

## China, Vietnam sign 13 deals, and 1 stands to reshape economic relations

- Vietnam is looking to mitigate potential long-term problems in its sourcing of raw materials, which its export sector depends heavily on
- Deals were signed during visit to China this week by Vietnam's chief, Nguyen Phu Trong, who became the first foreign leader welcomed by China after its 20th party congress

### Ralph Jennings

China and Vietnam, communist neighbours that both depend heavily on manufactured exports, have signed a deal to improve a crucial but recently frayed supply chain in a particular boost to the Vietnamese side.

Vietnam normally gets Chinese raw materials – the likes of wood and leather – to feed its factories. But the Southeast Asian nation is finding that lockdowns in China have disrupted those chains during the pandemic and delayed or stopped some shipments.

“The trade and investment relationship between Vietnam and China makes a lot of practical sense given geography, resources and stages of development, so I do expect the countries to continue trying to find ways to continue their relationship,” said Frederick Burke, Ho Chi Minh City-based senior adviser with the law firm Baker McKenzie.

Longer-term trouble with sourcing raw materials would take a swipe at Vietnam's US\$340 billion export sector that has grown rapidly over the past 15 years and been described as a smaller alternative to China, which is known as the world's factory.

“There's the optics that China makes it difficult for raw materials to reach Vietnam,” said Jack Nguyen, a partner at the business advisory firm Mazars in Ho Chi Minh City. “Vietnam wants to maintain good relations with China, and with everybody, but they don't have control over how the relationship goes. It's up to China.”

Vietnam alone, he said, “doesn't have the supply-chain network that China does”.

The Ministry of Industry in Hanoi and China's Ministry of Commerce signed a memorandum of understanding (MOU) to “strengthen joint works” that would ensure a supply chain between the two sides, the official Vietnam News Agency reported on Monday.

That deal and 12 others were signed during Vietnamese Communist Party chief Nguyen Phu Trong's visit to China from Sunday to Tuesday that made him the first foreign leader to visit China since the 20th party congress in Beijing last month. His trip included a meeting with Chinese President Xi Jinping.

China's zero-Covid policy – marked by snap lockdowns and travel restrictions – has kept workers away from their posts periodically over the past two-and-a-half years while stalling activity at ports of entry and exit.

Zero-Covid saves lives, as evidenced by China having the world's lowest mortality rate from the disease, the Chinese Ministry of Foreign Affairs has said.

The value of Vietnam's textile and garment industry stands to reach US\$42.5 million this year, thanks in part to Vietnamese membership in a growing number of foreign trade deals, but a dearth of raw materials from China plus higher costs could hold it back, consultancy Dezan Shira & Associates said in a July 12 country briefing.

Around half of the sector's raw materials and accessories come from China, according to the consultancy.

"As China shows no sign of abandoning its zero-Covid approach, many shipments of fabrics and garment pieces are piling up at its ports, leading Vietnamese garment firms to delay production and delivery," its briefing said.

Electronics maker Samsung Vietnam has found that shipments of components from China across a land-border gate are "frequently disrupted", Dezan Shira said in the briefing.

The rubber industry, it added, normally gets 70 per cent of its raw materials from China, especially chemicals. Vietnamese importers have turned to Japanese and South Korean suppliers, it noted, even though they charge 15-20 per cent more than their Chinese counterparts.

Vietnamese media reports have called out delays in customs clearances but voiced hope for boosting exports of high-end farm products to China, said Carl Thayer, emeritus professor of politics at the University of New South Wales in Australia.

Border trade was an issue that "topped the list of Vietnam's immediate concerns" during the leadership visit this week, Thayer said.

In a joint statement on Tuesday, China and Vietnam said they were "willing to implement the MOU on enhancing cooperation to ensure supply chains ... and promote safe, stable production chains and supply chains between the two countries".

Burke with Baker McKenzie said Chinese officials may see the deal as a way to stop more of their own enterprises from leaving China.

"China is probably keen to manage the migration of big manufacturing employers from China to Vietnam following its tensions with the United States," he said.

US tariffs that were increased during the Sino-US trade dispute launched by former US president Donald Trump affect US\$550 billion worth of Chinese shipments and have sent Chinese enterprises looking to do more business in other markets.

China "is ready to work with Vietnam" to promote "connectivity", Xi said during the Vietnamese leader's visit, as quoted by the official Xinhua in Beijing.

The two countries also contest sovereignty over tracts of the South China Sea, and the dispute sometimes clouds high-level discussions on other issues.

Trade between China and Vietnam came to US\$166 billion last year, up 25 per cent over 2020, estimates Rajiv Biswas, Asia-Pacific chief economist with S&P Global Market Intelligence. China was the second-largest export market for Vietnam after the US, with three-quarters of Vietnam's exports over the border being processed and manufactured goods, he said.

China and Vietnam also signed agreements this week to work together on culture tourism, food sanitation and trade ties specific to Yunnan province, which borders Vietnam to the northwest.