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# Assessing the Committed Integration of Vietnam's Distribution Services in AEC 2015

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**Abstract:** The free flow of trade in services is one of the important elements in realizing the ASEAN Economic Community (AEC) in 2015, where there will be substantially no restriction to ASEAN service suppliers in providing services within the region. In complying with the ASEAN Framework Agreement on Services (AFAS) commitment's schedule and AEC Blueprint's spirit, in the next few years, Vietnam will be moving towards opening up its services market, including distribution services, to other ASEAN nations. Recently, Vietnam has witnessed a strong evolvement of distribution services. A wide range of world-leading retail groups such as Metro Cash and Carry, Big C, Parkson, Zen Plaza and Diamond Plaza have run businesses in Vietnam. The Vietnamese government has also reviewed and revised the legal framework related to distribution services to meet AFAS commitments. This paper examines Vietnam's commitments in the distribution sector in the framework of AEC 2015 and uses an indexation method to quantify and assess the commitment level of Vietnam in the field of distribution services. The paper then compares Vietnam's commitment level in distribution services with that of other service sectors and with that of other ASEAN nations in the distribution sector. The paper ends by making some conclusions about the level of Vietnam's integration in distribution services and draws out some implications to further strengthen Vietnam's contribution in realizing the AEC's objective for the free flow of the services trade by 2015.

*Keywords:* Distribution services, AEC, ASEAN, AFAS, Vietnam.

## 1. Introduction

Globalization, the knowledge economy, increasing consumption and the development of the global supply chain have created a strong foundation for the proliferation of distribution services. In many developing nations, distribution services have increasingly contributed to GDP growth, job creation and have been used as a key driver for both production and consumption development (Lakatos et al., 2010). In addition, like other service sectors, distribution services have been considered as a central player in innovative activities and among the fundamental elements of people's wellbeing that nurtures human capital.

Signed by ASEAN Leaders at the 13th ASEAN Summit on November 20th 2007, the ASEAN Economic Community (AEC) Blueprint sets the objective of realizing the

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AEC by 2015 on the grounds of undertaking four pillars: a single market and production base, a highly competitive economic region, a region of equitable economic development and a region fully integrated with the global economy (ASEAN, 2012). Accelerating the free flow of services is regarded as one of the core elements to achieve Pillar 1, where there will be substantially no restriction to ASEAN service suppliers in providing services within the region. Even though ASEAN formalized service trade liberalization through signing the AFAS (ASEAN Framework Agreement on Services) in 1995, with AEC 2015, service trade liberalization has been accelerated with ambitions of removing limitations for Mode 1[(1)] and 2[(2)], lowering progressively restrictions for Mode 3[(3)] and setting the parameters of liberalization for Mode 4[(4)] (ASEAN, 2008, Hiong, 2011). On 28th October 2010 in Hanoi, Vietnam, the newest AFAS Package 8 was signed, revealing the consensus of ASEAN in liberalizing service trade. Together with the five priority sectors[(5)], distribution services have been recognized to be the focus of proposing some concrete model measure of stage-by-stage liberalization since this sector will surely expedite the construction of what is called "a single market and production base" and "a regional supply chain" within ASEAN.

In complying with the AFAS commitments schedule and the AEC Blueprint spirit, Vietnam will be strengthening to open its services market, including distribution services, to other ASEAN nations. Recently, Vietnam has proved to be the potential destination for foreign suppliers with its strategic geographical location, large and youthful population, increasingly fast demand, and high economic growth rate, and thus has witnessed a strong evolvement of distribution services. Besides more than 9,000 traditional markets participating in the distribution market, a series of modern distribution channels such as convenience stores, supermarkets and commercial centers have been established. A wide range of world-leading retail groups such as Metro Cash and Carry, Big C, Parkson, Zen Plaza, Diamond Plaza, Dairy Farm, Aeon and E-Mart have run businesses in Vietnam. The appearance of foreign suppliers has created pressure on domestic suppliers to compete and renovate. Co.opmart, Intimex, Cittimart, Best&Buy and G7Mart are examples of successful domestic brands in the distribution services so far. The franchising activities have gradually developed in Vietnam with about 104 brands applying and implementing for this sub-sector, mainly in restaurants, distributions and banks (Vietnam Commerical University and Economic Committee of National Assembly, 2010).

A diversified distribution system, along with the increasing flows of both wholesale and retail goods and services in recent years has therefore become a driving force for Vietnam to re-orientate and re-structure thisindustry. The Vietnamese government has also reviewed, consolidated, revised and issued the legal framework related to distribution services, helping to increase transparency, and create favorable condition for the nation to fully meet AFAS commitments and accelerate the formation of the AEC, as agreed. However, there are some concerns that it seems Vietnam is opening the distribution market so fast that it will lead to negative effects on the domestic suppliers. In contrast, others argue Vietnam should accelerate its pace of integration into the regional distribution market. This paper will first clarify

(1) Cross-border supply.
(2) Consumption abroad.
(3) Commercial presence.
(4) Presence of Natural Person.
(5) i.e.: transport, e-ASEAN, healthcare, tourism and logistics services.

these contradicting concerns by using an indexation method to quantify and assess the commitment level of Vietnam in the field of distribution services under the framework of the AFAS package 8 (AFAS 8). Then, the paper provides some implications about what Vietnam should do to further strengthen Vietnam's contribution in realizing AEC 2015.

The paper will be organized as follows. After the introduction, the second part briefly explains the methodology employed. The third part provides an overview of Vietnam's commitments in the distribution sector under AFAS 8 in the framework of AEC 2015. The fourth part quantifies and assesses the commitment level of Vietnam in distribution services by calculating the Hoekman index. The fourth part also compares Vietnam's commitment level in distribution services with that of other services sectors and with that of other ASEAN nations in the distribution sector. The paper ends by making conclusions about the level of Vietnam's integration in distribution services and draws out some implications to further strengthen Vietnam's contribution in realizing the AEC objective of the free flow of services trade by 2015.

## 2. Methodology

Measurement of the openness degree of a service sector is difficult because the identification of barriers in the services sector is a hard task. Even if barriers in the service sectors are identified, quantification of such barriers is not straightforward because they are often policies, institutions and legislative regulations, which are less transparent than tariff barriers in the trade in goods. The studies aiming at measuring the openness degree of service sectors have so far been in the early stages of development (McGuire, 2008).

Based on the paper objectives and the availability of information and data about the distribution service in Vietnam, the paper makes use of the indexation method introduced by Hoekman (1995) to analyze the commitment level of Vietnam in distribution services. This method has commonly been used by researchers and experts to measure the degree of commitment in service sectors. Some recent typical researches using the Hoekman method were conducted by Ishido (2011a), Ishido (2011b), Lee and Okabe (2011), Ishido and Fukunaga (2012), and Fukunaga and Ishido (2013).

Hoekman's index is calculated based on the information provided in the service commitments schedule of each country[(6)]. This paper calculates the Hoekman index by Sector, by Mode, by Aspect, and by Country (Vietnam and other ASEAN nations) to: (i) assess the level of Vietnam's commitments in distribution services, (ii) compare the level of Vietnam's commitmentsin distribution services with that of other service sectors of Vietnam and (iii) compare the level of commitment in distribution services between Vietnam and other ASEAN nations. Only specific commitments are considered in this paper.

Note that all of the existing national commitment schedules in AFAS packages adopt GATS-style reporting, which enables direct comparison of the commitment level among sectors, sub-sectors, modes and countries when using the Hoekman indexation method. In the GATS-style commitment schedule, four Modes, i.e. Mode 1 up to Mode 4 and two aspects of liberalization, i.e., Market Access (MA) and National Treatment (NT), are listed in tabular format. In each service sector, the four modes and two aspects of liberalization create eight cells, of which each cell by the Hoekman method is assigned a certain value

(6) See the commitments of ASEAN nations, including Vietnam, on http://www.asean.org/news/item/member-countries-horizontal-commitments-schedules-of-specific-commitments-and-the-list-of-most-favoured-nation exemptions.

based on the committed limitations. The value 1 is assigned for the cell when the sector at issue is "fully liberalized" or "None", implying no restrictions are applied. When the sector at issue is "limited" or "Bound", the value 0.5 is assigned. The value 0 is used when the sector at issue is "Unbound" (the government has not committed to liberalize). The Hoekman index will be the simple average for aggregation. The higher the Hoekman index is, the more liberal the country's service trade commitments are to other FTA members.

## 3. Vietnam's commitments in distribution services under AFAS 8

### *3.1. Commitments by Aspect*

In the schedule of specific commitments for AFAS 8, Vietnam committed to liberalize four sub-sectors including commission agents (04A), wholesale (04B), retail (04C) and franchising (04D) services but did not have any commitment for other sub-sectorsof distribution services (04E). Cigarettes and cigars, books, newspapers and magazines, video records on whatever medium, precious metals and stones, pharmaceutical products and drugs, explosives, processed oil and crude oil, rice, cane and beet sugar are excluded from Vietnam's commitments. This means that foreign suppliers are not permitted to distribute these commodities in Vietnam because these commodities may affect national security, human health and agricultural production. Compared with Vietnam's commitments for AFAS 7, the list of these banned commodities stays the same.

*Regarding limitations on Market Access (MA)*, since 11 January 2010, foreign-invested companies engaging in distribution services in Vietnam will be permitted to engage in the commission agents' (04A), wholesale (04B) and retail (04C) business and franchising (04D) of all legally imported and domestically produced products.The establishment of outlets for retail services (beyond the first one) shall be allowed on the basis of an Economic Needs Test (ENT). Applications to establish more than one outlet shall be subject to pre-established publicly available procedures, and approval shall be based on objective criteria. The main criteria of the ENT include the number of existing service suppliers in a particular geographic area, the stability of market, and geographic scale. In addition, foreign companies are allowed to provide cross-border distribution of products for personal use, and legitimate computer software for personal and commercial use.

*Concerning limitations on National Treatment (NT)*, Vietnam has not stipulated any limitations on foreign suppliers and consumers engaging in commission agents' (04A), wholesale (04B) and retail business (04C) in Vietnam. It implies that Vietnam has in general committed to treat foreign services, and foreign service suppliers and consumers with no less favor than is accorded to domestic services, and domestic service suppliers and consumers. Vietnam has also committed to treat equally foreign cross-border distributors of products for personal use and legitimate computer software for personal and commercial use. However, Vietnam has not committed on foreign individuals, meaning that Vietnam reserves the right to treat foreign individuals differently who are engaged in the above-mentioned three sub-sectors, except for measures indicated in Horizontal commitments[7]. With franchising services (04D), equal treatment will be given to cross-border suppliers (Mode 1) of all products whereas it is required that the chief of the foreign branch engaged in franchising (Mode 3) has to be a resident in Vietnam.

[7] Horizontal commitments stipulate limitations that apply to all sectors and subsectors included in Schedule of the nation.

The initial examination of Vietnam's commitments for AFAS 8 shows that the MA limitations to distribution services in Vietnam are commonly in forms of the types of commodities that are allowed to be distributed. It is a little bit different from other ASEAN countries such as Laos, Indonesia, Malaysia and Myanmar where limitations on foreign suppliers are commonly related to the participation of foreign capital in terms of maximum percentage of foreign shareholding. Previously in AFAS 6, Vietnam adopted limitations on the specific types of legal entity through which a supplier may supply a service and limitations on maximum foreign capital in a joint venture. However, these limitations were removed from AFAS 7, showing the willingness of Vietnam in liberalizing the distribution market and fulfilling its commitments. Vietnam also has a relatively high level of openness to franchising compared to other sub-sectors of the distribution services. However, note that Vietnam is still cautious in liberalizing the distribution market because it has persistently kept the relatively long list of excluded commodities whereas only a few ASEAN countries have done that. In addition, Vietnam's commitments in AFAS 8 have not changed in comparison with that for AFAS 7 one year earlier, implying no additional commitments have been made.

### *3.2. Commitments by Mode*

*Regarding Mode 2,* all of the four committed sub-sectors of distribution services are "fully liberalized" or "None", by which the foreign consumers are not subjected to any limitation when using distribution services in Vietnam. In contrast to Mode 2, Vietnam has not committed to liberalize *Mode 4* or "Unbound", meaning no policies are bounded for the committed sub-sectors.

*With Mode 1,* Vietnam has "partially committed" or "Bound" in the commission agents' (04A), wholesale (04B) and retail (04C) businesses, meaningthat only foreign cross-border distributors of products for personal use and legitimate computer software for personal and commercial use are allowed to operate in Vietnam. However, with Mode 1 in franchising services (04D), Vietnam has committed to "fully liberalize" or "None".

Vietnam has "partially committed" or "Bound" in *Mode 3*. However, as of January 2010, the limitations on the types of commodities allowed in Mode 3 have been removed and so far the only big limitation for Mode 3 is the requirement of an ENT when establishing outlets for retail services beyond the first one.

Comparing Vietnam's commitments in AFAS 8 with the objectives set up by the AEC Blueprint, which requires removing limitations for Mode 1 and 2, lowering progressively restrictions for Mode 3 and setting parameters for opening Mode 4, suggests that generally Vietnam is pushing efforts to realize AEC 2015. However, in the future negotiations, maybe Vietnam should try more in removing limitations for Mode 1, considering the rational application of ENT and gradually decreasing the protection in Mode 4. In the next part, based on the above analysis of Vietnam's commitments in AFAS 8, the paper will calculate the Hoekman index in order to provide in-depth assessment of the commitment level of Vietnam in distribution services and then draw out more detailed implications for Vietnam.

## 4. Level of Vietnam's commitments distribution services

### *4.1. Hoekman index by sub-sector and by country*

Using the commitments schedules for AFAS 8, the Hoekman index results for Vietnam and other ASEAN countries in distribution services are calculated and shown in Table 1.

Vietnam has committed in four sub-sectors from 04A to 04D, of which franchising (4D) has the highest level of liberalization with 4cells fully committed, 2 cells partially committed and 2 cells unbound. This is rationalconsidering thefranchising activity in Vietnam has proliferated in recent years in such sectors as fast food, retail food and drink, retailing, education, restaurants and real estate. In addition, in the post-crisis period, a lot of domestic investors have been seeking new strategies and franchising has been considered as a good option. With the committed opendegree of franchising services ranked 5th after Cambodia, Singapore, Malaysia, and Thailand, it is expected that franchising services of Vietnam will become more attractive to foreign ASEAN suppliers after AFAS 8 and therefore facilitate thepromising development of distribution services in Vietnam when the AEC is established by 2015.

In the schedule, the three sub-sectors including commission agents (04A), wholesale (04B), and retail (04C) have the same commitment level of 0.56, which ranks 7th, 6th and 6th among ten ASEAN nations. The Hoekman index of Vietnam in three sub-sectors 04A, 04B and 04C is higher than the ASEAN averages. Like most of the ASEAN nations, Vietnam did not commit in the other distribution sub-sector (04E).

Table 1: Hoekman index for AFAS 8 by sub-sectors of distribution services in ASEAN

| Nations | 04A | | 04B | | 04C | | 04D | | 04E | | Average | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Index | Rank | Index | Rank | Index | Rank | Index | Rank | Index | Rank | Index | Rank |
| **Vietnam** | **0.56** | **7** | **0.56** | **6** | **0.56** | **6** | **0.63** | **5** | **0.00** | **4** | **0.46** | **4** |
| Brunei | 0.00 | 9 | 0.00 | 9 | 0.00 | 9 | 0.00 | 7 | 0.00 | 4 | 0.00 | 10 |
| Cambodia | 0.75 | 2 | 0.75 | 1 | 0.75 | 1 | 0.75 | 1 | 0.75 | 1 | 0.75 | 1 |
| Indonesia | 0.00 | 9 | 0.63 | 4 | 0.63 | 4 | 0.00 | 7 | 0.00 | 4 | 0.25 | 9 |
| Laos | 0.56 | 7 | 0.56 | 6 | 0.00 | 9 | 0.56 | 6 | 0.00 | 4 | 0.34 | 7 |
| Malaysia | 0.69 | 4 | 0.38 | 8 | 0.38 | 7 | 0.69 | 3 | 0.00 | 4 | 0.43 | 5 |
| Myanmar | 0.63 | 6 | 0.63 | 4 | 0.63 | 4 | 0.00 | 7 | 0.00 | 4 | 0.38 | 6 |
| Philippines | 0.88 | 1 | 0.00 | 9 | 0.38 | 7 | 0.00 | 7 | 0.38 | 3 | 0.33 | 8 |
| Singapore | 0.75 | 2 | 0.75 | 1 | 0.75 | 1 | 0.75 | 1 | 0.00 | 4 | 0.60 | 3 |
| Thailand | 0.69 | 4 | 0.69 | 3 | 0.69 | 3 | 0.69 | 3 | 0.53 | 2 | 0.66 | 2 |
| **ASEAN Average** | **0.55** | | **0.49** | | **0.48** | | **0.41** | | **0.17** | | **0.42** | |

*Source*: The author's calculations based on the commitment tables for AFAS 8.

*Notes:*

- Symbols 04A, 04B, 04C, 04D, 04E denote five sub-sectors of distribution services, which are commission agents, wholesale, retail, franchising and others, respectively.
- Brunei did not commit in the distribution services for AFAS 8.

Totally, Vietnam's Hoekman index in the distribution services attains 0.46. That commitment level, which is lower than 0.5, means that "Unbound" is dominant overall in Vietnam's commitment schedule for distribution services. Vietnam's commitment level for the distribution sector ranks 4th after Cambodia, Thailand and Singapore. The above-average Hoekman index of Vietnam in four of five sub-sectors leads to the fact that Vietnam's overall Hoekman index for the distribution sector is *higher than the ASEAN average* by 0.04, revealing Vietnam's efforts in implementing freer flows of services within the region.

However, Vietnam's commitment level is just a little bit higher than the ASEAN average. Therefore, in the future AFAS packages, Vietnam can contribute more to realizing AEC 2015 by continuing opening franchising services (04D) and promoting freer commission agents (04A). With retail services (04C) that annually substantially create employment, Vietnam should make good preparation before promoting liberalization of this sector – such as making a plan for retail system development and specifying criteria of ENT. In addition, with a cautious approach, Vietnam might consider committing to liberalize other distribution services (04E) such as retailing of motor fuel, books, newspapers, magazines and stationary as has been the experience of some other ASEAN countries. Finally, Vietnam can consider shortening the list of excluded commodities to increase its commitment level.

*4.2. Hoekman index by mode of supply, by aspect and by country*

Table 2: Hoekman index for distribution sectors by aspect and by mode of supply of ASEAN nations in AFAS 8

| **Nations** | **Aspects** | **Hoekman Index** | | | | **Average by aspect** |
|---|---|---|---|---|---|---|
| | | **Mode 1** | **Mode 2** | **Mode 3** | **Mode 4** | |
| **Vietnam** | **MA** | **0.50** | **0.80** | **0.40** | **0.00** | **0.43** |
| | **NT** | **0.50** | **0.80** | **0.70** | **0.00** | **0.50** |
| Brunei | MA | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | NT | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cambodia | MA | 1.00 | 1.00 | 1.00 | 0.00 | 0.75 |
| | NT | 1.00 | 1.00 | 1.00 | 0.00 | 0.75 |
| Indonesia | MA | 0.40 | 0.40 | 0.20 | 0.00 | 0.25 |
| | NT | 0.40 | 0.40 | 0.20 | 0.00 | 0.25 |
| Laos | MA | 0.60 | 0.60 | 0.30 | 0.00 | 0.38 |
| | NT | 0.60 | 0.60 | 0.00 | 0.00 | 0.30 |
| Malaysia | MA | 0.40 | 0.80 | 0.40 | 0.20 | 0.45 |
| | NT | 0.40 | 0.80 | 0.40 | 0.00 | 0.40 |
| Myanmar | MA | 0.60 | 0.60 | 0.30 | 0.00 | 0.38 |
| | NT | 0.60 | 0.60 | 0.30 | 0.00 | 0.38 |
| Philippines | MA | 0.20 | 0.60 | 0.30 | 0.10 | 0.30 |
| | NT | 0.20 | 0.60 | 0.40 | 0.20 | 0.35 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Singapore | MA | 0.80 | 0.80 | 0.80 | 0.00 | 0.60 |
| | NT | 0.80 | 0.80 | 0.80 | 0.00 | 0.60 |
| Thailand | MA | 0.89 | 1.00 | 0.50 | 0.00 | 0.60 |
| | NT | 0.89 | 1.00 | 1.00 | 0.00 | 0.72 |
| **ASEAN Average** | **MA** | **0.54** | **0.66** | **0.42** | **0.03** | **0.41** |
| | **NT** | **0.54** | **0.66** | **0.48** | **0.02** | **0.42** |

*Sources:* The author's calculations based on the commitment tables for AFAS 8.

*Mode 2* is the highest committed because for 04A, 04B, 04C and 40D sub-sectors, Vietnam allowed consumption abroad without any limitations in both MA and NT aspects. The Hoekman index for Mode 2 of Vietnam *is higher than the ASEAN average*. In fact, the removal of limitations in Mode 2 has been agreed with in the region from AFAS 7 and continued in AFAS 8. Therefore, the high level of commitment of Vietnam in Mode 2 shows the efforts of Vietnam to keep up with the regional trend, follow seriously the AEC Blueprints and facilitate ASEAN consumers in the distribution services within the region. In the future, Vietnam might maintain this level of commitment.

The commitment levels of Mode 3 are relatively high and different between the MA and NT restrictions. The relatively high level of commitment in Mode 3 implies that Vietnam aims to attract foreign investment to distribution services to strengthen the development of this sector. In Mode 3, the NT commitment's level is relatively high (0.7), which is *higher than* the *ASEAN average*, because Vietnam commits to treat the foreign commercial presence no less favorably than the domestic one in 04A, 04B and 04C. The only different treatment is that Vietnam requires that the manager of a branch engaged in franchising activity (04D) must be a resident of Vietnam. With the MA restriction in Mode 3, the commitment level is much lower than that of the NT restrictions and a little bit *lower than the* ASEAN average because Vietnam has limitations on the market access of foreign suppliers in terms of product types eligible to be distributed and also the requirement of the ENT when they would like to establish retail outlets beyond the first one. Therefore, in future negotiations, in order to increase the overall commitment level in Mode 3 for the objectives of attracting more foreign investment, Vietnam might think of improving the MA commitments by setting more transparent ENT criteria.

With Mode 1, the commitment level is at 0.50 for both MA and NT and is *lower than* the *ASEAN average*. Vietnam ranks 6$^{th}$ among ASEAN nations in terms of the commitment level in Mode 1. According to commitments in AFAS 8, only foreign suppliers of certain types of products can supply across the border to Vietnam. It shows that Vietnam is cautious in liberalizing Mode 1, which is not consistent with objectives set in the AEC Blueprint. The low commitment level may result from the low technology of Vietnam's suppliers and the FDI encouraging policies in distribution services. It implies that Vietnam firstly should try improving the technology infrastructure so that Vietnam can be more confident in allowing freer cross-border distribution.

Vietnam is very cautious in liberalizing Mode 4. Vietnam's commitment level in Mode 4 is 0, which is *lower than the ASEAN average*. In all sub-sectors of the distribution services, Vietnam has so far not committed to liberalize Mode 4. This trend is very similar to other

ASEAN countries. Therefore, not only Vietnam, but also other ASEAN nations, should be more active in at least setting up parameters for liberalizing Mode 4 in the upcoming AFAS packages. However, the cautious approach should be continued because Mode 4 is sensitive and associated with a series of cultural, economic and diplomatic risks and problems. A rational strategy is that Vietnam should not prevent Mode 4 but liberalize gradually and restrictively.

In summary, Vietnam's distribution services have a higher level of commitment than the ASEAN average because of a much higher commitment in Mode 2 and a little bit higher commitment in Mode 3. Vietnam's Mode 1 and Mode 4's commitments are less liberalized than the ASEAN average. In the future AFAS negotiations, Vietnam should make more effort in liberalizing Mode 1 and Mode 4 and improving commitments in Mode 3's MA restrictions.

*4.3. Hoekman index by aspect and by sector in Vietnam*

Table 3: Hoekman Index of 11 sectors in Vietnam by aspect

| Service sectors | MA | NT | Average |
|---|---|---|---|
| (01) Business | 0.47 | 0.47 | 0.47 |
| (02) Communication | 0.24 | 0.34 | 0.29 |
| (03) Construction | 0.50 | 0.38 | 0.44 |
| **(04) Distribution** | **0.43** | **0.50** | **0.46** |
| (04A) Commission agent | *0.50* | *0.63* | *0.50* |
| (04B) Wholesale | *0.50* | *0.63* | *0.50* |
| (04C) Retail | *0.50* | *0.63* | *0.50* |
| (04D) Franchising | *0.63* | *0.63* | *0.63* |
| (04E) Others | *0.00* | *0.00* | *0.00* |
| (05) Education | 0.28 | 0.28 | 0.28 |
| (06) Environment | 0.47 | 0.75 | 0.61 |
| (07) Finance | 0.47 | 0.53 | 0.50 |
| (08) Health care | 0.50 | 0.50 | 0.50 |
| (09) Tourism | 0.50 | 0.47 | 0.48 |
| (10) Recreation | 0.22 | 0.27 | 0.24 |
| (11) Transport | 0.26 | 0.32 | 0.29 |
| **Average** | **0.39** | **0.44** | **0.41** |

*Sources:* The author's calculations based on Vietnam's commitment tables.

Overall, Vietnam's commitment level for the distribution services attains 0.46, ranking 6th among 11 service sectors. The commitment level of distribution service for MA is 0.43, ranking 6th after construction, healthcare, tourism, environment, and finance services. The corresponding number for NT is 0.50, ranking 3rd after environment and finance services. The commitment levels in the distribution services of Vietnam in both MA and NT aspects are just *a little bit higher than the average levels of Vietnam* respectively. The main reason for the not-so-high commitment levels of both MA and NT in distribution services is that Vietnam has not committed in other distribution services (04E). Therefore, in the upcoming AFAS packages, if ASEAN requires the members to raise the openness degree of the distribution sector, Vietnam can consider making commitments in 04E based on the experience of some other ASEAN countries such as Cambodia, the Philippines, Singapore and Thailand. Liberalization of 04E must also take into consideration the competitiveness of domestic suppliers, the readiness of the domestic distribution market, and national political and economic security. Otherwise, the cursory increase in commitment coverage of 04E will put Vietnam into a passive situation when coping with ASEAN foreign suppliers.

In summary, Vietnam's committed openness degree in distribution services is different between the MA and NT aspects. The commitment of NT is a higher than that of MA, implying that Vietnam is giving more priority to treating equally foreign suppliers. The commitment levels of both MA and NT in distribution services are higher than the respective average levels of Vietnam. Therefore, compared to other service sectors, distribution services of Vietnam seem to be more attractive in both market access and equal treatment, facilitating Vietnam to continuously maintain the high growth rate of the distribution market in the near future.

*4.4. Hoekman index by mode and by sector in Vietnam*

Table 4: Hoekman index of 11 sectors in Vietnam by mode

| Sectors | Mode 1 | Mode 2 | Mode 3 | Mode 4 | Average |
|---|---|---|---|---|---|
| (01) Business | 0.64 | 0.68 | 0.53 | 0.02 | 0.47 |
| (02) Communication | 0.30 | 0.50 | 0.36 | 0.00 | 0.29 |
| (03) Construction | 0.00 | 1.00 | 0.50 | 0.25 | 0.44 |
| **(04) Distribution** | **0.50** | **0.80** | **0.55** | **0.00** | **0.46** |
| (04A) Commission agent | *0.50* | *1.00* | *0.75* | *0.00* | *0.50* |
| (04B) Wholesale | *0.50* | *1.00* | *0.75* | *0.00* | *0.80* |
| (04C) Retail | *0.50* | *1.00* | *0.75* | *0.00* | *0.55* |
| (04D) Franchising | *1.00* | *1.00* | *0.50* | *0.00* | *0.00* |
| (04E) Others | *0.00* | *0.00* | *0.00* | *0.00* | *0.50* |
| (05) Education | 0.00 | 0.80 | 0.30 | 0.00 | 0.28 |
| (06) Environment | 0.63 | 1.00 | 0.81 | 0.00 | 0.61 |
| (07) Finance | 0.51 | 0.94 | 0.54 | 0.00 | 0.50 |
| (08) Healthcare | 0.75 | 0.75 | 0.50 | 0.00 | 0.50 |

| | | | | | |
|---|---|---|---|---|---|
| (09) Tourism | 0.75 | 0.75 | 0.44 | 0.00 | 0.48 |
| (10) Recreation | 0.00 | 0.67 | 0.30 | 0.00 | 0.24 |
| (11) Transport | 0.36 | 0.47 | 0.33 | 0.00 | 0.29 |
| **Average** | **0.40** | **0.76** | **0.47** | **0.02** | **0.41** |

*Sources:* The author's calculations based on Vietnam's commitment tables.

Table 4 shows that Vietnam's commitment levels of distribution services in Mode 1, Mode 2 and Mode 3 *are higher than the respective average commitment levels of Vietnam*. The commitment level of the distribution sector in Mode 1 is 0.5, ranking 6th after healthcare, tourism, business, environment and finance services. Mode 2's commitment level of the sector is at a very high level at 0.8, ranking 3rd after environment and finance services. Mode 3's level of commitment of the sector ranks 2nd and reaches 0.55. Like most of the other service sectors, distribution services have not committed to bound Mode 4.

In comparison with the commitment level of other service sectors and consistent with the AEC Blueprint, it is suggested that Vietnam should set a priority to improve commitments in Mode 1, whose commitment level now only ranks 6th. Vietnam also needs more investment to upgrade the technology infrastructure and better prepare for the domestic distributor to cope with the possible increase in Mode 1. In addition, Vietnam should try to take into consideration embarking on the road towards liberalizing Mode 4 for all of the committed sub-sectors 04A, 04B, 04C and 04D.

## 5. Conclusions and implications

Vietnam has expended some effort to liberalize distribution services and realize AEC 2015 in terms of a freer flow of services within the region. Vietnam is already committed to liberalize four sub-sectors including commission agents (04A), wholesale (04B), retail (04C) and franchising (04D) services. Among the four committed sub-sectors, franchising (04D) has the highest level of commitment. Vietnam commits to treat foreign services, and foreign service suppliers and consumers with no less favor than is accorded to domestic services, and domestic service suppliers and consumers. In terms of commitment by Mode, Vietnam has the highest commitment level for Mode 2 followed by Mode 3 and 1, and a relatively cautious approach to Mode 4. This pattern is consistent with the objectives set up in the AEC Blueprint, showing the efforts of Vietnam to keep up with the regional trend and requirements. However, Vietnam has not committed in the sub-sector of distribution services (04E). In addition, Vietnam is still cautious in liberalizing the distribution market because it has persistently kept the relatively long list of commodities excluded from commitment. Compared to AFAS 7, no additional commitment is made in AFAS 8 for distribution services.

In comparison with other ASEAN nations, Vietnam's committed openness degree of commission agents (04A) ranked 7th, of wholesalers (04B) ranked 6th, of retailers (04C) ranked 6th and franchising services (04D) ranked 5th. The commitment levels of Vietnam in all the above sub-sectors of the distribution are a little bit higher than the ASEAN average. Totally, Vietnam's Hoekman index in the distribution services attains 0.46, which is higher than the average level of ASEAN, and

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ranks 4th after Cambodia, Thailand and Singapore. In terms of mode, Vietnam has a much higher commitment level in Mode 2 and a little bit higher commitment level in Mode 3 whereas Mode 1 and Mode 4's commitments are less liberalized than the ASEAN average. Especially, Vietnam is very cautious in liberalizing Mode 4, which is considered to be sensitive and associated with a series of cultural, economic and diplomatic risks and problems.

In comparison with other service sectors of Vietnam, the distribution services of Vietnam seem to be more attractive in both market access and equal treatment. It is because the commitment level of distribution services for MA ranks 6th and for NT ranks 3rd and they are all a little bit higher than the respective average levels of Vietnam. Overall, Vietnam's commitment level for the distribution services attains 0.46, ranking 5th among 11 service sectors. In terms of Mode, the commitment levels of distribution services in Mode 1, Mode 2 and Mode 3 are all higher than the respective average commitment levels of Vietnam. More specifically, the commitment levels for Mode 1 ranks 6th, for Mode 2 ranks 3rd and for Mode 3 ranks 2nd. Like most of the other sectors, distribution services also haveno commitment in Mode 4.

Through the thorough examination of Vietnam's commitment level of distribution services, it can be seen that the distribution services of Vietnam havea relatively high commitment level compared to other service sectors in Vietnam and to the distribution sector of other ASEAN nations. However, the committed openness is not so high as some people concern. Therefore, in the near future, Vietnam should be persistent with the objectives of liberalization of distribution services. Based on the objectives of the AEC Blueprint and the current situation of the distribution sector of Vietnam, the paper draws some following implications to enable Vietnam to contribute more to realize AEC 2015 in service trade liberalization and promote the domestic distribution service development in the coming time.

*Firstly*, in future AFAS packages, Vietnam can contribute more to realizeAEC 2015 by continuing to open franchising services (04D) dramatically, the sector which is recognized to be promising but less risky than others. Vietnam also can consider promotingfreer commission agents (04A) whose committed liberalization is just a little bit higher than the ASEAN average. In addition, with a cautious approach that takes into account the competitiveness of domestic suppliers, the readiness of the domestic distribution market, and the experience of some ASEAN countries such as Cambodia, the Philippines, Singapore and Thailand and national security, Vietnam might consider committing to liberalize other distribution services (04E) such as retailingof motor fuel, books, newspapers, magazines and stationary. Vietnam also might shorten the list of excluded commodities.

*Secondly*, Vietnam should have a priority to remove limitations in Mode 1 whose commitment level now only ranks 6th domestically and is lower than the average level of ASEAN. The improvement in Mode 1 is also consistent with the AEC Blueprint. However, it is of great importance that Vietnam should well prepare before committing more to Mode 1. Vietnam should develop informatics technology and Internet infrastructure. Vietnam's enterprises should equip themselves with advanced technology and more modern management models to increase their competitiveness. By doing this, the domestic distributors can successfully cope with across-the-border foreign suppliers in Vietnam and at the same time build up their capacity in

providing distribution services across the border to other ASEAN nations.

*Thirdly*, a rational strategy for Mode 4 is that Vietnam should liberalize it gradually and restrictively. Vietnam might take into consideration the roadmap towards liberalizing Mode 4 for all of the committed sub-sectors 04A, 04B, 04C and 04D by firstly setting up parameters for the liberalization. In AFAS 8, Vietnam did not commit Mode 4 for all sub-sectors, except for the commitments indicated in the horizontal schedule. The ENT criteria for Mode 3 must be specified more transparently to promote foreign investment in the distribution sector. Regarding Mode 2, Vietnam can just maintain the existing commitment level.

*Fourthly*, there is a need for a more transparent business environment through reviewing and revising the distribution-related legislative framework. Vietnam also needs to improve propaganda about the AEC, Vietnam's participation in the AEC and also the two sides of opening the distribution. Thanks to that, the domestic business circle understands more about the orientation and objectives of Vietnam in liberalizing the distribution market towards the AEC and therefore prepares itself better for operating in a more completive service market.

*Finally*, Vietnam together with other ASEAN countries must be more active in negotiating and committing in service trade liberalization. The strict compliance to what is committed in AFAS 8 and keeping a close watch on the AEC Scorecard for designing future actions are also of great importance for Vietnam. Finally, committing more must be in parallel with committing well, implying that increasing the quantity of commitments must be conducted at the same time as increasing the quality of commitments. It is a requirement not only for Vietnam but also for other ASEAN nations on the way towards realizing AEC by 2015.

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