

U.S.-China Economic Decoupling: Vietnam's Role and Responses

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Abstract

The trend of U.S.-China economic decoupling is growing in popularity as the strategic competition between Washington and Beijing intensifies. The breakup is largely driven by U.S.-China trade war and Covid-19 pandemic, which have brought about some changes to global supply chains, trade and investment activities amongst countries so far. Vietnam, an emerging player in the regional economic structure, has encountered both opportunities and challenges in the face of such an economic breakup. This article is thus dedicated to shedding light on the current economic decoupling between the US and China, and conceptualizing Vietnam's actions in response to this trend. I argue that although Vietnam has adopted a variety of pro-America economic policies in the last few years, it does not mean Hanoi is siding entirely with Washington at the expense of Beijing during the decoupling process. Rather, it still has to operate cautiously in order to maintain balanced economic relations with both the US and China. This article starts with a brief introduction of the U.S.-China rivalry and its subsequent economic decoupling. Next, I will elaborate on Vietnam's specific role and practical responses.

Keywords: Covid-19 Pandemic, Economic Decoupling, Trade War, Vietnam, U.S.-China Rivalry

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U.S.-China Rivalry: From Trump to Biden

Along with China's rising capabilities, there have been widespread debates in the United States (US) that China will eventually surpass the US and replace its position in the Indo-Pacific region. China is alleged to have rigorously translated its economic capability into military power in an attempt to weaken the U.S. hegemony and to bid for the superpower status.¹ Against this backdrop, power transition theory casts a rather pessimistic prediction about an unavoidable war between these two major powers in the future.

In reality, U.S.-China strategic competition for influence has been intensifying over the last few years. Both show high determination in protecting their vital interests. While the US is working at full stretch to prevent China from replacing its regional position, China has not overtly yielded to pressure from the US and its allies. On the one hand, China uses its own growing economic and military capabilities to deter coercion and threats from the US; on the other hand, Beijing has resorted to a variety of incentive and coercive economic tools to wedge into relations between Washington and its allies and partners, especially those with excessive trade dependence on China.

During the Obama administration, extensive debates emerged as many America's China experts and pundits appealed to an abandonment of engagement policy toward China. Under the Trump administration, adopting a stronger stance toward China was gradually endorsed by both Republicans and Democrats. In many U.S. official and unofficial reports, China was repeatedly depicted as a "strategic competitor" or "status quo challenger." The *2017 National Security Strategy* report read, "China

¹ Bonny Lin, et al, *Regional Responses to U.S.-China Competition in the Indo-Pacific* (Washington, D.C.: RAND Corporation, 2020).

seeks to displace the United States in the Indo-Pacific region, expand the reaches of its state-driven economic model, and reorder the region in its favor.”² The *2018 National Defense Strategy* repeated, “China is a strategic competitor using predatory economics to intimidate its neighbors while militarizing features in the South China Sea (SCS).”³ The former U.S. Secretary of State Mike Pompeo in July 2020 even straightforwardly admitted the failure of the U.S. “blind engagement” with China during the last decades.⁴ Simply put, U.S.-China relations in the Trump era seemed to pass the point of no return, which were characterized by U.S.-China trade war, Covid-19 pandemic, the competition and confrontation between the U.S. Free and Open Indo-Pacific Strategy (FOIP) and China’s Belt and Road Initiative (BRI), as well as unprecedentedly rude diplomatic discourses against each other from both sides.

Since the U.S. President Joe Biden took office in January 2021, both the US and China have practiced subtle self-constraints and shown goodwill toward each other with the view of mending this on-the-verge broken relationship. For example, Biden issued an executive order in January to ban the use of racist and xenophobic phrases when referring to Covid-19.⁵ In February, Biden asked the U.S. federal appeals court to

² “National Security Strategy of the United States of America” (December 18, 2017), visited date: January 20, 2021, 《*The White House*》, <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>.

³ “National Defense Strategy of the United States of America” (January 19, 2018), visited date: January 20, 2021, 《*U.S. Department of Defense*》, <https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>.

⁴ “Communist China and the Free World’s Future” (July 23, 2020), visited date: January 20, 2021, 《*U.S. Department of State*》, <https://www.state.gov/communist-china-and-the-free-worlds-future/>.

⁵ “Memorandum Condemning and Combating Racism, Xenophobia, and Intolerance Against Asian Americans and Pacific Islanders in the United States” (January 26, 2021), visited date: January 30, 2021, 《*The White House*》, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/26/memorandum-condemning-and-combating-racism-xenophobia-and-intolerance-against-asian-americans-and-pacific-islanders-in-the-united-states/>.

suspend the proceedings to ban WeChat and Tiktok.⁶ Yet, no significant progress has been made on the trade negotiation so far. Tariffs on Chinese goods and many other restrictions, which Trump imposed on China, have not been fully lifted.

Biden set sights on new China strategy by requiring a whole-of-government approach toward China. On February 10, 2021, he announced the formation of a 15-member “China Task Force” under U.S. Department of Defense to re-examine the U.S. strategy, force posture, technology and intelligence in response to challenges from China.⁷ Notably, though not strong as it was in the Trump era, anti-China rhetoric is still pervasive and pronounced in the Biden era, especially widespread criticism on China for its repression of the Uighurs in Xinjiang. In the U.S. official discourses, China is still positioned as Washington’s strategic competitor. At the *2021 Virtual Munich Security Conference* in February 19, 2021, Biden expressed that the strategic competition with China is stiff and long-term, and pledged to work with allies in Europe and Asia to defend their shared values.⁸

At the same time, the Biden administration sought to maintain Quadrilateral Security Dialogue (Quad) mechanism when Secretary of State Antony Blinken held a virtual meeting with foreign ministers of Australia, India, and Japan on February 18, 2021. During the discussion, they “strongly” opposed any China’s attempts to change the status quo

⁶ “Biden asks for pause in Trump’s effort to ban WeChat” (February 12, 2021), visited date: February 14, 2021, 《*Washington Post*》, <https://www.washingtonpost.com/technology/2021/02/11/wechat-trump-biden-pause/>.

⁷ “Biden Announces DOD China Task Force” (February 10, 2021), visited date: February 20, 2021, 《*U.S. Department of Defense*》, <https://www.defense.gov/Explore/News/Article/Article/2500271/biden-announces-dod-china-task-force/>.

⁸ “Remarks by President Biden at the 2021 Virtual Munich Security Conference” (February 19, 2021), visited date: February 20, 2021, 《*The White House*》, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/02/19/remarks-by-president-biden-at-the-2021-virtual-munich-security-conference/>.

in the Indo-Pacific region by force. The four ministers also vowed to strengthen cooperation on advancing a free and open Indo-Pacific region, especially support for freedom of navigation and territorial integrity.⁹ Earlier on January 25 2021, the USS Theodore Roosevelt Carrier Strike Group was dispatched to the SCS to conduct the Freedom of Navigation Operations (FONOPs), hinting a continuation of the U.S. FONOPs in the region. All of the above-mentioned evidences give rise to the assumption that Biden will probably inherit many tenets of Trump's harsh China policy, on both economic and security dimensions.

On the Chinese side, despite signaling willingness to conduct dialogues with the US, it is still adopting a “bluffing” tactic amid the U.S. threats and pressure with an eye to showing its strong determination prior to future talks with the US. For example, Chinese State Councilor and Foreign Minister Wang Yi at the opening of *Lanting Forum* on February 22, 2021 urged the US to adopt “*Three Stops*” and “*Three Abandons*” in order to bring China-U.S. relations back to the right track. “*Three Stops*” refer to “stop smearing the Chinese Communist Party and China's political system, stop conniving at or even supporting the erroneous words and actions of separatist forces for ‘Taiwan independence’, and stop undermining China's sovereignty and security on internal affairs concerning Hong Kong, Xinjiang and Tibet,” meanwhile “*Three Abandons*” entail “abandon unreasonable tariffs on Chinese goods, abandon its unilateral sanctions on Chinese companies and research and educational institutes, and abandon irrational suppression of China's technological progress.”¹⁰

⁹ “Secretary Blinken's Call with Quad Ministers” (February 18, 2021), visited date: February 20, 2021, 《U.S. Department of State》, <https://www.state.gov/secretary-blinkens-call-with-quad-ministers/>.

¹⁰ 「王毅在『對話合作，管控分歧—推動中美關係重回正軌』藍廳論壇上發表致辭」（2021年2月22日），2021年2月27日下載，《中國外交部網站》，https://www.fmprc.gov.cn/web/wjdt_674879/gjldrhd_674881/t1855525.shtml。

As both the US and China stick to guns over a plethora of disputed issues, to restore normalcy in the U.S.-China relations still has a long way to go. The following part of this article is dedicated to briefing on U.S.-China economic decoupling, which is closely associated with the strategic competition between these two giants.

The Making of U.S.-China Economic Decoupling

Against the backdrop of U.S.-China strained relations, the US has sought to preserve its superiority in terms of economic, military, and technology. The engagement policy since the Nixon administration has created waves of trade and technology diffusion from the US to China, which have not only helped to bolster China's development, but also made the U.S. and Chinese economies become deeply intertwined over the last 20 years. China accounts for a huge percentage in the U.S. total manufacturing imports, with 67% in 2013, and 56% in the fourth quarter of 2019.¹¹ This is perceived as detrimental to the U.S. national security and development in the long run. Consequently, Washington has long expected to reduce reliance on Chinese market by dispersing its trade and investment to other South and Southeast Asian countries.

In the second term of the Obama administration, some of America's manufacturing factories started moving parts of their production lines out of China due to rising labor and manufacturing costs. This represents the first wave of economic decoupling between the US and China. The trade war and the afterward Covid-19 pandemic have caused some disruptive effects on the supply chains, raised alarm bell to Washington, and thus accelerated

¹¹ "Why US-China decoupling failed" (December 1, 2020), visited date: February 22, 2021, 《*Global Times*》, <https://www.globaltimes.cn/content/1208560.shtml>.

the breakup when a growing number of companies plan to outsource or shift their production outside China. According to a survey conducted by American Chamber of Commerce in March 2020, more than a quarter of the companies planned to outsource some or all of their materials from different locations after the pandemic. The number of companies thinking that the U.S.-China decoupling would be “impossible” shrunk from 66% in October 2019 to 44% in March 2020.¹²

It is worth noting that the Biden administration is surprisingly mapping out some policies to facilitate the decoupling process. For example, Biden will sign an executive order to review and develop supply chains for semiconductors, electric-vehicle batteries, rare-earth metals and medical supplies, which are less vulnerable to disruptions such as disasters and sanctions by “unfriendly countries.” To be specific, the US will work with Taiwan, Japan, and South Korea on semiconductors; and cooperate with Australia in terms of rare-earth metals supply.¹³

Nevertheless, the economic breakup is likely to pose high costs for both America and China. According to the report, “*Understanding U.S.-China Decoupling: Macro Trends and Industry Impacts*” conducted by U.S. Chamber of Commerce released on February 17, 2021, the US will suffer significant losses in terms of macro-economy and industry levels. The aggregate costs of decoupling to the U.S. macro-economy consist of trade, investment, people flows, and idea flows. For example, in the trade

¹² “Pandemic Makes U.S.-China Economic Breakup More Likely, U.S. Businesses in China Say” (April 17, 2020), visited date: February 23, 2021, 《*Wall Street Journal*》, <https://www.wsj.com/articles/pandemic-makes-u-s-china-economic-breakup-more-likely-u-s-businesses-in-china-say-11587113926>.

¹³ “Biden to order review of U.S. reliance on overseas supply chains for semiconductors, rare earths” (February 18, 2021), visited date: February 26, 2021, 《*CNBC*》, <https://www.cnbc.com/2021/02/18/biden-to-order-supply-chain-review-to-assess-us-reliance-on-overseas-semiconductors.html>.

channel, if 25% tariffs were to cover all two-way trade, the U.S. GDP would lose US\$190 billion annually by 2025. In the investment channel, if half of the U.S. foreign direct investment stock in China were sold due to the decoupling, the U.S. investors would possibly lose US\$25 billion per year in capital gains, causing one-time GDP losses of up to US\$500 billion for the US. Industry-level costs include aviation, semiconductor, chemicals, and medical devices, etc. These industries are predicted to be hit hard by the economic breakup.¹⁴

For China, as a trade-driven economy, China is undeniably vulnerable to any trade frictions with the US. Also, evidence is growing that the emerging exodus of foreign-invested firms such as Samsung, Apple, and the like is exerting great pressure on a number of Chinese provinces in terms of tax revenues, local employment, etc.¹⁵ To date, it is still unclear how the U.S.-China decoupling will take place, one can be sure that U.S.-China long-term strategic competition in tandem with the ongoing Covid-19 pandemic will motivate China-based foreign companies to diversify away from China to spread risks.

Vietnam's Role in the Decoupling Process

Vietnam is positioned as an ideal alternative manufacturing destination for the U.S enterprises during the process of economic decoupling owing to its strategic and economic significance. In this section, I will detail the reasons for this proposition.

¹⁴ Charles Freeman and Jeremie Waterman, *Understanding U.S.-China Decoupling: Macro Trends and Industry Impacts* (Washington, D.C.: U.S. Chamber of Commerce, 2021).

¹⁵ “A plea for help as China loses jobs to Vietnam” (November 27, 2020), visited date: February 27, 2021, 《Asia Times》, <https://asiatimes.com/2020/11/a-plea-for-help-as-china-loses-jobs-to-vietnam/>.

Strategically, Vietnam is the most populated country in the mainland Southeast Asia lying at the heart of the region. Since the end of the Cold War, Vietnam has deployed a multi-pronged diplomacy aiming to develop good relations with countries in the world. Hanoi is now playing an active role in many regional and world affairs. For example: it was re-elected as a non-permanent member of the United Nations Security Council for the second time from 2020 to 2021. Vietnam is also one of the main voices in the Association of Southeast Asian Nations (ASEAN) as it is proactive in proposing agenda for this organization. More importantly, due to the SCS disputes, Vietnam is willing to adopt a rather strong stance toward China compared with other regional states. These reasons make Vietnam stand out as a burgeoning partner, which the US can utilize to contain China in the Indo-Pacific region.

Economically, Vietnam's economic growth has been remarkable since its accession to the World Trade Organization (WTO) in 2007. Vietnam's Gross Domestic Product (GDP) growth reached 7.08% in 2019, and shrunk to 2.91% due to Covid-19 pandemic. Still, it is one of the few countries in the world not to suffer a recession. The country's GDP was worth US\$343 billion in 2020, making it surpass Singapore to become the fourth largest economy in Southeast Asia.¹⁶ Furthermore, as a trade-dependent economy, Vietnam is a key player in a web of Free Trade Agreements (FTAs). According to Vietnam WTO Center, Vietnam has signed 15 different types of FTAs so far, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP) inked in March 2018 and November 2020,

¹⁶ “Kinh tế Việt Nam 2020: một năm tăng trưởng đầy bản lĩnh” (January 14, 2021), visited date: February 25, 2021, 《GSO Vietnam》, <https://www.gso.gov.vn/du-lieu-va-so-lieu-thong-ke/2021/01/kinh-te-viet-nam-2020-mot-nam-tang-truong-day-ban-linh/>.

respectively.¹⁷ This has undisputedly helped increase trade and investment between Vietnam and other economies, particularly Japan, Korea, and Taiwan, etc. – the U.S. important allies in Asia.

Vietnam is by far one of the biggest winners from the U.S.-China trade war as a result of trade diversion effect and investment transfer trend. In the wake of Covid-19 pandemic, Vietnam has been paid more attention to for its successful control of the pandemic as well as its growing position in the emerging global supply chains. Specifically, when the Covid-19 pandemic started breaking out, manufacturing in China was once stagnant. Disruptions were also found in many enterprises outside China whose production materials heavily rely on China. During that time, many health facilities needed for the fight against pandemic in the US were alternatively produced in Vietnam, such as DuPont protective suits. In April 2020, Vietnamese Government even facilitated the logistics and approvals necessary to transport 450,000 DuPont personal protective suits to the US.¹⁸ That strengthened the U.S. confidence of Vietnam’s manufacturing capacity, which could produce strategic goods for the US in case of crises.

Vietnam’s role in the U.S. decoupling strategy has grown when the US listed Vietnam besides its key allies and partners in Asia. In an attempt to depart supply chains from China, the former U.S. Secretary of State Mike Pompeo said on April 29, 2020 that the U.S. government was working with some Indo-Pacific friends including: Australia, India, Japan, New Zealand, South Korea and Vietnam on how to restructure supply chains

¹⁷ “List of Vietnam’s FTAs” (February 6, 2021), visited date: February 8, 2021, 《*Vietnam WTO Center*》, <https://trungtamwto.vn/fta>.

¹⁸ “United States and Vietnam Cooperate to Expedite Delivery of DuPont Protective Suits via FedEx Aircraft for COVID-19 Fight” (April 8, 2020), visited date: January 24, 2021, 《*Vietnam Embassy*》, <https://vn.usembassy.gov/united-states-and-vietnam-cooperate-to-expedite-delivery-of-dupont-protective-suits-via-fedex-aircraft-for-covid-19-fight/>.

and to move the global economy forward.¹⁹ Substantially, the U.S.-China economic breakup might be something far-fetched to some countries, but it is happening vividly on the case of Vietnam in terms of growing trade and investment.

First, Vietnam has benefited greatly from the U.S.-China economic breakup since 2018 as shown in the increase of exports to the US. Since imports from China are subject to high tariffs, the U.S. importers tend to seek alternative supplies from Vietnam. According to Vietnam Customs, total merchandise trade between Vietnam and the US has grown 404% from US\$18.01 billion in 2010 to US\$90.79 billion in 2020. Particularly, Vietnam exports to the US reached US\$61.35 billion in 2019 and US\$77.08 billion in 2020, with a dramatic YOY increase of 29.1% and 25.64%, respectively. Notably, in 2020, the exports of “computers, electronic products and components” were US\$10.39 billion, with a dramatic increase of 71.7%; “electronic machinery, equipment, tools and other parts” up to US\$12.21 billion, a sharp increase of 141.5%. These products are still under high tariffs that the US imposed on China earlier; hence, an increase in Vietnam's export volume and value of these products to the US acted as a substitute for Chinese goods in the U.S. market shares.

However, growth in Vietnam exports to the US exacerbates the lingering trade imbalance between the two countries. Despite accounting for only 2.7% of the total U.S. imports, Vietnam jumped four notches, from the sixth in 2015 to second place in 2020 in the rank of the largest exporters to the U.S market. Given this rapid growth, Vietnam has been repeatedly accused by the US for devaluing its currency vis-à-vis the U.S. dollar to facilitate its exports to the US. As a result, Vietnam was listed as a currency

¹⁹ “Trump administration pushing to rip global supply chains from China: officials” (May 4, 2020), visited date: January 29, 2021, 《Reuters》, <https://www.reuters.com/article/us-health-coronavirus-usa-china-idUSKBN22G0BZ>.

manipulator by the U.S Treasury Department in December 2020. Plus, while Vietnam exports to the US increase, its imports from China steadily rise too. Specifically, Vietnam’s imports from China in 2019 and in 2020 were up to US\$75.45 billion and US\$84.19 billion, with an increase of 15.3% and 11.5%, respectively.²⁰

Given that, the US has eyed upon and warned Vietnam about the phenomena that many Chinese goods have been rebranded in Vietnam and transshipped to the US to dodge the high tariffs since the trade war. Earlier in May 2018, the U.S. Department of Commerce imposed anti-dumping duties of 199.76% and countervailing duties of 256.44% on Vietnamese cold-rolled steel products using Chinese-origin substrate.²¹ On a visit to Vietnam in the late November 2020, U.S. National Security Adviser Robert O’Brien directly asked Vietnamese leaders to curb illegal re-routing of Chinese exports and purchase more U.S. goods such as liquefied natural gas and military equipment or else the US might consider imposing punitive tariffs on Vietnamese goods.²² Undoubtedly, O’Brien’s request conveyed a clear manifestation that Vietnam should lend support to the US in the trade war.

Second, Vietnam has emerged as one of the most preferred investment destinations for manufacturers during the decoupling process due to its adjacent position to China, relatively lower wages, skilled labor, dense web of FTAs, and regional connectivity, etc. Data from Vietnam Ministry of Planning and Investment shows that there was a surge of foreign

²⁰ “Tình hình xuất khẩu, nhập khẩu hàng hóa của Việt Nam tháng 12 và năm 2020” (January 18, 2021), visited date: February 2, 2021, 《*Vietnam Customs*》, <https://www.customs.gov.vn/Lists/ThongKeHaiQuan/ViewDetails.aspx?ID=1901&Category=Ph%C3%A2n%20t%C3%ADch%20%C4%91%E1%BB%8Bnh%20k%E1%BB%B3&Group=Ph%C3%A2n%20t%C3%ADch>.

²¹ “U.S. slaps heavy duties on Chinese steel shipped from Vietnam” (May 22, 2018), visited date: January 12, 2021, 《*Reuters*》, <https://www.reuters.com/article/us-usa-trade-steel-idUSKCN1IM28C>.

²² “Trump Aide Tells Vietnam to Curb China Shipments to Avoid Duties” (November 22, 2020), visited date: January 12, 2021, 《*Bloomberg*》, <https://www.bloombergquint.com/global-economics/trump-aide-tells-vietnam-to-curb-china-shipments-to-avoid-duties>.

direct investment (FDI) inflow to Vietnam during the period 2017-2019. Specifically, in 2017, total FDI inflow to Vietnam was US\$35.883 billion, with a dramatic increase of 45.83% compared to 2016. In 2019, the number was US\$38.019 billion, with a sharp increase of 56% compared to 2016. Hit hard by the Covid-19 pandemic, FDI inflow to Vietnam in 2020 dropped to US\$28.530 billion, with a decrease of 25% compared to 2019, but it was still much higher than the pre-2017 period.²³

Evidence is growing that many companies have shifted parts of their production from China to Vietnam to avoid the tariffs. Particularly, investment from China to Vietnam has dramatically increased since the early 2018. In 2018, China invested US\$2.5 billion to Vietnam, with an increase of 19% compared to 2017. By 2019, there was a surge in the amount of Chinese investment into Vietnam, reaching US\$4.1 billion, 64% higher than 2018. Apple, Samsung, Foxconn, etc., are on the list of companies which either have shifted or plan to move parts of their manufacturing from China to Vietnam.

Notably, other major U.S. companies such as Intel, Qualcomm, Google, Universal Alloy Corporation (UAC), Nike, and Key Tronic EMS have also already moved production lines to Vietnam. Google moved most of its American-bound hardware out of China, including the Pixel phones and its smart speaker Google Home in 2019, and quickly started its production in 2020 by asking one of its partners to convert an old Nokia factory in the northern Vietnam Bac Ninh province into a Pixel phones factory.²⁴ More importantly, not only the U.S major companies are moving

²³ “Báo cáo tình hình đầu tư trực tiếp nước ngoài năm 2020” (December 28, 2020), visited date: January 12, 2021, 《*MPI Vietnam*》, <http://www.mpi.gov.vn/Pages/tinbai.aspx?idTin=48566&idcm=208>.

²⁴ “Google, Microsoft to step up production in Vietnam amid Covid-19” (February 28, 2020), visited date: January 12, 2021, 《*Hanoi Times*》, <http://hanoitimes.vn/google-microsoft-to-step-up-production-in-vietnam-amid-covid-19-311187.html>.

their production outside China, but some companies in the US-led supply chains are also shifting their production line. For example, Apple asked its major suppliers to move 15% to 30% of their production capacity from China to Southeast Asia. In October 2018, China-based GoerTek, a key AirPods assembler, started to shift production to Vietnam, and began its test production in 2019. Approximately 3 million to 4 million, equivalent to 30% of Apple’s classic AirPods will be produced by Goertek and Luxshare in Vietnam rather than China.²⁵

Foxconn is another typical example. This Taiwanese electronics contract manufacturer has invested US\$1.5 billion to Vietnam until 2020. In late 2020, Foxconn made a decision to pour an additional US\$700 million into northern Vietnam Bac Giang province to produce laptops, tablets, and later received the investment certificate from Vietnam in January 2021. Vietnamese local media reported that this Taiwanese technology company is recruiting thousands of skilled component assembly workers and 14 Supplier Quality Engineers (SQE) for its newly established factories in northern Vietnam.²⁶

Besides moving out of China, a growing number of multinational companies have tended to choose Vietnam to start their new investment ventures outside China over the last few years. For example, in January 2021, the U.S. chipmaker Intel confirmed that it would pour an additional US\$475 million into its Vietnam-based plant – Intel Products Vietnam (IPV), making Intel’s total investment in Vietnam rise to roughly US\$1.5 billion. The additional investment will be channeled to bolster the

²⁵ “Apple is reportedly starting to build some of its AirPods in Vietnam” (May 8, 2020), visited date: January 20, 2021, 《CNBC》, <https://www.cnbc.com/2020/05/08/apple-airpods-being-built-in-vietnam---report.html>.

²⁶ “Foxconn recruits 1,000 workers in Vietnam following its US\$270 million project” (January 25, 2021), visited date: February 26, 2021, 《Vietnam Times》, <https://vietnamtimes.org.vn/foxconn-recruits-1000-workers-in-vietnam-following-its-us-270-million-project-28580.html>.

production of Intel's 5G products, Intel Core processors with Intel Hybrid Technology, and the 10th Gen Intel Core, etc.²⁷

Vietnam's Responses: Proactive but Selective

The above discussion demonstrates that the ongoing economic decoupling has produced remarkable impacts on Vietnam's economy. This part will discuss how Hanoi has responded to the economic split-up between Washington and Beijing so far.

First, even though Vietnam has not made clear stance on whether it supports the US or China in the economic decoupling, it has shown high willingness of cooperation and coordination with the US on a variety of issues since 2018. The lingering trade imbalance between the US and Vietnam has exacerbated during the trade war and Covid-19 pandemic. The US attributes it to Vietnam's devaluation of its currency and subsidy for exports. Given this, in meetings with the U.S. officials, Vietnamese leaders have pledged to import more U.S. goods to placate the US over its ballooning trade surplus. During the last few years, Vietnam has facilitated the imports of aircrafts, coal, natural gas, meat, fruit and other agricultural products from the US to cut the trade imbalance and to avoid the possible punitive tariffs from the US. Being labeled as a currency manipulator by the U.S. Department of Treasury in December 2020, Hanoi immediately showed cooperative attitude in explaining and addressing the issue with the US. Ultimately, the US decided not to take any punitive actions against Vietnam except for voicing concerns about Vietnam's interventions in foreign exchange market.²⁸

²⁷ "Intel channels additional \$475 million into Vietnam" (January 28, 2021), visited date: February 26, 2021, 《*Vietnam Net*》, <https://vietnamnet.vn/en/business/intel-channels-additional-475-million-usd-into-vietnam-708946.html>.

²⁸ "U.S. Won't Penalize Vietnam for Alleged Currency Manipulation" (January 18, 2021), visited date: February 20, 2021, 《*Bangkok Post*》, <https://www.bangkokpost.com/business/2052567/u-s-wont-penalize-vietnam-for-alleged-currency-manipulation>.

In the U.S.-China trade war, Vietnam has taken strict measures to curb the re-routing of Chinese goods at the US's request. Chinese goods subject to high tariffs, are exported to Vietnam, re-assembled and rebranded as "*Made in Vietnam*" to re-export to the US. Report by the Vietnam Institute of Economic and Policy Research (VEPR), published in February 2021 mentioned that Vietnam is facing the risk of becoming a temporary import for the re-export market that China takes advantage of to circumvent U.S. sanctions on Chinese exports to the American market.²⁹ As mentioned earlier, the US has forced Vietnam to curb the situation or else it will impose punitive tariffs on Vietnam. For fear of becoming the next China, Vietnamese Government asked Vietnam Customs agencies, especially those adjacent to the Vietnam-China border, to take rigorous measures to inspect Chinese imports to Vietnam. Besides promulgating specific regulations on "*Made in Vietnam*" criteria, Vietnam also punished companies alleged to adopt fraudulent act of rebranding Chinese goods. For example, in an attempt to crackdown the re-routing of Chinese goods, four Vietnam-based companies assembling bicycles, electric bikes and wooden shelves were strictly punished by Vietnamese authority for putting up fraudulent labels on China-imported products at the end of 2019.³⁰

Second, the U.S.-China decoupling is regarded as an ideal opportunity for Vietnam to join the US-led supply chains, and to have its position elevated in the global value chain. As stated above, the trade war pushed many China-based enterprises to consider shifting their production out of China or choosing other countries as their new manufacturing destinations.

²⁹ "Báo cáo Kinh tế vĩ mô Việt Nam quý 4 và cả năm 2020" (February 8, 2021), visited date: February 20, 2021, 《VEPR》, <http://vepr.org.vn/533/news-detail/1803958/bao-cao-kinh-te-thuong-ky/vmm20q4-20210208-bao-cao-kinh-te-vi-mo-viet-nam-quy-4-va-ca-nam-2020.html>.

³⁰ "Vietnam will punish 4 companies for fraudulent labels on products from China" (December 30, 2019), visited date: January 26, 2021, 《Vietnam Insider》, <https://vietnaminsider.vn/vietnam-will-punish-4-companies-for-fraudulent-labels-on-products-from-china/>.

It is the outbreak of Covid-19 pandemic that accelerated this investment transfer trend as many manufacturers realized that their production line is excessively dependent on China. In the meantime, the idea of building up a new global supply chain outside China is growing in popularity. For Vietnam, the ongoing investment transfer is widely regarded beneficial for the country's industrial upgrading. Hence, it has been rather optimistic about the likely formation of such a new global supply chain. To grasp the opportunities, Vietnam Prime Minister Nguyen Xuan Phuc decided to establish a special working group on attracting FDI in June 2020 amid the Covid-19 pandemic. Led by Deputy Prime Minister Pham Binh Minh, this working group is in charge of proposing pro-investment policies, mechanisms to the government with a focus on creating favorable conditions for large and hi-tech investment projects.³¹

Among foreign investors, Vietnam attaches much importance to the U.S. enterprises as it believes that cooperating with those enterprises can create momentum for Vietnamese businesses to join the US-led supply chains. In speeches of Vietnamese officials, foreign companies in general and the U.S. firms in particular are welcome to invest in Vietnam and are encouraged to cooperate with Vietnamese companies. By attracting investment from the U.S. investors, Vietnam expects to further join the US-led supply chain, as Vu Tien Loc, chairman of Vietnam Chamber of Commerce and Industry (VCCI) said in the *2019 U.S.-Vietnam Business Summit*.³²

Strengthening economic cooperation with the US can also help

³¹ "Working group founded to promote foreign investment" (June 18, 2020), visited date: November 10, 2020, *Vietnam News*, <https://vietnamnews.vn/economy/738375/working-group-founded-to-promote-foreign-investment.html>.

³² "Hội nghị Thượng đỉnh Kinh doanh Việt Nam Hoa Kỳ 2019" (May 10, 2019), visited date: November 10, 2020, *Enterprise News*, <https://enternews.vn/index.php/hoi-nghi-thuong-dinh-kinh-doanh-viet-nam-hoa-ky-2019-viet-nam-huong-den-doi-tac-top-10-cua-hoa-ky-149970.html>.

Vietnam reduce dependence on China. This perspective is widely supported by Vietnamese intellectuals during the Covid-19 pandemic. To be specific, since Vietnamese enterprises, including FDI enterprises rely heavily on raw materials, parts and components from China market for their production in Vietnam, they suffered significant interruptions as the pandemic was wreaking havoc in China from February to April 2020. It was reported that there was a widespread shortage of production materials given border trade activities between Vietnam and China were almost paralyzed at that time. For that reason, the former deputy chairman of VCCI, Pham Chi Lan proposed that Vietnam should turn this crisis into a reasonable chance to get rid of China's economic influence and to diversify economic partners.³³

Despite the above prominent advantages and opportunities, the U.S.-China economic decoupling also poses some challenges to Vietnam. Thus, Vietnamese officials have been rather prudent when referring to the current U.S.-China competition and the role Vietnam should play. One outstanding point concerning Vietnam is some possible disruptions to the traditional supply chains resulted from the decoupling process might happen. The traditional supply chain refers to many Vietnam-based FDI enterprises import production materials from China, have them assembled in Vietnam, and then export to the US. Making any changes to this supply chain and production pattern is not that easy given Vietnam's geographical proximity and chronic economic dependence on China. Furthermore, building new supply chains will take years to come, but surely does not happen overnight.

The decoupling process does push some China-based manufacturers to migrate to Vietnam. However, Vietnam is simultaneously facing the risk

³³ “Dịch COVID-19 ‘tình cờ khiến kinh tế Việt Nam giảm lệ thuộc Trung Quốc?’” (February 28, 2020), visited date: January 28, 2021, 《*BBC Vietnamese*》, <https://www.bbc.com/vietnamese/vietnam-51666038>.

of absorbing low-quality investments from China. Report from Vietnam Central Institute for Economic Management (CIEM) released on January 21, 2021 indicated that FDI inflows from China have some limitations, including: outdated technologies, environmental pollution, to name but a few. Moreover, there are concerns that Chinese investors' FDI projects seem to "have extended Vietnam's economic development model in width, but not in depth." That means China-backed investment projects primarily focus on resource exploitation, outsourcing, discouraging domestic production, and even pushing Vietnamese enterprises to a lower position in the value chain.³⁴

Another critical setback from the decoupling process is that it puts a strain on Vietnam's limited infrastructure capacity and comparative advantages. While Vietnam has been regarded as one of the biggest winners in the trade war and Covid-19 pandemic, practical realities might not fully attest to this. Ports and roads in Vietnam have been congested since the outbreak of trade war. According to *Bloomberg Intelligence*, port infrastructure remains a big challenge for Vietnam. While China has 6 of the top 10 ports by container traffic in the world, Vietnam's two biggest ports, Ho Chi Minh seaport and Cai Mep port, are only placed at No. 25 and No. 50 in the ranking, respectively. Plus, Vietnam's share of global container traffic was just 2.5% in 2017 compared with 40% of China. It is thus assumed that Vietnam's shipping container capacity still needs to grow at almost twice its 10%-12% pace of the past decade to meet the new demand.³⁵ In addition to insufficient infrastructure, Vietnam's comparative

³⁴ "Nguy cơ dòng FDI chất lượng thấp chảy vào Việt Nam" (January 21, 2021), visited date: January 23, 2021, 《*CafeF*》, <https://cafef.vn/nguy-co-dong-fdi-chat-luong-thap-chay-va-viet-nam-20210121104513738.chn>.

³⁵ "Vietnam Becomes a Victim of Its Own Success in Trade War" (September 18, 2019), visited date: January 30, 2021, 《*Bloomberg*》, <https://www.bloombergquint.com/global-economics/vietnam-becomes-a-victim-of-its-own-success-in-trade-war>.

advantages are gradually losing to other regional countries as its labor, land, and manufacturing costs are skyrocketing. For example, in the first quarter of 2020, the demand for industrial park land in Vietnam kept rising despite the pandemic. In northern Vietnam, the industrial land price rose by 6.5% to US\$99 per square meter, while in southern Vietnam, it rose by 12.2% to US\$101 per square meter.³⁶

Last but not least, what concerns Vietnamese decision-makers the most now is how to sensibly handle economic relations with the US and China. Vietnam faces a strategic dilemma as these two major powers often leverage their strengthening economic ties vis-à-vis Vietnam to push Hanoi to adopt policies in their favors. Adjacent to China, Vietnam's economy is inextricably linked with Chinese economy. Once RCEP comes into effect, the interdependence will inevitably get tightened. Bilateral trade will subsequently expand with more imports from China. But continuously increasing imports from China might be interpreted by the US that Vietnam is assisting Chinese goods in re-exporting to the U.S. market. As such, Vietnam might face the risk of being punished by the US. Conversely, to maintain economic relationship with the US, Vietnam has few alternatives but to act in accordance with the U.S. expectation. Nevertheless, past experiences remind Vietnamese leaders that there are uncertainties and volatilities in cooperation with the US. Especially, Washington might link trade issue with human rights, democracy, and governance in its dealings with Hanoi. For the above-mentioned factors, Vietnam will not rush to vocalize its stance on the U.S.-China decoupling issue; rather, it seeks to maintain equidistant with the US and China to reap benefits from both sides.

³⁶ "Industrial land prices rise despite pandemic" (April 27, 2020), visited date: January 30, 2021, *VnExpress*, <https://e.vnexpress.net/news/business/industries/industrial-land-prices-rise-despite-pandemic-4088595.html>.

In Lieu of Conclusion

U.S.-China strained relationship and the following economic decoupling have inevitably brought about significant changes to Vietnam's security and economic environment. Hanoi is a focal point that both Washington and Beijing strives to compete for influence. Against this backdrop, Vietnam has faced great side-taking pressure, and it has to operate cautiously to strike a balance between these two giants and to avoid direct confrontation with its ideological ally – China. The current U.S.-China competition is not all about the advantages; it also poses some disadvantages to Vietnam. While Vietnam is progressively grabbing opportunities in the U.S.-China economic decoupling, it has simultaneously managed to mitigate negative effects of the split-up on its economy.

Though Vietnam is seeking to reduce its excessive dependence on Chinese economy via strengthening economic cooperation with the US, it should not be over-interpreted as Hanoi is siding with the US in the U.S.-China economic breakup. Apart from this, Vietnam is cautious with the widespread assumption that it will become an upcoming world production hub. There is little doubt that the U.S.-China economic decoupling has opened up a chance-of-a-lifetime opportunity for Vietnam to emerge as a new manufacturing center in the region. However, given its economic and population size, fierce competition with other countries, Vietnam cannot just absorb everything from China. It is thus less likely for Vietnam to completely take the position of the world manufacturing hub from China.

Vietnamese leaders might probably be well aware of the strength and weakness of their country in this turbulent period. With that in mind, Hanoi has shown great determination in building up its domestic supporting industries and enhancing enterprise capacity to reduce reliance on foreign companies in the last few years. Among those, Vietnamese

leaders keep stressing the importance of hi-tech sectors in the country's long-term development.³⁷ This also affects the making of FDI policy in Vietnam. In other words, recent FDI policies highlight the priority for attracting hi-tech, highly value-added, environment-friendly, and modernized investments.³⁸

As the fourth largest investor in Vietnam,³⁹ *Taishang* plays a critical role in Vietnam's industrialization and modernization process. Enterprises from Taiwan, mostly small and medium, are keen on grasping opportunities by investing in the sectors in line with Vietnam's industrial development plans. In the upcoming time, as the U.S.-China economic breakup is likely to continue, *Taishang* investment to Vietnam will be subsequently on the rise. To enjoy more benefits from Vietnam's FDI policies, it is workable for Taiwanese enterprises to pay more attention to some supporting industries and hi-tech sectors.

³⁷ “Việt Nam muốn làm chủ công nghệ thay vì chọn làm đại công xưởng của thế giới với 100 triệu người làm thuê” (December 20, 2020), visited date: February 26, 2021, 《*Vietnammoi*》, <https://vietnammoi.vn/viet-nam-muon-lam-chu-cong-nghe-thay-vi-chon-lam-dai-cong-xuong-cua-the-gioi-voi-100-trieu-nguoi-lam-thue-20202312111840145.htm>.

³⁸ “Thủ tướng chủ trì cuộc họp Thường trực Chính phủ về các giải pháp thu hút đầu tư nước ngoài” (May 22, 2020), visited date: February 26, 2021, 《*Vietnamese Government Portal*》, <http://vpcp.chinhphu.vn/Home/Thu-tuong-chu-tri-cuoc-hop-Thuong-truc-Chinh-phu-ve-cac-giai-phap-thu-hut-dau-tu-nuoc-ngoai/20205/27823.vgp>.

³⁹ Vietnam remains an attractive destination for Taishang. Until the end of 2020, Taiwan is Vietnam's fourth largest investor, with 2,792 ongoing investment projects and accumulated investment capital of US\$33.707 billion so far, only behind South Korea with US\$70.645 billion, Japan with US\$60.258 billion, and Singapore with US\$56.551 billion. See more at: “Báo cáo tình hình đầu tư trực tiếp nước ngoài năm 2020” (December 28, 2020), visited date: January 12, 2021, 《*MPI Vietnam*》, <http://www.mpi.gov.vn/Pages/tinbai.aspx?idTin=48566&idcm=208>.