



WORLD BANK GROUP

CHINA RISING **IMPLICATIONS FOR VIETNAM**

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THREE QUESTIONS

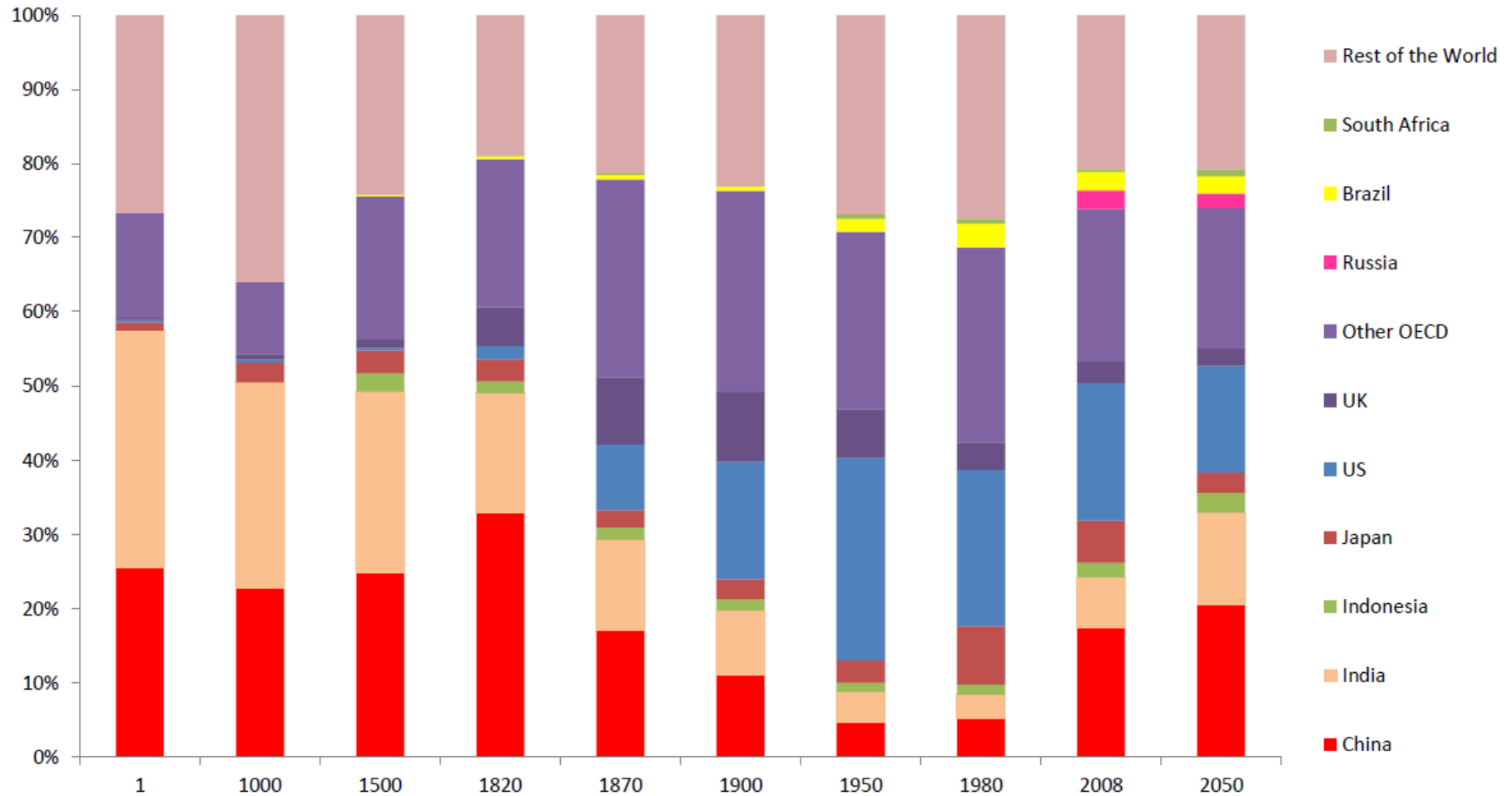
- 1 What is China's growth outlook and implications for Vietnam?
- 2 What are potential impacts of the escalating US China trade tensions and spill-overs to Vietnam?
- 3 What does it mean for policy in Vietnam?

1

What is China's growth outlook and implications for Vietnam?

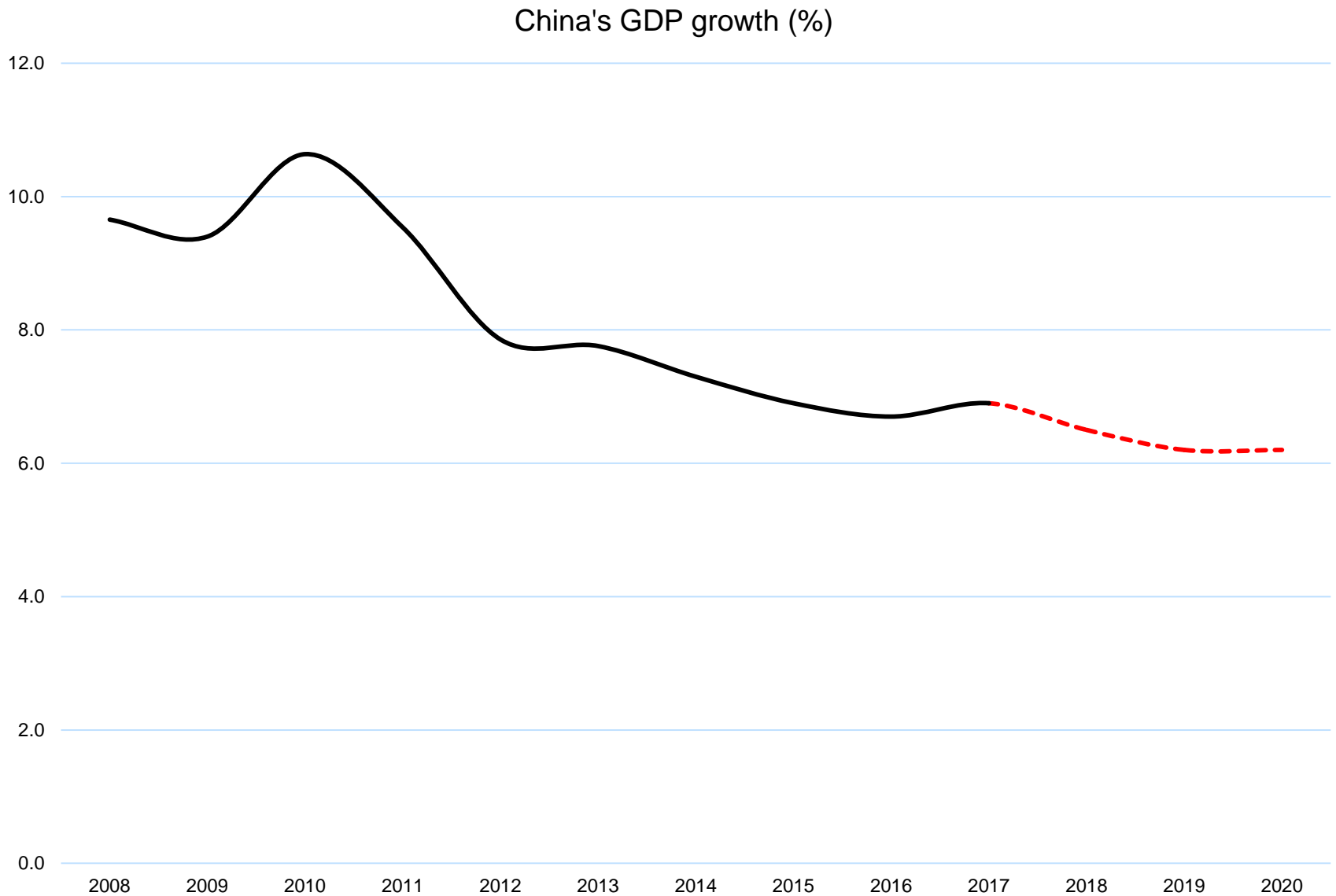
CHINA IS RISING

(Share of World GDP 1-2050 AD)

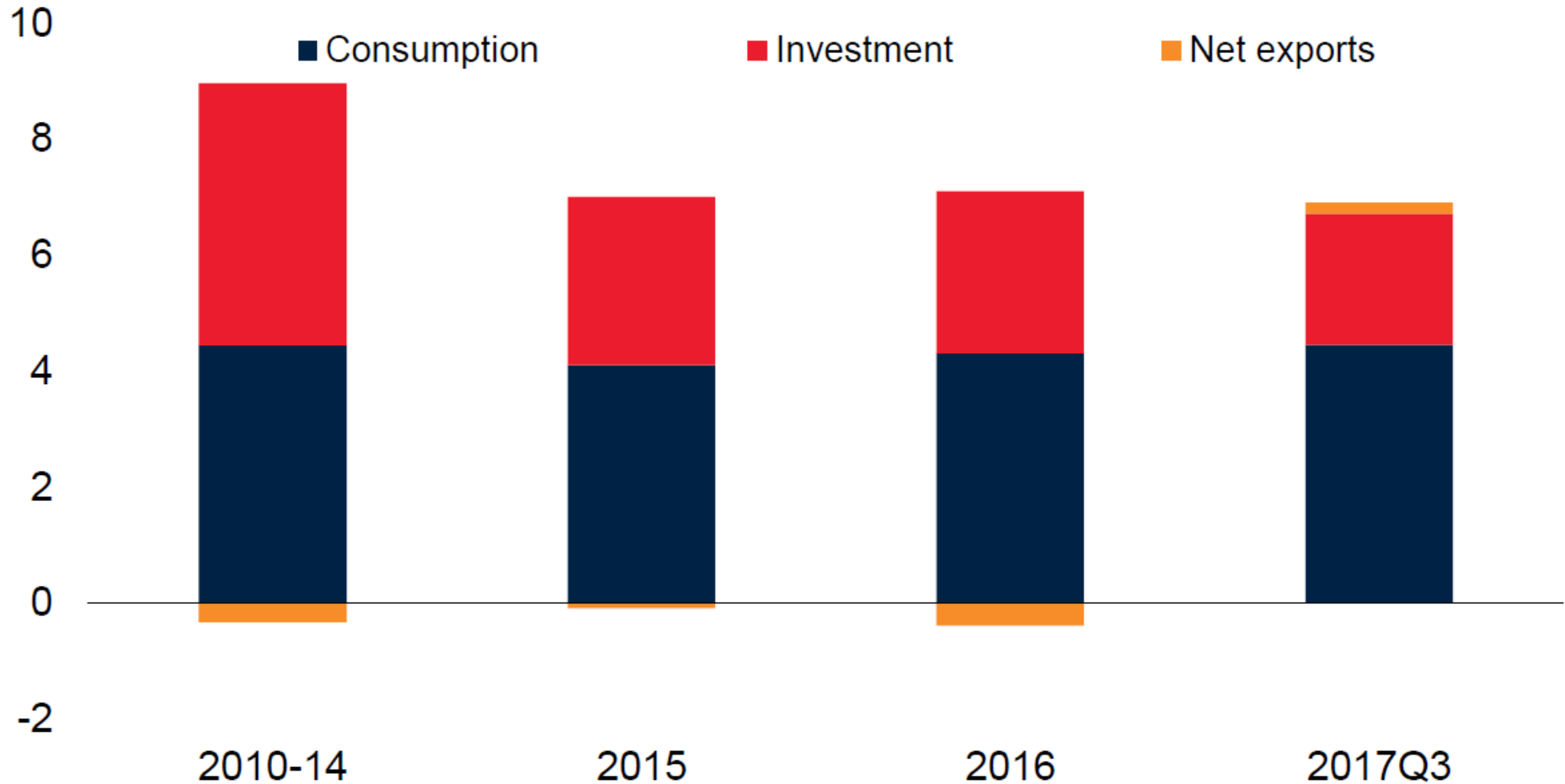


Source: Maddison and OECD. Note: Maddison's estimates are in Geary-Khamis dollars; OECD in 2005 PPP dollars.

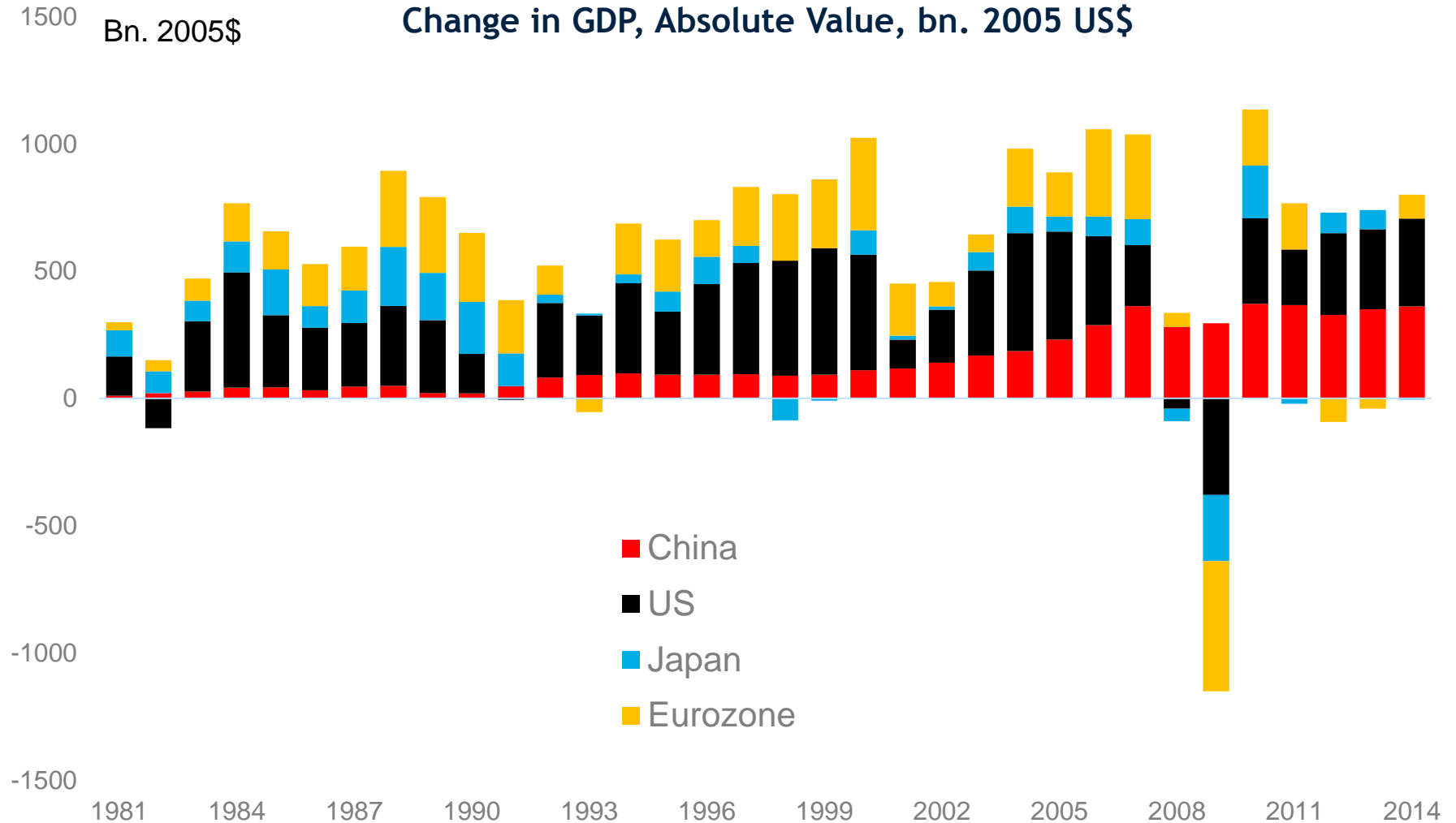
...ALBEIT AT A SLOWING PACE...



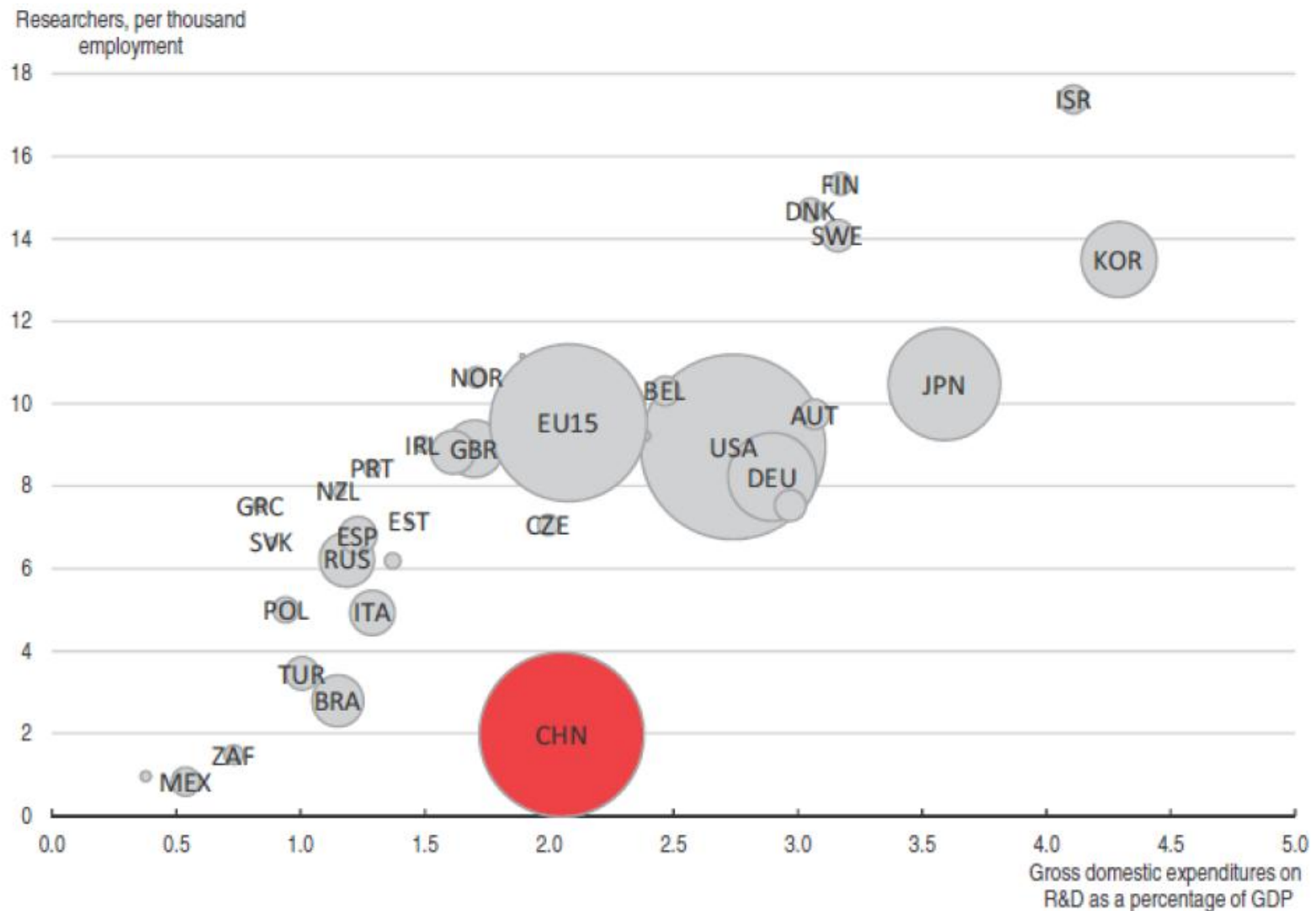
...WHILE REBALANCING



GROWING SLOWER BUT ADDING MORE



AN EMERGING TECHNOLOGY GIANT



Source: OECD 2017: Economic Survey of China. Size of the Bubbles indicated total spending on R&D

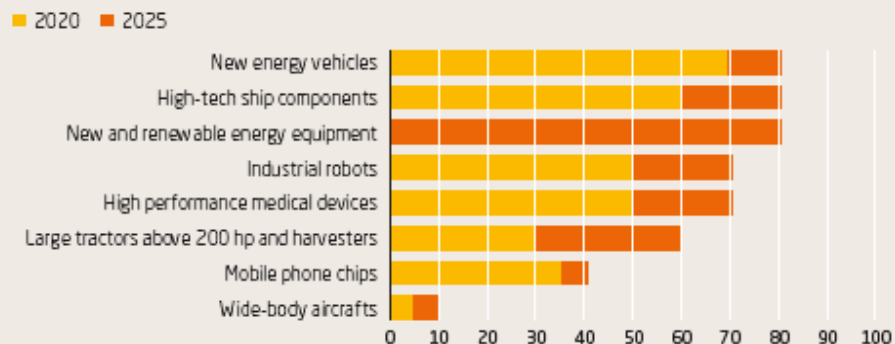
UNDERPINNED BY AMBITIOUS INDUSTRIAL POLICY

2015-2025	2025-2035	2035-2049
<p>2020: Completed industrialization</p> <p>2025: Enhanced national competitiveness and labor productivity</p>	<p>China's manufacturing industry is at an average level among the industrial powers</p>	<p>World's leader in manufacturing technology and production</p>

Source: Mercator Institute for China Studies

Made in China 2025 aims at substitution

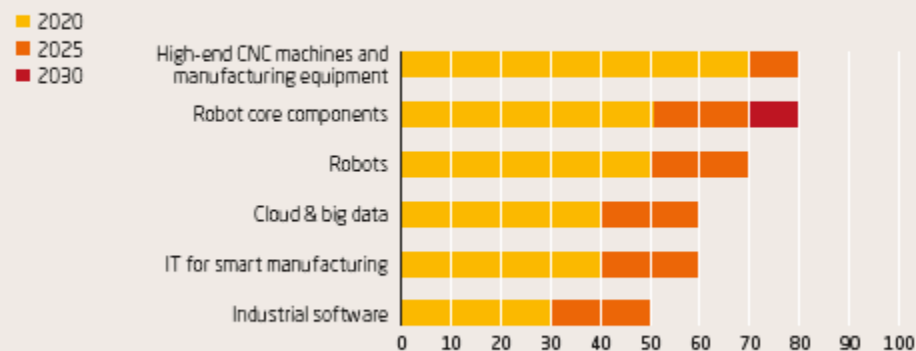
Semi-official targets for the domestic market share of Chinese products (in per cent)



Source: Expert Commission for the Construction of a Manufacturing Superpower

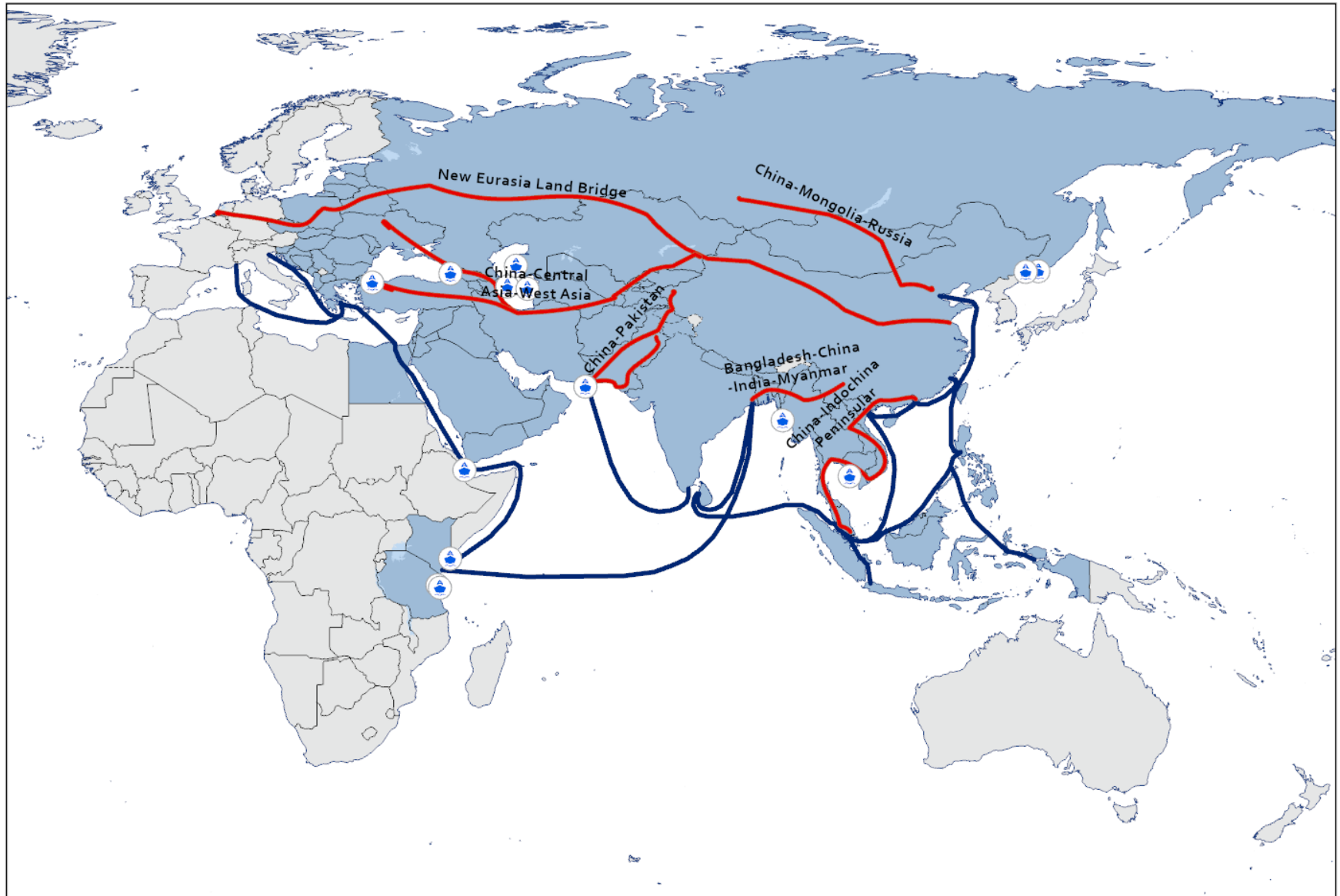
Made in China 2025: replacing foreign smart manufacturing technology

Goals for the domestic market share of various Chinese smart manufacturing products (in per cent)

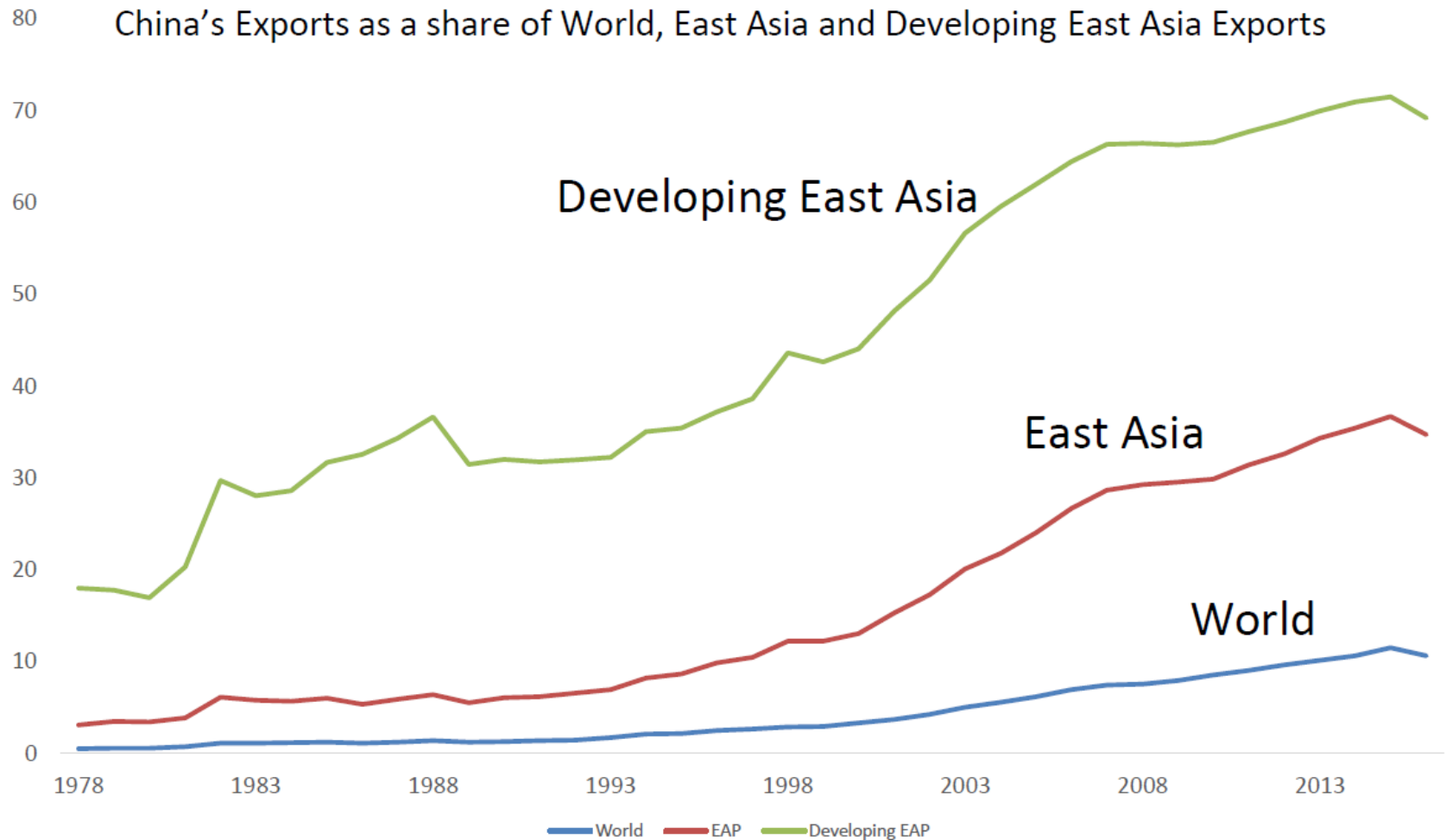


Source: Expert Commission for the Construction of a Manufacturing Superpower

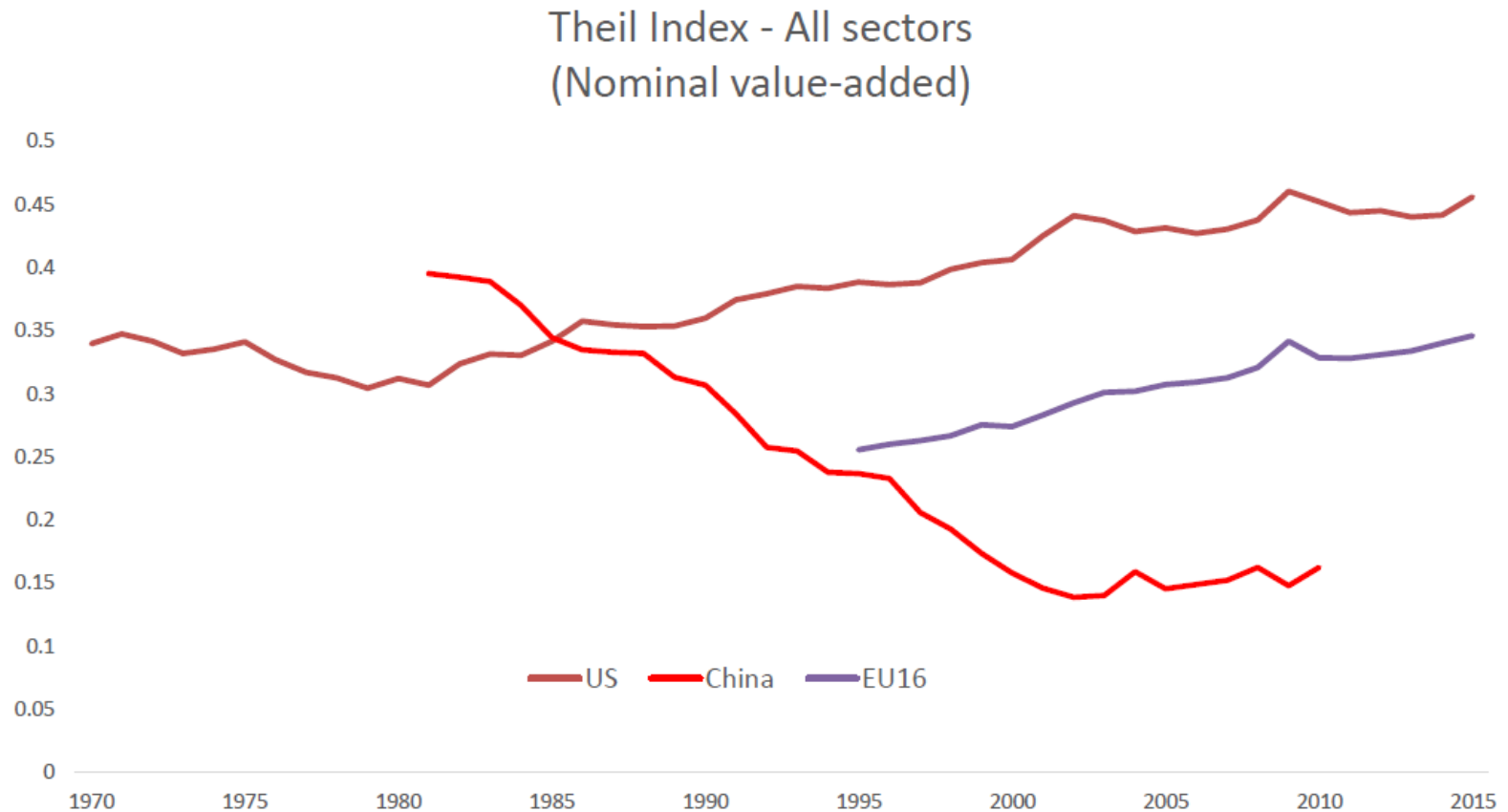
THE BELT AND ROAD INITIATIVE PURSUING SUPERREGIONAL INTEGRATION



IMPACT ON SUPPLY SIDE: MOVING UP BUT NOT MOVING OUT?



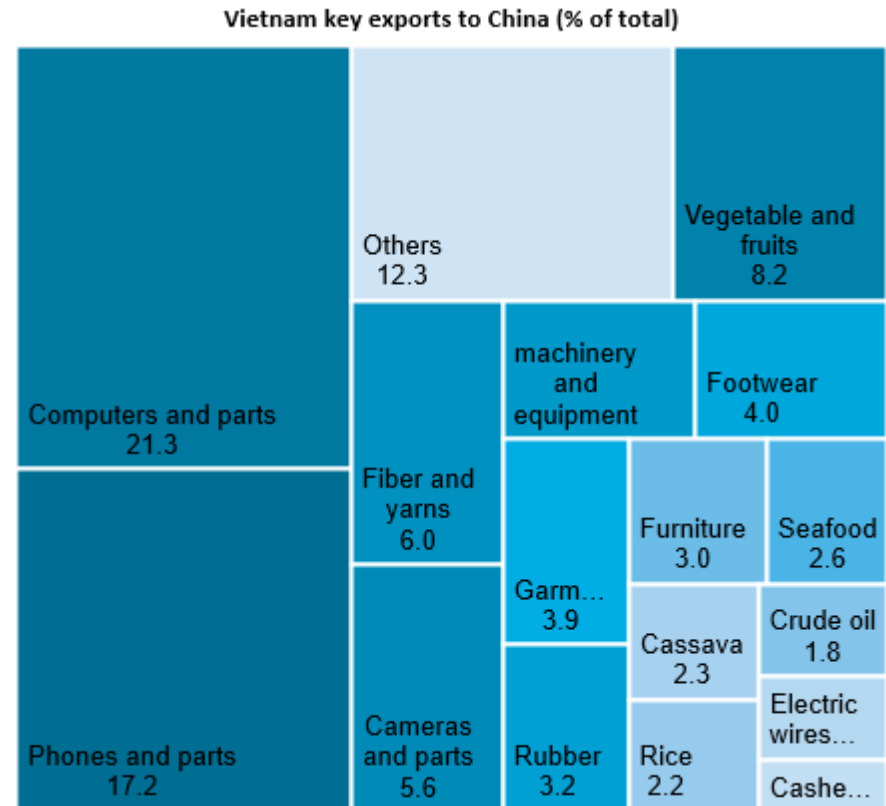
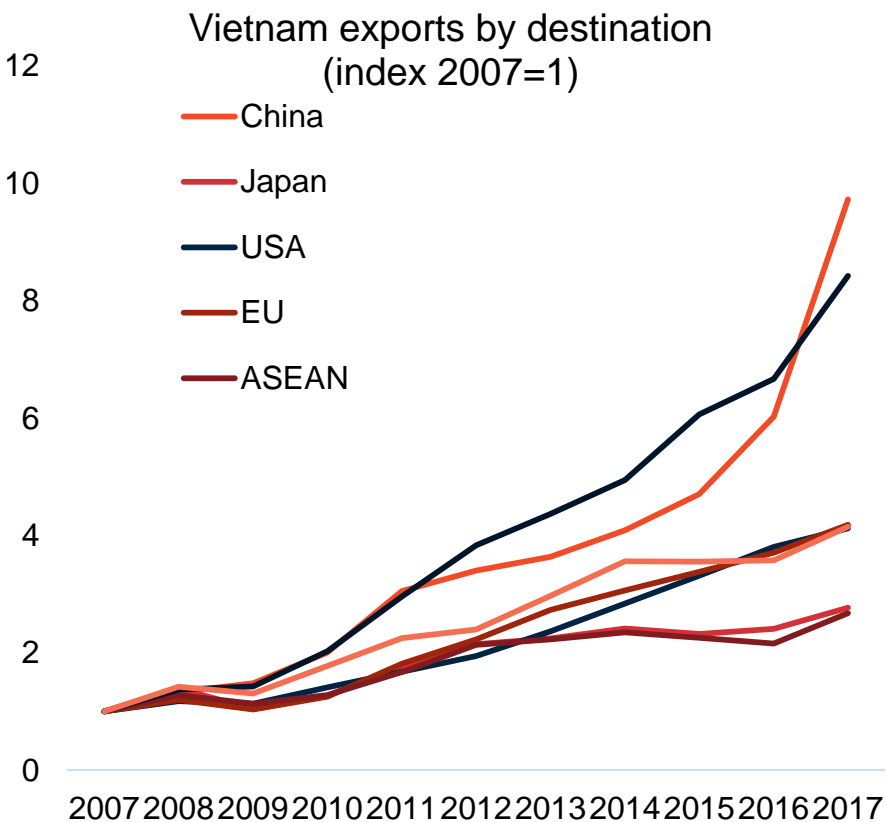
IMPACT ON SUPPLY SIDE: MOVING UP BUT NOT MOVING OUT?



Source: CIP database, 2017 EU KLEMS database, World Bank Staff calculations

Note: A lower Theil index signifies more diversified production. EU-16 represents all EU member states for which data exist from 2009 onwards, namely: AT, BE, CZ, DK, FI, FR, DE, IT, LV, LU, NL, SK, SI, ES, SE, and UK.

IMPACT ON THE DEMAND SIDE- IS DEMAND SHIFTING TOWARDS CHINA?

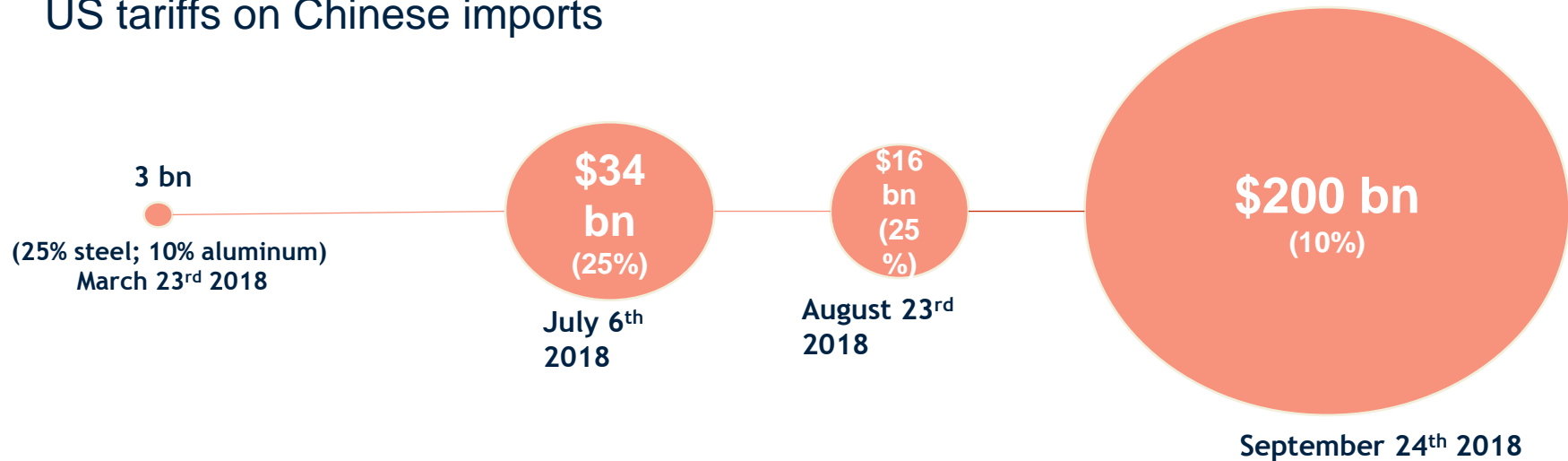


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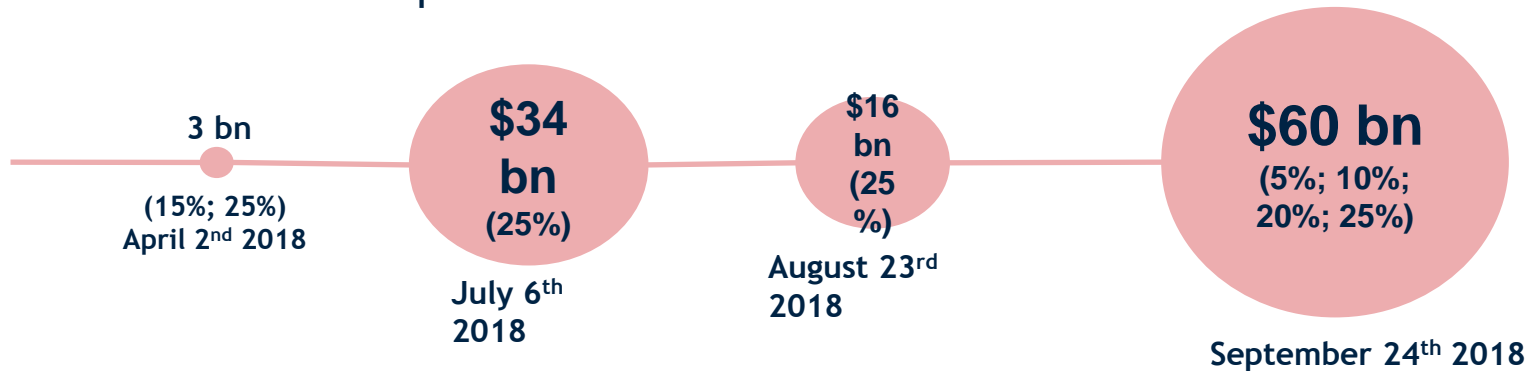
What are potential impacts of the escalating US China trade war and spill-overs to Vietnam?

TRADE TENSIONS ARE ESCALATING...

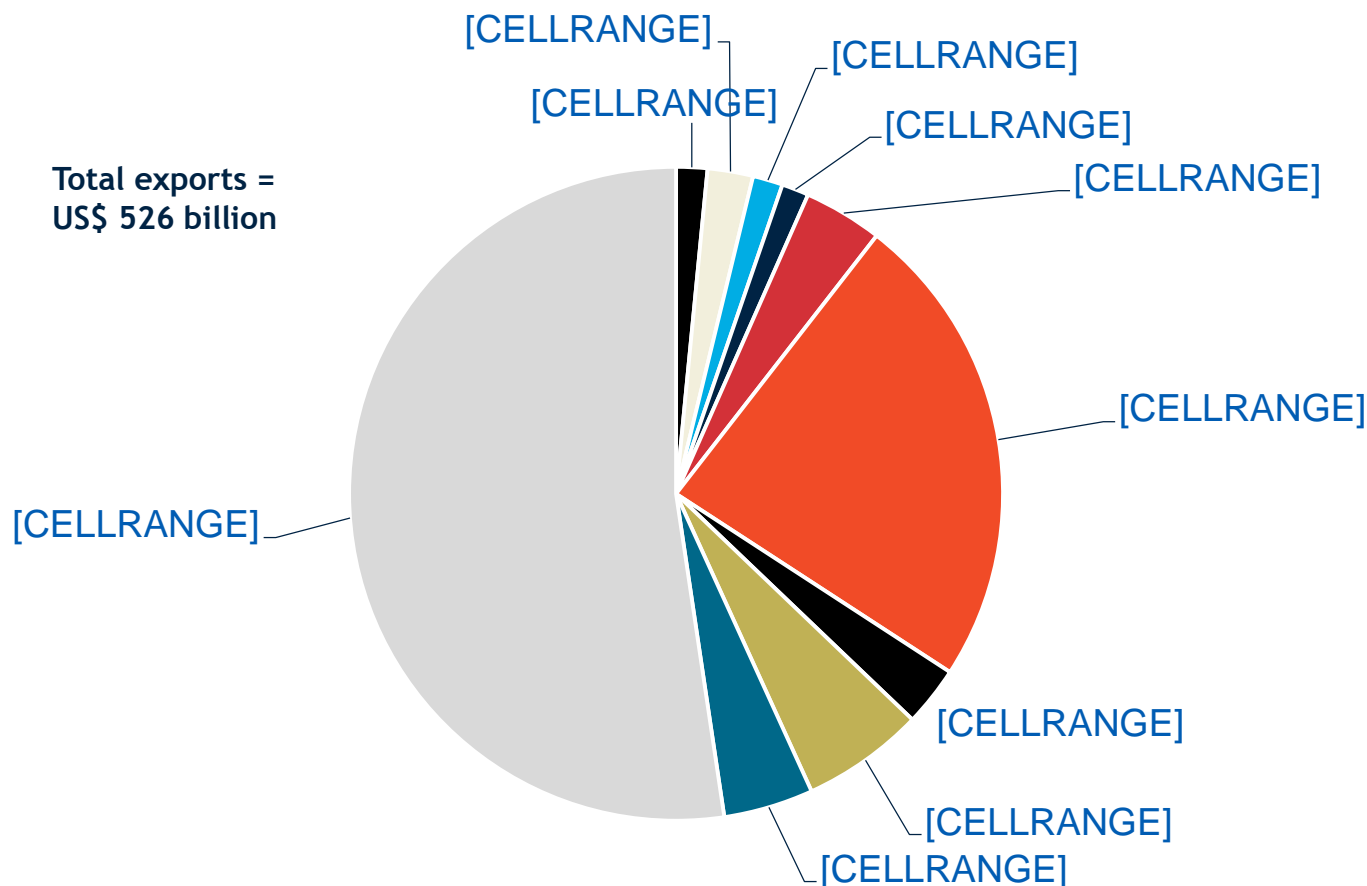
US tariffs on Chinese imports



Chinese tariffs on US imports



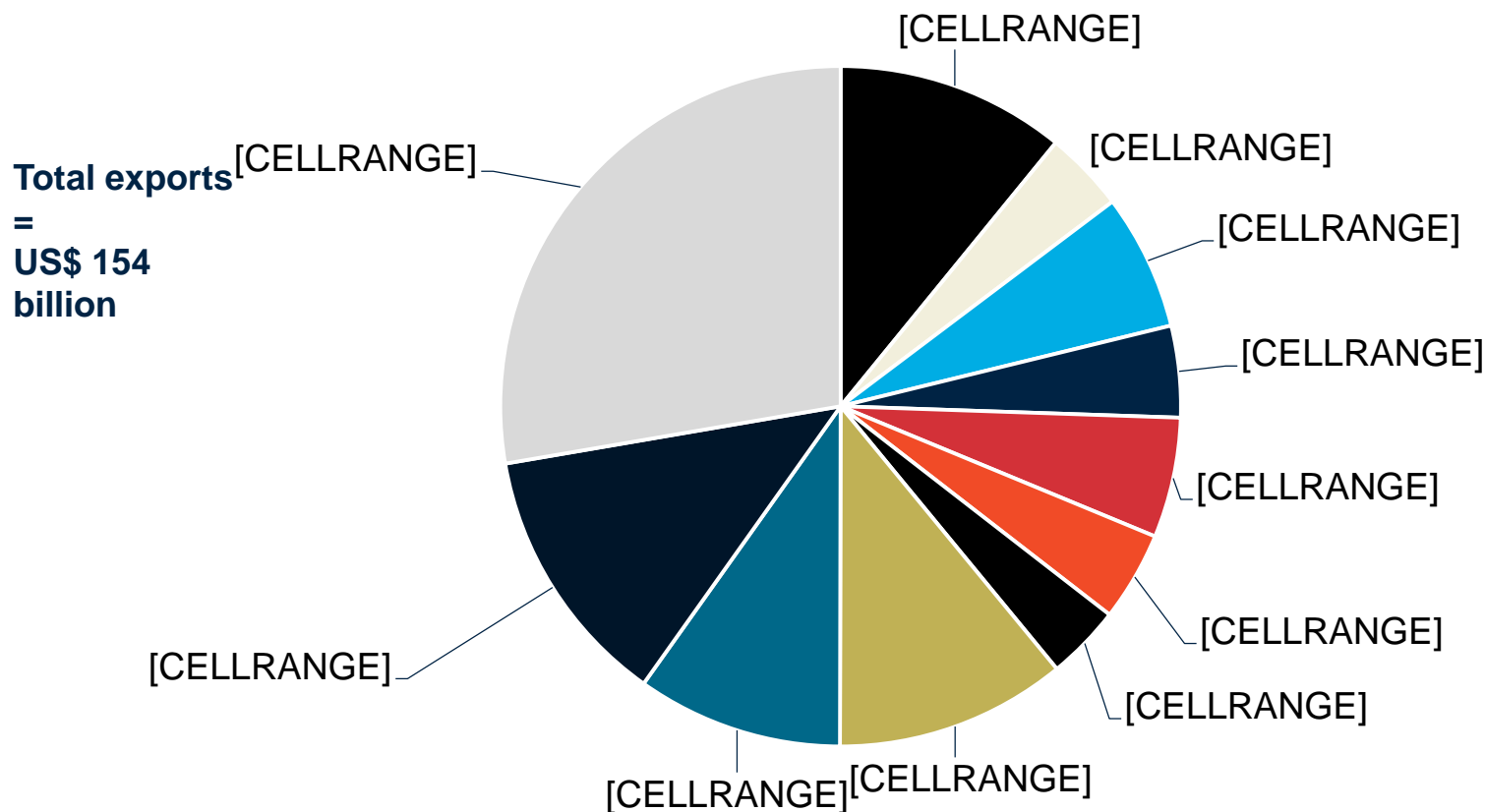
Close to half of China's exports to the US are now subject to additional tariffs...



Source: US Census Bureau and WB staff calculations.

Note: Refers to US reported imports from China of US\$ 526 billion (CIF basis) in 2017. "Other" includes: animals & animal products; vegetable products; foodstuffs; mineral products; textiles; footwear & headgear; stone & glass; miscellaneous manufacturing excl. furniture (HS codes 90-93 and 95-97).

...while close to two-thirds of China's imports from the US are now subject to additional tariffs

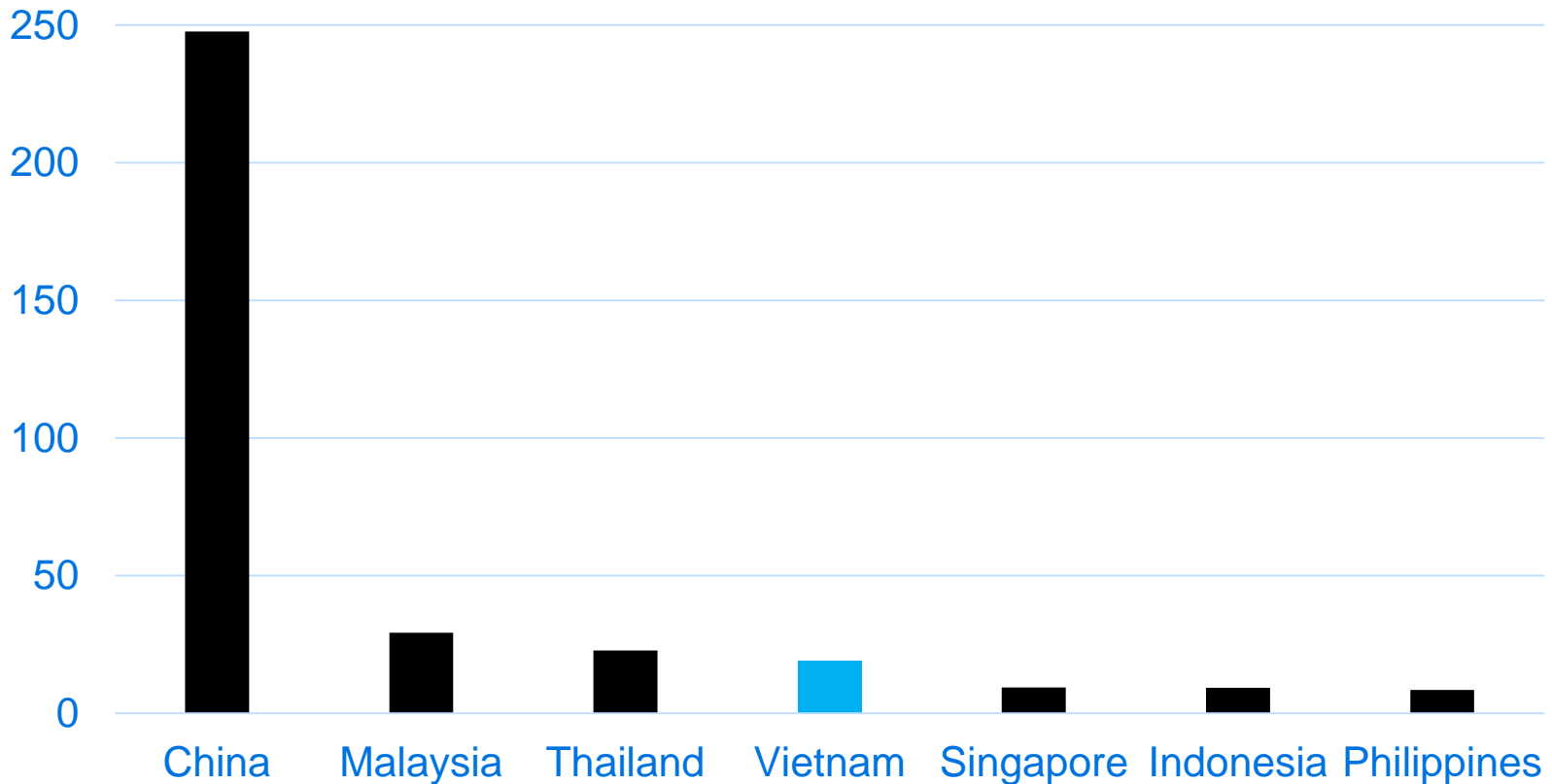


Source: WITS (UN Comtrade) and WB staff calculations.

Note: Refers to China's reported imports from the US of 154 billion USD (CIF value) in 2017. "Other" includes: animals & animal products; foodstuffs; raw hides & leather; textiles; footwear & headgear; miscellaneous furniture (HS codes 90-97).

THERE IS SOME POTENTIAL FOR VIETNAM TO REPLACE CHINESE EXPORTS TO THE US

Billion US\$



Source: US Census Bureau and WB staff calculations. Notes: Trade covers products on the US\$ 34 billion, US\$ 16 billion and US\$ 200 billion U.S. lists. SEA countries with exports to the US of less than US\$ 1 billion are not shown.

VIETNAM COULD BE NEGATIVELY AFFECTED BY SLOW DOWN IN CHINA, BUT EXPOSURE IS RELATIVELY LIMITED

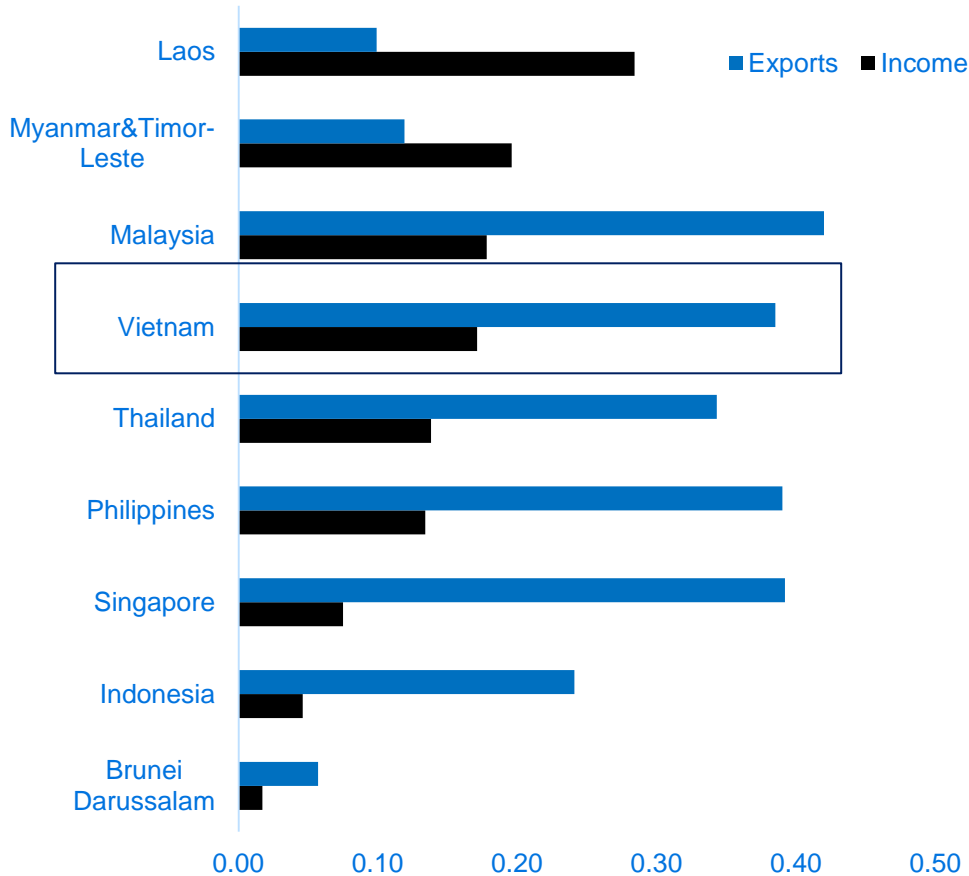


Source: WITS (UN Comtrade) and WB staff calculations.

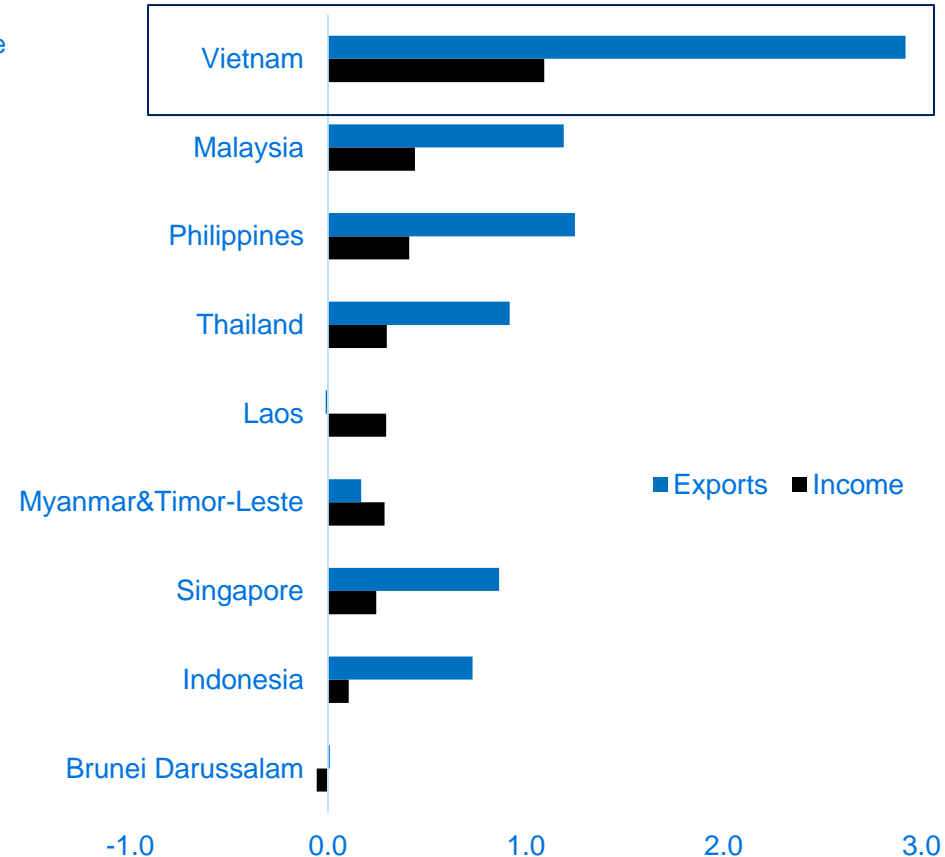
Note: Trade and GDP data are from 2014 for Tonga and from 2016 for all other countries.

WHILE THE TRADE WAR CREATES OPPORTUNITIES FOR TRADE DIVERSION...

Scenario 1: Lists 1, 2, 3 implemented
(% deviations from baseline)



Scenario 2: 25 pp increase of tariffs on bilateral US-CHN trade
(% deviations from baseline)

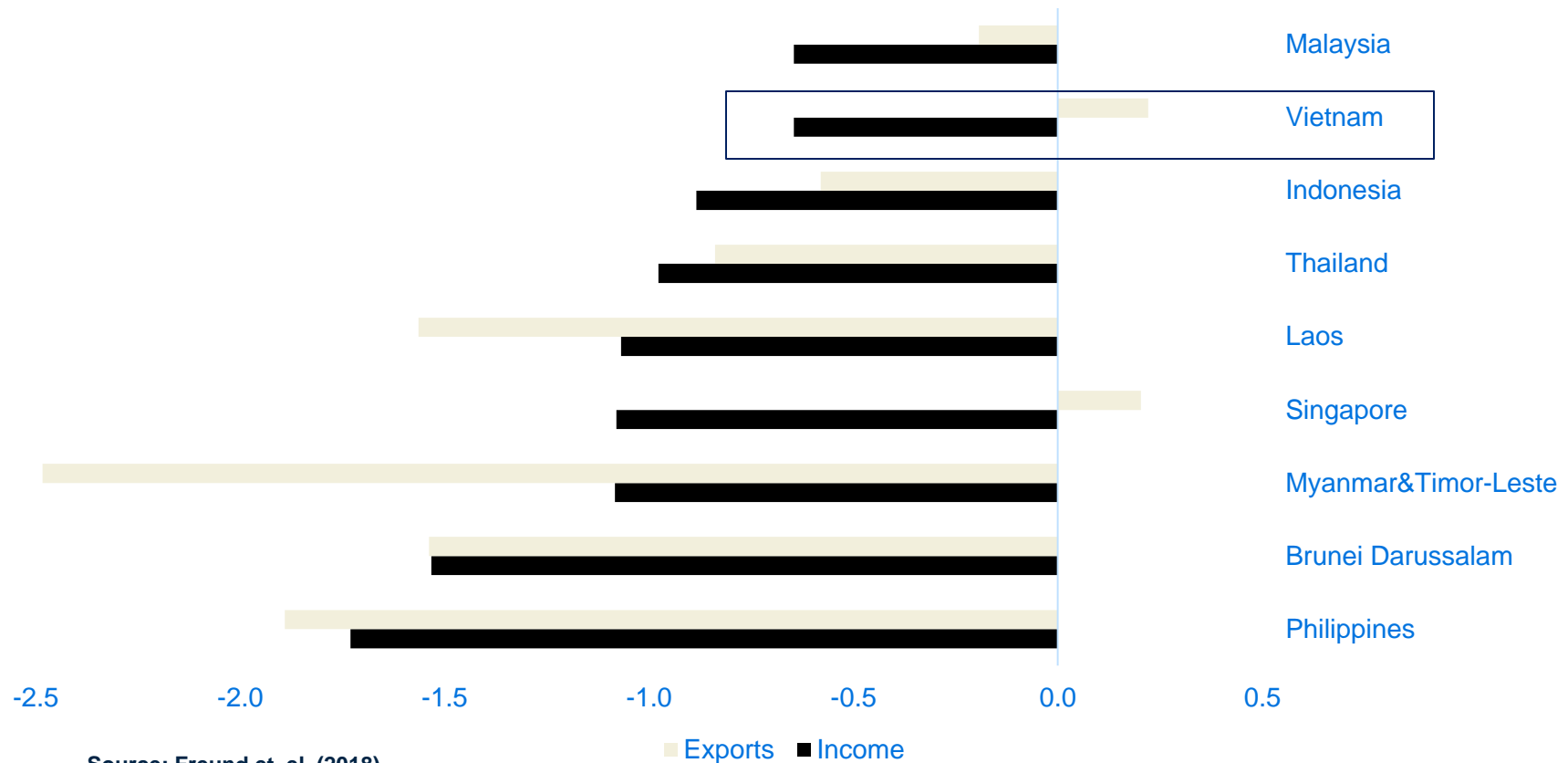


Source: Freund et. el. (2018)

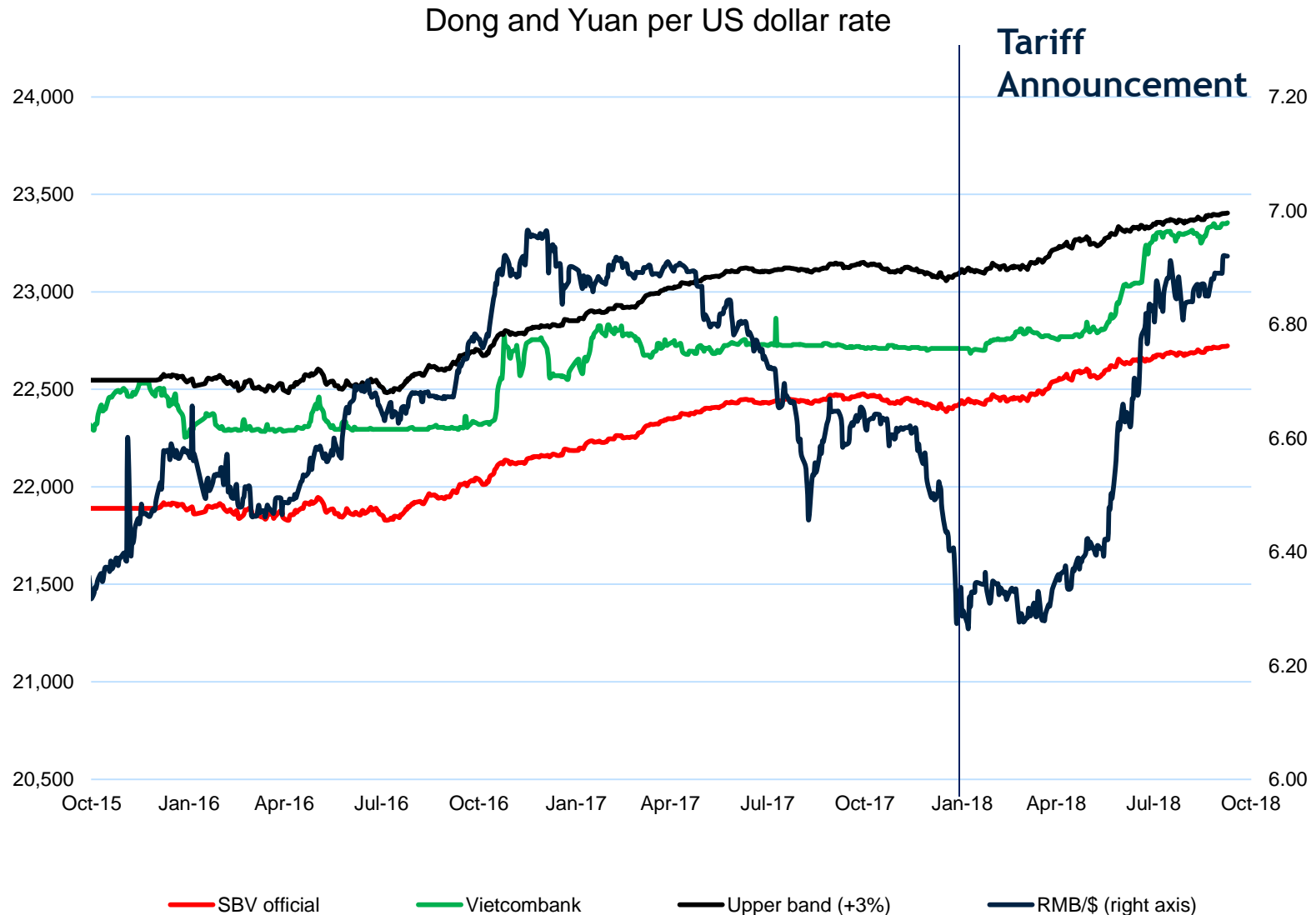
Note: "Southeast Asia" here refers to Myanmar and Timor-Leste

...IT ALSO INCREASES UNCERTAINTY WHICH CAN BRING A CONTRACTION IN INVESTMENT, WITH STRONG NEGATIVE IMPACTS ON ALL COUNTRIES

Scenario 3: 25 pp increase of tariffs on US-CHN trade and decline of investment (% deviations from baseline)



TRADE TENSIONS MAY EXACERBATE EXTERNAL VOLATILITY



3 What does it mean for policies in Vietnam?

SEIZING OPPORTUNITIES

Capturing supply chains relocating from China

- Enhance competitiveness e.g. through trade facilitation, availability of trade finance, reducing barriers to investment to attract investors bypassing US tariffs on China

Tapping the Chinese market

- Reduce trade costs through improved connectivity and trade facilitation
- Deepen regional integration through the CPTPP, EVFTA, ASEAN and RCEP

MANAGING RISKS

- High levels of uncertainty (China and elsewhere) put a premium on macroeconomic resilience
 - Exchange rate flexibility
 - Responsive monetary policy
- Voice support for open and rule based trading system, address non-tariff distortions to trade (IPR, public procurement, SOEs, RoO, etc.)
- Diversification of trade and investment relationships (CPTPP, EVFTA, RECEP)

Thank You

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