South-South Economic Cooperation: Exploring Mekong-Ganga Relationship

An Assessment of Trade and Investment Cooperation between Vietnam and India

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Chapter 1: An Introduction into Vietnam Economy

1.1 Economic Reform and Macroeconomic Performance

The economic reform program (commonly known as Doimoi) launched in 1986 has covered a wide range of areas such as economic institutions, property rights, macroeconomic policies, state-owned enterprises (SOEs), the banking system, and the international trade regime. After nearly 20-years of reform, the economy has changed dramatically. During the period of 1990-97, Vietnam recorded the great achievements in terms of GDP growth, foreign trade expansion, and rapidly growing inflows of foreign direct investment (FDI).

However, after 1997, some big obstacles appeared on the race course. The economy was slightly affected by the East Asian crisis that revealed some fundamental structural weaknesses such as the inefficiency of the SOE sector and the underdevelopment of the banking system. The last few years of the 1990s were characterized by slower growth in GDP as well as export and substantial decrease in FDI.

Table 1.1: GDP growth and Volume of Merchandise Trade, 1990-2003

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004** [b]
GDP growth	**9.5**	**9.3**	**8.1**	**5.8**	**4.8**	**6.8**	**6.9**	**7.1**	**7.3**	**7.6**
Economic structure [c]										
Agriculture	27.2	27.8	25.8	25.8	24.5	23,8	23,2	23,0	21.8	
Industry	28.8	29.7	32.1	32.5	36.7	37,7	38,1	38,5	40.0	
Services	44.0	42.5	42.1	41.7	38.7	38,5	38,7	38,5	38.2	
FDI (bill USD)	**6.85**	**8.98**	**4.89**	**4.14**	**1.57**	**2.02**	**2.59**	**1.62**	**1. 90**	**4.20**
Export (bill USD)	**5.45**	**7.26**	**9.19**	**9.36**	**11.54**	**14.48**	**15.03**	**16.71**	**20.18**	**26.00**
% changes	34.4	33.2	26.6	1.9	23.3	25.5	3.8	11.2	20.8	28.9
Import (bill USD)	**8.16**	**11.14**	**11.59**	**11.5**	**11.62**	**15.64**	**16.22**	**19.75**	**25.23**	**31.50**
% changes	40.0	36.6	4.0	.-0.8	1.1	34.5	3.7	21.7	27.8	24.9

[a] *Including construction* [b] *Preliminary figures* [c] *% in GDP*

Source: Statistics year book, 2003; International Merchandise trade 2002 and Ministry of Trade

The second round of reform measures were introduced right at the end of the last millennium and focused on the banking reform and improving business environment. Together with the recovery of the East Asian economies, Vietnam has regained the growth momentum for the last few years. The average annual growth rate in the period of 2000-2003 was over 7%. All economic sectors grown with 3-4% in agriculture, 6-7% in services and over 10% in industry in term of average annual growth rate.

High growth has been associated with positive changes in the economic structure. The share of agriculture in GDP decreased gradually, and only accounted for about 21.8% of GDP in 2003. By contrast, the share of industry in GDP increased to 40% compared with 28.8% in 1995.

1.2 Rapid Growth of International Trade

Another important characteristic of Vietnam's economy is the diversification and rapid expansion of foreign trade. In the past, traditional partners of Vietnam were only the former Soviet Union and East European countries. Now, number of trading partners was expanding to 221 countries/territories in the world. Foreign trade turnover has risen uninterruptedly, with the average annual rate of 19.67% during the period of 1990-2000 and 15.7% during 2001-2004, while the planed target to the period of 2001-2005 is 16%. Especially, it increased 20.8 % (20.176 billion USD) and 28.9% (26.003 billion USD) for exports and 27.8% (25.227 billion USD) and 24.9% (31.5 billion USD) for imports in 2003 and 2004 respectively. So Vietnam has not only recorded high export growth rates, but also become a very open economy if measured with the share of international trade in GDP. The foreign trade-GDP ratio in recent years has exceeded 110%, an increase by 150% as compared with the 1990 level. These outstanding achievements are the outcome of the open door policy and a significant source of high GDP growth rates.

Table 1.2: Goods Exports and Imports as Percentage of GDP

	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
Exports	22.17	25.05	29.68	34.59	34.74	40.44	45.60	46.90	46.80	50.00
Imports	22.70	36.35	42.44	39.45	38.38	36.66	43.60	50.60	55.30	62.50

Source: IDRC/CIDA Project; GSO and authors' calculation for 2001, 2002, and 2003.

1.3 Integration into the World Economy

Rapid increase in the values of exports and imports is an important indicator of how effectively Vietnam has integrated into the world economy. Vietnam joined ASEAN in 1995.

In September 2001 the bilateral trade agreement with the United States was concluded. This has made a break-through into new and remote markets in America, Africa, Southwest Asia, thanks to that in separate 2002 the number of export address doubled compared 2001. Vietnam is now in the process of finalizing the AFTA road map for phasing out quantitative restrictions and reducing tariffs vis-à-vis ASEAN countries in 2006.

Vietnam applied for a membership of WTO on January. 4, 1995, and the WTO Working Party on Vietnam accession was formed on January 31, 1995. So far within the framework of WTO Working Party, Vietnam have accomplished 9 multilateral rounds of meetings and also bilateral negotiations with 6 partners, namely, Argentina, Brazil, Cuba, Chile, EU and Singapore among 27 partners have requirements to negotiate with Vietnam. At present Vietnam is active and urgent to complete last procedures. Vietnam is speeding up bilateral negotiations with the rest including a lot of partners hard to deal with such as United States, China, Japan … and intended to complete all bilateral negotiations in this August. These negotiations are a favorable condition to hold the 10^{th} multilateral round of meetings in September 2005, and to make Vietnam become a membership of WTO in December 2005. This also means the MFN and preferential tariff schedules will replace the much higher current tariff rates. A large world market offers substantial potential for Vietnam to expand its exports in the near future.

Besides foreign trade, the rapid development of the foreign investment sector has contributed significantly to the economic growth of Vietnam. Up to December 2003, total registered FDI stock was 45.8 billion USD with 5441 projects. Total implemented FDI accounted for about 60% of total registered FDI. Through this activity, Vietnam economy has the opportunity to become a chain of the global production network. Exports of FDI sector has been about 25-30% of total export turnover. The growth rates of GDP of the foreign invested sector are always higher than that of the economy and the spillover effects from FDI enterprises are significant for the improvement of the competitiveness of the economy.

Table 1.3: Contribution of various sectors to GDP

	1995	2000	2002
State	40.2	38.5	38.3
Collective	10.1	8.6	8.0
Private	3.1	3.4	3.9
Household	36	32.3	31.4
Mixed	4.3	3.9	4.5
FDI	6.3	13.3	13.9
Total	100	100	100

Source: GSO, 2003.

Business environment has improved remarkably in terms of infrastructure and also of institutional environment. Considerable share of public investment and foreign investment has been channeled to the development of infrastructure such as electricity, water, communication, roads and ports to meet the essential demand of investors. Institutional environment for business has become much more opener and transparent with a number of new laws and regulations issued recently. The Enterprise Law came into effect in January 2000 has reduced the entry barriers enormously. On average, it takes only 17 days and less than USD 40 to have a new business registered that is in sharp contrast with 99 days and USD 660 in the past (VCCI, 2002). The considerable reduction of barriers to entry has offered a big push to the expansion of private enterprises. Within less than three years since the law has come into force, more than 72,600 new private enterprises were licensed with around 1.6 – 2 million new jobs were created (CIEM 2004). To further level the playing field, the National Assembly promulgated of the Competition Law in 2004 and is working intensively to unify the Investment Laws and the Enterprise Laws for various types of enterprises.

Chapter 2: Foreign Trade, Trade Policy and Export Incentives

2.1. Merchandise Trade

Over the past ten years the structure of foreign trade changed obviously, especially this can be seen in the changes in terms of exported goods and in terms of trade partners.

a. Structure of Export and Import

The structure of exported goods has changed over the last two decades albeit at a slow pace. While the shares of agricultural sector and mining industry are still important components in total export value, their significance has been declining step by step, from 46.2% of total exports in 1995 to 29.3% in 2003. By contrast, the role of manufacturing has become more important and its share in total export increased from just about 14.4% in 1991 to 28.5% in 1995 and to 39.7% in 2003 (Table 2.1). Exports of light industrial and handicraft products enjoyed the highest growth rates.

Table 2.1: Share of Exports value by Commodity Group (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
- Heavy industrial products and minerals	25.2	28.7	28.0	27.9	23.5	37.2	34.9	31.8	31.0
- Light industrial and handicraft products	28.5	29.0	36.7	36.6	37.1	33.8	35.7	40.6	39.7
- Agricultural product*	46.2	42.3	35.3	35.5	39.4	29.0	29.4	27.6	29.3

*Including forest and aquatic products

Source: Statistics Yearbook 2003, GSO

Crude oil remains one of the three most important exports with value of more than US$ 2 billion. In 1998, export value of crude oil was US$ 1.23 billion (or 12.1 million tons), more than double of that in 1991. In 2002 this figure increased to US$ 3.2 billion (16.7 million tons). Major importers of crude oil are Australia, China, Japan and Singapore. Australia has become the biggest buyer since 2002, made up 33% of total exported crude oil.

Textile and garment industry and footwear industry displayed outstanding performance throughout the 1990s. Recently textile and garment has become the largest export item for manufactured products (the second largest after crude oil in 2002, but in 2003 it become the first largest). In 1991 it took roundly 7.6% of total (merchandise) export value, in 2000 and 2002 this figure was 12.7% and 16.4% respectively. At present, Vietnam's textile and garment products have been exported to over 170 countries and territories, of which the largest foreign markets are United States (37.9% in 2002), Japan and Germany. The share of footwear industry in total exports has also increased considerably, from less than 0.5% in 1991 to 9.8% in 1998 and to 12.2% in 2002, respectively. In 2002, total export value of these two industries has surpassed that of four key agricultural export products (marine products, rice, coffee, and rubber) (US$ 4.6 billion versus US$ 3.4 billion). Footwear of Vietnam has been exported to 160 countries and territories, in which the share in EU is 70%, in United States is 10.5% and in Japan is 3%.

As far as agricultural products are concerned, although the rice has continued being a very important item in the total export value of the sector, 1990s saw a big boost of some other products such as marine products, coffee and rubber. The agricultural export has been considerably diversified. During 1991-98, the value of exported rice increased more than four folds, from US$ 225 million to US$ 1024 million and however reduced to US$ 726.4 million in 2002. Exports of marine products has experienced in boom, increased dramatically from US$ 285 million in 1991 to US$ 858 million in 1998 and attained US$ 2035.7million in 2002.

Besides the four traditional products with export turnover more than USD 1 billion, nowadays in this group there are two other products which are electronic parts (including TV parts), computers and their parts and articles of wood. This proves that exported products are more and more diversified.

However, the export structure of Vietnam shows that Vietnam is still heavily dependent on primary products, though its share decreased gradually from 67.9% in 1995 to 49.6% in 2002 (see table 2.2) and hence, is very vulnerable to the fluctuation in commodity prices. Although the share of manufactured export in Vietnam's total export was rising steadily, it is still small (from 32.8% in 1995 to 50.5% in 2002) in comparison with the neighbor countries[1]. In addition, local value added remains low even though export value is high. For example, the share of imported materials is about 60% of the turnover.

Table 2.2: Exports and Imports by SITC 1 digit commodity, Rev. 3 (million USD)

	1995		2000		2001		2002	
	Value	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**
Exports	**5449**	**100.0**	**14 483**	**100.0**	**15 029**	**100.0**	**16 706**	**100.0**
-Primary products (Section 0-4)	3 664	67.2	8 079	55.8	8 010	53.3	8 290	49.6
-Manufactured products (Section 5-8)	1 785	32.8	6 398	44.2	7 019	46.7	8 415	50.4
-Not classified elsewhere in SITC	0.1	-	6	0.04	0.3	0.002	2	0.01
Imports	**8 155**	**100.0**	**15 637**	**100.0**	**16 218**	**100.0**	**19 745**	**100.0**
-Primary products (Section 0-4)	1 914	23.5	3 528	22.6	3 686	22.7	4 201	21.3
-Manufactured products (Section 5-8)	6 241	76.5	12 109	77.4	12 532	77.3	15 544	78.7
-Not classified elsewhere in SITC	-	-	7 696	0.05	44	0.0	13 133	0.1

Source: Statistics Yearbook 2003, GSO

The structure of imports has witnessed slight changes in the last decade (Table 6). The inputs for production (capital and intermediate goods) constitute a significant and increasing part of total imports (from 84.8% in 1995 to 93.9% in 2003) and rose by 3.4 times (from 6917.6 mill USD in 1995 to 23612 million USD in 2003). By contrast, the share of consumer goods fell to 6.4% in 2003 instead, and the value went up only 1.3 times. In the former, the largest items are fuels and raw material which accounted for around 60% of total imports during the whole period of 1991-2003 (except for 1994 when this share went down to 53.7%). During that period, the share of the second largest item, i.e. machinery and equipments, rose from 25.7% to 32.4%. The small and declining share of consumer goods in recent years reflected the strict control over the import of consumer goods through the non-tariff barriers (NTBs).

[1] In 1996 the share of manufactured goods in total exports of China, Indonesia, Malaysia, Philippines and Thailand was 85.4%, 60.6%, 80.5%, 83.3% and 81.5% respectively.

The electronic components, steel, fertilizers, refined petroleum, auxiliary material for textile, sewing and leather and textile fibers were among the major imported items. Vietnam has depended entirely on the import of refined petroleum and the upstream garment industry has been tied down very much to the imported textile products. For example, in 2003 imports of auxiliary material for textile, sewing and leather climbed fast, to 2,033.6 million USD, increased by 18.9% compared with 2002 and by 43% compared with 2000.

Table 2.3: Structure of imports by commodity group (%)

	1995	2000	2001	2002	2003
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Means of production	**84.8**	**93.8**	**92.1**	**92.1**	**93.6**
- Machineries, equipments, accessories	25.7	30.6	30.5	29.8	32.4
- Fuels, raw material	59.1	63.2	61.6	62.3	61.2
Consumer goods	**15.2**	**6.2**	**7.9**	**7.9**	**6.4**
- Foodstuff	3.5	1.9	3.0	2.5	
- Pharmaceutical and medicinal products	0.9	2.2	2.0	1.8	1.6
- Others	10.8	2.1	2.9	3.6	

Source: Statistics Yearbook 2003, GSO

b. Major trading partners

East Asia has become the most important trading area for Vietnam since the 1990s but its role has declined recently. Before the year 2000, the East Asian countries were the major trading partners of Vietnam trade for both imports (74.5% in 1995) and exports (70.9% in 1995). At present, although they are still the major destinations, the share of Vietnam's exports to these markets reduced continuously to 45.8% in 2003, meantime the share of imports from these countries changed slightly (73.6% in 2003).

Table 2.4: Major trading partners

	1995	2000	2001	2002	2003
Export (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
ASEAN	20.4	18.1	17.0	14.5	14.7
Japan	26.8	17.8	16.7	14.6	14.4
China	6.6	10.6	9.4	9.1	8.7
Australia	0.1	8.8	7.2	8.0	7.1
Taiwan	8.1	5.2	5.4	4.9	3.7
Korea	4.3	2.4	2.7	2.8	2.4
Hong Kong	4.7	2.2	2.1	2.0	1.9
EU	12.2	19.6	20.0	18.9	19.1

USA	3.1	5.1	7.1	14.7	19.5
India	*0.2*	*0.3*	*0.3*	*0.3*	*0.35*
Rest of the World	13.3	9.9	11.9	10.5	8.1
Import (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
ASEAN	27.8	28.5	25.7	24.2	23.6
Japan	11.2	14.7	13.5	12.3	11.9
Taiwan	11.0	12.0	12.4	12.8	11.6
Korea	15.4	11.2	11.6	11.5	10.4
China	4.0	9.0	10.0	10.9	12.4
Hong Kong	5.1	3.8	3.3	4.1	3.9
EU	8.7	8.4	9.3	9.3	9.8
USA	1.6	2.3	2.5	2.3	4.5
India	*0.8*	*1.1*	*1.4*	*1.6*	*1.8*
Rest of the World	14.4	9.1	10.3	11.0	10.1

Source: Statistics Yearbook 2003, GSO

It should be noted that the vast majority of Vietnam's exports to East Asian countries are agricultural products and minerals. Oil is one of the most important exports sold mainly to China, Japan, and Singapore. Also Indonesia and Philippines have been two of three largest markets for exported rice of Vietnam for a long time.

While the share of East Asia as a whole decreases, trade with China has grown very explosively. During the period of 1995-2003, foreign trade turnover between Vietnam and China grew 7 times (from USD 691.6 million to USD 4,870 million) in which export to China increased nearly 5 times, while import from China rose by 9.5 times. China is now the largest partner for rubber, fruits and vegetables, the second largest in coal, crude oil and cashew nut; the third largest in fish (chilled and frozen) and cuttle fish (chilled and frozen) and the fifth largest in electronic parts, computers and parts. Turnover of border trade accounted for 40% total export-import turnover between Vietnam and China.

Japan remains one of the most important export markets of Vietnam but its dominant role has been declined considerably. The share of the exports to Japan fell to 14.4% in 2003 from 26.8% in 1995 even though the export value continues to rise. Japan has been one of the largest importers for Vietnam's exported crude oil, textiles, and articles of wood, fishery product. Although export turnover has increased gradually for years, Vietnam is still a small partner of Japan. Vietnam's imports to Japan accounted for 0.47% total import of Japan in 2001, comparing with China 12.4%, Thailand 2.5%, Malaysia 2.8%, and Philippines 1%.

With advantages of geography, traditional exchange relation and supplementary features of goods, this rate is too low in comparison with the potential.

Korea is not a large export market of Vietnam (accounted for 2.4% of total Vietnam exports in 2003 - fell from 4.3 in 1995 , but is still a large import market with 10.4% of the total Vietnam's imports in 2003 (even though fell from 15,4% in 1995). Now Korean is the 16th export market of Vietnam (the 7th market in 1997). Exports to Korea have decreased since the Asian economic crisis. Except for coffee and footwear, the demand for major export items such as rice, peanuts, crude oil, and fossil coal have been not stable since 1997. This is partly due to the unstable quality of Vietnam's exports, and partly because the high level of protection of Korea's market for agro-products. Import tariffs imposed 30%-40% on agro-products such as groundnut, groundnut oil, coconuts and non-quotas tariff is 300%.

With the conclusion of US-Vietnam BTA in September 2000, the exports to United States accelerated quickly and the United States have now become the largest export market of Vietnam. In 1995 the share of exports to this market only was 3.1%, and then it boomed to 17.1% and 19.5% in 2002 and 2003 respectively. United States now is also the largest market for textiles and marine products of Vietnam, with over 1 billion USD and over 0.67 billion USD respectively.

In 1995, Vietnam's exports to Australia contributed slightly (0.1%) to the total exports of Vietnam. Up to 2003 this country ranked the fourth in destination with 1.4 billion USD (accounted for 7.1% of total export of Vietnam), Vietnam's trading with Australia reached the second largest surplus after United States. The main contributions to the exports increase were crude oil, with 1.13 billion USD in 2002.

EU is also emerging as an important destination for the export products of Vietnam. In 2003 this market kept the share of 19.1% (equal 3.8 billion USD) compared 12.2% in 1995 (equal 0.7 billion USD) of total the export value. The major products it imported from Vietnam are articles of apparel and clothing, footwear, articles of wood, coffee, and rubber.

The structure of markets for Vietnam's imported products also has changed, but only slightly over the last decade. The share of Vietnam's imports come from ASEAN (table 8), Korea, Japan and Hong Kong shows a declining trend while imports come from China, US, and EU have increased. The markets such as Taiwan, Korea, Hong Kong, China and Japan supply textile fabrics, auxiliary materials for sewing, footwear. Two largest markets for Vietnam's imported steel and iron are Russia and Japan. Singapore is still the biggest origin dispatch for refined petroleum, comprising 49.7%, followed by China, Korea, Taiwan, Thailand, and Kuwait.

The current trade structure shows that Vietnam is still in a low position in the value chain of trade. Exported commodities are almost low-technological and labor-intensive manufactures such as textiles and garments, footwear, leather products, plastics, processing foodstuff, aquatic product, and minerals. The share of sophisticated manufacturing products remains negligible. Vietnam should pay more attention to explore its own potential in producing middle-level technological products which also need intensive labor so that access to value chains like India and Indonesia which both are in this process.

2.2. Trade in Services

Vietnam's trade in services has performed primarily at home. The services delivery through modes such as cross-border supply, movement of natural person and commercial presence has been modest. Although export of services has grown, its rate of growth has been slow in comparison with the growth rate of trade in goods and its share in total export turnover has decreased over time. By 2003, the share of export of services fallen down to 13.4% (from 22% in 1997) of total export turnover (see table 2.5), while the average share of the world as a whole was 20%, and of the developing and transition countries was 14.7%.

Table 2.5: Share of Export-import of Services in Foreign Trade of Vietnam

	Export (%)			**Import (%)**		
	1997	**2000**	**2003**	**1997**	**2000**	**2003**
Trade in Goods	78.0	84.2	86.6	76.6	81.2	84.9
Trade in Services:	22.0	15.8	13.4	23.4	18.8	15.1
• Other services:	**18.5**	**13.4**	**10.5**	**20.9**	**10.2**	**6.7**
- *Finance/Insurance*	0.1	2.7	0.8	0.2	3.5	1.2
- *Telecommunication*	0.8	0.7	0.7	0.0	0.0	0.1
- *Others*	17.7	9.9	9.0	20.7	6.7	6.4
• Tourism	**0.3**	**0.3**	**0.6**	**0.1**	**0.1**	**0.2**

• Transportation	**3.0**	**1.9**	**2.2**	**2.3**	**8.3**	**8.2**
• Government services	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**

Source: Vietnam Central Bank

Import of services was higher than export of services in term of the share (15.1%), in which the share of import of transport services was biggest (see table 2.5), and in term of the growth rate (7.6% per year for import during 2000-03, and 5% for export in the same period). So at present the immediate concern in Vietnam is to improve the competitiveness of services in the domestic market, and then reach to the world markets and overcome the growing deficit of trade in services.

For types of services, Vietnam has exported 62 types among 155 types classified by WTO. However, in comparison with other economies, a number of exported services have been still small and its turnover has been still low. A great number of other services such as building, consulting, peace protection, have not been exported yet. For the most part the reason is that there have been still licenses which forbid and hinder services sectors from developing. Moreover faced with pressure on opening services sector and increased competition, many services either have not existed as commercial services or have been weak[2] such as market research, marketing and accountancy by network. It has been suggested by several economists that Vietnam needs to develop urgently the service sector otherwise foreign enterprises would control them entirely.

Table 2.6: Main Export markets on services of Vietnam (2003)

Australia	Italy	Singapore
British Virgin Islands	Japan	Swiss
Cambodia	Korea	Switzerland
Canada	Lao	Taiwan
China	Malaysia	Thailand
France	Netherlands	England
Germany	Philippines	United states
Hong Kong	Portugal	
Indonesia	Russia	

Source: GSO 2004

[2] Le Dang Doanh./ The importance of services sector and the process of international economic integration of Vietnam; Studies of Economics, No 321, Feb. 2005, p. 3-18.

Due to lack of detailed studies on competitiveness of main services sub-sectors, informal studies has shown only the preliminary list of 25 export markets on services of Vietnam (see table 2.6). Vietnam's accession to WTO will open a large, but severely competitive market for Vietnam's services, and China will be a hard competitor for almost types of services. Therefore the initial period of the opening process will be difficult for Vietnam.

2.3. Changes in Trade Policy Measures

Trade policy reform

Trade reform has been one of the key reform pillars in the last 20 years. The government of Vietnam has undertaken several bold reform measures in this area to make the economy become more and more open and integrate into the world economy. A brief chronology of major reform in trade policy is provided in Appendix 1. These measures have contributed to improving transparency, reducing rents to state enterprises, expanding market access for all importers and exporters, as well as increasing competition among firms.

The freeing-up of trading rights has prompted rapid growth in the number of enterprises that export and/or import today, especially private trading firms. Nearly 3,000 additional private firms sought custom-codes within the year of 1999 after freeing trading rights. This implied a jump in the share of domestic private firms in total number of trading firms from 35 percent in 1998 to 58 percent in 1999. Domestic private firms' share in actual exports and imports of 1999 was 15 percent and 14 percent, respectively. Thus the private sector (foreign invested and private small and medium-sized enterprises) accounted for nearly three-quarters of all trading firms and nearly half of all export and import trade.

However, many issues remain. Trade policy reform is only a component of the comprehensive package of economic reform and the success hinge crucially upon many other factors such as the reform of SOEs and the banking system. In Vietnam, SOE reform has begun with the issuance of Decision 217/HDBT in November 1987 which gives SOEs the autonomy to formulate and implement their own long-term, medium-term and short-term operating plans based on socio-economic development guidelines set by the government.

Mandatory production targets were reduced to no more than three. The system whereby the government provided the inputs was abolished. In 1995, the promulgation of the law on SOEs provides the first legal basis for the operation of SOEs and legitimizes the autonomy of SOEs in making their business-related decisions.

Recent reform of SOEs in Vietnam has been centered about the equitization and divestiture of state enterprises. The pace of the equitization, albeit still slow relative to the target, has been proceeding much faster after 1998. Between 1998 and the end of 2000, there have been more than 450 equitizations, as compared just 17 during the period 1992-1998 (VDR 2001:33). However, the equitization so far only targets small SOEs with capital stock of less than VND 10 billion or US$ 700,000.

The financial sector has remained very underdeveloped despite several measures have been undertaken recently to reform and improve the performance of the financial and banking sector. The sector is still heavily regulated with a segmented credit market mainly dominated by four large state-owned commercial banks and tight licensing control of State Bank of Vietnam imposes very high barriers to entry. In addition to the biased regulations, recent decision to recapitalize the four state-owned commercial banks clearly indicates that the playing field is far from level across different types of financial institutions.

It should be noted that Vietnam has been following the two-track trade policy that means that while promoting exports, Vietnam still maintains a high level of protection for some strategic industries (Rodrik, 2001). Imports of products such as steel, cement and fertilizer — all crucial to the further development of Vietnam's economy — are subject to management through quantitative restrictions.

Export – import tariff

Vietnam's law on export-import tariffs was first launched on 1 January 1988. After several adjustments, the current export and import tariff law has been effective since 1 January 1999. It consists of ninety-seven chapters and 6,247 tariff lines under eight-digit HS. The current tariff schedule has nineteen different tariff rates of which thirteen are fundamental tariff rates and six are special ones. They range from zero to 100 percent. The maximum tariff rates are imposed on such goods as alcohol, petroleum products, automobiles, motorbikes, cosmetics, glass and glass products.

Vietnam's tariff schedule is composed of three tariff rate categories:

• Most-favored-nation (MFN) tariff rates which are applied to imports from any country that has already had a bilateral trade agreement with Vietnam or in fact has granted MFN treatment to Vietnamese exports;

• Preferential tariff rates are applicable for goods under the CEPT (AFTA) agreement and textile and garments under the Vietnam-EU agreement, and;

• Normal tariff rates that are usually 50 percent higher than the MFN ones are used in other circumstances.

The simple average of the MFN is approximately 8 percent higher than the preferential ones (Vietnam's simple MFN average is lower than that of neighboring countries such as Thailand (27.6%), Philippine (24.4%), Indonesia (18.3%)). Moreover, the maximum MFN tariff is 100 percent while it is only 45 percent under the preferential tariff scheme, implying that Vietnam encourages competition from ASEAN exporters. Although the maximum tariff rate under the current tariff schedule is quite high, the total number of tariff lines of below 10 percent represents 60 percent (Vietnam-EU Trade and Investment Report, 1999). Only 1% of total tariff lines (i.e. 71 out of 6247 lines) have rates above 50%.[3]

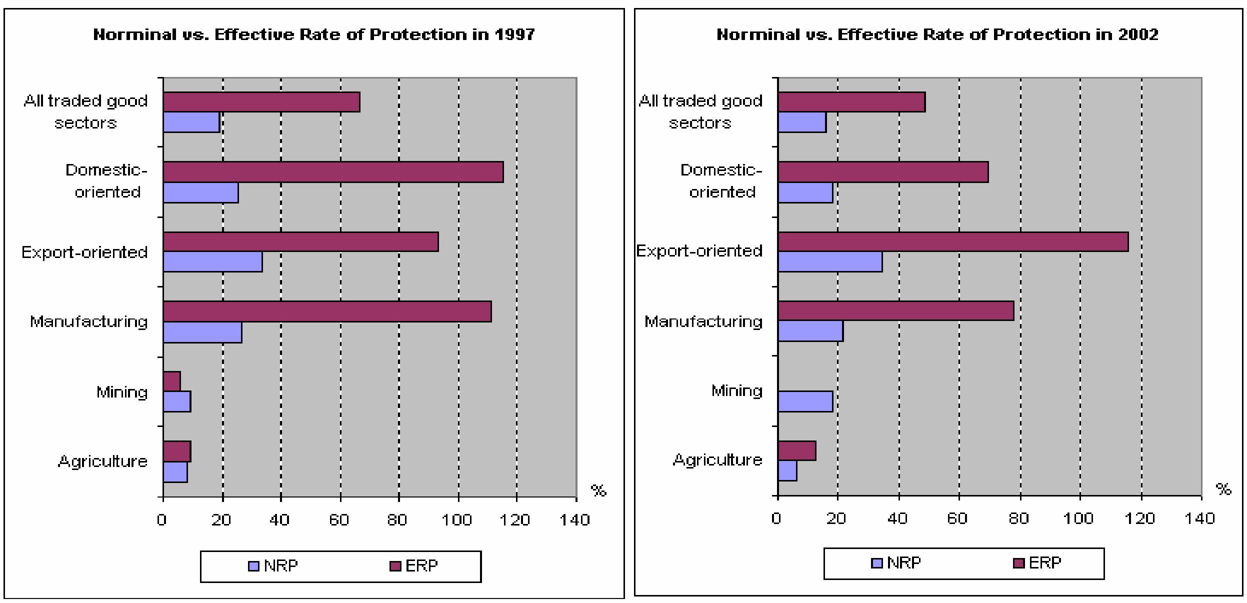
Vietnam applies an accelerated taxing method by which low or minimum tariff rates are applied mainly to material inputs for production such as machinery, equipment, materials. Thus, effective rates of protection for final goods are often much higher than nominal ones.

On average, both nominal and effective rate of protection have fallen (Figure 1). However, the story differs significantly if looking at the disaggregated figures. Between 1997 and 2002, the effective rates of protection for export-oriented and for agricultural products have increased even though the nominal tariff for these products decreased. Within

[3] These tariff rates are concentrated in three HS Chapters: HS 22 (Beverages, spirit and vinegar); HS 24: (tobacco and manufactured tobacco), HS 87 (Vehicles, other than railway).

manufacturing sectors, high tariff rates tend to favor capital-intensive industries at the expense of labor-intensive industries (Institute of Economics 2001 pp.21-22). Trade-induced biases against agriculture should thus have negative impacts on poverty reduction, as agriculture employs 69 percent of Vietnam's labor force and poverty remains a largely rural phenomenon, with 45% of the rural population living below the poverty line (World Bank 1999 p.2). This may suggest that joining the WTO and further lowering tariff barriers on manufacturing under the WTO might be beneficial to poverty reduction in Vietnam, as rural people might get more incomes from their agricultural products and pay cheaper price for manufacturing goods.

Figure 2.1. Nominal and Effective Protection Rates by Sectors: 1997 and 2002



Source: World Bank 2003, p.18.

Table 2.7 provides a comparison of the protection levels of Vietnam with selected East Asian countries. On average, the nominal rate of Vietnam is comparable with its neighbouring countries. However, the dispersion of the rates applicable to manufacturing products is considerably higher than the other countries, except for Indonesia.

Table 2.7. Nominal Tariff Rates & Dispersion in Selected East Asian Countries, 2000

	Tariff measure	All products	Primary products	Manufacturing

China	Mean	15	14	15
	CV	71	102	59
	Weighted mean	20	19	16
	Maximum	121		
Indonesia	Mean	8	7	16
	CV	128	159	119
	Weighted mean	11	5	26
	Maximum	170		
Malaysia	Mean	10	5	15
	CV	200	181	172
	Weighted mean	13	12	16
	Maximum	300		
Philippines	Mean	8	6	8
	CV	94	57	19
	Weighted mean	7	5	9
	Maximum	60		
Thailand	Mean	18	16	19
	CV	84	48	55
	Weighted mean	17	14	18
	Maximum	80		
Vietnam (2002)	Mean	16	19	14
	CV	113	124	102
	Weighted mean	15	17	13
	Maximum	120.0	120.0	50.0

Source: World Bank. 2003, p.17.

Non-Tariff Measures

Non-tariff measures include (i) non-automatic import licensing; (ii) special authority regulation, (iii) direct quantitative restrictions; and (iv) foreign exchange control. They are key non-tariff measures in Vietnam that considerably affect the ability of enterprises to import/export.

Non-Automatic Licensing

Until 1998 only licensed trading companies were allowed to engage in foreign trade. This acted as a powerful tool for preserving the privileged position of SOEs in foreign trade. In addition, there were also further requirements such as minimum working capital, skills in trade, business license. Decree 57/1998/ND-CP (31 July 1998) has marked a significant change in terms of the entry into international trading activities. The Decree stipulates that all enterprises are allowed to trade their goods registered in business license with no need to ask for the import/export license except four groups of 'special' goods[4]. In addition, the business license requirement was abolished in 2000 as the Enterprise Law came into effect. At present, any formally registered enterprises that also register for foreign trade activities, can import and export goods that are not in the list of four groups of the "special" goods as mentioned above.

Special Authority Regulation

A considerable number of items still require approval from relevant authorities (e.g. pharmaceuticals, some chemicals, recording and broadcasting equipment). Foreign trade of these goods is generally limited and enterprises that can participate in trade of these goods are selected in special ways, usually by nomination and approval of either Prime Minister, the line Ministries or the Provincial People's Committees.

Quantitative Restrictions (QRs)

Vietnam removed QRs relatively fast on a multilateral basis. At present, only petroleum products and sugar are still subject to QRs. In general most the commodities under QRs are imported by SOEs. Although the authorities have begun to allocate some import quotas in all commodities under QRs to non-state enterprises, the number of these enterprises is still small because the conditions for entry are still strict and subject to change.

Foreign Exchange Restrictions

Limiting foreign exchange release for imports by foreign invested enterprises to the actual amount of foreign exchange they have brought into the country in the year ("balance"

[4] Group of commodities traded by quotas; group of prohibited commodities; group of commodities under Government management; and group of specialized management

foreign exchange) was another trade related instrument. The foreign exchange balancing requirement for foreign invested enterprises was relaxed in May 2000. From then on foreign invested enterprises have been able to purchase foreign currency from domestic banks to repay loans obtained from offshore banks. In 2003, the foreign exchange surrender requirements were abolished.

Chapter 3: FDI Policy Environment in Vietnam

3.1 FDI Inflows

Foreign Investment Law of Vietnam was promulgated in 1987. This is the first law which designed to promote the development of a market-oriented economy, and marks the very beginning of the open door policy of Vietnam. The clear, attractive provisions of the law as well as related legal system have contributed to the establishment of a favorable environment for foreign investors.

Before 1996 FDI inflows to Vietnam was substantially larger than the inflows after this year. FDI commitments in 1996 achieved a record of 8.9 billion USD. During 1997-1999, FDI inflows reduced at the annual average rate of 24% due to the Asian economic crisis. Since 2000 up to now FDI into Vietnam seemed to recover. Especially, the amount of FDI in 2004 soared to 4.2 billion USD in 2004, corresponds to an annual average growth rate of 22% for the period 2000-2004.

Table 3.1: Foreign Direct Investment 1988-2003 (mil USD)

Year	Number of projects	Registered Capital	Implemented capital*
1988-03	5 441	45 776.8	28 228
1988-1995	1 611	18 067.8	8 254
1996	387	8 979.0	2 914
1997	358	4 894.2	3 215
1998	285	4 138.0	2 369
1999	311	1 568.0	2 535
2000	389	2 018.0	2 450
2001	550	2 592.0	2 591
2002	802	1 621.0	1 250
2003	748	1 899.6	2 650

Source: Statistics Yearbook 2003; Doan Ngoc Phuc 2004.

Manufacturing and construction is the most attractive area for FDI which accounts for 52.7% of total registered capital for the period 1988-2003. The services sector makes up 34.4% and only 6.2% went to agriculture, forestry and fishery. In the early years, FDI projects mostly come into construction, hotels, restaurants, and offices. Since 1999, FDI structure has shifted significantly, which is more and more supportive to the industrialization and modernization of the economy. In 2003, FDI on manufacturing and construction is 1426.4 million USD, with 556 projects, accounts for 74.3% of total projects and 75% total registered capital; agriculture attracted only 29 projects with total registered capital of 47.3 million accounts for 3.9% of total projects and 2.5% of total registered capital; services attracts 156 projects with registered capital of 368.2 million USD, equivalently 20.9% of total projects and 20.3% of registered capital.

Table 3.2: Foreign Direct Investment by kind of economic activity [a], 1988-2003

	Projects		Registered Capital (Mill. USD)		Share (%)	
	1988-03	2003	1988-03	2003	1988-03	2003
Total	**5 441**	**748**	**45 776.8**	**1899.6**	**100.0**	
Agriculture, forestry, fishery	603	29	2 836.0	47.3	6.2	2.5
Manufacturing and construction	3 516	556	24 133.0	1426.4	52.7	75
Mining and Quarrying	89	7	3 055.0	39.7	6.7	2.0
Services	1 233	156	15 752.8	386.2	34.4	20.5

[a] Excluding supplementary capital to the licensed of the previous years
Source: Statistics Year book 2003, GSO

East Asia is the most important source of FDI among more than 75 nations and territories have invested in Vietnam during 1988-2003. Taiwan, Korea, Hong Kong, Japan, and Singapore made up 54.2% of invested capital, in which Singapore was the biggest investor (with 357 projects and 7,399.1 million USD) followed by Taiwan, Korea, and Hong Kong. Japan ranked fifth during this time. In 2003 solely, FDI from these countries only accounted for 47.7% of total FDI in Vietnam, was still relatively high, however Taiwan became the biggest investor in this year, follows in turn ware Korea, Japan, Hong Kong and Singapore (only 54.8 million USD). In recent years, Vietnam attracted a quite large amount of FDI from Europe, such as British Virgin Islands, France, Netherlands, and United

Kingdom. Especially, up to 2003 British Virgin Islands invested in Vietnam 226 projects with 3421.7 million USD, in solely 2003 respectively 29 and 210.7 million USD which higher than Hong Kong, Japan and Singapore.

Table 3.3: Foreign Direct Investment by countries

	1988-2003		2003	
	Number of projects	Capital* (mill USD)	Number of projects	Capital* (mill USD)
Singapore	357	7 399.1	54	54.8
Taiwan	1255	5 418.5	187	371.9
Korea	762	4 113.0	181	336.2
Japan	493	4 032.5	52	102.0
Hong Kong	397	3 844.5	45	123.6
British Virgin Islands	226	3 421.7	29	210.7
France	186	2 415.6	10	7.2
Netherlands	67	1 884.5	8	39.1
United Kingdom	72	1787.5	9	8.6
United States	225	1 710.3	26	57.7
Thailand	162	1 296.1	12	49.7
Malaysia	164	1 131.3	20	56.9
Australia	132	1 071.4	17	163.8

** Total registered capital*
Source: Statistical Yearbook 2003;

3.2. FDI Policy Environment

After a long period with low investment after the end of 1996, Vietnam has been again successful in attracting FDI. The new success not only has come from difficulties of South East Asia countries such as terrorist attacks, political conflicts and low growth rate, but from great progress that Vietnam has made in improving Law on Foreign Investment and long-term expenditure for infrastructure. As part of the decentralization process, more autonomy has been given to provinces in making decisions related to foreign investment. Local authorities are under competition to appeal to foreign investment and increase jobs for local people, which results in significant improvement of licensing mechanism.[5]

[5] Far East Economic Review 2/2003

Vietnam has made great efforts in designing and improving legal system related to economic activities in general and investment in particular. The foundation for a comprehensive legal framework for businesses has been promulgated including the Law on Commerce, Enterprise Law, Law on State Bank, Law on Credit Organizations, Law on Domestic Investment, and Law on Insurance. Since being issued in 1987, Law on Foreign Investment has been amended four times (1990, 1992, 1996, and 2000) with the orientation of openness, transparency, high competitiveness and favorableness; and gradual elimination the differences between the Law on Foreign Investment and the Law on Domestic Investment in order to build a common legal system for all kinds of enterprises corresponding to international practices.

The amended content in 2000 is as follows:

+ Foreign ownership: The restrictions imposed on foreign ownership was loosened by allowing 100% foreign owned enterprises invested in forestation, tourism, mechanics, information technology and technical publishing (printing technical documents, packaging, trade marks…). Other industries which have not been opened absolutely for foreign investment included construction, telecommunication, local telecommunication, petroleum exploitation and processing, precious minerals, consulting service (except for technical consultancy), air transportation, railway transport, sea transport, public transportation, ports, air station(except BOT, BT, BTO projects), travel, industrial explosive production, culture, press, radio, and television.

+ Land: Clearly identify responsibilities in compensation for taking space. If Vietnamese partners' capital in a joint venture business is land use rights, they take the responsibility to compensate, clear site, and fulfill all needed procedures to get the land use rights. In addition to this, the new law allows foreign invested enterprises to use land associated assets and land use right value as collateral for loans at licensed credit institutions in Vietnam.

+ Foreign currency: Abolishing the regulation that foreign invested enterprises and parties to business cooperation contracts must ensure their needs for foreign currency themselves. The amended law allows those enterprises "to buy foreign currency at any bank which is permitted of dealing in foreign exchange to meet current transactions and other allowed transactions under regulations on foreign exchange control". The Government ensures to help enterprises balance foreign exchange in case banks fail to meet the demand, and even allow enterprises (including foreign invested enterprises) to open account at banks overseas in some special cases with approval from the State Bank of Vietnam.

+ Capital transfer: Capital transfer is now free from ratification of foreign investment governing authorities. The 100% foreign owned enterprises are not obligated to give priority to Vietnamese partners when they make capital transfer. Tax exemption/reduction, which previously was granted when transferring capital to Vietnamese enterprises, is now abolished.

+ Extend the duration of enjoying preferential corporate income tax: Corporate income tax applied to foreign invested enterprises is often amended with the orientation of encouraging investment. To reduce discriminatory treatment and to avoid arbitrary tax reduction in conformity with international agreements that Vietnam has already signed and will engage in the future, the Government allows foreign invested enterprises (including 100% foreign owned enterprises) to transfer the losses of any taxable year to the next year and these losses will be offset by the taxable incomes of the next years but during no longer than 5 year. Moreover, foreign invested enterprises are granted tax incentives when investing in projects or areas of investment encouragement. Those incentive tax rates are applied during the time of implementing the investment project if the project meets any one of the five following criteria: (1) belongs to the list of special projects to investment encouragement; (2) belongs to the areas with the most disadvantaged socio-economic conditions that are listed in the special investment encouraged areas; (3) develops the infrastructure of industrial zones; export processing zones, and high tech zones; (4) invest in industrial zones; export processing zones, high tech zones and (5) belongs to special fields as medication, education and science.

+ Tax on transferring profits overseas: this tax was reduced from 5%, 7% and 10% to 3%, 5%, and 7% in 2003. At the end of 2004, in the effort to improve FDI environment, Vietnam's government decided to eliminate this tax entirely.

+ Corporate tax refund*:* in order to encourage reinvestment, the new law allows partial or total return of corporate tax if profits are reinvested (except for the cases stipulated in the Law on Oil and Gas) on the following conditions: reinvestment referred here above includes reinvestment in projects that enjoy favorable enterprise income tax, reinvestment capital used for 3 years or more. There are three levels of tax returns (100%, 75% and 50%) for three levels of taxes (10%, 15% and 20%).

+ Import-Export Tax exemption: In order to encourage attraction to foreign investment and the deal with the difficulties of the on-going projects the amended Law has legalized a number of provisions of the Government's Decree No. 10/1998/ND-CP and the Prime Minister's Decision No. 53/1999/QD-TTg related to import - export tax: import tax exemption applies to imported goods that are aimed at forming fixed assets, or producing, and at accessories and spare parts; special projects of investment encouragement and investment projects in the areas of disadvantaged socio-economic conditions will enjoy import tax exemption for materials of production during 5 years since production starts. Export tax is exempted for rice, mineral resources and forestry products.

+ Exemption of Value Added Tax*:* is applied to machineries, equipments, materials, spare parts and imported materials used for the production of exports.

+ Changing in the form of investment, splitting or merging of enterprises: The amended Law in 2000 permits FDI enterprises and the parties of business cooperation contracts to change their form of investment, to split and to merge or to integrate of enterprises during their operation.

To facilitate the implementation of the amended law on FDI and further improve the business environment, the government passed 2 Decrees (No. 36/2003 and 38/2003). Decree 36/2003 gives permits to the foreign investors to buy a maximum of 30% (compared to 20% previously) of the total holdings of any Vietnamese company in 35 industries (compared to

12 in the past). Decree 38 allows foreign invested enterprises to transform into joint-stock companies, creating favorable conditions for such companies to be listed in the stock market. According to this Decree, a joint-stock company shall have at least one foreign founder whose share is of no more than 30% of the chartered capital. The founding shareholder may transfer his/her share over to any other foreign individuals or organizations. This Decree aims at creating a new channel for capital mobilization.

Another legal document (Decree No. 27/2003/ND-CP issued on 19/3/2003) allows enterprises of 100% foreign owned enterprises currently operating in Vietnam to cooperate in partnership with other foreign investors to form new 100% foreign owned enterprise in Vietnam. The Decree also allow 100% foreign owned enterprises established in Vietnam to form joint ventures with Vietnamese enterprises or joint-venture businesses, health care centers, educational and training centers, scientific research bodies. FDI enterprises are also permitted to join foreign individuals or organizations in the form of Business Cooperation Contracts (BCC). According to the Decree No. 27, the value of holdings in form of technology is completely upon the decision of the involved parties. In the past the value was defined be no higher than 20% of the legal capital

The system of two prices has also been gradually eliminated to level the playing fields between domestic and foreign investors. At present, common rates applied in telecommunication, clean water, airfares and electricity for all individuals or businesses irrespective of citizenship or ownership. FDI enterprises are now also allowed to recruit local and international staff directly in accordance with the Labor Code, not through any recruitment organization or labor supply units in Vietnam.

Besides the reduction or removal of trade barriers, Vietnam has also actively participated in bilateral and multilateral agreements in investment in its efforts to integrate the economy into the world economy. To date, Vietnam has signed bilateral agreement on promotion and investment protection with 46 countries/territories in the world. However, apart from a number of agreements signed after the effective date of the Vietnam - US trade agreement, all investment agreements of Vietnam were limited to MFN procedures, and do not include any incentives or special treatments within the scope of Customs Union or the regional economic agreements.

After 4 negotiation years, on 14/11/2003 in Tokyo, the Governments of Vietnam and Japan signed the agreement on investment freedom, promotion and protection. This was considered the key to a new investment wave from Japan to Vietnam. For the first time, Vietnam has agreed the context of a mutual agreement to (i) offer national treatment applied at the time issuing the license permit, and (ii) prohibit giving obligation requirements which cause difficulties to investment, such as export levels, domestic content, share of local staff, technical transfer, and R&D. This agreement lays foundation for further improvement of the investment environment in Vietnam, improving the stability and transparency as well as eliminating the discrimination between domestic and foreign investors.

To sum up, all changes in the policies to attract FDI and the favorable conditions offered to foreign investors, the new advantages achieved in FDI operation and the achievements gained during economic development have proved that FDI environment in Vietnam have witnessed remarkable improvement and become more transparent, freer and able to compete with other countries within the region.

Chapter 4: Trend in Trade and Investment between Vietnam and India

Vietnam and India have been enjoying a traditional friendship and multifaceted cooperation. The Governments of two countries have been doing their best to broaden and deepen the bilateral cooperation via many agreements that cover a broad range of areas including economic, trade, investment, science and technology, culture, education and training.

However, the actual trade and investment flows have been far below the potential. Since the 1970s, two-way trade turnover has only reached USD 160-170 million annually[6] and is still small despite recent rapid expansion. India's investment in Vietnam remains low, with a total registered capital of USD 200 million.

4.1. Two-way Trade between Vietnam and India

A Bilateral Trade Agreement was signed between the two countries originally in 1978. An agreement to revise this was reached on 8th March, 1997 in New Delhi during the visit of the Vietnam Prime Minister to India. Trade related issues are also reviewed by the two countries under the aegis of the Indo-Vietnam Joint Commission, Joint Working Group, Joint Business Council, Trade Fairs and Exhibitions, etc. Bilateral Investment Promotion and Protection Agreement (BIPPA) was signed between the two countries on 8th March, 1997 in New Delhi and ratified during the visit of the Vietnamese President to India in December, 1999. The bilateral trade figures for the last few years are given in Table 4.1.

Table 4.1: Vietnam-India Trade 1990-2003 (mill. USD)

Year	Total Trade		Exports to India		Imports from India		Balance
	Value	% change*	Value	% change*	Value	% change*	
1990	**75.0**		**57.9**		**17.1**		40.8
1991	**50.9**	- 32.0	**38.0**	-34.4	**12.9**	-24.6	25.1
1992	**79.0**	55.2	**62.0**	63.2	**17.0**	31.8	45.4
1993	**72.0**	9.0	**44.0**	-29.0	**28.0**	64.7	16.0
1994	**102.6**	42.5	**44.1**	0	**58.5**	109.0	-14.4

[6] http: www. meadev.nic.in/opn/2003feb/28nh.htm

1995	**71.9**	30.0	**10.4**	-76.4	**61.5**	5.1	-51.1
1996	**97.6**	35.7	**9.1**	-12.5	**88.5**	43.9	-79.4
1997	**98.0**	-0.1	**13.2**	45.1	**84.8**	-4.2	-71.6
1998	**121.3**	23.8	**12.6**	-4.5	**108.7**	28.2	-96.1
1999	**155.0**	27.8	**17.0**	34.9	**138.0**	27.0	-121.0
2000	**225.6**	45.5	**47.2**	77.6	**178.4**	29.3	- 131.2
2001	**273.4**	21.2	**45.4**	-3.8	**228.0**	27.8	-182.6
2002	**376.7**	37.8	**52.0**	14.5	**324.7**	42.4	- 272.7
2003	527.9	40.0	**71.0**	36.5	**456.9**	40.7	-358.9

** % changes from previous year*
Source: International Merchandize Trade 2002; hppt://www.ficci.com; Statistics Yearbook 2003; http://www.meaindia.nic.in

Total two-way trade of Vietnam and India increased sharply (almost 7 times) during the period of 1990-2003, from 75 million USD in 1975 to 527.9 million USD in 2003. Vietnam's *imports* from India have grown steadily, from USD 11.5 million in 1985-1986 to 324.7 million USD in 2002 and further to USD 456.9 million USD in 2003. During his visit to Vietnam in January 2001, the Prime Minister of India had suggested the target of USD 500 million for the bilateral trade between two countries to be achieved in a period of three years. Thus, the target is likely to be achieved during 2003.

Vietnam's imports from India have increased continuously over the years with the annual average growth rate of 28.5% during the period of 1990-2003 that helps India to claim rank 12 among countries exporting to Vietnam (India only ranked 18th in 1995). However it has been still lower than many other Asian countries, except for Philippines, Laos and Cambodia.

The main items of India's exports to Vietnam are vegetable oil, pharmaceuticals, plastics, machinery and equipment, steel, textile machinery and fabrics, chemicals, wheat and spices etc. The major commodities exported to Vietnam during 2002 (with their percentage share) were:

- Drugs, pharmaceuticals and material for pharmaceuticals (16.83%)
- Material for plastics (10.8%)
- Seafood (8.47%)
- Iron & steel (5.9%)

- Machinery & equipment (5.78%)
- Chemicals (4.9%)
- Pesticides (3.5%)

India's basket of exports has been expanded during 2003 and the new items of India's exports to Vietnam are lubricants and vegetable oils (US$13.05 million), fertilizers (US$ 2.47 million) and CKD and IKD motorbikes.

With the increasing acceptance of Indian products in the Vietnamese market, the prospects of a further rapid growth in India's exports to Vietnam are bright. Two Pride of India exhibitions, in 1998, had been bold initiatives taken in this regard. The 3rd Pride of India exhibition was held in Ho Chi Minh City in December, 1999. Some Indian companies representing oil and natural gas, project exports, chemicals, watches, etc. participated in the 10th Vietnam International Trade Fair in Hanoi in April 2000. The 4th Pride of India Exhibition in Ho Chi Minh City was held in Ho Chi Minh City from 27th February to 2nd March, 2001.

On the other hand, Vietnam exports to India include crude oil, natural rubber, artificial resins, aniseed, tea essential oils and cosmetic preparations, non-ferrous metals, chemical material and products, raw silk, silk yarn, paper board and manufactures, wood and wood products. As far as Vietnam's exports to India are concerned, the main items during 2003 were crude oil (32.13%), pepper (19.07%), tea (14.48%), leather & made-ups (2.13%), rubber (2.04%), cinnamon (1.87%), electronic components (1.85%), and coal (1.3%).

The balance of trade has been heavily in favor of India over many years since the Vietnamese exports to India have remained extremely modest, achieved only 72 million USD in 2003, with a very small increase from the early years of 1990s. In 1996, export of Vietnam to India was almost negligible with a mere value of 9.1 million USD, very much down from 62 million USD in 1992. With the conclusion of BIPPA in 1997, Vietnam's exports to India have shown a rising trend albeit still account for a very small share in total exports of Vietnam (about 0.2-0.3% only equivalent to Vietnam's exports to Laos). This figure really too small compared with the import potential of India. One primary reason for trade in favor of India is the high level of similarity in exports of two countries– both countries are exporting items such as garments, footwear, rice, cashew, tea, coffee, pepper, rubber, and marine products. In other words, most of the Vietnamese products are already available in India and indeed exported to other countries. Even so, the possibilities of exporting some items such as crude oil, phosphates, furniture, no-ferrous metals, natural rubber, ceramics, tea, handicrafts, semi-precious stones and gems from Vietnam to India do exist. It should be noted that while the share of Vietnam's exports to the Asia traditional trading partners (such as ASEAN, Japan, China, Taiwan, Korea, Hong Kong) have been decreasing, the share of exports to India remains more or less unchanged.

4.2 Indian Investment in Vietnam

Vietnam's economic policies have opened up significant opportunities for Indian investment, both for tapping the growing domestic market and for exports. The investment environment becomes much more attractive with the implementation of the "one-stop-shop" policy in licensing, the introduction of favorable conditions for investors by reducing land rent, granting exemption and reduction in import duties, preferential profit tax and so on.

At present, Indian investment in Vietnam is mainly in sugar production, edible oil, pharmaceuticals, office furniture and plastic industries. To date, India has 8 investment projects in Vietnam with the total registered capital of USD 583 million.[7] Of the Indian investment projects in Vietnam, there are two big projects in oil and gas sector. A number of Indian companies have invested 100 per cent capital in the projects on processing of agricultural products.

In addition, the company ONGC is involved in a big joint-venture for offshore oil and natural gas exploration in the southern part of Vietnam. In the coming years, this ONGC-VL investment in the production sharing contract (PSC) between itself, Petro Vietnam, BP and the Norwegian company, Statoil, will be one of the largest investment (US$228 million) of the Government of India PSU anywhere in the world. ONGC-VL's share of the PSC is 45%.

[7] Mahathir Bin Mohamad, Thaksin Shinawatra, Tommy Koh, Nguyen Duy Nien, Hor Namhong, U.S. Rao and other eminent persons. India-ASEAN partnership in an era of globalization. Institute of Southeast Asian Studies, Singapore, 2004

The Government of Vietnam attaches a lot of importance to this project and it has been elevated to the top three projects of national importance by the Vietnamese National Assembly. This project started delivering gas for commercial purposes in November 2002.

As of November 2003 there were 8 India-invested companies were established in Vietnam:

1. Arihant oils and Feeds (Vietnam) Ltd (100% foreign investment license for setting up a factory for manufacture of vegetable oil and de-oiled rice bran in Long An province.
2. Godrej (Vietnam) company Ltd. (100% foreign investment license for fabricating steel office equipment, sages, storage system and security equipment in Binh Duong province.
3. Nagarjuna International (Vietnam) Ltd. (100% foreign investment factory of 4750 TCD in Long An province).
4. ONGC-Videsh Ltd. (exploration of oil and natural gas).
5. Siva Bati Incorporation (J.V with Tin Thanh Co. Ltd. for manufacturing poly bags).
6. Ranbaxy Laboratories Limited (100% foreign investment, manufacturing and marketing, selling of pharmaceutical products).
7. The K.C.P Vietnam Industries Ltd. (100% foreign investment license for 2500 TCD sugar factory in Phu Yen province).
8. Vu Ta JV Co. (Licensed to produce incense sticks; project location in Vinh Phuc province)

Moreover, a Joint Business Council was established between FICCI and Vietnam Chamber of Commerce. It held its 4th meeting during the Prime Minister's visit to Vietnam in January, 2001 at which three business to business agreements were signed:

(a) Memory of Understanding between ONGC and Petroleum Investment of Development Company (PIDC) of Vietnam;

(b) TATA and TRANSINCO of Vietnam; and

(c) FICCI and Indian Business Chamber in Vietnam

In general, at the country level, both governments have established favorable relations and environments for trade-investment exchanges between Vietnam and India. A number of Agreements have been signed including the following:

- Double taxation avoidance Agreement;
- Agreement on Investment Promotion and Protection;
- Aviation Agreement;
- Tourism Agreement;
- Agreement on mines and geological cooperation...

In addition, in the framework of technical cooperation, the Indian Government has helped Vietnam in WTO accession negotiation.

4.3. Prospects on Vietnam - India Economic Cooperation

India is a large market and expected to be one of the most powerful economies with numerous comparative advantages, a scientific and technological power, particularly in information technology. Meanwhile, Vietnam possesses abundant natural resources, industrious dynamics and well-educated labor force and is also a promising market. So the potential for bilateral cooperation is still vast and needed to be further exploited. Vietnam's current process of integration into the world economy and reforms in India are creating new opportunities to strengthen bilateral ties.

India has paid special attention to comprehensive economic cooperation with the entire ASEAN as a part of 'Look-East' policy as well as with individual ASEAN countries, particularly, Thailand, Myanmar, Singapore, Cambodia, Laos, and Vietnam which are large markets for India's exports. The "Look East" strategy of India is reflected in the following activities:

- India became a full dialogue partner of ASEAN during the fifth ASEAN summit in Bangkok in 1995 and a member of the ASEAN Regional Forum (ARF) in 1996.
- In 2003, India has signed a Framework Agreement on Comprehensive Economic Cooperation with ASEAN. According to the framework, two parties agreed to enter into negotiations in order to establish an ASEAN-India Regional Trade and Investment Area (RTIA), which includes a Free Trade Area (FTA) in goods, services

and investment, and to strengthen and enhance economic cooperation through the following,

- India has also been engaged in negotiations to form a Comprehensive Economic Cooperation Agreement (CECA) with Singapore.
- India signed an agreement in October 2003 for a FTA with Thailand.
- Sub-regional cooperation has also accelerated: the Mekong-Ganga Cooperation (MGC) including India, Vietnam, Myanmar, Cambodia, Thailand and Laos in 2000 and the BIMST-EC (Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation) which was launched un 1997[8] and which's Framework Agreement on BIMSTEC Free Trade Area including provisions for negotiations on FTA in goods, services and investment was signed on 8th Feb 2004.

As far as BIMSTEC is concerned, although intra-regional trade has increased during recent years, it has still been only around 4% of its global trade, and the results of tariff negotiations has been unclear yet. Anyhow BIMSTEC has made institutional progress more than MGC. Two biggest countries out of BIMSTEC, namely India and Thailand, are also two biggest ones out of MGC, and they have accounted for a largest part in intra-regional trade in terms of both value and items. Therefore BIMSTEC could provide MGC with a propulsive force in order to MGC can move up economic cooperation in trade, investment, technology... Furthermore India's engagement with BIMSTEC and its interest in MGC should stand India in good stead in enhancing India-Vietnam economic relations.

India is one of 27 partners with that Vietnam has to negotiate bilaterally in its process of WTO accession. This negotiation will be also a starting point for thinking about Vietnam-India BTA/FTA which accelerate trade and investment flows between two countries. However the matter of time when the BTA/FTA will be launched requires a detailed study on "trade creation" and "trade diversion" owing to Vietnam-India BTA/FTA, and on how Vietnam is affected by "trade diversion" resulting from India's FTAs such as India-Thailand FTA.

Like other countries, India's promotion of FTAs is to enlarge its important export markets in goods and services in the context of Doha Round's standstill. This also will

[8] Nepal and Bhutan became members of BIMSTEC in 2004

enhance India-Vietnam economic relation in trade and investment further, because FTAs on new areas and sectors between India and ASEAN as a whole/ASEAN countries will be a motive to push Vietnam liberalize its new areas and sectors and strengthen economic cooperative relations or else Vietnam will be isolated from larger markets which formed by bilateral frameworks of FTAs.

The Confederation of Indian Industry[9] stated that the small volume of trade between India and Vietnam is hardly an indicator of its economic importance to India, but India's export basket has the potential to move up the value chain and diversify to cater to the emerging and growing demands of Vietnam. Vietnam's global import was worth US 25 billion in 2003, which primarily included machinery and equipment, petroleum products, fertiliser, steel products, raw cotton, grain, cement and motorcycles. India is well equipped to export world-class products in each of these categories and at competitive prices. Vietnam is at a stage of development where it requires intermediate levels of technology, so India is well placed to fill in Vietnam's requirements.

Currently Vietnam's volume of export to India is still small, in part because two countries are in competition for some commodities, such as rice, tea, and cashews, garment, footwear … It is difficult for Vietnam to accelerate its export to India in the short term to overcome the trade deficit in trading with India. Therefore Vietnam should pay attention primarily to attracting investment from Indian companies.

Two countries could fruitfully cooperate in agricultural research, and biotechnology where. Also facilitating trade and investments in agro-chemicals and fertilizers should be taken into serious consideration

India's national oil company is already involved in a joint venture to explore oil and natural gas in Vietnam. Thus, the two countries are already cooperating in the energy sector and there is scope for strengthening it. Cooperation in the civilian nuclear power sector for energy is also feasible and desirable. Mineral exploration and processing is another area which is being actively explored by the two sides.

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9 http://www.ciionline.org

As Vietnam aims to develop its information and communication technology sector, cooperation between the companies from the two countries, particularly in human resource development, and in the development of software in Vietnamese language represents another avenue of emerging opportunities. The two countries could also cooperate in the area of pharmaceuticals and healthcare, particularly in the area of sourcing drugs for diseases like HIV-AIDS[10].

[10] http://www.cpdsindia.org

Chapter 5: Perception on Indian Market and Products

5.1 Introduction and Description of the Survey

This chapter reports the main findings of a perception survey of various stakeholders on present and future scenarios of economic cooperation between Vietnam and India. The field research was conducted through interview and discussions with relevant stakeholders and their representative bodies.

For the purpose of making initial assessments on the perception by the Vietnam side on Vietnam - India economic relation in the recent period, in May-June 2005, the Institute of World Economics and Politics (IWEP) conducted a survey, in which several Vietnamese researchers, policy makers and managers of enterprises were interviewed. This is a small survey with the participation of 5 officials in the field of state management and investment-related policy-making, 5 scientists in economics and 25 enterprises. Enterprises were selected randomly in Hanoi, in industries either directly related to trade and investment activities between Vietnam and India, or are viewed as promising for future development.

Table 5.1: Subjects under survey on Vietnam–Indian economic relation

Fields under survey	Number of sent questionnaires	Number of responded questionnaires	Type of enterprises	
			State-owned	Private
Management and policy making	5	5		
Researchers	5	5		
Enterprises, of which:	25	25	10	15
Equipment, machines	3	3	-	-
Garment-textile, footwear, plastics	5	5		
Agriculture	3	3	-	-
Medicines, healthcare equipment	4	4	-	-
Trade and tourism	9	9	-	-
Information technology	1	1	-	-

Source: Survey Data

Questionnaires designed by the research team included 4 parts:

Part 1 includes questions on perceptions on the Indian market, as well as assessments on the general economic relation between the two countries in the recent period, general information on Indian market and enterprises.

Part 2 specifically refers to trade and investment activities between the two countries. Questions were about size and structure of trade and investment, at the macro and firm levels. There were also questions on sectors and industries that have good potential for development for both countries.

Part 3 focuses on business environment that attract attention from enterprises of both countries.

Part 4 asked for interviewees' recommendations or initiatives for developing Vietnam - India trade and investment relations in the future.

The survey team had conducted two types of interviews:

- For policy management officials and scientists, questionnaires were posted to individuals. The response rate for these participants is 100 per cent.

- For enterprises, the research team conducted direct interviews with a semi-structured questionnaire.

The report was written based on results of the survey and other documentation sources on Vietnam – India economic relation. The next section highlights the assessment of participants about Vietnam-India economic relation. Section 3 summarizes the responses about the perception on Indian market. Section 4 discusses the perceptions of interviewees on the trade and investment environment in India. Section 5 presents the key findings of the survey about the perceptions on Indian enterprises. Section 6 concludes the papers with recommendations to improve the economic relationship between the two countries as proposed by survey participants.

5.2. Assessment of Vietnam - India General Economic Relation

Table 5.2 presents the responses of the interviewees about their perception of the overall economic relation between two countries. It is interesting to note that many interviewees lack or are not updated with information on economic relation between the two countries. Results of the survey showed that 8 out of total 35 interviewees had no or unclear information. Among 27 interviewees who had expressed their view on the economic relation between the two countries, only 12 people said that the economic relation between the two countries has improved in the recent years. Yet, most of the interviewees were of the view that the economic relation between the two countries had not developed as strongly as compared with Vietnam's economic relations with other economic partners, such as the EU, the USA, and Japan. 4 responded persons were of the view that the economic relation has been at a low level. Noteworthy is that 5 interviewees said that the political and diplomatic relations between the two countries were much more developed than the economic relation. Most of the interviewees said that their assessments were based on information from mass communication means, like press and media. The obtained assessment is, however, very general and only responses from an official from Vietnam Chamber of Commerce and Industry (VCCI) are with specific statements. It seems that entrepreneurs and persons who are responsible for Indian market research still have a very limited understanding of the economic relation between the two countries.

Table 5.2: Assessments on Vietnam–India General Economic Relation

Content of assessment	Assessment			
	Good	Fair	Poor	Unclear
Degree of development of economic relation between the two countries	12[1]	11	4	8
Ability to access Indian market	8	12	4	11
Quality of Indian products[2]	12	5	4	12
Degree of access to information sources	0[3]	2	17	2
Feelings on Indian businessmen	12	2	1	12

Note: 1) Good = had growth, and promising and positive economic relation.
2) Some opinions on certain products
3) Easy

Source: Survey Data

An interesting distinction can be seen between responses of academic people and businessmen. While all interviewed research scholars and policy makers demonstrated a good knowledge of Indian economy and business environment, the vast majority of businessmen in our sample appear to be not aware of common information about India market. While this could be well an indicator of the low level of interest in doing business in India, it also reflects ineffective information flow among various stakeholders in Vietnam.

5.3 Perceptions and Assessments on Indian Market

Indian market is considered to be the 4^{th} largest consumer market in the world, behind the US, EU and Japan. Thus, this is an extremely important market with considerable potential for trade and investment. With a population of more than one billion people, India is a very large market and the high-income class (about 40 million) alone has the purchasing power similar to that of leading developed countries in the world. The middle-income class is about 860 million (that is, 10 times bigger than the population of Vietnam) with the majority of them are young, have stable income sources, high payment ability (about 70%) and a high growth rate of income. This represents a huge market for goods and services. For example, the young people in the middle income class accounts for 30% of total color televisions, 31% of total motorbikes and 46.5% of total electronics goods purchased in the whole country.

Indian products are mainly products of light industries with relatively high competitiveness such as garments and textiles, chemicals (pharmaceutical products), footwear. However, it seems that activities for advertising, marketing and promoting these products are surprisingly limited even in the domestic market. Thus, the Vietnamese consumers and businesses do not know much about Indian products and Indian trademarks are also not very well-known among Vietnamese.

One of the strengths of the Indian products is technology. In terms of production level, Vietnam's capacity for IT acquisition is relatively suitable with India's technological transfer capacity. Interestingly, Indian Government has had successful programs on technological assistance for the development of technology-based enterprises. These enterprises have received assistance for technological upgrade and this has also facilitated Indian technological transfer. In India, the Asia-Pacific Technology Center (APTC) has been very active and effective in technology transfer and if Vietnamese enterprises have access to this information source, it will be a good opportunity for them to receive technologies in a suitable way, both in financial and management terms.

Although India is a populous country (more than 1 billion people) with total GDP of over 400 billion USD, and technology advantage, Vietnamese enterprises have a poor understanding of the Indian market and products. The survey data showed that 8 out of 35 interviewees said that Indian market has strong potential; 12 out of 35 interviewees said that accessibility and consumption of this market were of medium level; while 11 out 35 interviewees had unclear view or no assessment; 4 out of 35 said that access this market is limited. This provides evidence that so far, India has not attracted much attention from Vietnam business.

Limited understanding of Indian products by Vietnamese businessmen can also be seen from the survey. Data of the survey (see Table 5.2) showed that nearly one third of the interviewees are unclear or does not have good assessments on made-in-India products. Even if there were any good ones, they were only a small group of items. Products that were mentioned most of the time were information technology, medicines, healthcare equipment, agricultural machines, clothing and tea. Besides information technology products, the four others had been known by Vietnamese people for a long time.

In fact, it is not easy to access to Indian market information, technological capacity and investment potentialities. According to Vietnam Chamber of Commerce and Industry, there were some useful sources of information on India, such as follows:

- **Vietnam Chamber of Commerce and Industry (VCCI)**: VCCI has regularly issued a bulletin on Indian market (see: http://www.vcci.com.vn). However, this information source mainly focuses on macro policies, tariffs, import-export procedures. In addition, this bulletin has only been issued recently. Not many Vietnamese enterprises know about this bulletin. Only 2 of the interviewed enterprises said that they got information on Indian market from VCCI. In general, VCCI has got the richest source of information on Indian market. Information relating to exhibition and trade fairs can be collected from VCCI; market research delegations from/to Vietnam – India have also been organized by VCCI. However, due to budget limits, there are not many such activities by VCCI. In addition, Vietnamese enterprises were not actively involved to make the most out of the available exchange opportunities.
- **Trade Representative Office of Vietnam in India** is another place where Vietnamese enterprises can get necessary information about Indian market. However, information is still limited, and some were sent to VCCI for publishing in the "Bulletin on Indian Economy". Also, due to financial and human resource limits, the work of information supply has not met the demand. Worse, according to some enterprises, the supply of information by this office is inconvenient and troublesome, which is heavily based on an ask-give mechanism. In fact, this trade representative office is not a good place for Vietnamese enterprises to seek for necessary information.
- **Vietnamese Embassy in India** has the potential to be a further important and useful source of information about Indian market. However, it does not fulfill this function effectively and very few Vietnamese businessmen (among the

interviewees) said that they ever got information from this channel. Some were of the view that access to this information channel is not easy, and information, if available, is not specific and the service is not always friendly. In addition, it seems that India has not paid fully attention to improve her image and disseminate business opportunities to Vietnam businesses.

- **Online India-Vietnam Trade Center:** This Center was jointly established in 2002 by the Indian Embassy in Vietnam, VCCI, and an information technology center (CDIT). This website can be a convenient information channel for Vietnamese and Indian enterprises to develop trade relations with each other. At present, the center has promoted investment activities and supply information on 150 Indian enterprises and 300 Vietnamese enterprises. However, none of the interviewees, except for the interviewed VCCI official, knew about this website.

It can be seen that there are 3 main reasons why business people and related parties in Vietnam only has very limited understanding of the Indian market and product. First, only a few potential sources of information about Indian market are available. Second, the access to these sources is not always easy and third, quality of information remains to be of low quality. This is clearly confirmed with our survey data. More than a half of the interviewees including researchers and policy makers confirmed the low degree of information access. Large proportion of interviewees with access to information said that they got information, in most cases very general ones, mainly from press and media, and the Internet. Information sources from trade and diplomatic offices of the two countries were also mentioned, yet limited and low quality information. In general, interviewees were of the view that these offices of the two countries had not created favorable conditions for enterprises to access to information. Only one interviewee said that he got information from exhibitions and trade fairs.

In the recent years, positive changes have been made in Indian economy. Strong economic reforms have been carried out by Indian Government. India has achieved a GDP growth rate of about 8%/year. Indian phenomenon has attracted much attention and discussion. However, results of the survey showed that Vietnam got little information from India. Thus, it can be temporarily concluded that so far, the Indian market has not attracted much attention and consideration from Vietnamese businessmen. In addition to this, the Indian side has not actively involved in advertisement and dissemination activities for further penetrating into the Vietnamese market.

5.4 Perception on Indian Business Environment

Trade Environment

The following issues of business environment were considered important by enterprises, divided into several groups:

- Legal regulations and business procedures of both Vietnam and India sides;
- Market scale and product prices;
- Indian customers' consumption tastes, and demands for product quality and pattern;
- Partner credibility;
- Safety/ security for foreigners;
- Customs, habits, and cultural distinctions.

However, no special pattern of responses by enterprises on these issues is observed, indicating no special issue is viewed by enterprises as a common issue. This could be an evidence of limited understanding of Indian market and trade environment. The above data indicated that Vietnamese enterprises have not paid adequate attention on Indian market. 13 out of 25 enterprises responded that they does not pay any attention to exploring which issues were important when doing business in India.

Poor understanding of the Indian market is clearly linked to a low degree of trade and investment between Vietnam and India. Of the interviewed enterprises, only 6 had trade relations or activities with Indian partners but no investments were made. And international trade value of these enterprises was small, from some thousand to nearly 100 thousand USD only.

Most of the interviewees lack knowledge of the business environment in India. They cannot provide any specific answers for questions on main export procedures. On cumbersomeness of export-related procedures, 18 out of 25 interviewed enterprises said that they had no idea because they had no business relation with Indian enterprises. Only 4 of the interviewees agreed that the cumbersomeness of export-related procedures is high, one responded that it is medium, and three other interviewees said procedures are simple.

There are some noteworthy issues:

First, of the 6 enterprises having trade relations with Indian partners, 4 said that export-related procedures are simple, 1 had no assessment, and only 1 enterprise said that procedures are relatively cumbersome.

Second, most of interviewed people from enterprises said that they are not clear whether Indian trade barriers are high or low. In fact, 22 of the interviewed enterprises said that they have no idea, while 3 others having trade activities with Indian partners said that barriers are low.

Third, most of interviewed policy-makers, managers and scientists were of the view that India's export-related procedures were too many and troublesome. One official from Ministry of Trade listed major barriers, for example, technical barriers, non-tariff barriers, protection measures and anti-dumping measures.

However, it should be noted that the concordance with international standards is a major issue for Vietnamese firms in the integration with the world economy and Vietnam enterprises need to reconsider their view about the technical barriers to trade, not just in India but also in the other countries. In addition, conflicting views between enterprises that have been doing business with India and government officials again point out to the issue of information flow and coordination in Vietnam. It is very interesting to note that almost all firms with trade relation with India in our sample said that trade barriers are low.

Investment Environment

Similarly, Vietnamese enterprises' understanding of Indian investment environment is limited. Only 3 of the interviewed enterprises said Indian investment environment is good, while 8 enterprises said not good and 14 other enterprises are not clear. One main reason for viewing Indian environment as favorable is that India is a large and potential market, especially with 860 million people of middle income class. Reasons for unfavorable or not clear environment are that enterprises do not paid much attention to Indian market, or there are no investment partners.

Results of the survey also showed that the reasons for Vietnamese enterprises not to enter Indian market are seemingly <u>neither policies nor environment</u>. Further studies should be conducted for having rigorous assessment on the following reasons:

- Poor information on Indian market. Procedures relating to import-export and payment are not widely known;

- Vietnamese enterprises have not been actively involved in trade promotion activities. Demanding markets, such as the US, EU and Japan often result in high added values, thus, Vietnamese enterprises tend to invest in these markets, while their capacity to meet these demanding markets was not high;

- There seems to be a high degree of similarity between Vietnamese and Indian products;

- Payment channels are not well-established and reliable in order to assure confidence for Vietnamese exporters. This is an issue raised by just a few businessmen in our survey and need to be carefully examined as payments procedures seem not to be an issue for exporting to the other main markets. In addition, Vietnamese commercial banks have gained considerable expertise and knowledge in this area during the last 20 years of reform and opening up the economy.

- Trade promotion activities between the two countries are still limited. If any, they are still simple, non-professional and not on a regular basis.

5.5 Perception on Indian Enterprises

In terms of business capacity, Indian enterprises in general have had relatively high business and management capacity. In addition, their English proficiency is a good condition for them to engage in business with partners.

Indian enterprises have a long tradition of doing business. Besides, small and medium enterprises can get support from the Indian State and other development assistance organizations. Indian is a relatively successful country in assisting the development of small and medium enterprises through Industrial Clusters. "Bangalore Software Industry Park" is a well-known example. In this Park, enterprises can get assistance, from production location to financial and non-financial services. They can also cooperate with one another in business and production. In contrast, existing private enterprises in Vietnam have been operating for at most 15 years, and the Decree on policies to support small and medium enterprises was issued just 2 years and a half ago. In fact, private enterprises have not received much assistance from the State.

Indian enterprises have paid attention to doing business through groups or associations, for example: Association of Enterprises, Local Department of Commerce and Association of Commerce Departments. Also, enterprises producing similar products can associate with one another for product promotion; or other organizations, such as "Association of Women Entrepreneurs".

Efforts have been made by Indian enterprises in applying state-of-the-art technology into their production and upgrading their technologies, suitable with their management capacity.

One of the factors that may contribute to preventing the development of the business relation between Vietnamese and Indian enterprises as mentioned by some survey participants is different business culture. Taking every opportunity to raise their profits, Indian businessmen seem to have a habit of having long bargains to achieve high prices, which sometimes discourage Vietnamese partners. However, tough bargaining in business is a daily issue for all businessmen, especially when information about business partners and products are not readily available. Rapidly growing imports from India in recent years provide strong evidence that tough bargaining practice of Indian businessmen, if it were the case, cannot be attributed to the failure of Vietnamese businessmen in Indian market.

Perhaps one of the main factors preventing the proliferation of business relation between Vietnam and India is the low level of business confidence, partly affected by limited access to information of high quality. While difference in culture and underdeveloped infrastructure connecting two countries may contribute to the slow growth of trade and investment between two countries, they cannot be the decisive factors. The economic relationship between Vietnam and several African countries has been much more developed than that with India, despite of much lower potential, culture difference and geographic distance.

Chapter 6: Conclusion and Policy Recommendations

During the past years, Vietnam’s commercial and investment policies have been continuously amended and improved towards liberalization. Thanks to these efforts made by Vietnam’s government, there have been much achievements in foreign trade in general and export in particular, as well as in attracting FDI to Vietnam, which contributes much to the rapid economic growth.

However, in order to maintain and gain more achievements, Vietnam’s trade and investment environment needed to be further improved. In addition, market supporting institutions still need to be established and developed to maintain the growth momentum.

Two economies, India and Vietnam, have both displayed outstanding performance in the last 20 years or so and with strong economic growth, the two economies have been involved more and more into the integration process. Although India is promoting its relationship as well as cultivating its influence with ASEAN countries in particular and with Asian countries in general, currently the trade and investment flows between two countries remain very modest, far from the potential of trade and investment between India and Vietnam. Two countries agreed to consider the diversification of Vietnam's exports to India, enable businesses of each country to study the other's market and business environment, streamline unnecessary and cumbersome administrative procedures, etc. in an effort to promote the mutually beneficial cooperation in various specific areas

To effectively exploit the potential of trade and investment between Vietnam and India as well as to develop the Mekong-Ganga economic cooperation, more studies and closer cooperation between government, researchers and business sectors are needed to identify main causes of the existing low level of economic integration and areas as well as measures to facilitate and develop the cooperation in the future.

Based on the findings of the study, following recommendations are proposed for developing trade-investment relations between Vietnam and India. However, given the similarities between India and other South Asian countries, these measures may also be important for the improvement of the economic relation between Vietnam and other countries in South Asia.

6.1 Measures at Country Level

Regarding import restrictions, the fact that India is a WTO member implies that the restrictions (both in quantity and quality terms) placed on 715 items are now removed. Zero tariff items include 342 textile categories, 144 agricultural products (including beer and wine) and other mass production goods. However, India has still applied a number of measures in order to protect some of consumers and sensitive goods. Accordingly, import goods must meet quality demands suitable with domestic goods and must be registered with Indian Standard Office, for example, food additives, flavors and reserves, milk powder, children milk, household electrical appliances. Other standards relating to packing and weight for imported goods must also be met. One disadvantage is that Vietnam has been so far not a WTO member, thus, Indian preferences given for WTO member countries are not applicable for Vietnamese exporters.

Besides legal barriers, payment procedures seem to be an issue for some Vietnamese exporters. In addition, procedures for dispute settlement are unclear, especially regarding to payment delays. Moreover, Vietnamese enterprises do not know where or which office they can turn to for getting assistance when necessary.

It can be said that both countries wish to strengthen trade and investment relations, reflecting in their mutual visits by the leaders of the two countries. However, there are to date no specific *Vietnam - Indian Trade Promotion Program*, which calls for the participation of all sectors and branches and is phased out in various stages suitable with human and financial capacities of both countries. The two countries can build a joint Program - on the basis of activities of Vietnam-India Joint Committee. This program should be considered one of the Committee's priorities. In addition, individual country can design trade promotion programs basing on their own interests. For the part of Vietnamese Government, Vietnam Trade Promotion Office (VIETRADE) can play an important role in developing this program.

In the medium term, such program can be designed with the following contents:

1. Information dissemination

In general, Vietnamese enterprises lack information of Indian market. Information, if available, is very poor. Also, Vietnamese enterprises' analytical capacity is weak. This is also a common weakness of Vietnamese enterprises, but, to some extent, it reflects the fact that both countries have not paid proper attention on the role of information in their trade promotion activities. Obviously, India is a very large market, but if comparing with information flows from other markets (EU, ASEAN and China), the extent of available information is very modest and this is a major barrier to the development of trade relation between the two countries.

Many measures can be applied for promoting information dissemination between the two countries, for example:

- To establish Center for Information Exchange;

- To strengthen the operation of internet websites and trading floors to improve the linkage between the markets. An important issue is to build a suitable information transmission mechanism through Internet for not only having regularly-updated information but also creating favorable conditions for enterprises to have direct information exchanges. The Institute of Applied Enterprise Information Technology at VCCI has had experiences in doing such work with African and Chinese markets;

- To facilitate information dissemination by traditional means, for example, bilingual publications about Indian and Vietnamese markets (in Vietnamese and Hindi);

- To organize contacts and exchanges of market information, conditions for export to India market, and experience sharing with business people of both countries;

- To assist Vietnamese enterprises to join market research delegations and participate in trade fairs and exhibitions in India. Due to difficulties in market exploration in the initial stages, both governments in general and trade promotion offices in particular can offer enterprises more privileges than enterprises operating in other markets.

- To strengthen the relationship between research institutes and businessmen in Vietnam.

2. Technological dissemination

Both governments can work out and implement measures to support technological transfer activities between the two countries. This is an advantage in Vietnam-India relation. On the one hand, Vietnamese enterprise capacity for technological acquisition is viewed as suitable with Indian technology. On the other hand, Indian enterprises are very active and dynamic in developing retail trade and distribution channels. Thus, the transfer of modern technologies from Indian to Vietnamese enterprises would help the latter expand their markets.

For the purpose of technological dissemination and transfer, attention must be paid on the following issues:

- Introduction of technologies;

- Building business plans on technological application;
- Solving financial issues;
- Completing contracts on transfer of technologies and production know-how;
- Human resource training.

Of these issues, priority should be given to financial issue settlement and human resource training. This will help Vietnamese enterprises reduce financial burden and risks that may arise from technological transfer and acquisition.

3. To enhance capacities of trade representative offices and other investment-trade promotion companies and organizations of both countries.

Trade promotion operates like non-profit activities and needs investments in the initial stage. More important, it is necessary to find ways of and/or measures for trade promotion suitable with business development levels of enterprises. For example, while the use of Internet by Vietnamese enterprises is limited, on-line information channels may not be very useful.

Trade promotion activities by offices and organizations of both governments need active participation from enterprise associations. For example, such activities as the Seminar "Investment Opportunities in Vietnam" held in New Delhi (by Vietnamese Embassy in India in collaboration with Confederation of Indian Industry - CII) on April 11, 2005 should be held more regularly. More important, there needs the participation of not only provincial/city officials who can introduce their potentialities and make commitments on market opening for Indian investors, but also Vietnamese enterprise partners for establishing necessary cooperation relations; associations and trade promotion organizations for providing supports to Indian enterprises in market research.

6.2 Measures at Sub-national Level

At sub-national level, it is of significance to establish trade promotion offices of various ministries and provinces, and encourage non-governmental organizations to enhance creativeness and flexibility of enterprise associations.

One feature of Indian enterprises, as above-mentioned, is that they often operate within enterprise associations, thus, their demands for creating relations and contacts with associations of Vietnamese enterprises are very important. However, the system of enterprise associations in Vietnam is still weak and ineffective. Their trade promotion activities are limited. One of the main reasons is that these associations have been recently established. Thus, enhancing the capacity of enterprise associations in trade promotion activities is of special importance. It could well spread out the fixed costs of entering a new market and makes it more reasonable for small and medium firms in Vietnam.

It can be said that no enterprise can successfully enter a new market without cooperation or information exchange with other enterprises, especially when enterprises are very small like most Vietnamese firms. In case of limited support from the governments, it will be of special importance when there is cooperation between enterprise associations of both countries, for they can exchange information and work together for trade promotion development. Enterprises in an association can even protect each other in case of unexpected market changes, and consult the two governments for improving the business environments.

For a long time, associations of enterprises and trade promotion organizations in Vietnam have been affected by the old mechanism of the central planning subsidy-based regime, thus, unable to deliver high-quality promotion services for their members. These associations as well as enterprises in Vietnam have not fully realized potentialities of the Indian market, thus, have not given adequate investments for exploring this market. Here, the fundamental issues are: to change associations' ways of thinking and to have necessary actions for elaborating directions and policies on trade promotion at the country level (level A), as above said. Following are actions that should be taken by associations, government trade promotion offices (at ministerial and city levels) and non-governmental organizations, and other trade promotion units:

- To strengthen information exchanges with trade promotion organizations of similar levels and lines. Especially, measures can aim at promotion activities that introduce members with each other for creating and building confidence for enterprises of the two countries, especially in the early stage.

- To organize mutual visits between enterprises of the two countries, at various levels, by region, sector and by sex.

- To organize trade fairs to introduce/ advertise business potentiality of the two countries, which can be combined with international and regional exhibitions (for instance, India, ASEAD, APEC...).

- To create trade promotion focal points for certain groups of product items, on the basis of which, to develop information exchanges between the two countries.

- Technically, Vietnam Chamber for Commerce and Industry should strengthen its activities and, at the same time, work out detailed programs to support other associations in their trade promotion work.

- Financially, trade promotion organizations must develop specific plans or programs, like proposals to both Governments and other donors for trade promotion.

For trade-investment promotion activities to be useful for enterprises of the two countries there needs cooperation and commitments made between associations of enterprises and trade promotion organizations, as an important bridge for member enterprises. For example, VCCI signed Memorandum of Cooperation with the Federation of Indian Chambers of Commerce and Industry - FICCI); on May 19, 2005 the Council of Women Entrepreneurs (under VCCI) and Bangladesh Association of Women Entrepreneurs signed a "Memorandum on trade-investment promotion" as a foundation for members of the two associations to create cooperation and business exchanges.

6.3 Measures at Firm Level

At enterprise level, trade promotion activities are to some extent different with those at the sector, regional and country levels. Enterprises of both countries should be more active in seeking market information and demands - consumption habit of the people of the two countries.

Due to similarities in development level and products, more efforts should be made by enterprises of both countries to find out the niche markets. However, for Vietnamese enterprises, their niche markets in India are extremely large and have great potential. In fact, some Vietnamese companies have utilized these advantages, for example, APTEC Center for Computer Programmer Training. Currently, some well-known companies in Vietnam have sought markets for themselves in India, such as Binh Tay Food Company, Bien Hoa Confectionery Corporation, Kinh Do Food Co., Vifon Acecook, Cholimex, Artex Saigon, Casumina, Dien Quang Lamp Company, Thien Thanh Sanitary Ware Company.

Besides activities for seeking market information, enterprises should change their old ways of thinking in accessing trade promotion services. For example, they must pay for such services as exhibitions, information supply, training, and surveys.

Enterprises should be more active in joining associations, on the basis of which, associations of enterprises can get and exchange information from one another. If no active introduction is made by enterprise, for example, it will be hard for enterprise associations to create a business link/relation, even when there is an opportunity.

In recent years, there have been positive developments in Vietnam - India economic relation, reflecting in increasing investments by Indian companies in Vietnam and also in increasing trade volume between the two countries. Vietnamese enterprises have started to pay more attention to the Indian market. Certain supports have been provided by Indian government for the development of small and medium enterprises in Vietnam, which can be seen in their technical assistance for the establishment of ASEAN Center for Enterprise Support in Hanoi. This is an important link for Indian and Vietnamese enterprises to pave the way and create and develop business opportunities among them.

For further development of Vietnam - Indian economic relation, much work must be done, at all levels (by the Governments, trade promotion organizations and associations of enterprises). The first thing to do is to change Vietnam's common ways of thinking about India market and firms, improve information flows, and on the basis of that, take every possible opportunity, and step-by-step penetrate the market.

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Appendix 1: A Chronology of Trade Policy Reform

1987	Law on FDI promulgated
1988	Customs tariff introduced
1990	Special sales tax introduced
	Export-import companies required to register
	Export of certain commodities limited to relevant exporter associations
1991	Export inputs used to produce exports exempt from duty
	EPZ regulations introduced
	Export duty on rice reduced from 10 to1 percent
	Private companies allowed to engage in international trade
1992	HS system introduced
	Trade agreement with EU
1993	Export shipment licensing relaxed
	Duty rebate system improved
	Customs declaration form improved
1994	Import permits eliminated for all but 15 products
	GATT observer status
	Licensing steps reduced
	Export shipments relaxed
1995	Import permit system relaxed
	Join ASEAN
	Import quota goods reduced to seven
	Export quota reduced to on rice
	Export taxes raised on 11 products
1996	Maximum tariff reduced to 80 percent
	AFTA list promulgated
	Managed import goods reduced to six
1997	WTO accession process started
	Rice quotas allocated by provincial governments
	Imports of sugar prohibited
	Temporary prohibitions imposed on consumer goods
1998	Management of quota goods shift to tariffs
	Private sector export allowed
	Foreign invested enterprises allowed to export not in license
	CEPT road map released.
	Partial surrender requirements imposed
	Special sales tax extended
1999	Decree 57 liberalizing right to import & export
	New tariffs with smaller range and rates released
	Decision 254 adds to list of conditional imports
2000	Quantitative control over 8 of 19 imported groups was abolished (Decision 242/1999/QDTTg, 30-12-1999, effective 1.4.2000)
	Vietnam-US BTA was signed in July.
	Tariff reduction schedule under AFTA for 2001-2006 was approved (almost tariff lines downed to 20% in 2003 and to 5% in 2006.
2001	Setting long term export-import plans for Export-Import enterprises (Decision 46/2001)
	Requirement on foreign exchange remittance released: from 50% to 40% Decision 61/2001/QD-TTg, 4.2001)
	Rice export quota and fertilizer import quota revoked
	All legal man can export & import all goods (except those are conditional or banned) without license (Decree 44/2001ND-CP, 2.8.2001)
	Export credit fund was set up
	Reducing a number of articles which foreign invested enterprises were required to export

	Foreign invested enterprises were allowed to export coffee, minerals, some wood products and textiles.
2002	Lists of commodities and tariff rates under the CEPT for the year 2000 was published (Decree 21/2002/ND-CP, 2-2002)
	A Vietnam's delegation started sessions on WTO accession at Geneva.
	Requirement on foreign exchange surrender released: from 40% to 30% (5.2002)
2003	Abolishing foreign exchange surrender requirements