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## **Background Briefing: Vietnam's Diplomatic Strategy and Major Power Tensions**

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We request your assessment of Vietnam's diplomatic strategy with the major powers in 2018.

Q1. In 2018, what were the "good" and "not so good" aspects of Vietnam's diplomatic strategy towards the major powers? How has Vietnam's strategy of multilateralisation been affected by competition between the major powers, protectionism and populism?

ANSWER: Vietnam's policy of "diversification and multilateralization" of its relations with the major powers is designed to give each major power equity in Vietnam's independent role in regional affairs. Each major power has an interest in seeing that Vietnam does not become too close or ally with any one major power. So each major power stays in the game to balance a rival.

Each major power also benefits diplomatically, politically, economically from its bilateral relationship with Vietnam. Bilateral relations can take the form of a comprehensive strategic cooperative partnership, comprehensive strategic partnership, strategic partnership or a comprehensive partnership.

Vietnam's foreign policy of "diversification and multilateralization" of its relations with the major powers and active proactive international integration is predicated on the assumption that relations among the major powers will remain stable.

In 2018 Vietnam's foreign policy of "diversification and multilateralization" came under stress due to the unpredictability of the Trump Administration, its tariff war with China and a deterioration of U.S.-Russian relations. Vietnam has been set on the defensive.

There are two examples that illustrate Vietnam's difficulties. The first example is the U.S.-China tariff war. Vietnam has and will continue to benefit in the short run from the tariff war. Companies in China, including Chinese and South Korean companies, have shifted production to Vietnam. Vietnam has been able to boost manufactures exports.

But, Vietnam's trade surplus with the United States has increased to \$35 billion. The Trump Administration has imposed tariffs on Vietnam's exports of steel and aluminum that was originally sourced in China. If the U.S.-China trade war continues Vietnam will become more exposed to U.S. retaliation. In addition, some Trump

Administration officials claim that Vietnam has let its *dong* devalue making exports less expensive in the United States. There are reports that this so-called devaluation may be a form of currency manipulation and could attract U.S. sanctions.

The Trump Administration is also pursuing a policy of including a provision in its new trade agreement permitting a signatory to withdraw if any other signatory signs a bilateral trade agreement with a non-market economy. This was aimed at China but Vietnam is also designated a non-market economy by the United States. This provision is referred to as a “poison pill.”

In 2018, Deputy Prime Minister Vuong Dinh Hue visited Washington for talks with the Treasury Secretary Steve Mnuchin. No progress appears to have been made.

The second example of difficulties Vietnam faces relates to its defence-security relations with the Russian Federation. At the end of the year relations with Russia were touted as being at an all time high and that Russian was a reliable partner.

All of this may be true, but Vietnam is now facing difficulties because of the deterioration in relations between the United States and Russia. In August the U.S. Congress passed the Countering America’s Adversaries Through Sanctions Act (CAATSA). This law provides for penalties for countries that purchase weapons from proscribed Russian “defense entities.” Russia is Vietnam’s major supplier of weapons. Former Secretary of Defense James Mattis sought waivers (exemptions) for India, Indonesia and Vietnam. But CAATSA includes a provision preventing a waiver if a country cooperate with Russian intelligence agencies and hackers engaged in cyber attacks.

Finally, CAATSA contains a provision that a waiver cannot remain in place indefinitely. A country such as Vietnam is required to demonstrate that it is taking steps to reduce its purchase of Russian weapons. So Vietnam is under pressure to buy American weapons and reduce its purchases from Russia.

In 2018 Vietnam responded to these pressures by cancelling fifteen joint military activities with the United States scheduled for this year. Vietnam must reconcile this action with its support for U.S. freedom of navigation operational patrols in the East Sea as long as they contribute to regional stability.

In sum, in 2018 Vietnam’s policy of multilateralization of foreign relations came under stress due to increased tensions between the United States and China and between the United States and Russia. During the year Vietnam maintained trouble free relations with India and Japan and saw relations with China improve.

In 2019 as the tensions between the U.S.-China and U.S.-Russia increase, Vietnam will experience greater difficulties in its bilateral relations with the United States. Increasingly Vietnam’s economic relations with China and military ties with Russia will become an irritant. In addition, a Democratic Party-controlled House of Representative is likely to give greater priority to Vietnam’s domestic human rights situation than the Trump Administration.

Q2. Vietnam seems to approach both China Belt and Road Initiative (BRI) and the United States’ Indo-Pacific strategy cautiously, what is your assessment?

ANSWER: Vietnam was cautiously welcomed China's Belt and Road Initiative for both political and economic reasons. On the one hand, Vietnam gains by being publicly supportive of the BRI because it is President Xi Jinping's signature initiative. On the other hand, Vietnam is wary of signing contracts with China to build infrastructure, on the grounds of both cost and quality. Vietnam would prefer that China align its BRI funding to support ASEAN priorities for connectivity, such as the East-West highway.

On the one hand, the U.S. Free and Open Indo-Pacific (FOIP) initiative opens up alternate sources of high-quality investment for infrastructure through the World Bank, Asian Development Bank, the U.S. government and the U.S. private sector. On the other hand, the U.S. Indo-Pacific strategy is aimed at creating an anti-China regional security network led by Washington. Vietnam has been singled out by the United States as a potential partner.

Vietnam would rather pursue diversification and multilateralization of its relations with the major power rather than become ensnared by any one. Vietnam most important priority is to promote economic growth at just under seven per cent of GDP in 2019. Both the BRI and the FOIP have strategic goals in addition to their focus on the development of infrastructure. Each seeks to pull countries like Vietnam into their orbit.

Vietnam's objectives of high economic growth could be undermined by major power tensions that have already seen a downturn in the growth of the Chinese and global economies. In these circumstances Vietnam must accelerate domestic economic reform to take full advantage of the Transpacific Partnership 11 now in force and conclude a Free Trade Agreement with the European Union.

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