

Strategic Analysis Paper

14 March 2019

The US-Vietnam Economic Relationship: Why Beijing Is Watching

Tridivesh Singh Maini
FDI Visiting Fellow

Key Points

- The enhanced US-Vietnam economic ties reflect the fact that Washington has begun to recognise Vietnam's economic potential and geopolitical significance.
- During US President Donald Trump's recent Hanoi visit, a number of substantial business deals were signed.
- Vietnam has strengthened its defence and security ties with the US, Japan and India in recent years. One of the key reasons behind Hanoi's proactive strategic outreach is China.
- The Chinese leadership, much like Trump, often takes a transactional view of matters. As a result, China may no longer be viewing Vietnam-US relations from a zero sum perspective.

Summary

While addressing a joint press conference in Hanoi, after his summit meeting with North Korean leader Kim Jong Un, United States President Donald Trump not only discussed the US-North Korea Summit but also went on to talk about the current state of US-China relations. Trump criticised his predecessors for not doing enough to address the US trade imbalance with [China](#), while also making the point that he was supportive of China's economic progress and growth, but not at the cost of the US.

If one were to look beyond the perceptive significance of the summit in terms of the broader US-Vietnam economic relationship, top US companies [Boeing and GE Electric](#) sealed some important deals.

Given the main focus of Trump's visit (which was the summit with North Korean leader), the aforementioned deals perhaps did not draw the attention that they ought to have. The enhanced economic ties are reflective of the fact that the US has begun to recognise Vietnam's economic potential, as well as its geopolitical significance. This paper seeks to present a background to Vietnam's economic growth story in recent years, some of its key strategic relationships and to examine the nature of the China-US-Vietnam economic triangle.

Analysis

Vietnam's Growth Story: Key Factors

There is no denying the fact that Vietnam has emerged as an important engine of economic growth within the Association of South-East Asian Nations (ASEAN) region in general, and as a top economic performer within the Cambodia-Myanmar-Laos-Vietnam (CMLV) bloc in particular. Economic reforms (*doimoi*) in Vietnam began over three decades ago, in 1986. In recent years, some of the key factors which have driven Vietnam's growth story, especially its success in attracting foreign direct investment (FDI) are a large [labour force](#) of 57.5 million workers and lower wage costs. There are varying estimates, but the wages of production workers in Vietnam are estimated at around [US\\$216](#) (\$308) per month, or half of what a labourer would cost in China. Electricity too, is much cheaper in Vietnam than in its fellow ASEAN competitors. As of [June 2018](#), for example, electricity in Vietnam cost seven US cents per kilowatt hour, while the comparable cost in Indonesia was ten US cents and, in the Philippines, nearly thrice the Vietnamese amount, or 19 US cents per kilowatt hour.

If one were to look at the growth and FDI figures, they are a clear reflection of Vietnam's success. In [2018](#), Vietnam's growth rate was estimated at a little over seven per cent (7.08%) – the highest in 11 years. Disbursed FDI into Vietnam was estimated at [US\\$19.1 billion](#) for the year 2018 and disbursed FDI for the last three years was estimated at well over US\$50 billion. Total FDI for the year 2018 was estimated at [US\\$35 billion](#). Japan – at over US\$8 billion – was the single largest investor in 2018. Other countries which have a strong presence in Vietnam are South Korea and Singapore. China is the [seventh-largest](#) investor in Vietnam. One of the major attractions of investing in Vietnam – apart from its economic potential – is the country's [location](#). Its strategic location and littoral geography make it well-connected to other countries like Myanmar, Laos and Cambodia, as well as to the maritime domain, thereby increasing its trade potential.

As a result of growing consumer demand and increased tourism, revenues from the Retail Sales and Consumer Services and Travel and Tourism categories have also witnessed a significant increase in 2018 in Vietnam. Revenue from retail services was estimated at over [US\\$190 billion](#), while that from travel and tourism was nearly US\$2 billion in 2018. The

increased revenue from travel and tourism is driven by the rise in inbound tourism in [2018](#) (almost 20 per cent).

Vietnam has close trade relations with both China (Vietnam is China's largest trading partner in [ASEAN](#)) and the United States. Sino-Vietnamese trade for the period January-November 2018 was estimated at [US\\$97 billion](#), though it was heavily skewed in favour of Beijing (the total trade deficit was over US\$20 billion USD). In the case of US-Vietnam trade, it is heavily skewed in favour of Vietnam (the US runs a trade deficit with Vietnam of [over US\\$25 billion](#)).

Strategic Significance

Vietnam's strategic importance in the region and beyond stands amplified. Even before the recent Trump-Kim Jong Un summit, Vietnam has hosted a number of [important events](#) in recent years such as the Asia Pacific Economic Co-operation (APEC) meetings in 2008 (in Hanoi) and in 2017 (in Danang), the high-powered World Economic Forum in 2018, and frequent ASEAN summits. On the security front, Vietnam has strengthened its defence and security ties with Japan, the US and India in recent years. One of the key reasons for Hanoi's proactive strategic outreach is the China factor.

During the visit to Japan of former Vietnamese President Truong Tan Sang, in 2014, both sides issued a joint statement which referred to the need to upgrade the bilateral relationship to an '[Extensive Strategic Partnership for Peace and Prosperity in Asia](#)'. The joint statement made references to closer security co-operation, besides mentioning Japanese assistance in building the capacity of Vietnam's [maritime enforcement agencies](#). Both sides also reiterated their shared opinions on the [South China Sea issue, as well as de-nuclearisation in North Korea](#). In July 2018, Japan and Vietnam held their [sixth Defence Policy Dialogue](#) (co-chaired by the Deputy Defence Ministers of both countries). In [September 2018](#), the Japanese Maritime Self-Defence Force (JMSDF) submarine *Kuroshio* docked at Cam Ranh International Port in Kham Hoa. While security co-operation between Japan and Vietnam has been increasing in recent years, the aforementioned areas of co-operation have emphasised the increasing convergence of the outlooks of both countries on important geopolitical issues. Japan has also been pushing for greater co-operation with Vietnam in the context of the Indo-Pacific region. Japanese Prime Minister Shinzo Abe, in a [February 2019](#) interview, reiterated the need for a stronger Japan-Vietnam partnership to further promote the idea of an Indo-Pacific that is 'Free, Fair and Open'.

Vietnam has also been bolstering strategic ties with the US. In July 2017, Washington and Hanoi conducted their [eighth Naval Engagement Activity](#). The United States is also providing support for Vietnam's participation in UN peacekeeping operations. In 2018, more than four decades after the end of the [Vietnam War](#), the US Navy aircraft carrier USS *Carl Vinson* arrived in Danang, a city that had been a key battleground during the War. Besides being an important step in the context of Vietnam-US strategic co-operation, the move constituted an important signalling to China that the latter's militarisation and aggression in the South China Sea will not go unopposed.

Vietnam is also enhancing its security ties with India. During his visit to Vietnam in [2016](#), Indian PM Narendra Modi had offered a credit line of \$US500 million for defence co-

operation. During Vietnamese President Tran Dai Quang's 2018 visit to New Delhi, both sides [resolved](#) to work jointly for a 'free and prosperous' Indo-Pacific.

Although Vietnam has been strengthening its strategic ties with the above countries, it also has been particularly cautious in regard to the emerging Indo-Pacific security narrative, underscoring that Vietnam is not in favour of any [military alliance](#), perceiving that as having an adverse impact on the security of the region.

US-Vietnam Relations

If the trajectory of US-Vietnam relations were to be examined (and which, for a long time, were influenced by the legacy of the War), the relationship between the two countries can be seen to have steadily improved over the past two decades. Both sides have made efforts to put the acrimony of the [Vietnam War](#) behind them; although that is sometimes difficult given the fact that the war was among the bloodiest conflicts of the twentieth century. Some important steps were taken in the 1990's during the presidency of Bill Clinton. In [1994](#), the US lifted the trade embargo against Vietnam. A bilateral trade agreement between both countries came into being in 2001 after it was approved by the US Congress as well as the Vietnamese National Assembly.

During the Obama Presidency, crucial steps were again taken to strengthen the economic relationship with Vietnam. The Trans-Pacific Partnership (TPP) agreement signed in [2015](#) and for which Obama pushed strongly, would have benefited Vietnam immensely as the South-East Asian country would have gained preferential access to the large US market.

Although President Trump did make the massive trade deficit with Vietnam a domestic election issue and the subsequent US exit from the TPP was a regional setback, a number of other important developments have taken place in the context of US-Vietnam bilateral ties. In May 2017, during Vietnamese President Nguyen Xuan Phuc's visit to the US, deals worth [US\\$8 billion](#) involving two major US companies – Caterpillar and General Electric – were signed. Trump mentioned the US trade deficit with Vietnam and hoped to balance it over a period of time. While addressing the APEC Summit in [November 2017](#), however, the US President still had a word of praise for Vietnam's economic progress:

'... [the] Vietnamese economy is one of the fastest-growing economies on Earth. It has already increased more than 30 times over, and the Vietnamese students rank among the best students in the world.'

The China-US-Vietnam Triangle

After the [China-US trade wars](#), many argued that Vietnam could emerge as the biggest beneficiary of the tussle. So far, [Vietnam](#) has benefitted, but only on a limited scale. Export orders to certain sectors have witnessed a rise but not in a dramatic way. Also, Hanoi seeks to gain as companies seeking cheaper labour costs consider relocating from China to Vietnam. Current evidence suggests, however, that that has not happened on a large scale.

Deals Signed during Trump's Vietnam Visit: How China Has Sensed an Opportunity

As mentioned earlier, during the US President's Vietnam visit, a number of significant deals were signed. [VietJet](#) airlines will buy 100 Boeing 737-Max jet aircraft and 215 GE/CFM joint venture engines, and [Bamboo Airways](#) (a start-up owned by Hanoi-based conglomerate FLC Group), will buy ten Boeing 787-9 jets.

US-based aviation technology company Sabre also inked a deal with flag carrier, Vietnam Airlines. The deal, estimated [at US\\$300 million](#), is supposed to help Vietnam Airlines in the upgrading of its digital abilities and to achieve its aim of becoming a digital airline by 2020. The total of the deals signed during Trump's visit is estimated at [US\\$20 billion](#).

The China-US-Vietnam triangle is not only interesting from a historical context, but also from an economic dimension. What is significant is that, while there is talk of US-China trade wars and the likely benefit for Vietnam, Beijing kept a close eye not just on Trump's statements regarding North Korea, but also on the deals signed during his Vietnam visit.

In the above context, an article in the [Global Times](#) mentions how China can be part of the global production chain through a '[completion and delivery centre](#)' at Zhoushan, in eastern China's Zhejiang Province. Work on the interiors of over 700 aeroplanes can be completed in the centre.

Although the primary focus of Trump's visit to Vietnam was North Korea, the deals signed on the sidelines of the summit will not only give a boost to economic ties between Vietnam and the US, but are a clear illustration of the importance that Trump accords to big-ticket business deals. It is also interesting to see the approach of China towards these deals. While keeping a close watch on the outcomes of the Trump-Kim summit, China also closely watched the economic outcomes of the visit and analysed how it could benefit from them. The *Global Times* [article](#) goes on to interestingly conclude the following:

China has no reason to be jealous of Trump's economic gain in Vietnam. In contrast, we hope the US can increase economic interaction with enterprises in South-East Asian countries. Hopefully, everyone can learn that economic engagement is not a zero-sum game.

Conclusion

The China-US-Vietnam triangle is important, not just in a strategic context (and especially in regard to the South China Sea issue) but also in terms of achieving the aim of a "Free and Open Indo-Pacific". In so far as the economic context is concerned, both Trump and the Chinese leadership are equally transactional, making it particularly interesting to see Beijing de-hyphenate Washington's strategic ties with Hanoi from the two former enemies' booming economic relationship.

About the Author: Tridivesh Singh Maini is a New Delhi-based Policy Analyst, associated with the Jindal School of International Affairs, O.P. Jindal Global University.

Any opinions or views expressed in this paper are those of the individual author, unless stated to be those of Future Directions International.

Published by Future Directions International Pty Ltd.
Suite 5, 202 Hampden Road, Nedlands WA 6009, Australia.
Tel: +61 8 6389 0211
Web: www.futuredirections.org.au