

Prospects of Enhancing Russia-Vietnam Economic Cooperation: Barriers and Drivers

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Abstract—The cooperation between Russia and Vietnam in the current conditions of global turbulence and the stagnation of the Russian economy development is one of the major and most efficient ways of reviving the growth ratios. The Vietnamese economy is also seeking development drivers, so a partnership with Russia may be one of such drivers. The article is devoted to revealing the key barriers for the deeper cooperation and the ways of creating a better environment for future tighter cooperation. The novelty of the article is characterized by a new approach to the analysis of the cooperation of Vietnam and EAEU states through the research of its interactions with Russia as the key driver of the EAEU economy and Eurasian integration.

Keywords—Russia; Vietnam; cooperation; energy; tourism; trade

I. INTRODUCTION

The trade cooperation between the countries today is one of the key factors of economic development of the national economy of both the exporter and importer of goods and services. The mutual benefits gained from international trade are sustainable and contribute not only to the economic, but to social and political cooperation, as tight trade connections lead to the rise of investment activity between both countries and as a result to better living conditions in a more dynamically developing economy. In addition, trade cooperation leads to the creation of joint ventures, which, in turn, connect countries by the international cooperation and value-added chains, forming a tighter political dialog aimed at preserving the economic benefits of such tight cooperation.

The economic relations between Russia and Vietnam date back to the Soviet era, when the two countries were close allies in all spheres, but during the 1990-s the ties became loose and the trade faded. In the recent years, the trend of better and more efficient cooperation took place again. One of the major drivers for it was the Agreement of the creation of the Free Trade Zone signed in 2015 [1].

At the same time, the economic effects of the cooperation with Vietnam for Russia are relatively weak [2]. The article is devoted to revealing the main barriers for tighter cooperation and developing recommendations on the further actions for better cooperation with Vietnam in the economic sphere. The authors have analyzed the trade and investment dynamic and forecasted the future development of integration in order to develop a system of recommendations, providing a synergy effect on the economic development of both countries.

II. METHODOLOGY

The article is based on the following methodology. Firstly, the authors research a general context of cooperation and reveal the main spheres of mutual interest for the countries. Then, the authors analyze the dynamic of these spheres development and reveal major problems in the cooperation strategies.

As the key sphere of cooperation is trade, the authors develop a forecast of its development up to 2023 with the help of linear smoothening instruments and calculate the trade surplus of Vietnam, giving conclusions on the future development of the sphere.

After pinpointing the key problems of the cooperation, the authors develop recommendations for further enhancement of the interactions between the two countries.

III. RESULTS

It is necessary to give a brief analysis of the efficiency of the FTA between the EAEU and Vietnam due to the fact that Russia accounts for 88% of exports and 91% of EAEU imports from the country [3], but the key point in the Eurasian integration is the single market that contributes to the redistribution of goods imported between the countries on the EAEU territory. When speaking about exports, the situation is slightly different, as every exporter pursues the least quantity of intermediaries between him and the customer, while the importer pays less attention to the length of the path of goods to the final consumer.

The FTA between the EAEU and Vietnam covers a large number of goods and the liberalization process is active – the forecasts are that 90% of all goods will be traded tariff-free up to 2028 [3]. Still, the effectiveness of the EAEU mechanisms should be considered doubtful [4–5], so the real effectiveness of the agreement will be lower.

The brief overview of the situation in the FTA development allows to conclude that Russia is the main driver of cooperation between the EAEU countries and Vietnam. Taking it into account, the authors have pointed out three main directions of economic cooperation between Russia and Vietnam: energy cooperation, trade cooperation in products with low added value and tourism. Low added value products are named as the main track of cooperation in goods trade (except for energy resources) as the stage of economic cooperation between Russia and Vietnam is low and does not allow to establish joint ventures, which cooperate in the production and distribution of complicated products. In

addition to that, China, one of the leading global economies, refers to Vietnam as a junior partner and does not intend to allow Russia to compete with the Chinese enterprises in the country.

A. Energy cooperation

Energy cooperation between the two countries lies mostly in the sphere of technological cooperation, as the direct trade in oil and gas is logistically difficult. The dialog between the two countries in the sphere of energy trade is aimed at providing possibilities for the corporate sector, mainly joint ventures and to the companies engaged in the exploration of the offshore oil reserves [6]. In this regard, the cooperation between the Russian companies and the Vietnamese may result in significant benefits in technology exchange – the Vietnamese enterprises do have access to the offshore oil extraction technologies and can transfer them to the significant resources of the Russian shale in the Northern Ocean [7].

The key issues, which the two countries face, are the following:

- Lack of interconnection and nearly no potential for direct oil and gas trade.
- Lack of marine logistics capacity for cooperation in oil refinery.
- Lack of investment possibilities due to strict regulations on oil and gas development FDI in both countries.

B. Trade in goods

Trade in goods between the two countries at the moment is undiversified, as we have already mentioned, the potential of the creation of new global value-added chain with the two countries as its key members is quite low at the moment. Fig. 1 demonstrates the exports of the two countries.

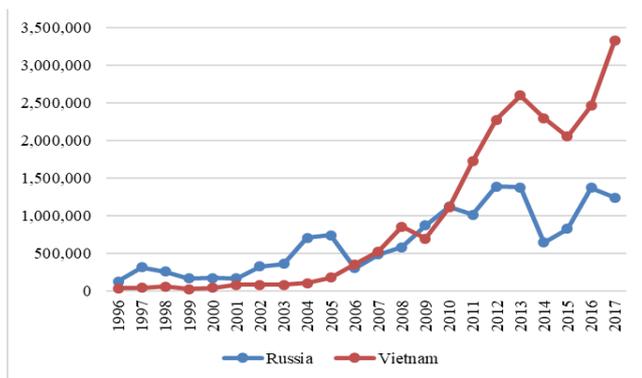


Fig. 1. Export statistics, in thousand US Dollars ([8]).

Fig. 1 demonstrates the key issue in the trade development between the countries – the rapid growth of the Vietnamese exports to Russia are not supported by the similar Russian export growth to Vietnam. Table 1 represents the negative dynamic of the parameter.

TABLE I. RESULTS OF THE FORECAST, IN THOUSAND US DOLLARS (DEVELOPED BY THE AUTHORS)

Year	Forecast		
	Russian exports	Vietnamese exports	Trade surplus (Vietnam)
2018	3,043,133	1,512,944	1,530,189
2019	3,134,722	1,552,606	1,582,116
2020	3,292,158	1,799,840	1,492,318
2021	3,421,606	1,835,456	1,586,150
2022	3,583,961	1,394,151	2,189,810
2023	3,746,489	1,644,008	2,102,482

The trade surplus of Vietnam is shown in Fig. 2, the annual growth in 2023 is predicted to be negative, however, the general trend remains the same.

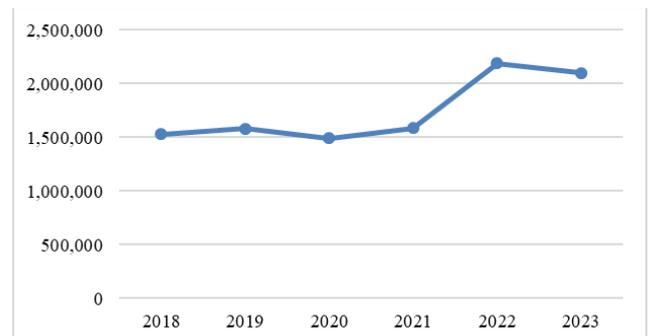


Fig. 2. Trade surplus of Vietnam, in thousand US Dollars (developed by the authors).

The results of the analysis of trade cooperation demonstrate that Russian exports to Vietnam today are undiversified, the Vietnamese products are more demanded in the EAEU than the Russian ones in the South-East Asia. This effect proves the lower competitiveness of the Russian production on the global market than the production of the Asian countries. The key issues are:

- lack of goods, which are competitive and are of interest for the other market
- higher possibilities for the Vietnamese goods to enter the EAEU market than the possibilities for Russian goods to enter the South-East Asia market (ASEAN market, for instance) through bilateral cooperation [3].

C. Trade in services

Another utterly important part of Russia-Vietnam cooperation is the cooperation in the sphere of services. It is clear that the main area of cooperation in this sphere is tourism. The development of the touristic business in Vietnam is very fast and in the last several years, especially with the increase in difficulty of getting visas for the Russian citizens travelling in the Western countries, connected with sanctions, the growth of tourist flow to Vietnam is obvious. The dynamic of trade of this service is shown in Fig. 3.

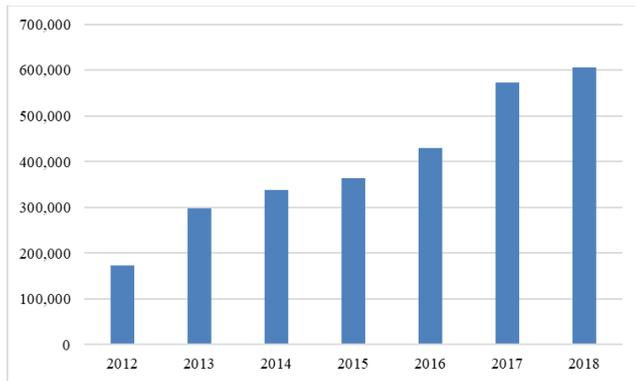


Fig. 3. Number of Russian tourists, visiting Vietnam by year (developed by the authors, based on [9]).

The other services cooperation between the two countries today is rather weak. It is notable that Vietnam is a country, which can provide numerous benefits for the exporter, aiming to conquer the Asian markets, especially the markets of the South-East Asian countries due to its important geographical position in the region and the fast pace of Asian infrastructure development initiatives, including the most significant of them – Belt and Road Initiative. The key problems are the undiversified service trade between the countries and the lack of potential for its future development without market liberalization.

IV. DISCUSSION

The revealed trends demonstrate the low level of cooperation development between the two countries despite the wider cooperation initiative of the FTA. This situation has developed due to the fact that the researched countries pursue different economic models, namely, Russia develops its energy and natural resources sector with the focus on fundamental and military technologies in its economy, while Vietnam demonstrates the effectiveness of the Chinese path of development based on a gradual change of technological solutions – from manufacturing licensed goods, through copying them, to the development of the innovative goods in the national economy. In addition to that, the main technological successes of Vietnam lie in the sphere of high technologies reproduction – the manufacturing of computer and cell phones' components, the production of electronic equipment and the light industries (textile, clothes, footwear, etc.). The comparison of the most competitive products of the two countries demonstrate the low correlation between the demand and supply possibilities.

In this regard, the cooperation strategy for the two countries should include the solution to the main revealed issues. We offer the following measures in order to overcome the current stagnation of cooperation between Russia and Vietnam:

- The development of a joint plan for investment. This plan should include the projects, which are important for the economies of both countries and the main interested corporate and private investors.
- The development of cooperation in trade can be stimulated by the diversification of the products,

exported by both countries, but firstly, by Russia. The key issue in this measure is that the economy of Russia can provide only a limited number of competitive products to the Asian market, the most prospective products in this regard are the automobiles, the products of the chemical industry, metals and composites in the Russian exports [10] and micro components, textile and footwear products from the Vietnamese side.

- The development of trade can be boosted by the agreement on the trade in national currencies, or in the third currency (the best option is yuan, as in this way the Chinese interests in the region will not be harmed by the higher penetration of the Russian companies in the region, and Russian steps for closer cooperation with Vietnam will not be counteracted by the Chinese corporations and authorities).
- The development of the cooperation in energy sphere can be boosted by the development of the Kamchatka ports and direct transit of the oil and its products between the countries.
- The development of service sphere cooperation may be helped by the development of corporate partnership between the leading national banks; the authors offer a model, similar to the Interbank Consortium of the Shanghai Cooperation Organization.

The recommendations given above are the most effective when imposed as a whole set of measures, as they do have a synergy effect. At the same time, their effectiveness is diminished in case of the low development rate of the national economies of Russia and Vietnam.

V. CONCLUSION

The cooperation between Russia and Vietnam today is on the initial stage of development. Despite the effects of the FTA between the EAEU and Vietnam, the overall economic effects for the countries are relatively low. The cooperation in investments, in the corporate sphere and in services trade is still weak and undeveloped. In order to boost the development of the named spheres, the authors offer a strategy of measures, which should be implemented in the nearest future in order to start the process of tighter cooperation and create a basis for future deeper integration.

The key spheres of the development of interactions between the two countries are energy cooperation, trade cooperation, and the cooperation in the sphere of services. These spheres provide main opportunities for further enhancement of cooperation.

Vietnam is the entrance to the markets of South-East Asia for Russia, still it is the point of high interest from China. These two tendencies may provoke the conflict of interests of the two countries in the region. In order to avoid it, Russia and Vietnam have to take the Chinese interests into account while developing financial cooperation.

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