

US-China Trade War and its Challenges for Vietnam

Do Tien Sam

Prof., PhD., Institute of Chinese Studies, Vietnam Academy of Social Sciences

Email: dotiensamtq@gmail.com

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Abstract: *The US-China Trade War has made relations between the two countries undergo the most difficult period in the past 40 years. It not only affects the growth of the world's two largest economies but also that of the world economy. The paper presents and analyzes short-term, medium-term and long-term goals of the United States for China in line with China's response. Some initial conclusions are drawn thereby.*

Keywords: The US-China Trade War, Vietnam-China Relation, Vietnam-US Relation, China, The United States

Introduction

Since mid-June 2018, the United States of America has launched an attack on China's economy. This is considered to be the beginning of the trade war between the two most powerful economies in the world. This war has attracted the attention from all sides, and until now, there is no sign it will stop, the trade war is highly uncertain and difficult to predict.

Vietnam is a neighbor of China and the trade partner of both China and the US. Therefore, whichever is Vietnam's desire for the trade war, it will exert great impacts on the development and national security of the country.

1. The goals of the US in the US-China Trade War

After many negotiations, the two leaders of China and the US, who come from the very different background but both are nationalists, could not come to any fruitful agreement. On June 15, 2018, President of the US, Donald Trump initiated the trade war with raising the tax 25% on 1,333 import-goods whose total value is worth approximately \$50 billion, of which 818 Chinese products are worth \$34 billion. This tax raise is effective from July 6, 2018 (Yu Yongding, 2018). Next, on July 19, 2018, Trump continued to threaten to raise 10% tax on \$200 billion goods imported from China because he thinks US-China trade has

been unfair for a long time and this is no longer acceptable^(*).

What are the goals of this trade war between the US and China? We think there are three levels of goals, the short-term, the mid-term and the long-term, which are as follows:

In the short-term, the US punishes China under the pretext of protecting American interest. In addition to forcing China to narrow its bilateral trade surplus with the US, the Donald Trump administration aims to take advantage of this trade war to get the votes in the Mid-term Congress election, which will take place on November 6 and is often referred to as a test on the President's ability.

In the mid-term, the goal of the US is to "destroy" the "Made in China 2025" strategy, whereby China expressed its ambition to become a manufacturing power by 2025^(**). So far, the nuclear technologies for this strategy have remained in the hands of the United States and other developed countries. So through this war, the United States wants to prevent American businesses and other developed countries from investing or

co-operating with China in transferring nuclear technology to China.

In the long-term, the goal of the world's leading economy is to curb China's rise or revival, not letting China compete for US hegemony; At the same time, through this war (known as the "New Cold War"), the US wants to take down the socialist model of China, which China has developed and promoted, continues to assert the victory of the American-led capitalism.

Thus, the trade war is only one of the tools that the United States uses against China, in addition, there are also technological problems, monetary problems, the Taiwan issue, the freedom of navigation in the South China Sea, the denuclearization of the Korean Peninsula, etc. According to Chinese scientists, following the trade war on China's "trading superpower", the United States as a "monetary superpower" will use the currency system with the US dollar playing the dominant role to "break" China's risky and unopen financial system. The important thing is that behind the US-led trade war against China, the US wants to ensure that it will remain an undisputed superior. Some commented that "US-China trade war is the appearance, and the financial war is the core" (<http://finance.sina.com.cn/china/gncj/2018-04-06/doc-ifysuuyyc2981070.shtml>).

The above analysis shows that the US-China trade war has a different nature and purpose from the measures that the United States applies to its counterparts and allies in Europe and from the current US-Russia competition. This war is a short-term solution to win over the American voters and is part of a system of solutions that

(*) According to statistics from China, 2017 China-US two-way trade reached 583.7 billion, of which China's trade surplus was 275.8 billion dollars, accounting for 65.3% of China's trade surplus; According to statistics from the United States, this year, US-China trade is 636.0 billion USD, of which the US trade deficit of 375.2 billion USD, accounting for 46.3% of the trade deficit of this country (See: <http://finance.qq.com/a/20180324/012801.htm>).

(**) "Made in China 2025" is a 10-year plan issued by Chinese Premier and his cabinet on 8/5/2015, which focuses on high-tech fields. This plan is divided into three phases in order to make China become a major manufacturing power.

serves the US long-term geo-political goals and national security strategies. Thus, it could last until the middle of the 21st century - the point at which the Communist Party XIX Document of the XIX Congress recently identified China as a modernization power, even extending 50 years (Li Xiao, 2018). This is what we need to continue to observe and study.

2. China's responses

Facing the information on the US-China trade war, Chinese President Xi Jinping remained calm. And the Chinese Ministry of Commerce issued a six-point statement saying that China's actions are legitimate, reasonable and legal, in order to implement "three protections": "Protection of the people and the respect for the nation"; "Protection of the principles of free trade and multilateral trade regime"; "Protection of the common interests of countries in the world"; He affirmed that China's stance was "firmly supporting economic globalization, steadfastly defending the international economic system", etc (<http://politics.com.cn/n1/2018/0712/c1001-30144224.html>).

So how does China respond to the trade war that the United States is mounting? Looking at the relevant literature, we find that, officially, China views this as "a trade competition practice". However, the scholars of this country call this "a commercial war", meaning a trade war. They argue that China should respond to the US and also aim at achieving the following short, medium and long-term goals:

In the short term, China has anticipated the trade war with the United States is unavoidable, so on the one hand it still

wants to negotiate to "rescue" the situation; on the other hand, since July 6 it has actively raised a list of 25% tax increase on 659 items of US origin exported to the Chinese market valued at about \$50 billion, of which 545 items worth about 34 billion USD. Thus, the trade war has a total value of about \$ 68 billion out of more than \$ 500 billion of trade balance between the two sides. According to Chinese scientists, this only has a limited impact on China's economic development; basically, it has been "digested" by its firms, even there are businesses that have solved the problem completely (Ma Jun, 2018).

In the medium and long-term, China views the trade war with the United States as a good stimulation, on the one hand it reveals the great disparity between China and the United States in terms of technological innovation and invention, high-end manufacturing, financial services, currency...; on the other hand, it also shows that many of the reforms that China has implemented over the past few decades are no longer suitable and need to be replaced, such as export-oriented trade policies and trading the market with high-end technology... Thus, China will step up the implementation of the 19th Congress Resolution, which focuses on institutional reform: "Promote modernization of the governance system and governance capacity, resolutely breaking the institutional and ideological barriers, breaking the interest groups" (Xi Jinping, 2017: 21). With that in mind, China accelerated its nation-building process in an innovative way, consider "creativity as the first driver of development, a strategic pillar for building

a modern economic system... focusing on the key sectors of science and technology in the world, attaching importance to fundamental research, intensifying applied research, focusing on key technologies... to create an intellectual basis for building the nation to become a great power of science and technology, the great space-power, the power of the internet, the power of communication, a digitized China...; to train talented scientists and engineers that are of the international level” (Xi Jinping, 2017: 31).

In addition, China will remain determined not to change its goal of becoming a modern powerhouse in the mid-21st century, realizing the Chinese dream, reviving China. At the same time, as a major country, the world’s second-largest economy, and the world’s first in terms of commodity trade and foreign exchange reserves, China, in the name of protecting the interests and the right to speak of developing countries will actively participate in changing the current international rules in favor of China and developing countries.

There is, however, the view that in this war China has two wrong judgments: first, the misjudgment of the US President Donald Trump, claiming that he is a politically inexperienced merchant. But in essence, Trump has a team of strategic consultants who disagree with the way China is acting; second, misjudgement of the “friendship alliance” between Europe, Japan and the United States, does not consider the possibility that the United States, Europe and Japan will “join forces to change the order and the rules of global trade, and

China stands in danger of being removed from the world’s major trading system” (<http://www.backchina.com/news/2018/08/01/575219.html>).

3. Implications for Vietnam

Vietnam is a neighbor of China and has a convenient transportation route with China so the development of China will present for the development of Vietnam both opportunities and challenges. Although China has taken the initiative in responding to the US-led trade war, the war still has a significant impact on the economic development of China and its economic partners.

a. General impacts

As mentioned above, the trade war between the two largest economies of the US-China will affect the development of the two countries and the world economy. *For China*, according to the State Administration of Statistics of China in 2018, China’s economy in the first half of 2018 maintained a growth rate of 6.8%, of which consumption contributed 78, 5%, exports and imports in general trade accounted for 59%, the quality of growth has improved when consumption of clean energy in energy consumption increased by 1.5 percentage points, the energy in 10,000 yuan GDP has fallen to 3.2% (http://www.stats.gov.cn/tjsj/sjjd/201807/t20180716_1609974.html). Resilience to the external pressures of the Chinese economy has increased as trade levels have fallen sharply from 64% in 2006 to 33% in 2017 (<http://www.chinanews.com/cj/2018/07-09/8560803.shtml>). Many scholars believe that the impact of a trade war on China is limited. Ma

Jun, Director of the Center for Monetary Research and Development of Tsinghua University, Member of the Monetary Policy Committee of People's Bank of China, said that the \$ 50 billion trade war will only make the growth rate of China's economy fell 0.2 percentage points (Ma Jun, 2018). However, when answering to the impact of a trade war on economic growth in the coming time, representatives of the State Statistics Bureau of China said: "it is still necessary to continue to observe." This implies that whether it is possible to maintain a moderately high economic growth rate in China in the near future is still unknown (http://www.stats.gov.cn/tjsj/sjjd/201807/t20180716_1609974.html). In our view, in the coming time, in response to the US's use of monetary tools to "force" China to open the financial market currency, one cannot exclude the possibility of China to continue adjusting exchange rate of the yuan to increase the competitiveness of exported goods. This will put pressure on commodities from other countries, including Vietnam which is export-oriented and based on exports to sustain growth. In addition, many countries will also consider adjusting exchange rates to increase their competitiveness. This is a topic that Vietnam's financial researchers need to pay attention to.

b. Positive impacts on Vietnam

In the media, many scientists have discussed this topic (N. Binh, 2018). As we respect these opinions, we believe that which is right or wrong is still open. Here, we have only some initial ideas:

Firstly, in terms of perception, as stated above, trade is just one of the tools that the

US uses to curb China's rise. The US has also publicly placed China at the top of its list of rivals, including China, Russia, North Korea, Iran and the transnational crime syndicates. Thus, a trade war is just a piece on the great chessboard, in a long and global geopolitical competition. Therefore, the solutions for Vietnam must meet the immediate requirements, both global and long-term.

Secondly, on the basis of this perception, we think that, on the one hand, Vietnam should make good use of the opportunities that the Chinese market is opened, actively and proactively export to the Chinese market the competitive goods such as such as agriculture and seafood; on the other hand, it is important to Vietnam to improve the investment environment in order to attract the capital and technology enterprises of both China and the US and other countries to Vietnam. In addition, many businesses of developed economies such as Japan, Korea, Taiwan... due to the impact of the US-China Trade War forced to move from mainland China to other countries, including Vietnam.

Thirdly, in the long run, Vietnam can refer to China's experience of institutional reform, strengthening national governance, preventing and combating the formation of interest groups within the Party; build the country in an innovative way; to attach importance to investment in scientific research, especially in strategic research, to train qualified scientists in the region and in the world.

c. Negative impacts for Vietnam

This is also the content of many Vietnamese scientists are interested in and expressed

their opinions on the media. In this article, we discuss some additional ideas:

Firstly, the negative impact of the US-China Trade War, especially China's response, poses challenges to Vietnam's national development and security. It is both urgent and strategic and long-term. Therefore, the solutions of Vietnam must also meet the above requirements.

Secondly, when studying the influence of the US-China Trade War, a researcher and business manager of Vietnam predicted that there would be a flow of Chinese goods exported to Vietnam, to worsen the country's trade deficit; along with that there are some Chinese goods and enterprises in Vietnam, using the name Vietnam or the fact they produced in Vietnam to export to the US market, if this scheme is detected, it would discredit Vietnam. In addition, if China continues to adjust the RMB exchange rate to cope with the US currency war, it will put pressure on countries including Vietnam to adjust their currency exchange rates, leading to inflation, affecting production and people's livelihoods (See: N. Binh, 2018). Therefore, Vietnam should strengthen the state management of import and export, especially anti-smuggling in the northern border area; At the same time, strengthening the management of monetary banks, closely monitoring the movements of China's RMB exchange rates and operations of Chinese banks in Vietnam.

Thirdly, in terms of national security, China's stated "three fast", including "rapid frontier development" in the north; "quickly build up the sea power", including the South China Sea (Xi Jinping, 2017: 32-33); and "fast-track

strategic connection" with Laos and Cambodia^(*) will create new challenges for Vietnam's national security. Recently, China officially launched the construction of Hainan into a Free Trade Zone and Free Trade Port with the planned five functional zones^(**). Hainan Province has also promulgated

(*) *The Sino-Lao Joint Declaration* of November 14, 2017 states: "The strategic link between China's Belt and Road Initiative and the strategy of transforming the Laos, a non-sea land, into a transcontinental country is the same. The construction of the Sino-Lao Economic Corridor starts from Yunnan, taking the Sino-Lao railway as a base, passing through some important areas, eventually to southern Laos" (http://www.xinhuanet.com/201711/14c_1121956391.htm).

The joint statement between the Government of the People's Republic of China and the Government of the Kingdom of Cambodia on January 11, 2018 states: "Rapidly connecting effectively the Road Tenement Initiative and the 8th Five-Year Plan China with the National Development Strategy and the 2015-2025 Industrial Development Plan of Cambodia, performs well together to promote the construction of the Road Belt, practical cooperation to promote production and investment capacity" (http://www.xinhuanet.com/2018-01/11/c_1122246811.htm).

(**) In his speech at the 30th anniversary of the establishment of Hainan Special Economic Zone, President Xi Jinping declared: "The Party's Central Committee decided to support the whole Hainan Island to construct the Free Trade Zone, to facilitate the development of a Free Trade Port with Chinese characteristics; to decide the stages and steps of formulating the system and policies of the Free Trade Port" and stated "This is a great policy that the Party's Central Committee has raised on the basis of the understanding of the general the development of the country and international, which has been gleamed in in-depth study and scientific planning; this is a great measure to show the determination of our country (i.e., China) to open the door to the world, actively promote economic globalization, "Xinhua Network, April 13, 2018 (<http://www.chinanews.com/gn/2018/04-13/8490705.shtml>).

documents encouraging organizations and individuals to apply to be “island gods” on uninhabited islands for periods of 15 to 50 years, depending on the field of investment^(*). These moves are in the “grand strategy” *Belt and Road* and to quickly build up the sea power, which was confirmed in the document of the XIX Congress. These are the major research topics that need the coordination of research at all levels and sectors.

Conclusion

The US-China Trade War has officially begun. China, for its part, has put forward the principle of “not wanting to fight, not afraid to fight, when necessary definitely fight,” at the same time, apply certain response measures. If it were merely in the field of trade, the fact that the two largest economies in the world were at war had harmed not only the economic development of each country but also the economic growth of the world. However, this is also the start of a geopolitical competition. Thus, it could be expanded by the US and co-ordinated with other sectors such as monetary, oil and gas, maritime freedom, India-Pacific strategy, etc., to contain the rise of China. Thus, this war will last even 50 years.

Vietnam is a neighbor with many similarities to China, so it is very interested in the development and impact of this trade war. On July 17, 2018, at a regular press conference, Vietnamese Foreign Ministry spokeswoman Le Thi Thu Hang expressed the official view of Vietnam: “The problems that arise in trade relations between Countries should be dealt with through negotiations, on the basis of international practices and regulations, especially within the framework of the World Trade Organization (WTO), to ensure the legitimate interests of the parties involved and contributing to the cooperation and prosperity of the region and the world” (Chau Nhu Quynh, 2018). We think that Vietnam should, on the one hand promote cooperation, increase exports to the Chinese market, contribute to narrowing trade deficit in the bilateral trade balance as senior leaders of the two countries have agreed^(*); on the other hand, need to have adaptation measures to protect their sovereignty, security and development interests. The relationship between Vietnam-China and Vietnam - US is healthy and stable in line with the interests of each country and contributes to maintaining the region and world peace, stability and development □

^(*) On July 4, 2018, the Department of Oceanography and Fisheries of Hainan Province issued a document titled, “The method of appraisal approved to take advantage of the uninhabited island of Hainan Province”, which states: Granting the right to use the island for 15 years for aquaculture; 25 years for leisure tourism; 30 years for the exploitation of salt and minerals; 40 years for public utility activities; 50 years for port construction works, ship repair (<http://www.chinanews.com/gn/2018/07-04/8556592.shtml>).

^(*) The Joint Statement between Vietnam and China on 13 November 2017, Paragraph V states: “Deploying the Vietnam-China economic-commerce co-operation committee mechanism; developing two way trade in a balanced, solid and durable manner; speeding up co-operation within the framework of the “memorandum of understanding on co-operation in the trade of farm produce” (<https://vnexpress.net/tin-tuc/the-gioi/toan-van-tuyen-bo-chung-viet-nam-trung-quoc-3669742.html>).

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