



## Vietnam's Enhanced Infrastructure Enables Modern Logistics Services

Vietnam is poised to begin a major upgrading of its transport infrastructure, a move which should improve the transportation of freight as well as assisting the development of logistics services. At present, logistics firms in the country are generally small or medium-sized, with the capacity to provide only the basic services. However, logistics services such as production transport, sea-air intermodal transportation, warehouse management, cold chain services and inspection and quarantine are all in great demand to support the country's processing industries as well as food and aquaculture businesses.

Hong Kong's logistics firms have sufficient expertise and capability in managing international integrated logistics services. They are equipped with advanced technology, from IT to cold chain systems, in handling fresh food and other high value-added items. As such, they are well positioned in tapping the rising demand in Vietnam for integrated logistics services, especially those opportunities resulting from the expansion of Vietnam-China trade.



Modern logistics services are in great demand in Vietnam (1).



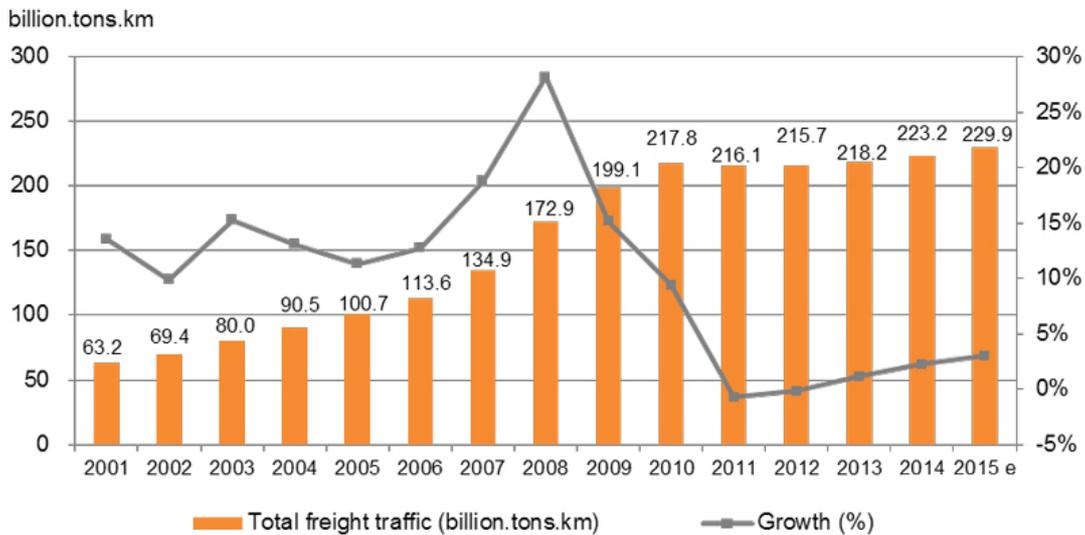
Modern logistics services are in great demand in Vietnam (2).

### Expansion in Freight Transport

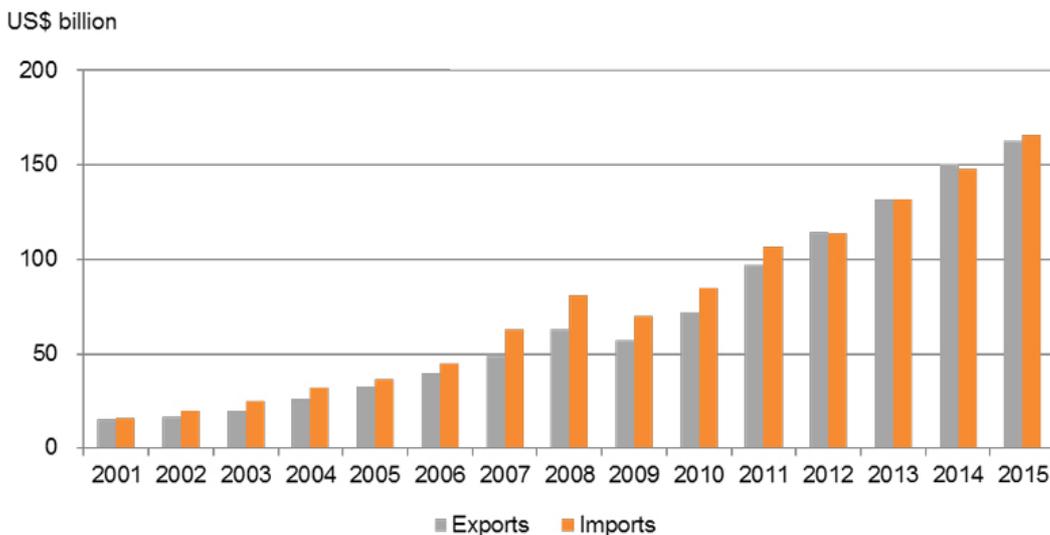
Over the past decade, the sharp increase in Vietnam's production activities has resulted in a corresponding increase in freight traffic. The country's total freight traffic volume has more than tripled, from the level of 63 billion ton-km in 2001 to 230 billion ton-km in 2015. During the same period, Vietnam's external trade has expanded from US\$31 billion to US\$328 billion. Nonetheless, since 2010 growth in freight traffic volume has fallen behind that in external trade. This is largely due to a shift in export processing production undertaken by foreign investors to focuss more and more on higher value-added items of lighter weight. These include light consumer items such as clothing and footwear, as well as IT products and consumer electronics.



### Vietnam's Total Freight Traffic Volume and External Trade



e = estimate  
Source: General Statistics Office of Vietnam



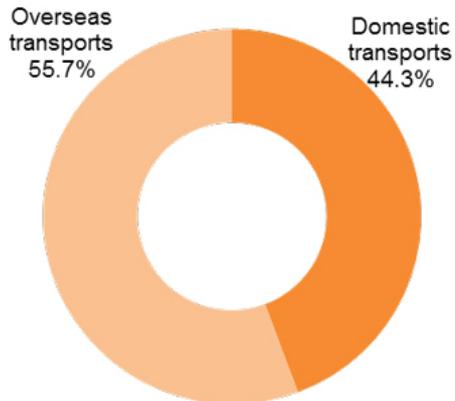
Source: General Statistics Office of Vietnam

Another feature in Vietnam's freight transport is the slower growth of traffic in terms of tons per kilometre. Given the longitudinal nature of the country's topography and the slow progress of infrastructural development, investors have tended to choose coastal areas with easier access to seaports for their business development to save delivery time and costs. For instance, a number of modern container seaports with investments worth billions of US dollars have recently been developed, mostly in southern part of the country. However, the roads and waterways connecting the seaports with industrial zones have gone underdeveloped. Logistics providers are struggling to transport shipments from industrial premises to seaports and vice versa, with only limited room to deliver other value-added services.

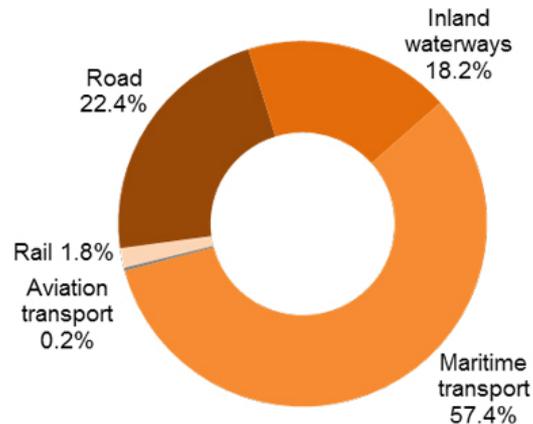


### Vietnam's Freight Traffic

Freight traffic by transport sector 2015 \*



Freight traffic by transport mode 2015 \*



\* estimate  
Source: General Statistics Office of Vietnam

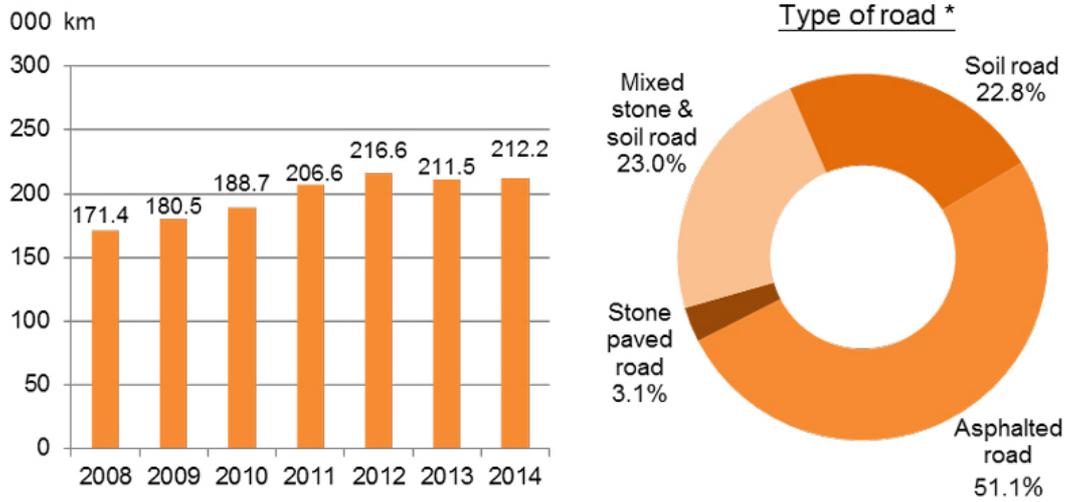
Currently, over 55% of the country's freight traffic is related to overseas transport. Similarly, maritime transport accounts for about 57% of total traffic. This consists mainly of international shipments, plus a small amount of sea freight for domestic transport. Most of these domestic shipments are delivered by inland waterways and road transports. Conversely, in 2015 Vietnam's railways accounted for less than 2% of freight traffic. This can be explained by the lack of modern railway networks connecting the industrial zones with domestic transport hubs and major seaports. Meanwhile, air transport accounts for a negligible share, as the country's air capacity and connections are still severely limited.

#### Enhanced Infrastructure in the Pipeline

Vietnam has an urgent need to upgrade its transport infrastructure to sustain further economic development. During the period 2008-2014, the total length of roads in the country increased by less than 10% per annum. Asphalted roads are essential for modern transport and the provision of efficient logistics services but less than 60% of Vietnam's roads fall into this category. In fact, a substantial portion of the system still consists of soil roads and mixed stone/soil roads.



### Road for Transportation in Vietnam



\* 2014 figures  
 Source: General Statistics Office of Vietnam

### Development of Northern Key Economic Region



### Objective by 2020

- Cargo transports reach 500-550 million tons/year
  - of which, cargo volumes going through seaports reach 115-160 million tons/year
- Passenger transports reach 1,180-1,200 million/year
- Average growth rate of transports reach 10% - 11%/year

### Infrastructure plan by 2020

- Road
  - complete 500 km of new expressways
  - upgrade provincial road systems
  - 100% rural roads are of hardened pavement
- Railway
  - upgrade existing railway network
  - priority to modernise railway of North - South
  - complete railway of Yen Vien - Pha Lai - Ha Long - Cai Lan and ensure construction progress of urban railways in Hanoi
  - connections with seaports, dry ports, economic zones, mines and major tourism centres
- Seaport
  - develop ports of Hai Phong, Quang Ninh and Lach Huyen as international gateways
  - ensure uninterrupted connectivity between seaports with logistics hubs
  - construct dry ports and other infrastructure to support development of logistics services
- Airport
  - expand existing airports, including T2 of international airports of Noi Bai (Hanoi)
  - upgrade Cat Bi international airport (Haiphong)

### Objective by 2030

- Transport infrastructure networks are basically completed and modernised
- Hai Phong international gateway seaport and international airport of Noi Bai (Hanoi) are up to international standards
- Urban rail network in Hanoi basically completed and exploited effectively

Remark: Please refer to the adjusted master plan for details

Source: "Adjusted master plan on transport development in the northern key economic region through 2020 and orientations toward 2030" (Prime Minister Decision No. 2053/QĐ-TTg promulgated in November 2015)

## Development of Southern Key Economic Region



### Objective by 2020

- Cargo transports reach 650-700 million tons/year
  - of which, cargo volumes going through seaports reach 240-250 million tons (container: 10-11 million TEUs)
- Passenger transports reach 1,800-1,900 million/year
- Average growth rate of transports reach 10% - 11%/year

### Infrastructure plan by 2020

- Road
  - complete the expansion of sections of highway No.1
  - constructing expressway section of North - South highway, and highway linking Ho Chi Minh City with gateways and important transport hubs
  - completing roads connecting with southwest border
  - 80% of rural roads are of hardened pavement
- Railway
  - upgrade railway of North - South
  - develop urban and suburban railways in Ho Chi Minh city
  - build railways connecting ports and economic zones with Ho Chi Minh city
  - research the building of Di An - Loc Ninh railway and North - South double lines of high-speed railway
- Seaport
  - enhance investment to upgrade modern container ports, especially the international gateway port of Cai Mep - Thi Vai
  - develop ports in islands to meet development demand
- Airport
  - modernize existing international airport of Tan Son Nhat (Ho Chi Minh city) to meet demand for transport of passengers and goods
  - accelerate construction of new international airport of Long Thanh (Dong Nai province)
  - research the building of Vung Tau airport in town of Go Gang, and Ba Ria of Vung Tau province.

### Objective by 2030

- Modernise transport network between Ho Chi Minh city, other towns and provinces
- Build partial sections on North - South double railways
- Complete international airport in Long Thanh (Dong Nai province) to supplement the functions of international airport in Tan Son Nhat ( Ho Chi Minh city)
- Continue the development of urban railway network in Ho Chi Minh city

Remark: Please refer to the adjusted master plan for details

Source: "Adjusted master plan on transport development in the southern key economic



region through 2020 and orientations toward 2030" (Prime Minister Decision No. 2055/QĐ-TTg promulgated in November 2015)

In light of these shortcomings, the Vietnamese government is now determined to improve the country's infrastructure during the next decade. At the end of 2015, the country issued its revised master plan for transport development in key northern and southern economic regions. The plan's main aims are to improve infrastructure, and in turn enhance logistics services, by 2020. By 2030, it is intended to bring the country's transportation infrastructure up to international standards.

The major objective of development in the north is to improve the transport function of the region's key transport hubs, namely Hanoi, Hai Phong and Quang Ninh province. Ultimately, the goal is to enhance their transportation links to other parts of Vietnam as well as to overseas territories. In the south, the government plans to upgrade various transportation networks and improve their connection to Ho Chi Minh city, the region's main transportation and business centre.



Vietnam will bring the country's transportation infrastructure up to international standards (1).



Vietnam will bring the country's transportation infrastructure up to international standards (2).

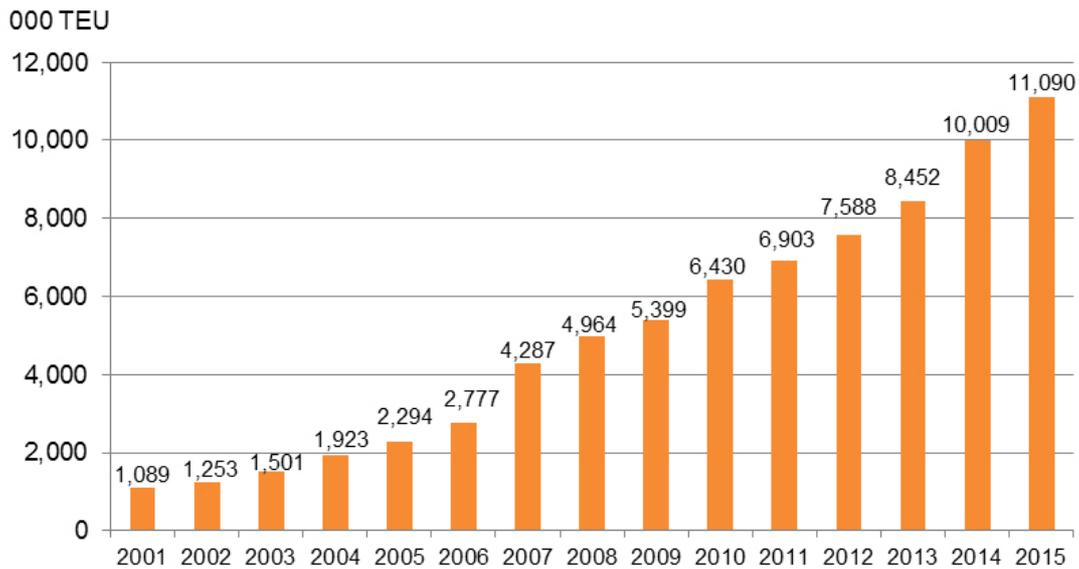
### Logistic Services to be Strengthened

Along with the increase in freight traffic and external trade, container throughput at Vietnam's seaports has been growing steadily in recent years, from 1.1 million TEUs in 2001 to more than 11 million TEUs in 2015. Over 70% of this throughput is from seaports in the south of the country, where the industrial base is more developed when compared to the north.

To counter this imbalance, the government has begun to promote investment in the northern region, in particular the economic triangle of the Hanoi-Hai Phong-Ha Long area. This has resulted in a surge of freight traffic in the north over recent years. Coupled with the enhanced infrastructure planned throughout Vietnam, this will not only facilitate freight transport in the south, but indeed in the whole country. As business activities expand still further and FDI continues to flow, demand for freight transport in Vietnam is sure to increase.



### Container Throughput of Vietnam's Seaports



### Container throughput by regional seaport in 2015

Port	000 TEU	% share	Port	000 TEU	% share
North, of which:	2901.9	26.2%	Central, of which:	408.3	3.7%
Hải Phòng	1,020.0	9.2%	Đà Nẵng	258.0	2.3%
Định Vũ	628.7	5.7%	Quy Nhơn	94.8	0.9%
Nam Hải Định Vũ	464.4	4.2%	Nghê Tĩnh	55.5	0.5%
PTSC Định Vũ	238.1	2.1%			
Đoạn Xá	235.1	2.1%	South, of which:	7,779.4	70.2%
Tân Cảng 128	200.9	1.8%	Tp. HCM + Đồng Nai	5,882.3	53.0%
Transvina	113.1	1.0%	Bà Rịa – Vũng Tàu	1,807.3	16.3%
CICT	1.7	0.0%	ĐB Song Cửu Long	89.8	0.8%

Source: Vietnam Seaports Association

International shipping lines including *Maersk Sealand*, *China Shipping Container Lines*, *Hyundai* and *Evergreen Line* are now offering various liner services in Vietnam. In this way they are hoping to tap the increasing demand for shipping demand which results from Vietnam's increasing volume of trade with the [ASEAN](#), China, the US, Europe and elsewhere. There is also strong demand for logistics services to help consolidate and deliver material inputs as well as finished products in a more efficient and cost-effective manner.

Foreign investors and their local suppliers are investing more and more in increasingly sophisticated production for exports to the international market. As they do so, the materials requisition planning and arrangements for their operations are growing ever more complex. Sourcing requirements for their international buyers have also become more stringent, with shorter production lead times allowed for their Vietnam operations. Hence, foreign-invested operations and their supporting partners are now seeking better logistics services to cope with these challenges.



The Vietnamese government is already well aware of this situation, and has added logistic services to the priority list for its investment promotion programme. Preferential arrangements such as tax incentives are now being offered to enterprises investing in industrial and economic zones for logistic parks and services [1]. The government considers that improved logistics services would fuel the further development of the country's business and industrial sectors. In the coming few years, this will be made possible by the enhancement of its transportation infrastructure, upon which logistics service providers will rely in order to deliver modern and efficient services to their clients.

According to the *Vietnam Logistics Business Association*, there are already more than 1,200 local logistics firms operating within Vietnam. Nevertheless, they account for only 20% of the country's logistics services. Around 80% of the logistics market [2] is held by 25 foreign-invested companies including *Nippon Express*, *Expeditors*, *Panalpina*, *DHL*, *Global Forwarding* and *DGF*. For the most part, these companies serve foreign-invested enterprises, especially the multinationals situated in major industrial and economic zones by the coast. They are equipped with advanced IT and tracking systems, as well as warehousing facilities for their clients. In contrast, most local logistics companies are small or medium-sized and have only limited capital. Some cannot even offer IT and vehicle facilities, and therefore only provide basic delivery services for their clients.

Nevertheless, local and foreign-invested enterprises are looking for quality logistics services in order to enhance their efficiency, while meeting the increasingly stringent requirements of overseas buyers. This includes those businesses located in newly developed areas which may be some distance away from major seaports and transport hubs. As there is still a severe lack of logistics facilities and efficient services, the logistics sector cannot meet the ever-increasing demand. This, therefore, has created an opportunity for newcomers to join the market.

### Tapping the Demand for Modern Logistics Services

To take advantage of this increasing demand, certain Hong Kong logistics companies have already set up operations in Vietnam. For instance, *Kerry Logistics*, headquartered in Hong Kong, has now established logistics centres in Hanoi, Da Nang and Ho Chi Minh city. According to Kerry's information, its Vietnam operation is one of the few integrated service providers in the country, offering customers a full range of logistics facilities including customs, shipping to freight forwarding, distribution and a diversified range of value-added services. [3]

The Vietnamese market has a strong appetite for modern logistics services. As the trading and business activities expand, a wide range of logistics services – production transport, sea-air intermodal transportation, warehouse management, customs clearance, inspection and quarantine, and even bank collateral / insurance – are all in great demand. As the majority of local service suppliers can provide only basic services such as local cargo transport, loading and unloading, they are not equipped to meet the market demand for international logistics services.

With Vietnam set to modernise its industries, the country's relationships with other production sites in the region, especially China, are also getting stronger. This is because Vietnam is now engaged mainly in processing production and it has to bring in intermediate inputs from other countries to support its industries. In particular, this includes material supplies from south China, namely a wide range of textile materials and accessories, electrical and electronic parts and components, machine tooling, metal and



plastic parts and materials and so on. [4]

Hong Kong is a highly efficient trading hub in the region, hosting efficient logistics service providers who handle a substantial part of the Chinese mainland's external trade. Coupled with the increasingly close relationship between Vietnamese producers and the supply chain on the Chinese mainland, this should bode very well for logistics service providers in Hong Kong. They are now in an excellent position to tap the increasing demand for integrated logistics services being brought about by Vietnam-China trade.

Equally, demand for fresh and frozen food in China has been rising, making it an attractive market for Vietnamese producers of agricultural and aquatic goods. It has been reported that increases in frozen containers shipped to China have contributed to the recent growth of Vietnam's export business. Evidently, then, there has been an expansion of cold chain logistics activities in Vietnam. At present, the proportion of agricultural products and food exported from Vietnam through a cold chain is rather low, which indicates that the market has a great deal of room for growth. Moreover, many food and aquaculture businesses hope to expand their overseas business by making use of cold chain export services, as this represents an effective way to increase the value of their exports. On the other hand, some Chinese companies are trying to source quality food items and fishery products from Vietnam, in order to fulfil the increasing consumer demand for these products in China.

In addition to investment in cold storage and other hardware facilities, Vietnam is in need of advanced cold chain solutions in order to improve the overall efficiency of its cold chain operations. Hong Kong companies have extensive experience of cold chain logistics management and they have applied the latest information technology very effectively. This puts them in a strong position to introduce this advanced technology into Vietnam, as an effective means of transporting the food items and fresh produce that many consumers on the Chinese mainland seem to prefer.

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[1] For more information about the preferential treatment, please see: [Vietnam Utilises Preferential Zones as a Means of Offsetting Investment Costs](#).

[2] Source: Ministry of Planning and Investment

[3] Source: web site of [Kerry Logistics](#)

[4] For more information about Vietnam's supply chain, please see: [Vietnam's Supply-chain Opportunities Spurred by Foreign Investment](#) and [Vietnam Connects its Cost Advantages with China: the Scenario of an Industrial Park in Hai Phong](#).

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