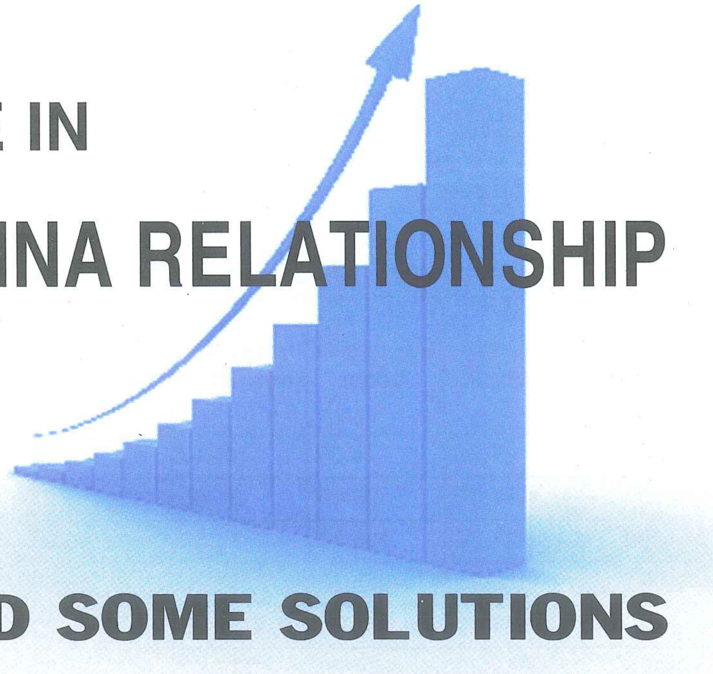
TRADE BLANCE IN VIETNAM - CHINA RELATIONSHIP IN 2001 - 2006



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SITUATION AND SOME SOLUTIONS

1 Problem

The Sino-Vietnamese relation after normalization in November 1991 has developed well in all aspects, especially in their trading relation where the growth rate has exceeded all expectations. This is an encouraging result in this relation.

In the trading relation with China in 1991-2000, Vietnam enjoyed some trade surplus, but from 2001 on, Vietnam suffered increasing trade gap at a high speed in spite of interventions from both governments. This situation make Vietnam's trade gap wider affecting unfavorably its sustainable development in its modernization and industrialization. Vietnam should take measure to reduce this trade gap in the relation with China as soon as possible.

2. Sino-Vietnamese trade balance in 2001 – 2006

a. Concept of trade balance and its effects on the GDP:

Trade balance is the difference between the monetary value of exports (usually FOB price) and imports (CIF price) of an economy in a period (usually one year).

Considering the GDP as general consumption, economists introduce the equation:

$$GDP = C + I + G + NX$$

where

C: is private consumption in the economy by individuals or households.

I: is defined as investments by business or households in capital. This is considered as consumption by investors (not including purchases of financial products)

G: is the sum of government expenditures on final goods and services, not including any transfer payments, such as social security or unemployment benefits.

NX: means net exports of the economy and equal to exports minus imports.

The GDP is usually expressed in the domestic currency. When comparing the GDP between countries, it is converted into a hard one (the US dollar for example) based on the PPP method or real exchange rate.

The above formula shows that the trade balance affects directly the GDP: a trade surplus makes the GDP higher and vice versa.

b. Sino – Vietnamese trade balance:

Before the normalization of the Sino-Vietnamese relation, people of the two countries traded goods normally. According to a rough estimate by Brantli Womark, the trade value between the two countries before November 1991 rose quickly, from US$5 million in 1988 to 50.85 million in 1989; 152 million in 1990; and 290.84 million in 1991 [3:265], not to mention contraband goods in cross-border trade.

After the normalization, a bilateral trade agreement was signed and the trading relation developed actively. The bilateral trading value from 1991 to 2006 rose at a very high speed (see Table 1) and went beyond targets set by the two governments (US$10 billion in 2007 and 15 billion by 2010).

Table 1: Bilateral trading value in 1991 – 2006 (US$ million)

Year	Exports + imports	Exports to China	Imports from China	Trade balance	Compared with previous year (%)	Value of the period
1991	37.70	19.30	18.40	0.9	-	Vietnam's trade surplus: US$615 million
1992	127.40	95.60	31.80	63.8	7,088.90	
1993	221.30	135.80	85.50	50.3	78.80	
1994	439.90	295.70	144.20	15.5	301.20	
1995	691.60	361.90	329.70	32.2	21.30	
1996	669.20	340.20	329.00	11.2	34.80	
1997	878.50	474.10	404.40	69.7	622.30	
1998	955.60	440.10	515.50	-75.4	-108.20	
1999	1,542.30	858.90	683.40	175.5	232.80	
2000	2,937.50	1,536.40	1,401.10	135.3	77.10	
2001	3,023.60	1,417.40	1,606.20	-188.8	-139.50	Vietnam's trade deficit: US$10,601 million
2002	3,677.10	1,518.30	2,158.80	-640.5	-339.20	
2003	5,021.70	1,883.10	3,138.60	-1255.5	-196.00	
2004	7,494.20	2,899.10	4,595.10	-1696.0	-135.10	
2005	9,127.80	3,228.10	5,899.70	-2671.6	-157.50	
2006	10,634.10	3,242.80	7,391.30	-4148.5	-155.30	
2007	15,858.20	3,356.70	12,502.00	-9145.8	-220.50	

Source: GSO, *Statistical Yearbooks* 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, and 2007.

Statistics show that Vietnam enjoyed some trade surplus in the years 1991 – 2000 (except for 1998) but it suffered huge trade deficits in 2001 – 2006 of US$1,766.817 million a year on average.

It's worth noting that the Vietnam's trade deficit in 2001- 2006 increased steadily over years. In 2000, Vietnam still enjoyed a trade surplus and in 2001, its trade deficit was US$188.8 million, and this figure rose to US$640.5 million in 2002 (increasing by 339.2% over 2001); 1,255.5 million in 2003 (by 96% over 2002); 1,696 million in 2004 (by 135.1% over 2003); 2,671.6 million in 2005 (by 157.5% over 2004); and 4,148.5 million in 2006 (by 155.3% over 2005).

In 2007, the bilateral trading value was US$15,858.2 million (Vietnam imported US$12,502.0 million and exported 3,356.7 million) and Vietnam's trade deficit was US$9,145.8 million, equaling 220.5% of the 2006 figure. Its trade deficit keeps increasing when tariffs are cut in the coming years. This deficit is only based on import and export of goods. The figure is much bigger if value of services (banking, tourism and telecommunication) and electricity bought annually from China is included.

Regarding categories of goods, Vietnam sells mainly raw materials: oil, ores, rubber, coal and farm products. These goods account for 90% of the export value. On the contrary, What China sells to Vietnam are goods with high added values, such as raw materials for producing and assembling finished goods, production lines and consumers' goods of medium quality (see Table 2).

Table 2: Principal imports from China (US$ million)

Item	Value					
	2001	2002	2003	2004	2005	2006
Fuel	231.7	473.4	721.1	739.8	884.3	555.30
Machine, equipment, spare parts	219.4	347.9	446.8	607.1	817.6	1,200.10
Fertilizer	62.3	57.7	244.2	391.9	264.3	119.00
Raw materials for clothing and footwear industries	74.1	127.9	200.5	290.2	323.6	304.8
Steel	54.7	69.1	108.2	409.5	718.0	1,296.20
Electronic parts, computer	22.0	42.3	63.9	103.8	155.4	243.20
Cloth	47.0	-	320.1	464	661.2	895.60
Chemicals	73.9	-	130.9	155.8	169.9	203.80

Source: Ministry of Industry and Commerce [4; 45]

c. Effects of the Sino-Vietnamese trade on Vietnam's economy:

In the years 1991- 2000, the Vietnam's trade surplus, although small, helped reduce the national trade deficit, and increased the GDP. In the next period, however, the Vietnam's trade deficit with China skyrocketed.

Table 3: Trade deficit with China and national trade deficit in 2001 – 2006 (US$ million)

Year	National trade deficit	Trade deficit with China	Share of deficit with China in the national deficit
2001	1,188.70	188.8	15.88%
2002	3,039.50	640.5	21.07%
2003	5,106.50	1,255.50	24.59%
2004	5,484.00	1,696.00	30.93%
2005	4,314.00	2,671.60	61.93%
2006	5,065.00	4,148.50	81.91%

Source: GSO, Statistical Yearbooks 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, and 2007.

Deficit from trade with China accounts for a high percentage of the national trade gap and this share increased quickly over years: from 15.88% in 2001 to 21.07% in 2002; 24.59% in 2003; and 30.93% in 2004. It made a leap to 61.93% in 2005 and 81.91% in 2006.

This deficit becomes a pressure on the Vietnamese economy. In the years 2001 – 2006, it cut US$1,767.83 million from the Vietnamese GDP a year (total deficit in the six years was US$10,601 million).

To such developing economies as Vietnam's, trade gap is acceptable because import of machines, technologies and raw materials is necessary. In the trading relation with china, however, the huge trade gap and unreasonable structure of goods traded put Vietnam at a serious disadvantage.

3. Causes and measures to adjust the situation

a. Causes:

Firstly, the political relation between the two countries developed well after the normalization, which facilitates the trading relation. Vietnam is in its industrialization and modernization and its competitiveness is lower than the Chinese one with the result that Vietnam suffers more and more deficit as its trade with China develops.

Secondly, supporting industries in Vietnam develop slowly and its exports depend a lot on imported raw materials. Chinese supporting industries have developed better and its structure of industry is similar to Vietnam's and China easily becomes a supplier of such raw materials to Vietnam. For example, the Vietnamese clothing industry imports Chinese cloth in increasing large quantities: US$47 million in 2001; 320.1 million in 2003; 460 million in 2004; 661.2 million in 2005; and 895.6 million in 2006 [4; 45].

Thirdly, in its first stage of industrialization and modernization, Vietnam only has cheap labor and a lot of SMEs. Machines and technologies from China are of medium quality and prices, which is suitable to local companies. Statistics show that import of Chinese machines and equipment rose over years, from US$219.4 million in 2001; 347.9 million in 2002; 446.8 million in 2003; 607.1 million in 2004; 817.6 million in 2005; and 1,200.1 million in 2006 [4; 45].

Fourthly, production of import-substitute goods in Vietnam couldn't meet the demand of domestic market in terms of quality and price, therefore Chinese goods of medium quality and low prices quickly flood the market.

Fifthly, Vietnamese exports to China include mainly farm products, ore and minerals with low added value. Manufactured goods from Vietnam are not as modern as Chinese counterparts (except for the ones made by foreign companies in Vietnam), which makes it difficult to improve values of exports to China.

b. Measures:

The Vietnam's trade deficit in trading relation with China shows low competitiveness of Vietnamese exports and import substitutes. To deal with this shortcoming, Vietnam should take the following measures:

Firstly, Vietnam should promote export to Europe and America to make up for the trade deficit with China that will keep increasing in future, thereby enhancing endurance of the national balance of trade.

Secondly, new policies should be made to encourage production of substitutes of Chinese goods and high-quality exports. This is the most important measure to enhance the competitiveness of Vietnamese exports and improve the balance of trade with China. In this effort, Vietnam should make the best use of favorable conditions provided by the international trade, open more sectors to foreign partners, and attract more foreign investment in order to:

(i) develop supporting industries needed for industries that depend on raw materials imported from China, such as footwear and clothing;

(ii) develop the production of consumers' goods, fuel and fertilizer: In recent years, Vietnam reduced import of fertilizers from China because many fertilizer factories had been built. When the Dung Quất Oil Refinery comes into operation, Vietnam can cut import of fuel from China. At present, however, Vietnam still buy steel, chemicals, electronic and computer parts from China in large quantities. Thus, Vietnam has to keep modernizing these industries.

(iii) replace production lines and technologies to improve values of traditional exports to China.

Thirdly, at present, the use of machines and spare parts of medium quality and prices is appropriate to the size of Vietnamese economy. In the long run, however, Vietnam should introduce high technologies to all industries in order to enhance the competitiveness of its exports and goods for the domestic market.

Bold policies, or technical barriers, could be adopted to limit the import of obsolete machines and technologies from China and encourage the import of modern ones from China and other countries.

Fourthly, Vietnam should make the best use of ODA and FDI sources from China and developed countries to beef up the production of import substitutes and high-quality exports, thereby reducing the trade gap with China.

Fifthly, the Government, by diplomatic campaigns, should persuade China to offer better conditions to exports from Vietnam to China with a view to establishing an equilibrium of the trade balance for the two countries■

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