NEWS LETTER

IVCCI

INDO-VIETNAMESE CHAMBER OF COMMERCE AND INDUSTRY

Vol. 2 No. 3 For members only Jan. - March 1992

PRESIDENT WRITES

We are happy to inform our members that at the Indo-Vietnamese Joint Economic Commission meeting, held in New Delhi in March 1992, the IVCCI, for the first time, was recognised as a promoter organisation for expanding trade and economic cooperation between India and Vietnam.

As a bilateral chamber, the IVCCI is keen to realise setting up of the Indo-Vietnamese Joint Business Council (JBC) which could provide an excellent opportunity for take-off of trade and economic cooperation between India and Vietnam. We understand that an agreement for the establishment of this JBC is expected in the near future.

These are encouraging developments for the promotion of bilateral relations between India and Vietnam.

We are publishing an article 'Vietnam : 1991', written by Doan Ngoc Bong, Secretary-General of the Chamber of Commerce and Industry of the Socialist Republic of Vietnam (Vietcochamber), specially for the Newsletter at our request, in this issue. The article depicts in detail the economic situation obtained in Vietnam last year. The sum and substance is that Vietnam is overcoming all difficulties and weaknesses with determination and maintaining social and political stability in the country.

Interestingly, Vietnam has attracted attention of the whole world as is reflected in foreign direct investment taking place in Vietnam. In a single year 1991 Vietnam sanctioned foreign direct investment of $ 1,185 million compared with that of less than $ 200 million obtained in India in the same year. The level of foreign direct investment in Vietnam in 1991 more than doubled as compared to $ 589 million in the preceding year.

We are sure our members/readers would immensely benefit from this article.

Among other activities of the IVCCI during the quarter, mention may be made of two important meetings : *(i) His Excellency Nguyen Manh Cam, Foreign Minister of Vietnam*, and *(ii) His Excellency Vu Xuan Ang, Vietnam's Ambassador to India*. Detailed reports of these meetings appear elsewhere in this issue.

Manuel Menezes
President

VIETNAM : 1991

*By Doan Ngoc Bong **

1991 was the year full of difficulties and challenges for Vietnam, such as high inflation, natural calamity throughout the country, disruption of traditional export and import markets in the former Soviet Union and Eastern European countries, absence of external financial aid and assistance and the ongoing American embargo. Faced with these difficulties, it was forecasted by many people, both at home and abroad that Vietnam's economy could not help collapsing.

Persisting in renovation policies, overcoming all difficulties and weaknesses, bringing into full play the spirit of independence and self reliance, going ahead with strength of whole nation, under the leadership of the Party, we have achieved certain economic progress, maintaining social and political stability in the whole country.

As above mentioned, in spite of natural calamity such as flood and drought, but thanks to the new policies in the field of agriculture, agricultural, particularly food, production attained the planned target. We could not only assure enough food and foodstuff supply for the people but also had surplus for export. In 1990 Vietnam's rice export reached over one million tonnes, thus making Vietnam the third biggest rice exporter in three successive years after Thailand and the U.S.A.

In industrial production, the output of such industries/products as oil, electricity, cement, coal, export and consumer goods recorded a substantial increase.

As far as external economy is concerned, carrying out the policy of expanding cooperation relations and being a friend with all countries in the world community, striving for peace, independence and development, we have achieved some positive results. For instance, in 1991 thanks to the dynamic business operation at micro level and "liberal" policies at macro level, the ex-import value attained over US$ two billion, surpassing the target of US$ 1.8 billion adopted by the National Assembly and up about 14.7% over 1990 with the following products making up the core: crude oil, coal, tin, aquatic products, rubber, coffee, tea, cassia bark, peanuts, and a number of products of light industry and consumer goods. As regards imports, all products such as fuel and materials, vital to the national economy, which used to be supplied from former Soviet Union and Eastern European countries, had to be imported in hard currency from other markets in 1991. In spite of that, import target, approved by National Assembly, was still achieved with the value worth over US$ two billion, down by 11% as compared with the year 1990.

Another important area of our external economy is foreign investment in Vietnam. According to statistics issued by SCCI (State Committee for Cooperation and Investment), as at the end of December 1991, 383 projects had been licensed with total investment capital of US$ 2,773 million as follows :

Field	No. of projects	Investment capital US$ million	Perchantage to total
Industry	126	382.7	13.8
Oil exploitation	13	588.2	21.2
Agriculture and foodstuff	112	796.2	28.7
Tourism and service	92	707.1	25.5
Communication & post	35	293.3	10.6
Construction	5	5.4	0.2
Total	383	2,772.9	100.0

Acceleration of investment capital through the years is as follows :

Year	1988	1989	1990	1991
Number of projects	37	69	108	150
Investment capital (US$ million)	360	512	589	1,185

The above figures have shown that not only the number of projects increased dramatically, but also the size of projects developed. The total value of foreign investment in Vietnam in 1991 was approximately equal to

* *Mr. Doan Ngoc Bong is Secretary-General of the Chamber of Commerce and Industry of the socialist Republic of Vietnam (Vietcochamber), Hanoi. This article is specially written for the Newsletter at our request - Editor.*

that of 1989 and 1990 added together.

Judging from above mentioned investment results, it can be assumed that the Law on Foreign investment in Vietnam is of attraction. Foreign organisations and individuals are permitted to invest in almost all fields of the national economy in one of the three forms : contractual business cooperation, joint-venture and 100% foreign ownership. The right to capital ownership of foreign partners is protected, foreign partners are allowed to remit abroad their profits and also their capital upon expiry of projects and to take active part in the management of the joint venture (in case of joint venture, the General Director is not necessarily a Vietnamese), to be exempted from import tax on equipment, machinery, for capital contribution. The profit tax is not higher than the average rate applied in other countries in the region.

Nevertheless, in order to attract foreign investors to Vietnam, in the coming years, the following work should be carried out :

To perfect the legal system on investment, renewing and amending a number of existing regulations in conformity with international rules and practices.

To construct infrastructure system in order to create favourable conditions for investors.

To continue to reform banking system allowing more foreign bank branches and joint venture banks to be set up in Vietnam.

To adjust investment structure by economic branch and region.

Finally, an event of great importance as we witnessed at the meeting of the Eighth session of National Assembly in March 1992 was the adoption of the new 1992 Constitution in which the rights and interest of foreign investors stipulated in the Law on Foreign Investment and concerned regulations were once again reaffirmed.

I have briefly mentioned the economic situation of Vietnam in the year 1991 in general and some broad picture of the situation of external economic relations, in particular. Now something about the economic cooperation and trade relations between Vietnam and India. In 1991 the trade relationship between Vietnam and India increased considerably as compared with the previous years. Exports from Vietnam to India came up to US$ 42 million including products such as white rice, silk, frozen shrimp, peanut, fur and leather, medical herb, ceramic, incense and raw cashew nuts. Vietnam's imports from India reached US$ 23 million, including such items as cotton of various kinds, chemicals, dyestuff, textile equipment, tobacco etc. However the bilateral trade between our two countries has not yet matched the traditional friendship which was built and forstered by our late president Ho Chi Minh and Jawaharlal Nehru.

The Vietnamese companies which have so far had traditional business relations and co-operation with India are: Textimex, Leprodexim, Vinatea, Agrexport, Naforimex, Vimedimex, Cokyvina, Vietrans, 8 March textile factory, Nam Dinh textile factory and some others.

I firmly believe and hope that the Indo-Vietnamese Chamber of Commerce and Industry will play an important role in promoting the relations of economic co-operation, trade and investment between the business organisations of our two countries for the benefit of our two peoples.

Plea for Joint Ventures to Promote Foreign Trade between India and Vietnam

March 27, 1992

The just concluded Fifth meeting of the Indo-Vietnamese Joint Economic Commission in New Delhi has agreed in principle to renovate the structure of import-export between India and Vietnam, encourage and protect investment and sign an agreement for avoidance of double taxation as also maritime shipping, said His Excellency Nguyen Manh Cam, Foreign Minister of Vietnam.

Economic relations between India and Vietnam are not commensurate with their political relations. We have also agreed to promote joint ventures between our two countries, as it is one way to promote foreign trade, added His Excellency while addressing a meeting of members of the Indo-Vietnamese Chamber of Commerce and Industry. This will create favourable conditions for Indian businessmen. An effort will also be made to simplify trade and investment procedures. More attention will be paid to expand cooperation in the field of infrastructure building, such as railway and telecommunication network, pointed out the Minister. Cement, sugar and steel will be the thrust areas for cooperation.

The Minister acknowledged the help rendered by an Indian expert in drafting a Law on Foreign Investment in Vietnam.

Speaking on the occasion, His Excellency J. C. Sharma, the then India's Ambassador to Vietnam said that the fact that Vietnam has embarked

His Excellency Nguyen Manh Cam, Foreign Minister of Vietnam addressing the meeting. Others in the picture (from Left to Right) are : His Excellency J. C. Sharma, India's Ambassador to Vietnam, Nguyen Duc Hung, Private Secretary to the Foreign Minister and Mr. Manuel Menezes, President, IVCCI.

on economic reforms at the same time as India has launched radical steps to open up its economy makes it easier for private sector of the two countries to interact freely without bureaucratic controls. Our technology is most appropriate for Vietnam.

It has been agreed in principle that Vietnam would make timely repayment of interest on credit extended by India in the past and India would reinvest that money into Vietnam. Exim Bank of India and ECGC have also been requested to reconsider extension of credit and cover for exports from India to Vietnam respectively, Mr. Sharma added.

It is ironic that we extended credit to Vietnam when the world as such turned away from Vietnam and now when the world is turning to Vietnam, we are not, added His Excellency Sharma.

The State Bank of India will open a representative office in Ho Chi Minh City next month. This will help expand trade between our two countries.

Earlier, in his welcome address, Mr. Manuel Menezes, President, IVCCI said that the Indo-Vietnamese Joint Economic Commission meeting has identified mining, rock phosphate, rubber plantation, cotton development and transport sectors as new areas of cooperation between our two countries. At a time when Indian businessmen are keenly watching at developments in Vietnam and wanting to tap the potential that exists, establishment of Consulate General of Vietnam's office in Bombay - the commercial capital of India — will help Indian businessmen to obtain visa as also other necessary information, which can go a long way in promoting two-way trade. Establishment of Indo-Vietnamese Joint Business Council, I am sure, could provide an excellent opportunity for take-off of trade and economic cooperation between India and Vietnam, Mr. Menezes pointed out.

Mr. Rajen Udeshi, then Vice-President, IVCCI, proposed a vote of thanks.

Vietnam Realises Potential of Indian Industries

March 11, 1992

Hectic preparations are underway for the 5th meeting of the Indo-Vietnamese Joint Economic Commission (JEC) to be held in New Delhi between March 23 and 25, 1992. This meeting will review the implementation of the agreements signed between India and Vietnam relating to trade, science and technology and culture, concluded at the 4th session of the JEC in April 1990 at Hanoi, said His Excellency, Vu Xuan Ang. The forthcoming JEC meeting will discuss issues of promotion and upgrading the efficiency of the cooperation between India and Vietnam in the above-mentioned fields, the two-way trade turnover, the problem of credit and payment. Two sides are also expected to sign the aviation agreement for early direct flights between two countries, opening up a branch of an Indian bank in Vietnam, shipping lines between Vietnam and India etc., added His Excellency while addressing members of the IVCCI.

In November, 1991, nearly 150 businessmen of 56 Indian companies participated in the Quang Trung Trade Fair in Ho Chi Minh City. The very large pavillion of India at the Fair made the Vietnamese businessmen realise the potential of Indian industries, especially in the fields of engineering, pharmaceuticals, textile, etc. Turning to trends in the Vietnamese economy, Mr. Ang said that despite several difficulties faced, real national income during 1991 increased by 2.4 per cent and industrial

His Excellency Vu Xuan Ang, Vietnamese Ambassador in India addressing the meeting. Others in the picture from Left to Right are : Mr. Manuel Menezes, President,, IVCCI, Mr. Jitendra Sanghvi, Executive Secretary, IVCCI and Mr. Nguyen Pha, First Secretary, Embassy of the Socialist Republic of Vietnam

production by 5.3 per cent. Not only that, a number of products became more competitive. Despite a sharp drop in trade with the former Soviet Union and the switch to new markets, export turnover did not fall short of target but was sufficient to cover the import of essential goods. Larger investments were made by foreign companies and for the first time, fairly large projects, other than oil projects, were launched, added His Excellency.

Earlier in his welcome address, Mr. Manuel Menezes, President, IVCCI said that the Indo-Vietnamese Chamber of Commerce and Industry had sponsored a business delegation to Vietnam in November-December, 1991. There is nothing that Vietnam imports and which India cannot offer. In view of tremendous shortage of free foreign exchange that Vietnam faces, however, promotion of exports will be possible only through counter trade/barter/back to back LC arrangement with Vietnam. Against exports from India we can consider import of agro-based products viz. cashew nut, beans, groundnut, rice, rubber, raw silk, etc. for direct export to third countries. Now that guarantees for payment have become better, extension of credit by Exim Bank of India and cover by ECGC for exports from India to Vietnam need to be reconsidered, added Mr. Menezes.

In order to bridge the communication gap, Mr. Menezes suggested establishment of Consulate General of Vietnam's office in Bombay.

Mr. Atul Bhagwati, Member, Managing Committee of the IVCCI, proposed a vote of thanks.

India's Trade with Vietnam

(Rs. in crores)

Year	Exports	Imports	Trade balance
1986-87	14.9	2.7	+ 12.2
1987-88	7.0	12.8	- 5.8
1988-89	24.7	11.6	+ 13.1
1989-90	13.4	235.5	- 222.1
1990-91	30.8	103.8	- 73.0
1991-92	31.8	94.0	- 62.2

Doing Business in Vietnam

At the end of 1986 the Sixth Party Congress mapped out a plan for the renovation and strengthening of the Vietnamese economy using both internal and external resources. In its foreign economic relations, Vietnam aims at the constant expansion of economic co-operation with all foreign organizations and individuals, irrespective of political and social systems, on the basis of equality, mutual benefits and respect for national independence and sovereignty. Foreign organizations and individuals can engage in different forms of co-operation and business activity in Vietnam. They can make direct investments in accordance with the Law on Foreign Investment, enter into import-export contracts, make investment loans, transfer technology, train managers and technical workers and employ Vietnamese labour in foreign countries.

With regard to economic management, Vietnam has changed from a centrally planned bureaucratic mechanism to a market-oriented mechanism. Producers and business establishments have been given the full right and responsibility to organize their activiites, including co-operation with foreign organizations and individuals. To ensure equal treatment of all economic sectors, including the private sector, the National Assembly of Vietnam, on 30th June 1990, passed an important amendment to the Law on Foreign Investment, giving permission to private economic organizations to engage in direct co-operation and investment with foreign organizations and individuals.

Legal Framework For Foreign Investment

On matters relating to foreign investment in Vietnam the supreme legal instrument is the Law on Foreign Investment, enacted on 29th December 1987, as amended by the National Assembly on 30 June 1990(.) . Details concerning the implementation of the Law on Foreign Investment are set forth in Decree 139-HDBT, adopted by the Council of Ministers on 5 September, 1988. This Decree has further expanded and facilitated business activity by foreign investors in Vietnam.

Labour regulations at enterprises with foreign invested capital have been stipulated in Decree 233-HDBT, adopted on 22 June, 1990 by the Council of Ministers.

Foreign exchange control regulations have been established in the Statute of Foreign Exchange Control, promulgated together with Decree 161-HDBT, adopted by the Council of Ministers on 18 October, 1988, and Circular 26/NH-TT, issued by the State Bank of Vietnam on 8 March, 1989.

Matters relating to the accounting and taxation work of enterprises with foreign invested capital are covered in Ordinance on Accounting and Statistics, adopted by the State Council on 10 May, 1988, and Circular 06/TC-CTN and Circular 46/TC-CDKT issued by the Ministry of Finance on, respectively, 16 March, 1989 and 20 October, 1989.

Import export regulations are provided for in the Law on Import-Export Tax and Decree 08-HDBT adopted on 30 January, 1988 by the Council of Ministers.

Customs regulations have been stipulated in Circular 114-TCHQ/PC and Circular 1546-TCHQ/PC issued by the General Department of Customs on, respectively, 1 February, 1988 and 28 October, 1988.

(*) *For the contents of legal writings concerning foreign investment in Vietnam see "Legal Writings on Foreign Investment in Vietnam", prepared by the State Committee for Co-operation and Investment with the support of United Nations Development Programme and UNIDO.*

Regulations concerning royalties and rents for water and sea surfaces, have been established in Circular 210A-TC/VP, issued on 1 April, 1990 by the Ministry of Finance.

Rules and regulations concerning entry, the issuance of exit visas and the residenceand movement of foreigners who invest in Vietnam are laid down in Circular 12/TTNV-NG, issued jointly by the Ministry of Home Affairs and the Ministry of Foreign Affairs on 22 December, 1988.

All regulations concerning the transfer of technology into Vietnam, the protection of industrial property, the licensing of patents, trade marks and know-how have been stipulated in Ordinances adopted by the State Council on 5 December, 1988 and 28 January 1989, and in Decree 201-HDBT adopted by the Council of Ministers on 28 December 1988.

Land regulations have been provided for in the Land Law approved by the National Assembly on 29 December, 1987.

All regulations concerning wages and salaries and the income of employees in enterprises with foreign invested capital have been promulgated in Decree 223/HDBT, adopted by the Council of Ministers on 22 June, 1990.

The following points should be borne in mind by potential investors :

(a) The Vietnamese party participating in co-operation and investment is an economic organization with juridical personality functioning in the State-run, collective, joint State-private or private sector ;

(b) All the parties engaging in co-operation and investment may agree to one of three legally recognized investment forms, namely contractual business co-operation, joint-venture enterprises or enterprises with 100 per cent foreign invested capital ;

(c) In joint-venture enterprises, the minimum limit of legal capital contributions by the foreign party is 30 per cent; there is no limit to the maximum legal capital contribution;

(d) All parties engaging in contractual business co-operation and in the activities of enterprises with foreign invested capital exploiting minerals and using land or water and sea surfaces shall be subject to the payment of royalties and rent to the State. In cases where the legal capital of the Vietnamese party in the joint-venture enterprise is contributed in any of the above-mentioned forms, the joint-venture enterprise shall not be subject to such payment;

(e) Enterprises with foreign invested capital may choose an accounting system in conformity with international practices, but prior approval by the Ministry of Finance is required ;

(f) Enterprises with foreign invested capital must open accounts at the Foreign Trade-Bank, or at bank branches established in joint ventures (between Vietnam and foreign countries), or at a foreign bank branch set up in Vietnam with the approval of the State Bank of Vietnam.

Government Priorities, Incentives And Guarantees

1. Investment priorities

The Government of Vietnam encourages foreign organizations and individuals to invest in undertakings with the following broad objectives :

(a) To implement large-scale economic programmes and export and import-substitution projects;

(b) To make full use of high technology and indigenous skilled labour and resources, and upgrade the capabilities of existing economic institutions and enterprises ;

(c) To carry out infrastructural projects ;

(d) To provide foreign-currency-earning services such as tourist facilities, ship repairs and airport, port and harbour services.

2. Incentives

Enterprises with foreign invested capital and parties engaged in contractual business co-operation are exempted from paying import taxes on the following items :

(a) Equipment, machines, accessories, facilities for production and business (including means of transport) and other material in the form of capital contributed to the enterprise or for business co-operation ;

(b) Equipment, machines, accessories and other material imported as a contribution to, and considered as part of, the total capital of the enterprise ;

(c) Material, spare parts and accessories imported for the manufacture of products for export.

The general level of profit tax ranges from 21 to 25 per cent of the gained profits, with the following specific applications :

(a) For priority projects, as stipulated in article 73 of Decree 139-HDBT, the profit tax ranges from 15 to 20 per cent of the earned profits. The State Committee for Co-operation and Investment considers the profit-tax exemption to be granted to joint-venture enterprises within this category for a maximum period of two years starting from the profit-making year, and with a 50 per cent tax reduction for the next two years as the maximum upper time-limit ;

(b) For joint-venture enterprises that need special investment incentives, the State Committee for Co-operation and Investment will consider granting a 10 to 14 per cent profit tax rate, and the enterprise can enjoy a four-year tax holiday and a 50 per cent tax reduction in the four years following the first profit-making year of the enterprise ;

(c) In conducting its operations, the joint-venture enterprise is allowed to transfer its losses for any tax year to the following year, and is allowed to offset those losses with the profits earned in the following years, not to exceed five in number.

Foreign Organizations and individuals choosing to reinvest their dividends from over a three-year period are repaid all profit taxes incurred on those dividends.

When remitting profits abroad, foreign investors will have to pay 5 per cent withholding tax if they have contributed more than 50 per cent of the legal capital or over $10 million ; in other cases, the withholding tax is 10 per cent of the remitted profits.

Personal effects imported into Vietnam by foreign investors will be given the same preferential treatment as that enjoyed by diplomatic agencies and their personnel. The quantity of imported personal effects accorded preferential treatment has been stipulated in Decree 131/HDBT of the Council of Ministers.

3. *Guarantees*

The Government shall ensure equal and satisfactory treatment to foreign organizations and individuals who invest in Vietnam.

The capital and assets of foreign organizations and individuals investing in Vietnam shall not be requisitioned or expropriated by administrative measures, and enterprises with foreign invested capital shall not be nationalized.

Foreign organizations and individuals who invest in Vietnam are allowed to repatriate the following assets : profits earned in the course of business; payments of technical fees and service supplies; principal and interest on loans taken in the course of operations ; invested capital ; and other monetary and fixed assets defined as their legal property.

The Government of Vietnam is prepared to sign agreements on bilateral investment protection and encouragement and on double taxation with all countries. It is currently engaged in the preparation of such agreements with Australia, France, Germany, Malaysia, Sweden, United Kingdom of Great Britain and Northern Ireland and other countries.

All the parties engaged in contractual business co-operation and enterprises with foreign invested capital are fully authorized to make decisions relating to their own production and business programmes. No government body or agency in Vietnam shall assign quotas or plans to be fulfilled by those programmes.

Foreigners working in Vietnam at enterprises with foreign invested capital or on the implementation of business co-operation contracts, and having paid income tax in accordance with Vietnamese law, are allowed to remit their income under the Regulation on Foreign Exchange in Vietnam.

All disputes generated in the process of investment in Vietnam shall first of all be settled through negotiation and reconciliation. Should it prove impossible to settle such a dispute, it shall be referred to the Vietnam Arbitration Organization, or to another arbitration or judgement body agreed upon by both parties.

System of Foreign Investment Management

1. *State Committee for Co-operation and Investment*

The State Committee for Co-operation and Investment (SCCI) is the government body responsible for matters relating to administration and management in both the public and the private sector. It is the only body that has the responsibility and authority to settle questions arising from the investment operations of foreign organizations and individuals in Vietnam. Its specific rights and responsibilities are as follows :

(a) To assist and guide foreign and Vietnamese partners in the negotiation and conclusion of joint-venture and business co-operation contracts ; to assist and guide foreign organizations and individuals in the establishment of enterprises with 100 per cent foreign capital ; and to act as a focal point for settlement of any matters raised by foreign organizations and individuals ;

(b) To receive applications for business co-operation or investment projects; to examine and approve business co-operation and joint-venture contracts ; to authorize the establishment by foreign organizations and individuals of enterprises with 100 per cent foreign capital; and to approve the charters of enterprises with foreign invested capital;

(c) To decide on the granting of preferential treatment to enterprises with foreign invested capital and to foreign partners operating under business co-operation contracts ;

(d) To monitor and supervise the implementation of business co-operation and joint-venture contracts and the operations of enterprises with foreign invested capital;

(e) To analyse the economic operation of enterprises with foreign invested capital.

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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