

# US China Trade war: Impacts to FDI to ASEAN and recommendation for Vietnam

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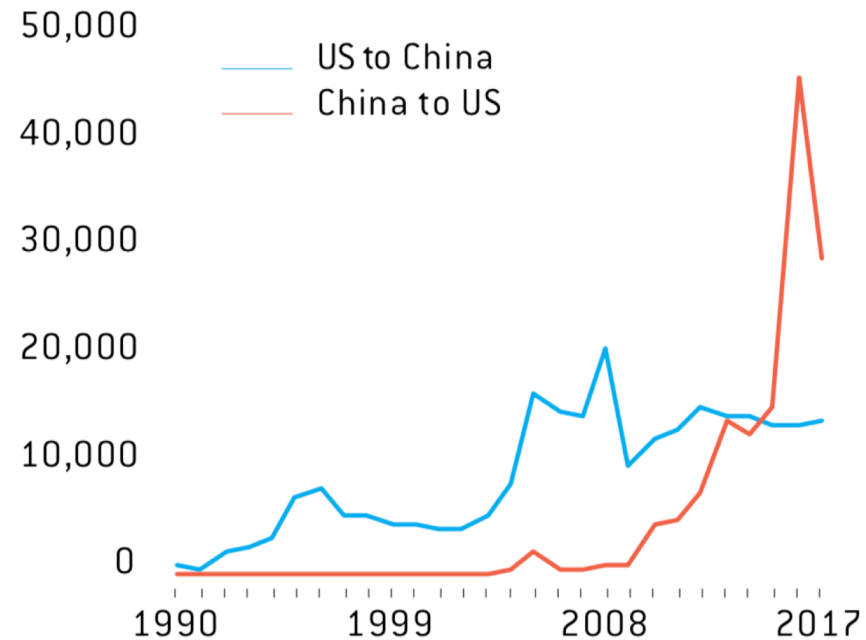
**Faculty of Economics**

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# FDI flow between US and China: a decline in recent years

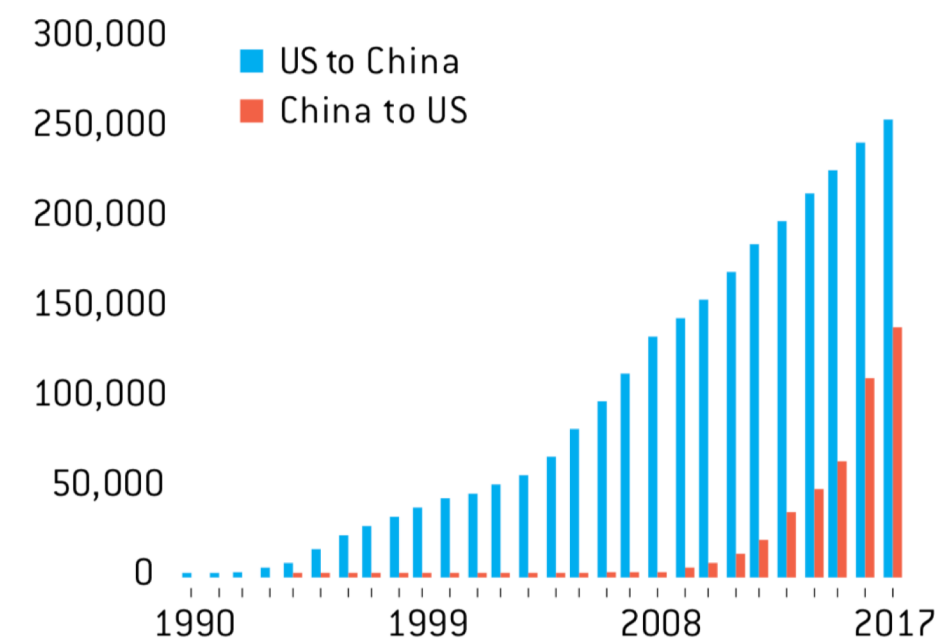
**Figure ES-1: Annual Value of FDI Transactions between the US and China, 1990-2017**

USD million



**Figure ES-2: Cumulative Value of FDI Transactions between the US and China, 1990-2017**

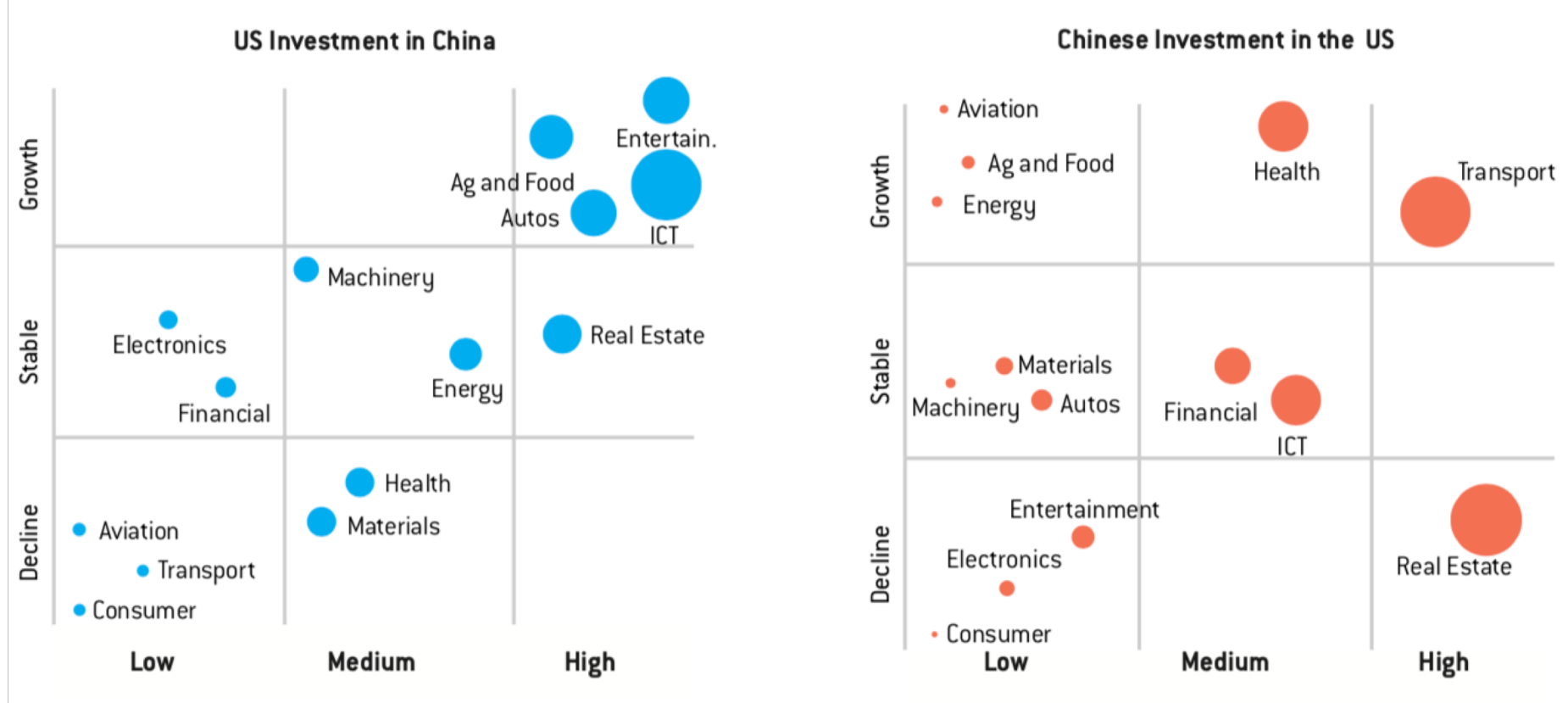
USD million



# Policy interventions impacted to the industry composition of investment

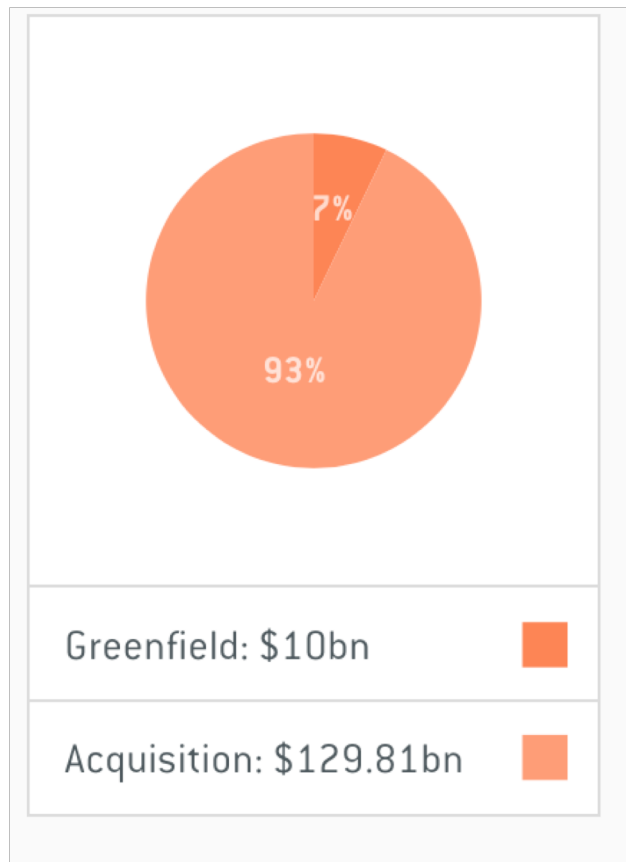
**FIG ES-3: Two-Way FDI between China and the US by Industry, 2017**

Stylized display of growth momentum (y axis) and investment value in 2017 (x axis, bubble size)

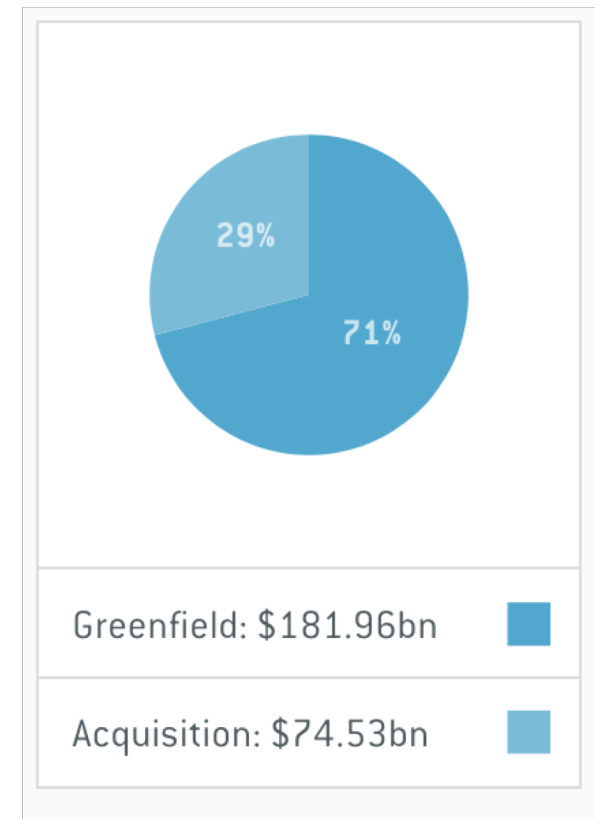


# Policy developments are reshaping the investor mix

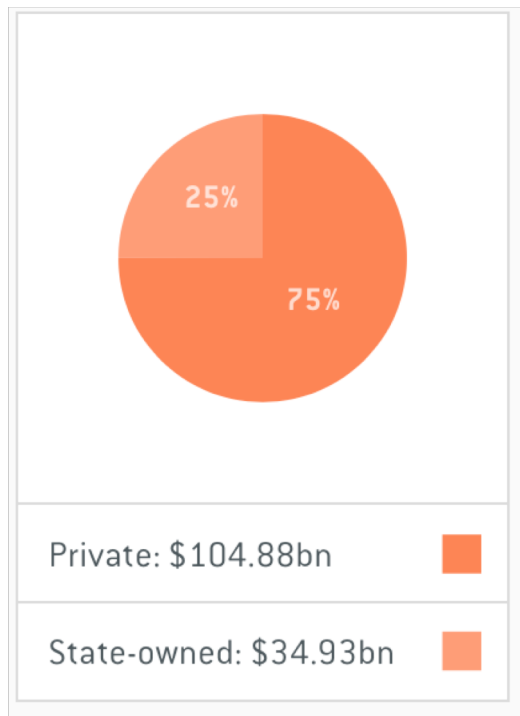
## Chinese FDI Entry mode in US



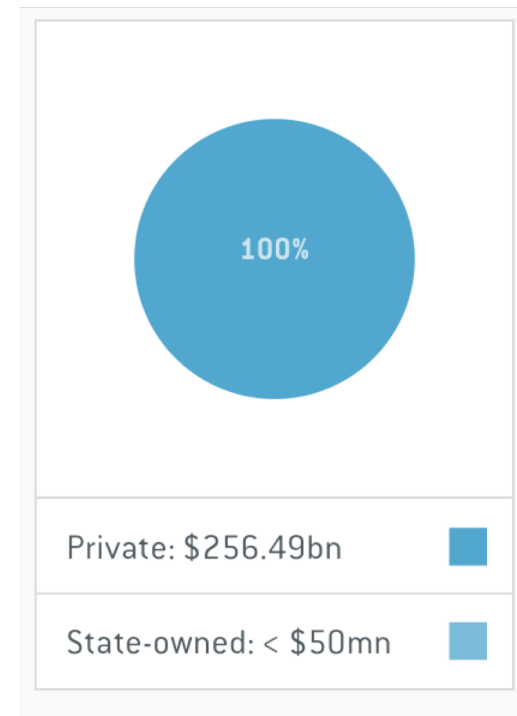
## US FDI Entry mode in China



## Chinese FDI in US – Investor ownership



## US FDI in China – Investor ownership



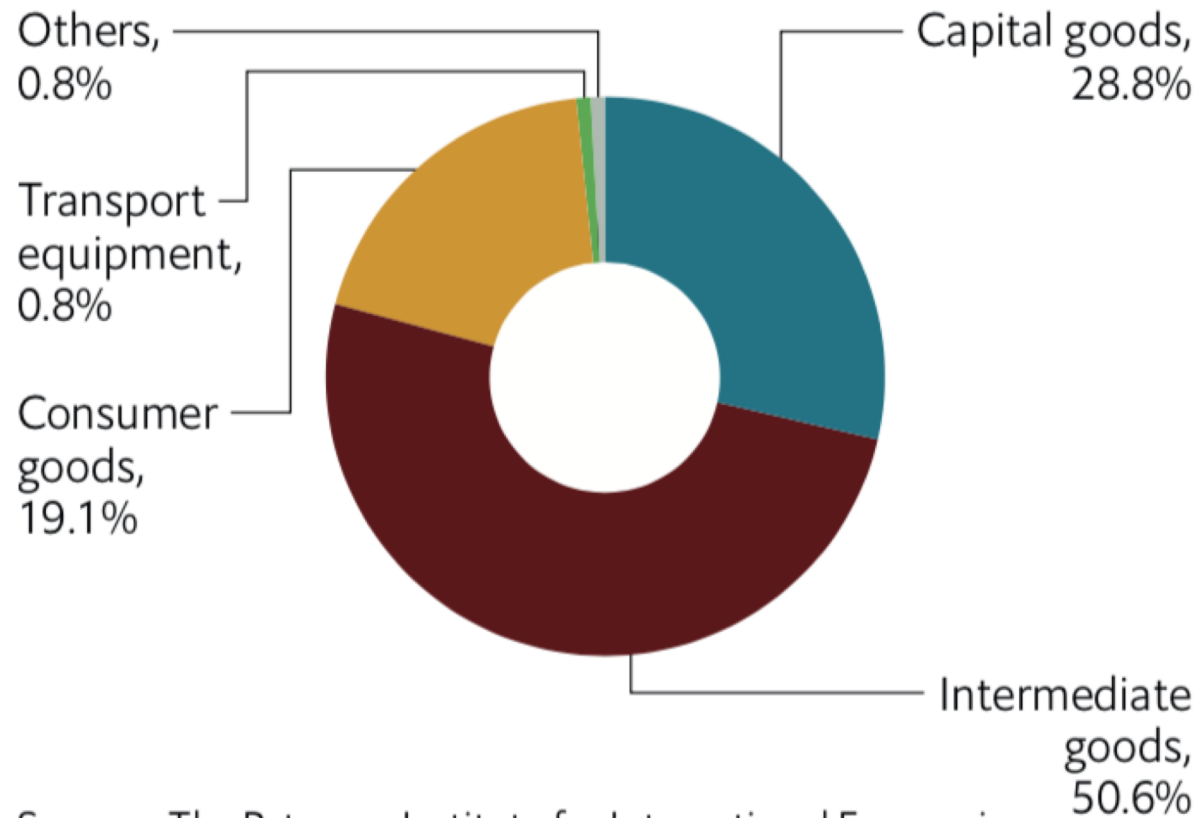
# Impacts to FDI between the two partners

- Policy is pulling down the volume of two-way investment flows
- This more problematic political environment is likely not just transient but rather the new normal.
- The future investment mix will be different, and 2017 offers a first test of which types of deals will have staying power, and which will not.
- The outlook for two-way investment is fragile as Washington and Beijing reassess the foundations of the economic and political relationship
- The US-China investment relationship will be an important determinant for how other countries handle investment relations with China.

# US- China Trade war

## US tariffs on US\$250bn of Chinese goods, 2018

(%, US\$ terms)



Sources: The Peterson Institute for International Economics;  
The Economist Intelligence Unit.

# Impacts to ASEAN

- The positive effects fall into three categories:
    - Opportunities to replace Chinese goods on the American market;
    - American goods on the Chinese market;
    - The prospect of East Asia moving towards a self-sustaining economic entity with its own business cycle and producing more and more for domestic consumption.
    - For Southeast Asia, a trade war offers the opportunity of concentrating on the East Asian supply chain producing for East Asia
- The negative effect on Southeast Asia stems from higher consumer prices in the U.S. due to tariffs, which dampens consumption



- The US-China trade war may be attracting more firms to set up in Asean to circumvent the tariffs:
  - Vietnam saw manufacturing inflows jump 18 percent in the first nine months of 2018
  - Thailand's net FDI rose 53 percent from a year earlier to \$7.6 billion, with manufacturing inflows surging almost five times
  - In the Philippines, net FDI into manufacturing surged to \$861 million in the same period from \$144 million a year earlier

*Table 1. Summary of negative and positive effects of US-China trade war on Vietnam*

Positive effect	Negative effect
<ul style="list-style-type: none"><li data-bbox="173 254 1166 368">• Increase in exports to the US to replace Chinese goods.</li><li data-bbox="173 445 1166 559">• Increase in export orders of goods transferred from China.</li><li data-bbox="173 636 1166 753">• Companies relocate Chinese-based high-margin industrial operations to Vietnam.</li></ul>	<ul style="list-style-type: none"><li data-bbox="1302 254 2204 496">• Vietnam goods could suffer high US tariffs due to Chinese goods being rerouted through Vietnam before being exported to the US.</li><li data-bbox="1302 574 2204 816">• Chinese companies accelerate the process of transferring outdated and pollution-generating technologies to Vietnam.</li><li data-bbox="1302 893 2204 1193">• Fierce competition from US and Chinese consumer goods and agricultural products on both Vietnam's export and domestic market</li><li data-bbox="1302 1270 2204 1329">• Lower long-term economic growth</li></ul>

# HOW CAN VIETNAM RESPOND TO THE UNCERTAINTY ?

## *Short-term Tactical Responses*

- adopt a more selective policy in attracting FDI
- scrutinize and reject investment projects that show signs of rerouting and disguising practices
- act more decisively against pollution-intensive investments through more stringent environmental requirements and enforcements
- help domestic producers compete with Chinese and US's exports of food and agricultural goods