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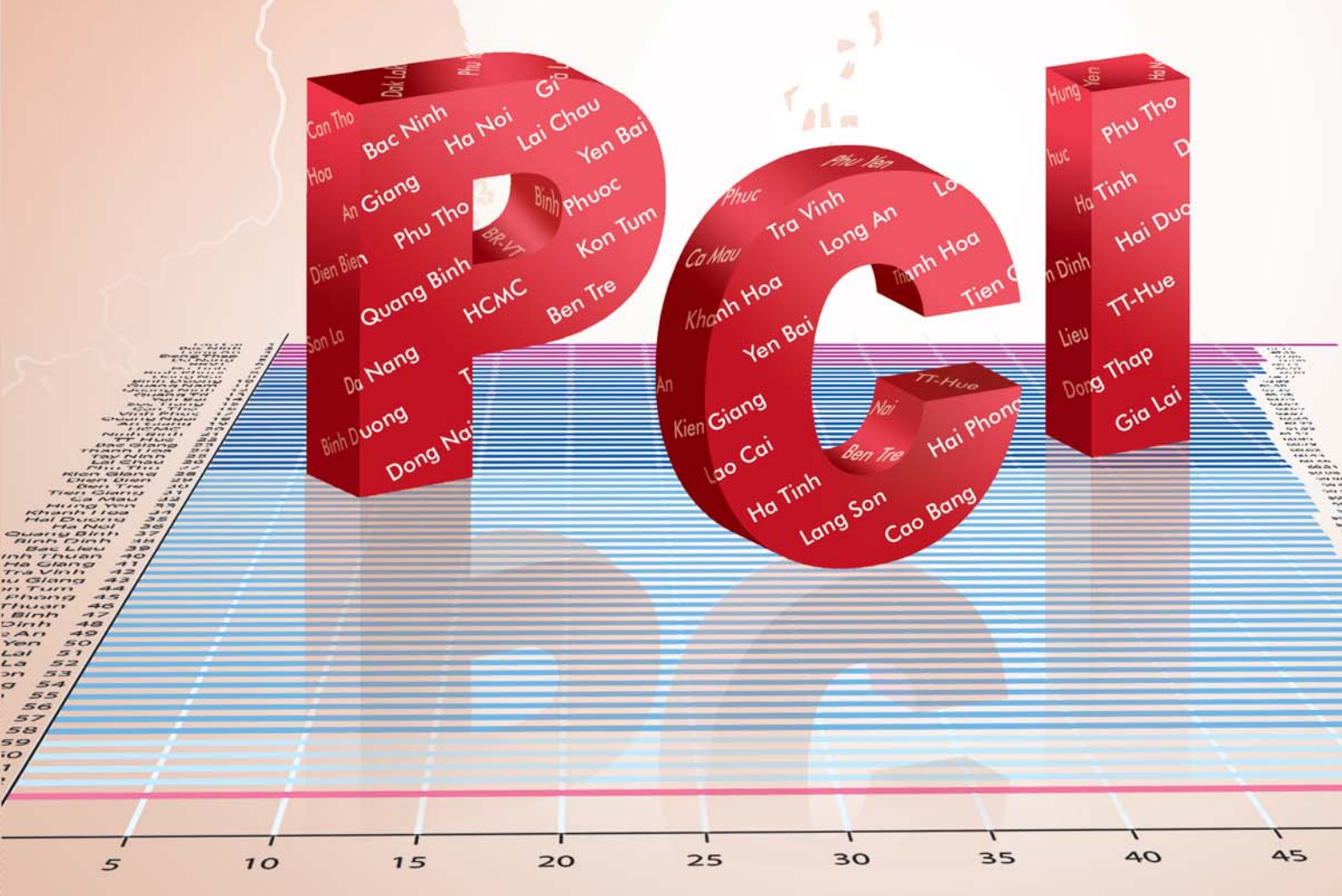
THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2011

MEASURING ECONOMIC GOVERNANCE FOR BUSINESS DEVELOPMENT



Founded in 1963, the Vietnam Chamber of Commerce and Industry (VCCI) is a national organization that assembles and represents the business community, employers, and business associations of all economic sectors in Vietnam. The mission of VCCI is to protect and assist business enterprises, to contribute to the socio-economic development of the country, and to promote economic, commercial, and technological cooperation between Vietnam and other countries in the world.

VCCI's two main functions are: (i) representing the Vietnamese business community through the promotion and protection of the lawful, legitimate interests of Vietnamese enterprises and employers in domestic and international relations; and (ii) promoting the development of business enterprises, facilitating cooperation among business entities, and offering assistance in trade and investment, economic and technical cooperation as well as other business activities of enterprises in Vietnam and abroad.

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USAID/VNCI is a USAID project that provides technical assistance to strengthen market institutions and improve the business enabling environment in top priority areas for government and business leaders. USAID/VNCI's programs include: (i) policy advocacy using the PCI data and other policy activities that assist the government and business sector to improve governance, decision-making and policy-making to achieve optimal economic performance and promote participation and transparency; (ii) regulatory reform by supporting the Prime Minister's Decision 30 Master Plan to Simplify Administrative Procedures, implemented by the Office of the Government and the Administrative Procedures Control Agency (APCA) to design and implement reform strategies to clean up the existing stock of regulations, apply regulatory quality control, and develop an effective regulatory framework and policy coordination; (iii) infrastructure financing and development through innovative models of public-private partnership, legal and institutional reform to leverage financial markets to support the financing of a wide range of infrastructure projects through effective and transparent financing mechanisms and funds which takes the burden off the Government budget; (iv) regulatory impact assessment under the Law on Laws that introduces more rigorous evidence-based cost-benefit analysis techniques, public consultation and policy-making to guide law making; and (v) decentralization and other reform activities that respond to specific requests to improve economic governance.

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THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2011

MEASURING ECONOMIC GOVERNANCE FOR BUSINESS DEVELOPMENT

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FOREWORD

This seventh edition of the Provincial Competitiveness Index (PCI) presents the latest views of 6,922 Vietnamese enterprises on economic governance and the business environment across 63 provinces and cities. The report also analyzes the results of the second annual survey of 1,970 foreign invested enterprises (FIEs) currently operating in Vietnam, providing an update on the performance and views of the existing foreign direct investment (FDI) sector and the challenges Vietnam faces in attracting higher value-added investment and sustaining economic growth.

The PCI provides insights to government leaders at the central and provincial levels on economic governance performance and how to improve the business environment to foster domestic and foreign investment, job creation, and economic development. While provinces tend to compete for domestic and foreign investment, cooperation between central and provincial leaders and continuous dialogue with the business community can improve the quality of public services, infrastructure, and market-oriented rules and institutions. For central government leaders, the PCI provides a comparison of provincial performance in different parts of the country and helps identify areas where the central government may wish to strengthen economic governance. For local leaders, the PCI is an effective channel for them to hear the voices and understand the needs of local business communities. The PCI also provides investors and businesses considering investment or expansion of existing investments in Vietnam with a picture of the business climate in each province as perceived by their private sector peers.

The 2011 PCI shows a continued trend of improvement in economic governance across provinces despite concerns among foreign and domestic businesses about growth prospects in 2011 and 2012. Lower ranked provinces appear to be adopting the best practices of higher ranked provinces to improve their business environments—fulfilling an important goal of the PCI to encourage improved economic governance and promote business development. At the same time, some of the higher ranked provinces slipped in their PCI scores, perhaps indicating the need to tackle more complex reforms to sustain their lead in economic governance, such as improving confidence in the judicial system or enhancing local labor quality, which, in turn, may also require policy change or reform at the central government level.

The PCI is supported by the U.S. Agency for International Development (USAID) in collaboration with the Vietnam Chamber of Commerce and Industry (VCCI). Since 2005 USAID development partner, Development Alternatives, Inc. (DAI), has carried out this fruitful partnership with VCCI under the USAID project, Vietnam Competitiveness Initiative (USAID/VNCI). And, in addition to carrying out the PCI annual survey and reporting on the results, over the past seven years, the PCI team of VCCI and USAID experts

visited many provinces to consult with provincial leaders, government officials, and business and academic representatives to review a province's PCI score, identify areas where the province is performing well, as well as, areas where improvements can be made to help the province become more competitive and achieve greater economic growth.

In the midst of the global economic downturn, improving the competitiveness of Vietnam's economy and enterprises is crucial to sustain economic growth and poverty reduction. Improved economic governance contributes to the efficient functioning of a market economy, encourages high quality domestic and foreign investment and reduces the costs and risks of doing business in Vietnam. During the past seven years and in this current report, the PCI helps give voice to business community concerns and the need for improved economic governance to enhance the quality and speed of market-based reforms. As government leaders, policy makers and business leaders listen to the voice and input of the private sector, more informed decisions can be made that can improve the quality of economic governance and market reforms throughout Vietnam.

Many thanks to all of the private sector companies that took the time to respond to the survey for this 2011 PCI report. Without your candid responses, there would be no PCI.

We hope that readers will find the report useful.

Sincerely,

Vu Tien Loc, Ph.D

Chairman
Vietnam Chamber of Commerce & Industry

Francis A. Donovan

Mission Director
U.S. Agency for International Development

ACKNOWLEDGEMENTS

The Provincial Competitiveness Index (PCI) 2011 is the result of a major, ongoing collaborative effort between the Vietnam Chamber of Commerce and Industry (VCCI) and the U.S. Agency for International Development's Vietnam Competitiveness Initiative (USAID/VNCI), implemented by Development Alternatives Inc (DAI).

Professor Edmund Malesky of the University of California–San Diego (UCSD) led the development of the PCI's research methodology and authored the presentation of its analytical findings.

Prof. Malesky was supported by a PCI research team that included Tran Huu Huynh, Deputy Secretary General cum Director of the Legal Department at VCCI; Dau Anh Tuan, Deputy Director of the Legal Department; Le Thanh Ha and Nguyen Le Ha of VCCI; Le Thu Hien and Nguyen Ngoc Lan of USAID/VNCI, Dr. Dang Quang Vinh of USAID/VNCI was responsible for the construction of the index; Weiyi Shi of the UCSD Political Science Department, who helped author Chapter 2; and Anh Pham and Yana Margolis of the UCSD Economic Department, who authored a special report on the PCI panel data.

The PCI was developed under the overall leadership of Vu Tien Loc, Chairman of VCCI, Francis A. Donovan, Mission Director of USAID/Vietnam, James P. Winkler, USAID/VNCI Project Director, and Viet Anh Nguyen, USAID/VNCI Deputy Director, and benefited from assistance and input provided by Todd Hamner, Director of Economic Growth for USAID/Vietnam, and Le Thi Thanh Binh, Project Manager for USAID/Vietnam.

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The PCI research team extends special thanks to the members of our expert advisory panel, who provided valuable insights on methodology and indicator selection in the last years.

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ABBREVIATIONS AND ACRONYMS

ASEAN	The Association of Southeast Asian Nations
BTA	Bilateral Trade Agreement
BSS	Business Support Services
CEO	Chief Executive Officers
DPI	Department of Planning and Investment
EVN	Electricity of Vietnam
FDI	Foreign Direct Investment
FIEs	Foreign Investment Enterprises
FIL	Foreign Investment Law
GDP	Gross Domestic Products
GSO	General Statistics Office
HCMC	Ho Chi Minh City
ICT	Information and Communications Technology
IZs	Industrial Zones
LURC	Land Use Rights Certificate
MOLISA	Ministry of Labor, Invalids and Social Affairs
MONRE	Ministry of Natural Resources and Environment
MPI	Ministry of Planning and Investment
OLS	Ordinary Least Squares
OSS	One-stop Shop
PAR	Public Administration Reform
PCI	Provincial Competitiveness Index
PPC	Provincial People's Committee
SOEs	State Owned Enterprises
SMEs	Small and medium sized enterprises
USAID	United States Agency for International Development
VCCI	Vietnam Chamber of Commerce and Industry
VNCI	Vietnam Competitiveness Initiative
WTO	World Trade Organization

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report introduces the seventh edition of the Provincial Competitiveness Index (PCI), which measures and assesses progress in economic governance and administrative reform by the local governments of all 63 provinces and national-level cities in Vietnam. The analysis is intended to assist the decision-making of provincial and central government leaders, as well as inform business leaders, development advisors, and journalists. In addition, this year's report includes the second annual survey of foreign-invested enterprises (FIEs) in 61 provinces, providing the largest and most representative profile of foreign direct investment (FDI). This analysis describes the challenges Vietnam currently faces in providing a business environment that facilitates the dynamic growth and competitiveness of both foreign and domestic enterprises. Vietnam's economic growth will be sustained by both domestic and foreign enterprises, and the government plays a critical role in fine-tuning policies, institutions, and administrative procedures that encourage productivity while reducingthe costs and risks of doing business in the country.

CHAPTER 1: SURVEY OF DOMESTIC INVESTORS AND THE 2011 PROVINCIAL COMPETITIVENESS INDEX

This seventh iteration of the PCI report is based on a rigorous survey of the perceptions of 6,922 domestic firms. The PCI augments the collective voice of private entrepreneurs in Vietnam regarding economic governance in their province and the country.

The PCI comprises nine sub-indices, reflecting economic governance areas that affect private sector development. A province that is considered to perform well on all nine PCI sub-indices is the one that has: 1) low entry costs for business start-up; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable business information; 4) minimal informal charges; 5) limited time spent on bureaucratic procedures and inspections; 6) proactive and creative provincial leadership in solving problems for enterprises; 7) developed and high-quality business support services; 8) sound labor training policies; and 9) fair and effective legal procedures for dispute resolution.

The PCI methodology is constructed in a three-step sequence, referred to as the 3 Cs: Collect, Calculate, and Calibrate. First, the PCI research team collects business survey data through a highly representative nationwide survey and published data sources. The team then calculates nine sub-indices and standardizes the results to a 10-point scale. Last, the team calibrates the composite PCI as the weighted mean of the nine sub-indices, with a maximum score of 100 points. The 2011 index consciously replicates every aspect of the methodology from the two previous years. The same stratified sampling procedure was employed, the questionnaire remained exactly the same, selection and scaling of indicators was unaltered, sub-index weighting was left in place, and breakpoints for performance tiers were maintained. As a result, all aspects of the PCI can be compared between the 2009, 2010, and 2011 iterations, including: overall scores, ranking, sub-index scores, indicators, and performance tiers. This useful feature allows us to track governance progress across localities, analyze determinants of change, and better assess economic effects of improved governance.

Key findings from the Survey of Domestic Investors and the 2011 Provincial Competitiveness Index follow:

- *Continued Pessimism with Growth Prospects in 2011:* Both foreign and domestic respondents are far more negative about their prospects than in previous years. Each year, the PCI asks all respondents to record their business plans for the next two years. Over the years, the optimism of firms, measured by the share of firms wishing to expand their business, has so clearly tracked their actual investment behavior that the question was dubbed the *"Thermometer of Business Sentiment"* by the PCI research team. The Thermometer offers a simple and straightforward way to measure business prospects in the near future. Optimism of respondents has dipped considerably in recent years, declining from a high of 76 percent expanders in the year before World Trade Organization (WTO) entry to a historic low of 47.4 percent in 2011. The deepest declines in firm optimism were experienced by the smallest of operations, the sole proprietorships, who have felt the hardest pinch of rising input costs and declining credit access. According to the PCI survey, sole proprietorships are significantly less likely to receive access from commercial banks than limited liability companies (LLCs) and joint stock companies (JS).
- *Ability to Differentiate Pessimism from Perceptions of Governance:* Despite the increased pessimism, respondents remain clear-headed in their ability to appraise the economic governance provided by their national and provincial leaders. In a survey of this nature, a common worry is that general pessimism about the economy may color firm responses, causing respondents to record more negative perceptions than an objective observer answering the same question. This does not appear to be the case in 2011 data. Respondents were able to identify clear improvements in the business environment over the past year, leading to the highest median PCI score since the index was re-calibrated in 2009.
- *Overall Improvements in Governance:* Despite the pessimism of respondents, the past year witnessed a slight improvement in provincial governance. The weighted 2011 PCI score for a median province is 59.15, about a full point higher than in 2009 and 2010.
- *Trend of National Convergence in Economic Governance Continues:* Increasing scores at the bottom of the index and declining scores at the top have compressed variation in the PCI. Empirical evidence demonstrates both sigma convergence (lower variation) and beta convergence (low-ranked provinces are reforming more quickly than those are at the top). In short, low-ranked provinces are adopting the best practices of their top-ranked peers and improving their business environments. Several factors likely account for governance convergence over time.
    - National programs and accompanying task forces to assist with implementation-such as with the 2005 Enterprise Law, the 2005 Investment Law, and the Government's Project 30 on Administrative Procedures-have provided incentives to the reform efforts of lower-ranked localities by linking such efforts to cadre evaluation and promotion.
    - The virtual elimination of locally managed state-owned enterprises (SOEs) in provinces has removed one of the greatest sources of variation in the attitude of local officials, who tended to bias the policy environment in favor of local SOEs when the SOEs accounted for a large share of revenue and employment.
    - Efforts to attract both domestic and foreign investment by provinces have led to a convergence around best practices found in the most successful locations.

- The annual PCI report itself has played a role in this trend by providing a standardized metric of how to evaluate governance, which made lower-ranked provinces aware of their shortcomings, offered a recognizable target, and allowed leaders to target specific policy changes to improve their scores.
- The PCI research team travels to over 20 provinces each year to perform *Provincial Diagnostics,* the results of which communicate to a province its particular strengths and weaknesses in economic governance and provide a set of best practices from top-ranked provinces to help other provinces tailor improvements in scores.
- Many of the reforms of lower-ranked provinces have been the result of picking the low-hanging fruit—selecting easy reforms that required very little institutional change or difficult compromises among local elites. This has allowed them to catch up with higher-ranked provinces that enacted these reforms earlier.

- *Specific Policy Improvements:* Compared to previous PCI findings, the average province experienced:
  - Lower waiting periods for business registration and licensing,
  - Greater allocation of land use rights certificates (LURCs),
  - Improved access to provincial planning documents (land use maps and infrastructure roll-out plans),
  - Less time spent navigating post-registration bureaucratic procedures and significantly reductions in demands for informal charges by local officials, and
  - Greater satisfaction with labor quality.

- Governance Arenas in Need of Improvement: But responses were not uniformly positive. Firms registered increased dissatisfaction with the inability of provincial land compensation prices to keep pace with market prices, massive declines in the assessment of proactivity and attitude of local leaders toward private business, and more limited use and satisfaction with the supply and quality of business support services (BSS).
- *New Provinces in Top Position and Higher Volatility in Rankings:* The most striking differences between the 2011 PCI and previous iterations, however, are the sharp movements in provinces up and down the rankings.
  - For the first time in the history of the PCI, neither Binh Duong nor Da Nang sits in the top position. Binh Duong experienced declines in proactivity, land, and business support services (BSS). Da Nang had its largest declines in BSS and labor policy.
  - Two Northern provinces of Lao Cai and Bac Ninh find themselves in the top positions, following heavy investment in governance improvements, leading to incremental improvements in their PCI scores over time.
  - Ha Tinh and Binh Phuoc have surprisingly risen to the top 10, after the creation of local legislation and task forces, aimed specifically at targeting areas for improvement in their PCI scores. While these changes were impressive, it is rare to see these policy changes manifest themselves in ratings improvements immediately.
  - Tremendous changes in rankings were also recorded in a negative direction. Two perennial top-10 provinces and locations, where the PCI research team has often looked for best practices, Vinh Long and Binh Dinh, plummeted down the rankings this year. Both provinces continued slides that were evident in 2010.
- *Large Movements in Rankings Are Unusual:* Rapid declines like those of Vinh Long and

Binh Dinh are highly unusual, as the PCI construction process takes three methodological precautions to bias toward stability in the annual rankings. First, non-perception (hard) data accounts for 40 percent of sub-index weights, so that temporary euphoria or anger on the part of respondents does not radically influence rankings. Second, indicators that are selected from the questionnaire are experiential, reflecting revealed firm behavior rather than abstract perceptions of the business environment. Finally, only highly stable indicators, which demonstrate significant differences between top-ranked and bottom-ranked provinces are employed. These key pieces of the PCI methodology mean that rapid movements up and down the PCI rankings are rare, generally reflecting significant alterations in how businesses are experiencing economic governance in their province.

CHAPTER 2: THE FOREIGN-INVESTED ENTERPRISES SURVEY

The Second Annual Survey of Foreign Direct Investment in Vietnam (PCI-FDI) covers a highly representative selection of 1,970 businesses from 45 countries whose operations are located throughout Vietnam's 61 provinces. As in the survey of domestic firms, the PCI-FDI respondents are selected from the National Tax Authority list of businesses using a stratified random sample at the province level to ensure that the representation of foreign firms in the sample mirrors the underlying provincial population. While the PCI-FDI survey is not the only survey of foreign investment in Vietnam, it is the largest and most comprehensive. In fact, the number of respondents in the PCI-FDI module accounts for 16 percent of the entire population of foreign investors found in the General Statistics Office Enterprise Census.

FIEs in Vietnam are predominantly from neighboring Asian countries (especially Taiwan, South Korea, and Japan), are relatively small in both employment and investment size, have the majority of their operations in low-end manufacturing, and are primarily interested in the export market for their products.

- Foreign operations in Vietnam are quite small by international standards. Seventy-five percent of FIEs in Vietnam have fewer than 300 employees. Indeed, 37 percent have less than 50 employees.
- Sixty-five percent of operations are manufacturing, while only 30 percent of FIEs operate in the services sector. A sizable domestic-oriented service sector is also represented in the survey, but makes up a far smaller portion of their respondents (about 30 percent).

Key findings from the Second Annual Survey of Foreign Direct Investment in Vietnam follow:

- *Increased Performance of FIEs.* The median FIE in the 2011 PCI survey had gross revenue of $1.3 million, up $300,000 from the previous year, with the strongest increases experienced in manufacturing. FIEs report profits equal to 22 percent of capital investment in 2011—roughly twice last year's performance. Once again, the manufacturing sector stands out with profits equal to 25 percent of investment.
- *Growing Pessimism among FIEs.* While actual business performance (in terms of sales growth and profitability) is improving, FIEs are actually becoming more pessimistic in their perceptions of performance. The gap between calculated (from reported sales and expenditures) and self-reported profitability is six times the size of 2010. The pessimism of FIEs carries over into their investment plans for the next two years, according to the Business Thermometer. Whereas in 2010, 66 percent of

operations planned to expand their operations in Vietnam, this year, only 38 percent were as optimistic. Probing a bit further, the survey asked firms to speculate on what factors they perceived to be contributing to the performance. Sixty percent of respondents credit/fault general market conditions over other factors, which is high by international standards, but down from 70 percent in 2010. Once again, only about 10 percent of respondents believe their success or failure in Vietnam can be attributed to government policy and labor.

- *Limited Domestic Spillover:* Confirming concerns about the lack of domestic spillover raised last year, we also find that FIEs purchase 57.5 percent of their intermediate products from overseas. Only about 40 percent of intermediate goods and services are sourced domestically, with domestic, private operations contributing 2 percent of the total. The lack of linkage to the domestic, private sector is worrisome, as it limits the opportunities for technology and productivity spillovers. Targeted education and business training programs could help address the lack of linkage.
- *Determinants of Investment Unchanged:* Firms continue to select Vietnam for its labor cost advantage and political stability, but heavily discount other governance factors. The 2011 results corroborate that finding. These results follow from the type of investor Vietnam has attracted thus far. Low-cost production in the lowest node of the value chain is primarily in search of cost savings through labor and tax incentives. Higher value-added production seeks good governance, especially property rights protection, and high-quality human capital.
- *Low Assessment of Governance Factors:* FIEs in Vietnam do not think highly of efforts to control corruption, which was the lowest-ranked indicator with a score only slightly higher than zero. Other governance factors, such as land allocation, intellectual property, access to decision makers, investor protection, and enforcement of contracts also ranked very low. Performance of the macro-economy, due to Vietnam's recent inflationary crisis, also was considered a detriment to investment.
- *Limited Impact of Governance on Investment:* FIEs rarely selected governance factors as important in their decision to select Vietnam over other countries. The primary explanation for the lack of interest in governance relative to other determinants has to do with the fact that they operate in primarily low-cost operations, which rank low on global value chains. As a result, they care less about intellectual property protection and are primarily interested in limiting costs.
- *Importance of Democracy in Sending Country:* Interestingly, we do observe some variance across investors—those with headquarters in more democratic countries are more likely to highlight governance as an important issue in their decision-making.
- *Improvements in the Key Business Environment Indicators for FIEs in 2011.* We find significant reform momentum in several business environment indicators for foreign investors. In comparison to 2010, respondents reported that 1) the amount of time FIEs must wait for registration and licensing, especially in Binh Duong province, is decreasing; 2) fears about expropriation risk are lessening; 3) the frequency of bribes paid during customs procedures is decreasing; 4) policy bias toward SOEs is softening; and 5) assessments of infrastructure (particularly the quality of roads and energy stability) are improving.
- *Additional Areas for Reform:* We record deterioration in scores for 1) transparency of legal, normative documents; 2) possession of LURCs; and 3) customs hold-ups. Reforms in these areas could improve the efficiency and quality of foreign investment in Vietnam.

CHAPTER ONE

SURVEY OF DOMESTIC INVESTORS & THE 2011 PROVINCIAL COMPETITIVENESS INDEX

SURVEY OF DOMESTIC INVESTORS & THE 2011 PROVINCIAL COMPETITIVENESS INDEX

Introduction

The 2011 Provincial Competitiveness Index (PCI) is being launched in the midst of challenging economic times. Although economic growth has remained a positive 5.89 percent over the past year according to the General Statistics Office (GSO), small and medium-sized businesses (SMEs) in Vietnam are feeling the weight of increasing inflation, tightened credit markets, reduced export opportunities, and declining consumer demand. Many enterprises have struggled for their very survival. These factors all effect how enterprises view their own business prospects as well as their expectations regarding the responsibilities of national and provincial leaders.

To provide an empirical sense of the difficulties faced by Vietnamese businesses: according to data from the National Tax Authority, only 1,800 of the 6,139 PCI respondents from 2006 were still operating under their original tax codes in 2011. Further screening before the release of the PCI survey revealed that 396 of the original 2006 respondents with tax codes had dissolved or could no longer be located. Thus, the survival rate for a representative sample of operations in 2006 was only 23 percent (1,404 surviving firms out of the 6,139 respondents from 2006). The others closed, merged with another, moved to a different province, or so vastly changed the product or service offered that it was obligated to re-register.

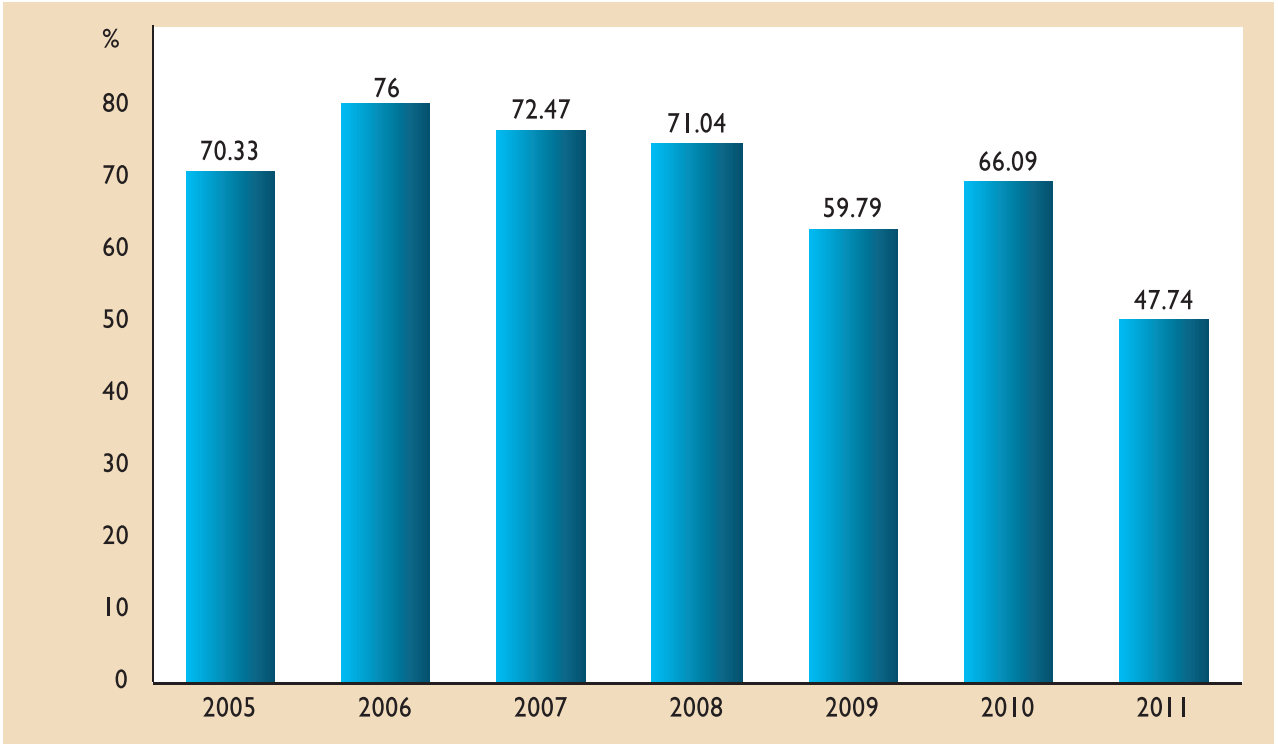
These trends have led to a palpable decline in business optimism over time, which has been exacerbated by the fact that the demands of entrepreneurs are quite different from when the PCI was first launched. Surviving SMEs have become more sophisticated both technologically and in their understanding of the market, requiring more nuanced governance policies and heighted government capacity.[1] At the same time, businesses have re-oriented the goals they set during the boom years of 2006 and 2007, now expecting more Vietnamese leadership and their own acumen than in previous years. Because the PCI is based on an annual survey of domestic, private operations, it reflects their altered expectations and growing concerns, enabling policy-makers to see the shortcomings of the business environment more clearly.

It is quite apparent that businesses are far more negative about their prospects than in previous

1. For evidence of the increasing sophisticate of surviving firms, please read our Appendix on PCI Panel Respondents (www.pcivietnam.org).

years. Each year, the PCI survey asks all respondents to record their business plans for the next two years. Over the years, the optimism of firms, measured by the share of firms wishing to expand their business, has so clearly tracked their actual investment behavior that the PCI research team dubbed the question the "Thermometer of Business Sentiment". The Thermometer offers a simple and straightforward way to measure business prospects in the near future.[2] As Figure 1.1 demonstrates, the optimism of respondents has dipped considerably in recent years, declining from a high of 76 percent expanders in the year before World Trade Organization (WTO) entry to a historic low of 47.4 percent in 2011. Figure 1.2 takes the analysis a step further, demonstrating that the deepest declines in firm optimism were experienced by the smallest of operations, the sole proprietorships, which have felt the hardest pinch of rising input costs and declining credit access. According to the PCI survey, sole proprietorships are significantly less likely to receive loans from commercial banks than limited liability companies (LLCs) and joint stock companies (JS).[3]

Figure 1.1: Business Thermometer Over Time

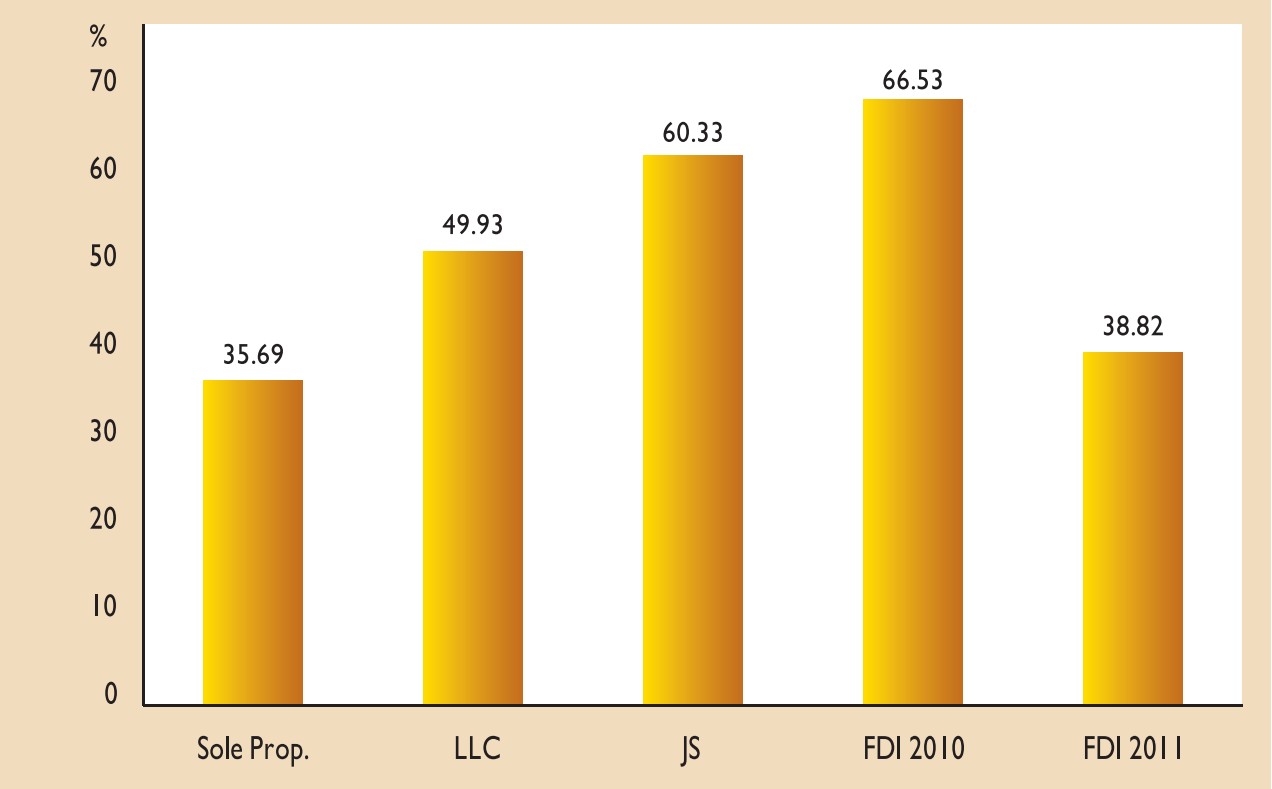


Graphics are drawn from the annual question (A10): "What are your plans for this business over the next two years?" Each bar reports the share of respondents who answered that they intended to expand their operations in a given year.

2. In more technical language, between 2006 and 2011, the bivariate correlation between the Thermometer and labor and investment growth has been positive and statistically significant at the .05 level. Regression analysis reveals that each one-point increase on the five-point thermometer corresponds to an 18 percent increase in the probability that a firm increased investment in the following year.

3. While there is no relationship between the legal type of firm and overall access to capital (56 percent of sole proprietorships have loans, compared to 54 percent LLC and 55 percent JS), major differences occur when we separate commercial bank loans from state bank lending. About 23 percent of sole proprietorships currently have commercial bank loans, compared to 28 percent of LLCs and 33 percent of JS operations. These differences are significant at the .05 level.

Figure 1.2: Business Thermometer by Legal Type of Operation



Graphics are drawn from the question (A10): "What are your plans for this business over the next two years?" Each bar reports the share of respondents who answered that they intended to expand their operations in 2011 by the legal form of the enterprise. Sole Prop: Sole Propietorship; LLC: Limited Liability Company; JS: Joint Stock Company; FDI: Foreign Direct Investors.

Despite the increased pessimism, respondents remain clear-headed in their ability to appraise the economic governance provided by their national and provincial leaders. In a survey of this nature, a common worry is that general pessimism may color firm responses, causing respondents to record more negative perceptions than an objective observer answering the same question. Because of this perception bias, firms might record lower scores on all governance indicators, leading to artificial declines in PCI scores that do not reflect legitimate deteriorations in economic governance. This does not appear to be the case in 2011 data. Respondents were able to identify clear improvements in the business environment over the past year, leading to the highest median PCI score since the index was recalibrated in 2009. Respondents in the median province experienced:

- Lower waiting periods for business registration and licensing;
- Greater allocation of land use rights certificates (LURCs);
- Improved access to provincial planning documents (land use maps and infrastructure roll-out plans);
- Less time spent navigating post-registration bureaucratic procedures and significant reductions in demands for informal charges by local officials; and
- Greater satisfaction with labor quality.

But responses were not uniformly positive, as firms in the median province registered increased dissatisfaction with the inability of provincial land compensation prices to keep pace with market prices, massive declines in the assessment of

proactivity and attitude of local leaders toward private business, and more limited use and satisfaction with the supply and quality of business support services (BSS).

The most striking differences between the 2011 PCI and previous iterations, however, are the sharp movements in provinces up and down the rankings. Figure 1.3 provides a bar graph of the 2011 PCI ranking. For the first time in the history of the PCI, neither Binh Duong nor Da Nang sits in the top position. Instead, the two Northern provinces of Lao Cai and Bac Ninh find themselves in the top position. The rise of the two newcomers is not unexpected, as both provinces have never been ranked lower than 20, and have both invested heavily in governance improvements, leading to incremental improvements in their PCI scores over time. Da Nang and Binh Duong have certainly continued efforts to improve governance as well, but it is easier for lower-ranked provinces to catch-up with easy reforms than it is for leading provinces to push ahead with harder reforms that often require institutional reengineering.

More surprising, however, is the rise of Ha Tinh and Binh Phuoc to the top 10. Like Lao Cai and Bac Ninh, these provinces have made substantial business environment improvements, including the creation of local legislation and task forces aimed specifically at targeting areas for improvement in their PCI scores. While these efforts are impressive, it is rare to see these policy changes manifest themselves in ratings improvements immediately. Usually it takes several years before businesses became aware of these reforms and are able to report upon them in their responses to the PCI survey.

Tremendous changes in rankings were also recorded in a negative direction. Two perennial top-10 provinces and locations, where the PCI research team has often looked for best practices, Vinh Long and Binh Dinh, plummeted down the rankings this year. Both provinces continued slides that were evident in 2010.

Figure 1.3: The 2011 Provincial Competitiveness Index

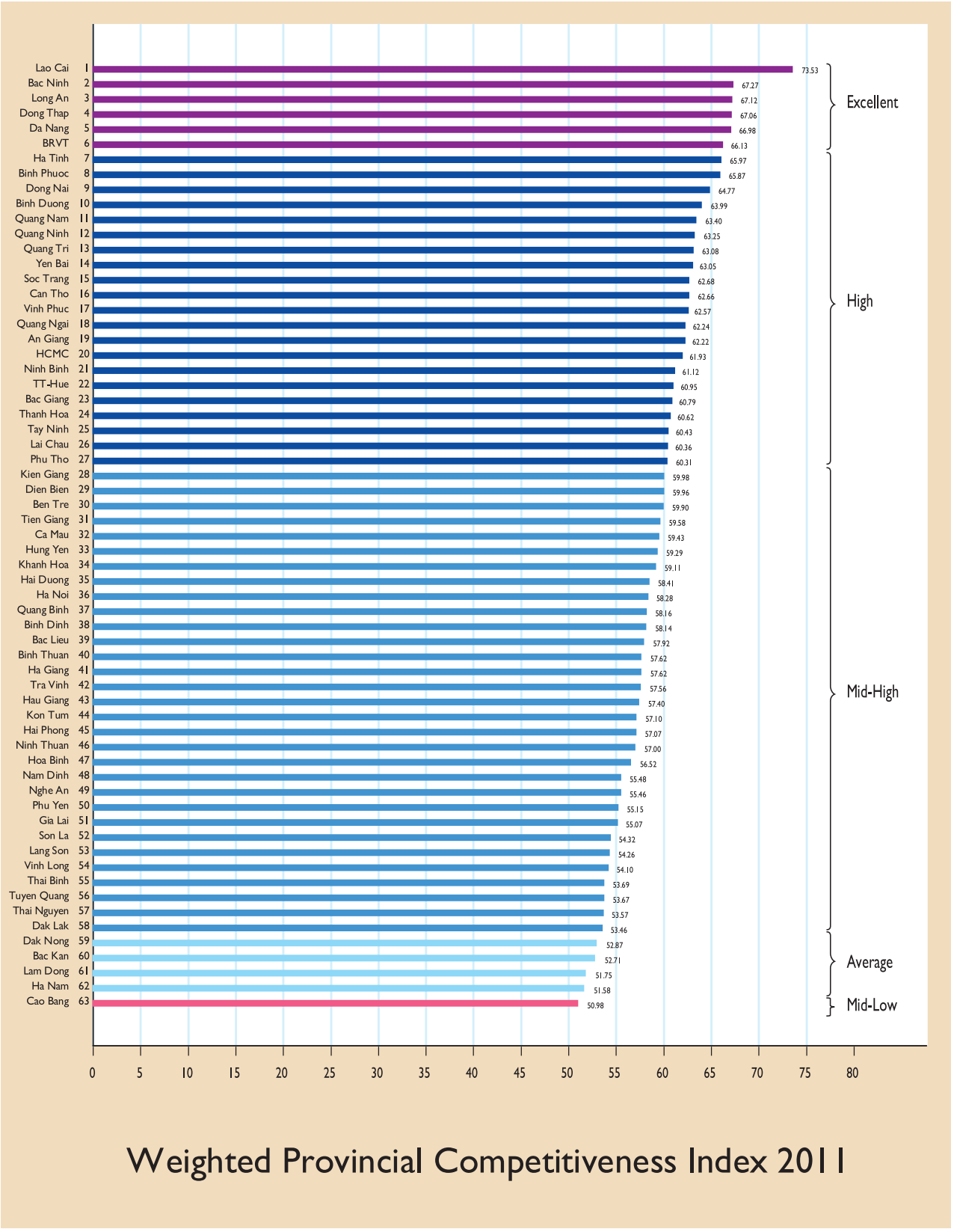
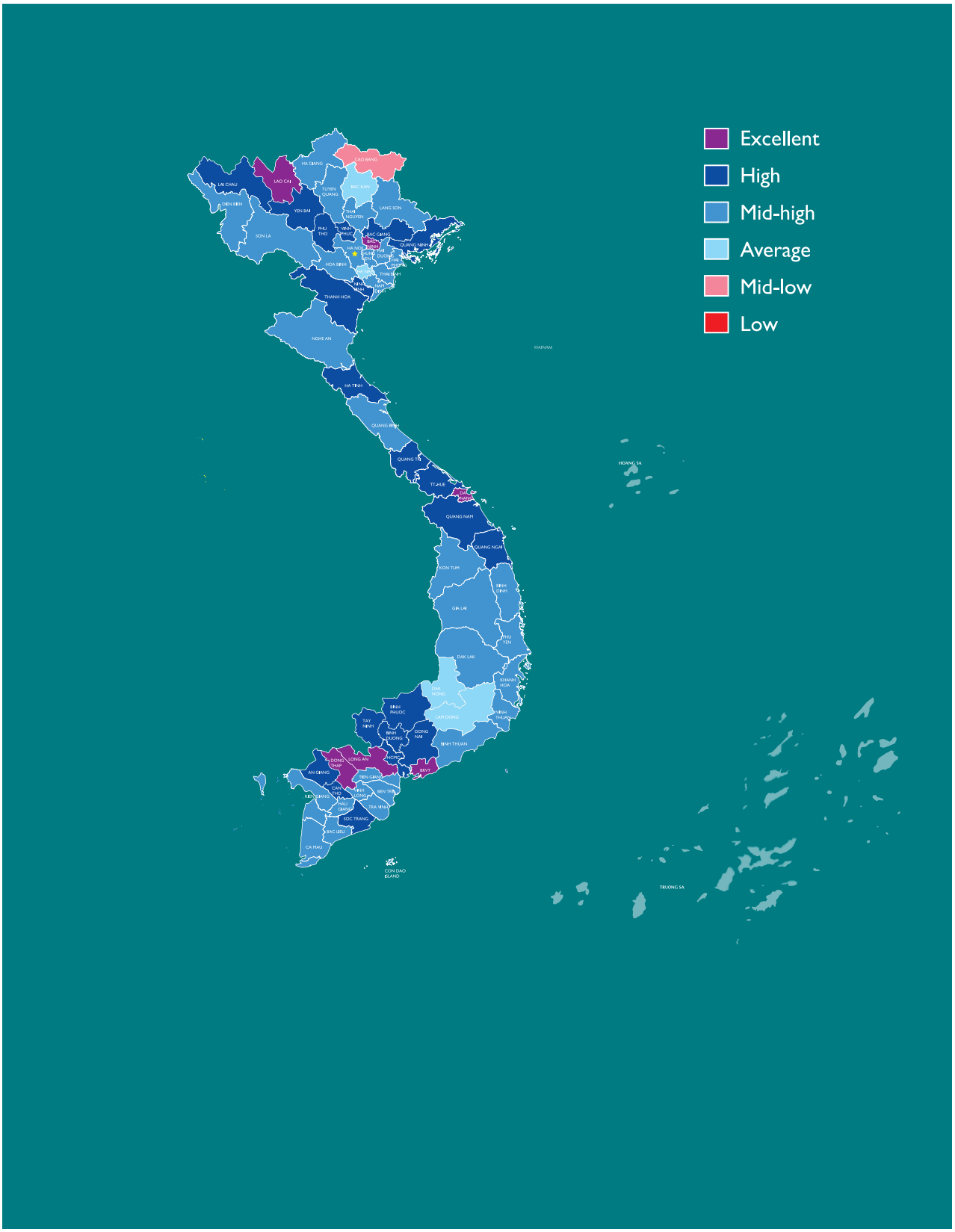
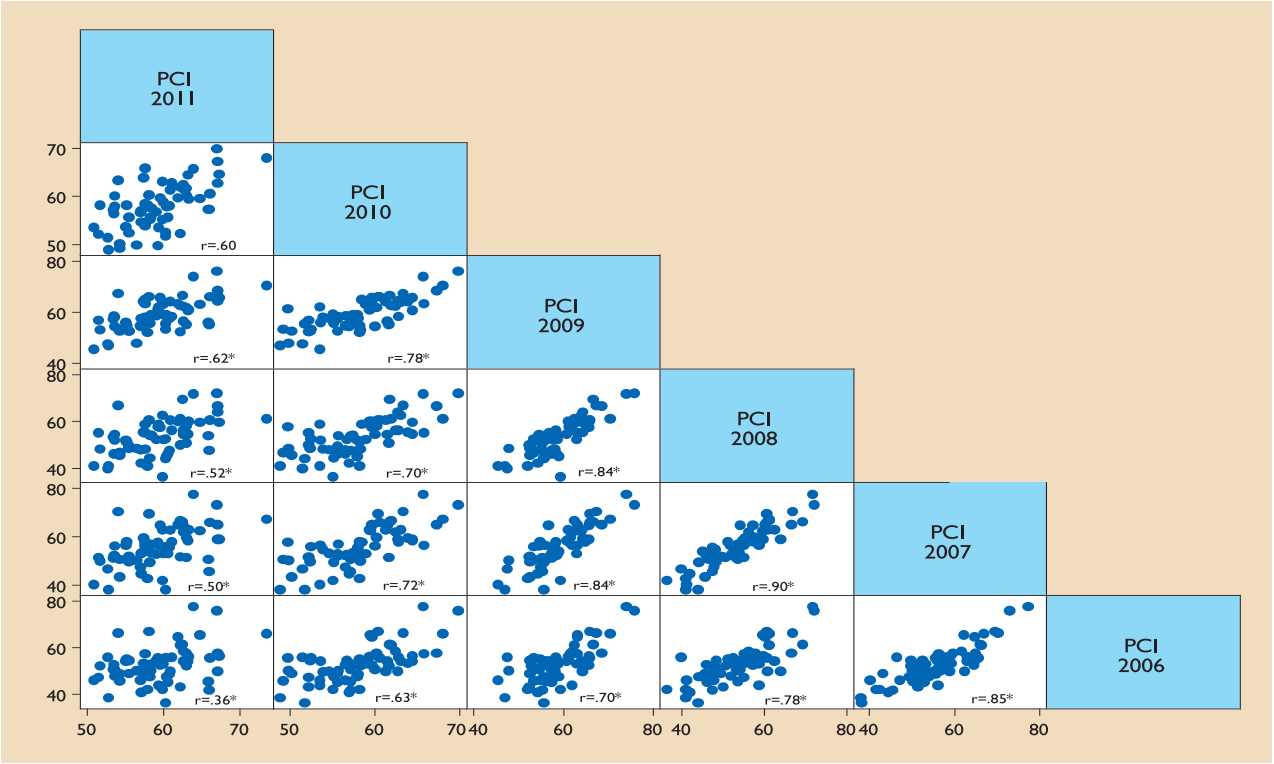


Figure 1.4: The 2011 PCI Map



Rapid declines of this nature are highly unusual. In fact, the PCI construction process takes three methodological precautions to bias toward stability in the annual rankings. First, each sub-index contains hard indicators, published data from official government sources that is not survey-based and prone to perception bias. Hard data accounts for 40 percent of sub-index weights, so that temporary euphoria or anger on the part of respondents does not radically influence rankings. Second, even the soft indicators that are selected from the questionnaire are experiential, reflecting revealed firm behavior rather than abstract perceptions of the business environment. Finally, we only use indicators where provinces at the 75th percentile of the measure are statistically distinguishable from their peers at the 25th percentile. These key pieces of the PCI methodology mean that rapid movements up and down the PCI rankings are rare, generally reflecting significant alterations in how businesses are experiencing economic governance in their province. Statistically, the bivariate correlations between the PCI rankings in one year and its predecessor have never before dipped below 0.78, and have generally been above 0.8. This can be observed visually in Figure 1.5, where we provide a scatterplot matrix of PCIs between 2006 and 2011.[4]

Figure 1.5: Correlation of PCI Rankings Over Time



Graphics display the bivariate correlation (r=X) between the PCI rankings over time. Notice that the lowest observed correlation over a two-year period, depicted in the scatter plots directly below each label, is the correlation between 2010 and 2011.

4. We use 2006 as the base year instead of 2005, because we did not have the full sample of provinces in 2005.

Observing the main diagonal directly below the labels, it is critical to notice that the one-year relationship is weakest (r=.60), between 2010 and 2011.[5] In other words, for the first five years of the PCI, there was very little movement in the provincial rankings over time. For instance, if you knew a provincial score in any given year, you could predict with great accuracy where it would rank in the subsequent year. The stability in the rankings, however, declined slightly with the 2011 survey.

Certainly, it may well be that a portion of this decline results from businesses, which prospered and grew under proactive leadership, now blame their local leaders for the difficulties their operations are currently facing. As noted above, however, firms do seem to be able to divorce their responses from general pessimism about business prospects, so this cannot possibly be the only reason. There are a variety of possible alternative theories for the abnormal pattern of PCI scores below, and detailed future research is necessary to pinpoint the most important explanation for the shifts in the ranking.

It is worth noting that two major events occurred in advance of the initiation of this year's survey. One was the selection of new provincial Party secretaries in 27 provinces, which took place at different times in 2010; the other was the Party Congress itself, which concluded about five months before the PCI survey for 2011 was administered. What, if any, impact these events may have had on this year's results requires more detailed analysis that will be explored in future work.

As newcomers to the PCI may not be familiar with the sample of businesses in the survey, the construction of the index, and the interpretation of results, we begin with a short briefing on the background of the PCI before going into the analysis. Section 1.1 provides a quick summary of the methodology.[6] Section 1.2 describes the PCI 2011 respondents and assesses their representativeness of the underlying national and provincial population. Section 1.3 summarizes the PCI ranking and results. Section 1.4 takes advantage of the time series data collected over the six years that the PCI was conducted in all 63 provinces to analyze national trends in individual indicators. Section 1.5 analyzes the results for this year's infrastructure index, examining the progress made in industrial zones, road, internet, and utilities policies over time. Finally, Section 1.6 tackles the question of leadership change and PCI performance, suggesting that the selection of new provincial Party Secretaries might be contributing to the shift in provincial rankings.

1.1. Background on the PCI

The PCI is designed to assess the ease of doing business, economic governance, and administrative reform efforts by local governments of provinces and cities in Vietnam, in order to promote the development of private sector. The PCI has been the product of a collaborative effort between the Vietnam Chamber of Commerce and Industry (VCCI) and the U.S. Agency for International

5. The relationship is still statistically significant at the .05 level.

6. A more detailed methodological appendix is available online at www.pcivietnam.org. Also see, Edmund Malesky and Nina Merchant. 2011. "A Peek under the Engine Hood: The Methodology of Sub-National Governance Indices." Hague Journal on the Rule of Law 3: 186-219. < http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=8394467>

Development's Vietnam Competitiveness Initiative Project (USAID/VNCI) since its initiation in 2005. The 2011 PCI report is the seventh iteration and is based on a rigorous survey of the perceptions of 6,922 domestic firms. The overall PCI comprises nine sub-indices, reflecting economic governance areas that affect private sector development. A province that is considered to perform well on all nine PCI sub-indices is the one that has: 1) low entry costs for business start-up; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable business information; 4) minimal informal charges; 5) limited time spent on bureaucratic procedures and inspections; 6) proactive and creative provincial leadership in solving problems for enterprises; 7) developed and high-quality business support services; 8) sound labor training policies; and 9) fair and effective legal procedures for dispute resolution.

The PCI is constructed in a three-step sequence, which is referred to as the 3 Cs. First, the PCI research team collects business survey data and published data sources. Second, the research team calculates nine sub-indices and standardizes results to a 10-point scale. Third, the team calibrates the composite PCI as a weighted mean of the nine sub-indices, with a maximum score of 100 points.

The 2011 PCI consciously replicates every aspect of the methodology from the two previous years. The same stratified sampling procedure was employed, the questionnaire remained exactly the same, selection and scaling of indicators was unaltered, sub-index weighting was left in place, and breakpoints for performance tiers were maintained.[7] As a result, all aspects of the PCI can be compared between the 2009, 2010, and 2011 iterations, including overall scores, ranking, sub-index scores, indicators, and performance tiers. This useful feature allows us to track governance progress across localities, analyze determinants of change, and better assess economic effects of improved governance.

1.2. An Overall Picture of the 2011 PCI Respondents

As noted in the past, the PCI is the "collective voice" of private, domestic firms that provide their opinions of the business environment in the provinces where they are located. The PCI survey this year received responses from 6,922 private firms operating across all 63 provinces and cities in Vietnam.[8]

Because errors in the sampling process affect the ability to draw correct inferences, the PCI research team is extremely careful about a sampling design that appropriately mirrors the business population and is not subject to biases in the type of firms that respond. As a result, the PCI employs a stratified random sampling process, which has been detailed in previous PCI reports. Because of this scientific rigor, it is possible to represent the views of the province accurately with a sample of only a few hundred operations. Respondents are randomly selected from a list of registered private firms that is supplied by the National Tax Authority, stratified by business age, sector, and legal form. The process ensures a highly representative

7. One small but significant change was the decision to use a telephone and online survey alongside the traditional mail-out survey to take advantage of advances in internet technology. Diagnostics reveal that firms that answered the telephone survey were slightly more optimistic about governance, but overall scores and rankings were unaffected by the different modes of survey distribution. The pattern of firms answering through the online portal, however, provided a greater challenge. Only 164 firms chose to answer through the online portal, and those that did had PCI scores that were nearly one standard deviation above respondents using the traditional response formats. Moreover, use of the online portal was not popular among technologically sophisticated respondents, but appeared to be greater among firms in rural mountainous areas. Independently analyzing the data from the rural, online respondents revealed two problematic patterns: 1) the distribution of scores from these respondents was nearly 20 points higher than firms answering the mail-out (20 points being roughly the difference between the lowest and highest ranked provinces in the entire PCI survey); and 2) the actual responses from the rural, online responses demonstrated little variance (in two provinces, scores from firms using the online portal were essentially identical). Because of this statistically impossible pattern of data among provinces that generally receive middling rankings, we decided to drop all 164 online responses as a precaution.

8. In fact, 7,086 firms responded to the survey—164 respondents were dropped, however, due to concerns about the validity of responses using the online portal.

sample. Our team sent the survey questionnaires to 30,000 private firms operating throughout the 63 provinces and cities in Vietnam. Adjusting for incorrect addresses, the national response rate was 35 percent on average, close to that of 2009. Each province had more than 100 PCI respondents on average; the highest sample sizes were recorded in Ho Chi Minh City (HCMC) and Hanoi, with more than 380 respondents each, and Da Nang, Hai Phong, and Binh Duong with about 200 respondents.

Nationally, the distribution of PCI respondents parallels the overall picture of the private sector in Vietnam. Table 1.1 shows that the 2011 PCI survey covers 30.2 percent private firms, 50.8 percent LLCs, and 18.8 percent JSs. This pattern is similar to the Tax Authority's disaggregation.

Table 1.1. Who Answers the PCI Survey?

	2011 (6,922 Respondents)			
	Provincial Sample		National Sample	
Legal Form	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority
Sole Proprietorship	30.2%	29.3%	13.7%	17.8%
Limited Liability	50.8%	53.8%	63.1%	59.2%
Joint Stock	18.8%	14.4%	22.9%	23.0%
Joint Stock, Listed on Stock Exchange	0.5%	NA	0.8%	NA
Partnership and Others	0.3%	0.0%	0.1%	0.0%
Sector with Majority Output	PCI	GSO	Weighted PCI	GSO Census
Manufacturing/Construction	31.22%	23.5%	27.9%	18.7%
Service/Commerce	61.15%	52.6%	68.9%	60.6%
Agriculture/Aquaculture	5.38%	7.6%	2.8%	4.7%
Natural Resources	2.24%	13.3%	0.5%	16.0%
Age of Firm	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority
Registered Before Enterprise Law	11.7%	3.3%	13.4%	4.2%
Registered After Enteprise Law	88.3%	96.7%	86.6%	95.8%
Size of Operations (Employees)	PCI	Median GSO	Weighted PCI	GSO Census
Under 5	16.0%	23.68%	12.1%	27.5%
5 to 9	27.0%	37.41%	26.8%	29.5%
10 to 49	39.7%	33.25%	44.2%	34.1%
50-200	12.9%	4.43%	12.6%	5.6%
Over 200	4.4%	1.2%	4.5%	3.3%

	2011 (6,922 Respondents)			
	Provincial Sample		National Sample	
Size of Operations (Total Assets, Billion VND)	PCI	Median GSO	Weighted PCI	GSO Census
Under 0.5	11.6%	2.3%	12.9%	3.2%
From 0.5 to under 1	17.8%	12.4%	17.4%	15.1%
From 1 to under 5	43.6%	47.5%	40.5%	44.6%
From 5 to under 10	14.0%	16.2%	12.1%	17.7%
From 10 to under 50	9.8%	16.8%	12.1%	15.6%
Over 50	3.2%	4.8%	5.0%	3.8%
History of Company	PCI		Weighted PCI	
Greenfield Private Company	51.3%		62.8%	
Began Operation as Household Enterprise	44.7%		34.1%	
Former Local State-Owned Enterprise	3.2%		2.4%	
Former Central State-Owned Enterprise	0.8%		0.7%	
Owner Background	PCI		Weighted PCI	
University Degree	36.3%		50.0%	
MBA	1.5%		2.7%	
Leader of State Agency	2.7%		2.3%	
Military Officer	3.3%		2.4%	
Former Manager of SOE	9.3%		7.9%	
Former SOE Employee (Never Manager)	8.3%		5.8%	
Primary Customers	PCI		Weighted PCI	
Vietnamese Indivduals and Companies	72.2%		73.8%	
State-Owned Companies	6.9%		5.4%	
State Agencies	12.0%		7.3%	
Export Directly or Indirectly	5.0%		6.1%	
Foreign Individuals or Companies in Vietnam	3.9%		7.4%	

PCI is the PCI survey sample, stratified at the provincial level.
Weighted PCI is the PCI survey sample, but weighted by provincial share of enterprises to create a nationally representative sample.
Median Tax Authority provides the values in the median province.
Total Tax Authority shows the national-level aggregate scores.
GSO Census is the 2010 Enterprise Census of the General Statistical Office.
(http://www.gso.gov.vn/default_en.aspx?tabid=479&idmid=4&ItemID=7184)

More than 60 percent of the 2011 PCI respondents are engaged in the service and commerce sectors. More than 31 percent are involved in manufacturing or construction, while 6 percent of firms operate in agriculture/aquaculture, and 2 percent in the natural resources sector. Up to 88 percent of surveyed firms were established since the 1999 Enterprise Law—the primary legal document for promoting private sector growth—came into effect.

Similar to the General Statistical Office (GSO) Enterprise Census, we found that 40 percent of responding enterprises have between 10 and 49 employees. Another 40 percent can be considered small enterprises with less than 10 employees. Firms with 50 to 500 employees and more than 200 employees account for only 12.9 percent and 4.4 percent of the sample respectively.

Survey data this year also revealed that 43 percent of the PCI sample firms have a capital size (measured as total assets) between 1 billion VND (equivalent to $50,000) and 5 billion VND ($250,000). Firms with 10 to 50 billion VND in assets account for 10 percent of the sample, while only 3.2 percent of operations have an investment size that is greater than 50 billion VND. Small operations with total assets of fewer than 1 billion VND account for just over a quarter of the sample. These figures are similarly reflected in the GSO data.[9]

The major customers of Vietnamese businesses are domestic individuals and private firms. More than 72 percent of surveyed enterprises provide goods and services predominantly to Vietnamese customers. Eleven percent of respondents export their output directly or indirectly, 12 percent of respondents primarily sell goods and services to state agencies (down from 20 percent last year), and 7 percent are heavily engaged in sales to SOEs (down from 15 percent last year). The lack of connection to the foreign-invested sector is noteworthy—only 4 percent of operations sell goods or services to foreign-invested enterprises (FIEs). As we note in Chapter 2, the disconnect between the foreign and domestic sectors is also reflected (albeit improving) in the foreign investor survey. The primary factor at this stage is the type of foreign investment that Vietnam has attracted. Foreign operations that are part of large global supply chains tend to source their intermediate goods from abroad, relying primarily on Vietnam for low-cost assembly. As Vietnam moves up the supply chain and domestic firms become more sophisticated technologically, we are likely to see greater spillovers from foreign direct investment (FDI) into domestic production.

1.3. The 2011 PCI Rankings

Because we did not make changes to the PCI's sampling strategy, indexing methodology, or breakpoints between 2009 and 2011 we can compare the results directly to the two previous years. The analysis is revealing. The past year witnessed a slight improvement in provincial governance. The weighted 2011 PCI score for a median province is 59.15, about a full point higher than in 2009 and 2010. The improvement in scores reflected the continued commitment to reforms in economic governance pursued by most provinces.

Although scores have improved, there has been a tremendous convergence in PCI scores over time,

9. The 2011 PCI also shows that nearly 44 percent of surveyed firms were formerly household business, while more than half are newly established as greenfield projects, operations that did not exist before establishment. Nearly 4 percent are former central state-owned enterprises (SOEs) (3.2 percent) and local SOEs (0.8 percent) that recently underwent equitization. Twenty-six PCI respondents have their shares listed on the HCMC or Hanoi Stock Exchanges. This illustrates that the PCI survey not only covers small firms (as many provincial leaders have complained), but also represents the whole business sector officially operating in provinces and in Vietnam. As the survey results show, in the weighted national sample (weighted to reflect the larger proportion of operation in Hanoi and HCMC), over half of firm owners have a university degree. Only a small ratio of owners (2.8 percent) has Masters in Business Administration (MBA) degrees. A slightly larger proportion, 8 percent, of firm owners used to be managers of SOEs and 2.4 percent are former military officers, and as a result may benefit from informal connections among provincial officials.

as lower-ranked provinces have improved their economic governance by significant leaps. For instance, in 2009, the minimum provincial score was recorded by Cao Bang at 45.43. In 2011, Cao Bang again ranks last, but its PCI score is 50.81, more than five points higher. At the same time, top-ranked provinces have been pulled down toward the national average. In 2009, Da Nang received the top national score of 75.95, but in 2011, Lao Cai tops the rankings with a score that is 2.5 points lower, while Da Nang dropped to score of 66.9.

Increasing scores at the bottom of the index and declining scores at the top have compressed variation in the PCI. Empirical evidence of this convergence can be seen in Table 1.2, which reports a number of statistics measuring variance in the index over time.[10]

10. The most commonly used metric, the Coefficient of Variation (standard deviation/mean PCI score), indicates that observed variation in the index has declined incrementally over time and is now only half of its 2006 value (.155 in 2006 versus .078 in 2011). The decline in dispersion across PCI scores is known as sigma convergence, indicating a lower range of values, but it does not necessarily indicate that laggard provinces are catching up. To test beta convergence or a "catch-up effect" in PCI scores we need a slightly more rigorous technique, in which we regress the first difference (the annual change in the weighted PCI in a given province) on the lagged value in that same province. The resulting beta statistic is known as the *Convergence Coefficient*. When it is negative, the coefficient indicates that lower-ranked provinces have increased their governance faster than their higher-ranked peers have. The size of the coefficient indicates the magnitude of the convergence. Between 2007 and 2008, for instance, each one-point difference in a province's 2007 weighted PCI score meant its improvement in 2008 would be 0.13 points lower. While statistically significant, the substantive importance of 0.13 beta convergence is quite low, indicating that lower provinces were catching up to the national leaders but at a very low rate. Over time, however, convergence coefficients have increased dramatically. Part of this change is due to the recalibration of the PCI in 2009, when the convergence coefficient jumped to -0.34, but beta convergence has continued even under 2009 same methodology. The coefficient now represents almost half a point (-0.43) difference in the improvement of governance. To put this number in perspective, an average-ranked province in 2010 (with a PCI score of about 54) could expect a PCI score in 2011 that was about three points higher, compared to a high-ranked province (with a score of 64), which actually saw a decline of 1.2 points in their average PCI score.

Table 1.2: Observed Variation in Weighted PCI Scores over Time

Year	Median Province	Coefficient of Variation	Standard Error	Convergence Coefficient	Range		95% Confidence Interval	
					Min	Max	Low	High
2006	52.410	0.155	1.015		36.074	77.613	50.514	54.503
2007	55.561	0.150	1.043	-0.131	37.959	77.197	53.548	57.648
2008	53.517	0.149	0.991	-0.145	36.390	72.184	51.374	55.270
2009	58.311	0.105	0.782	-0.339	45.435	75.956	57.587	60.662
2010	58.022	0.084	0.613	-0.391	48.907	69.766	56.894	59.306
2011	59.435	0.078	0.588	-0.428	50.982	73.531	58.282	60.592
All Years	**56.517**	**0.131**	**0.377**	**-0.301**	**36.074**	**77.613**	**55.588**	**57.069**

Data drawn from panel dataset of provincial PCI scores between 2006 and 2011. 2005 is not considered, because it did not include all 63 provinces. All of the measures of variation show steadily declining variation in governance over time. The *Coefficient of Variation* is calculated by dividing the standard deviation of all 63 provinces by the mean weighted PCI score. The *Standard Error* is calculated by dividing the standard deviation by the square root of the number of provinces. The *Convergence Coefficient* is caculated by regressing the first difference of the weighted PCI (i.e. the difference between 2011 and 2010) on the lagged weighted PCI (the score from 2010). A negative value represents convergence, indicating that lower provinces are catching up with their peers. The size of the coefficient indicates the amount of convergence. All coefficients are statistically significant at the .01 level. *Range* represents the scores of the minimum and maximum provinces. 95% CIs are calculated by multiplying the standard error times the critical value of t (1.96) and adding/subtracting it from the mean provincial score.

In short, low-ranked provinces are adopting the best practices of their top-ranked peers and improving their business environments. Several factors likely account for the policy convergence. National programs and accompanying task forces to assist implementation—such as with the 2005 Enterprise Law, the 2005 Investment Law, and the Government's Project 30 on Administrative Procedures—have provided incentives for reform efforts of lower-ranked localities by linking such efforts to cadre evaluation and promotion.[11] The virtual elimination of locally managed SOEs in provinces has removed one of the greatest sources of variation in the attitude of local officials toward the private sector, as officials with large locally-owned state sectors tended to bias the policy environment in favor of local SOEs when they accounted for a large share of revenue and employment. No doubt the publication of the annual PCI report itself has played a role in this trend by providing a standardized metric of how to evaluate governance, which made lower-ranked provinces aware of their shortcomings, offered them recognizable targets, and allowed leaders to target specific policy changes that would improve their scores and see the best places to look for best practices. In addition, the PCI research team travels to more than 20 provinces each year to perform Provincial Diagnostics, the results of which communicate to a province it's particular strengths and weaknesses in economic governance, and provide a set of best practices from top-ranked provinces that will help provinces tailor improvements in scores.[12]

It is important to note that many of the reforms of lower-ranked provinces have been the result of picking the low-hanging fruit—selecting easy reforms that required very little institutional change or difficult compromises among local elites. Figure 1.5 demonstrates this more clearly. In the top left corner of Figure 1.5, we show the median provincial scores in 2009 and 2011 on each sub-index for provinces that were ranked as High or Excellent in 2009. In the top right corner, we replicate the analysis for provinces ranked as Average or below (Low, Mid-low) in 2009. The bottom graph shows the median scores on each sub-index for all provinces.

11. As an example, see Prime Minister Official Document No 1083/TTg-TCCV on Implementation of Master Plan on AP Simplification for 2007-2010, which discusses the role of the task force in implementing Project 30: "Ministers, heads of ministerial level agencies and Chairmen of People's Committees of provinces and cities under central management are responsible for organizing proper implementation of Project 30 in accordance with the Prime Minister's Special Task Force (STF)'s guidelines and requirements; exercising strict punishment in a timely manner towards subordinate public servants and officers who act irresponsibly, cause delays or obstacles during the project implementation."
12. See Malesky, Edmund and Dau Anh Tuan. 2006. Provincial Economic Governance, Vol. 2. Best Practices. (with Vietnam Chamber of Commerce and Industry). Hanoi, Vietnam: The Asia Foundation. The Asia Foundation and Vietnam Chamber of Commerce and Industry. 2011. *Best Practices: Enhancing Transparency for the Provincial Business Environment in Vietnam. Hanoi, Vietnam. International Finance Corporation. 2011. Simplification of the Process and Procedures in Land Access and Development Permits in Vietnam: An Administrative Toolkit for Provinces.* Hanoi: May 2011.

Figure 1.6: Sub-Index Scores over Time (By Performance Tier of Province in 2009)

This figure is divided into three panels, each one depicting sub-index scores in 2009, after the re-calibration of the PCI, and 2011. The bottom panel depicts the sub-index scores for all provinces. The Northwest panel depicts the sub-index scores of provinces that were rankied in the Excellent Tiers in 2009. This figure is divided into three panels, each one depicting sub-index scores in 2009, after the recalibration of the PCI, and 2011. The bottom panel depicts the sub-index scores for all provinces. The top-left panel depicts the sub-index scores of provinces that were ranked in the Excellent Tiers in 2009 iteration of the PCI. Then, it shows how those same provinces performed in 2011. The top-right panel depicts the sub-index scores of provinces that were ranked as Average or below in the 2009 PCI and how those provinces performed in 2011. Notice that low-ranked provinces have improved their scores on Land, Time Costs, Transparency, and Informal Charges at a faster rate than high-ranked provincess.

Figure 1.6 demonstrates that between 2009 and 2011, the median province in the country improved marginally in Entry Costs (8.35 to 8.59), Land Access (6.45 to 6.51), Transparency (5.29 to 5.84), Time Costs (6.49 to 6.70), Informal Charges (6.02 to 6.81), and Legal Institutions (5.35 to 5.88).

Closer inspection, however, reveals that there are very different patterns of reform between the top and bottom half of the PCI distribution. Provinces that were ranked highly in 2009 achieved slight increases in Entry Costs, Informal Charges, and Legal Institutions, but saw declines elsewhere.

On the other hand, low-ranked provinces in 2009 saw dramatic improvements in every sub-index except Business Support Services and Legal Institutions, with the largest gains in Entry Costs, Land Access, Transparency, and Time Costs. Such reforms include reducing the time needed to register a business, greater issuance of land titles, posting local legislation on provincial web pages, and reducing inspections by provincial regulatory changes. In 2006, top-ranked provinces were far ahead of the curve in pursuing these easy reforms. By 2011, however, such policies are common across the country.

At the same time, top-ranked provinces have stagnated, unable to come up with new innovations in more difficult reform arenas that will allow them to expand their lead in economic governance. Reforms have hardly been attempted in more challenging arenas, such as improving confidence in the judicial system or enhancing the quality of local labor. To put a finer point on this analysis, it appears that successful provinces from the early eras of Vietnamese reform appear to be confronting the middle-income trap before their neighbors, who can still eek some benefits out of comparatively easy reforms. As discussed above, central government programs and task forces have also contributed to the convergence among lower-ranked provinces.

One area of concern that we will return to in more detail below is the dramatic drop-off in proactivity among top provinces (6.73 to 5.9). It seems clear that provinces once known for innovative local initiatives and creative problem solving when central law was inadequate—such as Binh Duong, Da Nang, and Vinh Long—are far more limited in their ability to act independently to assist private sector operations. The lack of local dynamism and decision-making autonomy are the biggest drivers of declines among the country's elite business environments.

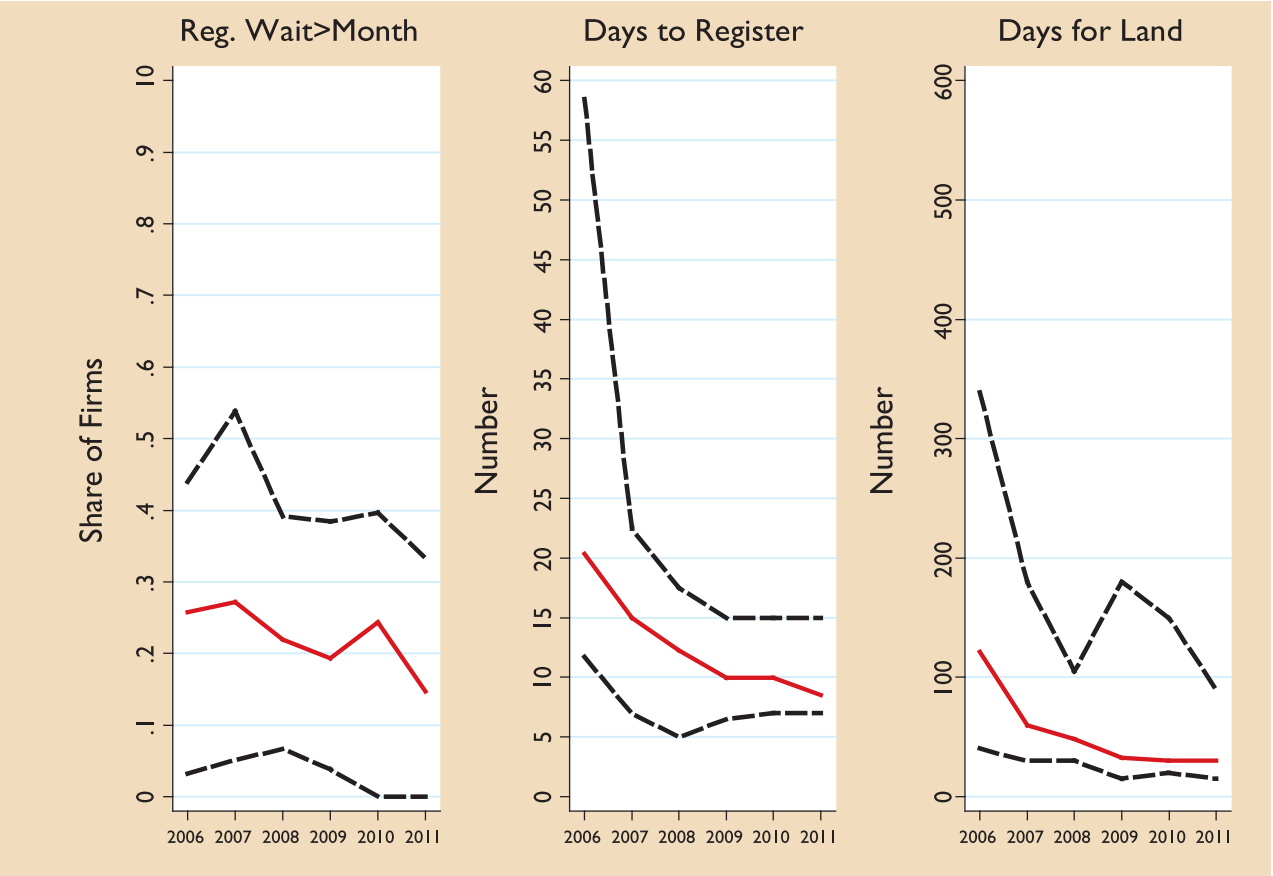
1.4. Changes in Individual Indicators Over Time

Simply observing changes in aggregate index scores over time is useful, but obscures the raw detail necessary for taking action to improve governance. Moreover, the simple change between 2009 and 2011 is too short to observe long-term trends in the Vietnamese reform trajectory. In this section, we take advantage of time series data in the PCI, which reaches back to 2006, to depict long-term trends graphically for some of the most enlightening PCI indicators. In each figure, we plot a red line, which is the score of the median province on a particular indicator, while black dashed lines represent the scores of the lowest and highest scoring provinces respectively. Tracking the median province allows us to visualize the average improvement in reforms across the country, while the space between dashed lines graphically displays the variation in the country, illustrating the distance between top performers and laggards.

Entry Costs

Figure 1.7 explores three of the most important indicators for measuring the ability of new firms to enter the market: 1) the share of firms waiting longer than a month to have all their legal documentation necessary to legitimately run a business; 2) the number of days necessary to register a business; and 3) the number of days necessary to wait for a land title after being introduced to the parcel. In all three cases, we find dramatic improvements in the median province. In 2006, more than a quarter of operations waited a month to be fully legal, compared to only 15 percent today; median registration days have declined from 20 days to 8.5; and the median wait for land titles has been cut in half from 60 in 2007 to 30 days. National and local authorities should take justifiable pride in these improvements. There is no doubt they have played an important role in stimulating new entrepreneurial ventures and contributing to the rapid growth of the private sector in Vietnam, which according to the 2011 National Tax Authority now consists of 332,384 registered and taxpaying operations. This figure is 2.7 times the amount that existed in 2006, which implies an astounding 28 percent annual growth rate.

Figure 1.7: Entry Cost Indicators over Time



This figure depicts key Entry Costs indicators from Sub-Index 1, measured by the Provincial Competitiveness Index annual survey between 2006 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

Land Access and Security of Tenure

Figure 1.8 tracks four indicators from the Land Sub-Index: 1) the percentage of PCI respondents who possess a Land Use Rights Certificate (LURC); 2) the expropriation risk rating of the land parcel on which the firm operates, where a score of 5 represents very low risk; 3) the share of firms answering that after land is expropriated by the state that firms receive fair compensation for the property value; 4) the percentage of respondents who agree that the provincial government's price frame for land accurately reflects its market value. According to the 2006 Land Law, price frames need to be regularly updated to keep reflecting developments in the real estate market.

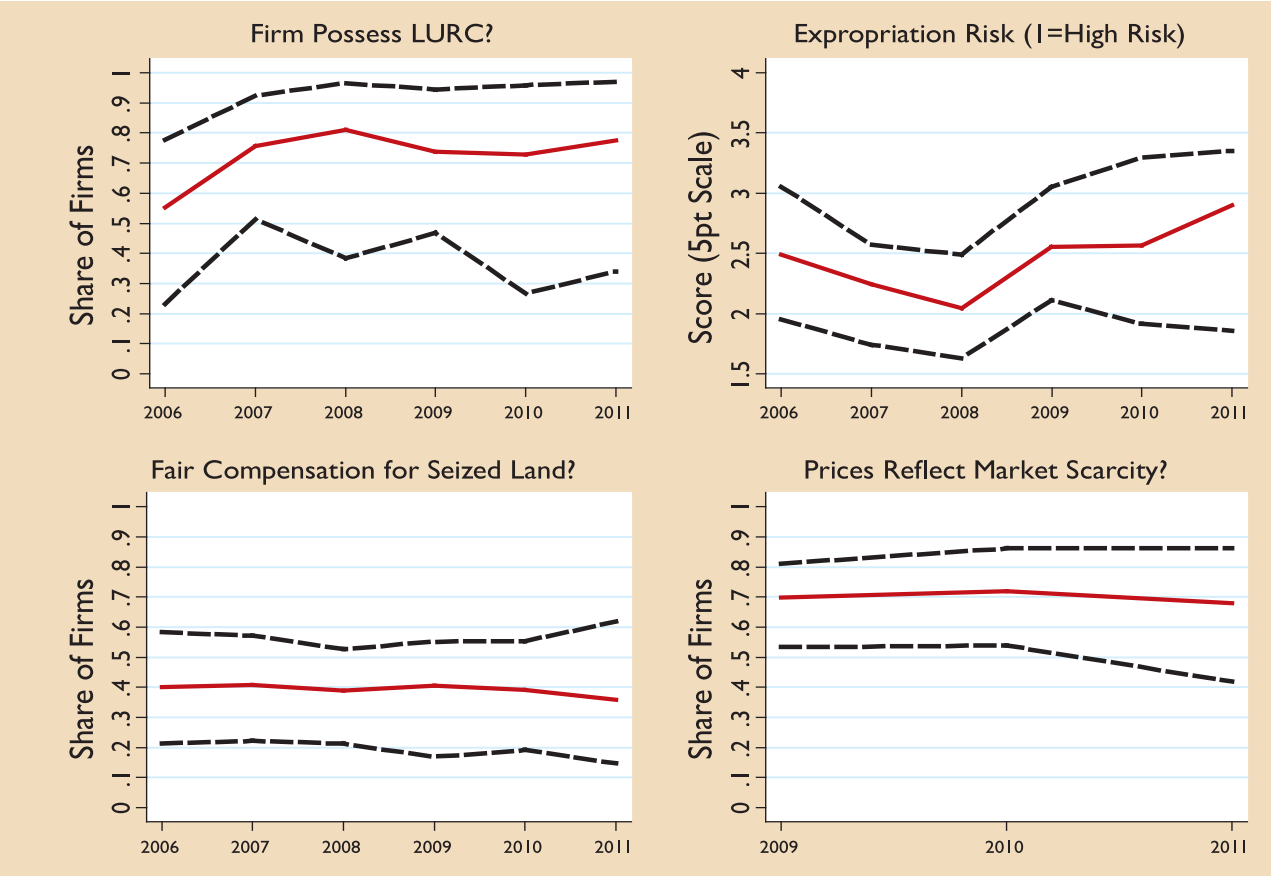
Land indicators demonstrate mixed results. Aggressive land titling and efficiency improvements in provincial cadastral offices have certainly influenced the share of firms with land titles for their business premises, which has grown from 55 percent in 2006 to 77 percent today. Hard data available from the Ministry of Natural Resources and Environment notes the same progress. In 2006, only 63 percent of eligible land plots were titled. Today, 80 percent of plots in the median province and 98 percent in Ha Nam and Ha Tinh have LURCs associated with them. Similarly, after a dip in 2008, firms are far less concerned about government seizure of their business premises, as the expropriation risk rating has increased 0.5 points since 2008.

On the other hand, measures of fair compensation and accurate pricing have hardly changed at all, actually declining a bit since they were added to the PCI in 2009. Only 36 percent (down from 41 percent in 2009) of respondents believe that businesses receive fair compensation for their property when it is seized for government development plans, such as land conversion, re-zoning, or infrastructure roll-outs. The discrepancy among provinces in adequate compensation has grown over time as well. Only 15 percent of operations in Tien Giang are satisfied with compensation, compared to 62 percent in Phu Yen—an 11 percent increase in the spread between top and bottom. At the same time, only 68 percent (down from 70 percent in 2009) believe that price frame revisions are fast enough to account for real estate developments in the province.

While the improvement in land access and expropriation risk can be observed, the limited improvement on adequate compensation and market pricing may dampen domestic investment in the near future in two ways. First, the lack of adequate compensation means that entrepreneurs will be unlikely to fully invest in their property out of fear that they will lose a significant share of the value due to changes in provincial infrastructure and zoning plans.[13] Inadequate compensation significantly favors investors with close connections to local leaders and inside information about land and infrastructure planning, particularly because, as we discuss below, access to planning documents has not improved very much over time. Secondly, investors seeking to use their LURCs as collateral to finance business expansion (94 percent of loan recipients according to PCI data) will likely receive smaller loans than necessary, as the price frame does not reflect the true value of the property.

13. See Hernando de Soto. 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books. Galiani, Sebastian, and Ernesto Schargrodsky. 2007. "Property Rights for the Poor: Effects of Land Titling." Business School Working Papers, Universidad Torcuato Di Tella, Buenos Aires.

Figure 1.8: Land Access and Security Indicators over Time



This figure depicts key Land Access & Security indicators from Sub-Index 2, measured by the Provincial Competitiveness Index annual survey between 2006 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

Transparency

The long-term trajectory of government transparency has been the most disappointing development in the PCI for many years. Each year, the PCI asks respondents to rank their access to government documentation necessary for operating a business on a five-point scale, ranging from 1) Impossible to 5) Very Easy. These documents divide neatly into two categories: 1) Legal Normative Documents (e.g. Central Laws, Provincial Implementing Documents, and the Provincial Budget) and 2) Planning Documents (e.g. State Investment Plans, Infrastructure Roll-Out Plans, Land-Use Maps).[14]

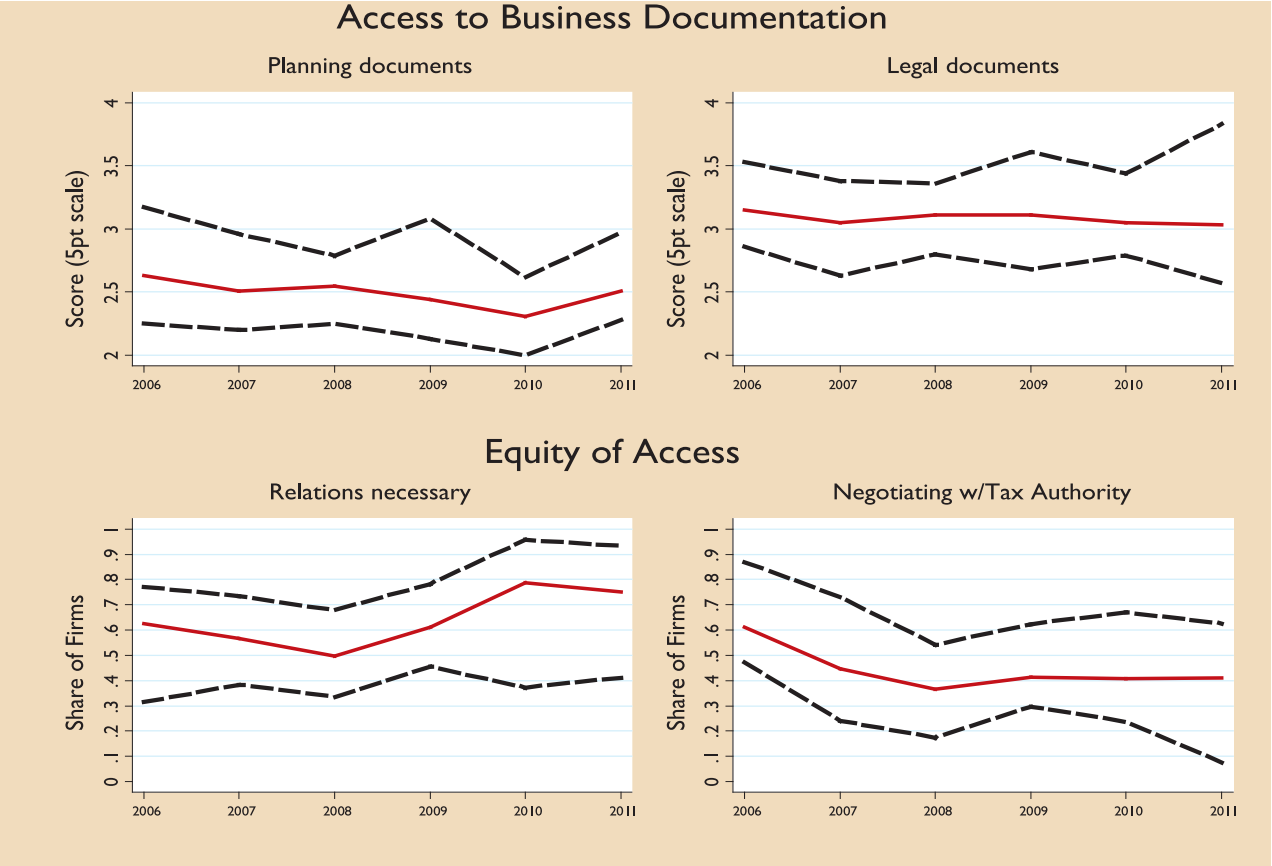
Since 2006, access to legal documents has been about 0.7 points higher than planning documents, due to Vietnam's commitments under WTO accession. For instance, all provinces were obligated to publish a monthly gazette (cong bao) with a list of changes in provincial resolutions and local regulations. Since a peak of 3.11 in 2008, however, access to documentation in the median province has declined slightly to 3.03 in 2011. Interestingly in 2011, the distance between the most and least transparent provinces on this indicator, which has always been great, doubled to nearly 1.3 points. Provinces such as Lao Cai, Dong Thap, and Long An, pulled ahead of their peers through the posting of gazettes and additional information on their provincial web pages.

14. This division is substantiated by a statistical technique called factor analysis, which identifies uncorrelated latent variables underlying baskets of highly correlated variables. See the 2006 PCI Report (www.pcivietnam.org) for a detailed description of the analysis.

While access to planning documents, which is not required by WTO commitments, continues to trail legal, normative documents, there was some improvement between 2010 and 2011, but this only served to bring the median province back to its 2006 level. Access to planning documents, as we noted above, are extremely important for leveling the playing field between investors with connections to provincial governments. Without transparency of land and infrastructure plans, investors may continue to under-invest out of fear that changes in local plans will negatively affect them.

The most negative development in the Transparency index is the continued importance of personal relationships to facilitate access to business documentation. Three quarters of investors (up from 52 percent in 2007) believe that having friends or family in government is important for accessing planning and legal documents. It is unclear why personal connections have grown in importance, but their salience dampens the morale of entrepreneurs and likely affects the efficiency of businesses in two ways. First, by favoring those with connections instead of those with the best ideas and talent, local governments negatively influence the quality of businesses in their province. Second, all investors must invest time and resources into developing connections that might be better spent on their operations.

Figure 1.9: Key Transparency Indicators Over Time

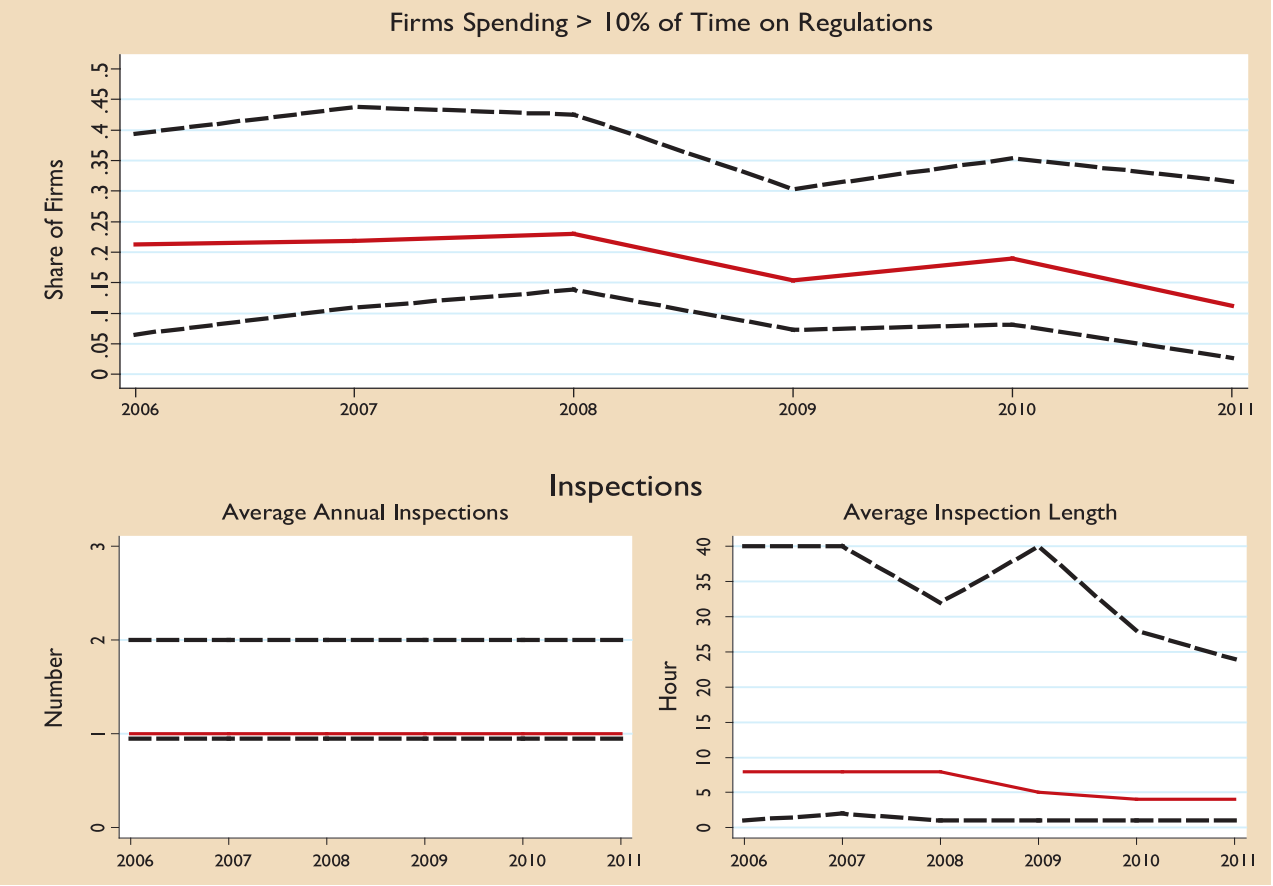


This figure depicts key Transparency indicators from Sub-Index 3, measured by the Provincial Competitiveness Index annual survey between 2005 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

Time Costs

Possibly due to the efforts of Project 30 and Public Administration Reform (PAR), the median province in Vietnam has recorded slow but steady progress on reducing post-registration regulatory costs for private businesses. The average annual inspection of domestic private businesses has remained consistently at one throughout the period, while the length of that inspection has been cut in half from 8 hours (in 2007) to 4 hours today. At the same time, firms feel less burdened by other administrative responsibilities. In 2011, only 11 percent of respondents reported spending more than 10 percent of their time on bureaucratic procedures, compared to 21 percent in 2006 and 23 percent at the peak in 2008.

Figure 1.10: Key Time Costs Indicators Over Time

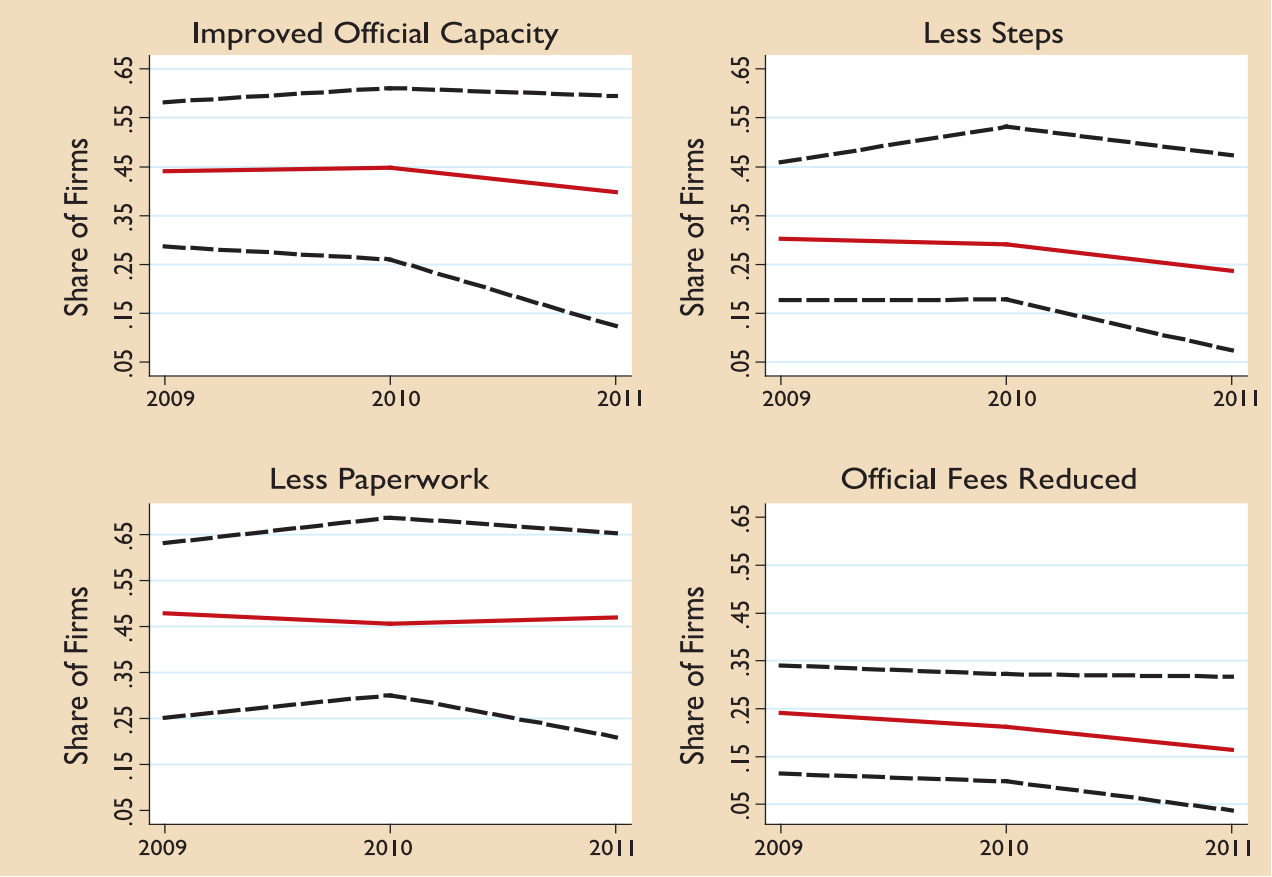


This figure depicts key Time & Regulatory Cost indicators from Sub-Index 4, measured by the Provincial Competitiveness Index annual survey between 2006 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

Four new questions to the PCI survey, which were added in 2009, help us probe deeper into exactly where progress on time costs has been made. In addition, they provide a more accurate assessment of PAR, as seen through the eyes of private businesses. These questions ask firms to report whether they have noted improvements in four areas of administrative reform: 1) the effectiveness of local officials; 2) reduced trips to bureaucratic offices to complete basic administrative tasks, such as obtaining stamps and signatures; 3) reduced paperwork; and 4) reduced official fees. These questions help elaborate on the previous finding of where the time costs of bureaucracy have been most pronounced. While the amount of time spent on paperwork has declined a tiny amount, other pillars of PAR have been less successfully implemented. Only 40 percent believe the effectiveness of officials has improved (down from 44 percent in 2009); only 24 percent (down from 30 percent in 2009) believe they are making fewer trips to local provincial offices; and only 16.5 percent (down from 24 percent in 2009) note a decline in the official fees they pay when visiting local officials.

In sum, the decline in paperwork has been the key driver in reducing the time firms must spend on bureaucratic procedures, but there is room for greater progress in improving the quality and efficiency of local officials, with whom business must interact, and reducing the number of times such officials need to be visited to obtain important post-registration documentation.

Figure 1.11: Public Administrative Reform Indicators over Time



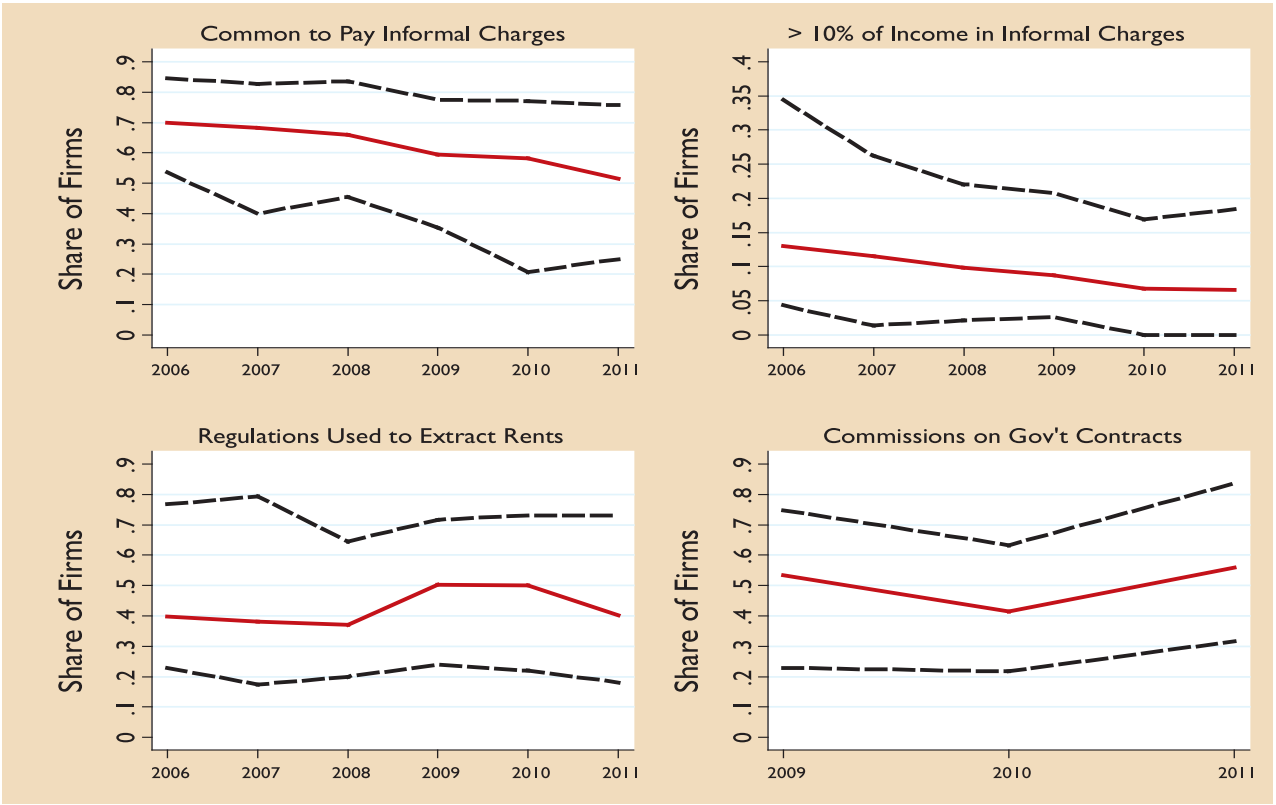
This figure depicts key Public Administative Reform indicators from Sub-Index 4, measured by the Provincial Competitiveness Index annual survey between 2006 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

Informal Charges

Surprising progress has been made in reining-in petty corruption in the form of small payments to officials at local administrative agencies. In 2006, 70 percent of respondents in the median province agreed with the statement that operations in their line of business were subject to bribe requests from provincial officials. Despite a great deal of anxiety about rising corruption in Vietnam, the share of respondents agreeing with the statement has declined to 52 percent today. At the same time, the share of firms paying more than 10 percent of their income in informal charges has declined from a high of 13 percent in 2006 to 7 percent in 2011. Although progress on this measure has been less consistent than the other two, the share of respondents who agree that local officials use regulations to extract rents declined to its 2006 levels of 40 percent after peaking in 2009 at 51 percent. These are startling and important developments that may reflect renewed efforts to contain corruption after the initiation of the 2008 Anti-Corruption Act. They also may reflect the rapid growth of the private business sector. With so many more operations, officials may only need to concentrate on bigger, richer establishments, while leaving smaller operations alone.

The final indicator in informal charges, however, carries a greater warning. While petty corruption has been reduced, it appears that grand corruption by top officials (such as kickbacks on procurement contracts or sweetheart land deals) increased over time. Fifty-six percent of operations that bid for government projects claimed that commissions were common, compared to only 41 percent last year. While petty corruption is frustrating for businesses and its decrease should be celebrated, ultimately, grand corruption is more dangerous because it contributes to increasing inequality between regime insiders and the rest of the country while undermining confidence in government.[15]

Figure 1.12: Informal Charges Indicators Over Time



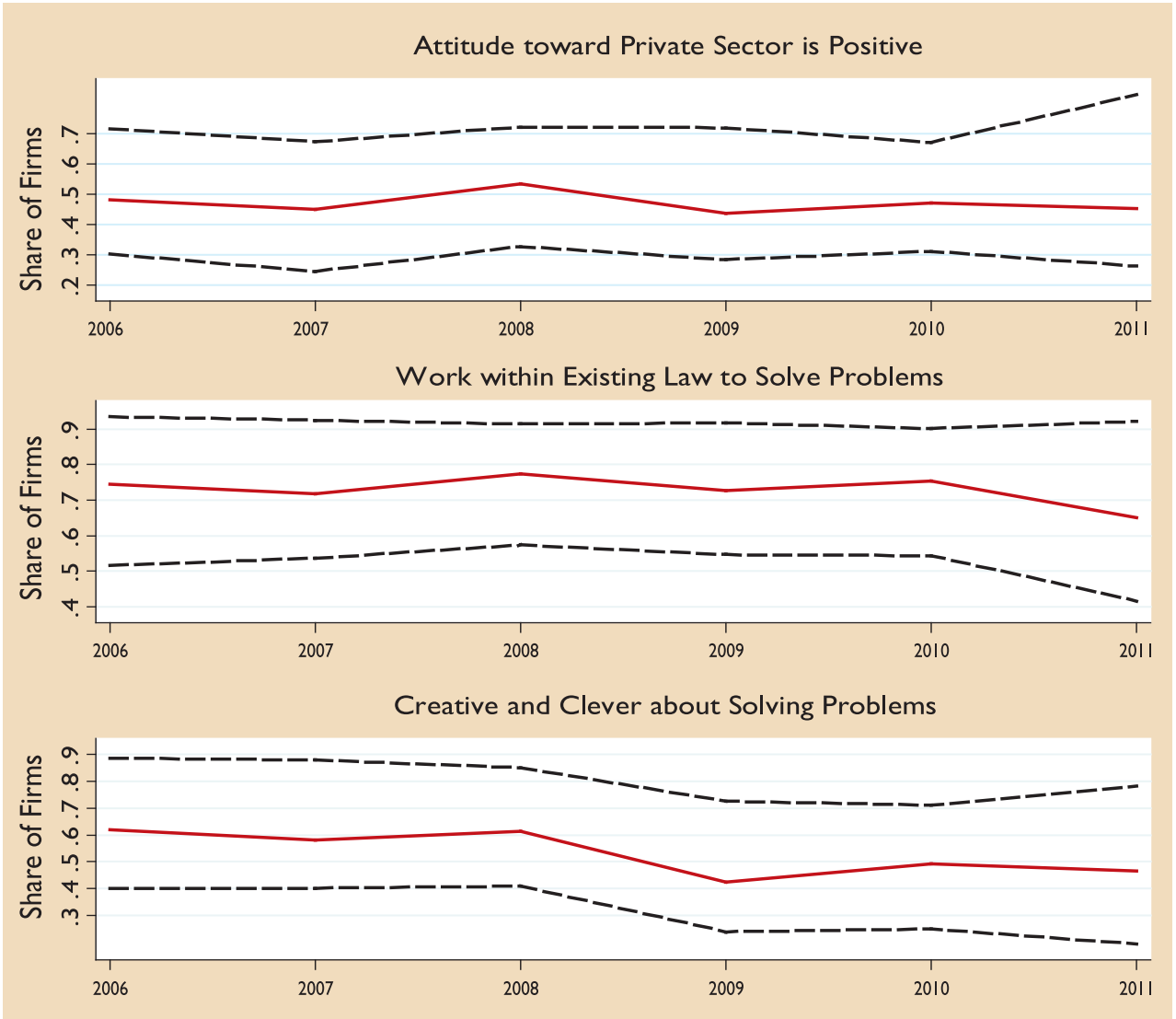
This figure depicts key Informal Charges indicators from Sub-Index 5, measured by the Provincial Competitiveness Index annual survey between 2006 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

15. This fact was noted in the 2008 Anti-Corruption Act. See Gainsborough, JM. Corruption, *Public Administration Reform and Development: Challenges and Opportunities*, for United Nations Development Programme, National Political Publishing House, Hanoi, 2009.

Proactivity

As we noted above, the greatest declines in the PCI, especially among top provinces, have been in three key indicators of proactivity. In 2006, 75 percent of respondents in the median province believed that their provincial officials were knowledgeable enough about current national law to find opportunities within existing law to solve firm problems. This figure has declined steadily over time and is now 65 percent today. Similarly in 2006, 62 percent of respondents believed their provincial officials were creative and clever about working within the national law to solve the problems of private enterprises. In 2007, only 47 percent of operations in the median province held that view. Even firms believing the attitude of provincial officials was positive toward the private sector declined 8 percent from its peak of 53 percent in 2008.

Figure 1.13: Key Proactivity Indicators Over Time



This figure depicts key Proactivity indicators from Sub-Index 6, measured by the Provincial Competitiveness Index annual survey between 2006 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

Business Support Services

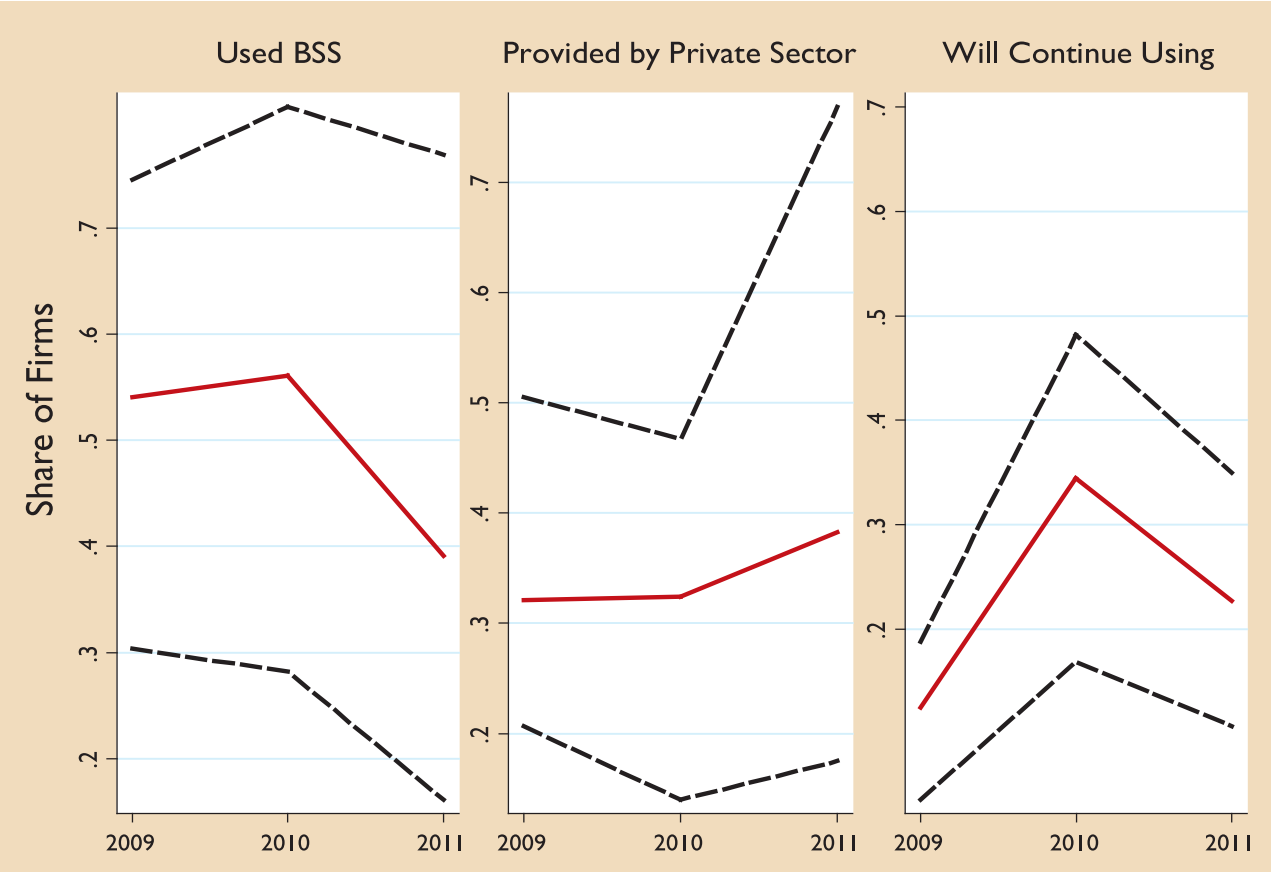
As the Vietnamese business sector has developed, operations have become more sophisticated in their use of technology, facility in international markets, and financial tools. As business leaders have pushed the boundaries of their internal capacity, they have increasingly sought technical assistance in these new arenas from public and private providers in improving efficiency of their operations through consulting services, training, and technical assistance. In 2009, questions regarding such services in the PCI were revamped along three dimensions. First, the PCI team expanded the list of business support services (BSS) probed by the survey instrument to include:

- Provision of market information.
- Consulting on regulatory requirements and procedures.
- Business partner matchmaking.
- Trade promotion and trade fairs/exhibitions.
- Technology and technology-related consulting services.

Secondly, the questions were altered to reward provinces that facilitated the growth of private providers in addition to providing such services directly as a public service. Previous versions of the PCI only asked about public BSS provision, punishing provinces where private BSS service providers were active. In the long term, private providers represent greater potential for development and their activities should be rewarded. Third, the PCI team sought to capture the quality of the services provided more directly by asking whether the firm intended to use the service again. All three dimensions—usage, share of private participation in BSS, continued use of the service—are shown below in Figure 1.14. We average across the five types of BSS to provide an aggregate measure of BSS quality at the provincial level.

Figure 1.14 demonstrates that usage of BSS is at the lowest proportion since the PCI started measuring it. Fewer than 40 percent of operations took advantage of BSS in their province in 2011. This decline likely reflects the struggles that firms are facing due to rising prices and reduced access to capital. It may well be that they simply do not have an interest in expanding into new opportunities and lack the resources to spend on BSS right now. Thus, they tend to avoid using the services. At the same time, declined usage may result from the tightening of provincial budgets. One indication of public withdrawal from BSS provision is the fact that private actors have increased their market share in BSS from 30 percent in 2009 to 40 percent in 2011. Those reporting that they will continue to use BSS, however, declined over the past year on average. In 2010, more than 50 percent of businesses who used BSS answered that they would continue with the expenditure. In 2011, only 23 percent of operations planned to continue with the BSS they were currently using.

Figure 1.14: Business Support Services Indicators over Time



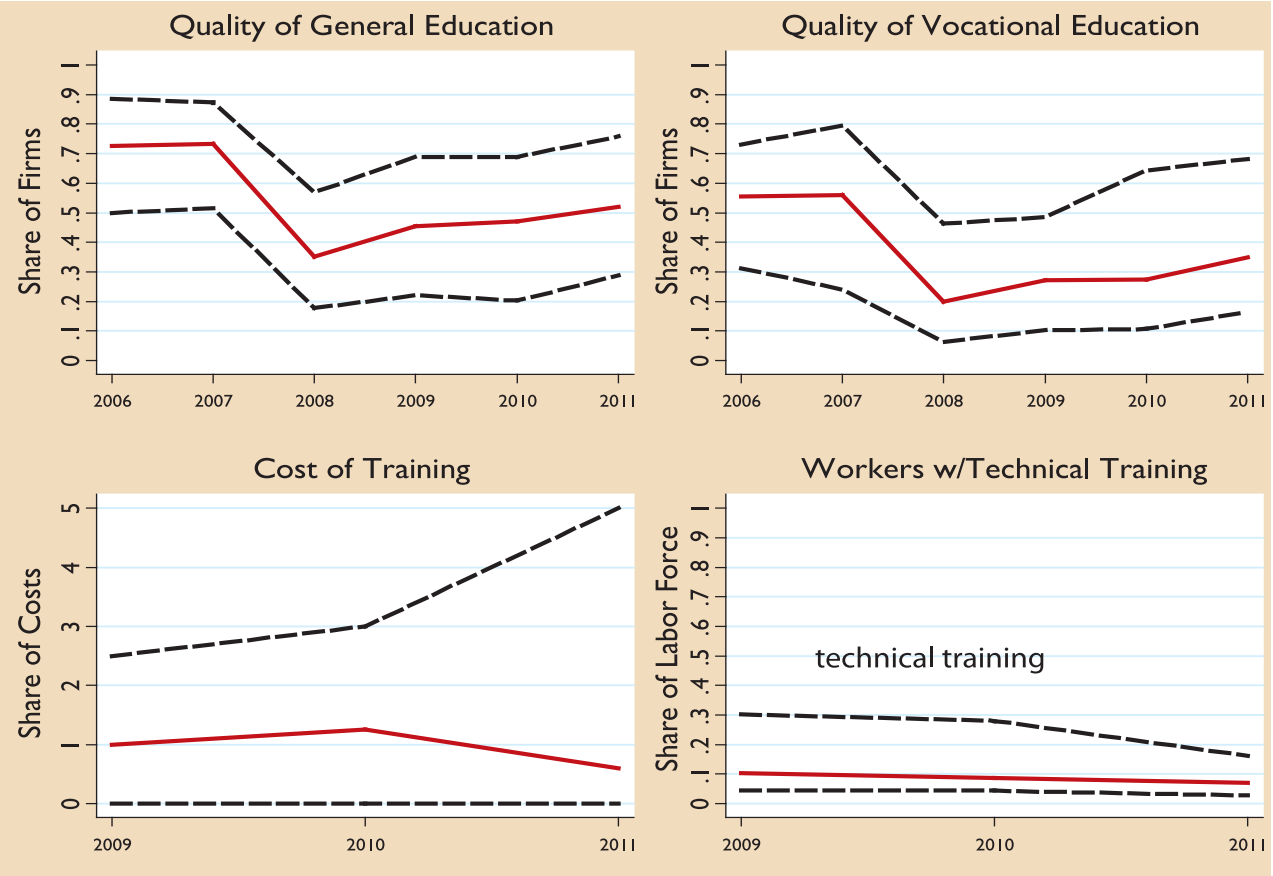
This figure depicts key Business Support Services indicators from Sub-Index 7, measured by the Provincial Competitiveness Index annual survey between 2009 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

Labor Policy

Satisfaction with labor quality has improved marginally in recent years, after severe declines in 2008. According to PCI data, the median province is nowhere near the historical highs recorded in satisfaction with labor quality achieved in 2006, but it is far better off than in 2008. This year, 52 percent of operations answered that they were satisfied with general education in the province (compared to 35 percent in 2008), while 34 percent claimed to be satisfied with vocational education (compared to 20 percent in 2008). As a result, the costs of labor training internalized by firms have also declined to less than 1 percent of total costs.

One negative marker, however, comes from the hard data supplied by the General Statistics Office (GSO). Since 2009, the share of the labor force with technical training (*trung cap chuyen nghiep*) in the median province has declined from 10.3 percent to 7.1 percent. This is a shocking and dangerous development that results from several factors, including: 1) the increasing costs of technical education resulting from official fees and additional fees to teachers for extra-curricular classes; 2) the problematic fit between technical education and employable skill sets; and 3) changes in the domestic economy, which have forced workers to leave school early and seek employment, often involving migration to major urban centers. We can observe the effect of migration in the declines in technical training of the provinces with the maximum scores. Reversing this trend is critical for the future of Vietnam's economic development.

Figure 1.15: Labor Indicators Over Time



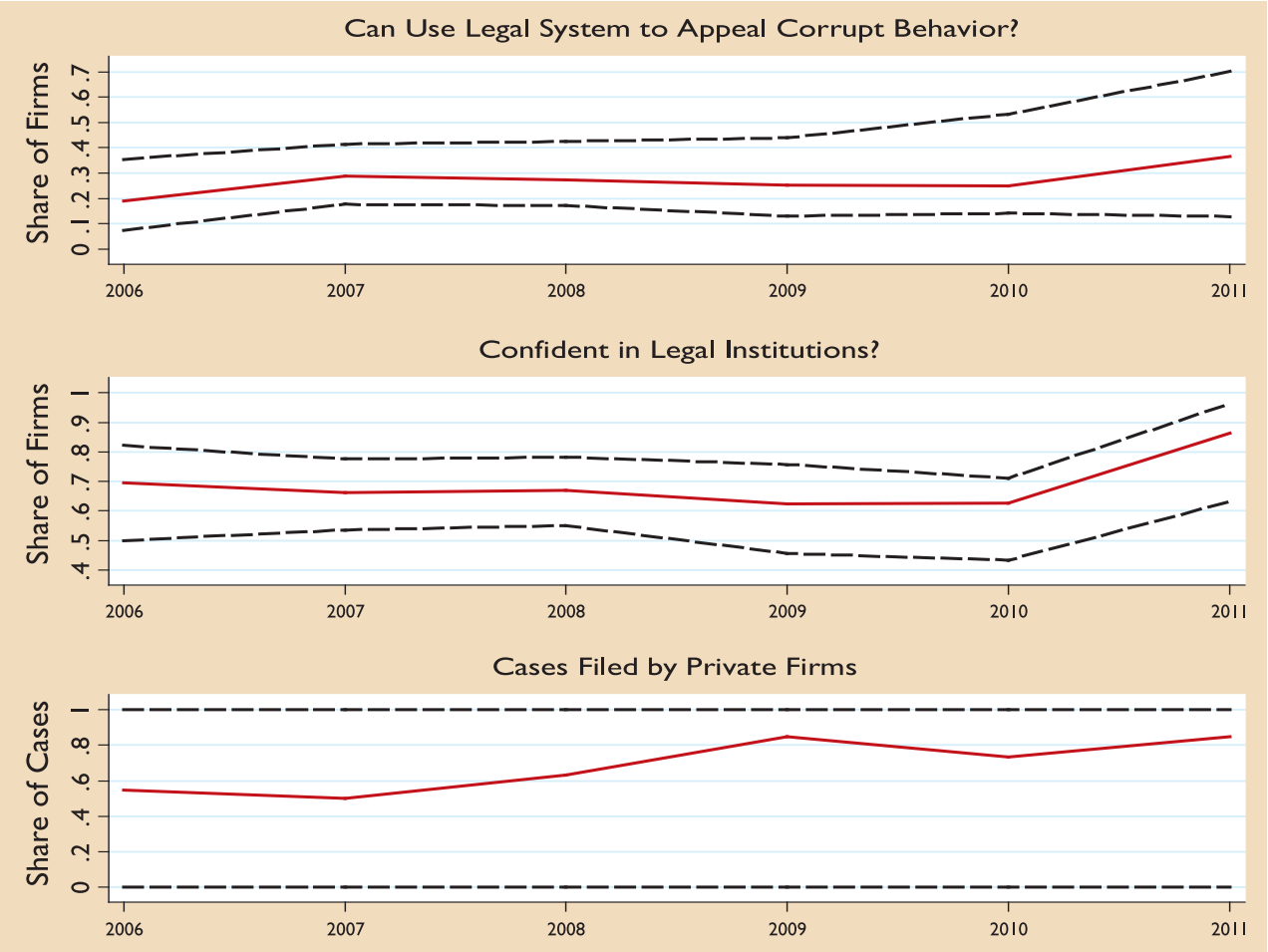
This figure depicts key Labor Policy indicators from Sub-Index 8, measured by the Provincial Competitiveness Index annual survey between 2006 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

Legal Institutions

The legal institutions sub-index saw marginal improvements this year. Figure 1.16 illustrates trends in two soft indicators and one hard measure, supplied by the People's Supreme Court. The first soft indicator measures whether respondents believe they can use the legal system to appeal the corrupt behavior of local officials. Historically, about 25 percent of respondents believed the legal systems were up to this task. In 2011, we observe a significant jump to 37 percent of operations. Similarly, the share of firms responding that they were confident in the ability of legal institutions to uphold property rights increased.

We should be cautious about these findings, however, as very few firms who expressed confidence have actually used the court system. In 2011, only 12% of enterprises (771 firms) experienced a business conflict with a customer or supplier. Of these, only 21% (165 firms) used a court to resolve the dispute. Another 79 considered using the court, but never filed. In many provinces, no respondents used the court system last year at all. As a result, it is impossible to use actual experiences with courts in our analysis, and we must rely on the perceptions of businesses. But it is important to note that firms that have actually used the courts are significantly less confident in the court system than those that did not – only 66% (versus 86% of non-users) believe that the court system will uphold their contract and property rights. Similarly, when asked whether they can use the legal system to correct the treatment of an unscrupulous lower official, 45% of those who have used the court answer seldom or never, compared to only 30% of non-users. In sum, experience with the court system significantly taints beliefs about its quality.

Figure 1.16: Legal Institutions Indicators over Time



This figure depicts key Legal Institutions indicators from Sub-Index 9, measured by the Provincial Competitiveness Index annual survey between 2006 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

1.5. Infrastructure Assessment

This year, the research team continued to track the quality of infrastructure at the provincial level as business owners and policy makers continue to cite it as one of the most critical barriers to investment and growth in the country. It is important to remember that these data are not included in the PCI; rather, they represent a separate measure that is produced concurrently with the PCI. The Infrastructure Index is divided into four sub-indices:

- Industrial Zones (IZs) and small and medium-sized enterprise concentrations: measuring the capacity and quality of local industrial zones.
- Road and transport: gauging the coverage of roads in Vietnam and the indirect and direct costs of transport that result from them.
- Utilities: measuring the costs and reliability of telecommunications and energy delivery in the province.
- Information and communications technology: measuring access to and usage of information and communications technology.

As in the PCI, each Infrastructure Index sub-index is a combination of hard data from published sources and perceptions data gleaned from the 6,922 PCI respondents. Figure 1.17 details the final scores on the Infrastructure Index. Table 1.3 provides data source and summary statistics on the indicators used in each sub-index.

Figure 1.17. PCI 2011 Infrastructure Index

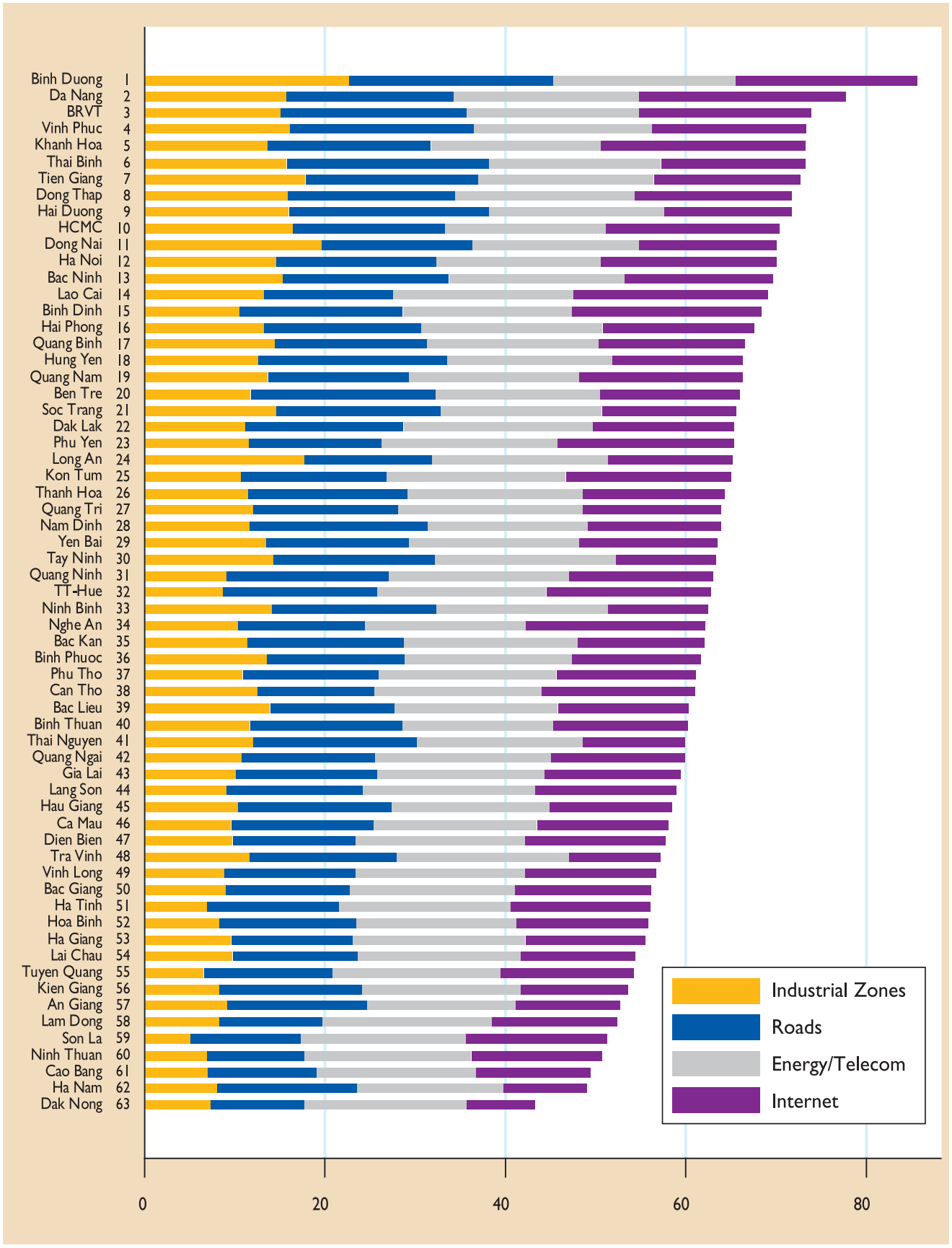


Table 1.3: Components Indicators of 2011 PCI Infrastructure Sub-indices

Sub-Index	Indicator	Source	Measure	2009	2010	2011
Industrial Zone Quality and Coverage	Number of industrial zones (IZ) and concentrations in province	MPI (2010)	Min	0	0	0
			Median	1	2	3
			Max	23	29	30
			Correlation	0.95*	0.92*	
	Percentage of total IZ surface area that currently has occupants (%)	MPI (2010)	Min	0	0	0
			Median	30.84	86.38	53.07
			Max	93.55	100	100
			Correlation	0.97*	0.27*	
	Firm rating of provinical IZ quality (% very good or good)	PCI Survey Question: E1.5	Min	0	3.85	15.56
			Median	24.07	24.53	40.00
			Max	79.17	76.86	78.77
			Correlation	0.75*	0.77*	0.43*
Road Quality and Transport Costs	Assessment of road quality (% good or very good) NEW INDICATOR	PCI Survey Question: E1.1	Min	7.95	11.11	15.85
			Median	28.80	30.56	39.74
			Max	80.82	79.66	79.56
			Correlation	0.84*	0.86*	0.64*
	Percentage of roads in province (national, provincial, or district) that are paved with asphalt (%)	GSO	Min	4.82	4.8	15.51
			Median	51.44	55.7	60.11
			Max	100	100	100
			Correlation	0.75*	0.76*	0.13*
	Percentage of roads in provincially managed roads that are paved with asphalt (%)	GSO	Min	30	30	34.3
			Median	69.65	80.9	84.8
			Max	100	100	100
			Correlation	NA	0.72*	0.65*
	Hours of telecommunications outages in the per month*	PCI Survey Question E6	Min	0	6	0
			Median	3	10	3
			Max	8	21	17
			Correlation	0.25	-0.10	-0.16
	Assessment of telecommunications quality (% good or very good)	PCI Survey Question E1.2	Min	35.59	44.87	41.03
			Median	67.50	69.39	70.83
			Max	84.93	90	86.42
			Correlation	0.70*	0.69*	0.47*

Sub-Index	Indicator	Source	Measure	2009	2010	2011
Utilities (Energy and Telecommunications)	Telephones (land and cellular) per 1000 citizens	Ministry of Post and Telecommunciations	Min	0.4	85.1	81.5
			Median	1.9	205.9	201.7
			Max	20.8	385.8	418.7
			Correlation	0.12*	0.11	0.93*
	Average cost per kilowat of energy in province (VND)	Electricity Vietnam (EVN)	Min	142.24	641.67	476.01
			Median	796.24	916.42	991.13
			Max	1231.13	1423.75	1652
			Correlation	0.44*	0.13*	
	Hours of electricity outages in the last month*	PCI Survey Question E4	Min	46	24	0
			Median	50	89	9.1
			Max	58	150	24
			Correlation	−0.36	0.55*	
Internet	Firms informed in advance about power cuts (% of time)* NEW INDICATOR	PCI Survey Question E5	Min	45.78	49.80	50
			Median	50	59	68.75
			Max	58.38	95	100
			Correlation	NA	0.32*	
	Respondent posesses e-mail address (%) NEW INDICATOR	PCI Survey Question E7	Min	9.6	13.9	12.20
			Median	27.3	34.1	31.76
			Max	69.7	73.5	55.28
			Correlation	NA	0.80*	0.69*
	Assessment of internet quality (% good or very good) NEW INDICATOR	PCI Survey Question E1.6	Min	19.2	20.29	33.77
			Median	46.4	48.18	56.25
			Max	67.4	69.19	84.13
			Correlation	NA	0.62*	0.18*

* Imputed to address item nonresponse

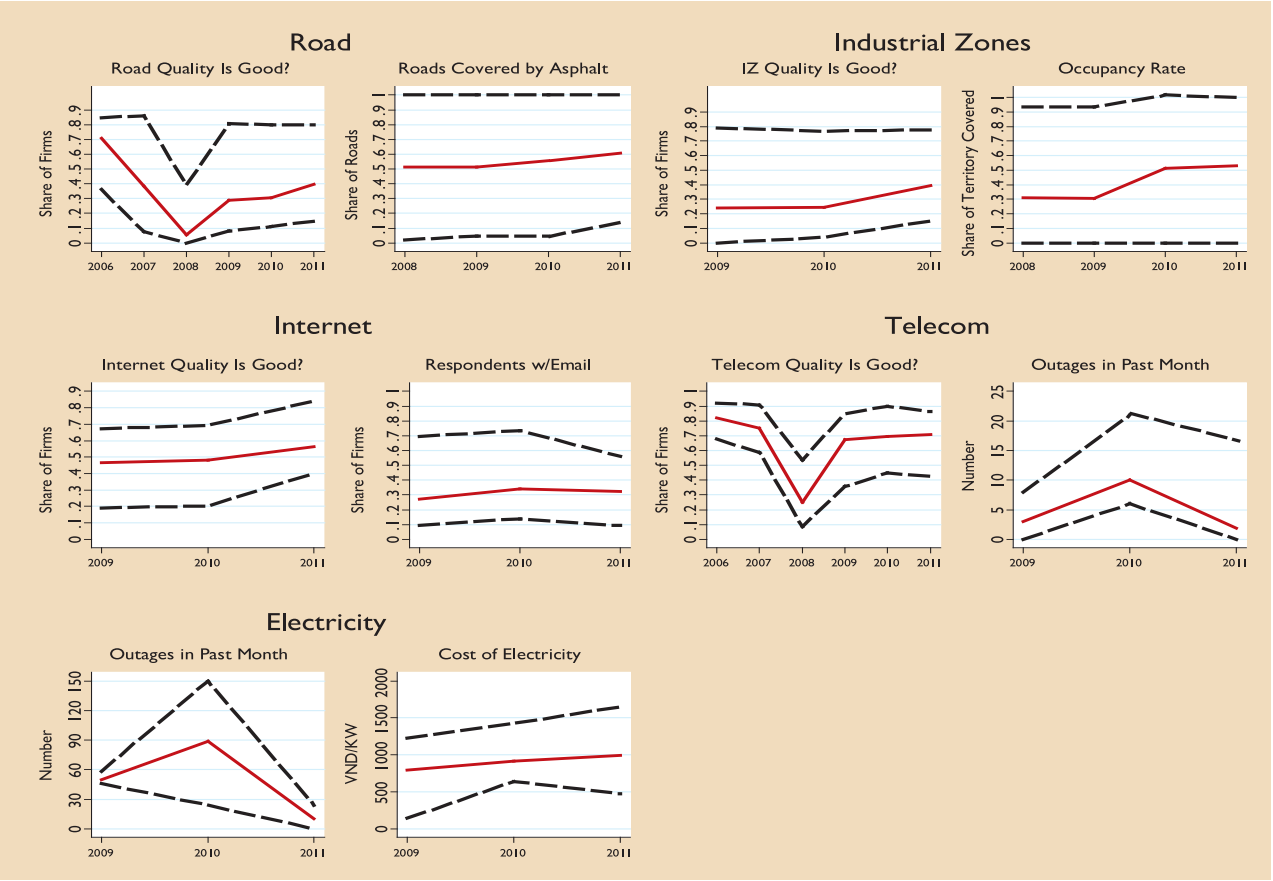
Binh Duong, the powerhouse industrial province of the North Southeast receives the highest score, followed by Da Nang and Ba Ria Vung Tau (BRVT). Interestingly, the major urban centers of Ha Noi and HCMC remained in the top 10, but dropped considerably due to declining perceptions of road quality and the stability of electricity. These declines likely result from the increasing pressure that population growth has placed on the cities' infrastructure capacity. Unsurprisingly, the lowest infrastructure scores are in the rural Northern Uplands and Central Highlands, including Dak Nong and Cao Bang. Compared to 2009, the 2011 infrastructure witnessed a positive upswing overall.

Figure 1.18 records the changes made on key infrastructure indicators. Overall, it appears that respondents are significantly more satisfied with infrastructure than in previous years.

- The median province experienced tremendous improvements in road quality, as 60 percent of its roads are now asphalted. Correspondingly, the share of respondents answering that road quality was good or very good, improved from 31 percent to 40 percent.
- Measures of IZ quality have also improved. Forty percent of PCI respondents believe that IZs are of good or very good quality and occupancy rates in IZs are now above 50 percent.
- Fifty-six percent of respondents believe their internet quality is good, up 10 percentage points from 2009. Similarly, 32 percent of respondents in the median province have email address (up from 27 percent in 2009).
- Vietnam has recovered from the massive utility outages that plagued the country in 2010. The average hours of telecommunication and energy outages in the median province declined dramatically. The average number of telecommunication outages was 3 in 2011, down from 10 the year before. Electricity outages fell from an all time high of 89 to only 9 this year. There are three reasons for the decline in outages: 1) the economic crisis led to decreased usage and demands on the grid; 2) increasing electricity prices also dampened demand; and 3) greater than average rainfall stabilized electricity output in a country that relies heavily on hydropower. Consequently, assessments of utility quality have also improved. Now, 70 percent of respondents rank telecommunication in their provinces as good or very good.
- Costs of electricity have increased about 75 VND/KW in the median province, but this represents only an 8 percent annual change in costs, which is much lower than general inflation in the country at 18.9 percent.[16]

16. While the annual average increase in electricity price is low, some months in 2011 experienced shocking shifts in prices. Energy prices increases 15.6 percent in March alone.

Figure 1.18 : Infrastructure Indicators over Time



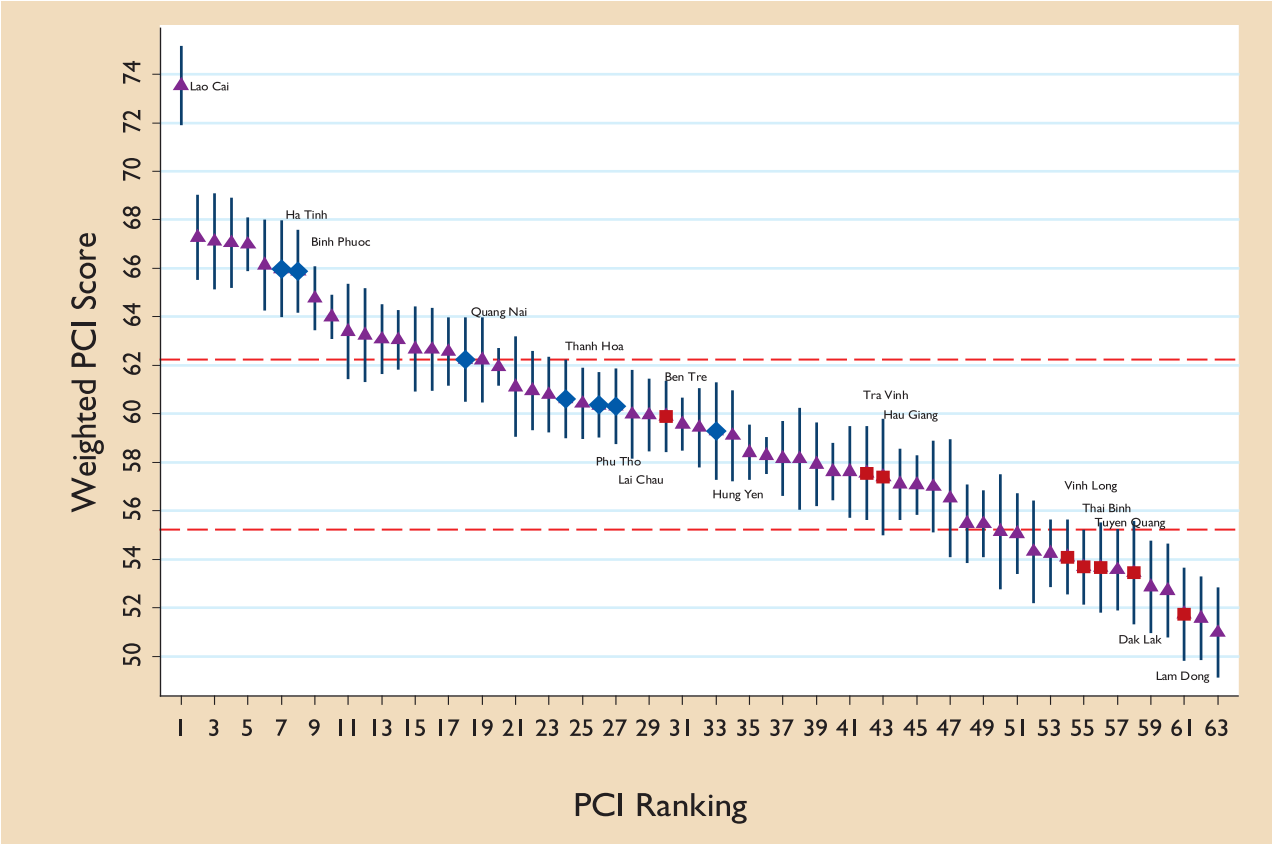
This figure depicts key Infrastructure indicators, measured by the Provincial Competitiveness Index annual survey between 2006 and 2011. The solid line depicts the score for the median province, while the dashed black lines depict the scores of the highest and lowest provinces respectively.

1.6. Conjecturing upon Shifts in Provincial Rankings

In sum, 2011 represents a unique landmark in the history of provincial governance. While the time-series data demonstrates clear improvement in the average province over time on important indicators of governance, the 2011 PCI clearly shows that historically well-governed provinces have seen notable declines in the satisfaction of respondents in their borders. Both Da Nang and Binh Duong, the perennial PCI leaders, dropped considerably in their overall score, but remain in the top 10. Other high-ranking provinces from previous years, such as Binh Dinh and Vinh Long experienced dramatic falls. Between 2009 and 2010, Binh Dinh fell from 7 (High) to 20 (Mid-High), and in 2011, the slide continued to 38 (also Mid-High). Similarly, Vinh Long dropped from an Excellent ranking of 5 in 2009 to 9 in 2010 (High). In 2011, however, its provincial governance was rated by respondents to be 54, only a Mid-High rating. Rapid declines of this nature are highly unusual.

As noted above, the PCI methodology is severely biased against such rapid movements due to its use of hard data and experiential survey questions that are shown to demonstrate statistically significant differences between provinces. When we observe declines of this nature, it generally indicates dramatic and meaningful changes within the governance of particular province. Usually only a couple of provinces increase or decrease their ranking by more than 20 points, however, this year seven provinces improved their rankings by more than 20 points (marked by blue diamonds in Figure 1.19), while eight provinces saw 20-point ranking declines (denoted by red squares).

Figure 1.19: Confidence Intervals around PCI Scores for Each Province



The graph depicts the PCI scores for each province along with the 95% Confidence Intervals (CI) for each score, based on the 6,922 individual responses. Large confidence intervals indicate wide variation in answers among firms in the same province. Blue diamonds depict the median score for provinces that advanced over 20 places in the rankings, red squares depict provinces that declined in ranking by 20 places, and blue triangles depict alll other provinces. The red dashed lines show the 25th and 75th percentile respectively. When confidence intervals are above the 75th percentile, it indicates a province's place in the top echelon is not accidental.

Even more striking, there appears to be very little variation among respondents within these high movers, indicating that there has been a general change in perceptions rather than simply a few firms dramatically changing their views. This finding can be observed in Figure 1.19, where we plot the 95 percent confidence interval (CIs) around every provincial score. Large CIs reflect high variance within a province regarding governance. Notice that the CIs around the PCI scores of the big movers are not noticeably bigger, and are, in fact, smaller on average, than the CIs of the more stable provinces, denoted by purple triangles. Moreover, Figure 1.19 shows clearly that Ha Tinh and Binh Phuoc's confidence intervals do not cross over the red line marking the 75th percentile, indicating that their high ranking is not an accident. Repeated surveys would place these provinces in the highest echelon of governance in the country. The opposite findings are true for Ben Tre and Vinh Long, which both are significantly below the 75th percentile, indicating that their declines are also not a coincidence or a result of idiosyncratic methodological issues. In fact, Vinh Long's CI only slightly crosses over the 25th percentile, indicating that there is a high probability that it now belongs in the lowest quartile of provinces.

What accounts for these dramatic and non-arbitrary changes in rankings between 2010 and 2011? In preparation for this year's report, PCI research team explored a number of potential explanations. The methodology of the PCI is exactly the same as in the two previous iterations, so it is

impossible that small changes in question wording or construction are responsible. Alternatively, Vietnam has been facing macroeconomic difficulties as far back as 2007, but rankings remained stable over the four subsequent iterations of the PCI. It is hard to see why they would only influence the rankings in 2011. Moreover, the economic effects have been severe everywhere, so they cannot explain the pattern of declines observed in the PCI rankings this year, where the primary declines were experienced in high-performing locations with robust business sectors. It could be that Vietnam's economic centers were hardest hit by the global economic crises and the struggles of businesses are reflected in their PCI scores. But there is no correlation at all between declines in PCI rankings and the Business Thermometer.

Finally, there is an argument that IZs provide sanctuary from governance problems elsewhere in the country, as IZ management boards and localized regulations shield occupants from arbitrary decisions by other provincial officials. Some have argued that growth in IZs may affect PCI rankings, as localities with a high portion of respondents in these settings may receive a bonus in PCI outcomes. This hypothesis was explored as well, but we found no evidence that it affected the rankings. Respondents based in IZs did not differ in their governance assessments from respondents in the same province outside of an IZ. Furthermore, provinces with large numbers of IZs were not represented among the biggest improvers. Dong Nai and Hai Duong have far more IZs than Binh Phuoc and Ha Tinh.

A final factor that could be an important change between the 2010 and 2011 surveys, however, was the 11th Party Congress leading to widespread changes in leadership throughout the country. Such events often lead to a great deal of uncertainty and transition to new leaders in some provinces which may have influenced scores. Jones and Olken (2005), in a highly regarded economic paper, found significant evidence that leadership changes at the national level have a dramatic impact on national economic performance, so the possibility is certainly worth exploring.[17] In future work, we hope to further analyze the impact of new leaders on provincial governance, by comparing the performance of new leaders against incumbent provincial leaders who continued on in their roles. Preliminary investigation revealed that the highest shifts in provincial rankings were recorded in places with new provincial leaders, but more analysis is necessary to understand whether firms are responding to the leaders themselves or to the disruptive transition period as the new leaders acclimated into their positions.

Of course, multiple factors influence provincial governance, ranging from historic endowments, to local socio-cultural factors, to central government policies, to international integration. In highlighting local leadership transition, our goal is simply to point to one important contributor to changes between 2010 and 2011. As there has not been change in the Party Secretary position since 2005, when we did not have the full sample of provinces in the first PCI survey, this is our first opportunity to research the topic. Moreover, having a new provincial leader does not necessarily condemn a province to a fate of declining or poor performance. There is considerable variation within the set of provinces that received new leaders. Some new leaders took on their job with ease and have continued their predecessors' high-quality governance.

Most importantly, pointing to changes in leadership describes only one node on a complex causal chain. Leaders make choices about local initiatives and implementing national policy. For low-ranking provinces, the road to improvement requires looking beyond leadership transition to the specific policies that were enacted or not enacted that have aggravated the respondents in the 2011 PCI survey.

17. Jones, Ben and Ben Olken. 2005. "Do Leaders Matter? National Leadership and Growth Since World War II." *Quarterly Journal of Economics* 120 (3), pp. 835 -864, August.

CHAPTER TWO

THE FOREIGN INVESTED ENTERPRISES SURVEY

THE FOREIGN INVESTED ENTERPRISES SURVEY

Summary Findings

This chapter summarizes the results of the second annual survey of foreign direct investors (FDI) in Vietnam. The survey covers a highly representative selection of 1,970 businesses from 45 different countries whose operations are located throughout Vietnam's 61 provinces. While the PCI-FDI survey is not the only survey of foreign investment in Vietnam, it is the largest and most comprehensive. In fact, the number of respondents in the PCI-FDI module accounts for 16 percent of the entire population of foreign investors found in the General Statistics Office (GSO) Enterprise Census.

It is critical to note that only domestic, private firms are included in the construction of the PCI. FDI firms are separated and analyzed independently in this chapter, because a large number of provinces do not have sufficient numbers of foreign invested enterprises (FIEs) to confidently generalize about their provincial business environments. In addition, as FIEs have the luxury of selecting the province in which they want to operate, they tend to have a different relationship with local governments than domestic firms, which usually operate solely in their home province.

This chapter is divided into four sections. In Section 2.1, we explore the performance of FIEs in the past year, demonstrating that while actual revenue and profitability haveincreased, respondents record increasing pessimism about their performance, and blame market conditions for their plight. In Section 2.2, we profile the average FIE in Vietnam, finding that they are predominantly from neighboring Asian countries (especially Taiwan, South Korea, and Japan), are relatively small in both employment and investment size, have the majority of their operations in low-end manufacturing, and are primarily interested in the export market for their products. A sizable domestic-oriented servicesector also is represented in the survey, but makes up a far smaller portion of their respondents (about 30 percent). In Section 2.3, we return to last year's analysis of determinants of entry into Vietnam, illustrating that firms continue to select Vietnam for its labor cost advantage and political stability, but heavily discount other governance factors. Interestingly, we do observe some variance across investors—those with headquarters (HQ) in more democratic countries are more likely to highlight governance as an important issue in their decisionmaking. In Section 2.4, we summarize changes in the key governance indicators for FIEs. We find improvements in: 1) the amount of time FIEs must wait for registration and licensing, especially in Binh Duong province; 2) fears about expropriation risk; 3) bribes paid during customs procedures; 4) policy bias toward state-owned enterprises (SOEs); and 5) assessments of

infrastructure (particularly the quality of roads and energy stability). At the same time, we record deterioration in scores for: 1) transparency of legal, normative documents; 2) possession of land use right certificates (LURCs); and 3) customs delays. The analysis points to several opportunities for reforms that could improve the efficiency and quality of foreign investment in Vietnam.

2.1. Performance of Foreign Firms in 2011

Although 2011 was a difficult year for the Vietnamese economy, the performance of FIEs is noticeably better than in the first iteration of the PCI-FDI. As Table 2.1 details, sales were up, along with firm profitability. The median FIE in the PCI-FDI survey had gross revenue of $1.3 million, up $300,000 from the previous year, with the strongest increases experienced in manufacturing. Of course, profitability measures should be treated with caution on a self-administered survey, but compared to 2010, there appears to be a substantial uptick in performance. FIEs report profits equal to 22 percent of capital investment in 2011—roughly twice last year's performance. Once again, the manufacturing sector stands out with profits equal to 25 percent of investment.

Interestingly, while business performance is improving, FIEs are actually becoming more pessimistic in their perceptions of performance. When we calculate firm performance based on their reported total revenue and expenditures, only 16 percent of firms experienced losses in the first three quarters of 2011 (compared to 20 percent in 2010). However, when firms were asked to report their own performance, 22 percent listed their operations as loss-making. In short, the gap between calculated and self-reported performance is six times the size of 2010 (19.4 percent calculated vs. 19 percent self-reported).

Table 2.1: Metrics of Foreign Direct Investment Performance (PCI - FDI Respondents)

Sales	2011	2010	Manufacturing	Construction	Service	Agriculture	Natural Resources
Total sales of median firm (Million of USD)	1.3	1.01	1.6	1.5	0.60	0.56	0.50
Median sales per unit of labor (1000s of USD)	12.7	10.5	11.1	35.9	16.2	3.5	6.8
Expenditures	**2011**	**2010**	**Manufacturing**	**Construction**	**Service**	**Agriculture**	**Natural Resources**
Total expenditures of median firm (Million of USD)	0.66	0.8	0.9	0.99	0.24	0.35	0
Median expenditures per unit of labor (1000s of USD)	7.92	8.33	7.3	21.13	8.57	7.82	0.04
Profitability	**2011**	**2010**	**Manufacturing**	**Construction**	**Service**	**Agriculture**	**Natural Resources**
Profit/Capital Investment (median)	21.9%	11.04%	25.00%	10.33%	20.55%	11.99%	11.08%
Profit/Total Sales 2010 (median)	33.3%	20.0%	30.77%	20.13%	39.74%	40.00%	62.63%
Firms with losses in 2010 (Calculated)	16.4%	19.42%	17.52%	20.00%	12.24%	21.43%	40.0%
Firms with losses in 2010 (Self-Reported)	21.9%	18.99%	20.97%	2.13%	29.09%	3.36%	
Investment Plans	**2011**	**2010**	**Manufacturing**	**Construction**	**Service**	**Agriculture**	**Natural Resources**
Close business	1.59%	1.23%	1.90%	6.29%	0.64%	0.57%	0%
Considerably reduce size	0.41%	1.14%	0.65%	0%	0.04%	0%	0%
Reduce size	2.96%	0.46%	3.28%	0%	2.29%	13.36%	0.61%
Continue operating at present size	56.22%	30.85%	60.35%	46.20%	47.61%	48.82%	63.25%
Increase size of business	16.59%	40.88%	12.99%	28.58%	22.87%	20.88%	0.82%
Considerably increase size of business	22.23%	25.44%	20.82%	18.94%	26.56%	16.37%	35.33%

The pessimism of FIEs carries over into their investment plans for the next two years, according to the Business Thermometer (see Figure 1.2). Whereas in 2010, 66 percent of operations planned to expand their operations in Vietnam, this year, only 38 percent were as optimistic. More puzzling still, pessimism was most pronounced among the relatively high-performing manufacturing sector (33 percent), compared to the under-performing service businesses.

Probing a bit further, the survey asked firms to speculate on what factors they perceived to be contributing to the performance (Table 2.2).

To do this, we used a standard question asked on business environment surveys around the world. Sixty percent of respondents credit/fault general market conditions over other factors, which is high by international standards, but down from 70 percent in 2010. The decline likely reflects beliefs among some respondents that inflation is under greater control. Once again, only about 10 percent of respondents believe their success or failure in Vietnam can be attributed to government policy and labor. Managers receive the least credit for success or failure, cited by only 8.5 percent of respondents.

Table 2.2: Drivers of Foreign Derect Investment Performance (PCI - FDI Respondents)

Drivers	2011	Manufacturing	Construction	Service	Agriculture	Natural Resources
Government Policy	9.7%	14.5%	12.5%	0.0%	7.5%	10.5%
Owners and Managers	8.5%	19.0%	12.6%	0.0%	0.6%	10.0%
Workers	10.3%	0.2%	7.3%	20.5%	0.2%	9.2%
Market Conditions	60.0%	54.4%	61.9%	55.6%	91.4%	60.4%
Other	11.5%	11.9%	5.7%	23.9%	0.4%	10.0%

Wide discrepancies are obvious across sectors. Manufacturers, the most pessimistic firms, are more likely to cite government policy and the ability of managers and owners. Service sector operations ignore government and management entirely, and instead focus on labor and general market conditions. Unsurprisingly, commodity producers in agriculture and natural resources are more heavily concerned with market conditions, due to the turbulent global economy.

The 866 FIEs (47 percent of sample) in industrial zones (IZs) hold marginally different views on the factors thataffect their performance. They are more likely to credit government policy (13 percent) and hold market conditions responsible (65 percent) for their success or failure. Alternatively, they are slightly less likely to highlight manager acumen or the quality of labor. These small differences, however, are not robust to regression analysis, controlling for business sector or size.

2.2. Characteristics of the FIE Respondents

As we reported last year, the median FIE in Vietnam remains relatively small, export-oriented, and operating a low-margin business that is subcontracting to a larger multinational producer—and is therefore usually situated in the lowest node in a product's value chain (see Table 2.3).

Table 2.3: Characteristics of the FIEs in the PCI - FDI Survey

Legal Form of Investment	2011	2010	GSO
100% Foreign Directed Enterprise	85.41%	84.35%	82.95%
Joint-Venture with a Vietnamese Private Company	7.15%	4.84%	16.36%
Joint-Venture with a Vietnamese SOE	3.40%	4.55%	
Registered as a domestic company	2.08%	2.52%	0.46%
Domestic company w/overseas VN capital	0.17%	0.61%	
Other	1.79%	3.13%	0.23%
Sector	**2011**	**2010**	**GSO**
Industry/Manufacturing	65.0%	64.59%	59.44%
Construction/Infrastructure Investment	4.1%	4.09%	4.72%
Service/Commerce	29.4%	28.02%	28.39%
Agriculture/Forestry/Aquaculture	1.4%	2.36%	5.87%
Mining/Natural Resource	0.3%	0.86%	1.03%
Finance/Banking/Insurance	1.1%	1.31%	0.55%
Size of Labor Force	**2011**	**2010**	**GSO**
Less than 5	3.57%	2.92%	4.18%
5 to 9	5.10%	5.99%	6.79%
10 to 49	28.43%	31.79%	29.67%
50 to 299	38.00%	31.35%	30.95%
300 to 399	5.70%	6.38%	7.64%
400 to 499	8.25%	7.26%	7.09%
500 to 999	5.64%	7.17%	6.88%
1000 and over	5.31%	7.13%	7.81%
Licensed Investment Size	**2011**	**2010**	**GSO**
Under 0.5 billion VND ($25,000 USD)	3.57%	2.52%	2.25%
From 0.5 to under 1 billion VND ($50,000 USD)	2.39%	1.39%	2.17%
From 1 to under 5 billion VND ($250,000 USD)	15.45%	15.85%	12.75%
From 5 to under 10 billion VND ($500,000 USD)	11.66%	8.75%	11.71%
From 10 to under 50 billion VND ($2.5 Million USD)	33.79%	35.14%	36.04%

From 50 to under 200 billion VND ($10 Million USD)	19.92%	23.13%	22.83%
From 200 to under 500 billion VND ($25 Million USD)	6.65%	7.62%	7.29%
Above 500 billion VND ($25 Million USD)	6.55%	5.61%	4.97%
Major Customer	**2011**	**2010**	**GSO**
Sold domestically to SOE	2.60%	3.52%	2.8%
Sold domestically to state agency	2.04%	1.42%	0.9%
Sold domestically to private individuals	33.90%	15.55%	13.0%
Sold domestically to foreigners	14.76%	24.51%	16.2%
Exported directly	44.10%	49.61%	58.6%
Exported indirectly	2.60%	5.39%	8.2%

PCI - FDI Respondents based on 1,970 PCI Respondents, General Statistical Office (GSO) Data available at (www.gso.gov.vn) and GSO Enterprise Census (2009) (http://www.gso.gov.vn/default_en.aspx?tabid=515&idmid=5&ItemID=9775)

Size: Foreign operations in Vietnam are quite small by international standards. Seventy-five percent of FIEs in Vietnam have less than 300 employees. Indeed, 37 percent have less than 50 employees. Large firms remain a clear minority, representing only 5.3 percent of the sample. We find similar results when we disaggregate by capital size—63 percent of FIEs have licenses that are less than $2.5 million, and only 13 percent of the sample is licensed for more than $25 million.

Type of Investor: Eighty-four percent of the FIE respondents are 100 percent foreign-owned. This figure, which is in agreement with the GSO Enterprise Census, is remarkable because early in the Vietnamese investment history (1987–1991), 100 percent foreign-owned investment was not allowed and investors were obligated to joint venture with SOEs. While 100 percent FDI was possible under the 1991 revision to the Foreign Investment Law (FIL), it was still difficult, as access to land hinged heavily on finding a state-owned local partner. Thus until 1996, FDI came primarily in the form of joint ventures with SOEs, accounting for more than 70 percent of approved projects and 75 percent of total registered capital between 1988 and 1996. The 1996 revisions of the FIL facilitated 100 percent direct investment and led to the trend we observe today. Very few foreign firms have taken advantage of the 2005 Enterprise Law's invitation to register as a domestic operation with foreign capital.

Sector: Sixty-five percent of operations are manufacturing, while only 30 percent of FIEs operate in the services sector. While some have raised serious concerns about a migration of FIEs into the real estate market, our data do not show it. Less than one percent of FIEs were licensed for real estate activities (although more may be involved as sideline investments).

Customer: Output of FIEs is primarily destined for export; 46.7 percent of all firms and 57 percent of manufacturing enterprises export more than half of their output directly or indirectly. Even the output sold within Vietnam is often sold to foreigners, as 15 percent of FIEs list foreign individuals or companies

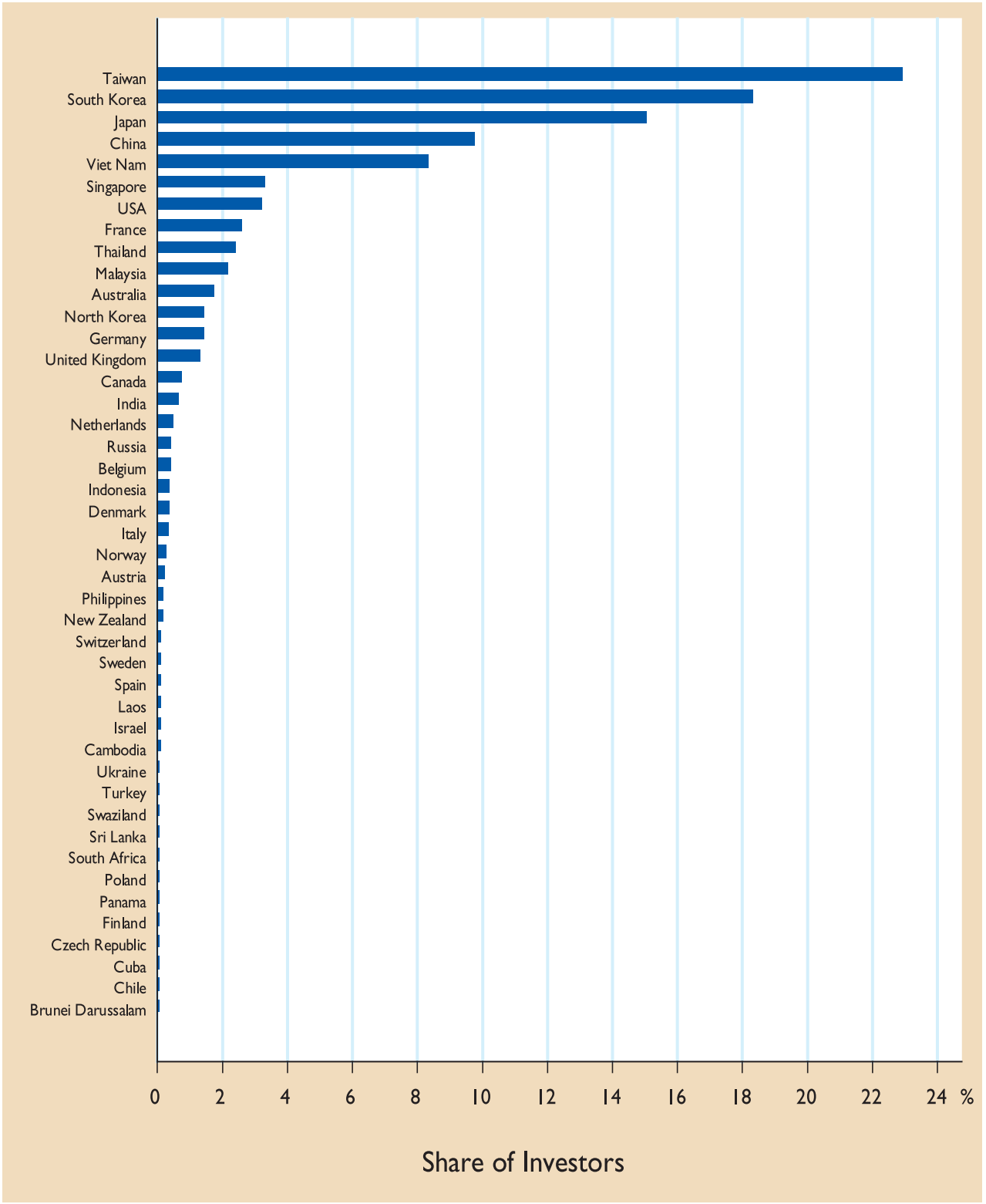
in Vietnam as their primary market. One positive development from 2010, however, is that a much larger share of sales (34 percent) is being sold to private individuals in Vietnam, up from 15 percent last year. Growth among private individuals appears to have replaced sales that were originally targeted at SOEs and state agencies. This could be the result of efforts by the Vietnamese leadership to limit the activities of central SOEs out of the core competencies. As a result, FIEs have substituted with sales to Vietnamese individuals.

Suppliers: Confirming concerns raised last year about the lack of domestic spillover, we also find that FIEs purchase 57.5 percent of their intermediate products from overseas, a slight improvement over 2010. Only about 40 percent of intermediate goods and services are sourced domestically, with domestic, private operations counting for two percent of the total. The lack of linkage to the domestic, private sector is worrisome, as it limits the opportunities for technology and productivity spillovers.

Country of Origin: Figure 2.1 looks at the share of FIEs by country of origin. Like last year, we find that investors from East Asia dominate the sample. Investors from South Korea, Taiwan, Japan, and mainland China account for 66 percent of the active businesses surveyed.[18] When we add investors from neighbors in Southeast Asia, the figure approaches 75 percent. These numbers correspond closely to the calculations drawn by the Ministry of Planning and Investment (MPI)/GSO. Respectable numbers exist for Western investors as well. The PCI-FDI sample contains 48 investors from France, 59 from the United States (including Guam and the U.S. Virgin Islands), 32 from Australia, and 26 from Germany, in addition to a host of others from Western Europe, Russia, Eastern Europe, and Latin America. It is important to remember that a great deal of U.S. investment is listed as originating in Hong Kong and Singapore for a variety of logistical and tax-based reasons; so U.S. investment is probably understated.

18. Vietnam captures FIEs who are headquartered in Vietnam and have Vietnamese managers, but whose capital is from overseas.

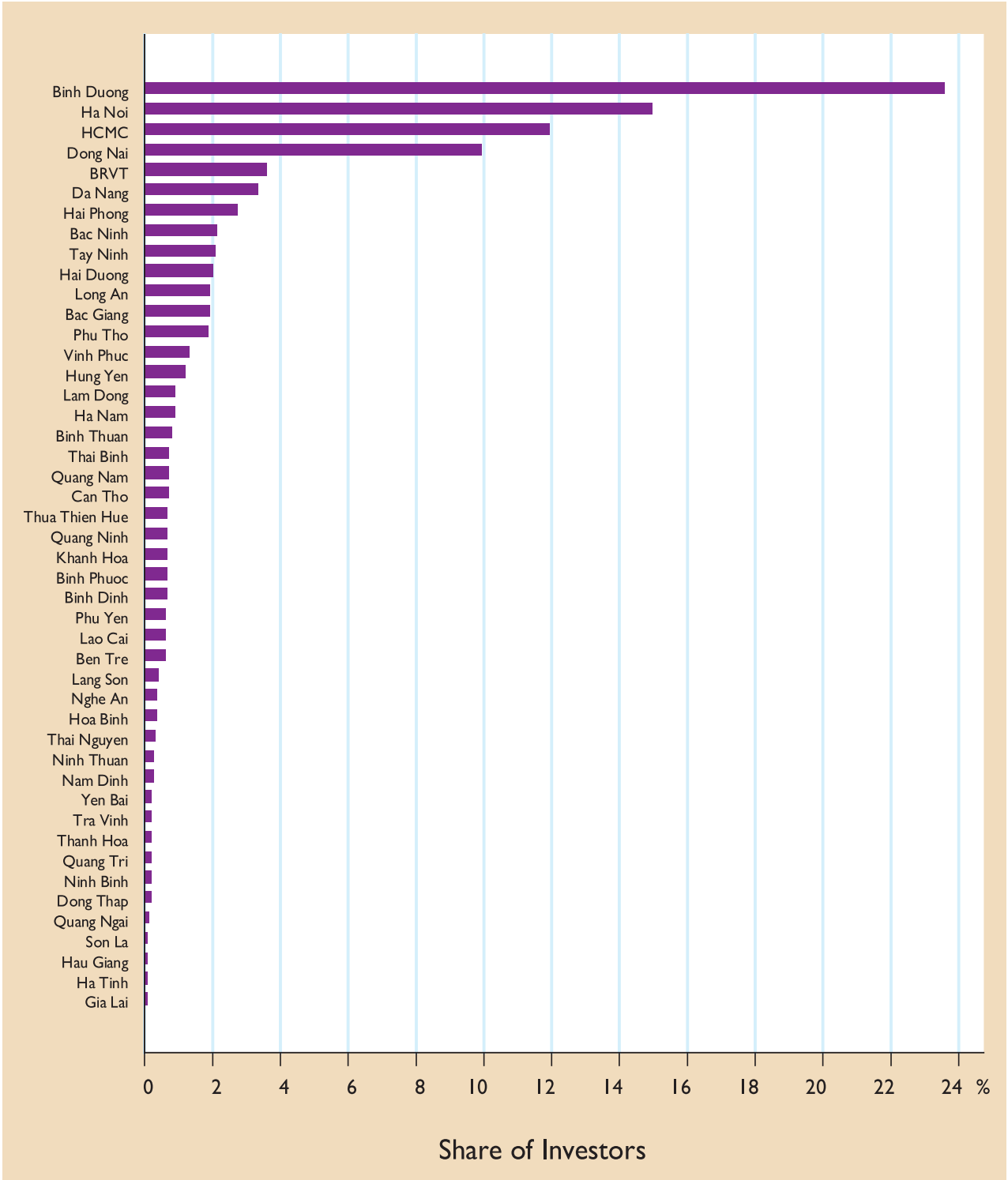
Figure 2.1: Country of Origin of Vietnam's FIEs



Vietnam captures FIEs who are headquarted in Vietnam and have Vietnamese managers, but whose capital is from overseas.

Location in Vietnam: Unsurprisingly, most of the investors in the PCI-FDI survey are located in the provinces bordering the two metropolises of Ha Noi and Ho Chi Minh City (HCMC). Once again, these figures match the MPI/GSO statistics on investment locations (See Figure 2.2). Binh Duong stands out in the PCI-FDI survey as the top destination, accounting for almost 24 percent of the PCI-FDI sample.

Figure 2.2: Provincial Destination of Vietnam's Foreign Invested Enterprises



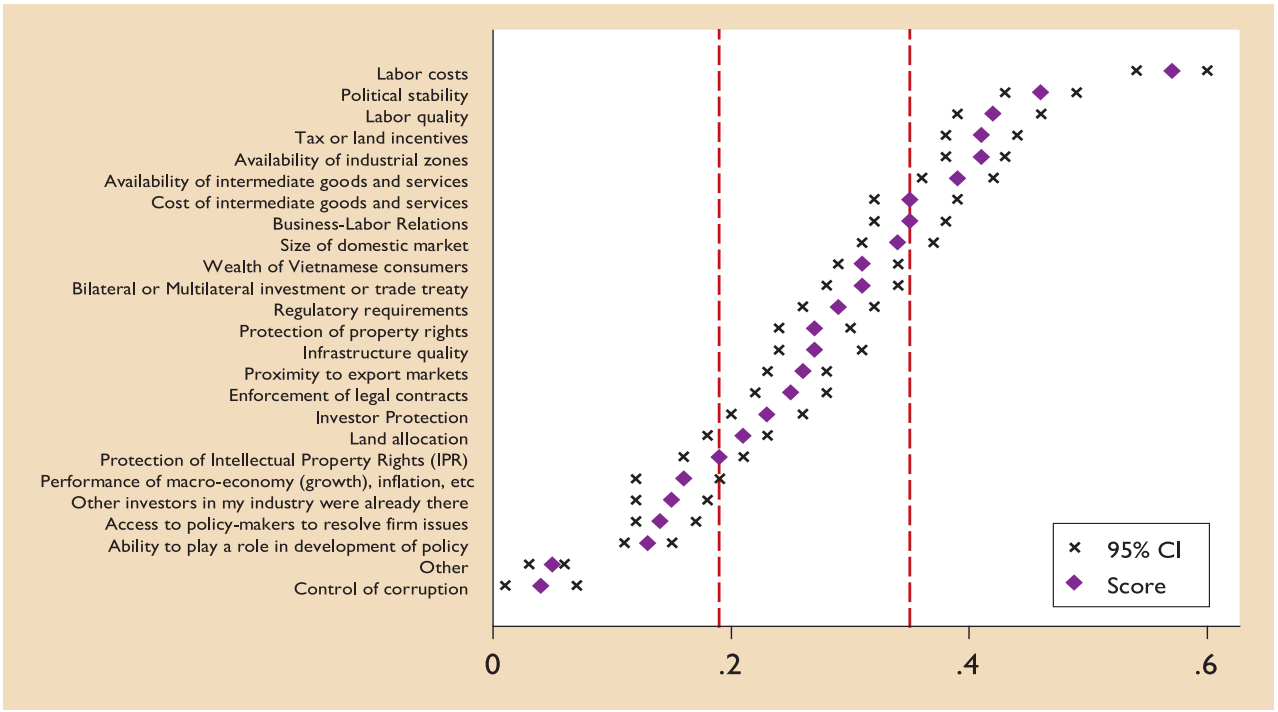
2.3. Drivers of National and Provincial Locational Selections

In the 2010 PCI-FDI report, we highlighted the fact that FIEs were primarily selecting Vietnam, and specific provinces in Vietnam, based on factors affecting the cost of production, rather than governance. The 2011 PCI data identifies a similar pattern. According to the PCI survey, 32 percent of the FIEs currently in Vietnam considered other countries (most commonly Thailand, Cambodia, and China) before investing in Vietnam. Of these, 72 percent selected Vietnam over the competition, while 27 percent invested in Vietnam as part of a multicountry investment strategy.

Why was Vietnam chosen over the other locations? To pin this down directly, question B3 in the PCI-FDI survey asked firms to record whether a particular factor had a positive impact on their decision to invest in Vietnam (scored as 1), a neutral effect (scored as 0), or a negative effect (scored as -1). By averaging across these scores for every province, we can identify the utility function for a typical firm in Vietnam.

Figure 2.3 reports the results of this analysis, where each diamond illustrates the average score received by a theoretical determinant of FDI into Vietnam, while the black x-marks indicate the 95 percent confidence interval around these averages. Red dashed lines denote the 25th and 75th percentile of scores received. Factors with scores, which are significantly greater than the 75th percentile, can be thought of as the most important drivers of investment in Vietnam. Clearly, labor costs with a score of .55 is far and away the most commonly cited determinant by FIEs in Vietnam. Political stability (due to Vietnam's single-party regime) labor quality, tax incentives, availability of IZs, and availability of intermediate goods and services also were selected as positive factors.

Figure 2.3: Ranking of the Determinants of FIE Entry into Vietnam



More worrisome for development in Vietnam is the fact that most governance factors score very low on investors' utility functions, indicating that a large number of investors selected them as having negative effects on their investment choices. Clearly, FIEs in Vietnam do not think highly of efforts to control corruption, which was the lowest ranked indicator with a score only slightly higher than zero. Other governance factors, such as land allocation, intellectual property, access to decision makers, investor protection, and enforcement of contracts also ranked very low. Performance of the macroeconomy, due to Vietnam's recent inflationary crisis, also was considered a detriment to investment. The pattern of favoring cost reductions over other determinants (particularly governance) is consistent across firm type, whether the analysis is disaggregated by size, performance, age, or entry mode. There is one exception, however, the level of democratic governance in the sending country (the country where the FIE has its official HQ) has a significant impact on the importance of governance in investment decisions.

In an exploratory analysis, we group the factors listed in Question B3 into four categories: 1) economic fundamentals; 2) incentives or inducements; 3) compatriot network; and 4) governance. We compute an average rating for each category (where every question is weighted equally).[19] Using this approach mitigates the presence of substantial nonresponse and avoids the possibility that measurement problems on one specific factor may drive results.

Using the Polity IV project, we follow the standard practice to designate a country as democratic if their Polity score is greater than or equal to six and nondemocratic otherwise.[20] We estimate the simple models below using Ordinary Least Squares (OLS):

$$GovernanceRating = Constant + DemocracyDummy + SectorDummies + Error\ (1)$$

$$EconomicRating = Constant + DemocracyDummy + SectorDummies + Error\ (2)$$

$$IncentiveRating = Constant + DemocracyDummy + SectorDummies + Error\ (3)$$

$$NetworkRating = Constant + DemocracyDummy + SectorDummies + Error\ (4)$$

The estimation results are presented in Table 2.4. Investors from a democratic background are less likely to consider the governance environment in Vietnam as a positive factor in their investment decisions. When interpreting these results, one should bear in mind that the respondent is comparing Vietnam to two types of alternatives: 1) investing in one's home country; and 2) investing in a foreign country other than Vietnam. Considering Vietnam's governance as a non-positive does not necessarily signal that governance in Vietnam is inferior to, for example, China or Cambodia, in the investors' eyes. A more likely explanation is that investors from a better-governed home environment anchor their responses differently from their counterparts hailing from a worse home environment. Somewhat surprisingly, however, investors from democracies also are less likely to consider Vietnam's economic factors as attractive. Models (3) and (4) did not yield significant estimates. It should also be noted that, for all above models, the R-squared is quite small, implying that the models explain little of the underlying variance in the decisions of investors. The impact of home country democracy is marginal at best.

19. Economic fundamentals (items 3, 4, 8, 10, 11, 12, 16, 20, 22, 23), incentives and inducements (items 5, 13, 14), compatriot network (item15), and governance (items 1, 2, 6, 7, 9, 17, 18, 19, 21, 24).

20. See Marshall, M., Jaggers, K., and Gurr, T. 2010. *Polity IV Project: Political Regime Characteristics and Transitions, 1800–2010* (http://www.systemicpeace.org/polity/polity4.htm) for coding rules and description of Polity IV.

Table 2.4: The Impact of Democracy on Determinants of Investment

VARIABLES	1 Governance	2 Governance	3 Economics	4 Incentives	5 Network
Polity IV Democracy Score	-0.0596**	-0.0638**	-0.0698**	-0.0424	-0.0192
	(0.0260)	(0.0263)	(0.0273)	(0.0329)	(0.0362)
Manufacturing		0.0490**	0.117***	0.137***	0.0221
		(0.0240)	(0.0249)	(0.0300)	(0.0330)
Construction		-0.0237	-0.0224	0.0227	-0.0214
		(0.0577)	(0.0600)	(0.0721)	(0.0794)
Agriculture		0.0801	0.0853	0.124	0.155
		(0.0751)	(0.0781)	(0.0938)	(0.103)
Natural Resources		-0.128	-0.0286	0.217	-0.202
		(0.172)	(0.179)	(0.215)	(0.236)
Constant	0.311***	0.279***	0.371***	0.268***	0.207***
	(0.0235)	(0.0291)	(0.0302)	(0.0363)	(0.0400)
Observations	863	863	863	863	863
R-squared	0.006	0.013	0.034	0.027	0.004

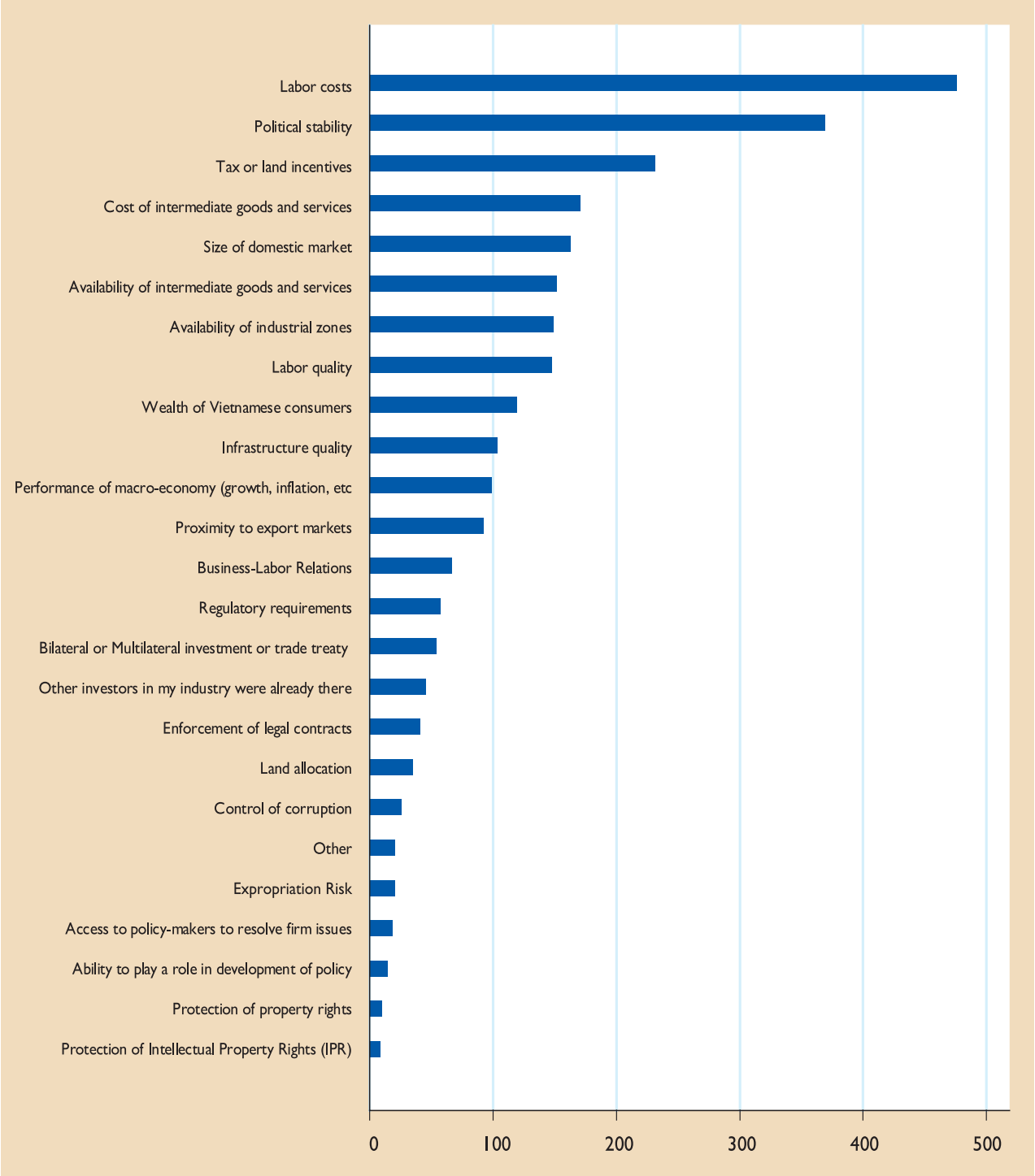
Standard errors in parentheses (*** p<0.01, ** p<0.05, * p<0.1). Dependent variables are calculated by taking the average score on responses to question B3 on four core issues: Economic fundamentals (items 3, 4, 8, 10, 11, 12, 16, 20, 22, 23), incentives and inducements (items 5, 13, 14), compatriot network (items15), and governance (items 1, 2, 6, 7, 9, 17, 18, 19, 21, 24).

A follow-up question asked the investor to select the three factors that were most important in making this decision. Once again, labor cost is the top-ranked factor, with 474 total votes and 173 first-place votes, followedby political stability (368 total votes, 217 first-place votes), and tax and land incentives (230 total votes, 76 first-place votes), which defray investment costs.

FIEs based in IZs appeared significantly more likely to select tax and land incentives as an important motivation for their investment. Controlling for economic sector and firm size, and using province fixed effect to compare firms within the same province, FIEs in IZs were four percent more likely to select incentives as an important factor in their decision.

Governance issues were almost never selected by investors. The primary explanation for the lack of interest in governance has to do with the fact that they operate in primarily low-cost operations, which rank low on global value chains. As a result, they care less about intellectual property protection, and are primarily interested in limiting costs.

Figure 2.4: Most Important Factors for Selection of Vietnam by FIEs

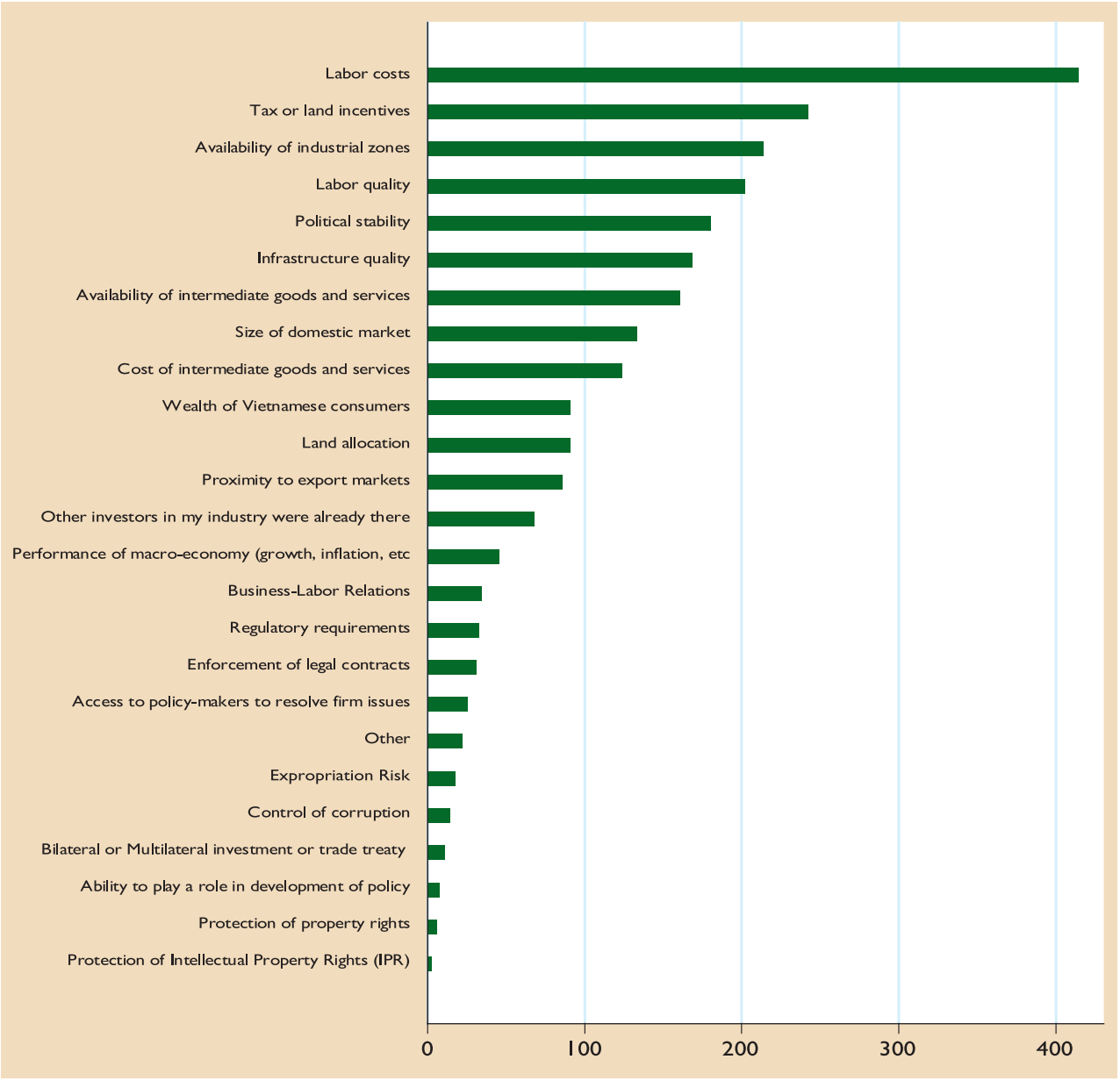


Question B4 in the PCI - FDI survey asked firms to record the top 3 reasons for their selection of Vietnam. This figure records the total number of first, second, and third place votes for each factor.

Further analysis verifies that there is no statistical difference between how likely a democratic vs. nondemocratic investor is to list labor costs or political stability as the top attractive factor. However, it is worth noting that, while a small number of democratic investors listed investment protection, control of corruption, access to policymakers, and business-labor relations as the top factor influencing their decisions, none of the nondemocratic investors did so.

Next, we turn to factors driving locations in a particular province in Figure 2.5. Forty-five percent of investors considered investing in another province (most commonly, HCMC, Ha Noi, and Bac Ninh). What factors led these investors to choose a particular province in Vietnam? Similar cost-saving factors to the national drivers appear at the top of the list. Labor costs, tax incentives, and the presence of industrial zones, which save money on land clearance and infrastructure, are the top three determinants.

Figure 2.5: Most Important Factors for Selection of Particular Province by FIEs



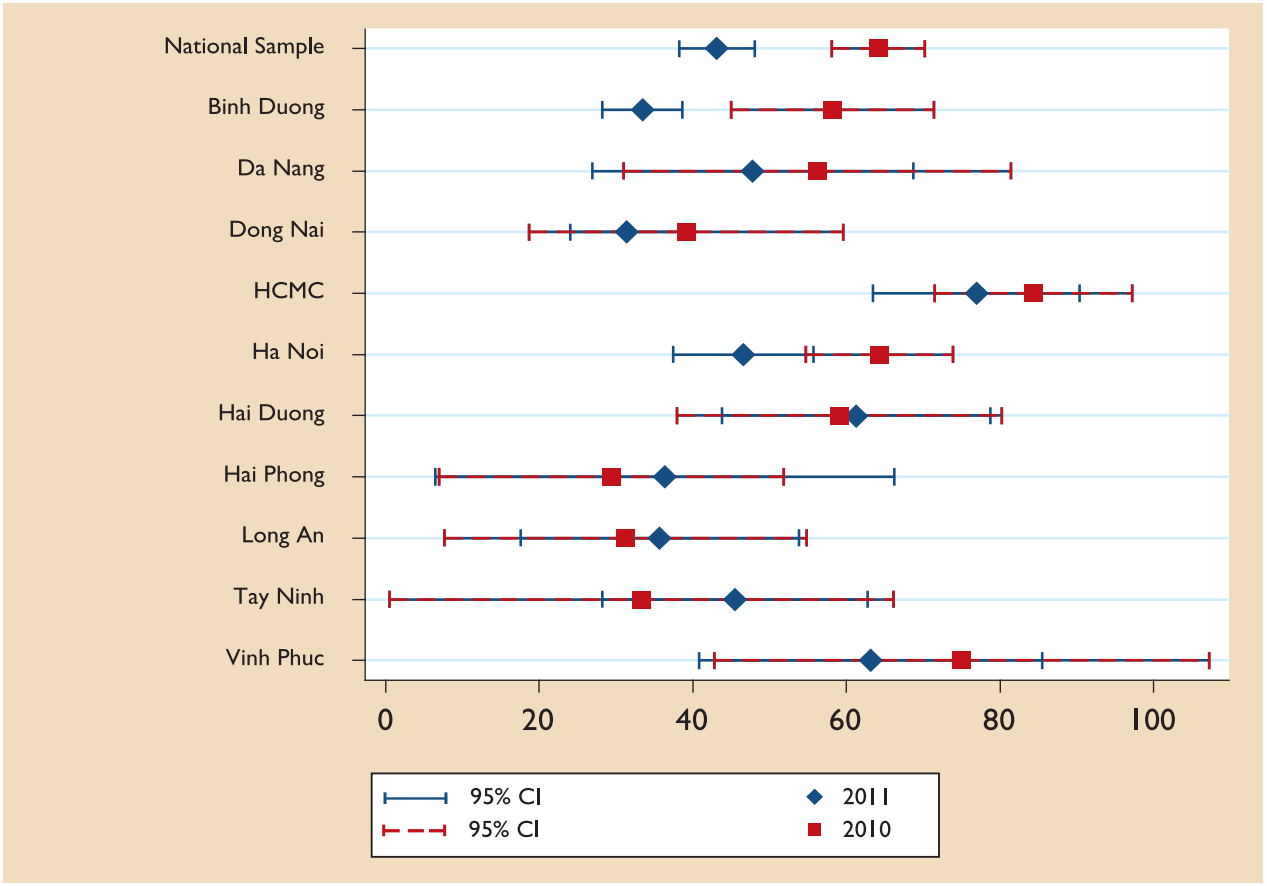
Question B5 in the PCI - FDI survey asked firms to record the top 3 reasons for their selection of the province where they currently operating. This figure records the total number of first, second, and third place votes for each factor.

2.4. Changes in the Business Environment Over Time

2.4.1. Entry Costs

Figure 2.6 shows quite dramatically that the wait to become a fully legal establishment has improved during the past year for FIEs. Whereas business entry took more than two months for firms in 2009, it is now down to about 43 days. The greatest improvement occurred in Binh Duong province, a foreign investor favorite, which reduced the waiting periods from 58 days to 33 days. In the graphic below, the blue diamonds represent foreign firms surveyed in 2011 and red squares represent foreign firms surveyed in 2010. In both cases, we study firms that entered in the prior year for this indicator. The branches off of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples. Where confidence intervals overlap, the differences in mean scores is not statistically significant, meaning the difference may not be robust to repeated sampling of FIEs from the same underlying population.

Figure 2.6: Number of Days Required for FIEs to Receive all Entry Documentation



In this graphic, the blue diamonds represent foreign firms surveyed in 2011 and red squares represent foreign firms surveyed in 2010. In both cases, we study firms that entered in the prior year for this indicator. The branches off of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples.

Looking specifically at the firms registered after the U.S. Bilateral Trade Agreement, Table 2.5 studies exactly where the improvements in investment delays are occurring. We look at firms that entered Vietnam in the year before the survey was administered. In 2009, FIEs required about two months to get their original license, a little over a month to apply for a new or altered license, a month and a half to complete formal business registration, and 27 days to receive their tax code. The year 2010 brought improvements in every single measure. In the case of the most recent license and the registration certificate, the reduction in waiting periods was more than 50 percent. Improvements also were made in paperwork requirements. In 2009, about half of the operations needed additional licenses (on average two), such as a sector-specific license, an environmental impact statement, a natural resource exploitation license to be fully legal. For firms entering in 2010, however, only 12 percent needed additional paperwork. The amount of necessary documents also declined to 1.2 documents.

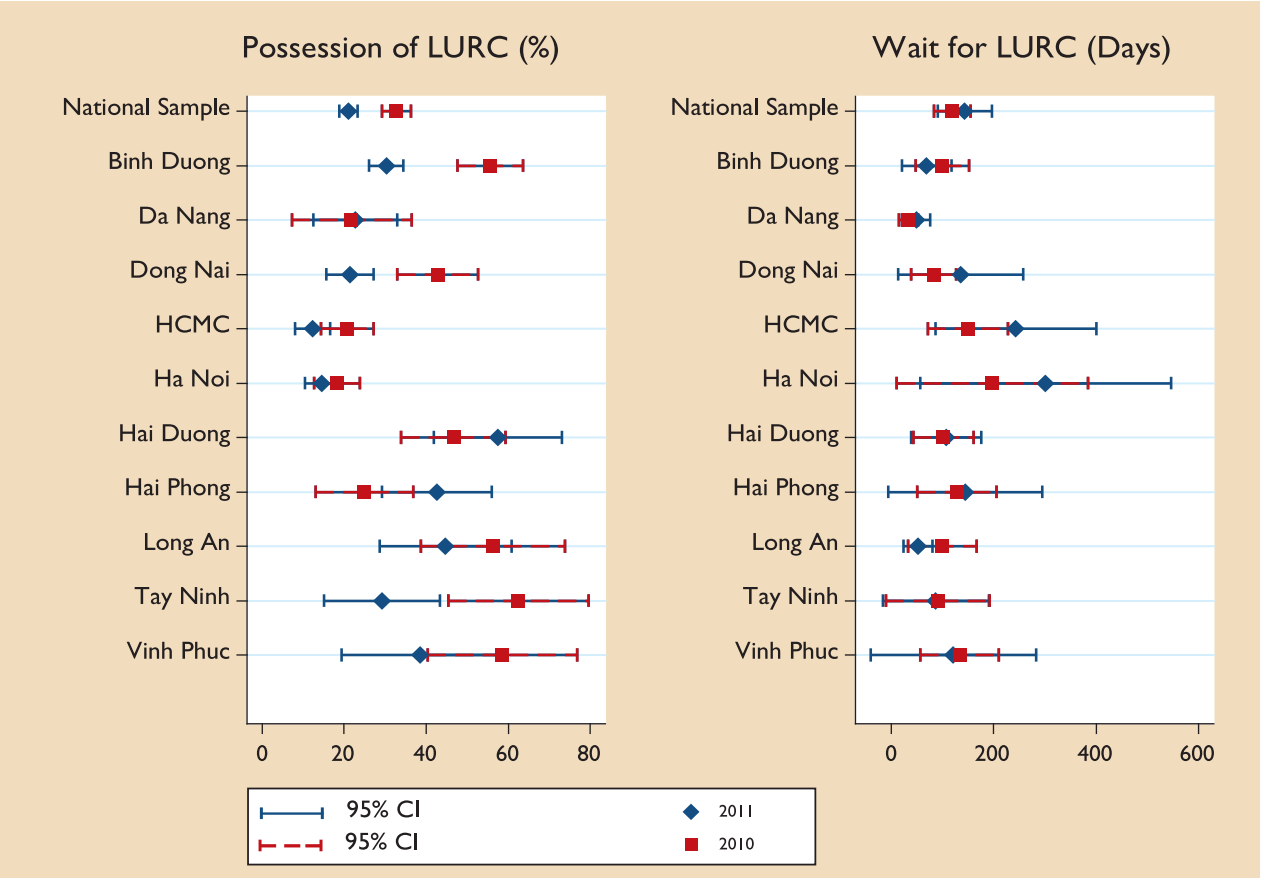
Table 2.5: Specific Entry Costs after 2009

Specific Documents	2011	2010
Initial investment license (Wait in Days)	49.5	60.9
Newest license (Wait in Days)	17.6	39.3
Business registration (Wait in Days)	20.8	48.0
Tax Code (Wait in Days)	16.8	27.1
Tax Code and license concurrently issued	58%	87.0%
Firms needed additional document	12.2%	45.2%
Number of additional documents	1.2	2.0

2.4.2. Property Rights

Figure 2.7 illustrates that in the country as a whole, FIEs are less likely to possess land titles in 2011. In the weighted national sample, 20 percent of FIEs had LURCs, compared to 33 percent in 2010. The decline in LURC possession is highest in Binh Duong and Dong Nai, but marginal declines are observed throughout the country. No significant improvements are observed in the waiting period to access land. The average investor currently waits 143 days to receive a land title. This period includes the time for introduction and LURC issuance. On a positive note, FIEs do not appear very worried about expropriation risk. Only 12 percent of foreign investors in 2011 felt that expropriation risk was high or very high.

Figure 2.7: Indicators of Land Access and Property Rights Security



In this graphic, the blue diamonds represent foreign firms surveyed in 2011 and red squares represent foreign firms surveyed in 2010. The branches off of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples.

2.4.3. Transparency

In the area of transparency, we observe mixed results. No improvements are recorded in the ability of firms' access to planning documents, such as infrastructure roll-out and land-use plans. Access to normative, legal documents, such as central laws and provincial regulations, has actually declined during the past year from an average score of 3.1 to 2.9 on a five-point scale. The most sizable declines in access to legal documents for FIEs occurred in HCMC.

More positively, however, it is clear that firms in 2011 felt that relationships with government officials weremuch less important for accessing important legal and planning documents. While 70 percent answered that relationships were necessary in 2010, only 45 percentsay they are required today. Improvements were recorded throughout the country, but the startling improvements were recorded in Binh Duong and Long An. In Binh Duong, less than 30 percent of FIEs believe in the need to utilize relationships to access business information that could aid their business.

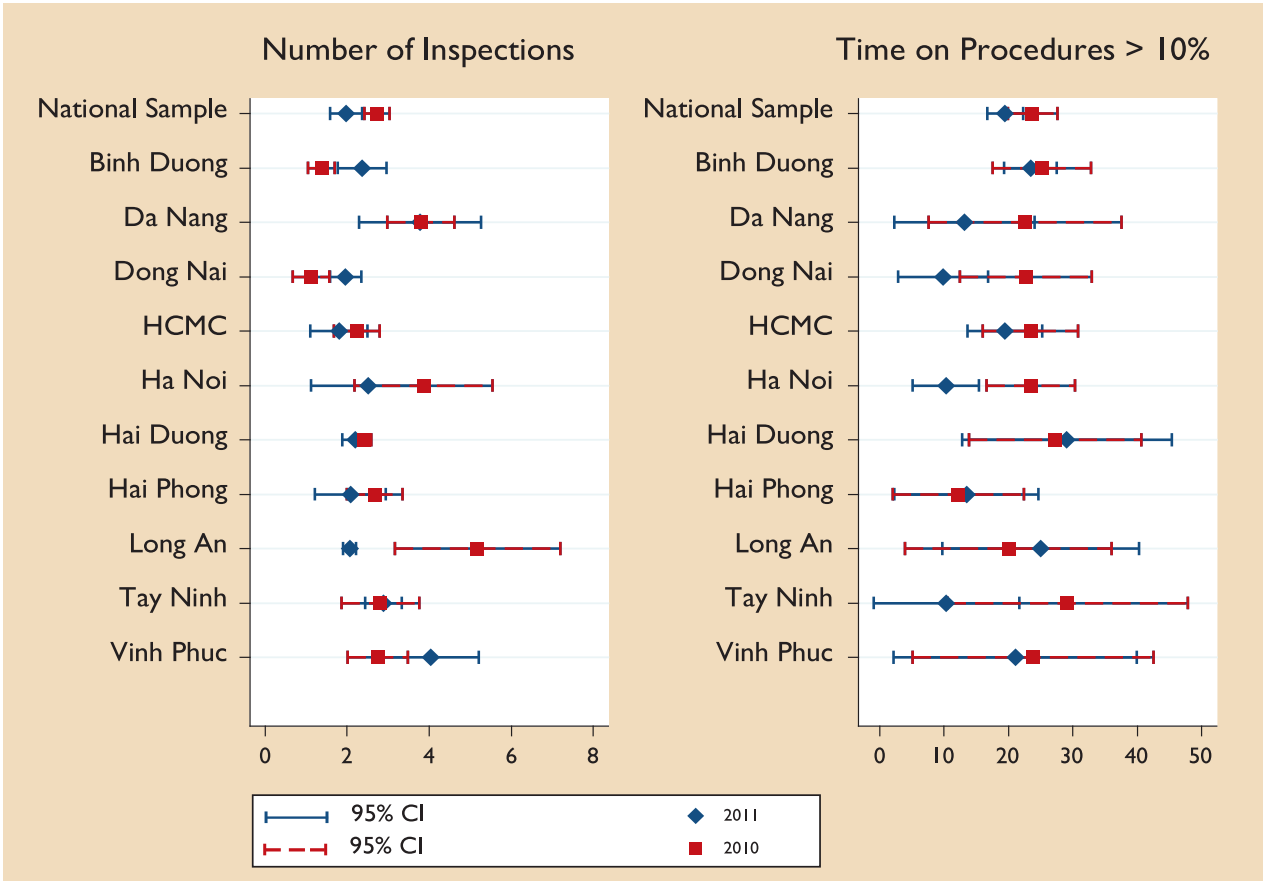
Figure 2.8: Indicators of Transparency and Access to Information

In this graphic, the blue diamonds represent foreign firms surveyed in 2011 and red squares represent foreign firms surveyed in 2010. The branches off of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples.

2.4.4. Time Costs of Regulatory Compliance

We examine two variables that measure the time costs of regulatory compliance: 1) the number of inspections experienced by businesses in the last year; and 2) the percentage of firms where the manager spends more than 10 percent of the manager's time on bureaucratic procedures. There is no change in bureaucratic procedures over time, but foreign firms are slightly less likely to suffer inspections from local government agencies this year (see Figure 2.9). In 2010, foreign firms suffered about 2.7 inspections, compared to only 2 in 2011. The decline was most pronounced in Long An province.

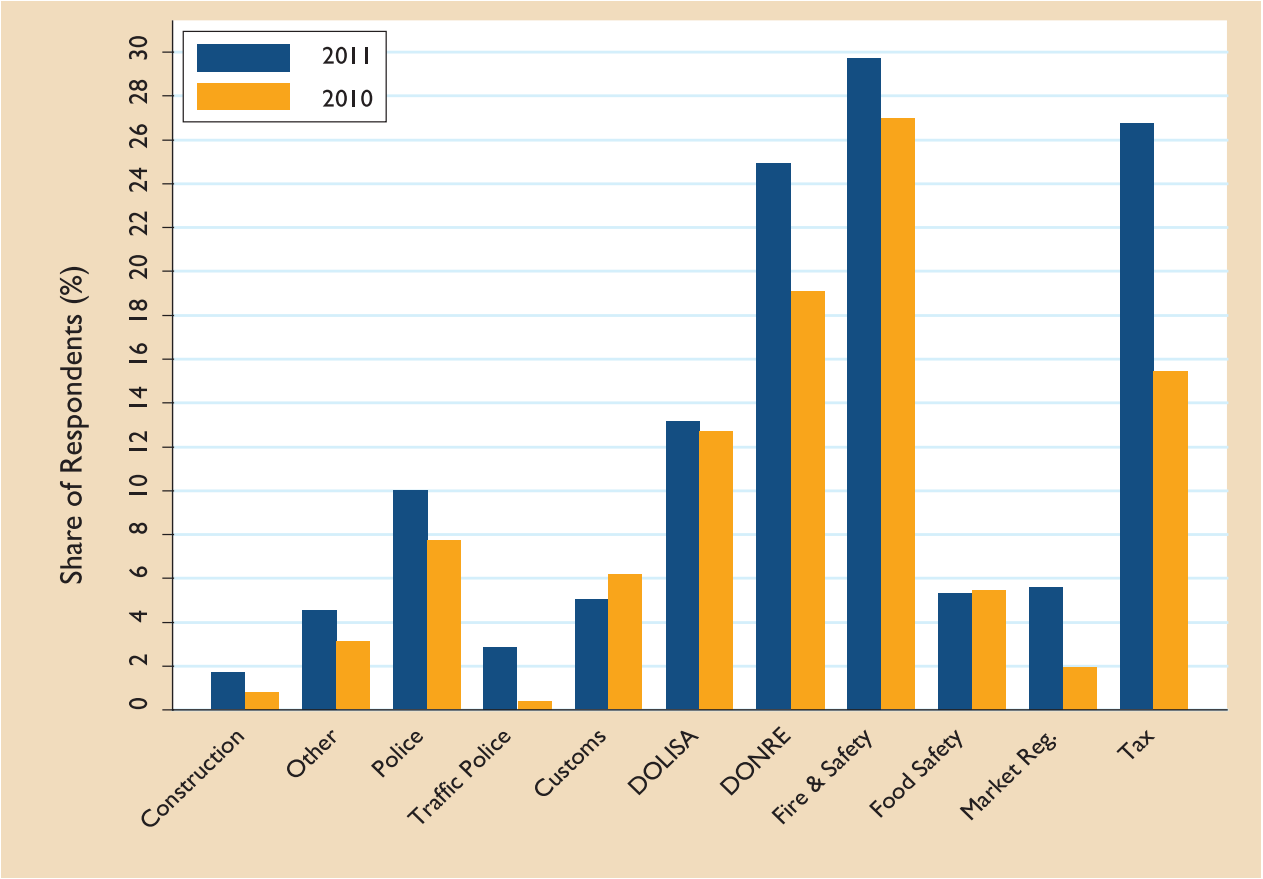
Figure 2.9: Indicators of Time Costs of Regulatory Compliance



In this graphic, the blue diamonds represent foreign firms surveyed in 2011 and red squares represent foreign firms surveyed in 2010. The branches off of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples.

When asked which agency is the most likely to engage in inspections there is very little difference over time, the largest share of foreign firms name Fire and Safety, followed by the Department of Natural Resources and Environment (DONRE), and the Tax Authority. The least burdensome agencies in 2011 were the Market Regulator and Traffic Police (see Figure 2.10).

Figure 2.10: Agencies Most Responsible for Business Inspections



A final regulatory concern for investors is customs hold-ups when importing or exporting goods (Figure 2.11). Our questions regarding customs procedures include all customs activity, including local customs paperwork, local customs approval, as well as activities at the port. On average, hold-ups have actually increased slightly over time. Imports spend about a half day longer undergoing customs procedures, while export hold-ups have increased 0.7 days. At the same time, however, we note a significant decline in whether firms paid bribes in custom offices (Figure 2.12). In 2010, almost 70 percent of FIEs agreed that bribes were common when engaging in custom procedures, compared to only 55 percentin 2011. Table 2.6 provides the aggregate data by province on customs hold-ups. Long An stands out as the best environment for custom procedures with low wait times and low frequency of informal charges. Binh Duong also ranks highly for waiting periods, but firms there are slightly more likely to suffer from informal charges in procedures. HCMC and Hanoi, however, do not perform well on any measure. Customs procedures are slow and costly in both locations.

Figure 2.11: Days Necessary to Complete Customs Procedure

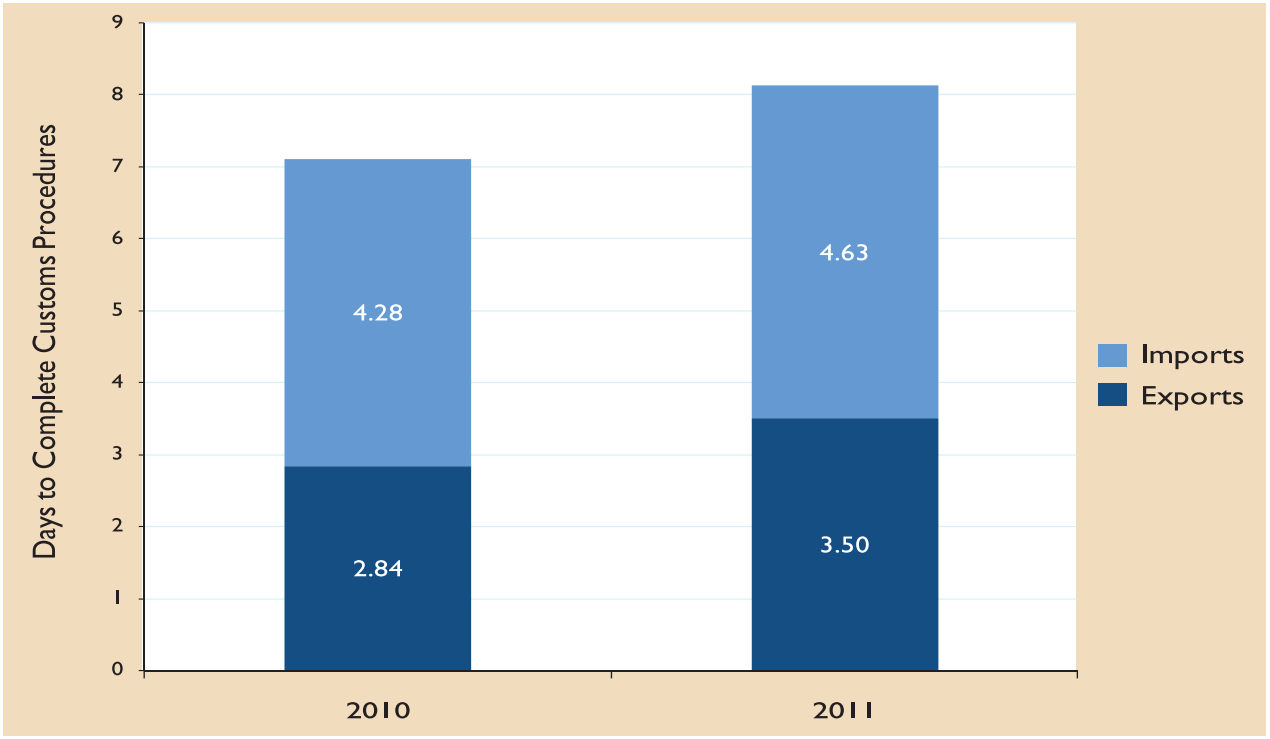


Figure 2.12: Share of Firms Paying Bribes to Expedite Customs Procedures (Over Time)

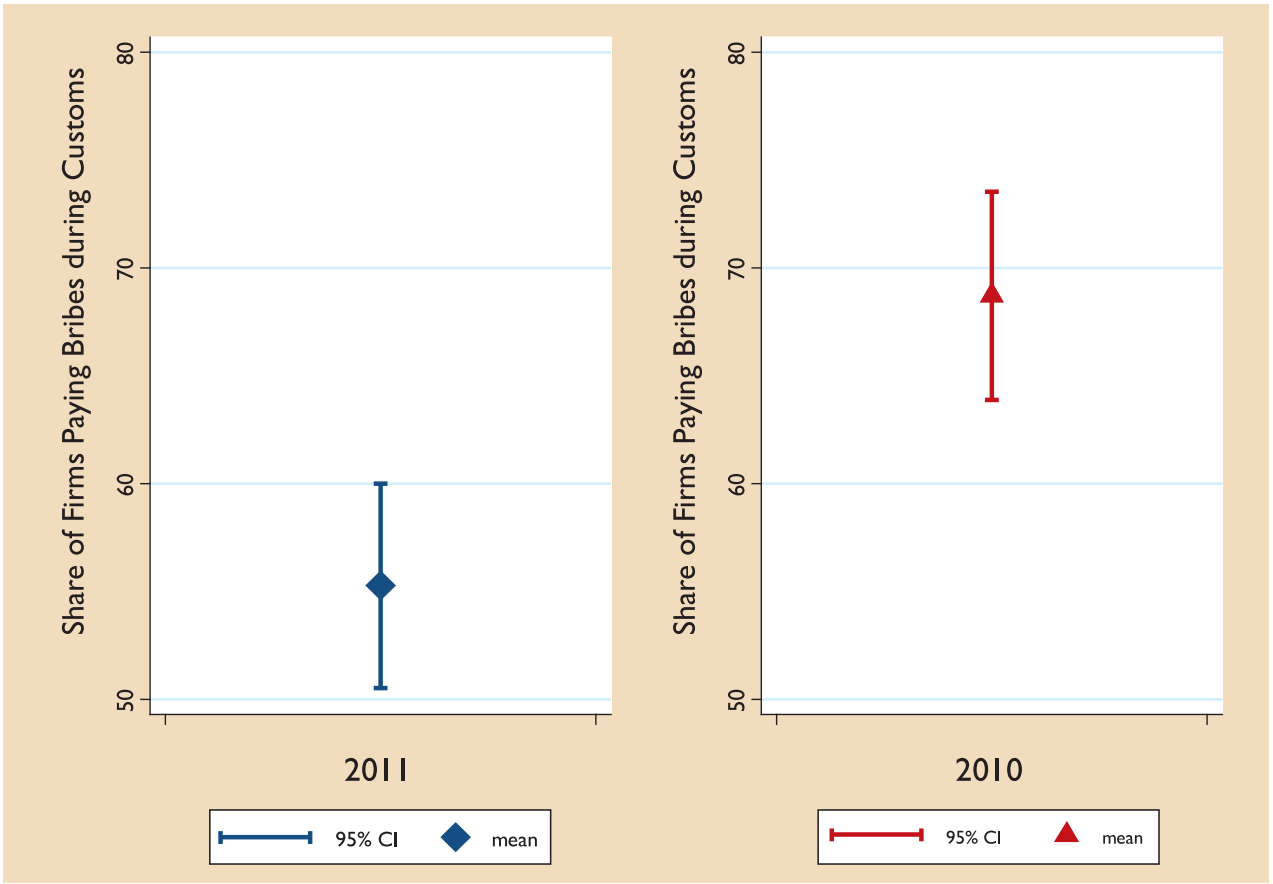


Table 2.6: Hold-Ups During Customs Procedures (By Province)

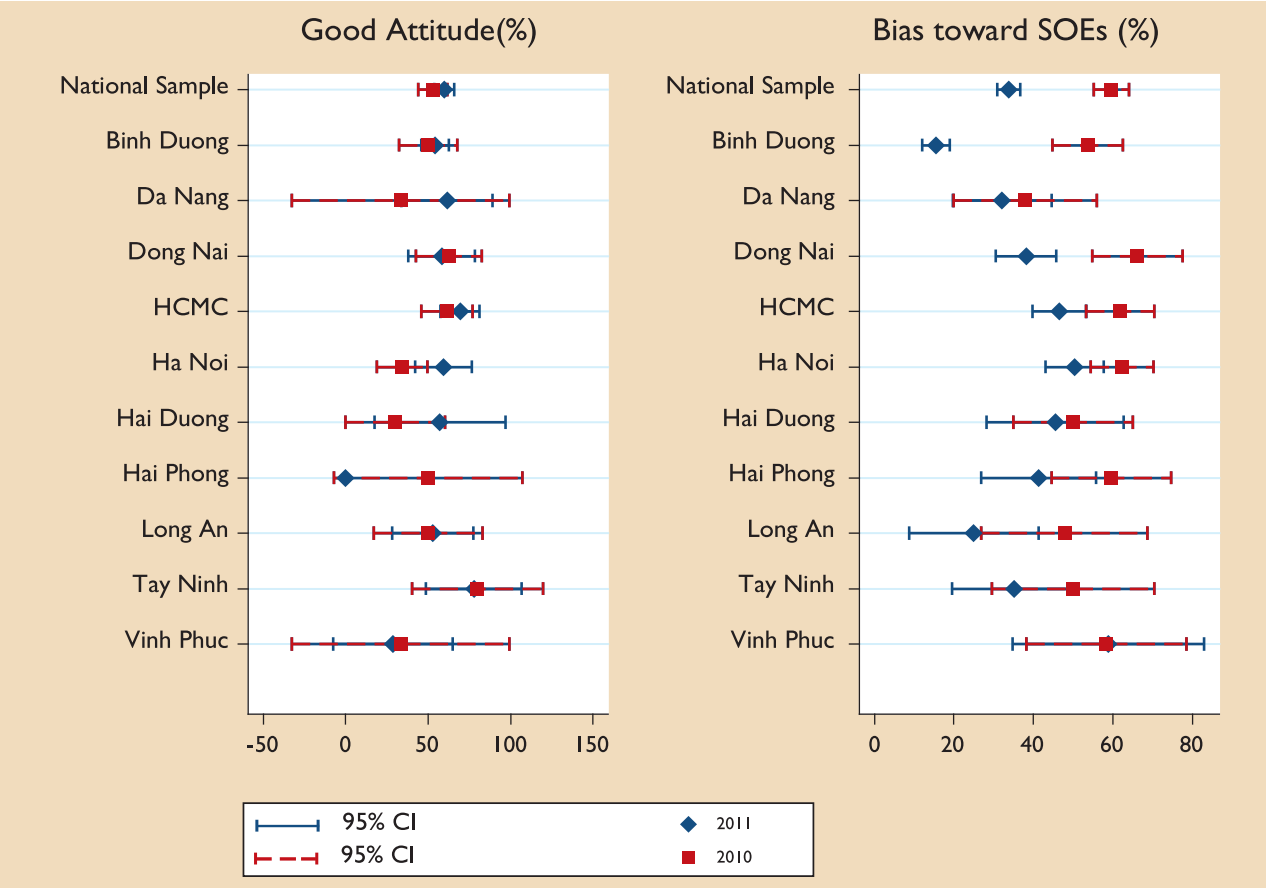
Customs Hold-Up	Days to clear customs (exporters)	Days to clear customs (importers)	Share of Firms Paying Bribe at customs
National Sample	3.5	4.63	55.28%
Long An	3.15	2.71	21.43%
Da Nang	7.43	6.9	37.50%
Binh Duong	2.37	3.95	45.77%
Vinh Phuc	3.74	9.67	53.33%
Hai Phong	2	1.91	56.00%
Tay Ninh	1.58	2.08	57.89%
Hai Duong	1.8	2.73	59.26%
Dong Nai	3.63	3.29	62.22%
HCMC	5.73	7.01	62.77%
Ha Noi	3.82	4.07	64.20%

2.4.5. Proactivity and Attitude

Questions regarding the attitude of the provincial government toward the ownership type of the business provide mixed results (see Figure 2.13). Similar to the perceptions of domestic enterprises, there has been no improvement in the share of firms believing that provincial officials have a positive attitude toward the foreign sector. In both 2010 and 2011, about half of surveyed firms answered yes.

On the other hand, FIEs are now much less likely to believe local officials bias economic decisions in favor of SOEs (59.6 percent in 2011 versus 33 percent today). This result may also be an artifact of decreasing activities of SOEs, as the Vietnamese government battles inflationary pressures. Foreign investors believe the improvement is most striking in Binh Duong and Dong Nai, where only 15 percentand 39 percent cite bias respectively.

Figure 2.13: Attitude of Provincial Officials Toward Foreign Sector



In this graphic, the blue diamonds represent foreign firms surveyed in 2011 and red squares represent foreign firms surveyed in 2010. The branches off of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples.

2.4.6. Labor Quality

Labor quality remains a serious concern for foreign investors, who believe that general and vocational education have not improved considerably overtime. Table 2.7 breaks down the labor training needs among FIEs by province. Nationally, 38 percent of FIE employees have college degrees and 44 percent have had vocational training. Seventy-two percent of employees are functionally literate according to their employers, meaning that they have the ability to read and understand their labor contract.

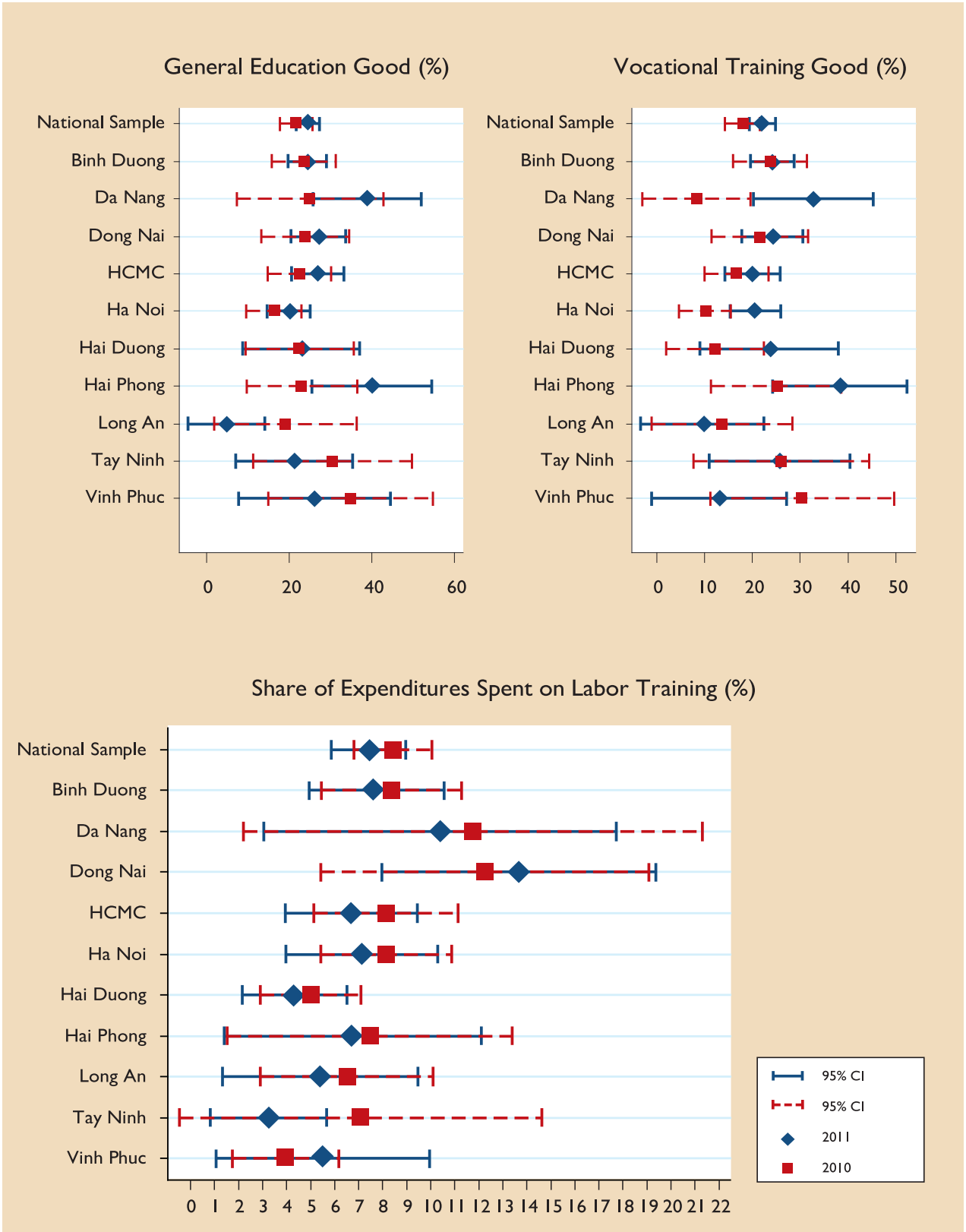
Table 2.7 Quality of Labor Force in FIEs

Criteria	2011	2010
Workers Requiring training (%)	25.85	33.70
Trained workers who stayed (%)	65.74	64.82
Post-Graduates (%)	12.84	1.54
Graduates (%)	26.13	20.08
Vocational Training (%)	44.45	27.42
Secondary School (%)	60.69	52.02
Literate (%)	71.85	52.17
Share of firms experiencing strikes	*12.3%*	*14.5%*

As a result of the lack of satisfaction with general and vocational training, nearly 40 percent of FIE operations feel the need to invest in onsite training for their employees. Training demands are relatively constant across the country, even in the national-level cities. Training, of course, is a normal part of any new employment, as laborers must learn the rules of the operations and understand the technologies with which they work. What is more troublesome, perhaps, is that only 66 percent of trained laborers remain with the firm after training, representing a costly loss to their employer. If general and vocational training were better, companies could cut back on the costs of in-house training.

Figure 2.14 compares assessments of the quality of training throughout the country, showing that FIEs perceive labor quality to be a much larger burden than their domestic counterparts in Chapter 1. Only 20.6 percent of FIEs are positive about vocational training and an even smaller proportion of firms are positive about general education (19.8 percent).

Figure 2.14: Labor Quality and Training



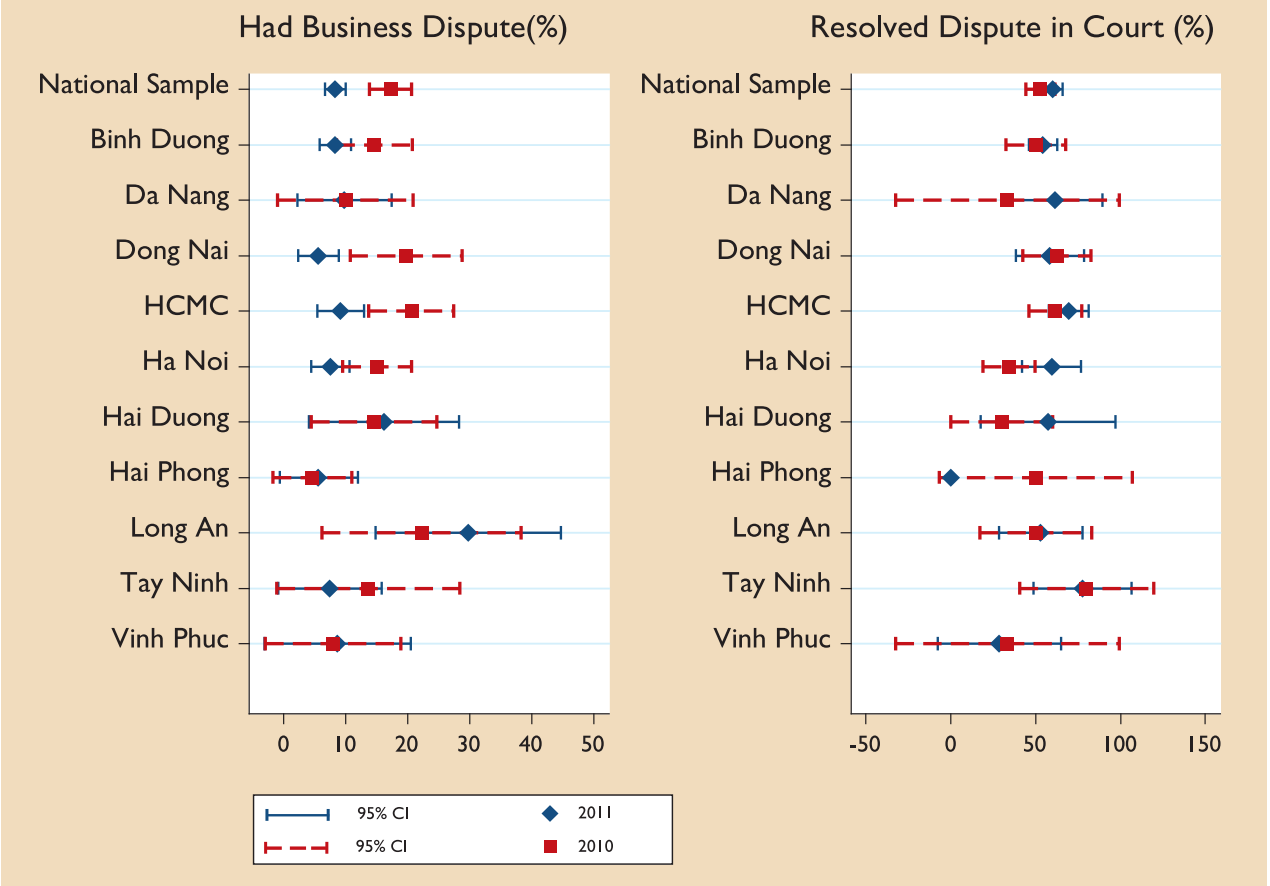
In this graphic, the blue diamonds represent foreign firms surveyed in 2011 and red squares represent foreign firms surveyed in 2010. The branches off of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples.

The negative assessment of labor quality affects the amount of resources FIEs spend on labor training. Foreign companies spend about 7.4 percent of their total business expenditures on labor training, compared with 5 percent of expenditures for domestic companies. Among provinces, training remains most costly in Da Nang (10.4 percent) and Dong Nai (13.7 percent) on average, although both locations demonstrate a high degree of variance. Training is most costly for manufacturing and financial operations.

2.4.7. Legal Institutions

When it comes to business disputes with vendors, customers, landlords, and business partners, FIEs experienced only half as many contract disagreements as in 2010 (17 percent versus 8 percent). These differences are statistically significant (see Figure 2.15). Declines in disputes were most noticeable in Dong Nai and HCMC, although the average number of disputes was relatively consistent throughout the country. No change was recorded in the willingness of firms to use courts to resolve those disputes. The radical reduction in disputes is not easy to interpret. On one hand, it could demonstrate increasing sophistication of contracting by business partners. On the other hand, it also may represent declines in FIE business activity due to the global economic crisis.

Figure 2.15: Foreign Investor Experiences with Dispute Settlement



In this graphic, the blue diamonds represent foreign firms surveyed in 2011 and red squares represent foreign firms surveyed in 2010. The branches off of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples.

Investors disagree on the alternative mechanisms that are available outside of courts. FIEs rely predominantly on altering contractual arrangements in the future (11 percent). FIEs only rarely use international and domestic arbitration procedures (4 percent).

2.4.8. Infrastructure

Respondents in this year's PCI reveal growing satisfaction with road quality and fewer energy outages, but little improvement in telecommunications or IZs. To be fair, however, there was little room for improvement in these latter two areas. Seventy percent of respondents in both 2010 and 2011 claimed that telecommunications quality was good or very good, while 68 percent in both years were positive about IZ quality and capacity.

Figure 2.16: Foreign Investor Perceptions of Infrastructure

In this graphic, the blue diamonds represent foreign firms surveyed in 2011 and red squares represent foreign firms surveyed in 2010. The branches off of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples.

In general, assessments of road quality have improved in the past year, as shown in Figure 2.16. Beginning with road quality at the national level, foreign investors are significantly more positive than last year (55 percent, up from 40 percent, rate road quality as good). Of course, 55 percent is still quite low, indicating there is great room for improvement. Firms in Binh Duong and Da Nang are most positive with almost 80 percent of operations checking road quality as good or very good. Beliefs about road connectivity also have improved over time. Last year, only 20 percent of respondents rated connections between roads and ports as good. This year, 55 percent answered that they were satisfied with road connectivity. In addition, 57 percent were satisfied with connectivity to the port and 54 percent claimed that connectivity between rail and road is good enough for their businesses. When roads need repair, only 10 percent of FIEs claim the roads are never fixed (compared to 25 percent last year), and when they are, it takes a median of 15 days (down from 30 last year).

Our final indicator of infrastructure quality is the number of electricity outages experienced by firms in the past month, which can shut down assembly lines, lead to reduced work hours, and during the summer months, deprive hot office buildings and factories of air conditioning. The rolling blackouts instituted in the past few years can be quite detrimental to efficiency. Throughout the country, FIEs are better protected from this problem than they were last year. Foreign investors experienced 10 hours of outage in the month before receiving the survey (compared to 25 in 2010).

APPENDIX

DETAILS OF NINE SUB-INDICES OF PCI

Table A1: Comparison of Entry Costs Sub-Index (2006-2011)

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Length of business registration in days (Median).	PCI Survey Question: C1	Min	12	7	5	6.5	7	7
		Median	20	15	12.25	10	10	8.5
		Max	58	22.5	15	15	15	15
		Correlation w/Previous Year	NA	0.27*	0.46*	0.56*	0.49*	0.41*
Length of business re-registration in days (Median).	PCI Survey Question: C2	Min	6	3	3	3	2.5	3
		Median	10	7	7	7	7	7
		Max	35	15	10	10	12.5	14.5
		Correlation w/Previous Year	NA	0.24*	0.53*	0.67*	0.48*	0.29*
Firms requiring additional documental (%).	PCI Survey Question: C4_2010	Min					1.43	0
		Median					14.68	12.9
		Max					33.33	37.2
		Correlation w/Previous Year					NA	0.26
Number of licenses and permits necessary to start operations (Median). If any additional documents were required (after 2010).	PCI Survey Question: C4	Min	2	1	1	0	1	1
		Median	4	2.5	2	1	2	1.05
		Max	7.5	5	4	3	4	1.34
		Correlation w/Previous Year	NA	0.15	0.31	0.32*	0.03	N.A
Wait for Land Use Rights Certificate (Median).	PCI Survey Questions: B4.2	Min	40	30	30	15	20	15
		Median	121	60	38.5	32.5	30	30
		Max	338	180	105	180	150	90
		Correlation w/Previous Year	NA	0.16	0.43*	0.23*	0.26*	0.12*
Percentage of firms waiting more than a month to complete all steps necessary to start operations (%).	PCI Survey Question: C5	Min	3.23	5.18	6.67	3.84	0	0
		Median	25.81	27.21	21.91	19.35	24.39	14.7
		Max	44	53.8	39.13	38.46	39.62	33.3
		Correlation w/Previous Year	0.24	0.26*	0.15	0.09	0.39*	0.08*
Percentage of firms waiting more than three months to complete all steps necessary to start operations (%).	PCI Survey Question: C5	Min	0	0	0	0	0	0
		Median	5.78	6.78	5.72	4.44	5.77	3.33
		Max	25.64	27.27	16	20.72	18.87	14.8
		Correlation w/Previous Year	0.02	0.15	0.18	0.02	0.14	0.02*

Table A2: Comparison of Land Access and Tenure Security Sub-Index (2006-2011)

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Percentage of firms in possession of an LURC (%).	PCI Survey Question: B4	Min	23.29	51.35	38.36	46.82	26.67	34.04
		Median	55.28	75.57	81.16	73.68	72.89	77.55
		Max	77.78	92.45	94.74	94.51	95.89	97.05
		Correlation w/Previous Year		0.76*	0.70*	0.77*	0.80*	0.67*
Total land in province with official LURCs (%).	Ministry of Natural Resources and Environment Datasets†	Min	11.3	13.28	19.52	23.52	27.27	42.82
		Median	69.2	63.13	77.56	77.89	80.71	79.24
		Max	96.5	97.46	98.75	98.56	98.31	98.03
		Correlation w/Previous Year		0.85*	0.78*	0.87*	0.87*	0.73*
Firm rating of expropriation risk (1: Very High to 5: Very Low)	PCI Survey Question: B4.3	Min	1.95	1.74	1.63	2.11	1.91	1.86
		Median	2.49	2.24	2.04	2.55	2.56	2.90
		Max	3.05	2.57	2.49	3.05	3.30	3.35
		Correlation w/Previous Year		0.28*	0.95*	0.29*	0.31*	-0.0035
If land expropriated, firms receive fair compensation (% Always or Usually).	PCI Survey Question: B4.4	Min	21.43	22.22	21.25	16.9	19.12	14.7
		Median	40	40.76	38.82	40.54	39.19	35.8
		Max	58.33	57.14	52.75	55.17	55.38	61.8
		Correlation w/Previous Year		0.37*	0.34*	0.42*	0.37*	0.17
Changes in government land prices reflect changes in market prices (% Agree). NEW INDICATOR	PCI Survey Questions: B4.5	Min				53.33	53.91	41.9
		Median				69.75	72	68
		Max				81.11	86.17	86.2
		Correlation w/Previous Year				NA	0.43*	0.36*
Firm checked no land problems list of possible problems. NEW INDICATOR	PCI Survey Question: B7					11.02	8.27	12.2
						30.72	23.89	30
						52.32	49	68.5
						NA	0.42*	0.23*

* Significant at 5% level; NA = Not applicable
All values are at the provincial-level.
2005 data only include 42 provinces and do not include the full set of indicators used in subsequent years, reflecting changes in survey questions and ordering in 2006.
† The Ministry of Natural Resources and Environment changed the calculation of LURCs between 2003 and 2007 in the 5 national-level cities, leading to major reductions. To address this the old calculation was applied to cities.

Table A3: Comparison of Transparency Sub-Index (2006-2011)

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Transparency of planning documents.	PCI Survey Question: F1.1-F1.13†	Min	2.25	2.20	2.25	2.13	2.00	2.28
		Median	2.63	2.51	2.55	2.44	2.31	2.51
		Max	3.17	2.96	2.79	3.08	2.62	2.97
		Correlation w/Previous Year	0.39*	0.64*	0.61*	0.49*	0.48*	0.23*
Transparency of legal decisions and decrees	PCI Survey Question: F1.1-F1.13†	Min	2.86	2.63	2.80	2.68	2.79	2.57
		Median	3.15	3.05	3.11	3.11	3.05	3.03
		Max	3.53	3.38	3.36	3.61	3.44	3.83
		Correlation w/Previous Year	0.31*	0.61*	0.59*	0.38*	0.56*	0.55*
Relationship necessary to get access to provincial documents (% Important or Very Important)	PCI Survey Question: F2	Min	31.48	38.4	33.57	45.57	37.28	41.17
		Median	62.5	56.6	49.82	61.26	78.64	75.00
		Max	77.14	73.4	67.9	78.26	95.71	93.33
		Correlation w/Previous Year	0.27	0.38*	0.55*	0.37*	0.30*	-0.05*
Negotiations with tax authority are an essential part of doing business (% Agree or Strongly Agree)	PCI Survey Question: D14.3	Min	47.17	24.1	17.39	29.69	23.75	7.69
		Median	61.05	44.7	36.71	41.32	40.78	41.09
		Max	86.96	73.2	54.25	62.4	67.04	62.67
		Correlation w/Previous Year	-0.16	0.52*	0.73*	0.36*	0.27*	0.09*
Predictability of implementation of central laws at the provincial level (% Usually or Always)	PCI Survey Question: F8	Min	2.76	1.89	1.03	3.57	2.38	0.00
		Median	9.49	7.96	6.94	8.4	8.97	8.57
		Max	37.88	18.3	15.69	22.22	20.24	29.48
		Correlation w/Previous Year	0.38*	0.46*	0.3*	0.50*	0.10*	0.22*
Openness of provincial webpage score	Analysis by PCI Research Team (For Scorecard See Section)Ψ	Min	0	0	0	0	0	9
		Median	9	13.75	14.25	15	15	15
		Max	18	20	20	20	19	20
		Correlation w/Previous Year	0.36*	0.51*	0.70*	0.74*	0.79*	0.69*
Firm gives comments on government regulation(%)* NEW INDICATOR	PCI Survey Question: F4	Min				15.04	11.36	5.00
		Median				25.21	22.37	15.49
		Max				43.9	38.35	34.84
		Correlation w/Previous Year				NA	0.55*	0.37*

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Do Business Associations play an important role in advising and countering provincial polices (% Important or Very Important)** NEW INDICATOR	PCI Survey Question: F5.1	Min				18.64	15.15	9.52
		Median				35.71	37.04	31.25
		Max				57.32	55.56	60.60
		Correlation w/Previous Year				NA	0.32*	0.03*

* Significant at 5% level; NA = not applicable
All values are at the provincial level.
2005 data only include 42 provinces.
† Indicators result from factor analysis of 13 documents. In 2009, the scale was simplified to reflect the average access on a 5 pt. scale (1 very difficult to 5 very easy)
ψ In 2007 and 2008, 0.5 values were allowed to denote provinces that provided the relevant information, but not in a sufficient manner to be useful.
** Only Business Association members respond

Table A4: Comparison of Time Costs of Regulatory Compliance (2006 - 2011)

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Percentage of firms spending over 10 percent of their time dealing with bureaucracy or bureaucratic regulations (%).	PCI Survey Question: D6	Min	6.52	10.94	13.83	7.27	8.13	2.74
		Median	21.24	21.87	22.99	15.38	19	11.26
		Max	39.39	43.75	42.55	30.36	35.37	31.57
		Correlation w/Previous Year	0.44*	0.62*	0.67*	0.44*	0.24	0.25*
Median number of inspections (all agencies)	PCI Survey Question: D1	Min	0	1	1	1	1	1
		Median	1	1	1	1	1	1
		Max	2	2	2	2	2	2
		Correlation w/Previous Year	0.35*	0.30*	0.46*	0.34*	0.51*	0.14
Median tax inspection hours	PCI Survey Question: D4	Min	1	2	1	1	1	1
		Median	8	8	8	5	4	4
		Max	40	40	32	40	28	24
		Correlation w/Previous Year	0.62*	0.86*	0.88*	0.75*	0.33*	0.30*
Government officials have become more effective (% Yes) NEW INDICATOR	PCI Survey Question: D9.1	Min				28.68	26.00	12.34
		Median				44.09	44.83	39.74
		Max				55.26	61.11	59.49
		Correlation w/Previous Year				NA	0.39*	0.4*
Trips to obtain stamps and signatures reduced (% Yes) NEW INDICATOR	PCI Survey Question: D9.2	Min				17.69	17.78	7.40
		Median				30.23	29.07	23.75
		Max				45.95	53.16	47.36
		Correlation w/Previous Year				NA	0.45*	0.49*
Paperwork reduced (% Yes) NEW INDICATOR	PCI Survey Question: D9.3	Min				24.2	30.01	20.98
		Median				47.89	45.60	47.05
		Max				63.16	68.75	65.38
		Correlation w/Previous Year				NA	0.29*	-0.02*
Fees reduced (% Yes) NEW INDICATOR	PCI Survey Question: D9.4	Min				11.38	9.80	3.70
		Median				24.18	21.21	16.47
		Max				34.04	32.22	31.70
		Correlation w/Previous Year				NA		0.39*

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
No Improvements (% Yes) NEW INDICATOR	PCI Survey Question: D9.4	Min				10.71	8.14	8.23
		Median				20	19.00	26.82
		Max				37.4	35.36	59.25
		Correlation w/Previous Year				NA	0.36*	0.5*

Table A5: Comparison of Informal Charges (2006-2011)

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Percentage of firms that felt that enterprises in their line of business were subject to bribe requests from provincial authorities (%).	PCI Survey Question: D10	Min	53.57	40	45.54	35.38	20.78	25
		Median	70	68.25	65.93	59.4	58.23	51.39
		Max	84.62	82.72	83.59	77.47	77.11	75.68
		Correlation w/Previous Year	0.05	0.56*	0.64*	0.66*	0.73*	0.61*
Percentage of firms paying over 10 percent of their revenue in extra payments (%).	PCI Survey Question: D11	Min	4.35	1.39	2.13	2.61	0	0
		Median	12.99	11.54	9.89	8.75	6.78	6.56
		Max	34.38	26.19	22.08	20.78	16.92	18.42
		Correlation w/Previous Year	0.21	0.45*	0.55*	0.60*	0.43*	0.15*
Government uses compliance with local regulations to extract rents (% Strongly Agree or Agree)	PCI Survey Question: D14.2	Min	22.86	17.44	20	23.93	22	18.06
		Median	39.76	38.21	37.12	50.35	50	40.28
		Max	76.74	79.41	64.54	71.64	73.11	73.13
		Correlation w/Previous Year	NA	0.78*	0.68*	0.66*	0.63*	0.50*
Informal charges delivered expected result (% Usually or Always)	PCI Survey Question: D12	Min	20.83	29.03	27.94	35.42	36.4	36.9
		Median	47.89	48.28	48.99	51.51	56.32	61.11
		Max	65.93	59.8	62.91	69.01	71.64	82.35
		Correlation w/Previous Year	NA	0.2	0.50*	0.50*	0.53*	0.34*
Do firms pay commissions on government contracts? (Yes) NEW INDICATOR	PCI Survey Question: D13	Min				22.89	21.7	31.67
		Median				53.47	41.4	55.88
		Max				74.81	63.33	83.67
		Correlation w/Previous Year				NA	0.48*	0.23*
Actual Bribes Paid During Registration (%) NEW INDICATOR	PCI Survey Question: C6_2010	Min					2.05	0.04
		Median					22.62	15.84
		Max					49.44	68.3
		Correlation w/Previous Year					NA	1.00*

Table A6: Comparison of Proactivity (2006-2011)

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problems (% Strongly Agree or Agree)	PCI Survey Question: H7.2	Min	51.61	53.68	57.35	54.67	54.37	41.67
		Median	74.44	71.74	77.28	72.65	75.31	65.15
		Max	93.48	92.47	91.41	91.72	90.14	92.15
		Correlation w/Previous Year	0.60*	0.68*	0.68*	0.70*	0.68*	0.48*
Provincial officials are creative and clever about working within the national law to solve the problems of private sector firms (% Strongly Agree or Agree).	PCI Survey Question: H7.3	Min	40	40.22	40.9	23.94	25	19.35
		Median	61.88	58.12	61.5	42.46	49.38	46.6
		Max	88.64	87.91	85.05	72.59	71.11	78.26
		Correlation w/Previous Year	0.69*	0.76*	0.75*	0.75*	0.61*	0.47*
Perceived attitude of provincial government toward private sector (% Very Positive or Very Positive).	PCI Survey Question: H1	Min	30.21	24.5	32.71	28.42	31.11	26.25
		Median	48.28	44.97	53.4	43.75	47	45.33
		Max	71.56	67.37	72.22	71.96	67.09	82.89
		Correlation w/Previous Year	0.63*	0.67*	0.53*	0.56*	0.56*	0.37*

* Significant at 5% level; NA = not applicable
All values are at the provincial level.
2005 data only include 42 provinces.

Table A7: Comparison of Business Support Services (2006-2011)

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Trade fairs held by province in previous year and registered for present year.**	Data provided by Viet Trade of the Ministry of Trade	Min	0	0	0	0	0	0
		Median	0	0	2.25	6	6	6
		Max	6	12	80	20	166	80
		Correlation w/Previous Year	NA	0.18	0.62*	0.42*	0.36*	0.23*
Number of private providers for public services in province**	Tax Authority 2010 (Author's Calculation)	Min			0	0	0	1
		Median			1	5	12	19
		Max			3529	3114	4277	4543
		Correlation w/Previous Year			NA	0.87*	0.94*	0.89*
Firm has used business information search services (%) NEW INDICATOR	PCI Survey Question: E7.11	Min				29.90	31.48	19.39
		Median				60.36	64.35	46.00
		Max				79.81	87.10	80.46
		Correlation w/Previous Year				NA	0.47*	0.22*
Firm used private provider for above business information search services (%) NEW INDICATOR	PCI Survey Question: E7.12	Min				20.59	16.67	20.37
		Median				38.81	39.22	41.89
		Max				58.82	55.56	80.00
		Correlation w/Previous Year				NA	0.17	-0.05*
Firm intends to use above service provider again for business information search services (%) NEW INDICATOR	PCI Survey Question: E7.13	Min				5.56	20.59	14.91
		Median				16.44	50.00	35.44
		Max				24.81	65.09	51.92
		Correlation w/Previous Year				NA	0.57*	0.31*
Firm has used consulting on regulatory information (%) NEW INDICATOR	PCI Survey Question: E7.21	Min				30.34	27.87	19.39
		Median				62.50	57.50	44.74
		Max				77.42	81.82	77.90
		Correlation w/Previous Year				NA	0.48*	0.35*
Firm used private provider for consulting on regulatory information (%) NEW INDICATOR	PCI Survey Question: E7.22	Min				3.03	2.04	4.17
		Median				16.95	13.33	30.00
		Max				43.18	33.33	69.08
		Correlation w/Previous Year				NA	0.12	0.19*

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Firm intends to use above service provider again for consulting on regulatory information (%) NEW INDICATOR	PCI Survey Question: E7.23	Min				3.17	14.06	10.49
		Median				14.38	38.60	29.31
		Max				22.31	57.14	51.47
		Correlation w/Previous Year				NA	0.49*	0.33*
Firm has used business match making services (%) NEW INDICATOR	PCI Survey Question: E7.41	Min				25.29	26.98	14.81
		Median				53.40	56.58	37.50
		Max				73.12	81.82	77.27
		Correlation w/Previous Year				NA	.50*	0.23*
Firm used private provider for business match making services (%) NEW INDICATOR	PCI Survey Question: E7.42	Min				25.00	0.00	21.57
		Median				44.12	54.55	50.00
		Max				70.21	70.37	80.88
		Correlation w/Previous Year				NA	-0.12	-0.02
Firm intends to use above service provider again for business match making services (%) NEW INDICATOR	PCI Survey Question: E7.43	Min				4.76	16.67	12.50
		Median				12.68	39.52	24.69
		Max				21.64	59.18	42.22
		Correlation w/Previous Year				NA	0.61*	0.47*
Firm has used trade promotion services (%) NEW INDICATOR	PCI Survey Question: E7.51	Min				19.48	22.92	11.29
		Median				45.45	48.61	36.67
		Max				72.62	78.26	74.14
		Correlation w/Previous Year				NA	0.50*	0.24*
Firm used private provider for trade promotion services (%) NEW INDICATOR	PCI Survey Question: E7.52	Min				4.44	0.00	0.00
		Median				18.00	15.79	24.14
		Max				38.42	42.31	74.60
		Correlation w/Previous Year				NA	0.45*	0.21*
Firm intends to use above service provider again for trade promotion services (%) NEW INDICATOR	PCI Survey Question: E7.53	Min				1.59	8.05	4.54
		Median				7.89	20.71	12.05
		Max				17.46	34.44	25.56
		Correlation w/Previous Year				NA	0.39*	0.47*
Firm has used technology related services (%) NEW INDICATOR	PCI Survey Question: E7.61	Min				25.33	21.54	15.38
		Median				50.00	52.63	36.51
		Max				73.49	81.40	74.71
		Correlation w/Previous Year				NA	0.50*	0.24*

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Firm used private provider for technology related services (%) NEW INDICATOR	PCI Survey Question: E7.62	Min				17.65	4.76	0.00
		Median				38.60	40.63	45.00
		Max				65.85	69.23	83.08
		Correlation w/Previous Year				NA	0.29*	0.26*
Firm intends to use above service provider again for technology related services (%) NEW INDICATOR	PCI Survey Question: E7.63	Min				3.17	7.81	4.88
		Median				10.71	26.83	15.38
		Max				17.46	38.74	31.00
		Correlation w/Previous Year				NA	0.50*	0.37*

* Significant at 5% level; NA = not applicable
All values are at the provincial level.
2005 data only include 42 provinces and do not include the full set of indicators used in subsequent years.
Because the maximum value recorded in HCMC is an outlier on both of these variables (over two standard deviations greater than the mean value), lower values of 10 and 100, the number scored by the second highest province, were used to standardize the sub-index scores.

Table A8: Comparison of Labor Policies (2006-2011)

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Services provided by provincial agencies: general education (% Very Good or Good)	PCI Survey Question: D6	Min	7.43	51.51	17.71	22.08	20.27	28.77
		Median	19.16	73.29	35.20	45.45	46.99	52.05
		Max	35.52	87.34	58.90	68.93	68.97	75.80
		Correlation w/Previous Year	NA	0.21	0.61*	0.76*	0.72*	0.54*
Services provided by provincial agencies: labor vocational training (% Very Good or Good)	PCI Survey Question: D1	Min	31.25	24	6.25	10.25	10.67	16.46
		Median	55.43	55.9	19.81	27.11	27.40	34.88
		Max	73.17	79.49	46.28	48.51	64.37	68.25
		Correlation w/Previous Year	NA	0.66*	0.78*	0.57*	0.57*	0.39*
Firm has used labor exchange services (%) NEW INDICATOR	PCI Survey Question: D4	Min				15.65	4.39	23.76
		Median				33.33	31.11	52.56
		Max				47.13	48.08	83.17
		Correlation w/Previous Year				NA	0.37*	0.31*
Firm used private provider for above labor exchange services (%) NEW INDICATOR	PCI Survey Question: D9.1	Min				25.53	0.00	3.45
		Median				40.43	39.06	22.72
		Max				75.61	84.42	61.80
		Correlation w/Previous Year				NA	0.39*	0.13*
Firm intends to use above service provider again for labor exchange services (%) NEW INDICATOR	PCI Survey Question: D9.2	Min				8.51	32.65	6.90
		Median				27.78	62.50	27.78
		Max				42.86	93.94	53.70
		Correlation w/Previous Year				NA	0.02	0.23*
Percentage of total business costs spent on labor training (%). NEW INDICATOR	PCI Survey Question: E9 (Data is the residual after regresssing labor costs on firm type, sector, size, number of enterprises in province, average industrial wage in province.)	Min				0 (-3.6)	0 (-3.37)	0(-3.31)
		Median				1 (-2.5)	1.25 (-2.44)	1(-2.14)
		Max				2.5 (-1.19)	3 (0.917)	5(1.02)
		Correlation w/Previous Year				NA	0.37*	-0.08

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Percentage of total business costs spent on labor. NEW INDICATOR	PCI Survey Question: E8 (Data is the residual after regresssing labor costs on firm type, sector, size, number of enterprises in province, average industrial wage in province.)	Min				0 (-3.5)	0 (-3.99)	0(-2.92)
		Median				1 (-2.3)	1 (-2.8)	0(-2.30)
		Max				2 (-1.27)	3 (1.99)	1(-0.94)
		Correlation w/Previous Year				NA	0.21	0.11
Overall Satisfaction with Labor (% Agreeing labor meets firm needs). NEW INDICATOR	PCI Survey Question: E10	Min				50.4	58.40	42.99
		Median				74.1	73.47	75.60
		Max				83.8	90.11	93.75
		Correlation w/Previous Year				NA	0.28*	0.21*
Vocational training school graduates/ untrained laborers. NEW INDICATOR	Ministry of Labor, Invalids and Socal Affairs: General Labor Department	Min				1.42	0.89	1.03
		Median				5.45	3.13	3.60
		Max				29.02	20.51	20.08
		Correlation w/Previous Year				NA	0.58*	0.93*
Secondary school graduates (% of workforce). NEW INDICATOR	General Statistical Office	Min				4.4	4.36	2.73
		Median				10.3	8.65	7.10
		Max				30.2	28.02	16.17
		Correlation w/Previous Year				NA	0.91*	0.65*

* Significant at 5% level; NA = not applicable
All values are at the provincial level. Parenthes in indicators E8& E9 indicate residuals.

Table A9: Comparison of Legal Institutions (2006-2011)

Indicator	Source (2011 Survey)	Measure	2006	2007	2008	2009	2010	2011
Legal system provided mechanism for firms to appeal officials' corrupt behavior (% Always or Usually)	PCI Survey Question: G6	Min	7.44	17.70	17.22	13.04	14.16	12.86
		Median	19.16	28.80	27.31	25.17	25.00	36.67
		Max	35.53	41.41	42.53	43.94	53.33	70.12
		Correlation w/Previous Year	NA	-0.24	0.48*	0.38*	0.27*	-0.08*
Firm confident that legal system will uphold property rights and contracts (% Strongly Agree or Agree)	PCI Survey Question: G5	Min	50.00	53.57	55.05	45.63	43.36	63.16
		Median	69.42	66.11	67.00	62.32	62.69	86.36
		Max	82.14	77.55	78.23	75.76	71.11	96.34
		Correlation w/Previous Year	NA	0.50*	0.40*	0.29*	0.16	-0.14*
Cases filed by non-state entities at Provincial Economic Court per 100 firms.	People's Supreme Court	Min	0	0	0	0	0.00	0.00
		Median	0.41	0.58	1.29	3.05	1.74	2.11
		Max	9.49	8.12	6.97	35.64	62.10	14.82
		Correlation w/Previous Year		0.66*	0.32*	0.84*		0.70*
Non-state claimants as a percentage of claimants at Provincial Economic Court. NEW INDICATOR (%)	People's Supreme Court	Min	0	0	0	0	0	0
		Median	50.00	50.00	65.48	72.41	73.47	84.81
		Max	100	100	100	100	100	100
		Correlation w/Previous Year	NA	0.38*	0.05	0.41*	0.40*	0.27*
Business used courts or other legal institutions to resolve disputes (%) NEW INDICATOR	PCI Survey Question: G1	Min				4.76	0	0.
		Median				23.33	25.00	22.22
		Max				44.83	90.91	66.67
		Correlation w/Previous Year				NA	0.27*	0.34*
Median months to resolve court cases NEW INDICATOR	PCI Survey Question: G3.2	Min				1.00	0.5	1
		Median				6.00	6.00	8.77
		Max				19.71	12.63	10.00
		Correlation w/Previous Year				NA	0.21	
Median formal and informal costs as a percentage of case NEW INDICATOR (%)	PCI Survey Question: G3.3	Min				3.09	2.5	1
		Median				12.21	11.73	14.79
		Max				60.00	44.5	32.74
		Correlation w/Previous Year				NA	0.03	0.02

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... "Not only useful for businesses and investors, PCI is especially a valuable tool for members of congress, and representatives of provincial people's councils to oversee the quality of economic governance and business environment throughout Vietnam's provinces."

Nguyen Van Phuc
Vice Chairman of the Economic Committee, National Assembly

"For many years, PCI has been an effective instrument that supports local governments to develop and implement their reform activities to improve local investment and business environments, attract investment and create more jobs. However, PCI results of recent years show that in addition to efforts of local governments, reform initiatives are also required from the central level to remove fundamental obstacles in Vietnam's economic development such as labor quality, regulatory environment, and infrastructure, by which local governments will be facilitated to continue their implementation of stronger reform initiatives and free-up resources for socio-economic development."

Dr. Ngo Hai Phan
Director of the Administrative Procedures Control Agency, Office of Government

"Results of the PCI – FDI 2011 survey confirm our concerns about decreasing optimism among the FDI community for business prospects in Vietnam in the near future. Eurocham looks to the Vietnamese government for stronger reform commitments to improve the local business environment and sustain the country's impressive economic growth. We recommend policy makers and investors to make use of the valuable insights and information in the annual PCI reports to understand and respond quickly to key problems confronting the business sector. We believe the PCI continues to contribute to effective public-private dialogue and improved governance in the country."

Alain Cany
Chairman of the European Chamber of Commerce of Vietnam

"PCI is doing a mission that deserves to be considered *lofty*: evaluation of capacity and effectiveness of the government in facilitating market economy and businesses via provision of a regulatory framework and business conditions for businesses. The important, practical value of the annual PCI reports is not limited in their provision of a "static" picture which helps identify and evaluate the activities of the central government in general and provincial governments in particular, but more importantly, these reports contain forces to foster development thinking about innovation processes and create a healthy competition inside the government to provide better services to businesses and market.

In Vietnam, during the economic innovation process, to date few works have been found to show such strong and direct forces for development as PCI."

Assoc. Prof., Dr. Tran Dinh Thien
Director of Vietnam Institute of Economics