

NĂNG ĐỘNG

COMPETITIVENESS

GOVERNANCE

KINH TẾ TƯ NHÂN

“Over time, PCI has become an important tool used to bring economic governance insight to provincial leaders and to help them find ways of improving governance and promoting local socio-economic development. For businesses, PCI provides the most important channel to voice opinions and expectations towards the government. For the central government, PCI gauges the gaps to be filled between policy design and implementation, between centralization and decentralization, between policy ideas and what is needed in real life, by businesses and citizens – the key subject of every policy.”

Mdm. Phạm Chi Lan,
Senior Economist

“PCI is increasingly appreciated at the provincial level, partly because of its usefulness to provincial leaders, as it gives insight into areas needing improvement and change from the local businesses’ perspectives. Yet another reason showing PCI’s influence is that it has become an important reference for investors considering investment decisions. The effects of PCI’s influence in the community can be considered to have been a crucial incentive for making the recent reforms in provincial business environment in Vietnam.”

Nguyễn Cao Cương,
Chief Editor, Foreign Investment Review

“Besides hard infrastructure, local economic governance, “soft infrastructure”, is one of key determinants for location decisions of foreign investors. From the perspective of FDI, PCI plays a role to state the absolute and also compare different business environments in Vietnam. Foreign investors use PCI data and find it as a valuable information for consideration in the overall decision making process in the context of “investment/ expansion” of their investment in a certain province/city in Vietnam.”

Mr. Gaurav Gupta,
General Director, General Motors Vietnam Company Ltd.

“As lead donor on anti-corruption, the UK uses the Provincial Competitiveness Index data to help inform policy dialogue and policy makers respond positively. PCI forms a bedrock of data for what we know about the challenges that corruption poses to business. It is an invaluable survey which gives, over time, strong evidence of provincial performance against critical parameters that affect how firms and enterprises can do business. In 2012 we triangulated PCI data with other surveys to show cross-provincial comparisons on the status of corruption: what the situation is, and what can be done about it. In 2013, the Anti-Corruption Dialogue will focus specifically on business and private sector corruption. We expect that PCI will be central to shedding light on this complex issue”.

Fiona Louise Lappin,
Head of Department for International Development (DFID) in Vietnam

USAID/VNCI - VCCI Policy Paper # 17

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2012

USAID/VNCI-VCCI Policy Paper # 17

PCI 2012

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2012

MEASURING ECONOMIC GOVERNANCE
FOR BUSINESS DEVELOPMENT



SUSTAINABILITY

MINH BẠCH

SUSTAINABILITY

MINH BẠCH

REFORM

THÂN THIỆN

TRANSPARENCY

ĐIỀU HÀNH

CẠNH TRANH

NĂNG ĐỘNG

SUSTAINABILITY

BỀN VỮNG

MINH BẠCH

PRIVATE SECTOR

REFORM

TRANSPARENCY

CẢI CÁCH

PROACTIVITY

ĐIỀU HÀNH

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2012

MEASURING ECONOMIC GOVERNANCE
FOR BUSINESS DEVELOPMENT

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FOREWORD

This eighth edition of the Provincial Competitiveness Index (PCI) presents the latest views of 8,053 Vietnamese enterprises on economic governance and the business environment across 63 provinces. The report also analyzes the results of the third annual survey of 1,540 foreign invested enterprises (FIEs) currently operating in Vietnam, providing an analysis of foreign views of the country's current risk profile, strategies foreign investors are using to mitigate the impact of risk on their business operations, and challenges faced by foreign investors in the current labor market.

The PCI has been supported by the U.S. Agency for International Development (USAID) with major collaboration from 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, the Vietnam Competitiveness Initiative (USAID/VNCI).

Over the years, the PCI has sought to deliver critical information and analyses to several groups of stakeholders. First, the PCI provides valuable insights to provincial leaders about their economic governance performance and how to improve the business environment to foster domestic and foreign investment, jobs, and economic development. The PCI report demonstrates how some provinces have taken advantage of these lessons, reforming local regulations, searching for best practices, and ultimately rising up in the PCI rankings. Second, for central government leaders, the PCI offers a valuable comparison of provincial performance in different parts of the country and helps identify areas where the central government may wish to strengthen supervisory functions and improve decentralization, infrastructure and regional integration. Third, the PCI also grants investors and businesses considering investment or expansion of existing investments in Vietnam with useful data regarding the business climate in each province. Finally, for researchers and journalists, the PCI has sought to deliver a comprehensive database of governance indicators to track over time and motivate further research.

The 2012 PCI report has some worrisome news to deliver. According to the surveyed firms, economic governance has actually declined in the past year. In fact, the median provincial score was the lowest achieved since the re-calibration of the index in 2009. Moreover, not a single province this year reached the *Excellent* threshold of 65 points—the first time this has ever occurred in the PCI.

As the report demonstrates, part of the decline has to do with pessimism about business prospects. Many entrepreneurs are struggling and they blame their bad fortune on government policies. Yet, this is only part of the story. Another narrative that emerges from this year's data is that provincial leaders have

done as much as they can to tackle easier reforms, especially the reduction in waiting periods for business entry and reducing inspections. However, they had a much harder time tackling more challenging business obstacles, such as rooting out local corruption and establishing credible property rights protections and legal institutions. As a result, top ranked provinces from previous PCIs, such as Binh Duong and Da Nang, which had a head start on the easy reforms have seen their scores plateau, while formerly low-ranked provinces have caught up. The disappointing bottom line is that governance is converging around middling performance.

Over the past eight years, the PCI report has provided the voice of the business community to highlight key issues in economic governance to enhance the quality and speed of market-based reforms. Our goal has always been to offer an objective tool that can inform policy and business decisions. In the midst of the current economic crisis, rigorous analysis of the current challenges could not be more valuable. We hope that the pages that follow generate momentum and new ideas for policy-makers to take Vietnam to the next level of economic development and prosperity.

Vu Tien Loc, Ph.D.



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Edmund Malesky, Associate Professor of Political Economy at Duke University, led the development of the PCI's research methodology and authored the presentation of its analytical findings.

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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 Invested 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

SUMMARY OF CHAPTER 1: THE SURVEY OF DOMESTIC INVESTORS AND THE 2012 INDEX

- *The Eighth Provincial Competitiveness Index (PCI):* The PCI, in order to promote the development of the private sector, is designed to assess the ease of doing business, economic governance, and administrative reform efforts by local governments of provinces and cities in Vietnam. The 2012 PCI report is the eighth iteration of the project. The report is based on a rigorous survey of the perceptions of 8,053 domestic firms. In short, the PCI augments the collective voice of private entrepreneurs in Vietnam regarding economic governance in their province and the country.
- *What Does the PCI Measure?* 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) has limited time requirements for 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.
- *Brief Methodology:* The PCI is constructed in a three-step sequence, referred to as “the 3 Cs”: 1) collect business survey data and published data sources, 2) calculate nine sub-indices and standardize to a 10-point scale, and 3) calibrate the composite PCI as the weighted mean of nine

sub-indices with a maximum score of 100 points. The 2012 PCI consciously replicates every aspect of the methodology from the three previous years. The same stratified sampling procedure was employed, the questionnaire remained exactly the same, the selection and scaling of indicators was unaltered, the sub-index weighting was left in place, and the breakpoints for performance tiers were maintained. As a result, all aspects of the PCI can be compared between the 2009 to 2012 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 CHAPTER 1

- *Dong Thap Tops the Rankings:* This year’s ranking has quite a few surprises. Dong Thap ranks as this year’s number one province, followed by An Giang, and Lao Cai, last year’s star performer. Long An and Bac Ninh are once again ranked among the best governed provinces in the country. Binh Dinh and Vinh Long, which have performed well historically, but slipped in 2011, re-emerged at the top of the index. On the other hand, perennial top performers, such as Binh Duong and Da Nang, demonstrably slipped in this year’s index.
- *Continued Pessimism with Growth Prospects in 2012:* Both foreign and domestic firms 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 entry to a historic low of 33 percent for both foreign and domestic businesses in 2012.

- *Decline in Overall Governance Scores:* The 2012 PCI analysis reveals a sharp decline in governance overall. The median score declined from 59.15 last year to 56.2 this year, the lowest score since the re-calibration of the index in 2009. Moreover, not a single province this year reached the *Excellent* threshold of 65 points - the first time this has ever occurred in the PCI.
- *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 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. Simultaneously, high-ranked provinces have struggled to advance, and have actually regressed when it comes to making the more difficult institutional reforms necessary for escaping the middle-income trap.
- *Specific Policy Improvements:* Respondents in the median province experienced:
 - Lower waiting periods for business registration and licensing;
 - Less time spent on bureaucratic procedures;
 - Greater allocation of land use rights certificates (LURCs); and
 - Reduced payment of informal charges during bureaucratic procedures.
- *Governance Arenas in Need of Improvement:* Responses were not uniformly positive. Firms registered increased dissatisfaction with:
 - Expropriation risk and the inability of provincial land compensation prices to keep pace with market prices;
 - Less confidence and usage of provincial legal institutions;
 - Additional declines in the assessment of proactivity and attitude of local leaders toward private business; and
 - More limited use and less satisfaction with the supply and quality of business support services (BSS). This decline may result from the difficult economic circumstances, which has limited the disposable income of firms to spend on such activities.
- *Declines in Perception-Based Data:* The primary drivers of change in the PCI index are the survey-based (soft) indicators, rather than the public-source data used to generate hard indicators. On hard indicators, many provinces continue to see improvements. Unfortunately, hard data simply does not exist on many of the most important aspects of economic governance, such as property rights protection, corruption, and the proactiveness of leadership. Moreover, most hard data is produced by the provinces themselves, rather than by independent agencies.
- *Business Performance at All-Time Low:* This year, only 6.5 percent of respondents in the median province increased operations, 6.1 percent added labor, and less than 60 percent claimed to be profitable (while 21 percent reported losses). Even more worrisome is that the average size of PCI respondents both in terms of labor and capital has also declined in the past few years, indicating that we are not simply observing declines in growth rates, but true reversals in private sector employment and capital stock.

- *Performance and Assessments of Governance:* Statistical probing reveals a strong association between business performance and attitudes at every level of analysis. Over time, across provinces, and even among individual firms within provinces, we observe that success is matched by high assessments of governance, while loss-making and shrinking firms rank governance more negatively. There is a chicken and egg dilemma to this relationship. After all, the motivation for the PCI is that business performance and growth are influenced by government policies regarding the private sector.

KEY FINDINGS FROM CHAPTER 2: THE IMPACT OF PCI INFORMATION ON PROVINCIAL LEGAL REFORM

- *Large Number of Provinces Cite PCI in Local Documents:* From 2005 to October 2012 at least 28 provinces have issued 60 documents (both legal and non-legal) citing PCI reports, many of which were devoted to remedy specific PCI-highlighted problems.
- *Use of Legal Documents Outpacing Non-Legal Documents:* The use of legal documents has notably increased in later years, both in absolute numbers and in relative to non-legal documents. The shift from non-legal to legal documents signifies serious commitment by provincial leaders to improve their PCI scores by making such a goal binding on their annual plans.
- *Most Provinces Issuing Documents Are Ranked Near the Top:* The majority of provinces that have issued documents (18 out of 28) were ranked *High* and *Mid-High* at the time of document issuance, comprising, on average, half of the number of provinces in *High* and *Mid-High* tiers.
- *But Not the Very Top:* Only one *Excellent* province issued legal documents relating to the PCI in the year after it reached the *Excellent* echelon, which provides some evidence for how stasis breeds

among the top performing provinces, leading to the convergence in scores.

- *Performance Improves after Issuance:* Generally, after the issuance of documents dealing with PCI scores, more provinces perform better in subsequent years than those performing worse, but such a correlation should not be mistaken for causation.

KEY FINDINGS FROM CHAPTER 3: STATISTICAL ANALYSIS OF CORRUPTION IN GOVERNMENT PROCUREMENT

- *Substitution in Corruption:* While petty corruption in informal charges has declined, corruption on public procurement has increased over time. Using a survey experiment to induce respondents to reveal sensitive information, the PCI is able to calculate the number of businesses participating in this illegal activity. Overall, 42 percent of firms paid commission to a government official to ensure that the business won the contract, up 18 percentage points from 2011.
- *High Variance Across Type:* The share of firms involved in procurement corruption varies dramatically by size, growth, connections of the firm, as well as industry and industry concentration. The analysis finds that medium-sized firms have the greatest propensity to pay commissions. Firms with positive growth are much more likely to engage in corruption suggesting that ruthless firms are the ones that are able to grow in the difficult business environment.
- *Connections and Procurement Corruption:* Corruption increases when the manager of the firm has a relationship with officials. This relationship, however, is less prevalent among younger firms. This finding may indicate how older firms are able to develop connections that crowd out private sector activity.

SUMMARY AND KEY FINDINGS FROM CHAPTER 4: FOREIGN INVESTORS AND POLICY RISK

- *The Third Annual Survey of Foreign Direct Investors (FDI) in Vietnam.* The PCI-FDI survey covers a highly representative selection of 1,540 businesses from 45 countries whose operations are located throughout Vietnam's 13 cities and provinces. While the PCI-FDI survey is not the only survey of foreign investment in Vietnam, it is the largest and most comprehensive.
- *Growing Pessimism Among Foreign-Invested Enterprises (FIEs).* Business confidence and performance are at the lowest level since the PCI-FDI survey began. Only 33 percent of FIEs intend to expand their business over the next two years. Firm-level profitability, capital, and labor growth are also lower than in previous years.
- *Summer Shock:* The arrest of the former Vice Chairman of the Asia Commercial Bank Founding Council on August 20, 2012, sent a strong signal to investors that Vietnam was facing severe economic difficulties. Our change-point analysis reveals that the shock was significant and unanticipated by both equity and gold markets. This shock was reflected in PCI survey questions regarding business confidence. Within 20 days of the news, both foreign and domestic investor confidence in the country was halved.
- *Cause of Declines in Confidence:* Further analysis reveals that respondents believed the crisis was macroeconomic in nature and were not very worried about expropriation or political instability resulting from the incident.
- *Variance by Firm Type:* The incident had disparate results on firm perceptions. Medium and large operations, the potential engine of Vietnam's future growth, were most affected. Similarly, manufacturing, another source of growth and exports, was hit quite hard. Interestingly, service

sector operations were the least deterred by the incident. Firms with Vietnamese managers were the least affected due to alternative coping mechanisms and information channels for local business leaders.

KEY FINDINGS FROM CHAPTER 5: LABOR RELATIONS

- *Perceptions About Labor Quality:* Domestic firms report more positive attitudes, in general, of the education of the population, as well as of the available vocational training for laborers. Moreover, only 53 of 1,540 foreign firms - less than 3.5 percent - agree with the claim that the local workforce does not have the right skills. Among all foreign firms, an average of 23 percent of workers are reported to need additional training. Foreign firms spend an average of 3.6 percent of annual business cost in training these workers; on average, 70 percent of firm - trained workers remain with the company for more than a year.
- *Labor Inspections:* Only 8 percent of firms in the domestic sample indicate the Department of Labor, War Invalids And Social Affairs (DOLISA) as one of the three most active agencies, in terms of visits from inspectors. By contrast, 21 percent of firms in the foreign sample report DOLISA as one of the three most frequent inspectors.
- *Union Presence:* Among foreign firms, 951 of 1,435 (65 percent) report that a union has been established in their enterprise. By comparison, 1,233 of 7,090 (17 percent) domestic firms report that a union exists in their workplace.
- *Strikes:* While 12.8 percent of the foreign firm sample reported a strike (with an average of 1.7 strikes/3 years among those reporting in the affirmative), only 0.6 percent of the domestic firm sample did so (among those, an average of 1.6 strikes/3 years were reported).

CHAPTER I

THE PROVINCIAL COMPETITIVENESS INDEX



THE PROVINCIAL COMPETITIVENESS INDEX

The past year has been an incredibly turbulent period for domestic and foreign investors in Vietnam, as the country has struggled to deal with the aftermath of the global financial crisis and its own homemade difficulties, such as rising inflation, weaknesses in the banking sector, and declining productivity in state conglomerates. Although the economy managed to continue to grow at just over 5 percent, this is far below its historical average of 7 percent, and masks other worrying indicators, such as the large increase in businesses completing dissolution procedures, which has increased in the past year.¹

Disappointment in the Vietnamese economy is evident in the responses to the 2012 Provincial Competitiveness Index (PCI) surveys of domestic and foreign investors. This year, 8,053 domestic-invested enterprises (DIEs) and 1,540 foreign invested enterprises (FIEs) generously sacrificed their time to report on their experiences with and perceptions of the Vietnamese business environment. The results are quite sobering, reflecting sincere concerns about the future of the Vietnamese economy and the impact of policy initiatives on business performance. Very little has changed in the composition of firms answering the survey over time. The response rate of 30 percent is similar to previous years, and the size, sector, and age of firms mirrors the distribution of the firms in the General Statistical Office's annual Enterprise Survey. Nevertheless, there is a shocking downturn in overall perceptions.

1. Tuoi Tre News. 2012. "Q1 sees positive changes despite slow growth." April 1. <<http://www.tuoitrenews.vn/cmmlink/tuoitrenews/business/q1-sees-positive-changes-despite-slow-growth-1.67033>>

In this chapter, we review changes in the PCI ranking, which is composed of responses from domestic, private businesses and hard data from public sources. In sum, there is a severe decline in perceptions of economic governance reported in the index, especially in formerly well-governed locations. Further analysis reveals a strong correlation between these perceptions of governance and the performance of businesses in the PCI. Of course, it is difficult to assign causality to this relationship. On one hand, declines in the quality of economic governance can have a deleterious impact on firm performance, raising transactions costs, increasing the riskiness of expansion, and ultimately damaging bottom lines. On the other hand, it is also true that repeated years of poor macroeconomic difficulties and declining business performance have colored the views of our respondents. They are far more negative about the decisions of local government officials, critical of local land and labor policies, and less tolerant about bureaucratic obstacles to their operations. During the boom years between 2005 and 2008, it appears that some respondents were willing to forgive government infelicities, as their businesses grew and opportunities appeared everywhere. Now, as businesses struggle and their very survival hinges on the arbitrary decisions of bureaucrats, respondents have become far less forgiving.

More sobering still is the fact that the perception of businesses in the PCI sample is almost certainly more optimistic than the views of entrepreneurs in the underlying population that the PCI hopes to represent. For instance, 931 enterprises in Ho Chi Minh City (HCMC) locked their tax code with

the local tax authority in the first quarter of 2012, implying that they will no longer be operating their business and do not want to be held accountable for taxes. Five hundred, twenty-six enterprises in HCMC completed procedures for dissolution at the Department of Planning and Investment (DPI), a 23.8 percent increase over the same period. Nationally, 7,278 businesses dissolved their businesses in January 2013, up 7 percent from the previous month and 11.3 percent over the same period last year.² In short, businesses have been closing at a rapid clip, even in the country's wealthiest city. The PCI survey has a built-in survivor bias, as it only captures the views of firms that were successful enough to remain active. Businesses that shuttered their doors, locked their tax codes, and went bankrupt do not receive PCI surveys. Consequently, their vastly more negative reflections of the business environment go unrecorded.

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. Importantly, the PCI only includes data supplied by private, domestic operations. The responses of FIEs are left out of the index, but are analyzed separately in this report to provide comparative context.

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 Development's Vietnam Competitiveness Initiative Project (USAID/VNCI) since its initiation in 2005. The 2012 PCI report is the eighth iteration and is based on a rigorous

survey of the perceptions of 8,053 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) has limited time requirements for 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, 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.³

The 2012 PCI consciously replicates every aspect of the methodology from the three previous years. The same stratified sampling procedure was employed, the questionnaire remained exactly the same, the selection and scaling of indicators was unaltered, the sub-index weightings were left in place, and the breakpoints for performance tiers were maintained. As a result, all aspects of the PCI can be compared among the 2009, 2010, 2011, and 2012 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.

2. VietnamPlus, 28/3/2012, Number of firms dissolved in 1st quarter increased. Accessed at <<http://www.vietnamplus.vn/Home/So-luong-doanh-nghiep-giai-the-tang-trong-quy-mot/20123/133052.vnplus>> and Saigon Times Daily, 2013: "Number of dissolved, inactive firms rises 7pct in January." Feb. 1. Accessed at <<http://www.thesaigontimes.vn/Home/xahoi/sukien/91113/Doanh-nghiep-giai-the-thang-1-tang-gan-7.html>>

3. Full information on the PCI methodology can be found at www.pcvietnam.org

1.2. Tracking Change in Provincial Economic Governance over Time

Because we did not make changes to the PCI's sampling strategy, indexing methodology, or breakpoints between 2009 and 2012, we can compare the results directly to the three previous years. The analysis is revealing. The score of the median province in Vietnam is the lowest achieved score since the recalibration of the index in 2009. Moreover, the convergence in scores, which was first noted last year, continues.

Low-ranking provinces continue to make improvements on easy reforms (especially the reduction in waiting periods for business entry and reducing inspections), but top-ranking provinces, which benefitted from a head start on the easy initiatives, have had a hard time tackling the more challenging reform initiatives, such as rooting out local

corruption and establishing credible property rights protections and legal institutions.

Figure 1 tracks the PCI performance over time. Red diamonds depict the score of the median province, while the dashed range bars denote the gap between the lowest and highest performing provinces over time. Looking at the graph, we can see the decline in the median score from 59.15 last year to 56.2 this year; the lowest score since the re-calibration of the index in 2009. Moreover, the compression of scores, evidenced by the shrinking of the range bars, is also quite clear. The disappointing bottom line is that governance is converging around middling performance. There is little evidence of star provinces pushing forward with innovative local initiatives. On the brighter side, a number of low-ranking provinces are rising up from the bottom. We detail some of these success stories in Chapter 2.

Figure 1. Changes in Overall PCI Score in Lowest, Median, and Maximum Provinces

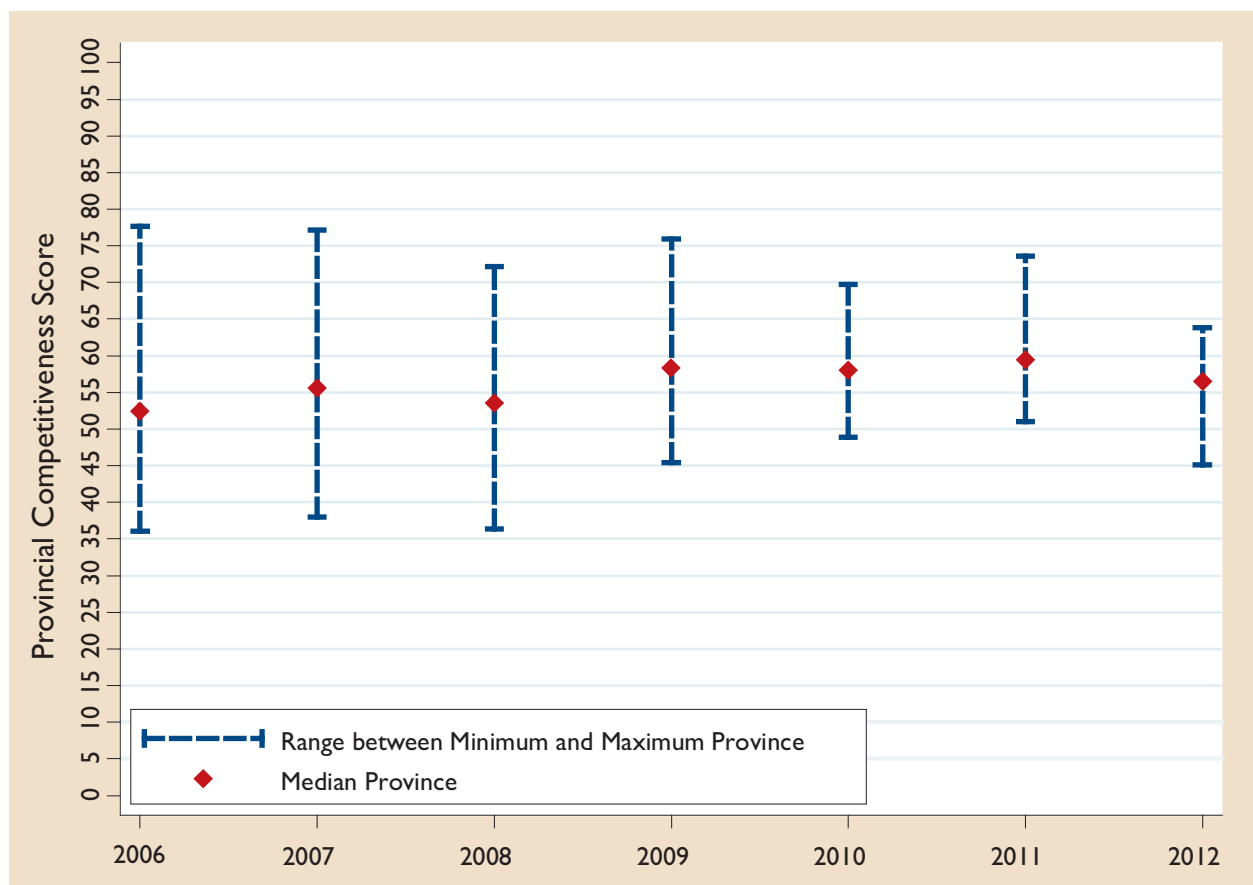
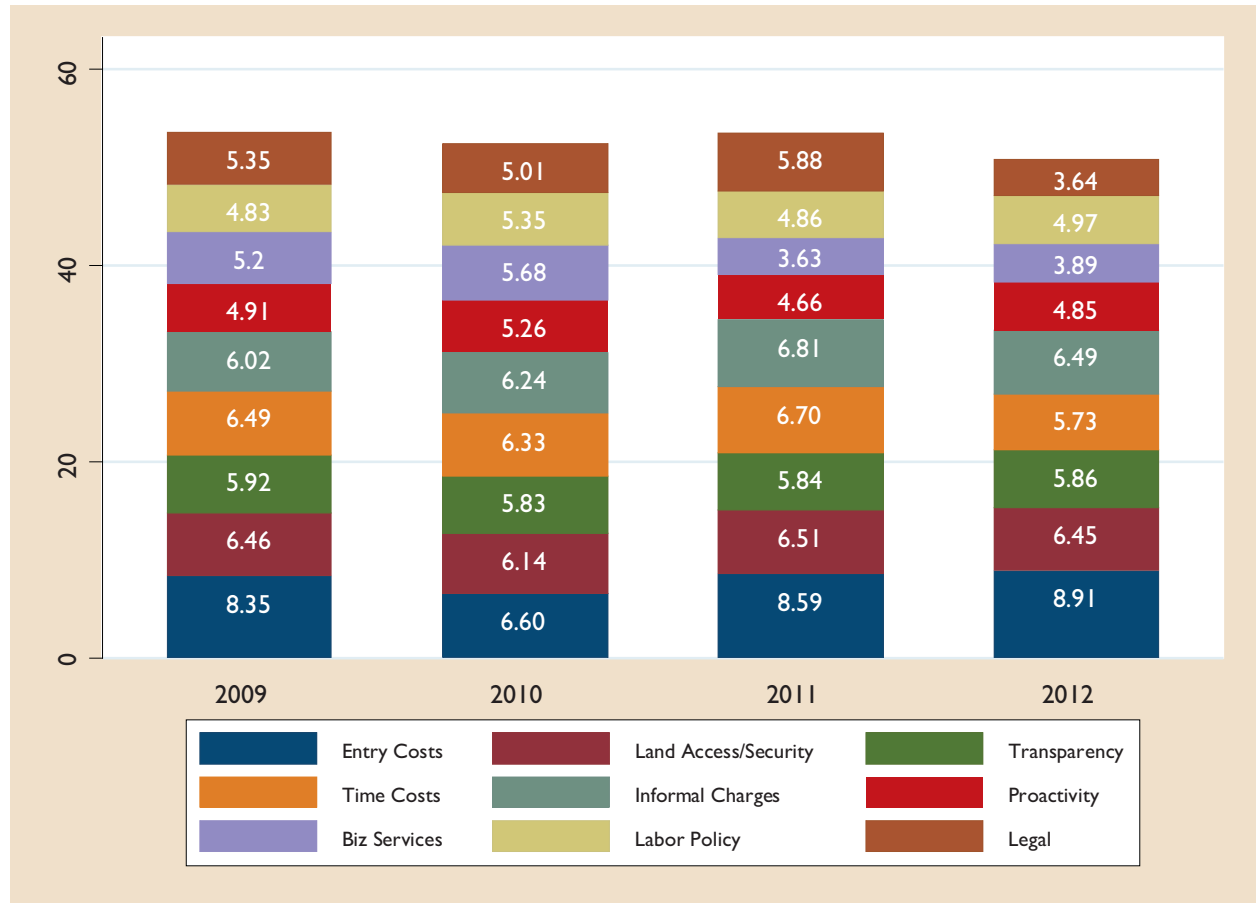


Figure 2 studies the trajectories of the PCI sub-indexes since the re-calibration, each represented by a color in the bar graph. The white numbers present

the score of the median province in the sub-index in a given year.⁴

Figure 2. Sub-Index Scores in Median Province over Time



Further Improvement on Entry Costs and Inspections

Studying the sub-indices this way, we can see that the greatest progress has been made in reducing Entry Costs for new enterprises, particularly the number of days to finalize business registration, which is now 10 days in the median province, and as low as seven days in others. Other indicators also point in the right direction as well. Only 9.5 percent of firms in the median province needed additional business licensing (compared to 15 percent in 2010). Only 13 percent of firms waited more than

a month to receive all the necessary documentation to be fully legal (down from 24 percent in 2010).

Within the Time Costs of Regulatory Compliance Sub-Index there are also positive signs. Time spent by firms on bureaucratic compliance remains low (13.8 percent) relative to the high of 22.9 percent achieved in 2008. Similarly, the average firm in the median province must shut down operations for only one inspection per year, and the average length of inspections by the tax authority, the most common kind, have dropped to only four hours. Both of these inspection figures continue all-time lows.

4. Full time series data on each individual indicator used in the analysis can be found in Appendix A at the end of the report.

These achievements can be credited work done on Public Administration Reform by the Ministry

of Home Affairs and the Office of Government's work to reduce administrative procedures. National programs and accompanying task forces to assist implementation—such as with the 2005 Enterprise Law, the 2005 Investment Law, and the Prime Minister'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.⁵ As we document in Chapter 2, the PCI reports themselves have also played a substantial role in this effort.

Reform Stagnation

On the other hand, the focus on the clear, easy-to-measure indicators of registration and other regulations has overlooked the myriad other constraints that are hampering business success. Reform has stagnated in the Transparency, Informal Charges, and Labor Policy Sub-Indices, which have recorded only marginal movements over time. Despite well-publicized efforts to increase transparency and reduce corruption through the creation of an Anti-Corruption Task Force in 2008 and renewed focus on anticorruption this year in the wake of the October Plenum of the Central Committee, businesses still feel that access to provincial planning documents is difficult and unfair, and that informal charges are an impediment to their business.

As we highlight in Chapter 3 of this report, however, the composition of informal charges has actually changed over time. Small bribes at registration and to complete bureaucratic procedures have declined both in their frequency and in the size of the bribe requested. In 2006, 70 percent of PCI respondents

in the median province answered that informal charges were a necessary part of doing business, and claimed that the cost of such activity was equal to 13 percent of revenue.

Today, only 53 percent of firms believe bribes are common, calculating that they consume only 6.4 percent of revenue. On the other hand, firms are more likely to respond that government regulations are created to enrich officials through rents, and commissions on government contracting remain a problem (40 percent of firms admit to the activity). Further, the problem has started to affect not only large operations, but also small businesses.

Reform Back-Sliding

Finally, the 2012 survey also reveals worrying backsliding in the Land Access & Security, Time Costs, Proactivity, and Legal Institutions Sub-Indices. Firms in the median province now have more negative views than before Vietnam's entry into the World Trade Organization (WTO) in 2007 in these critical areas.

On Time Costs, there appears to be a belief that Public Administration Reform in the area of post-registration regulations has plateaued. Only 32 percent of operations in the median province believe officials are becoming more effective (down from 45 percent in 2010), and only 41 percent believe that paperwork has been reduced (down from 48 percent at the peak in 2009).

While the share of firms with Land Use Rights Certificates (LURCs) is extremely high (75 percent), the share of firms believing that the possibility of expropriation is high or very high is 29 percent (up from 18 percent in 2008). In fact, if we include the group of firms that believe there is a moderate chance of expropriation, as we do in Table 1, the numbers look scary indeed. Sixty-one percent of firms believe there is at least a moderate chance of expropriation—double the share of firms worried about losing their business premises in 2008.

5. 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."

At the same time, firms that believe the province offers fair compensation when land is expropriated has declined from 41 percent to 36 percent. Relatedly, firms are less confident that the legal system will uphold property rights and contracts (64 percent, down from 70 percent last year), less likely to believe that the legal system can be used to appeal official malfeasance (23.7 percent), and very unlikely to use courts to resolve business disputes (22 percent). Hard data from the courts themselves also points to a decline in usage. In 2009, the number of private firms filing cases to resolve disputes was equal to about 3 percent of operations

in the median province. Today, it is only equal to 1.3 percent even though the share of respondents experiencing business remains the same.

On the positive side of the ledger, land does appear to be easier to acquire, as is shown in the bottom panel of Table I. Far fewer firms believe land acquisition is an obstacle, and are less likely to point to problems with land clearance and other bottlenecks in their localities. While it is true that procedures have improved, it is also possible that declines in the real estate market have increased both the availability of land and the asking price.

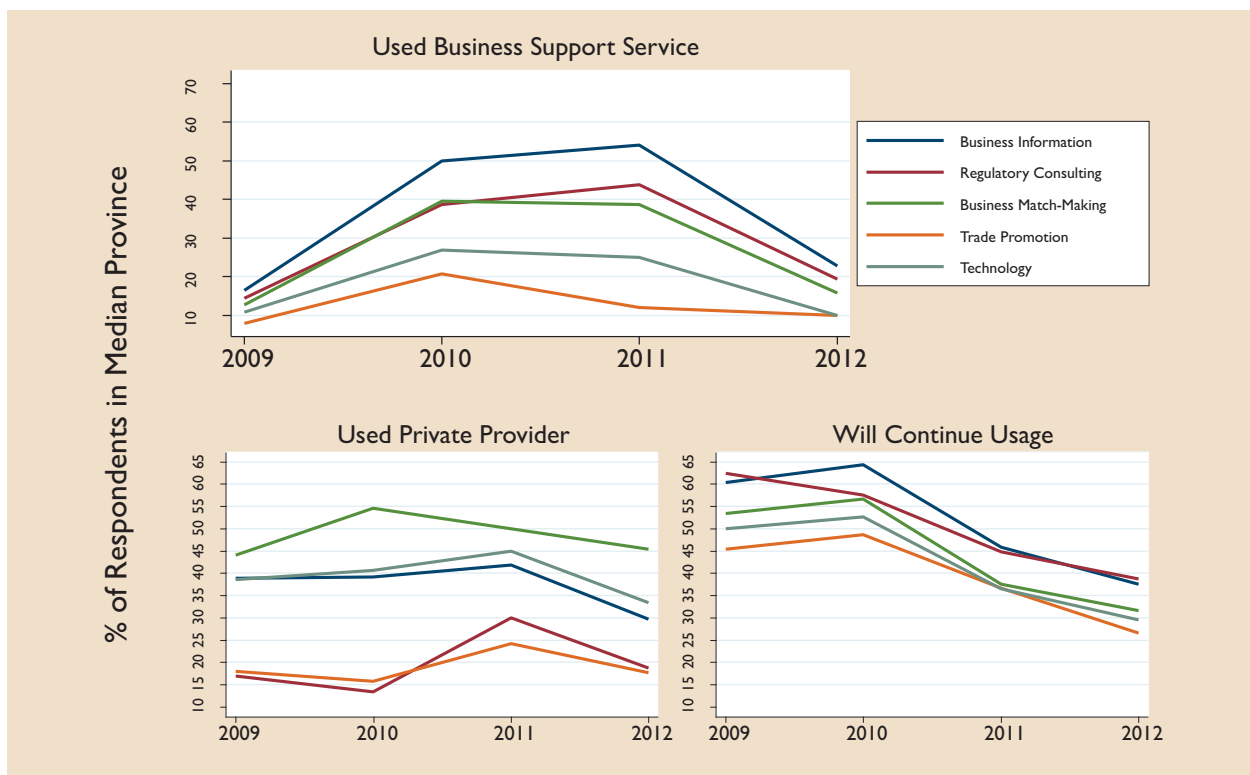
Table I. Land Acquisition and Security over Time in Vietnam

Expropriation Risk: Share of firms believing that the loss of business premises is a possibility.							
Year	2006	2007	2008	2009	2010	2011	2012
Very High	12.5	9.6	8.3	12.5	12.3	12.8	10.0
High	15.7	12.9	9.5	16.6	18.6	20.4	19.4
Moderately High	20.3	14.6	12.5	19.3	17.6	27.9	31.5
Low	16.1	18.5	18.1	18.3	18.4	12.8	15.7
Very Low	35.5	44.5	51.7	33.2	33.1	26.2	23.6
Total Expropriation Risk	48.4	37.1	30.2	48.5	48.5	61.1	60.8
Fair Compensation: Share of firms believing that compensation value is appropriate when land is taken.							
Year	2006	2007	2008	2009	2010	2011	2012
Never	12.9	11.5	13.6	12.7	11.1	9.0	7.2
Seldom	11.3	11.9	11.4	11.2	11.6	12.4	10.9
Sometimes	35.5	35.6	35.6	36.7	38.0	43.4	45.6
Usually	18.0	19.3	19.8	18.7	17.8	17.4	18.2
Always	22.3	21.7	19.7	20.8	21.4	17.7	18.0
Faces Obstacles: Share of firms believing land acquisition is an obstacle and share of firms responding to particular problems.							
Year		2009	2010	2011	2012		
Yes		69.33	43.91	29.87	28.10		
- Type							
Poor land planning		17.62	29.75	27.77	29.49		
Availability of cleared land		7.94	14.40	13.17	16.31		
High state land sales price		22.74	10.09	8.80	12.74		
High rent		21.35	26.15	21.96	25.58		
Slow land clearance		29.36	43.39	40.28	42.38		
Complicated procedures		4.72	8.98	7.48	6.29		

As Figure 3 shows, The Business Support Services (BSS) Index also demonstrates decline, but for very different reasons. It appears that hard economic times have forced businesses to tighten their belts and cut back on luxuries, such as consulting on new technologies. In 2009, 52 percent of operations were willing to pay for technology-related services (40 percent of which was provided by private actors). In 2012, only 30 percent were willing to pay for similar services. Provinces have actually increased the

number of trade fairs they hosted this year, but private businesses appear highly unwilling to use their own funds for these activities. This certainly could imply something about the quality of such services. After all, if they were truly valuable, their usage should be counter-cyclical with firms employing them in order to eke out an advantage in bad years. But these are extraordinary times and many firms are suffering. The decline in BSS usage may simply be a symptom of larger issues in the Vietnamese economy.

Figure 3. Changes in the Use of Business Support Services over Time



1.3. The 2012 Provincial Competitiveness Index

Figure 4 presents the composite PCI ranking. This year's ranking has quite a few surprises. Dong Thap ranks as this year's number one province, followed by An Giang, and Lao Cai, last year's star performer. Long An and Bac Ninh are once again ranked among the best governed provinces in the country. Binh Dinh and Vinh Long, which have performed

well historically, but slipped in 2011, re-emerged at the top of the index.

On the other hand, perennial top performers, such as Binh Duong and Da Nang, demonstrably slipped in this year's index. In fact, Binh Duong did not even crack the High performing provinces, continuing a decline that was first evident last year. The research team strongly suspects that the decline in business sentiment in these two provinces is associated with

the general economic decline in Vietnam. These two provinces spearheaded earlier economic growth periods and therefore had more operations exposed to the global crisis. During the good times, businesses were willing to overlook problems that they observed in local regulations. Now, as they struggle to continue operations, they have become very negative. Nevertheless, there are positive signs in both of these localities, as respondents are the least likely to believe there are biases given to state-owned enterprises (SOEs) and connected firms. This raises the possibility that these provinces will again rise when the economy rebounds.

This year, the low performers are quite familiar. The rural, mountainous provinces of Dien Bien, Tuyen Quang, and Cao Bang round out the bottom of the ranking.

There are a few notable patterns as well. First, not a single province reached the 65-point threshold designating an *Excellent* province. In past years, the number of *Excellent* provinces has been as large as eight. Last year, there were six *Excellent* locations (Lao Cai, Bac Ninh, Long An, Dong Thap, Da Nang, and Ba Ria Vung Tau). At the same time, we now have three provinces in the *Mid-Low* category, up from only one last year.

It is important to note that the decline in overall scores and the share of *Excellent* performers is not the result of an arbitrary shift in the threshold.

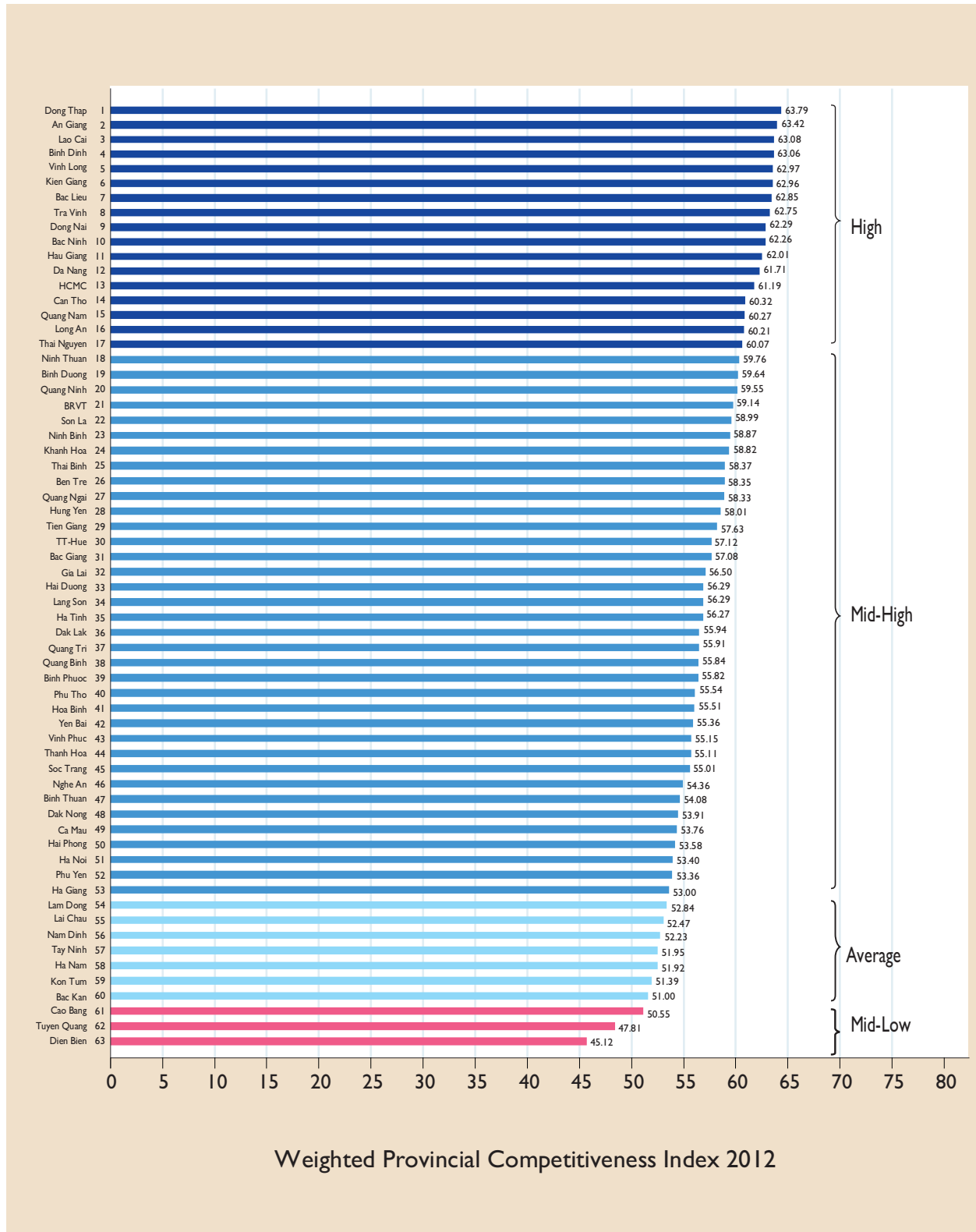
All indicators, scaling, and threshold levels have been maintained since 2009. This is because when re-scaling indicators to a 10-point scale, the PCI methodology uses a “min-max” strategy, whereby a province is compared to the best and worst performing provinces on a given indicator. If a province has the best score, it receives a 10, and if it has the worst score, it receives a one. Scores in between the best and worst, receive a proportional score between one and ten. Because, the PCI selects minimum and maximum values from all scores since 2009, this means that Long An province in 2012 is also compared against An Giang province from 2009, 2010, 2011 or 2012. Thus when overall scores decline, it means that provincial scores today are significantly worse than in previous years. The decline in provincial scores, therefore, can only be caused by declines in a large number of indicators.⁶ In other words, firms in Vietnamese provinces believe the quality of their provincial leaderships has declined in the past four years.

A final trend is the continued high performance of provinces from the Mekong Delta. Not only are Dong Thap and An Giang the top-ranked provinces, but Mekong Delta provinces constitute nine of the 17 provinces in the *High* tier. Moreover, not a single Mekong Delta province scores below the *Mid-High* tier. Clearly, leaders in the Mekong Delta stand apart from other parts of the country in their willingness to ease the bureaucratic burden for businesses in their borders.

6. $rescale = 9 * \frac{(prov_{it} - min_{it})}{(max_{it} - min_{it})} + 1$, where i index provinces and

t index the year of the PCI survey. When a higher score on an index indicates worse governance, the re-scaled value is subtracted from 11 to reverse the score. In short, provincial indicators in 2012 are compared to the minimum and maximum scores achieved on an indicator at anytime between 2009 and 2012. For more methodological details, please see the Methodological Appendix at www.pci vietnam.org.

Figure 4. Final 2012 Provincial Competitiveness Index Ranking



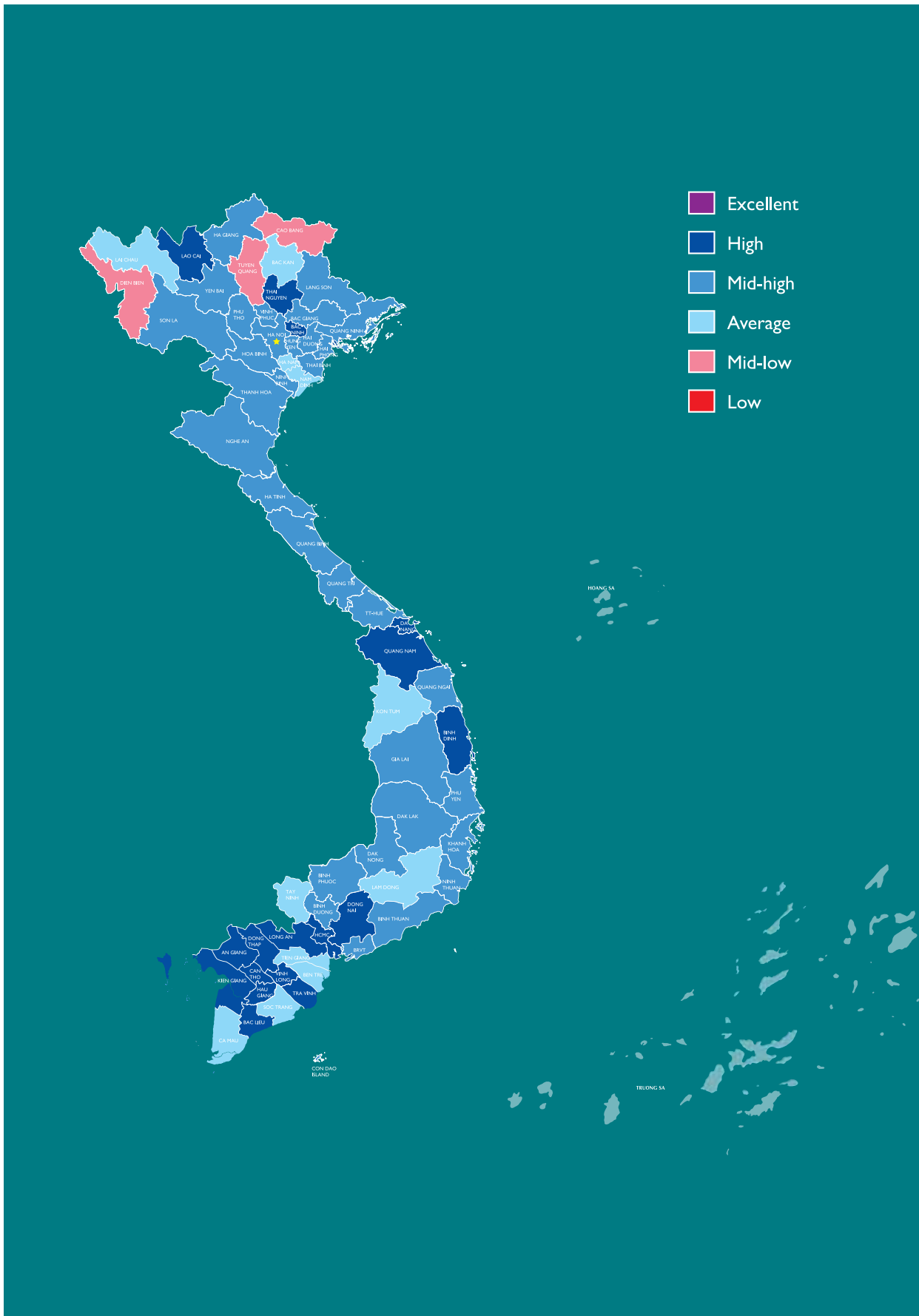


Figure 5, the famous PCI star graph, shows the PCI scores in a slightly different manner; highlighting individual provincial performance on each individual sub-index. It is critical to note that even the top-scoring

provinces, such as Dong Thap and Lao Cai, have a great deal of room for improvement on key indices. Similarly, low performing provinces also have areas of strong performance, particularly in reducing entry costs.

Figure 5. Provincial Performance on Individual Sub-Indices

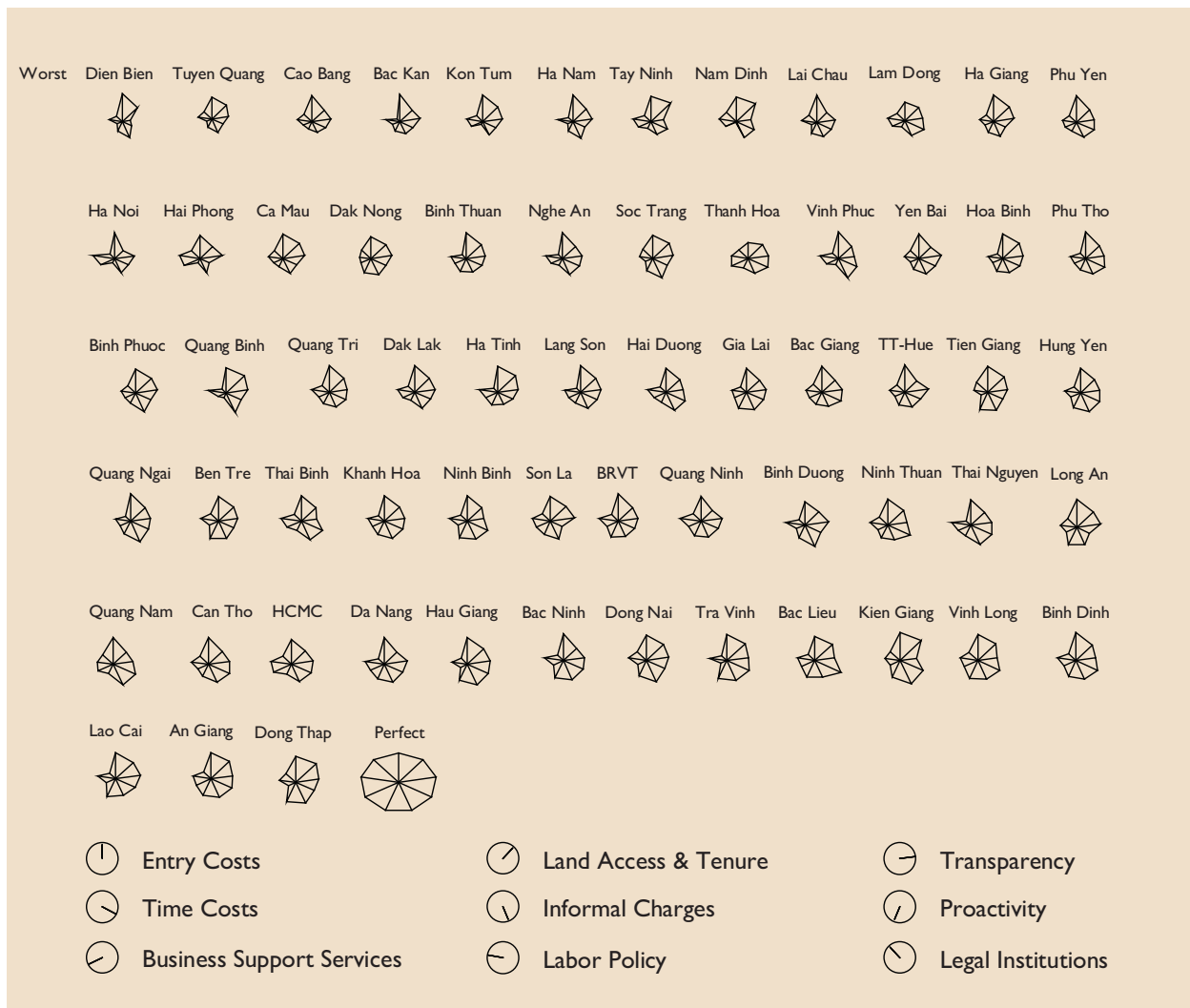
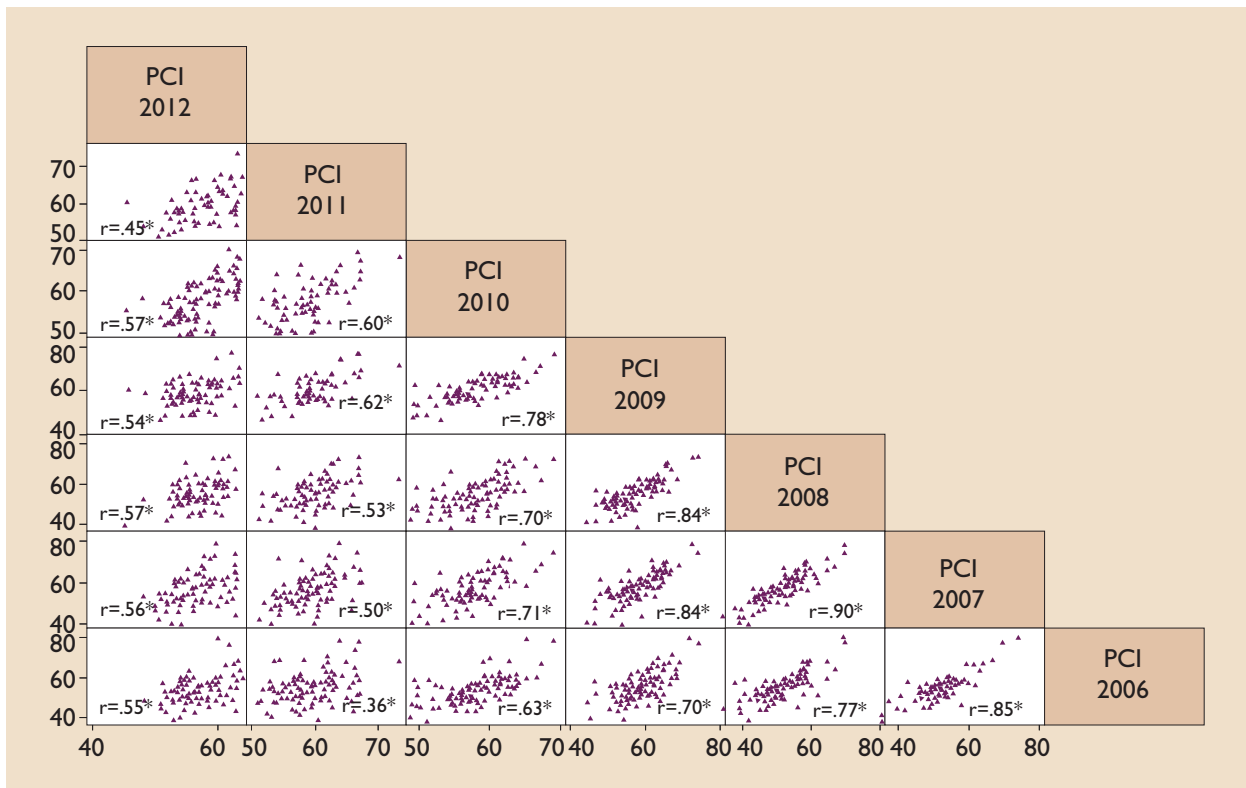


Figure 6 studies the strength of association between the PCI this year and previous iterations. There is still a statistically significant correlation ($r=.45^*$), but the strength of the association has declined over time. In other words, lagged scores on the PCI have less predictive power. In addition, there is a great deal more dispersion in the data. In recent iterations,

provinces have taken bigger leaps and slides in the ranking. In the early years of the PCI, a single-year movement of greater than three places was considered to be a tremendous accomplishment. This year, the median province shifted at least 11 positions. Once again, the huge variation may reflect the tremendous struggles of businesses in some formerly high-flying provinces.

Figure 6. Correlation in PCI Scores over Time
(r=correlation coefficient; * significant at .05 level)



1.4. Declining Business Performance and its Influence on PCI Scores

There are a large number of explanations for the decline in perceptions of governance in 2012, which affect the stability of the PCI rankings. Last year, we speculated that these declines might be related to increasing competition from foreign entrants and imports, bias from local SOEs, changes in local leadership, uncertainty caused by a new central leadership, and increasing expectations by entrepreneurs about the role of bureaucrats. This year, it has become clear that negativity in the business community about the prospects for business success has influenced responses to the PCI's survey questions. The PCI methodology takes precautions to avoid such contamination by including hard data in the calculations and relying primarily on experiential questions (for example,

How many inspections did you experience ?) rather than perception-based questions (for example, How do you feel about inspections in your province ?). Nevertheless, even these experiential questions can be subject to perception biases. The profitability of firms appears to color their views of their managers' interactions with bureaucrats.

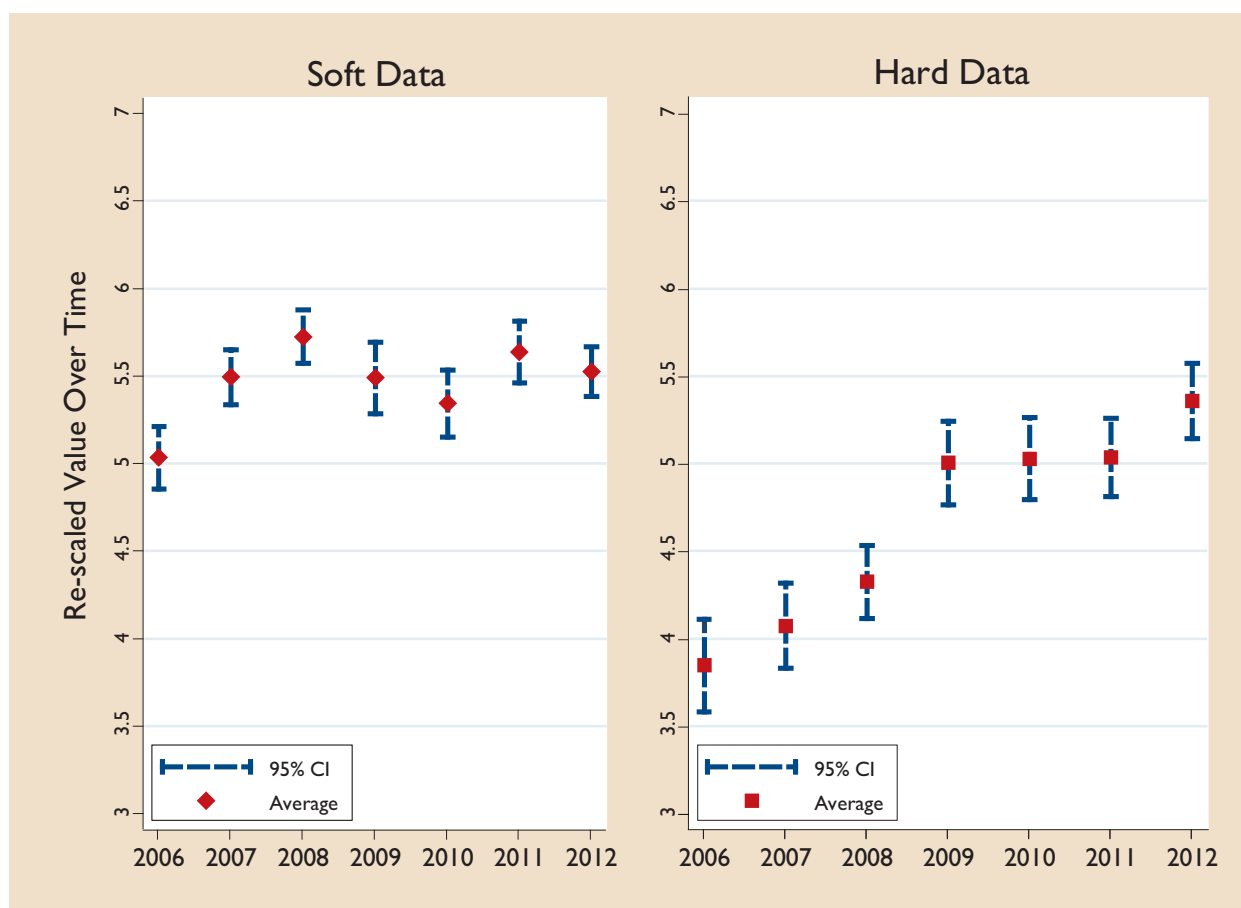
Figure 7 demonstrates this point by averaging all of the soft (survey-based) and hard (public-source) indicators used in the PCI survey. All indicators are re-scaled to 1–10 values to ease the comparison. The left panel displays the average score on soft data with the average score derived from hard data. To facilitate the comparison, we only study the indicators common to every PCI survey between 2006 and 2012. It is immediately obvious that scores on hard data have consistently improved over time. More provinces improved their websites, held trade

fairs, more LURCs were distributed by the Ministry of Natural Resources and the Environment, and a larger share of the workforce graduated from secondary school than in previous years. Thus, if we were to create an index of available hard data only, average national scores would have improved about 38 percent (2006: 3.9 to 2012: 5.4) with very little change in the distribution of provincial scores.

Unfortunately, available hard data can simply not measure the more abstract features of the business

environment that business managers care about. There is simply no available public-source data on the transparency of land plans or the amount and frequency of informal charges paid by private firms. Moreover, questions about the quality of local leadership would be similarly off-limits. These topics can only be studied by asking business managers to reflect on their perceptions and experiences in a comprehensive survey.

Figure 7. Annual Changes and Variation in Soft versus Hard Data



In contrast to the hard data, survey-based data has fluctuated much more rapidly, with scores increasing between 2006 and 2008, declining with the global financial crisis in 2009, rising in 2011 and declining again in 2012. In fact, the survey data is more closely correlated with the final scores on the weighted PCI, which has followed a similar trajectory. In other

words, the perceptions have driven changes in the PCI rankings.

This raises the questions of what has driven these changes in business perceptions over time. Table 2 provides some clues, demonstrating significant downturns in critical measures of business success

over time. Seven metrics from the first section of the PCI survey are analyzed with scores reported for the lowest, highest, and median ranked provinces in the country:

1. The share of firms that increased the size of their investment in the previous year.
2. Average size of firm investments in Billions of Vietnamese Dong.
3. The share of firms hiring more workers in the previous year.
4. The average employment in the business.
5. The share of firms reporting profits in the previous year.
6. The share of firms reporting losses in the previous year.
7. The share of firms intending to expand.

It is quite clear that on these metrics, declines became obvious in 2011, and have reached unprecedented lows in 2012. For instance, in 2007, the year of WTO entry, 27 percent of firms in the median province expanded their operations, 21 percent added labor; 82 percent reported that they were profitable, and 74 percent replied that they intended to expand further. This year, only 6.5 percent of respondents increased operations, 6.1 percent added labor; less than 60 percent claimed to be profitable (while 21 percent reported losses), and only 20 percent intend to expand over the next two years. Even more worrisome, is that the average size of PCI respondents both in terms of labor and capital has also declined in the past few years, indicating that we are not simply observing declines in growth rates, but true reversals in private sector employment and capital stock.

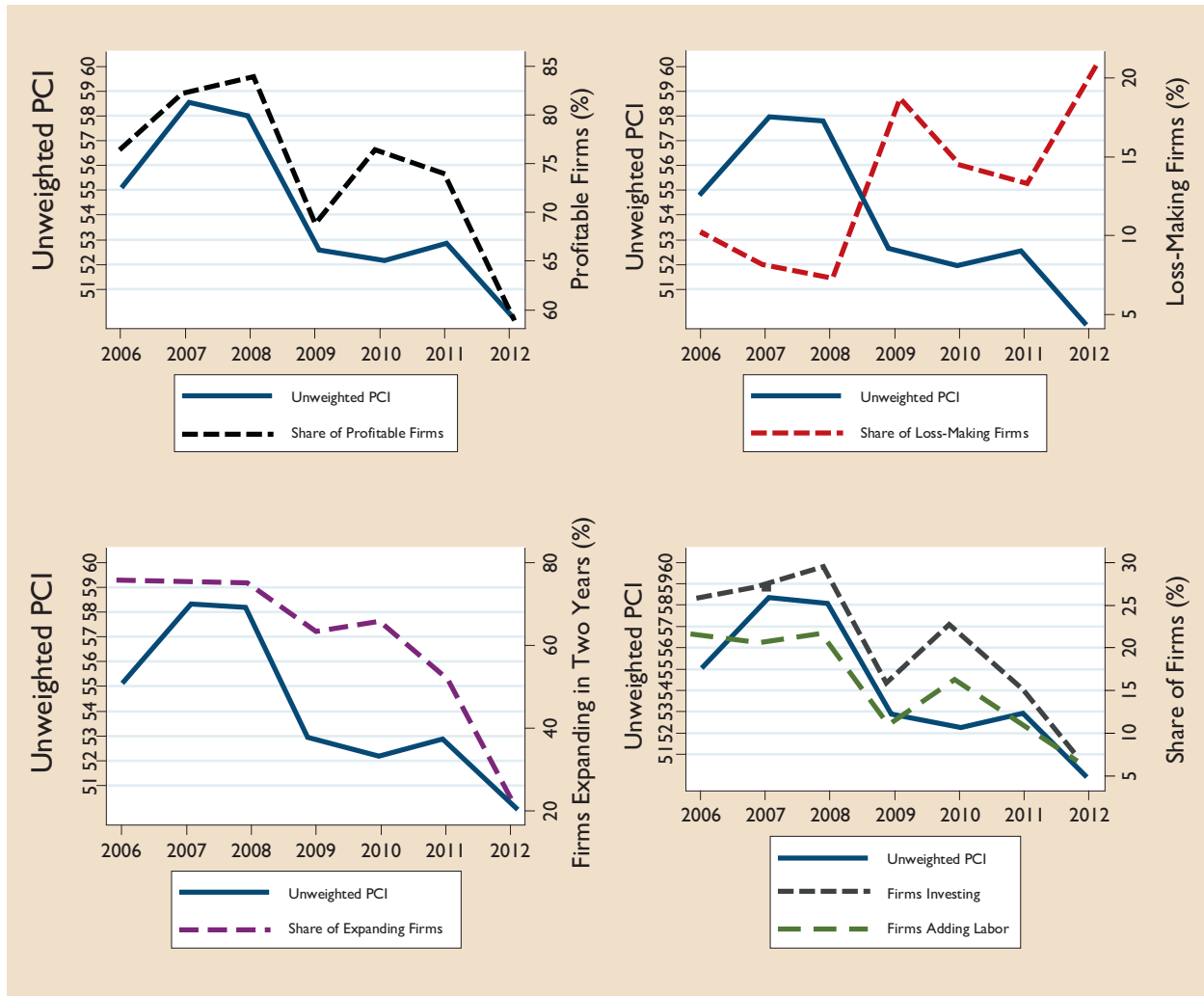
Table 2. Performance Metrics in PCI Survey in Lowest, Highest, and Median Province over Time

Year	Ranking of Province	Firms Increasing Investment	Average Capital Size (Billion VND)	Firms Adding Employees	Average Labor Size (Employees)	Firms Reporting Profits	Firms Reporting Losses	Firms Intending to Expand
2006	Minimum	13.2%	2.34	8.0%	11.75	62.7%	2.0%	48.6%
	Median	26.1%	6.20	21.6%	29.95	77.1%	11.0%	75.1%
	Maximum	44.3%	19.35	34.5%	61.51	91.5%	25.5%	90.3%
2007	Minimum	14.3%	2.79	6.8%	13.77	63.9%	3.1%	42.1%
	Median	27.1%	7.39	20.8%	30.48	82.4%	8.8%	74.3%
	Maximum	38.1%	15.32	34.3%	57.12	90.4%	18.2%	89.1%
2008	Minimum	17.2%	3.18	11.9%	16.67	66.1%	2.7%	49.0%
	Median	28.7%	8.97	21.6%	37.17	83.9%	7.8%	73.2%
	Maximum	46.4%	35.34	34.5%	89.60	92.8%	18.5%	87.8%
2009	Minimum	6.2%	3.92	5.3%	20.42	55.9%	8.2%	36.6%
	Median	14.4%	10.37	11.6%	43.26	69.1%	19.7%	61.5%
	Maximum	28.1%	34.37	50.0%	90.54	100.0%	100.0%	100.0%
2010	Minimum	10.0%	4.84	7.3%	24.24	61.7%	3.6%	36.5%
	Median	21.9%	11.91	16.4%	46.06	75.9%	15.0%	63.4%
	Maximum	36.8%	29.31	40.5%	87.33	91.6%	31.7%	78.8%
2011	Minimum	5.5%	4.01	1.6%	17.09	47.5%	5.9%	24.6%
	Median	14.9%	10.86	11.0%	43.70	73.6%	13.8%	50.0%
	Maximum	24.6%	36.05	24.4%	83.73	85.8%	26.5%	68.2%
2012	Minimum	0.0%	3.62	0.9%	10.86	41.4%	8.3%	6.7%
	Median	6.5%	10.08	6.1%	24.64	59.6%	20.8%	20.3%
	Maximum	25.0%	33.95	17.0%	63.57	81.8%	43.7%	35.2%

In Figure 8, we plot the changes in business performance alongside the unweighted PCI score in the median province over time.⁷ In the time-series, it is clear that ebbs and flows in business performance track closely

with overall PCI scores. When businesses are doing well, they also tend to hold positive views about the overall business environment; when businesses are suffering, their views of governance decline.

Figure 8. Trends in Perceptions of Governance and Business Performance



7. We use the unweighted score, as the final PCI is weighted to reflect differences in the number of businesses, investment size, and profitability across provinces. Consequently, it is correlated with business performance metrics by design. Using the unweighted index removes this contamination.

Table 3 confirms the relationship at the individual level, by regressing three of the outcome variables (whether the firm was profitable, loss-making, and intended to expand) on that firm's assessment of the attitude of the provincial leader toward the private sector. We chose this variable from the Proactivity Sub-Index because it clearly captures firm perceptions of the quality of leadership regarding economic governance. Controlling for size, sector, and of the respondent, we found that firms that answered their leadership had a positive attitude toward the private sector were 8 percent more likely to report they were profitable, 5 percent less likely to reported losses, and 3 percent more likely to claim they intend to expand operations over the next two years. These results remain even after we introduce province-

fixed effects, which are dichotomous (or dummy) variables for each province. By adding fixed effects, we remove the variation caused by socio-cultural factors associated with individual province, and simply study the differences among firms within individual provinces rather than among provinces. We find that perceptions of local leadership also are associated with better performing businesses within individual provinces.

In short, perceptions of economic governance and business success are clearly intertwined. Nevertheless, assessing causality is not easy. Poor governance can influence the success of business, and a loss-making year can damage business views of the quality of their officials.

Table 3. Relationship between Perceptions of Provincial Attitude and Business Performance

Dependent Variable	Firms were Profitable		Firm Experienced Losses		Firm Intends to Expand	
	(1)	(2)	(3)	(4)	(5)	(6)
(Model)						
Attitude of Provincial Government is Positive	0.091*** (0.014)	0.078*** (0.014)	-0.062*** (0.011)	-0.053*** (0.011)	0.037*** (0.010)	0.033*** (0.011)
Controls	NO	YES	NO	YES	NO	YES
Province Fixed Effects	NO	YES	NO	YES	NO	YES
Observations	7,121	6,674	7,121	6,674	7,386	6,857
Clusters	63	63	63	63	63	63
Pseudo R-Squared	0.006	0.055	0.005	0.051	0.002	0.051

Probit model with robust standard errors, clustered at province level, in parentheses. Marginal probability of outcome presented. Controls include size, sector, and age of firm, as well as provincial fixed effects. *** p<0.01, ** p<0.05, * p<0.1

1.5. Bias toward State, Foreign, or Equitized Firms

Another common explanation for both poor business performance and declining perceptions of economic governance is the role of the state sector in crowding out private operations.⁸ This hypothesis

has been articulated in a number of important outlets, and received a great deal of currency from the struggles of state conglomerates, such as Vinashin and Vinalines. In some provinces, private firms have raised questions about foreign firms receiving special treatment in regard to access to land and tax incentives.

8. Pincus, J., V.T.Anh, P.D. Nghia, B. Wilkinson, and N. X.Thanh .2012. "Structural Reform for Growth, Equity, and National Sovereignty," A Policy Discussion Paper Prepared for the Vietnam Executive Leadership Program (VELP), Harvard Kennedy School, February 13-17, 2012.

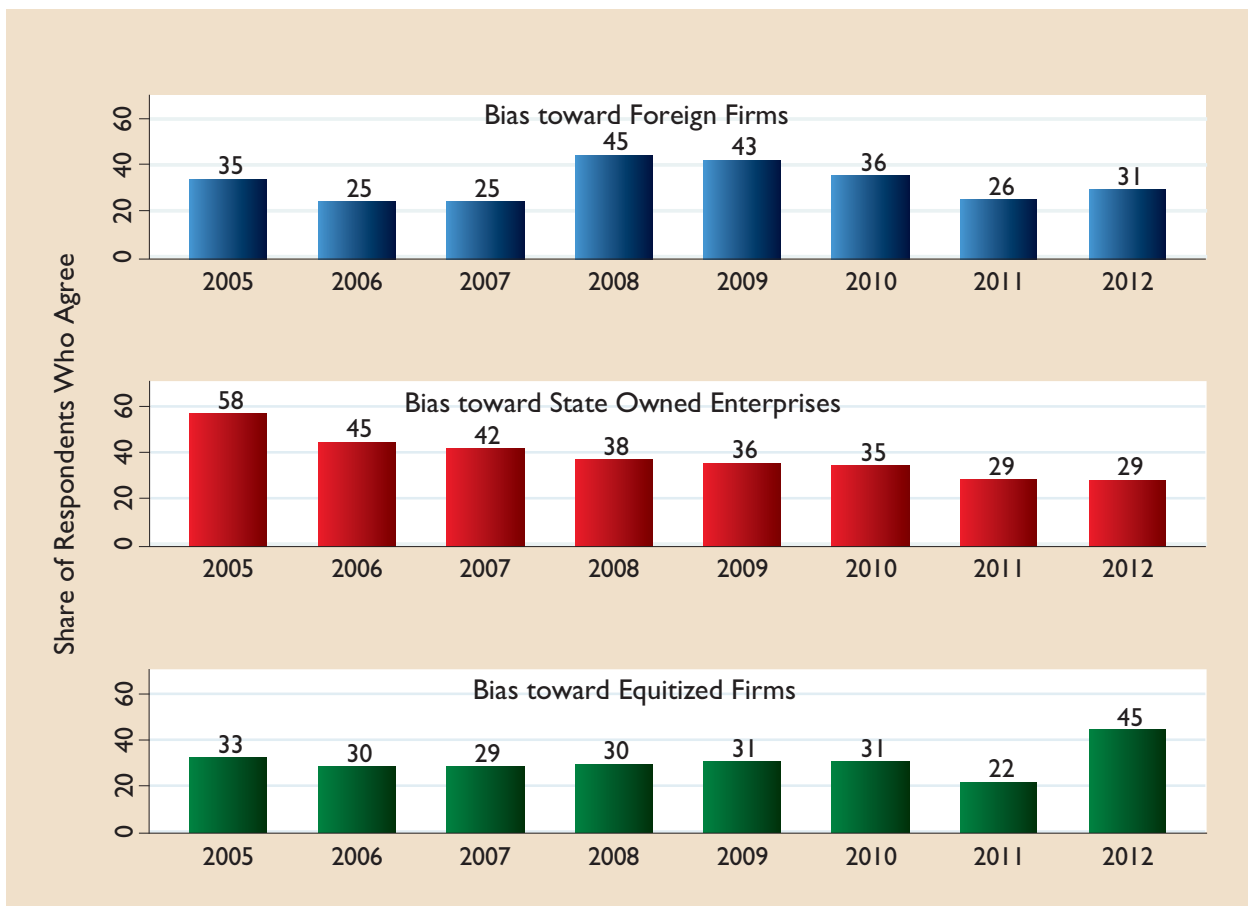
A battery of questions in the PCI survey helps us determine whether this problem is new, and therefore can help explain the decline in PCI scores. Figure 9 depicts the results of this analysis. The bars in the graph represent the share of respondents who believe that a particular type of firm received special preferences from provincial leaders, and therefore was creating an obstacle for their operations. Blue bars represent foreign firms, red bars represent SOEs, and green bars depict recently equitized firms.

According to PCI respondents, bias toward SOEs is still quite high—about a third of respondents believe it affects their business success. Nevertheless, the share answering yes has declined each year since 2005, when the share was twice as large as it is today.

Despite a slight uptick, bias toward foreign firms has also experienced a healthy decline over the course of the PCI survey. In the years immediately after WTO entry, over 40 percent of respondents believed that foreign firms were receiving special advantages. Today, that number is only 31 percent.

The notable change in this year's survey is the belief about equitized firms, which suddenly jumped from 22 percent of respondents to 45 percent believing that these former SOEs receive special advantages in access to land, capital, and business contracts. A sizable jump in the past year can be identified in nearly every province and certainly is deserving of further exploration.

Figure 9. Bias toward State, Foreign, or Equitized Firms



Probing deeper, Table 4 studies that interprovincial variation on biases toward all types of firms. In the first panel, we analyze the particular advantages that are provided to SOEs, including preferential access to land, capital, government contracts, and whether SOEs face few delays due to administrative procedures. Overall, respondents in Binh Duong believe the bias to SOEs poses the smallest burden for their business success (9.5 percent), while respondents in Thai Nguyen were most concerned (51 percent). On specific types of biases, 67 percent of respondents in Ninh Thuan were highly concerned, believing SOEs were the most likely to receive special access to land, while 49 percent believed they were more likely to receive bank loans. Respondents in Thanh Hoa were most concerned about the imbalance in the time costs of administrative procedures, while businesses in Ha Tinh were primarily frustrated with government contracting. Provinces in the Mekong Delta exhibited the least worries about biases toward SOEs, particularly respondents in Tra Vinh province.

The second panel depicts the biases toward foreign firms. Overall, Lai Chau, in which only a few FIEs operate, unsurprisingly recorded the fewest concerns about bias. About half the respondents in Tay Ninh, however, believed that the environment was tilted toward foreign actors. Respondents in Ninh Thuan once again emerged quite frustrated with individual biases toward foreign firms, 73 percent cited unfair access to land, while 64

percent cited quicker administrative procedures. This may have to do with the attention given by the province's Economic Development Office (EDO) to attracting foreign investment over the past few years, as part of a re-orientation of the local economy. Since very few firms compete for government contracts, we asked whether they benefitted from special attention from local leaders to their operations. 51 percent of respondents in Dong Nai believe that such special attention to the needs of FIEs is the main source of local bias.

The final panel studies equitized firms, as well as those with special connections to the leadership. Binh Dinh exhibited the least bias toward equitized firms with only 19 percent of businesses believing that equitized firms receive special treatment. Unsurprisingly, bias toward equitized firms was perceived to be the greatest by responses in BRVT, where many former SOEs in the oil, distribution, and shipping industries are based. Regarding firms with special connections to the leadership, Binh Duong and Thanh Hoa captured both of the extremes. A surprising 96 percent of operations in Thanh Hoa believe that connected firms receive special favors. To crosscheck, the third item looks at what proportion of PCI respondents in a particular province is managed by a General Director who used to be a government official, military officer, or former SOE manager. Thanh Hoa (with 47 percent of PCI respondents) once again shows up at the top of the list.

Table 4. Types of Biases Experienced in Vietnamese Provinces

Toward State Owned Firms						
Province	Overall	Access to Land		Access to Bank Loans	Faster Administrative Procedures	Government Contracts
Minimum	9.5%	Binh Duong	Tra Vinh	4.48%	Tra Vinh	6.52%
Median	31.0%	Hai Duong	HCMC	27.78%	Ben Tre	26.09%
Maximum	51.2%	Thai Nguyen	Ninh Thuan	48.84%	Ninh Thuan	52.83%
Toward Foreign Firms						
Province	Overall	Access to Land		Faster Administrative Procedures	Special Attention	
Minimum	9.4%	Lai Chau	Vinh Long	9.09%	Dien Bien	An Giang
Median	28.2%	An Giang	Hung Yen	25.86%	BRVT	Kon Tum
Maximum	50.0%	Tay Ninh	Ninh Thuan	63.64%	Ninh Thuan	Dong Nai
Other Types						
Province	Equitized	Connected Firms		% w/Connections		
Minimum	18.8%	Binh Dinh	Binh Duong	6.2%	HCMC	
Median	45.2%	Binh Phuoc	Vinh Long	15.0%	Ninh Thuan	
Maximum	73.9%	BRVT	Thanh Hoa	47.2%	Thanh Hoa	

1.6. Conclusion

The 2012 PCI analysis reveals a sharp decline in governance overall, as well as a compression in scores. While low-ranked provinces continue to improve on easy reform, such as reducing entry costs and inspections, high-ranked provinces have struggled to advance, and have actually taken steps backwards on the more difficult institutional reforms necessary for escaping the middle-income trap.

Further exploration of the data reveals that the primary driver of changes in the PCI index are survey-based (soft) indicators, rather than the public-source data used to generate hard indicators. On hard indicators, many provinces continue to see improvements. Yet, hard data simply does not exist on many of the most important aspects of economic governance, such as better property rights protection, corruption, and the proactivity of leadership.

The importance of perception-based data in the PCI, however, carries another risk -- disappointing business performance can shape the views of respondents, leading them to rank economic governance worse than it actually is. There is a possibility that this perception bias may be responsible for some of the declines in PCI rankings observed this year. Statistical probing reveals a strong association between business performance and attitudes at every level of analysis. Over time, across provinces, and even among firms within individual provinces, we observe that success is matched by high assessments of governance, while loss-making and shrinking firms rank governance more negatively.

As we have pointed out, there is a chicken and egg dilemma to this relationship. After all, the motivation for the PCI is that business performance and growth are influenced by government policies regarding the private sector:

The most rigorous efforts to disentangle the relationship in scholarly work on investment and governance using PCI data concluded that there is partial evidence for both relationships.⁹ Business sentiment can influence firm responses to governance surveys, and investment flows can place pressure on

leadership to increase reform efforts, leading to a relationship leading from investment to governance.¹⁰

On the other hand, McCulloch et al. (2013), using firm-level panel data and a statistical strategy to isolate causality, find that only one particular type of governance reform can stimulate significant new investment-transparency. Specifically, they find robust effects of website improvements and access to planning documents. As they report,

“Not only is the transparency score statistically significant, but the effect is quite large. A one unit change (about one standard deviation) in the ten-point index is associated with a 6.5 per cent increase in firm investment. . . . A one-unit change is well within the reach of a province’s leadership. Over the timeframe covered by the PCI, the average province improved its transparency (2006 to 2010) score by 0.8 points with a standard deviation of three points, implying that some provinces drastically improved their score over time. Ceteris paribus, a one standard deviation improvement in PCI scores between 2006 and 2010 would have been associated with between an 18 per cent and 27 per cent increase in total private sector investment in the province. In short, transparency appears to pay large dividends” (McCulloch et al. 2013, 12).

This indicates that amidst the gloomy forecasts about the Vietnamese economy, there is good news. There are reforms available to local officials that can pay big dividends in business investment and performance. Indeed, some provinces have already realized this. In the next chapter, we review some of the fascinating reforms attempted at the local level, which have been spurred by provincial officials who have paid careful attention to PCI data.

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9. Schmitz, Hubert, Dau Anh Tuan, et al. 2012. Who Drives Economic Reform in Vietnam’s Provinces, VCCI (Research Report Vol. 2012 No. 76); McCulloch, Neil, Edmund Malesky, and Nhat Nguyen. 2013. “Does Better Provincial Governance Boost Private Investment in Vietnam?” IDS Working Paper 414, Brighton, UK; Thi Bich Tran, R. Quentin Grafton and Tom Kompas. 2009. “Institutions Matter: The Case of Vietnam.” *Journal of Socio-Economics*, 38, 1–12
 10. Malesky, Edmund J. 2008. “Straight Ahead on Red: How Foreign Direct Investment Empowers Subnational Leaders” *The Journal of Politics*, Vol. 70, No. 1, January 2008, pp. 97–119; 4. Dang, Duc Anh, 2010. “The long term impact of Vietnam war’s veteran on economic governance,” MPRA Paper 26347, University Library of Munich, Germany, revised 30 May 2011.



CHAPTER 2

IMPACT OF PCI PUBLICATION ON LEGAL REFORM IN PROVINCES



IMPACT OF PCI PUBLICATION ON LEGAL REFORM IN PROVINCES

Over the past two years, there has been a strong convergence in PCI scores across provinces over time. A standard metric of convergence, the coefficient of variation (the standard deviation in scores divided by the mean score) has declined each year, dropping from 0.16 in 2006 to 0.07 today. Studying this convergence in last year's report, we noted that the compression was caused by previously low-performing provinces catching up with their formerly high-flying peers on easy reforms. Reducing entry costs, reducing inspections, and clear posting of legal, normative documents are examples of the reforms that have driven this convergence.

The biggest beneficiaries of such efforts have been provinces such as Ninh Thuan, Long An, Kien Giang, and Bac Ninh, which have risen to the top of the rankings over time. Ninh Thuan is particularly noteworthy, having improved an average of 3.5 points and nine positions a year in the annual rankings. Long An is not far behind with an annual improvement of 1.7 points and 4 positions.

In discussing the convergence in last year's report, we wondered whether our own work may be also driving the changes. We wrote:

"...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 its 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 (Malesky 2012, 10).¹¹

This was just idle speculation, but it gave us an idea. How important has the PCI been in shaping the development decisions of provinces and flattening the differences in economic governance across the country? This year, we decided to document and provide a legal analysis of the reforms attempted by provinces since the first launch of the PCI in 2005. We found that the PCI has been cited by provinces across the country in more than 60 legal and non-legal documents. Interestingly, these provinces have also seen higher than average improvements in the scores. Following the legal analysis findings, we highlight exemplary case studies of attempts by local leaderships to build on the information provided by PCI reports and diagnostics.

11. Malesky, Edmund. 2012. "THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX: MEASURING ECONOMIC GOVERNANCE FOR PRIVATE SECTOR DEVELOPMENT." 2011 Final Report, Vietnam Competitiveness Initiative Policy Paper #16. USAID's Vietnam Competitiveness Initiative and Vietnam Chamber of Commerce and Industry. Hanoi, Vietnam.

2.1. Methodology of the Legal Analysis

To begin, we collected a sample database, containing 60 documents, both legal and non-legal, from 28 provinces. For a detailed list of the provinces and documents issued, see Table 5. Of the 60 documents available, 37 documents from 24 provinces were provided by VCCI, which acts as a central depository for documents related to PCI. The collection is mostly made up of voluntary submissions from the provinces. Many times, when a province issues a new working plan or resolution that mentions PCI, a copy is sent to VCCI. In other instances, VCCI collects documents that the research team comes across in the news. From these sources, as of September 2012, VCCI had a library of 37 legal and non-legal documents issued by either the Party Secretariat or the provincial government (People's Committee or People's Council) from 24 provinces (including Ha Tay, which was merged into Ha Noi in 2008).¹²

Because the documents are mostly collected through voluntary submission, relying simply on this collection underestimates the actual number of documents that provinces have issued related to PCI. It also is a potentially biased sample, as it only

includes the documents that provincial leaders want VCCI to see. To deal with this problem, the team conducted further research to identify additional legal, normative documents from the provinces. This research was performed as follows.

First, to locate missing provinces, the research team looked for provinces that were not represented in the VCCI library but were mentioned in previous PCI reports as ones issuing local legislation. PCI reports from 2005 to 2011 mentioned two such provinces (Binh Duong¹³ and Phu Yen¹⁴) that addressed the PCI in their official documents, bringing the inventory to include 26 provinces.

Second, the research team searched for the keyword "PCI" on the central government's gazette and found three Decisions from the Prime Minister that mentioned the PCI, including one on an additional province, Lam Dong. This brought the inventory of legal documents to include 27 provinces.

12. In alphabetical order; these 24 provinces are An Giang, Bac Giang, Bac Ninh, Binh Dinh, Binh Phuoc, Can Tho, Cao Bang, Dak Nong, Ha Nam, Ha Noi, Ha Tay, Ha Tinh, Hoa Binh, Khanh Hoa, Kon Tum, Lang Son, Lao Cai, Long An, Ninh Thuan, Quang Nam, Quang Ninh, Thanh Hoa, Tra Vinh, and Thua Thien Hue.

13. Binh Duong was mentioned in the 2006 report. "In June 2006, the Chairman of Binh Duong Peoples Committee issued a formal announcement (135/TB-UBND), calling for a monthly meeting between local officials and the business community." Provincial Competitiveness Report 2006, at 53. off

14. The 2008 PCI report noted that Phu Yen mentioned PCI in a Resolution from the 10th Meeting of the 5th Peoples Council of Phu Yen [**Hội Đồng Nhân Dân Tỉnh Phú Yên Khóa V, Kỳ Họp Thứ 10**] titled "Resolution on the responsibilities for economics, society, security, and defense in the year 2008" [**Nghị quyết về nhiệm vụ kinh tế, xã hội, an ninh, quốc phòng năm 2008**]. Provincial Competitiveness Report 2008, at 35 n.14. A search on Phu Yens officials gazette did not yield this document because the Gazette only goes back to 2011, but the research team discovered an action plan issued on July 27, 2011 to improve PCI scores (02/CTR-UBND).

Table 5. PCI Ranking of Provinces Before and After Issuance of Documents

Issuing Province (1)	Year of Issuance (2)	Last PCI Report (3)	Type of Document Issued (4)	PCI rank Prior to Issuance (5)	Performing Tier (6)	PCI Ranking in Subsequent Years		
						Year 1 (7)	Year 2 (8)	Year 3 (9)
An Giang	2011	2009	Non-legal (1)	20	High	14	19	n.a.
Bac Giang	2009	2008	Non-legal (1)	50	Mid-Low	37	32	23
Bac Ninh	2010	2009	Legal (1)	10	High	6	2	n.a.
	2011	2010	Legal (1)	6	High	2	n.a.	n.a.
	2012	2011	Legal (1)	2	Excellent	n.a.	n.a.	n.a.
Binh Dinh	2011	2010	Legal (1)	20	High	38	n.a.	n.a.
Binh Duong	2006	2006	Non-legal (1)	1	Excellent	1	2	2
Binh Phuoc	2008	2007	Legal (1)	49	Average	32	42	36
	2009	2008	Legal (1)	32	Average	42	36	8
	2011	2010	Legal (2); Non-legal (2)	36	Mid-High	8	n.a.	n.a.
	2012	2011	Legal (1)	8	High	n.a.	n.a.	n.a.
Ca Mau	2011	2010	Non-legal (1)	51	Mid-High	32	n.a.	n.a.
	2012	2011	Non-legal (1)	32	Mid-High	n.a.	n.a.	n.a.
Can Tho	2009	2008	Non-legal (1)	22	Mid-High	21	13	16
Cao Bang	2011	2010	Legal (1)	52	Mid-High	63	n.a.	n.a.
Dak Nong	2010	2009	Legal (1)	62	Mid-Low	63	59	n.a.
	2011	2010	Legal (1)	63	Mid-Low	59	n.a.	n.a.
Ha Nam	2011	2010	Non-legal (1)	56	Average	62	n.a.	n.a.
Ha Noi	2009	2008	Legal (1)	31	Average	33	43	36
	2010	2009	Legal (1)	33	Mid-High	43	36	n.a.
	2011	2010	Legal (1); Non-legal (1)	43	Mid-High	36	n.a.	n.a.
Ha Tay	2005	2005	Legal (2); Non-legal (1)	42	Low	62	41	55
Ha Tinh	2010	2009	Legal (1)	47	Mid-High	37	7	n.a.
Hoa Binh	2011	2010	Non-legal (1)	60	Mid-Low	47	n.a.	n.a.
Khanh Hoa	2008	2007	Legal (1)	40	Average	36	30	40
Kon Tum	2009	2008	Non-legal (1)	59	Low	51	39	44
Lam Dong	2011	2010	Legal (1)	29	Mid-High	61	n.a.	n.a.
Lang Son	2012	2011	Non-legal (1)	53	Mid-High	n.a.	n.a.	n.a.
Lao Cai	2008	2007	Non-legal (1)	5	High	8	3	2
	2011	2010	Legal (2)	2	Excellent	1	n.a.	n.a.
	2012	2011	Legal (1)	1	Excellent	n.a.	n.a.	n.a.
Long An	2009	2008	Non-legal (1)	6	High	12	12	3
	2010	2008	Non-legal (1)	6	High	12	12	3
Ninh Thuan	2010	2009	Legal (1); Non-legal (1)	48	Mid-High	41	46	n.a.
	2012	2011	Legal (1)	46	Mid-High	n.a.	n.a.	n.a.
Phu Yen	2008	2007	Legal (1)	23	Mid-High	39	49	31
Quang Nam	2011	2010	Legal (1); Non-legal (1)	26	Mid-High	11	n.a.	n.a.
Quang Ninh	2009	2008	Non-legal (1)	27	Mid-High	26	7	12
Thanh Hoa	2010	2009	Legal (1)	39	Mid-High	44	24	n.a.
Tra Vinh	2011	2009	Non-legal (1)	17	High	4	42	n.a.
TT-Hue	2008	2007	Non-legal (3)	15	High	10	14	18
	2010	2009	Legal (1); Non-legal (1)	14	High	18	22	n.a.
	2011	2010	Legal (1); Non-legal (1)	18	High	22	n.a.	n.a.
	2012	2011	Legal (1); Non-legal (2)	22	High	n.a.	n.a.	n.a.

Notes and Sources:

PCI data are from the PCI reports, available at <http://www.pci vietnam.org>.

On January 5, 2011, the People's Committee of Thua Thien Hue issued Decision 21/QD-UBND on economic and social development plan for 2011, in which PCI scores improvement was listed as a goal. The Decision was issued before the release of the 2010 PCI report on January 14, 2011, thus it was included in the list of documents issued in response to the 2009 PCI report.

Third, when a province's legislation mentioned documents from another province, the research team checked the second province's official website to search for the aforementioned citation. Ca Mau was identified this way, bringing the inventory to include 27 provinces.

The final step was to locate missing documents. For the 24 provinces identified in VCCI database, the research team first read the 37 documents that VCCI provided. When a document referenced another official issuance (whether legal or nonlegal), the research team checked the province's official gazette, provincial website, or DPI website, and conducted general internet searches to find that particular document. In the process, the research team sometimes came across news articles that mentioned other documents, at which point the team replicated the search described above. For the four additional provinces, we consulted the same websites and performed the same Internet searches for each province. We were able to find some types of PCI-related documents, both legal and nonlegal, for each one.

In sum, in addition to VCCI's database, the research team identified four additional provinces and 23 additional documents, bringing the total sample to 60 documents from 28 provinces. It should be noted that this number likely underestimates the influence of the PCI reports because it only captures documents that explicitly mention PCI in the text. For example, we excluded two Decisions by the Ninh Thuan People's Committee implementing one-door policies for business registration and investment registration, even though a PCI working plan references these decisions, because the decisions themselves do not explicitly mention PCI.

2.2. Findings of the Legal Analysis

First, it is important to explain the definition of "legal" and "nonlegal" documents in Vietnamese law.

Under the 2008 Law on Laws issued by the National Assembly, *văn bản quy phạm pháp luật* ("legal documents" or "legal normative documents") are defined as "documents issued or jointly issued by state agencies in accordance with the authority, formats, sequence of steps and procedures . . . , which has compulsory effectiveness and the implementation of which is guaranteed by the Government to regulate social relations."¹⁵ Legal documents are divided into 12 categories, including "Legal documents of People's Councils and People's Committees" (Article 21):

Legal documents of People's Councils and People's Committees shall comply with the Law on the Promulgation of Legal Documents of People's Councils and People's Committees in terms of contents, authority, formats, sequential order of steps and procedures.¹⁶

The Law on the Promulgation of Legal Documents of People's Councils and People's Committees (31/2004/QH11) defines these documents as follows:

Article 1. Legal documents of People's Councils or People's Committees

1. Legal documents of People's Councils or People's Committees are documents promulgated by People's Councils or People's Committees according to the competence, order and procedures prescribed by this Law and containing common codes of conduct, which are effective within their localities and guaranteed by the State for implementation aiming to regulate social relations in the localities along the socialist orientation.

15. The Law on the Promulgation of Legal Documents of the National Assembly, 12th Legislature, 3rd Session (17/2008/QH12) (June 3, 2008), art. 1. [**Luật Ban Hành Văn Bản Quy Phạm Pháp Luật**] The English translation is provided by the Ministry of Justice and is available at http://moj.gov.vn/vbpg/en/Lists/Vn%20bn%20php%20lut/View_Detail.aspx?ItemID=10500

16. Id. art. 21

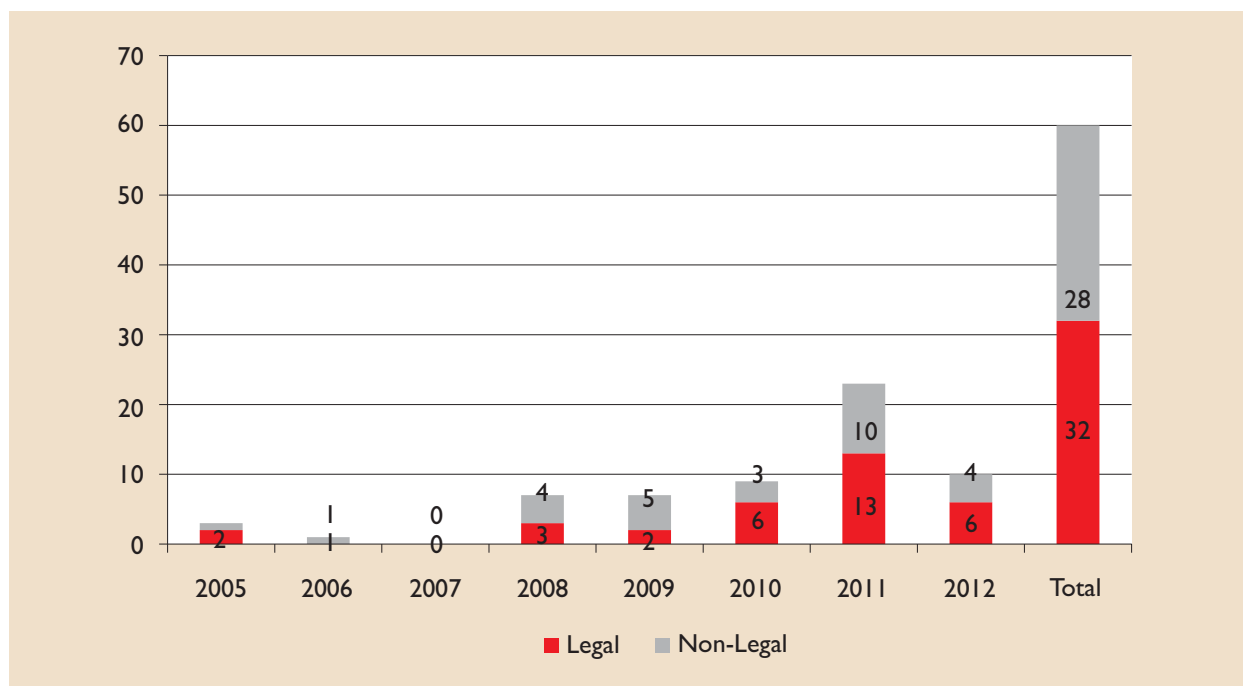
2. *Legal documents of the People’s Councils (Hội Đồng Nhân Dân) are promulgated in form of Resolutions (Nghị Quyết). Legal documents of the Peoples Committees (Ủy Ban Nhân Dân) are promulgated informs of Decisions (Quyết Định) or Directives (Chỉ Thị) (emphasis added).*¹⁷

Consequently, documents issued under the forms of resolutions (*ng nghị quyết*), decisions (*quyết định*), and directives (*chỉ thị*) are classified as legal documents with binding legal force. All other forms of issuance are classified as nonlegal documents.¹⁸

From 2005 to October 2012, our sample indicates that 28 provinces issued a total of 60 official documents that cite the PCI, of which more than half (32) are binding legal documents. As shown in Figure 10, the use of legal documents has notably increased in recent years, both in absolute numbers and in relation to nonlegal documents. Legal documents issued increased to six in 2010 and 13 in 2011 from three in 2008 and two in 2009. They also overtook the number of nonlegal documents issued (3 in 2010 and 10 in 2011).¹⁹

The shift from nonlegal to legal documents signifies serious commitment by provincial leaders to improve their PCI scores by making such a goal binding on their annual plans.

Figure 10. Number of Legal and Non-Legal Documents Issued in 2005–October 2012

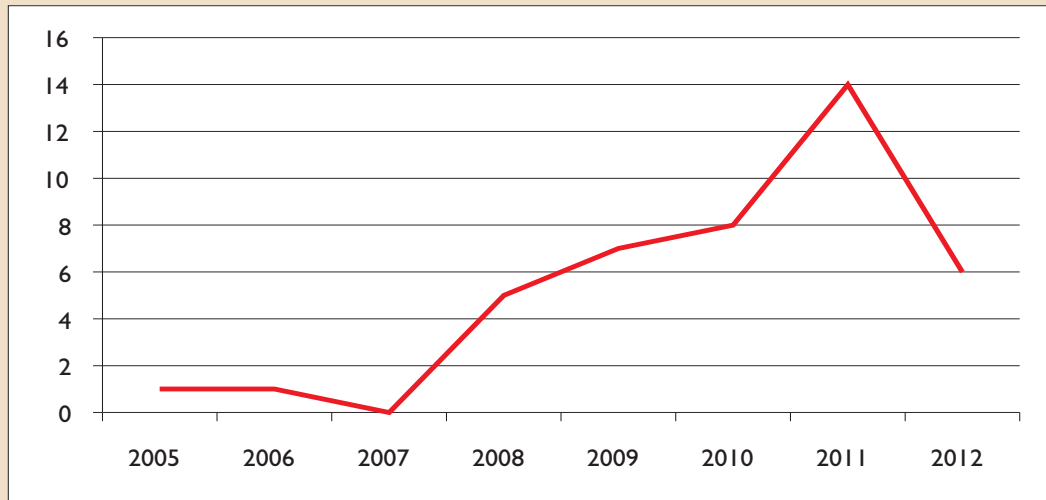


17. The Law on the Promulgation of Legal Documents of People’s Councils and People’s Committees, 9th Legislature, 6th Session (31/2004/QH11) (Dec. 03, 2004), art. 1. The English translation is provided by the Ministry of Justice and is available at http://moj.gov.vn/vbpq/en/Lists/Vn%20bn%20php%20lut/View_Detail.aspx?ItemID=7313

18. In our sample, non-legal documents include *kế hoạch* (planning document), *công văn* (official correspondence), *thông báo* (announcement), *báo cáo* (report), *đề án* (program), *đề nghị*, *tờ trình* (proposal), *văn bản* (issued document).

19. The dearth of documents issued in 2006 and 2007 likely reflects research limitation rather than the non-existence of documents. Since those were early years of PCI reports, VCCI had not yet started to collect documents issued by provinces, and provinces had not started to submit them to VCCI. Many provincial officials gazettes go back to only 2008, further limiting the ability to find pre-2008 documents.

Figure 11. Number of Provinces that Have Issued Documents in 2005– October 2012



Of the legal documents issued, 29 out of thirty-two came from the People's Committees in the form of decisions (17) and directives (12). So far, People's Council's—the legislative branch—have only issued two resolutions in Phu Yen (2008) and Thua Thien Hue (2012). One document was actually issued by the secretariat of the Communist Party in the case of Ha Tay (2005).²⁰

As shown in Table 5 and summarized in Table 6, the majority of provinces that have issued documents (18 out of 28) were ranked *High* and *Mid-High* at the time of document issuance. With seven provinces in the *High* tier and 11 in the *Mid-High* tier, this means that on average approximately half of the *High* and *Mid-High* tiers provinces have issued documents.

In our collection, only one *Excellent* province issued a document in the year it achieved *Excellent* status, illustrating stagnation among the top tier, compared to the highly motivated provinces ranked slightly below that group. Other provinces that achieved *Excellent* tier in later years started issuing documents targeting reforms much earlier (e.g. Bac Ninh and Lao Cai). This provides some evidence of a tendency of high-ranked locations to rest on their laurels rather than push for further reform.

Provinces in *Average* and *Mid-Low* tiers show slightly lower numbers than those in the *High* and *Mid-High* tiers: on average, about 35% of provinces in the *Average* tier and 44% in the *Mid-Low* tier have issued reform documents. Finally, provinces in the *Low* tier were most active (56 percent) in document issuance, likely signifying efforts to remedy lower sub-indices.

Table 6 summarizes Columns 7 to 9 in Table 5, which show how provinces fare in PCI scores in the three years after the issuance of a document. Table 7 shows that after they issued documents dealing with PCI scores, provinces performed better in subsequent years than worse. At the same time, given that the majority of the provinces that have issued documents are already in the *High* and *Mid-High* tiers, such correlation should not be mistaken for causation. Further research and analysis, including a larger set of documents and exogenous assignment of motivation for reform, is needed to examine the relationship between the issuance of legal and nonlegal documents and PCI ranking improvement.²¹

20. For a detailed discussion on the response of Ha Tay's provincial Party branch and government to the 2005 PCI Report, see *Impact of the PCI: The Ha Tay Story*, PROVINCIAL COMPETITIVENESS REPORT 2008, 40–42. See also *The Impact of the Provincial Competitiveness Index (PCI) 2005*, 3, 7–10.

21. Here we focus on the overall picture of PCI rankings, thus we use the subsequent performance of the overall PCI score. But the issuance of a document could be for the purpose of remedying a particular PCI sub-index. Further research will focus on each document, what it aims to remedy, and the subsequent performance of that particular sub-index.

Table 6. Share of Provinces Issuing PCI-Related Documents

Tier	Provinces Issues Documents	As % of Provinces in Tier ¹
Excellent	1	29%
High	7	51%
Mid-High	11	51%
Average	4	35%
Mid-Low	3	44%
Low	2	56%
Total	28	

Notes and Sources

PCI data are from the PCI reports, available at <http://www.pcivietnam.org>.

1. For any given tier, the percentage is calculated as (number of provinces that have issued documents/average number of provinces in that tier from 2005 to 2011).

Table 7. Change in PCI Score after Document Release

	Year 1	Year 2	Year 3
Better	20	15	9
Same	1	0	1
Worse	16	9	5

Issuing documents is only one way provincial leaders worked to increase PCI ranking. In fact, it is remarkable what diverse roads provincial leaders have taken in improving provincial competitiveness. The next section details some notable examples to highlight the creativity and exciting change that several provinces have pioneered.

2.3. Some Notable Examples

Thừa Thiên Huế

In our sample, Hue is the most active province, having issued 11 official documents from 2008 to 2012.²² Notably, starting in 2010, the Hue People's

Committee issued three decisions (*quyết định*) mandating improvement in PCI scores as an explicit goal for its 2011 and 2012 annual economic-social plan, as well as for its five-year administrative reform plan.²³ In July 2012, the Hue provincial People's Council echoed this trend by mandating the "speedy supervision and inspection of the progress on the working plan to improve PCI scores" in a resolution (*nghị quyết*).²⁴

The details of PCI improvement plans are also discussed separately in nonbinding working plans (*kế hoạch*). On March 1, 2008, the People's Committee issued planning document 24/KH-UBND, stating its belief that companies used PCI to allocate investment decisions and noting that PCI

22. The research team noted that Hue's official gazette is well-designed: it goes back to 2006, includes legal documents as well as 3 popular types of non-legal documents (*kế hoạch, công văn, thông báo*), and allows in-text search function. However, the research team was not able to find the non-legal documents provided by VCCI in this database. This indicates that there could be non-legal documents that are not captured if they were not sent to VCCI.

23. See QD/21-UBND (Jan. 5, 2011); QD/2318-UBND (Dec. 31, 2011); QD/317-UBND (Mar. 1, 2012).

24. 11/2012/NQ-HDND (Jul. 11, 2012), at 18.

improvement can lead to more economic growth without drastic change in infrastructure or labor force. The plan analyzed Hue's ranking from 2005–2007 within three comparative reference groups: 1) nationwide, 2) among 14 provinces in the coastal central region, and 3) among five provinces in the central focal economic zone.

Providing some explanation for the flattening of rankings over time, the document further identified peer provinces that Hue should strive to emulate: Quang Tri for entry costs and land access, Binh Dinh for transparency, and Da Nang for time cost and informal charges. The plan delineated a list of action items, ranging from specificity (“Reduce waiting time for land allocation to 25–30 days, a reduction of 20–25 days”) to general (“Increase the proactivity and pioneering spirit of provincial leadership”). Tellingly, the plan zoomed in on Hue's two lowest PCI scores: land use (54/64), and legal institutions (48/64)—in both of which, Hue ranked last among the five provinces in the central focal economic zone. Land use continues to be a difficult issue for Hue provincial leaders. The 2010 PCI improvement plan²⁵ reported a 17-spot jump in the Land Access indicator in 2009, noting a 43-place jump in the sub-index of risk of land expropriation (from 58 to 15) and calling attention to the newly introduced sub-index of LURCs issuance in which Hue ranked last in the country. The 2011 PCI improvement plan²⁶ detailed reasons for this low ranking, including the lack of unified procedures for land takings and compensation at district and commune levels, below-market pricing of land that was not adjusted in a timely manner, and the slow process of updating and incorporating new land laws, among others. The plan further identified specific solutions to improve Hue's Land Access scores, most notably reducing the waiting time for LURCs issuance to 25–30 days (compared to the best province's 20 days); appointing the Department of Natural Resources

and Environment (DONRE) to coordinate among localities to build a new land pricing table; and setting up an online portal to provide land access support. Stringently, the plan set a one-week deadline for the various responsible actors to send progress updates to the Hue People's Committee and DPI.

In 2012, as the problems persisted, multiple articles called attention to Hue's effort to improve its scores, noting that “representatives from various departments and offices gave honest reasons for the drop in PCI rankings, focusing on procedures involving land access.”²⁷ In May 2012, the People's Committee devoted a separate working plan to improve land access.²⁸ It created a new taskforce comprising the heads of departments (DONRE, Finance, Construction, DPI) and leaders of localities with pending projects. The taskforce was assigned to meet every Saturday, and special meetings could be called for emergencies. Within four weeks, the DPI was required to complete a process map of administrative procedures, standardize forms, and unify the registration process. Within 12 days, the DONRE was to finish a unified procedure for land takings, compensation, allocation support, and land rental. And within two months it was to finish reviewing “with eyes towards simplification” the administrative process on LURCs. The Department of Finance was to reduce land access cost for upfront rent payers²⁹ and to provide subsidies for projects where gross difference exists between compensation cost and rental cost.

25. 21/KH-UBND (Feb. 12, 2010).

26. 46/KH-UBND (June 07, 2011).

27. See, e.g., *Hue Seeks Ways to Escape Last Spot in Land Access*, *Dan Tri* (Mar. 16, 2012, 8:25am).

28. 38/KH-UBND (May 3, 2012), Hue Provinces Planning Document to Implement Several Solutions to Improve Land Access Indicator for 2012 [Kế hoạch thực hiện một số giải pháp nâng hạng chỉ số tiếp cận đất đai của tỉnh Thừa Thiên Huế năm 2012].

29. This provision involving “upfront rent payers” provides subsidies specifically to Vietnamese expatriates, foreign individuals and foreign entities, whom government entities are authorized to collect rent up front for the rental period. See Land Law of the National Assembly, 11th Legislature, 4th Session (13/2003/QH11) (Nov. 26, 2003) [Luật Đất Đai của Quốc Hội Nước Cộng Hòa Xã Hội Chủ Nghĩa Việt Nam] art. 35.2.

Hue's experience demonstrates the useful role of the PCI reports. For Hue, improving PCI scores has been recognized as an official goal, formalized in its annual plans and five-year plan. Hue has shown serious commitment in addressing its areas of weaknesses, particularly business-oriented land reforms. The PCI reports and data played a crucial role in the province's decision to set goals, allocate resources, and make transparent its actions.

Hue's action plan to improve Land Access is admirably comprehensive, detailing not only the upfront process of speedy land registration and acquisition, but also the back-end process of land compensation and assistance in relocation and job findings for affected families. As land reform affects multiple stakeholders, Hue's action plan would certainly benefit from participating voices from business and nonbusiness communities alike. To fully evaluate the impact of the PCI on Hue's governance actions, further research is needed to study Hue's on-the-ground implementation of its action plans.

Fulfilling the goal of the PCI to promote best practices, the Hue leadership identified emulation-worthy peers in its 2008 working plans. Yet, such cross-province comparison was absent in later action plans. Further research will study whether and how much Hue has consulted peer provinces with higher scores. In order for the idea of "63 laboratories"³⁰-learning by experimenting-to work, provinces need to consciously study up on their neighbors' practices, both good and bad policies, both positive and negative externalities.

Binh Phước

In a bold move, the Binh Phuoc People's Committee made PCI scores a criterion for the internal evaluation and promotion of its officials. Decision 2454/QĐ-UBND, issued on November 12, 2008,

30. For more details on the idea of "63 laboratories", see Hubert Schmitz, Dau Tuan Anh, et al., *Who Drives Economic Reform in Vietnam's Provinces*, VCCI (Research Report Vol. 2012 No. 76).

stated "Leaders of departments, offices, localities to use the degree of accomplishment of the PCI action plan as criteria for feedbacks, evaluation, promotion, commendation, and censure of officials each year."³¹ The Decision also provided a channel to directly incorporate business feedback into officials' evaluations: "On November each year, the People's Committee will issue a survey to solicit businesses' feedback on their performance. Based upon these aggregate reports and upon the stated goals of the departments, offices, and localities, the People's Committee will consider this feedback one of the criteria for officials' annual evaluation."³²

As another notable feature, the Decision announced a joint-liability mantra that "Officials in leadership role need to bear responsibilities for the action of subordinates within their jurisdiction."³³ Contrary to the practice of naming departments or offices as responsible actors, Binh Phuoc Department of Industry and Trade's (*Sở Công Thương*, DIT) working plan 757-KH/SCT started to name specific individuals as accountable for specific goals. The Head of DIT, for example, is named responsible for the BSS score, while each of the three vice-heads is named responsible for Informal Charges, Transparency, and Proactivity.³⁴ Binh Phuoc also created a PCI Taskforce comprising officials from various relevant departments and headed by the Head of Binh Phuoc DIT. His phone numbers-both office and mobile-as well as those of the Head of Anti-Corruption are made publicly available on the DIT website.³⁵

Binh Phuoc's effort has clearly borne fruit: its raw PCI scores increased more than 14 points from 2010 to 2011 and showed improvements in six

31. 2454/QĐ-UBND (Nov. 12, 2008), Binh Phuoc Provinces Action Program to Improve PCI Scores [**Ban hành chương trình hành động Nâng cao năng lực cạnh tranh (PCI) tỉnh Bình Phước**], at 8.

32. *Id.* at 8-9.

33. *Id.* at 5.

34. 757-KH/SCT (Sept. 23, 2011), at 2-4.

35. Announce, Publicize Hotlines [**Niêm yết, công khai số điện thoại đường dây nóng**], Binh Phuoc Department of Industry and Trade (Dec. 12, 2011, 3:37 PM), available at <http://socongthuongbp.gov.vn>.

areas. Relative to other provinces, its PCI ranking climbed from 49 (2007) to 36 (2010) to 8 (2011). Most notably, Binh Phuoc improved dramatically on both of its lowest measures: it climbed from the bottom of the list to top rank on Informal Charges, boasting a three raw points increase, and climbed more than 40 spots to the top 15 in Entry Costs, with almost a four raw points increase. On these two measures, an op-ed on the DIT website frankly assessed: “The most pressing concern are the two indices (Informal Charges and Entry Costs) relating to the ‘power’ and ‘benefits’ of officials. In even clearer words, our process of administrative reforms and anticorruption is not effective. Officials still rely on state power to extract personal benefits.”³⁶ Such a bold, direct statement and independent analysis at the provincial level are rare and commendable.

Finally, Binh Phuoc also showed initiative in learning best practices from peer provinces. In May 2012, the People’s Committee issued 1144/QĐ-UBND to establish a taskforce specializing in surveying other provinces’ best practices. For a week in December 2012, the Vice-Chairman of the People’s Committee led the taskforce on visits to Lao Cai and Bac Ninh. The taskforce noted that Bac Ninh was able to unify its processes and implement its PCI plans early on, and that every year the Bac Ninh People’s Committee issued decisions and directives to set clear goals on PCI improvements, followed by detailed working plans. The taskforce also noted that Bac Ninh was able to show great cooperation between businesses and officials, and had a clear system of accountability regarding provincial leaders.

Regarding Lao Cai, the taskforce marveled at Lao Cai’s governance culture of “*Doanh nghiệp phát tài, Lào Cai phát triển*” (“Businesses prosper, Lao Cai develops”), where the desire to make the province more competitive filtered from top leadership to front-office officials. The taskforce

noted several proactive measures: Lao Cai has set up its own PCI website, where businesses can submit feedback and find guidance on administrative processes; it also created a Customer Services unit located within the People’s Committee to answer business issues. Transparency was crucial: conflict resolutions and corruption investigation in Lao Cai were made public, which facilitated legitimacy and inspired confidence in provincial leadership and governance.³⁷

The Vice-Chairman of Binh Phuoc remarked that improving PCI scores has always been a priority for Binh Phuoc because it represents “the reputation of the system and Binh Phuoc’s self-image.” The biggest lesson from the visits to Bac Ninh and Lao Cai, reported the taskforce, is the need for a change of governance culture from “regulating businesses” to “supporting businesses.” This change is made possible through two key ingredients: accountability of individual leaders and transparency of decision-making.³⁸

Binh Phuoc exemplifies the pattern often identified by development economists—that economic reforms compel better governance, defined by transparency and accountability, and inspire a change in the collective “governance consciousness” of political leaders. By learning from peer provincial laboratories, Binh Phuoc also exemplifies its experience of improvement through learning from best practices already found within Vietnam, a clear response to the frequent criticism of development movements that seek to import idealized practices, often imported from outside and from the West.

Internalization of a culture change takes time, especially change that readjusts the position of state power as related to non-state actors. The research team is excited for Binh Phuoc’s improvement

36. Binh Phuoc Focuses on Improving PCI Scores [Binh Phước Tập Trung Nâng Cao Tính Cạnh Tranh Cấp Tỉnh (PCI)], Binh Phuoc Department of Industry and Trade (Dec. 12, 2011, 8:56 AM), available at <http://socongthuongbp.gov.vn>.

37. Change the Governance Systems Mindset from “Regulating” to “Supporting” [Chuyển Nhận Thức của Bộ Máy Chính Quyền Từ “Quản Lý” Sang “Phục Vụ”], Binh Phuoc Department of Industry and Trade (Aug. 07, 2012, 8:15 AM), available at <http://socongthuongbp.gov.vn>.

38. Id.

and is eager to follow its next steps. Binh Phuoc's supporting-not-regulating mantra toward the small and medium-sized enterprise (SME) community is particularly admirable.

Ninh Thuận

Ninh Thuận was the first province in Vietnam that hired foreign consultants—the Monitor Group (US) and Arup (UK)—to design a long-term economic development plan. While the detailed proposals by Monitor and Arup were not made public, their recommendations were incorporated in Ninh Thuận's Decision 1356/QĐ-UBND to promulgate an action program on PCI scores improvement. Monitor's analysis compared Ninh Thuận not only to other provinces but also to economies worldwide: "[Ninh Thuận] stands at 103 over [other] economies (Vietnam at 84) on competitiveness. The target set in the development strategy of the province is to reach the 59th grade in coming years . . . thus becomes one of the provinces which stands out [on] top in the competitiveness's ranking of the whole country."³⁹ Pursuant to Monitor's proposal, Ninh Thuận set up the Economic Development Office (EDO) to oversee competitiveness.⁴⁰ A major goal of EDO is to build a database ("Ninh Thuận Integrated Land Information System") to provide one-shop information on land prices, construction planning, and industrial zones planning.⁴¹

On this US\$3 million consulting project, Ninh Thuận People's Committee Chairman remarked that "Ninh Thuận is a poor province, left behind by others. Therefore, to have breakthroughs, Ninh Thuận has to act differently, to have innovations, and to achieve higher added value than others."⁴² In July 2011,

the Prime Minister's Office issued Decision 1222/QĐ-TTg endorsing Monitor's development plan for Ninh Thuận as a "clean, green" economy and announcing that the protection of the environment, together with PCI scores improvement, among others, are major goals. Such an announcement was not surprising: Ninh Thuận has been selected as pilot ground for the construction of two nuclear power plants—the first two of their kind in Vietnam. The two plants are slated to start operating in 2020 and 2021. By 2025, a total of eight plants are scheduled to be in operation in Ninh Thuận.⁴³ Major foreign direct investment (FDI) in these projects is underway, not only for the nuclear plants but also for clean energy sources such as solar power.⁴⁴

Ninh Thuận's actions illustrate another tactic taken to improve competitiveness. Having been consistently ranked in the 40s in PCI reports, Ninh Thuận decided that it would try to leapfrog over peer provinces by utilizing foreign consultants and foreign models. The design of the EDO, as recommended by the Monitor Group, was based upon Singapore's Economic Development Board, which acts as a strategy and executive hub for Singapore's economic planning.⁴⁵ EDO is headed by the Chair and Vice-Chair of the People's Committee, and comprises leaders of relevant departments. EDO's personnel were trained by the Monitor Group in both Vietnam and Singapore.⁴⁶ Unlike other competitiveness taskforces that study and recommend strategies, EDO has executive power, making it a one-stop solution for businesses. The creation of EDO has been credited for helping Ninh Thuận improve its PCI ranking from 48th place in 2009, to 41st place in 2010, and 18th in 2012.⁴⁷

39. Action Program to Enhance the Provincial Competitiveness Index (PCI) of Ninh Thuận Province for period 2010-2015 (attached to Decision 1356/QĐ-UBND, August 19, 2010 of People's Committee of Ninh Thuận Province) [hereinafter Ninh Thuận Action Program], at 1.

40. Time is money for Ninh Thuận, VIETNAM INVESTMENT REVIEW (Mar. 29, 2011, 9:04AM).

41. Ninh Thuận Action Program, at 7.

42. **Ninh Thuận**: Creating attractions by its innovations, Vietnam Industrial Park Investment Promotion (Sept. 18, 2009, 9:46 AM).

43. Ninh Thuận's Dream, LAO DONG (Jan. 01, 2011, 4:52 PM), available at laodong.com.vn/Utilities/PrintView.aspx?distributionid=30100.

44. Ninh Thuận: A Promising Destination, VIETNAM BUSINESS FORUM (Mar. 14, 2012), available at vccinews.com/news_detail.asp?news_id=25584.

45. Time is money for Ninh Thuận, VIETNAM INVESTMENT REVIEW (Mar. 29, 2011, 9:04AM).

46. Id.

47. Id.

PCI scores once more prove instrumental in encouraging provinces to break out of their comfort zones to seek creative solutions. Ninh Thuan appeared to shift its focus to attracting FDI for the construction of nuclear power plants and green energy sources—a major development not just for the province but for the entire country. Since the project is of international scale, Ninh Thuan received crucial support from the central government, who has started promulgating a body of nuclear regulations in 2008 in anticipation of the project.⁴⁸

The construction of the first nuclear reactor, funded by Russia using Russian technology and training, is slated to begin in 2014 and enter operation in 2020.⁴⁹ The high profile and large scale of this project means that the stakes are increasing for Ninh Thuan in important socio-economic and development realms, including investment flows, project management, environmental protection, demand for skilled personnel, and regulatory compliance with nuclear law. It is thus even more important that Ninh Thuan pay attention to PCI governance measures and heed the collective voice of the SME communities, to ensure that its leadership is aware and ready to manage both the positive and negative consequences that necessarily come with fast, exciting pace of change.

48. Lao Cai provides a helpful list of legal promulgation on nuclear law in Vietnam, available at <http://laocai.gov.vn/sites/sokhcn/antoanbucxahatnhan/vanbanhuongdan/Trang/20110117080339.aspx>. For concerns relating to nuclear plants voiced by National Assembly delegates, see Nuclear Law: Concerns Regarding the Disposal of Nuclear Waste [**Luật Năng lượng nguyên tử: Bàn khoăn vấn đề xử lý chất thải phóng xạ**], VietnamNet, available at <http://daibieuquochoi.vietnamnet.vn/content.aspx?id=582>. For concerns voiced by the Cham ethnic minority who populate Ninh Thuan, see Wide-spread Worry on Nuclear Plants [**Bất an về điện hạt nhân lan rộng**], BBC Vietnam (Mar. 10, 2012 18:44 GMT), available at http://www.bbc.co.uk/vietnamese/vietnam/2012/03/120310_vn_nuclearplant_inrasara.shtml.

49. Russia Ensures Nuclear Power Safety in Ninh Thuan [**Nga cam kết an toàn hạt nhân cho điện Ninh Thuận**], VnExpress.com (Feb. 8, 2012 18:34 GMT+7), available at <http://vnexpress.net/gl/khoa-hoc/2012/02/nga-cam-ket-an-toan-hat-nhan-cho-dien-ninh-thuan/>.

2.4. Conclusions

From 2005 to October 2012, 28 provinces issued 60 documents (both legal and non-legal) relating to PCI reports; many of which were devoted to remedy specific PCI-highlighted problems. The use of legal documents has notably increased in later years, both in absolute numbers and in relative to non-legal documents. The shift from non-legal to legal documents signifies serious commitment by provincial leaders to improve their PCI scores by making such a goal binding on their annual plans.

The majority of provinces that have issued documents (18 out of 28) were ranked *High* and *Mid-High* at the time of document issuance, comprising on average half of the number of provinces in *High* and *Mid-High* tiers.

Generally, after the issuance of documents dealing with PCI scores, more provinces perform better in subsequent years than those performing worse, but such a correlation should not be mistaken for causation.

While it is too early to conclude on the relationship between document issuance and PCI rankings, examining documents issued by Thua Thien Hue, Binh Phuoc, and Ninh Thuan reveals some of the diverse and remarkable directions that provincial leaders have taken on their quest to improve provincial competitiveness. Such diversity in development approaches is an encouraging sign that Vietnam is nurturing 63 provincial “laboratories” to build local best practices, which will benefit other locales and countrywide management.

At the same time, as exciting and fast-paced change is sweeping through Vietnam and affecting all civil society communities, provincial leadership need to heed community voices, including labor workers, farmers, environmentalists, alongside SME and FDI voices in order to build balanced development for their provinces.

CHAPTER 3

CORRUPTION IN PUBLIC PROCUREMENT

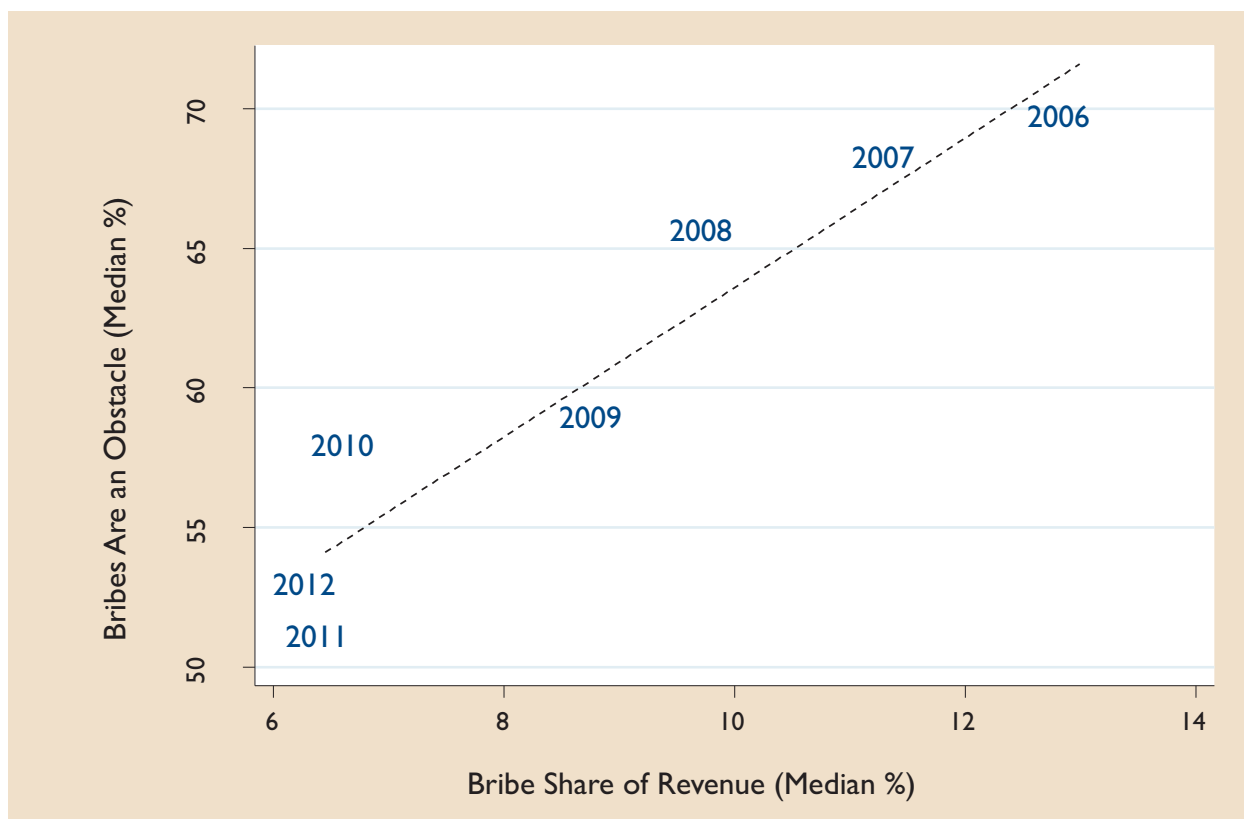


CORRUPTION IN PUBLIC PROCUREMENT

As we noted in Chapter 1, the prevalence of informal charges paid in the act of fulfilling procedures, often referred to as “petty corruption,” has actually declined slightly over time in Vietnam. Although more than 50 percent of firms in the median province still believe requests for informal

fees are common, this is a significant reduction from the 70 percent experienced in 2006 and 2007. Moreover, the share of revenue spent on such transactions has also been cut in half—from 13 percent in 2006 to 6.5 percent in 2012. Figure 12 details the positive developments.

Figure 12. Decline in the Prevalence of Petty Corruption over Time



This good news, however, is counter-balanced by increasing evidence of a shift in the type of corruption experienced by businesses. As requests for informal fees have declined, the scale and scope of bribes paid to win lucrative government or SOE contracts have increased. In this section, we document the propensity of firms to give commissions to government agents in exchange for government

contracts and study the patterns of this phenomenon across firm characteristics and industries.

Because admitting to engaging in corruption is sensitive and respondents risk punishment, the study implements a novel list elicitation approach that relies on surveying a large sample of firms, as the PCI survey has done over 2010, 2011, and 2012.

Only firms that have competed for and completed government contracts are included in this analysis. Further, in order to focus on the current private sector, all government firms or firms that have been equitized, as well as firms over 15 years old, are removed from the analysis.

3.1. Methodology

To address the problems discussed in measuring corruption above, the PCI survey instrument exploits an approach known as the Unmatched Count Technique (UCT). Informally known as a “list question,” the technique has been used widely by researchers across many disciplines to explore different kinds of sensitive topics.⁵⁰ List questions are extremely easy to administer: respondents are simply asked to note the number of relevant activities from a list. They are not obligated to admit to engaging in a sensitive activity in any way. As a result, the respondents can reveal critical information

without fear. Coutts and Jann (2011) have shown in a series of experimental trials that UCT outperforms all other techniques at eliciting sensitive information and maintaining the comfort level of respondents.⁵¹ The trick to the UCT approach is that the sample of respondents is randomly divided into two groups that are equal on all observable characteristics. One group of respondents is provided with a list of relatively infrequent, but not impossible, nonsensitive activities. The second group, however, receives an additional sensitive item in the list.

Below is the UCT question included in the 2010–2012 PCI domestic surveys regarding bribery when competing for a government contract. An important feature of the question is that it is highly targeted and context-specific. All of the activities listed are well known to businesses operating in Vietnam and would not be perceived as impossible or artificial, which might damage their confidence in the question. Other UCTs that employ highly abstract activities often fall prey to this problem.

If your firm competed for business with a government agency, please look at the following list of common activities firms engage in to make their goods or services more attractive to government clients.

- Dropped off pamphlets or fliers at government offices advertising your goods or services.
- Opened your business or a branch of your business near government offices in order to be nearer to the decision-makers.
- Appealed to a friend or relative in the office to steer government business toward your enterprise.
- *Paid a “commission” to a government official to ensure that if your business won the contract, he would receive a small percentage. (included on form B only)*
- Attended government functions or meetings in order to meet officials and make them aware of your goods or services

Please do not answer about any one of these activities specifically; we are only interested in the TOTAL NUMBER you may have utilized to win government business. How many of the above activities did you engage in when fulfilling any of the business registration activities listed above?

NUMBER OF ACTIVITIES: 0 1 2 3 4 5

50. Ahart, Allison M., and Paul R. Sackett. 2004. “A New Method of Examining Relationships between Individual Difference Measures and Sensitive Behavior Criteria: Evaluating the Unmatched Count Technique.” *Organizational Research Methods* 7 no. 1: 101–114;

51. Coutts, Elizabeth and Ben Jann. 2011. “Sensitive Questions in Online Surveys: Experimental Results for the Randomized Response Technique (RRT) and the Unmatched Count Technique (UCT).” *Sociological Methods & Research* 40(1): 169–193.

Whether a firm received form A (with only control item) or form B (with the sensitive items) was determined by random sampling, so the two groups of respondents are balanced on all important observable characteristics. Respondents were only asked to tell the interviewer how many of the listed items they have engaged in, and are instructed NOT to identify which items they specifically engaged in. Respondent culpability is concealed, because neither the interviewer nor the researcher can interpret whether or not a treated respondent's answer included a sensitive item.

One concern is that respondents may feel trapped by the set of non-sensitive items. If the activities are too frequent, a respondent in treatment may feel forced to answer the maximum number of activities (including the sensitive item), thereby revealing his or her complicity directly. Alternatively, non-sensitive items that are too rare would have the opposite effect, allowing the respondent to believe that the sensitive item was the only reasonable option. In either case, the UCT would have failed and respondents would still be obligated to conceal their behavior. Our data did not appear to demonstrate such a tendency—very few respondents in the control group answered the maximum number or zero non-sensitive questions. In addition, pilot-testing demonstrated a low correlation between

non-sensitive items. Such rare instances for extreme values and a lack of correlation between non-sensitive item responses give us great confidence that respondents were able to answer honestly.

3.2. Results of the Survey Experiment on Corruption in Procurement

Once a survey is completed, a simple difference-in-means test between the treatment and control groups reveals a population proportion equal to the prevalence of the sensitive behavior or belief. These results are shown in Figure 13. Diamonds depict the average number of activities for treated respondents, while squares are used for the control. The range bars around the mean scores are 95 percent confidence intervals. The first thing to notice is that the range bars do not overlap in any year, indicating that the differences in means are statistically significant and, therefore, that the treatment was effective. To calculate the percentage, we must now only subtract the treatment average from the control average (2.22 and 1.81, respectively, in the case of 2012). The difference between these means is .41 (when rounded to the nearest hundredth), indicating that 41 percent of businesses pay bribes when competing for government contracts.⁵²

52. In fact, the share admitting to bribery declines to 25%, and is not statistically significant, after the incidents of August 20, which we will return to later in the report.

Figure 13. List Experiment Regarding Government Procurement

(PCI Survey Question D13, By Time Period)

The difference between control and treatment means indicates the share of firms paying a bribe.

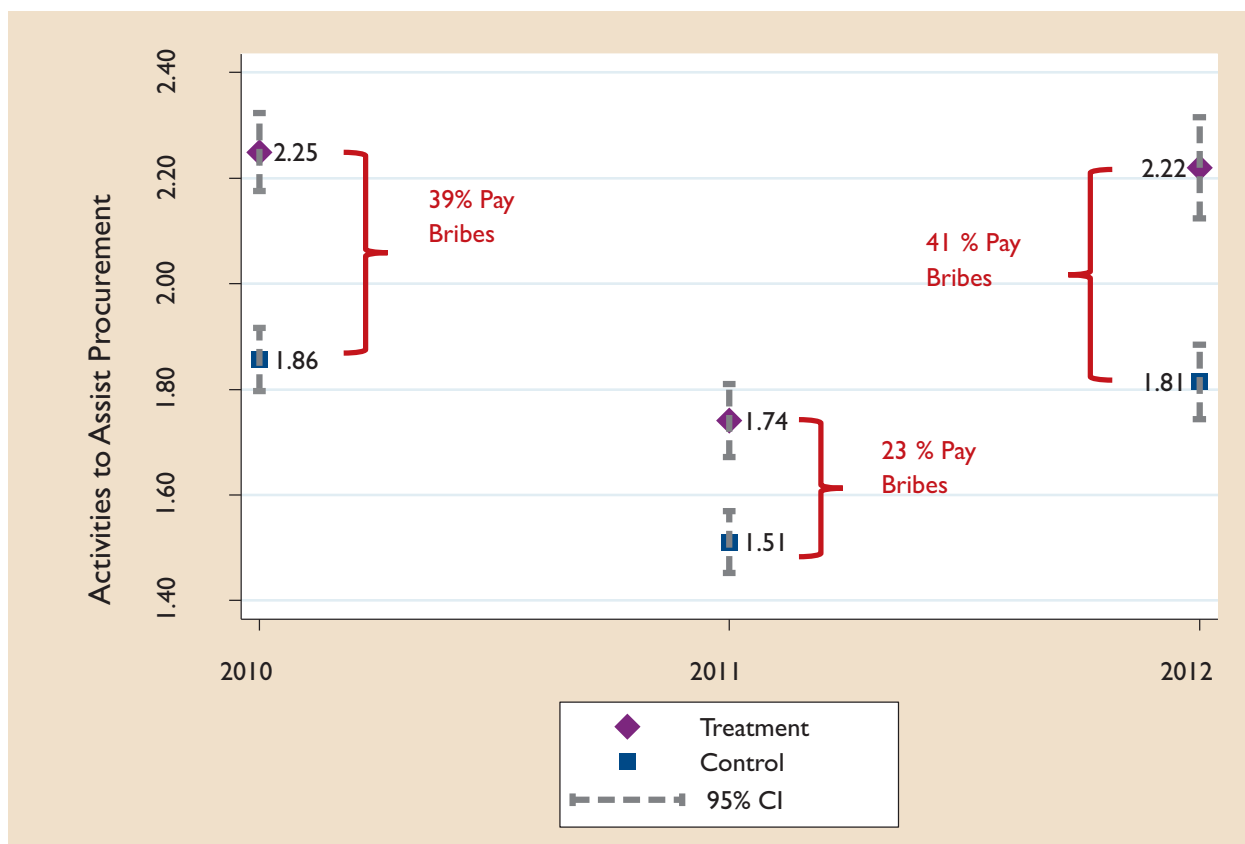


Table 8. Share of Firms Paying Bribes on Public Procurement (by Industry Category)

Year	Manufacturing	Capital Construction	Services/Trade
2010	21.1%	30.6%	44.8%
2011	30.6%	30.8%	18.2%
2012	34.1%	42.5%	35.4%

Table 8 reveals that the rate of private firms paying commission varies by industry category-it is lowest in manufacturing, mid-level for trade and services, and highest for capital construction.

Looking at size in Table 9, paying commissions has an asymmetric relationship with the size of a firm as measured by number of employees. That is, the larger the firm, the more likely it is to have paid commission; but the pattern reverses starting with medium-sized firms with 50 employees.

Firms with fewer than five employees have a 20 percent likelihood of paying commission on government contracts. Firms with five to nine employees have a 37 percent likelihood of paying a bribe, almost doubling the corruption rate as compared to firms with fewer than 5 employees! Corruption rates stay about the same for firms with 10 to 50 employees, by increase dramatically for firms with 50 to 99 employees, to 47 percent. For very large firms with more than 100 employees, however, corruption rates actually decline slightly.

This change in the direction of bribery may indicate that larger firms with deep connections to local leadership do not have to invest as much in commissions. Although, very large firms with over

200 employees are represented in the PCI, too few of them engage in government contracting to calculate reliable estimates of bribe share.

Table 9. Share of Firms Paying Bribes on Public Procurement (By Employment Size)

Employment Size	Bribe Share
Less than 5	19.8%
5 to 9	36.8%
10 to 49	35.7%
50 to 99	47.4%
100 to 199	33.7%

The next analysis builds off of this asymmetric relationship by examining how a firm’s government connections affect corruption. Connection is a dichotomous variable constructed based on whether the owner of the firm had been involved in the government in one of the following four ways: as a leader of a state agency, as a military officer, as a manager of a SOE, or as an employee at a

SOE. Table 10 shows that firms with connections have a higher corruption rate than firms without connections, and that this higher effect is due to older firms with connections. Old firms are defined as those in operation for over five years. On the other hand, firms without connections have a uniform corruption rate across the firm age spectrum.

Table 10. Share of Firms Paying Bribes on Public Procurement (By Whether Firm Has Connections to Leadership and Age of Firm)

Connections			No Connections		
All	Young	Old	All	Young	Old
35%	28%	44%	27%	27%	28%

3.3. Conclusion

In conclusion, we see that, overall, 41 percent of firms paid commission to a government official to ensure that the business won the contract, up dramatically from 23 percent in 2011. The share of firms involved in procurement corruption varies dramatically according to size, growth, connections of the firm, and industry and industry concentration. The analysis finds that medium-sized firms have

the greatest propensity to pay commissions. Firms with positive growth are much more likely to engage in corruption, suggesting that ruthless firms are the ones that are able to grow in the difficult business environment. Further, connections of the firm’s owner exhibit patterns that have yet to be explained—owners of young firms who have connections exhibit a very low propensity to bribe that is not statistically significant, while almost half of all older firms with connections offer commission.



CHAPTER 4

FOREIGN INVESTORS AND POLICY RISK



FOREIGN INVESTORS AND POLICY RISK

As Vietnam plots a course for stabilization and future economic development, two critical features of the business environment remains underexplored: 1) how risk is perceived in the Vietnamese business environment; and 2) what strategies investors are taking to mitigate economic and policy risk. Understanding these issues can help individual businesses make better decisions regarding their strategies in Vietnam, while assisting policy-makers in devising appropriate solutions for these difficult times. In the next few pages, we take advantage of an interesting natural experiment generated by the PCI-FDI survey methodology to shed light on these critical questions.⁵³

While previous chapters have relied entirely on the survey of domestic investors, this survey takes advantages of responses of foreign invested enterprises to the companion survey. Most of the analysis is drawn from FIEs, which are able to draw upon their international experience in evaluating risk in the Vietnamese business environment.

The chapter proceeds as follows. First, we briefly discuss the international literature on risk mitigation

in emerging markets. Second, we explore the assessments of aggregate risk in Vietnam that are captured in the new “Risk Module,” which was added to the PCI-FDI survey this year. In the third, fourth, and fifth sections, we discuss the unique shock experienced by Vietnam during the summer of 2012 when the former co-founder of one of Vietnam’s most successful joint-stock commercial banks (Asian Commercial Bank [ACB]) was arrested for “conducting illegal business,” study the implications of the shock for investors’ risk perceptions and mitigation strategies, and analyze which types of investors were most severely affected. We conclude with a brief summary of the implications of the incident for Vietnam’s future development trajectory.

The heart of the paper is section 4.4, where we explore the shock to investors’ risk calculations caused by the arrest of Nguyen Duc Kien on August 20, 2012, which led to a tremendous decline in the stock market the following day. The VNINDEX dropped 4.7 percent, to 416.84, in one day and 10 percent over the next two days, reversing an upward trend the week before and signaling to investors that the country was confronting serious dilemmas in the macro-economy and the banking sector. Change-point analysis, described below, indicates that this date represented an acute turning point in the market’s fortunes. At the time of the August 20 shock, the PCI survey had received about 50 percent of the responses back; half remained outstanding. Because the PCI distribution strategy

53. The data underlying this analysis are drawn from the PCI annual survey of foreign and domestic investors. The PCI is supported by the generous funding of USAID and is jointly managed by the VCCI and VNCI. The author is the lead author and architect of the PCI; however, this research note represents entirely his own views and not the views of the project, VCCI, USAID, or the U.S. Government. Anh Le contributed research assistance to this endeavor.

guarantees randomized allocation of the survey and incentives to respond, the respondents on either side of the drop resemble one another in every way imaginable (age, sector, size, CEO background). Consequently, the break point allows us to observe how similarly situated investors respond to new risk in the Vietnamese business environment.

4.1. Brief Literature Review

The literature on FDI has long recognized that managing risk is essential to doing business overseas. Therefore, much effort has been devoted to studying the different types of risk that are prevalent in host countries for FIEs and the specific mitigation strategies that FIEs use. Indeed, only with this understanding of investors' sensitivity to risk can governments succeed in the increasingly fierce competition to attract FDI.

The most defining characteristic of the relationship between FIEs and the host government is the shifting imbalance of bargaining power. Before a project's implementation, investors have great leverage in negotiation with the host government because of the technology and capital that they promise to bring. However, as soon as capital has been sunk, this advantage decreases sharply, leaving investors vulnerable to threats such as shifting policies, increased taxation, expropriation, and red tape.⁵⁴ To combat this problem, FIEs have adopted a range of strategies. In addition to altering their mode of entry (joint venture versus 100 percent FDI), firms can either use non-replicable technology

or spread their complex production chain across countries, so that an entire product cannot be produced in a single factory. Both strategies render the production facility much less valuable to expropriators.⁵⁵

International researchers have become increasingly aware of the need to disaggregate types of risk and investors. Nevertheless, analyses so far have been entirely observational and correlational. Much of the difficulty in disaggregating stems from the lack of an adequate measure of risk. At the moment, composite indices of policy risk are drawn from one of these sources: 1) survey data, which conflates perceptions with actual underlying risk; or 2) institutional data, which makes it difficult to "unbundle" different types of risk and separate risk from underlying sociocultural determinants. Therefore, what the literature sorely needs, and what this chapter provides, is a natural experiment that isolates actual responses to policy risk. Below, we use the Vietnamese experiment to tease apart investor responses on exactly those dimensions.

4.2. The PCI-FDI Risk Module- Perception and Mitigation by Foreign Investors

To capture how foreign investors were responding to the turmoil in international markets and in Vietnam, the 2012 PCI-FDI survey included a new module (Section J). The ultimate goal of this exercise was to observe the coping strategies of foreign investors in order to determine how the

54. This shift in bargaining power in favor of the host country is known as the obsolescing bargain. Vernon, Raymond. 1971. *Sovereignty at Bay*. New York: Basic Books; Vernon, Raymond. 1980. "The Obsolescing Bargain: A Key Factor in Political Risk," In Mark B. Winchester (ed.), *The International Essays for Business Decision Makers*. Houston: Center for International Business.

55. Henisz, Witold. 2000. "The Institutional Environment for Multinational Investment." *Journal of Law, Economics, and Organization* 16(2): 334–64. Henisz, Witold, and Bennet Zelner. 2003. "Political Risk Management: A Strategic Perspective." In Theodore Moran (ed.), *International Political Risk Management: The Brave New World*. The World Bank Group: Washington, D.C.

current uncertainty would affect Vietnam's future economic performance and interactions with the global economy. The module began with a set of straightforward questions about what types of risks were most common for investors in Vietnam, followed by a set of more pressing questions about investors' strategies for dealing with these risks and their success at mitigating the impact of uncertainty on their businesses.

Primary Risks Perceived by Foreign Investors: Macroeconomic Instability

Question J2 first asked businesses to catalog their risk profiles by simply ticking which types of risk were currently prevalent in Vietnam, compared to other locations where they operate.

J2. What are the primary risks that you face in Vietnam? Please check all that apply and then rank order in terms of importance to your firm.

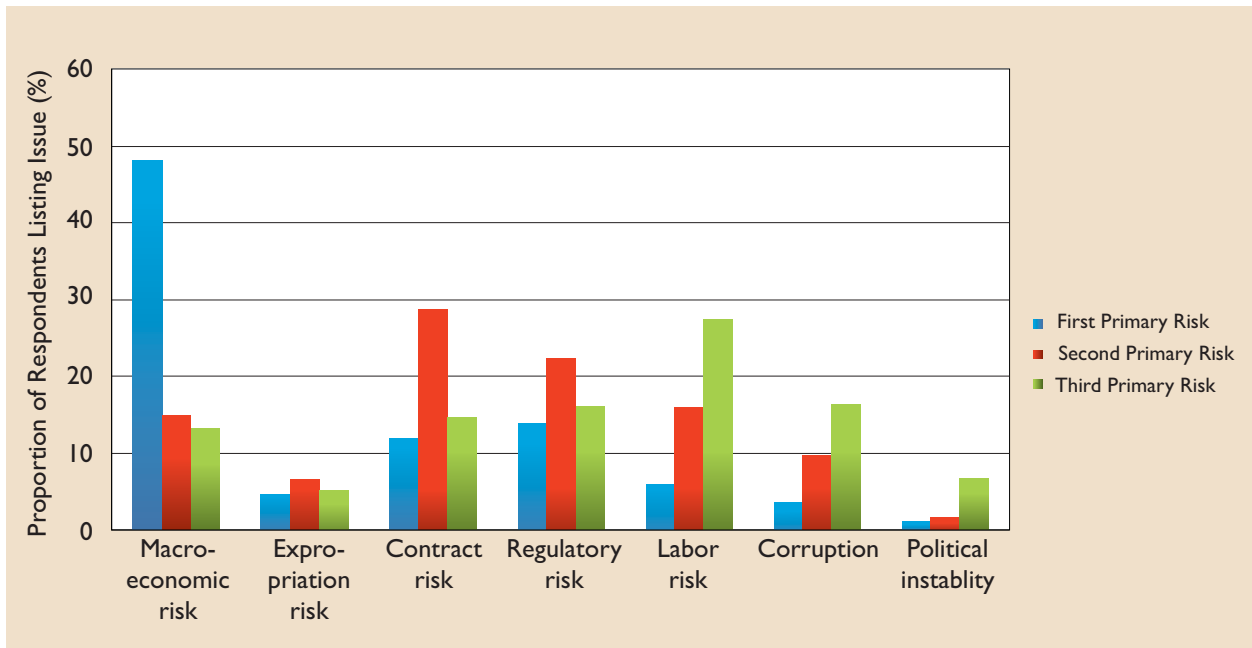
- a) Macroeconomic risk (changes in price stability and growth that affect business prospects).
- b) Expropriation risk (the loss of business premises, property, or equipment to host government).
- c) Contract risk (breach of contract by business partners, such as suppliers or customers).
- d) Regulatory risk (changes in regulatory or tax policies that reduce profitability).
- e) Labor risk (strikes, outbreaks of illness, or other events that lead to work stoppage).
- f) Corruption (demands for informal charges, kickbacks, or other illicit decisions that reduce profitability).
- g) Political instability (changes in regime or outbreaks of violence that impact operations).

Responses were fairly consistent. Forty-eight percent of foreign investors consider macroeconomic instability as one of the top three primary risks they face in Vietnam. Thirty-six percent of foreign investors thought it was the first primary risk. Twenty-seven percent, 26 percent, and 22 percent of foreign investors considered contract, regulatory, and labor risks to be among the top three primary risks, respectively. However, only 9 percent, 7 percent, and 4 percent thought one of those issues was the first primary risk, respectively. Contract risk was most often listed as a second primary

concern (14 percent of investors, or 29 percent of responses), followed by regulatory risk (11 percent of investors, or 22 percent of responses). Labor risk was most often listed as a third primary concern (11 percent of investors, or 27 percent of responses), followed by corruption risk (6 percent of investors, or 16 percent of responses).

Figure 14 demonstrates the first, second, and third primary risks in Vietnam as perceived by foreign investors (the vertical axis marks the percentage of non-missing item responses).

Figure 14. Primary Risks in Vietnam as Perceived by Foreign Investors

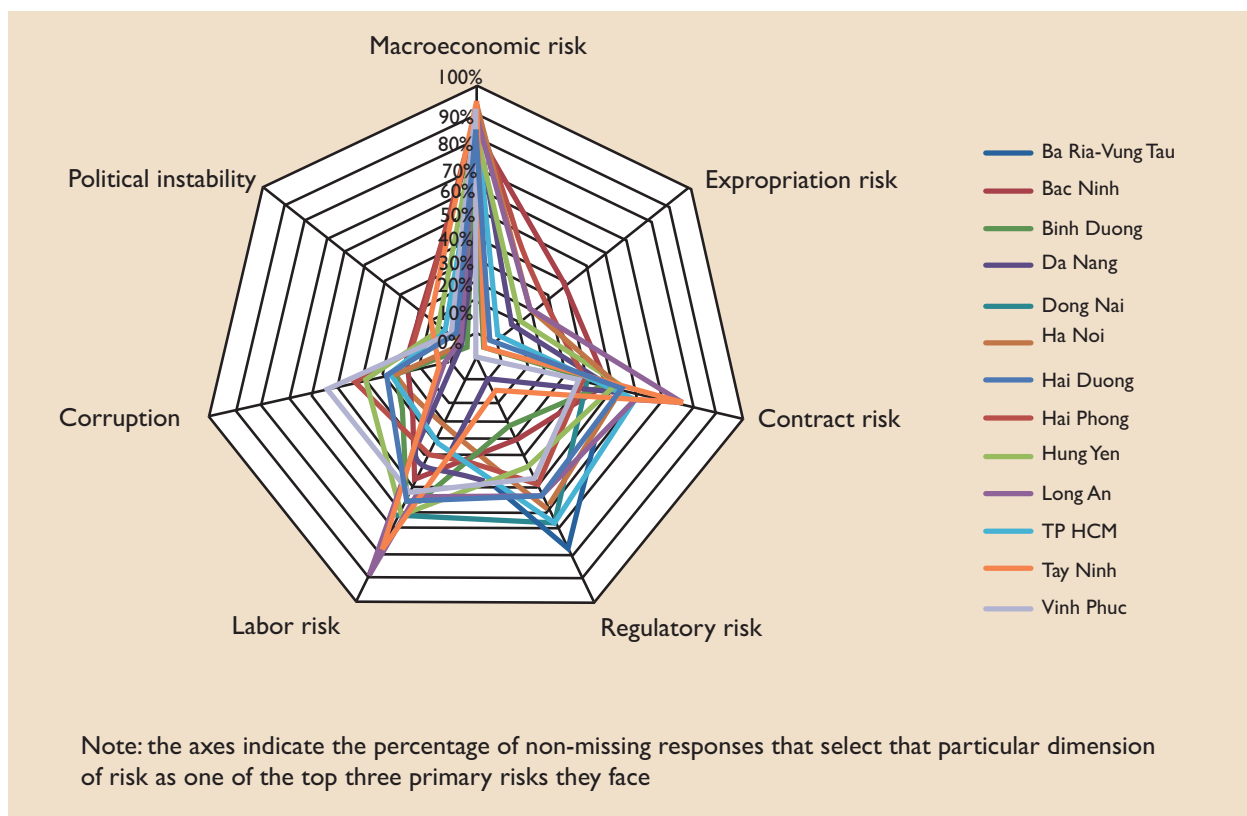


Not surprisingly, the responses are fairly uniform across provinces for two dimensions of risk: macroeconomic risk and political instability. In all provinces, the largest percentage of respondents report macroeconomic risks as one of the top three risks, whereas the smallest percentage report political instability. There is more variation, however, across provinces when it comes to regulatory and labor risk. Seventy-eight percent of respondents in BRVT report regulatory risk as one of the top three risks; only 11 percent were worried about regulatory risk in Long An. By contrast, 89 percent of respondents in Long An report labor risk as one of the top three risks they face, but only 29 percent do so in Ha Noi.

The inter-provincial variation is less but still substantial for expropriation, contract, and corruption risk. FIEs in Bac Ninh (42 percent) are the most likely to report expropriation as among the top three risks. Concerns with contract risks appear to be the highest in Tay Ninh (78 percent) and Long An (79 percent). Corruption appears to be a bigger concern for foreign investors in Vinh Phuc (56 percent) than in Long An (11 percent).

Figure 15 uses a star graph to visualize these variations across provinces and risk types.

Figure 15. Primary Risks Perceived by Foreign Investors Across Provinces



Risk Mitigation by Foreign Investors

Given the substantial risks identified by FIEs, what are they doing to protect their businesses? As we noted above, there are several strategies available to investors, but we know very little about which are the preferred strategies in Vietnam.

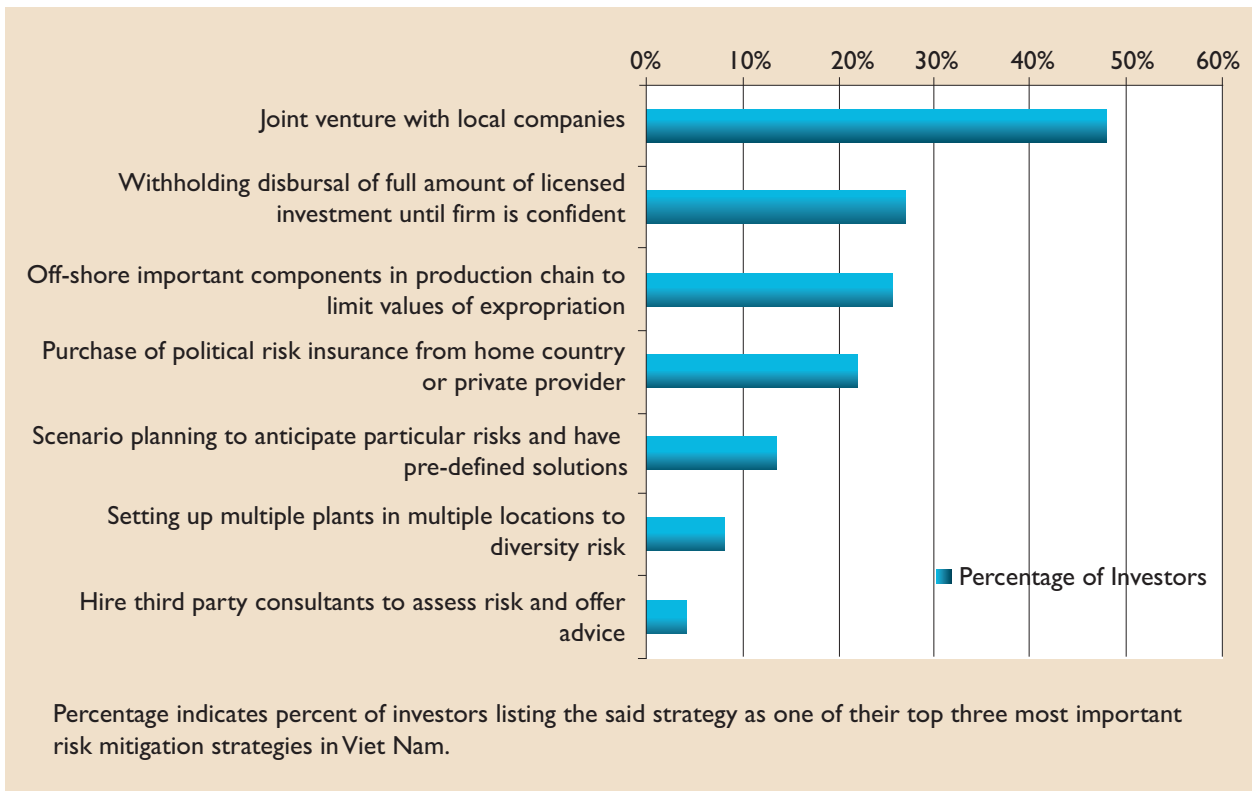
Nearly 50 percent of investors list entering into joint ventures with local companies as one of their most important risk mitigation strategies, according to Figure 16. Investors not able to form a joint venture use three other strategies. First, they only disburse a portion of their investment until they are confident about national and local policies (25 percent of respondents).

Second, those employing international supply chains protect themselves by building key components outside of Vietnam and shipping them to the country when necessary (25 percent). Using this approach lowers direct risk, because the factory

or business operation is worthless without the key components. The company is therefore protected from expropriation risk and even corruption risk as long as its branches can produce those proprietary intermediate goods. One reason more high-tech production has not moved to Vietnamese shores has to do with this strategy of diversifying risk within a supply chain. To lure production of high-end components to Vietnam, policy-makers might want to do more to mitigate the perceived risk of expropriation and corruption.

Third, many FIEs in Vietnam rely on risk insurance, purchased either from public agencies in their home countries or through private providers. The risk insurance industry has grown tremendously over time as investors have sought to take advantage of growth in emerging markets. In other cases, quasi-public providers, such as the United States' Overseas Private Investment Corporation, provide risk insurance to facilitate investment to key areas that may have been overlooked without the inducement.

Figure 16. Top Risk Mitigation Strategies by Foreign Investors



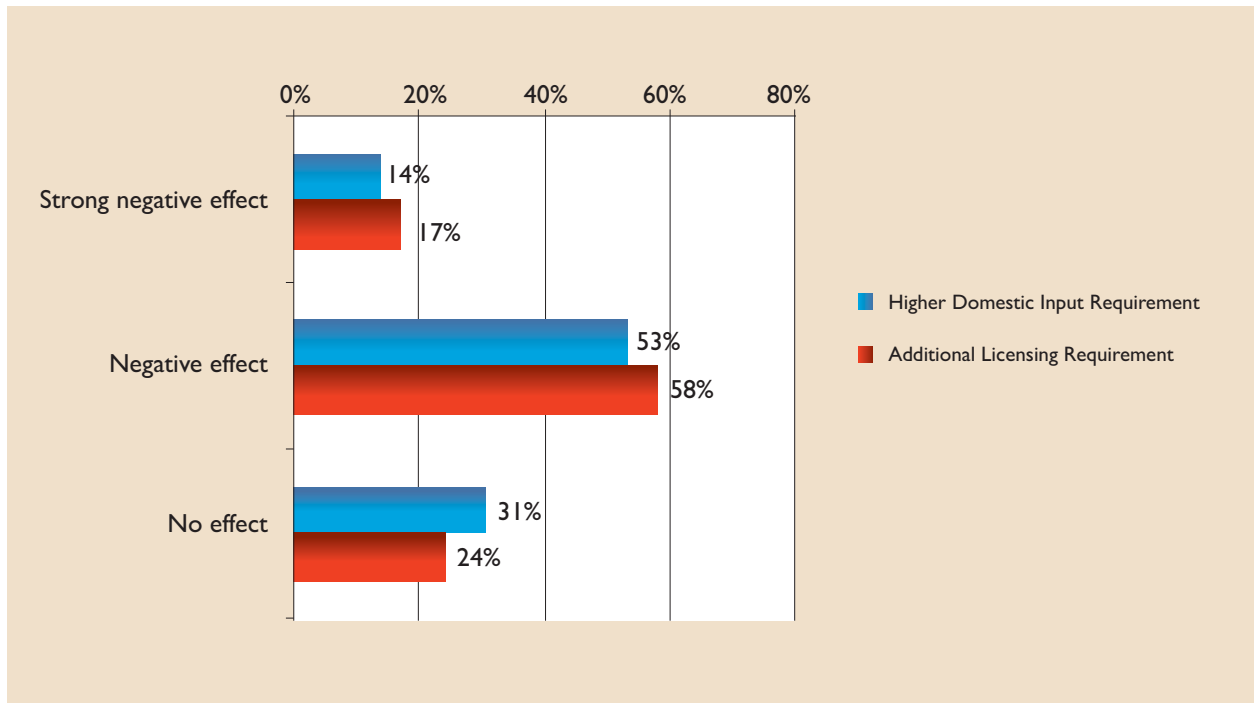
Reaction to Unforeseen Events

Question J5 of the risk module presented respondents with one of the following two versions of hypothetical unforeseen events (assigned randomly through different versions of the survey):

- *Event A* - The government suddenly increased domestic input requirements in the respondent's industry, which would limit the respondent's ability to purchase intermediate goods from overseas and reduce its annual revenue by about 10 percent.
- *Event B* - The government suddenly instituted a new license requirement. The license would only cost a marginal fee, but it must be renewed annually, requiring a visit to a provincial official and a 30-day wait.

As Figure 17 shows, investors' reactions are-not surprisingly-overwhelmingly negative to both events. However, investors' evaluations are even more negative toward Event B. Seventy-five (58 + 17) percent of investors believed the change would have a negative effect on their business, compared to 67 percent (53+14) who read about Event A. The differences are statistically significant. The reason for the difference is that Event B serves a proxy for rent-seeking opportunities: while not mentioning corruption directly, it requires an extra visit to procure a needed document. The difference in responses shows us how negatively firms view the impact of corruption on their business, compared with a direct and substantial 10 percent decrease in revenue.

Figure 17. FIE Responses to Different Risk Scenarios



After the treatment, a follow-up question asked about specific actions that FIEs would take in reaction to the new policies. The most frequent response was to take no action (29 percent).

Nevertheless, as Table 11 shows, 21 percent of respondents said that they would plan coordinated actions with other businesses. Nine percent would lobby the provincial government to try to change policy. Three hundred twelve respondents reported what they considered to be the most effective strategy, when faced with such an unforeseen event, in order to achieve the best result for their businesses—more than one-third (34 percent) said it was to coordinate with other businesses. The next most frequent answer was to take no action.

The responses differ somewhat between the groups presented with the two different policy changes. Although in both groups the most firms chose planning coordinated actions with other businesses as the most effective strategy (58 and 49 firms for Events A and B, respectively), nearly twice as many investors facing Event A about domestic content requirements (22 firms) as those facing Event B about licensing (12 firms) indicated that moving production to another country would be the most effective. In other words, additional domestic content requirements would be more likely to incite firms to shift production elsewhere. Twice as many investors facing Event B (25 firms) reported lobbying the provincial government as the most effective response as those facing Event A (13 firms), apparently believing that costs of lobbying in this case were lower than the transaction costs of moving abroad.

Table 11: Responses to Changes in Policy Environment

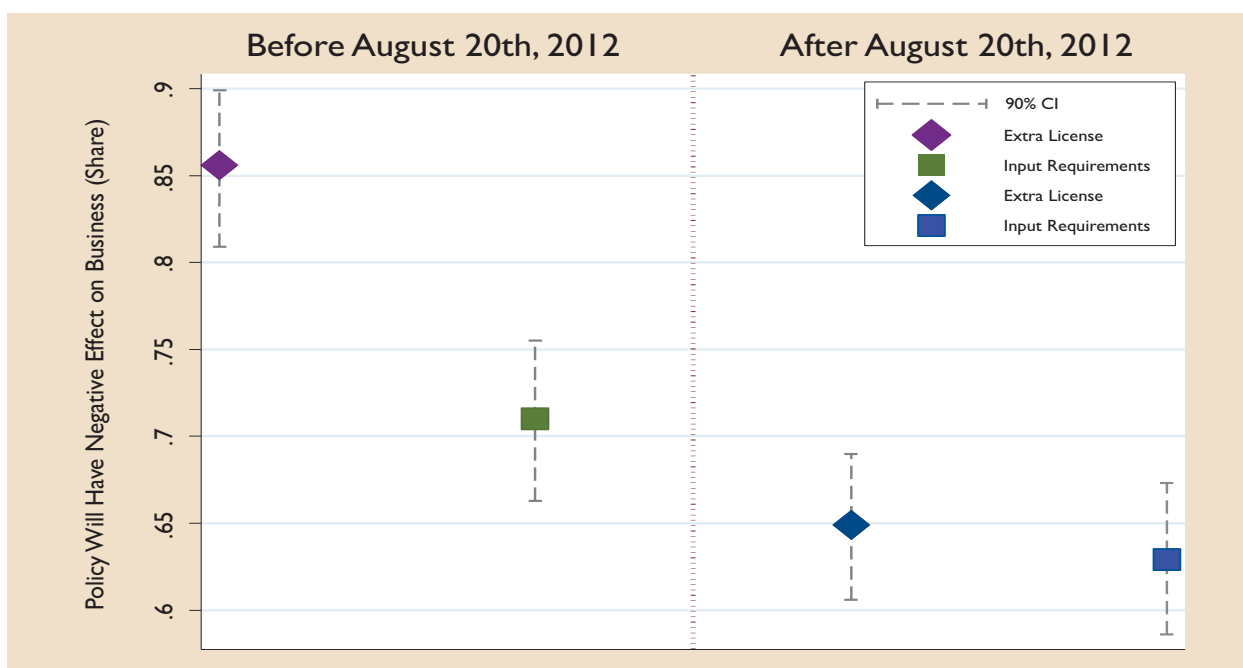
Treatment	No Action	Move Production to Another Country	Plan Coordinated Actions with Others	Appeal to Embassy	Lobby Office of Government
A. Domestic Input	25.1%	8.5%	20.2%	5.2%	3.7%
B. New License	33.3%	6.1%	20.9%	6.9%	4.3%
Total	29.0%	7.3%	20.5%	6.0%	4.0%

Treatment	Lobby National Assembly	Lobby Provincial Government	Lobby Provincial Officials for Exemption	Lobby Line Ministry for Exemption	Other
A. Domestic Input	2.1%	7.3%	4.3%	2.2%	1.8%
B. New License	3.0%	11.7%	6.9%	2.9%	0.8%
Total	2.5%	9.4%	5.5%	2.5%	1.4%

One fascinating issue is the manner in which responses to question J5 varied by whether the firm received the questionnaire before or after the arrest of the General Director of ACB. This change is reported in Figure 18. The red dashed line divides the experiment into before and after August 20. Before the crisis, firms viewed the license requirement much more negatively. Eighty-five percent of FIEs viewed it as having “a negative effect on business,” compared to 70 percent thinking

similarly about the domestic input requirement. However, after the crisis, FIEs saw no difference between the two scenarios. We can observe this, as the two confidence intervals in the second half of the graph overlap. This indicates that if we were to draw a sample, it is possible that the average score on input requirements could exceed that for the extra license. As we explore below, the ACB arrest appeared to increase wariness about responding to sensitive questions.

Figure 18. FIE Responses to Different Risk Scenarios Before and After ACB Arrest



4.3. Origin of the Chief Executive Officer and Risk Mitigation

In addition to different types of risk, there are different types of investors as well. Of special relevance to Vietnam is Graham's paper (2013), which shows that diaspora investors and FIEs with CEOs or investors from the receiving country are more sensitive to decreases in the host country's political risk because they are better informed and, thus, more able to respond to signals of change. However, it is equally important to emphasize that diaspora investors are better responders, but not better harbingers, of governance improvement.⁵⁶

Furthermore, not only are diaspora investors keen to invest in their homeland themselves, but they can also bring back more investment from others. By providing information about their homeland's market, as well as its customs, language, and institutions, to other investors, the diaspora network both decreases the information asymmetry and reduces transaction cost. Indeed, as LeBlang (2010) has shown, the existence of a diaspora network increases the flow of FDI between two countries.⁵⁷

Another rising group of investors that has caught researchers' attention are those from developing countries. This type of investor is more likely to invest in high-risk host countries because they have a comparative advantage in dealing with risk, compared to investors from developed, industrialized democracies. Furthermore, given that "staying home" entails much risk itself, these investors are less reluctant to venture into emerging

but risky quarters of the world market, giving rise to the recent surge of South-South investment.⁵⁸

Among the 100 percent foreign-owned firms that operate in Vietnam, some are run by Vietnamese CEOs, but most are run by foreign CEOs. We will refer to those firms with a Vietnamese CEO as "VN-managed firms" and those with a foreign CEO as "purely foreign" firms. Following the literature above, we expect that VN-managed firms have an advantage doing business in Vietnam because they have valuable social networks and because they have cultural and linguistic knowledge that allows them to function effectively in Vietnam's unique business environment. We focus our analysis on comparing how VN-managed firms and purely foreign firms interact with government agencies and manage political risks.

Taken together, the evidence suggests that VN-managed firms engage more proactively in their relations with the Vietnamese Government, and that they believe they get more benefit from their interactions with government officials than do purely foreign firms.

Building Relations with Local Officials

Question J7 asked firms to reflect on what they did to interact with officials and influence policy: "There are many specific ways for an international business to achieve good relations with the host government and potentially influence policy. Among the options listed below, how many have you used in order to engage with the central or provincial governments in Vietnam? (0 through 5)."

56. Graham, Benjamin A.T. 2012. "Diaspora-Owned Firms and Social Responsibility." *Review of International Political Economy*. Forthcoming.

57. LeBlang, David. 2010. "Familiarity Breeds Investment: Diaspora Networks and International Investment." *American Political Science Review* 104(3): 584–600.

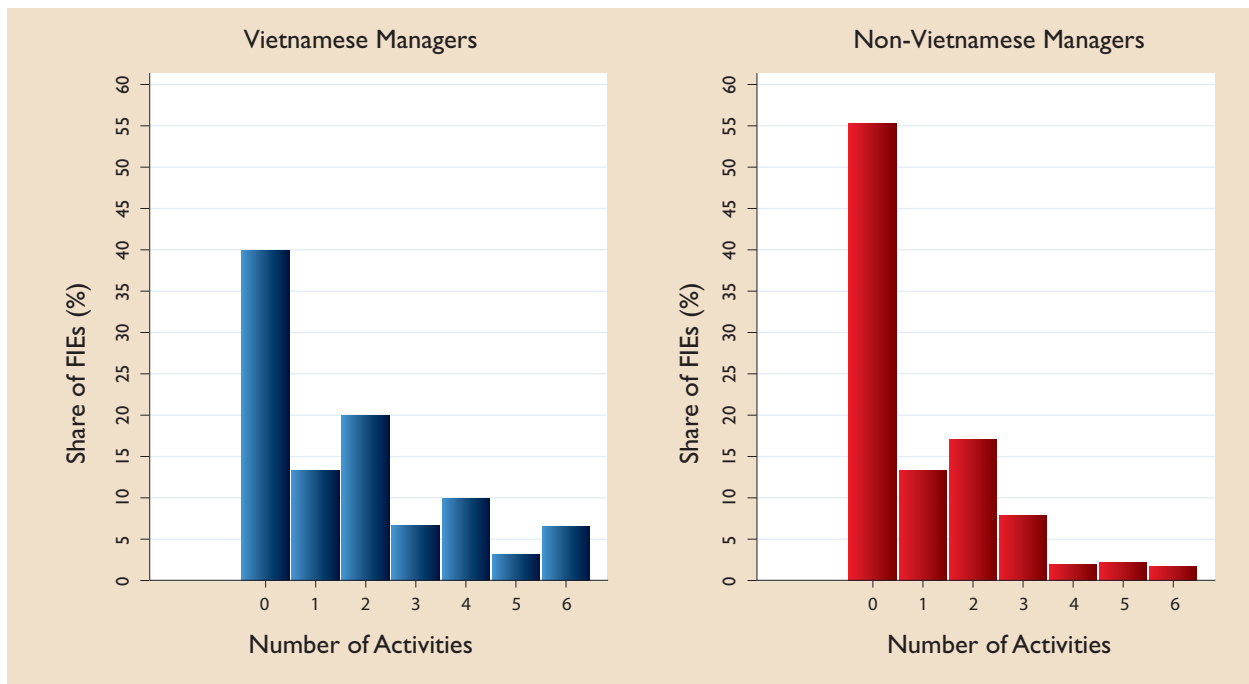
58. Beazer, Quintin, and Daniel Blake. 2011. "It's All Relative: Home Country Risk and FDI Flows." Prepared for presentation at the Politics of FDI Conference, Niehaus Center for Globalization and Governance, Princeton University, September 23–24, 2011.

Responses to this question are reported in Figure 19, which shows that VN-managed firms participate in more activities to engage with the government than the purely foreign firms do. The activities include making contributions to governmental funding for public works and services, spending time with government officials over dinner or other forms of entertainment, making donations to a government building or office, inviting government officials to visit or inspect the firm to highlight the firm’s contribution

to the local economy, and/or attending business forums or functions organized by the government.

VN-managed firms tended to engage with the government more actively than purely foreign firms. On average VN-managed firm took part in 1.7 activities, compared to average of less than one for foreign-managed counterparts. While 60 percent VN-managed firms participated in at least one or more activities, 55 percent of the purely foreign firms did not participate at all.

Figure 19. The Number of Activities Used in Engaging with the Government, by National Origin of CEO (Vietnamese or Foreign)



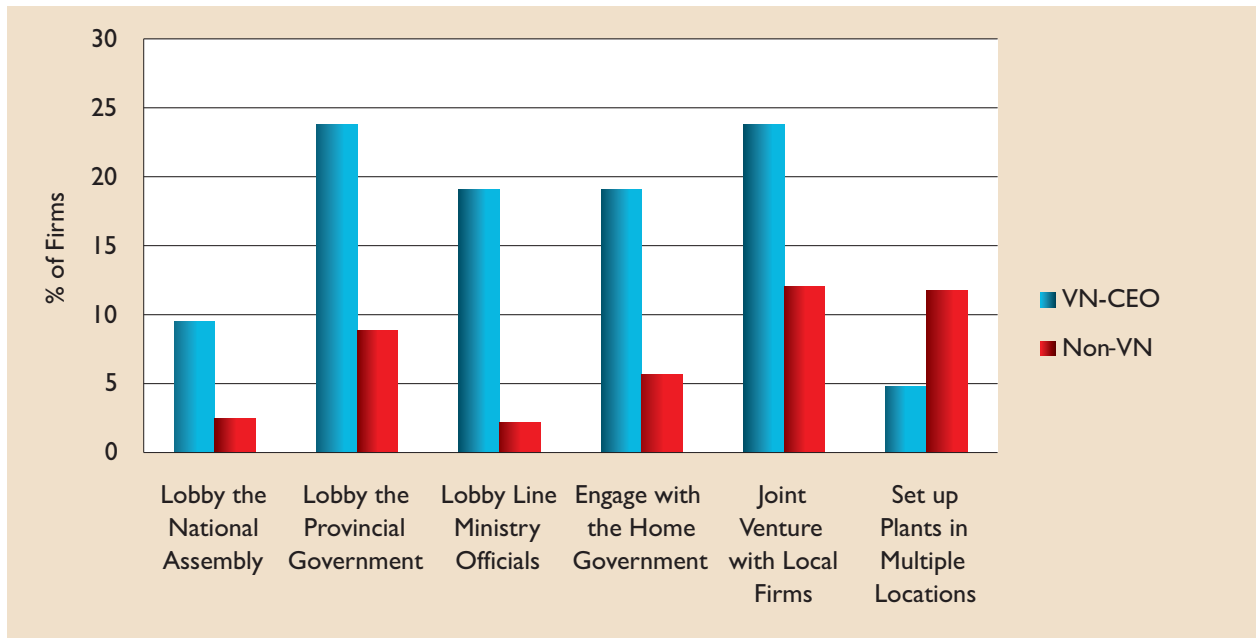
Risk Mitigation Strategies

The distinction between the activities of VN-managed and purely foreign firms becomes even more stark when we look at the strategies taken to mitigate risk. Figure 20 presents the responses of businesses to the policy changes posed in Question J5 (Event A: changes in domestic content requirements; Event B: changes in licensing).

Figure 20 demonstrates clearly that VN-managed and purely foreign firms adopt different strategies to mitigate political and business risks. When

the government implements a new policy that is adverse for foreign firms, VN-managed firms are more likely to lobby the government than purely foreign firms. This is true for all levels of Vietnamese government, as well as the home-country government of the foreign investor. In addition, VN-managed firms are also more likely to consider engaging in joint ventures to mitigate risk. Alternatively, purely foreign firms tend to prefer the strategies that can be pursued independently from the government and independently from local partners-for example, diffusing risk by setting up plants in multiple locations.

Figure 20. Risk Mitigation Strategies Used by VN-Managed and Purely Foreign Firms

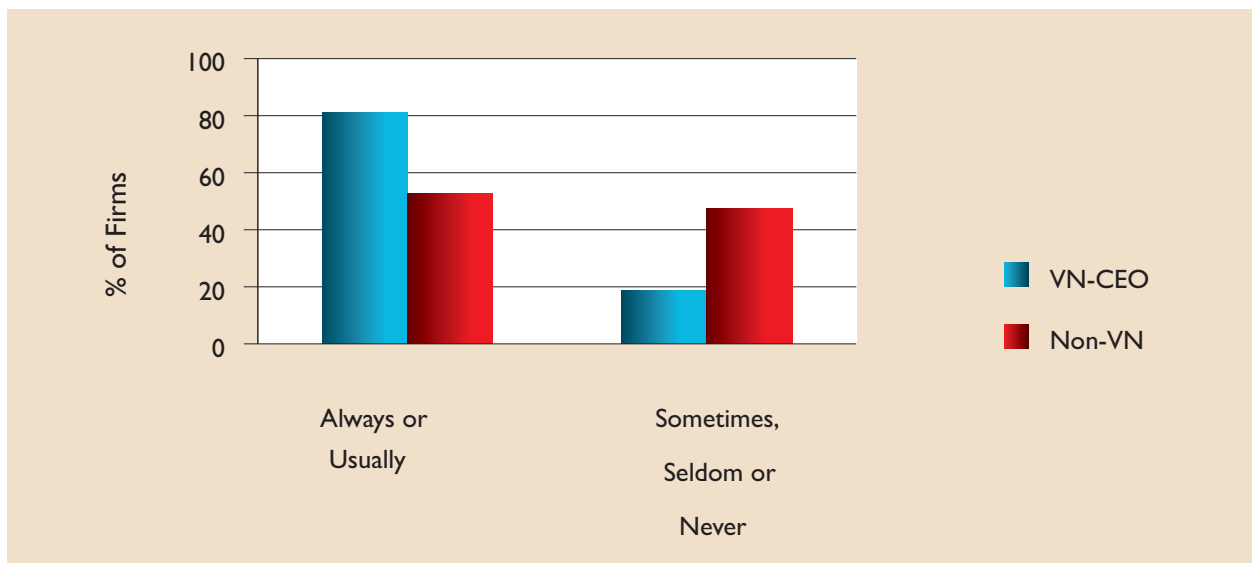


Are the alternative strategies attempted by VN-managed firms successful? To answer this, Figure 21 compares the different perceptions that VN-managed and purely foreign firms have about whether “additional payments” tend to yield the services that are paid for.

Both types of firms report paying about the same amount of additional payments (about 55 percent

engage in such activities). However, more than 80 percent of the VN-managed firms expressed that the required “additional payment” always or usually yields the service as expected, while only about 50 percent of the purely foreign firms report this. This suggests that having a Vietnamese manager may allow firms to be more effective in using “additional payments” to secure needed services.

Figure 21. How Often Is the “Service” (in Response to the Additional Payments) Delivered, by National Origin of CEO (Vietnamese or Foreign)?



Summary

VN-managed firms have very different risk strategies than purely foreign firms. They are more likely to engage with and lobby officials rather than attempt to protect themselves unilaterally. They consider relationships to be important to their business model. And they find these approaches to be more successful than foreign firms do, especially when it comes to the use of informal payments.

4.4.A Natural Experiment on Investor Risk - Our Methodological Approach

The shock that constitutes this natural experiment is the arrest of Nguyen Duc Kien, the former Vice Chairman of the ACB Founding Council, on August 20, 2012. Kien was arrested for illegal business activities, which turned out to be related to side businesses he owned and his activities in the gold market. Whether he used ACB assets to engage in these activities is a subject of dispute and will likely be settled in trial.

The crisis surprised many because of ACB's sterling reputation. For years before the crisis, ACB was

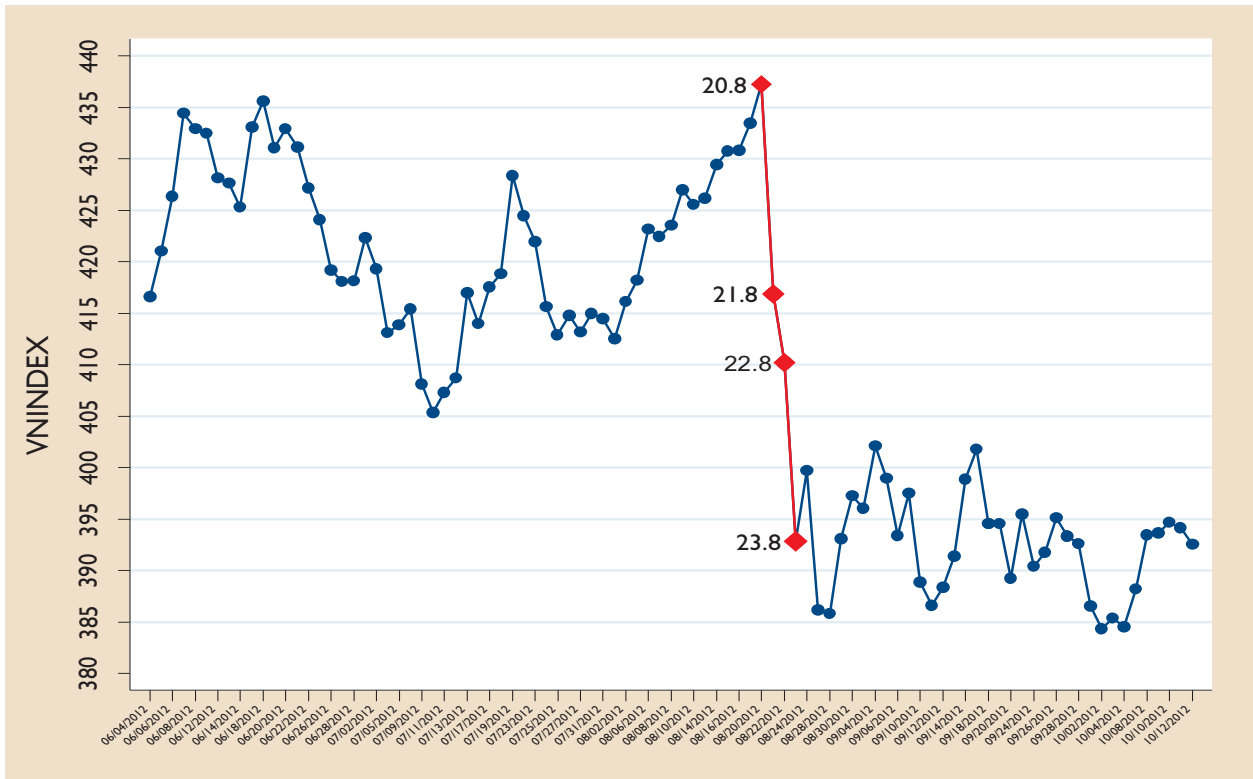
the darling of foreign equity investors. Standard & Chartered (15 percent), Jardine and Matheson (7 percent), and Dragon Capital (6.7 percent) were major investors, and ACB's foreign investor threshold was capped out for several years in a row, indicating an extraordinary popularity of its shares. ACB had a reputation as the most transparent and professionally managed firms listed on Vietnamese stock exchanges. Consequently, at the time of Kien's arrest, it was listed as the largest non-state bank in Vietnam, with assets estimated at around VND256 trillion and a market capitalization of VND22.6 trillion.⁵⁹ According to calculations by Pincus et al. (2012), the company was also the net lender in the Vietnamese inter-bank market, demonstrating that its success was highly linked with the fortunes of other investors in the market.⁶⁰

When news of the arrest broke out on August 21, business in Vietnam was caught by surprise—indeed, the precipitous downfall of Kien was mirrored by the Ho Chi Minh stock market on the day of impact. As shown in Figure 22, the market dropped from a high of 437 to 392 within the three days after the incident (a 10 percent fall). The sharp fall and then stabilized at a new equilibrium for the rest of the summer.

59. Last updated: August 21, 2012, 11:35 am, *Arrest of Vietnam tycoon unnerves markets* by Gwen Robinson in Bangkok and Ben Bland in Jakarta <http://www.ft.com/cms/s/0/a7e14296-eb60-11e1-9356-00144feab49a.html#axzz2Jl3kv3hF>

60. Pincus, J., V.T. Anh, P.D. Nghia, B. Wilkinson, and N.X. Thanh. 2012. "Structural Reform for Growth, Equity, and National Sovereignty," A Policy Discussion Paper Prepared for the Vietnam Executive Leadership Program (VELP), Harvard Kennedy School, February 13–17, 2012.

Figure 22. Change in Vietnamese Stock Market over Summer 2012



Using change-point analysis—a statistical technique common in the business literature to identify rapid changes in consumer sentiment⁶¹—we are able to pin-down a precise date when business confidence dropped sharply (August 20, 2012), exactly in the midpoint of the foreign investor component of the PCI survey. Basically, the model estimates predicted change in the stock market using the trend over the previous four days, also taking into account trending on the New York Stock Exchange. This is the only date where the subsequent decline was greater than the range investors would have estimated based on patterns observed earlier in the summer. In other

words, August 20 was a serious, unanticipated shock to investor sentiment.⁶²

This sharp discontinuity provides an exciting opportunity to examine how businesses respond to risk in an emerging market environment. Yet, the opportunity would have gone to waste had we not also had the tools to capture business' responses to the shock. Fortunately, the 2012 iteration of the annual PCI survey included a new module that was designed to directly measure investors' risk perception in Vietnam and their host provinces. The August 20 discontinuity cut the survey sample in half, providing a rare instance of natural experiment.

61. Brown, R.L., J. Durbin, and J.M. Evans. 1975. "Techniques for testing the constancy of regression relationships over time (with discussion)." *Journal of the Royal Statistical Society B*(37):149–92; Chen, Jie, and A.K. Gupta. 2001. "On change point detection and estimation." *Communications in Statistics - Simulation and Computation* 30(3): 665–97; Harvey, A.C. 1990. *The Econometric Analysis of Time Series*. Cambridge, MA: MIT Press.; Taylor, Wayne A. 2000. "Change-Point Analysis: A Powerful New Tool For Detecting Changes." <<http://www.variation.com/cpa/tech/changepoint.html>>

62. A similar analysis was also conducted for gold prices, which spike upwards. Once again, August 20 shows up as a turning point for gold prices. Screenshots of Bloomberg's and 24Hour Gold Data on Vietnam over 2012 can be found in Figures 25 and 26 at the end of this chapter.

Two particularly beneficial aspects of the PCI methodology allow us to extrapolate from this situation for research: 1) batches of the mail-out survey are sent out to locations on a randomized basis, so there is no statistical differences in which types of investors receive the survey early or late; and 2) a team of college students randomly calls both foreign and domestic firms daily, reminding them to fill out the survey. Once again, because phone numbers are selected randomly, there is no statistical difference in the types of firms that were incentivized to respond to the survey early rather than late.⁶³

In short, firms that answered before August 20 are, statistically speaking, exactly like those that responded afterwards. Consequently, we can use the responses before the discontinuity as a control group and the responses after the arrest to serve as a treatment group, allowing us to precisely test how investors respond to risk in an emerging market like Vietnam. Even more importantly, the PCI 2012 survey contains fine-grained questions that disaggregate both the types of investors and the types of risks, which facilitates observation of many kinds of interactions between these groups.

Using the PCI Survey to Analyze Business Sentiment Responses to August 20

The PCI-FDI survey, which includes 1,540 foreign firms (87 percent of which are 100 percent foreign-owned), tracks FIE perceptions but is not included in the index because FDI is concentrated

in only a dozen Vietnamese provinces. The sample is stratified by size, legal form, and broad industrial sector. As noted above, the survey is mailed out in batches with randomly sampled locations, starting from June 17 for domestic firms, and July 14 for FDI firms. The overall response rate is about 25 percent, which is very high for business surveys, but does mean that we need to be conscious of potential non-response bias.

Every year, the survey asks: “What are your plans for this business over the next two years?” Respondents are invited to respond that they will decrease operations, maintain the business at the same size, or expand operations. The question has been such an accurate gauge of business sentiment in the country that we dubbed it the PCI Thermometer and present it at the beginning of every PCI report. Table 11 studies the business thermometer for FIEs over time (shaded in red), along with other performance measures of FIEs, just as we did with domestic firms in Chapter 1.

Notice the sharp decline in confidence that occurs in 2011 and continues through 2012 in Table 12 and Figure 23. There is very little difference between foreign and domestic investors in 2012—both are highly negative—but confidence among domestic firms fell more precipitously. Thirty-three percent of FIEs plan to expand (down slightly from 46 percent in 2011 and 69 percent in 2010), compared to 32 percent of domestic firms (down from 47 percent in 2011).⁶⁴

63. Balance tests of both the foreign and domestic surveys reveal that firms that answered before August 20 are statistically equivalent to those that answered after the survey on a wide spectrum of observable indicators, including size (labor and capital), sector, ownership type, main customers and suppliers, CEO background, and geographical location (North, Central, South). Space constraints prevent providing the full balance table here, but they are available from the authors upon request.

64. Data on domestic expansion is available in Chapter 1.

Table 12. PCI Business Thermometer and Other Performance Measures of FIEs

Year	Firms Intending to Expand	Firms Reporting Profits	Firms Reporting Losses	
2010	68.5%	70.1%	24.6%	
2011	45.5%	73.9%	20.5%	
2012	32.7%	60.0%	28.0%	
Year	Firms Increasing Investment	Median K Size (\$ Million)	Firms Adding Employees	Median L Size (Employees)
2010	37.3%	2.00	54.0%	90.00
2011	27.8%	1.50	47.1%	85.00
2012	5.1%	1.50*	32.2%	87.50

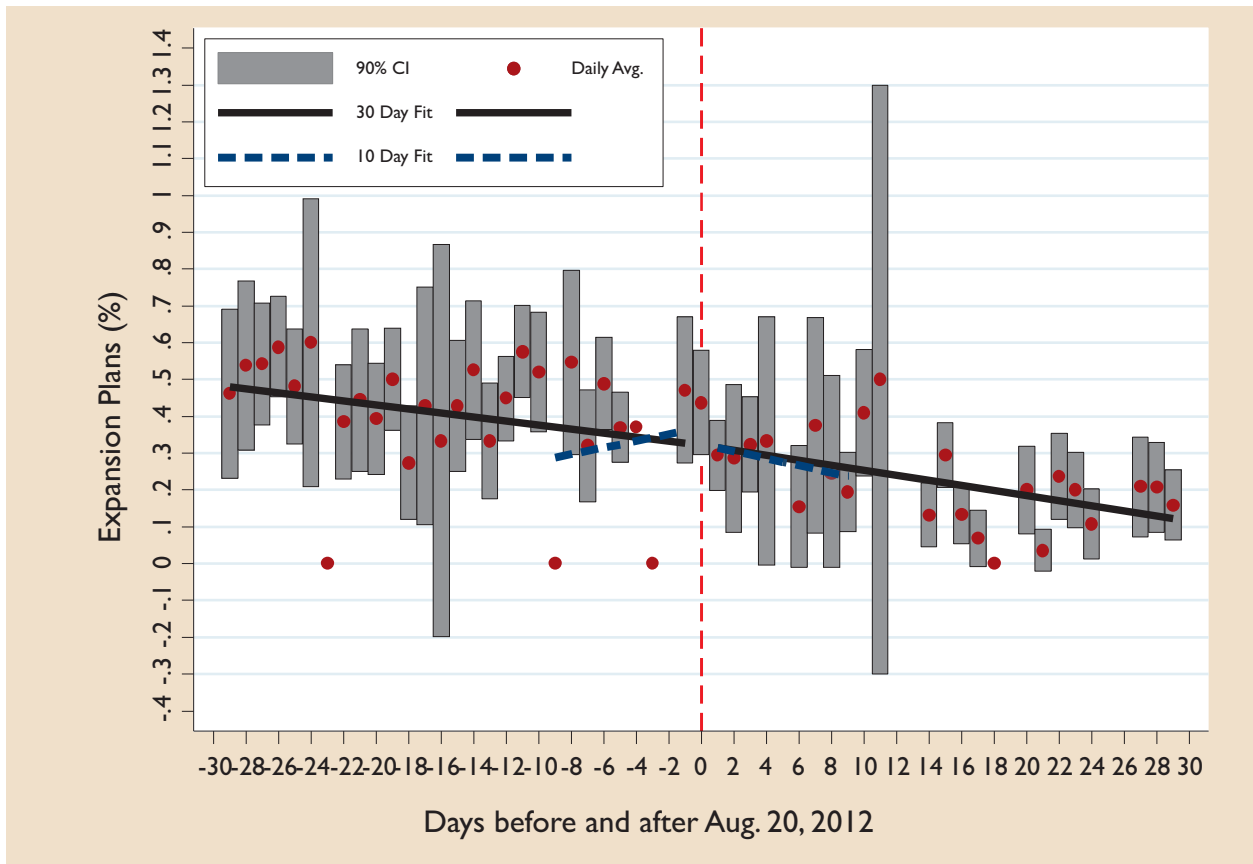
The PCI Business Thermometer is drawn from the annual question FDI=A13: "What are your plans for this business over the next two years?" The red-shaded column reports the share of respondents who answered that they intended to expand their operations in a given year. All other performance measures are drawn from Section A of the PCI Survey. K: Capital; L: Labor.

Next, Figure 23 takes the analysis of the PCI Business Thermometer to the summer of 2012, showing the investment plans of foreign firms for 30 days prior to and after the August 20 decline. The key takeaway is that business confidence declined marginally early in the summer; was improving slightly, and then took a sharp dive after August 20 and maintained a downward trajectory. The blue-dashed lines indicate the 10-day trend before and after Kien's arrest. Just as with the stock market analysis above, confidence seemed to be improving just before the crash.

Comparing the pre- and post-incident periods, we find that business confidence dropped 22 percentage points for FIES within the 30 days after the incident, a statistically significant difference. A difference in means test gives a t-value of 9, indicating that this decline could not be an accident. The graphs reveal clearly that August 20 represented more than a stock market deviation; it influenced how individual businesses perceived the future of economic opportunities in Vietnam.

Figure 23. PCI Business Thermometer Scores for FIES (by Day in 2012)

(Note: Average daily scores are shown with red circles. Gray bars represent confidence intervals around those means, black lines denote 30 day linear trends, and blue lines are 10 day linear trends.)



Risk Perceptions by FIEs Before and After August 20

Thus far, we have demonstrated that investors were shocked by the arrest of former ACB co-founder Kien and the economic difficulties faced by the bank meaningfully influenced their investment decisions. These findings raise the question of what message investors believed they received from the incident. The PCI 2012’s risk module is helpful here because it asks investors to assess different types of risk regarding doing business in Vietnam.

In this section we return to question J2, which we analyzed in Section 2 of this chapter. The question allows us to unbundle the concept of risk into six

categories: macroeconomic, expropriation, contract, regulatory, labor, corruption, and political instability. How did the perception of each type of risk change after the ACB arrest?

Table 13 provides the answers by studying the share of foreign investors who cited a particular risk as the main one they face before and after August 20. Two figures are critical for understanding what happened. First, “difference” shows the change in the perceptions of a particular type risk, while “p-value” shows whether this difference is statistically significant or simply due to random variation or sampling error. Definitions of each type, which were provided to investors, are listed below the table.

Table 13. Changes in Risk Perceptions Caused by the August 20 Crisis (Foreign Investors)

Risk Type	Before	After	Difference	SE	T-Stat	P-Value
A. Macroeconomic	27.80%	47.70%	19.90%	2.45%	8.12	0.000
B. Expropriation	7.89%	7.26%	-0.64%	1.36%	-0.47	0.640
C. Contract	19.60%	24.37%	4.77%	2.13%	2.24	0.026
D. Regulatory Changes	17.40%	24.36%	6.96%	2.09%	3.33	0.001
E. Labor Relations	14.30%	16.95%	2.65%	1.87%	1.42	0.157
F. Corruption	14.20%	7.16%	-7.04%	1.55%	-4.54	0.000
G. Political Instability	2.92%	2.10%	-0.82%	0.80%	-1.02	0.306

What are the primary risks that you face in Vietnam? Check all that apply (FIE: Q_J2).

- a) Macroeconomic risk (changes in price stability and growth that affect business prospects).
- b) Expropriation risk (the loss of business premises, property, or equipment to host government).
- c) Contract risk (breach of contract by business partners, such as suppliers or customers).
- d) Regulatory risk (changes in regulatory or tax policies that reduce profitability).
- e) Labor risk (strikes, outbreaks of illness, or other events that lead to work stoppage).
- f) Corruption (demands for informal charges, kickbacks, or other illicit decisions that reduce profitability).
- g) Political instability (changes in regime or outbreaks of violence that impact operations).

SE: Standard Error

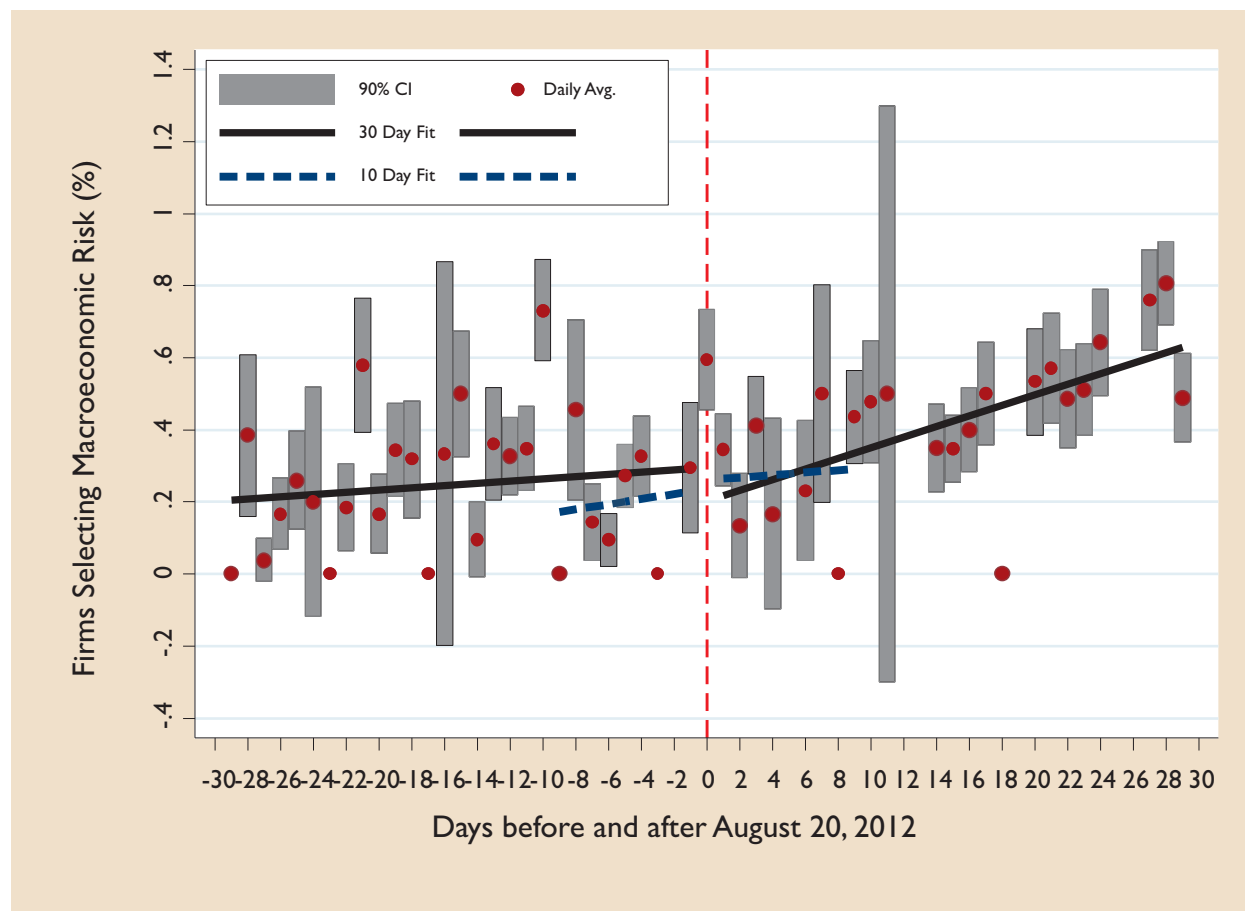
T-Stat: T-Statistic

The results show that the biggest difference in risk perception before and after August 20 is macroeconomic, which saw a 20 percent increase. The t-statistic of 8 indicates that this is not an accident. Were we to re-sample for the PCI 1,000 more times, 99 percent of the time firms surveyed after August 20 would perceive greater macroeconomic risk than those before. Figure 24 demonstrates the daily change in perceptions of macroeconomic risk, which spike soon after August 20. Notice that observed perceptions of macroeconomic risk rose 20 percent in the day before the incident to 80 percent on the last day of the survey.

Less dramatically, FIEs thought the incident signaled greater contract and regulatory risk. Importantly, investors did not think that the August 20 incident was political, which showed no significant differences over time. Even more interestingly, they reported to be less worried about corruption after the crisis. This result suggests two markedly different interpretations: 1) investors saw the arrest as a sign of improved dealing with corruption; and 2) investors were more afraid to answer about corruption. These two interpretations have opposite implications about investors' perception of corruption risk in Vietnam.

Figure 24. Macroeconomic Risk Perception of FIES (by day during 2012)

Average daily scores are shown with red circles. Gray bars represent confidence intervals around those means, black lines denote 30 day linear trends, and blue lines are 10 day linear trends.



Disaggregating the Impact of August 20 by Country of Origin

In the final section of this chapter, we briefly study how the impact of August 20 was experienced by different types of investors.

Table 14 studies the predictions about sending-country characteristics by re-calculating the responses in Table 12 by country and by country-type. As a comparison group, companies with Vietnamese managers are also shown. The top panel provides the number of investors for each country, the region in which the country is located,

and the Polity IV index of democracy. Columns 5 and 6 of the top panel provide the change in the Business Thermometer and investors' perception of their investment safety after the ACB arrest. The bottom panel presents the different types of risk from question J2 of the risk module.

Looking on a country-by-country basis does not reveal an obvious pattern in the responses of investors from different countries, whether studying South-South, North-South, Western, or Chinese investors. The effect of the crisis on their investment plans is remarkably similar. When we aggregate up by investor type, a larger

pattern does appear to emerge. Investors from democracies (26 percent reduction), Europe (31 percent reduction), and developed economies (25 percent reduction) were more likely than their counterparts to perceive the ACB crisis as affecting their future investment plans. European and developed investors were also more likely to demonstrate significant changes in assessments of investment safety.

Looking at individual risks, we find that investors from democracies were the most likely to experience significant increases in their perceptions of macroeconomic and contract risk as a result of the ACB arrest.

Caution should be taken with this analysis, however, because investors from mainland China were also strongly affected by the crisis, experiencing a 37 percent decrease in expansion plans (second only to firms from the United Kingdom) and believing there was a 19 percent increase in macroeconomic

risk and 22 percent increase in policy instability. Interestingly, Chinese investors did not agree with their Western peers when it came to contract risk, where they viewed the developments as positive.

Returning to our analysis from Section 4.3 above, VN-managed firms do indeed prove to be very different from foreign investors of all stripes. They were significantly less traumatized by the summer's events than other groups. VN-managed firms were actually more likely to answer that they were interested in expanding (3 percent increase) after the ACB arrest than before it, and they also experienced an uptick in views about the safety of their investment (8 percent increase). Moreover, these investors actually saw improvements in risk rankings after August 20 in many indices, particularly contract, labor, and corruption risk. This analysis is supported by more rigorous multiple regression indicating that FIEs managed by Vietnamese CEOs were significantly less affected by changes in the Vietnamese investment environment.

Table 14. Changes in Perceptions of Risk in Vietnam after August 20

Panel 1: Business Thermometer and Investment Safety							
Country	Investors	Developed	Region	Polity IV	Expansion Plans	Investment Safety	
	(1)	(2)	(3)	(4)	(5)	(6)	
High Polity	848				-26.3%	0.6%	
Low Polity	232				-16.1%	0.4%	
Asia	946				-18.3%	2.6%	
Europe	134				-30.6%	-5.2%	
Developing	118				-12.0%	3.1%	
Developed	962				-25.3%	-0.5%	
United Kingdom	17	Yes	Europe	10	-49.0%	-14.7%	
China	67	No	East Asia	-7	-37.0%	10.9%	
Hong Kong	42	Yes	East Asia	-4	-32.8%	2.1%	
USA	32	Yes	Americas	10	-26.0%	-23.3%	
Japan	264	Yes	East Asia	10	-25.0%	-4.5%	
Taiwan	287	Yes	East Asia	10	-22.9%	16.4%	
South Korea	229	Yes	East Asia	8	-18.3%	7.4%	
France	19	Yes	Europe	9	-16.7%	22.5%	
Thailand	20	No	SE Asia	4	-13.8%	-10.0%	
Singapore	72	Yes	SE Asia	-2	-11.9%	-9.6%	
Malaysia	31	No	SE Asia	6	15.0%	8.3%	
VN-Managed Firms	66	No	Asia	-7	3.4%	8.3%	
Panel 2: Types of Risk Faced in Vietnam							
Country	Macroeconomic Risk	Expropriation Risk	Contract Risk	Policy Risk	Labor Risk	Corruption Risk	Political Risk
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
High Polity	20.0%	-11.8%	13.3%	-1.6%	-1.2%	-7.0%	-2.5%
Low Polity	14.0%	0.0%	2.2%	7.4%	-0.9%	-12.4%	2.3%
Asia	17.2%	0.1%	5.3%	7.2%	1.3%	-10.1%	0.7%
Europe	17.5%	-23.8%	16.2%	-10.1%	-7.5%	-7.7%	-3.2%
Developing	27.2%	-1.4%	7.8%	8.7%	0.8%	-9.7%	2.5%
Developed	13.5%	-8.3%	8.5%	0.2%	-1.8%	-9.4%	-1.4%
United Kingdom	11.1%	-61.1%	27.8%	-33.3%	-27.8%	11.1%	0.0%
China	19.4%	5.0%	-9.0%	22.3%	0.9%	-8.1%	7.6%
Hong Kong	-13.1%	3.7%	-13.9%	4.6%	-4.4%	-17.6%	3.7%
USA	20.2%	3.1%	1.9%	-7.5%	5.0%	-7.1%	-0.4%
Japan	8.6%	-1.0%	1.6%	-2.1%	-2.6%	-14.4%	-3.4%
Taiwan	30.2%	0.7%	10.3%	9.5%	10.0%	-2.0%	-2.0%
South Korea	28.6%	1.0%	19.4%	13.6%	7.4%	-2.6%	-0.1%
France	21.2%	-13.4%	19.0%	10.4%	0.4%	-27.3%	-9.1%
Thailand	24.3%	-21.4%	15.7%	-15.7%	-13.6%	-16.4%	0.0%
Singapore	1.4%	0.6%	1.6%	6.1%	-2.9%	-15.1%	0.0%
Malaysia	37.8%	12.1%	16.6%	19.6%	15.2%	-4.7%	0.0%
VN-Managed Firms	1.6%	-5.1%	-24.7%	10.6%	-19.6%	-10.3%	-2.3%

Next, we study the impact of the August 20 crisis by size of firms in both foreign and domestic operations. Table 15 shows that small firms are always more reluctant to expand, but the crisis had

severe effects for medium-sized and large firms. Medium-sized and large firms experienced dramatic losses in confidence over the summer, which does not bode well for future growth prospects.

Table 15. Expansion Plans after August 20 (by Employment Size)

Size	Before	After	Difference
Small (<10 Employees)	38.16%	33.80%	-4.36%
Medium (10-50 Employees)	44.92%	26.02%	-18.90%
Large (>50 Employees)	48.15%	27.16%	-20.99%

Space constraints limit a thorough description of our results, but we also studied the impact of the August 20 shock on sector and entry strategy, which have been highlighted in the international business literature.

The data indicates that manufacturing businesses were strongly affected (16 percent less likely to expand after August 20 compared with others). Service sector operations were entirely unaffected (13 percent more likely to expand compared with other sectors). Construction, agriculture, and natural resource exploitation all experienced negative shocks, but not as severe as manufacturing.

When it comes to entry mode, there was no difference between firms adopting multi-country versus single-country strategies and no differences between joint ventures and 100 percent foreign-owned operations. Interestingly, foreign firms registered as domestic under the 2005 Unified Enterprise Law were significantly less affected by the summer shock waves than were their peers.

4.5. Conclusions Regarding the August 20 Shock and FIE Risk Perceptions

The arrest of the former ACB co-founder on August 20, 2012, sent a strong signal to investors that

Vietnam was facing severe economic difficulties. Our change-point analysis reveals that the shock was real and unanticipated by both equity and gold markets. This shock was reflected in PCI Survey questions regarding business confidence. Within 20 days of the news, both foreign and domestic investor confidence in the country was halved.

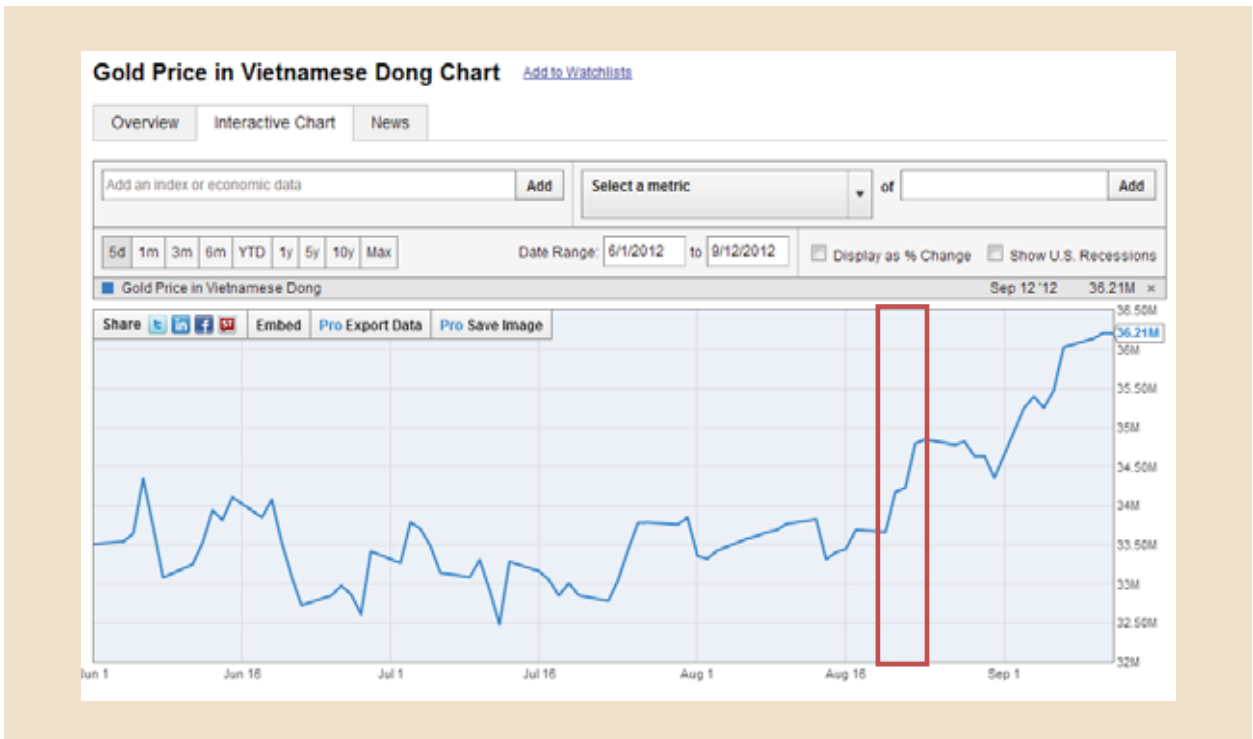
The incident had disparate results on firm perceptions. Medium-sized and large operations—the potential engines of Vietnam’s future growth—were most affected. Manufacturing, another source of growth and exports, was also hit quite hard. Interestingly, service sector operations were the least deterred by the incident.

Further analysis revealed that respondents believed that the crisis was macroeconomic in nature and were not as worried about expropriation or political instability resulting from the incident. Nevertheless, business leaders responded to the crisis by altering their responses to sensitive questions on business perception surveys. It is clear that respondents were more recalcitrant and the number of responses to corruption questions decreased dramatically after the incident.

Figure 25. Data on Vietnamese Stock Market in 2012



Figure 26. Data on Vietnamese Gold Market in 2012



CHAPTER 5

**FDI AND LABOR
RELATIONS**



FDI AND LABOR RELATIONS

Vietnam is currently experiencing a demographic boom, with large proportions of the workforce at their most productive age and more than one million young people entering the labor market each year. Finding good jobs for this influx of workers is critically important for economic growth and development. Neither SOEs nor the domestic private sector appear to be the solution for this challenge in the short term. SOEs are highly capital-intensive and, therefore, have not seen increases in their employment shares over time. Currently, they only employ 11 percent of the workforce, despite producing 30 percent of output. The domestic private sector, while dynamic, is simply not of sufficient scale yet to absorb so many new employees, especially during the current economic downturn.⁶⁵

Consequently, at this stage in Vietnam's development, the FDI sector appears to hold the greatest promise for employing the bulk of the labor force, providing skill upgrading, and it is hoped-encouraging labor-productivity spillovers into the larger economy. Thus, Chapter 5 profiles the perceptions that foreign investors have of labor relations in Vietnam.

5.1. Global Supply Chain Participation

As Table 16 shows, many of the foreign firms surveyed are active participants in global supply chains. On average, these firms purchase 34 percent of intermediate goods from domestic private enterprises in Vietnam, 38 percent from branches of the firm located outside of Vietnam, and 18 percent from other, unrelated firms located outside of Vietnam. Multinational corporations' reliance on branches in other countries has increased significantly this year. As we noted above, this shift may represent a strategy to protect investment in periods of economic uncertainty.

Among foreign firms that describe themselves as subsidiaries of multinational corporations (27 percent of respondents in the FDI sample), there is a slightly greater reliance on intermediate inputs purchased from outside entities overseas (an average of 15 percent of inputs), and a slightly smaller reliance on inputs purchased from other branches of the company abroad (an average of 21 percent), but a similar reliance on inputs purchased from domestic private enterprises.

Table 16. Major supplier of Intermediate Goods and Services

Major Supplier	2010	2011	2012
State Owned Enterprise	3.4%	3.3%	1.7%
Domestic Private Enterprise	34.9%	35.1%	34.1%
Vietnamese individual	3.9%	3.2%	1.0%
Produced in-house	2.8%	13.2%	7.0%
Other branches of MNC	25.7%	22.2%	38.7%
Foreign suppliers	29.4%	23.1%	17.6%

65. Phan Diep Ngoc and Coxhead, Ian. 2012. "Long-run costs of piecemeal reform: Wage inequality and returns to education in Vietnam." *Journal of Comparative Economics* Forthcoming.

When we compare firms based on their location in industrial zones (IZs), those with some land in IZs purchase an average of 35.2 percent of inputs from domestic private enterprises, compared with 33.7 percent from those not located in IZs. More strikingly, IZ-based firms are much more reliant on imports from the firms' branches abroad (an average of 38.9 percent of inputs, versus 28.8 percent for non-IZ-based firms), as well as on inputs from other foreign entities (an average of 15.2 percent of inputs, compared with 8.2 percent for non-IZ-based firms). The participation of IZ-based firms in regional and global production chains also is evident in the sales of their products: on average, 43 percent of IZ-based firms' output is exported, either directly or indirectly. (Foreign firms outside of IZs export an average of 27 percent of their production.)

5.2. Skill Requirements

There is a sharp disagreement among domestic and foreign-invested firms when it comes to labor quality. Domestic firms report more positive attitudes, in general, of the education of the population, as well as of vocation training for labor. When asked to rank these items on a 1 to 6 point scale, with 6 representing the highest score, the average answers for domestic firms were 4.52 (population/workforce education) and 4.24 (vocational training for labor). Foreign firms' average responses to these items were 4.1 and 4.0, respectively.

When we sort foreign firms according to the general industrial sector, there are few significant differences across sectors (e.g., manufacturing firms are only slightly less impressed with workforce skill and vocational training than are service sector firms). Moreover, only 53 of 1,540 foreign firms—less than 3.5 percent—agree with the claim that the local

workforce does not have the right skills. Of course, this survey is based on the sentiments of current foreign investors; potential foreign investors, which may operate in more skill-intensive activities, may take a less optimistic view of the skill profile of the local labor force.

5.3. Retention, Training, and Turnover

The survey also asks foreign firms about the extent to which newly hired workers require training. Among all foreign firms, an average of 23 percent of workers are reported to need additional training. Foreign firms spend an average of 3.6 percent of annual business cost in training these workers; on average, 70 percent of firm-trained workers remain with the company for more than a year.

Yet the amount a firm spends on training is only very weakly correlated with the rate of employee turnover: the amount that a firm spends to train its employees seems neither to predict turnover (in which employees might gain new skills and then use them elsewhere in the labor market) nor to predict retention (in which employees might be satisfied with the firm's investment in them and therefore remain loyal to the firm).

5.4. Labor Inspections

In terms of inspections, foreign firms report an average of 2.3 inspections per year. By contrast, firms in the domestic sample report, on average, 1.8 inspections per year. Among firms with a primary focus on manufacturing/industry, foreign firms average 2.8 inspections per year, compared with 2.1 among domestic manufacturing firms.

Additionally, foreign firms employing more than 500 people reported an average of 3.3 inspections in

2011. (Large domestic firms also were inspected more frequently than their small domestic counterparts, but at a lower rate than equally sized foreign firms.)

This pattern, in which foreign manufacturing firms are particularly likely to receive scrutiny—in terms of the “spotlight” from activists concerned with corporate social responsibility and labor issues, as well as from domestic agencies—is borne out by the data. Only 8 percent of firms in the domestic sample identify DOLISA as one of the three most active agencies in terms of visits from inspectors. By contrast, 21 percent of firms in the foreign sample identify DOLISA as one of the three most frequent inspectors. Among these foreign firms, medium-sized firms (employing between 200 and 500 employees) are most likely to list DOLISA as one of the three most frequent inspectors (29 percent of firms with 200–299 employees, and 30 percent of firms with 300–499 employees). While domestic firms with more employees also are more likely to be visited by DOLISA inspectors than their smaller counterparts, these visits happen at a lower rate.

5.5. Union Presence

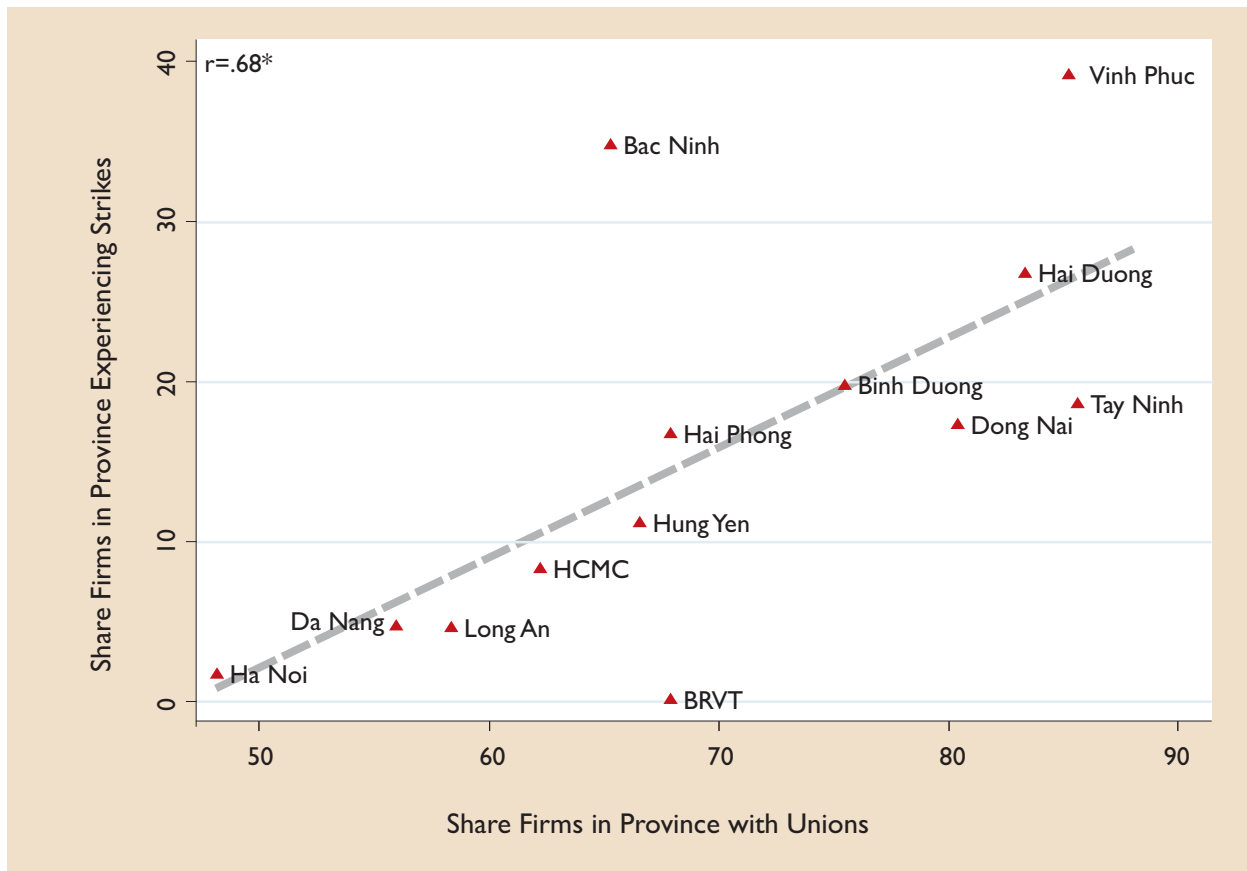
Labor unions can provide a means for workers to express their collective views to firm management. Indeed, the right to organize is part of the core labor rights recognized by the International Labour Organization in its 1998 Fundamental Declaration on Rights and Principles at Work, and many multinational corporations' corporate codes of conduct include provisions for the existence and operation of labor unions. Among foreign firms, 951 of 1,435 (65 percent) report that a union has been established in their enterprises. By comparison, 1,233 of 7,090 (17 percent) domestic firms report that a union exists in their workplaces. Unions in domestic firms are, on average, eight years old; those in foreign firms are slightly younger, with the mean date of union creation reported as 2005.

Of the 1,540 firms surveyed in the foreign firm sample, 346 provided information on their companies' home locations. Many foreign firms are based elsewhere in Asia—94 in Japan, 53 in South Korea, 30 in Singapore, 13 in Hong Kong, and 12 in mainland China. Another 40 firms are based somewhere on the European continent, and 19 are based in the United States. We might expect, given the stronger collective labor laws that characterize many continental European countries, that European firms would be more likely to report a union presence. The data suggest the opposite, however: 85 percent of South Korean firms report a union presence, compared with 77 percent of Singaporean firms, 71 percent of U.S. firms, 70 percent of Japanese firms, and 69 percent of European firms.

Strike activity could indicate either the extent of worker grievances or the capacity of workers to express their views. We find that foreign firms are far more likely to report experiencing a strike than their domestic counterparts. While 12.8 percent of the foreign firm sample (177/1,379 firms) reported a strike (with an average of 1.7 strikes in the past three years among those reporting in the affirmative), only 0.6 percent of the domestic firm sample (45/6,550 firms) did so (among those, an average of 1.6 strikes in the last three years were reported). This certainly is related to the lower union presence among domestic firms. Figure 27 documents the strong relationship between union presence and the share of FIEs experiencing strikes over the past three years. Bac Ninh and Vinh Phuc, however, are outliers, with far more strikes taking place than would be predicted by the number of firms with unions.

These data appear to predict a lower prevalence of collective agreements with workers. Foreign firms report an average of 12 collective agreements signed during the previous three years, compared with 4.6 collective agreements among the 2,967 domestic firms responding to this survey question.

Figure 27. Relationship between Union Presence and Strikes in FIEs



Seventy-eight percent of foreign firms located partially or completely in industrial zones report that a union has been established in their firms. By comparison, 55 percent of foreign firms not located in IZs report a union presence. Sixty-two IZ-based firms have workplace conciliation councils, compared with 55 percent of those outside the IZs. And 18 percent of IZ-based foreign firms report experiencing a strike, while only 7.5 percent of firms

outside the IZs do. Although these patterns may suggest that workers employed by IZ-based foreign firms, which tend to largely produce for export, have more grievances, they also could suggest that such workers are more willing to express their complaints. Surprisingly, it is foreign firms outside of the IZs—rather than those inside—that conclude more collective agreements, on average: 19.0, versus 8.1 for IZ-based foreign firms.

APPENDIX

DETAILS OF NINE SUB-INDICES OF PCI

Table A1: Comparison of Entry Costs Sub-Index (2006-2012)

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
Length of business registration in days (Median).	PCI Survey Question: C1	Min	12	7	5	6.5	7	7	7
		Median	20	15	12.25	10	10	8.5	10
		Max	58	22.5	15	15	15	15	15
		Correlation w/Previous Year	NA	0.27*	0.46*	0.56*	0.49*	0.41*	0.52
Length of business re-registration in days (Median).	PCI Survey Question: C2	Min	6	3	3	3	2.5	3	3
		Median	10	7	7	7	7	7	7
		Max	35	15	10	10	12.5	14.5	15
		Correlation w/Previous Year	NA	0.24*	0.53*	0.67*	0.48*	0.29*	0.23*
Firms requiring additional documental (%).	PCI Survey Question: C4_2010	Min					1.43	0	0
		Median					14.68	12.9	9.52
		Max					33.33	37.2	50
		Correlation w/Previous Year					NA	0.26	0.18
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	1
		Median	4	2.5	2	1	2	1.05	1.02
		Max	7.5	5	4	3	4	1.34	1.18
		Correlation w/Previous Year	NA	0.15	0.31	0.32*	0.03	N.A	0.15
Wait for Land Use Rights Certificate (Median).	PCI Survey Questions: B4.2	Min	40	30	30	15	20	15	15
		Median	121	60	38.5	32.5	30	30	30
		Max	338	180	105	180	150	90	105
		Correlation w/Previous Year	NA	0.16	0.43*	0.23*	0.26*	0.12*	0.18*
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	0
		Median	25.81	27.21	21.91	19.35	24.39	14.7	13.95
		Max	44	53.8	39.13	38.46	39.62	33.3	42.42
		Correlation w/Previous Year	0.24	0.26*	0.15	0.09	0.39*	0.08*	0.2*
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	0
		Median	5.78	6.78	5.72	4.44	5.77	3.33	2.94
		Max	25.64	27.27	16	20.72	18.87	14.8	13.04
		Correlation w/Previous Year	0.02	0.15	0.18	0.02	0.14	0.02*	0.04*

Table A2: Comparison of Land Access and Tenure Security Sub-Index (2006-2012)

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
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	54.32
		Median	55.28	75.57	81.16	73.68	72.89	77.55	75.86
		Max	77.78	92.45	94.74	94.51	95.89	97.05	93.59
		Correlation w/Previous Year		0.76*	0.70*	0.77*	0.80*	0.67*	0.49*
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	29.22
		Median	69.2	63.13	77.56	77.89	80.71	79.24	82.21
		Max	96.5	97.46	98.75	98.56	98.31	98.03	97.65
		Correlation w/Previous Year		0.85*	0.78*	0.87*	0.87*	0.73*	0.85*
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	2.16
		Median	2.49	2.24	2.04	2.55	2.56	2.90	2.71
		Max	3.05	2.57	2.49	3.05	3.30	3.35	3.22
		Correlation w/Previous Year		0.28*	0.95*	0.29*	0.31*	-0.0035	-0.1619
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	12.95
		Median	40	40.76	38.82	40.54	39.19	35.8	36.67
		Max	58.33	57.14	52.75	55.17	55.38	61.8	69.23
		Correlation w/Previous Year		0.37*	0.34*	0.42*	0.37*	0.17	0.18
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	36.02
		Median				69.75	72	68	69.57
		Max				81.11	86.17	86.2	87.64
		Correlation w/Previous Year				NA	0.43*	0.36*	0.14
Firm checked no land problems list of possible problems. NEW INDICATOR	PCI Survey Question: B7					11.02	8.27	12.2	11.25
						30.72	23.89	30	31.32
						52.32	49	68.5	52.89
						NA	0.42*	0.23*	0.26*

* 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 (2006-2012)

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
Transparency of planning documents.	PCI Survey Question: F1.1-F1.13†	Min	2.25	2.20	2.25	2.13	2.00	2.28	1.81
		Median	2.63	2.51	2.55	2.44	2.31	2.51	2.39
		Max	3.17	2.96	2.79	3.08	2.62	2.97	3.14
		Correlation w/Previous Year	0.39*	0.64*	0.61*	0.49*	0.48*	0.23*	0.29*
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	1.98
		Median	3.15	3.05	3.11	3.11	3.05	3.03	2.84
		Max	3.53	3.38	3.36	3.61	3.44	3.83	3.38
		Correlation w/Previous Year	0.31*	0.61*	0.59*	0.38*	0.56*	0.55*	0.32*
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	29.73
		Median	62.5	56.6	49.82	61.26	78.64	75.00	62.20
		Max	77.14	73.4	67.9	78.26	95.71	93.33	82.69
		Correlation w/Previous Year	0.27	0.38*	0.55*	0.37*	0.30*	-0.05*	0.18
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	14.53
		Median	61.05	44.7	36.71	41.32	40.78	41.09	39.21
		Max	86.96	73.2	54.25	62.4	67.04	62.67	67.78
		Correlation w/Previous Year	-0.16	0.52*	0.73*	0.36*	0.27*	0.09*	0.37*
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	1.30
		Median	9.49	7.96	6.94	8.4	8.97	8.57	6.60
		Max	37.88	18.3	15.69	22.22	20.24	29.48	13.51
		Correlation w/Previous Year	0.38*	0.46*	0.3*	0.50*	0.10*	0.22*	0.19
Openness of provincial webpage score	Analysis by PCI Research Team (For Scorecard See Section)‡	Min	0	0	0	0	0	9	0
		Median	9	13.75	14.25	15	15	15	14
		Max	18	20	20	20	19	20	20
		Correlation w/Previous Year	0.36*	0.51*	0.70*	0.74*	0.79*	0.69*	0.50*
Firm gives comments on government regulation(%)* NEW INDICATOR	PCI Survey Question: F4	Min				15.04	11.36	5.00	2.63
		Median				25.21	22.37	15.49	13.45
		Max				43.9	38.35	34.84	31.08
		Correlation w/Previous Year				NA	0.55*	0.37*	0.36*

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
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	15.33
		Median				35.71	37.04	31.25	31.81
		Max				57.32	55.56	60.60	66.25
		Correlation w/Previous Year				NA	0.32*	0.03*	0.11

* 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 - 2012)

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
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	3.22
		Median	21.24	21.87	22.99	15.38	19	11.26	13.84
		Max	39.39	43.75	42.55	30.36	35.37	31.57	28.57
		Correlation w/Previous Year	0.44*	0.62*	0.67*	0.44*	0.24	0.25*	0.45*
Median number of inspections (all agencies)	PCI Survey Question: D1	Min	0	1	1	1	1	1	0
		Median	1	1	1	1	1	1	1
		Max	2	2	2	2	2	2	2
		Correlation w/Previous Year	0.35*	0.30*	0.46*	0.34*	0.51*	0.14	0.26*
Median tax inspection hours	PCI Survey Question: D4	Min	1	2	1	1	1	1	1
		Median	8	8	8	5	4	4	4
		Max	40	40	32	40	28	24	24
		Correlation w/Previous Year	0.62*	0.86*	0.88*	0.75*	0.33*	0.30*	0.21
Government officials have become more effective (%Yes) NEW INDICATOR	PCI Survey Question: D9.1	Min				28.68	26.00	12.34	13.46
		Median				44.09	44.83	39.74	32.61
		Max				55.26	61.11	59.49	61.36
		Correlation w/Previous Year				NA	0.39*	0.4*	0.31*
Trips to obtain stamps and signatures reduced (%Yes) NEW INDICATOR	PCI Survey Question: D9.2	Min				17.69	17.78	7.40	9.90
		Median				30.23	29.07	23.75	23.45
		Max				45.95	53.16	47.36	40.19
		Correlation w/Previous Year				NA	0.45*	0.49*	0.34*
Paperwork reduced (%Yes) NEW INDICATOR	PCI Survey Question: D9.3	Min				24.2	30.01	20.98	20.16
		Median				47.89	45.60	47.05	40.65
		Max				63.16	68.75	65.38	66.67
		Correlation w/Previous Year				NA	0.29*	-0.02*	-0.06
Fees reduced (%Yes) NEW INDICATOR	PCI Survey Question: D9.4	Min				11.38	9.80	3.70	5.05
		Median				24.18	21.21	16.47	15.49
		Max				34.04	32.22	31.70	36.36
		Correlation w/Previous Year				NA		0.39*	0.26*

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
No Improvements (% Yes) NEW INDICATOR	PCI Survey Question: D9.4	Min				10.71	8.14	8.23	6.82
		Median				20	19.00	26.82	27.27
		Max				37.4	35.36	59.25	54.87
		Correlation w/Previous Year				NA	0.36*	0.5*	0.53*

Table A5: Comparison of Informal Charges (2006-2012)

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
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	28.57
		Median	70	68.25	65.93	59.4	58.23	51.39	53.17
		Max	84.62	82.72	83.59	77.47	77.11	75.68	74.19
		Correlation w/Previous Year	0.05	0.56*	0.64*	0.66*	0.73*	0.61*	0.33*
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	0
		Median	12.99	11.54	9.89	8.75	6.78	6.56	6.45
		Max	34.38	26.19	22.08	20.78	16.92	18.42	22.73
		Correlation w/Previous Year	0.21	0.45*	0.55*	0.60*	0.43*	0.15*	0.23
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	18
		Median	39.76	38.21	37.12	50.35	50	40.28	43.75
		Max	76.74	79.41	64.54	71.64	73.11	73.13	68.85
		Correlation w/Previous Year	NA	0.78*	0.68*	0.66*	0.63*	0.50*	0.51*
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	24.75
		Median	47.89	48.28	48.99	51.51	56.32	61.11	60.71
		Max	65.93	59.8	62.91	69.01	71.64	82.35	76.81
		Correlation w/Previous Year	NA	0.2	0.50*	0.50*	0.53*	0.34*	-0.0832
Do firms pay commissions on government contracts? (Yes) NEW INDICATOR	PCI Survey Question: D13	Min				22.89	21.7	31.67	15.94
		Median				53.47	41.4	55.88	40.38
		Max				74.81	63.33	83.67	63.83
		Correlation w/Previous Year				NA	0.48*	0.23*	0.1123

Table A6: Comparison of Proactivity (2006-2012)

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
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	34.48
		Median	74.44	71.74	77.28	72.65	75.31	65.15	65.57
		Max	93.48	92.47	91.41	91.72	90.14	92.15	88.31
		Correlation w/Previous Year	0.60*	0.68*	0.68*	0.70*	0.68*	0.48*	0.44*
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	22.48
		Median	61.88	58.12	61.5	42.46	49.38	46.6	47.66
		Max	88.64	87.91	85.05	72.59	71.11	78.26	71.13
		Correlation w/Previous Year	0.69*	0.76*	0.75*	0.75*	0.61*	0.47*	0.36*
Perceived attitude of provincial government toward private sector (% Very Positive or Positive).	PCI Survey Question: H1	Min	30.21	24.5	32.71	28.42	31.11	26.25	27.56
		Median	48.28	44.97	53.4	43.75	47	45.33	44.44
		Max	71.56	67.37	72.22	71.96	67.09	82.89	69.94
		Correlation w/Previous Year	0.63*	0.67*	0.53*	0.56*	0.56*	0.37*	0.42*

* 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 (2006-2012)

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
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	1
		Median	0	0	2.25	6	6	6	11
		Max	6	12	80	20	166	80	218
		Correlation w/Previous Year	NA	0.18	0.62*	0.42*	0.36*	0.23*	0.48*
Number of private providers for public services in province**	Tax Authority 2012 (Author's Calculation)	Min			0	0	0	1	0
		Median			1	5	12	19	17
		Max			3529	3114	4277	4543	4841
		Correlation w/Previous Year			NA	0.87*	0.94*	0.89*	0.89*
Firm has used business information search services (%) NEW INDICATOR	PCI Survey Question: E7.11	Min				29.90	31.48	19.39	19.88
		Median				60.36	64.35	46.00	37.50
		Max				79.81	87.10	80.46	59.26
		Correlation w/Previous Year				NA	0.47*	0.22*	-0.04
Firm used private provider for above business information search services (%) NEW INDICATOR	PCI Survey Question: E7.12	Min				20.59	16.67	20.37	4.35
		Median				38.81	39.22	41.89	29.73
		Max				58.82	55.56	80.00	56.67
		Correlation w/Previous Year				NA	0.17	-0.05*	0.0872
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	8.67
		Median				16.44	50.00	35.44	22.83
		Max				24.81	65.09	51.92	40
		Correlation w/Previous Year				NA	0.57*	0.31*	0.09*
Firm has used consulting on regulatory information (%) NEW INDICATOR	PCI Survey Question: E7.21	Min				30.34	27.87	19.39	18.64
		Median				62.50	57.50	44.74	38.68
		Max				77.42	81.82	77.90	62.12
		Correlation w/Previous Year				NA	0.48*	0.35*	0.052
Firm used private provider for consulting on regulatory information (%) NEW INDICATOR	PCI Survey Question: E7.22	Min				3.03	2.04	4.17	4.35
		Median				16.95	13.33	30.00	18.75
		Max				43.18	33.33	69.08	50
		Correlation w/Previous Year				NA	0.12	0.19*	0.

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
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	4.10
		Median				14.38	38.60	29.31	19.42
		Max				22.31	57.14	51.47	33.67
		Correlation w/Previous Year				NA	0.49*	0.33*	-0.05
Firm has used business match making services (%) NEW INDICATOR	PCI Survey Question: E7.41	Min				25.29	26.98	14.81	13.41
		Median				53.40	56.58	37.50	31.67
		Max				73.12	81.82	77.27	56.96
		Correlation w/Previous Year				NA	.50*	0.23*	-0.06
Firm used private provider for business match making services (%) NEW INDICATOR	PCI Survey Question: E7.42	Min				25.00	0.00	21.57	5.56
		Median				44.12	54.55	50.00	45.45
		Max				70.21	70.37	80.88	84.62
		Correlation w/Previous Year				NA	-0.12	-0.02	-0.03
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	6.42
		Median				12.68	39.52	24.69	15.73
		Max				21.64	59.18	42.22	32.35
		Correlation w/Previous Year				NA	0.61*	0.47*	0.10
Firm has used trade promotion services (%) NEW INDICATOR	PCI Survey Question: E7.51	Min				19.48	22.92	11.29	12.50
		Median				45.45	48.61	36.67	26.56
		Max				72.62	78.26	74.14	51.61
		Correlation w/Previous Year				NA	0.50*	0.24*	-0.03
Firm used private provider for trade promotion services (%) NEW INDICATOR	PCI Survey Question: E7.52	Min				4.44	0.00	0.00	0.00
		Median				18.00	15.79	24.14	17.65
		Max				38.42	42.31	74.60	70.00
		Correlation w/Previous Year				NA	0.45*	0.21*	-0.16
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	3.54
		Median				7.89	20.71	12.05	10.00
		Max				17.46	34.44	25.56	18.69
		Correlation w/Previous Year				NA	0.39*	0.47*	0.24
Firm has used technology related services (%) NEW INDICATOR	PCI Survey Question: E7.61	Min				25.33	21.54	15.38	13.51
		Median				50.00	52.63	36.51	29.55
		Max				73.49	81.40	74.71	50.00
		Correlation w/Previous Year				NA	0.50*	0.24*	-0.02

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
Firm used private provider for technology related services (%) NEW INDICATOR	PCI Survey Question: E7.62	Min				17.65	4.76	0.00	6.45
		Median				38.60	40.63	45.00	33.33
		Max				65.85	69.23	83.08	62.50
		Correlation w/Previous Year				NA	0.29*	0.26*	0.11
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	3.67
		Median				10.71	26.83	15.38	9.90
		Max				17.46	38.74	31.00	22.86
		Correlation w/Previous Year				NA	0.50*	0.37*	0.21

* 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 (2006-2012)

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
Services provided by provincial agencies: general education (% Very Good or Good)	PCI Survey Question: E1.7	Min	7.43	51.51	17.71	22.08	20.27	28.77	24.6
		Median	19.16	73.29	35.20	45.45	46.99	52.05	54.7
		Max	35.52	87.34	58.90	68.93	68.97	75.80	80
		Correlation w/Previous Year	NA	0.21	0.61*	0.76*	0.72*	0.54*	0.35*
Services provided by provincial agencies: labor vocational training (% Very Good or Good)	PCI Survey Question: E1.8	Min	31.25	24	6.25	10.25	10.67	16.46	15.25
		Median	55.43	55.9	19.81	27.11	27.40	34.88	42.15
		Max	73.17	79.49	46.28	48.51	64.37	68.25	73.39
		Correlation w/Previous Year	NA	0.66*	0.78*	0.57*	0.57*	0.39*	0.26*
Firm has used labor exchange services (%) NEW INDICATOR	PCI Survey Question: E7.3	Min				15.65	4.39	23.76	13.58
		Median				33.33	31.11	52.56	33.33
		Max				47.13	48.08	83.17	54
		Correlation w/Previous Year				NA	0.37*	0.31*	0.14
Firm used private provider for above labor exchange services (%) NEW INDICATOR	PCI Survey Question: E7.33	Min				25.53	0.00	3.45	2.00
		Median				40.43	39.06	22.72	15.62
		Max				75.61	84.42	61.80	39
		Correlation w/Previous Year				NA	0.39*	0.13*	0.09
Firm intends to use above service provider again for labor exchange services (%) NEW INDICATOR	PCI Survey Question: E7.35	Min				8.51	32.65	6.90	4.76
		Median				27.78	62.50	27.78	19.56
		Max				42.86	93.94	53.70	34.54
		Correlation w/Previous Year				NA	0.02	0.23*	0.1479
Percentage of total business costs spent on labor training (%). NEW INDICATOR	PCI Survey Question: E9 (Data is the residual after regressing 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)	0.87(-2.42)
		Median				1 (-2.5)	1.25 (-2.44)	1(-2.14)	3.9(-0.039)
		Max				2.5 (-1.19)	3 (0.917)	5(1.02)	7.47(4.03)
		Correlation w/Previous Year				NA	0.37*	-0.08	0.01

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
Percentage of total business costs spent on labor: NEW INDICATOR	PCI Survey Question: E8 (Data is the residual after regressing 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)	1.48(-2.29)
		Median				1 (-2.3)	1 (-2.8)	0(-2.30)	3.82(-0.18)
		Max				2 (-1.27)	3 (1.99)	1(-0.94)	9.39(4.86)
		Correlation w/Previous Year				NA	0.21	0.11	-0.22
Overall Satisfaction with Labor (% Agreeing labor meets firm needs). NEW INDICATOR	PCI Survey Question: E10	Min				50.4	58.40	42.99	71.6
		Median				74.1	73.47	75.60	92.7
		Max				83.8	90.11	93.75	100
		Correlation w/Previous Year				NA	0.28*	0.21*	-0.10
Vocational training school graduates/untrained laborers. NEW INDICATOR	Ministry of Labor, Invalids and Social Affairs: General Labor Department	Min				1.42	0.89	1.03	0.95
		Median				5.45	3.13	3.60	3.72
		Max				29.02	20.51	20.08	22.42
		Correlation w/Previous Year				NA	0.58*	0.93*	0.93*
Secondary school graduates (% of workforce). NEW INDICATOR	General Statistical Office	Min				4.4	4.36	2.73	2.05
		Median				10.3	8.65	7.10	7.69
		Max				30.2	28.02	16.17	19.09
		Correlation w/Previous Year				NA	0.91*	0.65*	0.85*

* 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 (2006-2012)

Indicator	Source (2012 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012
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	9.00
		Median	19.16	28.80	27.31	25.17	25.00	36.67	23.7
		Max	35.53	41.41	42.53	43.94	53.33	70.12	51.7
		Correlation w/Previous Year	NA	-0.24	0.48*	0.38*	0.27*	-0.08*	-0.128
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	41.7
		Median	69.42	66.11	67.00	62.32	62.69	86.36	63.8
		Max	82.14	77.55	78.23	75.76	71.11	96.34	81.8
		Correlation w/Previous Year	NA	0.50*	0.40*	0.29*	0.16	-0.14*	-0.04
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	0.00
		Median	0.41	0.58	1.29	3.05	1.74	2.11	1.32
		Max	9.49	8.12	6.97	35.64	62.10	14.82	9.01
		Correlation w/Previous Year		0.66*	0.32*	0.84*		0.70*	0.68*
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	0
		Median	50.00	50.00	65.48	72.41	73.47	84.81	90
		Max	100	100	100	100	100	100	100
		Correlation w/Previous Year	NA	0.38*	0.05	0.41*	0.40*	0.27*	0.46*
Business used courts or other legal institutions to resolve disputes (%) NEW INDICATOR	PCI Survey Question: G1	Min				4.76	0	0.	0.
		Median				23.33	25.00	22.22	22.22
		Max				44.83	90.91	66.67	50.00
		Correlation w/Previous Year				NA	0.27*	0.34*	0.17*
Median months to resolve court cases NEW INDICATOR	PCI Survey Question: G3.2	Min				1.00	0.5	1	1
		Median				6.00	6.00	8.77	3.00
		Max				19.71	12.63	10.00	30.00
		Correlation w/Previous Year				NA	0.21	0.23	0.28*
Median formal and informal costs as a percentage of case NEW INDICATOR (%)	PCI Survey Question: G3.3	Min				3.09	2.5	1	0
		Median				12.21	11.73	14.79	10.00
		Max				60.00	44.5	32.74	100
		Correlation w/Previous Year				NA	0.03	0.02	0.23



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