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THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2010

IMPROVING ECONOMIC GOVERNANCE FOR DOMESTIC AND FOREIGN INVESTORS

THE 2010 VIETNAM PROVINCIAL COMPETITIVENESS INDEX

IMPROVING ECONOMIC GOVERNANCE FOR DOMESTIC AND FOREIGN INVESTORS

Primary Author and Lead Researcher:
Dr. Edmund Malesky

Research Team:
Tran Huu Huynh
Dau Anh Tuan
Le Thanh Ha
Le Thu Hien
Nguyen Ngoc Lan

PREFACE

The U.S. Agency for International Development has supported the development of Vietnam's Provincial Competitiveness Index (PCI) in partnership with the Vietnam Chamber of Commerce and Industry (VCCI) since 2005. USAID development partner, Development Alternatives, Inc. (DAI), has carried out this fruitful partnership with VCCI under the USAID Project, Vietnam Competitiveness Initiative (USAID/VNCI).

It is interesting to note that VCCI played a key role leading to the development of today's PCI. In the early 2000s, seeking to understand and share why some provinces in Vietnam performed better than others, VCCI engaged in a partnership with The Asia Foundation under the project, "Spreading Best Practices of Provincial Economic Governance in Vietnam." A precursor to today's PCI, that project developed an economic governance index for 14 non-metropolitan provinces based on input from over 400 Vietnamese enterprises.

We have come a long way since then. Today's PCI covers all Vietnam provinces, and the 2010 PCI Report is based on inputs from over 7,300 Vietnamese enterprises and, a new feature this year, on inputs from over 1,155 foreign invested enterprises. Based on a robust survey of the private sector business community, the 2010 PCI Report is the sixth annual PCI and provides information valuable to many different audiences. At the central government level, it can provide a valuable comparison of provincial performance in different parts of the country and help identify areas where the central government may wish to focus greater attention. At the provincial level, it provides information on where a province is excelling in economic governance, as well as, areas where improvement is needed to become more competitive and achieve greater economic growth. PCI ranking information can also help provincial leadership to develop a strategy to improve its future governance performance and related PCI ranking. For investors and businesses considering investment or expansion of existing investments in Vietnam, it provides valuable information regarding the business climate in each of the provinces. For the international donor community, it is also helpful in monitoring the progress of provincial reforms and understanding the development needs of different provinces. Researchers use the rich PCI data for analysis, research, and publications.

Many thanks to all of the private sector companies that have taken the time to respond to the survey for this 2010 PCI Report. Without your candid responses, there would be no PCI. We also congratulate our Vietnamese counterpart, VCCI, and our USAID/VNCI colleagues for your respective leadership in producing the 2010 PCI Report.

We hope that readers will find the report useful.

Sincerely

Francis A. Donovan

Mission Director, USAID/Vietnam

FOREWORD

This sixth edition of the Provincial Competitiveness Index (PCI) represents the views of 7,300 Vietnamese enterprises to construct the 2010 PCI rankings, providing a remarkable consistency in data and analysis for assessing economic governanceperformance over time. For the first time, the views of 1,155 foreign invested enterprises (FIEs) in the FDI community are also included in the 2010 PCI survey to provide insights into the existing FDI footprint in Vietnam and the challenges of improving the business environment to attract higher value-added investment that will sustain economic growth.

The 2010 PCI highlights important successes and areas for improvement that are particularly relevant for Vietnamese national and provincial leaders. This year, a larger number of enterprises express optimism about the economy and their plans for increasing investment, although larger foreign and domestic firms are much more optimistic than sole proprietorships, which raises concerns about how to support small enterprises that are critical to job creation. Compared to the 2009 PCI, enterprises indicate notable improvements in labor training and business support services, but declines in the sub-indices measuring entry costs, access to land, legal institutions, transparency, and time costs, which increase the burden of regulatory compliance for enterprises. Transparency continues to decline in dramatic fashion, creating uncertainty for enterprises about their future investments.

For the first time, the 2010 PCI provides greater details and robust empirical evidence of informal charges in Chapter Three. Feedback from enterprises on key problem areas, including business registration, government procurement and customs, can guide government efforts, such as the Prime Minister's Master Plan to Simplify Administrative Procedures (known as Project 30), to prioritize improvements in areas where enterprises are vulnerable to corruption during the course of streamlining administrative procedures. Focusing reforms on the most critical economic areas for further bolstering efficient trade and investment, such as customs,may require a combination of integrated technology and management solutions, combined with administrative procedures reform, to minimize corruption and increase efficiency.

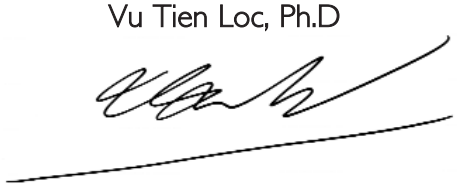
The survey of 1,155 FIEs from 47 different countries located throughout Vietnam provides a valuable perspective on the current FDI footprint in Vietnam today. Vietnam has succeeded in alleviating poverty through job creation and spurring economic growth by attracting relatively small, low margin FIEs that rely on sales to multi-national companies with minimal value-added. As Vietnam explores strategies to move to the next stage of development, the country needs to attract higher quality investment to increase productivity and prosperity. This will require improved contract enforcement and control of corruption to reduce the costs and risks of investing and doing business in Vietnam. Labor is a key area of concern for existing FIEs that experience labor shortages and high turnover due to low quality and inadequate supply of workers. Rethinking current education policy is essential to improve labor quality to retain existing FIEs and attract higher value-added investment. The recent Vietnam Competitiveness Report underscores the importance of higher value added foreign investment and improvements in infrastructure, administrative and regulatory management, and labor quality through vocational and education.

Improving economic governance requires continued leadership and commitment of government leaders at central and provincial levels to tackle difficult challenges, such as infrastructure, administrative management, corruption, and workforce development. Our goal is to provide the relevant information and analysis to stimulate policy dialogue between government and business leaders, which we believe can help guide policy and institutional reforms that will improve economic growth and prosperity for Vietnam.

James Packard Winkler, Ph.D

Project Director
USAID Vietnam Competitiveness Initiative

Vu Tien Loc, Ph.D



Chairman
Vietnam Chamber of Commerce & Industry

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Edmund Malesky of the University of California–San Diego led the development of the PCI's research methodology and authored the presentation of its analytical findings. DauAnh Tuan, Deputy Director of the Legal Department of VCCI authored Chapter 1.

Professor Malesky was supported by a PCI research team that included Tran Huu Huynh, Director of the Legal Department at VCCI; Le Thanh Ha, and Nguyen Le Ha of VCCI; Nguyen Thi Minh of the National Economics University; Le Thu Hien, Nguyen Ngoc Lan, and Dang Quang Vinh of USAID/VNCI; and Dimitar Gueorguiev of the University of California–San Diego, who helped author Chapter 3. The PCI benefited from direction and input from Francis Donovan, USAID Mission Director, Jay Kryk, USAID's Director of Economic Growth,and Le Thi Thanh Binh, USAID Project Manager. The PCI was developed under the overall technical leadership of Vu Tien Loc, Chairman of VCCI, James Packard Winkler, USAID/VNCI Project Director, and Do Hoang Anh, USAID/VNCI Deputy Director.

Christian Ketels, Associate Professor, Harvard Business School, and Do Hong Hanh,Country Director for Vietnam, the Asia Competitiveness Institute, LeeKuan Yew School of Public Policy, National University of Singapore, co-authors of the Vietnam Competitiveness Report; and Matthias Duhn, Executive Director, European Chamber of Commerce of Vietnam (EuroCham) reviewed the manuscript and provided expert commentary. Adam Sitkoff, Executive Director, American Chamber of Commerce (AmCham), and Matthias Duhn provided guidance and comments on the survey questionnaire for foreign invested enterprises and assisted the PCI team to test the survey with a selected number of EuroCham and AmCham members. AmCham and EuroCham are corporate sponsors of the 2010 PCI.

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Development Alternatives, Inc. (DAI) is a global consulting firm providing social and economic development solutions to governments, communities and companies with projects in developing and transitioning countries. Founded in 1970 and headquartered in the Washington, DC area, DAI now includes companies in Brazil, South Africa, Palestine, the United Kingdom, Jordan, Mexico and Pakistan. DAI's global team of 2,000 development professionals works in 75 countries. Clients include global development agencies, international lending institutions, global corporations and host country governments.

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Mme. Phạm Chi Lan	Senior Economist
Mr. Vũ Quốc Tuấn	President, Association of Vietnamese Trade Villages
Mr. Nguyễn Đình Cung	Vice President, Central Institute for Economic Management
Mme. Vũ Xuân Nguyệt Hồng	Vice President, Central Institute for Economic Management
Mr. Nguyễn Minh Mẫn	Director of State Administration and Civil Service Department, Office of the Government
Mr. Lê Đăng Doanh	Senior Economist
Mr. Nguyễn Quang A	Senior Economist
Mr. Cao Sỹ Kiêm	President, Association of Vietnamese Small and Medium-Sized Enterprises
Mr. Nguyễn Văn Thời	National Assembly Member and General Director of the Thai Ngueyen Joint-Stock Export Company
Mr. Vũ Thành Tự Anh	Director of Research, Harvard Fulbright Economics Teaching Program, Ho Chi Minh City
Mr. Võ Hùng Dũng	Director, VCCI Can Tho
Mr. Nguyễn Ngọc Phi	Former Chairman, People's Committee of VinhPhuc
Mr. Nguyễn Văn Tứ	Vice Director of Planning and Investment Department, Ha Noi
Mr. Nguyễn Phương Bắc	Vice Director of Planning and Investment Department, BacNinh
Mr. Trình Văn Anh	Planning and Investment Departement, Dong Nai
Mr. Nguyễn Thái Sơn	Senior Expert of the Government and former Member of the Task force for Implementation of the Enterprise Law and Investment Law
Mr. Cao Bá Khoát	Economist, Director of K & Associates Consulting
Mr. Phan Đức Hiếu	Vice Director, Competitiveness and Business Environment Department, Central Institute for Economic Management
Mr. Vũ Quốc Huy	Economist, National University of Hanoi
Mme. Phạm Thị Thu Hằng	Director, Center for Supporting Small and Medium Size Enterprises, VCCI
Mr. Phạm Duy Nghĩa	Harvard Fulbright Economics Teaching Program, Ho Chi Minh City
Mr. Lê Duy Bình	Director, Economica Vietnam
Mr. Nguyễn Văn Làn	Economist, Mekong Private Sector Development Facility
Mr. Trần Du Lịch	National Assembly Member and Former Director of Ho Chi Minh City Institute of Economics.
Mr. Vũ Xuân Tiền	Director, VFAM Consulting
Mr. Vũ Quang Thịnh	Sai Gon Invest JSC
Mr. Trần Phương	Senior Vice President, Head of Corporate Planning, Bank for Investment and Development of Vietnam
Mr. Trần Thọ Đạt	Vice Rector, National Economic University
Mr. Nguyễn Văn Thắng	National Economic University
Mr. Đoàn Hồng Quang	Senior Economist, World Bank

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ABBREVIATIONS AND ACRONYMS

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

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The Provincial Competitiveness Index (PCI) was developed in 2005 by the Vietnamese Chamber of Commerce and Industry and the U.S. Agency for International Development's Vietnam Competitiveness Initiative (USAID/VNCI). Since that time, the PCI has become widely viewed as a critical tool for measuring and assessing the standards of economic governance in Vietnam's 63 provinces and centrally-managed cities from the perspective of private sector businesses.

The 2010 PCI report is the sixth iteration; the report is based on a rigorous survey of the perceptions of 7,300 domestic firms, which uses a stratified sampling strategy, based on business sector, age, and legal form, to ensure that the PCI sample is representative of the provincial population of private, domestic businesses. 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 has : 1) low entry costs for business start-up; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable business information; 4) minimal informal charges; 5) limited time spent on bureaucratic procedures and inspections; 6) proactive and creative provincial leadership in solving problems for enterprises; 7) developed and high-quality business support services; 8) sound labor training policies; and 9) fair and effective legal procedures for dispute resolution.

This year's report also introduces the PCI's first survey of Foreign Invested Enterprises (FIEs) in Chapter 2. The survey covers a highly representative selection of 1,155 businesses from 47 different countries whose operations are located throughout Vietnam's 63 provinces. While it is not the first survey of foreign investment in Vietnam, it is the largest and most comprehensive. In fact, the number of respondents in the PCI-FDI module accounts for 20 percent of the entire population of foreign investors found in the General Statistics Office (GSO) Enterprise Census. As many provinces have too few FIEs to allow for reliable estimations, the views of FIEs are not included in the calculation of the PCI. Chapter 2, however, does explicitly analyze how the perceptions of FIEs differ from domestic firms in the country's most economically developed provinces.

A third feature of this year's PCI report is the special analysis of corruption in both the private and foreign invested sectors that is provided in Chapter 3. This analysis makes use of a new technology in survey design, known as the Unmatched Count Technique (UCT) or List question to allow for unbiased estimates of the amount of corruption that takes place during business entry and government procurement in the country. The chapter moves beyond aggregate assessment of corruption in the county to pinpoint the time periods, sectors, and business histories that are most commonly associated with the propensity for corruption.

CHAPTER 1: SURVEY OF DOMESTIC, PRIVATE ENTERPRISES AND PCI RANKING

1.1. Overall Ranking

Da Nang city continued its reign as the top-performing province with a weighted score of 69.77- its third year in a row at the top. But, Da Nang firms rated the province worse than the previous year on average, recording a weighted PCI score that was 6.19 points lower than in 2009. Lao Cai and Dong Thap round out the Excellent Performer Tier with scores of 67.95 and 67.22 respectively.

Surprisingly, after three consecutive years at the top of the rankings (from 2005 to 2007) and two subsequent years in second place, Binh Duong suffered an 8.28-point drop and fell to fifth place. This is also the first time since the PCI initiation five years ago that Binh Duong has fallen out of the premier group of performers in the country (the Excellent Tier). In addition to its "traditionally" high-scoring sub-indices-namely proactivity of provincial leadership, transparency, labor training-Binh Duong observed some backsliding in the sub-indices measuring entry costs and business support services.

The Mekong Delta continues to amaze with its steady and consistent improvement across the region. If we include Can Tho and Long An, the Mekong Delta accounts for 9 of the 22 provinces and cities that are ranked in the Excellent and High Tiers in the 2010 PCI.

1.2. Overall Changes in Economic Governance

Because we did not make changes to the PCI's sampling strategy, indexing methodology, or breakpoints between 2009 and 2010, we can compare the two years directly. The analysis is revealing. The past year witnessed no improvement in provincial economic governance, according to local businesses. The weighted PCI score for a median province is 58.02, a statistically insignificant slide compared with 2009. The number of Excellent Performers declined from six in 2009 to three in 2010. The High Performers Tier also witnessed a marginal drop of one province, from 20 to 19.

Despite the notable changes discussed above, and some important improvements among provinces in the Central Highlands, the PCI ranking once again demonstrates remarkable consistency. The 2010 PCI results look remarkably similar to those of previous years; Da Nang, Lao Cai, Dong Thap, and Binh Duong are still among the top five performing provinces. And the bivariate correlation between the 2010 and 2009 remains statistically significant and high at 0.78.

The bottom line is that changes in economic governance manifest themselves slowly, as it takes a while for provincial initiatives to be implemented and even longer for respondents to observe those changes and comment them in our annual survey. According to our best estimates, at least 20 provinces have promulgated formal legal documents to launch programs for improving their business environment and enhancing competitiveness. In some provinces these programs have already borne fruits, but in others a longer gestation period may be required.

1.3. The PCI Thermometer of Business Sentiment

Every year, businesses answer a question in the PCI survey questionnaire regarding their business plans over the next two years. Do they intend to expand or reduce the size of the operations? We call this question, which assesses the business level of optimism among Vietnamese firms, the "business thermometer." In the 2009 PCI report, we indicated that business sentiment was at its lowest level in five years. This year's report indicates the onset of a trend of improvement. The percentage of firms intending to expand their business increased 6.3 percent in the past year, to 69% of the total sample. However, optimism still has not met the levels reached in 2007 and 2008.

One key area of concern appears to be an increasing disparity in business sentiments. Sole proprietorships, typically small in size, tend to be much less optimistic than larger-sized firms, such as limited liability companies or joint stock companies. The percentage of sole proprietorships intending to expand operations in the next two years (43.25 percent) is about half that of joint stock companies (79.38 percent). By way of comparison, FIEs record a thermometer score of 67%, which approximates the domestic average.

1.4. Disaggregated Changes in Economic Governance

Taking advantage of sub-index data and answers to specific indicators, the PCI reports also provides fine-grained analysis on specific changes in

governance in the past year. We observe improvements in areas of labor training and business support services and stagnation in proactivity of provincial leaders and the reduction of informal charges. More worrisome, however, are the lower scores evident in the entry costs, access to land, legal institutions, transparency, and time costs sub-indices.

Labor

In the median province, the percentage of firms expressing satisfaction with general education and labor training increased steadily from 35.2 percent in 2008 to 45.45 percent in 2009 to 46.99 percent in 2010. Although there is no increase in the percentage of firms using labor exchange services (currently around 40 percent), the quality of these services have seen improvements-62.5 percent of the firms claim they planned to use the service again, compared to 27.78 percent in 2009. These changes are welcome, as the most common complaint among employers is the low quality of the workforce, which they argue prevents upgrading.

Business Support Services

The number of BSS providers in the median province leapt from one enterprise in 2008 to five in 2009. In 2010, the median province has 12 BSS providers. The percentage of firms using business information search services increased from 60.36 percent in 2009 to 64.35 percent in 2010. There is a noticeable increase in the number businesses selecting private service providers over government, which is an excellent sign for future development. Moreover, many firms see the quality of BSS improving. In 2010, over half of the firms said they would continue to use the service, compared to only 16.44 percent in 2009. The percentage of firms using other BSS, such as business matchmaking, trade promotion and trade fairs, and technology-related services, all increased by 3.18 percent, 3.16 percent, and 2.63 percent respectively.

Entry Costs

Market entry is correctly considered the most important economic reform in Vietnam over the past two decades. Indeed, the sub-index measuring the costs of business entry has shown the greatest improvements and least cross-provincial variance among all PCI sub-indices. Curtailing registration time, cutting procedures, and setting up OSSs (including interdepartmental OSSs), are reforms being implemented by most of the provinces and cities in Vietnam. Between 2006 and 2009, average registration periods have been cut in half -- an impressive achievement. However, reform progress stagnated in 2010-the number of days required for registration and change of registration remain exactly the same as in 2009 (10 days and 7 days respectively). Businesses requiring additional documentation increased, and consequently the percentage of firms (in the median province) waiting more than a month to complete all steps necessary to start business jumped from 19.35 percent in 2009 to 24.39 percent in 2010. Likewise, the percentage of firms waiting more than three months increased from 4.44 percent to 5.77 percent over the same period.

Transparency

The most worrisome trend in 2010 continues a pattern observed in 2009. Transparency is declining in Vietnam in dramatic fashion. The PCI 2010 findings show declines in nearly every transparency indicator compared with 2009. Accessibility of planning documents related to business enterprises and of legal documents both decreased noticeably. On a 1–5 scale (in which 1 is Impossible to Access and 5 is Very Easy to Access), accessibility of planning documents averaged 2.31 points, falling from 2.44 in 2009 and hitting the lowest level in all six years of PCI. The best performing province scored only 2.62 points, against 3.08 points in 2009. Transparency of the legal documents is calculated at 3.05 on average, compared to 3.11 in 2009, which implies that transparency has declined to the 2007 level.

According to firm ratings, access to planning documents and information increasingly needs "relationships" in local government offices. As many as 78.64 percent of firms surveyed in PCI 2010 say

that a "relationship is important to get access to provincial information," an increase of more than 17 percent from the 2009 index. This is the highest increase in the necessity of relationships over the six years of the PCI. In addition, the percentage of firms indicating that the provincial government discusses changes in law with them fell to 22.37 percent from 25.21 percent in 2009. This suggests nearly four out of every five enterprises have never provided feedback on changes in law.

The news that transparency continued its 2009 dip into 2010 is quite discouraging for private businesses, as this is the most influential sub-index over private sector development and the most heavily weighted among PCI sub-indices. A transparent business environment helps raise business confidence in the management efficiency of provincial governments, allowing them to prepare long-term investment plans and contribute to improving the efficient allocation of resources.

1.5. Infrastructure Quality

This year, the research team continued to track the quality of infrastructure at the provincial level as business owners and policy makers continue to cite it as one of the most critical barriers to investment and growth in the country. The PCI Infrastructure Index is divided into four sub-indices: 1) Industrial Zones; 2) Road and Transport; 3) Utilities; 4) Telecommunications and Information Technology.

Binh Duong, Dong Nai, and HCMC-the three powerhouse industrial provinces of the North Southeast, which alone account for a quarter of the non-oil gross domestic product in the country-receive the three highest scores. Five central-level large cities are among the eight top ranking in infrastructure. Unsurprisingly, the lowest infrastructure scores are in the rural, Northern Uplands of the country, including BacKan, Lai Chau, and Son La.

Compared to 2009, the 2010 infrastructure witnessed positive changes in firm perceptions in road quality (the percentage of asphalted roads increased by 20% points and satisfaction of firms increased correspondingly). Firms are also marginally more satisfied with improvements in telecommunications quality and internet access.

Nevertheless, rolling blackouts continue to wreak havoc on small businesses with the problem actually growing in 2010. On average, the electricity outage hours of each firm in the month prior to the survey (June 2010) almost doubled from 50 hours in 2009 to 89 hours in 2010. The average electricity price also increased from 796.24 VND/Kwh in 2009 to 916.42 VND/Kwh. The only solace lies in the fact that many of the blackouts were reported in advance, so firms could take appropriate precautions. The number of blackouts for which firms were prepared increased from 50 percent to 59 percent. Nevertheless, 59 percent is still not often enough and represents a tremendous cost to entrepreneurs in terms of work stoppage, delays, and damage to machinery.

CHAPTER 2: SURVEY OF FOREIGN INVESTED ENTEPRISES

2.1. The Typical FIE in Vietnam

It is critical to note that the results that follow are from a survey of 1,155 of Vietnam's existing FIEs. The PCI-FDI survey interviews the FIEs that Vietnam currently has, not the investors that it hopes to attract. Consequently, analysts must remember this when using these results. The sources of attraction and demands of Vietnam's current FIEs do not map perfectly on to the demands of the next generation.

As a whole, the current median investor in Vietnam is relatively small, export-oriented, and operating a low-margin business that is subcontracting to a larger multinational producer - and is therefore usually situated in the lowest node in a product's value chain. These FIEs source a surprisingly small amount of intermediate goods and services from domestic producers, which implies that spillovers of technological capacity and management sophistication have been limited. For the most part, these investors

were attracted to Vietnam for the cost advantages offered by Vietnam's wage rates and the political stability of the Vietnamese regime, allowing investors to plan strategically in the belief that policies will be upheld for some time. There is no doubt that these FIEs have contributed remarkably to Vietnamese economic development through employment creation, revenue generation, and integrating the country into global export markets. Nevertheless, it is clear that Vietnamese economic strategists seek a different type of FIE to move the country to the next stage of economic development.

2.2. Drivers of Investment for the Current FIE

The vast majority of FIEs in Vietnam responded that they were interested in export and selected Vietnam for its low labor costs. Tax incentives also influenced investment attraction, as most of the investors operate relatively low-margin operations. Finally, political stability was important for investors who are confident that the leadership and its policies will be in place for the long-term, allowing them to engage in long-run strategic planning. Unfortunately, relying on this type of FDI is not a sustainable strategy for future economic development. Labor costs and the prices of other intermediate goods are already rising in the country, and the low-cost manufacturing investors will eventually seek less expensive locations. Tax incentives will allow the country to hold on to some of these investors for a short period, but at the cost of vital revenue that could be used more productively in investment in human capital and infrastructure revitalization- critical issues for the next generation FIEs.

2.3. Drivers of Investment of the Next Generation FIE

To summarize a great deal of work on the subject by economic analysts of Vietnam: strategists would like the next generation of FIEs to employ sophisticated technology and management, source broadly from the domestic economy, and be conscientious about environmental and labor concerns. The recent Vietnam Competitiveness Report, for example, highlighted the importance of attracting higher quality FDI to increase productivity and competitiveness. Not only does Vietnam want these FIEs to be involved in high value-added production, but also the new investment should involve higher value-added nodes on production chains, so more of the ultimate returns on production are realized within the Vietnamese economy in terms of higher tax revenue and wage rates. The next generation FIEs will operate in high-margin businesses, so that quality of labor, intermediate goods, and infrastructure outweigh the cost advantages of production in their utility functions.

Unfortunately, very few of the next generation of FIEs have chosen to locate in Vietnam thus far. Nationally, about 5 percent of investors are involved in high-tech production, such as the information and communications technology (ICT) industry; another 5 percent are involved in scientific and technical services; and 3.5 percent are involved in finance and insurance services, which employ sophisticated management techniques and require highly trained labor. Nevertheless, the PCI research team was able to take advantage of this small group of investors, in order to see how their needs differed from the predominant low value-added export-oriented manufacturer in Vietnam.

2.4. Investment Promotion

Attracting next generation investors should not mean "picking winners" through targeted incentive strategies, which developing country governments have historically proven unable to do effectively, creating long-term distortions in their economies. Vietnamese policy-makers cannot know what the next big thing will be. Targeting investment around yesterday's leading high-tech industries could prove disastrous. Rather, it means developing the labor skill sets, infrastructure profiles, protection of property rights, and contract enforcement that sophisticated investors find attractive. These investments will pay dividends regardless of the economic sector that approaches Vietnam.

It also means taking a serious look at the lack of FIE sourcing from Vietnamese domestic producers. Why are business relations between FIEs and the domestic economy so limited? Domestic producers are not certain of the quality and technological standards of future investors, while future FIEs may not have a full understanding of the domestic capacity in the country. Investment promotion agencies can do a much better job of conveying those standards to domestic producers and investing in better databases for business partner matchmaking between FIEs and domestic suppliers. Provincial investment promotion agencies that convey information and find partners effectively will end up creating economic clusters organically, as similar FIEs seek out the same high-quality downstream suppliers.

2.5. Labor Quality and Training

Even investors interested in low-cost production are unsatisfied with the level of general and vocational training provided in Vietnam. Low quality labor requires substantial internal investments (8 percent of total expenditures), but the high turnover in the Vietnamese labor market means that investors rarely benefit directly from the fruit of the training efforts. Although the spillover of trained workers into the Vietnamese labor market does benefit the domestic economy, it acts as a deterrent to any individual firm investing in the expensive training needed for sophisticated technological products and services.

To attract more sophisticated investors, Vietnam needs to substantially rethink secondary, tertiary, and vocational education in the country. Education investments targeted at the particular sectors Vietnam would like to see grow or general improvements that create a fungible workforce, which can adapt to new technological innovations, could pay huge dividends. In the PCI-FDI survey, high-tech investors were the most likely to identify labor quality as a disadvantage for their investment strategies. The well-documented difficulties of Intel in finding quality labor for its high-end production facility are a testament to these problems.

2.6. Customs Hold-Ups and Informal Fees

On average, Vietnamese exporters have their products held-up by customs procedures for almost three days, importers for almost four. This does not even take into account slowdowns due to port congestion; it is simply the days necessary for clearance. For companies using complex multi-country production chains, hold-ups of this nature are extremely costly, as they create bottlenecks in downstream facilities. For investors trying to ship perishable or high-tech products, the hold-ups are disastrous. We can see this immediately in the data. Seventy percent of investors who ship regularly feel it is necessary to pay bribes to expedite procedures. To some extent, this results from systemic corruption, but it also testifies to the urgency of getting through customs quickly. It is telling that informal charges are significantly less likely in uncongested offices. Once again, Vietnam is now experiencing these difficulties when the primary foreign investors are in low-cost production; however, the costs will be even more severe for more sophisticated operations on tighter production schedules.

2.7. Costs of Regulatory Compliance

Despite the tremendous effort Vietnam has made to lower the regulatory burdens faced by businesses, these reforms have benefitted the domestic, private sector more so than FIEs. Foreign operations wait twice as long to be officially legal and suffer twice as many regulatory inspections as similarly situated domestic businesses. The advances made under the Unified Enterprise Law, 2005 Investment Law, and Project 30 have gone some way toward addressing this problem, but the results of this survey show there is more work to be done. In 2000, about 45 percent of FIEs waited a month to be legal, while today the number is about 35 percent. The limited improvement since World Trade Organization (WTO) entry appears to violate the spirit of domestic treatment of FIEs to which Vietnam is committed. Some investors have noted the issue and wondered informally whether the bias in entry costs is intentional.

Because of the costs of these regulatory burdens, profitable FIEs are significantly unlikely to credit their success to business policy, choosing instead to attribute their own business acumen for overcoming them. Regulations appear to be most problematic for the service sector, where loss-making operations are 11 percent more likely to blame their problems on government policy than other sectors.

2.8. Infrastructure Quality for FIEs

FIEs are generally more positive than domestic investors about Vietnam's infrastructure quality. This is predominantly because foreign investors are far more likely to be located in IZs, which have better roads, road connections, and electricity access. Nevertheless, better than the domestic sector is not satisfactory: FIEs experienced 25 power outages in the month before the survey; only 40 percent of FIEs rate road quality as good; only 20 percent say connections between roads and ports are good; only 30 percent rank road and airport connectivity as good; and lowest of all, only 16 percent claim that connectivity between rail and road is good enough for their businesses. When roads need repair, 25 percent of FIEs claim the roads are never fixed, and when they are, they indicate that it takes too long, with a median of 30 days.

2.9. Investment Incentives

Provincial FDI promotion should not rely only on tax and land incentives, as they do not solely determine the location choice of FIEs. It is certainly true that more than 60 percent of the PCI-FDI respondents received some form of tax incentive from the province. These were predominantly in the form of tax holidays and benefitted manufacturing, agriculture, and natural resource exploiters disproportionately over investors in services or construction.

The most intriguing result, however, came from a question that asked respondents of FIEs that considered multiple provinces before choosing one for their business, how the incentive package of the losing province compared to the province they eventually chose. Fifty-nine percent claimed the incentive packages were the same and 12 percent said their current province had a better package. Importantly, however, 29 percent announced that the losing province actually had the preferable incentive package.

In essence, for 88 percent of investors, the incentive package was not the critical factor in their investment decision. FIEs are willing to forego higher incentives for a better business environment that includes a well-trained local labor force and system of business regulations that are more transparent and less burdensome. This has important policy implications for many provinces, which have unsuccessfully used tax and land incentives as their primary source of attraction.

CHAPTER 3: ANALYSIS OF INFORMAL CHARGES

3.1. Analysis of Informal Charges

Using a cutting-edge survey technique that protects investors' identities and provides more reliable information, we find that more than 21 percent of domestic enterprises paid bribes during registration and 40 percent offered bribes when seeking to secure government contracts.

Because most foreign firms are export oriented and rarely engage in government contracting, the (foreign only) sample was only evaluated with respect to bribery during registration and licensing -18 percent use bribes to expedite procedures. Overall, the finding that bribing is more common during procurement than during registration is not surprising. Government contracts are extremely lucrative and rational investors may be willing to pay if they know procurement officers are willing.

Disaggregating by sector shows that corruption is particularly concentrated in the fast-paced and highly profitable services industry, which confirms the international literature indicating that corruption tends to be concentrated where rents are higher and industry is strictly regulated, such as in telecommunications.

While FIEs from the United States and United Kingdom are marginally less likely to participate in corruption, the results are not statistically

distinguishable between originating countries. We find that the strongest determinant of reduced corruption is found in the role the US-BTA played in altering domestic legislation and reducing opportunities for corruption when dealing with foreign firms. That the US-BTA only had a significant effect on FIEs and not domestic operations is a useful indication that it was the trade agreement and not other domestic reforms that reduced bribes at registration. Notably, WTO accession did not have a discernable impact on corruption, indicating that it is the institutional effects of the first trade arrangement and not the swell of capital flows and increased competition that are driving the results.

Looking at the history of firms and entrepreneurs, we learn that former SOEs are significantly more likely to pay bribes when registering as newly equitized operations. One potential explanation is that respondents are describing the highly corruptible process of privatization in developing economies.

3.2. Conclusion

The PCI continues to provide policy makers, researchers, and political and business leaders with valuable insights into economic governance, which helps guide on-going reform efforts and prioritize scarce resources for addressing the most pressing concerns and needs of investors. Coherent, integrated policy and institutional reforms are required at both the central and provincial levels to address the difficult challenges facing enterprises in infrastructure, corruption, administrative procedures and regulations, and labor training and education. We believe that the private sector can be a constructive partner with government to address these challenges, and that the PCI provides the fine-grained data and information to encourage further dialogue and collective action by policy-makers and private entrepreneurs to increase productivity, prosperity and sustainable competitiveness for Vietnam.

CHAPTER ONE

INTRODUCTION TO THE PCI AND FINDINGS ABOUT THE PRIVATE SECTOR

INTRODUCTION TO THE PCI AND FINDINGS ABOUT THE PRIVATE SECTOR

The Provincial Competitiveness Index (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 the private sector. The PCI has been the product of a collaborative effort between the Vietnam Chamber of Commerce and Industry (VCCI) and the U.S. Agency for International Development's Vietnam Competitiveness Initiative Project (USAID/VNCI) since its initiation in 2005. The 2010 PCI report is the sixth iteration; the report is based on a rigorous survey of the perceptions of 7,300 domestic firms. The overall PCI comprises nine sub-indices, reflecting economic governance areas that affect private sector development. A province that is considered to perform well on all nine PCI sub-indices is the one that has: 1) low entry costs for business start-up; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable business information; 4) minimal informal charges; 5) limited time spent on bureaucratic procedures and inspections; 6) proactive and creative provincial leadership in solving problems for enterprises; 7) developed and high-quality business support services; 8) sound labor training policies; and 9) fair and effective legal procedures for dispute resolution.

The PCI is constructed in a three-step sequence, which is referred to as the 3 Cs: 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 weighted mean of nine sub-indices with maximum score of 100 points.

The Nine Sub-indices of the PCI

As in earlier reports, the 2010 PCI uses a range of indicators that are grouped into nine composite sub-indices. These nine sub-indices include:

1. *Entry Costs:* A measure of 1) the time it takes a firm to register and acquire land; 2) the time to receive all the necessary licenses needed to start a business; 3) the number of licenses required to operate a business; and 4) the perceived degree of difficulty to obtain all licenses/permits.
2. *Land Access and Security of Tenure:* A measure combining two dimensions of the land problems confronting entrepreneurs-how easy it is to access land and the security of tenure once land is acquired.
3. *Transparency and Access to Information:* A measure of whether or not firms have access to the proper planning and legal documents necessary to run their businesses, whether or not those documents are equitably available, whether or not new policies and laws are communicated to firms and predictably implemented, and the business utility of the provincial webpage.

4. *Time Costs of Regulatory Compliance:* A measure of how much time firms waste on bureaucratic compliance, as well as how often and for how long firms must shut their operations down for inspections by local regulatory agencies. This year, the index also includes a battery of indicators measuring progress on public administration reform (PAR).
5. *Informal Charges:* A measure of how much firms pay in informal charges, how much of an obstacle those extra fees pose for business operations, whether or not payment of those extra fees results in expected results or "services," and whether or not provincial officials use compliance with local regulations to extract rents.
6. *Proactivity of Provincial Leadership:* A measure of the overall attitude of provincial officials as well as their creativity and cleverness in implementing central policy, designing their own initiatives for private sector development, and working within sometimes unclear national regulatory frameworks to assist and interpret in favor of local private firms.
7. *Business Support Services:* A measure of the availability of business services, such as private sector trade promotion, provision of regulatory information to firms, business partner matchmaking, and technological services for firms; the number of private providers of these services; and the quality of these services.
8. *Labor and Training:* A measure of the efforts by provincial authorities to promote vocational training and skills development for local industries and to assist in the placement of local labor.
9. *Legal Institutions:* A measure of the private sector's confidence in provincial legal institutions; whether or not firms regard provincial legal institutions as an effective vehicle for dispute resolution or as an avenue for lodging appeals against corrupt official behavior.

1.1. An Overall Picture of the 2010 PCI Respondents

The PCI can be seen as the "collective voice" of private, domestic firms who provide their opinions of the business environment in the provinces where they are located. The PCI survey this year received responses from 7,300 private firms operating across all 63 provinces and cities in Vietnam. In addition, the PCI was extended to survey 1,155 foreign investment enterprises (FIEs) and analyze their perception of the business environment in Vietnam; these results are presented in Chapter Two.
Because errors in the sampling process affect the ability to draw correct inferences, the PCI research team is extremely careful about a sampling design that appropriately mirrors the business population and is not subject to biases in the type of firms that respond. As a result, the PCI employs a scientific and detailed sampling process, which has been detailed in previous PCI reports. Because of this rigor, it is possible to represent the views of the province accurately with a sample of only a few hundred enterprises. Respondents are randomly selected from a list of registered private firms that is supplied by the National Tax Authority, stratified by business age, sector, and legal form. The process ensures a highly representative sample. Our team sent the survey questionnaires to 29,939 private firms operating throughout the 63 provinces and cities in Vietnam. The national response rate is 24.38 percent on average, close to that of 2009. Excluding the 21 percent (6.287 firms) of the mail-out that went to firms that had moved their enterprises, or that were no longer in existence due to bankruptcy or dissolution, which was verified in follow-up phone calls), the true response rate is 31 percent. Each province had 116 PCI respondents on average; the highest sample size was recorded in Ho Chi Minh City (HCMC) and Hanoi, with more than 300 respondents each, and Da Nang with nearly 200 respondents (see Figure 1.1). Lai Chau (57) and Hau Giang (64) recorded the least respondents; these provinces have very small business populations, so our sample actually accounts for 10 percent of the number of enterprises in each province, according to the database of the Tax Authority.

Nationally, the PCI respondents corroborate the overall picture of the private sector in Vietnam. Table 1.1 shows that the 2010 PCI survey covers 33.5 percent private firms, 46.7 percent limited liability companies, and 18.9 percent joint-stock companies. This pattern is similar to the Tax Authority's disaggregation.

Table 1.1. Who Answers the 2010 PCI Survey?

	2010 (7.300 Respondents)				2009 (9.890 Respondents)			
	Provincial Sample		National Sample		Provincial Sample		National Sample	
Legal Form	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority
Sole Proprietorship	33.5%	28.7%	16.2%	19.4%	35.5%	27.2%	19.5%	22.1%
Limited Liability	46.7%	48.9%	54.5%	59.1%	45.3%	46.0%	57.1%	57.5%
Joint Stock	18.9%	12.5%	27.6%	21.4%	18.6%	10.6%	22.9%	20.4%
Joint Stock with Shared Listed on Stock Exchange	0.4%	NA	1.1%	NA	0.2%	NA	0.2%	NA
Partnership and Other	0.5%	0.0%	0.7%	0.0%	0.4%	0.0%	0.3%	0.0%
Sector with Majority Output	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority
Manufacturing/Construction	33.09%	39.2%	30.2%	35.0%	32.7%	42.0%	29.6%	34.5%
Service/Commerce	58.08%	54.7%	64.6%	61.5%	56.9%	52.6%	64.9%	62.2%
Agriculture/Aquaculture	6.28%	3.1%	4.0%	1.5%	7.6%	2.4%	4.6%	1.9%
Natural Resources	2.55%	3.0%	1.2%	2.0%	2.8%	2.3%	0.9%	1.4%
Age of Firm	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority	PCI	Median Tax Authority	Weighted PCI	Total Tax Authority
Registered Before Enterprise Law	12.6%	3.70%	11.8%	4.71%	14.2%	4.2%	13.3%	5.96%
Registered After Enteprise Law	87.4%	96.3%	88.2%	95.29%	85.8%	95.8%	86.7%	94.04%

	2010 (7.300 Respondents)				2009 (9.890 Respondents)			
	Provincial Sample		National Sample		Provincial Sample		National Sample	
Size of Operations (Employees)	PCI	Median GSO	Weighted PCI	GSO Census	PCI	Median GSO	Weighted PCI	GSO Census
Under 5	13.7%	13.66%	12.1%	23.36%	15.0%	13.60%	14.2%	13.5%
5 to 9	23.9%	32.38%	24.1%	35.63%	21.6%	35.72%	22.5%	46.8%
10 to 49	42.4%	42.90%	41.9%	33.22%	41.8%	36.65%	41.6%	30.4%
50-200	14.8%	7.66%	14.9%	6.11%	15.9%	10.21%	16.0%	7.3%
Over 200	5.2%	3.4%	7.1%	1.7%	5.7%	3.8%	5.7%	2.1%
Size of Operations (Total Assets, BVND)	PCI	Median GSO	Weighted PCI	GSO Census	PCI	Median GSO	Weighted PCI	GSO Census
Under 0.5	12.4%	12.8%	10.9%	8.9%	12.2%	15.5%	12.3%	12.1%
From 0.5 to under 1	15.8%	18.3%	17.0%	13.5%	17.1%	18.2%	16.4%	16.6%
From 1 to under 5	43.5%	42.5%	42.8%	49.6%	43.1%	42.7%	42.3%	48.8%
From 5 to under 10	14.4%	9.9%	12.7%	13.4%	14.2%	7.8%	14.2%	9.5%
From 10 to under 50	10.5%	11.7%	11.9%	11.5%	10.3%	7.6%	10.2%	8.8%
Over 50	3.4%	4.9%	4.8%	3.2%	3.3%	8.2%	4.5%	4.2%

	2010 (7.300 Respondents)				2009 (9.890 Respondents)			
	Provincial Sample		National Sample		Provincial Sample		National Sample	
History of Company	PCI		Weighted PCI		PCI		Weighted PCI	
Greenfield Private Company	30.6%		37.2%		29.4%		33.5%	
Began Operation as Household Enterprise	64.5%		57.5%		63.5%		60.3%	
Former Local State-Owned Enterprise	4.0%		3.3%		5.8%		4.5%	
Former Central State-Owned Enterprise	0.9%		1.9%		1.3%		1.6%	
Owner Background	PCI		Weighted PCI		PCI		Weighted PCI	
University Degree	41.4%		59.9%		42.1%		58.4%	
MBA	1.8%		5.2%		1.5%		4.0%	
Leader of State Agency	4.2%		3.2%		5.1%		4.6%	
Military Officer	5.6%		4.6%		7.0%		6.5%	
Former Manager of SOE	13.5%		14.7%		14.9%		14.2%	
Former SOE Employee (Never Manager)	15.2%		12.7%		19.6%		15.8%	

	2010 (7300 Respondents)				2009 (9890 Respondents)			
	Provincial Sample		National Sample		Provincial Sample		National Sample	
Primary Customers	PCI		Weighted PCI		PCI		Weighted PCI	
Vietnamese Indivduals and Companies	40.2%		43.4%		58.3%		58.1%	
State-Owned Companies	16.9%		14.8%		14.9%		15.0%	
State Agencies	28.5%		20.3%		16.8%		11.4%	
Export Directly or Indirectly	6.1%		11.7%		7.0%		8.6%	
Foreign Individuals or Companies in Vietnam	8.3%		9.9%		3.1%		6.9%	

PCI is the PCI survey sample, stratified at the provincial level.
Weighted PCI is the PCI survey sample, but weighted by provincial share of enterprises to create a nationally representative sample.
Median Tax Authority provides the values in the median province.
Total Tax Authority shows the national-level aggregate scores.
GSO Census is the 2007 Enterprise Census of the General Statistical Office. (http://www.gso.gov.vn/default_en.aspx?tabid=479&idmid=4&ItemID=7184)

Nearly 60 percent of the 2010 PCI respondents are engaged in the service and commerce sectors. More than 33 percent are involved in manufacturing or construction, while 6.28 percent of firms operate in agriculture/aquaculture, and 2.55 percent in natural resources exploitation. Up to 87.4 percent of surveyed firms were established since the 1999 Enterprise Law-the primary legal document for promoting private sector growth-came into effect.

Similar to the General Statistical Office (GSO) Enterprise Census, we found that nearly half of responding enterprises have between 10 and 49 employees. More than 37 percent can be considered small enterprises with less than 10 employees. Firms with 50 to 200 employees and more than 200 employees account for only 14.8 percent and 5.2 percent of the sample respectively.

Survey data this year also revealed that 43 percent of the PCI sample firms have a capital size (measured as total assets) between 1 billion VND (equivalent to $50,000) and under 5 billion VND (or $250,000). Firms with 10 to 50 billion VND ($500,000 to $2.5 million) in assets account for 10.5 percent of the sample, while only 3.4 percent of enterprises have an investment size that is greater than 50 billion VND ($2.5 million). Small enterprises with total assets of under 1 billion VND ($50,000) account for just over a quarter of the sample. These figures are similarly reflected in the GSO data.

The 2010 PCI also shows that nearly 65 percent surveyed firms were formerly household business. Only 30 percent firms are newly established as greenfield projects. Nearly 5 percent are former central state-owned enterprises (SOEs) (4 percent) and local SOEs (0.9 percent) that recently underwent equitization.

Twenty-six PCI respondents have their shares listed on the HCMC or Hanoi Stock Exchanges. This illustrates that the PCI survey not only covers small firms, but also represents the whole business sector officially operating in provinces and in Vietnam. Moreover, as Table 1.1 illustrates, compared against the GSO's data, the large firms (in labor-force and investment size) are over-represented in the PCI survey. In other words, big firms were slightly more likely to respond to the PCI survey.

As the survey results show, in the weighted national sample (weighted to reflect the larger proportion of enterprise in Hanoi and HCMC), nearly 60 percent of firm owners have a university degree. Only a small ratio (5.2 percent) have Masters in Business Administration (MBA) degrees. A smaller proportion, 3.2 percent, of firm owners used to be managers of SOEs and 4.6 percent are former military officers, and as a result may benefit from informal connections among provincial officials. It is worth noting that 27 percent of enterprises that were formally household businesses have owners who were formally employed in SOEs, while 14.5 percent of former household businesses were formed when the Chief Executive Officer (CEO) was the General Director of an SOE.

The major customers of Vietnamese household businesses are domestic individuals and private firms. More than 43 percent of surveyed enterprises provide goods and services predominantly to Vietnamese customers. Eleven percent of firms export their output directly or indirectly, 20.3 percent firms primarily sell goods and services to state agencies, and 14.8 percent are heavily engaged in sales to SOEs. The lack of connection to the foreign-invested sector is noteworthy-only 9.9 percent of enterprises sell goods or services to FIEs.

1.2. Changes in the 2010 PCI Rankings

Amid many changes taking place in the Vietnamese business environment in 2010, the challenges and difficulties faced by Vietnam in dealing with the global economic crisis seems to be partly reflected in enterprises' perception of economic governance by provincial governments. Because we did not make changes to the PCI's sampling strategy, indexing methodology, or breakpoints between 2009 and 2010, we can compare the results directly to the previous year. The analysis is revealing. The past year witnessed no improvement in provincial economic governance, according to local businesses. The weighted PCI score for a median province is 58.02, a statistically insignificant slide compared with 2009. The number of Excellent Performers declined from six in 2009 to three in 2010. The High Performers Tier also witnessed a marginal drop of one province, from 20 to 19. Da Nang city continued its reign as the top-performing province with a weighted score of 69.77-its third year in a row at the top (see Figure 1.2). But, Da Nang firms rated the province worse than the previous year on average, recording a weighted PCI score that was 6.19 points lower than in 2009. Lao Cai and Dong Thap round out the Excellent Performer Tier with scores of 67.95 and 67.22 respectively.

Figure 1.1: Final 2010 Provincial Competitiveness Index Rankings

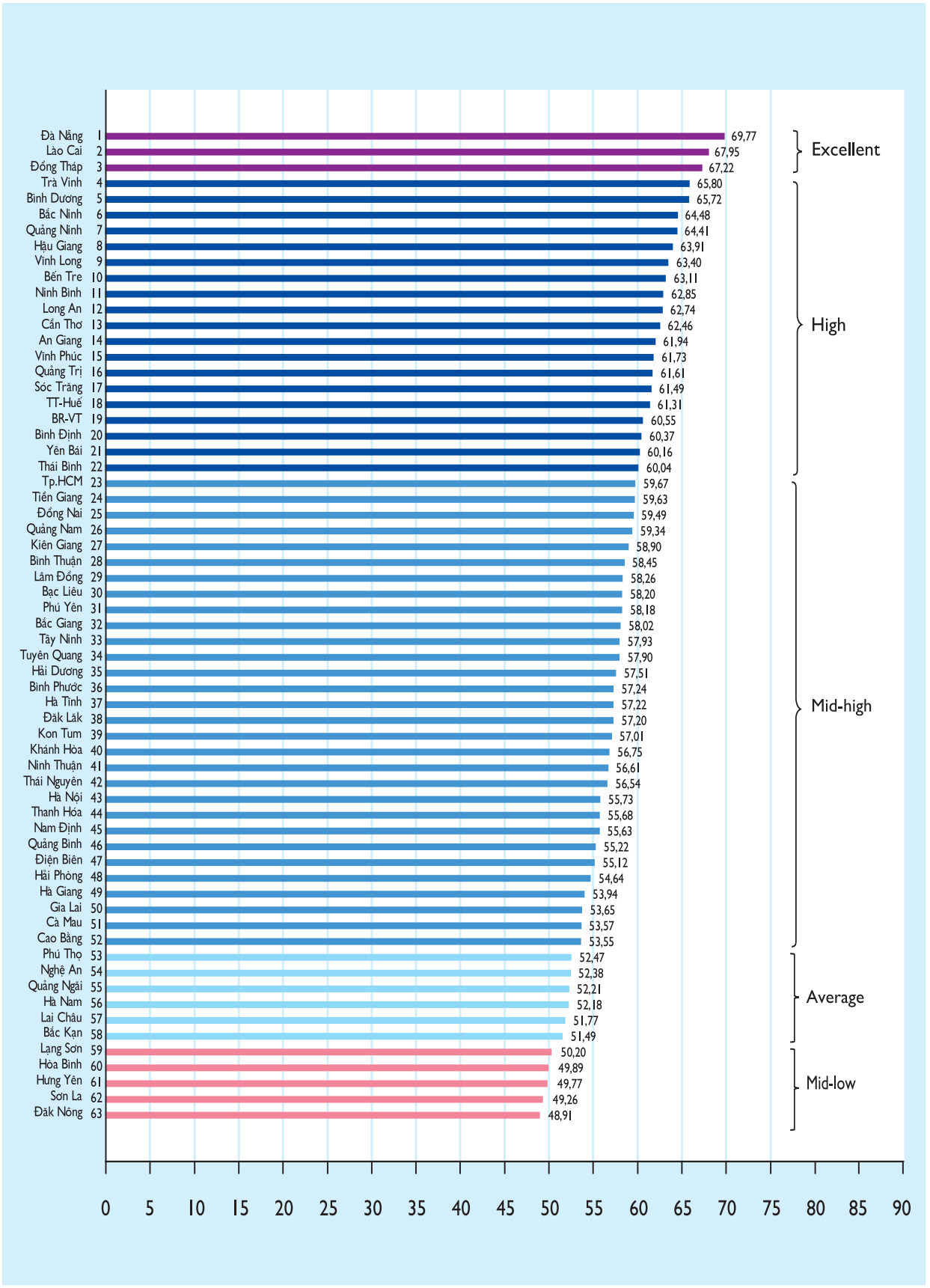
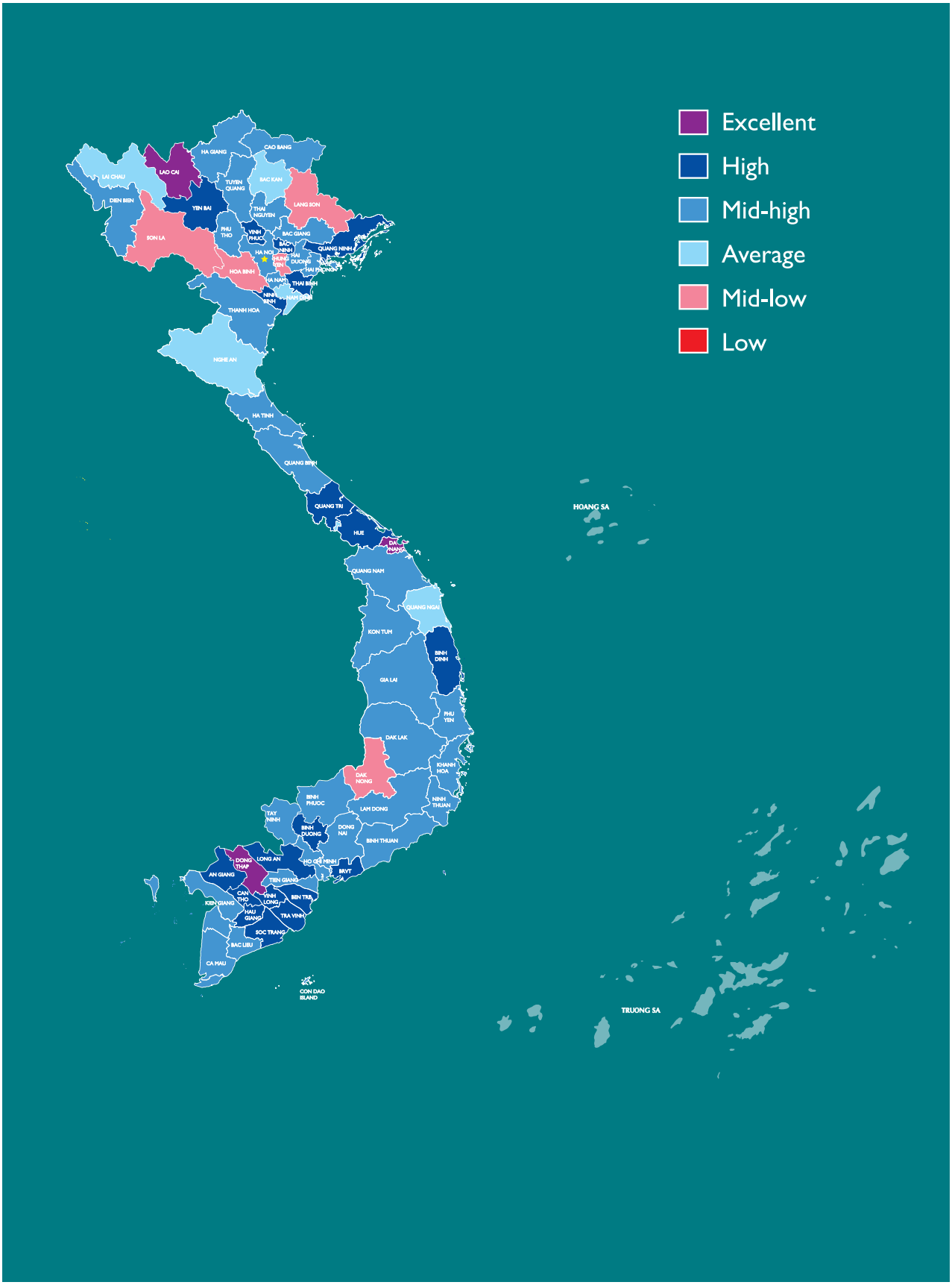


Figure 1.2: The 2010 PCI Map



After three consecutive years at the top of the rankings (from 2005 to 2007) and two subsequent years in second place, Binh Duong suffered an 8.28-point drop and dropped to the fifth place. This is also the first time since the PCI initiation five years ago that Binh Duong has fallen out of the premier group of performers in the country (the Excellent Tier). In addition to its "traditionally" high-scoring sub-indices-namely proactivity of provincial leadership, transparency, labor training - Binh Duong observed some backsliding in the sub-indices measuring entry costs and business support services. More selective and strategic investment promotion policy of Binh Duong authorities, along with the increased expectations of firms operating in the locality, may have resulted in such changes in this province's performance.

Provinces in the Mekong Delta region continue to demonstrate impressive advances in their economic governance. If we include Can Tho and Long An, the Mekong Delta accounts for 9 of the 22 provinces and cities that are ranked in the Excellent and High Tiers in the 2010 PCI. Dong Thap continues its leading position among the Mekong Delta provinces. Surprisingly, Tra Vinh moved up to 4th from 17th position, but remained within the High Tier. More work is certainly needed to understand the dynamic performance of the Mekong Delta provinces and Tra Vinh in particular.

Lao Cai, a mountainous northern province climbed up to the second position in the rankings, one place up from the 2009 PCI. Despite many other difficulties confronting the province, positive firm perception of its economic governance has clearly signified a critical success of Lao Cai for the past years.

Among the 10 provinces with the greatest improvement in their economic governance in the last year, reflected by changes between the 2009 and 2010 rankings, are three Mekong Delta provinces, three provinces located in the Red River Delta, two in the Central Coast (Quang Tri and Phu Yen), and two in the Central Highlands region (Lam Dong and Kon Tum) (see Table 1.2).

Table 1.2: Top 10 Provinces with Biggest Improvement in Rankings Between 2009 PCI and 2010 PCI

No.	Province	Region	Improvements in PCI score	Improvements in PCI rankings
1	Quang Tri	Central Coast	6.29	30
2	Bac Lieu	Mekong River Delta	6.16	29
3	Thai Binh	Red River Delta	5.46	28
4	Lam Dong	Highlands	5.33	25
5	Soc Trang	Mekong River Delta	4.86	24
6	Ninh Binh	Red River Delta	4.53	21
7	Quang Ninh	Red River Delta	3.61	19
8	Phu Yen	Central Coast	3.41	18
9	Tra Vinh	Mekong River Delta	2.58	13
10	Kon Tum	Highlands	2.74	12

Da Nang, among the five centrally run cities, remains the top performer while Can Tho remained in the High-Ranking Tier with better ranking position, the remaining cities (Ha Noi, HCMC, and Hai Phong) witnessed declines in their scores. HCMC, for the first time, declined from the High to Mid-High Tier, seven places down in the rankings; Ha Noi and Hai Phong remain in the realm of Mid-High, but slipped 10 and 12 places respectively in the 2010 scores.

Ha Noi and HCMC are large urban centers with tremendous advantages in terms of geographical location, market size, high-level infrastructure development, and human capital. The PCI specifically excludes all these factors, in order to concentrate on provincial economic governance. The sub-indices forming the composite PCI are largely based on firms' perception and satisfaction on doing business at provincial level.

As it is illustrated in the 2010 PCI, Hanoi and HCMC share great advantages as the highest performers nationally on the business support service sub-index (BSS). They are both, along with Da Nang, cited as among top three provinces in respect to the quality of labor training. These economic centers, however, also share common burdens-for instance, Ha Noi ranks 63 out of 63, while HCMC and Hai Phong are positioned at 62 and 61, respectively, on the Land Access sub-index.

The pressure and expectations about the level of administrative reform are more likely to take place in big cities rather than in other provinces. Despite changes in improvements made in the one-stop shop (OSS) mechanism in registration and use of information technology, Hanoi and HCMC remain among the lowest performing provinces regarding the Entry Costs sub-index[1] (49/63 and 53/63 respectively). This may be partially a result of capacity in dealing with the greater amount of businesses, but this should be offset by the higher number of officers in the Department of Planning Investment and the higher level of training and educated public officials in the big cities.

1. On the situation of business registration in Ha Noi, see: Quỳnh Anh, "Businesses "wear out" for lining up for business registration", posted on Dân Trí http://dantri.com.vn/c25/s76-451170/doanh-nghiep-mon-moi-xep-hang-dang-ky-kinh-doanh.htm; Xuân Long, Wasting the whole day to queue for business registration, Tuổi trẻ dated 14/1/2011: http://tuoitre.vn/Kinh-te/420398/Xep-hang-ca-ngay-moi-toi-luot-dang-ky-kinh-doanh.html .In Ho Chi Minh city, see: Quỳnh Như, "New business registration procedures, the more shortened, the more overloaded, Pháp luật Thành phố Hồ Chí Minh, Hồ Chí Minh city newspaper, http://phapluattp.vn/260676p1014c1068/quy-trinh-dang-ky-kinh-doanh-moi-cang-rut-ngan-cang-qua-tai.htm, Hoài Nam, "Business start-up registration: Miserably hard…because of overload", Sài gòn Giải phóng Newspaper: http://www.sggp.org.vn/chinhtri/2009/9/202789/

Figure 1.3: Provincial Performance by Sub-Index

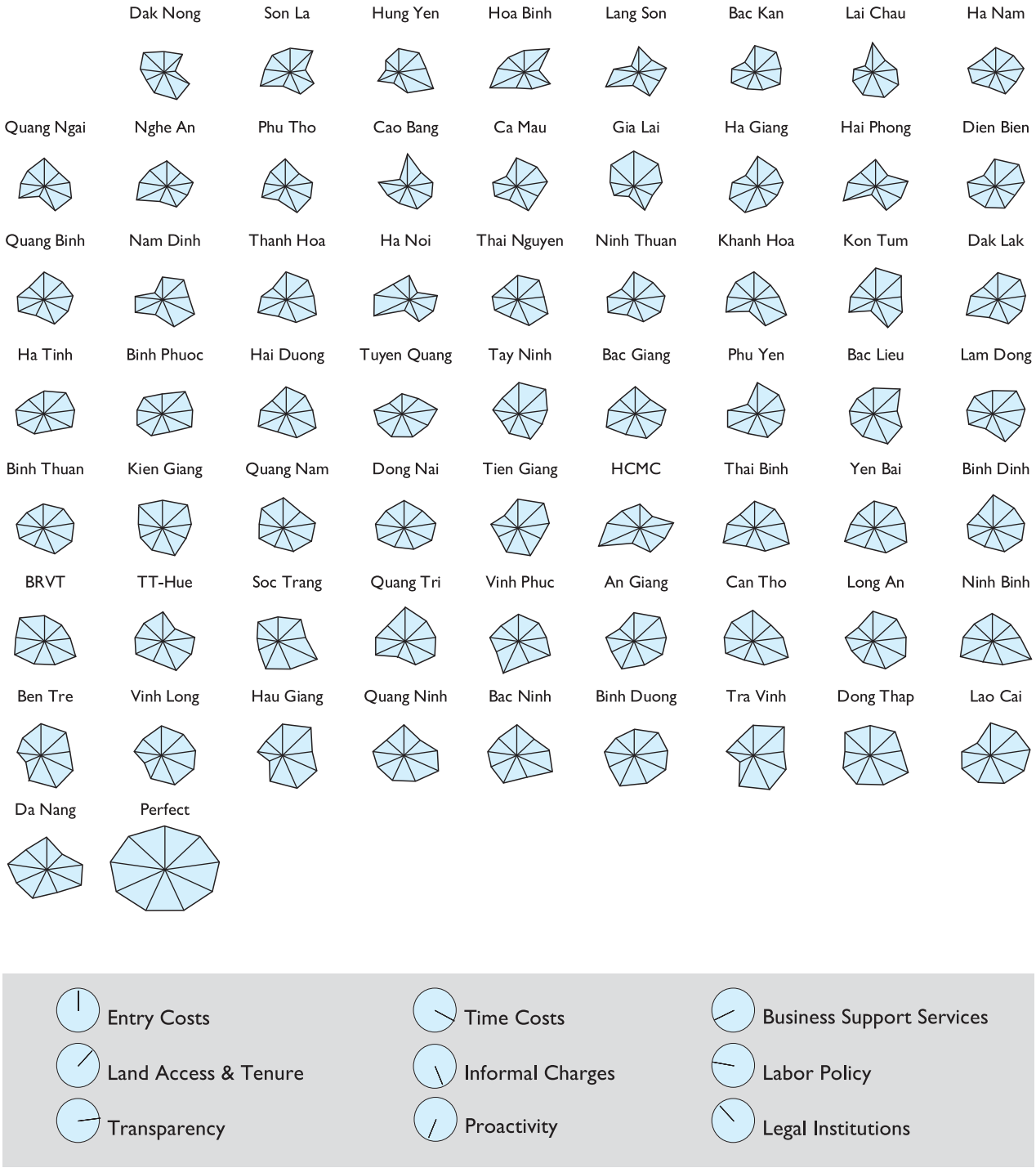


Figure 1.3 shows assessment on provincial economic governance over different areas, marked by the star's branches. The larger the star is, the better the governance area of the province being evaluated.

The 2010 PCI results look remarkably similar to those of previous years; Da Nang, Lao Cai, Dong Thap, and Binh Duong are still among the top five performing provinces. And the bivariate correlation between the 2010 and 2009 remains high at 0.78 (See Figure 1.4)

Figure 1.4. Correlation between 2009 and 2010 Provincial Competitiveness Indices

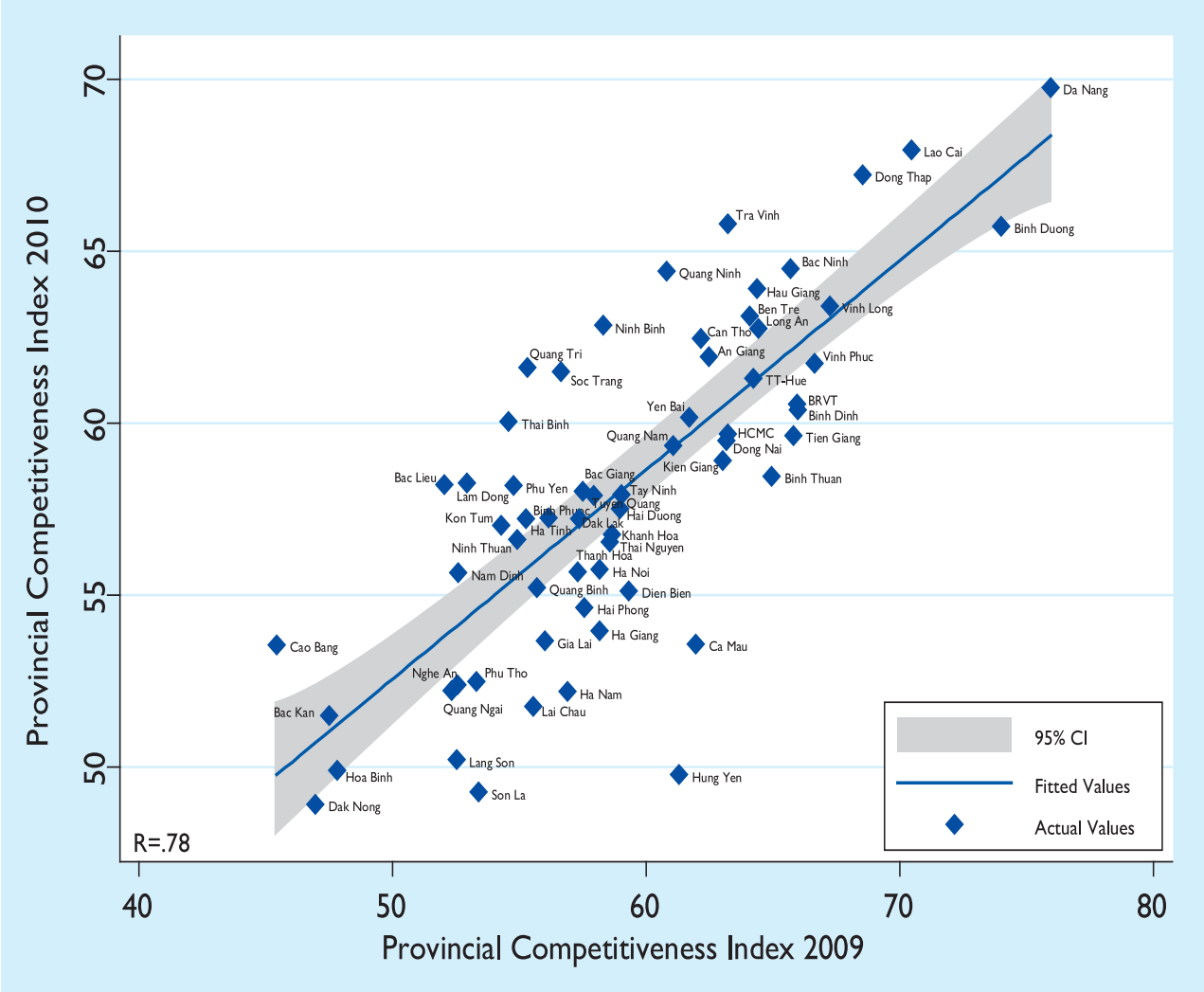


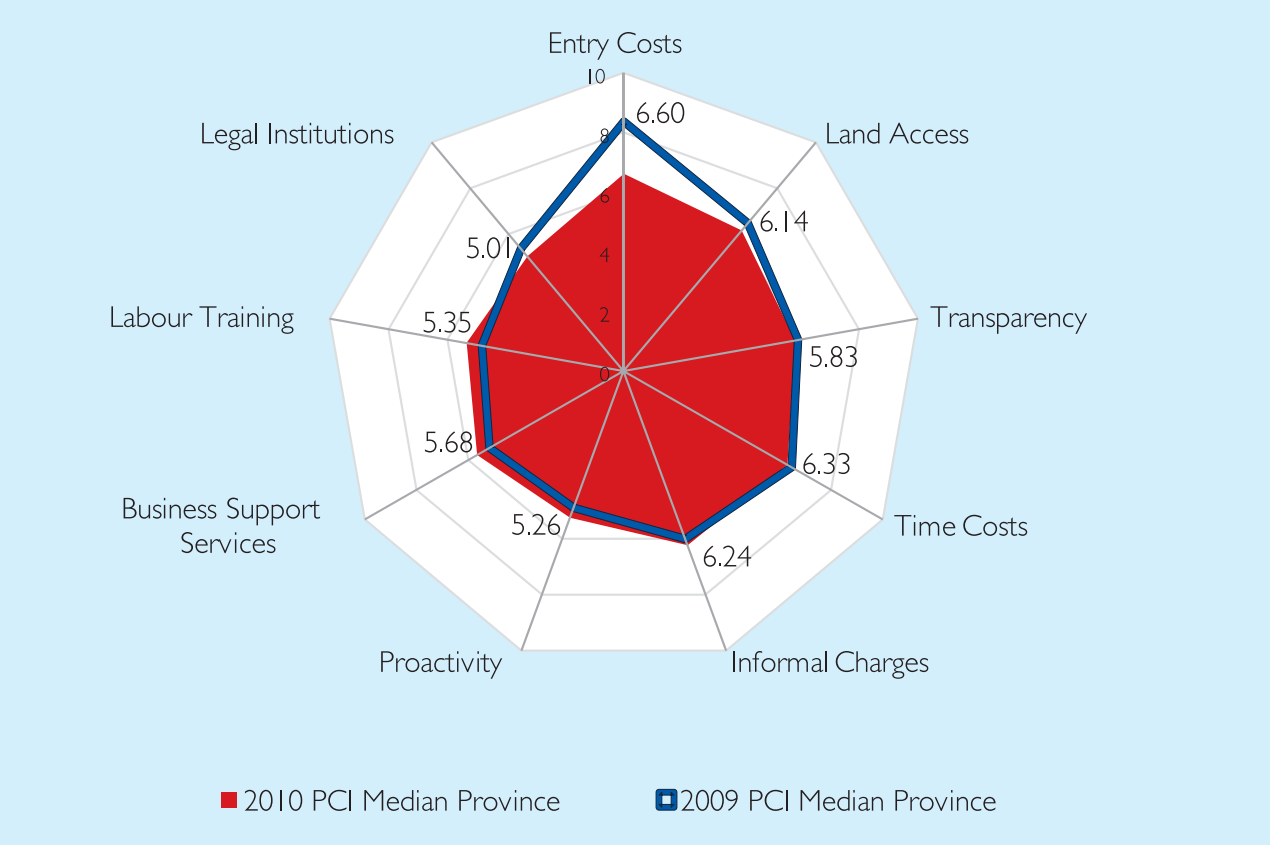
Figure 1.4 demonstrates that patience is required to witness improvement in the local business environment, as it can take time before new policy changes kick-in and their impact is observed by businesses in the province

1.3. Changes in Provincial Economic Governance in the 2010 PCI

Because the large-scale PCI survey is conducted annually, it offers an ideal metric to gauge changes in the many dimensions of local governance in which provincial officials are evaluated. Looking at the star diagram in Figure 1.5, the red pattern represents the median score of provinces in the 2010 PCI and the blue dash line marks the median score of provinces in the 2009 PCI. Comparisons between the two years' results show changes in nine governance areas of the provincial business environment of Vietnam over the past year.

Positive changes are noticeably found in areas of labor training and business support services. Scores are roughly the same for proactivity of provincial leaders and informal charges. More worrisome, however, are the lower scores evident in the entry costs, access to land, legal institutions, transparency, and time costs sub-indices.

Figure 1.5: Changes in Governance through 2009 PCI and 2010 PCI



1.3.1. Improved areas

Labor training: Previous PCI reports have listed labor training as one of the major obstacles to private sector development in Vietnam. Along with the transparency sub-index, labor training has been shown to have the largest influence on indicators of private sector performance, such as number of enterprises per capita, investment size, and profitability. As a result, labor training and transparency receive the greatest weights in the construction of the overall PCI.

Despite its important weight, labor quality showed the slowest improvement among all indices from 2007 through 2009. While the score of the mean province (5.35) is relatively low compared to other sub-indices, labor quality has made substantial improvements in 2010. In the median province, the percentage of firms expressing satisfaction with general education and labor training increased steadily from 35.2 percent in 2008 to 45.45 percent in 2009 and to 46.99 percent in 2010. Although there is no increase in the percentage of firms using labor exchange services (currently around 40 percent), the quality of these services have seen improvements-62.5 percent of firms claim they planned to use the service again, compared to 27.78 percent in 2009. "Hard" data, however, from the Ministry of Labor, Invalids and Social Affairs (MOLISA) and GSO show a worrying trend in which the number of graduates from vocational training school, as a proportion of trained labor, dropped from 5.45 percent down to 3.13 percent, and the number of high school graduates represented in the labor force declined from 10.3 percent to 8.65 percent.

Business Support Service (BSS): Improvements were also observed in BSS, ranging from the number of providers in the industry to the service quality, which is seen as better catering to the needs of businesses, compared to 2009. According to the PCI research team's analysis of GSO data, the number of BSS providers in the median province makes

leapt from one enterprise in 2008 to five in 2009. In 2010, the median province has 12 BSS providers. The percentage of firms using business information search services increased from 60.36 percent in 2009 to 64.35 percent in 2010. There is a noticeable increase in the number businesses selecting private service providers over government, which is an excellent sign for future development. Moreover, many firms see the quality of BSS improving. In 2010, over half of firms said they would continue to use the service, compared to only 16.44 percent in 2009.

The percentage of firms using other BSS, such as business matchmaking, trade promotion and trade fairs, and technology-related services, all increased by 3.18 percent, 3.16 percent, and 2.63 percent respectively. For these services as well, respondents report tremendous improvement in quality, especially in the business partner matchmaking service. In 2009, only 12.68 percent of firms said the quality was high enough that they would use the service again. In 2010, the figure tripled to 39.52 percent. The quality of export promotion, trade fairs, and technology-related services also demonstrated improvements of between 12 and 15 percent. The only type of BSS that demonstrated reduced usage was consultations on regulatory information.

Proactivity: According to firm ratings, there are positive changes in this sub-index after some declines in 2009. Firm agreement with the statement, "Provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problem," rose slightly from 72.65 to 75.31 percent, but still did not reach the level observed in 2008 (77.28 percent). Firms agreeing with the statement, "Provincial officials are creative and clever about working within the national law to solve the problems of private sector firms," also rose from 42.46 to 49.38 percent. Perceived positive attitude of provincial governments toward private sector improved from 43.75 to 47 percent between 2009 and 2010.

Informal charges: As discovered in previous PCI survey results, this sub-index did not show discernible improvements. This suggests the Vietnamese government should resort to stronger action and solutions in its effort to combat corruption and reduce informal charges for firms. On average, the percentage of firms that believe informal charges are common among firms like their own is 58.23 percent, an insignificant decrease from 59.4 percent in 2009 PCI. The proportion of firms saying they have to pay more than 10 percent of their income in informal charges declined marginally from 8.75 percent to 6.78 percent. Firms stating the provincial government uses compliance with local regulations to extract rents hardly changed, remaining at 50 percent, the same as in 2009. Finally, the predictability of informal charges improved, as the percentage of firms saying that their informal charges delivered the expected results was 56.32 percent, a slight increase from 51.51 percent in 2009.

This year's survey takes advantage of a new method to calculate percentage of firms paying informal charges to gain government contracts and during registration. Chapter Two of this reports provides further analysis of this issue, comparing the difference in informal charges paid by the private sector to that paid by FIEs, as well as studying the frequency of informal charges by sector, firm history, and home country. The findings show 41.4 percent of private firms have to pay commissions on government contracts and 22.62 percent pay informal charges during registration.

1.3.2. Challenges

Entry costs: Market entry has made the most significant changes in previous PCI surveys. This area has also outperformed all the other PCI sub-indices reflecting provincial business environment. Curtailing registration time, cutting procedures, and setting up OSSs (including interdepartmental OSSs), are reforms being implemented by most of the provinces and cities in Vietnam. Between 2006 and 2009, average registration periods have been cut in half, an impressive achievement.

However, reform progress stagnated in 2010-the number of days required for registration and change of registration remain exactly the same as in 2009

(10 days and 7 days respectively). The reported number of days necessary for registration reflects actual firm assessments, and includes time spent on travel, information searches, document preparation, and revision as required to complete the registration application dossier. These data are also calculated on new firms that were established in the two years prior to the survey. As prescribed in Article 28, Government Decree 43/2010/NĐ-CP dated April 15, 2010 on registration, "Within 5 working days from the date of receipt of valid dossier, the provincial registration office shall issue to the enterprise a certificate of registration, registration of change to the registration contents, of split, merge, transformation, registration of enterprise's branch, representative office, and notice of setting up business premises." Nevertheless, in practice, firms have to visit the registration office many times for the five working days to be counted, in the cases where the local government does not produce clear process guidance or uses procedures to extract rents.

Apart from the certification of registration, 14.7 percent of businesses report that they need additional licensing to begin enterprises. In the median province, the average number of additional licenses is 2, increasing slightly from 1 in 2009. Other entry costs indicators also recorded reversals between 2009 and 2010. For instance, the percentage of firms waiting more than a month to complete all steps necessary to start business jumped from 19.35 percent in 2009 to 24.39 percent in 2010. Likewise, the percentage of firms waiting more than three months increased from 4.44 percent to 5.77 percent over the same period.

Waiting periods for business premises was one of the sole areas of entry costs improvement. The gap between filing and Land Use Rights Certificate (LURC) issuance declined, from 32.5 days in 2009 to 30 days in 2010.

What caused the decline of the Entry Costs sub-index? In part, immense changes in market entry over the past few years have already stretched existing resources to capacity. Achieving greater speed and efficiency, when even more firms require assistance, may be more difficult under these conditions. In addition, recent criticism by regulators-which has been fuelled by press coverage of loose management over firm's operations and careless process of firm registration-may have resulted in excessive measures of information verification during the registration process. Other environmental, food safety, and socio-cultural pressures have recently heightened the barriers to firms seeking to enter the market.

Land access: This sub-index experienced no significant changes from 2009. Operating firms with LURCs approximate the level of 73 percent found in 2009 PCI survey. Total land with LURC, according to Ministry of Natural Resources and Environment (MONRE) data, increased in the last year to 80.71 percent. Firm ratings of expropriation risk in 2010 reached 2.56 points on the 1–5 point scale (in which 1 represents Very High Risk). The percentage of firms believing in fair compensation for expropriated land in the 2010 survey again approximates the level of 2009, at more than 39 percent.

There is worrying tendency in several criteria such as the precipitated percentage of firms checking "no problem" in the list of possible problems in land access. In 2009, 30.72 percent recorded no problem, compared with 23.89 percent in 2010.

Transparency: the 2010 PCI findings show declines in nearly every transparency indicator compared with 2009 findings. Accessibility of planning documents related to business enterprises and of legal documents both decreased. On the scale of 1–5 (in which 1 is Impossible to Access and 5 is Very Easy to Access), accessibility of planning documents averaged 2.31 points, falling from 2.44 in 2009 and hitting the lowest level in all six years of PCI. The best performing province scored only 2.62 points, against 3.08 points in 2009. Transparency of the legal documents is calculated at 3.05 on average, compared to 3.11 in 2009, which implies that transparency has declined to the 2007 level.

According to firm ratings, access to planning documents and information increasingly needs "relationships" in local government offices. As many as 78.64 percent of firms surveyed in PCI 2010 say

that a "relationship is important to get access to provincial information," an increase of more than 17 percent from the 2009 index. This is the highest increase in the necessity of relationships over the six years of the PCI.

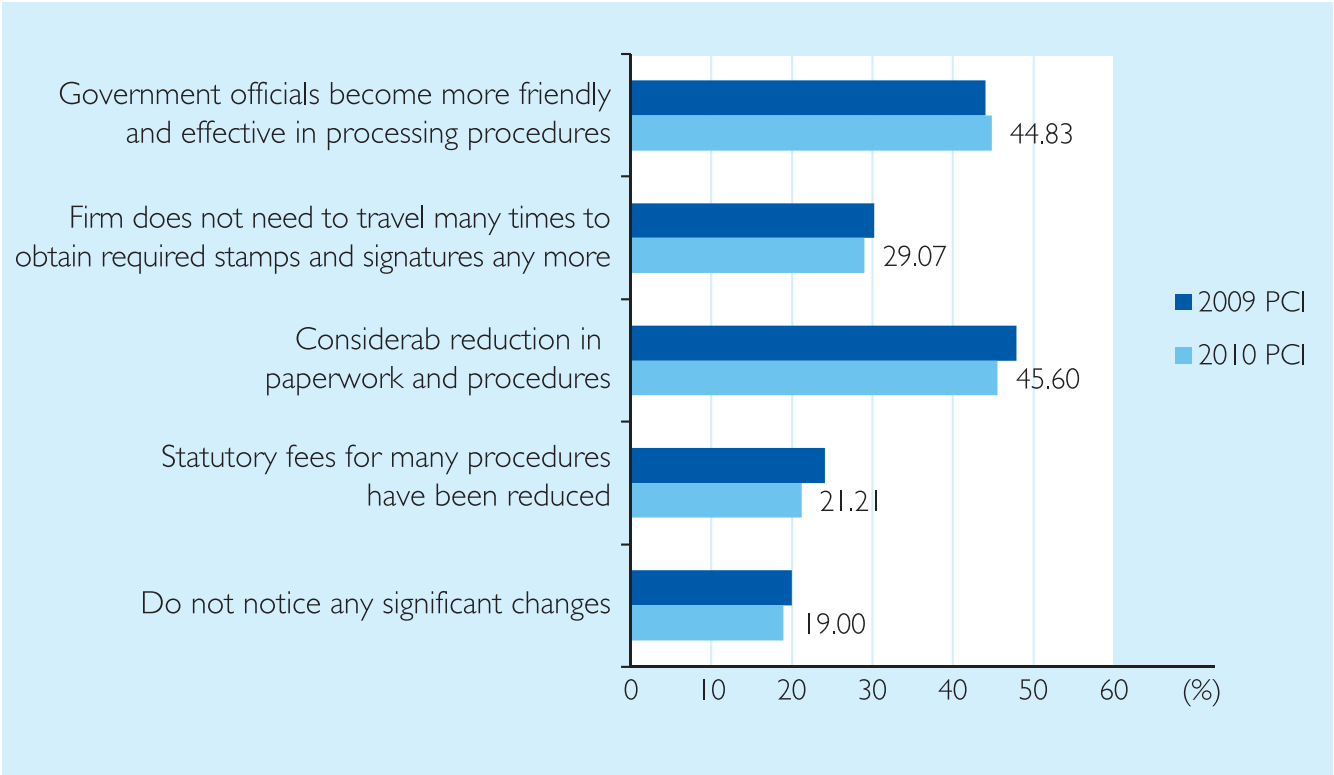
Another declining indicator in 2010, as compared to the preceding year, is the percentage of firms indicating that the provincial government discusses changes in law with them, which fell to 22.37 percent from 25.21 percent in 2009. This suggests nearly four out of every five enterprises have never provided feedback on changes in law.

The news that transparency continued its 2009 dip into 2010 is quite discouraging for private businesses, as this is the most influential sub-index over private sector development and the most heavily weighted among PCI sub-indices.

A transparent business environment helps raise business confidence in the efficiency of provincial governments, allowing them to prepare long-term investment plans and contribute to improving the efficient allocation of resources. When transparency is high, informal charges also decline, as firms no longer need to pay to access information. Moreover, there is greater equality of opportunity for all businesses to see their ideas reach fruition.

Time costs: This sub-index is appropriate for measuring how firms feel about the administrative procedure process at local level, including the implementation of Project 30, which focuses on simplifying administrative procedures in the state management. Firm perceptions about the actual impact of the administrative procedures reform is not strong. Perception of the reform process at the provincial level, as shown in 2010 PCI results, hardly differs from what was measured in 2009 (see Figure 1.6). Nearly half of the surveyed firms say there have been positive advances in the efficiency of paperwork and civil servants handling administrative procedures, but almost one out of five recorded no substantial changes have been observed at all in the regulatory burden they face.

Figure 1.6: Perceived Change in Local Administrative Procedures



The percentage of firms indicating their managers had to spend more than 10 percent of time dealing with bureaucratic regulations actually rose from 15.38 percent in 2009 to 19 percent in 2010. The number of inspections by all state agencies (median value) remained unchanged even though the median number of tax inspection hours slipped from five to four hours.

Although the business community had great expectations about the impact of Project 30-such as reduced number of days lost to bureaucratic procedures, number of trips, reduced costs, lower rent extracting-it has failed to substantially deliver on these long-term goals. The implementation of the Project has produced important results such as Administrative Procedure (AP) review, making available the set of APs, and recommendations for AP simplification. At present, however, only a small number of administrative procedures have been revised or eliminated, and the implementation achievement has only reached the stage of shaping "recommendation packages." Implementing these packages will take tremendous time and effort on the part of the National Assembly, government, line ministries, and local agencies. The Vietnam Business Forum survey in December 2010 found that some firms expressed "impatience" to see practical impacts of Project 30, upon which they had pinned high hopes.

Legal institutions: Hardly any significant changes were observed in the 2010 PCI Legal Institutions sub-index. The one exception was in "cases filed by non-state entities at Provincial Economic Court," with data provided by the Supreme People's Court. The number of cases filed by private firms dropped from 3.05 cases per 100 firms to 1.74 cases per 100 firms.

Similar to the 2009 PCI survey, 2010 PCI indicates the court is not a preferred choice for firms-only 25 percent of firms say they used courts to resolve disputes. The same percentage of firms believe in the mechanisms provided by the legal system to appeal officials' corrupt behavior by agreeing with the statement that if a civil servant commits unlawful wrongdoing (such as over-inspecting, asking for bribes, and so on), a firm can report the incident to the civil servant's manager in order to resolve the issue.

Unchanged compared to the survey one year ago, the median waiting time from the date of case filing to issuance of effective court judgment is six months (about 180 days) and both formal and informal costs account for nearly 12 percent of the case settlements.

1.4. Business Thermometer

Every year, businesses answer a question in the PCI survey questionnaire regarding their business plans over the next two years. Do they intend to expand or reduce the size of the operations? We call this question, which assesses the business level of optimism among Vietnamese firms, the "business thermometer." The 2010 survey results prove that firms are more positive this year (see Figure 1.7). Up to 66.09 percent of private businesses intend to expand their business in the next two years, an increase of over 6.3 percent points compared with the 2009. However, this year's level of optimism is still lower than those of previous PCI surveys, except 2009.

Remarkably, private firms, typically small in size, tend to be much less optimistic than larger-sized firms, such as limited liability companies or joint stock companies (see Figure 1.8). The percentage of sole proprietorships intending to expand operations in the next two years (43.25 percent) is about half of that of joint stock companies (79.38 percent).

The business thermometer indicates that 66.53 percent of FIEs, using data from the new PCI-FDI survey, plan to expand their operations in the next two years, approximating the domestic average.

Figure 1.7: Expansion Prospects over the Years

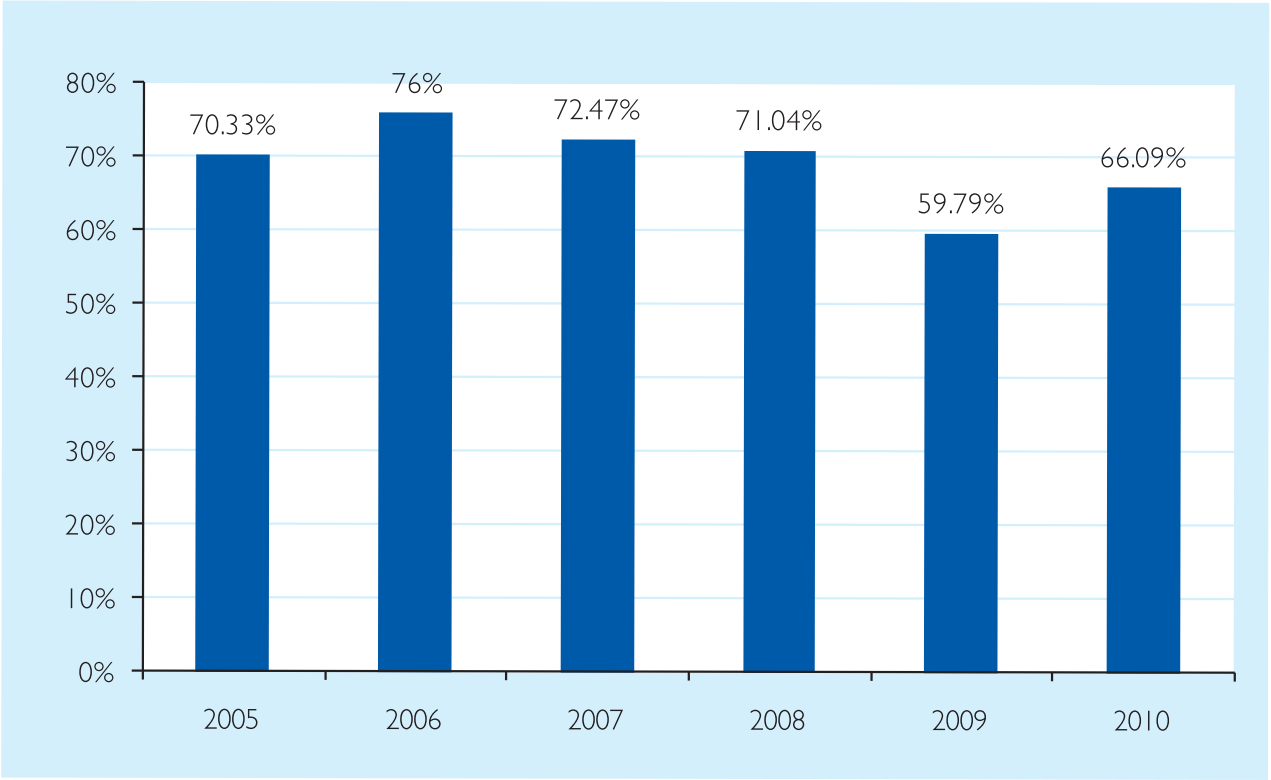
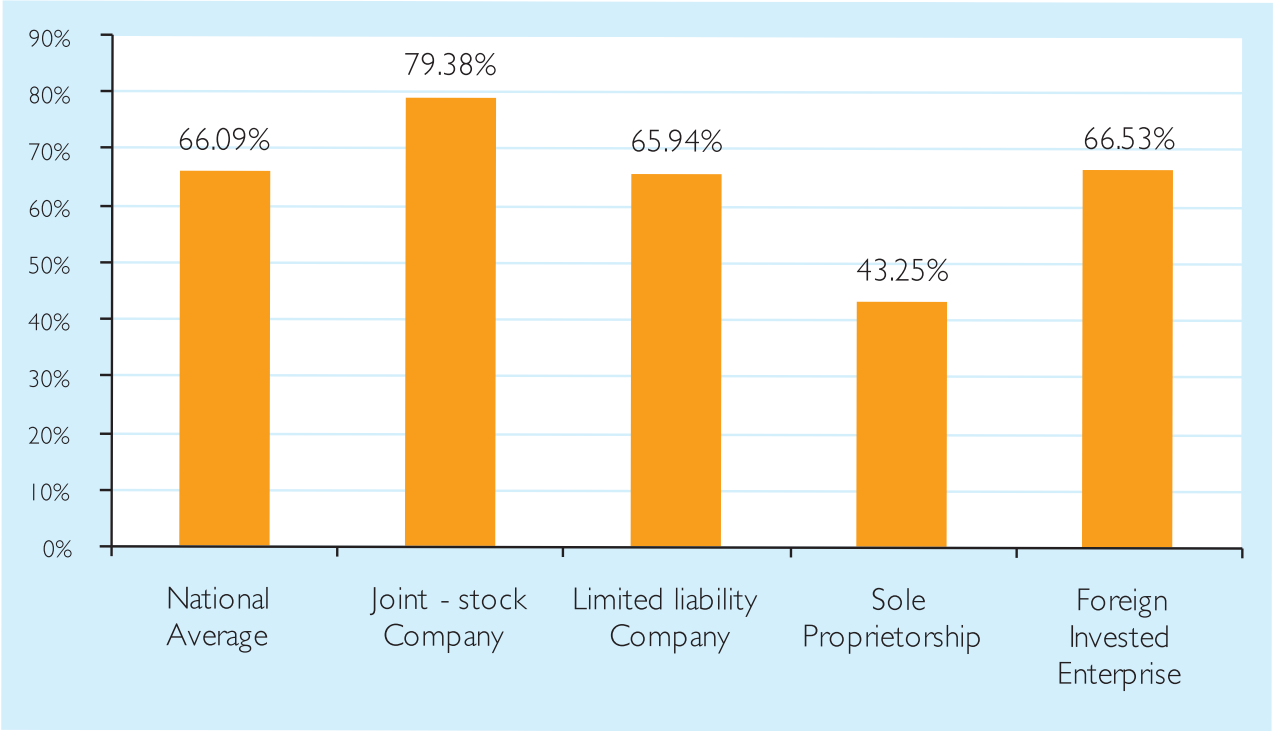


Figure 1.8: Expansion Prospects Across Legal Types in 2010



1.5. Infrastructure Assessment

This year, the research team continued to track the quality of infrastructure at the provincial level as business owners and policy makers continue to cite it as one of the most critical barriers to investment and growth in the country. The PCI Infrastructure Index is divided into four sub-indices:

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

As in the PCI, each Infrastructure sub-index is a combination of hard data from published sources and perceptions data gleaned from the 7,300 PCI respondents. Figure 1.9 details the final scores on the Infrastructure Index. Table 1.3 provides data source and summary statistics on the indicators used in each sub-index.

Figure 1.9: The 2010 PCI Infrastructure Index

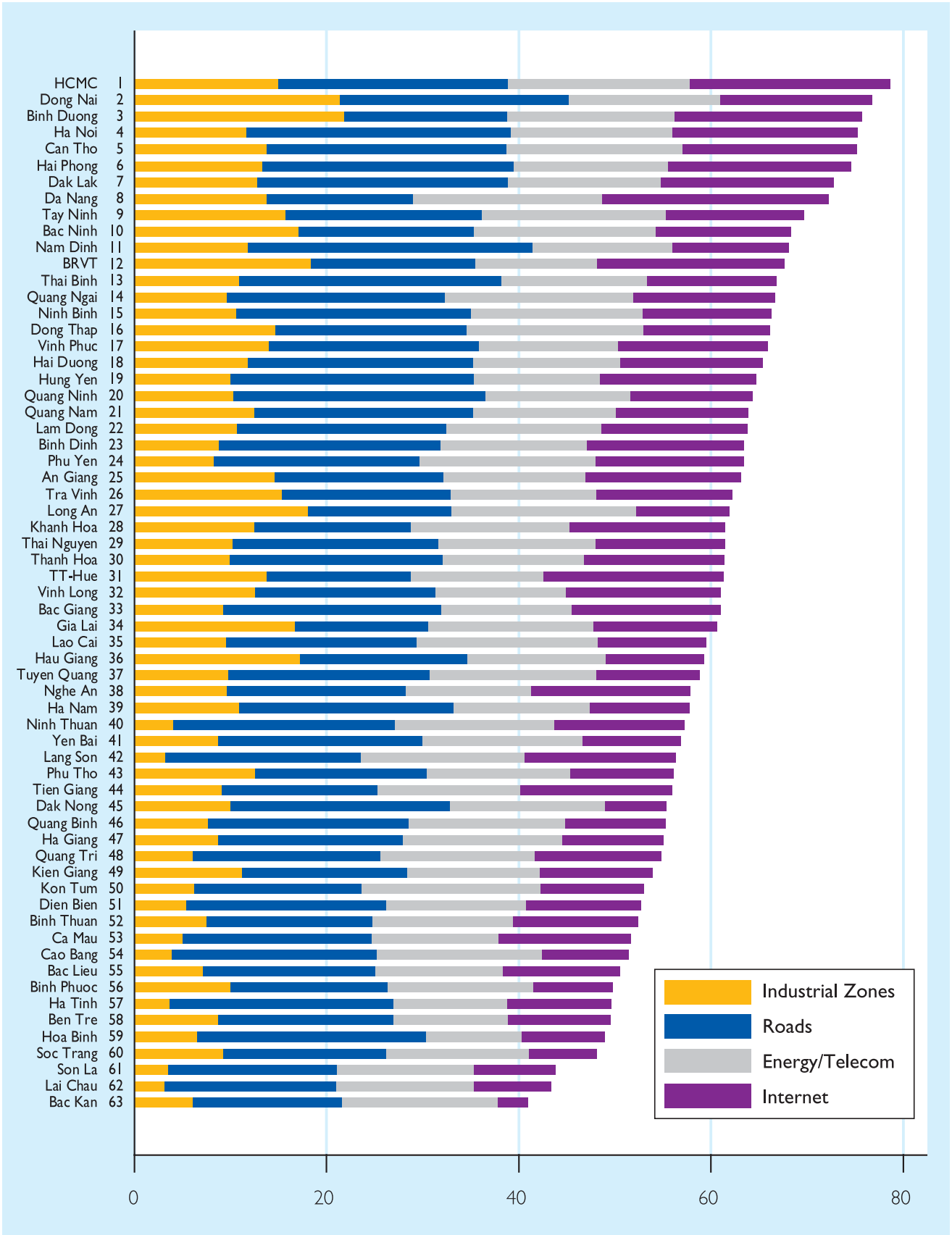


Table 1.3: Components Indicators of 2010 PCI Infrastructure Sub-indices

Sub-Index	Indicator	Source	Measure	2008	2009	2010
Industrial Zone Quality and Coverage	Number of industrial zones (IZ) and concentrations in province	MPI (March 2010)	Min	0	0	0
			Median	1	1	2
			Max	23	23	29
			Correlation w/Previous Year	NA	0.95*	0.92
	Percentage of total IZ surface area that currently has occupants	MPI (March 2010)	Min	0.00	0.00	0.00
			Median	30.13	30.84	86.38
			Max	93.55	93.55	100
			Correlation w/Previous Year	NA	0.97*	0.27*
	Firm rating of provinical IZ quality (% very good or good)	PCI Survey Question E1.5	Min	3.07	0.00	3.85
			Median	23.87	24.07	24.53
			Max	72.89	79.17	76.86
			Correlation w/Previous Year	NA	0.75*	0.77*
Road Quality and Transport Costs	Assessment of road quality (% good or very good)	PCI Survey Question E1.1	Min	0.00	7.95	11.11
			Median	5.45	28.80	30.56
			Max	38.90	80.82	79.66
			Correlation w/Previous Year	NA	0.84*	0.86*
	Percentage of roads in province (national, provincial, or district) that are paved with asphalt	GSO	Min	1.98	4.82	4.8
			Median	51.28	51.44	55.7
			Max	100	100	100
			Correlation w/Previous Year		0.75*	0.76*
	Percentage of roads in provincially managed roads that are paved with asphalt	GSO	Min		3.00	3.00
			Median		69.65	80.9
			Max		100	100
			Correlation w/Previous Year		NA	0.72*
	Number of days annually that roads are impassable due to rainfall*	PCI Survey Question E2	Min	3	0	2
			Median	7	3	6
			Max	19	10	16
			Correlation w/Previous Year	NA	DROPPED	DROPPED

Sub-Index	Indicator	Source	Measure	2008	2009	2010
Road Quality and Transport Costs	Monetary loss annually from spoiled and damaged products in the past year (millions of VND)*	PCI Survey Question E43	Min	14.6	0.0	
			Median	31.9	22.2	
			Max	83.1	166.2	
			Correlation w/Previous Year	NA	DROPPED	DROPPED
	Transport costs of a 40-foot container from provincial capital to nearest major ports (Hai Phong, Ho Chi Minh City, Da Nang) in millions of VND*	Average estimates by three local transport companies	Min	2.1	DROPPED	DROPPED
			Median	6.5		
			Max	16.0		
			Correlation w/Previous Year	NA		
Utilities (Energy and Telecommunications)	Hours of telecommunications outages per month*	PCI Survey Question E6	Min	7	0	6
			Median	13	3	10
			Max	50	8	21
			Correlation w/Previous Year	NA	0.25	-0.10
	Assessment of telecommunications quality (% good or very good)	PCI Survey Question E1.2	Min	8.57	35.59	44.87
			Median	25.00	67.50	69.39
			Max	53.65	84.93	90.00
			Correlation w/Previous Year	NA	0.70*	0.69*
	Telephones (land and cellular) per 1000 citizens	Ministry of Information and Communciations	Min	0.7	0.4	85.1
			Median	1.3	1.9	205.9
			Max	5.8	20.8	385.8
			Correlation w/Previous Year	NA	0.12*	0.11
	Average cost per kilowat of energy in province (VND)	Electricity Vietnam (EVN)	Min	595.51	142.24	641.67
			Median	776.17	796.24	916.42
			Max	1068.09	1231.13	1423.75
			Correlation w/Previous Year	NA	0.44*	0.13*
	Hours of electricity outages in the last month	PCI Survey Question E4	Min	27	46	24
			Median	44	50	89
			Max	101	58	150
			Correlation w/Previous Year	NA	−0.36	0.55*

Sub-Index	Indicator	Source	Measure	2008	2009	2010
	Firms informed in advance about power cuts (% of time)* NEW INDICATOR	PCI Survey Question E5	Min		45.78	49.80
			Median		50.00	59.00
			Max		58.38	95.00
			Correlation w/Previous Year	NA	NA	0.32*
Internet	Respondent posesses e-mail address (%). NEW INDICATOR	PCI Survey Question E7	Min		9.6	13.9
			Median		27.3	34.1
			Max		69.7	73.5
			Correlation w/Previous Year	NA	NA	0.80*
	Assessment of internet quality (% good or very good). NEW INDICATOR	PCI Survey Question E1.6	Min		19.2	20.29
			Median		46.4	48.18
			Max		67.4	69.19
			Correlation w/Previous Year	NA	NA	0.62*
	Respondent answered using online platform (%). NEW INDICATOR	PCI Survey	Min		0.7	DROPPED
			Median		5.0	
			Max		12.0	
			Correlation w/Previous Year	NA	NA	

* Imputed to address item nonresponse
TEU (20-foot equivalent units)

Binh Duong, Dong Nai, and HCMC-the three powerhouse industrial provinces of the North Southeast, which alone account for a quarter of the non-oil gross domestic product in the country-receive the three highest scores. Five central-level large cities are among the top eight ranking in infrastructure. Unsurprisingly, the lowest infrastructure scores are in the rural, Northern Uplands of the country, including Bac Kan, Lai Chau, and Son La. Compared to 2009, the 2010 infrastructure witnessed positive changes. According to the data by GSO, the rate of asphalted roads in the provinces has increased from 51.44 percent in 2009 to 55.7 percent in 2010 and the percentage of asphalted roads under provincial management increased from 69.65 percent to 80.9 percent over the same period. Businesses also have a more positive assessment of road quality. The percentage of firms citing road quality as Good or Very Good increased from 28.80 percent in 2009 to 30.56 percent in 2010. Increasing traffic jams in Hanoi and HCMC are a good reason to maintain a humble assessment of road quality in these two largest cities in the country. Only 18.48 percent and 20.98 percent of respondents in Ha Noi and HCMC, respectively, view road quality as Good, far behind Da Nang with a traffic road satisfaction rate of 79.66 percent.

Businesses also have improving perceptions of telecommunication and internet services. The percentage of businesses completely satisfied with telecommunication services quality continued to increase from 67.5 percent in 2009 to 69.39 percent in 2010; internet satisfaction rate has increased from 46.4 percent to 48.18 percent over the past year.

The year 2010 has been a year of severe electricity outages that has negatively affected people and business operations of firms in cities and provinces

across Vietnam. Because the time of year when VCCI conducted the 2010 PCI survey (about May/June of 2010) is not a critical time for electricity shortage, the data from it reveal the seriousness of the electricity situation. On average, the electricity outage hours of each firm in the latest month almost doubled from 50 hours in 2009 to 89 hours in 2010. The average electricity price also increased from 796.24 VND/Kwh in 2009 to 916.42 VND/Kwh. The only solace lies in the fact that many of the blackouts were informed in advance, so firms could take appropriate precautions. The number of blackouts for which firms were prepared increased from 50 percent to 59 percent. Nevertheless, 59 percent is still not often enough and it represents a tremendous costs to entrepreneurs.

The Link Between Governance and Infrastructure

Figure 1.10 shows the relationship between governance and infrastructure quality, with the dashed red lines depicting the median scores on both indices. The figure reveals that the Infrastructure Index is positively, but imperfectly, correlated with good governance (0.35). There are a number of possible explanations for this correlation that are difficult to disentangle in this report but are worthy of further research. First, it is possible that well-governed provinces are also the provinces that are willing and able to invest resources in high-quality public services, such as infrastructure. Second, there may be wealth effect at work, whereby richer provinces are better endowed with high-quality infrastructure and civil servants. This second factor could result from the long-term benefits of auspicious endowments at the beginning of the reform period, or because of a virtuous circle where governance and infrastructure attract investment that creates revenue for future governance and infrastructure improvements.

Figure 1.10: Link Between Governance and Infrastructure Quality

Figure 1.10 reveals four types of provinces and cities. The bottom-left corner of the figure includes the least fortunate area that combines low PCI rankings and less developed infrastructure. They include most of the Northern mountainous provinces, and many Northern Central and Central Highland provinces.

The bottom-right corner of the figure (with high PCI ranking and less developed infrastructure) is the area in which provinces "overcome disadvantaged situation." The provinces in this area, such as Lao Cai, Ben Tre, Hau Giang, have disadvantages in infrastructure and geographical positions, but their economic governance is highly valued by businesses. It is encouraging that provinces in this area have overcome their disadvantages in initial endowments to develop businesses and attract investment.

The top-left corner of the graph (low PCI ranking and developed infrastructure) is the "under-potential developed" area in which cities and provinces have advantages in infrastructure and geographical positions, but their economic governance has not been highly valued. It is not surprising that Hanoi, Hai Phong, and a number of Red River Delta provinces fall into this area. Many businesses still select these provinces as their investment locations for their unique structural advantages. However, existing achievements in business development and investment attraction of the provinces in these areas might have not correspond to their ultimate potential and strengths.

The fourth area of the graph (with high PCI ranking and developed infrastructure) is the ideal area for investors. This area consists of provinces with both infrastructure advantages and highly valued economic governance. It is not difficult to predict that the rising stars in business development and investment attraction over the past two decades fall in this area. These include Binh Duong, Dong Nai, HCMC, Da Nang, Bac Ninh, Ba Ria- Vung Tau, and Vinh Phuc.

In the future, provinces wishing to improve their ranking to become more attractive to investors will need to transform themselves closer this last area. Improving infrastructure cannot take place overnight. However, a shortcut, requiring fewer resources, is to improve economic governance to increase the PCI ranking.

CHAPTER TWO

FOREIGN INVESTED ENTERPRISES SURVEY

FOREIGN INVESTED ENTERPRISES SURVEY

SUMMARY FINDINGS

This chapter exploits the PCI research team's first survey of Foreign Direct Investors (FDI). The survey covers a highly representative selection of 1,155 businesses from 47 different countries whose operations are located throughout Vietnam's 63 provinces. While it is not the first survey of foreign investment in Vietnam, it is the largest and most comprehensive. In fact, the number of respondents in the PCI-FDI module accounts for 20 percent of the entire population of foreign investors found in the General Statistics Office (GSO) Enterprise Census.

The chapter is organized as follows. We begin by introducing the respondents to the PCI-FDI survey, cataloging their 1) country of origin; 2) location within Vietnam; 3) industrial sector; 4) size of employment and assets; and 5) business performance. Second, we take a close look at the drivers of national- and provincial-level investment into Vietnam from the business perspective. In the third section, we probe whether or not foreign investment enterprises (FIEs) view the business environment differently than their domestic counterparts. By design, the survey replicated many of the questions asked of domestic investors in the original PCI survey. The questions track eight sub-indices of the PCI index (entry costs, property rights, transparency, informal charges, time costs of regulatory compliance, proactivity, labor quality, and legal institutions), as well as questions regarding infrastructure quality and customs procedures.

It is critical to note that the results that follow are from a survey of Vietnam's existing FIEs. The PCI-FDI survey interviews the FIEs that Vietnam currently has, not the investors that it hopes to attract. Consequently, analysts must remember this when using these results. The sources of attraction and demands of Vietnam's current FIEs do not map perfectly onto the demands of the next generation.

As a whole, the current median investor in Vietnam is relatively small, export-oriented, and operating a low-margin business that is subcontracting to a larger multinational producer and is therefore usually situated in the lowest node in a product's value chain. These FIEs source a surprisingly small amount of intermediate goods and services from domestic producers, which implies that spillovers of technological capacity and management sophistication have been limited. For the most part, these investors were attracted to Vietnam for the cost advantages offered by Vietnam's wage rates and the political stability of the Vietnamese regime, allowing investors to plan strategically in the belief that policies will be upheld for some time. There is no doubt that these FIEs have contributed remarkably to Vietnamese economic development through employment creation, revenue generation, and integrating the country into global export markets.

Nevertheless, it is clear that Vietnamese economic strategists seek a different type of FIE to move the country to the next stage of economic development. To summarize a great deal of work on the subject by economic analysts in Vietnam: the next generation of FIEs will employ sophisticated technology and management, source broadly from the domestic economy, and be conscientious about environmental and labor concerns. Not only does Vietnam want these FIEs to be involved in high value-added production, but also the new investment should involve higher value-added nodes on production chains, so more of the ultimate returns on production are felt within the Vietnamese economy in terms of higher tax revenue and wage rates. The next generation FIEs will operate in high-margin businesses, so that quality of labor, intermediate goods, and infrastructure outweigh the cost advantages of production in their utility functions.

Unfortunately, very few of the next generation of FIEs have chosen to locate in Vietnam thus far. Nationally, about 5 percent of investors are involved in high-tech production, such as the information and communications technology (ICT) industry; another 5 percent are involved in scientific and technical services; and 3.5 percent are involved in finance and insurance services, which employ sophisticated management techniques and require highly trained labor. The above figures both under- and over-state the true amount of next generation FIEs in the economy. They are understated because high-valued added production can also take place in low-tech industries and services, such as in the design stage in garment and sportswear production. Our blunt measures of industrial sectors do not capture these attributes satisfactorily. The figures are also overstated because high-tech industries also have low value-added production nodes. For instance, China's drive to jumpstart indigenous innovation was driven by the realization that the country produces 90 percent of the worlds' DVD players, yet because of licensing fees and retail mark ups, only captures a small sliver of the industries' actual sales value (McGregor 2010).

Regardless of the direction of the bias, the ultimate point remains: It is difficult to generalize about the FIEs that have not arrived in Vietnam based on the FIEs that are currently here. As a result, this report is suitably cautious about the drivers and policies of FIE attraction. Our analysis applies to the current generation of FIEs with some speculation about future FDI based on the small proportion of high-tech FIEs in our sample. We are a bit more forthright when discussing the post-investment challenges for Vietnam's current crop of FIEs. Vietnam may seek a new generation of FIEs, but the ones that are here will continue to contribute to the economy in the near and medium-term future. Obstacles that impede their success will also affect economic growth and labor creation in the country.

Moreover, logic tells us that the post-investment challenges of current investors that are identified in the PCI-FDI survey will have an even larger impact on investors who fit the next generation profile. If current FIEs believe that the capacity of labor is too low for their low-technology production, who will the high-tech investors employ? If customs hold ups (and informal charges to avoid them) are hampering low value-added export, what will happen to FIEs for whom time is even more costly? If poor intellectual property rights protection and contract enforcement prohibit current investors from seeking partnerships with domestic partners, what will happen to investors who place an even higher premium on their technology? And, if bribery during licensings procedures is relatively widespread for low-margin investors, who have little room in the cost calculations to maneuver, it will only be exacerbated by the entry of high-margin investors.

In the pages that follow, we allow the voices of the 1,155 in the PCI-FDI survey to shed light on these questions. Key findings that emerge from the chapter are:

Section 2.2: Introduction of the PCI Respondents

Most FIEs are manufacturing operations that are heavily engaged in export or sales to foreign individuals in Vietnam. While some have raised serious concerns about a migration of FIEs into the real estate market, our data do not show it. Less than 1 percent of FIEs were licensed for real estate activities (although more may be involved as sideline investments). Confirming concerns about the lack of domestic spillover, we also find that FIEs purchase 54 percent of their intermediate products from overseas. This strategy has been reasonably successful; FIEs report an average of $1 million in sales in 2009 and profits equivalent to about 11 percent of their licensed invested capital. This is equal to about $17,500 per unit of labor, but in actuality is probably even higher, as many FIEs are reluctant to reveal their true performance. Looking across the sectors, profits appear to be highest among businesses in the service and commerce sectors. FIEs in natural resource exploitation have high profit margins (relative to sales), but look less stunning when compared to the size of their investments. Vietnam stands out in comparison to other countries, as almost 70 percent of respondents credit/fault general market conditions

over other factors. Only about 10 percent of respondents believe their success or failure in Vietnam can be attributed to government policy. Regardless of their profitability, most FIEs remain optimistic about the business environment; 66 percent of the surveyed firms expect to expand their operations within the next two years.

Section 2.3: Drivers of National and Provincial Locational Selections

Investors in Vietnam clearly identify factors affecting the cost of production as the most important drivers of their decision to invest in the country. Labor cost is the top-ranked factor, with 293 total votes and 126 first-place votes, followed by tax and land incentives (238 total votes, 80 first-place votes), which defray investment costs. The cost of intermediate goods and services is also in the top five with 85 total votes. Favoring cost reductions over other determinants is consistent across firm type, whether the analysis is disaggregated by size, performance, age, home country, or entry mode. Political stability ranks fourth, while other measures of governance (such as intellectual property protection, general property rights, corruption control, expropriation risk, and contract enforcement are ranked at the very bottom of the list). As we note below, governance is a critical factor affecting firm success in Vietnam after entry. When we turn to factors driving locations in a particular province, similar cost-saving factors appear at the top of the list. Labor costs, tax incentives, and the presence of industrial zones, which save money on land clearance and infrastructure, are the top three determinants.

High-tech investors in ICT, financial services, and science and technological activities are far more concerned about labor and infrastructure quality than the average manufacturing firm because their sophisticated production techniques require greater human capital and their business models are more directly affected by poor infrastructure. Moreover, next generation FIEs, who are more likely to be engaged in local service contracts and government procurement, demonstrate significantly more concerns about contract enforcement and control of corruption. In addition to concerns about payment on services rendered, next generation FIEs have serious worries about their ability to protect their valuable intellectual property from local suppliers. In essence, governance appears to matter more to next generation investors.

More than 60 percent of the PCI-FDI respondents received some form of tax incentive from the province. These were predominantly in the form of tax holidays and benefited manufacturing, agriculture, and natural resource exploiters disproportionately over investors in services or construction. The most intriguing result, however, came from a question that asked respondents of FIEs that considered multiple provinces before choosing one for their business, how the incentive package of the losing province compared to the province they eventually chose. Fifty-nine percent claimed the incentive packages were the same and 12 percent said their current province had a better package. Importantly, however, 29 percent announced that the losing province actually had the preferable incentive package. For 88 percent of investors, the incentive package was not the critical factor in their investment decision. How then does this finding fit with the fact that investors cite tax incentives as the second most important determinant behind labor costs?

The answer is that provinces must offer at least some incentive to remain competitive (after all, the majority of FIEs got something), but investors are unlikely to chase an incentive into an unfavorable location. Rather, they are willing to accept a worse offer if it means locating in a more profitable business environment. This has important policy implications for many provinces, which have unsuccessfully used tax and land incentives as their primary source of attraction.

Section 2.4: Comparing Foreign and Domestic Perceptions of the Business Environment

Experiences and perceptions of FIEs and domestic investors show mixed results. Foreign and domestic investors have similar perceptions about transparency of key business documents. Neither

group is satisfied with their level of access, but systematic biases do not exist across ownership.

On some critical indicators, however, we find that the governance problems are more severe, regulations more cumbersome, and experiences more negative for FIEs. Twice as many foreign firms wait for more than a month to be fully legal in the country than those that do not (64 percent to 32 percent[2]). The business premises of foreign firms are less secure, as only 33 percent of foreign operations have Land Use Right Certificates (LURCs), as opposed to 53 percent of domestic operations. Foreign firms are significantly more likely to suffer inspections from local government agencies. Domestic firms average only about 1.5 inspections per year throughout the country, and only two inspections per year in the most burdensome province. Foreign firms, however, must undergo at least two inspections, even in the least burdensome location (Ha Noi) and undergo five inspections in the most problematic (Vinh Phuc). FIEs are also more likely to cite bias towards State-Owned Enterprises (SOEs) by provincial authorities (59.6 percent versus 45.6 percent).

When it comes to labor quality, only 21.6 percent of FIEs are positive about vocational training and an even smaller proportion of firms are positive about general education (18 percent). Domestic investors are twice as positive about vocational training as FIEs (43.6 percent) and about 50 percent more satisfied with general education (26.5 percent). The negative assessment of labor quality influences the amount of resources FIEs spend on labor training. Foreign companies spend about 8 percent of their total business expenditures on labor training, compared with 5 percent for domestic companies. What is more troublesome, perhaps, is that only 65 percent of trained laborers remain with the firm after training, representing a costly loss to their employer. In Da Nang, the turnover is 44 percent , while in Hanoi it is only 24 percent.

There are two areas in which FIE perceptions are more positive than those of domestic entrepreneurs. FIEs are more satisfied with the proactivity of local leadership, with 47.8 percent reporting that the provincial government has a positive attitude towards their business, compared to 35.6 percent domestic firms. Surprisingly, FIEs appear to make greater use of Vietnamese courts. For firms that had documented disputes, 53 percent chose to use Vietnamese courts to assess the problem. By contrast, private sector firms with disputes chose to use courts only 30 percent of the time. This is unlikely a sign of greater confidence in the Vietnamese judiciary, but more likely a symptom of the shallow social connections of FIEs, which eliminates the possibility of social contract enforcement commonly employed by private enterprises.

Secondly, FIEs are more satisfied with Vietnamese infrastructure. It goes without saying that FIEs are more likely to be satisfied with industrial zones (IZs), because far more FIEs benefit from them than domestic operations. Forty percent of FIEs have all or part of their operations within an IZ, compared to only 7.5 percent of domestic investors. As a result, FIEs are far more likely to praise the quality of the IZs (69 percent versus 36 percent). Turning to road quality at the national level, foreign investors are significantly more positive than their domestic counterparts (40 percent versus 26 percent rate road quality as good). The biggest disparity in infrastructure is the number electricity outages experienced by firms in the past month, which can shut down assembly lines, lead to reduced work hours for employees, and during the summer months deprive hot office buildings and factories of air conditioning. Foreign investors experienced 25 outages in the month before receiving the survey, while domestic investors experienced nearly 50 outages in the most recent month.

A final regulatory concern for FIEs is customs hold-ups when importing or exporting goods. Too few domestic PCI respondents export to compare the two groups directly, but we did learn that customs hold-ups for foreign importers and exporters are strongly correlated. Summing up the import and export wait in days, we find that FIEs in Ha Noi (8.12 days), Da Nang (7.89 days), and Ho Chi Minh City (HCMC) (7.12 days) face the longest waits in the country. Foreign investors were also asked

2. It is important to note these figures differ slightly from Chapter One, because we are using the nationally weighted sample of private, domestic investors for comparative purposes instead of the data at the median province, which Chapter One employed.

whether they were likely to pay informal charges at customs offices to expedite processing. Almost 70 percent of FIEs engaging in international transactions admitted to paying such charges. The southern provinces of Long An (78 percent), Dong Nai (74 percent), and HCMC (72 percent) stood out as the most problematic customs offices. Notably, these are not offices providing the fastest services, illustrating that these payments are quite unproductive.

Policy Implications

Profile of the Current Investor: The PCI-FDI data confirms previous work that the vast majority of investors in Vietnam are relatively small manufacturing operations that are interested in export and selected Vietnam for its low labor costs. Tax incentives also influenced investment attraction, as most of the investors operate relatively low-margin operations. Finally, political stability was important for investors who are confident that the leadership and its policies will be in place for the long-term, allowing them to engage in long-run strategic planning. Unfortunately, banking on this type of FDI is not a sustainable strategy for future economic development. Labor costs and the prices of other intermediate goods are already rising in the country, and the low-cost manufacturing investors will eventually seek less expensive locations. Tax incentives will allow the country to hold on to some of these investors for a short period, but at the cost of vital revenue that could be used more productively in investment in human capital and infrastructure revitalization-critical issues for the next generation FIEs.

Improving Investment Attraction: Vietnamese policy-makers will be better served by taking steps to attract investors in higher value-added protection and sophisticated services, which can grow and prosper along with Vietnamese development. This does not mean "picking winners" through targeted incentive strategies, which developing country governments have historically proven unable to do effectively, creating long-term distortions in their economies. Vietnamese policy-makers cannot know what the next big thing will be. Targeting investment around yesterday's leading high-tech industries could prove disastrous. Who would have thought 20 years ago how profitable digital outsourcing would be for Bangalore today? Rather, it means developing the labor skill sets, infrastructure profiles, protection of property rights, and contract enforcement that sophisticated investors find attractive. These investments will pay dividends regardless of the economic sector that approaches Vietnam.

It also means taking a serious look at the lack of FIE sourcing from Vietnamese domestic producers. What is causing this breakdown? Part of the problem may simply be a matter of information. Domestic producers are not certain of the quality and technological standards of future investors, while future FIEs may not have a full understanding of the domestic capacity in the country. If this is the case, investment promotion agencies can do a much better job of conveying those standards to domestic producers and investing in better databases for business partner matchmaking between FIEs and domestic suppliers. Provincial investment promotion agencies that convey information and find partners effectively will end up creating economic clusters organically, as similar FIEs seek out the same high-quality downstream suppliers.

Labor Quality and Training: Even investors interested in low-cost production are unsatisfied with the level of general and vocational training provided in Vietnam. Low quality labor requires substantial internal investments (8 percent of total expenditures), but the high turnover in the Vietnamese labor market means that investors rarely benefit directly from the fruit of the training efforts. Although, the spillover of trained workers into the Vietnamese labor market does benefit the domestic economy, it acts as a deterrent to any individual firm investing in the expensive training needed for sophisticated technological products and services.

To attract more sophisticated investors, Vietnam needs to substantially rethink secondary, tertiary, and vocational education in the country. Education investments targeted at the particular sectors Vietnam would like to see grow or general improvements that create a fungible workforce, which can adapt to new technological innovations,

could pay huge dividends. In particular, high-tech investors were the most likely to identify labor quality as disadvantage for their investment strategies.

Customs: On average, Vietnamese exporters have their products held-up by customs procedures for almost three days, importers for almost four. This does not even take into account slowdowns due to port congestion; it is simply the days necessary for clearance. For companies using complex multi-country production chains, hold-ups of this nature are extremely costly, as they create bottlenecks in downstream facilities. For investors trying to ship perishable or high-tech products, the hold-ups are disastrous. We can see this immediately in the data. Seventy percent of investors who ship regularly feel it is necessary to pay bribes to expedite procedures. To some extent, this results from systemic corruption, but it also testifies to the urgency of getting through customs quickly. It is telling that informal charges are significantly less likely in uncongested offices. Once again, Vietnam is now experiencing these difficulties when the primary foreign investors are in low-cost production; however, the costs will be even more severe for more sophisticated operations on tighter production schedules.

Regulatory Costs: Despite the tremendous effort Vietnam has made to lower the regulatory burdens faced by businesses, these reforms have benefitted the domestic, private sector more so than FIEs. Foreign operations wait twice as long to be officially legal and suffer twice as many regulatory inspections as similarly situated domestic businesses. The advances made under the Unified Enterprise Law, 2005 Investment Law, Project 30, have gone some way toward addressing this problem, but the results of this survey show there is more work to be done. In 2000, about 45 percent of FIEs waited a month to be legal, while today the number is about 35 percent. The limited improvement since World Trade Organization (WTO) entry appears to violate the spirit of domestic treatment to which Vietnam is committed.

Because of the costs of these regulatory burdens, profitable FIEs are significantly unlikely to credit their success to business policy, choosing instead to attribute their own business acumen for overcoming them. Regulations appear to be most problematic for the service sector, where loss-making operations are 11 percent more likely to blame their problems on government policy than other sectors.[3]

Infrastructure: FIEs are generally more positive than domestic investors about Vietnam's infrastructure quality. This is predominantly because foreign investors are far more likely to be located in IZs, which have better roads, road connections, and electricity access. Nevertheless, better than the domestic sector who is not satisfactory: FIEs experienced 25 power outages in the month before the survey; only 40 percent of FIEs rate road quality as good; only 20 percent say connections between roads and ports are good; only 30 percent rank road and airport connectivity as good; and lowest of all, only 16 percent claim that connectivity between rail and road is good enough for their businesses. When roads need repair, 25 percent of FIEs claim the roads are never fixed, and when they are, they indicate that it takes too long, with a median of 30 days.

Corruption: Both petty corruption and grand corruption continue to plague FIEs operating in Vietnam. Foreign investors actually are marginally less likely to participate in bribes during registration and government contracting than domestic firms, but the burden is still significant and has worsened since 2006. Between 2006 and 2010, more than 30 percent of FIEs paid bribes during business entry procedures, compared to almost 0 percent in the five years after the U.S. Bilateral Trade Agreement (US-BTA) was signed. Bribes during government contracting are less widespread, simply because so few FIEs compete for procurement opportunities. One particular sector where Vietnam would like to attract more investment, however, is particularly hampered by government corruption. Fifty-four percent of FIEs operating in the high-margin services sector pay bribes, compared to only 20 percent of domestic services sector businesses. Both government and FIEs are culpable for this problem. The most likely explanation for this issue is that severe government regulations in this sector necessitate bribery in order to enter the sector, but also make it highly lucrative by limiting the amount of competition.

3. See Appendix 2.1 for multinomial logit regression results deriving these conclusions.

Investment Incentives: Provincial FDI promotion should not rely only on tax and land incentives, as they do not solely determine the location choice of FIEs. The data clearly show that FIEs are willing to forego higher incentives for a better business environment that includes a well-trained local labor force and system of business regulations that are more transparent and less burdensome.

2.1 Introduction

Analysts of the Vietnamese economy have highlighted the important contributions of foreign direct investment (FDI) to economic growth, trade, employment growth, and poverty alleviation throughout the country. Indeed, one prominent economist surveying development in Vietnam in the 20 years since the first Foreign Investment Law (FIL) succinctly claimed, "Vietnam's economic growth can be described as being mainly brought by FDI" (Tran 2007: 223). Over the past two decades, Vietnam has benefitted tremendously from FDI inflows. Since Vietnam first opened up to global capital flows in 1987, FDI has averaged about 5 percent of gross domestic product (GDP), accounting for nearly $49 billion in implemented investment (World Bank 2010). Even before entry into the World Trade Organization (WTO), Vietnam was among the most attractive developing countries for FDI projects, but after WTO entry in 2006, FDI attraction exploded, with inflows increasing to 10 percent of GDP (World Bank 2010). In 2010, Vietnam attracted $18.6 billion and 969 projects in licensed investment, which was actually down 20 percent from 2009, as investors held back on projects while awaiting Vietnam's new leadership (General Statistical Office 2010). To put this number in comparative perspective, as a share of GDP, Vietnam is the third largest recipient of FDI in the Association of Southeast Asian Nations(ASEAN) region.

More important than the size of the investment has been the contribution of FDI to the Vietnamese economy. In 2010, FIEs accounted for 54 percent ($38 billion) of Vietnamese exports, 39 percent of industrial output (including oil production), and 23 percent (1.8 million) of the nation's business sector employment, which excludes household enterprises and agricultural employment (GSO 2010). How much FDI has influenced general economic growth, welfare, and poverty alleviation in Vietnam is difficult to assess, because foreign investment enterprises (FIEs)are attracted to economic performance as much as they contribute to it. Nevertheless, several recent contributions have used creative empirical strategies to demonstrate the impact of FDI on economic growth (Anwar and Nguyen 2009, Vu Bang Tam 2008), labor productivity in manufacturing (Vu Bang Tam 2008), and positive economic spillovers to the domestic economic through labor mobility (Nguyen Ngoc Anh et al 2008).

Despite the remarkable attraction of FDI into Vietnam over the years and its importance to economic development, concerns have been expressed about the future. Analysts worry that while Vietnam has profited tremendously from previous FDI flows, key weakness in the Vietnamese economy have prohibited the country from capturing the full extent of benefits available from foreign investment (Anwar and Nguyen (2009:198). In short, structural weaknesses in the Vietnamese economy are causing it to forego many of the benefits FDI can provide. The recent Vietnam Competitiveness Report picked up this theme (Ketels et al. 2010), highlighting the fact that FDI has been primarily focused on labor-intensive investment that seeks out Vietnam for its low labors costs, using the country primarily as a node for the simplest activity in its extensive global production chain, such as the cut, make, trim (CMT) activities common in the garment industry. As a result, the secondary benefits of FDI for the broader economy have been limited. Still other important voices have wondered whether the dramatic increase in foreign capital flows has fueled increasing levels of corruption (Ngo 2010, Vu 2010), or whether biases in policies aimed to attract FDI have distorted the economic arena for other businesses (Nguyen Nga 2010: 415; Vo 2007: 76). These are bold claims that deserve careful analysis.

Although there has been a great deal of work on FDI in Vietnam, most contributions have depended on aggregate economic data or evidence drawn from a few carefully selected anecdotes. What has been missing from these discussions is the voice of

the FIEs. What are their needs, how do they perceive economic policy, and where do they see the Vietnamese economy going over the next few years? To this end, the 2010 PCI research team decided to supplement its regular analysis of the domestic private sector with a survey of 1,155 foreign investors throughout Vietnam, which, according to the GSO Enterprise Census (2009), represents 21 percent of the total current FIEs currently active in the country. Foreign firms were invited to complete a survey instrument that was similar to the standard PCI questionnaire, but tailored to address the unique needs of foreign investors. In particular, we probed the motivations behind locational decisions, the obstacles faced in entering the Vietnamese market, and the post-registration business environment.

This survey is a change of pace for the PCI research endeavor. For six years, the PCI methodology has unapologetically focused on the perceptions and experiences of the domestic private sector in Vietnam. As we have argued in previous reports, one proven pathway to long-term growth and prosperity was the development of a healthy, small and medium-sized enterprise (SME) sector that could grow and provide jobs for Vietnam's rapidly expanding labor force. While we recognized the vital role of FDI as a source of capital, jobs, and production technology, we suggested that the nature of multinational investment would limit the benefits of its reach to particular regions and sectors of the country. Provinces located far from urban centers, major ports, or valuable resources would never be an attractive location for multinational corporations. These areas were better off focusing on providing a propitious environment for local entrepreneurs (Dau 2007:163).

Nevertheless, in our conversations with provincial leaders over the years, we have come to appreciate how much they value FDI attraction not only as a source of capital and labor in its own right, but also for the downstream effects it will have on their economies through upstream and downstream linkages. Others see FDI as a means to increase infrastructure development through public-private partnerships such as build-operate-transfer (BOT) schemes. It is safe to say that a large number of local leaders believe FDI attraction is a key pillar in their private sector development strategies. Understanding how to enhance the spillover benefits of FDI for the domestic economies is critical to helping local leaders achieve their goals.

This chapter is organized as follows. We begin by introducing the respondents to the PCI-FDI survey, cataloging their 1) country of origin; 2) location within Vietnam; 3) industrial sector; 4) size of employment and assets; and 5) business performance. Second, we take a close look at the drivers of national-and provincial-level investment into Vietnam from the business perspective. In the following section, we investigate whether or not FIEs view the business environment differently than their domestic counterparts. By design, the survey replicated many of the questions asked of domestic investors in the original PCI survey. The questions track the eight sub-indices of the PCI index, as well as questions regarding infrastructure quality and customs procedures. In the final section of the chapter, we turn on our lens to the specific issue of corruption. There, we use a cutting-edge survey methodology to identify precisely the number of respondents participating in petty corruption at the time of their registration and macro-corruption in the form of "commissions" on government contracting.

2.2. Who Answered the PCI Foreign Investor Survey?

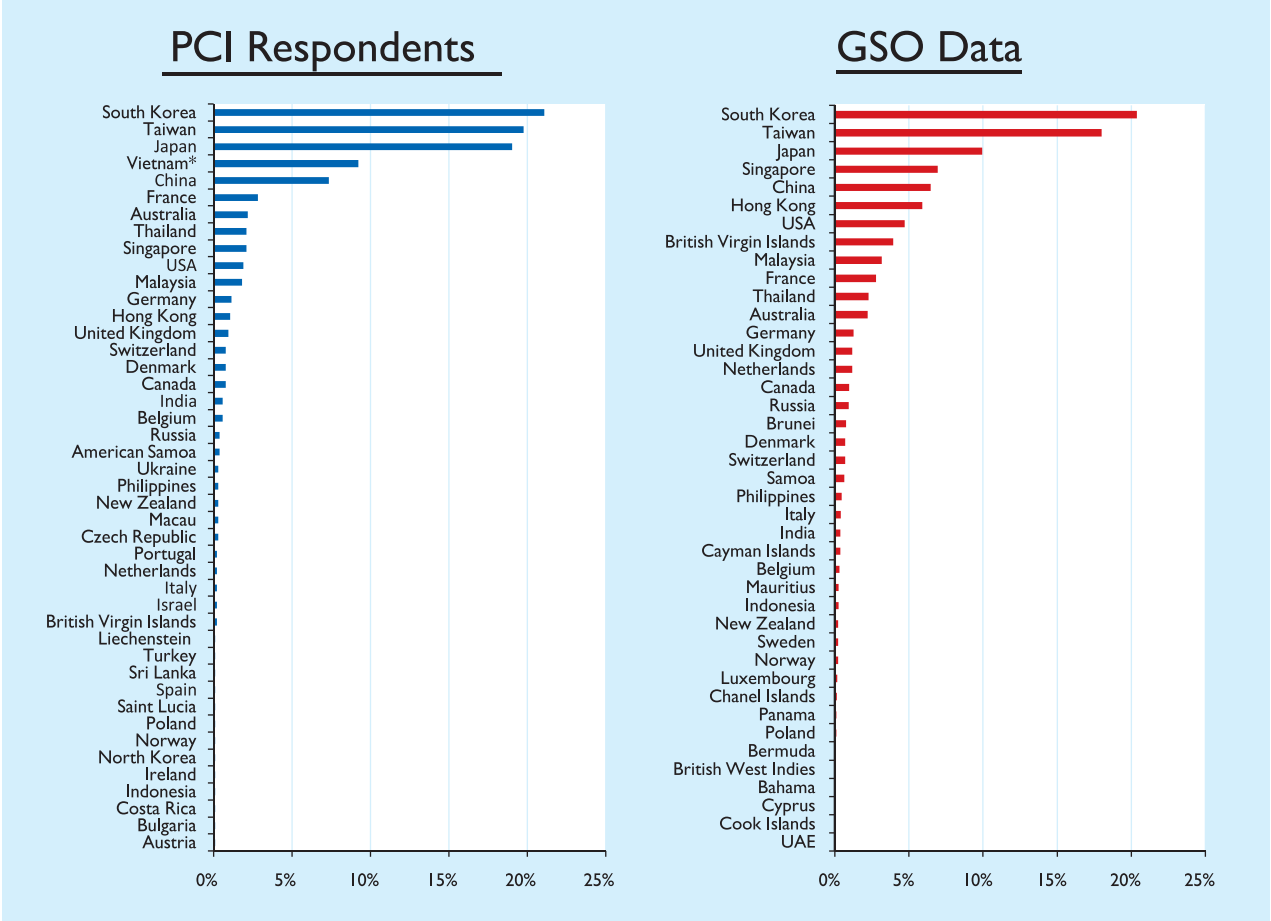
The PCI survey is a highly representative selection of 1,155 businesses from 47 countries that have located their business throughout the country in 63 provinces, although many of the provinces have only one or two active FDI projects. While it is not the first survey in Vietnam, it is the largest and most comprehensive.[4] The sample frame for selection was the list of registered FIEs in the General Tax Authority database. The Tax Authority database and GSO Enterprise Census, however, do not quite agree on the total number of FIEs in Vietnam. The GSO Enterprise Census (2009) identifies 5,620

4. See Nguyen, Hoang, and Dang (2008) for a survey of 140 FIEs and the impact of the WTO on their operations.

active FIEs in Vietnam, which includes 4,609 of which were 100 percent FDI, and 1,011 joint ventures (JVs). By this metric, the PCI accounts for 20 percent of the entire population of foreign investors found in the country. Although this figure is sizable, it is reasonable to ask whether non-response creates selection bias that might affect our conclusions. In this section, we compare the attributes of PCI-FDI respondents to the national population of FIEs, in order to demonstrate that despite suffering some non-response rate, the PCI-FDI survey offers a highly accurate depiction of foreign investors in Vietnam. Consequently, the conclusions we draw can be trusted and generalized to the underlying population.

Figure 2.1 looks at the share of FIEs by country of origin. Just as with the GSO, we find that investors from East Asia dominate the sample. Investors from South Korea, Taiwan, Japan, and mainland China alone account for 67 percent of the active businesses surveyed. When we add investors from neighbors in Southeast Asia, the figure approaches 75 percent. These numbers correspond closely to the calculations drawn by the Ministry of Planning and Investment (MPI/GSO). Respectable numbers exist for Western investors as well. The PCI-FDI sample contains 30 investors from France, 28 from the United States (including Guam and the U.S. Virgin Islands), 23 from Australia, and 12 from Germany, in addition to a host of others from Western Europe, Russia, Eastern Europe, and Latin America. It is important to remember that a great deal of U.S. investment is listed as originating in Hong Kong and Singapore for a variety of logistical and tax-based reasons; so U.S. investment is probably understated (Parker et al. 2005).

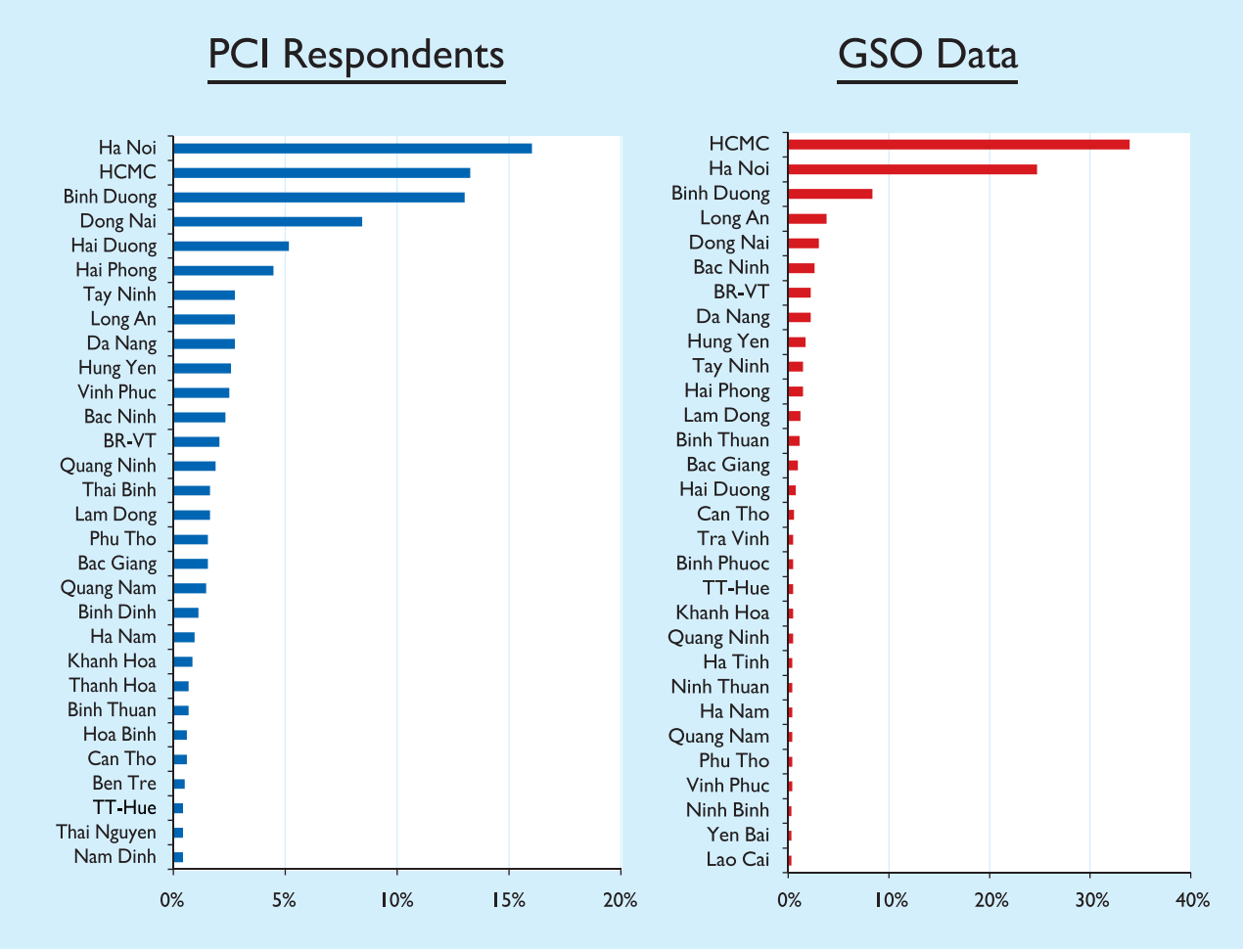
Figure 2.1: Share of FDI in Vietnam (by Country of Origin)



Unsurprisingly, most of the investors in the PCI-FDI survey are located in Ho Chi Minh City (HCMC), Ha Noi, or the provinces bordering the two metropolises. Once again, these figures match the MPI/GSO statistics on investment locations. Da Nang with 30 projects is the only province or national-level city in the top 13 locations that does not share a border with HCMC or Ha Noi. Binh Duong and Dong Nai stand out in both the PCI survey and GSO data as the top provincial locations for foreign investors with 151 and 98 projects respectively.

Because the PCI research team employs a stratified sampling strategy that is meant to mirror characteristics of investors at the provincial level, the PCI data oversamples locations that account for a small share of FDI in the country. This is useful methodologically, as it means that we can draw statistically representative inferences about locations that are not as popular for investors and compare them to favored locations. A nationally representative sampling, where we drew only one to two investors from these locations, would not allow such comparisons. It does mean, however, that we need to be careful about generalizing directly from the PCI sample to the country as a whole. To put it simply, a straight aggregation of the PCI-FDI survey would discount the importance of Ha Noi and HCMC, where 65 percent of FIEs are located, according to the GSO. To capture national-level statistics on FDI, we re-weight the results, so that the investors in these locations account for their true national share, rather than the 29 percent they account for in the PCI-FDI survey (see Figure 2.2).

Figure 2.2: Share of FDI (by Provincial Recipient)



Using the re-weighted sample to reflect national proportions, we find that 84 percent of the FIEs in Vietnam are 100 percent foreign owned. This figure, which is in agreement with the GSO Enterprise Census, is remarkable because early in the Vietnamese investment history (1987–1991), 100 percent foreign-owned investment was not allowed and investors were obligated to joint venture with state-owned enterprises (SOEs). While 100 percent FDI was possible under the 1991 revision to the Foreign Investment Law, it was still difficult, as access to land hinged heavily on finding a state-owned local partner. For example, after rejecting the standard options given in our survey, such as infrastructure, labor costs, or governance, one large, manufacturing FIE explained their choice of Hai Duong province, "It was simple, our domestic partner had land there." Thus until 1996, FDI came primarily in the form of Joint-ventures with SOEs, accounting for more than 70 percent of approved projects and 75 percent of total registered capital between 1988 and 1996. The 1996 revisions of the Foreign Investment Law facilitated 100 percent direct investment and led to the trend we observe today (see Table 2.1). Very few foreign firms have taken advantage of the 2005 Enterprise Law's invitation to register as a domestic operation with foreign capital (Tran 2007).

Table 2.1: Characteristics of FIEs in PCI Survey

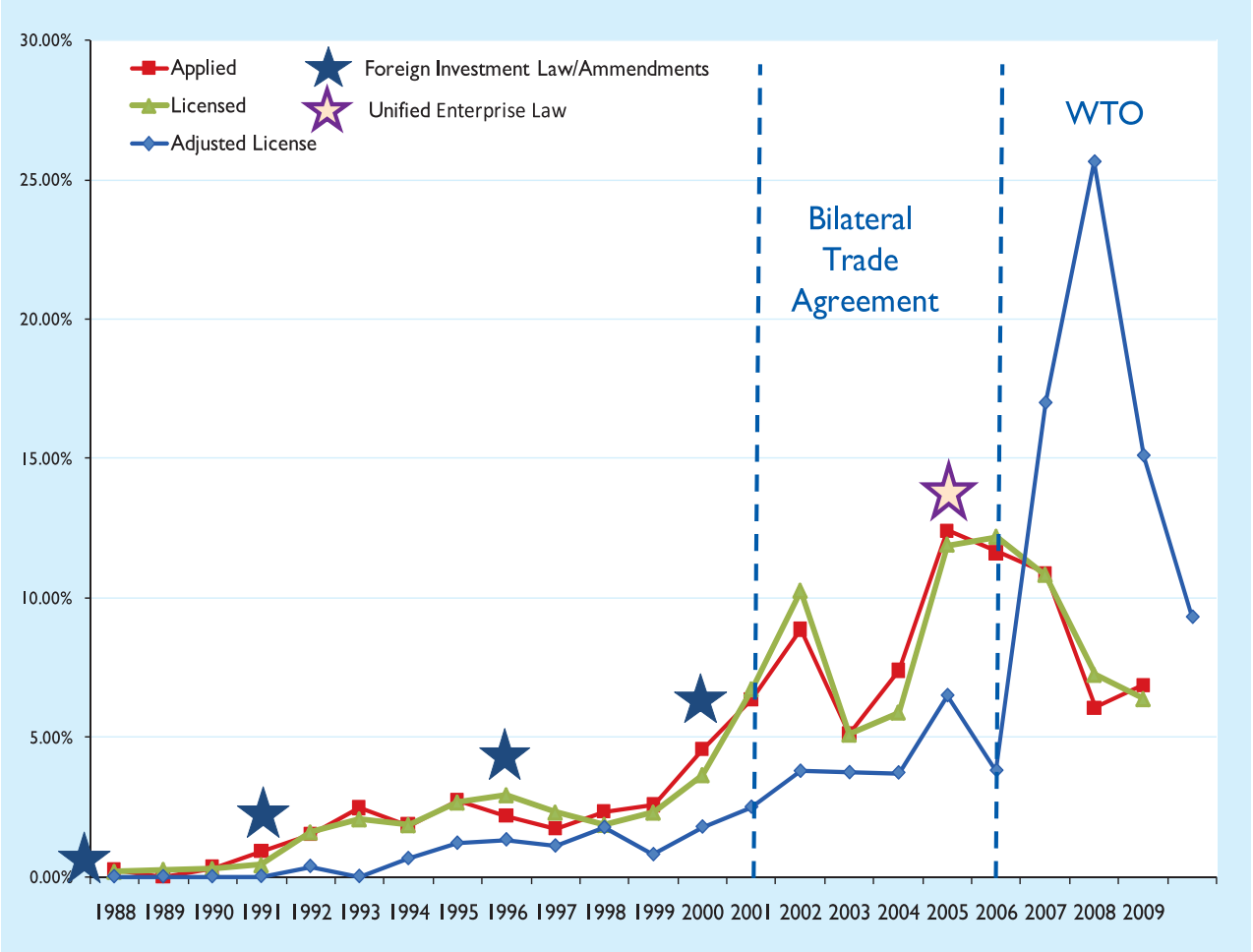
Legal Form of Investment	**PCI Share**	**GSO**
100% Foreign Invested Enterprise	84.35%	82.95%
Joint-Venture with a Vietnamese Private	4.84%	16.36%
Joint-Venture with a Vietnamese SOE	4.55%	
Registered as a domestic company	2.52%	0.46%
Domestic company with overseas VN capital	0.61%	
Other	3.13%	0.23%
Sector	**PCI Share**	**GSO**
Industry/Manufacturing	64.59%	59.44%
Construction/Infrastructure Investment	4.09%	4.72%
Service/Commerce	28.02%	28.39%
Agriculture/Forestry/Aquaculture	2.36%	5.87%
Mining/Natural Resource Exploitation	0.86%	1.03%
Finance/Banking/Insurance	1.31%	0.55%

Size of Labor Force	**PCI Share**	**GSO**
Less than 5	2.92%	4.18%
5 to 9	5.99%	6.79%
10 to 49	31.79%	29.67%
50 to 299	31.35%	30.95%
300 to 399	6.38%	7.64%
400 to 499	7.26%	7.09%
500 to 999	7.17%	6.88%
1000 and over	7.13%	7.81%
Licensed Investment Size (BVND: billion VND)	**PCI Share**	**GSO**
Under 0.5 BVND ($25,000 USD)	2.52%	2.25%
From 0.5 to under 1 BVND ($50,000 USD)	1.39%	2.17%
From 1 to under 5 BVND ($250,000 USD)	15.85%	12.75%
From 5 to under 10 BVND ($500,000 USD)	8.75%	11.71%
From 10 to under 50 BVND ($2.5 Million USD)	35.14%	36.04%
From 50 to under 200 BVND ($10 Million USD)	23.13%	22.83%
From 200 to under 500 BVND ($25 Million USD)	7.62%	7.29%
Above 500 BVND ($25 Million USD)	5.61%	4.97%
Major Customer	**PCI Share**	**GSO**
Sold domestically to SOE	3.52%	2.8%
Sold domestically to state agency	1.42%	0.9%
Sold domestically to private individuals	15.55%	13.0%
Sold domestically to foreigners	24.51%	16.2%
Exported directly	49.61%	58.6%
Exported indirectly	5.39%	8.2%

PCI Respondents based on 1,155 PCI Respondents, General Statistical Office (GSO) Data available at (www.gso.gov.vn) and GSO Enterprise Census (2009) (http://www.gso.gov.vn/default_en.aspx?tabid=515&idmid=5&ItemID=9775)

Figure 2.3 illustrates the entry year of firms in our sample. We track the entry dates over the iterations of the Foreign Investment Law, the 2005 Unified Enterprise Law, and the 2001 Bilateral Trade Agreement with the United States (US-BTA), and 2006 WTO Entry. Most of the firms in our sample have relatively young operations in Vietnam. More than 77 percent were established and licensed after the US-BTA, although we cannot say for certain that the US-BTA was the primary stimulant for their entry because other important changes were also taking place in the Vietnam economy at the time. Interestingly, we do not see a tremendous rise in new entrants from our sample after Vietnam's admission to the WTO as might have been expected. While it is correct to say that accession to the WTO precipitated FDI growth, it appears that most of that increased investment post-WTO in our sample of enterprises was from existing firms, who were adjusting their investment licenses. Indeed, 25 percent of the 928 FIEs who increased the amounts of their investment after entry admitted that the WTO was an important factor in their decisions.

Figure 2.3: Entry and Adjustment Year of FIEs in Survey (Share of Respondents)



Confirming the results of the Vietnam Competitiveness Report, 65 percent of FIEs in the PCI survey are engaged in manufacturing, predominantly in garments and shoes, light electronics, and food processing. Twenty-eight percent of FIEs are involved in the service, retail, or financial sectors. These statistics differ sharply from the private, domestic firms in the PCI survey, where 65 percent are engaged in the service sector, 13 percent are working in construction or

infrastructure development, and only 17 percent of domestic firms operate in the manufacturing sector.

Table 2.2 provides a more detailed analysis of the sectoral distribution of respondents, according to International Standard Industrial Classifications (ISIC). The shaded regions represent the proportion of high-tech, high value-added FIEs in Vietnam. Nationally, about 5 percent of FIEs are involved in information and communications technology (ICT) production or services (software, hardware production, and related services), 3.5 percent are involved in finance or services, and 5.3 percent are involved in scientific or technical activities. These proportions, of course, are much greater in Vietnam's two largest cities where there is a larger market and greater human capital. The shaded investors represent the first installments of the next generation of investment that Vietnam hopes to attract. As a result, it is important to contrast their needs to the low-value added manufacturing businesses, which account for the vast majority of foreign invested activity. While real estate investment has received a great deal of attention in recent years, it is clear from their data that represent only a miniscule proportion of the country's total investment.

Table 2.2: Detailed Distribution of FIEs by Economic Sector

	Broad Sector	National Share	Ha Noi	HCMC
1	Agriculture, forestry and fishing	2.50%	0.00%	3.97%
2	Mining and quarrying	0.42%	0.54%	0.66%
3	Manufacturing	67.16%	38.17%	56.95%
4	Electricity, gas, steam and air conditioning supply	0.15%	0.54%	0.00%
5	Water supply; sewerage, waste management and remediation	0.17%	0.00%	0.00%
6	Construction	2.66%	8.06%	0.66%
7	Wholesale and retail trade; repair of motor vehicles	3.56%	8.06%	3.31%
8	Transportation and storage	1.70%	1.08%	3.97%
9	Accommodation and food service activities	2.78%	4.84%	3.97%
10	Information and communication	4.92%	8.06%	8.61%
11	Financial and insurance activities	3.50%	6.99%	4.64%
12	Real estate activities	0.28%	0.54%	0.00%
13	Professional, scientific and technical activities	5.28%	13.98%	5.96%
14	Administrative and support service activities	1.29%	2.69%	1.32%

	Broad Sector	National Share	Ha Noi	HCMC
15	Public administration and defense; compulsory social security	0.00%	0.00%	3.31%
16	Education	1.80%	2.69%	0.00%
17	Human health and social work activities	0.36%	1.61%	0.00%
18	Arts, entertainment and recreation	0.61%	0.54%	1.32%
19	Other service activities	0.84%	1.61%	1.32%
20	Activities of households as employers	0.00%	0.00%	0.00%
Number of operations		*1,155*	*186*	*154*

Output of FIEs is primarily destined for export; 55 percent of all firms and 67 percent of manufacturing enterprises export over half of their output directly or indirectly. Even the output sold within Vietnam is primarily sold to foreigners, as 16.2 percent of FIEs list foreign individuals or companies in Vietnam as their primary market. Once again, the contrast between FIEs and domestic firms is dramatic. Only 6.3 percent of domestic firms (18.7 percent of manufacturing firms) export as their primary market and only 7.5 percent (5.2 percent of manufacturers) sell their product to foreigners in Vietnam. FDI data confirms the lack of a backward linkage to the FDI sector. Only 38 percent of intermediate products in FDI production chains are purchased from domestic operations, while 54 percent is purchased from overseas.

As Figures 2.4 and 2.5 demonstrate, FIEs in Vietnam are not large by international standards, but they are much bigger on average than businesses in the domestic sector. The median FIE in Vietnam has more than 50 employees and $500,000 in capital. Several sizable businesses also operate; more than 14 percent of FIEs have 500 employees and 13 percent currently have more than $10 million in invested capital. Domestic firms in Vietnam are much smaller by comparison. The median domestic firm has more than10 employees and only $50,000 in capital. Moreover, there are few sizable domestic firms. Less than 2 percent have more than 500 employees and $10 million in invested capital.

Figure 2.4: Employment Size of FIEs vs. Domestic (PCI Respondents)

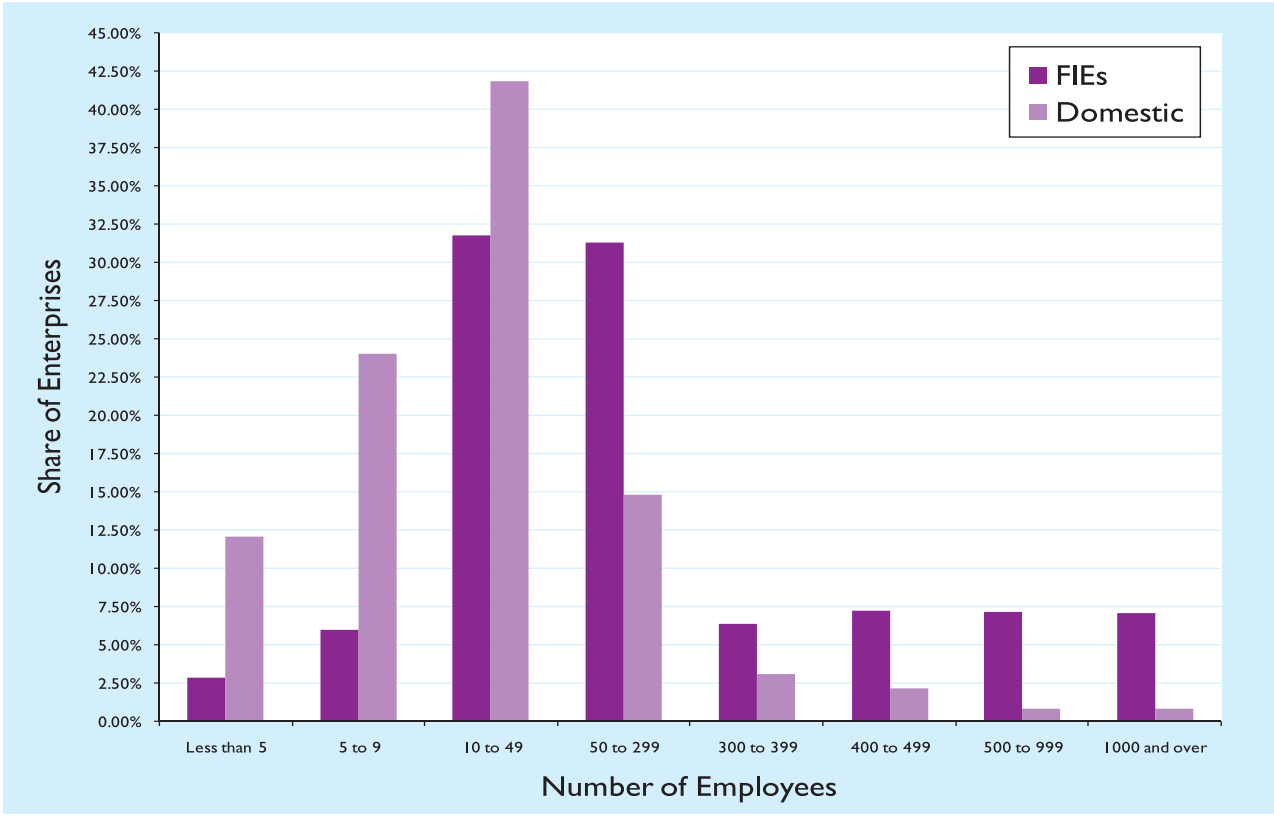
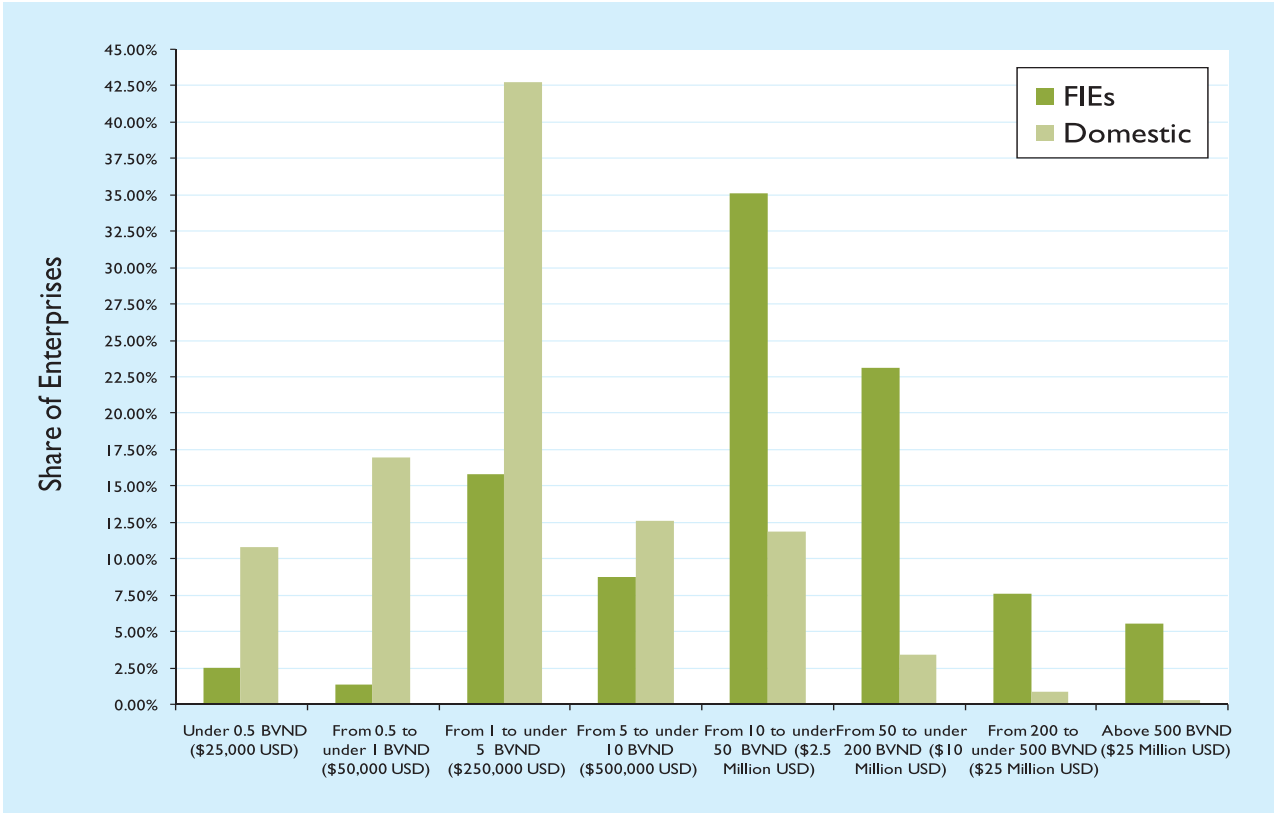


Figure 2.5: Capital Size of FIEs vs. Domestic (PCI Respondents)



The investment size figures are actually somewhat overstated, because they are drawn from the size of their investment license (to ensure accuracy) rather than their dispersed amounts. As Table 2.3 shows, by 2010, only 16 percent of operations had fully implemented their most recent investment license. On average, FIEs in 2010 had implemented about 61.6 percent of their licenses, up slightly from the previous two years.

Table 2.3: Implemented Investment

Year	Share of most recent license dispersed	Share of FIEs that have fully implemented their most recent license
2008	57.47%	15.92%
2009	59.05%	11.86%
2010	61.59%	16.12%

In general, FIEs in the PCI survey were relatively successful, averaging about $1 million in sales in 2009 and generating profits equivalent to about 11 percent of their licensed invested capital, which means their true profit is probably higher. This is equal to about $17,500 per unit of labor. Looking across the sectors, profits appear to be highest among businesses in the service and commerce sectors (see Table 2.4). FIEs in natural resource exploitation have high profit margins (relative to sales), but look less stunning when compared to the size of their investments.

Average profits obscure the fact, however, that about 19 percent of FIEs suffered net losses in 2009. The lowest share of loss-making firms can be found in agriculture/aquaculture (4 percent) and natural resources exploitation (8.8 percent). Despite their higher profitability on average, the largest proportion of loss-making firms is found in the service sector (19.8 percent). We calculated loss making in two ways. First, we calculated a firm's profits based on its revenue and expenditures over the course of the year. Second, we asked firms to self-report their profitability. These two methods yield similar percentages of loss-making firms in aggregate, yet wide deviations exist in some sectors. Differences are most severe in the construction industry, where half of the firms report losses despite the fact their official performance does not seem to justify it. Multiple regression also demonstrates that younger, larger (by investment size), and export-oriented operations were more likely to experience losses.

Table 2.4: Metrics of Foreign Invest Performance (PCI Respondents)

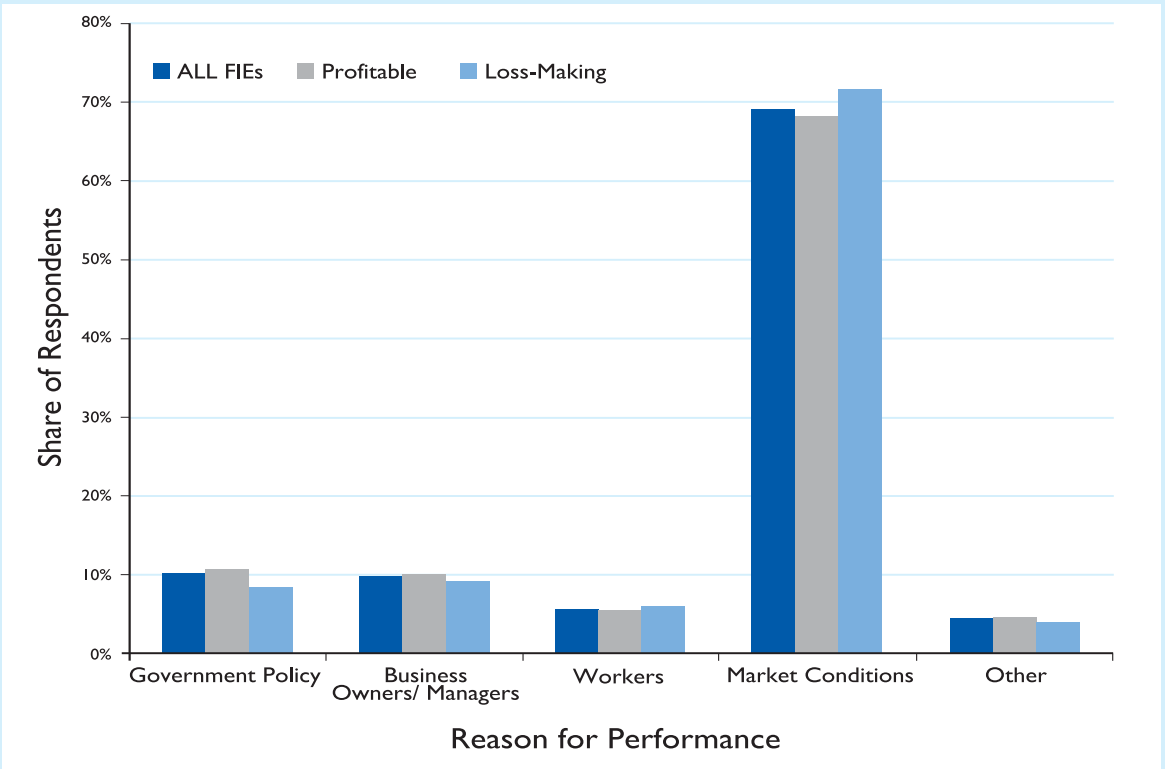
Sales	Total	Manufacturing	Construction	Service	Agriculture	Natural Resources
Total sales of median firm (Million of USD)	1.01	1.42	0.5	0.041	0.5	2.65
Median sales per unit of labor (1000s of USD)	10.5	9.56	12.50	14.26	4.45	13.52
Expenditures	**Total**	**Manufacturing**	**Construction**	**Service**	**Agriculture**	**Natural Resources**
Total expenditures of median firm (Million of USD)	0.8	1.00	0.80	0.30	0.36	3.65
Median expenditures per unit of labor (1000s of USD)	8.33	8.01	44.83	8.00	9.09	12.17
Profitability	**Total**	**Manufacturing**	**Construction**	**Service**	**Agriculture**	**Natural Resources**
Profit/Capital Investment (median)	11.04%	11.07%	-1.83%	14.20%	5.50%	9.30%
Profit/Total Sales 2009 (median)	20.0%	19.40%	-1.40%	28.27%	25.01%	40.25%
Profit per unit of labor (1000s of USD)	17.5	24.3	2.58	11.05	13.33	25.00
Firms with losses in 2009 (Calculated)	19.42%	19.11%	11.69%	19.83%	3.97%	8.8%
Firms with losses in 2009 (Self-Reported)	18.99%	18.71%	50.41%	17.75%	5.43%	0.0%

Investment Plans	Total	Manufacturing	Construction	Service	Agriculture	Natural Resources
Close business	1.23%	1.08%	0.00%	1.85%	0.33%	0.00%
Considerably reduce size	1.14%	1.17%	0.00%	1.35%	0.00%	0.00%
Reduce size	0.46%	0.69%	0.00%	0.04%	0.00%	0.00%
Continue operating at present size	30.85%	33.62%	26.68%	26.86%	7.83%	29.45%
Increase size of business	40.88%	39.59%	40.61%	41.19%	67.71%	56.60%
Considerably increase size of business	25.44%	23.85%	32.72%	28.70%	24.14%	13.96%

Regardless of their profitability, most FIEs remain optimistic about the business environment, as 66 percent of the surveyed firms expect to expand their operations over the next two years, almost exactly the same proportion as domestic firms in 2010. Agriculture/aquaculture stands out again as the most optimistic sector with 92 percent of businesses planning expansion, followed by construction (73 percent).

Because so many FIEs seem to be doing well in Vietnam, our final question in the performance section asked the businesses to tell us what factors they perceived to be contributing to the performance (see Figure 2.6). To do this, we used a standard question asked on business environment surveys around the world. Vietnam stands out in comparison to other countries, as almost 70 percent of respondents credit/fault general market conditions over other factors. Only about 10 percent of respondents believe their success or failure in Vietnam can be attributed to government policy and business managers. Labor receives the least credit, cited by only 6 percent of respondents. Importantly, answers vary only marginally for loss-making firms. This is a useful finding, as it demonstrates that the above respondents do not necessarily implicate government policy as a hindrance to performance. Rather, it seems that FIEs are generally indifferent to government actions, believing that their ultimate success in the country hinges upon the economic opportunities available to them.

Figure 2.6: Factors Contributing to FIE Performance



2.3. Factors Influencing Business Entry and Investment Location

The importance of FDI has led to a vast body of literature to explain the determinants of foreign capital flows. Despite the challenges with explaining FDI determinants, there is a consensus that foreign capital inflows result from both push and pull factors, identified respectively with conditions that are external and internal to the recipient countries (Dunning 1993, Calvo, Leiderman, and Reinhart 1996). Previous work on Vietnam has largely confirmed these international findings. Mirza and Giroud (2004) highlight political stability, size of the local market, and quality of the labor force. Hsieh (2005) finds that Vietnam's investors were attracted to Vietnam's previous growth and openness. Building on the economic openness, Parker et al (2005) and Nguyen and Haughton (2002) identify the US-BTA as a critical stimulant, while Nguyen et al. (2008) find evidence that the WTO played a role in increasing FDI. At the provincial level, authors have identified market size and potential, human capital (measured by population and GDP), and infrastructure quality as the critical determinants of FDI location (Pham 2002, Meyer and Nguyen 2005, Anwar and Nguyen (2009).

Work on the impact of economic governance on investment attraction is mixed. Meyer and Nguyen (2005) purport to show that institutions matter, but they operationalize institutions as IZs, which is highly suspect and easily confused with infrastructural quality and land availability. Vu, Le, and Vo (2007) and Riehl (2008) find a positive relationship between FDI and the quality of governance, as operationalized by the PCI scores. Nguyen et al. (2008) however, do not identify a significant correlation of governance with when controlling for other factor. Malesky (2007, 2008) agrees that good governance has less to do with attracting new FDI projects, which are primarily attracted to structural factors, but does show that quality of governance is strongly associated with disbursement of FDI and does influence strongly disbursement rates and the decision to expand existing projects. Breaking apart the individual PCI sub-indices, Malesky (2007) shows that transparency, property rights protection, and confidence in legal institutions appear to play the biggest role.[5]

All of the above work studying locational choices of FIEs uses aggregate FDI data. This approach has been very fruitful in identifying many of the correlates of FDI attraction shown above. Nevertheless, the cross-national approach is highly sensitive to key methodological choices, such as measurement, time frame, and provincial coverage. Each decision favors a particular correlate of FDI. Secondly, because of the high correlation between many of the causal factors tested, it is very difficult to rank the importance of the determinants, we can only say which factors have a statistically significant correlation or not.

2.3.1. Drivers of National Investment in Vietnam

The PCI survey offers an opportunity to do something different from previous analyses. We can ask investors themselves about the factors that drove their investment decisions. Questions B3 and B5 did just this, providing investors with a list of 25 items that previous research had deemed important for attracting investment. The ordering of the determinants was altered in the two different versions of the surveys, so we could ensure that the beliefs of the investors drove the rankings, as opposed to response order. Investors were asked to select the three most important factors underlying their decision to invest in Vietnam and the specific province.

Before jumping into the determinants, we asked respondents whether they considered another country or focused their decision solely about whether to invest in Vietnam or not. Fifty-two percent of respondents considered another country.

5. Using a two-stage approach with exogenous sources of variation in FDI flows, Malesky (2008) and Dang Duc Anh (2009) find strong evidence of reverse causality. That is, governance improvements tended to follow FDI inflows as investors pushed and lobbied for local-level reforms.

Of those, 30 percent said that the China was their primary alternative, followed by Vietnam's Southeast Asian neighbors (Thailand, 10 percent; Cambodia, 8 percent; Indonesia, 6 percent; Malaysia, 4 percent; Laos, 4 percent; and Philippines, 2 percent). Not all of our respondents selected Vietnam over a regional rival; 23 percent invested in Vietnam as part of a multi-country investment strategy. Of course, these investors may differ in terms of the most important attributes driving their investment.

Table 2.5 depicts the national-level determinants. The first three columns display the number of respondents who chose those factors as the first, second, or third most important factor respectively. The fourth column shows a simple addition of the number of times a particular factor was selected. The final column is a weighted column that awards three points to the most important factor, two to the second, and one to the first. Investors in Vietnam clearly identify factors affecting the cost of production as the most important determinants. Labor cost is the top ranked factor with 293 total votes and 126 first-place votes, followed by tax and land incentives (238 total and 80 first-place votes), which defray investment costs. The cost of intermediate goods and services is also in the top five with 85 total votes. Political stability ranks fourth, because investors value the consistency of the one-party state, the clear mechanisms for leadership transition, and the confidence that policies will not change drastically from year to year.

Table 2.5: National-Level Locational Determinants of FDI

Top 10 Determinants					
Factor	1st	2st	3rd	Total	Weighted
Labor costs	126	99	68	293	644
Tax or land incentives	80	82	76	238	480
Political stability	76	64	77	217	433
Labor quality	31	58	42	131	251
Cost of intermediate goods and services	23	36	26	85	167
Wealth of consumers	26	21	28	75	148
Availability of intermediate goods and services	32	18	14	64	146
Size of domestic market	25	24	19	68	142
Availability of industrial zones	20	17	25	62	119
Performance of macro-economy	21	16	22	59	117

Bottom 10 Determinants					
Factor	1st	2nd	3rd	Total	Weighted
Access to policy-makers to resolve firm issues	10	6	4	20	46
Land allocation	7	6	11	24	44
Proximity to export markets	3	7	13	23	36
Expropriation Risk	3	7	11	21	34
Bilateral or Multilateral investment or trade treaty	5	3	11	19	32
Enforcement of legal contracts	3	5	3	11	22
Control of corruption	4	1	8	13	22
Ability to play a role in development of policy	6	1	0	7	20
Protection of property rights	1	4	3	8	14
Protection of Intellectual Property Rights (IPR)	0	3	1	4	7

Weighted assigned a score of 3 to first place, 2 to second place and 1 to third place votes

The final factor in the selection of Vietnam was labor quality, which reflects investors' initial excitement about the Vietnam's high literacy rates, solid secondary education, and youthful labor force. But a word of caution is in order. These metrics for labor quality are important for investors already operating in Vietnam, but the country's weak tertiary sector may turn labor quality into a detriment if Vietnam seeks to attract higher technology and value-added investment.

Measures of governance, such as intellectual property protection, property rights, corruption control, expropriation risk, contract enforcement are ranked at the very bottom of the list. This is not to say that investors do not value governance; it is just that they did not appear to consider it when making their original investment decision. Investors were willing to look past some issues to take advantage of the lower production costs Vietnam afforded. Also interesting is that only 19 investors claimed their decision to invest was in anyway motivated by BTAs with other countries.

Table 2.6 studies whether or not firms differed in their selection of determinants according to their size, sector, age, home country, or entry mode. We find little evidence of divergence along these key factors. Labor costs, political stability, and tax incentives consistently rated as the three most important factors among firms of every variety with a few others sneaking in (such as the cost of intermediate goods and services for American investors). The only variation was in how respondents ordered these three factors. Manufacturing and agricultural businesses tend to favor labor costs, but the highly regulated service and construction sectors were more supportive of political stability, presumably because they value the certainty of the regime and the stable policy environment that affords. Among all sectors, firms that registered after the US-BTA and WTO entry, rank political stability lower than labor costs-one might imagine this is because these international agreements substitute for regime stability to some extent (see Appendix 2.1 for multiple regression results supporting these conclusions).

Table 2.6: Top 3 Determinants of Entry (by Size, Sector, Home Country, and Entry Mode)

Employment Size			Capital Size			Entry Mode		
Large (>500 Employees)	11. Labor costs	118	Large (>$10 Million)	11. Labor costs	143	100% Foreign Owned	11. Labor costs	577
	17. Political stability	90		17. Political stability	140		14. Tax or land incentives	404
	14. Tax or land incentives	73		14. Tax or land incentives	131		17. Political stability	357
Medium (>50 Employees)	11. Labor costs	322	Medium (>$500,000)	11. Labor costs	322	Joint Venture	17. Political stability	49
	14. Tax or land incentives	246		14. Tax or land incentives	246		14. Tax or land incentives	43
	17. Political stability	188		17. Political stability	188		11. Labor costs	34
Small (<=50 Employees)	11. Labor costs	204	Small (<$500,000)	11. Labor costs	204	As Domestic Enterprise	14. Tax or land incentives	21
	14. Tax or land incentives	161		17. Political stability	161		22. Size of domestic market	14
	17. Political stability	155		12. Labor quality	155		12. Labor quality	14
Sector			Home Region			Vietnamese Entry Strategy		
Manufacturing	11. Labor costs	466	United States	11. Labor costs	14	Multi-National Corporation Subsidiary, Multi-Country and Multi-Province Entry	11. Labor costs	142
	14. Tax or land incentives	320		8. Cost of intermediate goods and services	12		14. Tax or land incentives	107
	17. Political stability	247		12. Labor quality	9		17. Political stability	87
Construction	17. Political stability	72	Europe	11. Labor costs	77	Multi-National Corporation, Single-Country, Multi-Province Entry	11. Labor costs	89
	14. Tax or land incentives	61		17. Political stability	67		17. Political stability	69
	11. Labor costs	56		14. Tax or land incentives	46		14. Tax or land incentives	57
Services	17. Political stability	98	Asia	11. Labor costs	479	Multi-National Corporation, Single-Country, Single Province Entry	11. Labor costs	111
	12. Labor quality	81		14. Tax or land incentives	347		14. Tax or land incentives	70
	14. Tax or land incentives	65		17. Political stability	289		17. Political stability	57

Sector			Performance			Vietnamese Entry Strategy		
Agriculture	11. Labor costs	37	Profitable	11. Labor costs	237	Not an MNC , Multi-Country and Multi-Province Entry	11. Labor costs	80
	22. Size of domestic market	33		14. Tax or land incentives	327		14. Tax or land incentives	69
	17. Political stability	22		17. Political stability	205		17. Political stability	59
Natural	14. Tax or land incentives	9	Loss Making	14. Tax or land incentives	104	Not an MNC, Single-Country, Multi-Province Entry	11. Labor costs	63
	17. Political stability	8		11. Labor costs	103		14. Tax or land incentives	45
	4. Availability of intermediate goods and services	7		17. Political stability	61		17. Political stability	36
Age of Firm			NA			Not an MNC, Single-Country, Single Province Entry	11. Labor costs	91
Before 1996	17. Political stability	46					14. Tax or land incentives	87
	14. Tax or land incentives	44					17. Political stability	75
	11. Labor costs	41						
1996-2000	17. Political stability	48						
	11. Labor costs	44						
	14. Tax or land incentives	41						
2001-2006	11. Labor costs	276						
	14. Tax or land incentives	191						
	17. Political stability	143						
After 2006	11. Labor costs	283						
	14. Tax or land incentives	204						
	17. Political stability	196						

2.3.2. Drivers of Provincial Investment

What about determinants of location within Vietnam? Perhaps governance factors play a different role in the selection of a province. Sixty-two percent of firms considered another location besides the final one in which they invested. Among the most popular alternative locations were Binh Duong (81 firms), Ha Noi (56), Dong Nai (36), and Bac Ninh (25). Table 2.7 displays why a particular province was selected. Once again, similar cost-saving factors appear at the top of the list. Labor costs, tax incentives, and the presence of IZs, which save money on land clearance and infrastructure, round out the top three. Also ranked highly were the quality of labor and infrastructure. The next set of factors that investors prized were those affecting market conditions. The availability of intermediate goods and services, and the size and wealth of the domestic factors all received more than 70 votes. Access to policy-makers was the highest ranked political factor. While investors may not have thought governance was important enough to weigh in to their selection of a site, some did want to make sure that they had a pathway to discuss governance issues with local leaders if problems did arise.

Table 2.7: Provincial-Level Locational Determinants of FDI

Top 10 Determinants					
Factor	1st	1st	2nd	3rd	Weighted
Labor costs	108	85	79	272	573
Tax or land incentives	75	93	65	233	476
Availability of industrial zones	62	32	35	129	285
Labor quality	32	58	45	135	257
Infrastructure quality	40	35	49	124	239
Political stability	39	34	38	111	223
Availability of intermediate goods and services	27	35	17	79	168
Size of domestic market	31	27	18	76	165
Wealth of consumers	27	15	26	68	137
Cost of intermediate goods and services	10	30	31	71	121
Bottom 10 Determinants					
Factor	1st	1st	2nd	3rd	Weighted
Access to policy-makers to resolve firm issues	17	12	11	40	86

Business-Labor Relations	7	15	18	34	69
Regulatory requirements	9	14	11	28	66
Proximity to export markets	7	9	12	28	51
Enforcement of legal contracts	8	3	9	20	39
Expropriation Risk	1	8	12	21	31
Control of corruption	3	5	9	17	28
Ability to play a role in development of policy	5	2	2	9	21
Protection of property rights	0	1	3	4	5
Protection of Intellectual Property Rights (IPR)	0	0	0	0	0

Table 2.8 follows up on this question by focusing on the reasons investors chose the most high-profile investment locations in the country. The table shows significantly more variation. Governance factors still do not rise to the fore and labor costs and tax incentives still matter, but investors found something special to like about every province. Da Nang and HCMC were singled out for labor quality; Dong Nai and Hai Phong for their infrastructure; Ha Noi, Binh Duong, Hai Duong, and Tay Ninh were selected for the presence of multiple industrial zones; and the top reason for investment in HCMC was the wealth of its consumers, which makes sense, as it is the commercial capital of the country. In Vinh Phuc, investors liked the effect of being near investors in their own industry, which bodes well for the development of an organic business cluster.

Table 2.8: Top 3 Determinants of Entry (by Province)

Drivers of Provincial Selection		
Ha Noi	11. Labor costs	84
	14. Tax or land incentives	58
	3. Availability of industrial zones	50
Hai Phong	11. Labor costs	26
	14. Tax or land incentives	21
	10. Infrastructure quality	16
Da Nang	11. Labor costs	26
	14. Tax or land incentives	19
	12. Labor quality	11

HCMC	23. Wealth of Vietnamese consumers	56
	11. Labor costs	51
	12. Labor quality	49
Tay Ninh	11. Labor costs	26
	3. Availability of industrial zones	8
	14. Tax or land incentives	7
Long An	14. Tax or land incentives	22
	11. Labor costs	19
	17. Political stability	8
Binh Duong	14. Tax or land incentives	67
	3. Availability of industrial zones	67
	11. Labor costs	61
Dong Nai	11. Labor costs	46
	14. Tax or land incentives	36
	10. Infrastructure quality	25
Hai Duong	11. Labor costs	38
	14. Tax or land incentives	17
	3. Availability of industrial zones	11
Vinh Phuc	14. Tax or land incentives	18
	11. Labor costs	14
	15. Other investors in my industry were already there	9

The highranking of investment incentives in the national- and provincial-level decisions is puzzling. A vast economic literature both within Vietnam and externally has demonstrated that targeted tax incentives do not play heavily into the ultimate decisions of investors. Moreover, they tend to be wasteful, providing greater benefits to investors than governments receive in the long-term revenue and employment creation (Oman 2000, Bobonis and Schatz 2007, Vu et al. 2007).

Curious, we decided to probe a little further into tax incentives in Vietnam in Table 2.8. In fact, more than 60 percent of the PCI-FDI respondents received some form of tax incentive. Of those 60 percent, 94 percent received a tax holiday for an average duration of 39 months; 89 percent received a tax reduction, which was on average about 50 percent of the standard rate, leading firms to pay a rate of 15 percent for the first 48 months of their investment; and 13.2 percent received a reduction in land use fees. The vast majority of firms (79.8 percent) did not bother to negotiate these terms; they simply accepted the rates offered by the province, implying that the province's initial offer was sufficient for their needs.

Table 2.9: Statistics on Tax Incentives

Received Incentives	60.0%
- Form (Tax Holiday)	94.0%
- Median Length in Months	36
- Form (Tax Reduction)	88.9%
- Size of deduction	50.0%
- Length of deduction in months	48
- Rate of annual turnover tax	15.0%
- Form (Reduction in Land Fees)	13.2%
Was this the Province's original offer?	
- Yes	79.78%
- No, negotiated	20.22%
How did the offer of alternative province's compare?	
Better	28.99%
About the same	58.70%
Worse	12.31%

More than 90 percent of manufacturing, agriculture, and natural resource exploiting industries received these investments, as opposed to 60 percent in the construction and service sectors. Noticeably, incentives have petered off recently. In 2006, 92 percent of FIEs were offered incentives, but the proportion dropped about 15 percent in each of the three subsequent years, so that by 2010, only 41 percent of newly formed FIEs received tax incentives, the lowest share since 1992.

The most intriguing survey responses, however, were to question B9, which asked respondents of FIEs that considered other provinces, how the incentive package of the losing province compared to the province they eventually chose. Fifty-nine percent claimed the incentive packages were the same and 12 percent said their current province had a better package. Surprisingly, 29 percent announced that the losing province actually had the preferable incentive package. For 88 percent of investors, the incentive package was not the critical factor in their investment decision. How do we square this finding with the fact that investors cite tax incentives as the second most important determinant behind labor costs? The answer, it seems, is that provinces must offer at least some incentive to remain competitive (after all, almost all FIEs got something), but investors are unlikely to chase an incentive into an unfavorable location. Rather, they are willing to accept a worse offer if it means locating in a more profitable business environment.

2.3.3. Drivers of high-tech investment

The previous two sections are limited in that they do not differentiate the historical drivers of investment in Vietnam from the next generation of

FIEs. Differentiating the needs of these investors will help in developing an investment strategy. To do so, we must isolate the sectoral differences of the FIEs, holding constant the firms' size, entry mode, and legal form, which might be correlated with entry drivers and thus lead to omitted variable bias. Such an operation requires the use of regression analysis. Table 2.10 presents the abbreviated results of three sets of linear probability models, analyzing the drivers of investment in Vietnam.

Table 2.10: Entry Determinants of High-Tech Sector Investment

I. Drivers of National Entry		Information and communication		Professional, scientific and technical activities		Financial and insurance activities	
		Coefficient	SE	Coefficient	SE	Coefficient	SE
Costs Reductions	Labor Costs	0.357***	(0.102)	0.090	(0.098)	0.041	(0.121)
	Tax Incentives	0.229**	(0.106)	-0.061	(0.076)	-0.030	(0.100)
	Costs of Intermediate Goods	-0.000	(0.058)	-0.062*	(0.032)	-0.103***	(0.028)
Quality	Availability of Intermediate Goods	-0.304	(0.387)	0.143	(0.655)	0.283	(1.037)
	Labor Quality	0.164*	(0.099)	0.131	(0.086)	-0.016	(0.067)
	Infrastructure Quality	-0.029**	(0.013)	-0.003	(0.027)	0.098	(0.093)
Governance	Regulatory Procedures	0.040	(0.053)	0.244***	(0.083)	0.028	(0.047)
	Property Rights	0.030	(0.048)	0.024	(0.047)	-0.028*	(0.015)
	Contract Enforcement	-0.008	(0.006)	0.032	(0.033)	-0.017*	(0.009)
	Control of Corruption	-0.017*	(0.009)	0.054	(0.046)	-0.016	(0.008)
Politics	Political Influence	-0.014	(0.009)	0.103*	(0.058)	-0.021	(0.014)
	Political Stability	0.156	(0.104)	0.191**	(0.097)	0.067	(0.115)

OLS Linear Probability Model controlling for labor size, entry mode, exports and legal form. Nationally weighted regression with robust standard errors clustered at the provincial level (*** p<0.01, ** p<0.05, * p<0.1). The reference category for the industrial dummies is ISIC Code 3, Manufacturing Enterprises. All sectorial coefficients represent the difference between the industrial sector of the respondent and manufacturing. Dependent variables are derived from PCI-FDI Survey Question 3.2: " List the number (1-25) of the three most important factors that ultimately influenced your decision to invest in Vietnam." The dependent variable records whether the respondent selected the item as one of their top three choices.

2. Barriers to National Entry		Coefficient	SE	Coefficient	SE	Coefficient	SE
Costs Reductions	Labor Costs	-0.035**	(0.014)	0.059	(0.054)	-0.032**	(0.016)
	Tax Incentives	-0.020**	(0.010)	0.096	(0.060)	0.022	(0.042)
	Costs of Intermediate Goods	0.060	(0.074)	0.017	(0.056)	-0.023	(0.048)
Quality	Availability of Intermediate Goods	0.002	(0.052)	0.004	(0.048)	-0.038*	(0.021)
	Labor Quality	-0.012	(0.062)	0.141*	(0.077)	0.063	(0.093)
	Infrastructure Quality	0.023	(0.082)	0.057	(0.076)	0.079	(0.111)
Governance	Regulatory Procedures	0.021	(0.076)	0.008	(0.061)	0.129	(0.113)
	Property Rights	0.107	(0.076)	0.016	(0.035)	0.155	(0.107)
	Contract Enforcement	0.035**	(0.016)	0.019	(0.037)	-0.030	(0.018)
	Control of Corruption	-0.078	(0.068)	-0.077	(0.056)	-0.169***	(0.032)
Politics	Political Influence	0.001	(0.009)	0.022	(0.024)	-0.004	(0.007)
	Political Stability	0.009	(0.030)	-0.017	(0.011)	-0.013	(0.010)

OLS Linear Probability Model controlling for labor size, entry mode, exports and legal form. Nationally weighted regression with robust standard errors clustered at the provincial level (*** p<0.01, ** p<0.05, * p<0.1). The reference category for the industrial dummies is ISIC Code 3, Manufacturing Enterprises. All sectorial coefficients represent the difference between the industrial sector of the respondent and manufacturing. Dependent variables are derived from PCI-FDI Survey Question 3.1: "Check if the factor had a POSITIVE, NEGATIVE, or NO influence on your decision to invest in Vietnam." The dependent variable records whether the respondent selected the item as a NEGATIVE influence.

3. Drivers of Provincial Entry		Coefficient	SE	Coefficient	SE	Coefficient	SE
Costs Reductions	Labor Costs	-0.026	(0.090)	0.026	(0.092)	-0.136	(0.086)
	Tax Incentives	0.072	(0.112)	-0.011	(0.078)	-0.008	(0.104)
	Costs of Intermediate Goods	0.004	(0.055)	-0.042	(0.036)	-0.071***	(0.024)
Quality	Availability of Intermediate Goods	0.362	(0.891)	0.230	(0.752)	-1.053***	(0.336)
	Labor Quality	0.480***	(0.116)	0.227**	(0.094)	-0.061	(0.075)
	Infrastructure Quality	0.343***	(0.115)	0.077	(0.083)	0.082	(0.109)

3. Drivers of Provincial Entry		Coefficient	SE	Coefficient	SE	Coefficient	SE
Governance	Regulatory Procedures	0.003	(0.034)	0.139**	(0.069)	-0.029*	(0.017)
	Property Rights	-0.009	(0.006)	0.017	(0.025)	-0.012	(0.008)
	Contract Enforcement	-0.037**	(0.017)	0.033	(0.046)	-0.036**	(0.018)
	Control of Corruption	-0.005	(0.003)	0.022	(0.023)	-0.007	(0.005)
Politics	Political Influence	0.028	(0.068)	0.057	(0.063)	0.023	(0.068)
	Political Stability	0.035	(0.076)	0.021	(0.059)	0.025	(0.088)

OLS Linear Probability Model controlling for labor size, entry mode, exports and legal form. Nationally weighted regression with robust standard errors clustered at the provincial level (*** p<0.01, ** p<0.05, * p<0.1). The reference category for the industrial dummies is ISIC Code 3, Manufacturing Enterprises. All sectorial coefficients represent the difference between the industrial sector of the respondent and manufacturing. Dependent variables are derived from PCI-FDI Survey Question 4.1-4.3: " List the number (1-25) of the three most important factors that ultimately influenced your decision to invest in this province." The dependent variable records whether the respondent selected the item as one of their top three choices.

The table is divided into three panels (top, middle, and low). The top panel looks at business responses to Question 3.2 that asked respondents to record the three most important factors for their decision to invest in Vietnam. The panel displays the results of 12 regressions, illustrating the probability that a respondent selected one of the 12 indicators on the list. The column labeled coefficient provides the coefficient from the regression. In this case, the *coefficient* is expressed as a probability function between -1 and 1. Standard errors for each regression are in parentheses. The coefficients should be interpreted as the marginal difference in the probability of selecting a driver between the three high-tech investors and general manufacturing investment, which is the reference category (or category not included in the model). For example, the first number displayed is .357, which implies that information and communications technology (ICT) investors were 35.7 percent more likely than manufacturing investors to select labor costs as an important factor in their decision to investment in Vietnam. This number is statistically significant at the .01 level, which means that if we were to re-sample 100 sets of foreign investors, in 99 of the 100 samples, ICT investors would be more likely than standard manufacturing investors to select low labor costs. In short, the result is systematic and not an artifact of random error. On the other hand, ICT investors were 1.7 percent less likely than manufacturing to select Vietnam's control of corruption as a factor in their investment. In other words, they were less confident that Vietnam has been able to manage its corruption issues than the average manufacturing investor. Also statistically more important to ICT investors were tax incentives and labor quality. Investors in professional, scientific, and technical activities were significantly more concerned about regulatory quality and political stability than manufacturing investors when selecting Vietnam over other countries. Financial investors demonstrated serious concerns about Vietnamese governance. They were significantly less likely to select property rights and contract enforcement than manufacturing investors.

Panel 2 of the regression table reverses the analysis, relying on question 3.1 which asked investors to record what factors were barriers to investment in Vietnam. Here, we read the coefficients as the

marginal difference in the probability of selecting a factor as a barrier to investment. ICT investors were 3.5 percent more likely to select poor contract enforcement as a barrier to entry, while scientific investors were 14 percent more likely to demonstrate concerns about labor quality.

Finally, Panel 3 records the factors that drove investment into a specific Vietnamese province. For ICT investors, the most important factors in provincial selections were labor and infrastructure quality. They were 48 percent and 37 percent more likely to select these factors than the average manufacturing investor. By contrast, they demonstrated more concerns with contract enforcement than their manufacturing counterparts. Scientific investors were 23 percent more likely to select labor quality than manufacturing investors and 14 percent likely to select a province based on its relative superiority in regulatory quality. Interestingly, financial investors did not have a positive driver of their investment choice, but they were significantly less likely than manufacturing investors to select provinces for the cost and quality of intermediate goods, regulatory procedures, and contract enforcement.

The three analyses above reveal quite clearly that if Vietnam hopes to attract investors similar to its current crop of high-tech, high value-added investors, significant changes are necessary in the Vietnamese business environment. Clearly, high-tech investors are significantly more concerned about labor quality and infrastructure quality than the average manufacturing firm, as their sophisticated production techniques require greater human capital and their business models are more directly affected by poor infrastructure. Moreover, next generation FIEs, who are more likely to be engaged in local service contracts and government procurement, demonstrate significantly more concerns about contract enforcement and control of corruption. In addition to concerns about payment on services rendered, next generation FIEs have serious concerns about their ability to protect their valuable intellectual property from local suppliers.

2.4: Comparison with Domestic Firms on Governance

Two common assumptions made by authors employing the PCI ranking of economic governance for private, domestic firms to study FDI is that 1) foreign and domestic investors have similar perceptions of governance quality in their host province, and 2) the effects of governance are similar across ownership type. These may not be correct. Foreign and domestic investors may value different attributes of local governance. For instance, FIEs, who do not have deep relationships in the country, may require greater protections against expropriation and contract enforcement than local investors who can rely on connections and local modes of contract enforcement. Secondly, there is strong speculation both anecdotally and in the academic literature (Nguyen Nga 2010) that particular government officials favor a particular type of owner. Some domestic investors claim that the business environment is biased against them, as local leaders pursue larger and more high-profile foreign-invested projects. By contrast, foreign investors claim that their large size and visibility singles them out for exploitation by overzealous regulators, inspectors, tax collectors, and unethical officials. Most of these arguments are drawn from personal experience and anecdote. They have never been subjected to rigorous testing.

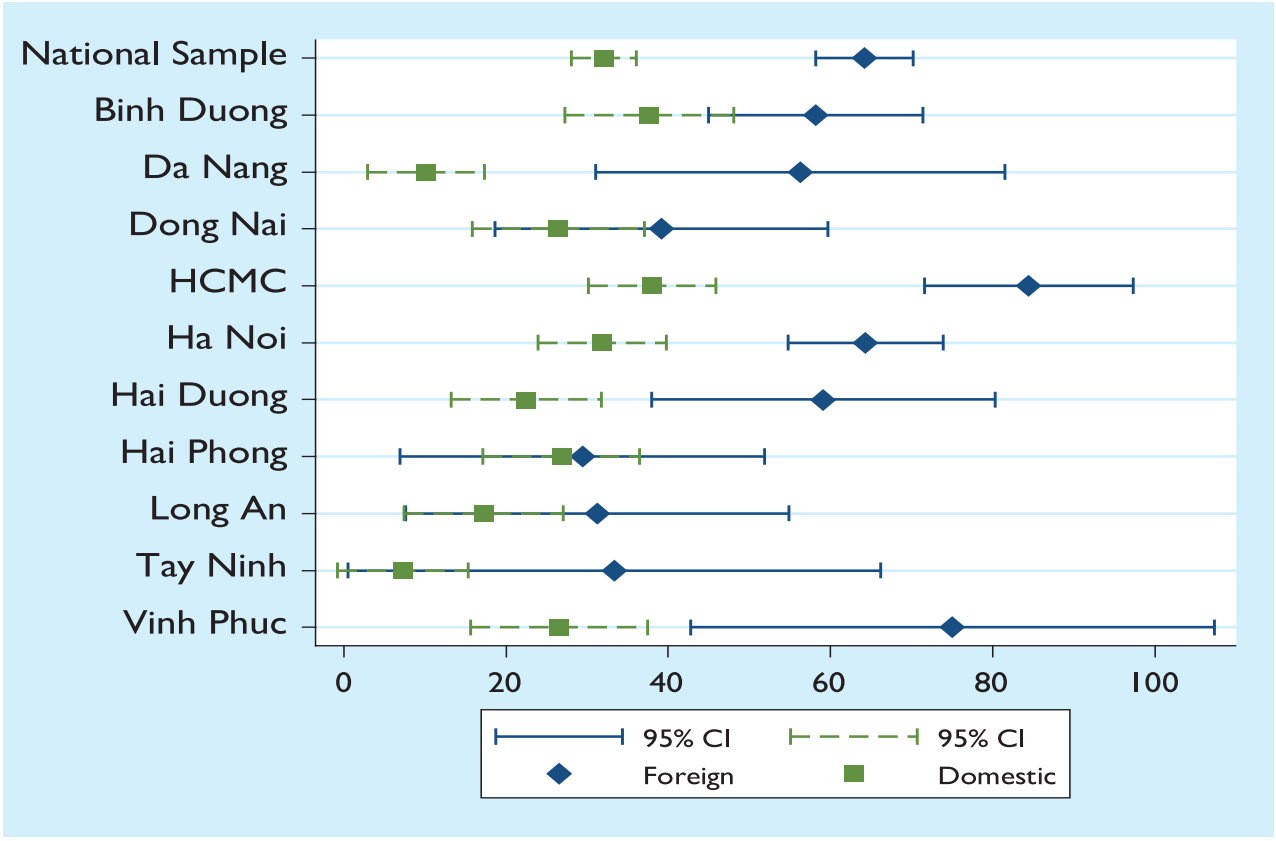
The PCI-FDI survey is ideally positioned to resolve these debates. By design, the survey replicated many of the questions asked of domestic investors in the original PCI survey. The questions track eight of the nine sub-indices of the PCI index, as well as questions regard infrastructure quality and customs procedures.

In this section, we study the differences between foreign and domestic investors on these key questions. Our analysis studies nationally represented samples that are re-weighted so that the contribution of provinces (particularly Ha Noi and HCMC) equals their true proportion in the population. In addition, we also provide data on the 11 provinces for which there were enough FDI respondents to draw statistically significant comparison.

2.4.1. Entry Costs

Figure 2.7 shows quite dramatically that the wait to become a fully legal establishment in Vietnam is radically different for foreign and domestic operations, despite the similar guarantees of the 2005 Unified Enterprise Law and the domestic treatment provisions of WTO accession. In the graphic, the blue diamonds represent foreign firms and green diamonds represent domestic firms. The branches of those lines are 95 percent confidence intervals, allowing us to estimate the range of results that are possible were we to replicate the survey on different samples of domestic and foreign firms. Where confidence intervals overlap, there are not statistically significant differences between foreign firms, as the range of values includes waiting periods for foreign firms that are less than some possible domestic values.

Figure 2.7: Share of firms Waiting More Than One Month to Receive Documentation Necessary to be Fully Legal (By Foreign and Domestic Enterprises and Location)



Looking back over the entire period (1987–2010), only 32 percent of domestic firms waited for more than a full month to receive all documentation necessary to be a fully legal business entity. Exactly twice as many foreign firms waited that long. The longer waiting periods for foreign firms appear to be driven predominantly by the national-level cities of HCMC, Ha Noi, and Da Nang. Da Nang, among the standout locations for domestic investment, is a particularly egregious example. Domestic firms must wait only 10 days to be registered and licensed in the coastal city, while foreign firms wait 56 days on average. Noticeably, the FDI favorite provinces of Binh Duong, Dong Nai, and Long An do not have statistically significant differences in their treatment.

There is a concern that averaging over the entire period may exaggerate the bias against foreign firms, as the Unified Enterprise Law, US-BTA, and WTO all were thought to significantly reduce the transaction costs of FIEs in Vietnam. In fact, Table 2.11 demonstrates that these legal changes had little effect on the waiting periods for business start-up. The major reduction in FIE entry periods occurred between the two amendments to the Foreign Investment Law in 1996 and 2000, where operations waiting more than a month fell from 80 percent to 50 percent. Waiting periods have not changed dramatically since that period. We should be cautious about crediting the investment laws, however, as the slowdown in FDI caused by the Asian Financial Crisis also reduced the number of operations applying for licenses, while simultaneously increasing the motivation of Vietnamese authorities to license them quickly.

Table 2.11: Entry Costs over Time

Time Period	All	Before 1995	1996-2000	2001-2006	After 2006
Over 1 year	2.1%	8.3%	0.4%	1.8%	1.4%
6 month to 12 months	5.2%	10.5%	6.7%	3.6%	5.8%
3 to 6 months	10.5%	4.8%	13.7%	9.3%	13.5%
1 to 3 months	43.4%	57.4%	33.3%	41.1%	43.7%
1 week to 1 month	32.5%	17.3%	33.3%	36.7%	29.4%
Within one week	7.0%	0.2%	12.7%	7.3%	6.2%
Same Day	0.2%	1.4%	0.0%	0.1%	0.0%
N	*1058*	*103*	*108*	*526*	*321*

Looking specifically at the firms registered after the US-BTA, Table 2.12 studies where the hold-ups are occurring. On average, FIEs required about two months to get their original license, a little over a month to apply for a new or altered license, a month and a half to complete formal business registration, and 27 days to receive their tax code. Eighty-seven percent of FIEs benefited from the fact that the tax code and investment license could be issued concurrently, saving them time in fulfilling two sets of procedures. In slightly less than half the cases, firms needed additional documentation, such as a sector-specific license, an environmental impact statement, a natural recourse exploitation license, and so on. On average, two additional legal documents were required per operation.

Table 2.12: Specific Entry Costs after 2001

Specific Documents	Mean	SE	Low	High
Initial investment license (Wait in Days)	60.9	4.8	51.6	70.3
Newest license (Wait in Days)	39.3	4.1	31.1	47.5
Business registration (Wait in Days)	48.0	10.8	26.7	69.4
Tax Code (Wait in Days)	27.1	3.6	20.0	34.1
Tax Code and license concurrently issued	87.0%	1.7%	83.7%	90.2%
Firms needed additional document	45.2%	2.7%	39.9%	50.4%
Number of additional documents	2.0	0.1	1.7	2.3

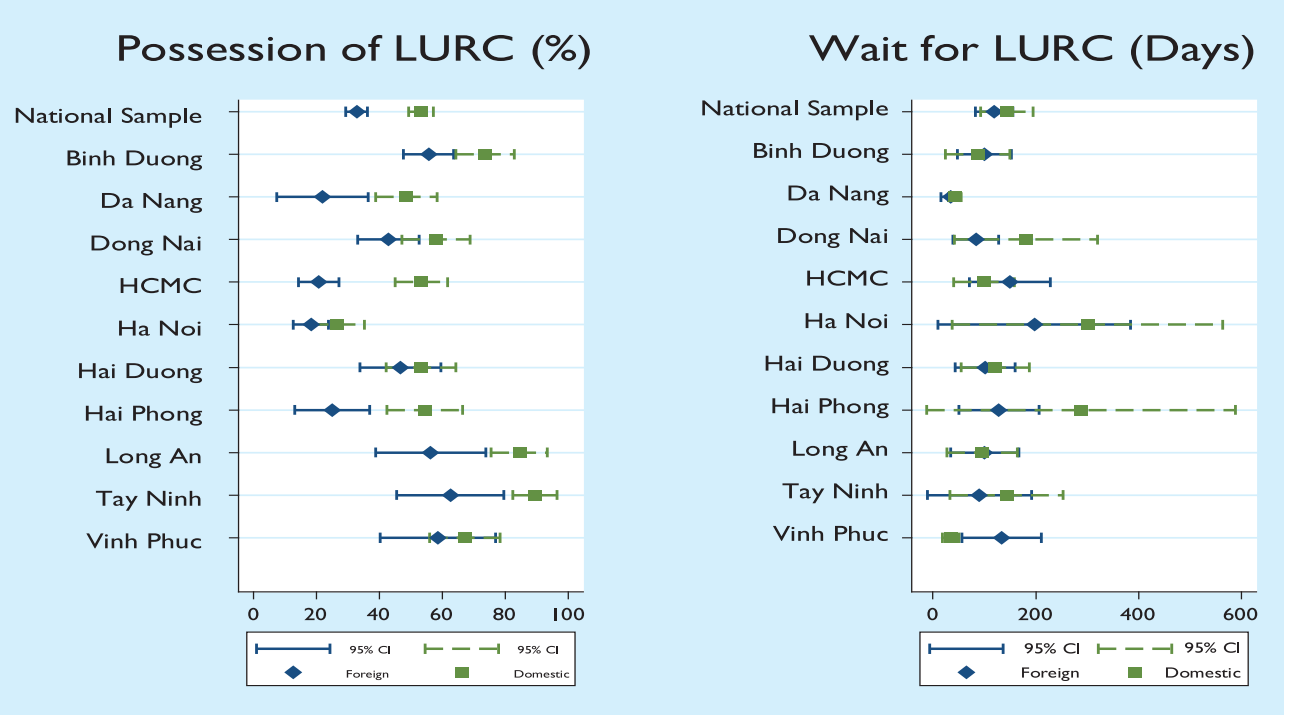
In sum, it appears there are major differences between foreign and domestic firms in regard to business entry. Part of this can be explained by the differences in size and sophistication of foreign-based operations. Nevertheless, significant differences still persist even if we limit the sample to domestic firms of similar size and industrial sectors to the foreign operations. As these findings indicate a lack of implementation of domestic treatment to foreign-owned operations, as is required under the WTO, it might be worth looking deeper into the underlying causes of the bottlenecks.

2.4.2. Property Rights

Figure 2.8 illustrates that in the country as a whole, FIEs are significantly less likely to possess land titles. In the weighted national sample, only 33 percent of foreign operations have titles, as opposed to 53 percent of domestic operations. This should not be a surprise, as domestic firms have significant advantages in terms of land access. Domestic companies can operate on household land, using household Land Use Right Certificates (LURCs). Foreign firms do not have this possibility open to them, and must rely on state agencies to introduce land to them. The gap in LURC possession is highest in HCMC, but significant differences are also noticeable in Da Nang and Hai Phong. An interesting pattern is also evident in studying the first panel of Figure 2.8. Locations that are good at issuing LURCs to domestic firms also excel at issuing them to foreigners. The bivariate correlation between the two figures is 0.854, which is significant at the .05 level.

Figure 2.8: Access to Land Use Rights Certificate (LURC)

(By Foreign & Domestic Enterprises and Location)

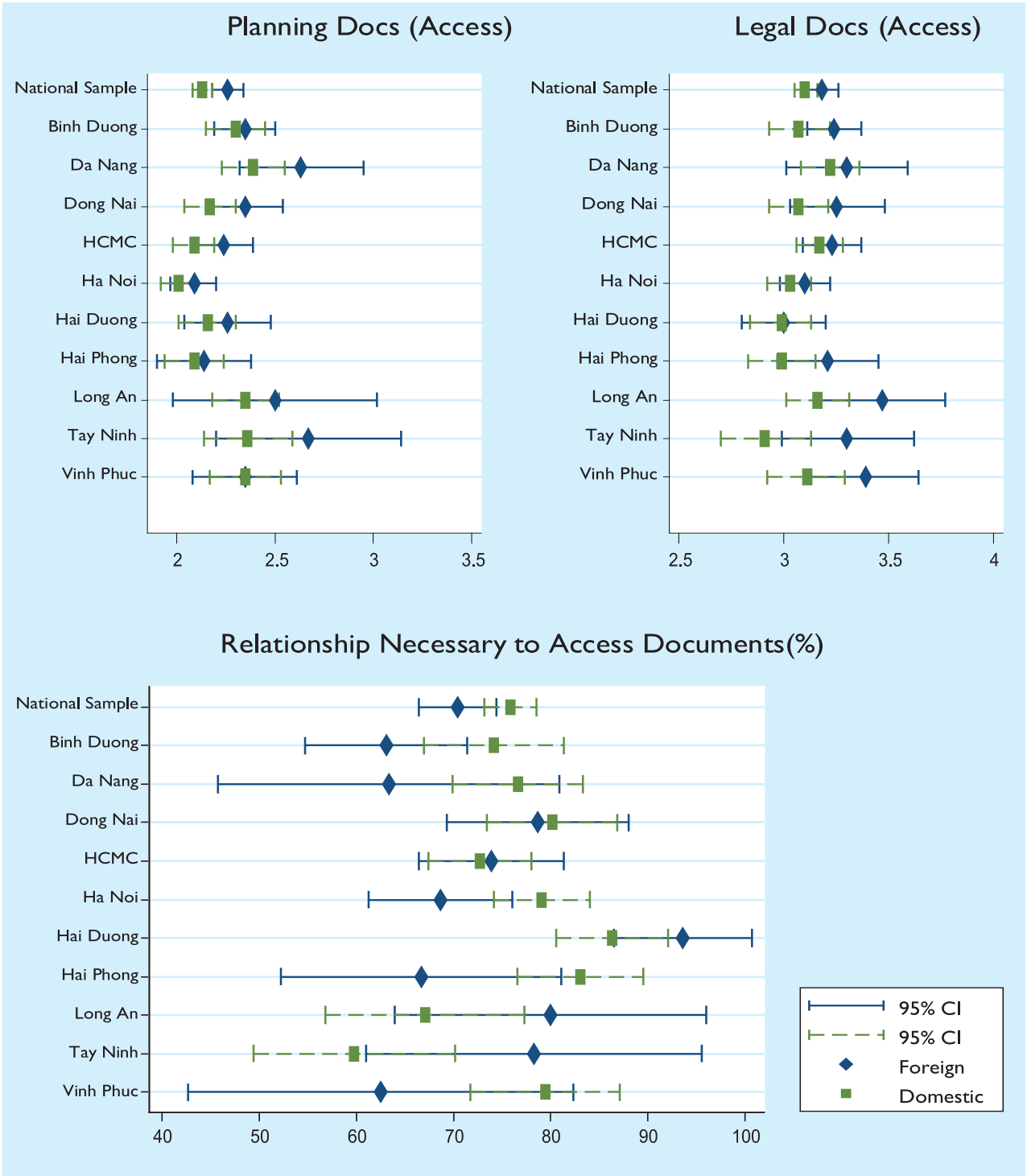


When we study waiting periods for LURC issuance after new land has been purchased or exchanged, the bias disappears everywhere in the country. Foreign firms wait a little over 118 days to receive an LURC, while domestic firms wait 148 days. Large variances in land title issuance among localities and firm types, however, this means that these differences across ownership type are not statistically significant.

2.4.3. Transparency

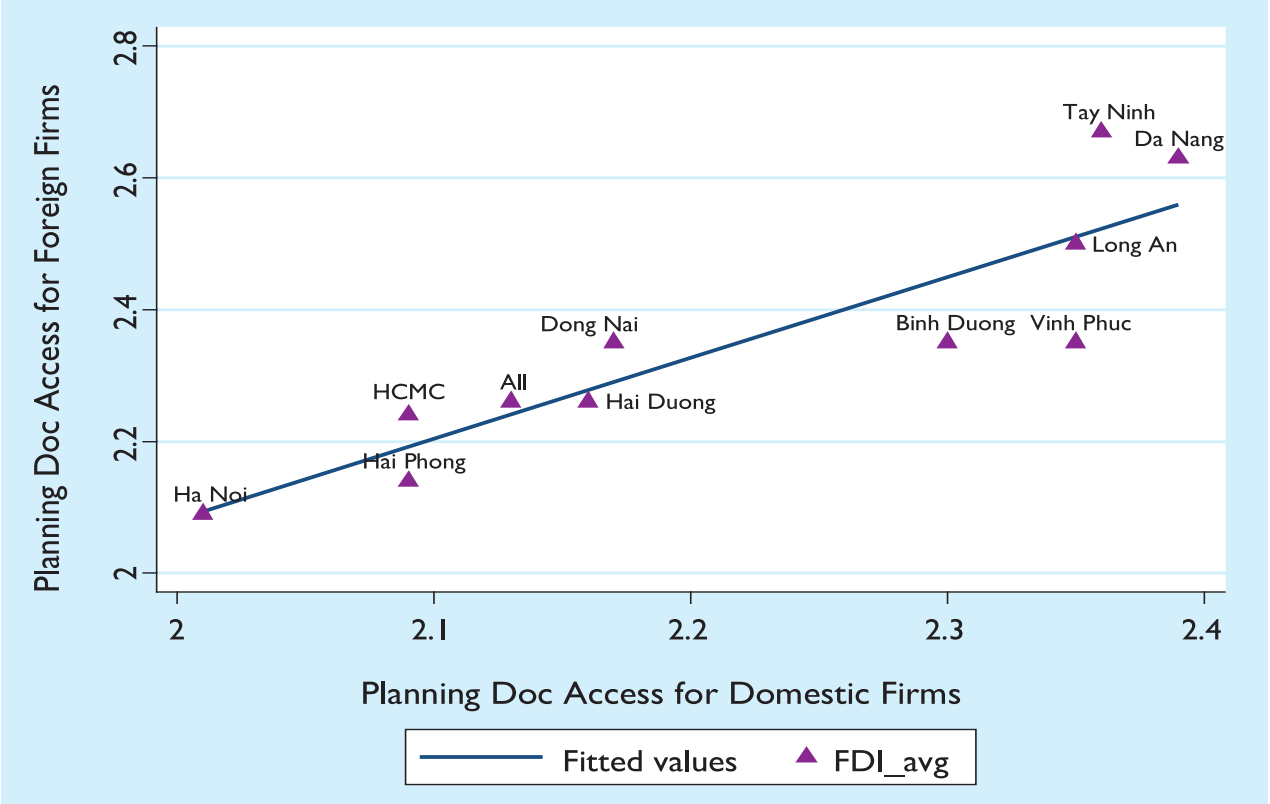
In the arena of transparency, there is clearly no significant difference in access to planning documents, legal documents, or the necessity of relationship with local policy-makers and bureaucrats to access legal documents for business activities, such as provincial budgets, 10-year master plans, or provincial incentive packages (see Figure 2.9).

Figure 2.9: Transparency of Information



The key variation in transparency in Vietnam comes from differences among locations. As Figure 2.10 shows, there is strong correlation (0.90) in access to planning documents for foreign and domestic firms by location. Although this is a small subset of locations with a representative number of firms, it appears that locations that emphasize openness, do so regardless of ownership type.

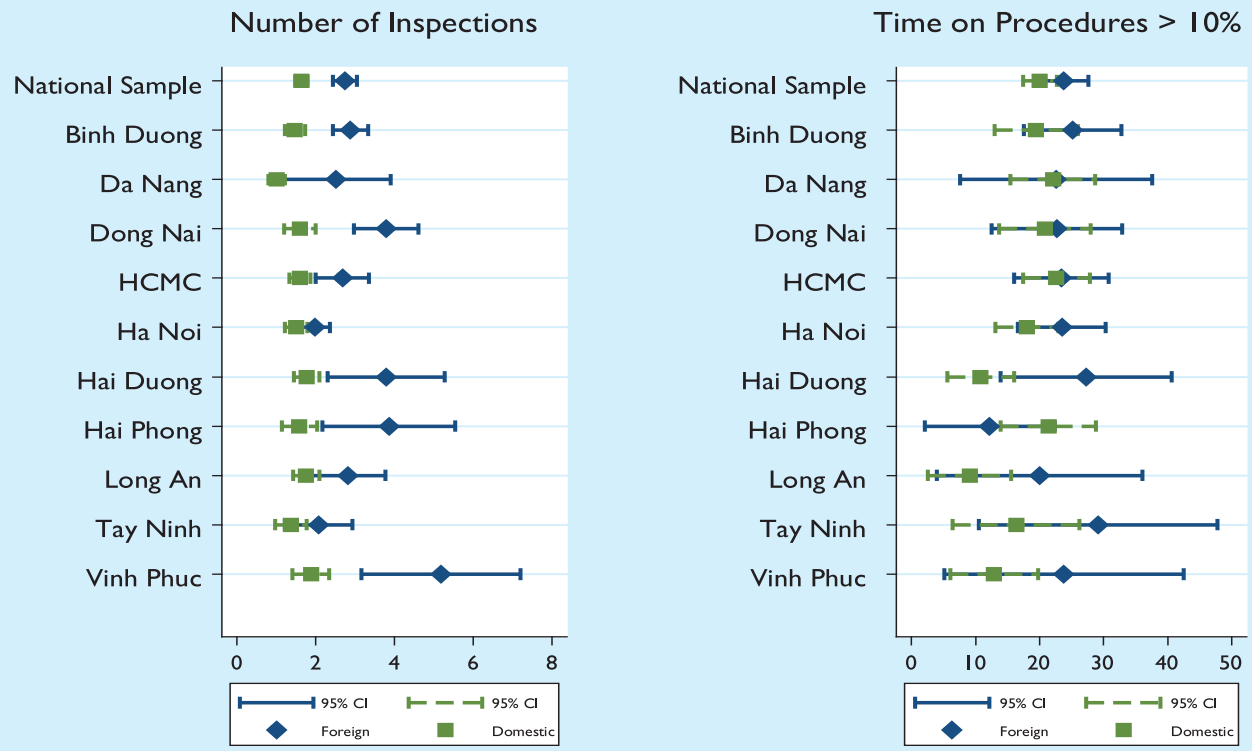
Figure 2.10: Similar Levels of Transparency for Foreign and Domestic Operations



2.4.4. Time Costs of Regulatory Compliance

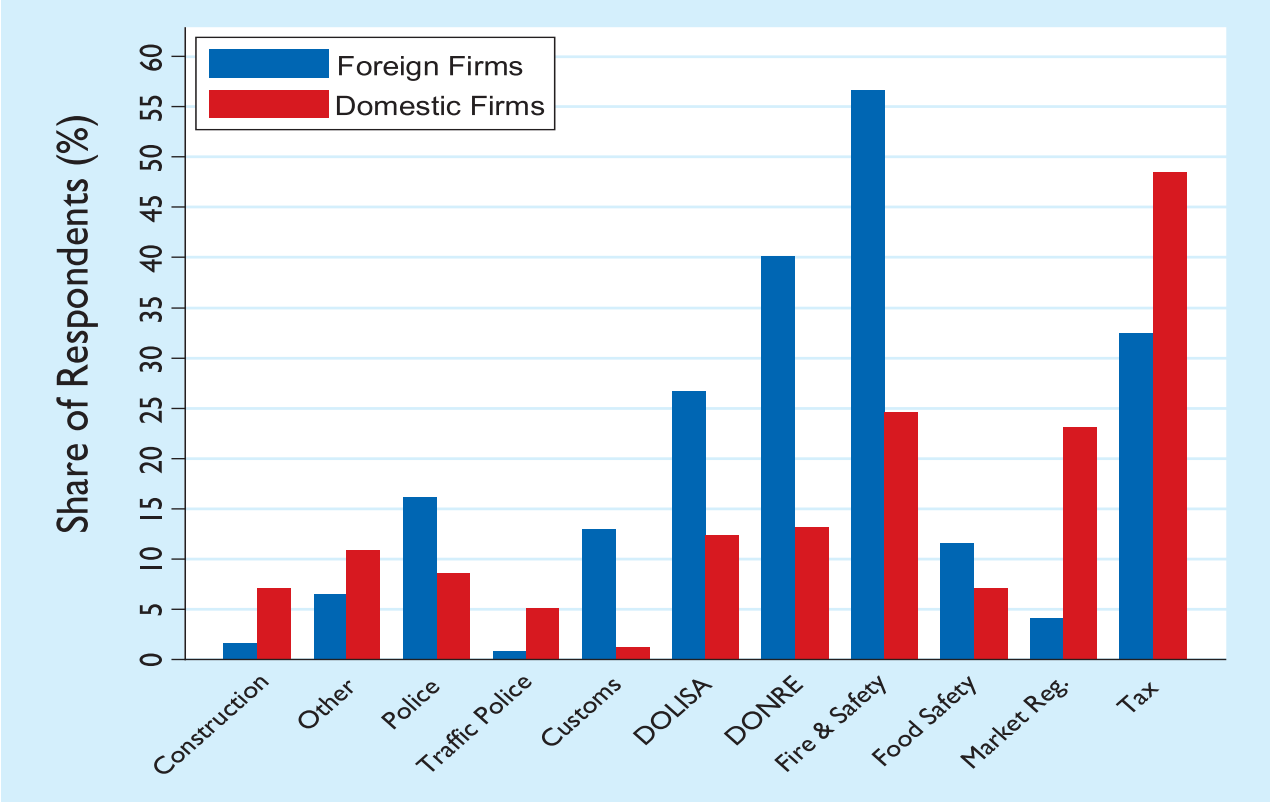
We examine two variables that measure the time costs of regulatory compliance: 1) the number of inspections experienced by businesses in the last year; and 2) the percentage of firms where the manager spends more than 10 percent of their manager's time on bureaucratic procedures. There is no difference in bureaucratic procedures across types, but it clear that foreign firms are significantly more likely to suffer inspections from local government agencies (see Figure 2.11). Domestic firms average only about 1.5 inspections per year throughout the country, and only two inspections per year in the worst province. Foreign firms, however, must undergo at least two inspections, even in the least burdensome location (Ha Noi). In Vinh Phuc, foreign firms experience more than five inspections per year. Differences between ownership types are largest in Vinh Phuc, Dong Nai, and Binh Duong, which are all high-ranking provinces in the PCI rankings and among the most attractive FDI locations. Smaller gaps exist, however, throughout the country. Only in Ha Noi, Long An, and Tay Ninh are the gaps too small to distinguish statistically.

Figure 2.11: Time Costs of Regulatory Compliance



Foreign and domestic operations tend to agree on the agencies they deem to be problematic, but they disagree slightly on the ranking (see Figure 2.12). When asked which agency is the most likely to engage in inspections, 653 foreign firms name Fire and Safety, 463 cite the Department of Natural Resources and Environment (DONRE), and only 363 list the Tax Authority. The least burdensome agency according to foreign respondents is the Market Regulator (48 citations). By contrast, the most burdensome agencies for domestic operations are the Tax Authority (3,544 firms), Fire and Safety (1,797), the Market Regulator (1692), and DONRE (963).

Figure 2.12: Most Burdensome Agencies for Inspection



A final regulatory concern for investors is customs hold-ups when importing or exporting goods. Not enough domestic investors export to estimate these figures precisely, but we present the FIE data in Table 2.13. While the relationship is not perfect, it is clear that customs hold-ups for importers and exporters are strongly correlated. Summing up the import and export wait in days, we find that Ha Noi (8.12), Da Nang (7.89), and HCMC (7.12) face the longest waits in the country. Three provinces stand out for relatively fast customs procedures with the total wait lasting fewer than five days: Hai Duong (4.95), Tay Ninh (4.00), and Hai Phong (3.88). These three provinces also have some of the smallest economies among top FDI recipients, so what we might be observing is congestion rather than problematic governance. If congestion is the problem, these results signal an opportunity to invest in capacity improvement in the congested areas to ease traffic.

Table 2.13: Time and Money Costs During Customs Procedures

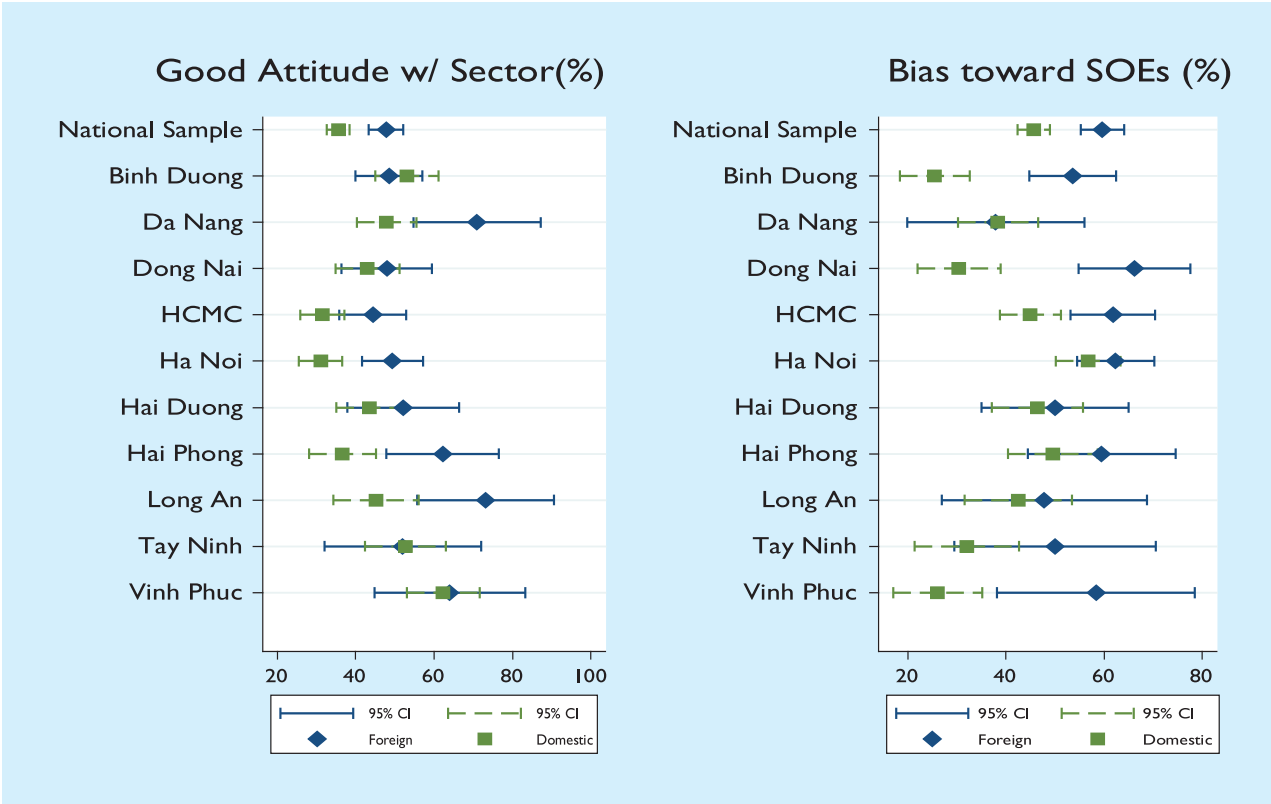
	Days to clear customs (exporters)				Days to clear customs (importers)				Bribe at customs			
	Average	SE	Low	High	Average	SE	Low	High	Average	SE	Low	High
National Sample	2.84	0.24	2.36	3.32	4.28	0.34	3.60	4.95	68.7%	2.5%	63.9%	73.5%
Ha Noi	2.75	0.46	1.85	3.65	5.38	1.25	2.91	7.84	64.5%	5.0%	54.7%	74.3%
Hai Phong	1.80	0.40	1.01	2.58	2.09	0.39	1.33	2.85	63.6%	8.5%	46.9%	80.3%
Da Nang	2.93	1.37	0.24	5.62	4.97	1.83	1.37	8.57	55.0%	11.4%	32.6%	77.4%
HCMC	3.04	0.49	2.08	3.99	4.52	0.59	3.37	5.67	72.6%	4.6%	63.6%	81.7%
Tay Ninh	1.62	0.24	1.15	2.10	2.39	0.45	1.51	3.27	66.7%	10.5%	46.0%	87.4%
Long An	2.63	0.76	1.13	4.12	4.60	1.48	1.70	7.50	78.3%	8.8%	61.0%	95.5%
Binh Duong	2.80	0.45	1.92	3.69	3.69	0.47	2.76	4.62	65.7%	4.6%	56.7%	74.8%
Dong Nai	2.86	0.62	1.63	4.08	4.05	1.05	1.99	6.10	74.5%	6.4%	61.8%	87.1%
Hai Duong	2.32	0.48	1.38	3.27	2.63	0.50	1.65	3.62	70.0%	7.3%	55.6%	84.4%
Vinh Phuc	2.91	1.72	-0.48	6.30	4.24	1.53	1.24	7.23	41.2%	12.3%	17.0%	65.4%

Foreign investors were also asked whether they were likely to pay informal charges at customs offices to expedite processing. Almost 70 percent of FIEs engaging in export admitted to paying such charges. Southern provinces of Long An (78 percent), Dong Nai (74 percent), and HCMC (72 percent) stood out as the most problematic customs offices. Notably, these are not offices providing the fastest services, illustrating that these payments are quite unproductive. Vinh Phuc province, where only 41 percent of FIEs paid informal charges to customs offices stands out among its peers. Nevertheless, there is high variance in Vinh Phuc, as evidenced by the large confidence interval and large standard error around the point estimate. This implies that there are some firms paying very little in Vinh Phuc, while other operations pay informal charges at a high rate. More research is necessary to sort out exactly which types of firms in Vinh Phuc are prone to informal charges at the customs office.

2.4.5. Proactivity and Attitude

Questions regarding the attitude of the provincial government towards the ownership type of the business provide mixed results (see Figure 2.13). In general, FIEs are more likely than domestic firms to believe that the provincial government has a positive attitude (47.8 percent versus 35.6 percent) towards their business. On the other hand, FIEs are also more likely to cite bias towards SOEs by provincial authorities (59.6 percent versus 45.6 percent). Da Nang and Long An stand out as the provinces where FIEs are most satisfied with local authorities, but the gap between FIE and domestic perceptions of local leadership is largest in Ha Noi and Hai Phong.

Figure 2.12: Leadership Attitude toward Private and Foreign Sector
(By Foreign and Domestic Enterprises and Location)



In regard to bias towards SOEs, the gap between the perceptions of domestic and foreign firms is dramatic. In Dong Nai, 36 percent more FIEs believe the environment is biased in favor of SOEs. In Binh Duong, the gap is 28 percent. Ironically, these are the locations where the SOE footprint is the lightest in the entire country. According to the GSO Enterprise Census, SOEs account for 44 percent of total business assets in the country, as well as 20 percent of business employment. In Binh Duong, by contrast, they account 14 percent of assets and 5.5 percent of employment. Dong Nai is not far behind, where 23 percent of total business assets and 10 percent of business employment.

In Da Nang, private and domestic firms tend to agree that there is limited bias (only 38 percent of both types identify bias). Ha Noi represents the opposite extreme, where domestic and foreign firms agree that there is bias towards the SOE sector (60 percent of both sector identify bias). These two national-level cities, which represent the extremes of perceptions of the SOE sector, have the largest SOE footprint of major FDI recipients. SOEs account for 38 percent of business employment and 71 percent of business assets in Ha Noi, while they hold 43 percent of the business assets and 28 percent of business employment in Da Nang.

2.4.6. Labor Quality

As we highlighted in Chapter One and in previous iterations of the PCI Report, and as reported in a number of other influential publications, the impact of education on Vietnam's labor quality is a particular concern for investors in Vietnam. Table 2.14 breakdowns the labor training needs among FIEs by province. Nationally, only 23 percent of FIE employees have college degrees and only 27 percent have had vocational training. Surprisingly, only 54 percent of employees are functionally literate according to their employers, meaning that they have the ability to read and understand their labor contract.

Table 2.14: Breakdown of Labor Quality

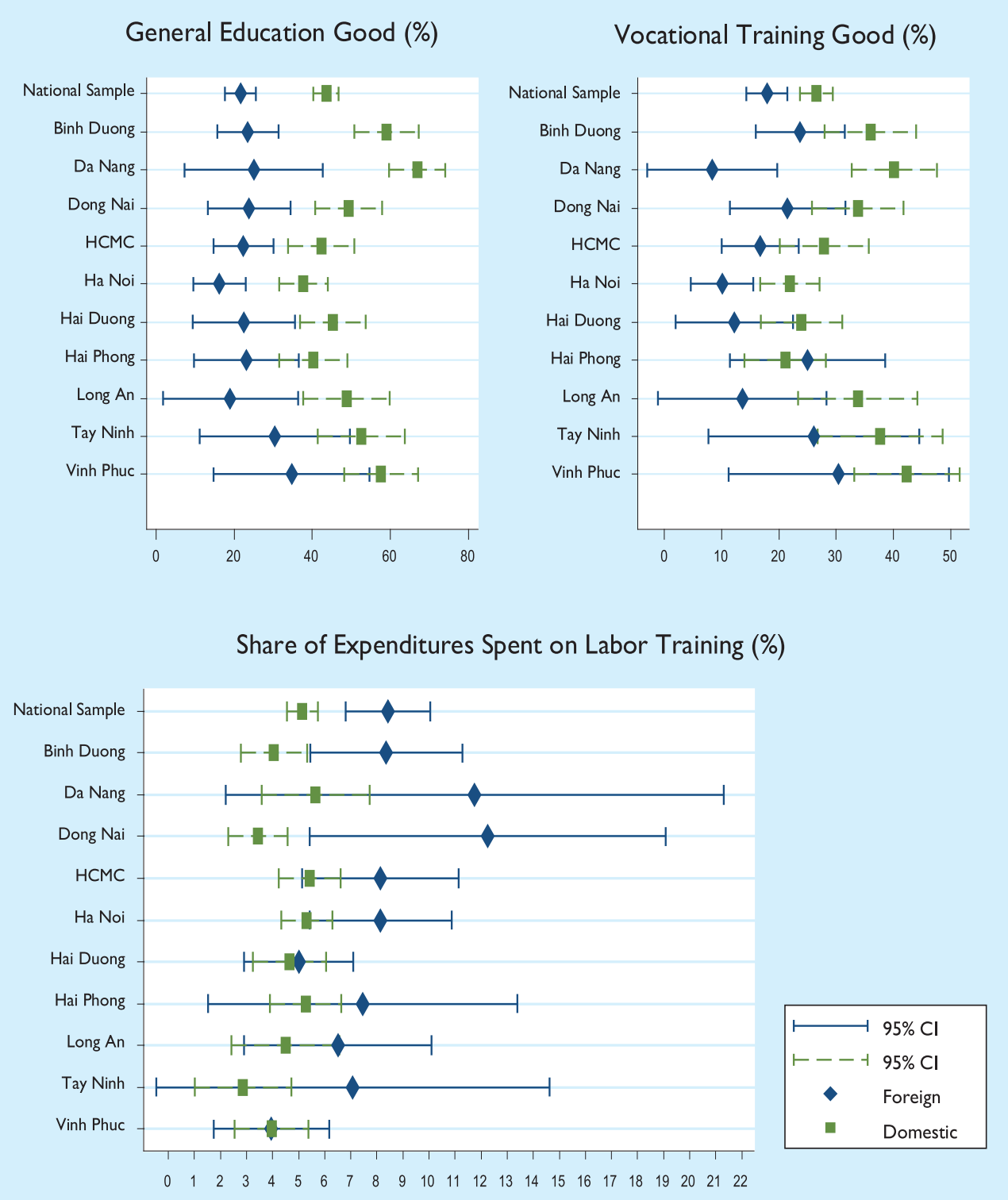
	% Post-Graduates	% College Graduates	% Vocational Training	% Secondary School	% Literate	% Required Training	% Remained after Training
National Sample	1.52	20.74	27.31	52.05	54.11	39.17	64.45
Ha Noi	2.87	35.36	39.59	55.97	70.76	37.56	75.94
Hai Phong	0.30	17.15	36.61	70.80	62.05	37.95	64.75
Da Nang	2.05	33.50	41.13	45.13	49.63	33.13	53.75
HCMC	2.17	30.08	30.53	43.58	47.22	36.25	70.39
Tay Ninh	0.40	6.43	28.35	57.34	79.68	63.73	57.71
Long An	0.62	6.71	33.80	41.85	32.45	30.18	56.36
Binh Duong	0.60	10.00	18.36	55.22	52.30	41.96	56.47
Dong Nai	1.12	11.90	24.44	55.93	52.90	38.30	57.15
Hai Duong	0.35	9.86	31.63	47.24	48.68	61.59	63.24
Vinh Phuc	0.83	7.17	48.42	63.17	34.08	36.83	70.33

As a result of the lack of satisfaction with general and vocational training, nearly 40 percent of FIE operations feel the need to invest in on-site training for their employees. Training demands are relatively constant across the country, even in the national-level cities. The two exceptions are Tay Ninh and Hai Duong, where more than 60 percent of the FIEs believed workers required training. Training, of course, is a normal part of any new employment, as laborers must learn the rules of the operations and understand the technologies with which they work. What is more troublesome, perhaps, is that only 65 percent of trained laborers remain with the company, representing a costly loss to their employer. In Da Nang the turnover is 44 percent, while Hanoi it is only 24 percent. This represents a market failure that could be resolved by provincial and national policy-makers. If general and vocational training were better, companies could cutback on the costs of in-house training.

Figure 2.14 compares assessments of the quality of training throughout the country, showing that FIEs perceive labor quality to be a much larger burden than their domestic counterparts. Only 21.6 percent of FIEs are positive about vocational training and an even smaller proportion of firms are positive about general education (18 percent). Domestic investors are twice as positive about vocational training as FIEs (43.6 percent) and about 50 percent more satisfied with general education (26.5 percent). The gap in assessments is strongest in Da Nang, where FIEs are dramatically more frustrated with labor quality than domestic enterprises. While domestic and foreign firms disagree on average, there is a strong bivariate correlation (0.60) across locations. That is, foreign investors and domestic investors tend to agree on which location have relatively worse and relatively better labor quality.

Figure 2.14: Perceptions of Labor Quality

(By Foreign and Domestic Enterprises and Location)



The negative assessment of labor quality affects the amount of resources FIEs spend on labor training. Foreign companies spend about 8 percent of their total business expenditures on labor training, compared with 5 percent of expenditures for domestic companies. Among provinces, training is most costly in Da Nang (11.8 percent) and Dong Nai (12.2 percent) on average, although both locations demonstrate a high degree of variance.

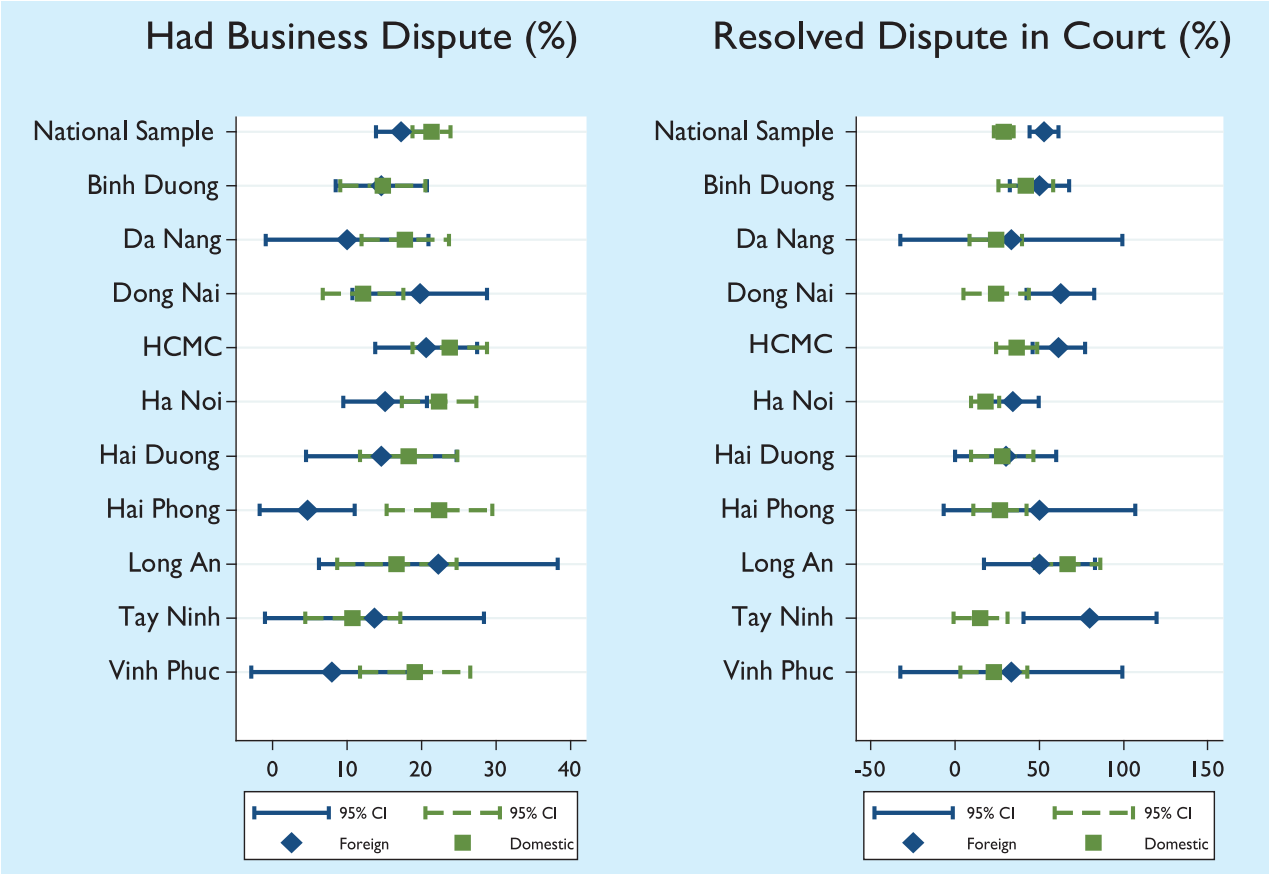
2.4.7. Legal Institutions

When it comes to business disputes with vendors, customers, landlords, and business partners, there is little difference between domestic and foreign operations. FIEs have slightly fewer disputes on average than domestic investors (17 percent versus 21 percent), but these differences are not statistically significant. Outside of Hai Phong where less than 5 percent of FIEs had disputes, this pattern remains throughout the country.

Where FIEs and domestic firms differ, however, is whether or not they used Vietnamese legal institutions to resolve those disputes. For FIEs that had documented disputes, 53 percent chose to use Vietnamese courts to assess the problem (see Figure 2.15). By contrast, domestic private sector firms with disputes chose to use courts only 30 percent of the time. Use of legal institutions among investors was dramatically higher in the North Southeast, especially in Tay Ninh (80 percent), Dong Nai (62.5 percent), and HCMC (61.5 percent). Court use is lowest in Hai Duong (30 percent). We should be careful about these findings. Higher use of courts by FIEs does not imply more trust in judicial procedures. Rather, it is more likely a function of the fact that FIEs do not have deep social networks in local economies, and therefore cannot rely on informal means of social enforcement that are popular among domestic enterprises.

Figure 2.15: Use of Courts to Resolve Business Disputes

(By Foreign and Domestic Enterprises and Location)



Probing deeper, the PCI survey asked those who chose not to use the courts, why they avoided the formal legal system (see Table 2.15). Respondents were allowed to choose more than one answer . Overall, foreign and domestic firms tend to agree. Roughly 60 percent of both types of firms argue that other mechanisms were more appropriate. Domestic investors were three times more likely to cite the presence of bribes as a deterrent (28 percent to 8 percent), and twice as likely to cite the length of the resolution period (41 percent to 22 percent) and the cost of dispute resolution expenses (22 percent to 10 percent).

Table 2.15: Why Did You Not Use Courts to Resolve the Dispute?

Reason	Domestic	Foreign
Other ways were more appropriate	59.62%	61.20%
It takes too long for the dispute to be resolved	41.31%	21.53%
Costly dispute resolution expenses	22.41%	9.71%
Offering bribes to solicit favorable judgment is	28.66%	8.14%
Insufficient capacity of court officials	8.07%	2.06%
Do not trust court's impartiality	NA	3.79%

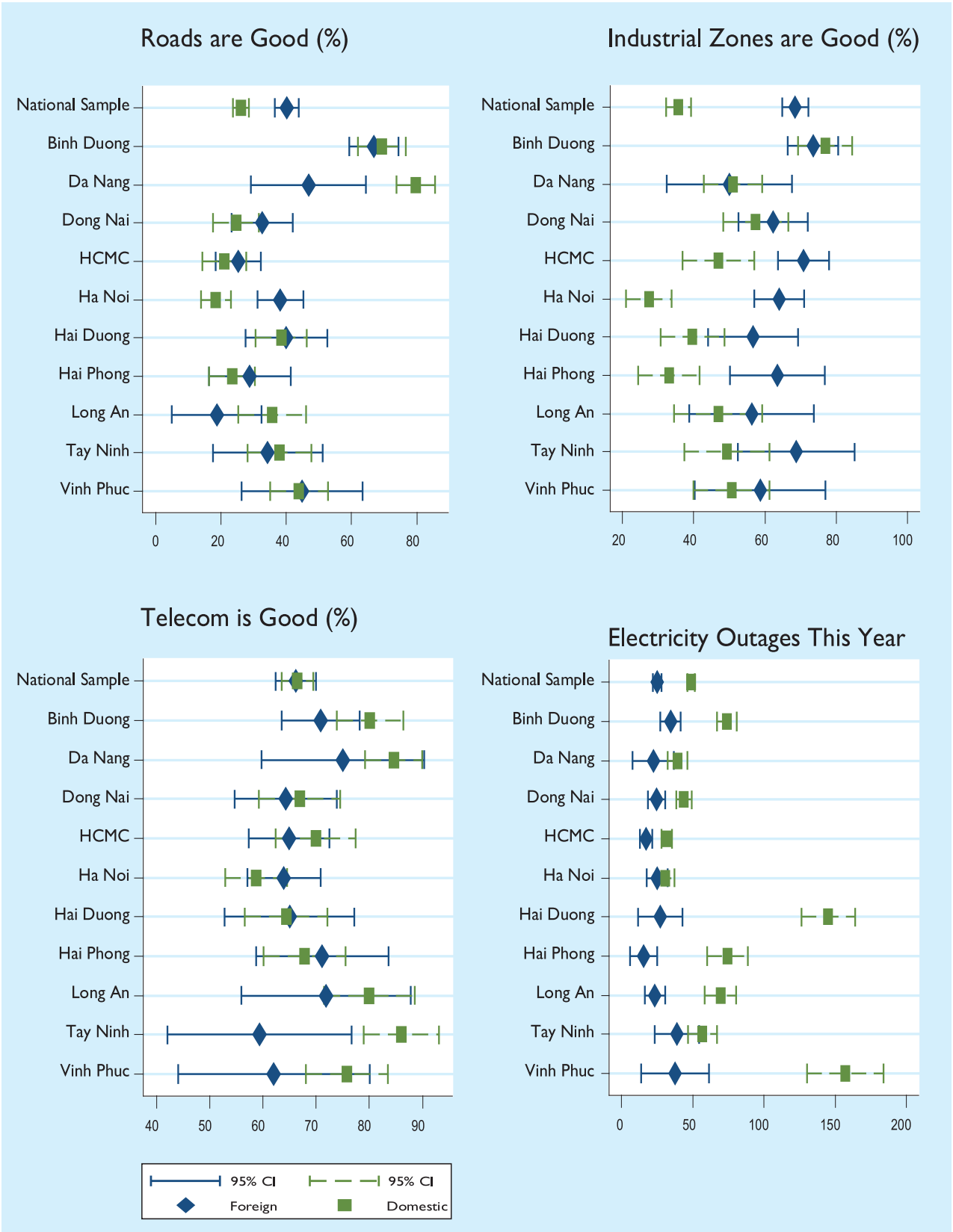
Investors disagree on the alternative mechanisms that are available outside of courts. FIEs rely much more intensively on altering contractual arrangements in the future. FIEs also are slightly more likely to use international and domestic arbitration procedures (8 percent), as opposed to domestic investors (3 percent). The primary form of dispute resolution for domestic investors is social enforcement through local notables.

2.4.8. Infrastructure

Assessments of infrastructure demonstrate the most mixed pattern of all business environment categories, as shown in Figure 2.16. Looking at telecommunications quality in the bottom-left corner of the figure, foreign and domestic operations are in almost perfect agreement. Sixty-six percent of respondents in both surveys say telecommunications quality in the country is good. Confidence intervals overlap in every location other than Tay Ninh, indicating that the differences between the two groups are not significantly significant. It is important to note, however, the large confidence intervals for FIEs evident in Tay Ninh, Vinh Phuc, and Da Nang. These large confidence intervals imply that within the category of FIEs there is tremendous disagreement on telecommunications quality. This probably results from the fact that all three locations include substantial rural territory where telecommunications infrastructure is less developed.

Figure 2.16: Perceptions of Infrastructure Quality

(By Foreign and Domestic Enterprises and Location)



Turning to road quality at the national level, foreign investors are significantly more positive than their domestic counterparts (40 percent to 26 percent rate road quality as good). This pattern is most obvious in Ha Noi (38 percent to 15 percent). The pattern is reversed in Da Nang, where FIEs are far more frustrated with road quality than domestic investors. Only 47 percent cite road quality as good, compared with almost 80 percent of domestic investors. By contrast, we observe in Binh Duong that nearly 70 percent of both foreign and domestic investors agree that road quality is excellent. Agreement is also high in HCMC and in neighboring Dong Nai and Binh Duong, but in these locations, less than 30 percent of FIE and domestic investors agree that road quality is good.

While FIEs are moderately satisfied with road quality, they are deeply troubled with road connectivity. Only 20 percent answered that connections between road and ports is good; only 30 percent ranked road and airport connectivity as good; and lowest of all, only 16 percent claimed that connectivity between rail and road is good enough for their businesses. When roads need repair, 25 percent of FIEs claim the roads are never fixed, and when they are, it takes too long with a median of 30 days.

The second panel of Figure 2.16 shows that FIEs have been the primary beneficiaries of provincial and national industrial zone policies - 40 percent of FIEs have all or part of their operations within an IZ, compared to only 7.5 percent of domestic investors. As a result, FIEs are far more likely to praise the quality of the IZs (69 percent versus 36 percent). The more positive assessment of FIEs for IZs is consistent throughout the country with one clear exception. Once again, about 75 percent of both foreign and domestic investors in Binh Duong are positive this dimension of infrastructure.

Our final indicator of infrastructure quality is the number of electricity outages experienced by firms in the past month. Clearly, domestic investors are far more likely to be the victims of costly outages, which can shut down assembly lines, lead to reduced work hours for employees, and during the summer months, deprive hot office buildings and factories of air conditioning. The rolling blackouts instituted in the past few years can be quite detrimental to efficiency. Throughout the country, FIEs are better protected from this problem. Foreign investors experienced 25 outages in the month before receiving the survey, while domestic investors experienced nearly 50. Outages were clearly highest in the Red River Delta, where the median operation in Vinh Phuc and Hai Duong claimed more than 130 stoppages.

One might imagine that the discrepancy between ownership is caused by the timing of the survey. In fact, FIEs received their surveys in August, the hardest and most outage prone time of the year, while domestic investors received their surveys in relatively cool April and May. Had the surveys gone out simultaneously, the gap would certainly be worse. More likely, the lower number of work stoppages for FIE results from the fact that IZs may have separate sources of power and connections to grids. Many forward-thinking FIEs also maintain their own generators.

CHAPTER THREE

INFORMAL CHARGES

INFORMAL CHARGES

SUMMARY FINDINGS

Using a cutting-edge survey technique that protects investors' identities and provides more reliable information, we find that more than 21 percent of domestic enterprises paid bribes during registration and 40 percent offered bribes when seeking to secure government contracts. Because most foreign firms are export oriented and rarely engage in government contracting, the (foreign only) sample was only evaluated with respect to bribery during registration and licensing -18 percent use bribes to expedite procedures. Overall, the finding that bribing is more common during procurement than during registration is not surprising. Government contracts are extremely lucrative and rational investors may be willing to pay if they know procurement officers are willing. Disaggregating by sector shows that corruption is particularly concentrated in the fast-paced and highly profitable services industry, which confirms the international literature indicating that corruption tends to be concentrated where rents are higher and industry is strictly regulated, such as in telecommunications. Looking at the history of firms and entrepreneurs, we learn that former SOEs are significantly more likely to pay bribes when bidding for government procurement.

3.1. Introduction

A wide variety of Vietnamese policy-makers and analysts have devoted considerable effort to understanding and reducing corruption in Vietnam. Vietnamese leaders have long been concerned about the problems corruption posed for business growth and economic development. Indeed corruption, is among the most pervasive and well-studied problems in economic development. While countries have been shown to be less affected than others, elements of corruption can be identified throughout the world, in rich states and poor ones (Johnston 2005). It has been shown that corruption can impede foreign and domestic investment (Smarzynska and Wei 2000), lead to inefficient allocation of public resources, exacerbate economic inequality, drive economic activity into the informal sector (Johnson et al. 1997), and ultimately damage prospects for economic growth and the welfare of citizens (Bardhan 1997). Even more perniciously, political corruption undermines public trust in government and can, if unchecked, lead to regime instability.

The Vietnam's 2008 Anti-Corruption (AC) Strategy demonstrated a high degree of awareness of these dangers, including acknowledging that the very survival of Communist Party rule is at stake (Gainsborough 2009):

> *"[Corruption is] leading to adverse effects in many ways, eroding the confidence of the people in the leadership by the Party and the management of the State, giving rise to potential conflicts of interest, social resistance, and protest, and widening the gap between the rich and the poor. Corruption has become a major obstacle for the success of DoiMoi and the fighting force of the Party, threatening the survival of the regime" (Government of Viet Nam 2008 (Quoted in Gainsborough 2009).*

Research on Vietnam has highlighted two forms of corruption that are experienced by Vietnamese firms and citizens and map quite well onto international typologies. These are 1) grease or speed money to fulfill basic tasks or services, such as during business registration or tax payments; and 2) the selling of state power (Vasavakul 2008) through kick-backs on government procurement contracts. Because grease money (often called petty corruption) and the selling of state services (macro-corruption) are experienced by businesses directly, they can be analyzed using a public opinion survey, such as the PCI instrument. Researchers, however, must be cautious about administering questions regarding these activities, as respondents may be

reticent to supply accurate information. Some respondents, who may have been victims of petty corruption, may fear reprisal from the official or public sector employee who committed the act. Consequently, they may downplay or deny their acquiescence. Although it is under-appreciated in most of the literature in corruption, it is also important that in many cases, the "victim" of the corrupt act may have in fact initiated it. It is quite common throughout the world for individuals or businesses to offer a bribe to an official to expedite a particular service, bend the rules slightly, or look the other way at an illegal activity. It is for exactly this reason that Vasavakul (2008) refers to petty corruption as "grease or speed money," assuming most that most cases of this activity are meant to facilitate transactions. In these cases, the respondent was complicit in the corrupt activity and will be especially unlikely to admit to it. This does not, of course, excuse the official, who should be able to turn down such requests, or the system that tolerates such activities, but it does mean that the questionnaire design and implementation is particularly important for eliciting an accurate sense of corruption in society. In addition to ensuring the confidentiality of all respondents, the 2010 PCI instrument is particularly innovative about using shielded responses and list questions that relay information about corruption without forcing the respondent to reveal sensitive information.

Although the PCI survey has asked questions about corruption and informal charges in the past, and has been able to report extremely interesting results, we have always been cautious about the findings, believing they were insufficient to totally capture the problem of corruption in Vietnam. To protect firms from admitting culpability in the survey, the PCI instrument would always asks firms to project away from themselves in answering the question. For instance, rather than asking, "Did you (or someone at your business) pay an informal charge?" we would ask, "Is it common for firms in your line of business to pay informal charges?". This construction alleviated some of the discomfort of firms, making them more likely to respond to the question. On the other hand, however, respondents could overestimate or underestimate the scale based on rumor and hearsay. A more accurate measure is needed that captures respondent's direct experience with the problem of corruption, not their perceptions of the scale of it.

To address this problem in the 2010 survey, we used a new technique known as the Unmatched Count Technique (UCT), but it is more informally known as the List question (Dalton et al 1994, Coutts and Jann 2009, Ahart and Sackett 2004), which has been widely used by researchers across many disciplines to explore many kinds of sensitive topics but has only recently started gaining popularity as a method for studying corruption. List questions are extremely easy to administer, as a respondent is simply presented with a list of activities and must only answer how many of the activities they engaged in. They are not obligated to admit to engaging in a sensitive activity in any way. As a result, the respondent can reveal critical information without fear. Coutts and Jann (2009) have shown in a series of experimental trials that UCT out performs all other techniques at eliciting sensitive information and maintaining the comfort level of respondents. 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 activities, which are not sensitive in any way. The second group, however, receives an additional item, randomly placed in the list. This additional item is the sensitive activity.

The 2010 PCI Report survey included two such questions aimed at evaluating the prevalence of two common forms of corruption: bribing officials during firm registration (grease money); and bribing officials in order to secure procurement deals (grand corruption).[6] These questions allow for the exploration of vital questions, including whether or not 1) corruption is concentrated within a particular industry; 2) foreign firms originating from certain parts of the world are more/less prone to engaging in corruption; 3) institutional solutions, such as one-stop-shop (OSS) registration and licensing offices or the establishment of special IZs,

6. The findings presented here take advantage of a statistical package called "LIST" developed by Blair and Imai (2010) for unpacking the relationship between findings elicited by a UCT question and their potential co-variates (See the Methodological Appendix for more details). It is noted that the term "bribe" and "informal charges" are used interchangably in this report.

reduce or exacerbate corruption; and (4) a firm's history affects whether or not it engages in bribery.

Another question entertained throughout the analysis concerns the degree to which bribing public officials is an activity that firms are forced into as opposed to an activity that firms engage in willingly and opportunistically. If corruption is primarily a systemic problem that pressures firms to bribe, then we should expect bribery to be greater in settings that are more heavily regulated (Pinto and Zhu 2008), such as during procedures such as registration for domestic firms and licensing for foreign firms, or within industries that continue to be dominated by the state such as mining. In contrast, if bribing is primarily an opportunistic behavior, than we should not anticipate bribe propensity to be associated with state regulation, but should expect it to be greater when opportunities are greater, such as in deals involving lucrative government contracts and in more sophisticated and profitable industries, such as services and commerce or in exporting. Remember from above that services and retail were the most profitable areas for investment.

Below are the two UCT questions included in the 2010 PCI report. One concerns bribing either during business registration and licensing or bribing as part of a firm's bidding strategy for government contracts. Both questions were asked of representatives of domestic and foreign-owned firms. Whether a firm received A or B was determined by random sampling, so the two groups of respondents are balanced on all important observable characteristics. In essence, the difference in responses between lists is determined entirely by the additional item in the list question and has nothing to do with features of firms or individual provinces.

UCT Question 1: Please take a look at the following list of common activities that firms engage in to expedite the steps needed to receive their investment license. How many of the activities did you engage in when fulfilling any of the business registration activities listed previously?

- Followed procedures for business license on website of provincial government.
- Hired a local consulting/law firm to obtain the license for you.
- *Paid informal charge to provincial official to expedite procedures* ***(Only Available on Form B of the Survey)***
- Looked for a domestic partner who was already registered

UCT Question 2: If your firm competed for business with a government official, please look at the following list of common activities firms engage in to make their goods or services more attractive to government clients. How many of the activities did you engage in to win government business?

- 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 towards your enterprise.
- *Paid a "commission" to a government official to ensure that your business won the contract, he would receive a small percentage* ***(Only Available on Form A of the Survey).***
- Attended government functions or meetings in order to meet officials and make them aware of your goods or services

Both questions were asked to representatives of domestic as well as foreign owned firms. Whether a firm received A or B was determined by random sampling, so the two groups of respondents are balanced on all important observable characteristics. Table 3.1 demonstrates that the sampling process worked for both domestic and foreign firms. On key characteristics of operations, there are no statistically significant differences across possible covariates. These results are particularly compelling, because it is possible that firms receiving the sensitive item may decline completing the survey at higher rates, leading to a systematic bias that is correlated with our treatment. Table 3.1 shows this is not the case. As a result, the difference in responses between lists is determined entirely by the additional item in the list question and has nothing to do with features of firms or individual provinces.

Table 3.1: Balance Test of Key Indicators of Control and Treatment Group

Domestic Private Enterprises (N = 7138)						
Covariates	Control (N = 3512)		Treatment (N = 3626)		Difference in Means	
	Mean	Std. Dev.	Mean	Std. Dev.	P-Value	T-Score
Labor Size Category (1 - 8)	1.029	0.169	1.030	0.169	0.937	-0.045
Capital Size Category (1 - 8)	2.327	1.202	2.358	1.177	0.261	-1.124
Manufacturing (0 - 1)	0.208	0.406	0.222	0.415	0.172	-1.367
Construction (0 - 1)	0.235	0.424	0.252	0.434	0.103	-1.632
Services and Trade (0 - 1)	0.612	0.487	0.597	0.491	0.193	1.303
Agriculture (0 - 1)	0.063	0.244	0.069	0.253	0.379	-0.879
Mining (0 - 1)	0.028	0.164	0.023	0.151	0.263	1.119
SOE History (0 - 1)	0.063	0.243	0.070	0.255	0.247	-1.158
National Cities (0 - 1)	0.150	0.357	0.159	0.365	0.336	-0.962
Industrial Zone (0 - 1)	0.096	0.295	0.089	0.284	0.278	1.085
One Stop Shop (0 - 1)	0.101	0.094	0.301	0.292	0.336	0.962
Telephones Per Capita	0.280	0.357	0.275	0.355	0.607	0.515
Foreign Invested Enterprises (N = 1124)						
	Control (N = 296)		Treatment (N = 828)		Difference in Means	
	Mean	Std. Dev.	Mean	Std. Dev.	P-Value	T-Score
Labor Size Category (1 - 8)	3.909	2.248	3.681	2.119	0.119	1.561
Capital Size Category (1 - 8)	5.343	1.411	5.316	1.494	0.809	0.242
Manufacturing (0 - 1)	0.686	0.465	0.729	0.445	0.152	-1.433
Construction (0 - 1)	0.064	0.246	0.037	0.190	0.055	1.917
Services and Trade (0 - 1)	0.213	0.410	0.209	0.407	0.888	0.141
Agriculture (0 - 1)	0.074	0.263	0.051	0.220	0.133	1.504
Mining (0 - 1)	0.020	0.141	0.014	0.120	0.497	0.679
SOE History (0 - 1)	0.014	0.116	0.007	0.085	0.325	0.985
National Cities (0 - 1)	0.338	0.474	0.385	0.487	0.148	-1.448

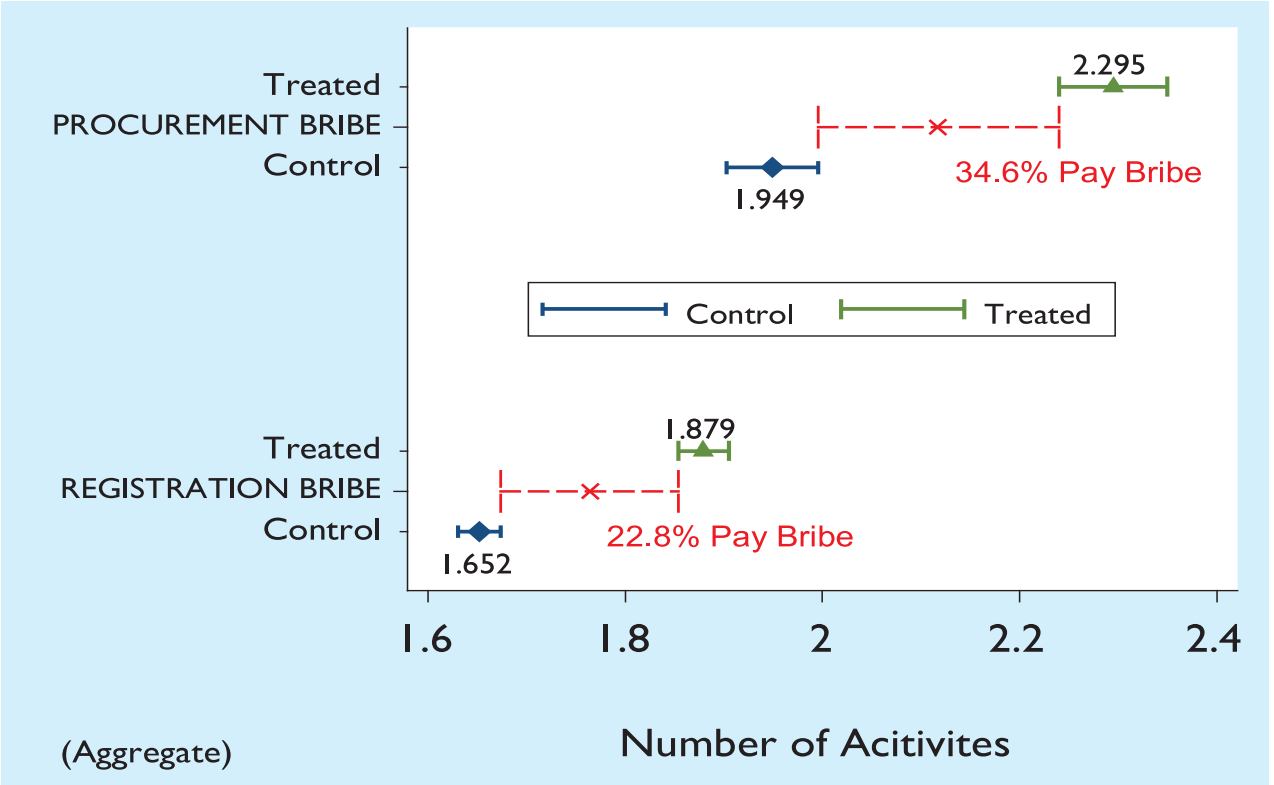
Foreign Invested Enterprises (N = 1124)						
	Control (N = 296)		Treatment (N = 828)		Difference in Means	
	Mean	Std. Dev.	Mean	Std. Dev.	P-Value	T-Score
Industrial Zone (0 - 1)	0.490	0.501	0.481	0.500	0.271	0.786
One Stop Shop (0 - 1)	0.358	0.480	0.377	0.485	0.568	-0.571
Telephones Per Capita	0.218	0.210	0.262	0.317	0.027	-2.218

Respondents are only asked to tell the interviewer how many of the listed items they have either engaged in or believe in, and are specifically instructed NOT to identify which items they specifically engaged in. Respondent anonymity is provided because neither the interviewer nor the researcher can interpret whether or not a treated respondent's answer included a sensitive item.

Once a survey is completed, a simple difference-in-means test between the treatment and control groups can reveal a population proportion equal to the prevalence of the sensitive behavior or belief. These results are shown in Figure 3.1. Averaging across both the foreign and domestic samples, 22.8 percent of businesses pay bribes during registration and 34.6 percent paid bribes when seeking to acquire government contracts. Overall, the finding that bribing is more common during procurement than during registration is not surprising. Government contracts are extremely lucrative and rational investors may be willing to expend extra investment if they know procurement officers are willing. While corruption in procurement deals is undoubtedly endorsed and sustained by the politician, the firm is most likely an active and voluntary participant.

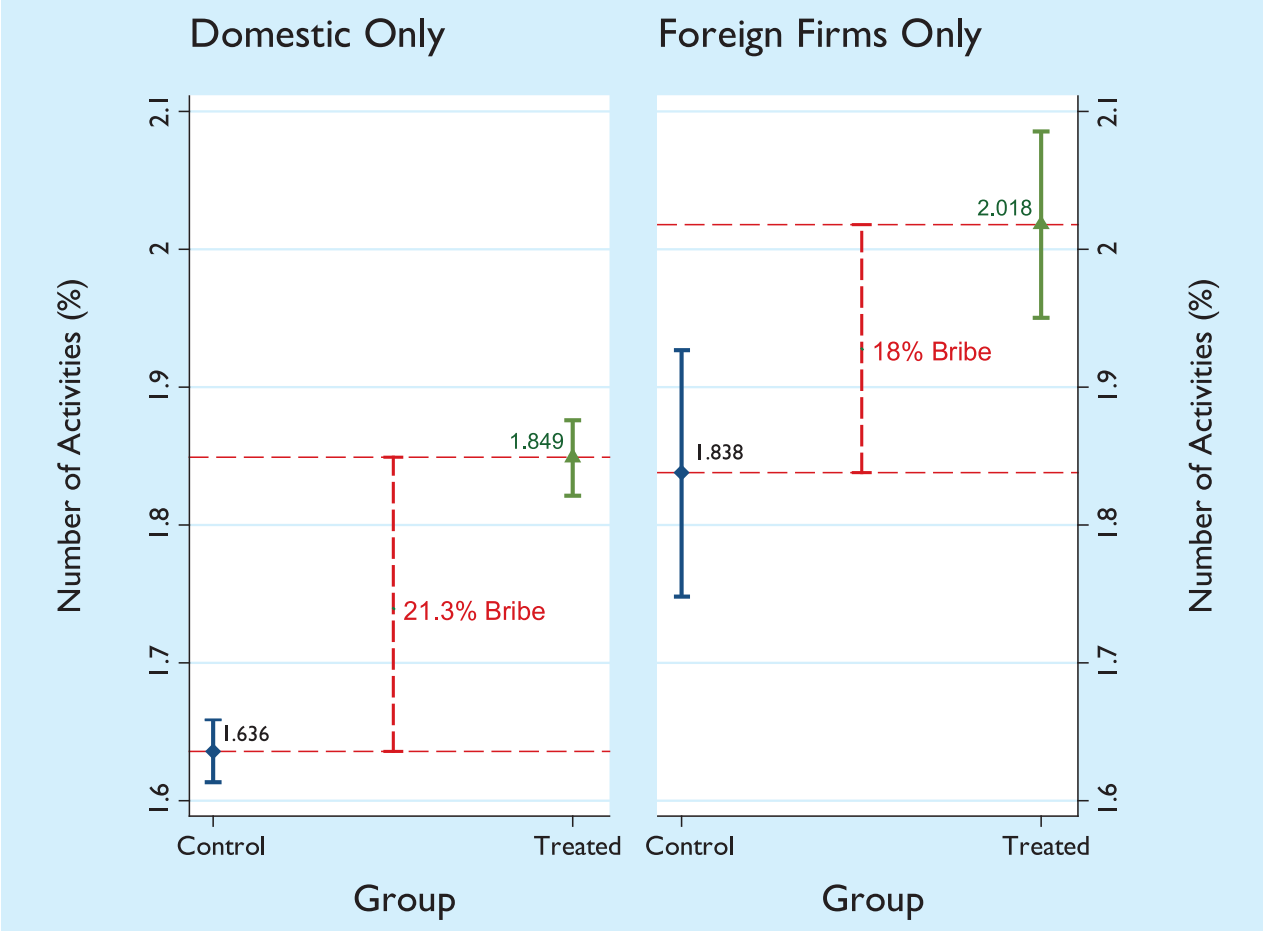
Figure 3.1: Propensity to Bribe during Registration and Procurement

(Difference in Means Tests for All Operations)



Analyzing the domestic sample separately from the foreign invested sample in Figure 3.2 reveals that domestic firms pay slightly more than foreign firms during registration (21 percent versus 18 percent), though the 3 percent difference is not statistically significant. Because most foreign firms are export oriented and rarely engage in government contracting, a difference-in-means analysis with respect to procurement is not possible for FIEs. The finding that corruption is not statistically different across foreign and domestic firms can be interpreted in many ways. First, it suggests that foreign firms in Vietnam are not at a disadvantage with respect to native businesses that tend to have a better understanding of local customs and better access to local social and political networks (Hellman et al. 2002). Second, it suggests that international anticorruption laws, such as the United States' Foreign Corrupt Practices Act (FCPA), may not be making a difference in curbing corruption by companies operating abroad in line with the assertions made by the renowned scholar of FDI, Theodore Moran (2006).

Figure 3.2: Propensity to Bribe at Registration
(by Ownership)



Registration processes have changed dramatically over time, especially after the introduction of the Enterprise Law in 1999, the Unified Enterprise in 2005, and OSS procedures in 2008. Streamlined procedures reduced the opportunities for bribe requests, while mandatory response periods lowered the need for grease payments to expedite the procedures. As a result, it is important to repeat the analysis by registration year to capture the effects of these policies. We do this in Figure 3.2.

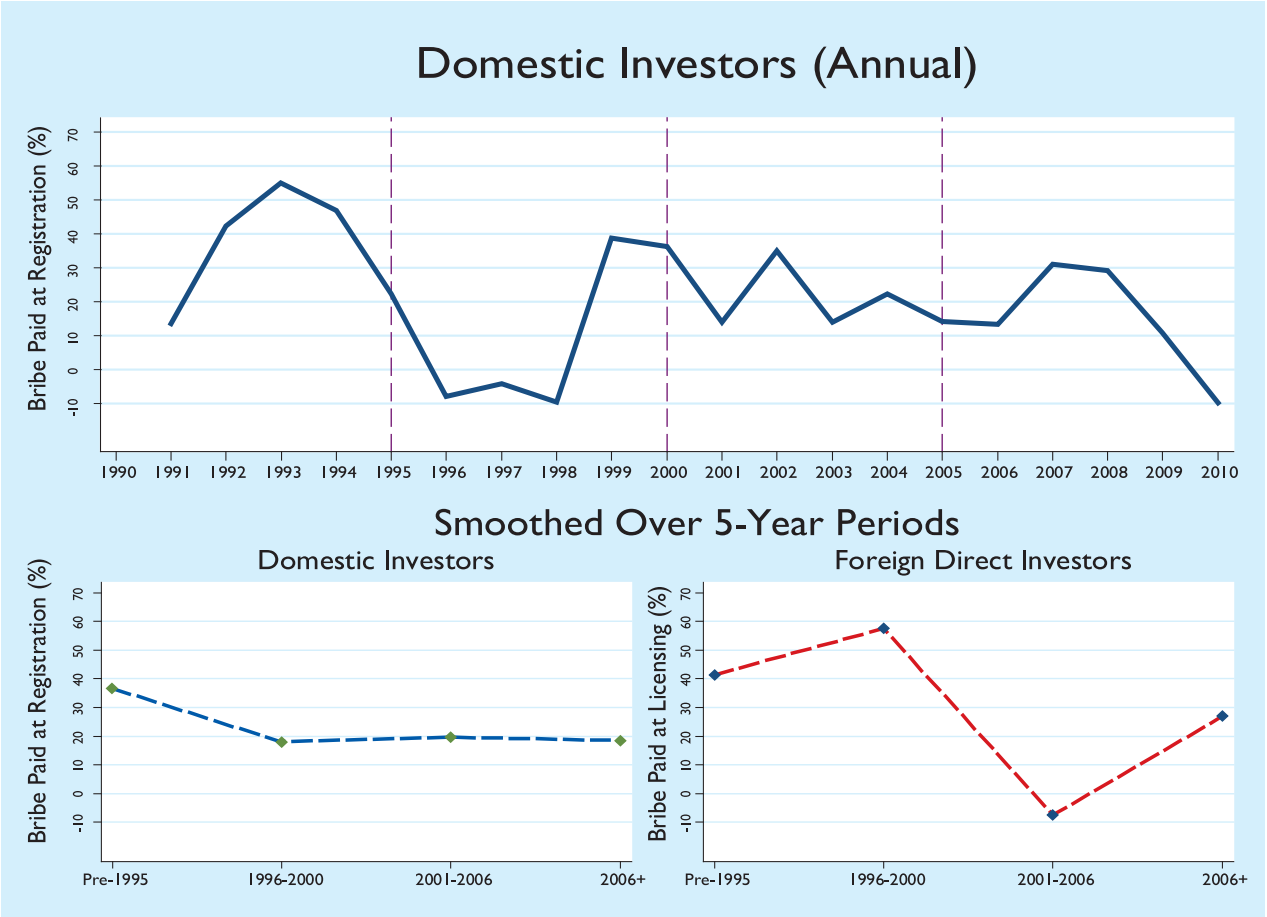
Because there are not enough FIEs registered in each year to perform a statistically meaningful difference-in-means test, we average over periods. The top panel of Figure 3.2 shows the estimated proportion of respondents paying bribes during registration annually, while the two bottom panels average results over five-year periods for domestic and foreign firms respectively.

Consistent with our above results, FIEs pay fewer bribes than domestic operations over the entire period. In addition, the smoothed results show a decline in registration bribe payments that begins in 2000 with the promulgation of the Enterprise Law and the US-BTA. For both foreign and domestic firms, an uptick begins again after 2006.

In the case of domestic firms, the uptick never reaches pre-2000 bribery levels and soon declines, but for foreign firms, the post-2006 surge partially reduces the advances made in previous periods.

The top panel of Figure 3.3 provides a more detailed analysis of domestic investment that demonstrates large fluctuations within the five-year periods. The most dramatic change is the large reduction in registration bribery that occurred in 1996. Most likely, the decline signals a conscious response to the economic downturn during that period and associated dissatisfaction, although only archival research can determine whether this was organized from above or simply a decentralized response by local administrators.

Figure 3.3: Bribery at Registration (Over Time)



3.1. Disaggregated Firm-Level Results

Although the difference-in-means interpretation provides a powerful illustration of how prevalent corruption is, it is nevertheless a crude analysis that ignores a wealth of information existing in the survey that may help differentiate between types of firms or settings conducive to corruption as well as the factors that might reduce it. To effectively combat corruption, policy-makers require more fine-grained analysis of where corruption is most entrenched and problematic. For instance, firms in a particular sector or of a particular legal type may experience more corruption at registration than others. Therefore, it is necessary to explore the magnitude of corruption across industrial sectors, business types, as well as test the variable effects of individual institutional solutions aimed at curbing corruption. Taking advantage of the LIST package allows us to delve into these results further (Please see the Methodological Appendix for more details).

3.2. Corruption during Business Registration

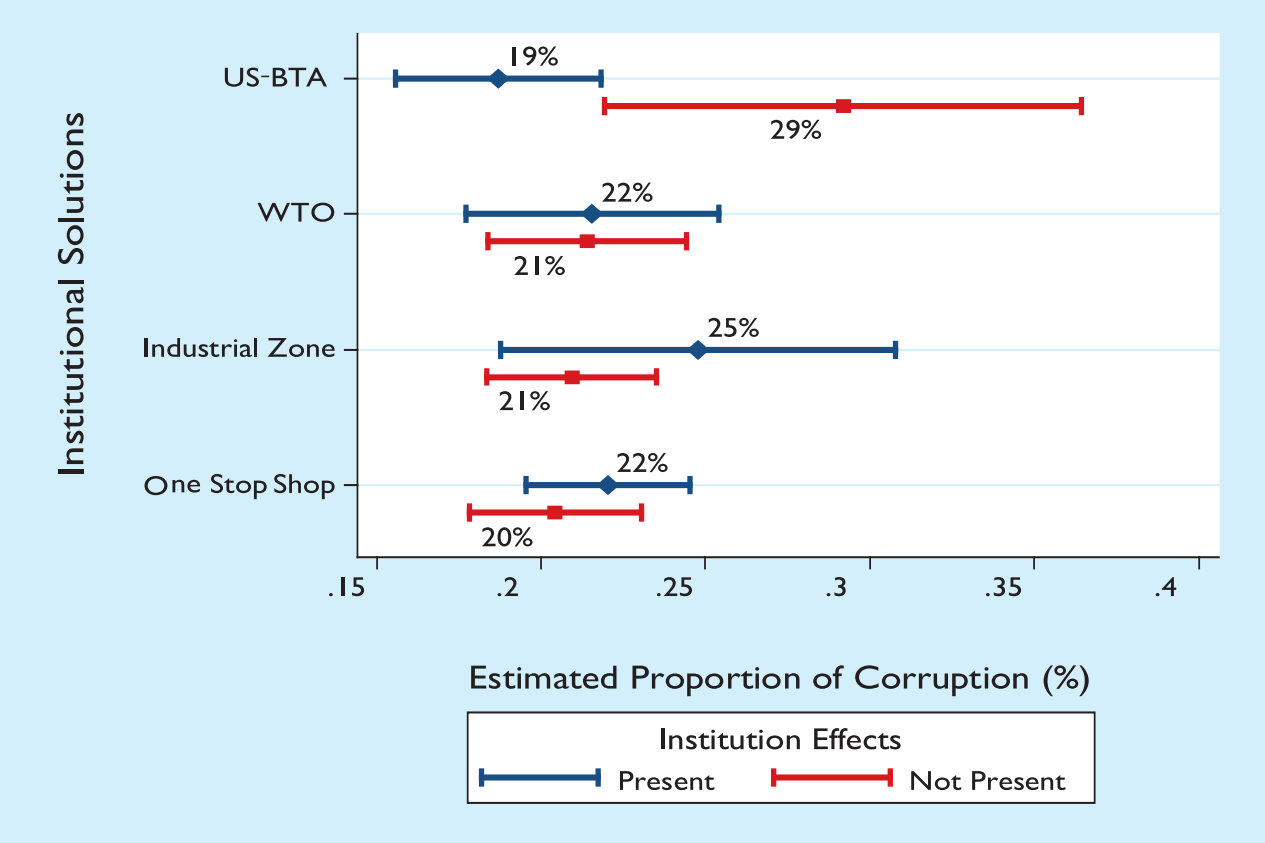
Clearly, large firms appear to be targeted for corruption. Each one-unit increase on the eight-point scale measuring capital size in the PCI survey increases the probability of corruption by 4 percent in the fully specified model. Most importantly, however, the US-BTA did have a significant impact on reducing corruption. In the fully specified model, firms registered after the US-BTA are about 16 percent less likely to experience bribe requests at the time of registration, all else equal. Once again, WTO entry failed to have an independent effect on bribe requests. Policy initiatives, such as OSS and IZs, were statistically insignificant as well.

Because US-BTA is simply measured as whether or not a particular operation registered in Vietnam after 2001, it is not clear whether the impact of the trade agreement is capturing the true effect of the US-BTA or other domestic reforms taking place in Vietnam over the same period. To address this concern, we re-ran our model separately on FIEs and domestic operations.

Disaggregating in this manner is revealing. The effect of the US-BTA on reducing bribes during registration is 23 percent and statistically significant for foreign firms, but the US-BTA had no effect at all on the bribes faced by domestic firms. This finding helpfully establishes that it was the international agreement, and the regulatory changes that ensured domestic treatment of foreign firms, that reduced corruption, as opposed to the other domestic, institutional changes taking place in the Vietnamese economy.

Beyond the effect of the US-BTA, there are other critical differences between the domestic and foreign sectors in the determinants of corruption. Looking specifically at foreign firms, it is clear that most other co-variates do not play a critical role. The size of a firm's operations, its use of OSS registration, location in an IZ, and political factors such as the Party Congress all have no discernable impact. Once again, WTO provides no additive reduction in corruption. For easier interpretation of the maximum likelihood estimates, we take advantage of the predicted function provided in the LIST package (Blair and Imai 2010). Here the estimated probabilities can be interpreted as the probability for a firm, given a set of defined characteristics, to answer affirmatively to having engaged in the sensitive activity. In other words, this process allows us to interpret the predicted probability of engaging in corruption. Using the fully specified models for foreign and domestic firms, the results show that only the US-BTA had a significant effect on curtailing corruption (see Figure 3.4).

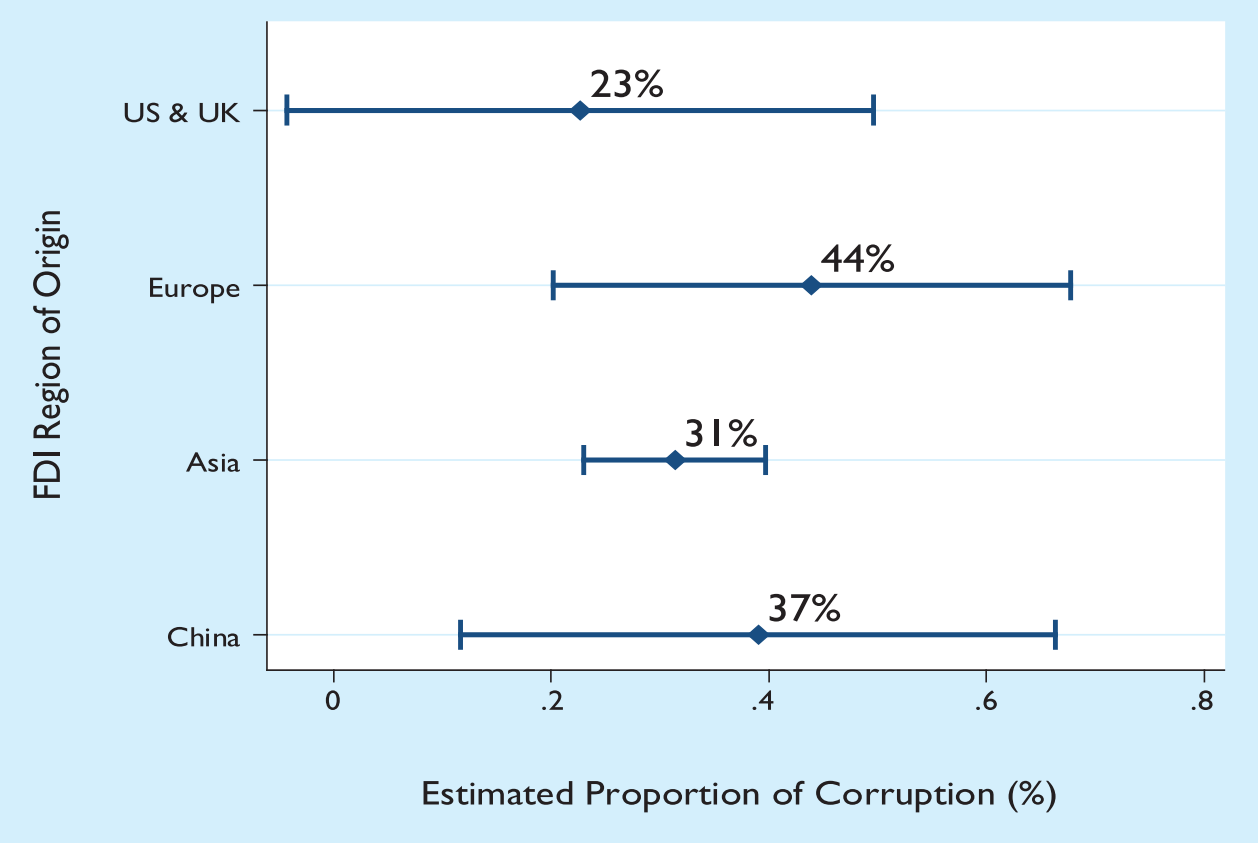
Figure 3.4: Predicted Effects of Policies on Corruption



Predicted results derived from LIST estimation (Table 5, Model 5). Range bars depict 90% Confidence Intervals.

Next, we explore home-country effects. Investment from less reputable countries with cultures that are more tolerant of gift giving and rule bending should increase corruption (Fisman and Miguel 2007). Alternatively, FIEs subject to home country restrictions on bribery may also be less to participate. To explore this dimension, FDI origin is introduced into the model to explore whether or not a foreign firm's propensity to bribe during registration varies across regions of origin. The findings are inconclusive. While FDI originating from North America and the United Kingdom has the lowest point estimate, the differences between this and the other regions of origin are insignificant (See Figure 3.5)

Figure 3.5: Cultures of Corruption?

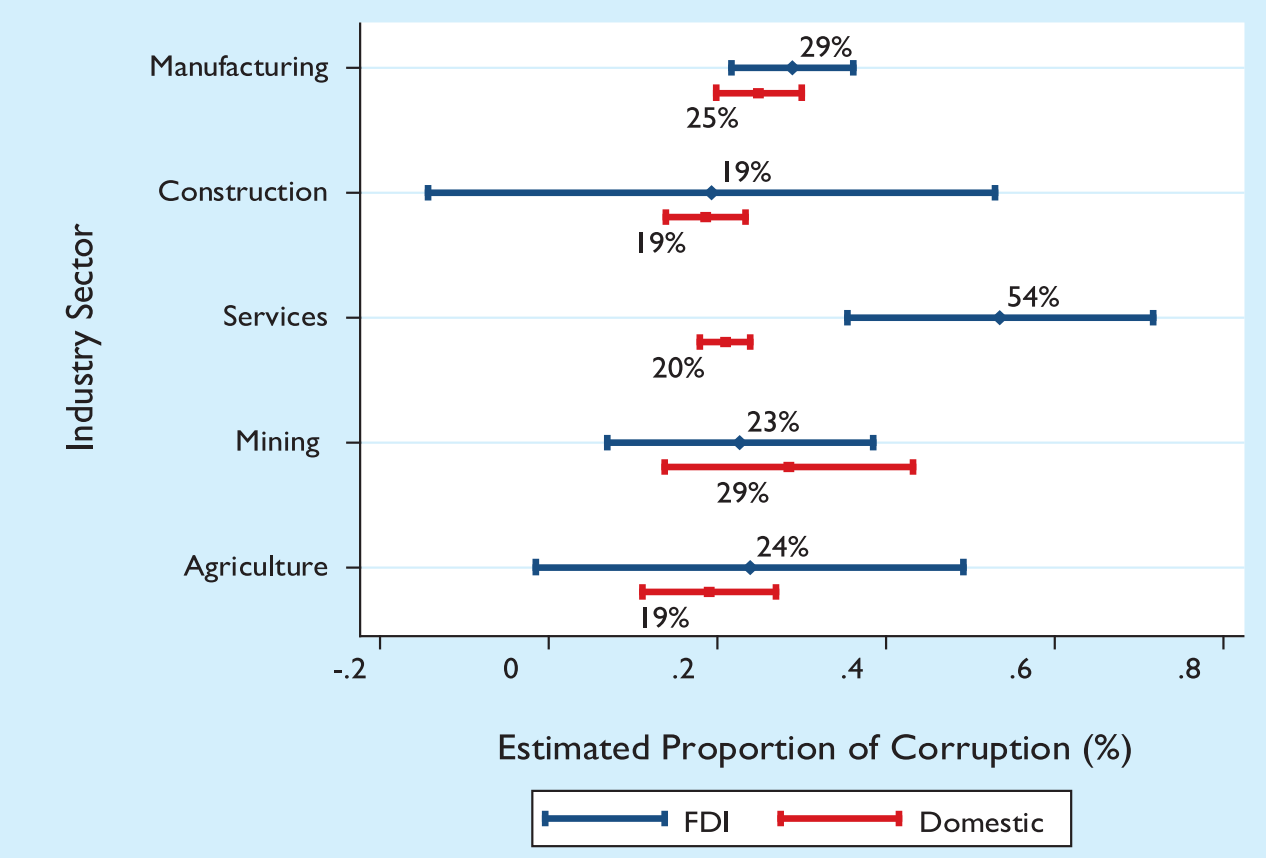


Industry level differences, with respect to domestic and foreign firms, are also explored. One common debate concerns whether or not foreign firms are drawn into offering bribes when investing abroad because they lack strong local business networks and relationships with government that native firms enjoy (Pinto and Zhu 2008). In accordance with this perspective, it is expected that foreign firms will have to bribe more often when entering industries that domestic firms have already cultivated; in Vietnam this suggests that industries such as manufacturing and agriculture will be most prone to corruption. Another argument is that foreign firms are more likely to bribe when entering industries that lack effective competition (Rose-Ackerman 1978, 1999; Shleifer and Vishny 1993; Ades and Di Tella 1999). Based on this framework, the mining and construction industries are ripe candidates for corruption, as is the heavily regulated service sector. As Weeke et al. 2008, put it, "Critical service sectors are often subject to the most stringent government regulations because of social and public policy concerns, typically restricting the role of foreign providers. Balancing the need to facilitate the provision of services throughout the economy with adequate safeguards for these concerns poses a serious policy challenge." Because of these regulatory protections, services (such as insurance provision, healthcare, and banking) also provide the highest level of monopolistic rents, providing some evidence for the Ades and Di Tella hypothesis.

Our comparison between foreign and domestic firms shows that most sectoral differences in bribe propensity prove to be insignificant, largely due to the scarcity of foreign firms in some industries such as construction and natural resource extraction. There is one exception, however; about 54 percent of foreign firms operating in the services/commerce sector pay bribes at registration, which is higher than any of the other sectors. The corresponding rate for domestic firms operating in the service industry is only 20 percent. This finding is robust and it is revealing because services are often thought to be the most highly protected industries in developing economies. As Figure 3.6 shows, the services sector is clearly the hotbed for corruption among FIEs but not for domestic firms.

Figure 3.6: Bribe Propensity at Registration

(By Sector and Type)

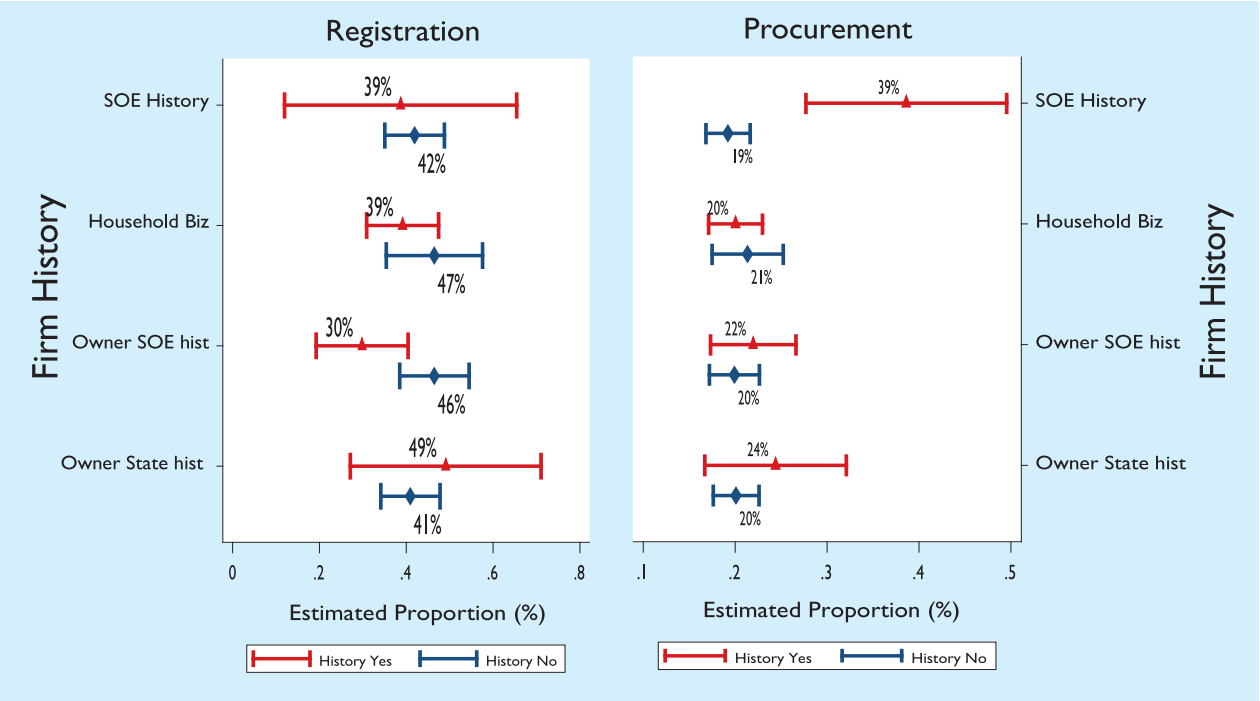


Turning to domestic operations, we find that the key drivers of bribe payments are business size. Large employers face a significantly lower bribe schedule than other firms, which may result from local political incentives regarding job creation. On the other hand, highly capital-intensive firms tend to pay higher bribes. Each one-point increase on the eight-point scale of capital size yields an additional 4 percent increase in the propensity to bribe. Disaggregating by sector, firms with operation in manufacturing face a 10 percent higher propensity to bribe than those that do not.

The final assessment concerns the particular history of the firm, which helps us probe deeper into the question of whether or not bribes are extracted by a corrupt system or whether they are voluntary exchanges by opportunistic businesses. When all else is held constant, it is anticipated that firms with a history of operating as an SOE or those that are led by an owner who was involved with managing an SOE will be less likely to pay a bribe if corruption is indeed a systemic problem. Firms that were previously household businesses are unlikely to enjoy close connections with the state and are anticipated to have a higher propensity for paying bribes-particularly when registering.

Interestingly, however, having a history as an SOE dramatically and significantly increases the propensity for bribing during the registration process, even after firm size and business type are taken into consideration. Recently privatized SOEs are 27 percent more likely to pay bribes at registration, a finding that is significant at the .01 level. One potential explanation is that respondents are describing the highly corruptible process of privatization in developing economies. Alternatively, we have to consider that privatization involves the transfer of public assets, and in some cases debt, to private hands. Here the dominant strategy for the firm is to transfer as much capital and as little debt as possible into its own private hands. The registration process undoubtedly sheds more light on this transfer and a bribe could serve as a useful distraction.

Figure 3.7: Firm Histories and Corruption



Predicted results derived from LIST estimation (Table 7, Model 5 and Table 9, Model 4). Range bars depict 90% Confidence Intervals.

3.3. Corruption During Government Procurement

A separate analysis studies corruption in government procurement on the sample of firms that acknowledged competing for government contracts in the past year. While there is evidence for corruption in this sector, more than 40 percent of businesses report participating, the propensity to participate in corruption does not seem to be associated with any of the co-variates in the model. FDI, US-BTA, WTO, and sector-level effects are all statistically insignificant. In short, it does not appear that international openness had any effect (positive or negative) on the levels of grand corruption in Vietnam, as analysts have claimed. These findings are supported by Ordinary Least Squares (OLS) analysis as well.

But the procurement models are even more mysterious, as none of the covariates associated with petty corruption show up as significant. The only variable that stands out, however, is telling regarding the limits of empirical analysis on grand corruption- whether the firm is a former SOE.. Such enterprises with significant backgrounds and social networks in the local bureaucracy have a 39% probability of paying bribes pay a bribe to win a government contract. While it is speculative, we conjecture that enterprises with such backgrounds have a keener understanding of state procurement procedures and know how to curry favor with political insidersThis result may also be indicative of the possibility that corruption in government procurement may take on even grander proportions than what we measure in terms of informal commissions. More importantly, the finding stresses the point that corruption in one-partyregimes may seem like it is everywhere, not everyone is a victim.

3.4 Concluding Thoughts on FDI and Corruption

Using the UCT technique, we present the first empirical findings of this relationship that are divorced of spurious correlation. In addition, our empirical design employs both foreign and domestic firms to address whether FDI has an independent effect on corruption or simply adjusts to local norms and bribe schedules.

Our findings demonstrate conclusively that FIEs are no more likely to pay bribes when registering their operations or competing for government contracts than domestic firms, and are actually marginally less likely to do so. Rather than the influence of FDI inflows themselves, we find that the strongest determinant of corruption is found in the role the US-BTA played in altering domestic legislation and reducing opportunities for corruption when dealing with foreign firms. That the US-BTA only had a significant effect on FIEs and not domestic operations is a useful indication that it was the trade agreement and not other domestic reforms that reduced bribes at registration. Notably, WTO accession did not have a discernable impact on corruption, indicating that it is the institutional effects of the first trade arrangement and not the swell of capital flows and increased competition that are driving the results.

Our findings are less conclusive for government procurement. While we can definitely rule out the corrupting influence of foreign capital flows, most other determinants of corruption also prove insignificant. The only co-variate that proved significant was the former SOE employment of the owner, which offers a glimpse into the deep social networks that underpin grand-level corruption. Future work will be necessary to tease out the interaction between these factors and international capital flows definitively.

CHAPTER FOUR
APPENDICES

4.1. PCI – A Tool Promoting Provincial Business Environment Reforms

In each of the five previous years of PCI implementation, after the media extravaganza is over and awards have been handled out, important questions are always raised-What does the research team do with the data? Who makes use of the information? In this section, we review the use of the data. We cover 1) the dissemination process by which the PCI research team communicates results to provinces; 2) the use of PCI data in provincial development plans; 3) national-level analyses and impact evaluations; 4) use by third parties in project design and evaluation; and 5) the role of the media in discussing the PCI launch and the use of the PCI in investigative research.

Dissemination

The PCI research team takes great steps to make sure the data of the PCI reach provincial decision makers. First, the PCI holds approximately 20 PCI diagnostic and analysis workshops in provinces each year. For these diagnostics, the PCI team travels to the province and trains officials on the use of PCI ranking and how to make best use of the findings in the design of local initiatives. We also work with research institutes, the National Assembly, other donor projects working in the provinces, central government, and the media to disseminate the PCI reports and data so that it is accessible to decision-makers and policy analysts.

The Use of the PCI by Provincial Leaders

In 2010, VCCI also sent an official letter to provinces, asking them for documents and policies that were used to improve the business environment and which cited the PCI. Looking at these documents, it is easy to see that PCI has moved beyond the scope of ranking; it has had a significant impact on local business environment improvement. The PCI has drawn attention and appreciation from provinces primarily for its significance to local authorities. Many provinces think this tool provides an objective reflection of the business community, helping them to realize strengths and weaknesses in their business environment, creating a driving force for further efforts to improve the business environment by government agencies at all levels. Under the same central policy framework, PCI also acts as an objective measurement, indicating provinces with good governance or the areas highly valued by businesses, thus creating opportunities for other provinces to draw lessons and share experiences.

Many PCI diagnostic workshops conducted by VCCI and USAID/VNCI in locations are chaired by Chairs of Provincial People's Committees or the Secretary of Provincial Party Committee. Indeed, many workshops have even attracted the participation of the entire Provincial Standing Party Committee. Some workshops such as the one in Binh Duong have reached the size of 300 to 400 participants; some have been split into two sessions with more than 400 government officials from the highest level to communal level, such as one in Ba Ria – Vung Tau; and some have been broadcast live to the districts in the province such as one in Quang Ninh. It is not only high-ranking provinces that participate, but also those at the lower section of the PCI ranking that pay great attention to the index.

PCI workshops have gained positive results over time. Provinces no longer question the PCI methodology and pose skepticism of its implementation as in previous years. Instead, most provinces focus on discussing specific measures to improve their business environment (see Table 1.4). Many provinces have assigned business environment

improvement responsibilities for particular departments and units and developed plans and roadmap for implementation, monitoring, and evaluation. From the initial PCI information, many locations have enhanced their communications and dialogues with the business community, increasing the frequency and scope of the issues covered, in addition to combining face-to-face meetings with online dialogue to solve businesses' issues and difficulties. In addition, provincial leaders have made a vigorous commitment to improve the investment and business environment. Provincial departments, especially units with poor PCI results, are also under pressure to transform their operational apparatus. These discussions in have also helped shift local authorities priorities in a number of locations. Many provinces express their hope and commitment to create more favorable conditions for private businesses.

According to VCCI's incomplete statistics, at least 20 provinces have promulgated formal legal documents-such as Resolutions by Provincial Party Committee, Decisions by Provincial People's Committee, and Resolutions by Chairman of Provincial People's Committee-to launch programs for improving their business environment and enhancing competitiveness. These results are significant in the context of enhanced decentralization of investment licensing and management powers from the central level to local authorities since the promulgation of 2005 Investment Law.

Not only is the PCI a tool for accelerating reform, but also many provinces have used it as an investment promotion tool. PCI information and results are often used by high-ranking provinces in reception meetings with diplomatic delegations, and with foreign investors to promote the province's image and support investment promotion. On the other hand, low-ranking provinces cannot "ignore" the PCI when receiving questions from investors, investment promotion organizations, and diplomatic agencies; thus, these provinces start to transform their perception of PCI and make efforts to improve their ranking. Since its inception, PCI also contributes to regional cooperation among provinces. The PCI low-ranking provinces are motivated to learn from the experience of high-ranking provinces, especially those in the same region. The PCI also provides time series data to assess improvements in administrative reform, such as the Prime Minister's Master Plan to Simplify Administrative Procedures (known as Project 30), and identify administrative procedures in key business and investment areas that require simplification.

The Use of the PCI by National Leaders

The PCI conveys useful information that is not only appreciated by local authorities but also by the government, ministries and agencies at central levels, foreign and domestic investors, investment promotion organizations, business associations, elected representatives (of the National Assembly and Provincial People's Councils), donors, research institutes, universities, media agencies, and more.

At the national level,, the PCI survey provides reliable data that are comprehensive and annually assess business environment improvements. In addition, each year, the PCI report provides major analyses of Vietnam's business environment including: 1) the creation of the "thermometer," measuring business optimism; 2) the impact assessment on businesses regarding the merger of Ha Tay province and other locations into Hanoi; 3) an evaluation of the 2008 stimulus package on businesses performance; 4) the analysis of the foreign direct investment situation; and 5) and corruption issues in Vietnam.

The Use of the PCI by Other Stakeholders

VCCI receives strong approval and support from businesses and business associations when presenting PCI survey results in workshops and business forums across the country. Many investment consulting companies and investment promotion organizations have contacted VCCI for detailed survey information and data. A number of donors and research organizations-such as the German Technical Cooperation Agency, The Danish International Development Agency, the International Finance Corporation/Mekong Private Sector Development Facility, and the European Union-have used PCI data as a reliable indicator in designing their activity plans and to evaluate the effectiveness of their support programs.

Research institutes and universities also highly value and reference the PCI approach and methodology. A number of research projects, reports, and articles have used PCI data. Quite a few doctoral and master's dissertations at economic universities also focus on PCI data and analyses.

Continuing the annual PCI launch and diagnostic workshops has a significant impact on improving competitiveness and strengthening the role of association organizations and national organizations such as VCCI. The success in developing this set of indicators has inspired many other organizations and agencies to conduct similar studies. For example, the Fatherland Front in association with the United Nations Development Programme is now developing an index called the Provinical Administrative Performance Index (PAPI) that assesses administrative reform based on citizens' perception of public administration, a complementary tool to the PCI's survey of enterprise perceptions. The Use of the PCI by the Media

The PCI index also receives attention from media agencies. The annual PCI launching workshops are covered by hundreds of media agencies at central and local levels in their news, analysis, and commentary columns. PCI has not only been covered as an event, but also as a data source in media agencies' analyses of local business environment, potentials, strengths of locations, and limitations in specific areas of the provinces and cities.

Briefly, PCI is a useful tool for the local business community to convey their assessment of the actual business environment in Vietnam and provide local authorities at all levels with detailed and authentic information of business expectations to promote their strengths, overcome weaknesses, and contribute to the current administrative reform process.

Table A4. 1: PCI Collection of Provincial Documents to Improve Economic Governance by Locations

No.	Locations	Promulgating agency	Document, date of promulgation	Content
1	Bac Giang	Provincial People's Committee (PPC)*	Plan 05/KH-UBND dated 27 Feb 2009	On improving provincial people's competitiveness
2	Bac Ninh	PPC	Directive No. 04/CT-UBND dated 11 Feb 2010	On further improvement of business environment and provincial competitiveness index
3	Binh Phuoc	PPC	Decision No. 2454/QĐ-UBND dated 12 Nov 2008	Action plan for provincial competitiveness index (PCI) improvement of Binh Phuoc province
			Decision No. 2512/QĐ-UBND dated 19 Nov 2008	On establishing the Task Force for implementing the Action plan for PCI improvement
			Decision No. 845//QĐ-UBND dated 12 Apr 2010	Changing and supplementing members to Task Force for implementing the Action plan for PCI improvement
			Plan No. 37/KH-UBND dated 08 Mar 2009	Implementing the 2009 Action Plan of the PCI Task Force
			Plan No. 94/KH-UBND dated 11 May 2010	Implementing the 2009 Action Plan of the PCI Task Force
4	Binh Thuan	PPC	Report No. 56/TB-UBND dated 09 Apr 2010	Conclusion of Mr. Huynh Tan Thanh, PPC Chairman at the review meeting of province's PCI 2009
		Department of Planning & Investment (DPI)	Official Document No. 1775/SKHĐT-HTDN dated 13 May 2010	On absorbing and handle recommendations for provincial PCI 2009 improvement
5	Can Tho	PPC	Directive No. 10/CT-UBND dated 14 May 2009	On strengthening the implementation of measures to improve the city's investment environment and competitiveness
6	Dak Nong	PPC	Official Document No. 403/UBND-TH dated 10 Feb 2010	Reporting the implementation results of provincial competitiveness enhancement

No.	Locations	Promulgating agency	Document, date of promulgation	Content
			Official Document No. 1010/UBND-TH dated 16 Apr 2010	On preparing the programme for provincial competitiveness improvement
			Decision No. 575/QĐ-UBND dated 06 May 2010	On establishing dvisory Group for provincial competitiveness improvement
			Plan No. 110/KH-UBND dated 19 May 2010	On plan and measures for competitiveness improvement by Dak Nong PPC
7	Gia Lai	PPC	Document No. 1889/UBND -TH dated 02 Jul 2009	On carrying out measures to enhance provincial competitiveness for the year 2009 and subsequent years
8	Ha Noi	City's Party Committee	Programme No. 10-CTr/TU dated 04 Aug 2006	"Strengthening international economic integration, improving growth quality and competitiveness of the Capital's economy for the period 2006-2010"
		PPC	Decision No. 1310/QĐ-UBND dated 20 Mar 2009	On promulgating the Project for competitiveness improvement of the City of Hanoi for the period 2009-2010
			Project No. 01/ĐA-UBND dated 02 Jan 2007	On improving investment and business environment
9	Hai Duong	PPC	Decision No. 1303/QĐ-UBND dated 28 Mar 2007	On establishing the Task Force for implementing the programme for survey and research provincial competitiveness indices of Hai Duong province
10	Khanh Hoa	Provincial Party Committee	Directive No. 19-CT/TU dated 15 May 2008	On further improvement of investment and business environment and enhancement of provincial competitiveness index
		PPC	Decision No. 2690/QD-UBND dated 30 Oct 2008	Action Programme on improving business and investment environment for enhancing provincial people's competitiveness index

No.	Locations	Promulgating agency	Document, date of promulgation	Content
11	Kon Tum	Provincial Party Committee	Explanatory Document No. 63-TTr/BCS dated 29 Jun 2009	Explanatory Document for Report reviewing one year implementation of Announcement 439-TB/TU dated 17 Apr 2008 by Provincial Standing Party Committee and the Project for competitiveness improvement of Kon Tum province
12	Lao Cai	PPC	Directive No. 01/2010/CT-UBND dated 15 Jan 2010	Assigning Department of Planning and Investment to take lead, coordinate with related departments and units to continue reviewing, adjusting, and supplementing to improve policies and mechanisms for creating favourable business and investment environment, especially the procedures relating to businesses and citizens such as those for project investment, land access, land rent, granting land use right certificate, customs and tax procedures; proposing plan for maintaining and improving Provincial Competitiveness Index (PCI).
			Directive No. 08/CT-UBND dated 28 Jun 2010	On implementing measures to overcome weaknesses to maintain Provincial Competitiveness Index (PCI)
13	Ninh Thuan	PPC	Decision No. 1356/QĐ-UBND dated 19 Aug 2010	Promulgating Action Programme to improve Ninh Thuan's Provincial Competitiveness Index (PCI) for the period 2010-2015
14	Quang Binh	PPC	Directive No. 885/UBND dated 27 Apr 2010	On improving business environment
		DPI	Decision No. 19/2007/QĐ-UBND dated 23 Aug 2006	Approving the programme for improving provincial business environment
15	Quang Nam	PPC	Programme No. …/CTR-UBND dated…Jul 2010	Action planfor improving Quang Nam's Provincial Competitiveness Index for the period 2010 - 2011

No.	Locations	Promulgating agency	Document, date of promulgation	Content
16	Quang Ninh	DPI	Report dated 18 Mar 2009	Report on reviewing local business operation and mechanisms, policies, procedures relating to Provincial Competitiveness Index (PCI)
17	Thanh Hoa	PPC	Decision No. 1226/QĐ-UBND	On promulgating Action Programme on improving Thanh Hoa's Provincial Competitiveness Index (PCI) for the period 2010 - 2015
18 19 20	Thua Thien - Hue	PPC	Plan No. 24/KH-UBND dated 1 Mar 2008	Implementing measure to increase Provincial Competitiveness Index (PCI) ranking
		PPC	Plan No. 21/KH-UBND dated 12 Feb 2010	On improving 2010 Provincial Competitiveness Index (PCI)
	Long An	PPC	Document No. 1107/UBND-KT dated 20 Apr 2009	On the tasks and measures to improve Long An's Provincial Competitiveness Index 2009
	Ha Tay*	Provincial Party Committee	Resolution No. 14-NQ/TU dated 4 Jun 2005	On organizing review meetings to improve competitiveness in business environment
		Provincial Party Committee	Plan No. 59-KH/TU dated 4 Jun 2005	On implementing Resolution by Provincial Standing Party Committee on organizing review meetings to to improve competitiveness in business environment

** Ha Tay has been merged to Hanoi from August 1, 2008*

Comparison of Overall Scores and Sub-Indices (2006–2010)

Index	Measure	2006		2007		2008		2009		2010	
		Score	Province	Score	Province	Score	Province	Score	Province	Score	Province
Final Weighted Provincial Competitiveness Index	Min	36.07	Lai Chau	37.96	Dak Nong	36.39	Dien Bien	45.43	Cao Bang	48.91	Dak Nong
	Median	52.41	Lam Dong/Thai Nguyen	55.56	Bac Giang/Phu Tho	53.17	Dak Lak/Binh Phuoc	58.31	Ninh Binh	58.02	Bac Giang
	Max	77.61	Binh Duong	77.2	Binh Duong	72.18	Da Nang	75.95	Da Nang	69.7	Da Nang
	Correlation w/ Previous Year	NA		0.85*		0.90*		0.84*		0.77*	
Unweighted Total Index	Min	42.51	Lai Chau	43.93	Dak Nong	45.29	Dien Bien	41.64	Cao Bang	44.38	Lang Son
	Median	55.23	Hoa Binh/Lam Dong	58.49	Thai Binh/Ha Giang	58.17	Phu Tho/Kien Giang	52.96	Thanh Hoa	52.35	Dak Lak
	Max	74.87	Binh Duong	76.02	Binh Duong	72.87	Binh Duong	65.93	Da Nang	62.07	Dong Thap
	Correlation w/ Previous Year	NA		0.82*		0.88*		0.83*		0.73*	
Entry Costs	Min	4.96	Binh Phuoc	6.23	Hau Giang	6.31	Bac Giang	6.53	Hoa Binh	5.34	Tuyen Quang
	Median	7.4	Ha Tinh/BRVT	7.87	Hai Duong/Lam Dong	8.25	Nam Dinh/Khanh Hoa	8.35	Ha Noi	6.85	Vinh Phuc
	Max	9.17	Da Nang	9.49	Quang Tri	9.36	Da Nang	9.52	Da Nang	8.24	Quang Tri
	Correlation w/ Previous Year	NA		0.33*		0.25*		0.19		0.49*	
Land Access and Security of Tenure	Min	3.84	Lai Chau	4.32	Ha Noi	4.73	Ha Noi	4.28	Bac Kan	3.04	Ha Noi
	Median	6	Quang Ngai/Bac Kan	6.27	Lao Cai/Thai Nguyen	6.68	Thanh Hoa/Hoa Binh	6.45	Bac Ninh	6.14	Hung Yen
	Max	7.98	Soc Trang	7.71	Long An	8.05	Dong Thap	8.84	Tien Giang	8.65	Tra Vinh
	Correlation w/ Previous Year	NA		0.68*		0.73*		0.55*		0.63*	

Index	Measure	2006		2007		2008		2009		2010	
		Score	Province	Score	Province	Score	Province	Score	Province	Score	Province
Transparency	Min	2.15	Dak Nong	2.24	Dak Nong	2.99	Dak Nong	2.92	Dak Nong	2.76	Dak Nong
	Median	5.43	TT-Hue/BRVT	5.83	Ha Tinh/Phu Tho	6.32	Hai Phong/Dak Lak	5.29	Kon Tum	5.83	Quang Binh
	Max	8.5	Binh Duong	8.56	Lao Cai	7.92	Da Nang	8.85	Lao Cai	7.39	Lao Cai
	Correlation w/ Previous Year	NA		0.6*		0.74*		0.48*		0.67*	
Time Costs of Regulatory Compliance	Min	2.64	Phu Yen	2.99	Lai Chau	2.85	Dien Bien	3.68	Kon Tum	4.47	Gia Lai
	Median	4.42	Quang Ngai/Kien Giang	6.21	Vinh Long/Phu Tho	5.38	Tuyen Quang/TT-Hue	6.49	An Giang	6.33	An Giang
	Max	7.12	Binh Duong	8.18	Ha Tay	6.52	Binh Phuoc	8.93	Ninh Binh	8.38	Soc Trang
	Correlation w/ Previous Year	NA		0.36*		0.62*		0.48*		0.56*	
Informal Charges	Min	5.05	Ha Tinh	5.35	Ha Noi	5.7	Bac Kan	4.63	Nghe An	4.57	Hoa Binh
	Median	6.33	Bac Kan/Bac Lieu	6.58	An Giang/Ha Giang	6.65	Ninh Thuan/An Giang	6.02	Kon Tum	6.24	Hai Duong
	Max	8.35	Ben Tre	7.71	Hung Yen	8.3	Hung Yen	8.15	Ben Tre	8.53	Tra Vinh
	Correlation w/ Previous Year			0.33*		0.50*		0.44*		0.58*	
Proactivity	Min	1.54	Quang Ngai	2.3	Cao Bang	2.32	Bac Kan	1.87	Cao Bang	2.66	Hai Phong
	Median	4.83	Tuyen Quang/Thai Binh	4.95	Phu Tho/Thai Binh	5.56	Lai Chau/Phu Tho	4.91	Dong Nai	5.26	Dong Nai
	Max	10	Binh Duong	9.2	Binh Duong	8.45	Binh Duong	9.39	Binh Duong	8.08	Vinh Phuc
	Correlation w/ Previous Year	NA		0.79*		0.78*		0.74*		0.74*	

Index	Measure	2006		2007		2008		2009		2010	
		Score	Province	Score	Province	Score	Province	Score	Province	Score	Province
Private Sector Development Policies	Min	2.4	Dak Nong	2.26	Bac Lieu	1.4	Bac Lieu	2.84	Tra Vinh	3.46	Hau Giang
	Median	4.88	Ha Giang/Kien Giang	4.71	Ben Tre/Tuyen Quang	3.35	NamDinh/Tuyen Quang	5.20	Lam Dong	5.68	Quang Binh
	Max	9.62	Da Nang	8.73	HCMC	6.35	HCMC	8.55	HCMC	8.75	HCMC
	Correlation w/ Previous Year	NA		0.79*		0.86*		0.17		0.65*	
Labor Policies	Min	1.99	Lai Chau	1.92	Lai Chau	1.84	Dien Bien	2.82	Lai Chau	2.96	Hung Yen
	Median	5.1	Lang Son/Quang Nam	5.02	Quang Nam/Quang Ngai	4.25	Thai Binh/Bac Kan	4.83	Dak Nong	5.35	Nghe An
	Max	9.6	Da Nang	8.34	Da Nang	8.4	Da Nang	7.69	Da Nang	7.43	Da Nang
	Correlation w/ Previous Year	NA		0.81*		0.85*		0.65*		0.67*	
Legal Institutions	Min	2.13	Quang Ngai	2.24	Ha Tinh	2.5	Cao Bang	3.51	Bac Kan	2.54	Lang Son
	Median	3.63	Son La/Ninh Binh	4.33	Phu Tho/Vinh Phuc	4.66	Son La/Hai Duong	5.35	Long An	5.01	Bac Lieu
	Max	6.55	Bac Giang	6.56	Bac Kan	6.7	Gia Lai	7.34	BRVT	7.17	Dong Thap
	Correlation w/ Previous Year			0.37*		0.33*		0.45*		0.61*	
Infrastructure (no ports or airports)	Min					29.18	Son La	34.65	Bac Kan	41.00	Bac Kan
	Median					54.30	Lam Dong	55.76	Dong Thap	61.01	Vinh Long
	Max					77.50	Binh Duong	72.62	Binh Duong	78.64	HCMC
	Correlation w/ Previous Year					NA		0.74*		0,83*	

* Significant at 5% Level; NA = Not Applicable

All values are at the provincial level.

Data include only firms registered within two calendar years preceding the survey.

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.

DETAILS OF NINE SUB-INDICES OF PCI

Table A4.2: Comparison of Entry Costs Sub-Index (2005-2010)

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
Length of business registration in days (Median).	PCI Survey Question: C1	Min		12	7	5	6.5	7
		Median		20	15	12.25	10	10
		Max		58	22.5	15	15	15
		Correlation w/Previous Year		NA	0.27*	0.46*	0.56*	0.49*
Length of business re-registration in days (Median).	PCI Survey Question: C2	Min		6	3	3	3	2.5
		Median		10	7	7	7	7
		Max		35	15	10	10	12.5
		Correlation w/Previous Year		NA	0.24*	0.53*	0.67*	0.48*
Firms requring additional documental (Percentage).	PCI Survey Question: C4_2010	Min						1.43
		Median						14.68
		Max						33.33
		Correlation w/Previous Year						NA
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
		Median		4	2.5	2	1	2
		Max		7.5	5	4	3	4
		Correlation w/Previous Year		NA	0.15	0.31	0.32*	0.03
Wait for Land Use Rights Certificate (Median).	PCI Survey Questions: B4.2	Min		40	30	30	15	20
		Median		121	60	38.5	32.5	30
		Max		338	180	105	180	150
		Correlation w/Previous Year		NA	0.16	0.43*	0.23*	0.26*
Percentage of firms waiting more than a month to complete all steps necessary to start operations.	PCI Survey Question: C5	Min	9.76	3.23	5.18	6.67	3.84	0
		Median	33.33	25.81	27.21	21.91	19.35	24.39
		Max	63.41	44	53.8	39.13	38.46	39.62
		Correlation w/Previous Year	NA	0.24	0.26*	0.15	0.09	0.39*
Percentage of firms waiting more than three months to complete all steps necessary to start operations.	PCI Survey Question: C5	Min	0	0	0	0	0	0
		Median	5.9	5.78	6.78	5.72	4.44	5.77
		Max	21.95	25.64	27.27	16	20.72	18.87
		Correlation w/Previous Year		0.02	0.15	0.18	0.02	0.14

Indicator	Source (2010Survey)	Measure	2005	2006	2007	2008	2009	2010
Percentage of firms having difficulty obtaining all licenses and permits necessary to do business.	PCI Survey 2008 Question: C6	Min		0	0	2.08	DROPPED	DROPPED
		Median		12.4	11.1	10.05		
		Max		27.27	36.8	26.92		
		Correlation w/Previous Year		NA	0.30*	0.1		

* Significant at 5% level; NA = Not applicable
All values are at the provincial level.
Data include only firms registered within two calendar years preceding the survey.
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.

Table A4. 3: Comparison of Land Access and Tenure Security Sub-Index (2005-2010)

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
Percentage of firms in possession of an LURC.	PCI Survey Question: B4	Min		23.29	51.35	38.36	46.82	26.67
		Median		55.28	75.57	81.16	73.68	72.89
		Max		77.78	92.45	94.74	94.51	95.89
		Correlation w/Previous Year			0.76*	0.70*	0.77*	0.80*
Total land in province with official LURCs.	Ministry of Natural Resources and the Environment Datasets†	Min		11.3	13.28	19.52	23.52	27.27
		Median		69.2	63.13	77.56	77.89	80.71
		Max		96.5	97.46	98.75	98.56	98.31
		Correlation w/Previous Year			0.85*	0.78*	0.87*	0.87*
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
		Median		2.49	2.24	2.04	2.55	2.56
		Max		3.05	2.57	2.49	3.05	3.30
		Correlation w/Previous Year			0.28*	0.95*	0.29*	0.31*
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
		Median		40	40.76	38.82	40.54	391.9
		Max		58.33	57.14	52.75	55.17	55.38
		Correlation w/Previous Year			0.37*	0.34*	0.42*	0.37*
Changes in government land prices reflect changes in market prices (% Agree). NEW INDICATOR	PCI Survey Questions: B4.5	Min					53.33	53.91
		Median					69.75	72
		Max					81.11	86.17
		Correlation w/Previous Year					NA	0.43*

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
Firm checked no land problems list of possible problems. NEW INDICATOR	PCI Survey Question: B7	Min					11.02	8.27
		Median					30.72	23.89
		Max					52.32	49
		Correlation w/Previous Year					NA	0.42*
Firm rating of changes in lease contracts (1:Very High to 5: Very Low)	PCI Survey 2008 Question: B5.2	Min		2.55	2.59	2.63	DROPPED	DROPPED
		Median		3.09	3.1	3.12		
		Max		4	3.59	3.54		
		Correlation w/Previous Year			0.15	0.25*		
Percentage of firms that feel land availability constrains their business expansion.	PCI Survey 2008 Question: B3.1	Min	48.48	48.57	47.06	49.56	DROPPED	DROPPED
		Median	71.31	64.27	64.77	65.37		
		Max	81.08	78.38	81.16	77.06		
		Correlation w/Previous Year	NA	0.28	0.51*	0.52*		
Percentage of firms rating provincial land conversion policies as good or very good.	PCI Survey 2008 Question: E1.8	Min		33.73	23.53	1.17	DROPPED	DROPPED
		Median		52.45	56.83	21.51		
		Max		82.14	81.25	59.4		
		Correlation w/Previous Year			0.78*	0.48*		
If changes in leases contracts, is there a fair process for disputing them (% Always or Usually).	PCI Survey 2008 Question: B5.3	Min		0	17.65	20.69	DROPPED	DROPPED
		Median		44.44	40	39.09		
		Max		69.7	60.71	60		
		Correlation w/Previous Year			0.24	0.27*		

* 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 the 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 A4. 4: Comparison of Transparency Sub-Index (2005-2010)

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
Transparency of planning documents.	PCI Survey Question: F1.1-F1.13†	Min	1.90	2.25	2.20	2.25	2.13	2.00
		Median	2.36	2.63	2.51	2.55	2.44	2.31
		Max	3.80	3.17	2.96	2.79	3.08	2.62
		Correlation w/Previous Year	NA	0.39*	0.64*	0.61*	0.49*	0.48*
Transparency of legal decisions and decrees	PCI Survey Question: F1.1-F1.13†	Min	2.05	2.86	2.63	2.80	2.68	2.79
		Median	2.81	3.15	3.05	3.11	3.11	3.05
		Max	3.71	3.53	3.38	3.36	3.61	3.44
		Correlation w/Previous Year	NA	0.31*	0.61*	0.59*	0.38*	0.56*
Relationship important or very important to get access to provincial documents (% Important or Very Important)	PCI Survey Question: F2	Min	50	31.48	38.4	33.57	45.57	37.28
		Median	72.11	62.5	56.6	49.82	61.26	78.64
		Max	100	77.14	73.4	67.9	78.26	95.71
		Correlation w/Previous Year	NA	0.27	0.38*	0.55*	0.37*	0.30*
Negotiations with tax authority are an essential part of doing business (% Agree or Strongly Agree)	PCI Survey Question: D14.3	Min	52.17	47.17	24.1	17.39	29.69	23.75
		Median	75.22	61.05	44.7	36.71	41.32	40.78
		Max	96.15	86.96	73.2	54,25	62.4	67.04
		Correlation w/Previous Year	NA	-0.16	0.52*	0.73*	0.36*	0.27*
Predictability of implementation of central laws at the provincial level (% Usually or Always)	PCI Survey Question: F8	Min	4.35	2.76	1.89	1.03	3.57	2.38
		Median	14.91	9.49	7.96	6.94	8.4	8.97
		Max	60.38	37.88	18.3	15.69	22.22	20.24
		Correlation w/Previous Year	NA	0.38*	0.46*	0.3*	0.50*	0.10
Openness of provincial webpage score	Analysis by VNCI Research Team (For Scorecard See Section)Ψ	Min	0	0	0	0	0	0.00
		Median	10	9	13.75	14.25	15	15.00
		Max	21	18	20	20	20	19.00
		Correlation w/Previous Year	NA	0.36*	0.51*	0.70*	0.74*	0.79*
Firm gives comments on government regulation(%)* NEW INDICATOR	PCI Survey Question: F4	Min					15.04	11.36
		Median					25.21	22.37
		Max					43.9	38.35
		Correlation w/Previous Year					NA	0.55*

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
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
		Median					35.71	37.04
		Max					57.32	55.56
		Correlation w/Previous Year					NA	0.32*
Province discussed changes in laws with you (% Usually or Always)	PCI Survey 2008 Question: F3	Min	0	0	0.9	1.21	DROPPED	DROPPED
		Median	12.16	8.84	7.57	8.57		
		Max	61.54	20.9	21.62	18.6		
		Correlation w/Previous Year	NA	-0.29	0.45*	0.52*		
Services provided by provincial agencies: consulting on national and provincial regulations (% Very Good or Good).	PCI Survey 2008 Question: E.15	Min		24.49	30.3	6.67	DROPPED	DROPPED
		Median		48.05	48.28	20.08		
		Max		60.94	72.84	33.77		
		Correlation w/Previous Year		NA	0.63*	0.53*		
Friends important for negotiating with government (% Important or Very Important)	PCI Survey 2008 Question: F7	Min	34.35	37.74	38.7	40	DROPPED	DROPPED
		Median	56.07	57.21	54.7	53.04		
		Max	80	82.35	65.1	67.47		
		Correlation w/Previous Year	NA	0.22	0.45*	0.55*		

* 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. 5: Comparison of Time Costs of Regulatory Compliance

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
Percentage of firms spending over 10 percent of their time dealing with bureaucracy or bureaucratic regulations.	PCI Survey Question: D6	Min	3.64	6.52	10.94	13.83	7.27	8.13
		Median	13.67	21.24	21.87	22.99	15.38	19
		Max	30.43	39.39	43.75	42.55	30.36	35.37
		Correlation w/Previous Year	NA	0.44*	0.62*	0.67*	0.44*	0.24
Median number of inspections (all agencies)	PCI Survey Question: D1	Min	1	0	1	1	1	1
		Median	1	1	1	1	1	1
		Max	3	2	2	2	2	2
		Correlation w/Previous Year	NA	0.35*	0.30*	0.46*	0.34*	0.51*
Median tax inspection hours	PCI Survey Question: D4	Min	1	1	2	1	1	1
		Median	7.5	8	8	8	5	4
		Max	24	40	40	32	40	28
		Correlation w/Previous Year	NA	0.62*	0.86*	0.88*	0.75*	0.33*
Government officials have become more effective (% Yes) NEW INDICATOR	PCI Survey Question: D9.1	Min					28.68	26.00
		Median					44.09	44.83
		Max					55.26	61.11
		Correlation w/Previous Year					NA	0.39*
Trips to obtain stamps and signatures reduced (% Yes) NEW INDICATOR	PCI Survey Question: D9.2	Min					17.69	17.78
		Median					30.23	29.07
		Max					45.95	53.16
		Correlation w/Previous Year					NA	0.45*
Paperwork reduced (% Yes) NEW INDICATOR	PCI Survey Question: D9.3	Min					24.2	30.01
		Median					47.89	45.60
		Max					63.16	68.75
		Correlation w/Previous Year					NA	0.29*
Fees reduced (% Yes) NEW INDICATOR	PCI Survey Question: D9.4	Min					11.38	9.80
		Median					24.18	21.21
		Max					34.04	32.22
		Correlation w/Previous Year					NA	

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
No Improvements (% Yes) NEW INDICATOR	PCI Survey Question: D9.4	Min					10.71	8.14
		Median					20	19.00
		Max					37.4	35.36
		Correlation w/Previous Year					NA	0.36*
Inspections have decreased in past two years (%)	PCI Survey Question: D2	Min	12.5	28.07	11.9	11.54	DROPPED	DROPPED
		Median	42.12	45.52	24.36	24.51		
		Max	70	73.91	36.92	37.59		
		Correlation w/Previous Year	NA	0.26	0.30*	0.51*		
Days spent on bureacracy reduced in past two years (%)	PCI Survey Question: G2	Min	18.18	23.94	13.75	12.78	DROPPED	DROPPED
		Median	40	41.72	22.86	23.85		
		Max	78.57	60.87	35.04	34.86		
		Correlation w/Previous Year	NA	0.18	0.21	0.31*		

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

Table A4. 6: Comparison of Informal Charges (2005-2010)

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
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	6.67	53.57	40	45.54	35.38	20.78
		Median	26.57	70	68.25	65.93	59.4	58.23
		Max	48.28	84.62	82.72	83.59	77.47	77.11
		Correlation w/Previous Year	NA	0.05	0.56*	0.64*	0.66*	0.73*
Percentage of firms paying over 10 percent of their revenue in extra payments.	PCI Survey Question: D11	Min	0	4.35	1.39	2.13	2.61	0
		Median	9.6	12.99	11.54	9.89	8.75	6.78
		Max	29.41	34.38	26.19	22.08	20.78	16.92
		Correlation w/Previous Year	NA	0.21	0.45*	0.55*	0.60*	0.43*
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
		Median		39.76	38.21	37.12	50.35	50
		Max		76.74	79.41	64.54	71.64	73.11
		Correlation w/Previous Year		NA	0.78*	0.68*	0.66*	0.63*
Informal charges delivered expected result (% Usually or Always)	PCI Survey Question: D12	Min		20.83	29.03	27.94	35.42	36.4
		Median		47.89	48.28	48.99	51.51	56.32
		Max		65.93	59.8	62.91	69.01	71.64
		Correlation w/Previous Year		NA	0.2	0.50*	0.50*	0.53*
Do firms pay commissions on government contracts? (Yes) NEW INDICATOR	PCI Survey Question: D13	Min					22.89	21.7
		Median					53.47	41.4
		Max					74.81	63.33
		Correlation w/Previous Year					NA	0.48*
Actual Bribes Paid During Registration (%) NEW INDICATOR	PCI Survey Question: C6_2010	Min						2.05
		Median						22.62
		Max						49.44
		Correlation w/Previous Year						NA
Percentage of firms that believe that extra payments are a major obstacle to doing business.	PCI Survey 2008 Question: G6	Min	5	22.73	13.95	18.75	DROPPED	DROPPED
		Median	26.42	42.59	26.03	27.71		
		Max	60.61	65.09	44.4	55		
		Correlation w/Previous Year	NA	-0.48*	0.47*	0.46*		

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

Table A4. 7: Comparison of Proactivity (2005-2010)

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
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	43.75	51.61	53.68	57.35	54.67	54.37
		Median	76.93	74.44	71.74	77.28	72.65	75.31
		Max	94.29	93.48	92.47	91.41	91.72	90.14
		Correlation w/Previous Year	NA	0.60*	0.68*	0.68*	0.70*	0.68*
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	31.25	40	40.22	40.9	23.94	25
		Median	63.27	61.88	58.12	61.5	42.46	49.38
		Max	85.71	88.64	87.91	85.05	72.59	71.11
		Correlation w/Previous Year	NA	0.69*	0.76*	0.75*	0.75*	0.61*
Perceived attitude of provincial government toward private sector (% Very Positive or Very Positive).	PCI Survey Question: H1	Min	20.59	30.21	24.5	32.71	28.42	31.11
		Median	47.83	48.28	44.97	53.4	43.75	47
		Max	78.26	71.56	67.37	72.22	71.96	67.09
		Correlation w/Previous Year	NA	0.63*	0.67*	0.53*	0.56*	0.56*
All good initiatives come from the provincial government, but the center frustrates them (% Strongly Agree or Agree).	PCI Survey Question: H7.5	Min	4.76	16.04	16.67	10.84	DROPPED	DROPPED
		Median	31.35	29.07	30.95	20.99		
		Max	60	61.54	56.63	55.17		
		Correlation w/Previous Year	NA	0.40*	0.47*	0.63*		
There are no good initiatives at the provincial level; all important policy comes from the central government (% Strongly Agree or Agree).	PCI Survey Question: H7.8	Min	7.89	14.63	12.2	17.95	DROPPED	DROPPED
		Median	33.33	32.88	33.33	32.99		
		Max	60.42	48.84	58.33	66.25		
		Correlation w/Previous Year	NA	0.59*	0.55*	0.53*		

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

Table A4. 8: Comparison of Business Support Services (2005-2010)

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
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
		Median		0	0	2.25	6	6
		Max		6	12	80	20	166
		Correlation w/Previous Year		NA	0.18	0.62*	0.42*	0.36*
Number of private public service providers in province**	Tax Authority 2009 (Author's Calculation)	Min				0	0	0
		Median				1	5	12
		Max				3529	3114	4277
		Correlation w/Previous Year				NA	0.87*	0.94*
Firm has used business information search services (%) NEW INDICATOR	PCI Survey Question: E7.11	Min					29.90%	31.48%
		Median					60.36%	64.35%
		Max					79.81%	87.10%
		Correlation w/Previous Year					NA	0.47*
Firm used private provider for above business information search services (%) NEW INDICATOR	PCI Survey Question: E7.12	Min					20.59%	16.67%
		Median					38.81%	39.22%
		Max					58.82%	55.56%
		Correlation w/Previous Year					NA	0.17
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%
		Median					16.44%	50.00%
		Max					24.81%	65.09%
		Correlation w/Previous Year					NA	0.57*
Firm has used consulting on regulatory information (%) NEW INDICATOR	PCI Survey Question: E7.21	Min					30.34%	27.87%
		Median					62.50%	57.50%
		Max					77.42%	81.82%
		Correlation w/Previous Year					NA	0.48*
Firm used private provider for consulting on regulatory information (%) NEW INDICATOR	PCI Survey Question: E7.22	Min					3.03%	2.04%
		Median					16.95%	13.33%
		Max					43.18%	33.33%
		Correlation w/Previous Year					NA	0.12

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
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%
		Median					14.38%	38.60%
		Max					22.31%	57.14%
		Correlation w/Previous Year					NA	0.49*
Firm has used business match making services(%) NEW INDICATOR	PCI Survey Question: E7.41	Min					25.29%	26.98%
		Median					53.40%	56.58%
		Max					73.12%	81.82%
		Correlation w/Previous Year					NA	.50*
Firm used private provider for business match making services (%) NEW INDICATOR	PCI Survey Question: E7.42	Min					25.00%	0.00%
		Median					44.12%	54.55%
		Max					70.21%	70.37%
		Correlation w/Previous Year					NA	-0.12
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%
		Median					12.68%	39.52%
		Max					21.64%	59.18%
		Correlation w/Previous Year					NA	0.61*
Firm has used trade promotion services (%) NEW INDICATOR	PCI Survey Question: E7.51	Min					19.48%	22.92%
		Median					45.45%	48.61%
		Max					72.62%	78.26%
		Correlation w/Previous Year					NA	0.50*
Firm used private provider for trade promotion services (%) NEW INDICATOR	PCI Survey Question: E7.52	Min					4.44%	0.00%
		Median					18.00%	15.79%
		Max					38.42%	42.31%
		Correlation w/Previous Year					NA	0.45*
Firm intends to use above service provider again for trade promotion services (%) NEW INDICATOR	PCI Survey Question: E7.53	Min					1.59%	8.05%
		Median					7.89%	20.71%
		Max					17.46%	34.44%
		Correlation w/Previous Year					NA	0.39*
Firm has used technology related services (%) NEW INDICATOR	PCI Survey Question: E7.61	Min					25.33%	21.54%
		Median					50.00%	52.63%
		Max					73.49%	81.40%
		Correlation w/Previous Year					NA	0.50*

Indicator	Source (2010 Survey)	Measure	2005	2006	2007	2008	2009	2010
Firm used private provider for technology related services (%) NEW INDICATOR	PCI Survey Question: E7.62	Min					17.65%	4.76%
		Median					38.60%	40.63%
		Max					65.85%	69.23%
		Correlation w/Previous Year					NA	0.29*
Firm intends to use above service provider again for technology related services (%) NEW INDICATOR	PCI Survey Question: E7.63	Min					3.17%	7.81%
		Median					10.71%	26.83%
		Max					17.46%	38.74%
		Correlation w/Previous Year					NA	0.50*
Services provided by provincial agencies: provision of market information (% Very Good or Good)	PCI Survey Question: E1.4	Min	0	30.43	23.52	8.16	DROPPED	DROPPED
		Median	21.99	49.72	44.19	20		
		Max	41.54	64.89	66.93	34.86		
		Correlation w/Previous Year		0.17	0.18	0.67*		
Services provided by provincial agencies: matchmaking for business partners (% Very Good or Good).	PCI Survey Question: E1.10	Min	0	24.49	15	1.4	DROPPED'	DROPPED'
		Median	13.36	48.05	31.52	11.59		
		Max	26.19	60.94	62.96	30		
		Correlation w/Previous Year		0.18	0.46*	0.69*		
Services provided by provincial agencies: export promotion and trade fairs (% Very Good or Good).	PCI Survey Question: E1.14	Min		27.03	29.17	1.37	DROPPED	DROPPED
		Median		50.68	56.22	20.69		
		Max		79.03	79.55	48.84		
		Correlation w/Previous Year		NA	0.76*			
Services provided by provincial agencies: industrial zones and SME Concentrations (% Very Good or Good).	PCI Survey Question: E1.17	Min		11.91	6.67	3.07	DROPPED	DROPPED
		Median		45.8	50.84	23.87		
		Max		81.36	83.48	72.89		
		Correlation w/Previous Year		NA	0.84*	0.84*		
Services provided by provincial agencies: technology and technology-related services (% Very Good or Good).	PCI Survey Question: E.15	Min		18.92	14.29	4.28	DROPPED	DROPPED'
		Median		41.73	43.88	15.87		
		Max		72.34	79.55	48.76		
		Correlation w/Previous Year		NA	0.32*	0.82*		

* 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 A4. 9: Comparison of Labor Policies (2006-2009)

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

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

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

Table 4.10: Comparison of Legal Institutions (2006-2010)

Indicator	Source (2009 Survey)	Measure	2006	2007	2008	2009	2010
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%
		Median	19.16%	28.80%	27.31%	25.17%	25.00%
		Max	35.53%	41.41%	42.53%	43.94%	53.33%
		Correlation w/Previous Year	NA	-0.24	0.48*	0.38*	0.27*
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%
		Median	69.42%	66.11%	67.00%	62.32%	62.69%
		Max	82.14%	77.55%	78.23%	75.76%	71.11%
		Correlation w/Previous Year	NA	0.50*	0.40*	0.29*	0.16
Cases filed by by non-state entities at Provincial Economic Court per 100 firms.	People's Supreme Court	Min	0	0	0	0	0.00
		Median	0.41	0.58	1.29	3.05	1.74
		Max	9.49	8.12	6.97	35.64	62.10
		Correlation w/Previous Year		0.66*	0.32*	0.84*	
Non-state claimants as a percentage of claimants at Provincial Economic Court. NEW INDICATOR	People's Supreme Court	Min	0.00	0.00	0.00	0.00	0.00
		Median	50.00	50.00	65.48	72.41	73.47
		Max	100.00	100.00	100.00	100.00	100.00
		Correlation w/Previous Year	NA	0.38*	0.05	0.41*	0.40*
Business used courts or other legal institutions to resolve disputes (%) NEW INDICATOR	PCI Survey Question: G1	Min				4.76%	0.00%
		Median				23.33%	25.00%
		Max				44.83%	90.91%
		Correlation w/Previous Year				NA	0.27*
Median days to resolve court cases NEW INDICATOR	PCI Survey Question: G3.2	Min				1.00	0.5
		Median				6.00	6.00
		Max				19.71	12.63
		Correlation w/Previous Year				NA	0.21
Median formal and informal costs as a percentage of case NEW INDICATOR	PCI Survey Question: G3.3	Min				3.09	2.5
		Median				12.21	11.73
		Max				60.00	44.5
		Correlation w/Previous Year				NA	0.03

Indicator	Source (2009 Survey)	Measure	2006	2007	2008	2009	2010
Use of legal institutions as primary modes of dispute resolution	PCI Survey Questions: [6*F10.1 (if Court) + 4*F10.2(if Court) + 2*F10.3(if Court) + 3*F10.1 (if Provincial Gov.)+2*F10.2 (if Provincial Gov.)+1*F10.3 (if Provincial Gov.)]	Min	47.51	30.58	13.33	DROPPED	DROPPED
		Median	94.82	64.4	46.13		
		Max	208.87	138.89	82.88		
		Correlation w/Previous Year		0.56*	0.38*		

* Significant at 5% level; NA = Not applicable
All values are at the provincial level.
Legal sub-index did not exist in 2005

4.2. Methodological Appendix for Analysis of Informal Charges

Although the difference-in-means interpretation provides a very powerful illustration of how prevalent corruption is, it is nevertheless a crude analysis that ignores a wealth of information existing in the survey that may help differentiate between types of firms or settings conducive to corruption and the factors that might reduce it. To effectively combat corruption, policy-makers require more detailed analysis of where corruption is most entrenched and problematic. For instance, firms in a particular sector or of a particular legal type may experience more corruption at registration than others may. Therefore, it is necessary to explore the magnitude of corruption across industrial sectors and business types, as well as test the variable effects of individual institutional solutions aimed at curbing corruption.

Our first approach to resolving this dilemma is the use of OLS regression, where we interact the treatment (the form with the sensitive item) with key covariates in Table A.1. We begin with our measure of petty corruption, bribes during registration, as our key causal variable. In line with the theories outlined above, we perform two such interactions: 1) whether or not the operation is a foreign or domestic operation; and 2) whether or not the firm registered after the US-BTA.

Table A4. 11: Ordinary Least Squares Analysis of Bribes at Registration

Dependent Variable = Number of Activities During Business Registration	Model (1) (Baseline)	Model (2) (Structural Controls)	Model (3) (Sectoral Effects)	Model (4) (Policy Measures)
Treatment	0.304***	0.300***	0.298***	0.303***
	(0.0446)	(0.0448)	(0.0448)	(0.0448)
US-BTA	0.0766**	0.0738**	0.0739**	0.0633*
	(0.0347)	(0.0349)	(0.0349)	(0.0359)
Treatment * US-BTA	-0.107**	-0.105**	-0.103**	-0.108**
	(0.0478)	(0.0482)	(0.0482)	(0.0482)
FDI	0.211***	0.106	0.112*	0.0783
	(0.0485)	(0.0660)	(0.0666)	(0.0678)
Treatment * FDI	-0.0485	-0.0619	-0.0591	-0.0573
	(0.0575)	(0.0622)	(0.0622)	(0.0622)
National City		0.0189	0.0191	0.0247
		(0.0291)	(0.0291)	(0.0291)
Capital Size		0.0247***	0.0240***	0.0192**
		(0.00731)	(0.00743)	(0.00750)
Distance H/H		-0.0134**	-0.0129**	-0.0132**
		(0.00626)	(0.00627)	(0.00627)
Labor Size		0.00566	0.00565	0.00743
		(0.0123)	(0.0123)	(0.0123)
Manufacturing			0.0783***	0.0601**
			(0.0275)	(0.0279)
Construction			0.0518*	0.0560**
			(0.0276)	(0.0276)

Dependent Variable = Number of Activities During Business Registration	Model (1) (Baseline)	Model (2) (Structural Controls)	Model (3) (Sectoral Effects)	Model (4) (Policy Measures)
Services			0.0831***	0.0854***
			(0.0266)	(0.0266)
Agriculture			0.0845**	0.0802**
			(0.0389)	(0.0388)
Mining			0.0936	0.0898
			(0.0580)	(0.0580)
Industrial Zone				0.122***
				(0.0288)
One Stop Shop				0.0142
				(0.0308)
WTO				0.0249
				(0.0215)
Constant	1.573***	1.573***	1.485***	1.483***
	(0.0320)	(0.0494)	(0.0561)	(0.0561)
Observations	8,262	8,050	8,050	8,050
R-squared	0.026	0.028	0.029	0.032

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Model 1 presents a parsimonious model with just FDI and BTA, while each of the subsequent models add controls that may affect the number of activities an enterprise engages in during registration. Model 2 adds controls for firm-level and provincial-level characteristics. *Log Distance from Ho Chi Minh and Hanoi* (Distance H/H) is included as an indicator for development and infrastructure. A variable called National City is included to capture the administrative and tax responsibility differences between national municipalities and provinces in Vietnam. *Labor Size* is a categorical variable illustrating the employment size of the firm at the time they applied for registration. Capital Size, similarly, represents the amount of registered capital for domestic firms or the operating license size for foreign firms at the time of entry. Model 3 controls for the economic sector in which the business operates, including manufacturing, construction, services and retail, agriculture and aquaculture, and mining and natural resources exploitation. Finally, Model 4 controls for other institutional features that may reduce the number of registration activities.

First, we control for whether a firm registered used an OSS. The OSS initiative has been advocated by

many in the Vietnamese MPI and by the United Nations Industry and Trade Organization (UNIDO) as an institutional solution to rent-seeking and administrative delay in the business licensing process. OSS is thought to reduce corruption by reducing the number of nodes that an investor must pass through to legalize his or her business. If bribes are required at each node, consolidating should reduce the size. For domestic firms, OSS provides registration certificates, tax codes, and business seals concurrently. For foreign investors, OSS consists of concurrent issuance of the investment license and registration certificate. IZs, which are administrative regions that are specifically organized and incentivized to promote export-oriented industry and attract foreign investment, are authorized to assist businesses in their registration activities. As a result, they can play a similar role in reducing the number of nodes for prospective entrepreneurs.

Finally, we control for the years after 2000 and 2006, the respective years of Vietnam's adoption of the US-BTA and the country's accession to the WTO. The WTO accession extended many of the provisions provided to the United States under the US-BTA to other WTO members and precipitated large FDI inflows into the country. Adding the WTO dummy allows us to assess whether or not there is an additive signaling effect of trade agreements (as hypothesized by Buthe and Milner 2008) or whether the impact of globalization generally accrues to the first major trade agreement and the impact it has on local, institutional reform (Tobin and Busch 2010).

According to this analysis, the effect of FDI on registration bribery is not robust to firm-level controls. Once we add determinants of firmsize, its effects disappear. On the other hand, the US-BTA has a pronounced negative effect on the propensity to bribe. Both domestic and foreign firms that registered after the US-BTA received a 10 percent reduction in the probability of paying a registration bribe. This suggests that lowering the trade barriers between the two countries not only stimulated the two economies, but also reduced corruption either by attracting higher-quality foreign investment or simply by increasing the government's priority over promoting export industries - thereby lowering their motivation for rent-seeking.

Using the OLS approach is complicated because it requires interacting each possible determinant of corruption with the treatment variable. This quickly leads to cumbersome models that are difficult to interpret. We address this issue using LIST software package provided by Blair and Imai (2010). The LIST package extends the difference in means approach used above to multivariate estimation, which allows for more complex evaluation and theory testing using descriptive information available in the survey. The process involves fitting a nonlinear model to describe the control group, then using the estimated coefficients to impute new values for the treated group, and finally fitting the imputed values over the observed in the treated group through an expectation-maximization (EM) algorithm to produce maximum-likelihood (ML) estimators for each variable included in the following model:

$Y_i = f(X_i,\gamma) + T_i g(X_i,\delta) + \varepsilon_i$, *where*:

Y_i: response variable (participated in bribery)

T_i: treatment variable (received sensitive item)

X_i: matrix of covariates

$f(X,\gamma)$: model for non-sensitive items, e.g., J*logit$^{-1}(X^T\gamma)$

$g(X,\delta)$: model for sensitive items, e.g., logit$^{-1}(X^T\delta)$

In the first stage of the procedure, LIST fits the $f(X_i,\gamma)$ model to the control group via Nonlinear Least Squares (NLS) and obtains $\hat{\gamma}$, which is the relationship between participating in the nonsensitive behavior and each independent variable. In the second stage, LIST fits the $f(X_i,\delta)$ model to treatment group via NLS, after subtracting $f(X_i,\hat{\gamma})$ from Y_i and obtains $\hat{\delta}$, the relationship between participating in the sensitive behavior and each independent variable. Standard errors are calculated using the method of moments (GMM) estimator. When there are no co-variates (independent variables) introduced in the model, the estimations reduce to the difference-in-means estimator.

One of the core assumptions required for implementing the LIST method is that there is a finite set of respondent types based on the number of nonsensitive choices within the experiment. This means that missing observations for the variable of interest (resulting in an undefined respondent type)

necessitates either list-wise deletion of the observation or imputation. Imputation using AMELIA (Honaker et al. 2001) was chosen because missing responses to sensitive questions, such as the ones evaluated here, are unlikely to be missing completely at random-meaning that list-wise deletion would produce biased conclusions. The imputed and aggregated dataset, (both domestic and foreign) includes 8,455 (7,300 domestic versus 1,155 foreign) observations for the question concerning corruption during (registration/licensing) and 3,128 observations concerning corruption when bidding for government contracts.

Table A4. 12: LIST Maximum Likelihood Estimators for Propensity to Bribe at Registration (8262 domestic & foreign firms)

	Model (1) (Baseline)	**Model (2)** (Structural Controls)	**Model (3)** (Sectoral Effects)	**Model (4)** (Policy Measures)	**Model (5)** (Political Determinants)
(Intercept)	-1.339	-1.021	-0.725	-1.153	-1.100
	(0.089)	(0.203)	(0.567)	(0.636)	(0.640)
FDI	0.549	0.542	0.198	0.219	0.332
	(0.192)	(0.192)	(0.446)	(0.462)	(0.485)
US-BTA		-0.374	-0.543	-0.523	-0.656
		(0.215)	(0.239)	(0.241)	(0.279)
National City			0.222	0.194	0.203
			(0.300)	(0.302)	(0.305)
Distance H/H			-0.090	-0.078	-0.066
			(0.094)	(0.096)	(0.098)
Labor Size			-0.168	-0.170	-0.170
			(0.109)	(0.109)	(0.110)
Capital Size			0.190	0.192	0.189
			(0.076)	(0.077)	(0.077)
Manufacturing				0.352	0.378
				(0.249)	(0.256)
Construction				0.111	0.110
				(0.246)	(0.248)

	Model (1) (Baseline)	**Model (2)** (Structural Controls)	**Model (3)** (Sectoral Effects)	**Model (4)** (Policy Measures)	**Model (5)** (Political Determinants)
Services				0.357	0.358
				(0.245)	(0.249)
Mining				0.244	0.200
				(0.512)	(0.517)
Agriculture				0.032	0.040
				(0.336)	(0.344)
One Stop Shop					-0.066
					(0.298)
Industrial Zone					-0.060
					(0.269)
Party Congress					-0.191
					(0.275)
Thai Binh Riots					-0.603
					(0.618)
WTO					0.130
					(0.238)
Observations	8,262	8,050	8,050	8,050	8,050
Log-likelihood:	*-10002.612*	*-10000.590*	*-8576.963*	*-8569.923*	*-8563.086*

Maximum Likelihood Coefficients with Standard Errors in Parentheses (Interpret as in Logit Model)

Table A4. 13: LIST Maximum Likelihood Estimators for Propensity to Bribe at Registration (1124 foreign enterprises only)

	Model (1) (Baseline)	**Model (2)** (Structural Controls)	**Model (3)** (Cultural Effects)	**Model (4)** (Policy Measures)
(Intercept)	-0.410	-0.054	-0.406	-2.223
	(0.401)	(1.066)	(1.195)	(1.813)
US-BTA	-0.474	-0.746	-0.823	-0.937
	(0.444)	(0.516)	(0.549)	(0.561)
National City		0.332	0.449	0.071
		(0.574)	(0.616)	(0.623)
Distance H/H		-0.034	(0.024)	0.040
		(0.131)	(0.146)	(0.139)
Labor Size		-0.104	-0.103	-0.055
		(0.095)	(0.098)	(0.096)
Capital Size		0.043	0.069	0.147
		(0.132)	(0.145)	(0.150)
WTO			0.176	0.445
			(0.474)	(0.526)
US & UK			-(0.445)	-0.436
			(1.148)	(1.172)
European			0.610	0.563
			(0.830)	(0.843)
China			0.690	0.736
			(1.115)	(0.967)
Asia			-0.110	0.437
			(0.532)	(0.607)

	Model (1) (Baseline)	**Model (2)** (Structural Controls)	**Model (3)** (Sectoral Effects)	**Model (4)** (Policy Measures)
Party Congress				0.624
				(0.526)
Manufacturing				0.587
				(1.030)
Agriculture				-0.027
				(1.180)
Services				1.859
				(1.200)
Cap_Const				-0.467
				(1.822)
Observations	1,155	1,140	1,140	1,140
Log-likelihood:	-1516.688	-1225.324721	-1221.924	-1217.485

Maximum Likelihood Coefficients with Standard Errors in Parentheses (Interpret as in Logit Model)

Table A4. 14: LIST Maximum Likelihood Estimators for Propensity to Bribe at Registration (7138 private, domestic firms only)

	Model (1) (Baseline)	**Model (2)** (Structural Controls)	**Model (3)** (Sectoral Effects)	**Model (4)** (Policy Measures)	**Model (5)** (Political Determinants)
(Intercept)	-1.117	-0.232	-0.640	-0.536	-0.339
	(0.235)	(0.773)	(0.840)	(0.838)	(0.878)
US-BTA	-0.260	-0.391	-0.345	-0.381	-0.342
	(0.254)	(0.258)	(0.262)	(0.294)	(0.305)
National City		0.079	0.092	0.108	0.116
		(0.289)	(0.291)	(0.292)	(0.297)
Distance H/H		-0.022	-0.013	-0.002	-0.002
		(0.061)	(0.061)	(0.062)	(0.063)
Labor Size		-1.165	-1.226	-1.205	-1.567
		(0.645)	(0.664)	(0.661)	(0.688)
Capital Size		0.212	0.217	0.217	0.172
		(0.079)	(0.080)	(0.081)	(0.084)
Manufacturing			0.505	0.494	0.409
			(0.239)	(0.245)	(0.249)
Construction			0.043	0.045	0.004
			(0.235)	(0.236)	(0.242)
Services			0.343	0.333	0.310
			(0.236)	(0.238)	(0.242)
Mining			0.494	0.389	0.387
			(0.495)	(0.501)	(0.501)
Agriculture			0.025	0.000	-0.052
			(0.355)	(0.360)	(0.372)

	Model (1) (Baseline)	**Model (2)** (Structural Controls)	**Model (3)** (Sectoral Effects)	**Model (4)** (Policy Measures)	**Model (5)** (Political Determinants)
One Stop Shop				-0.019	0.054
				(0.328)	(0.331)
Industrial Zone				-0.057	-0.014
				(0.304)	(0.310)
Party Congress				-0.509	-0.472
				(0.291)	(0.295)
Thai Binh Riots				-0.672	-0.680
				(0.733)	(0.742)
WTO				-0.107	-0.042
				(0.229)	(0.233)
SOE History					1.106
					(0.366)
Household History					0.154
					(0.220)
Owner State History					0.213
					(0.298)
Owner SOE History					0.094
					(0.216)
Observations	7.177	7,010	7,010	7,010	7,010
Log-likelihood:	*-8482.836*	*-8469.384*	*-8460.678*	*-8452.680*	*-8442.701*

Maximum Likelihood Coefficients with Standard Errors in Parentheses (Interpret as in Logit Model)

Table A4. 15: LIST Maximum Likelihood Estimators for Propensity to Bribe in Procurement (3018 domestic & foreign enterprises)

	Model (1) (Baseline)	**Model (2)** (Structural Controls)	**Model (3)** (Fully-Specified)
(Intercept)	-0.780	-2.637	-3.084
	(0.405)	(1.765)	(1.705)
FDI		-5.361	-4.984
		(15.668)	(5.220)
US-BTA	0.209	0.018	-0.145
	(0.436)	(0.597)	(0.578)
National City		0.000	0.025
		(0.645)	(0.715)
Distance H/H		0.271	0.328
		(0.211)	(0.228)
Labor Size		0.345	0.558
		(1.130)	(0.801)
Capital Size		0.141	0.138
		(0.154)	(0.147)
Manufacturing			-0.627
			(0.538)
Construction			-0.297
			(0.441)
Services			0.331
			(0.454)
Mining			0.035
			(1.053)

	Model (1) (Baseline)	**Model (2)** (Structural Controls)	**Model (3)** (Sectoral Effects)
Agriculture			-0.745
			(0.615)
Industrial Zone			0.684
			(0.701)
Party Congress			0.467
			(0.565)
Thai Binh Riots			0.741
			(1.501)
WTO			0.086
			(0.402)
Observtions	8,050	8,050	8,050
Log-likelihood:	*-4300.106*	*-3866.862*	*-3853.479*

Maximum Likelihood Coefficients with Standard Errors in Parentheses (Interpret as in Logit Model)

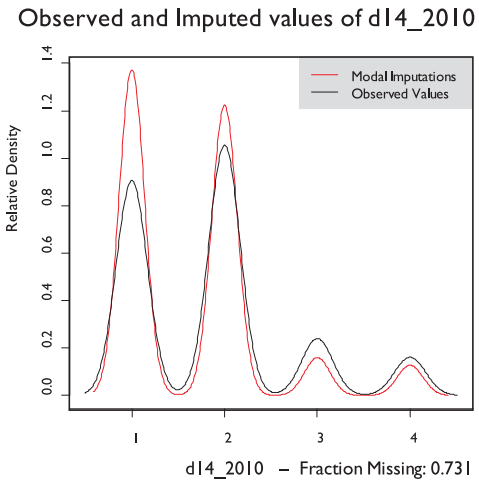
Table A4. 16: LIST Maximum Likelihood Estimators for Propensity to Bribe in Procurement (2889 domestic, private enterprises)

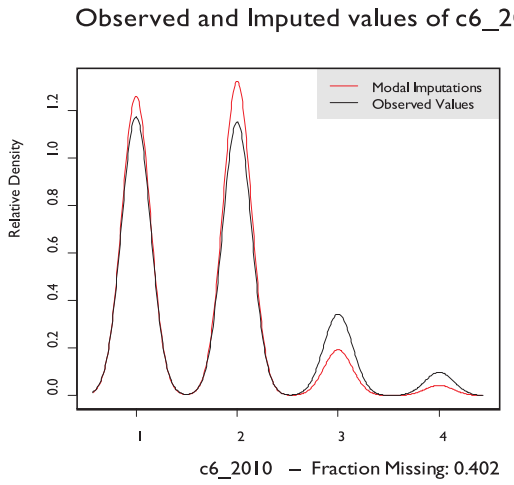
	Model (1) (Baseline)	**Model (2)** (Structural Controls)	**Model (3)** (Cultural Effects)	**Model (4)** (Policy Measures)
(Intercept)	-0.429	-1.592	-0.912	-0.617
	(0.449)	(1.877)	(1.853)	(1.863)
US-BTA	-0.040	-0.082	-0.358	-0.426
	(0.479)	(0.480)	(0.546)	(0.624)
National City		0.319	0.305	0.287
		(0.617)	(0.643)	(0.652)
Distance H/H		-0.012	-0.019	-0.015
		(0.135)	(0.138)	(0.146)
Labor Size		0.888	0.579	0.666
		(1.492)	(1.374)	(1.385)
Capital Size		0.137	0.127	0.126
		(0.129)	(0.144)	(0.159)
Manufacturing			-0.592	-0.534
			(0.533)	(0.536)
Construction			-0.449	-0.459
			(0.439)	(0.458)
Services			0.221	0.261
			(0.467)	(0.477)
Mining			0.035	0.477
			(0.996)	(0.918)
Agriculture			-0.572	-0.700
			(0.572)	(0.575)

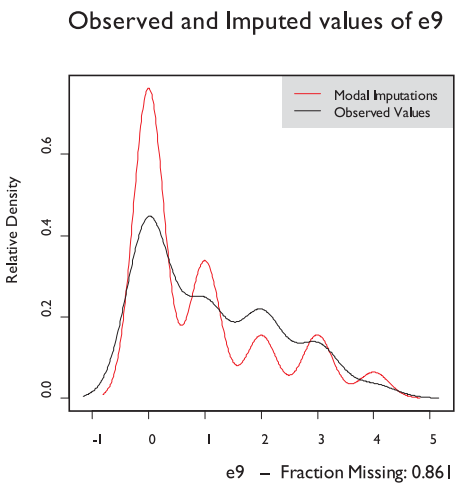
	Model (1) (Baseline)	Model (2) (Structural Controls)	Model (3) (Sectoral Effects)	Model (4) (Policy Measures)
Industrial Zone			0.757	0.740
			(0.706)	(0.756)
Party Congress			0.350	0.330
			(0.539)	(0.640)
Thai Binh Riots			-0.023	-0.050
			(1.490)	(1.436)
WTO				0.027
				(0.413)
SOE History				-0.440
				(0.973)
Household History				-0.272
				(0.410)
Owner State History				0.328
				(0.614)
Owner SOE History				-0.662
				(0.389)
Observations	2889	2889	2889	2889
Log-likelihood:	-4091.019	-4083.997	-4070.021	-4061.87

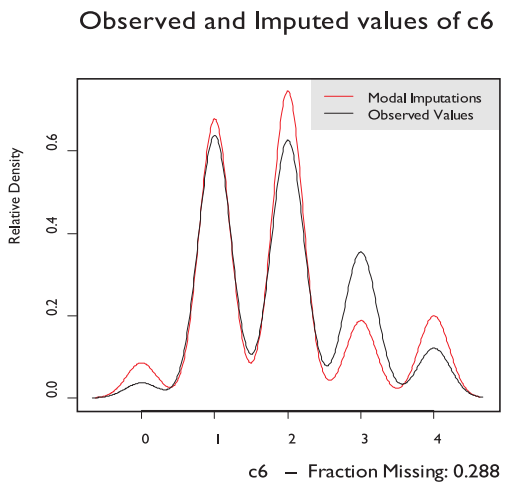
Maximum Likelihood Coefficients with Standard Errors in Parentheses (Interpret as in Logit Model)

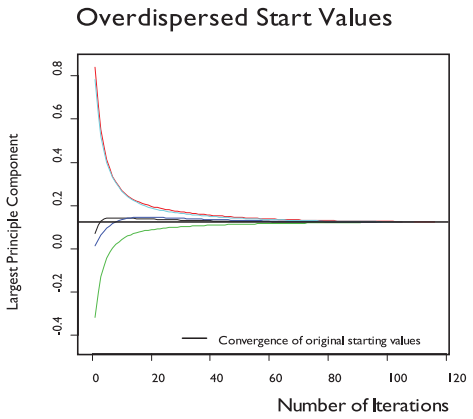
Table A4. 17: Comparison of Imputed and Observed Values for Sensitive Activities











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