

Analysis of vietnam's logistics industry



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Vietnam has developed economy markedly after adopting economic reforms in 1986, becoming one of the fastest growing economies in Asia. The incessant efforts of the state towards international economic integration such as the implements of bilateral trade agreements, achieving memberships of the ASEAN Free Trade Area (AFTA) and, most recently, entering to the World Trade Organization (WTO), has made further strong changes in Vietnam's trade and economic regime.

However, to continue impression by state economic growth, Vietnam needs to pass challenges such as reforming its regulatory environment and legal framework and, equally important, improving the infrastructure for the transportation and logistics sectors.

Transportation and logistics have important role in Vietnam's development. This study will focus on Viet Nam's logistics industry that can continue to be facilitators of country's economic progress, however there are a number of potential challenges that must first be addressed.

1. Introduction

Vietnam is one of fastest-growing sourcing and manufacturing locations in the world - average export growth rate was the highest in the region during the last decade. The country has become a focal point for off-shore purchase for global manufacturers looking for even lower cost locations than others in Area. By favorable conditions, there are opportunities as well as challenges for the transport and logistics sector in Viet Nam.

This research will analyze Vietnam logistics industry through models such as Porter's five force, PESTLE analysis and Product life cycle to introduce recommendations for development of logistics industry in Vietnam

2. Porter's five force analysis

Source: <http://www.caneval.com/images/pictures/fiveforcesmodel.jpg>

Threats of new entrants - High

Threat of new entry can be characterized as high due to Vietnam must entirely open the logistics market for foreign companies in 2012 following its commitment to the World Trade Organization (WTO). This is a big difficulty for Vietnamese logistics businesses that have to compete with foreign companies that have greater capital and better competitiveness.

Threat of substitutes - Medium

E-commerce will open a new market for players in the logistics field.

Logistics and distribution systems that function efficiently and effectively in all respects will be crucial for the success of the companies involved. This implies that manufacturing companies, and especially logistics companies, must identify and create effective logistics solutions in order to compete on the marketplace.

Bargaining power of suppliers - Medium

The inefficiencies of the air and ocean transportation system and a lack of supporting infrastructure on the landside, including warehousing and depot facilities are hampering the growth of efficient logistics practices in the

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country. However, Government initiatives to improve logistics infrastructure and increased participation of international operators are expected to improve the logistics landscape in Vietnam.

Bargaining power of buyers - Medium/High

The Vietnamese logistics industry has great potential for development, which domestic businesses have not yet made the most of. At this time, domestic companies handle just 18 percent of total import-exports, with the rest being catered for by foreign logistics companies. Inadequate logistics infrastructure including incomplete road systems running to seaports, warehouses, and airports has resulted in increased logistics costs. This disadvantage has hampered the development of the Vietnamese logistics sector.

Rivalry among existing firms - High

There are more than 800 mostly small-sized logistics businesses in Vietnam, and they remain modest in terms of capital, technology and manpower. In addition, logistics infrastructure is inadequate, and there are many legal barriers hindering the development of logistics in Vietnam.

Leading international logistics companies are expected to expand their presence in Vietnam through direct investment and joint ventures. The operating environment for service providers is likely to improve as the understanding of the benefits of an integrated logistics system increases among policy makers and end-users.

Presently, the Vietnam shipping industry is dominated by international carriers who are able to provide global coverage and a wide range of

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services. The local carriers are largely focused on domestic and regional shipping services within South East Asia. As a result of the terms for accession to the WTO, Vietnam has allowed foreign shipping companies to establish joint ventures with majority foreign ownership.

2. Analysis on PESTLE of Vietnamese logistics industry

PESTLE analysis is used to identify factors of macro environments of Viet Nam in logistics industrial development relying on five basic elements such as Politics, Economy, Society, Technology, Legal and Environment.

Political factor

Laws and regulations effected within the logistics industry are dependent on the political environment which formulates such laws and regulations.

Governmental policies and regulations of Viet Nam on the logistics industry are not clear enough to create conditions for the country's fledgling logistics industry to develop.

Recently, favorable policies for industrial activity have led to the growth of Foreign Direct Investment (FDI) flows and the establishment of more privately-owned Vietnamese enterprises. This has given great momentum to the nation's industrial sector and resulted in the multi-fold growth of its international trade.

Table 1 – Strength of investor protection index (0-10)

Indicator

Vietnam

East Asia & Pacific

OECD Average

Extent of disclosure index (0-10)

6

5.1

5.9

Extent of director liability index (0-10)

0

4.6

5.0

Ease of shareholder suits index (0-10)

2

6.3

6.6

Strength of investor protection index (0-10)

2.7

5. 3

5. 8

Source: <http://www.doingbusiness.org/ExploreEconomies/?economyid=202>

Economic scale

The businesses expanded beyond national boundaries and extended their global reach to take advantage of new markets and cheaper resources, so the movements of goods created new demands for the transportation and logistics industry. Rising inflation and global competition gave rise to greater pressures on businesses to minimise the costs of operation, including implementation of just-in-time inventory management systems, etc., and also created demands for speed and accuracy in all aspects of business.

Vietnam's imports and exports have been consistently increasing and the economy has shown a healthy growth rate of on average 7.6 percent per annum between 2001- 2006. The country's exports and imports for the year 2008 totalled US\$ 144 billion, a 21 percent increase from 2007. The increased trading activity had created strong demand and huge opportunity to the logistics service providers, especially in the freight forwarding sector.

Figure 1 - Viet Nam total exports and imports 1990 - 2008

(Unit: Millions of USD)

Source: General statistics office of Viet Nam

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Moreover, foreign investment has also been rising steadily in the Vietnamese logistics sector and is expected to increase further with the country's entry to the WTO. There are a large number of foreign logistics companies which are in the process of obtaining or have already obtained their licences to operate as a wholly foreign owned companies or joint ventures in Vietnam. With the increasing penetration of multinationals, the market is expected to grow during the next five years, with service levels reaching international standards.

In Vietnam, the Government aims to invest as much as 10 percent of its GDP on infrastructure including the transport, energy and telecommunications sectors. The private sector is expected to play an expanded role in financing the highway, seaport and airport projects. Improved infrastructure developments and ancillary services such as warehousing, depots and distribution centres will further boost the demand for logistics services and create huge business opportunities for the existing logistics service providers.

Figure 2 – Foreign direct investment projects licensed in period 1988 – 2008

Source: General statistics office of Viet Nam

Social force

The inadequate human resources for logistics services have not been well-trained and enterprises suffer a shortage of qualified logistics experts. 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 infrastructure.

However overall, its record of success can best be described as mixed. While Vietnam's vast network of inland waterways transport goods efficiently throughout the country, an inadequate road network - less than 20% paved - and limited railway capacity have prevented Vietnam from meeting its full transport potential.

On the other hand, Vietnam's rapidly growing air and seaport industry has facilitated a higher volume of trade, lending hope that improvements across all transport networks will have a similar effect.

Technological force

The inadequate information system of Viet Nam logistics industry is leading to be ineffective. Vietnam is lagging behind other countries in the Region in EDI and E-Commerce applications. A number of ASEAN countries have made substantial efforts to build up a public-private EDI, inter-ministry network to share the logistics information and to improve the industry's operations.

VICT (Vietnam Internal of Commercial Technology) system of Vietnam is the only port operator using the EDI system, on a standalone basis, which processes automated container billing, automated inventory management (container yard operation), automated gate operation (truck arrival and departure check), automated vessel operation (container loading and unloading management), and CFS stock management.

Legal force

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In Vietnam, the regulatory and legislative standards such as customs clearance, ground handling, and terminal operations are highly complicated and not always consistent. The multiple layers of administration at district and provincial levels have also led to some reports of corruption and subsequent increase in both lead times and the cost of processing freight. Many seaports and airports also lack supporting logistics distribution centres, which can result in increased inventory and idle time for trucks, ships and planes.

Currently, the boundaries between the operations of various businesses such as freight forwarders, warehouse operators, fleet operators and integrated logistics companies are not well defined. They are often fragmented and do not generally complement each others' business offerings, which can lead to duplication of effort, higher costs and lead times. The lack of information sharing, clarity on roles and responsibilities pose great challenge and can further hamper the growth of the logistics industry in Vietnam.

Environmental factor

The Vietnamese logistics industry also lacks experienced logistics professionals. This is a major challenge and drawback for the local as well as multinational logistics companies since they find it difficult to hire the right talent. Insufficient training and education in the field of logistics is also a major contributor to the scarcity of skilled personnel.

The transport infrastructure is actually in bad condition and a corridor for multimodal transport has not been created while the needs for quality

transport of goods between various means of transport are growing increasingly.

Figure 3 - Cargo transport of Viet Nam in 2009

Source: General statistics office of Viet Nam

4. The Drivers of change of the Logistics industry

The regulations of government, national transportation and infrastructure system, business environment, cost and time of services are defined main forces that drives change of logistics industry in Viet Nam.

Regulations of government's relevant policies

Vietnam had acquired about US\$ 80 billion (2008 state est.) in FDI, directed towards more than 6, 000 projects. The FDI inflow will continue as more investors realise the potential opportunities that the country has to offer. However, the complex legal and regulatory environment, arising from an uncoordinated model of policy implementation, is a major concern for private and foreign investors. This is a significant reason for the low participation of private investors in critical sectors such as infrastructure development.

National transportation and infrastructure system

The road, rail and air transportation network lag significantly behind international standards and hence account for a low share of the overall transportation market. The improvement of these networks will greatly enhance the country's ability to develop its domestic and international

connectivity. This will bring significant benefits to its trade growth as well as the transportation, logistics and tourism industries.

Trade environment

Vietnam has good potential to develop into a major Asian shipping hub. However, the lack of world-class deep water port facilities is limiting its potential to fully develop shipping and related industries. Encouraging the participation of international shipping and port operators would add great momentum to the sector. However, there will be a need for greater transparency in policy making and to place greater emphasis on economic considerations over political expediency.

In the past decade, Vietnam's containerized volumes have grown every year by almost 20 percent, but the delay in upgrading and expanding of ports has resulted in continued inefficiency and potential congestion problems. Weak landside infrastructure is another major concern for both service providers and users.

Table 2 – Trading across borders in 2009**Region or Economy****Documents to export (number)****Time to export (days)****Cost to export (US\$ per container)****Documents to import (number)****Time to import (days)****Cost to import (US\$ per container)****East Asia & Pacific**

6. 7

23. 1

909. 3

7. 1

24. 3

952. 8

Eastern Europe & Central Asia

6. 5

26. 8

1, 581. 8

7. 8

28. 4

1, 773. 5

Latin America & Caribbean

6. 8

18. 6

1, 243. 6

7. 3

20. 9

1, 481. 0

Middle East & North Africa

6. 4

22. 5

1, 034. 8

7. 4

25. 9

1, 221. 7

OECD

4. 3

10. 5

1, 089. 7

4. 9

11. 0

1, 145. 9

South Asia

8. 5

32. 4

1, 364. 1

9. 0

32. 2

1, 509. 1

Sub-Saharan Africa

7. 8

33. 6

1, 941. 8

8. 8

39. 4

2, 365. 4

Viet Nam

6

22

756

8

21

940

Source: <http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders/>

Costs and time

Lastly, the development of its logistics industry will significantly enhance Vietnam's competitiveness through the reduction of transportation and inventory costs, shorter lead times for delivery to destination markets and an overall improvement in the efficiency and security of the movement of goods and materials. Currently, logistics costs are a significant contributor to the high cost of doing business in Vietnam. Over the last 10 years, increased competition and the improved level of logistics services has significantly reduced this cost.

5. The life-cycle model

Source: <http://alife4info.co.uk/images/stagesInTheIndustryLifecycle.jpeg>

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Vietnam's economy is expected to continue to grow at above 6% for the next five years and between 5 and 6% in the following five years. The share of the industrial and services sectors within GDP composition will continue to grow. Vietnamese logistics industry is considered stand between growth and shakeout stages (X). The experience of its neighbours (Singapore, China, and Hong Kong) will serve as useful examples of how to develop logistics industry.

Government policies focus on transforming Vietnam into a market economy and continuing international economic integration. There is an opportunity to improve this further through investment in new infrastructure as well as new processes and technology to meet international standards. This will support for main national industries, including transportation and logistics to continue growth in the future.

6. Scenario Analysis

Redesigning of regulations and business laws based on association of small units to facilitate trade operations faster, cheaper and more effective

The industry is highly fragmented with an estimated 800 operators competing for business. Most operate on a small scale and have limited coverage, service range and information technology (IT) capabilities. Service providers face several challenges, including inconsistent regulations across various levels of administration and a lack of skilled manpower. It is necessary to encourage members to work in collaboration with each other on the basis of utilising enterprises' advantages (physical facilities, information

systems, and others...) for one-stop shop provision of services, and expanding domestic and overseas range of business operations.

Improvement of technology, the national transportation system as development of roads, infrastructure, landside and international airport.

There is a critical need, however, to develop road and landside infrastructure in order to facilitate the efficient movement of the increased volume of goods. Upgrading of the existing airports at Ho Chi Minh City and Hanoi to support larger volumes of cargo is also urgently required.

The increased emphasis placed on developing the electronics and hi-tech sectors by the Government will give renewed impetus to further develop its air facilities, as these products require more sophisticated and secure modes of delivery and shorter transit times.

Proposed new ports around the two major economic centres of Ho Chi Minh City and Hanoi could result in a significant improvement of infrastructure. The development of deep water ports is also likely to significantly boost international cargo activity linked with Vietnam and decrease overloaded flows of goods at two bigger ports as Ho Chi Minh and Hai Phong.

The earlier development of the new international airport at Long Thanh, in the province of Dong Nai next to Ho Chi Minh City will bring about much needed additional capacity. Again, the concurrent development of an improved road network to connect to the new airport will be required to avoid the creation of new bottlenecks.

Training and human resources

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The process of getting aware of the importance of logistics, building logistics management skills and enhancing the ability to translate logistics theory into logistics practice needs some amount of time. The Government is to have a policy to assist enterprises and schools in order to step up the task of training under various flexible forms, providing human resources for the industry. On their part, enterprises need to seek funding and cooperation in human resource training from foreign countries.