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Background Brief:

Factors Affecting Vietnam's Policy on the South China Sea

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We are preparing an analysis of Vietnam and the South China Sea. The article below suggests Vietnam prefers to work exclusively with Japanese companies to explore Block 05-01 as it would be easier to fend off Chinese pressures. The involvement of non-Japanese companies could hinder a united front.

See: <https://www.energyvoice.com/oilandgas/asia/281536/japan-face-off-beijing-offshore-vietnam/>.

Would Vietnam-Japanese collaboration lead to a repeat of the 2019 standoff?

The thirteenth national congress of the Vietnam Communist Party is expected to take place in January 2021. Will the timing of this congress affect Vietnam's ability to respond to a Chinese provocation in the South China Sea?

With the above as background, we request your assessment of the following:

Q1. What policy proposals for dealing with China do you anticipate will be discussed at the 13th National Party Congress? Can we expect much change?

ANSWER: There is likely to be more continuity than change in Vietnam's policy towards China if the Draft Political Report to the 13th national party congress is a guide. No mention is made of China or any other country in the draft. But Part X of the Draft Political Report calls for the consistent implementation of a foreign policy of "diversification and multilateralization of foreign relations... [and] on the basis of cooperation and struggle, continue to improve the efficiency of foreign affairs and international integration." This has been Vietnam's long-standing policy.

Q2. Is there any serious challenger for the post of party Secretary General job who could take a markedly different approach from the current party leader Nguyen Phu Trong toward China?

ANSWER: Vietnam has a system of collective leadership. The next Secretary General will be a person who has served at least five years on the Politburo. Such a system produces a consensus outlook on most major issues. The system is unlikely to produce an individual who would take a markedly different strategic approach from the present one. A new Secretary General could, however, adopt different tactics towards China depending on the circumstances.

Q3. Among the favorites (Tran Quoc Vuong and Nguyen Xuan Phuc), are there serious differences in their respective approaches to China?

ANSWER: Tran Quoc Vuong was in China when the four-month long confrontation in the waters near Vanguard Bank and Red Orchid (Lan đở) block took place in 2019. He spoke directly to China's leaders calling on them to respect Vietnam's national sovereignty. Nguyen Xuan Phuc, as prime minister, has supported the prevailing line. There do not appear to be serious differences among Politburo members at the strategic level, but there are likely to be differences over how to respond to China at the operational and tactical levels. In sum, the operational code of the Politburo is one of caution and risk avoidance.

Q4. How much will perceptions of the Biden Administration's Asia policy impact on Vietnam's decision-making?

ANSWER: A senior Vietnamese diplomat once said that Vietnam preferred the "Goldilocks formula" in relations between China and the United States – "not too hot (intimate) and not too cold (hostile)." The Biden Administration is likely to jettison the overcharged anti-China rhetoric adopted by Secretary of State Mike Pompeo. A Biden Administration will maintain a tough stance against China while seeking cooperation on global issues such as the coronavirus (World Health Organisation), restoring global economic growth (World Trade Organisation), climate change, and denuclearisation on the Korean peninsula.

Vietnam will take heart that the United States will continue to oppose China's intimidation and bullying in the South China Sea. Vietnam will be especially pleased that President Biden and his top officials will restore relations with ASEAN and work with it on regional issues. According to the Draft Political Report, "ASEAN plays an important role in maintaining peace, stability, promoting regional cooperation, but also faces many difficulties" (Part II.1).

Q5. Given that the Party Congress meets the same month as Biden's inauguration, will Vietnam's new leaders have ample time to comprehend Biden's policies and factor them into their decision making at the congress?

ANSWER: Vietnam's leaders will have a breathing space of at least five months. Much depends on the outcome of two run-off elections for the Senate in Georgia. At the moment the Republicans have a majority in the Senate and can reject any person nominated by President Biden to his Cabinet, including the nominees for Secretary of State, Secretary of Defense and Director of National Intelligence.

Biden's first priorities are to defeat the coronavirus and restore economic growth. Under U.S. law his Administration must submit a National Security Strategy to Congress within 150 days of taking office. This strategy will be the result of an inter-agency whole-of-government review. Once the National Security Strategy is approved, the Pentagon will issue a National Defense Strategy, Maritime Strategy and Indo-Pacific Strategy.

In sum, until a new National Security Strategy is adopted, the United States will be dealing with foreign policy issues on an ad hoc basis.

Vietnam's leaders can count on the United States to support its comprehensive partnership with Vietnam, and the U.S. return to supporting multilateral institutions.

Q6. When America's new leaders take office, what public pressure will they face to confront China and how will they respond?

ANSWER: China has already thrown out a suggestion that the U.S. return to the table and talk with China. Of course this was addressed to the Trump Administration. When Biden takes office his China policy will reflect the bipartisan view that Trump's tariffs and sanctions on China should remain in place. Until a new National Security Strategy is adopted, U.S. military policy in the Indo-Pacific will continue on its present course, shaped by the Commander of the U.S. Indo-Pacific Command with the agreement of whomever is Secretary of Defense (an Acting Secretary until the new Secretary of Defense is confirmed by the Senate).

In sum, U.S. China policy will continue as "business as usual." There is one exception – if Xi Jin-ping chooses to test the Biden Administration with a provocation, say over Taiwan, in its early days. In this case, there will be tremendous domestic pressure for Biden to respond strongly.

Q7. Is it possible that Vietnam may take China to international arbitration, like the Philippines did?

ANSWER: Vietnam has always left arbitral action on the table as one of its tools in responding to China's aggressiveness in the South China Sea. It is unlikely Vietnam will do so unless there is a compelling reason to act, such as another HYSY 981 incident.

In order to resort to the compulsory or binding dispute settlement mechanism in the United Nations Convention on the Law of the Sea (UNCLOS) Vietnam would need to demonstrate that it had exhausted all possibilities of a peaceful settlement with China.

Q8. There is speculation Vietnam is interested in partnering with Japanese firms to develop Block 05-01. Do you think this is plausible or likely? Do you think a Japanese partnership might be able to succeed where deals with Repsol and Rosneft failed?

ANSWER: PetroVietnam already operates two fields – Dai Nguyet and Sao Vang – in Block 05-01 with Japanese companies Idemitsu and Inpex's subsidiary Teikoku Oil. Vietnam made informal representations to Inpex not to go ahead and sell a 30 percent equity share to Singapore's Jadestone. Block 05-01 is now an all Vietnamese-Japanese operation. Field development plans have been approved by the Vietnamese government.

Japan and its oil companies are in a much stronger position than Repsol and Rosneft because they can contract Japanese survey and drilling ships. China and Japan have seen their bilateral relations become more workmanlike in the past few years. China is unlikely to want to undermine this relationship especially as a Biden Administration is likely to move quickly to coordinate regional policy with Japan.

Japan has the capacity to dispatch Coast Guard and/or Maritime Self-Defence Force vessels to Block 05-01 and work in co-ordination with the Vietnam Coast Guard and Maritime Surveillance Force. Also, China would have to take into account that Japan is a formal treaty ally of the United States.

Vietnam is the weak link in all of this. As the cases of Repsol and Rosneft have demonstrated, Vietnamese leaders backed down in the face of Chinese pressures and cancelled contracts with foreign operators.

Q9. What is stopping ExxonMobil or another U.S. firm from partnering with PetroVietnam in Block 05-01?

ANSWER: There are two reasons. Japanese companies already have equity there and have had their field development plans approved by the Vietnamese government. Exxon Mobile has been skittish about the risks associated with its Blue Whale project. Exxon Mobil has indicated its preference to move into constructing gas-fired plants on shore in Vietnam.

Q10. Do you envision a repeat of the 2019 standoff in the South China Sea in the coming year?

ANSWER: If Vietnam decides to resume oil exploration at the Red Orchid block 06-01 or in the waters near Vanguard Bank China will definitely retaliate and we will see a repeat of the 2019 four-month standoff. This year China Coast Guard vessels continued to monitor the area before sailing on for other duties. Vietnam is on notice not to proceed.

If PetroVietnam and its Japanese partners decided to proceed with field development in Block 05-10, it is likely that China would apply considerable pressure on Vietnam, even threatening to use force, as was the case of Repsol of Spain in 2017-18.

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