

## Current Situation and Policies of Shipping Industry in Vietnam

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**Abstract:** The main aim of this paper, via the method of statistical data analysis, is to analyze the current situation of the shipping industry and policies of the shipping industry in Vietnam. Section 1 gives some key information about the current situation of the shipping industry in Vietnam such as: shipping companies and their fleets, seafarers and ports. In view of the many restrictions faced by the Vietnamese shipping industry, section 2 is used to disclose the policies issued by the Vietnamese government in order to help the domestic maritime industry develop further in the near future, and the outcomes of implementing these policies. Besides the fact that some of the measures were feasible and reasonable, some others were not as effective as they were supposed to be, or in fact the initial forecast of their effectiveness was far-fetched. In the last section, after analyzing reasons for the failures, the author proposes that focusing on coastal transportation routes, fleet and port restructuring and skilled labour training were truly necessary to the development of the industry in the immediate period. Furthermore, this paper is also expected to provide a basic foundation for further research by the authors about 'the strategical approach for the development of shipping industry in developing countries: a case of Vietnam' in the near future.

**Key words :** shipping industry, seaborne trade, shipping company, sea-going fleets, seafarers, policy of sea transport

### 1. Introduction

Over the last 10 years, the world's economic growth rate has fluctuated significantly between -2.2% in 2009 and 4.1% in 2010. Vietnam's economic growth rate has followed the same pattern of variation, but it's growth pattern is twice higher than that of the world (Fig. 1).

With approximately 80% of global commodities currently transported by sea (UNCTAD, 2012, p.xiii), ships are considered as the key mode of transportation in world trade as well as being a major driver for the development of nations and globalization since ancient times (UNCTAD, 2012, p.xiii).

Vietnam, with over 3,260 km of coastline, has great potential for shipping development and maritime-related services. Actually, over 80% of cargoes in Vietnam have been transported by sea locally and internationally (Thanh-Nien-News website, 2013). Vietnam currently has a total of 44 seaports including 166 terminals through which the total volume of cargo increases annually (Decisions No.16/2008/QD-TTg, 2008 and No.70/2013/QD-TTg, 2013).

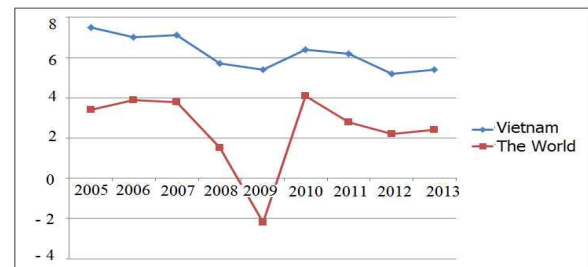


Fig. 1 Economic growth rate, 2005 - 2013

(Annual percentage change)

Source: UNCTAD, 2013 & 2008, p.2; World Bank, 2013

In fact, Vietnam's fleet undertakes only 10-12% of the annual import-export transport market share because of its old age and small size (Vietnam Maritime Administration = VMA hereafter, March 11, 2014). Although the number of Vietnamese seafarers is relatively high, only around 3,200 of them are currently working for foreign shipping companies due to restrictions on health, language skill and professional working style (Captain Tieu Van Kinh, 2013). Vietnam has nearly 600 ship-owners in all economic sectors. However, approximately 80 percent of the tonnage of the Vietnamese fleet belong to 4 big state economic

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groups, namely SBIC, Vinalines, Petrolimex and Petro-Vietnam (VMA, April 2014).

In this paper, after a brief review of the current situation of Vietnam's shipping industry (section 2), the next section is devoted to discussion about the Vietnamese government's efforts to reduce restrictions faced by the industry and achieve expected development targets. Many policies, orientations and measures have been introduced and the shipping industry has also achieved many successes. However, some of targets are not as feasible or efficient as hoped for in this short time period for many reasons. Therefore, in the last part of the paper, the authors try to analyze causes leading to the above failures and by doing so, give some suggestions as to the development of the Vietnamese shipping industry in its current state, including focusing on coastal transportation routes, fleets, port restructuring and skilled labour training, will all be introduced.

As a result of this, the authors expect to supply partially helpful data for foreign individuals or parties who are interested in the Vietnamese maritime industry and simultaneously provide a basic foundation for further research from the authors about "strategical approach for the development of shipping industry in developing countries: a case of Vietnam" in the near future.

## 2. Current Situation of Shipping Industry in Vietnam

### 2.1 Shipping Companies

According to the Vietnam Register as of June, 2013, Vietnam had 597 ship-owners in all economic sectors, in which only 33 possessed fleets with a total tonnage of over 10,000 DWT. It was remarkable to learn that 25 of these big ship-owners belonged to 4 big economic groups of Vietnam, namely Vietnam National Shipping Lines (Vinalines), Shipbuilding Industry Corporation (SBIC), Vietnam Oil and Gas Group (Petro-vietnam) and Vietnam National Petroleum Group (Petrolimex).

Ships operated by the 4 parties accounted for 18.5% of Vietnam's number of ships and 82% of the total tonnage of the Vietnamese fleet (VMA, March 18, 2014). The business efficiency of the shipping companies was strongly affected by the economic crisis in which cargo sources were scarce and the freight rate sharply decreased. As a result, big

businesses made serious losses while many small firms went bankrupt.

#### 1) Vinalines

Vinalines is a limited liability company with 100% state-owned authorized capitals. In the country's strategy plans for the maritime sector, the company is mentioned explicitly to become the leader in ocean shipping, logistics, support services and is regarded as the core company within the shipbuilding sector.

As of 2013, Vinalines possessed 14 shipping companies and operated a multi-category fleet of 116 ships. Vinalines' fleet at that time occupied 70% of the total fleet capacity and 36.3 % of the total fleet tonnage in the country. The Vinalines' fleet annually undertook about 60% of exports and imports of Vietnam.

Vinalines' fleet reduces to just 109 ships in the end of 2014 with 2,249,656 DWT after some of its restructuring policies (Table 1).

Table 1 Vinalines' fleet structure 2013–2014

Type of ship	No. of ships		Tonnage		Average tonnage	
	Aug 2013	2014	Aug 2013	2014	Aug 2013	2014
Container ships	16	15	167,611	159,095	10,476	10,606
Oil Tankers	6	6	281,196	281,196	46,866	46,866
Bulk carriers	39	37	1,313,685	1,264,718	33,684	34,182
Dry carriers	52	48	546,292	517,258	10,506	10,776
General	3	3	20,224	20,224	6,741	6,741
<b>Total</b>	<b>116</b>	<b>109</b>	<b>2,329,008</b>	<b>2,242,491</b>	<b>20,078</b>	<b>20,573</b>

Source: Vinalines, 2014

#### 2) SBIC

SBIC's precursor was Vinashin which used to be one of the biggest state economic conglomerates in Vietnam. Vinashin mainly operated in shipbuilding and the ship-repair sector. However, the group also possessed its own shipping companies. Vinashin's fleet in the first half of 2010 had 92 ships with total tonnage of 1.3 million DWT (Table 2).

Table 2 Vinashin's fleet structure in 2010

Ship type	Number (Unit)
Container ships	9
Oil Tankers	6
Gas vessel	4
Dry and general carriers	73
<b>Total</b>	<b>92</b>

Source: SBIC, 2014

As a result of the impact of the economic crisis in 2008 - 2009 and the weakness in the manufacturing business and administration, Vinashin came to the brink of

bankruptcy in the summer of 2010 after amassing \$4.4 billion worth of debts. In December 2010, the situation worsened when Vinashin defaulted on a \$60 million loan repayment on a \$600 million syndicated loan arranged by Credit Suisse (GlobalSecurity, 2014). To cope with this scandal, for a 6 year period, Vinashin had considered dissolving, transferring, selling or equitizing its member units; in which the two shipping companies of Vinashin were transferred to Vinalines at the end of 2010, together with many other ships which were sold.

In October 2013, the Vietnamese government officially enacted a decision to restructure the group. Accordingly, Vinashin would be renamed to Shipbuilding Industry Corporation (SBIC) which would only retain eight subsidiaries out of the 236 different businesses. Because SBIC are in the process of restructuring, information about current situation of SBIC is still unclear and insufficient. But it can be said with certainty that the path SBIC has to go on to restructure is still a long and thorny one.

### 3) Petro-Vietnam and Petrolimex

Shipping companies belonging to PVN have 10 ships with a total deadweight tonnage of 428,628 DWT. While Petrolimex's ship-owners also possess a total of 10 ships with a smaller total tonnage of 288,239 DWT, accounting for 32% and 10% of the total tonnage of Vietnam oil tankers and Vietnamese fleet, respectively (VMA, March 18, 2014).

## 2.2 Tonnage of Vietnamese fleet

Along with the economic development of the country, Vietnamese fleet has seen meaningful growth in recent years as the fleet has been consistently replenished. However, due to limited capital investments and the low capacity of port facilities, Vietnamese fleet just stops at a quite modest figure both in terms of number and tonnage, which does not match with the country's development potential. According to the VMA, as of November 2013, Vietnamese fleet slightly increased to 1,793 ships with a total deadweight tonnage of 6.986 million DWT (VMA web-site, May 2014) from 1,755 units and 6.958 million DWT in 2012 (Table 3). The average tonnage of the Vietnamese fleet was relatively low, with about 3,965 DWT/ship in 2012, and ranked the ninth out of ten Asian countries

Table 3 Current status of Vietnamese fleet by type (2012)

Ship type	Number of vessels	Total capacity (GT)	Deadweight tonnage (DWT)	Average Tonnage (DWT/ship)
Bulk Carriers	172	1,153,684	1,920,889	11,168
General Cargo Ships	931	1,304,718	2,292,799	2,463
Container Ships	26	16,866	212,213	8,162
Passenger and Cargo Ships	37	7,129	294	8
High-speed Ships	4	785	194	49
Chemical Tankers	20	145,537	232,785	11,639
Oil Tankers	132	975,654	1,641,034	12,432
Liquefied Natural Gas Carriers	8	17,872	16,508	2,064
Others	425	531,835	638,904	1,503
<b>Total</b>	<b>1,755</b>	<b>4,305,874</b>	<b>6,958,266</b>	<b>3,965</b>

Source: VMA, June 2013, p. 5

With the exception of public service ships, tugs, dredgers, research vessels, sport vessels and small tonnage hydrofoils, there were 570 seafaring fleet flying the Vietnamese flag as of 04/2013, whose total tonnage was 4.0283 million DWT (VMA, 06/2013, p.6). Table 4, 5 and 6 present the number of Vietnamese sea-going fleet by type, by size and by age, respectively. Generally, the fleet, in the present, is still pretty limited and has not met the requirements of shipping industry.

Table 4 Vietnamese sea-going ships by type (2013)

Ship type	Number of vessels	Deadweight tonnage (DWT)	Total capacity (GT)
General Cargo Ships	316	723,678	41,739
Bulk Carriers	110	1,706,076	1,035,956
Container Ships	29	255,560	204,452
Oil Tankers	108	1,331,656	811,713
Liquefied Natural Gas Carriers	5	7,514	7,406
Chemical Tankers	2	3,837	2,055
Total	570	4,028,321	2,478,972

Source: VMA, June 2013, p. 6

Table 5 Vietnamese sea-going ships by size (2013)

Ship type	Under 1000 DWT	1000 - 5000 DWT	5000 - 10,000 DWT	10,000 - 50,000 DWT	50,000 - 150,000 DWT	Over 150,000 DWT	Total
General Cargo Ships	150	134	20	12	0	0	316
Bulk Carriers	2	41	15	45	7	0	110
Container Ships	0	3	18	8	0	0	29
Oil Tankers	35	40	8	19	5	1	108
Liquefied Natural Gas Carriers	0	5	0	0	0	0	5
Chemical Tankers	0	2	0	0	0	0	2
Total	187	225	61	84	12	1	570

Source: VMA, June 2013, p. 6

The unsuitability of ship categories and structure for shipping market requirements is the first issue to consider. General cargo ships actually occupied the highest percentage with about 55% in number (Table 4). Moreover, the Vietnamese sea-going fleet are subject to an excess of small ships and a lack of large vessels. In fact, ships with a tonnage under 50,000 DWT occupied about 75% of the total while there is only one ship having tonnage over

150,000 DWT (Table 5). Finally, the ships have quite high average ages and are in poor technical condition. In fact, ships over-15-year-old occupied 39.4% out of the total tonnage (Table 6).

Table 6 Vietnamese sea-going ships by age (2013)

Type	Over 15 years	11+15 years	5+10 years	Under 5 years	Total
General Cargo Ships	178	25	79	34	316
Bulk Carriers	29	8	10	63	110
Container Ships	16	3	7	3	29
Oil Tankers	50	17	25	16	108
LPG Carriers	5	0	0	0	5
Chemical Tankers	1	0	1	0	2
Total	279	53	122	116	570

Source: VMA, June 2013, p. 7

As a result, the Vietnamese fleet currently occupies just 10 - 12% shipping market share on both the export and import sides (VMA, March 11, 2014) and up to now, Vietnam has not escaped from being on the 'black list' of the Tokyo MoU and is still in the list of the top 10 countries that have highest rates of seized ships.

### 2.3 Seafarers

The number of Vietnamese seafarers (2008-2013) has fluctuated between a peak of 45,000 people in 2009 and a low of 31,617 people in 2011, although the figure of ships with their deadweight increased steadily every year (Figure 2). The pessimistic situation of Vietnamese seafarers in 2011 was strongly influenced by the economic crisis that happened in 2008-2009 which demanded the transportation of cargo, yet the employment of trained crew members decreased sharply. Table 7 shows more detail about Vietnamese seafarers over the period of 2008 - 2013.

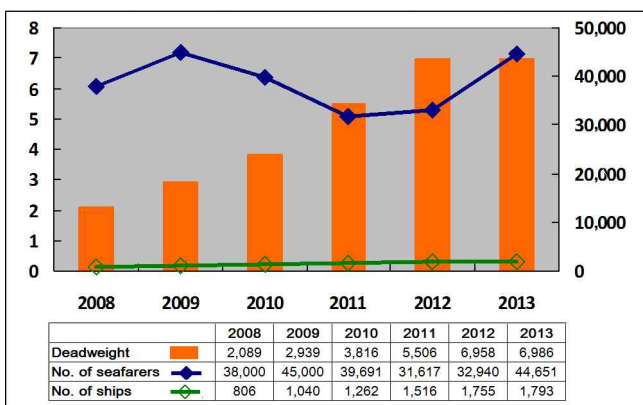


Fig. 2 Number of Vietnamese seafarers & ships  
Source: VMA, March 18, 2014, pp.13-16

Table 7 Number of Vietnamese seafarers, 2008 - 2013

Rank \ Year	2008	2009	2010	2011	2012	2013
Captains	1,500	1,799	2,766	3,046	3,276	-
Chief Officers	1,100	1,574	2,084	1,995	2,016	-
Deck officers	-	-	5,122	3,900	4,054	-
Bosun & Seaman	-	-	-	8,876	8,916	-
Chief Engineers	1,300	1,572	2,344	2,573	2,740	-
Second Engineers	800	1,131	1,672	1,694	1,703	-
Machine officers	-	-	4,677	3,762	3,851	-
Fitters and Wippers	-	-	-	5,771	6,384	-
<b>Total</b>	<b>38,000</b>	<b>45,000</b>	<b>39,691</b>	<b>31,617</b>	<b>32,940</b>	<b>44,651</b>

Source: VMA, March 18, 2014, pp. 13-16

In fact, the total number of Vietnamese seafarers who were recently contracted to work for foreign shipping companies is quite modest with approximately 3,200 people (about 10% of the total). This is mainly due to strict labour recruitments. The three basic reasons for this problem are restrictions based on health, language ability and the professional working style of seafarers on foreign vessels.

Vietnamese seafarers are trained and managed under the Certificate of Professional Competence (CPC) system. The figure 3 shows CPC system.

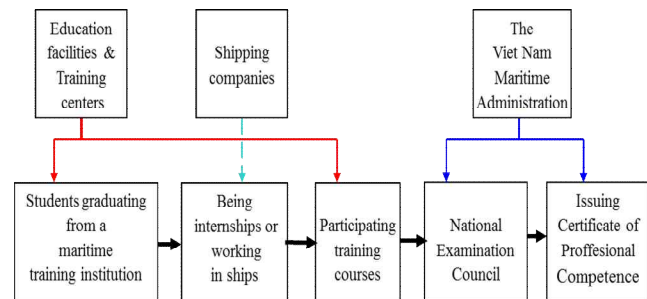


Fig. 3 CPC system in Vietnam maritime sector  
Source: Vietnam Maritime University, 2010, p. 18

Up to now, Vietnam has a total of 6 maritime training institutions approved by the Minister of Transportation, and Vietnam Maritime University and Ho Chi Minh City University of Transport are the two major training centers. There are 4 other institutions as listed below (Dang Van Uy, 2007):

1. Haiphong Maritime College
2. HCM City Maritime Vocational College
3. Bach Nghe Hai Phong Politechnic College
4. Duyen Hai Vocational College

### 2.4 Ports

Vietnam currently has a total of 44 seaports including 166 terminals. As can be seen from table 8, these terminals are also splitted into various types, based on the



categories of cargo throughput. In fact, the majority of Vietnam’s ports are general ports. And, up to now, Vietnam has not got any of the specialized container ports despite possessing some big container terminals such as Cai Mep terminal and VICT terminal. Almost all of the ports are under the authority of the state.

Table 8 Types of terminals in Vietnam

No.	Type of terminal	Quantity	Percent (%)
1	General terminals	64	38.6
2	Petrol and Gas specialized terminals	49	29.5
3	Cement terminals	12	7.2
4	Container terminals	6	3.6
5	Other specialized terminals	35	21.1
6	Total	166	100

Source: Decisions No.16/2008/QĐ-TTg, 2008; No.70/2013/QĐ-TTg, 2013

In fact, almost all the major ports are located further inland which are relatively far away from buoy number 0. For example, the distances from buoy number 0 to Saigon port, Haiphong port and Cantho port are 90 km, 36 km and 110 km, respectively. The depth of the access channel to the ports is mostly limited and heavily alluvial, particularly, only -4.5m with the depth of Haiphong port and -8.5m with the depth of Saigon port.

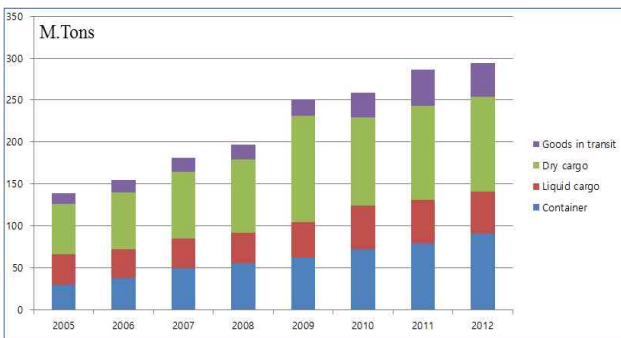


Fig. 4 Total cargo throughput in Vietnam by type

Source: VMA, March 18, 2014, pp.10-13

The cost of maintenance and dredging is very expensive and this can push some ports to the verge of not using them anymore. Up to now, Vietnam has not had any deep-water ports that are able to accept vessels with a tonnage of 50,000 DWT or more in all conditions. The size of almost all the ports is small, and together with the technical facilities are considered outdated. There are only 2 ports handling over 10 million tons of throughput per

year and only 12 ports handling approximately 1 million ton per year. In general, they are general ports which are very low on economic efficiency.

Traffic systems of the ports’ hinterland region are often not synchronized. Many ports have no rail transportation routes. Transportation routes pass through major cities that obstruct traffic and restrict capacity of the ports. In fig. 4, we can see the total cargo throughput in Vietnamese ports increased somewhat, regardless of the economic crisis in 2008 - 2009, in which dry cargo accounted for the highest percentage of 43%.

### 3. Policies on Shipping Industry and Outcomes of Implementation

Vietnam is a maritime country with over 3,200 km of coastline. Therefore, the government has quickly recognized the strategic importance of the shipping industry to the development of the country’s economy. Vietnam officially won its independence and reunification in 1975. Before 1995, when Vietnam’s economy was still being embargoed by America, the role of the shipping industry was still looking quite bleak in terms of supporting the economy. At that time, it just focused on shipbuilding and reparation of old ships (Ministry of Transport of Vietnam, 2014) However, since then, the industry has continued to receive investment and has developed, In particular, the first noticeable action of government was the enactment of Decision No.202/1999/QĐ-TTg (Table 9).

Table 9 Decision No.202/1999/QĐ-TTg

Documents.	Major contents.
Decision No.202/1999/QĐ-TTg of the Prime Minister approving the master plan on development of Vietnam’s seaport system till the year 2010. (10/1999).	<ul style="list-style-type: none"> <li>- To do a Master Plan on the development of the Vietnamese seaport system by the year 2010 into 8 groups, each of which possesses general and specialized ports.</li> <li>- To renovate, upgrade and modernize existing ports.</li> <li>- To concentrate on the construction of several integrated ports which will play the major role in key economic zones to accommodate ships of large tonnage (over 30,000 DWT).</li> <li>- The total expected capacity of Vietnam ports of around 106 million tons/year by the year 2003 and 200 million tons/year by the year 2010.</li> </ul>

Source: Vietnam Prime Minister October 1999

After nearly 10 years of work to implement this ruling, the Vietnamese seaport system basically achieved its goals. The total throughput of ports reached 196.580 million tons in 2008 with an average growth rate of 12.11% per year over the period from 2002 to 2008 (Ministry of Transport of

Vietnam, 2009). In terms of port infrastructure, by the end of 2007, there were approximately 332 berths across the country with a total length of 39,951 m, nearly 2-folds longer than in 1999. The depth of the access to the channel to some ports such as HaiPhong, CaiLan, VungTau-SaiGon, CanTho was dredged in order to receive bigger-size ships. Vietnamese seaports had their own road systems connecting to the main national road. However, as a result of the increasing development of container transport, the roads usually got stuck. Besides, it also needed to consider its outdated handling equipments and the low capacity in its ports (Ministry of Transport of Vietnam, 2009).

Moreover, almost all Vietnamese ports belong to the state, therefore they could not take advantage of foreign and domestic capital resources. A small number of ports were invested in between the state and foreign investors, such as LOTUS port - a joint venture among Viettrans and Vosa of Vietnam with Blasco of Ukraine (Lotus port website, 2014), Berths 2, 3, 4 of CaiLan port (Quang Ninh) - a joint venture between Vinalines of Vietnam and SSA Marine Corporation of US (Vietnamnet website, 2007).

Generally speaking, the Vietnamese seaport system still showed many limitations such as a lack of uniformity in the planning of developing ports with the access channel to ports and roads connecting to the hinterland, a lack of logistical consideration in the layout of the port's location, and limited vision in the master plan signalling no breakthroughs in development of ports. To deal with restrictions faced by shipping industry, the Vietnamese Prime minister has issued some policies with the major contents listed in Table 10, 11 and 12.

Table 10 Policies on Vietnamese shipping industry

Documents.	Major contents.
Decision No.1601/QD-TTg approving the master plan on development of Vietnam's ocean shipping up to 2020 and orientation to 2030. (10/2009)	<ul style="list-style-type: none"> <li>- To raise the quality of ocean shipping services and reduce freight rate and thereby the volume of cargo transported by Vietnam's fleet will reach 110-126 million tons by 2015 and 215-260 million tons by 2020.</li> <li>- To modernize and specialize Vietnam's fleet so that the total tonnage will be 8.5-9.5 million DWT by 2015, and 11.5-13.5 million DWT by 2020</li> <li>- To upgrade, make in-depth investment in and promote to the utmost capacity and efficiency of existing ports.</li> <li>- To build international transshipment and gateway ports in key economic regions, deep-water container, ore coal and oil ports which are of large scale and furnished with modern equipment.</li> </ul>

Source: Vietnam Prime Minister October 2009

Table 11 Policies on Vietnamese shipping industry

Documents.	Major contents.
Decision No.2190/QD-TTg of the Prime Minister approving the master plan on development of Vietnam's seaport system up to 2020 and orientation to 2030. (12/2009).	<ul style="list-style-type: none"> <li>- To concentrate on the construction of several international gateway ports in Haiphong, Ba Ria - Vung Tau.</li> <li>- To do a Master Plan in which Vietnam seaport system is separated into 6 groups.</li> <li>- To renovate and upgrade the depth of the access channel to the ports such as in Haiphong, Ho Chi Minh, Cai Mep - Thi Vai.</li> <li>- To increase capacity of some existing ports by sea encroachment or moved to another location.</li> <li>- The total expected capacity of Vietnam ports of around 400-410 million tons/year, 640-680 million tons/year and 1,040-1,160 million tons/year by the year 2015, 2020 and 2030 respectively.</li> </ul>

Source: Vietnam Prime Minister December 2009

Table 12 Policies on Vietnamese shipping industry

Documents.	Major contents.
Decision No.335/QD-TTg of the Prime Minister approving the master plan on development of Vietnam's transport through 2020, with a vision towards 2030. (02/2013).	<ul style="list-style-type: none"> <li>- In a period from now to 2020, Vietnam shipping industry mainly covers sea-going transportation, coastal shipping routes, particularly North-South route.</li> <li>- To increase the market share of ocean freight to 9-14% of the total volume of transported, in which imports and exports by sea occupy 25-30%.</li> </ul>

Source: Vietnam Prime Minister February 2013

In fact, Vietnam is still in the process of implementing the above plans. Therefore, it is quite difficult to fully aggregate information on the performance of the plans currently. However, there are some noticeable outcomes in the industry as follows:

To start with the Vietnamese seaport system (Decision No.2190/QD-TTg) basically develops according to the master plan. With the exception of offshore oil ports, the system had 30 active ports with 166 terminals, 350 berths with total length of 45,000 m and throughput of 350 - 370 million tons/year by the year 2012. However, the construction and development of the seaport system is inadequate. As a result of unsatisfactory exploitation, while clusters at HaiPhong port are facing overcrowding in the port area, CaiMep-ThiVai a new port, experiences difficulty in attracting cargoes. In fact, almost all container terminals at CaiMep-ThiVai port lost in terms of business performance, at least 6-7 million USD or even 20-30 million USD. In addition, the facilities used for supporting for logistics services were not enough (Vietnamplus website 2012). Moreover, the state also considered privatization of seaports, but only about 25% of the state's capital would be sold during the whole period of the process. Data shows us that a modest number of ports were privatized by the year 2013 (Vietnamnet, 2013).

Turning to the decision No. 1601/QD-TTg and

No.335/QD-TTg, to enhance competition capacity, many efforts of the Vietnamese government have actually been introduced via some major measures and policies, thereby the current situation of the industry has improved more or less. Particularly,

- To cut freight rates through reducing component costs, namely fuel, port and storage costs. The government now applies a preferential fuel price for Vietnamese shipping companies. In some terminals, such as in CaiMep terminal, all ships under 50,000 DWT have been discounted 45-50% of their tonnage cost. In addition, the construction of logistics centers and multimodal terminals, the investment of modern equipment with high capacity in ports, the acceleration of the application of information technologies like e-port authorities, e-customs, the implementation of a one-stop shop mechanism is also considered as a very good solution for reducing the above costs (VMA website, May 2014).
- To renovate training methods and standards for the shipping workforce (Vietnam Ministry of Transport's website, 2014). To be more specific, maritime training centers have tried to raise the standard required to graduate, and now an English degree is considered as a prerequisite condition to apply the new educational method of training under the "requests" of the shipping companies (Vietnam Transport Ministry's website 2004).
- To support the domestic shipping companies to overcome the consequences of the economic crisis through maintaining cabotage (Thanh-nien-online website, 2013).
- To reduce the operating cost of ships and to increase partial investment capital in new ships through fleet restructuring from 2011 to 2015. The number of ships that has planned to be sold or liquidated under the above guideline is estimated at over 40% of the total tonnage (in which approximately 1.4 million DWT has been planned for liquidation from 2011 to 2015 by Vinalines). The remaining fleets of Vietnam will be only about 2.5 million DWT by 2015 (VMA, June 2013, pp.25-26).

In the end, the targets and efforts of the Vietnamese Government are mainly set to satisfy all the ocean shipping needs of the national economy: growing at a high rate, ensuring quality, reasonable costs and environmental pollution restriction. However, some targets and treatments may be unfeasible or less efficient than expected in a short period given due to many reasons. These reasons will be analysed in details in part 4 of this paper.

## 4. Summary and Proposal

Overall, the Vietnamese shipping industry is facing 4 big problems including (1) a big loss of shipping companies and a lack of capital for investment, (2) irrational management happenings state side through to the shipping sector, (3) low quality seafarers and (4) irrational targets within shipping policies. If these affairs are solved, a more optimistic view on the Vietnamese shipping industry may be seen in the future. In this sub-section, the authors are going to verbosely analyse the unwelcome matters faced by the shipping industry in the context of Vietnam's current economic situation before giving some proposals in order to improve the development of shipping industry in Vietnam.

As far as its development ability and the efficiency of the business concerned, the current scale of the Vietnamese fleet is about 4.03 million DWT (Vinalines's fleet is 2.5 million DWT); in which 40% are over 15 years old. Although the Vietnamese government have planned to restructure the Vietnamese fleet through the sale of old ships and to acquire new modern vessels, in the context of the economic downturn in recent years, we have to ask the question "Who is willing to repurchase the old ships?" It is truly a tough question to answer. Besides, as a consequence of the last economic crisis and the weaknesses in management and administration, the business activities of almost all Vietnamese shipping enterprises in recent years have been less effective, largely unprofitable and even unable to repay huge bank loans. These companies are actually running the risk of liquidation or are on verge of bankruptcy with high gearing. When we consider the above reasons, the probability of mobilizing resources for liquidation and the development of the fleet with 8.4-9.6 million tons of deadweight by 2015 proposed by the government is seemingly unfeasible.

Frankly, fleet restructuring is good strategy to have with regards to the current situation of the Vietnamese shipping industry. However, to turn this plan into reality, troubles related such efforts need to be looked at.

From the authors' viewpoint, besides continuing to seek investors, the authors highly recommend for the government to enact new acts facilitating the manufacturing business activities of shipping companies and helping them overcome current difficulties. For

instance,

- The government may consider passing a short-term act which allows no penalties for the late payment of tax by shipping companies in order to accommodate these stakeholders that are overcoming overlapped losses after the crisis and backlog of tax.
- Besides the Vietnamese shipping companies which possess small old ships, they in fact, have no competitive advantage in terms of price and quality of services when compared with other foreign shipping companies. Therefore, a Vietnamese fleet with new big vessels may need to be established as soon as possible. However, while the purchase of ships requires intensive capital, Vietnamese shipping companies are in fact faced with a lack of money. Although they could use bank loans to buy ships, the interest rates in Vietnamese banks, as of May 2014, are at high level of 6.5% which is higher than that of other developing countries such as China (5.6%), Malaysia (3%) or Thailand (2%) (Trading Economic, 2014). It is obvious that borrowing bank loans is not a good way for them to acquire capital at this time. So, is it reasonable and necessary for the government to consider cutting the short-term lending interest rate? By doing so, it may make it easier for Vietnamese shipping companies to acquire new ships via bank loans. Furthermore, it may help to attract more domestic and foreign investment capital into the shipping industry.

Next, to improve the performance of seaports, a reform of administrative procedures at Vietnamese seaports should be considered. To be more specific, for the ineffective privatization process of Vietnam ports, the authors believe that there needs to be a change in the strict conditions in place for strategic investors and to adjust the proportion of state ownership after privatization (still high at 75%) to a lower rate. Like in the United Kingdom, most of the ports have been fully privatized. While in Eastern Europe, some ports have been transformed into state companies supported by their workers, particularly in case of the St. Petersburg port where 50% of ports are owned by employees (Trujillo, L. & Nombela, G. 1999, p.34).

As far as we know, state-owned ports mean an ineffective utilization of capital resources from domestic and foreign sectors. Therefore, the authors highly recommend the government to apply the Port Authority model styled “Landlord Ports” likely in Germany and

Netherlands in order to reduce pressure in capital and increase the performance of port operations. In fact, the landlord port is characterized by its mixed public-private orientation. So, this model seems to be suitable for the current situation of Vietnamese seaports.

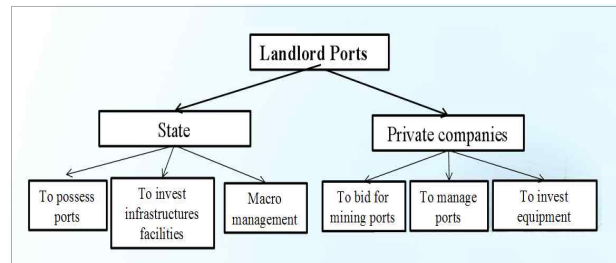


Fig. 5 Port Authority model styled ‘Landlord Ports’  
 Source: Kamarajar Port Limited website 2014

In terms of the quality of seafarers, almost all seafarers in Vietnam may not meet the requirement of shipping market industry, especially with regard to language skill which requires a long time to improve. In an effort to improve the English skills of seafarers, the authors think that the Vietnamese maritime training institutions ought to open more English courses to support the cadets and to cooperate more closely with the shipping companies in order to offer cadets more opportunities for professional internships or future employment.

Finally, the objectives of Vietnamese fleet’s market share set out through to 2020 seems to be difficult to accomplish, although demand for sea transport in Vietnam is high because:

- In case of bulk cargo (coal and ore), a majority of coal and ore used in electrical and metallurgical industries in Vietnam are imported (estimated at 86-93 million tons by 2020). Bulk carriers with at least 100-200 thousand tons of deadweight are considered as an economic option for bulk cargo transportation. These ships have not appeared in the Vietnamese fleet. Moreover, almost all of the electrical and metallurgical plants in Vietnam are invested in by foreign investors who will select their own transport contractors (FDI projects). Vietnamese ship-owners can win market share only if they have a competitive advantage on freight rate and service quality. Actually, this possibility becomes hard to realize in 5-10 years, because with each step up in ship size, the freight rate decreases (economics of scale) and vice versa. Therefore, in



near future, the market share of the Vietnamese fleet should rely on coastal routes with smaller volumes which mainly cater for domestic consumption.

- In case of liquid cargo, Refinery Petrochemical Complexes in Vietnam are mainly joint ventures between Vietnam (with equity less than 30%) and foreign investors or 100% foreign-owned enterprises. Crude oil in use is mainly imported from Middle East, Africa and South America. So, like bulk carriers, the transport services of Vietnamese tankers mostly provide a domestic service.
- In the case of general cargoes and containers, containerization dominates more and more in shipping industry of Vietnam. Leading container lines around the world have been modernizing their fleets in an effort to reduce costs, raise service quality and carrying capacity, forming receiving/delivering nodes (terminals) styled on a 'Mayer\_spoke' model to attract cargo on axis East Asia - Europe - North America. As a result, it is very difficult for the Vietnamese fleet to compete on long-distance maritime routes (Europe, America) and average-distance maritime routes (Africa, Middle East, India, North East Asia). This is especially true in a period of cargo shortage and ship surplus in Vietnam currently, as well as in the next few years. Even on domestic routes, competitive pressures from large shipping companies in consolidation with containers for export and import at seaports also may affect the market share of the Vietnamese fleet. To deal with this matter, a more reasonable shipping schedule and more investment should be implemented as soon as possible.

In short, in the authors' opinion, the shipping industry should only take full advantage of the coastal transportation routes dealing with the traditional goods in the immediate vicinity. Further issues to be considered include fleet restructuring and the sale or liquidation of old inefficiency tonnages.

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