

Vietnam–China Economic Relations and Recommendations for ASEAN–China Cooperation

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1 Introduction

Historical and geographical proximity has had great impacts on Sino–Vietnamese economic relations. Having a long history of trade and cultural exchanges, Vietnamese and Chinese bilateral economic cooperation is among the most durable, sustainable, and intensive of relations between China and Southeast Asia. Despite many “ups” and “downs” in the history of their bilateral relations, exchanges among Chinese and Vietnamese business communities have been carried out nonetheless for many centuries. From geographical perspectives, Vietnam is the only country in Southeast Asia bordering China on both land and at sea. Geography created favorable conditions for boosting socioeconomic relations, but also caused many difficulties, especially those related to territorial disputes. As a result, bilateral relations between Vietnam and China can be perceived as being alike to a portrait with adverse segments: one is a deep mutual understanding, with the partaking of values and ethics, while the other is of long-lasting skepticism and mistrust.

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2 Economic Relations Between Vietnam and China Since Normalization

2.1 In the 1990s

Since the normalization of diplomatic relations between Vietnam and China in 1991, bilateral economic cooperation has improved tremendously along with a considerable increase in the value of trade and investment. Shortly after the normalization process, a set of agreements were signed by the two governments in order to provide a legal foundation for bilateral trade and investment collaboration. The most important agreement reached by both sides in those years was the most-favored-nation treatment and various preferential custom tariffs granted by provisions of the trade agreement signed in November 1991.

In the early 1990s, Vietnam and China achieved impressive annual percentage changes in bilateral trade, with values that varied from 120 % to greater than 450 % annually (see Table 1). However, the great surge in the levels of trade could only be maintained in the commencing period when the notion of commercial exchange had only just been restored. During the second half of the 1990s, annual percentage changes in bilateral trade began to progressively decrease and even fell below zero in 1998 and 1999 due to the ramifications of the financial crisis.

Vietnam and China's trade relations in the first decade post-normalization also illustrated the fact that there were various emerging issues that were in need of addressing.

First, Sino–Vietnamese trade relations in the 1990s still comprised a low percentage of foreign trade for each of the respective nations, it constituted for just 0.4 % of China's and 7 % of Vietnam's total foreign trade on average. Moreover, considerable fluctuations in the annual percentage alterations indicated that there were low levels of connection between these respective markets. This was

Table 1 Trade values and annual percentage changes of Sino–Vietnamese trade in the 1990s

Year	Trade values (in US\$ million)	Annual percentage change (%)
1990	7.23	–
1991	32.23	345.8
1992	179.07	454.4
1993	398.64	122.6
1994	532.82	34.1
1995	1052.19	97.4
1996	1150.63	9.3
1997	1435.64	24.6
1998	1245.67	–13.2
1999	1218.15	–2.2

Sources: International Studies (Diplomatic Academy of Vietnam), No. 31, 1999; China Statistical Yearbook 1999

Table 2 Trade balance between Vietnam and China in the 1990s

Year	Export from Vietnam to China (US\$ million)	Export from China to Vietnam (US\$ million)	Trade balance of Vietnam (US\$ million)
1990	3.37	3.86	−0.51
1991	10.23	21.40	−11.17
1992	72.71	106.36	−33.65
1993	122.63	276.00	−144.37
1994	191.16	341.66	−150.50
1995	332.06	720.13	−388.07
1996	308.48	842.15	−533.67
1997	357.10	1078.54	−721.44
1998	217.36	1028.31	−810.95
1999	354.29	863.86	−509.57

Sources: International Studies (Diplomatic Academy of Vietnam), No. 31, 1999

due to the fact that Vietnam–China’s economic ties at that time were still unstable and vulnerable as a result of the financial crisis.

Second, Vietnam was facing increasing trade deficits with China which were progressively increasing each year. Between 1991 and 1995, China’s export to Vietnam was around twice that of Vietnam’s export. But in subsequent years (1996–1999), China’s export to Vietnam was estimated to surpass that of Vietnam’s by a considerable margin, around 2.5 times to fourfold of Vietnam’s total export value (see Table 2). This circumstance can be explained by the trading structure in which almost all goods and commodities exported by Vietnam were raw materials or primary agricultural products with relatively low added value. The main goods supplied by Vietnam were rice, coconut oil, coffee, cashews, seafood, oil, coal, rubber, and metal ore. Meanwhile, China supplied to her counterpart produce that was predominantly agricultural utensils, machinery for the light industry, small hydropower stations, transport vehicles, garments, and fruits. Further reasoning may be due to the quota imposed by China on the trade of rice and rubber which were among Vietnam’s key exported items.

Third, the expansion of the Sino–Vietnamese trade relations after normalization resulted in a plethora of difficulties for Vietnamese producers who faced fierce competition from Chinese companies. Chinese goods, having the upper hand in terms of price and diversity, managed to increase their market share greatly in Vietnam, especially among low-income consumers. Vietnamese enterprises were greatly disadvantaged due to the fact that the inputs for the manufacturing industries such as machinery, equipment, and raw materials were mainly sourced from China.

In addition, trade between Vietnam and China’s border provinces constituted for a substantial part of bilateral trade within these respective nations. Border trade among the Vietnamese Northern provinces and the Chinese provinces of Guangxi and Yunnan in the 1990s was estimated to be around US\$ 300–350 million per annum. Such value comprised up to 50 % of the total border trade in China which

made Vietnam a prominent ASEAN border trade partner of China (in comparison to Laos and Myanmar). Expansion of commercial exchange across the border provinces contributed significantly to the increase in GDP of these provinces and a stark increase in living conditions for those who were of local origin. Nevertheless, multiple transnational crimes, including smuggling, gambling, prostitution, trafficking in women and children, and drug trading and addiction, emerged as consequences of commercial activities in these boundary regions and posed huge challenges and potential risks to both sides. Therefore, efficient monitoring of the transition of trans-boundary goods and migrant flows was imperative for the two governments from both economic and security perspectives. Thus, in order to strive for an enhanced future, a temporary agreement on regulations of border administration was signed by both Vietnam and China in 1991. The focal point of this agreement was related to the notion of legalization of border trade and the reopening and monitoring of border gates. In 1992–1993, both Vietnam and China’s governments adopted domestic laws providing preferential policies in order to increase the provision of economic activity in these provinces. Development of the border provinces was of mutual interests of both Vietnam and China in improving the quality of life for local communities, reduction of the development gap among regions, as well as coping with domestic and transnational crimes.

In terms of investment, FDI from China to Vietnam in the 1990s constituted for a small proportion of Vietnam’s FDI inflow: about 3 % of the total value and around 2 % of the total quantity of projects were funded from Chinese investment. China invested mainly in the construction of small- and medium-sized infrastructure, in tourism and restaurants. Aside from the two projects that concentrated on the development of industrial zones in Ho Chi Minh City and Hai Phong that were fulfilled with a US\$14 million and US\$15.5 million investment, respectively, up to 60 % of projects that Chinese firms invested in were valued at less than US\$1 million. The majority of these projects were of small and medium volume with an average capital of around US\$2 million (see Table 3). This was much less than the average value of the projects that were funded by the ASEAN companies (approximately US\$10 million), let alone investment from developed countries. There were three prominent reasons behind this situation:

Table 3 FDI from China to Vietnam and quantity of projects in the 1990s

Year	Value of China’s FDI to Vietnam (US\$ million)	Quantity of projects
1991	0.2	1
1992	3	10
1994	24	22
1995	60	33
1998	120	61
1999	130	76

Source: Proceedings of the conference “Vietnam–China relations: achievements after a decade and prospects” (Hanoi, November 2001, p. 323)

- Although the Vietnamese government made a considerable effort to improve conditions for foreign investment since 1988, there was a lack of an adequate legal system, and the standards and infrastructure at that time inevitably made Vietnam less competitive than China and her subsequent ASEAN counterparts.
- In the 1990s, after more than a decade of economic reform, China itself was among the most attractive destinations for FDI. Chinese large-scale investment projects were primarily focused on the burgeoning domestic market or the developed markets that were deemed to make a profit.
- In those years, almost all Chinese investors did not have long-term business plans in Vietnam. They preferred small-scale projects in order to recoup in close proximity. In case the project failed to reap the expected profit, Chinese investors tended to withdraw their capital shortly after and move on to another market.

In general, normalization of political and diplomatic relations between Vietnam and China in 1991 was an indispensable precondition for the restoration of bilateral economic cooperation. The most important achievements in the realm of Sino–Vietnamese cooperation in that period included (1) facilitation for collaboration among Vietnamese and Chinese business communities, such as increased access to goods and investment for both sides; (2) improvement of people’s quality of life and infrastructure, especially in the border provinces; and (3) contribution to economic growth and reform in each country. As mentioned above, parallel to the benefits derived from boosting economic cooperation with China, Vietnam encountered various challenges ranging from an increasing trade deficit to inefficiency of investment, and there were also various security issues. Alongside the great difficulties that were caused by the financial crisis of 1997–1998, these challenges required new initiatives from both Vietnam and China to resolve in order to intensify bilateral cooperation. As for Vietnam, the government understood the needs of making relevant legal and political amendments, together with other measures aimed at improving the competitiveness of Vietnamese enterprises.

2.2 *Between 2000 and 2009*

During the course of the second decade after normalization, Vietnam and China had mutual interests in deepening bilateral relations and fostering cooperation in many areas. The bilateral, domestic, and regional context in this decade brought about favorable conditions for upgrading relations between the two countries.

First, at the turn of the century, Vietnam and China managed to resolve two important issues related to their land borders and in the Gulf of Tonkin (Beibu Gulf). Conclusion of the agreement on the demarcation of the land border between Vietnam and China dated 31 December 1999 and the agreement on the matter of delimitation of territorial waters, the exclusive economic zone, and the continental shelf of the Gulf of Tonkin (Beibu Gulf) on 25 December 2000 helped start a new phase in bilateral relations in the post-normalization period. Resolution of territorial disputes

regarding land borders and in the Gulf of Tonkin brought about a huge improvement in political relations between two parties and between two governments. Today there is an area called “Entrance of Gulf of Tonkin” which is still under negotiation.

Second, from the regional perspectives, this decade marked the starting point of ASEAN-10 which included all of the Southeast Asian states. Member states committed to accelerate regional integration and foster a bigger role of the association in East Asia. In order to fulfill a vast array of initiatives agreed among the members, ASEAN countries took into account the importance of cooperation with Northeast Asian partners. At the same time, the financial crisis of 1997–1998 also highlighted the importance of new cooperative mechanisms like ASEAN + 1 and ASEAN + 3. Tendencies of regional integration gave additional impetus to bilateral cooperation between Vietnam and China.

Third, from the angle of domestic reforms, both countries had mutual interests in maintaining stability for economic development. The reformation policy that both Vietnam and China adhered to had a similar approach and motive: to advance economic growth by means of increased exports and FDI. Since the end of the 1990s, leaders of the Vietnamese and Chinese governments began to set up clear targets for bilateral trade. For instance, during the visit of the Vietnamese Prime Minister Phan Van Khai to China in 1998, the two governments agreed to work together in order to achieve the bilateral trade target that was placed at US\$2 billion in 2000. After that, the target for the years 2005 and 2010 was decided upon as being US\$5 billion and US\$10 billion, respectively. However, all these trade values were achieved earlier than the expected date; therefore, in 2005, the target for 2010 was raised to US\$15 billion. Nonetheless, it took solely 2 years to acknowledge and surpass this goal, and in 2007, the total trade value between Vietnam and China was estimated to be greater than the US\$16 billion motive.

2.2.1 Trade

2000–2009 has proven to be the most vibrant decade in Sino–Vietnamese economic relations in the post-normalization period. As indicated in Table 4, the total value of trade between the two neighbors has been increasing gradually. The annual percentage change in 2000 showed the recovery of bilateral trade after the financial crisis of 1997–1998. Although the annual percentage change was not as impressive as in the early 1990s, the increase in value was considerable. In 2009, the value of Sino–Vietnamese trade was elevated to almost US\$18 billion in comparison to the 2000 objective, a considerable growth that further signaled the start of greater cooperation. At the same time, another financial crisis that occurred in 2008–2009 did not affect the levels of bilateral trade as greatly as the prior one of 1997–1998.

In comparison to the 1990s, this decade signaled the beginning of a new clear trend in that Vietnam and China tried to improve their coordination in fostering bilateral and regional trade initiatives. In 2001, Vietnam together with China took initiatives in accelerating the formation of ASEAN–China FTA (ACFTA) through the “Early Harvest” program. Each party committed to reduce import tariffs and to abolish

Table 4 Trade value between Vietnam and China in 2000–2009

Year	Total trade values (in US\$ billion)	Annual percentage change (%)	Export from Vietnam to China (US\$ billion)	Balance of trade of Vietnam (US\$ billion)
2000	2.937	141	1.536	0.135
2001	3.024	2.96	1.417	−0.19
2002	3.677	21.6	1.518	−0.64
2003	5.022	36.6	1.883	−1.255
2004	7.494	49.2	2.899	−1.696
2005	9.146	22.04	3.246	−2.653
2006	10.634	16.26	3.243	−4.148
2007	16.356	53.8	3.646	−9.064
2008	20.824	27.3	4.850	−11.123
2009	20.814	−0.04	5.403	−10.008

Source: Statistics of Ministry of Industry and Trade (Vietnam) <http://www.moit.gov.vn/vn/Pages/Thongke.aspx?Machuyende=TK&ChudeID=16>. Accessed on 28 Feb 2015

them completely by 2008, i.e., 3 years earlier than the deadline agreed previously by ASEAN countries and China. However, by 2008, China and Vietnam had reduced the tariffs on the 536 and 484 categories, respectively, under the “Early Harvest” program. Despite the fact that 24 categories were not included in this program, Vietnam’s active role helped Chinese enterprises to expand their market share not only in Vietnam but also in other ASEAN countries. ACFTA was considered as a gateway for China to tighten its economic and political linkages with Southeast Asian countries. In turn, Vietnam obtained China’s support in encouraging Vietnam’s accession to the WTO. In the Vietnam–China Joint Declaration that was signed in 2001 (shortly after China’s admission to the WTO), China confirmed its support to Vietnam’s entry into the organization (Joint Declaration between Socialist Republic of Vietnam and People’s Republic of China in 2001). Three years later, this position was reiterated in the Vietnam–China Joint Communiqué signed in October 2004, together with the mutual recognition of the two sides as being a “market economy.” The two parties also agreed to complete their bilateral negotiations as soon as possible, a feat which actually occurred solely a year later (Joint Communiqué between Socialist Republic of Vietnam and People’s Republic of China in 2004).

Another way to promote trade cooperation and increase coordination between the two governments was to develop new bilateral initiatives. The most outstanding one was the initiative of “two corridors, one belt,” which was initiated in 2004. Vietnamese and Chinese experts considered developing infrastructure that would serve as a Western corridor linking five cities, Kunming–Lao Cai–Hanoi–Hai Phong–Quang Ninh, and an Eastern one, linking five subsequent cities, Nanning–Lang Son–Hanoi–Hai Phong–Quang Ninh, together with the belt, which was called “the belt of Beibu Gulf.” The memorandum of the implementation of the initiative of “two corridors, one belt” was signed in November 2006. After that, China wanted to make this area become the trade hub for Chinese goods and commodities that were going into the ASEAN market. Therefore, in July 2006, the government

of the Guangxi Zhuang Autonomous Region proposed to upgrade it into “one axis, two wings.” “One axis” referred to the Pan-Beibu Gulf Economic Cooperation, while the “two wings” illustrated the Greater Mekong Subregion (GMS) and the Nanning–Singapore Economic corridor. Other bilateral initiatives were the agreement on fishery cooperation in the Gulf of Tonkin that was ratified in 2004, the framework agreement on oil cooperation within the agreed area in the Gulf of Tonkin, and the agreement on the expansion and deepening of bilateral trade and economic cooperation that was signed in 2008. Up till now, Vietnam and China have maritime cooperative mechanisms only in the Gulf of Tonkin.

2.2.2 Problems

Contrary to the positive trends of the total trade value, statistics showed the negative ramifications of the balance of trade for Vietnam, especially in the second half of the decade. From 2004 onward, Vietnam’s trade deficit with China progressively began to increase each year, even when the annual percentage alterations declined (see Table 4). In comparison with other substantial trade partners, Vietnam also had multiple trade deficits with Taiwan and South Korea, which were also augmenting continuously each year between 2000 and 2009, but the deficits with these partners were considerably less than that with China. Meanwhile, Vietnam regularly experienced trade surpluses with subsequent prominent partners in the Western Hemisphere, alike to the USA and the EU. However, the value of the deficit with China was greatly considerable that the surpluses with other partners could not remunerate for the overall deficit of Vietnam’s foreign trade.

Regarding the structure of goods and commodities, there was no major change in Vietnam’s export to China. The main categories remained similar to the previous period including fishery products, rubber, crude oil, coal, rice, cashew nuts, sugar, and wood. Meanwhile, the vast proportion of imported goods from China consisted of machinery and materials for both industrial and agricultural purposes in Vietnam. For their industry, Vietnam imported refined petroleum and oil, iron and steel, machinery, apparatus and parts for telecommunications, textile fabric, and auxiliary materials for footwear, for sewing, for cigarettes, for paperboard, and for the plastic industry. For their agriculture, Vietnam bought from China chemical fertilizers, insecticides, herbicides, and also plant varieties. This structure of bilateral trade led to several problems for Vietnam:

- Lack of optimization in terms of their export–import structure with China was the direct reason for the heightening of Vietnam’s trade deficit. This situation also indicated the difficulties of Vietnamese producers in diversifying export structures and developing new kinds of products in the Chinese market.
- Structure of their imports proved that Vietnam’s manufacturing industry and agriculture depended heavily on Chinese input materials and equipments. The greater the manufacturing sector of Vietnam became, the greater the trade deficit that Vietnam had to endure (versus China).

Table 5 ASEAN–China trade in 2001–2009 (Unit: US \$ billion)

Year	Trade value	China's balance of trade
2001	41.6	−4.8
2002	54.8	−7.6
2003	78.3	−16.4
2004	105.9	−20.1
2005	130.4	−19.6
2006	160.8	−18.2
2007	202.6	−14.2
2008	231.1	−2.8
2009	213.0	−0.4

Source: Wang Yuzhu, Sarah Y Tong. China–ASEAN FTA changes ASEAN's perspective on China. *East Asia Policy*, Vol.2, No.2, Apr/Jun 2010 via http://www.eai.nus.edu.sg/Vol2No2_WangYuzhu&SarahYTong.pdf

- In addition to the economic problems, there were sanitary and environmental issues related to Chinese goods. Using food and chemicals imported from China was often considered by Vietnamese consumers as being harmful to one's health and unfriendly to the environment.

From the perspective of the ASEAN–China cooperation, acceleration of bilateral and regional initiatives with China had dual impacts on Vietnam. On the one hand, this was a necessary measure to deepen Vietnam's engagement in regional integration and to increase connectivity among Vietnam's market and their East Asian counterparts. On the other hand, participation in regional commitments made the competition among ASEAN economies become tougher for Vietnam. Between 2001 and 2009, the Vietnam–China bilateral trade value constituted for around 7.5 % of the total ASEAN–China trade on average (see Table 5). Vietnam belonged to the group of China's major trade partners in Southeast Asia, however, with the most unfavorable balance of trade. For example, in 2009, Vietnam had the highest ratio of trade deficit to total bilateral trade (about 54.9 %) among China's major ASEAN trade partners (see Table 6). Given the gap in capacity between the Vietnamese producers and ASEAN-5's enterprises, it would be difficult for Vietnam to improve their balance of trade without increasing value-added content to its products.

2.2.3 Investment

In terms of investment between 2000 and 2009, there was a growth in both value and quantity of projects invested by China, mainly in the second half of the decade. The average scale of the projects increased to US\$4.39 million per project in 2005–2009, which was consistent with the common trend of FDI projects in Vietnam during these years. Nevertheless, the percentage of FDI from China in relation to the total FDI inflow to Vietnam was still fairly modest (around 2 % of

Table 6 ASEAN–China trade statistics in 2009 by country (unit: US\$100 million)

Country	Trade value	China's balance of trade
ASEAN	2130.11	−4.17
Brunei	4.23	−1.42
Burma	29.07	16.15
Cambodia	9.44	8.7
Indonesia	283.84	10.57
Malaysia	519.63	−126.99
Philippines	205.31	−33.62
Singapore	478.63	122.7
Thailand	382.04	−115.9
Vietnam	210.48	115.54
Laos	7.44	0.09

Source: Ministry of Commerce of People's Republic of China at <http://english.mofcom.gov.cn/article/statistic/lanmubb/ASEAN/201002/20100206776202.shtml>

Table 7 China's investment to Vietnam in 2001–2009 (excl. Hong Kong)

Year	Value of China's FDI to Vietnam (US\$ million)	Quantity of projects
2000	148	92
2001	221	110
2002	74.8	58
2003	328.6	83
2004	774.9	391
2005	120.7	46
2006	401.3	77
2007	572.5	130
2008	373.5	73
2009	380	76

Source: Statistical Yearbooks from 2005 to 2009 (published by General Statistics Office of Vietnam) via www.gso.gov.vn; Do Tien Sam and Ha Thi Hong Van 2009, Vietnam–China trade, FDI and ODA relations (1998–2008) and the impacts upon Vietnam

total FDI annually), and investment value was further unsustainable. Due to the financial crisis of 2008–2009, FDI from China to Vietnam slowed down again and constituted only 0.58 % and 1.64 % of total FDI inflow in 2008 and 2009, respectively, causing China's rank to drop among Vietnam's foreign investors (see Tables 7 and 8).

In these years, an overwhelming part of China's FDI to Vietnam was invested in the manufacturing industry and construction sector, which covered more than 70 % of the total investment value and 70 % of the quantity of projects that were undertaken. The rest went to other sectors such as agriculture, forestry, and services. There was also a change in investment schemes in comparison to the 1990s. Chinese investors preferred to establish foreign-owned companies rather than joint-venture companies or business cooperation contracts for project management. In

Table 8 Percentage of China's FDI in total FDI inflow to Vietnam and ranks of China among countries of origin in 2005–2009

Year	Percentage of China's FDI to Vietnam (%)	Rank of China
2005	1.76	13
2006	3.34	9
2007	2.68	7
2008	0.58	16
2009	1.64	10

Source: Author (calculated from data published in the Statistical Yearbooks from 2005 to 2009—General Statistics Office of Vietnam)

other words, Chinese investors desired to possess ultimate control over their investments.

Furthermore, a subsequent form of investment from China to Vietnam was carried out through ODA projects. ODA was provided in various forms including nonpayment assistance, noninterest loans, and preferential loans. Two ODA projects were initiated in 1997 and 1998, but the majority of China's ODA destined for Vietnam came in the 2000s and was investment mainly in the energy, transportation, mining, construction, and chemical sectors. Nonpayment assistance and noninterest loans were provided to projects with "historical and political meanings" such as the extension of the Thai Nguyen Iron and Steel Corporation, upgrading the Bac Giang Fertilizer and Chemical Factory, and construction of the Vietnam–China Friendship Palace, with training programs for Vietnamese officials. Other projects were further fuelled via loans of considerable value; for instance, investment in thermoelectric factories in various provinces was calculated to several billion US\$ (US\$710 million in Cao Ngan, US\$280 million in Cam Pha, US\$173 million in Bac Giang). China also provided loans of US\$340 million to the Hanoi–Ha Dong railway project and another loan of US\$40.5 million to Vietnam's largest metal project at that time in the Sinh Quyen copper mine.

Investment from China (including FDI and ODA) was a necessary resource for Vietnam's development. At the same time, there were various consequences emerging from the implementation of projects that were fuelled by Chinese investment. *First*, Chinese investment to Vietnam was aimed at the realization of China's strategy to exploit energy and natural resources of other countries for China's industries. Therefore, China's FDI and ODA were concentrated on the fields of energy and were fixated on the extraction of natural resources. These projects require considerably low levels of technology exchange but nonetheless bring about negative ramifications on the environment and have a detrimental impact on the health of local communities. Alongside the trade structure (as mentioned above), this trend of Chinese investment could turn Vietnam into a source of raw materials and energy rather than an economic and technological partner as per expected.

Second, regulations imposed on China's ODA meant that all the ODA projects should be implemented by Chinese contractors. In reality, Chinese contractors often

took advantage in terms of bidding but carried out projects at a significantly low quality and with prolonged duration.

Third, a vast quantity of Chinese employees working in mining and construction projects indicated that Chinese investment could not foster job creation for Vietnamese labor but also led to the concern of multiple observers over security issues in local provinces, particularly in the strategically important areas like the Tay Nguyen highland.

The dynamics of the Vietnam–China economic relations in 2000–2009 indicated that the bilateral political relations between the two countries were progressively improving, which was especially due to the resolution of the territorial issues on the land borders and in the Gulf of Tonkin. This gave momentum for advancing economic cooperation between the two sides. Coordination and cooperation between the two governments in many initiatives, as well as increasing exchanges among Vietnamese and Chinese business communities, helped expand collaborations and promote mutual interests. Nevertheless, analysis of the patterns of the Vietnam–China economic relations proved that the benefits derived from these relations were necessary for Vietnam in the short term but brought about multiple negative ramifications in the long term.

2.3 Since 2010

During the last 5 years, Sino–Vietnamese economic relations were driven by a number of new factors. Since 2010, notwithstanding the impacts of the financial crisis in 2008–2009, China’s GDP has continued to grow at more than 7 % per year and reached the first rank in terms of GDP based on the PPP rankings in 2014. Parallel to the immense economic growth, China’s defense budget has also been increasing rapidly. A sharp rise in economic and military power led to changes in China’s patterns of behaviors and policies which were implemented first in its periphery on land and at sea. Beijing took a range of measures to expand its political and economic influence, as well as increase their yield of soft power, in Central Asia and Southeast Asia. China took steps to change the status quo in the disputed areas in the South China Sea, which was a stark contrast to the DOC agreement among China and the ASEAN members in 2002. While the intention of China was to expand its control over the East China Sea by a self-declared ADIZ and to engage more actively in the dealings of other seas, China’s motives raised concerns not only from the claimants but also from other major powers. Opportunities and challenges caused by China’s rise, together with the attractive growth dynamics of the Asia Pacific, led to a shift of power gravity to this region. The rebalancing strategy launched by the USA in 2011 was followed by an adjustment in the policy of other big regional players such as India, Japan, Australia, and South Korea who, having gone through their own versions of rebalancing, reshaped the policies in a more restorative and progressive manner.

Meanwhile, a string of incidents in the South China Sea caused by China's aggressive and illegal moves raised an alarm over maritime security issues in East Asia, which related directly to the notion of sovereignty of the neighboring countries and the stability of global seaborne trade. Having both land and sea borders with China, Vietnam is among the countries who are destined to absorb the greatest impacts from these alterations. Since the 11th Party Congress in early 2011, Vietnam began to implement the "comprehensive integration" policy aimed at the mobilization of internal and external resources for fulfilling development strategies and for the transformation of the growth model. While Vietnam's integration within the realms of the regional and global economy has intensified through many new economic commitments, the stability of the security environment is an imperative facet for Vietnam. In this context, Vietnam needs stable and constructive relationships with neighboring countries, above all with China as the biggest neighbor, in order to stimulate greater economic activity. However, it seems to be difficult for Vietnam to achieve this because of the increasing assertiveness in China's policy in South China Sea. After the XVIII Congress of the PRC's Communist Party in 2012, the key concepts announced by the new generation of Chinese leadership which was known as the "Chinese Dream" and the "Sea Power Strategy" provided the platform for China's accelerating exploration of marine resources and land reclamation in the South China Sea. The oil drilling rig Haiyang Shiyou 981 (HD-981) placed in Vietnam's EEZ from May to July of 2014 was an obvious violation of Vietnam's sovereignty, bilateral and regional agreements, as well as international laws. Meanwhile, reclamation carried out by China in the Spratly Island could possibly serve as the gateway for the so-called 9-dash line which can give Beijing illegal control over almost 80 % of the South China Sea with all its resources and sea lanes that are imperative for communication. Protest in Vietnam in various industrial parks was a spontaneous reaction to China's provocative actions, while the long-term consequence of Beijing's aggressive policy will inevitably be the deterioration of bilateral political relations. The latter has had direct impacts on Vietnam–China economic relations in recent times.

Judging from the value of trade and investment, it seems that economic cooperation between Vietnam and China has not been greatly affected by the territorial disputes. According to the statistics in Table 9, the value of bilateral trade has been increasing with considerable year-on-year percentage changes. Even in 2014, despite the tensions over the HD-981 incident, bilateral trade has continued to rise at 17.16 % and has reached more than US\$58 billion, a feat which has made China the biggest trading partner of Vietnam, for many consecutive years. For the first time, Vietnam has become the second largest trading partner of China in the ASEAN (after Malaysia). At first glance, Sino–Vietnamese trade seemed to be sustainable, but in real terms, it is evident that economic relations between the two neighbors have burgeoned under increased pressure. *First*, there is the pressure of unresolved economic issues accumulated from previous years. Trade deficits that have accumulated as a result of increased relations with China have continued to be a source of a great concern for the Vietnamese government, since the total value of Chinese exports to Vietnam has continuously increased (see Table 9).

Table 9 Trade value between Vietnam and China in 2010–2014 (in US\$ billion)

Year	Trade value	Annual change of trade (%)	Export from Vietnam to China	Import from China to Vietnam	Percentage of import from China in total Vietnam's import (%)	Trade deficit for Vietnam
2010	27.947	34.3	7.743	20.204	23.8	12.461
2011	36.478	30.5	11.612	24.866	23.3	13.254
2012	41.173	12.87	12.388	28.785	25.3	16.397
2013	50.171	21.85	13.233	36.938	28	23.705
2014	58.78	17.16	14.91	43.87	29.6	28.96

Source: Statistical Yearbooks published by Vietnam Customs annually from 2010 to 2013. Statistic in 2014 was published on the website of Vietnam Customs via <http://www.customs.gov.vn/Lists/EnglishStatistics/ViewDetails.aspx?ID=471&Category=News%20flash&Group=Trade%20news%20%26%20Analysis&language=en-US>

Table 10 FDI from China to Vietnam in 2010–2014

Year	Value of FDI (US \$ million)	Percentage of China's FDI in total FDI received by Vietnam (%)	Quantity of projects	Rank of China
2010	685	3.44	105	8
2011	757.7	4.86	85	5
2012	371.2	2.27	76	9
2013	2338.6	10.46	110	4
2014	432.7	2.33	110	9

Source: Statistical Yearbooks from 2010 to 2014 (published by General Statistics Office of Vietnam) via www.gso.gov.vn.

The main problem is that the composition of bilateral trade remains unchanged. In 2010–2015, China was the biggest supplier of key inputs and manufacturing resources, for Vietnam's manufacturing sector. China also stood regularly among the top three suppliers of petroleum products, iron, and steel for Vietnamese firms and corporations. Meanwhile, China continues to be one of the largest markets for Vietnamese rice, crude oil, wood and wooden products, rubber, footwear, and other raw materials. Unchanged trade structures forecast an increase, both in terms of Vietnam's trade deficit and the dependence of Vietnam's production services on Chinese inputs.

In terms of investment, there was a slight improvement in the FDI flow from China to Vietnam in 2010 and 2011. But the scale of the projects were still fairly diminutive, aside from the BOT project, regarding the funding of a thermal electric factory, Vinh Tan 1, which has registered capital at a value of US\$2.018 billion. Statistics in Table 10 indicate that the FDI inflow from China to Vietnam was unsustainable. The project Vinh Tan 1 created a sharp rise in FDI from China, in

2013, but this exceptional case could not maintain a positive trend of Chinese investment in Vietnam. In terms of the BOT (build–operation–trade) projects, Chinese investors can maximize their profits by exercising their control over all the supply chains, while the Vietnamese consumers have to pay a higher price for the products that are supplied from Vietnam’s natural resources. In recent years, there has been another trend in that Chinese investment has skyrocketed in projects involving industrial parks and garment factories. This is an adroit way to seize opportunities from the TPP in advance, i.e., to export Chinese products from Vietnam to a plethora of markets (especially the USA) at preferential tariffs as the TPP enters into full force. In this case, Vietnamese enterprises will encounter fiercer competition in their own markets, while a large proportion of benefits from the TPP will fall into the pockets of the Chinese investors (Doan Cong Khanh 2014).

Second, the pressure came from considerable asymmetry in terms of the economic capacity between Vietnam and China. The comparison in Table 11 indicates an increasing gap between Vietnam and China before and after the financial crisis of 2008–2009. Asymmetry between the two economies together with China’s policy gradually turned Vietnam into a supplier of raw materials and energy for China’s manufacturing service and a receiver of China’s out-of-date technology. For that reason, Vietnam has been lagging behind in terms of development and modernization. Although Vietnam’s Doi Moi policy commenced only 8 years after China’s economic reforms, the gap has continued to increase nonetheless. In addition, bilateral trade constituted for only 1.2 % of China’s trade, while it exceeded 19 % of Vietnam’s foreign trade in 2013, which exemplifies the increasing dependence of Vietnam on China’s market and its supplies. Vietnamese enterprises have been facing not only competition with Chinese producers but also a greater potential risk incurred by plausible instability in terms of their bilateral relations.

Table 11 Comparison of key economic indicators of Vietnam and China (in 2008 and 2013)

Indicator	Vietnam	China
<i>Year 2008</i>		
Population	85.1 million	1.324 billion
GDP	US\$99.13 billion	US\$4522 billion
GDP per capita	US\$1164	US\$3413
Foreign-exchange reserves	US\$23.89 billion	US\$1966 billion
Total trade	US\$142 billion	US\$2550 billion
Ratio bilateral trade/total trade (%)	14.66	0.82
<i>Year 2013</i>		
Population	89.7 million	1.357 billion
GDP	US\$176 billion	US\$9400 billion
GDP per capita	US\$1910	US\$6807
Foreign-exchange reserves	US\$35 billion	US\$3800 billion
Total trade	US\$260 billion	US\$4160 billion
Ratio bilateral trade/total trade (%)	19.3	1.2

Source: Database of World Bank via data.worldbank.org

Another pressure is related to territorial disputes in the South China Sea. As mentioned above, tensions in the South China Sea which were escalated by the provocative and illegal actions of China led to instability in terms of their day-to-day economic activities in some Vietnamese provinces. In more than 2 months, the giant oil rig HD-981 was placed in Vietnam's EEZ, together with a plethora of military aircrafts and vessels ramming Vietnam's fishing boats and coastguard ships. Tensions over oil rig incidents led to several negative moves from both sides, for example, China tightened control over cross-border imports of rice from Vietnam, while a cluster of Vietnamese consumers boycotted Chinese goods or canceled their tours to China. The most regrettable consequence was the riots that broke out in industrial parks in the Binh Duong and Ha Tinh provinces as a result of this misunderstanding. In order to restore the trust of foreign investors, the Vietnamese government had to pay compensation to the owners of the inflicted companies and assured them that similar situations would not happen again. In the long term, the assertive policy of China in the South China Sea alongside the plausible ramifications of this policy can bring about a multitude of negative impacts on the business environment of Vietnam.

China's policy in terms of its economic relations with Vietnam, and especially in the South China Sea disputes, raised concern among the Vietnamese citizens about the need for mitigation of dependence and the risks related to difficulties in bilateral relations. Although political dialogue between the two sides has often been restored and stabilized after incidents, there have been heated debates on how one can diversify the supply for Vietnam's manufacturing sector and also on the manner in which one can improve its capacity in preventing and managing risks, in various cases such as that of the HD-981.

Overall, Sino-Vietnamese economic cooperation in 2010–2014 made great contributions to economic growth and the development of the manufacturing sector of Vietnam. However, there have been quantitative growths, on most parts, in terms of the bilateral economic relations, while there has been a lack of qualitative development. Without an adjustment in the trade and investment structure with China, it will be greatly arduous for Vietnam to advance into the higher echelons of the product market and to foster sustainable development as a new growth model. In the meanwhile, the territorial disputes in the South China Sea will continue to be a much considered factor when they undergo the policy-making process and when the Vietnamese enterprises go about planning their future ventures.

3 China's Economic Policy in Southeast Asia: Implications for ASEAN and Vietnam

Due to the geographical proximity and long history of exchanges between China and Southeast Asia, China-ASEAN official relations have been established and have gradually institutionalized post the Cold War era. After the first attendance of

China's representatives at the 24th ASEAN Ministerial Meeting in 1991, China was awarded the full Dialogue Partner status 5 years later. However, China–ASEAN relations have developed in a rapid manner in comparison to subsequent external partnerships of the Association. China was the first external partner who elevated the relations with ASEAN to that of a Strategic Partnership for peace and prosperity in October 2003. In the 2000s, China began to accelerate its grand strategy aimed at obtaining global leadership, involving itself more proactively in many regions, including Central Asia, Africa, and Latin America. At the same time, Southeast Asia remains a gateway for China for its maritime routes and oceans. Utilization and control over world oceans became one of the key components in China's Grand Strategy and the "Sea Power Strategy" which had been advocated by China's top leaders since 2012. The role of Southeast Asia could be seen in the implementation of China's neighborly diplomacy and in the initiation of the "Maritime Silk Route of the twenty-first century" which embraced a vision of connection among the Pacific and Indian Oceans and other seas in the world.

Over the next 5–10 years, China's policy toward ASEAN will serve as a prominent factor when determining the future prospects of the ASEAN–China relations. From an economic perspective, China has implemented different policies toward alternate ASEAN countries belonging to each group: the ASEAN-6 (who are countries that are in the higher echelons in terms of their economic development) and the CLMV (nations with lower level). In each group, the claimants in the South China Sea disputes like Vietnam and the Philippines have been faced with separate economic policies from Beijing. Therefore, in the CLMV group, Vietnam presents a special case, in that they have been encountering various obstacles in economic cooperation with China while sharing traditional values and philosophies. When compared to other CLMV countries, Vietnam has had the most considerable bilateral trade values with China, but the smallest investment flow that is constantly decreasing in recent years. For example, in 2013, the cumulative investment values from China to Cambodia, Laos, and Myanmar were estimated to be a hefty US\$9.6 billion, US\$5.085 billion, and more than US\$20 billion, respectively. In terms of the percentages, Cambodia received 9.8 % of China's FDI to the ASEAN, 9.2 % was issued to Laos, Myanmar received 8.8 %, while the proportion given to Vietnam constituted for only 6.2 %. Given Vietnam's advantage in the market scale and the fact that they possess greater potential than Cambodia, Laos, and Myanmar, such policies of China indicated a lack of interest in supporting Vietnam's development. Becoming the biggest investor in CLM, China also has had various opportunities to expand its economic and political influence over the host countries. Moreover, China's investment in the construction of multiple dams on the upstream of the Mekong River without considering the negative impacts on the ecosystem and the quality of life of local communities on the downstream exerted additional pressures on the Vietnamese economy. In the long term, dam construction together with climate change can severely damage the biggest rice farming area in the nation, and other economic activities in Southern Vietnam are at risk of depletion.

The trade and investment structures of China in the CLMV countries are different from those within the ASEAN-6. Raw materials, natural resources, and daily consumed goods constitute a major part of China's trade with CLMV, while the ASEAN-6 nations have a more optimized goods composition with China, including oil products, electronic products, automobiles and spare parts, etc. In the CLMV countries, China has heavily invested in mining, thermal and hydro-power, and infrastructure construction, while the main sectors for Chinese investment in the ASEAN-6 are real estate, the automobile industry, agricultural processing, and garment making. As a result, the CLMV countries are left to dwell on the lower echelons of the supply chain that reap less profit. Whether it is intentional or not, these differences have increased the disadvantages of the CLMV and have further widened the development gap between the two groups. This gap has also been an obstacle to the ASEAN, as it has inevitably impeded its rise to a fully established and efficient Economic Community.

Another facet of the Chinese economic policy that has materialized post-2012 was a vast array of initiatives that were launched by the Chinese government. Alongside the RCEP, which was considered to be a direct counterbalance to the USA's TPP, China took steps to acknowledge the presence of various economic corridors in Southeast Asia that had been proposed to upgrade the ASEAN-China Free Trade Agreement (ACFTA) and proactively put forward the "Maritime Silk Route in twenty-first century" coupled with the Asian Investment and Infrastructure Bank (AIIB). These initiatives were married into the "2+7 cooperation framework" for the future development of the Sino-ASEAN relationship which was announced by the Chinese Premier Li Keqiang in October 2013. This framework included two political consensus and seven key cooperation proposals. Two political consensus referred to deepening strategic trust and expanding good-neighborly relationship and focusing on economic development and enlarging mutual benefits. The seven cooperation proposals consisted of (1) conclusion of a treaty on good-neighborliness, (2) upgrading the ACFTA, (3) participation in AIIB, (4) agreement on currency exchange, (5) establishment of ASEAN-China maritime cooperation partnership, (6) upgrading ASEAN-China Defense Ministerial Meeting, and (7) enhancing cultural exchanges. The huge potential and the benefits which are to be derived from these initiatives can hardly be denied. Improvement of existing mechanisms and launching progressive ideas are imperative for adapting and synthesizing with the trend of establishing a new generation of FTAs.

However, in a wider sense, the "2+7 cooperation framework" is an instrument of the Chinese government to realize and attain its economic and political goals. In terms of economy, these initiatives will aid China in resolving the overcapacity of domestic industries and will stimulate the creation of more preferential provisions to bolster the caliber of Chinese products in the ASEAN market and utilize China's financial resources. In terms of politics and strategy, this framework highlighted China's principles and measures of building relations with ASEAN in the "diamond decade." Through these mechanisms, China desired to achieve the status of a global currency for the renminbi and its own global financial institution, the AIIB, in competition with other "giants" like the World Bank, IMF, or ADB. Offering

attractive economic incentives for its Southeast Asian neighbors, China wanted to divert their attention from its accelerated land reclamation and other moves to alter their status quo in the South China Sea. After all, Beijing has been making continuous efforts to obtain ASEAN's recognition for China's role in the region and to legalize China's steps to domination. Aimed at attaining economic goals in the short term and strategic ones in the long run, the "2 + 7 cooperation framework" was promoted to be parallel to many other initiatives of China, in various regions to generate and implement China's set of rules and to challenge the existing world order.

Among China's initiatives, the Regional Comprehensive Economic Partnership (RCEP) is the most visible one which is expected to be concluded by November 2015. RCEP (or ASEAN + 6 FTA) has been considered as being an amalgamation of six bilateral FTAs among the ASEAN and her external partners. Meanwhile, many observers perceive the RCEP as being the direct counterbalance to the US-led Trans-Pacific Partnership (TPP). From Vietnam's perspectives, their participation in a number of FTAs is a measure to implement the policy of "comprehensive integration" that has been around since 2011. FTAs are the route that enables Vietnamese enterprises to receive greater opportunities to increase their export value in markets of the ASEAN members. Vietnam's approach to the RCEP is to put it into a nexus of regional and interregional commitments, including the ASEAN Economic Community (AEC). The TPP, alongside the ACFTA and many other protocols, is the gateway for Vietnamese companies to optimize their businesses. Both the TPP and the RCEP have their own strengths and setbacks. The TPP is known as a high-standard FTA in the twenty-first century which can deal with behind-the-border barriers, but it could only attract four out of the ten ASEAN members (Malaysia, Singapore, Brunei, and Vietnam). The RCEP, however, cannot be compared with the TPP in terms of its standard, rules, and its level of liberalization, but it has managed to include all of the ASEAN countries, which gives the impression that it possesses the interests of all its members and that the ASEAN is the nucleus of the project. In fact, the role of China is overwhelming in this model of trade liberalization. There is another argument for RCEP that the level of commitment is suitable for ASEAN economies and that it is easy to achieve, as it includes all three of the biggest national markets in Asia, i.e., China, India, and Indonesia. With all their strengths and weaknesses, the TPP as well as the RCEP can serve as the gateway out of the stagnation of the Doha Round and the difficulties that were encountered by the WTO system.

From the angle of the Sino–Vietnamese economic relations, many experts assessed the RCEP's impacts on Vietnamese companies as being both positive and negative. On the one hand, the RCEP focuses on East Asia, which includes the largest export and import markets of Vietnam. The RCEP is expected to create an easier route for Vietnamese companies to export, and the expansive market of the ASEAN and her partners will further enable Vietnamese firms to source cheaper materials of a higher quality for use in their manufacturing and service sectors. Vietnamese companies will be able to engage with greater ease in the regional value chain and have increased influence in the production network thanks to the

harmonization of existing rules. There are also chances to attract more FDI and to enhance technical cooperation among Vietnam and her partners. On the other hand, implementation of the RCEP may pose challenges to the economy in both regional and domestic markets. With a trading structure similar to those of neighboring countries, with products of a fairly modest quality and where the value-added content of most products is still meager, Vietnamese exporters will encounter more intense competition, especially with Chinese manufacturers. Besides, Vietnam already signed the bilateral FTAs with Japan and Korea giving Vietnamese goods preferential tariffs, but as soon as the RCEP enters into force, the advantage gained from these bilateral commitments will most likely be minimized (Assessing the Impacts of Regional Comprehensive Economic Partnership in Vietnam's Economy 2014).

It is evident that the real impacts will become clearer only after the members begin to implement the RCEP. In Vietnam's case, the impacts will depend on the level of FTA usage by Vietnamese companies. According to a research done by the Economist Intelligence Unit in 2014, utilization of FTAs by Vietnamese companies is still relatively low. Average FTA usage rate in Vietnam is about 37 % which is low considering that exports have grown to 80 % of GDP in 2012. Vietnam's usage rates for ASEAN FTA and FTA with China are higher, 65 % and 46 %, respectively, but are still irrelevant to trade values among Vietnam and its two key partners (FTAs in Southeast Asia: Towards the Next Generation 2014). The main reasons for not using FTAs are due to the complexity of the agreement terms, the fact that it gives no substantial new market access, it lacks the internal expertise, and because the benefits do not compensate for the difficulties. It is noteworthy that the statistics of Vietnam are still higher than those of Indonesia, Singapore, and Malaysia. Therefore, in addition to efficient reform policies, ASEAN countries will need to take measures to share information and experience for the benefit of the companies. It is important to help producers utilize the FTAs in a more profitable way, in order to improve their competitiveness and mitigate the risks or challenges related to these commitments. Otherwise, the FTAs will merely become instruments for exerting one's political influence over the less powerful nations, rather than fulfilling its purpose of being a beneficial protocol for all its members.

4 Recommendations for ASEAN–China Cooperation

Apart from China's policy, regional dynamism is also a crucial factor when determining the future directions of ASEAN–China relations. Official establishment of the ASEAN Community in December 2015 will most likely be a technical event rather than a turning point for the region. The level of intra-ASEAN connectivity is still to be improved, and many observers consider it as a community for the elite and middle class, rather than for people with low incomes. For that reason, the most important objective of the ASEAN Community is to be a "people-centered" scheme, a fundamental goal that they must achieve in order to appeal to the global audience. It will take time for the Southeast Asian nations, especially those who

belong to the CLMV group, to experience the real benefits that the community brings about.

Currently, although the ASEAN Community is going to be established shortly, Southeast Asia is still in a transforming period. Domestic political processes in ASEAN member states are evolving in different directions and will continue to shape the regional political landscape in the next 5–10 years. In recent years, new political forces in Myanmar and Cambodia have won their seats in national parliaments while there have been changes in political leadership in some other countries, for example, in Indonesia after the presidential election and in Thailand as a result of the military coup. The region is still waiting for the outcomes of Myanmar's election in 2015 and the 12th Party Congress in Vietnam in early 2016. On the one hand, the new political leaders need to concentrate more on domestic policy in order to consolidate power and maintain internal stability. On the other hand, there might be a gap in their vision regarding the ASEAN Community between the old generation of political leaders and the new ones who resumed power in recent years.

Today, while en route to a fully operated Community, the ASEAN will need to overcome various obstacles. *First*, awareness and synthesis among the nations are still irrelevant to the level of commitments among the ASEAN governments. *Second*, the CLMV countries are lagging behind in terms of infrastructure and their institutional and legal system and, thus, are not well-prepared to join the common market and synthesize with the free movement of goods, investment, and the labor force. *Third*, the ASEAN Community is ineligible to make any real progress, if the member states keep “talking regionally, but thinking nationally.” ASEAN's failure in issuing a joint communiqué at the AMM 45 during Cambodia's chairmanship in 2012 indicates how the ASEAN will be divided when a member state puts national interests above that of the ASEAN's and even lets itself be driven by the motives of an external force. From another angle, the lesson that one can learn from AMM 45 is crucial for the development of the ASEAN in managing its relations with external partners, including China. *Fourth*, a power shift to the Asia Pacific in recent years has made ASEAN more attractive and more complex than ever before. Having received multiple proposals and offers from external partners, the ASEAN can barely give rational and timely responses, given its lack of resources and consensus. In terms of its relations with China, the ASEAN is facing a dilemma between attractive opportunities of cooperation and real threats from China's assertiveness and unilateralism in the South China Sea.

In this context, the ASEAN will likely be divided because of a failure in defining a joint position of member states toward China's initiatives. The ASEAN will also face a widened gap between the CLMV and the ASEAN-6 and a common market overflowing with Chinese products. China's initiatives are aimed at expanding their economic and political leverage and fostering their centrality in the Asia Pacific. Therefore, the ASEAN's participation in these initiatives without adequate policies can undermine the two most important visions of the ASEAN: unity and centrality in terms of regional architecture.

In order to foster efficient ASEAN–China cooperation, the parties need to take a balanced and comprehensive approach to their relations. Such an approach helps

them work out both the short-term and long-term visions for cooperation and consider economic growth and sustainable development, as well as being able to harmonize their economic and security interests. The following are several recommendations to be taken into consideration by policy-makers:

- Both the ASEAN and China need to adopt a common long-term vision on the ASEAN–China relations and to define the priorities and the principles of cooperation. It is important to achieve a common awareness for both sides that long-term stability and mutual benefits are key principles in building the ASEAN–China relations. China can benefit from a peaceful, stable, and prosperous Southeast Asia and vice versa.
- Today, the principal way in which to overcome difficulties in the ASEAN–China relations is to improve mutual trust. The latter can be provided with a consistency in terms of the words and actions of the parties. China’s initiatives can bring about peace and prosperity for East Asia if they are carried out without the concomitant of actions breaching sovereignty and stability of the Southeast Asian countries. Without improving the levels of confidence building, crisis management mechanisms joint projects will fail to be fulfilled adequately.
- ASEAN countries need to adopt a rational approach to China’s initiatives which can be described as “cautious pragmatism.” They can involve themselves proactively in the process of working out content for each initiative while bearing in mind potential threats. Otherwise, Southeast Asia might become an outsider and miss chances to integrate with other regions and their partners. At the same time, the ASEAN member states should carry out prior consultation and reach a common consensus on the principles of cooperation with China in order to avoid contradiction in their position.
- For China, it is necessary to understand that unilateralism is contrary to the concepts of integration and regionalism; thus, it is not suitable for multilateral megaprojects alike to the Maritime Silk Route or the AIIB. Components of each initiative as well as the mechanism of implementation should be worked out collectively, taking into account the interests of all parties. Negotiations among parties need to be conducted equally, thoroughly, step by step, and responsibly.
- An indispensable criterion for ASEAN–China cooperation in the context of the ASEAN Community is the compliance with international law. Only a rule-based approach can provide fulfillment of agreements reached among the parties and nurture sustainable relations. Role of regulations and international law needs to be emphasized upon when economic cooperation becomes more open and liberalized.
- Today, both the RCEP and the upgraded ACFTA are yet to be concluded. These commitments will be able to bring about real benefits if they help optimize the regional production network and enhance the supply chains. As mentioned afore, the possible consequences of the FTAs, in particular the increasing trade deficit in China’s favor and the widening development gap between the ASEAN-6 and the CLMV group, need to be addressed in close proximity.

5 Conclusion

Given the complex security issues between Vietnam and China, their bilateral economic relations present a specific case of cooperation between China and the Southeast Asian countries. At the same time, this case helps reveal the challenges encountered by China and ASEAN in fostering mutual benefit cooperation (Chinese officials often call it the “win–win cooperation”). The biggest issues that require addressing include the matter of the trade deficit, the consequences of the FTAs, and the geopolitical impacts of China’s initiatives on the ASEAN Community building process. The case of the Vietnam–China economic relations indicated that enhancing technology, increasing the value-added content of products, and diversifying sources of inputs for industries would be key elements of domestic reform for the CLMV countries. Domestic reforms are crucial for gaining a better place in the regional production network and supply chain by means of upcoming FTAs. From the ASEAN perspective, considering that China is decisively elevating its prestige in both economic and political terms, there are two things that the member states need to achieve: (1) a candid and efficient ASEAN Community and (2) ASEAN’s independence in launching its own new initiatives and in making decisions.

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