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In Vietnam, a Chinese Skytrain Sheds Light on Tough Bilateral Ties

At rush hour, traffic in Hanoi is the very definition of gridlock. Commuters on motorbikes and scooters, looking like a giant ant colony, inched along roads that can barely handle the city's 4.4 million vehicles. In the 95-degree heat of a summer day, sweat running down the face, they wound their way along fenced-off streets, passing by the huge piers of a skytrain under construction.

The sprawling skytrain that connects the central district with newly built residential areas in the west end promised a remedy for traffic in this city of 7 million. It was initially planned for completion in November, but months before the due timeframe, it became clear that the skytrain fell behind schedule. The delay was met with despair and anger. Adding fuel to the fire, the city authorities said they were working on the contractor's request to almost double the investment. Newspapers criticized city officials and the contractor, the Beijing-based China Railway Sixth Group Co. Ltd., while bloggers asked to replace it.

The project represents a typical case of delays and political tensions concerning Chinese companies' involvement in Vietnam's booming infrastructure projects. As Chinese firms deepen their presence, the anti-China sentiment has been escalating among the Vietnamese public. Territorial disputes over groups of islands in the South China Sea claimed by China, Vietnam and several other nations, coupled with the Chinese government's role as the backer of Vietnam's authoritarian regime, further worsen its image.

EXTENSIVE PRESENCE

Economists pointed out that as a condition of a soft loan the Chinese government offered, Hanoi had awarded the skytrain project to a Chinese company that had no experience with such a project. The skytrain is being built with an engineering-procurement-construction (EPC) contract, in which the contractor is in charge of all stages of a project, from designing to completion, for a fixed price.

Hanoi's ease in awarding the project and raising its investment annoyed economists like Pham Sy Thanh of Vietnam National University.

"Chinese companies have won an abnormally large number of EPC projects in Vietnam, in comparison with the successful bidding ratio of one country in another," said Thanh, who heads the China economic research program at the university's economics school.

Chinese companies have won an overwhelming 88 percent of mining and 70 percent of energy projects in Vietnam, according to a report the Vietnamese Ministry of Industry and Trade released earlier this year. Chinese contractors are also working on around 30 of the country's largest infrastructure projects.

TROUBLED PROJECT

The Hanoi skytrain is expected to provide Hanoians with more than one million rides a day and to broadly resolve gridlock along its main corridor. A new timeframe is now late 2015, and Hanoi has quietly raised its investment to nearly \$900 million from \$500 million, according to a report by the Vietnam Ministry of Transport.

On some segments of the project, the contractor and its sub-contractors secured just half of the required pace, said Nguyen Manh Hung, director of the ministry's Railway Project Management Unit.

"They have underestimated the project's working volume," said Hung, whose office supervises the project and finally stepped in to speed up construction.

"With this EPC contract, they should have had the exactly designed volume before starting construction, but in fact they only had estimates."

The Chinese contractor is not the only party to bear the blame. The authorities in Hanoi failed to deliver the land for the construction of a major station and a few piers on time because of clearance issues, Hung said.

The office of the Hanoi People's Committee did not reply to emails requesting an interview. Representatives of China Railway Sixth Group were not available for comment. The company is a subsidiary of the state-run China Railway Engineering

Corp. With 15,000 employees, it has built more than 20 national railways in China over the past five decades, including metro rails, according to the company's website.

LOW PRICES

Economists in Vietnam have warned its government of Chinese contractors' widespread involvement, citing opaque business practices, unfavorable impact on the local business community and inadequate compliance with environment protection rules.

"Their projects have lower socio-economic impacts than those of Western firms," said Pham Chi Lan, a prominent economist in Hanoi, who advised the pro-reform prime minister Phan Van Khai during his tenure to speed up opening the economy in the late 1990s.

"Chinese contractors neither create jobs in the local market nor engage in technology transfer, which businesses from other countries have done very well."

In Vietnam's premature market, where bidding regulations overlook technical requirements and prioritize pricing, Chinese companies outweigh their Western or Japanese rivals to win contracts.

"They often bid with unrealistically low prices," said Thanh. He said most of these projects would be delayed, and the contractor would request to raise the price, sometimes several times the original bid.

"The investors end up paying too high a price for these projects," Thanh said.

It's not always possible to define the line between China's official development aid (ODA) for Vietnam and its foreign investment in the country. The Chinese government often requests that borrowers award projects funded by its ODA loans to China's state-run firms, further expanding their presence in the country.

Unlike Western and Japanese businesses, which gain access to infrastructure projects in Vietnam on their own, Chinese companies, most of them state-run, navigate the market by political relations. Their use of relationships, or *guanxi*, in doing business has given ground to criticism. It has been normal practice for a Chinese state or provincial

leader on a visit to Vietnam to be accompanied by dozens of state business executives seeking new projects.

POLITICAL IMPACTS

The economic relation between China and Vietnam is often overshadowed by political and historical issues. A thousand years of Chinese domination and another millennium with numerous wars against the giant neighbor's dynasties resulted in defensiveness toward China among the Vietnamese public.

People in Vietnam have complicated feelings for their giant northern neighbor: on one hand, closeness because of the cultural proximity and admiration for the Chinese civilization; on the other, defensiveness and mistrust based on historical experience. China's muscle-flexing in the disputed South China Sea and the Vietnamese people's yearning for the Western-style democracy and economic model have put more pressure on the ties.

"China has been less successful in exercising soft power in Vietnam than in any country I can think of in Southeast Asia," said Edmund Malesky, a Vietnam expert at Duke University in North Carolina, in an interview.

Territorial disputes have jeopardized the Chinese businesses involved in projects in Vietnam. Deadly riots flared in Vietnam in May after the state-run China National Offshore Oil Corp. (CNOOC) stationed a giant oil rig in waters that Vietnam claims lie within its 200-nautical mile exclusive economic zone.

Beijing soon requested that its state companies stop bidding in Vietnam and blocked imports from the country. In return, Hanoi stepped up scrutinizing Chinese companies' projects, asking local authorities to oust investors or contractors that failed to deliver projects to which they had committed, Vietnamese media reported.

The incident hurt bilateral economic ties, but economists in Vietnam widely view CNOOC's oil rig as a cloud with a silver lining: it has prompted Vietnam to break away from Chinese influence.

“It woke us all up to the need to have a fair economic relation with China, just like what we have with Western partners,” said Lan, who advocates a transparent business environment.

A BIG SHIFT

In late 2013 the Vietnamese Parliament amended the Vietnam Bidding Law as a result of pressure from the business community. The new regulations, which took effect in July 2014, raised technical barriers and transparency in the bidding process. The amended law also requires state agencies to prioritize technical quality over pricing in state-funded projects.

“As a result of the amended law, Chinese companies will likely win fewer projects in Vietnam,” Lan said.

The tensions also drew Vietnam closer to Japan, its favored and largest foreign investor, and contributed to warmer relations with the United States at a time when the U.S. is pivoting toward Asia. Hanoi has been working hard in its negotiations with the U.S. on the Trans-Pacific Partnership agreement, which, once in place, will largely benefit its exports. It has released several political dissidents and reviewed its human rights records -- one of the most sensitive issues in its relations with the U.S..

“Vietnamese policymakers have started to look for other opportunities and pursue multilateral diplomacy strategies to reduce the dependence on the Chinese relationship,” said Malesky. “This is a big shift.”

Though modest, the shift in the way Vietnamese authorities deal with China-related issues can be seen in the Hanoi skytrain project. In the face of the embarrassment the delayed skytrain caused, the Ministry of Transport stepped in to speed up construction. It required the Chinese contractor to increase working shifts to make up for the delay. In a rare move regarding Chinese state-run companies' projects in Vietnam, ministry officials talked openly to the press about the project.

The contractor finally doubled its construction pace and started work on all but one station at the same time. Meanwhile, the ministry pushed the Hanoi city authorities to quicken the clearance process to deliver the land for the last station in early 2015. If the project continues at the current pace throughout next year, the skytrain will finally start its pilot operation in 2016, more than a year behind schedule, the ministry said.

While the push for stronger ties with the West and a break from China's influence is evident in Vietnamese society, it will take a long time, given the two Communist regimes' tight relations, economists said. Despite rapid growth in the past two decades, Vietnam's economic relations with the West and large Asian partners including Japan and India will need to grow further to offset the role of its ties with China.

In the mean time, think-tank people like Thanh have been advocating deeper understanding of the emerging power in a bid to reduce its influence on Vietnam. He has started a long-term nonprofit project to translate and introduce researches on China to the Vietnamese public.

"Understanding China, he said, "is the best way to deal with this giant neighbor."