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China's Economic Engagement in Vietnam and Vietnam's Response

Zaharul bin Abdullah and Sity binti Daud***
Universiti Kebangsaan Malaysia

Abstract

Since the normalization of Vietnam-China relations in 1991, bilateral trade relations have grown so rapidly that China has emerged as Vietnam's major trading partner for many years. The strengthening of trade relations was subsequestly followed by increasing inflows of China's FDI, loans and project contractors to Vietnam. The deepening of China's economic engagement in Vietnam has led numerous studies to argue about Vietnam's economic dependence on China indicating deterioration of the Vietnamese government's power to manage it. The Vietnamese government's ability to manage economic dependence on China continues to be questioned in an era of global economic uncertainty beginning with the global financial crisis of 2008 and the rise of global protectionism post-2008 heightened by the US-China trade war that has begun in early 2018. This study argues that China's deepening economic engagement in Vietnam in terms of trade, investment, loans and project contracting has never abolished the power of Vietnamese government. Instead, the Vietnamese government's power was transformed or restructured as it actively implements various policies and strategies to address deepened China's economic engagement and its impacts. However, this study also argues that the power of Vietnamese government is constrained by a variety of internal and external factors including global economic uncertainty driven by the US-China trade war.

Keywords: *oriental globalization, role of state, trade, investment, loan*

1. Introduction

Since 3,000 years ago, Vietnam-China relations have undergone several transformations, i.e. from the phase where Vietnam was on the edge of Chinese pre-empire, Vietnam as part of the Chinese empire, unequal Chinese and Vietnamese empires, fellow victims of imperialism, revolutionary brotherhood, hostility, normalization and eventually normalcy. In all phases, Vietnam-China relations are asymmetric where there is a huge difference in the demographic and economic capabilities that put Vietnam in a more vulnerable and sensitive situation against China (Womack, 2006). However, since the Vietnam-China relationship normalized in 1991 and changed to normalcy in 1999, diplomatic relations of both countries expanded rapidly and subsequently enhanced to the strategic partnership in 2013 and deepened into the strategic cooperative partnership.

In terms of Vietnam-China economic relations, the literature review can be divided into two streams of scholarship. The first stream argues that the deepening of China's economic engagement in Vietnam especially in terms of trade and project contracting has led to Vietnam's dependence on the Chinese economy (CIEM, 2016; Le, 2017b). Meanwhile, the second stream argues that Vietnam has the autonomy to manage its asymmetric relations with China and reduce Vietnam's dependence on China in terms of trade, investment, loans and development assistance (Womack, 2010; Lee, 2014). However, the debate over Vietnam's dependency on China and Vietnam's autonomy to manage the dependency needs to be placed in the context of the new global economic uncertainty stemming from the 2008 global financial crisis and rise of protectionism all around the world post-2008 which culminates in the US-China trade war that has been taking place since early 2018.

Against the above backdrop, this article aims to answer the following three research questions. First, what are the impacts of China's economic engagement in Vietnam in terms of trade, investments, loans and project contracting? Second, what are the policies and strategies adopted by the Vietnamese government to address China's economic engagement and its impact? Third, to what extent are the policies and strategies adopted by Vietnam constrained by domestic and external factors, especially the global economic uncertainty driven by the US-China trade war? To answer these three questions, the article is divided into four sections, i.e. introduction, theory of globalization and role of the state, China's economic engagement in Vietnam in terms of trade, investments, loans and project contracting, and conclusion.

2. Globalization and Role of the State

To help analyze the research questions above, this section discusses three approaches to globalization theory – hyperglobalizers, sceptics and transformationalists – with particular attention given to the role of state in development. Hyperglobalizers like Ohmae (1995) argue that contemporary globalization is a new era in which global market orders dominate the people wherever they are. They celebrate the emergence of a global market and uphold the principles of global competition as pioneers of human progress. They argue that economic globalization is bringing about denationalization of the economies through the establishment of global governance and transnational network of production, trade and finance in which national governments only serve as facilitators of global capital flows. The power and legitimacy of nation-states are being challenged as national governments are increasingly unable to exercise control over cross-border issues such as financial market fluctuations, investment decisions, environmental pollution or terrorist networks. In other words, hyperglobalizers put forward the thesis that globalization is a truly global era that has brought about the end of nation-states.

Contrary to hyperglobalizers, sceptics such as Hirst and Thompson (1996) argue that globalization is a myth that hides the realities of the international economy that is increasingly divided into three major trading blocs i.e. Europe, Asia Pacific and North America. This is because the current international economy is yet to form a fully integrated global market and it is less integrated than the international economy in the 1890s. They argue that what is happening is not globalization but an increased level of internationalization among the dominant national economies. The role of the national government has never been weakened by internationalization or global governance but rather strengthened through regulatory activities and promotions of cross-border economic cooperations.

The sceptics continue to argue that internationalization does not diminish North-South inequality but continues to marginalize the economies of many Third World countries. This is due to the fact that trade and investment flows are concentrated only in rich North countries and most transnational corporations (TNCs) remain to be the tools of their home country or region. Therefore, they argue that internationalization has brought only minor changes to the patterns of global inequality and economic hierarchy. In other words, sceptics put forward the thesis that what is happening is not globalization but internationalization supported by the strengthened role of the states.

By taking the middle ground between the two approaches, transformationalists such as Giddens (1990) and Rosenau (1997) agreed with some of the hyperglobalizers' thesis that globalization is actually taking place. This is because contemporary globalization reflects unprecedented levels of global connectivity as the world no longer has a clear distinction between international and domestic affairs. However, transformationalists reject the hyperglobalizers' thesis that the power of national government is weakened, as well as sceptics' thesis that there is not much change in world order. Instead, transformationalists argue that the power of the national government is transformed or restructured to adapt to the globalization's massive shake-out on society, economy, governance institutions and world order. However, the direction of the shake-out is unclear as globalization is seen as an essentially contingent historical process replete with contradictions.

According to transformationalists, the cases of European Union and the World Trade Organization (WTO) are evidence that national powers have been restructured following the establishment of international regulatory agencies, international law, TNCs and international social movements. Given the changing world order, the national governments have been forced to adopt coherent strategies of engaging with the globalizing world and have become increasingly 'outward-looking' to address cross-border issues. In other words, transformationalists argue that globalization is really taking place and is transforming the power of national government.

Based on the above discussion, the transformationalists' thesis is adopted and applied in this article for several reasons. First, the transformationalists' thesis is more in line with the existing realities in which globalization: has not completely transformed the world into a global society and market following the growth of Free Trade Agreements (FTAs) worldwide; is replete with various contradictions in historical processes such as the 1997 Asian Financial Crisis and the 2008 Global Financial Crisis; has restructured the national governments post Asian Financial Crisis by transforming developmental states into regulatory states; has brought about both global integration and fragmentation such as the adoption of Euro Zone and BREXIT; and is restructuring the world order following the emergence of the BRICS group.

Second, the globalization discussed in this article is not Occidental Globalization but Globalization with Chinese characteristics (Henderson, Appelbaum and Ho, 2013) or Oriental Globalization 2.0 currently led by China (Pieterse, 2015). This globalization is an externalization of China's political economy led by several key initiatives such as the 'Go Global' strategy in the early 2000s and the Belt and Road Initiative (BRI) in 2013 with the support of Chinese financial institutions such as the Asian Infrastructure Investment Bank (AIIB), Silk Road Fund as well as Chinese policy banks. Third, the transformationalists' emphasis on restructuring the national power by adopting proactive policies and strategies in managing globalization is suitable to be applied in the context of Vietnamese government in addressing China's economic engagement in Vietnam in terms of trade, investment, loans and project contracting.

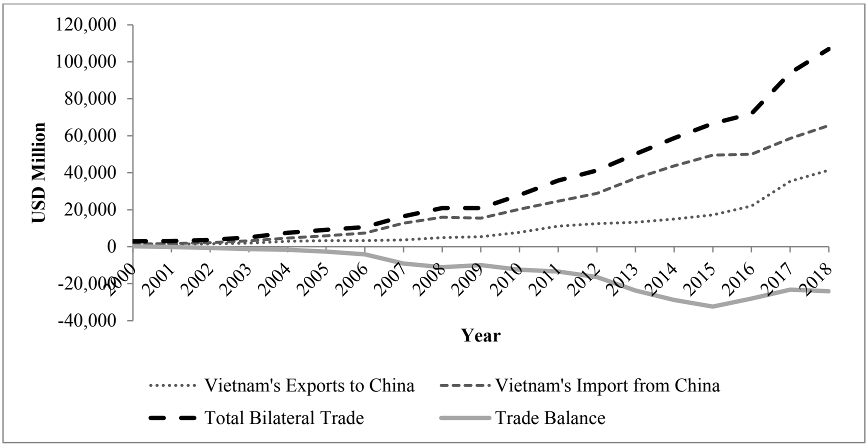
3. China's Economic Engagement in Vietnam

In the context of Globalization with Chinese characteristics, this section discusses China's economic engagement in Vietnam in terms of trade, investment, loans and project contracting over the period of 2000-2019 with a focus on the US-China trade war that began in early 2018. This section also discusses the stance, policies and strategies adopted by the Vietnamese government, as well as some of the domestic and external constraints faced by the Vietnamese government in addressing the impact of Globalization with Chinese characteristics.

3.1. Trade

Since normalization, bilateral trade has remained an important aspect of the Vietnam-China economic cooperation. Since 2004, China is Vietnam's largest trading partner, while Vietnam is China's main trading partner in the ASEAN region. Based on Figure 1, from 2000-2008, Vietnam-China bilateral trade has steadily increased from USD2.9 billion to USD20.8 billion. During this period, Vietnam's exports to China increased from USD1.5 billion to USD4.9 billion, i.e. a threefold increase while imports from China to Vietnam showed an elevenfold increase from USD1.4 billion to USD16 billion. Although the world was hit by the global financial crisis in 2008, bilateral trade was not adversely affected where Vietnam's exports to China still showed a slight increase while China's imports to Vietnam showed a slight decline during the 2008-2009 period. In the post-2008 financial crisis period, bilateral trade has increased rapidly and there was a surge of bilateral trade starting from 2016 as the ASEAN-China Free Trade Agreement (ACFTA) has been fully enforced by newer ASEAN member states including Vietnam in 2015. This has partly contributed to the huge increase of bilateral trade from USD27.9 billion to USD106.9 billion from 2010-2018. During the period, Vietnam's exports to China increased from USD7.7 billion to USD41.4 billion, a fivefold increase

Figure 1 Vietnam's Trade in Goods with China, 2000-2018



Source: *Custom Handbook on International Merchandise Trade Statistics of Vietnam* (various years).

while China's imports to Vietnam showed a threefold increase from USD20.2 billion to USD65.5 billion.

Vietnam's huge dependence on imports from China has led to Vietnam's large trade deficit with China that increases from USD189 million in 2001 to USD32.4 billion in 2015. This huge trade deficit was contributed by the two-way trade structure where Vietnam's exports to China consist of low value-added products while China's exports to Vietnam consist of higher value-added products. In 2015, apart from product category of computer, electrical products, spare parts and components thereof, Vietnam's exports to China were dominated by agricultural products and natural resources such as yarn, fruits and vegetables, timber and timber products, wood and wood products, rice, crude oil and rubber. Meanwhile, China's exports to Vietnam consist of manufacturing products such as machine, equipment, tools and instruments; telephones, mobile phones and parts thereof; fabric; computers and electrical products; as well as metal and steel.

This huge trade deficit does not imply the end of Vietnamese government's power. Through the goverment's promotion of foreign investment in high-tech industries, Vietnam has managed to attract a number of multinational companies to set up manufacturing facilities as well as research and development (R&D) centres in Vietnam such as Samsung, Panasonic, Nokia, General Electric (GE), Hewlett-Packard (HP), IBM, Canon, Yamaha, Piaggio and Bosch. This has enabled the Vietnamese government to diversify and increase the exports of higher value-added products to China. In 2017, Vietnam's exports to China were dominated by high-tech products such as phones and mobile phones, computers and electrical products, as well as still images and video cameras, which accounted for 20.2 percent, 19.4 percent and 5.9 percent respectively of total Vietnamese exports to China (General Department of Vietnam Customs, 2017). In 2018, the exports of these three product categories continued to increase to 23.8 percent, 20.3 percent and 6.8 percent respectively of total Vietnamese exports to China (General Department of Vietnam Customs, 2018). This changing nature of trade structure has partly contributed to the reduction of Vietnam's trade deficit with China from USD32.4 billion in 2015 to USD24.2 billion in 2018.

While China remains a major trading partner and source of imports for Vietnam in 2018, Vietnam has been quite successful in diversifying its export markets led by the US, followed by the EU, China, ASEAN, Japan and South Korea each contributing 19.5 percent, 17.2 percent, 17.0 percent, 10.2 percent, 7.7 percent and 7.5 percent respectively of the overall Vietnam's export market. Of the five trading partners, Vietnam registered a trade surplus with the US and EU amounting to USD34.78 billion and USD28.1 billion respectively. Meanwhile, Vietnam suffered a trade deficit with South Korea amounting to USD29.34 billion which is higher than its trade deficit with China, and registered a small trade deficit with ASEAN and Japan (General Department of Vietnam Customs, 2018).

To support sustainable economic growth while reducing its dependency on China's economy, Vietnam continues to deepen its international economic integration by signing bilateral and multilateral free trade agreements (FTAs) with various trade partners. As of July 2019, Vietnam has enforced 11 FTAs, signed one FTA (awaiting ratification), concluded negotiations of one FTA and are negotiating three FTAs. Since 2015 alone, Vietnam has enforced the FTA with the Republic of Korea and the Eurasian Economic Union, and the Comprehensive and Progressive for Trans-Pacific Partnership (CPTPP); signed FTAs with Hong Kong, China; concluded FTA negotiations with the European Union (EU); and is currently negotiating FTA with Israel.

Of all the above FTAs, the CPTPP enforced by Vietnam in 2019 is of significant importance. This is due to the fact that the 11-nation CPTPP has a large market size of 500 million people with combined GDP of USD13.5 trillion, contributing to 13 percent of global GDP. According to the Ministry of Planning and Investment (MPI), Vietnam's exports to CPTPP countries will grow by 4.04 percent by 2035 and reach USD80 billion by 2030, which is 25 percent of Vietnam's total exports (Vietnam Investment Review, 15 April 2019). Via CPTPP, Vietnam has enhanced its capability to relatively reduce its dependence on imports from China. This is due to the fact that CPTPP sets strict regulations for member countries to obtain tax-free access to the CPTPP member market. In the case of 'yarn forward' rule of origin, Vietnam is required to use yarns produced by TPP members thereby relatively reducing the import of yarns and textiles from China.

Though Vietnam has moderately diversified its trade markets and improved its trade structures with China, its ability to continue to reduce trade deficits with China is constrained by its industry structure which is labour-intensive with weak supporting industries. This situation has led Vietnam to increase its imports of intermediate goods from China which accounted for 58.5 percent of all Chinese imports to Vietnam from 2000-2015. As bilateral trade increases, Vietnam will find it difficult to continue to reduce its trade deficit with China.

In an era of global economic uncertainty driven by the US-China trade war, Vietnam's ability to diversify and strengthen its export market is hampered by the risk of being imposed higher tariffs by the US. This is because the trade war has been encouraging Chinese firms to reroute its export to Vietnam to be labelled as "Made in Vietnam" and re-exported to the US market to avoid increased US tariffs on Chinese imports. Given that Vietnam has a huge trade surplus with the US, this will likely encourage the US government to investigate the origin of the products from Vietnam.

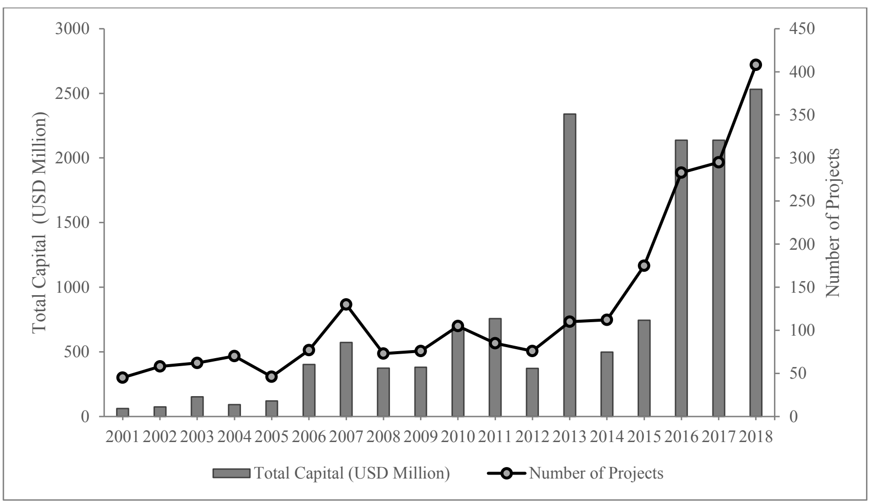
These developments have made it difficult for Vietnam to reduce its trade dependence on China.

3.2. Investments

While bilateral trade is a key pillar of economic cooperation, investment is increasingly becoming an important form of economic cooperation between Vietnam-China. Based on Figure 2, China's investment in Vietnam pre-2006 was small and insignificant, and it began to show a slow and unstable rise from 2006-2015. China's investment increased from USD401 million in 2006 to USD573 million in 2007 before declining to USD374 million (2008) and USD380 million (2009) due to the global financial crisis in 2008. However, China's investment rebounded to USD685 million (2010) and USD758 million (2011) before surging to USD2.3 billion in 2013. The surge was only temporary and unsustainable following China's investment in constructing a thermal power plant, Vinh Tan 1 worth USD2.11 billion (Nguyen, 2016). Since China launched the Belt and Road (BRI) initiative in 2013, China's investment in Vietnam started to deepen from USD744 million in 2015 to USD2.1 billion in 2016 and 2017 respectively. China's investment continued to grow to USD2.5 billion in 2018 after the outbreak of the US-China trade war.

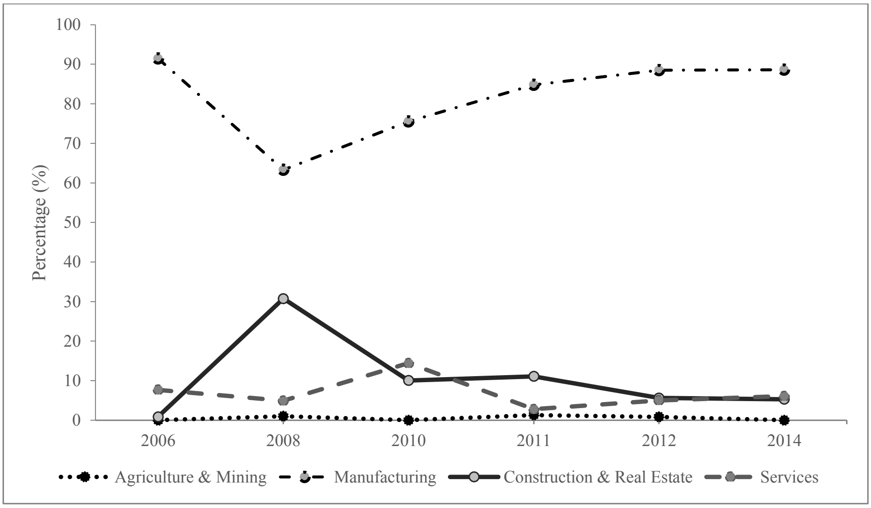
Based on Figure 3, the majority of China's investments from 2006-2014 were focused on the manufacturing sector with an average investment of 82 percent, followed by construction and real estate (10.6 percent) and services

Figure 2 China's Total New Registered Capital and Number of Projects in Vietnam, 2001-2018



Source: *Statistical Handbook of Vietnam* (various years).

Figure 3 Percentage of China's New Projects by Sectors in Vietnam, 2006-2014



Source: Central Institute of Economic Management (CIEM).

(6.8 percent) while investments in the agriculture and mining sectors were relatively small. In recent years, Chinese investments were concentrated in manufacturing, construction, large-scale processing and construction projects as well as projects in the energy sector. In terms of investment by industry, Table 1 shows that China's cumulative total investments from 2000-2017 were focussed on the manufacturing industry worth USD8 billion, followed by production and distribution of electricity, gas, steam and air conditioning (USD2 billion), real estate business (USD570 million), accommodation and catering services (USD547 million) and construction (USD250 million). In terms of project scale, China's average project investments have grown from USD1.4 million in 2001 to USD6.3 million in 2018. In terms of investment distribution, China's investments were spread across 54 provinces from 63 provinces and cities in Vietnam. As of April 2017, Binh Thuan was the main province that managed to attract the highest Chinese investments worth USD2.03 billion, followed by Tay Ninh (USD1.65 billion) and Bac Giang (USD958 million) (Ha 2019).

The deepening of China's investment in Vietnam has brought about several impacts including a tendency to cause environmental pollution. This is due to the fact that China's investments are focussed on potentially polluting industries such as textiles, footwear, fibre and the energy and mining industries. In the mining industry, since 2006, a joint venture has been formed by Vietnamese company VINACOMIN with Chinese company CHALCO to explore bauxite for aluminum processing in Central Highlands, Vietnam. This

Table 1 Cumulative Chinese FDI in Vietnam, 2000-2017

No.	Sector	Number of projects	Total investment capital (million USD)
1	Manufacturing	1151	7960.03
2	Production and distribution of electricity, gas, steam and air conditioning	3	2048.74
3	Real estate business	23	569.74
4	Accommodation and catering services	33	547.01
5	Construction	126	249.58
6	Transport and logistics	21	224.11
7	Mining	17	182.09
8	Wholesale and retail; repair of automobiles, motorcycles and other motor vehicles	241	162.20
9	Professional, scientific and technological activities	63	61.52
10	Information and communication	22	34.83
11	Agriculture, forestry, fisheries	13	33.33
12	Administrative and support services	33	29.51
13	Other services	4	24.49
14	Water supply, waste management and treatment	3	5.38
15	Health and social work activities	4	4.50
16	Arts and entertainment	4	4.21
17	Education and Training	2	1.31
18	Finance, banking and insurance	1	0.30
19	Employees for households	1	0.15
Total		1765	12143.05

Source: Foreign Investment Agency.

project raised widespread concerns about environmental pollution because mining activity would produce oxidized or red-sludge by-products that could pollute the supply of water and affect the agricultural industry, as well as the health and safety of the surrounding people (Marston, 2012). In 2016, the issue of pollution re-emerged when Chinese firm, Hung Nghiep Farmosa Ha Tinh Pte Ltd, disposed of the industry's toxic waste into the sea which resulted in losses of several lives and killed massive sea creatures (Ha, 2019).

In addition, increased Chinese investments in Vietnam have intensified competition between Chinese and Vietnamese companies in terms of market access. Since Vietnam joined the Trans-Pacific Partnership (TPP) negotiation in 2010, there has been an increasing trend of China's investment in Vietnam in projects involving industrial parks and garment factories to access the TPP market as China is not a member of the TPP (Nguyen, 2016). Although the TPP has been transformed into CPTPP following the US withdrawal in 2017, China continues to seek access to the CPTPP market through Vietnam, thus intensifying competition for domestic and export markets between Chinese companies and existing local companies that already lack resources. The competition is further intensified between Chinese and Vietnamese companies in terms of labour supply as China's investments are focussed on labour-intensive industries such as clothing and textiles and raw materials. In this respect, Chinese companies have the advantage to win the competition as they have the ability to offer higher wages to local workers since the monthly minimum wage in Vietnam is only around USD120-USD170, lower than Guangdong (USD315) and Shanghai (USD350) (*SCMP*, 18 November 2018).

To reduce reliance on Chinese capital and some of the negative impacts above, Vietnam has shown the ability to diversify its investment resources. From 2000-2018, China was never the top four investor in Vietnam except in 2013 and 2017. In 2018, China was only the fifth largest investor in Vietnam accounting for seven percent of total registered capital in 2018, while Japan was the leading investor followed by South Korea, Singapore and Hong Kong accounting for 24.6 percent, 20.1 percent, 14.4 percent and 8.9 percent respectively. This shows that China's investment amount is 3.5 times smaller than Japanese investment. In addition, the average investment per project for China is only USD6.2 million which is much smaller than Japan's USD20.3 million (GSO, 2019a).

In order to further diversify foreign investment, the Vietnamese government has been implementing economic reforms to improve the business climate. From 1992-2015, 4,484 SOEs were equitised which reduced the number of wholly state-owned companies from 12,000 in 1991 to 652 in 2015. From the privatization and divestment processes, the government generated USD3.35 billion in returns from 2011-2015. However, at the end of 2014, the total number of SOEs (both wholly and partially-owned) remained significant at 3,048 (Le, 2017a).

In the era of economic uncertainty driven by the US-China trade war, the momentum of economic reform has declined significantly. While overall returns from the privatization and divestment processes have increased to USD9.4 billion since 2016, the privatization and divestment processes reached only 27.5 percent and 21.7 percent of the targets respectively for the period of 2016-2020. In addition, as of July 2019, only 35 out of the 127

SOEs have been privatized while 88 out of the 405 SOEs have been divested amounting to USD392.06 million with a book value of USD206.57 million (*Hanoi Times*, 9 July 2019). This development indicate that the trade war has led the Vietnamese government to ignore radical economic reforms for long-term growth. Instead, emphasis was placed on strategies to maintain macro stability, stabilize the dong currency and sign more trade agreements to boost exports and maintain growth momentum.

Meanwhile, the Vietnamese government's ability to diversify its sources of capital is increasingly challenged during the trade war. This is due to the fact that the trade war has been encouraging relocation of manufacturing facilities of foreign companies including Chinese companies to Vietnam to avoid US tariffs on Chinese imports (Tuan, Trang and Tho, 2018). It is evident that in the first 10 months of 2019, China is the third largest investor in Vietnam with a total investment of USD2.6 billion behind South Korea (USD4.2 billion) and Japan (USD2.6 billion) (GSO, 2019b). In the same period, China's registered capital (excluding adjusted capital) has increased by 169 percent compared to the same period in 2018.

3.3. Loans

Although China's official development assistance (ODA) to Vietnam was significant in the period of revolutionary brotherhood from 1949-1975, ODA loans have been decreasing while the non-concessional loans have been increasing post-normalization. According to the Ministry of Planning and Investment (MPI) report in 2008, China only allocated a small amount of ODA to Vietnam from 1993-2008 amounting to USD358.9 million or 1.09 percent of the total ODA to Vietnam. Of these, concessional loans and grants contributed USD329.6 million and USD29.3 million respectively (Nguyen, Nguyen and Tran, 2013). Most of the grants were allocated for political projects such as the development of the National Political Institute of Ho Chi Minh, while most concessional loans were provided to upgrade Chinese projects developed in the 1950s and 1960s such as the Ha Bac Fertilizer Plant.

According to the MPI report in 2014, the allocation of China's ODA to Vietnam from 1993-2014 has increased to USD670 million consisting of USD620 million of loans and USD50 million of grants (CIEM, 2016). Deduced from these two MPI reports, the allocation of China's ODA to Vietnam from 2009-2014 was USD311.1 million consisting of USD290 million of loans and USD20.7 million of grants. This data shows that the grants and ODA loans from China to Vietnam have decreased during 2009-2014 compared to 1993-2008. However, this reduction in ODA loans is accompanied by an increase in commercial loans from China where Chinese projects in Vietnam began to be funded by a combination of ODA and commercial loans from China such as preferential buyer's credit and export credits since 2007. These kind of financing are typically allocated to projects developed by Vietnamese state-owned enterprises (SOEs) in key sectors such as communications, road and bridge construction, and electricity generation. As of 2014, MPI estimates that total loans from China has reached USD20 billion (CIEM, 2016). From this estimation, non-concessional loans provided by China to Vietnam accounted for USD19.33 billion from 1993-2014.

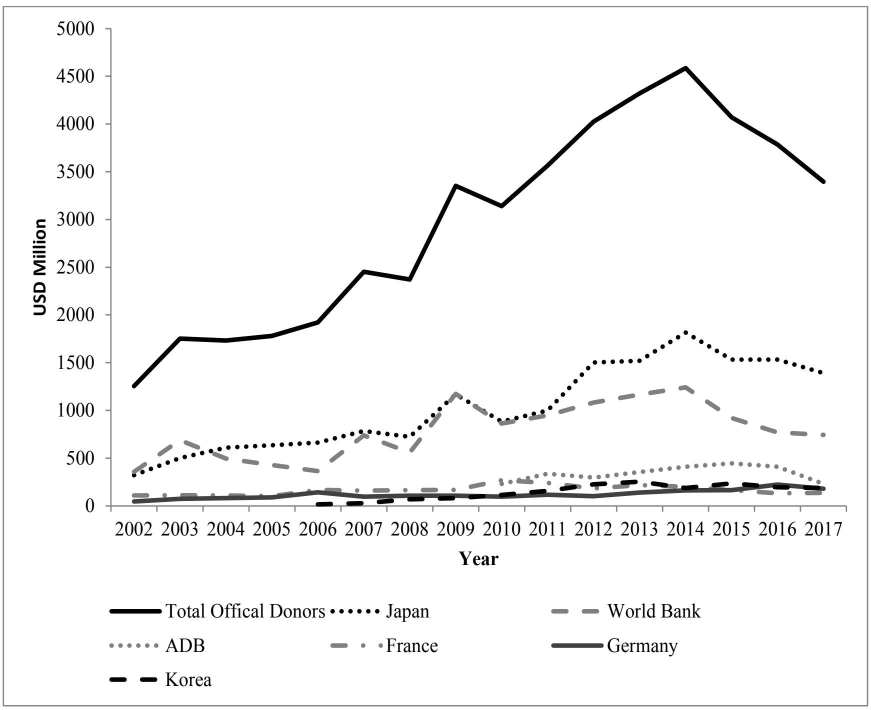
Due to the lack of official data on China's financing overseas, the Boston Global Development Policy Center (GDPC) has published data on China's global energy finance provided by two Chinese policy banks, i.e. the Export-Import Bank of China (CHEXIM) and the China Development Bank (CDB). According to GDPC, China has allocated USD244.2 billion in global energy financing from 2000-2018. During the period, Vietnam was the fourth largest recipient of China's global energy financing worth USD9.3 billion with 14 projects, behind Russia (USD42.7 billion with six projects), Brazil (USD39.3 billion with nine projects) and Pakistan (USD19.8 billion with 16 projects). Of these 14 energy projects, nine were funded by CHEXIM totalling USD5.5 billion, four were funded by CDB (USD2.5 billion) and one was jointly funded by CHEXIM-CDB (USD1.4 billion) (GDPC, 2019). This source of financing indicates that a total of USD5.5 billion of loans from CHEXIM involves either concessional loans or non-concessional loans while USD2.5 billion of financing from CDB is entirely non-concessional loans. According to GDPC and MPI data, China's concessional loans in Vietnam are declining while China's non-concessional loans are increasing with the total loans estimated at USD23.3 billion from 1993-2018.

The increased application of China's loans has posed the risk of a debt trap to Vietnam. This concern, voiced by the MPI, was based on the following factors. First, interest rates of China's ODA loans are typically three percent per annum which are higher than Japan (0.4-1.2 percent), South Korea (0-2 percent) and India (1.75 percent). Second, China's loans are subject to a commitment fee and management fee of 0.5 percent respectively. Third, the loan and grace periods for China's loans are 15 years and five years respectively, which are shorter than other creditors. Thus, China's ODA and preferential loans are only suitable for projects that can generate direct income and have good payment capabilities. Lastly, China's projects tend to experience delays and are poor in terms of quality that ultimately results in increased costs (*Vietnam Express*, 16 August 2018).

Although Vietnam's application of China's non-concessional loans are increasing along with the risk of debt trap, it has not completely abolished the Vietnamese government's power to diversify sources of loans from various donors. From 2002-2017, Vietnam received a huge gross disbursement of ODA from various donors amounting to USD47.5 billion which is much bigger than China's total loans (both ODA and non-concessional) to Vietnam amounting to USD23.3 billion from 1993-2018. Of the USD47.5 billion, most of the allocation was in the form of loans totalling USD34.51 billion followed by grants (USD12.83 billion) and equity investments (USD160 million). Based on Figure 4, from 2002-2017, Japan was the largest donor to Vietnam accounting for USD16.57 billion, followed by the World Bank (USD12.53 billion), Asian Development Bank (USD2.71 billion), France (USD2.62 billion), Germany (USD1.92 billion) and South Korea (USD1.77 billion). In terms of ODA loans alone from 2009-2014, Vietnam received only USD290.4 million from China which was much smaller than Japan (USD7.18 billion), World Bank (USD6.46 billion), Asian Development Bank (USD1.6 billion), South Korea (USD793 million) and France (USD956 million).

Apart from diversifying loan sources, Vietnam has also begun to adopt a cautious approach to borrowing from China. This was voiced by the MPI to the Prime Minister to reject China-funded projects due to poor track records. The MPI's call was followed by Quang Ninh province that refused China's

Figure 4 Gross Disbursement of ODA by Main Donors to Vietnam, 2002-2017



Source: OECD.Stat

loans amounting to USD300 million to finance the construction of Van Don-Mong Cai highway. The project will instead be developed in the form of public-private partnership (PPP) where 70 percent of the capital is funded by domestic investors and the rest is funded by the province. According to Nguyen Duc Long, Chairman of the Quang Ninh Provincial Committee, there are four reasons why China's loans are rejected, i.e. the amount of China's loans is smaller than the estimated total project cost of USD800 million; the conditions attached to the loans; the need to complete the project within a specified period; and the ability of Vietnamese investors to execute the project themselves (*Vietnamnet*, 9 August 2016).

The same approach has been adopted by Hanoi on China's BRI projects and loans. Although Vietnam has provided diplomatic support to the BRI and the Asian Infrastructure Investment Bank (AIIB), the memorandum of understanding (MoU) negotiations between Vietnam and China to promote BRI and Vietnam-proposed 'Two Corridors, One Belt' (TCOB) initiative were only concluded in two years (Le, 2018). This long process of negotiations indicates that both countries have some disagreements about contents to be prioritized for both initiatives. The emphasis on the relationship between these two initiatives also shows that TCOB is a separate plan from BRI. This means Vietnam does not agree with TCOB being labelled as a BRI project and tends to maintain control over TCOB. Vietnam's cautious attitude towards the BRI has led to almost no new China's BRI projects or loans in Vietnam despite being two neighbouring countries.

While Vietnam has shown the ability to diversify its sources of loans and the will to stop borrowing from China, the Vietnamese government has been constrained by financial challenges including budget constraints, difficulties in promoting PPP projects and reduction in ODA inflows from major donors such as the World Bank, ADB, France and Australia. This situation is worsening due to increasing Vietnam's demand for infrastructure investment estimated at USD605 billion from 2016-2040. Specifically, electricity and road sectors account for 43.8 percent and 22.1 percent of this need respectively (Le 2018). Given the huge gap between current investment trends and investment needs at USD102 billion, Vietnam needs a massive amount of loans to finance its infrastructure including those from China. This situation has prompted local investors to continue working with Chinese partners to bid on government procurement despite pressure from MPI to refrain from using China's loans. This was reflected in a joint venture between local export-import company, Geleximco and China's company, Sunshine Kaidi New Energy Group that submitted a proposal to develop Long Thanh International Airport near Ho Chi Minh City in the form of a public-private partnership (PPP) (*Nikkei Asian Review*, 2017).

3.4. Project Contracting

The participation of China's companies in project contracting in Vietnam is a dominant form of economic interaction between the two countries. According to Le (2017b), Vietnam is Chinese engineering companies' largest market in Southeast Asia at the end of 2009. The Chinese companies dominated 90 percent of engineering, procurement and construction (EPC) contracts for thermal energy projects in Vietnam. According to the Central Institute for Economic Management (2016), from 2002-2013 the number of EPC contracts awarded to Chinese companies was 28 out of 118 bidding packages that accounted for 24 percent of the total project and 48 percent of the overall project value. Although these data indicate that Chinese companies' participation in Vietnam's project contracting is less dominant, it is high in three sectors, i.e. thermoelectric (70.6 percent), minerals (87.5 percent) and chemicals (60 percent). For these projects, the Chinese company allocated 31 percent of total funding for the EPC packages.

In terms of project value worth USD100 million and above, Table 2 shows that most of the project contracts awarded to Chinese companies from 2005-2018 were in the energy sector amounting to USD11.8 billion. Only small shares of the project contracts awarded to Chinese companies were in other sectors such as the metal sector accounting for USD3.2 billion, followed by transportation (USD2.4 billion), chemicals (USD1.3 billion) and real estate (USD480 million).

Table 2 EPC Contracts Awarded to Chinese Companies by Sectors in Vietnam (contract value of USD100 million and above)

Year/Sector	Energy	Chemicals	Transport	Metals	Real Estate
2006	330	430			
2008		900	160	460	
2009	1,380		1,310		
2010	3,400		170	340	
2011	2,900		180		140
2012	100		200	2,290	
2013	870		140		
2015			260		
2017	810				340
2018	2,020			100	
Total	11,810	1,330	2,420	3,190	480

Source: The American Enterprise Institute.

The dominance of Chinese firms in Vietnam's project contracting has brought about some impacts including poor performance of Chinese projects. It is widely reported that Chinese projects are replete with many problems such as delays, low quality and increased costs. One of the most widely criticized Chinese projects has been the Cat Linh-Ha Dong Urban Rail project which costs USD552 million initially, of which USD419 million was loaned from China. The project was expected to begin in 2008 and completed in 2013 but several delays rendered the construction to start only in 2010 and it has yet to commence commercial operations in April 2019 (*dtinews*, 30 April 2019). The delays caused the cost of the project to balloon to USD868 million in which China's loans had increased to USD670 (*Nikkei Asian Review*, 2017). Among other Chinese projects that also experienced similar problems were My Dinh National Stadium, Hanoi which costs USD69 million; expansion of steel complex in Thai Nguyen (USD360 million); metal and steel mills in Lao Cai (USD264 million); and aluminum-bauxite projects in the Central Highlands (USD1.4 billion).

In addition, the dominance of Chinese companies has also contributed to Vietnam having a huge trade deficit with China. Similar to other foreign contractors in Vietnam, Chinese companies are used to import services, machines and equipment from its home country in order to save costs. Besides, this practice has been reinforced by China's loan provision that requires Vietnam to not only employ Chinese contractors but also to import services, machines and equipment from China. This situation has increased Vietnam's imports of machinery, equipment, tools and instruments from China from USD5.2 billion in 2011 to USD11.6 billion in 2018, an increase of 123 percent. As a major product imported from China, it maintained Vietnam's large trade deficit with China worth USD24 billion in 2018 despite a reduction trend in trade deficit since 2015.

As Chinese engineering companies tend to employ a large number of imported Chinese workers, it has contributed to the increased presence of Chinese workers in Vietnam. According to the Ministry of Labour, Invalids and Social Affairs (MoLISA), from 2004-2015, the number of foreign workers in Vietnam has increased from 12,600 to more than 83,500. In 2015, Chinese workers make up 30.9 percent of foreign workers with 25,700 people, followed by South Korea (15,000), Taiwan (10,700) and Japan (7,900) (*Vietnamnet*, 21 June 2017). However, the number of Chinese workers does not reflect the real situation as most Chinese firms that dominate the EPC contracts in Vietnam tend to bring in illegal workers from China. According to Nguyen (2014), at nine major construction sites developed by Chinese firms, only 22.7 percent of the total 15,913 Chinese workers are legitimate and registered workers. Hence, the actual number of Chinese workers in Vietnam is likely to be much larger than official figures, thereby reducing employment opportunities to local workers particularly in the construction sector. However, once the construction project is completed, management and administration of the project is handed over to local workers while Chinese workers largely shifted to other construction projects.

To mitigate the negative impact of Chinese companies' dominance over project contracting in Vietnam, the Vietnamese government has played an active role in the drafting of the new law on tendering, i.e. Law 43, enacted in 2014. The new law introduced several significant improvements compared to the previous law on tendering and law on construction. In terms of contractor's direct appointments, the possibility of foreign donors to designate the appointment of the contractor directly has been removed. Procedures and conditions for direct appointments are also more detailed and governed more closely than the previous law.

In terms of contractor's evaluation criteria, various methods are used to evaluate bidding proposals subjected to the project's scope, complexity, technical and financial requirements. For a non-consultation package, evaluations are implemented either through the lowest bid price method, lowest evaluated price method or the combined price and technical method. For a consultation package, evaluations are implemented either through the least cost selection method, fixed budget selection method, quality and cost-based selection method or quality-based selection method (*Financier Worldwide*, October 2014). These improvements marked a significant shift of proposal evaluation criteria from the lowest cost method to a method that balances between cost and quality.

Although a new law on tendering had been enacted, Vietnam faces challenges in terms of implementation. According to MPI, Vietnamese investors have yet to implement technical barriers in line with the new law on tendering to select qualified contractors. In addition to the above factor, there are several other factors that drive the use of Chinese contractors despite their poor performance records. First, budget allocations for projects in Vietnam are small which lead to other foreign companies using advanced and high-cost technology and equipment failing in the bidding process (*dtinews*, 21 November 2018). This situation opens up opportunities for Chinese companies which are also interested in bidding for small-scale projects. Second, the use of Chinese contractors is a prerequisite for Vietnam to receive China's concessional loans and preferential export credit. Third, Chinese companies are appointed without open tender for several power plant projects that require immediate construction. Fourth, Chinese companies are able to bid for the projects at the lowest price thereby exploiting the weakness of the previous law on tendering that emphasizes low prices rather than other technical factors. This is possible because Chinese companies receive support from the Chinese government especially in terms of access to preferential loans.

After being awarded the contracts, they tend to persuade the project owner to change or ignore the original terms of the contract in order to save costs.

4. Conclusion

Based on the three research questions, this article has three findings. First, the deepening of China's economic engagement in Vietnam in terms of trade, investment, loans and project contracting has brought about several adverse impacts such as huge trade deficits, environmental pollution, intense competition between Chinese and Vietnamese companies in terms of market and labour supply, risk of debt traps, poor project performance and the influx of Chinese workers in Vietnam. Second, the Vietnamese government has been proactive in reducing these adverse impacts by diversifying market, investment and loan sources, improving trade structure and business climate via economic reforms, adopting a cautious approach to China's loans and upgrading law on tendering. Third, relative autonomy of the Vietnamese government in reducing deepened China's economic engagement and its adverse impacts is constrained by a number of internal and external factors. The internal factors include labour-intensive industry structure, budget constraints, difficulties in promoting PPP projects, increased demand for infrastructure investment and weaknesses in the implementation of law on tendering. External factors include a reduction in ODA flows from major donors and the US-China trade war that threatened the Vietnamese export market and induced inflows of Chinese investors into Vietnam to avoid US tariffs on Chinese imports.

These findings indicate that Globalization with Chinese characteristics or Oriental Globalization 2.0 currently led by China do not lead to the demise of Vietnamese government's power. Instead, the Vietnamese government has taken a proactive stance to defend its autonomy by implementing various policies and strategies to manage the adverse impacts of globalization. These developments indicate that globalization has transformed or restructured the power of Vietnamese government which is in line with the thesis argued by transformationalists in the theory of globalization.

Notes

* Zaharul bin Abdullah is attached to the Institute of Malaysian and International Studies (IKMAS), Universiti Kebangsaan Malaysia. He can be reached at <encikzaharul@gmail.com> or <mrzaharul@umt.edu.my>.

** Dr. Sity binti Daud is Associate Professor at the Faculty of Social Sciences and Humanities, Universiti Kebangsaan Malaysia. She can be reached at <sitydaud@ukm.edu.my>.

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