

# MEASURES TO ENHANCE THE ROLE ĐÀ NẴNG IN DEVELOPMENT OF LOGISTICS ON THE EAST-WEST ECONOMIC CORRIDOR

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## 1. Problem

Logistics is both an art and science of management of the flow of goods, energy, information and other resources, including products, services and people, from the point of origin to the point of consumption. In business, logistics can be considered as concentration of both external and internal resources involved in the flow from origin producer to end user. Main function of the logistics involves management of sale, purchase, transport, warehousing and organizational and planning aspects of these activities.

To improve business performance in the globalization, companies must work out strategies to cooperate with one another along the value chain in which each entity takes part in some stages it is good at, therefore, developing the system of logistics service is an effective measure to improve the business performance and competitiveness by

*The East-West Economic Corridor (EWEC) is an effort of the ASEAN bloc to beef up cooperation among countries to encourage economic growth and poverty alleviation for areas along this corridor, including 13 provinces of Myanmar, Thailand, Laos and Vietnam. As one of starting points of the corridor, Đà Nẵng enjoys favorable conditions for development of logistics. This report analyzes opportunities and estimates logistics management in order to find out measures to enhance the role of Đà Nẵng in development of this service on the corridor.*

assigning intermediary stages to professional logisticians.

In Vietnam, in recent years, the logistics has developed well, from some state-owned companies in the early 1990s to some 800 companies in late 2008 [1] operating from north to south. In spite of its quantitative growth, most logistics companies are of small size in terms of personnel, capital and sales. Besides some large-scale ones, most of them are state-owned and foreign-in-

vested companies that employ from 200 to 300 laborers, the rest have from 10 to 20 employees in their labor force. Facilities and equipment of local logistics companies are poor. They usually do transport jobs, customs clearance, freight broker, and some of them offer warehousing service. Generally, their operations are scattered, small, and inconsistent and their technologies are backward in comparison with Southeast Asian counterparts. Besides some experts trained in foreign schools,



most employees of this industry are not well trained and they rely mostly on experience [3].

In Central Vietnam and Đà Nẵng in particular, the logistics has developed quickly in recent years. Number of logistics companies in Đà Nẵng is on the increase. The number of Đà Nẵng-based companies has exceeded 40 [5]. Most of them, however, are small-size ones or branches of companies in North or South Vietnam. Their capacity of transport, loading and unloading, and warehousing, and even their workforce, is limited. They usually undertake transport jobs, freight broker, delivery and warehousing. Complicated logistics services are rarely performed here.

To tap Đà Nẵng potentials as a starting point of the EWEC, thereby supporting economic growth, modernization and industrialization in Vietnam, Đà Nẵng authorities and companies must realize importance of development of the logistics and work out an overall strategy to turn Đà Nẵng into a logistics center of Central Vietnam and the whole corridor as well.

## 2. EWEC and need for logistics

East-West Economic is an economic development program initiated in 1998 by the Ministerial Conference of Greater Mekong Subregion organized in Manila, the Philippines in order to promote development and integration of four countries, namely: Laos, Burma, Thailand and Vietnam. This corridor became operational in December 12th 2006.

The economic corridor is created based on a road of 1,450 km with the west end at port city of Mawlamyine (Myanmar), crossing Kăyin Division, Thai provinces of Tak, Sukhothai, Phitsanulok, Phetchabun, Khon Kaen, Kalasin and Mukdahan and Laotian provinces of Savannakhet, Vietnamese provinces of Quảng Trị, Thừa Thiên-Huế Province and Đà Nẵng city as the east end. EWEC trading operations concentrate in six provinces:

Mawlamyine, Phitsanulok, Khon Kaen, Savannakhet, Huế, and Đà Nẵng.

The EWEC project provides Đà Nẵng with great opportunities for development. Analyzing 10 countries (Singapore, Malaysia, Thailand, Myanmar, Vietnam, Cambodia, Laos, India, China and Bangladesh) affected by the EWEC, North South Economic Corridor, South Economic Corridor and Asian Highway No 1, experts from ERIA (Economic Research Institute for ASEAN and East Asia) say that Đà Nẵng has a development advantage up to 100% on the EWEC and benefits a lot from the Asian Highway No 1.

According to the ERIA, even the present EWEC (it has only 40km for high-speed traffic) can help Đà Nẵng increase its GDP by 1% by 2025. When the EWEC highway is completed, this figure will be 1.13% (compared with 1.02% for Savannakhet, and 1.08% for Mukdahan). Along with it, customs facilitation can help Đà Nẵng to increase its GDP by 2.29% by 2025 (compared with 1.71% for Savannakhet and 1.40% for Mukdahan). Đà Nẵng will also take the first position in the increase in personal income in Central Vietnam under impact of the EWEC with a growth rate of 128.6% by 2025.

Other researches show that, the EWEC can bridge the development gap in the region by improving the infrastructure and simplification of customs formalities in countries along the corridor. As a route connecting localities in the Mekong Subregion, the EWEC allows Đà Nẵng-based companies to reduce expenses and costs, thereby improving their competitiveness and export to regional and international markets [Đinh Văn Ân, 2008].

It is the promise to beef up economic cooperation on the EWEC by regional governments that pose both requirements and great opportunities for Đà Nẵng to develop its logistics in future.





To form scientific basis for the development of logistics in Đà Nẵng in the coming years, the research group has examined 43 companies in Đà Nẵng and Central Vietnam with needs for transport and delivery of goods to their partners in Laos and Thailand. Some 70% of them have total sales of VND50 billion (US\$2.5 million) or bigger; 12% with sales varying from VND10.1 to 50 billion; and 13% with sales of VND10 billion or smaller. The surveyed companies are in the manufacturing and trading sectors whose output is prepackaged goods. Results of the survey show that:

- Traditional logistics services, such as transport, delivery, warehousing, and customs clearance are the ones companies outsource most. As for companies that do these jobs on their own, 50.3% plan to outsource them in future; 25% hesitate; and 24.7% have no intention to outsource them.

- Service quality is the most important factor the companies worry about when deciding to outsource logistics jobs. Companies employing these services say that the service quality didn't come up to their expectations although outsourcing help companies cut part of their expenses.

- Technological capacity is what companies worry about when buying logistician services. Most companies pay attention to warehouse management system. The radio frequency identification (RFID), one of important advances of the logistics, however, doesn't receive much attention from companies when they select the logistician. Most surveyed companies didn't think they would include RFID in criteria for selecting the logistician in the near future.

- The most hired services are: domestic transport (100%), delivery, warehousing and customs clearance, and international transport. The results are appropriate to the world outsourcing trend. Domestic transport requires big investments in vehicles and army of drivers, while management of the fleet of vehicles is costly and complicated but usually ineffective. That is why most surveyed companies decided to outsource these jobs.

- Other complicated jobs, such as order handling, cross-docking, concentration of goods, making payments and management of transport costs, are not much outsourced. Most companies explained that these jobs are linked with sensitive

information that they didn't want to share with other companies. Moreover, in Vietnam today, only third party logisticians with modern information service and expertise can access to such services. Local logistics companies can only meet requirements at a more simple level.

- Reasons for refusal to outsource logistics activities are: "No cut in costs" (49%); "losing control over logistics activities" (25%); and "Service quality is not equal to what is agreed upon" (26%).

- The survey also reveals some shortcomings suppliers of logistics services should deal with in order to develop their business in future. They are: "Service quality is not equal to what is agreed upon" (62% of answers); "No cut in costs as expected" (58%); "Lack of continuous improvement" (51%); and "Personnel problems" (49%).

- As for criteria for selecting logisticians, companies introduced a list of 11 items in order of importance and rated according to a 5-point scale. The results show that the most important items to companies are price of service (4.66), service quality (4.61), and quality of personnel (4.11). Other items, however, also affect greatly the decision on logistician because points given to these items are high (over 3.5) and there is no remarkable difference between their criteria.

### 3. Advantages, difficulties and direction of development of the logistics in Đà Nẵng on the EWEC

#### a. Advantages:

- Đà Nẵng is a city that has high growth rates, favorable business climate, and the highest PCI in Vietnam.

- Ratios of companies to population and to area in Đà Nẵng are of the highest level in Coastal Central Vietnam.

- Technical infrastructure in Đà Nẵng is relatively good and uniform. Đà Nẵng has a port of optical fiber cable to the global network, which facilitates development of telecommunications – an important factor of improvement in logistics activities.

- Đà Nẵng port is near to international shipping routes and favorable for transport of goods. This is also one of ports with high handling capacity in the Central Vietnam and it can allow 75,000-GRT ships – the Vietnam's highest capacity.



- Đà Nẵng is a hub of roads, railroads and air traffic for the Central Vietnam and Western Highlands, and the gate for the EWEC go to the East Sea, and a center of the system of seaports that serve the corridor.

- Đà Nẵng with its Đà Nẵng University, can supply labor of high quality to various industries and meet requirements posed by future development of the logistics.

b. Difficulties:

- There are only a few logistics companies in Đà Nẵng. Their capacity is limited and operations are scattered. The number of Đà Nẵng-based logistics companies or branches is about 40.

- Đà Nẵng logistics companies can only do simple jobs: transport (by air, road and railroad), freight broker, delivery, and warehousing. At present, however, the transport system along the EWEC is not perfect, which makes transport cost higher and reduces their competitiveness.

- Market for logistics activities in the Central Vietnam is not highly developed. Operations of Đà Nẵng logistics companies are limited, and most of them are branches of companies in North Vietnam (Hà Nội, Hải Phòng, and Vĩnh Phú), and South Vietnam (HCMC, Bình Dương, and Đồng Nai).

- Companies with a labor force bigger than 50 employees represent 19% of companies in this industry (8 companies); and companies with a labor force smaller than 10 employees account for 55% (23 companies). Quality of human resource in the logistics is poor: 49% of surveyed companies say it's the human resource that discourages them from outsourcing logistics jobs.

- At present, most of Đà Nẵng logistics companies are the ones trading in freightage. Companies that have transport vehicles, equipment for loading, and warehouses are state-owned ones.

- Unofficial expenses are still high because of

lack of consistent control by authorities along transportation lines.

c. Directions of development:

- To achieve "high transport frequency" (one of strong points of road transport) infrastructure for logistics must be well developed. In addition, it's necessary to innovate regulations on logistics, such as improving customs formalities, making transport principles consistent, harmonizing the use of inland container depots, using reusable materials control cards and certificates of equipment; and prolonging working hours of customs offices, etc.

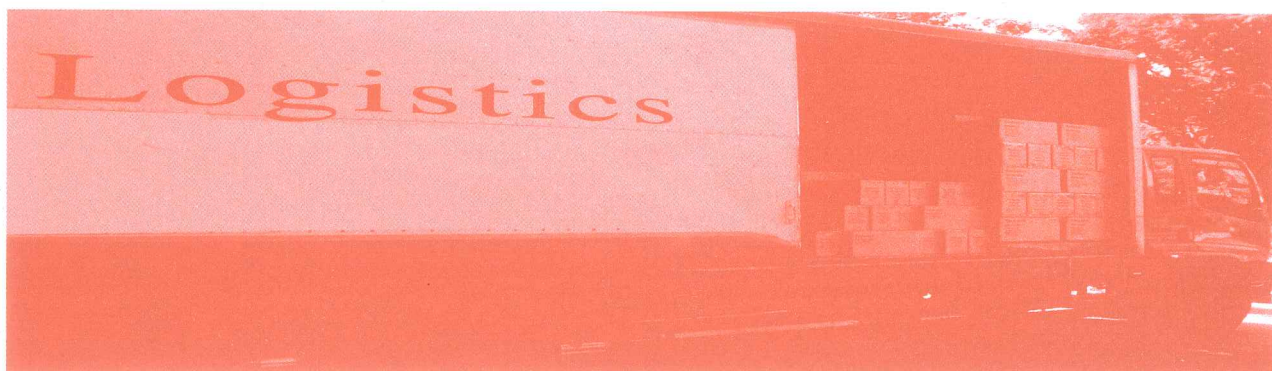
- To persuade customers, logistics companies must enhance the service quality, cut expenses and carry out improvements continuously.

- Traditional logistics jobs (transport, loading and unloading, delivery, warehousing, and customs clearance) are still big concerns for companies. To play well the role of the eastern end of the corridor, Đà Nẵng should invest much more money in facilities for doing these jobs and improve delivery procedures to meet future requirements.

- Prepackaged goods, electronic appliances and seafood are still industries that need logistics jobs in future. Logistics activities by companies should meet these needs and more researches must be carried out to satisfy better the market demand.

- Prioritized application of information technology should aim at meeting demands of traditional logistics system. This means that Đà Nẵng should upgrade the Internet infrastructure and mobile network in order to connect with Laotian and Thai telecommunication networks, thereby serving better logistics activities on the whole corridor.

- Đà Nẵng should enhance the quality of human resource employed by logistics companies and related fields, including civil servants of local au-





thorities.

- Administrative reform must be accelerated in order to prevent the red tape from increasing official and unofficial costs when carrying out logistics activities.

#### **4. Measures to making the best use of Đà Nẵng advantages for logistics activities on the EWECE**

a. Developing Đà Nẵng Port into a logistics center:

To help Đà Nẵng play an important role in the logistics activities along the corridor, a long-term strategy to develop the Đà Nẵng logistics network in a sustainable manner and limit unruly and scattered development is much needed. To achieve this aim, Đà Nẵng government should adopt bold policies to develop the Đà Nẵng Port into a logistics center, such as:

- Making plan to develop the Đà Nẵng Port into a logistics center that is not limited only to transport and delivery jobs but includes integrated activities: International consultancies can be hired to work out this plan in ensure its objective and scientific basis [4].

- Integrating the plan to develop the logistics center into the overall development plan of Đà Nẵng and ensuring harmony of objectives of the two plans.

- Encouraging multinationals, international logistics companies and other logisticians to do their business in the Port by offering incentives.

- Encouraging cooperation and joint ventures between local and foreign logistics companies with a view to diversifying and enhancing the quality of the logistics supply chain, and then encouraging formation of a "Đà Nẵng Logistics Association."

- Developing industrial parks and free trade

areas as part of the plan to enlarge the Port in order to increase the flow of goods to the port and create value-adding services to attract logistics centers of multinationals, thereby creating new jobs and generating new incomes for local residents.

- Prioritizing the development of the infrastructure needed for the port and logistics center to meet the increasing demand.

- Promoting the use of electronic administrative and trading services by connecting the Port with e-management network, transport concerns and logistics centers, and standardizing the information network used for customs and administrative services in the Port.

- Getting rid of and cutting unnecessary expenses or obstacles relating to taxes and commercial laws, and more importantly, reducing and eliminating corruption by officials of the port authority.

b. Encouraging cooperation between suppliers of port services:

Building of small ports in the coastal Central Vietnam has become an obstacle to development of logistics on the EWECE. We suggest the following measures to deal with this obstacle:

- Governments of provinces along the corridor should cooperate in working out an overall plan for economic development and for transport system, especially the system of ports, with a view to avoid unnecessary competition and waste of resources.

- It's necessary to form a "Federation of Central Vietnam Ports" with a view to distributing shares of the market for transport service based on strong points of each port, ensuring rationality and long-term benefits for related parties and re-





ducing expenses for customers.

c. Reducing delivery and transport time in Đà Nẵng Port and on transport lines:

To attract flows of goods to the Đà Nẵng Port, it's necessary to reduce the time for handling goods in the Port before they can flow to the EWEC. The reduction will allow Đà Nẵng logistics companies to offer more competitive charges. To achieve this aim, Đà Nẵng authorities should cooperate with neighboring provinces in the following tasks:

- Upgrading bridges on transport lines in order to raise speed of road transport.

- Restoring the railroad connecting the Đà Nẵng Port with the national railroad network (Đà Nẵng – Đông Hà section) in order to reduce the transport cost.

- Enlarging transport lines from the Đà Nẵng Port to National Routes 14B and 1A to improve the speed of circulation.

- Reviewing administrative procedures to get rid of unnecessary and unreasonable ones, and forbidding local authorities from collecting fees and charges relating to delivery of goods in the Port.

- Making more investments in facilities and human resource for the port customs office in order to change their ways of doing business based on computerization.

- Helping suppliers of services in the Port modernize loading and unloading facilities and transport vehicles.

- Beefing up supervision and investigation in order to discover and deal with harassment by officials in checkpoints and tollbooths.

d. Encouraging companies to develop their services along the EWEC:

Besides developing the Đà Nẵng Port into a lo-

gistics center, Đà Nẵng government should make plan to develop services needed for the logistics in future, such as repairing and maintaining transport vehicles, supplying fuel, salvage and providing accommodations along the corridor. With existing potentials, the Đà Nẵng government had better cooperate with governments of Thừa Thiên – Huế, Quảng Trị and Laotian province of Savanakheth to develop the infrastructure needed for international transport, and adopt policies to encourage Vietnamese, Laotian and Thai companies to invest in this project.

e. Enhancing the quality of the army of laborers in the logistics business:

The logistics includes not only transport, warehousing and other traditional services, but also production and trading. Logistics activities aim at linking necessary services in an effective way in order to cut the costs to the bone.

To achieve this aim, we need well-trained laborers. The logistics business in Đà Nẵng and Vietnam as well shows that such an army of well-trained logisticians is still lacking. The training service fails to match developments of this business. In Vietnam at present, only a few colleges and universities give courses in logistics. Besides some foreign experts and a handful of officials graduating from foreign schools, most officials in this business are not properly trained.

To ensure sustainable development of the logistics in Đà Nẵng in future, local authorities must start programs to improve the human resource for this business as soon as possible.

Besides postgraduate courses in logistics, the Đà Nẵng University had better give graduate courses. The official fund for investment can be used for encouraging officials to take courses in





management and operation of logistics activities. There must be programs to send managers of logistics companies to make studies abroad in order to modernize and business philosophy of this business.

f. Promoting projects to upgrade the road network:

- Đà Nẵng – Paksé – Bangkok line: At present, 123km of dirt road from Nam Giang to Bản Phôn must be built and Đà Nẵng authorities must work out the plan and call for investment. When this project is completed, Đà Nẵng will be connected with not only Laotian Bolaven Plateau, but also many provinces in eastern Thailand and up to Bangkok. In future, Vietnam can build a railroad from Đà Nẵng to Laotian province of Paksé (470km) and connect it to the Thai railroad network, which can produce many advantages for Đà Nẵng.

- Đà Nẵng – Lao Bảo – Savanh – Mukdahan: This is the artery of the EWEC and the cost of road transport here is high. In future, it's necessary to build a railroad line from Savanh (Laos) to Đông Hà (Vietnam) and connect it with the Đà Nẵng – Đông Hà line (and then from Đà Nẵng to HCMC, Hà Nội and Chinese railroad network). This project can help cut transport cost for goods from Laos and Thailand to the Đà Nẵng Port.

Đà Nẵng should take part in this project along with many provinces in the Central Vietnam and Laos. However, resources in these provinces are very limited. Laotian and Vietnamese government had better look for ODA sources with help from international organizations.

g. Building inland container depots along the EWEC:

The ICDs perform all functions of a common ports and offer services for handling and temporary storage of import/export laden and empty containers. They allow traffic of all means of transport except for ships; cuts in time for packaging, loading and unloading; and customs control; and offer "one-stop check" to goods transported between countries along the corridor and multimodal transport of containers from exporters to importers.

To develop the logistics activities from Đà Nẵng as a transit port to Laos, Thailand and Myanmar in future, building of such ICDs is much

necessary. In the first stage, it is effective to build such depots in Mukdahan (Thailand) and Savanh (Laos) because they can attract goods in large quantities and exploit many transport systems: by road (Route 9), by ship (Mekong River), by air (Savanh airport, and by train when the railroad from Savanh to Đông Hà is built■

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