

# Measures to Develop Logistics Services in Vietnam

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businesses. State-owned businesses must be equitized, sold or disbanded. This task should be completed as soon as possible, avoiding halfway measures as well as old wine in a new bottle. The people's capital sources should be attracted to direct investment in establishing business and production units or buying shares from non-state or state enterprises. Financial intermediary system must be expanded with diversified products and services in order to meet capital demand of enterprises. The government should upgrade the province's infrastructure and liberalize policies on tax and investment attraction such as tax incentives, preferential land rent as well as enhance the investment advertisement and promotion

- The provincial human resource must be improved by opening a lot of forms of training and education. At the same time, the local government should implement effective policies to attract inside and outside qualified workers to the province.

- The government agencies and enterprises have to take the initiative in seeking and expanding export markets as well as develop new products to enhance the provincial competitive advantages.

- Local enterprises should innovate their equipment and technologies with the government support to increase their product quality and market shares.

- The province continues to boost up its administrative reforms to improve the business climate and the professional skill of government personnel.

- The province trade promotion center should be strengthened to help local businesses diversify their products and expand export markets.

- The government has to take effective measures to modernize and industrialize its agriculture and rural areas to protect them from bad effects when Vietnam joins the WTO ■

On November 7, 2006 Vietnam became the WTO's 150th member. Therefore, Vietnamese businesses have to prepare to cope with challenges and make the best use of advantages when joining this organization. This is especially important to the service sector which is the weakest one of Vietnamese businesses in competing against foreign rivals. In the meantime, service tends to become the leading area in international trade.

According to the survey of building orientations for development of Vietnamese services in the 2006-2010 period conducted by the Trade - Service Department of the Trade Ministry, there are four big trends as follows:

First, the world service sector continues to attain very high growth in the near future. According to the WTO forecasts, by 2020 service will make up nearly a half of total trade value over the world and along with market liberalization, this sector will increase fast in GDP.

Second, international integration in services will be intensively undertaken with remarkable increase in selecting services provided across borders.

Third, services export grows steadily in the world trade and faster than goods export, in which the following services are expected to increase rapidly: accounting, consultancy, project designing, computer services...

Fourth, foreign direct investment in services will see a boom with trading and merging deals. Especially, in services the non-stock investment is rather common such as exclusive authorization, management contract...

Vietnamese service sector is

required to make good preparations in the integration process before bustling and strong activities of the world service market. A series of ambitious targets have been set on the basis of analyzing domestic and overseas facts and trends of development, and accordingly the growth rate of the service sector expects to reach 7.7-8.2% in the 2006-2010 period, higher than that of GDP. Its GDP share is also promoted to 40 - 41% by 2010 with the aim to support sustainable development of the economy and shift to the knowledge-based economy.

In particular, the world trend of increasing service export is considered as an important factor to restructure the country's export in favor of service instead of goods as before.

Trade Deputy Minister Lương Văn Tỵ says the Trade Ministry plans the service sector's export value (including labor export) to grow by 16.3%/year in the 2006-2010 period, and reach US\$12 billion by 2010. The sector will focus its investment on potential industries for export such as insurance (up 29.3%/year), post- telecommunications (up 24.5%/year, finance-banking (up 22.4%/year), marine transport (up 21.5%/year)...

As a result, to attain these targets, Vietnamese businesses must have effective methods of management as well as boost up support services to help others save costs and time. Logistics services will meet partly that requirement.

Logistics is a commercial term familiar to Vietnamese businesses over the past five years and it is included in the revised Trade Law of Vietnam. Logistics is the technique of managing and controlling the flow of goods, energy, information and other resources



like products, services, and people, from the source of production to the market-place. It is difficult to accomplish any marketing or manufacturing without logistical support. It involves the integration of information, transportation, inventory, warehousing, material handling, and packaging. The operating responsibility of logistics is the geographical repositioning of raw materials, work in process, and finished inventories where required at the lowest cost possible.

According to the Trade Ministry, there are currently around 600 businesses providing various logistics services. They have made positive contributions to reducing costs of import-export, improving the competitive edge of Vietnamese exports and increasing the export value of Vietnam.

Logistics is developing globally into a value-added service which is regulated in many nations' trade laws. Therefore, when joining WTO, Vietnam is required to open the service market including logistics. This is both an opportunity and big challenge to local businesses.

In the macroeconomic aspect, logistics plays an important and inevitable role in production, circulation and distribution. Recent studies show that logistics services alone account for 10-15% of GDP of most countries in Europe, North America and Asia-Pacific Ocean. Regarding businesses, logistics is essential to solve the input-output problem most effectively. Logistics may change input resources or optimize the transferring process of materials, goods and services, etc... Logistics also helps reduce costs and sharpen corporate competitive edges.

According to experts, logistics services in Vietnam reveal a lot of shortcomings and inadequacies as follows:

- Vietnamese logistics companies meet only one-fourth of the market demand. They include foreign-invested, state-owned and joint venture enter-

prises as well as local forwarding companies. The logistics charges are rather cheap but services of several enterprises are badly provided, especially for local small forwarding companies. This has placed not a few obstacles on Vietnam's logistics market.

- The level of Vietnamese logistics technologies remains low as compared to international partners. The multi-method transport including seaway, riverway and airway cannot yet be well combined because the transition sites are not effectively organized. The mechanization level is still poor because manual labor is common. Warehousing shows obsolete operations as compared to the world standard. Information technology is not well applied in warehousing, etc. In general, facilities and equipment for providing logistics services remain backward, limitations, inadequacies. The networks of warehousing and sites are small and dispersed. The means and equipment including forklifts, conveyer belts, encoding packaging, pipelines, lighting, are still old-fashioned, thus lessening the efficiency of logistics.

- Most of logistics providers have a small size of finance and less knowledge about international laws. They have not yet created alliance and combination. They depend only on their own strength, so their competitiveness is low. There is even unfair competition between companies in the sector.

- The transparency in transactions concerning production, transport, warehousing and distribution remains limited, thus badly affecting logistics services, and increasing costs and lessening the provider's reputation.

The following are our suggestions to promote the competitive edge of Vietnamese logistics companies in the process of integration:

- Build a legal framework to secure the consistency, liberalization, reasonability and transparency in documents and regulations on logistics.

- Develop human resources and government policies to boost up logistics in Vietnam, so logistics must be trained in universities and colleges.

- Standardize the processes of logistics, logistics statistics, transport, warehousing, supplying materials, packaging, encoding, bar coding, clearing customs formalities, collecting and sorting out goods, managing inventory and providers, forecasting the demand, keeping invoices, customer services...up to the international standard.

- Perfect the construction of infrastructures (seaway, airway, roads, railroad), and establish logistics centers in focal economic areas.

- Promote the application of information technology, and exchange electronic data in trade and customs clearance.

- Vietnam Forwarding Association should implement its role more actively to protect the benefits of its member and help them enter foreign markets.

- Restructure logistics companies to build their financial potentials by issuing more shares or consolidating.

- Develop the system of branches and agencies in the world.

- Promote marketing of logistics or customer strategies for logistics activities.

Logistics is a fresh kind of services in Vietnam. As a result, the provision and development of the service requires a lot of factors such as laws and infrastructures, especially personnel. In the trend of global economy and under the pressure of its commitments when Vietnam joins WTO, local logistics companies must establish appropriate strategies to utilize existing advantages and restrict disadvantages of the globalization trend ■

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