



# INDO-VIETNAMESE CHAMBER OF COMMERCE AND INDUSTRY



**Special News Letter**  
On the occasion of 14th AGM of IVCCI



## *President Writes*

*Indo-Vietnamese Chamber of Commerce & Industry (IVCCI), set up in 1990, has completed 14 years and is rendering useful services to its members for the promotion of bilateral trade and investment relations between India and Vietnam.*

*This period almost coincides with the 'reforms era' and the process of globalisation in India, which started in 1991. Economic reforms in Vietnam started, ahead of India, in 1986.*

*There are many similarities and complementarities between India and Vietnam. Both are among the fastest growing economies in the world and have doubled their gross domestic products (national incomes) since 1990.*

*Volume of trade between the two countries has multiplied almost 6 fold from \$ 75 million in 1990-91 to \$ 447 million in 2003-04 (detailed statistics given elsewhere in this issue). Balance of trade since mid-nineties is in favour of India and has been steadily rising from \$ 14 million in 1994-95 to \$ 371 million in 2003-04.*

*The Government of India in principle has agreed to extend a line of credit through Exim Bank of India to Vietnam. The proposed \$50-million credit will be exclusively used for export of Indian textile machinery, parts and accessories to Vietnam. When issues of guarantee for the repayment of the credit and difference in the interest rate offered by the Government and the rate that could be charged by the Exim Bank of India are sorted out, the expected line of credit will materialise.*

*In addition to traditional sectors, which offer a good business potential between India and Vietnam, such as rice, coal, marine products, garments, construction materials, ceramics, oil and gas, machinery, fertilisers, fine chemicals, drugs and pharmaceuticals and electronics and electricals, tourism offers a great potential. Many possibilities exist for inbound and outbound tourism between our two countries, which could result not only in additional foreign exchange earnings but also creation of additional employment.*

*Frequent high-level interactions can go a long way in strengthening Indo-Vietnamese relations. Last December many Vietnamese companies participated in the exhibition at Kolkatta. IVCCI had then organised a Seminar, which was addressed by Mr. Do Nhai Dinh, Vice Minister of Trade, Socialist Republic of Vietnam and H.E. Mr. Tran Trong Khanh, Vietnamese Ambassador in India, among others (Reports appear elsewhere in this issue).*

*It is our proud privilege to welcome H.E. Mr. Tran Trong Khanh again amongst us on the occasion of IVCCI's AGM. This is his third visit to Mumbai in a year, reflecting his passion in promoting bilateral relations between India and Vietnam.*

*On this day, we rededicate ourselves to the service of members. Exciting days are ahead to take Indo-Vietnamese relations on a higher plateau.*

*Atul Bhagwati*  
Atul Bhagwati  
President

## Transnational Railway line be expedited Ambassador Khanh at IVCCI's AGM

*H.E. Mr. Tran Trong Khanh, Vietnamese Ambassador in India, made following observations at the 13<sup>th</sup> Annual General Meeting of Indo-Vietnamese Chamber of Commerce & Industry (IVCCI):*



From left to right : **Mr. Ranjan Bhatnagar**, Hon. Secretary, IVCCI, **Mr. Dinh Tat Thang**, Vietnamese Consul General in Mumbai, **Mr. G.D. Agarwal**, Vice President, IVCCI, **H.E. Mr. Tran Trong Khanh**, Vietnamese Ambassador in India, **Mr. Atul Bhagwati**, President, IVCCI and **Mr. Jitendra Sanghvi**, Executive Secretary, IVCCI

- ❖ Vietnam is planning to put up an impressive show of its vibrant industrial power at the Trade Fair in Kolkata in December 2003. Come to Kolkata and discover the impressive array of products and services that our industries are capable of providing to the international market.
- ❖ Industries were consistently recording a 15 per cent annual growth rate, the savings rate was as high as 30 per cent and the inflation rate was only a negligible 4 per cent. The Indian industry should import Vietnam's internationally competitive products and also consider setting up their offshore bases in Vietnam.
- ❖ There was an urgent need for the spread of knowledge about his country in India and vice-versa. For this purpose, he agreed with suggestions that direct air and sea transport facilities between the two countries must be set up.
- ❖ He hoped that Prime Minister Vajpayee would further press for acceptance of his suggestion at the ASEAN Conference to set up a transnational railway line between India and Vietnam in the forthcoming meeting. He also promised that he would lend active support to any initiative in this direction.
- ❖ He had no doubt that most Vietnamese, who are Buddhists, would like to come to India, the cradle of their religion. Also, it will be an exhilarating experience to travel through railways from India to his country passing through various countries like Myanmar, Thailand, Cambodia and Laos. Such a railway line will tremendously boost the economies of these countries.
- ❖ He also appealed to the Indian industry to extend more student scholarships and training facilities to Vietnamese and help them to catch up with the developing world.

### India-Vietnam Trade : Balance in favour of India

Year	\$ million			
	India's Exports to Vietnam	India's Imports from Vietnam	Two-way Trade Turnover	India's Trade Balance
1988-89	17.1	8.0	25.1	9.1
1989-90	8.1	141.4	149.5	-133.3
1990-91	17.2	57.7	74.9	-40.5
1991-92	12.9	38.3	51.2	-25.4
1992-93	18.6	66.0	84.6	-47.4
1993-94	27.8	43.8	71.6	-16.0
1994-95	58.0	44.0	102.0	14.0
1995-96	124.4	15.5	139.9	108.9
1996-97	118.2	1.7	119.9	116.5
1997-98	126.8	8.7	135.5	118.1
1998-99	125.4	9.1	134.5	116.3
1999-2000	144.0	11.7	155.7	132.3
2000-01	225	12	237	213
2001-02	219	19	238	200
2002-03	338	29	367	309
2003-04	409	38	447	371

(Contd. from p. 2)

Welcoming H.E. Mr. Tran Trong Khanh, Vietnamese Ambassador in India, Mr. Dinh Tat Thang, Vietnamese Consul-General in Mumbai, other guests and members of IMC and IVCCI, Mr. Atul Bhagwati, President, IVCCI, cited vast opportunities for Indian businessmen for also competitively meeting Vietnamese demand for modern goods and services sectors like construction, telecommunication, food processing and packaging, textile machinery, transportation, chemical fertilizers, insecticides, farm and animal husbandry equipment, banking, shipping, insurance, etc. Indian businessmen can also consider profitably investing in the education, environment, information technology, health and medicine-related sectors.

## Vietnam : Economic Profile

### I. Population & National Income

<b>Population</b>		
million	2003	81.3
Average (% growth)	1990-2003	1.6
Density (per sq. km)	2003	250
<b>National income</b>		
Gross (\$ billion)	2003	39
Per capita (\$)	2003	480
PPP gross (\$ billion)	2003	202
Per capita (\$)	2003	2,490
Per capita gross domestic product (% growth)	2002-2003	6.1
<b>Health</b>		
Life expectancy at birth (years)	2002	70
Under-5 mortality rate (per 1,000)	2002	26
Carbon dioxide emissions (million of tonnes)	2000	57.5
<b>II. Poverty and Income Distribution</b>		
<b>Population below poverty lines</b>		
Rural (per cent)	1993	57.2
Urban (per cent)	1993	25.9
National (per cent)	1993	50.9
<b>International poverty line</b>		
Population (below \$1 a day) (per cent)	1998	17.7
Population (below \$2 a day) (per cent)	1998	63.7
<b>Percentage share of income or consumption</b>		
Lowest 20%	1998	8.0
Highest 20%	1998	44.5

### III. Economic Activity

<b>Gross domestic product</b>		
\$ million	2003	39,157
Average annual growth rate (per cent)	1990-2003	7.5
Agricultural productivity : value added per agricultural worker ( 1995 \$)	2000-2002	256
<b>Value added as % of GDP</b>		
Agricultural	2003	23
Industry	2003	39
Services	2003	38
<b>Final consumption expenditure (% of GDP)</b>		
Household	2003	66
General Government	2003	6
Gross capital formation (% of GDP)	2003	32
External balance of goods and services (% of GDP)	2003	-4
GDP implicit deflator (average annual growth rate)(%)	1990-2003	11.6

### IV. Trade, Aid and Finance

<b>Merchandise trade</b>		
Exports (\$ million)	2003	19,660
Imports (\$ million)	2003	24,020
Current account balance (\$ million)	2003	-604
<b>Capital flows</b>	2002	759
Net private capital flows (\$ million)		
Foreign direct investment (\$ million)	2002	1,400
Official development assistance (\$ per capita)	2002	16
<b>External debt</b>		
\$ million	2002	13,349
Present value (% of gross national income)	2002	35
<b>Domestic credit provided by banking sector (% of GDP)</b>	2002	44.8

# Vietnam : Towards Socialist-oriented Market Economy

*Strong domestic and external demand underpinned solid economic performance in 2002. However, despite some progress lately, structural weaknesses among SOEs and the banking sector remain, and faster implementation of reforms is needed in governance and institutional areas. Improving competitiveness in the face of increasing external pressures arising from regional and international integration is a challenge that must be met if strong growth is to continue.*

## Macroeconomic Assessment

Although the economy performed somewhat sluggishly in the first 9 months of 2002, the fourth quarter saw a strong pickup. While external factors, such as exports and FDI inflows, contributed to the acceleration, the surge was led mainly by domestic demand. Macroeconomic stability, as well as institutional and structural reforms, helped underpin this strengthening. With an estimated 6.4% GDP growth, Viet Nam remained one of Asia's fastest growing economies in 2002. There was increased confidence in the business sector, resulting in a surge in registrations of new private businesses.

Higher rice prices coupled with increased output helped the agriculture sector post 3.0% growth for 2002. Strong expansion in the output of high-value seafood products drove up fisheries by 6.0%, but as a result of deforestation and bush fires, the forestry sector remained virtually unchanged.

Services sector growth of 6.0% for the year was driven by financial services, which gained 7.6%; by wholesale and retail trade; and by real estate, both of which grew by 6.5%. Tourism was another buoyant area, with more than 2 million tourists visiting Viet Nam in 2002 and representing an important source of foreign exchange.

On the aggregate demand side, domestic consumption and investment were the main sources of expansion. Gross fixed investment strengthened for the fourth year in a row to reach 32.0% of GDP, while retail sales grew by 13.0%, up from 9.0% in 2001.

On the fiscal front, the 2002 budget deficit, including on lending, was slightly smaller than in 2001 at 3.5% of GDP. Overall revenues rose by 6.5%, and oil revenues contributed about one fifth of the total. While taxes on the state sector contribute significantly to tax revenues, the Government is making efforts to further diversify the tax base and improve collections. These efforts include strengthening the nascent VAT system and generating more revenues from income taxes. VAT, which has replaced turnover tax and is levied on imports, rose as a proportion of revenues to 21.9% in 2002 from 18.6% in 2001. Currently, the revenue base for income tax is narrow and tax collections are low. At present, most income tax is produced by a profit tax on firms in the state sector.

In 2002, the Government decided to formalize fiscal decentralization to the provincial and lower levels. Customs revenues rose to 18.3% of total revenues, from 16.8% in

2001. After high capital spending, primarily on infrastructure projects, that accounted for most of the increase in public expenditures in 2001, public expenditures were capped in 2002 and an increase of only about 6.4% was recorded. In terms of allocation, the Government maintained current expenditures at the same level as before (65.0% of the total), and allowed a slight decrease in capital expenditures (31.7% of the total). Within current expenditures, education and health experienced small increases, as did SOEs.

In June 2002, the interest rate ceiling on lending in domestic currency was removed, allowing banks to better price credit risk and hence to grant loans to the emerging private sector. The Government also initiated a \$675 million phased recapitalization of the SOCBs, which will increase their statutory capital by 25%. SOEs' outstanding debt from domestic banks now totals about \$6 billion. It amounts to 40% of total domestic credit, although the SOE share of new loans is down to 25%.

The zero or slightly negative trend of inflation in recent years saw a marked change in 2002 with a 4.0% rise in the CPI. Most of this was due to a rise in food prices, including rice, which makes up almost half the commodity base used to calculate the CPI. The dong depreciated by 2.1% against the dollar, which was a slower rate of depreciation than seen in 1998-2001 when its annual fall against the dollar averaged 3.9%.

At 7.4%, exports increased about one percentage point faster than in 2001. While this performance was slow compared with 1999 and 2000 and the years before the financial crisis, it was relatively strong when compared with the performance of other countries in the region. The major restraining factor was weak external demand, particularly in Viet Nam's major markets such as the EU, Japan, and US. Exports recovered very well in the last quarter of 2002. During the first 8 months of the year, exports contracted by 1.2%, yet the year ended with reported growth above 7.0%. Strong increases in exports of garments, footwear, and seafood led the recovery, although the value of agricultural exports, led by a rising price for rice, also rose by over 7.0%.

The strong performance of garment exports was highlighted by a more than 16-fold increase in shipments to the US over the 2001 level. This helped total garment exports reach 120% growth during the year to over \$2 billion, and reflects the importance of the Bilateral Trade Agreement (BTA) with the US, which came into effect in

December 2001. Despite a current trade dispute surrounding catfish, the initial success of exports to the US has important positive implications for the trade reform process under the BTA.

Imports grew about three times faster than in 2001, reflecting potent domestic demand for industrial as well as consumer goods. This level of import growth led to both a trade deficit (the first since 1998) and a current account deficit of 2.8% of GDP (after 3 years in surplus).

Total external debt was estimated at about \$14 billion at the end of 2002, equivalent to about 42% of GDP. New FDI commitments were sharply lower than in 2001, down 41% to \$1.3 billion, but the number of project approvals was higher. The changing pattern of FDI inflows is partly a result of more small-scale foreign investment projects. Foreign-invested enterprises (FIEs) only employ about 600,000 people, reflecting the capital-intensive bias of many projects (although downstream employment creation, such as in the fisheries sector, is significant). Much new investment is going into manufacturing, notably the labor-intensive textile and garment sector. This is a clear break in trend from the earlier import-substituting, capital-intensive nature of FDI inflows. Private remittances from Vietnamese overseas amounted to about \$2 billion in 2002, and these inflows are emerging as an important source of foreign exchange earnings.

Viet Nam's youthful population distribution continues to add 1.4 million people to the workforce annually. Thus the workforce is rising by 3.0% a year, despite a population growth rate of about 1.4%. Official unemployment figures show little change year on year, but have limited meaning for a poor, developing, and still largely agricultural country. More important is the ability of rapid industrialization to produce large numbers of new, higher value-added jobs, thereby being both the cure and a cause of rural-urban migration. Strong industry sector growth, with further expansion of private domestic enterprises in the provinces, would probably help reduce underemployment in rural areas, which is high and a major problem there. This, however, will require intensifying the implementation of the new Enterprise Law, enacted in 2000, at the provincial and district levels.

## Policy Developments

The reform process in Viet Nam is accelerating, which itself is an important variable in sustaining rapid and steady economic growth rates. Changes to the 1992 Constitution in 2001 to strengthen "rule by law", the enactment of the new Enterprise Law, the signing of the BTA, and the support enunciated for the private sector at the March 2002 Fifth Party Plenum have been important recent political milestones. Decentralization decrees including fiscal, licensing, and FDI approvals, and grassroots democracy (a mechanism to enhance people's participation and

transparency in decision making) were other important policy developments. This all contrasts with the belief among policy makers in the 1990s that policy change was not urgent, since large FDI inflows and 20%-plus annual export growth rates had been achieved without much reform.

Since the financial crisis and subsequent period of slower growth, Viet Nam has entered a new phase of economic development. With increased market orientation and regional and global integration, it is in a better position now to exploit its full development potential which, in the past, was unnecessarily constrained by the centrally planned system. The BTA could also help pave the way to WTO accession. In addition, Viet Nam must prepare for AFTA commitments over the next 3 years and free trade arrangements with ASEAN by 2010. The PRC's entry into WTO also creates challenges and competition in export markets. All of these developments highlight the urgency of further reform.

The liberalization of interest rates on lending in domestic currency is potentially a significant move, although other formal and many informal controls over commercial banks still restrict their scope and flexibility. Banks were also permitted to increase their dollar holdings from 15% of total capital to 30%, and the required reserve ratio on foreign-currency deposits was lowered from 8.0% to 5.0%. All these moves have stimulated lending activity, but they also raise questions about the foreign exchange vulnerability of lending portfolios.

Trade reforms in 2002 included publishing the tariff reduction schedule under AFTA, issuing the implementing decision for the BTA, and starting working sessions for WTO accession. The foreign-exchange surrender requirement for exporters was reduced again from 40% to 30%. By the end of 2003, all quantitative restrictions on imports will be abolished with the exception of sugar (to be kept until 2005) and petroleum products. The shift toward tariffs from non-tariff barriers has led to an increase in the average tariff rate from 13.4% in 1997 to 15.7% in 2002. However, this has resulted in an overall decrease in trade restrictions since the implicit cost of non-tariff barriers was very high.

Driven by political and economic concerns, the momentum and depth of trade reform commitments are impressive. If the trade reform agenda to 2010 is followed, it will precipitate structural change that will improve competitiveness and focus resources in activities where the economy has a comparative advantage.

Private domestic manufacturing is still relatively small, accounting for less than 4.0% of GDP and 6.0% of manufacturing output. It accounts for about 3% of total employment. The nonstate sector, which includes collective households, mixed, private domestic enterprises (fully Vietnamese owned), and FIEs, accounted for about 61% of

GDP in 2001. Its growth has been slow but positive over the 1996-2001 period.

Furthermore, over 2000-2002, some 53,000 new private domestic enterprises with a total capital of \$5.3 billion were registered. In 2002 alone, 20,745 new enterprises having a total capital of about \$2.4 billion were registered. This was higher than new FDI commitments, which amounted to \$1.3 billion. More than half these new enterprises are registered as limited companies (57.5%), about one third are sole proprietorships, and the rest are joint-stock companies. With 20 workers on average, most of the new enterprises are concentrated in food processing, wood products, garments, and ceramics and glass products, and are usually located in Hanoi or Ho Chi Minh City.

In addition to the improved access to credit and other related improvements in the business environment, the implementation of the new Enterprise Law, and the resolution reaffirming the rights of people to do business by the Fifth Party Plenum appeared to be the major factors in a surge in private domestic enterprise registrations. Clearly many obstacles and biases remain, but signs point toward a period of rapid growth led by private domestic enterprises.

FIEs can now hire workers directly, and the tax on profit remittances from FIEs has been removed. A more profound move, however, has been the decentralization of FDI approvals and regulations to the provincial level. This is part of a general trend to give provincial and city governments greater control over development in their areas. It will allow the more progressive provinces to open up and attract foreign investors directly.

In 2002, to steer the transition to a socialist-oriented market economy and the implementation of the Government's twin aims of economic development and poverty reduction, a Comprehensive Poverty Reduction and Growth Strategy, a plank of the Socioeconomic Development Strategy (2001-2010), was completed. The Government has also published a Public Investment Program (2001-2005). These initiatives, with some refinements to ensure policy consistency and operational links, could provide further impetus as well as sustainability to further growth in the coming years.

Viet Nam has made substantial achievements in securing robust economic growth and in reducing poverty. However, the excessive bureaucracy, opaqueness, and inefficiencies in public administration could fetter the economy in various ways, including competitiveness, further development, and sustainability. The public administration also has to answer the needs of a growing private sector and respond to a population that is beginning to expect greater participation, transparency, and accountability from its public officials. For this reason, the Government aims to build a professional, modern, and efficient public administration system through its Public Administration Reform Master Program (2001-2010). This will be consistent with, as well

as helpful to, Viet Nam's transition from a centrally planned to a socialist-oriented market economy. It should also help the economy (i) deal more effectively with emerging challenges and opportunities from its increasing openness, both regionally and internationally; (ii) remain attractive to foreign investors by reducing transaction costs; (iii) and improve public service delivery to the poor by cutting down on red tape and inefficiency.

In addition, with a view to bringing Vietnamese laws up to international standards, particularly in the context of the country's increasing international integration, a comprehensive legal needs assessment was completed in 2002, and a strategy for legal system development up to 2010 is being formulated.

To support private sector development, the Government introduced several reforms in 2002: the number of special business licenses was reduced (five were revoked and 10 were modified; 194 remain); local government responsibilities in implementing the new Enterprise Law were clarified; and the use of land-use rights certificates was extended. In addition, a one-stop shop scheme for administrative service delivery was replicated in several provinces, and a registration system for secured transactions was established for the first time. To improve the corporate sector and its governance, clearer rules were promulgated for the equitization process; new accounting standards were approved (and will be issued in 2003); and the formulation of a competition law and bankruptcy law began. With regard to foreign trade, customs valuation and other customs administration reforms moved ahead, some of the few remaining dual prices were abolished, and nontariff barriers to trade were reduced. These are all small but important steps in the direction of a more market-oriented economy and, while their individual impacts may be modest, taken together they are stimulating domestic demand, improving economic efficiency, and boosting growth.

On the state-owned front, some progress has been made in the reform of SOCBs and SOEs. Recapitalization of SOCBs has started, but increasing their competitiveness is still a challenging task. The pace of equitizing small and medium SOEs is gaining momentum. Some of the positive steps taken in 2002 included drawing up various legal documents regarding many of the details for equitizing enterprises. For example, SOEs were classified (as to eligibility for equitization); rights to buy shares were clarified; guidelines for enterprise valuation were issued; and instructions on how SOEs were to settle outstanding debts were given. It is likely that the Government will retain ownership of the larger SOEs for some time, though it recently announced that only nine out of 78 of the smaller SOEs met the criteria to remain in state hands. Four of the largest corporations are being restructured into holding companies that will be encouraged to compete across a broad product range.



On the external front, there is concern that inherent structural weaknesses have the potential to undermine competitiveness in external markets. The high level of tariff and nontariff protection on many manufacturing and assembly activities will soon decline or vanish once Viet Nam starts complying with its regional and international obligations, such as AFTA and BTA in the short run and WTO in the long run. Domestic labor costs are low, even in comparison with the PRC's, but utility and infrastructure costs are higher, and productivity in general is low. Transaction costs are also believed to be high due to administrative inefficiencies, while policy and institutional weaknesses are inherent in the economy.

The high costs of doing business in Viet Nam imply the need to (i) introduce greater competition into certain sectors such as telecommunications, power, and shipping (to help reduce costs); (ii) ease restrictions on the transfer of technology; (iii) make business policies and regulations more transparent (to enhance predictability for investors); (iv) broaden the tax base; (v) accelerate deregulation and implement the Enterprise Law aggressively outside the main urban areas; and (vi) correct the misconceptions on the role of the private sector and enhance its role.

To improve external competitiveness, Viet Nam needs to reduce transaction costs by removing structural weaknesses and by improving the business environment. Consequently, the Government should ensure speedier implementation of already announced reforms regarding SOEs, the banking sector, public administration, and legal system development. For long-term productivity and economic growth, as the country reaches higher stages of economic development, it will have to adopt more knowledge-intensive technology and take advantage of global production and distribution chains. This, however, will require timely and carefully designed investment in human capital formation.

## Outlook for 2003-2004

The immediate outlook for the economy is good. It is estimated that GDP will grow by 6.9% in 2003 and by 7.1% in 2004, a slightly higher rate than achieved in 2002. The outlook predicts that growth will be underpinned by ongoing strong domestic demand driven by the Government's policy and institutional reform process and by expansionary fiscal policy. The industry sector's contribution to GDP will rise modestly and the shares of the agriculture and services sectors will likely remain substantially as before.

On the demand side, GDP growth is expected to be led by domestic consumption and investment. The Government is expected to maintain its expansionary fiscal stance in 2003, partly to fund both the increase in the minimum salary of public officials, which amounts to a total of \$780 million extra annually, and reforms in SOEs and SOCBs. Gross fixed investment should also continue to rise.

In the external sector, crude oil revenues will likely strengthen on average, partly because of higher oil prices in the first quarter of 2003. The conflict in Iraq could, however, have a negative impact on Vietnamese rice exports since Iraq was a significant importer of Vietnamese rice in 2002 nearly 1 million metric tons, or equivalent to one third of the country's rice exports. Iraq also imported one third of Viet Nam's total tea exports in 2002. Any fall in these two exports will have a direct bearing on the poorer sections of the population. To overcome any likely problem of this nature, officials are discussing contracts with Iran and other Middle Eastern countries as alternative markets.

Exports, particularly of garments, footwear, and seafood products, are forecast to increase by 9.1% in 2003 and by 8.4% in 2004, in response to the BTA and to likely improvements in global markets. Viet Nam's exports to the US will probably continue to grow due to the impetus created by the BTA. The Government's target for exports to the US in 2003 is \$3.2 billion. Higher growth will be accompanied, however, by increased concern over conventional macroeconomic variables. First, it is likely that the trade deficit will widen, to over 3% of GDP in 2003 and to over 5% in 2004. This is grounded in the fact that imports are projected to continue growing more rapidly than exports because of a positive response to further reductions in import tariffs. Second, the fiscal deficit is estimated to be substantially higher at around 5.3% of GDP in 2003. AFTA commitments will compel significant tariff reductions, resulting in declining customs revenues. VAT has the potential to compensate for revenue losses from tariff reductions on imports, though it requires administrative strengthening and policy fine-tuning. If oil prices fall and other sources of customs revenues decline, a shortfall in projected government revenues may lead to a further buildup in debt as the Government will probably have to issue bonds.

Increases in resources will come from tourist and FDI inflows. The regional tourism market now regards Viet Nam as one of its safest tourist destinations; about 3.6 million tourists were (prior to the SARS outbreak) expected in the country in 2003. However, as in the other countries of Southeast Asia, the outbreak of the SARS epidemic will significantly affect tourism for some part of the year. Depending on the duration of the epidemic, slower growth in the tourism sector and in the services sector in general could result in lower GDP growth.

Net FDI inflows are forecast to reach \$764 million in 2003. Remittances from Vietnamese overseas are also expected to grow. Gross official reserves are forecast to rise to \$4.3 billion.

[Source: Asian Development Bank, **Asian Development Outlook 2003**]

## Global Trade: India and Vietnam

	\$ billion					
	India		Vietnam		World	
	Exports	Imports	Exports	Imports	Exports	Imports
1990	17.98	23.64	2.40	2.75	3,328	3,409
1998	33.63	42.74	9.36	11.49	5,254	5,384
1999	36.56	44.59	11.52	11.60	5,442	5,617
2000	42.36	49.83	14.31	15.20	6,350	6,551
2001	43.88	50.53	15.10	16.00	6,163	6,355
2002	49.25	56.60	16.53	19.00	6,455	6,590
2003	54.74	69.74	19.66	24.02	7,480	7,625

**Sources :** World Development Report, various issues  
World Development Indicators, various issues

### Major exports from Vietnam:

- ❖ Rice      ❖ Marine products      ❖ garments      ❖ Oil & gas
- ❖ Coal      ❖ Construction material      ❖ ceramics

### Major imports by Vietnam:

- Machinery      ➤ Fine chemicals
- Fertilisers      ➤ Drugs & pharmaceuticals
- Electronics & electricals

Vietnam preparing for an entry into WTO by end of 2005. Getting ready for rule-based global trading system.

### Major exports from India to Vietnam:

- Drugs & pharmaceuticals      ➤ Fine chemicals      ➤ Plastics & linoleum
- Rubber goods & footwear      ➤ Marine products      ➤ Machinery & instruments

### Major exports from Vietnam to India:

- ❖ Spices      ❖ Electronic goods      ❖ Essential oils and cosmetics
- ❖ Natural rubber      ❖ Non-ferrous metals

Current tariff regime being adopted by India on high side. India is considering to reduce tariff on select items of exports from Vietnam to India. Negotiations are on.

**Indian interest in Vietnam :** ONGC in Petrovietnam. Other areas Indian investment \$125 million.

# India-Vietnam Direct Air Link

## Shipping Service on the Cards: says Vietnam Trade Minister



Vietnam's Vice Minister of Trade, Mr. Do Nhu Dinh, has said that if the increasing trend in Indo-Vietnamese two-way trade volume warrants, the two governments could consider setting up a direct shipping service between the two countries. "The issue is entirely for the two countries to decide, based on the economic viability," he has said.

In a similar vein, Mr. Tran Trong Khanh, Vietnam's Ambassador in India, announced that before long direct flights would commence between the countries. He assured members of a visiting business delegation from Vietnam: "Next time you will come to India by direct flight."

The Minister and the Ambassador were addressing an interactive meeting on "Quest for New Perspectives of promoting Vietnam's Export to India," organized jointly by Indian Merchants' Chamber, Indo-Vietnamese Chamber of Commerce & Industry (IVCCI), Vietnam's Ministry of Trade and Vietnam's Embassy in India on December 17.

Mr. Atul Bhagwati, IVCCI President, felicitated the visiting dignitaries and welcomed members of the business delegation. Mr. J K Jadhav, additional director (industry) of Maharashtra, Mr. Jyoti Kapur, senior counsel at Luatviet Legal Consultants at Ho Chi Minh City, Ms. Daya Chandras, Assistant General Manager of Exim Bank, Mr. S Venkatraman, Deputy General Manager (marketing – tyre machinery) of L&T, and Mr. G D Agarwal, IVCCI vice-president explained the scope for expanding Indo-Vietnamese business cooperation.

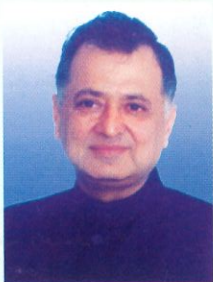
The Minister said the economy of his country was growing leaps and bounds. As such, Indian businessmen were now in a position to import not only many value-added products, but also to invest in joint venture projects in Vietnam. "Our country recorded 7% GDP growth in 2002 and this year the rate is likely to be higher. Our exports have been steadily growing. Already our per capita export is \$240 / per annum," he said.

He invited Indian investors to set up hotels and other tourist facilities in his country. Already investors from Singapore and Hong Kong had set up some hotels in Vietnam and running them profitably. He admitted that lack of awareness was responsible for a low level of tourist flow between the two countries. He would ask the Tourist Board of Vietnam to take effective steps to promote tourism.

The Minister also recommended that Apex Chambers of Commerce of both the countries should sign agreements for setting up arbitration facilities to settle business disputes in a prompt and cost-effective manner.

Mr. Atul Bhagwati said that Indian Merchants' Chamber already had set up an arbitration machinery. It could consider signing an MoU with Vieteo Chamber, its counterpart in Vietnam, so that businessmen in both the countries could do business boldly.

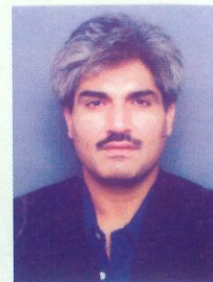
**14th Annual General Meeting of  
Indo-vietnamese Chamber Of Commerce And Industry  
Welcome to our Honoured Guests**



Guest of Honour  
**Nanik Rupani**  
President, IMC



Chief Guest  
**H.E. Tran Trong Khanh**  
Vietnamese Ambassador in India



Guest of Honour  
**Harindra Singh**  
Managing Director, Percept IMC

### **Vietnam : Landmark Achievements**

- ❖ 1986: Shifted from a centralised planning system to a market-oriented one.

#### **Result?**

- ❖ Despite the adverse impact of the recent regional economic crisis, GDP doubled during the nineties (1990-2000).
- ❖ Inflation dropped from three digits in the 1980s to less than 10 per cent since mid 90s.
- ❖ State revenue increased from 15.2 per cent of GDP in 1990 to 27.2 per cent in 2000.
- ❖ Domestic saving and investment increased from 14.4 per cent and 13.2 per cent of GDP in 1991 to 27 per cent and 22.1 per cent of GDP respectively in 2000.