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Article

Do expectations matter? A case of Vietnam's policies toward US-China economic disputes

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Abstract

Liberals and realists disagree on the relationship between trade interdependence and conflict probability. Trade expectations theory resolves this debate by demonstrating that trade interdependence can be either peace-inducing or war-inducing, depending on a state's expectations of the future trading environment with its partner. This article draws upon trade expectations theory to examine the variation in Vietnam's policies toward the ongoing economic disputes between the United States and China. It argues that Vietnam's positive or negative expectations of future economic relations with either side influence how much it is willing to accommodate the interests and policy preferences of Washington and Beijing.

Keywords: expectations; US-China economic disputes; Vietnam; interdependence; conflict.

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Introduction

The relationship between trade interdependence and dyadic conflict or cooperation is central in international political economy. Traditionally, liberals and realists have been largely divided on whether trade interdependence promotes peace or escalates conflict. Trade expectations theory attempts to reconcile this debate by emphasising that the outcome hinges on a state's expectations of its future trade relations with a specific partner (Copeland 1996; 2014). However, critics argue that the theory sometimes oversimplifies by equating interdependence solely with trade, while neglecting other forms like foreign investment, aid, and newer economic interactions such as financial and information flows (Maoz 2009; Farrell and Newman, 2019).

Trade interdependence, or more broadly, economic interdependence is believed to have significant security implications, as seen in the ongoing trade and technology tensions between the US and China. While trade interdependence raises security concerns, trade expectations alone are insufficient to trigger conflicts without considering military, political, and broader economic factors (Snyder 2015, 180). Therefore, understanding the US-China economic conflicts requires placing them within the context of their multifaceted rivalry. The US's concerns about China's economic and military growth have shaped its negative expectations of future economic relations with Beijing (Lee 2018; Wyne 2020). These tensions not only reflect mutual skepticism about strategic and economic interdependence but also profoundly influence smaller states' foreign policy choices towards these two superpowers.

Among these, Vietnam, which is presumably the biggest beneficiary of trade diversion effect and foreign investment transfer during the US-China economic disputes, is, on the other hand, confronted with difficult choices. China and the US are Vietnam's largest and second-largest trade partners, respectively (Socialist Republic of Vietnam 2024a). Over recent decades, increased imports from China have led to corresponding exports to the US, as many Vietnamese exports to the US are manufactured using Chinese raw materials and components. Consequently, disruptions in US-China economic relations have profoundly affected Vietnam, with both sides using their economic ties to influence Hanoi's decisions. Given its close economic ties with both countries, Vietnam confronts significant challenges in response to Washington and Beijing. This article aims to explore how Vietnam's expectations of economic relations with the US and China shape its policies toward US-China economic disputes.

This article argues that Vietnam's policy towards the US and China amid their trade and technology conflicts is mainly driven by Hanoi's expectations of future economic relations with both countries. These expectations are influenced by three key factors: a state's existing perceptions of a specific trade partner, past and current trade and investment levels, and domestic public opinion on current economic relations. Vietnam's mixed evaluation of its economic ties with China leads to a cautious approach, focusing on high-tech and sustainable sectors to avoid over-reliance on the Chinese market. In contrast, Vietnam views its economic relationship with the US positively, using it to balance against dependence on China and thus tends to accommodate US's interests in the US-China economic conflicts.

For Vietnam's economic expectations to shape its policies toward the US and China amid their conflicts, certain conditions must be met, including the existence of power asymmetry between Vietnam and these two major powers, along with expectations in other aspects. This asymmetry renders Vietnam more vulnerable to external shocks, which significantly influences its economic expectations. However, power asymmetry alone does not directly trigger specific positive or negative expectations. Rather, these economic expectations are closely intertwined with Vietnam's political, historical, and security-related expectations in its relations with both countries. In essence, positive or negative expectations cannot be viewed in isolation; they are intrinsically connected to broader expectations and the small-big power dynamics at play.

This article enriches the existing body of knowledge in three key ways. First, it refines the trade expectations theory by conceptualising the causal variable 'expectations of future economic relations,' shaped by three main factors. This revised theory provides a framework for understanding Vietnamese policy towards China and the US, emphasising that Hanoi's expectations of future economic benefits or losses influence its stance on US-China economic conflicts. Second, it expands the scope of security conflict to include softer forms of resistance by dependent states, such as uncooperative attitudes and hardline trade policies. Third, the article offers empirical insights by comparing Vietnam's responses to the US and China during their economic disputes. It draws on primary and secondary sources in Vietnamese, English, and Chinese, including government reports, officials' speeches, policy reports, media coverage, academic research, and perspectives of key opinion leaders.

The article is divided into five sections. The first section reviews the literature on the relationship between economic interdependence and conflict, focusing on trade expectations theory. The second section conceptualises expectations of future economic relations. The third section offers an overview of Vietnam's economic relations with the US and China amid their economic disputes. The fourth section explores how Vietnam's expectations of future economic ties with the US and China influence its policies towards their economic conflicts. The final section summarises the key findings of the article.

Trade expectations theory and its critiques

Liberal and realist theories offer contrasting views on trade interdependence. Liberals argue that interdependence promotes peace by increasing the costs of war and benefiting domestic groups invested in peaceful relations (Copeland 2014, 19-20). In contrast, realists see interdependence as a vulnerability that heightens security threats, potentially leading to conflict (Copeland 1996; Maoz 2009; Copeland 2014; Snyder 2015). The causal mechanisms underlying liberal and realist assumptions are ontologically distinct. Liberals prioritise maximising material gains and thus view trade positively, while realists prioritise security, which is arguably undermined by increasing interdependence (Copeland 2014, 21).

The introduction of trade expectations theory in part solves the static nature of the established liberal and realist approaches by incorporating an additional 'causal variable' – a dependent state's expectations of its future trading environment with a specific trade partner – into its analytical framework (Copeland 1996, 6; 2014, 2). Dale Copeland argued that this theory is dynamic because it considers shifts in a state's positive or negative expectations of future trade (Copeland 1996, 17-19). It identifies conditions under which liberal and realist assumptions hold true (Copeland 2014, 429). Specifically, high levels of trade interdependence are likely to promote peace if both states anticipate future trade benefits. Conversely, if one state expects future trade to jeopardise its national security, high interdependence can create incentives for conflict (Copeland 1996; 2014).

There has been an increasing number of literatures that either echo or critique the trade expectations theory since its inception. For example, Snyder (2015) pointed out that trade expectations theory is built on a subjective foundation of 'expectations,' whereas a more objective foundation can be constructed based on trade trends, trade vulnerability, and autarkic feasibility, among others. Furthermore, Synder (2015, 190-191) argued that the variable 'trade expectations' alone cannot cause security concerns without taking military and political expectations into account. Thus, trade expectations should be combined with security expectations and domestic variables to form a more comprehensive theory of strategic expectations capable of explaining the causes of war or peace (Snyder 2015, 180, 192).

While this article uses trade expectations theory as its framework, it argues that the theory needs modifying to expand its explanatory power, particularly the scope of two independent and causal variables – interdependence and expectations – as well as dependent variable – conflict or peace. First, interdependence encompasses more than just trade; it includes investment, grants, loans, and financial and information flows (Maoz 2009; Farrell and Newman 2019). Thus, the interdependence variable should be understood as economic interdependence. Similarly, the expectations variable should be recast as expectations of future economic relations to better capture the link between economic interdependence and conflict or peace. The article will specifically reframe the expectations variable with reference to Vietnam's expectations of its future economic relations with the US and China in the following section.

Second, most existing studies focus on economic interdependence and conflict between great powers, while the conflict probability between great powers and small powers is almost marginalised. For a lesser power with much smaller capabilities, it appears irrational to wage war or conflict against a great power, even if it has negative expectations of future economic relations with that great power. Nonetheless, this does not mean that the lesser power's negative expectations toward the larger power result in no consequences. The consequences in this context may involve some different forms of conflict.

According to this logic, not only is the causal variable 'expectations' being called into question, but the dependent variable 'militarised conflict' or 'war' is also being challenged. Conventional wisdom suggests that international conflicts or wars are primarily characterised by military actions. However, with the high costs and declining frequency of major militarised conflicts since World War II (Clauset 2018), countries may now resort to other non-military forms of conflict, such as trade wars or cyber warfare (Lee 2018, 218).

Additionally, the original theory often overlooks the asymmetrical relationships between great powers and smaller states, thus failing to explain the differing state interests and policy calculus in such an asymmetric structure (Womack 2016). In asymmetric relationships, smaller states may refrain from engaging in militarised conflicts even if they hold negative expectations towards larger powers due to the disproportionate capabilities and potential losses of material interests. Instead, these smaller states may resort to softer forms of resistance, such as adopting uncooperative economic policies or protective measures, to safeguard their autonomy and security interests (Pape 2005).

By considering Vietnamese trade policy within the amended theory, this article offers a more nuanced understanding of how economic expectations influence state behaviour and strategic choices in contemporary international politics. Specifically, an uncooperative attitude toward a trade partner's economic policies can be seen as a mild form of resistance with potential future security implications. Therefore, such resistance should be factored in when evaluating the link between expectations of future economic relations and inter-state conflicts.

In this article, the causal mechanism linking future economic expectations and Vietnam's economic policy towards the US-China trade and technology competition is primarily based on its expectations of economic gains or losses from continued trade and investment relations with both sides. If future economic expectations are perceived positively, indicating anticipated economic gains or benefits from continued economic interdependence with a specific country, Vietnam is more likely to adopt a cooperative and receptive approach. Conversely, if future economic expectations are negative, suggesting the potential for economic losses and even security externalities, Vietnam may adopt an uncooperative or cautious approach.

Conceptualising expectations of future economic relations

In general, future expectations are heavily influenced by past experiences and current circumstances. Similarly, in this article, 'expectations of future economic relations' are shaped by three main factors: a dependent state's existing perceptions of a specific trade partner, its historical and current levels of trade and investment with that partner, and domestic public opinion regarding current economic relations.

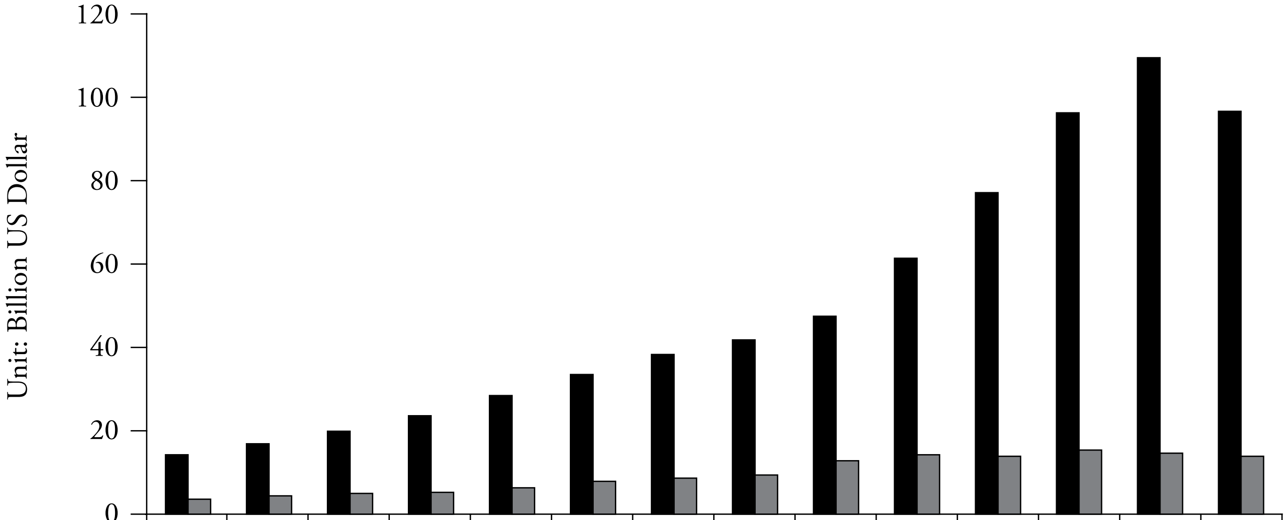
First, decision-makers' beliefs and perceptions about the world play a crucial role in shaping their decisions and policies (Jervis 2017, 28-29). A dependent state's preexisting perceptions of its political and security relations with a specific partner are crucial in forming expectations of future economic relations (Snyder 2015). States develop enduring perceptions of each other based on their historical interactions and current relationship status, which in turn shape their expectations. Therefore, a dependent state's decisions and policies are influenced by its assessment of the broader political and security landscape and how it perceives its long-term position in the international system (Copeland 2014, 47).

The US and China are unquestionably two of Vietnam's most significant foreign-policy partners. However, Hanoi's expectations of future economic relations with each side differ due to different threat perceptions and security concerns. Regarding the US, Hanoi is primarily wary of ideological differences and the potential for peaceful evolution. Historically, the US has used its deepening economic ties with Vietnam to exert pressure on issues related to democracy and human rights (Tung 2022a, 902). Nevertheless, recent years have seen a downplay on human rights concerns as the US seeks to improve bilateral relations with Vietnam (Brunnstrom and Pamuk 2023). Additionally, Washington serves as a counterbalance to Beijing's influence in the region (Tung 2022a, 902). In 2023, both countries upgraded their relationship to a comprehensive strategic partnership, a move expected to bolster economic ties and enhance the role of Vietnamese enterprises within US-led global supply chains ("Joint leaders' statement: elevating United States-Vietnam relations to a comprehensive strategic partnership." 2023).

Regarding China, despite being Hanoi's most significant ideological ally, Vietnam has always maintained skepticism about Beijing's intentions. In particular, China's increasing assertiveness in the South China Sea poses the greatest threat to Vietnam's sovereignty and security (Hai 2018), as Beijing has consistently harboured ambitions to encroach upon and dominate the sea, according to Tran Cong Truc, the former chief of the Vietnamese government's Border Committee ("Hoàng Sa và Trường Sa là của Việt Nam" [Hoang Sa and Truong Sa belong to Vietnam]" 2020). Moreover, Hanoi is concerned that its trade with China could be disrupted in the event of a conflict over the contested waters (Hai 2018; Huang and Tung 2022). When viewed as a whole, while Vietnam's relations with both the US and China raise security concerns, Hanoi's impending worries about future trade disruptions are primarily related to China.

Second, Dale Copeland argued that past and current levels of trade and investment do not significantly influence leaders' expectations for the future or their inclination towards peace or war (Copeland 2014, 16). This subjective foundation of the 'expectations' variable may undermine its persuasiveness. Alternatively, it could be constructed on a more objective basis, considering trade trends, trade vulnerability, and autarkic feasibility (Snyder 2015). An objective framework for conceptualising the 'expectations' variable involves a state's historical and current economic relations with a specific country, including levels of trade and investment. The extent of trade and investment with a particular country can be perceived as beneficial or detrimental to a state's development and national security, thus shaping its expectations for future economic relations with relevant countries.

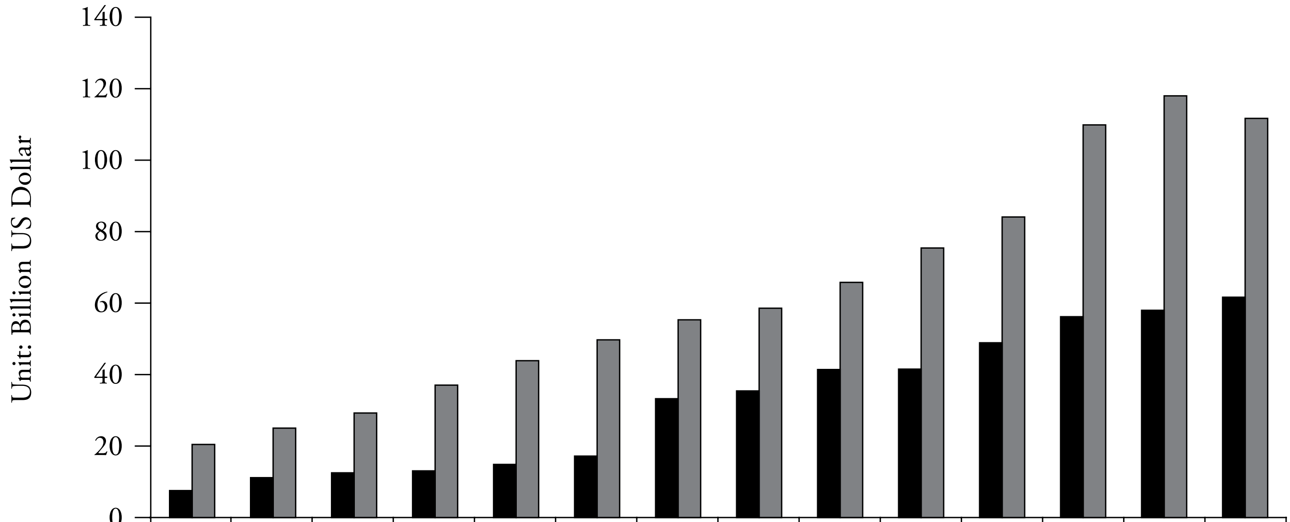
Regarding trade, China and the US are currently Vietnam's largest and second-largest trading partners. Since 2015, Vietnam's bilateral trade with China has accounted for more than 20% annually in the country's total trade, while the US's trade share reached more than 12% annually (Socialist Republic of Vietnam 2024a). However, there is a divergent trend in the expanding trade ties with the US and China. Vietnam has had long-standing trade surpluses with the US while experiencing trade deficits with China. In 2022, Vietnam experienced a significant surge in bilateral trade with the US, totaling US$123.87 billion, marking a remarkable high since the outbreak of the trade war. This constituted 16.96% of Vietnam's overall trade. Vietnam's exports to the US soared to US$109.4 billion, while imports from the US reached US$14.47 billion, consequently achieving a trade surplus of US$94.93 billion (see Figure 1). Meanwhile, Vietnam's total bilateral trade with China reached US$175.7 billion in 2022, accounting for 24.06% of its total trade, with Vietnam's exports to China totaling US$57.7 billion and imports from China totaling $US118 billion, leaving Vietnam with a US$60.3 billion trade deficit (see Figure 2).



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Export	14.24	16.93	19.67	23.84	28.64	33.47	38.45	41.59	47.53	61.35	77.08	96.29	109.4	96.78
Import	3.77	4.53	4.83	5.23	6.3	7.79	8.7	9.35	12.75	14.37	13.71	15.27	14.47	13.78

Source: Socialist Republic of Vietnam (2024a)

Figure 1. Vietnam's bilateral trade with the US from 2010 to 2023



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Export	7.31	11.13	12.39	13.1	14.8	17.1	32.96	35.46	41.27	41.41	48.87	55.95	57.7	61.67
Import	20.02	24.59	28.79	36.8	43.7	49.52	54.88	58.23	65.44	75.45	84.19	109.9	118	111.6

Source: Socialist Republic of Vietnam (2024a)

Figure 2. Vietnam's bilateral trade with China from 2010 to 2023

Regarding the types of products traded, the US plays a significant role in Vietnam's exports across several key product categories. In 2022, it was the largest market for Vietnam's computers ($15.94 billion, 28.7% of total exports), machinery ($20.18 billion, 44.1%), textiles ($17.36 billion, 46.2%), footwear ($9.62 billion, 40.3%), wood products ($8.66 billion, 54.1%), and seafood ($2.13 billion, 19.5%). In contrast, the US has a smaller presence in Vietnam's imports, primarily in textile-related products like leather and footwear materials ($1.78 billion, 6.4%) and agricultural goods such as wheat, corn, soybeans, and animal feed ($1.31 billion, 11.2%) (Socialist Republic of Vietnam 2023). Meanwhile, China is Vietnam's largest supplier for computers ($24.06 billion, 29.4% of total imports), machinery ($24.29 billion, 53.8%), textile materials ($14.06 billion, 50.3%), and phones and components ($8.06 billion, 38.2%). Hanoi's heavy reliance on raw materials, parts, and components from the Chinese market for its domestic manufacturing is seen as detrimental to both the country's sustainable development and its security (Tung 2022a). Conversely, Vietnam's exports to China are concentrated in phones and components ($16.26 billion, 28% of total exports), computers and electronics ($11.88 billion, 21.4%), and seafood ($1.57 billion, 14.4%) (Socialist Republic of Vietnam 2023).

Apart from trade, a partner's investment in a dependent state also shapes future economic relations. Key indicators such as foreign direct investment (FDI) stocks, investment sectors, investor' practices, and the technological impact of projects in the host country are crucial for evaluating the depth and potential benefits of economic ties between countries. For Vietnam, while FDI inflows from the US and China have risen noticeably in recent years, neither country ranks as the top investor in terms of FDI stocks. As of 2023, the US was the 11th largest investor in Vietnam, with FDI stocks amounting to US$11.83 billion, constituting 3% of Vietnam's total FDI. In contrast, Chinese FDI stocks totaled US$27.48 billion, comprising 6% of Vietnam's FDI and making China the 6th largest investor (Socialist Republic of Vietnam 2024b). Chinese investments primarily target industries such as infrastructure, manufacturing, mining, and energy, whereas US investments are predominantly in services and high-tech sectors. These differing investment focuses shape how US and Chinese capitals are perceived.

Chinese involvement in Vietnam's critical infrastructure projects, such as the Cat Linh-Ha Dong metro line in Hanoi, has sparked significant concerns due to issues with economic practices and technological standards. Constructed in 2011 by China Railway Sixth Group Co Ltd., the project experienced a decade-long delay and saw its costs rise by US$393 million from the initial estimate of US$553 million, with commercial operation only beginning in 2021. The Vietnam Ministry of Transport attributed these challenges to the Chinese contractor's lack of experience in urban public transportation (Tuan 2019). This performance has fueled discussions among Vietnamese policymakers and the public, contributing to Hanoi's skepticism and negative expectations regarding deeper economic and investment cooperation with Beijing.

Additionally, the perception of US and Chinese investment in Vietnam differs significantly due to their distinct sectors of focus. Chinese investments, concentrated in energy and mining sectors, are often viewed as environmentally harmful and contributing to the depletion of natural resources (Huang and Tung 2022). For example, following China's decision to halt coal production at home, Chinese state-owned companies have increased investments in coal-fired power plants in Vietnam, where they hold a 50% share of foreign coal investments ("China funds coal away from home." 2017). However, Chinese investments have been criticised for introducing outdated technologies that exacerbate environmental pollution, as seen in the Vinh Tan Thermal Power Complex in Binh Thuan province, where Chinese investors developed 3 out of 5 thermal power plants ("Sớm di dời người dân Vĩnh Tân tránh xa ô nhiễm [To relocate Vinh Tan people quickly away from pollution]." 2023).

In contrast, US investments are perceived as bringing modern technology and sound economic practices that enhance Vietnam's position in the global supply chain (Tung 2022a). Minister of Industry and Trade Nguyen Hong Dien highlighted in a September 2023 interview with the *Communist Party of Vietnam Online Newspaper* that the economic relationship between Vietnam and the US is complementary. Dien emphasised that increased US investments enable Vietnamese businesses to play crucial roles in the global value chains, highlighting Vietnam's view that long-term economic ties with the US offer greater benefits for national development compared to those with China ("Việt Nam - Hoa Kỳ: Đẩy mạnh hợp tác những lĩnh vực mang tính cốt lõi, chiến lược" [Vietnam and the US to promote cooperation in core and strategic areas] 2023).

Third, despite its significance, existing literature often overlooks how public perceptions and expectations of the future economic environment influence leaders. The public—ordinary citizens, economic actors, scholars, experts, and key opinion leaders—actively participate in international economic activities and hold specific preferences about economic cooperation or dependence on certain partners (Oatley 2019). These preferences influence government policies through advocacy, gradually shaping and constraining leaders' decisions as they seek public support. Leaders, whether in democratic or authoritarian states, consider public opinion to maintain support, avoiding policies that could jeopardise their hold on power (Kinne 2005).

Vietnam's expectations for future economic ties with the US and China are shaped in part by its domestic public opinion regarding the country's current economic relations with both countries. According to the *State of Southeast Asia 2023 Survey* conducted by the ASEAN Studies Centre at ISEAS – Yusof Ishak Institute, Vietnam, ranked at the top in Southeast Asia, demonstrates significant concerns over the economic influence of China. The survey shows that 86.2% of Vietnamese respondents are worried about China's growing economic influence, while 84.6%, ranking second in the region after Brunei, welcome the increasing economic influence of the US in their country (Seah et al. 2023, 25). This clear contrast highlights the lingering concerns and pessimistic expectations among the Vietnamese people about Vietnam's economic dependence on China and the potential implications for Vietnam's national security.

Vietnamese perceptions of economic relations with the US and China are shaped not only by Vietnam's overall diplomatic relationships with these countries but also by the economic practices of the US and China towards Vietnam. Vietnam's export sectors and stakeholders have significantly benefited from economic ties with the US. The high standards and rigorous import criteria of the US market are viewed positively by Vietnamese economic actors, who see this engagement as an opportunity to enhance business models, production techniques, and product quality (Giang 2023). Consequently, there is strong public support in Vietnam for deepening economic cooperation with the US and welcoming increased US economic presence.

Meanwhile, Vietnam's economic relations with China, characterised by persistent trade deficits and heavy reliance on the Chinese market for raw materials, are often seen as potentially harmful to Vietnam's economy and national security (Tung 2022a). Despite increased exports to China, Chinese economic actors face criticism for perceived lack of credibility and fraudulent trade practices. For instance, Chinese traders have been accused of making high-priced purchases of Vietnamese agricultural products in one season, but then abandon the promised deal, causing significant losses for Vietnamese farmers in the following seasons (Anh 2015). These practices, including market manipulation and price coercion, have led to widespread distrust among Vietnamese businesses and farmers (Vu 2020). Overall, Vietnamese public opinion favours economic relations with the US but is less enthusiastic about deepening ties with China.

The three main factors discussed can influence and shape a dependent state's expectations of future economic relations with a partner, either independently or together. For Vietnam, Hanoi has more optimistic expectations for future economic relations with the US than with China. Vietnam tends to adopt a proactive and welcoming approach toward the US in trade and investment relations, while being cautious and selective with China. Additionally, Vietnam's differing expectations of future economic relations with the US and China affect how much support it is willing to lend to either nation amid the ongoing US-China trade war and the consequential decoupling.

In explaining Vietnam's policy toward US-China economic conflicts, the existing literature on economic hedging offers a valuable alternative framework. Economic hedging, or 'pendulum diplomacy,' suggests that Vietnam is not engaging in military balancing against a rising China, but rather in economic balancing by reducing its dependence on China while seeking deeper integration with the US and the US's allies like Japan (Liao and Dang 2019). This approach predates the US-China trade conflict (Železný 2022; Tung 2022b). However, while the hedging theory provides insights, it appears to oversimplify Vietnam's strategic calculations and falls short in providing a deeper understanding of why Vietnam has adopted such a divergent approach to the US-China economic conflicts.

While Vietnam's economic hedging persists amid the US-China trade war (Tung 2022b), the economic conflict between the two major powers marks a departure from the past, as Vietnam now faces shrinking space to hedge and a loss of strategic ambiguity (Tung 2022a). Consequently, Hanoi is increasingly compelled to make more decisive choices on certain issues under pressure from both the US and China. These choices are shaped by Vietnam's expectations of economic gains or losses in its relations with the two powers.

Vietnam in the context of US-China economic disputes

The strategic competition between the US and China has intensified into an all-out rivalry encompassing security, military, and economic dimensions. Since 2018, the trade war escalation, technology tensions, and the potential for decoupling highlight the ongoing economic disputes between Washington and Beijing (Wyne 2020). China's strategic gains in the region through economic statecraft and initiatives like the Belt and Road Initiative (BRI) prompted Washington to integrate economic components into its Indo-Pacific Strategy, such as infrastructure construction, new supply chains, among others. This is seen as a supplement to Washington's security-centric thinking paradigm (Stromseth 2020). During this process, Vietnam, strategically positioned amid the US-China competition, has emerged as one of the significant beneficiaries due to trade diversion effects and investment transfers resulting from their economic disputes.

Regarding trade diversion effects, U.S. importers sought to divert their supplies of goods to third countries owing to the higher tariffs the US imposed on Chinese imports. In order to offset the corresponding reductions from China, more products made in Vietnam that are not subject to high tariffs are imported into the US. For example, in the aftermath of the US-China trade war in 2018, Vietnam's exports to the US have increased dramatically year over year. In 2019, Vietnam's exports to the US totaled US$61.35 billion, a 29.1% increase over 2018. Despite the COVID-19 pandemic, exports to the US increased by 25.7% and 24.9%, respectively, in 2020 and 2021 (International Trade Centre 2022; Socialist Republic of Vietnam 2024a). More specifically, Vietnamese goods of the same type with Chinese goods that are subject to high tariffs, such as electrical machinery and equipment (HS85), furniture (HS94), clothing (HS61, HS62), and footwear (HS64), among others, benefited the most from increased exports to the US. As with 'electrical machinery and equipment' (HS85), Vietnam's exports to the US reached US$17.7 billion in 2019, representing a 79% increase over 2018. Meanwhile, China's exports of 'electrical machinery and equipment' (HS85) to the US fell to US$106 billion in 2019, an 11.7% decrease from 2018 (International Trade Centre 2022).

Regarding investment transfers, FDI flows and disbursed FDI capitals in Vietnam have been on the rise since 2017, reaching their highest levels in 2019, with FDI flows of US$38 billion and disbursed FDI of US$20.4 billion (Socialist Republic of Vietnam 2024b). This is driven by two concurrent investment trends: FDI flows shifting from China to Vietnam and new FDI projects choosing to set foot on Vietnam. Regarding the first trend, numerous multinational companies relocated the whole or part of their manufacturing facilities from China to Vietnam due to increasing uncertainties within China as well as instabilities in US-China relations. For example, FDI flows from China to Vietnam have increased steadily in recent years. In 2019, Chinese FDI flows to Vietnam reached US$4.06 billion, a sharp 65% increase over 2018. The COVID-19 pandemic slowed the flows of Chinese FDI into Vietnam between 2020 and 2021, but Chinese FDI flows were still higher than those in the pre-2018 period (Socialist Republic of Vietnam 2024b). Regarding the second trend, many businesses from South Korea, Japan, Taiwan and Singapore, which are close partners of U.S. companies' global supply chains, have opted to locate their new investment projects in Vietnam rather than China, given these abovementioned uncertainties and instabilities (Chen 2022).

In general, the economic disputes between two great powers have influenced Vietnam in many aspects. Despite reaping numerous economic benefits, Vietnam has come under intense pressure from both the US and China, as both sides sought to play economic cards to achieve general strategic objectives and specific foreign policy objectives in their dealings with Vietnam. Vietnam struggled to maintain good relations with both sides, but it was compelled to make decisive moves in certain issues. In this scenario, Hanoi's expectations of its future economic relations with either country could in part dictate its respective policies or responses.

Vietnam's policies toward US-China economic disputes: a reflection of diverse expectations of future economic relations

Vietnam's responses to the US-China economic disputes thus far have varied and can be roughly classified into two categories, particularly its general attitude and its specific domestic policies. The term 'general attitude' refers to Vietnam's official public statements on US-China economic conflicts. These are typically issued by relevant ministries, such as the Ministry of Foreign Affairs, or expressed by party-state leaders and high-ranking officials. Domestic policies, in contrast, refer to those that were discussed and developed during the height of US-China economic tensions. While many of these policies were likely under consideration before the onset of the trade war, the conflict accelerated their promulgation and implementation.

Regarding the general attitude, while Vietnam has refrained from taking a firm stance on the US-China economic disputes, its general attitude towards the US is cooperative and welcoming, contrasting with a cautious and selective stance towards China. Drawing insights from the causal mechanism of the amended trade expectations theory, Vietnam's cooperative approach towards the US is driven by expectations of continued economic benefits or gains from trade and investment relations, such as perceived market access, technological cooperation, and alignment of economic interests (Dinh, 2019). For many Vietnamese people, the current economic dispute between the two great powers represents a once-in-a-lifetime opportunity for Vietnam to reduce its excessive dependence on Chinese economy, which is often assumed to have numerous future effects that go far beyond economic issue (Dinh 2019). Conversely, its cautious and uncooperative stance towards China during the trade and technology conflicts stems from expectations of specific economic losses, such as broadening trade deficits, increasing competition for domestic businesses, missing out on other economic opportunities with the US, and so on (Dinh 2019; Tung 2021).

Vietnam's responses to the US-China economic disputes are not only reflected in its above general attitude but also in specific domestic policies and actions. Vietnam has adopted more accommodating policies towards US's requests, perceived as detrimental to China's interests. These policies cover trade, monetary policies, foreign investment regulations, and high-tech rollout plans, alongside practical actions aimed at integrating into global supply chains led by the US or China, among others. Once again, these policies, which will be detailed below, are also formulated based on expectations or assessments of economic gains or losses.

First, as mentioned in the above section, owing to trade diversion effect, Vietnam's exports to the US have risen steadily, but at the same time, its imports from China have also witnessed an obvious growth. For example, in 2019, Vietnam's exports to the US totaled US$61.35 billion in 2019, up 29.1% from the previous year, while imports from China increased by 15.3% to US$75.45 billion (Socialist Republic of Vietnam 2024a). The high export growth to the US and high import growth from China triggered the act of fraudulent transshipment. Simply put, Chinese goods are rebranded as Vietnamese goods and re-routed to the US to avoid U.S. high tariffs. Since 2018, the US has initiated investigations on 'transshipment' of Chinese products to Vietnam, while warning Vietnam to curb the rebranding and rerouting of Chinese goods or being imposed high tariffs. For instance, in 2018, the US Department of Commerce imposed antidumping and countervailing (AD/CVD) duties on certain steel products imported from Vietnam using Chinese-origin substrate. Corrosion-resistant steel has an AD/CVD of 199.43% and 39.05%, while cold-rolled steel flat products have an AD/CVD of 199.76% and 256.44% (US Department of Commerce 2018).

Vietnam is well aware that if it did nothing to prevent the transshipment of Chinese goods, its exports to the US would be consequentially imposed higher tariffs. In this scenario, Vietnam on the one hand tightened control over Chinese imports at border areas, while on the other adopting several new regulations such as '*Made in Vietnam*' guidelines (Tung 2021). Vietnam's accommodating acts toward the US, however, should not be interpreted as a responsive action. Rather, this must be put in the context of the entire story of its long-term trade relations with the US and China. Long before the US and China became embroiled into economic disputes, the transshipment of Chinese goods to Vietnam had happened. Vietnam has had negative expectations of Chinese goods with much lower prices flooding the Vietnamese market, which could directly compete with Vietnam-made products in Vietnamese soil and ultimately jeopardise Vietnamese domestic manufacturing (Dung 2020). Therefore, the risk of being imposed high tariffs by the US, representing an economic loss, is simply a booster for Vietnam to take decisive actions against Chinese-imported goods.

Vietnam's cautious expectations for future economic relations with China, but positive expectations for Vietnam-US economic relations in the future, cause Hanoi to adopt either uncooperative or cooperative attitude toward the appeals from both sides amid their economic disputes. For example, China Guang Xi's government in 2018 proposed the establishment of economic zones in border areas with Vietnam to boost bilateral trade. Yet, due to negative expectations of Chinese goods being rebranded as Vietnamese goods and potentially facing high tariffs from the US, Vietnam later straightforwardly rejected China's request (Tung 2021). In contrast, Vietnam has displayed a much cooperative and receptive attitude toward the US's requests. For instance, Vietnam has imported more products from the US such as airplanes and agricultural products with the view of reducing the US's massive trade deficits with Vietnam. By doing this, Hanoi believed that it could continue benefiting from the growing trade relations with Washington. Faced with U.S. concerns that Vietnam devalued its currency – the Vietnam *dong* – to facilitate its exports, Vietnam took measures to stabilise its exchange rate and promised not to devalue the Vietnam *dong* to create favourable conditions in international trade (Lawder and Lambert 2021).

Second, the abovementioned investment transfer trends resulting from the US-China economic disputes caused a massive influx of investment flows into Vietnam. FDI from other countries is considered beneficial to boosting Vietnam's exports, economic growth, and national development. However, while Vietnam reiterated that it would not discriminate against FDI based on its origin, it was cautious about the sudden increase of Chinese FDI flows. This contradictory attitude is primarily driven by Hanoi's relatively negative expectations of Chinese investment.

Particularly, the Chinese government has made certain adjustments to its industrial development, with a focus on reducing or moving polluting or low-tech manufacturing industries out of the country. Compared to China, Vietnam is thought to have a lower level of development. As a result, Hanoi may turn out to be a perfect place for China's outdated technologies (Le 2015). Vietnam is worried that if its investment cooperation with China deepens, it will turn into a dump for Chinese waste, according to a report from Vietnam Central Institute for Economic Management (CIEM) in 2021 (Linh 2021). This indicates an expectation of future economic loss. Moreover, the actual investment practices of Chinese investors in Vietnam have deepened Vietnam's negative perception of Chinese investment. Vietnam's unfavourable expectations could be exemplified by the pollution from China-built coal-fired power plants in Binh Thuan province and the use of outdated technology in the Cat Linh – Ha Dong metro project in Hanoi (Tung 2021).

Relatively negative perceptions of Chinese investment not only led to Vietnam's cautious and even less welcoming attitude toward the influx of Chinese FDI, but also compelled Hanoi to promulgate new investment policies and standards with a priority on high-quality, environment-friendly, high-tech projects. In August 2019, the Politburo of the Communist Party of Vietnam – the highest policymaking body – issued the *Politburo's Resolution on Orientations towards Improvement of Regulations and Policies to Enhance Quality and Efficiency of Foreign Investment by 2030* (normally known as the *Resolution No. 50-NQ/TW*). The new *Resolution* emphasised the importance of FDI to the national economy, but it adopted a more selective approach in attracting foreign investment. According to the *Resolution*, "priority shall be given to projects that adopt advanced, emerging, high or clean technology, apply modern management methods, and have high value-added and positive impacts on global production and supply chains" ("Politburo's resolution on orientations towards improvement of regulations and policies to enhance quality and efficiency of foreign investment by 2030." 2019). Apparently, despite without reference to any particular country, the new *Resolution* seemingly aimed to prevent massive influx of low-quality investment projects from China and to legalise the acts of screening and selecting specific China-funded projects, while continuing to attract high-quality projects from the US and other countries.

Furthermore, economic disputes between the US and China extend beyond trade to include technology competition, particularly with regard to 5G technology. The launch of the *Made in China 2025* (MIC 2025) plan, which aimed to reduce China's reliance on foreign technologies and invest in domestic technological innovations such as 5G technology, would likely propel China to the global leadership position in high-tech manufacturing (McBride and Chatzky 2019). The US has been concerned about the MIC 2025 rollout plan, and has subsequently put pressure on other countries not to use Chinese 5G facilities (Emmott 2019). While it was unclear whether the US forced Vietnam to do so, Vietnamese carriers have reportedly excluded Huawei-made gear from their 5G services. Rather, Vietnam's major mobile carriers such as Viettel, MobiFone and Vinaphone chose to partner with Ericsson, Nokia, Samsung, and Qualcomm (Onishi 2020).

Existing literature indicates that trade and economic interactions can have spill-over effects or externalities on high-political issues such as security and military (Gowa and Mansfield 1993; Snyder 2015). This implies that trade policy and security policy are interconnected rather than mutually exclusive. In the case of Vietnam, Hanoi's stance toward US-China economic conflicts also cannot be explained solely by economic or security concerns. Instead, these concerns are deeply interconnected. For instance, Vietnam's economic dependence on China often raises security concerns, particularly in the context of the South China Sea disputes. Therefore, economic expectations and security considerations are closely linked in shaping Vietnam's policy responses regarding US-China technology tensions.

Specifically, Vietnam's cooperating with US or Western companies while excluding Chinese company is again the result of its negative expectations of future economic and security concerns related to the use of Chinese facilities. The use of Chinese technologies made Vietnam more vulnerable to internet penetration or attacks from China, particularly during times of conflict in the South China Sea between Vietnam and China. Simply put, past attacks by Chinese hackers into Vietnam's websites and airport systems in 2014 and 2016 constantly remind Vietnam of potential internet attacks in the future, and this has shaped Vietnam's negative perceptions and expectations of using Chinese high-tech equipment (Trung 2016).

Vietnam's differing expectations of future economic relations with the US and China also affect its stance on US-China economic decoupling and global supply chain restructuring. Amid decoupling, the US has bolstered domestic manufacturing and initiated talks with allies on supply chain shifts, while China has prepared for worst-case scenarios due to ongoing disputes with the US (Wyne 2020). The US government has incentivised American businesses to either bring production back to the US or shift their supply chains to Southeast Asian countries, including Vietnam. Additionally, the US has mobilised Japanese, Taiwanese, and Korean businesses in China to move their supply chains to friendly partners like Vietnam as part of the 'friendshoring' strategy, which aims to diversify US's supply chains with trusted partners (Coy 2021). With its strong economic ties, Vietnam emerges as a key player sought after by both the US and China for restructuring their global supply chains.

In 2020, the US invited Vietnam to join the Quadrilateral Security Dialogue (QUAD) countries – Australia, India, Japan, and the US – to discuss several issues such as post-pandemic economic recovery and supply chains restructuring (Pamuk and Shalal 2020). Vietnam was also invited to join the US-led Indo-Pacific Economic Framework for Prosperity (IPEF) in May 2022. In subsequent dealings with Vietnamese officials, the US pledged to increase investment in fields of green energy sector and infrastructure to Vietnam ("President urges American firms to integrate Vietnamese peers into supply chains." 2022). Notably, when the US and Vietnam upgraded their bilateral relations to the *Comprehensive Strategic Partnership* level in September 2023, the two countries signed a *Memorandum of Cooperation on Semiconductor Supply Chains, Workforce and Ecosystem Development*. According to the deal, the US initially pledged to provide Vietnam with a funding of $2 million to expand the capacity of the semiconductor ecosystem in Hanoi, which is eventually in support of the US industry ("Joint leaders' statement: elevating United States-Vietnam relations to a comprehensive strategic partnership." 2023).

On the Chinese side, Beijing has expressed a willingness to expand its cooperation with Vietnam in terms of global supply chains. During the visit of Vietnamese Communist Party General-Secretary Nguyen Phu Trong to China in October 2022, Xi Jinping stated that China would be willing to collaborate with Vietnam to jointly build a stable system of industrial and supply chains. Xi added that China encouraged technology-intensive enterprises with strength and good reputation to invest in Vietnam ("Xi Jinping Holds Talks with General Secretary of the CPV Central Committee Nguyen Phu Trong." 2022). More strikingly, in June 2023, in a meeting with Vietnamese Prime Minister Pham Minh Chinh in Beijing, Xi Jinping even urged Vietnam to jointly oppose decoupling and the fragmentation of industrial and supply chains, and opposing the politicisation of economic, scientific, and technological issues ("Xi meets with Vietnamese PM." 2023).

Vietnam has responded positively to incentives from both the US and China, but its approach varies based on its expectations for future economic relations with each. With optimistic views towards Vietnam-US economic relations, Hanoi actively engages in US initiatives like the IPEF to reshape global supply chains ("Việt Nam joins Indo-Pacific Economic Framework for Prosperity." 2022). Hanoi also welcomes more US's investment, believing it could elevate Vietnam's position in global supply chains (Nguyen 2020). In November 2022, at a seminar with the US-APEC Business Coalition under the auspices of the APEC 2022 Summit, Vietnamese President Nguyen Xuan Phuc stated that Vietnam would create favourable conditions for US's businesses to invest in fields like digital transformation, innovation, finance, smart agriculture, and renewable energy. In return, Vietnam expects US's businesses to strengthen linkages with Vietnamese enterprises and help them join global supply chains ("President urges American firms to integrate Vietnamese peers into supply chains." 2022). Similar statements have been expressed by other Vietnamese leaders in the past few years.

By contrast, Vietnam has been less enthusiastic about China-led global supply chains due to pessimistic expectations regarding future Vietnam-China economic relations. Vietnam fears that deeper economic ties with China would increase its dependency on the Chinese market. The past and current supply chains between Vietnam and China have been unstable, making Vietnam vulnerable to China's unilateral policies. For example, trade disruptions caused by China's strict

COVID-19 border controls highlighted the urgency of diversifying Vietnam's export-import markets ("Dịch COVID-19 'tình cờ khiến kinh tế Việt Nam giảm lệ thuộc Trung Quốc? [Does the COVID-19 pandemic 'accidentally make Vietnam's economy less dependent on China?]." 2020). Additionally, further integration into the China-led trade network is unlikely to elevate Vietnam's position in global supply chains. Due to similarities in manufacturing and industry structures, China would likely prioritise its own enterprises, compelling Vietnamese businesses to compete with Chinese firms even within Vietnam (Thảo 2021).

Due to concerns about its sovereign security and the perceived loss of key resources to China, Vietnam has shown a cautious attitude toward China's proposals for deepening economic and investment cooperation. Chinese President Xi Jinping's December 2023 state visit to Vietnam was significant, culminating in the signing of 36 Memoranda of Understanding, with a majority focused on economic development, investment, and infrastructure ("Joint statement between Vietnam and China." 2023). This unprecedented number of agreements has sparked concerns among observers that Vietnam might be increasingly aligning itself with China's sphere of influence.

However, if taking a closer look at these agreements, it is evident that there is no mention of agreements on metals and rare earths, despite China's ongoing efforts to establish an alliance of rare earth mining and processing with Vietnam. Ahead of Xi's visit, Vietnam's *Nhan Dan Newspaper* published a signed article by Xi Jinping, in which he urged Vietnam – the third in the world in its rare earth potential – to co-operate with China on 'critical minerals' (Xi 2023). While such an alliance could increase Hanoi's dependence on Beijing's supply chains, it could also strengthen China's global control over rare earth supplies, potentially conflicting with Vietnam's deals with Washington on semiconductors and rare earths signed in September 2023. Taken together, Vietnam maintains a skeptical stance about the benefits of US-China economic decoupling. Thus far, it has demonstrated a greater willingness to move forward with the US while remaining cautious about deepening economic integration with China too quickly.

Conclusion

This article applied insights from trade expectations theory to analyse Vietnam's approach to economic disputes between the US and China. It found that a state's expectations of future economic relations with a trade partner shape its policy responses—either cooperative or uncooperative. Vietnam's positive expectations of future economic ties with the US have led it to adopt accommodating policies favouring US interests. Conversely, Vietnam has shown cautious resistance to deep economic cooperation with China and implemented measures to safeguard domestic industries and scrutinise Chinese investments. This less accommodating stance toward China reflects Vietnam's negative expectations about future economic relations with Beijing.

This article added theoretical and empirical insights to the existing literature on trade expectations theory. Theoretically, it expanded the extant theory by conceptualising the 'expectations' variable. In particular, there are three main factors that affect and shape a dependent state's expectations of future economic relations with a specific partner, namely: a state's political relations with relevant countries, a state's past and current level of trade and investment with relevant countries, a state's domestic public opinion regarding its current economic relations with a specific country. Simultaneously, it broadened the scope of conflict analysis, arguing that negative expectations may manifest as softer resistance rather than militarised conflicts, through uncooperative attitudes or unfavourable domestic policies towards specific partners.

Empirically, this article shed light on the specific case of a smaller dependent state's expectations toward its much larger trade partners, which have been often overlooked in the existing trade expectations theory literature. In this case, Vietnam's perceptions and expectations of future economic relations are inextricably linked to the country's general stance and policy toward the US and China. The implications drawn from this article suggest that economic and political relations between large and small countries can be strengthened only when negative expectations are addressed and mitigated.

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