

DOES TRADE FACILITATION CHALLENGE THE DOMESTIC LOGISTICS ENTERPRISES IN VIETNAM?

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Abstract

This study comes from the theme of World Customs Organization “Trade facilitation initiatives and intergovernmental schemes of customs community have been providing logistics enterprises with many opportunities to join effectively and profitably in the integrated supply chains all over the world” (World Customs Organization, 2016). Authorized Economic Operator (AEO) and AEO Mutual Recognition Agreements (AEO MRAs) are the security and trade facilitation initiatives aiming to enhance global trade security and foster business competitiveness in many countries. In principle, this initiative helps well-regulated enterprises to gain priorities in trade and supply chain operations provided that they adequately meet the criteria of the AEO program. However, the Vietnamese logistics companies cannot gain benefits from the AEO program due to specific requirements of doing international trade transactions like very high exports and imports turnover as well as big volume of customs declarations. That is why there is no Vietnamese logistics company who has been granted AEO status by the end of 2018 (GDVC, 2018). This study aims to figure out the reality that the Vietnam’s current AEO program is highly challenging the Vietnamese logistics companies.

Keywords: authorized operator, logistics, trade facilitation, standards.

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1. Introduction

Developing an AEO program and concluding mutual recognition arrangements/agreements (MRAs) with partner countries having similar and comparable program provide favorable instruments for globalizing the operations of logistics enterprises due to many benefits accruing to authorized traders and their trade partners in the authorized

supply chains (World Customs Organization, 2016).

The pilot implementation of Vietnam’s AEO program took place on May 13, 2011 and was followed by an official launching on June 27, 2013. This program is significantly contributing to the higher levels of competitiveness of Vietnamese AEOs through many privileges granted to them in cross-border goods movements, such

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as the 24/7 customs clearance, short release time, low documentary and data submission requirements and the extremely low rate of physical inspection (General Department of Vietnam Customs, 2018). There are many technical reports of the General Department of Vietnam Customs summarizing the benefits and positive impacts on the Vietnamese AEOs' performance but no study about logistics firms in connection to the AEO implementation. Furthermore, Phan Thi Thu Hien (2017) also analyzes the differences between the Vietnam's AEO program and the internationally standardized AEO initiative that are limiting the advantages of this program like very small number of Vietnam-certified AEOs. According to the General Department of Vietnam Customs, at the end of 2018, there were Vietnamese 65 AEO enterprises, mainly large firms with high exports and imports turnover. Therefore, nearly 1,300 Vietnamese logistics service providers cannot be part of the Vietnam's AEO program and its AEO Mutual Recognition Agreements² (AEO MRA) with other countries in future (General Department of Vietnam Customs, 2018). In other words, many logistics enterprises in Vietnam fail to take advantage of this trade facilitation program due to the requirement of at least 20,000 customs declarations to be a Vietnam-qualified AEO. This study aims to analyze the participation and performance of the domestic logistics companies in the Vietnam's AEO program from the viewpoints of the AEO-certified and logistics companies. There are two main study questions, that are: (1) Is the Vietnam's AEO scheme unfair to numerous domestic logistics service

providers that no firm gains AEO status? and (2) Are the domestic logistics service providers less competitive to be partners and logistics service providers for the Vietnam's AEO enterprises in global supply chains than the foreign competitors?

Following the introduction and literature review, the paper provides an overview about the Vietnam's AEO program and logistics industry. After the methodology, the next section presents the results of the survey about Vietnamese logistics companies' performance in connection to the current AEO program in Vietnam. Finally, it is wrapped up with conclusions and recommendations for enhancing the participation of the Vietnamese logistics firms in the Vietnam's AEO program.

2. Literature review

There are many studies about trade facilitation from theoretical framework to practices at global, regional and country level which mainly focus on the core pillars, roles and impacts of the WTO's trade facilitation agreement (TFA) with forth a series of measures for expeditiously moving goods across borders inspired by the best practices from around the world. In brief, World Trade Organization (2015) states that the Trade Facilitation Agreement is the first multilateral trade agreement to be concluded since the WTO was established 20 years ago. Once it enters into force, the Agreement is expected to reduce total trade costs by more than 14 per cent for low-income countries. The WTO also describes the commitments of developing and least-developed countries in connection to their capacity to implement the

² Mutual recognition is a broad concept whereby an action or decision taken or an authorization that has been properly granted by one Customs administration is recognized and accepted by another Customs administration (World Customs Organization)

TFA. In Vietnam, introduction about the TFA as well as its opportunities and challenges also are analyzed fully in Trinh Thi Thu Huong, and Phan Thi Thu Hien (2015). As one of the trade facilitation initiative, Authorized Economic Operator (AEO) and AEO Mutual Recognition Agreement is stipulated in laws and regulations on trade and customs of many countries in the world. Annually, the World Customs Organization publishes a comprehensive package about implementation of the WCO SAFE Framework of Standards to Secure and Facilitate Global Trade (SAFE Framework) with the WCO's flagship Customs-Business partnership program and the Authorized Economic Operators (AEO) Program. The World Customs Organization (2018) asserts that the AEO program is an international instrument endeavors to usher a safer world trade regime and also heralds a new approach to working methods and partnership for both Customs and business towards a common goal based on trust. In Vietnam, General Department of Vietnam Customs (2016) reports the AEO implementation that indicating the outcomes and limitations by reviewing all the differences between the Vietnam AEO regulations and the TFA's initiatives and global practices. Phan Thi Thu Hien (2017) also analyzes the potential AEO mutual recognition agreement of Vietnam with the EU as an important trade partner. The World Bank highly contributes to the global trade facilitation with two annual publications of Logistic Performance Index (LPI) and Doing Business that measure trade facilitation indicators of time and costs for cross-border movement of goods nationally and internationally (World Bank). Trinh Thi Thu Huong and Phan Thi Thu Hien

(2016) provides a reality of Vietnam's trade facilitation performance with a study about LPI, Trading across borders and Time Release Study. Further, Phan Thi Thu Hien (2017) suggests recommendations to standardize the Vietnam's AEO program and promote AEO MRA with the top trade partners like the USA, EU, Korea from aspects of policy making and technical operation.

3. Overview of the Vietnam's AEO program and logistics industry

The Vietnam's AEO program initially was launched in 2011 under the Decree No.63/2011/TT-BTC of the Ministry of Finance and first approved of 13 AEO certified firms. This program was officially implemented in 2013 under the Decree of 86/2013/TT-BTC of Ministry of Finance. To some extent, Vietnam's AEO program complies with Article 7.7 of WTO Trade Facilitation Agreement (Trade Facilitation Measures for Authorized Operators), which mainly focuses on trade compliance although the security measures were added to fulfill the standards required by the WCO SAFE Frame of Standards.

From the very beginning, the Vietnam's AEO program provided a wide range of benefits to exporters and importers who substantially met the requirements of high trade performance with legal compliance profile. In 2015, AEO as an important trade facilitation measure was fully stipulated in Vietnam 2014 Customs Laws and Decree No.72/2015/TT-BTC of Ministry of Finance dated 12/5/2015, further expanding the program to customs agents who make at least 20,000 customs declarations in their owned name per year. Nevertheless, in 2016, all 55 of the Vietnamese AEOs are top exporters

and importers that significantly contribute to the national economy and trade development. Inherently, trade-focus criteria of the Vietnam AEO program is seen as a big challenge for domestic logistics service providers. As a result of this no AEO MRA has been signed by Vietnam thus far.

The Vietnamese logistics industry has contributed significantly to the growth of the Vietnamese economy with a total value estimated around US\$ 60 billion and annual growth rate of 2%. The Vietnam's logistics industry represented about 25% GDP of Vietnam that was created by 1,300 logistics service providers (Blancas et al. 2014). According to the Vietnam Logistics Association (VLA) there are 10 state-owned enterprises operating as domestic logistics providers, with the remaining being mostly SME enterprises with limited resources and operating capacity. They are able to provide "first party logistics - 1PL" and/or "second party logistics - 2PL" service. Especially, Vietnam logistics market is dominated by 25 multinational logistic corporations that account for 70% - 80% of the market share (Do Xuan Quang, 2015).

The Vietnamese domestic logistics enterprises except state-owned enterprises are mainly operating as subcontractors or freight agencies for foreign 3PL and 4PL logistics providers. There are many factors that affect the capacity and competitiveness of domestic logistics providers, namely: (1) Vietnam transportation infrastructure is poor and underdeveloped, especially lacking local transport network connecting different modes of transport like road, air, sea and inland waterway. Therefore, it is costly and beyond capacity to organize a multimodal logistics

service for small domestic enterprises. It is estimated that this will be problematic in the near future when Vietnam extensively opens up its domestic logistics market within a wide range of services like warehouse, freight forwarding, inland transportation, marine terminal service, and so forth; (2) Inadequate quality of human resource leads to limited competence in standardization and modernization, technological innovations and Research and Development; (3) Although Vietnam's international merchandise trade is rapidly growing in both trading value and volume, the market share is very narrow for domestic enterprises to operate as a whole logistics network or "third party logistics - 3PL" or "fourth party logistics - 4PL" providers (Do Xuan Quang, 2015).

Other factors of weakness and disadvantages of the Vietnamese logistics companies come from the Vietnamese traders and are described as follows:

First, connectivity between the domestic logistics providers and merchandise traders (Vietnamese exporters and importers) is weak and is not mutually beneficial. That is why most of Vietnamese traders' shipments are operated by foreign enterprises or transnational corporations with larger networks, logistics competence as well as global market experience. In other words, Vietnam's domestic logistics companies are facing an intensive competition both in the local and international logistics markets (Ly Huy Tuan, 2010).

Second, Vietnam's traders usually conclude contract sales of goods under FOB and CIF respectively for export and import as business customs as well as limited negotiation capacity. This makes the

Vietnam transport providers and logistics enterprises more difficult to enter the supply chains operated by the foreign traders. As a result, Vietnam's logistics providers only find business opportunities by low added value and manual activities like freight subcontracting, customs clearance, and inland transport or warehouse service. Thus efforts should be stepped up to improve business relations between Vietnamese traders and logistics enterprises because it is high time for Vietnam's commitments of opening logistics market under WTO rules as well as implementing FTAs (Phan Thi Thu Hien, 2016).

Annual report of the World Bank of Logistics Performance Index of around 160 countries in the world is an efficient tool to evaluate international competitiveness of national logistics industries that are composed of a six determinants including customs, infrastructure, international shipments, logistics competence, tracking and tracing and timeliness. Vietnam had been making consistent efforts and successfully improved its LPI score and rank from 2.89 points and 53/160 in 2007 to 3.27 points and 39/160 respectively in 2018, and especially logistics competence moved remarkably from the position of 62/160 in 2016 to 33/160 in 2018 (as indicated in the Table 1).

Table 1. Vietnam LPI score and ranking from 2007 to 2018

Year	LPI Rank	LPI Score	Customs		Infrastructure		International shipments		Logistics competence		Tracking & tracing		Timeliness	
			Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
2018	39	3.27	41	2.95	47	3.01	49	3.16	33	3.40	34	3.45	40	3.67
2016	64	2.98	64	2.75	70	2.70	50	3.12	62	2.88	75	2.84	56	3.50
2014	48	3.15	61	2.81	44	3.11	42	3.22	49	3.09	48	3.19	56	3.49
2012	53	3.00	63	2.65	72	2.68	39	3.14	82	2.68	47	3.16	38	3.64
2010	53	2.96	53	2.68	66	2.56	58	3.04	51	2.89	55	3.10	76	3.44
2007	53	2.89	37	2.89	60	2.50	47	3.00	56	2.80	53	2.90	65	3.22

Source: World Bank, 2018

Customs is still the most problematic and bureaucratic factor that hinders the logistics competitiveness of Vietnam. This, together with inadequate infrastructure and lengthy customs procedures has resulted in a nationwide logistics cost-to-GDP ratio of nearly 20.8% which is much higher than that of regional peers (World Bank, 2014).

3. Survey description

This study presents the relation between the current AEO implementation and

performance of the domestic logistics companies as non-AEOs in the international supply chains.

Data on Vietnam's AEO implementation and the performance of Vietnamese logistics companies have been collected through two surveys of Vietnamese AEOs and logistics companies. It is indicated that a few logistics companies, which are around 8% of the companies surveyed, fully understand AEO as a trade facilitation measure for improving

security and efficiency of the supply chain. It seems that Vietnam's AEO program is preventing the domestic logistics providers from partnering with the AEOs in global supply chains.

AEO enterprise survey: The survey of the Vietnamese AEOs' logistics operation in the international trade transaction has been conducted through an on-line questionnaire since 2015. The questionnaire was consulted with a senior customs officer who has in-depth knowledge of AEO enterprises and their contact points in Vietnam. Emails were sent briefly introducing the study and a link to the web survey. 43 AEO enterprises were requested to participate in the survey, which accounts for nearly 78% of the total 55 Vietnamese AEOs as indicated in the Annex 1. Finally, 26 responses were received with a response rate of 60% including state-owned enterprises, 100% capital from domestic investor, 100% capital from foreign investors and FDI enterprises. The Vietnamese AEO responses are the biggest business operators in various economic sectors and industries in Vietnam, also strongly connecting with a lots of logistics providers in international supply chains and global market.

Logistics company survey: This survey also was conducted in the same manner as the AEO survey. It was more difficult to attract attention of logistics companies because they did not see the relevance of the AEO program to their business in Vietnam presently. The questionnaires were sent to the logistics providers in Vietnam via shipping agents, trading companies as well as Vietnam Logistics Association (VLA). However, there were only 24 responses for Vietnam logistics company survey, mainly representing

Vietnam logistics industry including 100% capital from domestic investor (10 firms), 100% capital from foreign investor (07 firms) and FDI enterprises (04 firms) and others (03 firms). Significantly, the responses are providing a wide range of logistics services in Vietnam such as doing import/export customs procedure, warehousing services, freight forwarding, terminal services, consolidation, domestic transport international transport and terminal operation with the proportions of the total responses that are 79.17%, 54.17%, 83.33%, 62.5%, 66.67%, 83.33% and 12.5% respectively.

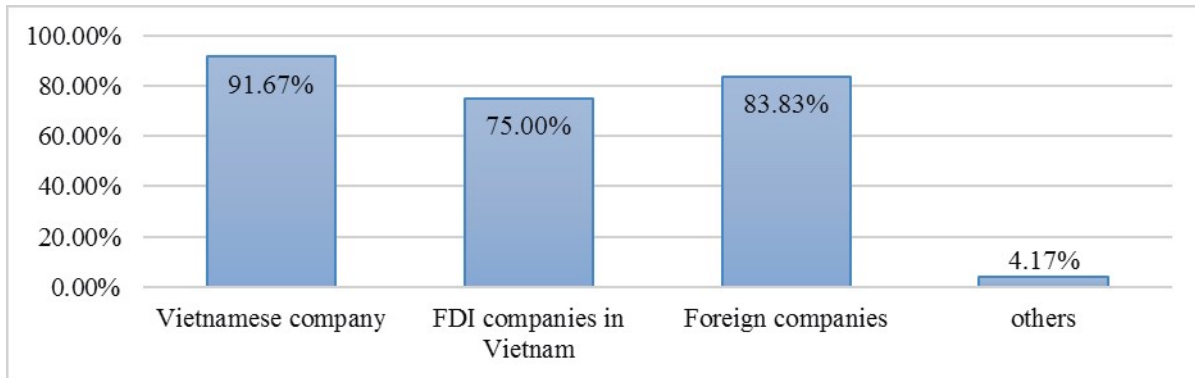
4. Survey results analysis

4.1. *Weak connectivity between Vietnamese AEO enterprise and logistics*

According to representatives from a wide range of logistics operations, the Vietnamese logistics companies are joining international supply chains and being logistics providers for local and foreign partners with a very high percentage of the total responses as the Figure 1. However, the responses are mainly the 1PL or 2PL providers and subcontracting with foreign logistics providers of 3PL and 4PL as Do Xuan Quang (2015).

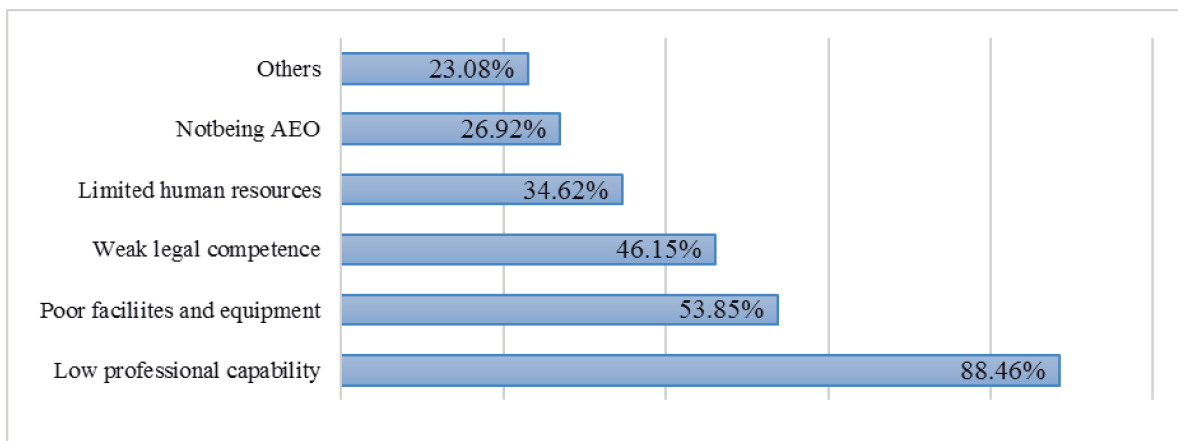
Indicating the weakness and competitiveness of Vietnamese logistics companies in the international logistics market, 88.46% of the Vietnamese AEOs agreed that low professional capability is the biggest concern, followed by poor facilities and equipment and weak legal competence with 53.85% and 46.15% respectively as seen in Figure 2. These are also the major reasons why they are not able to serve as logistics service providers in the global supply chains of AEOs.

Figure 1. Business partners of Vietnamese logistics firms in international merchandise trade



Source: The author

Figure 2. Competency of Vietnam logistics companies in the international supply chains



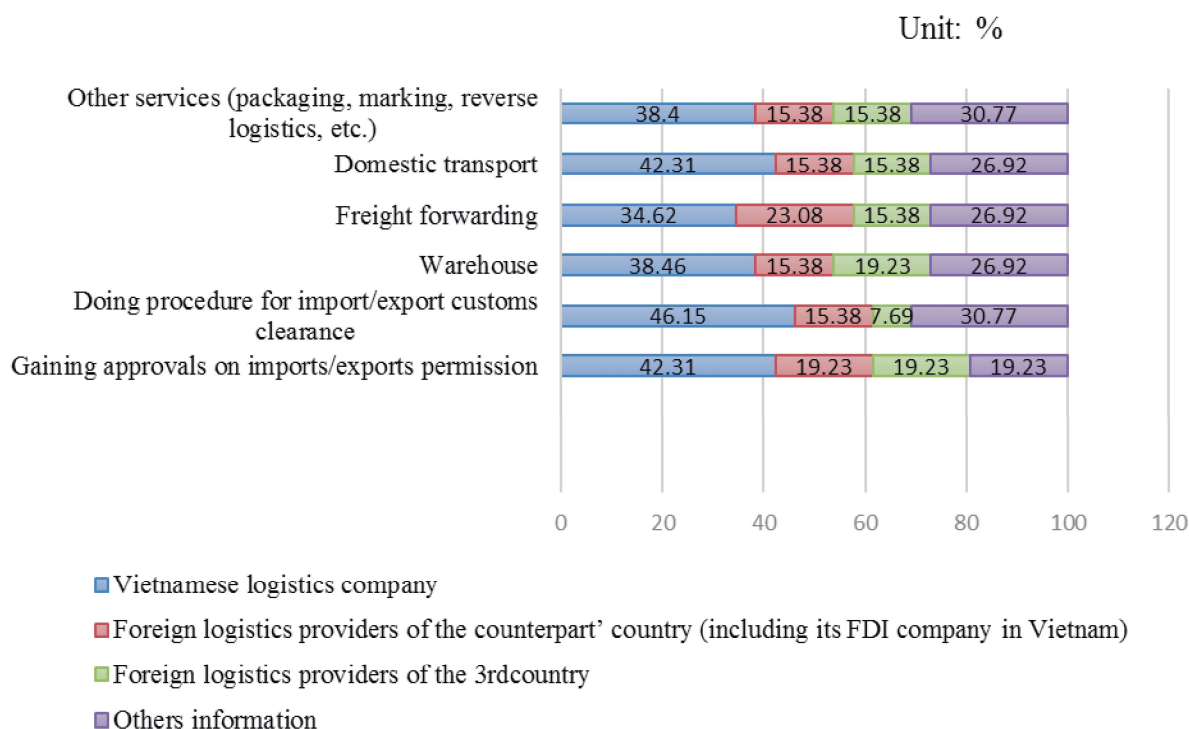
Source: The author

In details, Vietnam logistics companies are mainly local providers characterized by manual and low-technical services like gaining approvals on imports/exports permission, customs declaration, warehouse, domestic transport and packing. Nonetheless, the Vietnamese logistics companies are unlikely to be the logistics providers for the AEO enterprises with the above logistics service as the Figure 3, Since the AEO program provides the AEO firms with more advantages of trade facilitations than other stakeholders in the international supply chains such as the 24/7 customs clearance,

short release time, low documentary and data submission requirements, and the extremely low rate of physical inspection (General Department of Vietnam Customs, 2016).

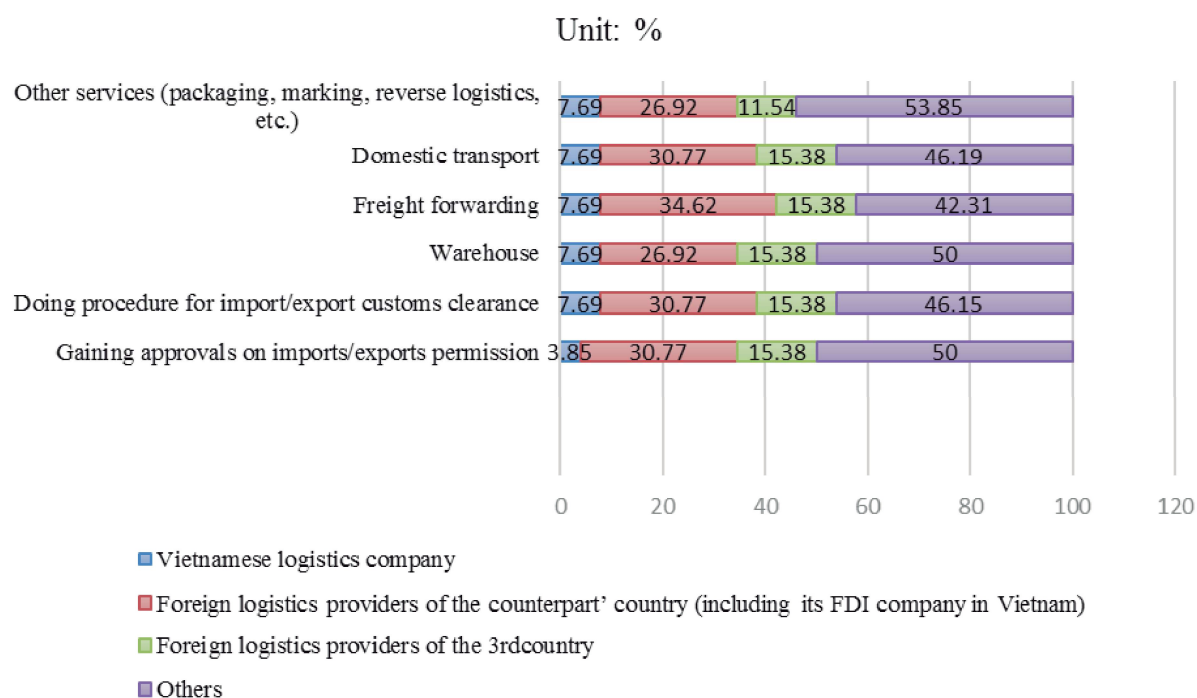
In the international stages of the global value chain, it is very hard for Vietnamese logistics companies to join as the leading firms and compete with the foreign companies who are mainly supply chain partners of Vietnamese AEOs. The survey results show that sea and multimodal transportation are the most common modes of international transport, which accounted for 42.31% and 46.15% of the AEOs' responses respectively.

Figure 3. Partners providing logistics services of Vietnamese AEOs in domestic market



Source: The author

Figure 4. Partners providing abroad logistics services to Vietnamese AEOs



Source: The author

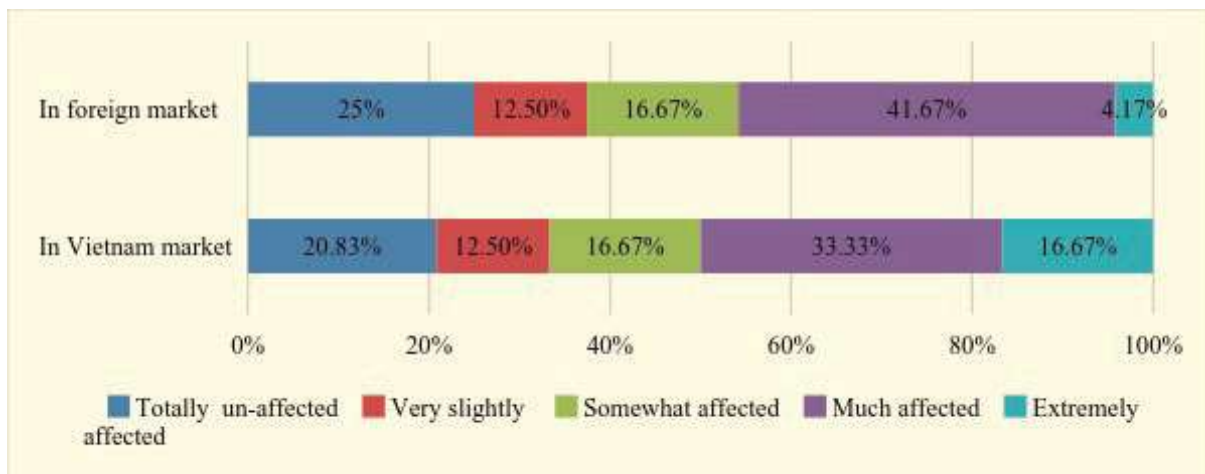
This clearly explains the fact that the Vietnamese logistics companies are missing local and international market shares as nearly 80% of Vietnam's international merchandise trade volume are transported by global logistics corporations, who are dominating Vietnam's logistics market with 80% market share and only 20% for Vietnamese logistics enterprises (Do Xuan Quang, 2015).

In general, the Vietnamese logistics companies are positioned quite low in the global value chain of the AEOs. Most of Vietnam's AEO enterprises are appointing foreign logistics service providers in their supply chains or transferring these responsibilities to their contracting partners, especially international transport and contract carriage. When Vietnam enhances the AEO program by successfully concluding AEO MRAs with important trade partners in the regional and global scope, it is estimated that Vietnamese logistics companies will be facing a fiercer competition with competitors who are AEO-certified enterprises supply chains.

From view of points of Vietnamese AEOs, expanding the current AEO program to include Vietnamese logistics service providers and signing of AEO MRAs will further increase the benefits of trade facilitation as indicated in the Figure 6. In line with the reality of the Vietnam's logistics performance, reducing time and cost of doing exports and imports is the top concern of the Vietnamese AEOs.

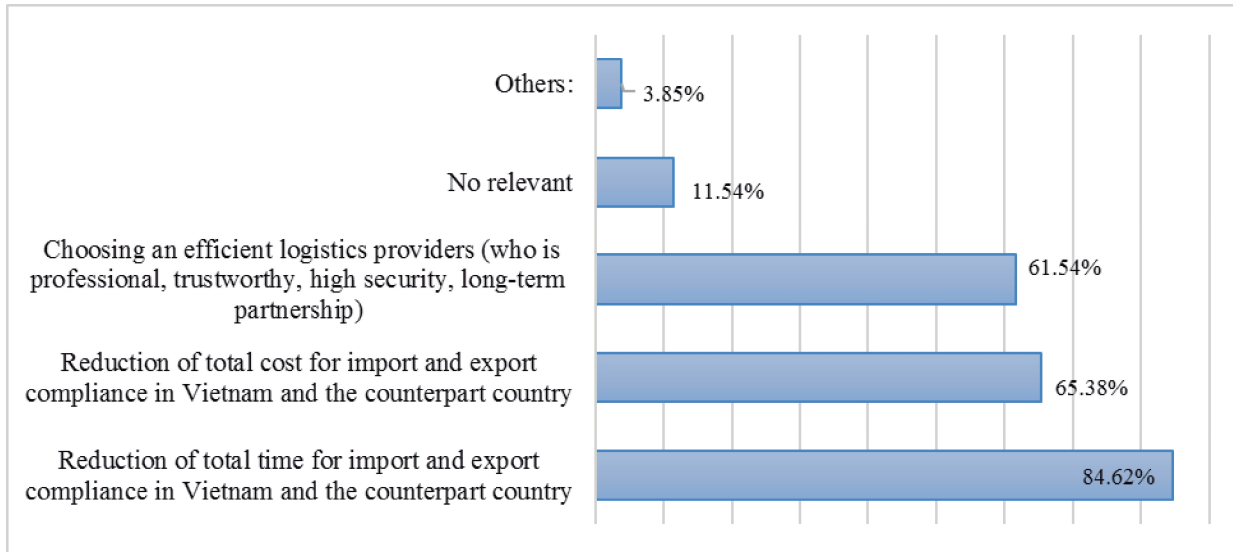
According to the Vietnamese AEOs, expanding the current AEO program with participation of Vietnamese logistics service providers and signing of AEO MRAs will increase the utilization of this trade facilitation measure. Specially, the high rate of responses for enhancing supply chain security strongly demonstrates the gap between the Vietnam's AEO program and international standards and practices like the WCO SAFE. Although these criteria are stipulated in the Vietnam Customs Laws 2014, they need more time to come into effect.

Figure 5. Effects of AEO program on performance of Vietnamese logistics companies



Source: The author

Figure 6. AEOs’ expected benefits for logistics companies when Vietnam signs AEO MRAs



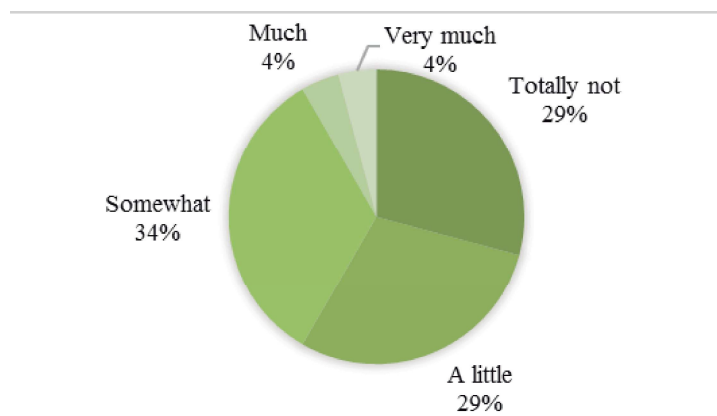
Source: The author

4.2. The AEO program prevents participation of Vietnamese logistics companies by hard requirements

Findings on the level of AEO and AEO MRA knowledge of Vietnamese logistics companies, it is surprising that “totally not” and “a little” to know about the AEO program

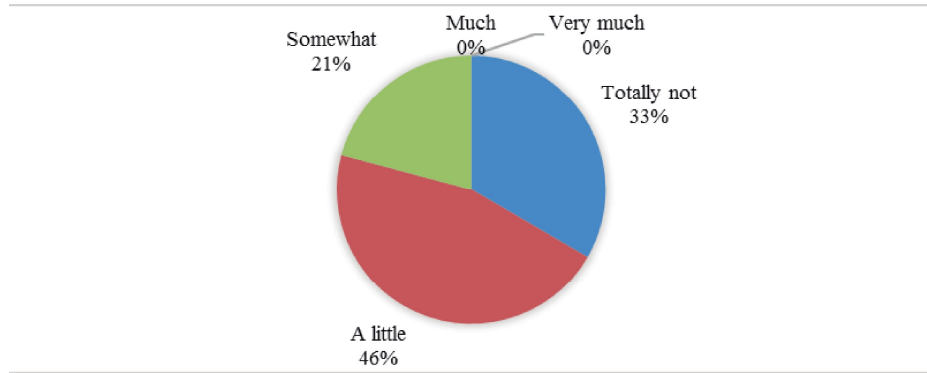
account for the same level of 29.17%, in comparison with 4.17%, a very low rate of “much” and “very much”. However, it is marginally better than AEO MRA perception and understanding which is 0% of “very much” and “much” to know while “totally not” and “a little” are 33.33% and 45.83% respectively (as illustrated in Figure 7 and 8).

Figure 7. Awareness about the AEO program of Vietnamese logistics companies



Source: The author

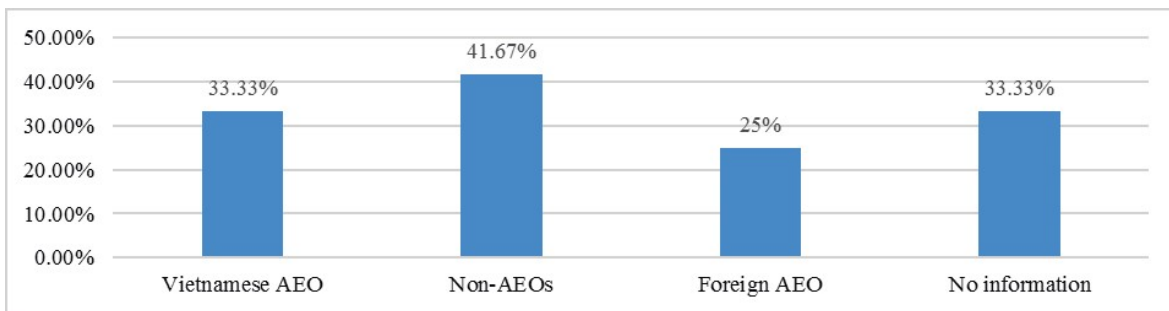
Figure 8. Awareness of Vietnamese logistics companies about the Mutual Recognition Agreement/Arrangement on AEO (AEO MRA)



Source: The author

Also, the survey indicates that one-third (nearly 33.33%) of the logistics companies do not know about AEO status of their partner in the international supply chains as Figure 9 shows.

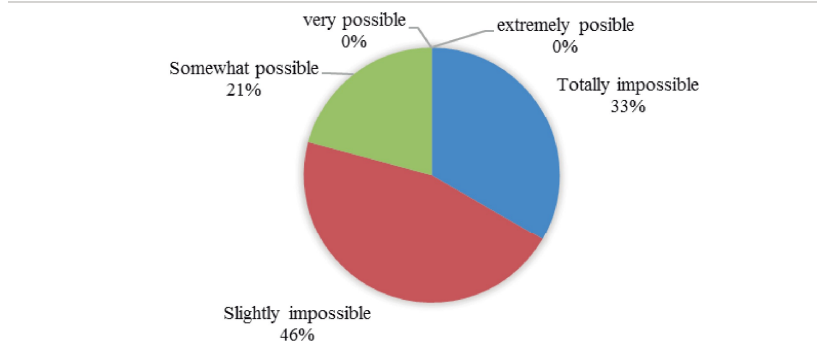
Figure 9. AEO status of the Vietnamese logistics companies' partners



Source: The author

Although, the Vietnamese logistics companies recognize that the AEO program will create a significant gap in competitiveness between an authorized logistics company and non-AEO, 33.33% and 45.83% of the responses respectively indicated “totally impossible” and “slightly possible” to be an authorized enterprise in 2016 or 2017 in comparison to 0% of “very possible” and “extremely possible” (as indicated in Figure 10)

Figure 10. Possibility of Logistics Company in getting an AEO status in years



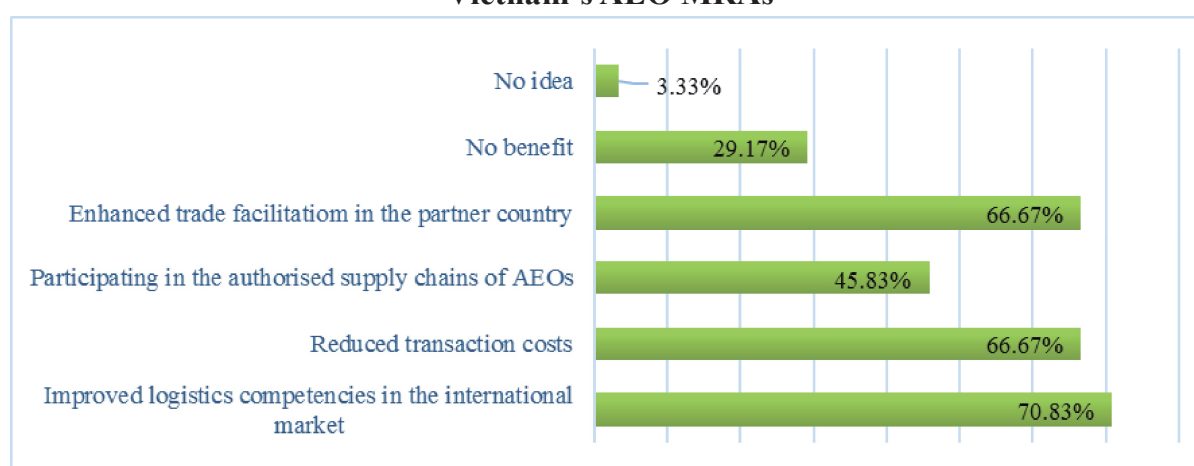
Source: The author

To some extent, the survey results indicate that the current trader-focused AEO program poses big barriers for the logistics companies and is preventing the Vietnamese logistics companies from participating in the supply chains of AEOs in Vietnam and across the globe. It will become more difficult if Vietnam signs the AEO MRA without including

Vietnam's logistics companies in its AEO program.

However, more opportunities to move up in the authorized supply chains will certainly increase logistics competitiveness of Vietnamese logistics companies in the international freight market, according to experts from the Vietnamese AEOs as illustrated in Figure 6.

Figure 11. Expectation about benefits of the domestic logistics companies about Vietnam's AEO MRAs



Source: The author

Last but not least, experts from a number of logistics companies agreed that there is a remote possibility for them to become AEOs in the near future; they expect AEO MRAs to improve logistics competency in the international market through trade facilitation schemes in Vietnam and its signatory partners.

4.3. Potential Vietnam' AEO MRA signatory countries are major trader partners of Vietnam in the world

The survey indicates that expectations of the signatory countries of Vietnam's AEO MRAs that gained the highest rate of responses (United States of America, followed by Japan and Korea) from the survey results in the below Figure 12. Certainly, here are the

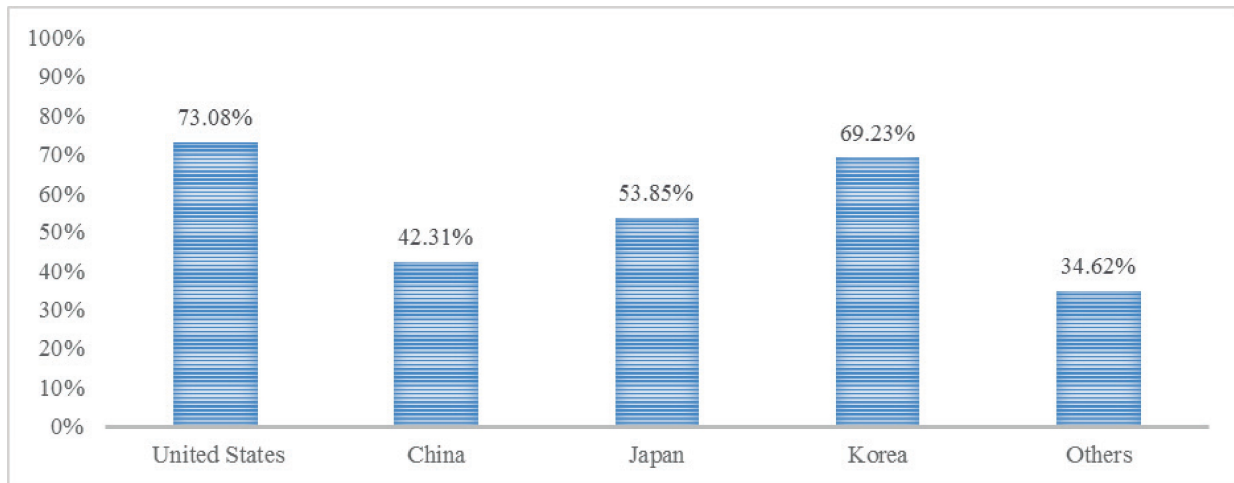
top trade partners of Vietnam in recent years (General Department of Vietnam Customs, 2018).

In summary, this study fully explains the actual phenomenon of Vietnam's logistics performance based on a hypothesis that a trader-focused AEO implementation is challenging the participation and competitiveness of Vietnamese logistics companies.

5. Conclusion

The study analyzes the existing gap between Vietnam's trade-focused AEO program and international standards and practices that is one of the main limiting

Figure 12. Suggestion of the logistics firms about Vietnam's AEO MRA signatory countries in future



Source: The author

factor why Vietnamese logistics companies cannot be qualified as AEO status in Vietnam. It further weakens connectivity between the Vietnamese AEOs and logistics companies due to their low international logistic competency. In conclusion, the Vietnam's AEO scheme is very hard to numerous domestic logistics service providers to participate, and makes the Vietnamese logistics service providers less competitive than the foreign competitors who are trusted partners of the Vietnam's AEO enterprises in global supply chains.

This study gives a good indication that Vietnamese logistics companies need to be

included in the national AEO program in alignment to the WCO's AEO standards. As choices of the responses both logistics and AEO firms, Vietnam should foster AEO MRA negotiations with the Vietnam's major trade partners as United States of America, Japan, Korea that enhances advantages of trade facilitation for the Vietnamese AEOs and their foreign partners in the international supply chains. As well, the AEO MRAs certainly promote bilateral trade flows between Vietnam and these trade partners, then provide the Vietnam's domestic logistics companies with many business opportunities in the international supply chains.

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