



**Asia and Pacific Regional Round Table:
“The China and India Factor: Implications for
Developing Countries in the Asia and Pacific Region”**

PRESENTATION

By Panelist

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1. Vietnam's Development

In Vietnam, the GDP growth rate of 7 to 8% has been sustained, along with stronger industrialization and expanded integration with the world and regional economy. The figure for 2005 was 8.4%, 8.0% for 2006 and estimated 8.5% for 2007. Vietnam has enjoyed a sharp rise in trade volume, especially exports, and an increase of foreign investment and income.

Vietnam's population totals around 84 million of whom 57 million live in the countryside and mountainous regions. Measured by employment, Vietnam is an agrarian society, with around 65% of the labour force working in agriculture, forestry and fisheries. In 2006 Per capita income was USD 720.

Vietnam has joined WTO on 7 January 2007. Following is the balance of trade in recent years (in Billion USD). See table 1

Table 1.

	2007	2006	2005	2004	2003	2002	2001
Exports	31.28	38.90	16.87	24.56	12.61	16.23	16.74
Imports	37.63	44.35	18.95	29.36	14.79	18.26	17.70
Balance	-6.35	-5.45	-2.08	4.80	-2.18	- 2.03	- 1.0

-The Foreign Capital Investment into Viet Nam was soared to more than 60 billion USD at the end 2006, and may reach to more than 75 billion by the end of 2007. China and India are among top 20 foreign investors in Vietnam with following rank at the end of October 2007. See Table 2.

Table 2.

Rank	Economy	Number of Projects	Total Capital (US\$b)	Implemented Capital (US\$b)
3	Taiwan	1,739+	9.175+	3.172+
5	Hong Kong	432+	5.685+	2.326+
13	China	507+	1,539+	0.258+
19	India	22	0.671-	0.683+

2. Implications of China development

2.1 Opportunities:

Both countries have agreed to target to US\$15 billion in two-way trade by 2010. China will push up the export of machinery to Viet Nam while increasing its import of crude oil, coal and rubber from Viet Nam. The two countries have had consensus on implement an agreement on the expansion of the Viet Nam-China trade and economic cooperation and a memorandum of understanding on “two corridors and one economic belt.” Cooperation between cross border provinces will boost the development of infrastructure: railway, highway etc. and Mekong Sub-region industrial Cluster. All of this development will bring benefit to SMEs.

Vietnamese SMEs can look more into developing marine exports as the Product structure is different Vietnam currently exports its marine products to three major markets - Japan, the European Union and the United States - but does not compete

directly with China in these areas because their export structures are different. China exports mainly fish, while Vietnam exports mainly shrimps. The average person in China eats 32.7 kilograms of seafood each year, making it the world's biggest consumer of fish. Large population in the West of China in the huge market of Vietnam Seafood, that can be cheaply transported through Lao Cai Province. However the opportunities will come to reality only if the treaty on animal and plant quarantine can be facilitated.

2.2 Threats.

China is still a developing country, so for a long time China will need labor-intensive industry. Vietnam has been WTO member later than China. Vietnamese exports that need much labor will bear high pressure from Chinese commodities. For instance: Clothing is Vietnam's largest export, and its biggest growth industry, employing 2 million workers. The quotas scheme has been phase-out later than China. While Vietnam's minimum wage is competitive with China's labor rates, but factories are less efficient-only 60% in comparison to Chinese plants

China is the main destination of investors from over the world and especially from Chinese Taipei and Hong Kong who are in top five investors in Vietnam, while The investment climate of China is simply better than that of Vietnam, especially in term of infrastructure items such as telecom charges; running water electricity...In this situation, Vietnam may be an investment destination additional to China only.

Vietnam is concentrated with a number of machine assembling factories with components suppliers from China, while domestic supporting industries have been yet developed. Vietnamese SMEs are difficult to enter into both domestic industrial market and Global Value Chain.

Vietnam supply to China raw materials mainly with low value added. The environmental impact needs to be concerned

3. Implications of India Development

3.1 Opportunities

Both countries Recognized that closer economic integration between India and Vietnam could contribute to the transformation of the broader Asian region into an "Arc of Advantage and Prosperity" thereby promoting growth and stability.

Two-way trade between India and Vietnam has almost doubled in last 3 years – from US \$ 448.65 million in 2003-04 to a level of US \$ 817.68 million in 2006. It is target to increase bilateral trade turnover to US\$2billion by 2010.

Trade basket between Vietnam and India is complementary each other. Major items of export to Vietnam during 2005-06 (with percentage share) we are oil meals (30.50%); drugs, pharmaceuticals and fine chemicals (13.17%); primary & semi-finished iron & steel (6.33%); plastic & linoleum products (5.70%); and inorganic/organic/agro-chemicals (4.23%). Major items of import from Vietnam during 2005-06 (with percentage share) were other commodities (26.32%), spices

(19.63%); coal, coke & briquettes etc (14.90%), organic chemicals (6.81%), electrical machinery except electronic.

In Vietnam is among top 3 destinations in Asia (after Hong Kong and Singapore) for Indian investors.

With sophisticated, growing middle class, India has already created a sizable domestic market.

3.2 Untapped potential

There exists a trade imbalance between Vietnam and India. For instance: during April-July -07, trade between India and Vietnam has been of the order of US \$ 310.69 million, comprising US \$ 251.65 million worth of exports to Vietnam and US \$ 59.04 million worth of imports from Vietnam.

The payment settlement scheme between Vietnam in India has not been well set up.

The untapped potential could be realized through the diversification of the trade basket and further increases in investments taking advantage of existing complementarities, such as in the hydrocarbon and power sectors and directed oil and gas sector.

4. Main messages:

- For SMEs: Complement instead of competing
- For Government: Supporting in reducing technology gap and marketing gap.
- For Donor: More expertise for SMEs to improve the connectivity with the world

**The China and India Factor:
Implications for Small and Medium
Size Companies in Vietnam**

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Vietnam 's Development

- The GDP growth rate: 8.0% for 2006 and estimated 8.5% for 2007.
- Population : 84 million of whom 57 million live in the countryside and mountainous regions. In 2006 Per capita income was USD 720.
- Vietnam has joined WTO on 7 January 2007. Vietnam has enjoyed a sharp rise in trade volume, especially exports, and an increase of foreign investment and income.

Slide 3

Trade Volume (*in billion US\$*)

	2007 (as August)	2006	2005	2004	2003	2002	2001
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Slide 4

Foreign Invested Capital (as October, 2007)

Rank	Economy	Number of project	Total Capital (USD-Bill.)	Implemente n capital
3	Taiwan (China province)	1,739+	9.175+	3.172+
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THE STEADY GROWTH OF PRIVATE SECTOR

	Capital	Employment	Net turnover	Tax and other fee
<i>2002 Total</i>	100.0	100.0	100.0	100.0
SOEs	63.5	48.5	57.1	52.5
Non- state Companies	15.0	36.7	30.4	10.8
Foreign Invested enterprises	21.5	14.8	18.5	36.7
<i>2005 Total</i>	100.0	100.0	100.0	100.0
SOEs	54.1	32.7	38.6	40.8
Non- state Companies	26.3	46.7	38.8	18.9
Foreign Invested enterprises	19.6	19.6	22.6	40.3

Source: <http://www.gso.gov.vn/default.aspx?tabid=382&idmid=2&ItemID=5769>

LACK OF COMPANIES WITH MEDIUM SIZE

- The average size of companies in 2005 : 55 employees and 23.7 billion VND of capital (In 2000: 74 employees and 23.7 billion VND)
- According to the SMEs criteria (Companies having less than 300 employees or less than 10 billion VND) 96.81% total number of Vietnamese companies and SMEs.
- 51.3% enterprises having less than 10 lao đ?ng,
- 41.8% enterprises having less than 11 billion VND of capital
- Large number of semi-informal household enterprises

Implications of China development

Opportunities:

- Target to US\$15 billion in two-way trade by 2010
- Consensus on “two corridors and one economic belt.”
- Cooperation between cross border provinces will boost the development of infrastructure: railway, highway etc.
- Product structure of marine export is different

Implications of China development (Con't)

Threats.

- Vietnam has been WTO member later than China, who is still in need of labour intensive industry
- Vietnam may be an investment destination additional to China only
- Vietnam is concentrated with a number of machine assembling factories with components supplied from China.
- Vietnam supply to China raw materials mainly, with low value added. The environmental impact need to be concerned
- The treaty on animal and plant quarantine need to be facilitated

Implications of India Development

Opportunities

- Target to increase bilateral trade turnover to US\$2billion by 2010.
- Trade basket between Vietnam and India is complementary each other
- Vietnam is among top 3 destinations in Asia (after Hong Kong and Singapore) for Indian investors.
- With sophisticated, growing middle class, India has already created a sizable domestic market.

Implications of India Development

Untapped potential

- There exists a trade imbalance between Vietnam and India
- The payment settlement scheme between Vietnam in India has not been well set up
- The untapped potential in cooperation for development of energy sector



Main messages

- 1. For SMEs** : Complement in stead of competing
- 2. For Vietnamese Government** : Supporting in reducing technology gap and marketing gap.
- 3. For Donors**: More expertise for SMEs to Improve their connectivity with the world and to complement to the way through which China and India are connected to the world.



Thank you for your attention!