

# The China Factor in U.S.-Vietnam Relations

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## **Executive Summary**

Bilateral relations between the United States and the Socialist Republic of Vietnam have evolved rapidly since ties were normalized in 1995. One factor drawing the two countries together is the complex relationship both have with the People's Republic of China (PRC). This paper examines the China factor in the relationship between the United States and Vietnam, and assesses the extent to which shared concerns over China encourage and limit cooperation between the two countries. The key findings of this paper are as follows:

### ***Relations between the United States and Vietnam are on the ascendency.***

As memories of the U.S.-Vietnam War fade, relations between the two countries have quietly begun to flourish.

- Economic ties are particularly strong: the United States is now the leading source of foreign direct investment (FDI) in Vietnam as well as Vietnam's largest export market.
- High-level exchanges have become the norm and the two countries have begun to cooperate on issues of common concern.
- On the security front, U.S. Navy vessels have conducted 14 port visits since 2003 and conducted their first joint naval exercise with Vietnamese counterparts in 2010.

### ***Both countries have a number of motivations for seeking improved ties.***

- As the most populated country in mainland Southeast Asia, one of the fastest growing economies in the world, and an increasingly influential nation in regional affairs, Vietnam has become an important actor in U.S. efforts to re-engage with the Asia-Pacific.
- For Vietnam, the United States is also important for economic and strategic reasons. Its export-oriented economy benefits from a close association with the United States and Hanoi seeks enhanced ties with Washington to further diversify its foreign relations.

### ***Shared concerns over China also serve to draw the two countries closer.***

- The PRC's accelerated economic growth, increasing economic footprint, global search for natural resources, and rapid pace of military modernization have created a wide range of new challenges for decision-makers in Vietnam and the United States.

***The South China Sea is the principal area where these shared concerns intersect.***

- Vietnam and China both claim significant portions of the South China Sea. Naval, law enforcement, and fishing vessels from the two nations have had several contentious encounters in these disputed waters.
- The United States is concerned about preserving freedom of navigation through the heavily transited shipping corridors of the South China Sea.

***Sino-Vietnamese tensions are not confined to the South China Sea; they include other historical, environmental, geopolitical, and economic frictions.***

These include:

- PRC plans to dam the Mekong River
- Sino-Vietnamese competition for influence in Laos
- Chinese plans to extract bauxite from Vietnam's ecologically fragile Central Highlands
- Vietnam's dependence on China as the principal supplier for its export-oriented economy.

These ongoing tensions, coupled with lingering historical suspicion over Chinese intentions, have given rise to increased anti-China sentiment in Vietnam that is beginning to pressure Hanoi into taking a harder line vis-à-vis Beijing.

***Vietnam's burgeoning economic, diplomatic, and security relationship with the United States is creating new frictions in Hanoi's relationship with Beijing.***

Key Chinese concerns include that:

- The United States will use Vietnam to "contain" China
- Improved U.S.-Vietnamese relations will undermine China's objectives in Southeast Asia
- The United States will leverage Sino-Vietnamese tensions to justify a sustained U.S. military presence in the region.

***The United States and Vietnam have begun to work together in pursuit of shared interests.***

- At the July 2010 ASEAN Regional Forum in Hanoi, the United States and Vietnam mobilized a multi-nation diplomatic response to perceived Chinese assertiveness in the South China Sea.
- The United States has also enacted the Lower Mekong Initiative, a USD 140 million effort to enhance cooperation between Laos, Thailand, Cambodia, and Vietnam, which all share a common downstream dependence on the river.
- Hanoi seeks greater economic ties with Washington in part to alleviate its economic dependence on Beijing.

***Nonetheless, several variables are likely to limit the potential for cooperation between the United States and Vietnam.***

These include:

- Memories of the U.S.-Vietnam War
- U.S. concerns over becoming a “protective umbrella” for Vietnam
- Vietnamese concerns over the durability of the U.S.’s commitment to Asia
- Vietnam’s policy of diversifying foreign relations to avoid over-dependence on any single outside power
- Mutual suspicion and fundamental disagreements on both sides over the issues of democracy and human rights.

***This paper concludes that despite these limitations, there is room for the bilateral relationship to grow.***

Further steps that Hanoi and Washington may adopt to advance the bilateral relationship in the coming years include:

- Elevating ties to the level of a “strategic partnership”
- Strengthening confidence-building measures
- Lifting the U.S. arms embargo on Vietnam.

***Although the United States and Vietnam have a number of reasons for desiring closer ties, China will remain an important factor shaping the bilateral relationship.***

- Actions taken by Beijing will continue to influence the pace and scope of further cooperation between Hanoi and Washington, particularly on security matters.
- Both countries' desire to avoid damaging their respective bilateral relations with Beijing is likely to be the biggest barrier to further cooperation between Hanoi and Washington.

# The “China Factor” in U.S.-Vietnam Relations

*James Bellacqua*

*Bilateral relations between the United States and the Socialist Republic of Vietnam have evolved rapidly since ties were normalized in 1995. Memories of the war between the two countries have faded, while growing economic interactions and geopolitical developments are drawing the two countries closer together. The complex relationship both countries have with the People’s Republic of China (PRC) has also served to strengthen U.S.-Vietnam ties. This paper examines the China factor in the relationship between the United States and Vietnam, and assesses the extent to which shared concerns over China drive and limit cooperation between the two countries. It begins with an overview of the current state of U.S.-Vietnam relations and looks at the numerous factors drawing the two nations closer together. It then examines China’s importance to Vietnam as well as some of the sources of tension in their bilateral relationship that have led Hanoi to seek assistance and support from abroad. This paper concludes with an analysis of the likelihood of further U.S.-Vietnam cooperation, the possible forms that such cooperation may take, and the factors that may limit bilateral cooperation.*

## **Introduction: U.S.-Vietnam relations**

For much of the four decades since 1973, when the last U.S. combat personnel were withdrawn from Vietnam, relations between the United States and Vietnam have been limited. Ties were minimal for the first two decades after the war: Hanoi was firmly aligned with Moscow, and Washington imposed a trade embargo and suspended economic assistance. The years immediately following normalization in 1995 brought only slight improvement. Excessive bureaucratic red tape and the uncertain direction of Vietnam’s economic policies made it difficult for U.S. commercial interests to do business in the country. Moreover, Washington’s promotion of democratic reforms in Vietnam and its criticism of Hanoi’s human rights record fueled Vietnamese suspicions that the United States hoped to see the country’s “peaceful evolution” away from Communist Party rule.

Over the last decade, however, U.S.-Vietnam relations have quietly begun to flourish. Internal debates over the direction of Vietnamese economic policy have been resolved, and the environment for doing business has improved. Moreover, Vietnamese perceptions of the United States have improved—70 percent of Vietnamese citizens were born after 1975 and



have no firsthand memory of the U.S.-Vietnam War.<sup>1</sup> A 2008 U.S. State Department survey found that Vietnamese generally held favorable views of the United States, and the Vietnamese populace gave a particularly warm welcome to President Bill Clinton on his 2000 visit to the country, the first by a sitting U.S. President since Richard Nixon's visit in 1969 to what was then South Vietnam.<sup>2</sup>

Today, U.S.-Vietnam relations are clearly on the ascendency. The United States is now the leading source of foreign direct investment (FDI) in Vietnam, as well as Vietnam's largest export market. High-level exchanges, once unthinkable, have become routine, and the two nations are starting to work together in pursuit of common interests. Other positive developments in the relationship include: expanded people-to-people ties; cultural and educational interactions; new U.S. development assistance for Vietnamese public health projects; and the signing of agreements on cooperation in nuclear power, civil aviation, and combating transnational crime.

Hanoi and Washington have also stepped up cooperation on security matters. Although mutual suspicions between the former wartime enemies hindered the development of bilateral military ties in the years following normalization, the pace of U.S.-Vietnam military-military relations has increased markedly in recent years. Since the first U.S. port call in 2003, fourteen American naval vessels have visited Vietnam, with the USS *George Washington* becoming in 2010 the first U.S. aircraft carrier to visit the country.<sup>3</sup> The two militaries also conducted their first joint naval exercise in 2010, inked a new agreement to allow Vietnamese military personnel to receive professional military education at U.S. staff colleges, and have cooperated in the search for MIAs.<sup>4</sup> Hanoi has also announced its intention to re-open the strategically significant Cam Ranh Bay naval facility to foreign military vessels—a decision many observers interpret as an invitation to the United States,

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<sup>1</sup> "Investing in Vietnam," Website of IndoChina Capital, [www.indochinacapital.com/investing\\_in\\_vietnam.php](http://www.indochinacapital.com/investing_in_vietnam.php), URL accessed on 11 August 2011.

<sup>2</sup> Henry Kenny, *Shadow of the Dragon* (Washington, D.C.: Brassey's, 2002), p. 19; *Vietnam: U.S. Image Gets a Boost*, U.S. State Department Office of Research, 9 September 2008.

<sup>3</sup> Brock A. Taylor, "USS *John S. McCain* Arrives in Vietnam to Commemorate 15<sup>th</sup> Anniversary of Diplomatic Relations," Official Website of the U.S. Navy, 10 August 2010, [www.navy.mil/search/display.asp?story\\_id=55216](http://www.navy.mil/search/display.asp?story_id=55216), URL accessed on 7 Jul 2011; "Former Enemies U.S., Vietnam Now Military Mates," Associated Press, 8 August 2010; Seth Mydans, "U.S. and Vietnam Build Ties With an Eye on China," *New York Times*, 12 October 2010.

<sup>4</sup> Cao Nhat, "East Sea: U.S. Doesn't Take Sides; China Against Expansionism and Hegemonism," VietnamNet Bridge, 11 June 2010; Nguyen Hung, "No Country Will Benefit if the Situation in South China Sea Turns Turbulent," Vnexpress.net, 12 May 2010; Mark E. Manyin, *U.S.-Vietnam Relations in 2010: Current Issues and Implications for U.S. Policy*, CRS Report for Congress, 4 Feb 2011.

intended to counter China's growing presence in the nearby South China Sea.<sup>5</sup> In August 2011, the USNS Richard Byrd became the first U.S. naval vessel to visit Cam Ranh Bay in 38 years.<sup>6</sup>

### ***Motivations for improved relations***

The United States has a number of reasons for desiring improved ties with Vietnam. Prior to the recent global economic downturn, Vietnam was one of the fastest growing economies in the world, with annual GDP growth hovering around 7 percent.<sup>7</sup> Moreover, as China's population has aged and its wages have risen, Vietnam has emerged as an attractive alternative for export-oriented manufacturing. Intel, Microsoft, Lockheed Martin, and Boeing were among several high-profile U.S. companies to set up new business ventures in Vietnam in 2010.<sup>8</sup> Vietnam's growing economic importance was surely among the reasons for its inclusion in the Trans-Pacific Partnership (TPP), a U.S.-led free trade agreement currently being negotiated between the United States and eight Asia-Pacific partners.<sup>9</sup>

Vietnam is also important to the United States for geo-strategic considerations. Seeking to dispel the notion that the United States "abandoned" Southeast Asia in the years after 9/11, the Obama Administration has adopted a range of diplomatic, economic, and military initiatives as part of its larger strategy of re-engaging with the region. The new U.S. defense strategic guidance issued in January 2012, for example, observes that the United States "will of necessity rebalance toward the Asia-Pacific region," terming the relationship with regional allies and partners "critical" to the future growth and stability in the region.<sup>10</sup> Other recent U.S. actions to further engage with the region include a new defense agreement with Australia, plans to deploy littoral combat ships in Singapore, discussions with the Philippines on enhancing security ties, and normalizing relations with Myanmar.

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<sup>5</sup> Ian Storey, "Vietnam's Cam Ranh Bay: Geopolitical Power in Play," *Straits Times*, 16 April 2011.

<sup>6</sup> "MSC Ship Completes First U.S. Navy Ship Visit to Vietnam Port in 38 Years," Website of the U.S. Military Sealift Command, 23 August 2011, <http://www.msc.navy.mil/N00p/pressrel/press11/press40.htm>, URL accessed on 4 March 2012.

<sup>7</sup> "Background Note: Vietnam," Website of the U.S. State Department, [www.state.gov/r/pa/ei/bgn/4130.htm](http://www.state.gov/r/pa/ei/bgn/4130.htm), URL accessed on 11 August 2011.

<sup>8</sup> Simon Roughneen, "ASEAN Sups With Chinese 'Devil'," *Asia Times*, 4 November 2010; "The U.S. Investment in Vietnam and the Third Investment Wave," VietnamNet Bridge, 26 December 2010.

<sup>9</sup> "Trans-Pacific Partnership," Website of the Office of the U.S. Trade Representative, [www.ustr.gov/tpp](http://www.ustr.gov/tpp), URL accessed on 8 February 2012.

<sup>10</sup> "Sustaining Global Leadership: Priorities for 21<sup>st</sup> Century Global Defense," Website of the U.S. Department of Defense, January 2012, p. 1, [www.defense.gov/news/Defense\\_Strategic\\_Guidance.pdf](http://www.defense.gov/news/Defense_Strategic_Guidance.pdf), URL accessed on 11 February 2012.

As the most populated country in mainland Southeast Asia and an increasingly influential nation in regional affairs, Vietnam has become an important country in this effort. As U.S. Secretary of State Hillary Clinton observed, “The Obama Administration is prepared to take the U.S.-Vietnam relationship to the next level...We see this relationship not only as important on its own merits, but as part of a strategy aimed at enhancing U.S. engagement in Southeast Asia.”<sup>11</sup>

Hanoi has its own motivations for seeking improved ties with Washington. Like the United States, Vietnam factors economic and security considerations into its calculus. Vietnam’s export-oriented economy, for example, benefits from a close association with the United States as both a source of foreign direct investment (FDI) and a destination for Vietnamese products. Bilateral trade flows, barely USD 450 million in 1995, had surged to over USD 15 billion by 2010.<sup>12</sup> On foreign policy and security matters, Hanoi seeks an enhanced relationship with Washington as part of its foreign policy of broadening its foreign relations by courting powers from outside the region.

An additional, and often unspoken, factor drawing the two countries together is their shared concerns over the rise of China. The PRC’s accelerated economic growth, increasing economic footprint, global search for natural resources, and rapid pace of military modernization have created a wide range of new challenges for decision-makers in Hanoi and Washington. The principal area where the United States and Vietnam share concerns over China’s ambitions is Beijing’s assertiveness in the disputed waters of the South China Sea. The United States has had a number of contentious encounters with Chinese naval and law enforcement vessels within China’s exclusive economic zone (EEZ) and is concerned about preserving the freedom of navigation in the international waters of the South China Sea. Vietnam, for its part, has an overlapping territorial dispute with Beijing over the South China Sea, marked by frequent incidents at sea, a few of which have led to brief hostilities. Consequently, Vietnam remains vigilant against China’s attempts to enforce its sovereignty claims.

## **China-Vietnam relations: past and present**

### ***Historical suspicions***

Vietnam’s complicated relationship with China owes much to a long history of suspicion and mistrust between the two countries. From roughly 100 BC through the early 15<sup>th</sup> century, Vietnam was subject to four periods of Chinese suzerainty spanning nearly 900 years.

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<sup>11</sup> Mark E. Manyin, *U.S.-Vietnam Relations in 2010: Current Issues and Implications for U.S. Policy*, CRS Report for Congress, 4 February 2011.

<sup>12</sup> “Vietnam’s Relations with America Are in Fact a Strategic Partnership,” VietnamNet Bridge, 11 July 2010.

Chinese administrators replaced local nobility and attempted to impose Chinese culture, institutions, and systems on the Vietnamese populace. The legacy of this period is strongly imbued in Vietnamese thinking, as many of the country's historical figures earned their legendary status through their efforts to resist Chinese rule.<sup>13</sup>

More recently, Sino-Vietnamese relations in the second half of the 20<sup>th</sup> century were also turbulent, vacillating from a state of alliance and assistance to one of hostility and confrontation. Although China and Vietnam were allies in Vietnam's wars against the French and Americans, their relationship soured markedly in the latter stages of Vietnam's war with the United States. The Sino-U.S. rapprochement of the early 1970s, coupled with the termination of Chinese military aid to Vietnam following the withdrawal of U.S. troops in 1973, left Hanoi entirely dependent on the Soviet Union for military assistance.

Tensions escalated throughout the late 1970s, culminating in a People's Liberation Army (PLA) attack on Vietnam's northernmost provinces. The invasion was prompted by Vietnam's invasion of Cambodia (Beijing was a major supporter of the Khmer Rouge) and the persecution of ethnic Chinese in Vietnam following reunification. Although China withdrew its forces after a month, skirmishes between the two continued well into the late 1980s.<sup>14</sup>

The two have also clashed over disputed islands in the South China Sea. They did so first in 1974 when China seized the Paracel Islands from South Vietnam in the latter stages of Vietnam's war with the United States, and again in 1988 at Johnson Reef in the Spratly Archipelago.

This turbulent historical legacy has fostered a deep sense of mistrust that continues to cloud each side's view of the other—particularly Vietnam's view of China. Many Vietnamese today are ambivalent towards China; they are both respectful of the communist giant's economic accomplishments and deeply suspicious of its intentions.

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<sup>13</sup> For more on this point, see: James Hookway, "Once Enemies, Vietnam Now Fights for China Funds," *Wall Street Journal*, 2 May 2009; Bronson Percival, *The Dragon Looks South: China and Southeast Asia in the New Century* (Westport, CT: Praeger Security International, 2007), p. 43; Carlyle A. Thayer, "Political Legitimacy of Vietnam's One Party-State: Challenges and Responses," *Journal of Current Southeast Asian Affairs*, No. 4, 2009, p. 48; Brantly Womack, *China and Vietnam: The Politics of Asymmetry* (Cambridge, UK: Cambridge University Press, 2006), p. 1; Henry J. Kenny, *Shadow of the Dragon: Vietnam's Continuing Struggle with China and the Implications for U.S. Foreign Policy* (Dulles, VA: Brassey's, 2002), Chapter 3.

<sup>14</sup> Graham Hutchings, *Modern China: A Guide to a Century of Change* (Cambridge, MA: Harvard University Press, October 2003), p. 174.

### ***The road to normalization***

The 6<sup>th</sup> Congress of the Communist Party of Vietnam (CPV) in December 1986 marked a turning point in Vietnam's relations with China. In response to both limited economic growth under Vietnam's first decade of Communist rule as well as China's successful economic reforms, the CPV launched a policy of economic renovation known as "doi moi" or "renovation," which encompassed a number of structural reforms intended to liberalize and modernize the economy. The reforms signaled a major shift in Vietnamese economic policy away from a planned economy and were similar in nature to the market-oriented reforms pursued by the PRC.

This decision triggered a concomitant shift in Hanoi's foreign policy in the years following the congress. Vietnamese decision-makers concluded that the new focus on economic development through market reforms required the country to take a corresponding new approach in foreign affairs in order to extract itself from international isolation, grinding poverty, and economic dependency on the Soviet Union and other members of the Council for Mutual Economic Assistance (COMECON), an economic bloc among Communist states. Hanoi's new "multi-directional foreign policy" would seek to broaden Vietnam's foreign relations, cultivate ties with outside powers, and obtain membership in multinational organizations.

Key to this new approach was repairing and improving ties with Beijing. Given its geographical proximity to the PRC, Hanoi recognized the importance of maintaining good relations with its larger, more powerful, and more prosperous neighbor, and was eager to develop economic ties with the mainland. Other factors that helped facilitate the normalization of bilateral relations—suspended since the 1979 war—include the withdrawal of Vietnamese military personnel from Cambodia in 1987 and the collapse of the Soviet Union in 1991. The latter was significant in that it effectively ended economic assistance to Vietnam and removed much of the ideological baggage from Vietnam's relationship with China. Trade also improved as both countries began to transition from planned to market economies. Relations were finally normalized in November 1991.<sup>15</sup>

### ***Sino-Vietnamese relations today***

Bilateral relations have improved markedly since ties were normalized. Party-to-party exchanges and frequent high level visits have kept the relationship on a solid footing. The most recent of these occurred in December 2011 when PRC Vice President Xi Jinping visited

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<sup>15</sup> Brantly Womack, *China and Vietnam: Politics of Asymmetry* (Cambridge University Press, 2006), pp. 26-28.

Vietnam.<sup>16</sup> Vietnam regularly sends officials to the PRC to learn from China's economic success, while the Chinese Communist Party (CCP) has been sending officials to Hanoi to monitor the CPV's experiments in political reform.<sup>17</sup> Economically, China has become Vietnam's largest trading partner and Vietnam is hopeful that greater economic ties will help develop economically depressed areas along their shared border. The two nations have also resolved outstanding territorial disputes over the demarcation of their land border and the Gulf of Tonkin, and began joint naval patrols in the Gulf in 2006.<sup>18</sup>

As bilateral relations have developed, Hanoi has made a concerted effort to cultivate and maintain cordial ties with Beijing, with the goals of deepening economic relations and reducing outstanding frictions between the two neighbors. As this approach has unfolded, Hanoi has been careful not to displease its northern neighbor. In recent years, Vietnam has deleted negative portrayals of China from its Foreign Ministry website, shut down publications critical of Beijing, and detained bloggers for publicly questioning Hanoi's handling of the bilateral relationship.<sup>19</sup> Vietnam has also arrested members of the Falun Gong spiritual movement banned by Beijing, and it went to tremendous lengths to guarantee security during the Vietnamese leg of the Olympic torch relay prior to the 2008 Beijing Summer Games.<sup>20</sup> Finally, Vietnam has cracked down on public protests against China, which were previously a weekly occurrence throughout much of the summer of 2011.<sup>21</sup>

Nonetheless, there are still significant frictions in Sino-Vietnamese relations. These consist of both enduring tensions that have escalated in recent years and newly emergent environmental and economic challenges affecting bilateral ties. Consequently, Hanoi's

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<sup>16</sup> "Vietnam Speaks Highly of Xi Jinping's Visit," Xinhua, 20 December 2011, [http://news.xinhuanet.com/english/video/2011-12/20/c\\_131317012.htm](http://news.xinhuanet.com/english/video/2011-12/20/c_131317012.htm).

<sup>17</sup> Pan Jin'e, "The Communist Party of Vietnam's Political Reform," *Journal of the CCP Central Party School*, August 2010, pp. 95-98; "Control Freaks," *The Economist*, 19 December 2009.

<sup>18</sup> "Chinese Frigate Xiangfan Arrives in Vietnam for Friendly Visit," Xinhua, 3 December 2010.

<sup>19</sup> "Three-month Ban on Vietnam Paper for China Articles," AFP, 16 April 2009, <http://www.brusearch.com/news/40735>; Doug Bernard, "Vietnam Cracks Down On The Internet And Free Expression," Voice of America, 22 February 2012, <http://blogs.voanews.com/digital-frontiers/2012/02/22/blogging-while-vietnamese>; Fan Hongxing, Liu Chang, and Wang Huicong, "Vietnam Makes Use of South China Sea Issue To Rope in Big-Power Meddling, Indicating Its Delicate Mentality To Curb China's Rise," *Global Times*, 2 November 2010; Yin Hongwei, "Vietnam Goes in for 'Smart Diplomacy' Between the United States and China," *International Herald Leader*, 23 August 2010.

<sup>20</sup> "Two Vietnamese Falungong Members to be Tried Over 'Spiritual Broadcasts' Into China," AFP, 6 April 2011; Grant McCool, "Vietnam PM Warns of Olympics Torch Relay Disruptions," Reuters, [www.reuters.com/article/worldNews/idUSHAN16857320080421](http://www.reuters.com/article/worldNews/idUSHAN16857320080421), 20 April 2008.

<sup>21</sup> "Vietnamese Police Crackdown on Anti-China Protests," *ABC Radio Australia*, 21 August 2011, [www.radioaustralianews.net.au/stories/201108/3298534.htm?desktop](http://www.radioaustralianews.net.au/stories/201108/3298534.htm?desktop), URL accessed on 6 September 2011.

approach to Beijing has evolved into a delicate balancing act of pursuing cordial relations and minimizing sources of tension while simultaneously preserving its autonomy and defending its sovereignty.

## **Sources of tension**

A growing number of tensions in the bilateral relationship are challenging Hanoi's ability to maintain cordial relations with Beijing. Five of the most prominent include:

- The South China Sea
- Mekong River dams
- Competition for influence in Laos
- Economic frictions
- U.S.-Vietnam relations.

### ***The South China Sea***

Of all the points of friction in Sino-Vietnamese relations, none is as complex, problematic, or emotional as the territorial disputes over the South China Sea. Home to some of the world's most well-traveled shipping lanes as well as potentially rich hydrocarbon deposits, the South China Sea is one of the world's most strategically significant waterways. Consequently, the competing territorial claims of China, Vietnam, and other nations in the region have made tensions over the South China Sea the greatest source of instability in Southeast Asia today.

China and Vietnam are two of the six nations with overlapping territorial claims in the South China Sea. The PRC claims sovereignty over the entire South China Sea, including the Spratlys, Paracels, and Pratas Islands; the Macclesfield Bank; much of the Gulf of Tonkin; and the James Shoal off Malaysian Borneo. Vietnam also claims a sizeable portion of the South China Sea, including the Paracel and Spratly islands in their entirety. The other nations that claim portions of the South China Sea are the Philippines, Malaysia, Brunei, and the Republic of China (Taiwan), whose claim mirrors that of the PRC. These competing claims are shown in figure 1 on p. 12.<sup>22</sup> In addition to territorial claims, these countries also have overlapping disputes regarding EEZ rights and continental shelves as well as the range of permissible activities that can be carried out within these areas. Such disputed activities include the exploitation of natural resources, fishing rights, and military patrols and reconnaissance operations.<sup>23</sup>

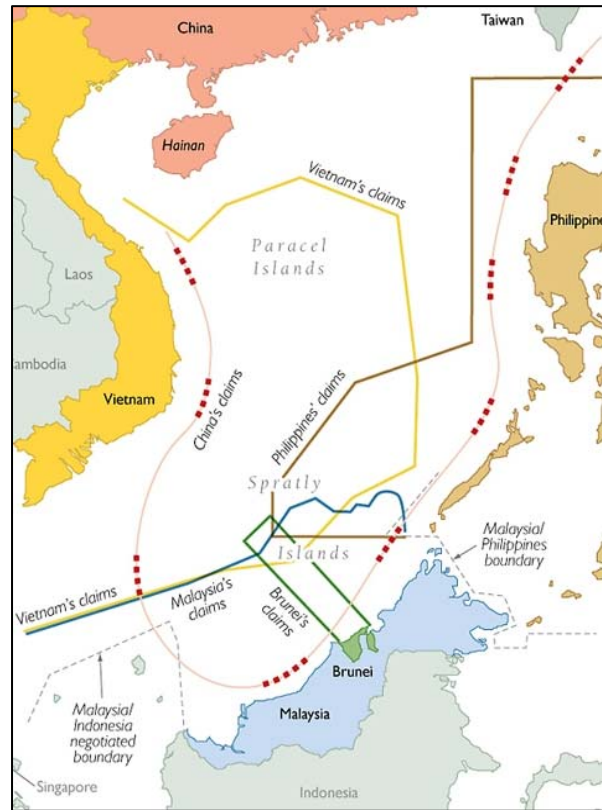
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<sup>22</sup> Map sourced from: <http://blog.heritage.org/2011/01/20/dragon-week-cave-hic-dragones/>.

<sup>23</sup> Although the actual land mass under dispute in the South China Sea consists of only a few square kilometers, this territory is significant



Both China and Vietnam have attempted to reinforce their claims through the occupation and fortification of islands in the South China Sea. As of early 2011, Vietnam occupied 29 land features in the Spratly archipelago while the PRC had troops stationed on another seven.<sup>24</sup> China has also garrisoned military personnel on Woody Island in the Paracels, which it seized from South Vietnam in 1974 shortly before the fall of Saigon.<sup>25</sup> The military fortification of these islands has led to armed conflict between the two countries in the past, most recently in a March 1988 naval battle at Johnson Reef in the Spratly Islands. In a victory that gave the PRC its first foothold in the Spratlys, Chinese forces defeated their Vietnamese counterparts, killing 64 Vietnamese soldiers and sinking several naval vessels.<sup>26</sup> Table 1 on p. 13 lists the islands occupied by China and Vietnam as well as the other claimant countries.<sup>27</sup>



**Figure 1: South China Sea Claims**

<sup>24</sup> Wang Jiwen, “‘Use Force to Stop Force’; Safeguard the Rights and Interests in the South Sea,” *Ta Kung Pao*, 3 August 2010, p. A19; “China Builds More Spratly Outposts,” *The Philippine Star*, 24 May 2011, [www.philstar.com/Article.aspx?articleId=689184&publicationSubCategoryId=63](http://www.philstar.com/Article.aspx?articleId=689184&publicationSubCategoryId=63), URL accessed on 1 July 2011.

<sup>25</sup> Hanoi did not protest this action at the time, a decision many Vietnamese now regret. See: Viet Long, “The Eastern Sea – Can the Power Void Be Filled?” VietnamNet Bridge, 27 July 2010; Greg Torode, “Disputed Islands Are Prized Catch,” *South China Morning Post*, 30 May 2011; Greg Torode and Minnie Chan, “China Refuses To Yield on Paracels,” *South China Morning Post*, 12 December 2010.

<sup>26</sup> Manh Hung and Viet Cuong, “Commemorate Sailors Who Sacrificed Their Lives in the Truong Sa Islands,” *Voice of Vietnam News*, 10 May 2010; “Old Problem, New Threats,” *Bangkok Post*, 30 May 2011.

<sup>27</sup> Table adapted from: Kyle D. Christensen, *The South China Sea: Its Importance in the Future Maritime Security Environment and China’s Claims in the Region* (TM 2009-035), Defence R&D Canada Technical Memorandum, August 2009, pp. 54-55; Wang Jiwen, “‘Use Force to Stop Force’; Safeguard the Rights and Interests in the South Sea,” *Ta Kung Pao*, 3 August 2010, p. A19. For the purposes of this table, “UNCLOS” means the country’s permissible claim under the stipulations of the UN Convention on the Law of the Sea.



*Table 1: Competing South China Sea Claims*

Country	Paracel Islands Claimed	Paracel Islands Controlled	Spratly Islands Claimed	Spratly Islands Occupied
Vietnam	All	None	All	29
China	All	All	All	7
Taiwan	All	None	All	2
Philippines	None	None	60	8
Malaysia	None	None	12	4
Brunei	None	None	None	None

### *Diplomatic challenges*

Further complicating matters is the failure of China and Vietnam to agree on their preferred means for negotiating a resolution to the dispute. Beijing, for example, advocates for a bilateral approach and negotiating with each of the claimants separately. Expounding on China's position in early 2011, PRC Premier Wen Jiabao stated that Beijing "disapproves of referring bilateral disputes to multilateral forums because it will only make the disputes bigger and more complicated."<sup>28</sup>

Vietnam, however, rejects this bilateral model, opting instead for a multilateral solution involving the participation of each of the claimants.<sup>29</sup> One Vietnamese commentator characterized Beijing's insistence on bilateral negotiations as a "trick to avoid the pressure of combined strength." Another said that Beijing was trying to "de-internationalize an international issue" so that it could impose its own rules rather than the internationally accepted stipulations of international law.<sup>30</sup>

The implications of this dispute are twofold. First, it has brought negotiations to an impasse. Second, it has complicated efforts to bring about a legally binding code of conduct for the South China Sea. Although China and ASEAN signed a "Declaration on the Conduct of Parties in the South China Sea" in 2002, the document lacks penalty clauses and enforcement mechanisms and has been generally ineffective at regulating behavior in the South China

<sup>28</sup> Ng Tze-Wei, "Wen Calls for Bilateral Solution to Regional Disputes Such as Spratlys," *South China Morning Post*, 27 April 2011.

<sup>29</sup> According to Vietnamese Foreign Ministry Spokeswoman Nguyen Phuong Nga, "Issues that relate to other countries and parties, like the Spratly Islands, cannot be settled by Vietnam and China and require the participation of other concerned parties." See: Greg Torode And Minnie Chan, "China Refuses To Yield on Paracels," *South China Morning Post*, 12 December 2010.

<sup>30</sup> Hoang Linh Vuong, "In Vietnam, the South China Sea Issue Is Still an Incomprehensible Note of Silence," *Bauxite Vietnam*, 8 August 2010; Huy Duong and Tinh Le, "China's East Sea Claim," VietnamNet Bridge, 12 October 2010.

Sea.<sup>31</sup> While meetings of a joint China-ASEAN working group to negotiate a legally binding code of conduct are ongoing, there appears to be little tangible progress towards a solution.

### *Recent tensions*

The impasse over negotiations and the absence of a legally binding code of conduct have given rise to a tense situation in the South China Sea as countries press their respective sovereignty claims. China has arguably been the most active in this regard. Chinese actions that have rattled Hanoi in recent years include:

- ***Asserting China's 'historic' claim over the South China Sea:*** In May 2009, China rejected a joint Malaysian-Vietnamese submission to the UN Convention on the Law of the Sea (UNCLOS) that claimed an extended continental shelf.<sup>32</sup> In its objection to this proposal, China submitted a map to the UN outlining its traditional “nine-dash line” claim to the entire South China Sea dating back to 1947, before the founding of the PRC.<sup>33</sup>
- ***Detaining Vietnamese fishermen:*** According to Vietnamese government statistics, between January 2009 and May 2010, China detained at least 36 fishing boats and 468 crew members.<sup>34</sup>
- ***Pressuring foreign oil companies to cease exploratory activities:*** In July 2008, for example, China reportedly attempted to pressure ExxonMobil to stand down from its efforts to explore the South China Sea off Vietnam's southern and central coasts in partnership with PetroVietnam. Chinese officials apparently warned ExxonMobil that the proposed exploration would infringe upon Chinese sovereignty and harm the company's future business prospects in the PRC.<sup>35</sup>
- ***Creating a county-level government to manage the Spratly and Paracel islands:*** In 2007, the PRC announced the establishment of a county-level government under Hainan Province encompassing the Paracel and Spratly islands as well as the

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<sup>31</sup> The full text of the 2002 declaration is available at the following website: <http://cil.nus.edu.sg/wp/wp-content/uploads/2011/06/Documents-on-ASEAN-and-South-China-Sea-as-of-June-2011.pdf>, URL accessed on 5 July 2011.

<sup>32</sup> Vietnam made an independent submission as well. See: Lee Kuan Yew, “Battle for Preeminence,” *Forbes*, 10 November 2010, Vol. 186, No. 6.

<sup>33</sup> Li Jinming and Li Dexia, “The Dotted Line on the Chinese Map of the South China Sea: A Note,” *Ocean Development & International Law*, 2003, pp. 287-295.

<sup>34</sup> Carlyle A. Thayer, “Background Brief: Vietnam: Numbers of Fishermen Detained by China,” 21 July 2010, <http://www.scribd.com/doc/34669382/Thayer-Vietnam-Numbers-of-Fishermen-Detained-by-China>.

<sup>35</sup> “China Warns Exxon over Vietnam Deal,” Reuters, 19 July 2008, <http://uk.reuters.com/article/2008/07/20/exxonmobile-asia-idUKPEK26269420080720>.

Macclesfield Bank.<sup>36</sup> Vietnam countered with its own plans to hold elections for National Assembly deputies and People's Council representatives from the Spratly Islands, a decision China protested as an illegal and invalid action.<sup>37</sup>

- ***Developing tourism on disputed islands:*** In 2010, China's State Development and Reform Commission issued a plan to develop fishery logistics and tourism facilities in the Paracels, entitled the "2010-2020 Grand Plan for the Construction and Development of Hainan as an International Tourism Island." Tran Cong Truc, former head of Vietnam's Government Border Committee, dismissed the plan as a "clever trick" using "a totally civil and peaceful activity combining culture and tourism to cover an intricate strategy" to claim sovereignty over the islands.<sup>38</sup>
- ***Strengthening China's naval presence in the South China Sea:*** The PLA Navy [PLA(N)] has incorporated new frigates, destroyers, and submarines into the fleet in recent years and the South China Sea is the focus of much of this build-up. The PLA(N) has constructed a new nuclear submarine base on southern Hainan Island in close proximity to these contested waters.<sup>39</sup> The PLA has also carried out exercises and live fire drills in the South China Sea. One particularly large exercise was held in July 2010 and involved simulated long-range precision strikes and attacks on enemy aircraft.<sup>40</sup> Characterized as "unprecedented" by the PLA's official newspaper, these exercises featured the largest amount of ordnance ever used in a Chinese naval exercise as well as the participation of all three PLA(N) fleets.<sup>41</sup>

Vietnam has been the most vocal South China Sea claimant in confronting Beijing. Hanoi has protested each of the actions listed above and, in some cases, has responded by adopting similar measures in defense of its interests. In response to China's naval build-up and increased patrols in the South China Sea, for example, the Vietnamese military in June 2011

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<sup>36</sup> "Vietnam Objects to China's Establishment of San Sha City on the Hainan Island," Website of the Vietnamese Ministry of Foreign Affairs, 3 December 2007, [http://www.mofa.gov.vn/en/tt\\_baochi/pbnfn/ns071204135539](http://www.mofa.gov.vn/en/tt_baochi/pbnfn/ns071204135539).

<sup>37</sup> "Foreign Ministry Spokesperson Responds to Vietnam Holding Elections of So-Called 'National Assembly Deputies' on China's Nansha Island Group," Xinhua, 10 May 2011.

<sup>38</sup> "China Tourism Plan a Trojan Horse," VietnamNet Bridge, 18 July 2010, <http://www.haohaoreport.com/l/20480>.

<sup>39</sup> Greg Torode, "Troubled Waters," *South China Morning Post*, 11 October 2010.

<sup>40</sup> Abraham M. Denmark and Daniel M. Kliman, "Rising China Tests the Waters," *Asia Times*, 21 August 2010; "From the China's Military Exercises," *Saigon Tiep Thi*, 1 August 2010.

<sup>41</sup> Pu Haiyang and Zhong Jijun, "Naval Troops Conduct Exercise on Sea Frontier," *PLA Daily*, 30 July 2010.

conducted its own live-fire exercises and announced that it would purchase six Kilo-class submarines from Russia later that month in order to “defend the country.”<sup>42</sup>

### *U.S.-Vietnam cooperation: 2010 ASEAN Regional Forum*

Shared concerns over perceived Chinese assertiveness in the South China Sea have prompted the United States and Vietnam to work together to address this common challenge. A notable example of this intersection of U.S. and Vietnamese interests came at the July 2010 meeting of the ASEAN Regional Forum in Hanoi. Vietnam, serving as ASEAN’s rotating chair in 2010, worked with the United States to mobilize a multi-nation diplomatic response to perceived Chinese assertiveness in the South China Sea.<sup>43</sup> According to press reports, Secretary Clinton began the meeting by stating that the United States had a national interest in preserving freedom of navigation in the South China Sea and in the peaceful settlement of the dispute in accordance with international law. Clinton’s comments were echoed by the foreign ministers from 11 of the 26 nations in attendance, several of which were ASEAN member states.<sup>44</sup> Seemingly caught off guard, Chinese Foreign Minister Yang Jiechi walked out of the meeting, returning later to accuse the United States of mounting an “attack on China” and to warn some of the “smaller countries” of Southeast Asia of the dangers of confronting Beijing.<sup>45</sup>

The ASEAN Regional Forum was arguably a turning point in several respects. First, it signified that the United States and Vietnam are prepared to work together on issues of common concern when their interests are aligned. It also demonstrated that internationalizing tensions with Beijing by involving other concerned parties could be an effective tool in confronting Beijing: after the showdown in Hanoi, the South China Sea was placed back on the ASEAN agenda.<sup>46</sup> The meeting also signified that many in Southeast Asia were no longer

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<sup>42</sup> Wendell Minnick, “Vietnam Confirms Kilo Sub Buy at Shangri-La,” *Defense News*, 5 June 2011, [www.defensenews.com/story.php?i=6723027](http://www.defensenews.com/story.php?i=6723027), URL accessed on 16 June 2011; Greg Torode, “China’s Pledges Fail To Convince Security Forum,” *South China Morning Post*, 6 June 2011; “Vietnam Holds Naval Drill as Tensions with China Grow,” *Voice of America News*, 14 June 2011; Zhu Shanshan, “Vietnam Set for Major Naval Drill,” *Global Times*, 13 June 2011.

<sup>43</sup> Lee Kwan Yew, “Battle for Preeminence,” *Forbes*, 11 October 2010; Donald K. Emmerson, “China’s ‘Frown Diplomacy’ in Southeast Asia,” *Asia Times*, 6 October 2010; “China’s Aggressive New Diplomacy,” *The Wall Street Journal*, 1 October 2010, [http://online.wsj.com/article/SB10001424052748704483004575523710432896610.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB10001424052748704483004575523710432896610.html?mod=googlenews_wsj)

<sup>44</sup> Donald K. Emmerson, “China’s ‘Frown Diplomacy’ in Southeast Asia,” *Asia Times*, 6 October 2010.

<sup>45</sup> Lee Kwan Yew, “Battle for Preeminence,” *Forbes*, 11 October 2010; Greg Torode, “Vietnam Revives Guerilla Tactics,” *South China Morning Post*, 14 October 2010.

<sup>46</sup> Pressure from Beijing had previously been successful in keeping the topic off of the agenda in ASEAN’s multilateral discussions with China.

prepared to accept Chinese bullying and demonstrated a renewed regional enthusiasm for a sustained U.S. presence in the region.

### ***Mekong River dams***

Another recently emerging point of friction between China and Vietnam concerns the Mekong River. Chinese upstream hydropower projects have transformed Southeast Asia's longest river into one of the most sensitive issues in bilateral relations. The river has tremendous hydropower potential and the PRC plans to construct 14 dams to harness this energy source.<sup>47</sup> As of late 2010, four of the dams were completed and another four were under construction.



**Figure 1: Mekong Dam in China's Yunnan Province**

Hanoi is concerned about the downstream impact of these dams on the fertile Mekong River delta, where agriculture and fishing account for 10 percent of Vietnam's GDP.<sup>48</sup> Since China's first dam was erected in 2003, there has been a substantial decline in water levels on the river.<sup>49</sup> One Vietnamese newspaper noted that there were no floods on the Mekong in 2010; another paper added that the river had fallen to its lowest level in 50 years, contributing to greatly reduced catches of fish along its banks.<sup>50</sup> Vietnamese scientists are particularly concerned about the impact of the dams on the country's rice production.<sup>51</sup> Nguyen Ngoc Anh, acting director of the Southern Institute for Water Resources, explained that the upstream dams alter the salinity of the Lower Mekong by holding back silt and preventing the downstream flow of alluvial needed to fertilize the delta, enrich the soil, wash out salts, and limit the upstream flow of salt water.<sup>52</sup>

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<sup>47</sup> Phuong Lan, "Dried Mekong River and Countries' Responsibility," VietnamNet Bridge, 19 November 2010.

<sup>48</sup> "Vietnam Next to Cut Rice Exports," BBC, 28 Mar 2008, <http://news.bbc.co.uk/2/hi/7317989.stm>, URL accessed on 8 July 2011.

<sup>49</sup> Thai An, "The Mekong and China: Dams and Trust," *Voice of Vietnam*, 13 April 2010.

<sup>50</sup> Phuong Lan, "Dried Mekong River and Countries Responsibility," VietnamNet Bridge, 19 November 2010; "Dams Portend Grim Future for Mekong Delta: Experts," *Thanh Nien*, 16 April 2010.

<sup>51</sup> Vietnam is the world's second largest exporter of rice with exports in 2011 estimated at 7 million metric tons. See: "Vietnam Could Export 7 Million Tones of Rice," *Vietnam Export News*, 16 August 2011.

<sup>52</sup> "China Builds Dams Causing the Mekong Delta Short of Floods?" VietnamNet Bridge, 29 October 2010.

PRC officials deny that low water levels on the Mekong are the result of upstream dam projects. Liu Ning, director of the Chinese Ministry of Water Resources International Cooperation Agency, blamed the low water levels on “abnormally low rainfall” rather than the country’s hydroelectric projects.<sup>53</sup> Deputy Foreign Minister Song Tao echoed these points at an April 2010 meeting of the Mekong River Commission in Thailand, adding that China was also a “victim” of drought and that the country was prepared to share information on two of its upstream dams.<sup>54</sup>

### *U.S. Lower Mekong Initiative*

Although it does not take sides in the dispute over the Mekong dams, the United States has become more involved in Mekong River issues as part of its larger strategy to re-engage with Southeast Asia. In July 2009, the U.S. Department of State created the Lower Mekong Initiative, a USD 140 million effort to enhance cooperation on educational, environmental, and health matters with Laos, Cambodia, Thailand, and Vietnam, which all “share a common dependence on the Mekong.”<sup>55</sup> Secretary Clinton characterized the protection of the river system from the threats of pandemic diseases and climate change as a “transnational challenge” in which regional cooperation would be “central” to the preservation of the river’s fertility and ecological diversity. One of these transnational challenges is the construction of upriver dams, and the United States has offered assistance in monitoring the situation: funds from the Lower Mekong Initiative will support the construction of a network of sampling stations along the river to monitor the impact of the dams.<sup>56</sup>

Vietnam has welcomed the U.S. initiative; Vietnamese Foreign Minister Pham Gia Khiem described it as a “new step in the cooperation between the Mekong Sub-region and the United States.”<sup>57</sup> China’s reaction has been more cautious. The PRC’s official Xinhua News Agency observed that Beijing “welcomes a constructive U.S. presence in the region,” but added that Washington should “desist from behavior that stirs up trouble.”<sup>58</sup>

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<sup>53</sup> Thai An, “China Claims No Responsibility for Mekong River’s Exhaustion,” VietnamNet Bridge, 6 April 2010; “Southeast Asian River Countries Meet China Over Dam Fears,” AFP, 5 April 2010.

<sup>54</sup> “Dams Portend Grim Future for Mekong Delta: Experts,” *Thanh Nien*, 16 April 2010.

<sup>55</sup> “Lower Mekong Initiative FAQs,” Website of the U.S. Department of State, [www.state.gov/p/eap/mekong/faq/](http://www.state.gov/p/eap/mekong/faq/), URL accessed on 11 July 2011.

<sup>56</sup> “Progress on the Lower Mekong Initiative,” Website of the U.S. Department of State, <http://iipdigital.usembassy.gov/st/english/texttrans/2011/07/20110722102525su0.6699444.html>, URL accessed on 11 July 2011.

<sup>57</sup> Thanh Trung, “U.S. Will Help Lower Mekong Adapt to Climate Change,” *Saigon Times Weekly*, 24 July 2010.

<sup>58</sup> “U.S. Intensive Diplomacy Provokes Uneasy Response from China,” *Taipei Times*, 28 October 2010.



### ***Competition for Influence in Laos***

Vietnam is also increasingly concerned over China's growing presence in neighboring Laos. Hanoi has long enjoyed a "special relationship" with Vientiane that dates back to when the two countries shared struggles for independence, and Vietnam has been the dominant player in Laos for much of the country's post-independence period. Nonetheless, the relationship has weakened in recent years as Laos has sought to diversify its economic relations by courting Thai and Chinese investment. China has become a major player in the Lao economy, funding road, rail, and other infrastructure projects, including the country's new national soccer stadium.<sup>59</sup> These developments in Vietnam's western neighbor are likely to alarm strategic planners in Hanoi who are already struggling to deal with a strong Chinese presence to the north and east.

One area where this cooperation for influence has played out concerns Laos' own ambitious plans to dam the Mekong. As Southeast Asia's poorest nation, Laos hopes to become the region's "battery" by exporting hydropower to its more affluent neighbors. Between 2006 and 2007, the Lao government signed memoranda of understanding with Thai and Chinese developers for the construction of at least seven dams on the Mekong or its tributaries.<sup>60</sup> Several have already been built, and hydropower now accounts for roughly 30 percent of Lao GDP.<sup>61</sup>

Vietnam and China find themselves on opposite sides of the issue. With little to fear from downstream dam projects and with its own Mekong hydropower plans in the works, Beijing supports Vientiane's hydropower ambitions and is willing to finance them.<sup>62</sup> Conversely, despite harboring concerns over the existence of more dams on the Mekong, Vietnam has been reluctant to publicly criticize the Lao projects, presumably in the hopes of avoiding a situation in which the PRC benefits from deteriorating ties between Vietnam and Laos.

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<sup>59</sup> "New National Stadium Complex Ready for Laos SEA Games," KPL Lao News Agency, 24 September 2009, <http://laovoices.com/2009/09/25/new-national-complex-stadium-ready-for-laos%E2%80%9999-sea-games/>, URL accessed on 19 July 2011; Bertil Lintner, "Laos Steps into the Globalized World," YaleGlobal Online, 15 December 2009, <http://yaleglobal.yale.edu/content/laos-steps-globalized-world>, URL accessed on 19 July 2011.

<sup>60</sup> David Brown, "Mekong Dams Test a 'Special Relationship'," *Asia Times*, 18 May 2011.

<sup>61</sup> "Laos' Dam Project and the China-Vietnam Balance," STRATFOR Report, 20 April 2011, Report summarized on the following website: [www.waterpolitics.com/2011/04/20/the-thirsty-dragon-laos-dam-project-and-the-china-vietnam-balance/](http://www.waterpolitics.com/2011/04/20/the-thirsty-dragon-laos-dam-project-and-the-china-vietnam-balance/), URL accessed on 19 July 2011.

<sup>62</sup> David Brown, "Mekong Dams Test a 'Special Relationship'," *Asia Times*, 18 May 2011.

## ***Economic frictions***

Economic ties have become another source of tension in the bilateral relationship. Vietnam has modeled its own economic reforms on China's successful transition to a market-oriented economy. Hanoi has been disappointed, however, with the results of its efforts to establish greater economic ties with Beijing. Chief Vietnamese concerns include the low level of Chinese FDI in the country, Vietnam's increasingly unfavorable balance of trade with the PRC, and Vietnam's growing dependence on China as a source of inputs for its export-oriented economy.

### *Foreign Direct Investment*

Between 1990 and 2010, China committed to invest in over 700 projects in Vietnam, totaling USD 3.18 billion.<sup>63</sup> This accounted for only 1.7 percent of total FDI in Vietnam, ranking China 14<sup>th</sup> among foreign investors in the country.<sup>64</sup> Although Chinese FDI has picked up over time, it still remains low in comparison to other foreign investors. Chinese FDI in the year 2010, for example, totaled only USD 364 million, accounting for just 1 percent of Vietnam's overall FDI.<sup>65</sup>

Despite its overall reluctance to invest in Vietnam, one area in which China has been keen to invest is natural resources. Chinese efforts to tap into these resources, however, have not been free from controversy. For example, a 2008 joint venture between a state-owned PRC aluminum company and a Vietnamese firm to extract bauxite from Vietnam's Central Highlands region was opposed by a veritable cross section of Vietnamese society.<sup>66</sup> The primary complaints included concerns that Hanoi was giving away a valuable natural resource to China, the poor environmental record of many Chinese companies, and the limited economic benefits to Vietnam since Beijing would be the sole consumer and the project's labor was predominantly Chinese.<sup>67</sup> Of note, a similar Vietnamese bauxite mining initiative with the U.S. firm Alcoa has been comparatively uncontroversial.<sup>68</sup>

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<sup>63</sup> Pham Huyen, "Vietnam's 'Trade Deficit' in Engineering, Procurement and Construction Contracts with China," VietnamNet Bridge, 31 July 2010.

<sup>64</sup> *Business Monitor Online*, <http://www.vietpartners.com/Statistic-fdi.htm>.

<sup>65</sup> Pham Huyen, "Reliant on Loans from China, Vietnam Swallowing Bitter Pill," VietnamNet Bridge, 11 January 2011.

<sup>66</sup> "The Hanoiist", "A Revolt of Sorts in Vietnam," *Asia Times*, 2 Nov 2010; James Hookway, "Once Enemies, Vietnam Now Fights for China Funds," *Wall Street Journal*, 2 May 2009.

<sup>67</sup> Electricity is in short supply in Vietnam, and much of the country's power is provided by the PRC.

<sup>68</sup> James Hookway, "Once Enemies, Vietnam Now Fights for China Funds," *Wall Street Journal*, 2 May 2009.



These objections have placed the Vietnamese government in a quandary: it is anxious to reduce the growing trade imbalance with the PRC, but it is mindful of the popular resentment generated by the project. Although the joint venture has continued, Vietnamese nationalism and concerns over China may have contributed to a 2009 decision to reduce natural resource exports to the PRC.

### *Trade*

Trade relations are another sticking point in bilateral ties. Although China has become Vietnam's largest trading partner, the balance of trade has swung heavily in Beijing's favor over the last decade. In the year 2000, for example, Vietnam ran a trade surplus with Beijing of USD 135 million, importing only low-value commodities from China and exporting high-value items, such as minerals and raw materials.<sup>69</sup>

By the end of the decade, however, changes to the mix of imports and exports had swung the balance of trade firmly in Beijing's favor. In 2010, for example, Vietnam's trade deficit with China reached a staggering USD 12.6 billion.<sup>70</sup> Several factors contributed to rapid shift in the balance of trade:<sup>71</sup>

- A sizeable rise in Chinese exports to Southeast Asia
- Hanoi's 2009 decision to curtail the export of raw materials to the PRC
- An increase in Vietnamese production capacity, with most materials used in the production of exported goods sourced from China.

### *Fear of dependence*

Vietnamese officials have become increasingly concerned that their country's export-oriented economy has become overly dependent on Chinese suppliers for the materials needed in the production of exported commodities. According to Bui Huy Son, director of Asia Pacific Trade Policies for the Vietnam Ministry of Industry and Trade, 70 percent of Vietnam's imports from China consist of essential materials used in the production of exported goods, including materials and equipment, steel, chemicals, and petroleum, as well as fabric, garment, and footwear materials.<sup>72</sup> Citing this dependence on Chinese exports, one

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<sup>69</sup> Ibid.

<sup>70</sup> Vietnam ran an overall trade deficit of USD 12 billion in 2010. See: "Overwhelming Trade Deficit With China," VietnamNet Bridge, 27 Dec 2010.

<sup>71</sup> Ibid; "Experts Say Trade Deficit with China Will Be High," *Saigon Times*, 13 May 2010; Pham Huyen, "Adjusting Imports to Ease Reliance on China," VietnamNet Bridge, 24 Jan 2011.

<sup>72</sup> Pham Huyen, "Adjusting Imports to Ease Reliance on China," VietnamNet Bridge, 24 Jan 2011.

Vietnamese paper observed that if the “giant who supplies these imports sneezes,” it will affect both the domestic economy and Vietnam’s exports to the rest of the world.<sup>73</sup>

### **Anti-China sentiment**

Concerns over China’s perceived assertiveness in the South China Sea, insensitivity over the Mekong dams, and domination of the Vietnamese economy have given rise to increased nationalism and anti-China sentiment in Vietnam. Although Vietnam’s state-controlled media environment makes it difficult to gauge the extent of anti-China sentiment in the country, the increased frequency of popular protests, critical media commentary, and Internet chatter suggests that it is growing. Anti-China sentiment poses a number of challenges for Vietnam. One is that rising anti-China sentiment will pressure the government to abandon its balanced approach on China in favor of a harder line, which will curtail Hanoi’s options and make it difficult to negotiate with the PRC. A Saigon-based newspaper, for example, argued that one must know when to be firm in dealing with China, adding that the “soft are squeezed and the strong are released!” Of particular concern for Vietnam is that this sentiment may translate into public criticism of the Vietnamese government. One commentary on a popular anti-China blog, for instance, called on Hanoi to “seize the chance to forge closer ties to the United States” and warned that leaders who pass up such an opportunity “will face severe judgment from history.” Vietnamese leaders are aware of these sentiments; one Vietnamese political analyst characterized the country’s rising nationalism as a tiger that will “cause endless troubles unless caged.”

*Sources: Shawn W Crispin, “The Limits of Chinese Expansionism,” Asia Times, 23 December 2010; Ngo Dung Nhan, “The Soft Are Squeezed, the Strong Are Released,” Saigon Tiep Thi, 7 Aug 2010; “OSC Report: Vietnam Blogs Hail U.S. Stance, Pan Hanoi’s Efforts to Placate China,” U.S. Government Open Source Center, 18 June 2010; Han Chiang-hsue, “Vietnam Is Being Aggressive with the South China Sea Issue,” Ta Kung Pao, 2 June 2011.*

### ***U.S-Vietnam relations: A new source of Sino-Vietnamese tension***

Vietnam’s burgeoning economic, security, and diplomatic relationship with the United States has created a new source of tension in its relations with China. Beijing has become increasingly concerned about the warming of relations between Hanoi and Washington—specifically the security implications. Beijing’s concerns appear to be threefold, that:

- The United States will use Vietnam to “encircle” or “contain” China.
- Improved U.S. ties with Vietnam and ASEAN will undermine China’s Southeast Asia policy objectives.

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<sup>73</sup> “Overwhelming Trade Deficit With China,” VietnamNet Bridge, 27 Dec 2010.

- Sino-Vietnamese tensions will provide justification for a sustained U.S. military presence in Southeast Asia.

Chinese commentators have been uniformly critical of Washington's possible motivations for desiring better ties with Hanoi. Zhang Zhaozhong, a professor at the PLA's National Defense University, commented that the "core interests that the United States seeks in the South China Sea are to revive its military presence and deter China from a close distance."<sup>74</sup> These comments were echoed by PLA Navy RADM Yang Yi, who suggested that Washington may be looking to "create turbulence on China's periphery." PRC academic Tao Wenzhao opined that Washington was "forced" to improve ties with Vietnam and other Southeast Asian states in order to defend its "declining dominance" in the region.<sup>75</sup>

#### *PRC warnings to Hanoi*

Although most critical PRC commentary was directed at Washington, a handful of Chinese commentators also disparaged Vietnam's decision to cozy up to the United States and warned Hanoi to be mindful of the consequences. RADM Yang opined that Vietnam would "regret" its decision to hold a seven-day exercise with the U.S. Navy and urged Vietnam to learn from the experience of Pakistan, which he claimed felt "hurt" once Washington "no longer had any use for it" after the Cold War.<sup>76</sup> Other PRC commentators appear to warn Vietnam of the possible repercussions of confronting China by aligning with the United States. One commentator writing in the Communist Party mouthpiece *People's Daily* warned Vietnam not to "overestimate the capacity of Uncle Sam's protective umbrella."<sup>77</sup> Wang Wen, editor of the *Global Times*, a non-authoritative subsidiary of the CCP's official paper, the *People's Daily*, cautioned Hanoi not to "play with fire," adding that "no country's aircraft carrier can protect the security of Vietnam" should a confrontation with China occur.<sup>78</sup>

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<sup>74</sup> Chen Xiaoru, "United States Ropes in Vietnam and ROK for Military Exercises Intended to Deter China from Close by," *China Youth Daily*, 14 August 2010.

<sup>75</sup> Tao Wenzhao, "Being An Amicable Neighbor," *China Daily*, 5 January 2011.

<sup>76</sup> "Rear Admiral Yang Yi of the Liberation Army: The International Politics Today Are Quite Relentless and No One Can Restrain the United States," Website of Phoenix Television, 10 August 2010.

<sup>77</sup> Li Hongmei, "Vietnam Advisable Not to Play with Fire," *People's Daily*, 17 August 2010.

<sup>78</sup> Wang Wen, "Vietnam Should Not Play a Dangerous Game between China and the United States," *Global Times*, 12 August 2010.

### **Courting outside powers: Russia, Japan, and India**

In addition to the United States, Vietnam has also reached out to other outside powers to gain diplomatic support for its positions and reduce its dependence on China. This approach conforms to Hanoi's "multi-directional foreign policy" of diversifying Vietnam's foreign relations in order to avoid becoming beholden to any single power. Originally conceived as an effort to end Vietnam's international isolation and dependence on the USSR, the policy now appears to have evolved into an effort to reduce Vietnam's dependence on China and mitigate Chinese influence in the country.

**Russia.** The Russian Federation is now Vietnam's principal source of military armaments, selling Gepard-class frigates, Kilo-class submarines, and Sukhoi Su-30 fighter jets. Vietnam has also sought Russian assistance in constructing new ship-repair facilities at Cam Ranh Bay, the former naval base that Hanoi plans to reopen to service foreign navies. Russia has also assisted Vietnam with its nuclear ambitions, signing a USD 5.6 billion agreement with Hanoi for the construction of Vietnam's first nuclear power plant.

**Japan.** Vietnam and Japan recently established a bilateral security dialogue composed of foreign ministry and military personnel from both sides, signifying a notable evolution of the bilateral relationship beyond trade and development assistance. Tokyo has also aided Vietnam's civil nuclear program, provided funding for Vietnam's infant space industry, and inked a deal for Vietnam to supply Japan with rare-earth materials used in many high-tech products.

**India.** Vietnam and India have positive historical ties: India supported Vietnam's efforts to win independence and backed it in the 1979 confrontation with Beijing, and Vietnam reciprocated by supporting India's bid to join APEC and win a permanent seat on the UN Security Council. The two nations are also both leery of the impact of China's rise, and both operate similar Russian military equipment. Also, New Delhi has expressed its willingness to cooperate with Hanoi in offshore drilling, with a state-owned Indian firm buying out part of BP's stake in a South China Sea joint venture with PetroVietnam.

*Sources: "Vietnam Hedges its China Risk," Asia Times, 30 Jul 2010; "Vietnam's Cam Ranh Base to Welcome Foreign Navies," Associated Press, 2 November 2010; "Hanoi Boosts Cooperation with Russia, Japan," Global Times, 1 November 2010; "Vietnam Signs Major Nuclear Pacts," Al Jazeera, 31 October 2010; Simon Roughneen, "ASEAN Sups With Chinese 'Devil'," Asia Times, 4 November 2010; "Japan to Offer ODA for Vietnam's Space Development," Mainichi Daily News, 14 August 2011; "Vietnam Backs India for APEC Membership," The Hindu, 7 November 2000.*

## **Factors limiting U.S.-Vietnam cooperation**

Despite the shared motivations for cooperation discussed earlier in this paper, several other factors may serve to limit cooperation between the United States and Vietnam. They include:

### ***Memories of the U.S.-Vietnam War***

Although the U.S.-Vietnam War has become far less of an impediment to advancing bilateral ties with the passage of time, it still has the potential to play a role in bilateral relations. For many who fought in the war or lived through that period of history, the war between the United States and Vietnam left an indelible impression. There are lobbies in both countries that remain allergic to closer ties with their former enemy, and the effects of the war are still visible in Vietnam today. According to *Tap Chi Cong San*, the CPV's official journal, 4.8 million Vietnamese continue to suffer from the effects of the chemical Agent Orange, including an estimated 150,000 birth defects.<sup>79</sup> Nguyen Nam Duong, a research fellow at the Diplomatic Academy of Vietnam, characterized the war as "very relevant" in contemporary bilateral relations.<sup>80</sup>

In short, memories of the war do not preclude greater cooperation between the two countries, however they are likely to slow down the pace and scope of growth, particularly in the security arena.

### ***United States: "Protective umbrella" concerns***

Both countries are also keen to avoid being taken advantage of by the other. For Washington, the downside of too much cooperation with Hanoi is that the United States may come to be seen by the Vietnamese as a "protective umbrella" under which Vietnam can safely provoke the PRC without the fear of retaliation.

### ***Vietnam: Durability of ties with the United States***

A major concern for Vietnam, should it openly side with the United States, is the durability of any potential alignment with the United States. Vietnamese strategic planners recognize that a relationship built on shared concerns over China may collapse if those concerns shift. Moreover, Hanoi's foreign policy is deliberately constructed to avoid taking sides or becoming too reliant upon any one power.

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<sup>79</sup> Ha Bac, "Human Rights Watch Should Stop Distorting, Interfering Into Vietnam's Internal Affairs," *Tap Chi Cong San*, 28 July 2010.

<sup>80</sup> Seth Mydans, "U.S. and Vietnam Build Ties with an Eye on China," *New York Times*, 12 October 2010.

### ***Vietnam's multi-directional foreign policy***

Although Hanoi's policy of seeking relations with a diverse range of countries is one of the main drivers of closer Vietnamese ties with the United States, this policy also serves to limit the degree of cooperation between the two countries. In their public statements, Vietnamese diplomats and military officials take pains to stress that Vietnam's efforts to develop military ties with the United States are part of a larger Vietnamese effort to broaden defense ties with a range of countries, including India, South Korea, Russia, and even China. In a 2010 speech outlining Vietnamese defense policy at an international gathering in Singapore, Vietnamese Defense Minister Phung Quang Thanh stated that Vietnam "does not advocate joining any military alliances, taking sides with one country against another, or giving permission to any foreign countries to have military bases in Vietnam."<sup>81</sup> Nguyen Nam Duong, a research fellow at the Diplomatic Academy of Vietnam, adds that one "should not look at Vietnam's relationship with the United States through the prism of China....Vietnam will have independent relations with both the United States and China, and we want to separate those relations from each other."<sup>82</sup>

This "multi-directional" approach to foreign relations also has roots in Vietnamese identity, which has been defined by the nation's historical struggles to win its independence. This historical legacy informs the country's present foreign policy of "independence, self-reliance, peace and development, diversification of relations, and proactive international integration."<sup>83</sup> Consequently, Hanoi is likely to resist any alliance or partnership that limits Vietnam's autonomy or freedom of action. This may explain Hanoi's reluctance to openly call for a formal security pact with the United States as well as its resistance to allowing exclusive use of the deep-water Cam Ranh Bay port facility by any single foreign nation.

### ***Suspensions over U.S. intentions***

A final limiting factor is Hanoi's suspicions over Washington's intentions. Washington's criticism of Vietnam's human rights record and promotion of democratic reforms have led many in Hanoi to openly question whether the ultimate goal of the United States is the overthrow of the CPV. Editorials advocating vigilance against U.S. intentions appear

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<sup>81</sup> Greg Torode, "Hanoi-Washington Ties Send a Signal To Beijing," *South China Morning Post*, 14 August 2010.

<sup>82</sup> "Relations with U.S. Navy Not Aimed at 'Balancing Power' in East Sea," VietnamNet Bridge, 16 August 2010.

<sup>83</sup> These principles were outlined by SRV Deputy Foreign Minister Pham Binh Minh in an interview with Vietnam News Agency. See: "Vietnam Actively Contributes to Building ASEAN Community," Vietnam News Agency, 9 May 2011.

regularly in Vietnam's state-controlled press and foster an environment of mistrust that is not conducive to greater cooperation.

## **Prospects for future U.S.-Vietnam cooperation**

What possible avenues of cooperation exist between the United States and Vietnam? Taking into account both the motivations for closer ties and the factors likely to constrain further bilateral collaboration, this paper concludes that there is room for the relationship to grow. The following are some further steps that Washington and Hanoi may adopt to advance the bilateral relationship in the coming years:

### ***Elevating bilateral ties to the level of a strategic partnership***

Several current and former officials in the United States and Vietnam have publicly endorsed the idea of a "strategic partnership" between the two countries. Secretary Clinton reportedly proposed establishing a strategic partnership with Vietnam in October 2010 and the subject was discussed during Assistant Secretary of State Kurt Campbell's February 2012 visit to Vietnam.<sup>84</sup> The U.S. military has also begun to talk of a strategic partnership: the 2010 Quadrennial Defense Review refers to Vietnam as a prospective strategic partner along the lines of Indonesia and Malaysia.<sup>85</sup> On the Vietnamese side, Dinh Hoang Thang, Vietnam's former ambassador to the Netherlands, argues that upgrading relations with the United States to the level of a strategic partnership is Vietnam's "most essential and urgent task."<sup>86</sup>

While the precise nature of the strategic partnership has yet to be publicly stated by either side, it likely represents an agreement between the two countries to move forward together in pursuit of common interests. The U.S. has set up strategic partnerships with the EU, India, and Israel among other countries while Vietnam presently has such partnerships with a diverse array of countries, including Russia, Japan, France, Germany, the United Kingdom,

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<sup>84</sup> "Nominee for United States Ambassador to Vietnam; Testimony by David B. Shear, Deputy Assistant Secretary, Bureau of East Asian and Pacific Affairs Statement before the Senate Foreign Relations Committee," Website of the U.S. Department of State, 6 April 2011, <http://www.state.gov/p/eap/rls/rm/2011/04/160052.htm>, URL accessed on 28 March 2012; "Press Roundtable in Hanoi, Vietnam; Kurt M. Campbell, Assistant Secretary, Bureau of East Asian and Pacific Affairs," Website of the U.S. Department of State, 2 February 2012, <http://www.state.gov/p/eap/rls/rm/2012/02/183349.htm>, URL accessed on 28 March 2012.

<sup>85</sup> "Quadrennial Defense Review Report," U.S. Department of Defense, February 2010, p. 59, [www.defense.gov/qdr/images/QDR as of 12Feb10 1000.pdf](http://www.defense.gov/qdr/images/QDR_as_of_12Feb10_1000.pdf), URL accessed on 27 August 2011.

<sup>86</sup> "Interview with Former Vietnamese Ambassador to the Netherlands Dinh Hoang Thang," VietnamNet Bridge, 17 February 2010.

and, not least of all, China.<sup>87</sup> These existing partnerships tend to be formal agreements to enhance bilateral cooperation in pursuit of common interests in areas such as trade and investment, sustainable development, security and defense matters, and people-to-people ties.<sup>88</sup> Given the comparable array of common interests between the United States and Vietnam, it is likely that any future strategic partnership between the two countries will cover similar ground.

A strategic partnership has the potential to benefit both countries. From the perspective of the United States, such a partnership is favorable in that it lacks the mutual defense obligations of a formal alliance; for Vietnam, a strategic partnership conforms with a foreign policy of diversified foreign relations.

### ***Strengthening and increasing confidence-building measures***

The legacy of the U.S.-Vietnam War has fostered an atmosphere of suspicion and mistrust that the United States and Vietnam have only partially overcome. As ties continue to flourish across the board, it is important to capitalize on this momentum and sustain it through measures to build confidence and establish trust. This is particularly important for the military dimensions of the bilateral relationship, where lingering memories coupled with a general unfamiliarity with one another have slowed the pace of development.

Both sides appear to recognize this problem and have taken steps designed to build confidence and trust, such as port visits, joint training activities, and professional military education opportunities. Future confidence-building measures may include Vietnam's eventual participation in the Cooperation Afloat Readiness and Training (CARAT) series of exercises held annually by the U.S. Pacific Fleet and eight South and Southeast Asian nations. Adm. Patrick Walsh, then-Commander of U.S. Pacific Fleet, endorsed the possibility of Vietnam joining the CARAT exercises in early 2011 and Vietnamese military personnel have been observing the exercises since 2008.<sup>89</sup>

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<sup>87</sup> "Is There a Future for the U.S.-India Partnership? Remarks by Deputy Secretary William Burns at the Brookings Institution," Website of the U.S. Department of State, 27 September 2011, <http://www.state.gov/s/d/2011/174093.htm>, URL accessed on 28 March 2012.

<sup>88</sup> See, for example: "UK-Vietnam Strategic Partnership Declaration," Website of the United Kingdom's Foreign & Commonwealth Office, 8 September 2010, <http://www.fco.gov.uk/en/news/latest-news/?view=News&id=22830359>, URL accessed on 4 March 2012; "Vietnam, Germany Set Up Strategic Partnership," Vietnam News Agency, 15 October 2011, <http://sokhdt.baria-vungtau.gov.vn/News/english/521/vietnam-germany-set-up-strategic-partnership.html>, URL accessed on 4 March 2012.

<sup>89</sup> "Vietnamese Officers Embark USS Tortuga to Observe Singapore CARAT Exercises," Website of the U.S. Navy, 26 June 2008, [http://www.navy.mil/search/display.asp?story\\_id=38066use](http://www.navy.mil/search/display.asp?story_id=38066use), URL accessed on 14 March



### ***Making regular U.S. visits to Vietnamese ports***

Vietnamese Premier Nguyen Tan Dung's announcement of the re-opening of the Cam Ranh Bay naval facility to foreign naval vessels is another means for Vietnam to advance its cooperation with the United States without becoming entangled in a formal alliance.<sup>90</sup> By offering to service warships from all nations, Vietnam stays in conformity with its multi-directional foreign policy while also drawing in a powerful foreign military presence on China's doorstep and yet not having to host a politically sensitive American base on Vietnamese soil. U.S. naval vessels will be keen to take advantage of the arrangement as the Vietnamese decision to re-open Cam Ranh Bay is also in line with Washington's "places not bases" strategy, designed to give the U.S. a forward military presence in the region without the baggage that often comes with setting up a permanent base in a foreign country. In August 2011, the USNS Richard Byrd became the first U.S. naval vessel to visit Cam Ranh Bay in 38 years.<sup>91</sup>

### ***Lifting the arms embargo***

Another possible step is the lifting of the U.S. embargo on the sale of military armaments to Vietnam. In place since 1984, the ban was relaxed in 2007 to allow for the sale of non-lethal defense articles and services on a case-by-case basis.<sup>92</sup> Moreover, remarks made by Senator Webb on a 2011 visit to Hanoi confirmed that discussions between the two governments on the status of the embargo are taking place.<sup>93</sup> Vietnam might prefer to reduce its dependence on Russian armaments and acquire more advanced U.S. military technologies. However, a Vietnamese newspaper interview with outgoing U.S. Ambassador Michael Michalak suggests that any further relaxation in the embargo will be contingent upon improvements in Vietnam's human rights record.<sup>94</sup>

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2012; "Vietnam Denies Participation in Joint Military Drill," *Thanh Nien*, 18 February 2011, <http://www.thanhniennews.com/2010/pages/20110218222903.aspx>, URL accessed on 14 March 2012.

<sup>90</sup> "Vietnam to Re-open Cam Ranh Bay to Foreign Fleets: PM," *Bangkok Post*, 31 October 2010.

<sup>91</sup> "MSC Ship Completes First U.S. Navy Ship Visit to Vietnam Port in 38 Years," Website of the U.S. Military Sealift Command, 23 August 2011, <http://www.msc.navy.mil/N00p/pressrel/press11/press40.htm>, URL accessed on 4 March 2012.

<sup>92</sup> "Country Policies and Embargoes," Website of the U.S. State Department Directorate of Defense Trade Controls, Updated 10 August 2011, [www.pmddtc.state.gov/embargoed\\_countries/index.html](http://www.pmddtc.state.gov/embargoed_countries/index.html), URL accessed on 27 August 2011.

<sup>93</sup> "U.S. May Sell Military Technology to Vietnam, Senator Says," *Bloomberg News*, 24 August 2011.

<sup>94</sup> "Vietnam's Relations with America Are in Fact a Strategic Connection," VietnamNet Bridge, 11 July 2010.

## **Conclusion: The China factor in U.S.-Vietnam cooperation**

Although the United States and Vietnam have a number of reasons for desiring closer ties, China will remain one of the most important factors shaping their bilateral relationship. Actions taken by Beijing will continue to influence the pace and scope of further cooperation between Hanoi and Washington, particularly on security matters. The PRC's continued assertiveness in the South China Sea, for example, is likely to lead to an increase in U.S. naval activities as well as Vietnamese enthusiasm for a regular U.S. military presence in the region. Moreover, Beijing's opposition to discussing the South China Sea with each of the other claimants in a multilateral setting will reinforce Hanoi's resolve to involve the United States and other powers from outside the region that share a common interest in Southeast Asia's stability. The degree of Chinese sensitivity on Mekong River issues is also likely to affect Hanoi's embrace of the U.S.-sponsored Lower Mekong Initiative. Furthermore, given the turbulent history between China and Vietnam, aggressive rhetoric and threatening behavior from Beijing is likely to intensify Vietnam's insecurity and cause Hanoi to look to Washington's security umbrella for protection.

At the same time, both countries' desire to avoid damaging their respective bilateral relations with Beijing is likely to be one of the biggest barriers to further cooperation between Hanoi and Washington. Ties with China arguably constitute both countries' most important diplomatic relationship and it is in neither country's interest to antagonize the PRC. China has dominated Washington's Asian policy for decades, and the relationship with Beijing has only become more important to U.S. decision-makers in recent years. Today, bilateral trade, the value of China's currency, and the PRC's status as Washington's leading creditor have made relations with Beijing a U.S. domestic policy issue. China is also a factor in many of Washington's principal global concerns, including climate change, health and pandemics, cyber-security, energy security, human rights, PLA military modernization, Taiwan, and efforts to curb nuclear proliferation in North Korea and Iran.

Because of Vietnam's geographic proximity to China, ties with Beijing are an important foreign policy concern for Hanoi. Hanoi is careful to weigh the impact of major decisions on ties with China and makes a concerted effort to tone down criticism of Beijing in the country's state-run media to avoid displeasing its sensitive northern neighbor. Given the sensitivity that Beijing has displayed over the warming of U.S.-Vietnamese relations to date, Hanoi is likely to avoid conveying the impression that improved relations with Washington constitute a threat to Beijing.

China serves to both push the United States and Vietnam closer together but also to limit cooperation that may antagonize the PRC. In both ways, the China factor is a defining one.

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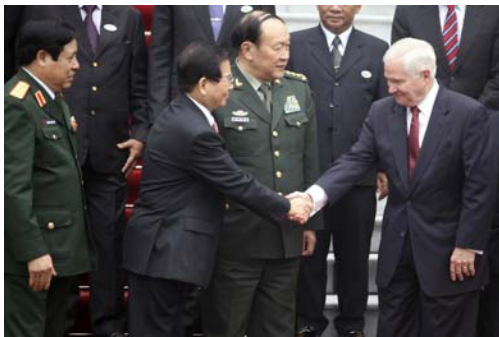
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Vietnam's President Nguyen Minh Triet (2nd L) shakes hands with U.S. Defense Secretary Robert Gates while China's Defence Minister Liang Guanglie and Vietnam's Defence Minister Phung Quang Thanh (L) watch on during the first Association of Southeast Asian Nations (ASEAN) Defence Ministers Meeting Plus at the National Convention Center in Hanoi October 12, 2010.

