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Vietnam's international trade policy in the context of China-US trade war

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Abstract
Twenty two years since Vietnam began signing the first trade agreement AFTA in 1996, Vietnam has so far signed and negotiated 16 international trade agreements. All that show that Vietnam is an active and reliable partner, a lucrative gold mine that partners are targeting in Southeast Asia in particular and in Asia in general. When the rights between bilateral and multilateral partners are affected, they will impose policies to cover losses from these agreements. And that is the first US military gunfire against the Chinese economy, the most populous country and the world's largest factory. Following this wave, we will have a more objective view of the level of influence as well as the opportunities for Vietnam to grasp the future of trade war between the US and China.

Keywords: international trade policy, Vietnam economy, US-China trade war

1. Introduction

Entering the year of 2018, the administration of US President Donald Trump imposed many taxes on imported goods from China such as washing machines or some steel products. The situation escalated rapidly when the US proposed to impose a 25% tax on 50 billion USD of Chinese goods. This is part of Washington's response to a long-standing accusation of China's stealing intellectual property from the US. President Trump officially imposes a 25% tax on 34 billion USD of goods imported from China, including aircraft parts, TVs or medical equipments. China immediately responded in retaliatory manner with a 25% tax on 500 imported items from the US, including soybeans, beef, pork, cars and whiskey. The US continues to respond with USD 200 billion of goods from China proposed to impose a 10% tax, most likely to take effect in September 2018. (Nicholas Chapman (10/2018), VIETNAM'S BEING AND LOST WHAT IN MY - TRUNG TRADE WAR, new.zing.vn)

Vietnam is a deeply integrated country in a global trading system with very high interdependence. It is common to see that no party has won a commercial war. So is there some side that will be the winner and the loser on a certain scale? How should Vietnam be prepared in terms of its international trade policy in the context of the US-China trade war? Those questions are investigated in this article

2. Theoretical Framework on International Trade Policy in Context of China-US Trade War

2.1 Concept of international trade and international trade policy

International trade is the process of exchanging goods between countries for the maximum economic purpose. Barter trade is a form of socio-economic relations and reflects the interdependence between individual commodity producers of countries. International trade is an important area to enable countries to participate in international labor division, socio- economic development. Today international trade is not only meant to be merely a trade but a necessity of countries to participate in the international division of labor. Therefore, international trade must be considered as a premise for a domestic economic development based on the optimal choice of international labor division and specialization (Dinh Thi Lien, Truong Tien Si, Nguyen Xuan Dao, 2014) [1].

The international trade policy includes appropriate systems, views, guidelines, principles, tools and measures that the state uses to regulate the international trade activities of each country in order to achieve the certain socio-economic development goals.

2.2 Mission of international trade policy

International trade policy is part of the state's socio-economic policy. It has a strong impact on the process of reproduction, national economic restructuring, the scale and mode of participation of each country in the international division of labor and international trade. International trade policy plays a major role in fully exploiting the comparative advantage of the domestic economy, developing domestic industries and services to the optimal scale, accelerating economic growth and improving the efficiency of economic activities (Dinh Thi Lien, Truong Tien Si, Nguyen Xuan Dao, 2014) [1]

2.3 Forms of international trade policy

According to Do Duc Binh, Nguyen Thuong Lang (2012) [2], free trade policy is a foreign trade policy in which the state does not directly intervene in the process of regulating foreign trade, but fully opening the domestic market for external goods that are freely circulated between home and abroad, enabling international trade to develop on the basis of the principle of freedom of competition.

The key features of free trade policy are:

+ The State does not use tools to regulate import and export.
+ The import and export process is conducted freely.
+ The law of freedom of competition regulates the operation of domestic production, finance and trade.

Advantages of free trade policy are

+ Any international trade barriers are removed to help promote the freedom of domestic trade circulation.
+ Making domestic market richer, consumers have the conditions to satisfy their needs in the best way.
+ Creating a fierce competition environment in the domestic market, stimulating manufacturers to develop and improve.
+ If domestic manufacturers are strong enough to compete with foreign firms, the free trade policy will help domestic traders expand abroad. Indeed, free trade policy first appeared in England, the "cradle" of capitalism. England at that time was an industrial powerhouse, producing using machines instead of manual labor forces to reduce the costs. Goods produced were plentiful compared to the other developed neighbor nations such as France, Germany and Russia. It was able due to the implementation of the free trade policy that helped British capitalists quickly invade the world market, causing other countries to enforce trade protection regime against mass invasion of goods from England. But after the economies of those countries have been developed strongly, the free trade policy was to replace the trade protection policy.
+ Implementing a free trade policy is not synonymous with weakening the role of the state in international trade relations. In contrast, facilitating trade liberalization in the domestic market to weaken or abolish trade protection policies in other countries provides the basis for domestic traders to easily access and to penetrate new developing markets.

However, implementing a free trade policy has many typical disadvantages as follows:

+ The domestic market is regulated mainly by the law of freedom of competition so the economy is easy to fall into crisis situation, unstability and fragility.
+ The domestic manufacturers are not strongly developed enough, so they are in serious trouble in front of the attack of foreign goods.

Because of these disadvantages, even in today’s world, even countries with strong economies such as the US and Japan do not implement fully free trade policy for all industries, but only industries strong enough to compete globally and for only a certain period of time. According to Do Duc Binh and Nguyen Thuong Lang (2012) [2], the policy of trade protection is the foreign trade policy of the countries in order to use the measures to protect the domestic market in the face of fierce competition of foreign imported goods. On the other hand, the State also supports domestic traders to expand to foreign markets.

Characteristics of trade protection policy are

+ The State uses tariff and non-tariff measures such as tariffs, domestic tax system, import and export licenses, quotas, technical measures, etc. to restrict imported goods.
+ The State supports domestic exporters by reducing or exempting export tax, value-added tax, corporate income tax, domestic currency subsidies, export subsidies, so that they can easily be exported to expand to foreign markets.

Advantages of trade protection policy:

+ Reduce the competitiveness of imported goods with domestically produced goods.
+ Protect domestic manufacturers and enterprises; help them strengthen their strength in the domestic market.
+ Help exporters increase their strength to compete in foreign markets.
+ Help regulate national payment, rational use of foreign currency payment of each country.

Disadvantages are when trade protection is too tight:

+ Hurting the development of international trade will lead to the economic isolation of a country that goes against common trend of today’s global business.
+ Protection too tight, leading to conditions to develop conservatism and stagnation in domestic businesses, resulting in a lack of motivation to promote the development and improvement of the domestic economy.
+ Many countries that protect too closely lead to losses to domestic consumers because the market of goods is less diversified, designs and quality of goods are poorly improved, commodity prices are more expensive than their real values.

3. Research Methodology

This article is using major research methods in social science including dialectical materialism and historical materialism, statistical and comparative methods, analyzing and synthesizing methods. This article is also using appropriate statistical data in the process of analyzing and synthesizing information on applying and completing Vietnam's international trade policies; analyzing and synthesizing international experience (United States, China) in completing international trade policy summarizing the theory and practices of international trade policy in the context of US-China trade war; comparing context of Vietnam with the context of the countries mentioned above. The instruments of international trade policy of Vietnam are compared and contrasted within each of the historical periods. This article is also using the Global Trade Analysis Project (GTAP) to assess the impact of the Early Harvest Program (EHP) within the framework of the ASEAN-China Free Trade Agreement to the Vietnamese economy.

4. Research Results

Vietnam's economy has recently grown at a record rate thanks in part to foreign investment (FDI). In the first half of 2018, Vietnam's growth was 7.08%, the highest level since 2011. First-half FDI growth rate also reached 8.4% over the same period last year, a record of the past 10 years. The shift of manufacturing from China to more stable countries is a current trend. US-China investment tensions could also be an opportunity for Vietnam to attract more investment from the US and is a boost for this shift to take place faster. In the context that American businesses are increasingly struggling to do business in China, they will likely turn to Vietnam as a change of business orientation. Moreover, imports from China to the United States will fall inevitably, and this means there will be a gap to be filled. Vietnam can completely fill that gap. Experts at Deutsche Bank Hong Kong predict that exports from Vietnam to the US will increase by 1.7%. In addition, Vietnam's economic growth is still maintained at a high level. Data from the General Statistics Office show that from January 2018 to June 2018, Vietnam's economic growth is at 7.08%. This is the growth momentum that has been very good foundation since 2017, the highest level since 2010.

However, Vietnam's economy still has many risks to face. The US and China are also the two largest export markets of Vietnam, China is the largest import market, so the trade tension between the two major economies certainly affects Vietnam. This is worrisome because Vietnam has struggled in recent years to diversify trade to balance the trade deficit with China. As mentioned, the trade deficit between the two countries is worrying. In 2015, this figure was at USD 33 billion and by 2017 it will remain at USD 22.7 billion. There are concerns that China will use economic leverage to put pressure on Vietnam. However, this problem is much more complicated. When China is in a trade war with the US, the pressure from economic sanctions can hurt both sides. It is difficult to imagine the case of China beginning to directly put pressure on Vietnam's economy. What China can do is to use its economic power to limit Vietnam's commercial activities, as it did in March and July with exploration on oil fields in Vietnam's exclusive economic zone. This is very troublesome when Vietnam is making efforts to promote the maritime economy, an important factor for Vietnam's economic success. With the import of many goods from China, there is also concern that Vietnamese businesses will not be able to compete with Chinese businesses. This may negatively affect the development of the domestic manufacturing industry. Chinese goods are often more competitive due to price and diversity. Vietnamese manufacturers need to continue to innovate and improve product competitiveness. In addition, disputes can arise between Vietnam, the US and China on the issue of product origin. China and Vietnam currently have seven cross-border trade zones, part of China's Belt and Road strategy.

5. Research Result Discussion

5.1 Two way impact

According to the Report of the Influence of US-China trade war recently announced by the National Center for Socio-Economic Information and Forecasting (Ministry of Planning and Investment), Vietnam can suffer from two-way impacts of the trade war. Positive impact is the US market opportunity when Chinese goods are limited. However, this impact is not significant because Chinese products subject to taxation are not key products of Vietnam, and at the same time, FDI enterprises will have a greater advantage than domestic enterprises. Opportunities with the Chinese market are not much. On the contrary, Vietnam may be negatively affected by the global overall growth rate being reduced, leading to lower demand for Vietnamese goods. Except for the EU, Vietnam's major trading partners are negatively affected. Vietnam's export growth rate will decrease by 0.3 percentage points in 2019 and decrease more sharply in the years 2021-2023. Similarly, the growth rate of imports will decrease by 0.6%, this is an evidence that enterprises' production, especially in the FDI sector, will be affected by dependence on imported materials. The positive impact may be from FDI inflows, as countries move from China to Vietnam. However, the calculation shows that this impact is not significant, even FDI into Vietnam may decrease. This may be due to the impact of trade impact on the production situation of the FDI sector, so there will be a slight restriction of investment flows.

5.2 Risk of Chinese goods flushing into Vietnam

Vietnam needs to assess the situation more thoroughly and in many respects. The US not only imposed taxes on China but also applied trade defense measures to its allies. This war will not only affect exports but also technology copyright, credit monetary policy, economic structure will also be affected. The US taxation on Chinese goods will lead to the risk of Chinese products flooding the Vietnamese market. Vietnam has applied safeguard tax on steel and fertilizer. When China's textiles, furniture, leather and footwear are blocked from exporting to the US, China will boost exports to Vietnam. Forecast of the export activities in the second half of the year 2018, besides favorable factors for growth such as production and export of industrial goods, is expected to increase positively, exports also continue to face many difficulties and challenges. The risk of Chinese goods will masquerade Vietnamese goods to be exported to the US, will seriously affect Vietnam's export to the US. In fact, in recent years, products such as iron, steel, cement in Vietnam have been repeatedly accused by the US of originating from China but borrowing Vietnamese brands to export to the US market to benefit on tax rates. Chinese steel products are currently subject to very high taxes from the US, so instead of exporting to the US, China exports to Vietnam and from Vietnam to the US. Therefore, Vietnamese businesses need to be careful of possible consequences.

5.3 Keeping neutral economic position

Vietnam, with nearly 100 million consumers at the middle income level, is an attractive market and will be interested by many countries. Moreover, Vietnam is the gateway to the ASEAN market and CPTPP (Comprehensive Partnership and Trans-Pacific Partnership Agreement). Therefore, the business environment in Vietnam, in the context of world trade war, is very fiercely competitive. Besides, Vietnam, like other countries, will have to fight constantly to preserve and develop its export markets. In the immediate future, the direct impact of the war is the difficulties brought by the US government to prevent the export of steel, aluminum and catfish to this market. When the commercial war broke out between the two superpowers, either party wanted to draw Vietnam to its side. In order to avoid falling into a dilemma and a danger to national sovereignty, it is best not to follow any faction, to keep an economic neutral position. In order to implement the policy of economic neutrality, while maintaining the level of economic growth, Vietnam on the one hand must maximize the economic relations. The signing of the CPTPP agreement is a very good step that we need to go to supplement the markets that no longer exist. On the other hand, we must prevent domination, in any form of a country or economic bloc, on the Vietnamese economy. The first step will be to maximize multilateral economic and trade relations through new-generation FTAs, and will not let any partner have a position to dominate the national economy. This policy not only applies to demand side but also to supply side for the national economy. To implement this step, the Vietnamese government will amend the Competition Law in accordance with the spirit of the market economy, ensure fair competition and prohibit the market dominance of a business, a country or a economic block.

6. Conclusion and Recommendation

6.1 Conclusion

The broader effects of trade war are likely to be felt in the next few months. Vietnam's economy is deeply integrated into the world economy, so it is also naturally influenced by global economic fluctuations. To minimize the negative effects, Vietnam should continue to improve administrative procedures, complete the investment environment and accelerate the process of restructuring of the industry and trade. Technical barriers still exist in the process of enhancing access to foreign markets, which Vietnam needs to do better when agreements such as CPTPP or Vietnam - EU FTA are coming into effect. Although trade war is not a good thing for the future, Vietnam will still be able to control the situation and continue to reform its economy on the road to trade liberalization. History has shown that politically, Vietnam has coped very well with the dispute with political and military powerhouses. We are on the hope that the same thing will happen economically.

6.2 Recommendation

(a) Not to be taken advantage of in export: The consequences of the trade war are very hard to tell right away. The trade war between the two countries will certainly escalate. Especially, the US is aiming to prevent the possibility of China to implement its future plan to increase export of high-tech goods directly to the US until 2025. In bilateral trade relations, Vietnam is a country that imported mostly from China. The US is also a major export market of Vietnam. When two major markets are in conflict, it is necessary to worry first about the negative aspects that will occur. Currently, the Vietnamese Ministry of Industry and Trade has issued a warning about many beef products from the US that can go through Vietnam to China. At that time, Vietnam will be a means to avoid taxes. On the other hand, China can also take advantage of Vietnam as a place to attach Vietnamese brands to the goods to the US. Vietnam is the 5th largest country in terms of trade surplus to the US so if it becomes a processing place for export goods to avoid taxes, then Vietnam is vulnerable to economic sanctions. This is very important to avoid countries taking advantage of Vietnam in their export activities. Vietnamese steel has been taxed by the US and Australia last year as the happened lesson to be learned.

(b) It is necessary to strictly control all import stages: When the trade war between the US and China explodes, it is possible to create a wave that makes Chinese goods massively imported into Vietnam, after the Chinese Yuan is depreciated and Chinese goods cannot be exported to the US as much as before. If China wants to maintain its capacity and growth, it must find new markets. One of the country's potential markets may be Vietnam. The US-China trade war will reduce the confidence of investors, along with reducing investment abroad because it sees that the current market is not safe and they have to search new markets to continue investment and expansion in the future. This is a consequence that Vietnam needs to consider and make the best effort to avoid negative impacts on its own economy. Steel companies importing steel from China and then exporting to Vietnam to take advantage of trade agreements that Vietnam has signed. Thereby, the US can also impose very high taxes, up to 50% on Vietnam's steel exported to the US that are originating from China. Vietnam needs to strictly control the origin of exported goods to avoid a major blow executed by the US. Because once the US attacks China, it is hard to rule out the possibility that the US could one day issue a similar tax attack to Vietnam. Besides, Vietnamese enterprises need more efforts in improving quality, competitiveness and reducing costs.

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