

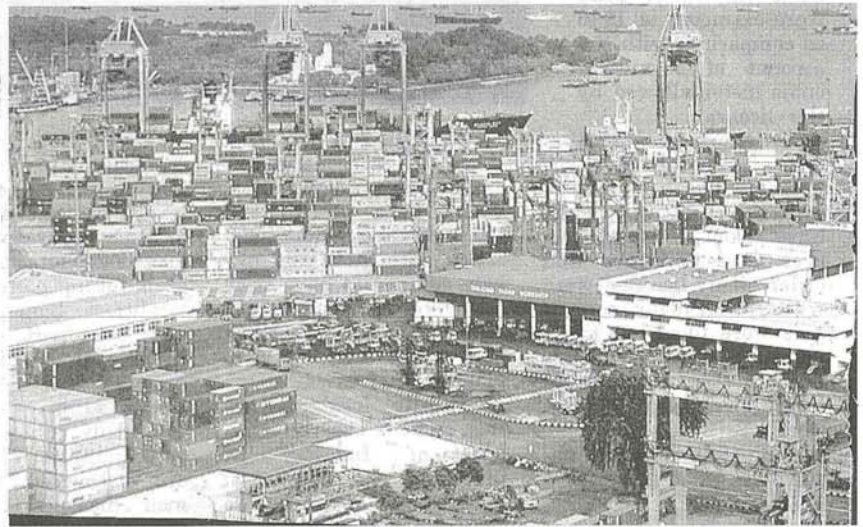
# INTERNATIONAL MARINE TRANSPORT IN VIETNAM-UNIFORM DEVELOPMENT SOLUTIONS

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The country's economy will have no rapid development in the absence of shipping. Over the past years, the shipping industry has served well Vietnam's foreign trade in the course of national industrialization and modernization: Around 90% of exports and imports were carried by vessels, the volume of cargoes passing through major sea ports rose from 16% to 20% annually. Many items such as project goods, machinery and equipment, steel materials, and cement were shipped to our country with a view to building projects. Hundreds of million tonnes of food, farm products and minerals were loaded onto vessels and brought to the world's consumer markets, earning foreign currency to reinvest in the economy. How to develop Vietnam's shipping industry is still a problem. This article mainly refers to the shipping of dry and loose cargoes and containers.

## I. SOME CURRENT FACTS

Previously in the centrally-planned economy, the shipping was implemented mainly following the State plans by means of state-run fleets and liners of Germany, former Czechoslovakia and Soviet Union. On the sea cargo market, the supply was always lower than the demand, so the freight charges were high and the time of waiting departure was long because a few vessels docked Vietnamese ports. They almost carried dry and loose cargoes (making up 90% of the total). In the market economy, many foreign shippers began to do business in Vietnam, the sea cargo market boomed. By 1997, there were 43 international sea forwarders in Vietnam.



The supply exceeded the demand. As a result, the competition turned fiercer, leading to falls in freight charges. The situation caused many challenges to local forwarders, as follows:

- Most of Vietnam's fleets belong to State-run companies. Among them largest are the domestic VINA Line's fleets with the total capacity of 500,000 DWT, representing over 52% of the whole country's capacity. The company has scored some good achievements over the past two years: growth rate of 10-25%, shipping abroad 4.017 million tonnes of merchandise in 1996 and 4.694 million tonnes in 1997, up 17%. The fraction of imports and exports transported by local vessels jumped 12.0% in 1996 against 6% in the period 1981-1982.

- Vietnam's sea ports include

three clusters in three regions. The major ones are located in HCMC, Vũng Tàu, Đà Nẵng and Hải Phòng and gradually upgraded. But their capability is generally limited because means of loading and unloading are of low capacity and incompatible with each category of goods, waterway transport is not yet safe.

- Currently our country has 33 shipyards under 4 ministries and 22 local enterprises, and such establishments as the Institute for Transport Mechanical Research and Design, Ship Quality Registration Agency, and Vietnam Union of Shipbuilders. They are capable of building various vessels with capacity from 1,000 to 5,000 DWT. The quality of building and repairing ships is strengthened. However they still have restrains of technique and

capital, not fully attracting local and foreign ship owners.

- The local fleets are too old, over 20 years, backward including almost ships carrying loose cargoes and only two container ships with low capacity.

nes in 1993. Yet only one Vietnam's shipper carried 13,000 tonnes (or 1%) and the remainder brought by foreign companies. If the freight charges averages US\$30 per tonne, the loss will amount to US\$40 million. In 1996 there were 3.5 million

fied network of rivers and a history of 40 years of operation and development.

- The economy is being restructured, various sources of capital will be mobilized domestically and overseas to build modern fleets, ports and other facilities.

- Due to its open-door policy, Vietnam has lured many foreign shippers to engage in Vietnam, helping reduce freight charges, open more new routes and local forwarders can absorb advanced technologies in transport and shipbuilding.

- The fierce competition forces foreign shippers to come to agreements upon consolidation or buy-off, joint ventures or transocean alliance with a view to speeding up their competitiveness and gain more market shares.

- The local transport technology is obsolete, investment capital short, and infrastructures poor.

- The regional economic crisis has reduced the import and export volume, especially those carried via sea ports, for example, in 1997 it dropped 6% from 1996, mainly including such items as fertilizer, steel, cement, down 20-40%.

**Table 1: Vietnam's Sea-going Fleets by Capacity and Age**

Ships for	Quantity	Capacity (DWT)	Age (year)
Dry cargo	274	696,876	13.3
Ro-ro cargo	01	12,800	18
Container	02	21,727	14
Oil	17	48,084	15.8
Frozen goods	30	16,294	20.4
Total	324	795,772	

Source: Statistics Center of the Ministry of Transport. 1995

Over the past two years, the Maritime Corporation has invested in 4 container ships, 5 ships for dry cargoes and increased the capacity by 216,800 DWT. Nevertheless, the supply has not yet met the demand.

- The enterprises dispersed their investment in building sea-going fleets, not focusing on the entire structure and specialization so their investment capital showed a great waste, leading to low return on investment.

The local companies have not yet made the best use of existing sea routes, therefore suffered imbalance between imports and exports shipping. For instance, the volume of imports was 3.65 times exports in 1981, 2.51 in 1986 and 2.53 in 1996.

The cargo market share was low: local fleets carried only 14% of the total volume of Vietnam's exports and imports in 1995 and 13.34% in 1996. This indicated the country's competitiveness was poor, the cargo market was almost dominated by foreign ship owners in terms of price and quality. The local forwarders collected only costs and 10-15% of freight charges and offered the remainder to the foreign counterparts. Another reason is local importers and exporters get used to CIF purchase and FOB sale since in the subsidization period there was only one company under the Ministry of Transport assigned to undertake the whole forwarding from chartering ships to seeking foreign currency for payment of costs.

For example, regarding rice export, the volume of rice exported via Saigon Port reached 1.5 million ton-

nes of rice exports with freight charges amounting to US\$105 million while local fleets forwarded only 350,000 tonnes (or 10%). The containers moved by Vietnamese ships made up only 16% of the total volume of export-import containers.

**Table 2 Commercial Rights of National Shipping**

	1981	1982	1985	1986	1995	1996
Exports and imports carried via sea ports (1,000 tonnes)	2,820	2,945	3,504	4,609	19,489	21,435
Exports and imports carried by local fleets	179.6	159.0	372.3	364.6	1,799	2,534
Exports	67.7	50.5	163.8	103.6	654	717(*)
Imports	247.3	108.5	208.4	260.4	1,145	1,817
Percentage	6.36	5.39	10.62	8.00	9.20	12.00

Source: Statistics Center of the Ministry of Trade, Foreign Trade Review 11. 1987 and Statistics Yearbook, (\*)estimated

## II. OPPORTUNITIES AND CHALLENGES

On its way of development, the shipping industry has many opportunities and challenges as follows:

- The Vietnam's policy on liberalizing the international trade and foreign investment attraction, the participation in international organizations such as WHO, APEC, AFTA...will generate a great volume of merchandise for local fleets.

- The national shipping industry is endowed with 3,200 km of coastline and convenient location for shipping, and provided with abundant sea ports together with diversi-

- The industry itself has many unsolved problems: capital needed for building fleets; network of sea-ports; insufficient army of qualified workers; outdated knowledge and skill of staff.

In other countries, the government plays an important role in developing the maritime industry. Without the government's support, it can hardly make progress. For instance, in Malaysia, the Government offers tax relief in 24 years, tax exemption for 50% of taxable turnover if the forwarders meet the Government's requirements. In Philippines, if the company buys ships for overseas transport, it will

enjoy 10% import duty reduction and the Government guarantees higher loans in case of purchase of less aged vessels. In Indonesia, foreign ships are hired only when no local companies can cater for the shipping service, foreign forwarders are granted only license valid in 1 year for specific routes, 6 months for carrying wood and 3 months for other goods. In Singapore, the Government gives loans worth 85% of the contract value which is repaid within 15 years. The U.S. Shipping Act in July 1984 rules that in case of dumping competition, foreign shippers will be fined US\$25,000 at most and the freight charges must be publicized. Thanks to proper policies, the capacity of ASEAN's fleets increased 6 times after 10 years, reaching 12.1 million DWT in 1980 from 2.1 million DWT in 1970; 15.4 million in 1985 and over 33 million in 1991. Largest shippers included Singapore with 13.041 million DWT; Philippines 13.608 million; Indonesia 2.858 million; HongKong 10.610 million, Japan 39.125 million and Taiwan 6.625 million DWT.

### III. SOLUTIONS FOR DEVELOPMENT

The Vietnam maritime industry can play the game only when it finds out uniform solutions to boost the development. My suggestions are as follows:

- To gain a firm foothold on the market, the industry needs the Government's assistance by means of finance such as giving grants-in-aid, reducing sales and profits tax in case of new investment, setting up development funds, and offering soft loans to lower freight charges, increase competitiveness and gain profits. In addition, it should be given priority in exploiting highly profitable routes. The Government should encourage private sector to engage in shipping business on the basis of their financial strength, fleet capacity and experience.

The Government should financially assist local importers and exporters in FOB purchase and CIF sale. They as well as local forwarders could enjoy preferences in sales and profits tax in line with the proportion of their goods carried by local fleets, or of freight charges paid to local shippers. The bank should give them soft discount rate when making payments.

- Marketing policies: local shippers should make close connection

with forwarders, and export-import companies. Their backwardness and deficiency of transport means could prevent them from marketing their services overseas. As a result, they should concentrate every effort on improving their fleets to carry loose cargoes to major and distant ports of those countries importing Vietnamese goods. The maritime companies could open more lines of short distance for carrying containers to transit ports in the region, when having enough capability in the future, they will provide transocean shipping services.

The shippers which carry imports to inland ports should cooperate with forwarders so that these firms undertake next services and select suitable means to bring cargoes to the destination. As such, the market will be expanded, allowing shippers to market their services to different places. As a result, they will suffer less costs when coordinating with local forwarders and their foreign partners.

The forwarders will become bridges linking maritime transport with other forms such as road, railway, and waterway. The schedule need be exact. The near consumer markets with low costs should be paid attention to.

- Via exploiting imports, heightening the services for exports: The target is to cater for highly efficient and stable services and balance the two-way transport of imports and exports. The shippers should market their services to exporters via their imports transport. Some items such as electronic appliances, garments, footwears, automobiles are manufactured for export with a great quantity of imported materials. Therefore, when carrying imports for these manufacturers, the maritime company should maintain regular contact with them and monitor their process of production. When obtaining the information about their export plan, the shipper could market their services for exports with the aim to balance the two-way transport of imports and exports.

- Implementing maritime consultancy for local enterprises. In the West European, South and Central American countries, the legislation on customs and import is very complicated. The regulations on procedures, quality control and commercial conditions are so intricate. Consequently, the maritime consultancy should be improved to

intensify the foreign trade and at the same time help local enterprises avoid losses in trading. Some evidence showed many exporters who did not understand well the import legislation of the importing country incurred big losses. There were cargoes exported to Japan but violating the copyright law and finally unable to enter Japanese market and brought back to Vietnam; and those breaking the U.S. system of safe food were destroyed when they landed the U.S. port. Similarly, exports to countries in Middle East and Persian Gulf must obtain certificates from consulates of importing countries. The exporters easily fails to meet these requirements so their goods arrive but cannot enter the market.

- The Vietnam Maritime Department, associations such as VISABA, VIFFAS, and the Maritime Corporation should meet to find feasible measures to obtain transport rights and establish the list of competitive charges to lure customers. Due to declining prices, a floor price should be fixed as ground for supervising shippers' operations and calculating sales tax. This is a favorable condition for shippers, agents and brokers to reach a consensus on prices and overcome the dumping. The maritime agent fee should depend on the two sides' agreement but up to international practice, a maximum fee could be stipulated for local enterprises. The legislation on maritime activities should have provisions to ban monopolistic business on specific routes.

- Giving priority to local fleets in carrying cargoes of bulky shape and large quantity locally made or imported such as fertilizer, coal, rice, industrial equipment including containers.

- Domestic enterprises, especially ones affiliated to the Maritime Transport Corporation should collaborate with each other in finance, market share and forms of transport in order to raise their competitiveness. The using of vessels must be effectively with lowest costs of operation and repairing.

- Issuing and executing regulations on supervision of ship purchase. The purchase of second-hand ships should be controlled regarding quality and the intrinsic value. The companies are allowed to buy newly-built ships only when local builders cannot meet the demand. The supervision should be strictly imple-

mented by competent agencies or ruling ministries with a view to preventing local entities from buying too old ships with very high prices and thus waste their capital and the State budget.

- Regarding investments in transport means: Existing low aged ships need upgrading and refurbishing to prolong their operational duration. Too old vessels with high costs in using should be liquidated to create new investment capital, in the meanwhile reducing risks in business. Ships carrying packaged cargoes should be renewed or changed into container carriers.

- Making fleets younger in the specialization of the transport of loose, packaged and container cargo. Setting up a company specialized in shipping container cargo by specializing or merging marine transport companies under the Vietnam Maritime Corporation or newly establishing.

- Developing the industry of building and repairing ships, especially entering joint ventures with foreign companies to make the best use of their modern technologies of ship building and repairing. Local shipyards should try their best to manufacture over 10,000 DWT vessels, repair 30,000-50,000 DWT vessels and pay attention to bulk and container cargo carriers which will be great demand in the future. The Government should have preferential policies on tax, depreciation, interest rate...and protection of locally-made products such as banning the purchase or repair abroad of those vessels which can be locally built or repaired.

- Planning maritime infrastructures must be in line with the national master plan and even the regional projects. Building containers ports which can dock 30,000-50,000 DWT vessels. Forming joint ventures with foreign partners or selling shares to foreign entities with the aim to increase capital and absorb state-of-the-art technologies. Developing ports on the basis of considering the local capability of providing goods for shipping. The port capacity includes not only seabed depth, flow, number of vessels docked, loading and unloading facilities but also the volume of cargoes handled by the port in a particular time.

• Investment in sea ports. In each region of the country, the maritime authorities should specify one

or more international seaports to be built in accordance with the volume of exports and imports. Local ports for transporting goods between areas need no huge investments but medium ones. The international transit port should be soon built in Vũng Tàu to meet the national and regional requirements because transit ports in Hong Kong and Singapore are currently jammed. According to the Ocean Shipping Consultants' forecast, the capacity of container ports in ASEAN countries will lack 28.8 million teu as compared with the demand.

• The road networks should be upgraded. The National Highway 1A -the backbone in the South-North transport- should be linked with interprovincial roads to secure the carrying of local imports and exports or the transit goods from neighboring countries to international ports and vice versa. Waterway transport should be improved in the direction of lowering charges and increasing volume of cargo shipped.

- Simplifying procedures for transit goods to attract the great quantity of exports and imports from neighboring countries to Vietnam's ports, at the same time step up the multi-method form of transport. At the places changing means of transport such as road-railway, road-sea, sea-river which are seen as "chains" linking transport lines, the system of yards and loading facilities should be well organized and equipped so that the transport will be smooth through these "chains".

- Vietnam shippers on international routes should formulate and apply International Safe Management (ISM) rules in line with Solas Convention to raise service quality, operate vessels safely and protect the environment. Obtaining an ISM certificate is a requirement for 500 GT vessels landing foreign ports.

- Giving high-quality training course to the army of seamen and officers and preferential treatment to them. Retraining the staff who have worked for ages but had no chances to learn new shipping technologies. Increasing the number of seamen and officers exported abroad with the aim to create jobs for them and gain foreign currency, at the same time make favorable conditions for them to raise their skill.

- Developing new high-quality maritime services such as: maritime insurance; logistics (providing oil,

clean water); shipping agent; piloting services, renting pilots; services of entertainment, hotel, medical care for sailors inland tourism...

- Maintaining the regular contact with associations of seaports and shippers in ASEAN countries and in the world so as to exchange information and learn experience. Seeking opportunities to train and develop the shipping industry's human resource.

In short, any countries having coastline see the development of maritime transport as top strategy to exchange goods with the world economy. Vietnam's coastline of 3,200 km, deep and safe bays are ideal conditions for developing its shipping industry. Over the past year, the industry has had a lot of significant contributions to the expansion of foreign trade markets, helping boost the country's economic growth rate. However, the industry still faces many challenges to overcome and seize every opportunity to develop. This task can be fulfilled only when the industry implements uniform measures involving in technique and marketing. In addition to the industry's great efforts, it is craving for the Government's support so as to become competitive in the international shipping market.

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#### CORRECTION

The unit for airfreight charges is US\$1 per kg for one-tonne shipment instead of US\$1 per tonne as misprinted in the Economic Development Review No 50, Page 15, Table 2. We sincerely apologize the writer and readers for the mistake.