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A Vietnamese shipping container emblazoned with the national flag. Photo: Facebook

No stopping Vietnam's trade war juggernaut

Growth is soaring, trade is surging and investment rising – all in spite of Trump's bid to sanction and slow the export-gearred nation

By **Peter Janssen**, Hanoi

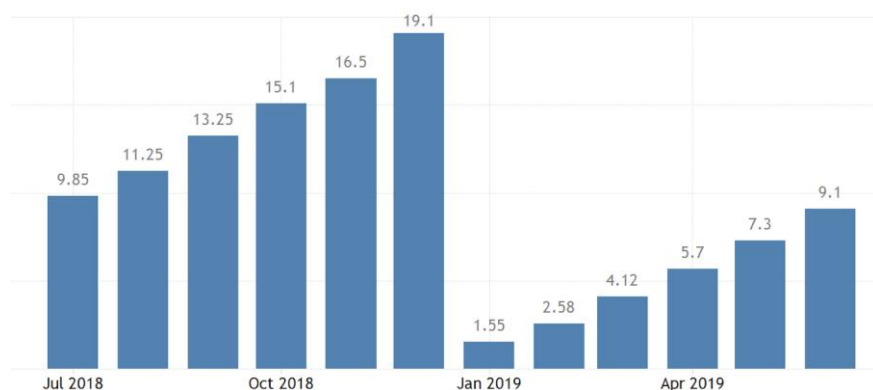
Vietnam is flying high these days on nearly all metrics. Gross domestic product (GDP) is projected to grow 7%, foreign direct investment (FDI) is fast rising and a newly signed free trade agreement with Europe promises new privileged access to rich export markets.

The only fly in the ointment comes from across the ocean in Washington, the capital of its former battlefield adversary where the unpredictable US President Donald Trump is waging trade wars on various fronts.

Vietnam has so far been a big winner of the Sino-US trade war. That's been seen in booming FDI inflows from China, both from foreign and Chinese companies relocating their production facilities to Vietnam to avoid US tariffs, and subsequent rising exports to the US.

Disbursed FDI hit \$9.1 billion in the first six months of this year, up 8% year-on-year, while FDI pledges for new projects, increased capital and stake acquisition rose 90% to \$18.5 billion, according to Ministry of Planning and Investment figures.

More than 1,720 new projects valued at \$7.4 billion were granted investment licenses over the same period, up more than 37% year on year. Hong Kong ranked first with \$5.3 billion (thanks to the acquisitions of a stakes in Beerco Limited and Vietnam Beverage Co Ltd), while South Korea came second with \$2.7 billion. Mainland China was third with \$2.3 billion.



Figures in billions of US dollars. Source: TradingEconomics.com/Vietnam's Ministry of Planning and Investment

Chinese firms have been shifting production of mostly low-value added industries to neighboring Vietnam to avoid the increasing uncertainty caused by the US-China trade war.

Now, however, that uncertainty is extending to Vietnam.

Prior to attending the Group of 20 summit last month in Osaka, Trump said in an interview with Fox Business News that Vietnam was “the single worst abuser of everybody....A lot of companies are moving to Vietnam, but Vietnam takes advantage of us even worse than China,” he said.

Trump has since imposed 400% tariffs on Vietnamese steel imports and some fear a wider blanket of tariffs could be in the offing as Vietnam’s trade surplus with the US is on course to hit a record high this year.

“Trump’s remarks about Vietnam being the worst offender with its growing trade in goods surplus with the US is a shot across Hanoi’s bow,” said Murray Hiebert, Southeast Asia specialist at the Washington-based Center for Strategic and International Studies (CSIS).

“No one is safe from Trump’s anger about, in his view, a country taking advantage of the USA.” Vietnam has thus become a victim of its own trade success, at least on the American front.

The country has gone from being the 12th largest source of US imports in 2018 to ranking 8th at the end of May this year, with the US importing \$25.8 billion worth of Vietnamese goods and only sending \$4.2 billion of exports to Vietnam in return.

That’s made Vietnam 5th worldwide in terms of trade surpluses with the US, trailing only China, Mexico, Japan and Germany, according to US Census Bureau figures.

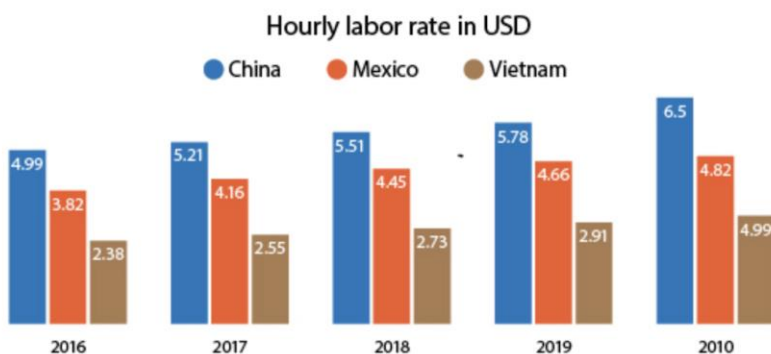
Vietnam has actually enjoyed a trade surplus with the US since the two former foes first signed a bilateral trade agreement in the early 1990s. But the jump this year in the wake of the US-China trade spat has focused Trump’s attention on the country.

There is little doubt that Vietnam is currently the favorite destination in Southeast Asia for FDI fleeing the US-China trade war, though the manufacturing exodus from China predates the spat.

“We were already on the trajectory of firms moving production from China to Vietnam,” said Michael Kokalari, chief economist at VinaCapital, a leading private equity firm based in Vietnam. “The trade war means short term volatility on the market, but in the long term it reinforces the positive trend.”

Most of the FDI that has been flowing in to Vietnam in recent years comes from other Asian countries, specifically Japan, South Korea, Taiwan, Thailand and, more recently, China.

LOW LABOR COSTS MAKE VIETNAM AN ATTRACTIVE ALTERNATIVE



Source: IHS Markit Technology

Companies in these countries are facing stagnating, slowing markets with rapidly aging populations at home, whereas communist Vietnam represents a huge potential growing market of 98 million, more than 70% of whom are under the age of 50.

Vietnam has a large, fairly well-educated work force who earn factory wages that are one third of China’s, half of Thailand’s and less than Indonesia’s or the Philippines’.

Although there are some large US investors in Vietnam, such as Intel and Exxon, the vast majority of Vietnam’s FDI has come from the rest of Asia over the past three decades.

South Korea leads the pack with total registered capital of \$64.8 billion (accounting for 18.5% of the total), followed by Japan with \$57.4 billion (16.4%) and thereafter Singapore, Taiwan, British Virgin Islands and Hong Kong.

Much of the FDI has leveraged into low-cost manufacturing. “Manufacturing in Vietnam now contributes about 20% of GDP. In every other Asian Tiger economy, manufacturing peaked out at 30% of GDP,” noted Kokalari.

Vietnam’s per capital per annum was already \$2,500 last year, close to the \$3,000 marker at which emerging economies tend to see consumption booms. In 2018, domestic consumption contributed 65% of Vietnam’s GDP.

Last year, Vietnam’s total exports hit \$241.5, up 12% and close to trade-gear Thailand’s figure. However, as much as 70% of the export bill was accounted for by FDI firms based in Vietnam.

South Korea's Samsung Electronics, for instance, accounts for 25% of Vietnam's total exports. US technology leader Apple said this week it will begin trial production runs of its popular AirPods in Vietnam.

Vietnamese officials like to note this fact in talks with US trade representatives who are irked by the growing trade surplus. They might also like to point out that if the US stayed in the Trans-Pacific Partnership (TPP), a free trade pact initiated by former US president Barack Obama and scuttled by Trump, US exporters would be enjoying lower tariffs in Vietnam's markets today.

After Trump ditched US participation in the trade deal, the ten remaining members, including Australia, Canada, Japan, New Zealand and Vietnam, signed the revised Comprehensive and Progressive Agreement for Trans-Pacific Partnership in March last year.

Vietnam is one of the world's fastest growing markets for agricultural products, of which the US has a sudden new surplus since China slapped retaliatory tariffs on American farm goods.

On June 30, Vietnam also signed the EU and Vietnam Free Trade Agreement (EVFTA), which will see Vietnam's tariffs decline on 65% of EU products and then on all the remaining goods in 10 years, with similar conditions for Vietnam products sent to the EU. The agreement is also likely to attract more FDI from the EU to Vietnam in the years ahead.

Both these FTAs leave the US out in the cold, significantly at a time when Vietnam is one of Washington's few staunch allies in the region against China's growing clout and assertiveness.



A clothing boutique in downtown Hanoi. Photo: AFP/Hoang Dinh Nam

“Every other country in the region, to a greater or lesser degree, is pivoting away from the US towards China,” said Kokalari. “So ironically, despite the fact that the US fought a war against Vietnam, this is the only country in ASEAN that the Chinese have less influence.”

In the Trump era, however, strategic allies aren't necessarily free trade friends.

“Sure, Vietnam might be one of Washington's closest allies on China, but look how Trump whacked Japan and South Korea with tariffs when he could have used their help on North Korea,” said Hiebert.

Vietnam, of course, has a long history of effective bargaining with the US. Observers expect Hanoi to do some “deals” with Trump before October, when Vietnam Communist Party chief Nguyen Phu Trong is expected to visit Washington.

“To avoid Trump's ire, Hanoi may want to buy more American products, including the ones China is avoiding,” Hiebert noted, citing in particular wheat and pork. “Or they might work with the US to ease some of the barriers that hobble American business in Vietnam.”

