

## THE STRUCTURE OF VIETNAM - CHINA ECONOMIC AND TRADE RELATIONS (2005-2011)

PHẠM SỸ THÀNH<sup>(\*)</sup>

NGUYỄN THỊ THU QUỲNH<sup>(\*\*)</sup>

*Improvements of Vietnam – China economic and trade relations have created the growing opportunities for Vietnam. Positive figures, however, are not enough to strongly ensure a sustainable and win – win outcome regarding the structure of commercial relations. The article has analyzed main features of the structure of Vietnam – China commercial relations. And, the reasons behind these limitations are the difference of developing level in the economy and they are the biggest worry of Vietnam.*

### **I. Major features of the commercial structure of Vietnam and China (2005-2011)<sup>(\*)</sup>**

#### *1. The export structure of Vietnamese products in China (2005-2011)*

The Figure 1 (next page) showed that the groups such as SITC <sup>(\*\*)</sup> 0, SITC 2 and SITC 3, have accounted for the largest proportion for Vietnam's export to China during the period from 2005 to 2011. The export amount of group SITC 3 had decreased from 2005 to 2007, however, it is insignificant and has even achieved a pretty stable growth. In 2011, it reached 2.86 billions USD, increasing 3 times in comparison with 933 millions

USD of 2008 and still be the one which has accounted for the largest proportion in the first three months of 2012. The basic products of SITC 3 group are coal and crude oil when their export value reached 2.09 billions USD in 2011.

The noticeable point is the highly growing speed of export value of SITC 0 group since 2005, proving that China has become the country which has import deficit in agricultural products. In 2005, export value of SITC 0 group was only 3 million USD while it has achieved 1.9 billion USD in 2011, increased by 17% within 7 years. In particularly, products as fisheries, vegetables and fruits, and cashews nuts gained 669.64 million USD in 2011. Major products of this group are

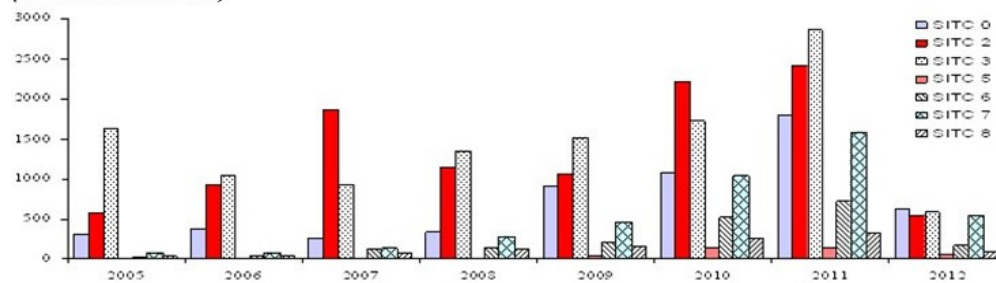
<sup>(\*)</sup> Figures are processed on the basis of the list of products according to the Standard International Trade Classification (SITC rev 4) without considering the inaccuracy of border commerce.

<sup>(\*\*)</sup> SITC- Standard International Trade Classification

<sup>(\*)</sup>, PhD. Hanoi National University.

<sup>(\*\*)</sup> BA. Hanoi National University.

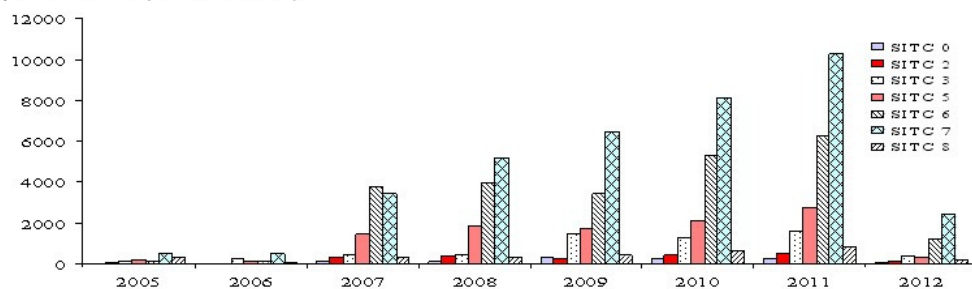
**Figure 1: Vietnam: Growth Range and Speed of Product Group's Exports Value to China (unit: million USD)**



Notes: 2012's figures are in first four months of year

Source: established by author from data of General Department of Vietnam Customs, Ministry of Industry and Trade, and Government Statistic Office

**Figure 2: Vietnam: Growth Range and Speed of Product Group's Imports Value from China (2005 to 2012, million USD)**



Notes: 2012's figures are in first four months of year

Source: established by author from data of General Department of Vietnam Customs, Ministry of Industry and Trade, and Government Statistic Office

computer, electronic products and components.

In general, the export structure of Vietnam in China currently does not have a balance between the group of raw and simply processed products and the processed industrial products group. Since 2005, the "processed industrial products" group has achieved a steadily low growth; also the gap with the group of raw and simply processed products has been extended. (In 2005: the export of processed industrial products was only 134 millions USD while the raw and simply processed products were 2.5

billions USD; In 2011, the figures were 2.76 billions USD and 7 billions USD respectively). The difference in the exports value has led to the "raw and simply processed products" group's high proportion in the total export and import turnover of Vietnam. Up to now, its proportion has always accounted for 70% of Vietnam's total export turnover to China.

## 2. Vietnam's imports from China (2005-2011)

In comparison with exports, imports from China are totally reversed (Figure 2). SITC 5, SITC 6, and SITC 7 are three

groups with the biggest proportion while SITC 0, SITC 2 and SITC 3 are those who achieved the highest value of exports. SITC 7, for example, has achieved the high value due to the fast growth.

The imports of 2005 achieved 488 millions USD and jumped to 10.28 billions USD in 2011. Significant products are machinery tools, computers and components with the total imports' value was 7.54 billions USD in 2011.

This group also achieved a high speed growth during the period of 2005 to 2007. In 2005, total imports' value was only 126.45 millions USD and increased 3 times, achieved 3.78 billions USD in 2007. Since 2007, the speed has slowed down and slightly decreased in 2009. Fabric and steel are significant products of this group. In 2011, the total imports' value of fabrics and steel were respectively 2.8 billions USD and 1.49 billions. SITC 5 group faces the similar situation.

The import structure is still imbalanced between two main industrial groups as raw and simply processed products and processed industrial products. The import value of these two group was similar In 2005 and 2006 with 1.17 billions USD for raw and simply processed products and 2.2 billions USD for processed industrial products. However, the processed products has achieved an outstanding growth since 2007, as a result, the gap between two groups were extended. The import value of raw and simply processed products

did not pass 5 billions USD while the processed products's value reached 20 billions USD. As a result, the import proportion of processed products within Vietnam's import total turnover from China has been always high by 80%, especially up to 94.5% in 2007.

In general, positive figures of the bilateral trade turnover do not present for any significant transition in Vietnam's trade structure through the years. Vietnam – China trade structure, in fact, has formed and barely changed since 1990. For China, Vietnam is still the provider (supplier) of raw materials and agricultural products because they are Vietnam's advantage products as well as enjoy tax incentives for imports. At the same time, we import goods for manufacturing and consumption from China such as machinery, equipments and processed materials for productions's input. Vietnam has expanded exporting goods to China but still in term of processed or assembled products as textile (90%), shoes and sandals with the rate of importing input as 60 to 65 percentage, and assembly of electronic spare parts. They are low value added products and characterize for an economy at its first stage of industrialization.

Reasons of forming the characteristics of Vietnam – China trade structure as following:

- Basic human resource and the economy's demand;
- The supporting ability of Vietnam industry is still limited;

- The spreading effects of technology that FDI enterprises who is working in Vietnam were small;
- National policies for developing technology have not caught up with the growth of area.

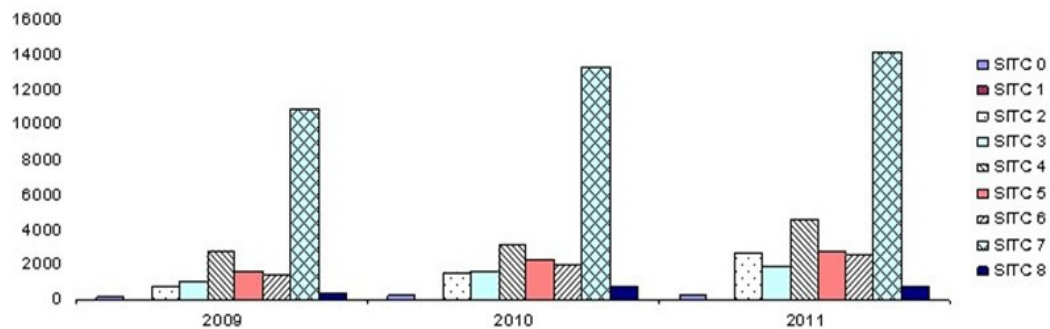
## II. Comparison the trade structure of Vietnam – China against structure of some ASEAN countries with China

It could be seen the Vietnam – China trade clearly reflecting the characteristic of doing business between North and South when comparing the trade structure of some other countries who

(Figure 3). It reflected the existence of manufacturing chain in Asia as well as the excitement of East Asia's trading activities.

In 2011, SITC 7's export value of Malaysia to China achieved 14 billions USD, equalling 47,7% of total export turnover. Also, figures for imports were 14,42 billions USD, equalling 58,35% of total import turnover. And groups such as SITC2, SITC3 and SITC4 basically do not make contribution and there is no increasing trend in three recent years.

**Figure 3: Malaysia: Growth Range and Speed of Product Group's Exports Value to China (2009- 2011, millions USD)**



Source: established by author from data of UN Comtrade, 2011

have the similar or slightly higher level of growth with China. Vietnam does not show how it has significantly improved by joining in the manufacturing chain of region and the world. Also, the country is quite slow to improve its competitive ability between industries and nations.

### 1. Trade structure by SITC type

Malaysia and Singapore's figures by SITC type showed that these countries basically import and export products in SITC 7 group when trading with China

Same situation for Singapore, shown in Figure 4 (see next page).

SITC 7 has the highest export value among all groups, achieving 21 billions USD, equalling 48.9% of total export turnover. Singapore imports goods of SITC 7 from China with the total value as 24 billions USD, accounting for 63% of total import turnover. There is no big difference between imports and exports of this group as well.

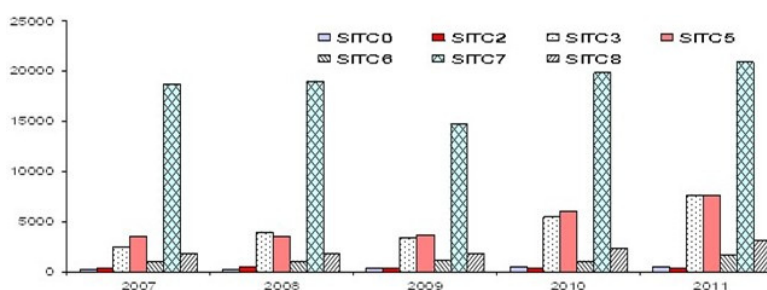
### 2. Comparison and Evaluation

All developed countries as Malaysia, Thailand and Singapore, have the trade structure on a par with China. The import and export turnover of industry groups are similar and accounted for a

higher proportion than other groups, especially those high technical and high value – added commodities. China has focused on the East Asia commercial activities through supply chain and processing products due to the international integration as well as the connection

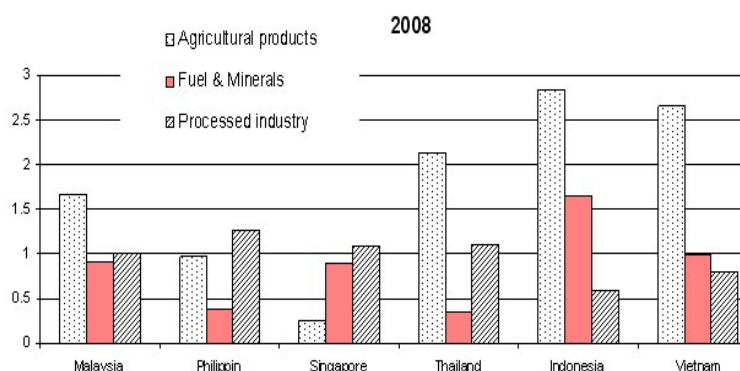
between countries in area. Consequently, China mostly imports processed products from East Asian countries. The market is shared between ASEAN 6's members in which Malaysia and Singapore are two most important market for China's exports. These countries benefits from the rise of China based on the current trade structure. Vietnam, however, still keeps a trade format with the North and South characteristics, reflecting the big gap in the technology and economic ability. As a result, Vietnam has to face with many challenges and difficulties apart from benefits.

**Figure 4: Singapore: Growth Range and Speed of Product Group's Exports Value to China (2007- 2011, millions USD)**



Source: established by author from data of UN Comtrade, 2011

**Figure 5: RCA (\*) Comparasion between 6 ASEAN countries by time**



Source: established by author from data of WTO by year

As being the manufacturing industry which depends on input from China, the prospects of Vietnam's economic growth become fragile due to the fierce competition with big and already formed economies as Malaysia, Thailand, Singapore and China. Also, the establishment of ACFTA will create the different challenges and opportunities for each countries because of the different level of growth.

(\*) Revealed Competitive Advantage (RCA): Competitive advantage is a economic definition linked with the commercial activities. The higher RCA is, the higher competitive the product is. If  $RCA < 1$ , the product does not have competitive

As a country which has the lower growth level than others, pressure on tax reduction and tax free according to commitments in the free trade agreements has put Vietnam's industry in a difficult situation. The fact of Chinese goods being widely sold in Vietnam led to the certain hurt that the country has to suffer, some industries are even in danger of closing down. Those competitive industries, which still use labours and had low – added value, will continue to develop. Hence, there are worries of ACFTA's impacts on Vietnam, for example, the agreement will facilitate the rise of China strongly influence on Vietnam. Also, the structure of competitive advantages of Vietnam will be fixed which means the current structure of imports from China will be last longer and longer (figure 5, see more: 8).

It could be seen some remarkable points through the above chart which reflects the import trend of Vietnam:

On the basis of comparison between countries by time, the shape of Vietnam's graph is unchanged. It means that agricultural products, natural resources and mineral are still the products which own the competitive advantages in exports against processed industry. The "shape" of graph is quite similar with Thailand's, Singapore's and Philippines's and showed that these countries still maintain their competitive advantages in exporting processed

industrial products. Also, Thailand keeps its strength in exporting agricultural products. Consequently, Vietnam will face the fierce competition with others because these countries still maintain their strength. Thailand, Singapore and Philippines are still big countries in exporting processed industrial products while Indonesia, Malaysia and even Philippines are now more competitive with Vietnam in exporting agricultural products. Although Thailand's RCA is lower but this country is always ahead of Vietnam in agricultural products' exports. Vietnam's RCA has decreased from 3.21 of 2011 to 2.65 of 2008 while Indonesia's RCA has increased from less than 1.5 up to above 2.5, even higher than Vietnam.

### III. Conclusions

Our main conclusions are as following:

1. The relationship between China and Vietnam is *bất hợp lý* and short of sustainability. Chinese trade, in contrast, has improved to a developed country with high level technology.
2. This trading structure pointed out the backward economy of Vietnam as well as low – speed adjustment of States toward such policies as FDI attraction, industry, and exportation so on.
3. For now, the trading structure is still able to retain benefits for Vietnam against China; however, Vietnam will face the fierce competition of big economies in the area due to free trade progress. Also, the ability to improve the deficit is quite low.

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advantage; if  $1 < RCA < 2.5$ , the product has competitive; and if  $RCA > 2.5$  so the product has a high competitive advantage.

4. The major reason is the unstability of economy which affects the competitive ability of industries. At the current of time, Vietnam needs to issue suitable industrial policies in medium and long term.

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