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Designing a National Services Export Strategy for Vietnam

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DESIGNING A NATIONAL SERVICES EXPORT STRATEGY FOR VIETNAM[1]

I. Overview of Vietnam's Services Sector

Prior to the Doi Moi reforms in 1986, the services sector in Viet Nam was, from a policy perspective, largely neglected as part of the informal economy. Services tended to be seen as unproductive, non value-adding and certainly non-tradable activities. Services such as transportation and distribution were seen merely as adjuncts to agricultural, mining or manufacturing production. There were no legal and regulatory framework and no explicit growth policies or targets developed for services. Trade in services almost did not exist in any report on trade relations between Vietnam and the outside world.

As the reforms underwent in Vietnam, together with the development of the market oriented mechanism and restructuring the economy, the services sector has attracted a much higher level of policy attention during the last decade. Vietnam's National Economic Development Plan for 1996-2000 set ambitious targets, which were not completely met, for an annual rate of growth in services of 12%-13% and a services share in GDP of 45%-46% by 2000. The Development Strategy for 2001-2010 issued by the 9th Communist Party Congress also focused on the services sector, setting revised targets of an average annual rate of growth of 7-8% and a targeted services share of 42-43% in GDP and 26-27% in employment by 2010.

Over the last decade, services industries in Vietnam have recorded robust expansion and diversification, typical of a developing economy in transition. The greater diversity in the services sector has brought considerable economic efficiency gains including for other sectors of the economy. Alongside traditional services such as transportation, construction and trade, new services such as tourism, banking, insurance, research and development, advertising, investment consulting, legal and business services, telecommunications, engineering, computer, information, real estate services, etc. have developed rapidly.

Consistent with global trends, the services sector accounts for a relatively high proportion (38.15% in 2004) of total GDP in Viet Nam today. However although the services sector is growing (at 6.5% in 2003, 7.5% in 2004), the pace of growth still lags behind that of the manufacturing sector (which is 10.5% in 2003 and 10.2% in 2004) and is expected to continue to do so in the near future. The services share in GDP has consequently been falling from an average of 40.3% for 1990-1995 and 41% for 1996-2000 to estimated 38.5-39% for 2001-2005.[2]

This trend raises a number of important policy questions which lie beyond the scope of this particular study, including for example whether the slower growth of the services sector relates simply to Viet Nam's level of development, or to other policy related factors.

The services sector still accounts for a relatively low, but nevertheless rapidly expanding percentage of total employment (24% in 2004 up from 12% in 1995). There is an apparent shift in the sector away from State-Owned Enterprises (SOEs) to entities such as joint stock enterprises, private companies, limited companies and foreign owned enterprises.

In the reform process, Vietnam adopted an open-door policy and raised all efforts to expand its commercial relations with Western as well as developing countries and integrate into the regional and international markets. Export trade and foreign investments became major engines for the country's economic development. As result trade in services were promoted and formed a significant part of Vietnam's trade with the world.

Official estimates show Viet Nam's total trade in services (imports and exports) at US$6.6 billion in 2002 and US$7.18 billion in 2003. These figures are likely, as they are in most countries, to be

[1] This document stems from the Trade Promotion Project VIE/61/94 of the Vietnam Trade Promotion Agency.

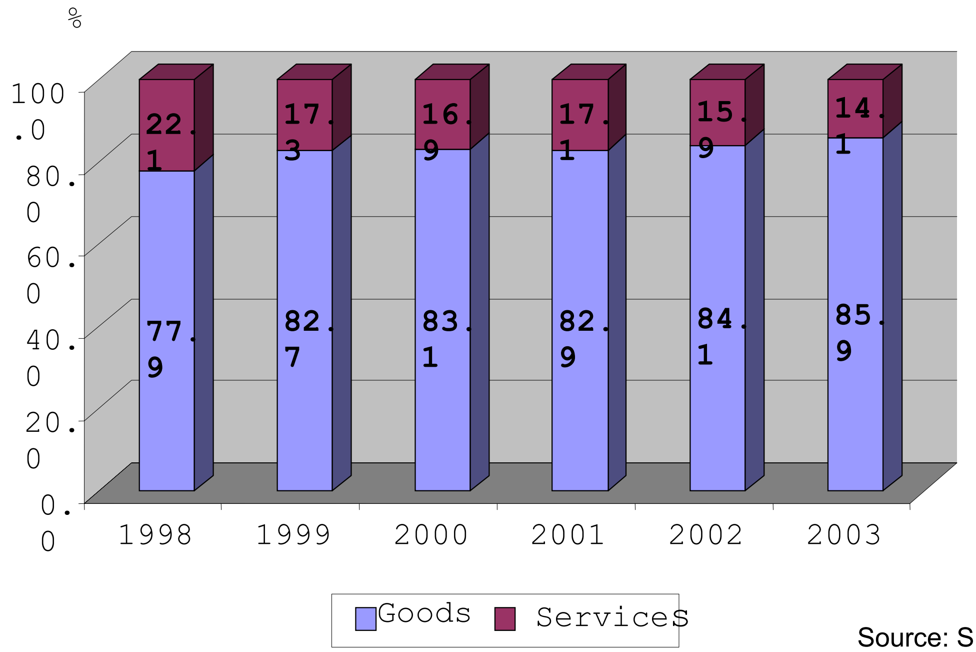
[2] Source: Statistics Yearbook of the GSO

significant underestimates. There is currently, moreover, little disaggregated detail available, either by services sector or by partner country. This situation is not abnormal. Most countries, including OECD countries, experience difficulties of various kinds in the collection and analysis of statistics for trade in services.

It is worth reviewing quickly some figures reflecting recent trends in Vietnam's trade in services.

Figure 1

Shares of Vietnam's international trade in goods and services



Source: SBV

For the period 1998-2000, services accounted for 18.5% of Viet Nam's total trade, slightly under the global average estimated by UNCTAD at around 20%, but this share has fallen to 15.5 % of total trade for 2001-2003. Although services trade grew at an average annual rate of 4.6% over 1998-2003, trade in goods grew much more rapidly, at 15.3% p.a. over the same period. (See Figure 1).

The available data on Foreign Direct Investment (FDI) indicates that services account for about 14% of total licensed FDI projects in Viet Nam and about 16% of the total registered capital. Actual flow of FDI into services sector in Vietnam during 2001-2005 is estimated at USD 3,362 million or 19% of total FDI flow into the country over the same period. This is well below the global average estimated by UNCTAD at 50 percent. Again, questions arise as to whether this reflects under measurement – or developmental factors specific to Viet Nam.

Trade in services data published by the General Statistics Office is sourced from export and import payments collected by the State Bank of Viet Nam for balance of payments purposes, chiefly from the commercial banking system but also from Vietnam Airlines, Vietnam Post and Telecommunications Corporation and other Ministries and agencies. Balance of payment data are supplemented by Household and Industry survey results collected for System of National Accounts (SNA) purposes. But additional information from survey sources is lacking: no comprehensive administrative records available for example for the tourism or transportation sectors.

Trade in services data is disaggregated into 7 sub-sectors of services activity; but the vast bulk of trade in services is in fact recorded in the residual category “Other services”. While the 7 sectors include some major services sub sectors, some major ones are also ignored. The balance of payment and SNA data are, moreover, not adequate for measurement of trade in services by mode of supply, especially for detailed trade negotiations purposes. In accordance with international standards, statistics on trade in services in the compiling country should reflect the full results of that country’s transactions in services with the rest of the world as well as market access opportunities to supply services from abroad and the degree of national market opening.
Statistics on trade in services should therefore be compiled not only from the balance of payment and SNA accounts but also from statistics on foreign affiliates trade in services in the recipient country (inward FATS) and of the providing country (outward FATS). Viet Nam currently produces no indices of inward or outward FATS. Nor does Viet Nam yet produce any indices of trade in services by the four modes of supply (namely cross-border, consumption abroad, commercial presence and presence of natural persons) as set out in the WTO General Agreement on Trade In Services (GATS).

Vietnam’s Balance of Payments currently reports 6 services sub sectors: maritime transport, air transport, insurance, post and telecommunications, banking and travel. Everything else is grouped under “other services”. This is illustrated in Figures 2 (Exports) and 3 (Imports) below. Data is provided by all commercial banks which conduct foreign exchange operations. The banks are required to report in the foreign currencies of their clients’ accounts. This source provides no information disaggregated by partner country.

Figure 2

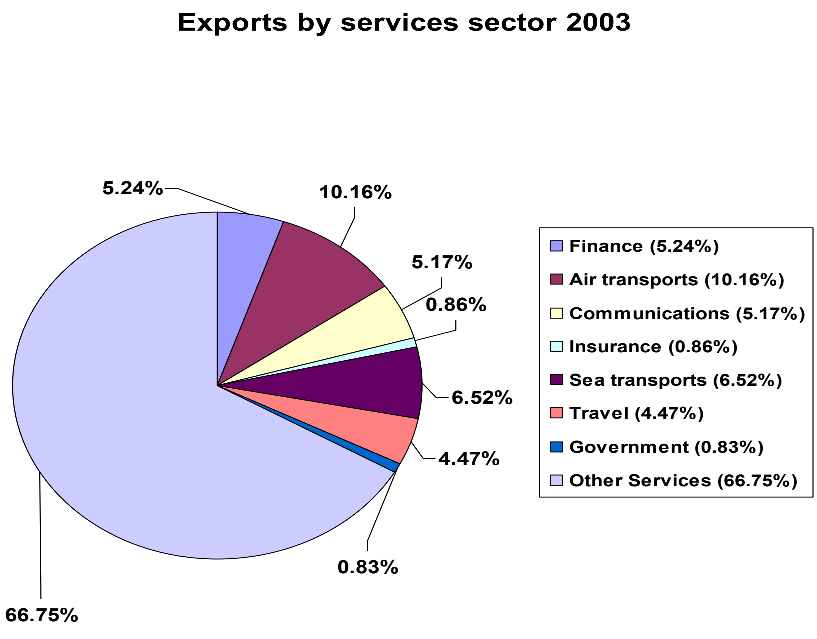
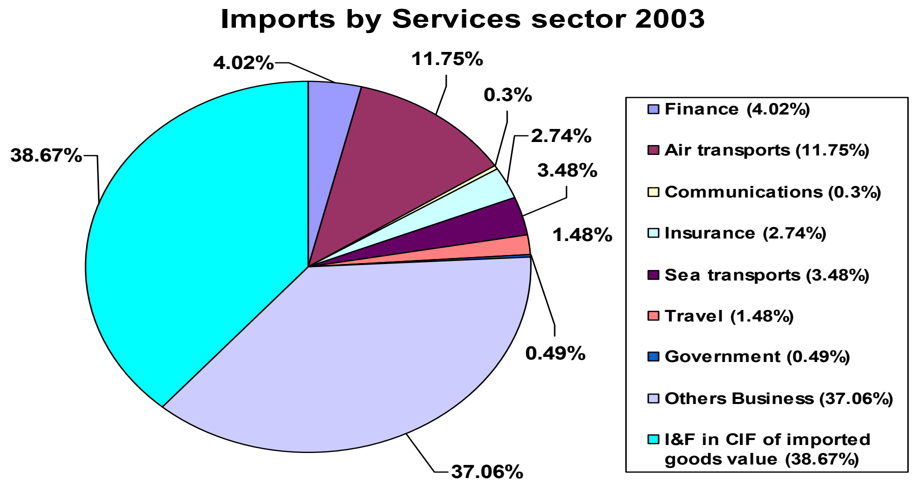


Figure 3



Given the mandatory legal requirements for provision of this information, the data collected is considered reasonably comprehensive for balance of payment purposes, on the assumption that most transactions between residents and non-residents are made via commercial banks. This is not entirely the case, however, because the Vietnamese economy is still largely cash-based. Moreover many large enterprises hold bank accounts overseas and their transactions are not picked up through this source.

There is also some mixing of services and goods in the reports submitted by the banks (especially in cases of money order settlements where customers do not identify clearly whether payment is for goods or services). And there are likely to be errors within the services categorisation. For instance, the total data provided by Vietnam Airlines is reported under aviation transportation services, although it actually incorporates data for other goods and services, none of which can be disaggregated.

Clearly there is need for a revised and improved statistical and administrative report regime to record more accurately Viet Nam's services economy and the extent and nature of Viet Nam's participation in international trade in services. It is also necessary to help assess and monitor the impact of existing and potential future market opening commitments at the multilateral, regional and bilateral levels as well as help design the country's National Services Export Strategy and related action plans to ensure Vietnam maximises the potential gains from membership in the WTO.
The most comprehensive and significant study conducted recently on the services sector is the project on "Options and Recommendations for a Comprehensive Development Strategy for the Services Sector in Vietnam up to 2020" which was introduced in March 2005. Findings, analyses and recommendations of the project may be very helpful and valuable for reference when we study to develop a national services export strategy for Vietnam.

II. DEVELOPING A NATIONAL SERVICES EXPORT STRATEGY

As complementary to inadequate statistics, reports and study on Vietnam's services export, a research with foreign-owned companies in Vietnam and investigation about the competitiveness of Vietnamese service providers have been carried out in order to help determine implications for the National Services Export Strategy. The report on the research is attached as Annex 1 of this paper.

1. Summarizing the Research Results

The research and investigation confirm the findings of the project on "Options and Recommendations for a Comprehensive Development Strategy for the Services Sector in Vietnam up to 2020" that Vietnamese service firms have been exporting a wide range of services via Mode 2 (consumption abroad) to foreign-owned firms in Vietnam.

The research and investigation provide the following points for consideration:

1.1. The research and investigation reveal that Vietnamese service firms have the following *strong points:*

(a) *Competitive price*. Most of foreign services consumers rated highly the competitive prices for a large number of services provided by Vietnamese firms, and see low price as a strong point of Vietnamese services firms. In particular emerging local private firms are considered most competitive because they can provide satisfied services at very good price that state-owned or foreign firms can hardly compete. Testimonials are available regarding the excellent Vietnamese architectural services, computer and software services and legal services in terms of both quality and prices. To most of Vietnamese services firms, competitive price is also the most important factor in their business and competition strategy.

(b) *Flexibility and innovation*. Services industry in Vietnam started to develop since early 1990s only, and most of Vietnamese services firms, particularly in the private sector, are newly established and rather small ones. The most successful firms are normally run by young and well-educated people; many of them studied abroad or had experiences working with foreigners. These firms recruit mainly the younger and more educated part of Vietnam's labourers and population. They therefore are able to learn and adapt rather fast to work in this new and innovative industry. At the same time the growing and diversified services market in Vietnam with various types and different levels of consumers require services suppliers to be very flexible and innovative to meet the market demand. Most of Vietnamese services firms see flexibility and innovation as key factors for their competitiveness, and foreign consumers see them as a strong point of Vietnamese services firms.

(c) *Human resources*. Services industry in general is a labour intensive one, and quality labour is the most important asset for any services firm everywhere. In Vietnam the most successful services firms have rather good team of qualified staff who are university or college graduates and can upgrade their professional capacity in the industry continuously through both training and practice. Other firms which failed to have quality staff normally try to compete in their niche markets by maintaining a team of hard working and low cost labourers and improving their skills through short-term or on-the-job trainings. An alternative to most of services firms in lack of skilled labour is to cooperate with other firms or outsourcing for more qualified or professional services when needed. Majority of foreign services consumers and Vietnamese services firms agree that human resources is a strong point of a number of Vietnamese services firms and at the same time a weakness of many others.

1.2. The research and investigation also show the following *weaknesses* of Vietnamese services firms:

(a) *Quality management* is the number one competitiveness issue for Vietnamese services firms, including the quality of the service itself and the timing and delivery of services. Only few types of services that over half of foreign customers rated as being "good" or "excellent" such as software and computer services, legal services, consultancy services and tourism- related services, while many others are rated as being "fair" or "poor" (see 'Report on the research with foreign-owned companies in Vietnam regarding Vietnam's services export" in Annex 1).

Services rated as of below average quality that are of particular concern to Vietnam's development plans include research and development, architectural and engineering services (especially as they affect ongoing construction), equipment maintenance and repair, educational services, health services, and transport services.

(b) The *availability of services*, and most particularly the *availability of qualified service* providers, is the second problem. Vietnamese services firms are providing to foreign consumers about 60 types of services, and many other types of services are totally absent in the market. Moreover among the 60 types of services available in Vietnam about half of them are purchased rather frequently by over half of foreign companies while other types of services have modest shares in the market (like some business services, education, distribution or environment services…), even there is strong demand for them, due to low quality services or lack of qualified suppliers. Qualified service providers are really scarce while large part of services firms are small and not capable or matured enough to provide qualified services required by foreign consumers.

(c) Vietnamese service providers are weak on *marketing skills*, and it is challenging for foreign firms to locate good service suppliers. Lack of experience and qualified business managers, poor English language skill, limited resources to improve marketing skill, high cost and technical difficulties in marketing for services, and the absence of a good business supporting system in Vietnam are major reasons for this weakness. Even some qualified service providers are weak on marketing skills, and they are known to foreign consumers mainly through words-of-mouth among the consumers community rather than through their owned marketing efforts.

(d) *Human resources* are another weakness of many Vietnamese services firms, particularly the smaller ones. Firms have their own constrains, and the poor training system and under-developed labour market in Vietnam also fail to supply them qualified human resources as needed.

1.3. The research and investigation show that *Opportunities* do exist to increase the export of Vietnamese services.

(a). There is *strong demand for quality services* from Vietnamese service providers among the foreign investment community, international institutions operating in Vietnam, foreign tourists as well as domestic enterprises and organizations.

Potentials of the markets for various types of services are really huge with growing flows of foreign investments and tourists flooded into Vietnam. Strategic location, steady growing economy, macro-economic stability, dynamic business sectors, enlarging domestic markets, active integration process, coming WTO accession…are all favourable developments and advantages that make Vietnam a truly emerging market attractive to investors in many Western countries who wish to have stronger presence in the Southeast Asian region. New improvements in tourist development policy and infrastructure, closer regional and international cooperation in tourism and transportation services facilitate tourism and make it a very promising industry in Vietnam in the coming years.

Both foreign services consumers and Vietnamese services suppliers agreed that strong demand for quality services is great opportunity and at the same time big challenge for Vietnamese services firms.

(b) Vietnamese services firms have good opportunity to *expand their exports abroad* via Modes 1, 3 and 4.

For Mode 1 (cross-border), 3 (commercial presence) and 4 (presence of natural persons), pioneers of Vietnamese services firms have been successful in selling software, architectural drawings abroad or back office operations during recent years. Several travel agencies, trading firms, commercial banks established offices in their targeted international markets. Thousands of Vietnamese are working abroad in services industry and many more will go under new contracts signed between Vietnamese and foreign firms in various countries in Asia, Europe and Africa.

Foreign companies and organizations which select Vietnam as head quarter for their sub-regional operations or have strong links between their operations in Vietnam and in the region also have demand for services supplied by Vietnamese providers for consumption in the neighbouring countries like Laos, Cambodia and other parts of the Greater Mekong Sub-region and South East Asia. On the other hand, increasing goods exports from Vietnam to the outside world and new projects invested by Vietnamese enterprises abroad give impetus for Vietnamese services exports under these 3 Modes to grow too.

(c) Vietnam's integration process creates new opportunities to services firms to operate in a *more opened and competitive environment*. Institutional and administrative reforms in compliance with international commitments promise that barriers to most of services will be removed and businesses will have better playing field in both domestic and international markets. Given the discriminations against private sector in the services industry so far, these new improvements are really important to accelerate services development. Moreover Vietnamese services firms can expand their exports abroad thanks to liberalization of trade in services in partner countries and international cooperation in the field. In medium and long terms they can expect to achieve higher position in the value chains of services industry through continuous efforts to upgrade the quality of their services, to adopt better technology and enhance their competitiveness.

1.4. The research and investigation prove that there are also *threats and challenges* facing Vietnamese services firms.

(a). Most of Vietnamese services firms are *small and medium* sized companies, newly founded and *weak in competitiveness*, particularly in quality management. They are in shortage of important resources for development: human resource-particularly skilful one-, capital, technology, management skill, foreign language skill, information and intelligence…Although they do realise their weakness, it is very difficult and takes time to improve their capacity indeed. Even the most successful firms still see constraints in their efforts to grow beyond the current state to develop and reach global standards for international competition.

(b). Vietnamese services firms are operating in an environment which contains lots of *difficulties and barriers* to business development. The legislation system in Vietnam in general is still lack of transparency, accountability, consistency and predictability. The administration system is complicated, troublesome and time-consuming. Infrastructure is not well developed and infrastructure services are of low quality and high costs. Business support system in Vietnam is inadequate and weak in its capacity to help SMEs. There are still discriminations against private sector in many ways, and a level playing field is far from reaching. State-owned enterprises (SOEs) are usually not quite efficient and competitive but continue to hold monopoly in some important fields and receive privileges in resource allocation and trading rights, particularly in services.

(c) Vietnam commits to liberalize trade in services in quite many bilateral, regional and international agreements but still fails to introduce appropriate *policies and strategy* to develop domestic market for services and enhance the competitiveness of local services firms.

Macro economic policy in Vietnam so far always gives highest priority to manufacturing, and as a result, services always receive less freedom and incentives than manufacturing. While trade in most of manufacturing products has been liberalized, trade in services is still largely regulated by the State, and the most profitable ones are in the hand of state-owned enterprises. Moreover most of state agencies still prefer to control rather than deregulate business activities, and because products of services are invisible, they tend to control even more strictly by various administrative measures. Many types of services are put under the supervisions of different state agencies at central and local levels, and unclear functions and poor coordination between these agencies cause many troubles to services firms whenever they have to work with state agencies.

For services exports in general, both the State and enterprises are not yet familiar with WTO's GATS provisions, and therefore do not recognise services exports via Mode 2 as exports. As a result few incentives or clear policies are designed to encourage or facilitate services exports, except the case of special industries like tourism or airlines.

(d) *Competition* in the world market for services is very tough today. Vietnamese services firms are facing with more and more competition from very strong competitors, and when Vietnam opens further its domestic services market for international competition, many local firms will find it difficult even to survive. Given their weakness and low competitive capacity, Vietnamese services firms really need a conducive business environment, a supportive policy and effective supporting system to be formed as soon as possible to back their efforts to enhance competitiveness, challenge new competition and seize new opportunities.

The above strengths, weaknesses, opportunities and threats of Vietnamese services firms suggest that in order to introduce a strategy for Vietnam's services export we should at first focus on addressing key weaknesses of Vietnamese services firms and then identify the most competitive services, and introduce appropriate policies and measures to develop services exports.

2. Addressing Quality Management Issues

Given the risk associated with purchasing a service from a new service provider, potential foreign customers need to be very certain that they will receive a quality service. Because referrals and recommendations play such a prominent role in selecting a new service provider, positive word of mouth regarding Vietnamese services needs to be generated in order for a national services export strategy to be successful. As well, it takes only one or two bad experiences to generate negative word-of-mouth in the marketplace and thus make it difficult for Vietnamese service firms to export.

Several types of initiatives will be needed in order to address quality issues.

First, there is a need for training in what constitutes service quality and how to achieve it. This function is led by the national standards registrar – i.e., the Directorate for Standards and Quality (Ministry of Science and Technology) and other relevant institutions attached to ministries, which have the official functions to regulate specific services industries. In Vietnam besides the above state agencies, quite many universities, colleges and training centres are providing training courses on service quality and quality management issues. While universities and colleges focus in long-term education for professional trainees, other institutions and training centres focus mainly on short-term trainings for staff of state-owned companies and small and medium sized enterprises respectively. The quality of these education and trainings, however, is still far below international standards and need to be improved. Also through technical assistance programmes, a number of short-term training courses have been provided by international organizations, foreign governments and NGOs (non-governmental organizations) or foreign companies to transfer expertise and skills to the Vietnamese. These programmes are of higher quality and closer to international standards, so we will need to have more of them, especially programmes designed for professional services for export.

Second, the primary way in which the quality of service providers is assured is through professional licensing and certification that is linked to global performance standards. Such licensing or certification needs to be based on a combination of educational preparation, written examination, supervised experience, and review of ethical practice. In order to renew one's license or certification, there needs to be a requirement for a minimum number of credits of continuing professional education each year as well as a requirement to conform to a professional code of conduct. This process of licensing/certification, enforcement of a professional code of conduct, and provision of continuing professional education is typically overseen by an industry association. Most, if not all, of the service industry associations in Vietnam still requires technical assistance from sister associations abroad in order to develop this quality assurance infrastructure. They will also require the support of the Government in providing necessary legal framework on licensing /certification, the ability to enforce a professional code of conduct, and the ability to require continuing professional education.

Third, service providers and firms need to be encouraged to acquire internationally recognized credentials – and then become visible in online directories as having such credentials. In the case of service providers, such credentials are typically awarded through international industry associations, with the assistance of Vietnamese service industry associations. In the case of service firms, ISO 9001:2000 is the international standard to which they would need to become registered. In Vietnam the Directorate for Standards and Quality and several foreign institutions in similar business have registrars and auditors who are trained to audit and register ISO, but they focus more on large manufacturing companies than small service firms. Incentives may be needed to encourage both these institutions and small services firms to work together to develop ISO 9001:2000 registration in Vietnam. Technical assistance from, or the engagement of, SGS International (whose UK office has extensive experience with registering small service suppliers to ISO 9001:2000) or similar institutions might be helpful.

Fourth, there need to be incentives in place that reward service firms that improve their service quality and maintain high service standards. For example, Government could give preference in awarding procurement contracts to those service firms that are registered to ISO 9001:2000. National awards can be given that recognize service excellence. Articles can be written and published about firms that have exceptionally high service quality. Service industry associations and chambers of commerce can provide special recommendations on these firms on their online directories and other publications as well as through promotional activities.

3. Improving Service Marketing, Business English and other skills in Vietnam

3.1. Service marketing skill is obviously a weakness of Vietnamese services firms, and it can be improved by two ways.

First, provide training on specific techniques of marketing to service firms. Service firms are selling a "promise to perform", because normally service does not exist until the customer agrees to purchase. This introduces a strong element of risk for the potential buyers, and requires good marketing skills to convince them and get their trust on the suppliers. Also few services can be marketed effectively through agents or distributors in the market, therefore service principals need to be trained in marketing skills. Most of training courses on marketing in Vietnam today provide general knowledge or skills on marketing visible products and goods. So Vietnam will need to introduce (or import) specific programmes on marketing invisible products, particularly of services, which have good potentials to export, to help the Vietnamese services firms improve their marketing skills, especially in export trade.

Second, develop service industry associations and companies specializing in business development services (BDS) and help upgrade their professional marketing skills so that they can provide better support or service to SMEs that need to outsource this service.

3.2. Increasingly, international business is being conducted in English. While many Vietnamese students and businesspersons are learning English, unfortunately the teaching methods being used are resulting in poor comprehension and diction. The apparent cause is the lack of training from native speakers of English and the use of more passive methods of instruction.

Providing Business English training to service suppliers wishing to export to markets where English is the business language needs to be a priority. Written and oral communication skills shape perceptions of the quality of the service on offer. A technical assistance initiative from foreign governments or international organizations is needed to upgrade the skills of Vietnamese English language teachers, using native speakers of English certified as ESL trainers, so as to improve the level of spoken and written English in use. English terminology is also needed to be included or improved in education and training courses for professional services.

3.3. Human resource is a constraint to many Vietnamese service firms. Many types of services are labour intensive ones that absorb wide range of labourers, such as construction, building-cleaning services, tourism, distribution, transport services... Training is most important to assure the quality of services. Training is needed not only to top managers, experts, technicians or other service principals but also to workers of service firms. Vocational training system in Vietnam needs significant improvements to provide more and better quality skilled workers for service industry. International cooperation to introduce advanced training programmes to existing schools, and to develop new schools is the best way to deal with this issue.

Working environment in a service firm might be different from a manufacturing one, because in many cases all workers of the service firm have to provide service directly to customers (like in restaurant, travel, transport, retailed trade, health care services…). Regular and direct relationship with customers requires the service firm to build unique behaviour and business culture that everybody working at the firm should share and respect. This will become an important part of the firm's reputation and competition.

Moreover customers always expect to see some differentiations, improvements or innovations from the services firms. So training and continuous trainings to renovate the firm's services is the key for service firms' success. Vietnam will need to develop basic trainings as well as continuous trainings for services firms, particularly for SMEs, so that they can be more successful in domestic and international markets.

4. Selecting Services to Target in an Export Strategy

Based on the results of research and investigation, Table 1 below lists the proposed services to target, the rationale for selection, and the main strategy proposed for each sector. Tourism-related services have not been included since there is a separate tourism strategy. Communication, real estate, financial and transport services also have separate strategies designed by the Government. These strategies, however, may need to be revised and amended on export orientation issues.

It is very important to foresee the new competition context for Vietnam's service export in general and for selected industries in the Service Export Strategy in particular. The integration process of Vietnam and the fast changing business world require new approach, perspective and vision on service development, service export and how to achieve our goals. Strong institutional system, comprehensive policies, bold reform measures, smooth coordination and capable (and clean) governmental servants are most essential factors that the State of Vietnam needs to ensure in order to support and facilitate dynamic business sectors to compete and gain bigger shares in the world markets for services. Needless to say, a wise Service Export Strategy when implemented successfully would help promote exports of goods and other relevant services as well as help develop domestic markets for goods and services and bring about other positive results to the economy. In every country the development of services, as we all know, always has broad impacts on the whole economy.

In the whole process to design and implement the Service Export Strategy, it is important to keep in mind the vital importance of working with service industry associations. These associations are the critical players in various aspects: quality assurance, developing business clusters for SMEs, advocating for service firms, supporting their members… Moreover they can play a vital role in establishing friendship agreements with sister associations in target markets through which Vietnamese service firms can establish credibility, meet potential partners, and gain access to potential customers for exporting via Modes 1 (cross-border), Mode 3 (commercial presence) and 4 (temporary business entry).

Table 1: Proposed Services to Target in a National Services Export Strategy

Service	Rationale	Association	Initial Strategy	Challenges
Software & computer service	• High quality ratings • Testimonials • Active association • Multiple export opportunities	Vietnam Association of Software Businesses (37 members)	• Build on current technical assistance from SIFT, and training offered to members • Get exporting members listed online	Ensure international certifications of member firms, & recognized code of conduct. Improve English language & marketing skills.
Legal services	• High quality ratings • Testimonials • Active association • Multiple export opportunities	Vietnamese Lawyers Association (35,000 members)	• Build on current technical assistance from multiple sister associations, and training offered to members • Get exporting members listed online	Develop an export focus within the association, or set up an independent Legal Business Association. Improve English language & marketing skills.
Engineering services	• Multiple export opportunities as joint ventures or subcontractors to improve quality • Important service in Vietnam's development • Active association	Vietnam Engineering Consultant Association (VECAS)	• Build on current ACEA-VECAS mentoring programme on best practices in engineering and how to partner with international consulting firms involved in work in Vietnam • Get exporting members listed online	Determine why service quality is relatively low, given technical assistance. Develop code of conduct. Improve English language and marketing skills.
Architectural services	• Testimonials • Multiple export opportunities as joint ventures or subcontractors to improve quality • Important service in Vietnam's development	Vietnam Association of Architects (2,895 members)	• Engage the association • Get exporting members listed online	Determine why the association is not active, or set up association of architectural firms. Develop a code of conduct. Improve marketing & English language skills
Consultancy services	• High quality ratings • Important service in Vietnam's development • Multiple export opportunities		• Need to develop either a business consultants' association or an association of business consulting firms to link to sister associations abroad. • Get exporting members listed online	No existing association or code of conduct. Improve marketing & English language skills.

Freight forwarding	• Important service in Vietnam's development • Active association • Multiple export opportunities	Vietnam Freight Forwarders' Association	• Leverage existing links to WSA & AFFA, the technical assistance from IFA, and training being given to members • Get exporting members listed online	Ensure quality standards and code of conduct are in place
Research & development	• Important service in Vietnam's development • Multiple export opportunities	Vietnam Union of Science & Technology Associations (VUSTA) with over 70 member associations	Leverage the regional & international information and R&D networks for technical assistance and subcontracting opportunities	Address the poor quality ratings. Develop code of conduct. Improve marketing & English language skills.

5. Four stages of a National Services Export Strategy

5.1. Stage 1: Preparation

Before launching a national services export strategy, it will be important to establish baseline measures so that the success of the strategy can be measured. This will involve selecting appropriate measures of success. The following are some examples:

- Increase in the number of service exporters
- Increase in the number of small service exporters
- Increase in the total volume of service exports
- Increase in the volume of targeted service exports
- Increase in the number of export markets
- Increase in the share of service exports in total export volume
- Increase in the share of Vietnam's service exports in the world's service exports
- Number of training sessions that are held for each target audience
- Number of service industry associations with active export support programs
- Number of service industry associations with enforced codes of professional conduct
- Number of service industry associations with active friendship agreements in place
- Number of published stories of Vietnamese services exporting success
- Number of mentions of Vietnamese services exporting in official speeches abroad

Coordination with the General Statistics Office will be needed in order to determine baselines and also to make sure that the necessary data will be captured in annual surveys.

Discussions need to be held with the various service industry associations to determine which ones are interested and willing to become engaged in an export strategy. As well, training resources will need to be identified that are interested in participating in train-the-trainer activities (through the Trade in Services Section, International Trade Centre UNCTAD/WTO) so that they can provide ongoing training in service quality, the management and marketing of service enterprises, and services exporting to Vietnamese service suppliers. Meetings also need to be held with MOST to determine how best to proceed with encouraging registration of service suppliers to ISO 9001:2000.

One of the most challenging issues in working with service exporters is that many of them do not identify as exporters. It is partly due to an assumption that "export" involves moving across a border. Investment lawyers, for example, whose entirely clientele are foreigners abroad may fail to see themselves as exporters because they do the legal work from Vietnam. The vast array of intermediate service providers that supply services to foreign firms in Vietnam is another example of a category of firms that often does not identify as "exporter." A general awareness campaign will be needed in order to reinforce the fact that many service suppliers are already service exporters and could become even more successful.

5.2. Stage 2a: Capacity Building

Before actively promoting Vietnamese service capabilities in the global marketplace, it is important to build domestic capacity to support services exporting initiatives. There are five groups with whom capacity building initiatives are important:

a) Government trade policy makers

Both officers responsible for trade development policy and officers responsible for services trade negotiations need to be briefed on service export activity, the impacts on Vietnamese service suppliers of foreign direct investment and liberalization of trade in services, and the policy issues that need to be addressed to support service exports and service exporters. This awareness raising can probably best be achieved through a one-day workshop that reports out the results of the studies on services export activity and the proposed national services export strategy and also delivers the four "Successful Services Exporting" modules designed by the Trade in Services Section, International Trade Centre, specifically for government policy officials.

Also, clear linkages need to be established between VIETRADE's national services trade promotion activities, input from services exporters and their service industry associations regarding the challenges that they face, and the services trade negotiating positions adopted by government. One possibility would be a consultative group comprised of services trade negotiators, VIETRADE officers responsible for services trade, and private sector representatives from selected service industry associations and the Vietnam Chamber of Commerce and Industry.

b) VIETRADE trade promotion officers

Training workshops are needed for VIETRADE trade promotion officers in order to raise awareness of current services export activity, how to improve the visibility and credibility of Vietnamese service exporters, the types of market information and intelligence that are useful to service exporters, how to support the export-related activities of service industry associations, and the types of sectoral initiatives that can be most effective. The Trade in Services Section, International Trade Centre, has a 1.5 day "Assisting the Service Exporter" training course designed specifically for trade promotion officers that would be ideal to address these training needs.

c) Trade and service industry associations

Because of the importance of overall credibility for any priority service, service industry associations need to play a critical intermediary role in services export initiatives by:

- Monitoring the image of the service industry nationally and in the global market, and strengthening it online.
- Collecting and publicising success stories.
- Participating actively in the international sister association, including posting its logo on the association's website for credibility enhancement.
- Providing a searchable online directory of association members and their specialties and capabilities.
- Linking with sister associations in target export markets through friendship agreements.
- Negotiating bilateral agreements for recognition of the credentials of Vietnamese service providers.
- Facilitating partnering arrangements for easy export market entry.
- Tracking international competitiveness benchmarks and informing members.
- Overseeing the issuing of licenses and enforcement of codes of conduct (to ensure professional quality services).
- Providing ongoing education to members in industry standards and how to export their services.

- Educating members on services trade agreements and lobbying for their concerns.
- Liaising with VIETRADE on behalf of its members.
- Lobbying with government policy makers on behalf of its members.
- Representing members at conferences and in trade fora (or in a national coalition of service industries).
- Introducing or supporting initiatives to enhance cooperation among and between members, such as develop SMEs' clusters or networks.

Capacity building initiatives with service industry associations in support of members' export activities needs to include how to develop friendship agreements, export awards, and training for members. This capacity building can utilise the four "Successful Services Exporting" training modules developed by the Trade in Services Section, International Trade Centre, specifically for associations.

In addition to any assistance that VIETRADE can provide, service industry associations will need technical assistance from well-established, successful sister associations abroad. They will also need regulatory assistance in enforcing codes of professional conduct.

d) Trainers of service SMEs
Since training is an important component of capacity building, it will be critical to develop training capacity on services marketing, management, and exporting within Vietnamese training institutions and private sector training enterprises. At the present time, such expertise does not exist. Strategically, it will be very important that any services exporting related training include a train-the-trainer component and include a cross-section of potential Vietnamese trainers. The Trade in Services Section, International Trade Centre, has train-the-trainer materials that can be delivered on:

- 20 "Successful Services Exporting" (targeted for government officials, associations, and service enterprises
- The 1.5 day "Assisting the Service Exporter" course for trade promotion officials
- A services management and marketing executive training course titled, "Managing Professional Services for Global Competitiveness"

e) Service suppliers
At the present time, there is no training available in Vietnam that is specifically designed to meet the needs of service suppliers, especially those wishing to export. Many providers of professional or technical services have had no training in marketing their services, though they are very competent in the delivery of those services. Service suppliers wishing to succeed as exporters need to understand how to build credibility in global markets and to have strong relationship marketing skills to build referral networks, knowledge of cultural issues to establish good initial relationships, the ability to find and work with local partners, the ability to identify unmet needs and design services to meet those needs, the ability to manage service design and delivery so as to meet global service quality and competitiveness standards, and the ability to innovate in order to protect and expand market share. The Trade in Services Section, International Trade Centre, has a range of tools that can be helpful to Vietnamese service suppliers and also two specific types of training:

- 12 "Successful Services Exporting" targeted specifically for service enterprises
- A services management and marketing executive training course titled, "Managing Professional Services for Global Competitiveness"

5.3. Stage 2b: Preparing Supporting Materials
Traditionally, service exporters have not relied on government assistance since national trade promotion initiatives have been primarily oriented to goods producers. As a result, government agencies have, in large part, been unaware of the range of services being actively exported from Vietnam. If service exporters are to be included in government-led initiatives, then care needs to be taken in portraying the image of available assistance.

When service suppliers enter a Vietnam Trade Promotion Agency office, they should see materials specifically for service exporters, not simply materials for goods exporters. The types of market information of interest to service exporters differ from the usual market information provided to goods exporters, and includes the following:

- Telecommunications infrastructure
- How much the Internet is used
- Temporary business entry requirements
- Mini-office options (e.g., World Trade Centre)
- Competitors in the market, including government suppliers
- Attitude towards Vietnamese service suppliers (including special links)
- Service industry associations in Vietnam and in other countries
- Conference and networking opportunities
- Opportunities to get articles published
- Vietnamese contacts in the market
- Contacts in the markets that have studied in Vietnam

In terms of market intelligence, the most useful information is complaints – i.e., unmet needs.

There are a number of publications from the International Trade Centre that could be translated into Vietnamese and supplied to Vietnamese service suppliers, particularly:

- *Successful services exporting: A handbook for firms, associations and governments*
- *Innovating for success in the export of services*
- *Trade in services: An answer book for small and medium-size exporters*
- *Offshore back office operations: Supplying support services to global markets*
- *A business guide to the General Agreement on Trade in Services*

Materials on service trade negotiations or arrangements between members of regional organizations that Vietnam is a member such as ASEAN, APEC, ASEM or WTO are very much needed to Vietnamese firms too. VIETRADE may in corporation with relevant organizations, prepare guidebooks on these issues in Vietnamese language to supply to service exporters.

Trade promotion organizations of many countries also have many publications that VIETRADE can make ready for Vietnamese service firms, particularly the guidebooks like “How to do business with …”, “How to export to…” or market survey reports of various items.

5.4. Stage 2c: Addressing Policy and Regulatory Constraints
While capacity issues are being addressed, the following policy issues also need to be addressed so that Vietnamese service suppliers are positioned as competitively as possible:

a) Cost and accessibility of telecommunications infrastructure
Telecommunications is the primary infrastructure for the promotion and delivery of services; therefore, the cost, reliability, and availability have a direct impact on the competitiveness of Vietnamese service exporters. Fortunately, Vietnam has a digital infrastructure; however, an initiative is needed to ensure that Vietnam’s telecommunications infrastructure is world-class in cost and reliability.

b) Strong institutional system
Weak institutional system makes business environment unsound and put service enterprises in unsafe and risky conditions. Focus therefore will be needed to enhance the institutional system’s transparency, accountability, consistency and predictability. In particular a number of legal documents on service industries still contain various kinds of barriers to private sector in the forms of business licences or conditions and unreasonable provisions. These barriers have to be removed to create equal ground for private sector and SMEs to access the service market.

c) Strong regulatory framework
To ensure world-class services, it is important to have in place licensing and accreditation programs linked to world standards and benchmarks. The report of the Trade in Services project identifies areas of policy development and implementation that need attention.

d) Tax rates and tax incentives for service suppliers
At the present time, tax rates for services vary between 5 percent and 20 percent, without a clear rationale. A review is needed to ensure that the higher tax rates are not interfering with export competitiveness. Tax incentives for service suppliers need to be introduced in the way that is fair as compare to manufacturing, encouraging to new investments and SMEs, and simplified to get access.

e) Competition from SOEs and donor projects
Services export success will ultimately rest on private suppliers of services. At the present time, private service enterprises face competition in a relatively small domestic market not only from state-owned enterprises but also from donor projects that subsidize the provision of services (e.g., infrastructure, training, market research). In order to help service exporters grow and develop specialty services that are regionally and globally competitive, it would be helpful if the government contracts out to private sector suppliers rather than competing with them. Resource allocations also need to be fairer and more equal to private sector.

f) Access to growth financing
A common challenge for service enterprises wishing to develop export markets is where to find growth capital. The issue is what the banking system will accept as collateral. Work is needed to get accounts receivables, for example, accepted as appropriate collateral and to develop credit guarantee funds to support SMEs.

g) Human resource development
The quality of human resource is the key for success of any services firms. Vietnam has a large labour pool with high literacy rate (94%) but low skill level (25%). Appropriate policies to develop educational and training system from basic education to high school, from vocation to university and college levels are essential to improve the quality of Vietnamese human resource to meet the market demand. International cooperation to develop programmes for service suppliers and exporters, and to upgrade English language teaching should become a priority.

5.5. Stage 3: Promotion of Vietnam's Services Export Capabilities
Service enterprises are essentially selling a "promise to perform." In most instances, the service does not exist until the customer agrees to purchase. Often part or all of the service may be paid for before the service commences. For example, one purchases a ticket on an airline without knowing whether or not the flight will depart or arrive on time and whether or not one's luggage will be at the intended destination. This introduces a strong element of risk for the potential purchaser, and customers manage this risk either by using known suppliers or by seeking information on the likely performance of the potential new service supplier. This means that a critical component of a national services export strategy is building credibility for Vietnamese services in the global market so that foreigners are willing to take a risk on Vietnamese services. Credibility can be built through a range of strategies, including the following:

- Certification of service suppliers to internationally-recognized standards and credentials
- Registration of service suppliers in online directories
- Publicizing of Vietnamese services exporting success stories
- Presentations at international conferences by Vietnamese service suppliers
- Visibility of Vietnam's service exports on trade promotion websites

There are five general promotional strategies that can be used to build awareness of, and confidence in, the capabilities of Vietnamese service suppliers:

a) Promote services to, and through, foreign investors established in the region
At the present time, foreign investors have had mixed experiences with Vietnamese service suppliers. Once some of the quality management issues have been addressed, it will be important to launch a promotional initiative that targets the foreign investor community, both to expand the use of national service suppliers in-country and to gain referrals abroad. The export markets targeted would be the markets of origin of the main foreign investors.

b) Promote services to customers overseas
Once materials are available to Vietnamese missions abroad, an initiative can be launched to engage Vietnamese expatriates abroad to act as referral sources to expand service export opportunities. Such an initiative would complement the development of association-to-association friendship agreements. The export markets targeted would those representing the best referral sources.

c) Promote partnerships with, and subcontracting to, well-known foreign firms
For architectural, engineering, and consultancy services in particular, subcontracting is an excellent strategy for improving service quality skills and building an international reputation. Projects related to the Trans-Asia Highway, Trans-Asia Railway, Greater Mekong Sub-region Cooperation, Tsunami reconstruction and the development along the Vietnam-China border offer excellent opportunities. Targets would be international firms working in, or with links to, priority export markets.

d) Promote technical assistance expertise
This strategy would assist consultancy firms to re-package the technical assistance being received and export it to other developing or transition economies (as China has done). Vietnam is already doing this into Cambodia and Laos with regard to telecommunications consultancy and training services. Opportunities exist with regard to expertise in economic reform, agriculture and fishing development, poverty reduction, and women empowerment... The target export markets would be developing and transition economies in need of the relevant technical assistance, plus the donor organizations that fund such technical assistance.

The parallel Trade in Services project identified a preliminary list of markets to which Vietnamese services are currently being exported:

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

The priority export markets to be targeted will depend partly on the strategy to be pursued. For example, for services where a “Mode 2” strategy is adopted (i.e., sell first to foreign-owned firms in Vietnam and then ask for referrals abroad), the main export markets would coincide with the markets from which there are the most foreign investors. For services that can be sold to goods producers, the main export markets would be those with which Vietnam has a goods trade relationship. For services sold directly to foreigners abroad, priority markets would be ones in which there are a number of Vietnamese expatriates (to serve as referral sources) or from which a number of tourists come to Vietnam or with which there is some special relationships (through memoranda of understanding or association friendship agreements).

5.6. Stage 4: Sector-Specific Initiatives

Based on the above general strategies to promote services exports, thorough studies need to be done by service firms and associations of specific sectors to select appropriate strategies and introduce initiatives for themselves.

Generally speaking the keys for a successful export promotion activity are: thorough study (to understand how to promote exports of the target product to the target market), excellent coordination (between relevant institutions/persons/tools/events at home and in the target place) and professional organization (to achieve best results at most reasonable costs).

Export promotion normally requires a campaign with various events that may take place few times during a period of several months or a full year or more, so that repeated message on the target product can leave some impression among the target consumers. It is very important to select and send right message(s) in a right way to the right people at the right time, and the service exporters and service associations need to work hard on this, especially in case they are the "new comers" in this sharp competition world.

Specific services may have specific target customers or markets and therefore may adopt different promotional strategies. While adopting strategies most appropriate for them, they can always have chance to coordinate with exporters and associations of other goods or services to share costs and benefits and maximize general effects in export promotion.

Specific service sectors selected for this Strategy may consider the following initiatives:

- Software and computer services can be promoted via participation in well-establish global and regional trade events. Similarly, freight forwarding and research & development services can also be promoted through relevant trade events. Ideally, in addition to exhibiting, Vietnamese service suppliers would be visible as presenters in the associated seminars.

- Architectural and engineering services are often exported through bidding on capital projects, and that information is readily available online. There are also opportunities to require that construction/reconstruction projects in Vietnam, funded by donor countries, use Vietnamese professional subcontractors. In addition, there are regional and global trade events focused on the built environment at which Vietnamese service suppliers could present and VIETRADE could exhibit.

- Legal services and consultancy services are best promoted at relevant professional conferences through opportunities to make presentations as well as through association-sponsored events with sister associations in target markets.

6. Conclusion

Designing a good National Services Export Strategy is the first important job to promote the development of services exports. Implementing the Strategy is much more important and difficult. We have to keep in mind:

First, Services Export Strategy can be successfully implemented only with joint and serious efforts of all the key stakeholders: the State, the services firms and the associations. It will need strong support of other business communities, local consumers and the society too.

Second, Vietnam is a developing country in transition and in integration process. Various developments may take place at the same time and have impacts on each other. Vietnam is also adopting and/or introducing strategies and policies for different industries. For the success of this Strategy, we need to assure that other strategies and policies will not cause constraints to the Services Export Strategy, for example in priority agenda or in resources allocation. (So far services in Vietnam could not develop well due largely to too high priority given to manufacturing and to State-owned sector).

Third, we are living in a fast changing world. Competition is fierce and tougher everyday. Business environment also changes from time to time. While the Strategy provides a guideline for our services exports, we always need to be flexible enough to adapt ourselves with the new movements in the regional and the global markets.

Last but not least, given the inexperience and weakness of Vietnamese services firms, we may doubt whether Vietnamese young services industry can stay and develop in sharp global competition. But the Doi Moi reform process proves that when the Vietnamese are liberated they can move very fast to overcome difficulties and challenges and seize new opportunities to develop. The innovative resources exist in our people are limitless. Provided that barriers to the services industry and its key players - the private sector- can be removed, the industry will grow and will make a big success in its export trade as this Strategy expects.

Attachments

Annex 1: Report on the Research with Foreign-owned Companies in Vietnam Regarding Vietnam's Services Exports

Annex 2: Some statistical data on Vietnam's service industry and exports

ANNEX 1

REPORT ON THE RESEARCH WITH FOREIGN-OWNED COMPANIES IN VIETNAM REGARDING VIETNAM'S SERVICES EXPORTS

I. On the research.

The research was conducted during 6 weeks from early May to June 10, 2005 by sending questionnaires and interviewing both focus groups and individual foreign companies in Hanoi, Da Nang and HoChiMinh City.

250 letters and questionnaires were sent to targeted foreign business associations and individual companies, and 10 interviews were conducted. As result **102 feedbacks** received via email, post and through direct interviews.

Out of companies sending feedbacks:

- 5 are business associations/promotional institutions (Eurocham, AmCham, Jetro, GTZ and STAR)*
- 46 are foreign services companies (trading, transport, law firms, hotels …)
- 51 are foreign manufacturers (electrics, electronics, automobiles, industrial equipments, chemicals, wood processing…)
- 42 are European companies*
- 35 are American companies
- 15 are Japanese companies
- 5 are Australian companies

(* Most of them have been well established in Vietnam for few years now, and are quite familiar with business environment and practice in Vietnam.)

II. Major findings

1. Please see attached Questionnaires (Qs) filled with number of choice for each item being asked.

DESIGNING A NATIONAL SERVICES EXPORT STRATEGY FOR
VIETNAM TRADE PROMOTION AGENCY
TRADE PROMOTION PROJECT VIE/61/94

RESEARCH WITH FOREIGN-OWNED COMPANIES IN VIETNAM
QUESTIONNAIRE

A. Do you purchase any services from Vietnamese service enterprises?
Yes 102 No 00
If *yes*, which kind of services do you purchase?
If *no*, are you in need of the following services?

	My company has purchased		My company is in need of the services
	One time	More than once	
1. Business services			
a. Professional services			
a1. Legal services	8	86	20
a2. Architectural services	17	17	12
a3. Engineering services	12	25	4
a4. Equipment repair& maintenance		98	
a5. Medical & dental services	4	53	
b. Computer services			
b1. Computer hardware installation		98	10
b2. Software implementation services	4	82	21
b3. Data processing /Database services	4	22	12
c. Research & development			
c1. R & D services on natural sciences		4	8
c2. R & D on social sciences & humanities		8	13
c3. Interdisciplinary R & D services			5
d. Real estate services			
d1. Leased property	20	64	14
e. Rental/leasing services			
e1. Relating to transport equipment	9	58	9
e2. Relating to other machinery/equipment	8	25	
f. Other business services			
f1. Advertising services	8	58	
f2. Market research services	10	18	17

f3. Consultancy services	5	44	14
f4. Technical testing& analysis services	8	28	12
f5. Services incidental to agriculture & forestry		15	
f6. Services incidental to manufacturing		5	
f7. Maintenance & repair of equipment		65	
f8. Building-cleaning services	4	68	10
f9. Photographic services		45	
f10. Packaging services	5	20	
f11. Printing, publishing	4	92	12
f12.Convention services	12	35	5
2. Communication services			
a. Postal services		80	5
b. Courier services		98	4
c. Telecommunication services		102	
d. Audiovisual services	4	29	4
3. Construction and related engineering services			
a. General construction work	8	41	7
b. Installation and assembly work	13	35	5
c. Building completion and finishing work	11	31	
4. Distribution services			
a. Commission agents' services		26	10
b. Wholesale trade services		10	
c. Retailing services		41	5
d. Franchising			4
5. Education services			
a. Education services	3	22	10
b. Training services		47	15
6. Environmental services			
a. Sewage/refuse disposal services		28	
b. Sanitation and similar services	4	21	
7. Financial services			
a. Insurance and insurance-related services	9	51	4

b. Banking services		91	5
c. Other financial services		18	
8. Health-related and social services			
a. Hospital services	4	60	
b. Social services	5	28	10
9. Tourism & travel-related services			
a. Hotels and restaurants		102	14
b. Travel agencies & tour operators services		90	
c. Tourist guides services	5	46	
10. Recreational, cultural & sporting services			
a. Entertainment services	5	45	
b. News agency services		51	
c. Libraries, archives, museums services	4	32	
d. Sporting services		33	
11. Transport services			
a. Maritime transport services		42	9
b. Internal waterway transport		15	5
c. Air transport		92	9
d. Rail transport	3	28	14
e. Road transport		89	15
f. Services auxiliary to transport		17	5

B. How do you evaluate services provided by Vietnamese enterprises?
Please select and mark one of five choices (1:poor; 2:fair; 3:good; 4:exellent; 5:no ideas)

	1	**2**	**3**	**4**	**5**
1. General evaluations:					
Quality of services	8	56	28	10	
Prices of services		27	59	16	
Timing delivery	18	45	35	4	
Availability of services	15	58	16	13	
Availability of qualified service providers	44	48	10		
Prospects of service development in Vietnam	2	20	48	32	
Prospects of service export from Vietnam	17	42	23	20	
2. Business services:					
Legal services	4	40	38	12	

Architectural services	10	32	14	5
Engineering services	5	38	16	
Computer services	6	29	43	20
Software services	8	12	51	15
Research and development services	20	25	6	8
Real estate services	5	45	34	
Rental/leasing services		54	40	6
Advertising services	12	36	28	
Market research services	8	28	30	
Consultancy services	16	16	28	5
Maintenance & repair of equipment	4	36	29	4
Technical services		34	26	
Business support services		37	18	
3. Construction services				
General construction work	8	32	16	4
Building completion & finishing work	17	24	14	5
4. Distribution services	10	23	22	3
5. Educational services	5	44	20	3
6. Environmental services	12	24	17	
7. Financial services				
Insurance services	16	18	22	4
Banking services	4	43	36	8
8. Health services	12	48	13	3
9. Tourism and travel-related services				
Hotel services	11	24	44	23
Restaurant services		24	53	25
Travel/tour operators services	8	26	56	
10. Recreational, cultural & sporting services				
Entertainment services	15	28	17	
Sporting services	17	32	8	3
11. Transport services	6	53	38	5

C. Of the services you purchase, are there any whose quality enhanced your competitiveness?

If yes, which ones? Provided by whom?

Reply: 50: no answer

52: yes, of which:

30: rely on joint venture or foreign companies operating in Vietnam

22: provide names of some Vietnamese companies:

Legal service: Vilaf Hong Duc, Vision & Associates, Leadco

Computer/software service: FPT, Sieu thanh

Postal service: Post Office HCMC

Architectural service: AA, T&T (HCMC)

Advertising service: Galaxy

D. Of the enterprises from whom you purchase services, are there any that you would recommend to colleagues / regional offices / home office as being of exceptional quality?
If yes, which one? Provided by whom? Why?
Reply: As stated in Q.3.
Why? Because they provided excellent services at very competitive/good price.

III. Some remarks on the feedbacks:

a) H*ow services are exported*: not so many businesses know GATS's 4 modes of services supply, therefore when refer to services export they simply think of the same way in which visible commodities are exported, namely cross-border. In the letter sent to them together with the Qs 4 modes of services supply were reminded but the persons who filled in the Qs might not see the letter or just did not note that point. When being interviewed many businesses recognized that fact.

b) *Who are Vietnamese services suppliers:* when providing their answers on whether they purchase any services from Vietnamese service enterprises, most of companies include both enterprises owned or run by Vietnamese <u>and</u> those owned or run by foreign entities or individuals operating in Vietnam. But when providing their answers on how they evaluate services provided by Vietnamese enterprises, most of them referred to enterprises owned or run by the Vietnamese only. A number of them confirmed that matter during interviews.

c) *Services in need*: most of companies having purchased services for more than one time are still in need of the services although they don't stick at the space where those who haven't purchased the services stated that they are in need of the services. Therefore in fact the demand for many types of services is much bigger than figures shown.

d) *Prospects of services export from Vietnam*: because of (a), in their feedbacks many foreign companies did not evaluate highly the prospects of Vietnam's services exports. But when being interviewed and explained the 4 modes of services supply, they changed and spoke rather high about the potentials of Vietnam's service export, particularly by mode 2 and partly by mode 1 and 4.

IV. General observations on the services purchased by foreign companies in Vietnam

Total no. of services in survey: 59 (belong to 11 types of services classified by GATS).
Total no. of services which have been purchased: 57
Among services which have been purchased, a number of services have been purchased *by most of companies* while others did not receive high interests, as shown below:

15 types of services have been purchased by						>80% of companies
5 -	-	-	-	-	-	60-79%
13 -	-	-	-	-	-	40-59%
16 -	-	-	-	-	-	20-39%
8 -	-	-	-	-	-	<20%

All above services have been purchased *more than one time* by most of companies.

V. How services have been purchased by companies in survey

5.1. Services which have been purchased by large number of companies (>60% of companies in survey):

(1) Communication services
Telecommunication

Courier
Postal services

(2) Tourism & travel-related services
Hotel & restaurant
Travel agency & tour operator

(3) Business services
(a) Professional services
Equipment repair & maintenance
Legal services
(b) Computer services
Computer hardware installation
Software implementation services
(c) Real estate services
Leased property
(d) Rental/leasing services
Relating to transport equipment
(e) Other business services
Advertising services
Building-cleaning services
Maintenance & repair of equipment
Printing, publishing

(4) Financial services
Banking services
Insurance services

(5) Health-related and social services
Hospital services

(6) Transport services
Air transport
Road transport

4.2. Services which have been purchased by about half of companies (40-59%):

(1) Business services
Medical & dental services
Consultancy services
Photographic services
Convention services

(2) Construction and related engineering services
General construction work
Installation and assembly work
Building completion and finishing work

(3) Distribution services
Retailing services

(4) Education services
Training services

(5) Tourism & travel-related services
Tourist guides services

(6) Recreational, cultural & sporting services

Entertainment services
News agency services

(7) Transport services
Maritime transport

4.3. Services which have been purchased by small number of companies (20-39%):

(1) Business services:
Architectural services
Engineering services
Data processing/Database services
Rental/leasing services relating to other machinery/equipment
Market research
Technical testing & analysis
Packaging services

(2) Communication services
Audiovisual services

(3) Distribution services:
Commission agents

(4) Education services
Education services

(5) Environmental services
Sewage/refuse disposal services
Sanitation and similar services

(6) Health-related & social services
Social services

(7) Recreational, cultural & sporting services
Libraries, archives, museums services
Sporting services

(8) Transport services
Rail transport

4.4. Services which have been purchased by only few companies (<20%)

(1) Research and development
R & D services on natural sciences
R & D services on social sciences and humanities

(2) Other business services
Services incidental to agricultural & forestry
Services incidental to manufacturing

(3) Distribution services
Wholesale trade services

(4) Financial services
Other financial services

(5) Transport services
Internal waterway transport

Services auxiliary to transport

4.5. Services which have not been purchased by companies in survey:

(1) Research & development services
Interdisciplinary R & D services

(2) Distribution services
Franchising

VI. How foreign companies in survey evaluate services provided by Vietnamese enterprises?

5.1. General evaluations on various aspects:

a) On quality of services: only 37.25 % of companies evaluate the quality of services as good or excellent, while 55 % see it as fair and 7.75% as poor.

b) On prices of services: 73.5% of companies see prices of services as good or very good, while 26.5 % see it as fair.

c) On timing delivery: 38.2 % of companies see timing delivery of services as good, while 44% see it as fair and 17.8 % as poor.

d) On availability of services: 28.4 % see it as good or excellent, while 56.9% see it as fair and 14.7% as poor.

e) On availability of qualified service providers: only 9.8 % of companies see it as good, while 47.2 % see it as fair and 43 % as poor.

5.2. General evaluations on various types of services:

a) Services which received high evaluation (more companies mark as good or excellent than as poor or fair):

1. Tourism and travel-related services:
   Restaurant services
   Hotel services
   Travel/tour operators services

2. Business services:
   Software services
   Computer services
   Legal services

b) Services which are evaluated as fair or fairly good (most of companies mark as good or fair):

1. Business services:
   Architectural services
   Engineering services
   Research and development services
   Real estate
   Rental/leasing
   Advertising
   Market research
   Consultancy
   Maintenance & repair of equipment

Technical services
Business support services

2. Construction services
   General construction work
   Building completion & finishing work

3. Distribution services

4. Educational services

5. Environmental services

6. Financial services
   Insurance services
   Banking services

7. Health services

8. Recreational, cultural & sporting services
   Entertainment services
   Sporting services

9. Transport services

c) Services which over 15% of companies evaluate as poor:

Research and development
Consultancy
Building completion & finishing work
Insurance
Entertainment
Sporting

5.3. Evaluation on the prospect of services in Vietnam:

a) Prospects of service development in Vietnam*:* 78.5 % of companies see the prospects of service development in Vietnam as good or excellent while 19.6% see as fair and only 1.9% see as poor.

b) Prospects of service export from Vietnam: 42% of companies see prospects of Vietnam's service export as good or excellent while 41% see as fair and 17% see as poor.

5.4. On Vietnamese services providers of exceptional quality:

Foreign companies in survey give only few names. Also in evaluating the availability of qualified service providers, most of companies see it as poor or fair and only few see as good. Many of them see joint ventures or foreign companies operating in Vietnam as better service providers than the 100% Vietnamese enterprises, mainly in quality of the services and the professional staff.

VII. Conclusion.

1. Through the survey we can see about 50 types of services have been exported to foreign companies in Vietnam, in which about 40 have been widely used. Most of foreign companies

purchasing these services are using them frequently. Several services have yet been using widely but companies do have demand on such services.

2. Markets for wide range of services are available for Vietnamese service enterprises, particularly among European, American and Japanese companies operating in Vietnam as well as investors and companies from other high-income countries.

3. Vietnamese service providers are competitive in prices but need strong improvement to enhance their competitiveness in quality, innovation, timing delivery, and availability of professional staff. They also need to improve marketing capability to make themselves known in the business world in Vietnam. (Most of foreign companies complain that it is difficult for them to find qualified local service suppliers or even reliable source of information about them).

4. The prospects for development and export of services provided by Vietnamese enterprises are quite bright. In particular Mode 2 (to sell services to foreign-owned companies in Vietnam) has very bright future. Mode 1 and Mode 4 can be considered too.

5. A strategy to develop Vietnam's services export is an urgent need. Based on the strategy comprehensive policies and appropriate measures need to be introduced and applied soon in order to help develop services industry in this country. Local businesses in the field of services need to be untied, to facilitate and support to be more matured and grow up as soon as possible so as to size new opportunities and face new challenges in the world competition today in the field.