

## Vietnam-ASEAN Trade Balance, Current Situation and Solutions



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**ABSTRACT:** The trade deficit between Vietnam and ASEAN countries is always an issue of great concern to scholars studying trade in Vietnam. Is that deficit alarming for trade management policymakers in Vietnam? The article will focus on analyzing the current state of trade balance between Vietnam and ASEAN countries with data on export and import turnover, and the import-export structure between Vietnam and this group of countries. With multidimensional qualitative analysis, the author will imply several policies to improve import-export efficiency between Vietnam and ASEAN countries.

**KEYWORDS:** Vietnam, ASEAN, trade, export, import, trade balance.

### 1. INTRODUCTION

ASEAN is one of Vietnam's major trade partner markets, with a population of nearly 700 million people with similar cultures and lifestyles. In the trade relationship between Vietnam and ASEAN over the past 20 years, the trade balance has always tilted towards regional countries.

In recent times, Vietnam's exports have achieved many impressive achievements when successfully penetrating many of the world's leading demanding markets such as the US, Europe... with increasingly high turnover. However, the sharp increase in oil prices due to the Russia-Ukraine war and the post-COVID-19 situation has greatly impacted exports to these markets.

Faced with the above market fluctuations, there have been many studies on Vietnam's trade balance in general as well as the trade balance between Vietnam and ASEAN in particular. Typical examples include research on the causes of the trade deficit in Vietnam by Doan & Xing (2018) and Nga (2020); Research on the current trade deficit of Vietnam and ASEAN by Hai & Thang (2017); Research on the impact of trade liberalization on trade between Vietnam and ASEAN, or research on Vietnam's advantages in ASEAN trade by Huynh & Nguyen (2017), Tran (2017)... basic studies emphasize that Vietnamese businesses need to have a plan to exploit the ASEAN market to replace remote and unstable markets due to rising fuel prices.

Therefore, how to improve Vietnam's trade balance in ASEAN, contributing to improving Vietnam's trade efficiency in this region is an issue that needs to be analyzed and given reasonable solutions. On that basis, the author wrote the article "Vietnam - ASEAN trade balance, current situation, and solutions" to properly assess the current situation, causes, and solutions for improving the trade balance of ASEAN. Vietnam in ASEAN.

### 2. OVERVIEW OF THE ASEAN MARKET

The Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967. The Association's most important and outstanding achievement is the completion of the idea of an ASEAN including 10 Southeast Asian countries, leading to fundamental changes in the Association as well as the regional situation.

The overall goal of the ASEAN Community is to build the Association into a deeper and more binding intergovernmental cooperation organization on the legal basis of the ASEAN Charter, but it is not a supranational organization and is not closed but still expands cooperation with outside countries.

The ASEAN Economic Community aims to create a single common market and unified production base, including the free flow of goods, services, investment, capital, and skilled labor; thereby enhancing competitiveness and promoting common prosperity for the entire region; creating attraction for investment and business from outside.

The year 1992 marked Vietnam's regional integration process after joining the Treaty of Amity and Cooperation in Southeast Asia (TAC), and becoming an Observer, and attending ASEAN Ministerial Meetings (AMM). During this time, Vietnam also began to participate in the activities of several ASEAN specialized cooperation committees.

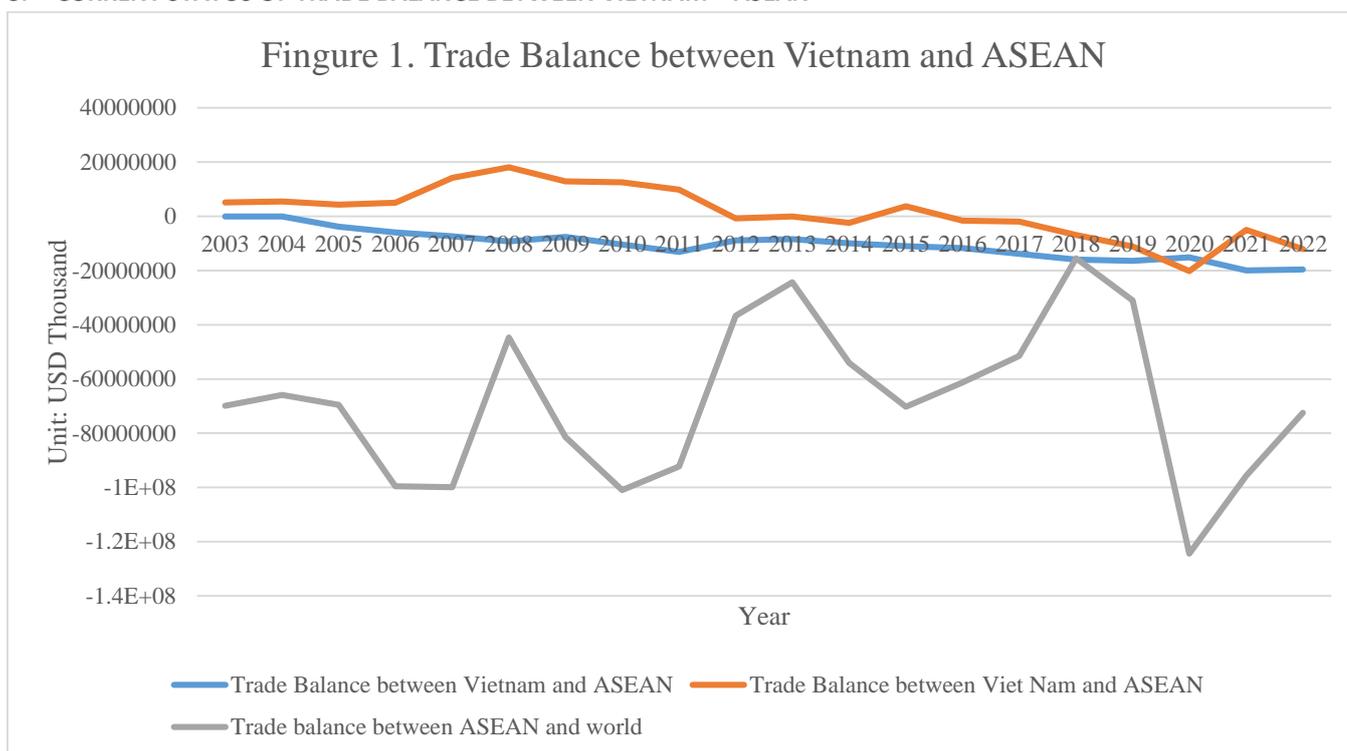
### Vietnam-ASEAN Trade Balance, Current Situation and Solutions

In July 1994, Vietnam was invited to attend the first meeting of the ASEAN Regional Forum (ARF) and became one of the founding members of this Forum.

On July 28, 1995, at the 28th ASEAN Foreign Ministers' Meeting (AMM-28) in Brunei Darussalam, Vietnam officially joined ASEAN and became the 7th member of ASEAN. Since then, Vietnam has rapidly integrated, deeply participated in all areas of ASEAN cooperation, and made positive contributions to maintaining intra-bloc solidarity and strengthening cooperation between ASEAN countries. Member countries as well as between ASEAN and external partners, contributing significantly to the development and success of ASEAN today.

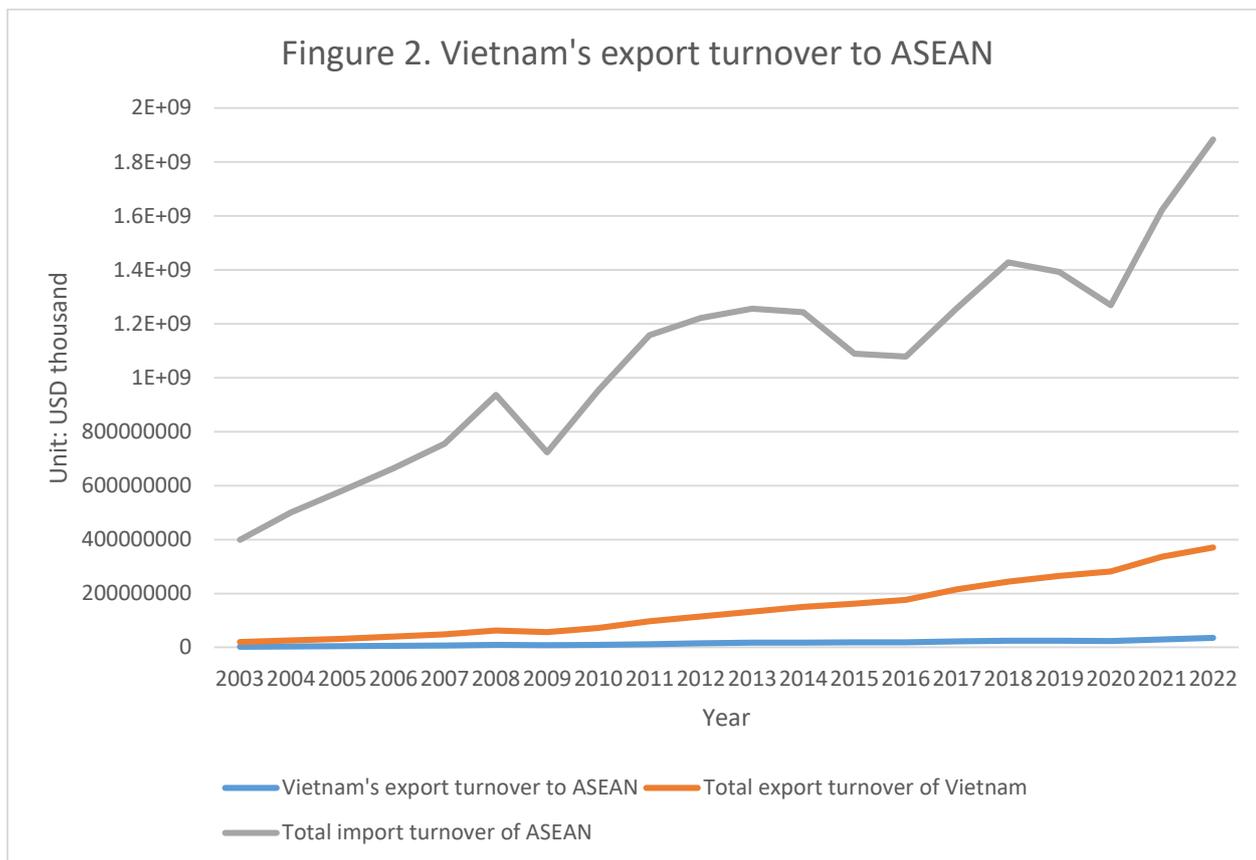
For Vietnam, joining ASEAN is a breakthrough in opening the door to breaking the embargo and gradually integrating into regional and international life. Becoming an ASEAN member has helped promote friendly relations, peace, and cooperation between Vietnam and neighboring countries in the region in many fields such as politics, diplomacy, security, economics, and culture-society. Opportunities, giving us new opportunities and prospects for national development.

### 3. CURRENT STATUS OF TRADE BALANCE BETWEEN VIETNAM – ASEAN



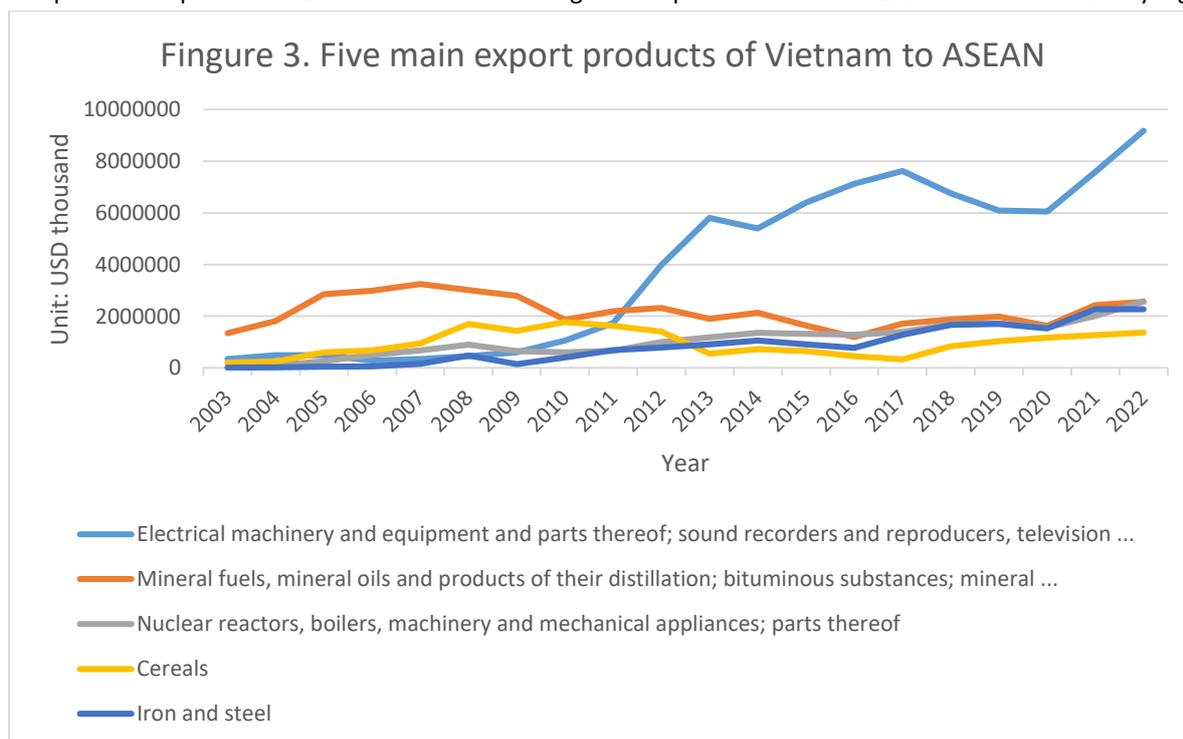
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Figure 1 shows that the trade balance of goods is always tilted towards a deficit with ASEAN countries and during the 20 years from 2003 to 2022, Vietnam has never achieved a trade surplus with this bloc. At the same time, the level of deficit increases over time. In 2003, the trade deficit between Vietnam and ASEAN was 2,562,129 thousand USD. By 2022, this number would reach 1,964,7558 thousand USD, an increase of more than 7 times. This trend shows that Vietnam has not had strong policies to adjust the trade balance between Vietnam and ASEAN in recent times. At the same time, the chart also shows that Vietnam's trade balance in general with the whole world has largely maintained a deficit state from 2012 to the present. However, Vietnam's trade deficit with the whole world is lower than Vietnam's trade deficit in the ASEAN region. Similarly, ASEAN has a trade surplus with Vietnam but a trade deficit with the whole world. This shows that Vietnam considers ASEAN as the country's main import market, while ASEAN countries mainly export to Vietnam and import from other countries around the world.



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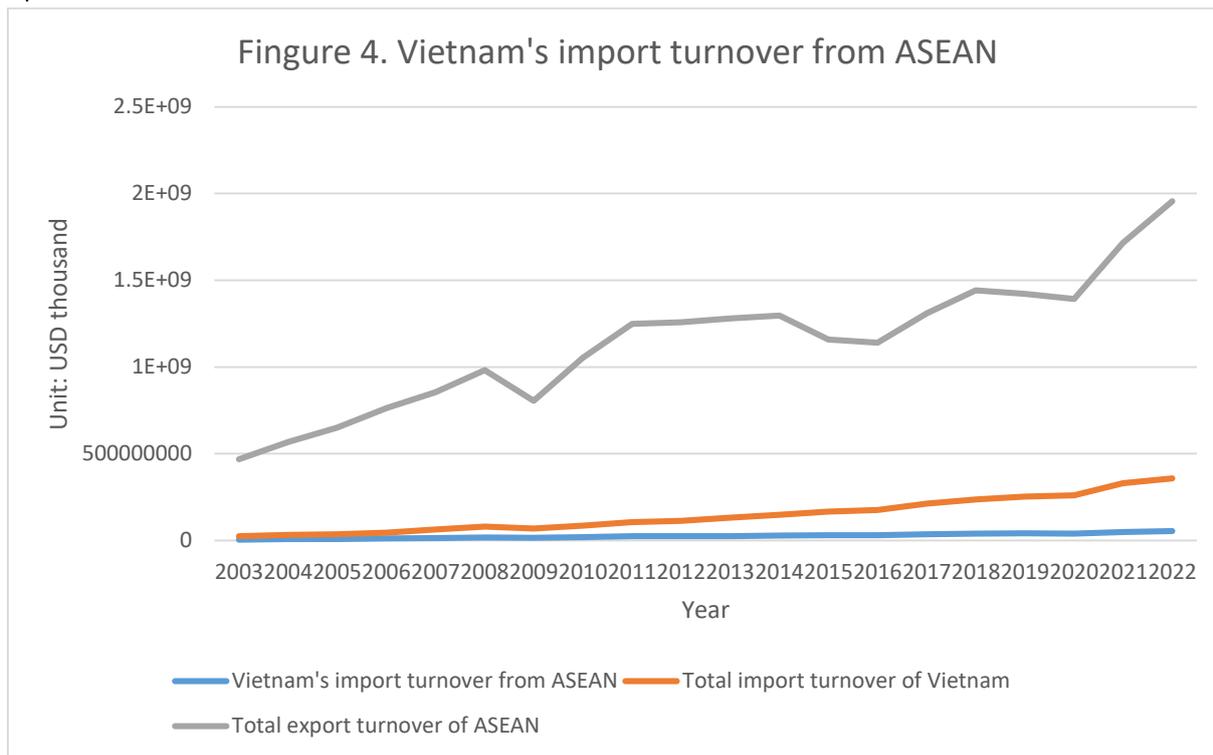
Figure 2 shows that Vietnam's export turnover during the 20 years from 2003 to 2022 is almost a straight horizontal line with no significant increasing trend and accounts for a very small proportion compared to the total value of turnover. Vietnam's exports always fluctuate around 10 - 15% of Vietnam's total export value and tend to decrease gradually. Meanwhile, the straight line representing the total value of ASEAN's import turnover from the world is above and very far from the straight line representing Vietnam's export turnover to ASEAN. This image further clarifies the fact that Vietnam is in a very difficult situation and it is almost impossible to promote exports to ASEAN countries even though the import demand of ASEAN countries is still very high.



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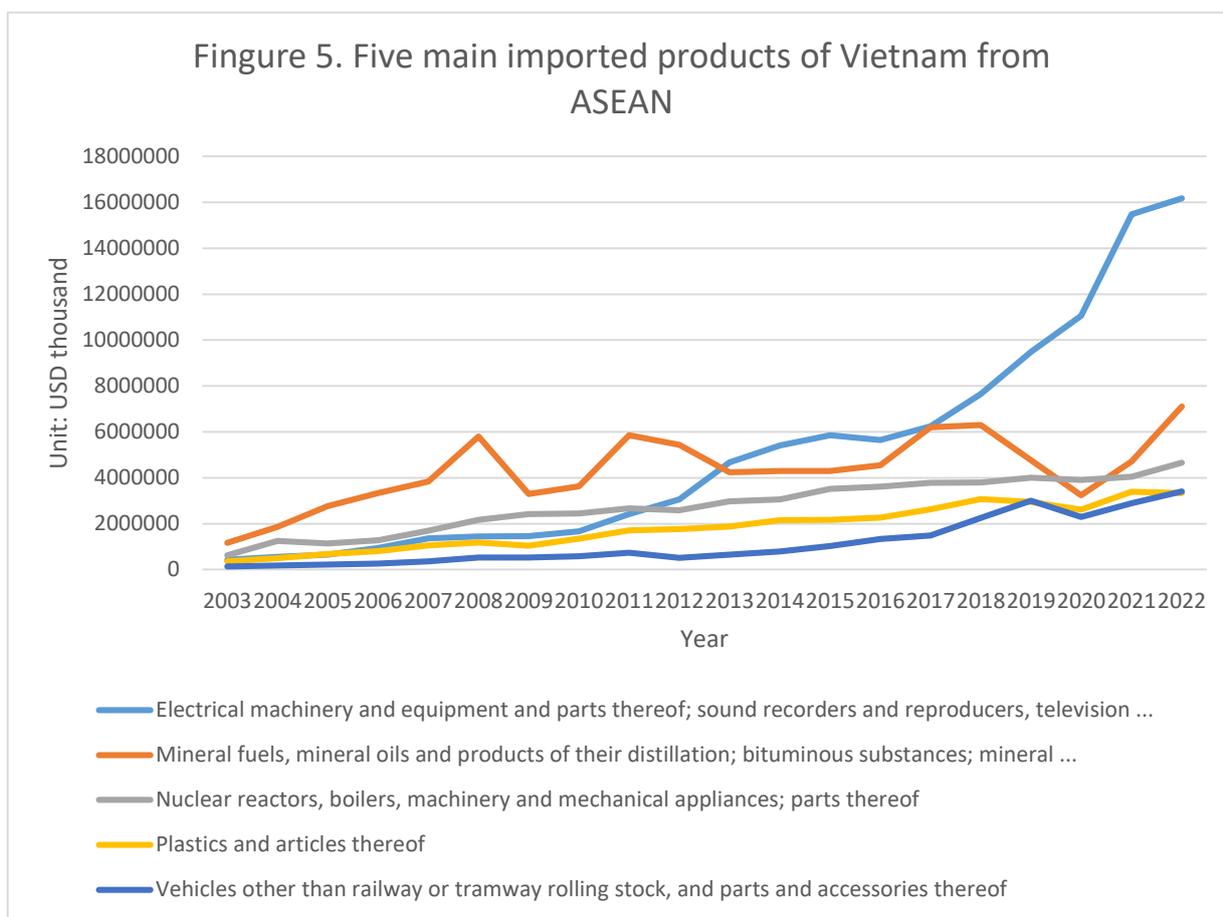
## Vietnam-ASEAN Trade Balance, Current Situation and Solutions

Before 2010, the structure of Vietnam's main export products to the ASEAN market was mainly traditional products such as crude oil and rice. In recent years, Vietnam's exports to ASEAN have strongly transformed from agricultural products, fisheries, and minerals to processed industrial and high-tech products such as iron and steel; electronics, computers, and components; machinery, equipment, tools, and spare parts; and Phones and components. Based on Vietnam's total export turnover to ASEAN during the 20 years from 2003 to 2022, the five items with the highest export value of Vietnam to ASEAN are electrical equipment, fuel, mechanical equipment, grain, and iron and steel. Among them, electrical equipment is currently the group of products with the largest export turnover to ASEAN and the strongest increase today. Next is the fuel product group. In the period from 2003 to 2010, fuel had the highest export turnover of Vietnam to ASEAN, but from 2011 until now, Vietnam's fuel export turnover to ASEAN has decreased and remained quite far apart compared to the export turnover value of electrical equipment products. This is a good sign that Vietnam has adopted appropriate policies to minimize the drain of national resources and increase exports of high-tech products.



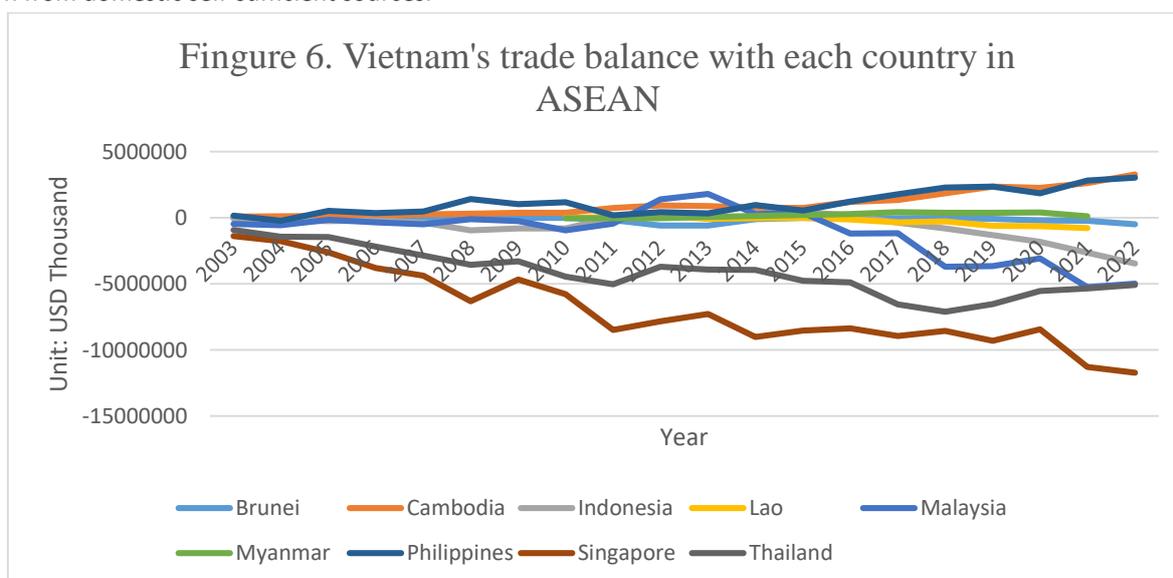
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In contrast to export turnover, this diagram shows that Vietnam's import turnover maintains a slight increase during the period from 2003 to 2022, accounting for about 15 - 30% of total import turnover. Vietnam's imports, this is a fairly large proportion of Vietnam's total import turnover. This shows that Vietnam always considers ASEAN as the main import market to create inputs for the country. However, a good sign shows that the proportion of Vietnam's import turnover in ASEAN has begun to decrease, Vietnam has begun to diversify its import markets, no longer too dependent on the ASEAN market. Besides, the fact that the flat line of ASEAN's total export turnover is very far from the line of Vietnam's import value from ASEAN also shows that countries in ASEAN have very good export capacity but do not pay too much attention to promoting exports to Vietnam.



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In particular, the main products that Vietnam imports mainly from ASEAN are raw materials, fuel, machinery and equipment, and means of transport. This is a necessary input source for Vietnam for Vietnam's production, so when looking at this import structure, Vietnam's trade deficit from ASEAN markets can be evaluated positively. Perhaps this is a suitable choice for Vietnam in the current period of economic restructuring, and because the value of imported goods from ASEAN is quite similar to domestically produced goods in Vietnam, it will help reduce costs. Vietnam's production is not too high compared to the cost of production from domestic self-sufficient sources.



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Looking at the chart of Vietnam's trade balance with each country in ASEAN, it is easy to see that Vietnam mainly has a trade deficit with developed countries in the bloc such as Singapore, Thailand, Malaysia, and Indonesia. Meanwhile, Vietnam has a trade

## **Vietnam-ASEAN Trade Balance, Current Situation and Solutions**

surplus with mainly underdeveloped countries in the region such as Cambodia, the Philippines, and Myanmar. This shows that Vietnam has also selectively imported many products with high-technology content from developed countries in the bloc.

### **4. REASONS WHY VIETNAM HAS A TRADE DEFICIT IN ASEAN**

In the export structure of Vietnamese goods to ASEAN, the fuel and energy group still accounts for about 30%; the industrial goods group accounts for nearly 60% and the agricultural products group accounts for about 10%. Exports tend to increase slightly in fuel and energy products but decrease slightly in industrial products. The structure of imported goods also changed in a similar direction. This shows that Vietnam's exports to the ASEAN market have not focused on developing the market for industrial goods. Currently, Vietnam's product groups with high export potential are still mainly traditional products with rudimentary and outdated production technology, so although the turnover value is high, the added value is low.

Currently, only about 35% of Vietnam's exported goods take advantage of incentives from FTAs that Vietnam has participated in. Thus, more than 60% of the remaining goods are still subject to MFN tax (preferential import tax rate), much higher than the FTA tax of 0 - 5%. One of the reasons why businesses have not developed the ASEAN market and taken advantage of incentives from FTAs is not fully understanding the rules of origin, not being able to apply for preferential C/O, and not enjoying tax rates according to ATIGA's commitment.

In the past period, ministries, branches, centers, and organizations have done quite well in propaganda and dissemination of commitments with dense density; Establishing integration websites, so information about FTAs in general and ATIGA in particular is very popular and available to increase businesses' understanding of FTA opportunities and requirements. However, the propaganda is still general or not oriented toward businesses; Businesses themselves are not aware of the opportunities from FTAs.

Vietnam's product groups with high comparative advantages are still traditional export products. Manufactured products using technology, capital, and high skills such as electronic components and phones, although the export structure has shifted towards modernity, are still at a low level compared to traditional product groups showing that competitiveness is slowly improving.

Besides competition from countries in the ASEAN region, Vietnamese goods are also subject to competition from high-quality products from Japan, Korea, India, Australia, and New Zealand. These are all countries that have signed FTAs with the ASEAN region. Therefore, these agreements will also cause difficulties for Vietnamese products in two-way trade relations, including exports and imports from the domestic market and the AEC.

### **5. CONCLUSION AND POLICY IMPLICATIONS**

In recent times, Vietnam's exports have achieved many impressive achievements when successfully penetrating many of the world's leading demanding markets such as the US, Europe... with increasingly high turnover. However, the sharp increase in oil prices due to the Russia-Ukraine war and the post-COVID-19 situation has greatly impacted exports to these markets. The distance from Vietnam and Central America to Europe is 10 days different. The increase in oil prices makes transportation costs from Vietnam to Europe much more expensive than in Central American countries, so Vietnamese agricultural products are also less competitive in the European market. High oil prices also encourage American farmers to produce tropical fruits that have long had to be imported from Asia. Faced with the above market fluctuations, Vietnamese businesses need to have a plan to exploit the ASEAN market to replace distant and unstable markets due to high fuel prices. In particular, the RCEP Agreement taking effect in early 2022 will continue to open the door for Vietnamese goods in ASEAN.

Businesses need to promote marketing, develop distribution channels, improve sales skills, improve management capacity to have stable product quality, and at the same time have a purchasing strategy to have input materials stable with competitive prices. Businesses do not necessarily need to change their entire company strategy, they just need to optimize what they are doing, learn new things, and apply new things. Besides, the production process also needs to be reviewed, evaluated, and adjusted to suit the new situation.

To sell products into ASEAN, businesses need to make products that are of good quality and purely Vietnamese. Because if importing raw materials from China to process and process products similar to other countries, Vietnamese enterprises cannot compete on costs because China is always the country that does this best. But if you make specific Vietnamese products, customers cannot compare the price with any other country, and they are even willing to pay a higher price if they know that it is the best product from Vietnam.

On the management side, ministries and branches need to help businesses transition to a digital economy and dynamically adapt to changes at home and abroad. Under the impact of the Covid-19 epidemic, the digital economy has become no longer just a movement but has become an inevitable trend.

## Vietnam-ASEAN Trade Balance, Current Situation and Solutions

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