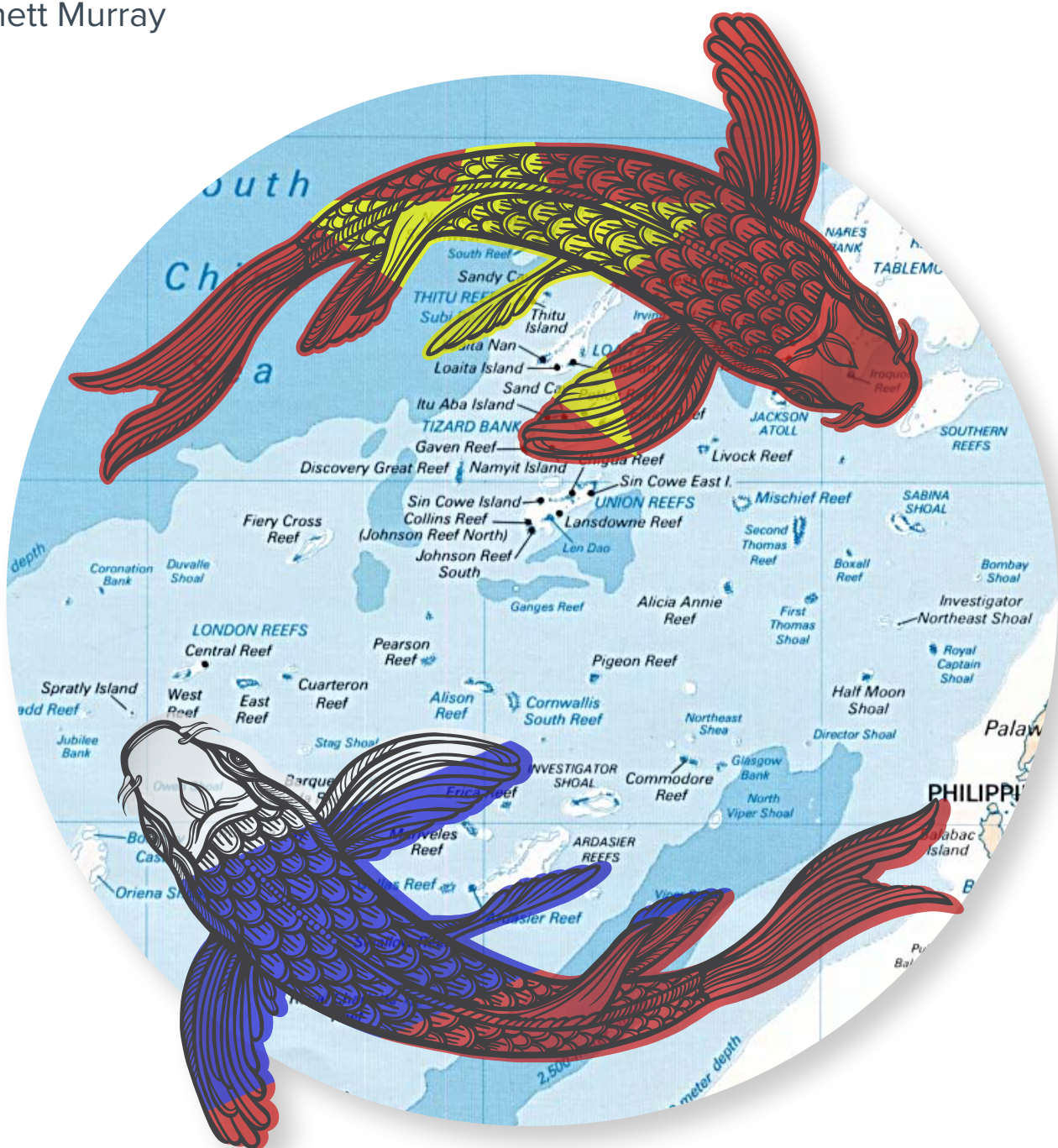


# RUSSIA'S AWKWARD DANCE WITH VIETNAM

Bennett Murray



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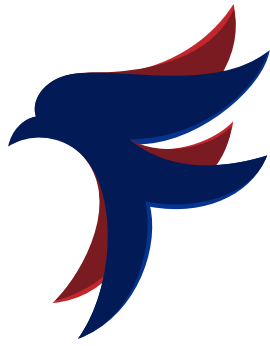
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# RUSSIA'S AWKWARD DANCE WITH VIETNAM

## About the Author:

**Bennett Murray** is a journalist based in Kyiv. He served as the Vietnam Bureau Chief for Deutsche Presse-Agentur (DPA) in Hanoi from February 2016 through August 2019 and has also covered the South China Sea dispute for The Guardian, Foreign Policy, and The South China Morning Post, among others. He is currently writing a book about the Vietnam War from the perspective of surviving North Vietnamese Army and Viet Cong veterans.

## Executive Summary

While Socialist Republic of Vietnam has remained the Russian Federation's most important partner in Southeast Asia in the three decades since the end of the Cold War, the Kremlin no longer has the outsized voice in Hanoi that it enjoyed in the 1980s. With Vietnam courting the United States as a security patron and the People's Republic of China simultaneously its largest trading partner and main strategic rival, Moscow's relevance in Hanoi lags far behind either Washington or Beijing's.

Nonetheless, Vietnam is using Russia in its broad foreign policy strategy of playing greater powers down the middle. As the U.S. cries foul in lockstep with Vietnam over Chinese expansionism in the South China Sea, Russian state energy firms quietly extract oil and gas in the sea alongside Vietnam under China's nose. And while Russia refuses to publicly side with Vietnam in its maritime disputes with China and considers U.S. Navy freedom of navigation operations (FONOPs) to be a form of meddling, it was not Washington but the Kremlin that recently outfitted Vietnam with Southeast Asia's largest fleet of attack submarines.

The Russian Federation, having devoted little attention to Southeast Asia since 1991, is also keen on using Vietnam as a gateway for renewed relations with the rest of the region and its rapidly growing economies. It would also like to re-establish its military presence in Vietnam to augment its strategic presence in the Pacific. But while Vietnam is happy to let Russia sell it weapons and drill for fossil fuels in its territory, it is wary of letting its old friend get too close lest it damper its increasingly warm and crucial ties with the U.S. Russia has far to go to convince Vietnam that the Kremlin will do more than play third fiddle to China and the U.S.



# STANDOFF IN THE SOUTH CHINA SEA



On August 26, 2019, the U.S. Department of Defense issued a statement expressing its “great concern” over “coercive interference in Vietnam’s longstanding oil and gas activities in the South China Sea” amid a standoff between Hanoi and Beijing’s maritime forces.<sup>1</sup> As the Chinese survey ship Haiyang Dizhi 8 swept waters with coastguard escorts near the Vietnamese coast but within China’s self-proclaimed nine-dash line in the vicinity of the disputed Spratly Islands, word in Hanoi was that China’s maritime militia was harassing Vietnamese oil and gas rigs and their resupply vessels operating near the Vanguard Bank.<sup>2</sup> “China will not win the trust of its neighbors nor the respect of the international community by maintaining its bullying tactics,” read the Defense Department statement. “Its actions to coerce ASEAN claimants, station offensive military systems, and enforce an unlawful maritime claim raise serious doubts over China’s credibility.”

What the Defense Department left out is that while the rigs were operating in conjunction with Vietnam’s state oil and gas company, PetroVietnam, the drilling was also a Rosneft operation. Amid the great power struggle between Washington and Beijing in the South China Sea, Russian interests had quietly found themselves lined up with American ones owing to the peculiarities of Vietnam’s foreign relations even as the Kremlin did not officially acknowledge the situation. While Russian strategic priorities in Vietnam long have been eclipsed in Hanoi by the latter’s budding partnership with the U.S., the Kremlin had found new relevance in its Cold War-era ally that it hopes to nurture moving forward.

<sup>1</sup> “China Escalates Coercion Against Vietnam’s Longstanding Oil and Gas Activity in the South China Sea.” U.S. Department of Defense, August 26, 2019, <https://www.defense.gov/Newsroom/Releases/Release/Article/1943953/china-escalates-coercion-against-vietnams-longstanding-oil-and-gas-activity-in/>.

<sup>2</sup> The nine-dash line, although unfixed to specific coordinates, is China’s u-shaped maritime claim south of the Chinese mainland that includes almost all of the South China Sea. Beijing often enforces its claims against civilian fishermen and oil rig operators by a shadowy maritime militia using boats disguised as fishing vessels.

# VIETNAM IN ITS RECENT GEOPOLITICAL CONTEXT

Vietnam emerged from the Cold War with no friends left standing nor any enemies to fight. While it had attempted to play the Sino-Soviet split down the middle during its war with the U.S., Vietnam fell into the Eastern Bloc's camp following reunification in 1975.

The country's Soviet alignment was solidified in 1979. Following a series of Khmer Rouge incursions that killed thousands of civilians along its southern border with Cambodia, Vietnam counterattacked in December 1978. The Vietnam People's Army (VPA) reached Phnom Penh and ousted Pol Pot on January 7, destroying China's principle Southeast Asian client state in the process. China retaliated the next month, launching a short, but bloody, invasion of northern Vietnam that ushered in a decade of occasional border skirmishes and naval warfare in the South China Sea.<sup>3</sup>

Between its lingering military conflict with China and an American embargo, Vietnam spent the 1980s stuck in the Soviet camp while waging a costly war in Cambodia. The Soviets took advantage of their position and obtained a free, 25-year lease for the strategically vital naval base at Cam Ranh Bay in south-central Vietnam in 1979. The Kremlin also, through its patronage of Hanoi, absorbed Vietnamese-occupied Cambodia into the Soviet sphere.

The latter half of the decade was marked by sweeping changes in Vietnam that somewhat mirrored Soviet perestroika. With the death of Communist Party of Vietnam (CPV) General Secretary Le Duan, the Stalinist who had de facto run the country as Ho Chi Minh's nominal number two during the latter's waning years, new political forces began adopting the policy of doi

moi—literally meaning “renewal.” A process that continues to this day, doi moi has allowed the gradual development of a market economy and the legitimization of private trade. What Vietnam's new collective leadership did not do, however, was implement anything resembling glasnost. There has never been a permissible challenge to the party's rule under the new economic order.

Having survived the collapse of communism in the Eastern Bloc, the CPV buried the hatchet with Beijing in 1990 and with Washington in 1995. As relations between Vietnam and the West warmed, privileged students increasingly went to the U.S. or Australia to study—instead of Russia. Where schools in Hanoi and Ho Chi Minh City once taught Russian or German, Vietnamese scrambled to learn some English as the languages of the old Eastern Bloc powers suddenly lost currency. As was often the case throughout former Soviet client states, the Kremlin's influence largely vanished after 1991.

The pendulum of Vietnamese foreign relations swung toward the U.S. as tensions never fully relaxed with China. While hostilities ended and relations with China were normalized in 1990, Vietnam remained bitter over losing Johnson Reef in the Spratlys in a 1988 battle that killed 64 Vietnamese servicemen. And while no VPA servicemen were killed when South Vietnam was ejected from the Paracels in 1974 by China, Hanoi nonetheless maintains a claim to sovereignty over the Chinese-occupied islands.

The significance of China's presence in the Spratlys and Paracels are twofold. Most obviously, they have allowed China to establish a military presence in the South China Sea on both natural and artificial features.<sup>4</sup> But of arguably greater

<sup>3</sup> The U.S. knew of the invasion ahead of time; paramount Chinese leader Deng Xiaoping personally informed U.S. President Jimmy Carter of his intentions during his January 1979 trip to the White House. It remains a matter of debate whether Carter gave Deng a nod of approval.

<sup>4</sup> The value of these bases is questionable. While they are certainly capable of hosting radar and signal intelligence facilities while bolstering a peacetime footprint for the People's Liberation Army (PLA) in the sea, the islands' exposed positions and isolation from the Chinese mainland would make them extraordinarily difficult to defend from missile and air strikes in an armed conflict. Even in the absence of a shooting war, China is currently struggling to maintain its equipment amid the islands' harsh conditions.





Source: U.S. Library of Congress

Base 802086 (R01807) 9-95





Protests against China in Hanoi, 2014. (Source: voatiengviet.com)

concern to South China Sea claimant states are the relevant international treaties governing rights to resource extraction at sea. Under the 1982 United Nations Convention on the Law of the Sea (UNCLOS), these barren islands could generate exclusive economic zones (EEZs) for 200 nautical miles in every direction for the internationally recognized owners. Should either Vietnam's or China's claims gain international recognition, the fishing grounds and oil and gas extraction rights would be theirs alone. Owing to the economic stakes, neither China nor Vietnam (and, in the case of the Spratlys, the Philippines, which also claims the archipelago) is acting pedantically. In Vietnam's case, its concerns over Chinese actions at sea were strong enough to throw it into the arms of its former nemesis on the other side of the Pacific shortly after the reestablishment of relations in the mid-1990s.

Vietnam's slow embrace of American might in the region began on March 7, 1997 when the Chinese

drilling platform Kantan III was dispatched into contested waters off the Vietnamese coast. In what was at the time a stunning gesture, U.S. Navy Admiral Joseph Prueher, who was then Commander-in-Chief of the United States Pacific Command, was invited to Hanoi.<sup>5</sup> It would be the VPA's first of many high-profile bilateral meetings with the U.S. military as tensions over the South China Sea escalated into the 2000s.<sup>6</sup>

The heat was significantly turned up in the 2010s, with the first major anti-China street protests in Vietnam occurring after Hanoi accused Chinese patrol boats of cutting the cables of a PetroVietnam survey vessel some 120 kilometers off the central Vietnamese coastline.<sup>7</sup> The following year, China effectively annexed Scarborough Shoal, a triangular set of coral banks claimed by the Philippines within the nine-dash line. While the incident did not directly affect Vietnam, which does not claim Scarborough, Hanoi, aware of the precedent being set by Beijing, condemned China's actions.<sup>8</sup>

<sup>5</sup> Hayton, Bill. *Vietnam: Rising Dragon* (New Haven: Yale University Press, 2010) p. 191-192.

<sup>6</sup> U.S. Navy visits have become the norm in Vietnamese ports, culminating most recently in the March 2018 visit of the USS Carl Vinson Nimitz-class carrier in Da Nang. That same year, then-Defense Secretary James Mattis was warmly received by his Vietnamese counterparts on two separate trips.

<sup>7</sup> "Vietnam accuses China in seas dispute," BBC News, May 30, 2011, <https://www.bbc.com/news/world-asia-pacific-13592508>.

<sup>8</sup> "Scarborough Shoal dispute 'of concern,'" Vietnam News, April 26, 2012, <https://vietnamnews.vn/politics-laws/223972/scarborough-shoal-dis>.



Tensions between Hanoi and Beijing boiled further in 2014 when China deployed its Hai Yang Shi You 981 rig off the coast of Da Nang. Amidst official condemnations from Hanoi, anti-China protests in Vietnam descended into riots as Chinese-owned factories (along with Taiwanese ones mistaken as mainland-owned) that killed at least 21 people.<sup>9</sup> Vietnam won the battle in July when China withdrew the rig, claiming that its work had concluded earlier than expected—although it was far from winning the war.<sup>10</sup>

The years since 2017 have proven particularly dangerous for Vietnam in the South China Sea. With no reason cited, Vietnam abruptly axed a deal with Repsol to drill off the southern Vietnamese coastline near the Vanguard Bank in the Spratly chain in 2018. Operations had already been suspended the year before shortly after it was determined that the field was economically viable to tap. While Vietnam had nothing to say as to why it cancelled the deal, the consensus among observers in Hanoi was that China had threatened to attack Vietnamese possessions in the Spratlys.<sup>11</sup>

The CPV had lost its nerve with China after two game-changing foreign elections in 2016 that threw its security strategy into disarray. First, Rodrigo Duterte won the Philippine presidential election in May 2016. While the former mayor of Davao City is best known internationally for his bloody, largely extrajudicial war on drugs that has killed thousands, he has displayed none of the same ferocity in his dealings with China. Less than two weeks after his inauguration, the Permanent Court of Arbitration (PCA) at the Hague delivered the Philippines a major victory in an arbitration case that Duterte's predecessor, President Benigno Aquino III, had brought against China and its South China Sea claims. While the court did not rule on the sovereignty of any particular maritime feature, it ruled that the nine-dash line had no

basis in international law.

While it came as no surprise when Beijing categorically rejected the legitimacy of the case's outcome—China had refused to participate in the arbitration in the first place—Duterte himself largely ignored the Philippines' victory. In the first months of his presidency, Duterte began adopting a policy of appeasement toward Beijing, hailing Chinese economic investment in the Philippines, while simultaneously adopting anti-American rhetoric. He even announced a "separation" with the U.S. in favor of improved ties with China and Russia.<sup>12</sup>

The shock caused in Washington by Duterte's antics in late 2016 appear overblown in hindsight. The U.S.-Philippine alliance largely remained intact owing to a combination of its deep institutional entrenchment as well as Duterte's improved outlook on the bilateral partnership following the inauguration of U.S. President Donald Trump, who has personally praised the Philippine war on drugs where the Obama administration condemned it. And while Duterte has taken a more pro-China stance than his predecessor, no new alliance with Beijing or Moscow has been formed.

But while the U.S.-Philippine alliance will almost certainly survive Duterte, Hanoi found itself jilted by Manila's newfound conciliatory gestures toward China. Prior to the Duterte presidency, Hanoi and Manila generally held a united front against the nine-dash line while setting aside their own overlapping claims to the Spratlys (the Philippines does not claim the Parcels). Under Duterte, the South China Sea dispute has been redefined as a bilateral dispute between China and the Philippines even during moments of tension. Following an August 2019 meeting in Beijing between Duterte and Chinese Chairman Xi Jinping, Chinese state media announced that the

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pute-of-concern.html.

9 "At least 21 dead in Vietnam anti-China protests over oil rig," *The Guardian*, May 15, 2014, <https://www.theguardian.com/world/2014/may/15/vietnam-anti-china-protests-oil-rig-dead-injured>.

10 "China moves Vietnam row oil rig," *BBC News*, July 16, 2014, <https://www.bbc.com/news/world-asia-28322355>.

11 Hayton, Bill. "South China Sea: Vietnam 'Scraps New Oil Project,'" *BBC News*, March 23, 2018, <https://www.bbc.com/news/world-asia-43507448>.

12 Rauhala, Emily. "Philippines' Duterte called for a 'separation' from U.S. He is now backtracking," *The Washington Post*, October 21, 2016, <https://www.washingtonpost.com/news/worldviews/wp/2016/10/21/the-backtracking-begins-duterte-ally-softens-philippines-separation-from-u-s/>.

two leaders had agreed to work on developing a bilateral code of conduct in the South China Sea by 2021.<sup>13</sup> Upon returning to the Philippines, Duterte announced that China had offered Manila a 60 percent stake in a potential oil and gas extraction joint venture if he ignored the 2016 Hague ruling. While he did not say whether he would agree with the deal, Duterte said he would “ignore” the ruling “to come up with an economic activity.”<sup>14</sup> This stance is anathema to Vietnam, which maintains a public stance of no compromise in its opposition to the nine-dash line. The Philippines, from Vietnam’s point of view, is out of the fight.

Trump’s election also unnerved Hanoi, which had counted upon a reliable U.S. president to maintain the bipartisan consensus against Chinese expansionism in the sea. Trump’s withdrawal from the Trans-Pacific Partnership (TPP) alarmed Vietnam, which viewed trade integration with the U.S. as interlinked with security. Pulling out of TPP, from Vietnam’s view, threw American commitment in the region into doubt. Vietnam is also painfully aware that its \$37.3 billion trade surplus as of 2017 (the most recent year with available data) with the U.S. will do no favors with the fiercely protectionist American president.<sup>15</sup>

Vietnam has been scrambling to pick up the pieces; in the three meetings between Trump and Vietnamese leaders (once in the White House and twice in Hanoi), Vietnam has made a show of publicly agreeing to multi-billion dollar purchases of U.S. goods.<sup>16</sup> Hanoi’s willingness to host the 2019 summit between Trump and North Korean Chairman Kim Jong-un also largely stemmed from a desire to demonstrate goodwill toward the Trump administration. While Vietnam has mostly avoided Trump’s ire, it is also unsure where,

exactly, it stands with the White House.<sup>17</sup>

It was in this unpredictable climate in Manila and Washington that Hanoi capitulated to Beijing in 2017 and 2018. However, a similar situation recurred in 2019 with a very different response from Vietnam. Around the beginning of July, China deployed the Haiyang Dizhi 8 survey ship with coastguard escorts to the vicinity of another PetroVietnam oil block that had gone into production in May near the Spratlys. While China has scantily acknowledged its provocation, Vietnam has taken a publicly forceful stance demanding the ship’s exit from the area and is showing no sign of backing down as the standoff continues as of September.

Why the change in attitude? Part of the reason may stem from internal CPV politics. The palace rumor in 2017, when Vietnam initially ordered Repsol to stop drilling, was that every member of the 19-person CPV Politburo favored standing up to China with the crucial exceptions of General Secretary Nguyen Phu Trong and Defense Minister Ngo Xuan Lich.<sup>18</sup> It is possible that the majority got their way in 2019, particularly as Trong’s role in politics has been murky since he suffered what was probably a stroke in April. But Vietnam is also playing a game of great power politics; Russian state interests are literally invested in the fate of the drilling.

13 “Xi encourages progress on S. China Sea,” China Daily, August 30, 2019, <http://www.chinadaily.com.cn/a/201908/30/WS5d683a11a310cf3e-35568ae7.html>.

14 Petty, Martin. “Philippines’ Duterte says Xi offering gas deal if arbitration case ignored,” Reuters, September 11, 2019, <https://www.reuters.com/article/us-philippines-china-southchinasea/philippines-duterte-says-xi-offering-gas-deal-if-arbitration-case-ignored-idUSKCN1VW070>.

15 “Vietnam,” Office of the United States Trade Representative, Accessed September 26, 2019, <https://ustr.gov/countries-regions/southeast-asia-pacific/vietnam>.

16 Murray, Bennett. “Hanoi Is Happy Cozying Up to Trump,” Foreign Policy, February 21, 2019, <https://foreignpolicy.com/2019/02/21/hanoi-is-happy-cozying-up-to-trump/>.

17 In a June 2019 interview with Fox Business, Trump somewhat cryptically referred to Vietnam as “the single worst abuser of everybody” in trade. He has not publicly raised the issue since.

18 Hayton, Bill. “The Week Donald Trump Lost the South China Sea,” Foreign Policy, July 31, 2017, <https://foreignpolicy.com/2017/07/31/the-week-donald-trump-lost-the-south-china-sea/>.



# VIETNAM'S KEY INTERESTS VIS-À-VIS RUSSIA: OIL, GAS, AND GUNS

The Kremlin got its start in Vietnam's oil and gas industry in 1981 when Zarubezhneft, the Soviet Ministry of Oil Industry's overseas production arm, formed a partnership with PetroVietnam under the name Vietsovpetro. Still in business today, it was the only operation of Zarubezhneft, which had prioritized Soviet geopolitical interests over profits, to survive the breakup of the Soviet Union without interruption.<sup>19</sup> Gazprom entered the market in 1997 as did Rosneft in 2013.

While PetroVietnam's ventures with overseas firms are broad, ranging from Petronas to Exxon Mobil, the three Russian firms have been the only ones operating alongside it within the nine-dash line since Repsol pulled out last year. This is no coincidence; Vietnam sees the Russian firms as lines to a great power that can do far more to stand up to China than a private company based in Madrid.<sup>20</sup>

Unlike the U.S., Russia has not been a vocal advocate in the international arena for Vietnamese maritime sovereignty. Much the same way that China offers its diplomatic support to Russia over the annexation of Crimea by maintaining neutrality while also countering Western criticism, the Kremlin defers to Beijing by painting the South China Sea conflict as a strictly regional dispute among the claimant countries with no larger geopolitical interests at stake. Consequently, U.S. freedom of navigation operations (FONOPs) are considered nothing more than power grabs to be condemned. Shortly after the Hague's 2016 ruling against China, Putin came to China's defense.

"We are solidarizing with and supporting China's stance on the problem—the non-recognition of the court ruling," he said at a news conference in September 2016.<sup>21</sup> The Kremlin does not want the Hague to determine the fate of the South China Sea any more than it wants it to determine the final status of Crimea or the Donbas.

Yet, the Kremlin's diplomatic cover for China is not matched by supportive actions on the ground as Russia quietly undermines the nine-dash line to the benefit of both Vietnam and itself. Resource extraction in recent years has become the chief source of tension between Vietnam and China in the South China Sea. Chinese maritime militias patrol the waters, occasionally sinking Vietnamese fishing boats in the process, while the occasional presence of Chinese oil and gas exploration vessels and rigs inflames public sentiment in Vietnam.<sup>22</sup> The concerns go beyond immediate economic interests as rigs and fishing boats function as mobile flag poles for staking claims. By entering into joint ventures with PetroVietnam to drill within the nine-dash line, the Russian state-owned energy sector has committed a major, albeit quiet, transgression against Chinese interests.

Russia's arms sales have also passed the point of China's comfort. While Beijing can tolerate the flow of small arms and other essentials for a land war, the Kremlin's sale of naval technology hits too close to home. Russia last year delivered the last of six kilo-class submarines that had been ordered in 2009, providing deterrence for Vietnam against Chinese aggression in the sea. While the Vietnamese submarine fleet is smaller

<sup>19</sup> Zarubezhneft, which is still 100 percent state-owned, has since resumed fossil fuel exploration in Cuba. It also operates downstream projects in Bosnia and Herzegovina's Republika Srpska. Its stated goal (as it was in Soviet times) is explicitly to promote the state's strategic interests. Pous-senkova, Nina. *Russia's Energy Policies: National, Interregional and Global Levels*, Pami Aalto, editor (Cheltenham, UK: Edward Elgar Publishing, 2012) p. 186.

<sup>20</sup> Hanoi is trying the same strategy with Washington. While ExxonMobil's Blue Whale field off the coast of Da Nang is not within the nine-dash line, it lies precariously between one of the dashes to the east and China's self-proclaimed continental shelf boundary to the west.

<sup>21</sup> "Putin: Russia is staying out of South China Sea dispute," TASS, September 5, 2016, <https://tass.com/politics/898040>.

<sup>22</sup> Tensions reached a boiling point in 2014 when China deployed its Hai Yang Shi You 981 rig off the coast of Da Nang, leading to riots across Vietnam that killed dozens.



and less advanced than China's, the submarines would likely have the home advantage in a violent conflict. A crippled vessel in the Spratlys would have a much easier time limping back to Vietnam's base at Cam Ranh Bay than all the way to the Chinese mainland. Vietnam's coastal defenses are also outfitted with shore-based Bastion missile batteries from Russia, rendering the country's 3,444 kilometers of coastline into a "shooting alley" up to 150 kilometers.<sup>23</sup> Vietnam has also produced its own variant of the Russian Zvezda-Strela 3M24 Uran anti-ship missile with help from Moscow, providing yet another headache for Chinese strategy.

The quiet undermining of interests is a two-way street between Russia and China as the latter extends its Belt and Road Initiative (BRI) into the heart of Russia's near abroad. While some BRI projects involving Russia are considered benign, such as the planned highway linking Kazakhstan with Belarus, others are more threatening to the Kremlin. China has roped post-Maidan Ukraine into BRI, with some \$7 billion of investment

pledged by China in a 2017 visit to Kyiv by Vice Premier Ma Kai.<sup>24</sup> Chinese companies had also reportedly looked at dredging ports at Mariupol and Berdyansk on the Sea of Azov, although none ended up making a bid. Given the highly sensitive nature of the area, such substantial infrastructure investment on Ukrainian-held land either on the Azov or within the Donbas would have been considered an act of ill will.

But with neither Russia nor China condemning the other's expansionism while simultaneously working with the other's smaller strategic rivals, we can expect Moscow to distance itself from Western challenges to the nine-dash line while undermining it quietly on its own terms. China, for its part, must play its cards carefully against Rosneft, Gazprom, and Vietsovetpetro lest it jeopardize its interests elsewhere. BRI cannot bypass Russia, giving the Kremlin a degree of leverage on the negotiating table where South China Sea drilling is concerned.

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23 Hayton, Bill. *The South China Sea: The Struggle for Power in Asia* (New Haven, CT: Yale University Press, 2014) p. 236.

24 "Ukraine, China implementing some joint projects for \$7 bln," Interfax-Ukraine, December 5, 2017, <https://en.interfax.com.ua/news/economic/467312.html>.



## ON SHAKY GROUND

**W**ith Southeast Asia effectively out of play in 1990s global geopolitics, Russia did little directly to maintain its influence in Vietnam beyond the oil and gas sector. A curious, albeit unintentional, caveat is the role that post-Soviet economics played in shaping today's nouveau riche in Vietnam. The country's current business elite was largely born out of a cohort of Vietnamese students who studied in the Soviet Union, but abruptly found themselves within the Russian Federation. Many chose not to go home and instead tried their luck within the freewheeling business atmosphere of 1990s Russia and Ukraine.

Among these was Pham Nhat Vuong, founder of the locally ubiquitous Vingroup conglomerate in Vietnam and Forbes' 239<sup>th</sup> richest person. After going to Moscow in the late 1980s to study mining, he moved to Kharkiv in 1992 and founded an instant noodle company that was eventually sold to Nestle for \$150 million.<sup>25</sup> Such pedigrees are common within Vietnam's oligarchy; all but one of Vietnam's five richest people were overseas students who got their start in either Russia or Ukraine immediately following the Soviet breakup.

But while Vietnam's Generation X tycoons did cut their teeth in Moscow, there is little sign that they are transmitting their Russian backgrounds to a younger generation of leaders fixated more with Silicon Valley and Wall Street. Nor are they enticing many Russian investors to Vietnam. While Vietnam's business footprint in Russia is one of its bigger ones—there is some \$3 billion of Vietnamese registered capital in-country—almost all of it is tied up in the dairy operations of the Vinh-based TH Milk.<sup>26</sup>

Vietnam's political elite, many of whom were

educated in Moscow, is also failing to show much fraternity with its former comrades. While Vietnamese President and CPV General Secretary Nguyen Phu Trong received much of his political education in Moscow, he and the rest of his cohort mostly have deferred to the party's younger, more West-looking members for foreign policy guidance.

The Russian base at Cam Ranh Bay was vacated in 2002. Vietnam rejected its 25-year-lease renewal on the grounds of its post-Cold war policy of the "three no's": no alliances, no foreign bases, and no conspiring with one country to attack another. Russia did not put up much of a fight and left two years ahead of schedule. But as Russia began looking increasingly eastward amid renewed isolation from the West in the 2010s, the Kremlin once again found reason to court Vietnam to gain a foothold in Southeast Asia.

In terms of strategic objectives, Russia has rumbled for years about the prospects of returning to Cam Ranh Bay. Defense Minister Sergey Shoygu said in 2014 that Russia was in negotiations with Vietnam, among other countries, to set up foreign bases.<sup>27</sup> In 2016, a comment made by then-Vietnamese Ambassador to Russia Nguyen Thanh Son was widely interpreted in Russian media as a potential invitation.<sup>28</sup> Deputy Defense Minister Nikolai Pankov reiterated the idea later that year in a speech to the State Duma.<sup>29</sup> The notion was part of a wider floating idea of re-establishing military bases in Soviet-era allies across Africa, Latin America, and Asia to entrench Russia's position as a global power in the 21st century.<sup>30</sup>

Russia already has, to some extent, returned to Cam Ranh Bay in recent years: in 2015, the U.S.

<sup>25</sup> "#239 Pham Nhat Vuong," *Forbes*, September 19, 2019, <https://www.forbes.com/profile/pham-nhat-vuong/#67e3562a382e>.

<sup>26</sup> Soviet-educated board members only appear in TH Group and its sister firm, Bac A Bank, incidentally, and do not include founder Thai Huong.

<sup>27</sup> "Russia may have military bases in Venezuela and Singapore," *TVC*, February 26, 2014, <https://www.tvc.ru/news/show/id/32588>.

<sup>28</sup> "Ambassador in Moscow: Vietnam is not against the return of the Russian Federation to a military base in Cam Ranh," *RIA Novosti*, May 17, 2016, <https://ria.ru/20160517/1434878883.html>.

<sup>29</sup> "Russian Defense Ministry may return to foreign bases of USSR times," *TASS*, October 7, 2016, <https://tass.com/defense/904789>.

<sup>30</sup> Mardasov, Anton. "Vietnam invited Russia to return to Cam Ranh," *Svobodnaya Pressa*, May 18, 2016, <https://svpressa.ru/war21/article/148840/>.



PM Nguyen Xuan Phuc (L) shakes hands with his Russian counterpart Dmitry Medvedev at the press conference after talks, Ha Noi, November 19, 2018. Source: [new.chinhphu.vn](http://new.chinhphu.vn)

called on Vietnam to stop Russia from basing tanker planes that had allegedly been refueling bombers flying close to Guam.<sup>31</sup> Russian personnel have also set up shop in Cam Ranh Bay to train the Vietnamese navy's new submariners.<sup>32</sup>

Despite these efforts, in 2016, a Vietnamese foreign ministry spokesperson categorically dismissed the notion of a substantial Russian return to Cam Ranh Bay. From Vietnam's point of view, the notion is a Russian pipe dream. While Vietnam may be Russia's best friend in Asia, the legacy friendship does not help Vietnam with its present geopolitical concerns. Only the U.S., along with its regional allies, can provide the hard power necessary to deter Chinese ambitions within the nine-dash line.

Russia has maintained its status as Vietnam's principle arms supplier. Unsurprisingly, given

its history with the Soviet Union, Vietnam is Russia's top arms customer in Southeast Asia. More than \$1 billion of arms were ordered last year alone, according to Dmitry Shugayev, head of Russian Federal Service for Military-Technical Cooperation.<sup>33</sup> It has also provided Vietnam with the aforementioned attack submarines and coastal defenses.

But while Vietnam is likely to rely primarily on Russian weapon systems for the near future, it has begun to diversify its arsenal. In 2015, it purchased the SPYDER air defense system from Israel.<sup>34</sup> Rumors have been circulating for years that Vietnam is considering buying BrahMos cruise missiles, which were jointly developed between India and Russia, from New Delhi. Vietnam has also been exploring American options ever since President Barack Obama lifted the arms embargo in 2016. Thus far, it has been outfitted with

31 "U.S. Asks Vietnam to Stop Russian Use of Cam Ranh Bay," Voice of America, March 13, 2015, <https://learningenglish.voanews.com/a/us-asks-vietnam-to-stop-russian-use-of-cam-ranh-bay/2677999.html>.

32 "Russian media: Vietnam has a weapon that changes the world's military balance," VTC News, July 2, 2015, <https://vtc.vn/bao-nga-viet-nam-co-loai-vu-khi-thay-doi-can-can-quan-su-the-gioi-d212555.html>.

33 Vu, Khanh. "Vietnam Places Orders for Russian Weapons Worth over \$1 Billion – TASS," Reuters, September 8, 2018, <https://uk.reuters.com/article/uk-vietnam-russia-arms/vietnam-places-orders-for-russian-weapons-worth-over-1-billion-tass-idUKKCN1LO085>.

34 "Vietnam May Drop Purchase of New Batch of Israeli Air Defense Missile Systems – Source," TASS, December 18, 2018, <https://tass.com/defense/1035771>.



American patrol boats, surveillance drones, and the USCGC Morgenthau.<sup>35</sup> While Vietnam has an appetite for more American weaponry, the U.S. is currently keeping sales at a slow, but steady, drip of increasingly significant articles.

Buying weapons from Russia is also a liability for Hanoi given recent U.S. sanctions against countries buying Russian arms. Vietnam has been given a pass to date, with former Defense Secretary James Mattis advocating a waiver for Vietnam prior to his resignation; his advice appears to have held. Any other American stance would be a major burden on Vietnam given the costs of replacing weapon systems. But Vietnam is afraid of provoking the U.S. by buying too many new, big ticket items from Russia. This fear will continue to factor into Hanoi's decision making for as long as relations between Moscow and Washington remain frosty. While Russia has pitched the new S-400 anti-aircraft system to Vietnam, for instance, Hanoi has yet to publicly express interest.


Apart from the oil and gas and weapons sectors, Russia would like to expand its exports to Vietnam and use it to gain an economic foothold within Southeast Asia. Combined, the Association of Southeast Asian Nations (ASEAN) member states would be the world's seventh largest economy. Emerging markets, such as Indonesia or Malaysia, are too large to ignore, while frontier markets in Cambodia, Myanmar, and Laos offer opportunities for the risk-tolerant investors. Given the historical ties between the Kremlin and the Hanoi Politburo, Vietnam is a natural place to start. But Russia has had limited success.

In 2015, Vietnam was the first country outside post-Soviet space to sign a free trade agreement with the Eurasian Economic Union (EAEU). While bilateral trade increased following the deal, it has benefited Vietnam more than Russia. As is the case with the U.S. and other relatively advanced economies, Vietnam enjoys a trade surplus with Russia, with some \$3.6 billion of exports and \$2.5 billion of imports in 2018.<sup>36</sup> However, Vietnam

has far more capital in Russia than Russia does in Vietnam, with some \$3 billion in registered capital compared to Russia's \$932 million in Vietnam. In 2018, Russia was only the 24<sup>th</sup> largest investor in Vietnam.<sup>37</sup>

## MOVING FORWARD

Less than 50 years after the last American soldier pulled out of Vietnam, the old nemeses have become crucial strategic partners. While Vietnam's foreign policy flexibility has provided a boon for U.S. interests in the region, it has also short-changed the legacy friendship between Vietnam and Russia. In an era when Hanoi welcomes American naval patrols in the South China Sea to deter Beijing while Russia and China are united by their mutual status as revisionist powers against the West, the Kremlin is an esteemed, but awkward, player in the region from Vietnam's vantage point. As long as Moscow keeps Vietnamese opposition to the nine-dash line at arm's length, it is of little use to Vietnam's security needs beyond procurement and mutually beneficial oil and gas ventures.

Rapprochement between Moscow and Washington would be most welcome in Hanoi, which feels caught between a fight between two of its friends. While it is obvious that the U.S. can meet Vietnam's needs far more than Russia, any assistance from the latter is more than welcome provided it is politically feasible. What Vietnam needs right now, however, are friends willing to take its side against China, while Russia needs friends to take its side against the U.S. These two irreconcilable interests will limit the scope of the bilateral ties for the foreseeable future. 

<sup>35</sup> Ironically, the USCGC Morgenthau once provided naval gunfire support against Vietcong and North Vietnamese Army positions in a previous incarnation. It now flies under the Vietnamese flag as the CSB 8020 with Washington's blessing.

<sup>36</sup> "Trade Turnover between Russia and Vietnam Can Reach \$10 Bln by 2020," TASS, March 27, 2019, <https://tass.com/economy/1050720>.

<sup>37</sup> "Enhancing Vietnam – Russia Comprehensive Strategic Partnership," Nhân Dân, May 20, 2019, <https://en.nhandan.org.vn/politics/editorial/item/7486202-enhancing-vietnam—russia-comprehensive-strategic-partnership.html>.

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