

# WORLDWIDE AIRFREIGHT FORWARDING TO BOOST VIETNAM'S FOREIGN TRADE



Vietnam's foreign trade really experienced progress since the Vietnamese Communist Party's sixth congress decided to transform the centrally planned economy into the market economy. Previously, Vietnam's major markets included former Soviet Union and East Europe, the trade was implemented on the base of protocols signed by the two governments and barter agreements. From 1990 on, when these markets collapsed, the Vietnam's foreign trade eyed new markets, West European, East Asian and Southeastern countries. They are hard-to-satisfy markets requiring high-quality goods including fresh food, seasonal commodities which need fast delivery

other than shipping. To meet these demands, foreign forwarders have set their foot on Vietnam and made a new supply, that is international airfreight forwarding.

#### Current international airfreight forwarding

Prior to 1990, there were other airlines in addition to Vietnam Airline, comprising Air France and Aeroflot (USSR). They mainly carried passengers to West Europe and former USSR. The planes were chiefly small and low capacity ones which lacked facilities and commercial utility such as TU 134, YAK 40 and IL 18. The volume of goods transported by planes was trivial and consignors had airlines directly carry their goods at the airports. Air transport really boomed since 1993 and by 1997

there were 47 nations signing air transport agreements with Vietnam. As many as 22 airlines belonging 17 nations have regular routes to Vietnam, some 50 air carriers of 40 nations pass by Vietnam on a fixed schedule and hundreds of international forwarders operating in Vietnam via local businesses as their agents.

#### Seasonal features of goods transported by air

The peak time to export Vietnamese goods is July, August and September for winter consumption. The commodities taking a large ratio include garments, textiles, shoes and handicrafts (60%); and fresh and frozen food (20%). After the New Year holidays, March is the peak time with double volume of exports, mainly to Japan and West Europe for sum-

mer and autumn consumption. Particularly in 1996 the exports amounted to 2,310; 2,613 and 2,514 tonnes in July, August and September respectively against 1,388 tonnes in January.

#### Air transport capacity increased fast

There are only 5 among 22 airlines flying from Europe with less flights than that of Asian carriers. Therefore, a large volume of exports to Europe and North America is carried by regional firms such as Taiwan, Hong Kong, South Korea and Thailand. These nations have the same consumer markets as Vietnam, when the Vietnamese exports soar, so do their commodities. Consequently, exports from Vietnam suffer delaying. In the peak time, they have to wait for loading even in 7-10 days.

The whole goods are carried by passenger aircrafts or combined ones. During the European and Asian festivals, the amount of passengers and their luggage is large, so the capacity for goods transport reduced by 20 to 25% against normal periods. In Tân Sơn Nhất Airport the warehouses must keep 150 to 200 tonnes of goods waiting for transport even in a day. Many cargoes have gone through customs from 5 to 7 days before the flight. Even some cargoes had to be shipped to Seoul, Hong Kong and then carried by air to Europe,

**Table 1: Airfreight Supply and Demand (tonne/month)**

Targets	1994	1995	1996
Total capacity	2,894	3,717	4,306
Total Commodities carried	1,421	1,616	2,081
Direct capacity for Europe	476	684	892
Capacity for other nations	2,418	3,033	3,414
Goods carried to Europe	579	571	750
Goods carried to Europe in the peak time	984	928	1,098
Exports/capacity to Europe in the peak time	2.06	1.35	1.23
Capacity/exports	2.03	2.30	2.06

(Source: Some airlines' reports)

increasing freight charges.

According to the above table, we see that the capacity was double the real freight in 1994, 2.3 and 2.06 times in 1995 and 1996 respectively. The monthly average volume transported to Europe is approximate to the capacity of airlines directly coming from Europe, therefore in typical months, the space for goods on aircrafts flying to Europe is always available, for example, the

strains of transport, the capacity often exceeded the exports which needed transport.

Therefore, the transport costs dropped drastically over the past years: For the far distance such as Europe and North America, the costs went down by 25.8% as compared with 1993, an annual fall of 7.1% on average. The costs dropped because freight supply rose in terms of quantity and quality.

*Customs formalities have many obstacles:* Although the customs formalities have been simplified, goods were classified to pass through various gates according to their magnitude: Green gate: accounting for 60-70%; yellow gate: 20-30% and red gate: 10%. However, many firms complained the formalities were still cumbersome, the time to complete the procedure for a cargo (not mentioning the time for

as Luxemburg, Germany and Switzerland, more than 1,500 dossiers are settled in two hours. Only cargoes having the same day to send, the same time to fulfill the customs formalities and the same commercial features (trade, non-trade) can be consolidated into a large one.

The clients can directly have airlines consign their goods at the airport warehouses. This consignment made right at the airport easily causes congestion, and it's hard to control the order and the time to complete the consignment is slow.

The international airfreight forwarding has grown fast in Vietnam over the past years as some countries in the region. Nevertheless, it is still far behind door-to-door and just-in-time-delivery services in European and North American developed markets. As a result, their profits in international airfreight are rather high.

**Table 2: Airfreight Charges over the Past Years (unit: US\$1 per tonne)**

Markets	1993		1994		1995		1996		1997		1997 against 1993
	Charges	Charges	Charges	Against 1993	Charges	Against 1994	Charges	Against 1995	Charges	Against 1996	
West Europe	3.1	2.8	-9.6%	2.5	-10.7%	2.4	-4%	2.3	-4.1%	-25.8%	
Japan	2.4	2.35	-2%	2.1	-10.6%	2.0	-4.7%	1.95	-2.5%	-18.7%	
Hong Kong	1.5	1.4	-6.6%	1.3	-7.1%	1.3	0%	1.3	0%	-13.3%	
Taiwan	1.3	1.2	-7.6%	1.15	-4.1%	1.1	4.3%	1.1	0%	-15.3%	
East Europe	3.8	3.6	-5.2%	3.5	-2.7%	3.6	+2.8%	3.4	-5.5%	-10.5%	
North America	4.1	4.1	0%	3.1	-24.3%	3.1	0%	3.0	-3.2%	-26.8%	

(Source: Reports of airlines from 1993 to 1997)

ratio between capacity and monthly average tonnes of exports to Europe were 476/579; 684/571 and 892/750 in 1994; 1995 and 1996 respectively. In the peak months, the amount doubled the capacity, for instance, 476/984; 684/928 and 892/1,098. In contrast, the short distance such as Saigon-Hong Kong, Saigon-Japan or from Saigon to Southeastern nations, there was less

*Small single cargoes gathered and transported by air:* Small cargoes were packed into a big one using a master airway bill to reduce airfreight charges and increase profits. But goods consolidation has faced many difficulties due to weak management and troubles in procedures of granting permits for construction, business and customs verification outside the port.

declaration) was still slow: 4 hours for green-gate goods and 8 hours for yellow-gate ones. There are too many inappropriate documents, a lot of cases had to wait agencies' comments, prolonging the time to complete the procedure. On average, the HCMC Customs Office settles 1,358 registered dossiers and 1,272 dossiers are through per day, while in such developed countries

Some proposals to strengthen Vietnam's worldwide airfreight forwarding for the country's foreign trade, industrialization and modernization:

Because the volume of goods transported by air jumps by 18% to 20% as at present, it is forecast until 2000, it will reach 127,629 tonnes and 431,644 tonnes in 2010. Thus, the airway transport technology must be mod-

ernized, capacity increased and management bettered.

- *Means of transport:* transporting goods by making use of empty space on the passenger aircraft is suitable in the current circumstance, but this practice will cause pollution. The categories of goods will be limited in terms of size and weight. As a result, local fleets of freighters should be

Singapore, Taiwan, and South Korea. Therefore, local airlines should use only these freighters for major markets in Europe: Paris, Luxemburg, Brussels...then sign contracts with sub-contractors which are foreign land transporters and forwarders acting as agents for local firms if they have enough trucks to carry goods to neighboring cities.

Europe and South Europe, the costs will be cheaper than that of chartering aircrafts of Taiwan, South Korea, Hong Kong because firstly cargo will be transported to airports in Seoul, Taipei and Hong Kong, then to the European destinations.

*Organizing the network of consolidation warehouses:* Here small single cargoes will be received

after being granted quotas as at present which leads to the lack of carrying space and prolonging the peak time.

Regarding the IATA's agents, forwarding companies represent for the airline to receive cargoes, weight them and figure out the freight charges and issue master airway bills. Then they will plan the loading of cargo.

Table 3: Airfreight Market Structure (%)

Markets	1994	1995	1996	Markets	1994	1995	1996
1, Southeast Asia	23.1	17.6	12.6	Taiwan	2.8	5.7	6.0
Thailand	8.9	8.1	5.0	Hong Kong	19.2	16.5	14.5
Malaysia	7.0	6.1	4.1	3. Europe	41.3	35.8	36.6
Singapore	7.2	3.4	3.5	East Europe + Former USSR	17.2	6.2	3.2
2, East Asia	32.4	39.2	41.7	West Europe	24.1	29.6	33.4
Japan	8.4	15.0	18.0	4. North America	0.9	3.1	4.0
South Korea	2.0	2.0	3.2	5. Australia	1.1	2.4	2.3
				Others	1.2	1.9	2.8

(Source: Tân Sơn Nhất Airport's Statistical Yearbook)

built in forms of hiring or purchasing new ones. Forwarders should prefer sending goods by these freighters.

- *Regarding markets:* after carrying imports of materials and spare parts for local manufacturers and exporters, the forwarder should contact regularly and invite them to use his transport services with the aim to make the two-way transport. The firms should also pay attention to traditional markets such as Russia and former East Europe and intercontinental markets such as West Europe, East Asia, Southeast Asia and step by step penetrate into potential markets such as the U.S. and Canada.

Firstly Vietnam should focus on linking Tân Sơn Nhất and Nội Bài Airports with airports in Paris, Amsterdam, Tokyo, Osaka, Hong Kong, and Singapore by combined aircrafts. The freight to regional countries will find it hard to compete with airlines of

- *Regarding source of commodities:* Vietnam is currently implementing garments orders from developed countries with a view to creating jobs and industrializing the economy, it is estimated until 2005 these goods were still major exports carried by airway, in addition, new goods such as assembled electronic appliances; equipment and machinery will arise in the process of industrialization and modernization. Exported frozen food and marine products will also soar.

To deal with the jam of goods exported to Europe in the peak time or the delayed delivery at the transit ports when using services from regional airlines, Vietnam should carry cargo by its own freighters to raise the transport capacity at the airports in HCMC and Hà Nội, flying from Vietnam to Europe. Regarding distance, when sending cargo by freighters directly from Vietnam to West

and consolidated into a bulk cargo to be carried. Here is also the place to break bulk cargoes. These warehouses should be built near the airport. The Government builds them for lease, or plans for businesses' investments. These warehouses may be bonded ones outside the ports. The specialized warehouses should be set up for storing chemicals, flammable materials and frozen food. Using the scanning equipment and bar code to secure the storage exact, safe and fast.

Customs clearance should be suitable for collecting goods, many cargoes should be permitted to use the same master airway bill regardless of localities, form or time of sending.

The mechanism to allocate garments quotas for the next year or supplement quotas should be implemented regularly during the year, avoiding the peak time of exporting garments at the end of the year

Stopping the direct consignment from exporters to airlines at the airport because these activities easily cause confusion hard to control. The cargoes will be received by the IATA's agents at the collecting stations in a separated area.

Perfecting the customs agent's services along with the sending of goods at the collecting stations. Forwarders will on behalf of their clients complete the customs formalities in order to reduce the labor costs where every exporter set up a department specialized in customs clearance.

Applying computers in customs services for exports and imports, for example, using the electronic data interchange (EDI) network linking computers from the forwarder to the customs office in the customs entry. As a result, a form of electronic documents will take place and should be recognized by law as official documents.

This will save much time as compared with the current manual transfer of documents. In Germany, Sweden, Luxemburg, Japan, South Korea, the EDI network will be widely applied to the control of exports and imports. At present, Vietnamese customs offices is using SYDONIA but this is just a local network.

Studying the issuance of the customs law which clarifies the services of customs brokerage to legalize this operation. The name and code of goods should be identical between the Customs, Ministry of Trade, export and import companies, and forwarders. The customs formalities should be further simplified. The regulations should be transparent to avoid disagreement between customs officers, clients and relevant authorities.

Building cargo hubs and distribution networks. These centers will collect goods for consigning and receive imports to deliver to small cities, towns and enterprises...

cities such as Hải Phòng, Nha Trang, Cần Thơ...will be points I, H, G, E...These two hubs will be the Vietnam's gates linking with other ports in the world using large aircrafts such as A340-300, B747-400. The freight frequency should be heightened to minimize freight charges, the time for loading reduced and the demand for freight increased. The points I, H, G...will connect with A and B by small planes or trucks.

The forwarders should establish distribution centers at the focal economic areas to supply the package logistics services with the aim to add the value to goods, serving the industrial parks and export processing zones. The forwarder will carry components, machinery and materials for factories assembling autos and electronic appliances between local and overseas plants or distribute their products on the market. According to Mr. Vicent Lee, Deputy Director of Concord Express, via package logistics services, enterprises pro-

and deliver goods with specialized equipment to carry project goods and bulk cargoes. Supplying services dealing with export and import documents such as goods origin certificates, airfreight insurance contracts, permits from competent agencies...

Regarding personnel, employing the staff with good experience and understanding in foreign trade, especially adept at foreign language. Organizing training courses for agents of the International Air Transport Association, and FIATA. Training officials specializing in dangerous goods to deal with flammable and explosive goods and chemicals in line with the regulations on safe airway transport.

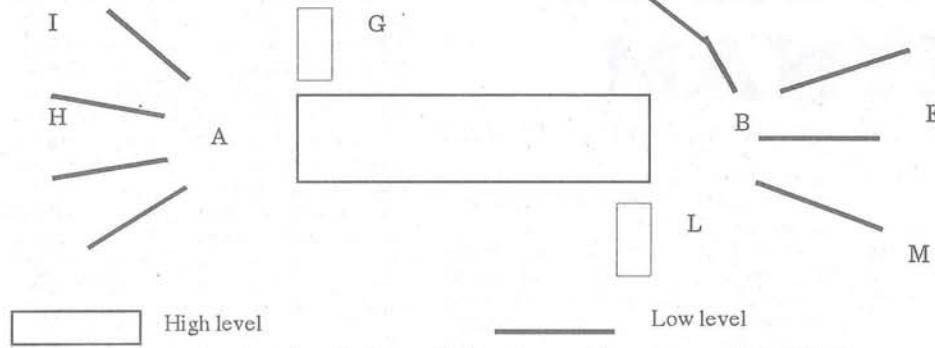
In short, in the process of industrializing and modernizing the country, in addition to attracting the foreign investment, Vietnam should speed up its foreign trade. The Vietnam's sector of international forwarding can contribute to the development of foreign trade only if it brings its internal

aim to boost the competitiveness and expand the overseas markets for local products. ■

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The Chart of Cargo Hub and Distribution Network



A and B are transport destination or big cities. The cargoes with large quantities are carried from A to B and vice versa frequently; A1, AH, AG, BE, BM, BL...have few demands with low frequency; I, H, G, E, M and L are small cities or factories linked with the nearest destination. Vietnam should build cargo hubs in Hà Nội and HCMC (points A and B) and other

ducing electronic appliances could shorten the time from accepting the orders to delivering products to the client from 5-6 months to 2 months. This kind of service will bring a return rate from 3 to 4 times higher than that of production and from 1.2 to 2 times than that of other foreign trade operations.

Investing in inland transport fleet to receive

sources into full play, completely apply forwarding technologies with a view to improving the service quality and satisfy its local and foreign clients up to the international standard. The worldwide forwarding must earn more foreign currency for the country. It includes not only forwarding and carrying services but also value-added services such as distribution, logistics...with the