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Why Vietnam is a big winner in the US-China trade war

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The US-China trade war may have cast a pall of uncertainty over Asia's business climate, but times are good for Vu Ngoc Khiem, a consultant who helps connect suppliers with buyers in Vietnam. Since Donald Trump became US president and started to get tough on Chinese imports, Vu has seen more work for Global Sources, the business-to-business media company he works for.

“Vietnam had been an option for alternative sourcing for two or three years before but now the situation with tariffs really makes [buyers] more confident and entices them even more,” he says. “For the first time ever, Vietnamese suppliers have the chance to cherry-pick the buyers themselves.”

Vietnam, a southeast Asian nation of almost 100 million people, has been a big winner in the long-running trade dispute between the US and China, benefitting from a surge in exports and foreign investment as businesses look to scale back their China-based operations or relocate to avoid higher US tariffs.

Last week the communist state gave another nod to capitalism by signing a long-negotiated trade deal with the European Union that will slash duties on almost all goods.

The agreement, hailed as a “milestone” by Brussels, capped an already bumper year for Vietnam's growing reputation as a global manufacturing hub for products ranging from electrical and optical equipment, to leather, shoes and garments.

“Vietnam stands out as the country we expect to gain the most from the US-China trade conflict,” Abdul Abiad, director of the macroeconomics research division at the Asian Development Bank (ADB), tells The Telegraph.

“Relative to a ‘no conflict’ scenario we expect that the trade conflict as it stands now would provide a boost of about 2% of Vietnam's GDP that would come over the course of two to three years. That boost comes because of trade redirection,” he argues.

“Primarily the countries that stand to gain the most are the ones that are producing products that compete directly with those that are affected by tariffs for China. And among the developing countries in Asia, Vietnam is the one that has the most products.”

According to a recent report by Japanese investment bank Nomura, the majority of Vietnam's gains have come mainly from electronic equipment for telephones, furniture and data processing machines – all products that could be swiftly relocated to factories outside of China.

The same report revealed that Vietnam, which shares a border with China, gained orders from trade diversion on tariffed goods equal to 7.9pc of GDP in the 12 months to March.

But financial analysts argue that the trade dispute has simply amplified Vietnam's growing status as a top choice in "China plus one" manufacturing, where companies set up production bases in one other market in addition to mainland China.

"Vietnam has a very good human capital, high quality and relatively young labour. The other element is that the government has tried to facilitate and promote foreign investment," explains Yasuyuki Sawada, the ADB's chief economist.

The country's economy expanded by a heady 7.1pc last year, according to government figures, with growth expected to be about 6.8pc this year. If it maintains that pace for the next decade Vietnam's economy could be bigger than that of Singapore, economists at DBS Bank have predicted.

Foreign direct investment in Vietnam rose 9pc to a record \$19bn last year, while it was one of the fastest-growing sources of American imports from Asia last quarter - and could soon overtake the UK if that pace is maintained.

Trent Davies, manager of the Ho Chi Minh City international business advisory team at Dezan Shira and Associates, traces the shift in Vietnam's popularity to the amendment to the foreign investment laws in 2014.

"That's when we started to see a lot more companies seriously consider Vietnam as an alternative," says Davies, who guides international clients through the market entry process. "Before that, there wasn't much protection against developing countries issues such as corruption, and not enough clarity in the law."

The legal changes propelled Vietnam through the World Bank's "ease of doing business" ratings, coinciding, Davies notes, with the soaring prosperity of the middle class evidenced by a boom of steakhouses, rooftop bars and expensive smartphones.

Multinationals, including the South Korean conglomerate Samsung, were early movers on Vietnam, paving the path for further foreign investment, and prompting other companies to consider shifting there to diversify their supply chain. Samsung alone now accounts for about a quarter of Vietnam's exports by value.

The recent US tariffs imposed Chinese goods had added a new "sense of urgency" to previously draft relocation plans, says Davies. "Companies would come to Vietnam and realise all of a sudden that the industrial land wasn't as readily available and that there was pressure on finding space, which makes people make decisions quicker than perhaps they would otherwise."

The nation's lower capacity than China to deal with an influx of firms is one of the hurdles to its foreign investment ambitions. Economists also caution that it is not immune to the negative impact of ongoing financial uncertainty on the Asian business climate.

Global stock markets have rallied since Trump and Xi Jinping, his Chinese counterpart, agreed to resume trade talks at the G20 summit in Japan.

However, Vietnam is in danger of becoming a victim of its own success after attracting unwanted attention from the US president. Asked in a recent television interview if he wanted to impose tariffs, Trump said: "We're in discussions with Vietnam. Vietnam is almost the single worst -- that's much smaller than China, much -- but it's almost the single worst abuser of everybody."

Last month, the US Treasury added Vietnam to a watchlist of countries being monitored for possible currency manipulation. Hanoi is also fighting claims that Chinese exporters are routing their goods through Vietnam and slapping fake labels on their products to avoid tariffs.

The US commerce department also plans to slap duties of up to 456pc on certain steel produced in South Korea or Taiwan that are shipped to Vietnam for minor processing before export to the US.

If wider tariffs were imposed on Vietnam, its thriving export-driven economy would certainly take a hit. But Trump would need to weigh the wider implications, suggests Bill Hayton of the Chatham House think tank.

“It’s into the old geopolitics versus economics, if he wants to have an all-fronts battle against China on different issues then in theory he is going to need allies,” he says. “If Trump now goes after Vietnam with tariffs, how does that affect his geopolitical interests? Vietnam has a lot of friends in Washington - strategic people see Vietnam as a partner in the bigger battle with China.”