



China's OBOR Initiative and Vietnam's Political Economy: Economic Integration with Political Conflict

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China has started the One Belt One Road (OBOR) initiative for its own economic and peaceful purposes and declared OBOR a “win-win” strategy. China boosts state-backed lending to Asia in the quest to build OBOR. Vietnam has negative and pragmatic consideration on it because OBOR is mainly for China's national interests. Also, Vietnam enjoys the emergent market opportunity of the Association of Southeast Asian Nations Economic Community (AEC). Conclusively, Vietnam is hungry for capital loans and economic interests from China's offer, yet Vietnam is also cautious of China's intention in terms of facing political and security risks.

Keywords: AEC, China, OBOR, Vietnam, win-win strategy

INTRODUCTION: INTEGRATION OR CONFLICT?

China and Vietnam are friendly neighbors, bordered by mountains and rivers, sharing a 1300 km border between two provinces on China's side and eight provinces on Vietnam's side. Simultaneously, Vietnam and China share a very complex history. Even blocked by natural hurdles, China is willing to work with Vietnam to implement a range of legal agreements. Yet China also faces a severe and aggravating diplomatic relation with Vietnam, strained by territorial disputes in the South China Sea. With combination of political and economic policies brings out a very uncertain development relation between China and Vietnam. Especially under such circumstances as Vietnam cozying up to the United States and Japan, China may try hard to mend fences and keep Vietnam at a distance from the United States and Japan (Bloomberg, 2016).

China had always been a key point of reference to the foreign policy makers of Southeast Asian countries, especially Vietnam. Due to sharing land and maritime boundaries with China,

Vietnam had been profoundly influenced by its giant neighbor with ambivalence between love and hate (Suryanarayan, 2016). With love, Vietnam has shared cultural traditions and assistance with China. With hate, Vietnam has been intensively nationalist against China's hegemonic status and has become the bulwark resisting Chinese expansionism in Southeast Asia.

Historically speaking, Vietnam has stronger motivation and experience in confronting China's invasion. Vietnam and China began with the full diplomatic normalization in November 1991, which put an end to animosity since the Sino-Vietnam bloody border war in 1979. In 1991, border trade officially reopened between China and Vietnam. Since 1991, Sino-Vietnam trade growth was up 20% annually (Eyler, 2014).

In May 2014, the Vietnamese surged a strong anti-Chinese sentiment, protesting and rioting with high nationalism. Chinese nationals largely fled to Cambodia to escape the riots. Besides, even though Vietnam has an inherent anti-China mentality and alertness, the Vietnamese also clearly realize China's politiceconomic situation and reaction. Thus, in some sense, Vietnam is strategically important in countering China's assertiveness in the region. That is why the United States is now fully exploring this geopolitical advantage with a United States-Vietnam alliance.

Basically, the bilateral relation between China and Vietnam is elite-driven, and its implication is the limitation of people-to-people contact in past years. As a result, it is easily provoked by its own nationalism because of less person-to-person communication and contact. Nevertheless, in recent years, there has been a significant increase in bilateral extensive contact among people, such as tourism, trade, investment, cultural exchange, education, border communication, and services. Most important, the opportunity of China's One Belt One Road (OBOR) initiative connecting Vietnam's Association of Southeast Asian Nations (ASEAN) Economic Community (AEC) approach will be conducive to people's contact and better for both sides.

Chinese President Xi Jinping in 2015 addressed the Vietnamese National Assembly with a warm-hearted speech that emphasized how Sino-Vietnam socialist systems should help them remain partners. Even China recognized that despite closer ties between Vietnam and the United States, Vietnam also wanted to maintain decent ties and found an agreeable arrangement with Beijing. In fact, the emergent new leadership in April 2016 and visits to Beijing implicitly indicate their diplomatic preference moving away from the United States to China (Jandl, 2015). It also shows that Vietnam's practical mindset on a rising superpower and market in terms of security and interest is of paramount importance for its development and security.

Besides, the new politburo of Vietnam has a number of young, able, and energetic members representing key policy areas, such as finance and foreign affairs. Vietnam's new leadership is also committed to expanding and deepening international ties with great powers, such as the United States, Japan, the European Union (EU), and China (London, 2016). Therefore, it is very interesting to observe Vietnam's developing policy of new leadership toward China and the United States.

On the topic of arms expansion, China continues to expand its military capabilities with imported and domestically produced weapons. In doing so, its neighboring states such as India, Vietnam, the Philippines, and Japan are also significantly strengthening their military forces and weapons. Despite the U.S. weapons ban, arms imports to Vietnam rose sevenfold from 2011 to 2015, making it the world's eighth largest arms importer.¹ Vietnam's defense spending increased to US\$5.0 billion in 2016, compared to US\$4.4 billion in 2015, and accounted for almost 8% of total government spending. Furthermore, its defense budget has been estimated to be up to US\$6.2 billion or more by 2020.²

In order to analyze the bilateral economic development between China's OBOR initiative and Vietnam's AEC, four parts are emphasized. Part 1 deals with China's OBOR initiative toward Vietnam's development. Part 2 examines Vietnam's development strategy toward China. Part 3 discusses the possible cooperation of AEC and OBOR between China and Vietnam with a "zero-sum game" or "win-win relation." The last analyzes that will close economic relation with political dispute on sovereignty of South China Sea bring Sino-Vietnam diplomatic relation coming to downturn.

CHINA'S OBOR INITIATIVE TOWARD VIETNAM

China has proposed the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road," the OBOR initiative, since October 2013. To some extent, China's OBOR is set to balance the United States' Rebalance Policy and Trans-Pacific Partnership (TPP). OBOR will focus on cooperation and economic integration primarily in Eurasia and Africa through deepened diplomatic, commercial, and financial cooperation, as well as improved infrastructural development for "global connectivity." OBOR is also used to be a catalyst for growth in the region.

Under the OBOR initiative framework, the China-proposed Asia Infrastructure Investment Bank (AIIB) was formally established on December 25, 2015, which implied the commitment of the world's second largest economy to make substantial contributions to renewed global economic governance.³ The opening of the AIIB marks China's shift from a participant of the global governance system to a contributor to it, reflecting a shift in the country's ability to manage global economic issues and efficient development (Song, 2016). The AIIB enables China to join the international financial system, which will allow the Chinese Yuan currency more international acceptance and support the Silk Road Economic Belt (Liu & Wray, 2016). Thus, it would also enable China to cooperate more with Vietnam.

The AIIB and the New Silk Road Fund would serve as the financing arm implementing OBOR. The OBOR initiative outlines Beijing's proactive engagement and economic integration, especially in Southeast Asian countries. Indeed, the AIIB begins with authorized capital of US\$50 billion, which is raised to US\$100 billion in January 2016. The AIIB is expected to lend US\$10 billion to US\$15 billion a year for the first five or six years (Liu, 2016).

The projected investment for OBOR will be up to US\$1.4 trillion, about 12 times larger than the Marshall Plan, the U.S. aid program in postwar Western Europe, which stood at about US \$120 billion in today's value. Meanwhile, the OBOR will connect more than 60 emerging foreign markets and a population of 4 billion, amounting to nearly one-third of global GDP (a total worth US\$30 trillion). China's neighbor states, i.e., Vietnam, Laos, and Myanmar, will be first-priority targets for regional economic integration by way of infrastructure investment. This is the fundamental target for China implementing its "Go Out" policy in order to expand its external market. Yet, among these three Greater Mekong Subregion (GMS) neighbor states, Vietnam will definitely be treated as the priority concerned by China's investment and market expansion.

In September 2011, ASEAN members and the Asian Development Bank (ADB) signed an agreement to establish the ASEAN Infrastructure Fund (AIF), with a total equity commitment of US\$485.3 million. The AIF is initially expected to provide loans of up to US\$300 million annually for infrastructure projects. Yet, according to the ADB estimated report, ASEAN will

need around US\$60 ~ 70 billion each year to fully meet the region's infrastructure needs. Capital supply for infrastructure construction is far from demand in the ASEAN region.

This huge funding gap forces ASEAN member countries to seek external sources of capital financing. Since China has the ability to provide the resources they need, they will accept the offer over the objections of their colleagues. It was not surprising that when President Xi Jinping announced the establishment of a US\$40 billion New Silk Road strategy and a US \$50 billion AIIB, many nations in the region quickly threw their support behind these initiatives (Ba, 2016). Vietnam is very eager for its infrastructure development by way of China's financial aid.

In the case of OBOR, Southeast Asian states, compared to their Northeast Asian counterparts, are generally more in need of developmental assistance and aid. Geographic proximity makes Southeast Asian states, especially the continental states closest to China's borders, intrinsically linked to China. In addition, more than 300 million overseas Chinese in Southeast Asia have influentially controlled local economies in all sectors. As Vietnam is located at the frontier border-state, China has planned some economic integration programs and projects.

Apart from present cooperation between China and ASEAN in fields of trade, commerce, and investment, China provides financial support so that Vietnam can gain advantages, such as 24 highway projects, 3 railroad projects, 1 seaport, 3 airports, 9 bridges, tourism development, and education exchange in the region. China's special attention is also much paid to the GMS and Indochina Peninsula. This region's infrastructure and logistic systems are still poor and inefficient in Vietnam, Laos, Cambodia, and Myanmar. As a result, Vietnam shall be very interested to welcome China's OBOR initiative.

Indeed, President Xi's Vietnam visit in November 2015 had three crucial tasks: First was to avoid pushing Vietnam into the arms of Japan and the United States. The second was to offer comprehensive economic incentives to Vietnam. The last was related to China's need for good diplomacy with Vietnam to bolster its relations with ASEAN and make the Maritime Silk Road project a success. Undoubtedly, Xi's state visit came at a new stage of bilateral ties that might advance the development of the Sino-Vietnam comprehensive strategic cooperative partnership. China and Vietnam have firmly agreed to work together to link China's OBOR and Vietnam's "Two Corridors and One Economic Circle" plan.

The other crucial purpose for China is urgent to integrate Vietnam's economy because Vietnam is a member of the U.S.-led TPP, but China is still excluded from the TPP. On the surface, it is perceived and expected that antagonism will exist between the U.S.-advocated TPP and China-initiated OBOR, rather than a symbiotic relation. Yet, with closer scrutiny, it will be found that China will skillfully use OBOR to integrate Vietnam's economy and then possibly enjoy the TPP market (Mendis & Balazs, 2016)

Moreover, China is rapidly emerging as a major source of foreign direct investment (FDI) in the direction of supply chains geographically. In addition to economic benefits, the AIIB and OBOR will significantly facilitate movement of goods, services, and people across national borders. As China's economy since 2015 has been transitioning toward "a new normality" marked by lower growth, Chinese investors have looked to ASEAN as both an alternative and a complementary market to China. Obviously, China has centered on the development of AEC, which is being inaugurated in late 2015, toward "a single market and production base" based on the AEC Blueprint 2025 (Pang, 2015). The launch of the AEC implies that a market population of 650 million in Southeast Asia is emerging and rising.

The AIIB will achieve efficient operation and become an effective tool in capital mobilization for implementing China's OBOR initiative. For China, the AIIB would be used to serve as a new effective multilateral channel to communicate with Vietnam, based on recognized agreement standards. Two aspects can be simply denoted: First, the AIIB stresses international standards, having transparent and equal conditions in lending criteria and not being affected by political conditions. With the criteria, the AIIB will seek bilateral development between China and Vietnam.⁴

Second, the participation of Vietnam in the AIIB as one of the founding countries is of great significance in Vietnam's policy of multilateralization, diversification, and integration. Also, as a founding member, Vietnam may join hands with China and the other 50 members to actively negotiate and set up operational rules of the bank. Vietnam's major concern is that the AIIB will achieve success eventually and can expand its operational areas to China and others, including securities.

During Chinese Prime Minister Li Keqiang's visit to Vietnam in late 2013 as part of China's new economic charm offensive toward its neighbors (Nguyen, 2013), the two countries agreed to boost bilateral economic relations in light of China's planned Maritime Silk Road initiative. Chinese state media hailed Vietnam as "a sparkling new state in the new ASEAN" and urged the Chinese government not to overlook a market of soon-to-be 100 million people in Vietnam (Gu, 2013).

In 2014, Sino-Vietnamese trade had grown strongly and accounted for more than 17.4% of total China-ASEAN trade (Tong & Xin, 2015). Besides, China currently is running more than 1,300 projects in Vietnam with total capital of more than US\$10 billion. Moreover, Vietnam received 7.942 million foreign visitors in 2015 and expected up to 8.50 million in 2016. It received more than 3.2 million foreign visitors in the first four months of 2016, rising 17.8% compared to the same period of 2015. Specifically, Vietnam welcomed 789,500 Chinese visitors, up about 47%.⁵ China has become Vietnam's largest tourist resource.

VIETNAM GOVERNMENT DEVELOPMENT POLICY TOWARD CHINA

For the past 25 years, Vietnam has pursued a policy of "multilateralizing and diversifying" its foreign relations. Vietnam seeks to develop comprehensive relations with each major power without aligning with any one of them. Vietnam deals with its external relations through the framework of formal agreements on strategic partnerships such as with Russia (2001), India (2006), Japan (2007), and China (2009) and, in the case of the United States, an agreement on comprehensive partnership (2013). Clearly, Vietnam would like to decrease its political and security dependence on China.

Since 2011, Vietnam has given priority to developing international defense and security cooperation with major powers. Vietnam seeks to give each major power's equity in Vietnam stability and development, in order to ensure Vietnam's nonalignment and strategic autonomy.

In 2016, Vietnam found itself engaged in proactive regional initiatives led by two major powers. One attempt was to build constructive and strategic relation with USA and even Japan under the consideration of TPP or CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership). The other attempt is China's land-based OBOR initiative. For Vietnam, a turn to the OBOR and AIIB should improve infrastructure for itself, whereas using

the TPP framework can enable Hanoi to integrate with the vast American market (Dollar, 2015). However, U.S. President Donald Trump signed an executive order to withdraw from the TPP trade deal in January 2017 (Chakraborty, 2017). This might enforce Vietnam to pay much attention on China's OBOR investment or deepen its involvement in AEC instead.

Free market reforms have been adopted by Vietnam since 1986 to improve the country's economy by Doi Moi Renovation, with a goal of creating a socialist-oriented market economy. Still ostensibly a Communist country under one-party rule, Vietnam has enjoyed gradual economic growth. In 2015, Vietnam's GDP was more than US\$193.6 billion, compared with just US\$6.47 billion in 1990 (World Bank, 2016). Also, the country is among the world's largest exporters of rice and cashews. However, Vietnam also faces some crucial development problems, such as inefficient infrastructure, bureaucratic corruption, a fluctuating exchange rate, privatization, high inflation rates, a heavy burden of trade deficits, and a severe fiscal deficit. That is why Vietnam, at present, is urged to adopt the second Doi Moi innovation reform.

However, Vietnam's fiscal position has deteriorated rapidly in recent years. Its budget deficit in 2015 increased 14% to reach US\$11.47 billion, equivalent to 6.1% of its GDP (Hiep, 2016). Vietnam's precarious fiscal problem may generate potential economic risks for its long-term macroeconomics (Bowring, 2016). Once again, the rapid increase of recurrent expenditures will worsen fiscal deficits. Moreover, other important causes include falling oil prices, diminishing foreign grants, and an increasing debt service burden, all of which make Vietnam more reliant on foreign investment and loans from China. Thus, Vietnam's public debt will likely continue rising as the government increasingly relies on borrowing to fuel economic growth on the one hand and to finance its budget deficit on the other hand.

It is a considerable challenge for Vietnam's new government to achieve socioeconomic targets set by the recent 12th National Congress of the Communist Party of Vietnam (CPV). If the fiscal imbalance persists or worsens, it will generate serious economic, political, and strategic implications for Vietnam's development. However, solving or mitigating the problem requires not only sound economic and even foreign policies but also political determination to embrace challenging reforms on the part of the CPV.

Moreover, in 2014, Vietnam claimed that a Chinese oil rig exploited and islands militarized in the South China Sea have threatened freedom of navigation and regional security. The standoff in disputed waters between China and Vietnam tested Obama's pivot of military and diplomatic assets to Asia (Bowring, 2016). In Vietnam's perspective, China's placement of the oil rig and deployment of escort vessels to protect the rig deep into Vietnam's continental shelf and Exclusive Economic Zone seriously threatened regional peace, stability, and maritime security.

Nevertheless, in 2015, bilateral trade revenue between China and Vietnam hit US\$95.97 billion, a growth of 14.6% year on year.⁶ In 2016, Vietnam targets to reach US\$100 billion in bilateral trade revenue can be expected. In 2016, bilateral trade revenue with China accounted for 19.66% of Vietnam's total trade revenue. China has remained the biggest trade partner of Vietnam for the past 12 years (Xinhua, 2016). Besides, Vietnam will overtake Malaysia to become China's biggest trading partner in Southeast Asia.

Since implementing opening up policies in past decades, Vietnam has been for the first time directly engaged in setting up a bank that has a significant role in the region and the world. Indeed, participating in the AIIB has special meaning to Vietnam, ready to cooperate with China and other countries. The AIIB is expected to be a new channel for Vietnam to attract more capital resources for socioeconomic development, especially that of infrastructure.

The demand for Vietnam's infrastructure construction is quite huge with limited capital resources. Via the AIIB, Vietnam can attract more financial resources for development, especially for the construction of infrastructure, including roads, seaports, and airports. On approaching into middle-income countries, Vietnam realized more difficult in pursuing nonrefundable aids and preferential loans from foreign partners because of competition. As a result, the AIIB becomes a useful tool in Vietnam's foreign diplomacy to bring more options for Vietnam in seeking international assistance. Apart from the advantages in capital attraction, participating in the AIIB will strengthen the political position of Vietnam in the international arena.

Facing China's threat, Vietnam would like to reduce economic dependence on China and to expand its economic partnership with other great economies. Regarding this issue, in 2015, Vietnam's government—with the ambition of participating in regional economic integration on trade and investment—had four major purposes: to go through TPP requirements; to promote a Free Trade Agreement (FTA) with the EU; to sign an FTA with South Korea; and to join the Eurasia Economic Union (EEU).

Vietnam has been very enthusiastic about participating in regional economic integration in order to promote export and attract more FDI. Nowadays, Vietnam is not only a member of ASEAN and AEC but also a member of World Trade Organization (WTO) and TPP.

In May 2015, Vietnam signed the FTA with the EEU (Nguyen, 2015). This agreement will help Vietnam's businesses access the markets of five countries with 180 million people and GDP of more than US\$2.5 trillion. In the meantime, Vietnam has signed an FTA with South Korea, which is Vietnam's third largest trade partner, just next to China and the United States. Trade volume grew to US\$40 billion, increasing 27.8%, in 2015 between Vietnam and South Korea and it is expected to increase to US\$70 billion by 2020 (Parameswaran, 2015).

In December 2015, Vietnam also signed the FTA with the EU, and it will take effect in 2018.⁷ Vietnam will enjoy the limitation of tariffs on more than 99% of all items from the EU, constituting about US\$18 trillion of GDP. The EU is the second largest trade partner of Vietnam, next to China, and also the largest exporting market for Vietnam, next to the United States, mainly on shoes, leather, textiles, and garment commodities. Bilateral trade volume almost doubled, with an annual growth rate of 11%, from US\$17.8 billion in 2010 to US\$36.8 billion in 2014 (Edward, 2015). The EU also contributes vast investment in Vietnam. Among EU-28 countries, 23 countries have come to invest in Vietnam, with 2100 projects and total accumulation of investment around US\$38.4 billion.

The TPP, consisting of 12 countries, occupies 40% of global GDP, around US\$28.1 trillion, and 30% of world trade, about US\$11 trillion, with 800 million consumers. Vietnam can also take advantage of many preferential conditions and customs advantages from all who have signed the trade agreement. All these trade agreement will boost export of goods and services as well as investment in Vietnam (Bui and Vuong, 2016). In order to meet TPP membership requirements and consensus, Vietnam must deliver significant domestic changes on liberalization and corruption. The TPP, alongside China's aggressive stance in the South China Sea (Vietnam's East Sea), may force political change in Hanoi.

For the next 10 years, the TPP trade pact could boost Vietnam's GDP growth by 11% as well as boost its exports by 28%.⁸ At present, the Vietnam government's major economic measures on domestic companies are to increase localization in order to prepare for the potential TPP. In particular, 90% of textile raw materials are cut and sewn into finished garments in Vietnam. Signing the TPP agreement means that Vietnamese garment exporters will technically

no longer be able to import their materials from China if they hope to benefit from lower tariffs under the agreement. Indeed, since withdrawing from the 12-nation TPP, the United States left an American policy vacuum in a fast-growing region in East Asia. It will give China more opportunity to influence this regional economic integration and let longtime U.S. allies and let Vietnam in a trade deal dilemma. Vietnam may not have strong resistance against China's OBOR advantages for the sake of security risks.

COOPERATION OF AEC AND OBOR BETWEEN CHINA AND VIETNAM: ZERO-SUM GAME OR WIN-WIN RELATION

From China's perspective, it would like to develop a win-win economic relation with Vietnam that will be advantageous for China-Vietnam economic integration. From Vietnam's perspective, it may tend to have a somewhat psychological perception of a zero-sum game with China. Yet, putting AEC and OBOR together, China and Vietnam will become more rational and efficient on mutual economic integration. But still, China will go to great effort to integrate Vietnam's economy for geo-economic strategic consideration, while Vietnam will find more economic expansion and other FTA partnerships in order to avoid too much concentrating and relying on China's economy and loan investment for the sake of economic security and realistic concerns.

The establishment of the AEC in December 31, 2015, marked a milestone in regional integration of its 10 Southeast Asian member economies, especially for Vietnam. The aims of AEC are to approach zero-tariff, non-tariff barriers, trade liberalization, and free movement on service, capital, commodity, human, and labor. Vietnam has also matured into a country that demands more advanced technologies, of which Europe will be a key provider. The EU is ASEAN's second largest trading partner after China, accounting for around 13% of ASEAN trade. High expectations on advantages of AEC operation, EU traded with ASEAN rising 12.7% in 2015, trade volume from €179.66 billion to 201.62 billion. ASEAN enjoyed a trade surplus from the EU with €35.54 billion.⁹ The EU's main exports to ASEAN are chemical products, machinery, and transport equipment and main imports from ASEAN are transport equipment, agricultural products, as well as textiles and clothing.

Close look on Vietnam-EU trade, the EU has a negative balance of trade in goods with Vietnam. In 2014, EU-Vietnam trade in goods was worth more than €28.3 billion, with €22.1 billion in imports from Vietnam into the EU and €6.2 billion in exports from the EU to Vietnam. The EU is one of the largest foreign investors in Vietnam. In 2015, EU investors committed a total of \$1.3 billion in FDI and became Vietnam's third largest foreign investor (European Commission, 2017).

The AEC, modeled as a single market, is very attractive and is intended to enhance competitiveness of its members in preparation for a more open regional market economy in line with WTO commitments and free trade pacts, such as the TPP and an EU FTA. The AEC has been improved trade liberalization on zero-tariff, non-trade barriers, trade in services, financial services, customs harmonization, and the movement of labors.

Apparently, the formation of AEC for Vietnam means market opportunity and subregional economic alliance. Since Vietnam is a long and narrow country, it should develop its East-West transportation network to connect its East Coast ports with inland regions of Laos, Cambodia,

and Thailand. Clearly, under the AEC framework, Vietnam can play an important economic role to integrate Cambodia and Laos markets, even with border markets with Southern China, to gain economic benefits (Tuyet, 2016). Well-constructed infrastructure and logistics can boost Vietnam's economy through two East–West Economic Corridors and one Southern Economic Corridor. The former corridors can connect Central Vietnam, Southern Laos, Northern Thailand, and Southern Myanmar. The latter corridor links from Vietnam's Ho Chi Minh, to Cambodia's Phnom Penh, to Thailand's Bangkok, and to Myanmar's Dawei (or Tavoy) Special Economic Zone, which is more influenced by Japan-led development, rather than China.¹⁰

Expanding economic relations can be found by the growth of bilateral trade with China from US\$32 million in 1991 to US\$30.1 billion in 2010 and to US\$95.97 billion in 2015. Yet, China has continuously enjoyed a large trade surplus from Vietnam since 2000. In 2014 and 2015, Vietnam suffered big trade deficits with China in the amounts of US\$43.71 billion and 36.28 billion, respectively.¹¹ It is certain that Vietnam's trade deficit with China will continue.

Moreover, looking at FDI in Vietnam, the projects listed as originating from China were few in the 1990s and with modest amounts of capital from 2000 to 2010. The cumulative figure during 1988 to 2012 shows 893 projects with registered capital of about US\$5 billion. In 2014 and 2015, China's FDI in Vietnam was about US\$480 million and US\$332 million, respectively.¹² The Chinese investment in Vietnam will be emphasized and rapidly increased for boosting two-side trade growth.

Trade revenue across the China–Vietnam border in 2015 accounted for 85% of Vietnam's total border trade revenue.¹³ In total, during the year, Vietnam posted some US\$27.56 billion in border trade with China, Laos, and Cambodia, an increase of 27% compared to 2014. The total border trade volume between Vietnam and China, Cambodia, and Laos will be expected to reach US\$30 billion in 2016 (Xinhua, 2016).

Trade commodities via the border between Vietnam and China were diverse. Vietnam mainly exports agro-forestry-fishery products, processed and industrial products, as well as minerals to China, while it imports materials for production, food, consumer goods, machinery and equipment, vehicles, and electronic products from China.

In 2016, China ran more than 1300 projects in Vietnam with total capital of more than US\$10 billion.¹⁴ From 2013 on, Vietnam and China have sped up construction of OBOR and “two belts and one economic corridor.” Bank of China is implementing more than 300 key projects in more than 16 nations that participate in the Chinese initiative of OBOR. The Bank of China is striving to cater 34% in the next 5 years. Surely, Vietnam will pursue and gain most advantages from China's investment fund and infrastructure projects from AIIB.

China and Vietnam have begun working on infrastructure and monetary cooperation as part of China's new strategy of boosting cross-border connectivity with its neighbors. China and Vietnam also plan to construct highways linking Vietnam's border of Lang Son with Hanoi and the border city of Mong Cai with Ha Long Bay. They have also agreed to conduct a feasibility study for a proposed high-speed railway between Lao Cai and Haiphong.

In fact, even though the trade and investment relations between China and Vietnam are so close and well-linked, Vietnam is still also actively implementing many regional and bilateral FTAs. The purpose is aiming at lowering heavy reliance on China. Vietnam fits neatly into the most pro-American countries in the region. According to a 2015 Pew Survey, 74% of Vietnamese see the United States favorably, in contrast to 19% seeing China favorably (Pew Research Centre, 2015). It is clear, politically, that Vietnam feels more favorably about and is more

trustful of the United States, rather than China. It is no wonder that the anti-Chinese incident on May 13, 2014, happened with strong nationalism and caused serious damages and injury on Chinese-related and owned factories. As a result, it is quite seriously challenging and endangering Chinese investors in Vietnam.

Despite of being a member of the TPP, the United States is also Vietnam's seventh largest investor, with bilateral trade volume worth up to US\$45.11 billion in 2015 and US\$48.25 billion in 2016. Vietnam has also enjoyed a massive trade surplus from the United States of about US\$30.93 billion in 2015 and US\$29.34 billion in 2016.¹⁵ In comparison, Vietnam has a heavily burdened trade deficit with China, accounting for US\$43.71 billion in 2014 and US\$36.28 billion in 2015. Undoubtedly, Vietnam's trade is most favorable with the United States' surplus and least favorable with China's deficit.¹⁶

Vietnam is strategically located between Northeast and Southeast Asia with a 2,000-mile coastline on the South China Sea, a strong consideration by the United States as it repositions military forces in the region. In May, 2016, Obama's visit was to strengthen engagement and develop a strategic partnership with Vietnam, as part of its rebalancing strategy. In particular, Obama declared an end to the arms sale embargo for Vietnam after half a century, and both countries can boost their military might. Vietnam's president Tran Dai Quang promised more sweeping access to its valuable ports for the U.S. Navy. Strategically and politically, the United States and Vietnam would like to take China as their common imagined enemy on South China Sea disputes. Besides, Vietnam is the world's eighth largest weapons importer and is spending increasing amounts on its self-defense, with arms imports rising 699% from 2011 to 2015.¹⁷ At the same time, the United States is currently sending six fast patrol vessels to Vietnam to help bolster its coast guard and counter Chinese ambitions in the South China Sea.

Unlike EU-ASEAN FTA cooperation, which is multilateral, the OBOR strategy seemingly adopts the framework of center-periphery so that China is simply situated as center. This structure gives China almost absolute power in dealing with other countries along the belt and road development, especially when China applies her preferred bilateral and even "divide to control" strategy (Vietnam FDI, 2015). This Chinese ambition is clearly implied in China's "2 + 7" initiative, which was delivered by China's prime minister at the China-ASEAN Meeting 2013, such as China-ASEAN agreement on friendly cooperation, annual defense minister meeting, US\$1 trillion bilateral trade plan in 2020, AIIB settlement, renminbi as main currency in trade payment and financial activities, South China Sea marine cooperation, and cultural exchange.

Vietnam's average labor productivity was VND79.3 million, about US\$3,500 in 2015, up 6.4% compared to 2014. In the 10-year period since 2005, the average growth rate of Vietnam's productivity was 3.9% each year.¹⁸ Average labor productivity value is still higher than its GDP per capita, less than US\$2,000. Yet Vietnam's productivity still lags behind Asian neighbors and must be urgently improved. In 2014, Vietnam's labor productivity calculated based on purchasing power parity (PPP) was US \$9138.60 per person, equivalent to 6.41% of Singapore, 13.56% of Korea, and 40.36% of China.¹⁹

Among other things, four issues would be potentially contentious for cooperation and connection between OBOR and AEC. The first is related to the trade deficit between China and Vietnam. As seen, the increase in bilateral trade will result in growing Vietnam's trade deficit with China. It will hinder win-win cooperation between China and Vietnam. The second

is regarding the sovereignty dispute in the South China Sea. The increase of nationalism and anti-Chinese hostility in Vietnam will incite confrontation and conflict, and those are harmful for trade development and economic integration. The third is related to the Mekong River Basin. Vietnam is concerned with Chinese dam construction projects along the upstream of the Mekong River that will severely influence downstream water use on agricultural production and people's living. Finally, bureaucratic corruption is an issue of exploitation toward foreign investment that will have a negative impact on Vietnam's economic growth.²⁰

CONCLUSION: CONFLICT AND HESITATION AHEAD

China promises to start OBOR just for economic and peace purposes and declares that OBOR is a "win-win" strategy. China boosts state-backed lending to Asia in quest to build OBOR. Yet Vietnam may have negative attitude and thinking on it, mainly for China's national interests only. AIIB may be a source of cheap loans, but it seemingly serves China's political and economic purposes. Thus, even welcoming China's OBOR, Vietnam is still in a dilemma in engaging in OBOR. Vietnam is hungry for capital loans and economic interest from China's offer, yet Vietnam is also cautious of China's intention and of facing political and security risks.

In 2015, Vietnam placed itself in a better international position vis-à-vis Beijing. Especially after the 12th Party Congress, the balancing diplomacy measure toward China and the United States has been taken as important leverage. Vietnam uses this leverage to improve its Washington and Beijing engagement for its security and economic interests. In 2016, indeed, Vietnam's bargaining power increased.

The Asian Regional Comprehensive Economic Partnership is led by China, even though it is being negotiated among ASEAN Plus Six (Australia, New Zealand, China, Japan, Korea, and India). It is a chance to strengthen ASEAN centrality for the integration of OBOR and AEC. Somehow, China's flagship OBOR strategy is considered by Vietnam as an attempt to divide ASEAN. Vietnam is very cautious not to be lured by China's big money. Thus, it is not surprising that Vietnam is skeptical of the establishment of China's AIIB.

To Vietnam, isolation from China and its OBOR initiatives is unrealistic and counterproductive. What Vietnam should consider is how it can use China's funding to strengthen its economic regional competitiveness and to narrow its development gap. Good infrastructure and connectivity will play an important role in the success of Vietnam's economy followed AEC launched in the end of 2015.

Basically, Vietnam will make careful consideration in joining OBOR as well as a rational calculation of OBOR's benefit. Vietnam still tends to be cautious on national security with China. Economically, no one can be sure of any benefits that Vietnam can derive from OBOR. Simultaneously, Vietnam has fewer resources to develop its infrastructure as it suffers huge public debts. Vietnam may be afraid of putting itself deeper into China's loan trap on transportation from OBOR. Furthermore, well-built transportation infrastructure can help China's goods to enter Vietnam's territories more easily, which is a threat to its domestic products. Instead, Vietnam shall pay much attention to TPP, AEC, and EU engagement, which would be more promising and safer. Keeping a development balance between OBOR and TPP/EU/AEC may let Vietnam enjoy effective soft infrastructure from TPP and hard transportation investment from OBOR. All these policies will eventually boost Vietnam's trade and investment development.

NOTES

1. According to International Arms Transfers, published by the Stockholm International Peace Research Institute.
2. In recent years, around 80% of Vietnam's military purchases have come from Russia. Sophia Yan. (2016, May 23). Vietnam's defense spending is US\$5 billion and rising fast: President Obama announced end to military sanctions banning US arms exports to Vietnam. *Centralillinoisproud*. Retrieved from <http://www.centralillinoisproud.com/news/vietnams-defense-spending-is-5-billion-and-rising-fast>.
3. Unlike the World Bank and the International Monetary Fund, which are predominantly controlled by developed countries, the AIIB was proposed by China, one of the most robust emerging economies in the world.
4. This viewpoint is emphasized by Tran Viet Thai, deputy director of the Institute for Foreign Policy and Strategic Studies, Vietnam's Ministry of Foreign Affairs' Diplomatic Academy, interviewed by Xinhua Press.
5. From Vietnam's General Statistics Office.
6. In contrast, Vietnam's figure on bilateral trade with China was about US\$66 billion in 2015, not as much as China's account of US\$95.97 billion.
7. WTO Center VCCI. Vietnam-EU Free Trade Agreement Negotiation. Retrieved from <http://wtocenter.vn/nfocus/vn-eu-fta>.
8. The statistics are according to Singapore-based Institute of Southeast Asian Studies (Yusoff Ishak Institute).
9. The EU is by far the largest investor in ASEAN countries, accounting for 22% of total FDI inflows in the region. EU companies have invested an average €19 billion annually in the region during 2012–2014. European Commission, Trade: Countries and Regions, Association of Southeast Asian Nations. Retrieved from <http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/>
10. Consult-Myanmar. Japan pledged to take part in Dawei Special Economic Zone project and the Italian-Thai company plans to operate smaller projects. Retrieved from <https://consult-myanmar.com/tag/dawei-sez/>.
11. Statistics from Bureau of Asia, Ministry of Commerce, China. Retrieved from <http://yzs.mofcom.gov.cn/article/g/>
12. Ibid.
13. According to Vietnamese Ministry of Industry and Trade statistics.
14. Cited from Vietnam's state-run news agency (VNA).
15. United States Census Bureau. Foreign trade: Trade in goods with Vietnam. Retrieved from <http://www.census.gov/foreign-trade/balance/c5520.html>.
16. Department of Asian Affairs, Ministry of Commerce of the People's Republic of China. Retrieved from <http://yzs.mofcom.gov.cn/article/g/date/>.
17. This number is according to the Stockholm International Peace Research Institute.
18. Data are from a report of the Central Institute for Economic Management.
19. Vietnamese productivity lags behind Asian neighbors. *VnExpress International*, April 25, 2016. Retrieved from <http://e.vnexpress.net/news/business/economy/vietnamese-productivity-lags-behind-asian-neighbors-3392905.html>.
20. According to Corruption Perceptions Index (CPI) of Transparency International report in 2015, Vietnam ranks number 119 globally among 174 countries.

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