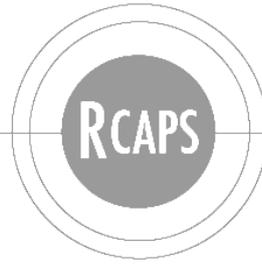


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Managing Maritime Disputes with China in the South China Sea:
Vietnam’s Approaches
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*Managing Maritime Disputes with China in the
South China Sea: Vietnam's Approaches*

TRAN Thi Bich

ABSTRACT

The disputes in the South China Sea, which is rich in natural resources and strategically important, involve a number of parties including China, Vietnam, the Philippines, Malaysia, Brunei, and Taiwan. Since Vietnamese-Sino rapprochement, Vietnam has managed its maritime disputes with its giant neighbor by employing hedging strategy which is a combination of four components. The first one is economic engagement in which Hanoi has sought close economic ties with Beijing to benefit from its rise. In the second factor, diplomatic engagement, Vietnam has promoted bilateral communication with China via multiple communicational channels such as state-to-state, party-to-party, and military-to-military levels. The third element is internal balancing in which Vietnam has enhanced its domestic strengths by developing its economy and modernizing its military forces. In external balancing which is the last constituent of Vietnam's strategic hedging, the country has deepened its bilateral and multilateral relations with other major powers and actively taken part in regional institutions. Although Vietnam's hedging strategy vis-à-vis China includes four components, the weight of each element is different from one another and has changed over time. This is a result of Vietnam's reaction toward China's movements in the South China Sea as well as changes in domestic and external security environment. Besides diplomatic engagement which is relatively stable, each of the other components plays center role in Vietnam's approaches during a certain period. From 1991 to 2000, economic engagement is the major factor in Vietnam's hedging, while internal balancing is the priority in the period between 2001 and 2011. From 2012 to present, external balancing plays a critical role in Hanoi's strategy.

INTRODUCTION

The South China Sea has been a disputed area for centuries because of its richness in natural resources and strategic position. With numerous of marine species, it is considered as one of the most diverse shallow-sea areas in the world (Morton & Blackmore, 2009). More important, it is believed that there are vast oil and natural gas reserves in the South China Sea. The exact quantity is unknown; however, several estimations which are highly diverse are available. According to the U.S. Geological Survey, the presumed amount of oil is about 28 billion barrels, while a Chinese source provides a figure up to 213 billion barrels (Weatherbee, 2005). The South China Sea not only is rich in natural resources, its geographical position is strategically important as it connects East Asia with Pacific and Indian Ocean, Africa, and Europe. It is the world's second busiest international sea-lane with half of international commercial shipping tonnage passed the sea in 2012, including the majority of oil trade in the region (Blazevic, 2012). For these reasons, the South China Sea is desirable to many countries, which leads to the disputes in the region.

The disputes over sovereignty over the Paracels and the Spratlys involve a number of parties including China, Vietnam, the Philippines, Malaysia, Brunei, and Taiwan (Chong, 2013). Amongst disputants in the region, China is the key player due to its emerging power. The rise of China is considered as the most dramatic phenomenon in the 21st century (Lee, 2011). China with a strong economic power has employed an unprecedentedly assertive approach in pushing its claims the South China Sea disputes. Amongst smaller claimants, Vietnam is the most affected nation on the juggernaut of China's rise because its position is China's gateway to the

South China Sea (Dillon, 2011). The conflicts and tension in the South China Sea has gained international attention and concern.

The relationship between Vietnam and China is characterized by a permanent asymmetry. In managing its maritime disputes with its giant neighbor, Vietnam has employed hedging strategy since the normalization of Vietnamese-Sino relations. This paper is divided into two main sections. The first part provides a theoretical framework for analysis, while Vietnam's hedging strategy and its evolution is discussed in the second one.

THEORETICAL FRAMEWORK

One of the most discussed concepts in International Relations is balance of power which refers to the equal distribution of power amongst states. The assumption of a balance of power system is that inequality in terms of power is dangerous because too much power for one state will present threat of violence (Griffiths & O'Callaghan, 2002). However, the reality shows that there are always states which are more powerful than others due to the different levels of economic and military development. In this case, it is critical for small and medium states to employ an appropriate policy in relations with a bigger power, especially in their neighborhood. In the study of International Relations, theories suggested by realism and liberalism are the two mainstreams regarding this problem. Realism emphasizes the role of balancing and bandwagoning which are the two end of the spectrum. On the other hand, liberalism introduces the idea of engagement. Meanwhile, hedging is the mix of the two streams (Vuving, 2006).

Balancing is divided into two sub-concepts: internal balancing and external balancing. Facing the threats posed by a bigger nation, a state employing internal balancing tries to enhance its

preparedness by building up its domestic strengths. This includes developing its economy and strengthening its military capabilities (Vuving, 2006). This helps the country be more independent and enables it to confront the stronger power using force in the worst scenario. Meanwhile, external balancing focuses on establishing formal and informal alliances with other powers to counter the one which presents threats (Denny, 2005). The second realist option for a weak state to deal with a stronger one is bandwagoning with it. In this strategy, the smaller state seeks favorable relationships by aligning with the bigger power to avoid being attacked by it. In doing so, the former accepts an inferior status and pays deference to the latter (Hiep, 2013).

Unlike realism, liberal perspective suggests that smaller states can shape the behavior of the bigger ones by engaging them into deep economic and diplomatic ties. The argument is based on the positive-sum assumption that deepening interdependence is beneficial for both sides (Matsuda, 2012).

However, in a dynamic environment like today, none of the pure strategic forms mentioned above is able to fully explain states' behaviors in relations with others. Therefore, strategic hedging appears as an alternative. The concept has been defined in many ways by a numerous of scholars. For instance, according to Evelyn Goh (2005), hedging is "a set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality. Instead they cultivate a middle position that forestalls or avoids having to choose one side [or one straightforward policy stance] at the obvious expense of another." Another example, "hedging is a risk-management strategy in which one devises a viable alternative in preparation for a worst-case scenario" (Matsuda, 2012). In short, hedging can be understood as a political strategy

employed by a state in an uncertain environment to off-set its risk in relations with other states via preparing multiple alternatives. Therefore, hedging can help employing nations to minimize their long-term threats while maximize long-term opportunities.

Although hedging lies in the middle position of the balancing and banwagoning spectrum and be a mix of realist and liberal perspectives, it is a distinguishable strategy, especially in the case of Southeast Asia countries in their relations with China. First, hedging is not pure form of balancing even though it contains the components of this strategy. The military ties between those smaller countries with major powers were created long before the ascendancy of China. For example, the Philippines has been treaty alliances of the United States since 1950s. Vietnam also has close relationship with the Soviet Union (and now Russia) since the wars against France and America. Additionally, the effort to modernize their military forces is not primarily because of the rise of China but national security interest in general. Going along with the economic development, nations tend to spend more for military expenditure. Second, hedging is not banwagoning because smaller states seek closer relationship with the big power to get some kind of incentives; in the case of China are economic benefits. Nonetheless, it does not mean power acceptance. In other words, they do not acknowledge the superior status of the big power. Lastly, hedging is distinguished from pure engagement due to its main purpose which is off-set risks in relations with the bigger power. As discussed above, engagement theory assumes that both sides can get advantage from interdependent relationship. Nevertheless, the mutual trust in hedging strategy is not high enough for the small countries to enjoy the deep interdependence with the bigger power.

In Southeast Asia, most of nations respond to the rise of China by pursuing hedging strategy as a rational choice. According to Evelyn Goh (2005), there are three elements in their hedging behavior vis-à-vis China. First, the countries try to get other major powers, especially the United States, involve in the region and act as counterbalance to a rising China. Second, Southeast Asia nations enmesh China into a complex network of political, economic, and strategic engagement. The purpose is to socialize China and try to shape its behavior following international norms. The last element is giving a number of regional powers the stake of a stable regional order. Regarding its complexity, it is important to understand that hedging strategy is not the same in every country. It may consist of different components or be exercised in different levels.

VIETNAM'S STRATEGIC HEDGING

Rationale for Choosing Hedging Strategy

Based on its current situation, political options for Hanoi are limited. Vietnamese government has been under pressure from both internal and external forces in selecting its China policy. On one hand, domestic nationalists demand the administration to express a strong stance on the South China Sea disputes and protect the nation's sovereignty and interests. On the other hand, international concerned parties encourage Vietnam to resolve the problems peacefully and avoid armed confrontation with other claimants (Hiep, 2013). Therefore, both pure bandwagoning and balancing are not an ideal choice for Vietnam. Engagement is not a desirable option either because deepening interdependence requires a high level of mutual trust, which Vietnam and China do not have toward each other. Therefore, hedging strategy presents itself as a rational choice since it enhances current capabilities of the employing country, while minimizes long-run

threats (Tran, Vieira, & Ferreira-Pereira, 2013). For these reasons, Vietnam decides to hedge against China using a combination of engagement and balancing.

Components of Vietnam's Hedging Strategy

Vietnam's hedging strategy is composed by four elements. The first component is economic engagement. Since the normalization of the relationship between the two countries, Hanoi has sought close economic ties with Beijing. As a result, China has become Vietnam's biggest trading partner since 2004. In the second factor, diplomatic engagement, Vietnam hopes to build mutual trust, facilitate cooperation between the two countries, and call for China's responsibilities in regional and global security as a great power by promoting bilateral communication with China. Hanoi has intensified interaction with Beijing via a variety of communicational channels including state-to-state, party-to-party, and military-to-military levels. The third element is internal balancing in which Vietnam has enhanced its military capabilities by purchasing modern weapons from other countries, developing domestic defense industry as well as improving the quality of its military personnel. The country focuses on developing its naval power since it is critical for any nation involving in water disputes. In external balancing which is the last constituent of Vietnam's strategic hedging, the country has deepened its bilateral and multilateral relations with other major powers and actively taken part in regional institutions.

EVOLUTION OF VIETNAM'S STRATEGIC HEDGING

Although Vietnam's hedging strategy vis-à-vis China includes four components, each of them is not emphasized equally. The weight of each element is different from one another and has

changed over time. This is a result of Vietnam's reaction toward China's movements in the South China Sea, which often depends on its domestic conditions and external environment. The only component which is relatively unchanged is diplomatic engagement with China. For this reason, diplomatic engagement is discussed here, while the evolution of other factors is examined later.

Vietnam's diplomatic engagement to China includes three levels of communications: state-to-state, party-to-party, and military-to-military. The first channel of communication is featured by meetings of Vietnam's and China's state high-ranked officials including presidents, which has created the framework for long-term government to government relations of the two countries. This leads to a number of bilateral agreements such as Joint Statement for Comprehensive Cooperation in the New Century in 2000 and Joint Steering Committee on Bilateral Cooperation in 2006 (Thayer, 2011). More important, the two countries signed on the Comprehensive Strategic Partnership in 2008 (Hiep, 2013). In the second level, regular summit meetings are held for communist party leaders of the two countries. This provides venues for identifying common ground of socialist ideology as well as discussing about a variety of outstanding issues. In military-to-military channel, Vietnam and China started to have defense contact in 1992 (Thayer, 2011). The two nations have conducted consultations on defense security annually since 2005 and held Strategic Defense Security Dialogue in 2010. The dialogue was successful in establishing a military hotline which helps to constrain potential conflicts arising in the South China Sea (Hiep, 2013). With a network of communications and agreements, Vietnam aims to make China's behaviors more predictable and less likely to harm its national interests (Thayer,

2011). As a supporting factor, diplomatic engagement goes along and supplements other components.

First stage, 1991-2000

Economic Engagement

For the last few decades, the PRC has transformed itself into the second world largest economy. Even though many nations, including Vietnam and the United States, are concerned by the rise of China, most of them want to have businesses with the biggest market in the world. Since the normalization of the relationship between the two countries, Hanoi has sought close economic ties with Beijing to benefit from its ascendancy. In 1991, the two-way trade turnover was only \$32 million (Vu, 2015). By the end of 2000, the figure was \$2,937.5 million (GSOV, 2015), which is 92 times higher than in 1991.

In 1992, China assisted Vietnam in modernizing its steel industry and promoting its first free-trade zone in Hai Phong (Simon, 1994). The economic ties are mutually beneficial for both countries. For Vietnam, the support from China helped to develop its economy, especially the North whose economy had lagged behind the South. In return, Chinese southern provinces which are landlocked can access to the world via Vietnam's port.

Internal Balancing

During this period, Vietnam's effort to build up its domestic economy can be considered as a form of internal balancing. The country's leaders realized that being economically weak is a

serious threat to national security (Vuving, 2006). In addition, economic development is essential for a country to modernize its military forces.

From 1992 to before Asia financial crisis in 1997, Vietnam had achieved impressive growth in GDP at average of 8.75 percent annually. The Crash of 97 hit Southeast Asian economies strongly; however, Vietnam's GDP still increased at the average of more than 5 percent after the crisis (World Bank, 2015). This could be achieved due to the country's strategy to integrate its economy into regional and global market.

External Balancing

In post-Cold War era, Vietnam has transformed itself from an isolated country into an active player by establishing bilateral diplomatic relations with most of countries in the world. The year of 1995 marked the U.S. and Vietnam rapprochement. However, the connection between the two countries was mainly economic ties (Pham, 2015). The fear of overthrow communist regimes and differences in human right issues were the major reasons prevented Washington and Hanoi came to a closer political relationship (Vuving, 2006).

Multilaterally, Vietnam aimed to build economic and political ties to ASEAN. In 1992, Hanoi submitted a request to join in the Association's Treaty of Amity and Cooperation, which was welcomed by ASEAN leaders. Malaysia, for example, expressed the willingness to support Vietnam in various areas such as technology and administration (Simon, 1994). More important, Vietnam makes the most use of its membership in ASEAN since 1995. There was an emerging unified ASEAN position since the 1992 Declaration on the South China Sea. A code of

international code of conduct had become the main focus of the dialogues between ASEAN and China in the next decade (Weatherbee, 2005).

Key component

During this period, economic engagement with China was the most important factor in Vietnam's strategic hedging due to several reasons.

First, the country realized that its economy had been lagged behind other nations in Southeast Asia, so it launched economic reform under Doi Moi in 1986. Economic development became Hanoi's top priority (Vuving, 2006).

Second, poor economy could not allow Vietnam to modernize its military forces. The defense budget in early 1990s barely met even the minimum requirements of the army (Hiep, 2013).

The reasons which downplay the role of external balancing with Western powers were the collapse of the Soviet Union and communism in East Europe and the dominance of anti-imperialists in Vietnamese government. CPV's leaders were afraid that the West, including the United States, would end communism for good. Therefore, Hanoi sought for a closer relationship with Beijing to secure socialist ideology (Vuving, 2006).

Lastly, since 1995, China had convinced other claimants that it endorsed peaceful settlement by repeating the statement of foreign minister Qian Qichen: "all disputes should be resolved by peaceful means on the basis of the provisions of the international law, including the 1982 UN Convention of the Law of the Sea" (Fravel, 2011).

Second stage, 2001-2011

Economic Engagement

The robust economic activities between the two countries from the previous decade had continued in this period. As a consequence, China has become Vietnam's biggest trading partner since 2004 (Hiep, 2013). By 2011, the two-way trade turnover reached \$35.718 billion (World Bank, 2015), which is more than 12 times higher than the number of 2000.

Internal Balancing

The period between 2001 and 2011 had witnessed a significant increase in Vietnam's military expenditures. Hanoi had made 41 orders of conventional weapons, which counts for more than half of the weapon orders during the three periods of analysis (77 orders in total from 1994 to 2014) (SIPRI, 2015a). The major of them come from Russia. Notably, in 2009, Hanoi signed on a contract to buy six Kilo-class submarines, which are said to be the quietest submarines in the world, from Moscow. With the state-of-the-art submarines, Vietnam will possess the most modern submarine fleet in Southeast Asia by the time the last vessel is commissioned (Gady, 2015).

Based on SIPRI Military Expenditure Database (2015), Vietnam's spending has increased 319 percent between 2003 (from when the data is available) and 2011 with the figures of \$842 million and \$2.687 billion respectively (in current U.S. dollars).

External Balancing

From 2001 to 2011, the country has built up strategic partnerships with a number of powers including Russia (2001); Japan (2006); India (2007); South Korea, Spain and Australia (2009); the United Kingdom (2010); and Germany (2011) (Hiep, 2013). Among them, Russia plays a critical role in Hanoi's external balancing because it has been Vietnam's largest military supplier (SIPRI, 2015).

The national interests of the United States lie in the freedom of navigation in the South China Sea. In the aspect of security, it is a critical area to defense against terrorism and privacy. Economically, ASEAN countries have become important trade partners of the United States, so the freedom of navigation is essential for seaborne commerce (Weatherbee, 2005). Although the United States is a promising partner for Vietnam's external balancing, Hanoi had been very careful in approaching Washington as it had not totally overcome the prejudice against its old enemy.

Vietnam continues to use ASEAN as leverage in dealing with China in the South China Sea disputes. As mentioned above, ASEAN and China had discussed on a code of international code of conduct since 1992. In 2002, both sides signed on a Declaration on the Code of Conduct on the South China Sea (Weatherbee, 2005). Hanoi has also tried to bring the South China Sea issue into other international forums such as ASEAN, ARF, ASEM, EAS, APEC, and the UN (Vuving, 2014).

Key component

Although economic engagement is still important, the priority in this period shifted to internal balancing for a number of reasons.

First, rapid economic growth allowed Vietnam to pursue military modernization. The nation's defense budget had risen dramatically with an average of 16.15 percent annually between 2003 and 2011 (in current U.S. dollars) (SIPRI, 2015b).

Another reason for the rise in Vietnam's defense budget was the concerns over impressive growth of Beijing's military expenditures. By 2011, China became the world second largest in defense spending (Helmke, 2011). As a consequence of improved military power, the presence of Chinese vessels in the South China Sea has increased significantly. Besides providing aid and assistance to Chinese fishing boats, those vessels aim to prevent the operation of foreign ships in its claiming waters. From 2005 to 2010, China had arrested 63 Vietnamese fishing boats in the disputed water (Fravel, 2011). To better defend its interests in the South China Sea, Vietnam has purchased a number of naval weapons, especially submarines, which are critical for any nation involving in maritime disputes.

Lastly, the United States had been preoccupied with the war on terror after the 9/11 incident, so its commitment in Southeast Asia was doubted by the nations in the region. More important, Washington's unilateralism when invading Iraq was viewed as threats by some of ASEAN members (Weatherbee, 2005). Vietnam, therefore, could not trust America.

Third stage, 2012-present

Economic Engagement

Bilateral economic ties between the two countries continue to grow during this period and China has remained Vietnam's largest trading partner. The two-way trade turnover of Vietnam and China in 2013 was \$50.21 billion, which is 67 percent higher than trade with the United States at

\$30 billion (Vu, 2015). By the end of 2013, China has invested in 992 projects with the total registered capital of \$7,551.2 million in Vietnam (GSOV, 2015).

Hanoi has invested in building infrastructure connecting the capital and Vietnamese Northern provinces bordering Southern China. At the end of 2014, for example, Hanoi inaugurated its longest and most modern expressway from Hanoi to Lao Cai. Another expressway connecting Hanoi and Lang Son has been contracted since July 2015 (Daily China, 2015).

After the first six month of 2015, China remained Vietnam's largest trade partner with about \$32.1 billion in trade turnover (Daily China, 2015), which is expected to reach \$60 billion at the end of 2015 (Vu, 2015).

Internal Balancing

In this period, the country continues to enhance its military capability by purchasing more weapons from other countries and building up its domestic defense industry.

In 2013, Moscow announced a sale of 12 new SU-30MK2 fighter aircrafts, which can detect aerial, ground targets, and ships, to Hanoi. The latter also purchased six Varshavyanka-class submarines, which are anti-submarine, anti-ship and able to conduct general reconnaissance as well as patrols (Blank, 2013). In addition, Vietnam is working on the acquisition of 50 anti-ship and land attack 3M-14E Klub supersonic cruise missiles, which are also from Russia (Gady, 2015).

From 2014 to 2015, four out of six missile ships designed by Russia, built in Vietnam were delivered to the Vietnam's People Navy. The last two are expected to be handed over to Hanoi in 2016 (Parameswaran, 2015).

External Balancing

Vietnam builds a close relationship with Japan whose national interests lie on the freedom of navigation in the South China Sea. More than half of its energy supplies go through this water. In addition, a regional order led by the United States is more desirable for Japan than Chinese domination. Both Vietnam and Japan involve in maritime disputes with China, so Japan has expressed its support for Vietnam economically and politically (Vuving, 2014). The defense and security ties between the two countries are growing steadily. In 2014, Tokyo offered Hanoi six patrol vessels as well as training to boost its maritime capacity (Thayer, 2014).

In 2015, Australia and Vietnam signed on the Enhanced Comprehensive Partnership which was upgraded from the Comprehensive Partnership in 2009. The agreement covers a wide range of issues from trade and defense to human rights and education. Nevertheless, the center of the agreement is security, especially in the South China Sea. Facing Beijing's unilateral and provocative actions, Hanoi and Canberra consent to the idea of self-restraint in the disputed water and the urgent need to conclude a code of conduct for the South China Sea (Clark, 2015).

Another important power in Vietnam's external balancing is India. The defense and security ties between the two nations have been strengthened in the time tensions are rising in the South China Sea. In September 2014, New Delhi agreed to give Hanoi a \$100-million extension in credit for defense procurement (Karambelkar, 2014), which is significant to Vietnam's military

modernization program. Besides selling weapons to Vietnam, India also helps training Vietnamese crews to master Kilo-class submarine operation (Miglani, 2014). Vietnam sent its Prime Minister Nguyen Tan Dung and Defense Minister Phung Quang Thanh to visit India in 2014 and 2015 respectively. As the result, New Delhi offered four patrol vessels to Hanoi to enhance its maritime security capabilities and the Joint Vision Statement for bilateral defense cooperation was signed (Panda, 2015).

Among major powers to which Vietnam establishes strategic partnership, the United States is a critical one. It is the only nation having exceeded military capabilities to counter China. Even though China holds the world second position in military expenditures, its defense budget is far behind the leading country- the United States (Shah, 2013). For Washington, promoting peaceful settlement of the disputes is critical for U.S. economy and primacy in the Asia-Pacific. For the last few years, Vietnam-U.S. relations have experienced a dramatic transformation. The defense ties have been improved significantly with a number of agreements signed including the 2013 Comprehensive Partnership Agreement and the 2015 Joint Vision Statement on Defense Relations (Kapila, 2015). The objectives of the later are enhancing the defense trade and co-manufacturing of military equipment (Nguyen, 2015). Furthermore, the United States said in June 2015 that it would offer \$18 million to Vietnam for coast guard patrol vessels acquisition. This marks a big step in defense cooperation of the two countries (Panda, 2015).

Besides bilateral relationships, Hanoi enhances multilateral economic ties with the European Union. By diversifying its export portfolio, Vietnam is trying to reduce its economic dependence on China. The European Union (EU) emerges as an alternative trading partner as well as FDI source of Vietnam. In June 2012, official negotiations for Vietnam-EU Free Trade Agreement

were launched. Besides that, EU has remained the major providers of FDI and development aids, which was reinforced since 2012 (Tran, Vieira, & Ferreira-Pereira, 2013).

Key component

From 2012 until now, external balancing is dominant in Vietnam's strategic hedging as a result of changes in China's strategy in the South China Sea as well as changes in domestic perception and external environment.

First, China has employed escalating strategy instead of delay strategy in the last few years. In 2012, China announced the plan to establish the gigantic city of Sansha to manage two million square kilometers of disputed water (Wei, 2015). From January 2014, Beijing has implemented an impressive speed and scale of land reclamation to convert reefs into artificial islands. Subi Reef, for instance, was expanded by 74 percent in less than two months with the pace of average 8 acres per day (Lee, 2015).

Secondly, the unprecedented assertiveness of China in the last few years has changed the perception of Vietnamese leaders about the country's security environment. By 2012, even the most pro-China group in Vietnamese government, military leaders, was no longer uncertain about Beijing's determination to take over the South China Sea (Vuving, 2013). Facing China's formidable strategy in the South China Sea, Hanoi now has sought for closer ties with Washington. It has realized that strengthen security ties and military cooperation with the world largest military-expenditure shareholder are essential to defense its interests in the South China Sea given China's ambition.

Finally, the year of 2012 marked the return of U.S. commitment to Asia when Washington announced its grand strategy “rebalance to Asia” (Weitz, 2012). The United States has responded positively toward Vietnam’s balancing act by showing that it now accepts the ideological differences between the two countries and considers Vietnam as a partner (Nguyen, 2015). Therefore, the socialist state has felt more comfortable with the most advanced democracy. Washington expressed its strong support for Hanoi via the speech of Secretary of State Hillary Clinton in July 2012. As a result, U.S.-Vietnam Comprehensive Partnership was signed in July 2013 marked a turning point in the two countries’ relationship since normalization (Vuving, 2015).

CONCLUSION

In managing its maritime disputes with China, Vietnam has employed hedging strategy whose components include economic engagement, diplomatic engagement, internal balancing, and external balancing. Although it is a rational choice for Vietnam based on its situation, hedging cannot be free from limitations.

Close economic ties with China are leverage for Vietnam to develop its economy. This brings to Vietnam significant economic benefits. Only the trade turnover with China in 2013 (US\$50 billion) was equivalent to 3.43 percent of Vietnam’s GDP which is more than 1.5 times higher than the country’s military expenditures (World Bank, 2015).

However, deeper dependence on Chinese economy will have negative impact on national security because it weakens Vietnam’s bargain power in the South China Sea disputes. Beijing does not hesitate to use its economic power to influence international disputes. Take the cases of

the Philippines as an example. In 2012, China banned the import of Filipino banana as well as other fruits when the tensions in the South China Sea arose. This sanction caused huge damages to the export industry of the Philippines as it depends largely on export to China (The Asia Sentinel, 2012). Similarly, if the something happens that worsens the relations between Beijing and Hanoi, especially in the South China Sea disputes, China may apply economic sanctions against Vietnam. This action will have small impact on Chinese economy but will cause significant damages for Vietnam. By having an upper hand in bilateral relations, China may drive the disputes in the way favors itself.

Diplomatic engagement with China has brought positive results in enhancing national and regional security without spending much substantial resources. It provides valuable avenues for both countries to discuss about their concerns relating international disputes and to better manage bilateral issues.

Nevertheless, the effectiveness of diplomatic engagement depends largely on the uncertain development in the South China Sea. If the clashes between China and Vietnam occur, most of communicational channels will be interrupted. This will destroy all the efforts made by the two nations in managing and resolving the disputes. Furthermore, the meetings and dialogues do not provide enough solid proofs in assuring Vietnam's security. The agreements signed by the two countries aimed to enhance their cooperation as strategic partners. However, they do not address what China and Vietnam have to do or cannot do in order to maintain regional security.

Internal balancing offers Vietnam an active position in preparing armed conflict with China in the worst scenario. Vietnamese improved armed forces will contribute to safeguard the country's economic interests and security in the South China Sea. Amongst Southeast Asian claimants in

the maritime disputes with China, Vietnam seems to be the only one which has substantial military capabilities. In case of armed confrontation with China, those modern submarines and equipment will enable Vietnam to respond quickly.

Although Vietnam has increased its military expenditures, it is only about 2 to 2.2 percent of its GDP annually. Despite Vietnam's effort to modernize its military capabilities, China's armed forces are far more powerful than the Vietnamese one. Inferring from the statistics of World Bank, the military expenditure of China in 2013(USD 194.04 billion) is about 50 times Vietnam's budget. This number exceeds the total military expenditures of Japan, South Korea, Taiwan and Vietnam together (Keck, 2014).

External balancing helps the country to save its time and resources by gaining international supports and making use of the world most powerful armed forces of the United States. In addition, expanding economic activities with other power will reduce Vietnam's dependence on China's economy. Multilaterally, ASEAN and ASEAN-centered forums provide Vietnam valuable opportunities and venues to express its concerns about the disputes in the South China Sea and call for international supports for its stance in the South China Sea disputes. By employing external balancing, Hanoi has improved its status in international diplomacy while developed its domestic economy. This helps Vietnam to better defend its interest in the South China Sea.

However, external balancing requires the employing nation to calculate its steps very carefully since any misstep can lead to serious consequences. Vietnam cannot be too cozy with any great power because this makes other nations uncomfortable. The presence of the United States in the South China Sea is objected by China. The rising power has warned America many times not to

involve in the regional disputes (Blanchard, 2014). Vietnam gets closer to the United States may worsen the tensions in the South China Sea disputes and make it more difficult for bilateral talks between Vietnam and China. Although ASEAN presents a more valid position than an individual nation in dealing with China, the best thing it can achieve is a Declaration on the Code of Conduct on the South China Sea. Instead of being a regulatory statement against which states' behavior can be evaluated, a declaration is an expression that does not necessary to be fulfilled (Weatherbee, 2005).

It is important to notice that Vietnam's hedging strategy has changed over time as a result of Vietnam's reaction to China's strategy in the South China Sea as well as changes in domestic and external security environment. Besides diplomatic engagement which is relatively stable, each of the other components plays center role in Vietnam's approaches during a certain period. In the first stage from 1991 to 2000, economic engagement is the major factor with significant limitations in balancing. The second period between 2001 and 2011 witnessed a shift of priority from economic ties to internal balancing and an improvement in external balancing strategy. In the third stage from 2012 to present, external balancing plays critical role characterized by a closer relationship with the United States.

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