



Ministry of
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Services Sector Development: A key to Viet Nam's Sustainable Growth

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SERVICES SECTOR DEVELOPMENT: A KEY TO VIET NAM'S SUSTAINABLE GROWTH

The authors and reviewers' views in the interim-report and in this summary paper do not necessarily reflect the views of the United Nations Development Programme or the Government of Viet Nam.

Foreword

This paper is a short version of a larger study entitled *Options and Recommendations for a Comprehensive Development Strategy for the Services Sector in Viet Nam up to 2020*,¹ conducted in 2004 in the framework of the project “Capacity Strengthening to Manage and Promote Trade in Services in Viet Nam in the Context of Integration” (or “Trade in Services” Project VIE/02/009), which is currently being funded by the United Nations Development Programme (UNDP) and implemented by the Department of Trade and Services of the Ministry of Planning and Investment (MPI).

The goal of the Trade in Services project is to assist the Government of Viet Nam to further integrate into the world economy with a focus on trade in services. The purpose of the project is to strengthen the capacity in Viet Nam to formulate, coordinate and implement policies in support of the development of service sectors in the country and to manage and promote trade in services in Viet Nam in the context of economic integration.

The project consists of 4 outcomes: 1st Outcome: Provide technical assistance to formulate a comprehensive strategy for the development of the services sector in Viet Nam; 2nd Outcome: Improvement of information flows on trade in services; 3rd Outcome: Assessments of the competitiveness of services sectors and impacts of trade liberalization on the country and people; and 4th Outcome: Enhancement of human resource development in trade in services.

The project has conducted the above mentioned study according to the specific objectives and implementation plan of its first outcome. This paper presents a summary of the interim-report of such study, which provides a detailed analysis of the competitiveness of Viet Nam’s services, followed by options for addressing weaknesses and leveraging strengths and opportunities, recommendations for a national service sector development strategy, implications for international services trade negotiations strategies, and suggestions for strengthening services statistics. The analyses and recommendations contained in the study are based in part on initial studies also undertaken by the project of the following sub-sectors: air transportation services, banking services, business and training services, financial services (insurance, securities, accounting and auditing), maritime transportation services, telecommunication services, and tourism.

The interim-report of the study, which is in actuality being used as primary analytical/technical input by the inter-ministerial Task Force in charge of defining the main orientations for the formulation of strategies and planning for service sectors development in the framework of the 2006-2010 5 Year Socio-Economic Development Plan,² was prepared by Prof. Dr. **Nguyen Xuan Thang** (Team Leader), Dr. **Nguyen Hong Son**, Dr. **Doan Hong Quang**, and **Bui Truong Giang**, MPP, from the Viet Nam’s Institute of World Economics and Politics; and Dr. **Dorothy I. Riddle**, from CMC Service-Growth Consultants Inc., Canada (International Consultant). Dr. **María Cristina Hernández**, Senior Technical Advisor to the project, provided substantive technical inputs and served as reviewer of the interim-report, having also put together and edited the present summary paper. Mr. **Ho Quang Minh** and Mr. **Nguyen Chi Dzong** have been the National Directors of the Project. Helpful comments came from a panel of peer reviewers that included Mr. **Cao Viet Sinh** (Vice Minister of MPI), Mrs. **Phan Chi Lan** (Adviser to the Prime Minister Research Commission), Mr. **Le Dang Doanh** and **Nguyen Quang Thai** (Advisers to the Minister of MPI), Mr. **Dinh Van Thanh** (Vice Director General of the Viet Nam

¹ Sources of data provided, and references used in the present paper can be consulted in the interim-report of the above-mentioned study, copy of which can be requested to the project office or to the Governance Cluster of UNDP Viet Nam.

² The inter-sectoral Task Force on services, which is headed by a Vice Minister of MPI and staffed with representatives from related ministries and agencies, was established on 26 August 2004 by Decision of the Minister of MPI No: 995/QD-BKH, in accordance with announcement No. 138/TB-VPCP, dated 20 July 2004. The Task Force is now working following Directive No. 49/2004/CT-TTg of December 24, 2004 on Service Development in the 2006-2010 Five Year Socio-Economic Development Plan, and with the technical support of the UNDP-funded Trade in Services project.

Institute for Trade), and Mr. **Nguyen Xuan Trinh** (Vice President of the Central Institute for Economic Management).

Thanks are also due to Mr. **Murray Gibbs**, former head of the UNDP Asian Trade Initiative (ATI) and of the UNCTAD Trade Negotiations and Commercial Diplomacy Branch, for his comments on the text; to Mrs. **Do Thi Nguyet Nga**, Programme Officer of the Governance Cluster of UNDP Viet Nam, for her support in the publication of this paper; as well as to various consultants from the Banking Institute, the Institute of Financial Science, the National Institute of Posts and Telematics Strategy, the Transport Development and Strategy Institute, the Institute for Tourism Development Research and the Viet Nam Chamber of Commerce and Industry, who assisted the Project in the preparation of initial papers on the current situation of selected services sub-sectors.



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Acronyms

AFAS	ASEAN Framework Agreement on Services
BCC	Business cooperative contract
CEE	Central European economies
CIF	Cost, insurance, freight
CPC	Central Product Classification
DC	Developing economy
DME	Developed market economy
DWT	Dead weight tons
FDI	Foreign direct investment
FOB	Free on board
GATS	General Agreement on Trade in Services
GDP	Gross domestic product
ICT	Information and communication technology
IFC	International Finance Corporation
IMF	International Monetary Fund
ISIC	International Standard Industry Classification
ITC	International Trade Centre UNCTAD/WTO
NPL	Non-performing loan
RPK	Revenue per passenger kilometre
SBV	State Bank of Viet Nam
SOE	State-owned enterprise
STCW	Standards of Training, Certification, and Watchkeeping
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WB	World Bank
WTO	World Trade Organization

Introduction

The almost twenty-year renovation process (Doi Moi) has resulted in significant socio-economic achievements. With annual growth rates of GDP per capita averaging 5.9 per cent during the *Doi Moi*, Viet Nam has had one of the highest growth rates in the world. The economic development of Viet Nam so far has accompanied the open-door policy. In 2002, the total value of foreign trade activities surpassed that of GDP, though it was only 63 per cent of GDP in 1990. However, much of this was low value-added activity.

The Vietnamese economy still faces quite a few challenges, despite its high GDP growth rate. In particular, the economic structure has slowly shifted, and the service sector is now relatively backward and not competitive. The service sector now accounts for less than 40 per cent of GDP, much lower than the average of 50 per cent in low income countries and 71 per cent in developed economies.

General assessments show that, even compared with neighbouring countries, the current competitiveness of the Vietnamese service sector is very poor. Meanwhile, the pressures from not only bilateral and regional commitments by Viet Nam but also bilateral and regional liberalization by and among other countries are increasingly intensified, not to mention Viet Nam's negotiation efforts for WTO accession. While these international developments have a direct impact on the service sector, they also generate indirect effects on the whole economy through the various inter-linkages between the service sector and all other economic activities. A vivid example is that the price and quality of such services as telecommunication and electricity play a significant role in the competitiveness of export-oriented industries as well as in FDI inducement.

There has existed no deep understanding of, or appropriate interest in, many issues of the service sector in Viet Nam. Although during the past few years some line ministries have set forth certain service sub-sector development strategies, in practice those strategies have failed to catch up with reality due to the rapidly changing context. The sector-specific development strategies have failed to take into account the bilateral and regional integration commitments as well as the ongoing WTO accession negotiations by Viet Nam, one of the reasons being the incoherence in the processes leading to the establishment of those strategies. Furthermore, there is no integrated inter-sectoral linkage among such various sub-sector strategies and no developmental orientation within the context of international economic integration.

A comprehensive development strategy for the service sector in Viet Nam is urgently needed, covering key

service sub-sectors and their liberalization commitments. Such a strategy would help policy-makers and business leaders to prepare the ground for facing the challenges of, and effectively drawing on, the potential opportunities created by new foreign competition and markets, while advancing the countries' national socio-economic development objectives and priorities.

Against this background, the present paper aims at sharing initial findings with regard to the general situation of the services sector in Viet Nam, as well as preliminary options and recommendations for a comprehensive development strategy for the services sector in the country, with the purpose of stimulating their debate among Government stakeholders and donors. Inputs gathered in the course of such debate, together with results of additional analytical research conducted by the UNDP-funded Trade in Services project during 2005, will serve as inputs towards completing the study referred to in the above foreword section, which in turn shall serve to assist the Government in the design of a national strategy to develop an efficient and internationally competitive services sector, considering Viet Nam's integration commitments in services. Such national strategy should establish clear goals for the sector up to the year 2020 and provide new guidelines to policy makers and business managers to further develop the services sector in accordance with both Viet Nam's economic and human development objectives and priorities.

Content of the Paper

This paper is structured in five chapters as follows:

Chapter 1 analyses briefly the main global issues in services development and liberalization of services; while Chapter 2 presents the current status of Viet Nam's services sector in two respects: current status of development (including an assessment of the competitiveness of this sector) and the legal and policy environment for services sector development in the country.

Chapter 3 proposes a preliminary framework of an overall goal, strategic growth goals, policy recommendations to achieve those goals, and priority sectors to develop. It also addresses the roles of government, the private sector, and international organizations. Regarding the latter, priorities for international funding have been suggested that could then be discussed with donor agencies.

Chapter 4 provides a preliminary roadmap for international integration, with proposals regarding

requests of trading partners for enhanced market access and offers that could be made without undermining Vietnamese services competitiveness. It also outlines objectives to be achieved through international integration and Viet Nam's rights as a developing economy in WTO accession.

Finally, Chapter 5 presents some core conclusions for the design of a comprehensive development strategy for the services sector in Viet Nam up to 2020.

Tables A1 to A12 referred to in the text are contained in a first annex (Annex A), followed by a final table in Annex B.

Chapter 1

Global Issues in the Development and Liberalization of the Services Sector

1.1. Services are facilitators of domestic growth and social wellbeing

1.1.1 *Economic development is linked to rapid service sector growth*

Service industries exist in all economies because they are the facilitators of economic activities and important contributors to quality of life for all citizens. Infrastructure services (utilities, construction, transportation, telecommunications, and financial services) support all types of enterprises. Education, health, and recreational services influence the quality of labour available to enterprises. Business and professional services provide specialized expertise to increase enterprise competitiveness. The quality of government services determines the relative efficiency of the business environment in which enterprises operate.

Studies over the past twenty years have documented the link between rapid economic growth and the development of key service industries, most notably telecommunications and business and professional services. Generally speaking, as an economy develops, certain service industries or sub-sectors become more critical and drive that development. Typically, utilities and construction are of initial importance in creating an economic base. Then transportation and communication services provide the economic infrastructure. Then financial and business services become more sophisticated and support ongoing growth and specialization. In parallel, there is usually a shift from low skill industries and consumer services (e.g., retail services) to high skill industries supported by intermediate services (e.g., business services). The availability of high quality service inputs contributes both to increasing the value-added of industrial goods and to generating higher skills jobs. As an economy develops, usually the majority of intermediate production is comprised of services sold to other service firms.¹

Service industries already contribute on average 68 percent of the global gross domestic product (GDP), with the percentage increasing as gross national income (GNI) per capita increases. Even in the least developed

economies, services average over 40 percent of GDP in the majority of economies. In actuality, it is not the absolute percentage of services in GDP in a developing or transition economy that makes the difference to economic development but rather the relative growth rates of the three sectors (i.e., extractive, manufacturing, services). Service industries continue to lead growth in economies at all levels of development, driven in part by the rapid changes in information technology and telecommunications that support service delivery. Between 1998 and 2003, global services production growth averaged 7.0 percent compared with average global GDP growth of 4.7 percent.

A common misconception is that having services grow at a lower rate than the economy as a whole is normal for countries at low levels of development and a lack of comparative advantage in services. In actuality, it is growth in services that most effectively fuels overall economic growth. For transition economies, all economies with double digit annual growth since 1998 also have had growth rates for services that were higher than GDP growth. Increasingly in goods production globally, a major portion of value-added (from 30% up to 70%) comes from services inputs. Services anchor and support the entire production process by providing “up-stream” inputs (such as research and development, feasibility studies, product design, staff training), “on-stream” inputs (such as accounting, legal services, process engineering, technical testing, computer services, equipment repair and maintenance, finance, telecommunications), and “down-stream” inputs (such as advertising, distribution, transportation, storage). Competitive industrial development is no longer possible without high quality service inputs. This means that, as markets integrate, the quality and availability of service inputs becomes even more important to competitiveness.

1.1.2 *Service enterprises create jobs*

In keeping with the growth in services output, service firms have been the primary creators of new jobs, accounting for over 90 percent of new jobs globally since the mid-1990s. Of particular importance to developing and transition economies, service firms

³ WTO's *World Trade Report 2004* underscores telecommunications, finance, business services, and transport services as the key infrastructure services in trade and economic development. As economies initially develop, typically these infrastructure services each develop to between 7 to 10 percent of GDP. As the economy continues growing, financial and business services grow to form 15 to 30 percent of GDP.

create the kinds of jobs that are well-suited for skilled university graduates (thus stemming “brain drain” from less developed markets) as well as for a range of school-leavers who often find it hard to obtain work, including women. In an increased number of these economies, the employment created in services has exceeded that created in industry.

1.1.3 Services are vital to poverty alleviation and sustainable development

Quality of life services (such as education and health), supported by electricity, are critical for improving the life of the very poor. In addition, since many service enterprises can be started with very little capital (in contrast to manufacturing), service industries provide opportunities for persons with minimal resources, particularly women, to become self-employed and economically productive. The vast majority of service enterprises in any economy are very small or micro-enterprises. Environmentally speaking, many services are “clean” industries and so assist with avoiding pollution-related illnesses and environmental degradation.

Another potential benefit from focusing on service sector growth is the potential to spread economic development benefits throughout the economy. Competitive service enterprises can be developed in even the smallest of communities, as long as there is adequate telecommunications infrastructure. The dispersion of service enterprises (and the related employment opportunities) in rural communities can help to stem urban migration and keep smaller communities intact.

1.2 Services and international integration

1.2.1 Service exports are increasing as a percentage of world trade

When the General Agreement on Trade in Services (GATS) came into force in 1995, world trade in services was just over US\$1.2 trillion. By 2003, world trade in services had grown to over US\$1.8 trillion, or 20.0 percent of world trade. The fastest growing component of international trade continues to be “other services” – i.e., business services (accountancy, engineering, consultancy, computer services, R&D, etc.), communication services, construction services, education and health services, finance, and recreational/cultural/sporting services. Service sector development now takes place in a highly globalized environment.

1.2.2 FDI in services is also increasing

The role of foreign direct investment in services is different from in manufacturing, with less job creation and less value added. Cross-border mergers and acquisitions are the speediest and most practical

means of entry. In business services in particular, non-equity forms of investment are common – e.g., franchising, management contracts, concessions, partnerships, turnkey, build-operate-transfer, and build-transfer-operate. Growth in services FDI is fuelled increasingly by competitive pressures in the home market that lead TNCs to seek new markets and exploit their competitive advantage. What attracts service TNCs are access to a good information and communications infrastructure, well-developed industry institutions, and skilled workers at a competitive cost. Another growth trend is “offshoring” or separating out certain service functions to contract out abroad. The growth in inward FDI in business services to developing economies from 7 percent of the total in 1990 to 38 percent of the total in 2002 is a reflection of this “offshoring” trend.

The above mentioned trends make that service transnational corporations comprise 52 percent of the top 100 corporations in the world based on gross revenues for 2003. They outperform goods producers consistently in revenues, profits, assets, and equity per employee. All 52 of the top services transnationals had revenues in 2003 that were greater than the 2003 GDP of Viet Nam. This means that, in the context of their integration to the international economy, Vietnamese service enterprises will be competing with some very large service transnationals. Of the Top 100 service transnationals, over one-half are based in the Asia Pacific, with one being a utilities company in China. Since 1996, the U.S. has almost doubled its number of top service firms, while Japan has slipped from its dominant position in the Asia Pacific region. In 1996, 8 of the top 10 service corporations were Japanese, compared with only one in 2003. During the past seven years, the industry composition of the Top 100 service corporations has also changed. The dominance of financial services has decreased, while computer services (Microsoft), entertainment, health services, and retailing have moved up in prominence.

1.2.3 Liberalizing market access in services can bring negative effects

When the GATS was initially being negotiated, there was concern that the overall impact of liberalizing access to services markets would be to increase the share of developed market economies (DMEs) in services trade at the expense of developing countries. Unfortunately, the trends since the GATS went into effect in 1995 support those concerns. Data available show a steady increase in services as a percent of total exports for developed economies, especially the high-growth “other services,” while developing and transition economies show a decrease. Average annual growth rates for services exports increased after 1999, when the GATS had been in force for several years already. For developing and transition economies, double digit growth was restricted to goods trade and

related transport services. For developed economies, the growth rate for “other services” was almost double that of total exports during the period 1999-2003.

With regard to imports, developing and transition economies in general are importing high value-added “other services,” while developed economies are importing lower value-added goods and related transport services. In general, import growth is the highest for “other services,” though that import growth is lower than the average export growth rate. These data support the general contention that the impact on developing and transition economies of services trade liberalization (whether desired or not) will be an increase in imports, especially via foreign direct investment.

The environment for service sector development has changed over the past five years with the increase in bilateral and multilateral trade agreements that include liberalizing market access in services and the acceleration in information and communication technologies that make the cross-border delivery of services a feasible alternative. It is no longer possible to focus simply on a domestic service sector. One must consider the domestic service sector in the context of international integration and ensure that global competitiveness benchmarks are considered. In order for an economy to grow and thrive, its services need to be competitive enough that its industries are not overtaken by imports.

Economies (like Viet Nam) that are acceding to the WTO in the past few years are being pressured to make very liberal market access commitments under the GATS. There are only a few economies that joined in 2000, giving enough time to assess the impact of that liberalization move.⁴

1.2.4 Continued services sector growth is expected

The World Trade Organization predicts that services trade will equal approximately half of world trade by 2020. Already, if one adjusts the balance of payment statistics to reflect the under-capture of “other services” and of foreign affiliate services trade, services constitute approximately 36 percent of world trade. As a result of the liberalization of market access for services, projections are that services will continue to increase as a percentage of GDP at all levels of development.

1.3 Misconceptions about services and challenges for developing countries

1.3.1 Services are key to agricultural and industrial development

A common misconception is that, when a developing or transition economy has scarce resources, the development priority should be industry rather than services. This misconception is typically based on the assumption that “services” are primarily consumer or final demand services and so are optional purchases. In fact, at least half of the services produced in an economy are “intermediate” services, or services sold to other enterprises. If one is to have competitive agricultural or manufacturing sectors, one needs a wide range of high quality inputs – e.g., transportation, storage, telecommunications, engineering, design, market research, packaging, and so forth. Service inputs become particularly important if one wants to increase the value-added in industrial production and the competitiveness of export-oriented industries. In addition, service inputs such as staff training increase the efficiency with which scarce resources are used.

One of the most difficult challenges is the employment restructuring required to move from an agricultural base to a services based economy. Education and training in “soft” skills are essential in this process. But equally important is the value and status accorded to various types of jobs. In order to interest persons in (re)training for service jobs, these need to be positioned as important to communities and the whole economy.

1.3.2 Policy makers assume little service export activity

A common misconception is that developing and transition economies do not have comparative advantage in services and export very little in the way of services. In fact, developing and transition economies are active exporters of services. Research by the International Trade Centre UNCTAD/WTO has found that developing and transition economies are already exporting on average 68 different types of services to an average of 33 different export markets. Approximately two-thirds of this trade is with other developing and transition economies. Another common misconception is that a negative balance of trade in services is normal for developing countries. In actuality, there are developed market economies with negative balances for trade in services and developing and transition economies with positive trade balances. The direction of an economy’s services trade balance is related to the economy’s economic policies rather than to level of development.⁵

⁴ Available data shows that for countries such as Albania and Jordan their services trade balances have worsened since accession to the WTO.

⁵ If, for example, an economy has no national shipping fleet, the transportation account is likely to be in deficit. If an economy has developed a strong intermediate services sector, its other services account is likely to be in surplus. Some examples (India, Bulgaria, Latvia, Lithuania, Romania) show that developing and transition economies can have a positive balance of trade in services, while some developed market economies (Australia, Japan) have negative balances.

1.3.3 Policy makers assume FDI is the primary benefit of liberalization

An additional misconception is that developing and transition economies benefit from services trade liberalization primarily through attracting increased foreign investment and exporting labour, not through making their own domestic service sector more competitive. It is important to remember that any foreign investors will be competing with existing national service suppliers and potentially undermining their ability to compete in regional and global markets due to a small domestic base. Foreign investors can bring much-needed capital and expertise, and liberalizing the terms for market access can make an economy more attractive to foreign investors. However, the attractiveness of the market is also influenced by the competitiveness of local telecommunications infrastructure and the quality of business services available. Costs of production go down if high quality intermediate services are available locally; otherwise, the foreign investor has to invest also in their own services supports. So, if the terms of market access are equal in competing economies, economies that target national service sector development are more likely to benefit from foreign investment.

There are a number of potential costs to a developing or transition economy of services FDI. Given the dominant role played by large foreign service corporations, there is the potential for monopolistic practices with accompanying rise in prices, control of cultural activities to the detriment of national culture, crowding out of local suppliers, and employing local workers only in low-paying, lower skilled jobs. There is also the potential for negative impact on balance of payment due to the use of foreign suppliers (service imports) and profit repatriation. Perhaps more worrisome is the potential negative impact on the poor. Unless care is taken, the gap in access to, and affordability of, essential services can widen and, due to foreign service suppliers servicing the more affluent portion of the population, a divergence of funds commonly used by government to subsidize access for the poor. As banking is a sector that tends to be dominated by foreign banks in developing and transition economies, there is also the issue of control of services of strategic importance.

In order to benefit from services FDI, the most important prerequisite is a strong regulatory framework to ensure positive multiplier effects in the domestic economy. It is also important that developing and transition

economies take advantage of their rights under the GATS to impose performance criteria on foreign investors. Some examples include requirements for transfer of technology (hard and soft); hiring, training and promoting local staff; the use of local suppliers; and healthy work conditions. Another option is to require export activity to offset any negative balance of payments effects. It is also important to have some mechanism to ensure that either large private companies or government are supplying essential services under conditions of universal access. One option is to require payment into a universal services fund.

1.4 Overcoming factors hampering service sector development

1.4.1 In-house production undermines service sector development

The process of “externalization” (i.e., purchasing business support services from external providers) is another important component in developing a competitive economy. In small or informal enterprises, service inputs are typically self-produced.⁶ Because services play such a key role as competitive inputs, competitive private sector enterprises are alert to the quality of services they receive. If competitive quality services are not readily available, self-production (in-house production) may continue even after an enterprise is large and sophisticated. Alternately, enterprises may choose to import services from foreign providers. The developmental impact of in-house production or importation is to reduce market opportunities for domestic service providers and make it even more difficult for good quality services to develop. A secondary impact is that there is not enough market demand to support specialization in services provision.

It should be noted that this developmental “externalization” process can become distorted due to in-house production by state-owned enterprises and/or government or donor programme subsidies. In economies like Viet Nam, state-owned enterprises often produce business support services in-house or purchase them from other state-owned enterprises thus removing from government the potential to stimulate the development of business support services through contracting out to private enterprises. Subsidies introduce distortion by creating artificial competition in the form of “free” or low-cost business support services provided by development-funded projects, offered at a rate that is well below the breakeven rate of private enterprises.

⁶ For example, the owner or a relative does the bookkeeping, transports goods, or makes guesses about market trends. As an economy matures and competition increases, enterprises begin to contract out (externalize) services that are not their main line of business – e.g., they purchase accounting services, transportation services, and market research services. Where needed business services are not available, SMEs must either increase overheads by hiring new staff (who are likely to be generalists, not specialists) to provide the service or do without it.

1.4.2 *Low domestic demand for services increases the need for export markets*

One of the primary challenges in stimulating the growth of competitive services is the initial lack of demand for quality services in the domestic market. If consumers are not familiar with international quality service and the benefits to be gained from that quality, they will usually be unable to differentiate high quality from low quality and be unwilling to pay for high quality. Without internationally competitive services available as inputs, exporters in the economy will make one of three choices: (a) self-produce the services, and thereby using scarce resources to supply a function that is not their core competence; (b) purchase a lower quality service input locally, thereby jeopardizing the competitiveness of their export products; or (c) import the service input, thereby having a negative impact on the national balance of payments.

Given capital and skilled human resource scarcities in many developing economies, some may question whether stimulating services growth is at all feasible. If one considers only the domestic economy, the prospect does look bleak. The solution lies in export markets where foreigners are familiar with international quality benchmarks and will pay for high quality services. Fortunately, many services do not require high fixed asset investment in order to get started. It is quite feasible for these service firms to start as small niche players supplying services to foreign firms in their own national markets (exporting via Mode 2)⁷ and to surrounding regional markets.

A related misconception is that, if domestic demand for services is low, the focus on developing the service sector will fail. It is true that it is easier to develop intermediate services when there is a large domestic demand. In the context of international integration, though, service firms have access to export markets. One of the best strategies for developing competitive intermediate services that can be used as inputs for industrial production is to do so through exporting those services. By having to compete in regional and global markets, service suppliers become familiar with international quality standards and the quality of services available in the domestic market improves. Since intermediate services form the key value added inputs for industrial production, a low growth rate in intermediate services is likely to result in low value added production and a relative lack of export competitiveness.

1.4.3 *Inappropriate policies create distortions for services development*

Service industries develop with or without government policy support. The nature and objectives of policy support depend on the political understanding of the importance of services. When services are viewed as “non-productive,” disincentives such as higher taxes are likely to develop. Government may also distort development by reserving a wide range of services to government monopolies or state-owned enterprises, mandating purchase from state-owned enterprises, or providing incentives for foreign service investors that disadvantage indigenous service suppliers. From a trade liberalization perspective, it is unfortunately still common for many developing country governments to be unaware of the competitive service enterprises already exporting and thus to assume that service sector development will need to be driven by foreign investors.

1.5 **Tackling policy and institutional challenges: some lessons for Viet Nam**

1.5.1 *Coherent domestic regulation is key to competitiveness*

A final misconception is that “services trade liberalization” is equivalent to deregulation of services. In reality, it is not possible to discharge government’s primary responsibility for consumer protection unless there is a transparent and appropriate regulatory framework in place. The recent WTO *World Trade Report 2004* specifically explores the linkages between the domestic policy environment and international trade. Indeed, in many developing and transition economies the issue is to strengthen the domestic regulatory environment in support of competition. Regulatory review and reform need to address, at a minimum, competition policy, licensing of professionals, a level playing field for service and goods suppliers with regard to tax rates and tax incentives, and the ability to monitor and enforce regulations once they are enacted.

1.5.2 *Competitiveness requires specific developmental strategies*

As an economy like Viet Nam moves away from protected service industries and mandated purchases towards an open economy, there are five factors that need to be considered. First, the core production and quality control functions in a services enterprises are a human resource function. Staff persons are the ones that create the service, often in interaction with the consumer. This mean that ongoing staff training, both

⁷ According to WTO/GATS, trade in services occurs through four modes of supply: Mode 1 – cross-border, where the service moves across the border; Mode 2 – consumption abroad, where the consumer moves across the border; Mode 3 – commercial presence, where the service supplier sets up an office abroad; and Mode 4 – presence of natural persons, where the service supplier moves temporarily across the border.

in technical skills and in customer relations, is critical to competitiveness.⁸

Second, while quality assurance in services is critical to their competitiveness, that quality assurance is challenging to achieve. Most services cannot be inspected before purchase – either by the consumer or by the supervisor – as they are not produced until after the sales agreement has been reached. Therefore, the way that excellence is assured (e.g., in ISO 9001:2000) is through control of the process of production rather than through inspection of the end product. Successful service firms have careful documentation of what staff are expected to do and what their latitude is for decision-making when interacting with a consumer. The other method of quality control is through the licensing or accreditation of service suppliers, especially the requirement for ongoing continuing professional education.

Third, because the marketing a service essentially involved selling a promise to deliver in the future, competitiveness of Vietnamese services depends in part on the profile of Viet Nam as a supplier of services. Potential consumers manage the risk of purchase from a new service supplier by asking for referrals or by gathering information on previous successes or failures. This means that different trade promotion mechanisms become important – e.g., government publicity about creative and successful services, friendship agreements between Vietnamese service industry associations and their sister associations abroad, partnering with well-known foreign services suppliers, etc. One of the development challenges will be to identify a lead sector – as India has done with IT services – in which to build and promote excellence.

Fourth, Vietnamese service enterprises will maintain or increase market share only if they are able to continuously innovate. This is because it is usually not possible to protect a new service through copyright or patent (as one can with a manufactured product); instead, one protects market share through continuing to meet and exceed consumers' expectations. Focusing on innovation means a shift away from standardized services to specialty and customized services, which in turn require that staff have the knowledge and authority to meet consumer needs.

1.5.3 Economic planning needs to be balanced with market forces

A research study on the Russian economy underscores common themes within transition economies, particularly the legacy of central planning and subsidies with high protection for services which has mitigated against becoming competitive in the supply of services.⁹ One of the development challenges is that opening the economy to private sector, especially foreign investor, participation means a reduction in the resources accruing to the public sector and available for the national budget. Care must be taken to ensure that government has adequate funds to underwrite universal access to basic services such as electricity, health, education, and telecommunications. The historic emphasis on large state-owned enterprises, with internal services production, has suppressed the development particularly of competitive business services and service industry associations that can assist enterprises increase their competitiveness.

The challenge in a transition economy like Viet Nam is to balance central economic planning with the positive benefits of market forces. In the context of international integration, the government needs to retain enough control to make sure that social goals (such as poverty alleviation) are met while also putting in place the regulatory framework to ensure consumer protection as the market opens.

1.5.4 The wide range of services requires coordinated planning

Often the structure of the domestic economy is influenced by the agenda of donor agencies rather than by government's development planning. For example, training programs may focus on the skills needed for handicrafts or light manufacturing rather than on the skills needed for service industry workers and entrepreneurs. Export promotion initiatives may focus on goods exports, ignoring the strategies needed to support services export growth. In order to manage the direction and pace of service sector development, it is critical for government to have a national strategy to which donor funds can be matched. A core element of a national strategy for services is the coordination of initiatives among government ministries and quasi-governmental organizations responsible for different services and services trade issues. Table A1 (in annex) illustrates the magnitude of the coordination problem.

⁸ Research has shown that the most critical skills for service enterprises are the “soft” skills such as interpersonal communications, needs assessment, negotiations skills, problem solving skills, team relations skills, and the ability to design and customize services. Successful service enterprises are those that invest the equivalent of at least five percent of wages into training for staff at all levels in the enterprise, especially those in direct contact with consumers. Success also depends on ensuring that staff are aware of, and know how to achieve, international benchmarks for their service industry. One of the transition challenges will be how best to expose staff to international quality service so that they are aware of any gaps between the level of service they provide and what the expectations are in global markets.

⁹ Within the Russian economy, the spatial development of business services in particular, and intermediate services in general, has been different from that of Western economies. Given a history of strong centralization and a socialist planned economy, business and financial services have remained concentrated in Moscow to a much greater extent than in Western economies. Though theoretically professional business services could be located anywhere throughout the country, in practice they tend to locate near the locus of political power. This poses challenges for distributing the benefits of service sector development throughout the country.

Chapter 2

Current Status of Services in Viet Nam

2.1 Services Sector Development Status

2.1.1 *Services are growing more slowly than GDP*

Since Viet Nam 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 5.9 percent. In addition, the open-door policy has led to a sharp increase in foreign trade; however, that trade continues to be primarily low value-added. However, per capita GDP was still the lowest in APEC in 2003 at US\$480 per person. Having made bilateral and regional commitments to liberalize market access for services trade, it is critical that attention be given to ensuring that Viet Nam is able to remain competitive in services.

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 on, 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. Indeed, an analysis of Viet Nam's GDP between 1995 and 2003 shows that although Viet Nam's service sector has expanded since 1996, its share of economic activity has actually declined due to the very rapid growth of mining and manufacturing activities. The Communist Party Congress' Development Plan targets for 1996-2000 of growth in services of 12-13% were not met, nor was the target met to expand the services share of GDP to 45-46% by the year 2000 as the share dropped to 41.4 percent. The reason for not meeting set targets may have been the lack of a national strategy to target key intermediate services for growth.

A breakdown of the growth rates by sub-sector shows that, in all cases, the growth between 2000 and 2003 has been lower than in a previous period. Of importance to overall economic development, financial services, education and training, and science and technology services have maintained healthy growth rates. However, business services (professional and business support services) and communications – both foundational intermediate services – have grown on average at a disappointing rate.

2.1.2 *Service enterprises are contributing to job creation*

Growth in employment has been significantly slower than growth in GDP or new enterprise formation.

Financial services has posted the strongest employment growth, followed by transport/storage/communications. Agriculture, forestry, and fishing continue to employ two-thirds of the labour force. In order to support a competitive service sector, there will need to be a shift in employment out of agriculture and into services.

The annual average for new job creation between 2000 and 2002 was 61 percent higher than in the five years prior to 2000, with service sector jobs increasing on average 150 percent. The highest average annual increase was in manufacturing jobs, which is not surprising given that growth in manufacturing was targeted by government. For services, the greatest increase was in business services, followed by increases in transportation/communication, wholesale and retail trade, and education and training.

Though there was a drop in 2002, GDP per worker continued to be highest in business and real estate services, followed by financial services and science and technology. While productivity in manufacturing was higher than the average for services, it was less than one-quarter the productivity in business and real estate services and approximately one-third that of financial services. Increasing the quality and availability of intermediate services should contribute to increasing productivity in manufacturing. Although Viet Nam's telecommunications and Internet industry annual growth rate has been extremely high, the universal level of service remains low, with only 16.7 percent of the revenue per staff and 24.6 percent of the revenue per line compared with the regional average.

2.1.3 *Services trade deficit is growing, due mainly to transport services*

With regard to international trade, Viet Nam has shown growth in services exports; however, that growth has not kept pace with growth in goods trade. By 2003, Viet Nam's percent of exports from services was 13.4 percent, below the global average of 20.0 percent and even the average for developing and transitional economies of 14.7 percent. Unfortunately, the disaggregation of "other services" covers less than one-quarter of the exports, with the bulk of those services being unidentified. Imports of services have grown overall at a significantly higher rate than that of service exports, particularly the import of telecommunication services. Unless the competitiveness of Viet Nam's own services increases, the services trade deficit produced by high import rates will continue to grow.

Viet Nam's deficit in service trade has steadily increased, due primarily to the growing deficit in transportation services. Viet Nam's shipping fleet has aged considerably and a growing portion of goods exports are now being carried on foreign vessels. There has also been a modest deficit in financial services, but that gap has been closing. With appropriate targeting, Viet Nam has the potential to offset transportation imports with more rapid growth in the export of "other services."

One of the common misconceptions is that Viet Nam is not an active service exporter. In fact, many private sector service enterprises have had to export in order to survive since the domestic market is still dominated by state-owned enterprises. Of the 155 types of services listed by WTO, Viet Nam is already exporting at least 69 types (see Table A2). Table A3 provides an initial listing of the top 25 export markets for Viet Nam's service exports.

2.1.4 Services comprise over half the enterprises and are mainly small

Over half of Viet Nam's enterprises are already in service industries, with the highest percentage being in wholesale and retail commerce. The highest increase in enterprises since 2000 has been in health-related services and in business services. The vast majority of very small and small enterprises are in service industries, with wholesale and retail trade having three-quarters of the enterprises with fewer than five employees. By contrast, manufacturing and construction enterprises dominate in size categories of 50 employees or more. Over 65 percent of service enterprises have fewer than 10 employees. Those sub-sectors showing a particular concentration of micro- and very small enterprises are wholesale and retail trade, education and training, business services, and hotels and restaurants. Utilities, manufacturing, and mining and quarrying each have above average number of enterprises with 200 or more employees.

There are an above average number of service enterprises in the low capital categories, with manufacturing enterprises above average in the 10 billion dong and over category¹⁰. Over 53 percent of service enterprises had less than 1 billion dong in capital at the end of 2002. Over half of the education and training institutions had less than 0.5 billion dong in capital. Again manufacturing and utilities, as well as recreational/cultural/sports enterprises were most likely to have at least 10 billion dong in capital. Given the importance of finance for economic growth, it is troubling that almost two-thirds of the financial institutions only had between 1.0 and 4.9 billion dong in capital.

As is common in all economies, the most capital intensive Vietnamese enterprises are in utilities, followed by financial services. Service enterprises average approximately the same amount of capital as manufacturing enterprises. Capital investments have been particularly notable in science and technology. While utilities and science and technology show a high volume of investment per enterprise, they both also show negative growth. Overall, there has been a drop in investment per enterprise between 2000 and 2002, with the exception of wholesale and retail trade, construction, and a slight growth in average manufacturing investment. Utilities is the main sub-sector with substantial fixed assets, followed by financial services and mining and quarrying. Overall, fixed assets per enterprise have decreased. On a per enterprise basis, utilities generate the highest net turnover, followed by mining and financial services. Though overall there has not been growth in net turnover since 2000, there has been substantial per enterprise growth in recreation/culture/sports and science and technology.

2.1.5 Private ownership has increased, but SOEs are major employers

Ownership structure has been changing, driven first by government's willingness to increase foreign investment and then by an increase in the production from privately owned enterprises. Over half of GDP is now produced by domestic private sector enterprises, primarily households. Within the service sector, education and health enterprises are most likely to be state-owned, while business services and individual/community services are least likely to be state-owned. Because of the low participation of state-owned enterprises in business services, it is probable that government would have a low awareness of trade in services activities in this cluster of services.

Regarding the number of enterprises in the economy as a whole, less than 10 percent of all enterprises were state-owned by 2002. This surge in private ownership marks a significant shift since the beginning of *Doi Moi*. Despite the overall shift to private ownership, the ownership pattern continues to vary by sub-sector. Government is most likely to have an ownership position in hotels, and least likely to own banks outright. Foreign ownership or joint ventures involving foreign capital are most common in insurance and banking.

The average number of employees per enterprise has decreased in the smaller firms, and the ownership category with the largest number of enterprises ("private") has the lowest average number of employees though the second highest average annual growth rate. While state-owned enterprises account for only 8.5

¹⁰ At December 31, 2002, US\$1 = VND15,995.

percent of all enterprises, they are still on average the largest employees followed by foreign-owned enterprises. By contrast, there has been little change since 2000 in average net turnover overall in the economy; however, once again the ownership categories with the largest number of enterprises have the lowest average net turnover. Joint ventures posted the largest average net turnovers, followed by state-owned enterprises. Enterprises with state capital showed the highest average annual growth in average net turnover.

While joint venture enterprises posted the highest average annual capital per enterprise, that amount decreased from 2000 as did the average annual capital in 100% foreign owned enterprises. This is a disturbing trend in that a primary reason for opening the economy to foreign ownership is to attract foreign capital. The only enterprises showing an increase in average annual capital were ones with state capital. Again, the large number of private enterprises showed the lowest average annual capital per enterprise. The same trends were apparent with regard to average fixed assets.

2.1.6 Foreign direct investment in services remains relatively low

The percent of foreign direct investment in services remains at only half the estimate of UNCTAD (2004) that over 60 percent of all investment flows are in service industries. For Viet Nam, the primary focus of foreign direct investment has been in utilities and construction, which is quite appropriate for Viet Nam's level of development. Substantially more investment is needed in telecommunications, financial services, and education and training if rapid economic growth is to be supported. In non-financial services, France and regional economies contribute most of the foreign direct investment. In financial services, the prime investor is the U.S., followed by France. Joint ventures include Australia and Canada, among others.

2.1.7 There are many inter-linkages among service sectors

One of the challenges in designing a national service sector development strategy is that services serve as inputs to all other economic activities and so there are numerous inter-linkages. For example, the banking sector needs an efficient IT services network that provides easy Internet access. Information and communication technology make a critical contribution to all other economic activities. Viet Nam's current low rankings on the Information Society Index (last out of 53 ranked countries) and its ranking as 97th out of 173

economies with regard to e-government initiatives signals the need to accelerate its already rapid growth in IT development. Table A4 below illustrates the types of inter-linkages that exist among the services covered in this study.

Indeed, Viet Nam's key service sectors (telecommunications, business services, banking and financial services, education and training, air transportation, maritime transportation, and tourism) are closely interlinked with each other but are in the initial state of development. They have some competitive strengths, but these are still outweighed by weaknesses.

2.2 Legal Environment Status

2.2.1 The legal framework for services is evolving rapidly and is still incomplete

The legal environment for the services sector has developed much later than that for the good sectors. This is largely due to the "old" perception about the role of the services sector in the economy. In the past, services were only considered to have a supporting role in the economy and many activities were viewed as making no contribution to the "material production" of the economy. During the reform years, the legal framework for the services sector has developed very rapidly. Many important legal documents, especially those regulating the individual services industries or related to economic integration, were just promulgated in the last few years or are being revised. In large part, the foundation has been built on sectoral laws or ordinances. There are construction laws, accounting laws, civil aviation laws, SBV laws, and the Maritime Code, to name a few. There are also government decrees for the implementation of these laws. The government or ministries can also issue Decisions to set out the strategy for a given sector. Table A5 provides an overview of some of the laws, ordinances, and decisions that control economic activity in the services sector, organized by WTO's classification of traded services.¹¹

The legal environment is far from sufficient for smooth functioning of the service sector. Many existing laws and ordinances are incomplete, not only in terms of coverage but also in terms of lacking documents required for implementation. Many implementing decrees are still to be issued by the government for the newly promulgated laws effectively come into force. There is the further issue that, due to different definitions and classifications, the coverage of some specific issues may be fragmented and addressed in various legal documents.

¹¹ Additional laws under development include the Common Investment Law, the Unified Enterprise Law, and the Omnibus Bill. There is a need to review all of these legal instruments to ensure that there is no overlap or contradiction and also to determine what coverage is missing.

2.2.2 *Regulatory frameworks are still not fully and consistently developed*

Attention to service sector regulation has developed largely in response to the requirements of international treaties on services trade, such as the Viet Nam-US Bilateral Trade Agreement and the ASEAN Framework Agreement on Services. There has not been a holistic framework for coverage of service sector regulations covering the issues commonly addressed in more developed service economies. In the context of international integration, it is important to recognize that the primary trade-distorting mechanisms for services are typically embedded in domestic regulations (or the lack thereof). At the same time, governments retain the right to regulate in accordance with national policy objectives, without any *a priori* requirement to enact specific legislation. One of the most fundamental issues is to clarify the objectives of domestic regulation, which usually include the following: create a transparent, efficient business environment in which transaction costs are reduced; protect consumer interests by ensuring the competence and guaranteeing the performance of service suppliers; ensure universal access to basic levels of certain services (e.g., electricity, potable water, telecommunications, education, health); collect revenue to offset administrative functions of government; implement national policy objectives.

Licenses and certification are already required for supplying some strategic services or business development services. For supplying some professional services, such as accounting and auditing or legal services, professional certificates are required by law. However, some of the necessary legal documents have not yet been promulgated, creating confusion and ambiguity on the conditions and criteria for the provision of these services. Procedures for the award of licenses for major service operators remain ill-defined and non-transparent. Regulatory objectives are not necessarily met in the same manner across all types of services. How this is done depends in part on the consequences of non-performance. By contrast, the incompetence of a surgeon or an airline pilot can have fatal consequences. Table A6 provides a summary of the types of regulations needed, with examples of how each type of regulatory role is commonly executed in other economies.

One of the regulatory issues is the rate of taxation for service enterprises. There is no longer systematic discrimination between services and goods in Viet Nam. Except for some special cases, all enterprises in Viet Nam have to pay VAT and corporate income tax. From January 2004, the tax rate for corporate income tax is 28 percent, applicable to all types of enterprises. The VAT rates, however, range from 0-20 percent, with rates varying within this range for various service industries. The majority of firms are subject to a 10 percent VAT

(e.g., post, telecom services, legal consulting services, construction, transport services). The rate for teaching and scientific and technical services is only 5 percent. But tourism services, as well as maritime brokerage and shipping agent services, are subject to the highest rate of 20 percent. The rationale for the different rates is unclear. Another regulatory issue is transparent specification of incentives for which specific service suppliers qualify, either by virtue of service industry or by virtue of size of operation. Typical incentives include research and development credits, training tax credits or subsidies, and government loan guarantees.

2.2.3 *The policy environment is complex and may be contradictory*

The policy environment for services in Viet Nam has been characterized by a fairly complex system of laws, ordinances, and by-law documents being issued by line ministries, agencies and provincial governments. As a result, there is a lack of transparency, and it is not uncommon that provisions are conflicting with each other. The Vietnamese public itself has difficulty gaining access to these documents; the task is even more difficult for foreign companies. Indeed, foreign companies are often informed about changes in licensing and procurement regulations only after they have prepared documentation to conform to previous regulations. Unclear division of responsibilities among regulatory agencies can result in the passage of inconsistent laws and regulations. There have been cases where provisions of newer documents are in contradiction with other legal documents that are in effect.

It is not uncommon that regulations can be stated in very general terms, leaving room for arbitrary interpretation. Higher transaction costs associated with cumbersome procedures and non-transparent regulations may discourage the development of the service industries that are operating under the regulation of these documents. Unpredictable changes in the regulatory framework are another issue that may have a negative impact on business development in Viet Nam. Frequent changes impose unnecessary risk in doing business, especially for long-term investment. Increased level of uncertainty may lead to a decrease in the scale of doing business and investment, and hence lower the demand for services.

2.2.4 *Inequities still exist between SOEs and private firms but the role of service industry associations is expanding*

One of the salient characteristics of economic reform in Viet Nam is the increasing role played by the private sector. The revised constitution in 1993 allowed individuals to exercise property rights over income producing assets and personal property that has made considerable contribution to the proliferation of the private sector. The share of the state sector in GDP

has gradually decreased, especially since the new Enterprise Law came into effect in January 2000. By 2003, the state sector in GDP only accounted for 38.3 percent, down from 40.2 percent in 1994. Of particular note is the services sector where the role of state-owned enterprises (SOEs) in retail trade was cut from 30 percent in 1990 by nearly half to 17.2 percent in 2002.

Yet the dominance of SOEs in strategic service industries remains. The monopoly of SOEs created in the past has been cemented by several factors. First, the SOEs have been viewed by the leadership as the backbone of the economy and hence continue to receive favourable treatment such as easier access to land or capital and protection against competitors. With the emphasis placed on hi-tech industries such as ICT and bio-technology to develop a knowledge economy, a large proportion of public investment has gone to state-selected strategic industries and geographic areas such as the HCM software park with its high grade infrastructure, subsidized rent (\$2/sqm), and low tax rates (0.4%).

Second, the monopoly position of SOEs in service sectors such as telecommunications, air transport, and electricity has been a natural consequence of unequal market access where private enterprises, including foreign investors, either are not allowed access or face enormous barriers to entry. Non-transparent and ill-defined licensing requirements, or asymmetric access to government projects, are some prominent barriers. For example, public construction work is usually undertaken by local consultants and contractors, usually SOEs. Licensing procedures are often very complicated and there are no private domestic firms operating in almost every area of telecommunication. The increased competition in telecommunication so far has been restricted to just a few SOEs.¹² Starting a business in Viet Nam still takes longer and is more costly compared with other East Asian countries.

The lack of a level playing field is another commonly cited reason behind the under-development of the private sector in Viet Nam. Development of the private sector is limited by a lack of access to credit, as well as difficulties and high costs associated with getting use of land or office space. Operations in some services industries require large fixed investment in land or buildings. A consequence of the absence of competition from private enterprise is that there has been little incentive for the incumbent monopolistic SOEs to invest

in research and development, to improve the quality of services they provide, or to increase business efficiency. With weak law enforcement, monopolies may easily abuse their market power to lobby for high levels of protection and raise service prices. Consequently, the prices of some essential services (such as electricity and telecommunications) in Viet Nam have been unusually high compared with other economies in the region.¹³

Higher than average service prices, coupled with below average service quality, clearly is one of the main causes of low level of competitiveness of Viet Nam. Increased competition and quality of services will help reduce the cost of doing business throughout the economy. One example of interlinkages is the multiplier effects of lowering logistics cost and improve the quality of service of the logistics industry in Viet Nam. Doing so would eventually contribute to strengthening the competitiveness of Vietnamese export products, which in turn would provide producers of exporting raw materials (e.g. farmers and fishermen) with better and less expensive access to overseas markets. Increased access to export markets would return a higher margin to the producers and contribute poverty alleviation especially in rural areas, which have formerly been disadvantaged by poor logistics service.

Since 1998, a number of service industry associations have been established in Viet Nam. This is an important trend because such self-governing associations can play an important role in educating members regarding international competitive trends and benchmarks, developing and enforcing codes of conduct (linked to international standards) to ensure professionalism and quality services, providing objective verification of the competence of service suppliers (through licensing or certification), ensuring continuing professional education of members so that their skills are up-to-date, and educating the public about the value of a given service.

Table A7 provides an overview of the status of self-regulation for Viet Nam's service industry associations. Membership in the international association provides both links to international standards of practice and credibility for Viet Nam's service suppliers in the international marketplace. Since Viet Nam's service industry associations are very young, technical assistance from an established sister association abroad can be helpful in ensuring that the association

¹² The strategy of the telecommunication sector is to encourage private firms and enterprises from all economic sectors to invest directly in telecommunications services by 2008. However, there is no adopted roadmap which reveals government plans for increasing competition, private and foreign investment, other than the Viet Nam-US BTA.

¹³ It should be noted that competition has increased substantially in the Viet Nam telecommunications market over the last decade, considering that in 1993 the market was still a total monopoly in all market segments. However, it should be noted that some of the current competition in the telecommunications sector in Viet Nam has come from other SOEs (and the armed forces) entering the market, as they see the potential for profits and diversification, rather than from the private sector.

meets its members needs effectively. Generally speaking, it is difficult for consumers to assess the competence of a service supplier prior to the provision of service. Codes of conduct, licensing, and requirements for ongoing skills training in order to maintain a license all help ensure that the public receiving competent and professional assistance.

2.2.5 Regulations for foreign investment continue to restrict market access

Since 1987, Viet Nam has been opening the national economy and integrating it into the regional and global market. In support, the Foreign Investment Law has been amended four times to better promote and ensure investors' rights. Forty one (41) investment protection agreements and thirty eight (38) double taxation avoidance agreements have been concluded with various countries and territories. Government now allows foreigners to make all forms of investment in Viet Nam, including in 100%-foreign-owned companies, in all sectors not prohibited by the Government. With regard to the service sectors where there are constraints (such as telecommunications), investors are entitled to make joint investment with local partners. The Government typically prohibits foreign investment only in sectors that are deemed harmful and threatening to (i) the national culture, (ii) the national security, (iii) public social benefits, and (iv) the environment.

However, market access in service sector remains a big issue. In telecommunication, for instance, the only avenue for private and foreign involvement in basic telecommunication networks (other than the BTA provisions) has been through business cooperation contract (BCC) schemes, in which foreign companies finance capital investment and share in revenues but have no equity share and limited or no management control. In most cases, such BCC schemes suffer from various drawbacks which discourage foreign (and some domestic) investors and increase the cost of capital. Lack of ownership by the private investor and limits on management control can result in increased risk for investors, reduction in the availability of capital, and reduction of the transfer of management expertise to the firm. Also, since the BCCs de-link management from facing investor risks, incentives for effective, profit-oriented management are reduced. In addition, the negotiation process is time-consuming for such arrangements and increases transaction costs.

2.2.6 Mechanisms for implementation and oversight are not clear

Weak law enforcement represents a further important barrier to the development of the private sector in Viet Nam, especially firms operating in the service sector where the intangible characteristics make enforcement much more difficult. Weak law enforcement implies insecure property rights and an immediate consequence

is a higher level of risk of doing business and transaction costs. Firms are forced to adopt a number of risk mitigation strategies to limit their exposure in case other firms breach contracts. They may use short-term contracts with the promise of renewal upon successful completion, or delayed payments to ensure future deliveries. In addition, small service firms, which account for the vast majority of Viet Nam businesses, have little recourse to protect themselves from breach of contract by the other party.

In the World Bank's *Doing Business in 2005: Removing Obstacles to Growth*, Viet Nam's business environment ranks last in the World Bank list of 145 countries despite recent rigorous reforms of its business laws. Borrowers and lenders in Hong Kong (China) and Singapore enjoy all of the ten main types of legal rights that expand access to credit, while those in China and Viet Nam have fewer than half as many legal rights. The report also finds that developing nations such as Viet Nam, through administrative procedures, make it twice as hard for entrepreneurs to start, operate, or close a business, and businesses and provide less than half the property rights protections available to businesses in more developed economies.

There also continues to be the weak regulatory independence from operators. Although Viet Nam has made impressive improvement in this area thanks to its reform in SOE management and in the preparation for the accession to join the WTO in the very near future, the dominance of SOEs in strategic industries implies that the line ministries still are the owners of SOEs and at the same time are in charge of developing sectoral policies and strategies. As a consequence, potential conflicts of interest remain. For example, although VNPT is nominally separate from MPT, in fact MPT has the role of owning VNPT and promoting Vietnamese telecommunications, with 94 percent of the market dominated by VNPT. Other countries have helped ameliorate this issue during a transition phase by having the ownership function vested in the Ministry of Finance, an Auditor General, or an equivalent body.

With regard to technical standards, there is a lack of well-defined standards for a wide range of services, along with a lack of transparency in their administration, what makes implementation difficult. It is not uncommon that consumers' complaints have not been addressed adequately. A common quality problem can be observed in construction work where the violation of legally-stipulated quality standards has often been unpunished. This weak implementation system obviously can encourage the unfair competition and a race to the bottom in price and quality among service providers. The resulting outcome is a low level of competitiveness of Viet Nam's service providers.

Lack of standards, together with weak law enforcement, has also been the main cause behind the alarming

decrease in the quality of education. As a result, Viet Nam has not been able to supply sufficient skilled workers for the fast-growing private sector, and this will cause difficulties for Viet Nam in narrowing the development gap with its neighboring countries. As Viet Nam is starting late compared to other parts of the world and coming to market during a global technology slow down, it needs to find the will and resources to keep improving human capital and infrastructure even in order to maintain current levels of competitiveness. At present, Viet Nam still lacks strong industry standard-setting institutions and does very little international benchmarking.

2.2.7 Multiple ministries are responsible for services

A major challenge in most economies is the fact that responsibilities for service industries are spread across a range of ministries and governmental agencies. In the case of Viet Nam, every ministry plays some role in either direct supervision of a service industry or policy development that affects service industries. Unlike the other sectors, the service industries are characterized by a much higher degree of both intra-sectoral and inter-sectoral relationship. All service industries can serve as inputs for the other services industries but also can be important inputs of good production. As a result, the development of the services sector hinges on the coordination among all ministries and agencies. Annex B shows some of the linkages between service industries and ministries and commissions.

One of the consequences of viewing services primarily as support for production is that the responsibility for any specific service industry may be spread across several ministries. In Viet Nam, it is common that each service industry will be administered mainly by a line ministry. At the same time, several other ministries are also responsible for the formation of the strategy and operation of the enterprises. In addition, provincial people's committees and departments are also responsible for the activities of that service industry within provincial borders. The result is a complex system of administrative management with several horizontal and vertical linkages.

Effective functioning of such a complex administrative system requires several pre-conditions such as transparency, clear accountability, and a good monitoring and evaluation process. These pre-conditions aim to create the "right" incentives for all stakeholders who participate in the administration or in the development of sub-sectoral and overall service sector strategy. Unclear division of responsibilities among ministries and agencies may lead to the situation in which each agency pursues its own interests, paying little attention to the development of the economy as a whole. As a consequence, ministries, agencies, and provinces may issue conflicting or inconsistent regulations and decide to use public resources in a

wasteful manner. The outcome of the lack of coordination is increased transaction costs and uncertainty the enterprises have to bear, and the fragmentation of the resulting strategy.

In order to develop service industries competitively, oversight for any given service industry will need to be allocated to a single ministry while ultimate responsibility for a national service sector development strategy will need to be the responsibility of a specific senior authority rather than spread across multiple authorities as is currently the case. The formation of a coherent national strategy for the service sector will depend *inter alia* on the setting of development priorities as well as on the selection of interventions under tight fiscal constraints. As a consequence, the existence of an effective coordination mechanism that can deal with potentially conflicting interests among ministries and agencies is of crucial significance for an optimal selection of objectives and allocation of resources.

The decentralization process currently underway makes the clear division of responsibilities even more important to ensure coherence in national policy regarding the services sector. The implementation of the recently issued Resolution 8 about accelerating decentralization will require significant improvement in accountability, monitoring, and evaluation so as to avoid a situation where individual provinces and ministries only follow their own interests rather than implementing an integrated development strategy for the service sector as a whole.

2.3 Competitiveness of Viet Nam's services

2.3.1 Rankings of competitiveness and regulatory environment

The *Global Competitiveness Report 2003-2004* has ranked Viet Nam as #60 with regard to its Growth Competitiveness Index (out of 102 countries) and #50 with regard to its Business Competitiveness Index (out of 101 countries). This places Viet Nam as less competitive overall than its main Asian competitors with the exception of Indonesia and the Philippines. One of the factors in the competitiveness of service industries is the strength of the domestic regulatory environment. Viet Nam is still behind its main competitors with regard to its regulatory and legal framework and the consistency with which enforcement occurs.

2.3.2 Competitiveness in human resources development

The quality of human resources available is also critical in determining services competitiveness as it is the staff of a service enterprise that creates the service. Viet Nam unfortunately lags behind most of its competitors in the quality of education provided to the work force. Its low ranking on management training is particularly worrisome as a lack of highly skilled

managers and supervisors can have a chilling effect on the ability to compete in an international context. The low ratings on the extent to which staff receive ongoing on-the-job training and the low reliance on managers with professional training (rather than owner-operators) also indicate the need for initiatives to strengthen skills in the workplace if Viet Nam is to have an internationally competitive services sector.

2.3.3 Competitiveness in research and development

On the positive side, Viet Nam ranks above average in the quality of its scientific research institutions and the availability of scientists and engineers. These resources, coupled with the priority government has placed on information and communications technology, could provide a platform for excellence in outsourced research and development contract work, particularly since the workforce is used to pay being linked to productivity.

2.4 Strengths and weaknesses of Viet Nam's Service Industries

2.4.1 The strengths

The greatest strength of Viet Nam's services sector is government's commitment to support service sector growth and international integration. Without that support, it could be very difficult to address competitiveness issues in services. Reform momentum is high, and a number of important legal documents have been enacted recently (e.g., the Amended Land Law) and others will follow shortly (e.g., Competition Law, Unified Enterprise Law, Unified Investment Law). Progress is also being made in the separation of administrative operations and regulatory oversight, particularly in maritime transport.

Viet Nam is fortunate in having a fully digitalized telecommunications infrastructure as telecommunications is the key conduit for trading services. Information and communication technologies (ICT) have been prioritized by government as critical infrastructure for sustained fast growth. Tourism has also been identified as a key strategic sector since Viet Nam is endowed with potential tourist attractions that can be further developed. Changes have been made so that no visa is required for short-stay visitors from major tourist markets like East Asia.

While the preponderance of state-owned enterprises (SOEs) can have a stifling effect on competition, there is a short term benefit for Vietnamese service suppliers in that SOEs are likely to use Vietnamese services rather than purchase from abroad. In addition, Vietnamese service suppliers have an unparalleled knowledge of the local market and customs, as well as links with surrounding economies. Viet Nam has a demonstrated ability for the financial services sector

to grow rapidly, which is critical in generating sufficient capital to support private sector services growth. Finally, Viet Nam has a motivated and diligent work force that is an asset in developing service industries, with particular strength in science and research that can be further developed.

2.4.2 The weaknesses

There are several paradoxes in Viet Nam's development that are contributing to weaknesses in its service industries:

- a) Viet Nam's economy is growing rapidly, but value-added and quality are remaining relatively low. Services continue to be over-priced for the quality received, and there is still a relatively poor understanding of customer needs and how to address them.
- b) Viet Nam's export strategy is really an import substitution strategy rather than an export-growth strategy.
- c) Viet Nam has committed to market orientation in international agreements but is still operating from a framework of planned economic growth that makes it difficult for competitive services to develop.
- d) Viet Nam wishes to diversify the investment capital available but in actuality is relying more heavily on the State budget.
- e) Viet Nam is advocating active international integration but has as yet no roadmap or strategic vision for how that will occur. In services, government is potentially creating more competition in domestic markets for Vietnamese service suppliers without a strategy to help them strengthen their ability to compete.
- f) Viet Nam is committed to growth with equity but there is still significant poverty and income disparity to be addressed. Inappropriate market opening could erode the resources available to government with which to address inequities.

The most fundamental issue, though, is the lack of coordination among ministries and lack of integration among the various services master plans. At least 70 percent of inputs for service firms come from other services, and so it is essential that there be an overall national strategy to strengthen Viet Nam's competitiveness in services. Issues that need to be addressed include an ongoing lack of capital in the financial system and weak human resource development, especially at the supervisory and managerial levels. Since staff identify customer needs, create services, and provide quality control, their skill level is critical to competitiveness.

Market flexibility and awareness of service sector issues is still developing. In the meantime, government is slow to react to market changes. Many SOEs provide their own support services internally or contract with other government entities, making it difficult for private sector services suppliers to grow and thrive. Poor coordination between government agencies results in problems such as the degradation of tourism sites due to environmental pollution or a lack of proper maintenance investment.

As is the case with many developing countries, Viet Nam still has a weak regulatory framework, which puts its service sector at risk as market access for foreign service suppliers is increased under international integration. In many instances, there is not yet independence between operational functions and regulatory oversight and the enforcement of existing regulations is inconsistent at best. Legal documents are drafted with limited consultation with concerned parties, especially the enterprises, and so may not meet the needs of the private sector. Existing laws may be out of date or at variance with international codes and standards.

2.5 Opportunities and threats for Viet Nam's Service Industries

2.5.1 The opportunities

Viet Nam is in a position, with proper planning and coordination, to take advantage of several key trends. The economic development and trade agreements already in place within ASEAN provide Vietnamese service suppliers with a platform for developing or expanding regional cooperation agreements (e.g., joint tourism offerings). China's plans for the Pearl River Delta can result in a range of opportunities for Vietnamese service providers. In the Tsunami aftermath, there are a number of opportunities for Vietnamese service enterprises to participate in regional reconstruction and growth.

Because Viet Nam has been attractive to foreign investors and foreign donor agencies, Vietnamese service suppliers have the opportunity to export services to foreigners within Viet Nam, thus laying the foundation for expanded opportunities abroad. The presence of foreign-owned businesses in Viet Nam provides an opportunity to study international best practices and for soft technology transfer through joint ventures.

Whether independently or through joint ventures, Viet Nam has the opportunity to exploit several global growth opportunities. First, with an expanding "young seniors" population, there are extended opportunities to link tourism with health services for persons healthy enough to travel and affluent enough to afford optional health and spa services. Second, competitiveness is increasingly dependent on knowledge-intensive strategic input and so the demand for research and development services, which can be addressed by Viet Nam's research institutes, is growing. Third, the outsourcing of business support services is continuing its double digit growth, and Viet Nam's information technology expertise coupled with its digital telecommunications infrastructure can be very price competitive.

The number of international agreements that include market access liberalization in services is growing. This trend at both the international, regional, and bilateral levels will gradually erode market access barriers that Vietnamese service suppliers presently face and so provide access to new markets. As Viet Nam moves through its own economic reform to accommodate international integration, it will also be in a position to export that expertise to other developing economies.

2.5.2 The threats

While the opening of international markets will create more opportunities abroad for Vietnamese services suppliers, it will also bring more foreign competition into the domestic market. If that foreign competition increases too rapidly, before technology absorption, it could reduce the competitiveness of Viet Nam's service industries. In addition, imbalances can be created by foreign suppliers taking over the most lucrative portions of the domestic markets. Government will need to be very careful to open the services market in a manner that distributes the benefits. As long as Viet Nam's response mechanism to external shocks is weak, it will be vulnerable to negative shocks.

With the increasing international integration, other developing economies are also pushing to find opportunities for their service firms. As well, trading partners such as the U.S. are pressing for rapid market opening that may not be in Viet Nam's best interest. Careful coordinated planning, coupled with rapid growth of key intermediate services, will be needed to help Viet Nam's service sector catch up and not continually lag behind.

Chapter 3

Recommendations on Viet Nam's goals and strategies for services

3.1 Recommended Overall Goal for Comprehensive Development of the Services Sector

The following overall goal is proposed in order to ensure the comprehensive development of Viet Nam's services sector:

Develop an efficient and internationally competitive services sector in order to:

- a) Provide high value-added inputs for Viet Nam's industrialization and modernization, especially export-oriented industries.
- b) Reverse the growing deficit in services trade by increasing the export of services.
- c) Provide an attractive economic environment for attracting foreign direct investment.
- d) Support sustainable growth and step-by-step transfer to a knowledge-based economy.
- e) Assist in meeting national human development objectives.

3.2 Proposed Growth Goals

3.2.1 Approach to calculating growth goals

Developing an econometric model for service sector development is challenging given the many inter-linkages among services. In calculating growth projections, therefore, the Core Research Team has relied on a series of assumptions and estimations in order to arrive at the proposed growth rates. The reference point for calculations was the projections for economic development adopted by the Party and contained in Viet Nam's National Strategy, with the stipulation that GDP would double between 2000 and 2010 (see Table 1).

Before beginning the estimation process, the Core Team tested the stipulated growth rates in the Party's projections. The results are presented in Table 2 and show that it is not possible to achieve a proportion of services in GDP as high as even 42 percent by 2010 unless the services sector grows at higher than 8 percent annually on average.

Table 1: Stipulated Economic Development Projections for 2010

Economic Sector	Average Annual Growth	By 2010:	
		Percent of GDP	Percent of Labour Force
Agriculture	4.0 – 4.5%	16 – 17%	50%
Industry	10.0 – 10.5%	40 – 41%	23 – 24%
Services	7.0 – 8.0%	42 – 43%	26 – 27%

Table 2: Tests of the Stipulated Projections for 2010, Based on 2000 Data

Economic Sector	Actual in 2000		Average Annual Growth	By 2010:	
	GDP	% Total		GDP	% Total
Calculations with Lower Stipulated Growth Rates					
Agriculture	63,717	23.3%	4.0%	94,316	16.6%
Industry	96,913	35.4%	10.0%	251,367	44.3%
Services	113,036	41.3%	7.0%	222,359	39.1%
Total	273,666	100.0%		568,042	100.0%
Calculations with Higher Stipulated Growth Rates					
Agriculture	63,717	23.3%	4.5%	98,951	16.3%
Industry	96,913	35.4%	10.5%	263,030	43.4%
Services	113,036	41.3%	8.0%	244,036	40.3%
Total	273,666	100.0%		606,017	100.0%
Calculations with Mixed Stipulated Growth Rates					
Agriculture	63,717	23.3%	4.0%	94,316	16.0%
Industry	96,913	35.4%	10.0%	251,367	42.6%
Services	113,036	41.3%	8.0%	244,036	41.4%
Total	273,666	100.0%		589,719	100.0%

Further, additional growth has already occurred in the Vietnamese economy since 2000, with the percentage of services in GDP dropping from 41.3 percent in 2000 to 40.5 percent by the end of 2003 and an estimated 39.8 percent by the end of 2005. Table 3 provides the actual data, with projections to the end of 2005 assuming the same growth rates as in the period 2000 to 2003.

Therefore, in order to determine the growth rate needed to achieve at least 42.0 percent of GDP from services in 2010, the Core Team developed estimations based on the following assumptions:

1. Since agriculture grew on average at 3.5 percent between 2000 and 2003, it will need to grow on average at 4.5 percent between 2005 and 2010 in order for overall growth between 2000 and 2010 to average 4.0 percent and the percent of GDP to be approximately 16 percent (see Table 4).
2. The growth rate for the industrial sub-sectors between 2003 and 2005 is unlikely to be lower than the average annual growth rates from 2000-2003; therefore, that growth rate can be used to estimate the proportion of industry in GDP in 2005. In order for the overall industry growth rate between 2000 and 2010 to average 10.0 percent, growth between 2005 and 2010 would need to slow slightly in each of the sub-sectors (see Table 5). Even so, the industry sector would be 42.1 percent of GDP in 2010, which is slightly above the stipulated percent of 40-41 percent. If the industry sector were to grow at faster than 10.0 percent overall between 2000 and 2010, the percent of industry in GDP by 2010 would be even higher than 42.1 percent.
3. To ensure that the economy does not over-heat, the overall GDP growth needs to result in the economy increasing by no more than at ratio of 2.2 every 10 years (see Table 6).

Table 3: Estimates for 2005, Based on 2003 Data

Economic Sector	Actual in 2003		Average Annual Growth: 2000-03	Estimate of 2005:	
	GDP	% Total		GDP	% Total
Agriculture	70,574	21.0%	3.5%	75,676	19.6%
Industry	129,247	38.5%	10.1%	157,228	40.6%
Services	136,168	40.5%	6.4%	154,168	39.8%
Total	335,989	100.0%	7.1%	387,072	100.0%

Table 4: Estimates for the Agricultural Sector to 2010

Economic Sector	Amount of GDP			Percent of GDP			Average Annual Growth
	2000 (actual)	2005 (estimate)	2010 (estimate)	2000	2005	2010	
Agriculture	63,717	75,676	94,306	23.3%	19.6%	15.8%	4.0%

Table 5: Estimates for the Industry Sector to 2010

Economic Sector	Amount of GDP			Ave. Annual Growth			% of GDP		
	2000 (actual)	2005 (estimate)	2010 (estimate)	2000-2005	2005-2010	2000-2010	2000	2005	2010
Mining	18,430	21,995	25,498	3.6	3.0	3.3	6.7	5.7	4.3
Manufacturing	51,492	88,739	146,855	11.5	10.6	11.0	18.8	22.9	24.7
Utilities	6,337	11,218	18,903	12.1	11.0	11.5	2.3	2.9	3.2
Construction	20,654	35,276	59,442	11.3	11.0	11.1	7.5	9.1	10.0
Industry Total	96,913	157,228	250,698	10.2%	9.8%	10.0%	35.4%	40.6%	42.1%

Table 6: Calculation of Overall GDP Growth to 2010

Economic Sector	Actual in 2000		By 2010:		Average Annual Growth: 2000-10	Ratio of 2010/2000
	GDP	% Total	GDP	% Total		
Agriculture	63,717	23.3%	94,306	15.8%	4.0%	
Industry	96,913	35.4%	250,698	42.1%	10.0%	
Services	113,036	41.3%	250,284	42.0%	8.3%	
Total	273,666	100.0%	595,288	100.0%	8.1%	2.18

4. The optimal structure of the services sector to support rapid growth, based on international comparisons, should determine the relative proportions of sub-sectors in Viet Nam's services sector (see Table 7).
5. In order to influence the competitiveness of the entire economy, the focus of growth in Viet Nam's service sector needs to be on priority intermediate services rather than on final demand services. To achieve an overall services sector growth rate of 8.3 percent as specified in Table 8, the services sector will need to grow on average 10.2 percent per year between 2005 and 2010, with above average growth in transportation and communications, financial services, business services and science and technology services, and education and training services.

3.2.2 Alternative growth goals for 2010

Based on the calculations outlined above, it will be necessary for the services sector to grow at an average overall rate of 10.2 percent for the years 2005-2010 if services are to be at least 42 percent of GDP by 2010 (see Table 9 below). In order to ensure overall competitiveness, growth will need to be focused in intermediate services. Specifically, the following service sub-sectors will need to grow at an average annual rate of 13.5 percent: telecommunications, finance, business services, science and technology, and education and training. To support tourism growth, the average annual growth rate for hotels and restaurants will need to be 10.5 percent. Note that, while Government has called recently for services to be 45 percent of GDP by 2010, it would take an average annual growth rate for the overall economy of 10.2

Table 7: Optimal Structure of the Services Sector to Support Rapid Growth

Service Sub-Sector	Services as a Percent of GDP		
	42 Percent	50 Percent	65 Percent
Transport, storage, communications	5%	7%	10%
Finance, insurance, real estate	5%	8%	15%
Business services	5%	8%	10%
Social services (education, health)	5%	7%	7%
Hotels & restaurants	2%	2%	2%
Wholesale & retail trade	14%	13%	12%
Community & personal services	1%	1%	5%
Public administration	5%	4%	4%

Source: Comparative analyses of over 80 economies at four levels of development by Service-Growth Consultants Inc.

Table 8: Proposed Growth Rates for Viet Nam's Services Sub-Sectors: 2005-2010

Service Sub-Sector	Percent of GDP			Ave. Annual Growth Rate	
	2000	2005	2010	2000-2005	2005-2010
Transport, storage, communications	3.9	3.8	4.6	6.4%	13.5%
Finance, insurance	2.1	2.1	2.5	7.1%	13.5%
Business services; real estate*	4.5	3.9	4.7	4.1%	13.5%
Science & technology	0.6	0.6	0.8	9.2%	13.5%
Social services:					
Education & training	3.3	3.4	4.1	7.2%	13.5%
Health & social services	1.4	1.4	1.5	7.1%	9.5%
Hotels & restaurants	3.2	3.2	3.4	6.7%	10.5%
Wholesale & retail trade	16.3	16.2	15.8	7.0%	8.5%
Community & personal services:					
Culture	0.6	0.5	0.5	5.1%	7.0%
Party activities	0.1	0.1	0.1	5.5%	5.5%
Community services	2.1	1.9	1.7	5.6%	6.5%
Private services	0.2	0.2	0.1	2.5%	3.5%
Public administration	2.9	2.6	2.2	4.8%	5.0%
Services total in GDP	41.3%	39.8%	42.0%	6.4%	10.2%

*Note that Viet Nam classifies "real estate" with business services rather than with financial services (as is the case in the United Nations national accounts statistics).

percent and of 13.0 percent each year for the services sector in order to achieve that percent.

Specific projections are given in Table A8 in annex for percent of GDP and Table A9 for average annual growth of economic activities, including the various service sub-sectors. Table 10 below shows the links between targeted service industries and the overall goal components.

3.2.3 Alternate growth goals for 2010-2020

For 2003, the World Bank estimated that low income economies (such as Viet Nam) averaged services as 50 percent of GDP. In order for Viet Nam's service sector to reach 50 percent of GDP by 2020, average annual growth for the services sector will need to be 9.5 percent from 2010 to 2020. Proposed economic development goals are given in Table 11.

3.3 Recommended Policy Orientation

3.3.1. Recognition that services are key to increasing competitiveness and successful implementation of the industrialization process

In order to have an appropriate policy framework for developing a competitive and effective service sector and for successful implementation of Viet Nam's industrialization process in the context of international integration, it is important to formally recognize that services are key to increase competitiveness. The reasons why formal recognition is important are as follows:

Firstly, this recognition will give the services sector its appropriate status in the national development strategy, replacing misconceptions about services as non-productive or as being of less importance than goods production.

Table 9: Proposed Economic Development Goals for Viet Nam's National Social-Economic Strategy: 2005-2010

Target Year	Whole Economy	Agriculture, Fishing, Forestry	Industry	Services
GDP growth: 2005-2010	9.0%	4.5%	9.8%	10.2%
GDP growth: 2000-2010	8.1%	4.0%	10.0%	8.3%
GDP 2010/2000	2.18	-	-	-
% GDP in 2010	-	15.8%	42.1%	42.0%
% labour force in 2010	-	44%	19%	37%

Table 10: Service Industries Necessary to Target to Achieve Overall Goal

Overall Goal Components	Telecom	Education & Training	Business services	Finance	Tourism	Logistics*
High value-added inputs	yes	yes	Yes	yes	-	yes
Increase exports of services	yes	yes	yes	yes	yes	-
Attractive FDI environment	yes	yes	Yes	-	yes	yes
Support sustainable growth	yes	yes	Yes	yes	yes	-
Assist in meeting human development objectives	yes	yes	yes, including job creation	yes	yes, including job creation	-

*Transportation, freight forwarding, customs brokerage, storage, etc.

Table 11: Proposed Economic Development Goals for Viet Nam's National Social-Economic Strategy: 2010-2020

Target Year	Whole Economy	Agriculture, Fishing, Forestry	Industry	Services
GDP growth: 2010-2020	7.7%	3.0%	7.1%	9.5%
GDP 2020/2010	2.09	-	-	-
% GDP in 2020	-	10.2%	39.9%	50.0%
% labour force in 2020	-	16%	32%	52%

Secondly, this recognition will help in setting policy priorities, clearing the way for developing the types of laws and regulations needed to develop the services sector, diversifying the ownership structure of service enterprises, and strengthening the coordination mechanism for management of the services sector.

Thirdly, this recognition will focus policy initiatives on priority services in order to support economic growth and improve the basic infrastructure provided by telecommunications, education and training, business services, finance, and transportation.

Fourthly, this recognition will provide a framework for the allocation of research resources in order to deepen understanding of the dynamics of Viet Nam's services sector through further comprehensive studies and pilot projects supported by international organizations.

3.3.2 Coordinated approach to national services sector development

In order for Viet Nam to strengthen its services sector in an efficient manner, it is vital that there be coordination at the highest level among the many governmental bodies responsible for services. It is also critical that the services sector be accorded equal status with industrial development in terms of resource allocation and incentives offered.

Determining how best to achieve that coordination will depend in part on the results of the UNDP-funded study under the Trade in Services Project on ministerial coordination regarding how best to allocate responsibilities for the service sub-sectors. The following are examples of the kinds of steps that could be taken:

- a) Appoint a national authority (e.g., a Deputy Prime Minister) to be responsible for all services listed in the GATS.
- b) Establish a coordinating mechanism among the line ministries responsible for the various services, which meets regularly and is chaired by the appointed national authority.
- c) Appoint a "lead" line ministry or commission for each of the service subsectors covered by the GATS with the following administrative responsibilities:
 - Setting technical and service standards, & enforcing them.
 - Licensing service suppliers in the subsector.
 - Conducting research on international trends and benchmarks for the subsector.
 - Liaising with service industry associations & consulting with service suppliers on the challenges for the subsector.

- Proposing policy and regulatory changes as needed
- Providing input on services trade negotiating strategies.
- Identifying needs for technical assistance to the subsector.
- Dealing with consumer complaints.
- Setting growth and performance targets.

- d) Separate regulatory or audit, and service provision functions from the unit with lead administrative responsibilities so that there is no conflict of interest.
- e) Receive reports from each service subsector "lead" regarding any policies, regulations, or incentives that need to be changed to increase competitiveness and ensure equity in the treatment of goods and services production, and schedule the timing for completion of those changes.
- f) Resolve any conflicts between industrial policy with regard to industrial development and pollution and the competitiveness of Viet Nam's tourism attractions.

3.3.3 Strong regulatory framework

The success of market liberalization and international integration in services depends on having a strong domestic regulatory framework that meets international standards, is transparent, and is consistently implemented. This regulatory framework ensures that both domestic and foreign services suppliers meet international standards and protects the interests of Vietnamese consumers. At the present time, Viet Nam's regulatory framework is both incomplete and inconsistently implemented.

The specific steps needed will depend on a more in-depth analysis across line ministries and other government units to determine the gaps, contradictions, and implementation weaknesses for each service sub-sector. In addition, attention will need to be paid to the impact of regulation on accessibility and affordability of essential services for the poor. The following are examples of activities that could be undertaken:

- a) For services where international conventions on technical standards exist (e.g., maritime transport, financial services), ensure that Viet Nam's services meet those international standards.
- b) Ensure that there are licensing or certification standards in place for each of the key services, including a requirement for ongoing training in order to maintain/renew that license or certificate.
- c) Where Viet Nam has opened cross-border supply to foreign competition, ensure that foreign service

suppliers meet Viet Nam licensing or certification requirements.

- d) Support the development of service industry associations which enforce codes of conduct, provide links to international associations and information about international standards, and facilitate ongoing skills training for members.
- e) Establish a universal services access fund to support government provision of services to the very poor, through a tax on all enterprises over a certain size.
- f) Launch an initiative to register at least 25% of service suppliers to ISO 9001:2000, making registration costs tax deductible.

3.3.4 *Employment creation in service industries*

The majority of service sector jobs require at least secondary schooling. In an economy like Viet Nam, careful planning is needed to help workers transition from an agriculture-based economy to a knowledge-based economy. An advantage of service industries is the ability to create jobs throughout the country, not just in urban areas. Rather than encourage out-migration of unemployed recent graduates, the following types of initiatives could be productive:

- a) Encourage unemployed recent graduates to create business services enterprises.
- b) Provide training in office skills and data entry/management to workers moving from rural to urban areas.
- c) Identify and develop opportunities for services employment in rural areas such as agricultural equipment repair.
- d) Create rural back office (“offshoring”) operations, with appropriate training – perhaps linked to the IT park in HCMC.

3.3.5 *Increase domestic demand for services*

Domestic demand for services depends on the level of economic development and per capital income. In less developed economies like Viet Nam, any increase in domestic demand for services needs for come first from an increase in the demand for intermediate services, which in turn is linked to increasing Vietnamese service exports. Viet Nam currently faces the common dilemma of low income countries where there is not sufficient domestic demand to support the development of high quality specialty business services, which are precisely the services needed by all economic sectors in order to increase competitiveness. By supporting Vietnamese business service firms in accessing export

markets successfully, those firms can develop a large enough customer base to justify the innovation and honing of skills needed to create and sustain competitively-priced, high quality specialty services.

Once high quality intermediate services are available, the next task is one of creating awareness in SOEs and the private sector regarding the benefits of contracting out for specialized service inputs so that such purchases are viewed as an investment in competitiveness rather than a cost. Collaboration between private sector organizations like the Vietnamese Chamber of Commerce and Industry and the Ministry of Trade, for example, can result in success stories and news articles on the benefits of contracting out, flyers distributed that contain information on how to select a service supplier and how to manage the working relationship, and seminars that explain when contracting out for specialty services can be most useful.

Government can also play a vital role in stimulating domestic demand for intermediate services by itself contracting out support services to private suppliers. At the present time, many SOEs provide their own business support services internally or contract with government agencies. The use of government procurement to purchase intermediate services from Vietnamese private enterprises can be a powerful force for stimulating domestic demand for services.

3.3.6 *Increase service exports*

One of the main purposes of services trade liberalization is to increase opportunities for Vietnamese service suppliers to export to a wider range of foreign markets. International integration will bring with it more competition from foreign services suppliers in Viet Nam’s domestic markets. Vietnamese service suppliers need to be equipped with the expertise and support needed to compete successfully with foreign services suppliers both in Viet Nam and abroad. Exporting services successfully requires a different approach from that used to export goods as, in general, what is being promoted to the foreign consumer is a promise of performance rather than a completed service that can be inspected before purchase. Service industry associations have a key role to play in raising industry profile globally, linking with sister associations abroad to facilitate partnerships, and representing the industry at regional and international conferences.

In order to successfully increase service exports, Viet Nam will need a national strategy for how to promote such exports. Fortunately, the Viet Nam Trade Promotion Agency (through project vie/61/94) is already in the process of developing a national export development strategy, with technical assistance from the International Trade Centre UNCTAD/WTO, and is prepared to add a component on national services

export development. There is also available through the APEC Business Advisory Council a publication, *Supporting APEC SME Service Exporters: A Handbook of Best Practices*, with checklists that can be helpful to Viet Nam.

3.4 Proposed Stages to Develop the Services Sector

3.4.1 Stage 1: Strengthen services as industrial and social supports (2005-2010)

In order to support overall competitiveness, attention needs to be focused first on ensuring that key intermediate services are efficient and internationally competitive. These intermediate services include telecommunications, education and training, finance, business and professional services, and logistical services. Below are initial comments on these sub-sectors, with examples of how the subsectors could be developed to support increased competitiveness.

Information and communication technologies (ICT): Telecommunications in particular, and ICT in general, is the primary infrastructure for the delivery of services in an international context. It also makes possible the delivery of quality of life services (education, health) to rural and remote communities. Viet Nam has the advantage of already having a fully digitalized network, though upgrading to broadband technologies is still needed. The following are some examples of what steps might be taken:

- a) Extend the digital network via wireless and satellite services to all rural communities, subsidized through a universal access fund.
- b) Expand telecommunications capacity, upgrading to broadband where possible, to raise call completion rate.
- c) Establish and enforce service standards for the telecommunications infrastructure to ensure prompt response for installation and maintenance.
- d) Expand repair and maintenance capacity for ICT technology, supported by reliable supply of electricity.
- e) Increase the penetration ratio for use of ICT through launching initiatives in e-government.
- f) Close the gap between urban and rural communities in access to education and health services by launching initiatives in e-learning and e-health.

Education and training: In order to support the needs of service enterprises for appropriately skilled workers, a review is needed of the educational system to ensure that teaching methods encourage innovation and problem-solving rather than passive, rote learning. In addition, support is needed for a culture of lifelong learning. The following are some types of activities that

could be undertaken once the outcomes of the study of the impact on the poor are available:

- a) Strengthen training provided in Business English in order to take advantage of trade and technology transfer opportunities.
- b) Strengthen the training of service sector managers and supervisors.
- c) Launch or strengthen training in customer service and service excellence, including training in interpersonal skills (e.g., problem solving, negotiations, etc) and innovation.
- d) Assist service industry associations to provide continuing education and skills training to their members.
- e) Negotiate mutual recognition agreements with major trading partners for the educational credentials of Vietnamese service providers.

Business services: The expansion of business and professional services lies at the heart of developing an internationally competitive services sector. Further competitiveness research is needed in order to identify how best to form and strengthen service industry associations, ensure knowledge of international benchmarks and quality management. A pilot project to stimulate entrepreneurship in business services would be very helpful.

Financial services: Financial services in Viet Nam have already demonstrated growth, but more growth is needed in order to ensure the start-up and growth capital needed by service enterprises. As part of the competitiveness studies on banking and financial services already ongoing in the framework of the Trade in Services Project, research is needed on how to ensure that government retains sufficient funds to lend at minimal rates to the very poor after market liberalization. More specific steps will depend on the outcomes of those studies.

Tourism: Viet Nam already has a national strategy for tourism that can be linked to some of the initiatives described above. Further steps, especially regarding regional cooperation, will depend on the outcomes of the competitiveness study on tourism.

3.4.2 Stage 2: Target lead service sectors (2010-2020)

Viet Nam has the opportunity to leverage its competitive positioning in ICT, science and technology, and tourism to create high growth, high valued added services that can compete successfully in international markets. Possible candidates for targeting include the following: Back office operations (data processing, data management); contracted research and development; and health tourism.

3.5 Recommendations on Strategy Development

3.5.1 Prioritizing “break-through” service sectors

“Break-through” service sectors are those sectors that can generate significant multiplier effects throughout the economy and radically alternate the competitive structure and economic options available. Government has identified priority service sectors (telecommunications, finance, air transport, maritime transport, construction, tourism) that all have growth potential and whose competitiveness is important. Of these service sectors, though, only telecommunications (and more generally information and communication technologies) is truly a “break-through” service. The changes brought about by the Internet and related communication technologies have forever altered the way in which business is conducted as well as the economic development alternatives for rural communities. Therefore, government’s priority attention to telecommunications as a “break-through” service sector remains critical.

The second “break-through” service sector is training services, especially the practical applications of formal education and continuing skills upgrading. Every sectoral study associated with this project identified the skill level of human resources as a significant constraint to growth. A significant shift in Viet Nam’s competitiveness will only be possible if there is a plentiful supply of workers skilled in innovation, problem solving, and customer service, supported by trained supervisors and managers.

The third “break-through” service sector is business services, which the WTO describes in its *World Trade Report 2004* as “among the most dynamic [services] in the [global] economy,” pointing out that they “provide knowledge-intensive inputs to other industries, and are important channels for technology diffusion and a source of productivity growth in other industries”. Business services are “break-through” services because of the critical role they play in all other economic activities – e.g., lowering production costs, increasing product quality, lowering barriers to entry for entrepreneurs with new ideas (by allowing them to contract out for specialized expertise), creating structural flexibility by turning fixed costs (in-house service production) into variable costs (outsourced services), supporting technology diffusion, improving supply chain management, matching suppliers and customers across borders, and generating foreign exchange earnings. Examples of the business services that can perform a “break-through” role are given in Table A10 in annex.

These three service sectors are the foundation and background for development of whole services sector as well as other sectors in the economy, particularly

in the context of international integration and economic liberalization. The development of these sectors will have spill-over effects and serve as catalysts for increased competitiveness throughout the economy.

3.5.2 Implementation: The role of Government

For a national strategy for services to be successful, there are at least six roles for government to play. The first and most critical is the coordination of all services activities so that the policy framework is coherent, there is cooperation among the many governmental agencies involved, and initiatives strengthen rather than undermine one another. Given the variety of services involved, it is natural that different ministries specialize in particular services (e.g., transportation, education, etc.). However, government is responsible for ensuring that there is a common vision and goal for how the services sector is to develop.

A second very important role for government is consumer protection. Most services cannot be inspected ahead of time, and consumers are often not in a position to evaluate the proficiency of a particular service provider. In addition, the consequences of poor performance – e.g., unskilled air traffic control, untrained surgeons – can be life threatening. The licensing and performance review procedures put in place by government are critical to ensuring that consumers receive quality services.

A related third role for government is ensuring universal access to basic health, education, and telecommunication services. These services directly affect quality of life and the options available to citizens. In most instances, government needs to subsidize, or arrange for subsidization of, services to remote communities and to the very poor.

A fourth role for government is creating an appropriate environment for business so that the service enterprises that develop can provide efficient and effective services. A related fifth role is ensuring the competitiveness of Viet Nam’s small service suppliers. With over 65 percent of service firms having less than 10 employees, support for these very small service suppliers is critical.

Finally, government has the responsibility to ensure that international integration brings with it benefits for Viet Nam in keeping with both economic and human development objectives and priorities. Unless care is taken, market liberalization in services can benefit primarily foreign service suppliers while crowding out small domestic service suppliers and undermining government resources for achieving social objectives.

3.5.3 Implementation: The Role of the Private Sector

Competitiveness of the services sector rests in large part with the private sector. While some of the major

infrastructure services may continue to be provided by state-owned enterprises for some time to come (e.g., telecommunications, air transportation), key professional and business support services are primarily privately owned. The private sector will need to take steps to be knowledgeable about international standards and benchmarks and how to export successfully. In addition, it will need to enhance skills to identify and meet customer needs and develop specialized services.

One of the mechanisms for improving competitiveness is the development of strong service industry associations (and even a coalition of such associations) that can assist members with market intelligence, links to export markets, and continuing professional education. In addition, such associations can provide government with critical input on the needs of service enterprises and barriers to competitiveness.

3.5.4 Implementation: The Role of International Organizations

There are a number of areas that have been identified already in this Report where Viet Nam's services capacity needs to be strengthened. It would be helpful if, as part of a national strategy, priorities for international funding were established and then negotiated with donor agencies. Table A11 provides an initial listing of studies and pilot projects that could be funded.

3.5.5 Supervision of the National Strategy

In order for any national strategy to be successful, there need to be clear performance measures that can be tracked and accountability implications if they are not met. As part of developing the national strategy, such performance measures need to be identified along with the most appropriate supervisory mechanism.

Chapter 4

Recommendations

on a Roadmap for International Integration

4.1 Objectives to Be Achieved through International Integration

As an economy liberalizes market access for trade in services, care is needed so that the role of foreign firms stimulates rather than depresses national competitiveness in service exports. In the case of Viet Nam, liberalization commitments to date have been based primarily on phase-in of liberalized market access for foreign service suppliers. Few, if any, performance criteria for foreign service suppliers have been noted in Viet Nam's conditional WTO offer though, as a developing economy, Viet Nam has the right (under GATS Article XIX:2) to attach such market access conditions.

In addition, there appears to be little correlation between the liberalization offers being made by Viet Nam and the reality of Viet Nam's current services export activities. This is not surprising as no systematic study has yet been undertaken of Viet Nam's services export capacity. For example, Mode 1 has been listed with no market access restrictions for a wide range of professional services, business support services, and research and development services without any apparent analysis of the impact on Vietnamese service suppliers of facing cross-border foreign competition. It would be useful to bear in mind that (a) Viet Nam already has active service exporters (see Table A2 in annex); and (b) Viet Nam's service providers are already competing in the region with very large service transnationals in a range of services.

Based on the analysis in Chapter 2 of Viet Nam's current services competitiveness, the following are recommended objectives to be achieved from the process of international integration. These objectives can also form the basis for assessing the impact of services trade liberalization.

- a) Vietnamese service exporters gain improved access to foreign markets.
Since the intention of services trade liberalization is to promote economic growth and the expansion of service exports, it is important that international integration result in an expansion of export opportunities for Viet Nam's service suppliers. That

means that, particularly in terms of the modes of supply¹⁴ most commonly used for entry of foreign markets (i.e., Mode 1 and Mode 4), it should be easier for Vietnamese service suppliers to enter foreign markets.

- b) Vietnamese service enterprises retain a level domestic playing field with foreign competitors. Sometimes special incentives are offered to foreign service suppliers in order to attract investment. If Vietnamese service suppliers are to be competitive, it is important that they be offered similar incentives and not be operating at a disadvantage in their home market. It will also be important to ensure that domestic service suppliers benefit as much as foreign service suppliers from the new Enterprise Law.
- c) Vietnamese consumers are assured of quality services.
The Vietnamese regulatory environment needs to be such that consumer interests are consistently protected, with those regulations applying to foreign and domestic service suppliers alike.
- d) Viet Nam's social objectives are met regarding poverty alleviation.
In order to meet national social objectives, it will be important that market opening not jeopardize universal access to essential services (such as electricity, basic telecommunications, education, health), especially for the poor. In addition, market opening should result in increased employment in services and increased entrepreneurial opportunities in services for women.
- e) Viet Nam gains capital inflows and technology transfer from market opening.
One of the reasons for liberalizing service markets is to benefit from the resources and technology of services suppliers from more developed economies. Monitoring will be needed to ensure that this occurs.
- f) Viet Nam's balance of payments in services improves.
Viet Nam's services trade deficit has been steadily increasing and, if properly managed, international

¹⁴ As mentioned before, trade in services occurs through four modes of supply: Mode 1 – cross-border, where the service moves across the border; Mode 2 – consumption abroad, where the consumer moves across the border; Mode 3 – commercial presence, where the service supplier sets up an office abroad; and Mode 4 – presence of natural persons, where the service supplier moves temporarily across the border.

integration should help to reverse that trend through increased service exports.

4.2 Viet Nam's Existing Commitments on International Integration

Viet Nam is already a signatory to two international trade agreements that cover services trade and is conducting bilateral trade discussions with Australia, Japan, and the U.K. One of the existing trade agreements is the ASEAN Framework Agreement on Services (AFAS), which is a GATS-Plus agreement intended to substantially eliminate restrictions on trade in services within ASEAN by progressive improvements in market access and ensuring equal national treatment. Under AFAS, there are initiatives to develop mutual recognition arrangements (MRAs) intended to cover accountancy, architecture, engineering, surveying, and tourism. ASEAN is in the process of extending both its Free Trade Agreement (AFTA) on goods trade and the AFAS to include China.

The other international trade agreement is the Viet Nam-US Bilateral Trade Agreement (BTA), which has much more extensive services coverage and more binding commitments. Viet Nam has also concluded some of the bilateral negotiations necessary for accession to the WTO, based on a GATS offer¹⁵ that is even more far-reaching than its commitments under the BTA. While usually economies are more open in bilateral and regional trade agreements than in multilateral agreements, Viet Nam has not followed this approach. In fact, should the conditional GATS schedule of commitments be accepted for accession purposes, Viet Nam's commitments under the GATS will in some instances replace under the principle of most-favoured-nation treatment (as being more liberal) existing AFAS and BTA provisions (see Table A12 in annex).

4.3 Viet Nam's Rights in WTO Accession

The GATS is based on an overall balance of rights and obligations. During the accession process, focus is typically on obligations – i.e., the offer to be made to trading partners. However, it is also important to keep in mind that there are rights that come with WTO membership. In its preamble, the following relevant points are emphasized as being the purpose of the GATS:

- a) "...promoting the economic growth of all trading partners and the development of developing countries;"

- b) "...giving due respect to national policy objectives;"
- c) "Desiring to facilitate the increasing participation of developing countries in trade in services and the expansion of their service exports including, *inter alia*, through the strengthening of their domestic services capacity and its efficiency and competitiveness;"

In the GATS, special provisions have been made for developing countries, for which Viet Nam would qualify:

- a) The particular need to introduce new regulations, in keeping with the provisions of Article VI.
- b) The liberalization of market access in sectors and modes of supply of export interest to Viet Nam (see Article IV:1(c)).
- c) Appropriate flexibility to open fewer sectors, liberalize fewer types of transactions, and attach market access conditions [i.e., performance measures] aimed at achieving the objectives of Article IV (see Article XIX:2).

It is important that Viet Nam make full use of the negotiated measures designed to assist developing economies in order to benefit from liberalization of trade in services. Also, as a WTO acceding country, Viet Nam will have the right to participate in the Doha round of multilateral services trade negotiations and make requests of trading partners.

4.4 Viet Nam's Options in Services Trade Liberalization

Before opening the domestic market further to foreign services suppliers, it is critical that a strong and comprehensive regulatory framework be in place. This would include the following:

- Establishing service industry standards and professional credentials accreditation
- Establishing standards for appropriate skills and/or qualifications required of service suppliers where these do not exist or are vague
- Ensuring adequate enforcement capability for quality standards and professional licenses
- Strengthening existing licensing and standards agencies, where necessary

¹⁵ The following discussion is premised on the revised conditional Offer on Specific Commitments in Services that Viet Nam submitted to the WTO on 27 April 2004 and on the assumption that further revisions are possible before accession if they are shown to be in the economic and social development interests of Viet Nam. Alternately, Viet Nam has the option to achieve national policy objectives through the introduction of new legislation and regulations as long as any differences in treatment between domestic and foreign service suppliers are not trade distorting (GATS Article VI).

In terms of services trade negotiations, the following guidelines may be useful in ensuring maximum benefit for Viet Nam from the international integration process:

a) Mode 1

At least one component of virtually every service can now be delivered via the Internet. Where Viet Nam has scheduled “none” for market access restrictions, foreign service suppliers are free to supply services electronically into Viet Nam without any stipulations to ensure multiplier effects within the economy or to protect consumer interests.

While Viet Nam may not be in a position to reverse commitments made, it is in a position to use domestic regulation to protect consumer interests. As long as the regulations apply equally to domestic and foreign service suppliers, there is no restriction on Viet Nam’s requiring licensing or other performance guarantees from cross-border service suppliers.

b) Mode 3

Viet Nam has already been successful in attracting foreign direct investment and has targeted telecommunications, financial services, tourism, and transportation in particular for capital inflows. Higher education and technical training is another area in which foreign investment might be useful. International schools from 26 universities and vocational training centres in 12 nations have already indicated an interest.

With regard to scheduled commitments, the only restraints that Viet Nam has imposed on foreign services suppliers are related to the timing of 100 percent foreign investment options. Viet Nam also has the right to enact performance requirements for foreign investors – e.g., hiring of local managers, staff training and technology transfer, working conditions, etc.

c) Mode 4

This mode involves four types of temporary movement. Viet Nam has already scheduled commitments with regard to two categories: intra-firm transfers, and service persons. Temporary business travel is a third, and important, type of temporary movement that involves employees of a service enterprise entering a foreign market briefly for business purposes. In regard to this type of temporary movement, the main issue is Viet Nam ensuring that its service exporters can travel abroad easily without undue visa restrictions.

The fourth type of temporary movement is the out-migration of service workers for periods of up to five years. While there is a detailed analysis of this type of flow in WTO’s *World Trade Report 2004*, the coverage is incomplete. The assumption is that

benefits accrue primarily from the movement of low-skilled workers as the gap in wages between rich and poor countries narrows and from the positive spill-overs from transfer of experience and investment of funds earned abroad. It is based on this type of reasoning that Viet Nam’s Prime Minister has allocated VND15 billion as initial capital for the Fund in Support of Labour Exports, with VND11.5 billion to be allocated in the 2005 State budget.

What is missing from the analyses of out-migration as a form of Mode 4 trade in services is the cost to the economy of losing skilled and semi-skilled workers. While economists may argue that the main benefits to be gained are from the movement of low-skilled workers, the reality is that the flows are mainly higher-skilled workers – e.g., computer specialists, electronics workers, industrial engineers, architects, accountants, doctors, dentists, nurses, teachers, managers, financial service specialists. For an economy like Viet Nam, where service sector growth depends on skilled workers, the economic cost of out-migration may be very high. Creating export-oriented employment through outsourcing contracts in Viet Nam may be a more productive alternative.

In general, there are four types of services, each requiring a different approach to market access liberalization:

a) Services with high export potential and low capital costs

For these services, one would want to reserve all modes of supply in order to maximize Vietnamese capacity development, while making requests of trading partners for market access via Modes 1 and 4 in particular.

b) Services with high export potential and high capital costs

For these services, one would want to attract foreign investment to offset capital costs but ensure that they enter as joint venture partners in order to strengthen Vietnamese service capacity.

c) Services with low export potential but high job creation potential

For these services, one would want to protect the job creation potential through mechanisms such as economic needs tests.

d) Services with low export potential and low job creation potential

For these services, one could open the market to foreign service suppliers in exchange for concessions in market access for Vietnamese service suppliers in categories (a) and (b).

4.4.1 Suggested requests of trading partners

For those services with high export potential, it is critical that Viet Nam identify and negotiate the removal of the following types of non-tariff barriers with relevant trading partners:

- Requirements for citizenship or residence in order to become licensed or provide the service
- Requirement for commercial presence (eliminating the possibility of Mode 1 supply)
- Non-recognition of professional credentials
- Delays in obtaining Mode 4 visas (especially into the U.S. market)
- Ownership restrictions
- Discriminatory licensing fees
- Discriminatory taxation (lack of national treatment)

Table 12 below lists the priority services with high export growth potential, with suggestions about the modes of supply in which more liberalized access should be requested. The following guidelines are offered for making such requests in services trade negotiations, particularly of major trading partners:

- a) Top priority – Mode 4
Make requests to remove barriers to temporary business entry. These include the need to obtain a visa before reaching the border (rather than at the border), a requirement to be licensed in the market in order to enter for any business purposes (including attending professional conferences, meeting with potential clients, reporting to clients), non-objective licensing requirements (e.g., must be a national), lack of mutual recognition of professional credentials, and economic needs tests.
- b) Second priority – Mode 1
Negotiate alternatives to any local presence requirements so that small service exporters can trade only cross-border.
- c) Third priority – Mode 3
Request the removal of nationality restrictions on investment.
- d) Fourth priority – Mode 2
Request the removal of any restrictions on foreign affiliates purchasing services in Viet Nam.

Table 12: Proposed Approach to Requests for Market Access Liberalization for Services with High Export Potential

GATS Category	Service	Mode for Request			
		1	2	3	4
Business services	Legal services	*		*	*
	Accounting & auditing	*		*	*
	Architectural services	*		*	*
	Engineering services	*		*	*
	Urban planning	*		*	*
	Medical & dental services	*		*	*
	Nurses, midwives	*		*	*
	Veterinary services	*		*	*
	Computer consulting	*		*	*
	Software development	*		*	*
	Research & development	*		*	*
	Advertising	*		*	*
	Design services	*		*	*
	Market research	*		*	*
	Management consulting	*		*	*
Equipment maintenance & repair	*		*	*	
Services incidental to agriculture	*		*	*	
Services incidental to fishing	*		*	*	
Communication services	Telecommunications services	*		*	*
Construction services	[all stages]			*	*
Education	Higher education & vocational training	*		*	*
Financial services	Insurance	*		*	*
	Banking	*		*	*
	Asset management	*		*	*
	Securities	*		*	*
Transport services	Maritime transport	*		*	*
	Air transport	*		*	*
	Services auxiliary to transport	*		*	*

4.4.2 Suggested offers to trading partners

Services with high export potential and low capital costs.

Each of the services listed in Table 13 below has a high potential for export growth, which could be compromised by inviting increased competition from foreigners in the domestic market as domestic suppliers need to be able to utilize a domestic base of activity to subsidize the development of export markets. In each instance, it is recommended that Mode 1 remain “unbound” so as not to create cross-border competitors into the Vietnamese market. Table 13 also makes suggestions about which of these high potential services could also benefit from soft technology transfer

from foreign suppliers in the form of joint ventures (Mode 3). Mode 4 would remain “unbound”.

Attracting foreign direct investment for high export potential services. For high potential services, growth would be accelerated through also attracting foreign direct investment to help further develop world-class expertise. Table 14 lists the additional services that would benefit from foreign capital. In each instance, it will be important to stipulate performance requirements (as allowed under GATS Article IV and Article XIX) such as hiring, training, technology transfer, and payment towards a universal services access fund.

Table 13: Proposed Approach to Offers Regarding High Export Potential Services

GATS Category	Service	Offer by Mode			
		1	2	3	4
Business services	Legal services	U*	N	JV*	U
	Accounting & auditing	U*	N	JV*	U
	Architectural services	U*	N	U	U
	Engineering services	U*	N	U	U
	Urban planning	U*	N	U	U
	Medical & dental services	U*	N	U	U
	Nurses, midwives	U	N	U	U
	Veterinary services	U*	N	JV*	U
	Computer consulting	U*	N	U	U
	Software development	U*	N	U	U
	Research & development	U*	N	JV*	U
	Advertising	U*	N	JV	U
	Design services	U	N	U	U
	Market research	U*	N	U	U
	Management consulting	U*	N	U	U
	Technical testing & analysis	U	N	U	U
	Equipment maintenance & repair	U*	N	U	U
	Services incidental to agriculture	U*	N	U	U
	Services incidental to fishing	U	N	U	U

* Represents a change from Viet Nam's conditional offer that could be handled alternately through regulatory requirements.

N = none, or no market access restrictions

U = unbound, reserving the right to make market access restrictions

JV = joint venture required

Table 14: Proposed Approach to Offers Regarding Attracting Foreign Investment

GATS Category	Service	Offer by Mode			
		1	2	3	4
Communication services	Telecommunications services	U	N	JV	U
Construction services	[all stages]	U	N	JV	U
Education	Higher education & vocational training	U	N	JV	U
Financial services	Insurance	U	N	JV	U
	Banking	U	N	JV	U
	Asset management	U	N	JV	U
	Securities	U	N	JV	U
Transport services	Maritime transport	U	N	JV	U
	Air transport	U	N	JV	U
	Services auxiliary to transport	U	N	JV	U

* Represents a change from Viet Nam's conditional offer that could be handled alternately through regulatory requirements.

N = none, or no market access restrictions

U = unbound, reserving the right to make market access restrictions

JV = joint venture required, including performance requirements

Low export potential and high employment potential. Some services are best reserved for domestic service suppliers. This may be because they are essential government-supplied services, are critical to national development goals, or need further development before access is liberalized. Table 15 lists such services and indicates a suggested negotiating approach for each. Included here are a wide range of services that allow for low capital set-up and self-employment.

Low export potential and low employment potential. Table 16 lists services where liberalized market access would have few, if any, negative consequences in the domestic economy. This may be because there is already significant domestic strength so that increased foreign presence would only enhance the sector, or it may be because there is not a high potential for increased exports in these services. These are services where offering better market access could be exchanged for

improved market access into a trading partner's market for one of the high potential service exports.

4.5 Ongoing Assessment of the Impact of Market Liberalization

In order to ensure benefits to Viet Nam of market liberalization, it will be important to establish a regular assessment process, like the one already started by the Trade in Services project. In support of that assessment process, it will be important that the General Statistics Office have the resources and support to ensure that Viet Nam's trade in services statistics measure volumes and modes of trade as per GATS definitions. The following are other tools that may be helpful in the assessment process of how well Viet Nam is achieving the objectives outlined in Section 4.1:

- a) Specify precisely how each objective can be measured.

Table 15: Proposed Approach to Domestic Services with High Employment Potential

GATS Category	Service	Proposed Approach
Business services	Property management	Don't schedule
	Marketing services	Don't schedule
	Placement & supply of personnel	Don't schedule
	Investigation & security	Don't schedule
	Surveying & mapping	Economic needs test
	Building-cleaning services	Don't schedule
	Packaging services	Economic needs test
	Printing, publishing	Economic needs test
	Translation services	Don't schedule
	Convention services	Don't schedule
Communication services	Postal services	Don't schedule
	Courier services	Don't schedule
Distribution services	Commission agents' services	Economic needs test
	Wholesaling	Economic needs test
	Retailing	Economic needs test
	Franchising	Economic needs test
Educational services	Primary education services	Don't schedule
	Secondary education services	Don't schedule
	Career development services	Don't schedule
	Curriculum development services	Don't schedule
	Education administration services	Don't schedule
Environmental services	[all]	Don't schedule
Recreational, cultural, and sporting services	Entertainment services	Don't schedule
	News agency services	Don't schedule
Tourism & travel-related	Tour guides	Economic needs test
Transport services	Customs brokerage	Economic needs test
	Freight forwarding	Don't schedule
Other services	Utilities provision	Don't schedule

Table 16: Proposed Approach to Domestic Services with Low Employment Potential

GATS Category	Service	Mode for Offer			
		1	2	3	4
Communication services	Courier services			*	*
Recreational, cultural, sporting services	Recreational services			*	*
	Sporting services			*	*

- b) Develop measurable requirements for soft technology transfer and management training from foreign direct investors.
- c) Prepare a list of guidelines to preserve Vietnamese culture in negotiations.
- d) Prepare guidelines for safeguarding the basic rights to quality of life services of Vietnamese poor.

4.6 Recommendations to Viet Nam's Services Trade Negotiators

Services trade negotiations will be an ongoing process. The following recommendations are offered to assist in making that process as productive for Viet Nam as possible:

- a) Operate from an assumption of existing Vietnamese services exporting capacity and ensure that it is strengthened rather than undermined through the negotiations.

- b) For high export potential services, focus on requests to trading partners unless foreign capital is needed to strengthen domestic capacity.
- c) If the potential for export growth is low, make sure that any market liberalization results in employment creation through the use of performance measures or economic needs tests.
- d) Keep in mind Viet Nam's right to regulate in keeping with its own national policy objectives and the importance of a strong, comprehensive, effective, and transparent domestic regulatory regime.
- e) Keep in mind that there is, at present, no obligation under the GATS to schedule subsidies or government procurement restrictions as those areas remain open to ongoing negotiations.
- f) Consult regularly with Viet Nam's service exporters, especially small private sector service suppliers, to determine their needs and export market priorities.

Chapter 5

Core Conclusions for the Design of a Comprehensive Development Strategy for the Services Sector in Viet Nam up to 2020

From the research outcomes of the study on “*Options and Recommendations for a Comprehensive Development Strategy for the Services Sector in Viet Nam up to 2020*,” the following conclusions can be drawn that can form the rationale for an overall development strategy for the services sector in Viet Nam up to 2020:

- 1- The services sector, especially intermediate services, is key to strengthening the competitiveness of the national economy, supporting the industrialization process, fuelling the shift to a knowledge-based economy by providing high-quality inputs for all economic activities, and addressing poverty alleviation through service sector employment creation and provision of affordable essential services (i.e., electricity, telecommunications, education, health).
- 2- Services trade liberalization can have a positive impact on the development of the services sector as long as there is a strong regulatory framework in place that supports national policy objectives and priority is given to increasing Vietnamese services export competitiveness.
- 3- The services sector in Viet Nam is still under-developed with poor competitiveness and more weaknesses than strengths. The legal framework for services sector development, though rapidly expanding, is still inadequate, contradictory, not transparent, and inconsistent with international standards and rules. Services statistics methodology in Viet Nam still has discrepancies with international classification systems and methodologies.
- 4- To reach the overall targets of socio-economic development strategy stated in the Political Document of the IXth Party Congress, particularly those for the services sector, the average annual growth rate of the services sector in the 2005-2010 and 2010-2020 periods will need to be 10.2% and 9.5% respectively, with 13.5% average annual growth in telecommunications, education and training, business services, science and technology, and financial services.
- 5- Ensuring that growth targets are met for the services sector is also key to realizing Viet Nam’s Millennium Development Goals, both directly (in terms of enhancing the availability and affordability of education, health, ICT services, and environmental services) and indirectly (by alleviating poverty and empowering women through entrepreneurial and employment creation opportunities in service enterprises).
- 6- The development model for the services sector in Viet Nam in the 2005-2010 period should be “services as supporting inputs for industrial sector development” with the six following prioritized services sub-sectors: (a) telecommunications; (b) education and training; (c) business services; (d) finance; (e) transportation; and (f) tourism, of which telecommunications, education and training and business services are “break-through” sub-sectors with “spill-over” and dynamic effects in facilitating development in other economic sectors.
- 7- For Viet Nam to develop a competitive services sector in the age of international integration, it will be necessary to: (a) reshape political thinking and economic perceptions of the services sector as the key determinant for building the competitiveness of the national economy; (b) create efficient coordination among government bodies in charge of services activities; (c) establish a strong regulatory and legal framework with consistent implementation and in accordance with international standards; (d) build a training system that would develop and maintain high-quality supervisory and service management skills; (e) develop employment and entrepreneurial opportunities in business services; (f) increase domestic demand for services coupled with expanded service exports; and (g) develop a GATS-compatible services statistics system to measure the success of service sector development.
- 8- Effective coordination is particularly important in order to ensure that Viet Nam is able to meet the Millennium Development Goals, which are closely linked to service sector development. Goal 1 on eradicating extreme poverty and Goal 3 on empowering women can both be addressed through entrepreneurial and employment opportunities in services. Goal 2 on primary education can be addressed through strengthening the accessibility and affordability of educational services. Similarly, Goals 4, 5, and 6 can be addressed through

improving the accessibility and affordability of health care services. Environmental sustainability (Goal 7) is directly linked to environmental services, and global partnerships (Goal 8) need ICT services in order to advance.

9- To ensure that the overall objectives for a competitive service sector are met, a detailed national strategy is needed for the three “break-through” services (particularly training and business services).

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ANNEX A

Table A1: Types of Governmental Entities That May Be Responsible for Services

Service/Topic	Entities Responsible for Services	
	Government Agency	Responsibilities that may have been privatized
Business services	Ministry of Industry Ministry of Agriculture Ministry of Fisheries Ministry of Forestry Ministry of Mining Ministry of Justice	Real Estate Board Professional Licensing Registrar Government Printer National Research Council
Communication services	Ministry of Communications Ministry of Industry Ministry of Culture	Internet Service Providers Telecommunications Regulator Postal Service National Film Board National News Service
Construction and related engineering services	Ministry of Public Works Ministry of Industry	Housing Authority Planning & Zoning Authority
Distribution services	Ministry of Industry Customs Authority	
Educational services	Ministry of Education Ministry of Industry	
Environmental services	Ministry of the Environment Ministry of Industry	Waste Disposal Authority Recycling Authority
Financial services	Ministry of Finance Central Bank Insurance Registrar Securities Regulator	Securities Exchange/Stock Market
Health-related and social services	Ministry of Health Ministry of Social Welfare Ministry of Women & Families	Natural Disaster Agency Infectious Disease Authority Vocational Rehabilitation
Recreational, cultural and sporting services	Ministry of Culture Ministry of Sports Parks Authority Recreation Centres	National Museum National Library Council for the Arts
Tourism and travel-related services	Ministry of Tourism Parks Authority	
Transport services	Ministry of Transportation Vehicle Licensing	Port Authority Airport Authority
Other services	Utilities Regulator	Public utilities (water, gas, electricity)
Cross-Sector: Modes of Supply & E-Trade	Immigration Authority Investment Authority Export Development Authority Company Registry Land Title Registry Ministry of Trade	
Cross-Sector: Competitiveness Issues	Ministry of Small Business Central Statistical Office	

Table A2: Types of Services Being Exported by Viet Nam by GATS Category

<i>Business Services:</i>	<i>Communications Services:</i>	<i>Recreation/Culture/Sports:</i>
Accounting	Courier services	Cultural services
Advertising	Internet services	Entertainment services
Architectural services	Motion picture projection	Recreational services
Building-cleaning services	Postal services	<i>Tourism & Travel-Related:</i>
Computer consultancy services	Telecommunications	Hotel services
Consulting engineering	<i>Construction Services:</i>	Restaurant services
Data processing services	General-buildings	Travel agencies
Database services	Finishing work	Tour guides
Equipment maintenance & repair	Installation & assembly	Tour operators
Equipment rental & leasing	<i>Distribution Services:</i>	<i>Transport Services:</i>
Legal services	Commission agent services	Air cargo
Management consulting	Retail services	Air traffic control services
Market research	Wholesale services	Air transport-passengers
Medical & dental services	<i>Educational Services:</i>	Aircraft ground services
Midwives & nurses	Higher education	Cargo handling
Packaging services	Primary education	Freight transport
Photographic services	Secondary education	Inland waterways-freight
Physiotherapy, massage services	Technical training	Inland waterways-passengers
Printing/publishing	<i>Environmental Services:</i>	Logistics services
Public relations	Sewage services	Maritime passenger services
Real estate services-rental	Waste disposal	Maritime shipping
Security services	<i>Financial Services:</i>	Maritime towing services
Supply of personnel	Banking	Road transport-taxis
Technical testing & analysis	Insurance-property	Storage & warehousing
Translation services	<i>Health-Related Services:</i>	<i>Other Services:</i>
Veterinary services	Ambulance services	Electricity
	Hospital services	Water

Source: Research by the Core Team.

Table A3: Viet Nam's Services Export Markets

Australia	Italy	Singapore
British Virgin Islands	Japan	Spain
Cambodia	Korea, Republic of	Sweden
Canada	Laos	Switzerland
China	Malaysia	Taiwan
France	Netherlands	Thailand
Germany	Philippines	U.K.
Hong Kong (SAR)	Russian Federation	U.S.A.
Indonesia		

Source: Research by the Core Team.

Table A4: Inter-linkages among Selected Service Sub-Sectors

Inputs From	Service Sector	Inputs To
Education & training Business services: - IT services and R&D - Engineering services Financial services	Telecommunications	All services, including national security
Telecommunications Education & training (teachers) Business services: - IT services - Management consulting - Architecture (schools) - Engineering (schools) Construction (schools) Financial services	Education & Training	All services, including national security
Telecommunications Education & training Business services: - IT services - Market research - Management consulting	Financial Services	All services
Telecommunications Education & training Business services: - IT services - Market research - Management consulting Financial services	Business Services	All services, including national security
Telecommunications Education & training Business services: - IT services - Market research - Management consulting - Architecture (airports) - Engineering (airports; aircraft) Construction (airports) Financial services	Air Transport Services	Business services Postal & courier services Distribution services Health (emergency) services Recreational, cultural, sports Tourism National security
Telecommunications Education & training Business services: - IT services - Market research - Management consulting - R&D (shipbuilding) - Architecture (ports) - Engineering (ports; vessels) Construction (ports) Financial services	Maritime Services	Distribution services National security
Telecommunications Education & training Business services: - Architectural services - Engineering services - IT services - Market research - Management consulting - R&D Financial services Environmental services Distribution services (supplies) Transport services (supplies)	Construction Services	Educational services (schools) Health services (hospitals) Tourism Port development for transport services

Table A4: Inter-linkages among Selected Service Sub-Sectors (cont'.)

Inputs From	Service Sector	Create Demand For
Telecommunications	Tourism	Hotels & restaurants
Education & training		Distribution services
Business services:		Health services
- IT services		Recreational, cultural, sports
- Market research		Transport services
- Management consulting		
- Design & packaging		
- Architecture (attractions)		
- Engineering (attractions)		
Construction (attractions)		
Financial services		
Environmental services		
Air transport		

Table A5: Overview of Legal Instruments Affecting Services in Viet Nam

Coverage	Legal Document	Promulgated	Notes
All economic activities	Law on VAT	10 May 1997	
	Commercial Law	1997	(being revised)
	Labour Code	2001	
	Ordinance on the Protection of Consumers' Interest	1 Oct 1999	
	Enterprise Law, SOEs Law	1995, 1999	
	Ordinance 08-2003-PL-UBTVQH11	25 Feb 2003	Commercial Arbitration
	Law on Statistics	17 June 2003	
	Decision 46-2003-QD-TTg	2 April 2003	Abolishes the obligation for compulsory conversion of current income in foreign currency by all types of firms
	Decree 27-2003-ND-CP	19 March 2003	Shifting from licensing towards an investment registration regime, for some types of projects
	Competition Law	9 Nov 2004	(being drafted)
	Ordinance on Standardization		(being drafted)
	Ordinance on e-commerce		(being revised & merged with Law on FDI)
	Law on Promotion of Domestic Investment		
Ordinance on Economic Arbitration	2003		
Law on Export and Import Taxes		(being drafted)	
International Agreements	Ordinance 41-2002-PL-UBVQH10	25 May 2002	MFN and national treatment
	Omnibus Bill		(being drafted)
	Ordinance on Recognition and Enforcement of Foreign Arbitral Awards in Viet Nam		(being revised and amended)
	Official Letter 6842-2004-TC-CST	21 June 2004	Fees that are priced in two tiers for Vietnamese and foreigners will be adjusted to become one common fee level
Foreign investment	FDI Law	1987, 1996, 2000	
	Decision 146-2003-QD-TTg	17 July 2003	Raises the cap on total foreign shareholdings in domestic shareholding companies listed on the Vietnamese securities market to 30% (from 20%)
	Decree 105		Restriction on the share of foreign employees

Table A5: Overview of Legal Instruments Affecting Services in Viet Nam (cont'.)

Coverage	Legal Document	Promulgated	Notes
Business/professional services: Accounting	Law on Accounting	17 June 2003	Applicable to FIEs, foreign company branches and foreign company representative offices, individuals involved in accounting, as well as most Vietnamese entities.
Business/professional services: Auditing	Decree 105-2004-ND-CP	21 April 2004	Replaces Decree 07-ND-CP of the Government on Independent Auditing dated 29 January 1994.
Business/professional services: Legal services	Decree 87-2003-ND-CP (replaces Decree 92/1998/ND-CP)	22 July 2003	On Practice by Foreign Lawyer Organizations and Foreign Lawyers in Viet Nam, expanding the scope of operation for foreign law firms to meet requirements of the BTA.
Business/professional services: Medical & dental services	Law on Lawyers Ordinance on Private Medical Practice	25 Feb 2003	(being drafted)
Business/professional services: Veterinary services	Ordinance on Veterinary Service	2003	
Business services: R&D	Decree 06/2000/ND-CP	6 March 2000	Foreign cooperation and investment in the fields of medical examination & treatment, education & training, and scientific research
Business services: Real estate	Law 13-2003-QH11 on Land (Amended)	26 Nov 2003	
Business services: Advertising	Ordinance on Advertising	16 Nov 2001	
Business services: Consultation services	Decree 87/2002/ND-CP	5 November 2002	Prohibits individuals from providing consultancy services
Communications: Postal services	Ordinance 43-2002-PL-UBTVQH10	25 May 2002	Regulates Posts & Telecommunications, reforms the existing State monopoly in the posts and telecom sector in light of Viet Nam's international commitments.
Communications: Telecommunications	Decision 217-2003-QD-TTg Ordinance 43-2002-PL-UBTVQH10	27 October 2003 25 May 2002	Lowers post and telecoms fees Regulates Posts & Telecommunications, reforms the existing State monopoly in the posts and telecom sector in light of Viet Nam's international commitments.
Construction services	Decision 217-2003-QD-TTg Law 16-2003 QH11	27 October 2003 26 November 2003	Lowers post and telecoms fees Rights and obligations of both domestic and foreign organizations and individuals investing in construction
	Decision 87-2004-QD-TTg	19 May 2004	Regulations on Management of Operations of Foreign Contractors in the Construction Sector
Distribution services: Commission agents	Decree 27/2003/ND-CP	19 Mar 2003	
Distribution services: Franchising	Article 9-Decree 45/1998/ND-CP Decree 63/CP	1 July 1998 24 Oct 1996	(no unified legal instrument on franchising to date)
Educational services	Law on Education Decree 29/CP Decree 43/2000/ND-CP	1998 30 March 1994	MOET's responsibilities for training sectors and professions of technical/vocational secondary schools and the issuance of

Table A5: Overview of Legal Instruments Affecting Services in Viet Nam (cont').

Coverage	Legal Document	Promulgated	Notes
			targets, programs, contents and methodologies for training at all levels
	Decree 18/2001/ND-CP	4 May 2001	Non-profit projects
	Decree 165/2004/ND-CP	14 Sept 2004	International cooperation
	Decree 06/2000/ND-CP	6 March 2000	Foreign cooperation and investment in the fields of medical examination & treatment, education & training, and scientific research
	Decree 96/CP, Article 2	7 December 1993	MOLISA's responsibility to manage vocational training activities that are closely related to employment (being drafted)
Environmental services	Ordinance on Environmental Taxes		
Financial services: Insurance	Law on Insurance	9 Dec 2000	Strategy for Developing the Insurance Market in Viet Nam for the 2003-2010
	Decision 175-2003-QD-TTg	29 August 2003	
Financial services: Banking	Law on SBV	12 December 1997	
	Credit Institutions Law	12 December 1997	
	Decree 89/1999/ND-CP	1 Sept 1999	Establishing the Deposit Insurance Agency of Viet Nam (DIA)
	Decision 546-QD-NHNN	1 June 2002	Commercial banks may now set their own interest rates on VND loans (they have been able to do for foreign currency loans since mid-2001).
	Circular 07-2003-TT-NHNN	19 May 2003	Provisions on security for loans from credit institutions.
Financial services: Securities	Decree 144-2003-ND-CP	28 November 2003	On Securities and Securities Trading. Now allows for foreign investment in securities investment funds and fund management companies, subject to capital contribution limitations. Public issues of securities are now subject to registration with the SSC
Health-related & social services	Ordinance on Private Medical Practice	25 Feb 2003	
Tourism & travel-related services	Tourism Ordinance	8 February 1999	Management of tourism, tourism resources, eligibility for establishing tourism businesses (currently being revised)
Transport: Maritime services	Maritime Code	1990	Only Vietnamese-owned ships
	Decree 57/2001/ND-CP	2001	
Transport: Air services	Law on Civil Air Transport	1992, 1995	
Transport services: Other	Decree 10/2001/ND-CP	2001	Shipping agents must be 100% Vietnamese-owned
	Circular No. 1011/ 2001/CP-QHQT	2001	Air freight agencies must be more than 51% Vietnamese
Other: Utilities & energy services	Electricity Law	2004	

Table A6: Examples of Regulatory Objectives

Regulatory Role	Services Covered	Typical Requirements
Business license	All service enterprises	Name search/registration Application Ownership documents
Performance guarantee	Professional services Construction Educational institutions, clinics, hospitals, hotels, restaurants Banks, insurance	Professional license Professional liability insurance Performance bond Certificate from accreditation body Minimum deposits; deposit insurance
Licensing of professionals: Initial	Accountants, architects, dentists, doctors, engineers, lawyers, midwives, nurses, physiotherapists, pilots, veterinarians	Educational credentials Supervised practice Professional examination Ethics & security check
Licensing of other service providers: Initial	Taxi drivers, tour guides	Examination Security check
License renewal	All licensed persons	Continuing education
Taxation: VAT	All service enterprises	Same rate for all services
Taxation: Income	All service enterprises	Lower rate for small businesses
Verify ownership rights for: Land title Building title Commercial property title Corporate assets Intellectual property rights	All service enterprises	Application Supporting documentation
Specify collateral for equipment loans	All service enterprises	Equipment serves as the collateral
Specify collateral for operating lines of credit (overdraft facilities)	All service enterprises	Accounts receivable may serve as the collateral (discounted by 10- 25%)
Verify performance	Small or micro service businesses Construction Accountants; financial statements of all enterprises over a stated size Banks, insurance, securities Educational institutions, clinics, hospitals, hotels, restaurants, transportation equipment	Government may serve as co- guarantor Inspection of final work Independent audit Independent audit Annual inspection and re- certification
Oversight of monopoly and exclusive service suppliers	All monopoly and exclusive service suppliers	Independence from operations Regular audit against performance standards
Provide impartial review of administrative decisions on business applications	All service enterprises	Provide information on the status of application Respond promptly to request for review
Provide impartial review of administrative decisions on professional licensing	All licensed professionals	Provide information on the status of application Respond promptly to request for review
Provide impartial review or appeal of administrative decisions on business practices, taxes levied, etc.	All service enterprises	Respond promptly to request for review Provide appropriate remedies if applicable
Government procurement	All services except national security	2-envelope bidding process, separating technical proposals from financial proposals Certain contracts set aside for small business bids

Table A7: Status of Service Industry Associations in Viet Nam

	International Association Membership	Technical Assistance from Sister Association?	Code of Conduct?	Ongoing Skills Training?	Licensing or Certification of Members?
Viet Nam Accounting Association	IFAC, AFA	Information exchange	*	Yes	Certification
Viet Nam Advertising Association	Asia-Pacific Advertising Association	No	*	Yes	Certification
Viet Nam Association of Architects	IAA, UIA	No	*	No	No
Viet Nam Bankers Association	ASEAN Banker Assoc.	Information exchange	*	Yes	Certification
Viet Nam Association of Software Businesses	Asocio Witsa	SITF	*	Yes	Certification
Vietnamese Engineering Consultant Association	FIDIC	Australia (ACEA)	*	Yes	Certification
Viet Nam Freight Forwarders' Association	World Shipping Association, International Federation of Freight Forwarders, AFFA	IFA	*	Yes	Certification
Viet Nam Insurance Association	ASEAN Insurance Association	n/a	*	n/a	n/a
Vietnamese Lawyers Association	World Democratic Lawyers Association, Asia-Pacific Lawyers Assoc., ASEAN Lawyers Assoc., Mekong River Lawyers Assoc.	American Bar Assoc., Australian Law Assoc., Canadian Bar Assoc., Japanese Fed. of Bar Assoc., Indian Lawyers Assoc., Pakistan Lawyers Assoc.	*	Yes	Certification
Viet Nam General Association of Medicine & Pharmacy	MASEAN	Chinese Medical Association	*	Yes	Certification
Viet Nam Real Estate Association	FIABCI	No	*	Yes	Certification
Viet Nam Securities Business Association	n/a	n/a	*	Yes	Certification
Viet Nam Tourism Association	ASEAN Tourism Association	No	*	Yes	No

* There are criteria for membership, but not an enforceable professional code of conduct.

Table A8: Detailed Projections for Percent of Viet Nam's GDP by Economic Activity

Economic Activity	Percent of GDP in:			
	2000	2005	2010	2020
Agriculture	23.3	19.6	15.8	10.2
Industry:	35.4	40.6	42.1	39.9
Mining & quarrying	6.7	5.7	4.3	2.7
Manufacturing	18.8	22.9	24.7	23.8
Utilities	2.3	2.9	3.2	3.0
Construction	7.5	9.1	10.0	10.3
Services:	41.3	39.8	42.0	50.0
Wholesale & retail trade	16.3	16.2	15.8	14.9
Hotels & restaurants	3.2	3.2	3.4	3.7
Transportation/ communications	3.9	3.8	4.6	7.2
Finance	2.1	2.1	2.5	4.3
Business services; real estate	4.5	3.9	4.7	8.0
Science & technology	0.6	0.6	0.8	1.3
Public administration	2.9	2.6	2.2	1.7
Education & training	3.3	3.4	4.1	5.3
Health & social services	1.4	1.4	1.5	1.6
Culture	0.6	0.5	0.5	0.4
Party activities	0.1	0.1	0.1	0.1
Community services	2.1	1.9	1.7	1.6
Private services	0.2	0.2	0.1	0.1
Total GDP	100.0%	100.0%	100.0%	100.0%

Table A9: Detailed Projections for Average Annual Growth by Economic Activity

Economic Activity	Average Annual Growth			
	2000-05	2005-10	2000-10	2010-20
Agriculture	3.5	4.5	4.0	3.0
Industry:	10.2	9.8	10.0	7.1
Mining & quarrying	3.6	3.0	3.3	3.0
Manufacturing	11.5	10.6	11.0	7.3
Utilities	12.1	11.0	11.5	7.0
Construction	11.3	11.0	11.1	8.0
Services:	6.4	10.2	8.3	9.5
Wholesale & retail trade	7.0	8.5	7.7	7.0
Hotels & restaurants	6.7	10.5	8.6	8.5
Transportation/ communications	6.4	13.5	9.9	12.5
Finance	7.1	13.5	10.3	13.5
Business services; real estate	4.1	13.5	8.7	13.5
Science & technology	9.2	13.5	11.3	13.5
Public administration	4.8	5.0	4.9	5.0
Education & training	7.2	13.5	10.3	10.5
Health & social services	7.1	9.5	8.3	8.5
Culture	5.1	7.0	6.0	5.0
Party activities	5.5	5.5	5.5	5.5
Community services	5.6	6.5	6.0	6.5
Private services	2.5	3.5	3.0	3.0
Total GDP	7.2%	9.0%	8.1%	7.7%

Table A10: Business Services as a "Break-Through" Sector

To increase competitiveness, this activity...	...needs at least these business services:
Agriculture	Accounting services Computer services Consultancy services Equipment maintenance and repair Equipment rental and leasing Legal services Market research

Table A10: Business Services as a “Break-Through” Sector (cont’n.)

To increase competitiveness, this activity...	...needs at least these business services:
Manufacturing	Research & development Services incidental to agriculture Soil testing & other laboratory services Veterinary services Accounting services Computer services Consultancy services Equipment maintenance and repair Equipment rental and leasing Legal services Market research Research & development Industrial design Industrial engineering Packaging services
Construction	Accounting services Computer services Consultancy services Equipment maintenance and repair Equipment rental and leasing Legal services Market research Research & development of new methods & materials Architectural services Consulting engineering services Design services
ICT/telecommunications	Accounting services Computer services Consultancy services Equipment maintenance and repair Equipment rental and leasing Legal services Market research Research & development
Finance	Accounting services Computer services Consultancy services Equipment maintenance and repair Equipment rental and leasing Legal services Market research
Transportation	Accounting services Computer services Consultancy services Equipment maintenance and repair Equipment rental and leasing Legal services Market research Engineering services
Tourism	Accounting services Computer services Consultancy services Equipment maintenance and repair Equipment rental and leasing Legal services Market research Advertising Convention services Medical, dental, nursing services Translation services

Table A11: Projects Needing External Funding

Topic	Research Needed	Pilot Project Needed
Extending nationwide telecommunications network, including broadband, wireless & satellite		E-government, e-health, and e-learning initiative for rural communities
Expanding the availability of start-up and growth capital	How to ensure that government retains sufficient funds to lend at minimal rates to the very poor	Programme, with incentives tied to becoming profitable within 2 years and creating at least 3 new jobs, would provide training and coaching support for export-quality business services, targeting recent graduates who are unemployed and would offer ITC's "Managing Services for Global Competitiveness" curriculum plus English speech training.
Entrepreneurship in business services such as professional services, IT services, R&D and technical testing services, market research, equipment repair and maintenance, services that would improve value added in manufacturing (logistics, production design, packaging, quality assurance) and services that would improve value added in agriculture (veterinary services, soil analysis, agrology, etc.).		
Improving pronunciation and comprehension of business English		Mandatory professional development program for Vietnamese teachers of English, taught by native speakers of English
Improving the skills and quality control of service providers		Assist service industry associations to provide continuing education and skills training to their members
Developing skilled workers for service enterprises	Assess the current skills and occupational interests of Viet Nam's labour force, with particular attention to those who are unemployed or underemployed	Three phase pilot project: a) Encourage unemployed recent graduates to create business services enterprises. b) Provide training in office skills and data entry/ management to workers moving from rural to urban areas. c) Create rural back office ("offshoring") operations, with appropriate training – perhaps linked to the IT park in HCMC.
Improving the quality of management and supervision	Analyze the reasons for weakness in management and supervisory skills	
Improving logistical services	Value chain analysis of logistical services and opportunities for integration and increased efficiency	
Improving services export capacity	Conduct a study of Viet Nam's services export capacity, by mode of supply and export market	Assist service industry associations and training institutions to delivery the ITC <i>Successful Services Exporting</i> modules

Table A12: Summary of Sectors Scheduled under AFAS, BTA, and GATS

Service Sector	AFAS	V-US BTA	GATS (Conditional)
Business services: Professional			
Legal services		*	*
Accounting & audit	*	*	*
Architectural services	*	*	*
Engineering services	*	*	*
Urban planning & landscape arch.			*
Medical & dental services		*	*
Veterinary services			*
Business services: Computer		*	*
Business services: R&D			*
Business services: Other			
Advertising		*	*
Market research		*	*
Management consulting		*	*
Services incidental to agriculture			*
Services incidental to mining			*
Services incidental to manufacturing			*
Equipment maintenance & repair			*
Communications: Telecommunications	*	*	*
Communications: Audio-Visual		*	*
Construction	*	*	*
Distribution		*	*
Education:			
Higher education (technical, natural science, technology)		*	
Higher education			*
Adult education			*
English language training			*
Financial services		*	*
Health: Hospital services		*	*
Tourism & travel related services;			
Hotels & restaurants	*	*	*
Travel agencies & tour operators		*	*
Recreational/cultural: Entertainment			*
Transport: Maritime services			
Passenger	*		*
Freight			*
Rental of vessels with crew	*		
Transport: Internal waterways			
Passenger & freight			*
Transport: Air services			
Marketing & sales	*		*
Computer reservation systems	*		*
Aircraft repair & maintenance	*		*
Rental of aircraft	*		
Passenger & freight			*
Transport: Road			
Passenger & freight			*
Transport: Ancillary services			
Storage & warehousing			*
Freight forwarding			*

ANNEX B

Ministries Responsible for Service Industries

GATS Category	Service	Ministry or Commission															
		Agriculture	Construction	Culture & Information	Education	Finance	Fisheries	Health	Justice	Natural Res. & Environment	Post & Telecom	S&T	Sport	Tourism	Trade	Transport	
Business services	Legal services							*									
	Accounting & auditing	*	*			*											*
	Architectural services	*	*														*
	Engineering services		*														*
	Urban planning																
	Medical & dental services							*									
	Veterinary services	*															
	Nursing & midwifery							*									
	Computer consulting				*					*	*	*	*	*	*	*	*
	Software development									*	*	*	*	*	*	*	*
	Data processing									*	*	*	*	*	*	*	*
	Database services				*					*	*	*	*	*	*	*	*
	Research & development	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
	Real estate services	*	*							*	*	*	*	*	*	*	*
	Property management	*	*					*		*	*	*	*	*	*	*	*
	Equipment rental & leasing	*	*			*				*	*	*	*	*	*	*	*
	Advertising									*	*	*	*	*	*	*	*
	Market research	*								*	*	*	*	*	*	*	*
	Management consulting	*	*							*	*	*	*	*	*	*	*
	Technical testing & analysis	*	*							*	*	*	*	*	*	*	*
	Services incidental to agriculture	*	*							*	*	*	*	*	*	*	*
	Services incidental to fishing	*	*							*	*	*	*	*	*	*	*
	Services incidental to mining	*	*							*	*	*	*	*	*	*	*
	Services incidental to manufacturing	*	*							*	*	*	*	*	*	*	*
	Services incidental to energy distribution	*	*		*					*	*	*	*	*	*	*	*
	Placement & supply of personnel	*	*					*		*	*	*	*	*	*	*	*
	Investigation & security	*	*					*		*	*	*	*	*	*	*	*
	Scientific & technical services	*	*							*	*	*	*	*	*	*	*
	Equipment maintenance & repair	*	*							*	*	*	*	*	*	*	*
	Building-cleaning services	*	*							*	*	*	*	*	*	*	*
	Photographic services	*	*							*	*	*	*	*	*	*	*

ANNEX B (continued)

Ministries Responsible for Service Industries

GATS Category	Service	Ministry or Commission															
		Agriculture	Construction	Culture & Information	Education	Finance	Fisheries	Health	Justice	Natural Res. & Environment	Post & Telecom	S&T	Sport	Tourism	Trade	Transport	
	Packaging services	*	*	*	*	*											
	Printing, publishing	*	*	*	*	*											
	Translation services			*	*	*		*									
	Convention services													*			
Communications	Postal services									*							
	Courier services									*							*
	Telecommunications									*							
	Internet-related services									*							
	Audio-visual services			*	*	*				*							
Construction	[all stages]	*	*							*							
Distribution	Commission agents' services	*	*							*				*			*
	Wholesale services	*	*							*				*			*
	Retailing services									*				*			*
	Franchising services									*				*			*
Educational services	Primary education services				*	*											
	Secondary education services				*	*											
	Higher education services				*	*											
	Adult education				*	*											
	Vocational training				*	*											
	Career development services				*	*											
	Curriculum development services				*	*											
	Education administration services				*	*											
Environmental services	Sewage services																*
	Waste management services																*
	Sanitation services																*
Financial services	Environmental impact assessments	*															*
	Insurance															*	*
	Banking															*	*
	Securities															*	*
	Asset management															*	*

ANNEX B (continued)

Ministries Responsible for Service Industries

GATS Category	Service	Ministry or Commission														
		Agriculture	Construction	Culture & Information	Education	Finance	Fisheries	Health	Justice	Natural Res. & Environment	Post & Telecom	S&T	Sport*	Tourism	Trade	Transport
Health-related & social services	Hospital services															*
	Ambulance services							*								
	Long-term care services							*								
	Spa services							*						*		
Recreational, cultural, sporting services	Entertainment services			*												
	New agency services			*					*				*			
	Cultural services			*									*			
	Recreational services			*									*			
Tourism & travel-related services	Sporting services												*			
	Hotels & restaurants	*	*	*	*			*		*				*	*	*
	Travel agency services	*	*	*	*			*		*				*	*	*
	Tour operators													*		
	Tourist guides services													*		
Transport services	Maritime transport															*
	Air transport															*
	Road transport		*													*
	Storage & warehousing		*												*	*
	Customs brokerage		*												*	*
	Freight forwarding		*												*	*
	Utilities provision															*
Other																*

Policy Issues:

- Ministry of Planning & Investment – services trade policy
- Ministry of Industry – industrial policy; incentives
- Ministry of Science & Technology – technical standards; intellectual property rights
- Ministry of Agriculture & Rural Development – employment creation in rural areas; microcredit
- Ministry of Labour – employment
- Ministry of Natural Resources & Environment – land use



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