Trade and Investment between Vietnam and India: Past, Present and Prospects

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1. A Brief Overview of Vietnam Economy

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: 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)	**6.848**	**8.979**	**4.894**	**4.138**	**1.568**	**2.018**	**2.592**	**1.621**	**1. 899**	**4.200**
Export (bill USD)	**5.449**	**7.256**	**9.185**	**9.360**	**11.540**	**14.483**	**15.029**	**16.706**	**20.176**	**26.003**
% changes	34.4	33.2	26.6	1.9	23.3	25.5	3.8	11.2	20.8	28.9
Import (bill USD)	**8.155**	**11.144**	**11.592**	**11.499**	**11.622**	**15.637**	**16.218**	**19.745**	**25.227**	**31.500**
% 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.

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 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.

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. Thus Vietnam has signed BTA with 84 nations/territories in which there have been 83 MFN. 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, and is also actively and urgently negotiating with major partners for their acceptance in order to become a WTO membership in 2006 as expected. 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 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.

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 4). Exports of light industrial and handicraft products enjoyed the highest growth rates.

Table 4: 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 bi 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 5) 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. For example, 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. 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 5: 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).

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 6: 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).

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.

Table 7: 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

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. Changes in Trade policy measures

a. *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 legitimize 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.

b. 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%.[1]

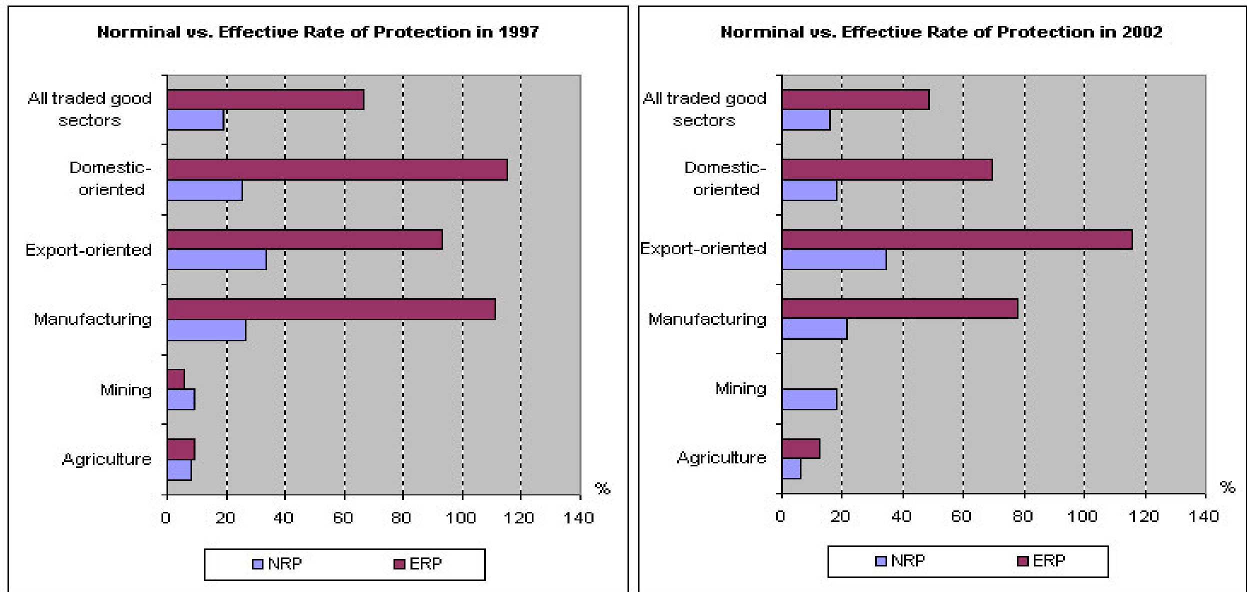
Vietnam applies an accelerated taxing method by which low or minimum tariff rates are applied mainly to material inputs for production such as machinery, equipment, materials. Thus, effective rates of protection for final goods are often much higher than nominal ones.

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 manufacturing sectors, high tariff rates tend to favour capital-intensive industries at the expense of labour-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 labour 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

[1] 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).

incomes from their agricultural products and pay cheaper price for manufacturing goods.

Figure 1. Nominal and Effective Protection Rates by Sectors: 1997 and 2002



Source: World Bank 2003, p.18.

Table 8 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 8. 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.

c. 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[2]. 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.

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

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" 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.

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 9: 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 10: 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 11: 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.[3]

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.

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[3] Far East Economic Review 2/2003

+ 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.

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[4] 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 Vietnamese 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 below:

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

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

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.

Table 12: 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
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

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, wit 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.[5] 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%. 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:

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[5] 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

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 Laoratories 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 addition, in the ministerial meeting on Ganga-Mekong Cooperation took place in Vientiane at the initiative of India and Southeast Asian countries, Vietnam, India and other 4 countries agreed on the steps to be taken to promote and increase the efficiency of multi-faceted cooperation.

The potential for bilateral cooperation is still vast and needed to be further exploited. 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. The Doimoi process in Vietnam and reform in India are creating new opportunities to strengthen bilateral ties. The above-mentioned conditions are very favorable for the two countries' business circles to promote the mutually beneficial cooperation in various specific areas.

The growth of relationship between Vietnam and India is in the interest of not only both countries, but also of the relations between India and ASEAN as a whole. India and Vietnam can take the advantage of their good relations as an impetus to strengthen the cooperation between India and ASEAN.

Since India's becoming ASEAN's full Dialogue Partner, the relations between Vietnam and India have a new dimension that is the cooperation between the two countries in various international and regional fora. Dialogue and cooperation relations between ASEAN and India will be further promoted as time goes by for the shared goal of development of both ASEAN and India and that the bilateral relations between Vietnam and India will be enhanced and deepened further in the interests of our countries and people and for the sake of peace, stability, cooperation and development in Asia and the world over.

5. Conclusions

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. However, the trade and investment flows between two countries remain very modest, far from the potential of trade and investment between India and Vietnam.

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.

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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