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EXECUTIVE SUMMARY

1.1 ECONOMIC GROWTH AND GOVERNMENT POLICIES

Vietnam has seen rapid economic growth after adopting economic reforms in 1986, making the nation one of the fastest growing economies in Asia. The ongoing efforts of the Government towards international economic integration such as the forming of bilateral trade agreements, attaining memberships of the ASEAN Free Trade Area (AFTA) and, most recently, accession to the World Trade Organisation (WTO), has led to further rapid changes in Vietnam's trade and economic regime. Favourable government policies for industrial activity have led to the growth of Foreign Direct Investment (FDI) flows and the establishment of more privately-owned Vietnamese enterprises. This has given great momentum to the nation's industrial sector and resulted in the multi-fold growth of its international trade.

However, to continue its impressive economic growth, Vietnam needs to address challenges such as reforming its regulatory environment and legal framework and, equally important, improving the infrastructure for the transportation and logistics sectors.

Transportation and logistics have been central to Vietnam's development. This detailed study shows that transportation and logistics can continue to be facilitators of Vietnam's economic progress, but there are a number of potential challenges that must first be addressed.

1.2 KEY FINDINGS

Shipping Market and Trade

The rapid growth of the Vietnam economy and its increased integration into the global trading system has seen Vietnam's external trade volumes accelerate during the last five years. In this period, exports to Europe and the United States (US) have been growing at a faster rate than Asian volumes. However, the Intra-Asia trade continues to dominate the shipping market in Vietnam representing an estimated 37 percent of total throughput volume in the country. Due to the lack of deep water port facilities in the country, Vietnam can only be served by smaller feeder ships of less than 25,000 deadweight tonnes (DWT) (approximately 1,600TEU Twenty-Foot Equivalent Unit for container ships). Ho Chi Minh City, Haiphong, Cai Lan, Quinhon and Danang ports have regular weekly container services by all leading shipping companies.

Presently, the Vietnam shipping industry is dominated by international carriers who are able to provide global coverage and a wide range of services. The local carriers are largely focused on domestic and regional shipping services within South East Asia. As a result of the terms for accession to the WTO, Vietnam has allowed foreign shipping companies to establish joint ventures with majority foreign ownership.

A number of foreign shipping lines have also been granted licenses to operate fully owned companies in Vietnam. This includes APL - a subsidiary of Singapore's Neptune Orient Lines (NOL). APL is one of the top three international carriers in Vietnam with a leading market position in Vietnam's trades with the US, Europe and the Middle East. The company also provides regular shipping services to and from the rest of Asia, Australia and South America.

Port Sector

Vietnam's 3,260km coastline has 126 ports; of which 24 handle ocean cargo. The management of ports is done by Vinamarine (Vietnam National Maritime Bureau), a unit of the Ministry of Transport and Communications (MOTC). Vinalines, another unit of MOTC, is the owner and operator of the largest fleet of commercial ships in Vietnam.

Over the last 10 years, containerised throughput within the country has been growing at about 19 percent per annum. However, Vietnam's port sector is facing a number of critical challenges, including the lack of deep water ports that can receive larger ships; old and inefficient port facilities; and suboptimal landside infrastructure.

Ho Chi Minh City, through which more than 70 percent of Vietnam's container throughput passes, is a critical gateway for both imports and exports. However, potential congestion issues are expected to arise in its ports within the next five years as port capacity expansion plans lag behind the projected growth in container volumes.

Foreign port operators are increasingly seeking to develop and manage new facilities in Vietnam, with several licenses approved in 2006. The majority are focused on developing alternative ports near Ho Chi Minh City. Efforts are also in progress to develop an international transshipment port at Van Phong Bay (near Nha Trang) and at Cai Lan in Quang Ninh province in the north.

Air, Road and Rail Transportation

The transportation sector has had a positive impact on Vietnam's economic emergence. However, challenges such as capacity constraints and high accident rates due to rapid urbanisation must be addressed. The sector also lacks coordinated policy planning, sufficient budget and suffers from various regulatory and procedural deficiencies.

Like the seaports, Vietnam's airports are also facing severe capacity constraints. The country's 21 airports, including three international facilities - Noi Bai in the north (Hanoi), Danang in the central region and Tan Son Nhat in the south (Ho Chi Minh City), are operated by the Civil Aviation Administration of Vietnam (CAAV). To meet the growing passenger and freight traffic needs, the Government has plans to develop a total of 18 domestic and six international airports by 2015, at an estimated cost of US\$7.2 billion.

Of Vietnam's 222,179km of roads, only 19 percent are paved. Among all the transportation segments, the roads receive 80 to 90 percent of Government funding. However, multiple levels of jurisdiction involved in financing and implementing road reforms make the administration of this sector highly complex.

The rail network in Vietnam is regulated by the Vietnam Railway Administration and operated by the Vietnam Railway Corporation. Both are government bodies. Currently, railways are the least utilised mode for transporting cargo within the country, mainly due to poor service quality and high costs. Despite plans to connect to the proposed Trans-Asian railway network and a new express railway project, transportation by rail is not set to play a crucial role in the near future.

Logistics Landscape

Vietnam's logistics industry is in its infancy. A large part of the country's logistics network has not been implemented in an integrated manner, resulting in a total logistics cost (between 15-20 percent of GDP) that is nearly double that of more developed nations. The inefficiencies of the air and ocean transportation system and a lack of supporting infrastructure on the landside, including warehousing and depot facilities are hampering the growth of efficient logistics practices in the country.

Logistics outsourcing is also nascent, with the end users getting their discrete logistics needs fulfilled through fleet operators and freight forwarders, many of which are small local operators. Service providers face several challenges, including inconsistent regulations across various levels of administration and a lack of skilled manpower. The industry is highly fragmented with an estimated 800 operators competing for business. Most operate on a small scale and have limited coverage, service range and information technology (IT) capabilities.

However, Government initiatives to improve logistics infrastructure and increased participation of international operators are expected to improve the logistics landscape in Vietnam.

Cold Chain

Vietnam's agricultural and aqua-products sector contributes 30 percent of GDP. The country is also a major exporter of seafood, rubber, rice and coffee. A significant volume of these exports need specialised storage systems and in the case of seafood, an integrated cold chain network. Currently, there is a significant shortage of these facilities in the country, which presents major opportunities for multinationals. With the growth in trade and the opening of new markets, both domestic and external, demand for cold chain facilities is expected to rise significantly.

To support the growing cold storage needs of the food processing industry, a number of international logistics companies have launched initiatives aimed at improving facilities and infrastructure, which include acquiring advanced technologies and techniques from developed nations.

1.3 FUTURE OUTLOOK

Vietnam's economy is expected to continue to grow at above 8 percent for the next five years and between 7 and 8 percent in the following five years. Economic activity will continue to be concentrated around the top six provinces, including those adjacent to Ho Chi Minh City and Hanoi. The share of the industrial and services sectors within GDP composition will continue to grow.

Economic reforms are expected to accelerate, driven by market demands and the need for compliance with the terms of WTO accession. Government policies are expected to focus on transforming Vietnam into a market economy and continuing international economic integration. Finance from international donors is not sufficient for the growing needs of the country. The Government needs to increase efforts to secure additional assistance and additional FDI, particularly for infrastructure development.

Proposed new ports around the two major economic centres of Ho Chi Minh City and Hanoi could result in a significant improvement of infrastructure. The development of deep water ports is also likely to significantly boost international cargo activity linked with Vietnam. Foreign port operators are likely to expand their operations in developing and managing new ports in Vietnam. There is a critical need, however, to develop road and landside infrastructure in order to facilitate the efficient movement of the increased volume of goods.

Upgrading of the existing airports at Ho Chi Minh City and Hanoi to support larger volumes of cargo is also urgently required. The increased emphasis placed on developing the electronics and hi-tech sectors by the Government will give renewed impetus to further develop its air facilities, as these products require more sophisticated and secure modes of delivery and shorter transit times. The earlier development of the new international airport at Long Thanh, in the province of Dong Nai next to Ho Chi Minh City will bring about much needed additional capacity. Again, the concurrent development of an improved road network to connect to the new airport will be required to avoid the creation of new bottlenecks.

Leading international logistics companies are expected to expand their presence in Vietnam through direct investment and joint ventures. The operating environment for service providers is likely to improve as the understanding of the benefits of an integrated logistics system increases among policy makers and end-users.

1.4 KEY TAKE-AWAYS

- 1) Vietnam has enjoyed the fruits of economic reforms under the 'Doi Moi' process launched in 1986, and the preceding two decades have seen the economy progressing at an exemplary pace. The healthy growth is expected to continue further as a result of its accession to WTO.
- 2) Over the same period, Vietnam's exports and imports have grown multi-fold. While the country continues to be in a chronic trade deficit, the gap is expected to narrow as the export industries will mature and catch up with imports. The experience of its neighbours, in particular that of China, will serve as a useful example of how to manage the growth of the next 20 years.
- 3) Currently, Vietnam's economic activity is highly concentrated in six provinces - Ho Chi Minh City, Dong Nai, Binh Duong, Ba Ria-Vung Tau, Hanoi and Haiphong, which represent the lion's share of its trade and industrial activity as well as FDI-related projects. This has led to an imbalance of development between provinces and has also resulted in infrastructure bottlenecks, as well as rapid urban price inflation.
- 4) As of 2006 estimates, Vietnam had acquired about US\$60 billion in FDI, directed towards more than 6,000 projects. Ho Chi Minh City was the leading FDI project destination followed by Hanoi. The FDI inflow will continue as more investors realise the potential opportunities that the country has to offer.

- 5) However, the complex legal and regulatory environment, arising from an uncoordinated model of policy implementation, is a major concern for private and foreign investors. This is a significant reason for the low participation of private investors in critical sectors such as infrastructure development.
- 6) Vietnam has good potential to develop into a major Asian shipping hub. However, the lack of world-class deep water port facilities is limiting its potential to fully develop shipping and related industries. Encouraging the participation of international shipping and port operators would add great momentum to the sector. However, there will be a need for greater transparency in policy making and to place greater emphasis on economic considerations over political expediency.
- 7) In the past decade, Vietnam's containerised volumes have grown every year by almost 20 percent, but the delay in upgrading and expanding of ports has resulted in continued inefficiency and potential congestion problems. Weak landside infrastructure is another major concern for both service providers and users.
- 8) The road transportation segment in Vietnam is still under developed compared to many other countries in the region. There is a need for new road networks to be developed especially in the major urban areas that are facing increased congestion problems. An improved road network will also open up more suburban and rural areas to development and provide new opportunities for the rural population to share in Vietnam's economic success.
- 9) The rail and air transportation network lag significantly behind international standards and hence account for a low share of the overall transportation market. The improvement of these networks will greatly enhance the country's ability to develop its domestic and international connectivity. This will bring significant benefits to its trade growth as well as the transportation, logistics and tourism industries.
- 10) Lastly, the development of its logistics industry will significantly enhance Vietnam's competitiveness through the reduction of transportation and inventory costs, shorter lead times for delivery to destination markets and an overall improvement in the efficiency and security of the movement of goods and materials. Currently, logistics costs are a significant contributor to the high cost of doing business in Vietnam. Over the last 10 years, increased competition and the improved level of logistics services has significantly reduced this cost. There is an opportunity to improve this further through investment in new infrastructure as well as new processes and technology to meet international standards.