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## **Background Briefing:**

### **China-Vietnam Relations: Visit by PM Nguyen Xuan Phuc**

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Q1 What do you think of Prime Minister Nguyen Xuyen Phuc's visit to China? Are there any new developments in relations between China and Vietnam?

ANSWER: Prime Minister Nguyen Xuan Phuc's visit to China ended a six-year hiatus in official visits by Vietnam's prime minister. The Chinese media noted that it was the first time for Vietnam's new leader to visit Vietnam and that Phuc's delegation, comprising 132 officials, was the largest Vietnamese government delegation to visit China in recent years. China also hosted a visit by Defence Minister General Ngo Xuan Lich in August.

It should be noted, however, that Phuc first visited Russia and Japan after assuming office and that he had met informally with Premier Li three times in the past three months, most recently at the East Asia Summit in Vientiane a week prior to his official visit to Beijing.

Although nine agreements were signed during Phuc's visit, nothing approached the magnitude of deals reached when India's Prime Minister Modi visited Hanoi in early September before Phuc set off to Beijing.

In many respects Prime Minister Phuc's visit was a re-run of past visits by high-level leaders with the same set piece formulations used to describe their joint approach to bilateral relations and the South China Sea dispute. For example, the joint communique stated that the two leaders "agreed to continue complying with the important common perceptions reached by leaders of the two parties and nations along with the agreement on basic principles guiding the settlement of sea-related issues." Vietnam once again voiced its support for the One China policy.

Prime Minister Phuc stated on more than one occasion that Vietnam gives priority in its foreign relations to China. China is the only country to be elevated to comprehensive strategic cooperative partner status. In his meeting with Vice Premier Zhang Gaoli, Phuc stated that Vietnam and China were comrades.

When Phuc met with Premier Li Keqiang, he stressed that both parties should strengthen political trust and carry out practical cooperation at all levels. Premier Li reiterated a proposal he made during his visit to Hanoi in October 2013 before the HD 981 crisis, that is, both sides should carry out maritime, land and financial cooperation

simultaneously. Further, Li suggested both sides should promote the integration of their development strategies and extend this cooperation to include the entire Lancang-Mekong River sub-region.

Both sides are making better progress on managing their land border through legal agreements already reached and through the joint land border committee mechanism. There is already an increased level of cooperation to ensure security along the border. The prospects are good for opening and upgrading border gates and simplifying customs clearance.

Both sides endorsed the Joint Steering Committee mechanism that provides oversight of the entire range of bilateral relations. Two-way trade has increased since 2014 despite severe strains in bilateral relations. Trade and investment issues loomed large but perennial problems, such as Vietnam massive trade deficit, were not satisfactorily resolved. Prime Minister Phuc pressed Chinese officials to remove obstacles to give Vietnam greater market access and investment opportunities. Chinese officials pressed for a joint economic zone along their border following the decision of China's State Council to approve Pingxiang as a pilot zone.

Chinese companies pressed Prime Minister Phuc to ease their entry into the Vietnamese market. For example, at a reception for the president of the Industrial and Commercial Bank of China (ICBC), Prime Minister Phuc suggested that the ICBC work with the State Bank of Vietnam to draw up "effective and practical methods of cooperation." When Phuc met with the president of the Agricultural Bank of China (ABC) he praised the bank's trans-border payment service and promised that the State Bank of Vietnam would consider the ABC's proposal to open a branch in Vietnam. Phuc also met the deputy general director of Huaxia Xingfu Company and praised its relationship with various localities in building infrastructure, industrial parks and high-speed rail. Prime Minister Phuc also met with executives from Zhongxing and the Huawei telecommunications corporations.

Prime Minister Phuc was very forthright in dressing down the general director of the China Railway Sixth Group Co. Ltd, the company responsible for the delayed Cat Linh-Ha Dong rail project in Hanoi. Phuc called on the general director "to promptly address existing problems" to ensure the project's timely completion. Phuc noted that "slow construction had seriously affected daily activities and traffic in Ha Noi, and caused dissatisfaction among the public," including accidents and fatalities. The general director promised to complete basic infrastructure construction by the end of 2016.

Q2 What will happen in the South China Sea after Phuc's visit? Will the situation calm down or will more incidents occur that will heighten Vietnam's concerns?

ANSWER: It is significant that Premier Li Keqiang issued the invitation for Phuc's visit signaling that China wanted to re-engage with Vietnam after the HD 981 crisis. When Premier Li met Prime Minister Phuc on 12 September, Li noted that the South China Sea issue "involves territorial sovereignty and maritime rights and interests as well as concerns national sentiment." Li suggested that both countries should make "concerted efforts to abide by high-level consensus, safeguard maritime stability, strive to manage divergence, boost maritime cooperation and constantly accumulate consensus..."

Phuc responded that Vietnam would cooperate on the basis of “equality and mutual respect, properly resolve maritime issues in a peaceful manner, well manage differences, maintain maritime stability and conduct maritime cooperation in areas of low sensitivity to prevent maritime issues from casting a shadow over bilateral relations.” After their meeting, Premier Li and Prime Minister Phuc witnessed the signing of agreements on agriculture, science and technology, trade, production capacity, infrastructure, education, environment and climate change, culture, and sport and tourism.

Prime Minister Phuc met President Xi Jinping; their discussions focused on both economic issues and the South China Sea. Phuc stressed that bilateral relations should aim to strengthen political trust and results-orientated cooperation. Phuc told his host that Vietnam welcomed Chinese investment in sectors that matched Vietnam’s development priorities. Phuc also requested that the respective agencies and ministries of the two countries settle differences in order to promote more effective and sustainable economic and trade relations.

President Xi stated it was necessary for the two sides “to ramp up their connectivity... within the frameworks of the ‘One Belt, One Road’ and ‘Two Corridors, One Economic Belt.’ Xi also called for increased collaboration in production and tourism and to build joint border economic zones and hasten the implementation of key cooperation projects.

Regarding the South China Sea, Xi said the “common interests between the two countries far outweigh the differences” and that the two sides should solve their dispute through bilateral consultations. Xi pressed Prime Minister Phuc to move forward with joint exploration in waters outside the mouth of the Gulf of Tonkin and “to achieve substantial progress on the joint development of a wider area of the South China Sea at an early date...”

In sum, both sides agreed not to let their territorial disputes in the South China Sea hold their larger relationship hostage. The two sides repeated the past formulaic expressions about effectively implementing the Declaration on the Conduct of Parties in the South China Sea and moving expeditiously towards a Code of Conduct in the South China Sea. However, when Prime Minister Phuc met with representatives of the Chinese People’s Friendship Association with Foreign Countries and the China-Vietnam Friendship Association his remarks were more specific. VietnamNet quoted Phuc as stating that the two sides should resolve their disputes peacefully “and in line with international law, including the UN Convention on the Law of the Sea (UNCLOS) and *respect for diplomatic and legal procedures* [emphasis added].”

It seems unlikely that any breakthrough will be made on the South China Sea issue.

Q3 How would you evaluate Prime Minister’s Phuc visit to China?

ANSWER: Prime Minister Phuc’s visit must be counted a success. He started his trip by representing Vietnam as the honour country at the 13<sup>th</sup> China-ASEAN Expo in Nanning and the China-ASEAN Business and Investment Summit. Vietnam had one of the largest trade delegations.

While in Guangxi province Phuc met Vice Premier Zhang Gaoli on the sidelines. Phuc also met with Peng Qinghua, the secretary of the Guangxi Zhuang Autonomous

Region. Phuc told his host that both sides needed to work out effective solutions to facilitate trade, investment and tourism exchanges. Phuc also called on the Chinese side to address the trade imbalance by importing more Vietnamese goods. Peng stressed the importance of increasing transport connectivity and establishing economic cooperation zones along the border. Peng expressed an interest in cooperation to build the Lang Son-Hanoi-Hai Phong-Ha Long-Van Dong-Mong Cai expressway and the Hanoi-Dong Dang railway.

In the course of his visit Prime Minister Phuc met his counterpart Premier Li; Zhang Dejiang, chair of China's National People's Congress; Wang Jiari, Vice Chairman of the Chinese People's Political Consultative Conference; Yu Zhengsheng, top political advisor, and President Xi Jinping in Beijing. Phuc was firm in setting out Vietnam's concerns about trade and investment and the need to build trust. Phuc was very clear in stating Vietnam's position on the South China Sea.

Q4 There are reports that Prime Minister Phuc will be going to the U.S to attend the UN General Meeting. It is unclear if he will meet President Obama on the sidelines.

ANSWER: The 71<sup>st</sup> session of the UN General Assembly opened on 13<sup>th</sup> September. Prime Minister Phuc is likely to attend the General Assembly debate on sustainable development goals from 20-26 September. No information has been released on a possible meeting between Prime Minister Phuc and President Obama.

Q5 Vietnam is unlikely to approve the TPP this year. Vietnamese Government sources report that Vietnam does not want to give the people too much hope as the Government thinks the Obama Administration will fail to approve TPP this year.

ANSWER: There were Vietnamese media reports that the TPP would be considered and ratified in May when the new National Assembly met. Then the Vietnamese media reported that the National Assembly would consider the TPP in October. There is a five-year time frame to approve the TPP so Vietnam can wait to see if a lame duck U.S. Congress will approve the TPP after the November elections or whether the new U.S. Congress will approve the TPP after January. Countries like Australia have made it clear to the U.S. that they will not renegotiate the TPP. For all parties it is "wait and see" because without U.S. ratification the TPP is a dead letter.

In the absence of the TPP Vietnam's economic relations with China will become more important. China has been Vietnam's largest trading partner for the past twelve consecutive years. In 2015 bilateral trade reached \$95.8 billion. Vietnam is now ASEAN's largest trading partner with China, overtaking Malaysia. Vietnam's General Statistics Office reported that Vietnam's exports to China reached \$5.8 billion in the first four months of this year, an increase of 16.5 per cent year-on-year. Two-way trade rose to US \$32.3 billion in the first six months of this year, an increase of nearly 2 per cent on last year. China's imports declined by three percent during this period, while Vietnam's exports rose to \$9.1 billion or an increase of 13.7 per cent. Nonetheless, during the first half of 2016 Vietnam had a U.S. \$14.1 trade deficit. The Bank of China's branch in Ho Chi Minh City forecast that two-way trade could surpass \$100 billion by the end of the year.

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