

CHAPTER 4

The Belt and Road Initiative in Vietnam

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Abstract

China's Belt and Road Initiative (BRI), which was unveiled by President Xi Jinping in 2013, has attracted significant attention from the international community and its potential beneficiaries, including Vietnam. This paper argues that while the BRI could become a significant diplomatic and economic tool for China to exert economic and strategic influence on Vietnam, the ongoing South China Sea dispute and the poor reputation of China-funded infrastructure projects in Vietnam and elsewhere have greatly undermined such a potential. As such, while offering diplomatic support for the BRI, Vietnam, unlike some other Southeast Asian peers, remains rather hesitant in getting Chinese loans under this scheme. The paper therefore offers a case-study for understanding varied international reactions to the BRI and suggests that the implementation of the BRI will face significant setbacks, especially in countries with which China has an unfriendly strategic relationship.

Introduction

China's Belt and Road Initiative (BRI) has attracted significant attention from the international community for the sheer size of potential economic opportunities that it is expected to bring the world. Praised by some observers as "the most ambitious geoeconomic vision in recent history,"¹ the initiative is estimated to directly involve 65 countries, 4.4 billion people and 29 per cent of global GDP.² Although China's official propaganda describes the BRI as a broad, comprehensive initiative that includes five areas, namely policy coordination, facilities connectivity, unimpeded

An earlier version of this paper was originally published by the ISEAS – Yusof Ishak Institute as "The Belt and Road Initiative in Vietnam: Challenges and Prospects", *ISEAS Perspective*, No. 18, 2018.

¹ Jonathan Hillman, "China's 'Belt and Road' Initiative Must Become a Strategy," *Global Economics Monthly*, 2017, https://csis-prod.s3.amazonaws.com/s3fs-public/publication/170510_GEM_V6_15.pdf.

² Shivshankar Menon, "The Unprecedented Promises – and Threats – of the Belt and Road Initiative," *Brookings Institution*, 2017, www.brookings.edu/opinions/the-unprecedented-promises-and-threats-of-the-belt-and-road-initiative/.

trade, financial integration, and people-to-people connections,³ it’s China’s proposal to create massive networks of infrastructure across Asia, Africa and Europe, including roads, railways, harbours, airports, pipelines, and fibre optic, that is most appealing to regional countries.

Vietnam, which is included in the BRI’s geographical scope and has a great demand for infrastructure investments, is poised to benefit from the initiative. However, apart from some statements welcoming the BRI and proposing principles for its implementation, Vietnam’s reactions to the initiative remain largely ambivalent. Given the complex political, economic and strategic relationship between the two countries, examining the BRI’s implications for bilateral relations will be useful for understanding how the two neighbours view each other and handle their relationship in the future.

This paper argues that while the BRI could become a significant diplomatic and economic tool for China to exert economic and strategic influence on Vietnam, the ongoing South China Sea dispute and the poor reputation of China-funded infrastructure projects in Vietnam and elsewhere have greatly undermined such a potential. As such, while offering diplomatic support for the BRI, Vietnam remains rather hesitant in getting Chinese loans under this scheme. The paper therefore offers a case-study for understanding varied international reactions to the BRI and suggests that the implementation of the BRI will face significant setbacks, especially in countries with which China has an unfriendly strategic relationship.

The paper proceeds in four sections. It first provides an overview of the BRI and Vietnam’s relations with China. The paper then analyses the BRI’s appeals to Vietnam and Vietnam’s reactions to the initiative before explaining why Vietnam reacted as such. Finally, the paper discusses the prospects of the BRI in Vietnam and its implications for future bilateral relations.

³ “Essential Guide to Understanding Belt and Road Initiative,” *Xinhua*, May 13, 2017, http://news.xinhuanet.com/english/2017-05/13/c_136279142.htm.

Overview of the BRI and Vietnam – China Relations

The Belt and Road Initiative

The Belt and Road Initiative (BRI) is a transcontinental development project launched by Chinese President Xi Jinping in 2013 and has since become his signature foreign policy initiative. Xi called the BRI as “the project of the century” which could help China extend its economic, political and strategic influence across Asia and beyond. The initiative comprises two segments: the Silk Road Economic Belt, which refers to various land corridors connecting China with Southeast Asia, South Asia, West Asia and the Middle East, and Europe; and the 21st Century Maritime Silk Road, which is a sea route linking Asia, Africa and Europe.

According to China’s official propaganda, the BRI is aimed at five goals: ⁴

- **Policy coordination:** Promoting policy coordination between China and partner countries. By 2018, China had signed cooperation agreements with more than 40 countries and organisations.
- **Facilities connectivity:** Promoting physical connectivity across continents. Major projects include, among others, the New Eurasian Continental Bridge, the China-Mongolia-Russia Economic Corridor, and the China Pakistan Economic Corridor.
- **Unimpeded trade:** Facilitating global trade in general and trade between China and partner countries in particular. Beijing says such trade flows exceeded US\$3 trillion between 2014 and 2016, with China’s investment in partner countries surpassing US\$50 billion.
- **Financial connectivity:** Promoting new financial mechanisms, including the Asian Infrastructure Investment Bank (AIIB), the Silk Road Fund, the New Development Bank, and the 16+1 financial holding company between China and countries in Central and Eastern Europe. These institutions are key instruments for China to invest in BRI projects.
- **People-to-people bonds:** Strengthening science, education and health cooperation as well as people-to-people exchanges between China and partner countries. Currently, China provides about 10,000 scholarships annually to

⁴ Deloitte, “Embracing the BRI Ecosystem in 2018: Navigating Pitfalls and Seizing Opportunities,” 2018, <https://www2.deloitte.com/insights/us/en/economy/asia-pacific/china-belt-and-road-initiative.html>.

foreign students.

China portrayed the BRI as a project of connectivity driven by benign economic intentions that will lead to win-win outcomes for both China and partner countries. However, the perception of the BRI in foreign countries has been largely negative with suspicions abounding that it is ultimately a tool for China to expand its economic and strategic interests at the expense of others'. Such interests include: exporting Chinese capital and generating higher returns on China's vast foreign exchange reserves; creating business opportunities for China's SOEs in overseas markets, especially in the construction and engineering sector; exporting China's excess industrial capacity to regional markets; expanding China's export markets; and boosting the internationalisation of the renminbi.⁵

The initiative, which is estimated to provide funds up to US\$900 billion, becomes a source of hope for countries seeking to upgrade their infrastructure systems. According to the ADB, 45 Asian countries would need a total investment of US\$26 trillion between 2016 and 2030 to fix their infrastructure shortfall, in which two-thirds is for transport and power.⁶ However, several concerns have been raised regarding the initiative. Inside China, critics were worried about the excessive debts generated by the big-ticket BRI projects and the widespread corruption in many recipient countries. The sustainability of such projects will become even more questionable if China considers the projects mainly from a geo-political perspective and neglects their commercial viability. In January 2017, ratings agency Fitch observed that: “The lack of commercial imperatives behind [BRI] projects means that it is highly uncertain whether future project returns will be sufficient to fully cover repayments to Chinese creditors.”⁷

There have also been backlashes against the BRI in different parts of the world. A major source of concerns for recipient countries is the risk of falling into a “debt trap,” in which their inability to repay debts will expose recipient countries to political and strategic manipulations by China, through which their political autonomy and sovereignty may be undermined. An oft-cited example is the case of the Hambantota

⁵ Ibid.

⁶ Michael Peel and Tom Mitchell, “Asia’s \$26tn Infrastructure Gap Threatens Growth, ADB Warns,” *Financial Times*, February 28, 2017, <https://www.ft.com/content/79d9e36e-fd0b-11e6-8d8e-a5e3738f9ae4>.

⁷ Tom Hancock, “China encircles the world with One Belt, One Road strategy,” *Financial Times*, May 4, 2017.

port in Sri Lanka, in which the Sri Lankan government had to lease the strategic port to China for 99 years after it failed to pay back the debt to Beijing. As *The New York Times* put it, “The case is one of the most vivid examples of China’s ambitious use of loans and aid to gain influence around the world — and of its willingness to play hardball to collect.” The deal also contributed to the mounting accusations about the BRI, that it “amounts to a debt trap for vulnerable countries around the world, fuelling corruption and autocratic behaviour in struggling democracies.”⁸

In sum, the BRI is a signature foreign policy initiative of Chinese President Xi Jinping which aimed to achieve multiple economic and political objectives to boost China’s national interests and expand its and strategic footprints worldwide. However, the BRI faces significant challenges at home and abroad. For Vietnam, the BRI, if implemented in the country, may generate significant impacts on its economic development as well as its relations with China. The next sub-section will review the bilateral relations before assessing Vietnam’s reactions to the BRI.

Vietnam – China Relations

After bilateral normalization in 1991, Vietnam and China have made efforts to promote a peaceful, stable and cooperative relationship. Despite sporadic surge of tensions due to the South China Sea disputes, Vietnam’s overall relations with China have improved considerably, with the most notable landmark being the establishment of a “comprehensive strategic partnership” between the two countries in 2008. Three major features illustrate the considerable improvement of bilateral relations since their normalization: the successful solution of the land border dispute and the delimitation of the Tonkin Gulf, the continual strengthening of political relations, and the deepening of economic ties. Flourishing economic ties have particularly become the central conduit for bilateral cooperation.

When the two countries normalized their relations in 1991, bilateral trade turnover was only US\$37.7 million. In order to boost economic exchanges, the two countries concluded some essential agreements on trade (1991), economic cooperation (1992), investment encouragement and protection (1993), payment (1993), avoidance of double taxation (1996), and a number of others on transportation. The two countries’

⁸ Maria Abi-Habib, “How China Got Sri Lanka to Cough Up a Port,” *The New York Times*, June 25, 2018, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

economic exchanges have also been promoted by multilateral treaties, especially the Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and China, which was signed on 5 November 2002 and entered into force on 1 July 2003. The agreement laid the foundation for the creation in 2010 of the ASEAN-China Free Trade Area, of which both Vietnam and China are members.

Since 2004, China has been Vietnam’s biggest trade partner. Two-way trade turnover increased from US\$37 million in 1991 to US\$93.7 billion in 2017.⁹ While trade is the main channel for the two countries to conduct economic exchanges, investment is also playing an increasingly important role. By January 2019, China had become the 7th largest foreign investor in Vietnam, with 2,212 projects and US\$13.58 billion in registered capital.¹⁰ If investments from Hong Kong were included, China would be ranked as the 4th largest investor with the total registered capital reaching more than US\$32 billion.

In terms of infrastructure connectivity, during Vietnamese Prime Minister Phan Van Khai’s visit to China in 2004, the two countries adopted the so-called “Two Corridors, One Belt” initiative to connect southern China and northern Vietnam. The “two corridors,” namely the Kunming - Lao Cai - Ha Noi - Hai Phong - Quang Ninh corridor and the Nanning - Lang Son - Ha Noi - Hai Phong - Quang Ninh corridor, will improve connectivity and economic cooperation between Yunnan and Guangxi with 12 cities and provinces in northern Vietnam. Meanwhile, the Tonkin Gulf “economic belt” is designed to enhance economic cooperation between provinces of the two countries that are located around the Gulf. By 2012, although the two countries had implemented many major transportation infrastructure projects to materialize the initiative, most of the progress had taken place on the Kunming – Quang Ninh corridor only. Nevertheless, if completed, the initiative may play an essential role in the promotion of connectivity and economic cooperation between Vietnam and China as well as between China and ASEAN countries, especially in terms of trade, investment and tourism.

Apparently, the deepened economic ties between Vietnam and China have

⁹ Vietnam Customs, “Tình Hình Xuất Khẩu, Nhập Khẩu Hàng Hóa Của Việt Nam Tháng 12 và 12 Tháng Năm 2017,” 2018, https://customs.gov.vn/Lists/ThongKeHaiQuan/ViewDetails.aspx?ID=1238&Category=Tin_van_thong_kê&Group=Phân_tích

¹⁰ Foreign Investment Agency, “Tình Hình Thu Hút Đầu Tư Nước Ngoài Tháng 01 Năm 2019,” 2019, <http://fia.mpi.gov.vn/tinbai/6124/Tinh-hinh-thu-hut-Dau-tu-nuoc-ngoai-thang-01-nam-2019>.

strengthened the foundations of bilateral relations. However, Vietnam and China still face major challenges in further improving their relations, mainly because of their South China Sea disputes.

After bilateral normalization in 1991, in order to stabilise the relationship, Vietnam and China made efforts to solve their long-standing territorial and maritime disputes. In 1993, the two sides concluded an agreement on the principles for settling disputes regarding their land border and the Tonkin Gulf. In December 1999, the two countries signed a treaty on land border demarcation after 16 rounds of talks, followed by an agreement on the delimitation of the Gulf of Tonkin and an agreement on fishing cooperation in the Gulf, both signed in December 2000. However, Vietnam and China still maintain conflicting claims over the Paracels and the Spratlys, as well as the surrounding waters.

The South China Sea dispute remains the most serious sticking point in Vietnam – China relations and has the potential to develop into an armed conflict if incidents at sea are not well managed. A primary example would be the 2014 oil rig crisis. In early May 2014, China deployed the deep-water oil rig Haiyang Shiyou 981 (HYSY-981), accompanied by around 80 ships, in an area off Vietnam’s central coast and well within the 200-nautical-mile exclusive economic zone (EEZ) measured from Vietnam’s baseline. Vietnam responded by sending naval vessels to the area to prevent the stationing of the rig. The subsequent standoff, which lasted until July, saw Chinese ships aggressively ram and fire water cannons at Vietnamese vessels. The crisis also led to two deadly anti-China riots in Vietnam and created a sense of brinkmanship in the country for weeks. Following the incident, strategic trust between the two countries fell to its lowest point since bilateral normalization in 1991.¹¹

The incident further reinforces Vietnam’s perception of the China threat in the South China Sea. As such, Vietnam tends to be more cautious in dealing with China’s moves, even in the economic sphere, especially if such moves are seen to have potential strategic impacts that may constrain Vietnam’s manoeuvrability in the South China Sea. Vietnam’s reactions to the BRI is a telling example of this observation.

¹¹ Nguyen Thanh Trung and Truong-Minh Vu, “The 2014 Oil Rig Crisis and Its Implications for Vietnam-China Relations,” in *Vietnam’s Foreign Policy under Doi Moi*, ed. Le Hong Hiep and Anton Tsvetov (Singapore: ISEAS Publishing, 2018), 72–95.

BRI’s Appeals and Vietnam’s Initial Reactions

The BRI is an important source of funding that Vietnam may want to tap to finance its infrastructure projects. Vietnam’s demand for infrastructure investments will keep increasing in the coming years. For example, between 2016 and 2020, Vietnam’s need for infrastructure investment is estimated to double from the period 2011-15 to reach US\$23.4 billion. However, Vietnam is facing challenges in meeting this need because of the decreased inflow of official development assistance (ODA) following its attainment of the middle-income country status in 2011; difficulties in promoting Public Private Partnership projects arising from tightening financial and legal regulations; and limited state-funded investment due to budgetary constraints.¹² Meanwhile, according to the Global Infrastructure Outlook, Vietnam’s investment need for infrastructure projects between 2016 and 2040 amounts to US\$605 billion, with electricity and road being the sectors that need the most investment.¹³ Specifically, these two sectors account for 43.8 per cent and 22.1 per cent, respectively, of Vietnam’s total investment need during this period. Notably, the gap between investment need and current trends of investment is US\$102 billion, meaning that Vietnam will need to actively seek different sources of funding to cover the gap.

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

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

Source: Adapted from Global Infrastructure Outlook, 2017, p.150.

Vietnam has therefore endorsed the BRI as well as the China-led Asian Infrastructure Investment Bank (AIIB). In March 2017, during AIIB President Jin Liqun’s visit to Vietnam, Vietnamese Prime Minister Nguyen Xuan Phuc urged AIIB to invest in Vietnam’s infrastructure, especially by sponsoring projects developed by private investors.¹⁴ Two months earlier, at a meeting with General Secretary of the

¹² Kim Hiền, “Giai Đoạn 2016-2020: Nhu Cầu Đầu Tư Hạ Tầng Khoảng 24 Tỷ USD.,” *Tap chí Tài chính*, 2017, <http://tapchitaichinh.vn/kinh-te-vi-mo/kinh-te-dau-tu/giai-doan-20162020-nhu-cau-dau-tu-ha-tang-khoang-24-ty-usd-123646.html>.

¹³ Global Infrastructure Hub, “Global Infrastructure Outlook - Infrastructure Investment Needs - 50 Countries, 7 Sectors to 2040,” 2017, <https://d2rpq8wtqka5kg.cloudfront.net/389138/open20170919030300.pdf>.

¹⁴ “AIIB Urged to Invest into Vietnam in 2017: Vietnamese PM,” *Xinhua*, March 8, 2017, http://www.xinhuanet.com/english/2017-03/07/c_136110177.htm.

Communist Party of Vietnam (CPV) Nguyen Phu Trong during Mr Trong's visit to Beijing, AIIB President Jin also confirmed that AIIB would like to invest in Vietnam's infrastructure development projects, especially railways, highways and seaports.¹⁵

In May 2017, Vietnamese President Tran Dai Quang attended the Belt and Road Forum for International Cooperation in Beijing. Speaking at the Forum, Mr Quang welcomed the BRI along with efforts to promote economic and regional connectivity. He also proposed principles for the implementation of the Initiative. Specifically, he emphasized that cooperation within the initiative "must ensure sustainability, effectiveness and inclusiveness, and be based on the principles of consensus, equality, voluntariness, transparency, openness, mutual respect and benefits, and compliance with the UN Charter and international law."¹⁶

During President Xi Jinping's visit to Hanoi in November 2017, the two countries signed a Memorandum of Understanding (MOU) on promoting connection between the "Two Corridors, One Belt" framework and the BRI. As noted earlier, the "Two Corridors, One Belt" framework was proposed by China in 2003 to promote bilateral economic cooperation. However, the framework had not been implemented until it was revived and aligned with China's newly proposed BRI. The signing of the MOU, however, does not guarantee that the BRI will see breakthroughs in Vietnam in the foreseeable future.

The Downsides of BRI Loans and Vietnam's Hesitations

Firstly, Vietnam is generally cautious about the initiative's implications for the country. It took the two countries two years to negotiate the MOU, implying that the two sides had some disagreements on its content, especially the areas of priority.¹⁷ The title of the MOU, which highlights the promotion of connection between the two initiatives, is also noteworthy, as it implies that "Two Corridors, One Belt" framework is treated as a separate plan independent of the BRI. In other words,

¹⁵ "AIIB Eyes Infrastructure Development in Viet Nam," *Vietnam News*, January 13, 2017, <http://vietnamnews.vn/economy/349672/aiib-eyes-infrastructure-development-in-viet-nam.html>.

¹⁶ "Tread Carefully on China's Belt and Road Initiative: Experts," *Vietnam News*, October 7, 2017, <http://vietnamnews.vn/politics-laws/395203/tread-carefully-on-chinas-belt-and-road-initiative-experts.html>.

¹⁷ Correspondence with Vietnamese officials, February 2018.

Vietnam is keen to maintain control over the “Two Corridors, One Belt” plan and unwilling to brand it as part of the BRI, not least publicly.

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

At the official level, President Tran Dai Quang’s emphasis of such principles as consensus, equality, mutual respect, and compliance with the UN Charter and international law in the implementation of the BRI implies that Vietnam was cautious about the economic, political and strategic implications of the BRI. In the same vein, some Vietnamese scholars have expressed concerns that the BRI has “implications that transcend economics.” For example, at an international conference held in Hanoi in October 2017 on the opportunities and challenges presented by the BRI, they warned that Vietnam’s participation in the initiative may lead to its “excessive dependence” on China, and even harm its territorial and maritime claims in the South China Sea. They also highlighted other concerns, such as insufficient protection of labour rights, Chinese firms’ poor environmental record, lack of transparency, and China’s challenging of internationally recognised dispute settlement mechanisms. As such, they recommended that Vietnam and other countries should look beyond mere economic gains when considering participation in the BRI.¹⁸

Secondly, although China is keen to fund Vietnam’s development of such projects as steel mills, coal-fired power plants, high-speed railways and highways, Vietnam is unlikely to consider getting Chinese loans for these projects as a top priority. On the one hand, as Dr Pham Sy Thanh from the Vietnam Economic and Policy Research Institute (VEPR) has pointed out, getting Chinese loans is neither “cheap” nor “easy.”¹⁹ The interest rate of Chinese loans will not be as low as many expected. For example, the Thai government dismissed the 2.5 per cent interest rate offered

¹⁸ “Tread Carefully on China’s Belt and Road Initiative: Experts.”

¹⁹ “TS Pham Sy Thanh: ‘Vốn Trung Quốc Không Rẻ, Không Dễ và Không Lợi,’” *Dân Trí*, 2016. <http://dantri.com.vn/kinh-doanh/ts-pham-sy-thanh-von-trung-quoc-khong-re-khong-de-va-khong-loi-20160804194755584.htm>.

by China for its high-speed rail line connecting Bangkok and Nakhon Ratchasima as too high, and decided not to seek loans from China.²⁰ On the other hand, China normally imposes conditions on their preferential loans, including the use of Chinese technologies, equipment and contractors. In this regard, Vietnam's abundant experience with the poor record of Chinese contractors and technologies in various projects²¹ will dampen its willingness to take on Chinese loans through the BRI if they come with such conditions.

Thirdly, there are alternatives to the BRI that Vietnam would like to explore to finance its infrastructure projects, including loans from international financial institutions and ODA partners, especially Japan. After Vietnam achieved its middle-income country status in 2011, loans from these sources have become more expensive, but there are upsides that still make them more attractive to Vietnam than BRI loans. For example, loans from international financial institutions generally come with fewer conditions, and there's no requirement on using contractors or equipment from any specific country. Meanwhile, although ODA loans from Japan do require Vietnam to use Japanese services and equipment in most of the cases, Japanese contractors and technologies are still perceived by the Vietnamese public as more trustworthy than Chinese ones.²²

Another option for infrastructure development that Vietnam would like to promote is the Public-Private Partnership (PPP), especially the Build-Operate-Transfer (BOT) model. For example, from 2011 to 2017, Vietnam mobilized 200 trillion dong (about US\$9 billion) in PPP investments from private businesses.²³ Despite certain setbacks, PPP projects will continue to be a major tool for Vietnam to develop its infrastructure systems, including large-scaled ones, as they can help relieve the state from financial burden and international obligations. Recently, for example, two private companies have proposed to build two metro lines in Hanoi under the BOT scheme.

²⁰ "Loan Rate for China-Thailand Rail Project Reflects Market Conditions," *Global Times*, April 25, 2016, <http://www.globaltimes.cn/content/979886.shtml>.

²¹ For a summary of the problems, see Le Hong Hiep, *Living Next to the Giant: The Political Economy of Vietnam's Relations with China Under Doi Moi* (Singapore: ISEAS Publishing, 2017), 95–100.

²² Anecdotal evidence can be found in the comparison between two metro lines, one in Ho Chi Minh City funded and built by Japan, the other in Hanoi by China. See, for example, Michael Tatarski, "Vietnam's Tale of Two Metros, One Built by the Japanese and the Other by the Chinese," *South China Morning Post*, July 30, 2017, <http://www.scmp.com/week-asia/business/article/2104149/vietnams-tale-two-metros-one-built-japanese-and-other-chinese>.

²³ Nguyễn Ngọc Đông, "BOT Giao Thông và Những Vấn Đề Đặt Ra Hiện Nay," *Báo Giao Thông*, 2017, <https://baomoi.com/bot-giao-thong-va-nhung-van-de-dat-ra-hien-nay/c/23149591.epi>.

Conclusion: BRI’s Prospects in Vietnam

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

So far, no new infrastructure project in Vietnam has been officially labelled as BRI-funded although the Cat Linh – Ha Dong metro line in Hanoi, which has been under construction since October 2011, has been quietly classified as such by both sides.²⁴ More specifically, the initial total cost for the project was US\$552 million, in which US\$419 million was funded by Chinese loans provided by China Eximbank. Later, however, due to cost overruns, the total investment was increased to US\$891 million and China agreed to provide an additional loan of US\$250 million for the project.²⁵ It is this new loan, which was released in 2017, that has unofficially been considered by both sides as part of the BRI.²⁶

At the same time, AIIB has indicated that it is seeking to finance suitable projects in Vietnam, with the first expected to be identified in 2017.²⁷ However, according to AIIB’s website, so far, no such project has been approved or even proposed.²⁸

In the coming years, whether the BRI will be successfully implemented in Vietnam will continue to depend on Hanoi’s evolving perception of the initiative. On the one hand, Vietnam’s budget deficit is likely to persist, causing public-funded investment in infrastructure projects to stall. As such, Vietnam’s interest in the BRI is likely to stand. Vietnam may apply for one or two “pilot” projects to get a better assessment of the upsides as well as downsides of BRI loans. However, due to Vietnam’s budget

²⁴ Correspondence with Vietnamese officials and scholars, February 2018. However, China seemed to unilaterally consider the Vinh Tan 1 Thermal Power Plant in Binh Thuan Province as part of the BRI. See “Vinh Tan 1 power plant largest Chinese investment in Vietnam”, *Belt and Road Portal*, July 17, 2017, <https://eng.yidaiyilu.gov.cn/home/rolling/20049.htm>

²⁵ “Dự Án Đường Sắt Cát Linh - Hà Đông Trả Nợ Trung Quốc 650 Tỷ Mỗi Năm,” *VnExpress*, 2018, <https://vnexpress.net/tin-tuc/thoi-su/giao-thong/du-an-duong-sat-cat-linh-ha-dong-tra-no-trung-quoc-650-ty-moi-nam-3703020.html>.

²⁶ Correspondence with Vietnamese officials, February 2018. It should be noted that this decision has never been officially announced in the media.

²⁷ “AIIB Seeking to Fund Vietnam Infra Projects,” *Wall Street Journal*, January 20, 2017, <https://business.mb.com.ph/2017/01/20/aiib-seeking-to-fund-vietnam-infra-projects/>.

²⁸ List of AIIB projects is available at <<https://www.aiib.org/en/projects/approved/index.html>> and <<https://www.aiib.org/en/projects/proposed/index.html>>.

constraints and rising public debt, which limit Vietnam's ability to service external debts, Vietnam may refrain from applying for the loans through government-to-government channels. Instead, Vietnam may encourage domestic private investors to apply for BRI loans, especially from AIIB, to construct infrastructure projects under the BOT model. This measure will also reduce the political and strategic implications of BRI loans for Vietnam.

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

Finally, the ongoing South China Sea disputes may prove to be a wild card in determining Vietnam's perception of the BRI, and thus its prospects in the country. Should the dispute intensify and bilateral relations come under greater tensions, Vietnam will become more sensitive to the political and strategic implications of the Initiative. After all, Vietnam's ability to stand up against China in the South China Sea will be weakened should it become reliant on China's investments or feel beholden to Beijing's largess. By the same token, if the situation remains calm, and the two sides achieve progress in the management of the disputes, such as the conclusion of a Code of Conduct (COC), mutual trust will be improved, and hence Vietnam's greater willingness to embrace the BRI.

In sum, there is little doubt that the BRI will face significant challenges in Vietnam. China should acknowledge these challenges and work with both domestic stakeholders and Vietnamese partners to address them. In the meantime, although the actual implementation of the BRI in Vietnam may be slow, it is almost certain that Hanoi will continue to lend diplomatic support to the initiative as a measure to strengthen the overall relations with Beijing. As the BRI helps promote not only China's economic interests but also its stature as a benevolent power and provider of international public goods, Vietnam's diplomatic support for the BRI will still be of value to China in the long run.

