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SINO-VIETNAMESE BORDER TRADE

The Edge of Normalization

Brantly Womack

Although the economic opportunity presented by trade was not the central factor in the normalization of relations between China and Vietnam, it has become a significant force in shaping the economic prospects of Vietnam and the neighboring Chinese provinces of Guangxi and Yunnan. The purpose of this article is to describe trade between the two countries, analyze its likely effects on China and Vietnam, and finally to position it in the general context of Sino-Vietnamese relations.

Information about trade between China and Vietnam is not easily obtained. Unlike contested issues such as sovereignty over the Spratly Islands, on which both countries are interested in presenting materials supporting their side to the outside world, neither China nor Vietnam has a "side" on the issue of trade, so there is no particular national advantage in releasing information. Given the recent hostility and a lingering coldness in the relationship, both China and Vietnam downplay their economic relationship, and their official trade statistics either completely ignore the border trade or give very low official estimates.1 It should be noted that the national governments are neither the major promoters nor the major beneficiaries of border trade, and

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1. For example, in connection with bilateral trade talks, the Vietnamese press quoted a Chinese estimate of the border trade at US$110 million for the first half of 1993, up 70% from the same period of 1992. This would yield an estimated total trade for 1992 of US$152 million, only 30% of informal expert Chinese estimates obtained in Guangxi in June 1993. See Agence France Presse (AFP), 11 September 1993; also Beijing Review, 35:50 (December 14–20, 1992), p. 7, for an official estimate of 1990 trade at US$32.23 million.
thus it is not usually a leading element in bilateral policy-making. Moreover, although foreign investment is involved in developing trade facilities along both sides of the border, the major areas for foreign investment in both China and Vietnam lie elsewhere. Even in Guangxi Province, the Chinese province most affected by the increase in border trade, the resort developments in the coastal town of Beihai appear to be more extensive than the new construction along the border, and the core of the provincial economy is linked to Guangdong. As a result, the economic potential of the border areas and of border trade has not been the focus of government efforts to attract foreign capital.

A more serious informational problem results from the fact that much of the trade is either informal or unreported. Although some Chinese goods in southern Vietnam undoubtedly arrive through Southeast Asian regional trade networks, especially through Singapore, it appears that the bulk of the trade between China and Vietnam is over the land border or by small coastal craft. The border trade takes place in crowded, makeshift cooperative zones where officials often assess fees per porter rather than by the goods carried, and there is much smuggling (estimated at one-third of trade volume) as well as bribery and collusion of customs and border officials. Indeed, the quietest and loneliest place that I visited on the border was Youyi Guan (Friendship gate), which as the one official point of entry and exit, was peopled by customs agents but not merchants.

Chinese tariff regulations distinguish between international trade and border exchange (cross-border, small-scale exchange trade between border provinces of China and border provinces of the neighboring country), allowing more favorable tariff rates to the latter. Needless to say, great efforts are made to count all goods as border exchange, even those originating in third countries. Even more obvious is that it is better not to have one’s goods counted at all.² Therefore, official published statistics on trade are not only very difficult to obtain, they are hardly worth the effort. The numbers reported in this article are mostly informal estimates from expert sources, gathered in Vietnam in 1990, 1991, and 1992, and in China in 1991 (Yunnan, Guangzhou, Beijing) and 1993 (Guangxi). Even these statistics are best used as general indicators of the growth of trade rather than as accurate estimates of absolute amounts. For example, the best two series of data on border trade between Guangxi and Vietnam in 1989–92 differed by an average of 43%.

Because of poor information and because the border trade does not directly affect the world beyond Vietnam and China, it has generally been ignored by

² Some of the formal differentiations of trade are given by Ingrid d’Hooghe, “Tendencies Towards Regional Economic Integration in Yunnan Province,” paper presented at China Deconstructs, Woodrow Wilson Center, Washington, D.C., October 1993, pp. 12–14.
external observers, and its more general significance for the domestic and foreign policies of both countries as well as for the region has yet to be explored. This article provides an introduction. The first section describes Sino-Vietnamese border trade from the first border protocol of 1952 to its reemergence and blossoming since 1989, establishing that the current situation is both a significant and a novel phenomenon for both countries. The second section describes the significance of the border trade for China, and especially the provinces of Yunnan and Guangxi, arguing that the trade with Vietnam fits into a national pattern of border (as distinguished from coastal) trade. The border trade has some regional importance for southwestern China, a bit more for Yunnan (for whom Myanmar is more important), and is quite significant for Guangxi. The major economic effects are to increase the market scale for Chinese products, which are generally not threatened by Vietnamese competition, provide some raw materials, and bring in third-country luxury goods, usually Japanese.

The third section points out that the border trade has had very different effects on Vietnam. The import of Chinese consumer and light production goods has eased a severe shortage, especially in northern Vietnam, but has also overwhelmed local production. The threat to domestic industry has led to protectionist efforts, such as the attempt to ban 17 basic varieties of imports from September 1992 to April 1993, but these have not been very successful. This highlights a structural situation in which Vietnam is more intensely affected than China by the benefits, costs, and risks of border trade. The effects of this trade will be concentrated in the North, and will improve the economy by expanding its scale rather than by transforming its capital base, as Hanoi’s openness to international capital seeks to do.

The final section will attempt to put border trade in the larger context of Sino-Vietnamese relations. Border trade is not an exception to the overall foreign policies of both countries, which are oriented toward internationalized economic development, but rather a special application of the general policies. It can be expected to be the source of mutually beneficial economic growth, but also of political friction with characteristic postures of Chinese pushiness and Vietnamese suspicion and defensiveness. Border trade may be inconvenienced by issues of protectionism and border sovereignty but its basic course of expansion can be threatened only by large policy differences, such as the dispute over the Paracels and Spratlys. In the meantime, however, trade is gradually reshaping the economic geography of Vietnam and southwestern China, creating new prosperity, new assets, and new constituencies in both countries and encouraging normal relations and further cooperation.
Development of the Border Trade

The history of border trade between the People's Republic of China (PRC) and Vietnam before 1989 would more accurately be called a prehistory. From its beginnings until 1979, it was overshadowed by Chinese aid to Vietnam and by Vietnam's wars against the French and the Americans. From 1979 to 1989, the hostile relationship between the two countries prevented all but the most furtive and small-scale border activities. "Normal" border trade, that is, officially permitted trade whose volume and direction is set primarily by market conditions, has grown very rapidly since 1989, and its natural tendency will be to increase even if its current rate of expansion slows down.

The PRC began trade relations with the Democratic Republic of Vietnam (DRV) in 1951, and both countries formalized the relationship with a trade protocol (maoyi yidingshu) signed in April 1952. China was the first country to formalize a trade relationship with the DRV, just as it had been the first to grant diplomatic recognition and send an ambassador, and trade accords or protocols were reissued annually thereafter. In April 1954 the two countries signed a Protocol on Small-Scale Border Trade, setting up trade offices under the peoples' governments of border counties (China) and provinces (Vietnam). From 1954 to 1960, special local markets for small-scale trade were allowed on the border but they withered in the 1960s.

From the beginning the relationship was imbalanced, initially under the slogan of "combining aid and trade," and by 1954 Vietnam had acquired a debit of US$2 million. Vietnam imported basic consumer goods at first, adding trucks and gasoline in 1954, while exporting agricultural and forest products. Border trade increased fourfold from 1954 to 1960, reaching a plateau of $5.9 million. In 1955 joint state corporations were set up in a number of Vietnamese border towns to manage trade but these were abandoned in 1970 in favor of national management. From 1965 to 1975, China's foreign assistance to Vietnam overwhelmed any commercial border trade. From 1967, the apparent value and variety of trade declined, replaced by aid agreements, and was valued at only $4.98 million in 1972. Deficits continued—the Chinese claim their banks still show open trade debits of rmb 27 million, with interest still accumulating—but hardly hold a candle to China's estimate of $20 billion provided as aid to Vietnam up to 1978.

Although the border was not the cause of the conflict between China and Vietnam in 1978–79, it was its venue, and along with heavy destruction in the border zone, both sides worked energetically to prevent contact. Several million land mines were laid by both sides, making the entire border, in the words of an unnamed Chinese military official, "the world's largest minefield, with the largest number of mines, greatest variety of mines, in the
most diverse topography.” By the end of 1985, military conflict in Cambodia had stabilized and Chinese shelling across the border, which was closely linked to Vietnamese military operations in Cambodia, became ritualized and gradually diminished. Vietnam began to reduce its border troops in March 1987 and by May 1989 no longer had field army troops at the border. Vietnam stopped its propaganda broadcasts at the border in January 1988, and trade gradually began to re-emerge, with goods carried along small paths snaking through the minefields by the minority groups living on both sides of the border.

In November 1988, Vietnam’s Politburo issued Directive no. 118, On Border Trade between Vietnam and China, which opened its northern tier of six provinces to trade. Businesses were charged a monthly fee of 7,000 dong (rmb 8, approximately US$2) for conducting business with China, and visits across the border were permitted in both directions. Trade blossomed in 1989, increasing ten times over 1988, and Vietnam resumed using the term “Chinese comrades.” Its imports shifted from small quantities of daily necessities to higher quality consumer items and producer goods. Food and forest products remained important purchases for China but raw materials also began to be imported. As small as the tariffs were, they quickly became important sources of revenue for the impoverished border localities.

Since 1989 the grassy paths have developed into crowded two-lane roads. Though there is still much unpacking and portering of goods across the border, the variety has blossomed from more than ten types of commodities in 1989 to more than seventy in 1992. By 1993 there were 36 trade locations on the Guangxi border. The bulk of the border trade had already passed out of the hands of local residents by 1990. License plates on the buses parked at Lang Son are from all over Vietnam including the Mekong Delta, and the Chinese border town of Dongxing hosts provincial trade representatives from 28 of 30 Chinese provinces. Besides the overland border trade, there is a considerable amount of short-distance Vietnamese boat trade with Guangxi and Hainan. Air travel resumed in August 1992 with a route between Guangzhou and Ho Chi Minh City. A two-year cooperative effort at mine


5. Ibid., p. 5. This is based on a Yunnan estimate.

TABLE 1  China-Vietnam Border Trade Since 1989 (in millions of US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total*</th>
<th>Guangxi</th>
<th>% Increase</th>
<th>Value Increase (natl.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>109</td>
<td>91.10</td>
<td>(est. 1,000)</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>244</td>
<td>203.39</td>
<td>123</td>
<td>101.69</td>
</tr>
<tr>
<td>1991</td>
<td>425</td>
<td>353.79</td>
<td>74</td>
<td>137.93</td>
</tr>
<tr>
<td>1992</td>
<td>584</td>
<td>486.49</td>
<td>37</td>
<td>206.82</td>
</tr>
</tbody>
</table>

SOURCES: The Guangxi data are from Wei Shuxian, “Qiantan Guangxi yu Yuenan jingmao hezuo” [A sketch of trade cooperation between Guangxi and Vietnam], Dongnan Ya Tansuo [Southeast Asian research], no. 1 (August 1993), pp. 46–49, supplemented by interviews in Guangxi in June 1993. See n. 1 for official Chinese estimates. Neither the national nor provincial statistical yearbooks of China currently include Vietnam in their trade data. The figures presented here do not include smuggling, which is estimated at one-third of total trade. Moreover, data received on earlier trips were considerably different. For instance, in 1990 in Vietnam, total trade at Long Son for 1989 was estimated at around $19 million. The data here were supplied in renminbi and converted to dollars using annual exchange rates derived from the Guangxi Tongji Nianjian 1992 [Guangxi statistical yearbook], p. 375.

* A series of national data were not available, but a number of Chinese experts interviewed estimated Guangxi to have a fairly constant 80% share of the national total.

A sweeping was reaching its end in 1993, though mines can still be purchased for excavation or fishing at local border markets for rmb 20.

As Table 1 indicates, the growth of trade has been remarkable. Although trade could not be expected to continue to increase as rapidly as it did in 1990, its value increase continues to climb steeply. Indeed, the exception proves the rule. From September 1992 to April 1993, Vietnam attempted to prohibit 17 basic varieties of imports but trade in the first half of 1993 still showed a 14% increase over the first half of 1992.7

Trade is said to be roughly balanced because there are no credit facilities.8 However, official international trade statistics showed a significant and growing imbalance in China’s favor in 1992–93. Chinese investment in Vietnam totaled $60 million in mid-1993, and large-scale construction projects underway on both sides of the border will facilitate continued increases in both trade and investment for the foreseeable future. As of June 1993, the rail link between Lang Son and Pingxiang (Hanoi and Nanning) was finished but not yet open. The line between Pingxiang and Nanning features a double-deck,
air-conditioned express train on which even the hard seats are quite pleasant. The bridge connecting Dongxing and Mong Cai, built cooperatively by both countries, was finished in 1993 and opened around the end of the year, and the road from Dongxing to Fangcheng (the closest railhead) is scheduled to be upgraded to a second-class highway in 1994.

The amount of capital construction underway on the border is mind-boggling. In Dongxing, whose population of 72,000 does 17% of Guangxi’s trade with Vietnam, there are infrastructural development projects underway costing rmb 204.55 million ($36.86 million), and 225 business investment projects have been approved with a total value of rmb 1.9 billion ($342.34 million), including 21 foreign-funded projects worth rmb 200 million ($36 million). The entire city center of Dongxing will be moved to a new area, and the current town will be only one section of the new city. While I do not have data on developments in the Pingxiang area, they appeared to be even more extensive than those in Dongxing. In April 1994 Dongxing and Mong Cai, its neighboring city across the border, hosted the first joint trade conference between China and Vietnam.

As impressive as these developments are, the border is not a major locus of transformative investment for either China or Vietnam. Indeed, it is not the primary investment area for either northern Vietnam or for Guangxi. However, for both countries trade provides a unique opportunity for the development of otherwise isolated areas. As barriers to trade are removed and transportation increases, the economies of both countries will be affected by the larger scale of the market, with the effects being most intense at the border and diminishing as distance and unfamiliarity add to the cost of transactions.

China and the Border Trade

Trade with Vietnam is a minuscule portion of China’s total trade. Using China’s official figure for trade with Vietnam in 1992 (US$179 million), Vietnam would rank higher than Turkey or Egypt but below Mongolia or Poland among China’s trading partners. Using the estimate of US$584 million in Table 1, Vietnam would rank with Brazil ($584 million), one-tenth of China’s official trade with Russia (5.86 billion—though of course there is also a large amount of unofficial trade), and one percent of official trade with Hong Kong. China’s estimated trade with Vietnam in 1992 would rank below official trade with all ASEAN members except the Philippines; it was 44% of the trade with Thailand. As a percentage of China’s national total,

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9. Information on transportation is from observation and interviews; Dongxing data are from “Dongxing Development Zone,” an undated, mid-1993 publication of the zone in English and Chinese.
the estimated trade with Vietnam has risen from one-tenth of one percent in 1990 to four-tenths of one percent in 1992. Clearly, trade with Vietnam is in no position to drive China's foreign policy in Southeast Asia. The reverse is true: normalization of trade with Vietnam has been part of China's larger policies of internationalization, improvement of border relations, and provincial diversification. Vietnam is more important for southwestern China than it is at the national level, and it is Guangxi's chief international trading partner after Hong Kong. Besides the direct effects of normal relations with Vietnam, there are evident indirect effects that have increased central attention and investment in the region.

Since 1979, China has pursued a policy of actively encouraging foreign investment and trade. Strangely enough, the "late comers" in enjoying the new policy of international openness were countries on China's border: the Soviet Union, Mongolia, Afghanistan, India, Nepal, Laos, and especially Vietnam. However, by 1989 China's relations with all bordering countries had improved and trade was booming on all fronts. Beijing's trading policies and the different locational endowments of the various provinces have created three patterns of provincial trading relationships. For coastal provinces, trade is important to development and the pattern of trade follows the national pattern of global partners, with no one partner dominant. For inland provinces, trade is marginal to development and the pattern of trade is erratic, but it generally follows the national pattern. In border provinces, trade has developed rapidly in the past few years but still is not as important as it is to coastal provinces, and the pattern of trade deviates significantly from the national pattern. Neighboring countries such as Myanmar, Russia, and Vietnam, which play a marginal role in the national trading picture, play a major or even dominant role in the commerce of border provinces. As trade continues to develop, border trade will be increasingly important to those provinces and somewhat more important at the national level, but coastal and national attention will remain focused on the global marketplace. Vietnam's trade with China is a typical case of border trade.

There are a number of important differences between border and global trade. First, a border trade situation is unique. Although other provinces may benefit from trade with Vietnam, no other province is affected as intensely as Guangxi. Second, global trade depends on the world market and on China's global factor advantages, while border trade depends on convenience and familiarity and on localized factor advantages. Thus, the sale of Guangdong shoes to the United States will be affected by the general context of world trade, while the sale of insecticide sprayers from Guangxi to Vietnam will occur as long as Vietnam needs the sprayers and they are cheaper on the other side of the border. Another example is Vietnam as the world's third largest exporter of rice, while Guangxi, Guangdong, Guizhou, and Yunnan
are all rice-deficit provinces. But Mekong rice is of high quality and priced accordingly, so little rice is sold to China at present. Indeed, when the price of rice in China drops below the price in northern Vietnam, as in the summer of 1991, rice is imported from China. In this case, the global factor advantage and the border factor advantage occasionally run in opposite directions. Third, although border trade is a part of Beijing’s general trade policies, it is not as important as global trade. While it is unlikely that China would adopt policies that would adversely affect border trade, it might do so in a particular case without reversing the general policy of international openness. Therefore, border trade is politically more vulnerable (from the Chinese side) than global trade.

Guangxi and Regional Trading Relations

While trade with Vietnam most affects Guangxi Province, it has wider repercussions for southern and especially southwestern China. Vietnamese coal is shipped to Hainan, and Guangdong is the newest member of the Chinese mercantile economies of East and Southeast Asia, which also includes Ho Chi Minh City (especially Districts 5, 10, and 12, which were parts of the old city of Cholon) as a once powerful and now recovering member. Vietnam’s potential importance to southwestern China (Sichuan, Guizhou, Tibet, Yunnan, and Guangxi) is as an entrepot and conduit of goods from the global market. The rail line from Haiphong to Kunming, the most direct into the Southwest, could be reopened, but by 1996 a new, all-Chinese line should be opened from Beihai on the Guangxi coast through western Guangxi to Kunming. There is also considerable interest in developing better transportation links between Yunnan and Thailand. Myanmar is already much more important to Yunnan than is Vietnam, Tibet and Sichuan are far away, and Guizhou’s rail connections with Guangdong are as convenient as its connections to Vietnam; therefore, Vietnam’s regional impact is considerably weaker than its impact on Guangxi.

Vietnam had become Guangxi’s second largest trading partner (after Hong Kong) by 1990, and in 1991 the border trade was two-thirds of the province’s official trade with Hong Kong and more than Guangxi’s combined trade with Japan, the United States, Germany, Singapore, and France, the third through seventh trading partners, respectively.10 In 1991 Vietnamese border trade was 34% of all official Guangxi trade (which doesn’t list Vietnam). If we estimate the province’s 1992 official trade using the average rate of increase (16%) for 1989 and 1990, then border trade with Vietnam in 1992 was 41% of official trade. Guangxi has significant earnings from tourism and is in the process of developing a major tourist center at Beihai, but 1991 tourism earn-

ings (90% of which were earned at Guilin) were only $77 million, 8% of official total trade value and 21% of trade with Vietnam.\textsuperscript{11} In Nanning, exports to Vietnam are generally credited with saving the Wanli Brewery from bankruptcy. Clearly, Vietnam is a major trading partner for Guangxi, but Guangxi is not a major trading province in the PRC, ranking seventeenth of thirty in the percentage of national exports and ninth (roughly at the level of Shandong or Zhejiang) in exports as a percentage of provincial gross social product. The development of the Vietnam trade must be a pleasant surprise to provincial officials, since estimated trade with Vietnam in 1991 already exceeded their estimates made in 1988 for total provincial trade in the year 2000.\textsuperscript{12}

Trade, of course, is having a transformative effect at the border. Every Guangxi town and county on the border and on the coast as far as Beihai is experiencing a trade, construction, and investment boom that is particularly prominent because these areas are poor by provincial standards and were especially disadvantaged during the 1980s. The importance of trade is evident at every signpost, since all signs in border towns are posted in Vietnamese as well as Chinese, and sometimes also in Zhuang, a language similar to Cantonese written in Pinyin. In 1993 the number of daily visitors at Nong Yao, the main trading center near Pingxiang, was estimated at nine to ten thousand, with a daily turnover reaching US$100,000, and Pingxiang already earned 50% of its government revenue from border trade in 1991.\textsuperscript{13} In Dongxing, not only is the entire town being rebuilt and its transportation improved but it has organized a joint conference with Vietnam on border cooperation; it would like to organize an international investment cooperation zone with its adjacent Vietnamese city, Mong Cai, and develop cruise ship itineraries that would stop at the local Golden Beach before proceeding to Vietnam’s Ha Long Bay. There is no intrinsic reason why such plans could not be realized at some point in the future, although Vietnam will probably be less enthusiastic about such cooperation.

The only Vietnamese products that are obvious on the Chinese market are plastic slippers and the distinctive conical hats (non), which can now be seen all over China. Of course, agricultural and forestry products, which are not so evident, constitute the bulk of Vietnamese exports. The most impressive items purchased from Vietnam, however, are foreign luxury cars and

\textsuperscript{11} Ibid., pp. 375, 389, 391. Current construction at Beihai is impressive, but it has a long way to go. In 1991 it had ten taxis (and fourteen drivers) compared to Guilin’s 514 taxis and 621 drivers.


\textsuperscript{13} Ren Feng, “Zhong Yue bianjing qulai” [A trip to the China-Vietnam border], \textit{Jiushi niandai} [The nineties], pp. 58–59; and Wei Shuxian, “A Sketch of Trade Cooperation,” p. 47.
motorcycles. In June 1993 a Mercedes Benz cost rmb 670,000 on the border and rmb 800,000 if bought officially in Nanning; a Toyota Crown was rmb 400,000 on the border and rmb 600,000 in Nanning; a Honda 125 motorcycle cost rmb 8,000 on the border and rmb 20,000 "legally." Smuggling is an activity that cuts two ways, as one official’s smuggling problem is another official’s new Mercedes. There is some trafficking in drugs but not on the scale of the Myanmar-Yunnan smuggling, which provides the drugs available on the street in Nanning. Guns and brides are also smuggled into China. To the distress of Vietnam, China has searched ships sailing from Hong Kong to Vietnam looking for luxury goods destined to be smuggled over the border to China.

A final category of border trade effects are indirect, some of which have been stimulated by concerns that Guangxi and Yunnan might become too dependent on trade with Vietnam. The most obvious counter-project of this sort is the construction of a major railroad from Beihai in Guangxi to Kunming. This is a very difficult line to build but it would provide efficient domestic transportation from the coast to the Southwest, providing a parallel to the Haiphong-Kunming line and thus preventing development of a dependence on Vietnam. The general slogan of the "Great Southwest" (Da Xinan), comprising the five provinces of Guangxi, Guizhou, Yunnan, Sichuan, and Tibet, serves on the one hand to emphasize new relations with bordering countries but on the other to stress Chinese regional integration.

Vietnam and the Border Trade

The impact of improving economic relations between the two countries is far more pronounced in Vietnam than in China. The availability of ordinary consumer goods in northern Vietnam was transformed between 1985–90 from a serious shortage to abundance by the normalization of border trade. However, the availability of unlimited quantities of cheap Chinese goods also poses a mortal challenge to Vietnamese light industry. The economic presence of China is felt intensely as both opportunity and threat, especially in the North, even though China is not the focus of developmental aspirations for Vietnam to the same degree as are the regional and global markets. Vietnam’s basic policy since 1988 has been to encourage border trade, but its concern over the effect of Chinese goods on domestic production as well as the growth of Chinese economic influence has led to an oscillation between a

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14. Converting these prices into dollars at the official exchange rate of June 1993 would be misleading. The street exchange rate in Nanning was approximately ten remminbi to the dollar, and one renminbi for 1,080 Vietnamese dong. So a border Mercedes costs approximately $67,000.

15. Author’s interviews in Nanning.

generally permissive policy in a context of rapid growth and specific measures blocking some imports, protesting Chinese encroachments, and restricting Chinese investments.

The most significant of these efforts was an import ban on seventeen categories of goods imposed in September 1992 and reduced to a ban on three categories in April 1993. The list was remarkably broad and clearly aimed at consumer goods from China. It included: bicycles and spare parts, electric fans, common light bulbs, electronic goods, thermos flasks, garments and knitwear, fabrics, household items made of porcelain and glass, paper, cosmetics, household plastic goods, and batteries. Clearly, if this ban were effective it would seriously hurt the consumer economy of Vietnam, but it was obvious to any visitor in October 1992 that the ban was ineffective. It did moderate the growth in the volume of trade in the second half of 1992 and early 1993 but it did not cause evident panic buying or differential inflation. Vietnam would do itself enormous damage by fully implementing such draconian measures, and it may be that, in any case, it is not capable of effective unilateral control of border trade.

The oscillation between expansion and restriction of trade continued into 1993. Chinese sources considered trade to be booming by April but by October there were complaints about high tariffs and punitive inspections at the border. Trade at one border town, probably Pingxiang, dropped from US$90,000–$100,000 per day to $55,000. Trade Minister Le Van Triet visited China in September 1993 at the head of a senior trade delegation aiming to expand trade and seek cooperation in the control of smuggling. If the earlier pattern holds, President Le Duc Anh’s state visit to China in November 1993 should lead to another period of good feeling at the national level and hence to another expansion of trade in 1994.

The economic effect of trade with China is evident on every street corner in Hanoi but it is difficult to piece together a statistical picture. Using the trade estimates of Table 1, trade with China grew from 4% of Vietnam’s total trade in 1989 to 6.5% in 1990, 10.6% in 1991, and an estimated 8.8% in 1992. One would imagine that trade has contributed to general economic growth, the best estimates of which are shown in Table 2.

Although the growth rate of Vietnam’s economy has not been as spectacular as many in the Asian area, and especially China’s, Vietnam has done well

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18. Hong Kong News Service, as reported by UPI, 26 October 1993. The town is not identified but the volume is so high that it could only be Nongyao-Pingxiang. Note that the volume of trade reported would support the high unofficial estimates of trade presented in Table 1.
TABLE 2 Annual Growth Rate of Vietnam’s Economy

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>3.9</td>
<td>5.1</td>
<td>8.0</td>
<td>5.1</td>
<td>4.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Material sectors</td>
<td>3.2</td>
<td>3.4</td>
<td>3.2</td>
<td>2.0</td>
<td>2.1</td>
<td>2.8</td>
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<tr>
<td>Non-material sectors</td>
<td>5.6</td>
<td>8.9</td>
<td>17.7</td>
<td>10.4</td>
<td>7.1</td>
<td>9.9</td>
</tr>
</tbody>
</table>


since 1989 considering the rampant inflation of the late 1980s and the withdrawal of Soviet aid in 1991. Chinese analysts have also been impressed by Vietnam’s weathering of Soviet aid cessation. Considering the extent of painful restructuring of the economy in the past five years and Vietnam’s improving but still impaired access to the global market, a 5% growth rate is impressive and portends higher growth rates to come in the 1990s. On the other hand, the growth of petroleum exports has helped Vietnam’s aggregate indicators through this difficult transition, and the level of economic activity is still quite low. It was only in 1990 that gross domestic product equaled final consumption, and the rate of gross fixed capital formation in 1989 was less than that of Bangladesh or Myanmar.

It is clear that growth has occurred most rapidly in the nonmaterial sector rather than in production. One reason for the growth spurt would be the easing of restrictions on the economy in general and on markets and small-scale enterprises in particular. But it is clear from the origins of the goods offered in the markets in Ho Chi Minh City or Hanoi that the greater access to foreign goods, including Chinese goods, has directly stimulated commerce. It might well be claimed that the infusion of imported products—and especially the inexpensive daily necessities and petty luxuries from China—has contributed more to raising the quality of material life in Vietnam than any other facet of reform. But domestic production has suffered. In 1991 Vietnam produced less of the following commodities per capita than it did in 1986: coal, bicycles, electric fans, chemical fertilizers, cotton fabric, salt,


TABLE 3 Vietnam: Retail Trade Shares of Border Provinces

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Ha Tuyen</td>
<td>0.57</td>
<td>0.85</td>
<td>0.78</td>
<td>0.78</td>
<td>0.69</td>
<td>0.37</td>
<td>−0.2</td>
<td>−35.09</td>
</tr>
<tr>
<td>Cao Bang</td>
<td>0.41</td>
<td>0.42</td>
<td>0.59</td>
<td>0.64</td>
<td>0.35</td>
<td>0.24</td>
<td>−0.17</td>
<td>−41.46</td>
</tr>
<tr>
<td>Lang Son</td>
<td>0.56</td>
<td>0.77</td>
<td>0.55</td>
<td>0.47</td>
<td>0.35</td>
<td>0.54</td>
<td>−0.02</td>
<td>−3.57</td>
</tr>
<tr>
<td>Lai Chau</td>
<td>0.28</td>
<td>0.21</td>
<td>0.39</td>
<td>0.25</td>
<td>0.32</td>
<td>1.1</td>
<td>0.82</td>
<td>292.86</td>
</tr>
<tr>
<td>Hoang Lien Son</td>
<td>0.62</td>
<td>0.7</td>
<td>0.81</td>
<td>0.98</td>
<td>0.97</td>
<td>0.99</td>
<td>0.37</td>
<td>59.68</td>
</tr>
<tr>
<td>Quang Ninh</td>
<td>1.03</td>
<td>1.35</td>
<td>1.16</td>
<td>0.75</td>
<td>1.98</td>
<td>1.29</td>
<td>0.26</td>
<td>25.24</td>
</tr>
<tr>
<td>Border total</td>
<td>3.47</td>
<td>4.3</td>
<td>4.28</td>
<td>3.87</td>
<td>4.66</td>
<td>4.53</td>
<td>1.06</td>
<td>30.55</td>
</tr>
<tr>
<td>Hanoi</td>
<td>10.01</td>
<td>13.3</td>
<td>10.54</td>
<td>12.25</td>
<td>13.66</td>
<td>11.48</td>
<td>1.47</td>
<td>14.69</td>
</tr>
<tr>
<td>HaiPhong</td>
<td>2.7</td>
<td>3.19</td>
<td>2.95</td>
<td>3.19</td>
<td>2.3</td>
<td>2.1</td>
<td>−0.6</td>
<td>−22.22</td>
</tr>
<tr>
<td>Ho Chi Minh City</td>
<td>20.8</td>
<td>25.8</td>
<td>19.69</td>
<td>16.48</td>
<td>16.48</td>
<td>23.36</td>
<td>2.56</td>
<td>12.31</td>
</tr>
<tr>
<td>National retail trade, % growth</td>
<td>−13</td>
<td>4</td>
<td>9</td>
<td>2</td>
<td>14</td>
<td>12</td>
<td></td>
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</tr>
</tbody>
</table>


sugar, soap, and medicine. This was not simply a problem for state industry. If we look at the nonstate industrial sector, net material product rose less than one percent in 1987, rose 11% in 1988, then dropped 9% in 1989 and another 6% in 1990. Moreover, the composition of nonstate production has shifted away from manufacturing and weaving and toward building materials and foodstuffs. This stands in alarming contrast to the booming growth of nonstate industrial production in China. Production of insecticides, fans, and textiles continued to drop in 1993, threatening jobs in Ho Chi Minh City.

The trading and service sectors of the economy have done well since 1987. Table 3 provides some indication of the effect of border normalization on the northern tier of Vietnamese provinces. The table indicates the national trade share of each of the provinces bordering China, with the three major cities included for reference. Although the volatility of the statistics by province


23. Calculated from Toan, Vietnam Economy, p. 80; and from Kim, Economy of Vietnam, p. 155.

24. Vietnam News, 1 October 1993. The article blames the adverse effects on smuggling, 80% of which is consumer goods.
and year makes one wonder about their reliability, the overall result is that the border provinces increased their share of retail trade by 30% over five years, more than twice the rate of increase of Hanoi and Ho Chi Minh City. And trade share increased even in years of rapid growth of retail trade. Given the location of these provinces, only increased trade with China could account for such prosperity.

Trade with China poses intense but resolvable dilemmas for Vietnam at several levels. Most obviously, it pits the interests of consumption against the interests of production, especially in the North. But the urge to regulate imports must take into account the difficulty of enforcement and the problem of encouraging an underground smuggling economy. Moreover, successful regulation would require either the cooperation of the Chinese or reversion to a highly policed border. Cooperation is difficult because the Chinese are profiting from the trade. Policing is expensive and inefficient, and it might harm the general tone of relations with China. Of course, all foreign trade threatens indigenous production, and the small industries of Ho Chi Minh City may fear Southeast Asian and Western competition in some areas more than they fear Chinese products. But in general, Vietnam expects capitalist countries to invest in the Vietnamese economy, including industrial production, and thereby transform its productive capacity and market access. Although its local small-scale industry would suffer, better jobs would be created in new industries and new global exports would balance imports.

The trade with China is a different story for two reasons. First, unlike global trade, the border trade is not driven by investment but by incremental market expansion. Chinese investments in Vietnam appropriate to the level of trade would generally be small-scale, and as of November 1993, only three Chinese companies had set up offices in Vietnam.25 Indeed, rather than being a large-scale investor itself, China competes with Vietnam for globally oriented capital investment. It is hardly surprising that the national attention of Vietnam would be attracted to the $1.86 billion promised by international organizations and Western investors in 1994, and that the prosperity brought by the investment and the transformative effect of such investment on the Vietnamese economy would be welcome.

Second, Vietnam would be less anxious about capitalist investment in its economy than it would be about Chinese investment. As Vietnam’s most recent as well as most traditional enemy, China’s investment would easily be portrayed as a security risk. Moreover, the primary objective of Chinese investment would be to facilitate trade, and hence to increase the vulnerability of Vietnamese production to Chinese imports while promoting either the export of Vietnamese raw materials or third-party trade. Thus, it can be ex-

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pected that large-scale border cooperation zones of the sort proposed between Dongxing and Mong Cai might be popular among local officials in Vietnam but could well be considered risky at the national policy level. In 1993 Vietnam’s approval of Chinese investment projects was quite limited and cautious in contrast to its attitude toward capitalist investment.

The dilemmas posed by the China trade are felt more intensely in northern Vietnam than in the South, which is more directly exposed to the opportunities and difficulties posed by opening up to the regional and global economy. The problems of transformative investment are the South’s primary concern, and as a result it is more worried about domination by Japan of its new, foreign-financed modern economy than it is about market competition from China. In the North, however, the threat to local production is intense as the Chinese products are necessary, and since national policy is led by the perspective from Hanoi, it tends to swing between permissive growth of the border trade and rather ineffective attempts to restrict it. It is easy to predict a continuation of the pattern that has already emerged, i.e., trade policy oscillation peppered with various crises, played out against an official rhetoric of international openness on the diplomatic surface and, in the background, a long-term trend of increasing trade and economic enmeshment at the border.

The Border Trade in Context

A balanced analysis of Sino-Vietnamese trade relations must place trade in the broader context of the foreign policies of both countries because it can be expected to interact with other dimensions of the bilateral relationship. Moreover, the border trade is one force in the process of reshaping the economic geography of both China and Vietnam, thereby giving the international actors, over time, somewhat different shapes and capacities with which to deal. The most important policy context for both countries is the general commitment of each of them to economic development through international openness. Even though Sino-Vietnamese trade is peripheral to their shared interest in attracting global investment and expanding global markets, the policy of permitting and expanding the border trade is in harmony with larger trade and economic policies. It is also part of a general drive on China’s part to improve relations and resolve border conflicts with neighboring states. By contrast, the previous hostility was increasingly inconvenient for the broader policies of both countries. Although China’s hostility to Vietnam had helped it build relations with some ASEAN countries in the early 1980s, ASEAN adjusted more quickly than China to Vietnam’s peace overtures, and by 1989 China’s continued hostility toward Vietnam and support for the Khmer Rouge had become a hindrance to its regional policy of expanded economic relations.
By the same token, as both countries develop and institutionalize their general policies of international economic openness, it should become more difficult for each of them to intervene in the development of the bilateral economic relationship. A policy as severe as Vietnam’s 1992 attempt to ban Chinese products would surely disturb other trade and investment partners if it were effective, just as the Chinese interception of ships between Hong Kong and Vietnam disturbs Hong Kong and the third-party merchants as well as Vietnam. However, protectionist measures and other forms of self-interested harassment of the border trade are almost inevitable; indeed, Chinese provinces use such measures between themselves in domestic trade wars. Both countries have habits of strong and extralegal administrative interventions at all levels of government and from various sources of authority—government, party, military, customs—and both are far more likely to use such measures against one another than against large-scale investors.

Even though the relationship between China and Vietnam is part of a larger foreign policy picture for both countries, the bilateral relationship is a unique one, and each side has a characteristic posture. The formalization of normal relations at the end of 1991 launched a new era in the relationship, but it could neither erase the past nor create a true bilateral symmetry between China and Vietnam. For Vietnam, relations with China are arguably its single most important bilateral relationship, a matter of geopolitics amplified by history: China is simply too close and too big not to be Vietnam’s primary concern. Even if Vietnam would like to escape the shadow of China by adopting a distant patron, it is frustrated by the fact that, in the long term, the relationship with China is likely to be more important to the patron than is its relationship with Vietnam, leading to a “betrayal” of Vietnam at some point in the future. Vietnam’s recent alliance with the Soviet Union is a case in point. However, Vietnam’s national autonomy and interests would be threatened by becoming a submissive Chinese client. Therefore, Hanoi’s posture toward China combines an acknowledgment of the general necessity of harmonious relations with an almost allergic sensitivity on issues of national sovereignty.

For China, the relationship with Vietnam is also unique. Vietnam is a reminder of the limits of Chinese power, historically and in the present. Beijing is reluctant to consider Vietnam as a sovereign equal and typically has cast its policy toward Vietnam as part of some larger strategy. Even the move toward normalization of relations was triggered by the U.S. decision in July 1990 not to continue its support of the Coalition Government of Demo-

26. In 1989 Heilongjiang Province issued a ban on more than twenty categories of products entering from other provinces in order to preserve its markets for local industry (Far Eastern Economic Review, 18 October 1990, p. 89).
The current strategic framework of Beijing’s Vietnam policy is one of developing better economic relations with Southeast Asia. China does not feel threatened by Vietnam so it is less cautious about cooperation. On the other hand, if China feels inconvenienced by Vietnam it is probably more likely than Vietnam to act in a preemptory manner.

Within the general Chinese-Vietnamese relationship, the border trade is likely to play a stabilizing role as the major expression of a shared material interest in cooperation. Of course, it will also be the source of friction, conflicts, and crises, but these are likely to be creative tensions within a larger context of expansion. Trade is likely to be inconvenienced but not seriously threatened by territorial disputes over the land border, which involve very small amounts of land, but it could be threatened by larger hostilities, such as armed conflict over the Spratly Islands. However, it will be increasingly difficult to move back to the situation of a closed and hostile border, especially for Vietnam. A price of openness for Vietnam is the slipping of its option to be hostile either to China or global capitalism; on the other hand, Vietnam highly values its national autonomy and has been known to pay a high price to maintain it. As normalization between China and Vietnam continues to develop, the border regions of both countries are being transformed more rapidly than one would have thought possible into prosperous and interconnected economies. An asset and a constituency is emerging that will encourage continuing normalization and cooperation, although in Vietnam it will also continue to imbalance important aspects of the domestic economy. The geographical impact is uneven, though it might be seen as redressing the unnatural isolation and poverty created by previous hostility. The border trade is not yet a strong enough factor to predetermine bilateral relations but it will work to stabilize them.

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27. This interpretation of the reason behind China’s initiation of secret summit meetings with Vietnam was confirmed by discussions in both Hanoi and Beijing.