⁰² The sustained duration of China's assertive policy has also defined a 'new normal', against which its policy since 2016 has appeared moderate by comparison. This is likely to continue in the short-to-medium term as China seeks to consolidate its gains. But unless China clarifies the scope of its sweeping, ambiguous claims, Vietnam will expect its assertive advances to resume in the future.

The CCP 19th Party Congress and foreign affairs

At his party's 19th Congress in October 2017, Xi entered the pantheon of CCP 'great leaders', with his own eponymous 'Thought' enshrined in the party constitution. In this new era of Xi's unparalleled authority, the Sino-Vietnamese relationship is assuming an additional importance, due to being tied to the authority of paramount leader himself.

In his work report to the Congress, Xi proclaimed that China had entered a 'new era', in which the country had progressed from 'standing up' and 'growing rich', to now 'becoming powerful'.²⁰³ The three-and-a-half-hour report was unclear on when exactly the new era had begun, but the meeting was unambiguous in elevating and formalizing the authority of Xi Jinping himself.

The CCP charter was revised to enshrine 'Xi Jinping Thought on Socialism with Chinese Characteristics in the New Era' as part of the party's 'guide to action'. Official party media have subsequently referred to Xi as the 'great leader' (领袖), an honorific title that has only previously been used for Mao Zedong and Deng Xiaoping. In short, the meeting confirmed Xi's status as the most powerful PRC leader this century.

Xi's first overseas trip after assuming this unparalleled authority was his heavily publicized November visit to Vietnam. In light of this conspicuous personal investment in warmer ties, Xi's elevated status bodes well for the



bilateral relationship, at least in the short-to-medium term. First, it should help Vietnam pinpoint the causes and motives for future confrontational actions by its northern neighbour. Second, if sub-state actors have contributed to past deteriorations in bilateral relations, the clear top-down intent to improve ties from the paramount leader himself will stand as a strong incentive for discipline. Third, Xi's domestic political authority could make possible international concessions that a weaker leader could not afford to offer.

Although Xi's report to the CCP Congress presented China's entry into the new era as primarily a result of the Party's achievements under his own leadership, he did not claim the credit entirely. The report also links the epochal shift to the 'profound and complex changes' in the international situation particularly the populist turns in major Western capitalist economies. Xi's work report was also careful to lay out the aspects of the international situation that he assessed to have *not* changed. This included (1) that China remains in a 'period of strategic opportunity' (战略机遇期) in which the risk of military conflict is relatively low, allowing it to focus on economic development; (2) that China is still a developing country; and (3) that peace and development continue to be the 'key themes' of the era.²⁰⁴

In its assessment of what had changed, Xi's report exuded a new confidence. Ambitious foreign policy strategies such as the Belt and Road Initiative (BRI) and Asian Infrastructure Investment Bank (AIIB), and concepts such as the 'Community of Common Destiny' and the 'Asian Security Concept' are now a prominent feature. These have overturned Deng Xiaoping's oft-quoted maxim that China should 'hide its brightness and bide its time'.²⁰⁵ Xi was now declaring that in *his* new era, China:

'[P]rovides an entirely new choice to those of the world's countries and nations that hope to both accelerate development and maintain their own independence, contributing Chinese wisdom and Chinese plans towards the resolution of humankind's problems.'²⁰⁶

This burgeoning confidence could cut either way in its effect on the Vietnam-China relationship. On one hand it could presage further Chinese advances in the South China Sea, or a greater willingness to confront the US, which is widely viewed in Beijing as a fading regional hegemon. Either of these developments could poison the relationship, force Vietnam to pick one side in a great power conflict, or even plunge the region into war and chaos.



On the other hand, the PRC has already been pursuing an assertive policy in the South China Sea - to Vietnam's evident anger - for more than a decade. Moreover, this policy began in 2007 after a rapid worsening in China's energy insecurity, and a weakening of the PRC's local position in the South China Sea.²⁰⁷ Increased Chinese confidence, therefore, does not necessarily mean increased confrontation.

Two factors explain Vietnam's current expectation that Xi genuinely aspires to improving relations. One is the 'pull' factor mentioned above: China's maritime assertiveness has receded somewhat. Having watched the China entrench itself on massive artificial islands in the Spratlys, while suffering an international public relations disaster in The Hague over its maritime conduct, Vietnam probably expects consolidation rather than expansion in the short to medium term. The other is a series of 'push' factors — among them diminished credibility of the United States under Donald Trump, and the possibility of conflict in Korea.

Trump in the Indo-Pacific

Donald Trump's White House has joined numerous Asian countries, including Vietnam, in embracing the concept of the 'Indo-Pacific'. At present, however, it appears ill-prepared to contribute to the intensified diplomatic, strategic and economic engagement that will be necessary to make the rhetoric match reality. Indeed, Trump's 'America First' agenda appears incompatible with its declarative aim of ensuring a 'free and open Indo-Pacific'.

Nor, on current evidence, is the Trump administration sensitive to the basic strategic goals of states like Vietnam, who wish to benefit from economic ties with China while seeking to ensure it does not dominate the region. Not even the China's fiercest regional rivals, Japan and India, wish for a new Cold War. Yet the Trump administration's *National Security Strategy* and *National Defense Strategy* — which name China as a 'revisionist power' seeking to 'shape a world antithetical to US values and interests' — signal that the US is no longer interested in working towards this fundamental goal of its regional partners.²⁰⁸

Since Trump's election, a plethora of key diplomatic posts in the State Department both in Washington and around Asia have been left unfilled, and the Department's budget has been drastically cut. This, in turn, enhances Beijing's ability to set the agenda in regional multilateral fora, discouraging states such as Vietnam from speaking out against what they perceive as problematic Chinese conduct. China, in turn, is only too happy to reward such reticence with economic largesse, as its



recent engagement with the Philippines and Cambodia reveals. The end result may be warmer bilateral relations between Indo-Pacific countries and China.

Trump's approach to its Indo-Pacific partners has also frustrated Vietnam's attempts to diversify its trade profile away from China. While eleven nations continue to advance the replacement CPTPP, the US's withdrawal reduces the share of world GDP covered by the would-be free-trade zone from 40 percent to 15 percent.²⁰⁹ As a result, Vietnam will need to move economically closer to China than it would have had the TPP taken force.

A serious deterioration in US-China relations would also pose a risk to Vietnam-China relations. The US's blocking of several attempted Chinese investments on national security grounds, and new punitive tariffs on Chinese-made solar panels may become the first shots in an escalating trade war. Combined with the increasing ideological hostility apparent in the now-mutual accusations of 'political infiltration' — which both the US and China regard the other as having initiated — a new US 'containment policy' could be taking shape.

No side would be likely to benefit in absolute terms from a new Cold War, but such an eventuality could either stabilize or destabilize Vietnam's relations with China. On one hand, it may be forced to align its economic and security interests with one side: depriving it of the ability to play both sides; but also perhaps stabilizing (or terminally-compromising) bilateral relations with China. On the other hand, a US-China trade war could potentially open up opportunities for Vietnam to increase its own trade with both, if it could find a way to stay on the sidelines.



Security tipping points

The state of Vietnam-China relations depends significantly on China's behaviour in the South China Sea. The comparative moderation of China's policy there since 2016 has been a key factor enabling the warming trend observed since that time. Of particular importance is the issue of oil and gas resources that Vietnam considers to be located on its continental shelf — a belief reinforced when the UNCLOS arbitration of July 2016 designated the Spratly Islands to be incapable of generating resource claims.

The events of 2017, in which Vietnam pressed ahead with its Blue Whale gas project off its central coast but acquiesced to China's demand that it halt drilling in Block 136/03 to the south, might reflect an uneasy quid pro quo.²¹⁰ If China was to re-launch its campaign of coercion in the area of the Blue Whale project, as seen in 2011 and 2012, the 'atmosphere' of the relationship would be sure to worsen rapidly.

North Korea poses another risk. Besides the colourful rhetoric of the US President, senior members of Trump's administration have touted the possibility of pre-emptive strikes against DPRK nuclear facilities.²¹¹ If such a gamble triggered a major war on the Korean peninsula, the US's reputation as an ally and partner could suffer significant damage. This would create major strategic uncertainty, forcing Vietnam's leaders to seriously rethink their own relationship with China.

As for the direct effects of such a conflict itself, this would pose economic risks for Vietnam. South Korea, the country most likely to be severely affected by any military contingency there, also happens to be Vietnam's second-largest trading partner behind China. Thus, a US-DPRK conflict would likely exacerbate Vietnam's dependence on its northern neighbour.²¹² At the same time, it is also possible that the PRC could itself be dragged into a Korean conflict, leaving Vietnam's top three trading partners at war.

A final key risk factor is domestic politics. Vietnamese national narratives emphasize a history of resistance to Chinese domination and encroachment, which sustains strong latent anti-Chinese public sentiments. Chinese public opinion, too, has hardened in recent years over the issue of the South China Sea.²¹³ Both sides face the temptation of drawing on nationalistic sentiments to gain diplomatic leverage, amplify strategic messages, or appeal for international support. This requires a careful balancing act between release and diversion of public sentiments, which, if not managed in a coordinated manner, may produce mobilizations that could threaten party rule in either country.²¹⁴



In their 2011 communiqué, the two sides pledged cooperation on ‘strengthening public opinion guidance and management’. In the context of several weeks of anti-China protests through the middle of that year, this was effectively a Vietnamese undertaking to dampen anti-China sentiments. Yet this language has been absent from the many statements since, including after another even more intense wave of anti-China sentiments in 2014 during the HD981/HYSY-981 oil rig standoff. This might indicate an acceptance on China’s behalf of the strength of Vietnamese nationalist sentiments at times of heightened tensions.

Conclusion

The medium-term prospects for Vietnam-China relations are generally positive, for two key reasons. One is Xi’s personal investment in the relationship, which should simplify attribution of policy moves, and stand as a strong incentive for discipline among sub-state actors. It may also create leeway for concessions, should Xi see reason to offer them. The second is the US’s current ‘America First’ agenda under President Trump, and the associated diminution of US diplomatic capabilities and credibility in the Indo-Pacific.

The era of Xi and Trump helps explain Vietnam’s responsiveness to its northern neighbour’s overtures. But it would be a mistake to interpret the current trajectory of Vietnam-China relations as a story of Southeast Asian acquiescence to Chinese hegemony.²¹⁵ Rather than a long-term Vietnamese strategic tilt towards China, the improving ties have been contingent on an easing of China’s assertive behaviour in the region, along with the as-yet unrealized promise of sustained economic windfalls from initiatives such as the BRI. These and a range of other international and domestic risks factors and uncertainties could abruptly chill the bilateral atmosphere once again.



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