

IPCS SPECIAL REPORT

No. 57, July 2008

India-Vietnam Economic Relations

Opportunities & Challenges

PRANAV KUMAR

INSTITUTE OF PEACE AND CONFLICT STUDIES

B. 7/3 Safdarjung Enclave, New Delhi 110029, INDIA
Tel: 91-1141652556-9; Fax: 91-11-41652560
Email: officemail@ipcs.org; Web: www.ipcs.org

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Address:

B 7/3 Lower Ground Floor
Safdarjung Enclave
New Delhi 110029
INDIA

Tel: 91-11-4100 1900, 4165 2556, 4165 2557,
4165 2558, 4165 2559

Fax: (91-11) 4165 2560

Email: officemail@ipcs.org

Web: www.ipcs.org

INDIA-VIETNAM ECONOMIC RELATIONS

OPPORTUNITIES & CHALLENGES

PRANAV KUMAR

Research Officer, IPCS, New Delhi

The report provides an overview of India – Vietnam economic relations. The economic relations contain bilateral trade and investment relations. The institutional mechanism and the bilateral treaties provide the framework for this relationship. India and Vietnam share a cordial political and strategic relation from a long time, however till now this was not translated in the economic and commercial areas.

In the wake of domestic changes occurring both in India and Vietnam this situation is gradually changing. The bilateral trade between India and Vietnam crossed US\$1 billion mark in 2006-07. However this level of trade remains very low given the potential of both the emerging economies. India and Vietnam are among top ten fastest growing economies of the world. Unfortunately, trade with Vietnam is only 0.37 per cent of India's total trade. The state of mutual investment remains grim. There are only eight major investments from Indian side in Vietnam.

The report identifies some specific areas where an opportunities lies for investment and cooperation. Although the opportunities for investment in oil and gas sector in Vietnam is well known, but there are other potential sectors too, like, steel, knowledge based industries, transportation and so on. Vietnam and India face the challenge of connecting both the countries through road and rail linkages. Incidentally, both India and Vietnam are part of Mekong Ganga Cooperation (MGC), which has a special focus on overland connectivity. The report concludes that India and Vietnam compete and cooperate simultaneously in economic field, and it would be prudent if policy makers identify the respective strengths and work accordingly

An Overview

Driven by their cultural linkages, ideological similarity and a common political worldview, India and Vietnam have shared a cordial bilateral relation since their independence. But till the 1990s the economic and commercial interactions never figured significantly in their bilateral relations. The domestic economic setup, growth paradigm and foreign policy preferences in both the countries, prevalent at that time, were the major reasons hindering the growth of bilateral economic relations. In 1986 the virtually 'closed economy' of Vietnam introduced the 'Doi Moi' (renovation) policy. The 'Doi Moi' policy focused on "market-oriented economic management"¹. After some years, India started opening its 'import substitution'-based economy with the introduction of the structural adjustment programme in the early 1990s. At the same time, the changing dynamics of world politics in the early 1990s led to a rethinking both in terms of content and focus in Indian foreign policy.

The adoption of the 'Look East Policy', imbued with the economic element, marked an important turn in India–Vietnam economic relations. The need for economic development increased the importance of bilateral economic and commercial linkages between both the countries. Hence, both the countries made conscious efforts to expand the areas of economic cooperation and increase the volume of trade and investment. These efforts received fillip from regional arrangements, for example, ASEAN–India cooperation

¹ "Vietnam : A guide for Business and Investment", November 2006, PriceWaterHouseCoopers.

and Mekong Ganga Cooperation. However, a study of economic relations between the two countries reveals that it is still in its budding stage. Due to several factors the economic relations are yet to achieve their potential. This paper seeks to examine the current level of economic interactions, identify the challenges and highlight the possible areas of cooperation.

I BILATERAL TRADE

Over the past five years there has been a steady increase in the trade volume between India and Vietnam. Eventually, it crossed the US\$1 billion mark in year 2006-2007. This is a major achievement, in light of the fact that one decade ago, in

1994, the total trade was US\$ 102.6 million. In the last five years there has been a continuous growth in the bilateral trade. While in 2005-06 the bilateral trade was US\$ 822.06 million, it grew by 39.81 per

cent and reached US\$ 1,149.36 million (see Table 1). However, the noticeable fact is that despite the growth in bilateral trade volume, its share in India's total trade remains miniscule. Even the yearly increase in percentage growth remains insignificant. As over the past five years, the yearly percentage growth in total trade has increased from 0.32 to 0.37. This indicates that although India-Vietnam trade is increasing, this increase is not exceptional in light of India's overall trade growth. On the other side "in 2003-04 India constituted around 1.6 per cent of

Vietnam's total export"². Despite the increase in India's share in Vietnamese trade, India still does not figure among the top ten trading partners of Vietnam.³

An important highlight of the India-Vietnam trade is that the Balance of Trade (BoT) has continuously been in favour of India. In 2006-2007 India's Exports to Vietnam were US\$ 981.84 million, while for the same period the imports were US\$167.52 million. So the Indian exports are almost five times higher than the imports. And this phenomenon has continued over a long period of time, as it is evident from figure 2.

The major factor behind the favourable BoT for India and rather slow expansion of

bilateral trade is the similarity of export items of both the countries. A study of the export baskets of India and Vietnam suggests that garments, tea, rice, cashew, footwear, pepper, and marine products

figure in the export lists of both India and Vietnam. However, in the case of India's exports, there is further scope for expansion in sectors like modern electronic machinery and computer software; and mainly crude oil and natural gas in the case of Vietnamese exports to India.

Table 1
Bilateral Total Trade between India and Vietnam

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Bilateral Total Trade volume(In US \$ million)	366.57	448.56	642.46	822.06	1,149.36
Per cent growth		22.39	43.20	27.96	39.81
Per cent share in India's Total Trade volume	0.32	0.32	0.33	0.33	0.37

Source: Export Import Data Bank, Department of Commerce, Ministry of Commerce and Industry, Government of India, <http://commerce.nic.in/eidb/default.asp>

² Rajesh Mehta, "India Vietnam Trade: Current Relations and Prospects" RIS Discussion Papers, www.ris.org.in.

³ Vietnam Import-Export Statistics, <http://www.vietpartners.com/statistics>.

Major items of India's export to Vietnam include food ingredients, ordinary metals, plastic materials, pharmaceuticals, steel of all kinds, leather and textile materials and pesticides. India's import basket from Vietnam contains crude oil, pepper, tea, rubber, cinnamon, coal, computer and electronic components.

Southeast Asia has grown in importance in India's economic interactions with the world. And even in comparison to other ASEAN members, India's trade volume with Vietnam is not satisfactory, as Vietnam is the 4th largest trading partner of India in Southeast Asia.

**II
MUTUAL INVESTMENTS &
INSITUTIONAL MECHANISMS**

To date there has not been any major investment from Vietnam in India. From the Indian side there have been some investments in Vietnam. In recent times Vietnam has introduced favourable policies for investors and has implemented the "one stop shop" policy in licensing. At the same time Indian companies are venturing out in the world market. So there are eight major investments from the Indian side in Vietnam, with a total registered capital of US\$583 million. The major Indian investments are in sugar production, oil and gas exploration, edible oil, pharmaceuticals, office furniture-making and plastic industries.

ONGC Videsh has invested US\$162 million in offshore oil and natural gas exploration. Esaar Group, Godrej Limited and Ranbaxy

are some of the important Indian companies in Vietnam.

The United Nations Conference on Trade and Investment (UNCTAD) has ranked Vietnam sixth among the attractive destinations for FDI. Put together with the fact that in 2006 India's outward FDI was

US\$9,676 million, India's current investment in Vietnam seems to be below its potential.

On a government-to-government level, the India-Vietnam Joint Commission for Economic, Scientific and Technical cooperation, established in 1982, serves as a platform to discuss various issues of bilateral economic importance. The meetings of this commission take place alternatively in New Delhi and Hanoi. In 2007, the 13th meeting of the Joint Commission took place in Delhi. The foreign ministers of the two countries are the joint co-chairmen of this commission. On the other hand the Indo-Vietnam Joint Business Council is a platform to discuss business issues by the corporate people. It is "a body of the private business sectors in the two countries, coordinated by the FICCI on the Indian side and Vietnam Chambers of Commerce and Industry on the Vietnamese

**Table 2
Export Import Data of Bilateral Trade between India and Vietnam**

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
India's Export to Vietnam (In US \$ million)	337.39	410.43	555.96	690.68	981.84
Percentage increase in Export		21.65	35.64	24.23	42.16
India's Import from Vietnam (In US \$ million)	29.18	38.21	86.50	131.39	167.52
Percentage Increase in Imports		30.95	126.35	51.89	27.50

Source: Export Import Data Bank, Department of Commerce, Ministry of Commerce and Industry, Government of India, <http://commerce.nic.in/eidb/default.asp>

side.”⁴ The first meeting of Indo-Vietnamese joint business council took place in Hanoi on 6 September 1993. These meetings facilitate various trade-related agreements between the companies of the two countries. Outlining a future map for the growth of India-Vietnam relations, both the countries issued a joint declaration in 2003 on Comprehensive Cooperation in the 21st century.

III OPPORTUNITIES

There are a number of other areas where India and Vietnam can share their experiences and benefit through mutual cooperation. In light of the fact that Vietnam is very rich in mineral resources, a number of sectors where Indian companies can invest in Vietnam might be identified.

Oil and gas

Vietnam has 600 million barrels of proven oil reserves. While it is a major oil producer in Southeast Asia; it still has to import oil to meet its domestic needs. This is largely due to the fact that Vietnam lacks the technical know-how of exploration and there is a lack of refineries. In both these areas, Indian companies can be major players. Till date, only ONGC Videsh and ESSAR Group have invested in Vietnam. There are reports that the Reliance Group is also interested in the Vietnamese oil and gas sector. Vietnam is estimated to have natural gas reserves up to 10 Trillion Cubic Feet (TCF). Vietnam is emerging as a potential natural gas exporter in Southeast Asia. Here, India can enter into joint ventures with an added benefit of getting natural gas supply from Vietnam.

Pharmaceuticals

Vietnam imports a major portion of its pharmaceutical needs. The demand for drugs is growing, with the availability of an additional amount of income to be

spent on health needs. The Indian company, Ranbaxy, has invested in Vietnam. But the scope for further investment in this sector is very wide. India being a major player in Asia in the pharmaceuticals sector, can help Vietnam strengthen the pharmaceutical industry in Vietnam.

Steel

The boom in the real estate sector is driving the demand for steel in Vietnam. Despite being rich in natural resources, Vietnam imports crude steel. The proposed investment of TATA in the Vietnamese steel sector has shown the potential of Indo-Vietnamese cooperation in this sector. So the rich Indian experience in the steel sector can be valuable for Vietnam.

Knowledge-based Industries

India is a world leader in knowledge-based industries. Vietnam being a new entrant in this field can benefit from the Indian experience. Vietnam has invited Indian companies to invest in the educational sector. With the growth of the economy, the demand for human resource is continuously increasing in Vietnam and this provides an opportunity for India to explore the human resource development sector. There are a number of private education providers who can invest in the Vietnamese educational sector. The science and technology field provides immense opportunities for economic growth of both the countries. Especially in the Information Technology sector, India and Vietnam can establish joint ventures in Vietnam. Further, given India's expertise in these areas, it can train Vietnamese manpower to cater to the market needs of high-skilled labour.

Transportation

The easy movement of goods and people throughout the country remains an important imperative for economic development. Both India and Vietnam are building their transportation sector to meet the challenges of infrastructure development. In Vietnam, the rail network consists of only 2,600 kilometers of single track line. There is a major plan to extend the length and improve the condition of

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<http://www.ficci.com/international/countries/Vietnam/vietnamcommerce>.

tracks. India has shown its interest in the Vietnamese Railway sector. RITES Ltd has supplied 20 electrical locomotives to Vietnam Railways under lines of credit, extended by the Government of India. Indian Railways operate the second-longest railway network in the world. Indian Railways has proved its expertise by taking on projects in various countries and in varied geographical terrains. Therefore, it has a rich experience and competent technical expertise to help Vietnam in strengthening and expanding its railway network.

Both India and Vietnam are involved in the upgradation and expansion (in length) of their national highways. Here, both countries can share their respective experiences. One special area of mutual interest can be the building of bridges over rivers, since both countries need to build a large number of bridges, considering their geographical conditions.

Inland waterways are widely used for domestic use in Vietnam. However, in India, despite its potential, it remains largely untapped. Here, India can learn from the Vietnamese experience in developing inland waterways and managing them as a sustainable mode of transport.

With the globalization of their economies, the civil aviation sector is growing in importance in both the countries. The upgradation and building of new airports are major activities in this direction, and therefore, this can also be an important area of mutual cooperation to benefit from.

Agricultural techniques, research and biotechnology

India and Vietnam produce a large number of agricultural products which are common to both the countries. India can learn some novel agricultural techniques to increase productivity. Especially India can learn from Vietnamese in marine products and rice cultivation. Vietnamese firms have shown interest in learning the techniques of soya cultivation and making various soya-

based products. India being a major producer of soya products can help Vietnam in this direction. At the same time, both the countries can cooperate to undertake further research in the agricultural sector. The benefits of newer technologies like bio-technology can be jointly harnessed to increase agricultural productivity and improve the living standards of farmers.

IV CHALLENGES

In international trade and commerce, companies and countries compete and cooperate at the same time. This also holds true for India–Vietnam bilateral trade and commerce. Due to the complementarities of their major export items, they compete, but at the same time cooperate, to benefit from mutual trade and commercial relations. As noted earlier, India and Vietnam export similar types of goods, which inhibits the rapid growth of trade. However, given the vast growth of the market in both countries, the space for bilateral trade is expanding. And the growth pattern of bilateral trade in last decade verifies this statement. In recent times, there have been some talks about the possibility of Free Trade Area (FTA), to increase the volume of bilateral trade and investment. This view was echoed by Vietnamese Prime Minister Nguyen Tan Dung during his visit to India in July 2007. He stated that “We are ready to sign an FTA with India”.⁵ But both the countries are taking a cautious approach towards FTA, as any move towards it, without proper liberalization and building of the competitive strengths of various sectors is unlikely to benefit the economies. It seems that past autarkic policies have also contributed significantly to low levels of trade; and, as both economies open up, the volume of trade will increase. Further, in view of the hindrances faced by India-Thailand and India-ASEAN, FTA, the Indian

⁵ <http://www.bilaterals.org/articles.php3?id-article=8930>.

side wants to go step by step in this direction rather than take long strides. The Vietnamese are also concerned that given the trade structure between both the countries, in case of an FTA, India will be able to capture a large number of commodities in the Vietnamese market. In a nutshell, although both the countries are willing to work towards an FTA for the free flow of goods, services and investment; they are not in a hurry and want to consider its pros and cons.

For the consistent development of bilateral commercial relations, connectivity is a major issue. This is an area India and Vietnam need to work on, since the hindrances posed by distance can be turned into opportunities through the means of connectivity. Although there is an agreement between India and Vietnam regarding civil aviation, there is still no direct flight available between India and Hanoi, on a regular basis. It is mainly the Thai and Malaysian carriers that operate between New Delhi and Hanoi. And it is unfortunate that it takes ten to twenty four hours to reach Hanoi from New Delhi, largely due to connecting flights. The problem is that Airlines operate on the basis of commercial viability, and this route offers fewer incentives to them. There is an urgent need therefore, for both countries to discuss this issue within the broader framework of tourism-promotion and increased economic interaction.

There are obvious benefits of a rail and road link between the two countries. Road linkages facilitate further growth of economic and cultural linkages. Apart from its obvious benefits related to the movement of goods, it also promotes overall equitable development in various regions, which is a major developmental goal for both the countries. Additionally, the flow of tourists will also increase phenomenally. Both India and Vietnam are part of the Mekong Ganga Cooperation (MGC), which has a special focus on overland connectivity. "The New Delhi-Hanoi rail link was proposed at the ministerial meeting at Phnom Penh in June

2003. Even though rail networks exist in India, Myanmar, Thailand, Cambodia and Vietnam, there are certain missing links that need to be laid out for the completion and operationalization of the rail link from New Delhi to Hanoi."⁶ Some five years after its official announcement, there seems to be no further ground work on this proposal. Although there are other countries involved in this scheme, the issue of overland connectivity between India and Southeast Asia must be accorded the highest priority. Such a step will be a landmark initiative that will bring multifarious benefits to all stakeholders, especially to India-Vietnam economic linkages.

The tourism sector has emerged as an important component in the India-ASEAN summit discussions, given its potential in facilitating mutual development. Both India and Vietnam have actively participated in these discussions both at the regional and bilateral levels. In recent times, both the countries have emerged as top tourist destinations in the world. Despite this, the mutual tourist inflow between the two countries has remained very low. During 2006, Vietnam received 3.6 million foreign tourists, of which only 1,463.0 thousands were Indians. While in 2006 India received 4 million tourists, the number of tourists to India from Vietnam was negligible in comparison to other ASEAN countries. Since both countries are gearing up to make the tourism sector a magnet for foreign exchange earnings, it is imperative that both cooperate in this area. Vietnam has a large Buddhist population, and being the birth place of Lord Buddha, India can attract a large number of tourists from Vietnam to visit the holy places associated with Buddhism. The concept of the 'Buddhist circuit' is a welcome initiative in this

⁶ "Rajya Sabha question and answers: Rail Link between New Delhi and Hanoi", 11 December 2003, <http://meaindia.nic.in/parliament/rs/2003/12.htm>.

direction. India needs to showcase its potential destinations to potential tourists. To this end, a massive tourism-promotion campaign in Vietnam could prove to be productive. On the other hand, Vietnam needs to focus on Indian tourists traveling to other countries for nature-based tourism. There is a lack of knowledge among potential Indian tourists about the possible destinations in Vietnam. Thereby, Indian tourists mainly go to Malaysia and Thailand. With a more intensive tourism-promotion campaign therefore, Vietnam can attract a large number of tourists from India. Vietnam will also need to inform potential Indian tourists that it offers a wide variety of choices, ranging from sea beaches to tropical forests. Given the fact that tourism is one of the four focus areas in MGC, it makes it even more vital for both countries to cooperate in this area and strengthen the regional setup.

V CONCLUSION

Despite the fact that India is an economic powerhouse and Vietnam, Asia's fastest-growing economy, bilateral trade and investment are far below the level of actual potential. Given that Vietnam's bilateral trade with both China and US has crossed the US \$ 10 billion mark, the India-Vietnam trade volume of US \$ One billion seems quite low. But the growth pattern in the economic relations is encouraging. Both the countries has resolved to cross the US \$ 2 billion mark in bilateral trade by 2010. To achieve this target, some prudent steps needs to be taken. First, the Vietnamese Deputy Trade Minister has asked for setting up a forum for trade and investment policy exchange between the two countries. Although India has agreed to this proposal in principle, some immediate steps are needed to fructify this forum. Such forums provide an institutional framework for the key actors to engage in discussion. Here, both the countries can think of a bilateral forum for knowledge-based industries along similar lines, with a more focused approach.

Second, a "Vietnam-India Trade Promotion Programme, 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 the countries"⁷ will be of immense help to expand the commercial relations between the two countries. Third, in India, states like West Bengal share a number of similarities with Vietnam in terms of their agricultural products. Here, a more decentralized effort could prove immensely productive. So in the agricultural field, individual states in India can devise a specific product-based strategy for mutual cooperation. Fourth, the knowledge in both countries concerning the available economic opportunities on the one hand, and attractive tourist destinations on the other, is minimal. So, a mechanism for information dissemination will be of great value. In this direction, an increase in bilateral visits, involving key economic players can be a fruitful step.

Finally, both the countries need to understand their strengths and opportunities in their bilateral economic relations and act accordingly. In a short period of time, it will be impossible for Vietnam to bridge the trade balance, which is currently in India's favour. Vietnam's attention therefore, must be focused on attracting investment from India, which Vietnam needs, to fuel its growing economy. At the same time, India in its endeavor to become a global economic player, needs to strengthen its economic relations with Vietnam through increased interaction with physical, commercial, investment, and trade linkages to venture into the larger Asia-Pacific.

⁷ "An assessment of Trade and Investment cooperation between India and Vietnam", Institute of World Economics and Politics, October 2005.

Important Bilateral Treaties and Agreements related to Economic Relations

Bilateral investment Promotion and Protection Agreement (BIPPA) – signed in March 1997

Avoidance of Double Taxation Agreement, signed in September 1994

Consular Agreement – signed in September 1994

Agreement on Cooperation in Science & Technology, signed in 1976 and renewed in February 1996

Joint Declaration on the framework of Comprehensive Cooperation - 1 May 2003

Agreements signed during the state visit of Prime Minister of Vietnam to India on 6 July 2007:

MoU on Cooperation in the field of Fisheries and Aquaculture.

Work Plan in the field of Agriculture 2007-2009.

MoU on Cooperation between Vietnam Steel Corporation and Tata Steel Ltd.