



Improving Competence of Logistics Services of Vietnamese Freight Forwarding Companies Post EU-Vietnam Free Trade Agreement Period

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<p>Abstract:</p> <p>The Free Trade Agreement between the EU and Vietnam was signed on 30/09/2019. After Singapore, this agreement is the second trade agreement the EU made with a Southeast Asian country and is regarded as the most ambitious agreement ever concluded with a developing country. The FTA offers almost complete elimination of customs duties between the two blocks, opens up new trading opportunities, introduces Vietnamese services and public procurement markets to EU companies, and creates new tools to the enforcement of basic freedoms and labour rights in Vietnam. However, Vietnam was conditioned to make changes to its business operation in order to cut the deal. The challenge is huge; it is time-constrained; and it correlates largely with this country's logistics performance in export activities. In such timely circumstances, this thesis sets out to study ways of improving the quality of logistics services provide by Vietnamese freight forwarding companies post EVFTA period. The theoretical framework describes logistic structure of organization in Vietnam, and explain how business competence of a service company is evaluated in the context of this thesis. The research method used in this thesis was literature review. The literature was conducted by using reliable databases and academic sources. Secondary data was gained from internet databases and analyzed in subcategories. Results show that challenges from the EVFTA arise from internal features of a company such as strategy, competitiveness, and human resources, as well as external circumstances like opportunies within the industry and its government. The thesis then discusses certain opportunities and realistics challenges based on findings on the ability to perform effective logistics of Vietnam and suggests solutions to overcome shortcomings and improve logistics flow in trade with its EU partner. The study concludes that efforts to advance the current situation of business in this country are immense and difficult to proceed within a short period of time. It will be possible, however, with plenty of government investment, work force, and will power.</p>	
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Author

Nguyen Thuc Tien

ABBREVIATIONS

1PL	First Party Logistics
2PL	Second Party Logistics
3PL	Third Party Logistics
4PL	Forth Party Logistics
5PL	Fifth Party Logistics
ASEAN	Association of Southeast Asian Nations
CCMS	Cargo and Container Management System
CIF	Cost, Insurance, and Freight
CIS	Customer Information System
EC	European Commission
EDI	Electronic Data Interchange
EU	European Union
EVFTA	EU - Vietnam Free Trade Agreement
FCL	Full Container Load
FMCG	Fast Moving Consumer Goods
FOB	Free on Board / Freight on Board
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GVC	Global Value Chain
ICD	Inland Clearance Depot
JIT	Just in Time
LCL	Less than Container Load
LSP	Logistics Service Provider
MTO	Multimodal Transport Operator
NVOCC	Non-Vessel-Operating Common Carrier
SCM	Supply Chain Management
SME	Small and Medium Enterprises
TEU	English Twenty-Foot Equivalent Unit
TMS	Transport Management System

UNCTAD	United Nations Trade & Development Forum
US	United States
USD	United States Dollar
VCCI	Vietnam Chamber of Commerce and Industry
VIM	Vendor Inventory Management
VND	Vietnam Dong
WMS	Warehouse Managing System
WTO	World Trade Organization

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1 INTRODUCTION

The Free Trade Agreement (FTA) between the European Union (EU) and Vietnam had been signed on 30/09/2019 by the European Commission (EC) and the Government of the Socialist Republic of Vietnam. Following the EU-Vietnam Comprehensive Partnership and Cooperation Framework Agreement and the Investment Protection Agreement, this agreement marked a milestone in the relationship between Vietnam and European nations. It is expected to enhance even further economic development and promote trade and investment relations between Vietnam and the EU, which will in turn result in the deepening of cooperation and reinforcing long-lasting relationships. The EC described this as the most ambitious free trade deal they have ever signed with a developing country to date. It was based on both sides' joint commitment for an open, fair, and regulated trade liberalization as well as economic integration. To a further extent, the agreement strengthens the EU's engagement with the Southeast Asian region, which will contribute to the reinforcement of the EU - ASEAN cooperation, moving towards closer trade deals and enhancing investment flow between these two regions (European Commission, 2019).

After a certain time of negotiations, the EU - Vietnam Free Trade Agreement (EVFTA) was finally made possible due to the strategic importance it carries for both parties. For Vietnam, the agreement represents an essential steppingstone to secure the country's long process of adapting to globalization and economic integration (European Commission, 2019). By promoting trade and enhancing investment linkages with the largest trading block in the world, Vietnam guarantees to keep its openness at the core of its development strategy to steer itself effectively and sustainably into becoming a middle-income economy. For the EU, it is an important step to establish stronger trade and investment partnership with the dynamic region of ASEAN and work towards future agreements with other ASEAN nations (European Union, 2018).

In other settings, the most recent financial crisis has substantially illustrated how much our world has changed as a result of globalization. While many countries take on protectionist means and measures to fight challenges of an economic recession, some other countries regard this as an opportunity and start embracing market liberalization as a way out of crisis (Ali-Yrkkö, 2017).

Evidently, the topic is clear, and it is relevant. Since the signing of a new FTA, Vietnam has had new opportunities in exports, mainly with the EU, but not excluding other continents. Vietnamese freight forwarding companies, therefore, need a solid preparation to improve their quality in providing logistics services to EU partners. A thorough analysis of these companies' capabilities to effectively deliver results at present as well as methods for advancing their operations in the near future will hopefully lead to a realistic look of how to best exploit the benefits, mitigate deficiencies, and create more opportunities for partnership between two parties of the agreement.

1.1 Problem

The agreement, comprehensive as it is, foresees not only the almost full elimination of bilateral tariffs and export taxes but also a substantial reduction of non-tariff barriers in the areas of services and investment (Delegation of the European Union to Vietnam, 2019). It also covers areas like government procurement, intellectual property rights, competition, and regulatory coherence (Delegation of the European Union to Vietnam, 2019). It is important to understand what kind of an impact this trade agreement will bring to the relationship and economies of both Vietnam and the European nations.

However, it is even more important to comprehend the type of challenges it brings to businesses that are obliged to make changes to their operation in order to cut the deal. Benefits come with conditions. Alongside the promises of tax elimination, border openness, and long-term cooperation with the world's largest trading bloc is a set of rules and conditions with a strict deadline that Vietnam must follow. Considering the differences in culture, economies, and business operation between these two areas, it goes without saying that Vietnamese companies have a lot of work to do.

This research is focused on the problem of how prepared the Vietnamese freight forwarding companies are to level up to EU standards in logistics to utilize the opportunities from the newly signed EU-Vietnam Free Trade Agreement.

1.2 Aim

The aim of this thesis is to study the internal and external challenges that Vietnamese logistics companies face in exports. In the context of this study, internal challenges mean difficulties deprived from the inner operation of a company, for instances, its structure, strategy, and staff; and external challenges are obstacles from business environment, government policies, market conditions, and industrial trends, etc.

1.3 Research Questions

- What are the competitive values of Vietnamese freight forwarding companies?
- What needs to be done about the upcoming rising demands from an increasing number of EU trade partners after EVFTA? (external challenges)
- What are the difficulties in changing domestic logistics operations to meet those demands? (internal challenges)
- Suggestions for improvement?

1.4 Demarcation

This thesis will discuss competence of Vietnamese freight forwarding companies in their export's activities only. The types of logistics analysed for this thesis range from first party to fifth party logistics; and modes of transportation varied from road and railway to sea and air. All existing business types within the supply chain industry in Vietnam are put into consideration for this research, including for instances state-owned and foreign-owned enterprises, private and public companies, domestic and international firms, etc. Depending on market share, size, and importance, the company sector will be discussed in relevant parts of the analysis and will not be excluded from the study.

1.5 Thesis structure

The thesis is structured as follows. Theoretical framework (chapter 2) will be presented after the first big introduction chapter, then come methods (chapter 3), results from the study (chapter 4), discussion of the results (chapter 5) and conclusion (chapter 6). The first subchapter of theoretical framework features an overview of the supply chain, what it means, and the roles of logistics companies in managing exports. The next subchapter explains how to identify and measure the abilities of logistics companies to compete in the market economy, including constituent factors of competence and other elements that affect the competitiveness of businesses. These will be the ground for a secondary research on Chinese and Singaporean general logistics activities, which will be introduced to readers in chapter 3 of the thesis. Chapter 4 provides results of the study, where the author analyses how logistical efficiency is achieved in other Asian countries among European's largest exporters. Discussions are in chapter 5 where the author explains her thoughts on the findings and suggests some grounds for improvement within the Vietnamese freight forwarding industry. Lastly, topics are open for further studies and final remarks on the subject.

2 THEORETICAL FRAMEWORK

2.1 Logistics services

2.1.1 What are logistics services?

The terminology for “logistics” has been well developed all around the world; however, this term remains quite unfamiliar in Vietnam. Many people recognize logistics as a relatively specific activity closely related to the transport and delivery of import and export goods. Though, its definition is explained to a much broader extent. Logistics is used in many different fields such as economy, society, military, etc.

The term “logistics” was first used in the military to imply the transport, storage and supply of goods for combat purposes. Along with the country's economic development, logistics has been transformed into a service that plays a vital role in international communication and trading.

According to the American Council of Logistics Management, logistics is part of the supply chain which includes planning, organizing, implementing, effective control, efficient circulation and storage of goods and services and related information from the primary supply point to end users efficiently and effectively to meet customer demand. (Kasilingam, 1991, pp. 1-19)

Unlike the term "logistics", the term "logistics service" has not had its definition discussed much in documents around the world. In Vietnam, the concept of logistics was not mentioned until 2005 when Article 233 of the Commercial Law provided the definition of logistics services as follows: "Logistics services are commercial activities, under which traders perform one or more tasks including receiving, transporting, storing, warehousing, customs clearing, doing other paperwork, customer consulting, packaging, marking, delivering goods or other services related to goods under an agreement with customers for remuneration".

The Commercial Law 2005 considers logistics services to be almost similar to freight forwarding activities. Businessmen who provide one or more services such as receiving goods, transporting, customs clearance, etc. are considered logistics services providers. According to this definition, logistics service is essentially an activity of aggregating supporting factors for the transport of products from place of production to place of consumption. Accordingly, logistics service holds in itself many transporting factors, thus making logistics service providers not much different from the multimodal transport operator (MTO).

An enterprise when participating in doing business involving any of the above logistics activities is considered to have provided logistics services. This means that, in principle, an enterprise only needs to provide any transportation service (warehousing, customs clearance, packaging, etc.) to be considered doing business within the supply chain industry and therefore the enterprise must satisfy legal obligations within the logistics services industry (charter capital 10 billion VND for traders providing logistics services).

Logistics services in this context must be understood as a continuous service of many services in different stages from pre-production until the goods reach an end consumer. Accordingly, logistics services are associated with both the import of raw materials, the input of materials into the

production process, the production of goods, and the delivery of goods to distribution channels. (2005)

2.1.2 The main types of logistics services

According to the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO), logistics services are divided into three groups:

- *Core freight logistics services*

Core logistics services account for the majority of the total logistics costs. They are in a decisive role for other services and are needed to conduct liberalization to promote service mobility. Core logistics services are composed of:

- Cargo handling services, including container handling activities.
- Warehouse and storage services, including container warehousing and storage for handling raw materials and equipment.
- Transport agency services, including agency activities of customs clearance and cargo handling planning.
- Other supporting services, including activities of receiving, storing and managing information related to the transport and storage of goods throughout the logistics chain; handling of goods returned by customers, inventory, obsolete, outdated goods and redistribution of such goods; container renting and leasing. (WTO, 1994)

- *Related freight logistics services*

Services related to the providing of effective integrated logistics services as well as providing a favourable environment for the development of third-party logistics services. Related freight logistics services include:

- Maritime transportation services
 - Inland waterway transport services
 - Air transport services
 - Railway transport services
 - Road transport services
 - Transportation services in the pipeline (WTO, 1994)
- *Non - core freight logistics services*
 - Technical testing and analysis services
 - Postal services
 - Wholesale commercial services
 - Commercial and retail services, including warehouse management, collection, gathering, classification of goods, distribution and delivery
 - Other transport supporting services (WTO, 1994)

Vietnamese lawmakers also refer to this agreement to develop provisions on classification of logistics services in Decree 140/2007/ND-CP (Decree of Government No. 140/2007/ND-CP of providing detailed regulations on the commercial law regarding conditions for engaging in logistic services business, and limitations on liability of logistic services business entities). (The Government, 2007)

2.1.3 The role of logistics services

Along with the strong development of the world's trend in globalization and regionalization, logistics services are playing an increasingly important role in improving national economy, especially for developing countries in keeping up with the rest of the world. Functions of an effective supply chain are specifically listed as follows.

- *Logistics service is a tool to link activities in the global value chain (GVC) such as supply, production, circulation and distribution, and expanding markets for economic activities.*

As the global market expands with technological advances, especially as markets open for developing and underdeveloped countries, logistics is considered as a tool, a means of linking different sectors of a business strategy. Logistics is useful in terms of time and place for business operations. Today's world is perceived as an integrated economy, in which enterprises expand national borders and the national concept of trade ranks second only to business activities.

- *Logistics services play an important role in optimizing the cycle of production from raw materials to final product.*

Since the 70s of the twentieth century, successive energy crises forced businesses to pay more attention to their costs, especially transportation costs. During certain periods of time, bank interest rates were so high, businesses began to gain a deeper awareness of capital, since capital is retained by maintaining too much inventory. It was during this period that finding ways to optimize production, storage and transportation of goods stayed at top priority for enterprises. Logistics, with the help of information technology, is considered a powerful tool to obtain this goal.

- *Logistics services help managers make accurate decisions in business production activities.*

During production, managers must solve many conundrums about the source of raw materials supplied, quantity and effective timing to replenish raw materials, vehicles, and itinerary for transport, location, and warehouse for finished and semi-finished products, and many others. In order to effectively solve these problems, companies' initiatives utilize logistics methods to make accurate decisions, minimize costs incurred, and ensure smooth operation in production and business activities.

- *Logistics services guarantee accuracy in time and place (Just - in - Time)*

Globalization has made goods and moving goods around more diverse and complex, placing new requirements on freight forwarding services. At the same time, enterprises must limit their inventories by keeping them to a minimum. As a result, circulation and logistics activities must

secure precise and timely delivery as well as control inventories. Recent rapid growth of IT advances allows a smooth combination of supplying, manufacturing, storing, and consuming goods using freight forwarding services, making the whole process faster and more efficient.

- *Logistics services contribute to improving management efficiency, reducing costs in the production process, and enhancing competitiveness for businesses.*

According to the United States Logistics Research Institute, the cost of logistics activities accounts for about 10-13% of GDP in developed countries, and about 15 - 20% in developing ones. According to a study, logistics activities in China grew at an average rate of 33% per year and in Brazil 20% per year (Cục Quản lý cạnh tranh và Tổng công ty Hàng hải Việt Nam, 2008, pp. 140-156). This shows that the cost of logistics is high. Therefore, the formation and development of logistics services would help businesses and the entire national economy reduce costs in the logistics chain, making business operation and production more streamlined and efficient, which in turn could increase competencies of enterprises within the global market. In fact, within the past few years in European countries, logistics costs have decreased substantially and will likely drop further in the coming years.

- *Logistics services save costs in distribution and circulation activities.*

The price of the goods on the primary market is equal to the price at the place of manufacture plus the cost of transportation. The cost of goods circulation (mainly freight charge) accounts for a large percentage of the price of goods on the market, especially goods in international trade. In international trade, transport costs take up a significant proportion. According to the United Nations Trade and Development Forum (UNCTAD), the cost of sea transport accounts for an average of 10 - 15% of the FOB price, or 8-9% of the CIF price (UNCTAD, 2017). Since transport is the most important factor in the logistics system, improving logistics services could significantly save freight and other costs incurred in the circulation process. If we include freight costs, the total logistics costs (including packaging, storage, transportation, management, etc.) are estimated to account for 20% of the total production costs in developed countries. Meanwhile, freight costs

alone can account for up to 40% of the export value of some countries without sea lanes (Cục Quản lý cạnh tranh và Tổng công ty Hàng hải Việt Nam, 2008, p. 228).

Through Table 1, outsourcing logistics services has brought significant benefits to companies from both developed and underdeveloped countries. In Latin America, for example, firms that outsource logistics services have, on average, reduced logistics costs by 16% compared with firms that do not outsource logistics services. When outsourcing logistics, businesses also reduce the fixed cost of investment in logistics operations by 25% compared with not outsourcing services, since they do not have to invest in the procurement of fixed assets for logistics activities such as warehouses, transport vehicles, means of loading and unloading in warehouses, among others. Enterprises can save these costs to lower production costs and improve their competitiveness in the market. In terms of time, the average order cycle is 10.2 days. However, if a business outsources logistics services, the cycle is reduced to 6.8 days, shortened by 3-4 days. The same goes for other regions.

Thus, logistics has contributed to reducing costs, improving management efficiency, thereby improving the competitiveness of businesses.

Table 1. Advantages from outsourcing logistics services (Capgemini, Georgia Institute of Technology, SAP and DHL, 2007)

Benefits		All regions	North America	Europe	Asia Pacific	Latin America
Reduce logistics cost (%)		13	11	13	12	16
Reduce logistics fixed cost (%)		18	14	20	17	25
Average cycle of an order	From (number of days)	14	17.4	12.7	13.8	10.2
	To (number of days)	10.3	13.1	10.2	9.7	6.8

- *Logistics services contribute to increase freight forwarding companies' business value.*

Logistics service is an expanded and more complex version of pure freight forwarding service. In the past, freight forwarding service providers only provided customers with simple single services. Nowadays, due to the development of production and circulation, parts of a product can be supplied by many countries and likewise, a product of an enterprise can be consumed in many countries, and in many different markets. Therefore, the services that are offered to customers are growing in forms and in numbers. Today's freight forwarders strive to provide services that meet practical requirements of customers. They become a logistics service provider. Clearly, logistics services have contributed to increasing the business value of freight forwarding companies.

In developed countries, the use of full-package logistics services helps manufacturing businesses shorten the time from receiving orders to delivering products to customers from 5-6 months down to 2 months. This service business has a profit margin 3-4 times higher than production costs and 1-2 times higher than other foreign trade services. (Cục Quản lý cạnh tranh và Tổng công ty Hàng hải Việt Nam, 2008)

- *Developing logistics services contribute to expanding markets in international trade.*

Marketing is an important matter for production and business making. Business manufacturers who want to dominate their market and expand to foreign ones need good logistics. Logistics services act as a determining factor in moving goods on new routes to new markets in accordance with the requirements of time and place set. Brand image and customer satisfaction in this new market are partly affected by how the goods are delivered. This is especially true for markets that put a high pressure on green logistics. The development of logistics services to fit into different international settings, therefore, has a great impact in exploiting marketing benefits and expanding business markets for enterprises.

- *Development of logistics services contributes to reducing costs and standardizing qualifications in international business.*

A transaction in international trade usually consumes lengthy papers and legal procedures. According to United Nations estimates, the annual cost of paperwork for all aspects of commercial transactions in the world has exceeded 420 billion USD (Cục Quản lý cạnh tranh và Tổng công ty Hàng hải Việt Nam, 2008, pp. 25-30). Experts calculated that the annual cumbersome papers and brochures also account for more than 10% of the international trade turnover. This, in turn, negatively impacts international trading activities. Logistics has offered a variety of services that have greatly reduced the cost of documentation and legalization in international trade. Logistics services provided by logistics service providers eliminate a substantial amount of costs on paperwork, upgrading and standardizing documents as well as reduce the amount of office work in goods circulation, thereby improving the efficiency of international trade.

In addition, recent development in electronic logistics will create a revolution in transport and logistics services. The cost of documentation and standardization in goods circulation will be reduced to the minimum. The improved quality of logistics services will further narrow the obstacles in terms of space and time in the flow of materials and goods. Countries will come closer together in production and circulation. (Van, 2006)

2.2 Logistics Service Provider

2.2.1 The concept of Logistics Service Providers

Logistics Service Providers (LSP) are independent companies that design, implement and manage logistics needs in a supply chain. (Chuong, 2006)

Article 234 of the Law on Commerce 2005 introduced the concept of logistics service providers as follows: "Traders providing logistics services are enterprises that have sufficient conditions to provide logistics services in accordance with the law". (2005)

The conditions for logistics services business are outlined in Decree 140/2007/ND-CP, which details the 2005 Commercial Law on logistics service business conditions and limits of liability

for logistics business traders. As a supplementary document to guide the implementation of the 2005 Commercial Law, Decree 140/2007/ND-CP has divided logistics service providers into two objects, which are general traders providing logistics services and foreign traders providing logistics services:

"Traders providing logistics services are traders who organize the provision of logistics services for customers by themselves or by subcontracting to other traders to perform one or more stages of that service".

"Foreign traders providing logistics services are traders from countries and territories that Vietnam has committed to in international treaties on opening the logistics service business market".

Because of this distinction, the conditions for different logistics service businesses are divided differently. Foreign traders providing logistics services, apart from having to meet the conditions of a general logistics service provider, must also meet the conditions for the maximum rate of capital contribution of foreign investors. Also, pipeline transport services are not allowed for these foreign traders. (The Government, 2007)

2.2.2 Types of Logistics Service Providers

Based on the level of labour and professionalism, LSP are divided into the following models:

- *First Party Logistics (1PL)*

The owner of the goods organizes the logistics activities by himself to meet his own needs. The owner of the goods must invest in the procurement of means of transport, build or rent a warehouse, invest in information systems, and hire labour to manage and operate logistics operations. Usually applying logistics operations in this way often reduces business efficiency because the business does not have the right scope, experience, and expertise, not to mention the huge investment in

management and operation. Logistics activities as such will force a business to disperse its resources.

- *Second Party Logistics (2PL)*

A second party logistics service provider is a person who provides services for a single operation in a chain of logistics operations (transport, warehousing, customs clearance, payment, etc.) to meet the needs of the owner. It is worth noting that 2PL does not provide full-package logistics services but only single operations, without the integration of logistics activities. This category includes shipping companies by sea, road, air, intermediary payment companies, customs declaration, and warehousing services.

- *Third Party Logistics (3PL)*

Third party logistics service is the act of outsourcing a company's logistics activities. According to a website called 'Supply Chain Vision', a third-party logistics service provider is a company that provides multidimensional tactical logistics services to customers. These companies will assist in driving the flow of equipment and materials from supplier to manufacturer, and end product from manufacturer to distributor and retailer. These tactical services are often basic including transportation, warehousing, cross-docking, inventory management, packaging and supply chain. Compared with 2PLs that only provide services for a single activity in the logistics chain, the logistics services provided by 3PL include many activities and integrate these activities into customers' supply chain.

- *Fourth Party Logistics (4PL)*

Fourth party logistics service provider is an integrator who connects his scientific and engineering resources, potentials, and facilities with other organizations to design, build, and operate supply chain solutions. The 4PL is responsible for managing the flow of logistics, providing supply chain solutions, planning, consulting logistics, managing transportation, carrying out import and export procedures, and taking goods to the final consumption destination.

- *Fifth Party Logistics (5PL)*

Recent development of e-commerce has allowed for the birth of fifth party logistics. 5PL service providers are 3PL and 4PL service providers, who manage the entire supply chain on e-commerce platforms. (Chuong, 2006)

2.2.3 Logistics services provided by LSP

The services provided by LSP are increasingly diversified and developed to effectively satisfy most customer requirements. In addition to basic logistics services, LSP also compete fiercely to offer more and more unique services with high professionalism, designed exclusively for each type of customer (specialized or tailor-made services). Logistics services provided by LSP can be listed into the following main groups:

- *Designing / Planning*

Companies that provide customer-specific logistics services will design or restructure their customer's supply chain to achieve the best results and promote competitive advantages. Based on the current situation of the customer's business organization, LSP will plan and design a suitable supply chain and a reasonable production process to ensure time and money efficiency.

- *Inbound Logistics*

+ Kitting: Manage selection, packaging, and transportation of unmatched parts and components to enterprises' production line.

+ Quality control / Quality assurance: Conduct quality control at warehouses and remove substandard products, transport back to manufacturers to replace unsatisfactory components.

+ Sequencing: Arranging parts and materials in a production line in a specific order for convenience of production and packaging.

+ Milk runs: Optimizing freight flow by consolidating and delivering goods to many customers in the same industry. Instead of shipping goods from A to B and backwards, LSP design a complex route with multiple loading and unloading points, combining multiple orders from multiple customers at the same time. The purpose is to maximize the use of the vehicle's carrying capacity and to save transportation costs.

+ VIM (Vendor Inventory Management): Carries out the consolidation of goods such as items and supplies necessary for production and business processes from many small suppliers to customers.

➤ *Manufacturing Support*

+ Sub-assembly: applicable to electronics, automobile, and FMCG industries. Logistics company handles the assembly of basic parts of a product from single components.

+ Inventory planning: Plan and control the storage process with the most modern warehouse management systems to ensure optimal reservation and minimize costs.

+ Packing / Labelling: Packing and labelling goods.

+ JIT, kitting, sequencing, among others.

➤ *Outbound Logistics / Warehousing and Distribution*

With a modern and large-scale warehouse system, logistics companies can undertake the storage of finished products and deliver them to consumers at low cost. In addition, these companies also provide some special warehouse services as customers request. For example, contract

warehousing, dedicated warehousing, multi-user warehousing, bonded warehousing, automated warehousing, and cross-docking.

➤ *Group of freight forwarding, and consolidation services related to the entire flow of materials and goods*

+ Ocean / Air freight, FCL / LCL

+ Dedicated contract carriage

+ Intermodal services

+ Merge-in-Transit: applicable to companies that import complete parts from multiple suppliers. Logistics companies will combine the input and output of the supply chain in a consistent and efficient manner, proceed to assemble the final products and deliver directly to customers

+ Customer services

➤ *Aftermarket Logistics*

LSP can help clients manage issues that arise after the transaction, including several services:

+ Returns logistics: Manage the process of recalling defective, recycling or cancelling items for customers

+ Repair: Receive and repair finished products or parts

+ Reverse logistics: Design and manage the flow of unused materials or equipment back into the supply chain

+ Call centres: Receive orders and register deliveries.

➤ *Lead Logistics Provider*

Lead logistics providers work on behalf of customers to manage the entire supply chain or wherever necessary to sub-lease services of several logistics companies. Customers only must transact with a single service provider. (Chuong, 2006)

2.3 Competence of Service Businesses in the Market Economy

2.3.1 The Concept of Business Competence

The concept of business competence was first mentioned in the US in the early 1980s. According to Aldington Report (1985): “A competent enterprise is one that can produce products and services with superior quality and lower prices than domestic and international competitors. Competence means the achievement of long-term benefits for a business and the ability to secure income for employees and business owners”. This definition is also restated in the UK’s Whitepaper Book of Competence. In 1998, the Ministry of Trade and Industry (UK) gave a definition: “For enterprises, competence is the ability to produce the right product, determine the right price at the right time. That means meeting customer demands more effectively and efficiently than other businesses of the field”. (Thắng, 2007, pp. 20, 34, 128)

Until now, the concept of competitiveness has not been uniformly understood. It is even more complicated to consolidate the meaning of business competence within the context of Vietnam - a developing economy striving its way into fierce global competition. Nevertheless, the concept of companies’ competence can be understood in this thesis as the ability to maintain and improve a competitive advantage in product consumption, expanding consumption network, and effectively attracting and using unique manufacturing edges to achieve large and sustainable economic benefits. (Nguyen Huu Khai, 2007)

Thus, competence is not explained by a single indicator, but includes many constituent factors and can be measured for each group of enterprises and each industry.

2.3.2 Internal factors and measurements of competence in the service industry

The constituent factors and criteria for measuring the level of competence of service enterprises must show the nature of the enterprises' competitiveness in dominating the consumption market's output products as well as attracting inputs in the short and long term. Accordingly, the criteria for evaluating the level of competence of a service enterprise include:

- *Ability to maintain and expand the market share of the service business*

This is the most basic and grounded indicator that reflects the output competence of firms, both within domestic and international competition.

Market share is the criterion showing the competitive position of an enterprise. If an enterprise has a larger market share than other firms, its competence is high. This criterion is usually measured by the ratio of the sales or the number of products consumed by the enterprise in a certain period to the total sales or output sold on the market as Equation 1.

Equation 1. Market share of a service business

$$\text{Market Share} = \frac{\text{Total Sales of the Company}}{\text{Total Sales of the Market}} \times 100$$

or

$$\text{Market Share} = \frac{\text{Total Number of Unit Sole by the Company}}{\text{Total Number of Units Sold in the Market}} \times 100$$

This formula reflects the competitive position of service consumption of a business at a given time. However, this indicator is not always calculable, especially in cases where enterprises have a very small market share or service exporters find it difficult to calculate their market share in foreign markets. Furthermore, this figure is mere static, reflecting competence at a time in the past.

Therefore, to see the change of competence over time, people often consider the change in market share index of enterprises over a number of years, usually from three to five.

- *Competitiveness of the product*

This is one criterion reflecting business performance. The competitiveness of an enterprise's products is based on primary factors such as service quality, service price, and the ability to meet customer demand.

Service quality is a qualitative indicator, quite abstract, and is harder to evaluate than the quality of goods due to its intangible nature. Each type of service uses different criteria to evaluate its quality. There is, though, a more feasible approach that is to evaluate the reaction of service consumers. However, a service industry can have many types of products, so an assessment is only possible for a few primary or industry-specific services.

Price is one of the quantitative indicators to assess competitiveness. Nowadays in the world of market competition, high prices do not mean low competence. A high price represents a product that consumers adore and are willing to pay a premium for it.

The ability to meet customer demand is an indicator showing that customers are offered the right product, at the right time with a reasonable price. This is a qualitative indicator, reflecting a business' capability to live up to its expectation from the people and is usually determined through customer surveys.

- *Ability to maintain and improve business efficiency*

This criterion is reflected through profit margin. The rate of profit of a service enterprise is a general indicator, calculated by an absolute value (for example, how much profit per input unit) or a relative number (profit rate of the business compared with the average profit rate of the market).

For a business, profit is not only the main goal, but also a premise for existence and development. Therefore, this figure demonstrates how well a business has operated to achieve its target, reflecting some level of competence. This criterion is measured by equation 2. The larger the resulting number is than 1, the higher the efficiency of the business and therefore the higher the competence.

Equation 2. Profit rate of a service enterprise

Profit Rate of a Service Enterprise

$$= \frac{\text{Rate of Return/Pre – tax Return on Business Capital of the Company}}{\text{Average Rate of Return of the Industry or Market}}$$

- *Adaptability and innovation*

Doing business in a fluctuating market economy along with globalization requires enterprises to be highly adaptable and rapidly innovating. This is one of the most important indicators to assess competitive advantages of a business. Enterprises must adapt to changes such as preferences, needs, prices, quality and quantity in domestic and international markets and changes in business environment, state policies, business partners, competitors, among others.

- *Ability to attract human resources*

The ability to attract human resources does not only ensure business operations in the service industry are conducted normally, but also demonstrates a company's competitiveness in attracting inputs. Thanks to qualified and experienced inputs in human resources, high technology, and capital, businesses can improve service quality and business efficiency.

- *Linkage and cooperation*

Competition will be better if companies know how to utilize association and cooperation to raise their values. Therefore, the ability to link and connect is considered as a premise for effective business operations. In Vietnam, where service enterprises are mostly small and medium,

association and cooperation are of great significance to survive and improve business competence. This criterion is reflected in the quantity and quality of relationships with partners, joint ventures, and territorial business network systems.

- *General indicator of business competence*

In order to compare competence among enterprises, one usually calculates an aggregate figure. The index of general competence is calculated by Equation 3.

Equation 3. Business competence index

$$C_A = \sum_{i=1}^n (k_i \times M_i)$$

In which, C_A : Competence of enterprise A
 M_i : Assessment score for the component indicator number i
 k_i : The weight of the criterion

(Suu, 2006)

2.3.3 Factors affecting the competitiveness of businesses

Competitiveness of a business is affected by many different factors, including internal and external factors. These factors can create and increase an enterprise's competitive advantage, but they can also reduce or eliminate an existing competitive advantage.

In the 1990s, Michael Porter introduced his theory of competitive advantage - a work done by a team of several scientists from 12 different countries starting in 1986. His theory was built on the basis that competence of an enterprise is reflected in its ability to create and innovate. According to this theory, the competitive advantage of a business is demonstrated through the association of four groups of factors. The association of these four groups of factors forms four vertices of the diamond model (Figure 1), which are: (1) Factor conditions (human, material, and mind); (2)

Demand conditions (size, structure, and market); (3) Supplies and related industries (the presence or absence of international competition for the business or related industries); (4) Business context (strategy, structure and competitors). These factors interact with each other and form the competitiveness of a business. In addition, there are 2 other factors, Government and Opportunity, that can affect the four basic factors mentioned above.

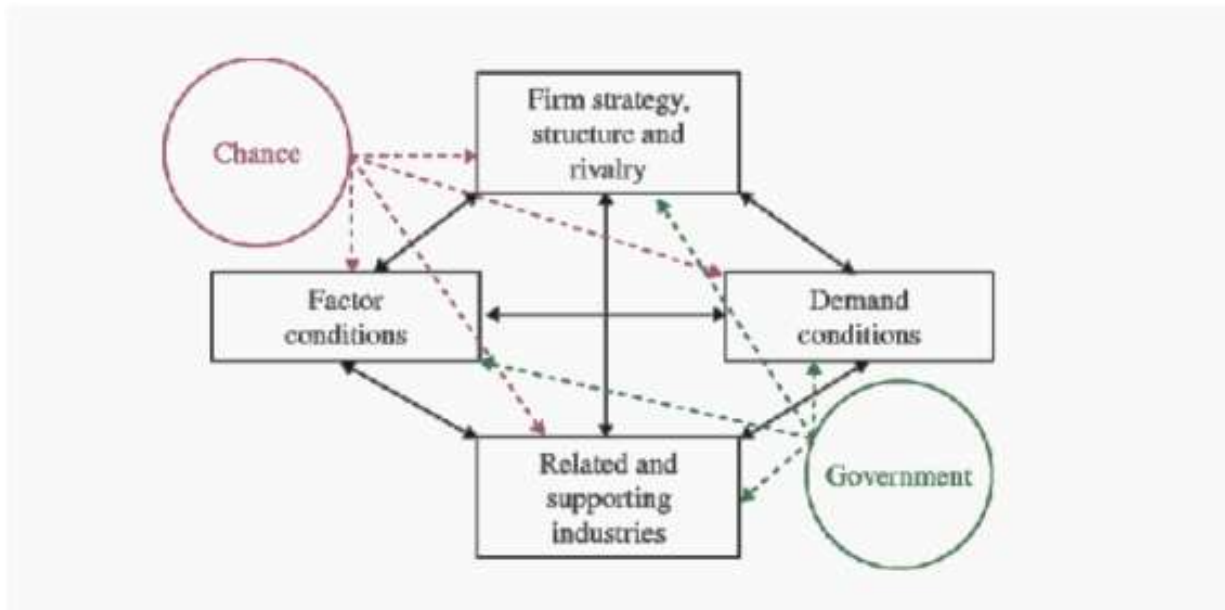


Figure 1. Diamond Model (Porter, 1990)

- (1) *Factor conditions* include 5 subgroups: physical and technical infrastructure, administrative infrastructure, human resources, technology infrastructure, and financial market.
- (2) *Demand conditions*: buyers' preferences and preferences, consumer laws, IT.
- (3) *Related industries and sectors*: the quality and quantity of local suppliers, on-site capacity for specialized research and training services, degree of cooperation between regions industry, the ability to on-site supply of machine parts and accessories.
- (4) *The context for the enterprise's competitive strategy*, including two subgroups: motivation and competition (intangible barriers, competition of local manufacturers, effectiveness of anti-monopoly).

(5) The role of the *Government*

The government can influence the competitive advantage of firms in an industry by influencing all four groups of factors that determine competitive advantage, namely, factor conditions, demand conditions, supporting industries, strategy, structure and environment of a firm's competitiveness.

The executive role of the Government is determined on the following aspects:

The first is development orientation through the formulation of strategies, plans and policies for economic development. The development orientation must act as a guideline to guide the decisions, actions and concepts of all subjects in the economy.

The second is to create a legal and economic environment for economic actors to operate and compete in a fair and beneficial way.

The third is to regulate activities and distribute benefits fairly using budget tools, taxes, credit, etc. Economic growth is not an end, but rather a means for a better life. Therefore, government administration must also focus on values such as social equity, equality and equal opportunity for all.

The fourth is to inspect and control economic activities in accordance with laws and policies.

(6) The role of *opportunity*

The components of national advantage shape the competitive environment in particular industries. However, opportunities are events that have little to do with the current state of the country and are often outside the sphere of influence of companies (and often government). Particularly important opportunities affect competitive advantages such as sudden changes in technology (such as biotechnology, microelectronics); changes in input costs such as sudden increases in oil prices;

significant changes in world stock markets, exchange rates; a sharp increase in global or regional demand; political decisions of foreign governments.

Opportunities are important because they create an unexpected change that allows for a displacement of competition. They can erase the advantages of those previously established firms and create the potential that new companies can exploit to gain the advantage of meeting new and different conditions. (Porter, 1990)

3 METHOD

3.1 Literature Review

A literature review in the form of a secondary research (desk research) was chosen to get an answer to the research question, what are the internal and external challenges of Vietnamese freight forwarders post EVFTA? A literature review constitutes a compilation and analysis of systematically collected knowledge that exists (or does not exist) in the chosen area. The purpose of the knowledge overview as a method was to immerse oneself in the chosen subject. This is done by evaluating, analysing and compiling results from the research that already exists in logistics. The literature review was made according to Arkesy and O'Malley's (2005) model. The first step in this method was to identify a research question, the second step to identify relevant studies, the third step was to select which question and which studies to focus on. After that, you go to the fourth step, to map data and compile results, to finally as a fifth step compare, summarize and report the results. In this model, there is also a sixth, voluntary step, which involves consultation where other researchers are asked to give their assessment of the study.

Daudt et al. (2013) writes that there are four reasons for conducting a knowledge overview: (1) to investigate the nature, extent and scope of a research activity, (2) to preliminarily map out whether a literature research is necessary in the field, (3) to summarize research results and be able to disseminate them and (4) to find gaps in existing research / literature.

Knowledge overview as a method suited my question because these studies usually include a broader area where several different studies can be included. This thesis therefore focuses on No. 3.

3.2 Data collecting

According to Arkesy and O'Malley's (2005) model of scoping study, the second step is to identify relevant research and/or articles in the thesis. To get a good literature review, "competence and quality of logistics services" and "Vietnamese freight forwarding companies" were indicated as keywords.

The following databases were used: Google Scholar, Emerald, EBSCO, and Researchgate. Research was limited to those done in 2010-2020, in this way it is obtained latest research on the subject. The languages searched for were English and Vietnamese. Whole articles only. Based on the abstract, it was chosen which articles were relevant and which were not relevant. After selecting material based on the abstract, the entire material was read in its entirety based on the overall research question, and with a view to the purpose of this study. In this way, materials for the study were included or excluded. The selection of material consists of both articles, dissertations and reports.

Keywords are "competence of logistics services", "quality of logistics services", "freight forwarding services", "supply chain", "EVFTA", "Vietnamese freight forwarders", and "Vietnamese logistics". The search was done by combining the different keywords using "and" and "or". The keywords are searched in the abstract or as keywords.

Table 2. Inclusion criteria

Inclusion criteria are:

Written in English or Vietnamese

Published 2010-2020

The title should relate to the thesis topic before continuing to read the abstract or full report

The content should relate to the research questions

Table 3. Exclusion criteria

Exclusion criteria are:

The content deviates too much from the focus of this work

Research that does not answer the research questions

Written in a language other than English and Vietnamese

Older research than 2010

The aim is to study how the subject is discussed in literature, and to find out what research is available on Vietnamese logistics performance for increased efficiency in trading. The result of this process is expected to be a compilation of what the current knowledge about logistics competence and the promotion of effective freight forwarding in export is.

Step four according to Arkesy and O'Malley (2005) is to map data. This means showing which data has emerged in the searches, which data is relevant and which data is not relevant. A total of 430 articles came up in my searches, all of which were reviewed at least at the title level. The abstract was also read through in the articles that had a title that could answer the research question and purpose.

In Google Scholar under the search theme "Vietnamese logistics" with a restriction 2010-2020, 281 hits came up. Of these, 16 abstracts were read, 4 articles were selected.

Researchgate was also applied for with the term "logistics performance in Vietnamese firms". The time limit 2010-2020 gave 5 results. Two of these results were duplicates of the Google Scholar search.

With the search term "Vietnamese logistics service providers AND performance OR competence" on EBSCO and EMERALD, duplicates from the previous search also emerged. Therefore, it could be stated that the search was relevant, and the search terms the right ones.

3.3 Data processing

Step five in Arksey and O'Malley's (2005) model is the analysis, summary and reporting of results. The writer chose to do a qualitative content analysis with an inductive approach.

A qualitative content analysis focuses on the interpretation of texts. This by describing variations of texts by identifying differences and similarities.

In this work, a conventional (inductive) content analysis was used. A conventional content analysis is used to describe phenomena. Analysis steps are read through, find and code meaningful paragraphs, categorize and finally find overarching and subcategories. (Hsieh, 2005)

The similarities in the texts resulted in several themes (subcategories), which served as a common thread that ran through the analysed texts. Inductive approach means that conclusions are drawn based on previous research, in this case the articles or reports produced. From the articles that were analysed, keywords were picked out, these keywords were paired together. Based on these paired keywords, subcategories were found. The subcategories are market share and capacity to dominate the market, competitiveness of logistics services, operational efficiency of Vietnamese freight forwarding enterprises, ability to attract resources, and ability to connect and cooperate. The result and the analysis of the result are presented under these five subcategories.

3.4 Ethical considerations

Good scientific practice was followed in this bachelor's thesis in accordance with Arcada's ethical guidelines. The materials, methods and results owned by others and used as background material are mentioned in the source list. The work and results of other researchers are referred to correctly.

This thesis was planned, implemented and reported so that the data collected is respected and its copyright is followed. All results that have emerged in the analysis process are presented. The material is not distorted and facts that come up during the analysis are not excluded.

In the collection of the data, the quality and relevance are taken into account based on the abstract. The ethical reflections of all research are read through in order to obtain the best possible material with regards to the ethical considerations of one's own degree thesis. If possible, also read the original research if one was referred to. (Zawacki-Richter O., 2020)

4 RESULT

This chapter presents result from an analysis of the current situation of logistics service competence of Vietnamese freight forwarding companies. In reality, it is difficult to evaluate the competence of logistics services, as there is no consensus on the evaluation criteria and data collection. An analysis of the competence of logistics services of Vietnamese freight forwarding companies is equal to the analysis of the competence of those companies, as providing logistics services is at the core of these businesses. Here are the findings from evaluating the competence of logistics service enterprises in Vietnam.

4.1 Market share and capacity to dominate the market

Market share is a leading indicator of business competence. Along with the process of world economic integration, the market share and the ability to dominate the market of Vietnamese freight forwarding enterprises have been significantly increased.

Within the domestic market, a few famous brands such as Viettrans, Sotrans, Vinatrans, Thamico, and Safi have been able to compete with foreign companies in providing transaction services. transportation, domestic transportation, customs clearance and warehouse leasing, and account for about 8% domestic market share, consolidation services account for about 10%, while other

services account for negligible market share. The rest of other smaller Vietnamese freight forwarding companies account for about 2% of the domestic market share.

International shipping by sea accounts for more than 90% of total imported and exported goods of Vietnam. Currently there are 227 shipping companies, including 25 Vietnamese enterprises. The rest are joint-venture and 100% foreign-owned companies, owning about 70 overseas container-shipping lines in active. These shipping lines share nearly all export and import markets by containers with shipping turnover of billions of USD per year. (Binh, 2016)

The volume of shipping containers of the Vietnamese fleet achieved in 2016 was 1.14 million TEU. Compared with the volume of goods through ports, the domestic shipping lines only account for about 33% of the market share in seaborne container transportation. This is because container transport requires specialized ships with a large initial investment, while the domestic fleet is mostly small ships, not suitable for long routes. As of December 2017, Vietnam had 39 container ships, accounting for 11.2% of the total fleet tonnage. The average age of the Vietnamese fleet is 14.5 years, compared with the average age of the world fleet of 12 years. This is not a bad age to be able to develop the fleet in the long term. However, "old" ships (over 20 years old) account for a relatively high proportion in the Vietnamese fleet of about 38.9% (compared to the world, which is 26.2%). Therefore, the selection of Vietnamese ships for international cargo is greatly restricted for safety reasons. Vietnam sets a target by 2020 to have a fleet of Vietnamese ships reaching 4.4 million tons of tonnage, focusing on developing a fleet of specialized ships, especially container ships. (Linh, 2018)

Transportation of goods by air is increasingly growing. Up to now, Vietnam has had about 70 air transport companies, of which more than 98% are foreign airlines operating in Vietnam and transporting more than 70% of the volume of goods. (Tien, 2016)

Road and rail transport make up a very small proportion of the total volume of international freight. Vietnam has more than 60 companies providing land and rail transport services to Laos, Cambodia and China.

These show that the market share and the ability to dominate the market of the Vietnamese logistics enterprises remain low. There are many reasons to this, one of which is the difference in the development level of logistics services between foreign / joint venture enterprises and domestic enterprises. Foreign enterprises have strong financial potential, market experience with over 100 years history and global coverage with hundreds of agents and representative offices in different countries. They can provide high-quality logistics services, meet customer demands and often have good relationships with multinationals in providing a wide variety of high value-added services in single or package form. Thus, foreign companies are the ones who provide the majority of logistics services in the Vietnamese market. On the other hand, Vietnamese enterprises in the logistics market mainly do business in transport and forwarding services. Most of these companies are small and medium-sized with no experience in the market, especially in providing logistics services. They focus on only a few types of transport services related to the domestic market. There has not been any Vietnamese firm who could organize and link these functions into a coherent and appropriate service chain. This is a prominent manifestation of a logistics industry with many weaknesses and lack of development. (Binh, 2016)

4.2 Competitiveness of logistics services

Competitiveness of logistics services is a basic indicator of the competence of enterprises in logistics service. It is reflected in prices, domestic logistics management capabilities, ability to "track and trace", transit time, customer care services and after-sales. The competitiveness of logistics services of Vietnam's logistics service enterprises in recent years has been greatly improved. (Chin-Shan Lu, 2012)

- On price

Some Vietnamese logistics companies can compete on price with foreign companies in providing services with advantages such as warehouse leasing, domestic transportation, and customs clearance. However, high value-added logistics services such as supply chain management, sea-air, air-sea combined air services, hang container services for high-end garments, etc. is done by

foreign companies. These services require experience, large investment capital, high management skills, and modern IT capability. In return, these services bring huge profits. (Hieu, 2017)

- *Domestic logistics management capacity*

Domestic logistics management capacity of Vietnamese logistics enterprises is still underdeveloped. The situation of the theft and withdrawal of the container occurs frequently, causing great losses for customers, losing credibility with business partners and economic damage. Every year, the damage is estimated up to several tens of billion VND. Most of the theft is due to foreign partners' complaints or requirement of compensation. However, all cases showed that the container was still sealed, so the Vietnamese FOB exporter refused responsibility. Through investigation, the agencies discovered possible theft in the process of transporting goods from the warehouse to the port waiting for departure. In order to maintain a long-term business relationship, the Vietnamese LSP must agree to share part of the risk with foreign partners. (Hieu, 2017)

- *Track and trace capabilities*

Vietnamese businesses do not have the ability to track and trace (track goods in the logistics system). Due to limited capital resources, Vietnamese logistics enterprises do not sufficiently invest in modern machinery and equipment, nor do they apply modern EDI allowing them to track orders directly. They often use the track and trace service of shipping lines and carriers to provide international shipping cargo information to customers. This leads to inactivity in tracking of the schedule. There are cases when goods have arrived and the delivery company is not aware, customers not notified, causing delays, incurring costs of warehouse and storage, and affecting customer's creditability. Moreover, most of the Vietnamese freight forwarding enterprises do not apply modern warehouse management methods such as WMS. The use of barcodes to manage imports and exports is also limited. Therefore, the tracking and inventory of goods at warehouses are done manually, which is both time-consuming and laborious. (Bay, 2016)

- *Transit time*

Transit time is one of the most important factors in logistics services. With experience and large capital resources, foreign logistics companies constantly invest in modern equipment and machinery and complete a package logistics supply system with the aim of satisfying all customer needs at reasonable costs within the shortest time. Most foreign enterprises have global or regional branches, so multimodal transport service is convenient and transit time is greatly shortened. Meanwhile, most Vietnamese logistics companies do not have representative offices in foreign countries, so they must sign agency contracts with foreign forwarding companies in providing multimodal logistics services. International shipping of goods depends heavily on agents in foreign countries. Therefore, Vietnamese enterprises are not proactive in transit time. (Bay, 2016)

- *Customer care and after-sales service*

Most Vietnamese logistics companies only pay attention to making sales to customers, not customer care and after-sales services. In addition to the good price and quality of service, customers also choose the freight forwarding companies with the best after-sales policy.

In conclusion., the low competitiveness of logistics services of Vietnamese logistics enterprises is due to many reasons including lack of capital, lack of human resources in both quantity and quality, and poor infrastructure. Vietnamese companies are likely to become hirelings for foreign firms and obviously will not be their equal competitors in the market. (Binh, 2016)

4.3 Operational efficiency of Vietnamese freight forwarding enterprises

Logistics is a very important field in the production and circulation of goods, contributing to the efficiency of a business, improving the competitiveness of the goods, and providing work for the people. Logistics activities require little capital yet bring high profits. Every year, the cost of this service accounts for 15-20% of GDP, reaching about 8-12 billion USD in the Vietnamese market. However, most of the above profits belongs to large foreign corporations operating logistics services in Vietnam. Domestic forwarding companies account for only 10% of market share.

The reason for this is that Vietnamese logistics enterprises only provide a part of logistics services in the supply chain that brings low added value such as warehouse rental and domestic transportation. A few businesses provide multimodal transport services, yet the profit earned from these services is not high. In contrast, foreign companies provide high value-added logistics services such as supply chain management, air-sea combined services, and suspended container services for high-end garment products that require experience, large capital investment, high management level, and modern IT capability. These services often bring about significant profit. To save costs and labor, they often hire experienced Vietnamese freight forwarding companies to provide part of logistics services at a low price, which accounts for a small portion of the total amount they collect from customers. (Bay, 2016)

Thus, the operational efficiency of Vietnamese logistics firms remains low due to limited management capacity, unadvanced technological level and equipment usage, in addition to business environment and government policies.

4.4 Ability to attract resources

Enterprises' ability to attract resources is first and foremost reflected in their ability to mobilize capital. Currently, the primary capital mobilization channels of Vietnamese logistics companies are commercial banks, development funds, foreign countries, and relatives. By comparing economic sectors, the capital mobilization capacity of state-owned and foreign-invested companies is shown to be relatively easy. A recent survey by the Vietnam Chamber of Commerce and Industry (VCCI) shows that very few SMEs succeed in accessing formal capital. The debt level of small businesses is very low, accounting for only 8% of total assets.

Table 4. Credit sources of different types of enterprises, 2012-2014

Business type	Proportion in total credit for businesses			Average credit per enterprise in 2014 (billion VND)
	2012	2013	2014	
Total	100	100	100	16.2

State-owned enterprise	67.3	65.7	63.1	204.2
Non-state enterprise	14.9	17.6	20.2	3.6
Collective enterprise	0.5	0.6	0.5	1.3
Private enterprise	1.2	1.2	1.4	0.7
Partnerships	0.0	0.1	0.0	2.4
Private Limited Company	7.3	8.1	9.4	3.4
State-owned joint stock company	3.6	4.2	4.1	75.5
Joint stock companies without state capital	2.2	3.4	4.8	10.4
Enterprises with foreign invested capital	17.8	16.7	16.7	78.8

State-owned enterprises' credit loans accounts for 63.1 - 67.3% of the total loan capital of all enterprises. On average, one state-owned enterprise borrows 204.2 billion VND / year in 2014, 10 times higher than the average loan amount per enterprise in the whole economy. Loans from non-state enterprises only account for 14.9 - 20.2% of the total loan capital of all businesses, on average each enterprise borrows 3.6 billion VND / year, the figures corresponding to the collective enterprise is 0.5% and 1.3 billion; private enterprises 1.4% and 0.7 billion VND; limited liability company is 9.4% and 3.4 billion VND; state-owned joint stock companies 4.1% and 5.5 billion VND; joint stock companies without state capital are 4.8% and 10.4 billion VND; foreign-invested enterprises 9.7% and 78.8 billion VND / enterprise.

Therefore, most Vietnamese logistics enterprises are limited liability companies and joint stock companies, accounting for about 70%. They have many difficulties in raising capital, especially from official capital mobilization channels from the bank. When these enterprises only rely on little capital, it is difficult to expand business and improve competence. Also, when inaccessible to official sources of capital as bank credit, Vietnamese logistics enterprises must borrow from

informal sources through friends, relatives, employees, and even usury. This situation not only reduces the ability to mobilize capital, but also increases business risks, instability as well as the cost of capital.

In addition to the capacity to attract capital, businesses need to be able to attract different inputs such as high-skilled labor, advanced technology and material. The reality shows that foreign-invested logistics businesses have higher capacity than Vietnamese logistics enterprises in attracting skilled workers and attracting supplies due to larger capital, higher management capacity, and higher wages than domestic enterprises. Currently the "brain drain" from state-owned enterprises or non-state enterprises to foreign-owned enterprises is a problem for domestic enterprises. If the ability to attract high quality inputs is not improved, domestic firms are at risk of loss and their competitiveness may decline further in the future. (Ngoc, 2018)

4.5 The ability to connect and cooperate

Logistics activities of Vietnamese enterprises are sporadic, fragmented and isolated, lacking the necessary linkage. Currently, most of Vietnam's logistics service enterprises are small and medium enterprises, some are especially small. Businesses take care of their own interests; thus, cooperation and mutual support are very limited and underappreciated. There are certain actions that can be regarded as unfair competition existing in the market. These realities have reduced the competence of Vietnamese businesses with foreign partners right in the domestic market. If the domestic firms can connect and cooperate well with each other, not only will management fees, administrative costs, office rental, and means of communication be saved, but capital and manpower will also be strengthened. (Bay, 2016)

In a nutshell, the logistics service competitiveness of Vietnam's logistics companies is overall weak. If Vietnamese businesses cease to perfect their logistics systems and improve their competence, it will be extremely difficult to maintain domestic market share, not to mention expanding logistics services outside of Vietnam.

5 DISCUSSION

From a thorough analysis of Vietnamese freight forwarding companies' competence in the Result chapter, placing it within the current situation of the new free trade agreement signed between the EU and Vietnam, the opportunities and challenges that these companies must handle have become clear. This chapter of the thesis focuses on exposing the advantages and disadvantages of the research subject in the setting of a new cooperation between a developing country and the world's biggest trading block and suggesting solutions to improve Vietnamese logistics for domestic use as well as for international integration.

5.1 Opportunities

Vietnam is making strong strides in the process of integrating into the global economy. Most experts in the logistics industry agree that within the next 5 years Vietnam's logistics industry will achieve a relatively high growth rate (estimated at about 20%) (Son, 2018). This is achievable because Vietnam has officially become a trader with the EU. This event opened a great opportunity for Vietnamese businesses in general and for Vietnamese logistics businesses in particular. The commitment to expand the service market, including logistics services, will have a great impact on the provision of this service by Vietnamese freight forwarding enterprises.

The first opportunity is to expand the market for Vietnamese logistics enterprises. Once the market expands, the number of multinational companies and foreign investors entering Vietnam will increase rapidly, opening up a huge demand for third-party logistics services. However, if this market segment is well exploited, the Vietnamese logistics companies will have a good opportunity to develop this type of service and become Vietnam's LSPs.

Secondly, foreign investment in Vietnam will increase. Soon, foreign investors will choose Vietnam as a production hub for the world after China and India. Moreover, along with the wave of investment directly from multinational manufacturing companies, foreign logistics service companies are also ready to agree to invest in this fledgling logistics market. For instance, global

logistics companies such as Maersk Logistics, APL Logistics, NYK Logistics, and MOL Logistics have enhanced their presence in Vietnam by establishing 100% foreign-owned or set up a joint venture company with a controlling percentage of shares. Vietnamese logistics enterprises will have many opportunities to access and learn from experiences in managing, implementing and organizing logistics service business activities and investment capital from foreign companies with hundred years of experience. (Hieu, 2018)

Thirdly, the government commits to spend 10% of GDP annually to upgrade the infrastructure system including transportation, energy and telecommunications, which will contribute to accelerating operations and logistics demand. The government has also developed specific plans to improve seaport, airport, and land transport system by 2030. (Dung, 2016)

5.2 Challenges

Although Vietnam's logistics market has many opportunities to exploit, there are still a number of difficulties that affect the development of this industry.

Firstly, the pressure of fierce competition from foreign companies. At present, this competitive burden is quite clear when a series of shipping lines terminate agency contracts with Vietnamese companies and continuously threatened to establish a 100% foreign-owned company such as Wanhai, Mitsui, NYK, K'line, etc. (Hieu, 2018). The opening up of transport services causes Vietnamese logistics enterprises to face more challenges. The ability to survive depends entirely on the competence of each business.

Second, the infrastructure of the logistics service industry in the country remains limited, particularly the lack of synchronous transportation system, small and discrete warehouse system, lack of modern equipment for the processing of goods, outdated technology compared to the region and the world, and inability to meet the industry's development needs.

Thirdly, the inconsistency in logistics policies and regulations, typically in customs procedures, warehouses, and port operations. This makes the logistics process cumbersome and complex. Furthermore, the overlap of city and local agencies is increasing opacity and the cost and time required to process a unit. The lack of regulations on multimodal transport and the amount of paperwork has a significant impact on logistics operations.

Fourth, the lack of highly qualified human resources. Vietnam's logistics industry is lacking in experienced and highly qualified human resources. This is a challenge not only for Vietnam but also for international corporations operating in Vietnam.

Fifth, the requirements for diversifying the type and quality of logistics services are increasingly high. Although Vietnam's logistics industry has grown rapidly within the past years and has been attracting more and more businesses to participate, compared with the level of development of the region and the world, its pace is still far behind. In the service provision, enterprises are incapable of organizing and linking activities into an integrated chain. In the future, major customers in manufacturing will come to Vietnam with strict requirements for long-distance, large-volume, punctual logistics services. These major manufacturers tend to select reputable LSP to be assured of service quality. This is quite a big challenge for logistics enterprises in Vietnam since they are currently unable to provide full package services. Moreover, if these businesses lack specific marketing plans and good relationships with partners, it will be difficult to win contracts.

In general, Vietnam's logistics industry is still in its infancy. This immaturity is reflected in both the areas of opportunity and challenge. Although the growth rate of the logistics industry is likely to be high in the future, if the challenges are not addressed, the growth rate may be constrained.

5.3 Solutions to improve competence of logistics services of Vietnamese freight forwarders post EVFTA period

5.3.1 For the companies

Development of services is indispensable for the transport and freight forwarding business. In order to develop and enhance the competitiveness of this service in the integration process, businesses themselves must make efforts to promote their internal strengths. Each enterprise will build its own development strategy suitable to its specific goals and conditions. There is no common business plan for all. In the framework of this thesis, the writer would like to propose a few solutions that Vietnamese logistics enterprises need to implement to improve their competitiveness of logistics services and become a professional LSP in the near future.

Improving the quality of **customer service**. Firstly, businesses must start from perfecting the types of services they are providing to customers, which are considered the primitives of the integrated logistics chain. That is forwarding and transportation services, domestic transportation, and warehousing, etc. The next solution to improve service quality is investing, upgrading and modernizing equipment, opening to expand the existing infrastructure, surveying the market to capture its needs and volatility, targeting customers to develop a service strategy, and striving for better, quicker and more effective response to any arising complaints.

Enterprises need to promote the development of **multimodal transport services**. In order to do that, Vietnamese enterprises must create links, coordinate smoothly with the transporting and freight forwarding section, organize transshipment points to clear the flow of goods, and compare cost, time and advantages of each vehicle type to design a route suitable to the nature of the goods and the transport terrain.

Invest, construct and modernize the **warehouse system** by categorizing warehouses to suit each type of goods, designing the shelf system to minimize usable area, loading and unloading goods by pallet system.

Establish **distribution centers** in key locations where it is convenient to perform value-added services for goods, and to help transport goods to the receiving point quickly and profitably. Develop multi-purpose warehouse model to serve supermarkets and retail stores.

Invest in machineries for container handling such as forklifts, cranes and modern vehicles for transporting and loading goods.

Application of **e-commerce** and modern management methods allows enterprises to strictly control the flow of goods, quickly and accurately communicate with stakeholders, promptly handle incidents, and effectively support customers in tracking items. Businesses should make use of the newest available logistics technology methods such as SCM - Supply Chain Management, JIT - Just in Time, CCMS - Cargo and Container System, CIS - Customer Information System, TMS - Transport Management System, and WMS - Warehouse Management System.

Develop a **marketing strategy** for logistics services. Research specifically about the needs of the market, especially the needs of domestic production and business enterprises to emulate different types of logistics services. Gradually expand and complete the supply chain. Increase the promotion and introduction of logistics services to customers to boost demand. Currently, many domestic producers and business exporters do not know of the concept of logistics, let alone see the benefits of this activity from which there is a demand for hiring services.

Build strong **relationships with representative offices and foreign companies** in Vietnam. Regularly keep liaison with foreign trade agencies and international organizations in Vietnam and overseas to exploit information about trade and investment contracts for the purpose of participating in bidding for logistics services for customers.

Research on marketing strategies of foreign companies in Vietnam and companies in countries with developed logistics industries to **learn from experience**, in order to improve service quality. logistics provided to customers according to international standards. Only then will have the opportunity to exploit logistics contracts of multinational companies and foreign investors in Vietnam.

Open **representative offices** or branches of enterprises in a foreign country to expand the market, especially in countries where business has provided transit transport services such as China, Laos, Cambodia, Singapore, Thailand, and Malaysia.

Progress to building an **agent network**, expanding coverage to be able to provide a package service, with close linkage of freight flows to customers.

Building logistics brand. The strength of Vietnamese enterprises compared to their foreign counterparts is a better understanding of the domestic market, understanding of the attitude, customs and identity of domestic enterprises. Therefore, this is the key point for Vietnamese forwarders to promote and join hands in building an authentic Vietnamese logistics brand.

Constantly improve the **management apparatus** and actively train leaders. Simplify the management structure by cutting unnecessary members of the leading team and keeping the managers group stable. Equip the superior members of the company with up-to-date knowledge and management methods.

For the quality and professionalism of the staff, businesses need to cooperate closely with **associations** to nominate people to attend short-term training courses organized by the association. At the same time, businesses can organize talks between leaders or experienced staff with new employees in fields of sales, marketing, and customs operations to share experiences and exchange knowledge.

Capital mobilization solutions for businesses: 1) Joint venture and cooperation with foreign logistics and transportation firms. 2) Merge many businesses in the industry together to increase size and competitiveness or to form joint ventures with businesses in other industries - with banks, insurance companies, telecommunications, etc. to increase capacity capital. 3) Actively equitize enterprises, sell their shares to the public to raise capital.

5.3.2 For the government

As analysed in the Result chapter, logistics is a relatively new field in Vietnam and the market for providing logistics services is in its infancy and has many weaknesses and shortcomings. The Vietnamese logistics enterprises in the market now are not considered as official LSP but they only provide one or several stages of logistics in a value-added chain. This way of doing logistics is

insufficient to compete with foreign companies that have had extensive experience and strong financial potential. To be able to develop Vietnam's logistics service industry while improving the competencies of Vietnamese logistics enterprises, it is necessary to have broad coordination from many organizations and units from the government, ministries, sectors, industries and different parts of society with synchronous and feasible solutions. Here are some recommendations for the government to improve the business environment of logistics services.

- *Develop an overall strategy for the general development of the logistics service industry*

Free trade agreement means opening doors for global integration, which also means allowing foreign investors to freely enter the market to provide logistics services, which of course creates direct competition pressure for domestic businesses of Vietnam. Even though competition is the driving force for enterprises to improve themselves, improve service quality to attract customers, gain market share and stand firmly in the market, but the majority of businesses in this industry are too small in size, lack experience, and lack support. It will be difficult to even survive in the market. Therefore, the state government needs to clearly define a roadmap for opening this service in order to both meet the commitments of the FTA and create conditions for enterprises to participate in the service business, so that Vietnamese logistics service can be developed and well prepared for integration.

Besides defining a reasonable integration roadmap, the state also needs to soon formulate an overall strategy with clear objectives and implementation measures to encourage business growth. For countries with developed logistics industries today, their government has contributed a very important role. In addition to the dynamics of businesses, the reason for the success of logistics in these countries is that the state has paid great attention to improving and bringing logistics development strategy into socio-economic development strategy. Singapore has built a system of seaports, shipping companies, airlines and logistics companies into a chain of services following the 'one-stop shop' model. As for Vietnam, this effort remains fragmentary, lacks the totality and long-term aspect of a well-planned scheme. However, for logistics to be applied and developed comprehensively and effectively, the government needs to build a development strategy for this

service industry. Without a proper strategy, it will lead to spontaneity, fragmentation, wasting investment resources, and bring undesirable effects.

- *Systematize laws and policies regulating logistics activities*

The government needs to consider building a legal corridor to ensure consistency, openness and reasonableness in documents and regulations related to the logistics sector with the aim of creating a basis for a transparent logistics environment. In international economic relations, it is necessary to amend domestic laws to regulate logistics service relations according to international practices. Issuing regulations on NVOCC licenses, customs regulations on customs brokerage, import and export documents must be consistent with international and regional practices. Amend irrationalities in the management decentralization and licensing procedures of different ministries and agencies to facilitate smooth flow of goods.

- *Invest in infrastructure and technical facilities to support logistics development*

Develop seaports on a long-term basis while ensuring compliance with the master plan for port development approved by the government. Seaport development includes the development of a system of wharves, warehouses, ICD, loading and unloading facilities, and cargo transport facilities in the port as well as means of transport from ICD to port and vice versa based on IT application. Container ports in Vietnam is limited, so it is necessary to upgrade and expand, renovate and invest new ports to be equivalent with the number of container ships in line with the demand of the new trade agreement. In par with advancing a new seaport system, it is necessary to renovate the information system and study the rearrangement to further improve the efficiency of port operation business.

In terms of means of transport, it is necessary to increase investment in building and developing a fleet of ships to ensure sufficient supply of the quantity and quality for cargo transported by sea. The state supports capital investment for fleet development by guaranteeing loans from banks with preferential interest rates, directly lending capital to businesses, deducting investment budgets on national ship fleet, reducing import tax on ships and invest in the shipbuilding industry, etc.

Organize major river transport routes, invest in river port construction, organize appropriate means of transport. Construct river routes to be connected with other transportation systems. Well organize the transshipment points to form a unified multimodal transport system. Divide a portion of logistics activities for river shipping and utilize container shipping by barge.

The government needs to support the upgrading and modernizing of existing railway lines, expanding branch lines to industrial zones, export processing zones, and big seaport. Increase the number of locomotives, wagons and specialized equipment to increase transport capacity. Develop specialized container routes, apply IT to improve the quality of freight forwarding on railways.

Construct expressway routes to ensure loading capacity for special-use vehicles. Focus on building a fleet of dedicated trucks to carry containers. Build road-to-road container stations to have places for goods delivery and container storage. Legalize policies for road planning to enable trucks on more roads within the city to enhance door-to-door logistics services.

Build synchronous airport system and buy more specialized cargo aircraft. In the past, Vietnam benefited mainly from passenger transportation rather than freight transportation. In addition to investing in improving the transport capacity, it is necessary to establish and expand flight network to the points where freight is needed to be transported from and to.

- *Develop multimodal transport*

On the government side, there should be a policy to promote the development of multimodal transport, synchronously develop infrastructure and means of transport, modernize the technology of loading and unloading of transport modes on necessary routes while perfecting and supplementing the regulations of multimodal transport to suit international practices.

- *Encourage the use of information technology*

The best IT to encourage using includes information network for production and business, electronic data exchange, and the internet system. Encourage the use of IT in logistics to effectively deploy EDI on a common ground and standardize to be consistent with countries around the world. This requires the government to establish an inter-ministerial and inter-agency cooperation to build a site using EDI. Specifically, establish an EDI system between Vietnamese seaports with ship owners, customs authorities, major Vietnamese ports with major ports in the region, and with freight forwarding agencies. To develop the internet system, the government should have a plan to promote and modernize the communication system, increase bandwidth capacity, increase transmission speed to create the most favourable conditions for logistics service businesses to deploy information systems to control the entire movement of goods.

- *Establish national logistics centers*

In logistics development, the establishment of logistics centers is a popular trend that countries with developed logistics industries have successfully applied. Singapore, Shanghai, Shenzhen, and Taiwan are famous logistics centers not only in the region but also in the world. Logistics centers are established in key economic regions with high demand for logistics services such as areas close to export processing zones and seaports. They are convenient in traffic and are economic hubs connecting many regions domestically and internationally. At these logistics centers, most activities in the logistics chain will take place: concentrating exports and distributing imported or finished goods, implementing value-added services for goods like fumigating, wrapping, marking symbols, and scanning bar codes. Logistics centers will help organize and manage logistics activities to be highly efficient and minimize unnecessary truck travel in difficult urban traffic.

- *Increase training for human resources*

Build a long-term training strategy on a national scale. Equip students to work in logistics with a team of professional workers. Hold programs for special training at vocational schools.

- *Promote linkages between freight forwarding businesses in Vietnam.*

The government should encourage units of the same industry to consider the possibility of merging and establishing logistics service providers. The state needs to set up strong corporations operating in the global logistics field, build strategies for logistics development in corporations and companies in the transport industry with strong economic potential to be the driving force to promote the development of logistics services in other logistics enterprises.

- *Increasing the role of associations*

There are quite a number of associations within the supply chain industry in Vietnam at the moment, including the Vietnam Federation of Freight Forwarders Association (VIFFAS), Vietnam Ship Owners Association, Vietnam Port Association (VPA), Insurance Association, Association for marine brokerage agents, etc. In the coming years, the roles of these associations should be promoted by the government, specifically for performing the following tasks:

- Establish standard business conditions for members, on which basis ensures the quality of logistics service providers. Currently, VIFFAS has “standard business conditions” set out, but they mainly focus on transportation and forwarding service business but not referring to the standard of a real logistics service provider.
- Manage and protect the legitimate rights of its members.
- Provide training and directly organize professional training courses for members.
- Provide information, coordinate and guide members to access and enter foreign markets.
- Stay active in connecting members and handling unfair competition between them.
- Advise the government and state agencies on the legal framework, policies and measures for implementing logistics activities in Vietnam.
- The Vietnam Federation of Freight Forwarders Association needs to change its name to Vietnam Logistics Association to suit the general trend of regional development and thus be able to actively assist members in the development of logistics services.

6 CONCLUSIONS

Having studied Vietnam's logistics activities in the last decade, the author could come to some conclusions for this thesis about the opportunities and challenges brought to the supply chain industry of this country after signing “the most ambitious trade deal the EU had ever made with a developing country to date” (European Commission, 2019), from which the author suggested possible solutions for the companies and for the government to work on if they want to benefit from this trade deal as much as their partners do.

Signed in 2019 by the EC, the EVFTA aimed to eliminate up to 99% of trade tax on goods between the EU and Vietnam. The goal is to enhance economic development even further and promote trade and investment relations between Vietnam and the EU, which will in turn result in the deepening of cooperation and reinforcing long-lasting relationships. Both sides of the agreement are expected to witness some changes within imports and exports, and that of course puts pressure on SCM, especially for Vietnam when dealing with such a large trading partner for the first time after WTO integration. In a sense, an increase in logistics activities is probably one of the most highlighted areas of this cooperation initiative.

Since 2007 up to now, logistics cooperation between Vietnam and other members of the WTO has achieved many good results. That is to point out development efforts on building regional economic corridors, improving the quality and scale of infrastructure, constantly improving legal institutions, creating favorable conditions for logistics operations, raising awareness of enterprises about the role and significance of logistics, to name a few.

However, there are still many limitations. Technical infrastructure is not up to standard, remains weak and lacks synchronization. The legal corridor for logistics activities is incomplete and asynchronous. These are the two biggest reasons that limit the development of Vietnam's logistics activities as well as Vietnam's logistics cooperation in the last decade. In addition, human resources operating in the logistics sector lack professional knowledge, logistics enterprises in Vietnam is small scaled, has poor management, inharmonious operations with no linkage, and is not able to compete with foreign businesses.

From these limitations, the thesis proposes a number of solutions to improve logistics competencies of Vietnamese freight forwarding companies such as creating a legal environment for logistics service development, investing in building and upgrading technical infrastructure for logistics, enhancing information exchange and cooperation between existing firms (domestic and foreign) within the market, applying information technology in logistics management, human resource development, and promoting the role of associations. These solutions, however, require efforts from both the companies and the government to achieve optimal results. Meaning every single body belong to the supply chain, including LSP, transporter, storage owner, trade partners, the state, chambers, ministries, traffic officials and even the construction industry must invest their money, time, and human resources into overcoming these shortcomings for the deal to work.

Hopefully, with enhanced cooperation, coordination and unified action, logistics activities in Vietnam will be further developed, bringing great benefits to the region and to EU nations, contributing to the vision of an integrated, harmonious, and prosperous new economic world.

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