The Combination of Hedging and Rules of Great Power Rivalry——Taking the Example of Vietnam in Sino-US Rivalry

Yutian Wu*

Department of English, University of Electronic Science and Technology of China, Chengdu, Sichuan, 610097, China

*Corresponding author: 2021170901013@std.uestc.edu.cn

Abstract. The competition between China and the United States for dominance in global governance is intensifying. In such an international context, strategically significant small states often adopt a hedging strategy to stay neutral amidst the rivalry of major powers. This paper aims to study the phase-specific characteristics and overall trends of hedging, and to detail the phase-specific motivations behind it. Contrary to previous academic views, this paper argues that hedging is not merely a passive balancing act for small states, but an active pursuit of maximizing economic and security interests. This paper concludes that hedging represents a cyclical trend divided into three stages. In addition to the manipulations of small states pursuing their own interests, the competition rules between major powers also influence the trend of hedging. This study is beneficial for further understanding the mindset of small states in employing hedging strategies and promotes the internalization of hedging theory in the field of international relations. It also provides insights into China’s decision-making in its diplomatic relations with Vietnam.

Keywords: Hedging; Cyclical Trend; Economic and Security Interests; Vietnam; Sino-US Relations.

1. Introduction

The power play between China and the United States (U.S.) has significantly reshaped the global diplomatic landscape. With a fundamental recalibration of U.S. strategic thinking towards China during the Trump era, strategic competition between the two giants has fully unfolded in the Indo-Pacific region [1]. This region encompasses Northeast Asia, Southeast Asia, the South Pacific, and South Asia [2]. In contrast to other regions, Southeast Asian nations demonstrate a notable degree of policy fluidity, making it the primary battleground for the strategic competition between China and the U.S. [3]. In this context, hedging has become a prevailing theory to analyze the diplomatic responses of small states to great powers.

Hedging is used by small states to optimize risks and offset uncertainty caused by great powers [4]. In Southeast Asian, the United States and China have both displayed fluctuating commitments: raising concerns about the US’s credibility, China’s future intentions, and the trajectory of their future relations [5]. In this context, small states must secure their sovereignty and independence, trying to prevent themselves from becoming pawns in the power games of major countries [6]. Due to a lack of military power to confront great powers, small states turn to flexible diplomatic and economic measures to maintain an overall neutral stance. Medeiros also specifies how small states hedge against great powers: pursuing policies that on the one hand stress engagement and integration mechanisms and, on the other, emphasize realist-style balancing in the form of external security cooperation [7].

According to Chen and Yang, a dual independent logic is also of great significance: economic interests are also at play [8]. When the risk is low, smaller nations tend to pursue a bundle of opposite and deliberately ambiguous lines, seeking to maximize their interests [9]. Smaller states use hedging strategies to maneuver between stronger states to achieve their own interests, sometimes leading them to become middle powers [10].

In summary, hedging is a self-defense strategy aimed at offsetting uncertainty and promising security when small states are posed in the game of great powers. It shows ambiguity and ambivalence. Meanwhile, hedging is more than passive self-defense, which tries to maximize the economic interests of great powers while maintaining neutrality. Hedging is manifested in small nations...
engaging with major powers, using provocation and building multilateral relationships as means of reducing dependence on a major power, while maintaining a consistent distance. Contrary to negative perspectives about hedging, small nations are not in the passive context that they struggle for security and independence amid great power rivalry. Small states often welcome the competition between great powers. On one hand, they enjoy greater autonomy compared to a unipolar world. On the other hand, as targets of contention among major powers, small nations can gain more economic benefits and opportunities for development [5].

However, hedging is a financial concept and not an innate theory in international relations. While widely applied in the field of international relations, the theoretical aspect remains underdeveloped: one thing is that the previous studies lacked direct evidence for the phasal development and overall trend of hedging; the other is that these studies had rough definitions about the stage-specific factors contributing to the 'swaying' state of small states. Previous literature has highlighted small states maximize economic benefits through strategic ambiguity in their hedging strategies. It seldom delves into how this ambiguity is achieved, the driving factors behind the oscillation, and how it assists small states in maintaining a neutral position at different stages.

The paper places hedging within the context of major power competition and takes into account the impacts of competition rules of major powers on hedging. Allison believes that honor, fear, and interest are the motivations driving the competition between major powers [11]. This paper contends that since the backdrop of hedging is the rivalry between major powers, the mindset of these powers in competition also affects the trends in hedging. The study analyzes the phasal development and overall trend of hedging, demonstrating how the combination of great power competition rule (honor, horror and interests) and hedging rules leads to a cyclical tendency in hedging strategies. A hedging strategy is defined involving three actors: Major Power A, Major Power B, and a smaller state. Here, Major Power A and B are at risk of competition or confrontation. Moreover, the definition of hedging involves two layers: one is the smaller state increasing its closeness to one major power to hedge against the risks posed by the other; the other is the smaller state using economic benefits to hedge against security risks, or leveraging security concessions to gain economic benefits. Fundamentally, the smaller state's application of hedging strategies is aimed at maximizing both economic and security benefits.

2. Phases and Double Layers of Hedging

The paper builds a model that defines hedging as a three-phasal cyclical tendency. This model is built on three key assumptions. Firstly, the smaller state finds itself caught in the rivalry between two great powers and holds significant strategic value. Secondly, this state employs a hedging strategy, steering clear of committing to either superpower's camp. Thirdly, it shares a complex relationship with the major powers, with both security conflicts and economic ties.

The initial phase provides an essential background for hedging. If a small state aligns closely with major power A but has strained relations with major power B, it will choose to set aside any security disputes with major power A, seeking to maximize economic benefits. This is because the small state recognizes its inability to challenge the might of major power A. However, if there is competition or a confrontation between major power A and major power B that is capable and intent on countering major power A, extends a friendly overture to the small state and attempts to build international bloc against major power A, the small state will provoke a hedging of economic and security interests to maximize its benefits. In this context, the small state stirs up security issues to strive to prevail in the security issues. This action comes autonomously due to the awareness of the nation-state and its identity as a sovereign state. However, it’s prone to sanctions or punishments from great power A. Then, a small state naturally turns to great power B for asylum. There is also the possibility that the goodwill of Great Power B has encouraged the smaller countries to provoke Great Power A, which may manifest itself in the form of upgraded diplomatic relations and closer economic cooperation.
In the next phase, on one hand, the small state hedges “the close tie with great power B” with “increasing intimacy with A”; on the other, it hedges security risks with economic interests, first of all, fear emerges at play. According to Allision, the real reasons for war between great powers are interest, fear, and honor [11]. Great Power A falls into panic when it finds closer ties between the small states and great power B. As the small state serves great strategic significance to both sides, great power A would be reluctant to lose strategic advantage. Then it will try to give out signals of easing tensions. Major powers are generally less inclined to compromise on matters of security. They typically harbor a sense of honor that aligns with their perception of deserving respect commensurate with their strength [11]. Yielding to smaller nations is often viewed as a source of disgrace by their citizens. Instead, they tend to offer vast economic opportunities to set aside disputes and focus on economic development. However, relying solely on stable economic trade relations to mitigate security disputes comes with its vulnerabilities. When security disputes resurface, economic cooperation can also erode in response [12]. Therefore, major powers tend to introduce comprehensive economic cooperation frameworks that bind their economic ties with small state in multiple aspects. It, to some extent, helps restrain the frequency of security issues resurging. In this context, the small states show an increasing intimacy with great power A.

The subsequent phase shows the climax of hedging. The alternative economic framework proposed by great power B also offers the small state an alternative economic option. The small state, while deepening its economic cooperation with major power A, intermittently stirs up security issues and turns to major power B when major power A becomes angered, leading major power B to mistakenly believe that the small state is leaning towards its bloc. However, in reality, the small state does not intend to abandon its cooperation with major power A. This approach serves two purposes: on one hand, it helps the small state reduce dependence on major power A and preserve its autonomy; on the other hand, it is a way to test the limits of major power A's tolerance for security issues and the closeness of the small state's relationship with major power B. Notably, the limit tests of closeness may take place in the second phase. This allows the small state to safeguard its security interests to the maximum extent within the bounds of major power A's tolerance, while simultaneously gaining economic support from major power B. This stage also carries a high level of risk. Once the small state crosses the security red line that major power A finds unacceptable, the cold shoulder from A becomes unbearable for the small state. It is left with no choice but to lean towards major power B and forfeit more of its autonomy to seek asylum. However, there is also the possibility of a turning point in the future as long as the small state has the strategic value and intends to continue playing the balancing game. In that case, the situation may revert to its original state. Therefore, it can be observed that the outcome of this balancing act results in either maintaining the current state or entering into a recurring cycle.

3. Vietnam’s Hedging in the Sino-US Competition

3.1. The First Phase——Contact, Cooperation and Tension (1900-2011)

China-Vietnam relations deteriorated in the 1970s, but diplomatic normalization was achieved in 1991. In early 1999, the General Secretaries of both parties established a framework for the two countries in the new century, characterized by 'long-term stability, future orientation, neighborly friendship, and comprehensive cooperation.' In the first decade of the 21st century, the two sides had a close relationship and jointly issued eight joint declarations. During this period, both sides maintained a 'set aside disputes, pursue joint development' approach to the South China Sea. The 'Mischief Reef' incident in 1995 did not alter this overall posture. However, with the thawing of Vietnam-U.S. relations and the increasing perception of China as a threat by the United States, tensions arose regarding the South China Sea issue.

After the Vietnam War, Vietnam and the United States severed diplomatic relations for twenty years. It was only with the end of the Cold War and the resolution of the Cambodian issue that the two sides gradually began to thaw their relationship. In 1995, Vietnam and the United States
normalized their relations. However, during this phase, Vietnam still had concerns that the United States might undermine its socialist regime, so the exchanges between the two sides were not very deep [13]. In 1997, Vietnam and the United States exchanged ambassadors for the first time. In the year 2000, the president of the United States visited Vietnam, becoming the first American president to visit Vietnam since the Vietnam War. The two sides reached a series of agreements, including the signing of twelve letters of agreement on investment and trade. Afterward, the relationship between the United States and Vietnam deepened, including the establishment of a Bilateral Trade Agreement (BTA).

After 2008, China surpassed Japan to become the world's second-largest economy, and the Beijing Olympics showcased China's growing national power, leading to an increased perception of China as a threat to the United States. In November 2011, the president of the U.S. delivered a speech in the Australian Parliament where he officially announced the Asia-Pacific Rebalance Policy. He emphasized the long-term commitment of the United States to the Asia-Pacific region and outlined the core principles of the policy, which included strengthening relationships with allies and partners, enhancing military presence, promoting free trade, and fostering economic cooperation. Subsequently, the administration proposed free trade agreements like the Trans-Pacific Partnership (TPP) to strengthen economic cooperation between the United States and Asia-Pacific countries. In the South China Sea issue, the United States calls on all countries to abide by international law, particularly the United Nations Convention on the Law of the Sea (UNCLOS). The United States has also conducted what is known as "freedom of navigation operations," sending military vessels and aircraft through disputed waters in the South China Sea to uphold the internationally recognized principle of freedom of navigation under international law.

The actions of the United States and the upgraded relationship with the United States have given Vietnam confidence. Vietnam has also initiated its actions on the South China Sea issue. In 2009, Vietnam disregarded China's fishing ban and conducted fishing activities in the South China Sea region claimed by China. In the same year, China detained numerous Vietnamese fishermen and fishing vessels engaged in illegal fishing. In response, China established administrative agencies on Yongxing Island and Zhaoshu Island, increased the number of patrol ships in the South China Sea in 2010, and incorporated the nine-dash line into its cartographic representations in 2011. Military exercises in the Paracel Islands emphasized China's sovereignty over South China. Vietnam has further expanded its retaliation against China, engaged in security and defense negotiations with the United States, and conducted exchanges with the U.S. Navy in the South China Sea.

In summary, the first phase of performance saw Vietnam developing its relationship with the United States while maintaining ties with China. During this time, as the United States also demonstrated its willingness to balance China, Vietnam leveraged issues of sovereignty to pursue its own security interests, which sometimes diverged from those of China.

3.2. The Second Phase——Combining a Conciliatory Approach with a Hardline Stance (2011-2014)

The introduction of the Indo-Pacific strategy has made China perceive the hostility from U.S., while U.S. involvement in the South China Sea issue with Vietnam has made China feel a security threat. As a major power, China cannot compromise on security issues and conducted three days of naval exercises during the U.S.-Vietnam negotiations. While China is unlikely to make concessions on territorial security, U.S. geopolitical involvement has made China cautious, as it is reluctant to lose Vietnam, a country of high strategic significance. So, China is attempting to offer economic incentives to meet Vietnam's demands for resources in the South China Sea, thereby appeasing the South China Sea disputes and thwarting the trend of closer ties between the United States and Vietnam. And Vietnam welcomed this change

The total value of Vietnamese exports to China can be observed that after 2010, the situation improved compared to the period before 2010. There has been overall stability in the growth rate, with occasional significant fluctuations in certain years compared to the preceding year. In general,
there has been a gradual upward trend. From 2000 to 2009, the average annual growth rate of Vietnamese exports to China was approximately 20%, while after 2010, the average annual growth rate was approximately 22% [14]. Chinese investments in Vietnam increased significantly from $312 million in 2012 to $7.9 billion in 2014, marking a substantial rise in total investments.

However, scattered economic opportunities are inherently unstable. That explains why China has incorporated Vietnam into the Belt and Road Initiative (BRI) framework, deepening economic ties in various aspects, to curb security issues from resurfacing. During Chinese Chairman Xi's visit to Vietnam in November 2015, he mentioned the promotion of strategic alignment between the two countries, expanding the cooperation framework between the Belt and Road Initiative and the Two Corridors, One Economic Circle. This move plays a significant role in fully leveraging their respective comparative advantages, expanding the common market, improving resource allocation efficiency, exploring untapped potential, and nurturing new economic growth points [15]. In 2013, the bilateral trade volume reached $50.21 billion, with Vietnam exporting $13.26 billion and importing $36.95 billion (a year-on-year growth of 21.93%, 7.01%, and 28.35%, respectively) [16]. Both countries’ top leaders are dedicated to exchanging measures aimed at maintaining the growth of bilateral trade and improving trade balance. They signed the "2012-2016 Vietnam-China Five-Year Development Plan for Economic and Trade Cooperation," with Vietnam’s General Secretary visiting China in October 2011 and signing cooperation memorandums on major projects during the sixth meeting of the Vietnam-China Steering Committee on Cooperation in April 2013. During the former Chinese Premier's visit to Vietnam, both sides agreed to promote economic and trade cooperation, focusing on the construction of large-scale infrastructure projects and transportation connectivity. They continued to take measures to promote a balanced and healthy trade relationship, strengthening coordination and cooperation in the banking and financial sectors, particularly in safeguarding currency stability in the face of the international monetary and financial crisis. To fulfill these tasks, both sides agreed to establish working groups for infrastructure cooperation and currency cooperation [17].

In a word, Vietnam welcomed China’s initiatives. On one hand, it hedged security issues with economic gains, and successfully avoided direct conflict with China; on the other, it developed relations with China to reduce reliance on the U.S. and preserve its independence in a way.

3.3. The Third Phase (2014-): Uncertainty——Maintaining, Cycle or Rebuilding

The United States has not slowed down its engagement with Vietnam as it is still at the center of the U.S. rebalance to Asia. Vietnam occupies an important position in Southeast Asia and ASEAN. Vietnam is a significant participant in the Trans-Pacific Partnership (TPP) economic agreement [18]. At the same time, trade between Vietnam and the United States has steadily increased, with the growth rate rising from 19.08% in 2010 to 32.68% in 2015. As a result, the positive momentum on both the Chinese and American sides has bolstered Vietnam's confidence, as it hopes to safeguard its sovereignty and interests while maximizing gains from both parties. Essentially, it goes for maintaining a situation beneficial for Vietnam. Consequently, Vietnam has initiated explorations of the boundaries.

The 2014 deployment of the "Haiyang Shiyou 981" drilling rig was a boundary-testing venture by Vietnam. On May 2, 2014, the "981" drilling rig commenced oil exploration activities within China's contiguous zone around the Paracel Islands. Over the past decade, Chinese enterprises have conducted various exploratory activities in the South China Sea, including seismic exploration and wellsite surveys. The "981" operation was not only a routine continuation of exploration but also entirely within China's sovereign rights and jurisdiction. However, from Vietnam's perspective, China's deployment of the "981" drilling rig was seen as an expansion of its presence in the South China Sea, enhancing its actual control over the resources in the disputed waters [19]. Vietnamese patrol boats and fishing vessels almost immediately entered the same waters, leading to multiple pursuits and even collisions with Chinese coast guard ships. The risk inherent in hedging unfolded: initially, the conflict was minor, but due to the involvement of domestic radical nationalism, Vietnam found it difficult to
make concessions, having to adopt a tough stance towards China, thereby losing strategic flexibility. Large-scale anti-China protests erupted in Hanoi and Ho Chi Minh City, with demands for the immediate withdrawal of the drilling rig and accusing the Vietnamese government of responsibility for the "violation" of national interests. The violence escalated rapidly nationwide, with at least 16 Chinese nationals killed in Ha Tinh Province alone. On May 15, China's Foreign Ministry expressed grave concern over the incident at the New Vietnam Industrial Park; on May 16, China's Ministry of Commerce demanded effective measures from Vietnam to stop all violence, ensure the safety of Chinese enterprises and personnel as well as compensate for all losses. Faced with China's firm stance and domestic outrage, the Vietnamese Prime Minister was caught between a rock and a hard place. As the leader of a socialist country, he chose to calm public outrage by adopting a tough stance towards China. During his visit to the Philippines, criticized China's exploration activities in the South China Sea as a serious threat to peace and stability, calling for international condemnation of China and revealing Vietnam's consideration of legal actions to defend its interests.

After losing room for easing tensions with China, Vietnam's positive development trend with China shifted towards the United States. Following the "981" drilling rig incident, military and security defense cooperation between Vietnam and the United States advanced further, culminating in the signing of the Joint Vision Statement on Defense Relations, with the U.S. also lifting its longstanding lethal weapons embargo. The U.S. repeatedly criticized China's actions in the South China Sea on international platforms, supporting Vietnam's stance and shaping a military and security partnership. Vietnam's balance between China and the U.S. seemed to fail. After relations with China cooled, Vietnam found itself cornered with limited maneuvering space, thereby facing the inevitable contradictions that come with deepening cooperation with the United States. Firstly, Vietnam and the U.S. have long been entangled in trade disputes. Under the America First policy, the U.S. has expressed strong dissatisfaction with the persistent trade deficit with Vietnam, demanding substantial trade deals and the removal of barriers for U.S. companies entering the Vietnamese market. Secondly, there are longstanding differences between Vietnam and the U.S. regarding their political systems and human rights values, with the U.S. often launching color revolutions against Vietnam or criticizing its human rights record. Lastly, interactions between Vietnam and the U.S. are still overshadowed by the painful memories of the Vietnam War, which has always been a lingering shadow over their cooperation.

However, as long as Vietnam's strategic significance remains and the U.S.-China rivalry continues, rebuilding the balance of hedging is possible. China is still unwilling to see Vietnam fall into the U.S. bloc, as it would lose much strategic autonomy in the U.S.-China rivalry. Therefore, China actively promotes negotiations on the South China Sea Code of Conduct with ASEAN. Emphasizing the importance of improving relations with neighboring countries, China proposed the idea of building a "China-Vietnam Community of Shared Future" in 2017, aiming to bind their interests more closely. These measures undoubtedly facilitated the reconstruction of Vietnam's hedging strategy. Nevertheless, Vietnam is unwilling to lose its maneuvering space with the United States. Thus, in 2023, China revised the concept to a "China-Vietnam Strategic Community of Shared Destiny," which Vietnam readily accepted.

In summary, the essence of hedging is to maximize a small state's security and economic interests, but it also includes many uncertainties, reducing strategic flexibility, and thus leading back to the starting point of the hedging situation. However, as long as the strategic significance of small states remains and the great power rivalry continues, the fear inherent in great power competition will always lead to a softening of attitudes, thus promoting the easing of relations. Consequently, hedging can be rebuilt, and a new cycle of hedging begins.

4. Conclusion

This article combines the patterns of great power rivalry with the hedging strategies of small states to analyze the different stages of small states’ hedging. It uncovers two levels of hedging: external
involving the influence between great powers, and internal balancing economic interests and security. The study also notes that while hedging trends are fraught with uncertainty, they hold the potential to form a cycle. It observes that astute small states effectively apply hedging strategies, while great powers also value the strategic significance of small states influenced by fear in their rivalries, thus great powers facilitate the implementation of hedging. Hedging is seen as a product of small states' maneuvers and great powers' fear psychology.

These findings provide the following insights for future research: small states are defined in comparison to larger states. That means within these small states, there are many levels of hierarchy. Precisely speaking, Vietnam should be categorized as a mid-to-large nation among the smaller ones. Such a mid-to-large nation possesses the determination to rise as a dominant power, which is different from the motives of some weaker nations that seek self-preservation. It is suggested that future research should focus on comparing smaller states with Vietnam, to understand how the differences in their objectives impact the development trends in hedging.

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