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China-US trade war and risks for Vietnam's economy

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Abstract

In an international trend, the economy is growing stronger and countries face many risks from all sides in general and from domestic enterprises in particular in business. Therefore, countries are willing to have policies to limit the risks of their economies. So is the United States of America and the People's Republic of China, in order to protect its interests, they are ready to open the world's largest trade war to protect the country's economy and asserting itself around the globe. The US-China trade war affects the whole world and a significant part of the Vietnamese economy now and in the future. In this article, we will review and analyze the above issues in order to find out which solutions and solutions for Vietnam before the unpredictable changes of the world economy in the period of integration and development.

Keywords: China-US trade war, risks, Vietnam's economy

1. Introduction

The growth of the economy contributes to promoting the general development of life and society, but it is accompanied by increasingly serious impacts on the environment. Meanwhile, the volatile situation of the world economy and trade will also affect more or less the situation of trade and economic activities in Vietnam. Because of the complicated problems of the world affecting Vietnam, we decided to choose the topic "The US-China trade war and the risks to the Vietnamese economy" to help everyone have some outlook on global issues and offer solutions that are advantageous for Vietnam. The objectives of the study include:

- Clarify the theoretical basis for the "US-China trade war and the risks to Vietnam's economy"
- Provide analysis and assessment of the current situation of "US-China trade war and risks to Vietnam's economy"
- Proposing some recommendations to formulate a specific strategy to help Vietnam have the right direction in the future.

The article focuses on the study of US and Chinese policies to deal with each other and to protect the national economy to get actual facts and data from around the world.

2. Theoretical Framework

2.1 Concept

2.1.1 Liberalism

Liberalism is an ideology, philosophical viewpoint and political tradition based on basic political values of freedom and equality. Liberalism has its roots in the Enlightenment movement in the West, but the term has many different meanings in different periods. As in the US, the concept of liberalism refers to socialism (social liberalism), modernism, while elsewhere it still has the original, classical meaning of liberalism. In general, liberalism emphasizes individual rights. It seeks a society characterized by the freedom of thought, civil and political rights of each individual, and limits the power of government (especially of the state and religion), the rule of law, the freedom of giving exchange of ideas, a market economy that supports free private enterprises, and a transparent government system in which the rights of citizens are protected. In modern society, liberalists support a free and fair democracy with equal and open elections, which all citizens enjoy equal rights before the law and have the same chance of success.

2.1.1.1 Advantages: Promote development society, use resources effectively and maximally, make individuals morally and responsibly, ensure personal freedoms.

2.1.1.2 Disadvantages: Increasing economic inequality, causing social instability, limiting individuals from exercising negative freedoms.

2.1.2 Protectionism

According to Wikipedia, protectionism (trade protection) is the imposition of some standards in areas such as quality, hygiene, safety, labor, environment, origin, etc. impose a high import tax on certain imported goods to protect the industry that produces similar items (or services) in a given country. In theory, trade protection brings temporary benefits to domestic producers, ensuring the social goal of securing jobs for certain groups of workers. The downside is that it gives domestic producers the opportunity to speculate on selling prices (or service provision) in the most beneficial way for them or to take measures to improve quality and lower costs. This brings damage to consumers in terms of long-term goals. There are many views around the issue of protectionist policy, typically the following two:

- Firstly, countries concentrate on producing and protecting fields where they are strong. As for the fields which are considered that the present and the future have no competitive advantage, they will not continue to promote protection but will mainly protect this field with tariff tools;
- Second, countries focus on protecting areas where they are not strong by subsidizing, placing tariff barriers, technical barriers but only at the defense level. Thus, in order to implement the policy of protectionism, countries will introduce many trade protection measures such as tariff barriers, anti-dumping taxes.

It can be seen that trade protection offers the following advantages

- Reduce the competitiveness of imported goods;
- Protection of domestic manufacturers; helping them strengthen their strength in the domestic market;
- Helping manufacturers increase their competitiveness to invade foreign markets;
- Help regulate the national international payment balance, rational use of foreign currency payment source of each country.
- In addition to these advantages, the following disadvantages are also included:
- Damaging the process of international trade development, causing a country's economic isolation in the trend of globalization;
- Causing stagnation and stagnation among domestic businesses, the result is that the stronger the protection is, the more competitive the strategic industries are. no longer effective;
- Causing less diversity in models, designs, quality of goods as well as the price of goods becomes more expensive than trade liberalization, causing damage to consumers.

In the face of the above advantages and disadvantages, protectionism has always been a controversial and difficult

choice for each country. When implementing protectionist policies, more or less those countries will be under pressure of their own countries and other countries. Therefore, protectionism is always a difficult question to answer for countries around the world because no one can foresee the possible trade wars.

3. Trade wars and risks for related and unrelated parties

3.1 The root cause

On March 1, 2018, President Donald Trump announced that the US would consider the scheme to impose high taxes on steel and aluminum imported from countries with tax rates of steel (25%) and aluminum (10%). The reasons given by President Donald Trump when applying high tax rates on aluminum and steel are: protecting the steel industry, creating a level playing field, restoring the development of the domestic steel industry, creating jobs, protecting national security, etc. Besides, there are separate reasons related to political commitment to the states that supported him during the election term.

From these conflicts, countries such as Canada, Russia, Japan, etc. filed a petition to the WTO, analyzing that the US unilaterally imposing tax increases will cause the annual tax rate of exported goods to rise significantly. Thereby, the countries claiming the right to impose retaliation at a cost equivalent to those from US imports, including China, filed a lawsuit against the US on April 10, 2018.

In addition to filing lawsuits against the United States, countries have taken a number of specific actions to take revenge measures, and many countries have signals to respond to the US to put great pressure on the implementation of US policy. This is considered the first step for leading the US-China trade war.

3.2 Evolution of the US-China trade war

On March 23, 2018, on the grounds that China systematically infringed on US intellectual property, the US "announced plans to impose tariffs on 1300 products from China worth US \$ 50 billion and restricting Chinese enterprises from investing in the US. However, unlike the steel and aluminum tax imposition, the US decision has not determined when, what items, where and then the US sued the WTO on the grounds that China is breaking the rules of WTO.

On April 1, 2018, China took a response: Accordingly, the Chinese Ministry of Finance introduced 120 US products that would be subject to a 15% tax when exported to the Chinese market like fruits, related products; 8 pork and related products are subject to a 25% tax.

Four days after China announced the imposition of tariffs on U.S. goods, on April 4, 2018, the United States announced a supplement to impose tariffs on imported Chinese goods totaling US \$ 100 billion, mostly on in areas where the US believes that China has stolen US technology products such as information technology, telecommunications technology, etc. if China imposed tariffs on 128 US products.

Facing the above-mentioned tense developments, trade representatives of the two sides planned to meet and negotiate to hope to achieve certain specific expectations as follows: In May 2018, the negotiations were relatively favorable when China agrees to buy 70 billion US agricultural goods and energy products (50% of total

exports to China in 2017) if the US does not raise taxes IF the US does not offer any tax measures any of America to China. In response, the US loosened restrictions on Chinese telecommunication company ZTE (Chinese enterprises were in trouble because the US banned the purchase of important components from the US). Both sides have solved the "small thing" in trade but still have not solved most of the problems (US-China market deficit)

Tensions were pushed up when the US continued to impose a 25% tax on US \$ 50 billion of Chinese goods imported and tightened regulations on investment from Chinese companies into the US at important technological items on May 29. / 2018. In this situation, China also had a response when 25% tax on 659 items from the US was worth 50 billion USD, and announced the cancellation of commitments made by both sides on the matter of commercial subject.

On August 23, the US continued to impose additional tariffs on an additional \$ 16 billion of goods from China with the main taxable goods including semiconductor equipment, chemicals, plastics, motorbikes and electric bicycles. . For its part, China has also imposed tariffs on 333 US \$ 16 billion worth of items such as scrap (wood, paper, metal) along with a variety of cars and bicycles.

On September 17, 2018, the US-China trade war was escalated when President Donald Trump decided to impose an additional 10% tax on goods imported from China with a total turnover of \$ 200 billion, starting from September 24 to the end of 2018. This tax rate will add 25% on January 1, 2019 on the grounds that it is not too strange for the US to think that China is not willing to change the way American companies are treated. Actions were taken before the US-China negotiations took place in Washington. Because of that, the negotiations between the two sides were deemed broken.

On September 18, 2018, just after a day the US made a tax decision, China announced it would launch a new tax program that is somewhat weaker than the US with 60 billion USD of US goods, starting from 24/9. China's tax package will be applied to the list of 5027 US products at the level of 5% -10%.

3.3 Forecast about the US-China trade war

Although the US and China have negotiated and negotiated in Washington to find a reasonable and beneficial agreement for the two sides, by the end of 2018, the US-China trade war is unlikely to end but will continue to escalate because of the profound causes behind the US imposition of tariffs on China. On the issue of national security, the issue of infringement of intellectual property rights, protection of producers, creating a normal competitive environment, the US has declared may be just the tip of the iceberg. The cause lies in the surface with the following aspects:

First, President Donald Trump is also pursuing his own political commitments. Therefore, the US will also have more "deadly moves" to regain and reduce the trade balance of the country, especially in the context when Trump's trade protection policies in 2017 do not reduce the deficit of America with China.

Second, the US has long regarded China as the cause of its "trade disorder".

Third, US concerns with China lie not only in trade but also

in China's economic restructuring and industrial policy. China has been developing strongly in manufacturing industry recently, competing very fiercely with US products. This threatens many to America. The US also feared that China will sooner or later become a "champion" in future industries, so there are concrete steps to prevent China from developing and maintaining a dominant role in Many areas around the globe. Therefore, imposing tariffs from China on the commercial side is operating on the surface of the United States to achieve profound economic and political goals.

Fourth, if only from the perspective of trade data, the US may be the superior in the pursuit of the trade war to the end (the US import turnover from China was more than 500 billion USD in 2017, while in when China imported from the US approximately 150 billion USD only). As such, China has no surplus to retaliate against US actions if played to the end.

3.4 Impacts on global trade

Despite the predictions of the risks of the trade war, the unpredictable and volatile economic and trade policies of President Donald Trump in the first and second quarters of 2018, global trade continued to grow. up 4.55%. In the second quarter, the US and China may also grow strongly.

However, global trade growth showed signs of slowing down when the growth rate in the second quarter of 2018 was lower than in the second quarter of 2017, especially with the tax policies of the US and China in the third quarter. However, the final impact of the US-China trade war on this full-time trade flow is difficult to predict.

3.4.1 Some of the impacts have been predicted by experts

Firstly, global trade is likely to continue to slow down as the two US-China partners reduce their access to each other's markets when the tariff barrier increases. However, if these two countries can divert trade flows to other countries and the EU can continue to maintain the growth rate of the first two quarters of the new year, so if that happens then Global trade turnover has declined but not much.

Secondly, although the global trade growth rate may decrease, it is possible that the global trade turnover may not decrease for some reasons. First, the elongation of demand for most of China's exports is quite low and US goods to China can also be redirected to export to other countries. That could keep the total trade turnover of the US and China from falling.

Third, if the US-China trade war does not spread, protectionism does not spread and both dynamic areas in global trade, the EU and ASEAN, continue to strongly pursue the path of liberalization of trade, maintaining the growth rate of trade as in 2017 and early 2018, should not be too worried that the US-China trade war will greatly affect world trade and the economy.

3.4.2 Impact on the US

Currently, the majority of Chinese tax-imposed products imported into the US are input materials for US businesses. As a result, US industries using input products from China will also face difficulties when supply is lower and prices rise, so production costs and commodity prices in the US market are likely. Rising domestic consumer goods prices,

American consumers will suffer and American multinational companies with or without branches based in China will also have difficulty accessing or expanding. That in turn will return to slow down the development of trade and investment of the US economy. However, American businesses also have a more competitive advantage in price when Chinese goods become more expensive in the US market.

3.4.3 Impact on China

The US tax will make China reduce exports to the US market, making it more difficult for US businesses, especially high-tech market. Therefore, Chinese businesses will be forced to look for other markets to replace exports to the US market, including the Vietnamese market. Foreign investors in China may be affected, while also affecting the investment of Chinese enterprises themselves in the domestic market. Investment and production for export is likely to lead to increased unemployment, which in the long run will affect the country's economic growth.

3.5. Risks to Vietnam's economy from the US-China trade war

3.5.1 Effects on Vietnam

When the US imposes taxes, China can find a way to "borrow Vietnamese sugar" to circumvent the law from which to export to the US market. For example, Chinese steel may impersonate Vietnamese steel for export to the US, which is likely to cause tensions between the US and Vietnam. However, the taxed items are mostly machinery and industrial goods. Relative technology is not Vietnam's forte. Therefore, it is not easy to "break the law". China will find a way to invest in Asian countries including Vietnam and from there export goods to the US. Therefore, in the future Vietnam may be subject to the US list of taxation. As China boosts exports to Vietnam, Vietnam increasingly relies on China and increases the competition of its domestic market for Chinese goods. Vietnam's export is also more difficult in the world when it has to compete with Chinese products.

In terms of import and export, in the context of escalating trade war and continued weakening growth of China, Vietnam's exports to China may decrease in 2019. General Department of Customs data shows that in the first five months of 2019, Vietnam's exports to China reached US \$ 13.6 billion, down 1.5% from the same period last year. Export turnover to China decreased, resulting in a slow growth in the country's export turnover this year. Chinese goods, due to failure to enter the US market, may shift to Asia. Imports from China to Vietnam in the first five months of this year were nearly US \$ 30 billion, up 20.3% over the same period. A major risk that Vietnam faces is Chinese goods transshipment via Vietnam to export to the United States to avoid punitive taxes. Many strong export items from Vietnam to the United States are also those imported from China into Vietnam.

3.5.2 Legal solution for Vietnam

The Government needs to study and closely monitor political changes to have a timely response solution to minimize risks and sustainably export. Especially, the US-China conflict continued to escalate, forcing Vietnam to

carefully consider its plans for exporting to these two markets, including the issue of anti-fraud origin. In addition, it is necessary to promote the development and diversification of export markets to avoid impact when the key markets fluctuate.

Offering solutions to boost export growth in the last months of the year, Minister Tran Tuan Anh asked the Import and Export Department to immediately start researching and developing import and export scenarios for markets and industries; propose solutions groups suitable to each group of enterprises and localities in the export sector. In addition, other countries, besides China and the US, may apply safeguard measures to all products from all countries (including Vietnam) that they feel are at risk of import come in. Vietnam's exports may also be adversely affected by China and the United States strengthening measures to avoid evasion of goods borrowed from Vietnam to export to the US and China.

When the US-China trade competition occurred in 2018, the Prime Minister paid great attention to this issue, established a steering committee, studied and assessed the situation and proposed policies to clearly show us. I am very concerned about this competition because of its influence. "We also assess that the current competitive short-term may boost some of our exports and at the same time affect the supply of our exports. It can be increased, but in the long term, it can have an impact. There are our assessments that we can reduce by 0.2 - 0.3% now. In the next 5 years, we can reduce GDP by about VND 6,000 billion" he said. The Deputy Prime Minister said that Vietnam's measure is based on the Prime Minister's guidance and has built many necessary scenarios and measures to ensure the economy continues to grow. Along with that, continuing to maintain macroeconomic stability, curb inflation, ensure exchange rate flexibility because the impact of trade competition will affect exchange rates; improve the competitiveness of domestic businesses in import and export, improve the investment environment to ensure competitiveness.

4. Discussion

The escalating trade war between China and the US will create both risks and opportunities for Vietnam's economy, as well as for the stock market. The macro environment will not be much affected by prolonged trade disputes. GDP growth forecast in 2019 will be similar to 2018. On the stock market, some industries and stocks have optimistic signs thanks to benefiting from North Asian manufacturers being forced to reconsider their strategy in China and perhaps shift production to Vietnam. Some specific industries such as:

Port operators will benefit from increased trade flows. Accordingly, trade disputes between the US and China could help boost FDI inflows into Vietnam as manufacturers in North Asia as well as in other regions will seek to reduce the amount of goods to China. Therefore, the volume of goods entering Vietnamese ports may increase.

Air cargo service companies also benefit from increased trade flows. Trade disputes between the United States and China focus primarily on technology and electronic products. This opens up opportunities for Vietnam to increase the production and final assembly of technology products. And given the fact that components for technology

manufacturing and assembly are mostly shipped by air, this would be a good opportunity for air freight service companies.

Industrial zones will benefit in the medium to long term thanks to the shift of production from companies from China to Vietnam. In the first 8 months of 2018, total FDI increased by 9.2% over the same period last year, reaching 11.25 billion USD. Thereby, businesses that develop and trade industrial park infrastructure will first benefit from the increase of this FDI inflow.

The garment industry will gain more foreign orders than the tax-disadvantage zone will undermine China's competitiveness. With a tax rate of about 10% to the US market for China's apparel industry, Vietnam's apparel industry can take advantage of opportunities to gain more market share in the US market.

Seafood companies can benefit when Chinese companies are excluded from the US market. The Chinese seafood industry is facing heavy tariff pressure, which has opened up great opportunities for Vietnam's seafood export industry to the US market. Specifically, Vietnam's catfish export is one of the direct beneficiaries when it is not taxed when exported to the US if it meets the country's strict regulations.

After the US published a list of goods imported from China (worth about US \$ 200 billion) subject to 10% tax, Chinese Deputy Minister of Commerce Vuong Thu Van called on the US to negotiate to resolve the issue. This appeal comes amid China's threat to retaliate against tariffs from the United States. Bloomberg quoted Mr. Van on 11/7: "When we have commercial issues, we should discuss it". According to a Bloomberg source, in response to these wishes from China, US Treasury Secretary Steven Mnuchin said that the US and China could reopen trade negotiations if China really wants significant change. Mnuchin's statement was made at a testimony before US lawmakers on July 12. Mnuchin also said that the Trump administration is closely monitoring the possible negative effects on the US economy during the U.S.-China trade war. In early June, the third round of official negotiations between the US and China ended with modest sign of agreement. The United States pushed a 25% tariff to US \$ 34 billion of goods from China last week, and Beijing announced a similar response. However, Chinese Foreign Ministry spokesman Gao Feng said the two countries have not yet contacted to continue the negotiations. Washington and Beijing have about seven weeks to reach an agreement or go deep into the trade war, which could radically change global supply chains and put price pressures on consumers around the world.

5. Conclusion and recommendation

5.1 Conclusion

The impact of the trade war on the world in general, with Vietnam in particular is unclear because it is highly dependent on the scale and performance of the war, and the upcoming action scenarios of the US and China. For Vietnam, there may appear suddenly abandoned markets while the US and China impose tariffs on each other, creating new opportunities for competition for Vietnamese goods. But it is also possible that the US and Chinese trade flows shift to alternative markets, making competition more complex in other import-export markets of Vietnam and in

the Vietnamese market itself.

5.2 Recommendations

The Government of Vietnam needs to closely follow each move of these two major trading partners, anticipate scenarios of the US-China trade war, and plan solutions for each of those scenarios to stay ready and prepare for all possibilities, even the worst. The Government needs to regularly and quickly update the list of taxable goods of the United States and China as well as the USD / RMB exchange rate and provide a quick information channel for businesses to respond promptly, Vietnam also needs to continue improving its investment environment to attract foreign businesses, including US businesses and other foreign enterprises investing in China, if there is a shift of investment in Chinese businesses. At the same time, Vietnam should also consider a number of measures to prevent Chinese goods from diverting massively into the Vietnamese market such as using exchange rate policies, applying appropriate non-tariff measures and complying with the law and international measures such as increasing quality control of Chinese goods at border checkpoints, improving quality requirements for Chinese imports. The government's efforts to reduce costs for exporters as well as manufacturing businesses by reducing procedures and permits to the maximum, while actively supporting businesses in finding new markets is also a necessary solution.

For Vietnamese enterprises, it is necessary to closely observe dynamics in the markets, from macro-level decisions of governments, developments in important markets related to financial situation, current and potential trading partners' decisions. In addition, businesses need to take full advantage of existing or effective FTAs, especially in anticipation of EVFTA and CPTPP to proactively calculate appropriate measures to take advantage of opportunities or avoid losses at a reasonable level.

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