

International Experience In Fleet Development Investment In Shipping And Lessons For Vietnam

Vu Thi Hoang Yen

Hanoi University of Natural Resources and Environment, Email: Vuhoangyen.tm@gmail.com

Abstract: Study international experiences on investment in fleet development in shipping and draw lessons learned from Vietnam. The study sample is the fleet of Vietnam's shipping from 2011-2018. Using qualitative research Statistical analysis methods; Comparative methods; Methods of analyzing indicators), the author has drawn lessons learned for Vietnam such as: (i) Most countries attach great importance to the development of shipping; (ii) Many countries apply the strategy of competing for extremely low freight rates to dominate the market; (iii) States shall adopt policies to attract all investment resources to develop their fleets both from the private sector and foreign investment; (iv) Proper port development and maritime services policies have shown positive effects on the development of shipping of each country (v) States encourage openness to shipping: especially with international ships, in various ways such as encouraging ships to fly foreign flags, provide financial support to international fleets, open the door to free shipping business, open the door to attract investment capital for fleet development, use financial policies (capital, tax...) to facilitate shipping business; (vi) States attach particular importance to the development of shipping human resources, in both quality and quantity. The preferential seafarer policies adopted have proved particularly effective in many countries; (vii) Methods of improving the efficiency of shipping investment of different countries are different, depending on the competitive advantages of each country but focusing on the strengths of the forte criteria.

Keywords: Fleet development, investment development, Vietnam shipping

I. Introduction.

With more than 3,260km of coastline, Vietnam currently has great potential in developing economic fields related to the sea. Realizing the importance and potential of marine economic development, our Party and State have attached great importance to the orientations and strategies to develop the marine economy outlined in the Documents of the 9th Party Congress so far. Specifically, the IXth Party Congress stated: "Strongly develop and promote the strategic role of the marine economy in combination with marine protection: expanding aquaculture and fishing, seafood processing, going to the sea distant; oil and gas exploitation and processing; develop shipbuilding and shipping industry,

tourism and services; develop residential areas on the sea and maintain maritime security" [15, p. 95]. At the 11th Party Congress, the Party and the State have become more aware of the importance of the marine economy: "Developing coastal, marine and island economies in line with the maritime strategy to 2020. Construction rationalizes the system of seaports, industrial parks, economic zones and coastal urban centres in association with the development of shipbuilding and repair industry, oil and gas exploitation and processing, sea transportation, and sea tourism." [16, p.203]. In the orientation and strategy of marine economic development, it can be seen that sea transport is mentioned thoroughly, which shows the importance of sea

transport for the marine economy in particular and the economy as a whole.

Recognizing the benefits that sea transport brings, plus the advantages of geographical location, in recent years, our Party and State have adopted strategies as well as policies to promote the development of Vietnam's shipping. When it comes to shipping, the first and most important factor is the shipping fleet because this is the vehicle used to transport goods on transport routes. With many potential and conditions for exploitation and receiving significant attention from the State, Vietnam's shipping fleet is still not developed but still has many limitations. Firstly, Vietnam's transport fleet's volume of import and export cargo transport is still deficient. Despite the growth, according to the Maritime Administration, the domestic fleet currently only meets 10-12% of Vietnam's demand for goods transported and imported by sea, of which more than 80% of Vietnam's fleet registered to operate international routes only works on nearby highways, mainly in Southeast Asia, China. Currently, Vietnam has only a few large enterprises with integrated cargo ships capable of operating on routes to the Americas and Europe. The rest fell into the hands of foreign shipping carriers.

Even orders from state-owned import-export corporations (such as coal transportation for thermal power plants of Electricity, Oil and Gas, and Mineral Coal...) also fall into the hands of foreign shipping lines. Secondly, the fleet is primarily invested but inefficient and does not improve competitiveness. Although the number of ships detained has gradually decreased over the years, and Vietnam's fleet is classified as a "white list" by Tokyo-Mou, the number of boats kept is still quite significant. In addition, when the afterglow from the world economic crisis in 2008 has not entirely disappeared, the political uncertainties or the trade war between the US and China will cause more negative impacts on the world shipping industry that has just shown signs

of recovery after a series of bankruptcies of major shipping lines in the world. And Vietnam is not outside that sphere of influence. The amount of imported and exported goods in the world decreased, and the market had a large surplus of ships without cargo to transport, making it even more difficult for the domestic fleet to compete for goods. Thirdly, shipping enterprises achieve very low business efficiency, financial difficulties and the risk of mass bankruptcy. Most businesses operate very fragmented and small, with poor management capacity and comprehensive weakness compared to foreign shipowners. In addition, most Vietnamese shipping enterprises now use loans from commercial banks to invest in ships, which will cause businesses to bear a considerable burden of paying interest.

Along with that, the abnormal increase in gasoline prices also affects the business efficiency of shipping enterprises. Fourth, Vietnam's shipping fleet is currently weak regarding essential input resources such as human resources, science, and technology. Shipping enterprises have to hire foreign seafarers at high prices. At the same time, Vietnamese seafarers gradually quit their jobs due to too low income to cover their lives. These paradoxes are causing businesses and workers in Vietnam's shipping sector to suffer. In addition, the State has not adopted appropriate policies and management measures to orient shipping enterprises to invest in developing their fleets following the world trend, leading to the fact that Vietnam's shipping fleet is still mainly small ships, few large ships, container ships and the level of modernization is very low. The above shows that Vietnam's shipping, in general, and the fleet, in particular, have not taken advantage of their availability, and many points need to be overcome. The investment of resources is still spread out, lacking focus, thereby not bringing high results from investment, causing wasteful losses for the State. There are many other difficulties that Vietnam's maritime industry and Vietnamese shipping

enterprises are facing, making the development of Vietnam's shipping fleet not highly effective. In addition, the marine industry will suffer specific impacts in the context of the current Industrial Revolution 4.0 and Vietnam's deep international economic integration.

*** Challenges of Vietnamese shipping vessels in the coming period**

- Vietnam's shipping fleet will face stiffer competition as international trade grows and Vietnam signs many agreements. Most recently, under the EVFTA agreement, foreign shipping lines will organize themselves as a logistics service chain with a network of factories in hand, from transporting production materials to delivering finished products at factories in Vietnam to markets, especially the European market. At that time, the Vietnamese fleet would have to work for foreign firms if they wanted to participate in that supply chain. In addition, Vietnam could do previously available services as shipping agents for foreign shipping lines when the mechanism opened. Foreign shipping lines would do it themselves without intermediaries. Besides, goods going to Europe are mainly container goods, the transportation of which is handled by large ships of famous brands such as CMA – CGM, Maersk Line ... capacity to carry up to 18,000 TEUs to Cai Mep – Thi Vai deep-water port to pick up goods. Meanwhile, most Vietnamese container ships, with a total of only about 1,000 TEUs return, can only carry goods domestically or in Inner Asia; it is challenging to penetrate the competition and benefit the cargo market to Europe.

- The global financial economy is already unstable; the Covid-19 epidemic has recently made the recession even more profound. According to Sea-Intelligence, a company specializing in marine industry research, in just ten weeks, including the Lunar New Year in 2020 and the outbreak, world

shipping has faced a decline of more than 1.7 million TEUs, equivalent to revenue of UP to 1.7 billion USD. Domestically, a leading shipping enterprise, Vietnam Maritime Corporation, has begun to see the impact of this epidemic when statistics show that compared to the same period in 2019, the Corporation's shipping output in the first two months of the year decreased by nearly 40%, the parent company's revenue decreased by almost 20%.

In addition to affecting the fishing routes to and from China, Japan and South Korea – Vietnam's leading trading partners, the epidemic also affects the entire regional shipping market worldwide. According to estimates by the International Shipping Office (ICS), the average sea freight rate has declined by up to 80% since the outbreak of Covid-19. The negative impact of the Covid-19 epidemic on shipping businesses is reflected in: the scarcity of goods; the decrease in T/C and freight rates; the increase in the day when ships wait/run empty, leading to a spike in costs. In addition, the supply of spare parts for repair vessels and the replacement and collection of seafarers are facing many difficulties,...

According to calculations, the fleet of Vietnam Maritime Corporation, mainly operating on Southeast Asia, Northeast Asia and China routes, will reduce revenue by about 1,000 billion VND, corresponding to a decrease in profit of about 500 billion VND if the epidemic progresses until the end of March or until Q2/2020 to return to normal. In particular, it is even worse for the group of newly built ships with loans from the Vietnam Development Bank (VDB) of the Corporation, which has faced many financial and exploitation difficulties before the heavy impacts of the Covid-19 epidemic. Repaying principal and interest on VDB and commercial banks will also be challenging.

- Regulations on technical requirements are also a challenge for the world shipping fleet

in general and Vietnam in particular. From January 1, 2020, according to World Maritime Organization (IMO) regulations, all ships must use fuel with a maximum sulfur content of 0.5% compared to the current limit of 3.5%. With this regulation alone, shipping enterprises have to compensate for losses of more than 220 million VND for a revolving ship Hai Phong - Saigon, not to mention a series of other costs. According to the calculations of Vietnam Shipping Company (Vosco), one of the largest shipping companies in Vietnam today, complying with IMO regulations, Vosco has implemented new fuel conversion and fuel surcharge since January 1, 2020. However, this surcharge is only shared with the shipping line but cannot offset operating costs. The tax for containers with goods and empty containers transported on all domestic routes is currently collected by VOSCO shippers is 300,000 VND /container. A trip of a container ship from Hai Phong to Saigon and vice versa averages more than 80 tons of oil. The price difference between old and new oil is about 18,800 USD (equivalent to more than 433 million VND). With transportation costs of about 800,000 VND/teus, minus the surcharge of 300,000 VND collected from shippers, businesses still have to compensate for losses of 500,000 VND/teus when using new fuel. Companies still have to spend money to replace spare parts and machine components, such as injectors and bamboo shoots ... to suit the use of new powers. Thus, it can be seen that the increasing technical requirements make businesses find ways to face the rising costs and pressure to innovate and apply science and technology in investing and exploiting Vietnam's shipping fleet.

2. Research Methodology

The article uses some specific methods as follows:

+ Statistical analysis method: Does the author use the Method to collect statistics and process input

data for analyzing and evaluating investment efficiency in sea transport development.

+ Comparison method: The author uses the comparison method to compare Vietnam's fleet with the world fleet and compare it to the criteria set out in the planning.

+ Method of analysis of indicators: The author uses needles to evaluate the results of investment and development of the fleet in shipping.

3. Theoretical overview

3.1. China's experience

For China's shipping fleet to grow and compete with other countries' fleets and transport huge volumes of goods for the development of the nation's colossal economy, China has adopted investment strategies to improve the competitiveness of its fleet (total tonnage, number of ships, medium tonnage, specialized ships, technology, ports...) and meagre freight rates competition strategy, precisely:

- China invests in developing a robust international transport fleet with many ships and a large-scale gross tonnage. The State supports investment capital, preferential capital for the development of global shipping fleets, tax exemptions for international transport business, encourages private participation in international shipping and applies many open policies to attract investment capital for the development of international shipping fleets.

- Shallow freight rate competition strategy: thanks to particular preferential policies for a shipping business to reduce international freight rates to the lowest level for international competition, China is open to domestic, commercial banks and foreign credit institutions willing to provide business capital for shipping and tax incentives import and export, reduce taxes on sales or new construction with international shipping fleets, encourage international organizations to invest in the shipping

development business. Because of this competitive strategy, China has developed its shipping fleet very quickly: in 2000, the Chinese shipping fleet had a total tonnage equivalent to Vietnam's whole fleet in 2014 (50 million DWT); by 2014, the Chinese fleet had 2,788 ships, a total capacity of 75.2 million DWT running internationally (20 times higher than the Vietnamese shipping fleet) in 2014).

- Flexible and attractive policies to encourage investors to take advantage of all resources to invest in development in the context of deep international integration. After joining the WTO, China has made several commitments, such as no restrictions on market opening to cross-border service provision and overseas service consumption; allowing the establishment of a company to operate Chinese-flagged ships in the form of a joint venture maritime company with an external capital contribution of not more than 49%, the chairman of the board of directors and the general director of the joint venture company appointed by the Chinese side (Guo Thi Hoa, 2016). In addition, in 2004, one of the significant breakthroughs that China could bring to the shipping industry was the liberalization of investment in shipping: foreign investors were free to do shipping business right here in China, use non-Chinese-flagged ships for domestic transport as well as allow the establishment of management companies foreign vessels while encouraging Chinese shipping companies to move their wholly or partially owned overseas.

3.2. Japanese experience

As a country without mineral resources, to be able to develop its economy, Japan depends heavily on the operation of shipping. Therefore, the shipping industry plays a particularly important role in the economic development of Japan, making Japan the world's leading transport country. Japan has applied measures to invest in fleet development in shipping, such as:

- Focus on investing in improving fleet

capacity and sharply reducing freight rates for international ships: Japan has oriented since the 2000s and invested in developing a fleet with super large tonnage (new generation ships, advanced technology, super large tonnage from 200,000-500,000 DWT / ship and dedicated to operating long-distance international specialized routes). Thanks to a dedicated, new and extensive fleet, Japan has created an absolute strength when competing for international shipping, opening new and long-distance shipping routes, meeting the harsh transport conditions and technical requirements of the most demanding shippers, and sharply reducing freight rates. Thanks to the fleet advantage, Japan has competed to reduce freight rates to the lowest possible and minimize costs per ton of transport. This competitive strategy was very successful and quickly turned Japan into a leading country in the world in shipping with a super large fleet, stable specialized shipping contracts, competitive freight rates, and meeting the needs of transporting materials for domestic industry.

- Japan focuses on exploiting its competitive advantage in resources with government support policies to develop its super tonnage fleet. Specifically, Japan has focused on investing in constructing large specialized seaports and deep-water ports to receive ships with super large tonnage. At the same time, Japan also privatized the shipping industry, ensuring a free competitive shipping environment, maximum social capital mobilization, and the best management efficiency. The State only participates in investment but does not directly participate in the management and business of sea transport.

3.3. Singapore experience

Separated from Malaysia in 1963, Singapore has developed economically in conditions of virtually no natural resources, dependent on imported raw materials. Singapore's advantage is its favourable geographical location in the arterial maritime route

from east to west, connecting the Indian and Pacific Oceans. Therefore, focusing on the development of sea transport and developing the sea transport fleet accompanied by the seaport system of sea transport support services is the focus of the development of this country. The Singapore government has made various efforts and incentives for growth, including:

Singapore has adopted an open shipping registration policy since 1968, allowing ships to register for international flags and conduct international business (including for domestically built ships) but strictly regulates the average age of boats to rejuvenate the fleet. This open registration policy not only facilitates Singaporean shipowners to have more opportunities to participate in shipping on foreign routes, increases the likelihood of obtaining freight thanks to the current policy in the country in which the ship is registered, but also affirms the maritime reputation of the Singapore fleet in international shipping. In addition, Singapore has privatized the shipping industry and opened up to shipping services. Singaporean shipowners compete fairly, accepting foreign maritime service business. With this open shipping policy and environment, Singapore has attracted the flow of foreign investment to invest and develop Singaporean shipping enterprises into large enterprises, making Singapore the essential maritime hub of Asia and the world.

- To support the development of a strong fleet, Singapore also implements strong development in both ports and shipping services. In its competitive policy with ports in the region, Singapore pays special attention to facilities to further improve service quality... take service quality as an incentive for competition, not service discounts. At the same time, the application of information technology in managing and providing sea transport support services. Singapore has actively applied scientific and technological achievements in the management and provision of shipping services,

including shipping support and port services. Since 1997, Singapore has invested in and installed a port operation management information system, with 4 component systems supporting each other: CITOS, BOXNET, PORTNET and FAST-CONNECT. PORTNET provides integrated online services for shipping lines, freight forwarders and shippers operating in Singapore and for local government agencies. CITOS, which stands for Computer Integrated Terminal Operating System, provides command and control for highly complex transshipment operations at PSA Singapore Terminal container terminals. These and other solutions used in transshipment management and container tracing greatly support PSA tracking and moving containers in, out and at its berths to connect with the world through direct shipping or transshipment. In addition, Singapore is constantly promoting research and development of new technologies and services (Vu Anh Tuan, Le Thi Viet Nga, 2019).

3.4. Malaysian experience

Malaysia is a country whose coastline covers most of the country. Recognizing this advantage, Malaysia has long had a strategy to develop shipping, contributing to the success of Malaysia's economic development. In 2001, Malaysia's starting point was equivalent to Vietnam's. However, by the suitable transport competition measures, Malaysia's transport capacity has been ten times that of Vietnam. Malaysia has implemented a series of policies to develop its shipping fleet, such as:

- Malaysian shipowners invest heavily in developing large tonnage fleets and running international routes when making good use of the State's tax exemption and reduction policy: Malaysia has an incentive policy that is tax exemption and reduction. Enterprises, when buying ships, will receive income tax reduction from the State and a 50% exemption from taxable revenue. The State also established an

international maritime organization calling for capital investment from domestic shipping lines. To encourage fleet development, the State does not rigidly impose import duties on imported vessels. Impose a tariff of 30% for ships under 26 GRT, 10% for boats under 26-4000 GRT, and exempt import duties for boats with a capacity of over 4000 GRT. This policy has encouraged the use and increase of the number of large tonnage vessels.

- Shipping enterprises know how to mobilize maximum social capital for shipping development: Malaysia established large financial centres to attract foreign financial institutions to meet the money needed to develop the fleet. The State Shipping Fund also creates conditions for shipping enterprises to expand and modernize their fleets, increase transport capacity, meet cargo transportation needs, and develop the country's economy. The State also supports the search for sources of loans and capital financing with low-interest rates to promote investment in the industry, encouraging banks to support preferential loans for enterprises with investment capital to upgrade fleets.

Malaysian seafarers are encouraged to travel internationally: Malaysian-flagged vessels are only allowed to hire foreign seafarers to work for up to 25% of the seafarers on board. An income tax exemption applies to seafarers' revenues when working on Malaysian ships operating international routes. This policy facilitates domestic seafarers to work on Malaysian-flagged vessels while opening up opportunities to improve their professional abilities and practical experience when seafarers work on foreign vessels (Luu Quoc Hung, 2017).

4. Lessons learned for investment in fleet development in Vietnam's shipping fleet

Depending on each country's specific characteristics, most countries with seas will implement appropriate measures to invest in the development of their fleets. However,

experiences from the above shipping countries all show that there are ways that are worth learning, which are suitable lessons for the development of the shipping fleet; lessons that Vietnam can gain are:

- Most countries attach great importance to the development of shipping, especially finding ways to invest in the development of shipping to master their import and export goods. Tax exemptions and reductions create a premise for shipping enterprises to develop their fleets, promote the development of shipping fleets in the right direction, and improve fleet transport capacity in terms of quantity, quality and total fleet tonnage into a thriving maritime nation in the world super-heavy like Japan, and China.

- Many countries apply the strategy of competing for meagre freight rates to dominate the market. Foreign enterprises have used particular preferential policies for a shipping business to reduce international freight rates to the lowest level for international competition.

- Countries have policies to attract all investment resources to develop their fleets from the private sector and foreign investment. Many countries have adopted policies of complete privatization of shipping, which frees up all social resources for shipping, attracting domestic and foreign investment for shipping development. At the same time, businesses also know how to seize opportunities to mobilize social capital sources.

- The right seaport development policy and maritime services have positively affected each country's shipping development. Measures are applied: development of deep-water seaports, socialization of port management and exploitation, opening up an investment with seaports to attract capital... has created conditions for the shipping fleet to raise the size and total tonnage of the fleet.

- All countries encourage the opening to shipping: especially for international ships, in various ways, such as encouraging ships to fly foreign flags, providing financial support to

international fleets, opening the door to free shipping business, opening the door to attract investment capital for fleet development, use economic policies (money, taxes...) to facilitate shipping business.

- Countries attach particular importance to developing human resources for shipping in terms of quality and quantity. Preferential seafarer policies have proved particularly effective in many countries.

- Methods of improving the efficiency of shipping investment of different countries are different, depending on the competitive advantages of each country but focusing on the strengths of the forte criteria. Singapore focuses on services that have significant benefits for the industry, such as port services and logistics; Japan focuses on the resource advantages of enterprises in the industry, such as super tonnage fleet; China focuses its competitive edge on low freight rates and strongly develops its fleet in terms of transport scale; Malaysia again uses the country's available advantages for the industry in terms of human resources, goods, state investment capital for the development of the shipping industry.

References

1. Communist Party of Vietnam (2009), Document of the Ninth Party Congress, National Political Truth Publishing House, Hanoi.
2. Communist Party of Vietnam (2011), Document of the XI Party Congress, National Political Truth Publishing House, Hanoi.
3. Vietnam Maritime Administration (2021), Summary report in 2020, implementation of tasks in 2021, Transport Publishing House, Hanoi.
4. Quach Thi Hoa (2016), "Experiences in developing seaport services of some countries in the world", Journal of Science of Hanoi National University: Economics and Business, pp.73-79
5. Vu Anh Tuan, Le Thi Viet Nga (2019), experience in developing shipping support services of some countries around the world and lessons learned and <http://consosukien.vn/kinh-nghiem-phat-trien-dich-vu-ho-tro-van-tai-bien-cua-mot-so-nuoc-tren-the-gioi-va-bai-hoc-kinh-ngh.htm>
6. Luu Quoc Hung (2017), "Studying the competitiveness of Vietnam's shipping industry", PhD thesis in economics, Central Institute for Economic Management, Hanoi.
7. Vietnam Maritime Corporation (2020), EVFTA – Maritime welcomes the opportunity to make a breakthrough, <http://vinalines.com.vn/vi/evfta-hang-hai-don-bat-co-hoi-but-pha/>
8. Ministry of Industry and Trade (2015), Shipping in integration, <https://trungtamwto.vn/chuyen-de/8295-van-tai-bien-trong-hoi-nhap>
9. UNCTAD (2021), Review of maritime transport 2021, United Nations Publications, Newyork.