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# RELOCATION OF HO CHI MINH CITY SEA PORTS

## Background

Over the past ten years, Vietnam has emerged as an important trading country. Starting from a low base, Vietnam's container throughput grew by more than 20 percent per year on average from 2000 to 2009. As shown in Exhibit 1, this was the fastest container volume growth rate in Asia during this period. The development of new deep-sea ports to accommodate trade growth is a national priority. The sea ports in HCMC are the most important port system in Vietnam, supporting international commerce not only in the greater Ho Chi Minh City area but also the entire southern part of the country.[1] HCMC accounted for 55 percent of total throughput in 2010 among the major port systems that regularly receive container vessels in Vietnam (see Exhibit 2).

In the mid 2000s, shippers and shipping lines began warning about port congestion as container handling facilities were operating close to full capacity and there was little room for expansion at existing sites.[2] It became increasingly clear that sustaining rapid growth in trade required the development of a new port complex with modern facilities, and that the new ports would be located outside of the city center.

Globally ports have been moving out of cities because of the need to accommodate larger vessels, the rising opportunity cost of inner-city land and traffic congestion caused by port operations. Recent examples of port relocation and new port developments in Asia include Busan port to Busan New Port in Korea, Waigaoqiao to Yangshan port in Shanghai, China, Bangkok to Laem Chabang port in Thailand, and Mumbai to Nhava Sheva port in India.

The Cai Mep – Thi Vai river in Ba Ria – Vung Tau (BRVT) was identified as the preferred site for Vietnam's main international gateway port (see Map in Exhibit 3).[3] With a depth of 14 meters and the absence of significant sedimentation, the site could accommodate dedicated deep-sea container terminals to handle post-panamax vessels for direct shipment to North America and Europe.[4] One concern with this new location was that it is 80 km from Ho Chi Minh City and therefore supporting infrastructure, particularly connecting roads, would be required.

[1] Ho Chi Minh City ports are part of Port Group Number 5 as designated by the Vietnam Maritime Administration, which also covers other provinces in the southeast including Binh Duong, Dong Nai, and Ba Ria – Vung Tau.
[2] APL/APL Logistics. 2007, "Vietnam Transportation and Logistics – Challenges and Opportunities", Report prepared by Frost and Sullivan, February 2007, page 49.
[3] Hiep Phuoc in Nha Be District in the south of Ho Chi Minh City is also selected as a second place for relocation. However, it will require dredging of 30km access channel to accept ships to 30,000DWT.
[4] Container terminals in the area can be constructed to receive "mother ships" capable of carrying 8,000-10,000 TEU (100,000-120,000 DWT).

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The HCMC port relocation policy was strongly supported by the business community. The port operators were willing to make very large investments in the new ports. However, almost a year after the deadline in 2010, all but one port in HCMC still remained at their original locations.

**The Constraints on Existing Inner-city Ports**

As illustrated in Exhibit 4, the HCMC port group is actually a cluster of numerous port terminals operated by different companies including central state-owned, local state state-owned, military-owned, and foreign entities. Sai Gon Port is the oldest port stretching back to the colonial era. Its terminals, Nha Rong, Khanh Hoi and Tan Thuan, occupy the largest land area. The port is now a subsidiary of Vinalines, the national shipping general corporation, supporting both domestic and international commerce. Ben Nghe port is operated by a local state-owned company under the People's Committee of HCMC, also serving domestic and international shipping. The Vietnam International Container Terminal (VICT), the country's first purpose-built container terminal, is a joint-venture between the state-owned Southern Waterborne Transport Corporation, the NOL Group of Singapore, and Mitsui & Co. of Japan. Sai Gon New Port (SNP) is another dedicated container port established by the People's Navy in the late 1980s. The Ba Son Shipyard, which was historically a shipbuilding facility, is also located in the port area, and is operated by the Ministry of Defense's General Department of Military Industry.

In addition, there are a number of smaller ports. Tan Thuan Dong Port, which is run by Sai Gon Transport Services Company, handles international and domestic general cargo. Vegeport (Rau Qua) in the south of Tan Thuan Export Processing Zone, handles mainly grain and fertilizer cargo. South of Vegeport is Lotus Port, a joint-venture of Viettrans, Vosa, and Ukraine-based Blassco. This port handles containers, general cargo, and heavy goods.

All the ports in HCMC are river ports, occupying riverfront land in the central business district and nearby areas. The rapid growth of exports and imports and the shift toward containerization in ocean shipping in the early 2000s have created critical challenges facing HCMC ports.[5] Draft and length limits prevent large vessels from calling at these ports. As a result, export and import goods have to be transshipped on feeder ships via ports in Singapore and other Asian countries, raising the cost of shipping to and from Vietnam in terms of time and money. Furthermore, the location of the ports deep inside the city center causes major traffic problems as trucks have to go through busy urban districts to get to the ports. The city is also undertaking large urban development projects on the eastern side of the Saigon River at Thu Thiem. When bridges are built across the river, it will be effectively impossible for large vessels to pass below them.[6] Perhaps most importantly, the land under the existing ports has risen in value over the past decade. The failure to redevelop this land for commercial and residential use represents a missed opportunity for the city in terms of revenue generation and positive externalities in the form of demand for complementary investment and services.

The idea of relocating HCMC inner-city ports was first proposed in the late 1990s. However, it was not until 2005 that a firm decision was taken by the central government to identify Ba Son Shipyard and four ports—namely Saigon New Port, Sai Gon Port (Nha Rong and Khanh Hoi terminals), Tan

[5] In 2005, the number of containers handled by Sai Gon New Port surpassed one million TEU, a volume threshold for international shippers to consider using "mother ships" for direct shipment of goods between Vietnam and North America or Europe.

[6] In fact, the debate over construction of bridges and port relocation has been a constant headache for policymakers during the planning and project implementation process from the mid 1990s until now. The decision to build the costly Thu Thiem tunnel (which is part of the HCMC East-West Highway project) instead of a bridge in 2002 was due to the need to allow passage of vessels to existing ports upstream. At present, two new bridges are completed, namely Thu Thiem 1 bridge near the Sai Gon New Port site and Phu My bridge near Vegeport and Lotus ports. The Thu Thiem development project still calls for three more bridges, Thu Thiem 2, 3 and 4 plus a foot bridge.

Thuan Dong Port, and Vegeport—as the specific facilities that were to be moved out of the city by 2010 at the latest (see Exhibit 5).[7]

When the relocation deadline passed, Sai Gon New Port was the only facility that had moved further downstream from the city center.[8] The new facility at Cat Lai is now the largest and most successful port in the area. In 2010, the container throughput of the New Port reached more than 2.5 million TEU, recording an impressive annual growth rate of 12.6% during 2009-2010, a period of slow growth in trade. Over the same period, Sai Gon Port and VICT both saw substantial declines (see Exhibit 6). With its superior location and larger area of land under military control,[9] the relocated New Port is more accessible to customers and offers larger storage facilities. Furthermore, as a military-run business, the port in its new location is able to provide integrated services, particularly fast-track customs inspection.[10]

The relocation of the other HCMC ports has stalled. Reasons cited by port operators include the need to receive assurances that new sites are economically viable, and financial constraints on new investments. Among the new locations proposed, Cai Mep – Thi Vai has the greatest potential because of the site's natural endowments and its proximity to HCMC and surrounding provinces. Moreover, HCMC ports were required to relocate to Cai-Mep Thi Vai by a prime ministerial decision.

**Cai Mep – Thi Vai Port Complex: Early Development Attempts**

In the late 1980s, the Ministry of Transport started to look for new port locations in the greater HCMC area. Commissioned by the Ministry of Transport, in 1991 Tedi South consultants[11] produced the first study of the Thi Vai – Vung Tau Deepwater Port System, which led to the first master plan of the port complex in 1992.[12] The plan called for port development in three areas, namely, Go Dau in Dong Nai Province, and Phu My and Cai Mep in BRVT. Essentially, the plan called for port developments to be linked with adjacent manufacturing activities in Go Dau Industrial Park (Dong Nai), heavy industries in Phu My Industrial Park (BRVT) and future oil and gas activities in Cai Mep. There was, however, no mention of the need to build dedicated container terminals or relocation of HCMC's ports.

As the pace of industrial development quickened in the second half of the 1990s, several specialized ports were built, including Phuoc Thai – Vedan (MSG materials) and Unique-Gas (liquid products) in Go Dau, Baria-Serece (bulk cargo and liquid products) in Phu My, and LPG port in Cai Mep. In early 1998, the port master plan was adjusted, regrouping the complex into four port areas and identifying sites for several general cargo and container terminals.[13]

In 2001 and 2002, the Japan International Cooperation Agency (JICA) conducted its Port Development Study in the South. In its report, JICA proposed a plan of general cargo and container ports with moderate capacities in Cai Mep – Thi Vai. Six general cargo berths with 3.3-6 million ton throughput were planned for the Thi Vai section. Eight container berths with a total capacity of 2.7 million TEU were planned for the upper and lower Cai Mep sections. This was in line with the fact that container throughput in HCMC in 2002 was only 855,000 TEU. Although the overall plan was logical and detailed, investors were skeptical about the government's commitment to develop the supporting

[7] The Prime Minister of Vietnam, Decision 791/QĐ-TTg on the approval of the Detailed Master Plan of Sea Ports in HCMC, Dong Nai, and Ba Ria – Vung Tau, 12 August 2005.

[8] Cat Lai Port is now a listed joint-stock company with the Navy's Sai Gon New Port being the largest shareholder. The other major shareholder is HCMC Youth Volunteers Corporation, which is controlled by HCMC People's Committee.

[9] The New Port area in Cat Lai is 72 ha compared to less than 40 ha at the old location.

[10] Based on authors' interviews with port operators and shippers.

[11] The port unit within Tedi South, which undertook the study, later became the independent Portcoast Consultant Corporation.

[12] Decision 55/Ttg of the Prime Minister on the approval of the Master Plan of the Thi Vai – Vung Tau Deepwater Port System, 5 November 1992.

[13] Decision 50/Ttg/1998/QĐ-Ttg of the Prime Minister on the approval of the adjustment and addition to the Master Plan of the Thi Vai – Vung Tau Deepwater Port System, 28 February 1998.

infrastructure.[14] As a result, the few facilities for which construction began in the early 2000s were again specialized terminals serving only industrial plants nearby. Large international port projects with expected foreign participation did not proceed beyond the planning stage. In particular, the Thi Vai International Port, a joint-venture among Vung Tau Shipping Services (VTS), Vietnam Steel Corp (VSC), and Japan's Kyoei Steel, received a license in 1997 covering 41 ha of waterfront harbor land, but so far has made no actual investment.[15]

**The Role of ODA in the Emergence of New and Modern Ports**

JICA's study paved the way for Japanese ODA financing. In March 2005, the Japan Bank for International Cooperation approved an ODA loan of ¥36.4 billion (US$328.6 million) for the Cai Mep – Thi Vai port complex.[16] The loan is part of a US$700 million project managed by the Ministry of Transport involving channel dredging and navigational equipment installation, construction of connecting roads and bridges, and development of Thi Vai International General Cargo Terminal and Cai Mep International Container Terminal. The project fell within the detailed master plan for port development in the Southeast covering HCMC, Dong Nai and BRVT. The Prime Minister's decision approving the plan in August 2005 set explicit deadlines for the relocation HCMC's inner-city ports to Cai Mep – Thi Vai (and Hiep Phuoc in the south of HCMC) by 2010. Compared to JICA's study, the 2005 plan significantly increased the number of ports in the complex. There were now 19 ports in the plan, of which four were dedicated container terminals with 18 berths. The decision to add new capacities to the port complex was made as the Ministry of Transport's forecast of container throughput in the greater HCMC area was revised upward to 4.1 million TEU in 2010 and 6.2 million in 2015.

For some time, Vietnam has been on the radar screen of international port operators who were aggressively diversifying their operations with investments in ports in addition to their original bases of operation. The major shipping lines were also eager to achieve more control over port operations by taking equity stakes in the fastest growing ports in the world, including Vietnam. Domestic port operators in HCMC, under the pressure to relocate, were also quick to secure land in the port area. As mentioned earlier, before 2005 they were still not convinced that the government would devote sufficient resources for port development. The ODA project proved to be pivotal in attracting private investors' to the location. Confident about the government's commitment to developing necessary supporting infrastructure with ODA funds, a number of world-class port operators and shipping lines rushed to apply for investment licenses in late 2005 and early 2006, before Vietnam's formal accession to the WTO.

Within a very short time span from October 2006 to February 2007, five investment licenses were issued for the development of dedicated container terminals. Among them, the Tan Cang Cai Mep Container Terminal (TCCT) is the only 100% domestic investment by the Sai Gon New Port Company. Sai Gon New Port later entered into a joint-venture with three international shipping lines to set up the Tan Cang Cai Mep International Terminal (TCIT). Three projects are joint-ventures between the same domestic partners, namely, Sai Gon Port and Vinalines with international port operators.[17] SP-PSA is a joint-venture with the Port of Singapore Authority (PSA). SSIT is a joint venture with SSA Marine of the US. CMIT is a joint venture with APM terminals, a subsidiary of the

[14] Nguyen Xuan Thanh, "Vietnam's Infrastructure Constraints", Policy Dialogue Paper No. 1, Harvard Kennedy School and the United Nations Development Program, January 2010, page 11.

[15] The Prime Minister in October 2007 even asked the BR -VT People's Committee to withdraw the project's license.

[16] It is a yen-denominated loan carrying 0.4-percent interest rate and 40-year maturity/10-year grace period under the Special Terms for Economic Partnership (STEP) program. (Source: JBIC and Japan Official Development Assistance, JBIC's ODA Operations in Vietnam, April 2008.)

[17] Sai Gon Port is a subsidiary of Vinalines, but both joined the ventures separately, to together control 51 percent of the stake in each project.

Maersk Group. Lastly, SITV was formed between Sai Gon Investment Construction and Commerce (SICC), a domestic joint-stock company and Hong Kong-based Hutchison Port Holdings (HPH).

The five non-public container projects all went ahead with their investment plans. After two years of construction, SP-PSA and TCCT became operational in 2009. SITV, CMIT, and TCIT also opened in late 2010 and early 2011. The dredging and installation of navigational equipment in Cai Mep Channel, important components in the ODA project, were also completed. As soon as the terminals were opened, 16 post-panamax vessels started direct service to the ports.

**Challenges Facing the New Ports in Cai Mep – Thi Vai**

However, the enthusiasm of the port operators was short-lived as container volume fell well short of expectations. As reported by the port operators, actual container throughput was 28 percent of total capacity in 2010 and only 12.9 percent in the first 8 months of 2011.[18] In May and June 2011, four shipping line services (out the original 16) were canceled due to insufficient demand.[19] The ports are currently forced to engage in destructive pricing to survive, particularly in a context of slow growth in world and regional trade. Remarkably, the same state-linked entities that have invested in Cai Mep – Thi Vai continue to operate ports in HCMC itself, which is major cause of overcapacity in the new port system. Facing excess capacity, the container terminals are competing aggressively to keep customers. As reported by the Vietnam Port Association (VPA), the operators are pricing their services so low that they are unable to cover costs.[20] To generate revenue, some of the container terminals even used their under-utilized container terminals for general cargo handling and cruise ship docking.[21]

Initially, the investor consortium in each port thought that the container terminals would be developed in a prioritized sequence to make sure that supply matched demand. As illustrated in Exhibit 7, the original plan called for four container terminals with a total capacity of only 3.3 million TEU by 2015. What happened, however, was that a number of investment licenses were granted by the government at the same time. Thus, by early 2011 the four container terminals under operation (SP-PSA, TCCT-TCIT, SITV, and CMIT) have a combined capacity of 5.2 million TEU (see Exhibit 8). The likelihood that excess capacity will be reduced is small as more terminals will be opened in the coming years. The construction of SSIT is due to be finished in early 2012, increasing the total capacity of the complex to 6.4 million TEU. The two ODA terminals are expected to be completed in 2013. Another joint-venture container terminal between Gemadept and France-based CMA-CGM, which currently has the largest land area and longest berth length, is still under construction.

When Thailand started developing its new deep-sea port in Laem Chabang to replace the Klong Toey port in Bangkok in the late 1980s, only one container terminal was built with a capacity of 0.6 million TEU. Over time, more terminals were added and now the port complex has seven container terminals and one multi-purpose port. It is now ranked 22nd among the world top container ports, handling 5.2 million TEU in 2010.[22] Nhava Sheva port, developed to relieve pressure on Mumbai Port in 1989, currently has only three terminals with a total of five berths. It handled 4.3 million TEU in 2010.[23]

[18] Data reported by the ports to the Vietnam Port Association.
[19] Cosco, Kline, Yangming, and Hanjin announced the Cai Mep suspension for their Asia-Europe route in May 2011, and CSAV withdrew from its Cai Mep – US West Coast direct route in June 2011.
[20] At the Annual General Meeting of the Vietnam Port Association in September 2011, it was revealed to the media that the service fee currently charged by the container terminal operators in Cai Mep – Thi Vai to shipping lines is only US$32 per TEU, while the terminals need to collect US$88 per TEU to break even (Tuoi Tre Newspaper, "Cảng biển lỗ nặng" (Sea ports suffering heavy losses), 21 September 2011.
[21] Authors' observation during the site visit in 21 October 2011.
[22] World Shipping Council. Retrieved 10 October 2011.
(http://www.worldshipping.org/about-the-industry/global-trade/top-50-world-container-ports)
[23] Ibid.

As the Cai Mep – Thi Vai detailed plan was repeatedly altered after 2006, more ports were added and almost all of the harbor-front land has now been claimed (see Exhibit 9). In the final report on the detailed plan made by Portcoast in April 2011, there was only one reserve area left in the entire complex and this was designated as a maritime services base. In August 2011, when the plan was approved, even this reserve area had been turned into another general cargo port.[24] Therefore, according to the detailed plan of 2011, the Cai Mep – Thi Vai Complex now has 34 ports in total,[25] of which 14 ports are already under operation including container terminals, multi-purpose terminals, general cargo ports, and specialized ports.

**Supporting Infrastructure**

The problem of capacity underutilization was made worse by the government's failure to complete the necessary supporting infrastructure. The Cai Mep – Thi Vai Port Complex is 50km from Bien Hoa, Dong Nai and 80km from HCMC. Containers moving by road have to use the only existing four-lane national highway, NH51 (see Appendices 1 and 2). The only alternative to trucking is barging on inland waterways from the existing inner-city ports in HCMC. Compared to trucks, barges are more environmentally friendly and are less costly taking into consideration the cost of fuel and informal levies. However, barges are slow, taking 6 to 8 hours per trip.[26] While barges continue to be an important mode of transport, over-reliance on barging will soon cause traffic congestion and accidents along Nha Be, Sai Gon and Dong Nai rivers.

As mentioned earlier, the construction of container terminals in Cai Mep – Thi Vai started in early 2007. However, it was not until late 2009 that the project improving NH51 was launched. Even when completed, the widened NH51 will still be inadequate. Trucking companies complain about their inability to carry heavy loads given the constrained capacity of the existing highways, speed limitations, and dangers posed by the mixing of four and two-wheeled vehicles.[27] A new limited-access expressway system is urgently needed to allow heavy container trucks to travel at high speed. The HCMC-Long Thanh-Dau Giay Expressway, which promises to cut the travel distances and increase speed, was scheduled to be completed at the end of 2012. However, this will likely be pushed back to late 2013 or early 2014. The Bien Hoa - Vung Tau expressway also must be started soon to complete the road network.

While the poor condition of the highway system is damaging the port complex, it is not the most pressing problem in terms of lack of connecting infrastructure. Nothing could be more obvious than the need to finish a connecting road between the Cai Mep port complex and NH51 (the so-called Road 965) in time for the operation of the container terminals. As of October 2011, this 8.5km road was still several months from completion (see Exhibit 10). The existence of many terminals in the complex points out the need to build a high capacity inter-port road. This was also recognized by the government and financed by government bonds, but construction has been delayed. A freight rail line between Bien Hoa and Cai Mep – Thi Vai has been proposed, but the economic and financial viability of the project is open to question because of its short distance (less than 80km).

The most important question remains the overcapacity in Cai Mep – Thi Vai and the continued use of ports in the city center. New container terminals boasting state-of-the-art facilities have been constructed in Cai Mep – Thi Vai with a capacity to handle 6.4 million TEU. While only a fraction of this capacity is used, most of the container cargo remains with existing HCMC ports operated by the same domestic investors. The decision to continue operating ports in HCMC is rational from the perspective of the individual investors, since these ports were profitable even during the slow growth

[24] The port is named Ban Thach General Cargo Terminal in the 2011 detailed plan.
[25] The Minister of Transport, Decision 1745/QĐ-BGTVN on the approval of the Detailed Plan for the Southeast's Sea Port Group (Group 5) up to 2020 with 2030 orientation, 3 August 2011.
[26] APL/APL Logistics.
[27] The current speed of container trucks along these highways is within the 35-60 km per hour range.

years of 2009-10.[28] However, this is costly from the perspective of society due to negative externalities such as traffic congestion and pollution the opportunity cost of using prime urban land for ports rather than commercial and residential development.

If some of the 4 million TEU currently transported through HCMC ports were to be moved to Cai Mep – Thi Vai, the under-capacity problem would be reduced. It is worth noting that even with all the connecting infrastructure in place, Laem Chabang Port only took off when the Thai authorities imposed a cap of one million TEU on the Klong Toey Port in 1996 so that shipping lines were forced to switch to the new container terminals.[29] This experience points to the need to identify and remove obstacles in the relocation of HCMC's inner-city ports, and the role of the government in promoting society's interests over the private interests of individual firms.

**Relocation of HCMC Ports: Land Use Planning and Property Rights**

Port operators hold land use rights that give them authorization to use state land for the specific purpose of operating a port. They do not own the land in the sense of having the right to sell, lease or mortgage it, or to develop the land for other purposes, such as commercial and residential use. The current operators therefore have an incentive to maintain some nominal maritime activities at their existing locations in order to control the land. At the same time, the port operators need capital to invest in new port projects in Cai Mep – Thi Vai and other locations.

Much of the political power of the various port operators derives from the fact that they are both port operators and regulators. The government of Ho Chi Minh City must approve land use plans for the city but also operates ports. The Ministry of Transport and the navy also have regulatory roles in addition to their business operations.

The total land area of the inner-city ports is more than 167 ha in Districts 1 and 4. The area of the shipyards and the four ports that must be relocated is 107.5 ha. The largest financial benefit from port relocation would be the sale of land-use rights as the land-use purpose is changed from port operations to commercial and residential development.[30] Transparent land-use planning and clear land titles are needed to facilitate the relocation efforts and land transactions, particularly with regard to Sai Gon Port, Sai Gon New Port, and Ba Son Shipyard, whose terminals occupy the largest land area in the city's prime locations. However, the multitude of port operators in the area and the involvement of different levels of government have led to institutional fragmentation and lack of coordination with the end result of lengthy delay in the port relocation.

Two options involving port land transactions are possible. One option is for the relocating port companies to sell the land-use rights of their port areas. The other option is for the port companies to redevelop the areas either by themselves or through joint-ventures with other investors. The state, however, has the right to take the land for public, social or national defense purposes, but needs to compensate the current port operators. In both cases, proceeds from the land transactions would be used to pay for the costs incurred during the relocation process and to subsidize the investment costs made by state-owned entities in the new locations. Any surpluses out of the land transactions would go to the state budget. For Sai Gon Port, Tan Thuan Dong Port, and Vegeport, the surpluses would go

[28] After tax profits of Sai Gon Port and Cat Lai New Port in 2010 were VND 64 and 73 billion respectively. (Source: 2010 Financial Statements of the Port Companies.)

[29] While the cap was a strong signal from the Thai government to help direct container traffic to the new port, Klong Toey Port was never relocated and still handles about 1.3 million TEU a year although with no growth. In early 2011, some Thai politicians of the ruling party started calling to redevelop the port land into a recreational park. Thailand's Ministry of Transport reacted saying it had its own proposal with no plan for port relocation (Bangkok Post, "Democrats unveil plan to move port, build park", 22 April 2011).

[30] The current land value in Ho Chi Minh City's central business ranges from US$6,000 to 10,000 (based on land price surveys reported weekly by VietRees). Taking the lower bound value to account for the fact that urban land in Vietnam is generally overvalued and a 50-percent construction density ratio, the land of the inner-city ports has a value of at least US$5 billion (or US$3.2 billion for just the area of the relocating sites).

to the HCMC budget to finance the city's infrastructure development. For Saigon New Port and Ba Son Shipyard, the surpluses would be kept by the Ministry of Defense to use for national defense purposes.[31]

Given the above stipulations, it is not surprising that the port companies all chose the redevelopment option since it has the potential to deliver larger financial benefits while allowing them to maintain control of the land. Sai Gon Port already has a "land-conversion" plan to redevelop its port area so that revenue generated can be used to finance its new port in Hiep Phuoc. According to Sai Gon Port's Board for Relocation and Change of Port Purpose, the port company will convert its two cargo terminals, namely Nha Rong and Khanh Hoi, into a cruise ship terminal, a maritime service center, and supporting commercial facilities. This plan on paper conforms to the requirement that in order to use the redevelopment option, the redevelopment projects must fall within the business area of the port company.

In order for Sai Gon Port to go ahead with their project, a detailed land-use plan has to be in place.[32] As of mid 2011, the HCMC People's Committee (PC) has not approved the plan. Only in 2009 did the City's Department of Planning and Architecture start the land-use planning process covering the port area in the city center. Like many efforts of the government to implement policies, a steering committee involving all relevant agencies was set up in April 2008 to "direct and coordinate the activities of central and local agencies in carrying out the implementation of the port relocation plan."[33] In each and every meeting of the steering committee during 2008-2011, the land-use planning issue was raised. Exhibit 11 shows the series of deputy prime ministerial/prime ministerial directives setting deadlines for HCMC to finalize its land-use planning of the city center following recommendations of the steering committee. However, as each deadline was missed, a new directive was announced setting a new one.

To further complicate the issue, the HCMC People's Committee in 2009 decided to develop the cruise ship terminal further downstream in the Phu Thuan Park Project (see Exihibit 12).[34] The Vietnam Maritime Administration (Vinamarine) concurred by pointing out that because of the Phu My bridge, cruise ships with capacity of 50,000 GRT or higher[35] would not be able to go up to the Sai Gon Port's proposed location.[36] The city's authorities went further in suggesting the Cruise Ship Site proposed by Saigon Port in Khanh Hoi should be scrapped and the entire area given over to commercial, residential, entertainment, and park developments. The loss of a cruise ship terminal and possibly other maritime-relative projects would substantially weaken Sai Gon Port's claim to be the land redeveloper after relocation and would give the city control over any future development project.

The Ministry of Transport's 2011 decision ratifying the detailed plan for the Southeast's sea port group aimed at a compromise that would allow a cruise ship terminal at the location suggested by the HCMC People's Committee's and a domestic passenger ship terminal at the Saigon Port site. The problem is that this approach does nothing to resolve the uncertainty surrounding the land-use planning and property rights relating to the port relocation and real estate redevelopment. Facing the prospect of not being able to control the land after relocation, Sai Gon Port's best strategy is to stay put. At the same time, HCMC has every incentive to proceed slowly and cautiously with its detailed land-use planning. Whether a passenger ship terminal and a maritime service center will be in the final land-use plan of HCMC is anyone's guess. As reported by *Tuoi Tre* Newspaper in October 2011,

[31] Detailed clauses governing the land transactions are stipulated in the Regulation on HCMC Port Relocation Financing which accompanies the Prime Minister's Decision 46/2010/QĐ-Ttg on 24 June 2010.

[32] By law, the local government authorities are responsible for preparing, ratifying, and enforcing detailed land-use plans at the 1:2000 scale. Only with the completion of these land-use plans, investors can prepare detailed land-use plans at the 1:500 scale and make investment proposals.

[33] Prime Minister's Decision 458/QĐ-Ttg dated 28 April 2008 establishing the HCMC port relocation steering committee.

[34] See Official Document 1637/UBND-ĐTMT issued by HCMC People's Committee on 14 April 2009.

[35] 50,000-70,000GRT cruise ships are large ships capable of carrying 1,200-2,000 passengers.

[36] See Official Document 2250/CHHVN-KHĐT issued by the Director of Vinamarine on 28 October 2008.

the Chairman of HCMC People's Committee has ordered "a temporary halt to the provision of planning and architecture information to projects which are under study, being prepared for investment or waiting for planning standards in the existing city center area (i.e. the 930ha area)". The People's Committee also instructed the Department of Planning and Architecture and its consultant Nikken Sekkei to finalize the city center plan by the end of November 2011.[37]

Compared to Sai Gon Port, the relocation of Sai Gon New Port and Ba Son Shipyard is less of a challenge. At the outset, it was made clear that any financial surplus arising from land transactions would be credited to the Ministry of Defense. Property rights are also not an issue since the land-use rights belong and must be reassigned by the Ministry. Knowing that it still has control over the existing land (and the soon-to-be-completed Thu Thiem bridge preventing large ships calling at its port), Sai Gon New Port decided to move to Cat Lai in 2008. The land-use planning problem still remains, preventing the company from redeveloping the 38.7 ha of the old port. According to the Sai Gon New Port Company, the old port site is now used for transshipment of containers to/from Cat Lai Port and Cai Mep Container Terminals, and shipment of "military equipment." However, part of the land is already being used as an outdoor resort complex.

As already mentioned, Sai Gon New Port Company is currently running both Cat Lai and Cai Mep container terminals. Cat Lai is still in HCMC and containers going through it need to be transshipped elsewhere. Cai Mep terminals are far away, but their containers can be shipped directly to final destinations. Clearly, Sai Gon New Port is hedging, and this strategy appears to be paying off as Cai Mep faces difficulties, while Cai Lai is still growing.[38] The problem is that container traffic cutting through the city to reach Cat Lai is causing more congestion. With supporting infrastructure in place for Cai Mep – Thi Vai in the near future, the government should consider following the Bangkok Port experience and imposing a cap on the number of containers handled at Cai Lai. If Sai Gon New Port is to make some financial surplus from land transactions based on the city-approved land-use plan, it could be encouraged to focus its resources in Cai Mep and to abandon its hedging strategy.

The situation at Ba Son Shipyard is quite different from that of Sai Gon New Port although both are under the Ministry of Defense. The reason is that the Navy has much greater financial strength and bargaining power relating to land acquisition than does the General Department of Military Industry.[39] Thus, Ba Son Shipyard lacked funds to finance its relocation and development of a new facility in the Cai Mep area.[40] In September 2010, on the order of the Prime Minister, the Ministry of Finance lent VND240 billion (US$12.3 million) out of the Treasury to Ba Son Shipyard. As the treasury loan was not sufficient to complete construction, the Ministry of Defense made a proposal to "socialize" the project (i.e. to attract financing from other sources). As the proposal was approved by the central government, the process started to gather momentum and a new deadline for relocation was agreed just for Ba Son Shipyard.[41] Some of the most polluting activities at the Shipyard were moved immediately to Nha Be and Can Gio in the south of Ho Chi Minh City, and construction work in Cai Mep began.

There are several other ports in the inner-city which are not yet subject to relocation, one of which is the Vietnam International Container Terminal (VICT). As a joint-venture with a foreign investment license, VICT will not be relocated at least until 2020. While still profitable and having some spare

[37] Tuoi Tre Newspaper, "Tạm ngưng cung cấp thông tin quy hoạch khu trung tâm TP.HCM" (Temporary stop to information provision regarding the plan of HCMC's city center), 10 October 2011.

[38] In a way, Sai Gon Port is also following a similar strategy by maintaining its existing activities and entering into three separate joint-ventures in Cai Mep – Thi Vai.

[39] More and more resources are being directed toward strengthening the Vietnamese Navy. And by nature, the Navy is at ease in making claims to coastal land. Cat Lai land was originally earmarked for the Naval Regiment 125. While the regiment is still there, most of the land has been turned over to SNP.

[40] Appendix 3 has the new location for Ba Son Shipyard.

[41] The deadline for relocation of Ba Son was officially extended to 2015.

capacity, VICT has seen its container volume decline precipitously (see Exhibit 6). As a result, the joint-venture may be willing to be bought out.

**Keeping the Ports in HCMC**

While accepting the obvious physical and economic constraints of the inner-city ports, the HCMC People's Committee still stresses the importance of sea ports to the local economy and wants to keep a share of traffic flows in the city. Thus, the rapid development of Cai Mep – Thi Vai in BRVT poses two major concerns for the city authorities. First, logistic firms and other port-supporting businesses will move out of HCMC to be nearer to the new container terminals. Having declared that its future development will rely more heavily on services than on manufacturing, HCMC is keen to maintain its status as the country's center of logistic services.[42] Second, the large revenues from trade taxes generated by imports through HCMC's ports is at risk. In 2010, HCMC collected VND57 trillion (US$2.8 billion) in export and import duties, accounting for 40 percent of its total budget revenue. And since 2005, this ratio has been around 40-46 percent.[43, 44] While it is true that a substantial portion of the trade taxes goes to Ha Noi, HCMC People's Committee relies on using its large trade tax base to keep more tax revenues in the city.

HCMC People's Committee is eager to retain ports in the city even after relocation. The city does not have an alternative revenue stream to replace the loss in trade taxes and fees that would result from relocation of the ports. No regional coordination mechanisms exists to share taxes and fees among the provinces served by the southeast port system.

It turns out that only Ba Son Shipyard is to be moved to Cai Mep – Thi Vai. Sai Gon New Port was moved to Cat Lai, which is still within the boundaries of HCMC. Sai Gon Port (and possibly Tan Thuan Dong Port) will be moved to Hiep Phuoc in Nha Be, the southern rural district of HCMC (see Appendix 1). As opposed to the international gateway status of Cai Mep – Thi Vai, Hiep Phuoc is designated as the hub for the country's Southeast region with multiple general cargo and container terminals.

In December 2005, the city-owned Tan Thuan Industrial Promotion Company (IPC) entered into a joint-venture with Dubai Ports World (DB World) to develop the Saigon Premier Container Terminal (SPCT) in Hiep Phuoc.[45] Compared to Cai Mep – Thi Vai, Hiep Phuoc is only 15 km from the city center. However, the biggest drawback of Hiep Phuoc is that its Soai Rap channel is too shallow to accommodate even the ships that are calling on the inner-city ports.[46] The first phase of dredging in 2008 only increased the water depth to 7.0m. The second phase of dredging to reach the depth of 9.5m has stalled.[47] As a result, the performance of SPCT is even worse than the container terminals in Cai Mep – Thi Vai. In 2010, only 94,934 TEU[48] went through SPCT, accounting for 12.8 percent of the terminal's capacity.

There is no potential for container shipment using large vessels in Hiep Phuoc.[49] But a general cargo port like the one being built by Sai Gon Port should be feasible. The project, named Sai Gon – Hiep Phuoc Port, was started in early 2009 with an investment cost of VND3,000 billion (US$175 million). Financed by an advance from the state budget and a commercial bank loan, the port is expected to be

[42] HCMC People's Committee, Five-year Socio-economic Development Plan 2011-2015.
[43] HCMC Statistics Office, HCMC Statistical Yearbook 2010.
[44] The total revenue does not include non-tax sources such as revenue of crude oil export or transfers.
[45] In its first phase, the terminal covers an area of 23 ha with two berths and a capacity of 750,000 TEU a year.
[46] Long Tau instead of Soai Rap is the main channel for ships (see Appendix 1).
[47] As Tan Thuan IPC struggled to mobilize VND1,743 billion (US$85 million) for the second-phase dredging, the project was turned over to HCMC's Department of Transport in July 2011.
[48] Figure reported by SPCT to Vietnam Port Association.
[49] When entering into the SPCT joint-venture, DB World also asked and was allowed to participate in the adjacent real estate projects.

completed at the end of 2012.[50] As mentioned above, the entire investment cost will be reimbursed by money generated through land transactions of Nha Rong and Khanh Hoi terminals. SPCT and Sai Gon – Hiep Phuoc Port are shown in Exhibit 13.[51]

As things stand, the greater HCMC area now has two new port complexes. Given the fact that costly investments have already been made and modern facilities have already been built, the challenge is to make use of both of the ports. In order for it to work, a well-coordinated policy decision has to be made to give Cai Mep – Thi Vai top priority in handling long-distance containers, shifting the locus of general cargo and regional containers at the old inner-city ports to Hiep Phuoc. Even if that is done, the capacity of the two ports can only be utilized if Vietnam can restore its growth momentum achieved in the first half of 2000s. In particular, the success of Hiep Phuoc depends on Vietnam's ability to join regional production networks to allow for rapid growth of intra-Asia trade. However, if trade volumes do not pick up, it will be impossible to spread exports and imports over too many ports in the south east.

[50] Initially dependent on state budget funding, construction was carried out slowly. In June 2011, Sai Gon Port finally was able to borrow VND2,000 billion from Maritime Bank.

[51] Just like all other projects, an important missing link for the port is a 3.5km access road.

**Exhibit 1: Container Throughput in Selected Asian Countries**

| | Container Volume (mil TEU) | | Growth Rate (%) |
|---|---|---|---|
| | 2000 | 2009 | 2000-09 |
| Vietnam | 1.03 | 5.40 | 20.25 |
| China | 41.00 | 105.98 | 11.13 |
| Malaysia | 4.64 | 15.84 | 14.61 |
| India | 2.45 | 7.89 | 13.87 |
| Indonesia | 3.80 | 6.39 | 5.96 |
| Thailand | 3.18 | 5.90 | 7.11 |
| Korea. | 9.03 | 16.05 | 6.60 |
| Philippines | 3.03 | 4.12 | 3.46 |
| Singapore | 17.10 | 25.87 | 4.71 |
| Bangladesh | 0.46 | 1.18 | 11.16 |

*Note*: TEUs are twenty-foot equivalent units.
One 20-foot container equals one TEU.
*Source*: The World Bank, World Development Indicators.

**Exhibit 2: Container Throughput in Major Vietnamese Ports in 2010**

| | Container Volume | |
|---|---|---|
| | TEU | Share |
| Northern Ports | | |
| Hai Phong | 1,732,697 | 26.8% |
| Quang Ninh | 204,129 | 3.2% |
| Central Ports | | |
| Da Nang | 89,199 | 1.4% |
| Quy Nhon | 72,224 | 1.1% |
| Southeastern Ports | | |
| HCMC | 3,569,829 | 55.1% |
| Ba Ria - Vung Tau | 628,611 | 9.7% |
| Binh Duong | 96,538 | 1.5% |
| Others | 80,674 | 1.2% |
| Total | 6,473,901 | 100.0% |

*Source*: Data reported by port operators to the Vietnam Port Association (VPA).

**Exhibit 3: Inner-city Ports in Ho Chi Minh City and the Relocation Plan**




*Source:* Nguyen Xuan Thanh and Tran Thanh Phong (FETP). Base map is from Google. Port sites and names are based on information of existing ports and Ministry of Transport, Detailed Plan of the Southeastern Sea Port Group (Port Group No. 5) toward 2020 with 2030 orientation, August 2011.

**Exhibit 4: Existing Inner-city Ports in HCMC**




*Source*: Nguyen Xuan Thanh and Tran Thanh Phong (FETP). Base map is from Google. Port sites and names are based on information of existing ports.

**Exhibit 5: Ho Chi Minh City Ports**

| Port | Number of Berths | Total berth length (m) | Area (ha) | Vessel Size (DWT) | Relocation Plan (*) |
|---|---|---|---|---|---|
| Sai Gon New Port | 4 | 733 | 31.9 | 5,000 | To Cat Lai (Dong Nai River, HCMC) by 2006 and to Cai Mep by 2010 |
| Ba Son Shipyard | 6 | 754 | 26.4 | 6,000-10,000 | To Cai Mep by 2010 |
| Sai Gon Port, Nha Rong & Khanh Hoi Terminals | 10 | 1,750 | 32.2 | 10,000-30,000 | To Cai Mep (BRVT) and Hiep Phuoc (HCMC) by 2010. |
| Sai Gon Port, Tan Thuan Terminal | 5 | 995 | 13.6 | 10,000-30,000 | No expansion |
| Tan Thuan Dong Port | 1 | 149 | 2.9 | 15,000 | Relocate by 2010 |
| Ben Nghe Port | 4 | 816 | 32.0 | 10,000-30,000 | Change of use after 2020 |
| VICT Port | 4 | 678 | 28.3 | 15,000-20,000 | Change of use after 2020 |
| Vegeport | 1 | 222 | 7.2 | 20,000 | Relocate by 2010 (if Phu My Bridge is constructed) |
| Lotus Port | 2 | 275 | 6.0 | 30,000 | - |

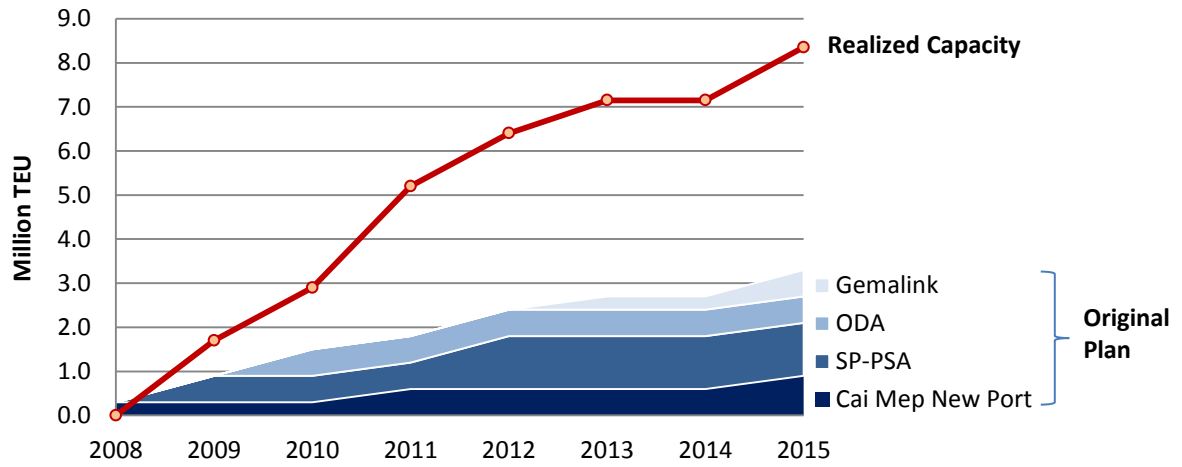
(*) The relocation plan is from The Prime Minister of Vietnam, Decision 791/QĐ-TTg on the approval of the Detailed Master Plan of Sea Ports in HCMC, Dong Nai, and Ba Ria – Vung Tau, 12 August 2005.
*Source*: Authors' surveys of existing ports.

**Exhibit 6: Container Throughput in HCMC Ports (TEU)**

| | 2008 | 2009 | 2010 | Annual growth rate, 2008-10 |
|---|---|---|---|---|
| New Port (Cat Lai) | 2,018,104 | 2,460,000 | 2,559,305 | 12.6% |
| Sai Gon Port | 510,496 | 378,226 | 401,982 | -11.3% |
| VICT Port | 536,176 | 300,000 | 297,561 | -25.5% |
| Ben Nghe Port | 188,815 | 140,922 | 210,549 | 5.6% |

*Source*: Data reported by port operators to the Vietnam Port Association (VPA).

**Exhibit 7: Original Plan's Phased Development of Container Terminals Compared to Realized Capacity**




*Source*: The original plan's capacity is from Vietnam Maritime Administration (Vinamarine) and realized capacity is from Exhibit 8.

**Exhibit 8: Dedicated Container Terminals in Cai Mep – Thi Vai**

| Terminal | Opening Year | Vietnamese Partner | International Partner | Capacity (mil TEU) | Volume (mil TEU) 2010 | 2011, J-A |
|---|---|---|---|---|---|---|
| SP-PSA International Port (SP-PSA) | 29 May 09 | Sai Gon Port | PSA International Port | 1.1 | 0.182 | 0.114 |
| Tan Cang - Cai Mep Container Terminal (TCCT) | 03 Jun 09 | Sai Gon New Port | - | 0.6 | 0.295 | 0.204 |
| Tan Cang – Cai Mep International Terminal (TCIT) | 15 Jan 11 | Sai Gon New Port | Wanhai Lines, MOL and Hanjin Shipping | 1.2 | - | 0.084 |
| Sai Gon International Terminals Vietnam (SITV) | 24 Aug 10 | SICC | Hutchison Port Holdings (HPH) | 1.2 | 0.025 | 0.045 |
| Cai Mep International Terminal (CMIT) | 30 Mar 11 | Sai Gon Port | APM Terminals | 1.1 | - | 0.032 |
| SP-SSA International Terminal (SSIT) | 2012 | Sai Gon Port | SSA Holdings International | 1.2 | - | - |
| Cai Mep International Container Terminal | 2013 | PMU 85 | JBIC (Japanese ODA) | 0.75 | - | - |
| Terminal Link Cai Mep (Gemalink) | - | Gemadept | CMA-CGM | 1.2 | - | - |

*Note:* According to the latest plan, six more container-dedicated and multi-purpose terminals will be built.
*Source*: Authors' compilation from the port operators, Vinamarine and VPA.

**Exhibit 9: Cai Mep – Thi Vai Port Complex**




*Source*: Nguyen Xuan Thanh and Tran Thanh Phong (FETP). Base map is from Google. Port sites and names are based on authors' site visits, government's investment licenses given to port investors, and Ministry of Transport, Detailed Plan of the Southeastern Ports (Port Group No. 5) toward 2020 with 2030 orientation, August 2011.

**Exhibit 10: Supporting Road Infrastructure for Cai Mep – Thi Vai Port Complex**

| Project Name | Investment Cost (VND bil) | Length (km) | No of Lanes | Investor/ Implementation Agency | Financing | Completion Date |
|---|---|---|---|---|---|---|
| Road 965 | 1,500 | 8.5 | 4-6 | Ministry of Transport, PMU 85 | ODA (JBIC) | End of 2011 |
| Inter-Port Road | 2,838 (Phase 1) | 21.3 | 6-8 | BRVT People's Committee | Government Bonds | 2012 (Phase 1) |
| HW51 Expansion | 3,200 | 72.7 | 6 | Bien Hoa-Vung Tau Expressway Development (BVEC) | BOT | Feb 2012 |
| HCMC-Long Thanh-Dau Giay Expressway | 18,882 | 55 | 4 | Viet Nam Expressway Development (VEC) | ODA (ADB & JBIC) | Early 2014 |
| Bien Hoa – Vung Tau Expressway | 15,000 | 76 | 4 | Bien Hoa-Vung Tau Expressway Development (BVEC) | BOT | - |

*Source*: Authors.

**Exhibit 11: Timeline of Central Government Directives to HCMC Involving the City Center Land-use Planning**

28 Apr 2008: Port Relocation Steering Committee was set up.

12 May 2008: First Steering Committee Meeting with the Transport Minister stressing the importance of land-use planning for future inner-city ports

01 Apr 2009: Transport Minister officially requested the Prime Minister to order HCMC PC to *soon* approve inner-city port land-use plans.

18 Jun 2009: Deputy Prime Ministerial directive set the land-use planning deadline for *Sep 2009*.

13 Jan 2010: Deputy Prime Ministerial directive set the land-use planning deadline for *Feb 2010*.

10 Aug 2010: Deputy Prime Ministerial directive set the land-use planning deadline for *Q4 2010*.

29 Mar 2011: Deputy Prime Ministerial directive set the land-use planning deadline for *Jun 2011*.

29 Mar 2011: Prime Ministerial directive reiterated the land-use planning deadline as *Jun 2011*.

*Source*: Official documents 219/TB-BCĐ dated 27 May 2008, 1949/BGTVT-KHĐT dated 1 September 2009, 178/TB-VPCP dated 18 June 2009, 11/TB-VPCP dated 13 January 2010, 217/TB-VPCP dated 10 August 2010, 70/TB-VPCP dated 29 March 2011, and 132/TB-VPCP dated 2 June 2011.

**Exhibit 12: Redevelopment Plans for the Existing Sai Gon Port Site**

(A) Existing Nha Rong and Khanh Hoi Terminals of Sai Gon Port (32.2 ha in area)



*Source*: Google Map, downloaded in October 2011.

(B) Redevelopment Proposal by Sai Gon Port



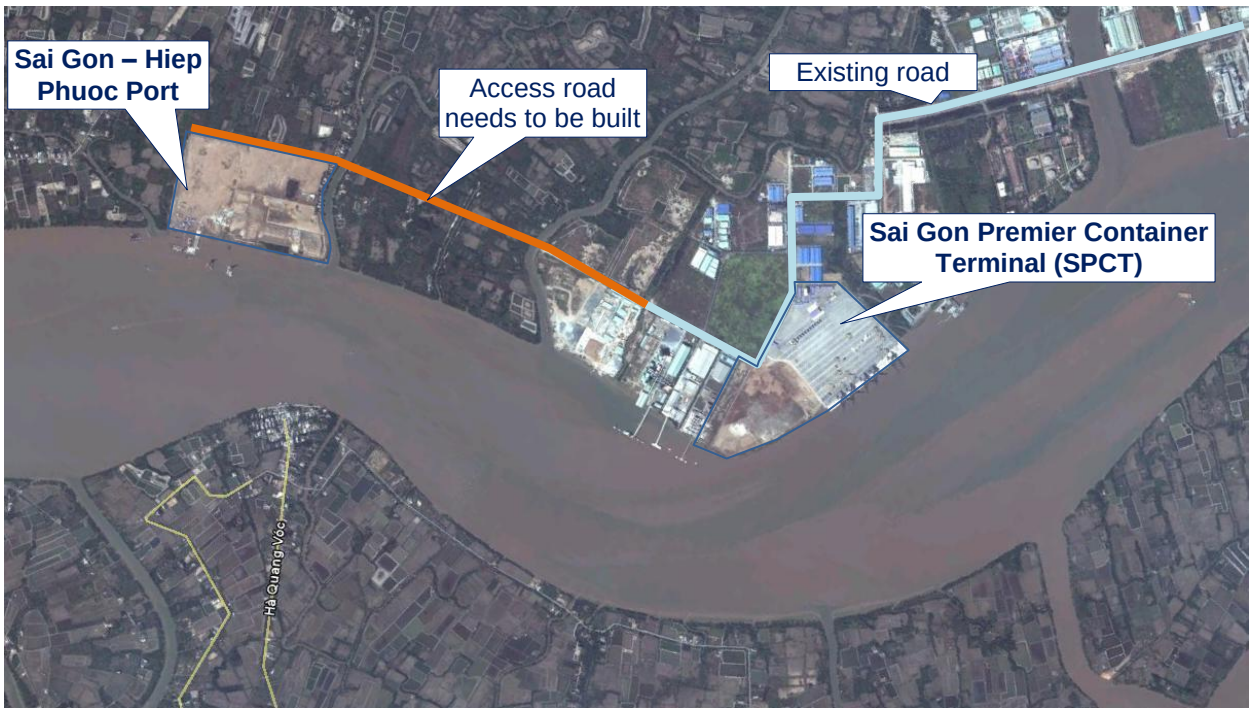

*Source*: Portcoast, "Qui hoạch di dời và tình hình triển khai thực hiện di dời các cảng trên sông Sài Gòn và Nhà máy đóng tàu Ba Son" (Relocation Plan and Current Situation of Relocating Ports in the Sai Gon River and Ba Son Shipyard), March 2011.

(C) Phu Thuan Cruise Ship Terminal Approved by HCMC People's Committee




*Source*: Google Map, downloaded in October 2011.

**Exhibit 13: Hiep Phuoc Port Complex**




*Source*: Google Map, downloaded in October 2011.