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TRADE LOGISTICS ASSESSMENTS BY LOGISTICS PERFORMANCE INDEX (LPI) AND TRADE AND TRANSPORT FACILITATION (TTF) FROM VIETNAMESE PERSPECTIVES

Abstract: In the context of regional and international integration, ASEAN countries have built up the trade logistics system among their 12 priority integration fields since 2005. However, logistics activities remain a very new sector in Vietnam and local logistics companies seemed to be unequipped with professional knowledge. According to our statistics, Vietnam's total logistics revenue currently accounts for 25% of GDP, while the rate in China, Thailand is about 19%, and the rate in developed countries such as United States and Japan is only about 8 to 9%. Weak development of trade logistics sector in Vietnam has originated from different reasons and to make this more clearly. This paper will analyse this situation by using both Logistics Performance Index (LPI) and Trade and Transport Facilitation Assessment (TTFA) methods to propose some key implications to facilitate trade logistics activities.

Keywords: Logistics Assessment; Vietnam Logistics; Trade Logistics Assessment; Vietnam Trade Logistics; Logistics Performance Index (LPI), LPI and TTFA.

JEL Classification: F14, F23, M11.

Introduction

According to Global Facilitation Partnership for Transportation and Trade

(GFPTT), trade logistics is defined as: “The management of international flows of goods, and related documentation and payments, with a focus on reducing direct and indirect logistical costs through the simplification and harmonization of procedures and documentation” [7, pp.3]. Meanwhile, Vietnam Commercial Law (2005, Chapter IV, article 233) defines as follows “Logistics services are commercial activities (that are done and managed by the businessmen in contract with their clients), such as the acquisition, handling, storage, transportation and delivery of goods, custom procedures, other documental procedures, client consultancy services, packaging, labelling or other associated services ...”. It is generally agreed that tariff negotiation and infrastructure development are not included in definition of trade facilitation. Therefore, main purposes of trade facilitation are effective enforcement of trade rules and regulations; in other words, that is the rationalization of procedures and documentation particularly and all regulatory measures for international flow of commodities, for instance: (i) Customs control; (ii) Technical regulations; (iii) Veterinary inspections of animals and animal products and sanitary inspections of plants and plant products; (iv) Other quality control that ensure the goods meet regionally and internationally required standards; (v) E-commerce development as well as electronic communication system and the Internet.

Assessment Methodology for Trade Logistic

Logistics Performance Index (LPI)

LPI is the weighted average of the country scores on the six key dimensions:

Customs: Efficiency of the clearance process (i.e. speed, simplicity and predictability of formalities) by border control agencies, including Customs

Tracking: Ability to track and trace consignments

International: Ease of arranging competitively priced shipments

Timeliness: Efficiency of moving shipments reaching destination within the scheduled or expected delivery time

Logistics: Competence and quality of logistics services (i.e. transport operators, customs brokers)

Infrastructure: Quality of trade and transport related infrastructure (i.e. ports, railroads, roads, information technology)

LPI database is obtained from the cooperation between The World Bank and international academic institutions, private companies and individuals working on international trade logistics in many respects. In the 2016 survey, 160 countries participated. Respondents evaluated on six core dimensions (mentioned above) on a scale from 1 (worst) to 5 (best), and the higher score representing the better performance. Besides, LPI is based mainly on the most important export and import markets of the respondent’s country. Scores of the six areas above are averaged across all respondents and will be aggregated by using principal components analysis.

Table 1. LPI Ranking of ASEAN countries 2016

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Country	LPI Rank	LPI Score	Customs	Infrastructure	International shipments	Logistics competence
Singapore	5	4.14	1	6	5	5
Malaysia	32	3.43	40	33	32	35
Thailand	45	3.26	46	46	38	49
Indonesia	63	2.98	69	73	71	55
Vietnam	64	2.98	64	70	50	62
Brunei	70	2.87	57	66	62	93
Philippines	71	2.86	78	82	60	77
Cambodia	73	2.8	77	99	52	89
Myanmar	113	2.46	96	105	144	119
Lao PDR	152	2.07	155	155	148	144

Source: World Bank, 2016

Trade and Transport Facilitation Assessment (TTFA)

The TTFA is a useful tool to identify the obstacles to the flow of trade supply chains. Through a series of meetings and interviews, database and facts have been collected from the main public and private participants to these international supply chains; including customs and other border agencies, transport regulators, freight forwarders, transport operators, ports, and others. The World Bank's International Trade Department (PRMTR) and World Bank's Transport Sector unit (ETWTR) prepared this toolkit.

The assessment is conducted in two phases. Both phases involve stakeholders and agencies to analyse findings and implement the projects that may result. Phase I is intended to provide an understanding of the general problems in infrastructure, regulations, transport and logistics services, and border procedures that affect trade competitiveness in the country or region being assessed. From results of phase I, phase II examines the relative importance of the problems identified in the phase 1 assessment to define concrete difficulties needed to resolve with plans of action that includes a series of project components.

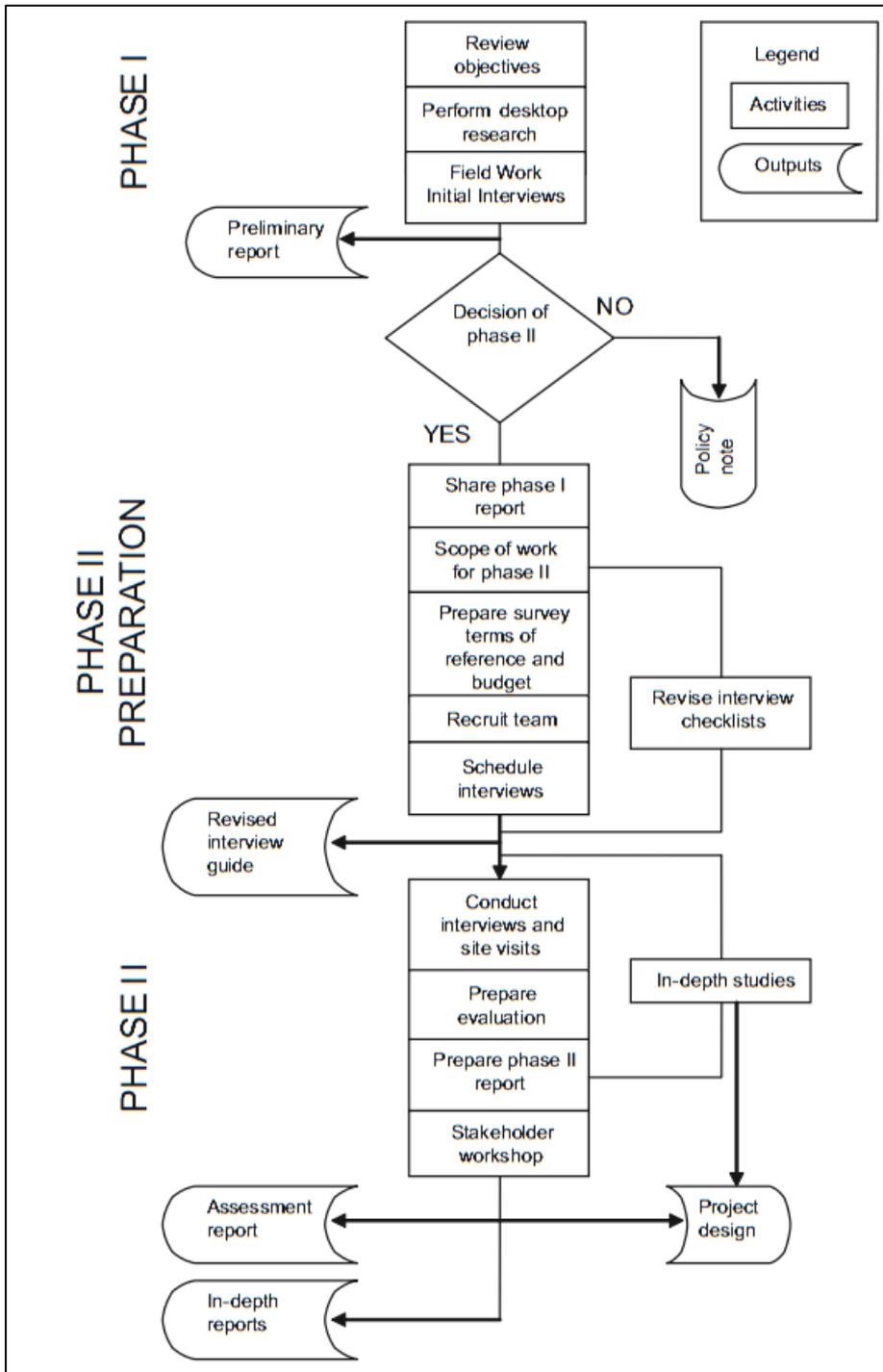


Figure 1. TTFA- A Practical Toolkit for Country Implementation

Source: World Bank 2016

Trade logistics in Vietnam

Potentials

Growth of trade activities

After nearly five years of joining WTO, Vietnam is showing wide and deep integration into other economies; with two-dimensional import and export turnover of about 150 billion each year, or more than 160 percent out of national GDP. Besides, Vietnam has been actively and positively participated in many forums for prestigious economic

cooperation such as ASEAN Free Trade Area (AFTA), The Asian-Europe Meeting (ASEM), Asia-Pacific Economic Cooperation (APEC), World Economic Forum (WEF) and other frameworks at Mekong sub-region. Many important agreements in providing FDI and ODA from U.S., EU, Japan has been performed, which is indicating prospects of Vietnamese trade in the long term.

The growth of Vietnam logistics industry

In the context of economic demand, logistics investment has grown quite fast. While national trade increased by an average of 13 percent each year over the past decade, the logistics industry in Vietnam has been one step ahead with growth rate of investment at 20 percent annually. Logistics market size was estimated at 20 billion USD each year. This is considered a small number compared to other countries in the Asia - Pacific. However, instead of that, Vietnam logistics has achieved the highest growth rate and is expected to maintain at 20-25 percent in the next 5 years.

Investment Opportunity

With the rapid growth of trade in goods and services, logistics operation is a compelling business in Vietnam. This area also tends to have higher profitability compared with other manufacturing and industrial services; with the net profit ratio of nearly 20 percent.

Challenges

Infrastructure

Vietnam has about 210,000 km of *road* and 17,300 km national highway. In fact, roughly 85 per cent of the national roads are paved, while only 54 per cent of the provincial roads and 20 per cent of the district roads are paved. Only ¼ of the road network has more than one lane. The system has showed major constraints including narrow widths, poorly designed junctions and restrictive vehicle weight limits.

Vietnam does not have a modern expressway linking the northern and southern parts of the country. At present, route 1A running along the length of the country is of varying quality, with much of it being a single lane road of insufficient width. Besides the lack of highway system, the inefficiency of

urban roads is also a challenge to container transfer towards or inside major cities and the traffic congestion seriously increases time of forwarding. However, those problems seem not so easy to be solved in the short term.

Table 2. International seaports in Vietnam

Name of port	Type	Maximum vessel load	Loading and unloading capacity
Tan Cang-Cat Lai	Container	2,000 TEUs	2.5 million TEUs/year
Tan Cang-Cai Mep	Container	9,000 TEUs	0.6 million TEUs/year
Tien Sa	General	45,000 TEUs	4.5 million tons/year
Cai Lan	General	50,000 TEUs	4.7 million tons/year
Hai Phong	General	40,000 TEUs	0.816 million TEUs/year

Source: Vietnam Seaports Association

Vietnam's *seaport network* comprises many small-and-medium-sized entities, with inefficient distribution, obsolete facilities and poor supporting services. Vietnam has only 5 international seaports with relatively small scale in which Tan Cang - Cat Lai is the largest container port which has just runned operation in 2009 with loading and unloading capacity of 2.5 million TEUs³, only equivalent to an average one of Singapore.

Comparing the three largest ports of Vietnam - Saigon port (South), Hai Phong port (North), and Da Nang port (Central) to some major seaports of Thailand and Malaysia, the three main ports of Vietnam seem diminutive in terms of maximum vessel size allowed and capacity of storage in despite the approximately similar size of berth lengths.

Due to the limited size of Vietnamese ports, transportation of goods from Vietnam to major international market such as USA and the European Union need to be transshipped at larger ports, leading to higher product costs. Moreover, most big ports are located far inside rivers, like Hai Phong and Ho Chi Minh City, with limited depth at the entrance. Except for some new or upgraded ones, most ports have been operating for many years, lack investment and are seriously degraded.

Airport and railway system are also facing with many challenges of downgraded quality and unprofessional-managed mechanism. Specifically, there are about 100 airports throughout Vietnam, but only three serve international routes. There are only two national airlines, Vietnam Airline (state-owned) and Pacific Airline (joint-stock), which are basically passenger carriers. Meanwhile, the railway system in Vietnam is about 2,600 km long. Con-

³ 1 TEU is equal to a unit of container with 20 ft. (6.1m- length) – 8 ft. (2.4m- width) – 8.5 ft. (2.6m – height).

tainer transport by rail in Vietnam is still at its primitive stage and operated only by the state-owned Vietnamese Railway Company.

Backward pricing

In reality, the Government Pricing Committee decides the port-using fees (supply pricing compared with market pricing). Shipping services such as VINALINE are state-owned-and-managed and that is rational to say how expensive are these services. While most seaports in other countries only charge port dues depending on gross registered tons (GRT) of the vessel, Vietnamese ports are requiring seven different types of fees, some of which are trifling. Also, the fast increase in number of ports also created a “*race to the bottom*” situation, where Vietnamese ports have reduced their price to attract customers, resulting in the direct results of lower service quality and an inability to reinvest into port development.

Trade logistics service provision is unprofessional

Nowadays, there have been many companies dealing in trade logistics services in Vietnam, almost of them are International and Joint Stock freight forwarding companies and the rest are National freight forwarding enterprises. Specifically, international logistics service providers such as Maersk, Mitsui and Schenker have operated in Vietnam since the 1990s forming joint ventures with Vietnamese companies. Other companies came from Korea and Taiwan. However, according to a *Japan Bank for International Cooperation* (JBIC) 2000 survey, 19 out of 28 export-orientated companies used in-house transport services and staffs. Apparently, this situation was made because local transport companies could not meet reliability of delivered contracts.

The trade logistics companies are mostly concentrated in Hanoi, Hai Phong, Da Nang, Ho. Ho Chi Minh City and Can Tho; ... network of companies has been operated mainly in the domestic market and only met about $\frac{1}{4}$ of market demand. And so far, enterprises of Vietnam, even large ones are not able to establish branches and agents in foreign countries, although in neighboring countries like Laos, Cambodia and China ... therefore, the exploitation of sources of goods or the sending and receiving goods from overseas, Vietnamese freight companies has implemented primarily through dealer relationships with international logistics corporations.

It can be said that trade logistics services in Vietnam has grown but still be inadequate. Those activities have been performed separately - not perfection- just the certain stages of the logistics process, resulting in low-performance business.

Due to limited financial resources, so most of the freight companies Vietnam cannot afford construction and storehouse development, loading and unloading facilities, modern means of transportation... Moreover, Vietnamese logistics enterprises have not had capacity of modernizing transportation

system. For instance, compared to other countries in Southeast Asia, Vietnamese fleet team are considered "old ship" (the average age is 14.5, even there has been individual ships of up to 65), small tonnage, backward equipment and machinery on board; transporting goods by air, road and rail are encountering such same difficulties.

Trade rules compliance

In the process of professionalizing trade logistics operations, the authorities of Vietnam must strictly abide by international standards. This requires the improvement of professional qualifications as well as mechanisms for management of related departments. This situation is really a big challenge for the young logistics industry of Vietnam. The three most important rules now includes: Customs Valuation, Risk Management and Origin.

Management mechanism

Two ways of transferring information in the international and domestic supply chain are paper documents and electronic (EDI). However, even though all necessary documents were submitted to Customs through EDI, the administrations still insist on paper declarations, resulting in time-consuming and high-cost problems for trade logistics providers.

Table 3. Time to complete export and import procedures in Vietnam (in days)

Export procedures	Duration	Cost (USD)	Import procedures	Duration	Cost (USD)
Document preparation	12	125	Document preparation	12	95
Customs clearance and technical handling	4	100	Customs clearance	4	95
Port and terminal handling	3	150	Port and terminal handling	4	175
Inland transportation and handling	3	180	Inland transportation and handling	1	280
TOTAL	22	555	TOTAL	21	645

Source: World Bank 2016

Table 4. Progress in reducing the number of days getting export and import documents

Category	2005-2008	2009-2010	2011-2016
Number of documents needed for export	6	6	2
Number of days needed for export	24	22	20
Number of documents needed for import	8	8	6
Number of days needed for import	23	21	16

Source: Europe-Vietnam Multilateral Trade Assistance Project 2016

Other problems worth mentioning are infrastructure and management method of Vietnamese Border Crossing Point. In fact, some of the changes do not need large financial capital since most of challenges are related to procedures and “*soft management*” rather than “*hard challenges*” of infrastructure. Besides, lacking of experienced human resources and increasing international competition are also challenges of Vietnamese trade logistics industry in the context of regional and worldwide integration.

Vietnam Trade Logistic Assessment

LPI: According to World Bank statistics, compared to other countries of the Asia-Pacific region, Vietnam ranked at last position in terms of logistics performance index. Besides recent improvement, Vietnam still has had shortcomings such as customs procedure or infrastructure, leading to weakly rival competence in this sector.

TFTA: The authors declare that Vietnam has not applied this tool yet.

Implications

Construction and modernization of infrastructure

The well-developed transportation system will facilitate multi-modal transport. It is the harmonious connection between transport by road, rail, air and sea. Especially, the railway sector should also be eliminated from the monopoly to facilitate equal competition. Vietnam has more than 1700 km length of railway, from Lang Son to Ho Chi Minh City, but it can be said that transport by rail has been ineffectively in the overall economy. In Vietnam, number of enterprises dealing in rail transport is very insignificant.

The project being implemented should be strictly supervised of the progress and costs, ensuring that it can put to use soon. Besides, Vietnamese government have to actively calling for further investment by the contractors as well as experienced experts in the field of trade logistics, helping to build a right direction and strong growth for logistics industry in Vietnam in the next 5-10 years.

Complying with trade rules- National Trade Rulebook

In practice, trading and intermediary companies and managers often find hard in accurately filling all export and import forms and declarations. This challenge is best solved by using a National Trade Rulebook otherwise called the National Combined Information System where all parties have one place to get all necessary export and import information in just few hours, leading to more efficient trade processes: saving time, reducing errors and building confidence and extra compliance by giving fast, reliable access to all regulations, tariffs and non-tariff measures applicable to goods crossing borders. The government will own and operate the rulebook and ensure liability for the accuracy of information.

Improving management mechanism

Simplifying and harmonizing Customs procedures

Vietnam has to strengthen activities of carrying out four groups of key tasks, specifically:

Firstly, government needs to successfully implement electronic customs in accordance with Decision 103 of Prime Minister in pilot provinces and cities. Electronic customs strive to be effective at 10 Customs Department with a rate of 7-10. That means, at 10 agencies, there must have at least 70 percent of departments applied e-customs forms, 70 percent of each local declaration is made by electronic mode and 70% of participants declared to e-customs.

The second is to reduce by 30% customs procedures; this is also a prerequisite condition of electronic customs. Today, customs has published 239 procedures of which we have proposed amendments with more than 50.2 percent.

The third is to reduce the time of actual good-inspection and clearance. Government has asked the Customs to reduce the time to clearance of goods at rate of 1.5 times that of the regionally advanced countries as Thailand, Malaysia and Indonesia. These countries now have to check the actual rate is 7-8 percent of goods, while this current rate in Vietnam is 17 percent; thus it must fall below 12 percent next year. At the same time, we must also decrease the rate of random testing from 4 percent to 2 percent.

Fourth, we should put concentrated checking place into operation at least at 10 Customs Department in the pilot provinces and cities. Concentrated checking place must also be modernized with updated equipment and high-quality human resources.

Building databases of information technology

It must be said that the database of information system has been still inadequate in Vietnam generally and in trade logistics industry particularly. The sites of the specialized agencies have not been really strong and supported ineffectively for enterprises; poor information data has not met the satisfaction of customer needs. The reality is that many overseas sites have contained much more information about Vietnam than the national websites. Especially, Vietnamese companies have only focused on the introduction of their company and the services they have. Customers will find hard to find facilities such as Track and Trace system. To build modern information system, database should be rich so that it actually is a bridge between Vietnam logistics community and the import-export companies.

Well-managed Border Crossing Point

Besides upgrading infrastructure of Vietnamese BCPs, government and functional departments can apply The Trade and Transport Facilitation (TTFA) method.

Human Resource Education and Training

Professional education and training should be supported for those who have already worked in full time employment in the logistics industry-vocational logistics training; while fundamental logistics courses should be given to students at education institutions. If possible, Vietnam should build a university or at least a logistics department in the Maritime and Economics Universities. Generally speaking, Vietnam Ministry of Education and Training need to consider logistics an important subject in progress of economic development. Thenceforward, educational institutes should build a clear career orientation for those who want to work in this industry right from the first year of program. Both logistics education and training needs experienced trainers and lecturers in parallel with qualification accredited by international education institutions or recognized by employers; or they can be experts with valuable experience learnt during many years of working in logistics sector. At present, The Vietnam Logistics Institute has contacted the Chartered Institute of Logistics and Transport (CILT) in the UK with the objective of developing quality logistics and transport education and training in Vietnam. Therefore, students, employees and employers will get valuable benefits from those courses.

Effective tools and policies for trade logistics activities

Instead of separately dealing with many challenges, Ministries and agencies should maintain and carry out a national trade facilitation strategy with the endorsement of Prime Minister because creating a national trade logistics or trade facilitation strategy will need a straightforward route with commitment, willingness and resources decided from the highest political level. In fact, that building effective plans for development of trade logistics industry, in which trade facilitation strategies are essence, will encounter many hard problems.

In addition, Vietnamese government can also use method of TTFA in which it has explained why a national trade facilitation body or policy makers should carry out a national TTFA in hope of enhancing productivity as well as efficiency in process of trade logistics industry. Furthermore, LPI is quite effective tool in case of overcoming obstacles and difficulties in each country.

Improving competitive capacity

In context of regional and international competition nowadays, besides that functional departments are proactive in improving infrastructure or quality of human resources; Vietnam need to shape a close relationships among logistics enterprises. To do this, it should be established a Vietnamese Logistics Associations. In Vietnam, so far we only have Viet Nam Ship Agents and Brokers Association (VISABA) and *Vietnam Freight Forwarders Association* (VIFFAS). Therefore, to raise awareness of the members in association, promote the development of the Vietnamese logistics and build long-term strategy, Vietnam Logistics Associa-

tion should be set up on the basis of inheritance of the achievements achieved. Additionally, Vietnam should establish a logistics corporation. At present, we had major corporations such as Telecommunications, Petroleum, Aviation, Electricity, etc. Because of the growth of these corporations, foreign corporations have less opportunity to dominate the market and important markets in Vietnam. Hence, if a logistics corporation is established, logistics domestic market will be provided by Vietnamese companies and foreign ones will find it harder to master logistics market in Vietnam. In fact, this establishment can be made through Merger and Acquisition (M&A) of the freight companies under the supervision functional officials.

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