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The Belt and Road Initiative in Vietnam: Challenges and Prospects

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INTRODUCTION

China's Belt and Road Initiative (BRI) has attracted significant attention from the international community for the sheer size of potential economic opportunities that it is expected to bring the world. Although China's official propaganda describes the BRI as a broad, comprehensive initiative that includes policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people connections (Xinhua, 2017b), it's China's proposal to create massive networks of infrastructure across Asia, Africa and Europe, including roads, railways, harbours, airports, pipelines, and fibre optic, that is most appealing to regional countries.

Vietnam, which is included in the BRI's geographical scope and has a great need for infrastructure investments, stands to benefit from the Initiative. However, apart from some statements welcoming the BRI and proposing principles for its implementation, Vietnam's reactions to the Initiative remain largely ambivalent because of the complex political, economic and strategic relationship between the two countries. This essay will analyse the BRI's implications for Vietnam, Vietnam's initial responses to the Initiative, and its future prospects in the country.

BRI'S APPEALS AND VIETNAM'S INITIAL REACTIONS

The BRI is an important source of funding that Vietnam may want to tap to finance its infrastructure projects. Vietnam's demand for infrastructure investments will keep increasing in the coming years. However, the country is facing challenges in meeting this need because of the decreased inflow of official development assistance (ODA) following its attainment of the middle-income country status in 2009; difficulties in promoting Public Private Partnership projects arising from tightening financial and legal regulations; and limited state-funded investment due to budgetary constraints (Kim Hiền, 2017). According to the Global Infrastructure Outlook (Global Infrastructure Hub, 2017), Vietnam's need for infrastructure investment between 2016 and 2040 amounts to US$605 billion, with the sectors of electricity and roads specifically accounting for 43.8 per cent and 22.1 per cent, respectively, of this need. Notably, the gap between investment need and current trends of investment is a staggering US$102 billion. This means that Vietnam will have to actively seek different sources of funding to cover the gap.

Table 1: Vietnam's cumulative infrastructure investment (2016-2040)

Billion $US, 2015 prices and exchange rates	Road	Rail	Airports	Ports	Telecoms	Electricity	Water	Total
2016-2040 (Current trends)	79	15	4	0	99	256	50	503
2016-2040 (Investment need)	134	21	5	9	99	265	72	605
2016-2040 (Gap between IN and CT)	55	6	1	8	0	9	23	102

Source: Adapted from Global Infrastructure Hub (2017, p. 150).

Vietnam has therefore endorsed the BRI as well as the China-led Asian Infrastructure Investment Bank (AIIB). During AIIB president Qin Liqun's visit to Vietnam in March 2017, Vietnamese Prime Minister Nguyen Xuan Phuc urged the AIIB to invest into Vietnam's infrastructure, especially by sponsoring projects developed by private investors (Xinhua, 2017a). Two months earlier, at a meeting with General Secretary of the Communist Party of Vietnam (CPV) Nguyen Phu Trong during Mr Trong's visit to Beijing, AIIB President Jin also confirmed that AIIB would like to invest in Vietnam's infrastructure development, especially in railways, highways and seaports (Vietnam News, 2017a).

In May 2017, Vietnamese President Tran Dai Quang attended the Belt and Road Forum for International Cooperation in Beijing. Speaking at the Forum, Mr Quang welcomed the BRI along with efforts to promote economic and regional connectivity. He also proposed principles for the implementation of the Initiative. Specifically, he emphasized that cooperation within the Initiative "must ensure sustainability, effectiveness and inclusiveness, and be based on the principles of consensus, equality, voluntariness, transparency, openness, mutual respect and benefits, and compliance with the UN Charter and international law" (Vietnamnet, 2017).

During President Xi Jinping's visit to Hanoi in November 2017, the two countries signed a Memorandum of Understanding (MOU) on promoting connection between the "Two Corridors, One Belt" framework and the BRI. The "Two Corridors, One Belt" (TCOB) framework was proposed by China in 2003 to promote bilateral economic cooperation. The two "economic corridors," namely the Kunming-Lao Cai-Ha Noi-Hai Phong-Quang Ninh corridor and the Nanning-Lang Son-Ha Noi-Hai Phong-Quang Ninh corridor, were designed to improve connectivity between Yunnan and Guangxi with 12 cities and provinces in North Vietnam. Meanwhile, the Tonkin Gulf "economic belt" was meant to enhance economic cooperation between provinces of the two countries located around the Tonkin Gulf. However, the TCOB had not been implemented until it was revived and aligned with China's newly proposed BRI.

The signing of the MOU, however, does not guarantee that the BRI will see breakthroughs in Vietnam in the foreseeable future.

THE DOWNSIDES OF BRI LOANS AND VIETNAM'S HESITATIONS

Firstly, Vietnam is generally cautious about the Initiative's implications for the country. It took the two countries two years to negotiate the MOU, implying that the two sides had some disagreements on its content, especially concerning areas of priority. The title of the MOU, which highlights the promotion of connection between the two initiatives, is also noteworthy, as it implies that TCOB is treated as a separate plan independent of the BRI. In other words, Vietnam is keen to maintain control over the TCOB plan and is unwilling to brand it as part of the BRI, at least not publicly.

Such a reservation is understandable given the lingering distrust between the two countries and rising anti-China sentiments in Vietnam due to recent tensions over the South China Sea disputes, especially following the 2014 oil rig crisis. While expressing formal support for the BRI is a necessary diplomatic move for Vietnam given the BRI's status as President Xi Jinping's signature foreign policy initiative, how to implement it is a matter of greater concern to Hanoi.

At the official level, President Tran Dai Quang's emphasis of such principles as consensus, equality, mutual respect, and compliance with the UN Charter and international law in the implementation of the BRI implies that Vietnam is being cautious about the economic, political and strategic implications of the BRI. In the same vein, some Vietnamese scholars have expressed concerns that the BRI has "implications that transcend economics". For example, at an international conference held in Hanoi in October 2017 on the opportunities and challenges presented by the BRI, they warned that Vietnam's participation in the initiative may lead to its "excessive dependence" on

China, and even harm its territorial and maritime claims in the South China Sea. They also highlighted other concerns, such as insufficient protection of labour rights, Chinese firms' poor environmental record, lack of transparency, and China's challenging of internationally recognised dispute settlement mechanisms. As such, they recommended that Vietnam and other countries look beyond mere economic gains when considering participation in the BRI (Vietnam News, 2017b).

Secondly, although China is keen to fund projects such as steel mills, coal-fired power plants, high speed railways and highways, Vietnam is unlikely to consider getting Chinese loans for these projects as a top priority. On the one hand, as Dr Pham Sy Thanh from the Vietnam Economic and Policy Research Institute (VEPR) has pointed out, getting Chinese loans is neither "cheap" nor "easy" (Dan Tri, 2016). The interest rate of Chinese loans will not be as low as many expected. For example, the Thai government dismissed the 2.5 per cent interest rate offered by China for its high-speed rail line connecting Bangkok and Nakhon Ratchasima as being too high, and decided not to seek loans from China (Global Times, 2016). On the other hand, China normally imposes conditions on their preferential loans, including the use of Chinese technologies, equipment and contractors. In this regard, Vietnam's abundant experience with the poor record of Chinese contractors and technologies in various projects will dampen its willingness to take on Chinese loans through the BRI if they come with such conditions.

Thirdly, there are alternatives to the BRI that Vietnam would like to explore to finance its infrastructure projects, including loans from international financial institutions and ODA partners, especially Japan. After Vietnam achieved its middle-income country status in 2011, loans from these sources have become more expensive, but there are upsides that still make them more attractive to Vietnam than BRI loans. For example, loans from international financial institutions generally come with fewer conditions, and there's no requirement on using contractors or equipment from any specific country. Meanwhile, although ODA loans from Japan do require Vietnam to use Japanese services and equipment in most of the cases, Japanese contractors and technologies are still perceived by the Vietnamese public as being more trustworthy than Chinese ones.

Another option for infrastructure development that Vietnam would like to promote is the Public-Private Partnership (PPP), especially the Build-Operate-Transfer (BOT) model. For example, from 2011 to 2017, Vietnam mobilized 200 trillion dongs (about US$9 billion) in PPP investments from private businesses (Đông, 2017). Despite certain setbacks, PPP projects will continue to be a major tool for Vietnam to develop its infrastructure systems, including large-scale ones, as they can help relieve the state of financial burden and international obligations. Recently, for example, two private companies have proposed to build two metro lines in Hanoi under the PPP scheme.

BRI'S PROSPECTS IN VIETNAM

The above analysis suggests that despite Vietnam's enormous need for infrastructure investment and its largely positive responses to the BRI so far, Vietnam will be cautious, if not reluctant, in applying for BRI loans. As a consequence, the implementation of the BRI in Vietnam is likely to be slow.

So far, no new infrastructure project in Vietnam has been officially labelled as BRI-funded, although the Cat Linh – Ha Dong metro line in Hanoi, which has been under construction since October 2011, has been quietly classified as such by both sides. More specifically, the initial total cost for the project was US$552 million, of which US$419 million came from loans provided by China Eximbank. Later, however, due to cost overruns, the total investment was increased to US$891 million and China agreed to provide an additional loan of US$250 million for the project (VnExpress, 2018). It is this new loan, which was released in 2017, that has unofficially been considered by both sides as part of the BRI.

At the same time, AIIB has indicated that it is seeking to finance suitable projects in Vietnam, with the first expected to be identified in 2017 (Wall Street Journal, 2017). However, according to AIIB's website, no such project has yet been approved or even proposed.

In coming years, whether the BRI will be successfully implemented in Vietnam will continue to depend on Hanoi's evolving perception of the Initiative. On the one hand, Vietnam's budget deficit is likely to persist, causing public-funded investment in infrastructure projects to fall. As such, Vietnam's interest in the BRI is likely to stand. Vietnam may apply for one or two "pilot" projects to get a better assessment of the upsides as well as downsides of BRI loans. However, due to rising public debt, Vietnam may refrain from applying for government-to-government loans. Instead, it may encourage domestic private investors to apply for BRI loans, especially from AIIB, to construct infrastructure projects under the BOT model. This measure will also reduce the political and strategic implications of BRI loans for Vietnam.

Vietnam's perception of the BRI will also depend on the commercial terms of BRI loans as well as the credibility of Chinese contractors and technologies. In this regard, Vietnam will not only observe the performance of China-funded projects within the country but also BRI-funded projects in other parts of the world. In other words, in order to ensure the BRI's long-term success in Vietnam and elsewhere, it is essential for China to make sure that the performance of the first batch of BRI projects meet the expectations of not only the beneficiary countries but also of the international community.

Finally, the ongoing South China Sea disputes may prove to be a wild card in determining Vietnam's perception of the BRI, and thus its future prospects in the country. Should the dispute intensify and bilateral relations come under greater tensions, Vietnam will become more sensitive to the political and strategic implications of the Initiative. By the same token, if the situation remains calm, and the two sides achieve progress in the management of the disputes, such as the conclusion of a Code of Conduct (COC), Vietnam will be more willing to embrace the BRI.

In sum, there is little doubt that the BRI will face significant challenges in Vietnam. China should acknowledge these challenges and work with both domestic stakeholders and Vietnamese partners to address them. In the meantime, although the actual implementation of the BRI in Vietnam may be slow, it is almost certain that Hanoi will continue to lend diplomatic support to the Initiative as a measure to strengthen the overall relations with Beijing. And as the BRI helps promote China's stature as a benevolent power and provider of international public goods, such diplomatic support for the BRI from Vietnam, even if limited, will still be of value to China.

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