VNU Journal of Science: Economics and Business, Vol. 35, No. 2 (2019) 1-12

VNU Journal of Science: Economics and Business

Journal homepage: https://js.vnu.edu.vn/EAB

Original Article

Changes in Vietnam - China Trade in the Context of China's Economic Slowdown

Vu Thanh Huong*, Nguyen Thi Lan Phuong

VNU University of Economics and Business,
144 Xuan Thuy Str., Cau Giay Dist., Hanoi, Vietnam

Received 20 June 2019
Revised 25 June 2019; Accepted 26 June 2019

Abstract: After three decades of maintaining high and stable GDP growth, China's economy has shown signs of slowdown since 2012. By comparing China's growth rates in two periods, namely 2002-2011 and 2012-2018, this paper points out evidence of China's economic slowdown and four key reasons underlying this decline including the decrease in China's export growth, the decrease in China's investment efficiency, China's transition to a new growth model and the US-China trade war. The paper then examines the changes in Vietnam's trade with China in the context of China's economic slowdown. The results show robust evidence that the growth rates of Vietnam's two-way trade with China have witnessed a downward trend. Both Vietnam's import and export growth rates reduced over the two periods but imports of Vietnam from China have more seriously suffered. In the coming time, if the Chinese economy becomes worse, especially if the US-China trade war continues escalating, the potential impacts of China's economic decline on Vietnam's trade with China might be more significant. In such a case,Vietnam would be more dependent on imports from China and would need to cope with more difficulties in promoting exports to China, leading to a more serious trade deficit with China. Based on these results, the paper highlights some measures to support Vietnam to deal with the possible impacts from China's economic slowdown in the future.

Keywords: China, Vietnam, economic slowdown, trade, changes.

1. Introduction

Over recent years, the world economy has witnessed a wide range of fluctuations including President Donald Trump's decision to withdraw the United States (US) from Trans-Pacific Partnership Agreement and undertake many protectionist policies, the exit of the United Kingdom from the European Union (EU), the proliferation of populism, the US-China trade war and the strong development of Industrial Revolution 4.0. All of these events have made the world economy step into a difficult period.

In this context, the "economic health" of countries that have substantial influence on the

* Corresponding author.
E-mail address: huongvt@vnu.edu.vn

https://doi.org/10.25073/2588-1108/vnueab.4229

world economy is always of concern. China - the second biggest economy in the world - after three decades of maintaining high and stable economic growth rates of more than 10% per year on average, has shown signs of economic slowdown since 2012. According to the World Bank (2018a) [1] and Nguyen Cam Nhung, Vu Thanh Huong and Tran Viet Dung (2019) [2], China's GDP growth rate has gradually decreased from 9.53% in 2011 to 7.86% in 2012 and 6.6% as at the end of 2018. This decrease will potentially continue in the near future if the trade war between China and the US tends to escalate. Because of the vital role of China in the global economy, the slowdown of China's economy is not only China's issue but also has a significant impact on other countries.

For Vietnam, China is among its biggest trading partners. According to the ITC (2019) [3], in 2018, China is Vietnam's biggest import market and third-biggest export market after the US and the EU. Because of the importance of China to Vietnam's trade, China's economic slowdown will certainly cause two-side impacts on bilateral trade between Vietnam and China.

Despite the important role of China in the global economy in general and Vietnam's trade in particular, there has been limited research investigating the economic slowdown of this country and linking this slowdown with the changes in Vietnam - China trade.

Some of the typical literature analyzing China' decrease in GDP growth includes Lee (2015) [4], Xu (2015) [5], Lin et al. (2018) [6], Wu (2018) [7], Fukao and Yan (2018) [8], Zang and Bai (2018) [9]. These previous papers analyzed China's slower growth by using different approaches such as a growth model approach [4, 5], a productivity approach [7, 9], an economic structure approach [8] and a cyclical approach [6, 8]. Some notable causes for China's economic decline were pointed out such as low productivity, the slowdown in total factor productivity growth, high-gross savings - GDP ratio, low labor income share, middle - income trap problem, institutional structures, structural constraints, the rebalancing problem, low investment efficiency and transformation to a post-industrial society. Based on past literature, this paper has adopted the growth model approach. However, unlike the previous studies, this paper only focuses on key factors of China's growth model directly affecting China's trade with the rest of the world. Besides, the paper also covers another factor occurring recently but influencing substantially China's growth model and the world economy - the trade war between the US and China.

Some other papers have tried to examine the effects of China's slower growth on the rest of the world by using both quantitative and qualitative methods. Deorukhkar and Xia (2016) [10], Zhai and Morgan (2016) [11] tried to measure the impact of China's changing growth rate on emerging countries in Asia. By using computable general equilibrium, Lakatos et al. (2017) [12] estimated the impact of China's economic slowdown on Sub-Saharan Africa while Ohshige et al (2018) [13] used the Global Vector Autoregression model to estimate the impact of China's GDP slower growth on the Asia - Pacific region via trade linkages. Thorbecke (2018) [14] adopted the gravity model to investigate how slower growth in China can affect exports of East Asia to China. Up to now, there are only a few studies that mention how Vietnam's economy will change when China grows more slowly. For example, Deorukhkar and Xia (2016) [10], Zhai and Morgian (2016) [11] pointed out Vietnam's changes in different macroeconomic indicators such as GDP growth, external vulnerability, investment, and trade. Most of the related analyses are scattered in the form of electronic articles. Therefore, this paper contributes to the existing literature by analyzing and linking systematically changes in Vietnam - China trade given China's economic slowdown situation and causes over two periods: 2002-2011 and 2012-2018.

Given the above analysis, the paper aims at analyzing the situation of and reasons for China's economic slowdown and then pointing out the changes in Vietnam - China trade by comparison of two periods - 2002-2011 and

2012-2018. Under this premise, the paper proposes some implications for Vietnam to develop trade with China in the context of China's GDP decline.

2. China's economic slowdown and its causes

2.1. China's economic slowdown

After joining the WTO in 2001, China has experienced rapid economic development. GDP growth rate achieved 9.13% one year after China became a WTO member and reached a peak of 14.23% in 2007 (Figure 1). Even in the period of the global financial crisis, the country maintained a high growth rate of 9.40% in 2009 and of around 10% in the next two years of 2010 and 2011. On average, in the period 2002-2011, China's growth rate stood at a very high level of 10.86% per year, enabling the country to jump from the sixth to second biggest country, economically, in the world.

After 2011, China's economy has tended to slow down noticeably. From the growth rate of 9.54% in 2011, it fell to 7.86% in 2012 - the lowest level in 12 years. In 2013, the Chinese government had to adopt measures to stimulate the economy such as cutting down interest rates and adopting fiscal policies. However, in 2014, China's growth was only 7.30%, lower than 7.50% as targeted. In 2016, China set a growth target of 7% but the government again could not achieve it. Totally, in the period 2012 - 2018, the growth rate of China has continuously decreased from 7.86% to only 6.68% with an average growth rate of 7.16% per year.

It can be said that the period of magical double-digit economic growth of China was over. The second largest economy now is experiencing the lowest economic growth rate in 30 years. As China has been a major engine of global growth for decades, its economic slowdown has become a major concern for policymakers, central banks, economists, investors and corporate executives around the world. The most concern about the impact of China's economic decline is on global trade (Lakatos et al., 2017) [12]. This is because China's economic slowdown leads to lower import demand and thus commodity prices, which would affect different regions of the world in different ways depending on their exposure. For countries dependent on exports, especially exports to China such as Australia, Brazil, Canada, Vietnam and Indonesia, this slowdown could have a negative impact on their GDP growth and exports. On the contrary, the fall in commodity prices could be beneficial for other countries that are big consumers such as the United States and countries across Europe.

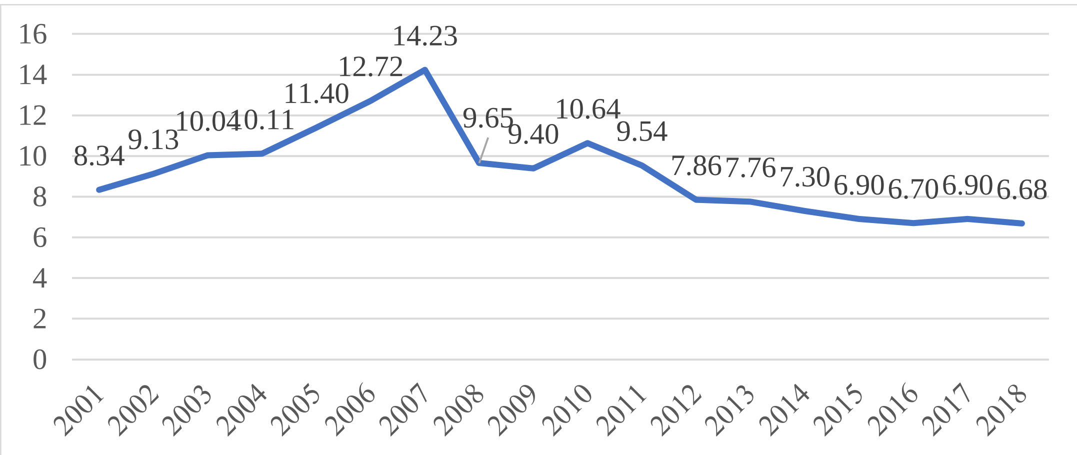

Figure 1. China's GDP growth rate, 2001-2018 (%).
Source: World Bank (2018a) [1]; Nguyen Cam Nhung, Vu Thanh Huong and Tran Viet Dung (2019) [2]

2.2. Causes of China's economic slowdown

The decrease in China's export growth

The Chinese economy is characterized by an investment-driven and export-oriented strategy, leading to the fact that a decrease in China's export growth is an important factor causing a decrease in its GDP growth rate.

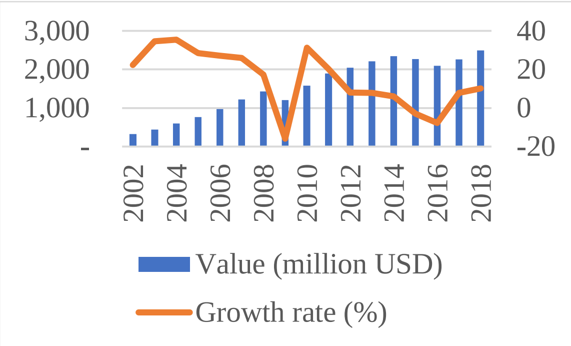

Figure 2. China's exports in the period 2002-2018.
Source: ITC (2019) [3]

Chinese merchandise exports rose by nearly 6 times from USD 325 billion in 2002 to nearly USD 1.9 trillion in 2011 (Figure 2), accounting for more than 25% of China's GDP on average in the same period. In 2002-2011, China's exports grew at very high rates, which ranged from 20% to 36%. The exceptions were 2008 and 2009 when China was affected by the global financial crisis and therefore the growth rates were only 17% and -16%, respectively. China's rapidly growing exports have made it an increasingly important, and even the largest trading partner, for many countries and regions. Since 2009, the country has become the world's largest exporter and second largest importer.

However, since 2012, China's economy experienced a sharp decline in its export growth rate. From 20.3% in 2011, the export growth rate fell dramatically to around 7.9% in the next two years and continued to decrease to only 6.0% in 2014. In 2015-2016, China's exports even declined with negative rates at -2.9% and -7.7%, equivalent to the decrease from USD 2.3 trillion in 2015 to USD 2.27 trillion in 2016. This is the first period in more than 15 years that China's export values decreased, except for during the 2009 global crisis.

The decrease in China's export growth comes from the limitation of the Chinese export-led growth model, which has been promoted by China to become a manufacturing hub offering cheap labor. This model, in fact, has encountered a variety of challenges. The first challenge is increasing wages in China, which have eventually translated into higher labor costs for companies operating assembly lines in China. For example, the average hourly wages in China hit USD 3.60 in 2016, which was 64% higher than that in 2011. That is more than five times the hourly manufacturing wages in India and is more on par with countries such as Portugal and South Africa [15]. A lot of firms in China are therefore now taking their business elsewhere, implying that China could start losing jobs to other developing countries like Sri Lanka, where hourly factory wages are only USD 0.50. The second challenge is the declining labor force of China. This is the result of the "One child policy" that was introduced in 1979 to slow down the population growth. Although it helped to prevent around 400 million births, it has resulted in an aging population in China. Even though China has now relaxed the "One child policy", its outcome is limited, causing the increasing growth of wages. The third challenge is the decrease in developed countries' demand. The low economic growth rates of the EU, Japan and South Korea, who are among the largest trading partners of China, have led to a decline in global import demand. This challenge is incorporated with an increase in the US trade barriers imposed on goods from China from 2018, contributing to a decline in China's economic growth.

The decrease in China's investment efficiency

Investment, accounting for around half of China's GDP in the period 200-2017, was mainly made up of investment in manufacturing, real estate and infrastructure [1]. A steady increase in the rate of investment as a share of GDP has directly contributed to the high growth rate of China. However, recent years have witnessed a weaker investment in China. Besides, China's high public investment has played a role in resource misallocation and loss in productivity. In the period 2002-2007, China's ICOR decreased from 4.2 to 2.9 (Figure 3). However, ICOR increased rapidly from 4.5 in 2008 to around 6.5 in 2017, showing a decline in China's investment efficiency.

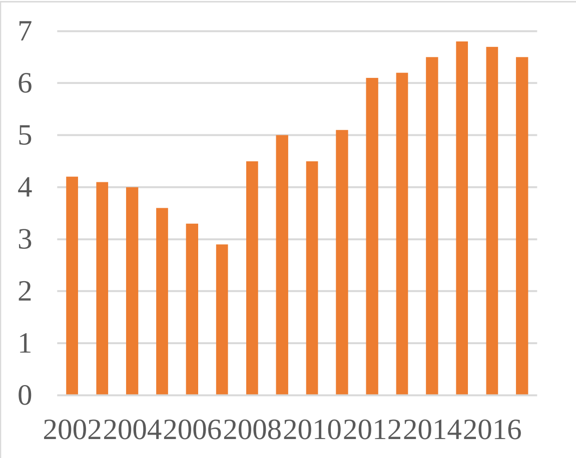

Figure 3. China's ICOR indicator in the period 2002-2017.
Source: World Bank (2018b) [16]

The main reason for lower investment efficiency can be explained by the adoption of a 4 trillion Yuan economic stimulus package introduced in 2008 by the Chinese government to cope with the global financial crisis. The stimulus package was mainly provided for state-owned enterprises and government agencies, especially local governments through funding and bank loans. The package helped China to promote the economic growth rates two years later. However, since 2011, the stimulus package has revealed some negative impacts, namely a large number of abandoned real estate projects, surplus in production, new fiscal burdens, inflation, asset bubble risks, and huge local government debt. All of these impacts have held back the development of the economy. Besides, the high growth in infrastructure and housing investment over the same period has also been attributed to the decline in the investment efficiency of China [16].

China's transition to a new growth model

Given the problems caused by the stimulus package introduced during the global financial crisis, from as early as 2010, the Chinese government began to reach a consensus view on the need to tolerate slower growth. Under this view, the new potential growth rate of China might be between 6% and 8% for the period 2011-2020 compared to above 10% in the period 2001-2010, to support full employment and maintain social stability. For this reason, China has decided to conduct a transition from a fast-growing economy driven largely by investment and exports to a new and more sustainable growth model with domestic demand and innovation as the new growth engines. A wide range of actions has been undertaken. Particularly, China has tried to rebalance the economic structure, let the market play a more important role in economic development and resource allocation, reform State-owned enterprises (SOEs), boost domestic consumption, screen out low-quality SOEs from investing, constrain banks and other financial institutions from issuing further debts, tighten capital outflows, and promote innovation and tech-related services.

China has also adopted policies to cut industrial output to move forward to sustainable development. For example, in 2016, China reduced its coal output by 290 million tons and steel by 65 million tons, shut down some coal-fired power plants and stopped planning to build new coal-fired power plants. In 2017, as part of a reform program to reduce surplus capacity in order to contribute to environmental protection, China reduced its coal production by more than 150 million tons and steel production by 50 million tons, and continued to close more than 500 coal mines. These measures have required China to replace the "quantity-reliant growth" with "the quality-oriented growth", and this as a result has put pressures on economic growth.

The US - China trade war

On 6 July 2018, the two biggest world economies - the US and China - officially stepped into a trade war when the two parties imposed tariffs on bilateral trade. So far, the US has imposed tariffs of 25% on USD 250 billion worth of Chinese goods, and vice versa, China has imposed tariffs ranging from 5% - 25% on US goods worth USD 110 billion. The exposure reasons for this trade war are attributed to the US's trade deficit with China, job losses in the US, a fairer playing field, national security, and intellectual property rights issues. However, the underlying reasons are related to the "Made in China 2025" plan and geopolitical reasons between the two countries to capture the No. 1 dominating position in the world [17].

In the context of the US - China trade war, global economic growth in 2018 fell to 3.6%, lower than the forecast of 0.3% and 0.2% lower than that of 2017. Global FDI flows in 2018 plummeted by 19% compared to that of 2017 and was at the lowest level since the 2008 financial crisis. In the same vein, China's GDP growth rate in 2018 fell to 6.6% (the lowest level since 1990) from 6.9% in the previous year [2]. The trade war has also brought about other negative consequences for China. China's exports to the US will decline, high-tech Chinese companies will need to cope with a variety of difficulties to have access to the US and other markets, especially the EU as a result of protective measures from the US. The capital inflows and outflows of China will be uncertain shortly, and China's Purchasing Managers Index (PMI) might continue to decrease. All of these effects will tend to deteriorate China's economic growth in the coming time.

3. Changes in Vietnam's trade with China in the context of China's economic slowdown

3.1. Overview of Vietnam's trade with China

After normalizing the relationship in 1991, China has become one of the important partners of Vietnam in a variety of sectors. Especially, due to the proximity of the two countries and economic, cultural and social similarities, Vietnam - China trade has proliferated. In the last 18 years, Vietnam's two-way trade with China has increased nearly 30 times from USD 3.68 billion in 2002 to USD 106 billion in 2018 (Figure 4) with an average growth of 23.95% per year. At the same time, the proportion of Vietnam's trade with China reached 20% in 2018 compared with more than 10% in 2001, making China become Vietnam's largest trade partner since 2004. Vietnam was also the biggest trade partner of China among ASEAN countries in 2018. China is recognized to be an important consumption market for Vietnam's exports and raw materials, supplying a market for Vietnam as well as an essential element for Vietnam's industrialization and modernization.

However, the growth rates of Vietnam's two-way trade with China have witnessed a downward trend starting since 2012 (Figure 4). Therefore, it is of great importance to understand changes in Vietnam's trade with China when China copes with a decline in economic growth and then find out solutions for Vietnam to minimize negative impacts of this decline.

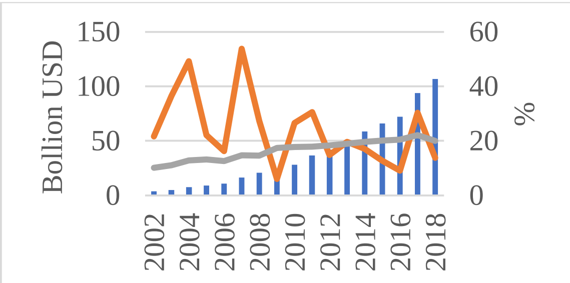

Figure 4. Vietnam's total trade with China, 2002-2018.
Sources: ITC (2018) [3], Vietnam Customs (2019a, 2019b) [18, 19]

Table 1. Vietnam's trade with China, 2002 - 2018

Year	Vietnam's exports		Vietnam's imports		China's GDP growth (%)
	Value (USD billion)	Growth rate (%)	Value (USD billion)	Growth rate (%)	
2002	1.52	7.12	2.16	34.40	9.13
2003	1.88	24.03	3.14	45.38	10.04
2004	2.90	53.95	4.60	46.41	10.11
2005	3.25	11.98	5.90	28.39	11.40
2006	3.24	-0.11	7.39	25.28	12.72
2007	3.65	12.44	12.71	71.96	14.23
2008	4.85	33.02	15.97	25.68	9.65
2009	5.40	11.40	16.67	4.38	9.40
2010	7.74	43.31	20.20	21.17	10.64
2011	11.61	49.99	24.87	23.08	9.54
Average 2001-2011		24.71		32.61	10.69
2012	12.84	10.53	29.03	16.76	7.86
2013	13.18	2.66	36.89	27.04	7.76
2014	14.93	13.28	43.65	18.33	7.30
2015	16.57	10.98	49.44	13.27	6.90
2016	21.95	32.49	50.04	1.21	6.70
2017	35.49	61.67	58.31	16.53	6.90
2018	41.27	16.29	65.44	12.23	6.68
Average 2012-2018		21.13		15.05	7.16

Sources: ITC (2018) [3], Vietnam Custom (2019a, 2019b) [18, 19]

In the period 2002-2011, Vietnam's export turnover to China increased quite fast from USD 1.52 billion in 2002 to USD 11.13 billion in 2011, equivalent to an increase by nearly 3 times and an average growth rate of 24.71% per year (Table 1). Especially in the three years 2004, 2010 and 2011, exports grew dramatically by 53.95%, 43.31%, and 49.99%. respectively. Correspondingly, the economic growth rates of China in these three years were also high, ranging from 10% to 11%.

Since 2012 when China has shown signs of economic slowdown, Vietnam's export growth rate to China has also slowed down. From 2012 to 2015, exports increased from USD 12.84 billion to USD 16.56 billion, equivalent to an increase by only 9.36% per year on average. From 2016 to 2018, exports increased at relatively high growth rates, especially in 2017, but the whole period 2012-2018 recorded an average growth rate of 21.13%, which is lower than that of 2001-2011.

The main export commodities of Vietnam to China are machinery and equipment (computers, telephones, electronic products and components), agricultural products (fishery, rubber, wood and wooden products, rice, cashew nuts, vegetables and fruits), iron and steel, mineral products, and manufacturing products (textiles and garments, footwear). Most of these key commodities experienced lower export growth rates in the period 2012 - 2018 compared to the period 2002-2011. For example, edible vegetables and certain roots and tubers (1.07% versus 50.54%), wood and wooden products (8.48% versus 59.82%), footwear (29.71% versus 45.87%), mineral products (-6.20% versus 20.32%), rubber

(-0.66% versus 48.76%), iron and steel (-3.37% versus 362.52%) and electronic machinery and equipment (62.81% versus 90.08%)[1].

China's slowdown in its economy, along with its policy focusing on domestic demand and unstable border trade policies have caused a decrease in China's import demands, creating a difficulty for Vietnam's exports to China, especially agricultural exports for which it is difficult to find substitute markets in a short time. In fact, in recent years, Vietnam has had to "rescue" many agricultural products exported to China, such as bananas, watermelons, and pork because Chinese merchants stopped buying these products at the border gates. Rice is another agricultural product affected strongly by China's policy focusing on serving domestic demand through raising tariffs on sticky rice and controlling more stringently broken rice imported from Vietnam. Vegetable, fruits, and rubber are also commodities that might need to cope with export decreases in the coming time because China has promoted the tracing of the origin of products.

3.2. Changes in Vietnam's imports from China

China has been the largest supplying market for Vietnam since 2004 with the import turnover far higher than export turnover. In the period 2002-2011, Vietnam's imports from China rocketed from USD 2.16 billion in 2002 to USD 24.87 billion in 2011, equivalent to an increase by nearly 12 times and an average growth rate of 32.61% per year, which is much higher than respective data for exports (Table 1). Especially in the two years 2004 and 2007, imports grew dramatically by 41.46% and 71.96%, respectively. Correspondingly, the economic growth rates of China in these two years were also high (10.11% and 14.23%).

Similar to exports, since 2012, Vietnam's imports from China have plummeted. For the whole period 2012 - 2018, the average growth rate of Vietnam's imports from China stayed at only 15.05%, which is far lower than the import growth rate of 2001-2011 (32.61%) and the export growth rate in the same period (21.13%).

The main commodities Vietnam has imported from China are machinery and equipment (computers, telephones, electronic products and components), iron and steel, articles manufactured from iron and steel, materials for the garment and footwear industries, plastic and plastic products, chemicals, fuels and vehicles. In the period 2012-2018, most of these key commodities had lower import growth rates compared to the period 2002-2011. More specifically, Vietnam's imports of electronic machinery and equipment grew at only 26.8% in 2012-2018 compared to 68.82% in 2001-2011. The corresponding figures for iron and steel were 9.85% and 35.03%, for plastic and plastic products 23.90% and 51.61%, for articles made of iron and steel 12.60% and 35.20%, for man-made staple fibers 10.04% and 43.83% and organic chemicals 13.70% and 36.18%[2].

3.3. Overall assessment and discussion of changes in Vietnam's trade with China

China's economic slowdown has influenced Vietnam's exports and imports with China. The clear evidence is the decrease in Vietnam's export and import growth rates in 2012-2018 compared to 2002-2011, especially with that of key commodities.

However, the effects of China's economic decline on Vietnam's exports seem to have relaxed in the last two years - 2017 and 2018 when Vietnam's exports to China have gradually recovered their growth. Therefore, it can be said that even though China's economic slowdown has affected Vietnam's exports to China, it has not been a big problem for Vietnam so far.

Besides, China's economic slowdown has contributed to the substantially lower growth rate of Vietnam's imports from China. The figures also point out that Vietnam's imports from China are more affected than Vietnam's

[1] Calculations by authors from ITC (2019) and Vietnam Customs (2019a, 2019b).

[2] Calculations by authors from ITC (2019) and Vietnam Customs (2019a, 2019b).

exports to China as Vietnam's imports from China have suffered from a bigger decline in the growth rate. Besides China's economic slowdown, this can also be partially explained by the fact that in recent years, Vietnam has well taken advantage of Free Trade Agreements (FTAs), such as Vietnam-Japan Comprehensive Economic Partnership Agreement (VJEPA) or the Vietnam - Korean Free Trade Agreements (VKFTA), to diversify markets towards reducing gradually the dependence on the Chinese market.

As analyzed above, the US - China trade war might be among the key reasons for not only China's but also a world economic slowdown in the near future. Therefore, it is of great importance to examine the potential effects of the US - China trade war on Vietnam - China trade, especially when this trade war is now seriously escalating. Vietnam's trade with China could be affected both positively and negatively in the context of the trade war.

Firstly, Vietnam could have a greater chance to import inputs from China at lower prices. Under imposition of the US trade restrictions, Chinese enterprises are under pressure to replace the US with other markets to promote exports. As a result, China's commodities from consumption goods to materials might be sold at lower prices to reduce the tension of a large inventory. With the advantages of proximity and being a traditional partner, Vietnam is likely to be a highly substituting market for the US. At present, Vietnam is largely reliant on Chinese raw materials and equipment to produce key exported products such as electronic products, computers, telephones, garments and textiles, and footwear. Therefore, the US-China trade war could create the opportunity for Vietnam to import more from China at lower prices to eventually promote exports.

Secondly, Vietnam may need to cope with more difficulties to increase exports to China. If China in the short term cannot find a market to replace the US, a part of Chinese commodities would be kept for domestic consumption and therefore it would be more difficult for not only Vietnam but also other countries to promote exports to China.

Thirdly, Vietnam can become an intermediate gate for China to export to the US. As the Chinese commodities are imposed with a high tariff, Chinese enterprises could try to find a third destination through which to export to the US, which is still a promising and profitable market for China. Low priced Chinese goods would be easy to enter the Vietnamese market and then be exported to the US under Vietnam's origin. This would create difficulties for Vietnam to control the quality of goods exports to the US and as a consequence Vietnam might be punished by the US when the US strengthens supervision of tracing the origin of goods imported from Vietnam [17].

Fourthly, Vietnam's trade balance with China would be in more serious deficit as Vietnam is more dependent on China's goods. As mentioned above, to compensate for a reduction in exports to the US, Chinese enterprises could divert their exports to other markets and Vietnam would be a good choice. On the one hand, it would be good for Vietnam having a greater chance to import raw materials and inputs for producing exported products. On the other hand, the influx of Chinese commodities into Vietnam would worsen Vietnam's trade balance and also might alter the import structure of the trade between Vietnam and China, by which Vietnam would tend to import more consumption goods and eventually create more competition for domestic enterprises. Incorporated with the possibility of being a third destination through which China exports to the US, the trade balance of Vietnam with China is likely to be in a deficit at a higher level and Vietnam's domestic production would be under higher pressure of competition from China.

Finally, the increase in China's FDI flows into Vietnam as a result of the US - China war might indirectly affect Vietnam - China trade. This flow of FDI can turn Vietnam into a "backyard" for Chinese companies to undertake production and then export to the US. To serve for FDI inflows from China, Vietnam could also import more labor, commodities, technology, machinery and equipment from China. This situation might also result in other unexpected impacts - for example environmental pollution and national security.

4. Conclusions and implications

By comparing China's growth rate in two periods: 2002-2011 and 2012-2018, this paper points out that China has experienced an economic slowdown since 2012. On average, in the period 2002-2011, China's growth rate stood at a very high level of 10.86% per year, enabling the country to jump from the sixth to the second-biggest economy in the world. However, in 2012, China's growth rate fell to only 7.8% - the lowest level in 12 years and then continuously decreased until the end of 2018. The average growth rate of 2002-2018 was only 7.16%, which is much lower than in the previous period. There are several key reasons underlying the economic slowdown of China namely: (i) the decrease in China's export growth, (ii) the decrease in China's investment efficiency, (iii) China's transition to a new growth model and (iv) the US-China trade war.

In the context of China's economic slowdown, Vietnam's trade with China has undergone some notable changes. The growth rates of Vietnam's two-way trade with China have witnessed a downward trend. Both Vietnam's import and export growth rates with China reduced over the two periods. More specifically, Vietnam's average export growth rate for the period 2002-2011 was 24.71% and reduced to 21.13% for the period 2012-2018. The corresponding figures for Vietnam's average import growth rate were 32.61% and 15.05%. A deeper look at these figures suggests that even though China's economic slowdown did affect Vietnam's exports to China, it has not really been a big problem for Vietnam so far. On the contrary, it seems that Vietnam's imports from China have more seriously suffered. In the coming time, if the Chinese economy worsens, especially if the US-China trade war continues escalating, the impacts of China's economic decline on Vietnam's trade with China might be more significant.

The ongoing US-China trade war will slow down both China's and the world's economic growth and therefore could affect Vietnam's trade with China both positively and negatively. If this were the case, Vietnam would have more chance to import raw materials and equipment from China at lower prices. However, Vietnam could meet difficulties promoting exports to China as the part of Chinese commodities that it finds difficult to export to the US are likely to be kept for domestic consumption. Vietnam can also become an intermediate gate for China to export to the US, creating difficulties for Vietnam to manage the quality of goods exported to the US and therefore could become a future target for US trade punishment. The US-China trade war could also result in Vietnam's greater reliance on Chinese goods and a higher trade deficit of Vietnam with China. These findings imply that the slower growth in Vietnam's imports from China as a consequence of China's economic slowdown might be partially compensated for by the impact of the trade war between the US and China.

Through analysis and evaluation of China's economic slowdown and the changes in Vietnam's trade with China in this context, the following implications are highlighted by this paper to support Vietnam to deal with the impacts from China's economic slowdown in the future.

Firstly, in order to continue reducing the reliance on imports from China's market, Vietnamese enterprises should diversify and find out new sourcing markets for inputs such as India, Bangladesh, Thailand, and Malaysia and focus more on markets with high technology and innovation such as Japan, Korea, the EU and the US. It is also essential to increase the local content of imported inputs and at the same time develop supporting industries for key exported products that have been dependent largely on China's input supply such as machinery and equipment, garments and textiles, and footwear.

Secondly, to boost exports to China, Vietnamese enterprises should diversify the types of goods exported, improve productivity and quality, and pay more attention to copyright and trademark development. Agricultural exporters should change their approach to food safety issues to meet the higher demand of Chinese consumers by investing more in preservation technology, controlling better the origin of agricultural inputs as well as final commodities, managing packaging more carefully, and understanding better China's technical barriers and inspection requirements. In addition, it is of great importance for enterprises to know more about the harvest time in China to select the appropriate time to export agricultural products to China.

Finally, in order to cope with the US - China trade war, the Vietnamese government should keep a close watch on the responses of these two nations, produce predictions of possible scenarios of the trade war and prepare strategies for each scenario. The government needs to update regularly and promptly the list of goods on which the two countries impose tariffs as well as the USD/RMB exchange rate, and have a quick information channel to businesses on these changes. At the same time, Vietnam should also consider a number of measures to control the influx of Chinese goods being diverted to the Vietnamese market, such as applying non-tariff measures appropriately, strengthening the inspection of Chinese goods at border gates, and improving the quality requirements for imported Chinese goods. For Vietnamese enterprises, it is necessary to closely observe the global market changes, movements of the Chinese and US markets, and decisions of current and potential trading partners. In addition, businesses need to make full use of FTAs that are or will be in effect, especially the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and the EVFTA (the European-Vietnam Free Trade Agreement), to proactively adopt appropriate measures to take advantage of FTAs opportunities or avoid losses from China's economic slowdown.

This paper has pointed out the situation and the main causes of China's slower economic growth and has shown evidence of changes in Vietnam-China trade under the current slowdown by linking the causes and the changes. The limitation of the paper is to ignore quantifying the impact of China's GDP slowdown on imports and exports of Vietnam with China. Therefore, future research can use quantitative methods such as the gravity model or the Computable General Equilibrium model to separate the impact of different factors on changes in Vietnam-China trade in which the GDP growth rate is used as a variable.

References

[1] World Bank, World Bank Open Data. In: World Bank (ed.), World Bank Group: Washington D.C., 2018a.

[2] Nguyen Cam Nhung, Vu Thanh Huong, Tran Viet Dung, The World and the Vietnamese Economy in 2018: Prospects for 2019 and Some Policy Implications for Vietnam, VNU Journal of Science: Economics and Bussiness 35 (2019) 23-35. https://doi.org/10.25073/2588-1108/vnueab.4211.

[3] ITC, Trade Map, In: International Trade Center (ed.), International Trade Center: Geneva, 2019.

[4] Lee, John, China's economic slowdown: What are the strategic implications? The Washington Quarterly 35 (2015) 123-142.

[5] Xu, Tanlei, An analysis of the China's economic slowdown, School of Business and Social Sciences, Aarhus University, 2015.

[6] Lin, Justin Yi-fu; Morgan, J. Peter, Wan, Guanghua Wan, Slowdown in the People's Republic of China: Structural factors and the Implications for Asia, ADB Institute Report, 2018.

[7] Wu, X. Harry, On the sustainability of the People's Republic of China's Growth model - A productivity perspective, In: Lin, Justin Yi-fu; Morgan, J. Peter, Wan, Guanghua Wan (editors),

Slowdown in the People's Republic of China: Structural factors and the Implications for Asia, ADB Institute Report, 2018.

[8] Fukao, Kyoji, Yan, Tangjun, The People's Republic of China's slowdown: Lessons from Japan's experience and the expected impact on Japan's economy, In: Lin, Justin Yi-fu; Morgan, J. Peter, Wan, Guanghua Wan (editors), Slowdown in the People's Republic of China: Structural factors and the Implications for Asia, ADB Institute Report, 2018.

[9] Zang, Qiong, Bai, Chong-En, Is the People's Republic of China's Current slowdown a cyclical downturn or long-term trend, In: Lin, Justin Yi-fu; Morgan, J. Peter, Wan, Guanghua Wan (editors), Slowdown in the People's Republic of China: Structural factors and the Implications for Asia, ADB Institute Report, 2018.

[10] Deorukhkar, Sumedh, Xia, Le, Gauging the impact of China's growth slowdown on emerging Asia, Asia Economic Watch, BBVA research, 2016.

[11] Zhai, Fan, Morgan, Peter, Impact of the People's Republic of China's growth slowdown on emerging Asia: A general equilibrium analysis, ADBI Working Paper Series, No. 50, March 2016.

[12] Lakatos, Csilla; Maliszewska, Maryla; Osorio-Rodarte, Israel & Go, Delfin, China's Slowdown and Rebalancing: Impacts on Sub-Saharan Africa, Journal of Economic Integration 32 (4) (2017) 759-803.

[13] Ohshige, Hitoshi; Kaya, Demet, Inoue, Tomoo, Estimating the impact of slower People's Republic of China growth on the Asia and Pacific Region: A global vector autoregression model approach, In: Lin, Justin Yi-fu; Morgan, Peter. J. & Wan, Guanghua Wan (editors), Slowdown in the People's Republic of China: Structural factors and the Implications for Asia, ADB Institute Report, 2018.

[14] Thorbecke, Willem, Investigating how a slowdown in the People's Republic of China affects its trading partners and how Asia can mitigate the impact, In: Lin, Justin Yi-fu; Morgan, J. Peter, Wan, Guanghua Wan (editors), Slowdown in the People's Republic of China: Structural factors and the Implications for Asia, ADB Institute Report, 2018.

[15] Yan, Sophia, "Made in China" isn't so cheap anymore, and that could spell headache for Beijing, Asia-Pacific News. https://www.cnbc.com/2017/02/27/chinese-wages-rise-made-in-china-isnt-so-cheap-anymore.html/, 2017 (accessed 16/12/2018).

[16] World Bank, China's economic update December 2018: Fiscal policies for rebalancing, 2018b.

[17] Nguyen Anh Thu, Vu Thanh Huong, The United States - China trade war and some potential impacts, Proceedings of Vietnam International Economic Integration Forum "International Economic Integration in the new context: Dynamic, Renovative, Practical and Efficiency", Hanoi 4/12/2018, 2018, pp. 59-71.

[18] Vietnam Customs, Exports by key partners and commodities: December 2018, Report No 5N/TCHQ, 2019b.

[19] Vietnam Customs, Imports by key partners and commodities: December 2018, Report No 5N/TCHQ, 2019b.