

CHINA'S PERIPHERY STRATEGY AND POLICY IMPLICATIONS FOR VIETNAM

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Abstract

The periphery always is a crucial focus in China's foreign policy in order to generate a favorable and secure international environment. Chinese Former leadership generations, however, still put more priorities towards building friendly relations with major powers and advanced countries like the U.S., EU, Japan, NIEs for the purpose of promoting China's economic modernization. After the 18th Chinese Party Congress, President Xi Jinping's generation made fundamental shifts which elevate the periphery as the first priority in their general foreign policy framework. Along with enhancing periphery diplomacy, President Xi has launched series of initiatives and plans for economic connection and cooperation to construct a China-centric regional economic integration. Of which, all Beijing's periphery diplomacy and mega connection and cooperation initiatives are considered as means to realize the "Chinese dream" of the great rejuvenation of the Chinese nation.

Keywords: China, periphery diplomacy, foreign policy, regional strategy, Silk Road Economic Belt and the 21st Century Maritime Silk Road, "one belt, one road"

1. Introduction

As a country with the most numerous neighbors, of which fourteen border by land and six by sea, China's regional diplomacy policy has always played a key role in its foreign policy.

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Moreover, there are plenty differentiations among China's neighbors regarding culture, religion, political environment, and security and economic interests. Meanwhile, Asia, differs from Africa, Latin America or European, possesses a special status in Chinese perspective. This is the only region where China has national interests in security, economic, and also political spheres. In security realm, China's surrounding areas is the highest concentration of major powers interactions with the participation of many great, middle and small powers such as United States, Japan, EU, India, Korea, Australia, ASEAN, etc. China, hence, needs to maintain effectively cooperative relationship so as to avoid being encircled by other major powers. On economic terms, East Asia and Southeast Asia covers a number of extremely dynamic economies which constitute substantially to China's economic growth and create many development opportunities for China. Along with China's rise, the economic interdependence between China and regional economies is accelerating rapidly. This on the one hand brings mutual benefits to each side; and on the other hand generates China's economic and political clout. Therefore, the effective management of China's relations with its neighbors plays a crucial role in China's general diplomatic policy. The following parts in this paper will describe an overview of China's policy towards its surrounding areas (also known as "periphery"), changes in China's periphery strategy after the 18th Party Congress, and point out policy implications for Vietnam.

2. Overview of China's policy toward its periphery

Until the 1970s, China was a major power belonging to Communist System. Chairman Mao Zedong proposed Chinese diplomatic framework based on three categories: first world (referred to capitalist countries), second world (communist countries), and third world (developing countries). Accordingly, diplomatic priorities absolutely emphasized on communist world and developing countries for the purpose of taking the leadership role in communist bloc. In the early 1970s, the normalization of Sino-American relations in combination with the initiation of opening-up (*kaifang*) policies led to fundamental changes in Chinese foreign policy. To serve the economic modernization, Chinese reform designer Deng Xiaoping adjusted China's diplomatic priorities into "great power (*daguo*), neighboring countries (*zhoubian*, also known as "periphery"), and developing countries (*fazhan zhong de guojia*)" (Heath, 2014). It referred that Chinese foreign policy focus had shifted to great powers with the aim of constructing good relationships with advanced countries, obtaining supporting and absorbing foreign resources for its economic

modernization. Economic modernization also became the highest priority in China's overall policy framework. Generally speaking, because it is necessary to take advantages of foreign capital, technology, and overseas market for Chinese economic development at the early stages; Deng concentrated more on great power and developing countries like United States, Europe, Canada, Japan, Australia, Newly industrialized countries (NIEs)...

In the 1980s, China virtually did not cope with any significant pressure from major security threats; it still needed a favorable international environment for economic modernization. However, after Tiananmen massacre, international community blocked China's diplomatic relations and carried out a plenty of sanctions towards China. Jiang Zemin then had to prioritize improving relations with Asian neighbors. These changing policies were summarized in twelve Chinese words: *wending zhoubian* (stabilizing periphery), *kaiduo waijiao* (expanding diplomacy), and *liuzhua njunian* (altering the situation). Consequently, periphery policy (*zhoubian zhengce*) or "good neighboring policy" (*mulin zhengce*) was initially paid attention in order to deal with undesirable changes in relations with Chinese neighbors (Zhao, 2001). This presented that Beijing rapidly focused on improving relations with neighbors so as to create a secure and stable periphery.

At China's 16th Party Congress in 2002, foreign policy was continuously stated as "*great powers are the key, neighbors are paramount; developing countries are the foundation; and multilateralism is an important stage*". Also in this Congress, the periphery was initially stressed as a crucial role in foreign policy in Chinese Party Congress. A year later, former Premier Wen Jiabao proposed the concept of "*good neighborhood, secure neighborhood, and wealthy neighborhood*" (*mulin, anlin, fulin*) (Swaine, 2014). President Hu Jintao then put forward the concept of "*harmonious worldview*" to mitigate the fear of "*China threat*" as well as strengthen its relations with neighbors. China claimed to "*become a responsible stakeholder in the international community*" and represented an active role in 1997-98 Asian financial crisis such as providing financial assistances, support to establish new regional economic cooperative mechanisms, and so forth. Beijing also offered the "*new security concept*" based on Five Principles of Peaceful Coexistence, viz. "*mutual trust, mutual benefit, equality and cooperation*". The "*good neighboring*" policy continued to be completed and described further in 2005 White paper on China's Peaceful Development. Particularly, the "*good neighboring*" policy's objectives are preserving a beneficial and stable neighboring relations, and facilitating China's focus on economic development.

An important shift is the September 11 incident in 2001 which causes basic changes in American foreign policy and leads to the United States' neglect in Asia. It enables China to supplant the U.S.'s presence and achieve the economic and diplomatic influence in the region.

Thus, China quickly promotes periphery policy to generate a favorable and stable international environment to serve China's economic modernization and national security. Nevertheless, as a process of rising, China although paid attention more on its periphery, its general diplomatic framework still put higher priority towards great powers' relations.

However, China's policy directions toward each of its peripheral areas differentiate according to major geostrategic region: Northeast Asia, Southeast Asia, South Asia, Russia, and Central Asia. Of these, Northeast and Southeast Asia are the most strategic regions. China regards them as main strategic fronts, which generate the main engine for China's rise due to their prosperous and dynamic economies, mature production network, and dense population. Whereas, the western and northern neighbors (mainly Central and South Asia) in Chinese policy directions play a strategic rear to secure China's development. In fact, western and northern neighbors are less dynamic, lower size of GDP, poorer, and some are landlocked and remote areas. However, owing to their considerable reserves of natural resources (especially uranium, gold, and rare earths), oil and gas, these are remarkable supply sources of natural resources and energy for China's high growth.

3. Periphery Diplomacy – New direction in China's periphery strategy after the 18th Party Congress

3.1. New directions of Chinese foreign policy framework after 18th Party Congress

As aforementioned, China's grand strategy in almost three decades could be shortened as *"secure and shape a security, economic and political environment that is conducive to China concentrating on its economic, social, and political development"* (Zhang and Tang, 2005: p.48). In 18th Party Congress Report¹, general foreign policy framework was still ranked as great powers (United States, EU, Japan and Russia), periphery (all countries surrounding China), developing countries (all lower income countries, including China), multilateral organizations (UN, APEC, ASEAN, etc.), and public diplomacy. The report also declares to *"establish long term, stable, and healthy new type of great power relationships"*; *"consolidate good neighborly and friendly relations"* with the periphery; supporting the *"representation and voice"* of developing countries in international affairs; *"advance the development of an international order and system in a just and reasonable direction"*; and should *"promote people to people exchanges and protect China's rights and interest overseas"* (Heath, 2014).

However, later on Xi Jinping fundamentally changed this order which elevated the Asian countries (referred as "periphery") and downgraded major powers. Repeatedly in 2013, Xi's first

¹ See "Full text of Hu Jintao's report at 18th Party Congress", *Xinhua* 17/11/2012.

year in office, there was three important conferences concerning China's foreign policy (Heath, 2013). Of which, the Central Work Conference on Periphery Diplomacy² on October 2013 held by Chinese Communist Party was an unprecedented and expanded forum on diplomacy to China's surrounding countries (Swaine, 2014). More than a year later, the Central Work Conference on Foreign Relations³ in November 2014 described more explicitly fundamental shifts in China's diplomacy policy which listed Asia the periphery at first priority, then developing countries, major powers, and multilateral organizations at last (Heath, 2014). In both these broad conferences, Xi consistently confirmed the importance of attaching China's development to its neighbors in order to create a favorable international environment for China's rise.

3.2. The motivations behind changes in China's periphery strategy

The major motivations behind Xi's sudden shifts in the 18th Congress report's foreign policy guidance could be listed as followed:

Firstly, the economic strength and clout are owing to rapid economic growth (over 10% in more than three decades). According to IMF statistics, China's nominal GDP in 2014 at US\$10.38 trillion makes China along with the United States (2014 GDP of US\$17.42 trillion) become the two only single economies above the US\$10-trillion mark. During China's economic rise, China has become the biggest and most important hub in regional and global production network, as a "world factory". Consequently, China's rising regional economic clout in combination with strong financial resources from long-time large trade surpluses have produced economic resources and instruments for China to conduct more ambitious foreign policies.

Secondly, China's export and capital-based economic model led to abuse of inputs and resources, and especially extreme excess production capacities. After 2008-09 global financial crisis and European debt crisis, remarkable foreign demand decreases from main markets in US and EU deteriorated Chinese exports. Furthermore, Chinese government's huge stimulus packages to overcome the crisis chiefly concentrated on infrastructure construction, real estate, etc which resulted in surplus goods and labors in construction industries. Besides, China announced its economy ushering in the "new normal" of medium-to-high growth and development. China, thus,

² See more Mu, Xuequan (26/10/2013) Xi Jinping: China to further friendly relations with neighboring countries, *Xinhua*

³ See more Yan (30/11/2014) China eyes more enabling int'l environment for China peaceful development, *Xinhua*; "The Central Conference on Work Relating to Foreign Affairs was held in Beijing", *Ministry of Foreign Affairs of the People's Republic of China*, 29/11/2014.

must search for new economic engines from its periphery in order to maintain its economic growth and stable society.

Thirdly, Asian integration process is facing an emerging "dual structure", also known as "Asia Paradox": closed linked economic economies in tandem with political conflicts among regional members. Particularly, such tensions are historical and territorial disputes in Sino-Japan and Korea-Japan relations, South China Sea disputes, and so on. Therefore, China desires to take the leadership and connectors to overcome this knot.

Fourthly, China's development strategy initiated from pilot models which cause the too serious regional disparity between coastal regions and inter, western regions. Besides, China is really concerned about suppressing internal unrest among ethnic minorities including Mongols, Tibetans and Uighurs with the dangers of terrorism, separatism and extremism. As a consequence, it's necessary for China to seek development strategies linking the wealthy dynamic eastern and the poor under-developed inner and western regions; diminishing large regional disparity.

Fifthly, it is necessary to make relevant responses to external challenges especially to counterbalance America's "*pivot to Asia*". Indeed, 18th Congress report still emphasized on building "*new type of great power relationships*" based on avoiding non-conflict and non-confrontation, mutual respect, and win-win cooperation. In the first year in office, President Xi's visit to Russia in March 2013, Premier Li Keqiang's trip to India and Pakistan in May 2013, and the most planned Xi-Obama summit in Sunnylands (USA) in June 2013 revealed Xi's strive for building new type relations with such major powers. Nevertheless, Xi's proposals to the US's President B. Obama weren't successfully achieved as expected, which led to China's upgrading its periphery. Additionally, Japan's joining the US-led Trans-Pacific Partnership in March 2013 totally forced China's strategic adjustments due to fears of the U.S.'s encircling strides against China. Basically, the main objectives of Beijing's periphery strategy are deterring America's "rebalance", preventing the formation of anti-Chinese alliance in its periphery, and weakening the U.S.'s alliances.

3.3. Contents of China's new periphery diplomacy

In the October 2013 Conference on Periphery Diplomacy, President Xi reiterated the period till 2020 as a "*period of strategic opportunity*" for China's growth and development. China, therefore, must search for a periphery environment of "*peace, stability, and common development*" to serve domestic reform and growth. To obtain this objective, Xi Jinping stated that periphery

diplomacy must strive to “make our neighbors friendlier in politics, economically more closely tied to us, and have deeper security cooperation and closer people-to-people ties”⁴.

Definition of China's periphery: Many Chinese scholars brought forward many the “periphery” definitions which are almost close to the connotation of China as a “central country” (*zhongguo*). One popular concept referred to three rings: the “inside ring” includes 14 nations sharing land borders with China; the “middle ring” covers China's maritime neighbors; and the “outer ring” extends to circle of Africa, Europe, and America – or almost entire globe (Swaine, 2014). However, China government's official documents stated a less broad and complex definition which focuses on small and middle countries around China including East Asia, Russia, Central Asia, South Asia and Southeast Asia (Thomas, 2015).

Principles of periphery diplomacy: According to Chen X. (2013) and Ranade (2014), Xi pointed out four basic periphery diplomacy principles based on four key Chinese characters: *Qin* (friendship, amity), *Cheng* (sincerity, earnestness), *Hui* (benefit), and *Rong* (inclusiveness). Of these, *Qin* refers that China will develop close relations with its periphery through frequent visits. *Cheng* means China's enough sincerity to solving neighborhood problems. *Hui* refers the principle of mutual benefit; desire to weave a regional network of common prosperity. *Rong* means that Asia and Pacific regions are wide enough to include all parties for common development. In addition, as mentioned by Xi, policy directions for conducting periphery diplomacy consist of four guidance: i) enhance political good will (*mulin*), ii) deepen regional economic integration (*fulin*); iii) improve regional security cooperation (*anlin*), and iv) increase China's cultural influence (*wenlin*). In comparison with former Wen Jiabao “good neighborhood, secure neighborhood, and wealthy neighborhood” (*mulin, anlin, fulin*), *Wenlin* have been added in the new directions, which Xi concentrated on increasing China's cultural influence and improving its soft power in the regions.

Categorizing neighbors into different groups of treatments: From Chinese perspectives, many Asian countries still retain dual attitudes: while they increasingly become dependent on China for economic benefits, they tend to rely on the U.S. for its security and military protection. This situation brings opportunities for the U.S.'s presence in Asia, and support the U.S.'s “rebalance” to Asia. China's foreign policy, thus, will reflect the different treatments for China's “friends” and

⁴ See Mu, Xuequan (26/10/2013) Xi Jinping: China to further friendly relations with neighboring countries, *Xinhua*; and “Important Speech of Xi Jinping at Peripheral Diplomacy Work”, *China Council for International Cooperation on Environment and Development*, 30/10/2013.

"enemies". The categorization by Xue and Xu (2015), however, divided China's neighbors into three groups:

- i) *medium and small countries*: China continues building amicable, tranquil and prosperous neighborhood based on mutual trust, mutual benefit, equality and cooperation;
- ii) *neighboring "pivot states"*: those characterized by reliability to China and certain amount of strength such as Pakistan, Cambodia, Singapore, Turkmenistan as well as S. Korea, Thailand, Myanmar and Malaysia, with those China must form strategic "reliable" relations; and
- iii) *neighboring sub-regional great powers*: that China needs special attention and balance like Russia, Iran, Saudi Arabia, Turkey, Kazakhstan and India on China's south and west; and Indonesia and Japan in the southeast and northeast.

Such groups could become China's guidance in its foreign policy with its neighbors. As Xi stressed on *"friendship and loyalty between China and its neighbors .. is more significant than its sounds"*, nations express loyalty and friendliness will deserve to benefit from China's rise. Peripheral areas will receive substantial goodwill from China, but these countries need to show political support for China's regional goals vice versa.

Tough approaches towards China's sovereignty and territorial integrity: In the two central conferences, President Xi has twice reaffirmed *"safeguard the nation's sovereignty, security, and development interests"*. He also declared that China would never sacrifice its legal and fundamental core interests. Thus, China's periphery diplomacy refers as means to implement China's security goals, promote China-centered regional economic integration, generate new engine for China's growth. China also continues strictly conducting its own territorial claims. In dealing with its neighbors, China will perform both sticks and carrots to prevents surrounding countries pursuing policies detrimental to China's interests.

4. China's strategies promoting China-centered regional economic integration

4.1. China's participation and influence mechanisms in peripheral areas

During China's strong economy resurgence, its economic strength is increasing and becoming a regional economic dominance. Simultaneously, China gradually pulls its peripheral countries closely tied to its economic development. China has gradually established effective channels to expanding its influence in the region. In terms of trade, China, degree by degree, had become the biggest and most crucial trade partners of almost regional economies. Thanks to

China's "go out" strategy, Chinese investment in its surrounding areas has accelerated in volume and influence in spite of main focus on resource- and energy-based low-tech industries. Besides, due to its advantages over the Western's high-quality aids, Chinese financial assistances have progressively become a complement donor even substitute for the Western's funding sources. In financial realm, China has deployed long strides in internationalizing its RMB in regional level. There has been a rapid rise in using RMB in cross-border trade settlement and Chinese outbound investment. Chinese import-export firms can choose RMB for quoting prices, settling accounts and payments. Up to July 2015, China signed 20 bilateral currency swaps with its neighbors (of 32 agreements in total) including Korea, Malaysia, Indonesia, Uzbekistan, Kazakhstan, Russia, Thailand, Pakistan, Australia, etc. China also has actively participated in regional financial organizations and expanded its voice on regional financial affairs such as joining in Southeast Asian Central Banks, Central Bank Governors Club of Central Asia, the Black Sea Region and Balkan Countries, as well as Chiang Mai Initiative Multilateralization (CMIM).

Since the 2000s, China positively and actively has taken part in regional cooperative mechanisms. The objectives of elevating China's position in multilateral organizations and creating new patterns of regional economic integration were continuously emphasized in the latest 18th Congress. China successfully manage to enhance its voice and influence in current mechanisms like Asia-Pacific Economic Cooperation (APEC), ASEAN-centered mechanisms, BRICS, Shanghai Cooperation Organization (SCO), Asia-Europe Meeting (ASEM), Conference on Interaction and Confidence-Building Measures in Asia (CICA), Eurasia Economic Union (EEU), etc. Through these platforms, China could spread its economic, diplomacy, and political ascendancy over Asia, and counterbalance America's alliances in Asia-Pacific.

Concerning each sub-region, China has formed effective cooperative mechanisms to expand its influence. Of these, China has constructed good, amicable, and effective relations with Southeast Asian countries. Nevertheless, China has contributed substantial role in bilateral, regional and multilateral mechanisms such as ASEAN Regional Forum (ARF), ASEAN Foreign Ministerial Meeting, Enlarged ASEAN Foreign Ministerial Meeting, ASEAN+China programs, ASEAN+3 meeting, East Asia Summit (EAS or ASEAN+6), Shangri La Dialogue, etc. China also was the first partner signing free trade agreement with ASEAN in 2003, which is the first ASEAN plus FTA model between ASEAN and its partners. With Northeast Asia, China, Korea and Japan in turn hold trilateral summit annually and they are jointly negotiating China-Japan-Korea FTA. Despite unsolved controversies in Sino-Japan relations, China takes advantage of people-to-people contacts to manage disputes and secure its interests. Beijing also has successfully enticed Korea, the US's

core ally in East Asia, with extremely closely tied economic and diplomatic linkages, and resulting in a China-Korea FTA signed in June 2015. Relations between China and Australia and other Oceanian countries has upgraded substantially, which moved up to “*strategic partnership*” and a potential Australia-China FTA in 2014.

In Central and South Asia, China, Russia and three SNG countries founded Shanghai Five forum in 1996, which upgraded to Shanghai Cooperation Organization (SCO) in 2001 with six members (namely Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan). As the most economically dominant power, China unilaterally provided many financial supports for SCO members as “*credit-for-energy*” projects and upgraded all five Central Asian countries and Russia to “*strategic partnership*” relations. SCO currently has approved for the entry of India and Pakistan those are expect to become official member in 2016. In the meantime, other four observers like Iran, Belarus, Mongolia and Afghanistan are waiting for the approval of membership. Especially, the SCO annual meeting was held simultaneously with BRICS Summit in July 2015 in Russia. It also reveals Russia and China’s strive to advance SCO’s ascendancy as a new platform for emerging and developing countries in international political arena. This combination represents Russia’s geostrategic ambition in the context of isolation by the Western and America. However, the dual summit gave chances for China to promote its mega projects and expand its influence. In 2015 BRICS-SCO summit, China and Russia agreed to coordinate their two flagship economic initiative in Central Asia, namely the Russian-led Eurasian Economic Union (EEU) and China’s Silk Road Economic Belt (SREB). Moscow and Beijing jointly declared “*to make coordinated efforts toward the integration of constructing EEU and SREB*” and the SCO will serve as the main platform for linking up such Eurasian initiatives. This represents Russia and China’s geostrategic ambition to cooperative and share interests in Eurasian regions which Russia had held its dominance.

4.2. China-backed mega regional trade agreements

Right after the United States announced the strategy of “*pivoting*” or “*rebalancing*” to Asia along with deploying the Trans Pacific Partnership (TPP) agreement as an economic pillar of this “*rebalance*” strategy. China quickly provided financial supports to some ASEAN countries and promoted the formation of a new mechanism to counterbalance TPP. Then, the Regional Comprehensive Economic Partnership (RCEP) agreement was launched in November 2011 by ASEAN. This is combination of five current ASEAN+1 FTAs with six partners, including China, Japan, Korea, India, Australia and New Zealand. While TPP is a trade agreement of 12 members within Pacific Rim, RCEP is an ASEAN-centered enlarged East Asian trade bloc. RCEP started to

negotiate in May 2013 and has currently been undergone eight rounds. RCEP is expected to liberalize 95% trade in goods and primarily concentrates on the liberalization of manufactured products (i.e. main products in East Asian production network). During trips to Southeast Asian countries, Korea and Australia, and so forth, Chinese leaders always mobilize to promote RCEP to early conclude as scheduled. Additionally, in 2014 APEC Summit in Beijing, while China launched huge initiatives for regional connection and cooperation, it re-promoted the free trade agreement of Asia-Pacific (FTAAP) which consists of 21 APEC economies. FTAAP actually was supported by Washington in 2006 but after that quickly replaced by TPP with Obama's "rebalance" strategy. Beijing then proposed all APEC members to jointly implement feasibility research projects towards establishing FTAAP in 2025. Nevertheless, this proposal was not encouraged by the majority of APEC economies because of U.S., Japan and other countries' disapproval. In fact, although the future of FTAAP is still unpredictable; both currently negotiating mega trade deals: TPP and RCEP, scheduled to completed by the end of 2015 with unrevealed negotiation processes, imply the geopolitical and geoeconomic competition between an old superpower (the United States) and an emerging great power (China).

4.3 "One belt, one road" Initiative: The mega architecture for China-centric inter-regional connections

On the visit to Kazakhstan in September 2013, President Xi initially proposed to set up "Silk Road Economic Belt" (SREB) initiative to connect China to Europe via Central Asia. Several weeks later, Xi unveiled the idea to construct "the 21st Century Maritime Silk Road" in his trip to Indonesia. After that, such two directions were combined in the mega "One Belt, One Road" program, which gradually has become the key agenda in China's diplomacy activities such as 2014 APEC, 2015 Boao forum, 2015 ASEM, etc. According to China's State Council's *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*⁵, the cooperation priorities among economies along "One Belt, One Road" trade routes jointly implement "five connections" as followed:

- *Policy coordination*: promote intergovernmental cooperation, build multi-level intergovernmental macroeconomic cooperation mechanisms, and coordinate their economic development strategies and policies.

⁵ See "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", 28/3/2015.

- *Facilities connectivity*: weave a dense infrastructure connection networks among Asian, European, and African regions focusing on key passageways, railways, port infrastructure constructions, maritime logistics technology, civil aviation cooperation, energy infrastructure, and communications networks.
- *Unimpeded trade*: improve investment and trade facilitation, remove investment and trade barriers, cooperate in energy and mining industries, and create an integrated industrial chain of energy and resource cooperation.
- *Financial integration*: expand bilateral currency swap and settlement, develop bond market in Asia, jointly establish Asian Infrastructure Investment Bank (AIIB), BRICS's New Development Bank, Silk Road Fund; improve risk response and crisis management.
- *People-to-people bond*: relate to public support for the initiative regarding to cultural and academic exchanges, personnel exchanges, media cooperation, youth and women exchanges and volunteer services.

Earlier, during the visit to India and Pakistan in May 2013, Premier Li suggested building China-Pakistan Economic Corridor (CPEC) and Bangladesh-China-India-Myanmar Economic Corridor (BCIM) to enhancing regional integration based on mutual benefits, cooperative and win-win cooperation. However, in ASEM meeting in May 2015, Vice-Premier Zhang Gaoli said China had intended to build six economic corridors with countries along the Belt and Road trade route, viz. China-Mongolia-Russia, New Eurasian Land Bridge, China-Central and West Asia, China-Indo-China Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar⁶. Such corridors all belong to the "One Belt, One Road" initiative with the aim of creating a regional economic network converging to China. Notably, China has established transportation corridors via Pakistan (through the Chinese-operated Gwadar Port, proposed railway to link the Sino-Pakistani-built Karakoram Highway and Western China), Myanmar (through the Kyaukphyu Port then through the railway and pipeline to Yunnan) and Thailand (through the proposed Chinese-funded Kra Isthmus canal project) and more than 10 other ports along the Maritime Silk Road (referred as "*String of Pearls*" by the U.S.'s government") (Pitlo, 2015). Those connections will bolster China to master both land and sea trade routes and avoid the risks of being controlled by rivals or infested with terrorists and pirates since China primarily relies on narrow straits like Malacca (Indonesia-Malaysia), Hormuz (Iran-Oman), and Mandeb (Yemen-Djibouti-Eritrea).

⁶ See He, Yini (28/5/2015) "China to invest \$900b in Belt and Road Initiative", *Chinadaily*.

To generate domestic and multilateral finance sources for deploying key projects in “one belt one road” initiative, China set up Silk Road Fund (SRF, US\$40 billion), promoted for the formation of Shanghai-based New Development Bank (NDB, US\$100 billion, 5 members), Beijing-based AIIB (US\$100 billion, 57 members). Beijing also is encouraging SCO to establish its own banks – SCO Development Bank, but this idea has not yet approved by its current members. The foundation of these banks actually implied Beijing's strive to raise its role in financial platforms and compete with current US-dominated International Monetary Fund (IMF) and World Bank (WB), and Japan-led Asian Development Bank (ADB) where China possesses limited voices. Besides, those banks will coordinate in providing alternative sources to finance key projects in the “one belt, one road” program. Meanwhile, financing sources for SRF will come from Chinese government's sovereign wealth funds like China Investment Corp., and two policy banks, the Export-Import Bank of China and China Development Bank. China also plans to establish new banks to pour billions of dollars into projects in the “one belt one road” such as Maritime Silk Road Bank which might attract 100 billion of RMB (\$16 billion)⁷. Accordingly Zhang Gaoli's speech in 2015 ASEM meeting, China Development Bank, China's big policy bank, would invest more than \$890 billion into more than 900 projects involving 60 countries. And over \$10 billion has been poured into projects covering coal and gas, mining, electricity, telecommunications, infrastructure, agriculture, and so on⁸.

To sum up, the mega “one belt, one road” initiative on the first pace needs to mobilize countries along the initiative to obtain their approval and coordinate in development policies. The second priority is conducting infrastructure projects such as roads, ports, highways, oil and gas pipelines, etc. This infrastructure connection network facilitate trades and investments and other cooperative activities by reducing costs, transportation time from China via Central Asia to Middle East, Europe and Africa. Along with this process, trade and investment will be jointly promote lead to regional economic integration; establishing new connections of financial coordination. Financial integration also belongs to China's key plans to internationalize its currency to let RMB become a trading, investing and reserve currency. China also strengthens people-to-people contacts, also known as public diplomacy, in order to enhance its soft power, improve its imagination and secure its interests. This big initiative will become a new engine for China's growth, especially China is trying to move to new pattern of economic development characterized by slower growing rate, known as “new normal” stage. Remarkably, the Silk Road Economic Belt also concentrates on

⁷ See Zhang, Yuzhe (12/3/2014) With new funds, China hits a Silk Road stride, *Caixin online*.

⁸ See He, Yini, *ibid*.

developing transportation and other infrastructure network connecting from eastern to the inner and western regions which are much less developed than the coastal eastern areas. Such western regions like Xinjiang and Tibet are at risks of terrorism, separatism and extremism which are easily exploited by China's rivals. In a map published by China's state-owned Xinhua news agency, there are 14 "stops" on the land-based Silk Road and 14 on its maritime silk road. Of which, 10 "stops" are Chinese cities, it is truly that the mega initiative firstly favors China's inner development. Therefore, SREB and its branch economic corridors will help China's government can either develop its inner and western regions or effectively manage conflicts, terrorists and separatists in those regions. In the meantime, the sea-based one let China conduct its maritime ambition in Indo-Pacific and continuously strengthen its traditional ascendancy with littoral countries from East Southeast Asia to South Asia, Middle East and Africa.

5. Policy implications for Vietnam

In conclusion, although China's peripheral areas were always paid attention by Chinese leadership generations, the emphases and broadened popularization on China's periphery represents President Xi's diplomacy shift towards its periphery over other foreign objectives like great powers, developing countries or multilateral organizations. In the periphery diplomacy, China also show their strong political will to promote its relations with its surrounding areas, require their friendliness and loyalty, and put forward its high warning to the countries being hostile or opposing China's proposals. Indeed, the U.S. after the World War II adopted Marshall Plan and Most Favored Nations (MFN) to facilitate trade among capitalist systems, expand its dominance, and lever up Europe's and U.S.'s allies' economies. China, similarly via mega regional economic connection strategies, seems to utilize trade and investment as main instruments to expand its influence, and create China-centric regional integration. Since then, China could take full advantage of economic statecraft via using economic instruments and actors to effectively achieve its foreign objectives. On the other hand, China's "*marching westward*" and America's "*pivot to Asia*" as well as other major powers' actions all show severe geopolitics, geo-economics competition mainly in Asia-Pacific region.

According to Chinese influential scholars and officials such as Yan Xuetong (Zhao, 2003) and Xue and Xu (2015), in categorization of China's neighboring countries, Vietnam belongs to small and medium countries which want to maintain current balancing relations between China and US. Vietnam also is not a "*pivot state*" which holds geostrategic position to China and shares common strategic interests with China. Consequently, China's main stream policies towards Vietnam surely continue the cooperation and containment policy, and strict approach to maritime

territorial disputes. Vietnam, therefore, should retain traditional relations with China but in more self-controlled ways. Vietnam simultaneously needs to participate positively in China's temporary integration programs like RCEP, AIIB. However, regarding to projects in "one belt, one road" initiative, Vietnam should carefully find out China's far-reaching goals, especially should take references from the attitudes of Japan, the U.S., India, and ASEAN countries, etc. Notably, China's mega "one belt, one road" initiative has only been received limited supports from relevant countries

China currently could access, exploit and control some strategic ports linking from Pacific to Indian Ocean, which known as "*string of pearls*". China also has developed its far sea military capability along the land-based and sea-based Silk Road. As China showed tough claims on territory in conferences relating to foreign policy and periphery diplomacy, China firmly will quickly promote People's Liberation Army Navy (PLA-N) modernization. Its unilateral actions in near seas regions such as East China Sea, and South China Sea will be more definitive. Meanwhile, Vietnam obviously is a small state at a geostrategic position to many major powers like the U.S., Japan, EU, Korea, so on. Therefore, Vietnam should implement carefully balancing strategies among major powers so as to guarantee its survival and its economic and political interests. Accordingly, it is necessary to rise up the strategic partnership relation with the U.S., upgrade the relations with Japan and take advantage of Japan as strategic channel to enhance America-Vietnam relations. Moreover, Vietnam and Japan and some other countries like Philippines share many common interests as well as concerns about maritime territorial disputes with China. Vietnam and Japan both are negotiating U.S.-led TPP. Vietnam, thus, needs to promote bilateral diplomatic, political and economic relations with Japan, attracts high-quality Japanese investments which are seeking to withdraw from Chinese markets.

China currently tries to convince Thailand, Malaysia and other relevant countries to conduct Kra Isthmus canal project. Once the Kra Isthmus canal is completed, it will diminish significantly the transportation time and costs between Indian and Pacific Ocean due to not depending on Malacca chokepoint which accounts for approximately 80% transportations by sea. Vietnam, therefore, need to quickly implement the high-quality port in Ca Mau. This port not only promotes Vietnam's economic development, it also accelerates Vietnam's strategic position in major powers.

As China rapidly promotes its regional ambitious strategy and it possesses huge financial capability and economic influence channels, small states like Vietnam should keep careful eyes on China's actions. Notably, the "one belt, one road" initiative is still on the process of improvement

and adjustment. Vietnam should create think tanks or task forces for profound research and keeping tracks of China's actions and other counterparts' attitudes in order to timely bring forward relevant policy responses for Vietnam.

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