

Vietnamese Port Facilities and Logistics Development Overview



Wann Shang Jye, Joseph
General Director
First Logistics Development (JV) Company

1. Overview of Vietnam's economy

Vietnam remains one of Asia's fastest growing economies with 8.4% GDP growth in 2005, the highest level in the past nine years, up from 7.7% in 2004.

Vietnam's economic prospects continue to brighten. The economy is rapidly moving from a planned economy to a market-oriented economy, with several key developments which should boost Vietnam's long-run sustainable growth rate, while also helping to prepare the country for accession to the World Trade Organization.

Vietnam is currently the second fastest growing country in East Asia behind China, ahead of Thailand, Malaysia, Singapore, Indonesia and the Philippines. Vietnam, however, is one of the poorest countries in the region, with a per capita income of just USD640 per annum in 2005. This suggests that Vietnam has the potential to catch up and should continue to enjoy strong growth, following the example of other South East and East Asian countries.

WTO accession should also boost foreign investor confidence. An increase in Foreign Direct Investment (FDI) in the first month of 2006 heralds a good start for Vietnam's effort to lure FDI in the remainder of the year. The total capital of newly licensed and capital-increased projects for January 2006 was estimated at USD444 million, up 12% from the same period last year. As Vietnam starts to sign trade deals and joins the international trading system, even more investments will be expected. Furthermore, government efforts are being made to tackle corruption which foreign investors see as a major hindrance to doing business in the country. Laws planned to simplify foreign investment procedures, regulate the tender process and deal with graft should all boost investment.

Although many investment managers have given a positive assessment of Vietnam, investors also point out that Vietnam's investment environment would be more attractive if the country improves its infrastructure, especially in energy, telecommunication and seaports.

2. Infrastructure for logistics

Ports: Many ports in the Vietnam Port System are very old and out-of-date. They are shallow in draft and their yard and warehousing systems are insufficient for accommodating containers and cargo. Today there are only a few ports with modern handling facilities and equipment to serve big ships. Freight forwarding activities are conducted mainly in big cities and their suburban areas such as Ho Chi Minh City, Hanoi, Hai Phong, Da Nang, and Qui Nhon.

Airports and airlines: There are about 100 airports throughout Vietnam, but only three serve international routes. There are only two national airlines, Vietnam Airline (state-owned) and Pacific Airline (joint-stock), which are basically passenger carriers. Vietnamese freight forwarders use

these two lines for approximately 20% of their cargo volume, whereas the other 80% is contracted to the foreign airlines market.

Land transportation: The road system of Vietnam is about 106,000 km long. Land transport accounts for about 65% of domestic passenger and cargo transport. Pre-export and post-import legs for door-to-door shipments require land transport. Generally speaking, roads in Vietnam are limited in quantity and bad in quality resulting in traffic congestion and posited negative impact to logistics activities.

Railways: The railway system in Vietnam is about 2,600 km long. Container transport by rail in Vietnam is still at its primitive stage and operated only by the state-owned Vietnamese Railway Company.

Inland waterways: The total length of the inland waterway (IW) system is about 40,998 km, mainly in the Red River Delta and the Mekong Delta. In the past few years inland waterway transport accounts for about 30% of the domestic cargo transport volume. While land transport is very limited as mentioned above, inland waterway transport is very advantageous in serving transport in the Mekong Delta linking to Cambodia.

3. Freight forwarding and logistics activities

According to official statistics of VIFFAS (Vietnam Freight Forwarder Association) there are currently more than 800 freight forwarders in Vietnam, with 18% of them owned by the state, 70% privately owned, 10% non-registered and about 2% made up of foreign logistics companies.

All freight forwarders are able to provide simple logistic services such as customs declaration, trucking, and warehousing.

About 80% of them need to outsource warehousing and trucking services. Today, only 10% of Vietnamese freight forwarders are able to provide consolidated service at their own warehouses (or their contractors' warehouses). They issue House B/L but only some of them buy Civil Liability Insurance for transport operators.

Thanks to internet development, some Vietnamese freight forwarders have cooperated with foreign MTOs (Multimodal Transport Operators) at ports of discharge under a sub-contract to arrange transport to the final destination by a single B/L. However, due to the lack of modern IT, international networks as well as information and experience in logistics, local logistics companies have very little chance to provide total logistics services in Vietnam. Basically, this market mostly is shared by the big foreign companies with global networks.

4. Overview of Vietnamese port system

(1) Port management body in Vietnam

The port management system in Vietnam is very much diversified. For example:

VINAMARINE, which is under the direct control and management of the Ministry of Transport, manages three ports - Nghe Tinh Port, Qui Nhon Port and Nha Trang Port.

VINALINES (Vietnam National Shipping Lines), which is also under the direct control and management of the Ministry of Transport, is the state-owned company responsible for shipping activities in Vietnam. It manages Hai Phong Port and Quang Ninh Port in the north, Da Nang Port in central Vietnam, and Sai Gon Port and Can Tho Port in the south.

Local governments, such as cities and provinces, also take part in port management. For instance, Ben Nghe Port is directly under the supervision and management of the Department of Transport and Public Works of Ho Chi Minh City.

State-owned corporations under other central government ministries are also another type of port management body in Vietnam. Some state-owned corporations, which are under control of provinces and cities, also manage ports. For example, Hon Khoi Port is managed by a salt company under the control of the People's Committee of Khanh Hoa province.

The participation of the private sector in port management in Vietnam is still very limited. There are only two ports with private sector participation so far:

Table 1: Vietnam's port management system

Port management bodies	Administrative government bodies	Examples of ports
VINAMARINE (Vietnam Maritime Administration)	Ministry of Transport	Ports of Nghe Tinh, Quy Nhon and Nha Trang
VINALINES (Vietnam National Shipping Lines)	Ministry of Transport	Ports of Hai Phong, Quang Ninh, Da Nang, Saigon, Can Tho
Departments of local governments	Cities or provinces	Ben Nghe Port of Ho Chi Minh City
State-owned corporations	Various ministries, such as Ministries of Industry, Defence, Trade, etc.	Cam Pha Port, Saigon New Port
State-owned corporations	Cities or provinces	Hon Khoi Port
Joint-venture corporations	Ministry of Planning and Investment, Ministry of Transport	Ba Ria Serece Port, VICT

(source) Compiled from various sources

- (a) Ba Ria Serece in Phu My (Vung Tau province), a joint-venture between French and Vietnamese partners.
- (b) VICT, a joint-venture between NOL of Singapore, Mitsui & Company of Japan and Southern Waterborne Transport Company of Vietnam.

The practice of a diversified port management system in Vietnam has resulted in some basic problems.

Due to the fact that port administration in Vietnam falls under the control of different government ministries and/or local agencies, the focus on port investment is disbursed unequally between ports. This may lead to the situation where a port that is considered very important for enhancing economic growth of a region or nation faces a lack of investment.

On the other hand, capital investment into a port might not be justified by the scope of its services because ports that belong to different ministries can have their own development plans on the basis of specific requirements of the respective ministry.

The participation of VINAMARINE as the direct supervisor and manager of three aforesaid ports can be described as another typical example of a popular phenomenon in Vietnam, whereby one can act as both a referee and a player in the same field. It is worth pointing out that VINAMARINE is not only a state administration agency of the government but also oversees the commercial activities of the industry. To some extent, this indicates clearly the overlap in arrangement and delegation of the government's functions and responsibilities in the maritime sector.

(2) Port productivity

The following records indicate current handling productivity under normal working conditions of some selected ports:

Table 2: Handling productivity (container) at selected Vietnamese ports

	Hai Phong	Qui Nhon	Sai Gon New Port	Sai Gon	VICT
Handling productivity (Boxes/crane/hour)	12	12	15	12	25

(source) Compiled from information collected from above ports

The above figures show that, with the exception of VICT, handling productivity at key Vietnamese ports is still relatively low compared with other ASEAN ports in the region, which can reach about 25 boxes per unit crane per net working hour. Low productivity can be attributed to the absence of specialized handling equipment such as ship-to-shore gantry cranes at some ports, poor yard planning and traffic flow, and lack of international standard expertise. Handling productivity at the quay side is very important since it directly relates to the vessel's turnaround time at the ports, which can be translated into the economic benefits of the ship operators.

(3) IT and EDI application

Today IT and EDI in shipping and port operations and management are vital, as these systems make

up the “software” or the information structure of any port or terminal. The advantages of such systems are to minimize human error, save time, simplify procedural documents and enhance overall efficiency by the accurate relay of information and data. Moreover, IT and EDI also bring about the tangible advantage of laying the foundation for e-commerce and business in ports and terminals. The current practice of information structure at selected key Vietnamese ports is found as follows:

Table 3: IT & EDI application at key Vietnamese ports

IT & EDI Application	Hai Phong (1)	Qui Nhon	Sai Gon (2)	Saigon New Port	Ben Nghe	VICT
Internal management system	YES	NIL	PRELIMINARY	PRELIMINARY	NIL	YES
EDI links	NIL	NIL	PRELIMINARY	PRELIMINARY	NIL	YES

(1) At Chua Ve Container Terminal

(2) At Khanh Hoi Terminal

(source) Compiled from information collected from ports

(4) Hinterland connection

The port’s hinterland is defined as the area behind the port in which total logistics cost for shipments coming and going that serves as a basis of comparison between ports. The means of connection between ports to its hinterland include road (highway), railway and inland waterway. Since a port can be connected with its hinterland by road, rail or inland waterway, the total logistics cost of the shipment is affected by the following factors:

Road conditions and any hindrances, such as toll stations and traffic congestion status, that will affect the shipment transit time and costs.

The following table indicates the connections of some selected key Vietnamese ports to their hinterlands.

Table 4: Hinterland connectivity of key Vietnamese ports

Ports	Connections to hinterland		
	Highway	Rail	Inland Waterway
Hai Phong	✓	✓	✓
Da Nang	✓	✓	✓
Qui Nhon	✓		
Sai Gon	✓		✓
New Port	✓		✓
Ben Nghe	✓		✓
VICT	✓		✓

(source) compiled from information collected from ports



Hai Phong Port and Da Nang Port are the only two ports in Vietnam with full connection to their hinterlands by road, rail and inland waterway. Hai Phong Port has good connections with Highway No. 5 and the railway linking Hai Phong and Ha Noi.

In Qui Nhon Port, road is the only transport mode to connect with its hinterland. No port in the Ho Chi Minh City area has a rail connection, but all of them are linked with the national waterway network of the Mekong Delta and to Cambodia.

Ports in the Ho Chi Minh City area suffer heavily from badly maintained roads, and the only cheap and environmentally-friendly mode of transport to reach Dong Nai and Binh Duong provinces is by barge, yet it is time consuming and not as flexible as road transport. Under such conditions, inland waterway should be promoted as the main transport mode to connect the ports’ hinterlands in the Ho Chi Minh City area so as to alleviate the burden borne by the road networks. Railway links also need to be developed in future port planning.

(5) Improvement of port operation and management

Handling productivity and utilization of facilities should be further improved to, at least, the same as regional standards.

All ports should further improve their function time reliability for all port-related activities so as to operate on a round-the-clock basis.

Port and terminal tariffs should be reviewed and further restructured to standardize and simplify for transparent costing to shippers.

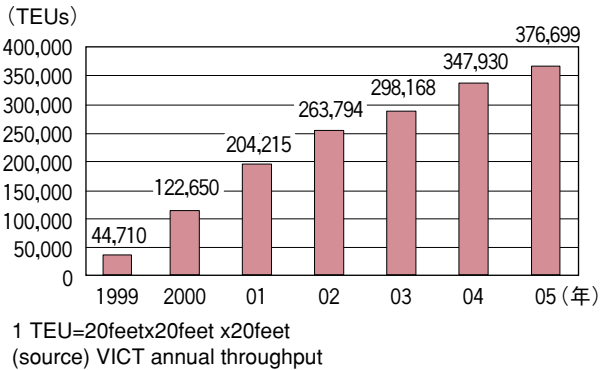
IT and EDI should be intensively applied in port operation and management in order to facilitate transactions between the port and its users.

The ports' hinterland connections should also be developed in line with the port development.

Human resource development plays a very important role in the functioning of ports. As the cargo volume grows rapidly in Vietnam, together with development of new technology and know-how in port operations and management, terminal staff members need relevant skills and knowledge to do their work. Training of staff members is therefore critical for Vietnamese ports.

Ports should develop their facilities to offer more value-added services in order to meet growing logistics demands.

VICT's annual throughput



5. Overview of Vietnam International Container Terminals (VICT)

Vietnam International Container Terminals (VICT) is wholly owned and operated by the First Logistics Development (JV) Company (FLDC) which was incorporated on 22 September 1994 following the investment license 996/GP issued by the State Committee for Cooperation and Investment (SCCI) and now the Ministry of Planning and Investment (MPI).

VICT is the first purposed built container port in Vietnam with the participation of foreign partners and that is privately operated and managed.

The company is licensed for a 40-year joint-venture between Southern Waterborne Transport Corporation (SOWATCO) of Vietnam and the Singapore-based MITORIENT (a joint-venture between the NOL group of Singapore and Mitsui & Company of Japan). MITORIENT holds 63% while SOWATCO holds the remaining 37% of the company shares.

VICT started its first operation in November 1998 and has been achieving impressive growth for the last few years.

The company strives for better efficiency and its customer focused strategy has set it apart from other local ports.

VICT was recognized as the 'Emerging Container Terminal in Asia' at the Lloyd's List Maritime Asia Awards in 2002. It is no doubt that VICT is the leader in the Vietnam port industry as far as efficiency, reliability and port management expertise is concerned.

6. Conclusion

Vietnam is emerging as a new attractive country for Japanese manufacturers and trading houses, as well as the logistics hub for the whole of Indo-China thanks to its competitive advantages such as geographical location, low labour costs, skilled workforce, low land rental, etc.

There are, however, many issues as far as logistics infrastructure is concerned which need to be duly addressed and improved, and there is no doubt that Japanese investors have a role to play in this process.