

## ORIGINAL RESEARCH ARTICLES

# Unlocking the Trade Potential in China-ASEAN Relations The China-Vietnam Context

**Evelyn S. Devadason and V.G.R. Chandran**

*The China-ASEAN trade relationship is multidimensional. The trade situation between China and Vietnam is not similar to that of China and the ASEAN-5, as the former records trade surpluses with Vietnam in agriculture and manufactures. Bilaterally, China's exports are also more homogeneously distributed relative to Vietnam, and comprise higher value-added intermediates. Despite the asymmetry in terms of economic capacity between China and Vietnam, it is not one-sided nor is it all downside, as there is a high level of economic interdependence between the two. The empirical results from the stochastic frontier analysis indicate that Vietnam's trade efficiency scores with China are somewhat comparable with the efficiency levels achieved by the other ASEAN members in trade with China. Importantly, Vietnam's exports of agriculture products to China are operating closer to their potential level than China's exports to Vietnam. Overall, there remains scope for improving export efficiency in the China-Vietnam partnership. It is therefore untrue to assume that only the larger side could get more from this relationship.*

**Keywords:** gravity model, stochastic frontier analysis, trade efficiency, China, Vietnam.

*Article received: February 2018; revised: December 2018; accepted: May 2019*

### 1. Introduction

China and Vietnam have a checkered past. Bilateral trade was restored when both countries normalized their relations in 1991 (Nguyen 2015). The two economies have also signed a bilateral agreement and

**Evelyn S. Devadason** is Professor in the Department of Economics, Faculty of Economics and Administration at the University of Malaya, 50603 Kuala Lumpur, Malaysia; email: [evelyns@um.edu.my](mailto:evelyns@um.edu.my)

**V.G.R. Chandran** is Associate Professor in the Department of Development Studies, Faculty of Economics and Administration at the University of Malaya, 50603 Kuala Lumpur, Malaysia; [vgrchandran@um.edu.my](mailto:vgrchandran@um.edu.my)

are members of the China-ASEAN Free Trade Area (or CAFTA). Since then, the China-Vietnam trade ties gained momentum and posted impressive growth over the past few decades. At present, Vietnam is China's eighth largest trading partner and biggest trading partner in the ASEAN region (Oh 2017), while China is the largest trading partner of Vietnam. Trade balances in this partnership have, however, remained consistently in favour of China, though recent evidence points to a narrowing of deficits from the Vietnamese standpoint.

China's trade patterns with the newer ASEAN member countries (Cambodia, Laos, Myanmar and Vietnam; known as CLMV) have long been recognized to be different—or less optimized—as compared to those with the ASEAN-6, which have then increased the disadvantages of CLMV relative to the ASEAN-6. CLMV countries have become more reliant on China (Hao 2008), and the process of asymmetric trade interdependence<sup>1</sup> between China and CLMV is considered to be even more radical at the country level (Qin, Xu, and Zhang 2016). In the CLMV group, Vietnam presents a special case in terms of its economic cooperation and asymmetric relationship (Womack 2010), given China's growing strength and regional presence. China is a distinct import source for Vietnam (ADB online database) because of the latter's heavy dependence on intermediate products (Ngoc 2016), resulting in a burgeoning deficit. Recent evidence, however, points to some shifts in the trade structure of Vietnam, including: the narrowing of trade deficits with China as exports to that country gained momentum; and increase in export market share as a global value chain (GVC) partner by Vietnam (ADB 2016).

Although trade deficit per se should not be perceived as being bad for a country, in the case of the Vietnam-China partnership, the deficits can indeed signal a risky problem for Vietnam given its high concentration of trade on a single market like China (Nga 2018). There are also concerns that those trade imbalances with China have not been well managed to date, since Vietnam has only been able to export low value-added goods to the country (Nguyen 2015). In fact, Vietnam has recently called upon China to import more of its agriculture products, given the vast untapped consumer market in China, in efforts to balance bilateral trade and ensure a sustainable and healthy trading partnership (*Retail Asia*, 6 November 2018).

With the dramatic rise in the China-Vietnam bilateral trade volume to US\$122 billion in 2017, compared to just US\$4 billion each for China-Cambodia and China-Myanmar (calculated from UN Comtrade), an important question is whether the full potential has been unleashed in the China-Vietnam partnership. For this, Vietnam's current (disadvantaged) position in terms of its trade with China needs to be reassessed and contextualized within the region. The paper therefore compares the trade potential of China-Vietnam, within the broader framework of the China-ASEAN trade,<sup>2</sup> to inform the debate on the dichotomous trade outcomes of China's partnership with the older and newer ASEAN member states. For this purpose, the paper applies a stochastic frontier approach to the gravity model to identify the efficiency of trade integration relative to the maximum potential levels, based on a three-dimensional panel data set of two-way bilateral exports from China to the ten ASEAN members over the 1992–2016 period. The findings of the study provide the broader implications for (asymmetrical) economic interdependence or disparities in two-way trade potential in the China-ASEAN partnership.

## 2. China-ASEAN Trade: Framing the China-Vietnam Partnership

### 2.1 Trade Patterns and Intensity of Integration

Although waves of tension prevail as China and Vietnam contest sovereignty over the South China Sea, trade between the two nations has transcended these disputes (Nguyen 2015). China's exports to Vietnam grew from US\$106 million in 1992 to US\$71 billion in 2017 (see Figure 1). Conversely, Vietnam's exports to China consistently lagged behind inflows of merchandise goods from China for the entire period of