



INDO-VIETNAMESE CHAMBER
OF COMMERCE AND INDUSTRY

NEWS LETTER

Vol. 5

No. 4

For Members only

April - June 1995

PRESIDENT WRITES

There is an encouraging news as regards trade relations between India and Vietnam. Exports from India to Vietnam during 1994-95 jumped by 110% to \$ 58 million; imports from Vietnam increased by just 1% to \$ 44 million. Thus, for the first time in last five years, two-way trade turnover between India and Vietnam crossed \$ 100 million as also India had a trade surplus with Vietnam. This trend continued in the first quarter (April-June) of the current financial year with exports from India to Vietnam amounting to \$ 21.1 million and imports from Vietnam totalling \$ 3.6 million. As a sequel of an unexpected boost in India's exports to Vietnam, India continued to have surplus in its trade with Vietnam (\$ 17.5 million).

As regards Vietnam's global trade, during the first quarter of 1995-96 exports increased by a sharp 33% to \$ 940 million. During the same period imports went up by 20% to \$ 1025 million. Vietnam thus had a deficit of \$ 85 million in its global trade. A significant growth in Vietnam's global exports (strange as it may seem, exports to India have dramatically fallen by 90 per cent during this period) is attributed to the introduction of reform policies by Vietnam to provide early export quotas and eliminate the export - licence requirement for many products.

Notable export items include crude oil (1.7 million tonnes, up by 4.7%, compared to the corresponding period-last year), coal (6.2 lakh tonnes, up by 57%), garments (\$ 100 million, up by 92%), rice (5.5 lakh tonnes, up by 44%), rubber (25,000 tonnes, up by 20%), and marine products (\$ 110 million, up by 26%).

As reported in the last issue (January-March, 1995) of this Newsletter, India Trade Promotion Organisation is organising India's participation in the 1995 Quang Trung International Trade Fair. The Fair is rescheduled to be held at Ho Chi Minh City between November 24-30, 1995, instead of from November 7-11, 1995.

The Indo-Vietnamese Chamber of Commerce & Industry (IVCCI) is planning to sponsor a business mission to Vietnam during the currency of the Fair, as was done last year in November 1994. A detailed circular will be sent to members shortly.

In the meantime, the second meeting of India-Vietnam Joint Business Council (JBC) is being held on October 10-11, 1995 in Hanoi. A delegation, led by Shri Atul Bhagwati, Chairman, India Section of the India-Vietnam JBC, will participate at the JBC meeting. Members, desirous of joining the JBC delegation, are requested to get in touch with the IVCCI Secretariat or directly India-Vietnam JBC Secretariat (C/ Federation of Indian Chambers of Commerce & Industry, Federation House, Tansen Marg, New Delhi 110 001, Tel. 331 92 51/331 92 61, Tlx. 031-61768 / 62521, Fax. 011-332 07 14).

Atul Bhagwati
President

Vietnam-Business and Investment Potential

By P. S. Raghavan
Consul-General in Ho Chi Minh City

Vietnam has been featuring in the international business press as an emerging tiger in the South East Asian region; particularly since the lifting of the IMF Veto in 1993 and of the US led trade embargo in February 1994, there has been a sharp upsurge in trade and investment activity in the country. The Government of Vietnam embarked on a policy of economic liberalisation in 1986 to transform that hitherto centrally planned economy into a market economy. After some initial readjustment problems, the period since 1990 has seen a consistent overhaul of trade and investment policies, tax and tariff structures, and administrative, legal and banking procedures. The result has been high rates of GDP growth in the last 5 years: 6%, 8.1%, 8.6% and 8.8% respectively in 1991, 92, 93 & 94 with a projected growth rate of about 9% again in 1995. The targeted growth rate in the medium term (upto the year 2000) is 8% average annually. Industrial growth has been even faster (albeit, from a narrow base): 9.9%, 12.6%, 12.1% and 12.9% in the same years. Foreign trade turnover has jumped from US\$ 4.4 billion in 1991 to US\$ 8.1 billion in 1994. Committed foreign direct investment into Vietnam was over US\$ 13 billion by mid-95 of which about US\$ 6 billion has been licensed in 1994 and half of 1995 alone.

Naturally like all developing coun-

tries aiming at economic transformation through rapid industrialization, Vietnam continues to face some financial constraints and institutional problems. Domestic resource generation has been insufficient to raise the required investment funds for industrial development. There is, therefore, high level of dependence on external financing for trade and investment and consequently a high debt service ratio. Primary products like rice, cashew, tea, rubber and coffee constitute (alongwith coal and crude oil) over 70% of Vietnam's exports and industrial capital goods an overwhelming proportion of imports.

In spite of the fact that entry into the Vietnamese market has been a challenge because of some of the above constraints, there has been a veritable flood of foreign companies pouring into Vietnam, seeking to secure an early presence in the future market of 72 million people and in a country amazingly rich in natural resources with a disciplined work force, the prospect of expanding business operations from Vietnam into the relatively untapped markets of Laos and Cambodia is an added motive. Multilateral and bilateral development assistance for infrastructural projects like roads, bridges, power plants, agriculture and fisheries rehabilitation and primary health and education have also opened up a number of possibilities for implementing

agencies. To add to all this is the expectation that exploitation of the predicted oil and natural gas resources offshore of Vietnam could, in the near future, spur an upsurge in economic growth well beyond current projected levels and increase significantly the purchasing power of the country.

As a result there are today in Ho Chi Minh City alone nearly 800 representative offices of foreign companies, besides thousands of others who have appointed local representatives/agencies.

India's trade with Vietnam in recent years has not responded to this available potential. From 1991 to 1994, Indo-Vietnam bilateral trade turnover has increased from about Rs. 126 crores to about Rs. 220 crores annually. If we take into account the fact that almost the entire increase has been due to India's increased import of cashew nuts from Vietnam and that India's trade with Vietnam constitutes less than 1% of Vietnam's overall foreign trade turnover it will be seen that there is vast untapped potential for India in the Vietnam market particularly since most of India's biggest export items are actually among Vietnam's important import items. There are also a number of items of import into India which could be sourced from Vietnam.

This under-performance has a number of reasons, but the primary one has been a rather wide awareness gap between the busi-

ness communities of the two countries. Though recent months have seen visits to Vietnam by delegations of FICCI, ASSOCHAM, CII, FIEO and other Chambers of Commerce and Manufacturers Associations, the Indian business community (except for the pharmaceutical sector) by and large remains unaware about the Vietnamese market and, more importantly, about possible methods of penetration into it. Sometimes it is not recognized that strategies which have been successful elsewhere have to be modified to meet local conditions. Part of the difficulty of course is that structures of dissemination of trade and commercial information in Vietnam are as yet not fully developed and Indian exporters have difficulties in identifying suitable partners. Equally, faced by a publicity barrage about the quality of the products of the technologically advanced countries, the Vietnamese consumer is not aware that he can source his requirements for products of international technological standards at competitive prices from India. The investment possibilities in Vietnam have also not received the attention which they deserve. Given Vietnam's considerable agricultural and natural resources, there are opportunities for investment in sugarcane development and processing, tea cultivation and processing, coffee cultivation and processing, cashew nut processing, rice processing, fruit and vegetable processing and canning, coconut processing, rubber cultivation and processing, aquaculture, mining and processing of

gems, exploitation and processing of granite and a number of other areas too numerous to list here. Two Indian groups have recently been granted licences for investment projects in Vietnam and a few other companies are in various stages of negotiation for a number of other projects; but, this constitutes a minuscule proportion of the total of over US \$ 13 billion licensed so far.

The traditionally excellent relations between India and Vietnam should also encourage Indian businessmen to study more carefully the prospects in this country. India has maintained close economic and political relations with Vietnam throughout the last 40 years after the country's independence and this has created a very friendly and cordial environment for Indians in this country.

Both the Embassy of India in Hanoi and the Consulate General of India in Ho Chi Minh City have been trying to bridge the awareness gap between India and Vietnam by organising a number of meetings of Indian business delegations with a wide cross-section of the Vietnamese business community, including seminars and trade representations. While these exercises have been useful and productive, the momentum can be sustained only with continuous interaction. Moreover, they only cover a limited range of products. The other problem - already mentioned - of the scepticism about the standards, reliability and technological capability of Indian products, can only be overcome by a demon-

stration of our products to the consumer.

In my opinion, the best method of projecting both technological capability and diversity of product range through participation in an international trade fair where machinery and equipment can be displayed. The largest international trade fair in Ho Chi Minh City is the Quang Trung Trade Fair which is held in November every year and will be held from November 24 to 30 this year. Ho Chi Minh City is in many ways the commercial & economic centre of Vietnam: with a population of under 9% of Vietnam's total, it contributes nearly 35% to the GDP of Vietnam. Indian companies have traditionally participated in this trade fair under the sponsorship of the India Trade Promotion Organisation, Pragati Bhawan, Pragati Maidan, New Delhi. However, the Indian participation has never been a representative demonstration of the range of products which India can offer. I would like to suggest for the consideration of your members that this year we should try to have as diverse a representation of Indian products as possible in this trade fair. An effective display of the variety of products on offer from India would help in building an Indian image which would help every single participant. The largest hall in the Quang Trung Trade Fair grounds has an area of 1650 Sq. Mtrs.; Indian companies have normally occupied about 550 to 600 sq. Mtrs, each year in this hall. If we can ensure participation in the entire hall by Indian companies, we can arrange for

suitable publicity for the India pavilion. In a sense this would become an India exhibition within an international trade fair. With advance information about companies participating with details of their product range etc. we would also organise through local chambers of commerce, foreign trade development centres and other government organisations information to be disseminated to a large number of potential Vietnamese business partners about the contents of the India pavilion. We feel that this would be an effective introduction to the Vietnamese market and would enable participants to establish the kind of business relationship that can be sustained. The India Trade Promotion Organisation may, because of its own norms, be able to sponsor the participation of only a certain number of Indian participants; however it is entirely open to companies to directly

secure participation in the fair.

In addition to the Quang Trung Trade Fair, there are a large number of major specialized international fairs around the same time of the year in Vietnam. It would be cost effective for a company participating in the Quang Trung Fair to also participate in one of these specialized trade fairs if it deals with products relevant to it. In particular a major annual agricultural fair is held in the city of Can Tho in December where all companies dealing with agricultural machinery and equipment and inputs can participate. Can Tho is situated in the Mekong Delta which is the most productive agricultural region of Vietnam. For specialized fairs in other sectors, companies are welcome to write or fax to the Consulate General of India for more information.

We would welcome any enquiries or comments on any of the above points either at the Consulate General of India (Contact : Consul General) in Ho Chi Minh City or the Embassy of India in Hanoi (Contact: Second Secretary (Economic)).

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Hanoi.

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49 Tran Quoc Thao St.
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APPOINTMENT

MR NGUYEN HUNG DZUNG has been appointed as Commercial Counsellor, in the Embassy of the Socialist Republic of Vietnam at New Delhi, effective 27th July, 1995.

Mr Dzung shall be handling all commercial matters related to Vietnam and promoting the trade relation between India and Vietnam.

(Address : Mr Nguyen Hung Dzung, Commercial Counsellor, Commercial Section, The Embassy of the Socialist Republic of Vietnam, D-287, Defence Colony, New Delhi 110 024.

Tel. 469 80 21, Tlx. 316 60 19 Fax. 011-469 80 21)

ECGC cover for India's exports

At present ECGC cover is given against the LCs of the following banks operating in Vietnam.

Government owned banks

- 1) Vietcom Bank
- 2) Exim Bank of Vietnam
- 3) Industrial and Commercial Bank of Vietnam (Incombank)
- 4) Vietnam Bank for Agriculture (Agribank).
- 5) Bank for Investment and Development of Vietnam (BIDV or VID Bank).

Foreign banks

- 6) Australia & New Zealand bank
- 7) Banque Indosuez
- 8) Bank Nationale De Paris
- 9) Credit Lyonnais
- 10) Bangkok Bank
- 11) Bank Francaise du Commerce Exterieur
- 12) Cathay Investment and Trust of Taiwan
- 13) Standard Chartered Bank
- 14) The Thai Military Bank
- 15) Chinfon Bank
- 16) Indovina Bank
- 17) VID Public Bank
- 18) First Vina Bank

Cover is also provided in respect of DP bills, provided the transport documents (Ocean Bill of Lading/Airway Bill) mention one of the approved banks as the consignee. The limit in such cases would be restricted to Rs. 10 lakhs if the buyer is a private entity and Rs. 50 lakhs if the buyer is a State enterprise.

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US ACTIVITIES IN VIETNAM : ONE YEAR AFTER LIFTING THE EMBARGO

Early in February 1994, the United States officially lifted its economic embargo against Vietnam. In early February 1995, Vietnam and the United States opened their respective liaison offices in Hanoi and Washington, marking a new period in relations between the two countries.

Looking back at the activities of US companies in Vietnam one year after the lifting of the embargo, public opinion suggests they are satisfactory and encouraging. Though there has been no "US fever" in the field of invasive investment and business post-embargo as was mistakenly an-

ticipated by some people, particularly investors in land and real estate, the rather lively activities of American companies constitute a news factor in the increased competition between economic powers in Vietnam.

As regards direct foreign investment (FDI) one year after the embargo was lifted, 19 US investment projects have been licensed by the SCCI, with a total capital of \$ 223.45 million, accounting for 6% of the total foreign capital invested in Vietnam in 1994 (US \$ 3.7 billion). The United States ranked seventh of the 10 largest investors in 1994.

By looking at the list of US investment projects, one notices US investment is quite diversified, from oil & gas exploitation, food processing, garments, electronics, construction material... to hotels, offices, pharmaceutical products and medicine. Projects are of medium scale (with an average, investment capital of \$ 12.3 million per project). Notable is the large investment area, spreading over 14 provinces and cities from the northern border (Son LA) through Central Vietnam (Quang Tri) to southern most Minh Hai.

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CONSTRUCTION TEMPO OF EPZs IN VIETNAM

In Vietnam, since the issue of the Government Regulations on EPZs (1991), six Export Processing Zones have been established in HCM city, Hanoi, Hai Phong, Da Nang and Can Tho on a total area of 937 hectares with a total investment capital for infrastructure construction of \$ 315.1 million. According to estimates, the above EPZs will eventually bring about \$ 4.65 billion of export goods per year.

According to Mr. Thoman Kelleher, a UNIDO expert on EPZs, Vietnamese EPZs have not been very successful, many of them not having the necessary conditions for the development of infrastructure. Over the past three years, the construction of infrastructure at established EPZs seemed to have made no progress at all.

Licensed in September 1991, Tan Thuan EPZ (HCM City) is considered the ideal. The construction and related duties of its infrastructure lie with the Joint Venture between Tan Thuan Industrial Development Company and two Taiwanese corporations. On its area of 300 hectare, it was planned to build 200 enterprises with over 50,000 workers. But the Joint venture has so far invested investment capital, but not has to change foreign partners. China United Electric Import Export Corporation has officially replaced two Hong Kong Companies-Strategic Development International Corporation and Velos Industries Corp. Ltd.-in the Joint venture to build the EPZ. It was founded in September 1992

with an investment capital of \$ 14 million, but no infrastructure work in the EPZ has been carried out though 26 foreign companies have registered to rent all its used area (43.1 hectare of the total 60).

With an investment capital of \$ 150 million, Hai Phong EPZ held a ceremony to begin construction on February 22, 1993. The result of the building done so far in the past two years is only...a fence.

Lying near the international airport of the Capital, the 100 hectare Noi Bai EPZ, after being granted a licence 8 months ago, is still looking for a water supply because not enough water has been provided to meet the requirements of the EPZ.

The two remaining EPZ in Da Nang and Can Tho are also meeting difficulties with investment capital of compensation site clearing, overly complicated formalities and ambiguous legalities have discouraged many of them.

It is normal practice in China that for one dollar of foreign investment capital, the host country shall contribute a 4-fold amount to build infrastructure. In our country, the construction of infrastructure outside EPZs is encountering great obstacles. The State has not enough capital yet to build the network of communications, power grid, water supply and drainage outside the EPZ fence to ensure their operations. A number of investors have proposed that they would spend money to build roads in exchange for the right to real estate business along the two sides of the roads. It is regrettable

that the lack of detailed plan of areas is hampering the execution of this intention.

What worries investors in infrastructure construction is the attraction of investment projects in EPZs. Only 30 projects have been so far licenced in Tan Thuan EPZ. However, only two have officially been put into operation. Projects invested in EPZs are of small-scale, with an average investment capital of over \$ 3 million each. Most of them belong to the fields of garments, textiles engineering, production of electric appliances, sports gear, with not so advanced technology.

According to Mr. Thoman Kelleher, Vietnamese EPZs still have complicated formalities, and priorities on conditions of investment and trade are not yet clear. They therefore cannot attract the attention and interest of investors.

Some people recommended that EPZs be turned into concentrated industrial zones to increase their attractiveness. Business people who invest in these zones shall not be compelled to export all their products, which can be consumed in Vietnam, a developing market of over 70 million inhabitants.

Many analysts believe, though EPZs may be successfully turned into concentrated industrial zones, their success will not be certain unless there are real changes in the investment environment, administrative formalities and infrastructure.

IVCCI SPONSORS BUSINESS MISSION TO VIETNAM

(A unique opportunity to meet with your business counterparts in Vietnam)

As you are aware, the IVCCI has sponsored three delegations to Vietnam in the last five years. Encouraged by the success of these delegations, it has now been decided to sponsor yet another business mission to Vietnam between November 26 & December 3, 1995.

Delegation members will also have an opportunity to visit Quang Trung International Trade Fair, being held at Ho Chi Minh City between November 24-30, 1995. Members desirous of participating at the fair are requested to contact the IVCCI Secretariat immediately for booking of space, etc.

The delegation will visit Ho Chi Minh City (November 26-30, 1995)

and Hanoi (December 1-3, 1995) and will have meetings with Vietcochamber, State Committee for Cooperation and Investment (SCCI), Ministry of Trade, Ministry of Health, Foreign Trade and Investment Development Centre, Peoples' Committee, India's Ambassador in Hanoi, India's Consul General in Ho Chi Minh City, etc. Besides, there will be one-to-one business meetings with your Vietnamese counterparts.

Following lifting of the US embargo early last year and Vietnam joining the ASEAN recently, Vietnam is emerging as a large potential market. Boom in India's exports to Vietnam indicates the acceptance of Indian technology

by the Vietnamese. This is, therefore, the right time to cultivate Vietnam as your business partner.

This will be a unique opportunity to establish/strengthen your contacts with Vietnamese businessmen. Don't miss it.

Contact : Executive Secretary
Indo-Vietnamese Chamber of
Commerce and Industry
C/o. Indian Merchants' Chamber,
IMC Marg,
P B No. 11211, Churchgate
Bombay-400 020.
Tel. 204 66 33
Tlx. 011-85195
Fax. 204 85 08

Present EPZs in Vietnam

| | Name of EPZs | Locality | Issue date of licence | Total area (ha) | Investment in infrastructure (million US\$) | Estimated export volume (billion US\$/year) |
|-------|--------------|-----------|------------------------------|-----------------|---|---|
| 1 | Tan Thuan | HCM City | Sept 24, 1991 No. 245/GP | 300 | 89 | 1.2 |
| 2 | Linh Trung | HCM City | Aug. 31, 1992 No. 412/GP | 60 | 14 | 0.5 |
| 3 | Hai Phong | Hai Phong | Jan. 12, 1993 No. 506/GP | 300 | 150 | 1.0 |
| 4 | Da Nang | Da Nang | Oct. 21, 1993 No. 698/GP | 120 | 24 | 1.7 |
| 5 | Can Tho | Can Tho | Nov. 2, 1993 | 57 | 8 | 0.1 |
| 6 | Noi Bai | Hanoi | April 12, 1994 No. 839/GP | 100 | 30 | 0.15 |
| Total | | | | 937 | 315 | 4.65 |

Editorial Board : Shri Ranjan Bhatnagar, Shri P. N. Mogre, Shri Jitendra Sanghvi.

Edited & Published by Shri Jitendra Sanghvi for Indo-Vietnamese Chamber of Commerce & Industry.

C/o. Indian Merchants' Chamber, IMC Marg, Churchgate, Bombay - 400 020 &

Printed by him at Noble Print Centre, Bombay - 400 010. Tel.: 371 9427.