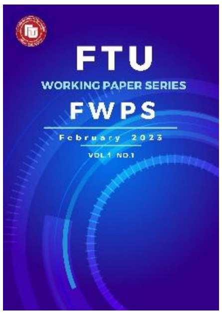

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NGHIÊN CỨU ĐỊNH TÍNH VỀ SỰ TỒN TẠI CỦA BẪY NỢ GIỮA VIỆT NAM VÀ TRUNG QUỐC

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Tóm tắt

Nghiên cứu tìm hiểu liệu bẫy nợ giữa Việt Nam và Trung Quốc có tồn tại không thông qua việc tham khảo các nghiên cứu đi trước, qua đó đóng góp vào các nghiên cứu về nền kinh tế Việt Nam. Các tác giả sử dụng phương pháp nghiên cứu định tính, sử dụng dữ liệu được thu thập từ tổ chức quốc tế, cũng như thông tin được Bộ Tài chính Việt Nam công khai, và các nghiên cứu đi trước. Kết quả cho thấy Việt Nam không có nguy cơ rơi vào bẫy nợ, mức nợ nằm trong tầm kiểm soát, và bản thân khái niệm bẫy nợ cũng có thể chỉ là giả tưởng. Nghiên cứu khuyến nghị chính quyền Việt Nam tiếp tục việc cẩn trọng với nợ công, tiến hành các chính sách kinh tế hợp lí, cũng như minh bạch hơn trong việc ghi chép nợ công. Tuy nhiên, nghiên cứu có giới hạn trong việc có khả năng cung cấp kết quả và bàn luận không đầy đủ do thiếu dữ liệu chính thức.

Từ khóa: Việt Nam, Trung Quốc, bẫy nợ, kinh tế

A QUALITATIVE RESEARCH ON THE EXISTENCE OF A DEBT TRAP BETWEEN VIETNAM AND CHINA

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Abstract

This paper aims to explore the existence of a debt trap between Vietnam and China using existing literature, contributing to the study on Vietnam's economy. The authors use qualitative method, with data being collected from international organizations, as well as published data of the Vietnamese Ministry of Finance, along with existing literature. The result shows that Vietnam is in no danger of a debt-trap, with its debt level being within limits, and that the concept of debt-trap itself may be entirely a myth. The study ends by recommend the government of Vietnam to continue its practice of being cautious with debts, implementing rational economics policies as well as being transparent with debts recording. The study's limitations include potentially inadequate results and discussions due to the lack of adequate official data.

Keywords: Vietnam, China, debt-trap, economy

1. Introduction

In recent years, China has emerged as a force to be reckon with on the world stage. Economically, it has achieved staggering level of growth over the years (The World Bank, 2021), even reaching decade high in the midst of a pandemic (Al Jazeera, 2022) that caused global recession (The World Bank, 2020) and is poised to take over the U.S as the largest economy in the world in 2033 (Asia Financial, 2021). Politically, it has become a challenge to the hegemony of the U.S and the country is now on equal footing with the likes of the U.S and Russia (Allison, 2020). The rise of China has evidently unnerved certain sovereigns, spelling potential conflict with the likes of the U.S, which believed that the growing power of China "harms vital American interests and undermines the sovereignty and dignity of countries and individuals around the world", (The White House, 2020) and the E.U, which considered China as "systemic rival" and "economic competitor" (European Commision, 2019).

It is in this context that in 2013, during a visit to Kazakhstan, President Xi Jinping announced the "Silk Road Economic Belt", which is now known more famously as the Belt and Road Initiative (BRI) (Xinhua News, 2016). It is a global infrastructure development strategy, promoting investment in nearly 70 countries and international organizations, with a multitude of projects, including ports, skyscrapers, railroads, roads, airports, and power stations (Belt and Road Innitiative, 2022). Much like the rise of China, these projects have also been met with mixed reactions across the globe. On one hand, the sheer number of countries having joined the projects would suggest that these nations have a positive, or at least mostly neutral outlook towards the Chinese ambition. On the other hand, several countries, among which the U.S is possibly the most vocal. have also been concerned about China's new project, which often involved accusations of debt-trap and neo-colonialism, among other things. In 2011, Secretary of State Hillary Clinton warned of Chinese "neo-colonialism" in Africa in a visit to Zambia (Reuter, 2011), while Secretary of State Rex Tillerson accused China of "encourages dependency using opaque contracts, predatory loan practices, and corrupt deals that mire nations in debt and undercut their sovereignty, denying them their long-term, self-sustaining growth" (Tillerson, 2018), and Tillerson's successor, Mike Pompeo, also, during his trip to Panama and Mexico, warned that "when China comes calling it's not always to the good of your citizens... when the state-owned enterprises show up in a way that is clearly not transparent, clearly not market-driven, and is designed not to benefit the people of Panama but rather to benefit the Chinese Government. Those are the kind of things we think are both inappropriate and not good for the people of Panama or any other country where China is engaged in this kind of predatory economic activity" (Pompeo, 2018).

Historically in conflict multiple times with China, coupled with the lingering and mutual sentiment of distrust (Huong, 2020), Vietnam has been wary and indecisive regarding the prospect of the Belt and Road Initiative. Officially, President Tran Dai Quang stressed the importance of principles in line with the UN Charter in the implementation of BRI; while informally, Vietnamese scholars warned the potential ramifications that "transcend economics", including dependency on China, territorial dispute, and poor protection of labor rights, among other factors (Le, 2019). However, Vietnam is a part of another separate project, the Two Corridors, One Belt (TCOB) project, which was proposed by China in 2003 but was postponed up until the announcement of the BRI (Le, 2019). This, in effect, implies that the TCOB was a part of the BRI, but Vietnam is yet to brand it as such (Le, 2019). Currently, the only project to come out of the TCOB is the Cat Linh – Ha Dong Metro Line, using preferential loans from China and support from the Government of Vietnam.

Given that there is undeniable and vast attention to the notion of China's supposed debt-trap and neo-colonialism, both globally and in Vietnam, as well as Vietnam's long and complex history with its Northern neighbor, this study aims to, using qualitative measure, look at Vietnam's debt situation with China to answer two important questions:

(1) Is Vietnam in a "debt-trap" with China, or is the concept of "debt-trap" substantiated?

(2) How could Vietnam solve or avoid such a "debt-trap" situation?

Due to the lack of data from the government of Vietnam regarding external debts, specifically regarding the way the Ministry of Finance defines and records government debts, this study potentially provides an incomplete analysis of Vietnam's debt situation. This study would benefit immensely from more research to clarify some of the assessments and theories delivered by the authors, as well as provide data and sources that are more comprehensive and credible, in order to paint a more complete picture of the debt situation in Vietnam.

2. Literature Review

The concept of debt-trap diplomacy was first introduced by the Indian geostrategist Brahma Chellaney in 2017. He argued that the projects funded by Chinese loans are not beneficial for the local economy, which often involves developing countries, neglected by institutional investors, at all but are advantageous for China, as it helps "facilitate Chinese access to natural resources, or to open the market for low-cost and shoddy Chinese goods". His argument went further, contending that "it is even better for China that the projects don't do well. After all, the heavier the debt burden on smaller countries, the greater China's own leverage becomes." He contended that burdened with the sheer amount of debt, these countries became vulnerable to Chinese influence and were forced to accept terms by the Chinese authorities, which included the Chinese acquisition of strategic assets and natural resources, which would then serve to expand Chinese sphere of influence. As a prominent example, he cited the case of Sri Lanka, which apparently took Chinese loans and was worse off by the experiment. Chellaney concluded by advising "countries that are not yet ensnared in China's debt trap should take note" of the examples that he cited and "take whatever steps they can to avoid it."

Since then, a significant part of academic literature has been dedicated to look into debt-trap diplomacy. Overall, the results have been mixed, with some arguing that debt-trap is non-existent and that Chinese debts actively help developing countries progress further economically and can be paid with little difficulty, while others decry the debts as neo-colonialism and an attempt by the Chinese government to expand its sphere of influence by entrapping developing countries in debts and acquire strategically important assets. The data often cited by scholars include debt as a percentage to GDP, interest rate of said debts and the number of projects funded by debts. Some notable literature is as follows.

Gangte (2020) looked into the often-cited case of Sri Lanka's Hambantota port and argued that the country's relinquishing of the port does not support the existence of a Chinese debt-trap. Pointing out that Sri Lanka had already been facing problem that "go well beyond China", which included reduction in export, twin deficits (trade and budget deficit) and the middle income trap, Gangte contended that Sri Lanka was forced to increase its stock reserve of dollar currency in spite of "the uncertain macroeconomic environment on the back of the pending maturity of international sovereign bonds to the tune of 5 billion dollars due for payments in 2019- 2022." To achieve this immediate objective, the country leased Hambantota port, a non-productive investment. On the other hand, Sri Lanka's debt to China was 5.5 percent of the country's total debt, and when narrowing the scope down to external debt, the proportion of debt owed to China by Sri Lanka was 12 percent. Gangte also pointed out that out of more than 3,000 projects in Sri Lanka funded by China, the Hambantota port was the only project cited as debt-trap. Ultimately, Gangte did not find any causal relationship between China's loan and Sri Lanka's debt situation.

Also looking at the situation in Sri Lanka is Singh (2020), who also argued against the existence of a debt-trap in the case of Hambantota port, using similar arguments to Gangte (2020). He pointed out that the acquisition was not made to relieve Chinese debt, but to acquire dollar reserve to help pay international sovereign bonds, that the country owed more to Western nations than to China, that Sri Lanka's sovereignty was not actually ceded to China, and that the Sri Lanka actively pursued the Hambantota port project with its national interest in mind, rather than it being forced into it by the Chinese government. Overall, he concluded that "although the Hambantota port project has failed to live up to its expected potential thus far, the evidence does not indicate that leasing of the port was a predatory takeover or military expansion by China. Furthermore, when placed in the context of China's broader lending practices, the Hambantota case is very much the exception and not the rule." Singh also looked at China's presence in Africa, and while citing that "China's resource-secured loans to African borrowers are secured by a variety of commodities, including oil, cocoa, platinum, tobacco, sesame seeds, and profits from copper and diamond mining" (Brautigam & Hwang, 2016), he argued that "this form of lending is modelled in part on China's own successful experience as a borrower pursuing modernization" and concluded that China was not using predatory loan practice (in effect not creating a debt-trap) to these nations.

In a similar conclusion, Khan et al. (2020) also rejected the debt-trap arguments against the China-Pakistan Economic Corridor (CPEC). They cited the words of the former federal minister Ahsan Iqbal that the debt ratio was expected to come down in the next five year, and those of the advisor to the Prime Minister, Sartaj Aziz that CPEC loans were at the rate of 2 percent, and the payback time was 20 to 25 years. They also noted that the debt could help Pakistan improve its infrastructure, energy bottleneck and growth rate, which "will help to improve the capacity of the state economy to make it more stable" and "whatever, the liabilities Pakistan has, they are well in capacity of Pakistan to pay-back." Moreover, the loans Pakistan received under the CPEC projects accounted for only 10 percent of the country's external debt and offered low interest rate. They also showed that Pakistan was experienced enough to deal with a foreign power trying to gain access to the country's strategic assets, pointing to Pakistan's experience with the Soviet Union.

However, not all literature is positive towards the Chinese project, with some proposing mixed to negative viewpoints. Brautigam and Hwang (2016), while stating that the level of debts that African countries owed to China was lower than expected, that "fully two-thirds of the loans we have identified do not have any natural resource-guarantees" and that Chinese debts could present opportunities, they stressed that "debt levels are rising, the Chinese are unlikely to cancel these debts, and we express concern that African governments may not be able to absorb the sharply increased pledges made by Chinese leaders in December 2015."

On the other hand, Rapanyane (2021), adopting an Afrocentric viewpoint, was significantly less forgiving towards the BRI and the Chinese loans. He accused China of using debt-trap diplomacy with African countries, citing as his examples Angola, which owed China US$60 billion; Kenya, which owed 60% of its bilateral debt to China and Zambia, whose debt to China had increased by 350% between 2015 and 2016, and pointing out that strategic assets of these countries had been relinquished as a consequence of these countries being unable to repay the debt. He further cited similar examples in Ecuador, Venezuela, Sri Lanka, Pakistan, Nepal and Cambodia, whose debts to China were settled either via the relinquishment of strategic infrastructure or China securing of additional government contracts. He also charged China of disregarding Africa, Africans and African Economies, either in the form of outright racism or economic policies that harmed these countries. He cited as examples the cases of Zambia where in 2011, Chinese coal mine managers "failed dismally to confront the environmental, health and safety concerns", of South Africa where Chinese presence cost the local jobs, and of Nigeria where cheap Chinese textile products were dumped, resulting in the collapse of indigenous companies. Ultimately, he accused China of neo-colonialism and neo-imperialism and advised African countries to be cautious when dealing with China and condemn any form of economic neo-colonialism and neo-imperial practices.

3. Methodology

This paper aims toward evaluating the existence of a debt-trap, especially in the case of Vietnam, through the use of qualitative method. Data from both Vietnamese government and international organizations, as well as academic literature are used to provide a complete, accurate and impartial assessment of debt-trap. The data included in this paper are gross domestic product (GDP), total external debt, total debt to China, and debt-to-GDP ratio. All data is considered within the timeframe of the year 2020.

It should be noted that the Vietnamese Ministry of Finance records only official debts, that is, debts owed by the government and hence does not record debts owed by state-owned enterprises or related entities. However, considering the scarcity of data regarding Vietnam's debt situation, the authors decided to include the internal data anyway and attempt to present as complete a picture on Vietnam's debt situation as possible.

4. An analysis of Vietnam's debt to China

4.1. Presentation of data

Vietnam holds an important position in the Belt and Road Initiative (BRI), sharing a 1,406 kilometers border with China, and standing close to China's dynamic economic development. The BRI project has undoubtedly brought promises of technological and economic advancement to this small nation. However, regarding the long rivalry between the two, Vietnamese politicians and citizens have always been alerted of potential schemes behind a seemingly mutually beneficial deal coming from China. This means, despite the fact that "debt trap" as a concept is still controversial, it is vital for Vietnam to take safe precautions. Therefore, the following section will assess the current situation of Vietnam by comparing it with the cases above, so as to answer the question of whether Vietnam is indeed in a debt-trap with China.

First of all, Vietnam's current external debt must be assessed. According to statistics from CEIC, the external debt of Vietnam since 2013 – the starting year of BRI project – have risen steadily at the rate of around 0.14% per year, starting at 63,45 billion USD and peaking in 2020 at around 130 billion USD. When compared with the total GDP over the year provided by Statista (The World Bank, 2022), the debt-to-GDP ratio peaked at 48% in 2020 - surpass the "alert" threshold set by the National Assembly of Vietnam (Vu, 2021). However, it has yet to reach 50%, which was the maximum external debt-to-GDP ratio agreed upon by the government. Moreover, Vietnam's economy has been growing consistently since the implementation of Doi Moi, according to figure 2, and even when adjusted to inflation, as depicted by figure 3, the country's GDP has still been consistently increasing. Figure 4 also shows that the country generally experiences healthy, if unstable growth rate, with the most significant drop of which occurred only during recession or other economic crises. This shows that Vietnam is still able to handle the debts with its own growth and productivity over the years.

Nonetheless, it is necessary to consider the proportion of loan of China, as well as its interest rate. There are little official sources by Vietnamese government regarding this subject. An article published by The Diplomat stating that from 2000 to 2017, Vietnam had borrowed 16,35 billion USD from the Chinese Official Other Flows (OOF) and received 1,37 billion USD from Chinese concessionary ODA. Rather than concerning the potential debt trap, Vietnam seems to consider this an opportunity to relieve its "capital thirst" due to the rapid economic growth and infrastructure demand, according to the same article. Furthermore, it showed that the annual ODA interest rate of China is relatively high compared to other countries (Abuza & Vu, 2021).

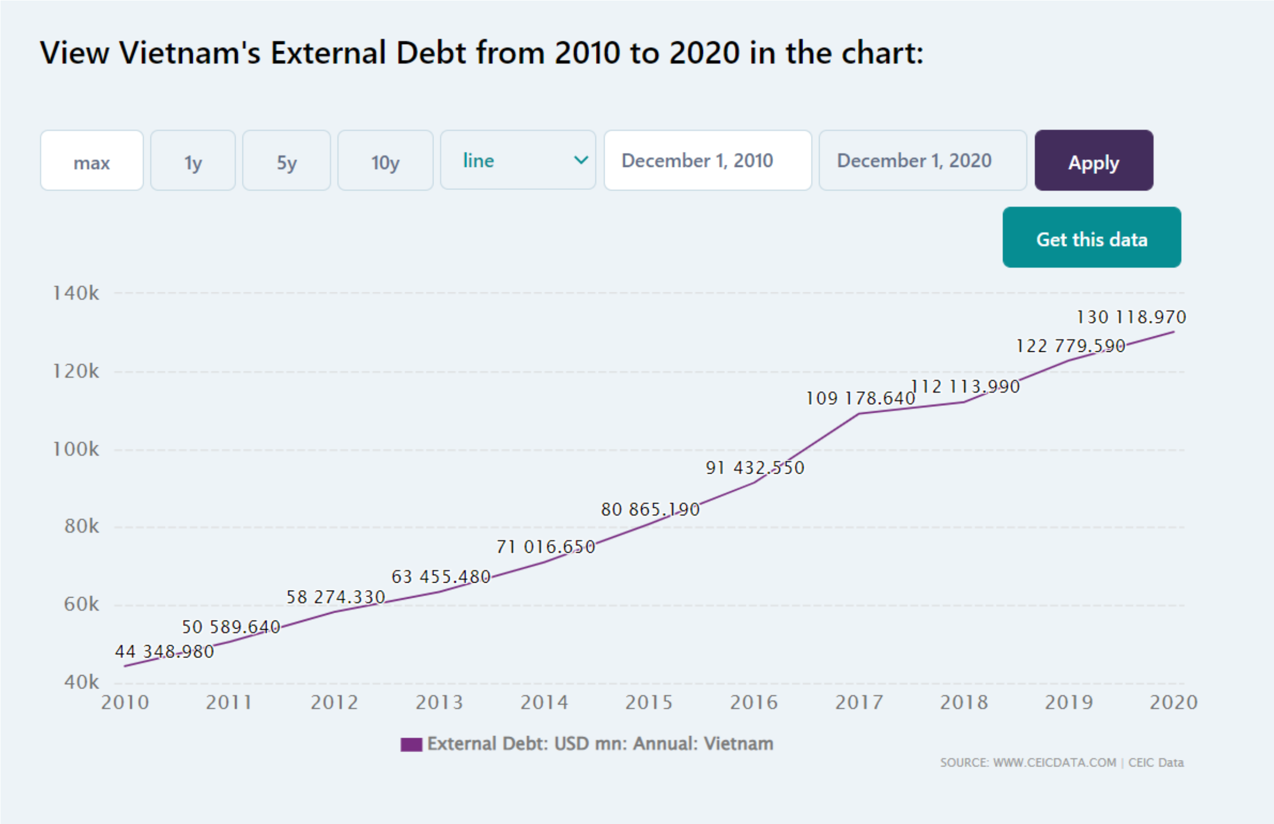

Figure 1. Vietnam's external debt in US Dollars, 2010 - 2020

Source: CEIC, 2021

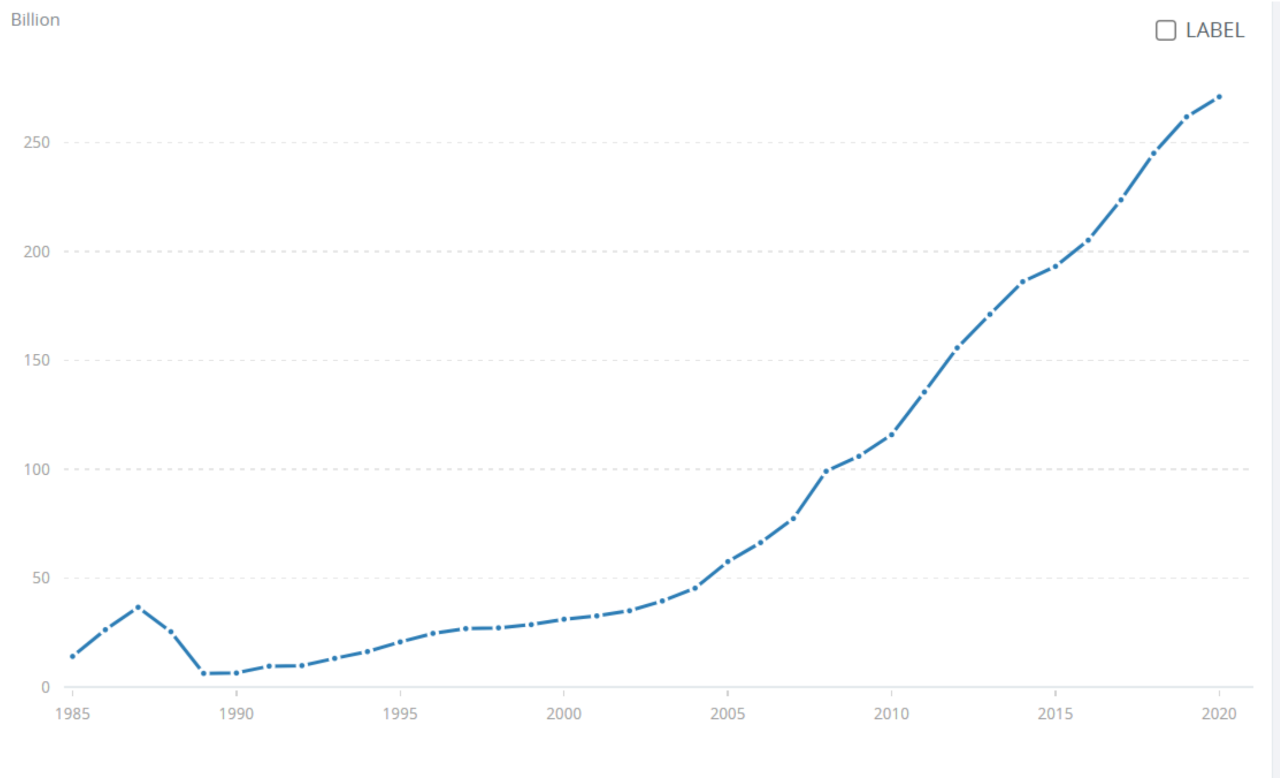

Figure 2. Vietnam's GDP in current US Dollars, 1985 - 2021

Source: The World Bank, 2021

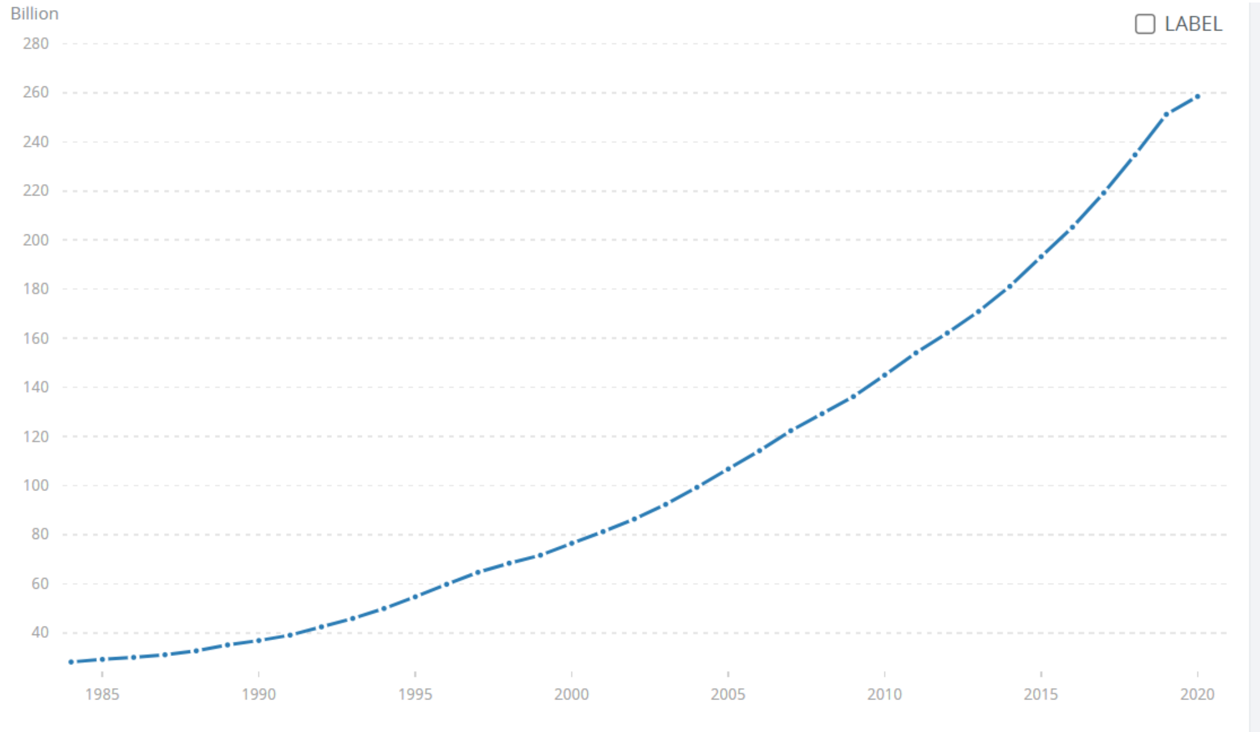

Figure 3. GDP of Vietnam from 1984 to 2020 in constant 2015 USD

Source: The World Bank, 2021

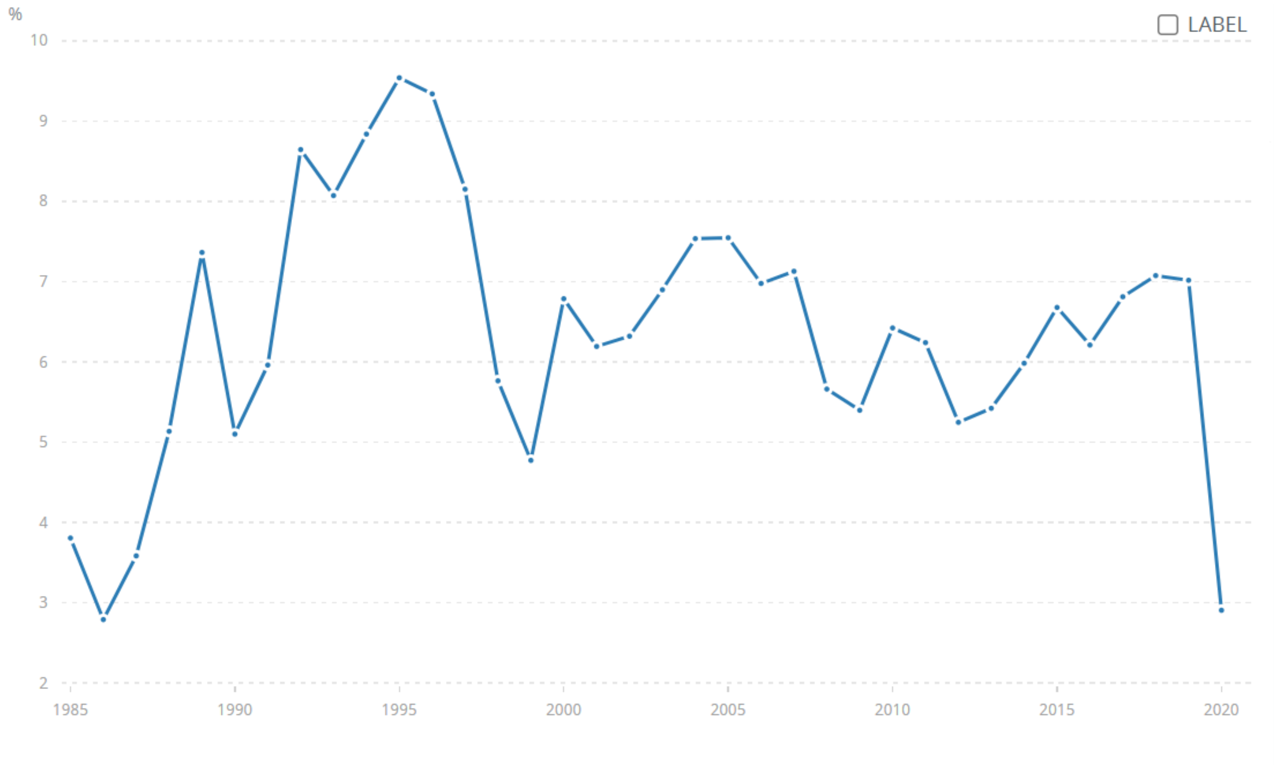

Figure 4. Annual GDP Growth of Vietnam (%) from 1985 to 2020

Source: The World Bank, 2021

Overall, there are little signs Vietnam getting stuck in a debt trap. The loans are payable financially without potentially exchanging natural resources, sovereignty, or strategic assets, regarding the state of Vietnam. What is more important is that despite signing a MOU (Memorandum of Understanding) with China in 2017 concerning BRI and Two Corridors One Economic Belt; and attending BRI forums in 2017 and 2019, Vietnam has not fully committed with those agreements (Abuza & Vu, 2021). However, it is not to say that China lending practices are in good faith entirely. The reason being Chinese loans are accompanied by many additional conditions, which include the interception of Chinese SOEs in construction process, the invasion of Chinese technology and labors (many of whom does not return to their country) and the malpractices of Chinese firms. According to AidData's report, Vietnam had 5 BRI infrastructure projects, which totaled to over 2,7 billion USD, had descriptions refer to scandals, controversies, or alleged violations (Malik, et al., 2021). Nevertheless, that does not entirely indicate the practice of debt trap.

Despite the conclusion mentioned, it is important to note that the data collected for analysis was not entirely credible, since the government of Vietnam does not publicly show the statistics needed for this paper's assessment. There are hidden debts that are incalculable, and some numbers came from sources with discrepancy.

4.2. Discussion

An assessment on the existence of the concept of debt trap

According to the assessment of literature, it is acceptable to characterize the phrase "debt trap" as generally controversial. China's approach to overseas development has been termed "debt-trap diplomacy," since if a debt-ridden nation fails to repay its loans, it becomes susceptible to Chinese pressure to support its geostrategic ambitions. "It is undoubtedly part of China's geostrategic aspirations," argue Chellaney. The Chinese government has been accused of forcing private negotiations and non-competitive pricing on projects where bidding is closed, and contracts must go to Chinese state-owned or state-linked firms charging well above market costs. The port of Hambantota in Sri Lanka is a prominent example of this. According to the account, Beijing forced Sri Lanka to borrow money from Chinese banks to pay for the project, which had little chance of economic success. Due to onerous conditions and little income, Sri Lanka finally went into default, at which time Beijing sought the port as collateral, compelling the Sri Lankan government to hand over control to a Chinese firm. (Brautigam, 2021)

The concept of "debt-trap diplomacy" portrays China as a deceitful creditor, with countries such as Sri Lanka as its gullible victims. However, a deeper examination reveals that the situation is significantly more complicated. According to research, Chinese banks are prepared to restructure current loans and have never taken an asset from any country, much alone the port of Hambantota (Deborah Brautigam, 2021). Debt trap diplomacy, according to Deborah Bräutigam, a professor at Johns Hopkins University's School of Advanced International Studies (SAIS), is a "meme" that arose as a result of "human negativity bias" caused by fear over China's growth. According to a 2019 research paper by Bräutigam, "the evidence so far, including the Sri Lankan case, shows that the drumbeat of alarm about Chinese banks' funding of infrastructure across the BRI and beyond is overblown ... a large number of people have favorable opinions of China as an economic model and consider China an attractive partner for their development." Bräutigam criticized the media for propagating a narrative that "wrongfully misrepresents the relationship between China and the developing countries that it deals with." According to a research co-authored by Bräutigam in August 2018, "Chinese loans are not currently a major contributor to debt distress in Africa." A BBC broadcast recorded misinterpreted Bräutigam's perspective on the debt trap issue, dismissing any evidence she gave that the "conventional wisdom was not correct." The BBC reporter who contacted Bräutigam in December 2021 stated that it was an editing judgment made by an inexperienced producer.

According to a March 2018 research by the Center for Global Development, between 2001 and 2017, China restructured or waived loan payments for 51 debtor nations (the majority of BRI partners) without seizing public assets. According to W. Gyude Moore, a former Liberian public works minister and senior policy fellow at the Center for Global Development, "the language of 'debt trap diplomacy' resonates more in Western countries, especially the United States, and is rooted in anxiety about China's rise as a global power rather than in the reality of Africa." "China has been a net positive partner with most African countries," Moore remarked.

According to a 2019 Lowy Institute report, China did not engage in deliberate actions in the Pacific that justified accusations of debt trap diplomacy (based on contemporaneous evidence), and China was not the primary driver behind rising debt risks in the Pacific; however, the report expressed concern about the scale of the country's lending and the institutional weakness of Pacific states, which posed the risk of small states being overwhelmed by debt.According to a 2020 Lowy Institute essay, Sri Lanka's Hambantota International Port is the "case par excellence" for China's debt trap diplomacy, but the story is a "myth" because the project was suggested by former Sri Lankan President Mahinda Rajapaksa, not Beijing. The article went on to say that Sri Lanka's debt crisis was caused by "excessive borrowing on Western-dominated capital markets," rather than Chinese credit.

According to a May 2019 Sydney Morning Herald story, fresh research has called the phrase into doubt; a review of 40 Chinese debt re-negotiations by the Rhodium Group discovered that "asset seizures are a very rare occurrence," with debt write-off being the most prevalent conclusion. The story also quoted Australian National University senior professor Darren Lim, who stated (in reference to the Rhodium Group study) that when the loan is issued, much of the power goes to the borrower rather than the lender.

To summarize, the debt trap is a fiction, as China's leverage in debt renegotiation is frequently overstated and was genuinely restricted in strength.

An assessment on the existence of a debt trap between Vietnam and China

Overall, there are little signs of Vietnam getting stuck in a debt trap. The loans are payable financially without exchanging natural resources, sovereignty, or strategic assets; and Vietnam’s economy has been growing in a generally healthy manner. To further support this argument, a comparison can be made between Vietnam and other classic cases of debt trap, a notable example of which being Sri Lanka’s notorious Hambantota port. Though statistically speaking, this is the only case singled out of 3,000 projects funded by China in Sri Lanka, the port is a “geographical goldmine”. Therefore, many considered Sri Lanka to have fallen into a debt trap by leasing Hambantota to China for 99 years (Botnar, 2020). This seems like a feasible theory in Sri Lanka since their China’s debt ratio is extremely high (12%). Considering the previous statistics, it is possible that the Vietnam’s debt to China only takes up about 2% of its total external debt. AidData showed even more drastic numbers: Sovereign debt exposure to China of Sri Lanka stood at 11,7% GDP while Vietnam's was only 2,9%. This means that economically speaking, Sri Lanka was much more dependent on China, as well as having much higher liability.

However, it should be noted that authorities have always been wary of Vietnam's relationship with regards to China's investment. Pham, a member of the National Assembly's Legal Committee, recently advised the authorities to carefully evaluate Chinese contractors: "Vietnam has not yet come to this situation (i.e. the debt trap). However, Vietnam is facing many risks from China's investment projects." (Tran, 2019) According to a published report by Aaron O'Neill (Statista, 2021), in 2019, Vietnam's national debt in relation to gross domestic products is 47.9%, which is well below its national debt warning rate of 55%, and a step further from its ceiling of 60%. However, in a recent report (CEIC, 2020), figures have risen up sharply to 54.3% in 2020, indicating that Vietnam's national debt may potentially be on the way to reach its set limit.

As a developing country, Vietnam understandably needs capital and investment. Vietnam's demand for infrastructure investment is an estimated $605 billion between 2016 and 2040 (Fukuoka, 2021). In their writing, (Abuza & Vu, 2021) also stated that as Vietnam gets wealthier, development assistance and bilateral and multilateral concessionary lending has peaked. Demand is so huge that, amidst growing difficulties in public-private-partnership and build-operate-transfer projects, and limited state budgets, Vietnam has to mobilize foreign financing sources. With regard to China, one of such financing sources, Vietnam is the eighth-largest recipient of Chinese Official Other Flows (OOF) lending from 2000-2017. In all, Vietnam has borrowed $16.35 billion, second only to Indonesia in Southeast Asia. Vietnam was the 20th largest recipient of Chinese concessionary ODA. Together, sovereign debt and OOF loans to China come to 6 percent of GDP (Abuza & Vu, 2021). These figures indicate that China's loan takes up a large part in Vietnam's national debt structure.

In November 2017, Vietnam and China signed a MOU (Memorandum of Understanding) on the joint implementation of the China's BRI and Two Corridors and One Economic Belt, in addition to creating an infrastructure cooperation working group and a finance and currency cooperation working group. However, the 2017 MOU has gone mostly unimplemented because Chinese loans come with additional conditions, which include the interception of Chinese SOEs in construction process, the invasion of Chinese technology and labors and the malpractices of Chinese firms. Furthermore, Chinese ODA loans carry very high interest rates, on average 3 percent annually. This is significantly more than Japan, South Korea, or India's ODA. There have also been risks of political distrust due to China's reputation for awful track record for delays, lack of transparency, cost overruns, environmental damage, poor construction quality, and high maintenance costs, with a prime example being Cat Linh - Ha Dong railway (Abuza & Vu, 2021).

The Cat Linh - Ha Dong railway project was based on an agreement reached in 2008. It involved US$ 419 million in Chinese capital with Vietnam putting up US$ 133 million. Due to delays and slow work, the project's total cost ballooned to US$ 891 million. It was supposed to be in operation by 2014 but as of March 2019, no train has yet to travel on its rails. The project has only opened recently to the general public in November 2021, with limited usage due to pandemic's impact. To add up, among various foreign funded projects, one third of the 12 large-scale loss-making projects of the Ministry of Industry and Trade are financed by Chinese ODA loans, including Ninh Binh fertilizer plant, Ha Bac fertilizer plants, and Chemical, and Thai Nguyen Iron and Steel plant- phase 2 (Chaudhury, 2018).

Overall, Vietnam is in no danger of a debt-trap, yet with an increasing demand for capital, Vietnam needs to be wary of the mentioned risks.

5. Policy implications for Vietnam

Assessment on the feasibility of Vietnam continuing to take Chinese debt for the purpose of development

Vietnam's recent economic growth has been stellar, with positive growth every quarter from 2000 to mid-2021, when COVID-19 shut down Ho Chi Minh City, the economic hub of the country. As Vietnam moves to absorb production as firms and countries seek to decouple from China, infrastructure is its greatest impediment. Although Vietnam has famously refused to participate in China's Belt and Road Initiative (BRI), the BRI has the potential to help Vietnam relieve its capital thirst, and Hanoi has publicly endorsed it. In November 2015, the two sides agreed to expand bilateral trade, especially border trade, as northern Vietnam became part of China's supply chain. The two sides have also agreed to promote, though not link, China's BRI and Vietnam's 2004 Two Corridors and One Economic Belt development strategy. In November 2017, Vietnam and China signed a MOU on the joint implementation of China's BRI and Two Corridors and One Economic Belt, in addition to creating an infrastructure cooperation working group and a finance and currency cooperation working group. Vietnam's top leadership attended both BRI forums in 2017 and 2019.

Notwithstanding, for a variety of reasons, the leadership and policy advisors have expressed significant reservations. First, Chinese lending is not cheap. Indeed, the average Chinese loan bears an interest rate of over 4 percent. This is significantly more than Japan (0.4-1.2 percent), South Korea (0-2 percent), or India (1.75 percent). Moreover, Chinese loans are subject to a 0.5 percent commitment fee and 0.5 percent administration fee. The loan duration and grace period are shorter than those from other lenders, by 15 and five years, respectively. Secondly, Chinese loans come with several additional requirements, including Chinese SOEs project design and management, the purchase of Chinese technology, and the use of Chinese laborers, many of whom never return to China, provoking animosity in the local community. In many circumstances, this raises the loan's actual cost well over what it would be if it were awarded through a competitive bidding procedure. Thirdly, Chinese firms have an awful track record for delays, lack of transparency, cost overruns, environmental damage, poor construction quality, and high maintenance costs. The Cat Linh - Ha Dong railway in Hanoi, a $891 million project, is the latest example of a Chinese infrastructure project gone sour, and the source of considerable public animosity.

The reason for Vietnam's continuously seeking Chinese financial support is that it is partly a political calculation, with the hope of limiting Beijing's bullying and hostility by strengthening ties with the country. Hanoi has not expressed public concerns that it should be caught in the "Debt trap" with China. Its debt load remains manageable, and the economy is growing sufficiently to service the debts. Unlike Laos, Vietnam has plenty of sources of capital. But Vietnam's concerns are clearly justified. Hanoi limits government bonds to China. It has encouraged non-sovereign involvement by commercial banks, state-owned enterprises, and even private enterprises to reduce its political risk. According to AidData, national debt to China and OOF loans together account for 6% of GDP. As long as Vietnam can service Chinese lending, even at extremely high interest rates, there would not be severe consequence. Otherwise, the leadership in Hanoi should expect an enormous backlash from its nationalist citizens, who have high levels of mistrust of China.

Policy recommendations regarding debts

Firstly, the state should be cautious when considering taking on external debts, and in this case, debts from China. Different aspects of the debt proposals should be carefully considered, including interest rate, maturity rate and whether or not the debts come with strings attached, such as the handover of certain strategic assets. Regulations should be passed and tightened to control the way in which SOEs take on external debts, so that to avoid defaults and other disastrous scenarios. Moreover, as multiple states, including Vietnam, have done, debts should be limited to a percentage of total GDP. For Vietnam, the public debt ceiling is at 60% of GDP with 55% being the warning level, while government debt ceiling lies at 50%.

Secondly, debts should be wisely and cautiously used when taken. Debts are not necessary bad; in fact, for developing country, debts are arguably necessary as a source of investment and development. In order to benefit from debt in a positive way, the government should use the loan to improve human resources via the funding of educational development, job creations, and investment in programs that train specialists as well as professionals. Moreover, debts can also be used to fund infrastructure projects, such as metro lines, ports, bridges, etc. A notable example of debts being used in this manner in Vietnam is the Cat Linh – Ha Dong railway, which opened to the public in the end of 2021, after multiple delays. This also presents a potential problem with financing projects with debts: if the projects are not managed properly, or suffer from corruption, the debts would become a liability.

Last but not least, transparency should be advocated when dealing with debt statsitc. The government of Vietnam does not completely and transparently publish statistic regarding its debt, with only "official" debts taken by the government counted. Data should be published in the most accurate, complete and transparent manner, so that economists and professionals can make accurate predictions about the overall economy and implement appropriate measures.

6. Conclusions

This research focuses on two main questions, with the first concerning the existence of a debt-trap between Vietnam and China, and by extension, the existence of the concept of debt-trap in general, while the implication for Vietnam serves as the second question. Regarding the first question, existing literature as well as the data found suggests that Vietnam is in no such danger in relation with its northern neighbor, and that the concept of debt-trap itself might be a myth designed to put China in a negative view. However, based on the fact that the government of Vietnam does not publish debt owed by SOEs, but only *official* debt owed by the government, this conclusion might be lackluster due to incomplete data. Nevertheless, the view of the majority of existing literature supports the argument that debt-trap itself is a myth.

Concerning the second question, the paper believes that, realistically, Vietnam could take on more Chinese debts without worrying about a so-called debt-trap due to the current low level of debt and the fact that Vietnamese leadership has always been wary of China. Hence, the authors advise caution when taking on and using external debts and advocate transparency with debt data.

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