



RESEARCH REPORT

LIBERALIZATION IN THE SERVICE SECTOR OF VIETNAM

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Hanoi, March 2019

INTRODUCTION

Services play an important role in any modern economy. Services serve not only as final products but also as inputs into the production of other sectors (including manufacturing and service). However, the development of the service sector in Vietnam is still limited, incommensurate with its potential and the demand of the economy for this sector. One of the reasons is the high restrictiveness of Vietnam service market to foreign service providers despite the fact that Vietnam has joined WTO and dozens of FTAs which include service opening commitments. The level of services liberalization of Vietnam is relatively low when compared to that of other economies with the same level of development.

On one hand, this has prevented foreign service suppliers from accessing the Vietnamese market. On the other hand, Vietnamese service sector has lacked a reasonable competitive pressure from outside to push for the development of domestic service industries. As a result, not only Vietnamese consumers but also Vietnam's manufacturing and exporting companies who use a huge amount of service products as inputs are at a disadvantage when they have much less chance to use services with more reasonable prices and better quality.

However, until now, there has not yet been a comprehensive study on the level of openness of Vietnamese service market according to Vietnam's international commitments (WTO, FTAs), as well as the voluntary opening of Vietnam under the internal needs. Therefore, the WTO and International Trade Center of the Vietnam Chamber of Commerce and Industry (VCCI) with the support of the Embassy of England and Northern Ireland in Vietnam, conducted a study on "Liberalization in the service sector of Vietnam". The purpose of this study is providing a comprehensive picture about the development of services and the process of service liberalization in Vietnam, especially exploring the role of service liberalization to Vietnam economy. From that, the study provides solutions and recommendations for Vietnamese Government and foreign service suppliers.

We hope that this study will contribute to exploring the current situation and the impacts of the service liberalization of Vietnam, recommending solutions to accelerate the process of service liberalization in a reasonable way, thereby promoting the development of Vietnam's service sector in particular and the whole economy in general.

The WTO and International Trade Center, VCCI, would like to thank the British and Northern Irish Embassy for their support in implementing this study.

The WTO and International Trade Center
Vietnam Chamber of Commerce and Industry

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LIST OF ABBREVIATION

AFAS	ASEAN Framework Agreement on Services
APEC	Asia – Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BTA	Bilateral trade agreement
CPTPP	Comprehensive and Progressive Agreement for Trans- Pacific Partnership
FDI	Foreign direct investment
FTA	Free trade agreement
GDP	Gross Domestic Product
OECD	Organization for Economic Co-operation and Development
STRI	Services Trade Restrictions Index
VN – EAEU FTA	Vietnam - Eurasian Economic Union free trade agreement
WTO	World Trade Organization

Part I:

OVERVIEW OF VIETNAMESE SERVICE SECTORS AND THE PROCESS OF TRADE LIBERALIZATION IN VIETNAM

This section provides an overview of Vietnam's service industries. By analyzing the information and characteristics of service sectors, the contribution of service sectors to total GDP as well as to total trade and investment of Vietnam, the study will show the role of services in the Vietnamese economy. Next, the study looks at Vietnam's service liberalization process since Vietnam's opening up of the economy. The study will summarize Vietnam's commitments to open important services markets in the WTO and FTAs. Finally, the study will provide an overview and analysis of the level of service market liberalization in Viet Nam.

1. Overview of Vietnamese service sectors

Service is an important sector in every economy. It is not only an end product (service) but also an intermediary of other industries (including manufacturing and services). For example, the phone manufacturing industry will need a variety of input services, from upstream services such as product research and development, product design, employee training, to midstream services such as accounting, financial, legal... and finally downstream services such as advertising, maintenance, customer care... As production grows, the demand for input services increases. At the same time, the higher the income, the greater the demand for diversified and better products and services becomes. As a result, the share of services in the economy is growing, especially in developed countries where services usually account for about 70% of GDP¹.

In Vietnam, although the service sector has experienced impressive growth rates in the last few decades, it has not yet played a real role in the economy; the level of policy attention to the industry is limited; there are many barriers and low competitiveness. Historically, as in other economic sectors, services have been formed as an independent economic sector,

¹ https://unctad.org/meetings/en/SessionalDocuments/c1mem4d14_en.pdf

rather than a sector managed and operated by the Government only after the “Doi Moi” of Vietnam. However, in the early period of “Doi Moi” (1986-1990), Vietnam mainly focused on developing goods production (most of which was agricultural production to ensure food security). In the period after “Doi Moi” (around the 1990s), when Vietnam stepped up industrialization and modernization, new services started to develop, but with little attention as compared to the production of goods. Only since the 2000s when Vietnam pushed for an open market economy (including services market) and attracted foreign investment, that the service sector of Vietnam started to flourish. In the late 2000s, with accession to the WTO and the signing of a series of FTAs in the region, the service market in Vietnam witnessed a strong development. So far, after 30 years of opening and transition to a market economy, Vietnam's service sectors are more developed and competitive. However, the overall proportion and role of services in the economy remain very limited. The following is an overview of the development and contribution of services in the Vietnamese economy in terms of GDP, labor, productivity, trade and investment, etc.

1.1. Share of services in total GDP of Vietnam

The share of service sectors in Vietnam's gross domestic product (GDP) increased from 38% in 2006 (the time of Vietnam's accession to the WTO) to 41% a year (Figure 1). Although the growth rate over the years was relatively steady, the level of growth is moderate and the proportion of services increased only 3% of GDP after 12 years.

However, part of this low growth rate may be due to changes in the method of calculating total GDP. Specifically, before, the GDP was only based on agriculture, forestry and fishery, industry-construction and services. From 2015 onwards, the GSO has excluded the values of taxes - product taxes (value-added tax, excise tax, export tax, import tax) - from the added value of economic sectors and become a new component of GDP, thereby reducing the proportion of the former components (Figure 2)

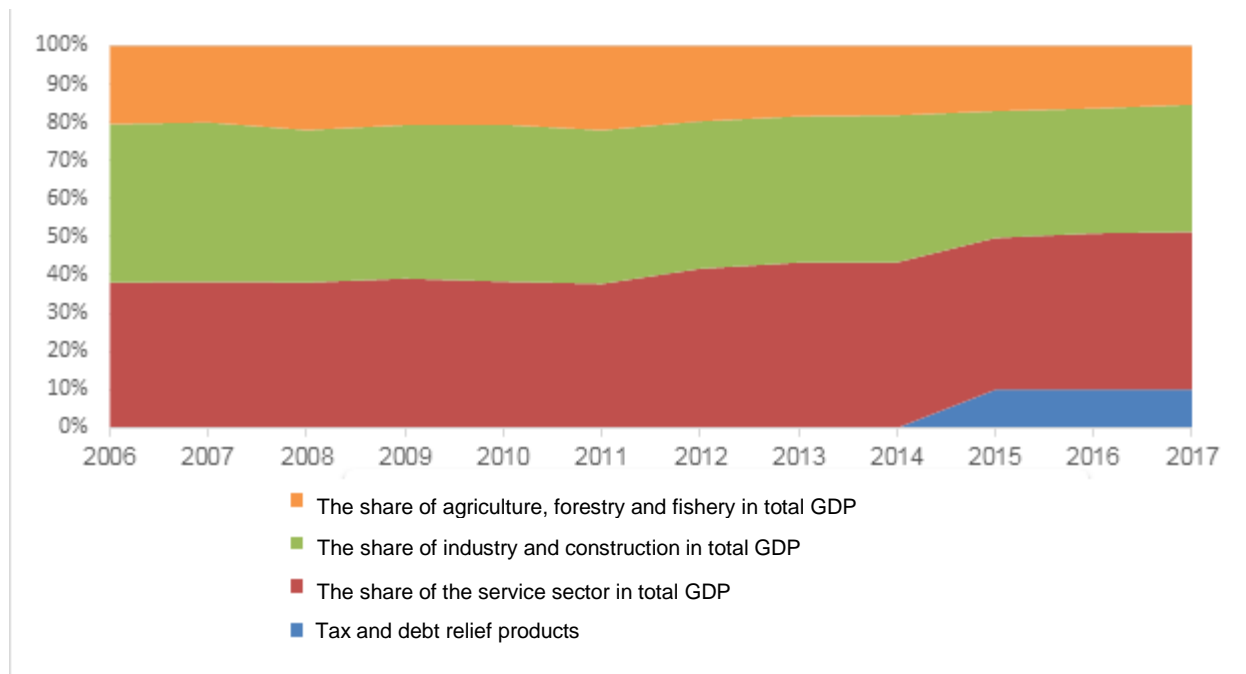


Figure 1: Share of sectors in total GDP

Source: General Statistics Office, 2018

Compared to the agriculture, forestry and fishery, industry and construction sectors, the services sector is the only sector with an increase in the share of GDP in the period of 2006-2017. In 2017, services replaced industry and construction to hold the biggest share in total GDP of Vietnam and continued to play that key role during the period 2012-2017. By 2017, services accounted for 41% of GDP, compared with 33% for industry and construction, and 15% for agriculture, forestry and fishery.

However, the role of services in Vietnam's GDP is still relatively low in comparison with other developing countries in the region and in the world, not to mention the developed countries - In the case of OECD countries, this figure is an average of 70% (Figure 2). Often, a country's development will progress from the stage of agricultural to industrial development and then the development of services. Vietnam is currently in the early steps of the third stage when services have replaced industry to become the most important sector

of the national economy. However, the share of services is just slightly higher than that one of industry and significantly lower than the average share of developing countries.

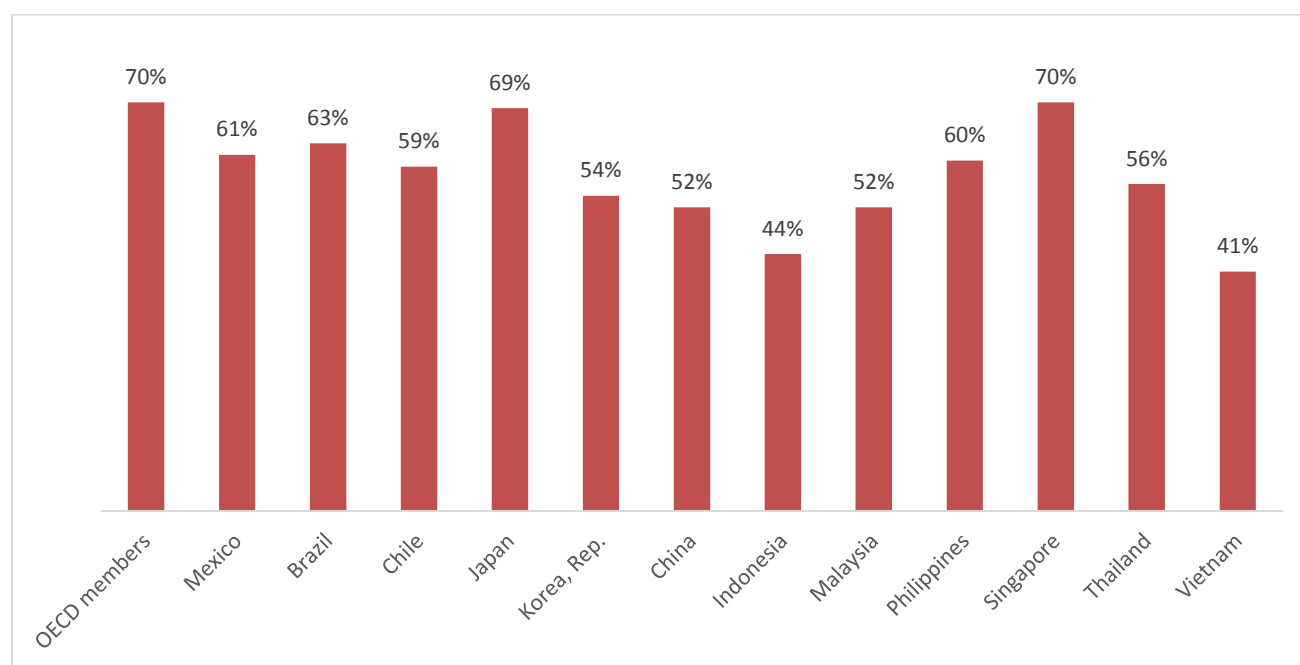


Figure 2: The share of services in GDP in some countries

Source: WDI, 2018

1.2. Labor in the service sector

In the labor structure, the services sector and industry and construction sector tend to increase the share in the total labor force of Vietnam, while the proportion of labor in agriculture, forestry and fisheries tends to narrow down during the period from 2006 to 2017 (Figure 3). This trend is also consistent with the restructuring of Vietnam's economy in recent years, from agricultural development to industrial development and then service.

In the period of 2006-2017, the share of service labor in total employment has increased from 25% in 2006 to 34% in 2017. Corresponding to the increase in employment, the number of service workers has also increased by 66% from 11 million labors in 2006 to 18.3 million laborers in 2017 (Figure 3).

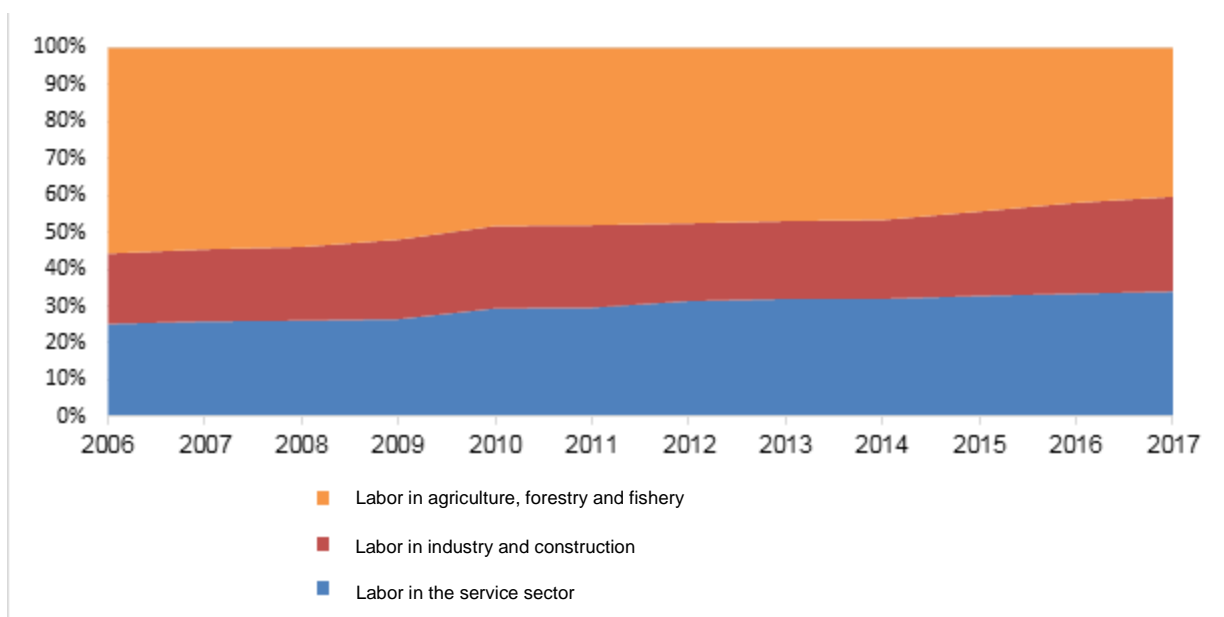


Figure 3: Labor proportion of industries

Source: General Statistics Office, 2018

According to Table 1, in 2014, there were 76% of enterprises with less than 9 employees, while this percentage in industry and construction is 53%, and 50% in agriculture, forestry and fishery. Likewise, there are not many large scale enterprises in the service sector (the number of enterprises with 200 employees or more covers only 0.6% of total enterprises (compared to 3.5% of industry, construction and 4.5% of agriculture, forestry and fishery.)

Table 1: Number of enterprises by economic sector and labor size

Sector	Total number of enterprises in 2014	Enterprise size by labor								
		Under 5 workers	From 5 to 9	From 10 to 49	From 50 to 199	From 200 to 299	From 300 to 499	From 500 to 999	From 1000 to 4999	From 5000 to over 5000
Agriculture, forestry and fishery	3,740	1,124	744	1,298	406	41	45	32	45	5
Construction industry	116,746	35,219	26,153	39,409	11,828	1,579	1,228	825	469	36
Service	270,794	135,123	70,638	56,360	7,155	646	434	252	164	22

Source: General Statistics Office 2015

Similar to many countries in the world, although the number of employees is small, productivity in the service sector is relatively high. Table 1 below shows that the average productivity of the service sector is 112 million VND / person, nearly 4 times higher than the agriculture, forestry and fishery sector - 32.9 million VND / person. Nevertheless, the average labor productivity of service sectors is still lower than that of industry and construction, only by 92.4% of this sector in 2016. In comparison within services, the productivity significantly changes among sectors and sub-sectors. Some sectors yield high labor productivity (e.g. Banking, Financial Services and Insurance have a labor productivity of VND 632.3 million per worker, that of real estate industry is VND 407.4 million per labor in 2015) while others' are significantly lower.

The fact that labor productivity in services sector is lower than in the industry and construction sector shows that Vietnam seems to be at the early stage of service development. According to the general trend of the world in the period before 2000, the average labor productivity of manufacturing sectors increased faster in speed and higher in value compared to that of services sector. However, the gap in labor productivity between the two sectors has shrunk since 2000, when labor productivity in the services sector climbed significantly in many countries and exceeded labor productivity in the manufacturing sector, especially in developed countries. Even in many developing countries, including China, India, and some countries in the sub-Saharan Africa, labor productivity in services sector has been higher than that of the manufacturing sector in recent years (IMF, 2018).

Table 2: Average labor productivity of economic sectors at current prices

Sectors	Average labor productivity in 2016 (million VND/worker)
Agriculture, forestry and fishery	32.9
Industry and Construction	112.0
Service	103.5

Source: General Statistics Office, 2018

1.3. Structure of the service sectors

In the service sector, the largest proportion in 2017 was Wholesale and Retail Trade, Repair of motor vehicles and motorcycles, accounting for 25.91% of the total value, followed by Banking, Financial Services and Insurance (13.23%) and real estate (11.79%). The remaining sectors account for less than 10%, of which there are many intermediary services such as transportation, warehousing (6.43%), professional activities, science and technology (3.10%), administrative and support services (0.90%), other services (4.23%) (Table 3). This reflects the production-support services of the economy have not really developed and been focused on.

Table 3: Service sector structure of Vietnam in 2017

No.	Services	Value (billion VND)	Proportion (%)
1.	Wholesale and retail; Repair of motor vehicles and motorcycles	536,259	25.91%
2.	Banking, Financial Services and Insurance	273,809	13.23%
3.	Real estate business	243,946	11.79%
4.	Accommodation and catering services	191,743	9.26%
5.	Education and training	177,619	8.58%
6.	Activities of the Communist Party, socio-political organizations; Government management, national security and defense; compulsory social security	137,635	6.65%
7.	Transportation, warehousing	133,073	6.43%
8.	Health and social activities	132,507	6.40%
9.	Professional, scientific and technological activities	64,258	3.10%
10.	Information and communication	34,293	1.66%
11.	Arts, entertainment and recreation	29,990	1.45%
12.	Administrative and support services	18,729	0.90%
13.	Hired labor in households and self-consumption services of households	8,082	0.39%
14.	Other service activities	87,620	4.23%

Source: General Statistics Office, 2018

1.4. The scale of business capital in the service sector

The service sector has the largest number of enterprises in the country with 270,794 enterprises in 2014, more than double the number of enterprises in the industry and construction sector (116,746 enterprises), and 90 times higher than the number of enterprises in the agriculture, forestry and fishery sector (3,750 enterprises). The number of enterprises in the service sector is much higher than that of other sectors because it plays a key role in the national economy (accounting for 41% in 2017) and more importantly,

because of its basic characteristics. Specifically, the service sector does not require as much capital and labor as the manufacturing sector (Agriculture, Forestry and Fishery, and Industry, Construction), thus, a business needs only a small amount of capital and a few employees to be established. This is very clear when looking at the scale of enterprises by capital and labor in each sector, as shown in table 4 and table 5.

Table 4: Number of enterprises by economic sector and capital size

Sector	Total number of enterprises in 2014	Scale of enterprises by capital size							
		Under 0.5 billion	From 0.5 to under 1 billion	From 1 billion to under 5 billion	From 5 billion to under 10 billion	From 10 billion to under 50 billion	From 50 billion to under 200 billion	From 200 billion to under 500 billion	From 500 billion and above
Agriculture, forestry and fishery	3,740	393	297	1,334	532	744	219	85	136
Construction and industry	116,746	3,849	7,088	42,139	23,513	29,943	7,460	1,656	1,098
Service	270,794	17,253	22,578	116,089	48,646	52,863	9,997	2,091	1,277

Source: General Statistics Office, 2015

Service enterprises with capital under VND 5 billion accounting for 58% of total service enterprises in 2014, the highest compared to the other two sectors (Industry, construction is 45%, Agriculture, forestry and fishery is 54%). At the same time, the proportion of enterprises with a large capital size of VND 200 billion or more in the service sector accounted for only 1.2% compared to 2.4% of the industry and construction sector and 1.9% of the agriculture, forestry and fishery sector. In average, each service enterprise has a capital size significantly lower than enterprises in other sectors of the economy.

1.5. Import and export of services

- Value and structure of services export and import

Since Vietnam's accession to the WTO, the import and export values of services have grown rapidly. Except for the downturn caused by the global financial crisis in 2009, both the value of Vietnam's services exports and imports tended to increase steadily during the

2006-2017 period. Service export value increased from USD 5.1 billion in 2006 to USD 13.1 billion in 2017, while service import value increased from USD 5.1 to USD 17 billion. However, service exports grew at a slower rate than imports of services, resulting in a change in the balance of trade of services from balance in 2006 and 2007 to deepened deficits from the following year, with a deficit of USD 3.9 billion by 2017 (Figure 4).

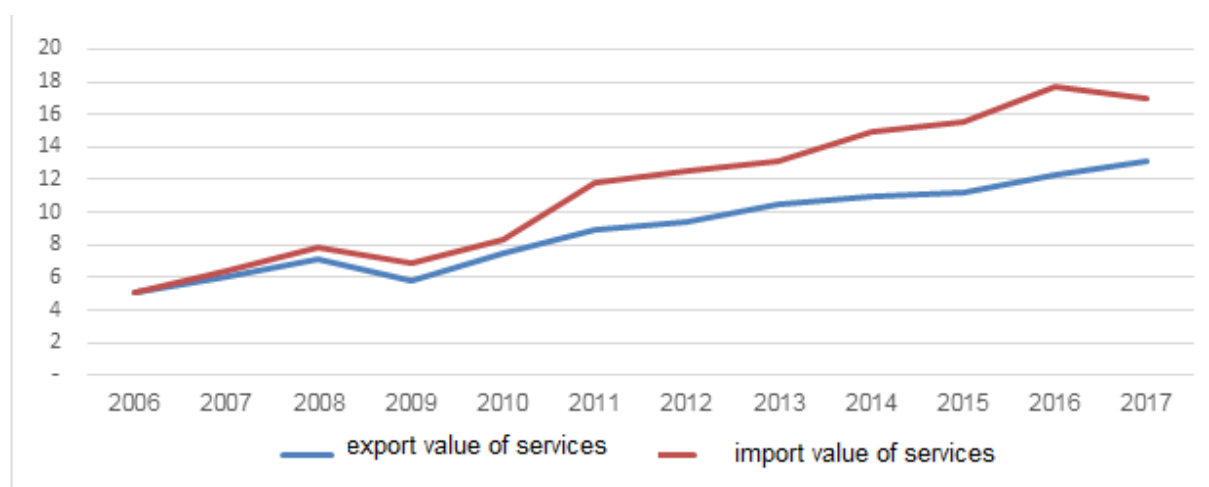


Figure 4: Import and export value of services in Vietnam (billion USD)

Source: General Statistics Office, access Oct 2018

In terms of services exports, most of Vietnam's exports are on-site exports (services provided to foreign buyers in the Vietnamese market). Specifically, tourism services are the group with the highest export value (accounting for 67% of the total export value of services). This is followed by the export of transportation services, which is also part of transportation for tourism. Export of other services, such as finance, insurance and pensions, communications, computer and information, insurance ... account for a very small share of Vietnam's total export (Figure 5). This shows that the service sector mainly serves the domestic market rather than the foreign markets.

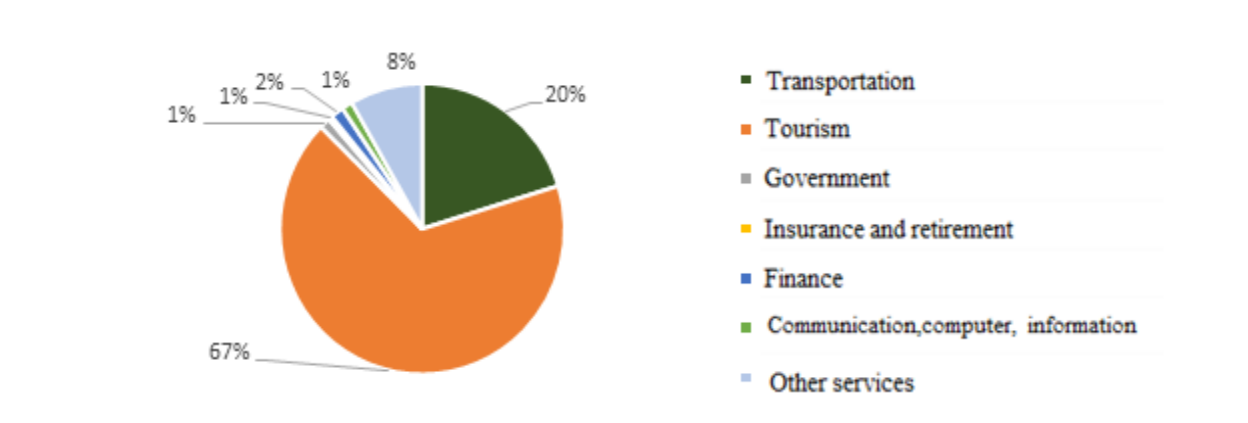


Figure 5: Structure of services export of Vietnam in 2016

Source: ITC Trademap, 2018

In terms of imports, making up the highest proportion in the group of services imported by Vietnam is transportation, accounting for 48%. This is mainly due to the strong growth of Vietnam's merchandise import and export activities in the 2006-2016 period, which largely utilizes logistics services provided by foreign suppliers, significant is the shipping services of foreign shipping lines. The second largest import service group is tourism, which constitutes 28%, followed by insurance and retirement 5%, finance 3%, government services 1%, and communications, computer and information services 1 % ...(Figure 6).

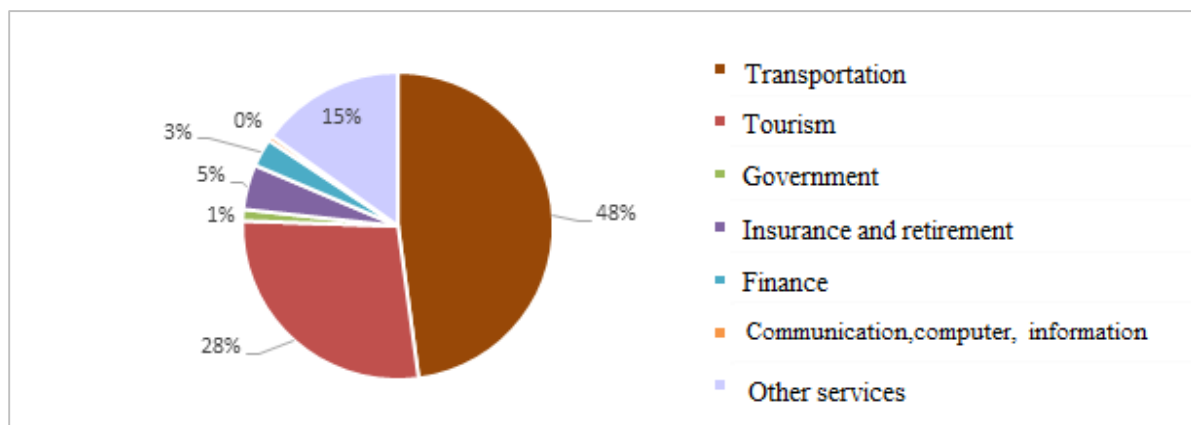


Figure 6: Structure of services import of Vietnam in 2016

Source: ITC Trademap, 2018

It can be seen that although the structure and share of export and import services are different, transport and tourism are still the two main export and import services groups of Vietnam. This is also the common situation of most of the low-growth ASEAN countries (CLMV – Cambodia, Laos, Myanmar, and Vietnam). While some more developed ASEAN countries such as Thailand and Indonesia, trade in services has expanded slightly, in addition to transportation, tourism they also trade in some other business services. In ASEAN, only Singapore and Philippines have the most diversified development services sector. Especially, Singapore can be considered as a regional service center with competitive and diversified services similar to developed countries in Europe, America, Australia, ect.. In 2016, the total export value of Singapore's service imports is nearly half of the ASEAN region, and the trade structure of services is very diverse, including not only transportation, tourism but also many other sectors such as business services, financial services, telecommunications, computers and information services.

In the total import-export turnover (of both goods and services) of USD 424.8 billion in 2017, the total import-export turnover of services accounted for only 8%, valued at USD 29 billion. This shows that trade in services of Vietnam is still very small compared to trade in goods. However, data on import-export turnover of services may not be reliable as data on import-export of goods for various reasons, for example (i) as an intangible product, service has the value that is often more difficult to measure and control relative to tangible goods; (ii) many services are inputs for the production of exports, but the value of those services is included in the value of goods exports rather than the value of export services. Therefore, the current value of Vietnam's trade in services does not fully reflect the importance of services in the total trade of Vietnam. Moreover, for a developing economy with commodity-exporting orientation, import-export turnover of services is smaller than that of goods is not unusual.

However, the above fact is unusual when placed in the comparison between Vietnam and other countries in the world, especially countries with similar development levels to Vietnam. Figure 7 provides data comparing the share of trade in services in total trade

between Vietnam and some regions in 2016, including less developed countries (LDCs), Southeast Asian countries (ASEAN), South America Common Market (MERCOSUR), the emerging economies of Brazil, Russia, India, China and South Africa (BRICS), and the group of highly developed countries belonging to the Organization for Economic Co-operation and Development (OECD). Surprisingly, the share of trade in services in Vietnam's total trade is only 8%, significantly lower than the average share of all comparable economic sectors, including countries with less development level than Vietnam (LDCs) - 23% and countries with similar development level of Vietnam (ASEAN) - 22%. These figures reflect the fact that the development of Vietnam's trade in services is still very limited. Nevertheless, this fact also shows that trade in services of Vietnam still has plenty of room for growth, especially in the context that Vietnam's economy is increasingly open and integrated into the global economy.

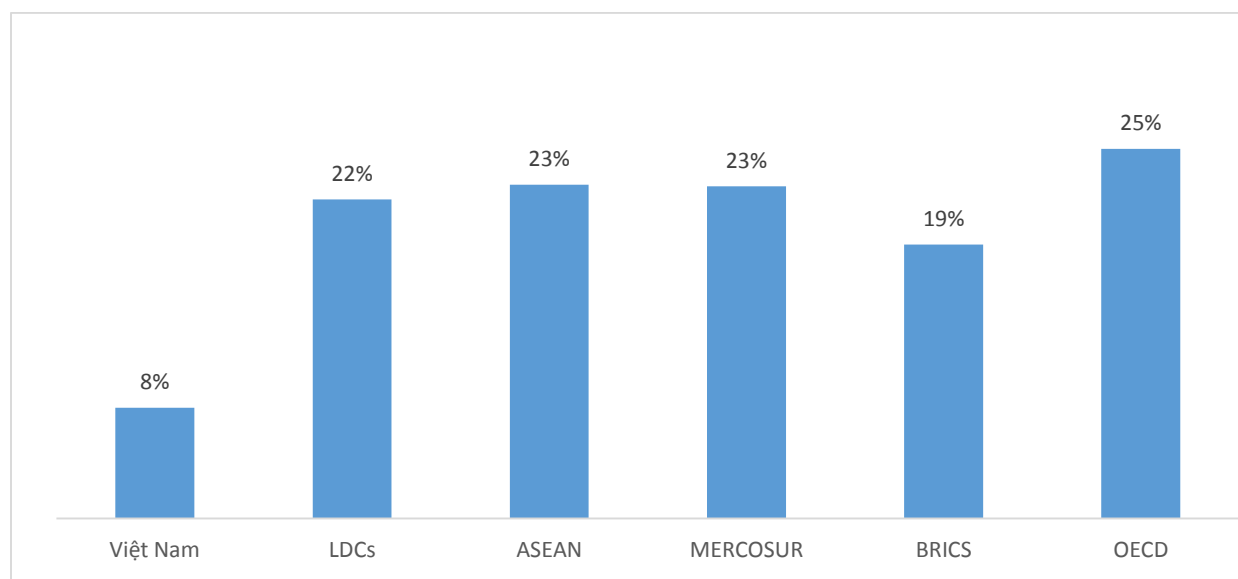


Figure 7: Comparing the share of services trade in total trade between Vietnam and some regions in 2016

- Services value-added share of gross exports

Service not only contributes to the total export turnover as an independent product but also as a component value in goods exports. Measurement of the value of services in exports

will show the importance of a service sector in reducing costs and enhancing competitiveness for the export of goods.

In Viet Nam, service exports accounted for only 8.4% of total exports of goods and services in 2011, but if they included the value of services in exports of goods, the service content in Vietnam's total exports reached 38.2% (Figure 8). However, this rate is still low compared to the average of that in developing countries such as ASEAN countries (45.2%) or South and Central America (42.3%). This is even lower compared to the average rate of 47% of APEC countries, and especially in developed countries in the EU (57.6%).

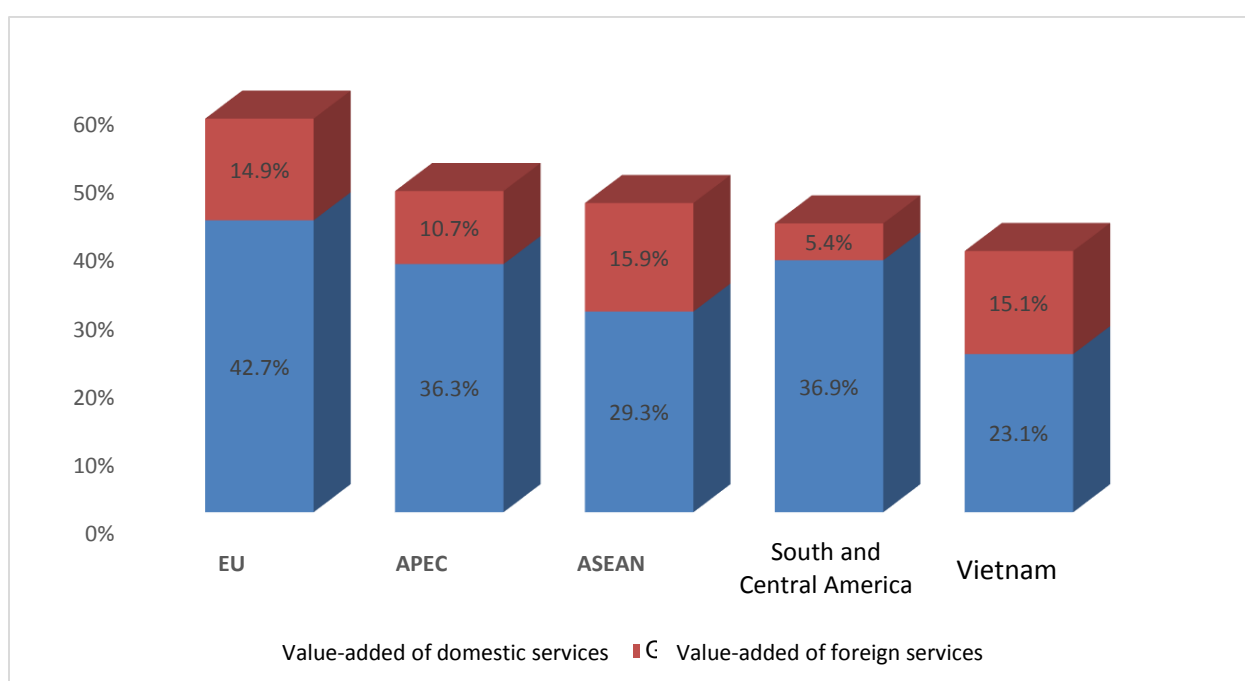


Figure 8: Content of value-added services in total exports

Source: TiVA OECD-WTO data, access October 2016

Among 38.2% content of value-added services of Vietnam in the total value of goods and services exports in 2011, the value of domestic services was 23.1%, it is the lowest compared to the average percentage of the EU, APEC, ASEAN, South and Central America. This reflects the limited development and competitiveness of Vietnamese services sectors in general and of export or export-supported services in particular.

However, the data available only until 2011 may not reflect all changes and growth in the service sectors of Vietnam over time.

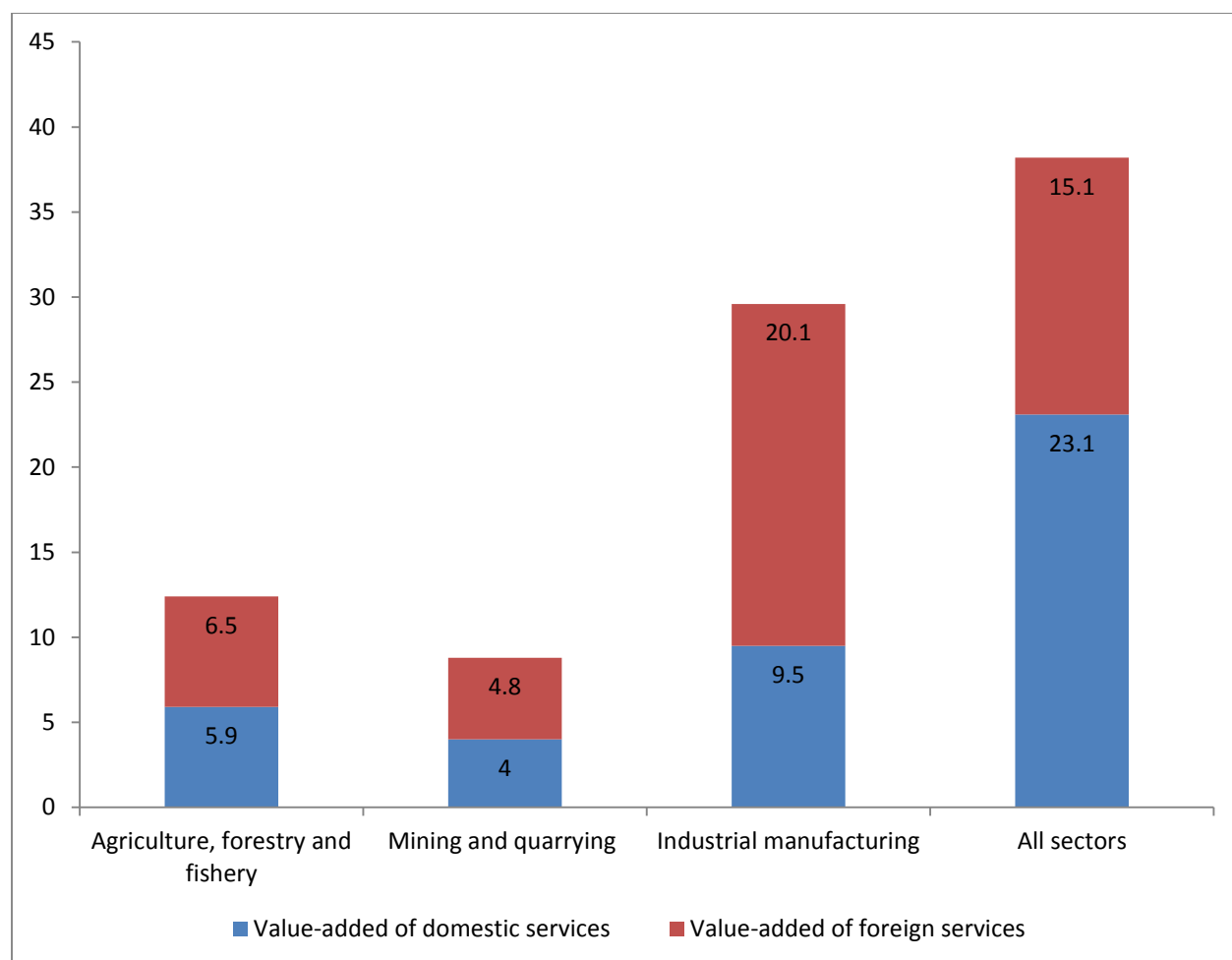


Figure 9: Value-added services in exports of some industries in 2011

Source: TiVA OECD-WTO Data, access October 2018

In accordance with the TiVA OECD-WTO data (available only until 2011), the manufacturing sector has the highest value added service ratio (29.6%) in total trade value, especially, the value-added of foreign services, accounting for 20.1% - higher than the average of all industries 15.1%. Agriculture, forestry and fishery, and mining and quarrying have very low value added services ratio, accounting for only 12.4% and 8.8% respectively (Figure 9).

1.6. FDI attraction in the service sector

Foreign direct investment (FDI) into Vietnam during the 1988-2015 period mainly focused on industry, accounting for 54.9% of the total number of projects and 64.3% of the registered capital. Service sector ranked second with 36.2% in the number of projects and 30.5% in registered capital (Table 5)

In the service sector, FDI capital is concentrated the most in real estate businesses, with a total of 697 projects and accumulated capital of over USD 56 million as of June 2018, followed by accommodation and food services (693 projects, USD 12.6 million); wholesale, retail, repair of automobiles, motorcycles, motorbikes (3,091 projects, USD 6.6 million); warehouse transportation services (700 projects, USD 4.8 million).

The largest FDI countries in Vietnam are Korea, Japan, Singapore, Taiwan, and the British Virgin Islands. The main investment form is 100% foreign capital or joint venture.

Table 5: Structure of FDI attraction in the 1988-2015 period

Sector	Number of projects		Registered capital	
	Number of projects	Ratio %	Value	Ratio %
Total number (cumulative number of valid projects)	20,069	100	281,882	100
- Agriculture	521	2.6	3,654.9	1.3
- Industry	11,013	54.9	181,141.2	64.3
- Construction and real estate	1,264	6.3	10,893.8	3.9
- Service	7,271	36.2	86,192.1	30.5

Source: General Statistics Office, Statistical Yearbook 2014 (estimated in 2015)

2. The process of trade liberalization in services of Vietnam

The process of Viet Nam's liberalization of trade in services is closely linked to the process of opening up and integrating into the international economy, in particular the participation and implementation of WTO commitments and free trade agreements.

The first milestone in the process of integration, opening up to foreign investment in Vietnam, was the “Doi Moi” that began in 1986. In 1987, Vietnam enforced the first law on foreign investment, opening up the door and possible protection for the market entry of foreign investors. At this stage, however, foreign investment in Vietnam was still reasonably cautious, and most of it focused on manufacturing. In addition, licensing for foreign investment in general and in particular areas was based on the unilateral decision-making power of Vietnam without being bound by any international commitments. The government might accept or refuse to grant investment licenses to projects, including service projects. Therefore, strictly considering, in this period, although Vietnam opened some services, it had not committed to any services liberalization commitments.

Consequently, the milestone for official liberalization of Vietnam's trade in services perhaps started with the Vietnam-US Bilateral Trade Agreement (BTA) in 2001, the first agreement contained commitments to open services markets to foreign investors (the US). From this milestone, Vietnam's liberalization process can be divided into three stages as follows:

- *From 2001 to 2007*

The period from 2001 to 2007 was seen as an acceleration period in the integration process of Vietnam with the signing and implementation of the Bilateral Trade Agreement with the United States (BTA) in 2001, negotiating and signing 3 FTA ASEAN+ (ASEAN – China FTA in 2002, ASEAN – India FTA in 2003, and ASEAN – Korea in 2005), many Bilateral Investment Treaties (BIT), which include commitments on services opening and investment protection.

Although most of services opening commitments of Vietnam in BTA, ASEAN+ FTAs and ASEAN FTAs were at low levels compared to that in the WTO and therefore completely replaced by the WTO commitments when Vietnam joined the Organization, the services commitments under the BTA and ASEAN+ FTAs is still significant as they are the first step in the process of opening up the service market of Vietnam.

- *From 2007 to 2015*

During this time, the most important milestone was the accession of Vietnam to the WTO on 11 January 2007, which marked the first time it committed to opening the services market on a large scale to all WTO members. So far, the WTO commitments on service market access are still the most liberal step that Vietnam has implemented and remains valid.

In the following years, Vietnam continued to negotiate and sign additional 02 FTAs ASEAN+ (ASEAN-Japan FTA in 2008, ASEAN-Australia and New Zealand FTA in 2009), signing and implementing agreements on trade in services and investment in the framework of ASEAN, ASEAN – China, ASEAN – India, ASEAN – Korea FTAs. At the second of this period, Vietnam began to participate in FTA outside the framework of ASEAN, including Vietnam-Eurasian Economic Union FTA in 2015, and 03 bilateral FTAs (Vietnam-Japan FTA in 2009, Vietnam-Chile FTA in 2012, Vietnam-Korea FTA in 2015). These FTAs (excluding Vietnam – Eurasian Economic Union FTA) mainly focus on trade in goods commitments, commitments on trade in services are limited, only equivalent to or not significantly higher than services commitments under the WTO. Particularly, services opening commitments under the ASEAN Framework Agreement on Services are negotiated in packages to gradually liberalizing services, so up to the 9th and currently the 10th package that have commitments higher than that of the WTO, but only apply for ASEAN members.

- *From 2015 to now*

This phase was marked by the completion of the Trans-Pacific Partnership Agreement - TPP (now the Comprehensive and Progressive Agreement for Trans-Pacific Partnership- CPTPP- signed in 2018), and the Vietnam - EU FTA (EVFTA) (negotiation ending in 2015, currently preparing to sign). These are the two largest and new-generation FTAs of Vietnam, with the highest levels of liberalization that Vietnam has ever entered. The services liberalization commitments under these two FTA is actually at higher standard than that of the WTO in both terms of sectoral scope and openness level. When these FTAs are effective (from the beginning of 2019 for CPTPP and expected around 2019-2020 for EVFTA), the third turning point in the liberalization of the Vietnamese service market will be actualized.

In addition, Vietnam is still negotiating a number of new FTAs, including the Regional Comprehensive Economic Partnership (RCEP), Vietnam - EFTA FTA, Vietnam - Israel FTA. However, like the previous generation FTAs of Vietnam, these new FTAs are expected to have a level of commitment on services liberalization equivalent to or not significantly higher than the WTO.

Table 6 below summarizes all FTAs that Vietnam has participated in:

Table 6: Summary of FTAs that Vietnam participates in by June 2018

No.	FTA	Status quo	Partner
Effective FTAs			
1	AFTA	Effective from 1993	ASEAN
2	ACFTA	Effective from 2003	ASEAN, China
3	AKFTA	Effective from 2007	ASEAN, Korea
4	AJCEP	Effective from 2008	ASEAN, Japan
5	VJEPA	Effective from 2009	Vietnam, Japan
6	AIFTA	Effective from 2010	ASEAN, India
7	AANZFTA	Effective from 2010	ASEAN, Australia, New Zealand
8	VCFTA	Effective from 2014	Vietnam, Chile
9	VKFTA	Effective from 2015	Vietnam, Korea
10	VN-EAEU FTA	Effective from 2016	Vietnam, Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan
11	AHKFTA	Effective from 2019	ASEAN, Hong Kong (China)
12	CPTPP (Former is TPP)	Effective from 2019	Vietnam, Canada, Mexico, Peru, Chile, New Zealand, Australia, Japan, Singapore, Brunei, Malaysia
FTA has ended negotiation but has not signed			
13	EVFTA	Negotiations ended in February 2016	Vietnam, EU (28 members)
FTAs still in negotiation			
14	RCEP	Negotiation started in March 2013	ASEAN, China, Korea, Japan, India, Australia, New Zealand
15	Vietnam – EFTA FTA	Negotiation started in May 2012	Vietnam, EFTA (Switzerland, Norway, Iceland, Liechtenstein)
16	Vietnam – Israel FTA	Negotiation started in December 2015	Vietnam, Israel

2.1. Commitment on trade in services of Vietnam in the WTO

Vietnam's first service market opening commitment was in the BTA with the United States signed in 2000. However, this commitment is opened only to US suppliers, not for suppliers from other countries. After Vietnam's accession to the WTO on 11 January 2007, Vietnam had to implement all WTO service commitments with open levels substantially equal to or higher than the BTA, for all WTO members, including the United States. Similarly, most of the commitments made to open services markets in FTA ASEAN and ASEAN+ are equivalent to WTO commitments. Therefore, the services commitments under these FTAs the WTO are virtually no longer practical and will be ignored when considering the level of services openness of Vietnam in this study.

Joining the WTO, Vietnam has made a comprehensive reform in legal system related to the service sector, including the opening up markets for foreign service providers. Since then, Vietnam has not yet opened its services market on a large-scale in any other trade agreements. In other words, the WTO commitments to open Vietnamese services market are the most comprehensive reflections of Vietnam's liberalization of service markets.

At the same time, WTO commitments on institution (especially the principles of economic management, market operation) have also been transformed into the Vietnamese legal system (civil law, trade, competition, investment, business ...), creating a positive impact on the business environment and the performance of markets in general in Vietnam, including the development of a more liberal service market that follows market rules to become more competitive and more transparent.

Thus, it can be said that the implementation of WTO commitments has the greatest, most comprehensive and significant impact on the Vietnamese service market, both from the perspective of market opening and of Government management to all service sectors.

Viet Nam's WTO commitments on trade in services are set out in two groups:

- **Group of general commitments on services:** as regulated in the General Agreement on Trade and Services (GATS) - a set of general principles regulate trade in services

(e.g. the principle of Most Favoured Nation, the principle of transparency) that all member countries must follow.

- **Group of specific commitments of Vietnam:** including
 - Report of the Working Party on Vietnam's Accession to the WTO: including commitments on transparency and non-discrimination in the service sector.
 - Schedule of specific commitments in services in Viet Nam: a schedule of Vietnam's specific commitments (in each sector and sub-sector) on i) the level of market access for service providers and ii) the level of national treatment for services and foreign service suppliers.

The following is a summary of Vietnam's service commitments in the WTO. This is also the overall picture of service liberalization in Vietnam.

i) Group of general commitments on services in the WTO

- Most Favored Nation (MFN): Vietnam commits not to discriminate (in terms of policies, legislation, procedures ...) among service providers from different countries which are members of the WTO (not including some exceptions listed in the WTO Schedule of Specific Commitments in Services of Vietnam)
- Transparency: Vietnam commits to publicize all regulations, requirements and procedures that affect trade in services to WTO members, publicize drafts of legal documents (laws, ordinances, decrees, circulars ...) to collect opinions of concerned organizations and individuals for at least 60 days.

ii) Group of specific commitments of Vietnam

Commitment on sectors / sub-sectors opening up

According to the rules of the WTO negotiations, Viet Nam commits to open up sectors and sub-sectors under the "Positive list" approach, which means the sectors set out in the Schedule will be opened at minimum levels as listed in Schedule of Commitments; for any sectors that are not included in the Schedule, Vietnam is free to decide on the degree of

opening (without limitation). The "Positive list" is opposite to the "Negative list" approach in several new FTAs of Vietnam such as CPTPP. According to the "Negative list" approach, the areas in which Vietnam would like to impose restrictions are listed in the Schedule of Commitments, and those areas not listed in Vietnam fully open.

Services in the WTO are classified according to the MTN.GNS/W/120 classification guidebook, whereby the services are divided into twelve major sectors, each of which branched into smaller sectors, making up the total of 155 sub-sectors. The explanation for each specific sector / sub-sector is referred to the Provisional Central Product Classification (PCPC) of the United Nations. Therefore, each sector / sub-sector of services included in the Schedule of Commitments in the WTO has a PCPC code that is abbreviated as CPC.

In the WTO, Vietnam has committed to opening ("positive list") for 11 service sectors including 110 sub-sectors. Note that "open" here does not mean "open all" but open with the conditions stated in each line in the Schedule. The 11 service sectors include:

- i) Business services;
- ii) Communication services;
- iii) Construction and related engineering services;
- iv) Distribution services;
- v) Educational services;
- vi) Environmental services;
- vii) Financial services;
- viii) Health related and Social services;
- ix) Tourism and Travel related services;
- x) Recreational, Cultural and Sporting services;
- xi) Transport services.

In all sectors with commitments, only the Construction sector has been committed with 100% of the sub-sectors. Other sectors also have high number of sub-sectors committed but have not reached 100% of the sub-sectors such as Distribution, Finance,

Communication, Education and Environment. The sector with the lowest number of sub-sectors is Recreation, Culture, Sports and Transportation.

Table 7: Comparison of Vietnam's commitments to open services in the BTA and WTO

	BTA	WTO
Scope of commitment	<ul style="list-style-type: none"> - 8 service sectors, including - 65 sub-sectors 	<ul style="list-style-type: none"> - 11 service sectors, including - 110 sub-sectors
Degree of opening	<ul style="list-style-type: none"> - Telecommunications, banking, stock: limited commitments 	<ul style="list-style-type: none"> - Telecommunications, banking and stock: commitments higher than BTA

Commitment on modes of service supply

Considering the four modes of service supply stipulated in the WTO, then:

- Mode 1 (cross border supply) and Mode 2 (consumption abroad): Vietnam is relatively open, with fewer restrictions on these two modes;
- Mode 3 (commercial presence): Vietnam has many limitations;
- Mode 4 (movement of natural persons): Vietnam has only commitments for some types of specific and high-skilled labor, while almost no commitment regarding low-skilled workers.

Some important commitments on services of Vietnam in the WTO

- *Commitment on the form of operation of foreign investors*

Vietnam commits to allowing foreign investors to provide services in Vietnam in the following forms:

- Business cooperation contract with Vietnamese partners;
- Joint venture with Vietnamese partners;
- 100% foreign-invested enterprises.

However, this is just a background commitment (general commitment). The permitted legal form as well as the implementation schedule (time allowed) in each sector or sub-sector will be based on commitments in specific sectors and sub-sectors. Normally, the time needed for implementing Vietnam's commitments in specific sub-sectors is 1, 2, 3, 4 or 5 years, while a few sub-sectors have a commitment schedule of 7 or 8 years. Thus, until now (2018), Vietnam has completed commitments in all services in the WTO.

Regarding branching: Vietnam has not committed to allowing foreign businesses and individuals to set up branches in Vietnam, except in certain specific services, including Legal services; Computer and related services; Management consulting services; Services related to management consulting; Construction services; Franchise services; Non-life insurance services; Banking services; some stock services.

Regarding representative office: Foreign service enterprises may set up their representative offices in Vietnam with the condition that such representative offices will not engage in direct profit-making activities.

- *Commitment to establish 100% foreign-invested enterprises right after joining WTO*

Vietnam must allow foreign organizations and individuals (WTO members) to establish 100% foreign-owned enterprises in Vietnam upon accession (11 January 2007) in the following sectors / sub-sectors of services:

- Group of professional services (including legal services; auditing and accounting services, taxation services; architectural services, technical consultancy, computer services, research and development services, management consultant services);
- Construction services;
- Insurance services;
- Banking services (from 1/4/2007);

- Health services (limited to hospital services, dental services and medical examinations);
- Travel services (limited to hotel services, restaurants, tour operators).
- *Commitment to establish enterprises with 100% foreign capital with schedule.*

Vietnam committed to allowing foreign organizations and individuals (members of the WTO) to establish 100% foreign-owned enterprises in Vietnam after a certain period of time (usually 2, 4 or 5 years, while a few sub-sectors have a commitment schedule of 7 or 8 years) from the date of WTO accession in the following sectors / sub-sectors:

- Group of professional services (including urban planning and urban landscape architecture, market research services, mining-related services, services related to production and services related to scientific and technical consultancy, repair and maintenance services of machinery and equipment);
- Delivery services;
- Distribution services (Wholesale and Retail trade, commission agent service, franchise service);
- Environmental services (wastewater treatment services, waste gas cleaning services and noise treatment services, environmental impact assessment services);
- Stock services;
- A number of transportation services (international shipping, container warehousing, flight reservation services, aircraft maintenance and repair service).

- *Commitment to specific types of services workers*

In WTO, Vietnam does not commit to opening the labor market in general, only commitments on some measures related to entry and temporary stay of individuals in the following groups:

- *Intra-corporate transferees*: includes manager, executives and specialists of a foreign enterprise established in Vietnam. These people are allowed to enter and stay in Vietnam for 3 years and can be extended with certain conditions.
- *Other personnel*: includes managers, executives and experts that Vietnamese people cannot replace, are allowed to enter and stay on the terms of a labor contract or a three year period whichever is shorter and may be extended.
- *The service salesperson*: salespersons who are in charge of negotiating for the sale of services and do not directly sell the service and do not directly participate in the service – the stay of these salespersons must not exceed 90 days.
- *The person responsible for setting up a commercial presence*: the stay must not exceed 90 days.
- *The contracted service provider has certain conditions*: the stay will be as the contract term or a 90-day period whichever is shorter.

Summarize the level of service opening of Vietnam in the WTO for foreign investors

The table below summarizes Vietnamese service sectors that have been completely opened and limitedly opened² to foreign investors by Mode 3 – commercial presence. The remaining sectors/sub-sectors in the Vietnam's WTO Specific Service Commitments are

² The level “Completely opened” or “limitedly opened” is compared to the measures restricting market access and to national treatment provided in Articles XVI and XVII of the GATS

widely opened, which means that they are not completely open, but have very few restrictions on foreign investment, including:

- Construction and related techniques
- Distribution
- Tourism
- Environmental service
- Some sub-sectors in the business services sector (machinery repair, technical consulting / equipment synchronization)

Other sectors that do not appear in Vietnam's WTO Commitments are these sectors with no commitments, so Vietnam has full regulatory rights without any WTO's obligations.

Table 8: Summary of Vietnamese service sectors that have been completely and limitedly opened

Service sector	Sub-sectors	Completely opening	Limitedly opening
1.Business services	<ul style="list-style-type: none"> - Legal service - Accounting and auditing service - Architectural service - Urban planning and urban landscape architecture service - Computer and related service - Research and development services for natural sciences - Airplane rental service - Market research service (except for holding public opinion poll) - Management consulting and related service - Technical analysis and inspection services (except for means of transportation registration) 	X	
	<ul style="list-style-type: none"> - Veterinary service - Services related to agriculture, hunting and forestry - Service related to mining 		X

2. Information service	<ul style="list-style-type: none"> - Basic telecommunications service - Value-added service - Audiovisual service 		X
3. Construction and technical service	<ul style="list-style-type: none"> - Construction 	X	
4. Distribution	<ul style="list-style-type: none"> - Franchise service 	X	
5. Education	<ul style="list-style-type: none"> - Higher education, adult education, other education 	X	
6. Environment	<ul style="list-style-type: none"> - Wastewater/trash treatment - Environmental impact assessment service 	X	
7. Financial service	<ul style="list-style-type: none"> - Banking and other financial services - Stock/Securities service 		X
8. Health care	<ul style="list-style-type: none"> - Hospital - Dental and medical service 	X	
9. Tourism	<ul style="list-style-type: none"> - Hotel and restaurant service 	X	
10. Entertainment, Culture and Sport	<ul style="list-style-type: none"> - Entertainment (including theater, live music, circus) - Trading electronic games 		X
11. Transportation	<ul style="list-style-type: none"> - Customs Clearance Services - Container service - Computer reservation service - Warehousing service - Freight agency service 	X	
	<ul style="list-style-type: none"> - Maritime transport (passengers and goods) - Container handling services - Inland waterway transport (passengers and goods) - Freight transport by rail (CPC 7112) - Road transport (goods, passengers CPC 7121, 7122, 7123) 		X

	- Container handling services, except for services provided at airports (a part of CPC 7411).		
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Source: WTO and International Trade Center, VCCI, 2016

2.2. Commitments on trade of services of Vietnam in signed FTAs

In addition to the WTO opening commitments, which apply equally to all service providers from WTO member countries, Vietnam has a number of services liberalization commitments to open in FTAs, with a higher opening level than that of the WTO but only for specific FTA partners.

In fact, most of the FTAs in Vietnam have been mainly focused on commitments on trade of goods, while commitments on trade in services, especially commitments to open services market, are often limited and equivalent to WTO or more open than WTO in just a few service sub-sectors.

As of 11/2018, Vietnam has 12 FTAs, two of which will be effective from the beginning of 2019 (CPTPP and AHKFTA), the rest have been effective in practice. Most of these FTAs focus only on commitments on trade in goods, commitments on trade in services, especially commitments on market access to services, are often limited, just as WTO or more open than the WTO in a few sub-sectors. Among the signed FTAs, only AFTA, VN-EAEU FTA and CPTPP have commitments on opening services market higher than WTO.

The following will consolidate FTA services commitments that are more open than WTO services commitments of Vietnam in Mode 3 - commercial presence. This mode deals with foreign investment in Vietnam, so this is the most important mode of services delivery and is likely to have the greatest impact on Vietnamese service market. For other modes of supply, most FTAs have WTO-equivalent commitments (that means there are no restrictions on Mode 1- cross border supply and Mode 2 - consumption abroad and almost no commitment in Mode 4 –presence of natural persons).

It is worth noting that in addition to the open commitments to foreign investors, FTAs, especially new generation FTAs, have horizontal commitments on investment protection that are higher than those of WTO. These commitments include general rules such as the standard of treatment for foreign investors, performance requirements, management personnel of foreign investors, protection of foreign investors' interests before the expropriation measures, requisition and nationalization of foreign investors' assets, a mechanism that allows foreign investors to directly sue the investment-receiving government to an independent international arbitration organization, etc.

(i) *Commitment to open service in AFTA*

Commitments on services within AFTA were negotiated separately in an agreement called the ASEAN Framework Agreement on Services (AFAS). AFAS establishes general principles for services within ASEAN, on which ASEAN Members negotiate to gradually open service sectors through Service Commitments Packages. Currently AFAS has implemented:

- 9 general Service Commitment Package (excluding financial services, air freight services)
- 7 commitment packages on financial services
- 10 commitment packages on air freight service

Commitments on services in the AFAS are negotiated using the “Positive list” method just like WTO and also use the CPC classification like WTO. In particular, the 9th Package on Services and the 10th Package on air transport services of Vietnam have many commitments that are much higher than those of the WTO. However, all the Packages on financial services of Vietnam are still WTO-equivalent up to now.

Table 9 below summarizes the services sectors in the 9th Service Commitment Package of the AFAS with a higher commitment than the WTO. Sectors with many sub-sectors that are more liberalized than the WTO are Business services, Health services and Transportation services.

Table 9: Services sectors/sub-sectors in the AFAS 9th Service Commitment Package with higher commitments than the WTO in Mode 3 - Commercial presence

No.	Sectors	Sub-sectors in AFAS with higher commitments than the WTO
1	Business services	<p>Additionally opened services</p> <ul style="list-style-type: none"> - Research and development services for the social sciences and humanities (CPC 852) - Interdisciplinary research and development services (CPC 853) - Real estate services (residential housing management services on a fee or contract basis – CPC 82201, and non-residential property management services on a fee or contract basis – CPC 82202) - Rental services for furniture and other home appliances (CPC 83203) - Ship rental service (CPC 83103) - Production management consultancy service (CPC 86505) - Building Cleaning Services (Disinfection Services – CPC 874, Window Cleaning Services - CPC 87402) only in industrial parks and export processing zones. - Portrait service (CPC 87501) - Special photographic service except aerial photography (CPC 87504) - Package service (CPC 876) <p>Services with higher commitment:</p> <ul style="list-style-type: none"> - Rental services of machinery and other equipment (CPC 83109) - Advertising services (except tobacco advertising services) (CPC 871) - Printing service is only for packing (CPC 88442)
2	Telecommunication services	<p>Services with higher commitment:</p> <ul style="list-style-type: none"> - Telecommunication services (value-added services CPC 7523, CPC 843)

3	Educational service	Additionally opened service: <ul style="list-style-type: none"> - Primary education services (CPC 921)
4	Environmental service	Additionally opened services: <ul style="list-style-type: none"> - Environmental sanitation services and similar services (CPC 9403) - Service of nature and landscape protection (CPC 9406)
5	Healthcare service	Additionally opened services: <ul style="list-style-type: none"> - Nursing, physical therapy and medical assistant services (CPC 93191) - Other health support services - Health and social services: Social service (CPC 933) including social services with accommodation (CPC 9331) and social service without accommodation (CPC 9332) Services with higher commitment: <ul style="list-style-type: none"> - Dental and medical services (CPC 9312)
6	Tourism and related services	Additionally opened service: <ul style="list-style-type: none"> - Theme park service
7	Transportation service	Additionally opened services: <ul style="list-style-type: none"> - Services for the marine chartering accompanied by crew members (CPC 7213) - Ship maintenance and repair services (CPC 8868*) - Maritime agency service (CPC 7454 *) - Service of maintenance and repair of inland waterway vessels (CPC 8868 *) - Push and pull services for rail transport (CPC 7113) - Maintenance and repair of railway transport equipment (CPC 8868) - Support services for rail transport services (CPC 743) - Maintenance and repair of road traffic equipment service (CPC 6112 + 8867) - Cargo handling services (CPC 741) - Railway loading and unloading services (CPC 741) - Ship-brokerage service

		Services with higher commitment: <ul style="list-style-type: none"> - Sea freight services, except for inland transportation (CPC 7212) - Rail transport services (passengers - CPC 7111 and goods - CPC 7112) - Passenger transportation service (CPC 7121+7122) and good transportation (CPC 7123) road
8	Other services are not included here	Additionally opened services: <ul style="list-style-type: none"> - Laundry service (CPC 97001) - Dry Cleaning service (CPC 97013) - Press service (CPC 97014)

ii) Commitment to open service in VN-EAEU FTA

In the FTA between Vietnam and the EAEU, the Chapter on Services, Investment and Movement of Persons is only applicable between Vietnam and Russia but not to other members of the EAEU. In particular, commitments on service market opening for Mode 1 (Cross border Supply), Mode 2 (Consumption Abroad) and Mode 4 (Presence of natural persons) were made under "Positive list" approach just like the WTO. Mode 3 (commercial presence) is made under "Negative list" approach like some new Vietnam FTAs such as CPTPP. In contrast to the "Positive list" approach, under the "Negative list" each member will have a list of specific service sectors (the Schedule) that the member does not want to open, or open to partners at a certain level, and that country must open at least as committed. For the sectors outside of this Schedule, that country will be required to completely open, without any restrictions to the partner.

The opening level of Vietnamese service market in VN - EAEU FTA is not much higher than WTO. Below is a summary of some service sectors in VN - EAEU FTA that have a greater opening commitment than WTO in Mode 3 - Commercial presence:

Table 10: Vietnamese service sectors opened in Vietnam - EAEU FTA higher than in WTO

No.	Sectors	Sub-sectors
1	Business services	<p>Services with higher commitment:</p> <ul style="list-style-type: none"> - Rental of machinery and other equipment (CPC 83109) - Market research services (CPC 864, except 86402) - Services related to production (CPC 884 và 885) <p>Additionally opened services:</p> <ul style="list-style-type: none"> - Cleaning services for buildings in industrial zones: + Disinfection (CPC 87401) + Window Cleaning (CPC 87402) - Shipping agency services
2	Information services	<p>Services with higher commitment:</p> <ul style="list-style-type: none"> - Film production service (CPC 96112, except videotape) - Film release service (CPC 96113, except videotape) - Cinema Service (CPC 96121)
3	Transportation service	<p>Services with higher commitment:</p> <ul style="list-style-type: none"> - Shipping services: (a) Passenger transportation services, except domestic transport (CPC 7211) (b) Freight services, except domestic transport (CPC 7212) - Rail transport services: goods transportation services (CPC 7112) - Aircraft maintenance and repair service (CPC 8868**)
4	Production service	<p>Additionally opened services:</p> <ul style="list-style-type: none"> - Aircraft manufacturing industry (ISIC 353) - Production of spare parts, railway (ISIC 352)

Source: Author self-synthesized

iii) Commitment to open services in CPTPP

Negotiations on the opening of services in the CPTPP also apply the "Negative list" approach to the three Service Modes 1, 2 and 3 (not including Mode 4). All reservations for service and investment are included in the 02 Lists of non-conforming measures (Annexes I and II of the Agreement). Financial services are separately negotiated and have a separate list of non-conforming measures (Annex III of the Agreement).

The classification of services in the CPTPP is not the same in the WTO. The CPTPP uses both the PCPC Classification System and the International Standard Industrial Classification System of UNCTAD for All Economic Activities (ISIC). Therefore, many service sector committed in CPTPP are not attached to a certain CPC code as in the WTO.

The level of service market opening of Vietnam in CPTPP is considered to be higher than that of the WTO and all FTAs signed by Vietnam. The table below summarizes the opening level of services sector in Vietnam which are higher in the CPTPP than in the WTO.

Table 11: The service sector of Vietnam opened up in the CPTPP higher than the WTO

Sectors	Commitment in CPTPP is higher than in WTO
Entertainment service	Allow joint venture with foreign capital up to 51%.
Online video game services	Allow joint venture with foreign capital up to 51% after 2 years, up to 100% in 5 years. Allow cross border supply.
Customs clearance services and some logistics activities	Allow 100% foreign capital.
Land and housing	Commitment not to change policy, if have to correct, must fix in a more profitable direction.
Security services, property valuation, air freight, primary and secondary education	Commitment not to change policy, if have to amend, must be more favourable.

Legal advisory services	Foreign lawyers can carry out legal documents and certification, but only Vietnamese lawyers can make legal advice
Advertisement service	Allow to establish a 100% foreign owned company.
Other business services	Additional services are opened, including property leasing, midwives and nurses, fisheries support, social welfare research and development are opened.
Distribution	Remove the ENT after 5 years, allow distribution of rice, sugar.
Telecommunication	Allow 100% foreign-owned non-networked company after 5 years, for network infrastructure services. the ratio of foreign capital increase from 51% to 65% after five years
Environment	Additional services are opened including: cleaning services, protection of nature and landscape service
Mineral exploitation	Allow to exploit but adhere to strict conditions.
Oil and gas exploration and production	Commitment not to change policy, if have to amend, must be more favourable.
Electricity transmission	Commitment not to change policy, if have to amend, must be more favourable.

Source: Ministry of Industry and Trade, 2018

v) Commitment to open up service in the remaining FTAs

In addition to the three above FTAs, Vietnam's remaining FTAs have very limited market access commitments on trade in services, all of which use the "Positive list" approach like WTO, most of them have the same opening level as the WTO, some have opened additionally several sub-sectors compared to WTO (Table 12)

Table 12: Comparison between commitments to open service markets of the signed FTAs of Vietnam and the WTO

FTA	Commitment approach	Sectors opened more than WTO
ACFTA	Positive list	Additionally opened services: - Theme park (CPC 96499)
AJCEP	Positive list	Equivalent to WTO
VJEPA	Positive list	Equivalent to WTO
AIFTA	Positive list	Equivalent to WTO
AANZFTA	Positive list	Additionally opened services: - secondary education services (CPC 9222) - Secondary professional and technical education services (CPC 9223)
VCFTA	Positive list	No commitment
VKFTA		Additionally opened services: - Urban planning services and urban landscape architecture (CPC 8674) Services with higher commitment: - Renting or leasing other machinery and equipment without operator (CPC 83109)
AHKFTA	Positive list	Equivalent to WTO

Source: Author's self-summary

2.3. *The real level of openness of Vietnamese services market*

Vietnam's commitments to open the services market in the WTO and FTAs are “floor” commitments. It means Vietnam must open to a minimum level as committed, but Vietnam can completely open more than in the commitment depending on its economic needs. In fact, Vietnam has opened up in many service sectors at a higher level than WTO and FTAs’ commitments. Thus, compared to many countries with similar levels of development in the

region and all over the world, Vietnam is a country with relatively open market services in many areas.

i) Right after joining the WTO

According to the World Bank's Services Trade Restriction Index (STRI) in 2008, which measures the actual impediment to trade in services of some countries, Vietnam has a STRI of 41.5 (100 is completely restricted, 0 is no restriction) (Figure 10). 2008 is the second year Vietnam implemented WTO's commitments so it had fulfilled all the commitments that must be implemented immediately or after one year of accession.

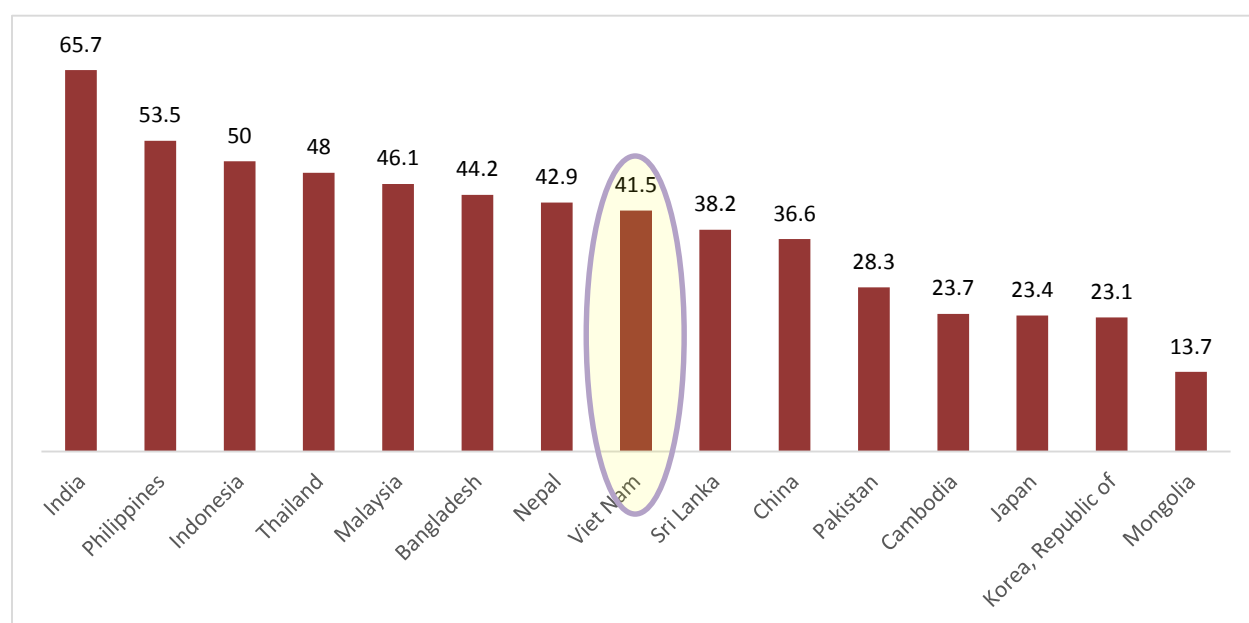
Vietnam's STRI index of 41.5 shows that the level of restrictions on trade in services in Vietnam is not high. In comparison with other Asian countries, this is on average. Many countries joined the WTO before Vietnam and have the development levels similar or even higher than Vietnam but their STRI are still higher than Vietnam such as the Philippines, Indonesia, Thailand and Malaysia. This shows that Vietnam has opened up its market significantly after the accession to the WTO, partly due to the commitment and partly due to its automatic opening of the market more than committed under WTO because of the needs of the economy.

However, Vietnam still has more restrictions on trade in services than many other countries, such as developed countries in Asia (Japan, Korea), even the STRI of Vietnam is still much higher than Cambodia, Mongolia ...

Considering Mode 3 only – commercial presence, the STRI of Vietnam is only 38.43, which is lower than the STRI for the total of 4 modes of service delivery (Table 13). This shows that Vietnam has committed to opening up and creating favorable conditions for foreign investors to invest in Vietnam. However, according to table 13, Vietnam still maintains many limitations in some important services such as Financial Services (STRI 40.31), Telecommunications (STRI 50), Retail (STRI 50), Transportation (STRI 44.44). These are also service sectors which Vietnam does not commit or commit very limitedly when participating in WTO.

Figure 10: Index of Restriction on Trade in Service of some Asian countries in 2008

Source: World Bank 2012 STRI Database, access October 2018



For business services, Vietnam has a relatively low level of restriction as its STRI is only 10. The main reason is that Vietnam has committed to opening up many sub-sectors of this sector under the WTO.

Table 13: STRI for mode 3 of some service sectors of Vietnam

Services	Mode 3
TOTAL	38.43
Financial service	40.31
Bank	50
- Loans by banks	50
- Receipt of deposit by banks	50
Insurance	25
- Car insurance	25
- Life insurance	25
- Reinsurance	25
Telecommunication	50
Fixed telecommunication	50
Mobile Telecommunications	50
Retail	50
Transportation	44.44

Domestic passenger carriage	50
International passenger carriage	50
International shipping	50
Maritime Support Services	25
Inland road transportation	50
Inland rail transportation	50
Business services	10
Accounting and auditing	25
- Accounting and auditing	25
- Auditing	25
Legal services	0
- Foreign legal consultancy	0
- Domestic legal consultancy	0
- Legal representation in court	0

Source: World Bank 2012 STRI Database, access October 2018

ii) After 10 years joining WTO and enforcing FTAs

As mentioned above, during ten years since Vietnam's participation in the WTO (2007-2016), Vietnam has negotiated and signed a number of new FTAs. However, in these FTAs, only AFAS (Package 9) of AFTA, VN-EAEU FTA and CPTPP are committed to higher service opening than in the WTO. In particular, AFAS Package 9 was effective on Vietnam from October 4, 2016, VN-EAEU FTA was implemented since October 5, 2016, while the CPTPP will only be effective from 2019. Thus, in the 2007-2016 period, the main impact on Vietnam's service market was due to the implementation of WTO service commitments. In fact, Vietnam has implemented quite adequately the WTO commitments on trade in services, as summarized in the table below:

Table 14: The compatibility of Vietnamese law with services commitments under the WTO.

Level of compatibility	Number of services
Was compatible	80
Not compatible	8
Unknown	3
Total	91

Notes: The data in this table is determined by the number of service sectors reviewed and is only relative (due to the inability to accurately determine the number of service sub-sectors reviewed at the same CPC level)

Source: WTO Center - VCCI, 2016 (Review of Vietnamese Law against WTO, EVFTA and TPP commitments on the opening of service market for Foreign Investment Services)

Apart from these service sectors opened as committed, Vietnam also unilaterally opens its doors in a number of services (domestic law does not mention or impose any restriction to foreign service providers in such services). The table below summarizes all service sectors and sub-sectors that were completely opened for foreign investors under Vietnamese law. Compared to the Table...above, it can be seen that many sectors are not committed to fully opening in WTO. However, in fact, Vietnam has unilaterally and completely opened.

Table 15: The service sectors that Vietnam has completely opened for foreign investors

Sector	Services that not fully committed to opening in the WTO, TPP or EVFTA, but in fact Vietnam has fully opened	Because Vietnamese law does not impose any investment conditions on foreign investors	Because the Vietnamese law does not impose any conditions on investment and business in general
	Technical consulting services	X	

Business service	Services are provided by midwives, nurses, physicians and non-medical staff Veterinary services Computer and related services Services related to production (CPC 884 and 885)		
	Airplane rental service (CPC 83104), ships (CPC 83103), devices (CPC 83109) Services related to agriculture, hunting and forestry (CPC 881) Cleaning service (CPC 874) Special photography service (CPC 87504) Packaging service (CPC 876) Expo service (Vietnamese law only regulates on activities)		X
Information service	Postal services (CPC 7511**) Delivery services (CPC 7512**) Distribution service of video tapes (Vietnamese law only regulates on activities)	X	
Distribution	Traditional market		X
	Commodity Exchange	X	
Environment	Hygiene services and similar services (CPC 9403) nature and landscape protection service (CPC 94060)		X
Healthcare	Medical infrastructure services to residents is not hospital services Social services and services related to health (CPC 933)	X	
Entertainment, Culture and Sport	Entertainment services (including theater, live music, and circus) (CPC 9619) Electronic game business Qigong martial arts and adventure sports club Services related to the organization of sporting events	X	

	Fine arts and performing arts and other cultural activities (Vietnamese law only regulates on activities) Protection, maintenance and repair of tangible heritage (except museums)		X
Transportation	Service of maintenance and repair of inland vessels (CPC 8868*)		X
	Sales and marketing services for aviation products Aircraft maintenance and repair service (CPC 8868**) Catering service on the plane Passengers and goods transportation by rail (CPC 7111, 7112) Passenger transportation by road Dredging service	X	

Source: WTO Center - VCCI, 2016 (Review of Vietnamese Law against WTO, EVFTA and TPP commitments on the opening of service market for Foreign Investment Services)

Therefore, although new FTAs such as the CPTPP, the VN-EAEU FTA, the EVFTA and the AFAS Package 9 have a much higher level of service opening commitments than the WTO, many experts consider the opening level of these sectors is just equivalent to the current opening level of the Vietnamese service market.

According to the World Economic Forum's Global Competitiveness Report 2018, the index of services trade openness of Vietnam is 36th ³ and ranks of 73 over 140 countries. Compared to other Asian countries as shown in Figure 11, this openness level of Vietnam is quite good, and Vietnam has opened services market more widely than Sri Lanka and

³ The services trade openness index in the World Economic Forum's 2018 Global Competitiveness Report is valuable from 0 to 100 in which 0 means fully open, 100 is totally closed, similar to the STRI World Bank in 2008 mentioned in section 4.1

China - according to the World Bank STRI 2008, Vietnam had higher services trade restrictions in 2008 than Sri Lanka and China (Figure 10).

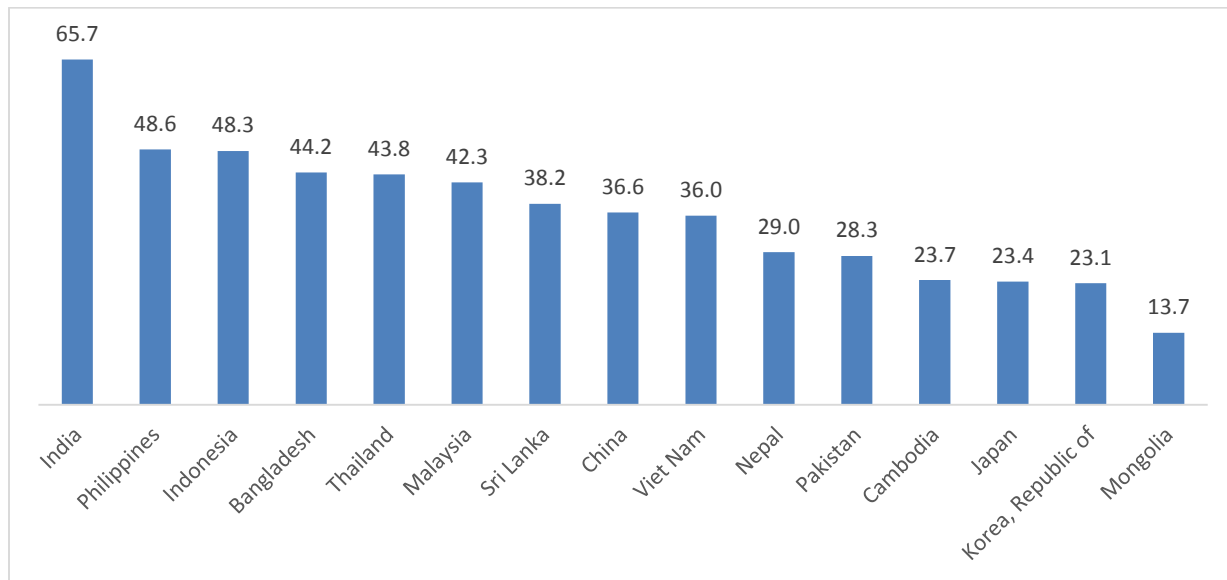


Figure 11: Services trade openness index of some Asian countries in 2018

Source: Global Competitiveness Report 2018, World Economic Forum

It can be said that Vietnamese service market has been relatively open and at an average level compared to other countries in the world after Vietnam joined the WTO and implemented FTAs. However, it is important to note that there are still some important service sectors that play an indispensable role in supporting production and export activities, such as Finance, Communications, Education and Transportation, but Vietnam still has many restrictions on foreign investors.

Part 2:

IMPACTS OF SERVICES LIBERALIZATION ON VIETNAM'S ECONOMY

This section examines the impacts of services liberalization on Vietnam's economy, particularly on the total GDP, trade, employment and income of labors as well as on a number of specific service sectors. As discussed above, the liberalization of the Vietnamese service market is mainly due to the implementation of WTO commitments on opening service market meanwhile FTA commitments play a negligible impact. Therefore, this section will look at periods from before Vietnam's accession to the WTO (2006), accession to the WTO, and the implementation of its commitments to services liberalization under the WTO after two years (2008), 4 years (2010), 6 years (2012), and 10 years (2016)⁴.

1. The role of services liberalization in GDP growth

38.08% was the share of services sectors in Vietnam's total GDP in 2006 - the preceding year of Vietnam's accession to the WTO. After 2 and 4 years of WTO accession (equivalent to one year after the one-year and three-year opening schedule, which applies to the majority of service sectors under Vietnam's WTO commitments), this proportion increased slightly to 38.1% and 38.33%, respectively. The share of service sectors in total GDP increased to 41.7% in 2012 - six years after Vietnam's accession to WTO (equivalent to one year after Viet Nam completed the opening of the service sector with the schedule of five years from the date of accession - this is also the longest schedule of the majority of service commitments. However, by 2016, Vietnam had completed all opening stages for all committed sectors and sub-sectors in the WTO (which was mostly open to a limited number of services with an opening stage of more than five years), the proportion had an insignificant change, even decreasing slightly to 40.92% (Figure 12).

⁴ The roadmap of opening services sector in Vietnam under WTO commitments was mostly 1-3-5 years after its accession. Therefore, the study selects one year after each service opening roadmap of Vietnam to assess the impacts of this opening, equivalent to 2008, 2010, 2012. The longest opening roadmap in Vietnam is 8 years, so Vietnam has completed that roadmap for 2 years by 2016.

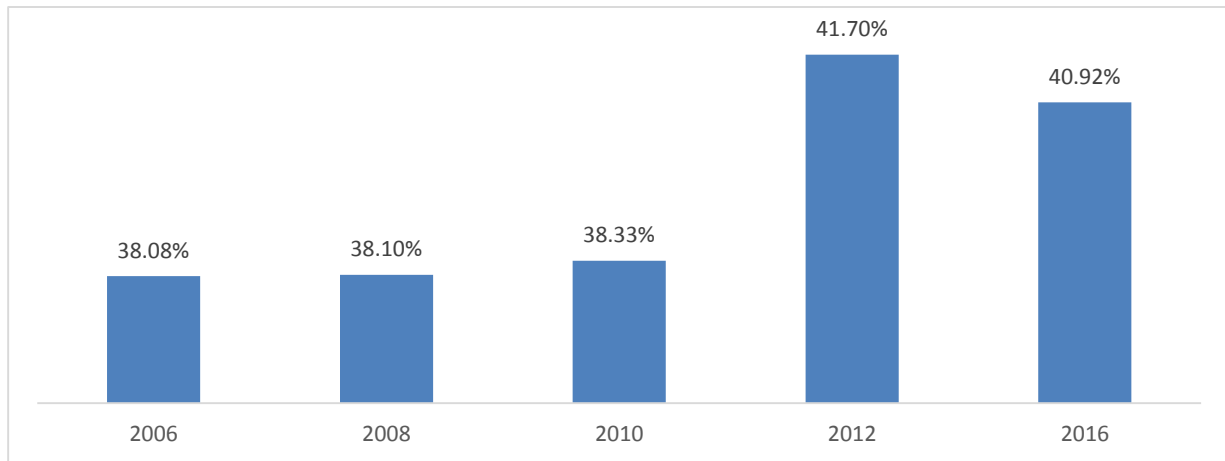


Figure 12: The share of the services sector in total GDP

Source: General Statistics Office, 2018

The effect of liberalizing service markets on the growth rate of this sector is also shown by comparing service growth with the overall growth of GDP and of other economic sectors in Vietnam in the same period.

In particular, statistics show that in the period of opening the services market under the WTO, the services sector has a higher growth rate than Vietnam's overall GDP. In the years prior to the WTO accession in 2006, the growth rates of GDP and services sector were similar (GDP - 8.17%, Services sector - 8.29%), but in 2008 - one year after the accession

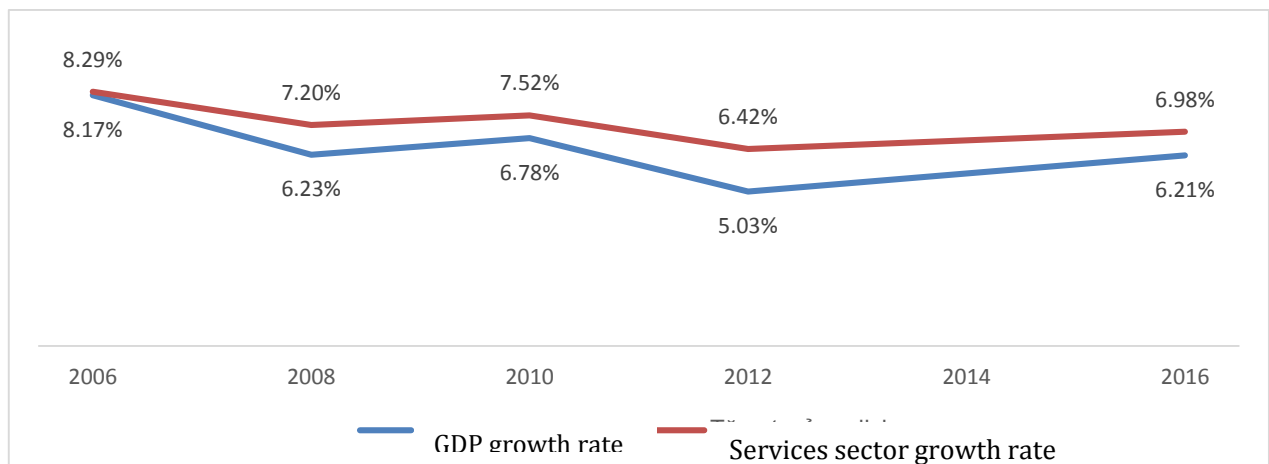


Figure 13: Comparison of growth rate in GDP and services sector in Vietnam

Source: General Statistics Office, 2018

to WTO, the growth rate of services sector (7.2%) was higher than that of GDP (6.23%). Similarly, in the following years, 2010, 2012, and 2006, service sectors experienced a higher growth rate than GDP, especially in 2012, the gap between the growth rate of service sectors and GDP was the largest, reaching at 1.39 percentage point (Figure 13). In 2016, the gap between the growth rate of service sectors and GDP was maintained, although it was somewhat narrower (6.98% for services sector vs. 6.21% for GDP).

To a certain extent, during the 2006-2016 period the progress of the share of the services sector in total GDP of Vietnam and the gap between service growth rate to GDP were in line with the progress of service market liberalization in Vietnam. In particular, in the first few years, Vietnam had only just begun to open the services sector cautiously (approximately at the same level as the voluntary opening that was made on a case-by-case basis before WTO accession), the share of the services sector in GDP increased very slightly, the difference in the growth rate of service sector and GDP also changed negligibly. However, six years later, with the completion of opening schedule of the majority of committed service sub-sectors, the share of the services sector in the economy increased remarkably, the difference in the growth rate of services - GDP changed significantly. After a five-year stage, only a handful of services need to be continued to open, leaving virtually no significant impact on the share of services sector in total GDP. From a comparative perspective of the growth rates of the services sector and GDP, this gap got no longer larger, even getting narrower. The slowdown in the share of the services sector in GDP and in the comparison with GDP over time seemed to be a sign of the need for a new "wave of opening" for Vietnam's services sector after the accession to WTO.

2. The role of service liberalization in trade growth

Figure 14 depicts the growth rate of Vietnam's service exports and imports over the period from before WTO accession (2006) to 10 years after WTO accession (2016). It is clear that both services exports and imports had increased after Vietnam's accession to the WTO, with the fastest growth since 2010, 3 years after Vietnam's accession to the WTO. Many services had already opened in accordance with WTO commitments.

In the period before WTO accession, Vietnam has a balance of trade in services; however, since WTO accession, Vietnam has become more and more service import-oriented. This shows that Vietnam's domestic service industries suffered from fierce competition with foreign service suppliers after Vietnam opened its services sector under WTO commitments. Meanwhile, in the opposite direction, Vietnam's service enterprises had not taken advantage of many opportunities from enhancing access to services markets of WTO member countries due to the fact that the competitiveness of Vietnam's service industries is still limited and they experienced the relatively short time of development and they were also relatively well protected before WTO accession.

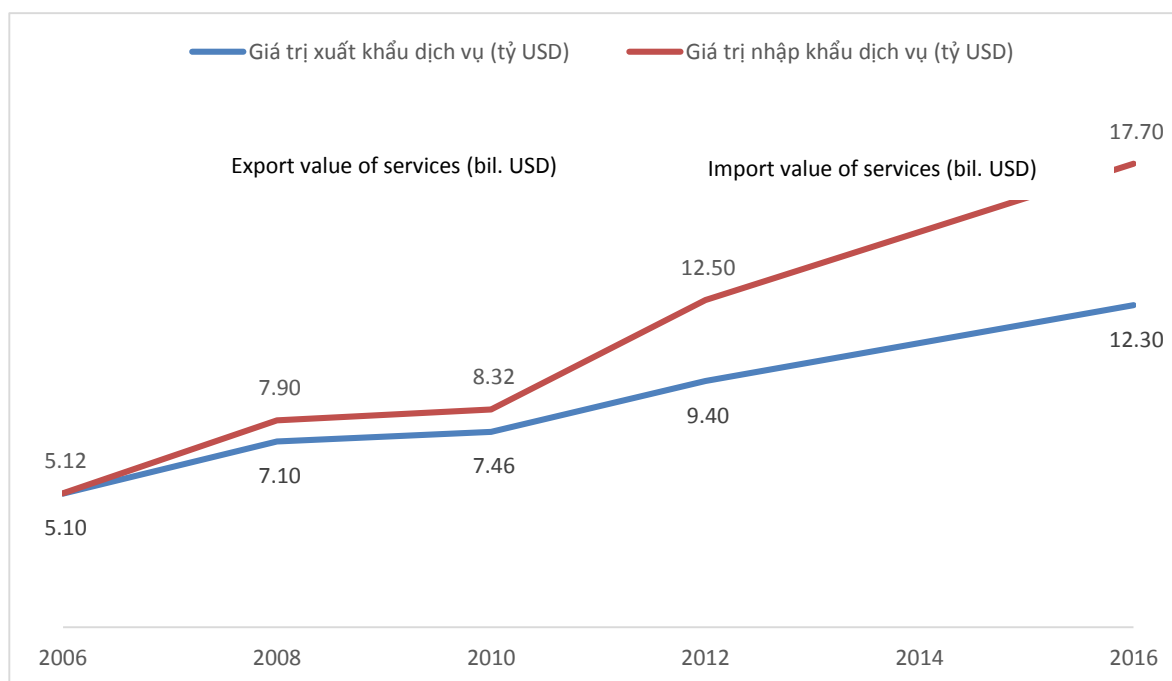


Figure 14: Import-export turnover of Vietnam's services through the period

Source: ITC Trademap, access October 2018

Although the value of trade in services of Vietnam had increased after Vietnam's accession to the WTO, the share of services in Vietnam's total trade value (goods and services) tended to decline steadily from 10.85% in 2006, to 9.48% (2008), 9.21% (2010), 8.73% (2012) and only 7.91% in 2016.

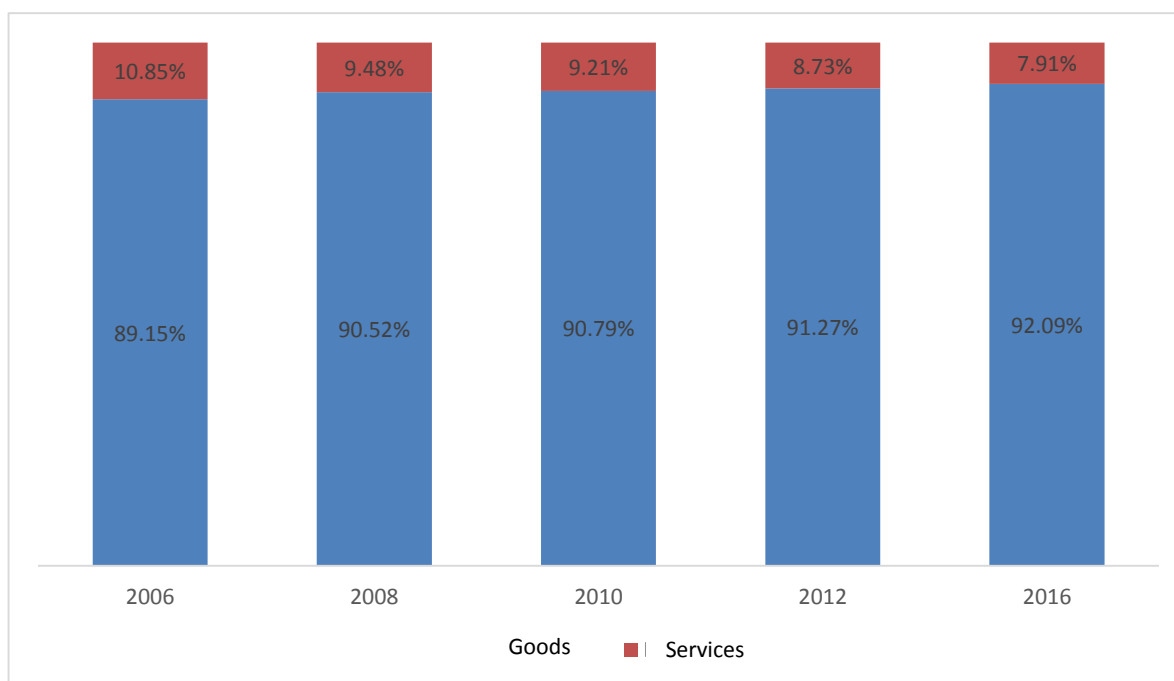


Figure 15: The share of trade in goods and services in total commercial value of Vietnam

Source: ITC Trademap, 2018

There are several reasons for this. First, although the WTO helped in the great liberalization of the Vietnam's service market for foreign service suppliers as well as increased access to markets of other countries, Vietnam still maintained many restrictions on some essential services sectors such as finance, logistics, telecommunications, transportation, etc. so foreign service suppliers still face difficulties in accessing Vietnam's services market. By contrast, Vietnam's service sector was still infant and its competitiveness was weak, so it was difficult to reach overseas markets. Second, service liberalization took place significantly under WTO commitments, while nearly 10 FTAs have undertaken very limited service commitments. Meanwhile, liberalization of trade in goods was not only a central theme in the WTO, but also a major and almost unique topic in the FTAs that

Vietnam has signed and is currently implementing. Third, Vietnam identifies itself as an export-oriented economy (which means goods export), so unsurprisingly, the production and export of goods (together with the import of raw materials, machinery, equipment and other goods) are paid much attention in most trade exchanges between Vietnam and the world, outstripping the services export. This explains why trade in goods is still superior to trade in services even with Vietnamese counterparts without FTA.

However, in a more detailed view, these figures do not fully reflect the role of the service sector in Vietnam's trade because the added value of the service in the export goods does not occupy a small proportion. As shown in Figure 8, the added value of services in total export turnover of Vietnam in 2011 accounted for 38.1%. Therefore, service openings, especially openings of those essential input services for production, are important to reduce costs and improve the quality of service inputs, thereby increasing the competitiveness of export goods.

3. The role of service liberalization in investment

Before Vietnam joined the WTO in 2006, foreign direct investment (FDI) into Vietnam was limited, at only \$ 2.4 billion, and Vietnam's investment abroad was almost nonexistent. However, after one year of WTO accession, FDI inflows into Vietnam rocketed to \$ 9.6 billion in 2008. After the global financial crisis in 2009-2010, FDI inflows to Vietnam were also reduced to \$ 8 billion; however, from 2012 onwards, FDI inflows into Vietnam rose sharply to \$ 12.6 billion in 2016. While foreign direct investment in Vietnam tended to increase rapidly after Vietnam's accession to the WTO, Vietnam's investment abroad increased but at a very slow pace. From 2006 to 2016, Vietnam's direct investment abroad grew from \$0.1 billion to \$1 billion. (Figure 16).

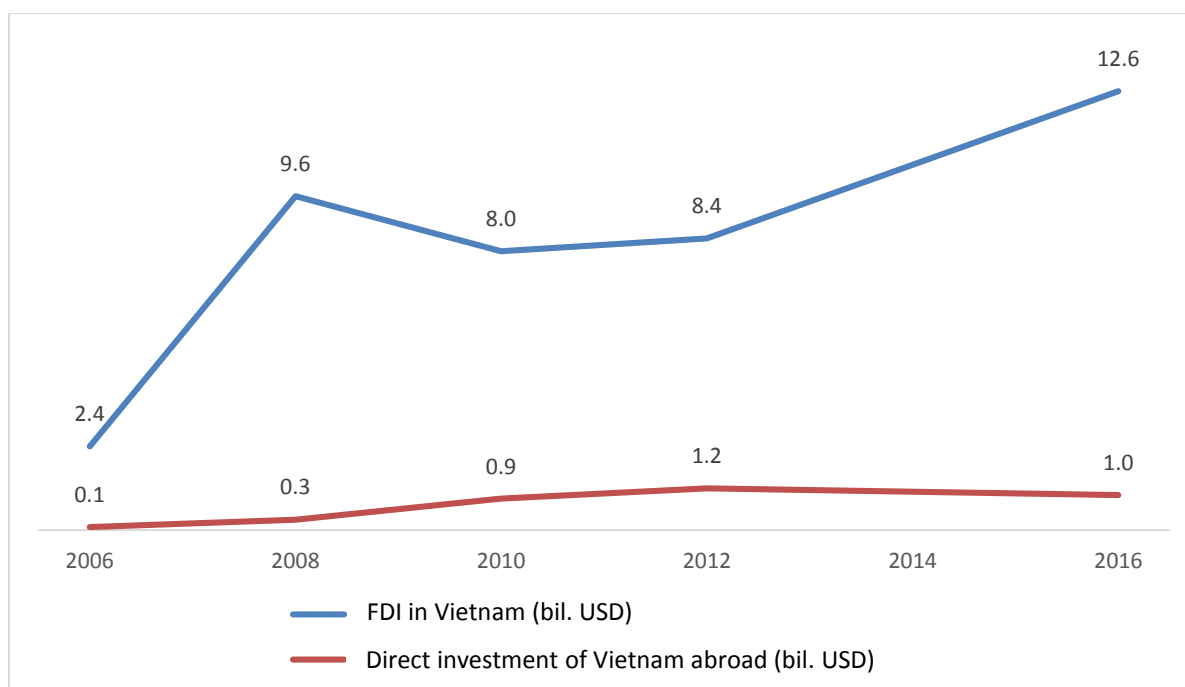


Figure 16: The foreign direct investment in Vietnam and direct investment of Vietnam abroad

Source: WDI, access October 2018

Table 16 provides data on FDI inflows into Vietnam by sector by June 2018. It can be seen that the manufacturing and processing industry played the leading role with 57% of total FDI in Vietnam. This is understandable because although Vietnam has no specific commitments on opening investment in the manufacturing sector, there are virtually no restrictions on foreign investment in this area. However, it is worth noting that except for the manufacturing industry, most of the remaining FDI sectors came to real estate business services, accommodation and catering services, construction, wholesale and retail; repair of automobiles, motor vehicles, motorbikes, extractive industry, warehousing and transportation logistics. These are also service sectors which Vietnam has committed to open completely or widely under WTO commitments. This indicates that the opening up of the service market under WTO commitments has created a significant effect on attracting foreign investment into Vietnam in these sectors.

Table 16: Foreign direct investment into Vietnam by sector ((Accumulating of valid projects until June 20, 2018)

No.	Sectors	Number of projects	Total Registered Capital (Million USD)	Share of capital
1	Manufacturing and processing industry	12,796	189,130	57%
2	Real estate business	697	56,200	17%
3	Production, distribution of electricity, gas, water, air conditioning	124	21,923	7%
4	Accommodation and catering services	693	12,577	4%
5	Construction	1,533	10,499	3%
6	Wholesale and retail; Repair of automobiles, motor vehicles, motorbikes	3,091	6,652	2%
7	Extractive industry	110	4,942	1%
8	Warehousing and Transportation Logistics	700	4,764	1%
9	Education and Training	413	4,325	1%
10	Arts and entertainment	132	3,572	1%
11	Agriculture, forestry and fisheries	502	3,457	1%
12	Information and communication	1,753	3,289	1%
13	Professional, scientific and technological activities	2,641	3,116	1%
14	Water supply and waste treatment	68	2,402	1%
15	Health and social work activities	135	1,869	1%
16	Financial, banking and insurance operations	65	1,171	0%
17	Other service activities	151	755	0%
18	Administrative and support services	344	585	0%
19	Employment in households	5	8	0%
Total		25,953	331,236	100%

Source: Department of Foreign Investment, Ministry of Planning and Investment, 2018

In fact, opening the market and attracting FDI, especially in the service sector, has brought many positive impacts on the Vietnam's economy. First, FDI has assisted in the attraction

of advanced technology from overseas. For developing countries like Vietnam, this is the fastest way to bridge the gap with developed countries, especially in the service sector. According to a report by the Ministry of Science and Technology in 2018, oil and gas and media were two sectors with high levels of technology transfer and R&D from FDI projects, which created the fast pace of development to keep up with the development of countries in the region and in the world. Second, FDI has also been the driving force for the creation of jobs and the improvement in the quality of human resources. In the period of 2008 - 2017, the labor force in the FDI sector increased by 12% per year on average, more than five times higher than the national average. In particular, FDI enterprises in the service sector often require higher quality of human resources than the manufacturing sector, and therefore they are trained to improve their knowledge and skills more regularly. The income of employees in the FDI sector is also 21% higher than that in the non-FDI sector. In addition, employees in this sector are more likely to enjoy more welfare such as health insurance, accommodation, nursery and so on. Lastly, with higher levels of technology, better management skills, more capital and better quality human resource training, the FDI sector has been improving its general competitiveness for businesses and the Vietnam's economy, creating high-quality products and services for domestic consumption and export promotion. The contribution of the FDI sector to the Vietnam's economy in terms of employment, state budget revenue, exports, and GDP has increased after Vietnam joined the WTO (Table 17)

Table 17: The contribution of FDI enterprises to the Vietnam's economy in 2005-2014

	2005	2010	2014
Contribution rate to employment	2.7%	4.4%	6.4%
Contribution rate to state budget revenue	8.4%	11.0%	13.9%
Contribution rate to the export value	57.2%	54.2%	62.5%
Contribution rate to GDP of Vietnam	15.2%	15.2%	16.4%

Source: GSO

4. The role of service liberalization in generating jobs and increasing productivity in service sectors

From 2006 to 2016, the number of employees in the service sector of Vietnam increased by more than 1.5 times, from 11 million in 2006 to 17.9 million in 2016. The most significant increase was in 2008-2010, which was the first phase of Vietnam's opening the services sector under the WTO commitments. Similarly, the productivity in service sector also increased at a faster rate than the increase in labor force. The average productivity in the service sector was more than tripled, from 33.3 million in 2006 to 103.5 million in 2016 (Figure 17). The average annual growth rate in the productivity of the service sector for the period 2007-2016 was 9.1%, much higher than that of all sectors (4.2%).

Table 18: Average income of wage workers in 2016*Source: General Statistics Office, 2017*

No.	Economic sectors	Average income per month
1	Agriculture, forestry, fisheries	3.32
2	Extractive industry	6.49
3	Manufacturing and processing industry	4.99
4	Production and distribution of electricity, gas, steam and air conditioning	6.66
5	Water supply, waste management and treatment	5.20
6	Construction	4.67
7	Wholesale and retail, repair of automobiles, motor vehicles, motorcycles and others	5.15
8	Warehousing and Transportation Logistics	6.43
9	Accommodation and catering services	4.28
10	Information and communication	7.32
11	Financial, banking and insurance operations	7.72
12	Real estate business	7.39
13	Professional, scientific and technological activities	7.09
14	Administrative and support services	5.84
15	Education and Training	5.75
16	Health and social work activities	5.86
17	Arts and entertainment	4.91
18	Employment in households	3.35
19	Other service activities	3.91

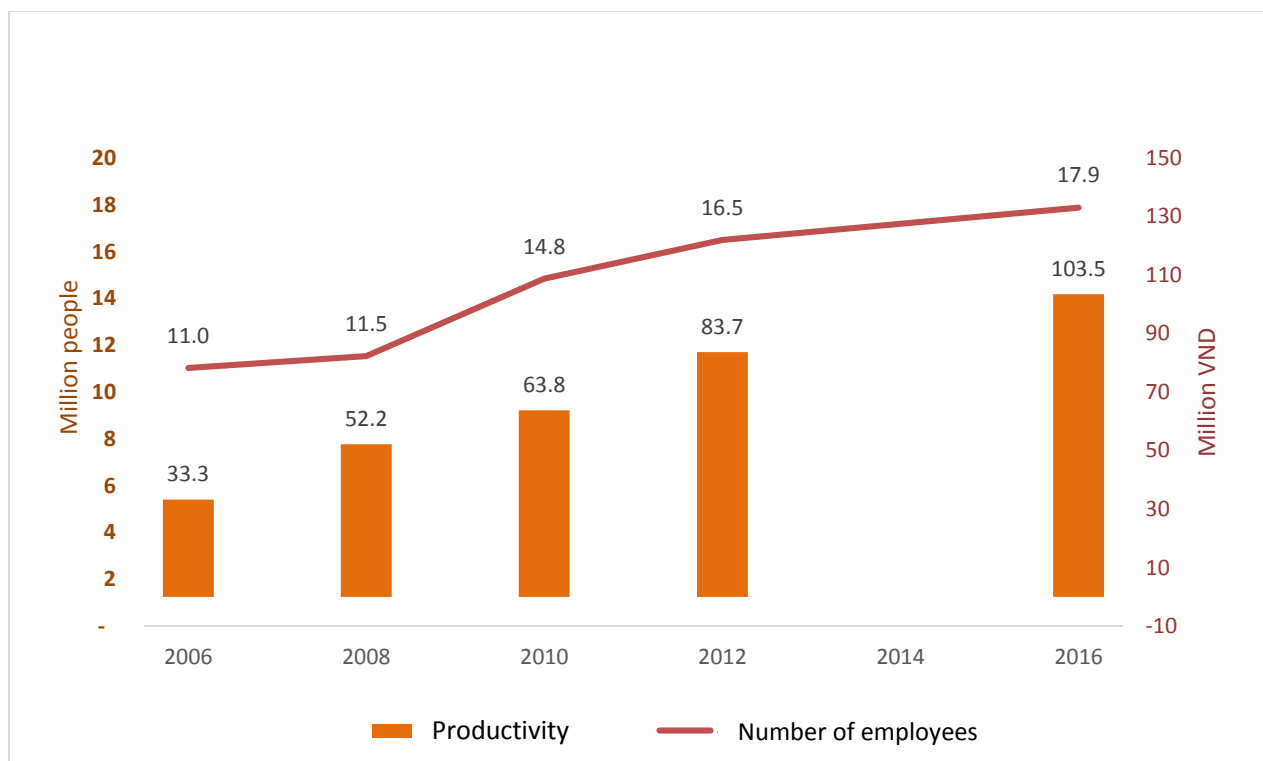


Figure 17: Number of employees and productivity in service sectors over time

Source: General Statistics Office, 2018

Increased productivity in the service sector also led to increased incomes for labor in these sectors. According to Table 18, the high income levels at over 6 million VND / month fell into the service sector, in which the highest was in the financial, banking and insurance sectors (7.72 million VND / month), real estate business (7.39 million VND / month), professional, scientific and technological activities (7.09 million VND / month).

5. The impact of service liberalization on the development of service sectors

The services sector is the most directly and extensively affected sector from the liberalization of services, from the perspective of growth rate, capital size, employment, competition, and competitiveness.

Due to its limited scope, this study is limited to examining the degree of impact of trade liberalization on the development of a number of important service sectors.

5.1. Banking services

Banking is the backbone service industry in any economy. Banking services assist in attracting and coordinating the capital in the economy, supporting production and export activities, providing credit solutions, preventing risks for businesses and people and so on. Hence, a strong and competitive banking sector is a key driver of economic development and stability. The reality shows that financial crises such as the 1997 Asian financial crisis and the 2007-2008 global financial crisis severely affected the economies of many countries and the world economy. Because of the importance of the financial and banking system in each economy, this sector is always cautiously discussed in international trade negotiations.

From the perspective of market opening, except for WTO, Vietnam has hardly any significant steps in the liberalization of banking services in FTAs. In a number of recent new-generation, high-standard FTAs of Vietnam such as CPTPP and EVFTA, which have not entered into force yet, financial services have been significantly expanded, with both general principles applicable to this field, and specific commitments to open markets for foreign countries in this sector. However, until now, Vietnam's financial market is still largely affected by WTO commitments as the above new FTAs have not been effective yet.

According to the WTO, Vietnam has committed that since the date of accession foreign banks are allowed to establish in various forms in Vietnam, including representative offices, branches of foreign banks, joint venture banks (foreign capital contribution not exceeding 50% of charter capital), banks with 100% foreign capital (from April 1, 2007), joint-venture financial companies, financial companies with 100% foreign capital, joint-venture financial leasing companies, financial leasing companies with 100% foreign capital. Foreign organizations and individuals are also allowed to purchase shares at joint stock commercial banks of Vietnam but at the maximum 30% of charter capital.

As a result, the number of foreign banks established in Vietnam increased significantly. For example, in 2006 Vietnam did not have any 100% foreign owned banks, however, by

2016 there had been 8 banks of this category. The number of foreign bank branches in 2006 was just 31, and this figure had increased to 51 by 2016. The number of representative offices of foreign banks also increased rapidly to 51 in 2016. Thus, the presence of foreign banks has occupied an important position in the system of credit institutions in Vietnam (Table 19).

Table 19: Credit institutions of Vietnam through the stages

Type	2006	2008	2010	2012	2016
State commercial banks	5	5	5	5	7
Social Policy Bank	2	1	1	1	1
Development banks			1	1	1
Joint stock commercial bank	34	40	37	34	28
Joint-venture bank	5	5	5	4	2
Banks with 100% foreign capital	0	5	5	5	8
Branches of foreign banks	31	39	48	49	51
Representative offices of foreign banks	n/a	n/a	48	50	51
Non-bank credit institutions (including financial companies, financial leasing companies)	17	30	30	30	26
Vietnam Cooperative Bank					1
The Central People's Credit Fund	1	1	1	1	
The People's Credit Fund	938	1106	1057	1032	1166
Microfinance institution			1	2	4

Note: "n/a" means no information can be found

Source: Summary of Annual Report of the State Bank

However, total assets of joint venture banks and foreign banks have been still very limited compared to that of domestic banks and financial institutions. Table 20 compares the assets and capital of credit institutions in 2016. It can be seen that the total assets of joint-venture banks were only one quarter of the total assets of state-owned commercial banks or the joint stock commercial banks in the country. But in term of the capital (equity capital and charter capital), the capital of joint venture banks and foreign banks is not much lower than the two types of banks mentioned above.

Table 20: Assets and capital of credit institutions in 2016

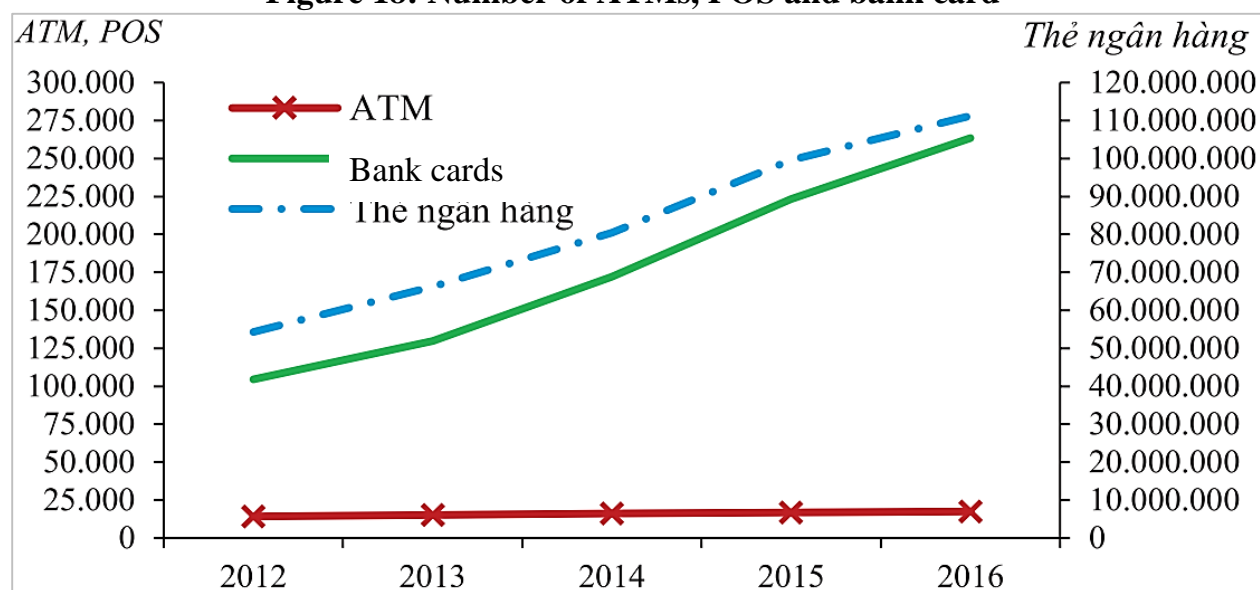
Type	Total assets	Equity capital	Charter capital
State commercial banks	3,861,942	229,499	146,543
Social Policy Bank	159,611		10,696
Joint stock commercial bank	3,422,829	254,151	200,855
Joint venture banks, foreign banks	828,322	130,955	104,103
Financial companies, finance leasing companies	114,370	21,362	19,700
Cooperative Bank	26,385	3,694	3,025
People's Credit Fund	90,112		3,502

In addition, the influx of foreign banks in the purchase of shares of domestic joint-stock commercial banks also took place strongly after Vietnam committed to allow the foreign banks to buy up to 30% of the shares of domestic joint-stock banks. For example, the state-owned Vietinbank after its equitisation has a 28% foreign capital. Many big commercial joint-stock banks such as ACB, TCB, EIB, VIB, VPB also own about 20-30% of foreign capital.

Since foreign investors maintained their strong presence in Vietnam, the banking services market of Vietnam has become more active and competitive with a wide range of modern and diversified products and services for businesses and individuals. Foreign banks with the strength of capital, technology, and management skills not only has provided high-quality financial products and diversified choices for Vietnamese consumers but also has created the competitive environment which has forced domestic banks to reform, change and improve their competitiveness. In addition, with the participation of foreign banks through joint ventures, the contribution of capital assists domestic banks to learn the skills of management and administration of foreign managers, which leads to the enhancement in the capacity of human resources in Vietnamese banks in general.

As a result, after 10 years of WTO accession, Vietnam has a relatively modern and competitive banking system. Modern forms of payment and withdrawals are constantly emerging and increasing rapidly, especially in the period of 2012-2016. By the end of 2016, the whole country has had nearly 17,500 ATMs and more than 263,400 POS card readers have been established, over 111 million bank cards have been issued (Figure 18). In particular, the application of information technology has been strongly developed by banks to provide modern, safe and convenient products and services. By the end of 2016, approximately 70 banks provide electronic payment services via the internet and 36 banks provide mobile payment services. Many new technologies for mobile phones have been developed such as fingerprint authentication, face recognition, QR code, Tokenization, mPOS technology.

Figure 18: Number of ATMs, POS and bank card



Source: State Bank, "Annual Report 2016"

According to the 2017 ranking of The Asian Banker magazine, 15 commercial banks in Vietnam were in the list of the 500 strongest banks in the Asia-Pacific region. At the same time, the World Bank raised the "Access to Credit" index to 3 degrees compared to 2016 and Vietnam ranked No. 4 in ASEAN. Meanwhile, Moody's Investors Service rated the prospects of Vietnam banking system from "stable" in 2016 to "positive" in 2017.

Finance and banking is the sector with the highest outward investment in Vietnam. By April 2018, the total outward investment capital of Vietnam reached \$153.6 million, of which investment capital in the financial and banking sector was \$105 million, accounting for 68% of the total investment capital. The leading Vietnamese banks in this field include BIDV, Vietcombank, Vietinbank, MB, SHB, and Sacombank. The main targeted markets of these banks are Laos and Cambodia.

5.2. *Retail service*

Retail in general and goods retail in particular is one of the industries that have seen continuous and impressive growth rate in recent years in Vietnam. From the perspective of foreign investors, Vietnam's retail market is also among the most attractive emerging markets. This shows that this is really a potential service for development, bringing significant benefits to the economy.

In fact, the contribution of the retail sector to the economy is not limited to the profits and the number of jobs created by the industry. As an indispensable linkage between production and consumption, the operation of retailing is significant for the manufacturing of consumer goods in terms of outputs, inputs and margins. In other words, the development of the retail sector is not only significant for this sector but also for the development of most manufacturing sectors in the economy.

However, in the period after “Doi Moi” in 1986, Vietnam's retail models were still mostly traditional markets and grocery stores. In 1993, the modern retail model - supermarkets - were first introduced in Vietnam and followed by a small number of emerging shopping centers mainly in cities. Until 2007, when Vietnam joined the WTO and made commitments to open up Vietnam's retail market for foreign retailers, this market just began to develop.

Specifically in the WTO, Vietnam committed in all four sub-sectors: commission agents, wholesalers, retailers, multi-level sales, and franchisees in the distribution sector. Vietnam committed to allow foreign investors to carry out distribution activities in Vietnam after

Vietnam's accession to the WTO on 11 January 2007 in the compulsory form of joint venture with Vietnamese partners (with foreign capital not over 49%). From January 1, 2008, foreign investors were allowed to operate in the form of joint venture without any restrictions on the proportion of foreign capital and to establish a 100% foreign-owned enterprise in the retail sector after 1 January 2009. However, foreign retailers were only permitted to provide retail services through retail outlets (shops, supermarkets ...) and to open only one (01) retail outlet (without any conditions). The establishment of retail outlets from the second onwards must be authorized by the competent authority on the basis of Economic-Need-Test (ENT).). In addition, foreign distributors were limited in distribution to some items, some of which were restricted by the schedule and some were prohibited from distribution.⁵.

For some of the FTAs that Viet Nam joined later, more commitments on opening up the retail market were made than those of the WTO, but these FTAs either have not been signed or have not entered into force yet.

With the opening of the retail sector under WTO commitments, especially since 2009 when foreign retailers were allowed to enter Vietnam in the form of 100% foreign-owned enterprises, Vietnam's retail market has rapidly risen in the total retail sales, the number and size of retailers, as well as the massive number of modern retail models.

Table 21 shows that the number of traditional markets in Vietnam was almost unchanged in the period 2010-2017 while there was an increase in the number of modern retail types such as supermarkets and trade centers. In particular, in the two big cities of Hanoi and Ho Chi Minh, the shopping centers occupied a dominant position in the modern retail structure (Figure 19).

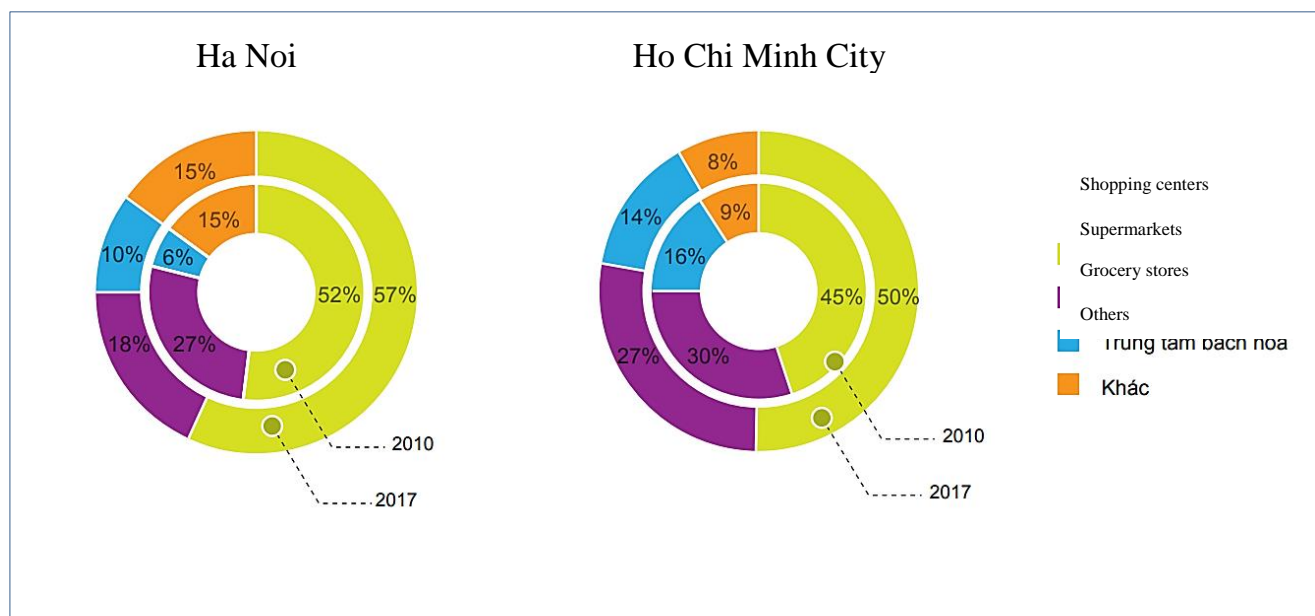
⁵ Items prohibited from distribution include: rice, sugar cane and beet sugar, cigarettes and cigars, crude oil and processed oils, pharmaceuticals, explosives, precious metals and gems, books and newspapers, magazines, tapes and discs.

Table 21: Number of retail stores by commercial model

Source: Self-compiled from many sources

	2010	2011	2012	2013	2014	2015	2017
1. Various types of markets	8,528	8,550	8,547	8,546	8,568	Approx 9,000	Approx 9,000
2. Supermarkets	571	638	659	724	762	830	957
3. Trade centers	101	116	115	132	139	150	189

Figure 19: Modern retail structure



Source: SAVILLS Viet Nam, 2017

Accumulated until June 2018, there were more than 3,000 foreign investment projects with a total value of about \$ 6.7 million in the wholesale, retail and repair of motorcycles,

making it one of the six largest foreign-invested economic sectors in Vietnam. Some of the leading retailers in the world have come to Vietnam such as Emart, Lotte Mart, GS25 from Korea, Aeon, Seven & I Holding from Japan, B's Mart from Thailand and so on. These modern retailers have brought modern, convenient and civilized shopping methods to Vietnamese consumers. Besides, domestic producers can exploit these foreign retailers to access foreign markets by joining their supply chain. For example, AEON, a Japanese retailer, have signed a memorandum of understanding with the Vietnam's Ministry of Industry and Trade (MOIT) in October 2018 to distribute Vietnamese goods of \$500 million by 2020 and \$1 billion by 2025 through its network. With a distribution network of more than 14,000 stores across Asia, AEON's commitment is expected to create a tremendous opportunity for Vietnamese businesses to improve exports and their presence in foreign markets.

The presence of foreign retailers after Vietnam liberalized this sector also put the competitive pressure on domestic retail systems pushing them to improve the quality and diversify of customer services. For example, the Co.opmart supermarket system, a Vietnamese retailer established in 1996, has made lots of reforms in technology and apply convenient methods of shopping and payment such as Zalo to reach and interact with users and provide daily promotional information. Co.opmart has also applied various forms of promotion and enhanced service quality, quality control to better serve customers.

Together with other driving forces, the presence of foreign retailers has made Vietnamese retail market more active, attractive and draw more foreign investment into the sector. For example, in 2015 Vincommerce develop a series of Vinmart and Vinmart+. After three years of operation, Vincommerce has opened 65 supermarkets and more than 1,000 convenience stores nationwide.

According to the ranking of Top 10 retail companies in 2018 publicised by Vietnam Report in cooperation with Vietnamnet, up to 7 out of 10 retail companies are reputable companies in Vietnam (Table 22)

Table 22: Top 10 prestigious retailers in 2018

No.	Company name
1	Vincommerce General Trading Service JSC
2	EB Service Company Limited
3	HCMC Trade Union Confederation
4	AEON Vietnam Co., Ltd
5	Tan Son Nhat Airport Services Joint Stock Company
6	Lotte Vietnam Shopping Joint Stock Company
7	Saigon Trading Corporation - One Member Limited Liability Company
8	Hanoi Trading Corporation
9	Lan Chi Investment and Service Co., Ltd
10	Noi Bai Airport Service Joint Stock Company

Source: Vietnamnet.vn, 2018

In addition to the direct retail methods, e-commerce retail started to grow rapidly in Vietnam and has become a widespread trend in the last five years. The online retail value of B2C in 2015 was about \$4 billion and is expected to increase to \$ 11 billion by 2020. In e-commerce retail channels, online stores are the most popular channel, which have increased more than 20 times from 647 stores in 2013 to 13,510 stores in 2016. The second most popular form is the online trading markets, which has also rocketed from 90 markets in 2013 to 682 markets in 2016. Online advertising and auctions were less popular but the proportion also increased rapidly over the same period (Figure 20). The number of online Vietnamese shoppers has reached to over 20 million, and 49% of consumers do the shopping over the phone every month.

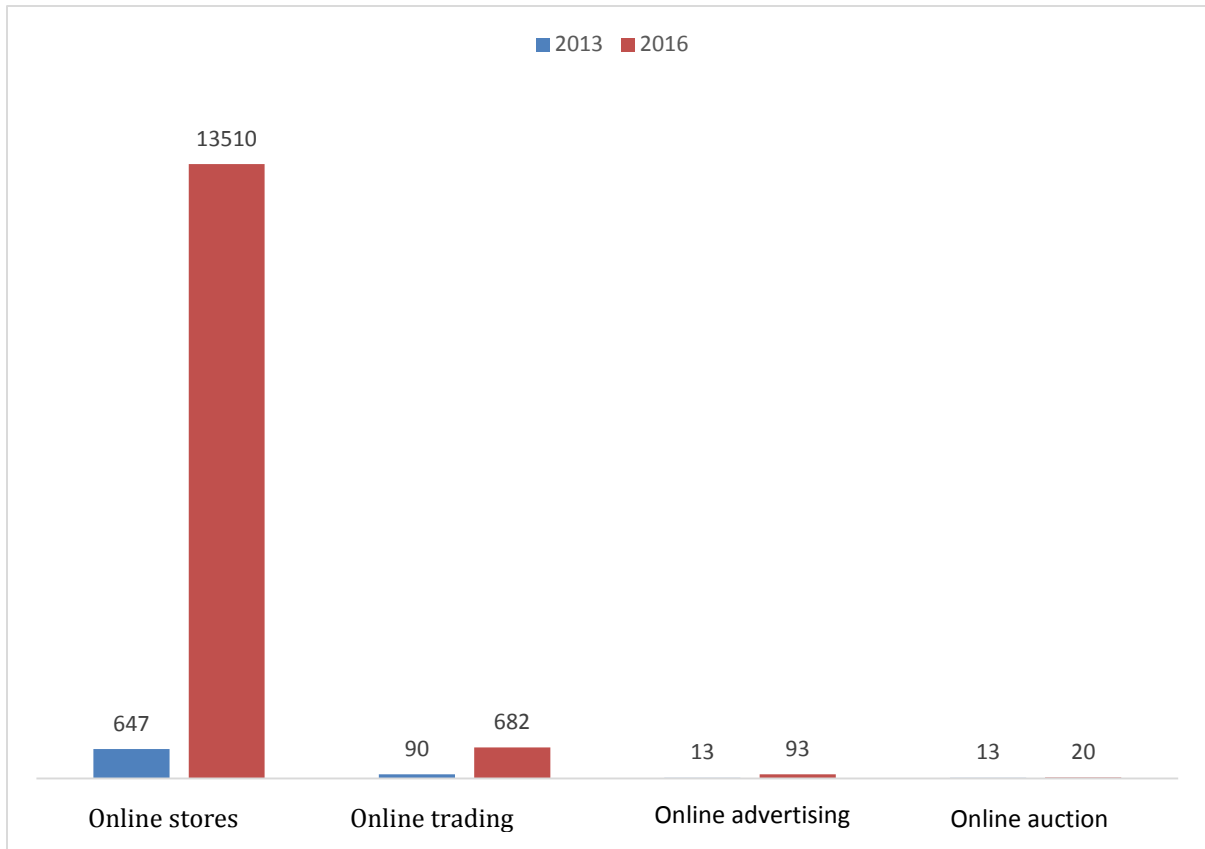


Figure 20: E-commerce forms

Source: SAVILLS Viet Nam, 2017

It is clear that after Vietnam opened its retail sector for foreign investors, the retail market in Vietnam has grown more dynamically with the participation of many foreign retailers, enabling a richer, better, and more competitive selection of services. Consequently, not only consumers benefit from better quality products with more choices, but suppliers also have more diverse channels to bring their products to the consumers including both domestic consumers and foreign consumers through the distribution channels of big retail corporations.

5.3. Tourism

Tourism is a special sector because it not only contributes significantly to economic growth but also has a social and cultural significance by promoting the image of Vietnam to the

world. Tourism is now also Vietnam's main export service (spot export), accounting for 67% of Vietnam's total export value in 2016. Particularly, the growth of the tourism industry can be followed by the development of a wide range of other services such as transportation, finance, insurance, entertainment, shopping, etc. As a result, many countries in the world, especially underdeveloped countries, where most service sectors are underdeveloped and virtually impossible to export, have paid much attention to tourism exports. According to a UNCTAD 2015 survey of 40 underdeveloped countries, 31 countries have exported tourism services.

Meanwhile, Vietnam is a country with many advantages in developing tourism (diverse natural terrain, many specific cultural characteristics, suitable to develop many forms of tourism simultaneously, etc). In WTO, Vietnam made commitments to allowing foreign partners to provide hotel and restaurant services in the form of joint venture or establish 100% foreign owned enterprises. However, in travel agency and tour management services, foreign enterprises are allowed only in the form of establishing a joint venture with a Vietnamese partner without any restriction on the proportion of the foreign capital, and tour guides in foreign-invested enterprises must be Vietnamese. In addition, such foreign-invested enterprises are permitted to provide tourism service to bring tourists into Vietnam only.

Although remaining a number of restrictions, the opening of Vietnamese tourism market for foreign players has helped Vietnam's tourism market grow stronger and more competitive after 2007. Many big hotel management groups have invested in Vietnam such as InterContinental Hotel Group, Marriott International, AccorHotels, Hyatt, Wyndham Hotel Group and so on. Together with thousands of foreign companies in travel, entertainment, culture, sports, conferences, exhibitions have entered Vietnam, market to offer a diversity of modern, professional resort services. By June, 2018, there were 693 foreign investment projects in accommodation and catering services, with a total registered capital of nearly US \$ 13 million. Accommodation and catering services have become one

of the largest sectors of foreign direct investment in Vietnam, ranking 4th in total investment capital as of June 2018.

Under the competition pressure with foreign counterparts, domestic enterprises have also reformed and innovated to gain their market share. After a time of adapting, some domestic enterprises have emerged with relatively strong competitiveness such as VinGroup, FLC, SunGroup, Muong Thanh

As a consequence, the number of tourist accommodations in Vietnam was more than tripled between 2006 and 2017, with the fastest growth in the period immediately after Vietnam's accession to the WTO (2007-2008) and in recent years (2016-2017). Similarly, the number of international travel firms tripled over the period 2006-2017, from 504 firms in 2006 to 1,752 firms in 2017 (Figure 22)

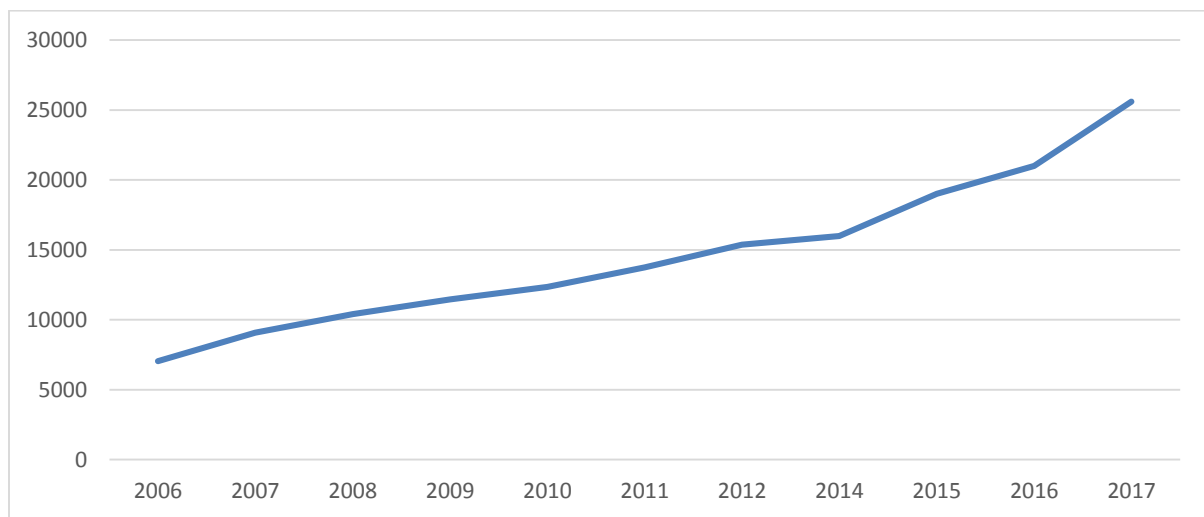


Figure 21: Number of tourist accommodations

Source: Vietnam National Administration of Tourism, 2018

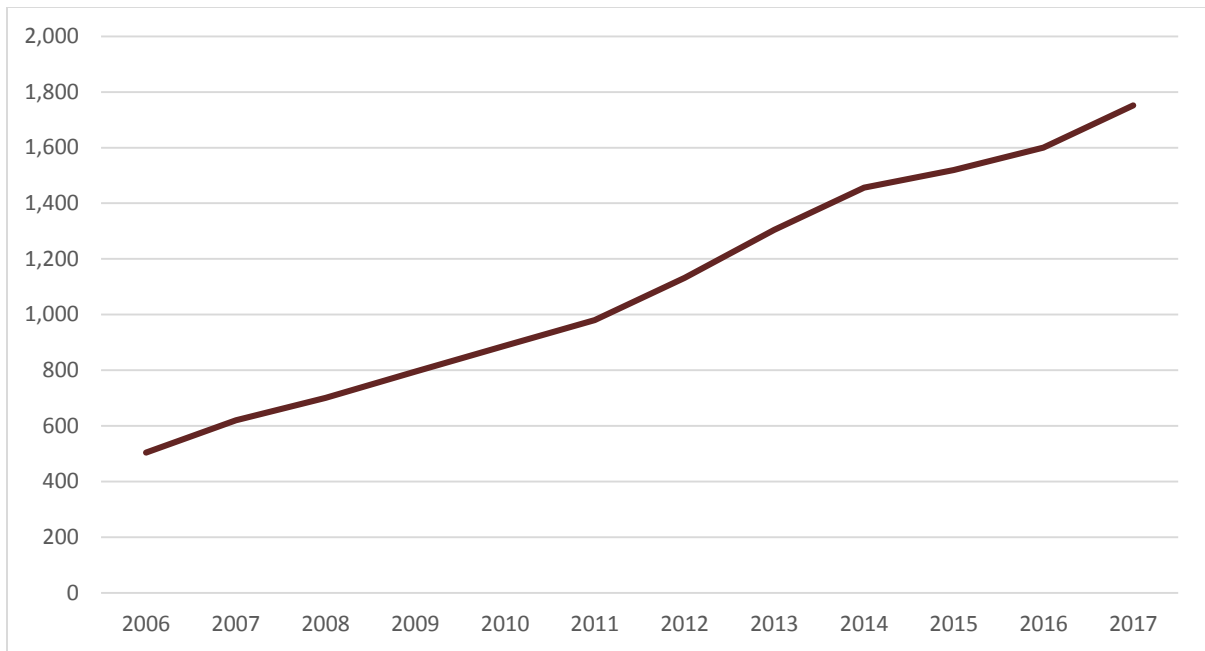


Figure 22: Number of international travel firms

Source: Vietnam National Administration of Tourism, 2018

On the demand aspect, although the number of foreign tourists to Vietnam decreased during the first years of joining WTO (2007-2009) due to the impact of the global financial crisis, from 2009 onwards, the number of tourists to Vietnam has skyrocketed, especially in the last two years (2016-2017). For the whole period, the number of tourists increased by an average of 11% per year. In addition to international tourists, domestic tourists also rose rapidly, reaching 74 million visitors in 2017.

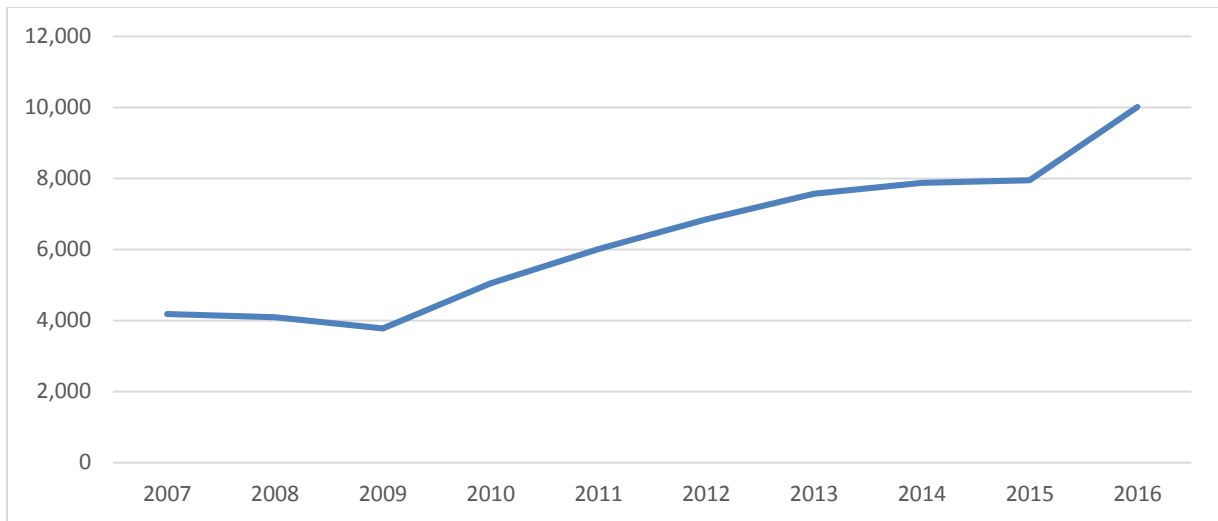


Figure 23: International visitors to Vietnam (million)

Source: Vietnam National Administration of Tourism, 2017

Statistics shows that the tourism industry has grown significantly over the past five years, achieving an average growth rate of about 1.5 times the average GDP growth rate over the same period, accounting for 13% of GDP, contributing 1% to GDP growth in 2017. The tourism industry also generated 2.25 million jobs, six times as much as the automobile industry, four times the mining industry, and three times the financial sector. In particular, every job in the tourism industry is estimated to create two jobs for other industries.

According to the ratings by World Economic Forum (WEF), the Vietnam Travel and Tourism Competitiveness Index (TTCI) has risen by 10 levels from 77/125 in 2006-2007 to 67/136 years 2017.

PART 3:

CONCLUSIONS AND RECOMMENDATIONS

1. Conclusions

1.1. Vietnam's service sector starts to grow but does not correspond to its central role in the economy

Service is an important economic sector that not only creates end-use goods for consumption but also serves as intermediary inputs for manufacturing industries. Highly developed service industries lay strong foundations for effective and favorable development of manufacturing industries in particular and the entire economy in general. Therefore, typically the more developed a country becomes, the higher share that the service sector contributes to its GDP.

In Vietnam, the service sector has been only focused on and stepped up since 2000s onwards after Vietnam began opening its service market under international commitments (BTA, WTO and FTAs). Actually, the growth of Vietnam's service sector remains slow and doesn't correspond to its critical role and requirements of the economy.

As of 2017, the service sector contributed up to 41% to national GDP, the highest share among all sectors but still lower than the average of developing countries (about 50%) and much lower than that of developed countries (about 70%) (UNCTAD 2017). The workforce in the sector has risen rapidly in the past 10 years and accounts for 34% of total labor force. Labor productivity in the service sector is also high compared to other sectors. The number of service firms doubled manufacturing and construction in 2014.

However, the competitiveness of Vietnam's service industries is low in comparison with other countries in the region and the world as the service export value remains small in many years and depends significantly on tourism, on-site export. In contrast, services imported into Vietnam have increased in the last 10 years but the value is also modest, and the trade deficit of the service sector is increasing. The valued added of the services in total goods and services export volume is also small, accounting for only 38.2% in 2011, lower

than the average level of many regions in the world, such as that of ASEAN countries at 45.2%. Although Vietnam has attracted a significant amount of FDI to the service sphere, the focus of FDI is still on real estate, catering and accommodation, wholesale, retail, vehicle repair services which are not inputs of goods production.

1.2. The service market opens considerably but a number of restrictions still exist

The liberalization of the Vietnamese service market is closely linked with the country's economic integration process. Vietnam's accession to WTO in 2007 was the most important milestone in the opening of the service sector. For the first time, Vietnam had commitments to widely open the service market for a large number of countries in the world (all WTO member countries). Since 2007, Vietnam continues to participate in about 10 FTAs and most of them have a similar level of service liberalization as that in WTO, except some next-generation FTAs signed in the later phase (after 2015). Moreover, even FTAs with more services opened than WTO are only available to the FTA partners. Thus, in the 2007-2018 period, the service market liberalization of Vietnam mainly based on WTO commitments.

In WTO, Vietnam was committed to opening the service market under the Positive list approach, in which Vietnam opened the market in 11 over 12 service industries, including 110 over 155 sub-industries. Beside some sectors that have a large degree of opening (*trade, construction and related technical services, distribution, tourism and environment*), many other sectors have low level of liberalization or even no commitments (*information, education, finance, healthcare, recreation– culture- sports, transport*). The schedule for liberalizing services commitments under the WTO is normally 2, 4 or 5 years. Some services have the longest schedule up to 8 years.

From the service supply mode approach, Vietnam has a relatively open commitment for the mode 1 (cross-border supply) and the mode 2 (consumption abroad). Regarding the mode 4 (movement of natural persons), the commitments are quite limited and only allow

the market access with regard to some particular types of high skilled labor. And in the case of the mode 3 (commercial presence), Vietnam has different commitments depending on service categories, in which foreign investors may be permitted to provide services in Vietnam in the form of 100% foreign capital, joint venture, business cooperation contracts, or set up branches in Vietnam. For all committed services, the establishment of representative office is allowed.

Apart from WTO, some new FTAs to which Vietnam is a partner have a higher-standard and wider-scope of service commitments as compared to WTO, including AFAS (from package 9), Vietnam– EAEU FTA, CPTPP, and EVFTA. Only package 9 of AFAS and Vietnam– EAEU FTA already took effect both from October 2016. For the two remaining FTAs, CPTPP will be effective from December 2018, while the EVFTA is even not signed yet. However, service liberalization under these FTA is applied only for FTA partner – much narrower scope than the application of WTO’s commitments also meaning that these FTAs will have less impact on Vietnamese service market than WTO.

Although Vietnam’s international commitments on opening services market are still limited, in fact many service sectors of Vietnam have been fully opened to foreign investors, noticeably some subsectors in information, distribution, entertainment-culture-sports, and transport sectors are opened although there are no commitments or there are limited commitments in WTO. In comparison with other countries in the world, at the time of Vietnam’s accession to WTO (2008), the actual level of restriction of Vietnam’s trade and service sector according to the World Bank’s STRI was 41.5 over 100 (100: absolute restriction), which is the average level compared to similar developing countries but higher (means less restriction on trade and service) than some more developed ones such as Thailand, Indonesia, Malaysia. As of 2018, 12 years since Vietnam’s accession to WTO, the STRI of Vietnam has been improved - 36 over 100 (100: absolute restriction) according to the assessment of the World Economic Forum 2018. The calculation methods applied by the World Economic Forum and the World Bank may be different, however if comparing the STRI results of some other countries evaluated by the two organizations at

two points of time, STRI of Vietnam declined, indicating the higher opening degree of Vietnamese service market in 2018. The openness degree of Vietnamese service market is also higher than that of China and Sri Lanka and the STRI of Vietnam rated by the World Bank in 2008. However, Vietnam just ranked 73 out of 140 countries evaluated and this means that its service liberalization is still far below many other countries in the world.

1.3. The opening of the service market has a lot of positive impacts on the local economy

Since Vietnam opened the service market, specifically implemented its commitments on service liberalization under WTO, the service market has seen numerous changes, become more vibrant and competitive thanks to the participation of foreign partners. The contribution of the service sector to GDP and GDP growth has been increasing and helped the sector successfully replaced the manufacturing and construction sector to become the leading economic sector after 10 years of Vietnam's accession to WTO. The turnover of services export/import of Vietnam has also increased steadily but the import of services tends to be higher than export, leading to a wider trade deficit gap. The share of services trade in total trade volume of goods and services has gradually declined over 10 years of joining WTO due to robust growth of goods trade. In addition to the reason that Vietnam is an export-oriented economy, this is partly due to the fact that beside WTO, Vietnam also signed and implemented a series of FTAs which focus mainly on trade in goods commitments while commitments on trade in services are just equivalent to that under the WTO.

Regarding FDI in services, although some service sectors are the main focus of FDI destination, the total value of FDI in services compared to FDI in manufacturing and processing sectors is still very limited. This fact is partly explained by the fact that Vietnam still maintains many restrictions on foreign investment in the service sector, while it has actively opened the good sector with very few barriers.

The number of workers and the labor productivity of the service sector have also increased significantly in the 10 last years, especially, the 4-year period (2007-2010) witnessed the highest rise. Increased productivity led to improved income of workers. Monthly average income of workers in the service sector was the highest in 2016 as compared to other sectors, mainly in some service industries such as finance, banking, insurance, real estate trading, professional career, science and technology. Income of workers in the FDI sector is also higher than that of the non-FDI sector. Additionally, they also enjoy more non-salary benefits than those in other sectors.

Thus, we can see the relation between the gradual liberalization of the service market of Vietnam and the growth of service industries after Vietnam joined WTO. Although the role of service market liberalization is not really clear as the impacts on macro-economic indicators are not so significant, on the overall, it helps Vietnam's service industries develop step by step, become more efficient, competitive and have greater contribution to other economic sectors in particular and the entire economy in general. This can be seen more clearly through impacts of service liberalization on the development of some key service industries such as banking, retail and tourism.

Although the opening of the local banking sector is limited to foreign banks and credit institutions, the sector has seen remarkable development since Vietnam's accession to WTO. Vietnamese banks have changed continuously, reformed and improved their competitiveness through innovated and diversified products and services. The local banking sector has not only better served domestic customers but a pioneering sector in foreign investment.

Similarly, the retail sector of Vietnam has been flourishing since Vietnam removed some barriers for foreign investors. A lot of modern retail models have been introduced and provided customers with various convenient shopping options. The participation of big retailers in the world into the Vietnamese market has created significant changes in the organizational model, technology, service delivery mode, scope of goods provided and choice of customers. Foreign retailers also created new consumer trends, encouraging the

growth of demand in the market. All of these served as the premise for the vibrant development of this market in Vietnam in the recent years. In addition, the participation of strong competitors in this retail market also creates reasonable pressure for the domestic retailers to change, improve and increase their competitiveness.

One outstanding service industry which also witnessed success thanks to the liberalization process is tourism. After Vietnam opened the door for foreign investors in the field of hotel, restaurant, tourism agent, the local tourism market has developed remarkably. Many resorts and tourism destinations have been introduced in combination with new forms of tourism and attracted lot of both local and foreign tourists. As a result, the sector has made considerable contribution to GDP, created a big number of jobs and income for many workers not only in the tourism sphere but other tourism supporting industries such as transport, banking, healthcare, etc.

2. Recommendations

2.1. Recommendations for Vietnamese Government

The analysis from this study shows that service liberalization has created positive impacts on the development of Vietnam's service industries in particular and the national economy in general. However, the level of liberalization of the country's service market remains modest with regard to both the WTO and FTAs commitments and the auto-opening in reality. Specifically, Vietnam has still maintained many restrictions on foreign service providers and investors, which has been shown through its high STRI (36/100) evaluated by the World Economic Forum in 2018 (rank 73/140 countries). This leads to certain constraints to the growth of Vietnamese service sector in particular and its contribution to the economy in general.

From realities identified from this study, Vietnam needs to further liberalize its service market so that this important economic sector can grow more robustly and contribute more to the economy and the development of other economic sectors. Below are some policy recommendations and proposals to the government to continue the liberalization of the local service market in a way that benefits enterprises and the economy.

- (i) Study evaluate quantitative impacts of service liberalization on the entire economy and some important service industries*

Evaluating the impact of service liberalization on some industries or the entire economy is not easy because besides market opening, there are many other factors that affect the development of one industry/the economy. In addition to intrinsic factors such as corporate competitiveness, supporting policies, state development directions, demands of consumers, etc., there are many other external factors affecting a country's service sector such as the global economy, the global demand and supply fluctuations, development of foreign exchange rates, etc. Thus, to examine the impact of service liberalization is very complicated and requires the conduct of both qualitative research (like this one) and quantitative research (use econometrics models).

However, the quantification of services' impacts on the whole economy and the development of service industries are important grounds and necessary evidence to persuade the Government to take more aggressive actions towards further service market opening and to overcome the old mindset on protectionism. Moreover, specific data on impacts of the service liberalization on each service industry and the overall economy are also the basis for developing service liberalization policies and strategies for the sector in general and each sub-sector in particular.

Therefore, the first recommendation of this study is to continue in-depth studies and quantitative assessments on the impact of service market liberalization on the development of the economy in general and in each service industry in particular.

In support of the implementation of this recommendation, it is necessary to make appropriate efforts to (i) develop and improve appropriate econometric evaluation methods; (ii) store, synthesize and publicize necessary input data for quantitative assessment.

(ii) Actively liberalizing beyond commitments in service industries serving as critical inputs for manufacturing and exporting

Although currently there is no specific quantitative data on the impact of service liberalization on Vietnamese economy, this qualitative study has shown a correlation between the liberalization of service sectors and the development of such sectors in particular and the Vietnamese economy in general. If only putting in this relationship, the logical recommendation is that Vietnam needs to liberalize all services.

In fact, service liberalization must also be placed in the interwoven context of many other factors, objectives and policy orientations. Therefore, the more feasible recommendation is that Vietnam should give priority to continue to open some selected services. The basis for selecting service sectors to open more for foreign service providers should be the efficiency and the spillover effect of the service sectors' liberalization to the economy.

Thus, services which are capable of creating high added value for other industries and for the whole economy should be selected for early liberalization.

As an export-oriented economy, improving competitiveness, reducing the cost of goods is the biggest problem that needs to be resolved in Vietnam. The cost of services in Vietnam's total goods production cost is still very high, including both the cost of services that Vietnam has not been able to provide and must use foreign services at high prices (eg. research, design, product development, marketing services ...), and the cost of services that Vietnam has been opened limitedly forcing the good producers to use the low quality but high price of domestic services (eg. Banking and financial services, telecommunications, logistics ...). In this context, the services that should be prioritized to further liberalization are the ones that support or serve as inputs for commodity production.

According to a study conducted by the OECD in 2015, seven fields of services which play a key role in the global supply chain and help connect stages of the production chain and provide inputs for manufacturing are *computer, distribution, telecommunications, transportation, delivery, banking and insurance*. The report also proves that the restrictions in such services will have negative impacts on goods production. For example, restrictions in the telecommunications and seaway transport will affect the import/export of goods and intra-industry trade activities while limitations in the air transport and delivery services will seriously affect perishable foods and vegetables. Also the restraints in the banking and insurance industry will have big impacts on exports and intra-industry trade of products like cars, motorbikes, perishable consumer goods and electronic products.

According to the study in session 1, part I, in WTO Vietnam was committed to limited opening or had no commitments on opening many sub-sectors in the following sectors: *information, education, finance (banking and securities), healthcare, recreation – culture – sports, transportation*. In some new generation FTAs, Vietnam had the commitments on providing further access on some sub-sectors in those service sectors and other sectors, however such commitments are only applicable to partners of these FTAs. In reality, Vietnam has opened more in some sub-sectors of the following service sectors:

information, distribution, recreation–culture–sports, and transportation (provide access to some logistics services, passenger and goods railway and road transport). Thus, among the 7 services which play important roles to goods production listed above in the study of OECD, Vietnam still remains many restrictions to foreign service suppliers and investors on the 4 services including telecommunication, transport (seaway transport of goods and passengers; road transport of goods), delivery and banking.

Therefore, Vietnam should focus on opening aforementioned essential services areas to pressure domestic enterprises to reform and improve service quality as well as to supplement a rich source of quality services from the foreign suppliers to the domestic industry. Certainly, it is necessary to conduct thorough researches on which services should be open and to what extent of opening, so that the opening can create sufficient pressures on the reform by local service enterprises but doesn't create lots of negative impacts on domestic service industries, such as making local service firms collapse, loss of jobs and income for workers and other social negative consequences.

(iii) For some services opened under FTAs only for FTA partners, considering opened for all trading partners

Some FTAs of Vietnam such as AFAS, CPTPP, EVFTA have commitments on services at a higher standard as compared to the current market openness degree (according to WTO) of Vietnam. Legally, Vietnam is only obliged to open the services according to FTA commitments to FTA partners, not to other WTO partners. However, as mentioned in the recommendation ii) that Vietnam should continue to liberalize some services to bring benefits for the goods producers and exporters in particular and the economy in general. Therefore, at least for the 07 services proved by the OECD to be essential for manufacturing and exporting: computer, telecommunication, transportation, delivery, banking and insurance, Vietnam should consider to open to all WTO partners at the opening level equal to commitments under Vietnam's FTAs, especially the new-generation ones.

By opening itself to all WTO partners at the level of FTAs in service sectors essential to manufacturing and exporting, Vietnam will have the opportunity to improve the quality and prices of related services, thereby contributing to reduce goods production costs. Meanwhile, due to the WTO's positive commitment method and not applying the ratchet principle, if needed, Vietnam can withdraw the preference for non-FTA partners to the previous level equal to WTO's commitments. In other words, the proactive opening of the FTA commitments for WTO partners in the essential service sectors for production as the above recommendation always has a safety valve, when necessary, Vietnam can stop opening without any legal risk.

(iv) Strengthening consultation with enterprises about opening the service market of Vietnam

The Government's service liberalization policies, whether basing on economic demands or following international trade negotiation and commitments, need to be in close consultation with the business community. As each policy can have different impacts on different sectors, it is necessary for the Government to take get opinions from different stakeholders to have cost and benefit analysis of the policy to the overall economy

However, international trade policies are being made by the Government with very limited consultation with the business community. During the process of Vietnam's accession to WTO, enterprises were barely consulted on service opening strategies as well as the real opening process of service commitments although this agreement includes the most comprehensive service opening commitments of Vietnam.

From the perspective of consultation during the negotiation process, the above situation has been improved after the Prime Minister issued Decision No. 06/2012 which requires negotiating delegation to consult with the business community during the negotiation of an FTA. However, consultation with enterprises in later FTAs was still held insufficiently and ineffectively by negotiating authorities. In many cases, only a number of enterprises and associations (mostly the big ones) were consulted by just a few authorities. In other cases,

the business community was almost unable to make comments because they do not have any information about the negotiation direction or about the issues being discussed, while these are complex issues, not easy to understand, not easy to identify or calculate impacts.

Meanwhile, from the perspective of implementing commitments, this situation is hardly improved. Up to now, there has not been any legal requirement for competent agencies to consult the business in the process of reviewing domestic laws to bring into conformity with international trade and investment commitments. Without a mandatory mechanism, the consultations still completely depend on the willingness and demand of the relevant State agencies.

In order to overcome this situation, it is necessary to amend Decision 06/2012 / QD-TTg to (i) supplement a consultation mechanism for the implementation of trade opening commitments and; (ii) detail the consultation mechanism in the process of negotiating trade opening commitments. At the same time, the Government should have more drastic instructions so that relevant State agencies can thoroughly and seriously implement regulations on business consultations regarding international commitments, both in the process of negotiation and implementation.

(v) *Increasing training and guidance for local officials on proper implementation of Vietnam's services commitments in services*

Unlike tariff commitments, which are simply shown in numbers (tariff number in percentage, tariff schedule in date), service commitments' texts are often long and complicated and may lead to various ways of understanding. Over the past 10 years of implementation of WTO's service commitments, there have been many cases where commitments are interpreted differently by enterprises and local officials. In some cases, enterprises that did not agree with local officials' conclusions had to file official letters to the central authority to question and had to wait long for response, and in some cases no response. In other cases, enterprises had to accept local officials' conclusions although they are not right. There has been no official document providing guidance or clarifying

Vietnam's services commitments in WTO. Barely trained in the interpretation of these commitments, local officials often follow their subjective understanding.

WTO applies the “Positive list” approach, which is simpler and more comprehensible than the “Negative list” approach in new-generation FTAs such as CPTPP or VN – EAEU FTA. Without thorough training and adequate guidelines, local officials can face many difficulties in properly understanding and implementing these commitments, resulting in disadvantages to foreign investors, and even violating commitments.

2.2. Recommendations for foreign service suppliers

(i) Exploiting the opportunities from opening of Vietnam’s service markets under FTAs

Until now, Vietnam has participated in 16 FTAs with 56 countries, of which 10 FTAs have taken effect and 6 FTAs are negotiating or waiting for signing or ratifying. While the market access commitments in most of FTAs Vietnam had negotiated and implemented before 2015 are limited, only equivalent or have few sectors that are open more than the levels of Vietnam’s commitments in WTO, those in FTA in latter stage have seen the substantially higher level of liberalization in services. Having more open sectors or higher level of commitments, new generation FTAs such as CPTPP, EVFTA, VN-EAEU and ASEAN Framework Agreement in Services (AFAS) are expected to open up great opportunities for the service suppliers or investors from the FTA partners.

New generation FTAs open more sub-sectors or have higher level of commitments than those in WTO mostly in business services and transport services. For example, AFAS open more business services such as research and development services, real estate services, production management consulting services... and some logistics services for maritime and rail transport (see Table 9). In VN-EAEU FTA, Vietnam has higher commitments in business services such as rental/leasing services without operators, market research services, services incidental to manufacturing...and some maritime transport services, rail transport services and services relating to aircraft (see Table 10). CPTPP, when compared to WTO, open or have higher commitments in entertainment services, electronic games

business, real estate and housing services, legal services, advertising services, distribution services, telecommunication services. In addition, Vietnam also has some higher commitments or open new sectors in other services such as telecommunication, education, environment, tourism and travel, health, distribution ...(see Table 11). These foregoing sectors are the potential services for foreign service suppliers who have intention to invest in Vietnam.

It is also noted that Vietnam's commitments to market access under FTAs are the "floor" commitments, which means that Vietnam has obligations to open service sectors at least as committed in FTAs, and it can open higher than these commitments. In fact, in the process of implementing WTO and FTA, Vietnam has voluntarily opened some service sectors significantly higher than commitments in WTO or FTAs. And, Vietnam, when implementing up-coming FTAs, can do in the same way before, depending on the situation and actual need of the economy. Hence, the foreign suppliers and investors need to know about market access commitments of Vietnam in relevant FTAs, as well as investigate the current laws and regulations of Vietnam on concerned service sectors to take advantages of the opportunities in the case Vietnam voluntarily open such services more than commitments.

In addition, new FTAs contain lots of commitments on investment protection to protect the legitimate rights of the foreign investors in Vietnam. Most of these commitments are only the obligations of Vietnam to the FTA partners, but they are introduced into Vietnam law to be applied to all foreign investors. Therefore, they are essential legal basis that foreign investors should know to protect their investment in Vietnam.

(ii) *Advocating Vietnam government to continue opening service market voluntarily or under new FTAs*

As analyzed above, opening Vietnam's service market not only provides opportunities for foreign suppliers and investors, but also has positive impact on Vietnam economy. The liberalization of service market has promoted the development of Vietnam's service

sectors, contributed to GDP growth and foreign investment attraction, created jobs and improved the productivity and income for workers in service sectors. Besides, the opening of market access also helps to create services with higher quality and more competitive, that benefits not only Vietnam's consumers but also goods manufacturers and exporters because services are one of the important inputs of production.

Therefore, the further opening of service market is because of not only the outside pressure from international commitments, but also the internal demand of Vietnam's economy. Service suppliers and investors can use the above reasons to persuade Vietnam Government to voluntarily open services sectors or sub-sectors on which Vietnam still remains substantial restrictions.

Among services sectors, services which are essential for production in general and for export in particular (computers, distribution, telecommunications, transport, delivery, banking, insurance ...), are feasible to persuade the Government to open more than WTO commitments, at least equivalent to the open level of FTAs commitments. The analysis in this study, which highlights the important roles of services in reducing production cost and increasing product quality, thereby improve the competitiveness of Vietnam's export products and value added for Vietnam's enterprises, may serve as useful arguments for persuading the Vietnamese government to further open service market.

In addition, as Vietnam is still in the process of negotiating new FTAs, foreign enterprises from can take advocacy actions to ask Vietnam Government to open more service sectors. For example, Vietnam is negotiating Regional Comprehensive Economic Partnership (RCEP) or FTA ASEAN+6 in order to replace the 05 existing FTA ASEAN+1 with China, Japan, Korea, India, Australia, New Zealand. RCEP is expected to have higher level of commitments on market access than those in existing FTAs ASEAN+1. If RCEP is implemented, due to the large number of members (16 members), the scope of impact and the number of foreign suppliers and investors benefit from this agreement are significant.

(iii) Advocating Vietnam Government to improve business environment, especially in service sectors

In addition to market access barriers which only apply to foreign suppliers and investors, Vietnam is still remaining many other barriers to business activities which are applied to all investors (both domestic and foreign) such as complex business conditions, lack of transparency in administrative procedures, abuse of inspection for harassing enterprises, high unofficial costs...According to the Report on Doing Business Index 2019 made by the World Bank, Vietnam business environment only stands 69 over 100 surveyed countries, drop one ranking when compared to that of 2018. In the 10 criteria, there are 05 criteria which closely involve in service investors (both domestic and foreign), including Starting a business, Getting credit, Protecting minority investors, Paying taxes, Enforcing contracts, Resolving insolvency. Among them, Vietnam has quite low scores (meaning less favorable) in Protecting minority investors, Paying taxes, Enforcing contracts and especially Resolving insolvency. Regarding Starting a business, Vietnam has a high score, but still stands a low ranking (104/190). Getting credit is only criterion which has high score (75/100) and high ranking (32/190) (see Table 23).

Table 23: Ranking of Vietnam's business environment according to Doing Business Index 2019, World Bank:

	Criteria	Score (0-100)*	Ranking (in 190 surveyed countries)
1	Starting a business	84.82	104
2	Dealing with construction permits	79.05	21
3	Getting electricity	87.94	27
4	Registering property	71.09	60
5	Getting credit	75	32
6	Protecting minority investors	55	89
7	Paying taxes	62.87	131
8	Trading across borders	70.83	100
9	Enforcing contracts	62.07	62
10	Resolving insolvency	34.39	133
	TOTAL RANKING		69

Note: 0 – Worst, 100 – Best

Source: World Bank, 2018

According to The Global Competitiveness Report 2017-2018 of the World Economic Forum, the most problematic factors for doing business in Vietnam are Access to financing, Inadequately educated workforce, Corruption, Poor work ethic in national labor force, Tax regulations, Policy instability, and Inadequate supply of infrastructure (see Figure 24).

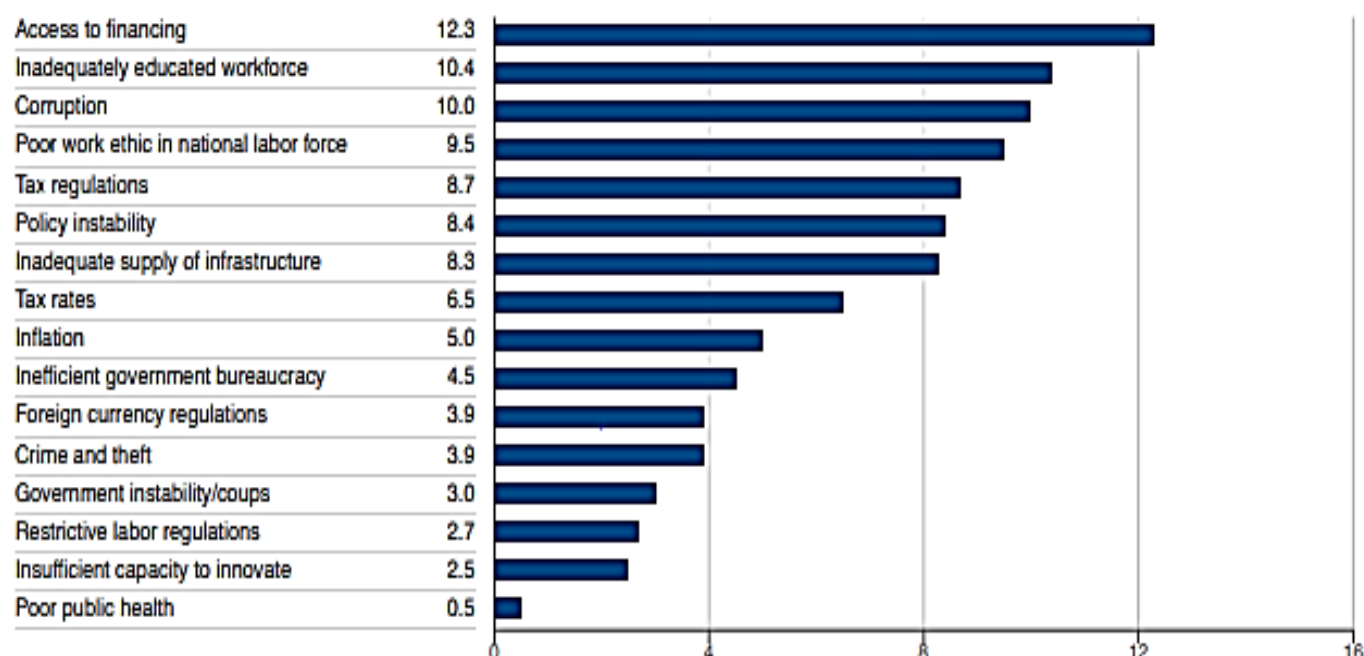


Figure 24: Most problematic factors for doing business in Vietnam

Source: World Economic Forum, The Global Competitiveness Report 2017-2018

Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

The White Book 2018 of European Business Association (Eurocharm) also points out many issues and concerns of foreign businesses about Vietnamese business environment, including intellectual property, taxation, dispute resolution by Vietnamese courts, transaction and ownership of real estate, foreign labors in Vietnam...

The foreign businesses and investors can base on these ranking indicators and reports to point out the current problems of Vietnam business environment, especially those faced by both domestic and foreign businesses, to advocate Vietnam Government to have further reforms in improving the business environment in Vietnam.

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