

CHAPTER 10

Intermediate Goods Trade between Vietnam and China

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CHAPTER 10

INTERMEDIATE GOODS TRADE BETWEEN VIETNAM AND CHINA

Ha Thi Hong Van

INTRODUCTION

China's economic rise has affected world economics in various ways. For each country, these effects are different. Vietnam and China share many similarities in terms of economics, politics, culture and society. Both countries have transformed from a centrally planned economy to a socialist-oriented market economy. In addition, Vietnam and China have undergone industrialization. However, Vietnam's development level is lower than China's; the per capital GDP of Vietnam is about one-third that of China. The Chinese economic scale overwhelms Vietnam's with much faster growth. China has a large population, which means it has big market potential. Therefore, my question in this research paper is: Can Vietnam seize the opportunity to stimulate export activities, such as Mexico did in taking advantages of intra-industry trade with the United States? This paper aims to examine the intermediate goods trade between Vietnam and China in the 1998-2008 period. The method used in this paper is literature review combined with analysis of data from UN Comtrade, Vietnam's Ministry of Industry and Commerce, and the Lai Chau and Lao Cai provinces of Northern Vietnam.

1. DEFINITION OF INTERMEDIATE GOODS

The author uses the BEC system to define intermediate goods and final goods. According to Miroudot *et al.* (2009), the Broad Economic Categories classification of goods based on main use is defined as below:

4 Productions stages	BEC	Title in BEC
Intermediate Goods	111	Food & beverages, primary, mainly for industry
	121	Food & beverages, processed, mainly for industry
	2	Industrial supplies not elsewhere specified
	31	Primary Fuels and lubricants
	32	Processed Fuels and lubricants
	322	Other Fuels and lubricants
Final Goods	42	Capital goods (except transport equipment), and parts and accessories thereof, Part and accessories
	53	Transport equipment, and parts and accessories thereof, Part and accessories
	112	Food & beverages, Mainly for household consumption
	122	Food & beverages, Processed, Mainly for household consumption
Capital Goods	522	Transport equipment, and parts and accessories thereof, Non-industrial
	6	Consumer goods not elsewhere specified
	41	Capital goods (except transport equipment)
Not Classified	521	Transport equipment, and parts and accessories thereof, Industrial
	321	Fuels and lubricants, Motor Spirit
	51	Transport equipment, and parts and accessories thereof, Passenger motor cars
	7	Goods not elsewhere specified

Source: Miroudot *et al.* (2009).

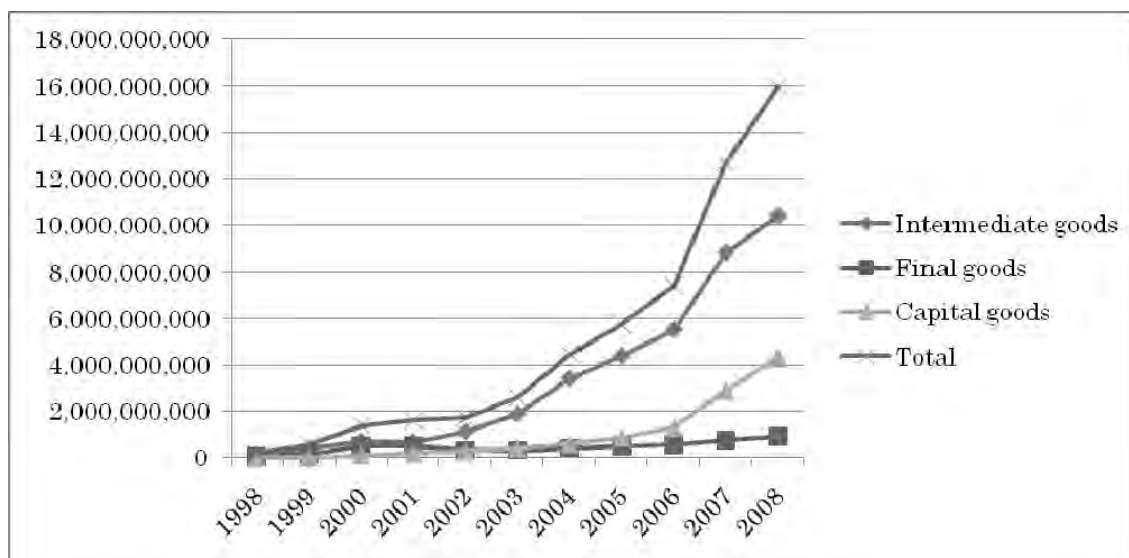
2. SITUATION OF INTERMEDIATE GOODS TRADE BETWEEN VIETNAM AND CHINA IN THE 1998-2008 PERIOD

2.1. Imports

Figure 1 shows the trend of importing intermediate goods from China to Vietnam in the period of 1998-2008. As can be seen, in 1998, Vietnam imported USD 125.35 million worth of intermediate goods from China, and it increased to USD 10.42 billion in 2008. It increased 83-fold over 10 years with an average growth rate of 63.65%. Since 2003, intermediate import value has risen dramatically. The year 2006 was significant because it marked a sharp increase of import value at USD 5.53 billion. Regarding final import goods, Vietnam imported USD 56.5 million worth from China in 1998, and it increased to USD 912.73 million in 2008. It increased 16-fold over 10 years with an average growth rate of 49.7%. Compared with intermediate goods import values, the final goods import values did not increase as sharply.

Figure 1: Situation of Importing Intermediate Goods from China (1998-2008)

Unit: USD



Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed November 5, 2010).

- Shares in the total trade values:

In 1998, intermediate goods trade accounted for 68.9% of total goods trade value and final goods trade represented 31.0%. In 2008, intermediate goods trade occupied 65.2% and final goods trade only 5.7% of total goods trade value. In 2004, the share of intermediate goods was its highest at 76.7% of total import goods value. The share of imported final goods reached its highest point in 2000 at 38%. In general, intermediate goods trade occupied a stable and large share of total import goods value, while the share of imported final goods reduced quickly.

Table 1: Shares of Intermediate Goods and Final Goods in Total Import Values

Unit: %

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Intermediate goods	68.85	70.78	51.17	41.83	64.16	72.17	76.73	76.05	74.82	69.57	65.22
Final goods	31.04	26.70	37.96	33.11	19.55	12.33	9.47	8.66	7.51	5.93	5.71
Capital goods	0.10	0.99	8.76	11.82	16.28	15.48	13.57	15.20	17.64	22.89	27.02
Not classified	0.00	1.53	2.12	13.24	0.01	0.02	0.23	0.09	0.03	1.61	2.04

Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed November 5, 2010).

-10 major import goods from China:

Table 2 shows 10 major import goods in 2000 and 2009. In general, there were no changes in the composition of the 10 major import goods from China, most being industrial products and manufacturing products such as machinery, road vehicles, chemical products, textile products, materials and equipment. These products are essential for Vietnam's industrialization process and they are industrial inputs. However, there has been a change in the order of the largest import products. For instance, in 2000 road vehicles, petroleum, and iron and steel took the first to third positions. In 2009, the largest import goods were input products for the textile industry with a huge value of USD 2.2 billion, 20 times bigger than in 2000. The group of telecommunication and

equipment products (code SITC 76) ranked second with a value of USD 1.45 billion. It is inferred that importing input products for the manufacturing industry rose quite dramatically, showing that Vietnam relies much on importing intermediate goods from China.

Table 2: Vietnam 10 Major Import Goods from China

Unit: Million USD

Order	SITC		2000	SITC		2009
1.	78	Road vehicles	444.28	65	Textile yarn. fabrics. made-up articles. n.e.s.. and related products	2,225.03
2.	33	Petroleum. petroleum products and related materials	206.25	76	Telecommunications and sound-recording and reproducing apparatus and equipments	1,455.29
3.	67	Iron and steel	115.22	33	Petroleum. petroleum products and related materials	1,252.69
4.	56	Fertilizers	113.03	74	General industrial machinery and equipment. n.e.s	983.85
5.	65	Textile yarn. fabrics. made-up articles. n.e.s.. and related products	105.00	67	Iron and steel	935.81
6.	72	Special.indust.machinery	50.50	84	Articles of apparel and clothing accessories	884.93
7.	52	Inorganic chemicals	43.00	77	Electrical machinery. apparatus and appliances. n.e.s.	860.07
8.	74	General industrial machinery and equipment. n.e.s	34.37	71	Power generating. machines	690.09
9.	71	Power generatng.machines	34.36	78	Road vehicles	642.34
10.	66	Non-metallic mineral manufactures	32.33	72	Machinery specialized for particular industries	610.80

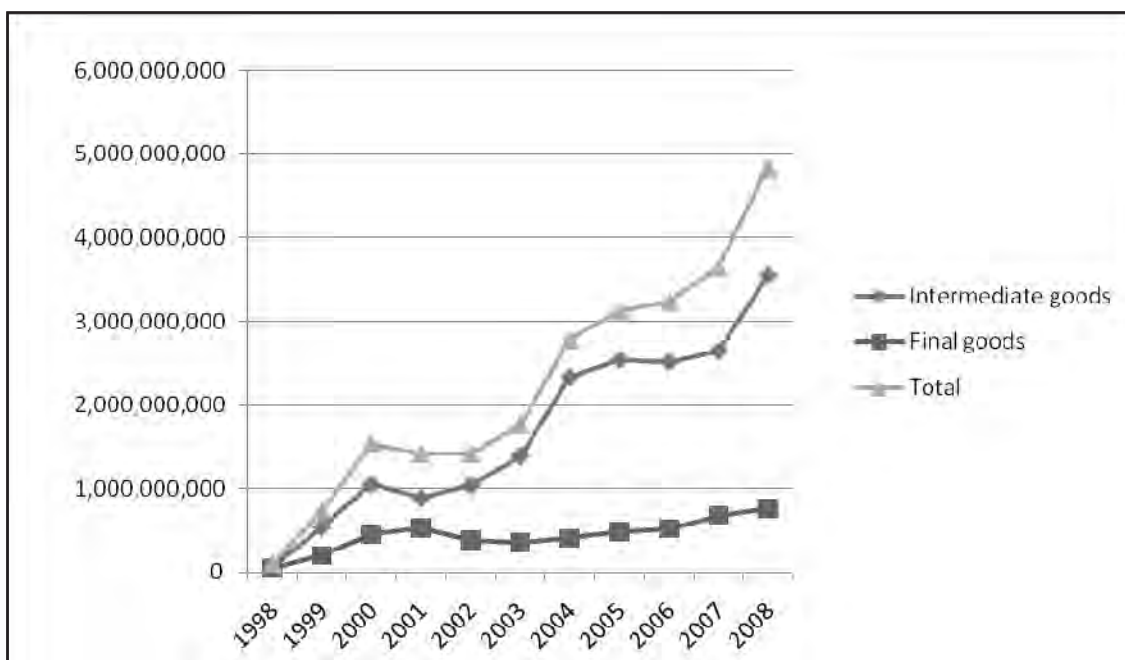
Source: Vietnam Ministry of Industry and Commerce.

2.2. Exports

Figure 2 illustrates the situation of Vietnam exporting intermediate and final goods to China from 1998 to 2008. Vietnam exported USD 56.37 million worth of intermediate goods to China in 1998, increasing this to USD 3.55 billion in 2008. It increased 63-fold within 10 years. However, the intermediate export values were much lower than the intermediate import values. As for the exporting of final goods, Vietnam exported USD 39.75 million worth to China in 1998, increasing this to USD 763.4 million in 2008. It increased 19-fold over 10 years with an average growth rate of 59.6 %.

Figure 2: Situation of Exporting Intermediate Goods to China (1998-2008)

Unit: USD



Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed November 5, 2010).

- Shares of the total trade value:

Similar to the situation of importing intermediate goods, the value of intermediate export goods has a larger share of the total export value. More importantly, intermediate export goods have occupied a large share since 2002 at above 70% of the total trade value. The shares of final export goods value seemed to decrease gradually. In 1998, the final goods export value was 38.23 % of the total goods trade value, and it reduced to 15.74% in 2008 (see Table 3).

Table 3: Shares of Intermediate Goods and Final Goods in Total Export Values

Unit: %

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Intermediate goods	54.21	72.63	68.21	62.34	72.52	78.47	83.66	81.15	77.49	72.51	73.16
Final goods	38.23	27.04	29.73	37.12	26.74	19.62	14.41	15.31	15.92	18.60	15.74
Capital goods	0.00	0.20	0.00	0.25	0.67	1.20	0.80	2.12	2.52	4.05	6.28
Not classified	7.56	0.13	2.07	0.29	0.08	0.71	1.13	1.41	4.06	4.84	4.82
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed November 5, 2010).

- 10 major export goods to China:

Looking at the situation of 10 major export goods to China in 2000 and 2009 in Table 4, there has not been a big transition in the structure of export goods from Vietnam to China within that period. In general, raw materials and tropical agriculture products remained the majority over the 10 years. Nevertheless, we could see progress in the structure of Vietnam's export goods to China in 2009. Office machines and automatic data-processing machines (SITC 75) and footwear (SITC 85) ranked 9th and 10th among 10 Vietnam major export goods to China.

2.3. Trade Balance

Since 2002, Vietnam has had a deficit in the trade of intermediate goods with China and it has increased sharply. In 2002, the deficit value was USD 85.36 million. The deficit reached USD 6.87 billion by accelerating 80-fold within six years (see Table 5).

Table 4: 10 Vietnam Major Export Goods to China

Unit: Million USD

Order	SITC		2000	SITC		2009
1.	33	Petroleum. petroleum products and related materials	732.69	32	Coal. coke and briquettes	1129.63
2.	23	Crude rubber	50.98	5	Vegetables and fruit	336.63
3.	51	Organic chemicals	21.53	33	Petroleum. petroleum products and related materials	667.5
4.	5	Vegetables and fruit	15.83	65	Textile yarn. fabrics. made-up articles. n.e.s.. and related products	138.83
5.	65	Textile yarn. fabrics. made-up articles. n.e.s.. and related products	15.71	76	Telecommunications and sound-recording and reproducing apparatus and equipment	157.93
6.	42	Fixed vegetable fats and oils. crude. refined or fractionated	13.63	77	Electrical machinery. apparatus and appliances. n.e.s.	129.85
7.	28	Metalliferous ores and metal scrap	11.84	28	Metalliferous ores and metal scrap	262.02
8.	29	Crude animal and vegetable materials. n.e.s.	9.47	24	Cork and wood	166.79
9.	27	Crude fertilizer. mineral	5.14	75	Office machines and automatic data-processing machines	284.1
10.	77	Electrical machinery. apparatus and appliances. n.e.s.	4.66	85	Footwear	153.5

Source: Vietnam Ministry of Industry and Commerce.

Table 5: Trading Balance

Unit: 1,000 USD

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Import											
Intermediate goods	125,346	389,046	713,396	671,857	1,115,819	1,880,750	3,421,041	4,387,756	5,528,579	8,842,508	10,417,297
Export											
Intermediate goods	56,366	535,411	1,046,909	883,605	1,030,461	1,389,191	2,331,166	2,541,961	2,512,995	2,643,726	3,548,226
Trading Balances	-68,980	146,365	333,513	211,747	-85,359	-491,558	-1,089,875	-1,845,795	-3,015,584	-6,198,782	-6,869,071

Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed on November 5, 2010).

The trade situation between Vietnam and China is not similar to the trade situation between China and the ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore and Thailand). In general, these countries had a trade surplus with China. For instance, in 2008, Malaysia's trade surplus with China was USD 10.72 billion, the Philippines' was USD 10.42 billion, Singapore's was USD 12.16 billion and Thailand's was USD 10.04 billion (see Table 6).

Table 6: Trading Values between China and ASEAN-5 (2003-2008)

Unit: 10,000 USD

	2003				Trading balance	2004			
	Total	Export	Import	Trading balance		Total	Export	Import	Trading balance
Indonesia	1,022,905	448,075	574,830	-126,755	1,348,050	625,686	722,364	-96,678	
Malaysia	2,012,782	614,115	1,398,667	-784,552	2,626,112	808,677	1,817,435	-1,008,758	
Philippines	940,011	309,381	630,630	-321,249	1,332,783	426,893	905,890	-478,997	
Singapore	1,935,228	886,853	1,048,375	-161,522	2,668,392	1,268,729	1,399,663	-130,934	
Thailand	1,265,529	382,823	882,706	-499,883	1,734,321	580,157	1,154,164	-574,007	
	2005				Trading balance	2006			
	Total	Export	Import	Trading balance		Total	Export	Import	Trading balance
Indonesia	1,678,790	835,037	843,753	-8,716	1,905,709	945,031	960,678	-15,647	
Malaysia	3,070,253	1,060,635	2,009,618	-948,983	3,711,229	1,353,735	2,357,494	-1,003,759	
Philippines	1,755,765	468,763	1,287,002	-818,239	2,341,260	573,833	1,767,427	-1,193,594	
Singapore	3,314,870	1,663,226	1,651,644	11,582	4,085,431	2,318,538	1,766,893	551,645	
Thailand	2,181,116	781,930	1,399,186	-617,256	2,772,660	976,417	1,796,243	-819,826	
	2007				Trading balance	2008			
	Total	Export	Import	Trading balance		Total	Export	Import	Trading balance
Indonesia	2,500,895	1,261,143	1,239,752	21,391	3,152,141	1,719,162	1,432,978	286,184	
Malaysia	4,639,808	1,769,058	2,870,750	-1,101,692	5,346,945	2,137,527	3,209,419	-1,071,892	
Philippines	3,061,574	750,005	2,311,569	-1,561,564	2,857,957	907,788	1,950,168	-1,042,380	
Singapore	4,715,686	2,963,805	1,751,882	1,211,923	5,243,661	3,230,021	2,013,540	1,216,481	
Thailand	3,463,901	1,197,447	2,266,454	-1,069,007	4,125,287	1,560,539	2,564,748	-1,004,209	

Source: Shen Hong-fang (2009).

China and the ASEAN-5's trade is a horizontal relationship. This means they both export and import similar products, mainly industrial products.

1. China has carried out economic reform for more than 30 years. It has maintained high economic growth over a long duration and has actively integrated into the global economy. However, China now has to face the situation of unbalanced development. The origin of unbalanced development was China's pursuing of import-led growth. Economic development relied mainly on developing industry, particular heavy industry. Therefore, China became a country with a big demand for natural resources to feed its economic engine.

2. Vietnam is an ideal source of materials for China because of its geographical proximity and plentiful natural resources. Meanwhile, as Vietnam's production level is lower than China's, Vietnam depends heavily on importing intermediate goods from China for its production.

Objectively speaking, Vietnam's trade deficit with China is indispensable due to differences of development level. Vietnam is in the process of integrating into the global economy, for example by joining the WTO and ACFTA. Vietnam is in the beginning of its industrialization process, with a low economic development level. Vietnam is next to a global factory as China's product prices are cheaper and the product quality is higher than Vietnam's. Importing from China compensates for the shortage of industrial inputs and consumer goods for Vietnam.

3. CASE STUDIES

The main focus of this paper is the intermediate goods trade between Vietnam and China. Yet, for a large view of Vietnam's trade of intermediate goods and the structure of trade goods, I offer some case studies as below:

¹ Ho Trung Thanh (2009) "Vietnam's Export-import Strategy: A View of Vietnam's Trade Deficit with China," Paper for Conference "Impacts of Economic Development and Exports of China upon Thailand and Vietnam," Hanoi, September 2010.

² Louis Kuijs and Gao Xu (2008) "China Fiscal Policy – Moving to Center Stage," Conference Paper for the Stanford Center for International Development Conference on Social Services, Regulation and Finance.

3.1. Intermediate Goods Trade with Japan and Korea by Comparison

- Intermediate goods trade between Vietnam and Japan:

Case studies of intermediate goods trade between Vietnam and Japan show a different picture. Generally, the values of Vietnamese export intermediate goods and final goods were higher than the import intermediate and final goods from Japan. For example, in 2008, Vietnam exported USD 6.5 billion in intermediate goods to Japan and imported USD 5.76 billion in intermediate goods from Japan. For final goods, the trade imbalance was always high and Vietnam had a trade surplus with Japan. In 2008 alone, Vietnam exported USD 2.48 billion worth of final goods to Japan and imported only USD 483 million in final goods from Japan.

Table 7: Vietnam: Import of Intermediate Goods from Japan

Unit: 1,000 USD

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Intermediate goods	149,737	632,103	1,567,019	1,425,660	1,568,384	1,908	2,450,289	2,856,447	3,379,020	4,299,980	5,758,602
Final goods	23,995	200,317	234,090	243,268	243,473	267,877	269,921	291,260	287,962	305,140	483,357
Capital goods	5,068	31,396	325,107	451,146	570,557	649,640	729,252	824,234	1,070,643	1,629,053	2,060,992
Not classified	12	9,230	189,777	82,081	128,304	167,859	142,710	136,508	9,608	19,369	17,594
Total	178,812	873,046	2,315,993	2,202,155	2,510,718	2,993,432	3,592,171	4,108,449	4,747,232	6,253,543	8,320,545

Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed on November 5, 2010).

Table 8: Vietnam: Export Intermediate Goods to Japan

Unit: 1,000 USD

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Intermediate goods	407,882	1,091,619	1,578,022	1,551,286	1,598,441	1,967,402	2,442,474	3,094,326	3,845,471	4,547,559	6,506,042
Final goods	115,569	1,024,712	1,392,692	1,397,929	1,367,192	1,479,793	1,727,169	1,991,997	2,045,895	2,096,594	2,484,457
Capital goods	0	227	83,085	103,299	90,472	151,430	208,197	204,873	308,022	287,999	402,932
Not classified	198	4,516	51,487	14,615	77	151	183	467	659	3,107	2,795
Total	523,649	2,121,074	3,105,286	3,067,129	3,056,183	3,598,776	4,378,023	5,291,663	6,200,047	6,935,259	9,396,226

Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=I&Co=&T=0&p=69> (accessed on November 5, 2010).

- Intermediate goods trade between Vietnam and South Korea:

Table 9 and Table 10 express the situation of trade in intermediate goods between Vietnam and South Korea. As can be seen, the trend of trade between Vietnam and South Korea looks similar to the trend of trade between Vietnam and China. Regarding intermediate goods trade, Vietnam imported USD 883.7 million worth in 1998 and that became USD 5.7 billion in 2008, an increase of 6.4-fold. Vietnam exported USD 402 million worth and that reached USD 1.36 billion, an increase by 3.37-fold within 10 years. It is indicated that Vietnam's import intermediate goods are larger than its export intermediate goods with South Korea. The gap between exports and imports in 2008 was about USD 4 billion. Vietnam mainly imports from South Korea inputs for manufacturing such as machinery, and materials for shoes and the textile industry. Regarding final goods, Vietnam also had a trade deficit with South Korea.

Table 9: Vietnam: Import of Intermediate Goods from Korea

Unit: 1,000 USD

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Intermediate goods	883,756	873,884	1,130,287	1,166,739	1,526,893	1,725,073	2,398,049	2,631,495	2,971,841	4,147,428	5,721,786
Final goods	198,784	377,725	357,694	351,848	266,899	263,722	320,735	251,718	246,539	245,162	293,597
Capital goods	1,419	52,201	222,147	345,445	430,991	578,485	595,066	683,500	698,180	927,272	1,172,427
Not classified	68	11,036	53,845	44,514	42,115	45,633	51,199	37,685	2,750	42,348	101,371
Total	1,084,027	1,314,846	1,763,973	1,908,546	2,266,898	2,612,913	3,365,050	3,604,398	3,919,310	5,362,210	7,289,180

Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed on November 5, 2010).

Table 10: Vietnam: Export of Intermediate Goods to Korea

Unit: 1,000 USD

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Intermediate goods	402,251	156,564	175,810	254,955	279,413	315,772	438,239	464,168	586,841	938,096	1,355,465
Final goods	84,493	199,899	232,540	268,091	270,083	282,404	304,796	348,566	439,386	535,650	684,889
Capital goods	0	4,175	19,332	16,478	38,288	25,902	35,175	41,384	54,892	71,261	111,049
Not classified	27,263	1,877	19,088	5,590	285	1,657.00	40,401.00	11,298.00	74,341.00	70,818.00	134
Total	514,007	362,515	446,770	545,113	588,068	624,081	778,250	854,130	1,081,193	1,545,078	2,151,538

Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed on November 5, 2010).

- Comparison of intermediate goods trade between Vietnam and China, Japan and South Korea:

Table 11 compares the situation of import intermediate goods trade between Vietnam and China, South Korea and Japan. In 1998, the value of intermediate goods imports from China was lower than the value of intermediate goods from Japan and South Korea. Significantly, within 10 years, the situation of import intermediate goods changed dramatically. In 2008, the value of import intermediate goods from China was double that of import intermediate goods from Japan and South Korea.

In terms of Vietnam exporting intermediate goods to the three countries, Vietnam exported more to Japan and China in comparison to its exports to South Korea. Japan was the largest market for intermediate goods from Vietnam among the three countries. In 2008 alone, Vietnam exported USD 6.5 billion in intermediate goods to Japan, compared with USD 3.6 billion to China and 1.34 billion to South Korea. It can be seen that China is also an important destination for import intermediate goods from Vietnam as it ranks second among the three countries.

Table 11: Vietnam: Import of Intermediate Goods from China, South Korea and Japan

Unit: 1,000 USD

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
China:											
Intermediate goods	125,346	389,046	713,396	671,857	1,115,819	1,880,750	3,421,041	4,387,756	5,528,579	8,842,508	10,417,297
China: Final goods	56,503	146,756	529,229	531,848	339,957	321,389	422,347	499,456	555,178	753,555	912,733
Japan:											
Intermediate goods	149,737	632,103	1,567,019	1,425,660	1,568,384	1,908,056	2,450,289	2,856,447	3,379,020	4,299,980	5,758,602
Japan: Final goods	23,995	200,317	234,090	243,268	243,473	267,877	269,921	291,260	287,962	305,140	483,357
Korea:											
Intermediate goods	883,756	873,884	1,130,287	1,166,739	1,526,893	1,725,073	2,398,049	2,631,495	2,971,841	4,147,428	5,721,786
Korea: Final goods	198,784	377,725	357,694	351,848	266,899	263,722	320,735	251,718	246,539	245,162	293,597

Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed on November 5, 2010).

Table 12: Vietnam: Export of Intermediate Goods to China, South Korea and Japan

Unit: 1,000 USD

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
China:											
Intermediate goods	56,366	535,411	1,046,909	883,605	1,030,461	1,389,191	2,331,166	2,541,961	2,512,995	2,643,726	3,548,226
China: Final goods	39,751	199,329	456,312	526,212	379,959	347,343	401,646	479,580	516,289	678,206	763,413
Japan:											
Intermediate goods	407,882	1,091,619	1,578,022	1,551,286	1,598,441	1,967,402	2,442,474	3,094,326	3,845,471	4,547,559	6,506,042
Japan: Final goods	115,569	1,024,712	1,392,692	1,397,929	1,367,192	1,479,793	1,727,169	1,991,997	2,045,895	2,096,594	2,484,457
Korea:											
Intermediate goods	402,251	156,564	175,810	254,955	279,413	315,772	438,239	464,168	586,841	938,096	1,355,465
Korea: Final goods	84,493	199,899	232,540	268,091	270,083	282,404	304,796	348,566	439,3806	535,650	684,889

Source: <http://unstats.un.org/unsd/cr/registry/regso.asp?Ci=6&Lg=1&Co=&T=0&p=69> (accessed on November 5, 2010).

3.2. Border Trade between Vietnam and China (Ma Lu Thang Border Gate and Lao Cai Border Gate)

Examining the trade at two border gates (Ma Lu Thang Border Gate, Lai Chau Province, and Lao Cai Border Gate, Lao Cai Province) results in the same finding. The structure of export-import goods through these two border gates is similar to the general trend of the structure of export-import goods between Vietnam and China: export raw materials and agriculture products and import machinery and equipment. For instance, Table 13 presents trade activities through the Ma Lu Thang Border Gate of Lai Chau, Vietnam. As can be seen, the major export products were tea, cardamom, ore, black stone and other agricultural and forestry products. Among them, tea and black stone were the two largest export categories of Lai Chau Province to China. On the other side, the import goods from China had higher value added and fall into three main groups: industrial machines, materials and consumer goods. The trade activity picture is the same at the Lao Cai Border Gate of Lao Cai Province, Vietnam (see Table 14). Iron ore and agricultural products dominated the export activities, while chemical products, machinery, agricultural materials and pesticides were the largest import categories from China.

Table 13: Trading Activities between Lai Chau and China (2001-2006)

Order	Quota	Unit	Year					
			2001	2002	2003	2004	2005	2006
	Total export-import turn-over	Million USD	1.16	17	46.5	20.2	63.14	37.12
I	Export turn-over	Million USD	0.56	16	46	18.6	61.14	34.12
	In which: export goods of provinces	Million USD	0.56	0.92	1.1	3	3.55	4.66
	Main export goods of provinces							
	Tea	Ton	80	120	150	250	300	1.87
	Cardamom	Ton	100	150	150	250	410	410
	Pulp	Ton			100	200	450	450
	Ore	Ton	400	800	1.200	35.500	45.000	34.42
	Black Stone	Piece					400.00 0	400.0 0
	Agricultural and forestry goods	Million USD	0.25	0.33	0.3	0.54	0.35	0.35
II	Import turn-over	Million USD	0.6	1	0.5	1.6	2	2.29
	Main import goods							
	Industrial machinery	Million USD	0.3	0.4	0.2	0.38	1.6	0.27
	Materials	Million USD	0.13	0.15	0.1	0.1	2	0.5
	Consumer goods	Million USD	0.17	0.45	0.2	1.5	6.4	1.5

Source: Industry and Commerce Office of Lai Chau Province, Vietnam.

Table 14: Structure of Lao Cai Export – Import Products with China (2000-2004)

Unit: Million USD

Products	2000	2001	2002	2003	2004
1. Major Export Goods					
- Ores	6.03	5.92	6.82	14.62	17.73
- Fresh fruit	1.76	27.86	14.8	6.98	7.21
- Other agricultural products	1.53	5.99	4.76	8.11	13.60
- Seafood	1.48	4.48	12.19	15.7	5.58
- Consumer products	2.61	4.31	4.39	5.73	3.09
- Other products	1.32	1.96	2.7	3.29	5.26
2. Major Import Goods					
- Chemical and chemical products	16.09	20.29	27.87	29.11	37.34
- Steel	20.20	10.57	7.61	14.1	29.28
- Agricultural materials	22.97	15.8	19.53	34.13	69.31
- Equipments and machines	5.52	5.06	23.51	10.69	34.9
- Other products	7.5	14.3	16.7	19.22	42.05

Source: The People Committee of Lao Cai Province, Vietnam.

-Sub-conclusion:

By analysis, it can be seen that intermediate goods trade dominates the trade activities between Vietnam and China. Both import and export intermediate goods trade values increased quickly. However, the value of intermediate import goods from China is much higher than the exports of intermediate goods to China. Vietnam mainly exports raw materials, minerals and agricultural products to China and imports manufacturing products. Vietnam-China trade is a vertical relationship or a typical north-south model,

while China's trade with the ASEAN-5 is a horizontal and intra-trade relationship. Roy Ruffin had an interesting finding in his paper that Mexico took advantage of its intra-industrial trade with the United States in 1998. Findings show that the top three U.S. import goods from Mexico were similar to the top three export goods to Mexico.³ In this case, Vietnam has not taken advantage of its trade with China. Vietnam relies heavily on import intermediate goods from China for production, such as textile materials and footwear materials. This structure of trade goods illustrates that Vietnam is still not well exploiting the Chinese market to push its export activities in China. If considering China as a global factory, then Vietnam still does not really participate in the value chain in China, and in fact Vietnam participates only in the lowest section of the value chain, which is to provide raw materials.

4. CHALLENGES AND IMPLICATIONS

4.1. Challenges in Vietnam's Economic Conditions

The biggest challenge in the development of Vietnam's foreign trade is the country's internal economic condition such as the infrastructure, human resources and mechanisms. These factors hinder Vietnam's development. The fact that trade deficits have occurred in a long duration indicates that the competitive ability of Vietnam enterprises has improved slowly. Hence, this is also an obstacle for improving Vietnam's trade balance. Another challenge is the composition of Vietnam's export goods. Relying on exporting natural resources will not be good for sustainable development in the long

³ Roy Ruffin (1999): "The Nature and Significance of Intra-Trade Industry."
Website: <http://ideas.repec.org/a/fip/fedder/y1999iqivp2-9.html> (accessed September 1, 2010).

term. It will lead to the consequences of pollution and exhausted natural resources.

4.2. Challenges and Opportunities with China

Vietnam will push to integrate more deeply into the global economy, implementing agreements in forthcoming years. This process will make Vietnam increase import goods from other countries, particularly China. In addition, it will make the competition level with China become more severe in the traditional export markets of Vietnam such as the EU, the United States and Japan.

By 2015, Vietnam will implement ACFTA. This agreement will have a strong impact on China's rise upon Vietnam. The structure of Vietnam's comparative advantage will be fixed.⁴ Vietnam is facing the situations of continuing to import machinery and equipment and an increasing trade deficit with China. Vietnam may depend more on importing cheap products from China. Another challenge is the trend of exporting raw materials and natural resources for China's economic engine. Regarding China's outward investment, it will become an investment wave of low and polluting technology to Vietnam. If this trend persists over a long period, Vietnam will continue to be at a lower economic level than China and will be in a middle-income trap. It will be difficult for Vietnam's economy to take off and catch up with developed countries.

However, China is changing its economic model from one of economic development that relies on investment, industry and export to one of harmonized development. Hence, domestic demand stimulus will be a focus of Chinese economic

⁴ Tran Van Tho (2010) "Solutions for Vietnam toward China's Rising."
Website: <http://tuanvietnam.vietnamnet.vn/2010-08-06-con-duong-cho-viet-nam-truoc-su-troi-day-cua-trung-quoc>.

development in coming years. With rapid economic development as the world's biggest market amid a changing consuming structure, China is still an important market for Vietnam's export products.

4.3. Implications for Vietnam

China is a big country and has been developing dramatically. Its development is also an opportunity for Vietnam's development. Vietnam needs further economic renovation to seize this opportunity. The slower Vietnam's economy reforms, the more it lags behind. China's fast and stable development is a big opportunity for Vietnam because of the large demand for natural resources and agriculture products and the concentration of big international corporations in China. These factors will provide good conditions for Vietnam, which has a low development level. However, competition will be more fierce and Vietnam should make quick changes to grow fast in order to take advantage of this opportunity. China is in the process of changing its consuming market structure and consuming trend. Therefore, its demand for Vietnam's major exports products will increase. To take advantage of China's development, Vietnam should enhance its competitive ability and explore its potential deeply. Taking advantage of China's development would enhance Vietnam's competitive capacity, improving its trade balance. Some suggestions follow:

First, Vietnam should take advantage of the geo-economic condition to develop its service sector in transit transport and tourism to attract foreign direct investment (FDI). Vietnam should develop its logistic service to be a transit place for Chinese goods to other ASEAN countries, while also developing trade through tourism.

Second, Vietnam should change its growth model from one of relying on the

exploitation of its raw materials to one of processing materials, thus increasing value added for each natural resources unit and using scarce natural resources effectively.

Third, to improve enterprises' competitiveness, particularly state-owned enterprises, Vietnam should provide policies which support raising the capacity of its enterprises in the international market.

Fourth, Vietnam should provide policies which encourage domestic enterprises to invest in supporting industries. In addition, it should encourage FDI in these industries by offering foreign investors tax cuts on imported machinery and business tax exemptions.

5. CONCLUSION

In summary, Vietnam-China intermediate goods trade has developed dramatically in both quality and quantity. Along with the increasing bilateral trade values, Vietnam is still facing a huge trade deficit with China. The structure of trade between Vietnam and China illustrates a model of vertical trade relations (north-south relations). China's economic emergence creates both challenges and opportunities for Vietnam in its trade with China. Vietnam has much potential to push up its economy and take off with its advantages of natural resources, human resources and geo-economic position. With efforts in reconstructing the economy after the financial crisis and building a strategy for 2011-2020, Vietnam's economy will overcome its difficulties and develop.

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