

RESEARCHERS AT SINGAPORE'S INSTITUTE OF SOUTHEAST ASIAN STUDIES SHARE THEIR UNDERSTANDING OF CURRENT EVENTS

Singapore | 17 Jan 2013

The Dominance of Chinese Engineering Contractors in Vietnam

By Le Hong Hiep [Guest Writer]

INTRODUCTION

Since bilateral normalization in 1991, Vietnam-China economic relations have been developing rapidly. One particular change is the dominant position in Vietnam that Chinese engineering contractors have managed to attain. According to China's Ministry of Commerce (2010), Chinese engineering companies were by the end of 2009 involved in projects worth US\$15.42 billion, turning the Vietnamese market into their largest in Southeast Asia. Various Vietnamese sources also confirm that these contractors are strongly outcompeting contractors from Japan, South Korea, and Western countries. On occasion, Chinese contractors have accounted for up to 90 per cent of EPC (Engineering/Procurement/Construction) contracts for thermal power plants in Vietnam (Nhat Minh, 2012).

This interesting phenomenon begs several questions. First, given their relative lack of international experience, how did the Chinese engineering contractors manage to achieve their extraordinary success in Vietnam, and is it sustainable? Second, does this condition present special problems for the Vietnamese? And finally, what implications does this hold for Vietnam's economic and political relations with China?

CAUSES

There are two major reasons for the spectacular rise of Chinese engineering contractors in Vietnam: First, the conditions attached to Chinese concessional loans and preferential export buyer's credits for Vietnam; and second, the "flexible" business strategies of these contractors.

While Chinese grants (aid gratis) to Vietnam since 1991 have been limited, standing at around US\$50 million, concessional loans reached as much as US\$500 million by the end of 2010.¹ At the same time, China's preferential export buyer's credits have become an increasingly important source of funding for Vietnamese projects. By the end of 2008, such credits to Vietnam had reached US\$1 billion (Xinhua News Agency, 2008).² Since then, it should have gone much higher. For example, the Vinh Tan II Thermal Power Plant alone, which started construction in August 2010, received approximately US\$1 billion in the form of such credits (Tuoitrenews, 2010).

A key condition for Vietnam to receive China's concessional loans as well as preferential export buyer's credits is that it has to use Chinese contractors, technology, equipment, and services for related projects (China Eximbank, 2012). For example, the construction of Cao Ngan Power Plant, which was funded by Chinese concessional loans, was open to four Chinese bidders and Harbin Electric Corporation was selected as the EPC contractor of the project. Similarly, Electricity of Vietnam had to choose Shanghai Electric Group Company Ltd. as the EPC contractor for the aforementioned Vinh Tan II Thermal Power Plant. In other words, the condition attached to China's concessional loans and preferential credits buyer's credits has undoubtedly contributed to the dominance of Chinese engineering companies in Vietnam.

The second condition contributing to such a situation are the "flexible" business strategies practised by Chinese contractors in Vietnam. In projects funded in other ways and that are open to international bidders, there are loopholes in Vietnam's Law on Tendering which favour low prices over technical aspects. Accordingly, Chinese contractors are able to offer a markedly lower price than competing bidders.

According to Dr. Nguyen Thanh Son, who used to work for power plant projects run by the state-owned Vietnam National Coal-Mineral Industries Corporation (Vinacomin) and who had first-hand experiences dealing with Chinese contractors, Chinese companies were able to offer low prices thanks to subsidies from the Chinese government given on presentation of contracts they had won. In addition, unlike other contractors who, once awarded the contract, would strictly implement its terms and conditions, Chinese contractors normally adopted a different strategy. They were willing to offer low prices, but after being awarded the contract would try to save costs by persuading project owners to change the contract's original terms and conditions, or by just ignoring them.

1 Neither Vietnam nor China has disclosed the total amount of aid that China has provided Vietnam since normalization. The estimate is therefore based on a report by Vietnam's Ministry of Finance (2011, p. 15), which shows that by the end of 2010, Vietnam's outstanding government debt to China through official arrangements was US\$551.7 million. Although the Ministry did not clarify what constituted the debt, it can be inferred from the way the debt was categorized that it probably derived from Chinese ODA (i.e. interest-free and concessional loans) that Vietnam had acquired from China through bilateral agreements. At the same time, incomplete data from the Ministry of Planning and Investment (2009) on projects sponsored by Chinese ODA show that interest-free loans are insignificant and Chinese concessional loans may therefore account for most of the debt.

2 While concessional loans are considered aid, preferential export buyer's credits are not. Although offered at a better-than-market interest rate, these credits primarily promote credit providers' exports rather than recipient countries' development and welfare.

Consequently, components that did not meet project owners' technical requirements were still used and installed by Chinese contractors in a number of power plant projects, such as at Quang Ninh, Hai Phong, Cao Ngan, and Na Duong (Thanh Phong, 2010).

In addition, in some power plant projects which require swift implementation due to Vietnam's electricity shortage, project owners were allowed by Vietnamese government to appoint contractors without going through the bidding process. In such cases, Chinese contractors also got appointed because of the competitive prices they offer. Moreover, Chinese contractors are also interested in bidding for small-scale projects which are normally ignored by engineering contractors from Vietnam and other countries (Pham Huyen, 2010).

Such strategies seem to have worked. Many of the EPC contracts won by Chinese contractors are upstream projects in essential sectors such as energy and mining. Especially, as much 90 per cent of Vietnam's thermal power plants have been built by Chinese contractors (Nhat Minh, 2012). Such a situation has however produced a number of serious problems for Vietnam.

PROBLEMS

First, there have been numerous reports in the Vietnamese media of poor performance by Chinese contractors in projects in various fields (see, for example, Doan Cuong, 2012; Linh Chi, 2012; Pham Huyen, 2010; Quoc Dung, 2011; Thanh Phong, 2010; Thanh Tung, 2012; Ve Dinh, 2011). The affected projects cut across all sorts of funding. The most common problems come from the contractors' failure to ensure quality; the inability to keep deadlines, or the violation of contractual terms and conditions. These problems have caused additional costs for Vietnamese project owners and hindered the sustainable development of Vietnam's infrastructure system.

For example, Vinacomin complained that much of the equipment Chinese contractors provided for its power plants were of inferior quality than equipment of Japanese or Western origin. The poor quality of equipment has caused repeated incidents in such projects as the Hai Phong Thermal Power Plant No.1 (Le Thu & Van Thinh, 2010). The Vietnam Energy Association (VEA) also reported in 2011 that many power plants constructed by Chinese contractors had faced protracted delay. Meanwhile, the Dinh Vu DAP Fertilizer Factory, which was built by China National Chemical Engineering Group Corporation as the EPC contractor, could not produce fertilizers of pledged quality. The problem even led the Ministry of Industry and Trade to lower the Vietnamese standards on diammonium phosphate chemical fertilizer so that the factory's products could be sold on the market (Chi Hieu, 2011).

Second, the condition that projects funded by Chinese preferential loans and export buyer's credits must import technology, equipment and services from China has also contributed to Vietnam's perennial trade deficit with China. In any project funded by Chinese concessional loans and preferential export buyer's credits, the Chinese contractor selected

by Vietnam will receive money directly from China Eximbank for the equipment and technology they import into the country as well as the services they provide to implement the project. In projects funded by other financial sources, Chinese companies who act as the EPC contractors also normally import most of the machinery and equipment from China, including basics such as washers (Hoang Lan, 2010). The practice helps Chinese contractors save costs, which is almost a must given the low prices that they offer project owners. However, it has also caused Vietnam's imports from China to surge and its trade deficit with the latter to remain high. Vietnam's trade deficit with China, for example, increased from US\$9 billion in 2007 to 13.8 billion in 2011. Vietnam also imported US\$5.26 billion worth of machinery and equipment in 2011, accounting for more than 20 per cent of its total import turnover from China in the same year (General Department of Customs, 2012).

Finally, Chinese contractors' use of Chinese labourers is yet another important issue that Vietnam has to deal with. According to Vietnam's Ministry of Labour, War Invalids and Social Affairs, by September 2011, there were 78,440 foreign workers in Vietnam, of which 31,330 were illegal (Phong Cam, 2012). Various reports suggested that most of the illegal workers were brought into the country by Chinese contractors. For example, among about 1,700 Chinese workers working at Ca Mau Gas – Electricity – Fertilizer complex in August 2011, more than 1,000 did not have a working permit (Thien Phuoc, 2011). Similarly, many of the 1,300 Chinese labourers working at the construction site of Hai Phong Thermal Power Plant No.2 in June 2012 were also illegal. Chinese contractors explained their preference for Chinese workers by referring to the language barrier, their lack of trust in Vietnamese labourers, and Chinese workers' more advanced skills (Giang Linh, 2012).

IMPLICATIONS

These problems have generated significant implications for Vietnam's economic and political relations with China.

First, Vietnam's dependence on Chinese contractors has generated concerns about Vietnam's national security, especially energy security. For example, such anxieties have been officially voiced by Ms. Pham Thi Loan, member of the National Assembly's Finance and Budget Committee, at a conference in 2010 (Hoang Lan, 2010). Worries about the country's energy security, in particular, have originated from delays and from poor quality of power plants constructed by Chinese contractors. Officials from the VEA have pointed out that some power plants constructed by Chinese contractors could not start operation at expected deadlines, while others repeatedly had to halt operation for maintenance. These problems further exacerbate the country's power shortage (Pham Tuyen, 2011). Such concerns may ultimately contribute to the rise of policies aimed at restricting China's unwarranted economic influence on Vietnam, which, in turn, will negatively impact Vietnam's overall relations with its northern neighbour.

Second, the presence of Chinese workers, whether legal or illegal, has caused public resentment in Vietnam. Chinese workers have been criticized for taking jobs away from local labourers, especially when many jobs performed by Chinese workers, in contradiction to claims made by Chinese contractors, are simple manual ones that require no advanced skills. Partiality for Chinese labourers in terms of wage and working conditions has also caused grievance among locals. For example, for the same job, Chinese workers are normally paid a significantly higher wage than are paid to Vietnamese (Giang Linh, 2012; Nam Cuong & Nguyen Thanh, 2011).

Especially, the presence of Chinese workers has also caused security concerns. There have been reports of Chinese workers breaking laws, causing social disorder, or even engaging in violent confrontation with local communities (Vietnamnet, 2009).

The presence of hundreds of Chinese labourers working for EPC contractor China Aluminum Engineering Corporation (Chalieco) at Nhan Co and Tan Rai Aluminum Plants in the Central Highlands also elicited objections from a segment of Vietnamese high-profile figures, including General Vo Nguyen Giap. In addition to environmental concerns, General Giap argued that the large numbers of Chinese working in the Central Highlands would give China a foothold in this strategically important area of the country (Marston, 2012, p. 183). His argument was a rationale behind strong protests mounted by Vietnamese civil society against bauxite mining in the Central Highlands.

Third, the poor quality of a number of their projects has created a negative perception of Chinese contractors among a large segment of Vietnamese population. They further deepen Vietnamese distrust of China in general and Chinese products and services in particular. More importantly, they have also triggered official responses from Vietnamese organizations and policy makers. In September 2011, for example, the VEA sent a petition to Party and State leaders calling for, among other things, a restriction on Chinese participation in Vietnam's power plants projects (Bao Anh, 2011). The VEA cited the above-mentioned problems, especially the long delays and the poor quality, to support their recommendation.

At the same time, there are also calls for revising the Law on Tendering to fix the loopholes that have facilitated the rise of Chinese contractors. Such a revision from the Ministry of Planning and Investment is scheduled to be passed by the National Assembly in 2013. Although it has multiple purposes, the revision seems to have the problems presented by the dominance of Chinese contractors as a hidden target. Accordingly, it introduces the quality-price tradeoff tender evaluation method. Under this method, project owners will be able to disqualify bidders who offer low prices but seem unlikely to provide the expected quality. In addition, the revised Law also provides that the winning contractors not be allowed to use foreign workers for jobs that can be done by Vietnamese. The revised Law also puts restrictions on imports of goods and equipment that are locally available. Such provisions will undoubtedly undermine Chinese contractors' competitiveness in Vietnam.³

³ The revised Law, however, is not to be applied to projects funded by foreign sponsors, including China, who require the use of their contractors.

Chinese dominance in construction is reminiscent of the dominance of Chinese consumer goods in Vietnam in the 1990s. After Vietnam normalized relations with China in 1991, Chinese consumer goods quickly flooded the Vietnamese market. This quickly led to Vietnam introducing a protectionist policy in September 1992 to ban 17 varieties of Chinese imports. The ban, however, proved to be ineffective (Womack, 1994, p. 506). It was only when Vietnamese consumers became disappointed with the poor quality of “made-in-China” products several years later that the market share of Chinese consumer goods in Vietnam began to contract. In the case of Chinese engineering contractors, however, their poor performance and tainted reputation, at least until recently, have not affected their dominant position. Instead, it is changes in Vietnam’s legal and policy framework that will probably play a more decisive role in bringing that about.

CONCLUSION

The case of Chinese engineering contractors in Vietnam shows that increasing bilateral economic interactions since normalization have generated mixed implications for economic and political relations between Vietnam and China. On the one hand, there has been growing economic interdependence between the two countries, a key foundation for a peaceful and stable relationship between them, but on the other hand, the dominance of Chinese contractors and the problems associated with that have generated hostility in the Vietnamese public and further deepened its distrust of China.

Vietnam’s decision to reform its legal and policy framework, which partially aims to limit the dominance of Chinese engineering contractors, may lead to retaliatory measures from China in the near future. Such a development will undoubtedly exert a negative influence on the evolution of Vietnam-China relations.

* * * * *

Le Hong Hiep is a lecturer at the Faculty of International Relations, College of Social Sciences and Humanities, Vietnam National University – Ho Chi Minh City, and is currently a Ph.D. Candidate at the University of New South Wales at the Australian Defence Force Academy.

ISEAS Perspective is published electronically by the Institute of Southeast Asian Studies, Singapore.

© Copyright is held by the author or authors of each article.

ISEAS accepts no responsibility for facts presented and views expressed. Responsibility rests exclusively with the individual author or authors. No part of this publication may be reproduced in any form without permission.

Comments are welcomed and may be sent to the author(s).

Editor: Ooi Kee Beng

Institute of Southeast Asian Studies
30, Heng Mui Keng Terrace
Pasir Panjang,
Singapore 119614
Main Tel: (65) 6778 0955
Main Fax: (65) 6778 1735

Homepage: www.iseas.edu.sg

References

- Bao Anh. (2011, 16 Sept). Kiến nghị hạn chế nhà thầu Trung Quốc vào các dự án điện [Chinese contractors proposed to be restricted from power plants projects]. VnEconomy Retrieved 8 Dec, 2012, from <http://vneconomy.vn/201109160936479P0C9920/kien-nghi-han-che-nha-thau-trung-quoc-va-cac-du-an-dien.htm>
- Chi Hieu. (2011, 17 Aug). Hạ tiêu chuẩn Việt Nam để sản phẩm đạt yêu cầu? [Vietnam standards to be lowered for products to pass quality test?]. Sai Gon Tiep thi Retrieved 4 Dec, 2012, from <http://sgtt.vn/Thoi-su/151533/Ha-tieu-chuan-Viet-Nam-de-san-pham-dat-yeu-cau.html>
- China Eximbank. (2012). Chinese Government Concessional Loan and Preferential Export Buyer's Credit Retrieved 30 Nov, 2012, from http://english.eximbank.gov.cn/businessarticle/activities/loan/200905/9398_1.html
- Doan Cuong. (2012, 14 Sept). Nhà thầu Trung Quốc “tháo thân” [The run-away Chinese contractors]. Tuoi Tre Retrieved 8 Dec, 2012, from <http://tuoitre.vn/Chinh-tri-Xa-hoi/511397/Nha-thau-Trung-Quoc-%E2%80%9Cthao-than%E2%80%9D.html>
- General Department of Customs. (2012). Customs Statistics for 2011. Retrieved 10 September 2012 <http://www.customs.gov.vn/DocLib/Forms/AllItems.aspx?RootFolder=%2FDocLib%2FCac%20Bieu%20Thong%20Ke%2FNam2011>
- Giang Linh. (2012, 11 Jun). Hải Phòng tràn ngập lao động Trung Quốc [Hai Phong crowded by Chinese workers]. Dat Viet Retrieved 8 Dec, 2012, from <http://baodatviet.vn/Home/chinhtrixahoi/Hai-Phong-tran-ngap-lao-dong-Trung-Quoc/20126/216160.datviet>
- Hoang Lan. (2010, 7 Aug). Người Trung Quốc nắm nhiều dự án trọng điểm của VN [Chinese contractors win many essential projects of Vietnam]. VnExpress Retrieved 4 Dec, 2012, from <http://vnexpress.net/gl/kinh-doanh/2010/08/3ba1ee8f/>
- Le Thu & Van Thinh. (2010, 26 Aug). “Thót tim” dự án nhiệt điện tại Hải Phòng [“Thrills” at Hai Phong Thermal Power Plant]. Cong an Nhan dan Retrieved 4 Dec, 2012, from <http://www.cand.com.vn/vi-VN/kinhte/2010/8/135959.cand>
- Linh Chi. (2012, 22 Jul). Nhà thầu Trung Quốc ì ạch, bê bối và giở chứng [Chinese contractors are slow, sloppy and badly-behaved]. An ninh Thu do Retrieved 8 Dec, 2012, from <http://www.anninhthudo.vn/Kinh-doanh/Nha-thau-Trung-Quoc-i-ach-be-boi-va-gio-chung/456737.antd>
- Marston, H. (2012). Bauxite Mining in Vietnam's Central Highlands: An Arena for Expanding Civil Society? Contemporary Southeast Asia, 34(2), 173-196.
- Ministry of Commerce. (2010, 2 Mar). 2009年越南成为中国在东南亚最大的工程承包市场 [Vietnam became China's largest engineering contract market in Southeast Asia in 2009] Retrieved 4 Dec, 2012, from <http://vn.mofcom.gov.cn/aarticle/zxhz/tjsj/201003/20100306802009.html>
- Ministry of Finance. (2011). Statistics Tables 2006-2010. External Debt Bulletin, 7.
- Ministry of Planning and Investment. (2009, 24 Dec). China Retrieved 26 Nov, 2012, from <http://oda.mpi.gov.vn/LinkClick.aspx?fileticket=%2fYU7XCcnRKg%3d&tabid=176>
- Nam Cuong & Nguyen Thanh. (2011, 27 Aug). Công nhân Trung Quốc, những hệ lụy buồn [Chinese workers and sad consequences]. Tien Phong Retrieved 8 Dec, 2012, from <http://www.tienphong.vn/xa-hoi/549935/Cong-nhan-Trung-Quoc-nhung-he-luy-buon-tpp.html>
- Nhat Minh. (2012, 13 Aug). Việt Nam ngày một thua thiệt khi buôn bán với Trung Quốc [Vietnam suffers increasing disadvantages in trade with China]. VnExpress Retrieved 4 Dec, 2012, from <http://vnexpress.net/gl/kinh-doanh/2012/08/viet-nam-ngay-mot-thua-thiet-khi-buon-ban-voi-trung-quoc/>
- Pham Huyen. (2010, 24 Sept). Tập đoàn Than cũng “tở” khổ vì nhà thầu Trung Quốc [Vinacomin denounces Chinese contractors]. Vietnam Economic Forum Retrieved 8 Dec, 2012, from <http://vef.vn/2010-09-24-tap-doan-than-cung-to-kho-vi-nha-thau-trung-quoc>

- Pham Tuyen. (2011, 15 Sept). Kiến nghị xem lại chất lượng nhà thầu Trung Quốc [Quality of Chinese contractors proposed to be reconsidered]. Tien Phong Retrieved 4 Dec, 2012, from <http://www.tienphong.vn/Kinh-Te/551770/Kien-nghi-xem-lai-chat-luong-nha-thau-Trung-Quoc-tpp.html>
- Phong Cam. (2012, 10 Jan). Hơn ba vạn lao động ngoại ‘chui’ ở Việt Nam [More than 30,000 illegal foreign workers in Vietnam]. Tien Phong Retrieved 8 Dec, 2012, from <http://www.tienphong.vn/kinh-te/563833/hon-ba-van-lao-dong-ngoai-chui-o-viet-nam-tpp.html>
- Quoc Dung. (2011, 16 Aug). Nhà thầu Trung Quốc bị phạt trên 120 tỉ đồng [Chinese contractor fined over VND120 billion]. Vietnam Economic Forum Retrieved 8 Dec, 2012, from <http://vef.vn/2011-08-16-nha-thau-trung-quoc-bi-phat-hon-120-ti-do-ng>
- Thanh Phong. (2010, 19 Aug). “Bẫy” đấu thầu giá rẻ [The low-priced tender “trap”]. Thanh Nien Retrieved 8 Dec, 2012, from <http://www.thanhnien.com.vn/pages/20100819/bay-dau-thau-gia-re.aspx>
- Thanh Tung. (2012, 24 Jul). Nhà thầu Trung Quốc và những dự án quốc tế tai tiếng [Chinese contractors and infamous international projects]. Dan Tri Retrieved 8 Dec, 2012, from <http://dantri.com.vn/kinh-doanh/nha-thau-trung-quoc-va-nhung-du-an-quoc-te-tai-tieng-622365.htm>
- Thien Phuoc. (2011, 10 Aug). 1.000 lao động Trung Quốc làm việc không phép tại Cà Mau [1,000 Chinese workers have no working permit in Ca Mau]. VnExpress Retrieved 8 Dec, 2012, from <http://vnexpress.net/gl/xa-hoi/2011/08/1-000-lao-dong-trung-quoc-lam-viec-khong-phep-tai-ca-mau/>
- Tuoitrenews. (2010, 9 Aug). Work starts on first thermal plant in southern Vietnam Retrieved 8 Dec, 2012, from <http://www.tuoitrenews.vn/cmlink/tuoitrenews/business/work-starts-on-first-thermal-plant-in-southern-vietnam-1.8718/7.13994>
- Ve Dinh. (2011, 31 Aug). Vị đắng của chất lượng mang tên nhà thầu Trung Quốc [The quality bitterness named “Chinese contractor”]. Vietnamnet Retrieved 8 Dec, 2012, from <http://vietnamnet.vn/vn/chinh-tri/37402/vi-dang-cua-chat-luong-mang-ten-nha-thau-trung-quoc.html>
- Vietnamnet. (2009, 22 Jun). Lao động Trung Quốc ‘quậy’ ở công trường Nghi Sơn [Chinese workers cause trouble in Nghi Son] Retrieved 9 Dec, 2012, from <http://vnn.vietnamnet.vn/xahoi/2009/06/854202/>
- Womack, B. (1994). Sino-Vietnamese Border Trade: The Edge of Normalization. Asian Survey, 34(6), pp. 495-512.
- Xinhua News Agency. (2008, 11 Dec). China-Vietnam trade hits \$16.6 bln in first 10 months Retrieved 12 March, 2012, from http://news.xinhuanet.com/english/2008-12/11/content_10490955.htm