China and Vietnam: Managing an Asymmetric Relationship in an Era of Economic Uncertainty

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The financial crisis of 2008 has ushered in an era of uncertainty that is redefining the post–Cold War world. While the United States, as a global actor, focuses on systemic effects, every international relationship is affected by the need for caution and by changes in relative position. China and Vietnam have always had an asymmetric relationship, but the gap has grown with China’s strong recovery and increased regional and global presence. Both countries are interested in improving cooperation, but for Vietnam the risks as well as the opportunities are more immediate. New strength in regional cooperation as well as the continued global presence of the United States provides important contexts of reassurance to bilateral normalcy.

Key words: ASEAN, asymmetry, China, global financial crisis, Vietnam

The global financial crisis that crested in the second half of 2008 brought to world politics a new era of economic uncertainty. Although the initial panic was quieted by determined efforts to stimulate economic growth, major concerns persist regarding financial stability and changes in the structure of the international political economy. Globalization has exposed every country to the uncertainties of the new era, but each reacts in its own way. The relationship between China and Vietnam merits careful study because it is one of the most sensitive in Asia.

China and Vietnam have much in common. There is no country more similar to China than Vietnam, and there is no country more similar to Vietnam than China. They share a Sinitic cultural background. They are led by communist parties that came to power by means of rural revolutions. Perhaps most importantly, they are now committed (China since 1978, Vietnam since 1986) to market-based economic reforms, and their economic reorientations have been remarkably successful. However, both have leaned heavily on the global economic order centered on the United States and were caught off balance by the financial crisis.
The relationship between China and Vietnam is normal but not friendly. The most recent war of both states was with one another, but hostility ended in 1991 and interaction has flourished since 1999. At present, together with the rest of the world, they both face a sharp increase in global economic uncertainty, though the effect on Vietnam is considerably greater than on China. Both China and Vietnam will have to adjust their development strategies. Part of the adjustment is likely to include rethinking regional institutions as well as bilateral relationships. What effects will global uncertainty have on the prospects of each country and on their relationship?

China and Vietnam
The relationship between China and Vietnam has been normal for a decade and is likely to remain so. However, it is also an asymmetric relationship (Womack, 2006). Each side has a different exposure to the relationship, and a global event such as the current crisis affects each differently. Vietnam’s economic situation is considerably less stable than China’s. The opportunities presented by China’s continued development are attractive to Vietnam, but at the same time both the government and the population of Vietnam are concerned about increasing dependence on China.

This article will first discuss the precrisis situation of the Sino-Vietnamese relationship and then the likely scope of the current global economic crisis. The second major part of the article will discuss the challenges posed individually to Vietnam and to China by the new era. Some challenges are similar, such as the development of domestic markets and the reorientation of foreign trade. However, they will also face challenges specific to their individual situations. For Vietnam the problem of economic adjustment is more urgent, whereas for China the problem of sustainable development is more urgent.

The final part concerns the Vietnam-China relationship in the new era. The existing principles and institutions of the relationship provide a strong foundation for continued cooperation. However, global turbulence provides a new and uncertain context for the relationship, and because of Vietnam’s greater exposure to China, its anxieties about dependence on China are heightened. Given the asymmetry of the relationship, it is important that it is buffered by other relationships as well as regional and global organizations.

The Global Economic Crisis

The Precrisis Situation
China and Vietnam formally normalized their relationship in late 1991, after the resolution in principle of the Cambodian dispute and the return of Prince Sihanouk to Phnom Penh. Building momentum and overcoming suspicions took time, but by 1999 both governments committed themselves to “long-term, stable, future-oriented, good neighborly, and all-round cooperative relations” [Changqiwending, mianxiang weilai, mulin youhao, quanmian hezuo]. This “16 Word Guideline” became the mantra to be repeated at every official meeting, but it was
not empty talk. It was assumed that the relationship would be one of increasing mutual benefit, and that problems and differences could be managed in that context (Do, 2006).

The first major milestones of normalcy were agreements on demarcating the land border and a series of discussions on utilization of the Gulf of Tongking. No progress was made on resolving conflicting claims to the Paracel and Spratly island groups, but the 2002 agreement between China and ASEAN concerning peaceful conduct in the South China Sea helped to limit the conflict potential of this arena. Meanwhile, diplomatic and economic contact increased enormously.

As Figure 1 illustrates, trade with China has outpaced the generally rapid growth of Vietnam’s total trade, increasing its share from 6.1% in 1999 to 14.3% in 2007, and from one-fourth of Vietnam’s trade with the rest of ASEAN to two-thirds. Keeping pace with thickening economic relations, exchanges of official visits at all levels, educational exchanges, and tourism have also grown rapidly.

However, the relationship between China and Vietnam is asymmetric in every respect, and asymmetry creates fundamentally different perspectives on the relationship. Vietnam’s GDP in 2007 was 3% of China’s.\(^\text{1}\) China is the world’s second largest merchandise exporter and third largest importer; Vietnam ranks 50th and 41st, respectively. China and Vietnam have comparable levels of trade per capita, but for Vietnam trade is proportionately twice as important. Vietnam’s trade-to-GDP ratio is 156, while China’s is 71.3. Trade structure is quite different. For Vietnam, agricultural, fuel, and mining products are 46.3% of total exports; for

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China they constitute only 6.7%.

Vietnam is a net exporter of oil and coal; China is also a net exporter of coal. Chinese goods fill Vietnamese markets. China is the chief source of Vietnam’s machinery, computers, chemicals, and textiles. More surprisingly, China sells three times more fruit and vegetables to Vietnam than it buys. These differences in economic capacity and structure, as well as in global weight, create a general asymmetric framework for the economic relationship.

As Figure 2 illustrates, the disparity between the economies of China and Vietnam is accentuated by an imbalance between imports and exports. China is easily Vietnam’s number one source of imports, equal to 79% of imports from all of ASEAN, and the latter includes a large amount of refined oil products from Singapore. While Vietnam exports textiles as well as commodities such as gems and coffee to developed countries, most of China’s purchases are raw materials. For example, Vietnam exports 70% of its rubber to China, but it buys two-thirds more rubber products from China than it sells. Generally speaking, Vietnam relies on China for a very broad range of its imports, 20% of its total imports, and sells coal, oil, and food products to China.

Vietnam is a perfect external market for Chinese goods because of similar economic conditions and consumer cultures and low transportation costs. While Vietnam cannot find a comparably priced source for much of what it buys from China, China can get its fuel and tropical products elsewhere. Moreover, Vietnam’s coal reserves are dwindling relative to demand, and more investment would be necessary to increase supply. In 2010 domestic demand for coal will approximate total production, and by 2015 Vietnam expects to import 25 million tons, more than half the amount of current domestic production. But already in
the first six months of 2009 more than half of production was exported—two-thirds of the total to China—and it will be difficult to replace coal’s foreign exchange earnings (Vietnam News Agency, 2009). Meanwhile, oil output has declined since 2005. Oil exports in 2007 were lower than they had been in 2000, though earnings were greater due to price hikes. Thus the trends in bilateral China trade are against Vietnam. It imports ever more, and in the absence of a significant change in the composition of its exports, it will have less to sell.

For China, trade with Vietnam is much less important than it is for Vietnam. In 2007, Vietnam ranked 22nd in China’s exports, between Thailand and Mexico, and 38th in imports, between Mexico and Venezuela. Among Asian partners, Vietnam ranked 16th in exports, behind all of the “big five” ASEAN states, and 11th in imports, behind Singapore, Malaysia, Indonesia, and Thailand.

While Vietnam’s trade deficit with China has been large and growing, Figure 3 shows that it has been balanced by its trade surplus with the United States. However, the sharp rise in the China imbalance overtook the American surplus in 2005. Vietnam also runs a large surplus with the European Union (EU), but as a result of the current financial crisis, the developed country consumer market is down, while Vietnam’s demand for Chinese goods continues to grow. In 2007, the U.S. surplus covered 92% of the China deficit. In the first half of 2009, it covered 81%. Meanwhile, although the Vietnamese economy is growing, in August 2009 its imports were down 28%, its exports were down 14%, and tourism was down 18% over the previous year. The current crisis is thus not only a domestic problem for Vietnam, but it also directly affects economic and trade dimensions of its relationship with China. As we shall see, it affects the political relationship as well.

Figure 3. Vietnam’s U.S. surplus, China deficit (million U.S.$)

Source: GSOV (2009).
Global Uncertainty

The global economic crisis that has riveted world attention since mid-2008 is the most serious systemic economic crisis since the Great Depression. As a systemic crisis, its chief existential effect is a vast increase in uncertainty. The two major crises of the post-Cold War era—the collapse of the Russian economy in the 1990s and the Asian financial crisis of 1997—occurred within a global system that was widely presumed to be stable and that indeed absorbed the shock. The effects of the 2008 crisis touched off by the United States rocked the world economy, and its effects continue to reverberate.

Consider fluctuations in the price of oil. In December 2003, it was US$30 per barrel. In July 2008, it reached US$145 per barrel before plummeting by December 2008 to less than US$40. In the 12 months from April 2009 to April 2010, the price varied by almost 100% (U.S. Energy Information Administration, 2010). And oil is only one indicator of the current fluctuation of asset values.

By early 2010 the global economy showed signs of stabilization, but earlier structural problems remain and in many countries they may be exacerbated by the increased debt burden associated with stimulus packages. The global economy shrank by 2.2% in 2009, but the impact was uneven. High-income countries lost 3.3%, whereas developing countries gained 1.2%. The World Bank predicts for 2010 a high-income growth of 1.8% and developing country growth of 5.2%, for a total of 2.7% (World Bank, 2010, p. 8). However, as of early 2010 it is difficult to exclude the possibility that the problems of the Greek economy presage a new type of global fiscal crisis caused by unsupportable debt.

Prediction becomes virtually impossible in a systemic crisis. Even a correct structural analysis cannot specify when a predicted event will occur. It is possible to judge a bridge unsound but impossible to know exactly when it will collapse. Moreover, structural change is rarely driven by a single structural element, but rather by the interaction of various factors.

The previous global systemic crisis, the Great Depression of the 1930s, is a poor model for prediction. There were far fewer sovereign actors in the colonial era. Vietnam was hurt more than France because France subordinated Vietnamese interests to its own (Ngo, 1991; Wolf, 1973). Now the 192 members of the United Nations will be making their own decisions. It is still the case that not all states are equal, but the clout of state actors has become more complex as well. A debtor United States must work with a creditor China. There were also no functioning regional or global economic organizations in the 1930s. Now there are both regional and global venues for cooperation on common policies. A more mixed blessing of the present era is the role of the dollar as the global currency. On the one hand, it provides an international standard of exchange. On the other hand, it might prove an unreliable standard, and it is notable that the United States was the source of the current crisis. Lastly, the transportation and communications revolutions have created a near-instantaneous capacity for international interaction. The problems, processes, and solutions of the present crisis will necessarily be novel.

Thus, the key characteristic of the current crisis is not that all suffer (though they do—even the least affected are not “winners”), but that all are uncertain about when and how the suffering will end. The dimensions of the current uncertainty will exert a profound effect on the planning and priorities of indi-
viduals and nations. In relatively stable times, it is rational to act according to one’s marginal advantage, to choose the better instead of the merely good. In times of uncertainty, it is rational to be cautious. If future prospects are uncertain, it becomes more important to secure a solid benefit than to take a better but more risky option. In general, the developed world has been relatively stable and prosperous during the post–Cold War era, and it has become habituated to acting according to marginal advantage. The stability and progress of the developed world has also had a broader stabilizing effect on the global economy. Currently that situation and its logic are in a period of traumatic transition. We are now in a new era, one of uncertainty.

Uncertainty is not new to Asia. The Asian financial crisis of 1997 was a profound experience of regional economic uncertainty. Although China and Vietnam were not the hardest hit, growth slowed. The Asian financial crisis led to greater determination on the part of ASEAN to coordinate economic policies, and eventually to greater ASEAN-China and ASEAN+3 cooperation (Ba, 2009).

However, the Asian financial crisis was different in three major ways from the current crisis. First, the Asian financial crisis took place within a relatively stable global environment. Uncertainty was limited to the region, and it was limited to finance and its budgetary consequences. Second, recovery plans could be based on familiar patterns of increasing production and selling to markets in the United States and Europe. Now these markets are undercut by more cautious consumption, and the danger of tariff wars among nations is high. For both China and Vietnam, membership in the WTO played an important role in encouraging trade and investment while limiting their tariff and trade options in responding to the crisis. Third, the developed countries, especially the United States, were rather indifferent to the difficulties of Asian governments. It is unclear whether countries will help each other in the current crisis, but globally they are all in the same stormy waters, though in different boats.

**Global Certainties**

The largest nodes in the multinodal international economy are the United States and Europe, and, as Giovanni Arrighi argues, they are likely to remain the largest nodes even in an era of uncertainty. Their share of the world market and of investment will decline, but they are large and wealthy economies, with tremendous advantages in capital and technology. Even as they try to protect their domestic producers, they will find that they have become dependent on imports that cannot be sourced internally. To be sure, lower consumer demand, higher transportation costs, and pressures to create jobs at home will reduce the current prominence in the world economy of the United States and Europe, but other than the upper-income segments of the world’s largest cities there are no markets like them, and no comparable concentrations of financial services. The United States has 22.5% of the world’s GDP, and the five largest states of Europe together have 16.7% (International Comparison Program, 2005, 2008, pp. 9–12).

That said, another major trend in the world economy that is likely to continue and even strengthen is the growth of middle-income countries and the emergence of some low-income countries from destitution. In 2005, middle-income countries accounted for 32% of world GDP, and lower-income countries another
7%—together the same as the United States and the top five European economies combined. China (9.7%) and India (4.3%) are, of course, important individual components, but together they are less than half of the middle-income share (International Comparison Program, 2005, 2008, p. 11). To the extent that middle-income GDP is dependent on producing for high-income markets it is influenced by world crisis, but to the extent that it produces for itself it should be relatively better off. Assuming that there is more room for growth in middle-income consumer markets, they are likely to become relatively stronger over the next 5 years.

Another global trend that will help some countries and slow others is growing pressures on world resources, including energy, materials, and food. These pressures will be offset somewhat by decreased demand from developed countries and in the case of oil by alternative energy sources, but the limitations of sources and increasing costs of inputs (labor and technology) will cause prices to rise. Since the export volume of many of these products is generated by middle-income countries, this trend should encourage the increase in middle-income share in both absolute and relative terms. However, the specific impact of higher resource prices will be different in each country. The effects are complicated for China and Vietnam. Vietnam is a resource exporter, but with limited production and reserves and an urgent need to pay for imports. China is a resource importer, but with dollars to pay for them.

Related to the increasing price of resources will be increasing problems of sustainable development. Sustainable development is broader than the availability of resources, since it also includes the by-products of production: pollution, water shortage, and social disruption. Population density is as important as level of development in determining the urgency of sustainable development issues, since the population immediately surrounding a production site is most exposed to its environmental effects. Beyond the immediate by-products of production, rapid development can exacerbate economic inequalities and insecurity, and can lead to social disruption. China’s concentration on maximum growth during the reform era has made it vulnerable to a broad range of sustainability crises, from food and water shortages to social unrest. Vietnam has also pursued maximum growth, but ironically its later start and more modest achievements have not sharpened the contradictions of sustainability to the same degree.

Finally, the number and seriousness of truly transnational and global issues, such as pandemic disease, terrorism, and so forth, are likely to increase. These issues can only be effectively addressed through international cooperation. The region’s experience with SARS in 2004 was a sobering lesson, and the flickering cases of avian flu are a reminder that worse can happen.

**Challenges for China and Vietnam in the New Era**

**Similarities**

Both China and Vietnam have set a high priority on maximizing economic growth, and a major component of this strategy has been the encouragement of production for developed country markets. As Table 1 shows, both rely on markets in the United States and Europe for roughly one-third of their exports,
and trade to these markets has more than kept pace with their general increase in trade. Moreover, both China and Vietnam rely on heavily favorable balances in their developed country trade to counter deficits in other areas. Considering that the United States and the five largest European economies together are 39% of the world’s economy, it is understandable that they would be major parts of the export strategies of other countries. Nevertheless, it amounts to a large exposure to the epicenter of the current global uncertainties.

The precrisis trade pattern therefore accentuates the effects of global economic crisis for both China and Vietnam, and will require readjustment of priorities. Although the United States and Europe will remain major markets, they will certainly contract. Losses are unavoidable in sectors of the economy that have been created specially to serve these markets. The capital losses are felt primarily by foreign investors—foreign-invested enterprises accounted for 63% of China’s total exports in 2005 (Naughton, 2007, pp. 387–388), but the job losses are a domestic problem. Moreover, these problems are concentrated in export-oriented localities that have hitherto been leaders in economic development. The most immediate challenge, therefore, for both China and Vietnam will be to soften the losses for those most affected by the crisis.

The deeper and more important challenge is to shift external development strategy away from producing goods for existing markets toward developing new markets. It is important to maintain share in shrinking markets, but it is more important to establish share in growing markets. The fastest-growing markets in the new era of uncertainty are likely to be in the middle-income countries, including China itself, and the greatest long-term opportunities will be in the poorest countries. Both China and Vietnam have special advantages in these markets because they are themselves developing countries and therefore

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**Note:** Calculated from respective official data.
*Eu5 are Germany, United Kingdom, France, Italy, and Spain.
are acquainted with the needs of such economies. However, foreign direct investment is not likely to play a leading role in production for developing country markets, so governments will have to be active in encouraging local entrepreneurship and development.

The most important challenge of market development will be within the domestic economies of China and Vietnam. One’s own market is the most reliable one in a time of global uncertainty. Spreading the national economic infrastructure and developing domestic consumption are always major priorities, but they take on new importance in uncertain times. Moreover, for both China and Vietnam, the Chinese domestic market is the major opportunity in Asia.

Global uncertainty has lowered rates of GDP growth in China and Vietnam, and this creates the temptation to try to maintain the current growth rates at all costs. Both China and Vietnam have adopted major stimulus packages—15% and 6.8% of their respective GDPs—in order to counter the initial effects of the slowdown (Le, 2009, p. 71). However, the concentration on maximum economic growth is a problematic strategy in good economic times, and it is more questionable in bad times. Sustainable development should be even more important in an era of global uncertainty. Unsustainable development creates crises in the present and future. A slower but more solid pattern of development prevents the magnification of uncertainties. As Premier Wen Jiabao has argued, scientific development must address the problems of social inequalities and promote social harmony as well as coping with obvious industrial problems such as pollution.

A final common challenge for Vietnam, China, and their neighbors is to develop and strengthen regional institutions, especially in areas of development, trade, and finance. The weakness and variability of the U.S. dollar underlines the importance of East Asia’s providing its own international financial stability, and the problems of big international service providers such as AIG and the now-defunct Lehman Brothers show the advisability of locally and regionally based institutions. However, the strength of ASEAN, the most successful regional institution in East Asia, has been based on openness to the rest of the world rather than the formation of a closed system, and this should remain a principle of future institutional development.

Differences

Despite the basic similarities of the situations of China and Vietnam in facing global economic uncertainty, the challenges they face are different in some important respects.

Vietnam is a smaller economy, and it is less wealthy than China. China has had the advantage of seven additional years of reform and openness, and it did not have the disadvantages of war and of lingering international hostility. The United States normalized relations with China in 1979, but with Vietnam only in 1995. Moreover, Vietnam entered the WTO in 2007, while China entered in 2001.

Since Vietnam is a smaller boat riding lower in the water, it has more urgent difficulties in adjusting to the current crisis. Before the crisis began, inflation was a problem, peaking at 28% in August 2008. Deflationary measures adopted in April 2008 eventually brought inflation under control, but the collapse of devel-
oped country exports (total exports down 24% year-on-year in January 2009) led
to opposite policies of fiscal stimulus and damage control. China went through a
similar cycle of inflationary pressures, deflationary policies, and stimulus, but
inflation was much milder (5%) and it had a huge trade surplus. Since 2003
Vietnam has run trade deficits with all ASEAN countries except Cambodia and
the Philippines, and except for those two and South Africa, the rest of its sur-
pluses have been with developed countries. In June 2009 the International Mon-
eyary Fund (IMF) estimated Vietnam 2009 GDP growth at 3.5% and judged it to
be “weathering the crisis relatively well” (IMF, 2009). Actual growth for 2009 was
5.3%, with a relatively low inflation rate of 6.9%. However, the IMF was con-
cerned about the possible fiscally destabilizing effects of the stimulus package.
Clearly Vietnam’s most urgent problem is managing as best it can the problems
caused by the current crisis.

As to market reorientation, Vietnam’s greatest single opportunity is China. Its
borders with Guangxi and Yunnan provinces give special access to southwest
China, and it has good maritime access to Guangdong and Hainan. But besides
these neighboring areas, the vast improvements in China’s rail and road trans-
portation in the south greatly facilitate Vietnam’s access. Joint development
projects at the major gateways of Lang Son/Pingxiang and Mong Cai/Dongxing
offer unique advantages, as do larger projects such as plans to develop the Gulf
of Tonkin region.

Exports to China have increased. Trade grew by 11 times from 1999 to 2007, but
the export of petroleum, coal, and other resources is a significant part of the
increase. In the first half of 2009, total trade with China was 16%, almost at the
level of ASEAN trade (18.4%). Exports to China were 7.5% of total exports, about
half of exports to the United States (19.5%), while China was the source of 23% of
Vietnam’s imports, almost three times the imports from the EU and a billion
dollars more than from ASEAN (GSOV, 2009).

Vietnam’s challenge in diversifying exports to China is that it is difficult to find
products and areas of consumption in which it can compete successfully with
domestic Chinese producers. However, a more sophisticated and sensitive mar-
keting effort of manufactured products to China should yield results. Many
developed countries trade commodities with one another in categories where
neither has a clear competitive advantage. Vietnamese manufacturers could
establish brand names and reputations in Chinese markets and search for market
niches where their products would be better than locally available ones.

Besides trade with China, Vietnam’s markets in ASEAN and East Asia have
room for expansion. Its export increases in 1995–2005 with Singapore, Taiwan,
South Korea, Hong Kong, and Japan were below the average export growth of
595%. While these markets are hit hard by the current crisis, there may be areas
for improvement. Beyond Asia, China’s successes in Latin America, the Middle
East, and Africa suggest opportunities since Vietnam has similar factor advan-
tages in production, if not in scale and capital. The increases in Vietnam’s trade
with South Africa, Australia, and New Zealand are heartening.

Vietnam does not have enough capital for a general program of long-term
investments in poorer countries, but its close relations with Cambodia and Laos
could be developed further. As China builds longitudinal links to mainland
Southeast Asia, Vietnam can continue to cooperate with neighbors to strengthen
latitudinal links. These projects are not in conflict and should enhance the benefits of each.

In contrast to Vietnam, China’s currency problems are ones that most other countries would envy—to too many dollars and an undervalued currency. While these also pose sharp and unusual problems for China’s leadership, these problems are not comparable to Vietnam’s in scale and urgency. Moreover, while its export industries aimed at developed markets will suffer, the rest of the economy will be more able than Vietnam’s to pick up the slack. China’s major strategic challenge will be rethinking its commitment to maximum economic growth and decisively shifting its priorities to sustainable development. If China does not cope successfully with the challenges of controlling the environmental and social effects of maximum growth, then it will face a future crisis more serious for itself than the current global one.

In the current crisis, China has been the least negatively affected of the major world economies, and since it already has the highest growth rate, its share of the world economy is likely to rise in absolute terms and still more rapidly in relative terms. More important than China’s fiscal advantage are its large and dynamic domestic market and its forward-looking investments in transportation and communication infrastructure (Selden, 2009). Moreover, China’s investment in higher education and research has prepared it to move to the front lines of technological innovation. In general, Asia’s share in the world economy can be expected to rise, and China’s centrality to Asia will increase. However, if China does not address the problems of sustainable development in a timely fashion, it will find itself increasingly distracted by environmental and societal crises.

Sustainability confronts China with complex economic and political challenges (Womack, 2010). It made sense for China to stress maximum growth and political stability while it was climbing to middle-income status. However, continued growth and avoidance of internal crises increasingly require more attention to public goods and to the rule of law. China’s task is to find a middle way between uncontrolled market forces and the temptation to slip back into a neo-commandist political economy.

Before the crisis, China was already very well positioned in the global economy. It lists approximately 250 trading partners. Its investments in Latin America and Africa have created new markets and new sources for raw materials. From 1997 to 2006 its trade with Latin America and Africa grew 978% and 838%, respectively, far outpacing its general trade growth. Trade growth with other regions was also impressive, however, ranging from 500% to 600%, with the weakest region being Asia. Of course, trade with Asia was increasing from a higher base. By moving beyond its immediate neighborhoods and developing markets and sources throughout the world, China has reduced its exposure to particular economic fluctuations and has increased its opportunities.

Both China and Vietnam face the challenges of regional reorganization, but from different vantage points. For China, the problem is a multiregional one (Womack, 2009a). It must simultaneously manage its relationships with Northeast Asia, Southeast Asia, and Central Asia. Its position as the new center of the general Asian economy and as its most promising market puts it in the macroregional leadership position, capable of voicing important concerns and ideas regarding global structures. Japan’s recent election puts it in a better position to
cooperate with China in regional initiatives. For Vietnam, the most important regional task is to strengthen ASEAN, both internally and in ASEAN’s collective relationships with China and India.

The Vietnam-China Relationship in the New Era

It is the good fortune of China and Vietnam that before the current era of global uncertainty, they normalized their relationship using principles and practices that are quite compatible with the requirements of the new era. The “16 Word Guideline” enunciated in February 1999 is still applicable. More generally, the mutual commitment to the Five Principles of Peaceful Coexistence formulated in 1954—multipolarity, openness, autonomy, and the peaceful settlement of differences—remain a vital framework for the relationship. More specifically, the settlement of the land border, the management of Gulf of Tonkin differences, and the decision in principle to cooperate in developing the Spratly Islands are important not only because they reduce points of conflict, but also because the successful negotiation of these sensitive issues provides a pattern for the future.

Nevertheless, managing an asymmetric relationship poses special challenges for each side (Womack, 2009b). For the larger side, the challenge is to reassure the smaller side that it respects its identity and autonomy. Because the larger side is capable of infringing on the interests of the smaller side, it must demonstrate that it respects the smaller side’s autonomy and is willing to negotiate rather than bully. For its part, the smaller side must convince the larger that it respects the differences in capacities and does not intend to challenge the larger. In a word, the smaller side must be deferential. But deference does not mean that the larger side controls the smaller and can dominate the relationship. Quite the opposite. The smaller side can be deferential only if the larger respects its interests and autonomy. The exchange of deference by the smaller side and recognition of autonomy by the larger side makes possible normal asymmetric negotiation. A normal bilateral relationship is beneficial to China as well as to Vietnam. While it might seem that the larger side could get more from the relationship by simply bullying the smaller side rather than compromising, in fact the smaller side is quite capable of resisting the larger. No country has a longer history of patriotic resistance than Vietnam. If a hostile stalemate develops between the two, then both sides lose the opportunities of mutually beneficial relations.

Despite the general commitment to normalcy, there have been tensions between China’s tendency toward complacent self-assertion and Vietnam’s anxieties concerning its vulnerability to China. Despite the official settlement of the land border by a 50-50 assignment of disputed territory, there has been an undercurrent of patriotic disapproval in Vietnam of yielding any Vietnamese land to China. Incidents in the Gulf of Tonkin and South China Sea do not now lead to the official confrontations that occurred even in the 1990s, but they are watched closely as signs of possible encroachment. More seriously, moves by China in 2007 to enforce its claim to sole sovereignty of the Paracel and Spratly islands led to rare public demonstrations in Hanoi and Ho Chi Minh City. The island disputes are viewed by both sides as the most serious security threat to the relationship. China’s development of a submarine base in Hainan stirred Hanoi to contract in April 2009 for six Russian submarines at an estimated cost of more than $1 billion.
(“Vietnam Buys,” 2010). The Vietnamese navy has also purchased shore-to-ship missiles from Israel and fighter jets from Russia (Karniol, 2010). These tensions in the relationship are magnified in the international media and by anti-regime activists among the overseas Vietnamese, but they do express a common uneasiness about vulnerability to China and a suspicion about China’s motives.

Trade with China has been an acutely mixed blessing for Vietnam ever since it resumed in 1990 (Womack & Gu, 2000). On the one hand, much-desired consumer goods began to flood in, accompanied by important producer goods such as insecticides and tools. On the other hand, the competition from Chinese products was devastating for Vietnamese industry. This led to import bans on Chinese products in 1992, but smuggling was so prevalent that the bans were ineffective. Having the Chinese superstore next door is good for shopping but bad for the neighborhood store.

Global uncertainty has made more difficult the management of bilateral asymmetric relationships. The best example in 2009 was the hotly disputed decision to allow a Chinese company, Chalco, to develop a bauxite mine in Vietnam’s Central Highlands (Thayer, 2009). The world’s third largest bauxite deposits are located there, and Vietnam is hoping to attract US$15 billion in investment by 2025. In 2007, Vietnam reached agreements with Alcoa and Chalco concerning joint ventures on mining and processing projects, but there was public outcry. General Giap, now 97 years old, wrote a letter of protest to the Politburo, and many others questioned the move. Environmental problems included disruption in Central Highlands, with large-scale surface mining and electric power and toxic by-products from the processing of bauxite. But the China-invested project was particularly targeted, with claims that thousands of Chinese workers would be brought in to do jobs that unemployed Vietnamese could do, and that the Chinese presence would be a security threat. In April the government announced that the current project under contract with Chalco would continue, but that it would postpone the decision concerning foreign investment in bauxite mining and processing. Other projects would require additional environmental and economic assessments.

Vietnam is hardly the only country facing dilemmas concerning Chinese investment in resources. The United States prevented the sale of Unocal to China National Offshore Oil Company (CNOOC) in 2005, and Australia is wrestling with questions of how much Chinese investment to allow in its natural resources. But for Vietnam these concerns are amplified by the disparity between it and its larger neighbor.

The dilemma that the Vietnamese government faces in the bauxite project points to the basic dilemma of asymmetric relations made more acute by global uncertainty. On the one hand, Vietnam is in need of investment and trade. Chalco is the world’s third largest aluminum producer and China currently imports three-fourths of its alumina. The development of a major new resource is an opportunity that cannot be ignored, and China is a natural partner. On the other hand, the fact that China is growing so fast and the idea of China as threat is so ingrained in national consciousness create a fear that rises in proportion to the opportunity. Just as the opportunity would benefit some more than others in Vietnam, the fear can be exploited by interested groups to claim the flag of true patriotism. Vietnam has proved itself capable of going it alone on other projects.
In February 2009 it opened the $2.5 billion Dung Quat oil refinery, a project that had been abandoned because of expected unprofitability by three different groups of major international partners since construction began in 1995. However, uncertainty raises the cost of stubbornness as well as its incentive. If the world economy were more stable, Vietnam would neither be so desperate nor so anxious. Uncertainty increases the interest in opportunity but at the same time extends the horizons of doubt and fear.

Just as the tensions of bilateral asymmetric relationships are heightened by international uncertainty, they can be buffered by multilateral regional and global institutions. If Vietnam had not succeeded in joining WTO before the current crisis, it would be more anxious and fearful in its relationship with China. Ironically, its factor similarity to China attracted investment from companies wanting to diversify their political exposure. Multilateral agreements and institutions provide a web of common international expectations that reduce concerns about fluctuation in bilateral relations.

The most important multilateral organization buffering the Sino-Vietnamese relationship is ASEAN and, more broadly, to ASEAN→3. Only one-fourth of ASEAN trade is within ASEAN, and, as a consensus organization, it is more impressive for the regional atmosphere it creates than for the policies it adopts. But over time it has transformed both the regional political environment of Southeast Asia and the region’s external image (Ba, 2009). The admission of Vietnam into ASEAN in 1995 had two important bilateral effects. It prodded the United States into finally recognizing Vietnam, and it gave Vietnam the confidence to pursue closer relations with China. Rather than balancing against China, regional security (and normalization with the United States) enabled Vietnam to feel less isolated and therefore less at risk in an asymmetric bilateral relationship, especially one that was similar to that of its fellow ASEAN members.

ASEAN’s soft-line, consensual approach prompts predictions of its demise whenever Southeast Asia faces major crises. But unlike a defensive alliance such as NATO, its function is not to counter an identified external threat, but rather to facilitate a regional adjustment to new situations. The Vietnamese invasion of Cambodia in 1979 led to the alignment of ASEAN in an anti-Vietnamese entente, with Thailand designated as the frontline member. ASEAN seemed fragmented in its policy as the Cambodian stalemate moved into endgame in the second half of the 1980s, but by the mid-1990s it took the bold move of becoming a truly regional organization by admitting Vietnam, Cambodia, Laos, and Myanmar. The adoption of the ASEAN Charter on the organization’s 30th anniversary in 2007 marked a new level of formal commitment to regional structure.

ASEAN’s efforts at economic coordination had been weak before the Asian financial crisis, but beginning with the Sixth ASEAN Summit in Hanoi in December 1998, members recommitted themselves to an ASEAN free trade area (AFTA), and, perhaps more importantly, took a more active role in developing regional relations with Japan, China, and Korea (ASEAN→3). The most spectacular result of these explorations was the ASEAN-China free trade area (ACFTA or CAFTA) announced in 2002 and formally inaugurated in January 2010 on schedule. The economic progress was complemented on the political and security side by the “Declaration on the Conduct of Parties in the South China Sea” signed in 2002 and China’s accession to the ASEAN Treaty of Amity (as the first non-ASEAN
member) in 2003. Vietnam’s participation in the ASEAN initiatives helped reassure China of Vietnam’s deference and also provided Vietnam with a regional umbrella for its own bilateral policies.

How will ASEAN respond to the current crisis? With the momentum of ASEAN and more broadly Asian economic integration since 2002, the least likely response would be the demise of ASEAN. Even in the unlikely event of protectionism in the developed world, ASEAN and East Asia will probably be cooperative and inclusive in their response. Considering the common economic problems of dollar exchange rate uncertainty, disruptions in employment and foreign investment, weakening of developed country consumer markets, and the need to develop domestic consumer bases, a variety of new initiatives might be anticipated. On the foreign exchange and investment front, the Chiang Mai currency swap facility was raised from $80 billion to $120 billion in February 2009, and further efforts to buffer local currencies and international projects against third-party currency fluctuations can be expected. One might expect more grand international infrastructure projects, especially ones that open up interiors or promise employment and new consumers. With regard to ASEAN-China relations, it might be expected that ASEAN will do more to encourage exports to China and Chinese investment in ASEAN.

ASEAN has taken the lead in broader regional cooperation, but it is concerned about being sidelined in a framework that includes all of the big powers. ASEAN first proposed discussing East Asian integration in 1999 and sponsored the East Asia Summit in 2005. Japan made a rather vague proposal for an East Asia Community in 2009, but ASEAN and its members are concerned that larger organizations could simply become multilateral platforms for big power decision making. However, ASEAN’s inclusive approach to regional cooperation commits it to a set of widening circles of contact.

The era of global economic uncertainty has greatly enhanced China’s global role. Not only has the G-20 effectively replaced the G-8 as the primary forum for global economic leadership, but there is talk of a “G-2” relationship between China and the United States (Economy & Segal, 2009; Hirsch, 2009). But China’s new global prominence is a mixed blessing for Vietnam and other neighbors. On the one hand, China’s interests and viewpoint are closer than those of the Western developed countries. On the other hand, China’s new global status strengthens its hand as a regional power, thus increasing the asymmetry between itself and its neighbors.

While the rise of China is not threatening per se to its neighbors, the continued presence of the United States as the decisive global power in the Western Pacific is important for the peace of mind of countries like Vietnam. Vietnam does not want to use the United States to balance against China, but an American presence buffers its increasing exposure to China. This attitude is common throughout Southeast Asia, as indicated by the following colorful metaphor of Surin Pitsuwan, the Secretary General of ASEAN (2010):

Like a ceremonial umbrella, which is not held straight overhead, the US has to be symbolically behind, not overwhelming, not imposing, but there to provide a sense of security, trust and confidence to the region. For that reason, the US has been playing that role of the umbrella but not quite above, as it did earlier during
the Vietnam War. That sensitivity has to be taken very seriously. Then everybody can be comfortable and confident.

Of course, continuing a global role in a situation of increasing budgetary pressure and no hostile relationships places a considerable strain on the United States. Ultimately American presence will have to be rethought in terms of providing security in a framework of cooperation with China and the region.

Conclusion: Beyond Win-Win

The normalcy of the relationship between China and Vietnam has not been threatened by the era of global economic uncertainty, but there has been a subtle yet significant change in its context. China’s relative economic strength has increased rapidly, making the relationship more asymmetric. New prominence has led to a reglobalization of China’s idea of its place in the world. In contrast to its cautious and defensive mood in the 1990s when its turn toward regional cooperation began, China is rising, and not only within Asia, but beyond. China is now thinking big. However, China’s general line of foreign policy in the reform era remains the same. Cooperation on the basis of mutual respect and noninterference in domestic affairs remains basic. The short formulation—found on billboards all over Nanning City during the China-ASEAN Trade Exposition held there in October 2009, is “win-win.” For China, expansion of its economic and social contacts with its neighbors, including Vietnam, is all win and no risk.

But “win-win” looks different from the other side of an asymmetric relationship. True, it is better than the alternative of “I win—you lose.” But the smaller side is more exposed to the risks of the relationship, and its commitment to cooperation is proportionally much larger. Both the opportunities and the risks of the relationship loom larger, but in a time of general uncertainty the risks appear more vivid.

Vietnam is therefore understandably more anxious about China even though cooperation with China is its most significant immediate opportunity. Since both countries share common concerns about the world economy, there is room for multilateral as well as bilateral cooperation. But for the peace of mind of China’s neighbors, regional integration must remain part of an open world order.

Acknowledgments

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Notes

1 In purchasing power parity (PPP). In current dollars, it is 2%.
2 Unless otherwise indicated, data cited are taken or calculated from that provided by the respective national statistical bureaus of China (National Bureau of Statistics, accessed by electronic subscription through China Data Online) and Vietnam (GSOV, public access at http://www.gso.gov.vn/default_en.aspx?tabid=491). Data for 2007 are given in this section because it was the last full precrisis year.
3Coal is somewhat of an exception. Vietnam supplies one-third of China’s total coal imports and two-thirds of its anthracite (hard coal) imports.

4The first 8 months of 2009 compared to the same period during the previous year.

5As interviewed in Selden (2009).

6In November 2007, China set up a county-level administrative unit in Hainan with responsibilities for its territories in the South China Sea. There was a demonstration in Hanoi on December 9, prompting a public remonstrance from China, which was followed by a second demonstration on December 15.

7China set a powerful example. Among many others, the EU and the United States signed in July 2009.

8The East Asia members of the G-20 are China, Japan, South Korea, and Indonesia.

References


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