

VIETNAM- CHINA ECONOMIC RELATIONS, 2002-2013

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DOCTOR OF PHILOSOPHY

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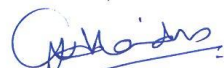
DECLARATION

I declare that the thesis entitled "Vietnam- China Economic Relations, 2002- 2013" submitted by me for the award of the degree of **Doctor of Philosophy** of Jawaharlal Nehru University is my own work. The thesis has not been submitted for any other degree of this University or any other university.


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CERTIFICATE

We recommend that this thesis be placed before the examiners for evaluation.


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PREFACE

Vietnam's relations with China have been a matter of scholarly attention and debates for a long time. A careful study of Vietnam's relations with China amply demonstrates that China has played a key role not only in its economic policy but also in its domestic policy and politics. The study of Vietnam's relations with its biggest neighbor has gained more critical importance to scholars of international relations for following reasons: the geographical boundaries of the region are increasingly losing importance as not only the global power USA has become the local actor in Southeast Asian regional politics but countries such as China, India and Japan are also making a significant impact on the region. In Southeast Asia, there is no security architecture in place, which can establish a structural framework of security in the region.

However, the most striking feature that makes the study interesting is the rise of China as a dominant power. The rise of China certainly is the greatest geopolitical challenge of the 21st century with profound implications for the Southeast Asian region, and indeed the world. The post-Doi Moi policy of Vietnam emphasized upon the economic globalization aspect and towards that end Vietnam reconfigured many of its bilateral relationships in the neighborhood, particularly with China. This study will try to find out why China has assumed such a critical position in Vietnam's economic and foreign policy matters and since a systematic and comprehensive work on Vietnam-China economic relations is lacking, this research is an attempt to fill up that void.

The introductory chapter would lay down the purpose of undertaking this research and its general framework. This chapter attempts to present the essence of the entire research work by setting out a broad framework the latter is going to follow. It introduces the subject and discusses Vietnam's relations with China as well as the world economy. It is done in the context of Vietnam and China being prominent players in the Southeast Asian region, and more

importantly in the context of views and perceptions of ASEAN (Association of Southeast Asian Nations) in economic, political and strategic context. This chapter, at first, deals with the historical evolution of economic relationship between China and Vietnam; the Chapter further sets a stage for examining the subject in succeeding chapters. It also assesses economic potential of Vietnam in terms of international trade and investment and its connectivity and development as facilitator in economic relations with Peoples Republic of China.

The second chapter elaborates various aspects of trade and investment relationship between Vietnam and China, viz., exports and imports in goods and services, trade balance, industrial structure and trade and investment pattern during the period under study with a comparative outlook. The purpose of the Chapter is to highlight the favorable and unfavorable factors concerning bilateral trade and investment relationship between Vietnam and China and all the issues which are creating obstacles in the trade and investments are studied and given the challenges, future prospects of economic relations are analyzed. The third chapter attempts to highlight the evolution and prospects of sub-regional framework of cooperation like Greater Mekong Sub-regional Framework of Cooperation (GMS) which covers about 100 cooperative projects covering infrastructure, energy resources, trade and investment, telecommunications, environment, tourism, agriculture, and human resources development and economic corridors, namely, East West Corridor so on and so forth; on economic relations between Vietnam and China. The fourth Chapter attempts to highlight the evolution of relations between Vietnam and China through multilateral institutions like ASEAN. In this context, the main focus has been on how ASEAN-China free trade agreement and other economic cooperation agreements have contributed to Vietnam's enhancement of economic relations with China. A critical evaluation of the ASEAN-China FTA and how it has affected Vietnam's economic links with China has been undertaken.

Towards the end, the concluding chapter has concluding observations. An assessment has been made here on the success and failure of engagement in Vietnam-China economic relations and whether the economic relations have generated positive results for both of them despite political differences over contentious issues. Essentially, this chapter has made a summary of the research to derive theoretical and policy conclusions. Further, it aims at comparing and contrasting the approaches and achievements of the two and an understanding of what the present trends seem to indicate in the context of the overall dynamics and pattern of the Vietnam-China relations.

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Chapter - I

1. Historical Background

Vietnam is a neighbor of China and has a border of 1450 kilometers. They have common history and have experienced a number of ups and downs in their relations. The nature of their relations has changed in different periods and Vietnam had been regarded as a China's province and belonged to its tributary system when it was annexed into China in different capacities; as a friend, comrade in the similar situation; as an enemy; and as a good neighbor again.

2. Ancient Period

China and Vietnam had contacts from the time (1045 BC-256 BC) of Zhou Dynasty in China and Hong Bang Dynasty ruled by Hung Kings (prior to 257 BC) in Van Lang. Vietnam officially became a part of China, when Vietnamese King An Duong was defeated by his Chinese counterpart, Zhao Tuo and was integrated into Nan Yue. Since Vietnam had different ethnic roots from northern China and autonomous cultural existence in the Stone Age and Bronze Age (Womack 2006), Vietnam's just covered a region of North Vietnam, which is a part of present-day Guangxi. Therefore, Vietnam was a part of China when Nan Yue was conquered by Han Dynasty in 111 BC and its territory covered present day Guangdong, Guangxi, and Hunan.

3. Period from 938-1858

China and Vietnam became two sovereign and independent countries after the Bach Dang victory in 938. Despite changes of dynasties in both countries for the next thousand years, their relations were maintained but Vietnamese dynasties implemented a soft and skilled policy toward China, whereas China used to regard Vietnam as a subordinate country. Also, China carried out a peaceful policy and accepted tribute from Vietnamese kings but

Chinese kings used to send their troops to invade Vietnam when Vietnamese dynasties were weak and instable (Womack 2006).

Vietnam was attacked by Ming Dynasty in 1407 but Vietnam under Ho Dynasty's rule could not resist. However, the Vietnamese people led by Le Thai defeated Ming invader and in 1428, he sent emissary to China to request a title and set up a friendly relationship. In 1802, Nguyen Anh founded Nguyen Dynasty in Vietnam and sent a delegation to China to request a title. Therefore, Vietnam paid tribute to and imitated China when it was strong but resisted when it was aggressive (Chen 1969).

4. Colonial Period

During this period, both countries were thoroughly exploited by colonialism. In 1839, the Opium War between Qing Dynasty and Britain broke out in which Qing got defeated by Britain and this was the period of great humiliation in China's history. China which was a great country in the previous period, came under Western imperialists as a result of defeat in the wars with Britain in 1839-1842 and 1856-1860; France 1884-1885; and Japan 1894-1895, and the Qing Dynasty signed a number of "unequal treaties" with Western foreigners which pushed China to the position of a semi colonial state.

Vietnam, also, could not escape the process of colonization. On 31 August 1958, 14 French gun-ships, 3,000 men and 300 Filipino troops under command of Charles Rigault de Genouilly attacked Danang and occupied the city. This inaugurated the first phase of the French conquest of Indo-China (Tucker 1999). In 1859, he occupied Saigon and in 1862, Vietnam gave up provinces to France such as Bienhoa, Giadinh and Dinhtuong. The provinces of Chaudoc, Hatien and Vinhlong came under the French in 1867 and Hanoi and Namdinh also was occupied by French in 1873.

5. Period from 1850 to 1945

China and Vietnam were harshly exploited by Western imperialism and they struggled against the Western domination. China, witnessed a number of the people's uprisings, after series of concessions in the treaties signed with Western powers and even Japan, in late 19th Century. The weak and coward Qing Dynasty led the Taiping Rebellion that took place from 1851 to 1864; the Boxer Rebellion in 1898-1901; and the Xinhai Revolution in 1911. The Xinhai revolution resulted in the establishment of Republic of China (ROC) in 1912 and overthrew the Qing Dynasty. The Vietnamese people's uprisings against the French colonialist continued to break out, after the failure of stopping French spreading its control over Annam and Tonkin.

The aim of all the uprisings in 1885 led by king Ham Nghi was to call for a national uprising against the French. Vietnam during the late 19th Century tried to regain independence, but did not care about social and political reforms. The defeats of revolts in late 19th Century made the Vietnamese understand that they could not liberate their country in the same way as their ancestors had done. The Indo Chinese Communist Party (ICP) was very small with 5000 members in 1945, when Minh founded DRV (the Democratic Republic of Vietnam), he became the leader of the CCP and protested against imperialists. He further used the language of freedom and equality in his declaration of independence as the leader of the imperialist camp (Marr 1995).

The Japanese forces in 1940 took over the colony of Indochina with the agreement with French that they will develop infrastructure and provide materials to Japanese to control the territory of Indochina. But they planned to oust French in 1945 due to and collapse of its government and fear of Allied arrival. In 1945, the Japanese permitted the emperor of Vietnam for an independent Empire. The Japanese also picked Tran Trong Kim as the prime minister of this government (Nguyen 2001). However, Vietnamese had very less experience and their government ruled only for four months with the Japanese coup in the same year (Vu N. C. 1986). Ho Chi Minh revived the movement in 1941 and made a guerrilla force and resisted French occupation and finally forced the Japanese to

surrender. (Le T. N. 2000). Finally, due to Viet Minh challenge, this government was forced to resign and transferred power. Due to this compromise, EVN members were offered positions in the Viet Minh government (Marr 2004). Therefore, in 1945, Viet Minh was born and Ho became its president.

The Vietnamese government was only five weeks old when the Japanese were disarmed by GMD (Worthington 1995). The troops in exile from China such as the Vietnamese Nationalist Party or VNP which was headed by Nguyen Tuong Tam and the Vietnamese Revolutionary League, VRL was headed by Nguyen Hai Than (Jamieson 1993). The troops of these people acquired power but daily fights with Viet Minh forces shook their power. However, the GMD forced Ho Chi Minh during 1943 and 1944 for power sharing with Viet Minh and other groups in exile. The dissolution of the ICP took place in November 1945 but in actual it was not dissolved and was only eyewash (Vu D. H. 2000). Further, as soon as the French replaced Chinese in mid-1946, Ho's government removed most of the exiled nationalists. As the exiled nationalist groups were active in the urban elites, the ICP relied on noncommunist intellectuals to approach urban people as they were familiar with elite groups; had business relations with bureaucrats (Vu D. H. 2000).

6. Modern Times

After the establishment of Peoples Republic of China on 5th December 1949, Vietnamese President Ho Chi Minh congratulated Mao Zedong and expressed desire for a closer Sino-Vietnamese relationship. The victory of the Communists in China deepened China-Vietnam relations. On January 14 1950, Vietnamese President declared that "its Government is willing to establish diplomatic relations with the government which respects the right of equality, territorial integrity and sovereignty of Vietnam in order to protect peace and build up the world democracy" (Ho Chi Minh Selection 2002). Following this, on January 18, China and Vietnam exchanged letters of mutual recognition and officially established diplomatic relations. Also, China was the first country which recognized and established diplomatic relations with the Democratic

Republic of Vietnam. The establishment marked the greatest diplomatic victory for Vietnam and was a turning point in China – Vietnam relations since the war of resistance began (Vietnam News Agency, January 27, 1950).

Soon after the Chinese recognition, Soviet government recognized and established diplomatic relations with DRV in January, 1950. Following suit, other countries also granted their recognition to DRV such as Democratic People's Republic of Korea; Czechoslovak Republic, German Democratic Republic, Rumania, Poland, Hungary, Bulgaria and Albania. Therefore, the Chinese recognitions helped the DRV to align with communist bloc as well as supports and aid from the countries in the bloc, especially from China. This was regarded as one of the vital factors which helped DRV later succeed in the resistant wars against the French and the America ahead.

As above mentioned, this relationship between Chinese and Vietnamese leaders helped both the countries in their war against imperialism. It majorly helped Vietnam as it needed China's support, and aid for the wars against the French and later the American. The good start led to the most intimate period in the two countries' modern history of relationship. There were many factors which made this friendship closer such as similar situation, similar ideology, and a long comradeship in struggle (Gou Ming 1992: 18-19). Further, both the countries were invaded by Western powers and had been led by communist parties, CPC and Vietnam Workers Party which were commitment to socialist internationalism, party discipline, class struggle, and united front (Womack 2006).

On the contrary, China's aid to Vietnam from 1952 to 1975 was its most important foreign policy diplomacy for the survival and success of the CPC. The aid to Vietnam was also China-centered as it promoted a socialist internationalism. Second, China perceived the United States as its primary threat until 1969, and therefore offered full support to Vietnam against the United States. Third, support for Vietnam against America played a role in stirring a general sense of crisis and danger that was useful for Mao's domestic agenda in the Cultural Revolution (Womack 2006).

The China - Vietnam relations during this period could be divided into two phases: 1950 to 1965 can be seen as the friendliest and most intimate phase in history of relations between both the countries wherein China was the biggest aid provider to Vietnam. The second was from 1965-1975. In this phase, although the friendly relations were quite well maintained, there were rifts in China and Vietnam relation emerging due to China's foreign policy diplomacy towards Soviet Union and the United States.

7. The period from 1950-1965

This period between China - Vietnam relations was termed as close as lips and teeth as reflected through the Chinese help and aid to DRV in the wars against the French and the American respectively. In pursuance to its friendly relations with China, Vietnam also opened three consulates in Yunnan, Guangxi, and Guangdong from 1953 to 1954 and on the other hand, PRC opened its embassy in Hanoi in 1954. China also regularly helped Vietnam by giving aid in its war against the French and the exchanges of high ranking delegations between DRV and PRC were regularly carried out (Vietnam Foreign Ministry 2002).

During the visit, Ho Chi Minh discussed with Chinese leaders on the Chinese aid to Vietnam. After that, Ho Chi Minh left Beijing for Moscow. Ho Chi Minh held discussions with Stalin and Mao Zedong on revolutionary situation in the world in general and in Vietnam in particular, Stalin and Mao Zedong agreed and assured to provide DRV with aid of weapons, equipments, medicine and foods. Mao also said Guangxi province would be the direct rear for Vietnam (Vo Nguyen Giap 1999).

The Chinese transportation network including both roads and railways leading from China to Vietnam was improved and constructed. On February 10, 1950, an office was set up in Nanning to direct the transportation of Chinese military supplies as well as a railway from China to North Vietnam was constructed in September 1950 and completed in October 1951. Nanning became the busiest supply route from China to North Vietnam and the key city for the forwarding of supplies. The war materials were transported to

North Vietnam overland and by sea. The land route had three lines- a highway from Tunghsing to Mon Kay; a rail line from Nanning to Chen-nan-kuan, then by truck to Dongdang (Vietnam), from there to Langson and to Caobang; and a rail line from Kunming, Hokow to Laoky. In late 1953 and early 1954 a special road was built from Mengtse (Yunnan) via Laichau to the Dien Bien Phu area. The sea route included a line from Yulin and Haikow ports (Hainan Island), a line from Jinzhou Bay, and a line from Wei-chow-tao. Shipment by sea went to Viet Minh areas near Haiphong, Nghean, Quangtri, Quangngai and Danang (Chen 1969).

Till the year 1950, Vietnam received rifles, machineguns, mortars, boxes of ammunition, and tons of other military equipment (Chen 1969), despite China started getting involved in the Korean War. The Chinese aid to Vietnam steadily increased from the year 1951 till the last year of the war in 1954 (Clodfelter 1995). In addition to the supply of material, China also trained both armed and unarmed men of Vietnam and at least 20,000 Viet Minh troops were trained and equipped by Chinese in Yunnan and Guangxi and returned to Vietnam. The training of Vietnamese troops in some centers in China such as Nanning, Chinghsi, Lungchow (in Guangxi), Tunghsing (Guangdong), Yulin and Haikow (in Hainan Island), Wenshan, Malipo, Hokow, and Guangnan (in Yunnan) also continued in later years. Besides these, there were about 10,000 trained officers, engineers, technicians, political workers and para-troops were trained in China (Chen 1969). China also assisted Vietnamese forces by sending a Chinese Military Advisory Group to fight the French in 1950. This military aid provided by China equipped Vietnam to compete with French Army in large scale offensive operations. (Davidson 1988).

With Chinese help and well trained and equipped troops, the Viet Minh carried out a number of operations in battles such as Dongkhe in September 1950; Caobang in Oct. 1950; Langson in Oct. 1950; Laocai in Nov. 1950; Vinhyen in Jan. 1951; Maokhe in Mar. 1951; Ninhbinh in June 1951; Hoabinh in Nov 1951 and in Feb 1952; Nghialo in Oct. 1952; Nasan in Dec. 1952; Samneua in Apr. 1953; Laichau in Dec. 1953; and Dien

Bien Phu from Mar-May 1954, of which the Dien Bien Phu operation was the finally decisive blow which pushed the French to negotiation table at Geneva.

8. Vietnam- China and the Geneva Conference

The Geneva Conference in April 26, 1950 had two issues in the agenda: Korea and Indochina. After the Korean issue came to a deadlock by the suggestion of discontinuing the discussion, the agenda on Indochina started on May 8 and ended on July 21, 1950 after 75 days with 31 meeting sessions. There were nine countries attending the Geneva Conference: The Soviet Union, the PRC, the United States, France, Great Britain, DRV, South Vietnam, Laos, and Cambodia. Vietnam came to the Geneva Conference with the status of a winner and for the first time China had taken part in a conference with full participation of the big powers to resolve international issues. Therefore, the aim of the conference was to maintain peace, complete independence, unity, and democracy (Vietnam Foreign Ministry 2002).

The participation in this event was very significant for China as after coming to power, it was only recognized by 20 countries, of which 11 countries were in communist system. So, Participation in the conference marked the confirmation of its status as a major state and the resolution, at least for the time being, of the two major conflicts on its borders. Together with the Asian African Conference in Bandung in 1955, where China was one of the five sponsoring countries, the Geneva Conference helped China in its acceptance and it put forward Five Principles of Peaceful Coexistence for nations with different political systems (Womack 2006).

Secondly, the Geneva Conference took place at the time when China started implementing its 5-year plan of economic development. So the participation gave a chance for China to call for normalization of commerce with the Western countries, and to prevent the United States' encirclement and intervention into Indochina. With the

above objectives, China made it clear to other countries that China was more inclined towards working for her "big power" position than on a peace settlement (Chen 1969).

China along with other big countries agreed a solution under which Vietnam temporarily separated at and a general election was held in 1956. Although it did not satisfy Vietnamese people's aspiration of country unification. Thus, the Geneva Conference ended with well-known agreement. Finally, the Geneva Conference ended with France withdrawal from the Indochina. It further enhanced China's stature as a powerful country which could resolve international problems. Vietnam at last gained peace, independence, territorial integrity. On the contrary, South Vietnam and the United States did not subscribe to the agreements. However, it remains doubtful whether this was done under the collaboration between the two delegations, as it subsequently gave them a pretext to act otherwise (Chen 1969).

9. China - Vietnam Relations after the Geneva conference and American War

After the Geneva Conference, Vietnam was divided into two parts with DRV in the North and South was ruled by Bao Dai. Further, Ho initiated the redevelopment work in the North, but in the south, the United States expanded its containment policy and implemented its intervention plan in Asia. In this direction, the first American move was to appoint their candidate Ngo Dinh Diem as the Prime Minister by forcing Bao Dai (Olsen 2006).

Under the umbrella of the Southeast Asia Treaty Organization (SEATO) established by the US in 1954, Ngo Dinh Diem consolidated his regime in the Southern Zone. In 1955, Diem threw Bao Dai out of power by keeping a referendum in South part of Vietnam and declared himself as the president. He also formed Republic of Vietnam in 1955 after severing ties with its partners.

In 1955, Diem stopped all activities related to communism and instituted death penalties for same and around 12,000 people were killed and 40,000 political prisoners were jailed during the years 1955-1958. However, relations between PRC and DRV after the Geneva Conference were consolidated and strengthened and China established its embassy in Hanoi on August 28, 1954. In this period, China also tried to scale back its military involvement in North Vietnam to reduce international tension. But China still played a vital role as the main donor and suggested Vietnam in its policies. From 1955 to 1960, Vietnam received 49,585 tons of aid of which China's aid was 19,580 tons of both weapons and logistical goods.

In this period, Vietnam also began to receive more aid from the Soviet Union due to the adjustment of the Soviet Union's policy towards Vietnam. The strategic aspect of economic assistance to Vietnam in the form of aid was the most important part of Soviet policies towards Vietnam in the early years after Geneva. The first formal economic assistance agreement was signed between the two countries was signed in July 1955 to assist North Vietnam in a large number of projects (Olsen 2006).

After Vietnam failed to implement the Geneva agreement, it adopted strategic guidelines from a peaceful method to armed struggle. In pursuance of its goal, the National Liberation Front was established and Beijing and Moscow agreed that the Vietnamese should emphasize political struggle. The decision of armed struggle came out when the deterioration of Sino-Soviet relations was publicly exposed. This perturbed Vietnam as it was in need of aid from its major donors i.e. China and Soviet Union.

However, China had positively changed its point of view on Vietnamese armed struggle to reunite the country since 1961. The Chinese support for an armed struggle in Vietnam was more stressed when Mao insisted that China "must support the armed struggles in South Vietnam and Laos without conditions" (Yang 2002). Along with this, Chinese aid to Vietnam also rapidly increased from 1960 to 1964. When armed resistance was finally permitted, the political vacuum in the countryside created by the Diem regime made it

quite successful and this in turn drew the United States (U.S.) into increased military support for Diem. By 1963 Diem was replaced by military governments led by America. On August 2 and 4, with the Gulf of Tonkin event, the U.S. President Johnson seek authorization from the U.S. Congress to escalate U.S. intervention in South Vietnam. In February 1965 the U.S. government sent the first U.S. combat troops and launched Rolling Thunder, a massive bombing campaign against North Vietnam (Li Xiaoping 2007).

10. 1965-1975

China helped Vietnam by giving aid to Vietnam in its war against Americans and offered to send its troops to Vietnam in case of any need. (Westad 1998). In July 1965, China began sending troops to North Vietnam, as well as surface to-air missiles, antiaircraft artillery, and railroad, engineering, mine-sweeping, and logistics units. Chinese forces operated antiaircraft guns and surface-to-air missile sites and built and repaired roads, bridges, railroads, and factories. However, in 1968, China criticized Vietnam for conducting negotiation with Washington and withdrew all of its troops from Vietnam. This generated differences with the Vietnamese, but China still increased its aid to Vietnam till 1975 (Li Xiaoping 2007).

As China's relations with Vietnam deteriorated, in 1960s, the Vietnamese-Soviet relations were rapidly strengthened with large economic, military and advisory aid from Soviet. This closeness between Vietnam-Soviet Union became a cause of concern for China as Moscow actively supported Hanoi in its military struggle for reunification. In 1965, it was believed that the Soviets wanted to aid Vietnam to isolate China; to improve Soviet - U.S. relations; and, last to engage in subversive activities against China and possibly against Vietnam. As these reasons suggest, China's major problem with Soviet aid was the effect of Soviet involvement in Vietnam on China's struggle with the Soviet Union. China did reluctantly accommodate itself to Soviet involvement and provided rail transport to Vietnam for Soviet goods, but it never accepted the notion of Vietnam - Soviet friendship (Womack 2006). Although China permitted a railway corridor for the

delivery of Soviet supplies, the Vietnamese saw this as less advantageous to their national liberation struggle (Li Xiaobing 2007).

In late 1960s, one of important factors which strained Sino - Vietnamese relations was China's inclination towards leftism and showed that China was unreliable as a model and as an intimate friend (Womack 2006). In 1971 and 1972, the reason behind Vietnam's concern about China was the U.S. President Nixon visit to Beijing. Post the visit, although China increased its military aid to Vietnam, the China's move was seen with suspicion by Vietnamese leaders (Duiker 1986).

Besides these, territorial disputes related to land and maritime started emerging between China and Vietnam and both accused each other of territorial violations. In 1974 China sent its troops to occupy Paracel Islands which was controlled by Vietnam. Although Vietnam did not react to China's claim until 1978, as it needed China's aid and help in the war and wanted to maintain a good relationship with Beijing. However the move showed China's territorial ambitions which were seen for thousand years by Vietnamese people.

11. 1975-1978

When China - Vietnam established diplomatic relations, 1975-1979 is regarded as the transitional period from intimate relations to hostile one which was marked by the border war in February 1979. After the year 1975, China reluctantly agreed to new aid program to Vietnamese in the same year and delayed the operationalization of agreed agreements (Womack 2006: 191-192). In 1978, public dispute over ethnic Chinese in Vietnam erupted and China announced to stop all its aid to Vietnam. At last the border war broke out in 1979. The reason for the breakdown in China Vietnam relations is seen in four factors: the Soviet-Vietnam alliance, Cambodia, Hoa people, and territorial issues (Womack 2006).

After the Sino - Soviet Border war in 1969, the Soviet Union became the China's primary threat and further improvement of Vietnamese - Soviet relations caused serious concern to China. For Vietnam, China's pressure of keeping distance with Soviet Union was seen as a move to dominate Vietnam. In contrast, China perceived Vietnam's unwillingness to join its opposition to the Soviet Union as an indication of disagreement with China (Womack 2006). The differences increase when Vietnam joined COMECON with the Soviet in 1978. Chinese viewed this as Vietnam's alignment with the Soviet Union to isolate China and the Cambodia issue gave a pretext for China to wage the war against Vietnam.

In 1978, Vietnam had to fight a war against Cambodia in response to its aggressive actions against Vietnam along the Cambodia – Vietnam border. Despite repeated efforts of reconciliation, the problem did not solve and finally in response to the call of Kampuchean United Front for the National Salvation, Vietnam launched a military campaign against Cambodia to defend its border and liberate Cambodia from Khmer Rouge regime (Vietnamese Foreign Ministry 2002). Within one month of the campaign, Khmer Rouge forces were defeated and pushed back to Cambodia - Thailand area and in the year 1979, the People's Republic of Cambodia was established.

Vietnam's action against Cambodia was perceived by China as a matter of Vietnamese expansionism plans backed by the Soviet Union's help (Womack 2006). In contrast, Hanoi saw the Chinese aid and support to Khmer Rouge as an action against Vietnam. The misconception to other seriously worsened the China - Vietnam relations. The third issue which deteriorated China - Vietnam relations was the Hoa people issue. In 1976, Vietnam decided to push the South to catch up with the North in socialist transformation. In 1978, Vietnam declared private enterprise illegal and adversely affected the Hoa people (ethnic Chinese in Vietnam) who mostly was running private businesses. Many of Hoa people ran out of Vietnam and China blamed Vietnam for the forced expulsion of the Hoa from Vietnam, which created trust deficit between the two nations.

Lastly, the tensions further escalated due to territorial disputes, which appeared and existed since 1950s, but the situation became too tense in 1970s. In 1974, the report on territorial violations became public by both sides. The number of such reports rapidly increased in the later years. In 1975, Vietnam accused China of 234 incursions in 1975, and 2,175 in 1978 while China announced 1108. Besides territorial incidents concerning to land border, maritime issue also became a burning point in China - Vietnam relations. In 1977, Vietnam made declarations related to territorial and contiguous claims and the exclusive economic zone (EEZ), and further for rights over the Paracel and Spratly Islands. The statement officially opened a confrontation over the maritime issue with China. To solve the problem, the boundary talks were held in November 1977 and the dispute over the islands soon became one of the obstacles to progress (Chi Kinlo 1989).

All the above issues along with the changes in China's foreign policy in late 1970s finally pushed China - Vietnam relations into a crisis which happened in February 1979 as China launched a limited war against Vietnam. Thus, the transformation process of the relationship lasted for nearly 30 years and their relationship went from the peak of intimacy in 1950s to rift in 1960s and break in late 1970s.

12. 1979-1990

In 1979, China waged a war with Vietnam and the war ended lasted for 3 weeks. But, the war marked a gloomy chapter of China - Vietnam relations which lasted for more than 10 years. In this period China - Vietnam relations went from state of hostility to normalization. The process could be divided into two phases: from 1979 to 1984 in which the relationship was tensed and hostile; from 1985-1989 there were some improvement in the relations between both the countries and was regarded as the phase of normalization. In the first phase, the China - Vietnam relations really fell into situation of stalemate and hostility. After the China withdrew from Vietnam, Vietnam notified Beijing that it was willing to open negotiations with it and the negotiating talks were opened in Hanoi in the next month.

By the end of the year, Chinese proposal related to end the armed conflict and ways of reducing tension around the common border, Chinese sovereignty over the Paracel and Spratly Islands, to withdraw troops from Cambodia; to change policy toward Laos and Cambodia could not be accepted by the Vietnamese. So, there was little progress made toward resolving their differences (Mackerras 1982). In this period, the resumption of ties between Vietnam and China depended primarily on Vietnam's withdrawal from Cambodia. Notwithstanding China's withdrawal of troops from Vietnam in 1979, the fighting was still fierce in the border area and China threatened to teach Vietnam a "second lesson" (O'Dowd 2007).

From 1980 to 1989 China launched a number of offensive campaigns toward Vietnam, especially the campaign to occupy Vietnamese territory at Laoshan in 1984. Since 1985, there had been some improvements in the two countries' relations when Vietnam announced its intention to withdraw troops from Cambodia and an agreement on avoiding border conflict had been reached in the year 1985. However, despite some positive signals China still rejected Vietnamese proposals for official talks and heavy fighting continued at the border into 1987, especially at Lao Shan (Womack 2006). The most spectacular of these was a naval confrontation in the Spratly Islands in which two Vietnamese ships were sunk and seventy sailors lost their lives in 1988 (Kenny 2002).

However, the situation took a turn when the United States made a statement that it will consult Vietnam to settle the Cambodian issue and would no longer support the three-party 'coalition containing the Khmer Rouge in the United Nations (U.N). This led China to a serious thinking about its position for the first time since 1979 (Womack 2006). As a result, China and Vietnam held a secret summit meeting in Chengdu in 1990 and during the meeting the two sides decided to resolve Cambodian issue to normalize their relations.

13. 1991-2008

Vietnam and China officially normalized their relations in 1991 by issuing a joint statement. Since then, their relations have been expanding with increased cooperation but at the same time there are differences due to territorial disputes (Amer 2005). In the first decade of 21st century, China and Vietnam developed higher level of understanding based on mutual trust. Vietnam also embarked on a new level of growth and made a place in the global economic scenario. In the year 2000, the two countries agreed to be "good neighbors, good friends, good comrades and good partners" (Vietnam-China Joint Statement in 2000).

In 2002, President Jiang Zemin visited Vietnam to alleviate their relations based on high level of contacts in all areas of cooperation in order to take their friendship to a higher level. (Vietnam- China Joint Statement in December 2001). In 2006, leaders of the two countries visited each other. It was the first time Secretary-General Nong Due Manh went abroad as he was at the highest place in CPV. For Secretary-General Hu Jintao, it was his fourth time he has visited Vietnam and his second time on the highest post of the party and the state. And most recently from May 30th to June 2nd 2008, Secretary-General Nong Due Manh paid an official visit to China. The visit was Manh's fourth since he took the CPV helm in 2001. The frequent visit exchanges of both the highest leaders of the two parties reflected the two countries' aspiration for enhancing friendly relations and comprehensive cooperation based on the guiding principle of "long-term stability, future oriented, good-neighborliness and comprehensive cooperation" and the spirit of "good neighbors, good friends, good comrades and good partners".

The frequent exchange of visits between highest leaders of the two countries, especially since 2004, became rare events in history of the relations of the two countries. It proved that China paid much attention to neighborhood policy and at the same time the Sino-Vietnamese relations have been developing smoothly. The exchanges of high ranking officials of the two countries have strengthened Sino- Vietnamese relations in depth. The

leaders of the both sides have expressed their utmost efforts to consolidate and enhance Sino - Vietnamese relations, mutual trust, and comprehensive cooperation at various levels.

In 2009, with the resolution of border disputes, both the countries signed agreements related to border peace. These agreements provided a phillip to the bilateral diplomatic relations in the year 2010. With the enhanced trust, territorial issues such as Paracel and Spratly took back seat and economic development became a priority for both. However, China did not bend much on Spratly dispute, but promised to follow international law consented to attending multilateral talks regarding the disputes. However, Vietnam still doubts Chinese expansionist policies in the Sea dispute.

Overall, Vietnam's relations with regional and major powers are largely harmonious, in congruence with Vietnam's ambition to maintain friendly ties with the U.S. In addition, Vietnam's relation with other North East Asian countries particularly Japan and Korea remains peaceful. Vietnam also enjoys privileged relations with India, and the relationship with Russia continues to prosper.

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Chapter-II

Introduction

Vietnam is a developing country and a market economy. Since the Doi Moi in 1980s, Vietnam adopted socialist model due to which it has experienced rapid growth. In addition, Vietnam emphasized primarily on macroeconomic stability after the crisis period. However, despite its shift towards market economy, the major sectors are controlled by the government such as banking, international trade and state enterprises. But, Vietnam has transitioned into a manufacturing oriented, export based country and due to this shift, it has attracted foreign capital inflows from countries like the U.S., Europe, Asia and other major countries.

Vietnam has also developed strong institutions and gave up its rights in foreign trade. It also overhauled all the important systems such as legal, tax policies and banking etc. A good legal system has acted as a catalyst to economic and business activities. These measures and laws particularly on foreign investment (1988 and 2005) has resulted in increased inflows and has given a level playing field to domestic as well as foreign entities (Tran Toanthang 2006). The other reasons for Vietnam's growth are integration with the world economy and enhanced trade. Vietnam has also aligned and has signed trade agreements with multilateral organizations like AFTA, ASEAN, TPP, RCEP, APEC, and WTO. Vietnam's major exports are primary products, medium-levels of technological products etc.

Vietnam's growth is primarily due to large and cheap labor availability, strong institutions, enhanced trade ties and large FDI inflows. In 2014, the nominal GDP reached US\$186 billion, with nominal GDP per capita of US\$ 2052 (World Bank 2015). According to a forecast, Vietnamese would be 35th largest economy by 2025 with GDP growth at 10% in real terms.

1 Economic Reform and Macroeconomic Performance

Vietnam had suffered from a prolonged war with both United States and China along with economic stagnation during 1950-1990. However, Vietnam after adoption of *doi moi* from 1986 onwards, it achieved a higher growth till 1997 with an average real GDP of 9 per cent and average GDP of around 7.5 per cent during 2000-2007 (IMF 2016). After accession to WTO, its GDP registered 8.4 per cent growth in 2007, due to domestic as well as investments growth a. But, due to Lehman crisis, the economy suffered and real GDP came to 6 per cent. The volume of GDP increased to USD 186.04 billion in 2014 from USD 31.18 billion in 2000, and GDP per capita stood at USD 2052.85 in 2014 (World Development Indicators 2015). Also, the Services sector contributed around 41.7 per cent in Vietnam's gross domestic product in 2012, while industry and agriculture contributed around 39 and 20 per cent respectively (General Statistics Office 2015). Due to easy availability of domestic credit, inflation is a problem, and in the year 2014, inflation eased to 5 per cent as compared to a high of 28.2 per cent in 2008 (Trading Economics 2015).

Vietnam's foreign reserves are also strong, empowering the Central Bank in case of any currency fluctuation. Vietnam has a low aging population and cheap labour force owing to which it faces competition for FDI particularly with South East Asian economies. Its total FDI inflows have registered an inflow from USD 1298 million in 2000 to USD 8900 million in 2013. In terms of volume of imports and exports, both are increasing constantly despite fluctuations in year 2008 to 2012 due to global financial crisis (World Development Indicator 2015).

Table 1: Macroeconomic Snapshot of Vietnam

Subject Descriptor	2000	2002	2004	2006	2008	2010	2012	2013	2014
Gross domestic product, constant prices (%)	6.79	7.08	7.79	6.98	5.66	6.42	5.25	5.42	5.98
Gross domestic product, current prices (USD billion)	31.18	35.10	49.52	66.39	98.27	112.77	155.57	170.57	186.05

Subject Descriptor	2000	2002	2004	2006	2008	2010	2012	2013	2014
Gross domestic product per capita, current prices (USD)	401.57	440.21	603.67	796.93	1154.49	1297.23	1752.62	1901.70	2052.85
Gross national savings (% of GDP)	32.72	31.13	28.99	33.16	25.00	31.90	33.20	32.15	31.06
Inflation, average consumer prices (%)	-1.77	4.08	7.90	7.50	23.12	9.21	9.10	6.60	4.10
Volume of imports of goods and services (%)	-6.54	19.86	16.38	16.83	15.81	8.07	7.82	17.63	13.26
Volume of exports of goods and services (%)	-5.97	9.53	15.75	14.30	5.92	11.63	20.09	12.93	13.12
Population (Millions)	77.64	79.73	82.03	83.31	85.12	86.93	88.76	89.69	90.63
Current account balance (% of GDP)	2.73	-1.79	-3.21	-0.25	-10.98	-3.79	5.96	5.55	5.42
Inflows of Foreign direct investment, (in USD Millions)	1298	1400	1610	2400	9579	8000	8368	8900	--
Net ODA received (% of GNI)	5.07	3.42	3.80	2.84	2.65	2.64	2.75	2.49	--
Total debt service (% of exports of goods, services and primary income)	7.50	6.12	2.67	2.12	1.98	2.34	3.61	3.55	--

Source: World Economic Outlook Database, IMF, World Development Indicators (World Bank)

2. Vietnam's economic relations with the world economy

2.1 Vietnam exports and imports with the world

Vietnam trade relations with the world economy strengthened during the period 2001-2014 and improved beyond expectation. Its total trade value was approximately USD 31.2 billion in 2001, which increased to USD \$ 298 billion by the year 2014. Vietnam's total exports were USD 150 billion; while imports were USD 147.8 billion. The average growth of Vietnam exports during the period 2001-2014 was 19.89%. In 2004, Vietnam's yearly growth in exports was 31.2 percent which reduced exponentially to -8.9 percent in the year 2006. The growth rate of exports started picking up in the year 2010 and touched a high of 34.2% in 2011 before coming down to 13.6% in 2014 (GSO 2015).

Similarly, the average growth of imports to Vietnam for the period 2000-2014 was 18.4% respectively. In 2007, Vietnam's yearly growth in imports touched an all-time high of 39.6% before touching an all-time low of -13.4 percent in the year 2009. The growth rate of imports started picking up in the year 2010 and touched the high of 25.8% before coming to 12.06% in 2014. In terms of total trade, the year 2007 witnessed the highest growth at 31.4% which turned negative to -11.4% in 2009 due to global financial crisis. The average growth rate in total trade stands at 19.52% during the period 2000-2014 (GSO 2015).

Table 2: Vietnam's trade with the world economy

Year	Total trade (US\$ Billions)	Export (US\$ Billions)	Export change (%)	Import (US\$ Billions)	Import change (%)	Account Balance (US\$ Billions)
2001	31.20	15.00		16.20		-1.2
2002	36.40	16.70	11.3	19.70	21.6	-3.0
2003	45.20	20.2	21.0	25.2	27.9	-5.1
2004	58.50	26.5	31.2	32.0	27.0	-5.4
2005	69.40	32.4	22.3	37.0	5.7	-4.5
2006	84.70	39.8	22.8	44.9	21.4	-5.1
2007	111.30	48.6	22.1	62.7	39.6	-14.1
2008	143.40	62.7	29.0	80.7	28.7	-18.0
2009	127.00	57.1	-8.9	69.9	-13.4	-12.9
2010	157.00	72.2	26.4	84.8	21.3	-12.6
2011	203.41	96.91	34.2	106.75	25.8	-9.8
2012	228.57	114.57	18.2	113.79	6.6	0.7
2013	263.47	132.17	15.4	131.30	15.4	0.8
2014	298.06	150.21	13.64	147.84	12.60	2.3

Source: GSO Statistics, Vietnam

2.2 Vietnam top exports and imports

For export, some commodities had a significant export turnovers in the year 2014 compared with the year 2010, including cell phones and accessories reached 23.5 billion USD from 10.4 million USD, textiles reached 20.9 billion USD from the level of 11.2 billion USD, computers, electronic products and components reached 11.4 billion USD from 3.5 billion USD, footwear reached 10.3 billion USD from the level of 5.1 billion USD, crude oil reached USD 9.3 billion from the level of USD 8 billion USD, fisheries reached USD 7.8 billion USD from the level of USD 5 billion. However some commodities registered a downward trend in the year 2014 from 2010, such as turnover of coal reached 7.2 billion USD, decreased from 19.8 billion USD and rice reached 6.3 billion USD from 6.8 billion USD respectively (GSO 2015).

Table 3: Vietnam's major exports (in USD million)

Commodities	2001	2005	2009	2010	2011	2012	2013	2014
Phones of all kinds and their parts	..	10.4	593.3	2307.3	6396.7	12746.6	21253.3	23598.1
Textile, sewing products	1975.4	4772.4	9065.6	11209.8	13211.7	14416.2	17933.4	20911.2
Electronic parts (Including TV parts), computer and their parts	709.5	1427.4	2763	3590.1	4662.2	7848.8	10636	11434.4
Footwear	1587.4	3038.8	4071.3	5123.3	6549.4	7263.9	8400.6	10325.9
Crude oil (Thous.tons)	16731.6	17966.6	13373	8072	8240.4	9251.4	8398.5	9306.2
Fishery products	1816.4	2732.5	4255.3	5016.9	6112.4	6088.5	6692.6	7825.3
Coal	4291.6	17987.8	24992	19876	17162.7	15219	12802.8	7265.5
Rice	3720.7	5254.8	5969	6893	7116.3	8017.1	6587.1	6331.5
Wood and wooden products	343.6	1561.4	2989.3	3444.5	3960.5	4665.5	5591.8	6230
Rucksacks, bag, pockets, wallets	183.3	470.9	824.1	985.5	1285.4	1522.5	1933.1	2535.7
Articles of plastic	119.6	357.7	867.4	1130.2	1373.7	1595.5	1817.8	2045.2
Coffee (Thous.tons)	931.1	912.7	1183	1218	1260	1735.5	1301.2	1690.6
Fresh and processed vegetables & fruit	344.3	235.5	438.9	460.3	622.6	827	1073.2	1489

Commodities	2001	2005	2009	2010	2011	2012	2013	2014
Rubber (Thous.tons)	308.1	554.1	731	779	817.5	1023.5	1074.6	1066.1
Electrical wire and cable	181	518.2	891.8	1316	443.6	618.8	678.5	783.4
Pottery and glassware	117.1	255.3	267.2	317.1	359.2	440.5	472.3	515.5

Source: GSO Statistics 2015

In terms of imports, some goods had dramatic growth in import turnover in 2013 compared to the same period of 2010, including electronic goods, computers and their parts reached 17.7 billion USD from 5.2 billion USD; follows by auxiliary materials for sewing reached 8.3 billion USD from 5.3 billion USD, machinery, apparatus and parts for telecommunication reached 8 billion USD from 2.4 billion USD and other imports which registered an increase included motor truck, iron, steel, textile fabrics, plastic in primary form, fertilizers, chemicals and gasoline's. However some commodities registered a downward trend in the year 2013 from 2010, such as motor assembled (Piece), kind of 9 seats or less (piece), petroleum oils, refined and diesel oil etc (GSO 2015).

Table 4: Vietnam's major imports (in USD million)

Commodities	2000	2005	2010	2011	2012	2013
Motor assembled (Piece)	16362	21279	53899	54647	26680	35787
Electronic goods, computers and their parts	892.8	1638.6	5208.3	7873.8	13166.4	17784.3
Kind of 9 seats or less (Piece)	252	5447	35654	19294	13655	15500
Motor truck (Piece)	13048	12334	14458	14282	8762	15331
Iron, steel (Thous. Tons)	2845	5495.1	9082	7382	7612.7	9455
Auxiliary materials for sewing	917.4	1438.7	5383.1	6791.1	7135.5	8397
Textile fabrics	761.3	2474.2	5383.1	6791.1	7135.5	8339.8
Machinery, apparatus and parts for telecommunication	141.4	598.2	2480.6	2682.3	5030.4	8048
Petroleum oils, refined (Thous. Tons)	8747.3	11477.8	9853	10678	9200.7	7364
Plastic in primary form	530.6	1516.9	3780.4	4763.1	4804	5715.3
Fertilizers (Thous. Tons)	3971.3	2915	3511	4255	3961.2	4675.5
Others (Piece)	1066	2749	3372	20891	4087	4331
Diesel oil (Thous. Tons)	4133.2	5876.7	4940	5311	4564.5	3157
Chemicals	275.7	921.4	2137.4	2717.1	2780.3	3032
Gasolines (Thous. Tons)	1480.1	2630.1	1995	2915	2804.6	2323

Source: GSO Statistics 2015

2.3 Vietnam's trade structure

Vietnam's major exports are primary products and its negative trade balance was due to the fact that it imports manufacturing machineries while exports primary goods resulting in trade gap (GSO and Statistical Yearbooks 1994-2013).

Table 5: Trade structure by main group of commodities

No.	Structure of exports and imports	1991-1995	1996-2000	2001-2005	2006-2010	2011	2012	2013
I Structure of exports								
1	Mining and heavy industrial products	31.7	30.6	34.3	33.9	35.8	42.1	44.3
2	Light industries and handicrafts	19.4	34.6	40.2	42.9	41.6	37.8	38.1
3	Primary products	48.9	34.8	25.5	22.8	22.5	20.1	17.6
II Structure of imports								
4	Machineries and equipment	24.4	29.8	29.2	28.5	29.6	35.1	36.7
5	Production Materials	60.5	61.1	62.7	60.8	59.0	55.8	55.3
6	Consumer products	15.0	9.1	7.7	8.4	9.5	9.1	8.0
7	Other imports	0.0	0.0	0.4	2.3	1.9	0.0	0

Source: GSO statistics yearbooks 1994-2013

3. Foreign Direct Investment in Vietnam

FDI inflows in Vietnam started in 1988 with 1620 projects, with capital of USD 5.5 billion in 1995. Its total projects increased to 15932 by an annual average of 15 percent with capital inflows of USD 234 billion. (GSO MPI 2015). In addition, during the years 1995-2000, GDP contribution by foreign entities reached 9.7 percent which increased to 18.6 percent in 2011-13, 19.7 percent general to government budget in 2011-13, more than a half of the country's gross exports in 2011-13, and 21.9 percent in 2011-13 to gross investments (GSO MPI 2015). In addition, during the years 2011-2013, inward FDI increased the manufacturing sector's output and gross exports to more than 50 percent. However, it contributed only 5.20 percent to employment generation (MOF

2015).

Table 6: FDI contributions to the economy

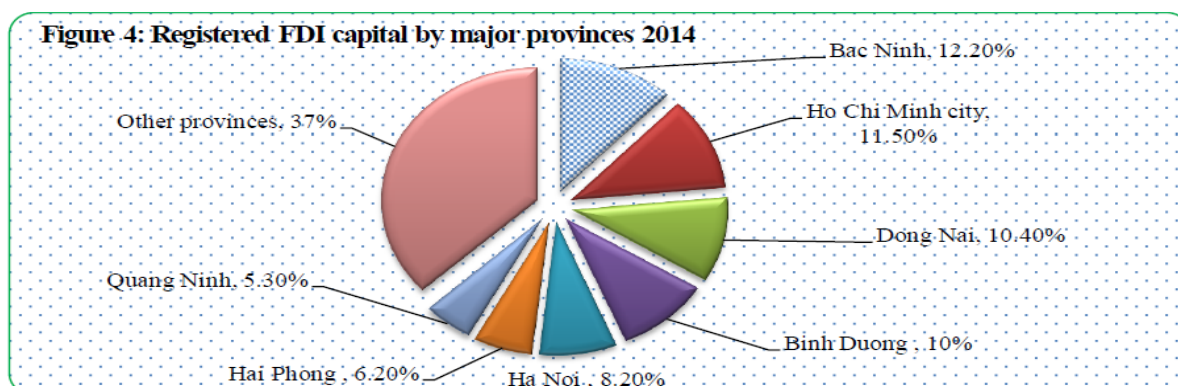
No.	Items	1995-2000	2001-2005	2006-2010	2011-2013
1	FDI contribution to GDP	9.7%	14.6%	17.9%	18.6%
2	FDI's share in total government budgets	10.2%	13.25%	19.10%	19.70%
3	FDI's share of the gross exports	35.60%	50.90%	54.50%	60.40%
4	FDI's share of the manufacturing output	31.40%	36.10%	40.10%	47.20%
5	FDI share of gross investment	24.20%	16.30%	23.70%	21.90%
6	FDI's share of gross employment	0.98%	1.78%	3.70%	5.20%
7	FDI's share of manufacturing labor	11.52%	16.42%	21.1%	24.2%

Sources: No.1,3,4,5,6,7 from the GSO-MPI; No.3 from MoF of Vietnam

3.1 FDI inflows to local regions

Since the beginning of the year 2000, around 229 free trade zones have received 40 percent of investments out of total FDI investments and generated employment and contributed 80 percent to the output of manufacturing sector capital, and foreign-owned enterprises (100 percent) constitutes 85 percent of them. At provincial level, Bac Ninh has attracted 12.2 percent of the capital, Ho Chi Minh City-11.5 percent, Dong Nai province-10.4 percent, and Binh Duong-10 percent (Vu, Van Chung, 2015).

Chart 1: Registered FDI capital by major provinces 2014 (% share of the total)



Source: Vu, Van Chung, 2015

3.2 FDI inflows by major countries

In terms of FDI inflows by different countries, it is seen that Japan, Korea PR, Taiwan and Singapore are the largest investors in Vietnam accounting for more than 60 percent of FDI inflows and projects (GSO and MPI 2015). Other notable investors include Singapore, Korea and Taiwan, whose share in registered capital formation hovers around 12% for each. Korea's share in registered projects is the highest with 22.7 percent followed by Taiwan at 14.4% respectively.

Table 7: Major FDI inflows by country of origin

Country/ territory	Number of registered projects	Share of Registered Projects (%)	Share of Registered Capital (%)	Share of Exports (%)	Annual change of export (%)
Japan	2186	13.7	15.0	10.3	4.3
Singapore	1243	7.8	12.8	2.0	12.2
Korea Republic	3611	22.7	12.7	5.0	18.6
Taiwan, PR	2290	14.4	12.0	1.7	6.5
British Virgin Islands	523	3.3	7.3	0.1	-
Hong Kong, PR	772	4.8	5.3	3.1	10.9
United States	682	4.3	4.6	18.1	21.2
Malaysia	453	2.8	4.4	3.7	9.3
China, PR	992	6.2	3.2	10.0	3.1
Thailand	339	2.1	2.7	2.4	9.6
Total	13,091	82.2	80.1	56.4	10.82

Source: GSO and MPI, Vietnam and Vu, Van Chung

Note: Data is accumulated till the year 2013

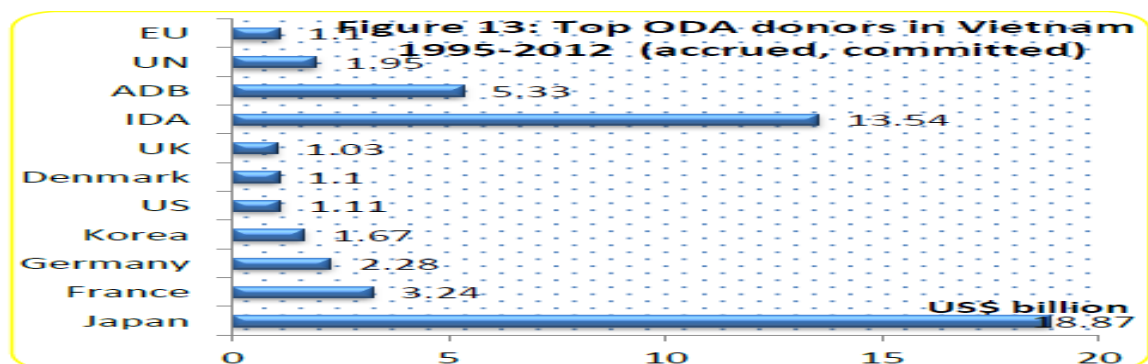
4. ODA inflows

4.1 Recent developments

In 1993, Vietnam's relationship with bilateral donors and multilateral financial institutions were restored. Instantly, Vietnam started receiving funds from international donors which helped the nation to cope with the weak institutional capacity, soft economic development, and trade expansion. Vietnam has got assistance from 28 bilateral donors and around 22 multilateral donors so far. In the recent years, Official Development Assistance to Vietnam has increased significantly and it is among the second highest receiver of ODA worldwide. ODA inflows have helped Vietnam in infrastructure development, gaining technological transfers by projects and have equipped the country in poverty reduction. Vietnam received ODA of around 3 percent of GDP annually which comes to US \$3.0 - 4.0 billion from a peak of 5.3 percent of GDP in 2000 (OECD 2012).

As per recent statistics, in the year 2012 aid from DAC members accounted for 65.15 percent, multilateral institutions 34.14 percent, and private foundations and non-DAC, accounted for only 0.71 percent of total aid inflows for Vietnam. While multilateral institutions such as World Bank (IDA) ranks first with US\$ 13.54 billion, the Asia Development Bank ranks second with US\$ 5.33 billion. The UN and EU ranks third and fourth with US\$1.95 and 1.1 billion respectively (OECD 2012).

Chart 2: Top ODA Donors in Vietnam, 1995-2012



Source: OECD aid data

5 Sources of remittances in Vietnam

Vietnamese has received large amount of inward remittances from its overseas workers due to its large labor base and citizens working outside and these have outshined the former (MOFA 2012). Vietnam started sending its laborers in 1980s to the Eastern European countries but the major countries where large numbers of Vietnamese workers exist are China, Japan, Lao PDR, Malaysia, the Middle East, the North Africa, South Korea, and Chinese Taipei. (Nguyen 2004). The other significant source of income is Overseas Vietnamese, who stands at around 4 million Vietnamese across 103 countries. (MOFA 2012).

6. Chinese Economy and the Economic Policy

6.1 Chinese economic history and the economic policy

China maintained a centrally planned or command economy under Mao Zedong's leadership, where all the controls were kept by the state, which set production goals, controlled prices, and allocated resources throughout most of the economy. Till 1978, around three-fourths of country's output was produced by (SOEs) and Private and foreign companies were not encouraged to produce as they were banned.

6.2 China's economic reforms and rapid economic growth

China embarked on several economic reforms in 1979 and decentralized economic policymaking in several sectors. China also established four special economic zones for the purpose of attracting foreign investment by offering tax and trade incentives to boost exports and to import high end technological goods into China. It also allowed people to undertake businesses and encouraged exports by removing its controls on a wide range of products and further gave economic control of enterprises to provincial and local governments.

In 2014, Gross Domestic Product (in nominal dollars) of China stood at \$10.4 trillion, which was nearly 60% of the U.S. economy's size (IMF 2015). Also, China's GDP stood at \$17.6 trillion (on a PPP basis) in 2014, which shows China became the largest economy (IMF 2015) in the world. China's rapid economic growth can be attributed to: large-scale capital investment and rapid growth in productivity and increased resources for additional investment in the economy. The second reason is its savings which has helped in domestic investment and has enabled China to be a large net global lender. China's emergence as the manufacturing hub has played a considerably more important role in its success and is bolstered by conducive policy environment, investments in research and development, robust education system and efficient infrastructure. China's manufacturing (GVA) stands around 28.9% of its Gross Domestic Product which is quite less for other developed economies.

6.3 China's merchandise trade patterns

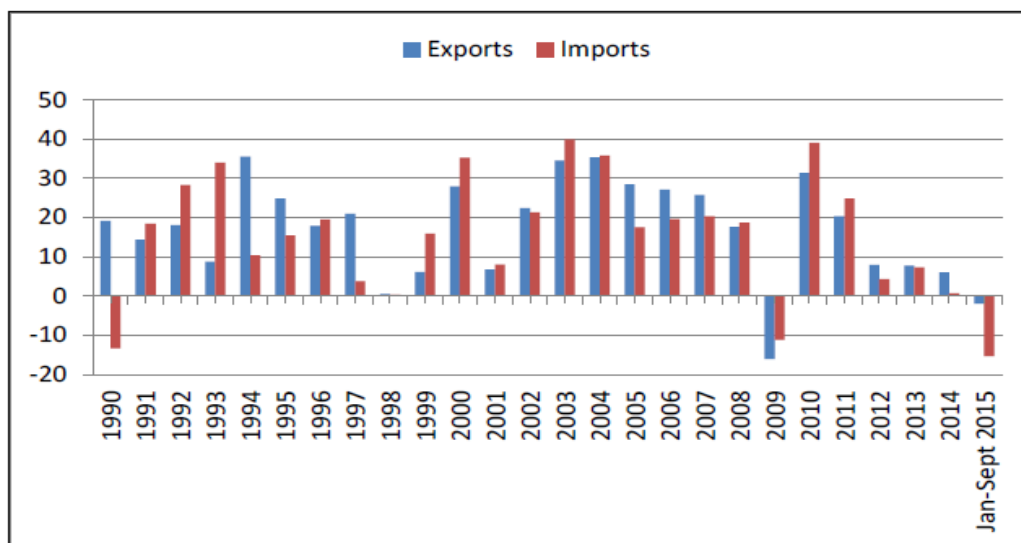
China has turned into a major trading partner for many countries on back of its trade liberalization and investment inflows. Its exports grew to \$2.3 trillion in 2014 from \$14 billion in 1979, while imports stood at \$2.0 trillion from \$18 billion (WITS 2015). However, in recent years China's trade growth has slowed due to low commodities prices its trade surplus fell from \$ 198 million in 2009 and dropped in 2011 to \$158 billion (World Trade Atlas 2015).

Table 8: China's trade with the world during the period 2000-2014

Year	Exports	Imports	Trade Balance
2000	249.2	225.1	24.1
2001	266.2	243.6	22.6
2002	325.6	295.2	30.4
2003	438.4	412.8	25.6
2004	593.4	561.4	32.0
2005	762.0	660.1	101.9
2006	969.1	791.5	177.6
2007	1,218.0	955.8	262.2
2008	1,428.9	1,131.5	297.4
2009	1,202.0	1,003.9	198.2
2010	1,578.4	1,393.9	184.5
2011	1,899.3	1,741.4	157.9
2012	2,050.1	1,817.3	232.8
2013	2,210.7	1,949.3	261.4
2014	2,343.2	1,963.1	380.1
2015 (est)*	2,298.7	1,662.7	636.0

Source: World Trade Atlas 2015

Chart 3: Growth rate of China's exports and imports for the period: 1990-2015*



Source: Global Trade Atlas using official Chinese data.

Note: * Data for January-September 2015, year-on-year change.

6.4 China's top Trade Partners

China's major export destinations were the USA, the European Union, and Hong Kong, but its top sources for imports were ASEAN, Korea and European Union. China's trade differs significantly from those of its trading partners and is generally caused by differences in statistical calculations in exports and imports origin.

Table 9: China's top trade partners (\$ billions)

Country	Total Trade	Chinese Exports	Chinese Imports	China's Trade Balance
European Union	614.8	370.9	243.9	127.0
United States	549.2	396.1	153.1	243.0
ASEAN	479.8	271.7	208.1	63.6
Hong Kong	376.1	362.2	12.9	350.3
Japan	312.2	149.5	162.7	-12.2
South Korea	293.7	100.4	193.3	-92.9
Taiwan	198.6	46.3	152.3	-106.0

Sources: *Global Trade Atlas* and *World Trade Atlas*.

Notes: Rankings according to China's total trade in 2014. China's bilateral trade data often differ from that of its trading partners.

6.5 Chinese top trading commodities

China has comparative advantage in low-cost labor oriented manufacturing products which constitutes large share in China's trade. Its top 10 major exports included electrical machinery, machinery (including computers), furniture and bedding, and knit apparel, while major imports included electrical machinery, mineral fuel, machinery, and ores (World Trade Atlas 2015)

Table 10: Chinese top export commodities: 2014 (\$ billions)

HS Code	Description	\$ Billions	Percent of Total Exports	2014/2013 % Change
85	Electrical machinery	571	24.4%	1.7%
84	Machinery	401	17.1%	4.7%
94	Furniture and bedding	93	4.0%	8.1%
61	Knit apparel	92	3.9%	-5.0%
62	Woven apparel	81	3.5%	19.3%
90	Optical, photographic, cinematographic, measuring checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	74	3.2%	-0.9%
39	Plastics	67	2.9%	8.2%
87	Vehicles, except railway (mainly auto parts, motorcycles, trucks, and bicycles)	64	2.7%	9.6%
71	Precious stones and metals	63	2.7%	26.2%
73	Iron and steel products	61	2.6%	5.8%

Source: *World Trade Atlas*, using official Chinese statistics.

Note: Top 10 exports in 2014, two-digit level, harmonized tariff system.

Table 11: Major top imports commodities: 2014 (\$ billions)

HS Code	Description	\$ billions	Percent of Total Imports	2014/2013 % change
85	Electrical machinery	425	21.7%	-3.2%
27	Mineral fuel, oil etc.	317	16.1%	0.7%
84	Machinery	180	9.2%	5.3%
26	Ores, slag, and ash	136	6.9%	-8.1%
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	106	5.4%	-1.8%
87	Vehicles, not railway (mainly autos and parts)	89	4.6%	20.7%
98	Special Classification	83	4.2%	-20.9%
39	Plastics	75	3.8%	3.9%
29	Organic chemicals	61	3.1%	-7.6%
74	Copper and articles thereof	48	2.4%	-5.4%

Source: *World Trade Atlas*, using official Chinese statistics.

Note: Top 10 imports in 2014, two-digit level, harmonized tariff schedule.

6.6 China's regional and bilateral Free Trade Agreements

China has entered into a number of regional and bilateral trade agreements with the world as well as Asian economies. China has signed FTAs with regional groupings such as ASEAN as well as bilateral countries such as Australia, Chile, Costa Rica, Hong Kong, Iceland, Macau, New Zealand, Pakistan, Peru, Singapore, and Switzerland and also has

an “economic cooperation framework agreement” (ECFA) with Taiwan, which is the equivalent to an FTA. It is also in negotiation of FTAs with India, Columbia, Moldova, and Maldives.

6.7 FDI inflows in China

China’s attracted large inflows of FDI which led to its growth in diverse areas. The annual FDI inflows in China grew to \$128 billion in 2014 while FDI stock in China stood at \$1.1 trillion in 2013. China was the world’s largest destination for FDI inflows in 2014. The largest countries of FDI sources in China for 1979-2014 were Hong Kong (48.9%), the British Virgin Islands (BVI), Japan, the United States, and Taiwan. The largest sources of non-financial FDI inflows into China in 2014 were Hong Kong (71.7% of total), Singapore, Taiwan, Japan, and South Korea (the United States ranked sixth) (Chinese Ministry of Commerce and Chinese Statistical Yearbook 2014).

7.0 Challenges Facing the Chinese Economy

There are several challenges facing the Chinese economy such as its dependence on exports oriented and investment driven growth, wide-spread pollution, and inequality etc. which is a result of the government intervention in all the aspects of the economy.

7.1 Increasing national debt and weak banking sector

China’s national debt is growing on account of growing capital (credit) outflows to government industries which are deemed to be important for economic development. During the Lehman crisis, many Chinese provincial governments borrowed in huge sums to develop local economies, but failed to repay their loans which increased the government debt to around \$3 trillion.

7.2 Imbalances of Savings, Fixed Investment, and Consumption

China economy is characterized by high savings and fixed investment and relatively low private consumption, which is no longer sustainable. In addition, personal disposable income as a share of GDP was lower in 2014 (44.0%) than it was in 2000 (47.9%) (Economic Intelligence Unit 2014).

7.3 Environmental Challenges due to heavy industries

Heavy industries in China have been the highest source of pollution in China and poses serious health risks to the population. China's environmental challenges are proven by the fact that in 2014, according to a report by OECS, the health costs of China's air pollution in 2010 was at \$1.4 trillion.

7.4 Corruption and Lack of Transparency

There is widespread corruption within the government in China, which has led to financial speculation, misallocation of investment funds, relative lack of laws which in turn limit competition and undermine the progress in the economy (New York Times 2012)

7.5 Shrinking workforce and aging population

China's one-child policy is impacting the Chinese working population. This one-child policy has also resulted in a rapidly aging society in China. According to UN, China already has 180 million people aged over 60, and this could reach 240 million by 2020 and 360 million by 2030. The population share of people aged over 60 could reach 20% by 2020, and 27% by 2030 (Brookings 2012).

Vietnam and China both are communist countries and embarked on economic reforms and followed market economy models. (Jean-Raphael Chaponnière 2008). Vietnam implemented 'Doi moi' in 1986 which made it market economy and led to integration of Vietnam into the global economy. Since the improvement of Vietnam's relations with China in 1991, China - Vietnam relations have gained remarkable achievements in all fields. The two sides eliminated hostility toward each other and stepped into a new chapter of relationship. Especially two out of three territorial disputes have been successfully resolved. This is the result of incessant efforts made by the two countries' people, political parties, and governments. Although there remain territorial disputes related to South China Sea (East Sea by Vietnamese), significant improvements in the relations opened prospect of resolving the existing problems.

So far, the two countries have signed around 70 agreements and 40 documents at state level of which more than a half directly related to economic and trade cooperation. These agreements and documents create legitimate basis for developing trade and economic relations between the two countries. Some important agreements are Framework Agreement on Oil and Natural Gas Cooperation in Agreed Zones in the Tonkin Gulf, Agreement on Fishery, Memorandum of understanding cooperation in the two economic corridors and the Pan Tonkin Gulf economic circle. Besides, the two countries also set up China-Vietnam Committee on Economic Cooperation to further deepen bilateral relations. The bilateral trade increased from US\$ 32 million in 1991 to US\$ 50 billion in 2012 and is expected to cross US\$ 80 billion in 2017 of which border trade has accounted for a large amount. Owing to the large trade amount, China is now a leading trade partner of Vietnam (WITS).

Besides that, though Vietnam and China have settled border disputes and most recently the completion of land border demarcation in December 2008; the relations are still facing challenges and tensions between the two countries from issue of territorial disputes. On the other hand, they signed a comprehensive strategic cooperating

partnership in June 2008. In November 2009, China and Vietnam concluded agreements and ended 35 years of border negotiations.

Also, with the strengthening of mutual trust between China and Vietnam, territorial disputes such as Paracel and Spratly Islands took back seat. Both the countries want a stable international environment so that they can concentrate on economic development. China made limited concessions over the Spratly issue, promising to abide by international law and accepting that it would be raised at multilateral forums. However, these gestures did not entirely mollify the Vietnamese. There remains a serious concern about gradual expansion by China in the South China Sea.

Also, Vietnam's trade has grown impressively post the reforms period, GDP has grown at around 8 per cent. Due to its less financial Openness, Vietnam was not affected by 1997 crisis. However, the main challenges for Vietnam's industry, is to pursue a more offensive strategy towards China, as China will probably be the main engine of the world economy in the coming years. Vietnam needs to diversify its exports to China (which currently consist of oil and agricultural products only), while industrial goods dominate imports. Vietnamese manufactured exports consist mostly of textiles and clothing (as well as shoes). This structure is characteristic of a developing country which is in the early stages of its industrialization process. The share of these products in total exports of goods is still growing (the decrease in 2004 was due to quotas and has reversed since 2005).

The year 2013 marked the 63rd anniversary of the establishment of Vietnam-China-diplomatic ties with official normalization of relations being in place since 1990. There is no doubt that Vietnam and China will be intertwined because of geographic, economic and political realities although unresolved territorial disputes pose challenges for future. The agreement between Vietnam and China on the process to guide the settlement of maritime issues signed in October 2011 may be a first step in easing tensions over the contentious islands in South China Sea. The two countries are now committed to friendly

consultations to properly handle maritime issues and make this area a sea of peace, friendship and cooperation.

As for the economic dimension between Vietnam and China, it broadly comprised the following three aspects:

- Strategic aspect of Chinese aid to Vietnam
- Trade and investment relations between Vietnam and China
- Greater Mekong sub- regional framework of economic cooperation

Vietnam has witnessed an unprecedented socio-economic transformation in the last decade and a half. Globalization and trade have played an important role in its successful transition so far. The country faces enormous challenges in the years ahead, as it opens up further to international economic integration and deepens its economic reforms. Great opportunities are also opening to the country, and trade will have a significant contribution to its development. Vietnam has received aid for trade to help its transition although no explicit aid for trade strategy exists in the country.

Vietnam is one of the top recipients of ODA in the world. However, Vietnam is by no means an aid-dependent country, with ODA providing only a minor share of development finance. The proportion of ODA to GDP fell from 5.9% in 2000 to 2.2% in 2008, and the share of ODA in the national budget declined from 23.9% in 2000 to 3.1% in 2012. The total volume of ODA is less than Foreign Direct Investment, tourist revenues or remittances.

China's foreign economic aid to Vietnam has been a dominant factor in China's economic diplomacy with Vietnam. Chinese economic aid to Vietnam started mainly in mid-1950 when China began to provide strategic and economic assistance to Vietnam. China's aid to Vietnam underwent different stages. The first stage began from 1950's till 1975. During this period, China was quick in offering economic aid to Vietnam in

comparison to other countries in the region and during that period, China's foreign aid was mainly meant for political and ideological purposes. However, the period from 1980s to the mid-1990s did not witness any significant progress in economic relations between Vietnam & China owing to the unrest in Indochina Peninsula and unpleasant relationship between Vietnam & China. With normalization of relations between Vietnam and China in 1991 and settlement of Cambodian issue in 1993, Vietnam-China economic cooperation started gaining momentum. The second stage started from 1995 until the present. The policy focus now is to combine aid with bilateral economic cooperation.

After the achievement of stabilized relations between Vietnam-China, economic cooperation between two countries steadily developed and China actively supports Vietnam's development by providing loans and non-refundable aids. In 2002, the Chinese government provided concessional loan RMB 50 million Yuan to Vietnamese Ministry of Finance which represents only 1 per cent of the total ODA given to Vietnam of 950 million USD by all the donor countries. In 2008, China provided a non-refundable aid of RMB 41 million. However, total official development assistance given by all the donor countries to Vietnam in 2012 amounts to US\$ 4760 million.

However, Chinese aid is not linked to conditions typically imposed by Western donors such as good policies, democracy or respect for human rights. Furthermore, Chinese financial assistance is quickly made available (Davies 2007) without bureaucratic procedures and detailed policy conditionality. At the same time, development aid from China is criticized as being driven by domestic economic and political interests to a higher extent than development aid from traditional DAC donors. However, Chinese aid is seen as a way to facilitate exploitation of natural resources and its "insatiable needs" for resources (oil, minerals, and timber in particular) are mentioned most frequently as commercial motives of its aid (Alden 2005; Tull 2006; Davies 2007; Naím 2007; Halper 2010).

In addition to resource security, Chinese aid is accused of targeting future access to export markets and profitable investments (Davies 2007; Lum et al. 2009). Medical aid, for example, is considered as a tool to improve the reputation of Chinese medicine and as “a clever and low cost way to introduce Chinese-made medications to the African market” (Shinn 2006). Chinese aid is tied, which is a further indication that China uses aid to improve business opportunities (Pehnelt 2007; Schüller et al. 2010). Turning to political motivations of China’s aid allocation, the Ministry of Commerce (1996: 70) openly admits that grants are used to coordinate diplomatic work and that the construction of “some public institutions produced great political influences.” Moreover, the aid program is aimed at supporting high-level diplomatic events. By looking at the above details, we could certainly say that there is a strategic aspect in Chinese aid allocation to Vietnam.

Vietnam's exports to China include crude oil, coal, coffee and food, while China exports pharmaceuticals, machinery, petroleum, fertilizers and automobile parts to Vietnam. China has become Vietnam's third-largest trading partner and the largest source of imports. Both nations are working to establish an "economic corridor" from China's Yunnan province to Vietnam's northern provinces and cities, and similar economic zones linking China's Guangxi province with Vietnam's Lạng Sơn and Quang Ninh provinces, and the cities of Hanoi and Haiphong. Air and sea links as well as a railway lines have been opened between the two countries, along with national-level seaports in the frontier provinces and regions of the two countries. Joint ventures have furthermore been launched, such as the Thai Nguyen Steel Complex, which produces hundreds of thousands of tonnes of steel products.

According to Vietnam’s Ministry of Planning and Investment, as the end of December 2012, China ranked 13 out of 100 countries and territories that provided direct investments which supported FDI in Vietnam. Whereas China’s share in the total FDI as of Dec, 2012 amounted to US\$ 4.6 billion which represents just 2 per cent of the total FDI registered capital of US\$ 210.5 billion in Vietnam as of Dec, 2012. It is predicted

that China will become Vietnam's largest single trading partner, overtaking the United States, by 2030.

The Great Mekong Sub-region (GMS) comprising of Vietnam, Cambodia, Myanmar, Thailand, Laos, as well as Yunnan and Guangxi Province of China, was planned by Asian Development Bank in 1992. Greater Mekong subregional cooperation is the only sub regional cooperation which includes both China and Vietnam. As GMS has strong agricultural base, it has abundant natural resources such as forestry, fisheries and mineral resource which make it a dynamic region with robust economic growth in Asia. (Zhu, 2010) The GMS Economic Cooperation Program Endeavour's to promote economic development and reinforces linkages between member Countries. It involves a wide range of projects in 11 sectors: agriculture, energy, environment, human resource management, investment, telecommunications, tourism, trade transport, multi-sector and development of economic corridors (ADB, 2010a).

Vietnam is one of ADB's co-founders and active members in the GMS. The Country has also aggressively participated in all three economic corridors under the GMS Economic Cooperation Program, including North-South, East – West and Southern corridors (VCCI 2011). These corridors generated gateways to all the sub-regions markets by the smooth passage of goods and services across borders. Hence, with the implementation of trade and transport facilitation measures, Vietnam can foster the sub-regional connectivity and enhance its competitiveness which will in turn boost the development of provinces and areas covered by the GMS economic corridors, especially at the borderline (ADB, 2007).

As China is a country which is located at the upstream of the Mekong River, China actively participated in GMS Program. Under the instruction and support from the central government, the cooperative partnership between Yunnan/ Guangxi and the five GMS countries have been extended and deepened. China's participation is mostly focused on the construction of the North- South Corridor, which connected China and ASEAN together. In the case of China and Vietnam, the improving transportation system

including road system such as Kunming Hanoi- Haiphong system and Nanning – Hanoi system will strengthen the existing ties and thus facilitating the movement of commodities and labor force between these two countries.

Besides, China also initiated a number of programs to boost bilateral linkages with GMS countries; for instance, the setup of the Pan-Tonkin/ Beibu Gulf Economic Cooperation scheme between Guangxi and Vietnam is believed to contribute to strengthen economic ties (Lim, 2008). Further, the development of an interest in cooperation on the side of China's and Vietnam's governments, Vietnam's acknowledgement of China's powerful economic and political position, and both countries' interests in stable relations made Mekong cooperation possible.

Over the last eleven years, trade between China and Vietnam has been increasing rapidly. According to the Vietnam Chambers of Commerce (VCCI), trade between China and Vietnam during the period 2000-2010 grew at a whopping 32 per cent per annum. Bilateral trade between Vietnam and China was \$ 3.5 billion in 2002 which grew to \$25.4 billion in 2010. By 2012, it had reached \$41 billion making China the biggest trade partner of Vietnam while the country is one of China's most important partners among ASEAN countries. Vietnam-China export-import turnover makes up 12% of Vietnam's total export-import turnover, whereas it only makes up 0.78% of China's total export-import turnover.

The Greater Mekong Sub region is important to Vietnam due to unresolved territorial issues and if binds China in the GMS, then only China will cooperate in talks related to South China Sea. The other concerns of Vietnam are dam-building activities by China which is of concern for Vietnam's agricultural delta. As regards border trade, it tilts the trade balance in favor of China and forces Vietnam to develop relations with China through GMS.

It is therefore expected that GMS would indirectly solve the Sea issue through a multilateral approach. Therefore, Vietnam is trying to bind China through the sub region endeavors.

Review of Literature:

A study of economic dimension of Vietnam-China requires a thorough review of existing literature on the nature of the economic relationship between them and various associated issues. For the purpose, review of literature has broadly taken into account the available literature on evolution of Vietnam-China trade and investment relations; strategic imperatives which have strengthened the economic relationship and various forms of sub regional engagement between them. So, the review of literature aims to examine whether the nature of relationship is purely economic or it has strategic flavour too. In this regard, attempt has been made to analyze the Vietnamese perception *vis-a-vis* its economic engagement with China and *vice versa*.

Evolution of Economic relationship between Vietnam-China

To have a deep understanding of the present nature and changing dynamics of the economic relationship between China and Vietnam, it is imperative to understand the evolution of Vietnam economic relationship with China. In this regard it seems to be proper to assess the factors which led to the evolution of Vietnam-China economic relationship.

Elaborating the trends in China's trade with Vietnam, Dennis C. McCornac (2011) in his article "Vietnam's Relations with China: A Delicate balancing Act" has analyzed Vietnam's relations with China and provided an objective evaluation of China's policy towards Vietnam. He has brought out the issues which have bearing on the present and future trade relations between Vietnam & China. With a comprehensive presentation of the trade data, the article attempts to analyze the prospects of development of trade relations between Chinese high growth economy and underdeveloped economy of Vietnam.

However, to understand the dynamics of their relationship, thorough examination of trade relations of Vietnam and China is required. In this regard, Ha Thi Hon Van and Do Tien Sam in their article “Vietnam-China Trade, FDI and ODA Relations - 1998-2008 and the Impacts upon Vietnam” (2007), have focused on Vietnam-China Trade relations during the period 1998-2008 and emphasized that they improved beyond expectation.

Chinese economic assistance under various modes also forms the main component of Vietnam- China economic relations thus it is pertinent to assess the nature and trends in Chinese economic assistance to Vietnam. This aspect of China- Vietnam economic relationship has been extensively dealt with in an article written by Zhu Zhenm (2009) namely “China’s Economic Aid to CLMV and Its Economic Cooperation with them.” Outlining the various dimensions of China’s aid to Vietnam, the author has made an attempt to explain the genesis, evolution and recent trends of China’s foreign economic aid to Vietnam. Though the article is full of factual information pertaining to the China’s economic assistance to Vietnam, but an analysis of such assistance with a theoretical point of view is completely lacking here. For instance whether Chinese aid is non-conditional or not and is it acting as facilitator in trade & investment between them or not. For this purpose, an article written by James Reilly (2012) namely “A Norm-Taker or a Norm-Maker: Chinese aid in Southeast Asia” is an excellent piece of work which has exclusively deliberated upon the issue whether the China’ has emulated the prevailing international practices in terms of giving development aid or the country has established its own norm with regard to the aid to Southeast Asian Countries. Specifying the distinct features of China’s development assistance to Southeast Asian countries, the author has made an attempt to examine the nature of Chinese aid to the Southeast Asian Countries within the framework of established International norms regarding development assistance.

Greater Mekong Sub Regional framework of Cooperation (GMS)

Apart from the trade relations, issue of Greater Mekong sub-regional framework of

economic cooperation between China and Vietnam has also been taken into account in the present study. In this connection, issues such as role of sub-regional groupings like GMS, importance of China-Vietnam relations in East Asian regional integration process etc have been main area of focus.

Highlighting the role of China in the process of East Asian regional integration, Kesarin Phanarangsarn (2006) in his article “China's Reach: Sub regional Economic Cooperation in Southeast Asia” has discussed the issues concerning the development of ASEAN countries and its implication for the East Asian regional integration process. He has touched upon process of growing interaction between China & ASEAN countries at various level of institutions and organizations concerning the process of regional integration in East Asia.

Analyzing the sub-regional framework of economic cooperation between China and five GMS countries LU Guangsheng (2012) in his article “Economic Relations between China and GMS Countries: Contents, Characteristics and Implications” describes the contents from trade, investment, sub-regional economic cooperation, and analyzes its characteristics and implications from the perspective of International Politics Economy (IPE). He argues that there are both political and economic meanings in China's economic relations with other GMS countries, which is an important measure for China's strategies of peaceful rising, keeping a harmonious surrounding and “going out”. Economic relations are necessary but not sufficient for China to maintain good-neighborly relations with other GMS countries. The driving force from regional economic integration is not so obvious, and sub-national governments don't fully play their roles. Moreover, the economic relations are increasingly subject to international politics, environments and social factors.

Highlighting the development of Vietnam based on the projects of the Greater Mekong Sub region, Masami Ishida (2008) in his article “GMS Economic Cooperation and its impact on economic corridors” elaborates the concept of GMS economic corridors. Finally, he reviews the policies implemented so far on using geographical locations for

developing the economic corridors. Thus, he identifies and analyzes the favorable policies for Vietnam.

However there are issues and areas which limit the prospects of Vietnam-China economic engagement. In this context, Kitti Prasirtsuk (2011) in his article titled “Balancing and East Asian Regionalism” has made an attempt to explore a host of important issues such as identity of Vietnam as member of ASEAN and its impact upon the growth of Vietnam-China relations particularly; water management in Mekong River and China’s plans to build dams, and other disputes in the South China Sea. Author has claimed that uncertainty over above mentioned issues has great bearing on the future prospects of economic cooperation between Vietnam-China.

Strategic imperatives behind Vietnam-China Economic relations

Having examined the issue of economic cooperation between Vietnam and China on its face value, the study also attempts to understand the underlying strategic factors, which have given impetus to the economic cooperation. This aspect of economic relations between Vietnam-China is the core subject matter of SD Muni’ (2009) book titled “*China’s Strategic Engagement with the New ASEAN.*” His book gives a comprehensive account of the China’s strategic engagement with the new ASEAN. Highlighting the strategic significance of China’s growing economic engagement with new ASEAN region, the author has thoroughly dwelt upon the various dimensions of Chinese strategic vision *vis a vis* the New ASEAN. The book seems to be an important source of well researched material dealing with China’s strategic options and economic opportunities in the region.

To analyze China's comprehensive strategy for Southeast Asia, Percival Bronson (2007) in his book, “*The Dragon Looks South: China and Southeast Asia in the new century*”, focuses closely on the past five years and is a comprehensive work that reviews all aspects of China's relations with all Southeast Asian states. Percival also distinguishes between China's goals in mainland and maritime Southeast Asia, deals with all of the

major external players in Southeast Asia, not just China and the United States, and contends that various international relations "schools of thought" may or may not be relevant to Chinese-Southeast Asian relationships. He also clarifies and prioritizes current American interests in Southeast Asia, an essential first step prior to assessing the implications for the United States and China's new role in Southeast Asia. He explains how China has made extraordinarily rapid gains in Southeast Asia since it turned its old confrontational policy on its head in 1997 and gives an insightful account of the strategies and maneuverings adopted by China to conduct its diplomacy toward ASEAN. Similarly, Dr. Indra Bahadur Singh (2005) in her book "*Chinese Strategic Diplomacy in ASEAN*" explains the whole array of tools and techniques, policies and programmes, methods and measures being used in Chinese diplomacy vis a vis the region.

Understanding the strategic perspectives of Vietnam with respect to China is equally important to obtain balanced and objective inputs on the *issue*. Presenting this view of Southeast Asian countries on the rise of China, Evelyn Goh (2007) in her article "Southeast Asian Perspectives on the China Challenge" has made a comprehensive analysis of the opportunities and challenges emerging for the ASEAN countries due to China's rise. The paper is divided into three sections- first outlines Southeast Asian Countries strategic imperatives and Chinese strategic aims in the region; second offers an analysis of Southeast Asian views of the consequences of China's rise in the military, political, and economic realms; and third deals with Southeast Asian responses to the China challenge with regard to their larger regional strategies.

To examine comprehensively how China could leverage military capabilities for exercising its economic influence in Southeast Asia and playing a crucial role in significant regional economic negotiations, Robert S. Ross (1992) in his article titled "China and Post-Cambodia Southeast Asia: Coping with Success" provides a detailed analysis of the changing dynamics of the region after the resolution of the Cambodia issue. Highlighting the new economic issues which the region is countering, the author

has made an attempt to analyze what role China could play in such changed regional economic atmosphere.

Hypotheses

- Vietnam's economic relations with China have increased despite political differences.
- Regional economic cooperation initiatives such as GMS and CAFTA have contributed to strong economic relations between Vietnam and China.

Research Method

In terms of method, the research work is deductive. The study relies on primary sources like recent data of Vietnam and China's Ministry of Commerce, External affairs, Exim bank, Statistics, Customs and Investment and Planning. Also data from IMF, World Bank, OECD, WTO, UNCTAD and Yearbooks of both the countries are conducted. Policy studies, research, Publications and personal interviews with the concerned policy-makers and others have been undertaken. Secondary source material has been consulted to substantiate and corroborate research conclusions.

Therefore, an examination of China - Vietnam relations from the beginning up to now shows that the two countries' relationship has started very early. Over the last 20 years, despite of some remaining problems concerning territorial disputes, in South China Sea, the relations have gained remarkable achievements in all fields. Two out of three territorial disputes have been successfully resolved. Political, economic, cultural, educational, military cooperation between the two countries have impressively increased. All the recent achievements in China - Vietnam relations reflect truly aspiration and interests of the two countries' parties, governments and peoples to engage with each other.

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Chapter-III

Vietnam- China Trade and Investment Relations

1 Vietnam's macroeconomic performance after the economic reforms

Vietnam's reform program which is known as Doi moi was launched in 1986 and overhauled the economy viz. institutions, macroeconomic policies, state-owned enterprises (SOEs), the banking system, land rights and the trade regime. After a decade of the reforms, Vietnam achieved a very higher growth of GDP, trade expansion, and increased inflows of FDI from across the world. However, after this period, the other round of reform measures were introduced which were focused primarily on the banking sector and improved economic scenario. After this, the GDP grew from USD 33.64 billion in the year 2000 to 186.20 billion in 2014 (Table 1).

All economic sectors grew with 3-4 percent in agriculture, 6-7 percent in services and over 10 percent in industry in term of average annual growth rate. High growth has been associated with positive changes in the economic structure. The share of agriculture in GDP decreased gradually, and only accounted for about 18.12 percent of GDP in 2014. By contrast, the share of industry in GDP increased to 38.50 percent compared with 34.20 percent in 2000 (World Bank 2015).

Further, Vietnam's economy diversified and rapidly expanded its trade and achieved a growth rate of 19.67 percent during the years 1990-2000, while the average annual growth rate recorded for the period 2000-2013 was 25 percent. Vietnam's foreign trade-GDP ratio has increased significantly, exports of goods and services (percent of GDP) have increased from 50 percent to 86.4 percent during the period 2000-2014, whereas imports of goods and services (percent of GDP) have increased from 53 percent to 83 percent during the same period (World Bank 2015).

Table 1: Vietnam's Macroeconomic Indicators for the year 2000- 2014

Indicators	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP (current US\$ billions)	33.64	57.63	66.37	77.41	99.13	106.01	115.93	135.54	155.82	171.22	186.20
GDP growth (annual percent)	6.79	7.55	6.98	7.13	5.66	5.40	6.42	6.24	5.25	5.42	5.98
Agriculture, value added (percent of GDP)	22.73	19.30	18.73	18.66	20.41	19.17	18.89	20.08	19.67	18.38	18.12
Industry, value added (percent of GDP)	34.20	38.13	38.58	38.51	37.08	37.39	38.23	37.90	38.63	38.31	38.50
Services, etc., value added (percent of GDP)	43.07	42.57	42.69	42.83	42.51	43.44	42.88	42.02	41.70	43.31	43.38
Exports of goods and services (percent of GDP)	49.97	63.70	67.72	70.52	70.34	62.97	72.00	79.39	80.03	83.63	86.40
Imports of goods and services (percent of GDP)	53.28	67.02	70.60	84.09	83.98	73.34	80.22	83.52	76.53	81.47	83.13
Gross capital formation (percent of GDP)	27.44	33.76	34.54	39.57	36.49	37.16	35.69	29.75	27.24	26.68	26.83
Merchandise trade (percent of GDP)	89.54	120.07	127.83	143.70	144.66	119.84	135.49	150.26	146.52	154.22	160.97
Total debt service (percent of exports of goods, services and primary income)	7.50	2.62	2.12	2.26	1.98	2.34	2.34	3.88	3.61	3.55	
Foreign direct investment, net inflows (BoP, current US\$ Million)	1298.00	1954.00	2400.00	6700.00	9579.00	7600.00	8000.00	7430.00	8368.00	8900.00	
Net official development assistance and official aid received (percent of GDP)	5.00	3.32	2.78	3.24	2.57	3.52	2.54	2.65	2.64	2.39	

Source: World Bank Data, World Development Indicators, Accessed on 10.7.15

2. Vietnam's integration into the World economy

Vietnam undertook reforms related to trade and FDI regulations and also opened up its economy. It further lifted the import barriers and liberalized FDI rules which resulted into its global integration. (World Trade Organization 2013). These reforms resulted in Vietnam's export-oriented growth and increased investments and output. Following these measures, FDI into Vietnam increased from US\$ 1.2 billion in 1991 to approximately US\$ 2.7 billion in 2000, with further increased to US\$ 16.3 billion in 2012. Up to 2013, Vietnam received FDI stock of 268.6 billion USD with 17434

projects (GSO 2015). The FDI inflows also become a source for domestic investment and increased percentage of exports to 57.9 percent. FDI also increased inflow of capital, enhanced skills and training and helped in employment generation (WTO 2013).

Vietnam's rapid increase in its trade growth is an indicator of Vietnam's integration with the regional groupings and the world economy at large. Further, Vietnam is part of several free trade agreements in 2015, including the Trans-Pacific Partnership, Regional Comprehensive Economic Cooperation, the Vietnam-EU free trade agreement, and the ASEAN Economic Community (AEC). These agreements will generate more opportunities for Vietnam's development and challenges as well. Vietnam has also improved in ease of doing business and has developed high quality infrastructure and regulatory environment. It has spend extensively on the development of world class infrastructure such as electricity, water, communication, roads and ports to attract overseas investments (IWEP 2005).

3. Vietnam- China economic relations

Two-way trade grew magnificently when Vietnam stabilized its relations with China in the beginning of 1990's. China is now Vietnam's largest trading partner. China supplies Vietnam with machinery, refined oil and steel. In return, Vietnam supplies China with unrefined oil, coal and rubber. The structure of Vietnamese exports had changed little over the years and no major change is expected in the coming years. Vietnamese domestic manufacturers cannot produce quality goods that are competitive in the Chinese market place. Restricting Chinese imports is not on the cards. Vietnamese leaders have called for increased Chinese investment to mitigate the trade imbalance. Although China has responded, the total amount of investment is modest when compared to other foreign investors. In order to lower the amount of imports from China, Vietnam should encourage Chinese businessmen to set up a production base in Vietnam.

Also, China's investment in bauxite mining in the Central Highlands has proven to be highly contentious in Vietnam for environmental and national security reasons. In

addition to the economic benefits of trade, there are also geostrategic considerations at play. The growth of trade has been accompanied by a massive upgrading and construction of infrastructure, roads, bridges and railways — much of it is funded by the Asian Development Bank and World Bank as part of the Greater Mekong Sub-regional initiative. Increasingly, mainland Southeast Asia is being linked to Southwestern China. In addition, Vietnam and China are promoting the development of the “two corridors and one economic beltway” linking Southern China, Hainan Island and Northern Vietnam. From Hanoi’s point of view, this not only serves Vietnam’s development needs, but also enmeshes China and provides Beijing incentives for cooperative behavior.

3.1 Vietnam-China bilateral trade

The normalization of relations between Vietnam and China in 1991 brought about a dramatic improvement in their economic relations and opened new arenas of cooperation in numerous fields between the both sides. The bilateral trade relations improved during the years 2000-2013 and achieved new milestones. By the year 2013, the total export-import turnover was USD 50 billion: export turnover of Vietnam products to China was valued at USD 13.18 billion; while import value totalled USD 36.89 billion (WITS 2015).

The average growth rate of Vietnam export turnover to China during the period 2000-2013 was 19.43 percent. In 2004, Vietnam’s yearly growth in exports was 53.95 percent which reduced exponentially to 0.11 in the year 2006. The growth rate of exports started picking up in the year 2008 and touched a high of 50 percent in 2011 before coming down to 2.66 percent in 2013. Similarly, the average growth rate of Vietnam import turnover to China during the period 2000-2013 was 29.58 percent respectively. In 2007, Vietnam’s yearly growth in imports touched the high of 71.96 percent before touching an all-time low of 4.38 percent in the year 2009. The growth rate of imports started picking up in the year 2010 and touched 27.04 percent in 2013. In terms of total trade, the year 2004 witnessed the highest growth at 49.24 percent which reduced drastically to 6.02 percent in 2009. The average growth rate in total trade stands at 25.17 percent during the

period 2000-2013. Vietnam's exports accounted for only 5 per cent of its export turnover to China in 2013. In the year 2013, trade with China accounted for 9.48 per cent of Vietnam's total trade turnover while Vietnam's trade accounts for only 1.5 per cent of China's total trade turnover (WITS Online).

However, Vietnam has a trade deficit with China. In the period 2000-2014, the rate of Vietnam exports to China increased fairly well, but remained low in comparison to its imports from China. In 2013, the trade gap increased to USD 23.71 billion, a two fold increase compared with that of 2008 (WITS Online). This disparity could be attributed partly to the complicated terrain with the lack of enforcement that has led to the illegal importation of goods from China to Vietnam. Second, Chinese companies have the comparative advantage over Vietnamese companies in terms of information on markets, consumption needs and the legal system, which makes Chinese products cheaper, more diverse and attractive to low-income segment of the society (Van Hong).

Table 2: Vietnam- China bilateral trade (Values in USD billion)

Year	Export	Import	Balance of trade	Total Trade	Yearly growth in export	Yearly growth in import	Yearly growth in total trade
2000	1.54	1.40	0.14	2.94			
2001	1.42	1.61	-0.19	3.02	-7.74	14.64	2.93
2002	1.52	2.16	-0.64	3.68	7.12	34.40	21.61
2003	1.88	3.14	-1.26	5.02	24.03	45.38	36.56
2004	2.90	4.60	-1.70	7.49	53.95	46.41	49.24
2005	3.25	5.90	-2.65	9.15	11.98	28.39	22.04
2006	3.24	7.39	-4.15	10.63	-0.11	25.28	16.27
2007	3.65	12.71	-9.06	16.36	12.44	71.96	53.81
2008	4.85	15.97	-11.12	20.82	33.02	25.68	27.31
2009	5.40	16.67	-11.27	22.08	11.40	4.38	6.02
2010	7.74	20.20	-12.46	27.95	43.31	21.17	26.59
2011	11.61	24.87	-13.25	36.48	49.99	23.08	30.53
2012	12.84	29.03	-16.20	41.87	10.53	16.76	14.78
2013	13.18	36.89	-23.71	50.06	2.66	27.04	19.57

Source: WITS, World Bank

3.2 The commodity composition of trade

Over the years, Vietnam's trade structure has changed in terms of exports and imports

and trade partners.

a. The composition of Exports from Vietnam to China

The export structure has changed as the share of agricultural sector still contributes to exports, but its share has been decelerating. As can be seen in Table 3, Electrical machinery, equipment parts, which made up 18.61 percent of total export value in 2013, only made up 0.74 percent of Vietnam’s exports in 2002. Mineral fuels, oils & product made up 50.28 percent of exports in 2002, 24.59 percent in 2011, and 9.65 percent in 2013. Exports of rubber and articles showed similar performance. Exports of wood and articles of wood increased from 0.63 percent in 2002 to 7.24 percent in 2013. Other sectors which showed positive growth in 2013 were Cereals (6.86 percent), Nuclear reactors & machinery (5.10 percent), Products of the milling industry; malt and starches (4.79 percent) and footwear, gaiters and the like (2.84 percent) (WITS 2015).

Table 3: Vietnam's Top Ten Exports to China (percent share)

HS Product Code	Description	2002	2005	2008	2011	2013
85	Electrical machinery equip parts thereof	0.74	2.02	4.16	8.71	18.61
27	Mineral fuels, oils & product	50.28	50.72	28.30	24.59	9.65
40	Rubber and articles thereof	6.41	16.55	22.49	17.50	9.14
44	Wood and articles of wood	0.63	1.74	2.81	5.13	7.24
10	Cereals	0.11	0.39	0.03	1.38	6.86
52	Cotton	0.17	0.17	1.77	4.02	6.44
84	Nuclear reactors, boilers and machinery	1.48	1.77	4.65	3.93	5.10
11	Products of the milling industry; malt and starches	1.38	1.75	3.05	3.92	4.79
8	Edible fruit and nuts	6.20	5.38	5.64	4.12	4.39
3	Fish & crustacean, mollusk	11.57	2.91	1.85	2.12	3.15
64	Footwear, gaiters and the like; par	0.57	1.06	2.31	2.22	2.84
Share (percent)		79.53	84.46	77.08	77.66	78.21

Source: WITS, World Bank

b. The composition of Imports from China to Vietnam

The structure of imports has also changed over the last two decades with electrical machinery, iron and steel imports are gaining momentum. The share of electrical

machinery equipment parts, nuclear reactors, boilers, machinery, iron and steel stands as an important component in imports with increasing significance over a period of time. As can be seen in Table 4, Electrical machinery and equipment parts, which made up 34.06 percent of total import value in 2013, only made up 4.62 percent of Vietnam's imports in 2002. On the other hand, mineral fuels, oils & product, which made up 22.37 percent of imports in 2002, declined drastically to 5.3 percent in 2013. Imports share of other items did not show a major change (WITS 2015).

Table 4: Vietnam's Top Ten Imports from China (percent share)

HS Code	Description	2002	2005	2008	2011	2013
85	Electrical machinery equipment parts thereof	4.62	7.27	14.78	21.75	34.06
84	Nuclear reactors, boilers, machinery	13.91	12.00	17.56	17.87	14.47
72	Iron and steel	3.38	12.53	15.49	6.22	6.76
27	Mineral fuels and oils	22.37	15.91	6.15	8.23	5.30
39	Plastics and articles thereof	1.42	2.04	2.35	3.27	3.23
55	Man-made staple fibres	5.05	5.55	3.74	3.50	3.11
60	Knitted or crocheted fabrics	1.24	1.70	1.40	2.78	2.94
52	Cotton	1.84	2.22	3.11	3.27	2.52
31	Fertilisers	2.69	4.64	4.51	3.54	2.30
73	Articles of iron or steel	2.51	2.07	2.42	2.45	2.25
	Share (percent)	59.03	65.94	71.52	72.88	76.95

Source: WITS, World Bank

The differences in the composition of export and import goods reflect the differences in the levels of economic development between Vietnam and China. Although Vietnam has not captured China's market as much as China's has, but it has emerged as one of Asia's fastest growing economy than any other Asian economy and has also benefited immensely from its transition from the agricultural base toward manufacturing and services.

The reforms and changes in the composition of traded products likely contributed to the reallocation of labour from agriculture (including aquaculture) to manufacturing, as agricultural exports became relatively less important over time. Vietnam dramatically

expanded exports of unskilled labor intensive manufactured goods such as clothing, footwear, and office machinery, which grew at average annual rates of 16.8, 13.9 and 67.5 percent respectively from 1997 to 2000 (Brian Mc Caig 2013). At the same time, the share of light manufactured goods in imports declined. This expansion of net exports and the changes in the composition of manufacturing trade likely contributed to increased demand for labour.

Additionally, the liberalization of foreign investment and SOE reforms interacted in important ways with trade reforms and affected the composition of ownership of firms involved in international trade. Foreign-invested firms became responsible for over half of all exports by 2010, as compared to only about a quarter of exports in 1995 while imports by foreign firms rose from 18 to 44 percent of total imports between 1995 and 2010.

4 Vietnam's major trading partners

4.1. Vietnam's top 10 trade partners

The share of Vietnam's exports to East-Asian markets have increased continuously from 30.61 percent in 2002 to 32.2 percent in 2013, meantime the share of imports from these countries also changed from 60.36 percent in 2002 to 64.52 percent in 2013 (WITS, World Bank). Vietnam's major exports to these economies are primarily agricultural goods. With the increasing share of East Asia, trade with China has increased many folds from USD 691.6 million to USD 50060 million during the period of 1995-2013. For the last ten years, China has become the largest import partner of Vietnam having imports of USD 36.89 billion in the year 2013 with an import share of 27.94 percent. In terms of exports, China stands at third position with USD 13.18 billion of exports lagging just behind United States (18.08 percent share) and Japan (10.26 percent). In 2002, the share of exports to China's market was only 9.09 percent, and then it boomed to 11.98 percent in 2011 and 9.98 percent in 2013 respectively. In terms of imports from China, its import share has increased from 10.93 percent in 2002 to 27.94 percent in 2013 (WITS, World Bank).

Table 5: Vietnam's top 10 Exporting Partners

2002			2005			2008			2011			2013		
	Quantum USD Billion	Share (%)		Quantum USD Billion	Share (%)		Quantum USD Billion	Share (%)		Quantum USD Billion	Share (%)		Quantum USD Billion	Share (%)
United States	2.45	14.68	United States	5.93	18.26	United States	11.90	18.98	United States	16.97	17.51	United States	23.87	18.07
Japan	2.44	14.58	Japan	4.34	13.37	Japan	8.47	13.50	China	11.61	11.98	Japan	13.54	10.25
China	1.52	9.08	China	3.25	10.00	China	4.85	7.73	Japan	11.09	11.44	China	13.18	9.98
Australia	1.33	7.95	Australia	2.72	8.39	Australia	4.35	6.94	Korea, Rep.	4.87	5.02	Korea, Rep.	6.68	5.06
Singapore	0.96	5.75	Singapore	1.92	5.90	Singapore	2.71	4.32	Germany	3.37	3.47	Malaysia	4.98	3.77
Other Asia, nes	0.82	4.89	Germany	1.09	3.34	Germany	2.07	3.30	Malaysia	2.77	2.85	Germany	4.74	3.58
Germany	0.73	4.36	Malaysia	1.03	3.16	Malaysia	2.03	3.23	Australia	2.60	2.68	Hong Kong, China	4.11	3.11
United Kingdom	0.57	3.42	United Kingdom	1.02	3.13	Philippines	1.82	2.91	Cambodia	2.52	2.59	Australia	3.49	2.64
Korea, Rep.	0.47	2.80	Other Asia, nes	0.94	2.88	Korea, Rep.	1.79	2.86	United Kingdom	2.40	2.47	United Kingdom	3.70	2.80
Iraq	0.44	2.63	Thailand	0.86	2.66	United Kingdom	1.58	2.52	Indonesia	2.36	2.43	Cambodia	2.93	2.22
	11.72	70.18		23.08	71.13		41.59	66.34		60.56	62.49		81.23	61.52

Source: WITS, World Bank

Table 6: Vietnam's top 10 Importing Partners

2002			2005			2008			2011			2013		
	Quantum USD Billion	Share (%)		Quantum USD Billion	Share (%)		Quantum USD Billion	Share (%)		Quantum USD Billion	Share (%)		Quantum USD Billion	Share (%)
Singapore	2.53	12.83	China	5.90	16.05	China	15.97	19.79	China	24.87	23.29	China	36.89	27.94
Other Asia, nes	2.53	12.79	Singapore	4.48	12.19	Singapore	9.38	11.62	Korea, Rep.	13.18	12.34	Korea, Rep.	20.68	15.66
Japan	2.50	12.68	Other Asia, nes	4.30	11.71	Other Asia, nes	8.36	10.36	Japan	10.40	9.74	Japan	11.56	8.75
Korea, Rep.	2.28	11.54	Japan	4.07	11.08	Japan	8.24	10.21	Other Asia, nes	8.56	8.02	Other Asia, nes	9.40	7.12
China	2.16	10.93	Korea, Rep.	3.59	9.78	Korea, Rep.	7.26	8.99	Singapore	6.39	5.99	Thailand	6.28	4.76
Thailand	0.96	4.84	Thailand	2.37	6.46	Thailand	4.91	6.08	Thailand	6.38	5.98	Singapore	5.69	4.31
Hong Kong, China	0.80	4.08	Malaysia	1.26	3.42	United States	2.65	3.29	United States	4.56	4.27	United States	5.24	3.97
Malaysia	0.68	3.46	Hong Kong, China	1.24	3.36	Hong Kong, China	2.63	3.26	Malaysia	3.92	3.67	Malaysia	4.10	3.10
Germany	0.56	2.83	Switzerland	0.89	2.43	Malaysia	2.60	3.22	India	2.35	2.20	Germany	2.95	2.24
Russian Federation	0.50	2.54	United States	0.87	2.35	India	2.09	2.59	Indonesia	2.25	2.11	India	2.88	2.18
		78.52			78.83			79.41			77.60			80.03

Source: WITS, World Bank

5. Vietnam- China economic cooperation along the border areas:

China has two provinces which are adjacent to the common land borderlines. The area of the two provinces is about 610,000 square kilometers (Guangxi accounting for 230,000 square kilometers and Yunnan 380,000 square kilometers) with total population approximately 92 million (ADB 2015), roughly equal to Vietnam's population. The gross domestic product (GDP) in 2014 of Guangxi was USD 243.17 billion and Yunnan PRC was USD 198.82 billion almost 5 percent of China total (ADB 2015). On the Vietnamese side, six border provinces combined an area of 55,584 square kilometers, accounting for 16.8 percent of the country's territory (Gu Xiaosong and Womack 2000).

Since the reopening of border trade between the two countries, there has been an increase of 20 percent increment in trade annually. In 2013, total trade between China and Vietnam was USD 50.21 billion, out of which 30 percent was from Guangxi province and 5 billion with Yunnan province (Eyler 2014). Additionally, with border issue settlement and the demarcation of Gulf of Tonkin during 1999- 2000 created favorable conditions for the two countries to cooperate in trade and economic fields which have rapidly improved bilateral trade between China and Vietnam. The two countries also set up China- Vietnam Committee on Trade and Economic Cooperation to further deepen bilateral trade and economic relations. Vietnam has been Guangxi's largest and Yunnan's third largest trading partners over the past decade. In 2009, nearly 4.9 million people crossed the Dongxing border, rising from about 4.6 million in 2008.

The bilateral trade volume between Vietnam and these two provinces is considerable. The Guangxi - Vietnam trade volume reached US\$ 2.370 billion and US\$ 4.1 billion in 2007 and 2008 respectively, accounting for 15 percent of the total bilateral trade turnover, while that between Yunnan and Vietnam is about 4 percent and is expected to rise to at least 10 percent of the total bilateral trade volume of China and Vietnam in the near future (Do, Thi Thuy 2009). Vietnam's imports and exports through the border gates

in 2012 was US\$13.1 billion, up 27 percent compared to the previous year and accounting for 5 percent of its total trade turnover (VOV News 2013).

With great potential of border region economic development, soon after the border region between the two countries became normal, China and Vietnam agreed to put forward plans to develop cross-border economic cooperation at the pairs of border gates between the two countries. The cross-border economic cooperation has helped to reduce tedious and unnecessary formalities, promote exchange and trade, bring about progress in local economies, and promote friendly intercourse between the peoples of the two countries (Gu Xiaosong and Womack 2000).

6 Trade Policy Changes

6.1 Trade policy reform

Trade reforms have contributed towards Vietnam's openness and integration with the world economy. These reforms have resulted in increased transparency, expanding market access and it has become a success due to reform of SOEs and the banking system (IWEP 2005). Recent reforms of SOEs in Vietnam have been centered about the equitization and divestment of state enterprises. The pace of the equitization, albeit still slow relative to the target, has been proceeding much faster after 1998. Between 1998 and the end of 2000, there have been more than 450 equalizations, as compared with just 17 during the period 1992-1998 (VDR 2001). In 2011-13, 180 SOEs underwent a restructuring, of which 99 were equitized. During the 2014-15 period, Vietnam has equitized some 432 SOEs, of which 167 were restructured in 2014 (ADBI).

6.2 Trade Strategy

Vietnam declared the "Import-Export Strategy for the Period 2011-20 with a Vision towards 2030" and announced its trade targets by 2020 to increase the export turnover by more than three times in 2011. This Strategy requires that 11-12 percent per year average growth rate should be attained in exports, around 12 percent in the year 2011- 2015, around 11 percent in 2016-2020 and around 10 percent in 2021-2030. However, it should be kept in mind that average growth of imports (growth rate) should be in the range of

10-11 percent during 2011-2020. The commodities which are needed for the strategy are fuel and minerals, agricultural and seafood products, processing and manufacturing items, and other products.

Regarding the commodity wise trade, fuels and minerals contribution to exports is projected to fall from 11.2 percent in 2010 to 4.4 percent in 2020, and the share of agricultural and seafood products in exports is also likely to be cut from 21.2 percent in 2010 to 13.5 percent in 2020. Processing and manufacturing industries producing hi-tech and high-intelligence products should see their proportion in exports raise from 55.6 percent in 2010 to 62.9 percent in 2020. Similarly, exports of new products should be increased from 12 percent in 2010 to 19.2 percent in 2020 (WTO 2013).

6.3 Customs Modernization

In order to facilitate trade, the Government made a strategy for Customs development in the year 2011" by which it could develop Vietnam's customs at par with countries of ASEAN and keep standards for its international economic integration by 2020. Moreover, the specific objectives of the strategy are to develop institutional, organizational, legal frameworks and procedures that are simple and effective according to best international standards and practices such as single window clearance, to conduct audit post clearance and use of IT for risk management (ADB 2014).

6.4 Quantitative Restrictions (QRs)

Vietnam has removed import quotas on almost all products except petroleum products and sugar. Although, these commodities which are under Quantitative Restrictions are imported by State Owned Enterprises, the government has started allocating little quotas for non-state enterprises in all commodities.

7. Foreign Direct Investment in Vietnam

7.1 FDI inflows in Vietnam

Foreign Investment Law of Vietnam was implemented in 1987. This law helped in transition of Vietnam's economy into a market-oriented one and opened its economy to foreign investors. After this, FDI into Vietnam increased from US\$0.34 billion in 1988 to approximately US\$6.8 billion in 2005, registering a growth rate of 28 percent annually and increase of FDI stock from US\$1.4 billion in 1990 to US\$71.72 billion in 2007. However FDI inflows in 2013 rose to 22.3 billion USD, with an annual average growth rate of 33.6 percent for the period 2000-2013 (GSO 2015).

Table 7: Foreign direct investment inflows during the period 2000 - 2013

Years	Number of projects	Total registered capital (Mill. USD) (*)	Implementation capital (Mill. USD)
2000	391	2762.8	2398.7
2001	555	3265.7	2225.6
2002	808	2993.4	2884.7
2003	791	3172.7	2723.3
2004	811	4534.3	2708.4
2005	970	6840	3300.5
2006	987	12004.5	4100.4
2007	1544	21348.8	8034.1
2008	1171	71726.8	11500.2
2009	1208	23107.5	10000.5
2010	1237	19886.8	11000.3
2011	1191	15618.7	11000.1
2012	1287	16348	10046.6
2013	1530	22352.2	11500
Total	14481	225962.2	93423

Source: General Statistics Office of Vietnam

7.2 FDI by kinds of economic activity

Manufacturing and real estate accounted for 75 percent of total registered capital with the highest number of projects at 9132 for the year 2013. The FDI in services sector stood at 13.4 percent and agriculture, forestry and fishery stands at only 1.43 percent. Since 1999, there has been a structural shifted in FDI inflows in Vietnam, which has led to its rapid industrialization and modernization. FDI inflow in the year 2013 for manufacturing and construction sector stood at 136 billion USD, with 9771 projects,

accounted for 61 percent of total projects and 58 percent of total registered capital; agriculture attracted only 500 projects with total registered capital of 3358 million and accounts for 3.1 percent of total projects and 1.4 percent of total registered capital (GSO 2013).

Table 8: Foreign direct investment projects licensed by kinds of economic activity (projects having effect as of 31/12/2013)

Economic activity	Number of projects	Total registered capital (Mill. USD) (*)	Share percent
Manufacturing	8725	125858.1	53.76
Real estate activities	407	49043.1	20.95
Accommodation and food service activities	341	10739.5	4.59
Construction	1046	10292.6	4.40
Electricity, gas, steam and air conditioning supply	92	9536.2	4.07
Information and communication	937	4029.6	1.72
Arts, entertainment and recreation	142	3676.2	1.57
Wholesale and retail trade; Repair of motor vehicles and motorcycles	1125	3588.2	1.53
Transportation and storage	382	3563.1	1.52
Agriculture, forestry and fishing	500	3358.8	1.43
Mining and quarrying	82	3273.6	1.40
Professional, scientific and technical activities	1526	1521.5	0.65
Human health and social work activities	91	1339.8	0.57
Financial, banking and insurance activities	79	1322.7	0.56
Water supply, sewerage, waste management and remediation activities	30	1285.2	0.55
Other service activities	28	747.1	0.32
Education and training	179	742.7	0.32
Administrative and support service activities	120	203	0.09
TOTAL	15932	234121	

Source: GSO Statistical Yearbook 2013

7.3 FDI Impact on Vietnam

Trade and FDI reforms have led to Vietnam's export oriented growth resulting from increased industrial output. FDI inflows in Vietnam have contributed to increased domestic investment and exports up to 57.9 percent. In 2013, Foreign invested enterprises account for 2.7 percent of total number of enterprises contributing to 26.6 percent to total employment with net turnover from business at 25 percent. Foreign invested enterprises have also contributed around 19.5 percent to foreign trade by increased capital inflows, skill development, employment generation and rising disposable incomes (WTO 2013).

Table 9: FDI Impact on Vietnam, 2012-2013

	Total no. of enterprises	Percent share	Total employment	Percent share	Net turnover from business	Percent share	Gross Domestic Product	Percent share
2012								
State owned enterprise	3239	0.9	1606	14.5	2941	26.3	10569	32.6
Non state enterprise	334562	96.5	6758	61.0	5797	51.9	16015	49.3
Foreign investment enterprise	8976	2.6	2720	24.5	2429	21.8	5870	18.1
2013								
State owned enterprise	3198	0.9	1541	13.5	2977	24.3	11541	32.2
Non state enterprise	359794	96.4	6854	59.9	6203	50.7	17295	48.3
Foreign investment enterprise	10220	2.7	3050	26.6	3054	25.0	7007	19.5

Source: General Statistics Office Vietnam, *Statistical Handbook 2012*, and *Statistical Yearbook 2013* (tables 59 and 222)

7.4 Foreign Direct Investment by the outside World

FDI inflows in Vietnam from Japan, Singapore, Taiwan, Korea and British Virgin Islands contributed USD \$ 140 billion till the year 2013, in which Japan was the biggest investor (with 2186 projects and 35180 million USD) followed by Singapore, Korea, Taiwan and other countries. China ranked ninth during this time with total FDI amounting to USD \$ 7551 million (992 projects). During the period 1998-2008, FDI from China only amounted to USD \$ 2188 million, which more than quadrupled during a period of five years (GSO 2015).

Table 10: Foreign Direct Investment by countries

Country	1998-2008	Projects	2010	Projects	2011	Projects	2013	Projects
Japan	17362	1102	20960	1425	24382	1555	35180	2186
Singapore	17071	733	21890	895	22960	1008	29942	1243
Korea Rep. of	16666	2153	22389	2699	23696	2960	29653	3611
Taiwan	20951	2135	22981	2171	23639	2223	28020	2290
British Virgin Islands	13824	438	14514	487	15456	503	17152	523
Hong Kong SAR (China)	7416	671	7846	622	11311	658	12524	772
United States	5029	493	13104	568	10432	609	10696	682
Malaysia	18005	340	18417	376	11075	398	10376	453
China, PR	2188	711	3680	770	4338	833	7551	992
Netherlands	3018	115	5481	145	5818	160	6311	198
Cayman Islands	4352	33	7432	52	7502	53	5863	55

Source: Statistical Yearbook of Vietnam for different years

By looking at the Vietnam's top 10 FDI partners for the year 2013, it is seen that Japan stands at the top position with 352 projects and registered capital of USD \$ 5875.5 million. Among other important FDI partners of Vietnam, Singapore has contributed around 21.34 percent and Korea around 19.98 percent to the total registered capital in Vietnam. China, on the other hand stands at fourth position with 110 projects and registered capital of USD \$ 2339 million contributing around 7.19 percent to the total projects and 10.46 percent to the total registered capital. Although FDI to Vietnam from China is increasing, its share is quite less in comparison to other big investors (GSO 2015).

Table 11, Vietnam's top 10 FDI partners for the year 2013

Countries	Number of projects	Percent Share	Total registered capital (Mill. USD)(*)	Percent Share
Japan	352	23.01	5875.5	26.29
Singapore	130	8.50	4769	21.34
Korea Rep. of	427	27.91	4466	19.98
China, PR	110	7.19	2338.6	10.46
Fed. Russian	13	0.85	1031.9	4.62
Hong Kong SAR (China)	72	4.71	729.9	3.27
Taiwan	75	4.90	637.3	2.85
Netherlands	21	1.37	398.7	1.78

Cayman Islands	4	0.26	372.7	1.67
British Virgin Islands	17	1.11	309.3	1.38
Total	1221	79.80	20928.9	93.63

Source: General Statistics Office of Vietnam

China's FDI in Vietnam has increased steadily during a period of 15 years (see Table 13). During 1998-2005, there were 431 investment projects with registered capital amounting to USD \$ 841 million: in 2011, there was almost two fold increase in number of projects to 833 and registered capital amounting to USD \$ 4338 million registering more than fivefold increase over a period of six years. China remained Vietnam's fourth largest investor in the year 2013, contributing around 7.19 percent to the total projects and 10.46 percent to the total registered capital during the same year.

7.5 China's investments in Vietnam

Table 12, China's FDI in Vietnam

Period	Number of Projects	Registered Capital (million USD)
1998-2005	431	841
2006	77	401
2007	130	572
2008	73	373
2009	76	380
2010	105	685
2011	833	4338
2012	893	4697
2013	992	7551

Source: GSO of Vietnam, Statistical Yearbook of different years

7.6 Different industries of China's investment in Vietnam

China's investment focus in Vietnam is primarily on industrial production field. According to industry statistics division, the largest investment department is industry and construction respectively having projects to the tune of 71.6 percent and 61.6 percent of the total investment amount. Second is the services industry, which takes up 12.5 percent of the total investment. The least investment is in forestry and fishery with 15.9 percent of the project and the 13.25 percent of the total investment amount. Most of the investments locate to the north, mainly in Saigon and Hanoi.

Although Vietnam's economy has developed rapidly, but the infrastructure construction, industrial processing and equipment technologies are backward when compared with China. However, these industries such as household appliances, machinery, textile, pharmaceutical, etc are much more mature in China. Chinese industry equipment and the technology have been close to the developed countries, and the cost is also low. According to the current economic situation in Vietnam, and combining the characteristics of enterprises from China, the following industries have good prospects to invest in Vietnam, including home appliance, machinery, textile, agriculture, forestry, equipment, medicine and electricity, etc.

1. Household Appliance Industry- The Chinese electrical appliances production has already reached a higher level, and since the domestic competition is fierce, product supply exceeds demand. As Vietnam's current home appliance penetration rate is not high, color TV sets, washing machines, air conditioning, the refrigerator are not developed. Because Chinese electrical appliances are cheap, Vietnamese gradually prefer the Chinese electrical appliances. With the improvement of living standard in Vietnam, the electrical appliances demand will continue to expand as the potential is very high and the products can be exported to ASEAN countries for sale.

2. Machinery industry- China's industrial machinery and engineering machinery have very good foundations as the technology is mature, the quality is good, and the price is low. Vietnam's industry is developing rapidly and need a lot of industrial machinery, such as textile machinery, transportation machinery, light industry machinery, special machine tools, and precision machine tools. As Vietnam has many projects now, so the demand of engineering machinery is bigger. Since investment in the production of machinery can drive exports of technology and equipment, enjoy the preferential tax of Vietnam, reduces the cost and improve the competitiveness of Chinese products.

3. Textile industry- Textile industry is the key areas of Vietnam, and it is the largest export industry with clothing products export volume exceeding USD \$1.5 billion. But, as Vietnam's textile industry is backward, most of the textile machinery is obsolete, and most textile machinery depends on imports. Garment processing requires importing advanced fabrics. In recent years, China's textile industry excess capacity has become extremely sharp questions. Vietnam has low labor costs as compared to China, but the key is to introduce modern advanced technology and professional equipment. China enterprises should consider investing in Vietnam garment processing industry and can also considering cooperating with Vietnam's input equipment and technology produce high-grade fabrics and new raw materials of textile, and driving the textile machinery and equipment exports.

4. Pesticides, fertilizers and agriculture- Vietnam is a traditional agricultural country and agricultural exports related to machinery, tractors and pumps from China are increasing rapidly. Moreover, Vietnam pesticide market capacity is about \$120 million \$150 million every year and 30 percent a 40 percent market share is covered by Chinese exports. Vietnam fertilizer demand is about 2.2 million tons every year, China accounted for 34 percent of market share; Vietnam feed market supply cannot satisfied the demand . The next five years, it demand will increase faster. China related enterprise may consider investing in Vietnam factories and using Vietnam's preferential policies and low taxes in farming, forestry industry, to reduce the production cost. In addition, Laos and Cambodia are also traditional agricultural countries, the development of pesticides, fertilizers and agricultural machinery is relatively slow, so it has great market potential. The product can also export to these neighboring Southeast Asian countries.

5. The pharmaceutical industry- For a long time, the pharmaceutical market in Vietnam is primarily import driven. According to statistics, Vietnam imported drugs of \$400 million and domestically produced them worth \$300 million. Due to the history and geography position, Vietnamese like to use traditional Chinese medicine products. But in

Vietnam, production of Chinese medicine is backward; the product is simple and can't satisfy

the demand of the market. With the development of people's living standard, Chinese traditional medicines, health products, have become popular in Vietnam. China's pharmaceutical enterprises should catch the opportunity, research the market, expand exports actively, should also consider investment in higher technology and added value pharmaceutical factory in Vietnam, use the local resources to process, and enhance the exports of domestic pharmaceutical equipments.

6. The electric Industry- According to the industrial strategy of industry department, Vietnam institute of industrial development plans to construct 119 small hydropower stations along the road and the total investment are expected to reach \$690 million. China has successful experience and mature technology of constructing small and medium-sized hydropower station. Such a large-scale electric construction in Vietnam provides a huge opportunity to Chinese enterprises. In addition to this, tourism, energy development, agricultural product processing, auto production, so on and so forth seems to have good prospects in Vietnam.

7.7 FDI Policy Environment

Vietnam has been receiving FDI despite difficulties such as terrorist attacks, political conflicts and low growth rate. Vietnam has been successful in implementing improved Law on Foreign Investment and has invested in infrastructure development. It has given autonomy to its provinces to attract foreign investments which will result in skill development and increased jobs, increased incomes and standard of living as well as infrastructure development of these provinces.

8. ODA inflows in Vietnam

In 1993, Vietnam restored its relations with countries as well as multilateral donors (Asia Development Bank, International Monetary Fund, and the World Bank). Due to this,

Vietnam received good amount of official development aid. Vietnam has received aid from about 50 aid donors, consisting of 28 bilateral donors and 22 multilateral donors so far. ODA received by Vietnam constitutes around 11.93 percent of GDP in 1994 to a peak of 10 percent of GDP in 2008, before decreasing to 4.94 percent of GDP in 2014 (World Development Indicators 2015)

8.1 ODA received by Vietnam

A recent trend shows that DAC and multilateral donors are the main aid providers while non-DAC donors (except China) are Thailand, Kuwait and Hungary, providing basically technical assistance and small grants. For instance, in 2012 aid from DAC members accounted for 65.15 percent, multilateral institutions 34.14 percent, and the rest, private foundations and non-DAC, accounted for only 0.71 percent of total aid inflows for Vietnam. Bilaterally, top ten bilateral donors in the period 1993-2012 were Japan, Australia, Belgium, Canada, Denmark, the EU, Finland, Germany, South Korea, Switzerland and the United States. Japan is the biggest bilateral donor in the period 1995-2012 with the accrued aid amount of US\$ 18.87 billion. France ranks second with US\$ 3.24 billion, Germany ranks third with US\$ 2.28 billion.

8.2 Chinese ODA in Vietnam

In late 1990's, Chinese- Vietnamese bilateral economic and trade relations strengthened and the governments of both countries emphasized the need to strengthen cooperation between sectors, localities and enterprises directly through many channels, such as joint ventures, direct investment and official development assistance. Table 13 lists the various forms of development assistance China provided to Vietnam between 2002 till 2009.

When cooperation started between Vietnam and China, the former provided the later with assistance in different sectors like industry, mining, transport, emergency response, agriculture, forestry and fishing, energy generation and supply, communications and other sectors. Among the major Chinese assistance projects in Vietnam, the most

prominent one was the China's financing of Vietnam's railway project worth VND 9750 million in the year 2006; China provided funds for energy generation to Vietnam worth USD 123 million in 2006.

Table 13: Chinese ODA to Vietnam

S. No.	Particulars	Year	Sector name	Status	Currency	Amount
4	China signs railway credit agreement with Vietnam	2003	Transport and Storage	Pipeline: Commitment	USD	64000000
5	China supply \$5.9 million to build the Vietnam-China Friendship Palace	2003	Other Multisector	Pipeline: Commitment	USD	5900000
6	China continues assisting Vietnam to battle bird flu	2004	Emergency Response	Completion	CNY	200000
7	China import-export house gives loan to Vietnamese company for development of shipyard	2004	Industry, Mining, Construction	Pipeline: Pledge	USD	9800000
8	Chinese contractors to build Hanoi-Ha Dong rail link	2004	Transport and Storage	Pipeline: Commitment	USD	300000000
9	Vietnam company seek Chinese ODA assistant to develop coal plant	2004	Industry, Mining, Construction	Unset	USD	400000000
10	China finances Vietnam railway project	2006	Government and Civil Society	Implementation	VND	9750000000
12	China provided funds for energy generation	2006	Energy Generation and Supply	Completion	USD	123000000
13	China granted Vietnam yuan in non-refundable aid for personnel training	2006	Unset	Pipeline: Commitment	CNY	50000000
14	China's direct investment in Vietnam	2009	Unset	Completion	USD	168000000

Source: Aid data: open data for international development, accessed on 14.09.15 (<http://china.aiddata.org/downloads>)

9. Positive impacts of Economic relations on Vietnam

9.1. Contributes to GDP of Vietnam

Vietnam's trade with China has contributed to the consistent increase in GDP of Vietnam. In the year 2000, Vietnam and China trade activities especially Vietnam's exports to China made an impact on Vietnam's GDP and contributed around 4.65 percent in Vietnam's GDP. In the year 2013, exports component in GDP increased to 7.71 percent. However, the imports from China in the same year constituted around 21.57 percent to the GDP, which is quite high and is increasing significantly (WITS 2015).

9.2. Promotes the Socio economic and infrastructure development in Vietnam

Vietnam China economic cooperation has contributed to Vietnam's socio economic and infrastructure development of its poor and border regions. As these regions have mountainous terrain, low population density, presence of many ethnic minority groups, development of markets in these regions has given an impetus for development. It is because of underdeveloped transport infrastructure of border regions of Vietnam that Vietnam and China tried to promote infrastructure development in these areas particularly roads, highways, energy infrastructure, schools, colleges and hospitals linking border zones.

9.3 Contributes to Regional Stability

Not only has the success of Sino - Vietnam land border dispute resolution enhanced trust and understanding, creating a firm ground for development of the bilateral relations between the two countries, but also played a very significant role for regional stability. Historically, the region witnessed the instability for more than ten years when China and Vietnam conflicted in their border region due to Cambodia. After the Cambodia issue was settled, territorial disputes have become the only source which could, any time, cause conflict between them. Therefore, disputes resolution indicates that the two countries not only settled their own problems, but also have reduced the source of tension which could bring about the instability in the region.

10. Obstacles hampering the development of bilateral economic relations

10.1. The total trade scale is small

Sino-Vietnamese trade have had the rapid development in recent years, but still not had a large scale. It is not in accordance with the normalization of Sino-Vietnamese political relations. Despite regular visits of the leaders of both countries, the favorable political

environment has not translated into large scale trade development and this needs to be improved.

10.2. Trade structure is one fold

Vietnamese commodities that are mainly exported to China consists of rice, oil, wood, rubber, coal, nonferrous metal, coconut oil, aquatic products and other agricultural products etc. But 90 percent trade volume of both countries including crude oil, oil, textile, steel, sideline products, and the trade volume of the crude oil and oil products approximated to 1/3 of the total trade. These products are largely produced by Vietnam, and Chinese market also has a great demand. But because of its quality, China had established the quota system to import commodities and very little quantity is imported in the Chinese market.

10.3 Trade imbalance

China-Vietnam economic relations have been challenged by the trade imbalance. Since 2000, Vietnam has suffered an increasing trade deficit with China, from US \$ 640 million in 2002 to US \$ 23.71 billion US dollar in 2013 (WITS 2015). The problem has more and more deteriorated and this is a disadvantage of the Sino-Vietnamese economic trade development, so both sides must solve this problem, or else it will influence the Sino-Vietnamese trade development in the coming times.

10.4 The products are mutually competing.

China's exports to Vietnam are mainly manufactured goods, and because variety of products measure up to the Vietnamese consumable habits, especially the cheaper prices, can meet the Vietnamese market demand. While Vietnam exports to China are mainly natural products, the export structure is one fold, and has low added value.

10.5 Weaknesses of competitiveness

Besides that, there are a number of other existing problems in economic and trade relations between China and Vietnam. While Vietnam has exported mainly raw material, China has exported equipment, electronic appliances, garment and textile, etc. This somehow reflects the weaknesses of competitiveness of Vietnam's manufacturing goods.

10.6 Informal trade

Moreover, the payment mechanism for Vietnam - China trade is still not effective, especially at the border, increasing the trade risks. In addition, Vietnam is not yet an effective point in the regional production network, meaning low level of intra-industry trade (Dinh, Van An 2005). Besides those, fakery and low quality commodities are very popular. In the process of trade exchange through border, the quantity of fakery and bad quality commodities occupy a noticeable ratio. This will affect directly to commodities from both of the countries, especially to the reputation of Chinese commodities in Vietnam.

10.7 Illegal activities

Smuggling has also not been solved completely. Because of the long borders both land and maritime, the authorities in both countries have faced many difficulties in controlling smuggling activities. These illegal activities affects directly to healthy development of the boundary area. Moreover, the cheap priced commodities from smuggling created an unfair competition and messy condition in trade causing obstacles for win-win cooperation in the bilateral trade.

10.8 Environmental problems

The illegal trade in timber, forest products and wildlife has also brought negative effects on the environment. The destruction of forests led to the exposure of soils on slopes, which resulted in erosion and degradation of soil resources. Apart from this, the rising

level of environmental pollution, particularly trans-border air pollution has become a serious threat to the lives of people, plants and animals.

10.9 Imitative goods

In the trading activities, a large number of imitation goods are exchanged via border gates. There is a wide range of bootleg goods like wine, fake clothing, leather and footwear, cosmetic products and accessories like glasses and watches etc. account for a huge proportion of the goods. These goods mainly come from China and reach Vietnam through border gates and minor entry points. Despite the poor quality, the copycat products still sell like hot cake as they bear cheap prices and attractive designs and packaging. Fake and copycat products smuggled from China and other countries are accounting for up to 70 percent of the goods being circulated on the market. What poses a tough challenge for authorities that it is very easy for the goods to enter Vietnam? Smugglers only have to bring the fake products past the borderlines. There, the goods will be transported and distributed into further areas. However, few of the violators are indicted or fined, thus smugglers and sellers of fake products remain unfazed.

10.10. Lack of understanding and trust affecting the trade development.

Sino-Vietnam's lack of understanding and trust are the factors responsible for laggard trade. Many of Chinese enterprises think Vietnam is poor and backward country and the commodity demand is not high, so they exported the overstock products and outdated equipment to Vietnam. The Chinese also do not have not a correct view about Vietnam and downplay Sino-Vietnamese trade relationship, only southwest provinces focus on the trade, while the other provinces are less involved in trade. The Vietnamese people also do not have a good view about Chinese products, thinking Chinese products have a cheap price but not very good quality. Vietnam lacks understanding about Chinese famous products and advanced technology, so have limited Chinese trade and investment.

10.11 South China Sea

The South China Sea tensions could affect bilateral trade between China and Vietnam, as both the countries have overlapping claims on the islands since the 1980s. The situation is still the same and would have bearing on much of the strategic dialogue between Vietnam and China in the foreseeable future. These problems may cause obstacles on the economic relations and therefore, it needs effort of both sides to deal with these problems in order to enhance mutual trust and understanding and further economic cooperation between the two countries.

11. Conclusion

China-Vietnam economic relations exemplify the reality of economic interdependence but not economic equality. While China is Vietnam's top trading partner, Vietnam is not China's top partner. Vietnam is strongly dependent on cheap exports from China and investment from Chinese businesses, whereas the same could not be said for China. If China closed its southern border with Vietnam, both countries would be hurt economically, but because Vietnam's economy is smaller and more dependent on China than vice versa, it would be less able to sustain the economic consequences.

Further, China holds an important economic advantage, and its rise will pose an increasing threat to Vietnam as its power continues to grow relative to that of Vietnam. In 1991, bilateral trade was only USD 32 million. China is now Vietnam's largest partner, with trade totaling USD 50.21 billion in 2013. China is also the country with which Vietnam has the biggest trade gap, an imbalance that has grown wider over the years.

In terms of commodity composition of trade, unprocessed goods, such as crude oil and coal, account for a significant proportion of Vietnam's export basket to China. The problems deepen for Vietnam's production industry, as enterprises, even export-centric ones, are becoming more reliant on Chinese inputs for value-chain production. Imported

goods from China encompass various essential materials for export-specified production, including raw materials, machinery and equipment, steel, chemicals, oil, and fabrics. Vietnam is now importing nearly 50 percent of yarns and fabrics needed for its textile industry from China. If China disrupted the yarn supply, it would greatly damage Vietnam's labor-intensive garment industry, culminating in mass unemployment.

Vietnamese have concerns about being under the shadow of the dragon and being dominated in the long term by China's increasing economic and political power, but the rising tensions due to South China Sea conflict will have bearing on future relations. China and Vietnam both lay claim to multiple overlapping portions of the South China Sea and tensions have been playing out yearly since the 1980s. However, Vietnam is developing ties with United States and Europe to divert its trade with China. The US demands aquatic products such as shrimp, sea bass, and manufactured goods from Vietnam and a portion of the agricultural products traded with China could shift to being consumed in robust consumer markets in the US, Europe, and Australia. Rice exports, importantly, can also find outlets for trade with the rest of the world, but cannot be completely replaced by the total currently demanded from China.

From an accounting perspective, a reduction in imports from China will help Vietnam's balance of trade. Over the past ten years, Vietnam has posted a persistent total trade deficit due to importing about twice as much as it exports to China. However, increase in demand from the rest of the world for Vietnamese exports have helped bring Vietnam's trade balance closer to unity, but deficits continue to persist sending Vietnam into dangerous inflationary cycles (up to 20 percent year on year) and debt to pay off its trade imbalance. While undesirable for many industries in Vietnam, a downward adjustment in trade with China could deliver a trade surplus to Vietnam providing it with excess income to service existing debt and provide for critical government programs. Increase in demand from the US and joining the Trans-Pacific Partnership might improve Vietnam's overall trade portfolio, but negotiations for Vietnam's admission to the TPP seem to be stuck in the mud.

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Chapter-IV

Vietnam – China relations in the framework of Greater Mekong Sub-regional (GMS) Cooperation

1. Introduction

The Greater Mekong Sub-region (GMS) comprises 6 countries namely Thailand, Burma, Cambodia, Laos, Vietnam and the southern Chinese provinces of Yunnan and Guangxi. The region took its name from the mighty Mekong River that makes its way through all these territories, the sub-region has an area of approximately 2.6 million square kilometers, and has a combined population of around 334 million people (ADB, 2012). The countries comprising the GMS differ not only in terms of their levels of economic development, but also, in their economic structures and outward orientation. Looked from the perspective of the strategic location of the GMS within the dynamic East Asian region, the sub-region is often considered to possess significant future potential in terms of natural resources as well as a youthful workforce.

In the early 1990s, with the end of Cold war, the world was undergoing great change towards multi-polar. Economic development was the most important thing for GMS countries and thus, China and other GMS countries tried to align with developed countries and regional or multilateral organizations to attain their goals. Further, creation of APEC, ASEAN, Mahathir's 1990 EAEG proposal, etc and trading blocs in Europe and North America propelled these economies to be a part of any regional grouping. More so, changes in the political economy of these Mekong nations during the 1980s, as well as normalization of diplomatic relations between China and GMS countries provided political basis for these countries to develop economic relations. In addition to this, the development of domestic economy and international economic relations propelled GMS countries to develop strategic relations. It is against this background of evolving and coincident interests thus, that the revival of the idea of a Mekong "sub-region" towards

the late 1980s and early 1990s - and its eventual formalization in the form of the GMS in 1992 is to be understood.

With economic development in mind, the focus of GMS countries has changed especially through market-oriented approaches. So, regional cooperative framework provided a platform to GMS countries to further their interests by involving in infrastructure development and other projects. China, on the other hand, started its market reforms from 1978 and allowed its border districts in Yunnan to start border trade from 1984. The formation of GMS regional initiative was perceived well, since it helped the land-locked Yunnan province to develop while fitting with the wider Western China Development Strategy. In 1992, Asian Development Bank (ADB) helped these countries by bringing them together and the GMS Program translated into an economic cooperation and integration agreement (ADB, 1993). Since formation, many of the areas under the GMS Program have already been implemented or are in pipeline, making the Program a real success than any of the earlier programmes.

In the beginning years from 1992–1994, there were consultations within the member countries to determine the framework and areas for cooperation to make the GMS program a success. After this stage from 1994-1997, several sector and feasibility studies were conducted to identify priority and investment areas. The Asian financial crisis made the GMS countries' urge to further make the regional cooperation initiative a success and from 1998-2001, infrastructure and technical assistance initiatives were started (ADB 2000). The 10-year GMS Strategic Framework by the Leaders in their first Summit in 2002 proved to be a changing point for the program, as it helped the GMS countries in connectivity, improve competitiveness, and build a strong sense of community (the 3 Cs). Projects related to 3 Cs have been implemented from 2002–2012, most tangible of which were the completion of GMS road corridors, transport and trade facilitation, joint tourism marketing, comprehensive environmental management, human resource development and strengthened agricultural cooperation.

Finally, as the GMS program has entered its third decade (2012–2022), a new GMS Strategy (endorsed by GMS at the fourth Summit in Myanmar) will entail a generational shift in the nature of the program. Investment programs will be more multisector, oriented toward urban, rural and integrated development along the corridors, supported by policy and institutional reforms covering trade and transport facilitation, power trade arrangements, sustainable environmental management, marketing the GMS as a single tourism destination and improved human resource use. Since its inception, the program has achieved noteworthy successes in fostering regional cooperation in a region that, at the commencement of the program, was emerging from a period of prolonged regional conflict. By the end of 2013, the GMS program had mobilized \$16.6 billion in investment projects and \$330.8 million in technical assistance, of which ADB’s support amounted to \$6.0 billion for investments and \$115.1 million for technical assistance (ADB 2015).

At the 5th GMS Summit held in Thailand in Dec 2014, the leaders discussed important GMS issues, challenges and future directions. There were 2 topics for the 5th Summit Retreat, which were in line with the theme of inclusive growth and sustainable development in the GMS. Its objectives are to endorse the Regional Investment Framework Implementation Plan (2014-2018), review and assess the progress made under the GMS Economic Cooperation Program since last summit, renew the leader’s commitment to the GMS program and its goals, provide support at the highest political level to the program, its projects and activities; and provide broad strategic directions for key initiatives under the program.

2. GMS progress so far

Over the past two decades, sustained cooperation at the sector level has yielded significant results. Some notable achievements include:

- a. **Transport:** Transport component of the three main GMS corridors—the East–West, North– South, and Southern economic corridors has been completed with widened corridors and linked to secondary roads, while a comprehensive program

for facilitating transport and trade along the corridors has been formulated and adopted. The infrastructure foundation of the GMS corridors was further bolstered by the completion of the Fourth International Mekong Bridge between Hoayxay, Lao PDR and Chiang Khong, Thailand, the last missing link along the North-South Economic Corridor (NSEC), which was opened in 2013. Also, along the eastern part of the NSEC, the 240-kilometer Noi Bai-Lao Cai Expressway in Vietnam, one of the largest GMS infrastructure projects, was opened in 2014. Preparations are underway to extend the East-West Economic Corridor (EWEC) into Myanmar, with project financing to be considered for approval in 2015 (ADB 2014).

The Southern Cambodia Railway Line from Phnom Penh to Sihanoukville was completed and opened for commercial traffic in December 2012. The Memorandum of Understanding (MOU) for the Establishment of the Greater Mekong Railway Association (GMRA) was signed by all the GMS countries, and technical assistance from ADB is ongoing. This is a positive step toward the promotion of railways as an efficient and clean mode of transport. Further, there are continued efforts to maximize the economic and social benefits of GMS roads and bridges by facilitating cross-border transport through the GMS Cross Border Transport Facilitation Agreement (CBTA). A GMS freight transport association has been established under the GMS Business Forum to give the private sector a voice in designing and implementing transport and trade facilitation measures in the region (ADB 2014).

- b. **Energy:** All the GMS countries signed the MOU for the establishment of the Regional Power Coordination Centre (RPCC), intended to be a permanent institution owned by all GMS countries to enhance regional power trade and implement regional power interconnection projects. The new studies on “Strategic Environment Assessment for the GMS Regional Power Development Planning” and “GMS Renewable Energy and Energy Efficiency Development” would

provide useful guidelines for power development planning and identify opportunities to promote renewable energy and energy efficiency in the GMS. The GMS Power sector master plan (RETA No 6440 - GMS Master Plan Study, 2008-2010) now guides in power interconnection projects, which has helped laid the basis for grid interconnections and regional power trade arrangements. A number of major hydropower projects such as the (controversial) Theum-Hinboun dam in Laos and Nam Theum, Sesong-Sesan within the river basins shared by Laos, Cambodia and Vietnam have been developed with ADB and private sector participation (ADB 2014).

- c. **Information and Communications Technology (ICT):** The optical fibre interconnection among the GMS countries is now in place for which the memorandum of understanding was signed in 2004 and an MOU on the Joint Cooperation in further accelerating the construction of the Information Superhighway and its application in the GMS has been signed by all countries, providing the roadmap and parameters for promoting universal access to ICT applications, particularly in the areas of e-commerce, rural ICT, and green ICT technology (ADB 2014).

- d. **Transport and Trade Facilitation (TTF):** Efforts continued to implement bilateral and trilateral road transport agreements between GMS countries such as: (i) Cambodia and Vietnam along the Southern Economic Corridor (SEC); (ii) the PRC and Vietnam along the NSEC; (iii) Lao PDR, Thailand, and Vietnam to extend the existing EWEC agreement to their respective capitals; and (iv) Lao PDR and Vietnam to fully implement single stop, single window inspection at the Lao Bao-Dansavanh international border checkpoint by 2015. However, The PRC, Lao PDR and Thailand fast-track the negotiations on their MOU to implement the CBTA along the NSEC, and for PRC and Myanmar to negotiate a MOU to facilitate cross-border transport and trade. The Action Plan for GMS Transport Facilitation (2013-2015) was endorsed by the 4th Joint Committee

Meeting for the CBTA in November 2013, and a midterm review of the current Plan of Action for TTF in the GMS was completed in mid-2014. TTF initiatives over the medium-term will focus on building capacities of the CLMV countries and upgrading the CBTA to adopt regional and international best practices in order to facilitate cross-border transport and trade in the GMS (ADB 2014).

- e. Agriculture:** Implementation of the second phase of the Core Agriculture Support Program is well underway, and this supports the strengthening of policy frameworks and capacities for agro-food quality management, introducing electronic trade for environmentally friendly food products, adopting gender-responsive and climate-friendly agriculture practices, and strengthening institutional mechanisms for regional cooperation on agriculture in the GMS.
- f. Tourism:** Building on improved physical connectivity and simplified visa requirements, tourist arrivals to the GMS continued to rise, reaching 52 million in 2013. The GMS Tourism Infrastructure for Inclusive Growth Project was approved in 2014, and a new initiative to help strengthen the Mekong Tourism Coordinating Office (MTCO) is underway. An updated GMS Tourism Sector Strategy covering 2016-2026 is under preparation and will provide the blueprint for expanded sub regional cooperation in this sector over the next decade (ADB 2014).
- g. Human Resource Development (HRD):** Implementation of the HRD Strategic Framework and Action Plan (2013-2017) has commenced. In line with the ASEAN Qualifications Reference Framework to facilitate the free flow of skilled labour and strengthen the competitiveness of the GMS labour force, a pilot framework for the mutual recognition of skills and qualifications has been implemented and will be expanded to cover more skill areas. The second phase of the Communicable Disease Control Project is further improving the GMS

countries' capacities to respond to outbreaks and contain the spread of diseases across borders.

- h. Environment:** The GMS Core Environment Program (CEP) Phase II (2012 – 2016)- is continuing to focus on safeguarding and enhancing the natural resources upon which the sub region's food, water and energy security is largely dependent. With the added dimension of climate change considerations, priority undertakings include: the development of management strategies for transboundary biodiversity landscapes; the application of environmental management tools for infrastructure investments according to national circumstances, rules and regulations, as well as the level of development of each country; enhancement of the CEP website as a regional knowledge hub; and the strengthening of cooperation among governments, businesses, academia, and civil society groups (ADB 2014).
- i. Economic Corridors Forum (ECF):** Has completed this year its first full cycle of hosting of the Forum by all GMS countries. The ECF has served well its role as the main advocate, overseer and coordinator of all activities toward the development of the GMS economic corridors. It has facilitated networking and exchange of information, overseen the preparation of and endorsed strategies and action plans (SAPs) for specific economic corridors, identified the relevant corridor-related issues to be addressed and institutionalized the participation of local authorities (ADB 2014).

3. Vietnam-China engagement in Greater Mekong Sub region

GMS is a sub regional agreement which has tied both China and Vietnam with a common aim of developing infrastructure, poverty eradication, crime prevention by exploiting proximity (Mya Than and George Abonyi, 2001). China and Vietnam are engaged in GMS due to their own development strategies. Despite having difference in foreign policies, Vietnam and China have to cooperate to ensure peace and common development. The relationship between Vietnam and China could serve advantageous to

whole of ASEAN. In terms of security, a prospering China is far better than the poor one as it binds China to consider the economic repercussions of starting a war in the region and puts break to China's military influence (Hensengerth, 2006).

After the end of cold war, Vietnam relied on the support of regional organizations for economic development. In view of these considerations, GMS became important for Vietnam and it started extending the dialogue with China to strengthen the mutual economic ties and additionally Vietnam is also concerned about dam building activities of China which is resulting in the salinisation of the Mekong delta which is of interest to Vietnam for various economic reasons. A major problem in Vietnam's relations with China is cooperation regarding water resources and to tackle these problems, Vietnam needs the cooperation of the upper Mekong countries.

Vietnam is trying to bind China into sub regional framework to enhance economic relations as well as resolve territorial disputes. Moreover, Vietnam expects that the GMS cooperation will enhance cross-border cooperation and narrow the differences in economic development between Vietnam and China by mobilizing aid from China **for its** growth as well as development of the sub-region (Nguyen Than Duc, 2002 and 2005).

Geographically, China's southern provinces share a common border with the Laos, Vietnam and Myanmar, which has increased cross border trade and migration. in the area. Despite these commonalities, Beijing has to be aware that it still needs to address the historical differences and disputes between China and Vietnam, before economical integration in the GMS region. Therefore, Beijing has to ensure the sub-region that it's increasing economic presence does not mean any ulterior motives and it is aimed at creating a stable environment to help the development process of the GMS countries (LIM 2008).

China's has focused primarily on North-South Corridor, which covers the southern Chinese city of Kunming to Bangkok and covers the sparsely populated Luang Namtha province in northern Laos, the Shan state in western Myanmar, and the northern Thai cities of Chiang Mai and Phitsanulok. The North-South Corridor also includes the area

southeast from Kunming to Hanoi. China's is slowly helping the GMS development program prosper in line with its economic rise. China has set up a US\$20 million poverty reduction fund in ADB and spent around US\$4 billion building highways, connecting Kunming with different parts of the GMS. It is also pushing private and state-owned Chinese companies to invest in the GMS countries and has reportedly been providing "no-strings attached" loans similar to those that were offered to African nations to the GMS governments mostly for the construction of transportation.

China has expanded development projects in the GMS into other fields, particularly in human resource development, trade and investment facilitation, unified power market, environment protection and development of telecommunications. Many of these are reflected in the Vientiane Plan of Action for GMS Development for 2008-2012 which was adopted during the third GMS Summit (LIM 2008).

4. Vietnam and China economic interests in the GMS

The GMS Economic arrangement provided a suitable reason for China and Vietnam's economic engagement such as improvement in the volume of trade and investments. Post signing of GMS, China and Vietnam signed 16 agreements relating to economic cooperation, such as Agreement on Trade (November 1991), Agreement on Economic Cooperation (February 1992) and Agreement on Avoidance of Double Taxation and Prevention of Tax Evasion (May 1995). In 2013, China-Vietnam trade exceeded \$65 billion and Vietnam ranks the second in China's trade with GMS countries. Further, China's trade with Vietnam has been growing consistently in comparison with other GMS countries and it is expected that Vietnam will overtake Thailand as the biggest GMS trade partner of China in the coming years.

From the bilateral trade perspective, it was only \$32.3 million in 1991 but has reached to \$8.20 billion dollars in 2005. Also, there was considerable growth in the volume of trade over the years, reaching 30 billion dollars in 2010 before pushing the figure further to a new height well above \$ 65 billion dollars by the year 2013. Starting from 2003 to 2013,

China has secured its position as Vietnam's largest importing partner and third largest export partner from 2012 onwards. In 2007, as Vietnam became WTO member, the annual trade grew by 34% at \$15.12 billion. After the implementation of ASEAN-China free trade area (ACFTA) in year 2010, the China-Vietnam trade has been increasing significantly and exports from Vietnam to China more than doubled from \$7 billion dollars to reach at \$17 billion dollars volume in the year 2013. Whereas imports grew from \$23 billion to reach at \$49 billion dollars in the year 2013. The two countries' trade development occurred at a faster pace due GMS economic cooperation; it also indicates that the trade will continue to grow in the foreseeable future (WITS 2015).

Table 1: Bilateral Trade between China and GMS Countries (1997-2013), Unit: \$ billion

	Thailand				Vietnam				Myanmar				Cambodia				Lao PDR			
Year	X	I	X+I	X-I	X	I	X+I	X-I	X	I	X+I	X-I	X	I	X+I	X-I	X	I	X+I	X-I
1997	1.50	2.01	3.51	-0.51	1.08	0.36	1.44	0.72	0.57	0.07	0.64	0.50	0.08	0.05	0.12	0.03	0.02	0.01	0.03	0.02
2000	2.24	4.38	6.62	-2.14	1.54	0.93	2.47	0.61	0.50	0.12	0.62	0.37	0.16	0.06	0.22	0.10	0.03	0.01	0.04	0.03
2004	5.80	11.54	17.34	-5.74	4.26	2.48	6.74	1.78	0.94	0.21	1.15	0.73	0.45	0.03	0.48	0.42	0.10	0.01	0.11	0.09
2007	12.03	22.67	34.70	-	11.89	3.23	15.12	8.67	1.70	0.38	2.08	1.32	0.88	0.05	0.93	0.83	0.18	0.09	0.26	0.09
2010	19.74	33.19	52.93	-	23.10	6.98	30.09	16.12	3.48	0.97	4.44	2.51	1.35	0.09	1.44	1.25	0.48	0.60	1.09	-0.12
2011	25.69	39.04	64.73	-	29.09	11.12	40.21	17.98	4.82	1.68	6.50	3.14	2.31	0.18	2.50	2.13	0.48	0.83	1.30	-0.35
2012	31.20	38.55	69.75	-7.35	34.21	16.23	50.44	17.98	5.67	1.30	6.97	4.38	2.71	0.22	2.92	2.49	0.94	0.79	1.72	0.15
2013	32.72	38.52	71.24	-5.80	48.59	16.89	65.48	31.69	7.34	2.86	10.20	4.48	3.41	0.36	3.77	3.05	1.72	1.01	2.73	0.71

Note: Positive value denotes China's surplus while negative value is for deficit. X stands for exports and I stands for imports.

Data source: World Integrated Trade Solution (WITS), World Bank

Table 2: Trade Growth Rate between China and GMS Countries (1998-2013)

Unit: %

Year	China- Thailand	China- Vietnam	China- Myanmar	China- Cambodia	China-Lao PDR
1998	4.36	-15.20	-10.34	25.00	0.00
1999	13.03	5.30	-13.73	0.00	0.00
2000	36.25	46.56	17.74	27.27	25.00
2001	6.10	12.10	1.59	8.33	33.33
2002	17.64	13.80	26.74	14.29	0.00
2003	32.33	29.74	20.37	12.50	45.45
2004	27.05	31.16	6.09	33.33	0.00
2005	20.50	17.80	4.96	14.29	15.38
2006	21.35	17.59	17.12	23.29	40.91
2007	20.09	34.19	29.81	21.51	15.38
2008	15.96	22.30	20.91	17.70	35.00
2009	-8.09	7.55	9.62	-20.21	45.95
2010	27.83	30.04	34.46	34.72	32.11
2011	18.23	25.17	31.69	42.40	16.15
2012	7.20	20.28	6.74	14.38	24.42
2013	2.09	22.97	31.67	22.55	37.00

Data source: World Integrated Trade Solution (WITS), World Bank

The commodity structure between China and Vietnam has also improved apart from the remarkable trade growth. Prior to 2002, Vietnam mainly exported primary products, mining and agricultural raw materials to China. China mainly exported articles of daily use, foods, construction materials, small farm machinery, and pharmaceutical products to Vietnam. However, since 2002, the commodity trade structure has changed with manufacturing goods, textile, and machinery and electronics equipments replacing primary goods (WITS 2015). Hence it can be inferred that the bilateral economic relations between China and Vietnam is increasing.

In terms of Foreign Direct Investment (FDI) in Vietnam, Chinese FDI mostly concentrates on low-skill, labour-intensive manufacturing and is usually of small scale. In 2012, China invested USD 349 million in Vietnam, spread over 992 projects. China ranks as number four on the list of biggest investors in Vietnam (GSO 2015). Chinese FDI to Vietnam predominantly flows into labour intensive industries such as the garment industry and assembling of motorbikes which do not necessarily require a highly educated workforce. After 2002, Chinese enterprises in Vietnam invested in fields like energy development, finance, construction, chemical, textile, electric power, mining, pharmaceutical and transportation industries. Also, some large and medium-sized enterprises were started as single-owned or joint ventures with Chinese enterprises in agricultural technology, mining, chemical and electromechanical industries, tourism facilities and financial services.

GMS countries are the main investment destination for Chinese border provinces like Yunnan and Guangxi. In 2010, 32 Yunnan enterprises newly established in Myanmar, Laos, and Vietnam, accounted for 65.3% of Yunnan’s total approved enterprises abroad. These enterprises invested \$ 304 million in the three GMS countries in 2010, accounting for 64.2% of Yunnan’s total outward foreign direct investment. From January to September 2011, Yunnan enterprises invested \$ 430 million in the five GMS countries, accounting for 91.4% of Yunnan’s investment abroad. Meanwhile, GMS countries are an important market for Guangxi enterprises to “go out”. As of July 2010, Guangxi invested \$ 490 million in ASEAN, of which Vietnam accounted for 35% (Guangsheng, 2012).

Table 3: China’s Outward Foreign Direct Investment in GMS Countries (2003-2012)

Unit: \$ 10 thousand

Country Year	China-Thailand	China-Vietnam	China-Myanmar	China-Laos	China-Cambodia
2003	2195	80	-	5731	1275
2004	2952	356	409	2343	1685
2005	515	2058	1154	477	2077
2006	981	4804	1264	1584	4352

Country Year	China-Thailand	China-Vietnam	China-Myanmar	China-Laos	China-Cambodia
2007	6445	15435	9231	7641	11088
2008	20464	8700	23253	4547	11984
2009	21583	20324	37670	4977	11239
2010	46651	31355	87561	69987	30513
2011	23011	18919	----	----	-----
2012	47860	34943	----	----	-----

Source: 2013 Statistical Bulletin of China's Outward Foreign Direct Investment, Statistics of the Ministry of Commerce of PRC

As the most important sub-regional economic cooperation mechanism between China and GMS countries, GMS Economic Cooperation expands and deepens bilateral exchange in various fields between the two sides. From 1992 to the end of 2010, China and GMS countries carried out 227 cooperative projects, with an investment of \$ 14 billion. Among them, \$13.8 billion were invested in 55 projects relating to infrastructure construction. \$ 200 million were invested in 172 technical assistance projects to support member countries to carry out related research and capacity building activities. With the joint efforts of ADB and its member countries in the past years, GMS has expanded and deepened and promoted the economic and social development of the region. It has become a successful economic cooperation example of South-South cooperation in Asia. It's the first and most successful sub-regional cooperation mechanism among the member countries (Guangsheng, 2012).

China also adjusted its strategy of assistance to Vietnam by implementing productive and social welfare projects and carrying out GMS economic and technical cooperation. By 2010, China has finished \$ 10.96 billion contract projects in Vietnam, making it China's largest contract project market in Southeast Asia, including construction, labor cooperation and consultation contracts. Besides regular bilateral aid, the Red Cross Society of China (RCSC) provided \$ 300 million emergency aid for Vietnam's flood-suffering areas in 2011. In 2009, China also decided to establish a \$ 10 billion China-ASEAN Investment Cooperation Fund to support China's cooperation to GMS countries in the field of information, infrastructure, construction, energy and communication (Beijing Review 2009).

China has focused primarily on the development of North- South Corridor and towards this objective; China carried out infrastructure development work in the North-South Corridor in Vietnam. These roads are the Kunming – Lashio road system (Route 4), the Kunming — Hanoi — Haiphong road system (Route 5), the Lashio– Loilem – Kengtung road system (Route 7), and the Luang Namtha — Hanoi road system (Route 8). It is also providing assistance to building water transport along the Upper Lancang/Mekong River and providing rail links to connect Yunnan with countries in the Greater Mekong area and eventually with ASEAN’s Singapore-Kunming Rail Project which is expected to be completed in 2015 (ADB 2008).

China is participating and cooperating in the GMS for its border control where smuggling, drug, HIV/AIDS, human trafficking has mushroomed (Hensengerth 2009). By engaging with the GMS, China has expressed its easiness or acceptance in submission to an institution or organization. By being part of the GMS cooperation, the smaller Southeast Asian countries aim to prevent Chinese military expansionism as well as increased economic cooperation for their mutual benefit.

Although China has been initiating a number of economic initiatives apart from the GMS cooperation to boost bilateral economic and investment ties with Southeast Asian countries, Vietnam continues to be dubious about China’s economic rise. The establishment of the Pan-Tonkin/Beibu Gulf Economic Cooperation scheme between Guangxi Province and Vietnam can be seen as a confidence-building measure for China and Vietnam to forget their historical differences and put aside their sovereignty and resource claim disputes in the Tonkin/Beibu Gulf. This initiative, which came in 2004, helped to overcome differences as well as improved the transport networks between China and Vietnam by connecting areas in Vietnam via land with Yunnan and Guangxi provinces, thus establishing two corridors of linkage, and improving maritime links as one ring between major ports and markets in Vietnam and those in Guangxi, Hainan and Guangdong via the Tonkin/Beibu Gulf (LIM 2008). Besides enhancing China-Vietnam ties, the Pan-Tonkin/Beibu Gulf cooperation scheme, to a larger extent, also aimed to complement the economic integration between

China and ASEAN through the establishment of the ASEAN-China Free Trade Area. It will be extended to the other GMS ASEAN members (Cambodia, Laos, Myanmar and Vietnam) in 2015. The Pan-Tonkin/Beibu Gulf cooperation scheme also helps Vietnam in developing its electronics, telecommunication and service sectors by improving its linkage with the Pearl River Delta.

China's purpose for engaging in the GMS cooperation was for the expansion of Yunnan economy through the opening of ports and cross-border infrastructure development (Yang, 2002). These initiatives resulted in opening of markets and increase of trade in the Yunnan-Lao Cai border region.

According to Vietnam Business Forum, the border gates have helped Yunnan in its exports of products to Southeast Asian countries. It shows how important Vietnam is, as a transit country in enhancing China trade with ASEAN countries. Further, Chinese growing outward investments abroad are increasing and its government as well as private companies are finding it profitable to invest in Southeast Asian countries due to increased international competition as well as United States wariness against Chinese goods.

Vietnam's wants a successful GMS programme not only because of economic reasons but also to develop its northern provinces such as Quang Ninh and Lang Son which borders Guangxi and have become key trading points for China-ASEAN trade. Vietnam is the most important trading partner for Guangxi's as it is the direct route for trade between China-Southeast Asia (Ministry of Commerce of China, 6 January 2004). Moreover, Vietnam's also showed its interest in opening a consulate in Guangxi's capital Nanning (Ministry of Commerce of China, 19 February 2004) and well as Kunming (Gu, 2004..

FDI is mainly flowing in the Quang Ninh in the upper half that shares its borders with China's province of Guangxi followed by Lang Son and Lao Cai in the lower part which are found to be Vietnam's FDI-attracting localities. While this may have positive impact on Vietnam and China's economies and connects them closely, it may have an negative

outcome in enhancing Chinese exports to Vietnam and a far more widening trade balance in China's favour.

By engaging in sub regional cooperation, China wants to develop its landlocked west while Vietnam is concerned about its landlocked north and aims to develop its mountainous areas. Also, by engaging in GMS, China is willing to contribute for infrastructure development in the region to alleviate its position and reap economic advantages for its own benefit (Renin Ribao, 26 November 2000a). This development shows that cross border and sub regional cooperation is a tool of both countries to engage with each other publicly and to settle pending territorial disputes without using military force.

Conclusion

Vietnam and China have turned their attention to sub regional initiatives in order to derive positive outcomes from them. China wants to increase its stature in the region and Vietnam wants to engage China into the sub region. Further, China wants to demonstrate itself as a friendly power and minimize United States influence on Vietnam. The river is also beneficial to Vietnam for electricity generation, irrigation and transportation development. Therefore, Vietnam is cooperating with China in order to secure its interests as the Mekong river is important for Vietnam.

Further, the other important reasons for cooperation in GMS for Vietnam is to integrate its economy with the world economic system at sub regional level, the ASEAN region, interregionally (APEC) and globally (WTO). By this strategy, Vietnam could sustain Doi Moi, avoid its dependence on China, and raise its position in international politics. However, its trade deficit with China is a growing concern for Vietnam despite its integration with different regional groupings.

In addition to this, by cooperating in the GMS, China intends to reform its Southern regions like Yunnan and Guangxi by developing their transport development in all respects. Therefore, the Cross-Border Transport Agreement is an important milestone in order to

achieve this objective. However, as far as foreign policy is concerned, China engages in the sub regional endeavor to counter US interests in the region and has promised to abide by international laws to show that its rise is peaceful.

As for the GMS, difficulty arises in three areas of cooperation: water consumption, economic/domestic policy, and foreign policy. As Vietnam has opposing policies on all of the three areas, therefore there is a need for strong cooperation in the GMS that will contain China's assertive actions and make it more cooperative and predictable.

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Chapter- V

Impact of ASEAN- China Free Trade Agreement (ACFTA) on Vietnam- China Relations:

1. Introduction

ASEAN-China Free Trade Agreement (ACFTA) has been implemented for almost six years i.e. since January 1, 2010. The idea of regional economic cooperation was initially proposed by then-Chinese Prime Minister Zhu Rongji in 2000. Leaders of ASEAN and China finally managed to agree on a framework of comprehensive economic cooperation in 2002, and the terms of reference became the basis for the establishment of ACFTA (Ismanto & Krishnamurti 2014). For a long period, especially during the cold war, the relation between ASEAN, which initially comprised only of 5 countries, and China, has been characterized by sharp mutual suspicion and distrust. ACFTA has become a means for both parties to re-establish a harmonious relationship as well as to extend support in order to bring peace and economic prosperity in the region and the world. FTA (Free Trade Agreement) with China is a welcome step towards larger Asian economic integration.

In this context, it was imperative for ASEAN to be a part of the largest trading economic community of Asia. However, it needs to be seen whether ASEAN will derive benefit from the FTA or not as ASEAN's trade with China constitutes about 14 per cent of its global trade, where as China's trade with ASEAN is only about 8 per cent of its global trade (ASEAN Secretariat 2014). The agreement covers merchandise trade, trade in services and investments. There were several issues concerning items included in the tariff reduction list and items in the negative list, and its implication on the concerning sector and concerned countries.

Vietnam has been signing trade agreements worldwide bilaterally as well as together with its ASEAN members. In 2004, ASEAN and China signed trade in goods agreement which came into effect in July 2005 and signed an agreement on trade in services in 2007 (Wang

2009). In August 2009, the two parties signed the Agreement on Investment (MOFCOM 2014).

According to Statistics, Vietnam's trade, Gross Domestic Product (GDP), employment, and Foreign Direct Investment (FDI) etc have enhanced post implementation of ACFTA. Vietnam has increased its exports of agricultural products, fisheries, textiles, footwear, and furniture with the implementation of agreements. Although, Vietnam is able to venture into new markets, but it has been forced to maintain product quality, design, standards as per the country's demand (WTO 2013).

However, Vietnam's institutional framework has not undergone major change post FTA, except circulars issuance for tariff concessions and rules of origin (Hoang 2015). However, the new Law on Investment (LOI) and Law on Enterprises (LOE) were adopted by Vietnam's National Assembly on November 26, 2014. These laws aim to reduce administrative bureaucracy and mobilize more foreign and local capital into production. For the first time, the laws present a pro-investor approach, which will hopefully create a new wave of foreign investment into Vietnam.

2. Centrality of ASEAN

ASEAN-China FTA, implemented since 2010, has brought great dynamism and change for the region. Forbes Magazine (2009) stated that "free trade is not just about economic goals, but it is also about reinforcing strategic political and security ties with key allies." That idea encourages ASEAN to cooperate with other countries or economic powers through the formation of FTA or RTA or Economic Partnership. The creation of ASEAN regional economic cooperation with China through ACFTA is an important step for ASEAN to achieve its greater plan, which is to make ASEAN a regional hub of integration. On the other hand, several considerations account for China's preference to ASEAN to enter into FTA. First, ASEAN has been a more independent political power grouping. In the past decade, ASEAN has taken a more balanced position vis-à-vis big powers by not slipping into closer military alliance with the United States, especially on the Taiwan issue. Secondly, ASEAN itself will not pose any security threat to China.

ASEAN's cohesion, as discussed below, serves China's interest better. Offering the ACFTA would enhance ASEAN's cohesion and relevance in regional affairs at a time when ASEAN is at a crossroads with widespread pessimism because of its political instability and economic slowdown. Thirdly, ASEAN, instead of China, playing such a vital role would be more acceptable to the West. (Lijun 2003)

3. Potential Implications for ASEAN

The ASEAN countries are at different stages of development and economic structures, so the FTA impact has been different for individual members. The decreased barriers have given ASEAN better access to the Chinese market than before. It has further enhanced export opportunities which are required by China such as raw materials, agricultural and intermediate goods. Vietnamese exporters have actually benefitted from ACFTA due to its cheap labour force against rising labour costs in China (China Briefing 2014). Also, the tightening of economic cooperation has also benefited the weak and economically backward ASEAN countries like Vietnam, Laos, Cambodia and Myanmar. These countries have attracted huge inflows of investments due to increased economic integration.

However, there is risk of potential increase in imports from China of products like clothing and footwear which will damage the local industries (Gradziuk 2010). So, countries like Thailand, Vietnam, Cambodia and Indonesia have reservations about ACFTA and are also worried about China's exchange rate policy as it keeps its currency depreciated to make its exports competitive. This is a major contention of these countries which is likely to come up in meetings between ASEAN-China (Guillaume 2004) in the coming years.

4. ACFTA Importance for China

ACFTA has helped exporters' in China to enter ASEAN markets which is necessary for them with the slowdown in import demand from advanced economies such as USA and European countries. China is playing its low exchange rate diplomacy to increase its exports and penetrate ASEAN countries' markets (Morrison & Labonte 2013). In addition China wants to project itself as a peaceful country and reduce its threat of being an

aggressive state among ASEAN countries. The ACFTA has helped China its foreign policy diplomacy of maintaining its political relations on the basis of increased economic cooperation and development which has also contributed to regional security and bolstered its position in the wider region. By following this strategy, China wants to minimize the influence of external powers like the U.S in the region and win ASEAN countries' support and cooperation at international gatherings and forums (Gradziuk 2010).

5. ASEAN China FTA (ACFTA)

The ACFTA Agreement which came into effect on 1 July 2003 is an agreement which provided the basis for the establishment of an ASEAN-China FTA (ACFTA) within 10 years by pursuing:

- progressive elimination of tariffs and non-tariff barriers;
- progressive liberalization of trade in services and investment;
- strengthen trade facilitation measures;
- Economic cooperation in areas of common interest.

5.1 COVERAGE OF THE AGREEMENT

The agreement on trade in goods was put in force by ASEAN on 1 July 2005 and was put in force by China on 20 July 2005. As specified in the agreement, all parties are committed to reduce or eliminate tariffs based on the following schedules:

a) Early Harvest Programme (EHP)

The Framework Agreement establishes an Early Harvest Programme (EHP) which was implemented as of 1 January 2004. The EHP aims to reap the immediate concessions offered by the parties, mainly by China. The EHP allows the reduction of tariffs on certain products before the onset of ACFTA. Initially, it aimed to implement tariff reduction on these products over three years: to 10 per cent before 2004, to 5 per cent before 2005, and to zero tariffs no later than 1 January 2006. A key element of the EHP is that China has also given unilateral concessions to ASEAN members who feel they would not benefit as much from the EHP. This is because, for ASEAN's exports to China, all the products in Chapters

1–8 of the Harmonized System (HS) are covered for preferential tariff rates, while for exports to ASEAN countries, not all of the products in Chapters 1–8 are covered (Wakamatsu 2004).

ASEAN countries are allowed to come up with exclusion lists indicating the items for which they would not grant tariff concessions to Chinese goods. In essence, the EHP ‘allows ASEAN products to be exported to China at significant concessionary rates so that ASEAN countries can actually benefit from the benefits of a free trade agreement even before the agreement itself is finalized. In total, the EHP has targeted a host of some 600 products listed in Chapters 1–8 of the HS, mostly agricultural products which are to be unilaterally liberalized by China (Wang 2009).

Under the EHP, China has also agreed to grant tariff concessions to dozens of specific manufactured products to ASEAN countries, which are listed in Annex 2, Appendix 3 of the Protocol. In addition, China agrees to grant WTO benefits (mainly most favored nation (MFN) treatment) to those ASEAN members which are not yet official WTO members. The new provision recognizes that a party may accelerate its tariff reduction and/or elimination under the EHP to the rest of the parties ‘on a unilateral basis’. Meanwhile, one or more ASEAN members are still allowed to conduct negotiations and enter into acceleration arrangements with China to fast track their tariff reduction or elimination, which will be done, however, only on a ‘bilateral or plurilateral’ basis (Wang 2009).

b) Normal Track

The TIG Agreement provides a tariff reduction and elimination program for goods not covered by the EHP. Those tariff lines are categorized into two tracks. According to the tariff liberalization modality for the ASEAN 6 and China, tariff lines placed by each party in the Normal Track on its own accord shall have tariff rates gradually reduced in four phases beginning July 2005 and eventually eliminated by 2010. For Vietnam, Cambodia, Laos and Myanmar, there will be eight phases of tariff reduction, with tariff rates slashed to zero only in 2015. Furthermore, for the ASEAN 6 and China, each party to the TIG Agreement shall reduce tariffs to 0–5 per cent not later than 1 July 2005 for at least 40 per cent of their

products placed in the Normal Track by 2005 and 60 per cent by 1 January 2007 (Keith & Kalyan 2012). In so far as the parties should eliminate all tariffs placed on the Normal Track, extended time frames for tariff elimination up to 2012 will be given to each party for not more than 150 tariff lines. Newer ASEAN Members are given a longer time up to 2018.

c) Sensitive Track

The Sensitive Track provides a mechanism for the participating countries to protect a limited amount of traded goods which, according to their own perception, are sensitive for their economies. The number of sensitive tariff lines must not exceed 400 (or 10 per cent of the total import value based on 2001 trade statistics) for the ASEAN 6 and China, and 500 for the CLMV countries. Tariff lines placed by each party in the Sensitive Track are further sub divided into:

1. Sensitive List (SL)
2. Highly Sensitive List (HSL)

The ASEAN 6 and China can put no more than 40 per cent of the total goods or 100 tariff lines, whichever is lower, on the HSL. For Cambodia, Laos and Myanmar, the number of tariff lines placed on the HSL can be 150. Tariffs on products on the SL for the ASEAN 6 and China will be reduced to 20 per cent by 2012 and subsequently to 0–5 per cent by 2018. Cambodia, Laos and Myanmar are, however, allowed to reach the 20 per cent level by 2015 and 0–5 per cent by 2020 (Hawk 2007).

5.2 Timelines for the initiation of the ACFTA agreement

a) Trade in Goods Agreement

The ACFTA Trade in Goods Agreement concluded on November 2004. The ASEAN-China Agreement on Trade in Goods gave the details for tariff reduction tariff lines in the NT or the Sensitive Track (Thao Minh Chu 2012).

b) Trade in Services Agreement

The second component of the FTA with China is the trade in services, which entered into force last 1 July 2007. The main objective of the agreement is to expand trade in services in the region through improved market access and national treatment for those specific sectors and subsectors where the Parties made specific commitments e.g. tourism, telecoms, energy and computers. The agreement takes into account that special and differential treatment shall be given to Cambodia, Lao PDR, Myanmar, and Vietnam, which would allow these countries to open fewer sectors and liberalize fewer transactions.

The agreement paves the way for a more liberalized services sector for both the ASEAN and China through provisions such as market access and national treatment. By applying the GATS Plus principle, the level of liberalization commitments under this agreement would be considerably higher than the commitments made by participating countries under the General Agreement on Trade in Services (GATS) in the WTO. It is expected that the agreement would lead in the expansion and growth of the four modes of trade in services, namely: cross-border supply, consumption abroad, commercial presence, and movement of natural persons. Moreover, the agreement is expected to spur higher levels of investments in the regions, especially in those sectors where commitments have been made by each Party (Schott Jeffrey J., Lee Minsoo, Muir Julia 2012).

Both ASEAN and China agreed to progressively liberalize trade in services with substantial sectoral coverage. China committed to open up new markets for the ASEAN countries in 26 branches of 5 service areas on the basis of original WTO commitments, namely construction, environmental protection, transportation, sports and commerce (UACT). China also made commitments in the following fields: Computer and Related Services, Real Estate Services, Other Business Services, Construction and Related Engineering Services, Environmental Services, Recreational, Cultural and Sporting Services, and Transport Services. On the other hand, the ASEAN committed to open their markets in China in finance,

telecommunication, education, tourism, construction and medical treatment, among others.

c) Trade in Investment Agreement

This Agreement was signed in August 2009 and took effect from January 1st 2010. The parties to this Agreement are committed to support, promote and protect investment of stakeholders, to provide fair and non-discriminatory treatment to investors, to make reasonable compensation in the case investors' assets are nationalized, and to build the mechanism of settling dispute between investors and the State. China has also announced the establishment of the ASEAN-China Investment Cooperation Fund. USD 10 billion has been spent on major joint investment projects of ASEAN and China in such sectors as infrastructure, energy and resources, ICT and some other industries.

The ASEAN-China Investment Agreement aims to help investors from ASEAN and China in protecting their investments by providing favorable treatment to investors related to nationalization or expropriation and compensation for losses. It has provisions that allow transfers and repatriation of profits to be made freely and in freely usable currency, as well as a provision on investor-state dispute settlement that provides investors recourse to arbitration (MITI 2015).

5.3 Vietnam's Tariff Commitments in ASEAN-China Trade in Goods Agreement (ACTIG)

Early Harvest Program: tariffs eliminated by 1 January 2008. Transition for full implementation by Vietnam.

Normal Track: tariffs on most goods reduced to zero by 2015 or 2018 with some flexibility.

Sensitive Track: maximum 500 tariff lines (HS 6-digit) representing maximum 15% of the bilateral import value in 2001.

Highly Sensitive List: 140 tariff lines (HS 6-digit) or maximum 40% of all lines on sensitive track.

Tariff on highly sensitive items to reach 50% by 2018.

Tariffs on other sensitive items to be reduced to 0-5% by 2020.

Table 1: Vietnam's Tariff reduction schedule under Normal Track

<i>Product category</i>	<i>ACFTA tariff rate (%)</i>							
	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2011</i>	<i>2013</i>	<i>2015</i>
Category 1: Tariff rate \geq 60%	60	50	40	30	25	15	10	0
Category 2: 45% \leq tariff rate < 60%	40	35	35	30	25	15	10	0
Category 3: 35% \leq tariff rate < 45%	35	30	30	25	20	15	5	0
Category 4: 30% \leq tariff rate < 35%	30	25	25	20	17	10	5	0
Category 5: 25% \leq tariff rate < 30%	25	20	20	15	15	10	5	0
Category 6: 20% \leq tariff rate < 25%	20	20	15	15	15	10	0-5	0
Category 7: 15% \leq tariff rate < 20%	15	15	10	10	10	5	0-5	0
Category 8: 10% \leq tariff rate < 15%	10	10	10	10	8	5	0-5	0
Category 9: 7% \leq tariff rate < 10%	7	7	7	7	5	5	0-5	0
Category 10: 5% \leq tariff rate < 7%	5	5	5	5	5	5	0-5	0
Category 11: tariff rate < 5%	Unchanged							

Source: Central Institute for Economic Management 2013

Table 2: Vietnam's tariff commitments under ACFTA

<i>Vietnam's tariff reduction roadmap</i>	<i>Normal Group</i>	<i>Sensitive Group</i>			<i>Exclusion</i>	
	<i>NT List</i>	<i>HSL</i>	<i>SL</i>	<i>Particularly Sensitive</i>	<i>No tariff cut</i>	<i>General Exclusion</i>
ASEAN-China	9,544 (tariff rates decrease to 0%)	941 (tariff bound rate is 50%)	560 (tariff bound rate is 5%)			94

Note: Number of Tariff lines according to the Harmonized System (HS) 2002

Source: Central Institute for Economic Management 2013

6. Overview of ASEAN-China Trade

ACFTA has led to growth of trade between ASEAN and China countries. After the year 2005, ASEAN-China total trade reached US\$ 92.61 billion, an increase of 77.21 per cent compared to 2003. In the second stage (as of 1 January 2007), ASEAN-China trade stood at US\$153.94 billion, registered an increase of 31 per cent year to year. However, ASEAN-China trade stood at US\$ 151.70 billion in 2009 which unfortunately declined due to the 2008 global economic crisis. But from 2010 trade started taking off and reached US\$ 343.00 billion in 2013 (WITS 2015).

However, despite increase in trade volume, ASEAN's trade deficit has increased over the years. After the year 2004, ASEAN registered trade deficit of US \$ 11.46 billion in 2006, or about 9.73 per cent of the total bilateral trade. The second stage brought ASEAN a deficit of US \$ 16.65 billion in 2007, and the percentage rose to 11 per cent. Although in 2009 ASEAN's deficit decreased, it was still high at US\$11.93 billion, or roughly 7.86 per cent of the bilateral total trade. In 2013, the deficit reached US\$44.66 billion which was 13 per cent of the bilateral total trade (ASEAN Statistics 2014).

Table 3: ASEAN- China bilateral trade (Values in USD billion)

Year	Gross Exports	Gross Imports	Total trade	Trade Deficit	Trade Growth
2002	15.68	19.93	35.61	-4.25	
2003	22.62	24.4	47.02	-1.79	32.04
2004	34.08	39.74	73.82	-5.65	56.99
2005	41.44	51.17	92.61	-9.73	25.45
2006	53.16	64.63	117.79	-11.47	27.19
2007	68.65	85.3	153.95	-16.65	30.7
2008	76.42	95.32	171.74	-18.89	11.56
2009	69.88	81.82	151.7	-11.93	-11.67
2010	112.58	126.48	239.06	-13.9	57.59
2011	140.72	152.61	293.33	-11.89	22.7
2012	140.74	173.98	314.72	-33.23	7.29
2013	149.18	193.84	343.03	-44.66	9
2014	130.54	159.51	290.05	-28.96	-15.44

Source: WITS Online, World Bank

7. ACFTA and Regional Value Chains

Vietnam must enhance its trade competitiveness in order to draw at par in trade with China. It should develop its industries to boost exports and attract foreign investments. According to Michael Porter's Diamond Model, there are four conditions affecting the competitiveness of a country: factor conditions; demand conditions; related supporting industries; and firm strategy, structure and rivalry. Nowadays, international markets are imperfectly competitive, which implies that trade between similar countries is forced by economies of scale rather than comparative advantage (Smit 2010).

Competitive advantage of ASEAN countries is diverse, some countries are capital-intensive and others are labour-intensive; China is mostly labour-intensive. Vietnam must focus on raw-material-based and labour-intensive exports such as manufacturing products involving input assemblies with a little value-added, while China can undertake manufacturing of products with high-tech value-added. Among the main export commodities, ASEAN with less labour productivity, exports little value-added products to China while China exports highly value-added ones. With high domestic demand in ASEAN and China, economies of scale in manufacturing would increasingly play a major role and ACFTA has the potential to help multinational companies in restructuring supply chains and rationalize production networks—efforts that could eventually lead to a single ASEAN-China market (Brooks 2010).

The model of regional production network is a modality for achieving ACFTA objectives of improving ASEAN-China trade and investment based on mutual benefit. Regional production networks have developed in East Asia by the multinational companies from Japan, China and South Korea through engaging the ASEAN countries. The establishment of ACFTA can further help to nourish the production networks and to intensify the activities of Chinese multinational companies in ASEAN countries by exporting ASEAN products to China and channeling FDI from China into ASEAN. This process benefits ASEAN

countries by reducing unemployment, enhancing infrastructure and maintaining the tempo of economic development and growth (Keith E. Flick & Kalyan M. Kemburi 2012).

8. Impact of ACFTA on Vietnam-China relations

The RTAs can benefit the import country even if there is trade diversion. The benefits gained from lower prices can offset losses from trade diversion. More importantly, if there is a certain level of the economy has not been exploited in a number of industries, the RTAs can generate significant benefits through reducing the average cost of production and make goods available to consumers. In addition, there are also affects in the medium and long term. The trade liberalization leads to higher growth rates on a regular basis because it encourages investment in new technology, accumulation of human resources, encourage international specialization and international technology transfer. ACFTA have brought many benefits to Vietnam as a member, in enhancement of bilateral trade in goods, services and enhanced flow of investments (Hoang 2015).

8.1 ACFTA and Vietnam's trade with China

8.1.2 Impact of ACFTA on bilateral Trade

Over the past decade, trade between China and the ASEAN nations has boomed from US\$47.02 billion in 2003 to US\$343.02 billion by 2013. The combined nominal gross domestic product (GDP) of ASEAN and China reached approximately US\$ 13 trillion in 2014 (WITS 2015). According to the ACFTA, a 0 percent tariff will be applied to 90 percent of traded goods, which would enhance and promote bilateral trade relations (Nguyen 2013). This also helps to promote exports of ASEAN countries, especially for those commodities that an energy-hungry country like China needs. Vietnam is a natural trade partner of China as it shares land borders with China and is geographically close to ASEAN. Further, Vietnam is a rapidly expanding small economy, whereas China is the world's second largest economy and the FTA will facilitate trade in goods, services, investments and thereby economic prosperity for both the economies.

ACFTA has facilitated trade between Vietnam and China, with exports increasing above 50 per cent with regard to trade with China in 2011 (WITS 2015). On the other hand, growth of imports to Vietnam from China and ASEAN during the same period partly reflects the relative recovery of Vietnam's economy and the subsequent demand, rather than just the impact of ACFTA. Vietnam has one main advantage in its trade with China compared to other ASEAN countries— geographical proximity, which aids in reduction of transportation costs and time. Vietnam is becoming a supplier for production corporations in leading economic centres in China (WTO 2011). Since 2010, although trade with China and ASEAN has increased, imports grew faster than exports resulting in a trade deficit. This situation will prevail for a long-time as Vietnam's strong growth stimulates demand for imports from China. In addition, the relative depreciation of Chinese RMB makes products from China cheaper compared to those from Vietnam.

Since 2010, Vietnam has established an advantage over China and the ASEAN-6 by extending its reduction roadmap by five years. According to 2001 data (the basis for the negotiations of ACFTA), 90 percent of tariff lines committed to be eliminated by Vietnam only account for 37 percent of imports from China, and 10 percent are sensitive items imported from China (accounting for 63 percent). This can efficiently help Vietnam develop the economic sectors that are competing with Chinese imported goods under the impact of ACFTA (Vietnam Briefing 2013).

Since 2010, Vietnam has also had a chance to make its exports with China the most preferential thanks to 90 percent of the tax lines being just 0.5 percent. This process will positively help speed up the restructuring of Vietnam's exports mechanism, increase exports of processed products and reduce the exports of mineral products and raw processing. However, if Vietnam just focuses on the production of cheap consumer goods, it can be vulnerable when competing with similar goods from China. This can be seen if one looks at the trade deficit figures between Vietnam and China in recent years, the deficit has increased gradually from US\$ -1.70 billion in 2005 to US\$ -23.71 billion in 2013 (WITS 2015).

Despite the increasing trade deficit, Vietnam's exports to China have also increased sharply since the coming into effect of trade in goods agreement in 2005 (Table 3). Vietnam's total exports to China amounted to US\$ 1.88 billion in 2003 which increased sharply to US \$ 13.18 billion in 2013. It can be seen from Table 3 that after the implementation of ACFTA, Vietnam's export to China have been rising and the growth of Vietnam's export to China between 2005-2013 has increased by an average of 19.47 percent annually. At the same time, Vietnam's total imports from China also rose sharply. In 2005, China's total exports to Vietnam amounted to US\$ 5.90 billion, increased to US\$ 20.20 billion in 2010 and reached US\$ 36.89 billion in 2013 (WITS 2015). The growth of Chinese imports into Vietnam has increased by an average of 27.08 percent during the period. This depicts that although total trade has increased due to tariff liberalization after the implementation of ACFTA, but the year 2010 witnessed the recovery of both Vietnam's imports from and exports to China in the aftermath of the global financial crisis. The two-way trade increased by 20 per cent, from US \$22.08 billion in 2009 to US \$50.06 billion in 2013 registering more than two fold increase during a period of four years. (WITS 2015).

Table 4: Vietnam China bilateral trade (Values in USD billion)

Year	Export	Import	Balance of trade	Total Trade	Yearly growth in export (%)	Yearly growth in import (%)	Yearly growth in total trade (%)
2000	1.54	1.40	0.14	2.94			
2001	1.42	1.61	-0.19	3.02	-7.74	14.64	2.93
2002	1.52	2.16	-0.64	3.68	7.12	34.40	21.61
2003	1.88	3.14	-1.26	5.02	24.03	45.38	36.56
2004	2.90	4.60	-1.70	7.49	53.95	46.41	49.24
2005	3.25	5.90	-2.65	9.15	11.98	28.39	22.04
2006	3.24	7.39	-4.15	10.63	-0.11	25.28	16.27
2007	3.65	12.71	-9.06	16.36	12.44	71.96	53.81
2008	4.85	15.97	-11.12	20.82	33.02	25.68	27.31
2009	5.40	16.67	-11.27	22.08	11.40	4.38	6.02
2010	7.74	20.20	-12.46	27.95	43.31	21.17	26.59
2011	11.61	24.87	-13.25	36.48	49.99	23.08	30.53
2012	12.84	29.03	-16.20	41.87	10.53	16.76	14.78
2013	13.18	36.89	-23.71	50.06	2.66	27.04	19.57

Source: WITS Online

9. The structural composition and pattern of Vietnam's trade with China

9.1 The structure of Vietnam's exports to China

The openness of Vietnam's economy is such that its dependence on foreign trade has remained high. In recent years, the composition of merchandise trade has changed, reflecting domestic economic developments. Labour-intensive and low-value-added manufacturing (textiles, clothing and machinery), food items and raw materials remain Vietnam's main exports, while the country is steadily making inroads into high value-added products. Looking at the recent trends, it is seen that the share of manufactured products exports rose from 7.90% in 2000 to 45.52% in 2013 (table 4), while the share of mining (mainly fuels) dropped marginally from 3.02% in 2000 to 1.13% in 2013. However, agriculture's share of exports declined from 89.08% in 2000 to 53.36% in 2013. Most of the exports to China are raw materials or low value added products; therefore, the turnover cannot be high. As such, China is a big promising market for Vietnam to further accelerate exports to China (WITS 2015).

Historically, enterprises from Vietnam and China have conducted border trade for centuries. According to the statistics of the Ministry of Industry and Trade in Vietnam, during 2006–2008, border trade has increased 40 per cent annually in absolute terms. In 2008, the informal border trade between Vietnam and China accounted for one third of the total trade turnover between the two countries; by 2010, this border trade reached US\$10 billion, accounting for around 30% of the total trade (Van 2010). This situation is mainly influenced by China's border trade policy and Sino-Vietnam border resident's trade practices. Having said that, there is a significant shift in Vietnam's economy from decrease in primary exports to increase in manufacturing exports, which is a result of trade liberalization and change in trade policies.

Table 5: Vietnam exports to China (percentage share)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sectors														
Primary Products														

Food Products	72.60	69.63	56.14	34.83	30.22	29.30	24.53	26.52	22.37	28.89	19.97	25.98	33.88	32.00
Raw Materials	16.48	14.73	20.10	25.21	27.39	43.78	50.70	43.41	41.47	30.07	30.91	32.32	20.98	21.36
	89.08	84.36	76.24	60.05	57.61	73.08	75.23	69.93	63.84	58.96	50.88	58.30	54.86	53.36
Mining Products														
Ores And Other Minerals	1.36	1.52	2.67	3.38	4.24	2.97	2.29	2.01	2.00	1.46	1.90	1.10	1.20	0.95
Fuels	1.18	0.15	0.36	1.77	0.01	0.05	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non Ferrous Metals	0.48	0.81	0.28	0.26	0.13	0.14	0.16	0.80	0.30	0.43	1.52	0.40	0.29	0.18
	3.02	2.47	3.31	5.41	4.38	3.16	2.47	2.81	2.30	1.89	3.42	1.51	1.49	1.13
Manufacturing Products														
Iron And Steel	0.02	0.03	0.73	0.57	0.26	0.07	0.79	1.00	0.73	0.33	1.91	1.13	0.52	0.27
Chemicals	3.47	5.83	6.10	9.24	7.37	6.12	7.35	7.82	7.12	9.10	9.97	8.90	11.15	9.94
Other Semi Manufactures	1.59	1.66	2.44	10.20	16.25	6.69	3.55	5.67	8.51	8.47	11.42	7.41	5.58	3.40
Power Generating Money		0.01	0.00		0.04	0.01	0.01	0.01	0.06	0.19	0.20	0.22	0.38	0.15
Other Non-Electrical Machinery	0.16	0.61	0.54	0.88	0.60	0.59	0.73	0.80	0.63	0.94	0.85	0.52	0.54	0.69
Office Machines And Telecommunication equipment	0.73	1.47	4.26	5.66	5.26	2.96	1.44	2.16	3.88	4.51	3.60	3.23	6.74	8.25
Electrical Machinery and apparatus		0.08	0.25	0.54	1.61	1.66	2.08	1.96	0.85	1.03	1.71	1.27	1.44	2.06
Automotive Products		0.00	0.01	0.05	0.04	0.02	0.01	0.15	0.27	1.11	1.18	0.91	1.01	1.40
Other Transport equipment	0.22	0.06	0.26	0.24	0.06	0.03	0.02	0.03	0.10	0.08	0.27	0.34	0.33	0.39
Textiles	0.80	1.69	2.84	3.28	2.36	1.96	2.26	2.48	4.83	7.98	8.76	9.19	8.74	10.80
Clothing	0.21	0.29	0.45	0.71	0.29	0.31	0.47	0.49	0.54	0.41	0.74	1.16	1.29	1.73
Other Consumer goods	0.71	1.44	2.56	3.17	3.86	3.33	3.61	4.67	5.61	5.00	5.09	5.91	5.92	6.43
	7.90	13.17	20.45	34.55	38.01	23.76	22.30	27.25	33.14	39.15	45.70	40.19	43.65	45.52
Other Products								0.01	0.71					

Source: WITS Online

By looking at the recent trend, manufacturing products also remain Vietnam's main imports, which states that the country is steadily making inroads into manufacturing of high value-added products. Looking at the recent trends, it is seen that the share of manufactured products (94% in 2013) constitutes major chunk of Vietnam's imports from China, while the share of mining stands at merely 3.44% in 2013. Agriculture's share of imports also shows the same trend at 2.57% in 2013 (WITS 2015). Since 2009, China has become Vietnam's largest source of imports. It states that both Vietnam and China have benefited from the implementation of ACFTA. In the context of trade in goods between the two countries, China is able to optimize it to gain greater benefits than do Vietnam, which is apparent from the values of imports and exports. Vietnam should pay more attention to explore its own potential in producing middle-level technological products which also need intensive labour to get access to value chains like India and Indonesia.

Table 6: Vietnam import from China (percentage share)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sectors														
Primary Products														
Food Products	2.79	2.53	4.66	4.01	3.23	3.36	2.81	2.17	2.44	2.88	2.23	2.01	2.47	1.57
Raw Materials	0.87	0.91	1.01	0.81	0.87	1.12	1.09	0.54	0.57	0.55	0.97	1.15	1.01	1.00
	3.66	3.44	5.67	4.82	4.10	4.48	3.90	2.72	3.01	3.43	3.19	3.16	3.48	2.57
Mining Products														
Ores And Other Minerals	1.01	0.46	0.98	0.73	1.71	0.74	0.50	0.42	0.41	0.52	0.70	0.83	0.81	0.59
Fuels	0.26	15.16	23.33	21.62	0.36	0.63	0.58	0.52	0.53	0.38	0.55	0.52	0.51	0.36
Non Ferrous Metals	3.04	1.57	1.27	1.45	2.88	2.12	2.22	1.95	1.69	1.42	1.82	1.95	1.99	2.48
	4.32	17.19	25.57	23.80	4.95	3.48	3.31	2.89	2.63	2.32	3.07	3.30	3.31	3.44
Manufacturing Products														
Iron And Steel	6.33	3.62	3.45	2.10	6.66	8.52	12.93	12.38	16.45	6.70	6.66	8.42	9.71	9.76
Chemicals	18.22	12.61	13.09	18.36	22.14	17.67	15.71	14.96	14.05	13.97	14.05	15.06	13.97	12.53
Other Semi Manufactures	5.82	5.85	7.36	6.60	9.32	10.24	9.62	7.67	6.39	7.30	8.67	7.92	8.17	8.17
Power Generating Machinery	0.60	0.44	0.28	1.19	1.00	1.14	1.83	5.63	5.70	6.35	2.58	3.31	3.10	3.66
Other Non Electrical Machinery	9.15	11.27	11.25	10.70	13.08	13.01	13.91	13.26	15.75	15.49	15.53	14.16	11.48	10.96

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Office Machines And Telecommunications equipment	1.44	1.47	2.75	2.59	4.47	6.08	6.83	10.42	8.31	14.16	11.85	10.53	11.60	13.71
Electrical Machinery and apparatus	1.69	1.84	2.63	2.96	3.80	4.04	3.90	4.36	3.83	5.46	6.80	7.64	9.29	9.12
Automotive Products	0.36	3.14	1.19	1.11	1.65	2.41	2.12	3.12	3.72	3.16	2.45	1.96	1.28	1.29
Other Transport equipment	39.98	30.87	10.43	5.53	4.73	3.59	2.30	1.97	2.09	1.43	1.30	0.95	0.76	0.57
Textiles	5.94	5.48	12.59	15.69	18.35	20.45	19.06	16.12	13.72	14.72	17.61	17.84	17.77	18.12
Clothing	1.09	1.04	1.14	1.54	1.76	0.94	0.85	0.56	0.52	0.74	1.11	1.24	1.43	1.41
Other Consumer goods	1.40	1.74	2.60	3.02	3.99	3.95	3.74	3.93	3.83	4.75	5.11	4.48	4.66	4.70
	92.03	79.36	68.75	71.37	90.95	92.03	92.79	94.39	94.36	94.23	93.73	93.53	93.22	94.00
Other Products				0.01	0.00	0.00	0.01	0.00	0.00	0.02	0.01	0.01	0.00	

Source: WITS Online

Vietnam's main imports from China are essential materials like iron and steel, chemicals, non-electrical machinery, office machines and telecommunications equipment, textiles and electrical machinery and apparatus that are required not only for domestic use but also for production of products for exports; this category accounts for nearly 94 per cent of total imports from China. With such a huge supply covering from essential goods such as consumer products to machinery, parts and accessories, the growth of Vietnam's economy has been increasingly dependent on China for the supply of key industrial materials (Chu Minh Chu Thao 2012). Some sectors such as textiles and garments have become a de facto extension of Chinese economy as Vietnam uses accessories from China for processing, production and re-exports to the European Union and the United States. In other words, Vietnamese and Chinese economies have increasingly become closer.

However, Vietnam is at risk of becoming destination for obsolete technology from China, a trend that could have adverse impact on the ongoing efforts towards industrial modernization. Currently, Vietnam faces three challenges emanating from closer economic relations with China: increasing trade deficit, import of low-quality products and transfer of

obsolete technology (Chu Minh 2012). This long-term import surplus, with the elimination of all tariffs under ACFTA from 2015, will create more pressures for domestic producers and will negatively affect macro economy, especially the foreign exchange rate.

9.2 Impact on tariff and tariff reduction

Through multilateral agreements, tariffs for industrial goods in developing countries reduced to less than 5%. However, there are still a limited number of tariffs and RTAs contribute to the reduction of the highest tax rates (Nguyen Vu Hoang 2015). The trade agreements identify non-tariff barriers, such as technical barriers to trade. The diversity of RTAs reflects differences in the objectives of the RTAs and in the approach to regional integration. There is no single reason for the formation of RTAs. The formation of RTAs is due to a combination of several factors: development and economic efficiency, historical issues, political stability, power balances, safety of market integration. Bilateral and regional trade agreements have played a growing role in Vietnam's recent trade policy. Vietnam considers the trade liberalization achieved by regional FTAs as complementary to the liberalization efforts pursued in the WTO in a global framework (WTO 2013). The rationale for more active use of preferential trade liberalization by Vietnam lies in the need to accelerate the liberalization of trade and investment with the most important trading partners.

However, the regional trade agreements that the Government of Vietnam has negotiated or is negotiating are not meant to be trade fortresses. By creating more trade, these preferential arrangements also create opportunities for traders of non-members. Furthermore, as these new generation trade agreements provide for "deep integration" by removing beyond-the-border trade barriers, they directly benefit all WTO Members. Except in all but the rarest of instances, tariffs hurt Vietnam that imposes them, as their costs outweigh their benefits (Nguyen Vu Hoang). Tariff is a boon to domestic producers who now face reduced competition in their home market. The reduced competition causes prices to rise. The sales of domestic producers should also rise, all else being equal. The increased production and price causes domestic producers to hire more employees, and causes consumers spend to rise.

Further, the tariffs also increase government revenues that can be used to the benefit of the economy. It can be seen (table 6) that Vietnam's tariffs under ACFTA (2.55) will be the lowest in comparison to AFTA (2.63) and MFN (13.4) from the year 2021 onwards. However, if we compare the tariffs for the year 2006, tariffs for MFN and ACFTA were highest at 14.16% and 14% respectively. But with the gradual elimination of tariffs under ACFTA, tariffs will be reduced to the lowest level at 2.55% in comparison to other FTA's (WTO 2013).

Table 7: Viet Nam's tariff reduction plans under selected FTAs

FTA's	2005	2006	2007	2008	2010	2015	2018	2021	2023
MFN	17.4	14.16	14.16	14	13.4	13.4	13.4	13.4	13.4
AFTA	6.7	4.2	2.8	2.8	2.76	2.69	2.63	2.63	2.63
ACFTA		14	14	13.5	13	4.41	3.3	2.55	2.55

Source: WTO, Trade Policy Review by Vietnam

9.3 Impact on Foreign Direct Investment (FDI)

The formation of an ASEAN-China Investment Area has also aided in generating more investments for ASEAN. Not only has more ASEAN and Chinese companies are willing to invest within the integrated market, since market risk and uncertainty are lowered, but US, European and Japanese companies, which are interested in making inroads into the Asian market, are also attracted to invest in the integrated market. On its own, China has been successful in luring investors into its growing economy for it has the essential investment determinants in place. China's market potential is already well established and its performance in relation to some indicators of institutional quality and macroeconomic and political stability is better than other members of ASEAN. And despite the perceived inadequate legal framework, high inflation and the pervasiveness of bureaucratic red tape and corruption, foreign investors are looking at the long-term benefits of investing in China rather than looking at its short problems. As such, the integration of ASEAN with China can entice more foreign corporations, which each market alone cannot otherwise attract (ASEAN Secretariat 2014). With a larger market, more intense competition, increased investment and economies of scale, investors will be more inclined to locate in the integrated region.

ACFTA's Impact on foreign direct investment (FDI) has traditionally been welcomed in Vietnam and has accounted for a significant share of total investment in the economy. Through foreign investment, Vietnam has evolved into a base for multinational companies to engage in high-end manufacturing and product development, and to coordinate regional procurement, production, marketing, and distribution operations. Reflecting the important contribution of foreign investment to the development of the economy, there are few restrictions on inward foreign investment, and the restrictions that exist are mainly in broadcasting, the domestic news media, retail banking, property ownership. As it is well known, FTA is made to reduce trade cost. That is, when two countries agree to form FTA, trade cost would fall or diminish between them. As a result, firms with vertical FDI will benefit from this and hence have more incentive to increase vertical FDI (Roording Nicole 2010). On the other hand, there will be less tariff-jumping incentive for horizontal FDI. The effects of regional integration are not uniform across the region. RTA members with stronger locational advantages than others attract most of the FDI.

In the case of Vietnam, in 2013, Vietnam received the highest amount of FDI from the Japan with 35.18 billion USD with 2186 projects, followed by Singapore with 29.94 billion USD with 1243 projects, Korea with 29.65 billion USD with 3611 projects and Taiwan with 28.02 billion USD with 2290 projects. Vietnam's chief advantages, versus other ASEAN members, are a large home market and low factor costs. In case of China, FDI inflow in 2012 stands at USD 7.5 billion with 992 projects, which accounts for only 3.9% of the total FDI attracted in the same year (GSO 2015). In other words, ACFTA does not seem to have a major impact on FDI from China, which is surprising despite the guarantees offered by ACFTA's Investment Agreement.

Table 8: FDI inflows to Vietnam, 2005–2013 (US\$ million)

Country	1998-2008	Projects	2010	Projects	2011	Projects	2013	Projects
Japan	17362	1102	20960	1425	24382	1555	35180	2186
Singapore	17071	733	21890	895	22960	1008	29942	1243

Country	1998-2008	Projects	2010	Projects	2011	Projects	2013	Projects
Korea Rep. of	16666	2153	22389	2699	23696	2960	29653	3611
Taiwan	20951	2135	22981	2171	23639	2223	28020	2290
British Virgin Islands	13824	438	14514	487	15456	503	17152	523
Hong Kong SAR (China)	7416	671	7846	622	11311	658	12524	772
United States	5029	493	13104	568	10432	609	10696	682
Malaysia	18005	340	18417	376	11075	398	10376	453
China, PR	2188	711	3680	770	4338	833	7551	992
Netherlands	3018	115	5481	145	5818	160	6311	198
Cayman Islands	4352	33	7432	52	7502	53	5863	55
Total Amount	125882	8924	158695	10210	160607	10960	193270	13005

Statistical yearbooks for the year 2008, 2010, 2011 & 2013, General Statistics Office of Vietnam,

Up to 2010, foreign investment took two major forms: 64.5% (62% in 2007) was made by 100% foreign-owned companies, and 35.5% (38% in 2007) through joint-ventures. In 2011, Foreign Invested Enterprises (FIEs) were estimated by the authorities to account for 19% of GDP, 56.9% of exports (they seem more efficient and therefore more competitive than SOEs), and for 23% of employment (Table 8). Although they account for less than 3% of all enterprises in Vietnam, because of their large size, they account for more than a third of the government's collection of taxes and fees (GSO 2015). FIEs have not only been the basis for the surge in exports, but they have also driven product and market diversification. By looking at the figures for the year 2013, it is seen that Foreign Invested Enterprises' contribution to GDP, exports and employment has not registered significant change. Overall, Vietnam's economy remains an attractive destination for foreign investors and has potential for long-term growth. However, the risk of macroeconomic instability may curtail economic growth and adversely affect the confidence of foreign investors.

Table 9: Impact of FDI on Vietnam, 2007-2013

	2007	2008	2009	2010	2011	2012	2013
% of total number of enterprises							
FIEs	3.2	2.7	2.6	2.5	3.0	2.59	2.7
State-owned enterprises	2.2	1.6	1.4	1.1	1.0	0.9	0.8
Non-state enterprises	94.6	95.6	96.0	96.4	96.0	96.4	96.4
% of total employment							
FIEs	22.8	22.2	21.5	21.4	23.0	24.5	26.6
State-owned enterprises	23.9	20.9	19.5	16.8	14.3	14.4	13.5
Non-state enterprises	53.3	56.9	59.0	61.9	62.6	60.9	59.9
% of GDP							
FIEs	18.0	18.4	18.3	18.7	19.0	18.0	19.5
State-owned enterprises	35.9	35.5	35.1	33.7	33.0	32.1	32.1
Non-state enterprises	46.1	46.0	46.5	47.5	48.0	49.3	48.2
% of exports							
FIEs	57.2	55.1	53.2	54.2	56.9	--	--
Other (domestic economic sector)	42.8	44.9	46.8	45.8	43.1	--	--
% Net turnover from business of enterprises							
FIEs	21.3	17.8	18.5	18.8	19.3	21.7	24.9
State-owned enterprises	31.5	28.9	24.9	25.4	26.9	26.3	24.3
Non-state enterprises	47.3	53.3	56.6	55.8	53.8	51.9	50.6

Source: General Statistics Office Viet Nam, *Statistical Handbooks, Statistical Yearbooks*; and data provided by the authorities.

10. ACFTA impact on Vietnam's Regional Integration and Industrialization

Regional economic integration has raised various concerns among Vietnam's policy makers and academic circles over its possible negative impacts. Tariff reductions would lead to increasing competitive pressures from the regional imports. Domestic firms with lack of capital and technological capabilities and managerial skills may fail to compete with regional producers, and at the same time, they may not be able to utilize new export opportunities brought about by regional integration. As a consequence, the country may be marginalized, ending up with some low-tech, low value added industries. The concerns over the possible negative impacts of regional economic integration have created the reluctance on the side of Vietnam in pursuing further integration with the regional economy.

The implication of regional economic integration on the development and upgrading of Vietnam's industries presents the sectoral impacts of the investigated FTAs on Vietnam in terms of percentage changes in production output compared to the base-run level. The initial year impacts show the substantial adjustments in Vietnam's production following the removal of tariffs and investment liberalization. While some industries expand, other industries suffer a sharp contraction. The expanding industries consist of agriculture, mining, and labour-intensive industries. At the same time, the contracting industries consist mostly of capital-intensive industries, which are highly protected in Vietnam. The automobile sector and other transportation means are the most affected and suffer a large output loss in initial years. Both these industries are among the highly protected sectors in Vietnam, and to different extents, have suffered from inefficiency and low competitiveness due to the small size of domestic market (Dung 2007).

The first-year's sectoral impacts can be viewed as static one, and are in line with the current pattern of Vietnam's regional trade and comparative advantage. Most of Vietnam's current exports to the regional market are natural resources based and labour intensive products. These are also the products that Vietnam possesses a comparative advantage as compared to the regional countries. Although the sectoral adjustments follow a similar direction in the investigated FTAs, the sectoral impacts of the FTAs vary, depending on the volume of trade, the extent of protection and the degree of complementarities in the economic structure between the FTA member countries. Under the scenarios of trade liberalization, the FTA with China has largest impacts on Vietnam manufacturing sector. Furthermore the FTA with China seems to produce more benefits to the light industries as compared to the heavy industries (Dung 2007).

The sectoral impacts of regional integration also differ with the scenarios of trade liberalization and combined trade and investment liberalization. Under the assumption of greater capital mobility, the increase in capital inflows further contributes to the expansion in Vietnam's manufactures, and the heavy manufactures in particular. Large capital inflows do not only promote stronger expansion in light manufactures but also in heavy

manufactures. In aggregate, both light manufactures and heavy manufactures expand to a greater extent compared to the case of trade liberalization in the final year. Light manufactures have experienced a continuous and increasing expansion as more capital flows in over time. Heavy manufactures suffer initial contraction as in the scenarios of trade liberalization, but many of which expand later and have substantial output gain in the final year. This is the case for metal, chemical, electronics, the automobile sector and other transportation means.

The expansion in the light manufactures are largely driven by higher export demand resulting from the removal of tariff in the regional countries, the expansion in the later years in heavy manufactures are led by higher domestic demand. Several highly protected manufactures, and heavy manufactures in particular, may suffer output losses in initial years. Overtime, as more capital flows in and is added to the production capacity, agriculture and labour intensive industries expand even more. Large capital inflows do not only generate substantial increases in output and income, it also promotes the development of Vietnam's industries.

One of the major obstacles to promote industrialization in Vietnam is the lack of skilled workers. According to a labour force survey conducted in 2005, skilled labour accounted for only 10% of total labour forces (Mori 2009). The lack of well-trained labour forces largely explains for the fact that most of Vietnam's manufacturing exports are low-end products largely based on cheap and unskilled labors. In the case of garments, one of the major exports of Vietnam, production activities are largely assembly oriented, depending on imported textile, fiber and components. Not only exports, but production for domestic market also heavily relies on imported inputs. Automobile and electronics are the most notable examples, where parts and components are imported and assembled by domestic and foreign firms, and the final products are sold at the domestic markets.

In the past, the government has made many efforts to increase the domestic content in these manufactures through tax incentives and subsidies. However, their efforts have failed. As income rises in Vietnam, the comparative advantage based on low-wage and unskilled labor

is eroding and it would be more difficult to sustain the export growth of assembly labour-intensive products in the forthcoming years. The availability of well-trained labour forces are essential for Vietnam to successfully integrate with the global and regional economy, and making the most from the integration with the global and regional economy. A well-trained labour force is also needed to develop high-end, more capital and skill-intensive manufactures in Vietnam (Dung Nguyen 2007). In a globalizing world economy where an increasing number of countries have been engaging in trade and investment regimes, it is the quality of human resources that determine the country's comparative advantage.

11. Facts Pertaining to ACFTA Implementation

ACFTA is adopted at an appropriate time to cater to Vietnam's needs for sustainable development, progressive market opening, economic and production adjustments, and socio-economic management. Out of the three agreements signed within ACFTA, Vietnam has benefited mainly from Trade in Goods Agreement. Because of the weak competitiveness, Vietnam's exports in services and foreign investment is limited and therefore failed to take complete advantage of the Trade in Service Agreement and the Investment Agreement. In general, ACFTA has produced positive effects by facilitating Vietnam's exports to ACFTA member countries and providing market access concessions with timetables for tariff reduction tailored to the protectionist needs of Vietnam (Keith and Kalyan 2012). It is recognized that competing in ASEAN + China market under ACFTA is vital for Vietnam to prepare for its full market economy status and competition in the global market. ACFTA creates a challenge to balance the "safe" import surplus without serious impact on the stability of the macro-economy. Vietnamese businesses are under higher import pressure, and it is not easy to maintain a safe import surplus.

12. Vietnam's Reasons for not taking full advantage of ACFTA

The main reason for the failure of Vietnam to take full advantage of preferential tariff under ACFTA is due to its structure of exports. Vietnam's main exports to China and ASEAN are raw materials, low-value added products and agro-fishery products. Since 2004, Vietnam's agro-fishery products are beneficial from the Early Harvest Programme. Accordingly, tariff

for products from Chapter 1 to Chapter 8 of the Schedule has been eliminated before full launching of ACFTA. Therefore, the effectiveness of tariff reduction under ACFTA is modest for Vietnam's export stimulation (Keith 2012). Additionally, export of agro-fishery products (mainly fruits, rubber, coffee, cashew, etc.) account for 15–20 per cent of Vietnam's total exports to China. These products must comply with China's requirements relating to SPS, labeling, packaging, etc. To meet these standards, Vietnamese exporters should make investments in advanced technologies, laboratories, lab-testing equipment, as well as develop the related knowledge and skills. This is a very difficult requirement beyond the financial capacity for many enterprises in Vietnam, especially small and medium enterprises.

Moreover, Chinese enterprises are relatively stronger than enterprises in Vietnam, even in areas that the latter traditionally displayed competitive advantage, such as textiles and garments and consumer products. This is because of the limited quality of private enterprises as well as market weaknesses such as production factors and export promotions, especially the limited capacity of effective development policymaking and implementation. It is for these reasons that if given a choice between border trade and ACFTA, most Vietnamese enterprises (especially those with poor quality exports and less competitiveness) are opting for border trade because of simple customs and sanitary procedures, which lower the trading costs (Keith E. Flick & Kalyan M. Kemburi 2012).

In addition to this, complicated procedures and longer time for certificate of origin (CO) create additional burdens and constraints for exporters. Many small and medium enterprises lack adequate information and necessary skills to maximize the benefits accruing from ACFTA. Sometimes the enterprises fail to prepare CO for tariff preferential, a situation partly attributed to the failure of the State to disseminate information about ACFTA.

13. Conclusion

During a period when the region was reeling under the stress of global financial crisis, the launch of ACFTA benefited ASEAN and China. ACFTA proved beneficial through the continuation of openness, facilitation of trade, market access, cooperation for rapid

recovery, and creation of more efficient trade through access to low-cost suppliers and production network. Together with Vietnam's policy of Doi Moi (renovation), which preceded ASEAN and WTO accession, ACFTA is expected to act as a "building" block rather than a "stumbling" block for Vietnam's multilateral liberalization policy. Moreover, it could also be a useful instrument to address issues such as trade deficit, which is of prime concern for Vietnam, by promoting exports to regional countries. China is seen not only as an economic threat but also as a huge market with growing opportunities.

Vietnam's exports will increase further with greater integration between the two countries and through participation in production networks. China, Vietnam and ASEAN have potential for trade cooperation due to differences in their economic structure; 80 per cent and 65–75 per cent of Vietnam's imports from China and ASEAN are materials and machinery for industrial production. In return, most of Vietnam's exports to China and ASEAN are intermediary products. Therefore, the benefits from strengthening the cooperation with ASEAN and China will contribute to increasing Vietnam's export and production capacity. Vietnam, ASEAN and China will participate more effectively in the regional and global supply chain. As ASEAN steps to an in-depth integration phase, economic structure in Vietnam will also witness changes. In case of a surge in imports, causing serious damage to the domestic industry, Vietnam might resort to ACFTA-specific safeguard measures, but with careful consideration of the implications. A strategy for narrowing trade deficit is critical for Vietnam to ensure stable trade relations with China, with emphasis on exports.

Although the implication of regional integration depends on the economic structure of the countries involved, the ACFTA has led to output and welfare gains, while stimulating exports. Despite the concern over the increasing competition for foreign investment in the region, regional integration seems further stimulate capital inflows to Vietnam, especially in the case trade liberalization is combined with the removal of investment barriers. Greater capital inflows do not only create additional output gains, but also promote the industrial development in Vietnam, for both exporting industries and import-substituting industries. Trade liberalization needs to be accompanied by adequate policies to attract foreign

investment through the removal of investment barriers and creation of a better investment environment. The availability of well-trained labour forces is of great importance for Vietnam to climb the development ladder and promote the industrial development.

In the case of Vietnam, RTA's effects are based on many factors such as regional tariff preferences, competition, trade balance, trade policy, unemployment, dispute settlement mechanisms, foreign direct investment. RTAs commitments can play an important role in defusing potential distortions, both at the regional and at the global level. As a result, studying the advantages and disadvantages of Vietnam in RTAs and analyzing the impacts of RTAs on the economy is an essential preparation for Vietnam businesses to engage in RTAs proactively and efficiently.

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Chapter 6

Conclusion

Vietnam relationship with China is one structured by history where occupation by the Chinese for 1000 years meant Vietnam's culture, society and politics were heavily influenced by the Chinese. Subsequent occupation by the French and the US led to a long period of close friendship, structured by the ideology of communism and the wars for independence. However, a period of conflict between China and Vietnam followed and the relationship seemed to be destined to end in war and bitterness, only for it to become friendly and cooperative through the last two decades.

Vietnam has the most complicated and multifaceted relationship with China. Their interactions are far more complex than historical, cultural, or ideological issues alone. In the post-Cold War era, four factors characterized China's main interests in Vietnam: 1) to develop deep economic relations and encourage Vietnam to give preferential treatment to Chinese products and businesses 2) to engage Vietnam bilaterally and multilaterally and keep Vietnam from veering toward the other powers; 3) to encourage Vietnam to pursue pro-China policies on issues on international affairs; and 4) to gain advantage in territorial disputes with Vietnam by engaging Vietnam in sub regional frameworks like GMS or Free Trade Agreements (FTA's). However, since the normalization of Vietnam-China ties, Vietnam has constantly pursued a strategy to increase economic engagement as well as deepen party-to-party relations, but has also sought to diversify its external strategic relations by reaching out to other powers (i.e., Russia, India, and the United States) in order to check Chinese territorial adventurism.

While China is Vietnam's top trading partner, Vietnam is not China's top partner. Vietnam is strongly dependent on cheap exports from China and investment from Chinese businesses, whereas the same could not be said for China. If China closed its southern border with Vietnam, both countries would be hurt economically, but because Vietnam's economy is smaller and more dependent on China than vice versa, it would be less able to

sustain the economic consequences. China holds an important economic advantage, and its rise will pose an increasing threat to Vietnam as its power continues to grow relative to that of Vietnam. In 1991, bilateral trade was only USD 32 million. China is now Vietnam's largest partner, with trade totaling USD 50.21 billion in 2013 and expected to cross over USD 60 billion this year.

Despite the increasing trade volume, the trade balance between Vietnam and China is uneven. In the period 2000-2014, the rate of Vietnam exports to China increased fairly well, but remained low in comparison to its imports from China. In 2013, the trade gap increased to USD 23.71 billion, a two fold increase compared with that of 2008 (WITS Online). This disparity could be attributed partly to the complicated terrain with the lack of enforcement that has led to the illegal importation of goods from China to Vietnam. Second, Chinese companies have the comparative advantage over Vietnamese companies in terms of information on markets, technological advantage, mass production facilities, consumption needs and the legal system, which makes Chinese products cheaper, more diverse and attractive to low-income segment of the society.

Vietnam's trade share with China has also grown explosively during the period 1995-2013, foreign trade turnover between Vietnam and China grew around 100 times (from USD 691.6 million to USD 50060 million). Turnover of border trade accounted for 40 percent of total export-import turnover between Vietnam and China. For the last ten years, China has become the largest import partner of Vietnam having imports of USD 36.89 billion in the year 2013 with an import share of 27.94 percent. In terms of exports, China stands at third position with USD 13.18 billion of exports lagging just behind United States (18.08 percent share) and Japan (10.26 percent). In 2002, the share of exports to China's market was only 9.09 percent, and then it boomed to 11.98 percent in 2011 and 9.98 percent in 2013 respectively. In terms of imports from China, its import share has increased from 10.93 percent in 2002 to 27.94 percent in 2013.

Although border trade officially reopened in the 1990s between China and Vietnam, 20 percent annual trade increases have become a common occurrence. In 2013 trade between

China and Vietnam totaled USD 50.21 billion with 30 percent of trade going through Guangxi province and 5 billion through border trade with Yunnan province (Eyler 2014). More than 90 percent of border trade with Yunnan is in border trade flows through the Hekou/Lao Cai port of entry and both China and Vietnam have invested billions in highway and railway infrastructure to facilitate trade between Vietnam and Kunming. On the other hand, traders from Vietnam have more choices for ports of entry in Guangxi which has a few deep water ports that link to Vietnam's ports at Haiphong, Ho Chi Minh City, and Can Tho on the Mekong Delta along with major overland ports at Pingxiang and Dongxing.

However, the differences in the composition of export and import goods reflect the differences in the levels of economic development between Vietnam and China. Although Vietnam was not able to penetrate China's market to the same extent that China's enterprises were able to, but Vietnam has emerged as one of Asia's fastest growing economy than any other Asian economy apart from China and has also benefited immensely from its transition from the agricultural base toward manufacturing and services. The reforms and changes in the composition of traded products likely contributed to the reallocation of labour from agriculture (including aquaculture) to manufacturing, as agricultural exports became relatively less important over time. Vietnam dramatically expanded exports of unskilled labour intensive manufactured goods such as clothing, footwear, and office machinery. At the same time, the share of light manufactured goods in imports declined. This expansion of net exports and the changes in the composition of manufacturing trade likely contributed to increased demand for labour.

By looking at China's investment in Vietnam, it is seen that China's FDI in Vietnam has increased steadily (see Table 13). During 1998-2005, there were 431 investment projects with registered capital amounting to USD \$ 841 million: in 2013, there was almost two fold increase in number of projects to 992 and registered capital amounting to USD \$ 7551 million registering around nine fold increase over a period of eight years. China remained Vietnam fourth largest investor in the year 2013, contributing around 7.19 percent to the total projects and 10.46 percent to the total registered capital during the same year.

In terms of Foreign Direct Investment (FDI) in Vietnam, Chinese FDI mostly concentrates on low-skill, labour-intensive manufacturing and is usually of rather small scale. China ranks as number four on the list of biggest investors in Vietnam. Chinese FDI to Vietnam predominantly flows into labour intensive industries such as the garment industry and assembling of motorbikes which do not necessarily require a highly educated workforce. After 2002, Chinese enterprises in Vietnam invested in fields like energy development, finance, construction, chemical, textile, electric power, mining, pharmaceutical and transportation industries. Also, some large and medium-sized enterprises started wholly-owned or jointed ventures with Chinese enterprises in agricultural technology, mining, chemical and electromechanical industries, tourism facilities and financial services.

Additionally, although Vietnam's economy has developed rapidly, but the infrastructure construction, industrial processing and equipment technologies are backward as compared to China. However, industries such as household appliances, machinery, textile, pharmaceutical, etc are much more mature in China. Chinese industry equipment and the technology have been close to the developed countries, and the cost is low. According to the current economic situation in Vietnam, and combining the characteristics of enterprise of China, the home appliance, machinery, textile, agriculture, forestry, equipment, medicine and electricity, etc. have good prospects to invest in Vietnam.

Further, Vietnam's participation in the regional free trade agreement such as ASEAN China Free Trade Area (ACFTA) has contributed to the continuous growth of bilateral trade, Gross Domestic Product (GDP), employment, and Foreign Direct Investment (FDI) etc. Vietnam has taken advantage of the agreements to boost exports of competitive product lines in agriculture, fisheries, textiles, footwear, and furniture. The agreements have facilitated the introduction of Vietnamese products into some markets, while Vietnamese exporters have been pushed to improve product quality and design to meet high standards and consumer expectations.

ACFTA has facilitated trade between Vietnam and China, with exports increasing above 50 per cent with regard to trade with China in 2011 (WITS 2015). On the other hand, growth of

imports to Vietnam from China and ASEAN during the same period partly reflects the relative recovery of Vietnam's economy and the subsequent demand, rather than just the impact of ACFTA. Vietnam has one main advantage in its trade with China compared to other ASEAN countries— geographical proximity, which aids in reduction of transportation costs and time. Vietnam is becoming a supplier for production corporations in leading economic centres in China.

Despite the increasing trade deficit, Vietnam's exports to China have also increased sharply since the coming into effect of trade in goods agreement in 2005. Vietnam's total exports to China amounted to US\$ 1.88 billion in 2003 which increased sharply to US \$ 13.18 billion in 2013. It can be seen from Table 3 that after the implementation of ACFTA, Vietnam's export to China have been rising and the growth of Vietnam's export to China between 2005-2013 has increased by an average of 19.47 percent annually. At the same time, Vietnam's total imports from China also rose sharply. In 2005, China's total exports to Vietnam amounted to US\$ 5.90 billion, increased to US\$ 20.20 billion in 2010 and reached US\$ 36.89 billion in 2013 (WITS 2015). The growth of Chinese imports from Vietnam has increased by an average of 27.08 percent during the period. This depicts that although total trade has increased due to tariff liberalization after the implementation of ACFTA, but the year 2010 witnessed the recovery of both Vietnam's imports from and exports to China in the aftermath of the global financial crisis. The two-way trade increased from US \$22.08 billion in 2009 to US \$50.06 billion in 2013 registering more than two fold increase during a period of four years.

ACFTA is expected to act as a “building” block rather than a “stumbling” block for Vietnam's multilateral liberalization policy. Moreover, it could also be a useful instrument to address issues such as trade deficit, which is of prime concern for Vietnam, by promoting exports to regional countries. China is seen not only as an economic threat but also as a huge market with growing opportunities. Vietnam's exports will increase further with greater integration between the two countries and through participation in production networks.

China, Vietnam and ASEAN have potential for trade cooperation due to differences in their economic structure; 80 per cent and 65–75 per cent of Vietnam's imports from China and ASEAN are materials and machinery for industrial production. In return, most of Vietnam's exports to China and ASEAN are intermediary products. Therefore, the benefits from strengthening the cooperation with ASEAN and China will contribute to increasing Vietnam's export and production capacity. Vietnam, ASEAN and China will participate more effectively in the regional and global supply chain. As ASEAN steps to an in-depth integration phase, economic structure in Vietnam will also witness changes. In case of surge in imports, causing serious damage to the domestic industry, Vietnam might resort to ACFTA-specific safeguard measures, but with careful consideration of the implications. A strategy for narrowing trade deficit is critical for Vietnam to ensure stable trade relations with China, with emphasis on exports.

The commodity structure between China and Vietnam has also improved apart from the remarkable trade growth. Prior to 2002, Vietnam mainly exported primary products, mining and agricultural raw materials to China. China mainly exported articles of daily use, foods, construction materials, small farm machinery and pharmaceutical products to Vietnam. However, since 2002, the commodity trade structure has changed with the manufacturing of goods, textile, and machinery and electronic equipments that have replaced primary goods. All these indicate the bilateral economic relations between China and Vietnam is increasing.

Although the implication of regional integration depends on the economic structure of the countries involved, the ACFTA has led to output and welfare gains, while stimulating exports. Despite the concern over the increasing competition for foreign investment in the region, regional integration seems further stimulate capital inflows to Vietnam, especially in the case trade liberalization is combined with the removal of investment barriers. Greater capital inflows do not only create additional output gains, but also promote the industrial development in Vietnam, for both exporting industries and import-substituting industries. Trade liberalization needs to be accompanied by adequate policies to attract foreign investment through the removal of investment barriers and creation of a better environment

for investment. The availability of well-trained labour forces is of great importance for Vietnam to move up the development ladder and promote the industrial development.

However, despite the increasing trade volume, China is also the country with which Vietnam has the biggest trade gap, an imbalance that has grown wider over the years. Unprocessed goods, such as crude oil and coal, account for a significant proportion of Vietnam's export basket to China. The problems deepen for Vietnam's production industry, as enterprises, even export-centric ones, are becoming more reliant on Chinese inputs for value-chain production. Imported goods from China encompass various essential materials for export-specified production, including raw materials, machinery and equipment, steel, chemicals, oil, and fabrics. Vietnam is now importing nearly 50 percent of yarns and fabrics needed for its textile industry from China. If China disrupted the yarn supply, it would greatly damage Vietnam's labor-intensive garment industry, culminating in mass unemployment.

Increased participation of Vietnam and China through sub regional initiatives such as GMS economic cooperation mechanism provided a suitable platform for China and Vietnam's economic cooperation such as improvement in the volume of trade and investments. Moreover, GMS is the only sub regional cooperation endeavor, which includes both China and Vietnam with a common aim of developing infrastructure, alleviation of poverty, the eradication of cross-border crime and other non-traditional and human security issues by exploiting geopolitical interest and geographical proximity. China and Vietnam use GMS for the development of their national or local economies. GMS is also important for Vietnam and it started extending the dialogue with China to strengthen the mutual economic ties and additionally Vietnam's position as last in the line of Mekong countries produces dependence upon cooperation with upstream countries and especially with China. A major problem in Vietnam's relations with China is cooperation regarding water resources and to tackle these problems, Vietnam needs the cooperation of the upper Mekong countries.

China on the other hand, by cooperating in the GMS, intends to reform its landlocked interior regions, thus helping the domestic reform programme as a whole. Also, border

integration between China and Vietnam has improved Vietnam's economic importance to China and has played an important role in connecting Yunnan and Guangxi to mainland Southeast Asia and in developing the economies of Vietnam's border localities. An elaborate transport system is crucial in order to maintain this situation, and the GMS Cross-Border Transport Agreement is an important step in this direction. The development of these links can in turn only be facilitated by a favourable foreign policy environment, which resolves problems by non-military means. This shows, however, that enhanced economic integration coincides with an enhanced infrastructure. This also helps Chinese exports to Southeast Asia. There is thus a mutuality of interests between China and Vietnam, which may result beneficial for development of economic relations between them.

Although economic relations have benefitted both Vietnam and China, the territorial disputes in the South China Sea (SCS) are of particular importance in the context of China-Vietnam relations. The geo-strategic versus economic drivers of Vietnam's SCS disputes with China shows that while the former are long-established, the latter have gained momentum only after Vietnam started its economic reform under Doi Moi. Nevertheless, economic drivers are now playing a no-less-significant role in shaping Vietnam's perception of and strategy toward the SCS. Therefore, in order to better understand the evolving dynamics of Vietnam's SCS disputes with China, it is important to investigate how economic drivers are contributing to Vietnam's SCS strategy and the resultant course of action it is undertaking, as well as evaluate their implications for future prospects of the disputes.

Since the late 1980s, Vietnam's reliance on the SCS for its economic development has been increasing. In particular, the sea plays a vital role in the development of Vietnam's South China Sea Disputes with China, Vietnam's oil and gas and fishery industries, which in turn help boost the country's economic growth under Doi Moi significantly.

Vietnam has good strategic motivation to be comfortable with multilateral arrangements in dealing with powerful China. ASEAN can indeed bring to Vietnam's table two important things: the first is its normative clout. From Vietnam's stance, given the power discrepancy

with China, having ASEAN defend the validity of existing rules and procedures, and their usefulness in dispute management in the SCS is a major asset.

Vietnam's main concern is whether China's rise will enhance or undermine its national security. Actually, this worry was aroused even before Chinese power emerged rapidly, stemming from a long history of dominance by China in the region and its policy of aggression threatening neighboring countries, notably the Vietnam–China border conflict in 1979 or current territorial disputes in the SCS. Vietnam does not own a wide range of alternatives to falling under the shadow of the dragon, which would be a “nightmare” to it. Therefore, it is crucial to create a “social contract” with powers from inside and outside the region, which includes a commitment about use of power, methods to solve common issues, and rules to be utilized as common norms of the community. For Vietnam, this is the appropriate time to foster this process, before the power scale inclines completely to one side.

To conclude, economic relations between Vietnam and China improved significantly specially trade, investment, and development assistance etc. China has been an important trading partner for Vietnam and will continue to be so in the foreseeable future. Moreover, bordering provinces have gained direct benefits such as improvement in infrastructure, free flow of goods, services, labour etc. from free flow of border trade activities with the GMS cooperation. Vietnam has also achieved significant improvement in its living standard, economic progress and stronger economic ability by being a part of regional agreement like ACFTA with China. However, as far as investment is concerned, the impact of Chinese investment and ODA on the progress and development of Vietnam is still not clear as the volume of investment and assistance is still small.

Despite the gains brought by Vietnam's economic relations with China, there are still some challenges that exist in their relations such as the increasing trade deficit, illegal border trade as well as the territorial disputes etc. In order to strengthen their relations, Vietnam and China should cooperate to solve these issues, which will yield better profits and economic activities in the foreseeable future.

Appendix-1

DECLARATION ON THE CONDUCT OF PARTIES IN THE SOUTH CHINA SEA

The Governments of the Member States of ASEAN and the Government of the People's Republic of China,

REAFFIRMING their determination to consolidate and develop the friendship and cooperation existing between their people and governments with the view to promoting a 21st century-oriented partnership of good neighborliness and mutual trust;

COGNIZANT of the need to promote a peaceful, friendly and harmonious environment in the South China Sea between ASEAN and China for the enhancement of peace, stability, economic growth and prosperity in the region;

COMMITTED to enhancing the principles and objectives of the 1997 Joint Statement of the Meeting of the Heads of State/Government of the Member States of ASEAN and President of the People's Republic of China;

DESIRING to enhance favourable conditions for a peaceful and durable solution of differences and disputes among countries concerned;

HEREBY DECLARE the following:

1. The Parties reaffirm their commitment to the purposes and principles of the Charter of the United Nations, the 1982 UN Convention on the Law of the Sea, the Treaty of Amity and Cooperation in Southeast Asia, the Five Principles of Peaceful Coexistence, and other universally recognized principles of international law which shall serve as the basic norms governing state-to-state relations;
2. The Parties are committed to exploring ways for building trust and confidence in accordance with the above-mentioned principles and on the basis of equality and mutual respect;
3. The Parties reaffirm their respect for and commitment to the freedom of navigation in and overflight above the South China Sea as provided for by the universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea;
4. The Parties concerned undertake to resolve their territorial and jurisdictional disputes by peaceful means, without resorting to the threat or use of force, through friendly

consultations and negotiations by sovereign states directly concerned, in accordance with universally recognized principles of international law, including the 1982 UN Convention on the Law of the Sea;

5. The Parties undertake to exercise self-restraint in the conduct of activities that would complicate or escalate disputes and affect peace and stability including, among others, refraining from action of inhabiting on the presently uninhabited islands, reefs, shoals, cays, and other features and to handle their differences in a constructive manner.

Pending the peaceful settlement of territorial and jurisdictional disputes, the Parties concerned undertake to intensify efforts to seek ways, in the spirit of cooperation and understanding, to build trust and confidence between and among them, including:

- a. holding dialogues and exchange of views as appropriate between their defense and military officials;
- b. ensuring just and humane treatment of all persons who are either in danger or in distress;
- c. notifying, on a voluntary basis, other Parties concerned of any impending joint/combined military exercise; and
- d. exchanging, on a voluntary basis, relevant information.

6. Pending a comprehensive and durable settlement of the disputes, the Parties concerned may explore or undertake cooperative activities. These may include the following:

- a. marine environmental protection;
- b. marine scientific research;
- c. safety of navigation and communication at sea;
- d. search and rescue operation; and
- e. combating transnational crime, including but not limited to trafficking in illicit drugs, piracy and armed robbery at sea, and illegal traffic in arms.
- f. The modalities, scope and locations, in respect of bilateral and multilateral cooperation should be agreed upon by the Parties concerned prior to their actual implementation.

7. The Parties concerned stand ready to continue their consultations and dialogues concerning relevant issues, through modalities to be agreed by them, including regular consultations on the observance of this Declaration, for the purpose of promoting good neighborliness and transparency, establishing harmony, mutual understanding and cooperation, and facilitating peaceful resolution of disputes among them;

8. The Parties undertake to respect the provisions of this Declaration and take actions consistent therewith;

9. The Parties encourage other countries to respect the principles contained in this Declaration;

10. The Parties concerned reaffirm that the adoption of a code of conduct in the South China Sea would further promote peace and stability in the region and agree to work, on the basis of consensus, towards the eventual attainment of this objective.

Done on the Fourth Day of November in the Year Two Thousand and Two in Phnom Penh, the Kingdom of Cambodia.

For Brunei Darussalam



Mohamed Bolkiah
Minister of Foreign Affairs

For the People's Republic of China



Wang Yi
Special Envoy and
Vice Minister of Foreign Affairs

For the Kingdom of Cambodia



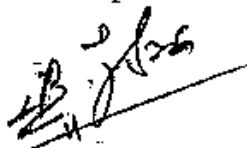
HOR Namhong
Senior Minister and Minister of
Foreign Affairs and International Cooperation

For the Republic of Indonesia



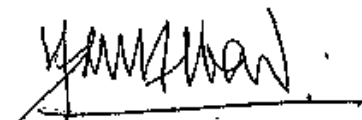
Dr. Hassan Wirayuda
Minister for Foreign Affairs

For the Lao People's Democratic Republic



Somsavat Lengsavad
Deputy Prime Minister and
Minister for Foreign Affairs

For Malaysia



Datuk Seri Syed Hamid Albar
Minister of Foreign Affairs

For the Union of Myanmar

Appendix-II

AGREEMENT ON TRADE IN GOODS OF THE FRAMEWORK AGREEMENT ON COMPREHENSIVE ECONOMIC CO-OPERATION BETWEEN THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS AND THE PEOPLE'S REPUBLIC OF CHINA

The Governments of Brunei Darussalam, the Kingdom of Cambodia, the Republic of Indonesia, the Lao People's Democratic Republic ("Lao PDR"), Malaysia, the Union of Myanmar, the Republic of the Philippines, the Republic of Singapore, the Kingdom of Thailand and the Socialist Republic of Vietnam, Member States of the Association of Southeast Asian Nations (collectively, "ASEAN" or "ASEAN Member States", or individually, "ASEAN Member State"), and the People's Republic of China ("China");

RECALLING the Framework Agreement on Comprehensive Economic Cooperation ("the Framework Agreement") between ASEAN and China (collectively, "the Parties", or individually referring to an ASEAN Member State or to China as a "Party") signed by the Heads of Government/State of ASEAN Member States and China in Phnom Penh, Cambodia on the 4th day of November 2002 and the Protocol to Amend the Framework Agreement on Comprehensive Economic Co-operation on the Early Harvest Programme signed by the Economic Ministers of the Parties in Bali, Indonesia on the 6th day of October 2003;

RECALLING further Articles 2(a), 3(1) and 8(1) of the Framework Agreement, which reflect the Parties' commitment to establish the ASEAN-China Free Trade Area (ACFTA) covering trade in goods by 2010 for ASEAN 6 and China and by 2015 for the newer ASEAN Member States;

REAFFIRMING the Parties' commitment to establish the ASEAN-China Free Trade Area within the specified timeframes, while allowing flexibility to the Parties to address their sensitive areas as provided in the Framework Agreement,

HAVE AGREED AS FOLLOWS:

ARTICLE 1

Definitions

For the purposes of this Agreement, the following definitions shall apply unless the context otherwise requires:

- (a) “WTO” means the World Trade Organization;
- (b) “the GATT 1994” means the General Agreement on Tariffs and Trade 1994, including Annex I (Notes and Supplementary Provisions);
- (c) “ASEAN 6” refers to Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand;
- (d) “newer ASEAN Member States” refers to Cambodia, Lao PDR, Myanmar and Viet Nam;
- (e) “applied MFN tariff rates” shall include in-quota rates, and shall:
 - (i) in the case of ASEAN Member States (which are WTO members as of 1 July 2003) and China, refer to their respective applied rates as of 1 July 2003; and
 - (ii) in the case of ASEAN Member States (which are non-WTO members as of 1 July 2003), refer to the rates as applied to China as of 1 July 2003;
- (f) “non-tariff measures” shall include non-tariff barriers;
- (g) “AEM” means ASEAN Economic Ministers;
- (h) “MOFCOM” means Ministry of Commerce of China;
- (i) “SEOM” means ASEAN Senior Economic Officials Meeting.

ARTICLE 2

National Treatment on Internal Taxation and Regulation

Each Party shall accord national treatment to the products of all the other Parties covered by this Agreement and the Framework Agreement in accordance with Article III of the GATT 1994. To this end, the provisions of Article III of the GATT 1994 shall, *mutatis mutandis*, be incorporated into and form an integral part of this Agreement.

ARTICLE 3

Tariff Reduction and Elimination

1. The tariff reduction or elimination programme of the Parties shall require the applied MFN tariff rates on listed tariff lines to be gradually reduced and where applicable, eliminated, in accordance with this Article 3

2. The tariff lines which are subject to the tariff reduction or elimination programme under this Agreement shall include all tariff lines not covered by the Early Harvest Programme under Article 6 of the Framework Agreement, and such tariff lines shall be categorized for tariff reduction and elimination as follows:

(a) Normal Track: Tariff lines placed in the Normal Track by each Party on its own accord shall have their respective applied MFN tariff rates gradually reduced and eliminated in accordance with the modalities set out in Annex 1 of this Agreement with the objective of achieving the targets prescribed in the thresholds therein.

(b) Sensitive Track: Tariff lines placed in the Sensitive Track by each Party on its own accord shall have their respective applied MFN tariff rates reduced or eliminated in accordance with the modalities set out in Annex 2 of this Agreement.

3. Subject to Annex 1 and Annex 2 of this Agreement, all commitments undertaken by each Party under this Article shall be applied to all the other Parties.

ARTICLE 4

Transparency

Article X of the GATT 1994 shall, *mutatis mutandis*, be incorporated into and form an integral part of this Agreement.

ARTICLE 5

Rules of Origin

The Rules of Origin and the Operational Certification Procedures applicable to the products covered under this Agreement and the Early Harvest Programme of the Framework Agreement are set out in Annex 3 of this Agreement.

ARTICLE 6

Modification of Concessions

1. Any Party to this Agreement may, by negotiation and agreement with any Party to which it has made a concession under this Agreement, modify or withdraw such concession made under this Agreement.
2. In such negotiations and agreement, which may include provision for compensatory adjustment with respect to other products
3. the Parties concerned shall maintain a general level of reciprocal and mutually advantageous concessions not less favourable to trade than that provided for in this Agreement prior to such negotiations and agreement.

ARTICLE 7

WTO Disciplines

1. Subject to the provisions of this Agreement and any future agreements as may be agreed pursuant to reviews of this Agreement by the Parties under Article 17 of this Agreement, the Parties 1 hereby agree and reaffirm their commitments to abide by the provisions of the WTO disciplines on, among others, non-tariff measures, technical barriers to trade, sanitary and phytosanitary measures, subsidies and countervailing measures, antidumping measures and intellectual property rights.
2. The provisions of the WTO Multilateral Agreements on Trade in Goods, which are not specifically mentioned in or modified by this Agreement, shall apply, *mutatis mutandis*, to this Agreement unless the context otherwise requires.

ARTICLE 8

Quantitative Restrictions and Non-Tariff Barriers

1. Each Party undertakes not to maintain any quantitative restrictions at any time unless otherwise permitted under the WTO disciplines.
2. The Parties shall identify non-tariff barriers (other than quantitative restrictions) for elimination as soon as possible after the entry into force of this Agreement. The time frame for elimination of these non-tariff barriers shall be mutually agreed upon by all Parties.
3. The Parties shall make information on their respective quantitative restrictions available and accessible upon implementation of this Agreement.

ARTICLE 9

Safeguard Measures

1. Each Party, which is a WTO member, retains its rights and obligations under Article XIX of the GATT 1994 and the WTO Agreement on Safeguards.

2. With regard to ACFTA safeguard measures, a Party shall have the right to initiate such a measure on a product within the transition period for that product. The transition period for a product shall begin from the date of entry into force of this Agreement and end five years from the date of completion of tariff elimination/reduction for that product.
3. Non-WTO members of ASEAN shall abide by the WTO provisions in accordance with their accession commitments to the WTO.
4. Non-WTO members of ASEAN shall phase out their quantitative restrictions 3 years [Vietnam: 4 years] from the date of entry into force of this Agreement or in accordance with their accession commitments to the WTO, whichever is earlier.

A Party shall be free to take ACFTA safeguard measures if as an effect of the obligations incurred by that Party, including tariff concessions under the Early Harvest Programme of the Framework Agreement or this Agreement, or, if as a result of unforeseen developments and of the effects of the obligations incurred by that Party, including tariff concessions under the Early Harvest Programme of the Framework Agreement or this Agreement, imports of any particular product from the other Parties increase in such quantities, absolute or relative to domestic production, and under such conditions so as to cause or threaten to cause serious injury to the domestic industry of the importing Party that produces like or directly competitive products. If an ACFTA safeguard measure is taken, a Party taking such a measure may increase the tariff rate applicable to the product concerned to the WTO MFN tariff rate applied to such product at the time when the measure is taken.
5. Any ACFTA safeguard measure may be maintained for an initial period of up to 3 years and may be extended for a period not exceeding 1 year. Notwithstanding the duration of an ACFTA safeguard measure on a product, such measure shall terminate at the end of the transition period for that product.

6. In applying ACFTA safeguard measures, the Parties shall adopt the rules for the application of safeguard measures as provided under the WTO Agreement on Safeguards, with the exception of the quantitative restriction measures set out in Article 5, and Articles 9, 13 and 14 of the WTO Agreement on Safeguards. As such, all other provisions of the WTO Agreement on Safeguards shall, *mutatis mutandis*, be incorporated into and form an integral part of this Agreement.

7. An ACFTA safeguard measure shall not be applied against a product originating in a Party, so long as its share of imports of the product concerned in the importing Party does not exceed 3% of the total imports from the Parties.

8. In seeking compensation under Article 8 of the WTO Agreement on Safeguards for an ACFTA safeguard measure, the Parties shall seek the good offices of the body referred to in paragraph 12 to determine the substantially equivalent level of concessions prior to any suspension of equivalent concessions. Any proceedings arising from such good offices shall be completed within 90 days from the date on which the ACFTA safeguard measure was applied.

9. On a Party's termination of an ACFTA safeguard measure on a product, the tariff rate for that product shall be the rate that, according to that Party's tariff reduction and elimination schedule, as provided in Annex 1 and Annex 2 of this Agreement, would have been in effect commencing on 1 January of the year in which the safeguard measure is terminated.

10. All official communications and documentations exchanged among the Parties and to the body referred to in paragraph 12 relating to any ACFTA safeguard measures shall be in writing and shall be in the English language.

11. When applying ACFTA safeguard measures, a Party shall not have simultaneous recourse to the WTO safeguard measures referred to in paragraph 1.

12. For the purpose of this Article, any reference to “Council for Trade in Goods” or the “Committee on Safeguards” in the incorporated provisions of the WTO Agreement on Safeguards shall, pending the establishment of a permanent body under paragraph 1 of Article 16, refer to the AEM-MOFCOM, or the SEOM-MOFCOM, as appropriate, which shall be replaced by the permanent body once it is established.

ARTICLE 10

Acceleration of Commitments

Nothing in this Agreement shall preclude the Parties from negotiating and entering into arrangements to accelerate the implementation of commitments made under this Agreement, provided that such arrangements are mutually agreed to and implemented by all the Parties.

ARTICLE 11

Measures to Safeguard the Balance of Payments

Where a Party is in serious balance of payments and external financial difficulties or threat thereof, it may, in accordance with the GATT 1994 and the Understanding on Balance-of-Payments Provisions of the GATT 1994, adopt restrictive import measures.

ARTICLE 12

General Exceptions

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between the Parties where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by a Party of measures:

- (a) Necessary to protect public morals;
- (b) Necessary to protect human, animal or plant life or health;
- (c) Relating to the importations or exportations of gold or silver;
- (d) Necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to customs enforcement, the enforcement of monopolies operated under paragraph 4 of Article II and Article XVII of the GATT 1994, the protection of patents, trademarks and copyrights, and the prevention of deceptive practices;
- (e) Relating to the products of prison labour;
- (f) Imposed for the protection of national treasures of artistic, historic or archaeological value;
- (g) Relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption;
- (h) undertaken in pursuance of obligations under any intergovernmental commodity agreement which conforms to criteria submitted to the WTO and not disapproved by it or which is itself so submitted and not so disapproved;
- (i) Involving restrictions on exports of domestic materials necessary to ensure essential quantities of such materials to a domestic processing industry during periods when the domestic price of such materials is held below the world price as part of a governmental stabilization plan; *Provided* that such restrictions shall not operate to increase the exports of or the protection afforded to such domestic industry, and shall not depart from the provisions of this Agreement relating to nondiscrimination;
- (j) Essential to the acquisition or distribution of products in general or local short supply; *Provided* that any such measures shall be consistent with the principle that all Parties are entitled to an equitable share of the international supply of such products, and that any such measures, which are inconsistent with the other provisions of this Agreement shall be discontinued as soon as the conditions giving rise to them have ceased to exist.

ARTICLE 13

Security Exceptions

Nothing in this Agreement shall be construed:

(a) To require any Party to furnish any information the disclosure of which it considers contrary to its essential security interests;

(b) To prevent any Party from taking any action which it considers necessary for the protection of its essential security interests, including but not limited to:

(i) Action relating to fissionable materials or the materials from which they are derived;

(ii) action relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as is carried on directly or indirectly for the purpose of supplying a military establishment;

(iii) Action taken so as to protect critical communications infrastructure from deliberate attempts intended to disable or degrade such infrastructure;

(iv) Action taken during the time of war or other emergency in domestic or international relations; or

(c) To prevent any Party from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security.

ARTICLE 14

Recognition of China's Market Economy Status

Each of the ten ASEAN Member States agrees to recognise China as a full market economy and shall not apply, from the date of the signature of this Agreement, Sections 15 and 16 of the Protocol of Accession of the People's Republic of China to the WTO and Paragraph 242 of the Report of the Working Party on the Accession of China to WTO in relation to the trade between China and each of the ten ASEAN Member States.

ARTICLE 15

State, Regional and Local Government

In fulfilling its obligations and commitments under this Agreement, each Party shall ensure their observance by regional and local governments and authorities in its territory as well as their observance by non-governmental bodies (in the exercise of powers delegated by central, state, regional or local governments or authorities) within its territory.

ARTICLE 16

Institutional Arrangements

1. Pending the establishment of a permanent body, the AEM-MOFCOM, supported and assisted by the SEOM-MOFCOM, shall oversee, supervise, coordinate and review the implementation of this Agreement.
2. The ASEAN Secretariat shall monitor and report to the SEOMMOFCOM on the implementation of this Agreement. All Parties shall cooperate with the ASEAN Secretariat in the performance of its duties.
3. Each Party shall designate a contact point to facilitate communications between the Parties on any matter covered by this Agreement. On the request of a Party, the contact point of the requested Party shall identify the office or official responsible for the matter and assist in facilitating communication with the requesting Party.

ARTICLE 17

Review

1. The AEM-MOFCOM or their designated representatives shall meet within a year of the date of entry into force of this Agreement and then biennially or otherwise as appropriate to review this Agreement for the purpose of considering further measures to liberalize trade in goods as well as develop disciplines and negotiate agreements on matters referred to in

Article 7 of this Agreement or any other relevant matters as may be agreed.

2. The Parties shall, taking into account their respective experience in the implementation of this Agreement, review the Sensitive Track in 2008 with a view to improving the market access condition of sensitive products, including the further possible reduction of the number of products in the Sensitive Track and the conditions governing the reciprocal tariff rate treatment of products placed by a Party in the Sensitive Track.

ARTICLE 18

Annexes and Future Instruments

This Agreement shall include:

- (a) The Annexes and the contents therein which shall form an integral part of this Agreement: and
- (b) All future legal instruments agreed pursuant to this Agreement.

ARTICLE 19

Amendments

This Agreement may be amended by the mutual written consent of the Parties.

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