International Journal of Research in Finance and Management

P-ISSN: 2617-5754
E-ISSN: 2617-5762
IJRFM 2019; 2(1): 43-46
Received: 24-11-2018
Accepted: 26-12-2018

Vo Thi Thu Thao
Dean of Economics and Law Faculty, Tien Giang University, Vietnam

Dr. Nguyen Hoang Tien
Tien Giang University, Vietnam

Dr. Dinh Ba Hung Anh
Ho Chi Minh City University of Technology, Vietnam

Correspondence
Vo Thi Thu Thao
Dean of Economics and Law Faculty, Tien Giang University, Vietnam

International trade and currency war consequences for vietnamese economy

Vo Thi Thu Thao, Dr. Nguyen Hoang Tien and Dr. Dinh Ba Hung Anh

Abstract
This article is about the trade war between the two leading economies and the risk of a currency war boom. When the United States and China apply mutual trade retaliatory measures, it will affect the global economy. Especially those two countries are the major trading partners of Vietnam, so Vietnam will not escape the effects of this trade war and currency war. In order to reduce the negative effects, Vietnam should monitor the evolution of the war and take timely measures. At the same time, Vietnam should take advantage of the positive aspects of the war for the economic development. This article presents the cause of trade and currency wars and their effects on the Vietnamese economy, at the same time making recommendations to help Vietnam overcome negative impacts on its economy.

Keywords: Trade war, currency war, tax rate, currency devaluation

1. Introduction
US-China relations are a pair of important and complex relationships in international relations in general and international economic relations in particular since the second world war to date and perhaps also in the future. China is growing and becoming the most exporting country. The United States is one of the main importers of Chinese goods, especially the textile and manufacturing industry. That is the reason Donald Trump's "America first" policy has gained many credits from American electors leading to his victory in the presidency race in 2016. On 9 March 2018, Trump imposed 25 percent and 15 percent import tax on aluminum and steel, prompting the world to start a trade war (A Rauf K Khattak, 2018) [1].
When the US-China trade war became fierce, the US imposed tax of US $ 16 billion Chinese goods and China immediately imposed tax on US $ 16 billion in retaliation (An Huy, 2018) [4]. This measure is seen as a feature of currency war, so there may be a future currency war. If a real currency war takes place between the two largest economies in the world, the consequences will be unpredictable and beyond the scope of the two currencies: CNY and USD. Trump's warnings are really a shift from trade war to currency war. In that case, markets from stocks to basic commodities and emerging markets will all fall into danger (An Huy, 2018) [4].
Trade wars and currency wars will affect the economies of countries around the world. Many countries in Southeast Asia feel the domino effect of tariff barriers, because they all have ties to the supply chain for China's export activities (Diep Vu, 2018) [11]. The success of this region is based on open trade, based on the development of value chains, which in the past decade has increasingly taken China as world trade and logistics center. We decided to investigate the topic "International trade and currency wars – consequences for the Vietnamese economy" to better understand these two wars and its impact on the Vietnamese economy.

2. Theoretical Framework
Trade war is a phenomenon in which two or more countries raise or create taxes or other types of trade barriers (including import and export licenses, import quotas, aid to domestic industries, voluntary export restrictions, strict requirements for inbound goods, sanctions, trade restrictions, and currency devaluation) in response to trade barriers of the counterpart. The enhanced protection regime makes the production of both countries' progress toward self-sufficiency (to meet consumer demand not satisfied by limited imports) (Gia Han, 2018)

[13]. Many economists argue that certain protections (for certain industries) cost more than other protections (for other industries), because of it may cause trade war (Gia Han, 2018) [13].
The global trade war takes place, which will create a shock and can cause world GDP growth to drop by 1-3 percentage points in the next few years. Although investors can see that this level of damage is still under control, it does not rule out the possibility of this situation getting worse. Experiences from trade wars in the past show that when import duties are imposed the increased cross-border trade costs will clearly reduce the amount of imports and exports globally. That will lead to long-term advantages and disadvantages. Some international trade theories have shown for centuries that it is almost impossible to argue that declining trade flows will make the theory of relative advantages ineffective in this case, at the same time the productivity will also be badly affected and global welfare will be hurt.
Monetary war is an economic conflict in which economies seek to reduce their currency prices and thus increase their own international competitiveness and cause disadvantage to other economies. When a country's currency loses its value, it will be cheaper to sell produced goods in international markets. As a result, the export of that country's goods will increase and they can produce more, thus reducing the number of unemployed people. The characteristics of a currency war are retaliatory measures of interrelated economies, which in general will lead to instability of the global economy. According to the American economist, Joseph Stiglitz, it leads to risk that the interrelated economies will perform worse than before (Song Hongbing, 2012) [9]. If the real currency war takes place, the consequences will be very unpredictable and far beyond the scope of currencies of participating countries. Markets from stocks to basic commodities and emerging markets will all be in jeopardy. The prices of high-risk assets and oil prices may decline sharply when concerns about growth become larger, leading to the declining exchange rates of countries highly reliant on exports. As next, the depreciation of the currency will spread.
History shows that after the trade war will be a currency war (or a pre-war war to trade war), ultimately war with its fullest meaning. As a commercial history researcher, Paul Krugman also reiterated three commercial wars in the past, and affirmed that every war ended with a catastrophic consequence for each country's economy in particular and the world economy in general. The first is France's trade war with Italy. Shortly after unifying Italy in 1871, the fledgling nation turned to protection to nurture primitive industries, and thus ended the trade agreement with France in 1886. Italy increased its level of tax up to 60% to protect its industries from French competition. The French government responded by adopting the powerful protection policy called Méline Tariff in 1892. Both countries knew about the costs of trade war, but the damage was much more widespread. French Italy trade decreased significantly, followed by disturbance in the countries where they traded. An unexpected result was that it pushed Italy closer to Germany, Austria and Hungary than in the years before the First World War (Hoang Minh, 2018) [14]. The second is the US-Canada trade war. The United States abolished a reciprocal treaty with Canada in 1866. Accordingly, Canada sought to retaliate against its southern neighbor. In 1879, Canada introduced its national protection policy through tax increases. Some US companies such as Singer Manufacturing, American Tobacco, Westinghouse and International Harvester have decided to shift their production to Canada instead of paying high import duties. In the late 1880s, 65 US factories moved to Canada. Trade tensions peaked in 1890. The Republican Party then took over the executive and legislative bodies which adopted McKinley Tariff's protection policy. Consequently, US agricultural exports to Canada halved from 1889 to 1892. And when the US adopted an even stronger protection policy called Dingley Tariff in 1897, Canada decided to respond by doubling taxes and tightening trade relations with the UK rather than the US. So it took nearly a century for free trade between the US and Canada to grow (Hoang Minh, 2018) [14]. The third is the Smoot-Hawley trade war. Commercial wars did not stop at the end of the nineteenth century. Commercial wars took place after Republicans passed the Smoot Hawley Bill into law in 1930, raising taxes on more than 20,000 products. In a study from 1934, political economist Joseph M. Jones Jr. has explained European retaliation. His research has warned of possible trade wars when a nation's tariff policy threatens to destroy specialized industries in other countries, causing the suffering for their people. The study cites the Italians' reaction to the US policy of Smoot-Hawley protection. Even the anger of Italy was pushed higher when they decided to sign a trade agreement with the Soviet Union in August 1930 and a non-aggression pact two years later.
Economist Paul Krugman, economic analyst at The New York Times, also reminded us that, although the Smoot-Hawley Tax Act did not cause the Great Depression, international trade wars were to play an important role in preventing trade recovery when production recovers. (Hoang Minh, 2018) [14]. The history of the most famous global trade war of the 20th century broke out when the US enacted the Smoot-Hawley Tariff Act (1930). The next thing was the currency devaluation in England, France (1936), USA (1933), coinciding with the period of hyperinflation in Germany that was the moment the first currency war broke out (Nguyen Duong Hieu and Nguyen Phuc Hoang, 2017) [7]. The second currency war took place in 1967 when the pound was devalued strongly because of the money issued four times as much as Britain's gold reserves. Faced with high inflation, France also decided to withdraw from the agreement to stabilize the exchange rate with Britain and the US. By December 1971, the Smithsonian agreement was signed between the US, Britain and France, paving the way for the dollar to be depreciated in an orderly fashion. However, this agreement did not last long, when in 1972, the pound was devalued again. The second currency war ended when countries decided to sign the Louvre agreement to stabilize the dollar at a new price (Nguyen Duong Hieu and Nguyen Phuc Hoang, 2017) [7]. Besides, the world also witnessed a few small crises. But like the two previous currency wars, hardly anyone is the clear winner in this war, except for the chaos.

3. Research Methodology

Using the history related comparative analysis method to analyze the trade war situation of the US and China. This method is to better understand the causes and situations of trade wars and currency wars between the two countries. The article is using the secondary data collection method to predict the effects of trade war and currency war on the Vietnamese economy. The predictive method is about scientific prediction with probabilistic nature of the level, content, relationships, state and trend of development of the research object or about the way and time to achieve certain goals set forth in the future. Secondary data is data obtained from available sources that have been collected for different purposes, not just for forecasting. This article collects data from following sources: newspapers and journals which are is topical and up-to-date. Additionally, books, scientific journals, websites and documents issued by organizations are also well searched. These methods are chosen because (Dinh Ba Hung Anh, 2015) [6]:

- Cost saving compared to primary data collection.
- Time and effort saving compared to the primary data collection process.
- They can provide comparison data and contextual data.
- They may lead to new unexpected discoveries.
- Regularity and updatedness of data.
- High quality because these are information that has been published and verified through quality censorship, so they are more reliable than information collected by ordinary researchers.

4. Research Results and Discussions

With the ongoing US-China trade war, there are many points of view, but it is hard to deny that this trade war is essentially different from past trade wars. It surpassed the normal trade war to truly become a global rivalry for the two biggest superpowers today, the US and China. The US-China trade war is becoming more and more evident when the two sides continue to have strong responses to each other. Currently, the US-China is the two most powerful and influential economic entities in the world. Both countries are in the historical period when the international landscape has tremendous changes. In the short term, America is still the largest economic entity in the world. However, according to many predictions in the future period of 10 years or even 5 years, China may be a new economic entity comparable to the US in terms of size and scale. This means a drastic change in the capacity to create wealth, market creativity, and the creative capacity in science and technology in a global scale. It is this change that is directly related to the two countries so that the US – China's rising conflicts in trade issues is inevitable (Duc Thuc, 2018) [12]. Different modes of management between the US and China are also said to be an important reason for the increase in collisions between the two countries. The difference in cultural traditions is also the reason why US-China trade collisions are constantly increasing.

This monetary war took place when two major economic entities, China and US, conducted mutual economic sanctions that on the US side President Trump blamed on the China for its currency manipulation and insisted on appointing China as a currency manipulator. The US has designated China to manipulate currency in the Ministry of Finance report published in April and October 2017 (Yoon Yeo Joon, Kim Jonghyuk Senior, Kwon Hyuk Ju and Kim Wongi, 2018) [10]. According to Trump, the CNY has plunged like a rock rolling down a slope with six consecutive weeks of falling prices and falling to its lowest level in more than a year compared to the USD. Similar to the evolution of major economic disputes in the past, the US-China trade conflict has advanced to focus more on the foreign exchange market, often involving settling the dollar to be weakened, reducing the US trade deficit. In the face of the risk of currency war between the two "giants" of the world economy, there have been a lot of predictions about the extent of its impact on the global economy. The war can be very devastating and have an impact not only on the US and China, USD and CNY.

The US-China trade war could lead to a large scale trade war or even a comprehensive trade war which has as serious consequences as the Great Global Depression 2008-2009. On one hand, the rise of US taxes on Chinese goods will burden the suppliers of goods. On the other hand when Chinese goods exported to the US are subject to taxes, to reduce dependence on US and to maintain productivity, China may apply currency devaluation policies and export goods to neighboring countries, including Vietnam. When the trade war takes too long, Chinese goods exported to the US face difficulties, in the long run many Chinese industries will have to narrow production, sell machinery and technology. At the same time, there is a more optimistic view when saying that this is an opportunity for many businesses to buy materials, components and spare parts at low prices. Since then, the goods will increase the competitiveness of exports to the US market to replace Chinese goods somewhat. In addition, unstable US-China trade relations will have a strong impact on the exchange rate of the CNY and USD. Vietnamese money depends heavily on the exchange rates of these two currencies, so it will also be affected. The CNY has depreciated and may continue to devalue in the context of escalating trade war putting pressure on the domestic exchange rate in the direction of devaluing the Vietnamese Dong (VND), thereby affecting the debt payment cost of the Government. The US-China trade war has led companies from Japan, South Korea, Hong Kong and China to pour into Vietnam, primarily to diversify investments. Vietnam's attractiveness, in addition to tariffs, is also seen in labor costs, land costs, increased competitiveness. This trend is particularly evident in manufacturing industry, the sector where cost in Vietnam is significantly cheaper than in China.

A Vietnam non-participatory trade war could bring benefits to Vietnam in general. But the negative effect is that Vietnam may be lumped with China, just like when the US imposes anti-dumping duties on Vietnamese steel and may be impose taxes on other goods as well. When the US impose a tax on some of Vietnam's trade items similarly to China, this will affect the budget revenue from production and business activities and revenue from export activities.

5. Conclusions and Recommendations

Under the pressure of trade tension between the US and China, Vietnam needs to master the business rules in trade relations. It is necessary to understand the nature and laws of development of economic competition in general and the current situation of US-China commercial disputes in particular. Vietnam should continue to closely monitor the situation, especially informing and updating the list of taxed goods of both the United States and China, as well as the exchange rate movements of the USD and CNY so that enterprises can respond timely. In fact, the more the biggest economies advocate liberalization, the more they will move to protectionism, typically the US. Therefore, in order to continue to benefit from the US market, we must explore the legal regulations that the US often uses to protect domestic production such as section 301, anti-dumping laws and rules of origin. The FDI enterprises and Vietnamese enterprises should urgently learn about the US market, especially the goods in the tariff list, to find opportunities to diversify the export list into the US. In addition, we need quick access to large FDI investors in China to promote investment in Vietnam when Chinese and US markets are affected. At the same time, it is necessary to delve deeper into the list of Chinese goods that can be imported into Vietnam in case of limited Chinese exports to the US for proper handling and control. At the same time, it is necessary to prepare good information regarding trade defense with the US in case of widespread trade war. There are flexible and clever ways to deal with trade relations with developed and developing countries. Vietnam must take measures such as strengthening customs, trade barriers and strict import control. Vietnam should continue to improve administrative procedures, improve the investment environment and accelerate the process of restructuring the industry and trade. Technical barriers still exist in increasing access to foreign markets. Although trade war and currency war is not a good thing for the future, Vietnam will still be able to control the situation and continue economic reforms on its liberalization roadmap. History has shown that politically, Vietnam has coped well with the giants to protect homeland. Hope the same thing will happen economically.

6. References

1. A Rauf K Khattak. A war with no winners, 2018. <https://www.thenews. com.pk/print/302444-a-war-with-no-winners> [accessed September 18, 2018]
2. Andrew Rose. Currency Wars? Unconventional Monetary Policy Does Not Stimulate Exports, 2018. <http://www.nber.org/papers/w24817> [accessed September 12, 2018]
3. An Huy. Many experts believe that currency war has exploded. VnEconomy newspaper, 2018. <http://vneconomy.vn/nhieu-chuyen-gia-cho-rang-chien-tranh-tien-te-da-bung-no-20180721104631952.htm>[accessed September 3, 2018]
4. An Huy. The US-China trade war is likely to escalate. VnEconomy newspaper, 2018. <http://vneconomy.vn/chien-tranh-thuong-mai-my-trung-nhieu-kha-nang-con-leo-thang-20180827112339544.htm> [accessed September 18, 2018]
5. Binh Minh. The US officially imposes a tax of $ 16 billion on Chinese goods. VnEconomy newspaper, 2018. <http://vneconomy.vn/my-chinh-thuc-ap-thue-len-them-16-ty-usd-hang-trung-quoc-20180823115813488.htm> [accessed September 17, 2018]
6. Dinh Ba Hung Anh. Forecast in business. Economic Publishing House, Ho Chi Minh City, 2015.
7. Nguyen Duong Hieu, Nguyen Phuc Hoang. The Money Wars (James Rickards), 2017, Young Publisher, 2017.
8. Ricardo J Caballero, Emmanuel Farhi, Pierre-Olivier Gourinchas. Global Imbalances and Currency Wars at the ZLB, 2015. <http://www.nber.org/papers/w21670> [visit September 18, 2018]
9. Song Hongbing. Currency War. Translated from English by Ho Ngoc Minh, 2012. TP Publisher. Ho Chi Minh City, 2012.
10. Yoon Yeo Joon, Kim Jonghyuk Senior, Kwon Hyuk Ju, Kim Wongi. Trump Administration's Trade Policy Toward China, 2018. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3142518 [accessed September 18, 2018]
11. Diep Vu. WB: Southeast Asia will suffer chain influence if there is a US-China trade war. VnEconomy newspaper, 2018. <http://vneconomy.vn /wb-dong-nam-a-se-chiu-anh-huong-day-chuyen-neu-co-chien-tranh-thuong-mai-my-trung-20180412165303466.htm> [access September 18, 2018]
12. Duc Thuc. Explain the cause of the US-China trade war, 2018. <https://www.tienphong.vn/the-gioi/ly-giai-nguyen-nhan-bung-phat-cuoc-chien-thuong-mai-mytrung-1291342.tpo> [accessed September 18, 2018]
13. Gia Han. What is a trade war? 2018. <https://baomoi.com/chien-tranh-thuong-mai-la-gi/c/25570620.epi> [accessed September 17, 2018]
14. Hoang Minh. Past commercial wars, 2018. <http://baoquocte.vn/nhung-cuoc-chien-thuong-mai-trong-qua-khu-69479.html> [accessed October 15, 2018]
15. Le Thi Hong Loan. What will the US-China trade war look like? 2017. http://nghiencuuquocte.org/2017/02/15/chien-tranh-thuong-mai-my-trung/>[accessed September 17, 2018]
16. Nguyen Xuan Thanh. Analysis of Fulbright University Specialist: US-China trade war and influence on Vietnam, 2018. <https://www.fuv.edu.vn/chien-tranh-thuong-mai-my-trung-va-anh-huong-toi-viet-nam/> [accessed September 18, 2018]
17. Vu Thuy. 10 things to know about US-China trade war, 2018. <https://news.zing.vn/10-dieu-can-biet-ve-chien-tranh-thuong-mai-my-trung-post858021.html> [accessed September 17, 2018]