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LOGISTICS ACTIVITIES OF JAPANESE COMPANIES IN VIETNAM

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ABSTRACT

Many Japanese logistics companies established their subsidiaries in Vietnam and started their operation from late 90s to 2000s. These Japanese logistics companies have significant positions in the logistics activities in Vietnam both quantitatively and qualitatively. This paper reviews current condition of transport and logistics infrastructure, and the logistics activities and their services of selected Japanese companies in Vietnam. The paper also identifies the issues and bottlenecks of logistics services in Vietnam and shows the topographical and economic position of Vietnam.

Keywords: Logistics, Vietnam, Japanese Companies

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1. INTRODUCTION

Vietnam is one of the key players of economic development in the Greater Mekong Subregion (GMS)¹⁾ as well as ASEAN countries. Transport and logistics infrastructure such as ports and roads are developed by Official Development Assistant (ODA) and Asian Development Bank, etc. year by year, thus these infrastructure conditions are dramatically improved in recent years. The amount of freight traffic in Vietnam is also increasing continuously with economic growth. In this circumstance, many Japanese logistics companies established their subsidiaries in Vietnam and started their operation from late 90s to 2000s. These Japanese logistics companies have significant positions in the logistics activities in Vietnam both quantitatively and qualitatively.

This paper reviews current condition of transport and logistics infrastructure in Section 2 and the logistics activities and their services of selected Japanese companies in Vietnam based on the literature and our interview survey in Section 3. Section 3 also indentifies the issues and bottlenecks of logistics services in Vietnam. Section 4 shows the topographical and economic position of Vietnam, and conclusion comes in Section 5.

2. TRANSPORT AND LOGISTICS INFRASTRUCTURE IN VIETNAM

2.1 Ports Development

Seaports are one of most important transport and logistics infrastructure in Vietnam for economic development. Recent container in/out throughput of the major ports in Vietnam is shown in Figure 1.

Table 1 summarizes basic information of major ports. Conditions of major ports in the each region of Vietnam as follows:

1) North Vietnam: Haiphong and Cailan

Haiphong port is a river port, so large ship cannot enter. Draft is only 4.3-7.3m, thus DWT 40,000 vessel is limited. Cailan port is rather deep seaport in the northern Vietnam whose draft is 7 -10 m. So, the vessels of 3,000 TEU class can enter the port. It is however difficult to expand further development because Halong Bay known as the world heritage site is located near the port.

2) Central Vietnam: Danang, Quynhon and Nhatrang

Da Nang Port is located near Danang city, but its container throughput is lower than northern and southern Vietnam. Nhatrang port is located near the south, and the distance between Nhatrang port and Ho Chi Minh City (HCMC) is about 320km.

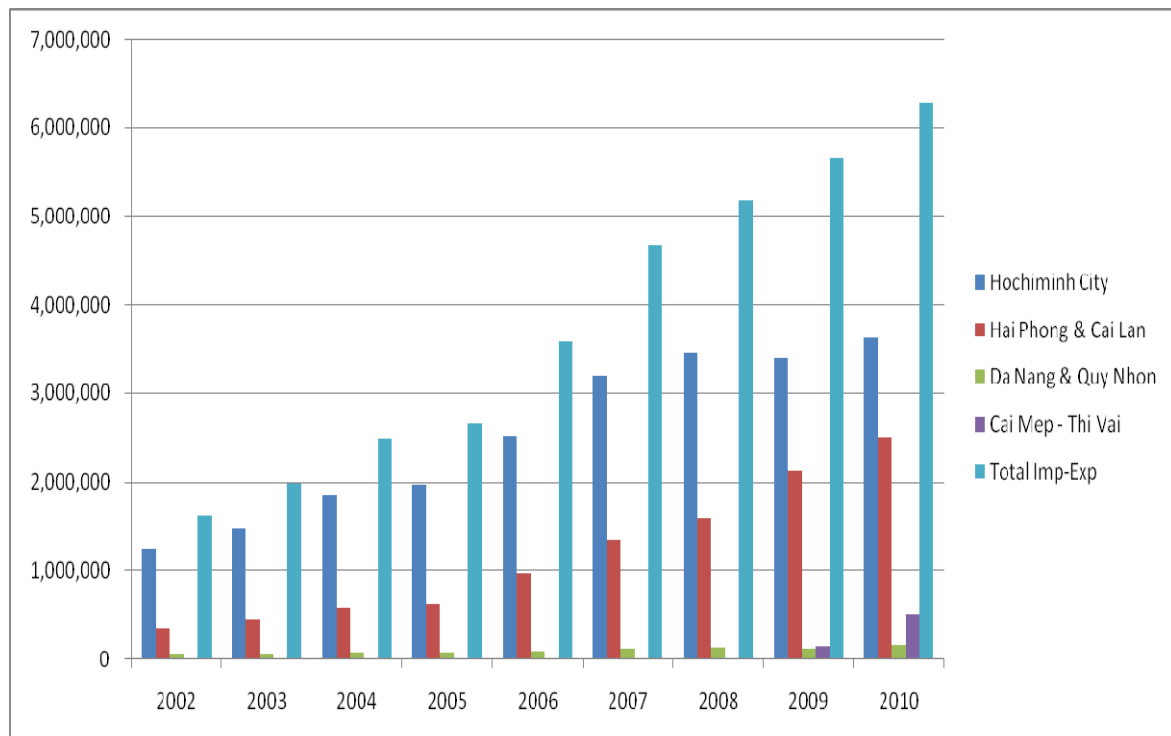
3) South Vietnam: VICT, Saigon, Ben Nghe, Cat Lai, Hiep Phuoc and Cai Mep.

As most ports are river ports except Cai Mep port, possible maximum vessel size is about 1,500 TEU class in the group of southern ports. Container handling charges of this group is more expensive than other regions. Cai Mep port with deep draft is located close to sea and some container terminals are still developing. Cai Mep port

Table 1 List of Major Ports in Vietnam

Port Name	Container handling volume (2010) (TEU)	Port draft (m)	Maximum capacity weight (Thousand ton)	Distance from major area	Remarks
Hai phong	953,646	4.3-7.3	7.0	Hanoi 85km	The largest port in northern area, but shallow draft
Cailan	204,129	7.0-10	25.0	Hanoi 160km Haiphong 60km	Deep draft in northern area, but not good location
Danang	89,199	9.0-12	40.0	Near Danang	Low container volume
VICT	297,561	8.0-10	30.0	Inside HCMC	Located beside Tan Thuan industrial park
Cat Lai	2,850,000	8.0-10	30.0	Bien Hoa 30km	Current largest port in Vietnam
Hiep Phuoc	95,934	8.0-11	30.0	HCMC 50km	Opened in 2010
Cai Mep	293,912	14-15	100.0	HCMC 90km	Partial opening in 2009 (Phase 1)

Source: Presentation Materials of Nippon Express (Vietnam) on 8th Sep 2011



Source: Presentation Materials of TCIT on 9th Sep 2011

Figure 1 Recent Container in/out throughput in Vietnam (Unit: TEU)

has the several existing container terminals and Saigon Newport Corporation is one of largest terminal in HCMC in this region.

According to our interview survey, the role of Cat Lai port is for the intra-ASEAN route using smaller vessels; on the other hand, Cai Mep port is expected to be the hub port in Southeast Asia.

2.2 Road, Rail and Inland Waterway

2.2.1 Road

The total length of road is 256,684 km in the country and count for more than 70% of domestic cargo transport volume. Although the highways are constructed with ODA support, there are some problems in road capacity, pavement condition, etc.

A longest trunk road in Vietnam is the National Highway No. 1 (1,800km) that connects Hanoi and HCMC and its travel time is approximately 3 days by the truck. No. 5 (130km, about 2 hours) from Hanoi and Haiphong port and No. 18 (160km) from Hanoi and Cailan port are main access roads from/to ports in Hanoi. No.51 is the main highway to access Cai Mep port from the city center of HCMC which is 100km with about 3 hours. Several industrial parks are located at the roadside of No. 51.

The truck ban regulation has been taken according to the total load capacity in Hanoi. For example, if the total loads of truck are more than 2.5 tons, they are prohibited to enter the city from 6:00 am to 9:00 pm. HCMC has the similar regulation. Regulation has become a little loose in Da Nang.

2.2.2 Rail

The total length of railway is about 2,600km with 259 train stations. The rail line contains three types of wide gauge: 1.435 meter standard gauge, 1.0 meter narrow gauge and mixed gauge. It connects major cities from the north to the south and also connects China at two borders.

There are four important lines in Vietnam:

1) North and south: Hanoi – HCMC line (1,726km)

Number of service is 10 journeys per day. Travel time is about 29.5 hours for passengers and 60 hours for freight.

2) North: Hanoi – Haiphong line (102km)

Number of service is 9 round-trips per day. Travel time is about 2 hours by express train.

3) North: Hanoi – Dong Dang line (164km)

Number of service is 3 round-trips per day. Travel time is about 6 hours. In addition, there are 2 round-trips per week for connecting to Nanning, Guilin and Beijing in China.

4) North: Hanoi – Lao Cai line (294km)

Number of service is 5 round-trips per day. Travel time is about 10 hours. In addition, there are 2 round-trips per week for connecting to Kunming, China.

Vietnam railway is a single track and it is not electrified. Track, roadbed, signals, transmission equipment, etc are getting older year by year. Thus, many projects are proceeding for improving them. Railway is mainly used to carry passengers not cargoes.

Due to its long and unreliable transit time and a limited stop station, most shippers prefer to use trucks for domestic container cargo.

2.2.3 Inland Waterway

Vietnam has a high density network of rivers including the two big rivers: Red River in the North and the Mekong River in the South. Many inland waterway ports and landing points are operated for carrying cargo. Foreign trade cargo and containers are transported between Cambodia and Vietnam through Mekong River.

There are 109 inland waterway ports and 3,111 landing points in the whole country. Some ports have a few routes linking with the seaports such as Hanoi - Haiphong and Camau - Cantho - HCMC. Several river ports have a good connection with rail lines and national roads. Inland waterway terminal near Haiphong and Hong Gai has Free Trade Zone and customs bonded warehouse for export and import. Cost of inland waterway is relatively lower than other transport modes, so it is growing an average 1% per year during last several years. However, this development is only in two big rivers. Other rivers are periodically lack of water in the dry season and flooded in the rainy season.

3. JAPANESE LOGISTICS COMPANIES IN VIETNAM

3.1 Dragon Logistics Co., Ltd.

3.1.1 Outline

Dragon Logistics began operation in October 1996. Its capital are composed of Sumitomo Corporation (34%), Suzuyo & Co., Ltd. (31%), Vinafco Joint Stock (25%) and Hanoi Electronic (10%). In Vietnam, 100% foreign capital is not allowed yet. The maximum stake is currently limited to 49%. Dragon's 95% of customers are Japanese companies such as Yamaha, Honda, etc. They have about 600 staffs with 8 Japanese, 85 trailers and 45 trucks.

3.1.2 Major Services

Main services are customs clearance, domestic transportation by rail, sea and trucks, international transportation by sea & air and trucks (e.g. south China-Hanoi-Bangkok) and warehouse operation including bond area. They have 3 main offices in Hanoi, Da Nang and HCMC. Warehouse capacity is 13,400 sqm including 6,600 sqm bonded area in Thang Long, Hanoi, and is 5,400 sqm including 1,300 sqm bonded area in Dong Nai, HCMC. At Thang Long warehouse, Vietnam customs officers are stationed in the same building. Customs processing is done on paper by inland clearance instead of gate clearance. EDI installation is still delayed. Specific services are as follows:

- 1) South china – Hanoi land transportation
 - Distance & One-way Time: 1,400km, 3days
 - Transport mode: Chartered and scheduled operation by truck & trailer
- 2) Hanoi – Bangkok land transportation via Lao

- Distance & One-way Time: 1,740km, 4days (Sea mode: 11-14 days, but low freight)
- Transport mode: Chartered operation by truck & trailer

3.1.3 Comments of Interview Survey

Japan Logistics System Corp (Nippon Logitem), Yusen Logistics, Nippon Express and Dragon are doing the trucking services in Vietnam. In Vietnam, the amount of logistics volume from south to north is twice than from north to south. Although the National Highway No.1 is connected between two big cities, its road conditions are not yet good. Vietnamese people work good and hard, but they have little knowledge and experience of the logistics. It needs talented persons with the skill and the high educated persons.

3.2 Sagawa Express Vietnam Co., Ltd.

3.2.1 Outline

Sagawa Express Vietnam Co., Ltd is a subsidiary of Sagawa Holding Group. Date of establishment is June 12, 1997. The capital component is Sagawa (70%) and Vietnam local logistics company (remaining 30%). At the establishment year, regulation of maximum foreign capital investment was 49 %, but its implementation might be not strict. Their employee staff is 583 in June 2011 and they have 30 tractor heads, 38 trucks and 15 forklifts.

3.2.2 Major Services

Sagawa Vietnam has the general certificate about logistic services: domestic and international transportation services by air, sea and trucking, and warehouse services such as bonded warehouse, CFS (Container Freight Station), general warehouse. They have 3 main offices in Hanoi, Danang and HCMC. The capacity of general warehouse is 5,000 square meters in Hanoi and is 9,500 sqm including 3,000 sqm bonded area in HCMC. Having no courier license of customs clearance for the import, their door to door delivery service is only one-way export from Vietnam to Japan. Sagawa Vietnam has strong partnership with Vietnam Airlines. Their main handling cargo is machines, electric parts, garment, fresh fish and shoes. In Vietnam, air cargo capacity of airlines is always not enough, thus the forwarders often compete to get the cargo spaces in the limited capacity.

Sagawa Express Vietnam has an emphasis on quality, quantity and needle inspection services for the apparel company, to do this, increase the employee. And they have new business plan that serving in Japan as well as LTL (less than truck load) in the major cities of Vietnam. They have an interesting courier service; From Hai Phong to Hanoi, because there is not enough volume of truck, so that, employee ride the local operated bus to pickup courier. Sometimes, they ask the bus driver to pickup them.

3.2.3 Comments of Interview Survey

In Vietnam, it needs spending time to get government permission of company establishment after opening a representative office. The capital partner hopes to receive

Table 2 Vietnam Land Service by Nippon Express

Service	Route	Frequency	Minimum T/S days
Star Night Express Vietnam/China Land Service	Shanghai/Hanoi 1,200km	1-2/week	2 days
East West Corridor Land Service	Hanoi/Bangkok	1-2/week	4 days
Domestic North/South Land Service	Hanoi/Ho Chi Minh Via Da Nang Truck Terminal as Hub	6-8/week	—

shareholder dividends in this joint business. In serving LTL business, the incentives system and education is important for drivers. They can let the driver go to Japan for training and arranged Japan operation manual for Vietnam.

3.3 Nippon Express (Vietnam) Co., Ltd

3.3.1 Outline

Nippon Express (Vietnam) Co., Ltd. established the year 2000. Number of employees are 570 including 8 Japanese. It is a joint corporation of Transimex (Vietnam) 50% and Nippon Express (Japan) 50%. Nippon Express (Vietnam) began their services for Japanese clients, thus 90 % of clients are still Japanese companies. In Hanoi, there are many big clients like automobile factories. Regulation of foreign capital investment for retail industry was abolished in 2009, and is scheduled for logistics industry to abolish in 2013. The deregulation of foreign capital investment limitation means that foreign logistics companies can manage the business 100% by own capital, however, Nippon Express is going to continue joint management with Transimex as it is.

3.3.2 Land Transportation Service

Nippon Express has the plan to establish the 7,000 km truck service network from Shanghai to Singapore. Nippon Express (Vietnam) is an important position in this plan. The truck service between Bangkok and Hanoi started in 2008. Thereby, although the conventional sea routes require 11-14 days, the land routes spend only 3-4 days along the overland route through the East-West Corridor of GMS. Nippon Express provides the following three truck services; Star Night Express, East West Corridor Land Service and Domestic North/South land Service to Bangkok/Singapore (Oriental Land Bridge) Service. Nippon Express has also completed truck service through Shanghai to Singapore via Vietnam.

3.3.3 Warehousing Service

According to the client request, Nippon Express manages many of the high quality warehouses for mainly Japanese clients in Hanoi and HCMC, which bonded and has dangerous and refrigerated area. Those warehouses are transit logistics center

from Shanghai and Singapore, and also which will meet VMI (Vender Managed Inventory) and JIT (Just In Time) as the needs of Japanese clients.

3.4 Nissin Logistics (VN) Co., Ltd.

3.4.1 Outline

Nissin Logistics (VN) Co., Ltd. was established in March 2006. The head office is located in Hanoi and it has branches in HCMC and Haiphong. The number of employees is 110 persons including 4 Japanese. Main business activities are customs clearance, international shipment, domestic carriage, warehousing, a storage DC service, plant transportation, move service, office relocation and so on.

3.4.2 Cross-border tracking

Nissin Logistics (VN) provides services of an export-and-import truck service between Vietnam and China, Laos, Cambodia, and other ASEAN countries. Followings are the international truck services provide by Nissin Logistics (VN):

- Truck Service, within the Indochinese Peninsula (Laos/ Cambodia)
- Truck Service, The South China-Vietnam (Píngxiāng/Dong Dang)
- Rail Service , Southwest China-Vietnam (Kunming/Lao Cai)
- Rail Service, Middle Vietnam (China whole country-Hanoi)
- Truck Service, Thailand- Vietnam (via Laos)

3.4.3 Rail Service

Nissin's unique logistics service in Vietnam is rail service by NR Greenlines Logistics which is established by the Vietnam National Rail subsidiary, RATRACIO and Nissin as joint management in 2008. Since the rail car wagon service start in 2008, container service has been begun in 2009, and it has operated the freight train only for container twice a week and now the freight train of car wagon/container combined use once a week (except for Sunday). It is used not only for Japanese companies but also many foreign capital companies as well as Vietnam companies. It will be expected to record about 5,000 cars and 12,000TEU transported by rail in 2011 fiscal year.

NR Greenlines Logistics has the plan to posses 480 containers (40FT), 30 car wagons and 180 container wagons within 10 years. They will also have a plan to operate the blocked freight train two times a day between north and south except Sunday. They manage a rail terminal at Hanoi and HCMC, and also the developed 6 cars stacked doubledeck car wagon by themselves.

3.5 Strategy of Japanese Logistics Companies in Vietnam

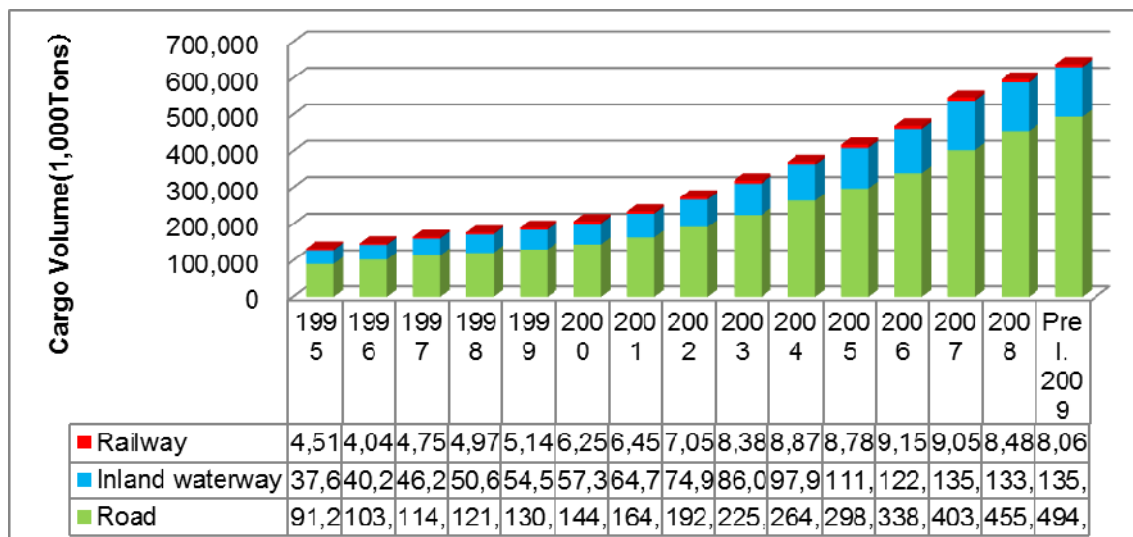
The amount of freight traffic in Vietnam is continuously increasing with economic growth. The amount of freight traffic in 2009 was 637,000 tons. It increased 3 times compared in 2000. The share of the truck in 2009 was 77.4%, and inland waterway and rail was 21.3% and 1.3%, respectively. The road infrastructure has been improved every year, thus the share of trucks is also increasing. On the other hand, the share of inland waterway and rail is decreasing year by year due to little infrastructure investment, no improvement of transportation capacity and service quality, and less attractiveness of freight rate for users.



Block train, exclusive use for container

Car wagon

Figure 2 Photo provided by Nissin Corporation



Source: Lecture at Kobe University on November 16, 2011 by Mr. Hirosawa, Nissin Corporation

Figure 3 Transportation mode wise freight traffic in Vietnam

Freight demand continues to be increased in 2010 and afterwards. If the economy of Vietnam grows continuously from now on, there would be more shortage of surface transport capacity. Thus, it needs transport infrastructure development and capability reservation other than road.

The influence of an East Japan great earthquake and the flood of Thailand may increase the companies who diverse the production site. These Japanese companies are rushing to establish the global supply chain and require the support by Japanese logistics companies in Vietnam. Simultaneously, a demand by the Japanese clients to Japanese logistics companies are not only provide of basic logistics service but also a demand to advanced high quality logistics service same as in Japan, such as VMI and JIT, is advanced.

Against the background of the trend of such a client, a Japanese logistics company hurries development of the truck service network covered at the whole GMS and connected with China. However, Japanese logistics companies have the problem of

Table 3 Logistics network expansion of Japanese Logistics companies in Vietnam

Nippon Logitem	Established logistics center in Hanoi, HCMC, Danang
Mitsubishi Warehouse	Established joint corporation with local capital
Nissin Corporation	Freight rail service with Vietnam NR
NYK Logistics	Investigating truck service between Hanoi and HCMC
Nippon Express	Established new high quality bonded warehouse with dangerous and temperature control storage near HCMC.

Source: Nihon Keizai Shinbun 7 September 2011

cargo imbalance. Thus, they will concentrate on development of the both-way balanced truck service network as well as establishment of logistics center with advanced warehouse at the present.

Under these circumstances, some new logistics services appeared like the Mekong-India express service (land-and-sea transportation which connects Chennai, India to Bangkok, Thailand) by Nippon Express. In the GMS, it is thought that it becomes a time of diversification of logistics service.

4. TOPOGRAPHICAL AND ECONOMIC POSITIONING OF VIETNAM

While China became the world's second largest economy and is still growing as well as other BRICs countries, China maintains the position of primary production base for many multinational corporations. At the same time, they come to seek the alternative and the supplemental location for manufacturing due to the increasing production cost mainly in the southern and the coastal regions and some other factors in China.

Vietnam is the good candidate to hedge the risk of heavy investment only in China as a "China plus one" strategy since Vietnam has various advantages. Firstly, it could be pointed out the stable economy and politics and relatively low country risk for foreign direct investment. The growth of GDP was 5.3 per cent in 2009 and 6.8 per cent in 2010. Secondly, highly skilled and better educated labor force is available for various industries. As the population is approximately 86 million and the minimum wage is about the half of China, value-added production is rather suitable than merely low cost production in Vietnam. Aggressive young workers are another attraction to foreign firms. Thirdly, the location between China and the Greater Mekong Sub-region (GMS) especially Thailand where foreign multinationals have heavily invested and set up the region's manufacturing and logistics bases is advantageous. Sometimes plants in Vietnam can rely on the suppliers in both China and GMS. Fourthly, Vietnam is not only exporting country of textile, furniture and footwear and raw material such as petroleum, rice, coffee but also expected to be the strong market within the country. GDP per capita exceeded \$1,000 in the mid 2000s and is steadily growing to \$ 1,174 in 2010. Fifthly, as

outlined in section 2, logistics infrastructure has rapidly been built or updated for the last 15 years. Our paper (Mori et al, 2011) reported some international developing projects in GMS such as the North–South Economic Corridor, the East–West Economic Corridor and the Southern Economic Corridor linked Vietnam and other countries in the region. Although the basic infrastructure is not well established at present and power cuts are still common phenomenon, further projects would urge the rapid development of the infrastructure supporting the expansion of the industries.

According to the statistics of the General Statistics Office of Vietnam, the amount of export from Vietnam in 2010 was \$ 72,192 million on FOB basis and showed 26.4 per cent increase from the previous year while the amount of import was \$ 84,801 million on CIF basis in 2010 and which is also the increase of 21.2 per cent from 2009. The trade to/from Vietnam is through various transport modes such as sea-transport including coastal and deep-sea shipping, river transport, railways, air-transport and road transport. The volume of freight reached 749.3 million tons for domestic and 52.9 million tons for overseas in 2010 respectively and both shows steady growth last 15 years.

The number of the direct investment to Vietnam was 969 in total in 2010 and the investment from Japan was the second after South Korea in terms of number and the third after Singapore and the Netherland in terms of the amount. As of the end of 2010, 940 Japanese companies including Cannon, Panasonic, Honda, Toyota, Fujitsu is investing in Vietnam. Both the high share of direct investment and the amount of export and import trade shows that business of Japanese companies is quite active in Vietnam. As the Vietnam-Japan Economic Partnership Agreement (VJEPA) was signed in December, 2008 and came in force in October, 2009, more Japanese companies are interested in operation in Vietnam as a part of their global strategy. Logistic companies are also aggressively investing in Vietnam both to support both their Japanese clients and to expand their own.

5. CONCLUSION

This study showed logistics infrastructure and logistics services are still in the middle of development in Vietnam. Despite heavy investments, we see several bottlenecks as to the quality of infrastructure that mixed up conventional facility with advanced technology as well as the customs clearance and uncertain adaptation of the rules.

Consequently, the world's leading logistics suppliers such as UPS and Mearsk Line and Japanese firms have aggressively invested in Vietnam and played major roles in providing high quality services with their foreign clients. Those high quality services include not only domestic services by setting up own trucking network, warehousing and LTL services but unique cross border trucking services linking China, other GMS and even India through Vietnam.

Due to the regulation on the maximum stock up to 49 per cent before 2009 but 51 per cent between 2010 and 2013, which is the effect of a member nation of WTO, those foreign firms are forced to form a joint venture with local capital. However, local logistics firms are mainly acting just as shareholders and are not learning the advanced service from their partners. As foreign firms establish manufacturing bases to produce value added products in Vietnam, logistics service providers are required to meet their needs.

After the flood in Thailand, the multinational firms are seeking to restructure their global supply chain. It is quite interesting to see what kind of role Vietnam will play in the region by taking advantage of its geographical location through the rapid development of logistics infrastructure and the advancement of logistics services.

Note:

¹⁾ The Greater Mekong Subregion (GMS) is the region covered by Cambodia, Lao PDR, Myanmar, Thailand, Vietnam and the Yunnan Province of China defined by Asian Development Bank.

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