The US–China Trade War

Vietnam Emerges as the Greatest Winner

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During the Trump administration, the United States employed a series of unilateral tariffs on various Chinese imports, inducing some unprecedented changes in US trade policy vis-à-vis China. As an anti-establishment outsider to America's traditional politics, Donald Trump, throughout his presidency, frequently obscured the boundary between foreign and trade policy, equating sanctions with tariffs, and effectively weaponizing trade. Trump administration's tariffs had one major goal, which he promised countless times to the American public: Lowering the US trade deficit with China. His tariffs, however, were hardly successful. According to the US Census data in nominal US dollars, the US trade deficit in goods with China during his term kept increasing from 2016 ($346 billion) to 2018 ($418 billion, an all-time high); it was not until 2019 that it decreased to a level ($342 billion) comparable to 2016's $346 billion.[1] The meager $4 billion decrease in the US trade deficit with China from 2016 to 2019 is extremely underwhelming, since the US trade deficit with the world—including China—in 2019 was a towering $845 billion, which expanded substantially from 2016's $735 billion.[2]

Moreover, the tariffs' impact on the US economy was devastating, as "the trade war had cost the economy nearly 300,000 jobs and an estimated 0.3% of real GDP; the US companies lost at least $1.7 trillion in the price of their stocks as a result of US tariffs imposed on imports from China."[3] Not only in stocks, but many US businesses also sustained real profit losses since many of them depended on imported intermediate inputs from China; with higher input costs than before, many US businesses raised their own prices to keep the profit margin intact, which eventually led them to "[lose] market share to competitors from other countries who did not have to pay" the additional tariffs.[4] In essence, "the US companies primarily paid for the US tariffs, [and while] the US goods trade deficit with China had shrunk [a little] by 2019, its overall trade deficit did not," suggesting that the Trump administration's tariffs neither successfully lowered the US trade deficit with China nor benefited the US consumers and firms as President Trump would have wished.[5] Taken together, the Trump administration's tariffs did little besides significantly increasing the US trade deficit with the world at the expense of the US economy. In this sense, the United States was unmistakably a loser from its own tariffs; the question becomes, then, who won from the Trump administration's tariffs? With more than half its exports subjected to these

tariffs in 2019, China was obviously not a winner. This article, by using US import data from UN Comtrade and some of the conclusions made in United Nations Conference on Trade and Development (UNCTAD, 2019), aims to intuitively illustrate that Vietnam was the greatest beneficiary from the US–China tariff war in select product groups (HS 50-63, 84 & 90, and 85), with some assumptions.

Literature Review

The research on the effects of Trump administration's tariffs is still relatively new. UNCTAD used cross-section regressions with world trade data from the second half of 2018 to the first half of 2019 to estimate the trade diversion effects of the Trump administration's tariffs. The authors found that there was a decline in US imports of tariffed Chinese products of US$ 35 billion (or about 25 percent), and of the US$ 35 billion, about US$ 21 billion (or about 63 percent) was replaced by imports from countries other than China. The remainder of US$ 14 billion, the authors noted, was either lost due to lower demand in the United States and/or not enough export capacity from the rest of the world. They concluded that large countries with "spare capacity and available trade infrastructure were the ones better positioned to replace China" in the US market,[6] but nonetheless emphasized the competitiveness of Chinese exports to the United States, as 75 percent of them survived the administration's tariffs and were purchased in the United States. However, since their data is until the first half of 2019, the effects of additional Section 301 tariffs from the Trump administration in June and September 2019 were not considered, thus presenting an incomplete assessment of the effects of the administration's tariffs from 2018 to 2019.

Another work that contributes to this topic is Chad P. Bown's working paper, "The US–China Trade War and Phase One Agreement," which closely examines China's attempt to fulfill its US import purchase commitments set by the 2020 US–China Phase One Trade Agreement.[7] Bown observes that even when the US–China Phase One Agreement was negotiated in January 2020, the tariffs imposed by the United States and China on each other were not eliminated entirely; when "implementing the agreement, on February 14, 2020, both the United States and China cut in half the last round of tariff escalation imposed in September 2019, . . . [but] all the other tariffs remained in effect." The immediate outcome of the Phase One Agreement, then, was that the US Section 301 tariffs still covered about 66 percent of Chinese imports, and China's retaliatory tariffs were still on about 58 percent of its US imports.[8] Although the Trump administration demanded that China purchase more US goods so that the US trade deficit with China could fall to 2017 levels, the majority of the administration's tariffs remained, thus rendering China's import commitment quotas all the more unrealistic. Bown analyzes that the

vacuum created by the Trump administration's tariffs was substantial, and since the purchase commitments set by the Phase One Agreement went into effect only after many third-party economies (i.e., countries other than the United States and China) had already replaced China in several product groups in the US market, China's prospect of fulfilling the purchase commitments is very slim.

The contributions of this article to the topic are the following. First, this article uses full 2018 and 2019 annual US import data, rather than quarterly trade data as in UNCTAD (2019), to demonstrate how some third-party economies benefited from the Trump administration's tariffs and China's decreased exports to the US market, with some assumptions. As the Trump administration imposed more Section 301 tariffs in the second half of 2019, the effects of these additional tariffs will be taken into account in this article, unlike in UNCTAD (2019). Second, this article provides a simplified framework to study how a reduction of import demand from a particular country due to tariffs leads to increased imports from third-party countries without using computable general equilibrium (CGE) econometric models to estimate the effects of tariffs.

However, this article also has limitations. First, this research depends on some assumptions, much like how intermediate microeconomics theories depend on assumptions that may not always hold. Second, only select product groups (HS 50-63, 84 & 90, and 85) are inspected in this article for simplicity, yet there can be more product groups that could be included to improve the robustness of the conclusions made in this article. Third, since the data for this work is acquired from UN Comtrade, separate trade data from Taiwan is not used in this article; the UN recognizes Taiwan as a province of China. This could create a bias in interpreting the results of the analysis presented in this article, as Taiwan was one of the most significant beneficiaries of the US–China tariff escalation from 2018 to 2019.[9]
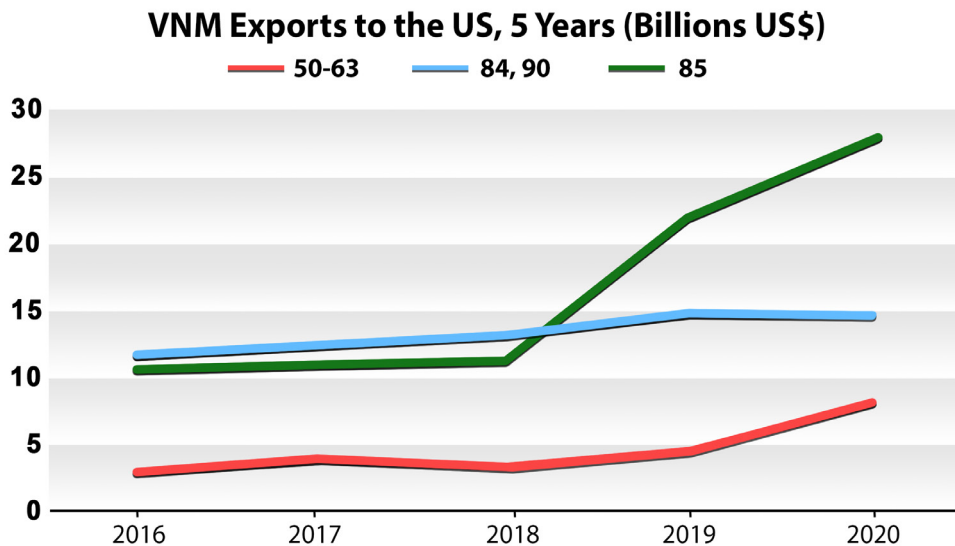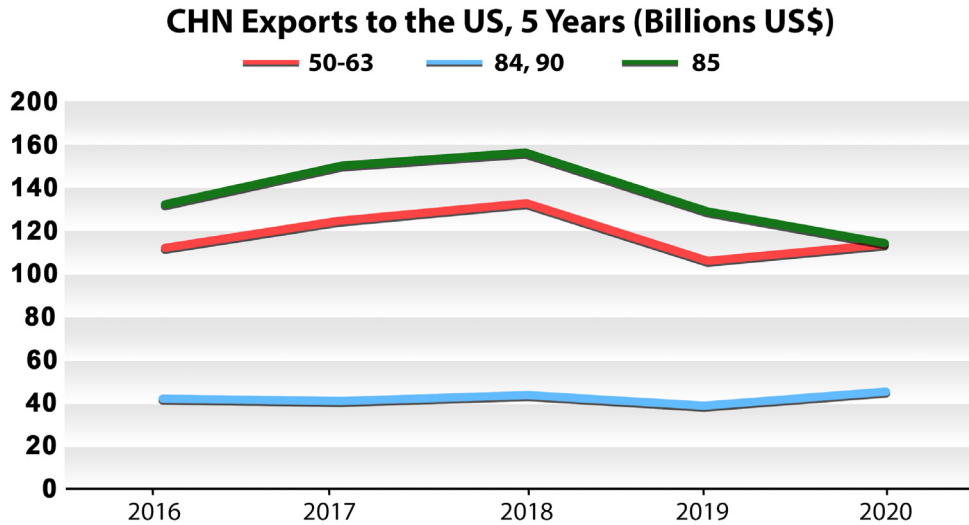
Methodology

To begin, the US import data of selected product groups from 2016 to 2020 from UN Comtrade database was acquired. These product groups are those in which China traditionally has had export competitiveness. Using two-digit HS codes, these product groups are categorized in the following manner: HS 50–63 as one group represents textiles and apparel products; HS 84 and 90 broadly represent machineries; HS 85 represents electrical equipment. First, the reduction in the US consumption of Chinese imports in these three product groups from 2018 to 2019 was obtained, and it was assumed that 63 percent of the reduced demand in the US market for these product groups was diverted to a group of third-party countries in 2019, as indicated by UNCTAD.[10] Furthermore, it is also assumed that the entirety of the change in one country's exports to the US market from

2018 to 2019 is due to the Trump administration's tariffs. This implies that factors other than the tariffs creating a vacuum in the US market for imports is ignored. While this is not realistic, this condition is assumed to enable simple and effective interpretations. Then the amount of total trade diverted from China to the third-party countries and each third-party country's percentage share of the trade diverted from China were calculated. It is also noted which third-party country benefited more than others in each of the three product groups selected.

Results

Figures 1–6 indicate the US imports of the selected product groups from China and selected third-party countries from 2016 to 2020, in billions of US$. It should be noted that the US–China tariff escalation began in late 2017 and peaked in 2019. In January 2020, the US–China Phase One Trade Agreement was negotiated, and tariff escalation was finally suspended, although the tariffs were still not eliminated completely. Figure 1 presents that from 2018 to 2019, Chinese (CHN) exports to the United States in machineries (HS 84 & 90) and electrical equipment (HS 85) saw a sharp decline, although textiles and apparel (HS 50–63) products were largely unaffected by the tariff shocks. This signifies that the Chinese textiles and apparel industry is immensely competitive, impervious to tariffs and the potential disruption of supply chains that tariffs generated. Unlike the textiles and apparel products, however, the Trump administration's tariffs severely damaged China's other two product groups, which are struggling to rebound to pre-tariff levels from 2019 and onward. From figure 2, it can be observed that Vietnam's (VNM) electrical equipment exports to the United States increased exponentially from 2018 onward, while the other product groups experienced relatively moderate growth. Out of the six exporting economies listed, Vietnam is the only country that experienced a remarkable boost in its electrical equipment exports to the United States; all the others exhibit negligible variations except China, which again sustained a considerable decline. Moreover, the other exporters to the United States were generally unaffected by the Trump administration's tariffs filed in 2018 and 2019; if anything, they experienced a mild improvement in exports from 2018 to 2019. As for the exporters that experienced a decline in their machinery exports from 2019 to 2020 such as the European Union (EU), Japan (JPN), and Mexico (MEX), the following could be a potential explanation: Their machinery exports to the United States declined in 2020 due to the increased market share obtained by Vietnam and South Korea (ROK) and China recovering a portion of its lost market share. This would imply that China has not been able to fully recover its pre-tariff export levels to the United States, which is in accordance with the findings presented in UNCTAD.[11]

Figures 1–6: US imports from China and selected third-party economies, 2016–2020, of selected product groups (CHN, VNM, JPN, ROK, MEX denote China, Vietnam, Japan, Republic of Korea, and Mexico, respectively)**.**

CHN Exports to the US, 5 Years (Billions US$)

— 50-63   — 84, 90   — 85

VNM Exports to the US, 5 Years (Billions US$)

— 50-63   — 84, 90   — 85

EU Exports to the US, 5 Years (Billions US$)

— 50-63   **— 84, 90**   **— 85**
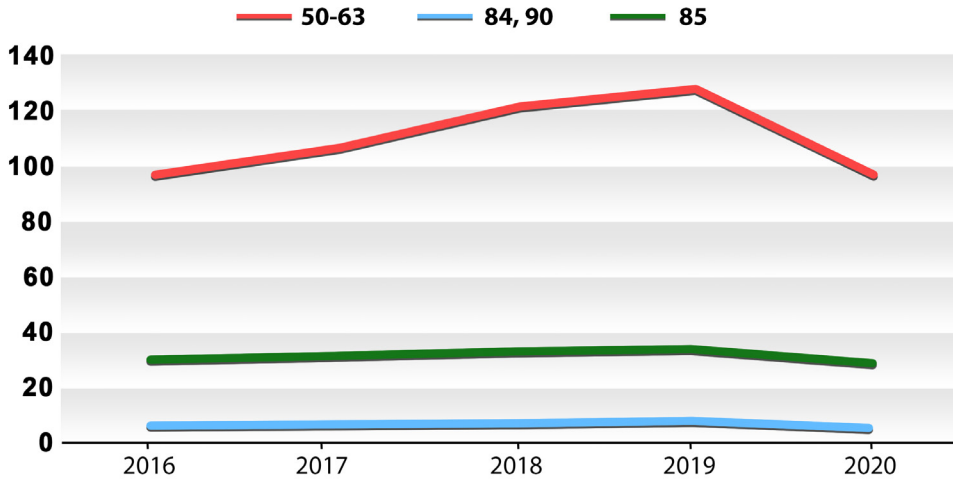
JPN Exports to the US, 5 Years (Billions US$)

— 50-63   **— 84, 90**   **— 85**
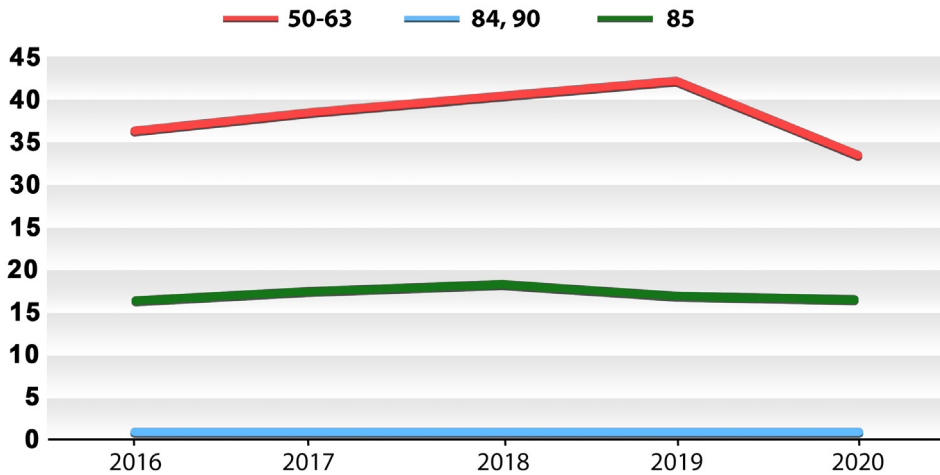
ROK Exports to the US, 5 Years (Billions US$)

— 50-63 — 84, 90 — 85
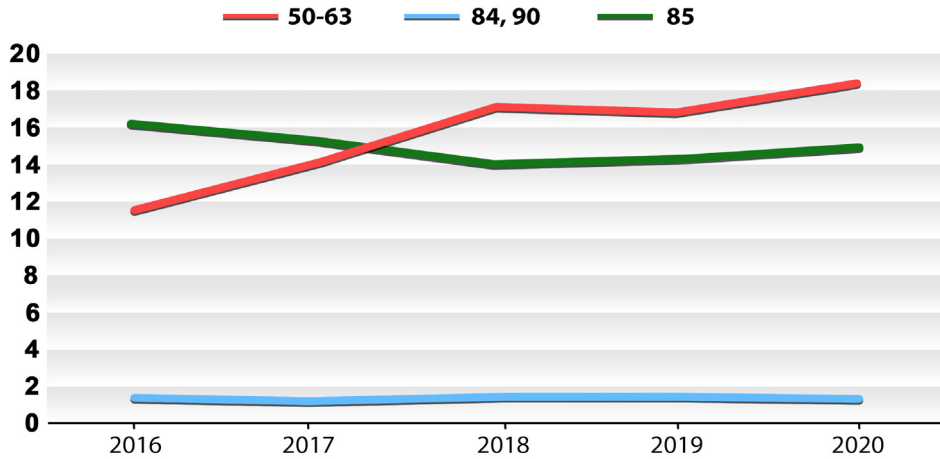
MEX Exports to the US, 5 Years (Billions US$)

— 50-63 — 84, 90 — 85
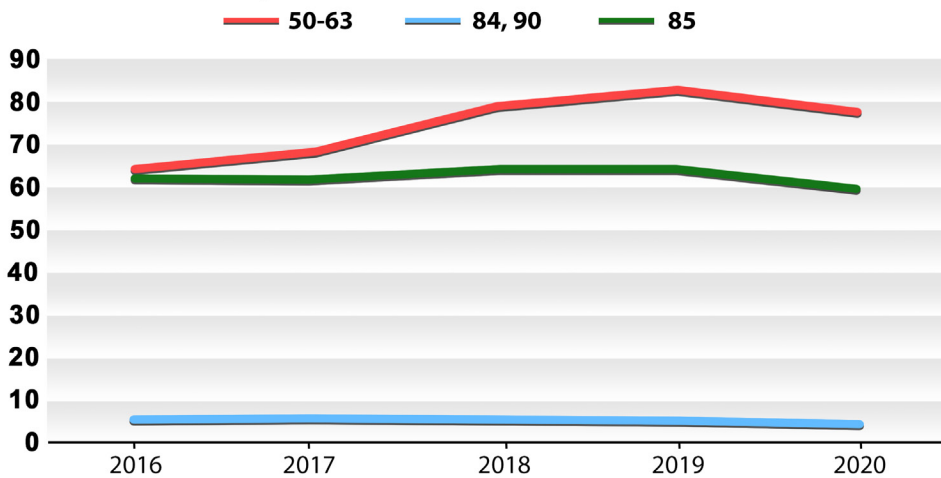
From the data used for figures 1–6, a table that represents the yearly export differentials from 2016 to 2020 is constructed, which is table 1. Since the majority of the Trump administration's tariffs were imposed in the 2018–2019 period, the corresponding column in the table is boldfaced, denoted as 2018–2019. While constructing table 1, it is assumed that all the positive differentials in the 2018–2019 period from the third-party economies went into diverting the loss of Chinese exports to the US market in the same period. The table is as follows:

Table 1: Selected economies' export differentials to the United States from 2016 to 2020, in selected product groups. The column 2018–2019 is boldfaced to note that tariff escalation between the United States and China peaked from 2018 to 2019.

Country	HS Code	2016–2017	2017–2018	2018–2019	2019–2020
CHN	50-63	-394	1616	**-3410**	5836
	84-90	12916	8053	**-26351**	6814
	85	18313	5941	**-27236**	-14252
VNM	50-63	827	801	**1422**	93
	84-90	853	-335	**1195**	3296
	85	543	71	**10611**	5808
EU	50-63	86	595	**239**	-1885
	84-90	9208	14773	**6706**	-30725
	85	1043	1784	**513**	-4439
JPN	50-63	18	40	**29**	-130
	84-90	2160	1755	**1905**	-8562
	85	1085	544	**-1116**	-495
ROK	50-63	-42	86	**61**	-70
	84-90	2553	2976	**-216**	1541
	85	-843	-1201	**250**	544
MEX	50-63	227	1	**-227**	-724
	84-90	3872	10819	**3689**	-5009
	85	-123	2240	**73**	-4351

From table 1, the amount of trade diverted from China to the third-party economies is calculated, with the assumption that 63 percent of the total loss of Chinese exports to the US market from 2018 to 2019 was diverted to the third-party countries.[12] Furthermore, the percentage share of trade diverted by each third-party country is also calculated to see which country benefited more than others as the result of the US–China trade escalation in the three product groups. From table 1, it can be observed that Vietnam experienced significant export growth in all three product groups in the 2018–2019 period, capturing most of the vacuum created by the loss in China's exports to the US market. Table 2, which summarizes the results of the trade diversion caused by the Trump administration's tariffs, is provided as follows:

Table 2. Trade diversion results, calculated from the data used for Table 1 (CHN, VNM, JPN, ROK, MEX denote China, Vietnam, Japan, Republic of Korea, and Mexico respectively).

HS Code	2018–2019 Loss Abs Value (Millions US$)	Amount Diverted (Using 63%; Millions US$)
50-63	3410	2148
84, 90	26351	16601
85	27236	17159
	Sum of Positive Change (Millions US$)	**% Diverted**
50-63	1752	51.37%
84, 90	13496	51.22%
85	11447	42.03%
	VNM's Share (%)	**JPN's Share (%)**
50-63	66.17%	1.37%
84, 90	7.20%	11.48%
85	61.84%	-6.50%
	EU's Share (%)	**ROK's Share (%)**
50-63	11.15%	2.85%
84, 90	40.40%	-1.30%
85	2.99%	1.46%
	MEX's Share (%)	Note: Taiwan's trade performance is calculated as part of China's
50-63	-10.57%	
84, 90	22.22%	
85	0.42%	

The column "2018–2019 Loss Abs Value (Millions US$)" simply denotes the loss in China's exports to the United States from 2018 to 2019 in absolute value terms. These numbers were then multiplied by 0.63, a ratio that was suggested by UNCTAD to be the ratio of diverted trade from China to third-party countries as the result of the Trump administration's tariffs. The result yields the total amount of trade diverted to third-party countries, which is presented in the top-right corner in the "Amount Diverted (Using 63%; Millions US$)" column. Since China's textiles and apparel products maintained their strong presence in the US market, the trade amount diverted for textiles and apparel is significantly lower than the other two product groups. "Sum of Positive Change (Millions US$)" represents the sum of positive trade differentials in the 2018–2019 period from all the third-party countries selected. Note these numbers are smaller than those from "Amount Diverted (Using 63%; Millions US$)," since there are many more countries other than the five economies presented here that diverted trade from China. These five countries were identified by UNCTAD as the top five diverters of China's trade (excluding Taiwan) and indeed represent most of the trade diverted from China, yet there are other countries such as Canada, India, and so forth, which also diverted trade from

China. Finally, each third-party country's percentage share of trade diversion is calculated by dividing a country's export growth numbers by the numbers from "Amount Diverted (Using 63%; Millions US$)." The results demonstrate that Vietnam's percentage share of trade diversion in textiles and apparel and electrical equipment products dominates that of all the other competing exporters to the United States, while the EU benefited the most in its exports of machineries to the United States from the US–China tariff war. However, it must be noted that the EU's export performance to the United States in machineries in the following 2019–2020 period plummeted, while countries like China, Vietnam, and South Korea had an increase in their machinery exports. Moreover, since China's loss in textiles and apparel products is much smaller than its losses in the other product groups, the high diversion share of Vietnam in textiles and apparel products may be misleading. Nonetheless, that Vietnam captured more than 60 percent of China's loss in textiles and apparel and electric equipment exports to the United States is an astonishing feat; also, that Vietnam maintains comfortable export growth in the following 2019–2020 period in all three product groups—the only country among the selected countries to do so—indicates Vietnam's growing export competitiveness in the US market, with which Vietnam could potentially replace China in many sectors in the future as suggested in UNCTAD.

The US–China Trade War and Vietnam: Long-term Considerations

Answering the question if Vietnam truly has sufficient "spare capacity and available trade infrastructure to replace China" in the long term in the US market is a challenging task.[13] While it is undeniable that Vietnam was one of the biggest beneficiaries of the US–China trade war until tariff escalation was finally eased with the signing of the Phase One Trade Agreement in 2020, whether Vietnam can sustain such unforeseen growth in its export performance in the long term is uncertain. In fact, experts on Vietnam's trade strategy voice their concerns that the current success of Vietnam in diverting China's trade may be short-term, for reasons that are structural and difficult to be adjusted. To explain these concerns, it is important to examine how Vietnam was so successful in diverting China's trade in the first place, according to these experts.

According to Lam Thanh Ha and Nguyen Duc Phuc, faculty members at the Diplomatic Academy of Vietnam under Vietnam's Ministry of Foreign Affairs, the relationship between China and Vietnam in trade has always been complementary, despite their rather rough diplomatic relationship. While the United States and China together account for about a third of Vietnam's export and import share, "Vietnam has a substantial trade surplus with the US, [but] a correspondingly large deficit with China."[14] Vietnam's top exports to China "comprise mainly of electronics, semiconductors, garments, footwear, sporting goods, and furniture"—which are

largely synonymous with the three chosen product groups of this article—and "Vietnam often plays the role of China's OEM [original equipment manufacturer] in these industries, and only exports raw materials or intermediate inputs for production in China,"[15] hence its large deficit with China. Ha and Phuc theorize that Vietnam could stand to gain the most from the US–China trade war because a portion of the very "Chinese goods affected by [the Trump administration's] tariffs [were] consumed and produced in Vietnam" rather than in China;[16] by exporting these products directly to the United States, Vietnam could effectively capture market share from Chinese products that were subject to US tariffs.

As a reaction to this, however, China soon began to use Vietnam as a convenient trans-shipment platform for Chinese exports to sidestep the tariffs imposed by the United States on Chinese goods; an example of this is "Chinese steel being brought into Vietnam and repackaged as Vietnam's steel exports to the United States."[17] This is particularly problematic for Vietnam because of its deep economic ties with China. If China can easily turn Vietnam into its own "backyard," repackaging Chinese exports to the United States as Vietnamese, then China may soon be able to fully internalize a critical portion of Vietnam's supply chain in key exporting industries, thus rendering Vietnam's successful trade diversion obsolete. That China was the largest investor of newly registered foreign direct investment (FDI) in Vietnam in 2019 supports the claim that more Chinese enterprises are finding ways to invest in Vietnam to produce their own goods as exports to the United States. Given that "Vietnam's supply chain and infrastructure network is reportedly only equivalent to that of China's several years ago,"[18] Vietnam will need to narrow its infrastructure gap relative to China expeditiously to extend its current success in the long term, which will be a great challenge for Vietnam.

Conclusion

This article has examined the magnitude of the trade diversion effects caused by the US–China tariff escalation from 2018 to 2019. Using some assumptions and a simplified framework to study trade diversion effects, this article produced comparable results that could mirror the actual trade outcomes from 2018 to 2019. Since the data used in this article is from UN Comtrade, separate data on Taiwan's trade performance is not considered. However, it should be noted that all Taiwan's export growth from 2016 to 2020 is included as part of China's export performance, which would have reduced the magnitude of China's losses in its exports of the three product groups to the United States in the same period. Therefore, while a separate analysis on Taiwan as one of the winners of the US–China trade war is not presented, the magnitude of the trade diverted to the selected third-party countries and the permanent trade loss in the 2018–2019 period caused by the reasons delineated

from UNCTAD is unaffected by Taiwan's absence. This article concludes by highlighting Vietnam's growing export competitiveness in sectors traditionally dominated by China in the US market for decades, sectors for which the three product groups selected in this study—textiles and apparel, machineries, and electrical equipment—were used as a proxy. Contrary to President Trump's claim that "trade wars are good, and easy to win,"[19] this article demonstrates that tariff wars divert trade, create permanent losses, and mainly benefit third-party economies such as Vietnam and the EU. The future remains unclear, however, as how the Biden administration will react to China's failure to fulfill its purchase commitments of US goods can also substantially change the United States' trade relationship with China, just like the Trump administration's tariffs did. Recently, the Biden administration is contemplating initiating a new tariff investigation to impose a new round of tariffs targeting strategic sectors of the Chinese economy that are heavily state-subsidized.[20] While the administration is proposing to pair this investigation with a removal of some existing tariffs on consumer goods imported from China, the US–China tariff war may enter a new devastating stage with a new round of tariffs targeting each other's strategic sectors, such as semiconductors. If tariff escalation continues, then third-party economies such as Vietnam will continue to benefit the most, diverting China's export losses in the US market in the future. ✪

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Notes

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