

# Vietnam on the road to being more than China's plus one



Answering the call: APL launched the first direct service between the US and Vietnam via the SP-PSA terminal at Cai Mep-Thi Vai this year, but the company says road development is crucial to the future of trade.

**Already one of Asia's fastest growing manufacturing centres, Vietnam is rising to the huge challenge of upgrading its transport infrastructure to get these goods to market**

Marcus Hand

THE developing Southeast Asian nation of Vietnam has been compared to a smaller China. Both countries have communist governments that have made moves to open their economies to global markets, attracting foreign investors to manufacture goods for export to Europe, the US and other parts of Asia. Vietnam opened up its economy later than China and has taken a more cautious approach.

In recent years, Vietnam has become increasingly popular among international manufacturers, who have adopted what is called a "China-plus-one" strategy. Companies adopting this strategy have outsourced some of their manufacturing to Vietnam so that not all their eggs are in one basket. Investment accelerated with Vietnam's accession to the World Trade Organization in 2006.

For some, Vietnam has now become their number one manufacturing location. Nike senior logistics manager Shaun Houston said the company expected its largest annual volume of footwear to be manufactured in Vietnam, the country having surpassed China in 2008.

Ms Houston said the company expects

the volume of manufacturing in Vietnam to increase over the next two years.

Vietnam's resilience finds reflection in a forecast 5.2% gross domestic product growth this year, with export and container volumes expected to be higher than 2008, despite the impact of the global economic crisis.

Vietnam's potential is undeniable, but a critical issue facing the country is its lack of modern infrastructure to cope with the pace of economic development and the demands of an export-led economy.

The country has only just built its first deepwater container terminals, and more are under construction. The road networks that link to these are either in poor condition and highly congested or, in many cases, are still to be built. The country's rail system is antiquated, and while inland waterways can offer a better alternative, there is a shortage of modern barge tonnage.

"The limiting factor will be infrastructure — there cannot be a paralysis of business," warned APL Vietnam managing director Barry Akbar.

He said the Vietnamese government had been working with the private sector on future plans but several issues still needed to be addressed.

In the area of container terminals, there has been some movement in recent years. Congestion, which had become a serious problem over the last two years, is no longer an issue.

This year has seen the launch of PSA International's SP-PSA joint venture at Cai Mep-Thi Vai, downriver from Ho Chi Minh City, as well as the first phase of Saigon Newport's terminal in the area. The two terminals are the first to be capable of handling mainline containerships.

It is testament to the demand in the

market that within days of opening, both terminals had mainline services to the US west coast, with shipping lines APL and MOL taking advantage of the ability to make direct calls for the first time.

A third terminal, DP World's 80%-owned Saigon Premier Container Terminal, has since opened at Hiep Phouc and immediately found a customer in the shape of CMA CGM.

With a slew of new facilities either planned or under construction around Cai Mep-Thi Vai and Vung Tau, including terminals from SSA Marine, Hutchison Port Holdings and APM Terminals, questions have been raised as to whether Vietnam faces a period of overcapacity in container terminals, at least in the south of the country.

"Although Ho Chi Minh City will probably be one of the few ports enjoying positive growth in 2009, it is unlikely that there will be sufficient business for all these new developments," said consultant Alpha-liner.

Vietnam Seaports Association secretary-general Ho Kim Lan said there would be sufficient demand growth to fill most of the new terminal capacity. He compared Vietnam's growth prospects with the experience of China. He said China acceded to the WTO 10 years earlier than Vietnam, and in that period it had seen some of its ports grow by 35% a year in terms of volumes.

"From China we can guess the trend that will happen in Vietnam," Mr Lan said. On this basis, an annual container volume growth rate of 20% over the next five years was not unreasonable, he said. That would result in a doubling of Vietnam's throughput from just 5m teu last year to 10m teu.

Based on a growth rate of 20%, utilisation at ports in the Ho Chi Minh City area would be 82% next year, dropping to a low of 64% in 2012, before coming back up to the 82% in 2014.

While the situation in terms of port capacity in the south of the country has been addressed, industry executives have expressed serious concerns about the lack of landside infrastructure linked to these developments and the absence of deepwater port capacity in the north of the country. The four-lane highway 51, which links Ho Chi Minh City to Cai Mep-Thi Vai, is in poor condition and is heavily congested. A 70 km journey can easily take three hours. The road is due to be widened to eight

lanes by 2012. "The eight-lane highway 51 is critical for Vietnam in the future of trade," said Mr Akbar.

The situation in terms of roads linking terminals to the highway is worse, with little more than dirt tracks the norm. As a result, around 90% of the traffic at the new terminals in Cai Mep-Thi Vai has to be barged downriver from Ho Chi Minh City. In the longer term, barging will lead to issues of congestion at terminals further upstream in the city itself.

A 21 km road linking the port developments is not scheduled for completion until 2012.

Vung Tau Maritime Administration deputy director Nguyen Van Hoa is frank in his assessment that road conditions are far from satisfactory.

PricewaterhouseCoopers executive director Andrew Chan Yik Hong stressed the need for all infrastructure to be of world-class quality to meet demand and said the quality of road infrastructure would affect ports.

"It is not about building world-class ports and medium-class roads," he said.

In the north of the country, where there has been a rapid growth in electronics manufacturing close to the capital, Hanoi, it is not only landside infrastructure that is an issue but also the ports. The main northern port of Haiphong is draught-restricted and can only handle feederships of around 700 teu capacity. Mr Akbar said

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APL put an 800 teu ship into the port and it touched bottom.

A terminal with 12 m draught is planned for Lach Huyen in Haiphong, but this development is some way off. The terminal will also need new roads and bridges to connect it to the city.

One of the issues in the building of roads to new terminals is linking up the government agencies at national, regional and local levels that are responsible for different parts of the infrastructure chain.

Ms Houston said the transport infrastructure in Vietnam needed to be much more organised, so that a situation where there were bridges with no access roads, and access roads with no bridges, did not arise.

Meeting these infrastructure challenges will require a great deal of investment. Mr Chan said there was a direct correlation of how much infrastructure you put into a country and GDP growth.

"If your GDP growth is 5%, you need to be putting 10% of GDP into infrastructure," he said. PwC forecasts Vietnam's economic growth will average 10% over the next 40 years.

Portcoast Consultant deputy director general Nguyen Manh Ung said the country needed \$20bn-\$25bn in port investment by 2020 to meet the government's masterplan for the country's seaports.

Mr Ung said that of the required investment, 12%-15% would come from the Vietnamese government, mainly for investment in breakwaters, dredging and roads to connect to main highways. The vast majority of the investment will though have to come from private sources.

Vietnam's Ministry of Planning and Investment is working on a public-private partnership model to go alongside existing investment vehicles such as build, operate, transfer in an effort to attract the required foreign investment.

The ganger is that if Vietnam does not meet the challenge of investment needed in infrastructure, it will find other countries in Southeast Asia snapping at its heels.

"Indonesia will represent a challenge to Vietnam and, if you do not watch it, sooner or later Thailand will be back in the game," warned Mr Akbar.

He said it was no longer a case of a China-plus-one strategy, but a China-plus-two strategy, leading to greater competition for Vietnam.

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