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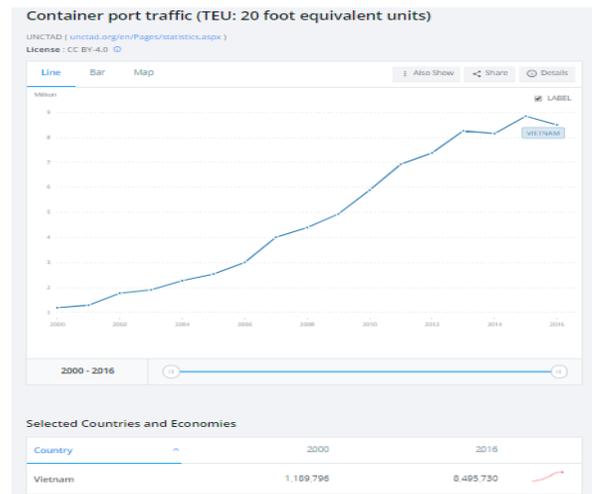
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Current Status:

Vietnam benefits from 3,400km of coastline. Recent investment in Vietnam’s marine sector has led to a total of 44 seaports with a total capacity of 470-500 million tonnes of cargo per year (Vietnam Briefing 2018). The three main ports are Hai Phong (North), Sai Gon (South) and Da Nang (Central). These ports have attracted many investors, including Vietnam Construction Service Development and Investment Co Ltd, InfraAsia Investment (Deep C Hai Phong), and US-invested Cargill Vietnam¹. Of the six HCMC city port groups, Cat Lai is the newest and largest and accounts for 71% of total seaport throughput. Cat Lai along with Hiep Phuoc’s ports are predominantly used for short route services to Asian countries, whereas Cai Mep International Terminal (CMIT) (possessing a 1.115 million TEU total capacity), is used for generally longer routes including the US and EU using larger vessels ².

In terms of shipping, the industry has been showing good signs of prosperity. According to Vietnam’s leading shipping firm, Vinalines, the total volume of goods moved by sea transport, in 2017, was 160,000 tons- an increase of 7% YoY³. Vietnam is also currently the 2nd largest country in ASEAN and ranks 5th in the world for shipbuilding⁴. Vietnam’s shipping fleet possesses more than 1,300 vessels with total capacity of 6.5 million DWT and is ranked approximately 30th in the world and 4th in the region⁵.



(The World Bank 2018)

The Vietnamese government’s increasing liberalisation of trade together with the significant increase in Foreign Direct Investment into the manufacturing sector leading to a significant growth in exports, alongside the country’s positive demographic advantage and growing consumer demand has led to a growth forecast for shipping and freight activity (World Bank’s, 2018). With exports accounting for 80% of nominal GDP and with trade growth being predicted to reach 9.25% in 2018⁶, Vietnam’s has attracted major investment from international

¹ Vietnam Briefing, Port Infrastructure in Vietnam, *Vietnam Briefing 2018* last modified May 09, 2018, <http://www.vietnam-briefing.com/news/port-infrastructure-vietnam.html/>

² Cai Mep International Terminal, *Cai Mep International Terminal Facility* last modified 2018, <http://www.cmit.com.vn/en/TerminalInformation>

³ Vietnam.Net, Shipbuilding industry’s golden era over, oversupply predicted

⁴ Netherlands Ministry of Foreign Affairs, Maritime in Vietnam, *Embassy of the Netherlands in Hanoi and Consulate General*, last modified 2018

⁵ Shipbuilding Industry Corporation, *Vietnam Maritime Industry*, last modified 2014

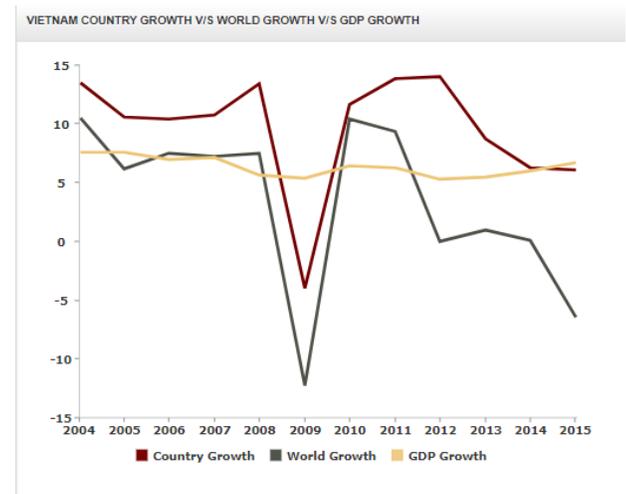
⁶ Business Monitor International, Industry Forecast- Trade- Vietnam- Q2 2018, *BMI*.

companies, especially in the category of electrical machinery, including modems and telephones from Intel and Samsung factories⁷

Strengthening/increasing global Trade:

Vietnam's growing economy, trade agreements and geographical strategic location has increased its global recognition as a regional trade hub, and has made it attractive for foreign freight transporters entering into the market. Its ports and inland waterways have been vital to securing both regional and global international connections, with Business Monitor International ranking Vietnam 7th for liner connectivity, allowing ports to increasingly offer direct services Asia-US and Asia-Europe routes⁸

Vietnam has increased negotiations with partners, which provide opportunities for improving the country's trade performance. A good example is The EU-Vietnam free trade agreement (EVFTA) which holds potential for a significant improvement in the country's trade performance and which could create an increase in investors' commitment and so boost FDI. This would aid Vietnam's resilience to fluctuations in the global economy⁹. Regional integration supported by agreements such as the Asian Economic Community and the FTA with South Korea, in 2015, coupled with demand from major markets such as the US, China and ASEAN will also support shipping tonnage growth¹⁰. Port HCMC, is expected to experience substantial growth in tonnage and container throughput, 8.6% and 9.5% y-o-y respectively, increasing again in 2019¹¹.



(World Integrated Trade Solution 2016)

This demonstrates Vietnam's consistently strong GDP growth, and although the country was negatively impacted by the global financial crisis, its economy was comparatively resilient- its GDP growth only declining from 7.13% in 2008 to 5.4% in 2009. (Oxford Business Group 2017)

⁷ Ibid.

⁸ Ibid.

⁹ Business Monitor International, Industry Forecast- Trade- Vietnam- Q3 2018, *BMI*.

¹⁰ Ibid.

¹¹ Ibid.

Within the last year, the country's total imports were \$211 billion and total exports are \$214 billion¹². In terms of the UK - according to the Customs Department of Vietnam - total exports to Vietnam totalled £579 million in 2017, increasing y-o-y by 20%, partly because of an increase in raw materials (129%), chemicals and related products (47%) and beverage and tobacco (77%), with also significant growth in product subcategories, including pulp and waste papers (3464%) and pharmaceutical products (60%). The total imports from Vietnam to the UK has also significantly grown, increasing by 10% to £4, 174 million in 2017 primarily through mobile phones and electrical devices (37%) and textiles (13%).

Opportunities:

Although Vietnam is expected to remain in the top three fastest growing economies, in Asia, in 2018-2019¹³, the decreasing labour growth in the next few decades will require the country to place greater emphasis upon productivity efficiency. In this respect, competitiveness, and in particular higher transport and logistics efficiency, is playing an increasingly critical role in the country's development. The rising investment in infrastructure and shipping has generated comments of Vietnam becoming "Asia's next Tiger Economy"¹⁴.

Due to Vietnam having an export-based economy, and with shipping being a cost effective and popular mode of transportation, moving 90% of the country's import and export cargo and growing by 6% in 2017, it is integral to the national economy¹⁵. Moreover, the strong economic growth rate of Vietnam, coupled with its long coastlines, strategic location in the South China sea and close proximity to other regional maritime hubs, permits easy access to the main inter-Asian shipping routes and access to land transport links with ASEAN countries. This explains the increasingly popular perception of Vietnam possessing 'potential to become one of the most important maritime countries in Asia by 2020'¹⁶. Maritime freight continues to outperform other sub-divisions due to extensive funding of new facilities by both the private and the public sectors¹⁷. Improving existing ports' efficiency will become more important as Vietnam continues to position itself as a cheaper manufacturing hub compared to its regional neighbours, predominantly China¹⁸. The increased presence of companies such as MOL Japan demonstrate

¹² General Department of Vietnam Customs 2018, <https://customsnews.vn/in-2017-import-export-turnover-was-estimated-at-nearly-us-425-billion-5631.html>

¹³ Asian Development Bank 2018, *Asian Development Outlook 2018: How Technology Affects Jobs*

¹⁴ Vietnam News, Shipping will make Viet Nam a 'tiger', *Vietnam News* last updated January 31, 2018, <https://vietnamnews.vn/economy/422160/shipping-will-make-viet-nam-a-tiger.html#rZ1jj6lvi7AbKSR.97>

¹⁵ The Voice of Vietnam, Vietnam's maritime industry has great impact on economy, *The Voice of Vietnam*, last updated January 31, 2018, <https://english.vov.vn/economy/vietnams-maritime-industry-has-great-impact-on-economy-367875.vov>

¹⁶ Ibid.

¹⁷ Business Monitor International, Vietnam Freight Transport Report Q4 2011, *Business Monitor International Ltd*

¹⁸ Business Monitor International, Transport Network Analysis- Vietnam- Q2 2018, *BMI*.

the expected development and growth of the industry. In Lach Huyen port, MOL Japan launched a new container terminal as a joint venture with Haiphong Container Terminal. MOL has stated it will satisfy consumer demands by reducing transit times and lowering freight costs, as it enables large-size container vessels offering direct services to Asia and North America/Europe to call at the port¹⁹. Moreover, the cost of transportation via water is significantly cheaper than by road. Deputy Minister of Industry and Trade Nguyen Van Cong stated that a 40-foot container moved overland from Hanoi to HCMC costs nearly 10 times the amount as moving by ship and 2.5 times by rail²⁰. Also, Vietnamese inland waterways are expected to enjoy strong growth over the period between 2018 and 2022. Freight volumes are expected to expand by 7.5%, rising to 268.4 million tonnes, and by 6.6% in 2019²¹.

Additionally, a revival in the country's shipbuilding industry has seen a significant investment since the beginning of this year. Four investments from Singapore valued \$50 million have been put into a shipyard owned by Triyards, a joint undertaking in Dong Xuyen Industrial Zone (IZ) in Vung Tau City²². Also, in 2017, the Shipbuilding Industry Corporation (SBIC) closed deals with South Korean ship owners on building 6500 ton oil and chemical vessels, which will increase opportunities for export. In 2017, Pha Rung Shipyard Company has also launched the first ocean liner named YN YEOSU, one of four vessels ordered by a South Korean partner, being the first major contract Pha Rung has gained after six years of deadlock within the shipping industry²³.

Another motivation for the development of the marine sector is the increasing investment in ports, focusing on integration with surrounding road and rail networks and improving the overall logistics situation in the country²⁴. The limited quality and extent of Vietnam's transport network has been a huge problem for the freight industry, particularly compared to many of its regional peers²⁵- investors are being dissuaded by the high risk of disruption and costly delays in the transportation of goods, making shipping the most cost-effective mode of transportation²⁶. With continued greater improvements in the country's transport infrastructure, it is expected that we will see an improvement in the operational efficiency at the country's major ports and lead to more efficient trade flows. It will also attract many managerial and consulting opportunities from global port operators and maritime services.

¹⁹ Mitsui O.S.K. Lines, Haiphong International Container Terminal (HICT) Opens in Lach Huyen, Vietnam, *Mitsui O.S.K. Lines*, May 14, 2018, <http://www.mol.co.jp/en/pr/2018/18031.html>

²⁰ The Voice of Vietnam, New deep-sea port to boost logistics capacity in Vietnam, *The Voice of Vietnam*, May 8, 2018, <https://english.vov.vn/economy/new-deepsea-port-to-boost-logistics-capacity-in-vietnam-374058.vov>

²¹ Business Monitor International, Industry Forecast - Shipping - Vietnam - Q3 2018, *BMI*.

²² Hellenic Shipbuilding News Worldwide, *Vietnam: Shipbuilding industry needs special policies*.

²³ Ibid.

²⁴ Business Monitor International, Transport Network Analysis- Vietnam- Q2 2018, *BMI*.

²⁵ Ibid.

²⁶ The Voice of Vietnam, Vietnam's maritime industry has great impact on economy

Weaknesses:

The costs and timescales are much higher in Vietnam compared to more developed countries due to its generally smaller capacity. For example, the average river-going cargo vessel in Vietnam's national fleet has a carrying capacity of approximately 100 DWT, compared to 2,500 DWT in West Europe²⁷. Also, despite being the largest deep water complex, being able to receive vessels up to 18,000 TEUs, CMIT operates at barely 25% of capacity²⁸. This is generally due to the major underdevelopment in port facilities and lack of major multinational port operators supervising the ports' activities, causing difficulty in being able to efficiently cope with increased throughput. Therefore, investment is necessary to prevent congestion and provide more direct connections for shipping liners for times that trade volumes increase.

Significantly, although there has been increased investment in Vietnam's ports, companies based in Vietnam are still heavily dependent on transshipment²⁹. Transshipment increases the cost of production, as two ships instead of one are required for the transportation of the goods to the designated destination, which additionally also increases transit times. This in part at least explains investors' hesitation towards Vietnam, its initial attraction being driven by its low labour costs, which is then tainted by its high shipping fees which creates the true export price.

One huge limitation to Vietnam's marine industry is the poor road and rail infrastructure - its railway infrastructure was ranked 99/133 by World Economic Competitiveness Report in 2009/2010³⁰. As a result of the lack of rail facilities, the majority of freight travels via roads, which has a high risk of disruption and delays in the transportation of goods³¹. Transportation via the roads is also very expensive, being largely responsible for logistics costs accounting for 20.9% of GDP in 2016³².

The marine sector is also vulnerable to fluctuations in fuel prices as the country is very import reliant for its commodities, therefore economy policy slippages could affect investors' confidence. This could cause a decrease in FDI and manufacturing growth³³.

Rising global trade protectionism, particularly from markets such as the US and China, may hinder Vietnam's trade growth in the near term. The US is Vietnam's largest export partner for many

²⁷ Business Monitor International, Transport Network Analysis- Vietnam- Q2 2018, *BMI*.

²⁸ Ibid.

²⁹ Vietnam Briefing, Port Infrastructure in Vietnam, *Vietnam Briefing 2018* last modified May 09, 2018, <http://www.vietnam-briefing.com/news/port-infrastructure-vietnam.html/>

³⁰ Business Monitor International, Vietnam Freight Transport Report Q4 2011, *Business Monitor International Ltd*

³¹ Business Monitor International, Transport Network Analysis- Vietnam- Q2 2018, *BMI*.

³² VnExpress International, Vietnam needs to reduce logistics costs to compete: PM, last modified April 17, 2018, VnExpress International

³³ Business Monitor International, Transport Network Analysis- Vietnam- Q2 2018, *BMI*.

years, up to 2017³⁴. The US administration's stance on more protectionist policies, with Asian products in focus, has made the future of trade between the two countries become more uncertain.

Notes

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