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Thinking About Xi Jinping Thought on Culture

by Arran Hope

On October 7–8, Politburo Standing Committee member Cai Qi (蔡奇) chaired the National Conference on Propaganda, Ideology, and Cultural Work (People’s Daily, October 9). This was the third installment of a quinquennial series of conferences dedicated to such work. This year’s edition moved beyond those from 2013 and 2018 through the addition of “culture (文化)” to both the title and theme of the conference. The “most significant outcome” was the formal introduction and comprehensive elaboration of Xi Jinping Thought on Culture (hereafter, XJPTOC) (People’s Daily, October 11). This new “thought” not only builds on general Party theory on culture, but also constitutes a further offshoot of “Xi Jinping Thought,” to buttress those already promulgated on the economy, the military, the environment, legal affairs, and diplomacy.

The Party’s mouthpieces and assorted media outlets exhort their readers to “deeply study” this “powerful ideological weapon and scientific action guide” (People’s Daily, October 12). We should also heed the Party’s emphasis on culture here. It provides a window into how the Party conceives of itself and its position, with all the hubris and moral rectitude that entails. It also gives some insight into how the Party hopes to export its preferred narratives overseas, and control information beyond its borders.
The Political Dimensions of Culture

The CCP’s abiding preoccupation with ensuring its own regime stability entails refracting culture through a specific political lens. In this light, “culture” to Xi Jinping is simply another resource to draw on to buttress his own legitimacy. By wrapping himself in the trappings of an historically expansive—but substantively parochial—definition of culture, Xi hopes to stoke nationalism and shore up support for the regime. The centrality of culture—and Xi’s imprimatur—should not be underestimated. In Cai Qi’s speech at the conference, written by Xi, he states that “propaganda, ideological, and cultural work concerns the future and destiny of the Party, the long-term peace and stability of the country, and national cohesion and team spirit” (People’s Daily, October 11). The coverage followed the following day offers variations on this theme: “Culture is the soul of a country and a nation, and without a high degree of cultural confidence and cultural prosperity, there will be no great rejuvenation of the Chinese nation” (People’s Daily, October 12). Perhaps the most bizarre aspect of the effort to disseminate news about Xi’s latest intervention was the airing of a new television program, “When Marx Meets Confucius,” on October 10. This to “achieve the popularization of the latest theoretical results” (Hunan China News, October 10).

To understand what the Party means by “culture,” one must look at how the word is deployed in official documents and speeches. Throughout all the recent reports on the conference and related meetings this year, the word “culture” is invariably collocated with “propaganda (宣传)” and “ideology (思想).” It is also closely associated with “civilization (文明),” and increasingly the “Global Civilization Initiative (GCI, 全球文明倡议).” It is also clear that the parameters of culture are defined by exclusively by the Party. As an article in Qiushi, the Party’s leading theory journal, makes clear: “The historic achievements in propaganda, ideological and cultural work are most fundamentally due to the General Secretary Xi Jinping’s leadership” (Qiushi, October 15). And again: “Firmly resist any attempt to strip away the Chinese elements, ideology, values, mainstream thought, or historical significance of Chinese culture, and make continued efforts to fortify the common spiritual home of the Chinese nation” (Qiushi, September 13). This latter quote clearly links culture with the Chinese national project, and in turn seeks to collapse the distinction between the nation and the Party.

XJPTOC itself fits into a larger genealogy of assorted cultural dicta. These were highlighted in a speech Xi gave in June at the Cultural Inheritance and Development Symposium (China Daily, June 4). They include the “Fourteen Emphases (十四个强调)” for cultural construction, the “two integrations (两个结合),” and the “Seven Exertions (七个着力).” These have been explicated elsewhere, [1] buy the crucial point to take away is that the most recent announcement of XJPTOC fits into a larger, expansive theoretical framework. Some of the wider framing for XJPTOC goes back to the most important Party document for the current period, the Work Report to the 20th Party Congress (Xinhua, October 25, 2022). For instance, the Report talks of "combining the basic principles of Marxism with China's concrete realities and with China's outstanding traditional culture." It goes on to argue that it is “necessary to be firm in historical and cultural self-confidence, insist on the use of the past for the present and the promotion of new ideas, and integrate the essence of Marxist thought with the essence of China’s outstanding traditional culture." But much of this goes back further.
In 2010, a work report on the importance of reforming China’s cultural system emphasized culture as a component of social management and international power (See, China Brief, October 28, 2011).

When it comes to international power, the GCI provides a vehicle for achieving the stated goal of “significantly enhancing the country’s cultural soft power by 2035” (Xinhua, October 25, 2022). The four core tenets of the GCI advocate, among other things, promoting “cultural exchanges” and having countries “fully harness the relevance of their histories and cultures to the present times” (SCIO, March 19). This was picked up in Cai Qi’s speech, which exhorted officials to “strive to strengthen international communication capacity building” to provide “favorable cultural conditions,” while China Media Group head Shen Haixiong aims to “win the international public opinion and cognitive wars” (People's Daily, October 9; SCMP, October 15). And as the BRI Cooperation Summit this week makes clear, China’s global outreach has traction. The BRI White Paper (SCIO, October 10) notes that the Belt and Road News Network’s members “has increased to 233 media outlets in 107 countries,” while the Silk Road Think Tank Association “has recruited 122 partners in Asia, Africa, Europe, and Latin America.” But it seems that beyond repressing media freedoms in partner countries, a confused mix of Marxism and “traditional Chinese culture” is unlikely to be successful without the economic and political benefits that back it up. This is the paradox of XJPTOC: by yoking “culture” to the political, China’s cultural clout is seen as having little independent value beyond the political.

Conclusion

Chinese culture is seen as foundational to the Party’s legitimacy and to the cohesion of the state. As an article in Quishi this week states: “Marxism is the soul and traditional Chinese culture is the root (魂和根)” (Quishi, October 15). Xi Jinping as the “core” of the Party therefore necessitates his own personal intervention in delineating what that culture represents: a message that underwrites much of the ideology and propaganda that followed the conference where XJPTOC was announced.

As the PRC strengthens its efforts to instrumentalize culture, both at home and abroad, two things are worth bearing in mind. One is that the political power that buttresses Xi’s idea of “culture” means that pro-PRC messaging in countries that China has strong ties with are likely to increase substantially, to the detriment of those countries’ media environments. As the Party’s presence grows in those countries, its disdain for criticism of Chinese actions will push it to exert pressure on local media, until such critical expression is muted. This is already happening in countries such as Pakistan (Doublethink Lab, 2022). The second is that China’s cultural discourse, which privileges the centrality of Xi, and the homogeny of its one, hubristic message, is likely to receive backlash. Not only will many members of the culture industry balk at renewed repressive restraints, but the nationalism undergirding Xi’s cultural thinking will do little to win friends in an increasingly hostile external environment.

Xi collapses historical time, rewriting the past to serve China’s present ends. The more this strand of thought instantiates the CCP’s political hegemonism, the more Xi’s cultural thought will resemble a hollow crown.

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Investigations into alleged misconduct and criminality by companies are to be expected, and welcomed, in any country. However, the problems facing foreign companies in the People’s Republic of China (PRC) depart from normal legal checks and balances. The lack of separation between the judiciary and the state, and the uncertainty around China’s interpretation of the “rule of law,” is a risk factor for companies doing business there (See: China Brief, September 8). In addition, “state secrets” in the PRC are defined widely in relation to national interest. Consequently, a foreign company can inadvertently breach the law by obtaining and using commercial data.

This week the US Department of Commerce’s Bureau of Industry and Security (BIS) announced updated export controls on advanced computing semiconductors, semiconductor manufacturing equipment, and supercomputing items to the PRC (BIS, October 17). Foreign companies doing business in the PRC are likely to face continued uncertainty as a consequence. The response from the PRC was swift, stating that the United States has constantly “overstretched the concept of national security” and resorted to “unilateral bullying” (China Daily, October 18), which suggests that there is a risk the PRC will take retaliatory measures against foreign companies.

Western companies involved in the PRC have long understood that when investing in China they must lose a little bit of money in the short term to win a lot of money in the long term. Doing business in China has always been complex, but with the continued expansive approach to national security, it may now be increasingly
untenable (See: China Brief, September 22). After three decades of huge investment in the PRC by international companies, there are growing concerns that the growing emphasis on national security is harming the confidence of overseas investors. As the European Union Chamber of Commerce in China reports, “the politicisation of business, and ambiguous laws and regulations…increases risk for companies operating in China” (EU Chamber, September 20). In recent weeks, this ambiguity has been exacerbated by the growing number of “exit bans,” whereby PRC authorities forbid specific business executives at international companies, such as Kroll and Nomura, from leaving the country (Stratfor, September 29).

China’s Increasingly Restrictive Legal Landscape

National security has become paramount in the Xi era. In 2014 at the very first meeting of the National Security Commission, President Xi announced that “To secure its leadership role and unite the country in upholding and developing socialism with Chinese characteristics, our Party should make national security its top priority (Qiushi, April 15, 2014).” New laws have given formal structure to the Party’s ideological emphasis on national security and are having a tangible impact on the conduct of business by foreign companies and businesspeople.

In May 2020, the National People’s Congress (NPC) adopted “The Law of the People’s Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region,” which the city government claimed would “boost both local and foreign investor confidence in the future of Hong Kong and brighten our economic prospects (HKSAR Government, June 15, 2020).”

In April 2023, a revision to the Counter-Espionage Law was adopted by the Standing Committee of the NPC, updating what was hailed as the country’s first law implemented in 2014 to “implement the overall national security strategy” (China Daily, April 27).

In July 2023, the Ministry of State Security (MSS), in its first ever public WeChat post, indicated how all-pervasive the PRC “intelligence state” seeks to be (See: China Brief, September 22). The post explained how state organs, enterprises, and other social institutions need to implement various counter-espionage security measures. It also urged further education to maintain national security, and the mobilization of personnel to prevent espionage activities. Additionally, news, broadcasting, television, cultural, and internet information service units were encouraged to carry out targeted counter-espionage publicity and education facing the whole of society (Global Times, August 1).

How Firms Fall Afoul

From feedback provided by multiple due diligence and risk consulting firms this year, it is clearly no longer possible to conduct work in certain commercial areas within the PRC due to the risk of falling afoul of ambiguous national security laws. Multiple foreign commercial due diligence firms have therefore withdrawn from Mainland China along with Hong Kong, as certain research products (for instance PRC economic data) are perceived to be accessing “state secrets,” however nebulously defined by the authorities. Much due diligence work requires access to live sources to add context to open-source research. However, not only are
these firms now reluctant to access well-placed Chinese sources, but those same sources are also reluctant to talk, for fear of being accused of espionage.

It is impossible for such an all-of-society approach not to have an impact on foreign companies conducting business in the PRC. Manufacturing and procurement companies with operations in the country are required to build in national security requirements to their local corporate structures and policies. Services and consulting companies gathering information in China also need to be cognizant of restrictions on state secrets. These restrictions are so opaque, and have such a broad scope, that the core services and products of these companies are increasingly rendered untenable. Recent cases involving Bain, Capvision, and the Mintz Group illustrate how certain areas of business that are acceptable and a necessity in most of the rest of the capitalist world can no longer be safely conducted in the PRC, if it all.

Bain

Bain & Company, a global consulting firm founded in the US in 1973, has offices in Beijing, Hong Kong, and Shanghai. Like most strategy consulting firms, a major segment of Bain’s income comes from public sector and government clients, notably the US government. In May 2023, Chinese police officers reportedly visited the Bain office in Shanghai, questioned employees, and seized phones and computers. Five months on, the reason for the police raid has still not been publicly disclosed, though Bain subsequently announced that it was offering some employees in China the option to take six months leave as a “career enrichment program.” This indicates that the action by the authorities may have had an impact on business (SCMP, May 14).

In July Yu Yong (于勇), Party Secretary of the CCP Jing’an District Committee, visited the Bain office in Shanghai. He stated publicly that “We will adhere to the enterprise-oriented approach, continue to do a good job in our services, and create a first-class business environment, and be a partner for the development of the enterprises” (Global Times, July 11). The visit by Yu Yong is likely to be an effort by officials at the local level to stabilize relations with foreign companies, and Yu pledged to provide better services for “foreign-funded companies.”

Capvision

Capvision was founded in 2006, and is headquartered in both Shanghai and New York. It provides of expert knowledge services through access to over 450,000 industry experts around the world. These experts are introduced to clients such as consulting firms and global corporations to provide insight into issues in their respective commercial sectors. The founder and CEO, Xu Rujie (徐如杰), previously worked at China Resources (Holdings) Co Ltd, Siemens China and General Motors (China) Investment Co Ltd., and the firm’s top five clients are reportedly Chinese financial institutions (Reuters, May 9).

In May 2023, Chinese news media reported that state security agencies had launched an investigation into Capvision relating the company’s inducement of “Chinese experts in key fields, including the military and high technology, to … become complicit with foreign intelligence agencies in helping them spy, buy off experts and
obtain state secrets and intelligence” (China Daily, May 9). The report alleged that state security police found that a number of overseas organizations had been attempting to steal state secrets and key intelligence by making use of domestic consulting companies, violating the law in pursuit of economic gain. PRC state media has sought to diminish the significance of this by arguing that the Capvision case is not indicative of a broader shift in the environment, and that there is no impact on foreign firms as long as they are abiding by Chinese laws (Global Times, May 10).

Capvision admitted that it had not fulfilled its national security prevention responsibilities and that there were significant hidden dangers and loopholes in their business practices which have caused serious harm to national security, and agreed to establish a compliance management committee (Global Times, May 10). The firm continues to operate in the PRC, but it is likely that Chinese state-owned companies will no longer use their services. Reputational damage might cause local experts to hesitate before registering with the company. Many other similar now also face a major challenge in accessing commercial information from experts in the PRC. The action against Capvision, casts doubt on the entire expert network services business model in China, in turn raising a major hurdle for consulting and investment firms to gain accurate analysis regarding potential investments in the country.

Mintz Group

The Beijing office of the Mintz Group, a US firm founded in 1994 that conducts due diligence operations and investigations around the world, was raided by the authorities in March 2023. The company (trading in China as 美思明智商务咨询（北京)), was later found by the Beijing Municipal Bureau of Statistics to have violated the law in its business operations by failing to obtain approval for foreign-related statistical survey qualifications and illegally engaging in foreign-related statistical survey activities. The Bureau imposed a penalty on Mintz of confiscation of 5.35 million yuan ($731,000), imposed a fine of the same amount, with total administrative penalties of 10.7 million yuan ($1.46 million) (Beijing Municipal Bureau of Statistics, July 14).

The raid and penalty may have been triggered by the publication in 2022 of an article co-authored by Randal Phillips, then Mintz's Asia chief and a former CIA chief representative in China, on "Sanctions Due Diligence" relating to the Uyghur Forced Labor Prevention Act. The article highlighted that Mintz conducted due diligence for clients to determine if Uyghur forced labor had been used in the supply chains of products exported to international markets (Reuters, May 19). PRC state media denied that the Mintz due diligence investigations in Xinjiang were related to the enforcement action: The Global Times stated that “US politicians have fabricated outrageous lies including those surrounding ‘forced labor,’” and continued by arguing that this was “only part of the extensive US efforts to contain China’s rise. China must defend itself against US economic attacks" (Global Times, August 22). By linking the two subjects in the article, this Party mouthpiece undermines the regulator's denial of any correlation.
China’s Perceptions Run Counter to Business Requirements

The Global Times piece also states that to operate a business in China, “enterprises with foreign capital must abide by Chinese laws and regulations, and they must not engage in any activities detrimental to China’s national interests” (Global Times, August 22). This statement identifies the intent of enforcement action against foreign companies conducting due diligence investigations in China, which is to prevent them from gathering business information that may be “detrimental to China's national interests.” These national interests include maintaining confidence in and support for Chinese firms, which could be affected by adverse or inconvenient data. However, access to this information is a crucial prerequisite to any investment deal. A reduced ability to perform due diligence translates into fewer IPOs, fewer private equity deals, and a less dynamic Chinese economy.

The comprehensive approach to national security in the PRC has become an increasingly important factor for foreign companies to consider when planning their operations in China. Other risk factors that have emerged recently include the opaque approach taken by the CCP in uncovering the origins of the COVID-19 pandemic, deteriorating relations between the PRC and the US Government, and general economic uncertainty due to the property sector crisis and the weakening external demand for Chinese exports. Increasing volatility from Beijing is pushing the limits of what foreign enterprises are willing to tolerate when it comes to their cost-benefit calculus.

Conclusion

The development of comprehensive national security during the tenure of Xi Jinping has altered China’s trajectory away from being a welcoming environment for foreign business to a hostile focus on foreign espionage. This has led to a rise in suspicion as a default approach from China’s regulators and national security apparatus. This nationalist approach to security is already making operating businesses in China more complex, costly, and for some companies untenable. Beijing is aware of these concerns but is yet to undertake any actions that would alter this deteriorating trajectory. Perhaps, given the country’s push towards self-reliance, it no longer feels that it needs these foreign enterprises in the same way it did in the earlier parts of this century. However, it is likely that such a hubristic view will hinder China’s growth in the coming years.

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The recent decision by Hong Kong to join China in banning Japanese seafood took many observers by surprise (Reuters, August 23). At first glance, the ban seemed an overblown reaction to Japan’s handling of nuclear wastewater, which many international bodies have deemed safe and compliant with established procedures. And while it is commonly understood that Hong Kong’s government is politically influenced by the Chinese Communist Party (CCP), many still believe in its economic autonomy. Considering the significant economic reliance of Japan on Hong Kong for its seafood trade, among other sectors, the ban startled numerous stakeholders (Nikkei Asia, August 25). However, the move is less shocking when Hong Kong is viewed as an integral cog in China’s economic statecraft machine.

Traditionally, Western governments lack strategic foresight regarding Hong Kong’s long-term position. Often, this oversight stems from an inadequate comprehension of Hong Kong’s pivotal financial role relative to China, as well as an underestimation of its potential as a node for strategic leverage, both for and against China.

China’s rise as a global superpower is inextricably linked to its adept use of economic statecraft, a fusion of economic might and strategic prowess. Its pressure on South Korea to stop the production of Taiwanese military submarines provides a recent example (Reuters, October 16). Hong Kong is a pulsating metropolis at the heart of this strategy. It not only exemplifies China’s ambitions but also acts as a crucial conduit for realizing them. There are two key strands of Hong Kong’s centrality to Beijing: its function as an economic lifeline to the global financial system and its role in the clandestine acquisition of technology and intellectual assets for China from overseas. The US and its allies must focus more on Beijing’s overt and covert leveraging of Hong Kong
and think harder about what the city’s function should be in an era of de-risking, geoeconomic competition, and weaponized interdependence.

A Crucial Economic Lifeline

Hong Kong acts as a gateway, enabling China to attract vital foreign capital without entirely liberalizing its own economy. Beijing has historically been cautious about opening up its capital account due to a desire to maintain stability and retain control over capital inflows. As a Special Administrative Region (SAR) of China and a former UK colony, Hong Kong offers a unique proposition: Under the promise of the “One Country, Two Systems” formulation codified by the Sino-British Joint Declaration from 1997, Hong Kong retains considerable autonomy. The world has thus treated Hong Kong differently, and continues to do so—as exemplified by Hong Kong’s independent membership of the WTO (WTO).

Hong Kong’s dynamic stock exchange and its financial infrastructure make it a hotspot for companies to access liquidity. According to the Hong Kong Monetary Authority, two-thirds of China’s inward and outward direct investments are conducted through Hong Kong. (HKMA, September 29). Official statistics from 2021 highlighted that Hong Kong was the source of a record 76 percent of all “actually utilized” FDI in China (Bloomberg, September 5, 2022), a figure that has increased since 2010 (Rhodium Group, December 13, 2022). These numbers rebut the perception that other major cities such as Shenzhen and Shanghai are replacing Hong Kong’s financial role (Sina, January 14, 2021).

Since 1997, Hong Kong has built unique channels for accessing China’s capital market, including the 2014 Shanghai-Hong Kong Stock Connect (滬港通), 2016 Shenzhen-Hong Kong Stock Connect (深港通), and mutual recognition arrangements for funds between China and Hong Kong (基金互認安排) in 2015 (HKMA, September 29). These channels have strengthened the super-connector role of Hong Kong, providing the primary avenue for foreign investors to invest in China. Indeed, even Chinese enterprises themselves consistently prefer the Hong Kong Stock Exchange (HKSE) as their destination for listing and capital accumulation over other PRC markets: Baidu, Alibaba, and Bytedance are all registered in Hong Kong (Project Syndicate, August 18). Consequently, the cumulative share of the HKSE’s overall market capitalization held by mainland Chinese enterprises stood at an overwhelming 77.6 percent in 2023 (HKEX, September 30).

Hong Kong also constitutes the world’s largest and most vital offshore RMB business hub (HKMA, September). It is the only place outside mainland China to offer comprehensive RMB-denominated financial services, from clearing and settlement to financing, asset management, and risk management. The Chinese leadership has long aspired to elevate the RMB’s global status, a desire intensified by the 2007 global financial crisis, when nations with substantial US dollar reserves—and China in particular—grew anxious about a potential dollar collapse. [1] Responding to this, the People’s Bank of China proposed increasing the usage of the IMF’s Special Drawing Right (SDR) as a global standard, advocating for a diversified basket of currencies within the SDR to ensure global financial stability wasn’t reliant on one nation’s economic health (Reuters, September 9, 2009). To realize this plan and validate the RMB’s global acceptance, its use in international trade payments
rose. From 15th position in 2011, it soared to 5th by 2015, behind only the US dollar, Euro, British Pound, and Yen. In November 2015, the IMF officially announced the RMB's inclusion in the SDR basket. However, in 2015 it only constituted 2.79 percent of international payments, dwarfed by the US dollar's 43.3 percent. Over 70 percent of these payments occurred in Hong Kong (SWIFT, October 6, 2015), demonstrating that the currency's alleged global acceptance is predominantly rooted in its acceptance within Hong Kong. China, however, has still achieved part of its aim of promoting RMB influence through the IMF: In August 2023, Argentina became the inaugural Latin American nation to utilize the RMB as its currency of choice for repaying IMF loans and conducting other direct investment transactions (Reuters, August 24; Xinhua, August 31).

Hong Kong has also emerged as a linchpin for financial relief for China's indebted regions, many of whom have turned to the city's liquid financial market to issue offshore bonds to attract crucial funds. In November 2022, both the Shenzhen Municipal People's Government and the Hainan Provincial People's Government issued bonds totaling roughly $7.6 billion (HKMA, March). This is yet another instance of Hong Kong providing a gateway for foreign investors venturing into mainland onshore bond investments. As the mainland grapples with its financial dilemmas, Hong Kong's pivotal role in facilitating transactions highlights its capacity to alleviate China's pressing financing challenges and strengthen China's economic resilience.

**A Venue for Economic Espionage**

Hong Kong's distinct geopolitical status presents both an opportunity and a challenge for Western nations. Beijing has astutely leveraged the city’s unique position to bypass Western sanctions, thereby setting the stage for a plethora of discreet, sensitive transactions. A regulatory framework characterized by relatively lax oversight enables individuals and entities to rapidly establish shell companies. This ease of setup, coupled with limited transparency requirements, often makes it challenging to trace the origins and operations of such companies. This environment can thus be exploited for covert, or illicit activities that would otherwise attract regulatory scrutiny.

A 1998 example is illustrative. After disguising as a Hong Kong-registered travel company, the Chong Lot Group, founded by a former PLA serviceman, struck a deal with the Ukrainian government to purchase two Soviet-era aircraft carriers. While both of these warships were ostensibly to be transformed into a floating hotel and casino—along the lines of other Soviet carriers the Kiev and Minsk—the PLA acquired one and retrofitted it as the Liaoning, which became China's first aircraft carrier (SCMP, January 18, 2015). Commissioned into the PLA Navy in 2012, the Liaoning forms part of the largest fleet of vessels in the world.

Hong Kong has also become a haven for autocrats like Iran, North Korea, and Russia. A 2022 report from the United Nations Security Council (UNSC) expert group flagged four Hong Kong-registered companies for allegedly facilitating illegal transfers of refined petroleum to North Korea (SCMP, October 16, 2022). This was a violation of international sanctions which cap North Korean oil imports at 500,000 barrels annually, requiring all such shipments to be reported to UNSC. Each of these Hong Kong-based entities had direct affiliations with mainland China, either through Chinese directors or other tangible links which, if they go unpunished, suggests China’s complicity in these violations.
In September 2023, the US Department of the Treasury’s Office of Foreign Assets Control (OFAC) imposed sanctions on a network of entities and individuals, including some in Hong Kong. These entities were accused of procuring sensitive components for Iran's offensive unmanned aerial vehicle (UAV) program (OFAC, September 27). Central to this network was Hongkong Himark Electron Model Limited, which reportedly completed several orders for servomotors—crucial for UAVs—exceeding $1 million for an Iranian entity. The evidence suggested that Fan Yang, the employee representing Himark in these sales, took steps to falsify invoices to obscure the identity of the Iranian end-user. Both Fan and Hongkong Himark were implicated in supplying servomotors to Houthi rebels in Yemen. These Iranian UAVs were also allegedly supplied to Russia for its ongoing illegal invasion of Ukraine. Russian entities, relocating to Hong Kong to avoid sanctions imposed in February 2022, executed 3,292 semiconductor import transactions in the first year of the invasion, of which 75 percent were routed through Hong Kong or mainland China. These transactions involved significant deals with American chip giants, including Intel, AMD, and Texas Instruments (Nikkei Asia, April 12).

China’s efforts to bypass recent US regulations on semiconductor exports can be observed in remarks made by Chenghui Ye, CEO of the Hong Kong Applied Science and Technology Research Institute (HKASTRI) in 2022. Ye explicitly pointed out that since mainland Chinese chip companies might face difficulties hiring Americans due to the restrictions imposed by the United States, relocating these experts to Hong Kong could sidestep regulations while transferring cutting-edge semiconductor knowledge to the mainland in order to continually boost China's semiconductor industry (NOW, October 18, 2022). Interestingly, Ye’s speech illustrated precisely how Hong Kong perceives its role in assisting the mainland in clandestinely acquiring the technology it desires. A HKASTRI research center, the National Engineering Research Center for Application Specific Integrated Circuit System (Hong Kong Branch), founded in June 2012, is endorsed by the PRC's Ministry of Science and Technology. It is the first national engineering research center branch located in Hong Kong (CNERC, Accessed October 10), and is actively engaged in research, talent cultivation, and technological transition in areas such as three-dimensional integrated chips, third-generation semiconductors, and low-power wireless connection chips. Its research is targeted to address the techno-blockade imposed by the US. Clearly, sanctions and regulations crafted with the PRC in mind are insufficient to encompass the specific conditions in Hong Kong. Ironically, even as concerns mount about Hong Kong's dwindling political autonomy, Beijing continues to exploit the perception of its economic autonomy to their benefit. This blind spot comes at the expense of the interests and principles of the West.

Conclusion

Hong Kong stands at the confluence of China’s global ambitions, where the lines blur between economic autonomy and political subservience. As China’s domestic economy has struggled in recent months, Hong Kong's unique geopolitical status has been increasingly leveraged by Beijing as a strategic instrument to bypass global restrictions and exploit loopholes—often clandestinely. Recognizing and navigating this nuanced relationship will be critical for nations aiming to safeguard their interests in this rapidly evolving geopolitical landscape. When the Trump administration took steps to publish the Executive Order 13936 to normalize relations with Hong Kong on July 14, 2020, it revoked the region's special customs status in response to the perceived erosion of its autonomy and the apparent failure of the "One country, Two systems" principle
The Biden administration upheld this policy (White House, July 11). However, this does not comprehensively address core issues; loopholes remain, and a structured, long-term solution is still elusive. China’s recent legislative actions further accentuate these concerns. The promulgation of laws such as the Foreign Relations Law and the Anti-Foreign Sanction (State Council, June 10, 2021; State Council, June 28), reveals Beijing’s strategy of leveraging its economic statecraft as a retaliatory mechanism against the US and its allies.

While Hong Kong is still Asia’s premier international asset management hub, and accounts for approximately two-thirds of initial bond issuances in Asia (HKMA, Accessed October 10), it provides the keys for China to perfect its economic statecraft. The international community must now grapple with this possibility, and decide what Hong Kong’s future role on the global stage should be. Can Hong Kong, on its current trajectory, maintain its stature as a leading financial hub? And what are the implications of the weaponization of an international financial center which has a vast repository of Western assets? If the United States and possibly the EU are now prioritizing de-risking from China, then reevaluating Hong Kong’s and considering de-risking from Hong Kong should be on the agenda. Unfortunately, only a handful of policymakers recognize this challenge, and the clock is ticking.

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Notes:

2023 marks the 10th anniversary of the China-Pakistan Economic Corridor (CPEC), the flagship project of China’s Belt and Road Initiative (BRI). The project was initially thought so significant that it was included as part of China’s 13th five-year development plan (NDRC, 2016). However, the decade-long journey to develop Pakistan’s port on the Arabian Sea at Gwadar, Balochistan province, and connect it with Kashgar city in China’s western Xinjiang Uyghur Autonomous Region (XUAR), has not gone smoothly. Through a proposed network of highways, railways, and energy pipelines, CPEC has already marshalled $25 billion of Chinese investment to improve the country’s infrastructure. But chronic issues have plagued the project, leaving many aspects in doubt as it enters its next phase (VOA, July 23; Express Tribune, October 18).

On July 31, Chinese Vice Premier He Lifeng (何立峰) visited Pakistan to attend a ceremony in Islamabad celebrating the CPEC reaching its ten-year milestone (PRC Foreign Ministry, July 29). While there, the two countries signed six agreements for the promotion of bilateral cooperation in agriculture and information technology sectors (Dawn, July 31). However, the minutes of the 11th meeting of the Joint Cooperation Committee (JCC) of the CPEC, which were signed that day—nine months after the meeting had taken place—
believe a less unified belief in the win-win opportunities on offer (The Express Tribune, September 26). China did not agree to further expand cooperation on projects related to energy, climate change, electricity transmission lines and tourism (Nikkei Asia, October 2).

This caution from Beijing might seem indicative of wider perceptions of a faltering BRI in recent months, but this week’s BRI Cooperation Summit in Beijing suggested otherwise. In the runup to the two-day meeting, the State Council Information Office published a white paper proclaiming that “China is ready to increase its resource input in global cooperation” (SCIO, October 10). But beyond the fanfare of this week, the state of CPEC provides valuable insight into the disjunction between the lofty goals and the often-troubling reality of the BRI.

CPEC And Sino-Pakistan Relations

Chinese president Xi Jinping declared in Islamabad this summer that CPEC is “a vivid testament to the all-weather friendship between China and Pakistan” (Ministry of Foreign Affairs, Peoples Republic of China, July 31). The use of terms such as “iron brothers (铁哥们)” or “good brothers (好兄弟)” to describe the relationship are standard (People's Daily, April 20, 2015), and Pakistan has sought a close partnership with China, especially in the military and economic domains, since 1990. However, while Pakistan is conceivably of geostrategic import to the PRC, it is Pakistan who has historically benefitted most from the relationship to date, though not without cost: According to the Taiwanese think tank Doublethink Lab, Pakistan is the most China-dependent country in the world (Doublethink Lab, 2022). China is the biggest foreign investor in Pakistan, and the two support each other in multilateral fora, with Pakistan remaining silent on the treatment of Muslims across the border in Xinjiang.

China’s close military ties with Pakistan rival those it has with Russia. The two have substantial information-and-intelligence-sharing agreements, and the heads of their two militaries have met frequently (Aljazeera, April 27). China has also conducted naval cooperation with Pakistan, and has provided a high volume of military equipment to the country’s military: For instance, Pakistan was the first foreign buyer of China's J-10C fighter jet (Global Times, February 21, 2022). A recent report describes the relationship as “approaching a threshold alliance” (United States Institute of Peace, March). Pakistan’s powerful military establishment is therefore predictably a strong supporter of the CPEC. Many politicians have not been on the same page, however. CPEC was agreed upon under the government of former Prime Minister and Punjab Chief Minister Shehbaz Sharif, with whom Beijing had a good relationship. However, the government of Imran Khan, who acceded to office in 2018, delayed several CPEC projects and accused its predecessors of taking kickbacks from Chinese state-owned enterprises (SOEs) working on CPEC projects in Punjab (South China Morning Post, April 20).

Regardless of delays, CPEC has achieved a number of notable successes to date. The BRI white paper highlights many of the CPEC projects underway, including transport networks, power plants, electrical infrastructure, and a number of special economic zones (SEZs) (SCIO, October 10). Prior to these investments, Pakistan suffered from chronic power outages for up to 15 hours per day, so there is a palpable sense that Chinese financing for the construction of power plants has mitigated Pakistan’s power crisis (AidData, March
Chinese construction of Pakistan’s power infrastructure is set to continue: The construction of the country’s largest civil nuclear power plant is underway (VOA, July 14). However, CPEC’s first phase ultimately overpromised and underdelivered. Real gains are offset by problems ranging from difficulties with financing, security issues due to a backlash from local Pakistanis, and a pervading sense that China is beginning to see its position in Pakistan as more hassle than it is worth. The status of Gwadar port is perhaps the most illustrative example of China’s misguided ambitions.

Gwadar: Strategic Importance, Unrealistic Ends

The development of Gwadar port is a key strategic component of CPEC for China. The original “corridor” concept entailed a direct root for Chinese oil and other imports to be transported from this port on the Arabian sea across Pakistan and into western China. As such, China Overseas Port Holding Company (COPHC) acquired the operations of the port on a 40-year lease in 2017 (Indian Express, April 20, 2017), making China simultaneously the operator and developer of the port. Not only would Gwadar in theory provide a shorter—and possibly cheaper—route for goods to reach China, it would also provide China safe access to the Arabian Sea in case of any crisis relating to the Nicobar islands, Strait of Malacca, or South China Sea (China Institute of International Studies, November 10, 2017). However, while the strategic merits of such a project make sense from both a Chinese and a Pakistani standpoint, the facts on the ground have made this a reality that is unlikely to occur.

The problems that the project faces encompass concerns over physical geography, financial difficulties, and security issues. Balochistan is a comparatively poor part of the country, and one which has been the most resistant to Chinese activity. Dozens of Chinese engineers and workers engaged in CPEC-related projects have been targeted, injured, or killed by Islamic extremists and Baloch separatists in Pakistan, the most prolific being the Balochistan Liberation Army (BLA). In a video last year, a BLA commander warned, “China, you came here without our consent, supported our enemies, helped the Pakistani military in wiping out our villages, but now it is our turn. The Baloch Liberation Army guarantees that the China-Pakistan Economic Corridor will fail miserably on Baloch land” (See: Jamestown Foundation, July 14). BLA attacks on Chinese nationals include the targeting of the Chinese consulate in Karachi in 2018 (Dawn, November 2, 2018); an attack on Chinese tourists at the Pearl Continental Hotel in Gwadar in 2019 (Al Jazeera, May 12, 2019), and a suicide attack by a BLA female soldier on a Confucius Institute in Karachi University (Dawn, April 26, 2022). Their most recent attack targeted a military convoy carrying Chinese engineers in Gwadar (Dawn, August 13).

Besides resistance groups, many locals also do not trust China’s methods. CPEC activities in Gwadar have not managed to change the fate of its people, and the influx of Chinese workers or officers from elsewhere in Pakistan to work on the projects have made many locals feel alienated from the development (See: Jamestown Foundation, July 14). In one recent journalistic account, the Pakistan-based Zofeen Ebrahim says that unlike Chinese nationals in Pakistan in previous periods, locals do not have the opportunities to interact with the
CPEC-related influx of bankers, company owners, engineers, and construction and mine workers. She also expresses frustration that she has to go through a lengthy process to get permission to talk to a Chinese workers at CPEC projects (Panda Paw Dragon Claw, September 8). This restriction on interaction, coupled with the difficulties locals have finding stable employment, has been a source of unrest in the region.

There are also structural economic problems with CPEC that exacerbate these issues. As the researcher David Landry has shown, CPEC appears to have pulled public expenditure toward Pakistani provinces that are already more developed, rendering the interregional inequalities more acute. [1] Moreover, Landry finds that economic spillover effects in the period 2012-2019 were minimal: increases in economic activity in CPEC regions beyond those associated with the increase in government spending were “largely negligible.” Pakistan’s already weak economy has been weakened further still by the debt burden from CPEC projects. As of July, Chinese loans from government and commercial banks constituted nearly 30 percent of the country’s external debt (VOA, July 14). While it has helped that Islamabad managed to negotiate a $3 billion bailout with the IMF in June, and Chinese lenders have extended the repayment schedules for debts totalling $5 billion, Pakistan nevertheless remains highly leveraged, which poses significant risks if Pakistan’s economy were to rapidly deteriorate. Islamabad’s repayment obligations have already skyrocketed following the Pakistani Rupee’s devaluation against the US dollar by almost 40 percent from August 2018 to early 2022 (AidData, March 22, 2022). This economic instability has been a factor in project delays on the Chinese side, which then exacerbate the situation on the ground in Pakistan.

One of the biggest issues with CPEC was the initial lack of planning. Alarmingly, reports suggest that there was very little expertise on Pakistan in Beijing when CPEC was first announced (GMF, September, 2020). A better appraisal from the Chinese side could have prevented the dramatic overpromising that has occurred in years since, and the disappointment and overt hostility it has led to in some cases. A more reasoned assessment on how increasing economic ties would impact both Pakistan’s domestic politics and the foundational Sino-Pakistani military relationship also seems not to have been given sufficient thought.

Conclusion

The prospect of any Chinese military presence in Pakistan is overblown, both because Islamabad is unlikely to allow Chinese private security companies or personnel to be active on Pakistani soil, and because Gwadar is not likely to be co-opted by the PLAN as a naval base, as some observers has surmised (AidData, August 15). This fear and other concerns about CPEC have not come to pass, nor do they seem likely. Nevertheless, some of the hopes for BRI’s flagship project have not been realized.

Despite the pomp and circumstance on display in Beijing this week surround the BRI (People’s Daily, October 18), the agenda for CPEC in the coming years will likely be revised significantly. There will be a shift—already in motion—from “mega projects” to “peanut projects”(GMF, September, 2020).

At the end of the day, China views Pakistan’s military establishment as its main partner for dealing with CPEC: The military serves as the security guarantor for its projects, and Beijing has leaned on them to pressure or silence critics in the political establishment. Even Imran Khan, who came into government in 2018 on a platform
that was critical of CPEC, was forced to accelerate CPEC projects in the second half of his time in office. The upcoming elections, likely to be held early next year, will have little meaningful impact on CPEC projects. How CPEC develops in the coming years will have much more to do with China’s strategic interests and the practical challenges on the ground.

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Notes

Vietnam’s Four Nos Policy and Implications For Sino-Vietnam Relations

by Jeff Zeberlein

In Hanoi on September 10, 2023, US President Joe Biden and the General Secretary of the Communist Party of Vietnam Central Committee Nguyễn Phú Trọng upgraded their countries’ diplomatic relationship to a “comprehensive strategic partnership” (White House, September 11). Vietnam bestows this term on the countries with which it has the highest level of diplomatic cooperation. The move surprised many, as did Biden’s prioritizing of the visit over the ASEAN summit the same day (Nikkei Asia, September 7). The United States had spent the last decade at the lowest level—a “comprehensive partnership.” This latest development puts the United States on a par with China, with whom Vietnam shares a communist ideology and on whom Vietnam is heavily economically dependent (Asia Times, February 2). This was thus a watershed moment for two countries that have not forgotten their fraught past.

While US policymakers welcome the diplomatic achievement, close observers note that Vietnam’s actions remain driven by its relationship with China. Even the recent upgrade in relations with the United States was “carefully crafted” to ensure that Vietnam did not antagonize China too directly. [1] Carlyle Thayer, a Vietnam expert and professor at the University of New South Wales Canberra, described Vietnam’s rationale for the
diplomatic upgrade as stemming from its strategy of “cooperation and struggle” with China. [2] Former US Ambassador to Vietnam David Shear noted that the Vietnamese “place much more importance on their relationship with China than they do with the US because [China] is so close.” [3] While Vietnam has pursued a balancing strategy for decades, it has primarily tempered its engagement with the West according to the mood in Beijing. However, China’s overbearing posture in the South China Sea has now eroded much of the progress Sino-Vietnamese relations had made since the early 2000s.

The significance of Biden’s visit was presaged by a 2019 modification to Vietnam’s defense policy. That December, the Ministry of Defense issued a new white paper which changed a long-held policy of “Three Nos” to “Four Nos and One Depend,” a precise, if inelegant, moniker (AMTI, December 17, 2019). This followed a tense decade of diplomatic and maritime conflict over the sovereignty of economic and territorial rights in the South China Sea.

The Origin of Three Nos

China and Vietnam have a long history of strained relations. In 40 A.D., two Vietnamese sisters known as Trung Nhi and Trung Trac led a rebellion against their Chinese overlords in the territory that is now North Vietnam. Though ultimately unsuccessful, they became symbols of nationalistic pride in the country’s struggle against China, something which endures to the present. After successful communist revolutions in both countries and North Vietnam’s expulsion of the US and France, Sino-Vietnamese relations broke down in the 1970s due to Vietnam’s increasing reliance on the Soviet Union, which China saw as a geopolitical rival. In 1974, Chinese forces took advantage of a divided Vietnam to capture the crescent group of the Paracel islands, which they hold to this day. The two then fought a land border war in 1979 and a naval battle over Johnson Reef in the Spratly Islands in 1988. But after the fall of the Soviet Union as the center of the communist bloc, Vietnam was forced to reconsider its foreign policy alignments. In November 1991, China and Vietnam normalized diplomatic relations, though they clashed over maritime claims throughout the 1990s.

Vietnam had reason to hope relations were improving going into the 2000s, however. In 1999, the two signed a land border treaty, and in 2004, they signed a treaty demarcating the maritime border in the Gulf of Tonkin. In 2002, the Association of Southeast Asian Nations (ASEAN), of which Vietnam is a member, and China signed the Declaration on the Conduct of Parties in the South China Sea. The Declaration was conceived as a rhetorical commitment to establishing an eventual Code of Conduct which would be binding on all parties to avoid the use of violence in maritime disputes. Finally, in 2008 Vietnam upgraded its diplomatic relations with China to the status of a “comprehensive strategic partnership.”

Vietnam’s Ministry of Defense published three White Papers between 1998 and 2009 reaffirming three central tenets—no aligning with one country against another, no military alliances, and no hosting foreign military bases on Vietnamese territory—that became known as the “Three Nos.” This policy formed the backbone of Vietnam’s military diplomacy, simultaneously avoiding incorporation into a Chinese sphere of influence and placating the Chinese Communist Party (CCP) by constraining Vietnamese military engagement with the West.
While the policy informed Vietnam’s interactions with all countries, the Three Nos was “designed to reassure the Chinese and fend off the Americans at the same time.” [2]

Changing Tides: China’s Territorial Creep

As early as 2009, however, China began to lay the groundwork for more assertive rhetoric and behavior in the South China Sea (SCS). In May, China submitted two notes verbale to the United Nations’ Commission on the Limits of the Continental Shelf (CLCS), which included a map of the SCS with nine very conspicuous dashed lines (United Nations, May 7, 2009). For the first time in official diplomatic channels, this map including China’s Nine-dash Line (断续线) appeared to lay claim to nearly 1.3 million square miles of sea. Shortly thereafter, China reportedly began to speak of the SCS as a “core interest,” suggesting to many that it was willing to defend its claim by force (Chinafile, February 22, 2011). [4] Negotiations with ASEAN toward a Code of Conduct stalled and progress to this day has been stymied due to increasing hostility in the SCS and China’s influence over some members of the Asian bloc.

Through the use of its maritime militia and coast guard, Chinese harassment of Vietnamese fishermen has increased in line with this rhetoric. Chinese coast guardsmen have boarded fishing vessels to assault fishermen, destroying their equipment or arresting them. They have intimidated unarmed civilians using water cannons and occasionally rammed and sank fishing boats or trawlers (BBC, April 8, 2011). One study cites 34 publicly reported law enforcement encounters constituting harassment between 2010 and 2019 (CSIS, August 18, 2016). In a particularly brazen attempt to exert sovereignty inside Vietnam’s Exclusive Economic Zone (EEZ), the Chinese oil rig Haiyang Shiyou (海洋石油, HYSY) 981 conducted oil exploration in May 2014, escorted by over 40 ships from the Chinese Coast Guard, Navy, and Maritime Militia. Vietnam chose not to back down, sending dozens of its own ships to compel the oil rig to withdraw, which culminated in a six-week stand-off (AMTI, June 12, 2017). Ultimately, China removed the rig. Vietnam hailed its victory, but the damage to Vietnam-China relations was done. Within two weeks, Vietnamese Deputy Prime Minister Pham Binh Minh called US Secretary of State John Kerry to discuss elevating bilateral ties and removing weapons embargos by the United States (Vietnam MOFA, July 1, 2014).

By 2016, China’s land reclamation activities in the SCS had placed military airports, seaports, and long-range missile systems on Fiery Cross, Subi, and Mischief Reefs. Combined with its established military outpost on Woody Island, China’s military reach now spanned nearly the entirety of the SCS, worrying other island claimants including Vietnam, the Philippines, Malaysia, and Brunei. This has all been made possible by a ballooning military budget, which one estimate puts at $298 billion this year—five times the figure in 2002 (CSIS, May 8). As the experience of Southeast Asian nations makes clear, China’s “peaceful rise” is anything but (NPC, July 1, 2011).

Vietnam Rebalances

In response, the Vietnamese military began to change course. The fourth Ministry of Defense policy paper added a new provision against “using force or threatening to use force in international relations” (Radio Free
AsiAsia, November 27, 2019). The newly codified “Four Nos” policy contrasted Chinese aggression in the South China Sea with Vietnamese restraint. More notably, however, the military stated that “depending on circumstances and specific conditions, Viet Nam will consider developing necessary, appropriate defense and military relations with other countries on the basis of respecting each other's independence, sovereignty, territorial unity and integrity.” Establishing a conditional policy provides more freedom of action for Vietnam’s military (AMTI, December 17, 2019). This supplementary clause gives Vietnam the room to deepen engagement with other partners and enhance its security position while avoiding China’s ire by preserving the original Three Nos.

Vietnam is diversifying its partnerships as tensions with China rise. In 2016, shortly after China placed long-range missile systems on islands in the Spratlys, Vietnam upgraded relations with India, a geopolitical rival of China, to the comprehensive strategic level (India Ministry of External Affairs, September 1, 2017). In 2022 and 2023, Vietnam upgraded its diplomatic partnerships with South Korea as well as with the United States, and has announced a future upgrade with Australia (Fulcrum, February 10; White House, September 11; VNExpress, August 22). The country is also reportedly on the cusp of a similar pronouncement with Japan (Yomiuri Shimbun, October 16).

Diplomatic hedging is simultaneously being buttressed in the military domain. In 2018, Vietnam hosted a US aircraft carrier for a port visit for the first time since the Vietnam war and sent delegates to the Rim of the Pacific Exercise (RIMPAC), the world’s largest multinational naval exercise, hosted by the United States. Chinese analysts have taken note, particularly of Vietnamese outreach to Japan (another state which disputes China’s maritime territorial claims) (The Diplomat, September 21, 2021). [5] In Japan, Vietnam’s shift in policy since 2019 is being described as “omnidirectional,” seeking to engage partners everywhere when interests are aligned, without committing to any particular bloc or ideology. [6]

Conclusion

Policymakers in the United States hail the diplomatic developments, but regional experts caution that Vietnam’s geographical context precludes a deeper embrace of the west: China and Vietnam share land and maritime borders, which is partly why Vietnam’s economy is highly reliant on Chinese exports. [2] Vietnam cannot fully break with China, nor is doing so in its strategic interests. Meanwhile, the United States is perceived to be an unreliable partner, not just for historic reasons, but due to the country’s divergent political system: In the eyes of Vietnam’s communist leadership, the United States’s democratic political processes result in erratic, short-term decision making. [7]

But the marked improvement in US-Vietnamese ties is positive for both countries, even if Vietnam is unlikely to categorically abandon its conciliatory approach towards Beijing. The Four Nos will be deployed with both Western partners and with China to provide Vietnam with some more autonomy. United States defense officials may find themselves frustrated by stalled progress on closer military integration as Vietnam calibrates its engagement with the West to its interest in placating China. Still, Vietnam’s shift to the less restrictive Four Nos policy is evidence of Vietnam’s stronger commitment to standing up in the face of China’s coercive tactics.
in the South China Sea, though that may also portend more skirmishes in defense of the country’s maritime claims.

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Notes


