

Topic 3: Trade Logistics Services Liberalization in Vietnam: Has it facilitated Trade?

By Dr. Nguyen Thi Nhieu
Head of Research and Training Management Dept.
Vietnam Institute for Trade - VIT, Hanoi, Vietnam

Introduction:

Logistics - (*business definition*) **Logistics** is defined as a business planning framework for the management of material, service, information and capital flows. It includes the increasingly complex information, communication and control systems required in today's business environment. -- (Logistic Partners Oy, Helsinki, FI, 1996)

Business Logistics - The science of planning, design, and support of business operations of procurement, purchasing, inventory, warehousing, distribution, transportation, customer support, financial and human resources. -- (MDC, LogLink / LogisticsWorld, 1997)

According to Vietnam New Commercial Law (2005), Chapter IV, article 233, “Logistics services are commercial activities (that are done and managed by the businessmen in contract with their clients), such as the acquisition, handling, storage, transportation and delivery of goods, custom procedures, other documental procedures, client consultancy services, packaging, labeling or other associated services...”

Why is the definition of logistics services? It is quite simple, because for most of us, Vietnamese (included the policy makers, business community and researchers), logistics services seem to be a new concept, the knowledge and awareness of logistics services are still confusing and different. The institutional and human capacity of efficiently practicing logistics services is still very weak in Vietnam. The transport, warehouse and other logistics infrastructures are in backward and deteriorated conditions... All these things seem to have serious impacts on the competitiveness of Vietnam economy and the sustainable development of Vietnam.

In order to learn and share the lessons and experiences with other countries in the Asia – Pacific region in development of the logistics services, an infant industry in Vietnam, to keep pace with the rapid and sustainable economic and social development of Vietnam while the country decides to deeply and broadly reform and integrate into the regional and global economy, I am very pleased to participate to the consultative meeting on trade facilitation and regional integration in Bangkok, Thailand.

In the framework of this brief report on Trade logistics services liberalization in Vietnam, I would like to concentrate in 3 main points as following:

1. The increasingly important role of the logistics services in the national economy of Vietnam;
2. The current situations of the Vietnam logistics industry;
3. The recommendations and solutions

Increasingly important role of the logistics services in the national economy of Vietnam

Since the Renovation came into effects in Vietnam in 1986, Vietnam has made great achievements in building economy and social development. The economic growth rate of the country is among the fastest in the world (annual average +6.5% in the period of 1991- 2000 and + 7.5per cent in the period of 2001 – 2005). It is impressing that the value of trade increases at the rate of 17.5% per year in the period of 2001 – 2005. The flows of FDI into Vietnam, after their decline in the period of 1997 -1999 (due to the serious financial crisis in the region) have strongly recovered. In 2005, the total value of FDI into Vietnam reached 5.5 billions USD and with the “second dynamic wave” flows of FDI, Vietnam could receive 6.5 billions USD of FDI

in 2006. In the same time, the country has also made enormous progress in the social development with the significant improvement of incomes and life conditions of Vietnamese. With the average per capita incomes reached over 600 USD in 2005, double in comparison with its level in 2000, Vietnam is also classified among the countries with high HDI in the same level of per capita income. In addition, the poverty reduction also made great progress. The accession to drinking water is significantly improving...

And why is the importance of TLS liberalization in Vietnam?

In the era of globalization, with the decline in tariffs, trade transactions costs are even more important in determining the competitive advantage of trading nations, especially in the case of Vietnam, we are now entering to the new stage of development with the expressive renovation to the market economy and the deep integration in regional and World economy. The rapid and sustainable development in trade, the increasing investment flows, the increasing travel demand, the modernization and industrialization of the country urgently require the acceleration, improvement and development of the logistics industry in the shake of the competitiveness of Vietnamese economy.

The current situations of the Vietnam logistics industry:

Given the differential kinds of trade logistics services, while studying the current situations of Vietnam logistics industry, I would like to focus into 4 main trade logistics services: transport, freight forwarding, customs clearance and trade information and telecommunications services. Let's go to specific services;

1. Transport services:

Transport services in Vietnam are currently constrained by to major factors, the conditions of the road network and the cost and reliability of ocean shipping services. Road transport carries about two-thirds of total domestics freight and the inland waterways taking most of remainder. Trucking services are almost completely privately operated and 91% of the inland waterways vessels are privately owned. In contrast, coastal shipping, air cargo and rail are state monopolies. While tracking costs are competitive, the condition and coverage of the national road network is limited. There is a single North – South corridor that has recently been improved and tolled. New roads are being built to provide by passes for areas that are flood prone. The domestic road network is made up of a single or two lane roads of varying standards with fair or poor maintenance.. As a result, travel speeds are low and there are the delays due both to traffic and roadside checks. The inland waterways transport is limited by the available craft and the travel speed.

The major transport problem is associated with the ports and ocean transport. All ports, with the exception of two, are state-owned. The two ports operating on foreign investments handle container and bulk cargo. The tariffs are set in US \$ by the Government Pricing Committee. Most of the ports have low productivity and expensive by regional standards. The shipping services are controlled by the government and are relatively expensive. This is due largely to the low volumes and the location of the ports away from the major hubs. The costs for container shipments of exports are high relative to those of other ASEAN countries, because all container cargo must be fed into these hub ports in relatively small vessels.

The main features of Vietnam transport services are summarized in the table 1:

Table 1: Network Size and Ownership Structure for Infrastructure and Service Providers

Sector	Scale	Construction		Maintenance	Operations
		Management	Implementation		
Roads			SOEs under MoT's	Road Management	Trucking services

National	17,300 km	MoT's PMUs	Ciencos, provincial SOEs, private sector companies	and Maintenance Companies (RMMCs) under VRA's 4 RRMUs	provided by SOEs and private sector companies
Provincial	17,449 km	Provincial PMUs; MoT's PMUs for ODA supported projects	Provincial / District SOEs and private sector construction companies.	Provincial / District SOEs and private sector construction companies. Commune labor used for maintenance of commune roads	Bus services are provided by TRANSERCO, a state owned operator under Hanoi's People's Committee, and by private operators in HCMC (the largest two operators are Saigon Bus, and SOE Saigon Star, a joint venture). HPC is about to introduce provide operators.
District	36,372 km				
Commune	131,455 km				
Total					
Urban Transport	Hanoi: 691 buses, capacity: 40,500 (2004)	PMUs under TUPWS and cities	SOEs attached to MoT, TUPWS and cities		Vietnam Railways Corporation (VRC) operates 2 passenger companies and 1 freight company
Railways	2,632 km 300 locos	Railway PMU implements investment projects MoT's PMU-W and VIWA's PMU	SOEs under VRC	Railway companies under VRC	
Inland waterways	8,000 km under national mgmt; 1,800 km under local mgmt; 83,000 boats (3.7 mil dwt)	PMUs implement new investment projects	SOEs attached to MOT and Provincial governments	<ul style="list-style-type: none"> VIWA's river stations and port authorities manage maintenance. VIWA's substations carry out maintenance of Navajids 	<ul style="list-style-type: none"> Large barges are owned and operated by both SOEs and the private sector Small country boats are private sector owned and operated The majority of ports and landing stages operated by provinces; a few key river ports operated by VIWA
Ports and shipping	80 ports 928 vessels (1.8 mil dwt)				

Sources: Ministry of Transport (2004), the transport sector development strategy to 2020

2. Freight forwarding businesses:

SOE's in-house Transport:

Many if traditional SOEs in Vietnam have long been engaged in the delivery of materials and products through their internal transport divisions, have their own trucks and drivers. According to a JBIC survey in 2000, 19 out of 28 export-oriented SOEs had in-house transport activities. They resorted to this relatively expensive and inefficient solution as local transport companies failed to achieve the required quality of service in terms of reliability and punctuality. Another concern to SOEs is the possibility of leakage to competitors of confidential information like sales volume and pricing. However some export-oriented SOEs- especially in the South- now contract their freight transport requirements to freight forwarders or independent truckers who are increasingly using containers to transport most of the freight .

Foreign and JV Freight Forwarders

Several international freight forwarders have, since mid 1990s, operated in Vietnam's logistics market. They have formed JVs with Vietnamese freight forwarders and provide international standard services to foreign manufacturers producing goods both for export and domestic consumption. The increasing presence of Japanese and other foreign freight forwarders reflects the foreign dominance of export manufacturing enterprises. The international freight forwarders represent mainly other foreign manufacturers, e.g. Taiwanese or Korean.

The practice of appointing a small number of qualified JV freight forwarders as long-term service provider is common among foreign manufacturers. While some JV freight forwarders are equipped with facilities like warehouses and container freight stations and trucks and trailer fleets, other hire facilities and trucks from local freight forwarders. While several European logistics companies operate in HCMC, US logistics service providers, though operating in China have not yet entered the Vietnamese market.

Local Freight Forwarders

Until early 1990s, a few SOEs such as VIETRANS and VINATRANS had exclusive freight forwarding licenses. Now the market has to open to other SOEs and JVs. The Vietnam Freight Forwarding Association (VIFFAS) has now 46 ordinary members and 25 affiliate members including local and JV Freight forwarders.

The South has more efficient and organized freight forwarders that provide services of international standards, such as JIT and EDI, to foreign clients based in HCMC. Local freight forwarders are seldom used by foreign manufacturers for reasons of untimely delivery and unreliability.

Individual trucks owners and cooperatives are also operating freight forwarder services, especially, they provide a substantial service for cargo transport. This market seems to be a lucrative business.

3. Custom Clearance

Most businesspersons interviewed agree that custom operations have improved considerably over the years- due to the new Custom Law of October 2001. Custom clearance which required more than a day in the past, can now be completed within a few hours. Current efforts by GDC to modify custom valuation to transaction values in compliance with the WCO rule will also simplify the procedure and reduce lead-times. As both the volume of cargo throughput and the variety of commodities increase, sophistication of custom administration with IT will expedite the process and benefit the logistics industry. Some claim that corruption still poses a problem, while others argue that corruption is much less if procedures have been complied with. By December 2003, Vietnam is expected to comply with WTO rules of using transaction values as the basis for determining the value of imported goods and duty assessment purposes.

4. Trade information and telecommunications services

Vietnam is lagging behind other countries in the Region in EDI and E- Commerce applications. The necessity of computerization as a management tool; has been stressed by the JICA study on Port EDI and by the UNDP study on Custom EDI etc. VICT is the only port operator using the EDI system, on standalone basis, which processes automated container billing, automated inventory management (container yard operation), automated gate operation (truck arrival and departure check), automated vessel operation (container loading and unloading management), and CFS stock management. The EDI system, however, becomes more meaningful, if it is electronically linked with all the users engaged in logistics administration and business, e.g., port authority, port operators, customs authority, immigration, quarantine, shipping lines, shipping agents, freight forwarders, consignors etc. A number of ASEAN countries have made substantial efforts to build up an

inter- ministry, public- private EDI network to share the logistics information and to improve the industry's operations.

The recommendations and solutions:

Due to the underdeveloped logistics services market in Vietnam, the poor quality and unreliable services, the high costs of the logistics industry, my recommendations emphasis on the policies and solutions that anticipate to encourage and enhance the development of Logistics Services market in Vietnam in the both sides: supply and demand with the dynamic participation of public, private sectors and the foreign direct investors as following:

1. Improvement of legal framework to the transparent and favorable legal environment to logistics services development that includes the ratification of the FAL Convention of IMO in order to streamline and simplify the documentation process. Its ratification by Vietnam will make it easier for the authorities to compare and improve the legislative and administrative procedures. The modification to international standards will ensure open and easy access to businesses and hence stimulate the logistics industry of Vietnam.
2. Upgrade and improvement of logistics infrastructure, especially transports, warehouse and IT infrastructure. These should include:
 - Upgrade the available ports, warehouse, road network, railways with appropriated maintenance
 - Building new ports, roads, airports, logistics centers, e.g. especially the deep-sea ports, the container terminals;
 - Modernize information and communications technology, ICT infrastructure, etc.
3. Resolving administrative reform, especially exerting expressive fight against the corruption, implementation of “a single door” and “one stop” in administrative procedures, implementation of EDI, E – government in custom clearance and other logistics administration, etc.
4. Promoting and tracking the implementations of advanced technique and technology, modern management methods in development of logistics industry in Vietnam;
5. Intensifying the education and training for Human Resources development in the logistics industry. The education and training activities involve all Vietnamese from bottom to top level of management

Should Vietnam Institute for Trade – VIT joint the network and play a role?

Vietnam Institute for Trade (VIT) is a state- owned organization, specialized in trade development research, consulting, and training. It is under management of the Ministry of Trade and classified in the system of national institutes of science research. It was established under Decision No. 721/TTg by the Prime Minister, dated November 8th 1995, and based on the merging of the Institute for Economic and Commercial Techniques with the Institute for Foreign Economics.

VIT has functions of conducting research on trade development and strategy, trade policies and mechanism, domestic and international markets, forecast of market trends in goods and services, trade related issues of environment, international economic integration of Vietnam; providing post-graduate training as well as consultancy and trade information services.

Missions:

Undertake research of:

- Scientific foundations for mapping out trade strategy, trade development plans and market development plans;

- Trade related issues of renovation and improvement of trade policy and management;
- International trade and economy, international economic and trade organizations, and trade economy of Vietnam;
- Domestic and international market trends in goods and services;
- International economic integration of Vietnam
- Trade related issues of environment of Vietnam;

Provide services of:

- Post graduate training in trade economy;
- Upgrade training in trade techniques, information technology and foreign languages for trade officers.
- Consultancy on trade issues to domestic as well as foreign organizations, enterprises and individuals;

Cooperate in:

- Research, training, and exchange of trade information with domestic and overseas research organizations, universities, and scientists, etc.

By executing its functions and missions, VIT should fully join the ARTNeT and play an important role in the process of trade liberalization and regional integration.

Conclusion

In conclusion, I highly appreciate the initiative of ARTNeT to organize the useful and meaningful consultative meeting on trade facilitation and regional integration. In reflecting with Vietnam logistics movements and development, I totally share the opinions of the increasing importance of TLS liberalization as part of an overall trade facilitation strategy and the lessons for TLS liberalization in other countries of the region can be useful and applicable in development of Vietnam logistics industry. I understand and realize the importance of establishing the closed linkages between Customs and other administrative reforms and logistics services liberalization in national (trade and trade facilitation) policy frameworks as well as in regional and multilateral frameworks. I also think about the establishment of strict linkages between various trade support institutions in the regions

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