



TO COUNTER CHINA, THE UNITED STATES SEEKS A COMPREHENSIVE STRATEGIC PARTNER IN VIETNAM

BY ELIZABETH FREUND LARUS

Elizabeth Freund Larus, (elizabeth.larus@fulbrightmail.org) Ph.D. is Adjunct Fellow at Pacific Forum and Professor Emerita of Political Science and International Affairs, the University of Mary Washington. She would like to thank Katelyn Shelby for her research on supply chains.

President Joe Biden visited Hanoi in September and announced that the United States and Vietnam had upgraded relations from a “comprehensive partnership” to a “comprehensive strategic partnership.” Washington and Hanoi agreed to deepen cooperation in areas of diplomacy, trade, investment, and collaboration in the areas of artificial intelligence, R&D, governance, health and medical science, climate science, biotechnology, and conservation. Yet despite the pledges of cooperation and partnership, economic, security, and political factors limit full expression of the enhanced partnership.

The road to comprehensive strategic partnership

Both Washington and Hanoi have sought upgraded bilateral relations for years, but could not agree on the level. Vietnam initially wanted to move along the usual path, from a “comprehensive partnership” to a “strategic partnership”—a quasi-alliance relationship focused on a strategic gain. The United States, however, sought to move directly to “comprehensive strategic partnership”—a high-level cooperative relationship involving broad collaboration across several areas. Vietnam initially resisted skipping the intermediate stage, concerned that Beijing would accuse Vietnam of joining US efforts to counter China and fearing China’s reaction. An agreement at the

senior level was only decided after extensive negotiations at the working level.

For Washington and Hanoi, the upgrade reinforces growing strategic convergence. For instance, Vietnam supports Biden’s initiative on the Indo-Pacific Economic Framework for Prosperity, designed to counter China’s economic might. Vietnam has agreed to take part in the pillars covering trade and supply chains and is joining discussions in the green and fair economy. Vietnam also supports the United States’ Indo-Pacific strategy of a free and open, connected, prosperous, secure, and resilient Pacific, and shares American ideals of peace and prosperity in the region. Moreover, Vietnam and the United States share concerns about China’s aggressiveness, including unilaterally changing the status quo in the South China Sea by militarizing islands and bullying other claimants to maritime structures.

Vietnam’s role in US supply chain resiliency

The most immediate deliverable of the relationship’s upgrade is bringing Vietnam into US supply chains. Hanoi agreed to elevate relations after Washington offered to help Hanoi develop into a high-tech and semiconductor partner in US supply chains. Earlier this year Biden pledged to help Vietnam expand its semiconductor assembly capacity in support of US industry. This involves developing teaching labs and training courses in Vietnam and drawing the country into US networks to build secure technology supply chains.

Of note, Washington had been courting Hanoi, even before the COVID-19 pandemic, to secure supply chain resiliency. The pandemic demonstrated the vulnerability of global supply chains, compelling Washington to secure supply chains to mitigate the China risk. The upgraded relationship encourages US and foreign firms to move their operations from China to Vietnam as well as restructure global supply chains away from China. Vietnam offers cost-effective labor and a relatively stable relationship with the United States.

However, Vietnam lacks critical protections and processes necessary for the security of high-tech

supply chains. Business contracts are often in Vietnamese only, and Vietnam has weak intellectual property (IP) laws, posing a risk for companies in more technical or higher-end production. This prompts US firms to weigh the risks of weak security and intellectual property protection. While some segments of semiconductor manufacturing may move from China or Taiwan to Vietnam, the most advanced aspects are likely to remain overseas. Given the sophistication of chip production, coupled with weak IP protection, Vietnam will more likely contribute to the processes that precede actual chip production, such as those involving plastics, metals, and chemicals in the assembly, packaging, and testing phases. Vietnam has been associated with lower-quality goods like textiles and shoes, only recently aspiring to higher-value products given its relatively low labor costs. US high-tech companies will approach this move with caution.

Security dimension

Vietnam's location near China and the South China Sea was also part of the Washington's strategic calculus. The elevated status gives the United States a stronger presence in the South China Sea and will allow more defense cooperation between Washington and Hanoi. Such cooperation will not lead to a formal military alliance, however, and Hanoi is not likely to join Washington to counter Beijing. Significantly, Vietnam already has a Comprehensive Strategic Partnership with China. Although Vietnam, for several decades, worked hard not to choose between China and the United States, Hanoi de facto tilted toward Beijing. Even today, the communist parties of the two countries continue to cooperate in defending the security of the socialist system. However, Vietnam's struggles against China in the South China Sea and its desire to reduce trade dependence on the Chinese economy has of late drawn Hanoi closer to the United States. As early as 2003, Vietnam readjusted its grand strategy, moving a bit away from China and opening a door for cooperation with Washington.

Limits to the partnership

Vietnam's leaders are concerned that US policies may change when a new government comes to power in Washington. For instance, a new government may impose Section 301 sanctions on Vietnam, or erect trade barriers. Recall that the Trump administration had opened Section 301 investigations into undervaluation of Vietnam's currency and Vietnam's import of illegally harvested or traded timber. Although the Biden administration negotiated agreements in the two cases and never imposed tariffs, investigations remain active.

Vietnam's nonmarket economy is a problem for US businesses as well. Although Vietnam removed many non-tariff trade barriers through its accession to the World Trade Organization, protectionism, corruption, a weak legal system, and a lack of contract sanctity remain challenges.

Perhaps the biggest area of disagreement concerns foreign policy. The United States wants Vietnam to criticize Russia, but Hanoi has historically enjoyed good relations with Moscow, stemming largely from Russian military aid and development assistance to Vietnam's energy sector. Russia is also Vietnam's primary supplier of weapons and defense systems. From 1995-2021, Hanoi bought \$7.4 billion worth of weapons and military equipment from Moscow, making Vietnam one of Russia's largest arms customers. Over 70% of Vietnam's weapons are from Russia.

The United States has also refrained from punishing Vietnam under the Countering America's Adversaries Through Sanctions Act, however, while Washington courts Vietnam as a partner against China. Vietnam is also likely to import more US weapons in the future. During his September visit, Biden indicated that Washington was preparing the sale of US F-16 fighter jets next year. Because the package will be costly for Vietnam, the United States will have to provide special financing terms.

Although Hanoi views Washington as a key partner in dealing with Beijing, Vietnam's foreign policy of no military alliances, no foreign bases, and no taking sides, as well as no use of force in international relations limits cooperation with the United States. Vietnam is also unwilling to protest China's

assertiveness in the Indo-Pacific, partly because Hanoi does not want to compromise trade relations with its largest trade partner. Vietnam-China trade in 2021 was valued at \$166 billion, much larger than US-Vietnam trade valued at \$111 billion. Imports from China, valued at \$110 billion, are also vital for Vietnam's manufacturing industry. Hanoi does not want to risk undermining its manufacturing sector by challenging China at sea.

There are obvious differences in political ideology, too. Vietnam is a communist polity and socialist economy, and shares many of the traits of China's authoritarianism. Although the United States refrains from publicly criticizing Vietnam's political institutions, it is critical of state manipulation of capital markets and abuse of human rights.

For now, however, the need to counter China's growing influence compels Washington to put aside criticism to unite with Vietnam.

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