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Trade relations between Viet Nam and Middle East countries*

Bui Ngoc Tu

Institution of Africa and Middle East Study (IAMES)

***Abstract**: Vietnam and some countries in the Middle East established diplomatic relations decades ago. The Middle East is an important area in Vietnam's diplomatic strategy. This article aims to analyze the competitive advantages in the commercial cooperation relationship between Vietnam and Middle East countries. Trade relations between Vietnam and these countries have developed enormously since the two sides established diplomatic relations. However, there are still many assessments that the results of cooperation between the two sides are still not commensurate with the potential. Therefore, this paper also gives suggestions to help improve the competitiveness between the two sides, thereby improving the relationship between Vietnam and Middle East countries.*

Keywords: trade relation, Viet Nam, Middle East

1. INTRODUCTION

In the context of deepening globalization and the ever-growing innovation process, Vietnam continues to expand cooperation in all aspects with countries worldwide, including countries in the Middle East. The Middle East region has an important geopolitical position, being a crossroads between the three continents of Europe - Asia - Africa and is a fundamental transport circuit of the world. Moreover, the Middle East also contains the most significant oil resources globally, with reserves of about 68% of the world's crude oil. The group of countries belonging to the Gulf Cooperation Council (GCC) has excellent financial potential and can invest in many fields.

Recognizing the importance of the Middle East region, the Vietnamese government has launched a strategy to strengthen cooperation with countries in this region. Therefore, the trade relations between Vietnam and the countries of the Middle East have made many good changes. However, the cooperation relationship between Vietnam and Middle Eastern countries is mainly in politics and diplomacy. But in the last few years, the relation in economy, culture, society, science, and technology has changed more actively. This article will analyze the opportunities and challenges in trade cooperation between Vietnam and Middle East countries.

2. LITERATURE REVIEW

2.1 Theory of comparative advantage

National advantage, competitiveness is one of the topics studied every year. Hunt (1995) introduced the concept of a country's comparative advantage over others as a country's soft power [1]. Today, many countries have complex ability (expressed through competitive advantages) and soft power advantages such as culture, consciousness, value system, free thought, democracy, and human rights. Advantage of a country is understood at different levels, first of all as a competitive advantage and higher as a national strength [2].

Porter has analyzed the difference between comparative advantage and competitive advantage. Comparative advantage is an economic concept, while competitive advantage can be understood in terms of market price competition in enterprises performing business activities[3]. Comparative advantage pays attention to the number of inputs for production, the quality of goods, and management capacity. These two concepts are closely related. They have some common characteristics such as domination of price, constrained by scarce resources, market size, and technological knowledge. Many scientists believe that a country that has a comparative advantage in one industry also has a competitive advantage in those industries. On the other hand, the nature of comparative advantage is all about the international comparison of productivity. However, comparative advantage is mainly created by nature's favor[4].

In terms of an international assignment, comparative advantage has a decisive effect. In terms of industry, competitive advantage has a more significant powerful position. One of the fundamental reasons hindering the speed of economic development is not fully aware of the difference in a country's comparative advantage and competitive advantage. Just relying on natural resources and cheap labor is not enough to enrich the country[5].

The prosperity of a country is determined by GDP per capita, which is a general measure of a country's capacity and competitive advantage and has a long-term relationship with people's living standards. GDP per capita depends on investment capital and technology level. GDP growth depends on the savings rate, the level of modern technology, and the speed of technological innovation. Thus, many factors affect economic growth. One of the essential factors is institutions (including economic institutions and political institutions)[6]. Institutions, legal systems, and macroeconomic policies have a role in creating a familiar environment. Productivity itself is highly dependent on capacity improvement at the micro, sectoral, and enterprise level. The following essential factors determine national competitive advantage:

The first factor is the integration openness of the economy. This factor includes export and import policies, foreign direct investment (FDI) attraction, import and export support services such as credit, insurance, and the ability to convert currencies when doing business show current transactions [7].

The measure of economic openness is usually the share of imports and exports in GDP, but the added value of exports is more important. Technology transfer is done through many channels, but technology is closely associated with goods and services. The import of goods is a channel of technology transfer. The deeper the openness of the economy, the faster technological innovation will positively impact productivity, which is an essential condition for a country to improve its competitiveness. Opening to FDI is vital for developing countries [8].

Second, the development of a market economy institution with the banking and financial system as the center. The size of the monetary and financial system relative to GDP, the variety of types of financial and monetary services, the savings, investment, and bad debt ratios of an economy represents the financial capacity of an economy. The more developed the financial system, the easier it is to access credit that operates with low risk. Any country that uses foreign investment capital and loans effectively will positively affect economic growth [9]. The mistake of developed countries is that debt is rampant without considering the absorption conditions, so the economy's absorption rate is low, and debt repayment ability is also common. The inefficient financial system led to financial crises in Latin America in the 1980s, the East Asian financial crisis in the late 1990s, etc.

Third, the group of factors in science and technology considers the country's science and technology level compared to the world, reflected in breakthrough technology, investment in R&D activities, the development of the technology market, and cooperation between universities and research institutes[10]. The US is the leading country that monopolizes high-tech products. For decades, endogenous growth theories have considered the role of technology in economic growth [11]. Based on endogenous growth theory, prominent scientists such as Lucas and Romer have asserted that technology and skilled people have created incremental benefits. The link between technology and national competitiveness is shown in two aspects. Technology determines production efficiency, increases productivity, reduces costs. On the other hand, technology creates new products with higher added value and is commercialized.[12] Because of the awareness of the role of technology, many developing countries such as China, India, Brazil, and South Korea are investing heavily in R&D activities [13].

Fourth, infrastructure and operational efficiency using the infrastructure. Specifically, it relies on transportation systems, seaports, airports, warehouses, telecommunications, and the internet. In addition, in terms of cost, it is necessary to pay attention to investment costs, time to perform services, and the level of safety of services.

Fifth, labor is an important factor. Labor quality is measured by professional qualifications, health, labor discipline, and flexibility to changes in the labor market. Thorough believes that labor skills are the determining factor for national competitiveness[14]. Therefore, countries are actively expanding the scale of training highly qualified human resources. Many countries such as Taiwan, Singapore, and South Korea have improved the competitiveness of their products thanks to their policies on human resource development[15].

Sixth, business management is reflected in the number of businesses that have built business strategies. An enterprise that wants to improve the efficiency of its production and business activities must join the global business network or become a link in the supply chain of the worldwide production network. It is necessary to upgrade the production system and innovate technology to become a contract manufacturer. In East Asian countries such as China, Korea, Malaysia, and Singapore, most large companies are upgrading their production systems and management capacity to participate in the production network in the electrical industry, and automobiles, co-production with affiliates of American, Japanese, and European transnational companies.

Seventh, the role of the government through intervention in production and business activities, preferential policies for businesses, and the influence of interest groups on government policies [16]. Therefore, publicity, transparency, bureaucracy, and corruption are essential indicators of government performance and professionalism. In countries with an entire market economy, the role of state-owned enterprises is reduced, the government is not involved in production and business activities. A healthy competitive environment will be a condition that motivates businesses to improve their position [17].

Eighth, the legal system, the effectiveness of the law, and the suitability of that system for the market economy: The objectivity and effectiveness of the law ensure that commercial and investment contracts and the role of arbitration are strictly implemented. Free market institutions will help reduce transaction costs.

2.2 Changes in policy and practice in the Middle East region

In recent years, economic reform in the Middle East region has made good progress. In order to integrate with the global economy, Middle Eastern countries have boosted export activities, including oil exports[18]. Oil is the primary source of income for countries in the Middle East. Revenue from oil exports of Kuwait, Oman, Qatar, Yemen, and Saudi Arabia accounted for more than 70% of GDP from 2005 to 2010. However, from 2010 to 2020, the share of oil revenue in the economy of Middle East countries has undergone drastic changes. Middle Eastern countries are coming up with strategies to reduce their dependence on oil[19].

Figure 1: Shares of non-oil GDP in some Middle Eastern countries

Source: Haver Analytics

The economic strategy of the Middle East is moving from import-oriented economies to export-oriented. Middle Eastern countries (Oman, Jordan, Egypt, Qatar, Israel, Turkey) actively promote manufactured goods to implement the export strategy [20]. The average tariff in these countries is falling below 5%, demonstrating that Middle Eastern countries are trying to integrate with the world economy. Three countries, including Israel, Jordan, and Turkey, are still actively reducing import and export tariffs[18].

The investment market in the Middle East has also seen many positive changes in recent years. During 1995 - 2004 the amount of investment capital in this area was not significant and constantly fluctuated. Since 2005, FDI into the Middle East has increased rapidly. Investment projects mainly focus on oil exploration and exploitation. The UK has many investment projects primarily focusing on oil exploration and production. Following the UK are countries such as the US, France, China, and Russia. The Middle East is also actively investing abroad. In 2007, the Middle East's overseas investment was 37 billion VND, including mergers and acquisitions projects. Countries investing abroad are mainly members of the GCC. These countries promote economic cooperation and linkage in the Middle East region and external partners[18].

The banking and financial system in the Middle East is a state-owned system dominated by commercial banks. Families or capitalists hold private banks in a small proportion. Functions may vary, but banks are all trying to adapt to a globalized environment. Many commercial and private banks in the Middle East in oil-producing countries have participated in the international development fund supporting developing countries, providing investment in the service sector.

In recent years, the leading economies in the region have been transforming enormously with many ambitious national development plans, accelerating economic restructuring, diversifying sources of income through increased economic growth invest abroad. Many public investment funds of Middle Eastern countries own or have significant shares in many world-famous corporations and brands such as Boeing, Facebook, Uber, Marriott, Citigroup, Barclays, Morgan Stanley.

Investment activities in the form of mergers and acquisitions continued to be promoted during the complicated development of the Covid-19 pandemic, partly showing that the overseas investment strategies are very timely and flexible countries in the region[19].

In the strategy of diversifying economic activities, many Middle Eastern countries actively implement the Look East policy, strengthen cooperation with Asian markets, especially Southeast Asia, in the fields of trade, investment, energy.

3. TRADE COOPERATION BETWEEN VIETNAM AND THE MIDDLE EAST

Although the Middle East region has only 16 countries with about 350 million people, many countries have high per capita incomes. In recent years, Middle Eastern countries have been actively restructuring their economies to diversify, develop the private sector, and reduce dependence on oil. They are also investing heavily in the modernization of infrastructure, building trade and economic centers, actively negotiating to sign free trade agreements (FTAs) between countries inside and outside the region. The process of economic reform has made the economy and trade of Middle Eastern countries more open, facilitating the strengthening of trade activities and economic cooperation with external partners.

The world economic and financial crisis in 2008-2009 and the Arab Spring uprising in 2011 had adverse effects on the Middle East market, pushing oil prices higher, making trade relations difficult. However, most Middle Eastern governments have taken timely countermeasures to stabilize the situation. In important markets of the Middle East such as UAE, Saudi Arabia, Turkey, etc., the political, socio-economic status is still relatively normal. Economic and trade relations between countries inside and outside the region have been adversely affected, but not too heavy[19].

Despite the uneven distribution of resources and oil, the Middle East remains a large market. Oil exports in the Middle East region still tend to increase. The Middle East has a significant demand for agricultural and non-oil products, while Vietnam has a strong position in agricultural products.

3.1 THE ATTRACTION OF THE VIETNAMESE MARKET

After more than 35 years of Doi Moi, Vietnam has achieved many outstanding achievements in all aspects, especially in the economy. From a country facing many difficulties, Vietnam has achieved many impressive economic achievements. The GDP per capita in 1991 only reached 188 USD. In 2020 this figure increased to 3,520 USD, more than 18 times[21]. In 2020, despite many difficulties in the context

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of the pandemic outbreak in the world, Vietnam was one of the few countries with positive growth with an economy size of about 343 billion USD. Vietnam is integrating deeply into the world economy, participating in negotiations and signing 17 Free Trade Agreements (FTAs), including new generation FTAs such as the Free Trade Agreement between Vietnam and European Union (EVFTA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[22].

Vietnam attaches great importance to attracting and effectively using foreign direct investment (FDI) in economic development. The Vietnamese government has many measures to improve the investment environment and create favorable conditions for foreign enterprises to invest and do business in Vietnam. Together with effective measures to attract FDI, these efforts have helped FDI capital into Vietnam increase sharply over the years, reaching $29 billion in 2020, putting Vietnam on the list of 20 countries attracting the most FDI in the world. 2020[23]. Significant market potential, favorable policy mechanisms, and impressive socio-economic achievements have made Vietnam one of the important cooperation partners in Asia of Middle Eastern countries. Currently, 9/15 countries in the Middle East, including all significant economic partners of Vietnam in the region, have opened embassies in Hanoi. Qatar National Bank (QNB) assessed that Vietnam's economy is still a "rising dragon" despite the difficulties of the Covid-19 pandemic.

3.2 Vietnam-Middle East investment cooperation: Innovation for development

Vietnam and the Middle East countries have a traditional friendly cooperation relationship with many potentials that complement economic cooperation. These are favorable preconditions for the multifaceted cooperation between the two sides to be constantly consolidated and developed over the years.

According to the Ministry of Planning and Investment official statistics, Middle Eastern countries have 135 FDI projects in Vietnam with a total capital of over 900 million USD in investment cooperation. However, the actual figures may be many times larger. Through capital contribution with a third party, some Middle Eastern investors have participated in many large projects, contributing to the economic development in Vietnamese localities such as Nam Dinh, Thanh Hoa, Ho Chi Minh City, etc. Chi Minh.

Through investment funds and enterprises of the UK, USA, Middle Eastern enterprises actively invest indirectly (FII) in the Vietnamese market, especially in finance - banking goods, real estate, and tourism. Although much remarkable progress has been achieved, the results of investment cooperation between Vietnam and the Middle East are still modest, not commensurate with each side's potential and cooperation needs. The main reason is that the business community of the two sides still lacks information about the investment environment, especially legal regulations, market potential, and cooperation opportunities. In addition, the difference in culture and the same way of doing business are also the reasons why the potential for investment cooperation has not been fully exploited[24].

In the context of the complicated development of the Covid-19 pandemic, foreign investment attraction plays a critical role in realizing the "dual goal," helping to create a solid impetus for the recovery and economic development, contributing to the sustainable socio-economic development of our country in the coming time [25]. In that context, to further improve the efficiency of Vietnam-Middle East investment cooperation, Vietnamese ministries, sectors, localities, and enterprises need to actively identify and solve the "bottlenecks" in investment cooperation in the past time; grasp new investment and development trends.

These are new directions to exploit better the potential of investment cooperation between Vietnam and Middle Eastern countries in the fields of FDI, FII, and investment capital contribution. With the role of "paving the way, accompanying" diplomatic activities for economic and development, the Viet Nam Ministry of Foreign Affairs will maximize the operational efficiency of the network of diplomatic missions abroad. Viet Nam will closely cooperate with ministries, departments, branches, localities, and businesses to enhance the efficiency of investment cooperation with the region, especially in new fields where the two sides have needs for the green economy, digital economy, clean energy, digital transformation. At the same time, Viet Nam actively supports and connect localities and businesses with potential regional partners to create new resources for Vietnam's sustainable development in the contemporary period.

In terms of banking, by the end of 2020, Vietnamese commercial banks have established more than 493 agency relationships with countries in the Middle East market, payment, and remittance sales reached more than 4.3 billion VND. Viet Nam's international payment transaction turnover with the United Arab Emirates (UAE) gained more than 2.3 billion USD, accounting for more than 50% of total transaction revenue with the Middle East market. The Middle East countries have a great demand for importing and exporting goods with Vietnam and, as an intermediary for payment with other countries' needs, especially the African market (the third market, with countries in Africa). Some Vietnamese commercial banks that are active in this market include Joint Stock Commercial Bank for Foreign Trade of Vietnam (Viecombank), Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV), and Military Commercial Bank (MB).

The State Bank of Vietnam has been conducting discussions to agree on the content towards signing a Memorandum of Understanding on cooperation with several central banks of the Middle East countries. However, due to the complicated situation of the COVID-19 pandemic, exchanging memoranda of understanding between the State Bank of Vietnam and the Central Bank of the United Arab

Emirates (UAE) was interrupted But the State Bank of Vietnam is still actively contacting to finalize, possibly conducting the signing at an appropriate time shortly. At the same time, the State Bank of Vietnam has consulted and developed a mechanism for meeting the joint committee and intergovernmental committee; organize online exchanges with countries and regional partners to promote specific areas of cooperation and seek new opportunities. In addition, the two sides have regularly sent representatives to attend meetings, capture information, answer problems in banking cooperation, and at the same time be ready to share contact points in case of necessity to build the official information exchange mechanism on monetary and foreign exchange management policies. Regarding payment activities for countries in the Middle East (except for Iran, which is subject to US and EU sanctions), there are no difficulties and obstacles and following international practices.

Saudi Arabia is one of the countries with a relatively large proportion of imports and exports with Vietnam. Economic and trade cooperation between Vietnam and Saudi Arabia has continued to develop positively over the past time; the structure of import and export goods between the two countries is complementary. Accordingly, the total import-export turnover between the two countries continuously increased rapidly and reached the highest level of 1.87 billion USD in 2014. Notably, in 2020, despite the outbreak of the COVID-19 pandemic worldwide, but two-way turnover still reached 1.6 billion USD. Saudi Arabia has six investment projects in Vietnam with a total registered capital of 2.37 million USD, ranking 89th out of 139 countries and territories having investment projects in Vietnam.

UAE is the 5th largest export market of Vietnam. Products exported to the UAE are pretty diverse, from industrial machinery and equipment, iron and steel, computers, etc., to household goods, consumer products, agricultural products such as rice and pepper., cashew nuts, coffee. In addition, e-commerce, textiles, furniture, computers still have a lot of potential in Arab and Gulf countries, Africa. Trade turnover between the two countries has increased rapidly when the UAE has only 9.7 million people. Still, trade turnover has increased ten times after ten years of starting bilateral trade cooperation. In this relationship, Vietnam always had a trade surplus. In 2018 the trade surplus reached US$4.73 billion[24]. In addition, the UAE is also the third-largest re-export market in the world (after Singapore, Hong Kong - China). UAE will be an important market, a gateway to bring Vietnamese goods to the Middle East and gradually invade the Middle East into Africa and Southeast Europe.

4. CONCLUSION

The above research results show that Vietnam can perceive the strategic importance of the Middle East region, and at the same time, be aware of the areas that can complement and expand the cooperation relationship between the two countries. The relationship between Vietnam and the Middle East region has many advantages besides but also disadvantages. The first advantage is the strategic geopolitical position of the region, which has long been a trade bridge between the three major continents, Eurasia, Africa, and the birthplace of many significant civilizations and religions in the world. The second advantage is that this region has great potential as a huge source of oil (accounting for over 60% of the world's oil reserves), bringing a significant source of foreign currency earnings for oil-exporting countries. The Middle East is also a large market for goods, services, labor, tourism, and science and technology. The third advantage is the traditional friendship between the historic cooperation between the Middle East and Vietnam. Along with the above advantages, the relationship between Vietnam and countries in the Middle East region faces a significant disadvantage that is the complicated relationship arising between countries inside and outside the area, stemming from the differences, contradictions, conflicts, disputes over ethnicity, religion, culture, territory, natural resources, especially oil resources.
The above advantages and disadvantages require that when expanding cooperation with Middle Eastern countries, Vietnam should prioritize appropriate solutions such as (1) strengthening the role of orientation and supported by the State's mechanism, (2) promoting the dynamism and impulsiveness of various types of enterprises, (3) choosing and promoting cooperation in priority sectors and fields such as diplomacy and foreign affairs, labor export, oil and gas, and oil and gas income sources, promoting cooperation in agriculture and science and technology, (4) giving high priority to developing relations with three key partners: UAE, Saudi Arabia, Turkey, (5) expand cooperation from two sides, tripartite to other types of cooperation with higher efficiency.

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