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Introduction

In 2018, a trade war between the United States and China broke out. This happened after US President Donald Trump began to impose import duties on Chinese goods. Beijing retaliated with mirror action against Washington. The parties have repeatedly negotiated to reach mutual agreements that could put an end to the trade war between the two powerful economies, but they have not yet been able to come to a common denominator.

In conditions of evident political instability, as the contradictions between the major powers in the region, the United States and China, are becoming increasingly volatile and the sphere of their rivalry is rising, most Asian countries' foreign and domestic policies are also highly dependent on these external conditions in relation to them.

A third party that manages to enter the market of a participant in the conflict, replacing his rival, is often the winner in a trade war. The Socialist Republic of Vietnam (SRV) has been such a market where there is no need to pay taxes, which has contributed to the economic recovery of Vietnam due to the active inflow of foreign investment. On the one hand, Vietnam needs to broaden already existing cooperation mechanisms with the USA, and on the other hand, to increase the efficiency of trade and direct investment with the PRC; as a consequence, Vietnam is now enjoying significant advantages in achieving political and economic goals. This unequal triangle, however, entails a variety of questions. Thus, being in the center of the confrontation between the two largest states, Vietnam needs to adhere to a certain strategy to maintain the balance of power. Otherwise, the imbalances in diversification can lead to harmful imbalances in the economy of not only Vietnam, but of the entire Asia-Pacific region, which determines **the relevance of this study**. In addition, the country is becoming one of the key players in Southeast Asia: Vietnam has been showing macroeconomic stability for 25 years, as evidenced by sustained high economic growth rates. Despite the noticeable negative impact that the coronavirus pandemic has had on all spheres of the republic's economy, economic activity is confidently returning to its usual state. Against the backdrop of successes in the fight against the spread of coronavirus, the development of the economy has continued according to an optimistic scenario, outstripping China, Indonesia and the Philippines in terms of GDP growth. Due to its advantageous geographical position, Vietnam is a transshipment point for imports from European countries through the Cat Lai port and exports to the USA and the EU through the Kai Mep - Thi Wai port area. With this strategic advantage, Vietnam has great potential for the development of deep-water seaports in the country, creating favorable conditions for the import and export of goods for industry and contributing to the development of logistics.

The scientific problem lies in the fact that, balancing between the two largest powers, when choosing a priority in favor of one or another partner, not only economic and political risks for Vietnam arise, but also security risks that will significantly change the geopolitical map of the world.

The aim of this study is to identify how the trade war between China and the United States influenced Vietnam's economy.

To achieve the aim of the research, **the following tasks** were set:

- to study the trade war from the point of view of theories of international relations and predict the possible course of development of the trade war;

- to analyze the relationship between China and the United States in order to find common ground and to identify disagreements between the countries;

- to consider the causes and course of the trade war between China and the United States;

- to assess the impact of the trade war on the global economy;

- to highlight the main stages of development and reform of the Vietnamese economy, taking into account the transition to market relations;

- to demonstrate the importance of Vietnam's relations with the United States and China from a historical perspective;

- to evaluate the trade war and its impact on the following sectors of the Vietnamese economy: industry (machinery, footwear, textile and garments), electronic equipment, agriculture, forestry and furniture, transport (automobiles and bikes), financial sector (trade and foreign investment), smart and high-tech technologies and some other;

- to assess the scale of the impact of the ongoing changes in the framework of the trade war on the economy of Vietnam;

- to predict the risks and opportunities for Vietnam's further growth in the short and long term;

- to analyze the possibilities for Vietnam to replace China as a global manufacturing hub;

- to formulate recommendations for the further development of the Vietnamese economy.

Based on the aim of the study, the author determined **the object of study** that is the economy of Vietnam in the context of the economic confrontation between the United States and

China.

The subject of this research is the relationship between the processes of transformation of the Vietnamese economy in connection with the main events of the trade war.

Chronological framework: the author describes in detail the events taking place during the trade war between the US and China since 2018 till now with more focus on 2019 when the trade war was in its peak. At the same time, in order to understand the complexity of the relations between the countries, the author examines the events in retrospect after the Vietnam War.

The hypothesis of the study is that while Vietnam benefits from the redirection of trade flows and supply chains as a result of the US-China trade war, Vietnam's industrial growth will have only a short-term positive effect on the country's economy.

The methodological basis of the research is based on the principles of reliability and scientific objectivity. To solve the set tasks, the following research methods were used as part of an integrated approach to the study of both the Vietnamese economy as a whole and in its individual segments: the historical-genetic method, which allows us to identify the origins of the trade war, the narrative method, which allows us to consistently recall the course of the trade war, relations between the countries, as well as the development of the economy of Vietnam. In addition, the author uses the comparative method in order to identify similarities and differences in the approaches of Vietnam in building complex relations with both the United States and China. Among the main research methods, the author uses the systemic, economic and statistical methods, as well as the method of strategic forecasting taking into account the possible scenarios described in Chapter 3, sub-chapter 3.2. Moreover, scientific research tools such as methods of scientific deduction, grouping, evaluation, analysis of research papers, as well as graphical techniques for reflecting statistical data were used.

The theoretical basis of this study is the works of Russian and foreign authors related to the problems under consideration. For the section 1.2. «The Sino-US Trade War: An Analysis of Great Power Rivalry through the prism of key paradigms of the theory of international relations» the materials of international relations scholars were scrutinized. Scholars, whose ideas assumed as a basis and who represent the realist school of IR are J. Grieco, R. Axelrod, R. Keohane, J. Mearsheimer. Liberalistic point of view is presented in works of R. Gilpin, W. Ming.

The basic concepts of modern neo-Marxism are "world-system" and "world-economy". The key influential scholar of this school is I. Wallerstein. Other ideas of another dominant approach we analyzed with the help of K.M. Fierke, T. Dunne, M. Kurki, and S. Smith, W. Alexander, A. Vucetic and T. Hopf, and William C. Wohlforth.

The empirical basis of the study was made up of documents and materials of various nature. They can be divided into several main groups: Doctrinal documents and reports of the US executive branch, including national security strategies, reports of the US Department of Defense and the US Department of State. The National Security Strategy makes it possible to single out the basic principles, goals and priorities of the US foreign and defense policy, to reveal the tools for the implementation of American national interests.

The documents of Ministry of Foreign Affairs of Vietnam were also analyzed. The 2019 National Defence White Paper of the Ministry of National Defense of the Socialist Republic of Vietnam contains a description of the fundamental nature of peace and self-defence of Vietnam's national defence. It also specifies challenges of Vietnam's defence policy and adjustments to its national defence policy, structure of the Ministry of National Defence etc. It seeks to promote better understanding and confidence building between Vietnam and other countries on the world arena.

The materials of the US Department of State are presented in the dissertation in annual reports of the U.S.-China Economic and Security Review Commission in particular Economic Report (February, 2003) of the President transmitted to the Congress together with the annual report of the Council of Economic Advisers, Report to Congress US Department of the Treasury Office of International Affairs (December 2020), Ministry of Planning and Investments of the Department of Foreign Investments of the SRV. In addition, when studying and identifying the vectors of Vietnam's development for the purpose of its international integration, the author used materials of the 12th CPV Central Committee (CPVCC).

Statistical and factual materials. This group of sources was necessary when analyzing various economic indicators of the United States, China and Vietnam, their system of trade and economic relations. The data extracted from reports and statistics of World Integrated Trade Solution, Institute for the U.S. and Canadian Studies RAS, Congressional Research Center, Statista.com, Asia Society Centre on US-China Relations, Bureau of Economic Analysis, Carnegie Center, World Economic Outlook, Pew Research, reports of the WTO, gso.gov.vn as well as TrendEconomy.ru was used in order to analyze China-US trade issues, economic relations among the countries as well as to scrutinize the trends in the development of international trade.

Materials of news sites and electronic newspapers. In the course of work on the thesis, the author used articles posted on the Vietnamese, Chinese, American and Russian sites: Sohu, Caixin, CNBC, Baijiahao, CGTN, Duowei News, Hexun, Xinlang Zhuanlan, Reuters, vnexpress.net, Vietnews.ru, Vnemba.org.cnm, Bao Ahn Vietnam, Voa News, voatiengviet.com, the Diplomat, Kommersant, russian.news.cn, thanhniennews.com, Bloomberg. They are a

valuable source of factual information on the issues under consideration.

The author also examined the statements of senior officials and influential persons, consisting of public speeches, communiqués, speeches and interviews of presidents (in the case of China, General Secretary of the PRC), heads and their deputies of foreign policy and economic departments of the United States, China, Vietnam, materials of press conferences, ministries of foreign affairs of the above-mentioned countries, as well as speeches by other influential persons (especially in the area of international affairs as John Mearsheimer, Joseph Nye). This group of sources allows us to trace the official position of the United States, Vietnam and China on a particular issue and identify their reactions to certain international events.

Secondary sources include the book of Robert G. Sutter «U.S.-China relations: perilous past, uncertain present», the book of James Shinn (Editor), Harold Brown (Foreword) «Weaving the Net: Conditional Engagement with China Paperback» (July 1, 1996) which deal with the current growth of China, its background as well as China-US relations in this regard. To understand the main trends in economics, we used the monography «International trade: yesterday, today, tomorrow» (2017) by V. Vasiliev. This monograph covers the results of research into the development of international trade over the past and early centuries. The authors focus on modern trends in international trade exchange in the context of increasing uncertainty and instability in the development of the world economy and individual national economies. From an economic point of view, the author consulted the book «The United States and China: a history from the eighteenth century to the present» by Dong Wang, director and professor of contemporary Chinese history at the University of Turku in Finland. The book by B. Womack «China and Vietnam: The Politics of Asymmetry» (2006) showed us the asymmetrical relations between Vietnam and China.

The important food for thought was introduced by G. Lokshin in his article «Vietnamese-Chinese relations: tyranny of geography and common sense» (2013). He claims that the future of Vietnamese-Chinese relations depends on the interaction of two constant factors (history and geography) and two variables (China's domestic and foreign policy and the changing relations of the major powers of the United States - China, China-Japan, China-India and China-Russia). Domestic political considerations are likely to become decisive for both sides in this matter, because their foreign policy is inextricably linked and is a continuation of the domestic one.

The degree of scientific elaboration of the problem. To begin with, the relationship between the United States and China is the subject of research for political scientists, historians, and economists in many countries. As countries directly involved in these relations, the United States and China are conducting the most in-depth studies on this issue. Russian scholars also participate in the analysis of US-China relations, but not actively enough, especially given the

high importance of these relations for the modern international system.

Conventionally, several groups can be distinguished in the corpus of American research literature on the relations between the United States and China. The first group is the most interesting because it allows American researchers to trace the development of China's economy. This group covers works that analyze China's (possible) status as a superpower. The authors pay attention to the changes in China's foreign and domestic policies that contribute to the country's growth. In addition, attention is focused on a possible conflict with the United States and its causes. J. Mearsheimer, J. S. Nye, A. Friedberg, Robert R. Ross and others were engaged in the study of these issues.

The second group includes studies which analyze US-Chinese relations from a retrospective point of view or at certain stages of their development. Among the research works of this group are the monographs of N. Tucker, H. Kissinger, J. Mann, J. Holdridge.

The third group consists of works devoted to the study of contemporary American-Chinese relations during the administration of George W. Bush. and B. Obama. Particularly noteworthy are the works of Th. Christensen and D. Lampton, to name a few.

On the whole, it is possible to vision the high intensity of research and development in the United States on American-Chinese relations.

The topic of US-China relations is widely discussed in China as well. Overall, American Studies are deeply studied within liberal arts disciplines in China. There are several large reputable research centers in China that are most actively involved in the development of US-China relations: Institute of Contemporary International Relations of Peking University, Tsinghua University, Shanghai Academy of Social Sciences etc.

In the corpus of Chinese scientific research literature, several categories can be also distinguished. The first group contains works in which Chinese researchers try to rethink the structure of the international system, of the balance of power between China and the United States as well as raising contradictions between them.

This group is represented by the works of such famous Chinese scholars as Fu Mengzi, Wu Xinbo, Liu Liping, Wang Honggang, Ma Zhengang etc.

Within the framework of theoretical studies, it is appropriate to single out studies that generally analyze the phenomenon of the country's rise as well as assess the possibility of creating a US-Chinese armed forced conflict. These are, in particular, the works of Zhao Suisheng, Yuan Peng, to name a few. The existence in a number of states of the so-called theory of the "Chinese threat" stimulates Chinese researchers to search for theoretical forecasting of the possibility of a peaceful, conflict-free rise of China.

The second group includes general studies of historical and political orientation. For

instance, here it is possible to single out general works that analyze American-Chinese relations at the present stage, highlight their main developmental directions, as well as bilateral interaction. Well-known Chinese scientists are actively working in this direction such as Jia Qingguo, Wu Xinbo, Liu Liping etc.

In general, it should be noted that the topic of US-China relations is widely represented in the Chinese scientific literature. Chinese writers have explored many aspects of this bilateral relationship. At the same time, there is an important omission in the studies of many Chinese scholars - when analyzing bilateral relations, they take into account only the interests of China, often defending the domestic and foreign policy actions of Chinese leaders and criticizing American diplomacy. Moreover, China has censorship that limits the discussion on some topics and prevents scientific research.

The topic of US-China relations is also presented in Russian scientific literature. The circle of Russian scholars specialized in the study of contemporary US-China relations is extremely narrow. Stable interest in this important topic for the science of international relations is shown in works by S.M. Trush, A.S. Davydov and Y.V. Leksyutina.

Thus, we can notice the underdevelopment of this topic in the works of Russian researchers. Works containing an analysis of the development of Sino-American relations at this stage reveal only some of their aspects and are presented mainly in the form of articles and essays.

Sino-American relations are traced in the books of G. John Ikenberry, Ashley Tellis and R. Blackwill, L. Goldstein. It is recommended to look through the collective article by A. Vinogradov, A. Salitsky, N. Semenova (2019) as well as to the article of V. Mikheev, S. Lukonin (2019). The article (2018) by Y. Leksyutina explains the logic of D. Trump's trade policy, his motivation behind the initiation of «trade wars», and his vision of the desired world economic order. The last but not least to be mentioned is the promising work of S. Trush (2018).

As we analyze US-China relations and the trade war through the prism of different international relations theories, it seems appropriate to mention the article «International relations in the Asia-Pacific region: theoretical approaches and concepts» (2009) by A.L. Lukin. The author examines realism, liberalism and sociocultural theories of international relations in the Asia-Pacific region.

The problem of medium-sized countries in the region and the development of their policies in the context of rivalry between two large actors are of focus in our research. Analyzing the economy of the Socialist Republic of Vietnam, we should mention the book (2018) edited by J. Wilson. In fact, the book contains an analysis of the foreign policy of modern Vietnam, with close attention paid to the country's relations with China, the United States and Australia. Among

the authors of the monograph, two - Ngan Collins and Le Hong Hiep - linked the evolution of Vietnam's foreign policy with changes within the country, referring to the Doi Moi reform policy pursued by the CPV since the late 1980s. In this regard, Ngan Collins examines the evolution in the approach of the Vietnamese leadership to the role of state-owned enterprises in the national economy of Vietnam. Another important indicator of the evolution of Vietnam's foreign policy was the country's participation in international integration processes. In this context, the author names the following milestones-events: the entry of the Socialist Republic of Vietnam into ASEAN (1995), the conclusion of a trade agreement with the United States (2001), accession to the WTO (2007).

Among the Vietnamese scientists dealing with the issues of foreign economic relations of Vietnam, the following academic economists can be distinguished: Vo Chi Thanh, Nguyen Minh Fong, Truong Dinh Tuen, Pham Chi Lan, Duong Huu Han, Bui Xuan Luu, Iguyen Huu Hai, Nguen Tkhi KHong Nam etc. Western European, American, Asian experts are also increasingly interested in the economic problems of Vietnam's development: C. Thayer, M. Kazi, E. Fukase, W. Martin, and so on.

International academics have recently written a variety of research articles exploring Sino-Vietnamese relations from various angles. For instance, G. Lokshin (2019) addresses the causes and effects of the Sino-Vietnamese War in 1979. The other article of him (Lokshin, 2013) as well as by M. Pietrasiak and K. Pieczara (2019) address the East Sea dispute in the second decade of the twenty-first century, China's role on the East Sea, and the challenges facing Vietnam from regional (ASEAN) and international (major countries, such as the United States and Russia) perspectives. Needless to say that their perspectives are very close to those of Vietnamese scholars.

We would like to describe in detail the works of Russian researchers. There should be taken into account the works of E.V. Kobelev (2017), V.N. Kolotov (2016; 2015), A.P. Zvetov (2015), V.M. Mazyrin (2013; 2007), E.V. Petrovsky (2020; 2019), M.S. Zelenkova (2016) etc. It should be noted, however, that so far no comprehensive approach has been proposed to the study of modern problems of the development of the Vietnamese economy in the conditions of balancing between the United States and China.

The theoretical significance of the research lies in the comprehensive analysis and structuring of information about the Vietnamese economy since the mid-20th century and the country's relations with China and the United States amid the trade war, as well as in deepening the understanding of the impact of the trade war on the world economy as a whole.

The thesis significantly supplements and develops research on this topic. The results of

the research and the conclusions of the thesis can be used by Vietnamese official structures interested in keeping the growth of the Vietnamese economy and its further development. **The practical value of the work** is determined by the further use of the data and materials obtained in the educational process in the courses such as "International Economic Relations", "Introduction to Vietnamese Studies", "Political Economy", "World Economy", etc.

The structure and scope of the study correspond to the aim, objectives and logic of the study. The thesis consists of an introduction, three chapters «US-China economic confrontation», «Key directions of development of the economy and foreign policy of Vietnam» and «Vietnam amid rivalry between two powers», a conclusion, a list of references and appendices.

Approbation of the work took place at the Moscow State University in the section of *World economy and international economic relations (countries of Asia and Africa)*, subsection *East and South Asia in the world economy and international economic relations amid Lomonosov-2021 conference*. The materials of the thesis were presented at the third All-Russian Scientific and Practical Conference of Young Scientists "Comprehending the East" («Осмысляя Восток») in the section "*Far Eastern Studies*", subsection "*History and International Relations (East Asia)*" organized by the Humanities Oriental Faculty of the State Academic University and by the Institute of Oriental Studies of the Russian Academy of Sciences. Moreover, the results of the study were introduced at the MGIMO University amid the conference «Vietnam in the modern system of international relations: in search of answers to new challenges» in the section of *Domestic and Foreign Policy of Vietnam*. Finally, the author discussed the results at the II Scientific conference *Orbes Politici* for undergraduate and graduate students and young scientists, organized by the School of Political Studies of the Institute of Social Sciences (ISC) RANEPА in the section "*Problems of Global and Regional Development*".

Chapter I. US-China economic confrontation

1.1. *The U.S.-China Trade War: Structural Prerequisites*

Since both countries re-opened their doors to each other in 1971 after President Richard Nixon's visit to Communist China, their economic and financial ties have been widely viewed as the "ballast" (*ya cangshi* 压舱石) of an uneasy relationship. In the 21st century, the growth of bilateral economic relations between the US and the PRC has been quite impressive, and the expectations and fears about the future of their ties have risen accordingly. As these two nations are currently at a crossroads, scholars around the world are trying to describe their present dispute from the perspective of international relations theories and predict the consequences.

To analyze the trade war, it is necessary to turn to the origins of the model, the aforementioned crisis phenomena are the direct consequences of the logic of development of which. The origins should include, on the one hand, Reaganomics in the United States (1981), and on the other hand, the "Policy of Reform and Opening" (in Chinese, *gaige kaifang*) by Deng Xiaoping in China (1978).

During 1970s and 1980s the balance of trade between US and China was in favor of the former. In 1979, China's total economic output was just 7 percent of that of the United States, even though China had about four times as many people. It took almost 20 years for the CRC to get closer to the standards and indicators of the upper-middle-income country because of the concentration on China's internal markets and its reorganization in 1980s and 1990s. Reform overall was decentralizing, shifting power and resources from the hands of central planners to local actors.

The situation began changing around 1985. Dual trade reforms resulted in an annual growth of around 10 percent in China's Gross National Product from 1983 to 1987, and a 15.8 percent annual expansion in international trade. China's foreign trade virtually tripled from US\$20.6 billion in 1978 to US\$60.2 billion in 1985, while trade with the United States increased sevenfold, from about US\$1 billion to over US\$7 billion. The U.S.-China opening was a signal for China's emergence in the world economy, paving the way for rapidly expanding Chinese trade with Europe and the Asia-Pacific¹.

By at least the mid-1990s, China had successfully moved away from the command economy and adopted a functioning market economy. Nevertheless, even today, the process of market transition in China is far from complete. Since the early 1990s, China's surplus in bilateral trade began to grow, the process further intensifying in the new century. According to

¹ Wang, D., U.S.-China Trade: 1971-2012: Insights into the U.S.-China Relationship / D. Wang // The Asia-Pacific Journal. – 2013. Vol. 11. Issue 24. № 4. – P. 4.

the World Bank data, the share of China in US imports was less than 4%, and in US exports – mere 1,5% in 1991².

During the period of the Cold War, the United States and China had some contradictions. Despite this controversy in their policies, Chinese officials were satisfied with the progress they had achieved in normalizing ties with the United States after the 1989 Tiananmen Square crackdown and the confrontation over Taiwan in 1995–96. While the US changed some strategically important views on key confrontational issues with China, China, in its turn, made little concessions in main areas of significance. The 1997 and 1998 summits were the pinnacle of the normalization campaign³.

During the Presidency of Bill Clinton (1993-2001), the goal of the US foreign policy regarding the PRC was to enmesh China in webs of interdependent relationships with the United States, international organizations, world business, in order to «attract» Chinese officials and thus be able to influence Chinese policies and practices at home and abroad in the positive for the US direction⁴.

When George W. Bush became president in 2001, the same year China joined the WTO and was becoming more prominent in Asia and World Affairs. The administration of George W. Bush did not have a clearly articulated policy, hesitating whether to see China as a friend or foe of the United States⁵. The strategy consisted in maximizing US national (military and economic) power and gain influence in the relations with key US allies and other power centers (India and Russia), including relations with China⁶. Actually, the Bush administration lowered China's priority for US decision makers, placing the PRC well behind Japan and other Asian allies and even Russia and India for foreign policy attention⁷.

US-China relations faced a crisis when on April 1, 2001, a Chinese jet fighter crashed with a US reconnaissance plane, an EP-3, in international waters off the China coast. Many specialists predicted the deterioration of relations, but both governments did all their best to tackle the issue and focus on benefits from the cooperation. Since that moment, Chinese officials realized that it is up to them to take steps to improve the relations. In interactions with US leaders, they became more respectful and less conflictual. Chinese politicians and the media

² World Bank. URL: <https://wits.worldbank.org/> (accessed 12.11.2020).

³ Sutter, R. G. *US-China Relations: Perilous Past, Uncertain Present* / R. G. Sutter – New York: Rowman & Littlefield, 2018. – P. 117.

⁴ *Weaving The Net: Conditional Engagement with China Relations*. Ed.: James Shinn - New York: Council on Foreign Relations, 1996. – P. 284.

⁵ Hiebert, M. *The Bush Presidency: Implications for Asia* / M. Hiebert - New York: The Asia Society, 2001. – pp. 5–9.

⁶ Sutter, R. G. *Grading Bush's China Policy* / Robert G. Sutter – Honolulu: CSIS Pacific Forum. PACNET 10 - 08.03.2002. URL: <https://www.csis.org/analysis/pacnet-10-grading-bushs-china-policy> (accessed 25.04.2021).

⁷ Glaser, B. *First Contact: Qian Qichen Engages in Wide-Ranging, Constructive Talks with President Bush and Senior U.S. Officials* / B. Glaser // *Comparative Connections*. – 2001. Vol. 3. № 1. – P 24.

started to revise their anti-American language. They even gave some hints of public support for the US military presence in East Asia⁸. In addition, the terrorist attack on America in September 2001 changed the US policy focus away from China as a potential strategic threat, being preoccupied with the wars in Afghanistan and Iraq and the broader war on global terrorism. All in all, despite a wide range of continuing differences ranging from Taiwan and Tibet to trade issues and human rights, the two countries managed to find common interests.

Needless to say that restrictions on US trade with other countries since the end of the last century, including during the Republican administrations of R. Reagan and George W. Bush, were not widespread and were temporary in nature. The main focus of economic policy was dictated by attitudes towards a free market, competition "necessary to preserve the viability of the American economy", on foreign trade as a factor in increasing competition⁹. At the same time, American ruling circles emphasized the importance of foreign trade for creating jobs not only in export industries, but also in sectors designed to serve the products imported into the United States. The US trade deficit with China surged from a \$17.8 billion deficit in 1989 to around \$100 billion in 2000. It more than doubled in the five following years and was \$256 billion in 2008¹⁰.

It should be mentioned that in the National Security Strategy Report back in 2002 it was reported that "Our forces will be strong enough to dissuade potential adversaries from pursuing a military build-up in hopes of surpassing, or equaling, the power of the United States"¹¹. Paraphrasing this idea, the Bush administration called for better relations with China but clearly warned against any power seeking to challenge US interests with military force¹².

That was a stumbling block especially after 2003 as China expanded military power along with economic and diplomatic relations in Asian and world affairs while the US still had other foreign policy issues. Within the Bush administration, three viewpoints toward the rise of China appeared. The realist US officials were concerned about China's rise in Asia and considered the country as the thread to undermine US leadership in the region¹³. The other officials believed that China sought to improve its development by preventing balancing against

⁸ Cummings-Bruce, N. Powell Will Explain Bush's Asia Policy / N. Cummings-Bruce // Wall Street Journal. – 2001. – A11.

⁹ Economic Report of the President. – United States Government Printing Office Washington: 2003. – February. URL: https://fraser.stlouisfed.org/files/docs/publications/ERP/2003/ERP_2003.pdf

¹⁰ Morrison W. China-U.S. Trade Issues / W. Morrison // CRS Report RL33536 - Washington, DC: Congressional Research Service of the Library of Congress, April 23, 2007.

¹¹ The National Security Strategy of the United States of America. Washington: President of the U.S. – 2002. URL: <https://georgewbush-whitehouse.archives.gov/nsc/nss/2002/> (accessed 25.04.2021).

¹² Glaser B. Playing Up the Positive on the Eve of the Crawford Summit / B. Glaser // Comparative Connections. October 2002. URL: <http://cc.csis.org/2002/10/playing-positive-eve-crawfordsummit> (accessed 25.04.2021).

¹³ U.S. - China Economic and Security Review Commission / 2005 Report to Congress // Washington, DC: US Government Printing Office. – 2005. – pp. 143–90.

China, and isolate Taiwan as well as sustain stability in the region. Although China's intentions were not targeted primarily against the US, they indirectly had negative influence on US position in Asia. The more liberal point of view, identified with US Deputy Secretary of State Robert Zoellick (2005) is that the US needs to cooperate with China, as China's regional and international prominence grew¹⁴. By working together, the US intended to encourage the PRC to use its growing power in "responsible" ways that are consistent with US interests in Asia and around the world. Thus, in order to maintain and strengthen US leadership and interests in Asia as China grew, this school of thought put less focus on rivalry with China and more emphasis on collaboration with China than the other two schools of thought. In addition, this point of view was chosen by the Bush administration to follow.

In general, the countries had differences in interests and values. However, they weighed the costs and benefits of such differences, and chose to collaborate emphasizing mutual interests. Such relations between two countries under Bush administration can be described from the perspective of realists.

With the outset of the US administration of President Barack Obama in January 2009, the situation remained still uncertain and many aspects did not change as both countries were dealing with domestic issues such as the consequences of the economic crisis of 2008 and following deep recession, uncertain leadership succession in China and raising domestic problems, US foreign policy issues in Iraq, Afghanistan, Pakistan, Iran, broader Middle East issues and North Korea. While the US faced the weakening of its position on the world arena due to draining wars, China emerged from the economic crisis with strong growth.

As for Barack Obama's policy, since late 2011 he aimed at rebalancing the policy, also known as «pivot» to Asia that China did not like. With the rise to power of Xi Jinping, the relations between countries started to aggravate and sharpen. In general, it is possible to identify four types of contradictions: (1) opposition to US support for Taiwan and participation in other sensitive sovereignty questions such as Tibet, contested islands, and maritime rights along China's rim; (2) opposition to the United States' dubious and shady attempts to reform China's political system; (3) opposition to the United States playing a leading role in Asia around China's periphery; and (4) opposition to many aspects of US leadership in world affairs¹⁵.

¹⁴ Zoellick, R. *Wither China? From Membership to Responsibility* / R. Zoellick // National Committee for U.S.-China Relations. – September 21, 2005.

¹⁵ See contrasting views of China's approach to the United States at this time and of various differences in China-US relations in Bates Gill, *Rising Star: China's New Security Diplomacy* (Washington, DC: Brookings Institution, 2007); Susan Shirk, *China: Fragile Superpower* (New York: Oxford University Press, 2007); David M. Lampton, *The Three Faces of Chinese Power: Might, Money, and Minds* (Berkeley: University of California Press, 2008); Michael Swaine, *America's Challenge: Engaging a Rising China in the Twenty-First Century* (Washington, DC: Carnegie Endowment, 2011); Aaron Friedberg, *A Contest for Supremacy: China, America, and the Struggle for*

Although the new US approach emphasized strong and positive US engagement with China, it also called for stronger American diplomatic, security, and economic relationships throughout the region, which many Chinese commentators saw as constraining China's rising influence in Asia¹⁶. The prism of realism in international relations theory was used to explain growing difficulties and tensions in US-China relations over the time period outlined above. At the same time, China and the US have constructed their own identities that complicated the progress towards compromise; in China nationalism with the core idea of past injuries gained power, and the US had its own constructed identity of extraordinary justice and fairness as well. So, the element of constructivism is marked out in some analyses of the recent rise in tensions and antagonism in US-China relations.

The inability of liberals' preferred sources of peace and partnership in ties, economic interchange and close political and nongovernmental interaction, that is supposed to lead to greater coordination, has been discussed. Recent events have shown that Americans see economic interactions with China as going against their interests, a situation that is becoming exceedingly unfavorable and required strong US government intervention. Closer American involvement in achieving mutually beneficial deals with China, as advocated by liberals, seemed to be contradicted by the 2016 US presidential campaign rhetoric of Obama administration Secretary of State Hillary Clinton, leading Republican nominee Donald Trump, and several others. They concluded that America needed to be continuously careful in monitoring China's implementation of economic and other agreements because Beijing could not be trusted and had a history of exploiting to benefit itself to the detriment of the US¹⁷.

Economic concerns grew in prominence: a huge trade deficit, Chinese currency policies and activities, US reliance on Chinese funding of US government budget deficits, and Chinese national security and industrial espionage and abuse of intellectual property rights were among the rising inequities found in the United States with respect to America's economic relationship with China's ever more strong economy. Needless to notice that President Obama and General Secretary Hu Jintao and General Secretary Xi Jinping had biannual senior dialogues, several summits and numerous other meetings that advanced progress in the multifaceted Sino-American relationship and gave faith to liberals. Constructivists have emphasized the United States and China's shared ground on topics such as climate change, nuclear security, and other foreign governance issues as evidence of collaboration with the aim of mutually beneficial growth.

Mastery in Asia (New York: W. W. Norton, 2011); and Jeffrey Bader, *Obama and China's Rise* (Washington, DC: Brookings Institution, 2012).

¹⁶ Sutter, R. G. *US-China Relations: Perilous Past, Uncertain Present*. P. 146.

¹⁷ *America's 2016 Election Debate on Asia Policy and Asian Reactions* / Sutter, R. [et al.]. - Honolulu, HI: East-West Center, 2016. – P. 42.

Realists (see G. John Ikenberry, Ashley Tellis and Robert Blackwill) are recommended to look closer to seemingly different areas and map suggested future course.

The situation changed in 2016. During the 2016 American election campaign Democratic Party front-runner Hillary Clinton called for the confrontation with Beijing as it manipulates the US in its own interests¹⁸. Trump, the Republican presidential nominee, has a more limited list of grievances against China, emphasizing the importance of securing better trade terms for the United States. Chinese observers pointed that during the campaign both candidates highlighted significant distinctions between the countries. They disliked both the Democratic and the Republican nominees but believed that Beijing would be better off with a Trump government than a Clinton government¹⁹

The dispute between the United States and China, called the "trade war", is one of the main contradictions in the modern world. According to National Security Strategy of the United States of America presented by 45th US President Donald Trump on December 18, 2017, "China and Russia challenge American power, influence, and interests, an emptying to erode American security and prosperity"²⁰.

Thus, despite the change of administrations and parties in power, the USA considers the rapid acquisition of military-political power by the PRC as a key threat to the US global leadership and considers its goal to maintain world domination. In addition, there are objective economic contradictions between the United States and China as well as Trump's domestic political strategy that are one of the main sources of the trade war.

Until 2017, the foreign economic policy of the United States was generally characterized by a consistently high level of continuity, adherence to the principles of liberalization in the presence of legislation allowing the introduction of certain restrictions on external relations based on national interests²¹. By 2017, the last year prior to the 'trade war', China accounted for 21,85% of US imports and for 8,40% of US exports. China has become number one importer to the US and the third destination for US exports. Meanwhile, since the early 1990s, the share of the US in China's exports has almost doubled, rising from about 10% to 19% in 2017, the share of the US in China's imports fell from 11% to 8,4%. The bilateral economic ties have not been limited to trade, as US and China has become major investors for each other²². Today China's total economic output is about two thirds the size of the U.S. economy, and two and half times

¹⁸ Ibid., pp. 19–20.

¹⁹ Ibid., p. 21.

²⁰The National Security Strategy of the United States of America. URL: <https://georgewbush-whitehouse.archives.gov/nsc/nss/2002/> (accessed 25.04.2021).

²¹ International Trade: yesterday, today, tomorrow [Mezhdunarodnaya trgovlya: vchera, segodnya, zavtra] / Ed.: A.V. Schischkin. - M.: Ruseins, 2017. – P. 19.

²² Wang, D., U.S.-China Trade: 1971-2012: Insights into the U.S.-China Relationship. P. 6.

bigger than Japan²³.

On the one hand, both sides feel the need for each other, but, on the other hand, they tend to be mutually separate. Since D. Trump came to power, this trend not only began to intensify, but also received an effective incentive to implement. The problem related to the imbalance in bilateral trade, in particular, is of a structural nature, because the very concept of exchange between the two economies has been developed in such a way that after having opened the borders, the United States endures all its industrial production to China, in order to receive all the same goods from China, but at a lower cost. Maintaining this status quo, however, suggests weakening (and in the long run, losing) the global leadership of the US.

On January 23rd, 2018 the White House administration has decided to raise tariffs for the supply of solar panels (up to 30%) and washing machines (up to 20%). These trade measures were supposed to help local producers fight rising import pressures. Although the measures were not directly directed against the PRC, China is the largest producer of both products. In 2016, imports of washing machines from China to the United States were estimated at \$ 0.4 billion, solar panels - at \$ 1.5 billion. Together, this is 0.6% of Chinese exports. As of 2018, the US accounted for almost a quarter of all Chinese exports and vice versa, China's share in US imports is also comparable - about 22%²⁴.

Since that time, tensions between the countries have been growing as the US gradually imposing higher tariffs for increasing number of Chinese products as well as demanding radical policy changes from China in favor of the US. China, though agreeing to import more goods from the US, retaliated. There was only little success in several rounds of trade negotiations. As a result, the two countries and the whole world face the situation of uncertainty and slower economic growth for 2 years.

As explained in a prominent report by the Asia Society in February 2017, was that Chinese practices reinforced, from a decade earlier, state-directed “zero-sum, mercantilist trade and investment policies that are highly . . . damaging to US commercial and economic interests”²⁵. Thus, we see that the liberal school of IR’s view, according to which growing trade and economic interchange would strengthen the bonds between the countries, crashed. The course of events is more in line with the paradigm of realism.

The American elections of 2020 were nor viewed by Chinese experts as an event capable

²³ Kroeber, Arthur R. *China's Economy: What Everyone Needs to Know* / Arthur R. Kroeber – USA: Oxford University Press, 2020. – P. 3.

²⁴ Kommersant. Special duties prescribed for American imports [Amerikanskomu importu propisali osobyе poshliny] / Kommersant, 24.01.2018. – №12. – P.2. URL: <https://www.kommersant.ru/doc/3528098> (accessed 23.05.2021).

²⁵ Schell O. & Shirk, Susan L. *US Policy toward China: Recommendations for a new administration* / O. Schell & Susan L. Shirk // Task Force Report. – Asia Society Center on US-China Relations, February 2017. – P. 60.

of having a serious impact on the state of US-China relations: regardless of the outcome of the elections, experts expected the United States to continue its course of containing the PRC. It was assumed that Donald Trump, in the event of his unlikely victory, would continue the previous policy without significant changes.

According to Zhu Feng, Dean of Institute of International Relations at Nanjing University, "If Trump is re-elected, it is unlikely that trade negotiations between China and the United States will resume next year. The US will continue to suppress China, the opportunities for trade negotiations between China and the US will dwindle"²⁶.

Director of the Forum of Chief Economists of China (中国首席经济学家论坛, an association uniting economists from leading Chinese financial companies) Li Zhan in August 2020 noted that some reduction in tensions in US-China relations is possible, while competition continues if Joe Biden is elected. In particular, Biden would cancel discriminatory customs tariffs imposed by Trump as part of the trade war. Nevertheless, he did not consider it possible for the United States to abandon the confrontation in the field of technology. Under Joe Biden, China will also be denied access to the high-tech sectors of the American market, especially those related to telecommunications infrastructure. In addition, according to his estimates, the Democratic Administration will continue to fight China's development in the field of artificial intelligence and 5G²⁷.

During the elections, the American bureaucracy, civil and military, continued to pursue an unfriendly policy towards China. The sanctions agenda has also been developed. On November 9, 2020, the United States imposed a travel ban and froze American accounts at four officials from the Central People's Government and the Hong Kong Special Administrative Region government²⁸. During a press conference on November 10, 2020, Chinese Foreign Ministry spokesman Wang Wenbin criticized the actions of the United States, accusing them of interfering in China's internal affairs and violating international law²⁹.

Joe Biden's first steps have confirmed that there will be no revision of the course to contain the PRC. Duties imposed on Chinese goods will not be canceled immediately. Joe Biden

²⁶ Sohu. The future of the Sino-US trade talks largely depends on the outcome of the US elections [中美贸易谈判的未来在很大程度上取决于美国大选的结果]. / Sohu. URL: https://www.sohu.com/a/407571938_626761?_trans_=000014_bdss_dkygcbz (accessed 25.04.2021).

²⁷ Baijiahao. Li Zhan: Who Controls the Ups and Downs? Political Observation of the U.S. Election [李湛：谁主沉浮？美国大选政治观察]. URL: <https://baijiahao.baidu.com/s?id=1675988966161752896&wfr=spider&for=pc> (accessed 25.04.2021).

²⁸ Pompeo, M.R. Designations of Four PRC and Hong Kong Officials Threatening the Peace, Security, and Autonomy of Hong Kong / U.S. Department of State. 09.11.2020. URL: <https://www.state.gov/designations-of-four-prc-and-hongkong-officials-threatening-the-peace-security-and-autonomy-of-hong-kong/> (accessed 25.04.2021).

²⁹ Wenbin, W. [2020年11月10日外交部发言人汪文斌主持例行记者会] / Regular press conference of Foreign Ministry spokesman. Ministry of Foreign Affairs of the PRC, - November 10, 2020. URL: https://www.fmprc.gov.cn/web/fyrbt_673021/t1831006.shtml (accessed 25.04.2021).

noted that it is necessary to first carefully study the first phase of the trade agreement and consult with allies to develop a coherent strategy³⁰.

With the harsh words of Robert Lighthizer, a former US trade representative - "Use trade duties to pressure China, make China go on fire" - and the appointment of Katherine Tai (Dai Qi), known for her harsh remarks on the PRC, to his post, this is causing concern for Chinese observers³¹. As regards Katherine Tai, she is the daughter of Taiwanese immigrants, was involved in a US lawsuit against China over rare earth export limits in 2012, and in 2019 supported a pro-Uyghur bill in the House of Representatives³². Katherine Tai takes the toughest position and believes that Donald Trump's protectionist measures were exclusively defensive in nature, and it is necessary to focus on the offensive component, as well as support American manufacturers to reduce imports from China³³. Her appointment confirms that there will be no major revision of policy towards China, despite the possibility of cooperation on some issues.

Jake Sullivan also stands for a tough line in relations with China. In the Lowy Institute podcast, he noted that the timing of preference for cooperation over rivalry was natural under Barack Obama, but now the United States must build up national power and build interaction with China from a position of strength³⁴. At the same time, the *Duowei News* article emphasizes that Jake Sullivan is not a supporter of containment in the logic of the Cold War, instead he relies on solving internal problems and strengthening allies, which will help consolidate the position of the United States in interaction with China³⁵.

The course towards restoring allied relations for solving foreign policy problems is also confirmed by the appointment of Linda Thomas Greenfield to the post of Permanent Representative to the UN and John Kerry to the position of special envoy for climate issues. Thus, Zeng Ziyi, editor of *CGTN*, describes the appointment of Linda Thomas-Greenfield, earlier as a clear signal of the return of the United States to active interaction with international

³⁰ Lee Y.N., Kimball S. Biden says he won't immediately remove Trump's tariffs on China // CNBC. 02.12.2020. URL: <https://www.cnbc.com/2020/12/02/biden-tells-nyt-columnist-he-wont-immediately-remove-trumps-tariffs-onchina.html> (accessed 18.12.2020)

³¹ Baijiahao. Biden will take office and direct "first shot" at China? A senior official suggests: calm them down with taxes [拜登新官上任，第一把火要“烧”中国？高官提议：用关税制服他们]. URL: <https://baijiahao.baidu.com/s?id=1686307375481582458&wfr=spider&for=pc> (accessed 25.04.2021).

³² Hexun. Biden nominated Dai Qi as the U.S. Trade Representative. He was born and raised in Taiwan and sued China / Hexun. URL: <https://dy.163.com/article/FTNB79G80519D4UH.html> (accessed 25.04.2021).

³³ Feng, W. Chinese Woman or US Trade Representative: Speaks fluent Chinese, advocates an offensive against China [华裔女性或任美国贸易代表：操流利普通话 主张进攻性对抗中国] / W. Feng. URL: <https://www.dwnews.com/全球/60222011/华裔女性或任美国贸易代表操流利普通话主张进攻性对抗中国> (accessed 25.04.2021)

³⁴ The Director's Chair: Jake Sullivan on Russia, China, climate diplomacy and Australia / Lowy Institute Audio. 23.11.2020. URL: <https://soundcloud.com/lowyinstitute/the-directors-chair-jake-sullivan-part-two> (accessed 25.04.2021).

³⁵ Duowei News. Biden Cabinet. National Security Adviser Sullivan: Tough Neutralization of China. URL: <https://dwnews.com/全球/60220135/拜登内阁国安顾问沙利文对华强硬的中和剂> (accessed 25.04.2021).

institutions. This interaction can be used to pressure China in international disputes³⁶.

To sum up, the US strategy towards China will obviously undergo some changes during the Joe Biden leadership. However, in the course of the negotiations of the Phase One Deal between the United States and China, the situation with respect to currency issues changed in mid-January 2020. In mid-January 2020, the U.S. Treasury reversed its decision to classify China as a currency manipulator. Moreover, China, in particular, agreed to increase purchases of American products (mainly food and energy) by \$ 76.7 billion during the first year and by \$ 123.3 billion during the second year of the agreement. According to Trump, the deal was supposed to reduce the trade deficit³⁷.

Shortly after the signing of the first part of the deal, some analysts discussed the possibility of starting negotiations on the likelihood of a second phase of the document. However, relations between the United States and China have sharply deteriorated due to the coronavirus pandemic. The United States accused China of hiding the facts and untimely reaction to the outbreak of the disease. The version of the leak of the coronavirus strain from a laboratory in Wuhan, China was also discussed.

The United States also threatens China with sanctions, accusing it of oppressing the Uighurs and other Muslim groups, violating human rights, including in Tibet, and stating that the project to protect Hong Kong is aimed at eliminating its high autonomy.

Thus, at the moment it is premature to talk about the conclusion of an agreement on the second phase, however, to talk about its final cancellation is also not entirely correct. In general, the topic of US-China relations is now not a priority for the markets. At the same time, China failed to buy agreed amounts of U.S. goods. According to Peterson Institute for International Economics, in 2020, China imported \$100 billion of the U.S. goods — a little bit less than 58% of the targeted \$173.1 billion³⁸. No reaction followed from the White House.

On March 19, 2020 in Anchorage, Alaska, negotiations between high-ranking representatives of the United States and China took place. From the American side, the delegation was led by Secretary of State Anthony Blinken and National Security Adviser Jake Sullivan, from the Chinese side - by Yang Jiechi, a member of the Politburo of the Central Committee of the Communist Party of China (CPC), and Chinese Foreign Minister Wang Yi. This was the first

³⁶ Ziyi, Z. Biden's 'diverse' foreign policy team, and what it means for China / Z. Ziyi. URL: <https://news.cgtn.com/news/2020-12-03/Biden-s-diverse-foreign-policy-team-and-what-it-means-for-ChinaVUZ2CBjVGU/index.html> (accessed 25.04.2021).

³⁷ Franck, T. Here's what China agreed to buy from the US in the phase one trade deal / T. Franck. URL: <https://www.cnbc.com/2020/01/15/heres-what-china-agreed-to-buy-from-the-us-in-the-phase-one-trade-deal.html> (accessed 23.05.2021).

³⁸ Bown, P.C. US-China phase one tracker: China's purchases of US goods / P.C. Bown. URL: <https://www.piie.com/research/piie-charts/us-china-phase-one-tracker-chinas-purchases-us-goods> (accessed 29.11.2021).

meeting of representatives of the two countries after Democratic President Joe Biden's coming to power. As a result, Washington accused Beijing of violating protocol and «focus on public theatrics and dramatics over substance»³⁹.

The US Senate wants to tighten its policy towards China: the US Foreign Relations bill, called the Strategic Competition Act, on tougher policy towards China addresses the theft of intellectual property by Chinese state-owned companies, violence against Uighurs and strengthening relations with Taiwan⁴⁰.

In conclusion, the following key points are indicated below. During the presidency of George W. Bush and his senior aides, the relations between two countries can be described as relatively calm. As both countries were preoccupied with other issues, they did not focus primarily on the rivalry and aimed at cooperating with each other by organizing multiple formal dialogues, high-level meetings and communications. Moreover, party's leadership did not publicly state their main disagreements on important policy topics such as economics, military, and politics. This time is described as a period of uncertainty as the countries were not perceived either as foes or friends for each other.

With the advent of Barack Obama and its «pivot» to the East, the approach to Beijing was characterized by openness and predictability, with any policy changes occurring only after detailed discussions that mostly culminated in minor adjustments. With the rise to power of Xi Jinping, the relations between countries started to worsen. In general, it is possible to identify four types of contradictions: (1) opposition to US support for Taiwan and participation in other sensitive sovereignty questions such as Tibet, contested islands, and maritime rights along China's rim; (2) opposition to the United States' dubious and shady attempts to reform China's political system; (3) opposition to the United States playing a leading role in Asia around China's periphery; and (4) opposition to many aspects of US leadership in world affairs.

With the coming to power in the United States of President Donald Trump (January 2017), a new era of trade and economic restrictions began after decades of promoting the liberalization of the international exchange of goods and services. The main goal of Trump's economic policy is to "reset" globalization, which will undoubtedly lead to a redistribution of the balance of power in the world market. In addition, a key place on the political agenda is assigned to the factor of rivalry for economic superiority between the United States and China, which led

³⁹ Toosi, N. China and U.S. open Alaska meeting with undiplomatic war of words / N. Toosi. URL: <https://www.politico.com/news/2021/03/18/china-us-alaska-meeting-undiplomatic-477118> (accessed 23.05.2021).

⁴⁰ Flatley, D. U.S. Senate Unveils Strategy to Counter China With New Bill / D. Flatley. URL: <https://www.bloomberg.com/news/articles/2021-04-08/senate-s-china-strategy-takes-shape-with-bill-to-invest-in-u-s> (accessed 22.05.2021).

to the outbreak of "trade wars".

Joe Biden certainly shares Donald Trump's views on the need to contain China, but will adhere to slightly different tactics. The US policy in the Chinese direction will be more systematic and thoughtful. The United States will combine a common line of containing China with cooperation with Beijing on selected topics of common interest. Relying on allies and consolidating the leading role of the United States in the development of technological standards for managing the global use of high technologies will be more important in his policy⁴¹. In other words, US policy of pressure on high-tech sectors of the Chinese economy is expected to remain unchanged. There is no reason to expect a radical turn in the American sanctions policy. At the same time, it is impossible to exclude the revision of certain introduced measures, including some increased tariffs in case they harm American business and consumers.

We found out that not only economic concerns such as a huge trade deficit, but also some other factors have impacted the development of the Sino-American relations that resulted in the trade war since 2018 such as Chinese currency policies and activities, Chinese national security and industrial espionage and abuse of intellectual property rights. As one of the reasons, the current trade tensions between the United States and China are result of the American trade deficit vis-à-vis China which has widened sharply since the beginning of the 2000s. It is worth noting that the relations between two countries have undergone many changes and faced obstacles during the presidency of different US leaders, so many criticisms made against China for its practices deemed unfair and the trade imbalance are not, however, a phenomenon born with President Trump.

1.2. The Sino-US Trade War: An Analysis of Great Power Rivalry through the prism of key paradigms of the theory of international relations

Realism perspective

Realism has long been the dominant perspective in IR theory. Realists usually refer to the "History of Peloponnesian Wars" by Thucydides, "The Prince" by Machiavelli and "The Leviathan" by Hobbes as historic texts that focus on their major assumptions. According to T. Knutsen, after the WWII the realism became the dominant perspective of view until 1970 with Carr, Morgenthau and Kennan as leading representatives of this theory.

According to the realist theory, states are the main rational and sovereign actors and thus autonomous of each other; no inherent structure or society can emerge or even exist to order

relations between them. In such an anarchic system, the focus is on power because only through power can States defend themselves and hope to survive. Realism can understand power in a variety of ways – e.g. militarily (incl. joining strong military alliances), economically, diplomatically/power over opinion.

Realist scholars emphasize the anarchical nature of international politics and the need for state survival⁴². The system is anarchical because relations among states take place in the absence of a world government. Thus, international relations are best understood by focusing on the distribution of power among states. States always keep an eye on each other, even during the honeymoon period of bilateral relations. In economic terms, realists emphasize that states should be cautious of their collaborators and keep track of relative gains; should focus on relative rather than absolute gains⁴³. In order to survive, states seek to maximize their power and strive for balance of power to maintain stability in international system.

To the realists, cooperation between states is possible in an anarchic system only if it serves national interests. The absence of government determines that the international community is in the "hobbesian primitive state", and struggle, conflict and even war are cruel but inevitable facts. The highest interest of the state is survival and security⁴⁴. According to Waltz (1990), international structure is created by interactions of states.

An important parallel with the new institutional economics is the focus on the inherent opportunism of states in the situation of information asymmetry⁴⁵. In his book "The Tragedy of Great Power Politics" Mearsheimer infers that the states realize that the most efficient way to guarantee survival in anarchy is to maximize their relative power with the ultimate aim of becoming the strongest power — that is, a hegemon.

Boston College Prof. Robert Ross thinks that today's East Asia already exists in a bipolarity situation, where two poles are the United States and China⁴⁶. One of the most influential contemporary realists John J. Mearsheimer concluded in 2001 that China's strategic

⁴¹ Sina. Ren Zeping: Biden's China Policy Outlook [文/新浪财经意见领袖专栏作家 任泽平 华炎雪 范城恺 梁颖 李晓桐] / Sina. URL: <http://finance.sina.com.cn/zl/china/2020-11-14/zl-iiznctke1369086.shtml> (accessed 29.11.2020).

⁴² Grieco, J. Anarchy and the limits of cooperation: a realist critique of the newest liberal institutionalism. / J. Grieco; Baldwin D. (Ed.). // *Neorealism and Neoliberalism, the Contemporary Debate*. - New York: Columbia University Press, 1993.

⁴³ Powell, R. Absolute and Relative Gains in International Relations Theory / R. Powell. // *American Political Science Association: The American Political Science Review*. – December 1991. Vol. 85, №. 4. pp. 1303-1320.

⁴⁴ Axelrod, R., Keohane, R. Achieving cooperation under anarchy: strategies and institutions / R. Axelrod, R. Keohane // *World Politics*. - 1985. Vol. 38. № 1. – pp. 226–254.

⁴⁵ Volchik, V.V. Institutional and evolutionary economics: a textbook [Institucional'naya i evolyucionnaya ekonomika: uchebnik] / V.V. Volchik. – Rostov-on-Don: Publishing house of the Southern Federal University, 2011. – P. 228.

⁴⁶ Ross, R. S. Balance of Power Politics and the Rise of China: Accommodation and Balancing in East Asia / R.S. Ross // *Security Studies* – 2006. Vol. 15, №. 3, pp. 395.

goal was to become Asia's hegemon and that the United States would try to prevent that. His book, *The Tragedy of Great Power Politics*, predicted many things we see today in US-China relations.

Analyzing the case of US-China trade war from the point of view of realists it is possible to conclude the following:

- The US has tried to roll back China's economy; it is targeting China's technology sector. The bottom line here is that the US does not tolerate peer competitors⁴⁷;

- In order to keep a balance of power, China and the US will build two alliances (as during the Cold War – NATO on one side, and the Warsaw Pact on the other) with Pakistan, North Korea, Cambodia, Laos and probably Myanmar will likely side with China and Japan, India, Singapore and Vietnam will be allied with the US⁴⁸.

- As a state's ultimate goal is to be a hegemon and China has become a regional hegemon in Asia, the only way to survive is to keep this position by accumulating power (in case of China – building military capacity that it has already implemented);

In addition, Gilpin (2003)⁴⁹ argued that when international system has a hegemon, not only balance of power limits hegemonic expansion but also other barriers such as weakening of hegemon's strength, economic and technological limits to hegemonic domination, and domestic institutions.

Liberalism

Liberalism is the main competitor to realism in international relations. Classical liberalism rests on a variety of sources, John Lock, Immanuel Kant, Jeremy Bentham and John S. Mill, being particularly important. Some ideas of liberalism resurfaced in the work of pluralists such as Robert Keohane and Joseph Nye, who developed ideas of 'complex interdependence'.

Starting with the US President Woodrow Wilson's speech at a joint session of the US Congress January 8, 1918 the beginning of the liberal paradigm took place. W. Wilson proposed the creation of an institute which will be responsible for bridging the gap between states and giving them the forum for debate. Thus, the League of Nations appeared as a platform to regulate the chances of conflict. Liberals argue that war can be eliminated with sufficient effort and effective institutions that help trigger important coalitions.

The function of anarchy in international affairs is recognized by liberals and realists alike.

⁴⁷Deutsche Welle. Mearsheimer: 'The US won't tolerate China as peer competitor'. URL: <https://www.dw.com/en/chinas-rise-and-conflict-with-us/a-55026173> (accessed 25.04.2021).

⁴⁸Ibid.

⁴⁹Gilpin, R. *Global Political Economy: Understanding the International Economic Order* / R. Gilpin // Princeton, NJ: Princeton University Press, 2003. – P. 423.

Liberals, on the other hand, differ from realists in that they believe anarchy is a possibility, and that state and non-state actors may work together to establish institutions and laws that would improve the world. World actors may work together on a variety of topics through joint collaboration, and as a result, they may all improve their absolute power. As a consequence, for the liberalist, anarchy is not a state that will lead to violence and distrust, but rather a temporary situation that can be avoided via collaboration and joint ventures.

In addition, liberals argue for absolute power; as long as both sides are benefitting from cooperation, this will be good for both parties involved. Although there is no central government similar to the domestic society, there are still some norms of behavior among countries. Countries are rational, and they try to defend their own interests whether it be cooperation through the international system. Although there is a possibility of cooperation between countries, it faces some difficulties. Cooperation does not imply a state of harmony. The basic feature of cooperation is the coexistence of interest conflict and interest convergence.

Typical example of a liberal approach to the analysis of international relations in the Asia-Pacific region can be traced in the works of George Mason University Professor Ming Wan, in which he proves that economic interdependence has a positive stabilizing effect on safety in the region⁵⁰. Ming Wang proceeds from the postulates of the so-called "free-trade liberalism" (open trade relations and interdependence promote cooperation), according to which close economic contacts between states turn the war into meaningless and useless foreign policy tool. At the same time, he points out that while economic ties reduce the possibilities of wars, they may not always be able to prevent them. For this reason, the states of the region, while developing economic cooperation, at the same time "insure themselves" with realistic methods of ensuring national security, strengthening their military-strategic positions.

After WWII in order to justify its interventionism overseas, American foreign policy used the principles of liberalism and frequently was criticized for this. During the Cold War, for instance, the US was blamed for supporting anti-communist regimes with weak human rights records. At the end of the Cold War, Francis Fukuyama has announced "the end of history" (Fukuyama, 1992).

Neoliberalists, sometimes called 'neo-liberal institutionalists', define security in a broader way compared to realists, emphasizing economic development, trade, welfare, environmental issues. According to neoliberals, not only nation-states but also international organizations, transnational corporations, non-governmental organizations are of a decisive role. The more

⁵⁰ Wan, M. Economic Interdependence and Economic Cooperation: Mitigating Conflict and Transforming Security Order in Asia / M. Wan // In Asian Security Order: Instrumental and Normative Features / Ed.: M. Alagappa. - Stanford: Stanford University Press, 2003.

producers and consumers benefit from the international division of labour, the more they will work to achieve open markets and secure economic ties and reject protectionism, which jeopardizes their beneficial trade relations.

So-called «commercial liberalism» has significant security policy consequences⁵¹. Governments are well aware that conflicts, sanctions, and other oppressive military policies are much more expensive than cross-border trade in goods and services. No secret, long-term commitments to military occupation and political control of foreign territories and populations are also needed after wars. As a result, there is a clear economic incentive for states to cooperate with one another rather than engage in unilateral aggressive self-help policies. This situation is also mutually beneficial as a high level of trade between states decreases conflict and makes war less likely, since war would disrupt or cancel the benefits/profits of trade.

China's contemporary position was featured by one of the major contemporary representatives of neo-liberalism, Francis Fukuyama. He argues that China has started to play a prominent role due to its economic growth. Fukuyama claims that China is a high quality authoritarian system without institutional checks and balances, the leaders of which are interested in stability and China's relations are usually driven by commercial motives. However, it does not mean that the country is not a threat to the international system (political scientist prefers to use the term "challenge" to describe a rising dominance of a new player that naturally destabilizing the system). This kind of system can outperform democracy in the short run because good technocrats can make quick decisions about, for example, investments and push forward economic development. In the long term, an accountable system with democratic institutional checks and balances would generate a more cooperative China, which would be a reliable partner for the US⁵².

Despite the fact that wars are inevitable, contradictions between states must be overcome by collective efforts, relying on the desire of most states for peace. It is considered possible to create effective collective security systems within the international system. This is facilitated by economic cooperation and the growing interdependence of states.

Another representative of neo-liberalism institutionalists Joseph Nye pointed out that the USA and China are going through a difficult time, but the trade war is not the only issue. Nye is of idea that a war or even a Cold War are not destined for China and the USA. He would rather call their relations a cooperative rivalry. It is crucial that the US and China continue to collaborate, because without China, the US cannot fix environmental, financial, and other

⁵¹ Schieder S., Spindler M. *Theories of International Relations.* / S. Schieder, M. Spindler – NY: Routledge, 2014. – P. 113.

problems, and China cannot do it by itself either⁵³.

On the bases of above-mentioned theses, it is possible to conclude that despite the fact that the two countries have some tensions, they will continue to collaborate in the future especially on transnational issues, as it is in their direct interests to solve together global problems. In addition, the spread of free trade and capitalism through the efforts of powerful (liberal) states and international organizations like the World Trade Organization, the International Monetary Fund and the World Bank would contribute to the creation of an open, market-based, international economic system.

Neo-Marxism/ World-Systems theory

The (neo)-Marxist concept tries to give a holistic hypothesis of world development, linking it with the dynamics and direction of international relations. Modern neo-Marxists (including I. Wallerstein, R. Cox, S. Amin, M. Rogalski, J. Galtung) represent international relations as a global system of diverse economies, states, societies, ideologies and cultures. (Neo)-marxists tried to explain why so many countries in Asia, Latin America, and Africa cannot develop economically. They linked it with capitalism, i.e. socio-economic system based on the right of private property and exploitation of man by man.

The basic concepts of modern neo-Marxism are "world-system" and "world-economy". The determining place in their interaction belongs to the "world-economy". This concept reflects not so much the sum of economic relations in the world as the system of interaction of international actors, in which the economically strongest of them play a leading role.

In the international political system, theorists of world systems accept the presence of political anarchy. For them since no single power can govern the global economy, the economic ramifications of democratic anarchy are paramount because it promotes the expansion of the world capitalist system.

We would like to examine in more detail the views of the American scientist, founder of the school of world-systems analysis I. Wallerstein. I. Wallerstein argues that it is impossible to understand the current state of capitalism and its position without considering its history. The problem is not in the moral merits or demerits of capitalism, but in the historical boundaries that exist for the development of any system.

The world-system of capitalism over the past series of centuries identifies two forms of large cyclical fluctuations. One is the so-called Kondratieff cycles with a historical length of 50-60 years. The other is cycles of hegemonism, which are much longer. In the cycles of hegemony,

⁵² Interview "China will not dominate the world". URL: <https://www.youtube.com/watch?v=TxaYgko3sZc> (accessed 17. 11.2020).

the United States has become a prominent contender for hegemony since 1873 and achieved complete hegemony in 1945 (Chase-Dunn, Kwon, Lawrence, and Inouc 2011). Although the United States still remains a powerful power, according to the world-system perspective, they are going to decline gradually on the background of other powers in the coming decades. The questions arose are the rate of decline and what kind of system of authority replace American hegemony⁵⁴.

Wallerstein holds the same opinion. In his speech of November 15, 2008 he points out that "we are moving into a world of protectionism - forget about so-called globalization. We are moving towards governments of populist redistribution, which can take the form of either center-left social democracy or extreme right-wing authoritarianism. Moreover, we are heading for an acute social conflict within countries, where everyone is fighting for his own piece of the pie."⁵⁵

The major thesis of the neo-Marxism is not just the West's antagonism with the rest of the world, but also the latter's exploitation. The basis of their arguments is that, following the almost complete elimination of the "socialist world," the three "worlds" of the Cold War era are being replaced by a new structure of a developed and stable North and an increasingly lagging and unstable South. This results in the so-called dependency, when poor countries find their economies dependent on the expansion of developed countries.

Based on the points mentioned above, it is possible to deduce that there would be a tendency of the US sharing power with the existing core states and emerging powers from the periphery (China, India, Brazil and Russia). Thus, the declining of the US opens the path for the rise of the BRICS. In addition, the geopolitical structure would also involve multiple organizations (the UN, the International Financial Institutions etc.) as well as regional interstate entities and international NGOs. However, it would be incorrect to conclude that another hegemon (China) would inevitably emerge and seize power while the former hegemon (USA) falls. Historically, it takes 100 or more years for the country to become a hegemon and establish the economic system. As a result, it is not likely that China can become a new hegemon.

Constructivism

Constructivism is another dominant approach in international relations but at present it is not a single theory. There are different variations of it, but what unites them is the idea that international relations are socially constructed and "imbued with social values, norms and

⁵³ Interview with J. Nye on US-China relations and soft power. URL: <https://www.youtube.com/watch?v=CmXeXlisTU8&t=56s> (accessed 17.11.2020).

⁵⁴ Chase-Dunn, C. Fine Linked Crisis in the Contemporary World-System / C. Chase-Dunn // American Sociological Association: Journal of World-Systems Research. – Vol. 19. № 2. – P. 175.

⁵⁵ Wallerstein I. Immanuel Wallerstein on the current crisis / Translation by N.V. Romanovsky // Sociological Research. – 2009. № 6. – pp. 93-94.

assumptions"⁵⁶; all systems are formed and shaped by desires of actors who interact among each other.

The constructivist approach to anarchy is often summed up by Wendt's statement that "anarchy is what states make of it"⁵⁷. According to him, "people act towards objects, including other actors, on the basis of meanings objects have for them"⁵⁸. Thus, the exact meaning of anarchy would be different depending on different actors⁵⁹. In case of state or non-state actors, their own understanding of anarchy will order them to behave in specific determined ways in the social context of international politics.

While realists view the international system as static and war as inevitable, constructivists would claim that war is the result of a process of socialization in which conflict is assumed to exist. If this construction is changed, then war can potentially be eliminated. The effects of anarchy can be lessened through the creation of institutions that can help reconstruct so-called identities and interests, thus creating new understandings of self and other.

Other major scholars, Ted Hopf and S. Vucetic state that "the rise of China was unlikely to be accompanied by Chinese hegemony because of the distribution of identities among the world's great powers' as China's "authoritarian capitalism" (Hopf's term) does not resonate with the majority of great powers⁶⁰. As William Wohlforth argued in 1999, China faces a regional hegemony problem long before it faces a global one. He argued we should expect regional balancing to counter China's rise before the US or Europe even need engage⁶¹. Bentley B. Allan, Srdjan Vucetic, and Ted Hopf conducted a research and found out that most Chinese neighbors are willing to balance against China's regional rise as China's hegemonic project is incompatible with their national identities⁶². For example, Vietnam will continue to balance against China in an effort to protect its national interests.

Vucetic & Hopf (2018) claims that two countries have contrasting identities and treat each other correspondingly. China puts itself, on the one hand, in the category of developing countries, on the other hand, of a rising great modernizing power. To rise its power, China can use the hostility/disaffection of other countries towards the United States as one of the ways to

⁵⁶ Dunne T., Kurki M., Smith S. *International Relations Theories: Discipline and Diversity* / T. Dunne [et al.]. - Oxford University Press, 2016. – P. 168.

⁵⁷ Wendt, A. *Anarchy is what States Make of It: the Social Construction of Power Politics* / A. Wendt // *International Organization*. 1992. Vol. 46. № 2. – P. 392.

⁵⁸ *Ibid.*, p. 398

⁵⁹ Hopf, T. *The Promise of Constructivism in International Relations Theory* / T. Hopf // *International Security*. 1998. Vol. 23. № 1. – P.174.

⁶⁰ Vucetic, A., Hopf, T. *The distribution of identity and the future of international order: China's hegemonic prospects* / A. Vucevic, T. Hopf // *International Organization*. 2018. Vol. 72. № 4. – pp. 839–869.

⁶¹ Wohlforth, W. C. *The stability of a unipolar world* / William C. Wohlforth // *International security*. 1999. – pp. 5–41.

retain the power of the hegemon. Hopf shows that in the UN General Assembly over the decades China votes as a block with developing countries (e.g. with Belarus and North Korea), while the USA in general vote against the developing countries in its own league⁶³.

According to constructivism, the discrepancies in the self-identification of the US and China are crucial to understanding their relations. From the constructivist point of view, the US as the liberal democratic world leader (identity I) would not admit authoritative capitalistic (identity II) China to dominate. Thus, the current crisis between the two nations is a demonstration of the importance of inter-subjective nature of the relations.

All in all, a trade war involves the confrontation of two or more countries through retaliatory measures, in the form of tariffs, import restrictions or other instruments. Economic war refers above all to the strategies of states to promote national economic interests on the international scene, not only at the level of trade policy but also with the help of other instruments, such as diplomacy. In this sub-chapter we analyzed the general realistic, liberal, neo-marxist and constructivist perspectives that constitute the fundamental approaches of international relations theory. Taking into account the key concepts used by the representatives of above-mentioned IR theories, we suggested the further course of events amid the trade war.

1.3. The influence of the US-China trade war on the global economics

Since 2009, the PRC has been ranked 1st in the world in terms of exports and 2nd in terms of imports. Since 2012, China has been the leader in terms of foreign trade. According to World Trade Statistical Review 2020, leading world exporters of goods are: China with a share of 13,2%, the US – 8,7%, Germany - 7,9%; Vietnam ranks 23rd with a share of 1,4%. In 2019, leading world merchandise trade countries are the US (13,4%), China (10,8%), Germany (6,4%); Vietnam ranks 22rd with a share of 1,3%⁶⁴.

With an export value of USD 188 billion, China ranks the third most important market for US goods and services after Canada and Mexico (8% of total). As for import of goods and services, China is the crucial trade partner for the US overall with an import value of USD 523.7 billion given that the EU countries are considered separately (if the EU is taken as a whole, the EU is the most important trading partner of the United States)⁶⁵.

A new record in importing goods from China to the United States was reached in 2017

⁶² Hopf, T., Bentley, A. (Eds.) *Making Identity Count: Building a National Identity Database* / T. Hopf, A. Bentley // Oxford: Oxford University Press. 2016. – P. 264.

⁶³ Vucetic, A., Hopf, T. *The distribution of identity and the future of international order: China's hegemonic prospects*. Pp. 839–869.

⁶⁴ *World Trade Statistical Review 2020 / Statistical Tables*. World Trade Organization, 2020. – pp. 76-154.

⁶⁵ Bureau of Economic Analysis. URL: <https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services> (accessed 25.04.2021).

(USD 506 billion, 2,6 % of GDP). The bilateral deficit in trade in goods amounted to USD 376 billion, or 1.9% of GDP in 2017 (see Figure 1, Appendix 1)⁶⁶.

Changes on the trade front in the war between the world's two largest economies explain everything from movements in stock markets to recessions in Europe. Trade policy uncertainty caused by the US-China trade war has risen to levels not seen since the 1970s⁶⁷.

A small volume of imports reduces the impact of duties on American consumers, and a large trade account deficit makes the balance of such duties favorable for the United States and negative for trading partners. American exports to China are stagnating at around \$ 120 billion per year against the background of constantly growing imports from China (already almost \$ 700 billion a year, an increase of more than \$ 150 billion in five years). As a result, the United States is trying, if not to narrow such a gap, then at least to make money on this war, taking into account the fact that the trade deficit with China naturally grows as the war escalates, because the cost of goods includes duties⁶⁸.

The trade war was one of the main reasons for the slowdown in global GDP growth in 2018. In 2018 and even 2019 global growth was projected to reach 3.9% (July 2, 2018)/ 3.7% (October 3, 2018). However, the global expansion has weakened and global growth was 3.6% in 2018, with growth reaching 3.8% in the first half of the year and falling to 3.2% in the second. The global economy was projected to grow at 3.5 percent in 2019 and 3.6 percent in 2020.⁶⁹

The ASEAN region in general is seen as an appropriate region due to a certain certainty and stability for business people in conducting their business over there. Bill Stoops, the chief investment officer of Dragon Capital is of the view that Vietnam may be a “winner” if only a significant volume of foreign direct investment is transferred to Vietnam as a result of massive cost pressures from US-China tariffs⁷⁰. According to the chart (Appendix 2), Vietnam and Taiwan benefited mostly from additional exports to the U.S., while Chile, Malaysia and Argentina gained by selling more to China.

The U.S. had slapped a 25% tariff on \$250 billion of Vietnamese goods, and former American President D. Trump cowed to apply the same augmented levy on around \$300 billion

⁶⁶ Ibid.

⁶⁷Trade Policy Uncertainty. International Finance Discussion Papers 1256 / Caldara, D. [et al.]. - Board of Governors of the Federal Reserve System, 2019. – P. 27.

⁶⁸ Movchan, A. How Trump's trade wars will affect the global economy [Kak torgovye vojny Trampa povliyayut na mirovuyu ekonomiku] / A. Movchan. URL: <https://carnegie.ru/commentary/80057> (accessed 15.10.2020).

⁶⁹ World Economic Outlook. Growth Slowdown, Precarious Recovery / International Monetary Fund, April 2019. URL: <https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019> (accessed 29.11.2020).

⁷⁰Huang, E. Vietnam could be a ‘winner’ from the US-China trade war / E. Huang. URL: <https://www.cnbc.com/2018/09/12/vietnam-could-be-a-winner-from-the-us-china-trade-war.html> (accessed 25.04.2021).

worth remaining imports from China⁷¹. In response, Beijing also raised tariffs on American products worth billions of dollars. As a result of that tariff dispute, the United States and China have been importing less goods from each other, especially those with higher levies.

According to a UN report released in November 2019, the conflict has primarily resulted in higher prices for Chinese goods for US customers, and has primarily resulted in a loss in export value for China. A glance at the top Chinese shipments to the United States reveals that US companies were importing less mobile phones, laptops, and furniture from China at the end of 2019 year than at the end of 2017, before the trade war started (Figure 3, Appendix 3)⁷². As a result, US consumers and manufacturers are shifting to other countries to get the products they need.

In the short term, it seems possible to single out the following consequences for the world economy: a slowdown in investment, an increase in consumer prices and a decrease in business sphere. The above consequences, in turn, could pose serious problems in global value chains, affecting exporters in East Asia, which are intermediates firmly embedded in trade supply chains between China and the United States. Commodity exporters in Africa and Latin America can also be affected as slower growth in China and / or the United States could lead to weaker demand for commodities.

There is a possibility that trade tensions, especially in emerging economies, could lead to increased financial vulnerability. Together with tougher financing conditions and high debt service rates, rising import prices could decrease sales and cause a debt crisis in some industries.

A prolonged period of slow growth in trade would also have an effect on productivity growth in the medium term and thus, on long-term economic growth. Via economies of scale and access to capital and the acquisition of knowledge and technologies by signing international contacts, trade facilitates productivity gains. Moreover, trade in services facilitates inclusiveness, the development of sustainability and economic diversification. These trade channels are directly related to investment decisions, productivity gains, global stability, an, eventually, sustainable development.

In December 2001, China officially became the 143rd member of the World Trade Organization as an emerging economy, which gave it a number of preferences, including the right to maintain export subsidies for 8 years, the right to issue import licenses for 2 years, etc. The most pressing discussion occurs in regard to the World Trade Organization and its

⁷¹ Schoen John W., Pramuk, J. Trump reignites the China trade war — here's how we got here / John W., J. Pramuk. URL: <https://www.cnbc.com/2019/03/01/the-timeline-of-trump-china-tariffs-and-trade-war.html> (accessed 25.04.2021).

⁷² United Nations Conference on Trade and Development. Trade war leaves both US and China worse off. URL: <https://unctad.org/news/trade-war-leaves-both-us-and-china-worse> (accessed 25.04.2021).

functioning amid the trade war between two countries.

The United States blames China for the absence of a market economy, and the PRC is opening WTO cases against the United States in connection with its continued treatment of China as a non-market economy, which gives the United States more freedom to impose anti-dumping and countervailing duties on Chinese goods in sectors where the role of the state is of importance. Over 18 years of WTO membership, China participated in 20 disputes as a plaintiff. 15 out of 20 were addressed to the United States as a defendant (with a third of them related to the current US-China trade war), and the remaining 5 to the European Union. As a defendant, China participated in 43 disputes, 23 of which were initiated by the USA and the rest – by other countries. China took part in 168 disputes as a third party⁷³.

It's worth noting that the majority of China's lawsuits against the US are connected to increased tariffs on Chinese imports, whereas American petitions are more focused on Chinese regulations and legislation, such as intellectual property protection, electronic payments, and government assistance for businesses.

The Trump administration was frustrated with the functioning of the WTO dispute settlement system, in particular the Appellate Body. In addition, it criticized the WTO for not being sufficiently equipped to prevent market-distorting practices.

The trade war has impacted South Korea, Japan, the EU, Russia, and Turkey to varied degrees as a result of the increased tariffs. Increased tariffs on steel and aluminum, for example, resulted in lower prices on the world metal market. Steel prices began to decline in mid-March 2018 and continued to fall until the end of the year. In 2019, there is a slight increase, although prices have not returned to their earlier levels. Steel prices have decreased even further as a result of the coronavirus epidemic. Due to stagnation and low domestic demand, as well as sustained expanding aluminum exports from China, aluminum prices have been declining since May 2018.

After the introduction of additional US duties on imports from China in September 2019, EU states could export more to the United States, replacing the Chinese goods lost. There are two potential scenarios. In the first scenario, if the US imposed 10 percent tariffs on additional imports worth USD 300 billion, this would mean additional income of EUR 94 million for Germany, EUR 129 million for France, EUR 183 million for Italy, EUR 25 million for Spain, and EUR 86 million for the United Kingdom. It would amount to EUR 1.5 billion for the EU28 and EUR 1.8 billion for the US. China would see losses of EUR 24.8 billion⁷⁴.

In the second scenario, If China imposes a further 10 percent tariff on US imports, it

⁷³ World Trade Organization. Key information on China's negotiations to join the WTO/ World Trade Organization. URL: https://www.wto.org/english/thewto_e/acc_e/a1_chine_e.htm (accessed 25.04.2021).

could see its losses fall to EUR 21.6 billion, while turning profits for the US into losses of EUR 1.5 billion. The UK and the EU would have benefits. For instance, Germany would see additional income of EUR 323 million, with EUR 168 million for France, EUR 231 million for Italy, EUR 25 million for Spain, and EUR 58 million for the United Kingdom. The EU28 would benefit to the tune of EUR 1.7 billion⁷⁵.

Thus, US and Chinese economies lose with the tariffs and counter-tariffs implemented, but China loses much more, both absolutely and relatively. Europe and the UK in contrast, could register a GDP gain — a positive but statistically negligible number.

In addition, many large European companies have increased their sales to China. In an automotive industry, China became the main sales market for such companies as Audi, BMW и Mercedes-Benz. Three German companies showed unprecedented sales volumes. The number of Audi and Mercedes-Benz cars sold in 2018 compared to 2017 increased by 12.9%, and BMW by 20.8%.⁷⁶

As a result of tensions between the US and China, the Russian Federation also strengthened the relations with the PRC. At the end of 2018, Russia became a net exporter in trade with China (for the first time since 2006). In 2018, trade with China increased by 25%, to \$ 108 billion. Over the year, fuel and oil supplies grew by 63%, to \$ 41 billion. In physical terms, oil exports to China in 2018 increased by 20.2%. Exports of some other largest items as copper, animal and vegetable fats and oils, fish and other marine products also jumped⁷⁷.

The expansion of the trade conflict to monetary policy increases uncertainty for the world economy. In 2019, it was discussed whether the war between China and the United States lead to a world currency war. China's currency has been an important barometer for progress in US - Chinese trade talks, and right now it's signaling that things aren't going well. The Chinese authorities have crossed the "currency Rubicon". China was accused of artificially devaluating its own currency below the psychologically important mark in order to make its products cheaper for foreign buyers and to increase the competitiveness of export products on the global arena. Thus, on August 5, 2019, one US dollar was worth more than 7 yuan for the first time in 11 years. Washington classified China as a currency manipulator. All in all, they actually accused

⁷⁴ Press release of 13.08.2019. The United States Could Benefit from the Trade War, However... // Ifo Institute. URL: <https://www.ifo.de/en/node/44814> (accessed 25.04.2021).

⁷⁵ Ibid.

⁷⁶ Vladimirsky I. China's 2018 Statistics: Stopping Growth and New Bestseller [Statistika 2018 v kitae prekraschenie rosta i novyy bestseller] / I. Vladimirsky. URL: <https://autoreview.ru/news/statistika-2018-v-kitae-prekraschenie-rosta-i-novyy-bestseller#!comment=1323339> (accessed 25.04.2021).

⁷⁷ Feinberg A. Russian exports to China exceeded imports for the first time since the 2000s [Rossijskij eksport v Kitaj prevysil import vpervye s 2000-h] / A. Feinberg. URL: <https://www.rbc.ru/economics/11/02/2019/5c5d84549a79471a68d07dd1> (accessed 29.11.2020).

China of currency dumping⁷⁸. In his Twitter⁷⁹, the American president wrote that this is "a major violation that will seriously weaken China over time."

The question is whether that signal is intentional, and whether Beijing does want to maintain that landmark. If the fall of the yuan continues for one reason or another, Washington will have a convenient excuse to further increase political pressure on Beijing.

As for the global perspective, other Asian countries may also resort to currency devaluation to support their exporters. Taking into account this position, Donald Trump would have forced the Federal Reserve System to weaken the dollar by lowering interest rates, and we will have a full-scale devaluation race or, in other words, a world currency war. Its victims will be, in particular, Germany and other EU countries with the euro currency and a pronounced export orientation of the economy.

Taking into account the possible variant of the conflict development, if the escalation of the trade war into a currency one had taken place as a result of the possible (further) devaluation of the yuan, German and other exporters from the Eurozone would have suffered serious losses. According to the economics, the lower the exchange rate of the PRC monetary unit, the more expensive goods from Germany and other EU countries become for Chinese firms and consumers.

For Russia the devaluation of the yuan that leads to higher prices for imports, would mean that China can reduce purchases of Russian food products and, moreover, energy carriers - oil, gas, coal, for which it has to pay in dollars. In the global market, Chinese exporters (of let's say steel) would get benefits in comparison with their Russian competitors under the influence of the weak yuan. If it comes to a world currency war affecting a variety of Asian nations, then Russian coal producers, for example, would find it much harder to compete with, say, Indonesian coal miners.

For China itself, a further deliberate or unintentional devaluation of the yuan will mean a softening of the effects of US duties.

We share the opinion of Chinese Foreign Ministry spokesman Zhao Lijian and some other China's officials that there should be no place for a "zero-sum game" between China and

⁷⁸ Deutsche Welle. RMB to dollar fell to lowest level in 11 years / Deutsche Welle. URL: <https://www.dw.com/ru/%D0%BA%D1%83%D1%80%D1%81-%D1%8E%D0%B0%D0%BD%D1%8F-%D0%BA-%D0%B4%D0%BE%D0%BB%D0%BB%D0%B0%D1%80%D1%83-%D1%83%D0%BF%D0%B0%D0%BB-%D0%B4%D0%BE-%D1%81%D0%B0%D0%BC%D0%BE%D0%B9-%D0%BD%D0%B8%D0%B7%D0%BA%D0%BE%D0%B9-%D0%BE%D1%82%D0%BC%D0%B5%D1%82%D0%BA%D0%B8-%D0%B7%D0%B0-11-%D0%BB%D0%B5%D1%82/a-49899634> (accessed 05.08.2020).

⁷⁹ Trump, D. [realDonaldTrump]. (2019, August 5). China dropped the price of their currency to an almost a historic low," Trump said in a tweet. "It's called [Tweet]. Twitter. <https://twitter.com/realDonaldTrump/status/1158350120649408513>

the United States, both governments have every reason to strive for joint cooperation and thereby achieve their important goals in terms of security and economy. China and the United States are the two largest economies in the world, so they are obliged to settle relations⁸⁰.

All in all, the United States and China have found themselves at the heart of growing global trade tensions. The world warns of the dangers of a trade war between the world's two biggest economic powers. The United States is an important trading partner for many economies. Worsening trade tensions are one of the reasons world trade growth has declined.

The market is currently facing two main concerns. The first is the extent to which higher tariffs will raise costs in the United States and weigh on business investment. The second is the impact on Chinese growth and the subsequent consequences on emerging market assets.

The conflict between the United States and China may escalate further. Such an escalation of the conflict is likely to take a significant toll on the economy of both the United States and China as well as on the whole world.

Conclusion on Chapter I

China has become number one importer to the US and the third destination for US exports. The bilateral economic ties have not been limited to trade, as the US and China have become major investors for each other. At the same time, the USA considers the PRC as a key threat to the US global leadership. Nowadays, the trade conflict that has begun in 2018 between the United States of America and the People's Republic of China is the main source of uncertainty for the global economy.

In the first chapter we also analyzed the trade war between the United States of America and the People's Republic of China from the perspective of the following theories of international relations: realism, liberalism, neo-marxism/world-system theory and constructivism. This analysis gives us the opportunity to predict possible scenarios of the trade war resolution and the situation on the global arena.

It was found out that the main differences between realists and liberalists regarding anarchy are the implications that arise in terms of how actors will behave in this anarchical system. Thus, from a realism's perspective, the USA will try to maintain a hegemonic position in the world that can contribute to the building of two alliances in order to keep a balance of power. Liberalists would be of the idea that it is necessary to build wealth and cooperation. Neoliberalism would argue that even in an anarchic system of autonomous rational states, cooperation can emerge through the cultivation of mutual trust and the building of norms,

⁸⁰ Flatley, D. U.S. Senate Unveils Strategy to Counter China With New Bill. URL: <https://www.bloomberg.com/news/articles/2021-04-08/senate-s-china-strategy-takes-shape-with-bill-to-invest-in-u-s>

regimes and institutions. So, the US and China should continue to collaborate in order to fix the issues of the global importance. According to neo-marxism/world-systems theory, although the United States still remains a powerful power, they are going to lose their influence / or share power on the background of other emerging powers from the periphery (China, India, Brazil and Russia). Constructivists see the leading role of the process and states' socialization as they consider international relations as a social phenomenon. The US is not going to allow China to dominate. The current crisis between the two nations is a demonstration of the importance of inter-subjective nature of their relations.

In this research the author considers the conflict between the two countries as a zero sum game and sticks to the ideas of neoliberalism. Chinese ideology does not pose a threat to liberal democracy in the sense that it was in the case of the Soviet Union. Right-wing demagogues are much more dangerous. An attempt to curb China's economic and technological development will almost certainly fail. Worse, it will instill deep animosity in the minds of the Chinese. In the long term, society can become richer and more educated, but the likelihood of this decreases markedly if the natural growth of the Middle Kingdom is threatened. Moreover, China's rise is not a major cause of Western discomfort. Rather, it testifies to the indifference and non-competitiveness of the local elite.

This in no way means that one should agree with everything that China does or says. On the contrary, the best way for the West is to insist that Beijing honor the values of freedom, democracy, rule-based multilateralism and global cooperation. In the past, these ideas have helped America find many allies. Plus, it is quite possible to defend these ideas today, but to insist on them more assertively; at the same time to cooperate with the growing China in the necessary areas, while maintaining trade relations and peace.

The combination of competition and cooperation is the sure way forward. Such an approach to the PRC should include close interaction with like-minded people and respect for China. The tragedy of what is happening today is that the administration is simultaneously fueling conflict between the two powers, attacking its allies and destroying the institutions of the post-war order.

Since 2009, the PRC has been ranked 1st in the world in terms of exports and 2nd in terms of imports. Since 2012, China has been the leader in terms of foreign trade. With an export value of USD 188 billion, China ranks the third most important market for US goods. The trade war was one of the main reasons for the slowdown in global GDP growth in 2018.

In the short term, the world economy may face a slowdown in investment, an increase in

consumer prices and a decrease in business sphere, which in turn could pose serious problems in global value chains. In the medium and long terms, trade sector may have some difficulties in the productivity growth.

In addition, the trade war causes many problems within the World Trade Organization. The Trump administration raised issued of the WTO functioning as well as the ability of the organization to prevent market-distorting practices.

Due to the increase in duties, South Korea, Japan, EU, Russia, Turkey had been influenced in a varying degree by the trade war. For instance, economic measures taken against China by the United States, as well as China's response, have positive consequences for the European Union, which had an advantage over US competitors in some industries. The tenses between the US and the PRC allowed the latter to enhance relations with the Russian Federation.

The other challenge for global economy is the possible expansion of the trade conflict to monetary policy. The question is whether the war between China and the United States would lead to a world currency war and what are the advantages and disadvantages for particular economies and for the whole world.

Chapter II. Key directions of development of the economy and foreign policy of Vietnam

2.1. Vietnam's economy: its place and role in the international affairs

The author proposes to organize this chapter the following way: first of all, by describing the key milestones since the separation in the 1950s till present. In the first part we are focusing on key economic indicators, development successes and limitations the country has faced. The second part is devoted to the regional position of Vietnam on the world arena and its role in the new architectonics of global economic relations in the XXI century.

The economy of Vietnam for many years until the reforms in the country (1986) was closely linked with the geopolitical direction of the country's development as a whole, bore the imprint of colonization, war and ideological priorities for the country's development. The country's economy in general and its foreign trade in particular was closed in the space of political and ideological partners:

- in the colonial period (1858-1954) with the metropolis - France;
- during the period of the divided country (1955-1975), North Vietnam - with China and the USSR, and South Vietnam - with the United States;
- in the period 1976-1985 with the USSR and other COMECON member countries⁸¹.

Over the course of the country's history, Vietnam's economy has undergone many dramatic changes, most recently during and after the events of the Indochina Wars: when the North and South became politically separated in the 1950s, each followed distinct economic philosophies, with a communist economy in the North and a capitalist economy in the South. After the country was reunified in 1975, the government have chosen a socialist-oriented market economy to follow, with numerous five-year plans and economic renewal campaigns implemented in order to expand its national economy.

When the failures of the Soviet economic model became apparent in the mid-1980s, the Vietnamese leadership decided to make a cautious turn in domestic economic policy. Furthermore, the PRC's success with the "Deng Xiaoping course" inspired the Vietnamese leadership to follow the "new Asian socialism" model. At the 6th Congress of the Communist Party of Vietnam, held in December 1986, a program of economic transformation, known worldwide under the name "Doi Moi" ("Open door"), was proclaimed. It provides for the development in the long term of various forms of ownership. This means that the government

⁸¹ The national economic complex of the Socialist Republic of Vietnam: problems of formation [Narodnohozyajstvennyj kompleks SRV: problemy formirovaniya] / Ed.: M. E. Trigubenko. - M.: Nauka, 1989. - P. 238.

recognizes the importance of the private sector in the national economy of the country and, thus, puts the public and private sectors in equal dependence on market competition, hoping to increase its efficiency. At the same time, the decisive role of market relations in production, commodity exchange, the service sector and in the economy as a whole is recognized. The Vietnamese reforms imply relying on three main areas of development - agriculture, production of consumer goods and services. On this basis, the course continues to strengthen exports and expand economic international relations, stabilize the social and economic situation, the main condition for which is to reduce inflation, regulate the state budget by reducing its costs and significantly increase the living standards of the people⁸².

In his book “Vietnamese economy today. Results of 25 years of market transformation (1986-2010)” V. Mazyrin (2013) is of another opinion regarding the Vietnamese model of development. He claims that in modern Vietnam “a combination of elements of capitalist and socialist forms of property, production and management has emerged; a hybrid, mixed system has been formed. It is characteristic that the mechanisms of the two systems do not mix and do not penetrate each other, but exist in parallel, and the former are gradually replacing the latter, leading to the strengthening of market forces and principles”⁸³. Mazyrin considers this practice in the spirit of the theory of convergence, “as a kind of version of the “third way” of development, which is in demand during the current systemic crisis of the world economy and a wide awareness of the need for its radical restructuring”⁸⁴, and such an innovative view deserves support.

By all means, it was the Doi Moi model that allowed Vietnam to quickly and without significant losses overcome the consequences of the regional financial crisis in East Asia in 1997-1998 and the global financial economic crisis in 2008-2009⁸⁵.

After Vietnam became a full member of ASEAN (July 28, 1997), economic ties and cooperation between Vietnam and other member states of the Association began to develop rapidly. The experience of Vietnam's participation in the ASEAN Free Trade Area has shown the existence of basic categories for increasing trade, which include:

- ensuring wider access to markets for goods and services;
- increasing the availability and attractiveness of imported goods supplied at lower prices;

⁸² Viet Vyong, Ng. Mechanisms of providing a social orientation of market reforms in Vietnam [Mekhanizmy obespecheniya sotsial'noi napravlenosti rynochnykh reform vo V'etname]: doctoral dissertation / Ng. Viet Vyong. - M., 2006. – 306 p.

⁸³ Mazyrin, V.M. Vietnamese economy today. Results of 25 years of market transformation (1986-2010) [V'etnamskaya ekonomika segodnya. Itogi 25 let rynochnoj transformacii (1986–2010 gg.)] / V.M. Mazyrin. - M.: Publishing House "Forum", 2013. – P. 311.

⁸⁴ Ibid., p. 311.

⁸⁵ Anosova, L. A. Vietnam on the way to Doi Moi - Renewal [V'etnam na puti Doi Moi - obnovlenie] // L.A. Anosova // Economics and Management. - 2014. № 6 (104). – pp. 4-9.

- a deeper degree of integration of mutual trade, an increase in the competitiveness of national exporters and their products, as well as a wider attraction of investments, technology transfer, development of industrial cooperation. In addition, Preparation of the Free Trade Zone was organized⁸⁶.

Vietnam has been positioned as one of the fastest growing economies in the world following its 1986 economic reform, by doubling its GDP from 2010 to 2018. While the poverty rates dropped, GDP per capita rose 2.5 fold (Statista, 2019). The nation belongs to the so-called Tiger cubs, with strong foreign investment inflows and productivity growth (Appendix 4).

Like other ASEAN countries, Vietnam aims at economic sustainable development. The economic experience of many ASEAN countries shows that economic prosperity is an important goal, but not an absolute ultimatum.

From 2006 to 2010, the Vietnamese Communist Party and the national government did not have the conditions to pay due attention to the development of natural resources and the protection of the environment and ecology due to the need to focus the country's entire power on the unification and protection of national security. The country's economy was marked by backwardness during that time. Agricultural and forestry goods, fish, seafood, and unprocessed raw materials were the principal exports. The rapid pace of industrial development, the growth of cities and industrial settlements have given rise to such a phenomenon as environmental pollution. Combined with the rapid population growth, natural resources began to deplete rapidly, leading to the disappearance of forests and wildlife. Thus, the Government has adhered to a strategy according to which it is impossible to solve all the problems of the country only through the growth of economic well-being, neglecting the ecological situation and natural resources of the country⁸⁷.

Furthermore, as a result of the country's intensive industrialization, which includes the construction of industrial enterprises, thermal, hydro, and nuclear power plants, and the development of port facilities along the coast, the rural population is steadily declining, while the urban population is increasing.

Despite the obvious achievements in the socio-economic development of Vietnam over the past quarter century (an increase in the level of education of the population, an increase in the share of skilled and engineering labor, a decrease in the birth rate, etc.), by going through the process of market transformation, Vietnam is facing problems such as corruption, abuse of

⁸⁶ Trigubenko, M.E. The development of Vietnam's foreign trade in the new architectonics of global economic relations in the XXI century [Razvitie vneshnej trgovli V'etnama v novej arhitektonike global'nyh ekonomicheskikh otnoshenij v XXI veke] / M.E. Trigubenko // Economics and Management. - 2016. № 5 (127). – P. 17.

⁸⁷ Duc, T. Characteristics of Vietnam's economy and tendencies of its development [Harakteristika ekonomiki V'etnama i tendencii ee razvitiya] / T. Duk // Vestnik TSU. - 2007. № 2. – P. 304.

power, wealth inequality, shadow economy, smuggling, etc. Vietnam also has faced macroeconomic difficulties, mainly inflation. The main reasons for this are the budget deficit (compensated by the emission of additional money supply) and the deficit of the foreign trade balance. However, the sharp gap in inflation and GDP growth was eliminated. As for the issue of corruption, it is necessary to point out that Transparency International ranks Vietnam as 96th out of 180 countries in its Corruption Perceptions Index 2019⁸⁸, a significant improvement from the 117th spot a year earlier.

By 2014, from a macroeconomic point of view, the situation in the country improved and stabilized. The average GDP growth rate over five years (2011-2015) was 5.9%. The scale and potential of the economy continued to grow: the volume of GDP in 2015 amounted to about \$ 193.4 billion, or \$ 2109 on average per capita⁸⁹. In 2014, Vietnam achieved 13 of the 14 indicative goals of the socio-economic development plan. Vietnam itself, within its own 10-year economic cycle, is only completing the recovery phase and is beginning to show the possibility of renewed growth. The country also focuses on overcoming “the mid-level development trap”.

During the period of 2011-2015, administrative reform had been intensified. Improvement of the legal system, mechanisms and policies had continued. The mechanisms and organization of the apparatus for the prevention and fight against corruption and waste of funds continued to improve⁹⁰.

In the transitional period of 2015-2016, the country had higher economic performance than other countries in Southeast Asia. The industrial policy was aimed at the development of heavy, light and innovative industrial sectors, which played a decisive role in the formation of export resources. The agrarian policy took into account the global demand for food products, therefore, the agricultural sector was modernized to expand production and increase exports of rice, vegetables, fruits, coffee, and tea.

One of the main directions in the structural and investment policy is devoted to the production of Hi-Tech products in cooperation with foreign capital through the organization of industrial and technological parks. On May 29th, 2015, Vietnam signed a free trade agreement with the Russian-led Eurasian Economic Union (EAEU) that gave the country a lot of benefits.

At the 12th Congress of the Communist Party of Vietnam (2016), it was noted that the promotion of democratic principles and the liberalization process in Vietnam are important for increasing the country's role in the international arena, attracting foreign capital, and its further

⁸⁸Transparency International 2021. Corruption Perceptions Index 2019. URL: <https://www.transparency.org/en/countries/vietnam> (accessed 25.04.2021).

⁸⁹ XII Congress of the Communist Party of Vietnam: documents and expert assessments. - M.: PH "FORUM", 2016. – P. 107.

⁹⁰ Ibid., p. 117.

integration in the region. In this regard, the adoption of the new edition of the Constitution of the Socialist Republic of Vietnam in 2013 is indicative⁹¹.

The mechanisms of a socialist-oriented market economy have been slowly improving, but there are no breakthrough mechanisms to accelerate development yet; besides, the structure of human resources is not balanced, their quality is all still low; infrastructure lacks complexity. All this continues to hinder development⁹²

All in all, taking into account 30 years of renewal, i.e. an important historical period (1986-2016) in the development of the country, marked by the comprehensive strengthening of the Party, State and people, the following characteristics of the economic development can be made:

- the economy is still developing unstably, not adequate to the existing potential and the requirements of the time;

- there was insufficient stability in the macroeconomy in the past decade;

- economic growth rates have slowed down and are recovering slowly;

- product quality, efficiency, labor productivity and competitiveness of the economy remain low;

- development lacks stability both in the economy and in cultural, social and ecological spheres;

Thus, as of 2015, the CRV failed to achieve the set goal - to create a fundamental basis for the transformation of Vietnam into a modern industrial country⁹³.

Vietnam also enjoys a cooperation agreement with the EU. A free trade agreement between both parties was ratified by the European Parliament in February 2020 and is already in force since June 2020.

At the time of writing the study, the official documents from the XIII Congress of the CPV, which took place from January 27 to February 1, 2021 have not yet been published, so at this stage the author has a partial opportunity to describe the results for the period of 2016-2020. According to the media, the Congress concluded that the Party should always retain its trust in Marxism-Leninism, Ho Chi Minh ideology and remain committed to the path of socialism.

The Congress claimed that in the last Party Congress and in the 10-year development strategy plan, the Party had effectively realized many guidelines, priorities and tasks set. The Congress also acknowledged that among all these milestones and successes, there are also

⁹¹ Ibid., p. 202.

⁹² Ibid., p. 11.

⁹³ Ibid., p. 15.

limitations that need to be resolved in the next five years to realize the ambition of a strong prosperous Vietnam by 2045.

With an average GDP growth rate of 5.8 percent in the past five years, Vietnam is ranked as one of the 10 countries with the fastest economic growth in 2020. Progress in the areas of socio-culture, health, education and science and technology was also observed. The poverty rate was lowered from 10% in 2015 to 3% in 2020. The average per capita income, which was 100 US dollars in 1986 (the year Doi Moi policies were introduced), rose to \$2,750 in 2020⁹⁴.

As a result of intense work, there was adopted the Resolution which highlighted the general priorities and defined objectives for 2025, 2030 and 2045 and which identified key socio-economic development objectives for 2021-2025, national development priorities for 2021-2030 and key tasks for the next five years. In detail, the resolution of the 13th Congress of the CPV sets the following goals: by 2025, turn Vietnam into a developing country that is getting rid of the middle-low level of income and moving along the path of developing modern industry; by 2030, turn Vietnam into a developing country that has a modern industry and a medium-high level of income; by 2045 turn Vietnam into a developed, high-income country⁹⁵.

From the perspective of regional studies, Socialist Republic of Vietnam is a developing country in Southeast Asia. Vietnam is a densely populated country with a limited area suitable for economic development, and the settlement of the population in conditions of limited land resources for development is uneven. In this regard, the territory of Vietnam is strictly divided into three large economic zones - North, Central and South Vietnam that we are going to describe later in connection with the foreign direct investments.

The soil and subsoil are rich in various minerals, such as oil, gas, coal, iron and manganese ore, tungsten, zinc, lead, tin, titanium, bauxite. Rich deposits of uranium ore have been discovered. There are significant reserves of raw materials for pottery and porcelain production; there are good opportunities for the production of building materials - bricks, tiles, cement, etc. The energy sector has boomed in recent years (coal, hydrocarbons, electricity, cement, steel industry).

Vietnam also has significant hydro resources (surface water sources, from which the Red River and the Mekong River stand out; geothermal springs and large reserves of groundwater).

⁹⁴People's Democracy. Communist Party of Vietnam – 13th Congress / People's Democracy. URL: https://peoplesdemocracy.in/2021/0207_pd/communist-party-vietnam-%E2%80%93-13th-congress (accessed 25.04.2021).

⁹⁵ Moscow City Branch of the Communist Party of the Russian Federation. Information about the results of the 13th Congress of the Communist Party of Vietnam. Communist Party of Vietnam. Central Executive Committee. International Department / Moscow City Branch of the Communist Party of the Russian Federation. Unofficial translation. – 2021. URL: <https://msk.kprf.ru/2021/02/25/155517/> (accessed 25.04.2021).

The sea coast zone plays a special role in the country's economy. It occupies less than a third of the land area, but 60% of the population lives on it and more than half of the large cities are located, which are also seaports. The resources of the sea provide employment for more than 9 million people, and the export of raw and processed seafood is one of the top export items (with the export of oil and light industry products)⁹⁶.

Despite being a 'newcomer' in the oil industry, Vietnam has become the third largest Southeast Asian producer. The country has also invested in high value-added industries such as cars, electronic and computer technologies (software). Manufacturing rose by 10.9% year-on-year in 2019, contributing a record industrial trade surplus of over USD 10 billion⁹⁷.

According to the World Bank, since 2011, the annual GDP growth rate in Vietnam has been at the level of 5-7%⁹⁸. At the end of 2018 the nominal volume of the economy amounted to \$ 255 billion. The Asian Development Bank predicts further economic growth in Vietnam, albeit with a slight slowdown, and in 2020 GDP growth was projected at 6.7% (Appendix 5)⁹⁹.

The Socialist Republic of Vietnam holds a prominent role in the world division of labor structure, aiming to boost its competitiveness. According to many specialists, this degree has been reached in the fields of agriculture and forestry, marine fisheries, building materials and the manufacture of electronic components. Textile, sewing, footwear, oil and gas, food processing and a number of other industrial areas are promising in terms of export opportunities¹⁰⁰.

According to the Figure 5 (Appendix 6) in the structure of the gross domestic product, the share of the service sector, consisting of the production of intangible goods to businesses and final consumers, is 41.46 %, the share of industry is 34.49 %, the rest is distributed between agriculture, forestry and fishing. Needless to say that approximately 35 percent of the Vietnamese population works in the service sector.

Vietnam is one of the most open economies to international trade in Asia. However, until 1986 the turnover of foreign trade grew steadily mainly due to the growth of imports. The basis of Vietnam's international specialization, and, therefore, the main export items were mineral raw

⁹⁶ Viet, N.V. Mechanisms for ensuring the social orientation of market reforms in Vietnam: dis. [Mekhanizmy obespecheniya social'noj napravlenosti rynochnyh reform vo V'etname] / N.V. Viet // Dr. econ. sciences. - M., 2006. – P. 306.

⁹⁷Vietnam: Economic and Political Overview. Nordea. URL: <https://www.nordeatrade.com/en/explore-new-market/vietnam/economical-context> (accessed 25.04.2021).

⁹⁸ Bondarenko N. The closest competitor: how the trade war between the US and China helped the Vietnamese economy [Blizhajshij konkurent: kak torgovaya vojna SSHA i Kitaya pomogla ekonomike V'etnama] / N. Bondarenko // RT in Russian. URL: <https://russian.rt.com/business/article/674538-ssha-kitai-vietnam> (accessed 25.04.2021).

⁹⁹ China continues to reduce the rate of GDP growth [Kitaj prodolzhaet snizhat' tempy rosta VVP] / IA TASS. URL: <https://tass.ru/ekonomika/6663573> (accessed 25.04.2021).

¹⁰⁰ Zan, L. K. Modernization of the financial system in Vietnam: dis. [Modernizaciya finansovoj sistemy vo V'etname] // L. K. Zan // Cand. econom. sciences. - M., 2011. – P. 13.

materials and products of tropical agriculture. The growth in the volume of imports, in turn, was not aimed at encouraging exports, but mainly at implementing import substitution policies.

In 2018 (according to World Bank), Vietnamese trade represented 208% of GDP (the total is more than 100% as lots of components are imported, assembled into finished goods and then re-exported). Exports constitute an increasingly significant contribution to Vietnam's GDP and certain sectors, such as industrial production, textile, electronics and seafood production have been growing rapidly. From a continental perspective and based on finalized 2018 data, about 54% of Vietnam's exported goods by value were delivered to fellow Asian countries while 22% were sold to importers in North America. Vietnam shipped another 18.4% worth of goods to Europe. Smaller percentages went to Latin America excluding Mexico but including the Caribbean (1.9%), Oceania led by Australia (1.8%) and Africa (1%)¹⁰¹. The structure of exports is dominated by the so-called "investment goods" (transmission and electronic apparatus, footwear, technology products and automatic data processing machines). Imports include electronic integrated circuits and microassemblies, tool machinery and petroleum oils¹⁰². More detailed overview of export/import trends of 2019 is presented in Table 1 (Appendix 7).

As of 2019, the main trading partners are China, South Korea and Japan (2021, Statista). Its main providers are the Asian countries. The Vietnamese economic model remains to be heavily dependent on foreign investment and exports, — particularly to the United States, Europe, China, South Korea and Japan. Thus, Vietnam's export-oriented economy makes it dependent on the United States and China, which import more than 30% of all Vietnamese goods¹⁰³. More information about economic relations with the US and the PRC will be provided further.

As a result, the slowdown in the growth of the Chinese economy in 2019 immediately led to a decrease in Vietnamese GDP to 6.8% in the first half of 2019, while for the same period in 2018 this indicator was 7.5%¹⁰⁴.

The peculiarity of the current situation in Vietnam is that there are profound shifts in the socio-economic and socio-psychological dimensions, the collapse of the national mentality, moral values and perceptions, and the formation of new standards of living. All these processes

¹⁰¹ Workman, D. Vietnam's Top 10 Exports / D. Workman. URL: <http://www.worldstopexports.com/vietnams-top-10-exports/> (accessed 25.04.2021).

¹⁰² Comtrade, 2020. Because of rounding, the sum of the percentages may be smaller/greater than 100% / Comtrade. URL: https://santandertrade.com/en/portal/analyse-markets/vietnam/economic-outline?url_de_la_page=%2Fen%2Fportal%2Fanalyse-markets%2Fvietnam%2Feconomic-outline&&actualiser_id_banque=oui&id_banque=0&memoriser_choix=memoriser (accessed 25.04.2021).

¹⁰³ Karpov, V. Between China and the US – Vietnam chooses Japan / V. Karpov. URL: <https://regnum.ru/news/po1it/2692764.html> (accessed 25.04.2021).

¹⁰⁴ IA TASS. China continues to reduce the rate of GDP growth. URL: <https://tass.ru/ekonomika/6663573> (accessed 25.04.2021).

have an impact on the status of the national economic life, on the establishment of national policy and even on new conditions for economic activity. Reforms are carried out at the level of sectors and national economic complexes in combination with large-scale reforms at the national level¹⁰⁵.

As we have identified, the basis for the dynamic growth and renewal of the Vietnamese economy is export and investment. After the start of reforms, following the example of China, Vietnam has pursued an active policy of attracting foreign investment.

Vietnam has three key economic regions (Appendix 8):

1. Northern, which includes the cities of Hanoi and Haiphong, the provinces of Quang Ninh, Hai Duong, Hung Yen, and Vinh Phuc;

2. Central with the city of Da Nang and the provinces of Thua Thien Hue, Quang Nam and Binh Dinh.

3. South with the city of Ho Chi Minh City (formerly Saigon, as well as known as the "Paris of Southeast Asia") and the provinces of Dong Nai, Ba Ria-Vung Tau, Binh Duong, Tay Ninh, Binh Phuoc, and Long An.

The volume of FDI mainly went to the so-called southern key economic region. About 50% of all investments were directed there. In the northern regions of the country, Bac Ninh, Hanoi (about 20% of FDI) and Ha Nam are the main recipients of investments¹⁰⁶. Direct investment has created approximately 3 million jobs in the country. Moreover, Vietnam's favorable investment climate and high political reputation in Asia and around the world enable it to attract foreign capital in the form of direct investment and economic assistance through the international organization "Official Development Assistance," which was established by the international community to assist developing countries.

Numerous revisions and modifications to the Foreign Investment Law, which made it more liberal, have resulted in the improvement in economic activity and the investment climate. The adoption of the general law on enterprises in 2007 equalizes the conditions for the operation of economic structures by applying a single VAT rate in the tax system. A law on competition was passed in the field of commerce, prohibiting market monopolization and the government's impediment to healthy competition. Foreign commerce is required by law to combat dumping. As a result of lower inflation, macroeconomic stabilization was also accomplished.

¹⁰⁵ Lok, V.N. Economy of Vietnam: its place and role in the international division of labor [Ekonomika V'etnama: eyo mesto i rol' v mezhdunarodnom razdelenii truda] / V.N. Lok // Report of KrasGAU. - 2014. № 3. – P. 22.

¹⁰⁶ Kuen, D.H. Improvement of system of state regulation of foreign economic relations of Vietnam: Dissertation abstract [Sovershenstvovanie sistemy gosudarstvennogo regulirovaniya vneshneekonomicheskikh svyazey V'etnama] / D.H. Kuen. - M., 2011. – P.6.

In 2016, amendments were made to the legislative framework, which related to the Law on Business and the Law on Investments and imply more freedom in the current activities of enterprises. For instance, this is a decrease from 51 names of illegal entrepreneurial activity to six¹⁰⁷.

Vietnam is a member of many international organizations. The positive aspects of joining ASEAN as well as the EAEU have already been discussed at the beginning of the chapter. At this stage, the author would like to note the participation of Vietnam in the regional Trans-Pacific Partnership trade bloc. Despite the gap in the level of economic development, Vietnam has some advantages over other members of the TPP - a convenient geo-economic and geopolitical position at the junction of Northeast and Southeast Asia, where the main transport routes and the economic resources of the United States, Japan, ASEAN, European union pass. Another comparative advantage of Vietnam is the modern, so-called golden demographic situation, since 57.7% of the total population is of working age¹⁰⁸.

Vietnam has also shown a firm dedication to trade liberalization. In 2007, it joined the WTO on the condition that companies with 100% foreign participation can distribute their products in Vietnam. The ban applies to organizations with foreign participation in the distribution of cigarettes, books, newspapers and magazines, videos, precious metals and stones, pharmaceuticals, explosives, processed and crude oil, rice, sugar cane and sugar from sugar beets¹⁰⁹. It also signed Free Trade Agreements with the ASEAN countries and the United States that allowed Vietnam to become an attractive location for production at new enterprises. In this way, the Vietnamese government, with the help of new privileges and incentives, helped to increase the inflow of foreign capital.

Moreover, Vietnam managed to increase its steel exports to the U.S. despite tariffs, an exception among Asian steelmakers¹¹⁰.

Vietnam's fast and effective response to the coronavirus outbreak has also enabled the country to keep expanding by around 2% in 2020, while other countries in the region are facing bleak prospects¹¹¹. Short-term policy of the government amid COVID-19: a policy of easing monetary policy and expanding the budget is being implemented, and tax breaks, deferrals and

¹⁰⁷ Vietnam's News. Business in Vietnam for foreigners [Biznes vo V'etname dlya inostrancev] / Vietnam's News. URL: <http://vietnamnews.ru/smallbiz> (accessed 26.04.2021).

¹⁰⁸ Trigubenko, M.E. The development of Vietnam's foreign trade in the new architectonics of global economic relations in the XXI century. P. 19.

¹⁰⁹ Export to Vietnam: specifics of doing business in Vietnam [Eksport to V'etnam: Osobennosti vedeniya biznesa vo V'etname] / Eurasian Economic Commission - Moscow, 2015. – P. 125.

¹¹⁰ Choo, C., Gao F. Analysis: Vietnam's steel industry likely to affect global markets as production grows / C. Choo, F. Gao. URL: <https://www.spglobal.com/platts/en/market-insights/latest-news/metals/031219-analysis-vietnams-steel-industry-likely-to-affect-global-markets-as-production-grows> (accessed 26.04.2021).

¹¹¹ Branchenreport Vietnam. Machine Building/ Smart Factory / Aussenwirtschaft Austria. - Ho Chi Minh City, November 2020. – P. 5.

debt maturities are being offered to “save” businesses and farmers. In addition, “rescue” measures are being implemented. For instance, ease border restrictions, equip truck drivers with medical equipment for customs clearance at border gates, and the possibility for Chinese workers to return to work in export processing zones with conditions for 14 days of isolation. The country's brand as the main alternative for relocating production from China has strengthened. During the coronavirus pandemic and the ban on the entry of foreigners, the Vietnamese government, unlike the Chinese, provided the opportunity for South Korean engineers to visit their factories.

Notably, all three sectors of the economy contributed to growth during the pandemic:

- The agricultural sector played an important role, growing 2.68% thanks to increased productivity and demand.
- The manufacturing sector remained largely intact, except for temporary supply chain disruptions, and its output increased by 3.98%.
- Despite significant losses in tourism, the service sector also grew by 2.34% - thanks in part to digitalization and Vietnamese consumerism¹¹².

The successful containment measures that enabled such exceptions have further strengthened the Vietnamese brand as a promising business location. However, declining world trade and supply chain disruptions, complex strategic competitiveness, rising globalization, export protectionism, trade protection, and geopolitical developments are all factors that threaten the world economy and impact the economy of Vietnam.

Summarizing the results of the analysis, the following conclusions can be drawn:

- Modern Vietnam is an agrarian country with a developing industry, which is defined by a mixed type. The distinguishing aspect of the current status of the Vietnamese economy is in transformational state - the transition from a mobilization economy with a tight command administrative style of management to market relations and innovative methods of organizing and administering the national economy. As a result, a socialist model of a market economy is gradually emerging with the democratization of socio-economic relations.

- The course toward socio-economic reforms, which has maximized the use of market mechanisms while maintaining the reforms' social orientation, has shown favorable outcomes in all key macroeconomic indicators. Vietnam is successfully emerging from the state of extreme poverty of the population and is able to set the task of moving into the category of countries, first with an industrial-agrarian economy, and then into the category of industrially developed ones.

¹¹² Nguyen, Ph. Vietnam's 2020 economic growth slips to 30-year low due to COVID-19 / Ph. Nguyen. URL: <https://www.reuters.com/article/us-vietnam-economy-gdp-idUSKBN29107M> (accessed 26.04.2021).

- Despite the fact that agricultural, food, and textile sectors account for a substantial portion of the economy, Vietnam has huge reserves of oil, gas, and coal, all of which contribute to the growth of the state.

- The main trading partners are China, South Korea, Japan and the US. In its import strategy, the SRV gives priority to raw materials, machinery and equipment necessary for industrialization and modernization of the economy. At the same time, the import of consumer goods is insufficient. The SRV exports electrical machinery/equipment, footwear, clothing/accessories (not knit or crochet) and machinery including computers as top-3 exporting goods.

- Over the past decades, Vietnam's foreign trade has continued to develop steadily and dynamically, since various resources as well as a significant part of the economically active population, were engaged in the export sector. Vietnam's export-oriented policy made its economy the most open among all the countries of the East Asian region, except for Singapore and Malaysia.

- Vietnam has pursued an active policy of attracting foreign investment. However, FDI's are distributed unequally with the volume of DFI mainly went to the South (primarily to Ho Chi Minh City). As for the northern regions of the country, the cities of Bac Ninh, Hanoi and Ha Nam are the main recipients of investments.

- Among the top factors of Vietnam's attractiveness are the availability of large natural resources, including energy, tropical agriculture, fish and forest resources, whose products are in high demand in foreign markets, a convenient geo-economic and geopolitical position at the junction of Northeast and Southeast Asia, relatively cheap labor, and growing population of the working age.

- On the one hand, the state still needs a more modern development structure. On the other hand, it is vital to maintain and enhance the course towards working-class social protection, poverty eradication, and development of people's well-being.

2.2. Main trends in the United States–Vietnam relations

In conditions of evident political instability, as the contradictions between the major powers in the region, the United States and China, are becoming increasingly volatile and the sphere of their rivalry is rising, most Asian countries' foreign and domestic policies are also highly dependent on these external conditions in relation to them.

Vietnam is becoming an important significant partner for the United States. These

countries share similar interests in the South China Sea¹¹³ and a strained relationship with the government in Beijing. After the war, Vietnam had economic challenges and could not survive or thrive without foreign capital. Since the mid-1970 Vietnam tried to establish ties with all states that could contribute to the prosperity of the country, including the US, but it was the embargo on trade that prevented western countries from helping Vietnam. According to Nayan Chanda's acclaimed post-war history of Indochina, *Brother Enemy: The War after the War*, American banks (the Bank of America and First National City Bank) and oil companies were invited to Hanoi in 1976 — one year after the war ended — to submit and negotiate proposals of trade, financial relations and offshore oil exploration¹¹⁴. After the Vietnam War, the relations between the two countries remained tense.

From the late 1970s through the mid-1980s, Vietnam's economy was facing some limitations as a result of a large military budget dedicated to a full-scale conflict in December 1978 in Cambodia and shortcomings in its command economy¹¹⁵.

A gradual restoration of diplomatic relations began in April 1991. Thus, the administration of George W. Bush presented a plan for the gradual normalization of relations, starting with the opening of a US government office in Hanoi to solve the MIA problems (the Joint POW/MIA Accounting Command conducts four major investigation and recovery periods a year). On July 11, 1995, US President Bill Clinton announced the normalization of relations with Vietnam in Washington. On February 3, 1994, President Bill Clinton lifted the trade embargo against Vietnam. On July 12, 1995, the late Vietnamese Prime Minister Võ Văn Kiệt announced the establishment of diplomatic relations with the United States, opening a new chapter in the history of the two countries for reconciliation and growth. Since then, high-level bilateral contacts have taken place regularly.

Nowadays, relations are guided by the 2013 U.S.-Vietnam Comprehensive Partnership that provides a mechanism to facilitate cooperation in such areas as political and diplomatic relations, trade and economic ties, defense and security, science and technology, education and training, environment and health, humanitarian assistance, war legacy issues, protection and promotion of human rights, culture, sports, and tourism. They are also guided by the 2015 bilateral Joint Vision Statement and 2016 Peace Corps country agreement. In 2017, Vietnamese

¹¹³ Grossman, D. What Does Vietnam Want from the United States in the South China Sea? / D. Grossman. URL: <https://www.rand.org/blog/2021/01/what-does-vietnam-want-from-the-united-states-in-the.html> (accessed 26.04.2021).

¹¹⁴ Chanda, N. *Brother Enemy: the War after the War. A history of Indochina since the fall of Saigon* / N. Chanda – NY: Macmillan Publishing House, 1986. – P.143

¹¹⁵ Thang, B.T. *After the War: 25 Years of Economic Development in Vietnam* / B.T. Thang. URL: <https://www.nira.or.jp/past/publ/review/2000spring/06thang.pdf> (accessed 26.04.2021).

Prime Minister Nguyen Xuan Phuc became the first Southeast Asian leader to visit the United States, and, in turn, US President Donald Trump chose Vietnam as the first Southeast Asian country to visit (there he also announced the new US strategy in the region). He became the first American head of state to visit Vietnam during his first year in office. As a result, the Joint Statement was issued during Vietnamese Prime Minister Phuc's visit to the United States in May 2017, and the Joint Statement was issued during President Trump's visit to Vietnam in November 2017.

In 2018, at the invitation of the Vice Prime Minister, Minister of Foreign Affairs of the Socialist Republic of Vietnam Pham Binh Minh, US Secretary of State Michael Pompeo paid an official visit to Vietnam. Vietnam became the first country in Southeast Asia, which he visited after having taken as head of American diplomacy.

This trend in the practical development of bilateral relations, as well as not only to increase the efficiency of already existing cooperation mechanisms, but also to expand them, can be traced now. According to the US Ambassador to Vietnam Daniel Crittenbrink in an interview on July 13, 2020, the partnership between the US and Vietnam is the strongest ever in the run-up to 25 years of diplomatic relations between the two countries¹¹⁶. Cooperation between the two countries can be traced in such fields as politics, diplomacy, commerce and economics, security and defense, and exchange of experience in lawmaking.

Security and Defense

Vietnam released a new defense white paper in December 2019¹¹⁷. The country's latest defense white paper was categorized into three parts: the strategic context and national defense policy, building the all-people national defense, and the development of the Vietnam People's Army. The two main principles of Vietnam's defense policy are peace and self-defense.

Vietnam's foreign policy aims to balance China without provoking it while expanding relations with other powers, because the country needs good relations with its neighbor due to the geopolitical connections. Vietnam adheres to a "multi-directional" foreign policy doctrine rooted in the "three no's" principle: no military alliances, no foreign troops on its soil to threaten the sovereignty of others, and no partnering with a foreign power to combat another. Moreover, the new document highlighted a new "no" — "not using force or threatening the use of force in

¹¹⁶ VietNews. Vietnam and the United States can now call each other friends [V'etnam i SSHA teper' mogut nazyvat' drug druga druz'yami / VietNews. URL: <https://vietnews.ru/politic/vetnam-i-ssha-teper-mogut-nazyvat-drug-druga-druzyami> (accessed 26.04.2021).

¹¹⁷ 2019 Vietnam National Defence White Paper/ Socialist Republic of Vietnam. Ministry of National Defence. - 2019. – P. 113.

international relations” — but the meaning of this assertion is rather vague¹¹⁸. Despite the additional “no,” it is expected that Vietnam’s overall defense position will not change.

Vietnam has focused on improving and producing its own infantry and artillery weapons. The Vietnamese army are well trained to adopt new weapons and already equipped with submarines, Su-30 MK2 strike fighters, anti-aircraft missile systems, surface-to-shore missiles, radar systems, technical reconnaissance equipment, and armored tank units¹¹⁹.

Meanwhile, Vietnam remains a nuclear-free state under the agreement of the ASEAN community. The new document shows that Vietnam also does not want to pursue an arm race¹²⁰.

Hanoi is well aware that the key goal of the US foreign policy strategy in the Asia-Pacific region is to contain the PRC. In order to prevent China from becoming a superpower, the United States is forming a containment system (or "ring") around it, which includes Japan, the Republic of Korea, Thailand, and the Philippines. The United States is actively working to include Singapore, Myanmar, and Vietnam in this system¹²¹.

Vietnam is a partner in nonproliferation regimes, including the Global Initiative to Combat Nuclear Terrorism, and takes advantage of expertise, equipment, and training available under the Export Control and Related Border Security program. In order to promote the implementation of the 123 Agreement on the Peaceful Use of Nuclear Activity, which came into force in October 2014, the United States and Vietnam plan to create the U.S.-Vietnam Joint Commission on Civil Nuclear Cooperation.

As the result of war, explosive remnants, primarily in the form of unexploded ordnance (UXO) including extensive contamination by cluster munitions, pose a danger for Vietnam. The United States is the largest single donor to UXO/demining, as well as the leader in humanitarian cooperation (MIA accounting and remediation of Agent Orange) in Vietnam. The determinants for the US-Vietnamese defense relations are the 2011 Memorandum of Understanding on Advancing Bilateral Defense Cooperation, 2013 Memorandum of Understanding on Continued Unexploded Ordnance Cooperation and the 2015 U.S.-Vietnam Joint Vision Statement on Defense Relations.

On May 23, 2016, the United States lifted the arms embargo on Vietnam. Barack Obama

¹¹⁸ Ibid., pp. 23-24.

¹¹⁹ Nguyen, T. The Trouble With Vietnam’s Defense Strategy / T. Nguyen. URL: <https://thediplomat.com/2020/01/the-trouble-with-vietnams-defense-strategy/> (accessed 26.04.2021).

¹²⁰ 2019 Vietnam National Defence White Paper. Pp. 24-25.

¹²¹ Mikhailovna, A.M. Risks for the Vietnamese economy during the balancing period between the United States and China [Riski dlya ekonomiki V'etnama v period balansirovaniya mezhdru SSHA i Kitaem] / A.M. Mikhailovna // News of the Eastern Institute. - 2019. №. 4. - P. 116.

called the embargo a "relic of the Cold War" and called for increased cooperation between the US and Vietnam in the military sphere. The ban on the sale of lethal weapons has been in place since the Cold War, when the United States and Vietnam were adversaries in the Indochina war. Thus, this is another step towards the normalization of relations between the two countries.

The US also continues to provide Vietnam with maritime security assistance – including through the Maritime Security Initiative, the Cooperative Threat Reduction program, and Foreign Military Financing. In 2017, the United States and Vietnam established a working group for the Cooperative Humanitarian and Medical Storage Initiative, which will advance cooperation on humanitarian assistance and disaster relief.

In 2019 the Prime Minister of the Socialist Republic of Vietnam Nguyen Xuan Phuc and US President Donald Trump. Donald Trump emphasized the security of the region and agreed to continue cooperation on the basis of the agreements reached, set out in the 2011 Memorandum on the Promotion of Bilateral Military Cooperation and the 2015 Declaration on a Common Vision for Defense Issues. Military assistance programs are also being implemented, primarily in the maritime sphere. The conflict in the South China Sea has become one of the foundations on which defense cooperation between the United States and Vietnam is developing.

Economics and Trade

As Vietnam's economy experienced underperformance, in 1986 the government launched economic reforms in order to improve the situation and to restore international ties. The reforms, known as Doi Moi, gave priority to the emergence of a market economy and the formation of opportunities for competitiveness in the private sector.

Nowadays, Vietnam is America's 13th largest trading partner, and currently has the fourth-highest trade surplus with the U.S. this year. Bilateral trade grew 170 times: from \$ 450 million in 1995 to \$ 76 billion in 2019. The economies of Vietnam and the United States are becoming more and more complementary and mutually supportive (Appendix 9). The United States was Vietnam's 2nd largest trading partner in 2019 and continues to be Vietnam's largest export market for commodities such as seafood, textiles, footwear, agricultural products, and more. In turn, Vietnam is also one of the fastest growing export markets for the United States. Vietnamese are increasingly choosing American brands, from agricultural products, telecommunications, aviation to financial services, banking, education, and more¹²².

¹²² Bao Anh Vietnam. Vietnam and the United States celebrate 25 years since the establishment of diplomatic relations [V'etnam i SSHA otmetili 25-letie so dnya ustanovleniya diplomaticheskikh otnoshenij] / Bao Anh Vietnam. URL: <http://surl.li/rwxxy> (accessed 26.04.2021).

The United States is inferior to China in terms of trade, the trade turnover is slightly more than \$ 50 billion, and from year to year there is a significant artificial surplus in trade in favor of Vietnam. The United States is trying to tie Vietnam to itself economically, and receive political leverage on its leadership.

At the same time, Vietnam's trade surplus continued to expand year-over-year in the first half of 2020, helping push the current account surplus over the four quarters through June 2020 to 4.6% of GDP. Over the same period, Vietnam's goods trade surplus with the United States reached \$58 billion, the fourth largest among the United States' trading partners¹²³.

Needless to say, according to the statistics of the Ministry of Planning and Investment of Vietnam, by the end of 2019, the US ranks the 11th largest foreign investor in Vietnam, with nearly 1,000 direct investment projects in Vietnam and the total registered capital is nearly 10 billion USD. In terms of trade and investment, nearly 47 percent of respondents selected the US as the country with which they most desired greater relations. As domestic anti-Chinese sentiment has dramatically risen in recent decades, forming an alliance with the US to hedge against China could further boost public approval of closer US–Vietnam relations¹²⁴. A major step in investment cooperation was the signing ceremony of the Trade and Investment Framework Agreement (TIFA) between Vietnam and the US on June 21, 2007. This agreement has impacted commercial opportunities for US companies. The US is also an investment destination for Vietnam's businesses. In the first 5 months of 2020, this country's ranks the second in Vietnam's overseas investment capital, with 21.72 million USD, accounting for nearly 12%.

Based on the 2001 Bilateral Trade Agreement (BTA), the US government announced to grant Vietnam "Permanent normal trade relations" (PNTR) in December 2006. To name a few other Agreements signed, the 2003 Textile Agreement, the 2004 Aviation Agreement etc. In addition, these bilateral and multilateral negotiations paved the way for Vietnam's entry to the World Trade Organization on January 11, 2007. After Vietnam joined the WTO in 2007, the two countries set up a forum to discuss Vietnam's WTO commitments and additional investment and trade liberalization.

During the Barack Obama's presidency, the US and eleven other Pacific countries signed the Trans-Pacific Partnership (TPP), also known as the Trans-Pacific Partnership Agreement on

¹²³ Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States / Report to the Congress // US Department of the Treasury Office of International Affairs. – December 2020. – P. 4.

February 4, 2016. The agreement assumed the almost complete abolition of customs duties on goods and services in the Asia-Pacific region, which allowed to reduce the prices of products within the participating countries, covered 40% of global GDP, and one-third of the world trade, which made the trade union the largest in the world and also increased the influence of the United States in East Asia, thus weakening the economic position of China in the region. Moreover, with a Pew survey in 2014 showing that 76 percent of Vietnamese embraced the United States as a helpful ally, “the TPP is being sold as a counter to China’s domination”¹²⁵.

After Trump’s withdrawal on January 23, 2017, the 11 countries signed the revised version of the agreement, called Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which entered into force on December 30, 2018 after being ratified by Japan, Mexico, Singapore, New Zealand, Canada and Australia. Now 13% of the planet's GDP falls on the countries of this association, which are home to about 500 million people. In Vietnam, the document came into force on January 14, 2019, as it completed ratification later.

The Peterson Institute for International Economics asserts that "the TPP includes more protections of labor rights than any previous US free trade agreement"¹²⁶. In Vietnam, TPP could increase the real wages of unskilled workers by more than 14 percent by 2030, as production intensive in unskilled labor (e.g. textiles) shifts to Vietnam¹²⁷.

It is necessary to mention that Chinese President Xi Jinping considers the joining the Comprehensive and Progressive Agreement on the Trans-Pacific Partnership, mentioning it at the opening of the APEC summit taken place on November 20, 2020¹²⁸.

Territorial Disputes: the case of the South China Sea

In recent years, the growing tension in the South China Sea (known by Vietnamese as the East Sea) has also contributed to the rapid rapprochement between the two countries in regard to the sovereignty over Spratly and Paracel Islands (the Xisha and the Nansha in Chinese; the Hoang Sa and Truong Sa in Vietnamese), disputes over which are the cause of Vietnam's conflict

¹²⁴ Nguyen, C.T. Vietnam-US Relations Balancing Ideology and Geopolitics / C.T. Nguyen. URL: www.eastasiaforum.org/2015/10/09/vietnam-us-relations-balaneing-ideology-and-geopolitics/ (accessed 26.04.2021).

¹²⁵ Pew Research Center. Global Attitudes & Trends. Global Opposition to US Surveillance and Drones, but Limited Harm to America’s Image. Chapter 1 / Pew Research Center. URL: <https://www.pewresearch.org/global/2014/07/14/chapter-1-the-american-brand/> (accessed 26.04.2021).

¹²⁶ Peterson Institute for International Economics. Labor Standards in the TPP / Peterson Institute for International Economics. URL: <https://piie.com/newsroom/short-videos/labor-standards-tpp> (accessed 26.04.2021).

¹²⁷ Topical Issue: Potential Macroeconomic Implications of the Trans-Pacific Partnership / World Bank. Global Economics Prospects, January 2016. – P. 228.

¹²⁸ Walter, M. The Heat: APEC Economic Leaders’ Meeting / M. Walter. URL: <https://america.cgtn.com/2020/11/21/the-heat-apec-economic-leaders-meeting> (accessed 26.04.2021).

with China and other neighboring states. It is necessary to point out that Hanoi hoped for military assistance from the United States in response to Beijing's aggressive actions in the South China Sea. This condition is perceived by Vietnam to be a significant danger to regional stability. Tran Dai Quang, the President of the Socialist Republic of Vietnam in his speech in Singapore on August 30, 2016, stated that all will lose in the event of more destabilization in the region, not to mention a military conflict¹²⁹. For Vietnam, the US support remains an important bargaining chip. A statement of Michael Pompeo, the US Secretary of State, during his visit to Vietnam, was warmly welcomed in Hanoi. He supported Vietnam in its conflict with China¹³⁰.

In the educated elite, there was formed the conviction that Vietnamese society should not constantly remember the war. Analysis of the mass media shows that pro-Western tendencies and sympathies are much more pronounced today than pro-Chinese ones. In the Vietnamese press it is mentioned that the United States would help Vietnam and other countries in the region find protection from Beijing's aggressive actions and "put things in order in the South China Sea soon"¹³¹. These sentiments contribute to the development of an obvious crisis of confidence in the ruling power in the circles of the intellectual elite. It can be deduced that the Vietnamese society views world and regional events through the prism of Western propaganda, since the world and regional agendas are based in most cases on Western sources. Moreover, the United States is consistently betting on inciting Vietnamese nationalism, which is directed primarily against its key rival, China.

Other areas of collaboration

The United States is providing International Military Education and Training to Vietnam and using Economic Support Funds to help ethnic minorities in the Central Highlands. Vietnam is also working with the United States in areas such as combating transnational crime including fighting the drug trade, human trafficking, the abduction and trafficking of children and minimizing the threat of emerging infectious diseases.

Scientific and technical cooperation between the two countries is developing rapidly and spreading to new areas. American and Vietnamese businesses are particularly interested in cooperation on artificial intelligence, creative start-ups, renewable energy, and infrastructure

¹²⁹ Yahoo!News. Vietnam says all will lose in any South China Sea war / Yahoo!News. URL: <http://surl.li/rwxv> (accessed 26.04.2021).

¹³⁰ Nguyen, Ha. Vietnam Gets a US Confidence Boost in China Sea Dispute / Ha Nguyen. URL: <https://www.voanews.com/east-asia-pacific/vietnam-gets-us-confidence-boost-china-sea-dispute> (accessed 26.04.2021).

development of information technology and high quality human resource training.

As the country is governed by a one-party, authoritarian system suppresses dissent from the political opposition, independent religious communities, bloggers, journalists, and human rights activists and lawyers. While serious problems remain, Vietnam has made some progress on its human rights record, in particular regarding religious freedom. To strengthen cooperation, the United States and Vietnam signed a letter of agreement on law enforcement and the justice sector in 2016. The United States and Vietnam. The United States and Vietnam hold annual dialogues on labor and human rights, maintain a Bilateral Human Rights Dialogue, where such issues as the revision of Vietnam's criminal code in compliance with international norms, the release of political prisoners and journalists, the elimination of Article 88 and of the similar content, used to detain dissidents for activities considered legal acts of free speech. The US urges Vietnam to allow greater political as well as religious freedoms.

Vietnam ranked 175 out of 180 countries in Reporters Without Borders' 2020 World Press Freedom Index. The advocacy group Freedom House classified Vietnam as "not free", receiving a 20 out of 100 in its annual report.

Current Problems between the US and Vietnam

Bilateral relations between Washington and Hanoi are marked by rather strong ambivalence. Despite improving relations in various areas, Vietnam needs to take Beijing's interests into account. Thus, the geographical position of the US and Vietnam is one of the limiting factors, since it is impossible for Vietnam to ignore the influence of China in the region.

Secondly, Vietnam also faces strict technical barriers to standards when exporting to the US, mainly due to the large disparities in economics as well as science – technology potential between the two nations.

Thirdly, the US has not yet recognized Vietnam as a market economy. The result is that many Vietnamese products (especially aquatic, textile and leather ones) are unable to penetrate deeper into America's market due to pressure and anti-dumping lawsuits.

The other aggravating factor is that on December 16, 2020 the U.S. Treasury Department identified Switzerland and Vietnam as currency manipulators under the 1988 Act¹³². In addition, the Treasury Department concluded that Vietnam acted to "gain an unfair competitive advantage

¹³¹ Thien, Y. It's time for Vietnam to abandon the tightrope-walking policy between China and the United States [Đã đến lúc Việt Nam từ bỏ chính sách thắt chặt giữa Trung Quốc và Hoa Kỳ] / Y. Thien. URL: <https://www.voatiengviet.com/a/viet-nam-trung-quoc-hoa-ky-di-day/5071253.html> (accessed 13.12.2020).

over other members”¹³³. To be labeled a manipulator, countries must have at least a \$20 billion bilateral trade surplus with the United States (roughly 0.1% of U.S. GDP), foreign currency intervention exceeding 2% of GDP and a global current account surplus exceeding 2% of GDP.¹³⁴ Vietnam and Switzerland far exceeded these criteria, with foreign exchange interventions of 5% and 14% of GDP respectively. At the same time, China is not named currency manipulator in Treasury report while it is no longer meets the standard in the 1988 Act¹³⁵.

On October 2nd, 2020, the United States Trade Office (USTR) decided to initiate an investigation of Vietnam (Currency) under Section 301 of the 1974 Trade Act at a time when the two countries maintain fruitful diplomatic, cultural, economic and trade relations. Following the announcement, the State Bank of Vietnam said it would work with U.S. authorities to ensure a “harmonious and fair” resolution to the dispute.¹³⁶ In addition, Vietnam announced to the American side that it was ready to cooperate in the investigation and set up a working group to work with relevant partners in the United States. When the US Department of Commerce continues to impose tariffs on Vietnamese goods from December 2020, based on the country's allegations of manipulating its currency, the trade exchange will suffer losses. The business communities, manufacturers and consumers of both countries will be hit hardest. On the Vietnamese side, businesses will lose confidence in doing business with their US partners, which could lead to a decrease in imports of materials and technology from the US, as well as a reversal of the growth trend in imports from the US in the past few years.

As of April 16, 2021, the Treasury Department's report to the US Congress states that Vietnam does not fit the criteria by which the United States defines currency manipulators. Thus, it was excluded from this list. Nevertheless, the US Treasury will continue to closely monitor the situation in the country¹³⁷.

In general, relations between the United States and Vietnam can be characterized by the quote of the General Secretary of the CPV Central Committee Nguyen Phu Chong during his visit to the United States in 2015 “From enemies, we (Vietnam and the United States) have

¹³² Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States. P. 4.

¹³³ Ibid., p. 2.

¹³⁴ Ibid., p. 64-66.

¹³⁵ Ibid., p. 68.

¹³⁶ Strangio, S. US Government Officially Labels Vietnam a Currency Manipulator / S. Strangio. URL: <https://thediplomat.com/2020/12/us-officially-labels-vietnam-a-currency-manipulator/> (accessed 26.04.2021).

¹³⁷ REGNUM. USA excludes Vietnam from the list of countries that manipulate the exchange rate / REGNUM. URL: <https://regnum.ru/news/economy/3245627.html> (accessed 26.04.2021).

become friends and partners. The past cannot be changed, but the future is our responsibility”¹³⁸.

2.3. Main trends in the China-Vietnam relations

Vietnamese perceptions of China have deep historical roots. For quite a long time, the territory of modern northern Vietnam was part of various Chinese empires, being either a separate province with a changing status, or part of larger administrative formations, including lands adjacent to its northern borders, in which a population ethnically close to the future Vietnamese lived. However, historians still cannot agree on the issue of time frames.

The bilateral relations between the People’s Republic of China and the Socialist Republic of Vietnam have undergone significant ups and downs since 1949. After establishing diplomatic relations with North Vietnam (the Democratic Republic of Vietnam) in 1950, China had provided financial and military assistance to the CPV to fight against South Vietnam (the Republic of Vietnam) and the United States.

Tensions between Vietnam and China increased dramatically after the end of the Vietnam War in 1975. In this research the author proposes to track the Sino-Vietnamese relations after the unification of Vietnam in 1976 which meant the emergence of a militarily strong state near the southern borders of the PRC, practically an ally of the USSR. In addition, the armed forces of the SRV, full of military inertia, were preparing to invade Cambodia, where the pro-Chinese regime of the Khmer Rouge threatened not only the interests, but also the security of Vietnam. Shortly after the Vietnamese invasion of Cambodia in late December 1978, the People's Republic of China, which was the Khmer Rouge's political ally, launched a punitive invasion of Vietnam.

Relations between Hanoi and Beijing became even worse when Chinese private entrepreneurs who made fortunes while the South of Vietnam was still a separate state began to be dispossessed. Beijing gradually reduced financial support for Vietnam, and after it joined *COMECON* - in 1978, it stopped it altogether.

By and large, like any war, the «First Socialist», Third Indochina War or simply brief Border War of 1979 had serious consequences. The government of Vietnam had to revise its foreign policy, the socio-economic situation was complicated due to the additional costs of overcoming the consequences of the war and assistance to Cambodia.

Clashes on the Sino-Vietnamese border continued for the next decade while Vietnamese

¹³⁸ Bao Anh Vietnam. Vietnam and the United States celebrate 25 years since the establishment of diplomatic relations. URL: <http://surl.li/rwxy> (accessed 26.04.2021).

troops were in Cambodia. There are no doubts that the Sino-Vietnamese relations became complicated for the next decades that resulted in the postponement of the economic reforms of the same type as Chinese. After the Vietnamese left Cambodia in 1989, relations quickly recovered and returned to normal in November 1991.

After the normalization of Sino-Vietnamese relations, the parties set goals, outlined directions of development, measures for their implementation at each stage and the most important areas of cooperation. On this basis, Sino-Vietnamese relations quickly recovered, political relations remained largely stable, and trade and investment grew rapidly. The resemblance of political regimes between China and Vietnam is the most important element that binds the two countries together. Despite the fact that ideological dogmas are losing their power, the two communist parties remain close and actually control the most crucial areas of bilateral relations. Today, inter-party relationships are the most effective means of political communication. In addition, a certain cultural community makes the two countries natural allies.

In March 1999, the leaders of both parties at a meeting in Beijing adopted the so-called "Sixteen word guidelines" treaty in a typical Confucian manner. Beijing and Hanoi describe their dialogue using beautiful formulas: "sixteen golden characters" (good neighborliness and friendship, all-round cooperation, long-term stability, future orientation, 1999) and "four good" motto ("good neighbors, good friends, good comrades, good partners", 2002)¹³⁹.

In 2006, the parties established a Steering Committee for Vietnam-China Bilateral Cooperation at the level of deputy prime ministers, designed to coordinate all areas of their relationship. It is organized annually and alternately in China and Vietnam.

Further cooperation includes the establishment of a Comprehensive Partnership in 2013, signature of many co-operation agreements at the governmental level, along with other diplomatic documents during the visit of Premier of the State Council of the People's Republic of China Li Keqiang, to Hanoi at the invitation of his counterpart, Prime Minister Nguyen Tan Dung in order to create a legal foundation for their long-term co-operative relationship. Since the beginning of 2013, visits, exchanges and meetings at all levels have taken place; notably the teleconference between General Secretary Nguyen Phu Trong and General Secretary and President Xi Jinping in March, the State visit to China by Vietnamese President Truong Tan Sang in June and the visit of Prime Minister Nguyen Tan Dung to Nanning in September for the China-ASEAN Expo.

In 2017, the General Secretary of the CPV Central Committee Nguyen Phu Trong met with Xi Jinping twice officially. In January 2017, he became the first highest-level overseas leader to be hosted by the CCP in the new year. Then, the General Secretary of the Central Committee of the Communist Party of China, President Xi Jinping paid a state visit to Vietnam from 10 to 13 November 2017 at the invitation of the General Secretary of the Central Committee of the Communist Party of Vietnam, Nguyen Phu Trong, and the President of the Socialist Republic of Vietnam, Tran Dai Quang to participate in the XXV Asia-Pacific Economic cooperation (APEC).

In February 2018, Nguyen Phu Trong mentioned that Vietnam is ready to work together with the Chinese side to actively develop greater synergy between the countries in the future¹⁴⁰.

2019 was set to see some notable developments with respect to the Sino-Vietnamese relationship, with both sides using the occasion of the 70th anniversary of the establishment of diplomatic ties between the two countries

Security and Defense

Since 1992, contacts between the Defense Ministries have resumed, which since 2005 have turned into annual consultations, and since 2010 have been held as Strategic Dialogues at the level of deputy ministers.

In 2008, Vietnam and China established a Comprehensive Strategic Cooperative Partnership, the highest and the most comprehensive diplomatic relations of both countries¹⁴¹. Many new forms of defense and security cooperation have appeared between the two countries, such as Vietnam — China border defense and friendship exchange (starting from 2014), border meetings between Defense Ministers of the two countries (starting from 2015), 3-level border guard coordination mechanism (Central, Military Zone and provincial levels). The security forces of the two countries have effectively cooperated in preventing a number of non-traditional security issues, such as human and drug trafficking.

In 2017 as the result of November's meeting mentioned above, the both countries agreed

¹³⁹ Research Institute of North-East Asia. Political Relations Between Vietnam – China from Real People / Research Institute of Northeast Asia. URL: <http://www.inas.gov.vn/339-quan-he-chinh-tri-giua-viet-nam-trung-quoc-tu-sau-binh-thuong-hoa-quan-he-den-nay.html> (accessed 26.04.2021).

¹⁴⁰ Russian.News.Cn. General Secretary of the CPV Central Committee Nguyen Phu Chong expressed hope for a new development of Vietnamese-Chinese relations [Gensek CK KPV Nguen Fu CHong vyrazil nadezhdu na novoe razvitie v'etnamsko-kitajskih otnoshenij] / Russian.News.Cn. URL: http://russian.news.cn/2018-02/09/c_136962531.htm (accessed 26.04.2021).

¹⁴¹ Stromseth, J., Marston, H. As U.S. Aircraft Carrier Departs Vietnam. What are the Implications for Regional Security / J. Stromseth, H. Marston // The Brookings Institution, March, 9, 2018. URL:

to promote training of military personnel between the two armies, increase contact between high-ranking army leaders of both sides, deepen and exchange experience in such areas as military-political work, medicine, UN peacekeeping, use direct telephone communication between defense ministries as well as conduct consultations on defense and security issues. The parties discussed the implementation of the Joint Statement on Cooperation in the Field of Defense by 2025 as well strengthening of cooperation in such areas as combating terrorism, drug trafficking and counterfeiting, illegal migration, combating telecommunications fraud, border control and cybersecurity¹⁴². During the visit, the parties signed various agreements, e.g. the "Agreement on Border Cooperation between the Ministries of Defense of Vietnam and China", "Memorandum of Understanding on Cooperation in the Field of Nuclear Security" and many more.

In May 2019, the defense ministers of China and Vietnam held a pre-arranged meeting in Hanoi discussing the military aspect of ties between the two countries. They agreed to try to foster collaboration in a range of areas that included military medicine, UN peacekeeping operations, and border defense friendship exchanges. In addition to this, both defense ministers signed cooperation agreements between the agencies of their two ministries, which included a memorandum of understanding on military medical cooperation, an agreement on military staff education, and a memorandum of understanding on military education between Vietnam's National Defense Academy and China's Defense University. The Chinese defense ministry also presented a batch of medical and search and rescue equipment to Vietnam's Defense Ministry¹⁴³.

As for cyber security, in July 2016, a couple of weeks after the International Arbitration Court in The Hague proclaimed that Beijing's territorial claims against the SCS were groundless, Chinese hackers hacked the information systems of three Vietnamese airports, displaying pro-Chinese slogans on the scoreboard. They also leaked the data of 400,000 members of the Vietnam Airlines national carrier's bonus program¹⁴⁴.

Although the Sino-Vietnamese relationship is considered to be equal, it is really asymmetrical due to the vast differences between the two nations in all areas.

<https://www.brookings.edu/blog/order-from-chaos/2018/03/09/as-a-u-s-aircraft-carrier-departs-vietnam-what-are-the-implications-for-regional-security/> (accessed 26.04.2021).

¹⁴² VnExpress. Full text of the Vietnam-China Joint Statement [Toàn văn Tuyên bố chung Việt Nam - Trung Quốc] / VnExpress. URL: <https://vnexpress.net/toan-van-tuyen-bo-chung-viet-nam-trung-quoc-3669742.html> (accessed 26.04.2021).

¹⁴³ Parameswaran, P. China-Vietnam Military Ties in the Headlines with Defense Ministers Meeting / P. Parameswaran. URL: <https://thediplomat.com/2019/05/china-vietnam-military-ties-in-the-headlines-with-defense-ministers-meeting/> (accessed 26.04.2021).

¹⁴⁴ Luan-Mai, T., Ha-Mai, Le, V.-Ng. Hackers allegedly from China attack flight info screens at Vietnam's airports, carrier's website / T. Luan-Mai, Ha-Mai, V.-Ng. Le. URL: <http://www.thanhniennews.com/society/hackers-allegedly-from-china-attack-flight-info-screens-at-vietnams-airports-carriers-website-64755.html> (accessed 26.04.2021).

Economics and Trade

International trade integration is an important factor for the country's economic development, helping expand export markets for Vietnamese goods, to attract foreign direct investment, to improve business environment, to enhance national competitiveness.

The economic reforms of Vietnam are commonly viewed by China as a derivative of the Chinese model¹⁴⁵. In economic and trade relations, cooperation is strongly promoted, which can be seen through a number of signed documents and actual statistics. Over the period of 11 years (2008—2019), Sino-Vietnamese bilateral trade turnover increased 5 times, from about 20 billion USD to 116 billion USD¹⁴⁶.

For the 16th year in a row, China has been Vietnam's principal trading partner, and Vietnam is China's largest trading partner in Southeast Asia. Vietnam imports machinery, equipment, petroleum products, steel, and consumer electronics from China. Vietnam exports crude oil, coal, rubber and rubber products, and agricultural goods to China.

In 2015 China's trade with Vietnam is more than \$ 65 billion, accounting for 34% of all Vietnamese imports and 13% of exports. The positions of Chinese suppliers in mechanical engineering, textiles and electronics are especially strong¹⁴⁷. Moreover, Chinese textile raw materials are vital for Vietnamese manufacturers in order to satisfy the growing orders for the supply of clothing to the United States. Both countries need to implement the "Memorandum of Understanding and Cooperation in the Field of Agricultural Trade." China is ready to expand imports from Vietnam, first of all, it concerns the permission to import milk and dairy products from Vietnam into China, for which it is necessary to speed up the application of a number of legal norms. The coronavirus pandemic also did not affect the situation: for seven months of 2020 the turnover amounted to \$ 65.2 billion, which is 4.8% higher than in the same period of the previous year¹⁴⁸.

Chinese investment in Vietnam, meanwhile, is also increasing rapidly. According to the General Statistics Office of Vietnam, the total registered capital from China (excluding Taiwan)

¹⁴⁵ Phoenix News. The Chinese model is well reproducible and Vietnam works best [中国模式可复制性高越南效果最佳] / Phoenix News. URL: http://news.ifeng.com/history/special/zhongguojingyan/200909/0923_8129_1361633.shtml (accessed 26.04.2021).

¹⁴⁶ MOFA Vietnam. Basic documents on China and Vietnam-China Relations / Ministry of Foreign Affairs of Vietnam. URL: http://www.mofa.gov.vn/vi/cn_vakv/ca_tbd/nr0408180_94447/ns090216152122 (accessed 26.04.2021).

¹⁴⁷ Minh, L. Bang. Vietnam-China Trade Relations: Status, Problems, Solutions / L. Bang Minh // Van Hien University Science Journal. – 2015. № 4(3). P. 20.

¹⁴⁸ Foreign Investment Agency. Situation with attracting foreign investments for 9 months of 2020 / FIA. URL: <https://dautnuocngoai.gov.vn/tinbai/6387/Tinh-hinh-Dau-tuu-ngoai-9-thang-nam-2020> (accessed 26.04.2021).

in Vietnam amounted to US\$700 million in 2011. By 2018, the registered capital of China had reached over US\$2.4 billion. Accounting for 6.8% of the total registered FDI in 2018, China became the fifth largest foreign investor in Vietnam¹⁴⁹. Recently, the investment from China and Hong Kong has tended to boost even more due to the impact of the US–China trade war, with an increase of nearly 1.65 times and 2.4 times respectively, compared to the same period in 2018¹⁵⁰.

China's direct investments can be found in many provinces and localities across Vietnam. However, FDI are mainly concentrated in densely populated cities with good infrastructure that facilitates the correspondence and service (export/import) of labor force and materials between the two countries. Although the strong increase in the committed capital of Chinese FDI into Vietnam is a good signal, there are also potential risks that Vietnam needs to take into account given the notoriously low-quality and polluting projects of Chinese companies in the eyes of Vietnamese people.

China's FDI in Vietnam concentrate on construction, manufacturing, processing and large construction projects and projects in the energy sector (61.4% of total investment capital). In addition, Indonesia, Vietnam, and Malaysia consistently rank as the top recipients of Chinese capital for infrastructure development in Southeast Asia. In terms of projects that are at the stage of planning or currently under construction, Indonesia currently leads the list at \$93 billion, followed by Vietnam and Malaysia at \$70 billion and \$34 billion respectively¹⁵¹.

Particularly active cooperation (not always legal), creation of special economic zones, bilateral and multilateral projects (e.g. development of the Greater Mekong Subregion, projects under the Belt and Road Initiative) are observed in the border areas that stimulates capital inflows. The following provinces – Điện Biên, Lai Châu in Northwest Vietnam, Lào Cai, Hầu Giang, Cao Bằng, Cao Bằng in Northeast Vietnam, Quảng Ninh in North Central Coast and Yunnan Shěng in southwest PRC, Guǎngxī Zhuàngzú Zìzhìqū in South China (Appendix 10) – possess rich natural resources and potential for development in general. However, obsolete and inadequate infrastructure as well as unfavorable natural conditions for their development hinder cooperation between countries. In addition to the above-mentioned problems, smuggling and illegal border crossing should be noted. It can be assumed that China is creating additional obstacles not controlled by Vietnam for the development of border territories and the improvement of bilateral relations. According to Nguyen Dinh Liem, the key to successful

¹⁴⁹General Statistical Office. General Statistic of Vietnam / General Statistical Office. URL: https://www.gso.gov.vn/Default_en.aspx?tabid=491 (accessed 26.04.2021)

¹⁵⁰Foreign Investment Agency (2020). Facts about attracting foreign direct investment 2019 / FIA. URL: <https://dautunuocngoai.gov.vn/tinbai/6318/Tinh-hinh-thu-hut-dau-tu-nuocngoai-nam-2019> (accessed 26.04.2021).

cooperation not only at the bilateral, but also at the regional level is the border security agenda¹⁵².

China absorbed the benefits and seized the advantage in trade and economic cooperation with Vietnam. Although the latter also received many benefits, however, according to Vietnamese scientists, it has not yet achieved the main goals - equality and mutual benefit as well as successful cooperation. Nowadays it is necessary to jointly implement the "Five-year plan for the development of trade and economic cooperation between Vietnam and China (2017-2022)" as well as work on the implementation of a list of key cooperation projects.

However, in 2018 fearing Chinese economic intervention, protests erupted in Vietnam. The protesters claimed that newly planned special economic zones, set to open in three Vietnamese provinces, would lead to an influx of Chinese businesses.

According to the Ministry of Industry and Trade, for 11 months of 2020, bilateral trade between Vietnam and China reached 117.09 billion US dollars. Specifically, Vietnam's export turnover to China reached \$ 43145 billion, an increase of 16%, while Vietnam's import turnover from China reached \$ 73.945 billion, up 7.9% over the same period in 2019. Assessing the above figures, Mr. Le Hoang Tai stressed that this result demonstrates the great determination of the government and business circles of the two countries¹⁵³.

After eight years of discussions, at the ASEAN Virtual Summit on November 15, 2020, China, despite the trade conflict with the United States, signed the world's largest free trade agreement known as The Regional Comprehensive Economic Partnership, RCEP with 14 countries of the Asia-Pacific region. The parties of The Regional Comprehensive Economic Partnership account for nearly a third of the global economy — 29%. 2.2 billion people live in the countries participating in the agreement. The agreement provides for a reduction in customs duties and the introduction of common trade rules, which will optimize supply channels. The agreement covers trade, services, e-commerce, telecommunications and copyright. The agreement is projected to strengthen the economic integration of the Asia-Pacific region and counter protectionist trends. At the same time, critics of free trade agreements say they tend to encourage companies to move manufacturing jobs overseas.

¹⁵¹ Stromseth, J. Competing with China in Southeast Asia: the Economic Imperative / J. Stromseth. URL: <https://www.brookings.edu/wp-content/uploads/2020/11/Jonathan-Stromseth.pdf> (accessed 26.04.2021).

¹⁵² Nguyen, D. L. Cooperation mechanisms in the border areas of Vietnam and China / D.L. Nguyen. – Ha Noi, Public Security Committee, 2018. – P. 223.

¹⁵³ Ministry of Industry and Trade of the Socialist Republic of Vietnam. Online business between Vietnam – China / Ministry of Industry and Trade of the Socialist Republic of Vietnam. URL: <https://www.moit.gov.vn/web/guest/tin-chi-tiet/-/chi-tiet/giao-thuong-truc-tuyen-doanh-nghiep-viet-nam-trung-quoc-21221-22.html> (accessed 26.04.2021).

On December 17, 2020 at an online conference between Vietnam and China representative of Chinese trade promotion enterprises, Mr. Linh Phong, CEO of Vietnam China Guangxi Trade Fair Limited Company (Công ty Hữu hạn Thương mại Hội chợ Triển lãm Việt Nam Trung Quốc Quảng Tây), said that the economies and trade of Vietnam and China have been going through very difficult times due to the Covid-19 Epidemic. To strengthen epidemic prevention measures, customs on both sides strictly check import and export goods, customs clearance of goods has been slowed down, and some orders are facing slow delivery and breach of contract. This situation increases the risks for trading companies engaged in import and export operations¹⁵⁴.

Mr. Linh Phong also highlighted that the country currently has a great demand for imports of food and drinks from Vietnam, such as flowers, fruits, pia cakes, cashews, coffee, breakfast confectionery, dairy products¹⁵⁵.

Technology and Science

Researchers from the two countries collaborate on a variety of topics. For instance, the development of rice varieties suitable for drylands and saline soils take place. The countries will to promote closer interaction in joint research programs and develop contacts between young scientists as well as make effective use of the mechanism of the Vietnam-China Commission for Cooperation in Science and Technology.

On September 16, 2019 the Center for Vietnam Science and Technology Internationalization Promotion (VISTIP) welcomed the delegation from the China Science and Technology Exchange Center (CSTEC) led by Dr. Zhao Xinli. The importance of investing in and promoting international integration in Chinese science and technology through the role of CSTEC has been clearly demonstrated through the achievements of science and technology, the China's incredible speed for more than 30 years. VISTIP is still very young due to its new establishment (2011), but it is eager to promote cooperation with CSTEC in the future. Firstly, VISTIP is eager to learn about the organization and operation model of CSTEC through a few projects such as capacity building with supports from CSTEC, or jointly organize some events related to transferring/ commercialization of technologies, as well as enhancing delegations exchange at all level.

Territorial Disputes: the case of the South China Sea

The conflict over the Spratly and Paracel Islands in the South China Sea is today the main

¹⁵⁴ Ibid.

stumbling block that turns China into a Vietnamese adversary, and America almost into a Vietnamese ally.

In the early 1990s progress was achieved as for the regulation of the conflict over the archipelagos. In 1992 ASEAN states signed the Declaration concerning the South China Sea, and the most conflicting parties — Vietnam and China — normalized their relations in 1991¹⁵⁶.

China and Vietnam finished negotiations on December 30, 1999 and they signed a border agreement. On December 25th, 2000, during Vietnam's president visit, both sides signed an important joint communique with reference to the future development of bilateral relations in the 21st century¹⁵⁷. Since 2010, the South China Sea disputes have emerged as the most acute issue in the Sino-Vietnamese relationship.

The General Secretary of the CPV Central Committee, Nguyen Phu Chong, elected at the XI Congress in October 2011 paid a visit to China that is marked of a higher importance. Among a number of agreements during that visit, the six-point agreement was signed on the procedure for resolving maritime disputes between the two countries. In it, for the first time, the parties resolved a long-term dispute over how the problems of the SCS should be discussed: in a multilateral format, as the ASEAN countries insist, or purely individually with each interested country separately, as China invariably suggests. The two sides also agreed to open a hotline to deal with potential maritime flare-ups and hold border negotiation talks twice a year¹⁵⁸.

In the second decade of the 21st century the problem of the archipelagos between China and some of the countries participating in the conflict (the Philippines, Vietnam and partially Malaysia) aggravated. Due to the expiration of the date for filing in complaints about the continental shelf around the islands according to the Law of the Sea from 1982, in May 2009 Vietnam and the Philippines increased their activities concerning confirmation of their de facto sovereignty over the islands. In addition, China is continuing to militarize its artificial islands in the South China Sea and recently sent a geological survey ship into Vietnam's territorial waters, escorted by Chinese coastguard vessels.

Despite all the mutual attempts to improve the relationships in different areas, the Sino-

¹⁵⁵ Ibid.

¹⁵⁶ Domestic Sources of Vietnam's Foreign Policy: Normalizing relations with the United States. Vietnamese Foreign Policy in Transition / K. Bolton; Eds.: A. T. Carlyle, R. Amer. – Singapore: Institute of Southeast Asian Studies, 1999. – P. 150.

¹⁵⁷ Ministry of Foreign Affairs of the People's Republic of China. Joint Statement on All-round Cooperation in the New Century between the People's Republic of China and the Socialist Republic of Viet Nam / Ministry of Foreign Affairs of the People's Republic of China. URL: <http://www.fmprc.gov.cn/eng/4471.html> (accessed 26.04.2021).

¹⁵⁸ REUTERS. China and Vietnam sign agreement to cool sea dispute / REUTERS. URL: <https://www.reuters.com/article/china-vietnam-idUSL3E7LB4D420111011> (accessed 26.04.2021).

Vietnamese relationship remains fragile. Aside from militarization, China exerts significant pressure on Vietnam's oil and gas exploration and fishing operations in the South China Sea. Vietnam's decision to halt exploratory efforts with its international partners has resulted in financial losses and a drop in foreign investment in the country's oil and gas sector, and difficulties in attracting foreign investment in oil and gas exploitation in the future. For instance, in 2014 the China National Petroleum Corporation moved an oil rig into waters off the Paracel Islands claimed by Vietnam. As a result, many protests erupted, Chinese facilities were burned down and Vietnamese protesters forced Beijing to extract thousands of its citizens fleeing the country. In addition, tensions ran high in 2019 when China sent a survey ship into Vietnamese waters.

While the problems concerning the SCS remain (with the pick in 2014), it was observed that people in Vietnam were meanwhile avoiding made-in-China goods in favor of Japanese and Korean products.

Other areas of collaboration

The literature review shows ambivalent opinions on the issue of China's Belt and Road Initiative. On the one hand, according to Derek Grossman¹⁵⁹, an adjunct professor at the University of Southern California, Vietnam is highly suspicious of China's Belt and Road Initiative (BRI). The professor claims that Chinese damming activities along the Mekong River in neighboring Laos and Cambodia, which in many instances are fueled by the BRI, is a good illustration.

On the other hand, as Vietnam-China Joint Statement on the Results of the Visit to Hanoi by Xi Jinping in 2017 claims¹⁶⁰, the Vietnamese side welcomes and supports China's Belt and Road Initiative to promote the development of mutually beneficial cooperation and economic ties between all countries, as well as to strengthen regional cooperation, make a positive contribution to peace, stability, development and prosperity of the region, and is ready, together with the Chinese side, to implement the signed documents on joint cooperation in the implementation of the projects "One belt, one road" and "Two Corridors, One Belt" (known also as "Two Economic Corridors and One Economic Circle around the North Bay"; "Two Corridors and One Ring", "Two Corridors, One Economic Belt" etc.). To illustrate the «Two Corridors, One Belt» Initiative, Hanoi Metro's Line 2A can be taken as an example. The \$868 million

¹⁵⁹ Grossman, D. What Does Vietnam Want from the United States in the South China Sea? URL: <https://www.rand.org/blog/2021/01/what-does-vietnam-want-from-the-united-states-in-the.html> (accessed 26.04.2021).

project is mostly financed mostly by the Export Import Bank of China and the Vietnamese government¹⁶¹.

Projects in Vietnam that come under BRI include the construction of a highway linking the southern provinces of China with Hanoi and the northern ports. Vietnam participates also in cooperation frameworks of the Belt and Road Initiative outside of economic corridors. The country is a member of the Silk Road International Alliance of Art Museums and Galleries, an organization of the National Art Museum of China and 21 art museums or major fine arts institutions¹⁶².

Apart from territorial issues, it is necessary to take into account the fact that periodic anti-China protests continue to erupt in Vietnam. As of 2014, the year in which a contentious riot broke out across Vietnam against Chinese factories and Chinese-owned businesses, a poll found that 74 percent of survey respondents in Vietnam believed China was a threat, with 84 percent of those polled concerned about China's territorial ambitions¹⁶³.

Current Problems between the PRC and Vietnam

Some of the issues have already been mentioned above. Looking at the map, some researchers (B. Womack) imagine China in the form of a huge rooster, in whose beak there is Korea, and with its paws it rests on Vietnam, which has to carry the entire load on its shoulders¹⁶⁴. China does not consider Vietnam as equal. It was the Chinese who, during the protectorate period, gave Vietnam the colonial name Annam, which means “the peaceful south”. In the retrospective (1980), the Song emperor compares Vietnam with a finger which can get sick. In order to heal it, it is necessary to take medicine, if it doesn't help, turn to acupuncture and moxibustion. Attempts by the Vietnamese to avoid "acupuncture and moxibustion" still cause irritation today. Nguyễn Đình Từ Liêm expresses concern that Vietnam can become a “raw materials appendage”, a market for cheap Chinese goods of low quality¹⁶⁵.

¹⁶⁰ VnExpress. Full text of the Vietnam-China Joint. URL: <https://vnexpress.net/toan-van-tuyen-bo-chung-viet-nam-trung-quoc-3669742.html> (accessed 26.04.2021).

¹⁶¹ Viet Nam News. HN urban railway told to start operation in 2018 / Viet Nam News. URL: <https://vietnamnews.vn/society/373624/hn-urban-railway-told-to-start-operation-in-2018.html> (accessed 26.04.2021).

¹⁶² Second Belt and Road Forum for International Cooperation. List of Deliverables of the Second Belt and Road Forum for International Cooperation / Second Belt and Road Forum for International Cooperation. URL: <http://www.beltandroadforum.org/english/n100/2019/0427/c36-1312.html> (accessed 26.04.2021).

¹⁶³ Pew Research Center. Global Attitudes & Trends. Global Opposition to US Surveillance and Drones, but Limited Harm to America's Image. Chapter 4 / Pew Research Center. URL: <https://www.pewresearch.org/global/2014/07/14/chapter-4-how-asians-view-each-other/> (accessed 26.04.2021).

¹⁶⁴ Womack, B. China and Vietnam: The Politics of Asymmetry / B. Womack - New York: Cambridge University Press, 2006. – P. 281.

¹⁶⁵ Nguyen, D. L. Cooperation mechanisms in the border areas of Vietnam and China. P. 223.

We suppose that, despite all the disagreements between China and Vietnam, the countries are linked by the common socio-cultural, political and historical roots. Due to these factors, it is possible for the PRC and SRV, being the center of crossing the most important routes in the region, to overcome existing differences and build truly good-neighborly relations. At the same time, with China raising its influence in the region, Vietnam has increasingly viewed its security cooperation with the United States to prevent Chinese dominance.

Conclusion on Chapter II

In conclusion, the economy of Vietnam for many years until the reforms in the country (1986) was closely linked with the geopolitical direction of the country's development as a whole, bore the imprint of colonization, war and ideological priorities for the country's development. At the 6th Congress of the Communist Party of Vietnam (December 1986) the Government introduced the policy of "Doi Moi" ("Open door") that provides for the development in the long term of various forms of ownership. Nowadays Vietnam is ranked as one of the 10 countries with the fastest economic growth in 2020 with an average GDP growth rate of 5.8 percent in the past five years.

Vietnam represents a so-called neutral bridge between the United States and China and is seen to have a potential mediating function¹⁶⁶. Today the balance of power in the struggle between Beijing and Washington over Vietnam seems rather uncertain. In some areas, China has a clear advantage, in other areas - the United States. For instance, in the field of politics, especially in the framework of inter-party ties, the advantage is clearly on the side of China.

The policy of Vietnam in the strategic triangle of China, Vietnam, and the United States displays the application in practice of the foreign policy course authorized by the 11th Congress of the CPV in January 2011. It entails conducting an autonomous, sovereign foreign policy while broadening international contacts at the same time. The CPV's foreign policy and connections with other countries are based on the party's ideological concepts of "partnership" and "confrontation."

Vietnam heavily depends on foreign investment and exports, — particularly to the United States, Europe, China, South Korea and Japan. Thus, Vietnam's export-oriented economy makes it dependent on the United States and China, which import more than 30% of all Vietnamese goods.

¹⁶⁶ Nguyen, T. The Trouble With Vietnam's Defense Strategy. URL: <https://thediplomat.com/2020/01/the-trouble-with-vietnams-defense-strategy/> (accessed 26.04.2021).

Relations with the United States play a key role in terms of economic growth and development in Vietnam. The United States is Vietnam's second most important trading partner after China. However, if the foreign trade balance of Vietnam with the PRC is negative, then with the United States, on the contrary, it remains positive. As a consequence, trade cooperation is pushing closer convergence in other areas as well.

At the same time, Vietnam has some contradictions with both countries. For instance, the US has not yet recognized Vietnam as a market economy that complicates the trade of some goods. Moreover, the problem of human rights in Vietnam is another point of concern for the Americans. As for the Chinese case, the conflict over the Spratly and Paracel Islands in the South China Sea is the main stumbling block that turns China into a Vietnamese adversary, and America almost into a Vietnamese ally.

Chapter III. Vietnam amid rivalry between two great powers

3.1. The Impact of US-China Trade War on Vietnam

All trade conflicts/wars seem to have the same characteristics. They begin by attempting to protect their producers. In most cases, the other side follows the same scenario. These are consumers who pay for such wars (if demand is elastic, as it usually is, then the price cleared of duties decreases insignificantly, as does the amount of sales), and all competing states' budgets profit from them by receiving duties.

The new tariffs are forcing Chinese / American companies to raise their prices, so as a result, customers tend to switch to products made in other countries with the same quality but at a more reasonable price. So both China and the US seek other markets for investment as their products are no longer welcomed in every other relevant jurisdiction. The US-China trade war makes a significant impact on the Vietnam's import-export since both the US and China are the two major partners of Vietnam.

First of all, the author proposes to take a look at the change in Vietnam's US imports between 2017 and 2019 compared to China. Cell phones, computers, furniture, electronics and shoes saw an enormous shift in demand. However, Vietnam's success derives not only from its expansion as an exporter to the US, but also a recipient of foreign direct investment particularly from Chinese companies as well as American, South Korean and Japanese looking to dodge the tariffs.

Cumulative exports from Vietnam to China totaled \$ 41 billion in 2019. In value terms, the increase in the supply of goods from Vietnam to China was 0.163% compared to 2018: Exports of goods increased by \$ 67 million (in 2018, goods worth \$ 41 billion were supplied from Vietnam to China).

In the export of goods from Vietnam in 2019, China's share was 15.6% (41 billion US \$ out of 264 billion US \$ - total exports of goods from Vietnam in 2019). Compared to 2018, the share of China in the export of goods from Vietnam decreased by 1.31 percentage points. (in 2018 it was equal to 16.9%, and the total export of goods from Vietnam - 243 billion US \$)¹⁶⁷.

The following top-3 goods were exported from Vietnam to China in 2019:

- 20% (\$ 8.31 billion): 8517 - Telephone devices, including telephone devices for cellular networks or other wireless networks; other equipment for transmitting or receiving

¹⁶⁷Data extracted from TrendEconomy.ru URL: https://trendeconomy.ru/data/h2?commodity=TOTAL&reporter=Vietnam&trade_flow=Export,Import&partner=China,UnitedStatesOfAmerica&indicator=TV,YoY&time_period=2017,2018,2019 (accessed 26.04.2021).

voice, images or other data, including equipment for communication in a wired or wireless data network (subject to tariffs imposed by Trump¹⁶⁸)

- 14.1% (\$ 5.87 billion): 8542 - Electronic integrated circuits.
- 5.08% (\$ 2.1 billion): 5205 - Cotton yarn (excluding sewing thread) containing 85% by weight of cotton fibers or more, not put up for retail sale¹⁶⁹.

Vietnam's aggregate imports from China totaled \$ 75 billion in 2019. In value terms, the increase in the supply of goods to Vietnam from China amounted to 15.3% compared to 2018: Imports of goods increased by \$ 10 billion (in 2018, goods worth \$ 65 billion were imported to Vietnam from China).

In the import of goods to Vietnam in 2019, China's share was 29% (75 billion US \$ out of 253 billion US \$ - total imports of goods to Vietnam in 2019). Compared to 2018, the share of China in imports of goods to Vietnam increased by 2.16 p.p. (in 2018 it was 27%, and the total import of goods to Vietnam was 236 billion US \$)¹⁷⁰.

TOP-3 goods imported to Vietnam from China in 2019:

- 8.72% (\$ 6.59 billion): 8517 - Telephone devices, including telephone devices for cellular networks or other wireless networks; other apparatus for transmitting or receiving voice, images or other data, including apparatus for communication in a wired or wireless data network (subject to tariffs imposed by Trump)
 - 3.64% (\$ 2.75 billion): 8525 - Transmitting apparatus for radio broadcasting or television, whether or not receiving, sound recording or reproducing apparatus; television cameras, digital cameras and camcorders
 - 3.57% (\$ 2.7 billion): 8542 - Electronic integrated circuits¹⁷¹.

Vietnam's exports to the United States totaled approximately \$35 billion in September 2018, up 12.5 percent from the previous year, according to the General Statistics Office (GSO)¹⁷². Cumulative exports from Vietnam to the United States totaled \$ 61 billion in 2019. In value terms, the increase in the supply of goods from Vietnam to the United States was 29% compared to 2018: Exports of goods increased by \$ 13.8 billion (in 2018, goods worth \$ 47 billion were supplied

¹⁶⁸ Office of the United States Trade Representative. How to Navigate the Section 301 Tariff Process / Executive Office of the President. URL: <https://ustr.gov/issue-areas/enforcement/section-301-investigations/search> (accessed 26.04.2021).

¹⁶⁹ Data extracted from TrendEconomy.ru URL: https://trendeconomy.ru/data/h2?commodity=TOTAL&reporter=Vietnam&trade_flow=Export,Import&partner=China,UnitedStatesOfAmerica&indicator=TV,YoY&time_period=2017,2018,2019 (accessed 26.04.2021).

¹⁷⁰ Ibid.

¹⁷¹ Ibid.

¹⁷² Nga, Ng. Avoid getting hurt from a trade war [Tránh bị tổn thương từ cuộc chiến thương mại] / Ng. Nga. URL: <https://thanhnien.vn/tai-chinh-kinh-doanh/tranh-bi-ton-thuong-tu-cuoc-chien-thuongmai-1008632.html> (accessed 26.04.2021).

from Vietnam to the United States).

In the export of goods from Vietnam in 2019, the share of the United States was 23% (61 billion US \$ out of 264 billion US \$ - total exports of goods from Vietnam in 2019). Compared to 2018, the share of the United States in the export of goods from Vietnam increased by 3.68 p.p. (in 2018 it was 19.5%, and the total export of goods from Vietnam was US \$ 243 billion)¹⁷³.

TOP 3 products exported from Vietnam to the USA in 2019:

- 17.6% (\$ 10.8 billion): 8525 - Transmitting apparatus for radio broadcasting or television, whether or not receiving, sound recording or reproducing apparatus; television cameras, digital cameras and camcorders
- 5.96% (\$ 3.66 billion): 9403 - Other furniture and parts thereof (subject to tariffs imposed by Trump)
- 5.2% (\$ 3.19 billion): 6404 - Shoes with rubber, plastic, leather or composition leather soles and textile uppers (subject to tariffs imposed by Trump)¹⁷⁴

Total imports to Vietnam from the United States totaled \$ 14.3 billion in 2019. In value terms, the increase in the supply of goods to Vietnam from the United States was 12.7% compared to 2018: Imports of goods increased by \$ 1.62 billion (in 2018, goods worth \$ 12.7 billion were imported to Vietnam from the United States).

The share of the United States in imports of goods to Vietnam in 2019 was 5.67% (14.3 billion US \$ out of 253 billion US \$ - total imports of goods to Vietnam in 2019). Compared to 2018, the share of the United States in imports of goods to Vietnam increased by 0.287 percentage points. (in 2018 it was 5.38%, and the total import of goods to Vietnam was 236 billion US \$)¹⁷⁵.

TOP-3 goods imported to Vietnam from the USA in 2019:

- 32% (\$ 4.72 billion): 8542 - Electronic integrated circuits.
- 10.8% (\$ 1.56 billion): 5201 - Cotton fiber, uncombed.
- 3.68% (\$ 529 million): 3901 - Polymers of ethylene in primary forms¹⁷⁶.

According to the Asia Development Bank (ADB), the trade war between the US and China has caused a reversal in trade, with US imports from China falling by 12% in the first six months of 2019, while US imports from Vietnam increased by 33%, with electronics and

¹⁷³Data extracted from TrendEconomy.ru URL: https://trendeconomy.ru/data/h2?commodity=TOTAL&reporter=Vietnam&trade_flow=Export,Import&partner=China,UnitedStatesOfAmerica&indicator=TV,YoY&time_period=2017,2018,2019 (accessed 26.04.2021).

¹⁷⁴ Ibid.

¹⁷⁵ Ibid.

¹⁷⁶ Ibid.

machinery accounting for the majority of the increase¹⁷⁷.

In the first quarter of 2019, Vietnam's GDP grew by 6.82% in annual terms, and in the second quarter - by 6.71% due to the development of the manufacturing sector and export growth. However, the US deficit in trade with Vietnam amounted to almost \$ 40 billion in 2018, which the US did not like (Figure 10, Appendix 11)¹⁷⁸. In both 2019 and 2020, exports to the United States have increased by double digits, enabling Vietnam to outperform other economies in the region.

There were created two graphs (see Figure 11 and 12) which illustrate Vietnam goods international trade statistics both regarding import and export (Appendix 12 and Appendix 13). Another indicator of the trends changing in favor of Vietnam is the high inflow of foreign investments into this country. The Vietnamese government issued investment licenses to more than 1,720 projects in the first six months of 2019, up 26% over the same period last year.

In the first months of 2019, foreign direct investment flooded into 19 sectors. Manufacturing ranked first with a total capital of US \$ 12 billion, accounting for 71.8% of the total registered investment capital. In second place is the real estate business with a total investment capital of US \$ 1,138 billion, which is 8.2% of the total registered investment capital. The third place is occupied by wholesale and retail trade with a total registered investment capital of US \$ 864 million, which is 5.2% of the total registered investment capital.

Under the influence of the trade war between the US and China, there is a movement of capital flows from China to Vietnam. Factories from China continue to move to Vietnam, bringing new registered capital from that country to more than 5 times the figure for the same period in 2018. According to the latest report from the Foreign Investment Agency (Ministry of Planning and Investment), in the first 5 months of 2019, Vietnam attracted \$ 16.74 billion in foreign direct investment, of which capital from China amounted to \$ 2.02 billion, which is 12% and takes 4th place among countries and territories after Hong Kong, South Korea, Singapore (Figure 13, Appendix 14)¹⁷⁹.

In the first 5 months of the year, foreign direct investment poured into 55 provinces and cities across the country. Hanoi ranked first with more than US \$ 4.79 billion, accounting for 28.6% of the total national investment capital; TP. Ho Chi Minh City came in second with US \$ 2.78 billion, accounting for 16.6% of total investment capital; Binh Duong came in third with

¹⁷⁷ Schaag, St. Rags to Riches: Vietnam's Growing Electronics Industry / St. Schaag. URL: <https://www.semi.org/en/blogs/technology-trends/rags-to-riches-vietnams-growing-electronics-industry-1> (accessed 26.04.2021).

¹⁷⁸ Nevelsky, A. Vietnam cannot replace China yet [V'etnam poka ne mozhet zamenit' Kitaj] / A. Nevelsky. URL: <https://www.vedomosti.ru/economics/articles/2019/08/22/809448-vetnam-ne-mozhet> (accessed 26.04.2021).

¹⁷⁹ Xinhua. Foreign investment to Vietnam hits 4-year high in 5 months / Xinhua. URL: http://www.xinhuanet.com/english/2019-05/27/c_138093739.htm (accessed 26.04.2021).

over US \$ 1.25 billion, accounting for 7.4% of total national investment capital¹⁸⁰.

By looking at the situation in a particular city, it was found out that in the first 4 months of 2019, the real estate sector in Ho Chi Minh City attracted the highest investment capital domestically and abroad, while money invested in manufacturing is modest. Specifically, the total registered capital and additional capital of domestic enterprises is 270,963 billion Dong, by 96.1% over the same period. This number includes 13,094 newly licensed businesses, with 211,691 billion Dong, and adjusted capital increase to 59,272 billion Dong.

In general, FDI in Vietnam accounts for about 25% of total investment, hitting a 10-year high in 2019 at \$ 38 billion and increasing at an annual rate of 7.2%¹⁸¹.

In terms of registered capital, real estate accounts for the highest proportion (32.7%). Followed by wholesale and retail, repairing cars, motorbikes and other motor vehicles (17%) while processing and manufacturing are not in the mentioned group.

In the first four months of the year, the city granted investment certificates to 363 projects with total investment capital of USD 351.66 million. In which, real estate accounts for the largest amount of investment capital, up to 46.8%, while processing and manufacturing is only one tenth, accounting for 6.7%.

Along with that, there are 1,320 cases of foreign investors contributing capital, buying shares of domestic enterprises, worth 1.83 billion USD. In this form of investment, the real estate business also accounts for the highest amount of capital, up to 24%. Meanwhile, the processing and manufacturing industries accounted for 13.2%.

Mr. Nguyen Thanh Phong, a People's Committee Chairman of Ho Chi Minh City, said that the lack of investment capital for production, processing and manufacturing but focusing on real estate raises the issue of thinking about growth quality and sustainable growth goals.

In the first four months of 2019, the index of industrial production in Ho Chi Minh City was estimated to increase 6.58%, compared with the same period the previous year was 6.07%. Some industries with high indexes include increased metal production, electronic products, paper and paper products¹⁸².

Vietnam's main export market in 2020 was the United States, with exports to the US increasing by 24%. Vietnam's trade surplus with the United States hit USD 50.7 billion in the first ten months of 2020, relative to USD 55.8 billion for the entire calendar year of 2019. Over

¹⁸⁰ Tap Chi Tai Chinh Online. Attracting foreign direct investment sets a record [Thu hút FDI thiết lập kỷ lục] / Tap Chi Tai Chinh Online. URL: <https://tapchitaichinh.vn/nghien-cuu-trao-doi/thu-hut-fdi-thiet-lap-ky-luc-307608.html> (accessed 26.04.2021).

¹⁸¹ Statistical Yearbook of Viet Nam. 2019 / General Statistics Office of Vietnam. H.: Statistics, 2020. – P. 191.

¹⁸² Tap Chi Tai Chinh Online. Capital poured into real estate exceeded production in the city. Ho Chi Minh [Vốn đổ vào bất động sản áp đảo sản xuất ở TP. Hồ Chí Minh] / Tap Chi Tai Chinh Online. URL:

the same time frame, exports to China increased by 14%. Manufacturers are expanding their bases for global export through activities like adding plants and facilities to meet the needs of their clients and introducing new products.

At the same time, the domestic economic sector had a trade deficit of USD 13.28 billion, and the foreign direct investment trade surplus could not compensate for the trade deficit of the domestic economic sector. Thus, in the first 5 months of the year, the country experienced a trade deficit of \$ 548 million¹⁸³.

Deutsche Welle¹⁸⁴ made an analysis to portrait from Q4 2017 to Q4 2019 where Americans are now buying their cell phones, computers, furniture and clothing from instead that you can see in Figure 14 (Appendix 15).

Summing up the shift out of China, we constructed Table №2 (Appendix 16) that shows which companies from which spheres have moved their production during the time of the trade war. As you can see, Vietnam attracts foreign companies to move their production in particular in the sphere of electronics. Next, we propose to analyze some of the spheres indicated in more detail.

Footwear. Textiles and Garments

Textiles and garments are two of Vietnam's major export industries. After China, Vietnam is South Korea's second-largest supplier of textiles and garments. Global fashion giants like Nike and Adidas have recently expanded their manufacturing bases in Vietnam due to lower labor costs. In 2009, Nike started making more of its product line in Vietnam rather than China, and Adidas followed in 2012. Zara, Lacoste and other world brands are also situated in Vietnam for 10 or more years.

In 2017, Adidas manufactured 44 percent of its footwear in Vietnam, more than double the 19 percent produced by Chinese suppliers (Appendix 17). This was also a 31 percent rise for Vietnam over 2012, and a 30 percent decline for China. A similar change was made by Adidas competitor Nike, which produced 46 percent of its sneakers in Vietnam in 2017, compared to just

<https://tapchitaichinh.vn/thi-truong-tai-chinh/von-do-vao-bat-dong-san-ap-dao-san-xuat-o-tp-ho-chi-minh-306866.html> (accessed 26.04.2021).

¹⁸³ Tap Chi Tai Chinh Online. Attracting foreign direct investment sets a record. URL: <https://tapchitaichinh.vn/nghien-cuu-trao-doi/thu-hut-fdi-thiet-lap-ky-luc-307608.html> (accessed 26.04.2021).

¹⁸⁴ Deutsche Welle. The real winners of the US-China trade dispute / Deutsche Welle. URL: <https://www.dw.com/en/the-real-winners-of-the-us-china-trade-dispute/a-55420269> (accessed 26.04.2021).

27 percent in China (Appendix 18)¹⁸⁵. The situation is the same with Adidas and Nike: now most of their shoes are produced in Vietnam while a decade ago it was China that led. At the same time, Nike apparel manufacturing still trusts China.

Vietnam's footwear export value has been growing in recent years, from \$8.4 billion in 2014 to \$14.65 billion in 2017, a 42 percent increase. The country contributed a billion pairs of shoes to the 27 billion pairs produced globally in 2017¹⁸⁶. The areas attracting the most companies in the sector of garments and textile are southeast region (43%), Red River Delta region (26%) and Mekong River Delta region (14%) (Figure 17, Appendix 19).

In 2018 exports of textiles, leather, and footwear increase by more than 12 percent¹⁸⁷. Vietnam exported 30% more shoes to the US at the end of 2019 than it did two years back, while exports from China declined by 15%¹⁸⁸. According to Vietnam Customs, footwear exports in the first quarter of 2019 totaled \$3.9 billion, up 14.1% year on year¹⁸⁹. In 2019, total textiles, clothing and footwear exports accounted for 19.4% of total merchandise exports in 2019.

Export turnover in the garment and apparel industry was projected at USD 39 billion in 2019, up 7.55 percent from 2018. The export turnover in the footwear and leather industry was expected to be USD 21.5 billion in 2019, up 10% from 2018¹⁹⁰.

Answering the question why this sector has been chosen for the analysis, we propose to recall that on April 3, the United States released the results of its investigation into Section 301 of the Trade Law and increased customs duties on more than 1,300 items exported from China, worth more than \$ 50 billion. The list includes clothes and shoes.

On May 9th, 2018, Adidas CEO Casper Rosted, fearing new sanctions on products from China in the US (and the US is the largest consumer of sneakers worldwide), confirmed that the trend of transferring production may continue¹⁹¹.

¹⁸⁵ Nguyen, D. US sports apparel firm mulls ditching China for Vietnam / D. Nguyen. URL: <https://e.vnexpress.net/news/business/companies/us-sports-apparel-firm-mulls-ditching-china-for-vietnam-3829806.html> (accessed 26.04.2021).

¹⁸⁶ Ibid.

¹⁸⁷ Nga, Ng. Avoid getting hurt from a trade war. URL: <https://thanhvien.vn/tai-chinh-kinh-doanh/tranh-bi-ton-thuong-tu-cuoc-chien-thuongmai-1008632.html> (accessed 26.04.2021).

¹⁸⁸ Deutsche Welle. The real winners of the US-China trade dispute. URL: <https://www.dw.com/en/the-real-winners-of-the-us-china-trade-dispute/a-55420269> (accessed 26.04.2021).

¹⁸⁹ Nguyen, D. US footwear maker to move China production to Vietnam this year / D. Nguyen. URL: <https://e.vnexpress.net/news/business/companies/us-footwear-maker-to-move-china-production-to-vietnam-this-year-3918368.html> (accessed 26.04.2021).

¹⁹⁰ Branchenreport Vietnam. P. 6.

Although China remains the top supplier in the fashion industry, major brands now rate Vietnam second as a strong supplier, according to survey results released by the United States Fashion Industry Association. In today's traditional sourcing portfolio, Chinese goods account for 30-50 percent, Vietnamese products for 11-30 percent, and the rest is split among other countries¹⁹².

Due to higher tariffs, Warren Buffett's Berkshire Hathaway has been shifting the most of its production from China to Vietnam since 2019. The decision was taken in January, according to Jim Weber, the US group's CEO, when US President Donald Trump threatened to lift shoe tariffs from 20% to 45%.

Brooks currently manufactures around 55% of its running shoes in Vietnam, with the remainder coming from China. The transition will boost Book's shoe production in Vietnam to 65 percent, reducing it in China to just 10 percent, with the remaining 25% produced in a third country¹⁹³.

Electronic equipment

The country is rapidly establishing itself as a significant center for low-cost electronics production. In the long term, it will clash with China and other low-cost manufacturing locations such as Mexico and Eastern Europe. It is the North that accounts for the majority of companies located (73%) (Figure 18, Appendix 20).

In recent years, Vietnam's high-tech explosion has opened the way for the nation to begin manufacturing higher-end products. This can be seen in the latest wave of electronics manufacturing plants moving to Vietnam. Total electronic and electrical manufacturing exports accounted for 33% of total merchandise exports in 2019. Vietnam was the fourth largest exporter of electrical products and parts to the United States in 2019. Exports have more than doubled in the last four years, surpassing \$19 billion.

Manufacturing of electronic products, computers and optical products in 2019 increased

¹⁹¹REUTERS. Adidas sees ongoing sourcing shift from China to Vietnam / REUTERS. URL: <https://www.reuters.com/article/us-adidas-trade/adidas-sees-ongoing-sourcing-shift-from-china-to-vietnam-idUSKBN1IA1DA?feedType=RSS&feedName=businessNews> (accessed 26.04.2021).

¹⁹²Nguyen, D. US sports apparel firm mulls ditching China for Vietnam. URL: <https://e.vnexpress.net/news/business/companies/us-sports-apparel-firm-mulls-ditching-china-for-vietnam-3829806.html> (accessed 26.04.2021).

¹⁹³ Stempel, J. CEO of Buffett-owned Brooks Running moves production out of China, cites tariff threat / J. Stempel. URL: <https://www.reuters.com/article/us-berkshire-buffett-brooks-idUSKCN1S91DU> (accessed 26.04.2021).

by 6.9% (the same period last year increased by 11.9%)¹⁹⁴.

In Vietnam today, the production facilities of such companies as Samsung, Intel etc. are located. Even such giant of the electronics industry as China's Telephone Communication Limited have relocated some of their factories to Vietnam, which contributes not only to strengthening Vietnam's trade and financial positions in the international market, but also to the development of high-tech industries in the country¹⁹⁵.

Samsung has been a key investor, with total foreign direct investment into Vietnam of around USD 17 billion in the decade to 2018. Samsung Electronics booked USD 66 billion of sales in 2018 out of its Vietnamese operations, which was equivalent to around 28% of Vietnam's GDP.

For some goods, the growth in Vietnamese supplies is very serious. In 2018 exports of mobile phones and accessories increased by 46%¹⁹⁶. In the first four months of 2019, American imports of mobile phones made in Vietnam doubled at once, and computers - by 79%. For comparison, imports of these goods from the PRC fell by 27% and 13%, respectively.

Typically, in 2019, a number of multinational companies planned to expand operations in Vietnam in order to reduce pressure on new tariff barriers on goods exported from China to the United States. After Google chose Bac Ninh Province to invest in production of Pixel series phones, Amazon and Home Depot also increased the number of suppliers Vietnam. Currently, Microsoft would move its production of surface tablets due to the COVID-19 outbreak. According to recent CBRE statistics, the number of Vietnam factories on Apple's supplier list increased from 16 in 2015 to 22 in 2018, all of which are foreign direct investment companies¹⁹⁷.

So far, during the course of the trade war, China's GoerTek, which assembles wireless earphones for Apple, decided to transfer production from China to Vietnam. The company's chairman, Jiang Bin, in the company's 2018 biannual report explains this decision by external market fluctuations and China-US trade disputes¹⁹⁸. Nikkei Asian Review cited sources according to which in the summer of 2019, Apple's AirPods product lines were first put into trial production in Vietnam, and mass production began in 2020. It is known that Apple will produce 3-4 million AirPods in Vietnam in the second quarter of 2020, equivalent to roughly 30% of total

¹⁹⁴ Branchenreport Vietnam. P. 6.

¹⁹⁵ Pew Research Center. Global Attitudes & Trends. Global Opposition to US Surveillance and Drones, but Limited Harm to America's Image / Pew Research Center. URL: <https://www.pewresearch.org/global/2014/07/14/global-opposition-to-u-s-surveillance-and-drones-but-limited-harm-to-americas-image/> (accessed 26.04.2021).

¹⁹⁶ Nga, Ng. Avoid getting hurt from a trade war. URL: <https://thanhvien.vn/tai-chinh-kinh-doanh/tranh-bi-ton-thuong-tu-cuoc-chien-thuongmai-1008632.html> (accessed 26.04.2021).

¹⁹⁷ Tap Chi Tai Chinh Online. Vietnam is the "link" of the global manufacturing supply chain [Việt Nam là "mắt xích" của chuỗi cung ứng sản xuất toàn cầu] / Tap Chi Tai Chinh Online. URL: <https://tapchitaichinh.vn/nghien-cuu-trao-doi/viet-nam-la-mat-xich-cua-chuoi-cung-ung-san-xuat-toan-cau-306921.html> (accessed 26.04.2021).

¹⁹⁸ Xiao, B. US trade war takes a bite out of Apple as supplier abandons China for Vietnam / B. Xiao

AirPods worldwide. Experts working for the Apple supplier even received entry clearance by the Vietnamese authorities at a time when the Covid-19 control method was applied nationwide¹⁹⁹. Apple is lobbying suppliers to increase production capacity for the latest HomePod mini, the affordable version of its line of voice-activated smart speakers. Luxshare Precision Industry, a new iPhone assembler that is also the main supplier of AirPods, is increasing HomePod production in Vietnam to remove restrictions on the device's supply²⁰⁰.

Major electronics companies, such as Cheng Uei, a Taiwanese company that specializes in producing iPhone equipment, and Petragon, an iPhone equipment assembler, are expanding their options outside of China, with Vietnam being one of the most prominent alternatives. Delta Electronics has made a \$500,000 investment in Vietnam in order to move manufacturing and trade capacity away from China. US PC makers HP and Dell intend to relocate up to 30% of their notebook production in China to Vietnam and the Philippines.

Since 2008, Samsung Electronics Co. has invested more than \$17 billion in eight factories and one R&D center in Vietnam, accounting for just under one-fourth of the country's overall exports and nearly one-third of the company's total global output. South Korea's Samsung and Japan's Olympus announced in 2018 that it would shut down its mobile phone factories in Shenzhen, South China's Guangdong Province. Indeed, between the end of 2018 and 2019, Samsung closed its two largest phone assembly factories in Tianjin and Huizhou, Guangdong province in southern China after 27 years of manufacturing. Now more than half of Samsung's latest flagship phones, including foldable ones, are assembled in the small towns of Bac Ninh and Tai Nguyen in Vietnam. This is not to mention other Samsung flat screens and monitors²⁰¹.

Samsung has already invested billions of dollars in building a grand manufacturing base in the Saigon High-Tech Park in Ho Chi Minh City. The park has also received heavy investment from other high-profile tech giants like Intel, Schneider and Jabil.

In addition, Taiwan's Foxconn, formally Hon Hai Precision Industry Co Ltd, is building an iPad tablet and MacBook laptop line in Vietnam's northeastern Bac Giang province and will begin operations in the first half of 2021. To support the Vietnam expansion, Foxconn announced a new \$270 million investment to set up a new subsidiary called FuKang Technology Co Ltd. Taiwan-based companies such as Foxconn are also looking to move production from China to

<https://www.abc.net.au/news/2018-10-18/us-trade-war-takes-a-bite-out-of-apple/10385830> (accessed 26.04.2021).

¹⁹⁹ Nikkey Asia. Apple to produce millions of AirPods in Vietnam amid pandemic / Nikkey Asia. <https://asia.nikkei.com/Business/Technology/Apple-to-produce-millions-of-AirPods-in-Vietnam-amid-pandemic> (accessed 26.04.2021).

²⁰⁰ RFI. Apple and Samsung relocated production to Vietnam and China impatiently [Apple và Samsung di dời sản xuất qua Việt Nam, Trung Quốc sốt ruột] / RFI. URL: <https://www.rfi.fr/vi/ch%C3%A2u-%C3%A1/20201130-apple-v%C3%A0-samsung-di-d%E1%BB%9Di-s%E1%BA%A3n-xu%E1%BA%A5t-qua-vi%E1%BB%87t-nam-trung-qu%E1%BB%91c-s%E1%BB%91t-ru%E1%BB%99t> (accessed 26.04.2021).

Vietnam, Mexico and India to hedge against geopolitical risks. The contract manufacturer also intends to produce television sets for clients such as Japan's Sony Corp. at the Vietnam facility, with manufacturing expected to begin in late 2020 or early 2021. Other electronic devices, such as computer keyboards, will be produced at the plant²⁰². In 2020 Foxconn began manufacturing liquid crystal displays (LCDs) in Vietnam. Rival Foxconn companies such as Pegatron and Wistron have also decided to expand production in Vietnam, according to Nikkei Asia²⁰³.

It is worth noting that Vietnam more than doubled its cell phone exports to the US between end of 2017 and 2019.

Recently, major telecom equipment manufacturers such as Nokia and Ericsson have begun reducing the production of their telecommunications equipment in China, and to transfer production to Vietnam. Following their example, South Korean companies producing components for telecommunications equipment Ace Technologies and KWM announced the transfer of production to Vietnam and be closer to their customers as KMW and Ace Technologies supply their goods to Nokia and Ericsson respectively. Ace Technologies, for instance, completed a new factory in Vietnam in March 2020, tripling its radio system and antenna filter unit output size. It intends to manufacture 100,000 4G and 5G portable radio heads²⁰⁴.

Automobiles and bikes

The automotive cluster has been expanding at a 10% annual pace. This is a non-resource sector that caters to local demand in the United States. Foreign players such as Ford, Honda, and Toyota dominate the automotive clusters, with tier-2 vendors supplying these major players.

Original equipment manufacturer (OEM) suppliers are catered to in the Red River Delta region, especially in Hanoi and Haiphong (Figure 19, Appendix 21). The production of auto parts has increased in Quang Nam province in the central region. Automobile clusters are concentrated in Dong Nai province and its adjacent areas in the south. Taking into consideration the fact that the Government protects the local industry and helps domestic players flourish, investors should be aware of the industry's stringent regulations.

Yokowo Vietnam Co., Ltd., one of the enterprises receiving support from the Japanese government in implementing the policy of diversifying the global supply chain, specializing in

²⁰¹ Ibid.

²⁰² Lee, Y. Exclusive: Foxconn to shift some Apple production to Vietnam to minimise China risk / Y. Lee. URL: <https://www.reuters.com/article/us-foxconn-vietnam-apple-exclusive-idUSKBN2860VN> (accessed 26.04.2021).

²⁰³ Tuổi Trẻ Online. Foxconn plans to invest \$ 270 million to expand production in Vietnam [Foxconn định đầu tư 270 triệu USD mở rộng sản xuất ở Việt Nam] / Tuổi Trẻ Online. URL: <https://tuoitre.vn/foxconn-dinh-dau-tu-270-trieu-usd-mo-rong-san-xuat-o-viet-nam-2020112516025947.htm> (accessed 26.04.2021).

the production of automotive components in Dong Wan II (Dui Tien) Industrial Park, is considering the possibility of a large-scale transfer of production capacity from China to Vietnam. The goal is to ensure business continuity and increase price competitiveness. Yokowo, which currently exports 70% of its products produced in China, intended to conclude the transfer of US-bound part production by the end of 2018, rather than the mid-2020s as had expected previously.

China's growing e-bike industry faces duties not only from the US but also the European Union, which slapped provisional anti-dumping tariffs of 22 to 84 percent on Chinese-made e-bikes in July 2018, alleging Chinese companies benefited from cut-rate aluminum and other state subsidies. HI Corp, a Shenzhen-listed bike parts maker, claimed that as there is no anti-dumping tax on Vietnam, some of HI's customers started moving mass production of aluminum forks, steering parts and especially of e-bikes to the new plant in Vietnamese province Tianjin from their factory²⁰⁵.

In 2020, the Japanese government has launched a subsidy scheme for Japanese businesses to help them mitigate supply chain risk by relocating manufacturing out of China, either back to Japan or to some other specified countries. Vietnam has become one of the most popular destinations for Japanese companies looking to relocate their operations. For instance, automobile parts manufacturer Mitsuba (Japan) has already moved part of its production to Vietnam.

The trend in the export of means of land transport, other than railway or tram rolling stock, and their parts and accessories is the following: while after the US tariffs on car parts, the US import from Vietnam has increased (Figure 20, Appendix 22). The data also shows that Vietnam started to export more to the US, that can be considered as a result of the trade war tensions (Figure 21, Appendix 23).

Furniture and Forestry

The flow of goods from China to Vietnam has already begun prior to the current tariff dispute, but it has escalated dramatically in the last two years. The Vietnamese furniture industry has gained more access to the US market. The furniture manufacturers also try to diversify outside of China. Furniture manufacturer and retailer Lovesac Co specializing in a patented modular furniture system called Sactionals, is locating its factories in Vietnam, having reduced its divisions in the PCR from 75%

²⁰⁴ Lee, J.J. Korean telcom equipment makers shift production to Vietnam / J.J. Lee. URL: <http://www.thelec.net/news/articleView.html?idxno=1698> (accessed 26.04.2021).

²⁰⁵ Bloomberg. Chinese Companies Shifting to Other Countries to Avoid US Tariffs / Bloomberg. URL: <https://www.industryweek.com/the-economy/trade/article/22026325/chinese-companies-shifting-to-other-countries-to-avoid-us-tariffs> (accessed 26.04.2021).

to 60%, and by the end of 2020 planned to completely withdraw its capacity from China²⁰⁶.

Wanek Furniture, which is associated with Ashley Home, the largest American supplier and retailer, recently announced that it has relocated 50-70 percent of its import mattress supply from China to Vietnam. It's part of a broader expansion of mattress manufacturing in Vietnam. According to recent data gathered by Raymond James, the state had a 28 percent share of mattress imports, up significantly from previous levels²⁰⁷.

Man Wah, a major Chinese upholstery manufacturer, announced that it had constructed a 2.5 million square feet factory in Vietnam in just nine months and is quickly shifting production to reflect the evolving trade situation. From zero, it now ships 1,100 containers a month from Vietnam, with planned to raise them to 2,000 by the end of 2019 and ultimately to 4,000 as demand ramps up²⁰⁸.

In 2019, the US was the top market for Vietnam's timber imports, importing more than \$3.7 billion in wooden furniture. All in all, according to Figure 22 (Appendix 24) when the tariffs on furniture were introduced, the US has started to import almost by 5 time more from Vietnam than the previous year. As for Vietnam's export with China, it sharply decreased (-23,35% comparing with -8,51% the year before) when remaining stable with the US.

Importers of furniture from Vietnam will face the twin challenges of (a) ensuring that their supply chain does not contain illegally sourced goods and (b) preparing to review procurement plans if tariffs are imposed in the future.

Describing one of the challenges particularly purchases from illegal logging and supplies, one can recall the following situation aimed at the wooden furniture industry, whose surge in exports to the U.S. was equivalent to an 18.6% compound annual growth rate in the 12 months to July 31 versus calendar 2016²⁰⁹. On October 2nd, 2020, the US Trade Representative announced an investigation into Vietnam's trade with the US, specifically around importing illegally sourced timber.

Imports from China, on the other hand, fell 16.7% during the same time since being subjected to Section 301 tariffs. In dollar terms, the rise in Vietnamese exports is equal to 72.7 percent of the drop in

²⁰⁶ Dalheim, R. Lovesac's stock surges as it moves manufacturing out of China / R. Dalheim. URL: <https://www.woodworkingnetwork.com/news/woodworking-industry-news/lovesacs-stock-surges-it-moves-manufacturing-out-china> (accessed 26.04.2021).

²⁰⁷ Shoulberg, W. Vietnam Is Becoming The Big Winner In The China Trade Wars / W. Shoulberg. URL: <https://www.forbes.com/sites/warrenshoulberg/2019/10/16/us-finally-succeeds-in-vietnam-as-more-companies-move-sourcing-there/?sh=11d49a844a4e> (accessed 26.04.2021).

²⁰⁸ Ibid.

Chinese shipments.

The highest increase in wooden furniture imports from Vietnam in the 12 months to August 31, relative to 2018, was likely in shipments linked to Bob's Discount Furniture LLC, which leapt 629 percent to 16,480 20-foot equivalent units, according to Panjiva's U.S. seaborne import results (Appendix 25). Following that, exports connected to Raymours Furniture Co. Inc. increased by 13.1 percent in absolute terms²¹⁰. The conclusion is that Trump's Vietnamese timber tariffs could cut furniture shipping.

A virtual hearing was held on December 28 and 29, 2020, with 19 industry leaders testifying. Industry participants who testified included Tien Dat Furniture Corporation, Dai Thanh Furniture JSC, and Hiep Long Fine Furniture Company, all of which are located in Vietnam²¹¹. Until now the results have not been announced and the question is what are the aftereffects for Vietnam, its economy, the government, the consumer, the environment, companies, if the USTR inquiry uncovers illicit timber harvesting and has an effect on goods imported into the United States.

Vietnam is the second largest supplier of wood products to the United States after China, with annual exports of about \$3-4 billion. China's share of the US furniture market dropped sharply in the first seven months of 2019, while Vietnam gained market share²¹².

The number of new FDI ventures in Vietnam's wood processing sector continues to increase. Woodchip manufacturing, packaging sector facilities, wooden pallet production, and composite panel goods account for the majority of the investment.

Machinery

The majority of the equipment used in the Vietnamese industry comes from other nations. As Vietnam's manufacturing sector interacts with the rest of the world, in the near future demand for machinery will grow. As a consequence, Vietnam would need to invest in manufacturing machines to compete and satisfy the demands of foreign customers.

²⁰⁹ Pandjiva. Trend report HS Code 9403.90.70 / Pandjiva. URL: <https://panjiva.com/trendspotting/imports/United-States/855999/855999,857181,859942,855958,850029,855553,857252,851184?query=> (accessed 26.04.2021).

²¹⁰ Rogers, Chr. Trump's Vietnamese timber tariffs could cut furniture shipping / Chr. Rogers. URL: <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/trump-s-vietnamese-timber-tariffs-could-cut-furniture-shipping-60615233> (accessed 26.04.2021).

²¹¹ Home Furnishings Association. The impact of Vietnam trade tariffs on the furniture industry / Home Furnishings Association. URL: <https://myhfa.org/the-impact-of-vietnam-trade-tariffs-on-the-furniture-industry/> (accessed 26.04.2021).

In 2018 China's Hailide New Material, a rubber reinforcement company decided to ship much of its industrial yarns, tyre cord fabric, and printing materials to the United States and other countries from its plant in eastern Zhejiang province. The project to create the plant, which became the first foreign enterprise of Hailide New Material, was announced in 2018. When in the summer of 2018 Trump introduced the first round of tariffs on \$50 billion in goods, some of the plant's exports were hit. As a result, Chinese polyester manufacturer Zhejiang Hailide New Material is investing \$155 million in a factory in Vietnam with intention of selling the products to the United States.

In the second half of 2020 it was put into operation - initially at the level of 37 thousand tons of finished products per year. At full capacity, it is estimated that sales of the plant will reach € 178 million per year and profit of € 27 million²¹³. In 2021 it was announced that the company is expanding its Vietnamese plant, which will increase Hailide's current production capacity by 42,000 tonnes of polyester yarn per year from the end of March 2021. The plant, located at Phuoc Dong Business Park in Tay Ninh province, has a total design capacity of 110,000 tons of polyester yarn. The company has invested 130 million euros in the expansion of capacities.

In the first 5 months of 2019, Chinese investors registered 2 large scale investment projects in Vietnam, namely the ACTR All-Steel Radian Tire Manufacturing Project which manufactures all-steel Radian tires and rubber tires with a total registered capital of USD 280 million invested in Tay Ninh and Advance Tire Vietnam Project investor Guizhou Advance Type Investment Co., Ltd with a total registered capital of USD 214.4 million²¹⁴.

Vietnam is dependent on manufactured equipment, mostly from China, as it grows as a manufacturing center. Analysts have cautioned, however, that the country might become a dustbin for obsolete machinery. To combat this, on June 15th, 2019, the government prohibited the use of imported used machinery and equipment, as well as production line technology, that is more than ten years old²¹⁵.

²¹² Timber Industry News. China invests more in Vietnam's wood processing sector to avoid US tariffs / Timber Industry News. URL: <https://www.timberindustrynews.com/china-invests-more-in-vietnams-wood-processing-sector-to-avoid-us-tariffs/> (accessed 26.04.2021).

²¹³Topof. China's Hailide expanding Vietnam polyester filament plant / Topof. URL: <https://www.topof.ru/news/2021/03/china-s-hailide-expanding-vietnam-polyester-filament-plant> (accessed 26.04.2021).

²¹⁴ Tap Chi Tai Chinh Online. What do you see from the number of Chinese FDI in Vietnam increased by 450%? [Thấy gì từ con số vốn FDI Trung Quốc vào Việt Nam tăng 450%?] / Tap Chi Tai Chinh Online. URL: <https://tapchitaichinh.vn/nghien-cuu-trao-doi/thay-gi-tu-con-so-von-fdi-trung-quoc-vao-viet-nam-tang-450-307613.html> (accessed 26.04.2021).

²¹⁵ Nguyen, T.V. New Regulations Restrict Imports of Used Machines, Equipment, and Technological Lines from 15 June 2019 / T.V. Nguyen. URL: <https://www.bakermckenzie.com/en/insight/publications/2019/05/new-regulations-restrict-imports-of-used-machines> (accessed 26.04.2021).

Needless to say that some companies moved production to Vietnam before the trade war. As was discussed in the sub-chapter of the second chapter “Economy of Vietnam”, Vietnam has created a manufacturing base with lower labor costs and less stringent environmental standards, which is bringing jobs. The country is also characterized by a growing middle class, that makes the country an attractive place to invest. However, there are limitations. Firstly, corporate governance still needs to be improved if the country is to keep attracting foreign investment. Secondly, the access to Vietnamese markets is difficult as the Vietnamese market is not as open, with complex rules regarding purchase process of shares by foreigners.

It is difficult to say how many companies intend to move to Vietnam. The reason is that these companies often hide their actions so as not to damage the relationship with the government and suppliers in China. Recently, however, many foreign enterprises have been researching value chain investments in Vietnam.

Smart and high-tech technologies

The new wave of investment in the high-tech sector has been fueled by tech giants such as Samsung, Foxconn, Luxshare and Intel increasing their investment and manufacturing capacity in Vietnam.

Samsung is the largest foreign investor in Vietnam with investments totaling \$ 17 billion. Samsung Electronics has begun construction of a research and development center in Vietnam. It has been allocated \$ 220 million. The center in Hanoi will be completed by the end of 2022. It is slated to become the largest of its kind in Southeast Asia and expand the company's research capabilities in areas such as artificial intelligence, Internet of Things, big data and 5G. Its staff will range from 2,200 to 3,000 people²¹⁶.

AT&S, an Austrian PCB manufacture specializing in high-end printed circuit boards serving as components in industrial production, semiconductor production and artificial intelligence applications is looking into building two factories in Vietnam worth € 1.5 billion (\$ 1.78 billion) to satisfy the demand for printed circuit boards. In mid-April 2021, the company will choose a site and begin construction later the year of 2021. The project is planned to be finished in a year²¹⁷.

²¹⁶ IXBT.com. Construction begins on \$ 220 million Samsung research center in Vietnam [Vo V'etname nachalos' stroitel'stvo issledovatel'skogo centra Samsung stoimost'yu 220 millionov dollarov] / IXBT.com. URL: <https://www.ixbt.com/news/2020/03/02/vo-vetname-nachalos-stroitelstvo-issledovatel'skogo-centra-samsung-stoimostju-220-millionov-dollarov.html> (accessed 26.04.2021).

²¹⁷Tu, A. Austrian firm seeks to locate \$1.8 bln plants in Vietnam / A. Tu. URL: <https://e.vnexpress.net/news/business/companies/austrian-firm-seeks-to-locate-1-8-bln-plants-in-vietnam-4253323.html> (accessed 26.04.2021).

To welcome this new wave of investment, the Vietnamese government has developed a number of important requirements. In the middle of March 2021, then-Prime Minister Nguyen Xuan Phuc formally issued new requirements for high-tech enterprises.

Accordingly, high-tech enterprises with a total investment capital of \$ 6 trillion VND (\$ 260 million) and 3,000 employees or more must commit to spending at least 0.5% of their capital on research and development. Businesses with a total capital of VND 100 billion and 200 or more employees must allocate at least 1% of their total net revenue²¹⁸.

It is necessary to describe the importance of digital technologies that have the potential to reduce costs for Vietnamese SMEs, improve their competitiveness, expand trade links and enter new markets. The Vietnamese government is aware of the need for proactive action in the development and implementation of a number of national strategies and programs to revitalize the digital economy. Among them - the development of electronic government within the framework of the Law on Cybersecurity (entered into force on January 1, 2019); development of "smart cities". Concept 4.0 received wide discussion, allowing to realize the digital potential of Vietnam and ensure the competitiveness of SMEs²¹⁹.

Among the incentives for digital transformation for SMEs in Vietnam are the following. First, the development of customer experience, improved customer service, including 24/7 digital availability, personalized communication, and accelerated delivery of products and services. Second, expanding cooperation with participants in the digital economy ecosystem (for example, Google, PayPal, LinkedIn, Alibaba) to access new markets, customers, experiences. Thirdly, accelerating the digitalization of business processes makes it possible to reduce paperwork, increase automation and speed up work completion times, etc. Fourthly, overcoming competitive threats from micro-enterprises or new participants operating online²²⁰.

Thus, 52% of Vietnamese SMEs plan to invest despite the restrictions caused by the new coronavirus infection, while 63% of SMEs plan to invest in technology, 37% in mechanical engineering and factories. For comparison, in Singapore, only slightly more than 30% of the

²¹⁸ Thoi Dai. Vietnam will attract more high-tech FDI [V'etnam privilechet bol'she PII v vysokotekhnologichnuyu promyshlennost'] / Thoi Dai. URL: <http://huunghivietnga.com.vn/news/vshcdpkaj-mnzvyidfdp-blyishckhd-mzz-v-vsholilpdtklyilhzkryu-mnljshkhyidkklopshe> (accessed 26.04.2021).

²¹⁹ Wan, L.T.H., Guzikova, L.A. Industry 4.0 in Vietnam: the experience of strategic planning / L.T.H. Wan, L.A. Guzikova // *Asia and Africa today*. - 2020. № 8. – pp. 64-68

²²⁰ Alexandrova E.N., Zabolotskaya V.Z. Development of the digital economy in small and medium-sized businesses: the case of Vietnam / E.N. Alexandrova, V.Z. Zabolotskaya // *Asia and Africa today*. – 2020. № 3. P. 40-48.

country's SMEs declare their readiness to actively invest in difficult conditions, and the average for Southeast Asia²²¹.

Agriculture

The country currently has 29 hi-tech agricultural zones planned in 12 provinces and cities, of which 7 are already in operation. However, the number of FDI is very modest, and mainly concentrated in some advantageous regions. Specifically, here must mention Lam Dong province - one of the leading localities when attracting the most FDI investors into high-tech agriculture with an area of 221 ha as well as Thai Nguyen hi-tech agricultural zone with an area of 300 hectares. For instance, the investment participation of FDI enterprises in Lam Dong hi-tech agricultural zone has contributed to creating regular jobs for about 10,000 employees. In fact, the attraction of investment in the agricultural sector is still facing many obstacles, because this is a risky sector due to heavy dependence on weather. According to experts, the application of high technology should be associated with the current regulations on land allocation quotas, as the area of agricultural land production is still sporadic and fragmented, making the businesses hardly "manage" it²²².

There is a risk that with limited supplies from China to the United States, surpluses will be supplied to the Vietnamese market, which will cause growing competitive pressure on local producers. With China imposing an additional tariff of 25 percent, the tariff levied on US pork exported to China increases to 71 percent. Vietnam became an attractive market as for the US it became unprofitable to export its pork to China and compete with local producers. Pork prices in Vietnam are currently about 48,000 to 50,000 VND per kg, among the highest in the world, while pork purchased from the United States costs just over \$1.5 per kg, or around 35,000 VND per kg. Nguyen Van Ngoc, Vice Chairman of the Animal Livestock Association in the Southeast region, has said that US meat imported into Vietnam increased by as much as nearly 50 percent in the first half of 2018²²³.

Similar situations may occur for other agricultural products from China and the United States. China is now Vietnam's largest market for agricultural products such as fruits, rice and

²²¹ VietNews. Vietnam has the highest rate of SMEs in Southeast Asia with expansion plans [V'etnam imeet samyj vysokij uroven' malogo i srednego biznesa v YUgo-Vostochnoj Azii s planami rasshireniya] / VietNews. URL: <https://vietnews.ru/economy/vietnam-imeet-samyj-vysokij-uroven-malogo-i-srednego-biznesa-v-yugo-vostochnoj-azii-s-planami-rasshireniya> (accessed 26.04.2021).

²²² Nguyen, T.H.T., Thai, T.Q.N., Land, V.T.T. [et al.] Land Consolidation at the Household Level in the Red River Delta, Vietnam / T.H.T. Nguyen, T.Q.N. Thai, V.T.T. Land [et al.]. URL: <https://www.mdpi.com/2073-445X/9/6/196> (accessed 26.04.2021).

²²³ Huyen, K. Vietnamese agricultural products "worry about fever" before the Sino-US trade war [Nông sản Việt "lo sốt vó" trước cuộc chiến thương mại Trung - Mỹ] / K. Huyen. URL: <http://danviet.vn/nha-nong/nong-san-viet-lo-sot-vo-truoc-cuoc-chien-thuongmai-trung-my-893397.html> (accessed 26.04.2021).

seafood. Chinese vegetables and fruits, which are plentiful and comparatively inexpensive, put a lot of strain on agricultural products sold in both China and Vietnam's domestic market. Furthermore, once US goods are hit by higher Chinese tariffs, US fruit exporters may shift their production to Vietnam.

Other sectors

According to the Wall Street Journal, Nintendo, the Japanese video game giant, has shifted development of its iconic Switch console from China to Vietnam²²⁴.

Intel's semiconductor testing and packaging facility in Vietnam has been operating since 2010, and has gradually redistributed orders from similar facilities in China and Malaysia, allowing it to process increasingly advanced products.

In 2019, Intel decided to focus the final stages of production of a number of chipsets in China, and the following products left the pipeline of the Vietnamese enterprise: Intel Q87, Intel H81, Intel C226, Intel QM87 and Intel HM86 (Appendix 26). However, recently, after a sharp turn in US customs policy, Intel has additional motives to reallocate production orders against Chinese enterprises. It is worth adding that the PRC in the technological sense holds more trust than Vietnam, because it was in China that the factory for the production of solid-state memory was located, which deals directly with the processing of silicon wafers, and not just tests and packaging.

On May 15th, 2019 Intel circulated a notice in which it announced its decision to return to Vietnam part of the packaging orders for the above sets of system logic (Appendix 27). To be more precise, the Vietnamese enterprise will focus on chipset assembly, like the Chinese enterprise, but only the enterprise in China will continue to test the finished product. Regardless, the involvement of Vietnamese facilities for a number of operations will allow Intel to classify the products in question as manufactured in Vietnam, even if the same products are finalized in China (Appendix 28).

Intel probably decided to violate the integrity of the production cycle geographically because of the desire to reduce dependence on increased duties on products imported into the United States. However, it is unlikely that the listed Intel chipsets end up in the US separately from the motherboards and laptops on which they are based. More complex products that include them may have other countries of origin.

Shipments of products from Vietnam will resume from June 14th, 2019. In parallel, shipments of chipsets from China will continue, but Intel will be able to more flexibly regulate

logistics depending on current priorities. In fact, many American companies that order testing and packaging of their products outside the country can do the same. Moreover, the increased duties do not apply to products of Taiwanese origin²²⁵.

The trade war is reshaping the toy industry as well. The world's biggest toymaker Hasbro Inc. has become another company to join a small but fast-growing list of firms that have decided to rethink their supply chains in the region amid continuing trade tensions between the PRC and the United States. The company is reported to have already cut China's share of its manufacturing from two-thirds to one-half and moved some of its production away from China in favor of Vietnam, India and Mexico²²⁶.

Taking into account the Vietnam's export of toys, games and sports equipment, it is noticeable from Figure 27 (Appendix 29) that it has grown to the US while to China it has remained more or less stable. It happened in 2019 when Trump was about to raise tariffs on toys, smartphones and laptops.

In 2018 one of the world's leading document printing solutions firms, KYOCERA Document Solutions Inc., announced plans to construct a third plant at its manufacturing base in Vietnam. KYOCERA's key priority is on developing and enhancing its own manufacturing chain, thus increasing the plant's capacity to manufacture parts and improving logistics performance. The new plant was scheduled to be finished in July 2019 on the company's already-owned site. Multifunctional devices (MFPs) and printers can be produced at a higher capacity as a result of this.

After the Shilong plant in China, the Vietnam factory, which began production in October 2012, is KYOCERA Document Solutions' second overseas facility. The Vietnamese plant will serve as a manufacturing site for MFPs and printers as well as a research center. To that end, the Vietnam plant will send its Vietnamese workers to the KYOCERA Document Solutions R&D Center as trainees, where they will be able to realize their full potential.

KYOCERA will continue to contribute to the Vietnamese economy by growing the production of its paper goods and creating additional jobs for the 4,500 employees working on the current site, which covers more than 200,000 m²²²⁷.

²²⁴ Mochizuki, T. Nintendo Moves Some Switch Production Out of China, Adapting to Tariff Threat / T. Mochizuki. URL: <https://www.wsj.com/articles/nintendo-moves-some-switch-production-out-of-china-adapting-to-tariff-threat-11560328484?mod=searchresults&page=1&pos=1> (accessed 26.04.2021).

²²⁵ Intel. Product Change Notification on May, 15, 2019 / Intel. URL: <https://www.intel.ru/content/www/ru/ru/homepage.html> (accessed 26.04.2021).

²²⁶ Whitten, H. Hasbro plans to cut China production and looks to India and Vietnam to make more of its toys / H. Whitten. URL: <https://www.cnn.com/2019/07/23/hasbro-to-cut-china-production-of-its-toys-looks-to-india-and-vietnam.html> (accessed 26.04.2021).

²²⁷ KYOCERA Document Solutions Inc. Kyocera to build third plant at Vietnam site to increase production / KYOCERA Document Solutions Inc. <https://russia.kyocera.com/news/2018/07/12154132.html> (accessed 26.04.2021).

Solar panels from Vietnam are in high demand in the United States. Following the imposition of higher tariffs on China by former US President Donald Trump, demand in neighboring Vietnam exploded. Chinese solar panel makers, facing a 55% prohibitive tariff, are moving production to Vietnam, and their exports to the United States have grown 7.5 times. As a result, local companies have seen an increase in orders. In June 2019 alone, U.S. imports of solar cells from Vietnam surged 656% from a year ago²²⁸.

Foxconn has long been known as a supplier and manufacturer of main components for Apple Technology Corporation. With the trend of moving the production supply chain to Vietnam, the number of workers working for Foxconn will increase rapidly in the coming time.

Through its subsidiaries, Foxconn is proposing to invest in three social housing projects to create housing for workers. Specifically, the Golden Park social housing project in Phuong Lieu commune, Que Vo district, Bac Ninh province, invested by Kim Xuong Tri Project Company Limited, land use scale of 6.3 ha, investment capital of about 2,900 billion dong (equivalent to 125.8 million USD). Second, project of Van Trung social housing, Van Trung commune, Viet Yen district, Bac Giang province invested by Fugiang Co., Ltd., land use scale of 16.7 ha, total investment capital of about 3,400 billion dong (equivalent to 150 million USD). Last, the Phoenix Town public service and worker project, invested by Fuchuan Co., Ltd. near Binh Xuyen Industrial Park, Vinh Phuc province, is 9.9 hectares wide, with an investment of more than 1,000 billion dong (nearly 50 million USD)²²⁹.

All three of these social housing projects are associated with 3 IPs that Foxconn's subsidiaries have invested in, namely Que Vo Industrial Park, Van Trung Industrial Park and Binh Xuyen Industrial Park.

All in general, with the Vietnamese economy being comparatively small and closely tied to the American and Chinese markets, it is clear that it will be deeply affected by trade war. Vietnam benefits from the reorganization of trade flows. In this sub-chapter we evaluated the trade war and its impact on the following sectors of the Vietnamese economy: industry (machinery, footwear, textile and garments), electronic equipment, agriculture, forestry and

²²⁸ Boudreau, J., Chau, M.C. Vietnam Goes From Trade War Winner to Trump Target / J. Boudreau, M.C. Chau. URL: <https://www.bloomberg.com/news/articles/2019-07-11/from-trade-war-winner-to-trump-target-vietnam-braces-for-shocks> (accessed 26.04.2021).

²²⁹ Tuoi Tre Online. Foxconn plans to spend more than \$ 325 million to build housing for workers in three provinces in Vietnam [Foxconn tính chi hơn 325 triệu USD xây nhà ở công nhân tại 3 tỉnh ở Việt Nam] / Tuoi Tre Online. <https://tuoitre.vn/foxconn-tinh-chi-hon-325-trieu-usd-xay-nha-o-cong-nhan-tai-3-tinh-o-viet-nam-20200630091629254.htm> (accessed 26.04.2021).

furniture, transport (automobiles and bikes), financial sector (trade and foreign investment), smart and high-tech technologies and some other.

3.2. Risks and Prospects of Vietnam's Economy amid the trade war

It can be concluded that the country is benefiting from the US-China trade war, as some companies are moving their production into it. However, Vietnam's exports are also boosted by fraudsters trying to circumvent US sanctions on Chinese imports. Thomas Kosterga, economist at Pictet Wealth Management, believes that duties should be levied on everyone or no one, otherwise someone will simply take advantage of the situation in its interests²³⁰. Some exporters do take advantage of this, writes *The Wall Street Journal*²³¹. They ship goods from China to Vietnam, where they undergo little processing, and then re-export them as Vietnamese to the United States. According to customs records, this form of fraud is very common. Thus, exports of computers and other electronics from China to Vietnam rose by 80.8 percent in annual terms to \$ 5.1 billion in the first five months of 2019²³². Over the same period, the export of such goods from Vietnam to the United States increased by 71.6% to \$ 1.8 billion²³³. The supply of machinery follows a similar pattern. This, according to experts, is beneficial to port owners. Jeffrey Newman Law founder Jeffrey Newman claims that many so-called factories in Vietnam are actually warehouses for the temporary storage of goods from China (quote on WSJ)²³⁴.

Moreover, one of the issues that undermine the trust of potential investors and especially American partners is connected to the speculation of the labels. Thus, China has been accused of labeling its products as "made in Vietnam" to evade tariffs imposed by Donald Trump. Chinese firms are now believed to export goods, including textiles, agricultural products, tiles, honey, iron, steel, and plywood, through Vietnam, where a Vietnamese certificate of origin of products can be obtained and after that the products are sent to a third country. The certificates were called Vietnam the country of origin of goods, while in reality it was China. Decree 43 instructs manufacturers on how to mark and import goods in Vietnam, although it does not specify the requirements that products must follow in order to be branded as made in Vietnam. Furthermore, existing rules do not prescribe the proportion of locally produced material that must be present

²³⁰ Nevelsky, A. Vietnam wins US-China trade war [Pobeditelem v torgovoj vojne SSHA i Kitaya okazalsya V'etnam] / A. Nevelsky. URL: <https://www.vedomosti.ru/economics/articles/2019/06/28/805380-vetnam> (accessed 26.04.2021).

²³¹ Wall Street Journal. American Tariffs on China are being blunted by trade cheats / Wall Street Journal. URL: <https://www.wsj.com/articles/american-tariffs-on-china-are-being-blunted-by-trade-cheats-11561546806>

²³² Nevelsky, A. Vietnam wins US-China trade war. URL: <https://www.vedomosti.ru/economics/articles/2019/06/28/805380-vetnam> (accessed 26.04.2021).

²³³ Ibid.

²³⁴ Ibid.

for a product to be considered made in Vietnam²³⁵. Because of the ambiguity of the rules, manufacturers are often forced to choose whether or not to mark their products as «Made in Vietnam». Official Hanoi has promised to tighten control on exports to the United States, Europe and Japan over such fraud and increase the corresponding fines. It is highly important to highlight transshipment as a special kind of speculation that leads to a significant loss of funds for the Vietnamese budget.

In one case, for example, the Vietnam Chamber of Commerce and Industry (VCCI), in conjunction with the Customs Department, discovered that the label “Made in Vietnam” was affixed to the product prior to obtaining the certificate of origin. Then, U.S. Customs and Border Protection (CBP) discovered that a Vietnam-based firm was importing Chinese timber, re-labeling it for export, and then exporting it to the United States to avoid Section 301 tariffs²³⁶.

Nestor Scherbey, a licensed US customs broker and consultant based in Ho Chi Minh City notices that “If they [Vietnam officials] don’t pay attention to the country of origin of the goods being exported, they’re going to have trouble”. This is the age-old game of cat and mouse that is difficult to control. The 25% protective tariff that the US has imposed on Chinese goods is forcing people to look for ways to get around them.

In another case, the US authorities found out that Chinese plywood was imported into the US by a Vietnamese company on December 27th, 2018, according to Industry and Trade Minister Tran Tuan Anh. The other example dated back of October, 2019 when Vietnamese customs announced that it had discovered and seized \$4.3 billion worth of Chinese aluminum falsely labeled "Made in Vietnam" that was destined for export, primarily to the United States.

Vietnamese Foreign Minister Pham Binh Minh reacted to the exposure of the practice, saying, that “It will sabotage Vietnamese brands and products and it will also affect consumers. We could even get tariff retribution from other countries, and if that happens, it will hurt our economy”.²³⁷ Vietnam is afraid that the United States may punish it in the event of further deliveries of Chinese goods to the country under the guise of Vietnamese²³⁸. There is also a possibility that companies switching all or part of their supply chains from China to Vietnam to

²³⁵ Decree on good labels. – 2017. No. 43/2017/ND-CP / SOCIALIST REPUBLIC OF VIETNAM. URL: <https://vanbanphapluat.co/decrees-43-2017-nd-cp-on-good-labels> (accessed 26.04.2021).

²³⁶ Section 301 levies an additional 25% in duties for thousands of Chinese products, including everything from agricultural products to consumer goods, industrial items, and chemicals. 178. Nutt, J. Transshipment Problems & Best Practices for Importers / J. Nutt. URL: <https://blog.anderinger.com/blog/transshipment-best-practices-for-importers> (accessed 26.04.2021).

²³⁷ AP News. Vietnam: China companies using fake ‘Made in Vietnam’ labels / AP News. URL: <https://apnews.com/article/3e8d620a800a45d788ecc96d44e4b61c> (accessed 26.04.2021).

²³⁸ Voa News. Is Vietnam Safe as US Steps Back from the China Trade War? / Voa News. URL: <https://www.voanews.com/economy-business/vietnam-safe-us-steps-back-china-trade-war> (accessed 26.04.2021).

circumvent US sanctions will face retaliation from the US. Some multinational corporations are adopting a "China plus one" strategy, in which they maintain a presence in China while still competing in a low-wage market elsewhere in Asia.

The US administration is aware of the move toward production outside of China as a method of escaping sanctions started in 2018 and flourished till the first 6 months of 2019. Former President Trump tweeted: "Many Tariffed companies will be leaving China for Vietnam and other such countries in Asia. That's why China wants to make a deal so badly!"²³⁹

In addition, in Chapter 2 we showed in detail the earlier case according to which Vietnam has already faced scrutiny from the U.S. after the Treasury Department added the country to a watchlist for currency manipulation.

Exports from Vietnam to the United States have skyrocketed, while exports from China have declined, according to official statistics. In the first quarter of 2019, Vietnam's shipments to the U.S. have increased by 40 percent, while China's shipments have declined by 14 percent, according to data compiled by the U.S. Census Bureau²⁴⁰. Experts admit that this is partly due to the quite logical change in the supply chain due to the development of the trade war. However, the question of exactly what proportion of Vietnamese exports is fake is still open.

Given the size of duties and the huge profits associated with circumventing them, the trade war will spawn a whole industry of cheating US customs. However, the share of counterfeit goods in total Chinese exports to the United States is likely to remain quite small, said Rahul Kapoor, senior analyst at Bloomberg Intelligence in Singapore. In his opinion, some kind of fraud around the evasion of duties will continue, but they will not become a mass phenomenon²⁴¹. We share the opinion that the mark "Made in Vietnam" might not be important in the ongoing trade war between the United States and China, although it can affect the relations between the US and the reputation.

The Government has already replied to these concerns by releasing draft regulation – Decree No. 31/2018/ ND-CP – on labeling criteria for domestically consumed goods. Companies that manufacture a commodity in different countries for sale in the Vietnamese market would be impacted the most. To be known as Vietnamese in nature, these businesses must now procure

²³⁹ Reality Check Team. US-China trade war: Moving to Vietnam to avoid sanctions / BBC News. URL: <https://www.bbc.com/news/world-asia-48273550> (accessed 26.04.2021).

²⁴⁰ Cao, S. Chinese Exporters Found Using Fake 'Made in Vietnam' Labels to Avoid US Tariffs / S. Cao. URL: <https://observer.com/2019/06/us-china-trade-war-chinese-exporters-fake-label-avoid-tariff/> (accessed 26.04.2021).

²⁴¹ Boudreau, J., Chau, M.C. Vietnam Goes From Trade War Winner to Trump Target. URL: <https://www.bloomberg.com/news/articles/2019-07-11/from-trade-war-winner-to-trump-target-vietnam-braces-for-shocks> (accessed 26.04.2021).

30% of their value of input locally and use the required Harmonized Commodity (HS) code²⁴².

Summarizing the scope of the regulation, we see the following regulations:

1. Production inputs imports from China are not impacted as these goods are subject to rules under the ASEAN – China Free Trade Agreement;
2. Finished products exports to the US are not impacted as these goods are subject to US customs regulations;
3. Goods manufactured in Vietnam and sold in Vietnam will be impacted by the 30 percent local sourcing requirement²⁴³.

The 30 percent input rule would not be an issue for labor-intensive sectors such as textiles and clothing, which can import locally, if the rules are implemented. Industries that use less labor and import a large amount of raw materials from other countries, on the other hand, may need to rethink their market strategies.

It's also worth noting that the rule only applies to products manufactured for the Vietnamese market; it doesn't apply to exports to foreign markets governed by specific free trade and bilateral agreements (Appendix 30).

The latest draft regulations are the result of a government inquiry into Asanzo, a Vietnamese electronics company that was accused of smuggling Chinese goods and passing them off as Asanzo or Vietnam-made. According to reports, Asanzo will only manufacture electronic devices at its plant, such as televisions, using mostly or entirely Chinese components.

For instance, under the ASEAN-China Free Trade Agreement²⁴⁴, goods that do not originate in Vietnam cannot be branded as Vietnamese-made. However, from a legal perspective, Asanzo did nothing wrong, according to WTO regulations that apply to both Vietnam and China, since the final stage of processing took place in Vietnam, while inputs were sourced from China.

We see as a solution to defend customers' interests in following Apple's strategy of imprinting “Designed by Apple in California, Assembled in China” on the back of its iPhones. This provides the user with a better understanding of the product's roots.

²⁴² Onishi, T. Hanoi narrows 'made in Vietnam' to block Chinese detours / T. Onishi. URL: <https://asia.nikkei.com/Economy/Trade-war/Hanoi-narrows-made-in-Vietnam-to-block-Chinese-detours> (accessed 26.04.2021).

²⁴³ Pritesh, S. Made in Vietnam: Draft Regulations on Rules of Origin / S. Pritesh. URL: <https://www.vietnam-briefing.com/news/made-in-vietnam-draft-regulations-rules-of-origin.html/> (accessed 26.04.2021).

²⁴⁴ Das, K. The ASEAN-Hong Kong China Free Trade Agreement and Vietnam / K. Das. URL: <https://www.vietnam-briefing.com/news/asean-hong-kong-china-free-trade-agreement-vietnam.html/> (accessed 26.04.2021).

Vietnamese companies may be prosecuted both domestically and internationally if they violate the laws of origin; if local companies follow domestic laws, they can break international legislation if they are careless.

According to Vietnamese economists, the trade war between China and the United States may result in a deterioration of global trade and a decline in the growth of Vietnamese exports in the immediate future. Strong domestic demand, on the other hand, is very likely to compensate for the decline in exports. As a result, GDP growth in 2020 was forecast to be 6.7 percent. Experts expect an explosion of FDI into Vietnam if the trade war between the US and China worsens.²⁴⁵.

Needless to say that the higher US tariffs directly affect the assembler of the product. At the same time, suppliers are also jeopardized within the value chain. In this regard, smaller Asian economies are in an especially weak position given Asia's complexity in supply chains, with China holding a key player position. To tell more, by now China has created the most complete industrial and supply chains in the world, attracting a lot of manufacturers who are able to produce sophisticated goods. Vietnam is quite a long way from having such a diversified supplier base. The author holds the opinion that Vietnam still remains an inseparable satellite of China and highly exposed to China primarily in economic terms that is a serious threat to Vietnam. As a result, trade diversion may just temporarily benefit Vietnam taking into account China's deteriorating position during the trade war.

Vietnam lags behind China in terms of human capital. Although Vietnam enjoys a young and growing labor force, workers' education level, skills and health are comparable to that of China only in such large cities as Hanoi and Ho Chi Minh City. Vietnam's population is about 96 million - less than one tenth of China's population (Figure 29, Appendix 31), and the Vietnamese labor force is only 7% of the Chinese (Figure 30, Appendix 32). In other words, China has about 800 million manufacturing workers, while Vietnam has only 55 million. That is, there are actually more workers in China, and especially highly qualified specialists. According to statistics, 78 percent of Vietnam's workforce lacks academic qualifications²⁴⁶. Vietnam also ranks 120th out of 130 countries in terms of "know how", or the breadth and depth of specialized skills, on the World Economic Forum's Human Capital Index²⁴⁷. This may attract only a limited subset of companies looking for alternatives to rising production costs in China.

²⁴⁵ Dan, Nh. ADB predicts Vietnam's economy to grow 6.8% in 2019 [ABR prognoziruuet, chto ekonomika V'etnama vyrastet na 6,8% v 2019 godu] / Nhan D. URL: <http://surl.li/ryee> (accessed 26.04.2021).

²⁴⁶ Jennings, R. Vietnam is losing ground to china because it lacks skilled workers / R. Jennings. URL: <https://www.forbes.com/sites/ralphjennings/2017/06/07/vietnam-is-losing-ground-to-china-because-it-lacks-skilled-workers/?sh=400ba2086256> (accessed 26.04.2021).

Moreover, Vietnam's relatively young population will now age (Figure 31, Appendix 33), although the country's government has already launched a campaign to promote fertility.

Vietnam's monthly minimum wages in 2019 vary by region from \$125 to \$180, with the highest rates in urban areas like Ho Chi Minh City and Hanoi. The wages of manufacturing workers in China are now three times higher than in Vietnam. The minimum wage in Vietnam is lower than even its poorer neighbors such as Cambodia.

China has always focused on attracting value-added industries that generate high tax revenues. In addition, low value manufacturing industries often cause more pollution, while China is looking to improve the environment in urban areas and reduce the use of land. If foreign enterprises move to Vietnam, they are only low-tech manufacturing, assembling and processing factories. As a result, if the level of technology transfer is only at a low level, Vietnam takes advantage of the market only in the short term. While the trend of relocating footwear products can yield short-term, long-term consequences will be severe since advanced technology is not widely applied in Vietnam. Thus, the manufacturing sector exploits labor and pollutes the environment.

For instance, in the case of Apple's AirPods which production shift was described in another subchapter, it doesn't include the AirPods Pro, the premium version with the brand's noise-canceling feature.

Vietnamese enterprises, especially in the provinces, will increasingly face (technological) competition from foreign enterprises. Since the country is only on the way to digitalization, Industry 4.0 and the inclusion of environmentally friendly technologies in factories, it seems necessary for the state to create mechanisms to support local business and the agricultural sector in particular. Otherwise, there is a risk that the gap in the development of certain sectors of the economy will widen, including on the principle of North-South-Central confrontation. It is worth noting that, for instance, the electronics and microchip industry in Vietnam already now faces numerous obstacles, as the majority of export value (95 percent) comes from the FDI market, while domestic companies are yet to fully engage in the global supply chain, with up to 77 percent of the product's value being imported entirely²⁴⁸.

Over the next 5 years, Vietnam needs to invest about USD 1.5–2.5 billion in technology. For instance, Vietnam is currently on the right track to achieve its 5G ambitions, but there are many obstacles ahead in terms of technology, national security and governance. Some

²⁴⁷ The Global Human Capital Report 2017 // World Economic Forum. - 2017. – P. 8.

²⁴⁸ Branchenreport Vietnam. P. 6.

anticipated challenges include high equipment and service costs, a limited choice of 5G terminals, and narrow network coverage. In addition, due to the COVID-19 pandemic, the pilot plans in Vietnam could not be fully implemented as expected without considering communication between regions and transporting the necessary equipment²⁴⁹.

The scale of China cannot be replicated: the number of industrial migrant workers in China even exceeds the population of Vietnam. In addition, a large number of industrial products are destined for the domestic Chinese market. The scale of industrial enterprises in Vietnam is very small, with an average of less than 200 employees, few lines and machines. As a consequence, factories can only carry out small orders and individual parts. It is worth noting that only a few companies can produce whole assemblies. While customers moving from China always need very large volumes, products must be made up of complete components.

In terms of logistics, Vietnam also lags behind China. We consider the transfer of production to Vietnam to be costly due to the geographical location of Vietnam as the country is divided into special economic zones and zones of industrial development. Thus, in Vietnam there are not many places where it would be possible to locate production, the construction of which in an unfavorable area would require huge investments (Appendix 34). Moreover, it is equally important to know the cultural realities (local nuances, commercial strategies, and governmental policy-setting objectives) at play.

It can be seen that the trend towards the relocation of factories from China by many foreign investors have begun several years ago, when the investors realized that the "factory of the world" was too large. Re-shoring (returning to the parent company's domestic location) and near-shoring (shifting to a substitute country within the same region) are two examples of the transition in supply chains. In the latter, South and Southeast Asia, especially Taiwan, Vietnam, Thailand, and India, have emerged as manufacturing hub replacements.

To the limit, investors should promote market diversification, invest more in order to dissipate risks. This trend has intensified further when trade tensions between the United States and China emerged, and is still the case with the Covid-19 pandemic. According to statistics, there are currently about 50 multinational companies, both inside and outside China, which have

²⁴⁹ Dong, L. Why did Apple leave China and move iPad and MacBook production to Vietnam? [Vi sao Apple rời Trung Quốc, chuyển sản xuất iPad, MacBook sang Việt Nam?] / L. Dong. URL: <https://laodong.vn/doanh-nghiep-doanh-nhan/vi-sao-apple-roi-trung-quoc-chuyen-san-xuat-ipad-macbook-sang-viet-nam-862908.lido> (accessed 26.04.2021).

decided or planned to relocate all or part of their production activities²⁵⁰.

However, there are potential risks for Vietnam. For instance, it is already seeing a major shortage of skilled labor following a surge of manufacturing in the wake of the Sino-U.S. trade war²⁵¹. The situation is aggravated with the fact that in most cases these are Chinese manufacturers which move their production to Vietnam to reduce costs. Usually, these factories employ Vietnamese staff proficient in both English and Chinese. Moreover, for the Vietnamese workers it would be necessary to learn the Chinese culture. Needless to say that Chinese-owned contract footwear manufacturers may employ as many as 200 Chinese workers alongside 10,000 local Vietnamese workers²⁵².

What are the opportunities for Vietnam in the face of this trend? We think Vietnam has many advantages to catch the flow of factory relocation from China. First of all, thanks to the typical successes in the prevention and control of Covid-19 epidemic, it is highly regarded by the international community; along with the resilience of Vietnam's economy to shocks and crises, this makes Vietnam one of the most attractive investment destinations in the aftermath of the pandemic (Appendix 35).

According to CBRE research, in 2019 the cost of industrial land in some major cities in China was US \$ 180 per square meter. According to the JLL report, the North, with its quite well-developed infrastructure and proximity to China, draws the majority of large companies looking to diversify their manufacturing portfolio in addition to their activities in China.

The cost to rent industrial land on a long-term lease at one Vietnamese industrial park in 2018 increased to \$90 per square meter (10.76 square feet), up from \$60 to \$70 in 2017. The average land price per rental cycle in 2019 was \$ 99 per m², which is 6.5 percent more than the previous year's period²⁵³. Ready-made factories, which are popular with small and medium-sized enterprises, remained steady and fully loaded at \$ 4.0-5.0 per square meter per month.

In the South JLL saw a growth in requests for land leases, and developers were more optimistic that land lease rates would increase. In the first quarter, the average land price per rental period was US \$ 101 per square meter, up 12.2 percent over the same period. Rents in

²⁵⁰ Hoshi, M., Nakafuji, R., Cho, Y. China scrambles to stem manufacturing exodus as 50 companies leave / M. Hoshi, R. Nakafuji, Y. Cho. URL: <https://asia.nikkei.com/Economy/Trade-war/China-scrambles-to-stem-manufacturing-exodus-as-50-companies-leave> (accessed 26.04.2021).

²⁵¹ Pearson, J., Nguyen, Ph. Choke point: Vietnam skilled labor squeezed by Sino-U.S. trade war / J. Pearson, Ph. Nguyen. URL: <https://www.reuters.com/article/us-vietnam-labour/choke-point-vietnam-skilled-labor-squeezed-by-sino-us-trade-war-idUSKBN1WP35P> (accessed 26.04.2021).

²⁵² Burkhart, M. Manufacturing in Vietnam: 5 Key Factors for Moving China / M. Burkhart. URL: <https://www.intouch-quality.com/blog/3-key-factors-for-sourcing-in-vietnam> (accessed 26.04.2021).

²⁵³ Ibid.

southern prefabricated factories range from \$ 3.5 to \$ 5.0 per m² per month, and became higher in especially strategically located and closely connected to key infrastructure areas, in particular in Binh Duong, Ho Chi Minh City, and Long An, with the rest of the provinces remained stable²⁵⁴. For instance, the monthly rent for existing factory buildings in industrial parks near Ho Chi Minh City has risen to \$4 per square meter, up from \$3 in 2018. Obviously, given the land rent price in comparison with China's one, Vietnam is a very attractive target for potential manufacturers. In addition, in Vietnam, the average rental rate for industrial land increases moderately by 5-8% per year²⁵⁵.

One of the constraints is that Vietnam's highways and ports are now congested, implying higher transportation costs to prevent delivery delays. Vietnam's railways are scarce and its highways are narrow as compared to China. The costs of developing and modernizing facilities will rise as demand for production rises. In particular, the government continues to invest heavily in infrastructure. According to the Asian Development Bank, Vietnam is ahead of other Asian countries, except China, in budget spending on infrastructure development as a percentage of GDP. This has led to the creation of new highways, internationally recognized seaports and more modern airports to meet the needs of the industry now and in the future.

At the same time, if we compare the technical aspects of Vietnam and China, Shanghai's container ports, some of the busiest in the world, can handle 40 million containers a year, while Vietnam's largest port, located in Ho Chi Minh City, can only handle 6.15 million containers.

As countries have started to search for new markets to expand manufacturing, we would like to take into account Vietnam's share in the global manufacturing production. It turns out (Appendix 36) that in comparison with China, Vietnam has a limited share (28.22% to 0.27%, respectively). Thus, this can be counted as one of the main limitations for companies to operate more efficiently. Moreover, the Vietnamese economy as a whole is much smaller than China's (and thereby, is characterized by reduced market sizes), which is the world's second largest. This factor puts limits for Vietnam to be able to repeat China's manufacturing achievements on a large scale.

Moreover, it can be seen that, in addition to the advantages of Vietnam, which were mentioned above and in the previous chapter, Vietnam also has other limitations compared to

²⁵⁴ Vietnam Net. After leaving China, the tech corporation decided to move to Vietnam [Rút khỏi Trung Quốc, tập đoàn công nghệ chọn sang Việt Nam] / Vietnam Net. URL: <https://vietnamnet.vn/vn/kinh-doanh/dau-tu/dai-gia-cong-nghe-len-ke-hoach-sang-viet-nam-634118.html> (accessed 26.04.2021).

²⁵⁵ Tap Chi Tai Chinh Online. Vietnam is the "link" of the global manufacturing supply chain. URL: <https://tapchitaichinh.vn/nghien-cuu-trao-doi/viet-nam-la-mat-xich-cua-chuoi-cung-ung-san-xuat-toan-cau-306921.html> (accessed 26.04.2021).

some countries in the region, especially India, Thailand, Malaysia and Indonesia.

In recent years, the governments of these countries have used the following four instruments to attract investment:

1. Tax exemptions and cuts (Indonesia plans to cut corporate income tax from 25% to 22% by 2021²⁵⁶; India offers 4-10-year tax exemptions for investment projects in some priority sectors²⁵⁷, the Philippines will cut tax from 30% to 25%²⁵⁸);
2. Incentives on land (Indonesia built 27 new industrial parks²⁵⁹);
3. Commitment of senior management to improve the investment and business environment (Indonesia, Malaysia);
4. Provide a support package for the training of skilled workers (Thailand). (Figure 35, Appendix 37).

India in particular represents a much broader market than Vietnam, with a population of about 1.3 billion, its economic size is also larger, and its human resources are more skilled, especially engineers. Indian industry is one of the first in the world. Needless to say that after the incident of June 15, 2020 when Indian soldiers and an unknown number of Chinese soldiers were killed on a disputed border, the US and India started to think of boosting bilateral economic relations and of increasing FDI which would multiple benefits for both sides and prevent China's growth and resist military encroachments by rivals²⁶⁰. In this circumstances, the Indian government has taken many very strong steps, such as establishing contacts with over 1000 American companies and providing incentives for businesses to leave China²⁶¹. To welcome investors, the country also prepared infrastructure. In the meantime, Apple started manufacturing

²⁵⁶ Mariska, D. Indonesia Eyes Biggest Deficit in Three Decades as the Country Sets to Cut Corporate Income Tax / D. Mariska. URL: <https://jakartaglobe.id/business/indonesia-eyes-biggest-deficit-in-three-decades-as-the-country-sets-to-cut-corporate-income-tax> (accessed 26.04.2021).

²⁵⁷ Bloomberg. India to plan tax holiday to win new investments / Bloomberg. URL: <https://economictimes.indiatimes.com/news/economy/policy/india-to-plan-tax-holiday-to-win-new-investments/articleshow/75690968.cms?from=mdr> (accessed 26.04.2021).

²⁵⁸ Alegado, S., Sayson, I.C. Philippines Cuts Corporate Tax to Aid Pandemic-Hit Businesses / S. Alegado, I.C. Sayson. URL: <https://www.bloomberg.com/news/articles/2021-03-26/philippines-cuts-corporate-tax-to-aid-pandemic-hit-businesses#:~:text=Corporate%20income%20tax%20rate%20is,Department%20of%20Finance%20has%20said.> (accessed 26.04.2021).

²⁵⁹ Indraini, A. Daftar 27 Kawasan Industri Baru / A. Indraini. URL: <https://finance.detik.com/industri/d-5120550/daftar-27-kawasan-industri-baru> (accessed 26.04.2021).

²⁶⁰ Bloomberg. US must make India a bigger trade, investment partner as face off with China continues / Bloomberg. URL: <https://www.financialexpress.com/economy/us-must-make-india-a-bigger-trade-investment-partner-as-face-off-with-china-continues/2026917/> (accessed 26.04.2021).

²⁶¹ Bloomberg. India looks to lure more than 1,000 American companies out of China / Bloomberg. URL: <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-looks-to-lure-more-than-1000-american-companies-out-of-china/articleshow/75595400.cms> (accessed 26.04.2021).

the iPhone 11 in India in 2020 and plans to build the iPhone 12 here.

Thailand also gave the green light to a number of new investment promotion policies, including tax measures amending the Business Law to loosen rules on foreign investment. In mid-2019, Malaysia launched a 1 billion ringgit (about \$ 240 million) investment support program to provide tax and financial aid to foreign companies that have selected the country as their destination²⁶².

Likewise, for Indonesia, Indonesia's market size and economy is about 3 times that of Vietnam. Its workers also have many competitive advantages, especially they are more fluent in English. Apple has moved some of its MacBook production to Malaysia. Apple is also expanding production capacity for smart speakers, headsets and computers in Southeast Asia as part of its diversification strategy.

Given the evidence above, the possibilities for Vietnam exist, but Vietnam also faces many heavyweight opponents in the race to welcome the wave of manufacturing out of China and therefore win. Thus, Vietnam needs to act faster.

With many large firms such as Apple or Samsung moving their factories from China to Vietnam, there is growing public concern in China about an increase in unemployment in the tech sector in the near future. So, information that part of the Chinese network Foxconn will move to Vietnam for the production of iPad and MacBook from 2021, caused a wave of protests on the social network Weibo. This situation worries the inhabitants of the Celestial Empire, which in the long term may leave an imprint on relations between Vietnam and China²⁶³.

Then, there is the following potential scenario that consists in rising business costs. In addition, to be able to join the global supply chain, the «Vietnamese chain» must include all stages. This subdivision also contributes to price competition. Currently, with many completed items, Vietnamese enterprises have to send some items to Thailand or China to process and then send back, making the costs higher.

Being an export-oriented economy, the country decreases the prices of export commodities due to their already high concentration. At the same time, the country goes on importing at the same high rate as before. In order to balance the trade situation, the country is obliged to increase the prices for imported goods. As such, imported inflation is an inevitable

²⁶² Minh, A. How Vietnam welcomes the wave of production shifting from China [Việt Nam đón làn sóng dịch chuyển sản xuất từ Trung Quốc ra sao] / A. Minh. URL: <https://vnexpress.net/viet-nam-don-lan-song-dich-chuyen-san-xuat-tu-trung-quoc-ra-sao-4097682.html> (accessed 26.04.2021).

scenario for the Vietnamese economy that may lead to labor manifestations and protests. As history shows, in periods of inflation the countries have two choices. First option is to leave the situation “to flow naturally”. However, the Vietnam government probably will not want to risk a booming country’s economy showing stable good growth as such turn of events may take an unexpected character. The other option is to satisfy the needs of people to rise the wages and by this means control inflation (that is a more likely scenario for Vietnam). If these possibilities occur, Vietnam could lose its most precious asset: its reputation as a low-cost manufacturing hub for foreign investors.

Vietnam has successfully targeted industries such as textiles, footwear and electronics. However, in electronics, it cannot replace manufacturing, which requires a massive workforce. China, on the other hand, boasts a high level and safety of production that meets European and American standards. As for firms looking to diversify out of China will search for more available and convenient economies in Asia and beyond (some of them were mentioned above). As for footwear, it is necessary to indicate the following challenge Vietnam will face: as workers in other countries are assisted by machines in the production process, each of them can make 1.2 pair of shoes in an hour, while their Vietnam peers can only manage 0.7²⁶⁴.

In the first quarter of 2019 FDI capital contributions were at \$10.8 which increased by 86.2% since the previous year²⁶⁵. This terrifying figure shows the possibility for the Vietnamese economy to be more vulnerable to foreign capital. As the economic theory says, foreign capital enters and exits the market depending on the investors’ market perceptions and expectations. Thus, the economy of Vietnam is getting more volatile. Given the high dependence on foreign capital, any unexpected situation from outside (like economic crisis) will affect the country “from top to down” in all spheres.

The fact is that foreigners selling their assets and taking the proceeds, for instance, might cause capital inflows to plummet or even become negative. If economic parties discover that their assets are worth far less than their liabilities as a result of any sudden and unexpected change, the country will be pushed into a financial crisis. This condition would result in a

²⁶³Cuong, K. The Chinese claim that Apple has moved the plant to Vietnam [Người Trung Quốc tranh cãi việc Apple chuyển nhà máy sang Việt Nam] / K. Cuong. URL: <https://vnexpress.net/nguoi-trung-quoc-tranh-cai-viec-apple-chuyen-nha-may-sang-viet-nam-4207912.html> (accessed 26.04.2021).

²⁶⁴Nguyen, D. Footwear giants shift outsourcing from China to Vietnam / D. Nguyen. URL: <https://e.vnexpress.net/news/business/footwear-giants-shift-outsourcing-from-china-to-vietnam-3757090.html> (accessed 26.04.2021).

²⁶⁵Do, M. Vietnam’s ten-month FDI capital contributions at \$10.8 billion / M. Do. URL: <https://www.vietnambreakingnews.com/2019/10/vietnam-s-ten-month-fdi-capital-contributions-at-10-8-billion/> (accessed 26.04.2021).

currency crisis in developing nations like Vietnam, whose currency is not quoted on the international market and the government does not have enough funds to pay for imports.

Lack of foreign currency will lead to devaluation of the local currency, which will exacerbate the financial crisis, as the amount of repayment on foreign loans of the country will sharply increase in local currency.

To continue the line of discussion on country's dependence on foreign investors, we would like to illustrate how Covid-19 makes domestic businesses more vulnerable, creating a fertile ground for foreign investors. Rather than spending a lot of time and new registration procedures for direct investment capital in recent years, many foreign investors have "preferred" to invest capital and buy shares in enterprises that makes the access to a market quicker. However, the data for the first 4 months of 2020 recorded deviations from the norm, when the number of mergers and acquisitions in this form increased sharply, especially in the context of the fact that many domestic enterprises ran out of cash flow and "suffered" from the pandemic.

Currently, foreign investors are interested in the manufacturing industry with 822 transactions worth more than USD 1 billion, the wholesale and retail sector, as well as car and motorcycle repairs with more than 1000 transactions worth more than USD 500 million²⁶⁶. The phenomenon of mergers and acquisitions will become more intense in the near future, leading to the risk that potential Vietnamese enterprises could be acquired at low prices that definitely affects the Vietnam's economy.

Fiscal policy is the catalyst for the Covid-19 year of 2020 thanks to low interest rates, concessional loans and stimulus packages for government spending and business support. However, mainly due to too low interest rates, stimulating speculative activity is booming. Moreover, the current easing policy does not really apply to the economy, but only helps large enterprises, small and medium-sized enterprises which still have to face many difficulties. Dr. Quách Mạnh Hào of the University of Lincoln in the UK is also concerned that low interest rates stimulate risky speculation outside of production, increasing so-called asset bubbles²⁶⁷.

According to Nguyen Xuan Thanh, senior economist, member of the Prime Minister's Economic Advisory Group, in 2020, while Vietnam maintains macro stability, both private and foreign direct investment will decline. Consequently, increased exports, foreign and domestic

²⁶⁶ Trang, Q. The risk of Vietnamese businesses being acquired during the pandemic [Nguy cơ doanh nghiệp Việt bị thâu tóm trong đại dịch] / Q. Trang. URL: <https://vnexpress.net/nguy-co-doanh-nghiep-viet-bi-thau-tom-trong-dai-dich-4096855.html> (accessed 26.04.2021).

²⁶⁷ Tuổi Trẻ. In 2021, worry about risks from speculation [Năm 2021, lo rủi ro từ đầu cơ] / Tuổi Trẻ. URL: <https://tuoitre.vn/nam-2021-lo-rui-ro-tu-dau-co-20210112074936539.htm> (accessed 26.04.2021).

investment stimulates consumption - this is the main driving force that will help Vietnam achieve growth of more than 6% in 2021²⁶⁸.

Over the past 10 years, the Vietnamese government has demonstrated expertise in macroeconomic management, stabilizing inflation, building resilience to achieve results, according to Dang Hoang Hai Anh, senior economist at the World Bank²⁶⁹. However, the big challenge in 2021 is still macro management. Despite the fall in interest rates and, as a result, the enrichment of the financial sector, Vietnam forgot about the mechanism for preventing possible risks that may arise in the next 5 years.

No doubts that Vietnam gradually, although attracts a lot of foreign investment, exports and imports increase. The concern is that the more FTAs Vietnam can sign, the more dependent on China it will be, that means the more integration.

Covid-19 has more clearly shown its dependence on the Chinese economy. This is an opportunity or a problem, depending on whether Vietnam can “turn risk into opportunity” or try to attach itself to China because of its dogmatic ideology. With regard to the foreign policy during Covid-19, the Vietnamese government is behaving flexibly in relation to the countries concerned. Along with efforts to prevent and combat the Covid-19 epidemic, Vietnam is cautiously assessing the impact and looking for solutions to support economic growth.

This paradox, which, in our opinion, is very unusual, because when the market is open, relations with many countries should be more open than relations with other countries, but it seems that Vietnam has neglected such a strategy of diversification. Thus, increased dependence on China during the global integration period is worrying.

COVID-19 can be an opportunity if Vietnam is committed to restructuring its economy through a long-term sustainable development policy. Before raising the question of how Vietnam needs and should restructure and reorganize the economy, as well as trade and investment in order to achieve a more balanced and sustainable growth, avoiding excessive and irrational dependence, it should be noted that these changes should be in relation to a specific partner. As you can see from Chapter 2.3, the sectors of the Vietnamese economy are highly dependent on China. Vietnam is still only at the lowest point in the value chain, and every time China has any problems (whether COVID-19 pandemic or any other), Vietnam can face great difficulties. Moreover, in this regard security and defense should also be noted (Chinese ships are still roaming around Vietnam).

²⁶⁸ Ibid.

Vietnam assesses the economic and social impact. In addition to the costs of preventing and controlling the epidemic, economic growth is expected to decline in 2020. Thus, if we raise a question of institutional reforms, we should take into account its slowed nature as the Government prioritizes and is more concerned with short-term counter-policies for economic performance, formally prior to 13th Congress as leadership positions are often rewarded with merit in the current system.

By all means, it is unquestionable that Vietnam will benefit from the U.S.-China trade war in the short term due to the global restructuring of the industrial supply chain and manufacturing transfers. But unlike China, their smaller economies (and thereby, reduced market sizes) bring along risks that are worth more comprehensive and deeper assessment by foreign investors. Rising costs, development bottlenecks, less competitive workforces, weaker supply chain links, and more frequent labor movements may be risks for Vietnam in the coming years — with the end result being that the country ends up facing the same predicaments experienced by China for the past years. Last but not least, it should be noted that in a world where overproduction is rampant and uncontrollable, such a relocation of foreign investment will lead to more unused produced goods around the globe. If an economic crisis breaks out of such a situation, smaller economies like Vietnam will be hit even harder than China.

Let us illustrate this hypothesis with the current COVID-19 crisis. Vietnam's production and demand have been double affected by the COVID-19 pandemic. To begin with, while Vietnam has low labor costs and adequate infrastructure, the supply chain has been exhausted and shattered, which means the necessity to import components and other production materials. The production of automobile parts, electronics, and textile products is stagnant, and Chinese workers are unable to return to work, resulting in hundreds of factories stop working.

On February 27th, 2020, Pham Quy Tho, an expert on public policy from the Ministry of Planning and Investment, telling the BBC's Fifth Round Table about the impact of an acute respiratory infection caused by COVID-19 virus on Vietnam, noticed that Vietnam is highly dependent on imports from China that is 60-70%, or even more. Thus, this dependence on spare parts, electronic parts, and especially vehicles, then a lot of textile parts, textile raw materials, and accessories puts Vietnam in a weak position²⁷⁰.

Many clothing and footwear producers have been hard hit by the coronavirus outbreak,

²⁶⁹ Ibid.

²⁷⁰ BBC News. COVID-19 'accidentally makes Vietnam's economy less dependent on China'? / BBC News. URL: <https://www.bbc.com/vietnamese/vietnam-51666038> (accessed 26.04.2021).

according to Joe Buckley, a specialist in Southeast Asian labor and development issues at SOAS University of London.

“One impact on production is that enterprises are finding it hard to source such materials,” he said. “Some, such as Samsung, are flying in parts to get around the restrictions, but others are simply running out of materials.”²⁷¹

The Covid-19 epidemic has been negatively affecting sectors such as tourism (both domestic and abroad), aviation, textiles, electronics, agriculture and fisheries. The tourism industry in Vietnam is forecast to lose "about 6-7 billion USD" in the next three months as Chinese tourists, who make up about 30% of visitors, drop by 90-100 percent.²⁷² Fresh agricultural exports across the northern border have been clogged, and the 'dragon bread' campaign is being marketed in major cities at rescue locations.

If industry suffers, it would have a negative impact on the energy and raw materials markets, triggering a wider demand downturn. According to the chain reaction, socioeconomic issues such as education are disrupted in addition to declining employment, insurance, finance, and investment.

The other consequence is that demand has fallen significantly. As no one can predict for how long the Corona crisis will last, cash flow has jumped into accumulation. Gold, for example, exploded, reaching as much as 2-3 million VND per volume in some cases²⁷³. Another sphere of concern is real estate. The real estate market was very bad, especially given the inability to sell property, which meant very low demand.

The other point of concern is that the Vietnam's index of industrial production (IIP) increased by 3.8 percent from January to August 2020, reflecting lower foreign demand for Vietnamese goods during the economic crisis; but it is still impressive that Vietnam's industrial output expands²⁷⁴.

Despite the previously mentioned digitalization initiatives, the scientific and business circles in Vietnam indicate that the country's significant potential in the field of digital development has not been realized in the SME sector. It is necessary to take into account the restrictions in the activities of SMEs

²⁷¹ Elmer, K. Vietnam Counts the Economic Cost of COVID-19 Pandemics / K. Elmer. URL: <https://www.mekongeconomies.com/news-opinion/vietnam-counts-the-economic-cost-of-the-covid-19-epidemic> (accessed 26.04.2021).

²⁷² BBC News. Covid-19: 'Vietnam is suffering great economic losses' / BBC News. URL: <https://www.bbc.com/vietnamese/business-51605423> (accessed 26.04.2021).

²⁷³ BBC News. COVID-19 'accidentally makes Vietnam's economy less dependent on China'? URL: <https://www.bbc.com/vietnamese/vietnam-51666038> (accessed 26.04.2021).

²⁷⁴ Branchenreport Vietnam. P. 6.

themselves, which in some cases are not ready to use and introduce such technologies²⁷⁵. Secondly, with regard to high-tech industries or key industries, China will try to introduce policies to keep these businesses alive and can create the conditions for polluting, resource-intensive and low-value-added industries to quickly move to other countries. This will entail negative consequences for the host country.

Among the challenges of the digital economy that is speeded up by the activities amid the trade war are the displacement and change of jobs influenced by automation and AI. According to the ILO, 70% of jobs in Vietnam are at risk of change: in agriculture and forestry, fisheries - 83.3% of jobs, in manufacturing - 74.4%, in food and beverage production - 68%, electronics - 75%, in wholesale, repair of motor vehicles and retail trade - 84.1%, in garments – 85%, service sector - approximately 32%, and hotel and banking - slightly above 40%. The problem of crowding out jobs is especially relevant for a country where the majority of firms are micro and small enterprises that provide self-employment for the population²⁷⁶.

In the next part the author would like to concentrate on the recommendations taking into account the possible scenarios and limitations the country faces amid its development given the trade war. Although the government, a number of ministries and functional sectors are currently expressing their determination so that Vietnam can catch the shift in production from China after Covid-19, the remaining challenge still remains, that is to quickly and immediately translate determination into action.

1) There is a risk of the Government being preoccupied with the issues of the trade war and ways to overcome it and neglecting domestic economic reforms to stabilize the country's 96 million people's living standards. Thus, it is critical for Vietnam to promote macroeconomic stability and export expansion, as well as stabilize the value of the dong. Despite the trade war and other global challenges, Vietnam needs to rely on «internal strength»²⁷⁷ and diversify its trade co-operations with countries outside of the 12 FTAs Vietnam has already signed to increase exports.

²⁷⁵Vietnam Investment Review. Opening Vietnam up to Industry 4.0 / Vietnam Investment Review. URL: <https://www.vir.com.vn/opening-vietnam-up-to-industry-40-67590.html> (accessed 27.04.2021).

²⁷⁶Thanh C. Digitalization spurring on new economic model / C. Thanh. <https://en.nhandan.org.vn/business/item/9682802-digitalisation-spurring-on-new-economic-model.html> (accessed 27.04.2021).

²⁷⁷Tam, N. The Prime Minister replied to Bloomberg: Vietnam will overcome the impact of the US-China trade war [thủ tướng trả lời bloomberg viet-nam se vuot qua anh huong tu chien tranh thuong mai my trung] / N. Tam. URL: <http://ndh.vn/thu-tuong-tra-loibloomberg-viet-nam-se-vuot-qua-anh-huong-tu-chien-tranh-thuong-mai-my-trung20180912105511378p145c151.news> (accessed 27.04.2021).

2) It is recommended to build supporting industry system. Vietnam should have a detailed plan to form supportive industrial complexes and partnerships including small businesses, industrial cluster, or take specific incentives for companies. The current medium-sized supporting industry invests in expanding production.

3) It is necessary to promote the development of the logistics services industry to further reduce the costs of loading and unloading goods, storage, transportation in order to support and create a favorable environment for investors. Administrative procedures should be carried out conveniently, quickly and increase the transparency of the business environment.

4) It is recommended to review all industrial zones:

- Industrial zones should be given priority to expansion, new construction, and industrial parks to be narrowed down or reduced;

- Publish a list of industrial zones with clean land fund and available infrastructure.

- Publicly disclosing information on prices and incentives for foreign investors.

5) Vietnam needs to prepare clean land in industrial and economic zones so that when investors are to leave the factory, they can easily and quickly allocate land for building factories. It is necessary to prepare technical infrastructure, electricity and water especially in industrial and economic zones. In particular, there should be a wastewater treatment and solid waste management project so that investors can immediately use these services.

6) While companies across the globe are clumped because of the epidemic, opening more factories in Vietnam is also difficult to do immediately. Therefore, the easiest thing that Vietnam can welcome is to move orders to production in Vietnam first. Afterwards, it can move factories later.

7) It is recommended to create more open conditions when factories bring existing technologies which are used in another country to Vietnam. In this case, we are applying Circular 23/2015 /TT-BKHCHN regulating the import of used machinery, equipment and technological lines of the Ministry of Science and Technology, accordingly, machine lines.

8) If persistent business efforts are the main driver of Vietnam's economic growth in 2020, institutional reform will be the key to growth by 2021. Vietnam needs to address supporting factors such as improved investment efficiency, economic restructuring, increased

labor productivity, and efficient use of free trade agreements²⁷⁸. Moreover, there is a need of the diversification of supply chains and search for markets in Europe or other countries such as America, Japan, Korea, India.

9) It is necessary to pay more attention to the domestic market, to reduce dependence on the export market as “the world is turning towards growth based on internal purchasing power. Vietnam still has a huge surplus of capital among people” (Dang Hoang Hai Anh)²⁷⁹.

10) We propose to establish a special working group that has received the Prime Minister's authorization to negotiate with corporations and enterprises intending to move investment out of China. It is necessary to soon formulate and announce policies to attract investment capital flows; in which, it is necessary to clearly state the priority sectors and localities (given the possible elimination of unfair competition among localities).

11) When investors relocate manufacturing plants, it will require huge human resources. Consequently, Vietnam needs to prepare abundant human resources, especially high quality human resources, to meet the needs of investors. In the coming time, it is recommended to continue to promote and target Western businesses.

12) There is a need to improve capacity of advisory departments including departments, branches of the province, agencies of the industrial park management board to advise management boards on how to choose investors and investment projects in accordance with the new orientation of the Politburo Resolution No. 50-NQ /TW on attracting foreign investment.

13) It is compulsory to prevent the risk associated with foreign goods, especially Chinese goods disguised as Vietnamese goods by blurring their origin for fraudulent purposes («Made in Vietnam» phenomena). Thus, there is a need of a "filter" to identify the phenomena of such shadow foreign investments. Therefore, in order to control this issue, the most important thing is to improve the appraisal capacity of local governments in selecting, approving, and licensing projects, to avoid attracting such projects which affect businesses and domestic industries.

14) During COVID-19 crisis in particular the government can lower bank interest rates, defer tax payments, then support some of the industries that are suffering the most. At the same time, the government needs to develop policies that will help strengthen investment and

²⁷⁸Tuoi Tre. In 2021, worry about risks from speculation. URL: <https://tuoitre.vn/nam-2021-lo-rui-ro-tu-dau-co-20210112074936539.htm> (accessed 26.04.2021).

domestic resources so they can be more sustainable when economic turmoil occurs in the world, as well as in China (as the country is still dependent on China).

15) In order to be competitive in the global market and become an outstanding country in the Asia-Pacific region, Vietnam needs to transform its agrarian origin into a digital one, that is, the Vietnamese government needs to implement an Industry 4.0 strategy, which includes infrastructure and human resources, as well as e-government services and innovation initiatives. such as the planned e-commerce transformation plan.

16) Further development of the digital economy in the country is associated with policies and measures aimed at lowering prices, increasing the speed and penetration rate of broadband Internet in all regions, which will allow Vietnam to move to the group of “catching up” countries in the GCI rating and increase the return on investment in infrastructure investments.

17) As there is a risk of force competition, it seems necessary for the state to create mechanisms to support local business. This can be achieved through policies to stimulate consumption, develop domestic industries, avoid dependence on foreign supplies of raw materials and create difficulties with breaking some links in the supply chain. It seems possible to establish rules as to which industries and which FDI can be made. Following the example of the Asian countries (Japan, Korea, Taiwan and China), TNCs need to be required to have a local investment partner ("technology transfer requirement") or train local workers ("local contents requirement") and rules should be drawn up defining how much of a joint venture a foreign investor can own. TNCs should be required to transfer their technologies to local joint venture partners ("technology transfer requirement").

Summarizing the conclusions of this sub-chapter, we should notice that Vietnam's economy is heavily dependent on export activity. On the positive side, the country will have the opportunity to expand its market share in the United States following the limitation of Chinese imports. The relocation of investors based in China to Vietnam will also lead to an increase in foreign direct investment. However, the opportunities will not be great, as products exported from China to the United States are not, for the most part, Vietnam's flagship products.

The negative effects will, however, be very significant. For economists, the case is heard: Chinese investments in Vietnam are rarely accompanied by technology transfers and, in addition, sometimes harm the environment. Added to this is the risk of increased trade lawsuits filed by

²⁷⁹ Ibid.

the US side.

Conclusion on Chapter III

Vietnam was one of the few countries in the world to end 2020 with economic growth of 2.9%. The country will remain one of the fastest growing economies in Asia in the medium term, and the trade agreement between the EU and Vietnam, in force since August 2020, has made it even more interesting for European companies as a sales and reference market.

Foreign investors are usually looking for places where they can cut costs (labor costs, training, tax rates ...). Vietnam is seen as a reasonable alternative. The current trend is that investors are leaving China. The trade conflict between major countries has forced international corporations and businesses to relocate their manufacturing facilities to avoid high tax rates. The COVID-19 pandemic has had serious consequences: countries and international corporations have accelerated the process of restructuring investments to avoid dependence on one country and one partner. By the end of 2019, Vietnam's exports showed impressive growth due to the transfer of production of foreign enterprises from China. Thus, the manufacturing sector of Vietnam grew by 9.14% by the end of 2019, according to Bloomberg experts. Another factor in the transfer of production was the possibility of reducing the cost of production by reducing the cost of labor.

The most frequently used strategy is the China Plus One, with foreign firms keeping some supply chains in China, but diversifying operations in other countries, especially those geographically close to China, such as Vietnam, as this proximity makes it easier to transport components, and also an abundant source of cheap labor.

Positive results of the trade war are the following: 1) companies relocate Chinese-based high-margin industrial operations to Vietnam, 2) there is an increase in exports to the US to replace Chinese goods and 3) an increase in export orders of goods transferred from China.

While Vietnam has seen impressive export growth, most of this growth has come from foreign rather than local companies. While Vietnam can hardly be considered the “next China,” thanks to infrastructure investment and trade liberalization, the country has expanded its share of the supply chain and manufacturing. Vietnam's success is an example for other economies, how the tendency to search for alternatives to China in the location of production can improve the economic situation and raise the standard of living in the country.

The increasing demand for goods produced in Vietnam is accompanied by the gradual development of the industrial landscape, which is stimulated by foreign investors and promoted by the Vietnamese government. In order to be competitive in the global market, Vietnam increasingly relies on high-quality equipment, most of which must be imported, as the heavy engineering industry in Vietnam is still underdeveloped.

Particularly good market opportunities can be expected in the furniture industry, as well as in food and textiles. Electronics manufacturing, which is Vietnam's most important export contributor, which is driven by investment from industrial giants such as Samsung, LG, Nokia, Foxconn etc. and Intel, opens up opportunities for hardware and intermediate product vendors. Apart from tech-companies, manufacturers of automobile parts (Mitsuba), footwear and equipment (Asics, Brook Sports, Adidas, Nike, Crocs, Skechers) are also keen to diversify or shift their supply chains.

In the medium term, there are also good opportunities for industrial automation. Other promising business areas are timber trade, fiber production and wood processing. In the construction sector, an increase in interest in timber construction technologies is expected in the medium term.

In addition to liberalizing its trade policy, Vietnam is attracting foreign companies to the country through industrial parks, tax breaks, and infrastructure construction. Meanwhile, Vietnam has a relatively competitive land price. Factories in Vietnam are now moving into the production of labor-intensive, low-value-added goods such as car assembly, furniture and clothing.

Vietnam's aim is to invest in modern technologies, technologies of the future, such as artificial intelligence, robotics, big data, fintech. For this, it is necessary to attract investors from Europe and America.

Negative effects of the trade war are the following: 1) Vietnam goods could suffer high US tariffs due to Chinese goods being rerouted through Vietnam before being exported to the US. 2) Chinese companies boost the process of transferring obsolete machinery and pollution-generating technologies to Vietnam. 3) Fierce competition from US and Chinese consumer goods on both Vietnam's export and domestic market.

Vietnam provides China with an opportunity to bypass trade war obstacles and becomes more dependent on China as a result of the indirect influence of the trade war. At the same time, Vietnam is viewed by the United States as a partner in containing China. Thus, in the course of the trade war, Vietnam is de facto used against the United States.

Conclusion

In the changing global political context, in the face of the change of power in the United States, the new attitudes of China and Russia, the Socialist Republic of Vietnam has formed a new basis for cooperation with world powers in order to strengthen its international status and increase its influence. In addition to focusing on cooperation with neighbors, expanding relations with all countries, especially large and important economic centers, Vietnam plays an important role in ensuring the security of the entire region. It pursues a policy of independence and self-reliance, avoiding the entrance to alliances with one major country against another. Hanoi determined that it was necessary to exercise extreme caution and maintain a "balance of interests." The country has many attractive features: cheap entry costs, stable policies and increasingly liberal trade and investment policies, especially since the conclusion of a free trade agreement with the EU in August 2020. Moreover, prior to the trade war Vietnam has been developing an economic model that relies heavily on foreign direct investment to attract capital from overseas to support its ongoing export-oriented sectors of the economy.

In the short term, Vietnamese economy benefits from the US-China economic confrontation by temporarily increasing exports and foreign investment. This also results in the transfer of production from China to Vietnam. In the long term, the growth in foreign direct investment from China is driven by the tendency of foreign enterprises to move capital abroad given the 25% protective tariff that the US has imposed on Chinese goods and threatened to increase. Relocating some of its production to Vietnam will help mitigate the effects of escalating trade tensions and help maintain production. These measures have attracted in Vietnam such major brands as Samsung Electronics, Nintendo, Hasbro, Adidas, Apple, Foxcon, Yokowo etc. against the backdrop of growing costs for the companies in China.

As a result of the trade war, the US imports less from China. The clear advantage is that Vietnamese exporters now have a valuable chance to compete with China in exporting goods to the United States and have an opportunity to press China as a world factory. Vietnamese export companies have the opportunity to expand their market share, while one of their biggest competitors is being held back by sanctions. It is also a good alarm for companies to enter the US and China markets. The new tariffs are forcing Chinese / American companies to raise their prices, so as a consequence, customers tend to switch to products made in other countries with the same quality but at a more reasonable price. Currently, the most frequently chosen strategy is "China +1" when companies do not completely leave China, but also do not «put all eggs in one basket».

While light manufacturing has dominated Vietnam's economic growth since the Đổi Mới economic reforms implemented in the 1980s, over the last decade the country has been repositioning itself to become a dominant player in the global microelectronics industry, a trend that has gained momentum in the wake of the U.S.-China trade war.

In addition to the positive impact, Vietnam will also suffer from the adverse effects of the US-China trade war. China and the United States are Vietnam's two largest foreign trade partners. Therefore, when two major partners come into conflict, it will have a certain impact on Vietnam's imports and exports, which the country depends on. Limited Chinese exports to the US have led to overcapacity and possibly congestion in the Vietnamese market, putting competitive pressure on Vietnamese businesses. On the other hand, exporting goods from Vietnam to China will be more difficult as China has to focus on domestic consumption. If Vietnam does not strictly control this issue, it is likely that the United States will apply similar sanctions like against China.

The extent of the spillover effect on industry in Vietnam is still an open question. One of these factors is the growth in demand for production and the cost of expanding and modernizing infrastructure to better connect its domestic firms to the global value chain (GVC). Vietnam needs to improve its technology infrastructure in the near future, as well as workforce skills, human resources and support for the development of the industry. In addition, there should be a priority policy for transnational corporations transferring high technologies and initial technologies to Vietnam. Moreover, it is necessary to simplify investment procedures by reducing the time spent on assessment and licensing.

Another challenge is how to attract quality investment, participate more productively in the supply chain, export to other countries, and prevent the use of outdated technologies without compromising the future by neglecting sustainable production and admitting any new plants that pollute the area (especially in textile manufacturing). Another challenge is how to get Vietnam's small and medium-sized enterprises to increase their capacity and join the supply chain of global multinationals.

Thus, the attraction and cooperation of foreign investment will be focused on selectivity, quality, efficiency, technology and environmental protection. Priority is given to projects with advanced and clean technologies, modern management, high added value and the connection to global industries and supply chains. The author concludes that maintaining the reform of the

investment environment and choosing quality investment projects are still important and should not depend on the development of trade tensions between the United States and China.

Summarizing the positive impact of the trade war on the Vietnamese economy, we have come to the following conclusions: first, due to the fact that corporations are moving production to Vietnam (*increase in export orders of goods transferred from China*), withdrawing their capital and supply chains from China, in order to avoid "hard" dependence on the source of raw materials, especially during the aggravation of the trade war between the United States and China in 2019, new jobs are opening up in Vietnam. In addition, the Covid-19 epidemic has accelerated this trend. However, this movement of goods can affect Sino-Vietnamese relations as Vietnam literally grabs jobs. Second, there is an increase in exports to the US to replace Chinese goods that boosts the economic relations between Vietnam and the US. Third, companies invest in technology, build new factories, research centers, which undoubtedly benefits the Vietnamese economy. Thus, the country is one step closer to entering the digital era (Industry 4.0). Fourth, in order to attract investors, the government issues laws to facilitate entry into the Vietnamese market, which is in line with the goals of Vietnam's foreign policy (diversification of production) since the beginning of the Doi Moi period.

Meanwhile, a serious problem that Vietnam had to face as a result of the trade war is the economic fraud of a number of companies. That is, the goods are manufactured in China, imported into Vietnam, marked "Made in Vietnam", and then such goods sent to the consumer in the USA or European countries which leads to a significant loss of funds for the Vietnamese budget. If Vietnam does not strictly control this issue, the US may apply sanctions like those applied to China. The other problem is that although the transfer of Chinese-based production facilities to Vietnam enhances exports and foreign investment in the short term, it also raises the possibility of Vietnam becoming a dustbin for obsolete machinery and having a reputation of the country which does not comply with environmental standards. All in all, although the Government tries to reduce the ways China uses to avoid the consequences of a trade war mentioned above, Vietnam needs to react faster in tackling this issues in order to escape the stigma and maintain good relations with the US. Thus, new opportunities for Vietnam pose new challenges to the country's economy.

In the long term, assuming that the US-China trade war may lead to a decline in global GDP growth and provided that the policy is not flexible, Vietnam may fall into a decline in economic growth. Vietnam's lack of decisiveness and determination will cause it to lose out on

short-term gains and be severely harmed by negative external shocks brought on by trade tensions. Vietnam will be able to withstand potential external issues due to a gradual structural transition aimed at achieving a real open economy and making smarter public investments. This is especially significant in the midst of a long-running global trade war.

In a nutshell, we believe that the trade war's impact on Vietnam will be more positive than negative in the short term, but in the long term higher US tariffs, environmental issues, and slowing development will overshadow the short-term gains.

The practice of balancing relations with major powers does not mean building equal relations with all major countries or pursuing a policy of neutrality. Rather, it implies no influence or manipulation of Vietnam by any large country. To be able to balance between them, the SRV demonstrates the spirit of independence and self-sufficiency based on the advancement of national interests to the fore.

Vietnam's success is an example for other economies, how the tendency to search for alternatives to China in the location of production can improve the economic situation and raise the standard of living in the country.

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APPENDICES

APPENDIX 1

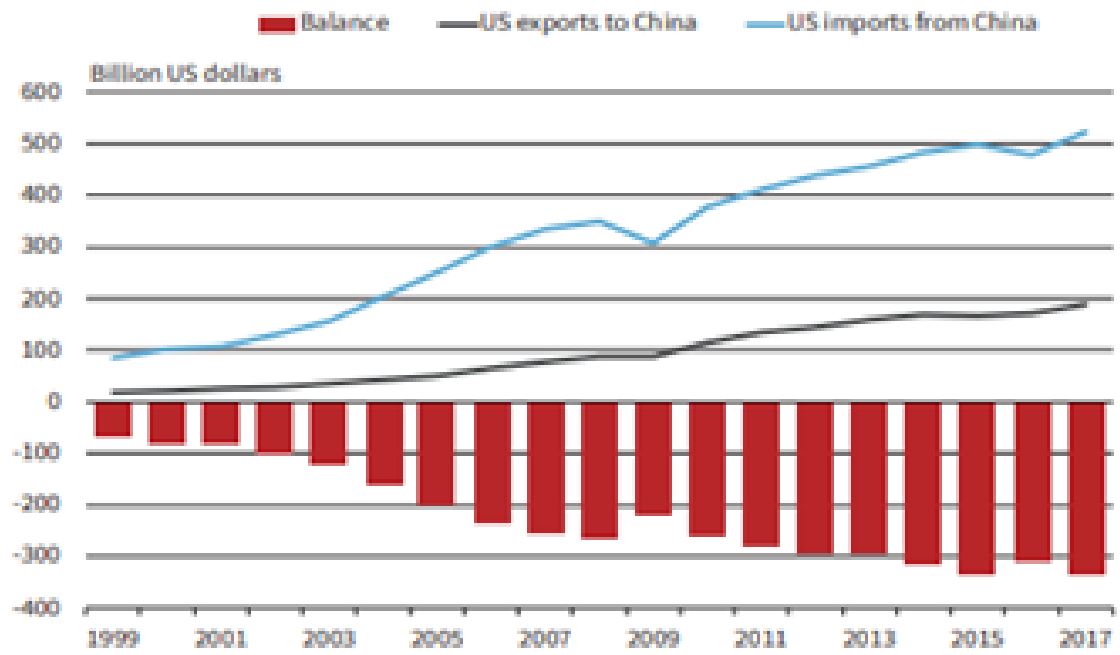


Figure 1. US-China trade in goods and services. 1999-2017

Source: Bureau of Economic Analysis.

APPENDIX 2

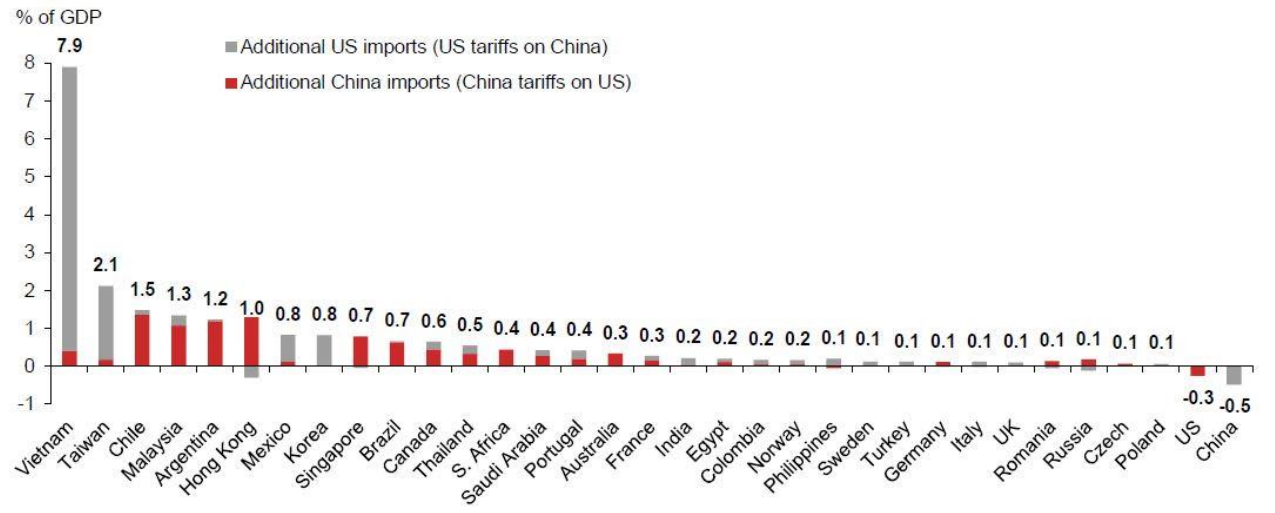


Figure 2. *The beneficiaries of the trade war and their estimated gains*

Note: the chart shows the countries which benefit by more than or equal to 0.1% of GDP.

Source: US Census Bureau, China General Administration of Customs and Nomura.

APPENDIX 3

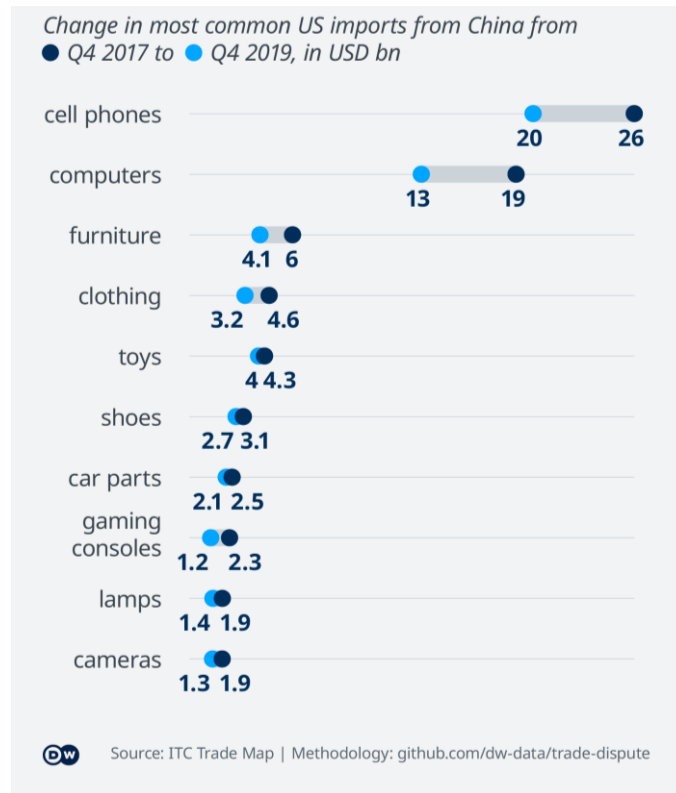


Figure 3. Influence of the trade dispute on the US' biggest Chinese imports

Source: ITC Trade Map. Deutsche Welle.

APPENDIX 4

Vietnam is the success story of the past 25 years

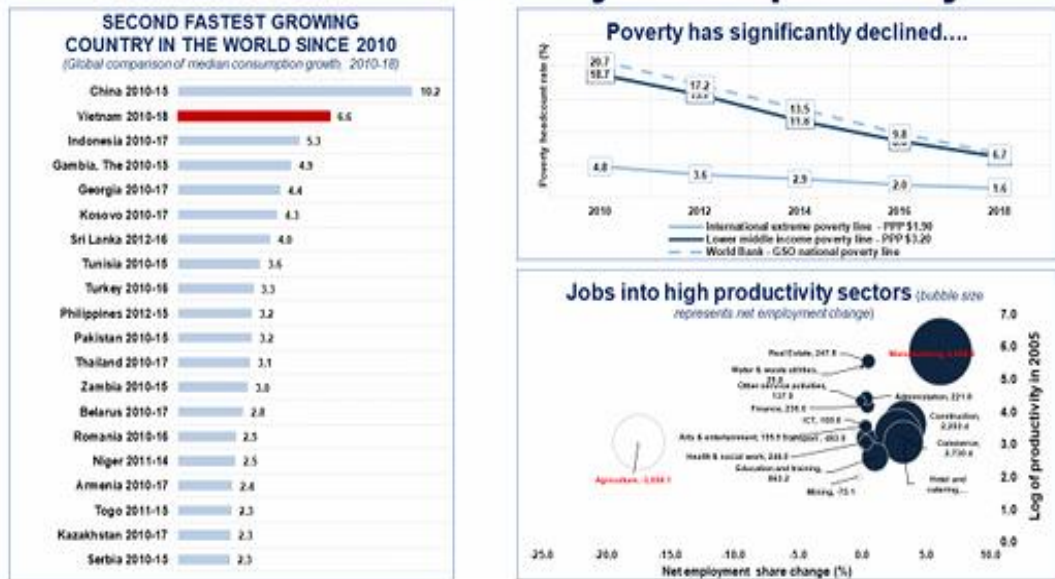


Figure 4. Vietnam stability for the past 25 years

Source: VinaPlace South Vietnam Ltd.

APPENDIX 5

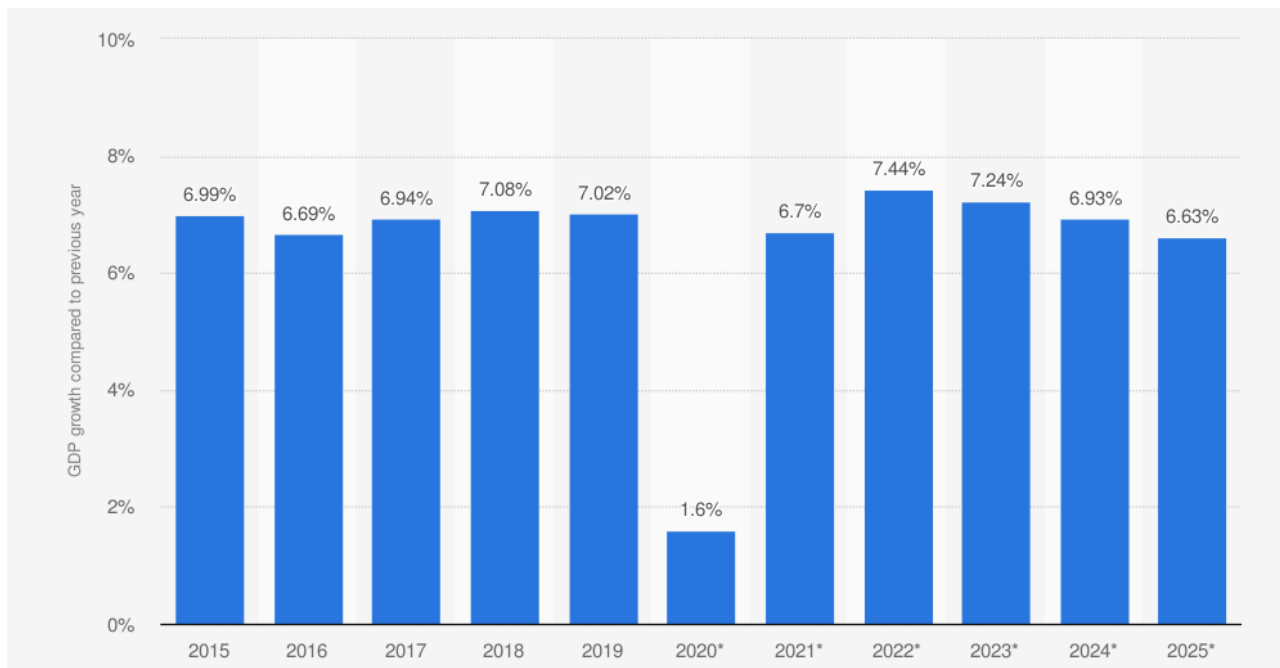


Figure 5. Vietnam: The dynamics of real gross domestic product (GDP) from 2015 to 2025 (compared to the previous year) in Vietnam

Source: IMF. Statista 2021.

APPENDIX 6

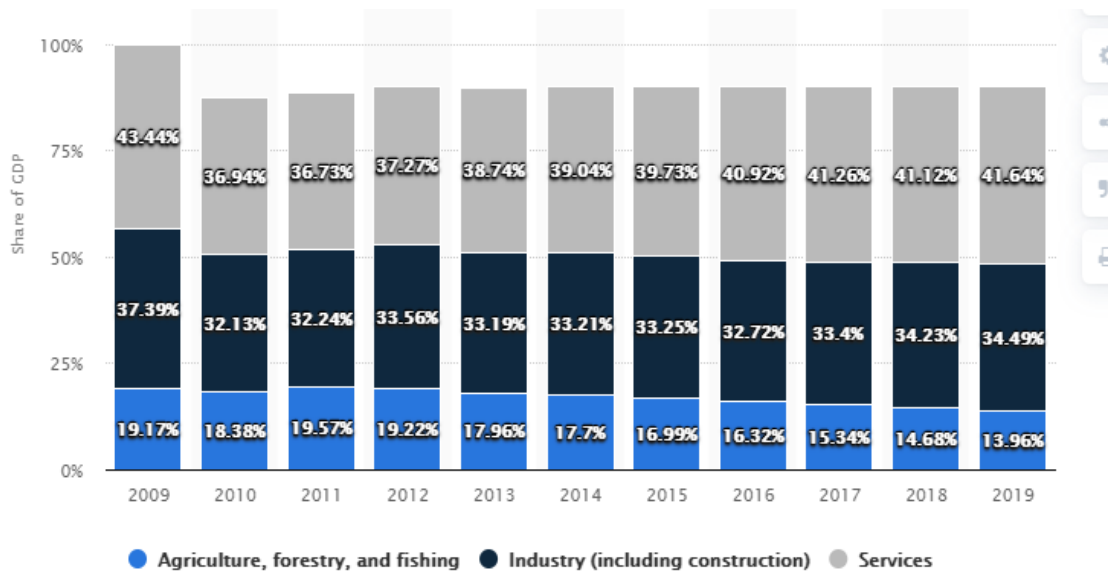


Figure 6. Structure of the gross domestic product in Vietnam

Source: Statista 2021.

APPENDIX 7

| 264.6 bn USD of products exported in 2019 | | 253.4 bn USD of products imported in 2019 | |
|--|-------|---|-------|
| Electrical apparatus for line telephony or line... | 21.3% | Electronic integrated circuits and microassemblies | 12.1% |
| Electronic integrated circuits and microassemblies | 4.4% | Electrical apparatus for line telephony or line... | 6.3% |
| Footwear with outer soles of rubber, plastics,... | 3.5% | Petroleum oils and oils obtained from bituminous... | 2.5% |
| Footwear with outer soles of rubber, plastics,... | 2.1% | Diodes, transistors and similar semiconductor... | 1.8% |
| Furniture and parts thereof, n.e.s. (excl. seats... | 2.1% | Petroleum oils and oils obtained from bituminous... | 1.5% |
| Insulated incl. enamelled or anodised wire, cable... | 1.8% | Flat-rolled products of iron or non-alloy steel,... | 1.4% |
| Automatic data processing machines and units... | 1.5% | Printed circuits | 1.4% |
| Jerseys, pullovers, cardigans, waistcoats and... | 1.5% | Coal; briquettes, ovoids and similar solid fuels... | 1.4% |

Table 1. Vietnam's export/import trends of 2019

Note: because of rounding, the sum of the percentages may be smaller/greater than 100%.

Source: Comtrade, 2020.

APPENDIX 8

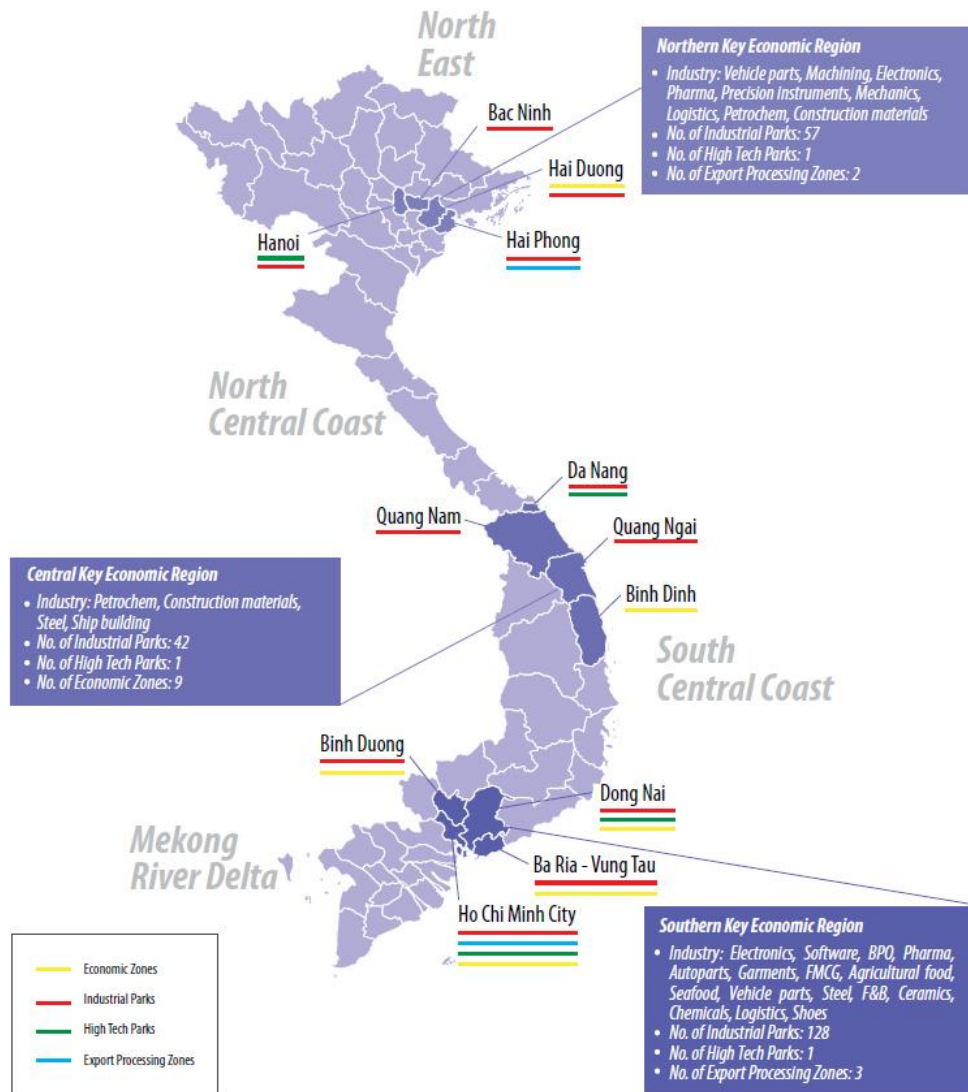


Figure 7. Map of Economic Regions of Vietnam

Source: Dezan Shira & Associates. Vietnam Briefing.

APPENDIX 9

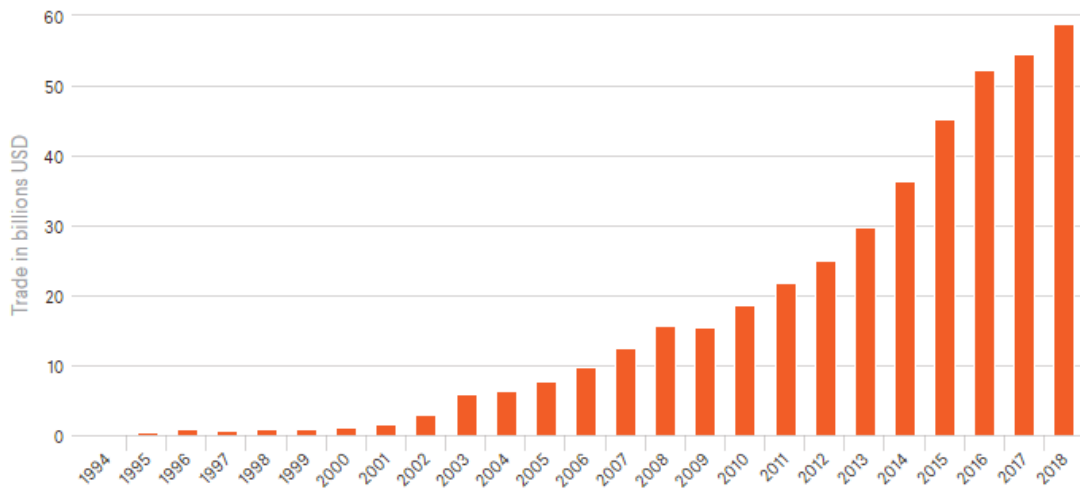


Figure 8. US-Vietnam Trade in Goods, 1994-2018

Source: U.S. Census Bureau, Foreign Trade.

APPENDIX 10

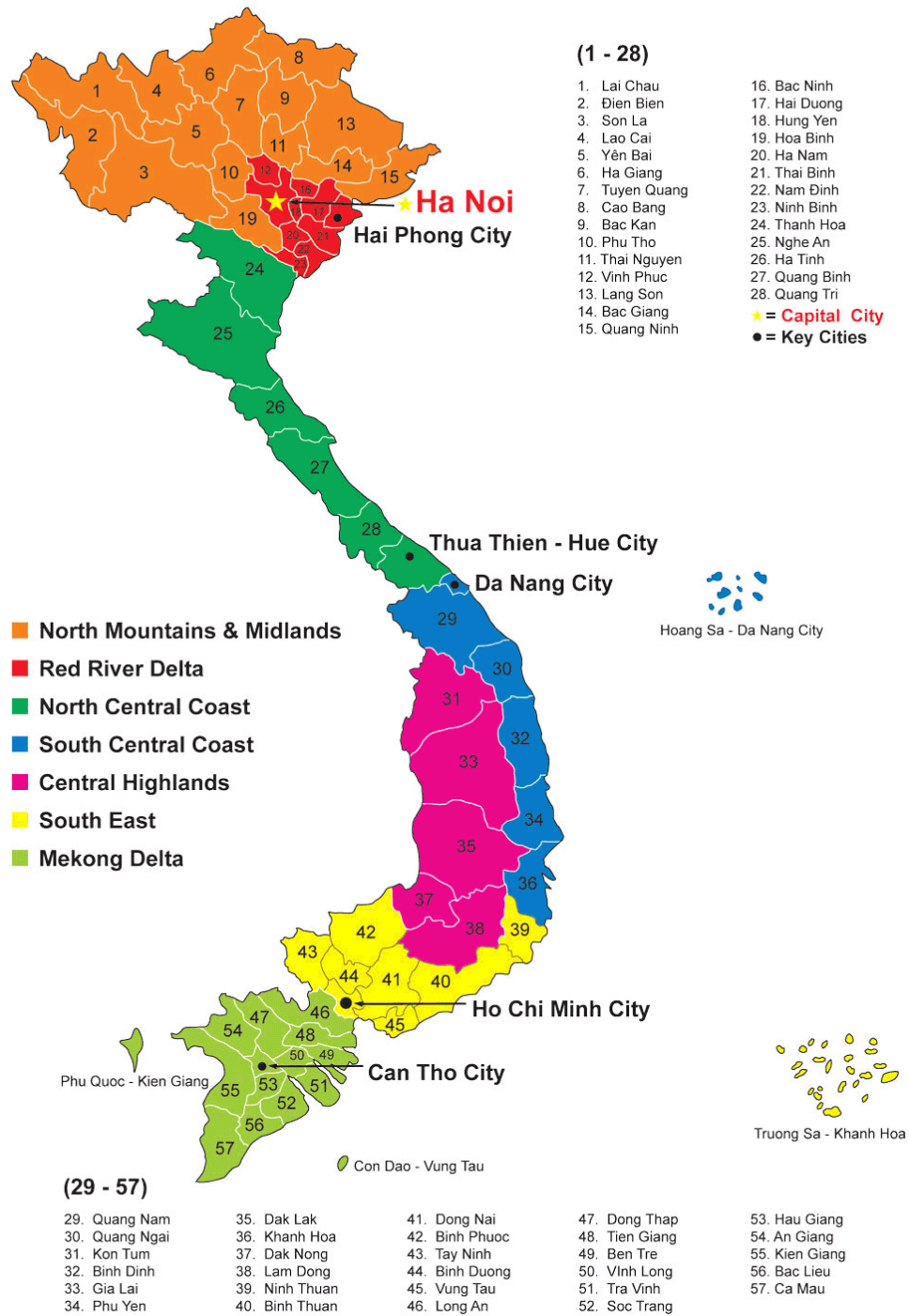


Figure 9. The regional map of Vietnam

Source: Amotravel.com.

APPENDIX 11

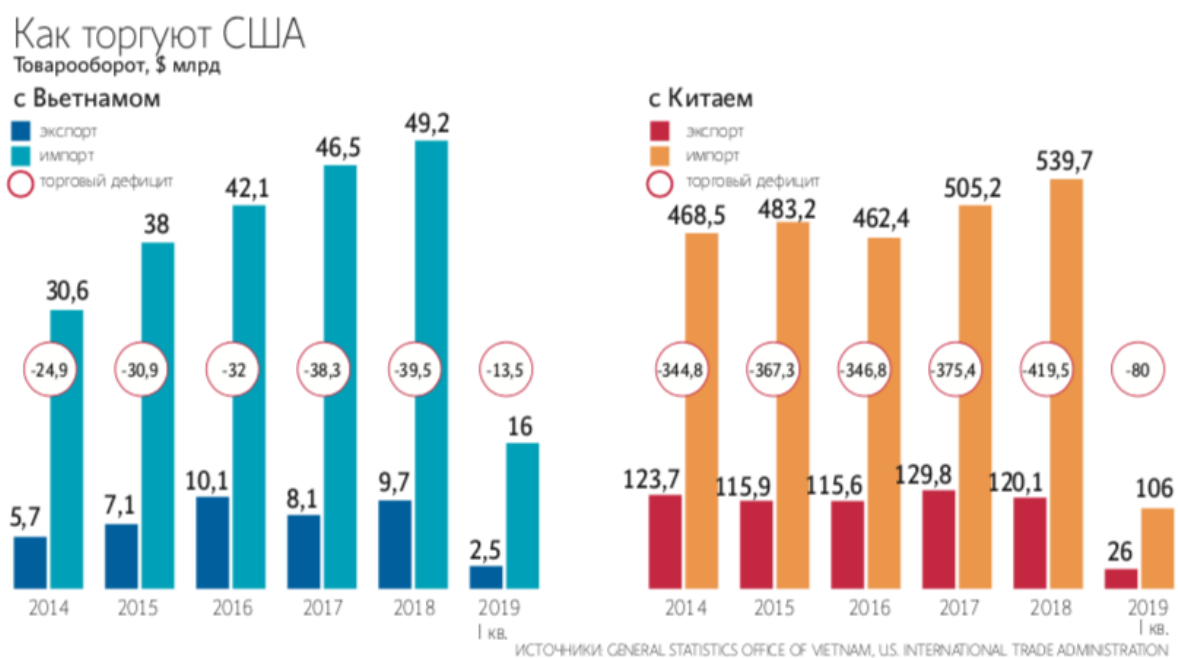


Figure 10. US Trade relations with Vietnam and China

Source: General Statistics Office of Vietnam, US International Trade Administration.

APPENDIX 12



Figure 11. Vietnam goods international trade. Import

Note: Trade flow: Import

Products and product groups: all goods

Indicator: Change in value, y/y (%)

Source: Trendeconomy.com.

APPENDIX 13

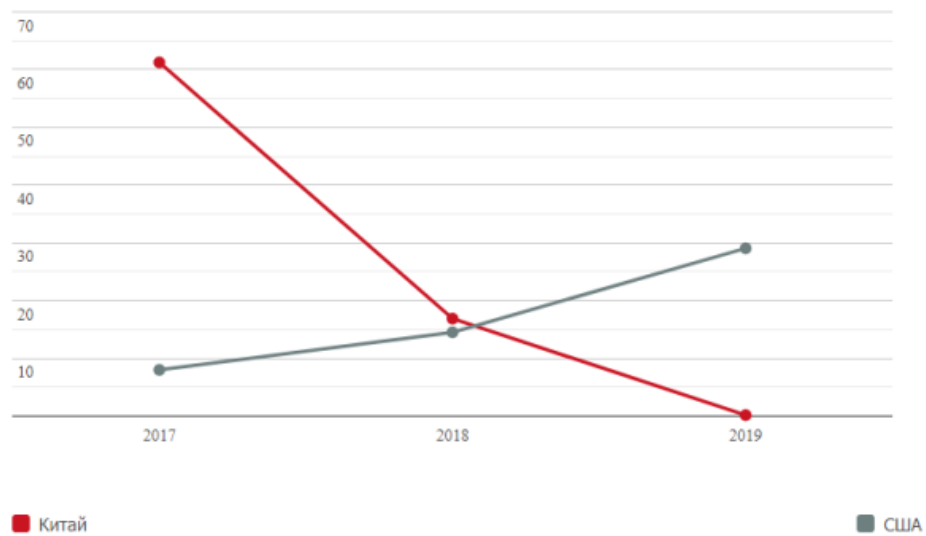


Figure 12. Vietnam goods international trade. Export

Note: Trade flow: Export

Products and product groups: all goods

Indicator: Change in value, y/y (%)

Source: Trendeconomy.com.

APPENDIX 14



Figure 13. FDI in Vietnam for the first five months of 2019

Source: infographics.vn.

APPENDIX 15

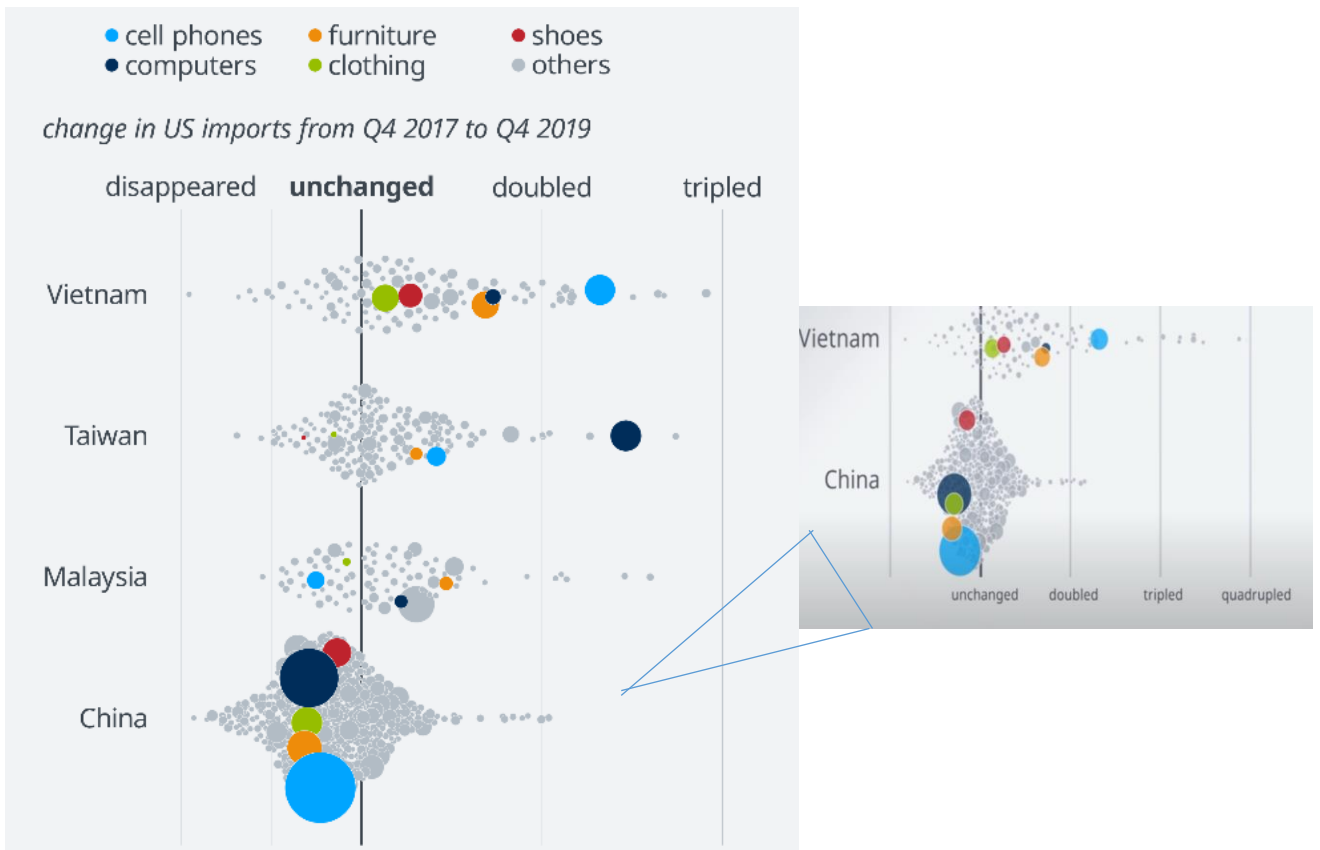


Figure 14. Exports from Vietnam from Q4 2017 to Q4 2019.

Note: bubble size by import volume in USD

Source: ITC Trade Map. Deutsche Welle.

APPENDIX 16 (part I)

Table 2: Companies Shifting Production out of China to Vietnam

| Company | Origin | Planned Shift | Industry |
|-------------------------------|-------------|--------------------------------|--------------------------------------|
| Asics | Japan | Vietnam | Footwear |
| Brook Sports | US | Vietnam | Footwear |
| Adidas | Germany | Vietnam/Indonesia/Bamgladesh | Footwear |
| Nike | US | Vietnam | Footwear |
| Crocs | US | Vietnam | Footwear |
| Berkshire Hathaway Inc. | US | Vietnam | *Footwear |
| Skechers | US | India/Vietnam | Footwear |
| Lovesac Co. | US | Vietnam | Furniture |
| Wanek Furniture | China | Vietnam | Furniture |
| Man Wah | China | Vietnam | Furniture (upholstery manufacturing) |
| Zhejiang Hailide New Material | PCR | Vietnam | Polyester |
| Apple | US | India/Vietnam | Electronics |
| Delta Electronics | Taiwan | <u>India/Vietnam</u> | Electronics (Apple supplier) |
| Foxconn | Taiwan | India/Vietnam | Electronics (Apple supplier) |
| Google | US | <u>Vietnam/Taiwan/Malaysia</u> | Electronics (Nest, Pixel) |
| Samsung | South Korea | Vietnam | Electronics |
| TCL | China | Vietnam | Electronics (TVs) |
| Wistron | Taiwan | India/Vietnam/Mexico | Electronics (Apple supplier) |
| Pegatron | Taiwan | India/Vietnam | Telecom equipment (Apple supplier) |
| KMW | South Korea | Vietnam | Telecom equipment |
| Ace Technologies | South Korea | Vietnam | Telecom equipment |
| Ericsson | Finland | Vietnam | Telecom equipment |
| Nokia | Finland | Vietnam | Telecom equipment |

APPENDIX 16 (part II)

Table 2: Companies Shifting Production out of China to Vietnam

| | | | |
|---------------------------------|-------|----------------------------|--------------------------------------|
| Goertrek | China | Vietnam | Acoustic Components (Apple Supplier) |
| Sharp | Japan | Vietnam | PCs |
| Dell | US | Taiwan/Vietnam/Philippines | PCs |
| Olympus | Japan | Vietnam | Cameras |
| Nintendo | Japan | Vietnam | Gaming consoles |
| Mitsuba | Japan | Vietnam | Auto parts |
| Kyocera Document Solutions Inc. | Japan | Vietnam | Printers |
| Yokowo | Japan | Vietnam | Automotive antenna components |
| Hasbro | US | Vietnam/India/Mexico | Toys |

Note: all data are collected by the author

APPENDIX 17

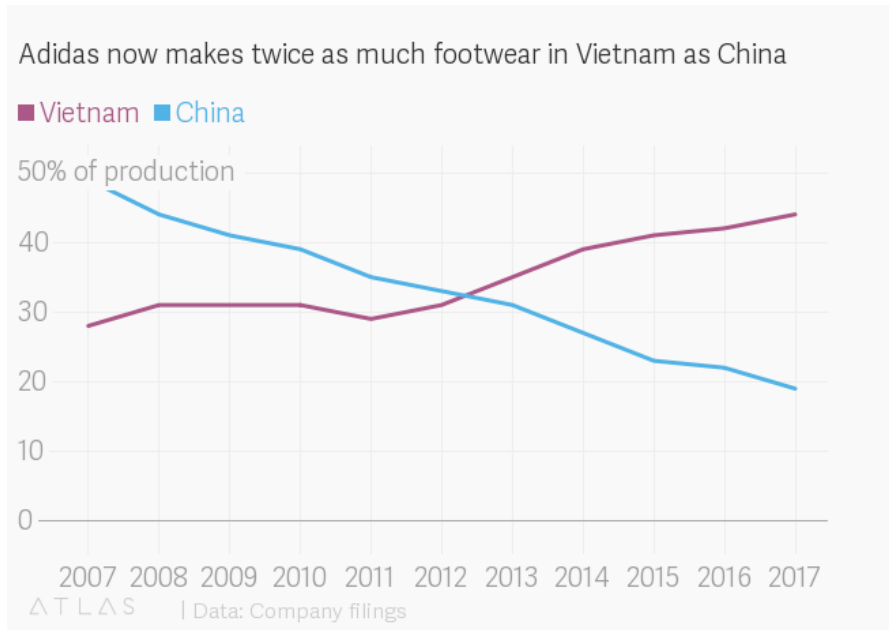


Figure 15. Production of Adidas shoes from 2007 to 2017

Source: ATLAS

APPENDIX 18

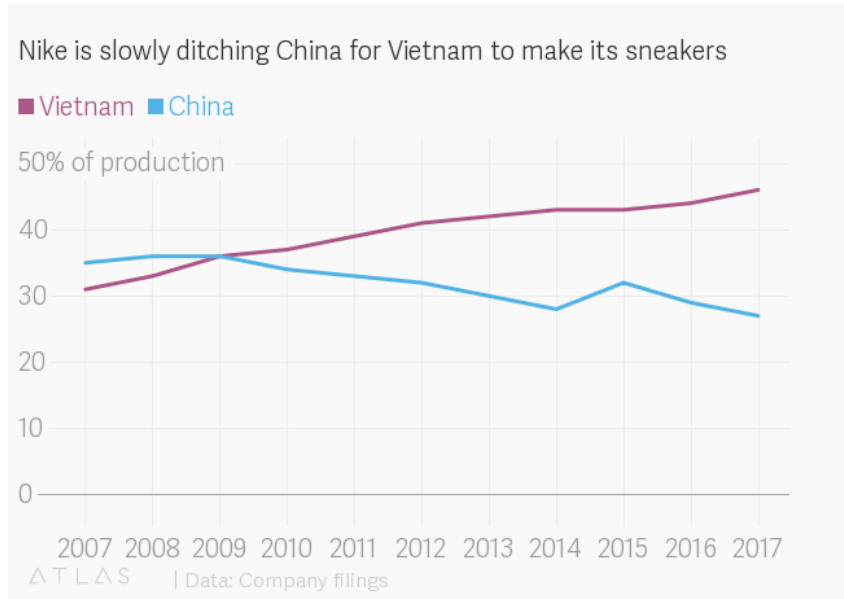


Figure 16. Nike shoe production from 2007 to 2017

Source: ATLAS

APPENDIX 19

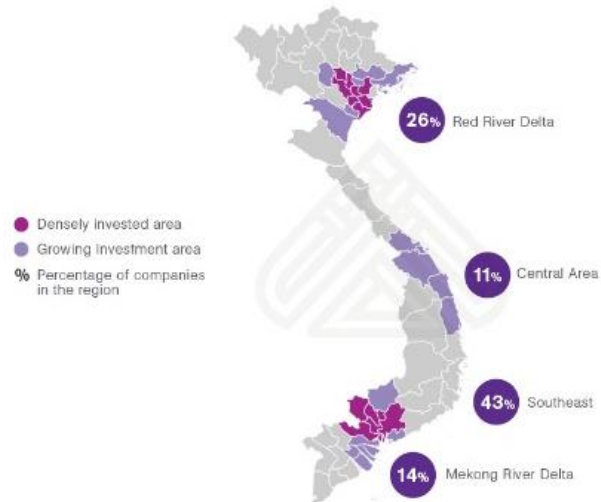


Figure 17. FDI in garments and textile clusters in Vietnam

Source: Graphic Asia Briefing Ltd.

APPENDIX 20

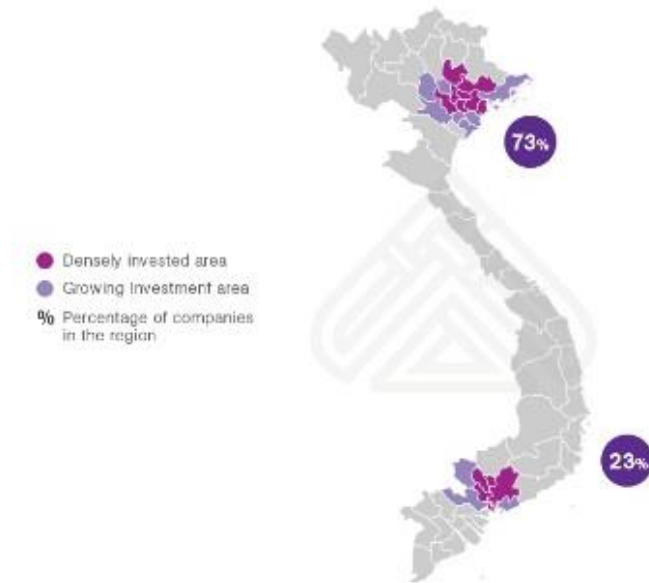


Figure 18. FDI in electronic clusters in Vietnam

Source: Graphic Asia Briefing Ltd.

APPENDIX 21

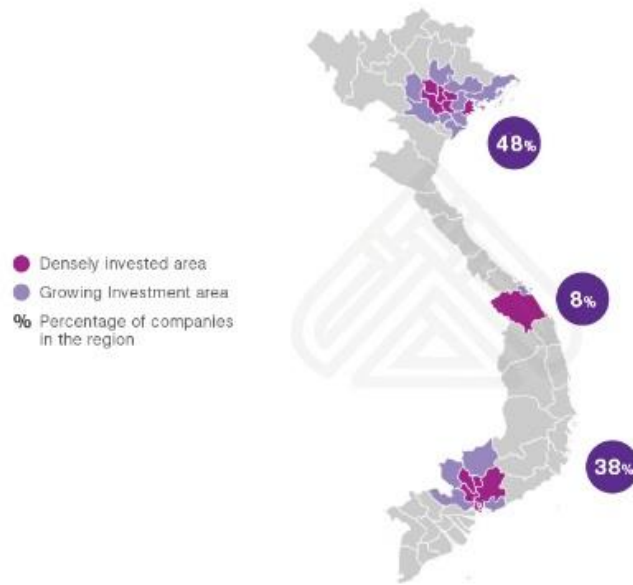


Figure 19. FDI in automotive clusters in Vietnam

Source: Graphic Asia Briefing Ltd.

APPENDIX 22

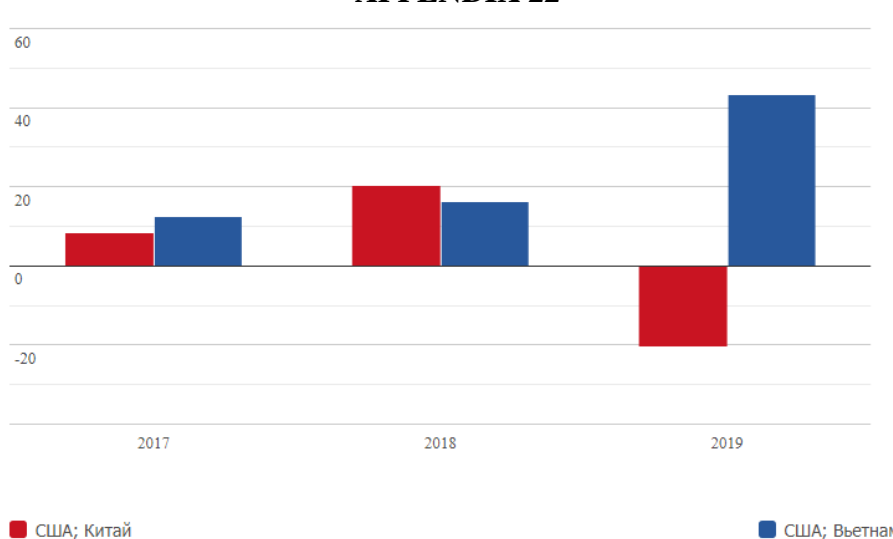


Figure 20. US import of land transport from Vietnam and China. 2017-2019

Note: railway or tram rolling stock, and their parts and accessories are not included

Source: Trendeconomy.com.

APPENDIX 23

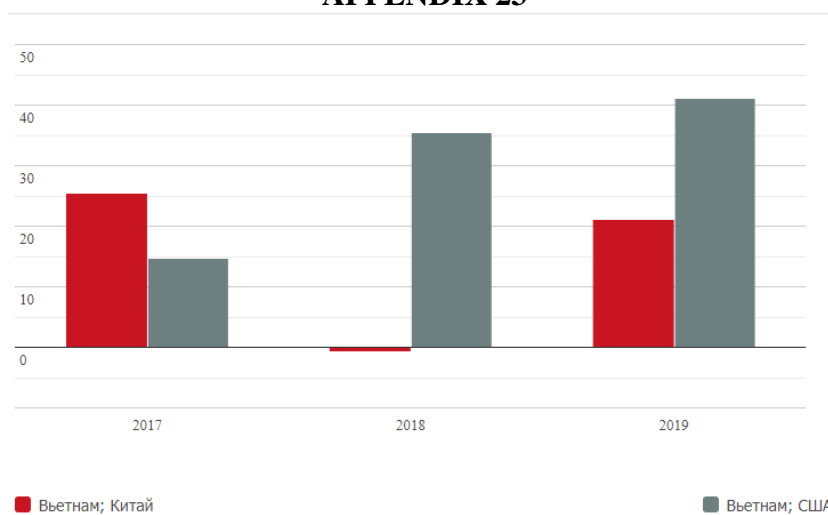


Figure 21. Vietnam export of land transport to the US and China. 2017-2019

Note: railway or tram rolling stock, and their parts and accessories are not included

Source: Trendeconomy.com.

APPENDIX 24

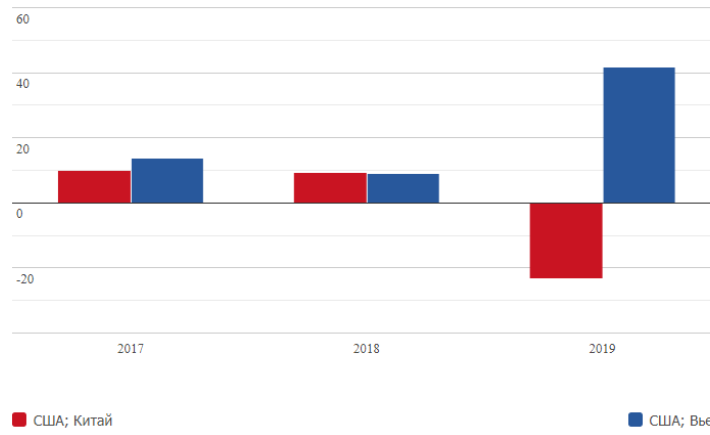


Figure 22. US import of furniture from Vietnam and China. 2017-2019

Source: Trendeconomy.com.

APPENDIX 25

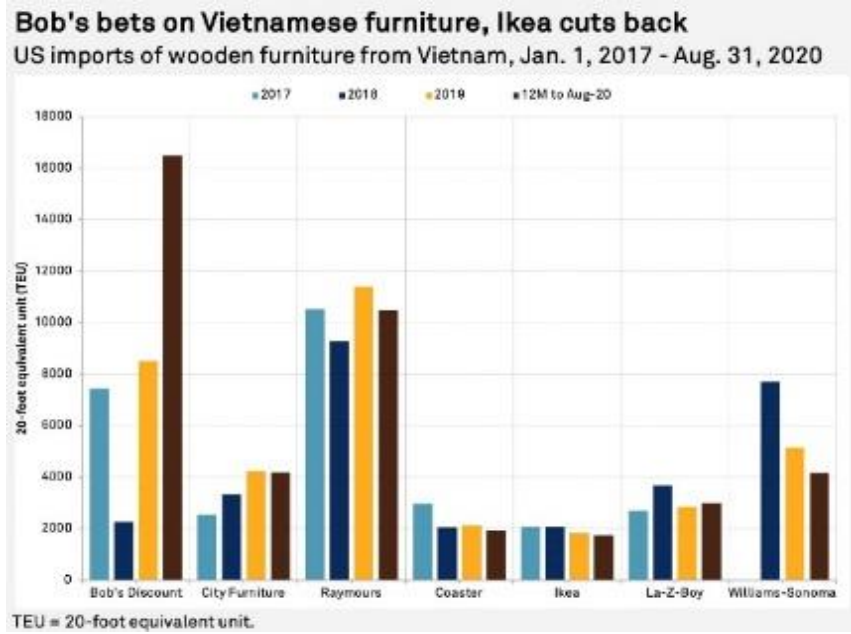


Figure 23. US import of wooden furniture from Vietnam, Jan.1, 2017 – Aug.31, 2020

Source: Panjiva

APPENDIX 26

Products Affected / Intel Ordering Codes:

| Marketing Name | Product Code | S-Spec | MM# |
|---|--------------|--------|--------|
| Intel® DH82Q87 Platform Controller Hub | DH82Q87 | S R173 | 929132 |
| Intel® DH82H81 Platform Controller Hub | DH82H81 | S R177 | 929137 |
| Intel® DH82C226 Platform Controller Hub | DH82C226 | S R179 | 929139 |
| Intel® DH82QM87 Platform Controller Hub | DH82QM87 | S R17C | 929149 |
| Intel® DH82HM86 Platform Controller Hub | DH82HM86 | S R17E | 929152 |
| Intel® DH82Q87 Platform Controller Hub | DH82Q87 | S R19E | 929899 |

Figure 24. Intel. Products affected by the refocus of the production. 2019

Source: Intel



Product Change Notification

Change Notification #: 116936 - 00
Change Title: Intel® Platform Controller Hub: DH82Q87, DH82H81, DH82C226, DH82QM87, DH82HM86, DH82Q87, PCN 116936-00, Manufacturing Site, Label, Notification to Customers for Addition of Vietnam as a Factory Assembly site again
Date of Publication: May 15, 2019

Key Characteristics of the Change:
 Manufacturing Site, Label

Forecasted Key Milestones:

| | |
|---|---------------|
| Date Customer Must be Ready to Receive Post-Conversion Material: | June 14, 2019 |
|---|---------------|

Description of Change to the Customer:

In order to ensure a continuous supply of the Intel® Platform Hubs listed in the "Products Affected" Table below, Intel will be recertifying Vietnam as a qualified site to perform portions of Assembly Manufacturing process. The VNAT site was once qualified to manufacturing the products herein. However, VNAT stopped manufacturing them at some point and China had become the sole manufacturing Assembly/Test/Finish site. The Assembly process will now be completed between Vietnam and China, with the Test and Finish Manufacturing process to remain the same as today in China for these products.

Figure 25. Intel. Product Change Notification. 2019

Source: Intel

APPENDIX 28

| | | |
|---|--|---|
| <small>(CP) CUST PROD:</small> | | <small>(LB) BOM:</small> RLX00037 |
| <small>(V) SUPPLIER:</small> 04195 | INTEL | <small>MAX REFLOW 260 °C</small> <small>TEMP</small> <small>LEVEL 3 HOURS 168</small> <small>BAG SEAL DATE 03JUN14</small> |
| <small>(IP) IPN:</small> INTEL PRODUCT NAMEXX | | |
| <small>(S) SPEC:</small> S 1234 | <small>(3BP) MFR:</small> 123456 | |
| <small>(LT) LOT:</small> FPO NUMBER | <small>(Q) QTY:</small> 12345 <small>(SD) DATE:</small> YYWW | |
| <small>(LT) LOT:</small> | <small>(Q) QTY:</small> | <small>(SD) DATE:</small> |
| <small>RoHS COMPLIANT, e1</small> | | |

ASSEMBLED IN VIETNAM

| | | |
|---|--|---|
| <small>(CP) CUST PROD:</small> | | <small>(LB) BOM:</small> RLX00036 |
| <small>(V) SUPPLIER:</small> 04195 | INTEL | <small>MAX REFLOW 260 °C</small> <small>TEMP</small> <small>LEVEL 3 HOURS 168</small> <small>BAG SEAL DATE 03JUN14</small> |
| <small>(IP) IPN:</small> INTEL PRODUCT NAMEXX | | |
| <small>(S) SPEC:</small> S 1234 | <small>(3BP) MFR:</small> 123456 | |
| <small>(LT) LOT:</small> FPO NUMBER | <small>(Q) QTY:</small> 12345 <small>(SD) DATE:</small> YYWW | |
| <small>(LT) LOT:</small> | <small>(Q) QTY:</small> | <small>(SD) DATE:</small> |
| <small>RoHS COMPLIANT, e1</small> | | |

ASSEMBLED IN CHINA

Figure 26. Intel. Product Change Regulation. 2019

Source: Intel

APPENDIX 29

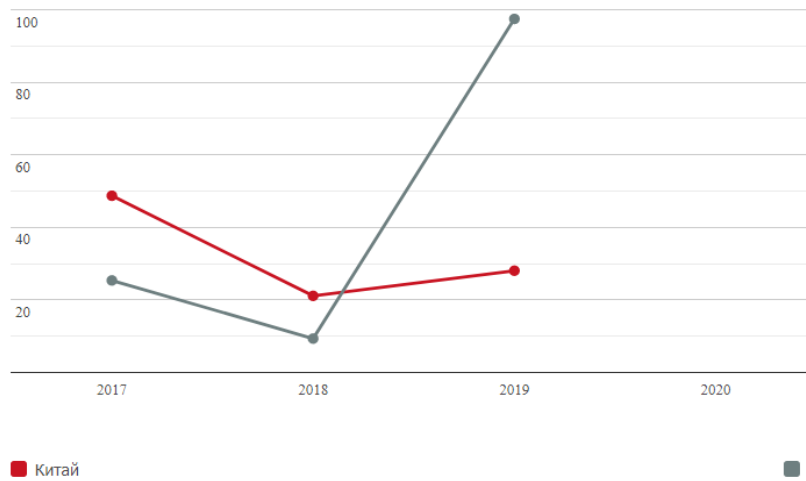


Figure 27. Vietnam's export of toys, games and sports equipment. 2017-2019

Source: Trandeconomy.com

APPENDIX 30



Figure 28. Made in Vietnam: Application of Draft Regulations

Source: Graphic Asia Briefing Ltd.

APPENDIX 31

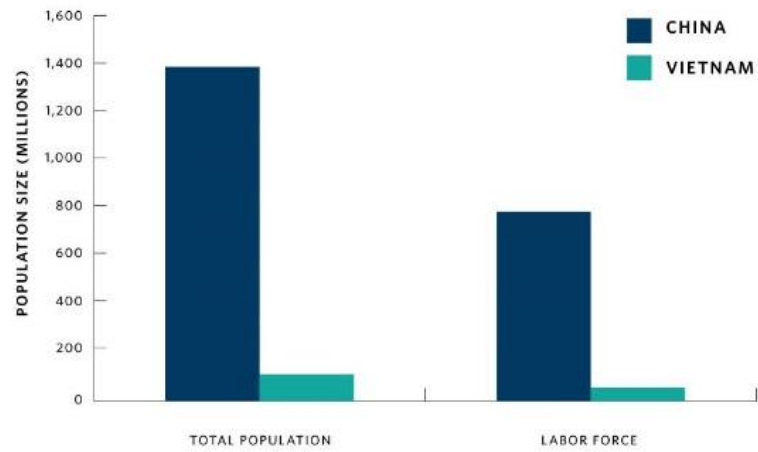


Figure 29. Size of Vietnam's Population and Labor Force compared to China's

Source: «Population, total», World Bank Group; «Labor Force, total» World Bank Group, the data from the International Labor Organization

APPENDIX 32

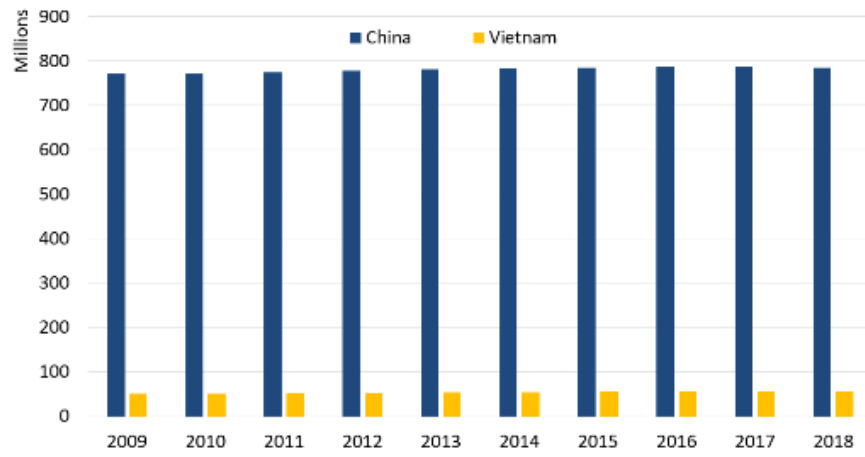


Figure 30. Labor Force Comparison (Vietnam and China)

Source: World Bank, International Labor Organization.

APPENDIX 33

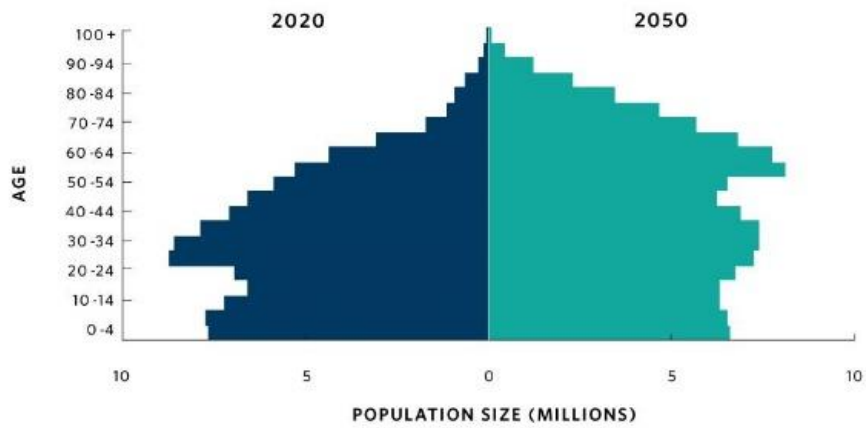
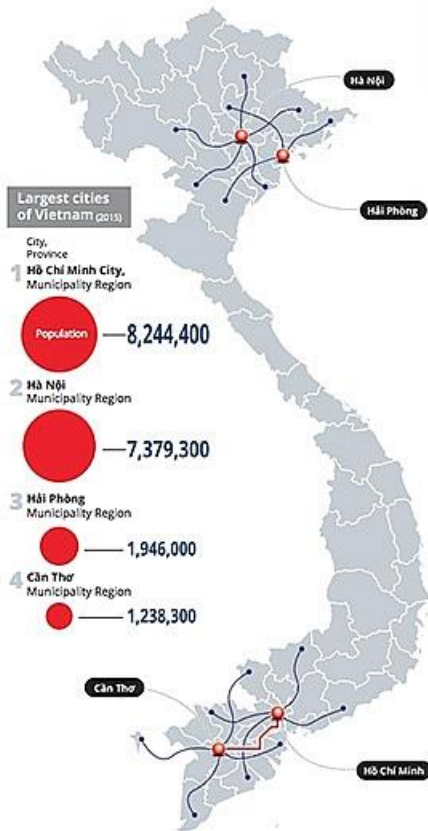


Figure 31. Vietnam's Population and Projection by Age Group

Source: «World Population Prospects 2019», United Nations Department of Economic and Social Affairs: Population / Dynamics

APPENDIX 34

A growing local business - only servicing the major hubs



A growing local business servicing all regions

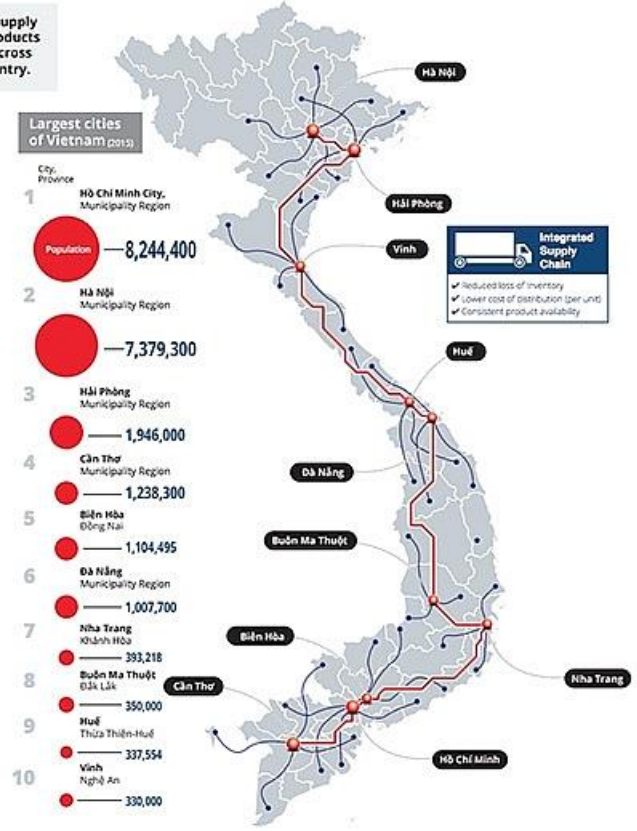


Figure 32. National Integrated Supply Chain Map of Vietnam

Source: Vietnamnet.vn.

APPENDIX 35



Figure 33. Import market shares of current trade dispute beneficiaries

Note: Countries in Southeast Asia which gained during the pandemic

Source: ITC Trade Map. Deutsche Welle.

APPENDIX 36

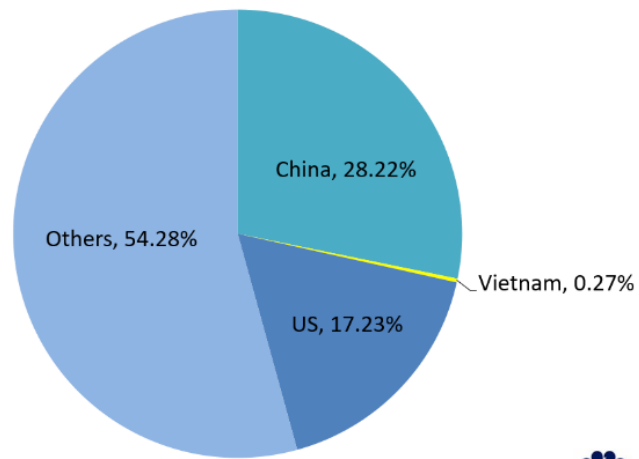


Figure 34. Share of global manufacturing output. 2017

Source: World Bank, OECD, CNBC

APPENDIX 37

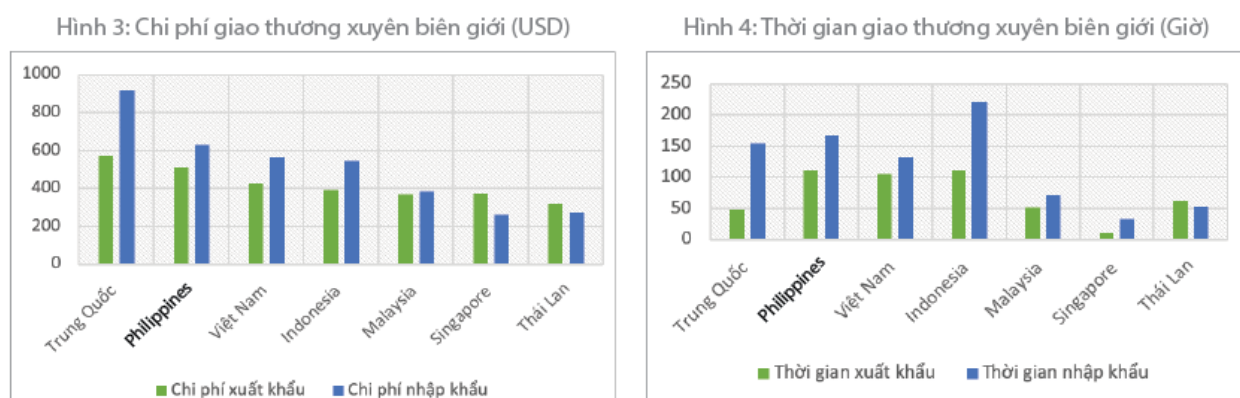


Figure 35. Cost of cross-border trade (USD) and regular time to trade across borders (Hours)

Source: World Bank.