



Country Update

WTO Agreements on Trade in Services: Main Issues Faced by SMEs in Vietnam and Their Solution

Provided by



CUTS International, Hanoi Resource Centre

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Overview of Viet-Nam Services' Sector

Since Vietnam launched the *Doi Moi* programme in 1986, the country has made great strides in overall economic growth, with an average annual GDP per capita growth rate of 6.49 percent (from 2000 till 2015)¹. In addition, the open-door policy has led to a sharp increase in foreign trade; however, that trade continues to be mostly in primary and low value-added goods.

Between 1986 and 1996, the growth rate in services was on average higher than that of the economy as a whole. During this time, the market mechanism was introduced and goods subsidies by the State were abolished. From 1996 onwards, however, growth in services dropped below the growth rate for the economy as a whole – in contrast to global service sector

growth which remained higher than overall GDP growth. By 2010, the service sector has accounted for 38.3 percent of the country's US\$103 billion GDP that year, growing by 7.5 percent as compared to the previous year.²

Services thus become a vital part of Vietnam's plan to become a modern economy by 2020. The service sector is forecasted to grow by 8–8.5 percent per year and to account for 42–43 percent of Vietnam's GDP during 2016–2020,³ and the Vietnamese government is implementing aggressive policies intended to accelerate the development of high-value-added services. The number of registered enterprises in the trade and services sector grew by an average annual rate of 22.9 percent from 2000 to 2009, and this sector constituted 60.1 percent of total registered enterprises at the end of the period.⁴ Currently, Vietnam's largest service industries are tourism,

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¹ <<http://www.tradingeconomics.com/vietnam/gdp-growth-annual>>

² World Bank, World Development Indicators (WDI) Online Database,

<<http://databank.worldbank.org/ddp/home.do>>

³ Prime Minister's Decision No. 175/QĐ-TTg dated January 27, 2011, Approving the Overall Strategy on the Development of Vietnam's Service Sector through 2020

⁴ General Statistics Office (GSO), *The Enterprises in Viet Nam 9 Years at the Beginning of the 21st Century*, 2010, p.29

wholesale and retail services, repair of vehicles and personal goods, hotel and restaurants, transport and storage, and telecommunications. By number of enterprises, the fastest-growing services industries between 2000 and 2009 were electricity, gas, and water; post and telecommunications; computers and related activities; and services supporting financial and monetary activities.⁵

Viet-Nam services' trade

Although Vietnam accounts for a small share of global trade in services, its total services trade volume (imports plus exports) has tripled since 1999.⁶ From 1999 to 2008, both imports and exports increased at double-digit average annual rates. While exports dropped substantially in 2009 in the wake of the global economic downturn, in 2010, Vietnam's services trade recovered and resumed its growth trajectory, with a 21 percent increase in imports and 30 percent growth in exports. By 2014, the country exported US\$10,833 million worth of commercial services, accounting for 0.22 percent of the world total services exports.⁷

Nonetheless, Vietnam remains a net importer of services with a growing services trade deficit. Service exports have risen over the past decade, as Vietnam's competitive advantages—strategic location, low costs, political stability, and a large workforce—have

benefited manufacturing and service firms alike.⁸ However, while profitable opportunities to support manufacturing industries have driven growth in some service industries, the country still relies heavily on imports of trade-related services. This is especially true of transportation services, which accounted for 54.1 percent of Vietnam's service imports in 2014.⁹

Tourism was Vietnam's largest commercial services export, accounting for almost 67.7 percent of all such exports in 2014.¹⁰ Vietnam hosted over 7.9 million foreign visitors in 2015, increasing by 150% as compared to the total number in 2010; most were leisure tourists.¹¹ Outbound tourism from Vietnam has also increased in recent years, and travel services are Vietnam's second-largest services import. The majority of outbound tourists from Vietnam travel within the Southeast Asian region; however, a growing number of tourists travel to the United States and Europe.

With the exception of tourism and travel, Vietnam trades few services other than those supporting the manufacturing and movement of goods. Strategically, the vast majority of Vietnamese service suppliers are micro, small and medium-sized enterprises (MSMEs). It is, therefore, much more cost effective to export from a base in Vietnam than it is to travel or establish abroad. The least expensive method of exporting is typically Mode 2 – selling services to foreigners already in Vietnam.¹²

⁵ Ibid., p.30

⁶ Vietnam's exports and imports each accounted for less than 1 percent of the world total in 2010. WTO, *International Trade Statistics 2011*, 2011, 184–94, tables A8 and A9

⁷ WTO, *Vietnam Trade Profiles*, September 2015
<<http://stat.wto.org/CountryProfile/WSDBCountryPFVi ew.aspx?Country=VN&Language=E>>

⁸ Alain Cany, Vietnam Business Forum 2010: Eurocham Position Paper, European Chamber of Commerce in Vietnam, December 2, 2010

⁹ See Footnote 7. Transportation services refer to the

transport of passengers or freight by road, rail, sea, or air. Freight transportation services are generally associated with manufacturing trade, while passenger transportation services, in tandem with travel services, contribute to the development of tourism (both business and leisure).

¹⁰ Ibid.

¹¹ Vietnam National Administration of Tourism, <<http://vietnamtourism.gov.vn/english/index.php/cat/1501>>

¹² According to the General Agreement on Trade in Services (GATS) of the World Trade Organisation (WTO), services could be traded through four modes of

What Activities?	Constitute Services	Export
<p>One of the most challenging issues faced while talking with service exporters in Vietnam is that many of them do not identify as exporters. This is partly due to an assumption that “export” involves moving a product across a border. Investment lawyers, for example, whose entirely clientele are foreigners abroad may fail to see themselves as exporters because they do the legal work from Vietnam. The vast array of intermediate service providers that supply services to foreign firms in Vietnam is another example of a category of firms that often does not identify as “exporter.”</p>		

A survey was conducted some years ago in preparation of a strategy for promoting Vietnam's services exports with foreign companies and foreign trade associations based in Vietnam. 102 answers were received out of 250 questionnaires sent out.¹³ The survey results confirmed that Vietnamese service firms have been exporting a wide range of services via Mode 2 (consumption abroad) to foreign-owned firms in Vietnam. Most of foreign companies purchasing these services have been repeat purchasers. Other findings included the following:

supply:

(1) Mode 1 - Cross-border supply (*“from the territory of one Member into the territory of any other Member”*): Examples include reports e-mailed to clients abroad, architectural drawings created on extranets for clients abroad, or back office operations provided from Vietnam for customers abroad.

(2) Mode 2 - Consumption abroad (*“in the territory of one Member to the service consumer of any other Member”*): Examples include services for foreign tourists, foreign students studying in Vietnam, or services supplied by Vietnamese service firms to foreign-owned companies in Vietnam.

(3) Mode 3 - Commercial presence (*“by a service supplier of one Member, through commercial presence in any other Member”*): Examples include offices abroad of

Price: 73.5% of respondents rated the price of Vietnamese services as good or excellent.

Quality: Only 37.3% of respondents rated the quality of Vietnamese services as good or excellent. Most of the respondents felt joint-venture or foreign-owned companies operating in Vietnam were better service providers than the 100% Vietnamese-owned enterprises, particularly with regard to the quality of professional staff.

Timing: 61.8% of respondents rated the timing of service delivery as only fair or poor.

Availability: 71.6% of respondents rated the availability of Vietnamese services as only fair or poor.

Qualified service providers: 90.2% of respondents rated the availability of qualified service providers as only fair or poor.

Marketing: Vietnamese service providers need to improve their marketing skills, particularly in making themselves known to foreign-owned organizations in Vietnam. Most of the foreign companies surveyed complained that it was difficult for them to find qualified local service suppliers or even a reliable source of information about them.

Vietnamese service firms such as Vietnam Airlines.

(4) Mode 4 - Presence of natural persons (*“by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member”*): Examples include Vietnamese trainers or contractors or consultants who deliver services to their clients in-person through temporary business travel abroad, and also individuals who are employed in service positions temporarily abroad.

¹³ Pham Chi Lan & Dorothy I. Riddle, *Designing a National Services Export Strategy for the Vietnam Trade Promotion Agency*, 2005, available for download at <<http://www.vietrade.gov.vn/ket-quu-du-an/category/10-d.html?download=178%3Afinal-services-export-strategy-report>>

Main Challenges Faced by Vietnamese Services Exporters: A Snapshot of Two Industries

Tourism

The tourism sector in Vietnam has experienced rapid growth. Its contribution to the country's GDP was 9.3% in 2014, totalling about US\$9 billion in revenue.¹⁴

While foreign tourist arrivals steadily increased from 2010 to 2014, the growth has slowed down since. From January to July 2015, Vietnam welcomed about 4.5 million international tourists, a decline of 7.9% from 2014.¹⁵ The decrease of international visitors in Vietnam was attributed to the series of unfavourable global economic events, ranging from the

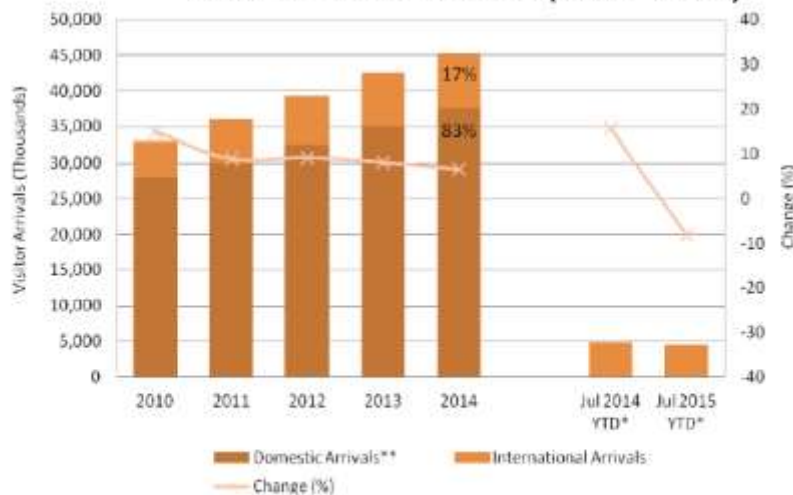
appreciation of the US dollar, plummeting crude oil price, and the weakening of the Euro and Japanese Yen. The increasing crime rate and tourist scams across the nation are also blamed for the slower growth.

Currently, 1,456 tour operators and travel agencies are licensed to deal with international travel and more than 10,000 others servicing the domestic tourism sector. Major tourism facilities include 16,000 accommodation establishments with 332,000 rooms, of which 388 are classified from 3 to 5 stars with 40,052 rooms available.¹⁶

Under GATS, Vietnam has no limitations for all the four modes of supply for the tourism and travel-related services sector. Given the country's high potential here, the sector attracts a significant volume of foreign direct investment. The latest statistics show that there are 625 foreign invested projects in tourism with total registered capital of US\$12.258 billion.

As part of the efforts to build an ASEAN Economic Community by 2015, Vietnam, together with the other 9 Member States of the Association for Southeast Asia Nations, signed in total eight (08) mutual recognition agreements (MRAs) to facilitate the movement of skilled labourers across borders, thus promoting

Visitor Arrivals in Vietnam (2010 – 2014)



* Does not include Domestic Arrivals
 ** Target domestic arrivals of VNAT

Source: Vietnam National Association of Tourism (VNAT)

¹⁴ World Travel and Tourism Council (WTTC), *Travel & Tourism Economic Impact 2015 Vietnam*, available for download at <http://www.wttc.org/-/media/files/reports/economic%20impact%20research/countries%202015/vietnam2015.pdf>

¹⁵ HVS, *In Focus: Vietnam – A Pristine Tale*, November 2015, available for download at <http://www.hvs.com/Jump/?f=3754.pdf&c=7559&rt=2>

¹⁶ High Impact Tourism Training (HITT) project, *Inception Analysis – Vietnam*, available for download at www.hitt-initiative.org

investment and trade activities in the region. Those included the Mutual Recognition Agreement on Tourism Professionals (MRA-TP), which enables skilled tourism workforce from other ASEAN nations to work in Vietnam and vice versa, essentially Mode-4 activities.¹⁷

Vietnamese tour operators and travel agencies, including those licensed to deal with international tourists – i.e. service exporters via Mode 2, are mostly small and very small in size. Despite the promising figures presented above, these SMEs are being faced with a multitude of challenges while doing business, for example outdated infrastructure, which creates problems for travellers reaching tourist destinations, especially mountainous areas, while tourism products are not unique. The other significant challenges include a large informal sector, shortage of professional human resources, and lack of (access to) capital in order to undertake tourism promotion.¹⁸

Logistics

Vietnam has a limited but growing role in the international trade of logistics services. In 2008, Vietnam exported US\$7 billion in transportation services (used here as a proxy for logistics services) and imported US\$8 billion in such services.¹⁹ These numbers represented 3 percent and 2 percent, respectively, of total Asian exports and imports of transportation services during that year, and less than 1 percent each of global exports and imports.²⁰ However, in 2008, Vietnamese exports in this sector increased by 25 percent over the previous year (compared to 15 percent for all Asian countries combined), while imports grew

by 22 percent (compared to 18 percent for Asia). Overall, between 2005 and 2008, Vietnamese transportation services exports grew at a robust average annual rate of 18 percent, while imports rose by 21 percent.²¹

Trade in freight transportation and logistics services is driven principally by merchandise trade. Hence the countries with which Vietnam conducts the most goods trade are the leading markets for Vietnamese exports and imports of transportation services (mainly air and maritime transport services).

The Vietnamese government has launched several initiatives to widen access to its logistics sector and enhance its participation in the global logistics market. Under the GATS, following its accession to the WTO in 2007, Vietnam made commitments in several areas related to logistics services, including courier services; express delivery services; and air, sea, road, and rail transportation services. As of 11 January 2014, foreign investors are permitted to provide almost all types of logistic services in the country subject to proper licensing. Those include sea, road, and rail freight services; customs clearance services; container station and depot services; maintenance and repair of aircraft; and storage and warehousing. This liberalisation, along with Vietnam's advantageous geographical location, its two-digit import/export growth rates, and the number of Free Trade Agreements (FTAs) signed, has attracted many foreign firms' participation into Vietnam's logistics sector. According to current statistics, twenty-five foreign logistics companies get 80 percent of the market share; while the remaining 20 percent sees fierce competition from more than 1,300 domestic logistics firms. Annual logistics

¹⁷ <<http://www.vir.com.vn/tourism-sector-faces-challenges-in-aec.html>>

¹⁸ <<http://english.vietnamnet.vn/fms/travel/120083/vietnam-s-tourism-industry-grows-despite-difficulties.html>>

¹⁹ UN, Statistics Division, United Nations Service Trade database, 2010

²⁰ WTO, "World Trade in Transportation Services by Region, 2008," and WTO, "Leading Exporters and Importers of Transportation Services, 2008

²¹ Ibid.

expenses in Vietnam, covering the costs of transport, storage, warehousing, customs procedures and other paperwork, account for approximately 21-25 percent of the country's GDP, or around US\$37-40 billion, out of this, about US\$30-35 billion is covered by foreign firms.²²

Several factors could be cited as challenges facing Vietnamese logistics companies. The first is obviously size. Figures from the Vietnam Logistics Business Association show that the average charter capital of logistics companies is about VND4-6 billion (US\$180,000-US\$270,000) in 2015; and this three or four times higher than in 2007. The number of small and medium-sized enterprises account for 72 percent, while the remainder are large enterprises with charter capital of more than VND20 billion (US\$890,000).²³ With such a modest amount of capital, it is very hard to build a standardized warehouse, which often costs around US\$1 million, or to develop trucking networks and to build large transport vessels. As a result, local businesses have often had to undertake simple jobs like loading/unloading and counting goods, or work as agents and subcontractors for foreign firms.

In addition, though Vietnam has seen fast-growing investment in seaports, airports, rail and road infrastructure in recent years, connectivity between these places is still limited due to existing weaknesses in the road networks and other storage facilities. One of the major difficulties for logistics enterprises is the poor connection between infrastructure and commodity centres. Most cities and provinces lack forwarding centres and dedicated supply services. The legal and institutional framework for logistics is also quite complex and in need of closer coordination between relevant agencies. Administrative procedures are slow

and there are overlaps between management agencies as well as legislations, which affect efficiency. This is not including costs emerging from under-the-table money, which causes expenses to rise and delivery to take longer.

What hinders Vietnam's logistics sector?

Mr. Le Phuoc Vu, chairman of Hoa Sen Group, a sheet metal manufacturer, complained that logistics services in Vietnam were very expensive, which affects Vietnamese products' competitiveness. Hoa Sen set up its factory in Phu My Industrial Zone (IZ) in Ba Ria – Vung Tau province, where there is an international port complex. However, very few container shipping firms which run on international routes dock at the port. As a result, Hoa Sen has had difficulties in carrying goods: its vehicles bring empty containers from HCM City to the factory in Phu My to receive goods for export and then return to Cat Lai Port in HCM City where goods are handled by ships. Vu said if goods can be shipped from Phu My Port, he would have to pay VND1.7 million only per 24 feet container. However, as he has to 'take a roundabout', he has to pay VND4.25 million per container.

A report from the Vietnam Maritime Bureau showed that the fleet carrying Vietnamese flag comprises thousands of ships, but it does not work effectively because of the high percentage of bulk cargo ships and low number of container ships. While Vietnamese container ships only run to South East Asian and Chinese markets, Vietnamese enterprises export products to further markets in the US and Europe. As a result, they have to use the services provided by foreign

²² <<http://english.vietnamnet.vn/fms/special-reports/151882/vietnam-logistics-sector-and-new-opportunities.html>>

²³ *Ibid.*

shipping firms, while their plans to expand the export markets heavily depend on foreign shipping firms' freight and schedules.

Source:

<http://english.vietnamnet.vn/fms/business/144523/75-percent-of-logistics-market-share-held-by-foreign-firms.html>

Some Solutions

The two industries chosen above are quite representative of Vietnam's still-modest-in-size-but-growing-nevertheless services export sector. As said, they also account for the largest parts of Vietnam's total commercial services export/import volumes. There are notably several similarities in terms of the challenges facing Vietnamese enterprises operating in these two industries, as well as other services trade sectors:

To begin with, most Vietnamese services firms are *small and very small* companies, newly founded, and *weak in competitiveness*, particularly in quality management. They are short of important resources for development: human resources (particularly highly skilled ones), capital, technology, management skills, marketing skills, foreign language skills, information and market intelligence.

Secondly, Vietnamese services firms are operating in an environment which contains a lot of *barriers* to business development. The legislative system in Vietnam in general still lacks transparency, accountability, consistency and predictability – which adds to the cost of doing business. The administration system is complicated, troublesome, and time-consuming. Infrastructure is not well developed, and infrastructure services are expensive and of low quality. Business support systems in Vietnam are inadequate and weak in their capacity to help SMEs. There is still discrimination against the private sector in many ways, and a level playing field is far from being reached. State-owned enterprises

(SOEs) are usually not as efficient and competitive, but they continue to hold monopoly positions in some important fields and receive privileges in resource allocation and trading rights, particularly in services.

Thirdly, Vietnam has commitments to liberalize trade in services in many bilateral, regional and international agreements but has still failed to introduce appropriate *policies and regulations* to develop the domestic market for services and enhance the competitiveness of local services firms.

Last but not least, it is important to recognize that *competition* in the world market for services is very tough today. Vietnamese services firms are facing more and more competition from very strong competitors, including in the home front, given Vietnam's commitments to liberalize under GATS. Given their weakness and low competitive capacity, Vietnamese services firms really need a conducive business environment, a supportive policy and regulatory system, and a strong trade development program to be formed as soon as possible to back their efforts to enhance competitiveness, challenge new competition, and seize new opportunities.

Several of these challenges could be resolved with the support of the Government of Vietnam (GOV) itself, for example facilitating SMEs' (include services exporters) access to capital, overhauling the legal and regulatory framework, developing infrastructure, adopting and implementing services export promotion programme, etc. It is thought by many that Vietnam's commitments under GATS, upon its accession to the WTO, were "WTO-plus" by themselves. This would result in a particular challenge for Vietnamese enterprises: the local small and very small services providers could be driven out of the market by foreign competitors. Fortunately, given the particular scope of the GATS, there is no possibility to infer from the existence of MFN exemptions or the inscription of market-access or national-

treatment any limitation on the adoption of export-related policy schemes. The GOV thus might consider providing, for example, for direct financial support, export guarantees or professional training intended to improve the export performance of services SMEs. Vietnam's Geneva mission, on the other hand, could check to ensure that these SMEs-promoting measures are not contravened by similar efforts abroad towards 'mutual disarmament', e.g. parallel reductions of SME-related entry barriers, termination of discriminatory subsidy schemes, procurement restrictions and the like.

The other crucial assistance that could be rendered by the Geneva mission would be information. This means information on potential trade problems/barriers maintained by other WTO to protect their services industries, that affect Vietnamese SMEs' supply/entry into other markets and their performance abroad, and that could be addressed within the framework of GATS. Finally, the mission might push for measures promoting the operation of the contact points for developing countries' service suppliers that are to be established under GATS Article IV:2 as well as the notification and, possibly, extension to third countries of recognition measures taken under Article VII.



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37-39, Rue de Vermont, 1202 Geneva, Switzerland
geneva@cuts.org • www.cuts-geneva.org
Ph: +41 (0) 22 734 60 80 | Fax: +41 (0) 22 734 39 14 | Skype: cuts.grc

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