Working Paper 2024.1.1.7
- Vol 1, No 1

HIỆP ĐỊNH THƯƠNG MẠI TỰ DO VIỆT NAM - LIÊN MINH CHÂU ÂU (EVFTA) VÀ TÁC ĐỘNG CỦA HIỆP ĐỊNH ĐỐI VỚI DỊCH VỤ LOGISTICS TẠI VIỆT NAM

Nguyễn Mai Hương[1], Lê Diệu Linh, Thái Phương Linh, Phạm Yến Nhi, Nguyễn Thị Mai Anh

Sinh viên K60 Viện Kinh tế và Kinh doanh quốc tế

Trường Đại học Ngoại thương, Hà Nội, Việt Nam

Nguyễn Thị Yến

Giảng viên Viện Kinh tế và Kinh doanh quốc tế

Trường Đại học Ngoại thương, Hà Nội, Việt Nam

Tóm tắt

Bài nghiên cứu này nhằm tìm hiểu sâu về sự phát triển và chuyển đổi của các hoạt động dịch vụ logistics Việt Nam trong bối cảnh thực thi Hiệp định Thương mại Tự do Việt Nam – Liên minh Châu Âu (EVFTA). Dữ liệu thứ cấp liên quan đến ngành logistics, các hoạt động xuất nhập khẩu được nhóm tác giả thu thập từ nhiều nguồn và phân tích để mang lại những góc nhìn toàn diện về tình hình các hoạt động dịch vụ logistics Việt Nam. Do nhiều cam kết khác nhau của các nước thành viên của EVFTA đối với hoạt động mở cửa thị trường và logistics, hoạt động logistics tại Việt Nam đã có sự phát triển đáng kể, ngay cả trong bối cảnh đại dịch Covid 19. Bên cạnh đó, bài nghiên cứu cũng chỉ ra những cơ hội và thách thức mà các doanh nghiệp logistics Việt Nam gặp phải khi EVFTA có hiệu lực. Từ đó, chúng tôi đề xuất một số biện pháp dành cho chính phủ lẫn doanh nghiệp Việt Nam nhằm tăng khả năng cạnh tranh của logistics Việt Nam trên thị trường trong nước và quốc tế.

Từ khóa: EVFTA, Việt Nam, Liên minh Châu Âu, dịch vụ logistics

EU-VIETNAM FREE TRADE AGREEMENT AND ITS IMPACTS ON VIETNAM'S LOGISTICS SERVICES

[1] Tác giả liên hệ, Email: k60.2113150034@ftu.edu.vn

Abstract

This research delves into the transformative landscape of Vietnam's logistics service sculpted by the Vietnam – EU Free Trade Agreement (EVFTA). The objectives include a comprehensive exploration of the consequential impacts on Vietnam's logistics industry of the implementation of EVFTA. Secondary data related to the logistics industry, and export and import activities has been collected and analyzed to bring insight about the logistics services performance in Vietnam. Besides, this research paper also indicates the opportunities and challenges that logistics enterprises in Vietnam have to cope with under the EVFTA, which suggests some measures to increase competitiveness compared with other foreign logistics businesses. In essence, this research contributes to the ongoing discourse on international trade agreements' transformative influence on regional industries, offering a roadmap for stakeholders to capitalize on opportunities and navigate challenges in the dynamic arena of global commerce.

Keywords: EVFTA, Vietnam, EU, logistics services, impacts

Introduction

In the era of globalization, logistics services have evolved into an essential industry, amalgamating high-value activities and fostering substantial economic gains. Vietnam, positioned as a burgeoning business environment with expansive development prospects, has experienced notable economic growth, concurrently elevating its global standing.

While the development of logistics in middle-income nations holds the potential to stimulate trade growth and deliver cost-efficient services, Vietnam's logistics service sector confronts limitations. To thrive in this industry, careful consideration of multiple development factors and strategic directions is imperative.

The Vietnam – EU Free Trade Agreement (EVFTA), effective from August 1, 2020, stands as a pivotal development. Logistics services, with heightened commitments compared to WTO agreements, signify a crucial aspect of this accord. As the EVFTA unfolds over three years, it presents both opportunities and challenges for Vietnam's logistics market. To capitalize fully on this agreement, a nuanced evaluation of development factors and strategic directions is essential.

Chapter 1: Theoretical Framework

1.1. Overview of logistics services

1.1.1. Definition of Logistics services

According to the Council of Supply Chain Management Professionals (previously the Council of Logistics Management), logistics is the process of planning, implementing, and controlling procedures for the efficient and effective transportation and storage of goods including services and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements and includes inbound, outbound, internal and external movements.

In document No. TN/S/W/20 dated June 25, 2004 of the WTO guiding the classification of logistics services to support negotiations to liberalize this field, logistics services are divided into 03 groups:

- *Core freight logistics services:* Services auxiliary to all modes of transport (cargo handling services, storage and warehousing services, transport agency services, and other auxiliary services).

- *Related freight logistics services:*

  - Freight transport services: maritime transport services, internal waterways transport services, air transport services, rail transport services, road transport services;

  - Other related logistics services: technical testing and analysis services, courier services, commission agents' services, wholesale trade services, and retailing services.

- *Non-core freight logistics services:* computer and related services, packaging, management consulting, and related services.

1.1.2. Roles of logistics services

Logistics services play vital roles across diverse sectors, facilitating the smooth flow of goods and services throughout the supply chain. Logistics services offer a range of crucial benefits not only for businesses but also for the whole economy. In business, they are essential for effective supply chain management, ensuring the timely delivery of raw materials, components, and finished goods while optimizing inventory to prevent shortages or overstock situations. (Abby Jenkins, 2022). Good logistics can contribute to the sustainable development of an enterprise.

Moreover, logistics forms the backbone of international trade and global economic growth. Establishing the right environment to conduct trade with different states is crucial as it assists in the transfer of essential goods. Logistics is quite crucial in the sense that it empowers neighboring states to participate in international trade and enables the transfer of technology to enhance their economic status (Skender et. al, 2016)

Logistics services also can contribute to environmental sustainability through green logistics practices, such as route optimization and emissions reduction initiatives, contribute to environmental conservation. Efficient logistics operations also minimize the carbon footprint associated with transportation and distribution.

1.2. Overview of EU-Vietnam Free Trade Agreement (EVFTA)

The EU-Vietnam Free Trade Agreement (EVFTA) represents a new generation free trade agreement between Vietnam and the 27 member states of the European Union. Negotiations for EVFTA concluded officially on December 1, 2015, with the text of the agreement published on February 1, 2016. A significant development occurred on June 26, 2018, when the EVFTA was divided into two agreements: the Trade Agreement (EVFTA) and the Investment Protection Agreement (EVIPA). This marked the conclusion of the legal review process for the EVFTA Agreement. The legal review process for EVIPA was also completed in August 2018.

Both agreements were signed on June 30, 2019. The European Parliament ratified EVFTA and EVIPA on February 12, 2020, while the National Assembly of Vietnam ratified them on June 8, 2020. On March 30, 2020, the European Council approved the EVFTA. The EVFTA officially took effect on August 1, 2020, following the completion of the ratification procedure. Regarding EVIPA, its effectiveness on the EU side is contingent upon ratification by the parliaments of all 27 EU member states.

1.2.1. Main contents of EVFTA regarding logistics services

International Sea Transport

Forming EU shipping companies to establish enterprises operating fleets flying the Vietnamese flag

Similarly to the WTO, under the EVFTA, Vietnam only allows EU shipping companies to establish enterprises operating fleets flying the Vietnamese flag in the form of joint ventures with the total amount of foreign investment in joint ventures up to 70% of the total capital, meanwhile, the percentage of foreign investment in the commitment with WTO is only up 49%.

Maintenance and repair services for ships

In the EVFTA, Vietnam has opened up the maintenance and repair services for ships under CPC 8868* for investors and service providers from the EU. In commitment with the WTO, Vietnam has not made any commitments regarding these services. Specifically, Vietnam completely opens its doors to the EU for the provision of cross-border maintenance and repair services for ships, for consumption abroad.

Supporting Sea Transport Services

In the EVFTA, Vietnam has committed to opening up to four groups of support services for maritime transport, including maritime agency services (CPC 748*), customs clearance, container storage, and container loading and unloading services (CPC 7411).

In terms of commitment levels, compared to the WTO, Vietnam has committed to 1 new service (maritime agency services, CPC 748*), broadened commitments for 1 service (container storage), and maintained WTO commitment levels for the other 2 services (customs clearance, container loading and unloading).

Airway Transport Service

Air transport services are an area where Vietnam has opened up very restrictively in both the WTO and various Free Trade Agreements (FTA). In the EVFTA, Vietnam commits to opening up some services supporting air transport activities but has not made commitments related to the transport of passengers and cargo by air.

Compared to the WTO, in the aviation sector, Vietnam has opened up two new services in the EVFTA: (i) ground services (excluding aircraft maintenance and cleaning, land transportation, airport management, and services ensuring flight operations) and (ii) in-flight catering services.

Supporting all kinds of transport service

Similar to the WTO, in the EVFTA, Vietnam has committed to opening up the market for four groups of services supporting all modes of transport, which include: container loading and unloading services, excluding services provided at airports (part of CPC 7411); warehouse services (CPC 742); freight transport agency services (CPC 748), including freight forwarding services;

other services (part of CPC 749) consisting of bill auditing services, cargo transport brokerage services, warehousing services; sampling and determination of weight, …

Additionally, the EVFTA includes commitments in two support service areas not committed to in the WTO, namely cargo handling services for maritime cargo (CPC 741) and dredging services.

1.2.2. Summary of Vietnam's commitments in EVFTA on obligations of conduct towards investors and service providers from the EU

Commitments on general principles (or obligations) of conduct towards investors and service providers as stated in chapter 8 of EVFTA, are applicable to both Vietnam and the EU, including all types of services, including logistics. These obligations are categorized into two groups:

(1) Obligations applicable to direct investments by EU investors in Vietnam (in both service and non-service sectors).

This group includes four main obligations (market access, national treatment, most-favored-nation treatment, and performance requirements) with the following key contents:

Market Access Obligation: Vietnam is not allowed to impose restrictions on investors, specifically EU investors, regarding the number of enterprises permitted to participate in the market, transaction value/total assets, total operations, foreign capital contribution, the number of recruited personnel, and the legal form of investment.

National Treatment Obligation (NT): Vietnam must not discriminate between different investments, treating EU investors differently from Vietnamese investors in terms of the establishment and operation of their enterprises.

Most-Favored-Nation Treatment Obligation (MFN): Vietnam must not differentiate between investments made by EU investors and those made by investors from other countries in terms of the establishment or operation of enterprises, except in cases explicitly listed.

Performance Requirements Obligation (PR): Vietnam is not allowed to impose mandatory requirements on the establishment and operation of business production by enterprises. This includes specific export ratios, levels of localization, preferences for goods produced within its territory, or technology transfer, among other factors.

(2) Obligations Applicable to Cross-Border Service Provision (Without Investment in Vietnam)

This group comprises 02 main obligations (market access, and national treatment), with the primary content being:

Market Access Obligation: Vietnam is not allowed to impose restrictions on EU service providers regarding the number of service providers, total transaction value/assets, and the total number of services provided.

National Treatment Obligation (NT): Vietnam must not discriminate between EU service providers and Vietnamese service providers.

Chapter 2: The impacts of the EU-Vietnam Free Trade Agreement on Vietnam's Logistics sector

2.1. The overview of Vietnam logistics service before and after EVFTA

2.1.1. The overview of Vietnam logistics service before EVFTA

According to the Vietnam Logistics Report 2018 of the Ministry of Industry and Trade, Vietnam's logistics industry had a growth rate of about 12-14% in those years, reaching a scale of about 40-42 billion USD/year. The logistics industry at that time contributed about 4 - 5% of total annual GDP.

In 2019, the majority of Vietnamese logistics businesses were small and micro-scale. Specifically, among 34,249 operating enterprises, 41.4% of enterprises were micro-sized with less than 5 employees; 53.74% of enterprises were small-scale with less than 50 employees; 4.12% of businesses were medium-sized, with less than 300 employees. The number of large-scale enterprises accounted for only 0.7%. (Vietnam Logistics Report 2019).

At Vietnam Logistics Forum 2018, the majority of businesses were agents, transportation companies with a very small scale of 1-5 trucks, or broker agents, a 2PL company. At the 2PL level, on the freight transport side, more than 75% of transport enterprises in Vietnam have 1-5 vehicles to operate. There are only a few logistics businesses in Vietnam that have real capacity and perform the functions of a true 3PL level. Regarding the number of businesses capable of working at the 4PL level in Vietnam, there were only a small number. As for businesses working at the 5PL level, currently in Vietnam there was no company that reached the 5PL standard level, including foreign businesses.

2.1.2. The overview of Vietnam logistics service after EVFTA

According to the Vietnam Logistics Report 2022, the compound annual growth rate (CAGR) in the period of 2022-2027 is forecasted to reach 5.5%. Moreover, Vietnam is in the top 10 emerging logistics markets in the world in 2023 with a score of 5.52. The country came in 16th for domestic logistics opportunities, 19th for business fundamentals, and 15th for digital readiness. (Agility Emerging Market Index 2023). Vietnam is currently the leading country among ASEAN countries in the number of logistics service businesses licensed by the USA Federal Maritime Commission (FMC).

In recent years, Vietnam's logistics industry has made significant progress with an average speed of 14-16%/year, with a scale of 40-42 billion USD/year. There are about 30,000 logistics enterprises operating across the country, including over 5,000 enterprises involved in international logistics and 69 large and medium-sized logistics centers attracting investment in various fields. Moreover, 89% of the enterprises are Vietnamese enterprises with small and medium scales, while 10% are joint ventures and 1% are 100% foreign-owned enterprises providing cross-border logistics services. The size and scale of logistics enterprises have been improved compared to the time before EVFTA although domestic businesses are still less competitive and smaller than international logistics businesses.

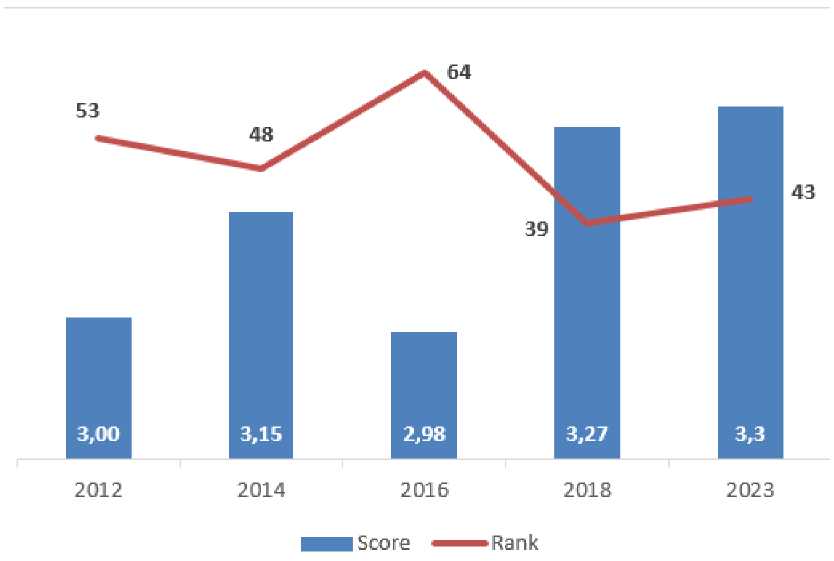

Figure 1. LPI ranking of Vietnam during the period 2012-2023

Source: *World Bank*

In the 2023 LPI rankings, Vietnam ranks 43rd, down 4 places compared to 2018. However, the LPI score increased to 3.3 points compared to 3.27 score in 2018. Noticeably, Vietnam is in the Top 5 ASEAN after Singapore, Malaysia, Thailand and in the same position as the Philippines.

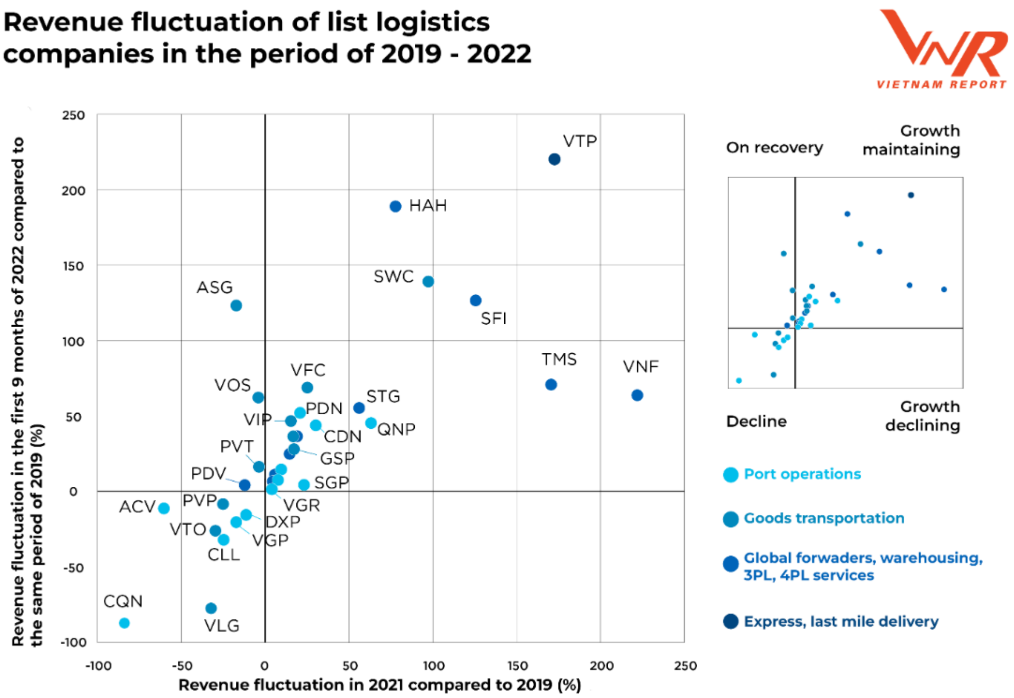

Figure 2. Revenue fluctuations of listed logistics companies in the period of 2019-2022

Source: *Vietnam Report*

According to research results of the Vietnam Report, the business results of most enterprises in the industry are very positive. According to financial reports of 34 logistics companies listed on the stock exchange, 64,7% of enterprises still maintain revenue growth compared to before the pandemic (this figure was 35,3% at the time of the pandemic from one year ago). Statistics also show that 26,5% of businesses have switched from "on recovery" in the period of 2019-2021 to "maintaining growth momentum" in the period of 2019-2022.

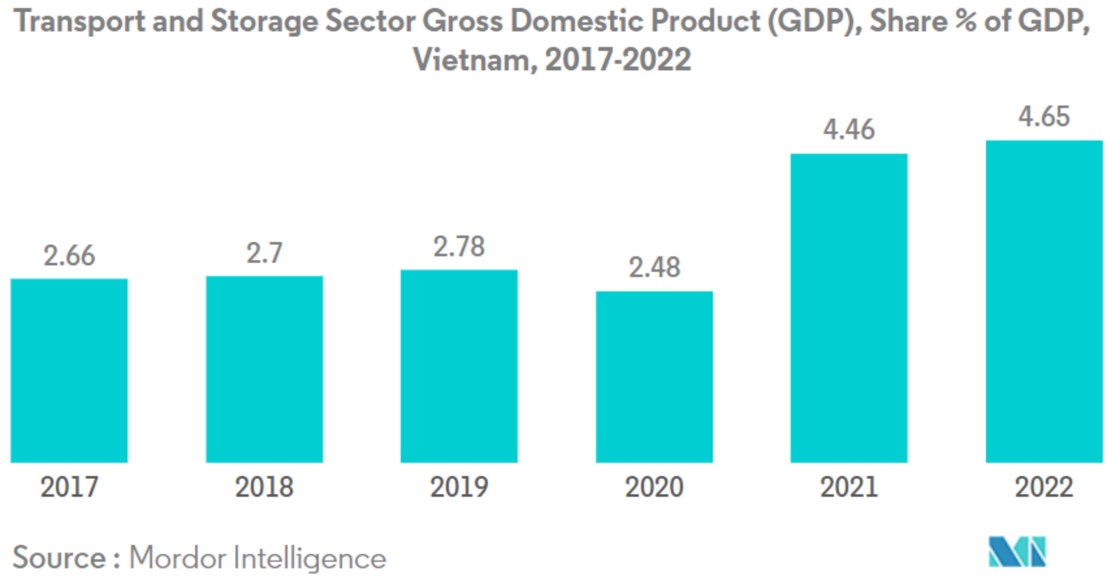

Figure 3. Vietnam’s Transport and Storage Sector Gross Domestic Product (% of GDP), 2017-2022

Source: *Mordor Intelligence*

In 2022, the transportation and storage sector in Vietnam saw impressive growth of 17.08% YoY. This expansion was driven by the establishment of approximately seven thousand new businesses in the sector, marking a substantial increase compared to the previous year. According to the statistics, after EVFTA was officially valid at the end of 2020, the contribution of transport and storage, which are parts of the logistics industry, increased significantly in the 2 years 2021 and 2022, almost doubling the figures in the last year. Despite the severe effect of the COVID-19 pandemic on the whole economy in 2020, Vietnam’s logistics sector still witnessed considerable growth.

Decision No. 221/QD-TTG dated February 22, 2021, by Prime Minister, amended and supplemented Decision No. 200/QD-TTG dated February 14, 2017, on approving the Action Plan to improve competition abilities and to develop Vietnam’s logistics service; has set out task 35: "Promoting the construction of 3PL and 4PL package logistics services". Therefore, the quality of Vietnam's logistics enterprises has more opportunities to improve. Currently, there are famous 3PLs and 4PLs present in Vietnam for a long time such as Damco, APL Logistics (developed from shipping lines), Schenker, Nippon Express, Kuehne&Nagel, ... (developed from forwarding companies). Besides, domestic enterprises also have movements with specific 3PL strategic models: Vinafco, Saigon Newport Corporation, Bac Ky Investment Joint Stock Company, Transimex Saigon, ITL, Gemadept, etc.

2.2. Impacts of EVFTA on Vietnam's logistics services

2.2.1. Improving business efficiency through legal system completion and reform

In order to fulfill the commitments and facilitate taking advantage of EVFTA, the Government and relevant authorities have amended and issued some legal documents, including Decrees, Decisions, and Circulars related to customs, import-export sectors, simplification of business procedures, etc.

Regarding the simplification of customs, The Director-General of the General Department of Customs has signed Directive No. 384/CT-TCHQ on intensifying administrative reforms and simplifying customs procedures towards paperless customs in 2022 (Vũ, 2022) and issued Decision No. 123/QD-TCHQ on setting targets for administrative reforms and simplification of customs procedures to facilitate trade in 2023 (Baochinhphu.Vn, 2023). Although there were current targets and directives without actions and did not totally result from EVFTA, their final objective is trade facilitation and taking advantage of effective FTA.

In terms of business procedure, the highlight of the aim of creating favorable conditions for both domestic and international businesses and investors is Decree No. 45/2020/ND-CP issued by the government on the implementation of administrative procedures in the electronic environment and the Program for Reduction and Simplification of regulations related to business activities for the 2020-2025 period. This is expected to reduce at least 20% of regulations and 20% of compliance costs related to business activities for citizens and enterprises (Thương, 2021). These actions have cut off much time and costs for businesses in general and logistics in particular.

2.2.2. The effects of tariff reduction on Vietnam's logistics industry

A professional logistics service helps enhance the efficiency and effectiveness of import-export operations. In return, import and export derive the demand for logistics service providers. Hence, logistics services and import-export activities are interdependent relationships. The greater the increase in import-export turnover, the higher the demand for logistics services.

Preferential tariff commitment is one of the most crucial in the Agreement in terms of trade facilitation. In EVFTA, the EU commits to eliminate tariffs as soon as the Agreement comes into effect for Vietnamese goods contained in 85.6% of tariff lines, equivalent to 70.3% of Vietnamese export turnover to the EU. On the Vietnamese side, 48.5% of tariff lines are eliminated as soon as the Agreement comes into effect. After seven years, the majority of the tariff lines between Vietnam and the EU will be eliminated, creating a big opportunity for international trade.

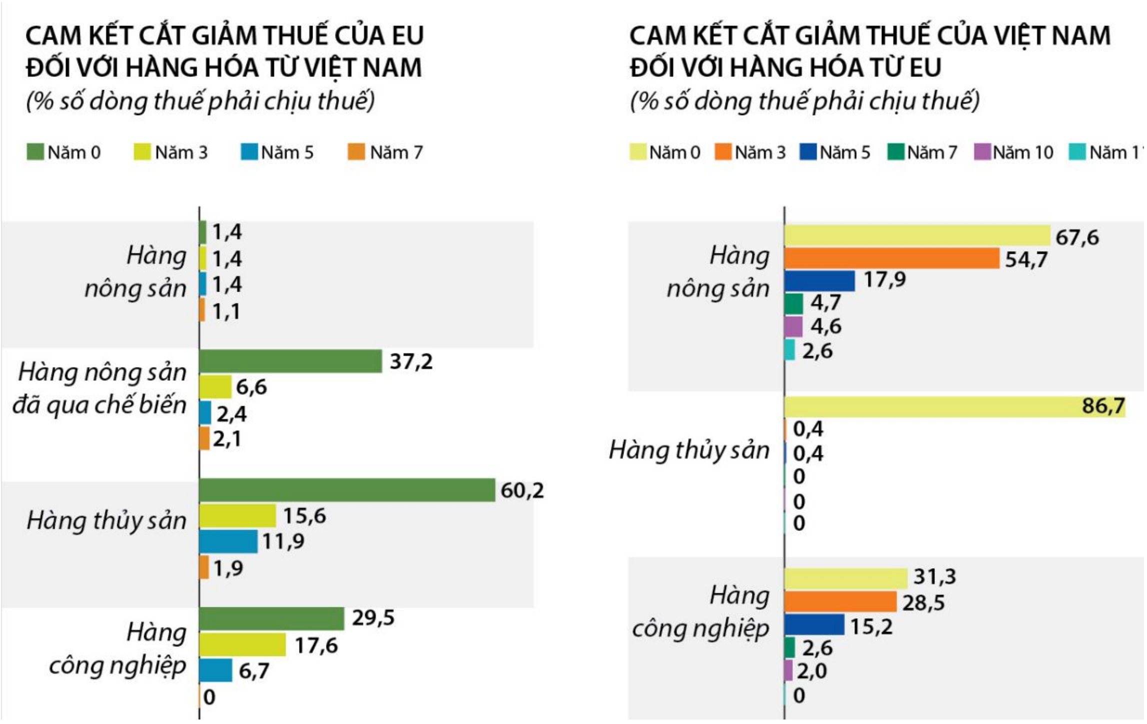

Figure 4. Commitment for tariff reduction of EU and Vietnam after EVFTA

Source: *Delegation of the European Union to Vietnam*

EVFTA took into effect in August 2020, when the COVID-19 pandemic and its consequence of lockdown and supply chain disruption spread much greater; therefore, compared to 2018's, 2019's export value slightly decreased. However, due to tax incentives of EVFTA, 2021 and 2022 witnessed a significant increase in Vietnam's exported turnover to the EU and peaked at USD 46.5 billion in 2022. A quite similar trend can also be seen in import turnover from the EU bloc.

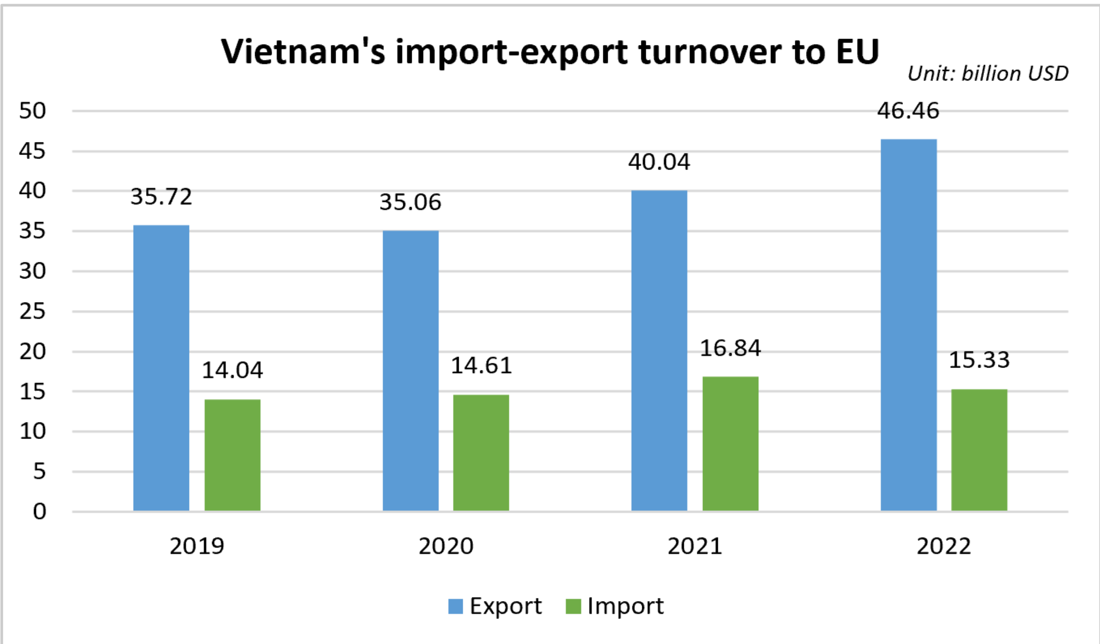

Figure 5. Vietnam's import-export turnover to the EU

Source: *Calculated by the authors based on ITC Trade Map*

According to the Ministry of Industry and Trade, the EU is one of Vietnam's leading trade partners and the third-largest export market as well as the fifth-largest import market with the fact that The Netherlands was always on top 1 of imported value from Vietnam, followed by Germany in second place.

Figure 6 illustrates the contribution level of logistics to Vietnam's GDP. Before effective EVFTA, the level fluctuated around 2.7%; however, when EVFTA became effective, within one year, in 2021, this level rocketed to 4.39% and stood at 4.65% in 2022. This percentage nearly reached the target of 5-6% in Decision No. 221/QD-TTg issued by the Prime Minister on February 22nd, 2021. Therefore, at first glance, EVFTA has a positive impact on Vietnam’s logistics services development in general.

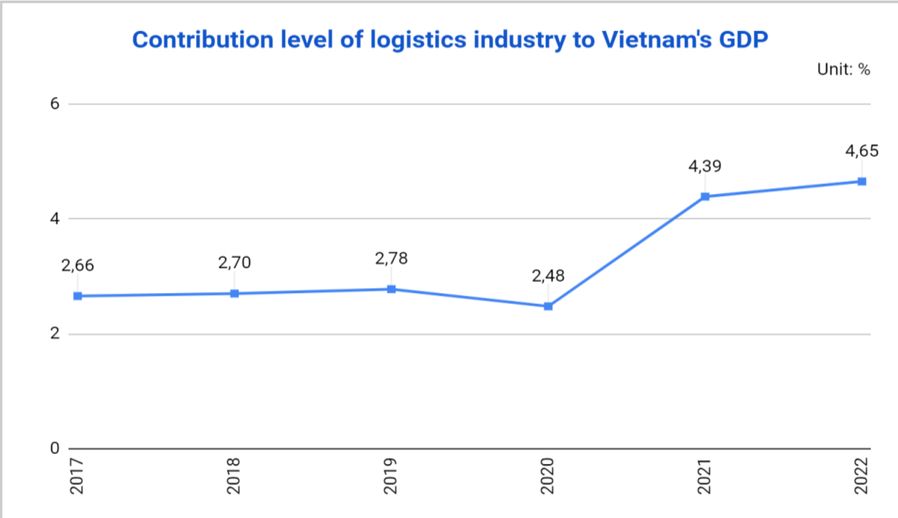

Figure 6. Contribution level of the logistics industry to Vietnam’s GDP

Source: *Calculated by the authors based on General Statistics Office of Vietnam data*

Coming to the more detailed views, for long-haul transportation such as Vietnam - EU, sea is the most popular mode of transport to deliver goods with 53.5% of use and rail is the least one (Figure 7). Hence, to clarify the impacts of EVFTA on transportation, the authors will analyze some effects on both sea and rail transport.

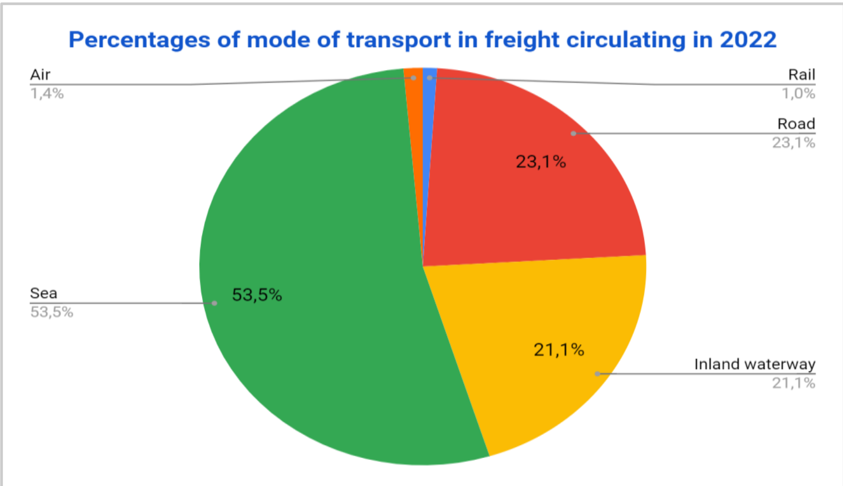

Figure 7. Percentages of mode of transport in freight circulating in 2022

Source: Calculated by the authors based on General Statistics Office of Vietnam data

During the COVID-19 outbreak, the total volume of goods passing through seaports still gradually increased due to the force of EVFTA. The total volume consists of domestic goods, transit goods, imported goods, and exported goods. Due to the objectives of this research and the limitation of getting access to data, the authors collected data from 2018 to 2022 without figures for domestic goods and transit goods. As can be seen in Figure 8, the volume of exported goods transported by sea in 2020 was approximately 176 million tons. Under the one-year effects of EVFTA, the figures reached a peak at 184.5 million tons in 2021.

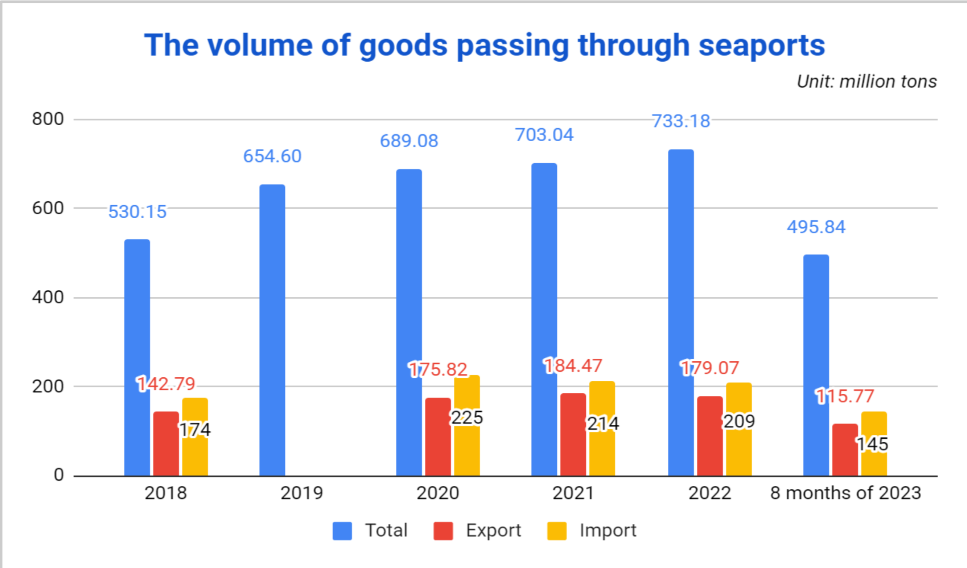

Figure 8. The volume of goods passing through seaports

Source: *Vina Marine Department*

In terms of rail transport, EVFTA has brought many opportunities to open new intermodal railway routes connecting Vietnam to the EU. Since higher demand for transporting goods to the EU, besides sea transport, rail is also a good choice due to its 15-20 days of saving time although its price is more expensive (TTWTO VCCI). To meet the demand, the first Vietnam-China-Europe intermodal railway route was launched at the end of July 2021, connecting Vietnam to China and Belgium. Since then, there have been 47 intermodal train journeys operated, transporting 2,162 standard containers and 9,442 tons of goods.

Moreover, the EU consistently provides high-quality vehicles, machinery, equipment, and technologies for logistics operations. Therefore, Vietnam's commitment to eliminating tariffs on vehicles and equipment imported from the EU is an opportunity for maritime transport businesses to save on investment costs in the infrastructure supplying logistics services and enhance technological capabilities.

With the aforementioned figures, it can be concluded that Vietnam’s logistics industry has been positively impacted by preferential tariffs of EVFTA, which resulted in an increase in export and import turnover. This trend is expected to continue in the future when tariff lines continue to be eliminated. As a result, logistics sectors will expand the market significantly with the higher demand for freight forwarding services, customs clearance, etc.

2.2.3. The effects of EVFTA on attracting foreign direct investment (FDI) in the logistics industry

In general, EVFTA comes into force in the context of the COVID-19 pandemic, thus, although 3-year implementation has seen a rise in total registered capital, it might not recover all as before COVID-19. As in Figure 10, with the effect of supply chain disruption and lockdown from COVID-19, the FDI value of Vietnam stood at a low point of USD 28.5 million in 2020. Within one year of EVFTA, receiving more capital invested from the EU has contributed to an increase in Vietnam's FDI value, to USD 31.2 million.

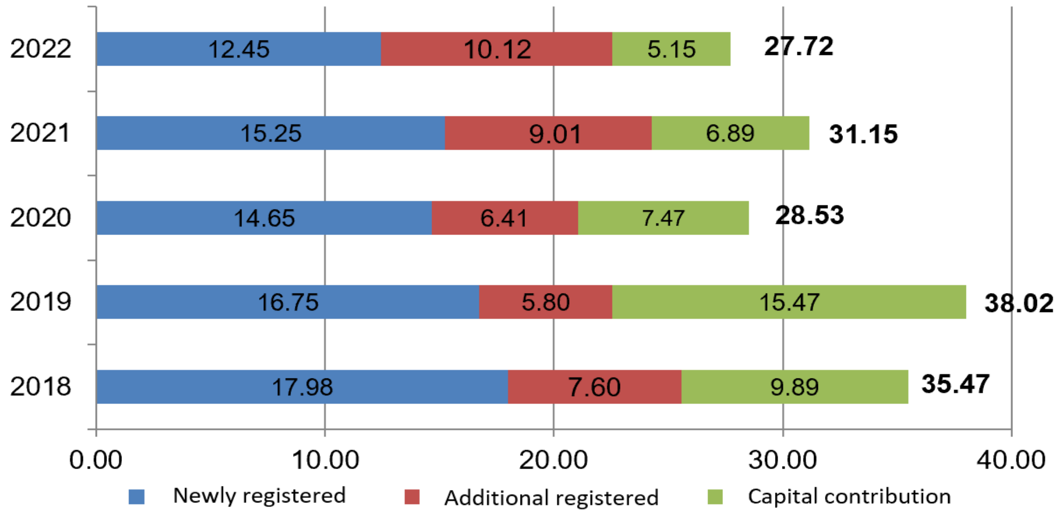

Figure 9. Foreign investment capital registered in Vietnam (Billion USD)

Source: *General Statistics Office of Vietnam*

In terms of transport and storage sectors, the year 2021 has seen a double rise to USD 1,024 million in total capital registered and a nearly six-fold increase to 291 projects in terms of the number of new projects. These noticeable figures have been contributed greater by the EVFTA and FDI from the EU. However, the total value plunged in the next two years. The reasons might be the consequences in post-COVID-19, which is global recession, and ineffective implementation of EVFTA.

After two years, total capital inflows from EU to Vietnam peaked at USD 2,458 million with a growth rate of approximately 75%, compared to 2021 (Table), despite the decrease from 159 to 157 new projects. Therefore, at first glance, the authors can conclude that EVFTA positively affected the FDI capital from the EU to Vietnam in all industries.

Year	Total capital invested from EU to Vietnam	
	Value (million USD)	Growth rate
2018	1,571.29	4.14%
2019	1,504.81	-4.23%

2020	1,375.68	-8.58%
2021	1,405.27	2.15%
2022	2,458.17	74.93%
10 months of 2023	1,710.84	

Figure 10: Total capital invested from EU to Vietnam

Source: *Foreign Investment Agency - Ministry of Planning and Investment*

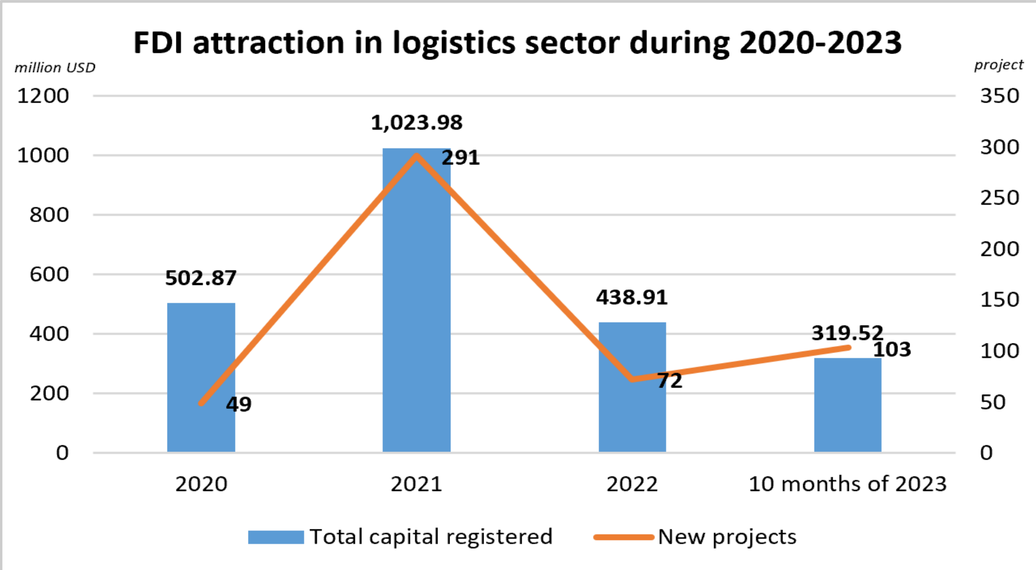

Figure 91. FDI attraction in logistics sector during 2020 - 2023

Source: *Foreign Investment Agency - Ministry of Planning and Investment*

According to HOUSELINK, Foreign Direct Investment (FDI) enterprises tend to concentrate their investments on warehouse facilities and activities supporting transportation. In May 2022, DHL Express, a leading global provider of international express shipping services from Germany, announced its investment in constructing a new Customs Clearance Center near Noi Bai International Airport, through a strategic partnership with ALS Warehouse Services Company Limited. The new center is expected to be launched in early 2023, covering a total area of 4,500 square meters, doubling the size of the previous location (DHL, 2022). Those will bring to Vietnam lots of benefits, including enhancing logistics infrastructure, digital transformation, green logistics with the Net Zero approach, and so on. Based on the analysis, it is argued that EVFTA has already had positive impacts on FDI attractiveness and has the potential to attract much more FDI from the EU.

Chapter 3: Opportunities and challenges for Vietnam’s Logistics sector from the EU-Vietnam Free Trade Agreement

3.1. Opportunities for Vietnam logistics services

Increasing demand for logistics activities

According to research by the Ministry of Planning and Investment, the EVFTA will help Vietnam's export turnover to the EU increase by about 42.7% in 2025 and 44.37% in 2030 compared to the time without the Agreement. At the same time, import turnover from the EU increased but at a lower rate than exports, specifically about 33.06% in 2025 and 36.7% in 2030. Therefore, with the significant development of trade volume, there will be more demand for logistics services, especially international logistics services to facilitate the movement of goods.

Increasing competitiveness regarding cost reduction

Vietnam's commitment to eliminate tariffs on transports, machinery, and technological equipment serving logistics activities from the EU is an opportunity for domestic logistics enterprises to purchase products to serve logistics activities at reasonable prices, which helps to save production costs and enhance self-implementation capacity. Thus, Vietnamese logistics enterprises can gradually increase their competitiveness in the market with better services and lower costs.

Investment and technology transfer

According to the Business Climate Index (BCI) report released by the European Chamber of Commerce in Vietnam (EuroCham) and Decision Lab on April 11, 2023, Vietnam is a destination to strongly attract foreign capital (FDI) in the eyes of European business leaders. Overall, 36% of businesses surveyed ranked Vietnam in their top 5 investment destinations globally. The opening of the market under the EVFTA will encourage EU logistics companies to invest in Vietnam while helping domestic enterprises to develop further in the near future. This influx of capital and technology could lead to the modernization and improvement of logistics infrastructure and services in the country, which lays a firm foundation to boost Vietnam's logistics industry.

Custom and regulatory reforms

The EVFTA includes provisions for customs cooperation and mutual assistance in customs matters. Simplified customs processes, reduced bureaucracy, and improved transparency have facilitated smoother and faster movement of goods. Moreover, streamlining customs procedures can reduce delays and costs associated with importing and exporting goods, benefiting the logistics sector.

3.2. Challenges for Vietnam logistics services

Besides opportunities gained from EVFTA as mentioned above, Vietnam businesses also face some challenges created by this Agreement.

Lower competency in logistics compared to other EVFTA members

A large number of businesses are involved in logistics, but most of them are small or medium-sized with limited capital, information technology application, digital transformation, and human resources. This is the reason leading to high costs, which pose a challenge to Vietnam logistics services' competency, estimated to be roughly 16.8% or 42 billion USD in 2020 (Publishing House for Industry and Trade, 2020) to around 18 percent of GDP in 2023, much higher than in other countries (Vietnam News, 2023). Especially, with the removal of many trade barriers from EVFTA, many competitive European logistics giants such as DHL, Maersk, Keuhne+Nagel,... with more modern technologies, larger size, capital and lower cost can intensify competition and pose a significant threat to the market share of local providers. These European companies, known for their advanced technologies and extensive networks, offer more sophisticated and efficient services, putting pressure on domestic players to match these standards. However, many smaller and medium-sized domestic companies may lack the resources to invest in technological enhancements and digitalization, making it challenging for them to compete effectively. This imbalance in innovation capabilities may lead to European firms capturing market share in Vietnam, potentially impacting the domestic logistics market.

The ability access to the EU market is limited

Vietnamese enterprises face challenges when attempting to enter the European market. While the EU theoretically opens its logistics services market to Vietnamese companies, the actual accessibility is limited. This limitation stems from strong competitors, high-quality service demands, and various indirect legal constraints imposed by the EU. Additionally, most of Vietnam's transportation and logistics firms operate on a small to medium scale with a relatively low level of professionalism, contributing to higher transportation costs compared to other countries. The inadequate transportation infrastructure further exacerbates these challenges.

Furthermore, European companies exporting goods to Vietnam demand a logistics and transportation system that strictly adheres to international standards to ensure the quality of goods. For Vietnamese exports, especially products like agricultural items, woven bamboo, and wooden goods prone to quality changes, there is a need for improved quality assurance in storage and transportation. Despite the potential delay in increased transportation demand for goods with a tax removal schedule after 5 to 10 years, logistics firms must still prepare in terms of vehicles, equipment, and standardized processes to meet the commitments outlined in the EVFTA, posing a challenge for the industry.

Poor infrastructure, especially maritime infrastructure

Inadequate transport infrastructure and connectivity, and domestic enterprises' low capacity and slow technology adoption and digital transformation are hindering the otherwise rapidly growing logistics industry. Transport infrastructure has received large investments in recent years, with new seaports and airports being built; however, the development has not been in lock step and so failed to meet the growing demands of the logistics industry (Vietnam News, 2023). According to Bao Dau Tu, the container ships from Vietnam to Singapore and Hong Kong have a loading capacity of only 1,000 TEU or less, while the container ship fleets worldwide typically have a minimum capacity starting from 12,000 TEU. Furthermore, the ports in Vietnam have insufficient water depth to accommodate large ships. Besides Cai Mep - Thi Vai port, there are few other ports that container vessels with a carrying capacity of 12,000 TEU and more can enter. Consequently, international vessels are gradually bypassing Vietnamese ports, and Vietnameses companies will miss out on business opportunities

Chapter 4: Recommendations for Vietnam’s logistics services

4.1. Reducing logistics costs and enhancing competitive capability

To begin with, the government should expedite efforts to refine the legal framework for logistics in line with Vietnam's current development trends. Comprehensive administrative and organizational reforms are needed, focusing on customs procedures, specialized inspections, export-import management, and rules of origin. The timely implementation of customs declaration digitization and the integration of e-commerce into logistics system operations are essential steps. Additionally, the one-stop mechanism according to the EVFTA should be implemented.

In parallel with prioritizing market share in transportation for domestic enterprises, enhancing competitive capability remains a long-term priority. The government should: incentivize domestic capital loans through adjusted favorable interest rates for the industry; intensify policies supporting Vietnamese enterprises in fundraising and new investment; improve the technical condition of shipping vessels; reducing import-export taxes for parts and materials that Vietnam has not produced or is not internationally recognized for inspection; implementing income tax exemptions or reductions for seafarers. Additionally, the Vietnam Logistics Service Enterprise Association needs to strengthen connections and collaboration among industry enterprises to share advantages and reduce logistics costs. Collaboration with academies, universities, and vocational colleges for high-quality workforce training and development is also crucial. From the business perspective, prioritizing the enhancement of unloading capacity is crucial to reduce vessel turnaround time and save costs for storage and port fees.

4.2. Enhancing market access opportunities

To broaden market entry into Europe, Vietnamese logistics companies can extend their efforts beyond improving service quality and professionalism. Proposed measures for businesses include: strategically acting as temporary agents or collaborating as subcontractors with major firms; actively participating in industry associations and shippers' associations to gain negotiation advantages with transportation companies; contributing vessels for mid-range routes with major international shipping companies; cultivating relationships with select shipping companies to proactively negotiate chartering rights with buyers in international transactions; astutely leveraging opportunities for joint ventures with EU investors and partners; thoroughly exploring channels to enhance collaboration with diverse logistics service providers; establishing representative offices in the EU to proactively attract discerning customers and increases visibility among EU enterprises.

4.3. Improving the transportation infrastructure

Strategic focus on investment and the solicitation of contributions is essential to enhance the integrated infrastructure system and specialized transportation vehicles. Specifically, the government should expedite and closely monitor the refinement of the road and narrow-gauge railway system to alleviate transportation costs. Furthermore, the modernization of port infrastructure to accommodate the unloading of specialized vessels is crucial, including enhancing the reception capacity of the rail route to deep-water ports such as Lach Huyen, Cai Mep-Thi Vai.

Additionally, the strategic extension of berth lengths is imperative to harmonize Vietnamese seaport construction with the ongoing trends in global containerization.

Conclusion

In the context of globalization, the Vietnam – EU Free Trade Agreement (EVFTA) represents a significant milestone. Our analysis aims to enhance comprehension of the EVFTA provisions and assess its implications on the development of Vietnam's logistics sector. It encompasses aspects such as optimizing operational efficiency, tariff reduction, Foreign Direct Investment (FDI) attraction, fostering technology transfer opportunities, and comprehensive industry enhancement. Furthermore, the analysis sheds light on challenges related to competitive environmental concerns, capital accessibility, and stringent requirements imposed by major markets. Ultimately, this analysis imparts foundational knowledge to assist businesses in adeptly navigating and implementing new governmental regulations. It also serves as a basis for a thorough analysis of factors influencing their business operations, presenting contemporary solutions for both governmental bodies and enterprises within the sector.

References

Abby Jenkins. (2022), "Logistics for Business Defined: Importance Role & Benefits", *Netsuite.*

Als. (n.d.), "Research Vietnam logistics market according to Vietnam Report in 2022", https://als.com.vn/en/research-vietnam-logistics-market-according-to-vietnam-report.

Baochinhphu.Vn. (2023), "Giao chỉ tiêu cải cách, đơn giản thủ tục hải quan năm 2023", *baochinhphu.vn,* https://baochinhphu.vn/10-nhom-chi-tieu-ve-cai-cach-don-gian-hoa-thu-tuc-hai-quan-nam-2023-102230202180816873.htm.

Baochinhphu.Vn. (2023), "Việt Nam tăng hạng trong nhóm 50 thị trường logistics mới nổi toàn cầu", *baochinhphu.vn,* https://baochinhphu.vn/viet-nam-tang-hang-trong-nhom-50-thi-truong-logistics-moi-noi-toan-cau-102230511181118246.htm.

Baodautu.Vn. (n.d.), "Vận tải biển loay hoay thực thi EVFTA", https://baodautu.vn/van-tai-bien-loay-hoay-thuc-thi-evfta-d127530.html.

DHL. (n.d.), "DHL Express đầu tư Trung tâm khai thác cửa khẩu mới tại Hà Nội trước nhu cầu vận chuyển quốc tế ngày càng tăng tại miền Bắc", https://www.dhl.com/vn-vi/home/bao-chi/thu-vien-bao-chi/2022/03182022.html.

Đức, N.H. (2020), "Vietnam Logistics 2019: Challenges and potential of prospective growth, https://viracresearch.com/vietnam-logistics-2019-challenges-and-potential-of-prospective-growth/.

Home | Logistics Performance Index (LPI). (n.d.), https://lpi.worldbank.org/.

Hưng, H. (2023), "Vận tải đường sắt Việt Nam-Trung Quốc-châu Âu tăng trưởng mạnh", *Báo Nhân Dân Điện Tử,* https://nhandan.vn/van-tai-duong-sat-viet-nam-trung-quoc-chau-au-tang-truong-manh-post732915.html.

Kunaka, C., Mustra, M.A. & Sáez, S. (2013), “Trade Dimensions of Logistics Services: A proposal for Trade Agreements”, *Journal of World Trade,* Vol. 47 Iss. 4, pp. 925–950.

MPI. (n.d.), “Brief on foreign direct investment of the first eight months of 2019”, https://www.mpi.gov.vn/en/Pages/2019/Brief-on-foreign-direct-investment-of-the-first-ei-428700.aspx.

MPI. (n.d.), “FDI attraction situation in Vietnam and Vietnam’s overseas investment in the first ten months of 2023”, https://www.mpi.gov.vn/en/Pages/2023-11-8/FDI-attraction-situation-in-Vietnam-and-Vietnam-s-f2icst.aspx.

Phóng, B.S.G.G. (2023), “36% doanh nghiệp châu Âu xếp Việt Nam trong nhóm 5 điểm đến hàng đầu; Vietnam.vn - Nền tảng quảng bá về Việt Nam”, https://www.vietnam.vn/en/36-doanh-nghiep-chau-au-xep-viet-nam-trong-nhom-5-diem-den-hang-dau/.

Skender. et al. (2016), "The Role Of Logistics Service Providers In International Trade", *Business Logistics in Modern Management, Josip Juraj Strossmayer University of Osijek, Faculty of Economics, Croatia*, Vol. 16, pp. 21-37.

TTWTO VCCI. (n.d.), “(FTA) Hai năm thực thi EVFTA: Kết quả thu hút đầu tư nước ngoài từ EU vào Việt Nam”, https://trungtamwto.vn/chuyen-de/23278-hai-nam-thuc-thi-evfta-ket-qua-thu-hut-dau-tu-nuoc-ngoai-tu-eu-vao-viet-nam.

TTWTO VCCI. (n.d.), “(FTA) Summary of Vietnam-EU Free Trade Agreement (EVFTA)”, https://wtocenter.vn/chuyen-de/12781-summary-of-vietnam-eu-free-trade-agreement-evfta.

TTWTO VCCI. (n.d.), “(Trung tâm WTO và Hội nhập) Cẩm nang doanh nghiệp: EVFTA và Ngành Logistics Việt Nam”, https://trungtamwto.vn/chuyen-de/14709-cam-nang-doanh-nghiep-evfta-va-nganh-logistics-viet-nam.

TTWTO VCCI. (n.d.), “Vận tải đường sắt từ Việt Nam đi châu Âu ngày càng mở ra nhiều hướng”, https://trungtamwto.vn/tin-tuc/18689-van-tai-duong-sat-tu-viet-nam-di-chau-au-ngay-cang-mo-ra-nhieu-huong.

Tuyetnhungtk. (2023), “Vietnam named among top 10 places in the 2023 Agility Emerging Markets Logistics Index”, *https://en.dangcongsan.vn*, https://en.dangcongsan.vn/daily-hot-news/vietnam-named-among-top-10-places-in-the-2023-agility-emerging-markets-logistics-index-603641.html.

Tương, N.D.M.N. (2021), “Nâng cao chất lượng dịch vụ logistics”, *Tin Tức vlr.vn*, https://vlr.vn/nang-cao-chat-luong-dich-vu-logistics-5718.html.

Thông, N.B.T. (2023), “Báo cáo thị trường Logistics: Tổng quan tại Việt Nam 2023”, *CleverAds - Make customers come to you*, https://cleverads.vn/blog/bao-cao-thi-truong-logistics/.

Thuvienphapluat.Vn. (n.d.), “Nghị định 163/2017/NĐ-CP quy định kinh doanh dịch vụ logistics mới nhất”, https://thuvienphapluat.vn/van-ban/Thuong-mai/Nghi-dinh-163-2017-ND-CP-quy-dinh-kinh-doanh-dich-vu-logistics-321911.aspx.

Thuvienphapluat.Vn. (n.d.), “Quyết định 221/QĐ-TTg năm 2021 sửa đổi Quyết định 200/QĐ-TTg phát triển dịch vụ logistics”, https://thuvienphapluat.vn/van-ban/Thuong-mai/Quyet-dinh-

221-QD-TTg-nam-2021-sua-doi-Quyet-dinh-200-QD-TTg-phat-trien-dich-vu-logistics-465626.aspx.

Thương N.H.B.C. (2020), "EVFTA và cơ hội cho ngành logistics", *Báo Công Thương Điện Tử, Kinh Tế, Chính Trị, Xã Hội*, https://congthuong.vn/evfta-va-co-hoi-cho-nganh-logistics-138292.html.

Thương T.D.B.C. (2018), "Chỉ có số ít doanh nghiệp logistics Việt đạt cấp độ 3PL", *Báo Công Thương Điện Tử, Kinh Tế, Chính Trị, Xã Hội*, https://congthuong.vn/chi-co-so-it-doanh-nghiep-logistics-viet-dat-cap-do-3pl-103818.html.

Thương, C.T.T.Đ.T.B.C. (2021), "Một năm thu quả ngọt từ Hiệp định EVFTA", https://moit.gov.vn/tin-tuc/thi-truong-nuoc-ngoai/mot-nam-hai-qua-ngot-tu-hiep-dinh-evfta.html.

Vietnam Freight and Logistics market Insights. (n. d.), Available at: https://www.mordorintelligence.com/industry-reports/vietnam-freight-logistics-market

Vietnamnews. (2023), "High logistics costs hurt VN economic competitiveness", https://vietnamnews.vn/economy/1582363/high-logistics-costs-hurt-vn-economic-competitiveness.html

VIRAC. (2023), "Will Vietnam's logistics industry make a breakthrough in 2023 by seizing the opportunity?", https://viracresearch.com/logistics-market-prospect-in-2023/.

Vlr.Vn. (2023), "Logistics and import - export; The battle; in the global competition", *Tin Tức vlr.vn*, https://vlr.vn/logistics-and-import-export-the-battle-in-the-global-competition-14458.html.

Vna. (2020), "Logistics service industry ready for opportunities from EVFTA | Business | Vietnam+ (VietnamPlus)", *VietnamPlus*, https://en.vietnamplus.vn/logistics-service-industry-ready-for-opportunities-from-evfta/177533.vnp.

Vũ, P.T. (2022), "Đẩy mạnh cải cách hành chính, đơn giản hóa thủ tục hải quan", *https://www.qdnd.vn*, https://www.qdnd.vn/xa-hoi/tin-tuc/nganh-hai-quan-day-manh-cai-cach-hanh-chinh-don-gian-hoa-thu-tuc-huong-toi-phi-giay-to-nam-2022-685659.