

# The global container shipping market and the strategy of developing Vietnam's container shipping fleet

## Le Quang Trung

PhD., Vietnam Logistics Business Association; Vietnam Maritime Corporation  
Email: trungvinalines@gmail.com

## Vu Hung Cuong

Assoc. Prof. Dr., Institute for Social Sciences Information, Vietnam Academy of Social Sciences  
Email: vuhungcuong07@gmail.com  
Received 12 April 2022; published 15 June 2022

**Abstract:** *Sea shipping, among others, plays a significant role in the global supply chain and freight transport. It greatly affects the competitiveness of export-oriented economies like Vietnam. The Covid-19 pandemic has caused disruptions to the global supply chain, placing the global shipping industry in a new crisis. As a maritime country with great potential for developing marine business, expanding container shipping fleet in Vietnam is considered a solution to improve the national competitiveness and strengthen the country's exports in the global supply chain.*

**Keywords:** Shipping, Container Shipping Fleet, Development Strategy, Vietnam

## Introduction

The world shipping market is facing a new crisis due to the Covid-19 pandemic impacts, including China's zero-Covid policy, which disrupt the global supply chain. Countries with large seaports and large shipping lines are making efforts to adjust their policies and expand their digital economies to mitigate the crisis' negative effects. With great potential and advantages for developing marine economic sectors, especially shipping and logistics services, Vietnam needs breakthrough solutions to improve the competitiveness of its shipping

industry, for which the expansion of its container shipping fleet is one among the solutions to be examined.

## 1. Overview of the global container shipping market

Due to the prolonged influence of the global and regional economic crisis, the world shipping industry during the period 2008-2019 could not recover strongly. During the 2005-2007 period of a rapid market growth, the excess supply of ships led to a serious disequilibrium, placing the market in a recession since late 2008 and decreasing freight rates in all segments of tankers,

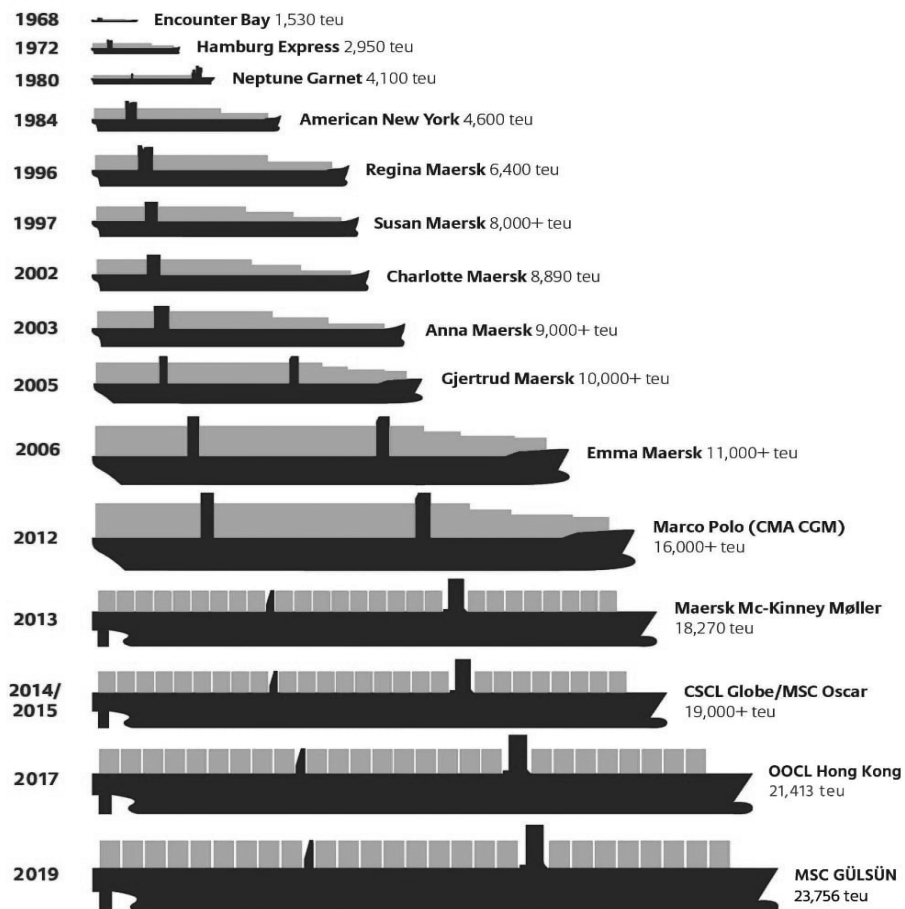
dry cargo and container ships. Drewry's World Container Index, which evaluates the container shipping market through freight rates on eight major shipping routes, fell below 700 points in May 2016 and fluctuated between 1,000-2,000 points throughout the 2016-2019 period.

In 2020, when the Covid-19 pandemic broke out in China and spread globally, the isolation measures and border closures in all countries had a serious impact on the global economic health, especially the shipping industry. In the first five months of 2020, a series of container shipping lines had to cancel trips due to the transport

demand drop. Since June 2020, the container shipping market had gradually improved and grown exponentially thanks to key players' adjustment in their shipping capacity. Rates on major transport routes surged and shipping companies earned triple-digit profits. The World Container Index on August 12, 2021 reached 9,421 points, an increase of 528% compared to the average of the years 2016-2019.

The world has now entered a new shipping crisis, however, as the Covid-19 pandemic broke out again in southern China, disrupting seaport operations and causing delays in deliveries. The shipping market

Figure 1. Fifty years of the container vessel evolution



Source: Alphaliner, <https://alphaliner.axsmarine.com/PublicTop100/>

faces serious problems such as soaring demand, container shortage, congested ports, lack of ships and unloading workers. Cargo handling capacity at seaports decreased accordingly, causing delays and prolonged waiting time. The already high transportation costs climbed up still.

China's zero-Covid policy continued to affect the world shipping market as Shanghai, the city with the world's largest container port, was shut down in early April 2022 due to its increasing number of Covid-19 infections. According to A.P. Moller-Maersk, one of the world's largest carriers, the lockdown in Shanghai could lead to shipping delays and higher costs (Chuan, 2022).

Once again, China's strict Covid-19 control and measures have caused chaos in the global container shipping industry.

## **2. Trends of the world container shipping market**

### ***2.1. New alliances, acquisitions, and mergers***

Shipping line mergers and acquisitions or alliances have become popular as they allow carriers to cut costs. The world's current largest alliances include 2M, Ocean Alliance, and THE Alliance. Mergers and acquisitions happened between major shipping lines, such as Hapag-Lloyd and UASC CMA, Cosco and China Shipping, or the merger between K'line, Mol, NYK and ONE. The CMA CGM also bought Singapore's NOL shipping company and Germany's OPDR, etc.

### ***2.2. Larger container ships***

Carriers also invest in their vessels for improved container sizes and fuel efficiency to reduce transportation and loading and unloading costs.

Maersk (Denmark) has been the pioneer with its introduction of megaships (each with over 10,000 TEU in capacity) for the long routes like Asia-Europe and Asia-North America. Following Maersk's initiative, many major shipping lines, such as CMA/CGM, MSC, Hapag-Lloyd, Yangming, HMM, or Evergreen, have ordered a large quantity of megaships to be built for their alliances. A current megaship has an average capacity of 18,000-20,000 TEU. The world's largest fleet of 12 megaships, 24,000 TEU each, has just been launched by HMM Shipping in 2022 for the Asia-North Europe route (Quoc, 2020).

### ***2.3. Shipping capacity and demand match***

The global Covid-19 outbreak of the Covid-19 posed risks of dropping freight rates and transportation demand in early months of 2020. Carriers, instead of pursuing a tariff war to win market share like previously, at that time synchronously cut down their vessels and trips on major routes to maintain market equilibrium. This had led to a surge in freight rates. They only operated fully when the demand rebounded strongly in late 2020, continuing to maintain high freight rates. Their adjustment of transport capacity to match the shipping demand had brought unexpected success in the context of the global economy being severely affected by the Covid-19 epidemic. In addition to strong profit gains, the stock prices of shipping lines also increased by 400% compared to the pre-pandemic levels. Many shipping companies had been able to achieve positive credit ratings (Clarksons Research Service, 2022).

## **2.4. Integrated logistics centers and container shipping supply chains**

There is a cooperation tendency between seaports and carriers to establish integrated logistics centers or free trade zones. With available infrastructure and equipment, the cooperation helps promote further their advantages and investment in order to increase competitiveness, improve service quality, and expand markets.

Technology is the key to modifications of supply chain processes. The world's leading carriers recently have processed orders through online applications to streamline the entire supply chain. Maersk and Damco, two of the world's leading container shipping lines, want to double their integrated logistics and domestic services to reduce costs for shippers. Digitization also enables real-time access to data and information, making processes and operations more flexible and efficient.

## **3. Container shipping market outlook in the 2021-2025 period and trends towards 2030**

### **3.1. International market outlook**

#### *\* Shipping demand*

The outlook for the container shipping market is subject greatly to the global economic growth and the capacity regulation of major shipping alliances. The demand for container shipping is expected to grow from 5%-6% in 2021, possibly up to 7.5% (equivalent to 1,963 million tons, as forecasted by Clarksons) and decrease to 3%-4% in the years 2022-2023 and to 1%-2% in the years 2024-2025 (Clarksons Research Service, 2022).

#### *\* Vessel supply*

The world's container fleet increased by 2.91% in 2020, bringing the total tonnage

to 23.64 million TEUs. In the first five months of 2021, the number of new container ships ordered to be built reached 474, equivalent to 4.2 million TEUs or 17.6% of the current container fleet. Most of them will be delivered by 2023 with an estimated capacity of 2.6 million TEUs. Those of over 15,000 TEU accounted for the highest proportion (75.6%). The annual demolition rate for the world's container fleet remained low for years, just under 0.2 million TEU since 2018. According to BIMCO, the growth rate of the world's container fleet could reach 3% in 2021, 2.5% in 2022, 3.5% in 2023, and between 2%-3% in 2024-2025 (Vietnam Ministry of Transport, 2021).

In general, the container shipping market in the 2021-2025 period will grow unevenly. The strong growth in 2020 will continue its momentum until the end of 2021 before a gradual decrease in 2022. In 2023, with a projected decrease in economic growth and demand for container shipping, a huge challenge is to ensure the supply-demand balance for 4.2 million TEUs of newly built ships, which would be delivered before 2024. Therefore, the container shipping market from 2023-2025 onwards would likely to return to the pre-pandemic normal.

### **3.2. Domestic market forecast**

Vietnam's economy over the past few years has made positive developments, whereby the volume of goods in domestic circulation and international import and export goods has grown strongly. According to the Vietnam Maritime Administration, the total volume of container cargo through Vietnam's seaports in the last two decades has increased nearly 30 times. The container cargo volume reached 3.4 million tons (532

thousand TEUs) in 1995, 165.7 million tons (14.3 million TEUs) in 2017, and 17.8 million TEUs in 2018 (24% up from 2017). It is anticipated that the total volume of container cargo through Vietnam's seaport system will reach 35.3- 40.6 million TEUs by 2030.

The forty-foot containers are more popular for the South-North route, with finished products and farm produce such as rice, rubber, instant noodles, beverage, confectionery, fruits, and consumer goods. The North-South route often requires the twenty-foot containers, mainly for raw materials and construction materials, like coal, lime, stone powder, bricks, automobiles, electronic components, wood, paper, aluminum, fertilizer, garment, animal feed, etc.

### **3.3. Regional transshipment market**

The strong development of container shipping worldwide and in Asia, especially in the Southeast Asia, has influenced greatly the shipping industry's structure and growth of the world fleet tonnage towards containerization. Currently, about 70% of goods in the world are transported in containers. The Asia-Pacific has become the largest container shipping area, accounting for 65% of total cargo volume. The transshipment volumes through seaports in the Asia-Pacific region, especially those in Southeast Asia, have always achieved remarkable growth rates.

Transport demand is high for high-value export goods and finished goods such as electronic components, production lines, footwear, apparel, agricultural products, or seafood, and to intra-Asian ports in North and South China and in Southeast Asia (Singapore, Hong Kong, Malaysia).

## **4. Recommendations for Vietnam's fleet development**

*(i) To quickly realize the policy of developing Vietnam's container shipping fleet to improve the country's competitiveness*

Building and developing Vietnam's container shipping fleet has been discussed for years without any concrete plan for implementation. Sea transport of import and export goods faces obstacles, congestion at ports, and supply chain disruptions, which have been worsened with a shortage of ships and containers. Costs for sea transport skyrocketed, severely affecting import and export and the competitiveness of import and export goods.

Shipping capacity and freight rates on intercontinental routes are mostly under control of foreign carriers, which means Vietnam's huge spending of foreign currency every year. The development of Vietnam's container fleet would not only help gain independence from foreign shipping lines, particularly on freight rates and surcharges, but also ensure economic security in the long run and effective execution of FTAs. Development of a national container fleet is a long-term vision and a core measure to lower logistic costs, improve competitiveness of Vietnamese goods and ensure the country's sustainable economic development against the world's unstable political situation.

Vietnam has an important geopolitical position in the region and the world and located on the important maritime transport route of the East-West hemisphere, which accounts for more than 80% of the global freight volume. About 90% of Vietnam's imports and exports are transported by sea and the transshipment volumes through the

country's seaports increase by an average of 10%-15% per year. The Vietnamese shipping fleet, however, can only handle about 7% of the demand (Le Duy Hiep, 2021) and mainly operate on domestic and short intra-Asia routes. With a larger fleet of shipping containers for long transport routes, Vietnam could become a maritime country with a commensurate capacity with other smaller countries and territories such as Taiwan (China) and Singapore.

*(ii) To build a roadmap for synchronous investment in Vietnam's container shipping fleet*

Investment is required for development of specialized ships, container shells, and a system of customer services for all major ports. It is thus necessary to establish the right orientation, roadmap, and investment steps for the shipping and logistics industry. In addition, the Government of Vietnam needs to set up a Quick Response Operations Center, with the engagement of the Vietnam Logistics Service Association, through the application of information technology to actively make use of the entire logistics infrastructure for improved monitoring and tracking of goods.

*(iii) To introduce supporting mechanism and policy*

The National Assembly and the Government should consider a special mechanism for the strategic development of Vietnam's container shipping fleet. Priority policies should include: i) preferential loans for building ships and purchase of ships and container shells (a policy adopted by South Korea following the bankruptcy of the Hanjin Group); ii) elimination of improper

regulations<sup>1</sup>, taxes (import taxes, VAT) and fees; iii) ship owners with incomes in foreign currency should be allowed to borrow foreign currency for reinvestment; iv) policies for crew training and periodical exemption of personal income tax for Vietnamese crewmen; v) to allow foreign crew members to be employed on Vietnamese-flagged ships to facilitate their operations on a global scale.

According to maritime experts and international practices, in order to form leading businesses in the international shipping market for a gradual seize of market share, both customers and management authorities need to join hands to support domestic shipping lines, in providing stable supply of goods and preferential credit loans for example.

The Vietnam Logistics Service Association should be a focal point to gather large carriers and importers/exporters for a stable source of goods and provide guarantee for loans to domestic shipping lines with projects of high feasibility.

State-funded investment, managed by a specialized state corporation (such as Vietnam Maritime Corporation - VIMC), could be used as bait to raise capital from the private sector to invest in the system of seaports, inland ports, and connection infrastructure.

In the short run, Vietnam should learn lessons in supporting domestic shipping lines from other countries, like China (for the case of Cosco), South Korea (for Hyundai), or France (for CMA-CGM).

<sup>1</sup> Vietnam's laws do not allow purchases of ships aged above 15 years. Whereas, 10% of the world's container fleet aged 20 years and above.

## Conclusion

Vietnam will continue to be a potential market and a key destination for investment given its positive economic outlook. The formation of Vietnam's deep-water container ports would create opportunities to expand domestic and intra-Asia routes and receive larger vessels.

This is also a chance for Vietnamese shipping companies if they could timely restructure their fleets in order to build appropriate capacity and establish networks and cooperation with international shipping lines.

VIMC is currently managing and operating 16 seaports countrywide and is the parent of many shipping companies and logistics enterprises with integrated warehousing systems. Its ecosystem covers about 20% of the national fleet's tonnage. VIMC is striving to position itself as Vietnam's first intra-Asia and long-distance container shipping brand. VIMC and Hai An are also two among nine Vietnamese shipping lines that provide domestic transport services and international feeders. They have built and maintained very close and long-term relationship with large and reputable shipping lines in the international market. VIMC therefore has proven potential for the development of and integrated service chain and higher economic performance if given preferential policies for investment in Vietnamese-flagged fleets and internationally-standardized equipment. Its container vessels would be the core of its business, fostering sustainable relationships with customers and partners in the sea transport and logistics sectors. The development of VIMC would also lay

a solid foundation its advancement into a national shipping line with optimal costs for Vietnamese traders and logistics sector □

## References

1. Alphaliner, TOP 100/ 25.3.2022, <https://alphaliner.axsmarine.com/PublicTop100/>
2. Ministry of Transport (2021), *Growing sizes of the international container fleets*, <https://www.mt.gov.vn/vn/tin-tuc/77462/doi-tau-container-quoc-ten-gay-cang--khung--ve-kich-co.aspx>, accessed on 10 April 2022.
3. Chuan, Nguyen (2022), "Shanghai port back in lockdown: bad news for the global supply chain", *Business Forum* dated 5 April 2022, <https://dien-dandoanhnghiep.vn/phong-toa-cang-thuong-hai-tin-xau-cho-chuoi-cung-ung-toan-cau-220418.html>, accessed on 20 April 2022.
4. Clarksons Research Service (2022), *Shipping Intelligence Weekly*, no. 1516, dated 25 March 2022; no.1519, dated 22 April 2022; no. 1522, dated 13 May 2022.
5. *Drewry*, <https://www.drewry.co.uk>, retrieved 10 April 2022.
6. Quoc Nguyen Bao (2020), "Sea transport market is now in hands of key players", *The Saigon Times* dated 4 September 2020, <https://thesaigontimes.vn/thi-truong-van-tai-bien-gio-thuoc-ve-vai-tay-dua-kiet-xuat/>, accessed on 3 April 2022.
7. Prime Minister of Vietnam's Government (2021), *Decision no. 1579/QĐ-TTg dated 22 September 2021 for approval of the master plan on Vietnam's seaport systems in 2021-2030, vision 2050*.