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The Operation of Duty-Free Business in Vietnam - Actual Situation Analysis & Suggestions for Development

The study case of duty-free shops at Tan Son Nhat International Airport and
Noi Bai International Airport

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ABSTRACT

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“Duty Free Shop” is a concept that has become popular worldwide and familiar with people in Vietnam. This type of business is considered to be one form of foreign trade activities, which support the circulation of commodity domestically and internationally and can co-operate with other industries. Aviation and tourism are the two industries that have an observable relation with duty-free business. In this thesis, the author will discuss about the current situation of duty-free business in Vietnam, investigate the flipside of the co-operation between duty-free business and other industries and give some suggestion for solutions to that end.

To practically approach the current situation of duty-free business in Vietnam, the author will analyse the case study of duty-free shops at two biggest Vietnamese international airports: Noi Bai International Airport and Tan Son Nhat International Airport. In addition, interviews with several passengers at these airports together with will support the authentication of the topic’s content. The case study and interviews are the main components of the research method.

Information that is used to support the content of this thesis is collected from different and reliable books, newspapers, magazines, articles, as well as from national site of Vietnamese government and annual reports of mentioned companies. This work is just the initial proposal for the change. Further research should be taken for proper modification as measurement to conduct the best result.

Keywords: Duty-Free Business, Aviation, International Airports, Vietnam, National Economy, Research, Actual Situation, Suggestions

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Terms and Abbreviations

DFS **Duty-Free Shop(s)**

NASCO **NORTHERN AIRPORT SERVICES COMPANY**

SASCO **SOUTHERN AIRPORT SERVICES COMPANY**

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1 BACKGROUND

1.1 THE NECESSITY OF THE THESIS

Duty-free shops (DFS) or tax-free shops are retail outlets where consumers can buy goods without paying local or national taxes in a condition that the buyers have to take them out of the country. Duty Free products are found at international airports, ports, cruise ships, border towns, on-board international flights and some stores in urban areas as well. The range of products is variable with tobacco and alcohol, cosmetics, fragrances and luxury goods, chocolates and sweets, among others. (World Duty Free) These DFS started from being small stores of souvenirs for tourists to being huge malls and take a significant role at the airports. Since the operation of these retail outlets, airports started to enjoy the significant profits as a result. Many countries and companies were interested spent investment on the duty-free market because it was supposed to be an opportunity for success and relative expansion (Thompson, 2007)

The Socialist Republic of Vietnam is an eastern country on the Indochina Peninsula in Southeast Asia with the South China Sea along its coast. This country has sequenced trade liberalization since the early 2000s and has become increasingly integrated into the world economy, particularly since its effort to join the World Trade Organization in 2007 (BBC News, 2007). The economic growth rate of Vietnam has been remarkable since the country applied its Doi Moi policies. This was an effective economic policy that has made a shift for Vietnam from a highly centralized planned economy to a mixed economy that uses both directive and indicative planning through five-year plans. After that period, Vietnam's economy has experienced rapid growth and been integrated in to the global economy (BBC News, 2007). As a result, this eastern country has been able to join the world financial community, broaden its foreign trade relation and actively take part in international economic organizations as well as regional economic associations. By disclosing and renovating the economy toward the globalization, Vietnam has the ability to widen the trade cooperation in large markets and with economic great nations, diversify trade activities. In addition, to keep up with the increasing de-

mands, the country needs to speed up and strengthen the circulation of goods and services. Foreign trade is an essential element to satisfy this requirement. To maximize the profit from foreign trade, Vietnam needs to focus not only on enhancing the effectiveness, but also diversifying the forms and models of the operation activities of foreign trade. Duty-free business appearance in Vietnam is one proof of this diversification.



Picture 1. Duty Free Shop at Noi Bai International Airport (source: Kha Thinh)

Duty-free business has been formed in the world since 1947 and been operated in Vietnam since 1990. In the past, this business concept was totally unfamiliar with the old highly centralized planned economy of this communist country, but after that duty-free business was gradually recognized as an effective trade activity that helped motivating the commodity circulation and contributed to the general development of the national economy. It particularly correspond the trade liberalization trend of most of the countries in the world nowadays. Many countries have realized the benefits of duty-free and paid attention on advancing this type of business to attain more achievements. In Vietnam, it is not anymore an exception to develop the system of duty-free shops. This business model has already had a firm foundation in the national development strategy with one of the starting points is

the aviation industry. Among the industries that have significant impacts on the development of Vietnam, aviation always has a stable and important role in the economy, even in the past when the country still held the centralized planned economy. That explains why duty-free business was established at the airports earlier than other places in Vietnam. This industry has an observable relation with the appearance of duty-free shops at the airports and they have created positive impacts to each other as well as the general development of the country. However, beside the great accomplishment and success, there are still some issues and weaknesses that need to be fixed or changed to create the strategic evolution of duty-free business in specific and the progression of aviation services in Vietnam. With the awareness of the urgent necessity to improve and develop duty-free business and duty-free shops in the airports and navigate a direction for the development systematically, the thesis will discuss about the operation of DFS in Vietnam generally and at two biggest international airports: Noi Bai International Airport and Tan Son Nhat International Airport. The business performance of DFS at these airports is supported with figures and numbers. Through this illustration and analysis related to actual situation, the author will suggest some solutions to repair the existing weaknesses and make recommendations for the development of DFS in Vietnam.

1.2 RESEARCH QUESTIONS

To make clearance of the thesis topic, the author has recognized the importance of defining the research questions. In accordance to Robert K. Yin, an American social scientist who is famous for his work on case study research as well as on qualitative research, identifying the research questions can be considered the most essential step when conducting a research study. The answers of these research questions will be the central elements of both quantitative and qualitative research and lead the author to more specific concepts and ideas that build up a concrete plan for the research. A primary categorization scheme for the types of questions is: “who”, “what”, “where”, “how” and “why” (Yin, 2009, p.9). If research questions focus mainly on “what” questions, some types of “what” questions are exploratory. This type of question is a justifiable rationale for conducting an ex-

ploratory study, the goal being to develop pertinent hypotheses and propositions for further inquiry (Ivan, 2014).

First, for the reader to understand the concept of DFS, the thesis must answer two questions:

What is Duty-Free Shops?

How have they been operated in the world and in Vietnam?

What roles do they play in the global and national economy?

Second, to illustrate the performance of duty-free business since its appearance, the thesis answers to:

How much is accounted by duty-free business in the global market?

What are the results of establishing duty-free business in the world and in Vietnam?

What are the strengths and weaknesses of duty-free business?

Third, to make any suggestions for solutions and development, the author needs to base on the shortcomings of this business model. So the questions will be:

What are the shortcomings of duty-free business?

What are the shortcomings of the conditions?

Which parts of the business model need to be fixed?

What can we suggest to make adjustment and progression?

1.3 RESEARCH METHODS

1.3.1 Basic methods theories and characteristic

When speaking about research methods, we usually start mentioning from analysis methods description together with analyses themselves. The concept of analysis is in relation with a very dynamic process of breaking a complex topic or substance into smaller parts in order to gain a better understanding of it. To reach at any conclusion, the analysts have to brainstorm, pick and choose different ideas,

try out any possibility that comes up, select and eliminate ideas and expand upon others (Yin, 2009, p.9.) The word “analysis” comes from the language of Ancient Greek where it means “a breaking up” (Harper, 2001-2012). It is considered as a process of examining an idea, a topic, an item, a thing or a fact, et cetera, in order to figure out the essence and value as well as the function of its. To perform an analysis, a researcher or an analyst can separate the study object into different parts or components, after that check out each component one by one to identify their properties and dimensions. At the end, the study object can be identified and concluded as a whole according to the knowledge collected from the understanding of those components. On another hand, the study object can also be approached by a reversed way. That is to begin with the whole object at first, make observation to understand the substance and the function of the object. Then the next step is to separate the study object apart to examine its various components and their connection with the object as a whole (Corbin, Straus, 2008, p.46.)

1.3.2 Data collection method

Primary data is new data generated from the primary resources through questionnaire, interviews or observations to find answers related to specific research project. Whereas secondary data is raw data which already collected by someone else, either for some general information purpose, such as government census or another official purpose or for a specific research project. (Blaikie, 2003)

The author of this thesis collected primary data from interviews and secondary data from books, articles and news. Besides, company reports, histories and financial statements are also being used as supporting data to findings from primary data. Annual reports of NASCO and SASCO were used to provide some financial tables and figures.

Interviews supporting this topic are conducted with standardized questions. As personal privacy is strongly emphasized, it is very important to get the consent of the interviewee before an interview proceeds. Interviewees should be informed of their rights and how would the outcome of the interviews to be utilised. Interview-

ers and interviewees should also reach a consensus regarding the level of confidentiality and disclosure of the interviewees' identity, and any feedbacks on sensitive issues if any.

1.4 THESIS STRUCTURE

The thesis is structured in order to clearly uncover the research topic. It is important to create a smooth flow with the theoretical framework, case studies, practical issues and solutions for each problem.

At the beginning, the author gives audience an overview about the thesis as well as the objective of the research, the necessity and the up-to-date validation of the topic. Another essential part which is mentioned after the overview is the methodology being used in the thesis with a brief description about the structure.

The main content of the thesis includes the basic theory related to duty-free business in the world and in Vietnam, and practical analysis with specific study cases about the operation of duty-free business in two biggest airports of Vietnam: Noi Bai International Airport and Tan Son Nhat International Airport.

After going through the case study with different tables and figures, the author will point out some current issues and make some suggestion related to the most controversial issues.

The last part of the thesis is the conclusion with will sum up the major factors of the thesis and open again the solutions that can be exploited for further application.

2 THEORETICAL FRAMEWORK

2.1 HISTORY OF DUTY-FREE BUSINESS

2.1.1 Duty-free business in the world

The fundamental premise of the economy establishment and the existence of the world market is the international division of labour. In the beginning period, the most elementary form of international economic relations originated from the differences in natural conditions of different countries. Nowadays, production has been internationalized significantly and the division of labour has also been widely broadened to globally solve the natural differences. Together with the development of labour division is the high velocity development of foreign trade. Foreign trade liberalization is becoming an important strategy for many countries to push up the economy development with global dimension and diversified methods. Beside the traditional trade activities such as import and export through borders, duty-free business is a model that meets the modern requirements of global economic integration, where tariffs or custom barriers are eliminated and countries in the world openly conduct trade activities with each other.

Duty-free business started to appear in 18th century, since the growth of sea shipping in Europe. At that time, this activity was conducted under the form of commodity sale in international waters. Ship-Chandlers from mainland usually went to these international waters to exchange goods or sell goods to passenger ships such as The Levia-Than and The Great Western, sailors, et cetera. The commodity was traded in free water areas which did not belong to any territory, so the buyers were not charged domestic consumption tax. Since then, the first and most basic concept of duty-free products has been used to describe products that are traded in sea areas where no country has fiscal sovereignty (Bui, 1997)

In Europe, the modern concept of duty-free business had not been created until after World War II. This was when the potential of duty-free business started to be recognized. On March 18th 1947, the Irish Parliament passed The Custom Free

Airport Act. According to this act, tax is dismissed for commodity purchased by departure passengers and transferring passengers. On May 18th 1947, the world's first duty-free shop was established at Shannon Airport in Ireland by Brendan O'Regan and is still opened nowadays. This duty-free shop has been serving trans-Atlantic airline passengers travelling between North America and Europe. After passing passport control, these passengers are considered to be outside the country so the duties or taxes of that country would become invalid. At this point, passengers are able to purchase duty-free goods. (TaxFreeTravel, 2017)

At the beginning, when Dr. O'Regan established his business, it was out of allowance to have a stationary shop at the customer clearance control zone. This fact explained the reason of that all the goods were delivered directly in hand of customers at the gates and pre-orders were made before boarding and custom control. This method of sale is still used in the USA. In 1959 Customs & Excise in the UK finally allowed duty-free shops airside, initially just for liquor sales; it was not till 1964 that tobacco, perfume and other gifts could also be sold after passport control. (TaxFreeTravel, 2017)

Then in 1960s, duty-free shopping was in its positive turning-point when DFS (Duty Free Shoppers) was created by two American entrepreneurs, Charles Feeney and Robert Warren Miller on November 7th 1960. DFS started operations in Hong Kong and spread to Europe and other places around the globe. Securing the exclusive concession for duty-free sales in Hawaii in the early-1960s created a business breakthrough for DFS, and the company was positioned to focus on emerging Japanese travellers. Massive airport and aircraft development since the 1970s, combined with reduced air fares, has seen an incredible increase in passenger traffic. (TaxFreeTravel, 2017)

Nowadays, the image of travellers carrying bags with the word "Duty Free Shop" on it at the airports or sea ports is no longer a rare image. Most of the international airports or sea ports are having duty DFS with wide variety of products. The figure below will illustrate the fast growth of this business type in its first appearing period in the world from 1947 to 1996.

Table 1. Revenue of duty-free business all over the world from 1947 to 1996

Unit: million dollars (US)

Year	Revenue
1947	0.02
1960	25
1970	450
1980	2,000
1985	6,000
1990	15,000
1996	21,000

Source: Best "N" Most 1997, p.21

In 1947, the total revenue of duty-free business all over the world just reached \$0.02 million. This number increased amazingly to \$25 million in 1960 and in 1970 the number was \$450 million, in 1980 \$2,000 million and in 1996 the revenue reached \$21,000 million.

In 1996 there were totally 629 DFS all over the world located at international airports. These DFS served 705 million tourists with the total revenue was \$8,900 million (Nguyen, 1998). The locations of DFS were not only at the airports, sea-ports, national borders, but also on airplanes, ships, et cetera. The proportion of duty-free revenue at different locations is indicated below.

Table 2. The locations of duty-free business (Market share in 1987-1996)

Year Place	1987	1996
At airports	37.1%	42.4%

On airplanes	8.8%	8.8%
On ships	9.9%	14.3%
Other places	44.2%	34.4%

Source: Best "N" Most 1997, p.24

About the groups of duty-free products and DFS, there are 4 main groups:

- Alcohol
- Perfume and cosmetic products
- Tobacco
- Others

The figure below will illustrate the proportion of these product groups at DFS in different locations.

Table 3. Locations of duty-free business and groups of products in 1996

Group Location	Alcohol	Perfume and Cos- metic	Tobacco	Others	Total
At airports	22.8%	23.6%	14.1%	36.9%	100%
On airplanes	18.0%	34.1%	14.2%	33.7%	100%
On ships	34.0%	11.4%	21.3%	33.3%	100%
Other places	21.6%	17.6%	8.3%	52.5%	100%
Total	23.6%	21.8%	13.1%	41.5%	100%

Source: Best "N" Most 1997, p.26

2.1.2 Duty-free business in Vietnam

In Vietnam, the operation of duty-free business started in the opened-economy period, when the economy structure turned from centralized planned economy to market economy under the administration of the government. The country started to see significant progress in developing foreign trade and have good trade relation with many different countries in the world. This is the premise for the establishment of duty-free business in Vietnam.

On November 13th 1990, the Vietnamese Department of Trade & Industry and the General Administration of Customs of the country promulgated an interdepartmental circular about the regulation related to operating duty-free business at the international airports and seaports in Vietnam. At that time, the Department of Trade & Industry just gave business licence to DFS in Noi Bai Airport, Tan Son Nhat Airport, Hai Phong Port and Da Nang Port. In Noi Bai Airport, there are only shops selling local crafts, handmade souvenirs, wines and a small cafeteria, at a little bit high price. However, in Tan Son Nhat Airport, although many global travel retail brands are not represented here, travellers can still find kiosks stocking a wide range of tobacco, alcohol, perfume, fashion and accessories brands such as Vietten, Bossini, Gucci, D&G and An Phuoc.

In October 2005, there was already a duty-free business system in many different cities:

In Ho Chi Minh City:

- 1 Diplomatic Duty Free Shop
- 1 Duty Free Shop in urban area
- 1 Duty Free Shop at Sai Gon port
- Inside Tan Son Nhat airport: 6 Duty Free Shops (4 Departure DFS, 1 Arrival DFS, 1 aboard DFS)

In Ha Noi:

- 1 Duty Free Shop in urban area

- *Inside Noi Bai airport: 6 Duty Free Shops (3 Departure DFS, 2 Arrival DFS, 1 aboard DFS)*

In Hai Phong: 3 DFSs

In Lao Cai: 1 DFS

In Lang Son: 1 DFS

In Quang Ninh: 3 DFSs

In Da Nang: 2 DFSs

In Ha Tinh: 1 DFS

In Binh Dinh: 1 DFS

In Ba Ria-Vung Tau: 1 DFS

Vietnam duty free allowance:

- Cigarettes: 400; Cigars: 100; Tobacco: 100 gr; Liquor: 1.5 liters.
- Perfume and jewelry for personal use only.
- Passengers can bring small gift items valued at not more than US\$ 300

Declaration is required for following cases:

- Foreign currency more than US\$ 7000
- Gold and jewelry not for personal use.
- Video tapes, DVDs and CDs will be kept for screening within a few days.

(Vietnam Government Customs, 2015)

2.2 THE CONCEPTS WITHIN DUTY-FREE BUSINESS

2.2.1 The purposes

Foreign trade includes selling commodities and services cross countries' borders within two ways: import and export. Importing a commodity or service to a country means exporting the same item from another country which boosts the circulation and growth of foreign trade in both countries. With the ability to hold inventories in many countries, importing goods is even easier than producing goods domestically with the same quality. However, the negative side is that these countries may depend on imported goods and domestic production may be narrowed. Therefore, alongside the trade liberalization, there must be protectionism to protect domestic production. With its tariffs, customs duty and non-tariff tools, protectionism prevents the disadvantageous effects of trade liberalization on domestic production. Import duty is one of the tools to manage import. To restrict import, governments can apply high tax rate to foreign goods.

Why do we need duty-free goods?

In globalization time, duty is an entry barrier for nations who want to promote international trade relations. The concept "duty-free" appeared to meet the demand for trader liberalization. Stepping toward globalization and trade liberalization, nations need to gradually remove tariffs and quotas. Duty-free business is a business model that can partly fulfill the trade demand of globalizing era.

When production develops, the demand for commodities and services also increases and diversifies. Accordingly, duty-free shops are able to sell not only goods from their own countries but also imported goods from other countries to supply consumer demand better. Prices of duty-free products do not include tax so they are usually cheaper than normal products. This is the main factor that attracts customers.

Through purchasing duty-free goods, customers and businesses are contributing to the export and re-export activities as well as increasing the flow of foreign currencies into certain countries.

2.2.2 Different models of duty-free shops in Vietnam

- Duty-free shops that serve departing passengers and transferring passengers (include transportation conductors and staffs); located in quarantine zone of departure terminals, behind custom procedure areas of international airports, international ports, border checkpoints, international railway stations.
- Duty-free sales on international flights of Vietnam Airline and airlines that operated based on Vietnamese legislation.
- Duty-free shops that serve arriving passengers (include aircrew members on international flights); located behind custom procedure areas of international airports.
- Downtown duty-free shops that serve mainly tourists; the location must be authorised by Residents'Committee and General Administration of Customs and the operation must be approved by Prime Minister.
- Duty-free shops that serve foreign affair visitors according to Protocol 73/CP Date 30/07/1994 of the Government; the location must be authorised by Residents'Committee and General Administration of Customs and the operation must be approved by Prime Minister.

2.2.3 The features

Quotas

- Arrival passengers are able to purchase duty-free goods under certain standards. Below is table of purchasing quotas for arrival passengers at Vietnamese border gates:

Table 4. Quotas of duty-free purchasing ability for arrival passengers at Vietnamese border gates

	Goods	Quota	Note
1	Alcohol > 22°	1.5l	Not applicable for buyers under 18 years old.
	Alcohol < 22°	2.0l	
	Beer	3.0l	
2	Cigarette	400 pipes	Not applicable for buyers under 18 years old.
	Cigar	100 pipes	
	Fibred tobacco	500 gr	
3	Tea	5kg	
	Coffee	3kg	
4	Clothes, personal belongings	Suitable amount for trip purpose	
5	Other items (not in forbidden list)	Suitable amount	

Source: Decree 66/2002/ND-CP

- Duty-free products that serve inherent needs of crews on docked ships during the docking time at Vietnamese ports are sold based on orders of captains or ships' representatives.
- Duty-free products that serve inherent needs of crews for the next voyages are sold based on orders of captains or ships' representatives. The whole amount of purchased products is controlled by Vietnamese customer house until the ships leave Vietnamese ports.
- Departure passengers with authorised passports are able to purchase unlimited amount of goods (except goods belong to forbidden list).

General features

- Imported goods to be sold at duty-free shops are exempted from import tax, special consuming tax, value added tax.
- If imported goods to be sold at duty-free shops are approved by Department of Business and Commerce to be sold in domestic market, the goods are not exempted from regulated tax.
- Duty-free business activities are controlled by Vietnamese Customer House, Department of Business and Commerce and Department of Finance.
- Foreign currencies used at duty-free shops are listed by State Bank of Vietnam.
- Vietnamese corporates have more priority than foreign corporates in doing duty-free business.

Operation conditions

Enterprises that want to conduct duty-free business need to have business registration. They are able to do business only after receiving condition fulfilment certificate from Department of Business and Commerce. The conditions include:

- Enterprises are established based on Vietnamese legislation, have headquarters in direct-controlled municipality that have border gates, international airports, international ports, international railway station.
- Enterprises must have enough capital and facilities, standard stores, inventories; be convenient for custom check-ups.
- Enterprises must have educated personnel.

The operation of duty-free shops that have foreign investment must follow the procedures of Foreign Investment Law in Vietnam.

Locations

At international airports, international ports, border gates (in quarantine zone); on Vietnam airlines flight; downtown.

The location of duty-free shops need approval from Residents' Committee of direct-controlled municipality and Organism in charge. The location of the warehouses need approval from the Custom House and are directly controlled by the Customer House.

Products

- Products in duty-free shops include directly and indirectly imported goods, domestic goods. All goods must have legal and authorised origins.
- All goods sold in duty-free shops are considered to be exported goods and must follow present procedures and policies for exported goods.
- Products in duty-free shops must have “Vietnam duty not paid” stamps which issued by Department of Finance.
- If products in duty-free shops belong to the list of imported goods under conditions, the goods need approval from Department of Business and Commerce to be sold in duty-free shops.
- Goods that are imported to Vietnam to be sold in duty-free shops but stay long time in stock and need to be handled (cancelled or transferred to domestically consumed goods and exported goods) must receive acceptance and confirmation from the Customer House for concrete categories and amount. The goods that are transferred to domestically consumed goods and exported goods need also confirmation from Department of Business and Commerce and perform duties as requested in regulation for domestic and exported goods.
- If goods are broken and cannot be sold, enterprises must write up with confirmation for the Custom House.

Served objects

- Departing passengers, arriving passengers with certain allowance standards for purchasing duty-free products.
- Foreign experts who implement ODA (Official Development Assistance) projects in Vietnam.
- Vietnamese people who are residents overseas but come back to Vietnam to work based on invitation from Vietnamese state agencies.
- Captains and crews on docking ships at Vietnamese ports with ordering bills.
- Representative of diplomatic cables, Embassies, Consulates, international organizations in Vietnam have prerogative for standard quotas.
- Onboard passengers.

Duty-free shop management of the government

Duty-free business activities are managed by Department of Business and Commerce, Department of Finance, The General Customs House and Department of Planning and Investment. Every 6 months, companies that conduct duty-free business activities must report their business activities to these departments, especially if the companies have foreign investment or assistance.

Department of Business and Commerce:

- Offer instruction, entry documents for duty-free business registration.
- Provide certificates that companies are entitled to do duty-free business.
- Allow imported goods that belong to the list of goods imported under conditions and re-exported goods.
- Allow products in duty-free shops to be transferred to domestic goods.

Department of Finance:

- Offer instruction for conducting financial and accounting policies.
- Examine duty-free shops' liquidity and balance sheet.
- Offer instruction for applying operation taxes to duty-free shops.
- Offer instruction related to promotion policies for domestic goods to be sold in duty-free shops.

Department of Plan and Investment:

- Make decision about opening duty-free shops that have foreign investment.

Custom House:

- Offer instruction about procedures for importing goods, re-exporting goods, transferring goods in duty-free shops.
- Give confirmation about goods that need handling.
- Conduct the applicance of taxes on transferred goods from duty-free shops to domestic market.

2.3 THE INFLUENCES OF DUTY-FREE BUSINESS ON THE NATIONAL ECONOMY

The development of Vietnam's economy over the past 30 years is remarkable. The country is running together with the general trend of the world which is trade liberalization and international investment. To effectively integrate into the world's economy, Vietnam has to first liberalize the internal market and open the service market. Related to this, duty-free business is encouraged because of its different roles in the national economy.

2.3.1 Motivate the trade liberalization in Vietnam

Trade liberalization requires the removal or reduction of duties and surcharges which is applied significantly in duty-free business. This is one of the ways to reduce the customs barriers that hinder the globalization. Therefore, the development of duty-free business in Vietnam is a step of the country to effectively conduct trade liberalization.

2.3.2 Promote export and re-export

Products in duty-free shops which are circulated in market could be considered as exports. When being brought overseas by tourists at the airports, these products are exported or re-exported. The more products being sold, the more export & re-export are promoted and the development of duty-free business would contribute to the development of foreign trade activities. Therefore, many countries in the world which include Vietnam believe that duty-free is one of the effective business models for the development process of a foreign trade economy.

2.3.3 Advertising Vietnamese products to the world

Customers, especially tourists at the airports, are commonly interested in the local commodity. These products are imbued with national identity and mostly come from Vietnamese traditional craft villages. Tourists are possibly attracted by the cultural specificity exposed on each product and they can give these goods to their relatives, friends back home as gifts from the trip to Vietnam. The Vietnamese local trademarks such as Ha Dong silk, Bat Trang pottery and ceramics, Vietnamese lean pork paste, lean beef paste, wooden handicraft, fine art, pearl-shell mosaic, et cetera have opportunities to be spread worldwide and to be well known by international friends.

2.3.4 Diversify businesses

Started in Vietnam since the 90s, duty-free business has blown a fresh vitality into the national economy. This business model used to be unusual for the socialist economy when it first entered this socialist country, but for the last 30 years, duty-free business has gradually contributed significantly to the development of Vietnam's economy. It has diversified the traditional business activities by a new model of doing business.

2.3.5 Promote and diversify foreign trade activities

The foreign trade activities that we are referring to are in relation with import and export. Duty-free business is motivating export and re-export, as we mentioned above, but it is not running in the traditional way of import/export. Therefore, it is agreeable to say that duty-free business and its duty-free shops are developing and diversifying the foreign trade activities.

2.3.6 Support transportation services and tourism

Tourists usually have great desire to purchase goods and services at duty-free shops because the prices are mostly cheaper than when buying outside duty-free shops. In addition, some of these duty-free products offered at the airports usually carry the Vietnamese cultural specificity which would be suitable for tourists to preserve as souvenirs. Duty-free shops in Vietnam are not only appearing at the airports, but also at international ports and in crowded urban areas where tourists can purchase goods easily and the demand is relatively high. This fact creates chances for the development of transportation services and tourism.

2.3.7 Contribute to the development of Vietnamese traditional handicraft

It has been common in Vietnam that the traditional handicraft products such as Bat Trang pottery and ceramics, Chuong village conical hats, pearl-shell mosaic, et

cetera are very interesting and attractive to tourists, especially foreigners. To fulfill their demand, it is necessary to maintain and as the same time renovate the traditional handicraft villages. This has a positive influence not only on the trade activities but also on the cultural values of the country.

2.3.8 Create more jobs and contribute to solving employment problems

Duty-free business has created a significant amount of jobs for thousands of people in Vietnam. This labor force participates both directly and indirectly in the duty-free business. A part of them work directly in duty-free shops and the others work at the manufacturing facilities or services that related to duty-free business model.

2.3.9 Increase the flow of foreign currency

This is one of the most important roles of duty-free business in the national economy. Its affirmative effect on export and re-export results in the stronger flow of foreign currency into Vietnam's economy and motivates the domestic manufacture and production.

2.3.10 Save foreign currency for the host country

Not only increases the flow of foreign currency coming from outside of the country, but also is duty-free business saving a significant amount of foreign currency existing inside the country. This is illustrated through the sale of duty-free products for passengers that are entering Vietnam. Aforetime when duty-free shops have not appeared in Vietnam yet, Vietnamese people used to buy duty-free commodity in other countries when they go oversea. Since duty-free business started to develop in Vietnam, this situation has decreased because Vietnamese people can purchase duty-free products right in their home country with preferable prices. Therefore, an amount of foreign currency has been spent in Vietnam instead of being spent in other countries. This explains why this model of business is contributing to saving foreign currency for the host country.

3 PRACTICAL ANALYSIS

3.1 CASE STUDY: THE OPERATION OF DUTY-FREE SHOPS IN TWO BIGGEST VIETNAMESE AIRPORTS

3.1.1 Introduction

Noi Bai International Airport

Noi Bai International Airport in Hanoi, the capital of Vietnam, is the largest airport in Vietnam in terms of total capacity. It is also the second busiest airport in Vietnam after Tan Son Nhat International Airport. Originally built for the Vietnamese Air Force, Hanoi Noi Bai became an international public airport after reunification of Vietnam in 1975, while also continuing to serve the military (TaxFreeTravel, 2017).

At Noi Bai International Airport, on June 23rd 1990, the Department of Trade & Industry granted duty-free business license number 076/TM-DT, allowing the airport to co-operate with a Hong Kong partner – SUNDANCE DUTY FREE SALES LTD to launch the first DFS that served departure passengers. (Thu Huyen, 2005)

July 1993, NASCO – NORTHERN AIRPORT SERVICES JOINT STOCK COMPANY, an airport services company was born and has been functioning until now. The main activities of this company included trade, sale, travel and hotel services, freight shipping services, synthetic services and duty-free business. DFS of NASCO supplied more than 3,000 types of products, administrated by the duty-free sale department. This duty-free business was allocated at the containment seal of Terminal 1 and on Vietnam Airlines international route airplanes. (Thu Huyen, 2005)

Until now, at Noi Bai International Airport, there are 5 DFS at Terminal 1 and one aboard DFS. In concrete:

Departure Duty Free Shops:

- Amount: 3
- Location: Noi Bai International Airport, Terminal 1, 2 DFS on 2nd floor, 1 DFS on 3rd floor
- Serve departure passengers at Noi Bai International Airport
- 2 types including DFS of NASCO itself and DFS of the co-operation of NASCO and the business partner from Hong Kong: NASCO-IPP and NASCO-EDF
- Products are imported directly from authentic origins: wine (France, England, Scotland, etc.), tobacco (England, US, China, etc.), electronic devices, food, confections, cosmetics (France, Italy, etc.), stationary, kid toys, jewelry, etc.
- Payment methods: paying with foreign currency is accepted (US dollar, Euro, Japanese Yen, etc), by cash or by cards that are identified by Vietnamese banks.

Arrival Duty Free Shops:

- Amount: 2
- Location: Noi Bai International Airport, Terminal 1, 1st floor
- Owned by NASCO itself
- Serve arrival passengers at Noi Bai International Airport
- Products: similar with products at departure DFS
- Payment methods: similar with payment methods at departure DFS

Aboard Duty Free Shops:

- Amount: 1
- Serve passengers on international flight of Vietnam Airlines

- Owned by NASCO itself
- Products: similar to departure DFS and arrival DFS (except jewellery)
- Payment methods: paying with foreign currency in cash (US dollar, Euro, Japanese Yen, etc.)

Tan Son Nhat International Airport

Tan Son Nhat International Airport is the largest airport in Vietnam which located in District 1, Ho Chi Minh City. Tan Son Nhat International Airport operates from two terminal buildings – Domestic Terminal 1 and International Terminal 2. The new international terminal opened in September 2007 with the capacity of 8 to 10 million passengers per year, giving the airport a total capacity of 15-17 million passengers per year. (<https://www.hochiminhcityairport.com/>)

To serve passengers waiting for their flights and to diversify customer services that within the permission of international rules, in 1989 Tan Son Nhat International Airport co-operated with Charoenmaitree (CMT), a company from Thailand to launch DFS at this Vietnamese airport. This co-operation has brought big revenue to both partners and affirmed the important role of duty-free business here. (TaxFreeTravel, 2017)

In 1993, SASCO – an airport services company was established under decision 776 QD/TCCB-LD of the Minister of Transportation Department. Until now, at Tan Son Nhat International Airport, the system of duty-free shops is functioning and being administrated by SASCO. The system includes:

- Departure DFS SASCO-SULT: started its operation in 1991 with the main product is tobacco
- Departure DFS SASCO-IMEX PAN PACIFIC: started its operation in 1993 with the competitiveness in the diversification of products
- Departure DFS SASCO-SRIWANI: the first DFS which started in 1989

- Departure DFS DFS-SASCO: started operating in 1994, co-operation with DFS group which is one of the biggest duty-free business group in the world
- Aboard DFS: serve passengers on Vietnam Airline flights
- DFS in containment seal: started in late 1994

3.1.2 Business performance

Revenue of duty-free business in gross non-aeronautical revenue

The table below illustrates the revenue of duty-free business in gross non-aeronautical revenue at Noi Bai International Airport and Tan Son Nhat International Airport, presented through the revenue of two companies: NASCO and SASCO in 2015-2016

Table 5. Aeronautical Revenue of NASCO and SASCO in 2015-2016; (unit: million Vietnamese dong)

Category	2015		2016	
	NASCO	SASCO	NASCO	SASCO
Revenue	128,603	502,850	171,171	540,400
Commerce Service	22,238	73,300	35,063	75,200
Duty-free	51,243	260,000	70,833	273,000
Synthetic Service	8,500	54,000	12,282	52,000
Car, Taxi Transportation	35,980	81,400	33,167	84,100
Tourism, Hotel	2,119		3,024	

Other Activities	8,532	34,150	16,802	56,100
Expense	119,290	424,131	167,230	426,836
Profit	9,313	78,719	3,941	77,564

(Source: Economic and Forecast 9/2017, vol 377, p. 36)

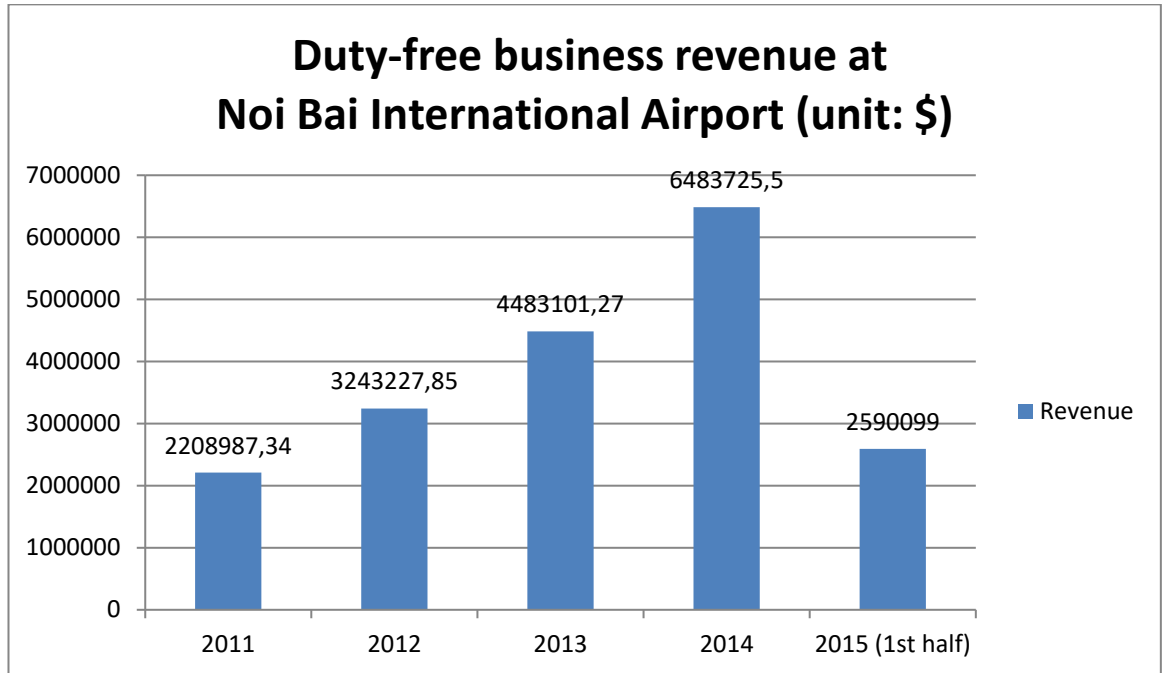
According to this table, we can see that the proportion of duty-free business in both airports is respectively 49.3% in 2015 and 48% in 2016. Therein, with NASCO, the revenue of duty-free business accounted for 40% in 2015 and increased to 41% in 2016; with SASCO, the number is respectively 51% and 50.5% in 2015 and 2016.

Calculating the duty-free revenue of both companies result in the growth of 10.5% in 2016 compared to 2015.

From these numbers, it is possible to say that duty-free business is an effective business model at the airports in Vietnam and has brought big revenue for these airports.

Gross revenue of duty-free business at the airports over years

Figure 1. Revenue from duty-free business at Noi Bai International Airport from 2011 to 2015 (unit: US dollar)



(Source: Financial Report of NASCO 2015)

We can see from the chart that the revenue from duty-free business at Noi Bai International Airport increased every year.

Figure 2. Revenue from duty-free business at Tan Son Nhat International Airport from 2011 to 2015 (unit: US dollar)



(Source: Financial Report of SASCO 2015)

Duty-free shopping aboard

Noi Bai International Airport

According to the Annual Report of NASCO 2014, the revenue in the 4th quarter in 2014 was \$160,065; in the whole 2014 was \$464,785.

Table 6. Sale structure of duty-free shopping aboard at Noi Bai International Airport (2014)

Product group	Value (\$)	Proportion (%)
Tobacco	174,883	38
Wine	57,307	12
Watch	31,133	6.9
Department store	7,681	2
Cosmetics	159,110	34

Confections	6,669	1
Kid toys	469	0.1
Souvenir	27,533	6
Total	464,785	100

(Source: Annual Report of NASCO 2014)

The group of products that had biggest sale in 2014 was tobacco, accounted for 38% in total, cosmetics accounted for 34%, wine accounted for 12%, et cetera. Other groups of products took a very small proportion in the sale revenue. It could be concluded that the major groups of product that could have big sale aboard of Noi Bai International Airport consist of tobacco, wine, cosmetics. These are the groups of goods that have high value and tax.

Tan Son Nhat International Airport

According the Annual Report of SASCO in 2014, the revenue of the 4th quarter was \$230,903.01 which was higher than the same category in Noi Bai International Airport. The revenue of the whole year was \$825,807.2, much higher than the duty-free revenue of Noi Bai International Airport in 2014.

The sale structure is indicated below with a table:

Table 7. Sale structure of duty-free shopping aboard at Tan Son Nhat International Airport (2014)

Groups of products	Revenue (\$)	Proportion (%)
Tobacco	306,536.11	37.1
Cosmetics	145,123.5	17.6
Eye-glasses	16,662.75	2
Jewellery	31,133.25	3.8
Wine	131,408.59	16

Pen	7,155	0.9
Perfume	123,195.5	14.9
Food	15,117	1.8
Souvenir	23,320.5	2.8
Gift	7,722	1
Watch	17,613	2
Tie	819	0.1
Total	825,807.2	100

(Source: Annual Report of SASCO 2014)

According to the sale structure, we can see that the group of products that had the biggest sale was also tobacco and the second biggest was cosmetics, came after by wine and perfume. The sum proportion of these products reached 85.6% in total. Other types of products such as watch, souvenir, food, jewellery took a very small part.

In conclusion, based on the sale results of aboard DFS in the two airports, we can say that the products that are luxury and have high tax rate (in normal market) are the ones having highest sale potential.

Duty-free shopping for departure, arrival, transfer passengers

Noi Bai International Airport

According to the Annual Report of NASCO 2014, the revenue of DFS system for departure, arrival, transfer passengers in the 4th quarter of this year was \$1,463,706. In this number:

- NASCO ARRIVAL Shop: \$1,059,926.5
- NASCO DUTY FREE Shop: \$403,779.5

The revenue of DFS system for departure, arrival, transferring passengers of the whole year 2014 was \$6,018,940.5. In this number:

- NASCO ARRIVAL Shop: \$4,714,578
- NASCO DUTY FREE Shop: \$1,304,362.5

Tan Son Nhat International Airport

According the Annual Report of SASCO in 2014, the revenue of DFS system for departure, arrival, transferring passengers of the 4th quarter was \$4,345,240.4. In this number:

- DFS for arrival passengers: \$1,518,733.83
- DFS for departure passengers: \$2,826,506.57

The revenue of DFS system for departure, arrival, transferring passengers of the whole year 2014 was \$15,155,672.07. In this number:

- DFS for arrival passengers: \$5,639,307.26
- DFS for departure passengers: \$9,516,364.81

From these numbers it is illustrated that the revenue of DFS system for departure, arrival, transferring passengers in Tan Son Nhat International Airport was three times more than the same kind of revenue in Noi Bai International Airport.

3.2 Controversial issues in actual situation

3.2.1 The management of Vietnamese government in general

In the market economy, the goal and object of business activities must be the market. At the same time, the commanding and regulatory roles of the government are indispensable element to create rules and legal corridors for corporations to have equal business play-yard and work effectively toward the general development of the whole economy.

Foreign trade activities are a large and sophisticated aspect because it is a system of economic relations among many countries, regions that influences the position of a country in the global economy and the relation establishment of that country with other countries in the world. To manage business activities in that big dimension, the government has to use different regulatory policies, tax policies, quotas and administrative systems to motivate or limit the circulation of some groups of commodities in different periods and stages.

Duty-free business is a model of foreign trade economy. Therefore, it is not outside the control of the government's regulation. This business model is not simply the sale of domestic goods and imported goods without tax, but has a significant role in motivating the circulation of goods in and out of the country. To maintain and develop this role of duty-free business, the government has been promulgating many policies and documents to administrating and adjusting the operation of duty-free shops with positive expectation. These policies and documents has been changed and adjusted many times to suit the development direction of corporations.

However, besides the positive influences of the government's management, the system of policies, administrative documents of Vietnamese governments toward duty-free business still contain some insufficiencies that cause difficulties for corporations in their business activities.

3.2.2 The shortcomings of the management policies of Vietnamese government toward duty-free business

Regulation number 205/1998/QD-TTQ of the Prime Minister; Circular number 42/1999/TT-BTC of Vietnamese Treasury Department; Circular number 77/2004/QD-BTC of Vietnamese Treasury Department

According to Regulation number 205/1998/QD-TTQ of the Prime Minister, article 5 clause 2 says:

“Stimulate duty-free shops selling made-in-Vietnam products. If these products together with imported products that are legally circulating in the domestic market are offered in duty-free shops, they should be considered exported products and should follow policies and regulations for exported products.”

According to Circular number 42/1999/TT-BTC of Vietnamese Treasury Department related to the system of financing, accounting and taxation in duty-free shops in Vietnam, at section III, clause 3, it is indicated as below:

“Imported products that are circulating in the domestic market, domestically made, manufactured and processed products that are provided to duty-free shops to be sold to duty-free beneficiaries are considered exported products.”

From the two above citations, products that are made, manufactured and processed in Vietnam and offered in duty-free shops are considered exported products.

On another hand, according to Circular number 77/2004/QD-BTC of Vietnamese Treasury Department related to the management of the Custom House in duty-free business. Section III, clause 3 mention:

“Products that imported and circulated in the Vietnamese domestic market (imported products) are considered exported products if they are offered for sale in duty-free shops.”

Here there is a slight heterogeneity among these texts from the regulations and circulars related to products offered for sale in duty-free business. The first two

texts indicate that made-in-Vietnam products are considered exported products if they are traded in duty-free shops, but the Circular number 77/2004/QD-BTC of Vietnamese Treasury Department does not mention that domestically made products in duty-free shops are considered exported products. Therefore, entrepreneurs can be confused if they should consider made-in-Vietnam products exported products if offered in duty-free shops. Many of them understand that products that are domestically made are not in the same line with imported products and they are not under the same policies or regulations.

The government has policies that encourage exporting activities. When enterprises export commodities, they are granted to get benefits related to tax discount. When all the procedures are accomplished, they are required to support documents to prove that the commodities have already exported outside Vietnamese borders. However, Vietnamese products in duty-free shops at airports' isolation areas are not thoroughly considered being in the same range with ordinary exported products which lower the taxation benefits of duty-free enterprises.

Control the legal origins of foreign currency when a customer shops with an amount of currency that exceeds that amount of allowed foreign currency (Circular number 77/2004/QD-BTC term 5.1)

According to Circular number 77/2004/QD-BTC section III term 5.1:

“Shop assistants at duty-free shops are obliged to check these documents of their customers:

- Passport or regulated documents
- Proof of cash with foreign currency (in case the amount of foreign cash exceeds a regulated amount, shop assistants must report to the Custom House according to regulations of State Bank of Vietnam).”

Considering the second bullet point, if the amount of foreign currency exceeds the allowed amount, the Custom House is responsible for checking all documents related to the exceeded amount of money. However, almost all duty-free shops are

in isolation areas, which means passengers have to pass security control, passport control and custom check before reaching the areas where there are duty-free shops. Checking the amount of foreign currency and its origin belong to Custom department's responsibility and the process is done when passengers implement the custom procedures. Therefore, duty-free shops and the shop assistants do not have responsibility or function to proceed the checking. This can cause discomfort for customers. Furthermore, if customers purchase products with credit cards, it is not possible to obtain the origin-proof documents.

To sum up, this regulation is not necessary and can create negative impression in international passengers or customers.

3.2.3 The shortcomings of duty-free business at Vietnamese airports

Domestic products account for a small proportion in the duty-free commodity structure

This is a popular situation not only in the system of DFS at the airports, but also in the system of all DFS in Vietnam. Products that are made or assembled in Vietnam are having very small market share in duty-free business, because imported goods from other countries have better reputation about quality and they are taking the majority on shelves of most DFS in Vietnam. We can see many types of imported goods at DFS in Tan Son Nhat International Airport clearly through the tables below:

Table 8. Imported goods purchased by departure and transferring passengers at Tan Son Nhat International Airport in the first three months of 2015

PRODUCTS	Import value (\$)	Revenue from all goods (\$)
Tobacco	896.618	1.030.740,38
Cosmetics	221.982	275.543,1
Clothes	75.374,34	30.248,54

Jewellery	19.118,36	68.034,42
Leather	98.406,05	100.905,13
Pocket Lighter	8.285,85	4.212,74
Wine	797.915	996.368,5
Pen	8.091,85	12.481,09
Perfume	375.804	331.780,66
Food	394.601	358.607,57
Scarf	5.027,4	1.093,95
Tie	21.743,36	16.074,18
Watch	283.640,62	93.309,79
Total	3.206.608	3. 319.400,05

(Source: SASCO Annual Report 2015)

Table 9. Imported goods purchased by arrival passengers at Tan Son Nhat International Airport in the first three months of 2015

PRODUCTS	Import value (\$)	Revenue from all goods (\$)
Beer	6.085,5	1.131,12
Tobacco	403,409,1	422.394,34
Cosmetics	56.485,06	12.005,53

Soft drink	1.899	226,3
Wine	640.942,29	932.443,5
Perfume	90,518.42	42.349,13
Food	34.406,22	63.600,71
Electronic device	605.307,87	504.299,28
Total	1,839.053,46	1,978,449.91

(Source: SASCO Annual Report 2015)

Table 10. Imported goods sold on flights from Tan Son Nhat International Airport in the first three months of 2015

PRODUCT	Import value (\$)	Revenue from all goods (\$)
Tobacco	70,245	83,588.78
Cosmetics	55,425.75	49,005.75
Glasses	3,828.75	6,052.5
Jewellery	15,768.75	14.528.25
Wine	45,741.79	49,685
Pen	1350	2,430
Perfume	29,429.75	29,097.75
Food	2,430	4,383.75

Souvenir	8,197.5	6,996.75
Watch	9,348.75	5,540.25
Total	251,766.04	251,308.78

(Source: SASCO Annual Report 2015)

Growth rate of domestic goods and imported goods are not equal

Another fact is that the growth rate of domestic products in Vietnam is also very small compared to products from other countries. Imported products such as cosmetics, perfume, wine and tobacco increased their market share significantly every year. Many businesses have already tried to promote the sale of Vietnamese based products in DFS, but there has not been much positive result yet because the imported ones are still having more strength and competitive advantages than the ones originally from Vietnam. One of the reasons is because most of the products that are being purchased in DFS by passengers at the airports are luxurious goods which have high prices and the tax eliminated when buying these types of products in DFS are more significant than the Vietnamese local manufactured ones. Related to which type of goods is more popular in duty-free business in Vietnam (domestic goods or imported goods), the author has conducted a short interview at Noi Bai International Airport and the object of this interview was arrival passengers. Mrs. Tran Thi Le – a passenger who was waiting for her flight from Ha Noi to Manila (Philippines) said: “I always buy French perfumes when having chances to go shopping at the airports. This kind of product is very expensive to buy in normal shops but when buying at the airports, the price is much cheaper. I don’t buy local products because I can do it easily in ordinary markets and the price is not much higher.” With the same question, Mr. Nguyen Van Vinh answered: “I prefer to buy imported wine in DFS such as Scotch Whiskey or French Red Wine because I have more reliable feeling when buying here than in normal markets in Vietnam.” When being asked if he would choose to buy Vietnamese local products in DFS at the airports, this passenger said: “Maybe, but I don’t really prefer to do that because Vietnamese local products usually not very unique to me and I can purchase them easily outside DFS even though sometimes it could be a little bit more expensive due to the tax. When travelling I want to simplify my lug-

gage and there no need to buy Vietnamese local products with me if I don't really need at that moment, or if I can buy easily somewhere else."

From these points of view, we can see that in most of the DFS at the airports, domestics products are struggling in the competition with luxurious products imported from other countries, and the growth rate in market share of the local products is having very low progress in comparison with imported products.

Marketing activities are not strong enough

Duty-free business is not much different from other models of business in the fact that it needs to be motivated by marketing activities such as advertisement, sale promotion, et cetera. These activities are essential to attract customers and broadcast the operation of DFS to passengers and gain more revenue. However, at the airports in Vietnam, marketing activities have not been concentrated enough.

Advertisement activities of DFS at the airports at the moment are still monotonous and lack of creativity. The most frequent activity of marketing for DFS stands passively at distributing leaflets and catalogues by hands near the location of the shops. There has not been much advertisement on television, social media or newspaper, magazines. In the century of information technology and the thriving development of different social media channels like nowadays, it is a big mistake and shortcoming if not focusing on conducting online marketing or diversifying marketing methods.

About sale promotion, nowadays in almost all international airports in the world there are many diversified promotion activities and policies for customers who do shopping at airport DFS. For example, Heathrow Airport in London, one of the most ideal places for duty-free shopping globally, is always taken place by attractive offering and interesting promotion activities for passengers or customers; or in New Zealand, when participating club of frequent customers of DFS, the customers would enjoy a 5% discount in all purchase at the airports and 20% discount when buying through the specific website of several DFS. Furthermore, even if some customers are not taking part in the club for frequent customers, they still have chance to enjoy other forms of offering when purchasing goods directly at the

shops. Another typical example for the sale promotion of DFS at the airports is the system of duty-free business at Dubai International Airport with two famous promotion programs: Dubai Duty Free Finest Surprise and Dubai Duty Free Millennium Millionaire. These are two promotion programs that have been organized for decades. The winners of these programs are able to receive big-value presents and even luxurious cars. (Dubai Duty Free, 2017)

About the system of DFS at the airports in Vietnam, the increase in revenue of this business model mainly comes in relation with the growth of aviation service and tourism, not with the concentration on strengthen marketing power. In Dubai, duty-free business always spends at least 5% of the profit on business development research and marketing (People Daily, 2017). Meanwhile in Vietnam, DFS at the airports usually underestimate the power of market research and customer psychology. They focus mostly on selling products with high tax and luxurious value and forget to boost the value of domestic products in buyers' impression. The range of products remains undiversified and the local products still stand for a very small part in the product structure. There has not been enough effective marketing strategies and the importance of understanding customer psychology has been ignored.

3.2.4 Evaluate the actual situation

Duty-free business in Vietnam is still weak and facing lots of challenges. At the same time, there is still inconsistency in the management of the government reflecting on duty-free business adjustment policies and instructions. This business model is new in Vietnam, so adjustment in the management policies is necessary. However, too much changing in policies can create difficulties for entrepreneur to a certain extent. The main issue here is not the change, but whether the policy modification can be suitable for market reality and benefits of enterprises. For example, there is inconsistency in considering whether a product in duty-free shops is exported commodity or not. Depend on which type of product, business can ensure which exact regulations to follow.

Other issues remain at the loose management at the custom house where responsible for controlling the operation and business activities of duty-free shops. The result is a proportion of duty-free products has been illegally bought and sold domestically by the customer house's officers, employees in duty-free shops or cabin crew on international flights. This causes loss in revenue of duty-free shops and tax evasion.

Though management policies of the government is a prop, the effectiveness of business activities depends mostly on duty-free shops themselves. At present, many duty-free shops have not significantly focused on marketing strategies. Propagandas, promotion programs, communication with customers are still underestimated. Meanwhile in big international airports, Dubai International Airport for example, marketing is strong enough to remarkably attract customers. Lots of passengers intentionally choose Dubai as their transferring stop to have shopping time in this famous duty-free shopping airport. Another shortcoming of duty-free shops in Vietnam is they have not conducted enough studies to understand what their customers want. There is still the imbalance in commodity structure, especially between domestic products and imported products. Some types of products cannot generate revenue and become unresolved inventory. This situation is fore-going. Without understanding customers' psychology, it is not possible to have a good business strategy that can generate much profit.

From business perspective, these problems need urgent and serious solutions. There need to be discussion between the government and companies that operating duty-free business to have a better overview from both sides. This way, the government can adjust their policies according to the reality of duty-free market, have better support for duty-free shops at international airports and ensure benefits for customers.

4 SUGGESTION

4.1 THE ATTITUDES TOWARD DEVELOPING DUTY-FREE BUSINESS IN VIETNAM

4.1.1 Goal-oriented attitude

The policy of developing duty-free business activities should reveals the goals for exporting domestic goods and re-exporting imported goods.

In foreign trade activities, the main goal is motivating export and re-export to increase the flow of foreign currencies into the country and contribute to the economic development. This is also considered to be an important goal in commercial activities.

Duty-free business is a part of foreign trade. Therefore, the foundation of developing duty-free business policies should prioritize the goals for exporting domestic goods by selling duty-free domestic goods and re-exporting imported goods (which are free from import tax, special consumption tax, value added tax). To achieve these goals, the policies for duty-free business activities should enable better conditions for enterprises to have more freedom when selling products in duty-free shops. With imported goods for the purpose of being purchased in duty-free shops, except the types of products that negatively affect the national security and forbidden to purchase, the government should give more freedom to business units to choose imported products according to their own preferences.

On the other hand, transferring goods from duty-free shops to domestic market should be taxed significantly. With this way, the government can limit enterprises from importing goods widely but still give them the right to control their business options. The management mechanism of the government should focus on anti-fraud, anti-commercial-fraud policies and the tight management for the output of products in duty-free shops (identify duty-free values; all goods must go through the Customs House with invoices;...)

4.1.2 Duty-free business developing policy must be a part of foreign trade developing policy

As mentioned earlier, the origin of duty-free business is foreign trade. This business model is new compared to the traditional ways of conducting foreign trade activities such as importing, exporting and exchanging goods. Therefore, when developing foreign policies, economic policy and foreign trade policies, it is important to consider the development of duty-free business as an integral part. Furthermore, policies related to duty-free business need to be suitable and supportive for the general foreign trade policies.

4.1.3 All-around attitude

It means developing duty-free business according to the global trends and simultaneously suitable for the national situations.

Besides seeing the potential of duty-free business based on estimation about the development trends of tourism globally, it is necessary to consider the urban planning and economic area planning. When having an appropriate estimation about the growth trends of international tourism – the industry that provides majority consumers for duty-free business – within the economic internationalization, it is possible to see the potential development models of duty-free business. Based on this, the government can establish reasonable policies for duty-free business in Vietnam which are adaptable to the growth speed of the global duty-free business as well as stay close to the growth ability of the national duty-free market, of each economic area, especially the focused border checkpoints.

4.2 IMPROVE DUTY-FREE BUSINESS ADJUSTMENT POLICY

Vietnam is more and more integrating to the global market. This motivates internalization and production capacity. However, there appear several negative consequences in this specific country: some businesses prioritize profit more than morality; commercial cheating increases; social security is affected. In this development direction, the government needs to interfere and adjust the flow and arrangement of the market. The priority of a country's leaders must be benefits for their own citizens. If the government has an appropriate management mechanism, the integrating process can be proactive and effective. From perspective of enterprises, transparent business environment and legal conditions are the foundation to form their business development orientation.

First, when enacting a policy system, the government should minimize the inhomogeneous factors among different documents. These things cause difficulties for enterprises when following legal conditions. It is time-consuming to discuss the overlap again in every single case. With a unity in management content, enterprises can follow the regulations effectively and at the same time, they can have better belief in the management ability of the government.

Second, policies related to duty-free business should encourage businesses to promote traditional or handicraft products. Vietnam has low level of labour costs compared to many other countries in the world, but the quality of this country's labour force cannot be underestimated, especially when making traditional and handicraft products such as silk, textile, pottery, ceramics, etc.

Third, the promulgation of new policies or regulations related to duty-free business must include concrete instructions. The government usually has policy adjustment to adapt to the changeable market which sometimes causes confusion for enterprises at the beginning and affects the business productivity. Therefore, the requirement for the government related to policy adjustment is not only being suitable to actual situation of duty-free business, but also the clear and concrete instructions.

Fourth, the government should promulgate a clearer bidding policy for duty-free kiosk. At the moment, rental fee for each duty-free kiosk in international airports in Vietnam is quite high and there is not a definite standard for the price. Therefore, it is necessary to have a transparent price range to create a healthy business environment.

4.3 CONCRETE ACTIONS

4.3.1 Reinforce and promote tourism

Vietnam has considerable tourism potential with a big variety of tourism products. This market is having competitive advantage in ASEAN region. However, the level of market development ability of Vietnam is not high. The amount of foreign tourists coming each year is still far lower than Singapore, Hong Kong, Thailand, et cetera. The reason of this slow-growing situation is the weakness in protecting and developing infrastructures and tourism products. It is also because of the low level of safety and the complicated procedures at border gates. Vietnamese tourism can develop faster if these weaknesses are eliminated. Moreover, the system of travel agencies should be improved to have better competitive advantages in the regional and global tourism market. Once tourism growing speed is fast enough, duty-free business will have the possibility to reach a similar speed, as the majority of customers in duty-free shops are tourists.

Investment structure

It is important to develop infrastructure including traffic system, especially at the focused touristic points. The overall planning is needed together with the determination of an investment percentage for tourism compared to infrastructure of other industries. The investment amount for this industry needs to be big enough and with a long-term goal, can consider private capital and FDI (foreign direct investment). Simultaneously, a part of the investment can go to reorganizing local industries which related to tourism, for example producing traditional products and creating more services for tourism.

Tourism socialization strategy

Regions which have big tourism potential can become particular touristic centres.

Develop unique and diversified tourism products and services

Outstanding traditional local products can be one of the most valuable element in developing tourism. It can be beneficial to have a combination of traditional products and modern styles of travelling, at the same time develop healthful services.

Develop integration ability of tourism market

Travelling is not domestic. When travelling, tourists usually go from one country to nearby regions in the same planned trips. Therefore, the regional potential can be exploited by establishing an international or regional tourism market, for example Indochina, Cambodia – Lao – Myanmar – Vietnam, et cetera. Hence, developing abilities of included countries are boosted.

Build up high-quality labour force

Labour force is a primary factor in all industries and businesses. To have a high-quality labour force that can help boosting the efficiency of businesses, there need to be elaborate trainings. In tourism, labour force includes people who are able to connect Vietnam and other countries, create certain level of tourists' attraction and interest for the country. Therefore, it is important to focus on training frequently and continuously.

Promise convenience for tourists

This is a principal condition to maintain the growth level of tourists coming to Vietnam every year. Most of the time, the inconvenience comes from visa problems. Policies related to tourist visa for foreigners need to be less complicated, create better and faster chances for tourists to enter Vietnamese borders.

Enhance competitive abilities of travel agencies

Travel agencies should concentrate on expanding business abilities, decreasing travelling costs, innovating travelling technologies and services, creating effective

connection between tourism companies and organizations, cooperating with international companies.

Propaganda is essential. Travel agencies can strengthen their business by organizing events, festivals, traditional fairs, workshops in Vietnam and other countries; publishing travelling printed matters about tourism market in Vietnam. Moreover, it is beneficial to have representative offices in different countries.

4.3.2 Reinforce and innovate aviation

Aviation is a favourite mean of transportation of foreign tourists when coming to Vietnam. Therefore, the strategy of developing duty-free business in Vietnam must include the improvement of aviation. This will directly influence the operation of duty-free business in international airports in Vietnam.

Actively integrate regionally and internationally with liberalization direction

Regional and international integration is necessary. This is an internal need of Vietnamese aviation to create a competitive environment and motivate the expansion of Vietnamese airlines. Air transportation market in Vietnam is oriented to operate closely to regional and international market. Vietnam encourages domestic airlines and airlines from other countries to together exploit the market, actively participate aviation related activities of ASEAN (Association of South East Asian Nations), APEC (Asia-Pacific Economic Cooperation) and WTO (World Trade Organization). Aviation liberalization policy will create chances for expanding aviation market regionally and internationally.

For the purpose of developing tourism, increasing number of tourists coming to Vietnam and motivating the establishment of more duty-free shops at the airports, the government has already allowed several small domestic airports to operate international flights, for example Lien Khuong Airport (Da Lat), Dien Bien Phu Airport (Dien Bien Phu), Phu Bai (Hue), Cat Bi (Hai Phong). This is an on-time action which helps to open more chances for duty-free business at Vietnamese airports.

Develop aviation infrastructure

Beside available infrastructure, the opening on large scale of airports – especially two biggest international airport in Vietnam: Noi Bai International Airport and Tan Son Nhat International Airport – is on demand to serve the increasing amount of tourists coming each year. High productivity and big amount of customers are direct factors that help to boost the development of duty-free business in Vietnam.

Improve aviation services

Better quality of aviation services can bring more comfort for tourists when coming and staying at the airport. On another hand, opening more international flights and approaching opportunities to cooperate with foreign aviation companies can also result in improvement of business activities of duty-free shops.

Simplify transportation procedures

Create more convenience for passengers in airports by shortening procedures.

Coordination between aviation and tourism

The coordination and cooperation between aviation and tourism can partly ensure the increasing of customers coming to duty-free shops.

4.3.3 Refresh duty-free business itself

Modernize and diversify sale methods

In business environment, competitiveness is evitable. This is a challenge for enterprises, but at the same time an opportunity for them to identify themselves, their abilities and positions in the market. It is not exceptional in duty-free business.

Enterprises that operate duty-free business activities in airports have massive location advantages, so the challenge here is not competing with duty-free shops in other border gates, but competing with duty-free market regionally and internationally. If enterprises do not concentrate much on innovating, modernizing and

diversifying their business activities, especially sale methods, they cannot guarantee the long-term development and the profitability.

Strengthen advertisement and promotion

In all industries, marketing is needed. In duty-free business, the number targeted customers are limited mostly in the group of people who travel. Because of this factor, related enterprises have not had enough appreciation for marketing and have not conducted advertisement widely. Therefore, the first improvement actions should be reinforcing advertisement, creating more propagandas on social media, printing catalogues with diversified information about duty-free products for passengers on all flights.

Besides, to attract customers' attention, there need to be smart promotion programs where customers can receive good offers and have more impression on duty-free products. For example, in Dubai International Airport in Dubai or Heathrow International Airport in London, there are usually big promotion programs for customers with valuable gifts to motivate customers' purchasing willingness. In most of duty-free shops in Vietnamese airports, the most common promotion is giving small attached gifts to customers when they buy products. However, the diversification of attached gifts also affects the effectiveness of the promotion program. Customers will not be attracted easily by some candies or even T-shirts. Promotion programs can be "buy 1 give 1" or lucky lottery; gifts can be gift cards, points accumulating cards, offering vouchers, or discounts. Enterprises should do research on different types of offerings and promotion programs that duty-free shops in other countries have been conducting effectively.

The diversification of product range as well as the way products are displayed on shelves should also be taken into consideration. Customers will have more attention and impression if there is more creativity.

Build up efficient marketing strategies

As mentioned above, in all industries, marketing is needed. Duty-free shops in airports should conduct surveys and researches to understand customers' needs and expectations. Based on the results, enterprises can have long-term estimation

about customer types, purchasing features, cultural habits, et cetera to have suitable strategies.

Understand customer psychology

Customer psychology is always a prioritized issue in sale and marketing. Understanding customers is a primary element in building up sale and marketing strategies with appropriate prices and promotions. The success of a company is related to how much that company understands its customers, because the company can pre-calculate how much to invest on each type of products as well as design and arrange their shops in a trendy way.

4.3.4 Stabilize duty-free business management system

The management system includes departments who control the operation and adjustment of duty-free shops such as the Custom House, Department of Finance, et cetera.

Duty-free business contains continuous procedures from domestically purchasing, importing commodity to conducting promotions, propagandas, reporting to the Custom House and related departments. In this chain, the management system is always needed to giving instruction about regulations to enterprises. To some extent, the stability of duty-free business depends on the stability of the management system. Therefore, departments related directly the duty-free business activities must cooperate and concretely assign their levels of authority in controlling, checking and promulgating regulations.

4.3.5 Invest on improving facilities and technologies for airport duty-free shops

Aviation industry and tourism are growing fast with big investment potential. The amount of foreign tourists coming to Vietnam has significantly increased over the last few decades. As a result, duty-free business at international airports are serving big and growing amount of customers. If there is not enough investment on

facilities and technologies to broaden the business scale, lots of opportunities will be missed and the industry cannot follow the continuous growth of this globalization time.

To be able to attain investment, enterprises must have appropriate business plans to convince the government, as well as extract some parts of the revenue to build thorough and modern facilities, create good-looking space for displaying products and attracting customers' attention. Furthermore, it is important to expand sale dimension and explore new locations for the operation.

4.3.6 Actively participate international trade fair

Participating international trade fair can help businesses have wider view on duty-free business in the world. In concrete, they can identify the development trend of duty-free business, types of products, main customers, the operation activities, etc. When having a general view on duty-free business in several regions or countries, enterprises will have better ability to have development strategies that fit both domestic markets and global markets.

Not only participating, organizing trade fairs also have strong points. These trade fairs can attract customers' attention. At the same time, enterprises can understand better customers' concerns toward products or conduct their surveys to have the demand overview for specific product types. This is also a good chance for enterprises to see customers' reaction to prices as well as approach products and prices of their competitors. Based on these ways of observation, enterprises can create suitable business strategies for their own units.

5 CONCLUSION

In the strongly globalizing time, countries are having significant economical moves with variety of foreign trade activities. Vietnam is not an exception. In this country, duty free business is a new business model that contributes to the diversification of business activities, in addition to traditional exporting. This model is effective and has much potential in the era of internationalization where tariffs and quotas are gradually minimized.

Duty free business has a remarkable impact on the national economy: enhance export and re-export, increase the flow of foreign currencies into the country, support tourism, help to resolve unemployed issue, introduce Vietnamese traditional and cultural products to the world. These are important in the development strategy of the country.

In duty free industry, business activities at international airports have more advantages than other commercial gates due to the continuously development of aviation industry and the increasing number of tourists coming from other countries by airplanes. In Vietnam, the government has allowed the operation of duty-free shops at international airports since 90s (at Noi Bai International Airport and Tan Son Nhat International Airport.)

Through the operation and activities of duty-free business, the government has promulgated many regulations as well as guides for the adaptation of duty-free business in Vietnam, especially at international airports. The management of the government together with suitable business strategies of many Vietnamese enterprises, duty-free business in Vietnam has achieved respectively remarkable results in which the most profitable activities are at international airports.

However, during the operation of duty-free business in Vietnam, enterprises within the industry are still facing difficulties coming from the management of the government with some ambivalence among the executive papers and the weak policies of each individual business unit. Therefore, to have an effective long-term run with reachable goals in duty-free industry, the government needs to improve and adjust some specific business development policies in order to protect the profita-

bility of enterprises. On the other hand, enterprises which conduct duty-free business activities need to form suitable strategies for adaptation to the global market.

Vietnam is having big potential to develop tourism as well as expand the dimension of aviation industry. Therefore, duty-free business at the airport will be potentially strengthened to become an effective business model, contribute significantly to the development of the national economy.

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APPENDICES

APPENDIX 1: INTERVIEW QUESTIONS FOR PASSENGERS AT NOI BAI INTERNATIONAL AIRPORT (Conducted on 17th January, 2018).

1. How often do you have flights at Noi Bai International Airport?
2. How often do you shop at duty-free shops at Noi Bai International Airport?
3. What do you think about the location and the variety of products at these shops?
4. What kind of products are you interested in the most at duty-free shops?
5. What do you think about the price and quality of products here?
6. Do you have any suggestion for improvement of the operation of duty-free shops in airports?