

# On the American-Vietnamese Trading Relation

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In the past five years, the American-Vietnamese trade has made good progress. As a country with no relation with Vietnam up to 1994, the U.S. has become the biggest export market for Vietnam. This article wants to present a look at effects of the bilateral trade on the Vietnamese economy, the importance of the American market to Vietnam and benefits for each side from the bilateral trade.

## 1. Trade develops along with political relation

The American-Vietnamese bilateral trade has been greatly affected by their political relation. After the embargo was lifted, the bilateral trade made its appearance immediately and increased in size after the BTA came into effect as from 2001.

## 2. Trade balance is favorable to Vietnam

Trade value between the two countries has increased quickly for the past 13 years. The highest growth rate was found in 1995 (over 100%) and the lowest in 1999 (4%). In this period, the bilateral trade rose by 2.5 times a year on average. This growth rate is twice as much as the rate gained by Vietnam's foreign trade, six times higher than the Vietnam's economic

growth rate and seven times higher than the growth rate of the American trade (1).

The trade balance is always favorable to Vietnam in this period, except for 1996. From 2000 to 2006, the trade surplus rose particularly fast equaling over 50% of the value of exports to the U.S. Although the American imports to Vietnam increased, Vietnam's exports to the U.S. rose faster and more steadily with the result that the Vietnam's exports value accounted for a big share in the bilateral trading value. In 2006, the value of Vietnam's exports to the U.S. was seven times higher than the value of imports from the U.S.; 19 times higher than the value of Vietnam's exports to the U.S. in 2001; and 140 times higher than the one in 1994.

The surplus in trade with the U.S. becomes more meaningful because Vietnam has suffered the trade gap for decades. Net exports to the U.S. helped Vietnam reduce its trade gap by some 40% in the years 2002-04 (2). The surplus in trade with the U.S. is significant when the Vietnam's GDP is so small. The trade surplus in 2006 accounted for some 12% of the Vietnam's GDP

while this figure in 1994 was only 0.3%.

## 3. The U.S.: "An extravagant rich boy"

Warren Buffett has said so when discussing the American prolonged trade gap in the past few decades (3). At present, the American trade gap amounts to US\$700 - 800 billion a year. Its aggregated trade gap in 1994 - 2006 was US\$5,300 billion equaling some 50% of its GDP in 2006. Most American trading partners enjoy some trade surplus. All countries in Southeast Asia, besides Vietnam, enjoy very large trade surplus.

Regarding the trade surplus, the one gained by Vietnam in 2004 equaled the Thai one in 1994 and some 50% of what Thailand gained from the U.S. in 2004.

In 1994-2006, Thai trade surplus from the U.S. was three times higher than the Vietnam's one. In 2002-06, the American trade surplus gained from the U.S. by Vietnam only equaled a half of Indonesia's; a third of Thailand's; a fourth of Malaysia's; one-tenth of Mexico's and a thirty-seventh of China's.

The growth of trade surplus shows that Vietnam exports more and more goods to the U.S. like Thailand. Up to 2006, the Vietnam's

trade surplus from the U.S. equaled two thirds of Thailand's.

More than 50% of the trade surplus from the U.S. goes to China, Japan, Canada and Mexico and the Chinese share equals the three other countries put together. Moreover, the China trade surplus tends to increase while shares of Japan and Canada decrease.

In short, the trade surplus from the American market produces a great and positive effect on the Vietnamese economy, but its share in this cake is still very small in comparison with the ones enjoyed by regional countries.

## 4. An attractive market for Vietnamese goods?

In the past five years, the U.S. has become one of the leading trading partners of Vietnam, accounting for 11% of Vietnam's foreign trade. For many reasons, China and Japan have established trading relations with Vietnam before the U.S. based on advantages of geographical locations and cultural factors. This means that companies from the two countries haven't reached their full potentials.

In the past 10 years, the U.S. was the fifth biggest trading partner of Vietnam and ac-

counted for 7% of the Vietnam's foreign trade. In addition, many branches of American companies in Singapore and Hong Kong have traded with Vietnam for years. This means that official statistics didn't reflect the importance of the U.S. to the Vietnam's foreign trade but in fact, the U.S. has been an important partner to Vietnam, especially to its export.

In the past five years, the American market accounted for a fifth of Vietnamese exports and become the biggest market for Vietnam. Its share in the Vietnam's exports increased at the highest rate in the past 10 years as compared with those of other markets, such as China, Australia and the U.K. Some of Vietnam's export markets that developed well in the past, such as Japan, Singapore, Germany and France, have slowed down.

Vietnam's comparative advantages reflect themselves in exports to the American market. Such labor-intensive industries as clothing, footwear, aquatic product and farm product account for over 70% of the export value. With a share of 38%, the clothing goods are considered as Vietnam's staple exports to the U.S. The mining industry also occupies large shares. This means that Vietnam's exports are natural resources and labor-intensive goods that

have low added value with the result that the export development is not sustainable.

Unlike export, Vietnam imports more from China, Singapore and Japan than from the U.S. because their goods are more appropriate to Vietnam production and consumption, and needed for their investment projects in Vietnam. The American goods have been expensive as compared with Vietnam's personal income for years and only a handful of American projects were carried out in Vietnam then. Until recently, many facts have shown that American investors started paying more attention to the Vietnamese market and there was a need for modern technologies from the U.S. And as a result, the U.S. can become a big supplier for Vietnam in the coming years.

Machines, equipment and vehicles account for two thirds of Vietnam's imports from the U.S. The biggest shares belong to such goods as plane, machine, electric equipment, vehicle, fertilizer and chemicals. Generally, they are goods from capital- and technology-intensive industries that are the leading advantages of the U.S.

In short, the U.S. has an increasingly greater meaning to Vietnam and a positive effect on the Vietnamese economy. Moreover, Viet-

nam is in need of American resource in order to accelerate its takeoff.

### **5. Vietnam: Is it included in the American long-term vision?**

The bilateral with Vietnam produces almost no effect on the American economy (its GDP amounted to some US\$11,711) because this bilateral trade represents only 0.3% of the total value of American foreign trade and Vietnam ranks 47th among trading partners of the U.S. Vietnam's trading value with the U.S. is much smaller in comparison with Indonesia (a half); the Philippines (a third); Thailand (a fourth); Singapore (a fifth); Malaysia (a sixth) and China (a thirty-sixth).

The Vietnamese market accounts for only 0.08% of American exports. With its current spending power, the Vietnamese market produces no effect on the American GDP.

Exports from Vietnam rank 34th among American imports but they account for only 0.37%. Vietnamese clothing products that represent 40% of the value of exports to the U.S. occupies a very modest position in the American market for clothing.

Looking at a more positive aspect, the trading relation with Vietnam, to the U.S., will be profitable in the long run because (1) Vietnam with its high

and stable growth rate is buying more and more goods from the U.S. and American companies coming to Vietnam soon will face less competition; and (2) increasing trade with Vietnam forces Vietnamese companies to improve their performance and productivity, which will bring about more benefits for American consumers and producers.

In short, the trading relation with Vietnam has almost no effect on the American foreign trade but it has more indirect than direct benefits, and more in a longer run than in a shorter one.

### **6. Does the structure of exports change favorably?**

In 1990, 90% of Vietnam's exports to America were raw, unprocessed goods but this figure decreased to 24% in 2006. Manufactured goods increasing at the expense of the raw ones is a noticeable trend of Vietnam's export to the U.S. in the years 1994-2006. In the last three years, manufactured goods accounted for three fourths of the Vietnam's exports to America. This means that Vietnam gained more added value and the structure of exports has changed favorably.

### **7. Rivals or partners?**

With different comparative advantages, companies from the two countries supply different goods and services,

**Table 1: Some economic differences between Vietnam and the U.S.**

| Vietnam   | The U.S.  |
|---|---|
| Just escaped from the group of 49 poorest countries | Superpower, the world's richest economy           |
| Of the world's lowest personal income               | In the world's top 10 in terms of personal income |
| GDP: US\$45 billion (2004)                          | US\$11,711 billion (2004)                         |
| Backward agricultural economy                       | Knowledge-based economy                           |
| Advantage: cheap and young labor                    | Advantage: capital and technology                 |

**Table 2: American – Vietnamese trade over three periods (US\$ mn.)**

|                         | 1975-1993 | 1994-2000 | 2001-2006 | 1994-2006 |
|-------------------------|-----------|-----------|-----------|-----------|
| Export and import value | 10        | 4,147     | 32,059    | 36,206    |
| Annual average          | 0.5       | 592.5     | 5,343.2   | 2,785.1   |

Source: Author's calculations based on data from Asian Development Bank-Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics))

**Table 3: Top-5 trading partners of Vietnam (US\$ mn.)**

| Country     | 1994-2006 | 2002-2006 |        |      |
|-------------|-----------|-----------|--------|------|
|             | Value     | Rank      | Value  | Rank |
| Japan       | 61,657    | I         | 35,554 | I    |
| China       | 44,984    | III       | 33,969 | II   |
| The U.S.    | 37,217    | IV        | 31,593 | III  |
| Singapore   | 48,797    | II        | 25,714 | IV   |
| South Korea | 32,692    | V         | 18,220 | V    |

Source: Author's calculations based on data from Asian Development Bank-Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics))

and they have no direct competition. Unlike China or Thailand, the U.S. is no direct competitor to Vietnam. Many companies in the service sector (finance, insurance, telecom, retailing, and banking, etc.) are worrying about the American competition in the domestic market, but up to now, import from America is still small in comparison with Vietnam's export to the U.S. Moreover, the increasing competition in the domestic market has positive effects on the economy.

In short, there is no reason to consider Vietnam as a rival to the U.S. The increasing trade between the two countries shows that

they are more trading partners than rivals, and many theories can apply to their case:

- Heckscher – Ohlin: Based on their comparative advantages, Vietnam supplies goods from labor-intensive industries while the U.S. offers ones from capital- and technology-intensive industries.

- Economies of scale: Based on their own comparative advantages, both countries can gain some profit and keep on specializing and expanding their supplies, thereby gaining more economies of scale.

- Arguments about product life cycle and the flying-geese development pattern: Be-

**Table 4: Growth of Vietnamese trade with America in 1994- 2006 (%)**

|          | Export - import | Export | Import | Vietnam- World |
|----------|-----------------|--------|--------|----------------|
| 1994     | 3500            | -      | -      | -              |
| 1995     | 116             | 79     | 194    | 38             |
| 1996     | 50              | 20     | 89     | 35             |
| 1997     | 20              | 40     | 2      | 13             |
| 1998     | 48              | 64     | 30     | 0              |
| 1999     | 4               | 7      | -1     | 12             |
| 2000     | 33              | 45     | 13     | 29             |
| 2001     | 35              | 45     | 13     | 4              |
| 2002     | 97              | 130    | 11     | 17             |
| 2003     | 75              | 61     | 149    | 25             |
| 2004     | 21              | 28     | -1     | 29             |
| 2005     | 10              | 18     | -24    | 19             |
| 2006     | 42              | 42     | 40     | 26             |
| 1994-'06 | 42              | 45     | 32     | 20             |

Source: Author's calculations based on data from Asian Development Bank (ADB)-Key Indicators 2007 [www.adb.org/statistics](http://www.adb.org/statistics)

cause the U.S. is more nam, transfer of technology and production

**Table 5: Vietnam's net export to America in 1994-2006 (US\$ mn.)**

| Year | Export | Import  | Net export | Vietnam's GDP | Share of trade surplus from America in Vietnam's GDP (%) |
|------|--------|---------|------------|---------------|--|
| 1994 | 95     | 44.3    | 51         | 16,281        | 0.3  |
| 1995 | 170    | 130.4   | 39         | 20,736        | 0.2  |
| 1996 | 204    | 245.9   | -42        | 24,657        | -0.2   |
| 1997 | 287    | 251.5   | 35         | 26,844        | 0.1  |
| 1998 | 469    | 326.4   | 143        | 27,210        | 0.5  |
| 1999 | 504    | 323.1   | 181        | 28,684        | 0.6  |
| 2000 | 733    | 364.0   | 369        | 31,173        | 1.2  |
| 2001 | 1,066  | 411.3   | 654        | 32,685        | 2.0  |
| 2002 | 2,453  | 458.6   | 1,995      | 35,064        | 5.7  |
| 2003 | 3,940  | 1,144.1 | 2,795      | 39,552        | 7.1  |
| 2004 | 5,025  | 1,133.9 | 3,891      | 45,441        | 8.6  |
| 2005 | 5,931  | 864.4   | 5,066      | 52,917        | 9.6  |
| 2006 | 8,423  | 1,210.2 | 7,213      | 60,884        | 11.8   |

Source: Author's calculations based on data from Asian Development Bank (ADB) - Key Indicators 2007



**Table 6: Vietnam's and Thailand's net export to America in 1994-2006 (US\$ mn. and %)**

| Year      | Net export |          | Ratio of Vietnam's trade surplus to Thai's (%) * |
|-----------|------------|----------|--|
|           | Vietnam    | Thailand |  |
| 1994      | 51         | 3,076    | 2  |
| 1995      | 39         | 1,572    | 3  |
| 1996      | -42        | 786      | -5   |
| 1997      | 35         | 2,484    | 1  |
| 1998      | 143        | 8,122    | 2  |
| 1999      | 181        | 6,224    | 3  |
| 2000      | 369        | 7,415    | 5  |
| 2001      | 654        | 6,047    | 11   |
| 2002      | 1,995      | 7,325    | 27   |
| 2003      | 2,795      | 6,484    | 43   |
| 2004      | 3,891      | 8,227    | 47   |
| 2005      | 5,066      | 8,226    | 62   |
| 2006      | 7,213      | 11,002   | 66   |
| 1994-2006 | 22,390     | 74,988   | 30   |

Source: Author's calculations based on data from Asian Development Bank - Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics))  
 (\*) The ratio = (Vietnam's net export/ Thailand's net export) x 100

**Table 7: Trade surplus of some countries from American market (%)**

| Country  | 1994-2006 | 2002-2006 | Country     | 1994-2006 | 2002-2006 |
|----------|-----------|-----------|-------------|-----------|-----------|
| China    | 23.85     | 25.39     | Thailand    | 2.13      | 1.77      |
| Japan    | 16.90     | 11.79     | Indonesia   | 1.66      | 1.28      |
| Canada   | 10.49     | 9.90      | Vietnam     | 0.44      | 0.68      |
| Mexico   | 7.04      | 7.31      | Philippines | 0.75      | 0.38      |
| Malaysia | 3.29      | 2.86      | Singapore   | -0.09     | -0.60     |

Source: <http://ise.export.gov/MapFrameset.aspx?MapPage=NTDMapDisplay.aspx&UniqueURL=3ii5mobgyuq14w55klu0cw55-2008-1-16-18-18-12> retrieved on Jan. 17, 2008.

in Vietnam with a view to exporting goods back

to the U.S. can bring about benefit for both sides.

**Table 8: Vietnam's main trading partners (%)**

|              | 94-06 | 02-06 |
|--------------|-------|-------|
| World        | 100   | 100   |
| Japan        | 13    | 12    |
| China        | 10    | 11    |
| The U.S.     | 8     | 11    |
| Singapore    | 10    | 9     |
| South Korea* | 7     | 6     |
| The rest     | 52    | 51    |

Source: Author's calculations based on data from Asian Development Bank - Key Indicators 2007

(\*) Based on data from Asian Development Bank Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics)); as for 2006, only data on import are available.

Although the above-mentioned facts can be more persuasive if they are supported by detailed studies, many experts believe that they are really meaningful in Vietnam. Policies adopted recently by the two governments also show that they are trying to expand and consolidate the economic cooperation. Their efforts reflect in such facts as (1) The U.S. supported Vietnam's accession to the WTO; (2) Vietnam has tried its best to join the

WTO and integrate into the world economy; and (3) American Congress approved the PNTR for Vietnam, etc.

## 8. Conclusion

- The U.S. is a trading partner who is helpful to Vietnam because (1) The American market produces good effects on the Vietnam's economic growth and foreign trade development; (2) It buys more and more manufactured goods from Vietnam; (3) It offers sources of capital and modern technologies of which Vietnam is badly in need; (4) Trading relation with

**Table 10: Vietnam's major suppliers (%)**

| Item        | 1994-06 | 02-06 |
|-------------|---------|-------|
| World       | 100.0   | 100.0 |
| Singapore   | 13.9    | 12.0  |
| Japan       | 11.6    | 10.9  |
| China       | 11.6    | 14.9  |
| South Korea | 11.0    | 9.9   |
| Thailand    | 5.9     | 6.4   |
| Hong Kong   | 4.1     | 3.8   |
| The U.S.    | 2.9     | 3.3   |
| Malaysia    | 3.2     | 3.8   |
| Germany     | 2.5     | 2.5   |
| Indonesia   | 2.0     | 1.9   |
| The rest    | 31.4    | 30.6  |

Source: Author's calculations based on data from ADB - Key Indicators 2007 ([www.adb.org/statistics](http://www.adb.org/statistics))

ing relation with America.

- The U.S. is an important and demanding partner to Vietnam because (1) Differences between the two economies are very big; (2) Advantages of cheap labor and abundant natural resources will diminish; (3) Vietnam may suffer short-term budget deficit when tariffs are cut; (4) There will be a trade-off between industries; and (5) Vietnamese companies are at a disadvantage in the American market. Local companies will find it difficult to deal with these problems and they are badly in need of help and support from the government and associations. ■

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**Table 9: Vietnam's important customers (%)**

| Item      | 94-06 | 02-06 |
|-----------|-------|-------|
| World     | 100   | 100   |
| Japan     | 15.2  | 13.3  |
| The U.S.  | 14.1  | 19.4  |
| China     | 7.4   | 7.5   |
| Australia | 7.0   | 8.0   |
| Singapore | 6.5   | 4.7   |
| Germany   | 4.7   | 4.6   |
| The U.K.  | 3.4   | 3.7   |
| France    | 2.5   | 2.4   |

Source: Author's calculations based on data from Asian Development Bank-Key Indicators 2007

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#### Notes

(1) Vietnam's GDP rises by 7% on average, American foreign trade rose by some 6% in 1994-2006 according to author's calculations based on data from <http://tse.export.gov/MapFrameset.aspx?MapPage=NTDMapDisplay.aspx&UniqueURL=zxeien45celzua55mwgzpt45-2008-1-14-3-37-8> and Asian Development Bank (ADB) - Key Indicators 2007 [www.adb.org/statistics](http://www.adb.org/statistics)

(2) or 39.4% to be precise, according to author's calculations based on data from Asian Development Bank (ADB) - Key Indicators 2007 [www.adb.org/statistics](http://www.adb.org/statistics)

(3) Tuổi Trẻ Chủ Nhật, No 45, Nov. 11, 2003, p. 4.

Table 11: American trading partners (%)

|             | BT<br>1994-2006 | BT<br>2002-2006 | Ex.<br>1994-2006 | Ex.<br>2002-2006 | Im.<br>1994-2006 | Im. 2002-2006 * |       |       |      |
|-------------|-----------------|-----------------|------------------|------------------|------------------|-----------------|-------|-------|------|
|             | %               | %               | Rank             | %                | %                | Rank            | %     | %     | Rank |
| China       | 7.63            | 10.24           | 3                | 4.96             | 4.48             | 5               | 10.55 | 13.55 | 2    |
| Malaysia    | 1.78            | 1.75            | 11               | 1.21             | 1.22             | 17              | 2.05  | 1.99  | 11   |
| Singapore   | 1.86            | 1.52            | 15               | 2.52             | 2.49             | 11              | 1.51  | 1.05  | 21   |
| Thailand    | 1.14            | 1.06            | 20               | 0.81             | 0.77             | 23              | 1.31  | 1.21  | 17   |
| Philippines | 0.91            | 0.74            | 27               | 0.93             | 0.70             | 21              | 0.88  | 0.66  | 31   |
| Indonesia   | 0.68            | 0.60            | 31               | 0.29             | 0.32             | 39              | 0.85  | 0.75  | 27   |
| Vietnam     | 0.16            | 0.28            | 47               | 0.06             | 0.08             | 59              | 0.21  | 0.37  | 34   |

\*Based on data from, retrieved on Jan. 17, 2008 and retrieved on Jan. 17, 2008 (\*) BT: bilateral trade; Ex.: export; and Im.: import