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# Geoeconomic and foreign policy implications of Vietnam's economic dependency on China

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## Abstract

**Purpose** – This research aims to offers a new method for assessing geoeconomic risks in bilateral relations and evaluate the level of such risks from Vietnam's economic dependency on China.

**Design/methodology/approach** – I apply descriptive analysis to identify asymmetrical dependency in Vietnam–China economic relations and propose a geoeconomic risk assessment framework to evaluate risk levels in bilateral economic linkages.

**Findings** – The proposed geoeconomic risk framework assesses risk levels, which are positively influenced by the degree of asymmetrical relations (vulnerabilities), the net impacts on the receiving economy (impacts) and the sending state's ability to control economic tools (threats). In contrast, risk levels are negatively affected by the effectiveness of existing mitigation efforts. The framework employs ordinal likelihood scales to rank various risk levels. In the context of Vietnam–China relations, market access for agricultural products and control of the Mekong water emerge as the most risky areas for economic coercion, followed by Chinese official development finance in infrastructure and critical input imports. On the other hand, debt dependency and foreign direct investment in the energy sector are considered more secure areas—less likely targets for economic coercion. Hence, risk mitigation strategies should prioritize reducing asymmetry in vulnerable dependence areas while maintaining current practices in more secure areas.

**Originality/value** – Methodologically, it introduces a new approach for assessing bilateral geoeconomic risk. Empirically, it provides Vietnam's policymakers with a comprehensive evaluation of the implications of economic interdependence with China.

**Keywords** Geoeconomic risk, Risk assessment framework, Economic interdependence, Vietnam-China economic relations, Economic statecraft

**Paper type** Research paper

## 1. Introduction

The increasing global economic integration has enabled states to exploit economic interdependence for non-economic purposes, including advancing political objectives, retaliating against perceived transgressions and forging alliances, as seen in the escalating trend of "economic warfare" [1]. Countries are actively seeking to manipulate economic relations for strategic ends, evident in notable instances such as the US-China trade conflict from 2018 to 2021, the South Korea-Japan trade dispute in 2019 and economic sanctions imposed on Russia following the Russia-Ukraine War in 2022. From the manipulation of trade ties for political coercion to the strategic implementation of economic sanctions, such tactics are observed globally, ranging from developed to developing nations. For example, China

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conditioned diplomatic ties on the adherence to its One China Policy, Japan restricted high-tech material exports to South Korea over *comfort women* issue and concerns over China's Belt and Road Initiatives (BRI) potentially creating unsustainable debts used for geopolitical leverage [2].

Increasingly aware of another Achilles heel deriving from economic integration, political scientists and policymakers are growing more cautious about risking economic dependence and security conforming with any one partnered country. David Baldwin first coined the term "economic statecraft" in 1985 to describe this tactic. A common thread among these incidents is that countries with skewed economic dependence on a single partner are more vulnerable to the use of economic statecraft. If, in peacetime, economic transaction is a stabilizer for bilateral relations and fuels growth and prosperity, conflicting times see economic linkages as a source of destabilization as sanctions, trade wars and other retaliatory measures exploit this connectedness to achieve their political goals. For example, while benefiting from globalization, China's policymakers saw it as a strategy by the West to spread American-style liberal democracy to Communist countries. Nowadays, China's policymakers want to promote the Chinese development model to achieve the exact same goal [3].

In the context of territorial disputes in the East Sea [4], rising great power rivalry between the USA and China, the deep but asymmetrical linkages between the China and Vietnam give Beijing the ability to use economic ties to coerce and retaliate against Hanoi. Concerns about this issue have been raised among Hanoi political leaders. If in the past 30 years, Vietnam's economic diplomacy mainly aimed at promoting economic growth and international cooperation, there is now a call for it to prepare for political and security challenges posed by economic overdependence (Nguyen & Phung, 2020). In 2014, then-Prime Minister Nguyen Tan Dung issued Decision No. 2146 calling for "avoiding dependence on a single import market" [5]. In 2021, at the 13th National Congress, the Vietnam Communist Party leaders emphasized the need to "improve the economy's resilience to negative impacts from external fluctuations." They highlighted the possibility that economic transactions could be leveraged for political purposes. Public sentiment toward China also expressed skepticism about Chinese motives for economic involvement and the presence of Chinese investors in critical infrastructure projects in Vietnam, such as the 2018 protest over 99-year land lease in Vietnam's special economic zone.

The strategic use of economic relations and the nexus between economics and security make smaller economies like Vietnam more hesitant to engage in economic transactions with great powers like China. In fact, the fear of retaliation economically by China has driven out potential economically prudent Chinese projects and investments in Vietnam. As far as national security is concerned, Chinese and foreign investors are barred from owning or participating in several critical infrastructure projects in the country. Hanoi, regardless of being a signatory member of the BRI, has only implemented two BRI projects [6] after five years of signing a Memorandum of Understanding (MOU) with Beijing as skepticism over malign intents of "debt trap" (Le, 2019). The misalignment between economic interests and security concerns is disrupting the natural equilibrium of bilateral transactions, leading to deadweight loss scenarios where economic engagements are either entirely avoided or result in economic retaliation by China.

Motivated to project the strategic use of China's geoeconomic tactic, this paper aims to answer the following three research questions:

*RQ1.* What are the current characteristics of Vietnam's economic dependency on China?

*RQ2.* What are the risks of China exercising economic punishment toward Vietnam? and

*RQ3.* How should Vietnam prepare to mitigate geoeconomic risks from engaging with China?

The three research questions can be answered by following a concept of geoeconomic risks and a proposed framework of risk assessment. This paper focuses on how geoeconomic tools are leveraged for punishment, which is when the receiving economy should prioritize mitigation efforts. To answer question (1) on the characteristics of bilateral economic dependency, the author will use descriptive analysis to examine official data on various economic relations aspects, including trade and investment. Question (2) on the risk of economic punishment will be addressed by evaluating the latency and effectiveness of China's economic tools and their ability to achieve their goals. The conclusion for question (3) is drawn from the answers to Questions (1) and (2), along with a review of Vietnam's current approach to mitigating geoeconomic risks.

This research is structured as follows. Section 2 provides a theoretical framework for understanding the tools and mechanisms of geoeconomics and the economic-security nexus by reviewing the literature on its conceptualization. It also explores how geoeconomic risks are measured and proposes a concrete framework to assess such risks at the state level. Following this framework, Section 3 assesses three aspects of Vietnam's economic interdependence on China, including trade, investment and financial and resource interdependence. It applies the geoeconomic risk framework to review the vulnerabilities, threats, impacts and mitigation efforts in each dependency. Section 4 draws implications for Vietnam's foreign policy pertaining to managing geoeconomic risks in its relations with China. Section 5 concludes the paper.

## 2. Theoretical framework

### *2.1 Conceptualization of geoeconomics*

It is against the backdrop of a more integrated global economy that geoeconomics is increasingly resorted to as a part of major powers' grand strategy. Wigell and Scholvin (2018) argue that this type of strategic competition driven by economic means is becoming a dominant force, gradually replacing military and political means in major powers' grand strategy. As military balancing declined, soft-balancing by non-military means, such as forming economic alliances and building alternative economic structures to replace the existing ones, became a common policy practice (Barma, Chiozza, Ratner, & Weber, 2009). The formation of the BRICS Bank, the Asian Infrastructure and Investment Bank (AIIB) and the attempts to replace SWIFT are some examples of this soft balancing in a *low politics* context. However, instead of being the sole front of strategic competition, economic and military instruments coexist and are deployed together to achieve the strategic interest of a country, depending on specific contexts and problems at hand. Blackwill and Harris (2016) and Baracuhy (2018) maintain that military and economics are two complementary dimensions of statecraft or "two sides of the same coin," as they mutually reinforce each other.

As a field of study, geoeconomics examines how economic activity is influenced by geographical factors such as location and transportation networks and looks at how economic policies and practices can shape the political and social landscape of a region (see Hudson, Ford, Pack, & Giordano, 1991; Hsiung, 2009; Mattlin & Wigell, 2016, Blackwill & Harris, 2016). In strategic study, Luttwak (1990), the modern pioneer in looking at the use of economic tools for strategic purposes, first coined the term "geoeconomics" to describe "the use of economic instruments to promote and defend national interests, including the use of economic sanctions, export controls, and foreign aid." According to Luttwak, geoeconomics is concerned with the role of economic power in shaping international relation (IR) and the use of economic instruments to achieve foreign policy goals.

*Geoeconomics, economic statecraft* or *economic diplomacy* are often used interchangeably in the context of IR. *Economic diplomacy* is an umbrella term for all foreign policies conducted under economic activities. Geographically concerned, the denote "geo-" in *geoeconomics*

emphasizes a spatial dimension of "what would otherwise simply be economics, politics and strategy" (Baracuhy, 2018). While *economic statecraft* refers to the economic punishment (and the lifting of thereof) to divert an undesirable policy. Blackwill and Harris (2016) call economic statecraft economic diplomacy or geo-economics. Nonetheless, economic statecraft and geoeconomics are part of economic diplomacy that focuses on the power-play end in the strand's spectrum. In the context of this paper, geoeconomics is used interchangeably with economic statecraft and economic diplomacy, referring to the use of economic tools to achieve geostrategic purposes. Although being a neighbor of China and a key player in the Indo-Pacific region is a significant factor in the bilateral context, the paper considers less with geographical dimension than with the exploitation of economic interactions between Beijing and Hanoi.

*2.2 Why does interdependence create strategic leverage in bilateral economic relations?*

According to Keohane and Nye (1977)'s complex interdependency theory, interdependence itself does not always constitute strategic leverage, but the breadth and depth of this interdependence play a determining role. Depth refers to how "deep" these entities integrate, while breadth measures the diversity of this integration. In this paper, the depth of economic interdependence refers to the "importance," i.e. weight of economic integration a country has with its partner, and breadth refers to how this connection is geographically distributed. If and only if an economy is too deeply integrated and too biasedly relied on one partner for their economic transaction, it would then turn to problematic interdependence (*vulnerability interdependence*). In other cases, economic interdependence actually promotes peace and stability as mutual sensitivity is created from interconnectedness (*sensitivity interdependence*). In his study of economic security, Christian Fjader (2018) also confirms this effect by arguing that interdependence manifests itself as a tricky dependence of one party on the other only when the relation is asymmetrical. There is also a high risk of security dilemma when the economic retaliation cycle applies and deteriorates, which in turn incurs costs to the sending economy.

Expanding this discourse, Kharlamova *et al.* (2021) offer an innovative approach by developing a methodology to calculate an economic security index that factors in geopolitical influences, thus quantifying the vulnerabilities and strategic leverage within economic interdependencies. The crisis in Ukraine, as analyzed by Gorenburg (2015), starkly illustrates how deep economic ties, if asymmetrically skewed, can expose nations to significant geopolitical vulnerabilities, highlighting a real-world application of vulnerability interdependence. Nesadurai (2004) discusses the importance of economic diversification in mitigating risks associated with deep-seated economic ties. She argues that a well-distributed breadth of economic interactions across multiple partners can substantially reduce the chances of falling into vulnerability interdependence, thus stabilizing economic security at a regional level. Papastamou (2023) further elucidates the critical interplay between stock market dynamics and geopolitical risks, emphasizing how informed investment decisions and economic diplomacy can strategically manage and mitigate the effects of vulnerability interdependence, safeguarding against economic shocks.

*2.3 Assessing geoeconomic risks: a scholarly survey*

There are multiple efforts to measure and manage geoeconomic risks. Notable contributions such as those by Karagozoglu, Wang, and Zhou (2022) have utilized empirical and textual analysis to provide quantitative insights, yet often these models do not fully account for the multidimensional economic variables and geopolitical nuances simultaneously, fall short of a comprehensive integration of economic data with geopolitical realities, treating them as separate rather than intertwined aspects of the

same phenomenon. van Staveren (2009) discusses the application of risk management in geotechnical projects, suggesting a model that could be adapted to geoeconomic assessments to enhance risk management practices.

Recent advancements also include the use of advanced machine learning techniques and big data to enhance the prediction of geoeconomic risks. By incorporating a diverse array of data sources, such as satellite imagery and international trade data, researchers like Wataru *et al.* (2022) aim to capture the intricate interdependencies between geopolitical events and economic outcomes. Moreover, the application of network analysis by Beaumier and Cartwright (2024) offers insights into how geopolitical tensions impact global supply chains, presenting countries and companies as nodes in an interconnected network, thus highlighting the propagation of economic disruptions. Furthermore, integrating scenario analysis with simulation models in different sectors, as discussed by Bohl, Mapes, and Hanna (2017), provides a dynamic framework for assessing economic risks under various geopolitical scenarios, testing the resilience of economic systems against potential stressors.

Despite these methodological innovations, significant challenges remain. The dependency on high-quality, timely data often leads to gaps in models, particularly, for regions or sectors where data is sparse or unreliable. Additionally, an overemphasis on quantitative techniques can neglect crucial qualitative factors, such as diplomatic ties and public sentiment, which, although difficult to quantify, play a critical role in shaping geoeconomic landscapes. Lastly, many models do not adequately reflect the rapidly evolving geopolitical climate, resulting in assessments that may quickly become outdated, underscoring the need for more thorough and integrative models.

Among the various general risk assessment methods, the Probability-Impact Assessment (PIA) stands out as an interdisciplinary and universal approach. It evaluates risk scores as the product of likelihood and impact, yet its application in geoeconomics remains unexplored. Employing this method to measure geoeconomic risks is both valid and prudent, primarily due to its widespread recognition and proven efficacy in diverse risk management domains. This approach is supported by numerous risk management frameworks, including ISO 31000 and PMBOK (Vargas & Campos, 2022), which underscore its robustness and adaptability across different risk contexts. The formula illustrates the Probability-Impact risk assessment:

$$Risk = Probability * Impact$$

This method enables systematic categorization and prioritization of risks based on their likelihood and potential impact, thereby facilitating a more structured analysis of geoeconomic uncertainties. Additionally, it accounts for the uncertainty and complexity of the operational environment, aspects that cannot be fully captured by a singular indicator such as in the geopolitical risk study by Caldara and Iacoviello (2022). The visual and intuitive nature of the Probability-Impact Matrix accompanying the method enhances clear communication of risk assessments and strategic planning. This accessibility makes it easier to identify which geoeconomic factors require immediate attention and resource allocation. Its broad applicability allows for its use in both firm-level and state-level decision-making, making it well-suited for the analysis level in this paper.

Adapted the PIA method, Falco and Rosenbach (2022) have proposed a model to evaluate cyber risk, which is expressed through the following formula:

$$Cyber\ risk = Threats * Vulnerabilties * \frac{Impact}{Mitigation}$$

In which, *threats* and *vulnerabilities* represent sources of intentional harm and internal weak points, respectively, equivalent to the likelihood or probability of an attack's occurrence.

The term $\frac{impact}{mitigation}$ reflects the effects of threats on the organization, analogous to the "impact" in the original PIA formula, with the addition that the impact on the organization will be reduced if successful mitigation efforts are in place.

Recognizing the relevancy and applicability of the cyber risk to the geoeconomic risk framework, the author borrows Falco and Rosenbach's approach and applies this PIA to measure geoeconomic risk, suggesting the geoeconomics risk framework in this paper as follows:

$$Geoeconomic\ risk_{ab} = \sum_{i}^{n} individual\ geoeconomic\ risk_i$$
$$= f_i(vulnerability_+, threat_+, impacts_+, mitigation_-)$$

In which:

(1) $Geoeconomicrisk_{ab}$: Comprehensive security risks posed by geoeconomic means from country $b$ to country $a$. This includes the identification of individual risk and its occurrence's likelihood.

(2) $Vulnerability_i$: The economic interdependence $i$ that creates vulnerabilities and undermines a country's security interest. The more asymmetrical this economic interdependence is on a partnering country, the more vulnerable the receiving country is to geoeconomic risks. Vulnerability can also intensify if a country does not have viable alternatives for economic relations to replace the current economic dependence. Vice versa, vulnerabilities can be lower if a country has diverse economic partners and a relatively low level of asymmetric interdependency.

(3) $Threats_i$: The ability Chinese state can control its economic tools. In order words, the level of state control on actors that are involved in economic relations.

(4) $Impact_i$: The overall consequences of a geoeconomics attack $i$ extend beyond the targeted economy $a$ to include repercussions for the originating economy $b$ as well. For instance, imposing a restriction on the export of essential materials can negatively impact both the industry of the recipient economy and the suppliers of raw materials in the sender's economy. This scenario could result in a decline in such exports, causing economic losses for both parties involved.

(5) $Mitigation_i$: The current efforts that country $a$ take to minimize vulnerabilities, threats and their impacts from $b$. Mitigation measures can target specific risk factors or adopt a systematic approach. Examples include diversifying trade relationships, setting investment standards and implementing prudent loan practices.

According to the complex interdependence theory, since only vulnerability interdependence generates strategic leverage or geoeconomic risk, a high probability of risk in bilateral economic relations is indicated by a high degree of asymmetrical relations (depth) and a lack of diversity in economic exchange with alternative partners (breadth). In this framework, these two components are reflected in the "*vulnerabilities*" term – equivalent to the internal weak points in the cyber risk framework. Further, the likelihood of geoeconomic risk is also impacted by the ability of the sender to exercise their geoeconomic coercion tool or "*threats*" in the equation. Given the mix of quantitative and qualitative data in bilateral economic relations, the author adjusts the framework to a general expression of positive and negative effects rather than assigning a mathematical expression as in the original PIA and cyber risk framework. In essence, a nation's geoeconomic risk results from the cumulative $n$ individual

risks stemming from each economic interaction (*i*). These individual risks are positively influenced by the degree of asymmetrical interdependence, the sender's control capabilities and the net impact on the recipient country.

*2.3.1 Threats in geoeconomic risk: an elaboration.* In this framework, threats or the ability of the Chinese state control their non-state actors to leverage economic tools for strategic purposes is less straightforward compared to the other components. Unlike the common belief that China is a strong authoritarian state with the government holding absolute power and having total control of all sectors of the economy, study on state power, especially in its economic leadership find conflicting evidence on how compliant commercial, non-state actors act following Beijing's direction. In some cases, commercial actors appear to play a dominant role in leading foreign policy initiatives, such as in the notable BRI. Jones and Zeng (2019) find that the BRI was originally formed by market-driven interaction between commercial actors. While Mazzucato (2015) and Yasuda (2021) point out that the nature of the authoritarian regime actually has limited the Chinese state the ability to develop a strong regulatory state, i.e. one with rulemaking via laws and institutions, as it lacks the "markers for regulatory independence, due process, and democratic accountability." As such, a high degree of control is often seen amongst state ownership of enterprises, not by regulations of non-state actors. By this logic, Beijing may have less power and influence over its non-state actors (via regulations) than state actors (via ownership), making the use of economic tools for non-economic purposes less viable.

In identifying the determinants of state control ability, Norris's (2016, Chapter 2) outlines two factors including intrinsic alignment between state goals and those of commercial actors engaged in economic activity and the reporting relationship between commercial firms and the state. Accordingly, a higher degree of similarity in goals and a direct reporting relationship (ownership) [7] would result in Beijing having a greater ability to control its economic actors, while divergent goals and an indirect relationship (regulatory) would be least effective in control. According to Norris, the ownership structure of SOEs and policy banks requires them to take orders from the government, typically reflecting Beijing's stances. In comparison, private sectors, motivated by market principles and cost-benefit rationale, may avoid acting politically – although they can be subject to regulatory controls by the state, making it costly to remain neutral and potentially prompting them to align with Beijing's interests. The author synthesizes Norris's and Mazzucato's findings into the "Chinese economic threats" in Table 1, which will be applied in the analysis of each type of geoeconomic risk in the later part of the paper.

Accordingly, a shared goal and direct ownership between Beijing and an economic actor will render such an economic tool the easiest to control (most likely). Conversely, divergent goals and an indirect relationship via regulation with the economic actor will pose the greatest challenge for Beijing to control the tool (least likely). In between these extremes, a shared goal is sufficient to prompt the economic actor to act in Beijing's interest, even if through regulatory interactions. However, direct ownership with conflicting goals may discourage the economic actor from adhering to Beijing's directives, thereby reducing the likelihood of state control over the tool (less likely).

**Table 1.** Chinese economic threats

| Report relationship | Goal compatibility<br>Divergent goals | Shared goals |
|---|---|---|
| Direct (ownership) | Less likely to control | Most likely to control |
| Indirect (regulatory) | Least likely to use | Likely to control |

**Source(s):** The author developed from Norris (2016) and Mazzucato (2015)

*2.3.2 Impacts of China's geoeconomic practice to Vietnam.* The utilization of economic tools can influence both the decision to employ such tools in the first place and the perception of the severity of geoeconomic risks by the receiving country, prompting them to proactively undertake mitigation measures. Two concurrent considerations for the impact exist: the extent of harm incurred by the receiving or target country and the associated cost to the sending country. The greater the harm inflicted on the receiving country, the more likely the tool is to yield enhanced bargaining power, thereby posing a higher geoeconomic risk. It is crucial to recognize that the impact is not solely economic but also extends to the political sphere. In the context of China, the potential cost of deploying a geoeconomic tool may include the loss of soft power and the jeopardization of counterbalancing efforts with the US by Vietnam. Table 2 summarizes the likelihood of coercive measures considering their net average impacts.

Accordingly, a high net impact of an economic tool renders it the most harmful and, consequently, most likely to be employed by the sending state. In contrast, a low net impact yielded by a tool makes it the least harmful, and Beijing is thus less likely to exercise the tool.

## 3. Assessing Vietnam's geoeconomic risks from engaging with China

This section assesses three main economic connections between China and Vietnam, namely, trade, investment and finance and resource linkages and examines whether these ties have the potential for economic coercion. For each linkage, the author applies a geoeconomic risk framework, looks comprehensively at the vulnerabilities (i.e. asymmetrical linkages), the threats (the ability of the Chinese state to exercise control of the tool) and the net impacts on Vietnam and the current risk mitigation efforts by Hanoi. A matrix summarizing each occurrence likelihood will be presented in Section 3.4.

### *3.1 Trade linkages*

*3.1.1 Vulnerabilities and the threats.* China is persistently Vietnam's largest trading partner, Vietnam's second largest export destination after the USA, and the largest import market (World Bank, 2023). Over the past decade, Vietnam has run a consecutive trade deficit with China. In 2022, the trade balance reached a record of US$-62 billion (negative), the most substantial bilateral trade deficit of Vietnam. This results from bilateral trade structure, wherein Vietnam primarily exports low-value-added products to China, while import predominantly higher-value-added products from the country. Figure 1 illustrates trade patterns between Vietnam and China in the period 2012–2022, while Figure 2 provides a detailed view of Vietnam's trade structure with China in 2022.

Although a trade deficit is not inherently bad, its persistence signals some vulnerable signs in bilateral economic relations. First, it indicates Vietnam's high reliance on Chinese inputs and products, making the domestic economy more vulnerable to external shock and supply chain disruption from China. Second, the accumulation of Chinese debts from these trade deficits over the long run could spell problematic if bilateral trade increases to denote in *renminbi* (CNY), leading to a growing dependence on the Chinese currency. While most

| Impact on sending state | Impact on receiving state<br>Low | High |
|---|---|---|
| Low | Likely to use | Most likely to use |
| High | Least likely to use | Less likely to use |

**Source(s):** The author develops

**Table 2.**
Economic impacts

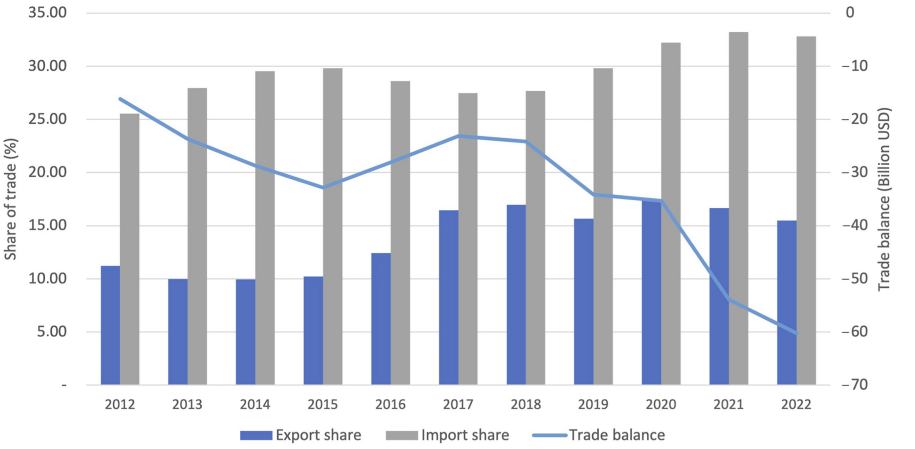



**Figure 1.**
China's trade relations with Vietnam, period 2012–2022

**Source(s):** Data from World Bank

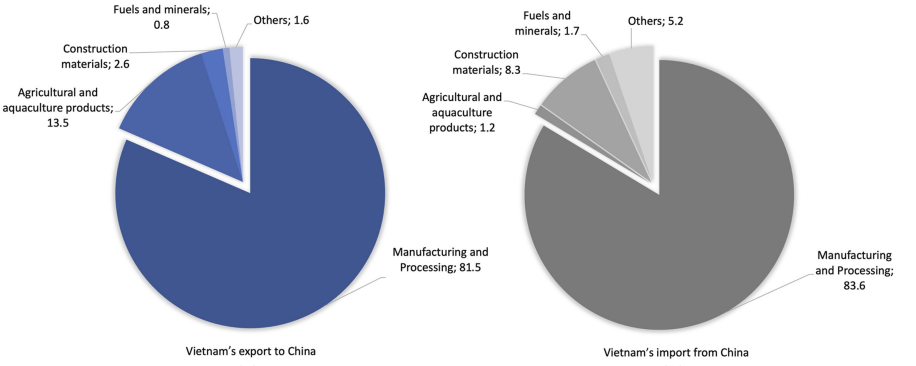



**Figure 2.**
Vietnam–China trade structure, by product category in 2022

**Source(s):** Data from Vietnam General Department of Customs

bilateral and regional transactions are still valued in USD, the war in Ukraine and the appreciation of USD in 2023 have accelerated the adoption of CNY in international settlement. In the short-run, Vietnamese companies have increasingly taken advantage of exchange rates in CNY instead of USD. From January 2023 to January 2024, CNY/VND dropped by 1.3%, while USD/VND increased by 4.57% (Currency, 2024), motivates importers of Chinese raw materials and goods to prefer CNY in their transactions (Pham, 2023). If this trend persists, the burden of CNY-denoted debts can be a source of vulnerability to the Vietnam economy as a whole [8]. Yet, the remoteness of the possibility of CNY becoming a currency for international transactions discounts its likelihood to be less probable in the near future.

Regarding import, the sector exhibits asymmetrical relations with China is constructions and materials (more than thrice its export to the country), which is prone to export control measures. When breaking down to the processing stage, a large part of these imports is used as inputs and intermediate goods (31% of total imports) for final processing. The heavy reliance on imported inputs from China can pose a risk for the domestic manufacturing

industry and certain strategic sectors such as the semiconductor industry, one of the identified critical sectors for national development in the next 10–30 years [9]. In terms of exports, Vietnam's agricultural and aquaculture sectors exhibit asymmetrical trade relations. China constitutes nearly a quarter of the sector's total exports, with exports to China exceeding imports by more than tenfold. Notably, 80% of these exports are fresh produce and fall under unofficial quotas, indicating a reliance on cross-border trade (GSO data; Luong Bang, 2022). This reliance renders the sector vulnerable to border control measures and unpredictable shifts in Chinese regulations.

Considering threats, it is clear that the Chinese state plays the most active role in setting standards, market access and border control measures, with compatible goals, making trade tools "the most likely to control".

*3.1.2 Impacts and current mitigation efforts.* Vietnam is making efforts to reduce its biased dependence on the Chinese market and imports by diversifying trading partners and enhancing domestic production capabilities. In 2021, Vietnam directed 28.69% of its total exports and 17% of its bilateral trade to the USA, followed by Korea, Japan, the European Union (EU) and Southeast Asian countries. Vietnam is also deepening international trade by participating in official bilateral and multilateral Free Trade Agreements (FTA). In the Indo-Pacific region, as of 2023, the country has 11 FTAs in effect, with only two involving China. Additionally, Vietnam is building its domestic capabilities to improve its position in the value chain, aiming to shift trade structures and enhance the trade deficit with China. However, these efforts face hindrances due to weak domestic supporting industries, making it challenging to move up the value chain [10].

Concerning vulnerabilities in exporting agricultural products, the Vietnamese Ministry of Industry and Trade (MoIT) has been signing protocols for exporting vegetables and fruits to encourage official border trade. Specifically, a draft decree revising Decree 14/2018 on border trade has been expedited to boost cross-border official quotas and prevent the abuse of trade for agricultural and aquaculture products. These official measures and signed contracts can help protect farmers and agricultural traders from subject to border control. However, it remains to be seen if Vietnam can persuade its sellers to shift to official channels, given the tariffs and bureaucratic processes involved.

Overall, Vietnam's trade dependency is problematic in its export of agricultural products to China (high net average impact – most likely to use), the reliance on Chinese intermediate goods for the production of electronic components critical to semiconductor industry (moderate impact, likely to use) and a growing trade deficit that gradually denotes in CNY (low impact – less likely to use).

### *3.2 Investment and financial linkages*

#### *3.2.1 Foreign direct investment (FDI).*

(1) The vulnerabilities and the threats

China is a major source of FDI for Vietnam. In the last decade, FDI inflow from China increased tenfold, reaching $7.3 billion in 2020, an average annual growth rate of 26.4%. China accounts for 5.9% of total registered capital in Vietnam as of December 2023, ranked sixth among top investors. Figures 3 and 4 illustrate the share of FDI stock in Vietnam by counterpart, and the flows of Chinese FDI to Vietnam from 2012 to 2022, respectively.

Regarding the investment structure, Chinese investment in Vietnam is in a wide range of sectors, including manufacturing, real estate and energy. Available data in 2017 by Vietnam Briefing shows that processing and manufacturing accounts for 61.4% of total investment, followed by investment in the production and distribution of electricity, gas and water (18.2%) and real estate (5.6%) (Dezan Shira & Associates, 2017).

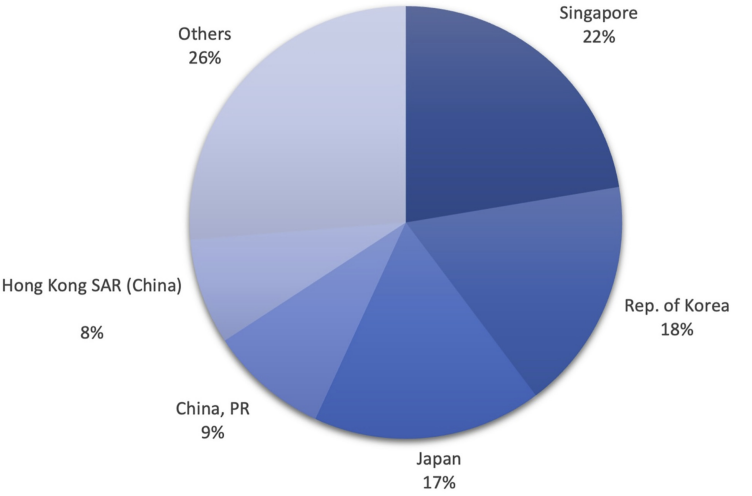



**Figure 3.**
FDI stock into Vietnam as of 2022, by counterpart

**Source(s):** Vietnam GSO

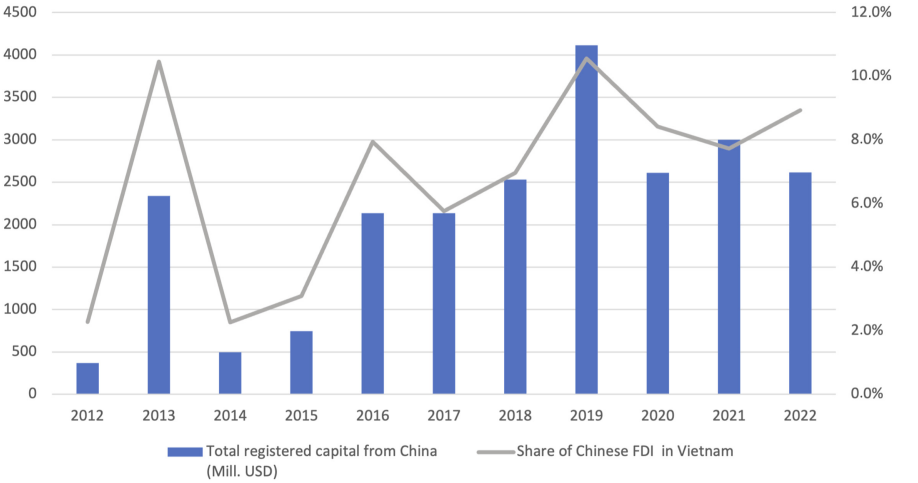



**Figure 4.**
Chinese FDI inflow to Vietnam, period 2012–2022

**Source(s):** Authors' collection from Vietnam statistical yearbooks 2012 – 2022, Vietnam GSO

The acceleration of Chinese investment in Vietnam's critical sectors, such as energy, is evident across various key projects. Chinese investors have actively participated in numerous substantial projects encompassing power plants, both thermal and most recently renewable. The Center for Research on Energy and Clean Air also notes that Chinese investments in Vietnam's energy sector tend to prioritize traditional energy sources, such as coal plants, over renewables. In fact, Vietnam ranks as the third-largest destination for Chinese coal investment globally. Recent years, however, have witnessed a surge in Chinese renewable investment in Vietnam, as Hanoi provides incentives to promote sustainable

development and more advanced technology adoption. In 2020, State Grid, a Chinese company, announced a significant investment of US$1.3 billion in renewable energy projects in the country.

Although FDI primarily involves non-sovereign and private investment, Chinese state-owned enterprises (SOEs) are predominantly present in large-scale ventures such as energy and infrastructure in Vietnam. Therefore, considering threats from FDI in energy is twofold. The first aspect involves the ability of Chinese states to control their private investors in smaller-scale energy projects, making it the least likely to control. The second aspect pertains to the ability Beijing controls its SOEs in larger investments, which enhance threats to "likely to control". On average, FDI in energy tools is considered "less likely to control" by China.

(2) The impacts and current mitigation efforts

To mitigate energy security risk, Vietnam has set a general preference for the ownership and operation structures of energy project investments. Although there is no foreign ownership restriction under the Investment Law, energy project investment is generally preferred in the form of joint ventures with Vietnamese SOE due to government incentives and guarantees. For instance, the China Southern Power Grid Company Limited collaborated with the Electricity of Vietnam Group (EVN) to generate approximately 33.4 billion kWh of electricity for Vietnam as of 2018. In some instances, Chinese firms engage in Vietnamese energy projects through Engineering, Procurement and Construction (EPC) contracts. Kaidi Vuhan – China Co. Ltd serves as the EPC contractor for thermal power plants like Hai Duong, Cam Pha 3 and Mao Khe. Despite ongoing efforts in recent years to equitize electricity supply and transmission in Vietnam, such as Circular 50, the ownership structure of these initiatives is under close scrutiny from the public and unlikely to shift over security concerns.

Further, the Vietnamese government also takes the initiative to prioritize investment in more sustainable energy sources and diversify its investment partners in the field while keeping a dominant role in domestic supply. Policies such as giving tax breaks, land rental exempt for investment in solar and wind energy have translated into a successful new wave of investment from not only Chinese investors but also Japan, Germany, the USA. Accordingly, Vietnam's energy sector has received US$36.6 billion FDI in 2023, with major investors in wind and solar energy including Germany, Singapore, India and Thailand.

Overall, the average impact if Chinese FDI is used to target the energy sector in Vietnam is low (or less likely to use) given the effective diversity and controlling effort from the Vietnam side.

*3.2.2 Official financing: development assistance and the Belt and Road Initiatives.*

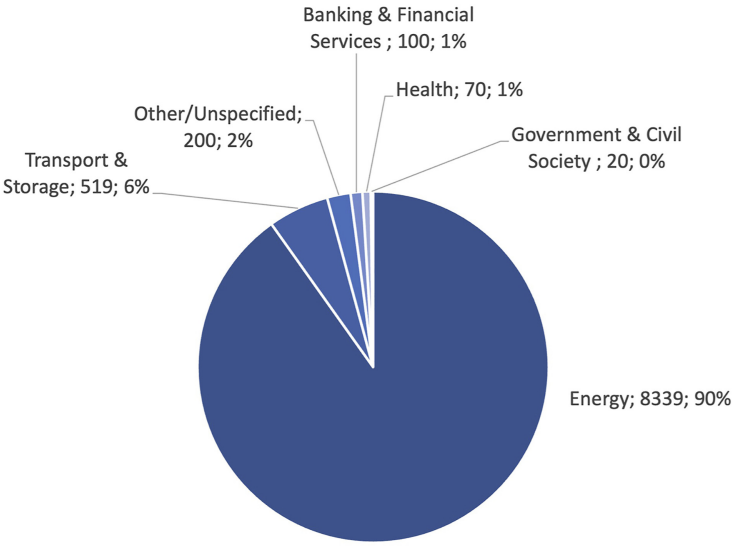
(1) The vulnerabilities and the threats

Besides FDI, China also invests in Vietnam in the form of official development finance (ODF) [11] via policy banks. As of 02/2023, China has invested in 19 major projects in Vietnam by official financing, with a total committed value of US$9.25 billion via the three international policy banks namely the AIIB, the China Export-Import Bank (CHEXIM) and China Development Bank (CDB), according to data by the Lowy Institute on Southeast Asia Aid Map (this section's data is primarily sourced from the Southeast Asia Aid Map by Lowy Institute (2023) unless indicated otherwise). A detailed list of Chinese-funded projects can be found in Appendix 1. From 2015 to 2021, China (excluding the AIIB) account for 18% of Vietnam's total ODF committed, only behind South Korea. However, it only accounts for 7% of total spent aid, suggesting a large part of Chinese financial commitment to the country is yet to realize. This is due to the slow nature of invested sector (energy and transportation), and a generally slow official development assistance (ODA) disbursement process by Vietnam.

Chinese ODF presents in Vietnam's critical infrastructure projects and the majority in the form of non-concessional loans [12]. By sector, China mainly finances energy (11 projects) and infrastructure and transportation (4 projects). By type, 95% of ODF from China is in the form of other official flows (OOF) [13], as categorized by OECD; only 3% is concessional loans (US$248 million of ODA loan) and 1% is ODA grant (US$92 million). Figure 5 illustrates the share of Chinese official finance into Vietnam by sector. Figure 6 details the types of Chinese ODF into Vietnam.

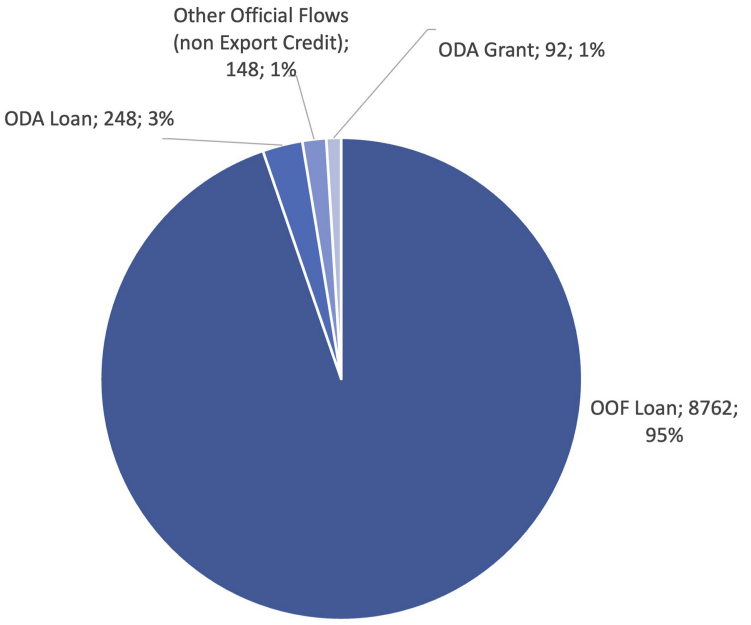
The involvement of Chinese public lenders in critical projects has given China leverage not only in shaping lending terms and participating in project contracting but also in playing a determining role in setting quality standards and project completion time. In fact, more than 70% of Chinese ODA and OOF projects in Vietnam have Chinese EPC contractors [14] (Abdullah & Daud, 2020). Chinese contractors are frequently cited for delays, subpar quality and escalated costs (Hoang Thi Ha, 2023). One of the most criticized ventures is the Cat Linh-Ha Dong Urban Rail project, which has faced six years of delays and an overrun cost of 57% (Tuoi Tre News, 2021). Other Chinese projects, such as the Thai Nguyen steel plant, metal and steel mills in Lao Cai, and bauxite mining in the Central Highlands, also experience similar issues.

Furthermore, the dominance of Chinese companies in Vietnam has significantly contributed to the country's substantial trade deficit with China and an influx of Chinese workers in Vietnam. Chinese firms, similar to other foreign contractors in Vietnam, import services, machines, equipment and labor from China to reduce costs. This practice is reinforced by China's loan provisions, which mandate the employment of Chinese contractors and the importation of services and equipment from China. This is reflected in a large increasing import of construction materials and machinery from China (as discussed in Section 3.1.1). As of 2020, Chinese workers account for 33.8% of total registered foreign workers in Vietnam (ILO and GSO, 2022). A study by Nguyen (2013) estimates that Chinese illegal workers in Vietnam is around three times the number of registered employees. As they often live in neighborhoods surrounding construction plants, the Chinese population has




**Source(s):** Data from Lowy Institute (2023)

**Figure 5.**
Share of Chinese official finance to Vietnam by sector (million USD current value, 2/2023)




**Source(s):** Data from Lowy Institute (2023)

**Figure 6.** Share of Chinese official financing to Vietnam by type of ODF, 2015–2021

significantly altered the demographics and characteristics of these localities. Notably, in some cities with large Chinese projects, like the central province of Ha Tinh, Chinese workers occupy entire villages [15], making governance challenging as seen in the 2014 peaceful-turned-deadly demonstrations in Vung Ang's Economic Zone (Hanoitimes, 2014). Reports also indicate their land acquisition through Vietnamese intermediaries, although this phenomenon is yet to be confirmed (VietnamNet, 2013). This has raised concerns among public conservatives in Vietnam regarding security issues and social complications in these regions.

*Belt and road initiative.* Vietnam exercises caution in its involvement with the BRI compared to its Southeast Asian neighbors. Despite being a signatory member since 2017, Vietnam currently has only two active projects, totaling US$147.5 million, funded by the AIIB, the implementing arm of the BRI. Notably, the 47.5 million-project for the Dakdrinh 125MW Hydropower Plant in 2021 represents the sole energy investment in Vietnam under the BRI [16]. Distrust in Chinese investment and dispute in the South China Sea are two of the main reasons behind this caution. In fact, a survey conducted by the ISEAS – Yusof Ishak Institute underscores a general public skepticism among Vietnamese toward China and the BRI, as noted by Hoang Thi Ha (2023). Expert opinions surveyed by the Carnegie Endowment for International Peace also highlight political concerns, including risks related to a "debt trap, retaliation, dual-use purpose of facilities, and Chinese possession of local assets" (Thuzar *et al.*, 2023). This apprehension was evident in the apparent cancellation of the bidding process for the North-South Highway in 2019, reasoning a significant presence of Chinese contractors in the tendering process.

However, the growing connectivity demand has pushed Vietnam's willingness to engage with the BRI, particularly in railway connections. In 10/2023, the Vietnamese government approved a resolution emphasizing the collaboration with China on cross-border rail

transport between the northern provinces of Vietnam and southern cities of China, particularly the Hanoi-Lao Cai-Hai Phong express railway link with Kunming to promote export. President Xi Jinping and Prime Minister Pham Minh Chinh's recent exchanges in 2023 also highlighted Chinese commitment to infrastructure investment in Vietnam, anticipating a growing collaboration in the area.

Given the leading role of policy banks in providing ODF, China's ability to control this actor (threats) is the most likely.

(2) The impacts and current mitigation efforts

Vietnam's ability to diverge from China's BRI and ODF sources in major infrastructure projects is owing to its diverse source of development finance from other partners such as Japan and the EU. Infrastructure development in Southeast Asia has long been an area of competition between Japan and China for the past decades. Japan is a major infrastructure ODA provider in Vietnam. As of 2023, Tokyo has provided an accumulative of US$20.3 billion of ODF to Vietnam, with transportation and infrastructure being the top priorities (JICA Vietnam, n.d., Vietnam Business Forum, 2023). In the region, Vietnam ranks the third lowest in terms of project number invested by Chinese ODF, with a low realization rate of only 32%. Table 3 compares Chinese ODF status in Southeast Asia.

Despite Hanoi's prudent stance, the substantial infrastructure initiatives led by China in Laos and Cambodia are causing a noteworthy shift in the geoeconomic dynamics of Vietnam's nearby region. Projects such as Chinese-funded ports, railways, highways and waterways have improved the logistics capabilities of Laos and Cambodia, which is expected to impact Vietnam's competitiveness as an economic intermediary between China and ASEAN (Hoang Thi Ha, 2023). In response to the pressure, Vietnam shows more openness to Chinese ODF in boosting the country's infrastructure.

Overall, from the above analysis, should Beijing decide to take control over ODF flow to Vietnam, the average net impact on the Vietnam side would be moderate (or likely to use).

*3.2.3 Debts and currency.*

(1) The vulnerabilities and the threats

Vietnam is in a manageable position regarding its overall debts and debts to China. According to data from the IMF (2023), Vietnam's total external debt was around $121.8 billion at the end of 2020, a relatively low level compared to other countries in the region and has a strong track record of managing its debt (most of the debt data in this section is from the IMF, unless indicated otherwise). Vietnam's external debt service ratio, which measures the country's ability to finance its external debt, was around 5.8% at the end of 2020, considered

| Country | Number of aid projects | Pledged (USD) | Realization status |
|---|---|---|---|
| Brunei | 1 | 1.08 million | 100% |
| Cambodia | 67 | 6.25 billion | 68% |
| Indonesia | 44 | 18.2 billion | 83% |
| Laos | 60 | 8.08 billion | 80% |
| Malaysia | 35 | 17.1 billion | 29% |
| Philippines | 30 | 6.28 billion | 4% |
| Singapore | N/A | N/A | N/A |
| Thailand | 14 | 21.6 billion | 11% |
| Timor-Leste | 27 | 94.2 million | 28% |
| *Vietnam* | *17* | *7.29 billion* | *32%* |

**Source(s):** Lowy Institute Southeast Asia Aid Map (2023)

**Table 3.** Chinese official financing in Southeast Asia, period 2015–2021

to be low [17]. However, Nikkei Asia's report shows a concerning hidden debt level owed to China. According to the data cited by this source, Vietnam's non-sovereign debt to China in 2017 was at US$16.3 billion, around 3% of Vietnam's GDP (Abuza, 2022).

Among the country's four types of debt—foreign debt, public debt, debt owed by non-financial companies and debt by households—the rising foreign debt owned by businesses and a high level of public debts are two major concerns for Vietnam. Accordingly, Vietnam's public debt, which excludes debt owed by SOEs and is limited to government-guaranteed debt only, amounted to US$153 billion in 2020 or 56% of GDP. This is higher than in other Southeast Asian countries except Laos, which has a high debt ratio of 90%. Furthermore, foreign debt, increasingly owned by companies through private transactions (66% of total foreign debt), rose to an estimated US$139 billion in 2021 or 47% of GDP. With a generally higher interest rate and shorter-term maturity than the 34% owned by the government [18], it contributes to the rising principal payable in 2021 of US$118 billion, surpassing the national foreign reserves at US$109 billion. In the coming years, as numerous countries increase interest rates to mitigate inflation, private interest rates are expected to escalate, posing greater difficulties for Vietnam in managing its debt, particularly, short-term obligations.

In the backdrop of rising public and foreign debts, Vietnam's official indebtedness to China is arguably not yet vulnerable. According to the Greenberg Center for Geoeconomic Studies from the Council on Foreign Relations (CFR), Vietnam's index of debt to China is second lowest in the Indochina peninsula economic corridor, with only 0.5% of GDP as of 2017. In particular, the CFR index estimates countries' external debt to Chinese creditors by focusing on three types of Chinese investment: FDI, portfolio investment and development loans. Table 4 compares the indebtedness to China by countries in the China-Indochina Peninsula Corridor.

Nonetheless, if unofficial sources are included by combining the debt figures from Nikkei Asia and CFR, the total debt of Vietnam to China could amount to up to 3.5% of GDP in 2017. This figure places Vietnam as the fourth most indebted country among the 11 compared above. While there is no updated number for 2023, the increasing trade deficit with China in recent years has led to a growth in debt levels, especially high-interest credits owned by the private sector. This has become a new burden for financing debt services in Vietnam and could be a source of vulnerability when China decides to implement capital control measures.

Moreover, China and Vietnam have signed a currency swap agreement in 2018, which allows the two countries to exchange VND and CNY, aiming to facilitate trade and investment. On the one hand, these agreements can help to create a more favorable and predictable environment for investors and support the development of Vietnam's financial

| Country | CFR index of debt to China (% of GDP) – 2017 |
|---|---|
| Cambodia | 22.4% GDP |
| Indonesia | 1.3% GDP |
| Laos | 19.7% GDP |
| Malaysia | 0.2% GDP |
| Nepal | 2.6% GDP |
| Papua New Guinea | 1.5% GDP |
| Philippines | 0.2% GDP |
| Singapore | 2.7% GDP |
| Sri Lanka | 9.5% GDP |
| Thailand | 0.9% GDP |
| *Vietnam* | *0.5% GDP* |

**Source(s):** Greenberg center for Geoeconomic Studies – CFR (2022)

**Table 4.** CFR index of debt to China by countries in Indochina peninsula corridor

system. On the other hand, they can be seen as pushing Vietnam to be more dependent on the use of CNY for international transactions.

Because of the large involvement of the private sectors in Vietnam's debt to China, private creditors are driven by market principles and will be at odd of any policies targeting capital flow, debt burden is the least likely to control tool by China.

(2) The impacts and current mitigation efforts

China rarely cancels its debt, and problematic indebtedness, not only to China but overall public debt could pose strained to the entire Vietnam's economy [19]. Moreover, skepticism over China's malign "debt trap" has been exemplified after Sri Lanka's default and its 99-year lease of the Hambantota Port for debt restructuring (Panda & Abeyagoonasekera, 2022). Although there is conflicting evidence of Chinese intentional manipulation of debts to acquire the strategic port, the Sri Lanka case could serve as a cautious example of mega project and loans management for Vietnamese infrastructure ODF. Besides, studies in Africa and South Asia have agreed that Chinese loans in developing countries foster local corruption and as such often result in poor project mismanagement and debt unsustainability due to loose lending conditions (Isaksson & Kotsadam, 2018; Li, WenXiu, & ZhenXing, 2023).

For Vietnam, maintaining debt sustainability is set as one of the mandates of the State Bank of Vietnam and is closely managed by the Ministry of Finance (MOF) and the National Assembly. According to the MOF report, in 2020, the state budget set aside around 20% annually to pay public debt. Besides, in recent years, high-profile cases of public project mismanagement and corruption have been brought to the court and faced serious punishment (VnExpress, 2018). The strict mitigation measures and generally disciplined lending have resulted in a low impact of coercive debt burden on Vietnam, making it the least likely tool to be used.

### *3.3 Shared resource: Mekong water*

*3.3.1 Vulnerabilities and the threats.* China's operation of 11 hydropower dams has increased the vulnerability of downstream neighbors, including Vietnam, to its control of the Mekong River. Despite only 17% of the Mekong's water originating from China, a recent report from the National University of Singapore reveals that Chinese dams not only obstruct water flow but also impede more than 90% of downstream sediment flow (Clarke & Park, 2023). In recent years, Vietnam's Mekong Delta, a low-level plain housing 12 million inhabitants and the country's largest paddy field, has been severely impacted by drought, floods and soil salinization partly caused by upstream Chinese dams.

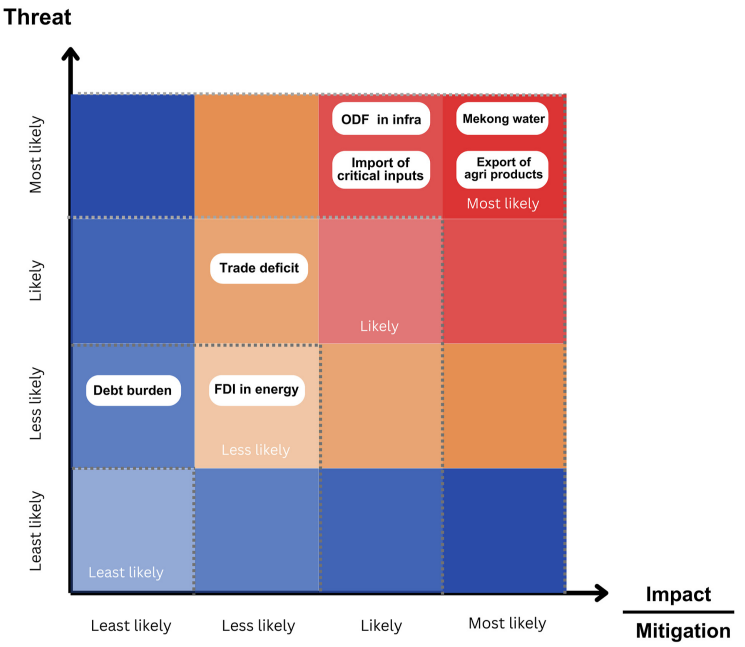
China is perceived as pursuing a unilateral Mekong River policy, engaging minimally with the Mekong River Commission (MRC) — a multilateral channel governing joint usage among downstream countries. In 2016, China established the Lancang–Mekong Cooperation (LMC) to encourage water resources cooperation with downstream Mekong countries. However, instances of secretive Chinese dam activities have been exposed through new satellite data by Eyes on Earth, a US climate consulting firm. In 2019, Chinese dams obstructed water flow for six consecutive months, contributing to a record drought in Thailand and Vietnam, leaving millions without access to freshwater (Eyler, 2020). Unilateral actions from upstream activities in the future could trigger food security and livelihood crises in the downstream region, including the agricultural heartland of the Mekong Delta. Conversely, Vietnam has limited leverage in the Mekong matter, relying mainly on diplomatic efforts and collaboration with Laos, Cambodia and Thailand. This asymmetrical relationship poses a clear vulnerability in Hanoi's relations with Beijing, given the implications for Vietnam's food and water security. The monopoly of Beijing on Mekong water decision has made the threat of this tool the highest (the most likely to use).

*3.3.2 Impacts and current mitigation efforts.* As mentioned, any unilateral actions on Mekong River can pose a survival challenge for the whole 12-million population and economic livelihood of Mekong Delta and Vietnam, while its impacts on China is only Beijing's international image. As such, the net impact on the Vietnamese target is large, making the likelihood that China resort to Mekong water for strategic bargaining the highest.

On the Vietnam side, Hanoi has made diplomatic efforts by partnering with MRC countries and pushing for more transparency in upstream water management. Yet, the effort proves ineffective in shifting the Chinese stance. In 2020, Beijing pledged to share some of its data on Mekong water, although, in 2023, MRC and LMC Water Center still kept calling for "real-time sharing of storage levels and hydropower operations and enhanced notifications of sudden changes in the way water storage operates" by China (Reuters, 2023). Water data is considered a "state secret" by Beijing, and the country has repeatedly disputed accusations of holding upstream water. Nonetheless, the availability of new geospatial methods and satellite images offers a new ground for scientific activities to tackle Mekong water challenges, as well as holds China accountable for its upstream dam activities (Eyler, 2020). Furthermore, in the context of US-China regional hegemony competition, it may not be in Beijing's best interest to jeopardize its public image and relationship with lower Mekong countries over the critical issue of water.

### *3.4 Matrix of Vietnam's geoeconomics risk* vis-à-vis *China*

From the above analysis, the author summarizes components of Vietnam's geoeconomic risks in Table 5 and a matrix in Figure 7.




**Source(s):** The author develops

**Figure 7.** Matrix of Vietnam's geoeconomic risks vis-à-vis China

| Tool | Vulnerability | Threats (exercising actor) | Impact/Mitigation | Overall likelihood |
|---|---|---|---|---|
| Trade | Import of critical inputs | Most likely<br>State and commercial actors | Likely<br>*Impact:* Large-scaled, scatter across supply chain<br>*Mitigation*: Diversify import partners and build domestic supporting industry | Most likely<br>Still rely heavily on China on supply chain of critical industry such as semiconductor |
| | Export of agricultural products | Most likely<br>State and commercial actors | Most likely<br>*Impact:* Small-scaled, focused on group of farmers and exporters<br>*Mitigation:* Promote official-quota and contracts | Most likely<br>Can be less likely if official trade becomes the norms |
| | Trade deficit | Likely<br>State and commercial actors | Less likely<br>*Impact:* Large-scaled, Vietnam's foreign reserves and liquidity<br>*Mitigation:* (Similar to import) and a manageable foreign debt position | Likely<br>Although high impact, the commercial actors involved and good mitigation effort lower its overall risks greatly |
| Investment | FDI in energy sector | Less likely<br>State and commercial actors | Less likely<br>*Impact:* Small-scaled, focused on energy sector only<br>*Mitigation:* Diversify FDI partners in green energy, ownership requirement | Less likely<br>The effective mitigation efforts ensure energy security and green transition, lower the geoeconomic risk |
| | ODF in critical infrastructure | Most likely<br>State actor | Likely<br>*Impact:* Large-scaled, scattered across country<br>*Mitigation*: Cautious involvement with the BRI and diversify ODA partners | Most likely<br>Vietnam's increasing demand for infrastructure and the shifting regional landscape may increase Chinese ODF involvement in the future |
| | Debt burden | Less likely<br>State and private actors | Least likely<br>*Impact:* Small-sized, Vietnam's foreign reserves and liquidity<br>*Mitigation:* Stable current account and manageable debt position | Less likely<br>Need to consider hidden unofficial debts burden and the growing CNY-denoted debts |
| Shared resources | Mekong water | Most likely<br>State actor | Most likely<br>*Impact:* Large-scaled, on Mekong Delta and agriculture production<br>*Mitigation:* MRC diplomatic efforts | Most likely<br>Diplomatic effort can be more effective when using data-based evidence and strategic hedging with the US |

**Table 5.**
Summary of Vietnam's geoeconomic risk with China

**Source(s):** The author develops

## 4. Policy recommendation

Generally, to manage geoeconomic risks, efforts should focus on reducing the likelihood of individual risk occurrences and preventing the formation of new risks. According to the proposed geoeconomic risk framework, the likelihood of an occurrence can be reduced by (1) minimizing asymmetrical interdependence, (2) lowering threats and (3) decreasing net average impacts and enhancing mitigation efforts.

The second factor, threats, is determined by Beijing and remains beyond immediate influence from Hanoi. However, it is important to recognize that Beijing's control over its non-state actors is influenced by goal compatibility. In the long run, Hanoi can sway private Chinese actors to communicate Vietnam's interests by aligning their commercial gains with Vietnam's economic gains. In fact, the market-driven principle can serve as a natural interest alignment tool between Vietnam and Chinese commercial actors. However, such alignment can be further enhanced by policies such as conditioning incentive measures with commitment requirements, preventing Chinese investors from unilaterally withdrawing or acting in a non-market manner. Globally, comparable policies have been integrated into foreign investment clauses in Europe, the USA and, notably, China. While commitment conditions may diminish the appeal of the investment environment, they simultaneously serve to empower the host country in actively overseeing its macroeconomic stability and defending against potential geoeconomic risks.

The third factor, net average impact, is negatively influenced by the impact on the Chinese side and the effectiveness of mitigation efforts. To increase the cost of China's coercive actions, Vietnam can employ diplomatic and legal measures. This involves urging the international community to condemn economic coercion practices and promoting the establishment of rules and norms against the use of economic coercion. International organizations such as the World Trade Organization (WTO) and the United Nations (UN) have seen diminished effectiveness in mediating disputes, yet they remain crucial channels for collective action against the weaponization of economic interdependence. Upholding a rule-based economic order can safeguard free trade by addressing non-market behaviors, potentially weakening the exercising country's soft power. Its collectivism can also help manage asymmetrical interdependence by facilitating collaborative monitoring of the global economic network and promoting a more diversified, balanced economic interdependence. Legally, trade contracts that anticipate unforeseen unilateral policy changes and impose costs on Chinese merchants can effectively shift the impact to the Chinese side.

Tool-specifically, risk mitigation efforts should be directed toward the issue of fresh produce export and Mekong water. To address the issue of the Mekong water, diplomatic strategies like collaborative efforts through the MRC and LMC, backed by support from the international and scientific communities, can provide evidence of China's uncooperative actions. This accountability can tarnish China's image of non-cooperation, posing a threat to Beijing's soft power. Regarding exports of agricultural and aquaculture products, processes to promote official trade and support agriculture exporters must be accelerated. Using legal measures, trade contracts should also include clauses that address the cost of unforeseen circumstances, including unilateral border control. Furthermore, to minimize the use of this tool altogether, Vietnam should strive for a more symmetrical and balanced agricultural trade relationship. This can be achieved by increasing the agriculture import share from China and increasing the proportion of processed products exports.

Two other critical areas requiring foreign policy attention are China's ODF in infrastructure and the import of essential inputs from China. Regarding ODF in infrastructure, it is vital to acknowledge the significant role of Chinese investment in meeting Vietnam's infrastructure needs and diversifying investment efforts. However, engaging with Chinese ODF requires robust internal economic planning and management

processes. Vietnam needs to adopt a proactive approach across all project stages, reducing reliance on foreign contractors to mitigate risks like low quality and mismanagement. Learning from past experiences, ensuring a competitive bidding process and strengthening contract terms are essential steps. Anticipating cost overruns and leveraging Vietnam's bargaining position in negotiations with China are also crucial [20]. Besides, Vietnam should pursue diversification of infrastructure investors to enhance competition and loan effectiveness, which is also vital for managing less asymmetrical import relations with China, alongside upgrading domestic semiconductor production to align with key national development goals for the 2030–2050 period.

In contrast, the other two interactions – FDI in the energy sector and debt burden – are unlikely targets for coercive measures. This observation underscores balanced, symmetrical relations and successful risk management policies from Vietnam's side in these areas. Consequently, foreign policies in these domains should maintain their current practices. It is also noteworthy that the unverified unofficial private debts to Chinese creditors, highlighted in the paper, can pose a risk to Vietnam's economy, potentially leading to consequences, such as exchange rate fluctuations, macroeconomic instability and susceptibility to Chinese economic conditions. Further research is needed to explore strategies for managing these "hidden debts."

## 5. Conclusion and limitations

In conclusion, this study examines China-Vietnam bilateral economic relations to identify geoeconomic risks and propose management policies. It develops a framework for assessing these risks and addresses three research questions. First, Vietnam's economic dependency on China is characterized by asymmetrical trade, investment, financial and resource relations. Second, the study calculates the risk of China exercising geoeconomic punishment, identifying Mekong water and fresh produce exports as primary targets. Lastly, policy recommendations focus on mitigating risks through diversification, diplomatic efforts and strategic hedging. Methodologically, the study proposes a new approach to address bilateral geoeconomic risks, while empirically contributing to the literature on geoeconomics and Chinese economic statecraft in Vietnam–China relations.

Despite efforts, the study faces limitations in both framework and analysis. For one thing, the framework lacks benchmarks and validation steps, hindering comparisons and retrospective analyses. Moreover, heavy reliance on official data, prone to unreliability in Vietnam–China relations, also weakens the analysis. Additionally, oversimplification and exclusive reliance on descriptive analysis introduces subjectivity. Similarly, analysis at a macro level overlooks sector-specific linkages, calling for more detailed studies. To address these issues, future research should develop specific methods to evaluate asymmetrical dependency and cross-tool comparison, using quantitative measures to reduce subjectivity. Furthermore, continuous updates to geoeconomic risk assessment are crucial, with an increased focus on managing bilateral unofficial linkages.

### Notes

1. The author borrows from the original term "war by other means" by Blackwill and Harris (2016).
2. Sri Lanka's public debt default is often cited as an example of this debt trap diplomacy from the BRI.
3. Elizabeth Economy of the CFR testified that exporting the Chinese model aims to set norms and coerce interests abroad, urging the USA to develop a counter-strategy.
4. In this paper, the disputed water and territory between China and Vietnam are denoted as the East Sea, with some international references using the term South China Sea.

5. Blueprint on Restructuring the Industry and Trade Sectors to Serve the Cause of National Industrialization, Modernization and Sustainable Development through 2020, with a Vision toward 2030.
6. Although Cat Linh-Ha Dong is categorized as a BRI project by both sides, it was signed in 2008 and commenced in 2011 – 2 years before the BRI announcement.
7. State ownership is found in actors such as policy banks and state-owned enterprises, while an indirect relationship is formed via regulations set for commercial and other non-state actors.
8. Debt and financial dependency will be analyzed in detail in Section 3.2.3.
9. According to Resolution 29/2022 of Vietnam's Politburo.
10. Figure 1 indicates that after a brief improvement in the trade deficit in 2015, Vietnam's trade balance with China worsened, reaching a record low in 2022, reflecting a failed attempt to diverge and restructure imports from China.
11. ODF consists of ODA (grant, loans) and OOF.
12. Non-concessional loan is offered on terms that are not highly favorable or concessional to the borrower. In contrast to concessional loans, which are characterized by low interest rates, longer repayment periods and more lenient terms, non-concessional loans typically have higher interest rates, shorter repayment periods and less favorable conditions.
13. OOF consists of non-concessional lending, lending to the private sector, export credits and other components of formal that are not captured in ODA (OECD Standard, as applied in Lowy Institute database).
14. According to the Central Institute for Economic Management (2016), from 2002 to 2013, Chinese contractors were involved in 90% of thermal energy plants, 70.6% of thermoelectric and 87.5% of minerals projects.
15. Differentiate from the Hoa ethnicity.
16. Several previously announced projects, such as the Cat Linh – Ha Dong and Vinh Tan Power Station, have later been incorporated into the BRI (Thuzar *et al.*, 2023). Some references interchangeably employ the terms "China's ODA" or "China's loans" instead of BRI.
17. A ratio exceeding 20–25% of export earnings or government revenue is often considered high and may indicate potential debt-servicing difficulties. However, this threshold can differ based on specific circumstances and economic conditions.
18. According to Vu (2022), currently, the interest rate on the government's foreign debt is notably minimal, standing at approximately 2.1%.
19. Of around US$95 billions of Chinese renegotiated debt from 2001 to 2020, 40 billion resulted in deferral or rescheduling, 23 billion was set to restructure, only around 8 billion was cancelled, according to McBride *et al.* (2023), as cited by European Foundation for South Asian Studies (2023).
20. With only 3% of Chinese ODF to Vietnam in the form of ODA, the prevalence of non-concessional Chinese loans affords Vietnam significant leverage in negotiating standards and processes for these projects.

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## Further reading

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## Appendix

| No | Project and loan name | Bank | Sector | Amount (million USD) | Approval year |
|---|---|---|---|---|---|
| 1 | Ninh Binh Nitrogenous Fertilizer Plant (On-lending to Vietnam National Chemical Group) | CHEXIM | Manufacturing | 250 | 2008 |
| 2 | Cat Linh – Ha Dong Light Rail (13km) (Loan 1) | CHEXIM | Transport | 173 | 2008 |
| 3 | Uong Bi Coal Plant (330MW) | CHEXIM | Power | 179 | 2009 |
| 4 | Cat Linh - Ha Dong Light Rail (13km) (Loan 2) | CHEXIM | Transport | 250 | 2009 |
| 5 | Cao Bang Iron and Steel Complex | CHEXIM | Manufacturing | 46 | 2009 |
| 6 | Vinh Tan 2 Coal Plant (1244MW) (Concessional Loan) | CHEXIM | Power | 84 | 2010 |
| 7 | Vinh Tan 2 Coal Plant (1244MW) (Preferential Export Buyer's Credit) | CHEXIM | Power | 995 | 2010 |
| 8 | Vung Ang Coal Plant (1200MW) | CDB | Power | 673 | 2011 |
| 9 | Ca Mau Fertilizer Plant | CHEXIM | Power | 154 | 2011 |
| 10 | An Khanh 1 Coal-Fired Power Plant (100MW) | CHEXIM | Power | 36 | 2011 |
| 11 | Duyen Hai Coal Plant (2490MW) | CHEXIM | Power | 1000 | 2011 |
| 12 | Thanh Hoa Steel Billet Factory | CHEXIM | Manufacturing | 46 | 2011 |
| 13 | Duyen Hai 3 Coal-Fired Power Plant 1245MW | CDB | Power | 1000 | 2012 |
| 14 | Thai Binh 2 Coal Plant (1200MW) | CDB | Power | 28 | 2013 |
| 15 | Ninh Binh Fine Coal Based Urea Plant Project | CHEXIM | Manufacturing | 45 | 2013 |
| 16 | Vinh Ha Hydropower Plant (21MW) | CHEXIM | Power | 30 | 2013 |
| 17 | Railway Signal Modernization, Hanoi-Dong Dang, Hanoi-Thai Nguyen, Hanoi-Lao Cai | CHEXIM | Transport | 49 | 2013 |
| 18 | Vinh Tan 1 Coal Plant (1240MW) | CDB, CHEXIM | Power | 1400 | 2014 |
| 19 | Hanoi-Lang Son Expressway (Phase 1), Bac Giang-Lang Son (64km) | CHEXIM | Transport | 300 | 2014 |
| 20 | Unspecified Culture and Infrastructure Projects | CDB | Public administration/ discretionary | 200 | 2015 |
| 21 | Vinh Tan 3 Coal Plant (1980MW) | CDB | Power | 2000 | 2016 |

(*continued*)

**Table A1.** Projects financed by Chinese policy banks in Vietnam

| No | Project and loan name | Bank | Sector | Amount (million USD) | Approval year |
|---|---|---|---|---|---|
| 22 | Cat Linh - Ha Dong Light Rail (13km) (Loan 3) | CHEXIM | Transport | 248 | 2017 |
| 23 | VP Bank COVID-19 Response Facility | AIIB | Liquidity – Health | 100 | 2020 |
| 24 | Dakdrinh 125MW Hydropower Plant | AIIB | Energy | 47.5 | 2021 |
| 25 | Dak Lak Wind Power Project | AIIB | Energy | 100 | N/A |
| 26 | Vietnam Gia Lai Wind Power Project | AIIB | Energy | 60 | N/A |
| 27 | Thuan Bac Solar Project | AIIB | Energy | 45 | N/A |

**Note(s):** Some projects are financed multiple times
**Source(s):** Author's collection from the Asian Infrastructure Investment Bank (AIIB) project database and Boston University's China overseas development finance database

**Table A1.**

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