



Emerging Issues of the Trade Balance between Vietnam and China

Dao Thi Phuong Lien¹ and Nguyễn Thị Thanh Hiếu²

^{1,2}Faculty of Political Theory, National Economics University, Vietnam
¹E-mail: liendp@neu.edu.vn, ²E-mail: hieunt@neu.edu.vn

Abstract

Over the past few years, trade relations between Vietnam and China have grown strongly; however, Vietnam's trade deficit with China has been too high, which is seriously detrimental to the Vietnam's economy. The article is based on the trade balance theories to analyze the situation and the commodity structure of imports and exports between the two countries in 2013-2017, then to indicate the causes of Vietnam's trade deficit and to suggest common solutions for the improvement of the trade balance which focuses on boosting the exportation and controlling the importation.

Keywords: Trade balance between Vietnam and China, Vietnam's import from China, Vietnam's export to China, Vietnam's trade deficit.



1. Introduction

Vietnam and China have a total border length of almost 1,450 km, which extends from the Northeast to the Northwest. After historical ups and downs, the leaders of the two countries reached a compromise of building a comprehensive strategic partnership in 2008. The two-way trade turnover between Vietnam and China has had a remarkable growth in recent years. In 2001, Vietnam recorded a trade deficit of nearly 200 USD million. In 2015, Vietnam's trade deficit was over 32 USD billion, which was 160 times higher than that of 2001. In 2017, the total import-export turnover between the two countries reached 93,996 USD billion, of which Vietnam's trade deficit was 23,189 USD billion.

In Vietnam, there have been a number of studies on the trade balance between Vietnam and China. For example, in 2008, Nguyen Van Lich and others conducted a study on solutions for the improvement of Vietnam's trade balance in Vietnam-China trade relations up to 2015. However, after Vietnam joined the World Trade Organization, the bilateral trade relations have grown more strongly compared to the previous years of 2007.

When Dang Dinh Dao & Hoang Duc Than (2012) referred to trade management tools, they showed the concept and the role of the trade balance in import-export management, emphasizing its impact on the balance of international payments and the development of the autonomous economy.

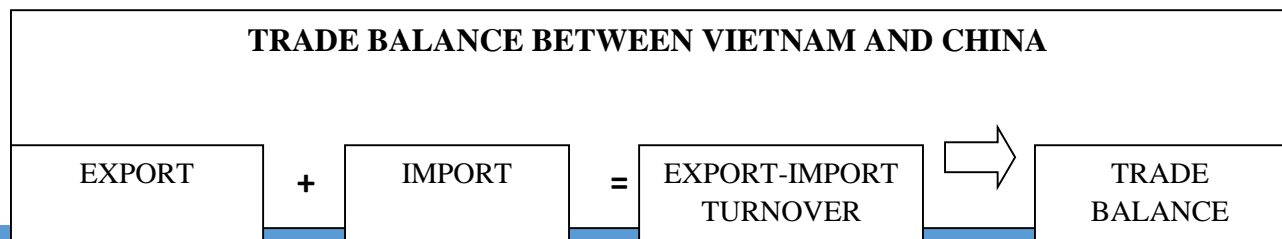
The article is based on the trade balance theories to analyze the situation and the commodity structure of imports and exports between the two countries in 2013-2017, then to indicate the causes of Vietnam's trade deficit and to suggest scientific solutions for the improvement of the trade balance between the two countries.

2. Research Methods and Approaches

Statistical analysis method: The author collected secondary data on export and import activities between Vietnam and China from reputable organizations such as General Department of Vietnam Customs, Ministry of Industry and Trade, General Statistics Office of Vietnam; then used the statistical analysis method which was combined with data analyzing and processing to assess the current status of trade balance between Vietnam and China, to analyze the Vietnam's trade deficit and propose solutions to improve the trade balance between the two countries.

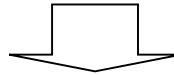
Expert method: The authors of the paper have studied and lectured on mercantilism since 2000. The authors also exchanged opinions with some experts and scientists working at the School of International Trade and Economics, NEU to add and confirm the research results, making the article practical and scientific.

Regarding the content above, the author uses the following research model:

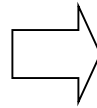




STATUS OF TRADE BALANCE BETWEEN VIETNAM AND CHINA



-Status and structure of Vietnam's exports,
-Status and structure of Vietnam's imports,



- Comments on the trade balance
- Causes of the trade deficit



SOLUTIONS TO IMPROVE TRADE BALANCE BETWEEN VIETNAM AND CHINA

- Common solutions to improve trade balance between Vietnam and China,
- Solutions to boost Vietnam's export,
- Solutions to control Vietnam's import.

3. Results

3.1. Status of trade balance between Vietnam and China in 2013-2017

3.1.1. Status and structure of Vietnam's exports to China in 2013-2017

The research on Vietnam's export to China shows that:

Firstly, along with the United States, the European Union (EU) and ASEAN; China has become a big export market for Vietnam. Moreover, China is a quite easy and convenient market for Vietnamese enterprises to sign contracts and to transport goods. This market can import all Vietnamese goods from vegetables, fruits, raw materials to machinery and electronic components... The Vietnam's export turnover increased rapidly from 7.7 USD billion in 2010 to 11.13 USD billion in 2011. Remarkably, Vietnam's export turnover to China in 2017 reached 35.404 USD billion, up 61% which was equivalent to 13,444 USD billion as compared with 2016. In the past, China is the largest import market of Vietnam; however, in recent years, due to the



strong export growth rate, Vietnam's trade deficit with this largest trading partner has decreased considerably, from over 32 USD billion in 2015 to 23 USD billion in 2017 (Table 1).

Generally for the first half of 2018, two-way trade turnover between Vietnam and China hit 47.7 USD billion, of which, export turnover from Vietnam to China reached 16.63 USD billion, up 28%, while imports from China reached 31.08 USD billion, up 15.6%.

Table 1: Trade Balance between Vietnam and China in 2013-2017

Value / Turnover (USD Billion)

Share in VN's total EX (%)

Share in VN's total IM (%)

Year	Exports		Imports		Total IM-EX turnover (USD Billion)	Balance of Trade (USD Billion)
	Value	Share	Value	Share		
2013	13.233	10.0	36.938	28.0	50.17	-23.705
2014	14.931	9.9	43.713	29.6	58.64	-29.6
2015	17.113	10.6	49.499	29.9	66.612	-32.386
2016	21.960	12.4	50.018	28.6	71.978	-28.058
2017	35.404	16.5	58.592	27.5	93.996	-23.189

Source: General Department of Vietnam Customs, Customs Statistical Yearbook on Imports and Exports of Vietnam.

Secondly, the structure of Vietnam's exports with about 100 items is divided into four main groups: raw materials which include crude oil, coal, metal ores, oil seeds and medicinal plants; agricultural products which include cereal (rice, cassava, corn), vegetables and fruits (especially tropical fruits such as bananas, mangos, rambutans, dragon fruits ...), tea, cashew nuts; aquatic products which include fresh and frozen aquatic products, some specialties such as snakes, turtles, softshell turtles; consumer products which include handicrafts, shoes, high quality wooden furniture, laundry detergents, confectionery. In 2017, there were 13 groups of Vietnamese export commodities to China with turnovers of over 1 USD billion, increasing by 6 groups of commodities compared to 2016. Export turnover of the aquatic products reached about 1,088 USD billion. Export turnover of rice reached about 1,026 USD billion. Export turnover of rubber reached 1,444



USD billion. Export turnover of textile products reached 1,104 USD billion. Export turnover of shoes reached 1.14 USD billion. Among key export groups, telephone had the highest turnover with 7,152 USD billion, up 6,352 USD billion compared to 2016 (800 USD million) and became the largest export commodity group of our country into China (Table 2).

Table 2: Structure of key export commodity groups of Vietnam to China in 2013-2017

Value / Turnover (USD Million)

Share of commodity groups in VN's total export turnover to its partners

Breakdown by main exports	2013		2014		2015		2016		2017	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Computers, electronic products, spare-parts and components thereof	2,090	15.8	2,191	14.7	2,647	15.5	4,058	18.5	6,861	19.4
Fruits and vegetables					1,195	7.0	1,739	7.9	2,649	7.5
Still image, video cameras and sparts thereof					1,016	5.9	1,660	7.6	2,088	5.9
Yarn	900	6.8	1,245	8.3	1,365	8.0	1,651	7.5	2,042	5.8
Machine, equipment, tools and instruments			586	3.9	714	4.2	1,112	5.1	1,574	4.4
Rubber	1,129	8.5	765	5.1	763	4.5	993	4.5	1,444	4.1
Wood and wooden products	1,051	7.9	893	6.0	975	5.7	1,019	4.6	1,068	3.0



Crude oil	668	5.0	1,229	8.2	810	4.7	1,308	6.0	1,007	2.8
-----------	-----	------------	-------	------------	-----	------------	-------	------------	-------	------------

Source: General Department of Vietnam Customs, Customs Statistical Yearbook on Imports and Exports of Vietnam.

Thirdly, the majority of Vietnam’s exports to China are raw and unprocessed commodities. Despite positive efforts to improve the structure of exports, the percentage of petroleum and primary commodities is quite high (35%). In terms of technology content, Vietnam's exports to China are inferior to most countries in the ASEAN region, South Korea and Japan.

Fourthly, Vietnam’s exports heavily rely on Chinese market. The agro – forestry – fishery export turnover accounts for 31.2% of Vietnam’s total export value to China and for 20.9% of total export value of this commodity group of the country. Looking back over the previous years, export turnover of vegetables and fruits to China still dominated the total export turnover of Vietnam. In 2016, export turnover of vegetables and fruits to China was valued at 1.74 USD billion, accounting for 69% of 2.5 USD billion. In 2017, this figure increased to 2.65 USD billion, accounting for 75.7% of the total export turnover of vegetables and fruits of the country, which was valued at 3.5 USD billion.

According to the Ministry of Industry and Trade, in the first six months of 2018, Vietnam had a trade surplus of 2.01 USD billion for exporting vegetables and fruits. China is still the largest export market for Vietnamese fruits and vegetables with turnover of 1.2 USD billion, up 18.1% compared to the same period in 2017, accounting for 74.6% of the total export turnover of vegetables and fruits in the first half of 2018.

3.1.2. Status and structure of imports from China to Vietnam in 2013-2017

Firstly, the growth rate of imports from the Chinese market increased very rapidly and higher than the growth rate of exports. In the bilateral trade relation, the annual average growth rate of imports was about 30% while the growth rate of exports was about 201%. In terms of value, imported commodities increased 41 times after 17 years from 1.4 USD billion in 2000 to 58.59 USD billion in 2017 while exported commodities increased only 23 times from 1.5 USD billion in 2000 to 35.4 USD billion in 2017. China is one of the biggest partners of Vietnam. While imports from China in 2002 accounted for 8.9% of the total imports, this figure in 2011 was 22.9% and increased to 29.9% in 2015 (Table 3).

Secondly, the structure of imports was quite diverse from vegetables, fruits and raw materials to machinery and equipment.

Out of the items that Vietnam imported from China, there were about 30 items with turnovers of above 100 USD million, of which some items with turnovers of above 1 USD billion were machinery, equipment, tools, spare parts, phones and components; computers, electronic products and components; fabric; iron and steel; petroleum.

Table 3. Structure of key imported commodities from China to Vietnam in 2013-2017

Value / Turnover (USD Million)



Share of commodity groups in VN's total of import turnover from this trading partner (%)

Breakdown by main imports	2013		2014		2015		2016		2017	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Machine, equipment, tools and instruments	6,561	17.8	7,853	18.0	9,019	18.2	9,307	18.6	10,909	18.6
Telephones, mobile phones and parts thereof	5,698	15.4	6,346	14.5	6,901	13.9	6,143	12.3	8,749	14.9
Computers, electronic products, spare-parts and components thereof	4,501	12.2	4,572	10.5	5,205	10.5	5,929	11.9	7,077	12.1
Fabrics	3,870	10.5	4,660	10.7	5,223	10.6	5,449	11.9	6,078	10.4
Iron and steel	2,393	6.5	3,813	8.7	4,156	8.4	4,475	8.9	4,104	7.0
Textile, leather and foot-wear materials and auxiliaries	1,210	3.3	1,542	3.5	1,778	3.6	1,867	3.7	2,047	3.5



Source: General Department of Vietnam Customs, Customs Statistical Yearbook on Imports and Exports of Vietnam.

Thirdly, key imported items from China were raw materials, machinery and equipment to produce export commodities.

The majority of our imported commodities from China were products of processing industry and manufacturing industry, out of which 9 commodity groups had turnovers of more than 1 USD billion such as machinery, equipment, spare parts; iron and steel; phones and components; chemicals; plastic products; automobiles; textile and footwear materials... used to produce export commodities to other countries such as EU, US and Japan; therefore causing Vietnam's trade deficit with China but trade surplus with other countries.

Fourthly, Vietnam imported commodities from China, and then unintentionally helped them export their products.

Vietnam has now signed 12 Free Trade Agreements (FTAs). However, the current economic structure and direction make us import commodities from another country to boost exports unless we do not import them from China. Vietnam has the heaviest reliance on imports from China in Southeast Asia, especially on agricultural products such as rubber, coffee, tea, timber, seafood and grain.

Fifthly, despite the Vietnamese government's measures to reduce imports and to develop domestic production, results from controlling trade deficit are not expected.

In order to restrict imports from other countries in general and imports from China in particular, the government has used various measures such as imposing higher import tariff on whole products than on spare parts; making tax policy according to the localization rate; restrictions on imports of consumer goods that can be produced domestically ... However, the efficiency of these measures is not high.

3.2. Comments on trade balance between Vietnam - China and the causes of Vietnam's trade deficit

Firstly, in the bilateral trade relation between Vietnam and China since 2001, Vietnam has always been in the trade deficit position. This deficit reached a peak of 32.38 USD billion in 2015.

Secondly, in the period from 2013 to 2017, the annual average growth rate of imports was about 30% while this rate of exports was only about 20%. The import growth was higher than the export growth. Thus, trade surplus from other markets such as the EU and the US was not enough to offset, leading to the trade deficit of our country.

Thirdly, in the current structure of bilateral trade, Vietnam has more needs and reliance on on China than China on Vietnam, especially in agriculture, forestry and fishery. Therefore, if Vietnam does not diversify our export markets, this dependency will be increase remarkably. As a consequence, when China adjusts its trade policies or has moves to impose trade dependence



measures against imports to protect its domestic industries and to support its exports, the Vietnam's economy will face many difficulties whether these issues are in the short term.

Causes of Vietnam's trade deficit with China

Looked at objectively, most of countries have to import a lot of iron and steel, equipment, raw materials to build and renovate their infrastructure from small production to large production. Being a predecessor in trading, China takes advantage of international economic integration to develop its economy, making many products that meet the needs of the Vietnamese market in terms of types, prices and features. Thanks to advantages of geography and large-scale production, China can lower the production cost. Besides, the needs of customers from the two countries are quite similar due to some similarities of the two cultures. In addition, China has clever and flexible trade policies that take advantage of the free trade agreements. These reasons make Vietnam choose Chinese market to import commodities rather than other markets.

Looked at subjectively, due to the unsuitable economic structure, Vietnam's export and import market structure is reformed slowly. Because of focusing on the pursuit of the growth model by boosting exports and giving less emphasis on the development of basic industries such as mechanics, manufacturing and supporting industries to develop the domestic production, Vietnam's economy is too dependent on foreign markets, especially the Chinese market to import commodities. Moreover, the competitiveness of enterprises and products of our country is inferior to that of competitors in the region and the world. Some Vietnamese businesses and traders take advantage of legal loopholes to trade and transport goods illegally across borders, causing harm to the domestic production, along with purchase preference for imported products of Vietnamese consumers, have caused Vietnam's trade deficit.

4. Discussion and Conclusion

This section proposes measures and recommendations to improve the trade balance between Vietnam and China

4.1. General solutions for the trade balance between Vietnam and China

The main point for Vietnam is to raise the trade relation of the two countries to higher level to seize opportunities to make a breakthrough. It is necessary to consider China as a market for commercial development rather than our competitor. Besides, Vietnam should not restrict the trade with China. In the international economic integration, the internal power of each country determines its integration strength and efficiency.

First of all, it is important to build up a sustainable economic development strategy, ensuring that the focus is on economic development in association with resolving social and environmental issues in trade relations between the two countries.

The main causes of Vietnam trade deficit are backward economic structure and slow innovation. Therefore, the most basic solution is to restructure the economy in the direction of modernization, to develop manufacturing industries to produce machinery and equipment, to improve the quality of exports, to decrease the proportion of primary exports, and to develop the



agro-forestry-seafood processing industry, especially the products having competitive advantages to increase the value of exports.

In addition, enhancing the competitiveness of the economy, enterprises and products of Vietnam in the international market in order to make the export growth rate higher than the import growth rate is a practical solution to restrict the trade deficit.

It is also important to diversify trade relations with many countries over the world, and to raise levels of these trade relations to avoid dependence on a particular country.

Besides, it is necessary to reform institutions and to create a fair, open, transparent, convenient and secure business environment for enterprises and citizens and for business entities in the market. The direction to create this environment is the system of law and policy, which is simple and easy to understand in the spirit of the Constitution: "The people can do anything prohibited by the laws" (Congress, 2013).

Lastly, Vietnamese government must have policies to attract foreign investors, especially from countries which have advanced technologies to develop supporting industries, to produce goods for export and domestic consumption in order to quickly boost the export speed and to reduce the trade deficit.

4.2. Solutions to boost the export of Vietnamese commodities to the Chinese market

In order to improve the trade balance, it is essential to put emphasis on exports to make its growth rate increase more strongly than the import growth rate.

The Ministry of Planning and Investment, along with specialized ministries, should *develop a long-term production and export plan; improve the quality and competitiveness of key commodities* managed by the Ministry in the direction of the global value chain to enable production and business units to reposition and actively participate in the processes making products with the highest added value, of which turnovers are above 1 USD billion.

The Government should have policies to attract all resources of society to improve the quality of exports. First and foremost, it is necessary to complete legal institutions, mechanisms and policies in order to create an environment and incentives for the development of production and export. Then, it is important to invest in branding of Vietnamese exports in the international market.

Vietnamese enterprises need to do more researches on the demands of the Chinese domestic market so as to have measures of boosting export that are suitable for each region and for each specific commodity category. The Chinese market has more than 1.4 billion consumers who have demands for imports which are valued at over 2,000 USD billion. This is really a huge market for Vietnamese enterprises. These enterprises should do researches and predict the specific needs of Chinese consumers to develop and expand the export market for them.

In order to promote the export, Vietnamese enterprises and traders need to raise the competitiveness of their products and enterprises in the market. To reach this goal, it is necessary



to improve the quality of products; focusing on fresh, green, eco-friendly products and those having high added-value.

In addition, it is important to promote exporting products that Vietnam has strengths and high competitiveness in the market; products that the Chinese market lacks such as tropical fruits and vegetables (longans, pineapples, lychees, rambutans, star apples), milk and dairy products, dried cassava and products made from cassava, wood and other marine products ... These commodities have advantages in geographic location, low transportation costs; therefore they can compete with those of other countries in the region and those of the Chinese market.

It is also necessary to promote the strengths of localities; to encourage and create favorable conditions for all economic sectors, especially for the non-state economic sectors to develop production and export of traditional products of different regions into the Chinese market.

Lastly, Vietnamese enterprises must have strategies to expand their export markets to countries with which Vietnam has signed free trade agreements to seize opportunities to diversify their export markets and avoid dependence on the Chinese market.

4.3. Solutions to control the import of goods from China to Vietnam

In the long-term trade relations, it is necessary to develop both import and export to increase the scale of Vietnam's economy. At this time, as the export growth strong has not been strong enough, import should be controlled strictly to reduce the trade deficit.

Vietnamese Government needs to have a longer-term vision in planning strategies of economic and trade development. The general rule of the economies is to reduce import from the beginning; so it is compulsory to adopt the strategy of "import substitution", which means developing basic industries and supporting industries to ensure our self-sufficiency of raw materials to reduce import and to avoid the dependence on imported materials.

In coming time, when tariff barriers are lifted, it is important to have non-tariff barriers which are quality standards for imported goods, and also have strict implementation of technical standards to control and prevent low-quality products from being imported into our domestic market to protect the domestic production.

In short-term, step by step, the Government should not apply the form of engineering, procurement and construction (EPC) contracts in projects, especially in the projects with the participation of China. This aims to separate the project implementation from the provision of poor quality equipment for the projects implemented by China. At the same time, it is necessary to limit and prohibit the import of Chinese machinery and equipment that do not guarantee the quality and cause overconsumption of energy for using in projects involving Chinese EPC contractor.

Besides, it is essential to use of trade defence instruments in dealing with trade disputes with China. As the scale of bilateral trade increases, trade disputes will increase inevitably. These instruments can be considered as the last "safe valves" in the trend of deep integration to protect the legitimate rights and interests of Vietnamese consumers and businesses. Enterprises should keep vouchers and books; cooperate closely with competent agencies to handle trade disputes well.



Lastly, the Government must complete the policy of Vietnam's trade development in general and the policy of cross-border trade with China in particular, to ensure active and flexible business operation and management for the activities of cross- border trade entities to promote export and to reduce the trade deficit.

Conclusion

According to the report in 1997, most of the fast-growing and emerging economies in Southeast Asia such as Singapore, Thailand, Malaysia, the Philippines and Vietnam had trade surpluses of over 3 USD billion. Out of the five countries as mentioned, Thailand had the largest trade deficit which was valued at over 13 USD billion. Vietnam and Singapore are the two countries with the lowest trade deficit which was valued at 4 and 3 USD billion respectively. However, by 2010, only Vietnam and the Philippines still deeply sank into the trade deficit. The 2010 figure showed that Thailand had trade surplus of 34.3 USD billion which accounted for 11 percent of GDP, being ranked 17th in the top 20 economies with the largest export turnover in the world. On the basis of the assessment of export and import structure between Vietnam and China from 2013 to 2017, the author of this article hopes to receive comments and recommendations from Thailand researchers to improve the trade balance the two countries.

5. References

1. Dang Dinh Dao, Hoang Duc Than (2012), Commercial Economy Textbook, Publishing House of the National Economics University.
2. Nguyen Van Lich, Tu Thanh Thuy, Do Kim Chi, Bui Thanh Thuy (2008), Ministerial Level Research Project (Ministry of Industry and Trade - Vietnam), *Research on developing some solutions to improve trade balance of Vietnam in Vietnam-China trade relations*.
3. General Department of Vietnam Customs, *Customs Statistical Yearbook on Imports and Exports of Vietnam* 2011, 2012, 2013, 2014, 2015, 2016, 2017; Finance Publishing House.
4. General Statistics Office of Vietnam (2018), *Export-import turnover by main countries and territories in the months of 2018*.