

SUPPLY CHAIN AND LOGISTICS MANAGEMENT: VIETNAM

PALAPAN KAMPAN

As a export-based economy, Vietnam needs to improve its logistics and supply chain management to contribute into the development of its economy. However, there are existing the challenges which the government as well as the companies in this field have to identify and overcome as follows:

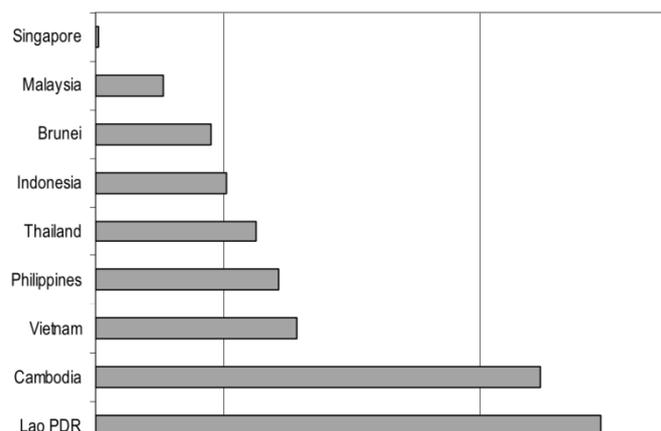
- only 25% of logistics requirements provided by local enterprises, the remain of market share covered by foreign logistics companies
- the majority of logistics service providers (LSP) are at the level of 2PL or 3PL; intergrated logistics (4PL) or supply chain management are very few and limited by the competence and service network
- Vietnam logistics companies have been facing the challenges of critical competition in the local market when WTO commitments to abolishment completely some restrictions to foreign companies in the field of logistics come into force in 2014.

Logistics and supply chain management play a very important role in the movement flows of Vietnam domestic and foreign trade goods. As a export-based economy, Vietnam needs to improve the effectiveness of logistics and supply chain management to make the competitive capability for Vietnam goods in the world market as well as in domestic market. Vietnam logistics contribution is about 25% GDP. In comparison to other economies in the world, Vietnam logistics costs are not effective because of some reasons such as infrastructure, logistics competence, transport costs, etc.

(Hoa, 2011)

Vietnam is currently ranked 6th out of 10 AEC countries at no. 78 in term of the ease of doing business and is ranked 75th in term of trading across borders only ahead of Cambodia and Lao PDR (World Bank Group, 2014). In addition, Vietnam ranks the highest in the number of border agencies exports and imports (Layton, 2008, p. 85).

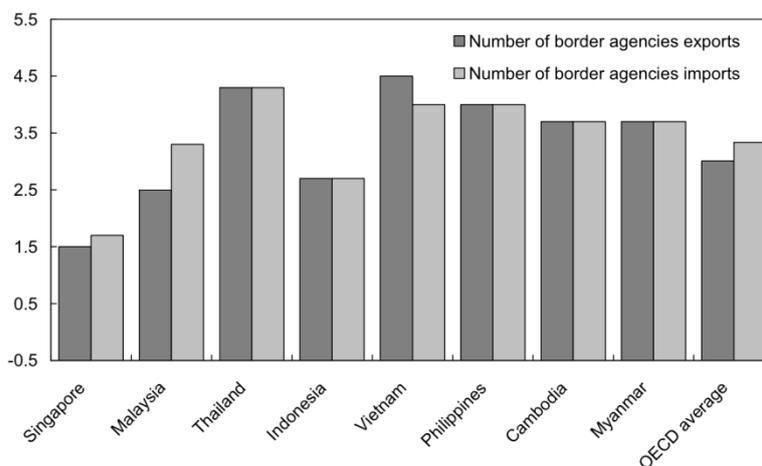
Figure 1: Ease of doing business – trading across borders



2008,

(Layton, p. 79)

Figure 8: Number of border agencies (Average of responses)



(Layton, p. 85)

2008,

Vietnam is the world's

one of fastest-

growing sourcing and manufacturing locations _ with an average export growth rate that was the highest in the region during the last decade. With its increasing international focus, the booming economy of Vietnam has become a focal point for offshore production by global manufacturers looking for even lower-cost locations than previously offered in China. However, as the labour and transport costs of its neighbours have risen quickly over the past few years, weaknesses in Vietnam's supply chain and logistics infrastructure are still leading to high costs of production and transport, which in turn is hindering international competitiveness.

Infrastructure (airports, seaports, roads, bridges, etc) are all important to a country in terms of attracting investment and business and to a company when it is time to decide where to locate an investment, build a factory or establish a regional office. In terms of competitiveness, Vietnam does not have much more time to improve logistics services to prepare for the stiff competition that will occur once it starts to meet WTO commitments to open its borders and logistics market to foreign companies.

Even though segments of Vietnam's retail and wholesale industry are growing rapidly, there are still many challenges (such as inadequate infrastructure and rising fuel costs) that obstruct the flow of goods from suppliers through retail distribution centres to nationally dispersed stores. As manufacturers of foods, beverages and packaged goods struggle to meet increasing demand they all face relatively high costs to distribute products nationally. New fresh food sourcing platforms and distribution channels are just being introduced to ensure safe and hygienic handling, but still have to compete on price with traditional markets relying on rudimentary quality standards and basic handling methods.

In an effort to keep pace with these demands, as well as cater to the needs of the world's 13th largest population, the Vietnamese government has invested heavily in upgrading its transport and logistics infrastructure. However, according to a recent USAid report, its record of success can best be described as mixed. Upgrading infrastructure: While Vietnam's vast network of inland waterways can transport goods efficiently, an inadequate road network (fewer than 20% of roads are paved) and limited railway capacity have prevented it from meeting its full transport potential. Even though many national highways have been upgraded and magnificent new bridges completed, there are still problems of making the interfaces between them smooth enough to traverse at speed, which slows long-haul transport.

Ports and shipping: Port congestion slows the supply chain, increases transaction costs for importers and exporters and foreign and local producers, chokes economic growth and steers investment to other countries. Containers often require three to seven days to clear Customs, with delays of up to 30 days reported. Further port infrastructure issues in Vietnam include: haphazard and irrational planning and resource allocation; too many small ports with inefficient economies of scale; potentially low investment returns that limit investment in new port construction and management; and delays in delivery of master plan milestones such as dredging and road/bridge construction, further exacerbating congestion.

Need for integration: Vietnam's rapid growth has outpaced its infrastructure, creating major bottlenecks in ports and a major constraint to continued export-led growth and investment. Infrastructure planning must be fully integrated to include seaports, roads, and air logistics to ensure efficiency and competitiveness for investors, service providers, manufacturers and exporters.

According to USAid, an estimated \$200 billion in new roads, bridges, ports, water sanitation, power, and other infrastructure is still required to sustain growth. But Vietnam cannot finance or coordinate this investment through internal government channels alone and will need to utilise public-private partnerships. It will also be necessary to set up a national logistics committee that connects ministries, branches and enterprises. If no such committee is established, there will be no mechanism for a common voice in the development of transport infrastructure and industrial zones. Developing Vietnam's transport and communication capabilities will play a very important role in developing national logistics services. Meanwhile, the transport system in Vietnam remains weak, regardless of whether it is overland, railway, airway, waterway or seaway. This will lead to high logistics fees, thus affecting the development and international competitiveness of Vietnam. This of course provides a marvellous career opportunity for experienced logisticians looking for a challenge. (Huong Nam Logistics, 2014)

DHL Supply Chain (DSC) has announced its plan to invest \$13 million in Vietnam to expand its business scale here in anticipation of the Vietnam's logistics market opening next year.



The sum of money would be used to train the labor force, which would increase the number of workers to 2,200 by 2015, and to increase the storehouse area from 91,000 square meters now to 141,000 square meters by 2015. DSC also plans to develop its truck fleet to 100 units by that time. A distribution center is being built in Bac Ninh province which covers an area of 10,000 square meters. The company's office in Hanoi would be set up in the near future.

(VietNamNet Bridge, 2013)

Vietnamese logistics firms remain tiny, which can only undertake separated phrases within 2PL services. Meanwhile, foreign firms can take the works within 4PL services. That explains why domestic firms can only get small pieces of the big logistics cake, worth \$12 billion. If the Vietnamese transportation services cannot develop, this would lead to the lower national competitiveness, because the transport cost would increase by 10 percent. Multi-national groups now tend to apply streamline distribution models, cutting the general sale agent networks in distribution regions. Instead, they would use the services from logistics firms which can provide 3PL services.

A report said there are some 1,000 logistics firms in Vietnam. The big names in the world such as Maersk Logistics, APL Logistics, NYK Logistics, MOL Logistics have set up 100 percent foreign invested enterprises or teamed up with domestic partners to set up joint ventures, where they hold the controlling stakes. Domestic firms have also geared up with their plans to make heavier investments to grab the opportunities which would come when the national economy prospers. Vinafco, for example, has spent money on setting up a new storehouse system, while considering hiring foreign experts, who will help build up the operation network in accordance with "Best Practice" standards.

(VietNamNet Bridge, 2013)

Supply chain routing alternatives between Thailand and Viet Nam will now be presented and compared. The purpose of this subsection is to illustrate some of the issues logistics providers have to deal with when managing their clients' supply chains in the context of Southeast Asia. A total of three supply chain alternatives are described in Table 2 and illustrated in Figure 2. Exporters and importers are not interested in routing decisions. Their sole focus is on having their goods delivered as per the agreed upon service level and cost. It is the duty of the logistics provider to find the optimal solution that balances the client's cost and time requirements. A contextual scanning is needed in order to find the most suitable option for a client's supply chain.

Table 2: Routing Alternatives between Thailand and Viet Nam

| Route | Thailand | Mode | Viet Nam |
|-------|----------------------|--------------|-------------|
| 1 | Bangkok/Laem Chabang | Road vs. Sea | Hanoi |
| 2 | Bangkok/Laem Chabang | Road vs. Sea | Danang |
| 3 | Bangkok/Laem Chabang | Road vs. Sea | Ho Chi Minh |

(Banomyong, 2010)

There is currently no direct maritime link between Bangkok and Hanoi. Freight containers being transported by sea must therefore be transhipped at Ho Chi Minh port, increasing transit time and cost. Sea transport costs (including transshipment) represent about 30% of total transport costs, but more than 70% of transit time. Trucking costs represent around 15% of total transport costs.

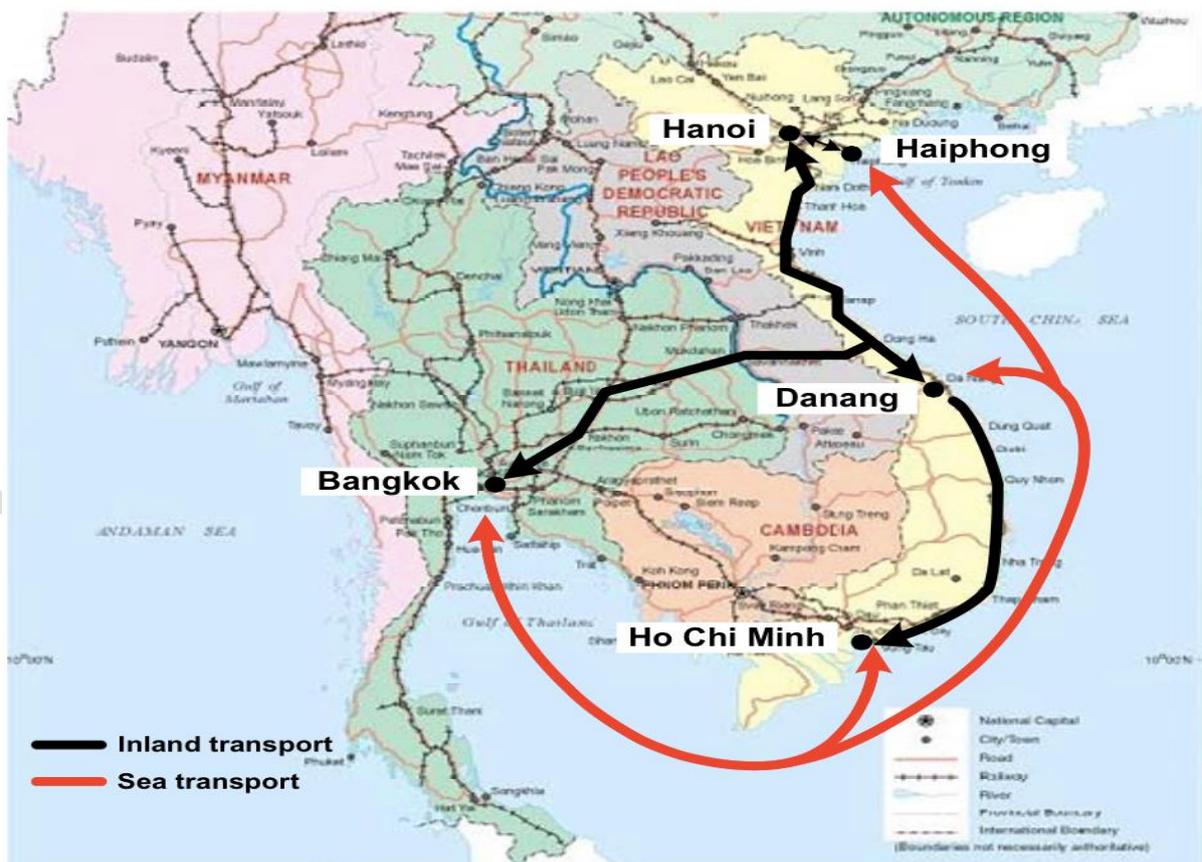
It is interesting to note that administrative formalities can comprise up to 36% of the total cost of transportation between Bangkok and Hanoi via the maritime route. Also, while the total cost of transport by road is 30% higher than the maritime option, it is also 80% faster. For a shipment traveling by land between Bangkok and Hanoi, transport has the highest activity ratio: more than 68% of total costs and 73% of total time for the whole journey. If no transloading is conducted at the border, it is possible to reduce transport costs by over 300 US dollars (US\$) per twenty-foot equivalent unit. Transloading does not need to be done at the Lao People's Democratic Republic (Lao PDR)-Viet Nam border.

A number of fees are levied by various related authorities in the transit of goods between Thailand and Viet Nam. This creates a problem for the land route as there is empirical evidence that the land route is likely to be selected by traders who are handling higher value and more-time-sensitive commodities. These add-on fees defeat the purpose of

physically and institutionally connecting Thailand and Viet Nam via Lao PDR to facilitate trade. The actual physical transportation of goods is not a problem in and of itself. The difficulty lies in border crossings, despite the existence of the Greater Mekong Subregion Cross Border Transport Agreement, whose objective is to reduce border crossing time to not more than 30 minutes per border. Cost is not the sole factor taken into account in routing selection; transit time is another key component. The land route can link Bangkok to Hanoi in just over two days, while the sea route takes more than 14 days due to transshipment. Even if a direct maritime link between Bangkok and Hanoi existed, the journey would take at least five days to complete.

The current maritime linkage is a reflection of the relatively low volume of direct trade between Thailand and Viet Nam's northern region. If the volume of trade were higher, there would surely be direct links between the countries. The existing maritime linkage is not competitive given the time dimension and is probably only suitable for cargo that is non-time sensitive.

Figure 2: Supply Chain Routing Alternatives between Thailand and Viet Nam



(Banomyong, 2010)

Viet Nam is now ready for the ASEAN Economic Community (AEC), due to be formed at the end of 2015, experts said at a seminar held by the Central Institute of Economic Management (CIEM) late last week in Ha Noi. Nguyen Anh Duong, deputy head of the CIEM's macro-economic section, said the country has made essential preparations in terms of governance and institutional and administrative procedure reforms. Participants said the AEC will bring opportunities to Viet Nam to expand markets and at the same time fiercer competition on its own ground, particularly in industrial and agricultural sectors.

CIEM Deputy Director Vo Tri Thanh noted that however, Viet Nam still faces problems in human resource quality and poor infrastructure. He suggested that the country develop effective macro-economic policies to boost the integration process through attracting investment while preventing negative impacts. In particular, the Government should continue improving its investment and business climate, completing legal framework and assisting enterprises in updating technologies and expanding markets. Viet Nam has brought the tariff rates to zero per cent for 80 per cent of tax lines and remove tariff for another 13-15 per cent by January 1, 2015. The rest will be removed until 2018.

(Viet Nam News, 2014)

Four pillars of AEC

Four pillars have been identified to reach the AEC's targets: a single market and production base (Pillar 1) that includes free flow of goods, services, investment, skilled labor and capital. A competitive economic region (Pillar 2) with the following targets: competition policy, consumer protection, and intellectual property rights and infrastructure development by means of enforcing regulations, taxation policy, and the e-ASEAN framework agreement.

Equitable economic development (Pillar 3) aims to narrow the gap among ASEAN countries. Lastly, integration with the global economy (Pillar 4) focuses on developing external economic relations such as signing free trade agreements (FTAs) with non-ASEAN members.

The MUTRAP report shows that Vietnam has put a lot of effort into addressing these pillars, meeting 74.6 per cent of the criteria set by ASEAN for Pillar 1, 77.3 per cent for Pillar 2, 61.1 per cent for Pillar 3, and 75 per cent for Pillar 4.

Vietnam has a stable socio-political environment that ensures a favorable setting for investment and business activities for long-term growth. It pays among the lowest average wage in the region, only higher than Cambodia, which makes it a competitive cost location.

Additionally, a middle class is emerging, which will spur significant changes in consumption behavior, said Mr. Nguyen Anh Duong, an expert from MUTRAP.

Remaining challenges

The microeconomic foundation of Vietnam's economy and prosperity remains fragile, with the country's Global Competitiveness Index (GCI) performance remaining weak once sustainability measures are considered. The 2013-2014 GCI ranked Vietnam lower than 57th for every pillar except market size (36th). Its growth rate has been under 7 per cent for six consecutive years, the World Bank has reported.

Problems in cross ownership/investment have emerged recently and are seen as a "new generation" of risk in Vietnam's financial system that should not be neglected. A legacy of the bank-based financial market, this cross ownership creates additional systematic risk, masks the real risk to banks, and may lead to imprudent lending practices, according to the report.

The AEC will bring opportunities to Vietnam to expand its markets and at the same time spark fiercer competition on its own turf, particularly in the industrial and agricultural sectors, said Mr. Vo Tri Thanh, Deputy Director of CIEM. He added that Vietnam still faces problems in human resource quality and poor infrastructure, at a time when the AEC will transform ASEAN into a region with free movement of goods, services, investment, skilled labor, and capital.

(Vietnam Economic Times, 2014)

Selected by Business Sectors' interests in Japan and ASEAN



Route 1: Thailand - Malaysia – Singapore

Route 2: Thailand - Laos - Vietnam (Hanoi) (EWEC)

Route 3: Vietnam - South China

Route 4: Thailand - Myanmar (EWEC)

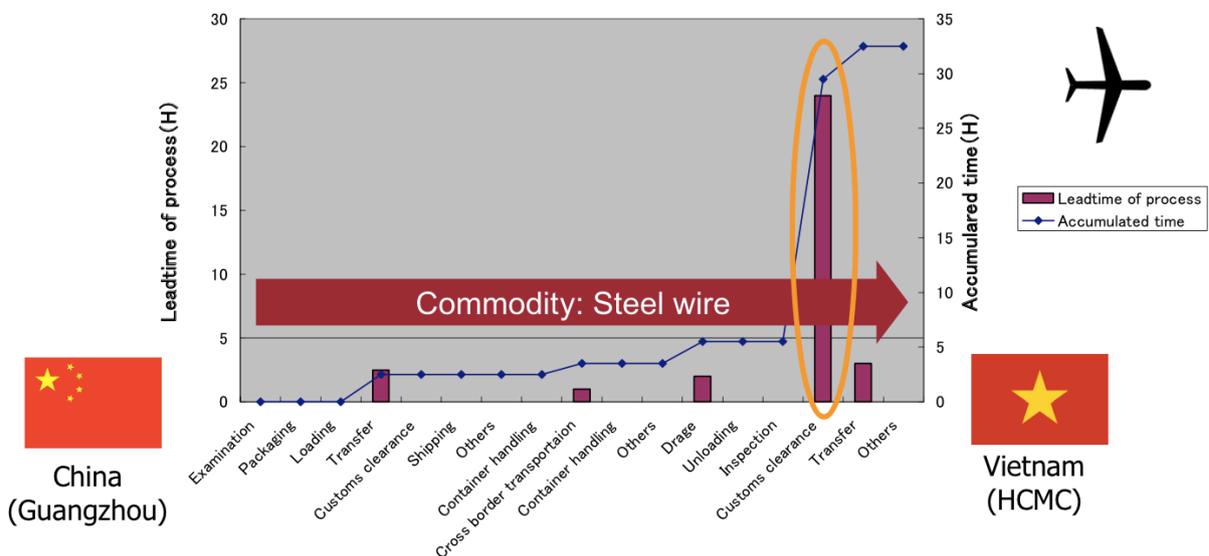
Route 5: Thailand - Cambodia - Vietnam (Ho Chi Minh City)

Route 6: Singapore – Indonesia

Route 7: Thailand - Philippine

(Jetro, 2008)

Transportation Time of Steel Wire from China to Vietnam by Air



In this sample, the import custom clearance in Vietnam takes most of the time, and it diminishes the merit of air transport.

References:

Banomyong, R. (2010). *Supply Chain Dynamics in Asia*. ADBI Working Paper 184. Tokyo: Asian Development Bank Institute. Retrieved from <http://www.adbi.org/working-paper/2010/01/07/3427.supply.chain.dynamics.asia/>

Hoa, H. T. T. (2011). *Effective logistics and supply chain management as essential solutions to increase competitive capability of Vietnam goods in knowledge economy*. Retrieved from http://www.cutn.sk/Library/proceedings/mch_2011/editovane_prispevky/Ho%20Thi%20Thu%20Hoa-212-217.pdf

Huong Nam Logistics. (2014). *Vietnam's supply chain reform agenda*. Retrieved from <http://www.huongnamlogistics.com.vn/Tin-tuc/Vietnam-s-supply-chain-reform-agenda.aspx>

Japan External Trade Organisation. (2008). Thailand-Japan Cooperation and Prospect for Efficient Logistics Network in ASEAN - Introduction of ASEAN Logistics Network Map Project. Retrieved from https://www.jetro.go.jp/thailand/e_survey/pdf/shibata_asean%20logi%20map.pdf

Layton, B. (2008), Trade Facilitation: A Study in the Context of the ASEAN Economic Community Blueprint, in Soesastro, H. (ed.), *Deepening Economic Integration- The ASEAN Economic Community and Beyond*, ERIA Research Project Report 2007-1-2, Chiba: IDE-JETRO, pp.76-100.

Vietnam Economic Times. (2014). *Vietnam ready for AEC*. Retrieved from <http://www.vneconomicstimes.com/article/vietnam-today/vietnam-ready-for-aec>

VietNamNet Bridge. (2014). *Supply chain services booming on Vietnam's logistics market opening*. Retrieved from <http://english.vietnamnet.vn/fms/business/75727/supply-chain-services-booming-on-vietnam-s-logistics-market-opening.html>

Viet Nam News. (2014). *VN ready for ASEAN Economic Community*. Retrieved from <http://vietnamnews.vn/economy/264037/vn-ready-for-asean-economic-community.html>

World Bank Group. (2014). *Economy Rankings*. Retrieved from <http://www.doingbusiness.org/rankings>