



VIETNAM BRIEFING

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Vietnam's Logistics Sector: Opportunities in Air, Sea, and Land Connectivity

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Introduction



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Demand for infrastructure in Vietnam is booming but moving goods around the country can sometimes be tricky. There are, however, extensive plans to expand all three key components of Vietnam's logistics networks – air, sea, and land.

But building world class logistics infrastructure will require significant capital expenditure. To tackle this challenge, Vietnam is considering a number of incentives for foreign investors. It is also eagerly pursuing public-private partnerships in all three components of the logistics sector.

Across the board growth is expected to be maintained well into the foreseeable future and the sector is likely to open up even more to foreign firms as pressure mounts to achieve project timelines and establish higher cost efficiency as Vietnam competes with its neighbors.

In this issue of *Vietnam Briefing Magazine*, we analyze Vietnam's logistics sector, how it intends to extend its infrastructure network, and what policies are in place to support foreign investment.

With offices located across Southeast Asia and years of experience helping foreign enterprises set up operations in Asia, Dezan Shira & Associates is well positioned to assist your company in the Vietnam market.

For more information, please email us at asia@dezshira.com.

With kind regards,

Alberto Vettoretti



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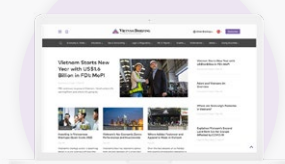
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Vietnam's Air Freight Sector is Flying High with a Wealth of Opportunities

Air transport has become an incredibly important component in Vietnam's logistics network. A growing demand to be able to move people and goods around the country quickly has created a plethora of opportunities for investors.



Mark Barnes
Author

Vietnam's air transport sector has grown rapidly over the last decade and is expected to continue to expand for at least another decade to come.

According to the International Air Transport Association (IATA), Vietnam is the world's fifth fastest-growing aviation market and is forecast to cater to 150 million passengers by 2035.

From 2020 to 2030, the civil regulatory body Civil Aviation Authority of Vietnam (CAAV) estimates the average annual growth rate will reach 7.5 to 8.5 percent for passengers and 8.4 percent to 9.7 percent for freight.

The capacity in Vietnam's air transport sector, however, is already nearing breaking point.

By 2030, passenger air traffic is expected to reach 280 million per year and freight traffic is forecast to reach 6.8 million per year, yet the total designed capacity as of 2020 was just 96 million passengers.

Ergo, a vast sum of capital will be required in the near to mid-term to develop Vietnam's air logistics and this could represent a sizable opportunity for foreign logistics firms.

Airports

Vietnam's airport infrastructure is set to undergo major expansion and upgrades in the medium to long term. It's estimated that Vietnam's airports will require around US\$18 billion worth of investment by 2030 to cope with the booming demand.

The country's Airports Corporation of Vietnam (ACV), which manages civilian airports, reported that over VND 25 trillion (US\$1 billion) has been invested in expanding airport infrastructure over the past five years to facilitate passenger and cargo growth.

A further US\$5.2 billion, however, will be required from 2021 to 2025 to complete outstanding air infrastructure projects.

Capacity

Vietnam has 22 airports, of which 10 are international and 12 are domestic.

Major airports in Vietnam include Ho Chi Minh City's Tan Son Nhat International Airport, Hanoi's Noi Bai International Airport, Da Nang International Airport, Nha Trang's Cam Ranh International Airport, Phu Quoc International Airport, and Hai Phong's Cat Bi International Airport.

The busiest and most important airport in the North is Noi Bai, which is located around 35 kilometers to the north of the capital. Despite having a designed capacity for only nine million passengers for the T2 Terminal, Noi Bai International Airport served almost 30 million passengers in 2019.

In the Central region, Danang International Airport is the largest airport with two runways. The airport can serve six million passengers each year.

The biggest airport in southern Vietnam, Tan Son Nhat International Airport, is located around 7 kilometers to the north of Ho Chi Minh City's center. In 2019, it served over 41 million passengers. It also accounts for nearly two-thirds of international arrivals for the whole country.

While Vietnam has plenty of airports nationwide, they are constantly overloaded with the real number of passengers and cargo exceeding their intended capacity. The quality of airport infrastructure also varies considerably from region to region.

Forward planning

Vietnam is looking to spend US\$17.65 billion on the development of airports nationwide from now until 2030.

Anticipated airport infrastructure investments, upgrades, and expansion between 2021-2030 are as follows:

- Phase 1 construction of Long Thanh International Airport valued at US\$4.72 billion. This includes a 4 kilometer long and 75-meter-wide runway, a taxiway, an apron system, a passenger terminal, a 1.2-million-ton cargo terminal, as well as an air traffic control tower;
- A US\$482.6 million investment in the T3 Terminal at Tan Son Nhat airport;
- An estimated US\$218 million for a third terminal at Noi Bai International Airport and an expansion of T2;
- The expansion of the T3 Terminal at Da Nang airport;
- A US\$65 million runway and taxiway upgrade in Dien Bien Phu airport;
- A US\$57 million investment to upgrade Quang Binh province's Dong Hoi domestic airport to an international airport, with a new terminal and an expanded apron. This would raise its service capacity from 500,000 passengers per year to three million;
- A US\$100 million investment in Con Dao airport to bring its capacity to two million passengers a year by expanding its runway and investment on adding three more new taxiways; and
- The construction of new airports at Phan Thiet, Sa Pa, Quang Tri, and Lai Chau.

According to the CAAV, the country's top priorities are Noi Bai, Tan Son Nhat, and the under-construction Long Thanh airport in Dong Nai Province. Long Thanh will be Ho Chi Minh City's second airport eventually replacing Tan Son Nhat.

In addition, 22 other airports across the country are slated to receive major upgrades while six new airports are to be built to bring their combined

capacity to 278 million passengers a year. This would ensure that 95 percent of the population can access airports within 100 kilometers.

The plan also puts great emphasis on the expansion and construction of airports in remote, mountainous, and island areas, such as Dien Bien, Con Dao Island, Sa Pa, and Pleiku.

By 2050, Vietnam expects to have 29 airports in total, including 14 international airports and 15 domestic airports with one more airport to be built in southeast Hanoi.

Opportunities in Vietnam's aviation sector

Under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Vietnam has permitted foreign investment in the aviation sector. This includes local and international air services and investments can be through capital contributions or stake acquisitions.

Under regulations on conditional business lines in the aviation sector, effective from January 1, 2020, Vietnam has raised the foreign ownership cap for domestic air carriers to 34 percent from 30 percent.

Until recently, Vietnam has been working on a scheme to attract private investment in airport projects. This includes relaxing the policies regarding the cap on foreign ownership as well as the minimum capital requirement for aviation enterprises.

As of 2020, foreign companies can invest in ground handling services, food and beverage services, maintenance, repair and overhaul services, and aviation fuel. This is under the proviso that their investment doesn't exceed 30 percent of the total capital. Furthermore, the minimum capital for these service businesses is VND 30 billion or US\$1.3 million.

PPP models for aviation infrastructure underway

Vietnam is planning to utilize public-private partnerships (PPPs) to develop new airports.

In January 2021, the CAAV submitted proposals to the MoT for PPP airport development and private investment in aviation service facilities at airports managed by ACV. The PPP proposals cover the development of six airports at Dong Hoi, Rach Gia, Ca Mau, Sa Pa, Lai Chau, and Quang Tri.

A build-operate-transfer (BOT) PPP model is currently being used at Dong Hoi as a pilot project. A similar model has already been applied to the development of Van Don International Airport, Vietnam's first private airport.

A PPP model is also being put together in the central province of Quang Tri with an estimated cost of US\$257 million. The domestic airport, located in Gio Linh district with a total surface area of 265 hectares is expected to cater to one million passengers and 3,100 tons of cargo annually.

Summary

Despite the pandemic, Vietnam is expected to be one of the top 10 countries with regard to passenger growth in air travel.

The government is also likely to amend regulations to give local governments more authority when it comes to attracting private investment. To that effect, the PPP model is likely to play a significant role in the aviation sector in Vietnam. With the right regulations in place, air logistics may offer highly profitable opportunities for foreign firms. 🌸



Seaports and Shipping Lines: From Vietnam to the World

Vietnam is located on one of the most important maritime transport routes in the world and with 3,600 kilometers of coastline, the investment possibilities are endless.



Mark Barnes
Author

Vietnam benefits from a long coastline, that borders the Gulf of Thailand, the South China Sea, and the Gulf of Tonkin.

This has helped the country follow an export-oriented path of development; import-export trade topped US\$700 million in 2022.

Consequently, Vietnam has the second-highest number of international ports in ASEAN. But more investment is needed for ocean-based logistics to play a key role in Vietnam's continued economic development.

Sea ports

There are three main port cities along Vietnam's coastline—Hai Phong in the North, Ho Chi Minh City in the South, and Da Nang in the central region. The leading container port, based on cargo capacity, is Ho Chi Minh City.

Meanwhile, the northern port of Hai Phong is a major port for international container traffic. The

Hai Phong International Container Terminal (HICT) can accommodate large container ships, which allows for bigger shipments out of Vietnam and reduces costs for buyers of Vietnam's exports.

Da Nang's port is key to the development of Vietnam's central region. It also connects Vietnam to Myanmar, Thailand, and Laos.

Domestic shipping enterprises

Vietnam's container fleet has 10 container shipping companies that own 48 container ships with a total capacity of 39,519 twenty-foot equivalent units (TEUs), and a total tonnage of 548,236 tons deadweight (DWT).

Currently, Vietnam's shipping fleet is responsible for transporting about 7 percent of Vietnam's goods. It mainly operates on domestic routes and short routes in the intra-Asia region. Most international freight is handled by foreign shipping lines who have bigger ships and are more well established.

International Freight

Intercontinental routes to and from Vietnam are dominated by foreign shipping lines. According to the Ministry of Industry and Trade (MoIT), the percentage of import and export goods transported by local shipping companies fell by half from 10 percent in 2015 to 5 percent in 2020.

Most Vietnamese shipping companies are relatively small businesses. As a result, though they transport cargo, they do not provide logistics services thereby reducing their attractiveness to international exporters. Furthermore, Vietnamese shipping enterprises only have ships with a capacity of 1,800 TEUs while foreign firms have vessels of over 20,000 TEUs.

The Vietnamese shipping fleet is composed of mainly older cargo ships with relatively small tonnage making them less competitive. Such ships do not meet the safety and security requirements to operate in large markets like Europe and North America.

Unsurprisingly then, foreign shipping companies transport 95 percent of Vietnam's imports and exports. As a result, the shipping costs of Vietnamese firms are often subject to fluctuations in international currency prices.

Upgrades needed

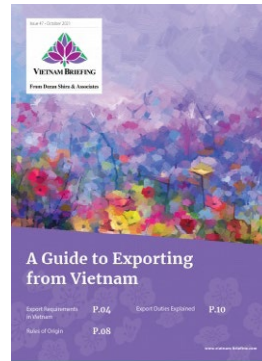
The Vietnam Logistics Business Association (VLA) has said that a total investment of US\$1.5 billion is needed to buy new ships as well as rent and buy containers to expand shipping services and ease supply chain issues.

Having a fleet of container ships would limit the pressure from foreign shipping lines on freight rates and surcharges. It would also help ensure the



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country's economic security as well as take better advantage of Vietnam's many free trade agreements.

The VLA is also pushing for policies to encourage training of sailors and to exempt them from personal income tax in order to improve human resources in the sector. It has also suggested allowing domestic shipping firms to hire foreign crew members to work on Vietnamese flagged ships.

Development strategy

Public maritime infrastructure facilities

- Upgrading of Cai Mep - Thi Vai shipping lane to serve ships with a 200,000 DWT partially loaded (18,000 TEU);

- Construction of a shipping lane to Hau River for large ships; phase 2, upgrade shipping lane to be capable of receiving ships with deadweight tonnage of 20,000 DWT partially loaded;
- Upgrade of shipping lanes to Nghi Son port, as well as the Chanh river lane, Cam Pha lane, and Tho Quang lane; and
- Lighthouses on islands and archipelagos within the jurisdiction of Vietnam, and other infrastructure facilities serving performance of maritime safety tasks.

Terminals

- Continue investing in the wharves at Lach Huyen terminal;
- Start construction of wharves at Nam Do Son terminal (Hai Phong);
- Develop wharves at Cai Mep - Thi Vai terminal (Ba Ria - Vung Tau);
- Develop international terminals connected to potential areas for tourism development;
- Large-scale terminals serving power, coal, gas, petroleum and metallurgy centers;
- Terminals serving coastal economic zones; and
- To call for investment in the terminals of Van Phong and Tran De potential seaports.

Potential tax incentives for investors

To improve the country's shipping industry, the MoIT has proposed several tax incentives to the government in order to further attract foreign investment.

In particular, the MoIT proposed reducing the corporate income tax for shipping enterprises from 20 percent to 15 percent and reducing personal income tax for mariners by increasing the tax-free threshold.

The Decree on the Provision of Logistics Services

Foreign ownership restrictions in logistics businesses, as outlined in Decree No. 163/2017/ND-CP, can make it difficult for foreign firms to invest. As a result, there has not been a lot of movement from big international players. But change may be afoot as the number of projects Vietnam seeks to finance with private funds will require huge sums of foreign investment.

It has also suggested that the government should have coastal fleet management policies to meet the domestic transport demand, promote freight by sea, and improve connections between different modes of transport.

Summary

The shipping industry is expected to continue to grow thanks to booming imports and exports. Although the lack of appropriate infrastructure and container capability remains a key obstacle for the country's shipping industry, government incentives may provide investors with the impetus they need to enter Vietnam's sea-faring market. 🌺



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Road and Rail: The Spine of Vietnam's Distribution Network

Vietnam has an extensive network of both railways and roads crisscrossing the country. These are pivotal to Vietnam's logistics network but need investment to cope with a booming manufacturing industry and surging demand for Vietnam's exports.



Mark Barnes
Author

Vietnam comes in at number 47 out of 160 countries in the quality of its infrastructure, according to the World Bank. Surging exports and imports amid a range of new free trade agreements coming into force, has seen consumer spending hitting new highs alongside manufacturing output.

And all of those goods not only need to be shipped around the world, they also need to get from Vietnam's factories to its ports and from its ports to its supermarkets and retail stores.

Road transport infrastructure

Statistics from the Vietnam Logistics Association (VLA) show that about 99 percent of container volume to the port in Hai Phong in the North is transported by road.

Road transport is the backbone of Vietnam's logistics and transport industry, but it needs vast improvements. About 20 percent of the country's roads are paved with medium to low-quality

materials, which has left them pockmarked with potholes and cracked.

In fact, Vietnam is ranked 103 in road quality, according to the World Economic Forum.

In response, in 2021, the government issued Decision No. 1454/QĐ-TTg, which outlines Vietnam's approach to updating its infrastructure. This includes scaling up the current 1,290 km of national highway to 5,000 km by 2030 along with upgrading roads and increasing connections to major ports, airports, and railway stations.

An ambitious 1,800 km HCMC-Hanoi highway is currently being built that should facilitate easier trade between the north and south of the country.

Vietnam's rail infrastructure

Vietnam currently has about 2,600 kilometers of railway. But this infrastructure is old and moving goods via railway is slow.

The key rail artery between Hanoi and HCMC currently averages speeds of barely 50 kilometers-per-hour. This means that shipping freight between the two cities can take up to a day and a half.

As a result, it is responsible for just 6 percent of passenger transport and 1.4 percent of freight.

Current rail projects

The Yen Vien to Cai Lan railway project, which is listed as one of the nine lines to be completed in the National Rail Network Plan, is also well over a decade behind schedule.

The project began in 2005 but budgetary constraints saw it put on hold in 2011. To date only a section from Cai Lan to Ha Long has been completed of the 131 kilometers planned. This does not bode well for the remaining over 2000 kilometers of track outlined in the national rail plan. There have, however, been other more successful rail projects.

During the pandemic, trans-continental freight trains transported goods all the way from Hanoi to Liege in Belgium. The freight movement continues, thrice a week departing from Hanoi, according to the Rail Transport and Trade Joint Stock Company, which runs the freighters to Europe.

Funding rail projects in Vietnam

China is keen to invest in Vietnam's infrastructure as part of a subsection of its Belt and Road Initiative. In particular, China wants to connect the border town of Ho Kieu Bridge with the port city of Hai Phong. It even handed over US\$1.4 million to fund initial plans back in 2019.

But Chinese investment in Vietnamese infrastructure projects has not always gone particularly well.

The Hanoi Metro, for example, built with overseas development aid (ODA) from China, ran well over both budget and schedule. Needless to say, there is not a lot of appetite in Vietnam to engage with China on more major projects.

Alternatively, public-private partnerships (PPP) have also been touted as key to building Vietnam's railroads.

The new public-private partnership law that took effect in January of 2021 has been specifically designed to attract investment in transport infrastructure. Though air transport and roadways have drawn the most attention, rail transport has not gone unnoticed.

In June 2022, a US\$1.15 billion PPP in Southern Vietnam's Central Highlands was approved to refurbish 84 kilometers of railway line from Da Lat to Thap Cham. But this is just one small step with billions more dollars needed to meet Vietnam's rail objectives.

Summary

As an emerging economy, Vietnam faces challenges in finding good quality financing for its rail infrastructure. PPPs are a viable option and foreign investors in this domain could find good opportunities to expand their Southeast Asian logistics portfolios. 🌸



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