

China's Impact on Vietnam's Economy and Trade

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Abstract: After the reform and opening up, Vietnam's economy began to develop rapidly, and Vietnam's participation in international trade has deepened with Vietnam's accession to WTO. As an important trading partner of Vietnam, China has played a role in promoting Vietnam's economic development. This paper explores the impact of China on Vietnam's economic development in terms of Chinese investment, loans, and terms of trade. It also analyzes and discusses the policies and measures taken by the Vietnamese government in the face of these changes.

Keywords: Bilateral Trade, Investment, Loans, Policies

1. Introduction

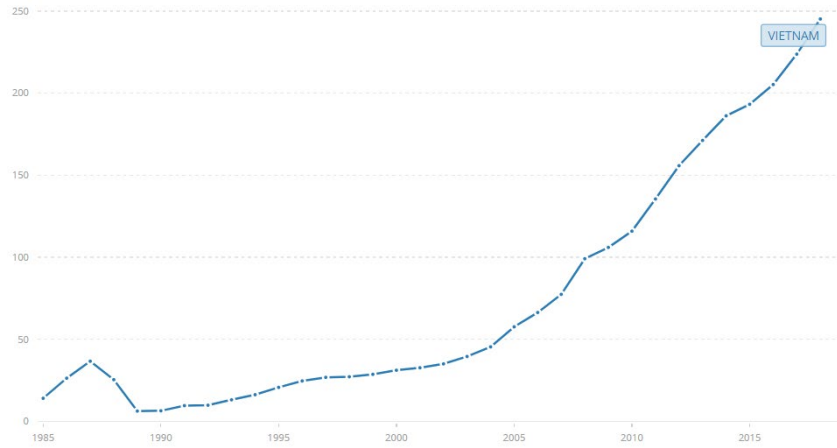
The rapid development of Vietnam's economy began with the reform and opening up of Vietnam, and the turning point was the accession to the WTO in 2007. Since 2007, Vietnam's participation in international trade has gradually deepened, international trade with countries and regions around the world has expanded ^[1], and foreign investment has been attracted and diversified, making Vietnam an emerging trading region. During the period of Vietnam's economic development, bilateral trade between Vietnam and China has occupied an important position in Vietnam's foreign trade, with Vietnam exporting agricultural products and natural resources to China and China exporting manufacturing products, parts and components and metals to Vietnam. At the same time, China has invested a lot in Vietnam, which has contributed to the further development of Vietnam's economy. This paper describes the history of Vietnam's economic reform and development, and analyzes the impact of trade between China and Vietnam on Vietnam.

2. History of Vietnam's economic reform and development

After ending a long period of colonization and armed struggle, Vietnam began to explore the path of economic development, and in 1986, the Vietnamese government launched a program of reform and opening up, known as the Doi Moi program. Since then, the Vietnamese government has adopted a free market system and abandoned the planned economy. The Doi Moi program has led to rapid growth in agricultural production, as well as the removal of trade barriers and restrictions on foreign-owned enterprises, which has facilitated economic trade between Vietnam and other countries.

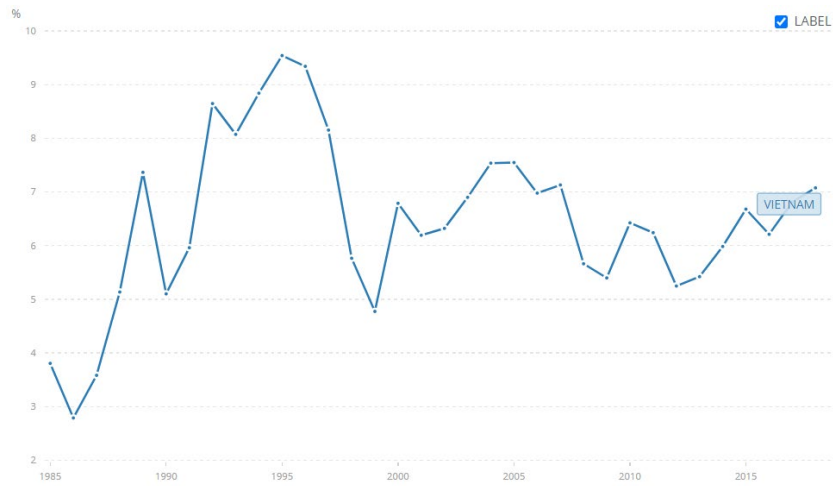
Although the Vietnamese government started reforms in the mid-1980s, the reforms did not bear fruit until the 1990s due to the collapse of the Soviet Union and the reform process, etc. Between 1990 and 1999, Vietnam's GDP grew at an average annual rate of 7.4% (Fig 1,2), and Vietnam experienced the Asian financial crisis during this period. However, the impact of the Asian economic crisis in 1998-1999 was limited because Vietnam was in the early stage of reform and opening up, international trade did not dominate the Vietnamese economy, and the banking and financial sectors were in the early stage of development ^[2].

In the 21st century, Vietnam is developing rapidly with strong economic growth. And Vietnam joined the WTO in 2007, the economic development to a higher level, but also in 2009 is, the country reached the middle-income level. However, with the increasing proportion of international trade in Vietnam's economy, changes in the international economy will also have an impact on Vietnam's economy, such as the financial crisis in 2008, which affected Vietnam's rapid economic development, as well as the weakness of Vietnam's exports and competition from other economies, making Vietnam's economic growth has gradually slowed down in recent years.



Source: The Word Bank.

Figure 1: The GDP of Vietnam from 1985 to 2015



Source: The Word Bank.

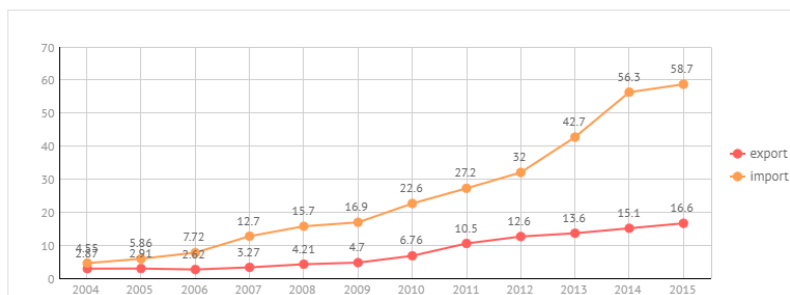
Figure 2: The GDP growth rate from 1985 to 2015

3. China's Positive Impact on Vietnam

3.1. Bilateral Trade

Since the normalization of Sino-Vietnamese relations in 1999, bilateral trade between China and Vietnam started. 1999-2003, although bilateral trade between China and Vietnam grew steadily, it did not account for a large proportion of trade, and since 2004, China has become Vietnam's largest international trade partner, and Vietnam has become China's main trading country in Southeast Asia [3]. As can be seen in Figure 3, up to 2004, China-Vietnam trade has been growing steadily, but the growth rate was not very large. Between 2004 and 2008, trade growth accelerated, but due to the global financial crisis in 2008, China's imports from Vietnam decreased, while Vietnam was not affected by it and its exports to China increased slightly. After 2008, China-Vietnam trade volume increased rapidly, especially after the full implementation of the ACFTA (ASEAN-China Free Trade Agreement, including Vietnam) agreement in 2015, and bilateral trade between China and Vietnam soared from 2016 onwards.

Vietnam's Trade in Goods with China, 2004-2015



Source: OEC, CEPII [4].

Figure 3: Vietnam's trade in goods with China, 2004-2015

3.2. Investment

In addition to import and export trade with Vietnam, China has also started to focus on investment in Vietnam. During 2000-2006, although China had investment in Vietnam, the amount was small. From 2006, China started to increase the amount of investment in Vietnam, but the growth rate was slow and uneven due to various reasons, for example, the investment increased in 2006-2007, but then decreased in 2008-2009 due to the financial crisis. In 2013, China built power plants in Vietnam, which led to a surge in Chinese investment in Vietnam. After 2013, Chinese investment in Vietnam increased under China's "One Belt, One Road" policy. The majority of Chinese investments in Vietnam went to manufacturing (82%), followed by real estate and construction (10.6%) [5], mostly in the form of foreign companies. At the same time, since most of the Chinese investments in Vietnam are in manufacturing, this increases the number of jobs in Vietnam and improves the local employment rate.

3.3. Loans

Besides investing in Vietnam, China also provides loans to Vietnam to help Vietnamese enterprises to develop. Official Development Assistance (ODA) can be considered as a follow-up investment from China to Vietnam, which includes interest-free loans, preferential loans, etc. ODA has played a significant role in Vietnam's development. However, with the passage of time, the amount of ODA decreased year by year, followed by the increase of commercial loans from China, and finally a combination of ODA and commercial loans was formed.

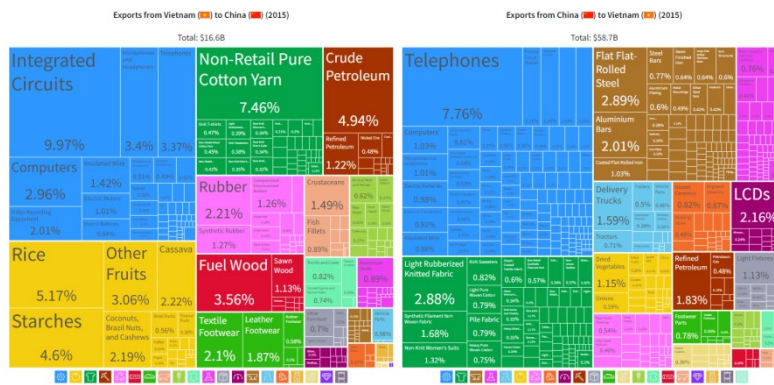
4. Negative impact of China on Vietnam

4.1. Trade

From the above, China is the most important trade partner of Vietnam, and China's import to Vietnam is also increasing year by year, but Vietnam relies heavily on China's import, which makes Vietnam's trade deficit with China bigger and bigger, and the reason for the trade deficit is the high and low value of Vietnam's import and export goods to China. In the bilateral trade between Vietnam and China, except for cell phones and computers, Vietnam's exports to China are mostly agricultural products and natural resources with low processing value, such as grain and timber. In contrast, most of the imports to China are manufacturing products such as machines, and various parts and components as well as higher value-added goods such as metals [3]. Taking 2015 as an example (Figure 4), it can be seen that the trade deficit is huge.

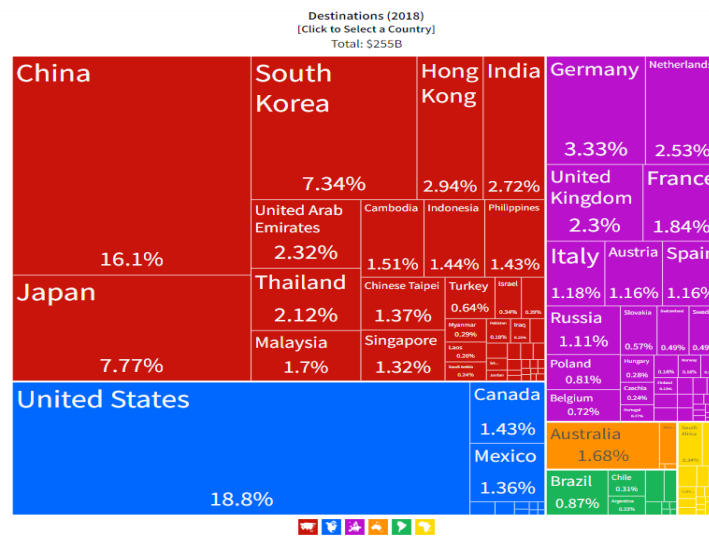
In order to reduce the huge trade deficit between Vietnam and China, the Vietnamese government has taken a series of measures. The first is to attract foreign investors to invest in high-tech industries in Vietnam, such as Samsung and Panasonic, to improve the added value of their own products and increase the export of these products to China, thus reducing the trade deficit. The second is to continuously sign trade agreements with trading partners to diversify export markets, and this strategy has obvious effects. In 2018, the top five trading partners of Vietnam's exports are the United States (18.8%), the European Union (17.2%), China (16.1%), ASEAN (10.2%), Japan (7.77%), and South Korea (7.34%) [7] (see Figure 5). Although Vietnam has some success in diversifying its trade markets, Vietnam is a labor-intensive industrial structure market with weak industrial support relative to China and has to import

intermediate products from China, which makes Vietnam-China bilateral trade always have a huge trade deficit.



Source: OEC [6].

Figure 4: Exports from Vietnam to China V.S. Exports from China to Vietnam in 2015



Source: OEC [8].

Figure 5: Destinations, 2018

4.2. Investment

Chinese investment in Vietnam has brought certain technology and employment opportunities to Vietnam, but it has also brought some negative impacts. First, Chinese investment in Vietnam is mainly in manufacturing and energy, including textiles, footwear, mining, etc. These industries are polluting or potentially polluting industries, which will cause some pollution to the environment where the investment is made. Secondly, Chinese investment in Vietnam is mainly in the form of setting up foreign enterprises, which will form a competitive relationship with local enterprises in Vietnam, which is not conducive to the development of local enterprises. For example, China mainly invests in the manufacturing industry, which is labor-intensive and Chinese companies can offer higher wages to compete for labor. Third, for Vietnam, Chinese investments in manufacturing and natural resource extraction require relatively low technology exchange, which does not help much to upgrade the technology of the subsequent industry, but rather, it is easy to become a source of cheap products and raw materials, and cannot get the desired economic and technical support.

The Vietnamese government has begun to seek more diversified investments in order to reduce its dependence on Chinese capital. In order to improve the investment environment and attract investment from other countries, Vietnam began reforming its state-owned enterprises in 1992 [9], which saw a sharp decline from tens of thousands of wholly state-owned enterprises in the early 1990s to fewer than 700 remaining (2015). As of 2018, the largest investor in Vietnam is Japan, with China in fifth place and the remaining three being South Korea, Hong Kong, and Singapore [10].

4.3. Loans

Since the interest rate of Chinese ODA is higher than other countries, and the loan term is shorter and the management fee is paid ^[1], meanwhile, since 2007, China has gradually reduced the ODA loans and increased the commercial loans, which increases the risk of Vietnam's debt crisis, which makes Vietnamese officials and enterprises prefer to borrow from other countries or organizations. For example, World Bank, Japan, France, etc. However, due to the increase of investment in infrastructure in Vietnam in recent years and the decrease of investment by other investors ^[2], the Vietnamese government and enterprises have to continue to borrow a lot, including China.

5. Conclusions

In general, the road of developing Vietnam as an emerging trading region has been full of opportunities and challenges. And China, as one of the most important trading partners of Vietnam, has brought opportunities to Vietnam's economic development, such as trade between China and Vietnam, Chinese investment in Vietnam, etc. At the same time, it also brings some problems, such as the problem between economic development and environmental pollution, how to balance capital investment and technology investment, etc. The Vietnamese government has also taken a series of measures to face these problems and try to form a diversified trade situation.

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