

Vietnam-China Trade, FDI and ODA Relations (1998-2008) and the Impacts upon Vietnam

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INTRODUCTION

The normalization of Vietnam-China relations in 1991 brought about a dramatic improvement in the friendly relations and cooperation between the two nations, and this subsequently offered practical benefits to both sides.

This paper focuses on Vietnam-China trade relations and China's investment in Vietnam in the past ten years. Included here are an analysis on the characteristics of economic relations between the two nations and an assessment on the impacts of these relations on Vietnam's socioeconomic development. This paper mainly relied on secondary data from previous researches and used some information from field work conducted from related researches.

I. TRADE, INVESTMENT AND ODA RELATIONS

1. TRADE RELATIONS

1.1. The Trading magnitude and growth rate

Vietnam-China trade relations were strengthened during the period 1998-2008. During the period 1998-2008, trade relations between Vietnam and China improved beyond expectation.

The total import-export value was approximately US\$ 3 billion in 2000. The leaders of the two countries set a higher target for the total export-import value in 2005, amounting to US\$ 5 billion. However, this target was already achieved in 2003, which was 2 years earlier than expected. In 2006, the target for the year 2010 was obtained, with a total export-import value of US\$ 10.4 billion. With an average growth of export and import at 33.95%, China surpassed Japan as Vietnam's largest trading partner.ⁱⁱⁱ

By November 2008, the total export-import turnover was US\$ 17,810 billion: export turnover of Vietnam products to China was valued at US\$ 4,010 billion, while import value totalled US\$ 13,800 billion (see Table 1). Vietnam-China export-import turnover makes up 12% of Vietnam's total export-import turnover, whereas it only makes up 0.78% of China's total export-import turnover. Vietnam ranked 27th among the largest trading partners of China.^{iv}

- On Export:

The average growth rate of Vietnam export turnover to China during the period 1998-2008 was 25.25% per year. In 2006, Vietnam's export turnover to China was

US\$ 3,030 million. As can be seen in Table 1, the growth rate of Vietnam's export value after the year 2000 was much lower than the growth rate in 2000.

- **On Import:**

The quantity of goods that Vietnam imported from China also increased rapidly, from US\$ 1.6 billion 2001 to US\$ 13,800 million in 2008. Thus, Vietnam not only became a net importer of goods from China (as highlighted in the scale of export and import balance in Figure 1 but also a leading net importer of goods in general. The average growth rate in the importation Chinese goods was valued at 39.87%.

Table 1. Trade relations between Vietnam and China from 1998 to 2008

Unit: Millions of US\$

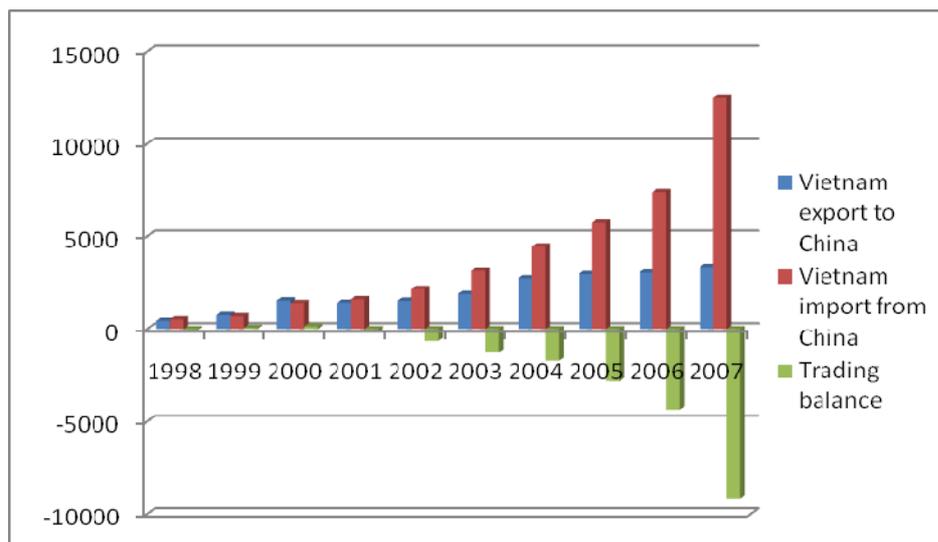
Year	Bilateral Trade		Vietnam export to China		Vietnam import from China	
	Total Export-Import Turnover	Rate (%)	Scale (million US\$)	Rate (%)	Scale (million US\$)	Rate (%)
1998	955.1	8.72	440.1	-7.2	515	27.3
1999	1,429.8	49.70	746.4	69.60	683.4	32.70
2000	2,937.5	105.45	1,536.4	105.84	1,401.1	105.02
2001	3,023.6	2.93	1,417.4	-7.75	1,606.2	14.64
2002	3,677.1	21.61	1,518.3	7.12	2,158.8	34.40
2003	5,021.7	36.57	1,883.1	24.03	3,138.6	45.39
2004	7,192.0	43.22	2,735.5	45.27	4,456.5	41.99
2005	8,739.9	21.52	2,961	8.24	5778.9	29.67
2006	10,420.0	19.22	3,030	2.33	7,390	27.88
2007	15,858.0	52.19	3,356	10.76	12,502	69.17
November 2008	17,810.0	12.31	4,010	19.49	13,800	10.38

Source: Vietnam General Statistics Office 2004; Tin Kinh tế Tham khảo, Thông tin xã Việt Nam, Number 308, January 6th, 2009.

- **On the trading balance:**

Statistics show the trade balance of goods between Vietnam and China to be uneven. In the period 2001-2008, the rate of Vietnam exports to China increased fairly well, but remained low in comparison to the rate of Vietnam imports from China. The difference in the export-import balance rose, from US\$ 189 million in 2001 to over US\$ 4 million in 2006 (Figure 1). In 2004, trade gap increased to US\$ 1,724 million, a threefold increase compared with that of 2002. In 2007, the Vietnam trade gap with China was huge, amounting US\$ 9,146 million.

Figure 1. Trading balance between Vietnam and China



Source: Government Statistic Office, Yearbook 2007; Tin Kinh te Tham khao, Thong tan xa Vietnam, Number 308, January 6th, 2009.

There are many reasons for this disparity. First, the border between Vietnam and China has a complicated terrain (mostly forest and sea) which, in combination with the lack of enforcement, has led to the illegal importation of goods from China to Vietnam. Second, many Vietnamese companies lack the high comparative advantage that Chinese

companies have because they lack information on markets, consumption needs and the legal system. As a result, Chinese products are cheaper, more diverse and plentiful, thereby meeting the needs of a wider range of socioeconomic groups, particularly the low-income segment.^v

1.2. The Composition of export and import goods

1.2.1. The Composition of export goods from Vietnam to China

Vietnam exports more than 100 kinds of goods to China. Such goods are classified into four main groups:

- Raw materials (coal, oil, rubber, iron ore)
- Agricultural products (food, tea, vegetables, cashew)
- Fresh and frozen sea food (shrimp, crab, fish)
- Consumer goods (handicrafts, fine arts, shoes, high-quality household products)

As can be seen in Table 2, raw material values made up 60% of total export goods value. Crude oil value, for instance, made up 45% of total export value in 2002, 46% in 2003, and 53.8% in 2004. Rubber exports increased steadily, from 5.9% in 2002 to 13.2% in 2006. Coal exports to China showed similar performance. China, which has a high growth rate in economic development and a WTO member, has a bigger demand for energy, giving rise to the need to import materials from Vietnam to meet economic demands.

Table 2. Some major Vietnam products exported to China

Products/Year	2002		2003		2004		2005		2006	
	<i>Million</i> <i>US\$</i>	%	<i>Million</i> <i>US\$</i>	%	<i>Million</i> <i>US\$</i>	%	<i>Million</i> <i>US\$</i>	%	<i>Million</i> <i>US\$</i>	%
Total Export Turnover										
Seafood	173.6	11.4	174	9.2	48.2	1.8	62	2.1	65	2.1
Vegetable	77.8	5.1	86.6	4.6	137.6		34.9	1.2	24.6	0.8
Cashew	38.3	2.5	53.5	2.8	70.2	2.6	97.4	3.3	94.5	3.1
Coffee	3.9	0.3	6.9	0.4	5.9	0.2	7.6	0.3	15.9	0.5
Rice	1.7	0.1	0.3	0	19.2	0.7	12	0.4	12.4	0.4
Tea	0.6	0.0	0.8	0	3.5	0	6	0	7.6	0.3
Pepper	3.3	0.2	0.7	0	0.4	0	0	0	0.8	0
Rubber	89.8	5.9	160	8.5	358	13.1	519.2	18	851.8	28.1
Crude oil	686.8	45.2	863	46	1,471	53.8	1,160	39	399.9	13.2
Coal	44.3	2.9	51.2	2.7	134	4.9	370.2	13	594.8	19.6
Wood Product	13.3	0.9	1.3	0.1	30.1	1.1	60.3	2	94.1	3.1
Textile Product	2.1	0.1	7.3	0.4	14	0.5	8.1	0.3	29.7	0.9
Shoes	7.3	0.5	10.9	0.6	19.2	0.7	28.3	0.9	42	1.4
Electronic Component	3.6	0.2	21.1	1.1	21.6	0.8	74.6	2.5	73.8	2.4
Electric wire	0.6	0	1.6	0.1	-	-	7.7	0.3	11.6	0.4

Source: Nguyen Van Lich, 2007.

Another trend that can be seen from this table is that the value of agriculture product exports decreased significantly. In 2002, seafood export value totaled US\$ 173.6 million. In 2006, it was only US\$ 65 million a decrease of more than half the value obtained in 2002. Vegetable export value also went down.

In addition to exports of agricultural and raw material products in the period 1998-2008, Vietnam exports to China also comprised goods related to the processing industry, including textile fabric, shoes, computer and electronic applications. Although exports of these products grew at a steady rate, the market was not that large.

It could be said that Vietnam's exports to China performed well when consumer good export started to pick up in the Chinese market. However, raw material exports still dominated the overall Vietnam exports to China.

1.2.2. The Composition of import goods from China into Vietnam

During the period 1998-2008, there was a diverse composition in Vietnam's imported goods from China. Such imports included 214 items, which doubled the quantity of Vietnam goods exported to China.^{vi} The items are classified into five main product groups, as follows:

- Machinery and equipment for use in cement and sugar factories
- Mechanical machines, transport vehicles, health equipment, knitting and agricultural machinery
- Oil and raw materials (for example, cement, iron, dyes, pesticides and fertilizer)
- Food products including vegetables, wheat flour, vegetable oil, apples, pears and seeds
- Consumer products such as medicines, electronic products, textile fabrics and toys.^{vii}

Table 3 highlights the trends in the composition of Vietnam's imports from China. Machineries, equipment and steel comprise the biggest number of goods imported in 2006. Machineries and equipment included machines for textile, equipment for producing fertilizer, agricultural machines, electric generators, equipment for producing cement, etc. Consumer goods groups also take up a bigger slice of Vietnam's total imports from China.

Table 3. Some major import goods from China

Unit: Millions of US\$

Order	Products	1999	2000	2001	2002	2003	2004	2005	2006
1.	Gas and Petroleum	46	131	231.7	473.4	721.1	739.8	884.3	555.3
2.	Machines and Equipment	103.7	166.5	219.4	347.9	446.8	607.1	817.6	1200.1
3.	Fertilizer	15	24	62.3	57.7	244.2	391.9	264.3	119
4.	Materials for making shoes and leather	-	23.3	74.1	127.9	200.5	290.2	323.6	304.8
5.	Iron and Steel	42.8	75.1	54.7	69.1	108.2	409.5	718	1296.2
6.	Electrical accessories and computers	9	20.3	22	42.3	63.9	103.8	155.4	243.2
7.	Plastic material	-	4.1	5	10.4	13	22.3	35	-
8.	Drugs	-	4.9	5.6	5.8	6.7	6.1	6.3	-
9.	Fabric	-	37.3	47	-	320.1	464	661.2	895.6
10.	Spare parts for motorcycles	-	-	-	-	-	-	118.9	101.3
11.	Chemicals	-	61.1	73.9	-	130.9	155.8	169.9	203.8
12.	Other regular irons	-	28.7	20	-	32.9	75.4	71.9	-
13.	Cotton fibre	-	17.3	17.3	-	39.3	46.7	51.5	-
14.	Paper	-	3.7	4.9	-	8.8	12.9	17.5	-

Source: Doan Cong Khanh, 2008.

The disparity in the composition of goods being traded between Vietnam and China (i.e., predominantly machinery-based imports from China and raw materials exported to China) reflects the difference in the levels of economic development between the two countries. Vietnam was not able to penetrate markets in China to the same extent that Chinese enterprises were able to penetrate Vietnam's markets. In addition, China exploited Vietnam's natural resources to boost its economic development. Some scholars have commented the Vietnam-China trade structure is a typical example of a north-south

relation that indicates the trade relations between a developing country in the southern hemisphere and a developed country in the northern hemisphere. Vietnam exports low-value raw materials to China and imports high-value goods and technology from China.

1.3. Trading models

There are three forms of trade relations between Vietnam and China, as follows:

- Official trade
- Small-volume trade
- Border trade

Official trade refers to the export and import of goods across borders with permission from the Ministry of Trade. Moreover, the exportation and importation of goods must be within international and national level boundaries and observe international export-import regulations.

Small-volume trade refers to the goods exported and imported across national boundaries with permission from the provincial peoples committee.^{viii}

Border trade is the exchange and sale of goods between people at or near the national border. The goods traded are often locally made and exchanged by the producers themselves, thereby meeting the consumer needs of people living near the border. Due to difficult terrain and costly, unreliable transportation in the lowlands and highlands, it is easier for border residents to exchange goods at border markets where cheap prices prevail. This form of trade represents only a small portion of the trade flows between

Vietnam and China.^{ix}

1.4. Payment methods

There were diverse payment methods for the various trade activities at the Vietnam and China border, such as through banks relying on foreign money, exchange of goods, as well as the use of currencies such as the Vietnam dong, China Yuan and the US dollar. Ninety percent of all transactions involved the use of the Chinese currency. The exchange rate between the China Yuan and the Vietnam dong was defined by the enterprises in the border areas.^x

Trade activities at the Vietnam-China boundaries had fundamental traits, which are different from other international trading activities. First, traders participated in trading which was diversified and numerous. Second, limited socioeconomic development in the northern highland provinces of Vietnam meant trading skills were rudimentary, resulting in simple exchange or cash-based payment methods that did not follow international standards and were disadvantageous on the part of the buyers.

2. CHINESE INVESTMENTS AND ODA IN VIETNAM

2.1. Chinese FDI in Vietnam

2.1.1. The Development of Chinese FDI in Vietnam

In November 1991, after the relations of China and Vietnam normalized, one enterprise from Guangxi (China) cooperated with one enterprise in Hanoi to form the first

Chinese joint-venture enterprise in Vietnam: Hoa Long Restaurant Hang Trong Str., Hanoi, with an investment capital of US\$ 200,000. Since then, China's FDI in Vietnam has increased steadily (see Table 4). In 1995, there were 33 FDI projects with a total registered capital of US\$60 million; in 2000, the number of FDI projects had increased to 92, with a total registered capital of US\$148 million; in 2004, the number of projects increased to 391, infusing a total of US\$ 774.9 million in capital; and in 2006, there were extra 77 projects initiated, with a total registered capital of US\$ 401.3 million.

On yearly average during the period 1996-2001, 13 new FDI projects worth US\$ 25 million of the total registered capital were given licenses. However, during the period 2002-2006, there were 80 new FDI projects granted licenses each year, making a total registered capital of US\$ 210 million. Up to December 2008, the cumulative number of Chinese FDI projects in Vietnam was 628 projects, worth US\$ 2,198 million^{xi}

Table 4. Number of China's FDI projects in Vietnam

Period	Number of Projects	Registered Capital (million US\$)
1998	61	120
2001	110	221
2004	391	774,9
2005	40	65,8
2006	77	401,3
April, 2007	550	1,792

Source: Statistical Government Statistic Office, Yearbook 2000, 2004 and 2006.

2.1.2. Characteristics of Chinese FDI in Vietnam

Chinese investors mainly came from southeast provinces, specifically from Guangxi, Guangdong, Sichuan, Hebei, Jiangsu, Shandong, Shanghai, etc. Guangxi, Guangdong and Shanghai were the provinces with the largest number of projects in Vietnam.

Despite its promising status, China's FDI in Vietnam is relatively small when compared to the FDI of other countries. According to the FDI Bureau of Vietnam's Ministry of Planning and Investment (2008), as of December 2008, China ranked 16 out of 84 countries and territories which supported FDIs in Vietnam. The total investment capital of China's FDI in 2008, which amounted to US\$ 2,198 million, represents only 1 per cent of the total FDI registered capital (US\$ 150 billion) in Vietnam.

China's FDIs in Vietnam share common features with most FDIs in Vietnam, whereby projects in the field of manufacturing and construction outnumber those in the service sector, agriculture, forestry and fishery. According to the FDI Bureau of Vietnam's Ministry of Planning and Investment (2007), as of April 2007, the number of investments in the manufacturing and construction sectors remained at 319, with a total investment capital of US\$ 861 million and accounting for 73.7 per cent of the total number of projects and 72.9 per cent of total investment capital. In the service sector, there were 54 projects worth US\$ 206.8 million, accounting for 12.4 per cent of all projects and 17.5 per cent of total investment capital. Sixty-one projects worth US\$ 113.3 million were in the field of agriculture; forestry and fishery, accounting for 14 per cent of all projects and 9.6 percent of total investment capital (see Table 5).

Investment fields are diverse, including hotel, restaurant, electric good and agricultural machine assembly, motorbike assembly, livestock feed production, food

processing, fruit juice production, construction material production, etc. However, these investments mainly focus on heavy industry, restaurant and hotel, as well as consumer goods sectors. Likewise, the duration of investments is short, from 5 to 25 years per project.

Table 5. China's FDI in Vietnam by sector

Order	Industry	No. of Proj.	Total Investment Capital	Disbursements
I	Industries and Construction	319	861,234,569	154,365,481
	Light Industry	85	165,197,052	46,271,545
	Heavy Industry	183	602,196,026	80,899,692
	Food Processing Industry	21	23,733,718	9,183,636
	Construction	30	70,107,773	18,010,608
II	Agriculture- Forestry- Aquatic	61	113,317,157	38,439,307
	Agriculture & Forestry	50	84,822,151	29,608,443
	Aquatic	11	28,495,006	8,830,864
III	Services	54	206,835,869	51,164,546
	Service	19	17,194,421	1,026,325
	Transportation & Telecommunication	7	5,735,000	772,400
	Hotel & Tourism	7	51,188,448	5,032,340
	Finance-Banks	1	15,000,000	-
	Culture, Health Care & Education	16	22,218,000	6,650,253
	Office & House Rental	3	40,000,000	17,616,214
	Industrial zones, Export Processing Zones	1	55,500,000	20,067,014
Total		434	1,181,387,595	243,969,334

Source: Foreign Direct Investment Bureau of Vietnam's Ministry of Planning and Investment, Report on China's FDI in Vietnam, April 2007.

Table 6 shows China's FDI projects in Vietnam being implemented through three forms of investment. A total of 137 projects fell under joint-ventures, with a total

investment capital of US\$ 599.9 million, accounting for 31.6 per cent of all FDI projects and 50.7 per cent of total registered capital. Foreign-owned enterprises accounted for 262 projects, with an investment capital of US\$ 523.8 million, consisting of 60.4 per cent of China's total FDI projects and 44.4 per cent of total investment capital in Vietnam. The remainder of China's FDI projects was in the form of Business Cooperation Contracts.

Table 6. China's FDI in Vietnam by form of investment (US\$)

Order	Form of Investment	No of Projects	Total Investment Capital	Disbursements
1	Joint Venture Company	137	599,780,650	102,911,351
2	100% Foreign Owned Company	262	523,827,878	126,089,724
3	Business Cooperation Contracts	35	57,779,067	14,968,259
Total		434	1,181,387,595	243,969,334

Source: Foreign Direct Investment Bureau of Vietnam's Ministry of Planning and Investment, Report on China's FDI in Vietnam, April 2007.

Although China's FDI covered many provinces across Vietnam (48 out of 65 provinces and municipalities), distribution of these projects across the country was not even. China's FDI projects mainly concentrated in provinces with good infrastructure and which are in close proximity to the Vietnam-China border. Lao Cai province received the biggest portion of China's FDI, with a value of US\$ 232.7 million, representing 19.7 per

cent of China's total FDI capital. It is followed by Quang Ninh province (with a capital of US\$ 108 million, accounting for 9.1 per cent of total investment), and the cities of Ho Chi Minh, Hai Phong and Hanoi, respectively.^{xii}

2.2. China's ODA in Vietnam

In the 1960s and the 1970s, China provided assistance to Vietnam for the establishment of industrial manufacturing factories that would serve the Vietnamese government for military and civil purposes. Some of the most typical China-assisted projects were Ha Bac Fertilizer and Chemical Factory and Thai Nguyen Iron and Steel Corporation. These projects have been in operation for a numbers of years now and have, in effect, gone obsolete as infrastructure and equipment are outdated already. This has generated a demand to improve and replace the old machineries with new ones.

Table 7. The Various forms of China ODA in Vietnam between 1997 and 2007

Year	Type of ODA	Value	Type of Expenditure
1997	Loan	200 million Yuan	Wood Manufacturing Technology
1998	Non-Payment Assistance	10 million Yuan	Construction of Ho Chi Minh Political Academy Hostel
2000	Non-Payment Assistance & Non-Interest Loan	55.2 billion US\$	Extension of Thai Nguyen Iron & Steel Corporation and Ha Bac Fertilizer & Chemical Factory
2000	Non-Payment Assistance & Non-Interest Loan	32.28 million US\$	Upgrade Bac Giang Fertilizer and Chemical Factory
2001		40.5 million US\$	Sinh Quyen Copper Mine Project
2001	Non-Payment Assistance	130 million Yuan	Construction of Vietnam-China Friendship Palace; Economic Co-operations ¹
2002	Low Interest Payment Loan	85.5 billion US\$	Cao Ngan, Thai Nguyen Thermo-Electric Factory
2003	Loan	600 million Yuan	Northern railway information system modernization
2005	Loan and Non-Payment Assistance	60 billion Yuan and 975 billion VND	Vinh-Saigon Railway Signal Information Modernization Project; Ho Chi Minh National Political Academy Student Hostel
2006	Loan and Non-Payment Assistance	225 million US\$ and 50 billion Yuan	Cam Pha 1 Thermo-electric Factory; Training Vietnamese Officials.
2007	Loan	2.6 billion US\$ and 2.000 trillion VND	Economic Contracts ¹ ; Development Telecommunications.

Note: 1: Not a specific type of ODA and Expenditure.

Source: <http://www.mpi.gov.vn/Download/ODA/Untitled/specificbilateral.asp-id=26.htm>

<http://vnexpress.net/Vietnam/Kinh-doanh/2003/12/3B9CE12/>

<http://www.qdnd.vn/qdnd/baongay.quotc.thegioivoivietnam.3962.qdnd>

http://www.sinoviet.com:808/new/appaer_public1.asp?id=132 <http://www.tienphongonline.com.vn/Tianyong/Index.aspx?ArticleID=27006&channelID=3> <http://irv.moi.gov.vn/News/Printview.aspx?ID=17136>

In late 1990s, Chinese-Vietnamese bilateral economic and trade relations strengthened, and the governments of both countries emphasised the need to strengthen cooperation between sectors, localities and enterprises directly through many channels, such as joint ventures, direct investment and production reimbursement. Table 7 lists the various forms of financial assistance China provided Vietnam between 1997 and 2007.

When cooperation between China and Vietnam was started in 1997, the former provided the latter with a low-interest loan amounting to 200 million Yuan, to upgrade China-assisted projects.^{xiii} In the context of this framework, the first loan project with a value of 37 million Yuan, approved in 1999,^{xiv} was used to buy Chinese modern manufacturing technology for the timber industry in Vietnam.^{xv} At the same time, the Eco-technological Cooperation Agreement provided Vietnam with 10 million Yuan to build the Ho Chi Minh National Political Academy Hostel. The Chinese government also helped conduct research and implemented three new projects, including Sinh Quyen Copper Factory project, Rao Quan and Cao Ngan thermo-electric projects.^{xvi} The ODA provided by China in 2000 enabled the technical improvements of two important factories, Thai Nguyen Iron and Steel Corporation and Bac Giang Fertilizer and Chemical Factory. The improvements, which were completed by the end of 2001,^{xvii,xviii} boosted the quality and quantity of products as well as Vietnam's capability to meet its own market demand for iron and steel. The expansion of Thai Nguyen Iron and Steel Corporation in the second phase has also been performing effectively.

In 2001, when China provided Vietnam US\$ 40.5 million to invest in Sinh Quyen copper mine project, which is Vietnam's largest metal project,^{xix} the two governments also agreed to consult closely with each other to find cooperation solutions in other

It is anticipated that the cooperation agreements and economic contracts signed in 2007, worth a total value of US\$2.6 billion, would strengthen the capacity of the CDMA (Code Division Multiple Access) net, covering about 300 suburban districts and remote areas. A series of large-scale projects have been operating in Vietnam with Chinese preferential loan resources. Such projects include Cao Ngan thermo-electric project (US\$ 710 million), Hanoi- Ha Dong urban railway project (US\$ 340 million), and the upgrading of signal information system for three Northern railway lines and the Hanoi centre (US\$ 64 million).

In summary, economic cooperation between Vietnam and China developed more rapidly between 1997 and 2007 than it did in the early 1990s. In this period, there were more preferential loans and credit loans agreed to by the two governments. These loans have helped Vietnamese enterprises to operate more effectively. Many projects have been operating effectively since the implementation of the Chinese ODA, including Thai Nguyen Iron and Steel Corporation expansion project, Bac Giang Fertilize and Chemical

Factory expansion project, and Da Nang cotton yard manufacture factory project.

The preferential loans that the Chinese government provided Vietnam in the early stages of normalization were mostly spent on improving and expanding troubled factories that had previously received assistance from China in the early 1990s. In the 21st century, however, the projects selected by China to receive financial assistance were belonged to the heavy industry sector (e.g., electric manufacturing and transport infrastructure system), which Vietnam has been encouraged to develop. Assistance in these sectors has helped Vietnam to link previously isolated areas of the country and strengthened capacity by providing electricity to remote areas.

As mentioned above, the scope of financial assistance has been centred in Vietnam's Northern provinces (such as Thai Nguyen Iron and Steel Cooperation) for historical reasons. The Chinese Import-Export Bank is the main provider of preferential credit for foreign countries, serving the Chinese foreign investment development strategy. This strategy encourages Chinese enterprises to invest in foreign countries, boost manufacturing scale, and cooperate with foreign partners to extract natural resources. In addition, Chinese assistance in some industrial sectors in Vietnam also means that Chinese enterprises would receive more priorities in exporting some kinds of equipment and machinery to Vietnam.

II. IMPACTS OF VIETNAM-CHINA TRADE, INVESTMENT AND ODA UPON VIETNAM

3. IMPACTS OF TRADE RELATIONS

3.1. Positive impacts

3.1.1. Contribute to GDP of Vietnam

Vietnam exports to China have contributed to the stability of Vietnam's GDP. Between 2000 and 2006 Vietnam-China trade activities, particularly Vietnam exports, made an impact on Vietnam's GDP. During this period, the rate of export was about 55%, of which exports to China constituted 0.5% in GDP. In 2004, the exports component in GDP peaked to 0.61%.^{xxii} However, the portion in GDP of imports from China is much higher than the portion of exports to China.

Moreover, border trade activities with China significantly contributed to GDP of local provinces bordering with China. These were poor provinces, but since they started trading with China, their economy has changed. Because of geographic condition, it is not easy to transport their products to the lowlands. With China, local people can sell agricultural and forest products faster and for higher prices. For example, almost every year, border trade value contributes about 15% to GDP, for the period 2000-2005. One of the poorest provinces, Lai Chau's contribution of border trade to GDP is increasing. In 2001, the contribution of border trade to Lai Chau's GDP was 2.08%; in 2005, it was about 9.41%. Also, the budget of local governments has increased, boosted by import and export taxes. Border gates with high income are Lang Son and Quang Ninh; those with medium income are Lao Cai, Cao Bang, Ha Giang and Lai Chau (see Table 8).

Table 8. The Percentage of export value on northwest provinces' GDP (%)

Year Province	2000	2001	2002	2003	2004	2005
Lai Chau	-	2,08	3,17	3,53	8,84	9,41
Dien Bien	-	1,19	2,64	1,36	0,89	0,87
Son La	-	0,78	1,06	0,68	0,64	0,60
Lao Cai	8,38	33,26	18,79	15,13	18,73	16,65

Sources: Do Tien Sam and Ha Thi Hong Van, 2007.

3.1.2. Transitions in cultivation techniques

Vietnam-China trade relations made positive contributions to the development of agricultural economies in some areas of Vietnam, particularly in the north, where new technologies and seed varieties were introduced into the agricultural and forestry sectors. The productivity of crops such as rice and sugar cane increased significantly in these areas, as a result of using new seed varieties imported from China. This had subsequent positive effects on the income of peasants who previously struggled with low productivity output.^{xxiii} This trend prompted three key changes with respect to: i) the types of agricultural and forest products cultivated; ii) improving people's quality of life; and iii) from subsistence to commercial cultivation of products suitable to local weather and soil types. Moreover, the changes also encouraged the cultivation of timber and spice trees with high commercial value (e.g. Lao Cai and Lai Chau provinces started exporting tea and cardamom to China^{xxiv}).

Other research points to evidence that new technology and cultivation methods in the agricultural and forestry sectors had been exchanged and applied between China and northern Vietnam.^{xxv} In an interview with a leader from Quang Ninh province, a perspective was shared on this technological exchange, as follows:

In recent years, trade cooperation between Quang Ninh province and China has been good, especially with respect to the agricultural sector. Many opportunities have been created for the peasants and the Quang Ninh agricultural sector to adopt new technology and business systems. For example, we now have a lot of new varieties of rice seed, new breeds of livestock and new seafood products. In the past, Quang Ninh province imported raw materials. But now, with the use of new technology which resulted in the production of high-quality seafood products (e.g., shrimp), importation of raw materials is not necessary. This has been one of our outstanding achievements. (An interview with Quang Ninh Trading Office)

The resulting surplus products generated from the technological improvements brought about by trade relations between Vietnam and China contributed to poverty reduction. Such piece of evidence is supported by a representative of Lao Cai province, who claims that new seed varieties imported from China are a “revolution”:

Rapid poverty reduction is dependent on achieving two goals. The first goal is attaining ‘seed revolution.’ Before the introduction of new seed varieties from China, people planted milpa and water field-based crops using intensive cultivation methods and poor-yielding seeds. This ‘seed revolution’ came from China, not England. The second goal is linked to Lao Cai province. Lao Cai has a relationship with Sichuan province in China. Sichuan is the centre for the development of new rice seed varieties. And this is

where we purchase our rice seed from. (An interview with a Lao Cai representative)

Although many studies are not focused on the agricultural cooperation between Vietnam and China, recent research has shown that technological and scientific exchange has been facilitated by two key factors: i) geographical proximity and a similarity in consumer needs of both countries; and ii) agricultural products have a high productivity, are easy to cultivate, and easily sold on markets.

3.1.3. Promote the development of infrastructure in border areas

Vietnam-China trade relations have had positive impacts on socioeconomic development and poverty reduction in Vietnams' border regions, which are amongst the countries poorest. These regions are characterized by mountainous terrain, the presence of many ethnic minority groups, a low population density, and little urbanization (Minot et al., 2004). Opening markets in these areas has altered the economy and revived urbanization.^{xxvi}

All remote border regions have underdeveloped transport infrastructure, and this factor is often linked to the occurrence of high poverty levels in these areas. These regions are also affected by floods and other natural disasters occurring each year, which destroy existing infrastructure. As a result, Vietnam and China tried to promote in recent years the development of infrastructure, particularly those related to electricity, roads, schools and hospitals that link areas neighbouring the economic border zones, central and residential quarters. Some parts of Lao Cai (Coc Leu), Cao Bang, Lang Son (Dong Dang) and Quang Ninh (Mong Cai) provinces had international telecommunication systems introduced,

which improved communication between Vietnam, China and other countries.^{xxvii} For instance, most projects concerned with the building of road networks in Lao Cai and Quang Ninh and the construction of the Hanoi-China railway were undertaken in 1993 and are still ongoing.^{xxviii}

Vietnam and China favourably focused on developing infrastructure at international border gates, because of the economic gain it would bring to border cities such as Ma Lu Thang (Lai Chau), Lao Cai-Ha Khau (Lao Cai),^{xxix} Mong Cai (Quang Ninh), Thanh Thuy (Ha Giang) and Dong Dang (Lang Son).

Vietnam-China trade relations also encouraged the development of infrastructure in the northwest border regions. This infrastructure took on two main forms: (1) road networks and infrastructure in the economic border zones; (2) trading centre buildings^{xxx} (e.g., in Lao Cai province, a trading centre with an area of 22 thousand m³ and worth 124 billion VND was built^{xxxi}).

The development of infrastructure made positive impacts, in relation to poverty reduction, on two levels. First, the poor living in remote areas have access to transport services, which would enable them to go to trading centres at the border gates to participate in markets and trade goods. Second, the actual process of building the infrastructure created a large volume of jobs for many poor people, which subsequently boosted their income.

3.2. The Negative impacts of Vietnam-China trade relations

Vietnam-China trade relations also had negative impacts on the socioeconomic

development and poverty reduction in Vietnam.

3.2.1. Illegal activities

One of the most negative impacts associated with trading goods between Vietnam and China is the occurrence of illegal activities such as gambling, prostitution, and trafficking of women and children. All of these push people to the edge of poverty, with direct consequences on the development of the Vietnam border and poverty reduction. In addition, the trading of drugs and associated occurrence of drug addiction and AIDS linked to this trade relations have become serious setbacks.

Trafficking of women and children is likewise a serious problem. Vietnamese women who come from poor, rural areas and have little education are the most vulnerable. They are often lied to and sold to traffickers in southwestern provinces in China. Trafficking of women is common not only in border regions but also in provinces such as Ha Tay, Nghe An and Ha Tinh Border regions in Northern Vietnam, known as transit areas where women are sold to traffickers in China.^{xxxii}

For the last ten years, police discovered in the border regions over 22,000 women and children sold and sent to China. Of these, 11,000 individuals were returned to Vietnam. Many of them contracted HIV.^{xxxiii} This resulted in economic losses and degradation of public health. Another worrisome trend is the increasing number of teenaged girls being sold to traffickers. Some were being sold to brothels in Guangdong and Guangxi in China.

Women and children trafficking in cross-border Vietnam and China is a complicated

circumstance. According to the Ministry of Public Securities' Report, in 2005 alone, about 15,000 Vietnamese women were trafficked to China and got married with Chinese men (there were no separate official data for trafficking women and women getting married with Chinese men).^{xxxiv}

Smuggling occurred since the two countries established trade relations. Hired workers participate in the delivery of smuggled goods. Moreover, even old people and children also take part in this illegal activity. Smuggling involves varied goods. Goods smuggled from China to Vietnam are usually electronic goods and consumer goods, whereas those smuggled from Vietnam to China are rare wood and animals. Smuggling, which mainly occurred in Mong Cai, Lang Son and Lao Cai has caused local government to lose huge amounts in terms of income from tariff tax, and, in general, depleted Vietnam's natural resources.^{xxxv}

3.2.2. Environmental problems

Another negative impact of trade relations between Vietnam and China is the environmental pollution generated from these activities and the negative consequences it had on sustainable development and poverty reduction in Vietnam. During the period 2000-2006, Vietnam imported a significant amount of fertilizer and pesticide from China. In fact, fertilizer was the fifth largest importation from China. Moreover, pesticides, vegetables, botanic protection and chemical preservation substances were frequently but illegally imported in small volumes.^{xxxvi} These chemical substances were misused and overused mainly by peasants who had never used these substances before and were not properly educated on the proper use of such substances. As a result, many vegetables and

botanic products became contaminated, causing harmful health effects on people. Furthermore, the overuse of these substances brought about soil, water and air pollution.

The illegal trade in timber, forest products and wildlife also brought negative effects on the environment. The destruction of forests led to the exposure of soils on slopes, which resulted in erosion and the degradation of soil resources. All of this had subsequent impacts on the local economy.

The rising level of environmental pollution, particularly trans-border air pollution, has become a serious threat to the health and lives of people, plants and animals. Large quantities of garbage are generated in areas where concentrations of trading centres and economic activities exist. Moreover, the delay in implementing waste treatment strategies also contributed to serious environmental pollution.

3.2.3. Imitative goods

In the trading activities, a large number of imitation goods are exchanged via border gates. There is a wide range of bootleg goods—wine, helmets, toothpaste, shampoo, etc.^{xxxvii} Imitation goods mainly come from China and reach Vietnam through border gates and minor entry points. This is a disadvantageous trading activity, especially for China. As part of globalization efforts, both Vietnam and China opened their markets, allowing goods from different countries to flow into domestic markets. Imitation goods will make consumers lose their confidence in Chinese goods. This is not advantageous for producers and bilateral trade between two countries. Recently, the issue on fake Vietnam dong from China being used in Vietnam has been put to the front. Many fake dong were

discovered in border areas. For instance, the border police in Van Lang, Tan Thanh, Lang Son discovered 11 illegal transporting fake money cases into Vietnam.^{xxxviii} This is very serious problem that affects national security and requires immediate action.

4. THE IMPACTS OF CHINESE FDI AND ODA

The impacts of China's FDI on Vietnam economy are relatively minor. China's FDI projects are small-scale and, hence, employ only a limited number Vietnamese workforce. The total workforce directly employed by China's FDI projects is 12,000 people,^{xxxix} while the total workforce for all FDI projects in Vietnam stands at 1.2 million people (i.e., only 1 percent of the total FDI workforce in Vietnam can be attributed to China).

The average value of China's FDI projects is US\$2.7 million per project, while the average value of all FDI projects in Vietnam are US\$8.7 million per project. China's FDI projects often involve minimum research and development and/or technological capability, and thus bring little effect on the technological advancement of Vietnam's industries.

Moreover, the activities of China's FDI projects in Vietnam are not suitable for the long-term sustainability of Vietnam's economy. China's FDI projects are mainly focused on the development of mineral resource extraction industries, which have many negative environmental impacts. China's FDI projects in Vietnam follow China's economic development strategy. China has recently implemented the strategy to exploit two types of resources (domestic resources and international resources) and two markets (the domestic market and international market). China's FDI has improved but is not sustainable. Chinese investors exploit minerals in Vietnam to supply China's demand.

Although there are some projects which are process-based, most set out to exploit raw materials, which are transported to China. This activity is cost-efficient since it involves minimal transportation cost.

Another activity that China's FDI projects focused on was the construction of hotels with entertainment services (i.e., casinos) for foreign guests. Such projects also often involved the employment of a large Chinese workforce.

Chinese ODA impacts on Vietnam's socioeconomic development are relatively small, too. The research highlights how Chinese ODA flows focused on investing in specific industries such as the heavy industry sector (e.g., iron and steel, timber products, fertilizers and mining), the energy sector (e.g., hydroelectricity and thermo-electricity) and infrastructure development (e.g., houses, railways and telecommunications).

On the one hand, Chinese ODA flows have created employment opportunities, particularly in northern areas (e.g., Sinh Quyen copper factory and Thai Nguyen thermo-electric plant). However, due to lack of data, it is not possible to determine the exact number of Vietnamese nationals who have been employed by these projects. However, these ODA flows were not directed specifically for poverty reduction purposes. Vietnam's poverty alleviation policies targeted education, health, employment and infrastructure as priority areas, but there was no overlap between this and the target of Chinese ODA flows. Chinese ODA flows, therefore, did not play a crucial role in poverty reduction in Vietnam. Chinese ODA flows were ultimately concerned with prioritizing economic gains between Vietnam and China, rather than addressing social problems such as poverty.

5. CONCLUSION

In general, economic relations between Vietnam and China significantly improved, especially on the advancement of trade between the two countries. China became an important trading partner for Vietnam. Moreover, bordering provinces have gained direct benefits from border trading activities. They have posted significant achievements: faster economic progress, stronger economic ability, and improved standard of living. As for the investment issue, the impact of Chinese investments and ODA on the progress of Vietnam is still not obvious, because the volume of investment is still small. Despite the gains brought by Vietnam's economic relations with China, there are still some problems that continue to persist. Trade deficit, which has increased since 2001, is big problem directly affecting Vietnam's economic development. Besides, Vietnam also has to confront illegal activities resulting from the border trading activities.

To reduce these negative impacts, Vietnam and China should strengthen their cooperation in order to solve some problems, such as trade deficit and illegal activities (trafficking of women and children, drug smuggling, etc.). With improved Vietnam-China relations, we believe that bilateral economic activities will continue to pick up and bring about gains for both countries.

ENDNOTES

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