



## Freer trade can raise living standards and bring down the prices of goods and services

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The gap between the rich and the poor in Viet Nam has narrowed, thanks to increased imports from the People's Republic of China. Data collected from 2002 to 2014 show that lower-income groups benefited more than higher-income ones. Numerous studies show that international trade can fuel economic growth and that open economies are generally more prosperous than more protectionist ones. Apart from creating jobs, freer trade can raise living standards and bring down the prices of goods and services. Let's hear from economist Trang T. Le of the Banking Academy of Viet Nam:

**But the wealth gap didn't shrink overnight. In 2006 and 2010, only the highest-income groups saw their wealth decrease. In 2012 and 2014, after Viet Nam and China trade accelerated, the two lowest-income groups saw their incomes rise, with the poorest benefiting most.**

**Poor people's incomes didn't decline much shortly after 2002, and their incomes increased toward 2014. At the same time, trade with China led to lower incomes for the two highest-income groups.**

This happened as Viet Nam became heavily reliant on China-made goods over the years, with the world's most populous country becoming Viet Nam's largest trading partner. Viet Nam sourced around 13% of its imports from China in 2000 and 40% in 2014. Trade between the two countries totaled \$71.9 billion in 2016, up 7.9% from 2015.

China became a major player in the world economy as its share of world exports rapidly increased from 2.5% in 1993 to 10.6% in 2010, when it became the largest exporter in the world.

As of 2014, Viet Nam was China's ninth-biggest global trading partner. It's also China's biggest trading partner in Southeast Asia. Some observers say that the two countries have become "inseparable." It's no surprise, then, that trade would affect socioeconomic development, especially in Viet Nam.

**On average, household income before 2010 barely budged in relation to imports from China. But that changed in 2012 and 2014 as Viet Nam became more reliant on China-made goods. Importing final and intermediate goods—those used to make other products—helped lessen inequality in Viet Nam.**

**Except in 2002, imports of intermediate goods benefited all income groups but especially poorer households, possibly because their incomes rose as firms increased their productivity.**

**Exposure to imports of final goods from China often brings down household income, especially in the middle-income groups.**

In general, imports of intermediate and final goods from China both significantly lessen income inequality. Importing more intermediate goods from China helped local firms become more productive and pay higher wages. Importing more final goods from China not only allows households to have varied products at lower prices but also encourages job creation, especially in retail and wholesale trade.

**More data is needed to understand in detail how increased trade with China affected productivity and wages. Viet Nam's economy has been particularly successful in competing with China, but other countries may not have the same experience and Viet Nam might see the benefits fade. As both China and Viet Nam move to higher-skilled manufacturing and services, the effect of trade exposure on income inequality could very well change.**

This episode is based on [research](#) done for the Asian Development Bank Institute by Matthias Helble, senior economist and ADBI Research Department co-chair at the time the study was published; Trang T. Le, assistant professor at the Banking Academy in Viet Nam; and Trinh Q. Long, a project consultant at ADBI.

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