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Vietnam's Economic Hedging Amid U.S.-China Competition: A Neoclassical Realist View

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Abstract

The thesis examines Vietnam's evolving economic hedging strategy in the context of intensifying US-China geoeconomic competition, challenging portrayals of its foreign policy as reactively neutral. Contrary to classic hedging frameworks, underpinned by the logic of power transition, Vietnam's post-2010 behavior reveals a marked asymmetry: deliberate resistance to China's economic influence alongside proactive concessions to the United States. This divergence persists despite Vietnam's comparable asymmetric interdependence with both powers, suggesting systemic forces alone, such as geoeconomic uncertainty or power asymmetry, cannot fully explain its strategic calculus.

Employing a neoclassical realist lens, the study demonstrates how domestic intervening variables, such as strategic culture, domestic institutions, and state-society relations, filter and shape the contours of systemic pressures. The thesis argues that Vietnam has adopted an economic hedging strategy with a specific patterns of selective defiance against China and selective deference to the U.S. The thesis reveals how Vietnamese policymakers instrumentalize economic statecraft to reconcile structural constraints with domestic imperatives, such as regime stability and developmental goals. Ultimately, the findings suggest that hedging is not a passive oscillation but a calibrated, domestically grounded response, offering a framework for analyzing foreign economic policy behavior of small states in an era of contested globalization.

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Abbreviations

ASEAN - Association of Southeast Asian Nations

B3W - Build Back Better

BRI - Belt and Road Initiative

CCP - Chinese Communist Party

CPTPP - Comprehensive and Progressive Trans-Pacific Partnership

EU - European Union

GDP - Gross Domestic Products

NCR- Neoclassical realist

SEA - Southeast Asia

TPP - Trans Pacific Partnership

U.S. - United States

VCP - Vietnamese Communist Party

CHAPTER 1: INTRODUCTION

1.1 Context, main concepts, and the research puzzle

Strategic competition between the United States and the People's Republic of China is indeed the core geopolitical force shaping contemporary international relations. The rising power challenging the status quo has brought immense uncertainties to the international system, especially in the region of Southeast Asia. Uncertainties of competing powers are the main features of the Asian security order, where the revisionist power has yet to emerge, yet the status quo has yet to decline. Caught in-between the two great powers, ASEAN countries, as observed by scholars, have been adopting hedging to cope with structural imperatives, which are an ambiguous US-China power transition, and the pervasive mistrust associated with a long-anticipated shift to a multipolar system (Jackson 2014). However, the nature of this rivalry isn't simply ideologies divided by bloc or in a traditional understanding of security. It is indeed underpinned by interdependence and heightened globalisation. Instead of incorporating territory into blocs divided by ideologies, the spatial logic of US-China rivalry is about competing on the global scale for centrality in multiple networks, such as infrastructure (logistics and energy), digital, production, and finance (Schindler et al, 2024). With the development of globalization, the complexity and dynamics of trade and economic relations between nations are characterized as "interdependence" (Keohane & Nye, 1987).

In a quest for regional connectivity and network centrality, secondary states are being leveraged by the rising power to expand its influence, while the established power uses them to contain that rise (Faisal, 2021). As the United States and China intensify their competition across various domains, from trade and supply chains to infrastructure and strategic technology. Economic statecraft, comprising *both* sanctions and incentives, is a tool that "states and international institutions can employ effectively to extract meaningful foreign policy concessions from other states" (Blanchard and Ripsman 2015). China's use of economic statecraft, or leveraging economic power to achieve foreign policy goals, is evident in various actions, including the use of trade restrictions, investment, and financial flows to exert influence

and achieve objectives like technology transfer and influencing foreign policy decisions. In response, the US also introduced various alternatives from trade, infrastructure, and technology, to counter back. For example, in terms of infrastructure development, the Trumpian BUILD Act or Biden's B3W provides a "robust alternative to the Chinese state-directed, debt-heavy model that can leave developing countries worse off" (Sheby 2019) by building cooperation framework agreements with countries like South Korea, Singapore, and Taiwan. Other competing initiatives in trade include CPTPP, trade agreements excluding China, and in critical technology, such as the Clean Network Initiative, forcing countries and firms to choose between American and Chinese stacks.

Although empirical studies have predominantly focused on Vietnam's hedging patterns in its relations with China (Le 2013; Thayer 2016; Path 2018; Vu et al. 2021; Trinh 2022; Kuik and Lai 2023; Putra 2024), often neglecting the parallel strategies Vietnam employs towards the United States. The exercise of US economic statecraft is equally effective as China's. Dreher et al 2008 used a disaggregated analysis to analyze the influence of US aid on voting patterns at the UNGA. The paper found that there is compelling evidence suggesting that general budget support and grants induce recipients to vote in line with the United States.

The theme of "economic dependency" on China and "weaponized interdependence", from expansive Chinese-financed infrastructure, Chinese technology, and the trade deficit between Vietnam and China, is often argued as a source of political tools to leverage Beijing's interests in the South China Sea. As a result, Vietnam has been adopting hedging as a strategy to cope with Beijing's overwhelming economic influence in the country since 2010 (Liao & Dang 2019). The country, though, shows support for the initiatives, hedges with resistance by pushing back not only on infrastructure projects by also on technological investments (D.V Trinh 2022; Kuik 2024). As evidenced, the value of Chinese-backed infrastructure has declined drastically since 2010 (Vietnam Ministry of Finance 2016), and Vietnam has excluded Huawei from its 5G networks (Murray 2019). Fears of falling into a "debt trap" and consequential impacts on sovereignty and security interlinked with issues in the South China Sea reflect hesitation in Vietnam's responses to such risks.

Adjusting the limitations of structural realism, neoclassical realism highlights the importance of human agency in foreign policy making. While maintaining the realist assumptions of the anarchic system, NCR rejects simple separation of internal and external variables (Rose 1998), instead arguing that unit-level variables intervene and filter out systemic stimuli, shaping specific foreign policy responses. These intervening variables include leaders' perception, domestic institutions, strategic cultures, public pressures on decision-makers, bureaucratic processes, etc…

To put it succinctly, while systemic pressures determine the strategies that states choose to adopt, the tools and tactics that states choose to enact those strategies are heavily influenced by uni-level conditions (Gotz 2021).

1.2 Research Puzzles

As an export-oriented economy that is heavily reliant on China for its imports and on the United States for its exports, Vietnam is asymmetrically interdependent on both powers, where Vietnam exerts lesser influence and is more dependent. This raises a key question: given its economic vulnerabilities to both powers, why does Vietnam appear to perceive China as a greater risk than the United States? Why does Vietnam exhibit a shift in greater resistance to China and greater concessions to the United States?

Deborah Brautigam, the director at the China-Africa Research Initiative at Johns Hopkins, challenges the narrative of Chinese “debt-trap” diplomacy, which are often oversimplified and lacks nuances. She argues that fear, negativity bias, and concerns about China’s overseas engagement cloud the truth and falsely portray China's intentional use of BRI. Examining Sri Lanka’s port project, she finds no evidence that China deliberately ensnared the country in debt to seize assets. Instead, Sri Lanka’s borrowing stemmed from its own fiscal needs, boosting foreign reserves to repay Western bonds, while China’s involvement was driven by commercial, not military, interests. Thus, how exactly do policymakers and elites perceive the intentions of China? How do they weigh the risks and benefits of both great powers' economic statecraft?

What are the driving factors at the domestic level that motivate or constrain the perceptions of Vietnam's elite foreign policymakers?

1.3 Case Selection, Research questions, methodology, and significance

Vietnam is often seen as a "classic case of hedging," and its hedging forms and patterns are classified as a "heavy hedger" (Murphy 2017, Kuik 2022). The case of Vietnam's economic hedging is particularly compelling in the context of heightened uncertainty stemming from potential economic risks under the Trump 2.0 administration. Given the U.S.'s record of unilateral economic measures, such as tariffs, currency manipulation accusations, and inconsistent trade frameworks (e.g., TPP abandonment, IPEF ambiguities), Vietnam faces significant vulnerabilities as its largest export market. Unlike the extensive scholarly focus on China-related risks, Vietnam's hedging behavior toward the U.S. receives inadequate attention, despite the profound asymmetry in their economic relationship. A Trump 2.0 presidency exacerbated these risks through renewed protectionism, punitive trade policies, or further rejection of Vietnam's market economy status, threatening Hanoi's export-driven growth. At the same time, Beijing is capitalizing on this opportunity and kicking off its "offensive charm" Southeast Asia tour to offer stability to a China-led supply chain. After visiting three ASEAN countries, Malaysia, Vietnam, and Cambodia, China has signed multiple agreements in regards to infrastructure projects such as railways, technology, healthcare, and supply chain cooperation. On one hand, President Xi has warned nations not to cut US trade deals at China's expense. On the other, President Trump commented the meeting between Xi and To Lam to "screw the United States of America." Caught at the fire crossroads, southeast asian states are forced to walk on a tight rope to navigate a feckless America and a reckless China. The thesis argues that Vietnam still opts for hedging under the conditions of remaining uncertainty. This means that hedging continues to persist unless there appears to be a clear regional hegemon, states will start to bandwagon; unless there appears to be a clear threat, states will start to balance against. (Jackson 2014; Kuik 2021)

This case offers a unique lens to explore how secondary states recalibrate hedging strategies when facing dual uncertainties: the coercive economic pressures from the U.S. and the economic inducement from China.

Therefore, the research questions are the following:

(1) What are the patterns and contours of Vietnam's economic hedging admid US-China competition?
(2) How and to what extent do domestic-level variables interact with systemic pressures, that is asymmetric interdependence, to shape Vietnam's economic hedging?

1.3 Methodology

To investigate how domestic agency influences the secondary states' responses to great power deployment of asymmetric interdependence in Southeast Asia, a qualitative case study analysis research approach is employed. This approach allows for an in-depth examination of specific instances, providing rich empirical detail to understand complex foreign policy phenomena. Drawing from the Neoclassical Realist (NCR) model, four clearly defined intervening variables—leaders' perceptions, strategic cultures, domestic institutions, and state-society relations—are operationalized into thematic groups to classify and analyze the data. For practical analytical purposes, "leaders' perceptions" and "strategic cultures" are combined into a single group due to their intertwined nature in shaping political governance and foreign policy orientation within the selected cases.

Using statistical data on trade and investment flows. Analysis on key policy documents, initaitves, and government official speeches.

An interpretative qualitative content analysis is then conducted on the collected textual data for each variable. Arguments are assessed by meticulously identifying recurring themes, patterns, and causal links within the textual evidence, interpreting how these domestic elements filter and shape responses to external stimuli. This involves a systematic review of the content to discern the underlying perceptions, motivations, and strategic calculations of the

actors involved. The sources utilized for this analysis are diverse and comprehensive, including detailed case study analyses of the selected countries, official governmental strategies and declarations, policy reports, speeches by key leaders, extensive media coverage, and relevant academic research. This rich array of primary and secondary sources provides the empirical foundation for understanding the nuances of each country's foreign policy calculus.

Systemic stimuli are broadly understood as the pervasive uncertainty in the regional order surrounding the Sino-American rivalry, which serves as the primary motivating factor compelling small states to hedge. The analysis focuses on understanding the specific nature of the intervening variables within each country, how they interpret and respond to these systemic stimuli, and ultimately, how these internal responses shape the country's observable foreign policy outcomes.

1.4 Argument and Expected Contribution to Knowledge (Specify hypothesis/ expected argument)

a. **How does Vietnam's economic hedging unfold? What are the patterns?**

- Vietnam's foreign policy towards US-China strategic competition is characterized as economic hedging, where the country diversifies its economic partners, wields resistance to engagement with China, and has concessional engagement with the US.
- Vietnam's distinctive hedging patterns are not solely a product of external pressures but are significantly shaped by internal dynamics such as strategic culture, domestic institutions, and state-society relations.

b. **What are the domestic determinants of Vietnam's economic hedging and to what extent do they influence the patterns?**

- **Strategic Culture: A Nationalistic Culture.** Public distrust of China is a powerful domestic factor. This sentiment has led to delays in China-financed infrastructure projects and the exclusion of Huawei from 5G networks. The VCP draws legitimacy not only from economic performance but also from projecting itself as the defender of Vietnamese

identity, sovereignty, and territorial integrity. This "identity-based legitimation" means no Vietnamese leader can afford to downplay China-related risks, especially concerning security and sovereignty.

- **Domestic Institutions: Elite Factionalism-** The interplay of elite factions within the Communist Party of Vietnam (VCP) influences policy. The rise of moderates and the decline of anti-Western elements have facilitated closer cooperation with the US and stronger efforts to reduce dependency (Vuving 2022). Conversely, the increasing presence of police and military elites emphasizes security concerns related to Chinese investment and technology.
- **State-Society Relations: Performance-based Legitimacy-** The public's nationalist appeals reinforce this. While balancing prosperity and autonomy, Vietnam seeks US non-market economy recognition, leading to concessions. This constant need for regime legitimacy to maintain public support and VCP survival drives the "riskification process," where elites play up or play down certain risks based on political acceptability.

The thesis contributes to the literature of hedging, extending to economic and technological hedging of Southeast Asian states, through the lens of neoclassical realism. It investigates how domestic factors act as intervening variables shaping the particular patterns of Vietnam's foreign policy responses. Empirically, the thesis contributes to the economic dependence dynamics between Vietnam and the United States and positions it in conjunction with the bigger picture of great power rivalry. Both China and the United States hold strategic importance in Vietnam's political and economic landscape. Therefore, comprehending the interconnectedness between countries with great powers, structural and domestic factors shaping such responses, is crucial to understanding Vietnam's foreign policy in general.

1.4 Thesis structure and chapter outline

This thesis is structured across five chapters to examine Vietnam's economic hedging. Chapter 1 introduces the research objectives, key questions, and the significance of the thesis's contribution. Chapter 2 conducts a comprehensive literature review, looking at scholarship accounts on the overview of Vietnam's hedging, why states hedge, and the systemic and

uni-level driving factors for distinct prospects and patterns of hedging. Building on this foundation, Chapter 3 develops the theoretical framework by operationalizing the concepts of economic hedging strategy, underpinned by asymmetric interdependence, and unpacking the neoclassical realist framework. Chapter 4 operationalizes the framework by conducting the empirical analysis, investigating Vietnam's bilateral management of U.S. and China relations during strategic competition, and assessing how unit-level factors such as strategic culture, domestic institutions, and state-society relations filter out systemic stimuli and shape Vietnam's foreign policy response. The concluding Chapter 5 synthesizes key findings, discusses their theoretical and empirical implications, potential limitations, and future research recommendations.

CHAPTER 2: LITERATURE REVIEW

Vietnam's hedging strategy amid US-China rivalry has been extensively examined and conceptualized in academic literature, with scholars offering diverse perspectives on its motivations, manifestations, and domestic determinants. First, the review provides an overview of existing accounts of how Vietnam has hedged in economic terms. The discussion then delves into the key drivers of Vietnam's hedging, considering both systemic conditions and domestic determinants that shape its scope and distinctive patterns. Finally, following a critical review of existing literature, the section identifies key gaps and shortcomings, positioning the thesis as a contribution to addressing these unresolved debates.

2.1 Overview of Vietnam's hedging

The concept of hedging—an insurance-seeking behavior and a self-help mechanism of small states vis-a-vis great powers—has emerged as a critical framework to understand how small states like Vietnam navigate the complex terrain of great power competition (Hiep 2013; Tran and Sato 2018; Liao and Dang 2019; Kuik and Tso 2021; X.D Phan 2022). As US-China rilvary intensifies across economic, technological, and security domains, Vietnam's foreign policy behavior has inreasingly been chracterized as paradigmatic case of hedging- an "insurance

policy" that reinforces active neutrality to mitigate and offset multiple risks (Ciocari and Haacke 2019; Kuik 2021).

There exists a few theoretical framework to understand "why" states hedge. The majority of earlier study of the concept assess it through the lens of classical realism, or the power transition theory and mistrust polarity (Koh 2006, Van Jackson 2014, Jones and Jenne 2022). The earlier study focuses on small states behavior in response to the growing power of China. Hence, many articles of analyzing hedging is frame as "hedge against China", or hedge against the "riskier partner" (Liao & Dang), that is China. In recent years, scholars widely agree that domestic politics play a role in influencing and shaping the various patterns of hedging in different Southeast Asian countries.

While scholars widely agree that Vietnam's approach reflects a hedging strategy contradicting neo-realists' assumptions of bandwagoning or balancing, the literature diverges on understanding and unpacking its dynamics, intensities, and implications across competitive fronts. Hiep (2013) first closely applied the hedging framework to Vietnam-China relations. He conceptualized Vietnam's hedging as a "multi-tiered, omni-directional" strategy combining four key elements: economic pragmatism, direct engagement, soft balancing, and limited hard balancing. This framework adapts hedging as the 'middle-path' from the balancing-bandwagoning dichotomy by recognizing Vietnam's simultaneous pursuit of cooperative and competitive measures toward China. The aim of hedging, for Hiep, is to balance the need to maximize economic cooperation while maintaining political stability to manage China's growing influence. Tran and Sato 2018 subsequently expanded this conceptual foundation by proposing a 'generalizable basket' of Vietnam's hedging dynamic comprised of realist and liberal components. Their research identifies how the relative emphasis on diplomatic engagement, economic engagement, soft balancing, and hard balancing shifts in response to changing domestic conditions and external security environments.

The economic aspect of hedging has proven fertile ground for scrutinizing the analysis of the concept. Liao and Dang conceptualize their definition of economic hedging based on the logic of economic statecraft and asymmetric interdependence rather than the balance of power.

Their study of Vietnam's infrastructure financing decisions marked a significant theoretical scrutiny by "bringing security back" into foreign economic analysis. Scrutinizing Hiep's 'economic pragmatism' and Tran and Sato "economic engagement", Liao and Dang demonstrated how Vietnam's declining acceptance of Chinese FDI since 2010 isn't merely about economic maximization but deliberate efforts to redue "sensitvitiy and vulnerability to Chinese economic inducements." This security-conscious component was shown to be particularly pronounced due to the country's domestic political climate and political elites' balancing act between autonomy and prosperity. Vu et al 2020 argue that, based on the logic of bandwagon-balanceing dichotomy, Vietnam's strategies towards Chinese BRI is a mixture of seemingly contradictory policies that both showing support or denials or both simultaneously . While showing support, Vietnam has only had participated in only one BRI project so far due to the fear of falling into China's debt trap and the consequent adverse impacts on security and sovereignty (D.V Trinh 2022). Kuik and Tso 2022, usefully, apply similarly to the case of Vietnam's disaster response cooperation. The authors concluded that Vietnam hedging patterns in disaster management cooperation wiht US-China is "symbolic in posture, selective in practive, but substantive in prioritized policy goals". Highlights that non-traditional security hedging is never static but dynamics. As political ends and domestic needs evolve, the meands and approaches of hedging are adjusted, modified, and transformed. When benefit-miximization and risk-mitigation contradict, a hedger tends to forego certain benefits and instead prioritise risk-contingency, especially in regards to potential harms that might undermine its strategic autonomy, maneuverability, and legitimacy. Despite resistance, economic hedging or technological hedging is all about avoiding taking binary choices and insisting on neutrality, diversification, and fallback cultivation (Kuik 2024). This is due to the unacceptable high prices of the taking-sides approach.

Zhao 2024 argues that southeast asian countries AI policies isn't simply about bandwaoning or depending on major powers, rather they represent a complex for of technological hedging. The strategy similarly to Liao and Dang and Kuik reflect a rational balance between security and economic interests in different contexts. Classified Vietnam and Singapore to adopt a strong technological hedgin strategy, seeking more cooperation and interaction with

the US or other countries due to caution and concerns about China's technological security. This itensity are primarily due to internal legitimacy pathways and the strength of backup resources. Looking at state capacity, states aim to pursue their own tech independence and autonomy with high security demands and wak interest pursuit. As US-China economic decoupling deepens, small countries facing supply chain disruptions, tech gaps, barriers to knowledge transfer, thereby weeken their tech inno capacity. Zhao argued that this uncertainties force ASEAN to strike a balance in this competition, diversify partnerships to avoid over-dependence on the tech systems of any single major power. When they cannot rely on both powers simultaneously for technological advantage.

2.2 Domestic Determinants of Economic Hedging

Scholars of Southeast Asian foreign policy have increasingly emphasized the importance of domestic linkages in shaping states' external behavior. Foreign policy in the region is not made in a vacuum but reflects leaders' efforts to balance political, economic, and security interests within distinct domestic contexts. The rise of political contestation, the partial opening of policymaking processes, and heightened scrutiny by the media and public opinion have all introduced new constraints and pressures (Murphy 2017). As a result, public pressures, interest groups, legislatures, and bureaucratic actors now exert growing influence on foreign policy outcomes. In Vietnam, the common theme centers around three factors: elite factionalism, sources of legitimacy and risk trade-offs, and public opinion.

First theme is the role of elite politics and intra-party contestation in shaping Vietnam's foreign policy responses to systemic pressures. Thayer (2017) identifies shifting sources of legitimacy, factional struggles, and the rise of new domestic actors as key factors conditioning Vietnam's approach to rising U.S.–China competition. Similarly, Vu (2024) critiques structural realist accounts for underplaying domestic dynamics, showing that Vietnam's tougher stance during the 2014 oil rig crisis was driven by the "nationalist-revisionist" camp within the Communist Party of Vietnam (CPV), which challenged conservative preferences for closer alignment with Beijing. Her historical institutionalist analysis underscores how elite agency

within the CPV conditions foreign policy outcomes. Building on this, Wu and Velasco (2023) argue that intra-party disagreements and the legacies of *Đổi Mới* reforms influence the "breadth of hedging," reflecting how factional contestation shapes the range and depth of Vietnam's foreign policy options.

The second line of scholarship emphasizes the CPV's changing sources of legitimacy as critical filters for systemic pressures. Vu et al. (2023) highlight the Party's reliance on "performance-based legitimacy" after Đổi Mới, which necessitates sustaining economic growth and diversifying partnerships while avoiding overdependence on China. Han (2018) similarly stresses that while international structures constrain smaller states, leaders' alignment choices are conditioned by how they derive legitimacy. This connects to Dung and Ho's (2022) argument that Vietnam's "cooperation and struggle" posture reflects a mix of legitimation strategies: performance-based legitimacy drives pragmatic economic engagement with China; identity-based legitimacy and anti-China sentiment encourage diversification; and defensive legitimacy sustains party-to-party ties with Beijing to safeguard regime survival from "peaceful evolution." Scholars such as Anne Murphy further frame this as a process of "riskification," where elites must decide which risks to minimize and which opportunities to maximize, a calculus shaped by domestic legitimacy concerns.

While Vietnam's one-party system might suggest limited public input, public opinion has nonetheless shaped foreign policy at key junctures. Marston (2023) argues that, although Vietnam is less responsive to public opinion than more pluralist polities, historical distrust of China and centralized policymaking still filter systemic pressures in distinctive ways. Liao and Dang highlight how strong anti-China sentiment has constrained policy, with mass protests forcing delays in Special Economic Zones perceived as favoring Chinese investors. This dynamic pushes Vietnam toward greater strategic diversification, as elites balance autonomy against economic opportunities. In this way, domestic political climate amplifies hedging pressures by narrowing the regime's maneuvering space. Kuik (2024) operationalizes hedging as a continuum of strategies under uncertainty, distinguishing between "heavy hedgers" that prioritize risk-contingency and "light hedgers" that emphasize economic gains. He concludes

that Vietnam hedges heavily in sensitive domains such as 5G, where Hanoi excluded Chinese firms on security grounds despite economic costs. Heavy hedgers, Kuik and Rozman argue, display a distinctive mix of deference and defiance, accepting economic sacrifices to preserve sovereignty and autonomy. Vietnam's balancing of concessions (i.e. elevating ties with the U.S. to a comprehensive partnership) with resistance (i.e. South China Sea defiance and 5G restrictions) exemplifies this dynamic.

2.3 Literature Gap

Drawing from the above literature, the thesis aims to fill the following theoretical and empirical gap.

First, theoretically, the literature on Southeast Asian states' hedging is primarily adapted to explore their foreign policy behavior in relation to their giant neighbor. Their behavior is often framed as, to "response to the rise of Chinese power", "management of the rising power", "meeting the China challenge", "perspective on the 'China threat'", and hence hedging is generally framed as "against China." (Chung 2004; Goh 2005, Kuik 2008; Hiep 2013; Tran et al 2013), espcially in the traditional security context of maritime dispute (Kuik 2016; De Gurung 2021, Zeberlein 2024). However, as Kuik (2021) usefully points out, hedging is employed not against a single country but against a wide range of risks. Thus, the current scholarship disproportionately focuses on risks associated with China while neglecting how Vietnamese elites calculate and mitigate risks stemming from U.S. economic influence, particularly given Vietnam's export-dependent economy and vulnerability to U.S. unilateral trade practices, as most prominent during president Trump's second term, as well as potential future protectionist measures.

Liao and Dang conceptualize economic hedging as a strategy adopted by small states to establish "guardrails" that prevent them from drifting into asymmetrical dependence on great powers deemed to pose higher security risks, with China often understood as the primary referent. This risk-centric conceptualization is valuable but leaves important gaps when applied to the Vietnamese case. Empirically, Vietnam's hedging cannot be reduced solely to managing

risks from China. Its export-oriented economic model relies heavily on access to U.S. markets, particularly for product categories—such as textiles, electronics, and consumer goods—that cannot be absorbed by China at the same scale or with the same economic value. Hedging, therefore, does not simply mean insulating against the "riskier partner"; it also entails safeguarding the economic lifelines on which regime legitimacy depends. This suggests that Vietnam's economic hedging is shaped not only by systemic imperatives of asymmetric interdependence but also by domestic determinants, including the structure of its export economy, the CPV's performance-based legitimacy, and elite calculations over how to balance growth, sovereignty, and regime survival.

Third, while scholars acknowledge domestic factors are also determinants of hedging (Murphy 2017; Dung & Ho 2022; Marston 2023; Wu & Velesco 2024; M.P Vu 2024), these are often presented as ad hoc "laundry lists" rather than an integrated framework. This is especially evident in analysis of economic heding, where domestic dirvers such as factional politics, state-business relations, public opnion on trade dependencies, are undertheorized compared to hedging in the "high politics" domain, i.e. the South China Sea. A more rigorous application of NCR could systematize these variables, clarifying how they interact with systemic pressures to shape Vietnam's economic hedging.

In conclusion, this study addresses the above-mentioned gaps by examining Vietnam's hedging as a two-directional risk-management strategy, accounting for both US and Chinese economic influences. This in turns challenges the previous assumptions that China is the 'riskier' partner, or in other words, Vietnam economic hedging was mainly to address dependency on China. It does so by analyzing how observed U.S. policy shifts is filtered out through domestic variables and shape Vietnam's elite decision-making. It seeks to apply the NCR framework to trace how domestic variables such as strategic culture, domestic institutions, and state-society relations, transform systemic pressures. By bridging these gaps, the thesis advances the concept of hedging beyond its current China-centric focus, offerings more nuanced understanding of how smaller states nevgiate multidirectional great power competition and managing potential risks of turning carrots to sticks coming from both sides.

CHAPTER 3: THEORATICAL AND ANALYTICAL FRAMEWORK

This chapter discusses a conceptual model to address the shortcomings of conventional theoretical schools to analyze small states foreign economic policies. Unlike traditional theory such as neo-realists, NCR offers a systematic approach to comprehensively understand foreign policy-making. It is through the lenses of NCR that the thesis introduces the concept of economic hedging and hypohtesises it to be the foreign policy model of Vietnam.

The chapter discusess neolcassical realism as an IR theory, it strengths and weaknesses, and discuss the domestic variables to be operationzlized in the later chapter of analysis. It then explores the concept of economic hedging as present in the literature. Base on the model it then conceptualizes Vietnam's responses through the lenses of NCR.

The NCR framework provides a useful lens for Vietnam's economic hedging amid U.S.–China rivalry. Unlike neorealism, which treats systemic pressures as directly shaping state behavior, NCR explains why states respond differently under similar conditions (Rose 1998; Taliaferro et al. 2009). In Vietnam's case, systemic logics would suggest hedging primarily against China as the riskier partner (Liao and Dang 2020). Yet, Hanoi's export-oriented economy, suggests the heavy dependence on U.S. markets is also a big risk for the developing country. Hence, this suggests domestic drivers also play a role alongside structural imperative.

3.1 Economic Hedging: From balance of power to asymmetric interdependence

The early conceptualization of hedging is built upon post-Cold War great power competition underpinned by the theory of balance of power. In *Theory of International Politics*, Kenneth Waltz wrote, "If there is any distinctively political theory of international politics, balance-of-power theory it is" (Waltz 1979: 117). Triggered by the rise of China, conventional wisdom has suggested that such systemic power transition triggers states in the region to choose between bandwagoning with the rising challenger or balancing with the incumbent power (Waltz 1979; Walt 1985; Schweller 1994). Although neighboring states tend to prefer balancing to bandwagoning because they want to "preserve their freedoms rather than submitting to a potential hegemon," Walt argued that small and weaker states may choose to

bandwagon due to their lack of capacities (Waltz 1985). Similarly, Schweller argues that balancing may be costly and hence states opt to bandwagon with the winning side for benefits maximization (Schweller 1994).

Yet, in Steve Chan's words, "an odd thing happened on the way to balancing" (Chan 2010)—ASEAN states are not balancing against China, nor are they bandwagoning with China. An emerging body of literature thus chimes in, corroborated with empirical evidence, arguing that ASEAN states have been hedging, instead of either balancing or bandwagoning. Evelyn Goh defined hedging as a strategy where states deliberately avoid committing to a rigid alignment option (bandwagoning, balancing, neutrality), instead, adopt a middle position to avoid the risks of picking a side at the expense of the other and ultimately usings hedging as a mean to avoid undesirable outcome such as Chinese domination and hegemony; American withdrawal from the region; and unstable regional order (Goh 2005). Similarly, in the context of a rising China, Roy refers to hedging as low-intensity balancing with the United States to keep strategic options open in case of a future security threat while assuring and engaging with China to avoid provocation or confrontation (Roy 2005).

Consequently, hedging is most commonly conceptualized using the logic of power transition and balance of power (Khong 2004; Roy 2005; Koh 2007). As a probabilistic theory, power transition theory has been useful in the debate over whether China would or would not overtake the United States, as well as whether China has revisionist intentions (Chan 2007; Legro 2007). As a foreign policy tool, it points to how states form power alliance profiles. Whether speculation or knowledge, this exact complex and uncertain nature of the order has compelled states in Southeast Asia to avoid balancing against or bandwagoning with China. In other words, unless a clear conflict and strategic certainty appear, states are likely to opt for hedging. Conventional conceptualization of hedging defined it as a middle position between balancing and bandwagoning, mixed elements of selective engagement, limited resistance, and partial deference (Lake 1996, Green 1999, Johnston and Ross 1999; Mederios 2005)

But growing hedging literature better captured the ranges and nuances of weaker actors' external policy than the false dichotomy of the "balancing versus bandwagoning" debate (Kuik).

Tessman and Wolfe coins the term “strategic hedging” to expand the concept beyond the theory of balance of power to explain a wider range of foreign policy. By using the case of China's energy security strategy, similar to the risk mitigation framework by Ciocari and Haacke 2020, Liao and Dang 2019 conceptulized East Asian States’ strategic hedging on economic issues, to a larger extent, on the logic of risk minimization vis-a-vis their relations with great power. Beyond the logic of traditional balance of power, Tessmand and Worlfe 2011 coined the term “strategic hedging” and extended the concept to explain a wider range of foreign policy behavior, still keeping a strong emphasis on structural incentives. Extending away from the traditional balance of power theory to explain Great Power competition post-Cold War era, strategic hedging framework was deployed to account for the lower intensity, non-military strategies that second-tier states use to cope with structural incentives with a unipolar system. The framework separate strategic from soft balancing or cases of simple power maximization. Strategic hedigng is to hedgeg against its bets on potential future losses, in other words, the use of sh can be seen as an insurance policy carries a high financial and diplomatic premium. The goal is to decrease its dependence on public good or direct subsidies which are provided by the country that is being hedged against. Vietnam economically hedged by deeping economic relations with extra-regional player, i.e. the European Union. This enhances the country’s capacity to address trade and FDI dependency on China by becoming an alternative (Tran et al 2013). Jackson 2014 contends that hedging is most likely to prevail as the result of uncertainty regarding a possible power transition between the Unitd States and China, about the intentions of states, and complex networks makes it difficult for Asian-foreign policy elites to assess the future consenquences of present day commitments. He offered, in alternative of the power transition theory and the concept of mistrust in multipolarity, the network analysis of complex interdependence compels states to hedge. “Hedging is a rational response for deicions-making in a complex structure fraught with multiple kinds of uncertainty.” Waseem 2023 argues that, in the face of geoeconomic emerging as the driving forces of rapid changes, complex interdepednece theory may aptly help in explaining the novel genres of evolving mutilateralsim in the region. He contends that this new geoeconmics forcres has allowed new major global powers competition to ensrue the security of their trade transport and of energy resources.

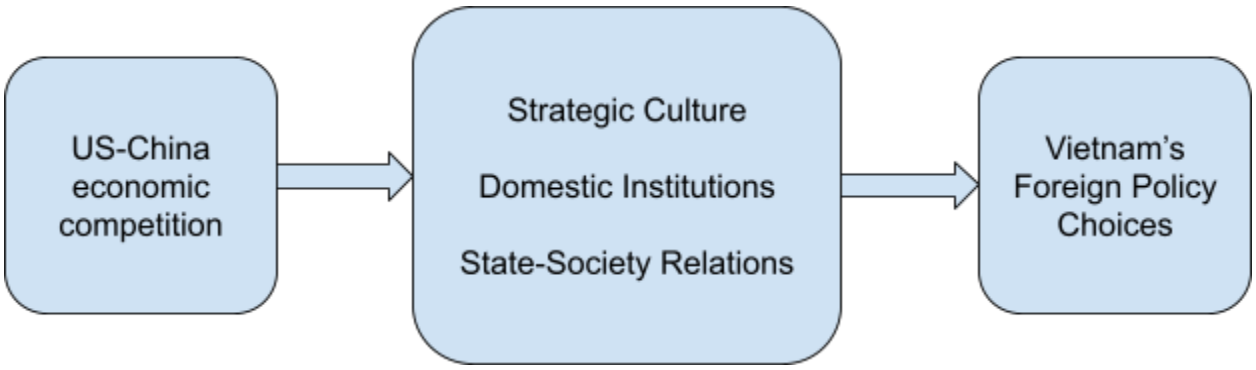
Robert Keohane and Joseph Nye stressed that “complex interdependence can be seen as defining an extreme set of conditions or ideal type.” In conjunction with realism, interdependence can provide an improved portrait of reality. They concludes that “interdependence” brings power to dominate and the more powerful states have the ability to make weaker states more vulnerable states and pay the costs. Since they have the ability to exploit their vulnerabilities to extend their strategic objectives. One of the ends of hedging, pinpointed by the economic-security nexus, is to minimize security risks and maximize economic benefits with the giant neighbor (Chung 2004). China’s chokehold on preventing ASEAN from adopting a complete balancing strategy lies in its economic influence. Over the past 20 years, ASEAN's total trade with China has grown 11-fold, far outpacing its 2-fold growth in trade with the United States (World Bank). ASEAN’s interdependence with the Chinese economy has given Beijing a leveraged stake in the region’s peace and stability. However, Kuik argues that the ends of hedging do not necessarily have to do with concerns over China’s relative power but serve as a means for the ruling elite to capitalize on the dynamic of a rising power and justify their political authority at home (Kuik 2008). The concept of hedging or strategic hedging thus then adopted by scholars to examine individual case-by-case the specific forms and patterns of indivudual ASEAN states, including Vietnam. Le described Vietnam’s China policy since normalization as a hedging strategy characterized as multi-tiered and omni-directional. He argues that hedging is the most rational and viable option for Vietnam to manage it China’s relations given internal and external conditions. He identified four components of hedging: economic pragmatism, direct engagement, hard balancing, and soft balancing (Le 2013).

Table 1. Patterns of Vietnam’s economic hedging 2010-2025

Patterns	**Policy features**
Selective Defiance to China	- Resisting or exhibits delays in receiving economic aids or support. - Delays in Chinese-financed infrastructure projects. Limited participation in the BRI. - Exclude Huewei in the 5G network for security reasons.

Selective Deference to the U.S.	- Pledges to purchase more American goods ranging from aircraft to agricultural produc. - Fast-tracking Trump-branded golf courses - Clear regulatory hurdles for Starlink

3.2. Neoclassical Realism



The neoclassical realist (NCR) framework gained traction in the late 1990s, with Rose (1998) positioning it as part of the broader realist school while seeking to bridge the structure–agency gap. Like neorealists, NCR scholars acknowledge the anarchical structure of the international system as a source of pressures and incentives shaping state behavior. However, NCR goes further by attempting to explain variation in states' foreign policies across time and space, even when they face similar external constraints (Taliaferro et al. 2009). The core utility of NCR lies in its ability to illuminate why states deviate from the "pre-programmed" behavior that neorealists would expect. As Taliaferro et al. (2009, 4) note, international outcomes tend to mirror the distribution of power over the long term, but in the short term, policies are rarely objectively efficient or purely systemic in origin. Instead, elites' perceptions,

ambitions, and domestic constraints intervene, shaping divergent policy outcomes, even under the same leadership.

This perspective highlights the weakness of neorealist approaches, which often neglect how domestic-level dynamics influence policy responses. Hedging, for example, can be interpreted through both defensive and offensive realism: Southeast Asian states hedge to maximize security while perceiving China as a revisionist power seeking regional hegemony. Yet, research grounded solely in systemic explanations overlooks the importance of domestic influences (Chafer and Cumming 2011). NCR, by contrast, explicitly criticizes the excessive weight neorealists place on systemic stimuli, insisting instead that unit-level intervening variables—elite preferences, institutional dynamics, or legitimacy concerns—mediate how states interpret external pressures (Williams 2004; Leong 2021).

Scholars stress that NCR is not a purely Innenpolitik theory, which would overemphasize domestic determinants, nor is it entirely externalist like classical Realpolitik. Instead, it occupies a middle ground in which systemic pressures motivate policy responses, while domestic variables filter and shape them (Leong 2021). This makes NCR particularly well-suited for analyzing Southeast Asian foreign policy, where traditionally insulated decision-making has, since the late 20th century, become more open to societal forces such as public opinion and civil society pressures (Thayer 2017). As Ripsman et al. (2016) argue, NCR thus helps explain not only crisis behavior but also long-term strategic adjustments.

Finally, critics have challenged NCR for the lack of systematic criteria in selecting intervening variables, warning against reducing them to an ad hoc “laundry list” (Elman 1996, 38–42). In response, Taliaferro et al. (2009) propose a structured framework that identifies four intervening variables in a systemic manner, aiming to clarify the “imperfect transmission belt” between systemic incentives and actual foreign policy outcomes. In this sense, NCR represents a more pluralistic and flexible theoretical framework than either neorealism or domestic-level theories alone, “opening the black box” of internal politics while remaining anchored in the realist tradition.

3.2.1 Strategic Culture

The concept of strategic culture first emerged in the 1970s to explain patterns of nuclear behavior between the superpowers. Introduced by Snyder, it referred to the idea that state behavior cannot be understood as purely rational or policy-driven, but is instead shaped by semi-permanent cultural attitudes and historical experiences (Snyder 1977). Strategic culture emphasizes how entrenched beliefs, worldviews, and collective expectations condition how states interpret systemic pressures and define acceptable courses of action, even within an anarchic international system (Kupchan 1994). As Booth (1990) defines it, strategic culture encompasses a nation's "traditions, values, attitudes, patterns of behavior, habits, symbols, achievements, and particular ways of adapting to the environment and solving problems with respect to the threat or use of force." Similarly, Gray (2006) stresses the enduring, socially imparted beliefs and preferred modes of behavior rooted in history and geography, which shape, but do not necessarily rigidly determine, strategic decisions. In this sense, strategic culture is best understood as a set of semi-permanent beliefs that constrain and guide policy by framing what elites and societies view as legitimate and illegitimate choices.

Applied to Vietnam, strategic culture is closely tied to nationalism. Centuries of foreign domination, resistance wars, and struggles for sovereignty have embedded a strong sense of national identity into Vietnam's political and strategic outlook. Nationalism, as Smith (2010) argues, entails a sense of belonging, an ideology of unity and self-determination, and a political movement to defend sovereignty. For Vietnam, nationalism serves both as a unifying social force and as a legitimating resource for the Communist Party of Vietnam (CPV). This nationalistic strategic culture promotes solidarity through an "us versus them" worldview, where sovereignty and territorial integrity are non-negotiable. It also shapes public attitudes, for example, widespread suspicion toward Chinese-financed projects or Chinese-made goods reflects not only economic preferences but also deep-seated cultural resistance to external domination.

3.2.2 Domestic Institutions

CR therefore treats domestic institutions as the configuration of political offices, veto players, bureaucratic procedures, and elite networks. These factors mediate the effect of systemic incentives on state behaviour (Ripsman, Taliaferro & Lobell 2016) As Schweller (2006) argues, the effectiveness of a state's external balancing depends not only on material capabilities but also on the internal organization of power—specifically, how domestic institutions shape leaders' vulnerability, decision-making authority, and policy implementation. Institutions determine who has access to the policymaking process, at what stage actors can influence decisions, and which actors function as veto players with the ability to block or reshape policy outcomes (Ripsman et al. 2016). In this sense, domestic institutions provide both the structure and the constraints through which elites interpret systemic pressures, producing variation in state responses even under similar external conditions.

This thesis chooses to focus on elite factionalism within Vietnam's domestic institutions because it represents a particularly salient mechanism through which systemic incentives are filtered. Vietnam is a one-party state ruled by the VCP. This is a system in which the party exercises hegemonic control over state institutions, the arm forces, and mass organizations in society through the penetration of these insitutions by party cells and committees. Despite its one-party and authoritarian structure, the Vietnamese Communist Party (VCP) is not monolithic but characterized by competing elite networks and shifting balances of power. Scholars widely agree that the VCP's Central Committee (CC) is the most influential political body in Vietnam, often described as the "arena of power struggle" where policy direction is debated and contested (Malesky, Schuler, & Tran 2011; Koh 2008; Vuving 2017). Studies of Vietnamese politics suggest that factional alignments—whether between conservatives prioritizing ideological solidarity or reformists emphasizing pragmatic economic ties—play a decisive role in shaping foreign policy outcomes (Malesky 2019; K. G. Nguyen 2020). By analyzing elite factionalism within the VCP, this research captures how the internal cohesion or fragmentation of the party mediates Hanoi's capacity to respond to U.S.–China competition, illustrating how domestic institutional dynamics condition Vietnam's economic hedging strategy.

3.3.3 State-Society Relations and Foreign Policy

Within the neoclassical realist (NCR) framework, state–society relations are understood as the interactions between the central institutions of the state and various economic and societal groups. This encompasses the degree of harmony between state and society, the extent to which societal actors defer to leaders on foreign policy matters, and the mechanisms used to resolve disputes and reconcile competing interests (Ripsman, Taliaferro & Lobell 2016). These dynamics affect whether leaders can extract, mobilize, and harness the nation's resources for foreign policy and grand strategy. In practice, societal coalitions compete for influence over state resources, and the level of political and social cohesion determines the state's ability to translate systemic imperatives into coherent policy (Zielinski 2016). Where state–society relations are cooperative, leaders may be able to pursue international objectives more smoothly; where relations are contentious, elites risk "underbalancing," prioritizing domestic political survival over systemic imperatives (Schweller 2006).

To operationalize this intervening variable, the thesis centers legitimacy as the key mechanism by which state–society relations shape foreign policy. Political legitimacy, defined as the governed's belief in the regime's right to rule and the regime's capacity to produce collective goods, conditions elite incentives and constrains policy options (Alagappa 1995; Gilley 2006). Authoritarian regimes in particular rely heavily on performance-based legitimacy, that is delivering growth, jobs, services, and identity-based legitimacy, which appeals to nationalism, sovereignty, and cultural identity, to secure consent and forestall challenges (Alagappa 1995; Le 2012). These forms of legitimacy function both domestically shaping public expectations and elite competition and externally informing how leaders prioritize certain partnerships).

David Koh 2001 challenges the long-held assumption that the Vietnamese Communist Party (VCP) fully dominates society simply because Vietnam is a communist state. While this perception was valid during the Vietnam War when the northern regime effectively mobilized people and resources. However research since the 1980s, particularly in the context of *Đổi Mới*, suggests a more complex picture. The central puzzle is whether dominance translates into effectiveness: do party-state policies always result in faithful implementation, or do societal

pressures and local conditions often shape outcomes in unintended ways? If *Đổi Mới* itself reflected responses to societal demands, then the claim of unilateral dominance becomes less convincing. Instead, the author argues that Vietnam's state–society relations are paradoxical. The party-state maintains structural dominance through administrative control and cadre placement, yet this power does not guarantee policy effectiveness. In practice, the state frequently accommodates societal pressures, tolerates deviations from official ideology, and adapts to local realities, making it simultaneously "strong" in form but "weak" in consistent enforcement. Vietnamese public opinion has long been marked by strong anti-China sentiment, rooted in both ethnic and historical grievances. Ambassador Shear has described anti-Chinese nationalism in Vietnam as "very strong" (Shear, 48). The Communist Party of Vietnam (CPV) faces a dilemma: while it relies on nationalist sentiment as a source of legitimacy when standing up to Beijing, it must also suppress expressions of nationalism that threaten bilateral ties with the Chinese Communist Party. The management of street protests illustrates this delicate balance. In 2009, following China's creation of an administrative zone to govern the Paracel and Spratly Islands and amid rising anger over attacks on Vietnamese fishermen, students organized demonstrations outside the Chinese embassy in Ho Chi Minh City. Authorities permitted protests for about an hour on two weekends, but quickly curtailed them, arresting two organizers who were later sentenced to lengthy prison terms. By contrast, in 2014, when China deployed its Haiyang Shiyou 981 oil rig in contested waters, the CPV allowed anti-China demonstrations to proceed nationwide, only intervening when violence spread beyond Vietnam's borders. These cases demonstrate that while the regime clearly has the capacity to terminate protests, it sometimes permits them to unfold strategically—using nationalist mobilization as a tool of identity-based legitimacy while maintaining ultimate control over its scope and intensity. Hence, the role of society definitely have an impact on policy implementation within the communist party.

Framed within neoclassical realism, state–society relations matter because they produce legitimacy constraints that filter systemic incentives into politically feasible foreign policies. In Vietnam, the two sources of legitimacy, performance-based and identity-based, pull in different directions. The former induces deference and diversification toward economic partners (notably

the U.S.), while the latter produces selective defiance toward China in domains tied to sovereignty. Understanding Vietnam's hedging therefore requires tracing which legitimacy logic dominates at a given moment, and which elite coalitions and institutional channels translate that logic into policy.

CHAPTER 4: ANALYSIS

4.1 Economic Hedging: Vietnam's role admit US-China economic competition

Arguably, during the first Trump and Biden administration, Vietnam is portrayed is one of the largest beneficiaries of US-China economic decoupling. The country is an ideal manufacturing partner alternative, thanks to its strategic geographical position. Vietnam is a trade-dependent country with an export-oriented economy. The country biggest imports came from China and biggest exporter to the US.

Source: The Interpreter

Vietnam was the center of all strategic locations in the competition between the US AND China, the target of courtship by big nations, one of the most, if not the most important factor in the strategic chess game of major powers. Vietnam is a key player in a web of Free Trade Agreements (FTAs). According to Vietnam WTO Center, Vietnam has signed 15 different types of FTAs so far, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). This has undisputedly helped increase trade and investment between Vietnam and other economies, particularly Japan, Korea, and Taiwan, etc. – the U.S. important allies in Asia.

4.1.1 Selective defiance against China

Vietnam's hedging behavior toward China is characterized by selective defiance: while Hanoi engages economically with Beijing, it resists deepening dependence in areas that carry sovereignty, security, or long-term strategic risks. This defiance is most visible in three domains—trade, infrastructure, and technology—where Vietnam has deliberately diversified partnerships and limited Chinese influence.

Vietnam's export-oriented growth model creates structural vulnerability to external dependence, yet Hanoi has consistently pursued diversification to avoid overreliance on China. While China remains Vietnam's largest source of imports, especially in intermediate goods, the United States and the European Union have become its largest export markets (Vu et al. 2023). To consolidate this diversification, Vietnam has signed high-standard trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU–Vietnam Free Trade Agreement (EVFTA), both of which anchor Hanoi more firmly into global supply chains outside of China's orbit. These moves reflect a conscious effort to protect the regime's performance-based legitimacy by safeguarding growth while minimizing Beijing's leverage over Vietnam's economic model.

Vietnam has also shown caution in its engagement with China's Belt and Road Initiative (BRI). Unlike many ASEAN states that welcomed large-scale BRI projects, Vietnam has been selective, allowing only limited Chinese participation in infrastructure while prioritizing

financing from Japan, South Korea, and multilateral development banks (Trinh 2022). This strategy reflects both public skepticism toward Chinese-funded projects—often criticized for low quality or fears of "debt traps"—and elite concerns about ceding strategic infrastructure to Beijing. Instead, Hanoi has turned to Japan for key transport projects and to the Asian Development Bank for urban development, reflecting its broader hedging strategy of diversifying partners while minimizing China's infrastructural footprint.

In the technological sphere, Vietnam has taken an even more decisive stance against dependence on China. Hanoi excluded Huawei and other Chinese firms from its 5G rollout, opting instead for partnerships with Ericsson, Nokia, and domestic companies such as Viettel (Kuik 2024). While this choice imposed higher costs and slower deployment, it underscored Vietnam's prioritization of security and autonomy over short-term economic benefits. As Kuik (2024) notes, this positions Vietnam as a "heavy hedger," willing to pay an economic price to mitigate perceived security risks. By deliberately curbing Chinese involvement in its digital infrastructure, Vietnam signaled both to domestic audiences and external partners its commitment to preserving technological sovereignty.

Across trade, infrastructure, and technology, Vietnam's policies reveal a consistent pattern of selective defiance against China. Rather than rejecting engagement outright, Hanoi calibrates its responses by resisting dependence in sensitive sectors while pursuing growth through diversified global partnerships. This strategy reflects the CPV's survival calculus: maintaining economic performance-based legitimacy while defending sovereignty and autonomy. In doing so, Vietnam exemplifies how domestic political imperatives filter systemic pressures, producing a hedging strategy that is neither purely pragmatic nor ideologically rigid but strategically selective.

4.1.2 Selective deference to the U.S.

Vietnam's recent behavior reveals a pattern of deference toward the United States as part of its broader strategy to balance economic ties with China while safeguarding its trade access and legitimacy. From technology partnerships to regulatory reforms and trade

negotiations, Hanoi has moved decisively in several policy areas—often to preempt U.S. pressure or avert punitive measures. Below are three concrete cases showing how Vietnam's trade, infrastructure, and tech policies reflect this deference.

Perhaps nowhere is Vietnam's deference more visible than in trade policy. Although Vietnam has avoided taking a clear stance on whether it supports the United States or China in the ongoing process of economic decoupling, since 2018 it has demonstrated a strong willingness to cooperate with Washington across a range of issues. The trade imbalance between the two countries widened further during the U.S.–China trade war and the Covid-19 pandemic, with U.S. officials frequently attributing this gap to Vietnam's alleged currency devaluation and export subsidies (Rappeport 2020). In response, Vietnamese leaders have repeatedly pledged to expand imports of U.S. goods as a gesture of goodwill and to ease tensions over the growing surplus. In recent years, Hanoi has facilitated purchases of aircraft, coal, natural gas, meat, fruit, and other agricultural products from the U.S. in an effort to reduce the imbalance and preempt punitive tariffs (Vietnam News 2025). When the U.S. Treasury labeled Vietnam a currency manipulator in December 2020, the government immediately adopted a cooperative posture, engaging in dialogue and offering reassurances to address American concerns. In particular, allegations of Chinese goods being transshipped through Vietnam to evade U.S. tariffs remain a reoccuring concerns. In July 2025, Hanoi agreed to a framework under which goods transshipped via Vietnam could face a 40% levy, while Vietnamese-origin goods are subject to a 20% rate, stepping down from previous threatened tariffs of 46%. In order to mitigate the risk of being perceived as a conduit for Chinese exports, the Vietnamese government directed customs authorities. Particularly to those operating at border checkpoints with China, the government has implemented stringent inspection measures. Complementing these efforts, new regulations were promulgated to more clearly define the criteria for "Made in Vietnam" goods, thereby reducing opportunities for mislabeling and fraudulent practices (Guarascio 2025). Vietnam has also increased inspections and tightened origin certification in goods "at risk of trade fraud" including steel, plywood, and electronics which are commonly implicated in these transshipment cases. The country also

implemented punishments for companies that committed fraudulent labels on products from China (Vietnam Insider 2019).

Vietnam has also shown deference in its broader infrastructure and investment policy by expanding partnerships with U.S. and non-Chinese actors, particularly in high-tech infrastructure. The NVIDIA AI data and R&D centres represent such moves. Meanwhile, there have been regulatory reforms aimed at increasing oversight and security screening in sectors including telecommunications, construction, and energy, where foreign investment (including Chinese investment) is subject to stricter vetting. These regulatory shifts demonstrate Hanoi's efforts to reassure Washington on issues of tech supply chain risk and strategic infrastructure.

In technology, Vietnam has strengthened partnerships with U.S. firms as a way to signal alignment with U.S. norms and investment, and to avoid risk associated with heavy Chinese involvement. In late 2024, Vietnam signed a high-profile agreement with U.S. chipmaker NVIDIA to establish both an AI Research & Development Center and an AI Data Center, in collaboration with state-affiliated firms like Viettel; the project is backed by Prime Minister Phạm Minh Chinh and emphasized as part of Vietnam's strategy to become a regional tech hub (Vietnam News 2024). Simultaneously, Hanoi has moved to clear regulatory hurdles for Starlink: the National Assembly passed a resolution permitting satellite internet providers, including Starlink, to operate without domestic partner requirements under a pilot program, allowing full foreign ownership (Guarascio and Nguyen 2025). In supporting Starlink, Vietnam has also agreed to establish ground stations and cap subscribers in a way that ensures both service rollout and regulatory oversight (Guarascio and Nguyen 2025).

Across these policy domains, technology, infrastructure investment, and trade regulation, Vietnam has demonstrated deliberate deference to the United States. These actions are not incidental: they serve to protect Vietnam from U.S. sanctions, maintain legitimacy from foreign markets, and manage complex dependencies. While Vietnam continues to hedge (engaging with China where necessary), these cases show that when U.S. pressures mount, especially in areas touching tariffs, technology supply chains, and national security, Hanoi often

accedes or proactively adjusts policies to avoid confrontation. This reflects a calculated strategy of maintaining foreign policy flexibility through cooperation rather than outright deference.

4.2 How do domestic variables determine Vietnam's distinct economic hedging patterns?

Vietnam leadership structure is vested in four pillars, that are the CPV General Secretary, Prime Minister (PM), President, and National Assembly Chair. Yet, arguably, in recent decades, foreign policy agenda is increasingly dominated by the influences of the General Secretary, and thus the CPV and its members.

4.2.1 Strategic Culture: A Strong Nationalistic Culture

Vietnam's nationalistic strategic culture is a durable set of socially transmitted beliefs, memories, and practices that shapes how both elites and publics perceive threats, sovereignty, and acceptable state behaviour. Building on Colin S. Gray's definition of strategic culture as "enduring socially imparted beliefs, attitudes and traditions" about the use of force and state survival (Gray 2006), scholars of nationalism emphasize how collective memory, symbols, and historical narratives produce a political identity that privileges autonomy and resistance to foreign domination (Smith 2010, Gray 2006). In Vietnam, this culture is forged by centuries of resistance to external rule and by twentieth-century revolutionary mobilization, memories that institutionalize vigilance toward external powers, especially 1000 years Chinese dominiation (Smith 2010, H.H Le 2012). Nationalism helps explain how those shared memories amd symbols produce a collective identity that privileges sovereignty, unity, and resistance to external dependence or domination.

As an intervening variable in a neoclassical realist account, Vietnam's nationalistic strategic culture filters systemic incentives and produces a pattern of selective defiance toward China: not blanket confrontation, but targeted resistance where sovereignty, identity, or strategic autonomy are at stake. Empirically, this manifests in several ways.

First, the state has permitted or tacitly tolerated public expression of anti-China sentiment (e.g., SEZ and oil-rig episodes) when doing so helps shore up regime legitimacy, while later curbing protests to prevent escalation. This demonstrates calibrated use of nationalist sentiment as a political resource. Second, Hanoi has been cautious about allowing large Chinese footprints in strategic sectors. Following the 2014 Haiyang-981 oil-rig crisis, both elites and the public began to vocally criticize Chinese-financed infrastructure, citing national security concerns, poor quality, and limited spillover benefits for the Vietnamese economy due to strict "Chinese content" requirements (Doi Song Va Phap Luat 2014). A rare report by the Ministry of Planning and Investment (2014) even underscored the dangers of "Vietnam's dependence on China," particularly in the thermal power sector, and urged diversification of foreign partners. At the same time, criticism of the government for letting Chinese products flood Vietnam's domestic markets became widespread (NDH 2016), reinforcing elite wariness of economic overreliance. Third, Vietnam has acted on these nationalist concerns by resisting large-scale Chinese infrastructure projects by limiting its participation in the BRI. Only the Cat Linh- Ha Dong projects has been implemented so far. In short, nationalistic strategic culture raises the political cost of accommodation with China in sovereignty-sensitive arenas like infrastructure and technology, while still permitting pragmatic cooperation in less identity-laden domains. This combination explains why Vietnam hedges through a calibrated mix of targeted defiance and selective engagement.

4.2.2 Elite factionalism within the Vietnamese Communist Party: The Conservatives and the Reformists.

Within the VCP's domestic institutional framework, the internal state of elite factionalism plays a decisive role in shaping how Vietnam balances cautious deference toward China with selective engagement with the U.S.

The elite members of the CPV are "engaged in vigorous compe-tition over the direction of the party and its approach to governance"(London 2014, 231). Elite factionalism within the Vietnamese Communist Party has been long lingering despite the perceived unity from the

outside (Thayer 2017, Wu and Velasco 2024). There are indeed three main classification of political elite factionalism within the CCP: Occupation-based, patronage-based, and ideology-based (Luong and Nguyen 2022). Another scholar has posisted three groups: ideologues, rent seekers, and modernizers (Vuving 2010). Yet the most prominent faction, in terms of foreign policy and specifically US-China relation, is between the reformists (or modernizers) and the conservatives (Dien and Nguyen 2025).

Although these internal intensions are informal and exerts various nuances, the main differences mostly lie in their policy approach to the country's security and economic development. On one side, *reformists* often come from economic and diplomatic institutions who place greater emphasize on legitimacy performance and promote further international inegration. On the other, *conservatives* often have a military and security-focused background who prioritize ideological orthodoxy and regime security (Luong and Nguyen 2025). An important note when analyzing policy-based factionalism within the CCP is the secretive nature of the policy making process, making difficult to clearly classify individual interests. Regardless, elite factionlism is a key factor to understand policy changes in Vietnam American deference and China defiance patterns.

The below sections will provide further empirical evidence to show case differences in postures between conservative Nguyen Phu Trong, the former Vietnam's General Secretary from 2011 to 2024, and reformist To Lam, Vietnam's current General Secretary since the end of 2024.

Under Nguyễn Phú Trọng, Vietnam's external posture emphasized continuity, ideological caution, and managed engagement with Beijing. Trọng presided over sustained party-to-party ties and high-level agreements intended to institutionalize Sino-Vietnamese cooperation—most notably the December 2023 messaging around building a "community with a shared future," which reflected Hanoi's preference for stable, institutionalized relations with China. Trọng's foreign-policy legacy is therefore often read as one of cautious accommodation: deepening practical cooperation while avoiding moves that might provoke rapid strategic realignment (Chinese Ministry of Foreign Affairs, Le and Nguyen 2024).

By contrast, the policy arc under Tô Lâm since 2024 has signalled greater willingness to court U.S. technology and defence partners and to adopt regulatory measures that address Washington's economic and security concerns. Hanoi has moved quickly to sign and facilitate high-profile U.S. tech partnerships—most prominently the December 2024 agreement with NVIDIA to establish AI research and data centres in Vietnam—and to pace regulatory openings for SpaceX's Starlink under a pilot scheme announced in early 2025 (NVIDIA/Reuters; Reuters). At the same time, Vietnam has stepped up purchases and negotiations with U.S. aerospace and defence firms (reports of Lockheed Martin helicopter talks and expedited Boeing deliveries), actions that both deepen commercial ties and signal responsiveness to U.S. requests to rebalance trade relations. These concrete steps reflect a reformist, performance-oriented logic: secure high-value technological and industrial links that bolster growth and reduce political exposure to U.S. punitive measures.

The divergence between Trọng's conservative China-first caution and Lam's reformist pragmatism toward U.S. engagement underscores how elite factionalism mediates Vietnam's hedging strategy. Trọng sought reassurance through ideological continuity, while Lam pursues transactional flexibility and visible economic dividends. This intra-elite tension has not derailed Vietnam's broader hedging posture but has shaped the tempo, tone, and substance of engagement with both Washington and Beijing.

4.2.3 State-Society Relations: A Shift to performance-based legitimacy and the challenge of identity-based legitimacy

State-society relations in Vietnam have evolved significantly since the economic reform program Đổi Mới. It has marked by a shift in the VCP's legitimacy foundation toward performance-based legitimacy, which is grounded in economic growth, trade access, and development outcomes (Le 2012, Thayer 2018). At the same time, identity-based legitimacy, that is rooted in nationalism, sovereignty, and public perceptions of foreign influence, remains an enduring constraint (Jung and Min 2017). These intertwining legitimacy pressures shape Hanoi's foreign policy choices, particularly its deference to the U.S. in trade and economic regulation, as well as its resistance to Chinese economic and infrastructural encroachment.

Deference to the U.S. has thus been expressed in policy adjustments, such as regulatory compliance to curb Chinese transshipment, multiple applications for market economy status recognition (U.S Department of Commerce 2024), and pledges to purchase more American goods ranging from aircraft to agricultural products (Reuters 2025). These measures are less about alignment with Washington's strategic agenda and more about sustaining the performance narrative at home. The *Economist* (2025) highlights this as a "crucial moment" for Vietnam: with growth slowing from its previous highs, the country must engineer a "second economic miracle" by breaking through the middle-income trap.

Vietnam also holds ambitious GDP growth targets, aiming for 8 percent growth in 2025 (Vu & Nguyen 2025), and has actively pursued supply chain diversification away from China, signaling to domestic stakeholders that the regime continues to deliver economic results (Reuters 2025). This performance-based legitimacy imperative underpins Vietnam's deferential posture toward the United States. As Khang Vu (2023) argues in *The Diplomat*, despite Hanoi's ecnomic hedging rhetoric against China, Vietnam is in fact heavily dependent on the U.S. market: over 28 percent of Vietnam's total exports are destined for the U.S., and exports as a whole account for more than 100 percent of GDP due to Vietnam's export-led growth model. Specifically, exports in electronics and textiles play a huge role. In 2024, electronics exports from Vietnam approximated USD 126.5 billion, over one third of the country's total exports, with key components such as phones and semiconductors making up large shares of around $53.9B billions (World Bank). The textile and apparel sector has also shown strong momentum, with exports valued at about USD 11.6 billion in the first quarter of 2025 alone, growing 8.4% over the same period a year earlier. These sectors are deeply tied to the U.S. market: in 2022, nearly 29.5% of Vietnam's exports were destined for the U.S., making Washington Vietnam's largest export market (World Bank) . Under Tô Lâm's leadership, high-profile trade gestures made to the U.S., as well as economic policies explicitly framed around sustaining growth during the "last ride" before Vietnam risks middle-income stagnation (*Nikkei Asia* 2025).

While economic performance offers legitimacy, identity-based pressures can sometime force policy shifts or constrain foreign engagement options. Protests around the bauxite mining

controversy in Vietnam's Central Highlands (2008–2009) illustrate how environmental concerns, sovereignty fears, and public distrust of Chinese involvement mobilized society against state-endorsed Chinese projects (Moris 2013). Protestors called into question not only the environmental damage but also the degree to which foreign investment, especially with Chinese partners, might compromise sovereignty or local well-being. These bottom-up responses have forced the government to respond, recalibrate policies, or limit Chinese participation in sensitive projects. Similarly, resistance against large Chinese-financed infrastructure projects, such as the proposed special economic zones (SEZs) in 2018 with very long lease terms, triggered mass protests; the state responded by adjusting terms, restricting foreign-control clauses, and using symbolic rhetoric of defending sovereignty (Fawthrop). These identity-based concerns act as counter-weights to performance imperatives, shaping policy outcomes and limiting how far leaders can lean toward China without triggering legitimacy risks.

The two above-mentioend major forms of legitimacy, performance-based and identity-based, create distinct pressures on Vietnam's foreign policy. Performance-based legitimacy pushes the regime toward policies that secure economic growth and integration, explaining Hanoi's pursuit of trade diversification, its desire for U.S. market economy status, and efforts to break through the middle-income trap (Vu 2024). At the same time, identity-based legitimacy rooted in nationalism compels the regime to resist Chinese encroachment, whether through managing public protests (Shear 2010; Sands 2018) or rejecting certain Chinese-backed infrastructure projects (Liao & Dang 2021).

In conclusion, the main source of legitimacy, performanced-based, challenged by identity-based frame Vietnam's economic hedgig as a delicate balancing act. Deference to the U.S. in trade, regulatory reforms, and pursuit of market economy status reflect the regime's performance legitimacy needs; public nationalism and identity-based protests anchor the regime's sovereignty concerns. The interplay between these two forces helps explain Vietnam's selective defiance of China, not outright opposition, but calibrated resistance in arenas where identity matters most and cooperation in areas of trade or technology where performance demands it. Understanding this helps to analyze Vietnam's economic hedging as not just a

structural reaction to great power rivalry, but a responsive strategy to internal legitimating imperatives as well.

CHAPTER 5: CONCLUSION AND IMPLICATIONS

This thesis has argued that Vietnam's economic hedging amid intensifying U.S.–China competition cannot be explained solely by structural pressures of asymmetric interdependence. In conjunction with findings from previous scholars regarding domestic influence in Vietnam's foreign policy amid US-China competition (Thayer 2017, Murphy 2017), yet the thesis offers to understand how these domestic factors intervene in a systemic way. While systemic imperatives shape the boundaries of Hanoi's choices, the patterns of selective defiance against China and selective deference to the United States are filtered and determined by domestic intervening variables. Strategic culture, elite factionalism, and state–society relations each act as transmission belts, refracting external incentives through the prism of Vietnam's national identity, institutional struggles, and legitimacy concerns. Together, they explain why Hanoi resists Chinese economic inducements in sensitive sectors while simultaneously accommodating U.S. trade and technology demands.

The analysis reinforces the central hypothesis that Vietnam's hedging is a calibrated and domestically grounded response rather than a passive middle path. Nationalistic strategic culture has raised the political costs of Chinese-financed infrastructure and technology, while elite factionalism within the Vietnamese Communist Party has produced contrasting preferences between conservative and reformist leaders. Most decisively, the shift toward performance-based legitimacy in state–society relations has made continued access to the U.S. market a survival imperative, pushing Hanoi toward deferential trade adjustments and regulatory compliance despite risks of U.S. protectionism.

The implications of these findings are twofold. Theoretically, this study demonstrates the utility of neoclassical realism for explaining small-state hedging by showing how domestic dynamics filter systemic constraints. Rather than treating hedging as a uniform or reactive strategy, it highlights its variation across issue areas—trade, infrastructure, and

technology—and across leadership coalitions. Empirically, this research contributes to understanding Vietnam's position in contested globalization: a country whose future hinges on breaking through the middle-income trap, sustaining performance legitimacy, and preserving strategic autonomy.

Lastly, Vietnam's economic hedging illustrates that small states are not mere pawns in great-power rivalry but active agents navigating uncertainty through domestically constrained choices. The findings suggest that as long as performance legitimacy and nationalist identity remain the dual pillars of VCP rule, Hanoi will continue to resist excessive Chinese influence while making concessions to Washington to sustain growth. This calibrated pattern of hedging will remain central to Vietnam's grand strategy, and to Southeast Asia's broader stability, in an era where economic statecraft is the currency of power.

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