China's Strategic Adjustments: Impact on the World, Region and Vietnam

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Abstract: After the 18th Congress of the Chinese Communist Party, China adjusted its diplomatic strategy and transformed its pattern of economic development. This has had and will continue to have both a positive and a negative impact on the international financial institutions and the regional and global economy. The "One Belt, One Road" (OBOR) strategy, combined with the Asian Infrastructure Investment Bank (AIIB) and the internationalisation of the yuan, is the main focus, and exerts a strong impact on the existing international financial institutions as well as the economic relations between China and many other countries in the world. It has attracted many developed and developing countries to join the AIIB. It also has made many emerging economies become closely linked to China. Moreover, it contributes to the emergence of many "asymmetric" pairs of economic relations between China and its neighbours. China is now connected with Europe through an overland route as well as through the boosting of economic, trade and investment ties between Asia and Europe. Furthermore, while Europe has been concerned about China's unfair competition and the dependence on Chinese investment, ASEAN has increasingly deepened the mutual economic dependence between itself and Beijing. A negative out come of this is the rising economic dependence on China of quite a few ASEAN member states, including Vietnam[2].

Keywords: China, strategic adjustments, OBOR, AIIB, economic dependence, ASEAN, Vietnam.

Subject classification: Politics

1. Introduction

After nearly four decades of reform and opening up, China succeeded in becoming the world's second largest economy in 2010. With the achievements in socio-economic development gained from the reform process, the fifth generation of leaders of the Chinese Communist Party, after its 18th Party Congress, adopted "The Chinese Dream" as the new slogan, calling for "the revival of the great Chinese nation" aimed at making China the world's leading power with ambitions to redraw the global economic and political map. To attain this goal, China has made strategic adjustments in a number of important issues. This has been exerting and will keep exerting both a positive and a negative impact on the world, the region and Vietnam.

2. China's adjustments in diplomatic strategy and model of economic development

After the 18th Congress of the Chinese Communist Party, China adjusted its diplomatic strategy, making neighbourhood diplomacy the top priority[3], evolving the "great (or "major") power diplomacy with Chinese characteristics", establishing a new type of big power relationship and pushing for the process of formation of a "pivot" of its own in Asia. Beijing has been expressing more and more clearly its role as a major power, and giving up the guideline of "keeping a low profile while still getting things done" (*taoguangyouhui yousuozuowei*, 韬光养晦有所作为) of Deng Xiaoping, and is shifting step by step to the "striving for achievement" (*fenfayouwei*, 奋发有为) [26, p.159]. It is getting more active in international affairs and more proactive in vying for and expanding its economic and diplomatic influence both regionally and globally, thus linking the policy of "neighbourhood diplomacy" with "major power diplomacy", "energy diplomacy" and "maritime strategy". It is worth noting that, although China's adjustments in diplomatic and economic strategy have been carried out in a "soft and flexible manner", they have changed the balance of power on the regional and global scale, confronting regional and international economic institutions with new challenges for which they must make changes.

In fact, the above adjustments in Beijing's diplomatic strategy originated partly from changes in the pattern of domestic economic development. During the process of reform and opening up, China has so far relied mainly on the advantages of a cheap labour force, abundant natural resources and use of energy, and state investments, which have turned the country into the world's second largest economy. However, this pattern is now no longer suitable, cost advantages are going down (*chengben youshi xiajiang*, 成 本优势下降), resource and environmental constraints have been highlighted (*ziyuan huanjing de zhiyue tuxian*, 资源环境的制约凸显) and the problem of overcapacity has worsened (*channeng guosheng wenti tuchu*, 产能过剩问题突出) [63]. That is why Beijing has been accelerating change in its economic development model. After the 18th Party Congress, Chinese leaders introduced the concept of a "new normal", with a number of main features: (i) transition from high-speed to lower speed growth; (ii) acceleration in the process of upgrading the economic structure; and (iii) transition from mostly relying on exports and investments to basing economic development on innovation and domestic consumption.

The fundamental shift after the 18th Congress in the model of economic development, which is linked with the adjustments in the diplomatic strategy to become more proactive, is demonstrated in a number of ways, such as (i) acceleration of the implementation of the "One Belt, One Road" (OBOR) strategy; (ii) establishment of the Asian Infrastructure Investment Bank (AIIB); (iii) continued efforts to internationalise the yuan; (iv) construction of free trade zones in Shanghai, Fujian, Guangdong and Tianjin; (v) acceleration of the opening up of border areas, including implementation of specific policies related to economic cooperation, travel, cross-border payment and connection of the infrastructure with neighbouring countries; (vi) upgrading of the China - ASEAN Free Trade Area; (vii) introduction of new initiatives connected with the Lancang - Mekong cooperation; (viii) promotion of the development of the Asia - Pacific free trade area; and (ix) acceleration of the negotiations for the Regional Comprehensive Economic Partnership (RCEP) agreement.

The most outstanding among the above is China's promotion of the OBOR strategy. Implementing this strategy is also Beijing's reaction to the US "pivot to Asia" strategy, to compete with the latter in influencing the region and the world. The OBOR strategy, combined with the AIIB and the internationalisation of the yuan, is the main focus, which exerts a major impact on the existing international financial institutions and the economic relations between China and many other countries in the world. For the past three years, Beijing's OBOR diplomacy coupled with its other economic initiatives has been helping to encourage Chinese enterprises to invest overseas, thus resolving the issue of redundancy in domestic production. Most of the enterprises are state-owned ones related to infrastructure construction. This has contributed to helping the Chinese economy avoid the risk of hard landing in the period of slowdown. According to the report on the progress of three years of implementing the OBOR strategy published by China recently, from September 2013 to August 2016 President Xi Jinping visited 37 countries, including 18 Asian, 9 European, 3 African and 4 Latin American countries, in addition to 3 in Oceania. Over nearly three years, from October 2013 to June 2016, 38 large-scale transport infrastructural projects were carried out by Chinese enterprises in 26 countries on the OBOR route. China has signed and worked on more than 40 large energy projects related to power stations, power transmission lines and oil and gas pipelines in 19 countries on the route [16]. Also, during this time, the total trade turnover between Beijing and the countries on the OBOR route reached USD 3.1 trillion, accounting for 26% of China's total trade turnover. Over the three years, Beijing invested a total of USD 51.1 billion in the countries, equivalent to 12% of its total overseas investment. To support the OBOR strategy, on 25 June 2016, for the first time the AIIB endorsed four projects with loans totaling USD 509 million [16]. All of these show that the success or failure of the OBOR strategy, especially in terms of China's foreign economic relations, will greatly impact the prestige and position of the fifth generation of leaders of the Chinese Communist Party both at home and abroad.

3. Impact on the world and the region

The above-mentioned adjustments in the diplomatic strategies, coupled with the change in the path of economic development in China, have impacted international financial institutions and the regional and world economy in both a positive and a negative sense. On the surface, we notice that China has focused more on economics than politics. However, hidden behind the adjustments is China's "global strategy" scheme, wherein economic influence will lead to political clout. In this article, we will not deal with China's political intentions but will focus only on the economic impact on the region and the world. This can be seen in the following aspects:

First, the impact on international financial institutions. Beijing's recent initiatives, such as the establishment of the AIIB and the internationalisation of the yuan, were policies designed to seek for itself a new position in international issues. In a certain sense, the initiatives were appropriate given the development of the country recently since, although China has become the world's second largest economy, its role remains minor in international financial institutions. In the International Monetary Fund (IMF), China's quota is only 4.2% whereas that of the US is 17.7%. Therefore, Washington has the power to veto any resolution of the IMF (a minimum of 15% in the quota is required to have that power). The proportion of voting shares of the US in the World Bank (WB) is 16.4% whereas that of China is only 2.8% [8]. A low level of contribution also means a weak voice. Beijing has many times requested regional and global financial institutions to adjust the members' quotas, but this has kept on being delayed. Not content with suggested reforms within the current system of financial institutions, China, in its strategy towards becoming a world power, came up with initiatives to establish its own financial institutions. *The Financial Times* reported on 12 May 2015 that Sargon Nissan, the Bretton Woods Project's IMF and finance manager, wrote that "obituaries have been written for the World Bank" following the arrival of the AIIB, which also poses challenges and threatens to destroy to the 70-year-old Bretton Woods system. Many are of the opinion that, as Beijing felt it was unable to do anything in the WB or the IMF, it wanted to establish its own world bank which it would have control over. The AIIB has the same functions as the WB, but with more open conditions. At the same time, the former is building a monetary fund similar to the IMF. Experts say that, without austerity policies like those of the IMF, the AIIB would quickly occupy many sectors in various economies outside Asia, including Europe and especially Eastern Europe. *The New York Times* said that China, given its strong financial resources, would now become America's opponent when the IMF has officially endorsed the Chinese yuan joining the international currency basket together with the US dollar, the euro, the British pound and the Japanese yen [3].

So far, 57 members have joined or ratified the joining of the AIIB. Among them are the UK, France, Germany and Australia, which are the US's closest allies.

Facing possible isolation in this respect, Washington has changed its attitude. Not joining the Bank, it said, however, that it would not deter its allies from participating. The online *Washington Post* on 29 April 2015 quoted US President Obama on the issue: “Let me be very clear and dispel this notion that we were opposed or are opposed to other countries participating in the Asian infrastructure bank. That is simply not true.” He added that if the Asian infrastructure bank was being set up with healthy safeguards, “in a way that ultimately is actually gonna lead to good infrastructure and benefit the borrowing countries, then we’re all for it, ... So, to the extent that China wants to put capital into development projects around the region, that is a good thing” (cited in Talley 2015). In fact, it is difficult for the US to oppose such initiatives by China as the US can hardly hinder other countries’ participation. The best option for it, therefore, is to find a way to control the operations of the initiatives. Hence, the US requested that financial institutions established by China abide by the set rules, implying an intervention of sorts.

As stated above, reforming the IMF is a priority for China. Fundamentally, the US does not easily make concessions to any country in the controlling and management of international financial institutions established within the framework of the Bretton Woods system, which is one of the pillars Washington uses to have economic as well as political influence globally. In recent years, China has suggested that it should have a stronger voice in organisations, such as the IMF, the WB and even the ADB [20].

This demand has been supported by many developing countries, because of the fact that, although the economic roles played by various nations have changed considerably, adjustments have not been made to accommodate the positions and voices of developing countries, especially China. Facing Beijing’s pressure in many aspects, specifically on IMF reforms, the US Congress finally made concessions. In December 2015, the US Senate approved of the 2010 IMF reform programme, according to which China’s voting share rose from 3.8% to 6%. The same applied to India where New Delhi’s increased slightly from 2.3% to 2.6%. At the same time, the US agreed to decrease its share to 16.5%. However, its power of veto remained intact [5]. The US Congress’s consent to reforming the IMF is a major concession in Washington’s ties with Beijing. The second feature is the emergence of a competition and a race between: (i) China, with the OBOR strategy which is aimed at exerting more and more influence step by step on the peripheral areas; (ii) the US, with the grand and “offshore balancing” strategies [27]; and (iii) Russia, with the ambitious plan of an Asia - Europe railway in order to restore its influence over the Asia-Pacific region, where it has been outperformed by China. The competition has made the US President Donald Trump, in his presidential campaign, accuse China of being “the currency manipulator”. He also spent months criticising Beijing’s monetary and trade policies, and threatened to apply a tax rate of 35% to 45% on goods exported from China to the US [4].

A third phenomenon is that emerging economies are getting to be closely linked to China. This is demonstrated in the fact that China is their largest trading partner and the one to connect them to major developing countries, such as Russia, Brazil, South Africa, India and Indonesia. There are now many factors which push Moscow and Beijing closer to each other, especially in terms of economic cooperation. Their two-way trade turnover has grown six-fold in recent years, from USD 15.8 billion in 2003 to USD 95.3 billion in 2014. It is expected to reach USD 200 billion in 2020 [36]. With regard to Brazil, according to Chinese statistics, China has been the largest trading partner for the last seven consecutive years. In 2015, the trade turnover between the two sides amounted to USD 71.5 billion [66]. With South Africa, in recent years, China's economic relations have experienced continuous growth. In 2014, the two-way trade turnover between the two countries was USD 60.3 billion. For 6 years in a row, Beijing has been Pretoria's largest trading partner while the latter is also the former's largest trading partner in Africa [70]. As for India, China is its largest trading partner. In 2015, the two nations posted a trade turnover of more than USD 71.6 billion. For Indonesia too, China is its largest trading partner, with the two-way trade turnover of USD 54.23 billion in 2015 [65]. These countries are all founding members of the China-initiated AIIB [64].

A fourth feature is the appearance of "asymmetric" pairs of economic relations between China and its neighbours. The most typical pairs are those with Sri Lanka, Myanmar, Cambodia, Laos and Mongolia among others. The "asymmetry" is shown in the growing dependence of the other countries on China in terms of trade, aid and investment, leading to political influence, especially in foreign policy. For example, Sri Lanka and Myanmar have benefited from Chinese-backed large-scale infrastructure projects as well as from Chinese political and military support. The disadvantages of so asymmetric a relationship are mainly related to negative results from trade shocks and an increasing debt burden on Sri Lanka, and a potential loss in Myanmar's control of its domestic natural resources. In terms of politics, these countries' close relations with China (including Chinese military assistance) may compromise relations with Asia's other regional powers, such as India, another "regional champion" with great leverage in shaping its neighbours' domestic political and economic affairs [23]. With Cambodia, behind the impressive numbers of Chinese investment and aid to Cambodia, lie hidden agendas and serious social and political implications. There are concerns that the government is at risk of losing its autonomy. If it were to rely solely on China, Cambodia also risks losing face and becoming marginalised if it continues to put China ahead of ASEAN [22]. Another outstanding example of growing dependence on China is Laos. China's growing influence in Laos, marked by expanded investment and trade, has led some international agencies to warn Laos about an unhealthy financial dependence on China. In 2014, China became Laos' leading investor with funds totaling more than USD 5 billion, covering mining, hydropower and agribusiness, putting it at great risk of coming under Chinese domination [18]. In the case of Mongolia, it is no secret that Mongolia is heavily dependent on China. In 2015, China accounted for 89% of Mongolia's exports and 26% of its imports. Notably, in 2014, Mongolia cancelled a visit by the Dalai Lama in favour of a visit by Chinese President Xi Jinping, reportedly under pressure from China [41]. However, when Mongolia allowed the Dalai Lama to visit from 18 to 21 November 2016 [12], the Chinese side cancelled ongoing talks for soft loans to Mongolia on the Tavan Tolgoi railway project, a copper mine and a coal gasification plan [13].

The "asymmetry" is also demonstrated in the fact that, due to certain limitations in the level of economic development of China, investments from China often do not assist sustainable development or the transfer of technologies to the other partner in the long term. In addition, they tend to have a negative impact on the natural and social environments of the countries in the long run. For example, in the case of China's investment in Vietnam, Chinese FDI does not focus on agriculture, forestry, fisheries, etc., but on the exploitation of Vietnam's natural resources. Extraction of ores from Vietnam to export raw materials, such as coal and tin, to China does not bring much economic benefit for Vietnam or have positive spillover effects; rather, it has an adverse impact on environment and the sustainable development of Vietnam [2].

With respect to Chinese investment in Laos, Laos also harbours some distrust towards China. Resentment can be heard in a village in Central Laos where a Chinese company had mined for gold until a few years ago. "All that's left is pollution and the unemployed," a villager said. A number of Chinese-backed infrastructure projects in Laos have been shelved for various reasons, including a lack of transparency in the bidding process [25].

These pairs of asymmetric economic relations have arisen partly due to some countries' need for foreign investment capital for development based on "using natural resources as capital". These countries appear to be the reserves of energy and natural resources to serve the goals of Beijing.

Fifth, many opportunities and challenges are seen for the European Union. As Beijing is its major trading partner, the increase of China's domestic demand coupled with the growth of its middle class will create an attractive market for exports from the EU. However, China is also the EU's competitor in trade. During the recent crisis, there were worries in Europe that Chinese cheap goods were "overwhelming" the EU market, and stealing jobs from the European manufacturing sectors. And, more recently, a European Competitiveness Report of the European Commission indicated that China was continuing to create pressure of price competition in the sector of high-tech products, being a tough rival for the EU [14].

China's adjustment of its strategy will have both positive and negative impacts on the EU. Beijing's efforts to push ahead with the OBOR strategy, together with the boosting of trade and investment and the internationalisation of the yuan, will have a multi-dimensional impact on the EU. Evidence of this includes the EU's adjustment of its policies towards China, attempting to achieve the goal of expanding economic cooperation as well as resolving the existing issues between them. This is particularly evident with regard to OBOR, which aims to connect China with Europe by creating an overland route, and to boost cooperative relations of economics, trade and investment between Asia and Europe.

Since 2013, China's connections with Europe have expanded with the development of its official policy of building a westward economic corridor - a new Silk Road - along the ancient route. Most recently, in December 2014, China agreed with Hungary, Serbia and Macedonia to build a rail link between Budapest and Belgrade, which will be financed by Chinese companies and completed by 2017. This rail line will then be connected to the Macedonian capital of Skopje and the Greek port city of Piraeus, where the Chinese shipping giant operates two piers for container units. While the linked land-sea project will strengthen cross-border transport between Central and Southeastern Europe by reducing train travel time between Budapest and Belgrade from eight to three hours, it is actually designed to enlarge and accelerate the movement of goods between China and Europe [15].

In the aggregate, Chinese FDI should deliver the same economic benefits as other direct investment flows, whether from inside or outside the EU [21, p.5]. And the EU will be looking to China for FDI, because Chinese investment is characteristically un-hypothecated by location. This means that it could go anywhere, and the possibility of attracting it is, therefore, seen as higher; in other words, there is much to be gained by investment promotion efforts targeted at China. Chinese FDI is also seen by EU member state governments and their agencies as offering the promise of economic regeneration [17].

However, Europe is concerned with four main issues related to Beijing's investment activities, namely, (i) a large amount of FDI flowing into the European Union will possibly be subject to the irregular fluctuations as well as macroeconomic instabilities of China. (ii) The industrial policy that is based on state-owned enterprises or state ownership can make Chinese enterprises tend to move away the assets they purchase rather than keeping them in Europe. (iii) Chinese companies can take advantage of unfair competition due to the greater freedom they enjoy in their operations and investments in Europe compared with what the EU competitors enjoy in China. (iv) Chinese companies, having been accustomed to lax regulations in their home country, will bring the habits of a country with cheap labour and a different environment to Europe, while the EU countries are so eager to attract investment and create employment that they would do anything to make the Chinese companies stay [19, pp.19-23]. Additionally, a concern is that European countries could become dependent on Chinese investment, which in turn could provide China with political and security leverage. Worries, therefore, exist about Chinese OFDI, which carry particular significance because of China's non-market economy, pattern of economic espionage, and poor track record with respect to national security and human rights [28, p.6].

Sixth, coming to ASEAN, China's adjustments in its diplomatic strategy and the new model of economic development have increasingly deepened the mutual economic dependence between Beijing and the bloc. From a negative point of view, this has led to the economic dependence of quite a few ASEAN member states on China, and particularly on trade with China. According to an International Monetary Fund report released in mid-April 2014, the Asian economy is increasingly dependent on China and less on Japan [67]. Since full enactment of the ACFTA in 2010, ASEAN's commodity trade with China has gone from surplus to a deficit that reached USD 45 billion in 2013 [49]. China consistently appears among the top five trading partners for ASEAN members. But the degree of dependence on China as a source of exports, imports or both, varies. Where wealthier ASEAN countries have a diverse set of trading partners, poorer ASEAN countries depend heavily on China, especially as a source of imports [49].

The growth rate of China's exports to ASEAN is consistently at a high level whereas, in the opposite direction, the growth of exports from ASEAN to China is slower. The consequence is that ASEAN countries are incurring ever greater import surpluses in their trading relations with China, putting considerable pressure on the economies of the ASEAN Economic Community (AEC). China's exports to ASEAN countries in 2012 rose 20.1% year-on-year to USD 204.27 billion and in 2013 rose with same percentage to USD 244.11 billion [24]. In 2014, China's exports to ASEAN reached USD 272.1 billion [11]. Chinese imports followed the same trend as its exports. There was an upward trend of China's total imports from ASEAN from 2009 to 2013, with an increase from USD 106.71 billion to USD 199.45 billion [24]. In 2014, ASEAN's exports to China reached USD 208.3 billion, and ASEAN - China two-way trade grew by 8.3% to USD 480.4 billion. China is ASEAN's largest trade partner, and ASEAN is China's third-largest trade partner [11].

4. Impact on Vietnam's economy

Being China's neighbour, Vietnam has been directly affected by China's adjustment of its diplomatic strategy and shifting of its economic development model. The Vietnam Academy of Social Sciences conducted research on the transformation of China's economic development model and its impact on Vietnam - China economic relations. In addition, in 2015, after sending questionnaires to many provinces in Vietnam to investigate the status of economic relations between Vietnam and China in 2014 and 2015, we found the following noteworthy points:

4.1. Positive impact

First, in Beijing's changing economic development pattern, the key motive of economic growth is the domestic market. Given a vast market with a population of nearly 1.4 billion people, which is undergoing a major transformation in terms of its structure and consumption demand, China is a key market for Vietnam's exports. In the short term, Vietnam can take advantage of its natural conditions to further the export of agricultural, aqua- and sea products and a number of essential consumption commodities to China. In the long term, if Vietnam can make use of the opportunities to penetrate more effectively into the global manufacturing network, it will be able, via the trade and investment links with Chinese businesses, to not only increase revenues, but also enhance the added value of its enterprises.

Second, China's determined efforts for the internationalisation of the yuan, and the fact that the Chinese currency has been added to the IMF's currencies that make up the Special Drawing Rights (SDR), has raised the possibility that China may be under greater international pressure to "maintain stability" in line with the strict international monetary regulations. One of the positive effects of the yuan being a currency of international payment is that Vietnam can use this currency as a foreign one for trade payment with China, thus diversifying the foreign currencies used for payment, and reducing the concentration on the US dollar as well as the expenses resulting from foreign currency exchange. On the one hand, the most outstanding positive impact of the internationalisation of the yuan on Vietnam's investment (and borrowing) is the diversification of the foreign currencies which will contribute to raising the vitality of the Vietnamese capital market, and the potential and ability to access loans from China and other countries in the world that also use the yuan for international payment and national foreign exchange reserves [1]. This also helps reduce the pressure on Vietnam's foreign currency supply and demand vis-à-vis the US dollar and the dollarisation of the economy). On the other hand, in case the yuan appreciates against the US dollar, that would make Chinese goods and services less competitive, which in turn would facilitate Vietnamese goods' greater penetration [51] in both depth and breadth, of not only the Chinese [61], but also the regional [34] and global markets [44].

Third, the shift in China's economic development model will help improve the income of its people in general and the middle class in particular. Though the country sees the growth of its people's per capita income slowing down, the absolute value of the income tends to rise, thus contributing to spurring the demand for tourism of not a small part of the Chinese population who opt for outbound tours to countries adjacent or close to China due to cost considerations. The number of Chinese tourist arrivals to Vietnam over the past few years has rapidly increased. China has been topping the list of countries of origin of tourist arrivals to Vietnam, with the figures being 1.4 million in 2012, and 1.9 million in 2013 and 2014 [2]. The number of Chinese tourists rose to 2.5 million in 2016, out of the total of 10 million international tourists in Vietnam [60].

Fourth, although the impact on Vietnam of China's implementation of the OBOR strategy is yet to be clearly seen, it can be anticipated that China will boost its investments in infrastructure in Vietnam and continue to expand trade links with it. China will also continue to invest in the construction of cross-border economic cooperation zones [29]; however, the cross-border economic cooperation zone is a new model that has not been implemented in Vietnam before, nor is there much information on similar models with successful outcomes elsewhere. Therefore, Vietnam and China will continue to negotiate on this front. Furthermore, to promote financial and monetary cooperation [50], the two sides have established the Working Group on monetary cooperation towards the signing [52] of a bilateral currency swap agreement [68]. The State Bank of Vietnam and the People's Bank of China organised the second session of the working group on 28 June 2016, in Beijing, at which the two sides shared the results of a survey on cross-border billing between the two countries. It also proposed measures to remove difficulties for commercial banks and enterprises in this regard, to facilitate business and promote trade between the two countries [7].

4.2. Negative impact

Apart from the above-mentioned positive effects of China's adjustments of its diplomatic strategy and economic model, the negative consequences for Vietnam are as follows:

First, the shift will lead to a tendency in China of dramatically adjusting the economic structure and upgrading various sectors, and to move those sectors of economic activity and products that use low-level and environmentally polluting technologies to other countries. Also the decreases in the production of heavy industries, such as iron, steel and cement, might lessen China's import of natural resources and minerals from ASEAN member states, including Vietnam [35], in the short term. A number of economic sectors in Vietnam [43] have to compete directly with those in China [53], especially in those fields which see high redundancy in manufacturing capacity after the period of overheated development (2016). Redundant goods and obsolete technologies from China are sent to countries that receive its investments. This will further complicate the challenges that Vietnam has been facing given the nature of its economy, with a rapidly developing sector which receives foreign investment, and a domestic sector which risks continued stagnation and falling into "the trap of processing and assembly" as well as becoming the dumping ground for obsolete and polluting technologies.

Second, China's enterprises [58] have been [39] paying Vietnamese workers' salaries lower than other foreign investors and even domestic enterprises [33, pp.20-30]. They are also seen as not paying much attention to training labour skills [45]. Of even more concern are China's engineering, procurement and construction

(EPC) projects, and those where China provides preferential credits to Vietnam. These are projects with high amounts of investments having a major impact on Vietnam's development potential in the long term. However, there are many examples of cost increases in the projects, delayed implementation, and adverse effects on the environment. The examples below are reproduced from reports:

The list of problematic projects with participation of Chinese contractors also includes the Cat Linh - Ha Dong elevated railway, which kicked off in 2011 with investment capital of USD 552 million, of which USD 169 million came from Chinese ODA. However, in November 2014, the required investment capital was unexpectedly raised to USD 868 million, or USD 300 million higher than the initial investment rate.

The projects include the Ninh Binh fertiliser plant, the second phase of the Thai Nguyen steel mill. The Ninh Binh fertiliser plant, capitalised at VND 12 trillion, has reported a loss of VND 2.7 trillion. Vinachem, the investor, took the right to operate the plant from the EPC contractor in September 2012. However, after 11 rounds of negotiations, nothing has been finalised.

Regarding the Thai Nguyen steel mill, Chinese MCC in 2007 was appointed the EPC contractor and it had 30 months to implement the contract. However, the project remains unfinished in the last ten years, while the required investment capital has been raised from VND 3.8 trillion to VND 8.1 trillion. In June 2012, the contractors stopped the project execution and left, leaving assets worth VND 4.5 trillion under the sun and rain [57].

Vinaconex Water Supply Joint Stock Company (Viwasupco) has decided to cancel the pipeline contract for Song Da Water Project - Phase II with Chinese contractor Xinxing Co., Ltd. (Xinxing) due to concerns over the quality of the ductile iron pipes. The plan will be submitted for prime ministerial approval. Previously, the PM agreed to the Hanoi People's Committee's proposal to suspend signing the contract with Xinxing to reconsider relevant problems. Previously, Viwasupco planned to invest in Song Da Water Project - Phase II. Chinese pipe-maker Xinxing won the contract by bidding 11.8% under the investor's asking price. Under the VND 588 billion (USD 26.25 million) contract, Xinxing was to supply ductile iron pipes for the project's 21-kilometre pipeline. However, the selection of a Chinese contractor for a crucial water project faced protest from residents. Adding salt to the wound, Singaporean Acuatico Pte., Ltd. decided to divest its 43.2% stake, equaling 21.8 million shares, in Viwasupco as a reaction to a Chinese contractor winning the pipeline contract [62].

Similarly, there have been issues regarding Chinese labour:

The number of Chinese working illegally at construction sites in Vung Ang Economic Zone based in the central Ha Tinh province has been rising steadily. Figures released by Deo Ngang border station show 1,526 Chinese nationals among 2,600 foreign workers working there in late September and early October but the economic zone's management board said only 1,100 foreigners have been granted working permits [46].

Third, Beijing's devaluation of the yuan is considered to have been aimed at contributing to the improvement of Chinese goods' competitiveness in the world market and that of the region, including Vietnam. In reality, with the value of the yuan lowered against the US dollar, Vietnamese companies might encounter difficulties in the competition with their Chinese peers in occupying higher positions in the value chains [37]. The sectors utilising natural resources and raw materials, such as crude oil, rubber and iron ore, will be most affected as China has a "natural resources-intensive" economy[4]. The sectors which are out of the global value chains and compete directly with China's products, such as iron, steel, glass, etc., will also face multiple challenges in the short to medium term. Vietnamese agriculture is also indirectly affected [31], because the currencies of some exporters of farm produce like Australia are sharply devalued as a result of a declining Chinese economy, which leads to a sharp and prolonged decrease in the prices of some imported agricultural products [10]. In addition, Vietnam's import - export structure is neither stable nor secure and bears the potential risk of an increasing structural dependence on China. If Vietnam does not have an effective strategy to modify the structure, then, even a yuan appreciation against the US dollar (compared with the exchange rate of the period before 11 August 2015)[5] would hardly have any favourable impact on Vietnam's severe trade deficit with China.

Fourth, not a few enterprises operating in the capital-intensive sectors that are significantly affected, namely, oil and gas exploration, rubber plantation, steel manufacturing, infrastructure construction etc., borrow heavily from the banks, which can deepen the vulnerability of Vietnam's banking system [56]. That leads to increasing bad debts [55], with less likelihood of interest rates being reduced, which in turn will have a major impact on domestic enterprises which depend a great deal on loans from the banks [48]. In reality, the domestic banking and finance system is facing more potential risks as many of the domestic enterprises operating in the capital-intensive sectors have been utilising a high amount of capital borrowed from banks, a no small part of which has originated from ODA and "non-preferential" credits of Chinese banks to investment projects in Vietnam with the participation of Chinese contractors. For example:

The Cat Linh - Ha Dong urban railway project broke ground in October 2011, with USD 419 million of the initial investment estimate covered by China's official development assistance (ODA) loans. China will add USD 250.62 million to cover part of the USD 315.18 million cost overrun, whereas the Vietnamese side will increase its capital contribution to USD 198.42 million from the previous USD133.86 million. Vietnam will thus have to take a massive USD 669.62 million ODA loan from China for the project [47].

The Duyen Hai 1 thermal power plant which is under construction, was developed with 85% of total capital of USD 1.6 billion borrowed from China Import - Export Bank. The USD 1.95 billion Mong Duong 2 thermal power plant, expected to become operational in the near future, is developed with 19% of the capital contributed by the Chinese investment group CIC [54].

The debt worth VND 5 trillion with interest rate of 4% to Chinese Eximbank has been burdening Ninh Binh Fertilizer. Problems occur regularly at its plant, and the more products it makes, the more losses it incurs. “The interest rate of 4% is not “preferential”. I believe that Vietnamese commercial banks are capable of lending in foreign currencies at the interest rates of 2 - 3%,” said Bui Quang Tin from the Ho Chi Minh City Banking University on Dat Viet. He went on to say that the interest rate of the loan Ninh Binh received from Chinese Eximbank is “unusual”. In foreign markets, banks’ input interest rates are very low, just 0.5 - 0.7%, and banks can lend at 2 - 3% only [59].

5. Conclusion

Research has shown that, after the 18th Congress of the Chinese Communist Party, China had made adjustments to its diplomatic strategies, and a shift in its economic development model, and has made a start in setting new “rules of the game” for the world. Its new initiatives and strategies have drawn the participation of many countries, creating conditions of heightened competition for position and economic influence among the various powers, especially between China and the US. At the same time, coupled with its increasing economic influence in the region and the world, Beijing’s strategic adjustments have also made the economies of many countries dependent on China, especially in terms of trade and investment. This has had both positive and negative effects on those economies.

It has been seen that the shift in China’s economic development model so far has had and will continue to have both a positive and a negative impact on the Vietnamese economy. Many economic experts feel that the positive effects will occur only in specific conditions, and are highly likely to be only short term [6]. Behind the positive effects might be hidden potential risks which require serious analysis. In order to help the domestic enterprises overcome the challenges and seize opportunities resulting from the geo-economic advantages and those brought about by international economic integration, Vietnam needs to accelerate its economic institutional reforms [30] in a stronger and more effective manner [9]. This is necessary to really enhance its internal capacity [42] and its successful integration with the region and the world, which includes successful management of its relations with China.

Notes

[2] Editor’s note: Nguyen Quang Thuan, ‘China’s Strategic Adjustments: Impact on the World, Region and Vietnam’, *China Report* (Volume: 53 Issue: 3) pp. 367-385. Copyright © 2017, Nguyen Quang Thuan. Reprinted by permission of SAGE Publications India Private Limited. https://doi.org/10.1177/0009445517711522

[3] China’s Central Conference on Work Relating to Foreign Affairs (28-29 November 2014) stated a new diplomatic orientation with the order of

priority as follows: (1) periphery diplomacy (neighbourhood diplomacy); (2) relations with major powers; (3) relations with developing countries; (4) multilateral diplomacy [69]. The priorities are different from those stated in the 18th Congress of the Chinese Communist Party (2012) when the order of priority in foreign affairs was categorised into six major focal areas: (1) relations with developed countries; (2) relations with neighbouring countries; (3) relations with developing countries; (4) multilateral diplomacy; (5) public diplomacy and renwen (people's and cultural diplomacy); and (6) parties and political organisations [32].

[4] This is also one of the reasons for the difficulties faced by economies that rely a lot on the export of oil and natural resources, such as Russia, Brazil and South Africa, of the bloc of BRICS, or member countries of the OPEC, or Australia and Canada.

[5] This particular date is mentioned because of the fact that 'China's central bank shocked markets on 11th August when it devalued its currency, the yuan, by lowering its daily mid-point trading price to 1.87% weaker against the US dollar. A day later, the central bank sent shockwaves again with a second devaluation, pushing down the price by another 1.62% against the US dollar' [38].

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