



## The Eurasia Center Brief

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# Improving the US-Vietnamese Economic Relationship



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From the Galwan Valley in the Himalayas to the Senkaku Islands south of Japan, if there is sparsely populated territory in China's vicinity, China will attempt to seize it, especially if there are economic benefits. This is the reason China has been pushing so hard for so long to establish uncontested control of the South China Sea (SCS), the most important of all Chinese-contested border regions. Estimates indicate that \$3.5 trillion worth of goods pass through the South China sea every year, representing almost a quarter of global trade and 40% of China's total trade. Furthermore, the sea is home to 12% of the world's commercial fisheries, plus over 11 billion barrels of oil reserves and

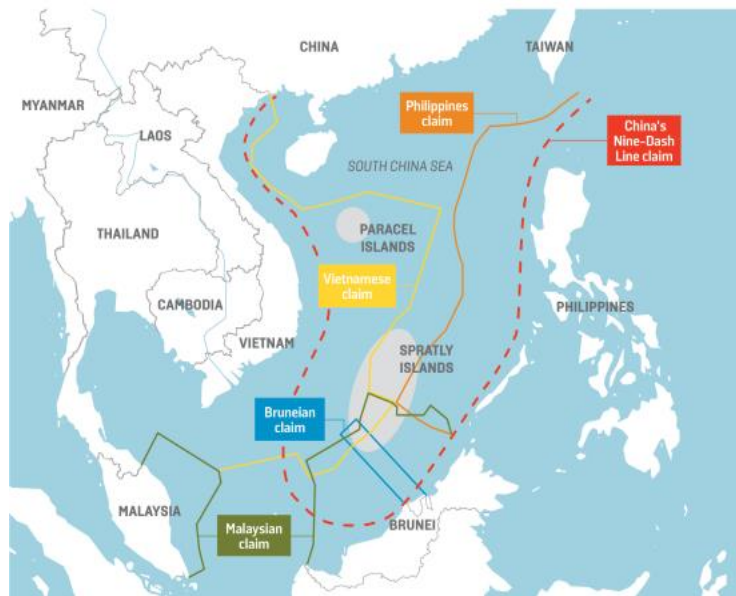


Figure 1: South China Sea Territorial Claims

190 trillion cubic feet of natural gas deposits. This is extremely valuable territory and the Chinese have proven they are not afraid to claim it even if that means violating the UN Charter on the Laws of the Seas (UNCLOS) and the sovereign territory of other countries. In order to help bring about an end to this antagonistic behavior, the United States should increase its foreign direct investment into Southeast Asian nations who are struggling to contend with Chinese interference in their maritime economic zones, specifically Vietnam.

While there are a variety of methods to stop the problem of Chinese aggression in the South China Sea, helping develop Southeast Asian economies, like Vietnam's, is the most sustainable strategy for ensuring peace in the region. US foreign direct investment into Vietnam would increase the country's technological capacity, tax revenues and domestic investment. A stronger presence of American firms in Vietnam would result in a transfer of technological knowledge. Working for older, more established, better funded American companies would expose the Vietnamese people to more efficient, technologically advanced ways of doing business. This would allow them to cultivate important skills that they could use to obtain better jobs or start their own companies which would strengthen Vietnam's economic foundation, helping it compete with China internationally. Increased tax revenues would allow for increased government spending on the military, specifically the Vietnamese Navy. This is crucial because with a stronger Navy, Vietnam could better defend its maritime territory from Chinese encroachment, thus reducing Chinese control over the SCS. Lastly, another positive outcome of foreign direct investment into Vietnam is that it would increase the amount of domestic investment in the country. If FDI helps the people

grow their skills, knowledge, and earning power, they become incentivized to invest in their own economy. Whether this means buying locally listed stocks, purchasing rental properties in up and coming neighborhoods or starting new businesses, such efforts increase citizen participation in the domestic economy. The Vietnamese people can construct a more powerful, sustainable, and resilient country. By providing Vietnam access to sums of capital it cannot yet generate on its own, the US could help the country build a strong economy that would help it counter China's influence in the South China Sea.

If Chinese aggression in the South China Sea is the problem and foreign direct investment into China's regional adversaries is a potential solution, why is Vietnam the optimal place to invest? Vietnam represents an especially promising opportunity for three reasons: it has a history of resisting Chinese antagonism, it has a good relationship with the United States and, most importantly, Vietnam has a track record of strong, consistent economic growth. In 1988, China killed dozens of Vietnamese fishermen when they ventured too close to the Spratly Islands, making Vietnam the only country to suffer casualties in the South China Sea dispute. Beyond that incident, Chinese and Vietnamese ships collided (literally) in 2014 after China established an oil rig in contested waters off of the Paracel Islands, but for the most part this conflict has remained confined to the halls of the United Nations. In addition to demonstrating bravery when confronted with the Chinese threat, Vietnam has also demonstrated a willingness to cooperate with the United States, especially on matters related to the SCS. For years, Vietnam has pleaded its case at the UN for Western nations to help take a stand against China's maritime actions and now it seems that the United States and Australia as well, have finally taken notice. President Trump has already visited the nation twice, the only sitting president to visit Vietnam on multiple occasions. Also, in August of 2020, Secretary of State Pompeo held a widely televised meeting with the Vietnamese Foreign Minister to celebrate 25 years of diplomatic relations between the US and Vietnam. In an era where it seems as though the US has pitted itself against many foreign countries, it is telling that US-Vietnamese relationship is one that the Trump administration is seeking to expand. Finally, Vietnam is the ideal Southeast Asian nation for investment because of its high economic growth. Vietnam has grown its GDP by at least 5% every year since 1990. In that same time per capita income has grown ninefold and the poverty rate dropped from about 60% to 5%. The last thirty years for Vietnam have been more impressive than just about any other country on Earth, overshadowed only by China's rapid rise. Nevertheless, the Vietnamese seem to have discovered a method of development that works well for them and US investors would likely do well by buying into it.

None of this is to say that China is a bad country or that the Chinese are an evil people. China is one of the world's oldest and most important civilizations with hundreds of millions of good, hard working people. It is an economic power that even after decades of rapid growth still



*Figure 2: Chinese Naval Vessel Patrolling near Parcel Islands*

oozes with potential. The problem with today's China is President Xi and his version of the Chinese Communist Party. Sending Chinese Muslims to detention camps, purging dissenting elected officials, invading the privacy of his own citizens with omnipresent surveillance, bullying other countries with debt diplomacy and claiming territory in the South China Sea that China has no grounds to claim is a version of leadership that empowers Xi at the expense of everybody else. Taking power away from President Xi makes the world a safer, freer,

more peaceful place and that is why the US should ramp up investment into Vietnam and other countries within China's geopolitical sphere of influence.

