VCCI USAID TỪ NHÂN DÂN MỸ

PCI 2017

THE 2017 PROVINCIAL COMPETITIVENESS INDEX (PCI)

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PCI 2017

Agenda

1. Overview of PCI
2. 2017 PCI Main Findings and Trends to Watch
3. Foreign Invested Enterprises (FIEs) views of Vietnam's Business Environment

1

Overview of PCI

Overview of PCI

- **What does the PCI measure?** Actual provincial economic governance quality through best governance practices already found in localities.

10 PCI Subindices

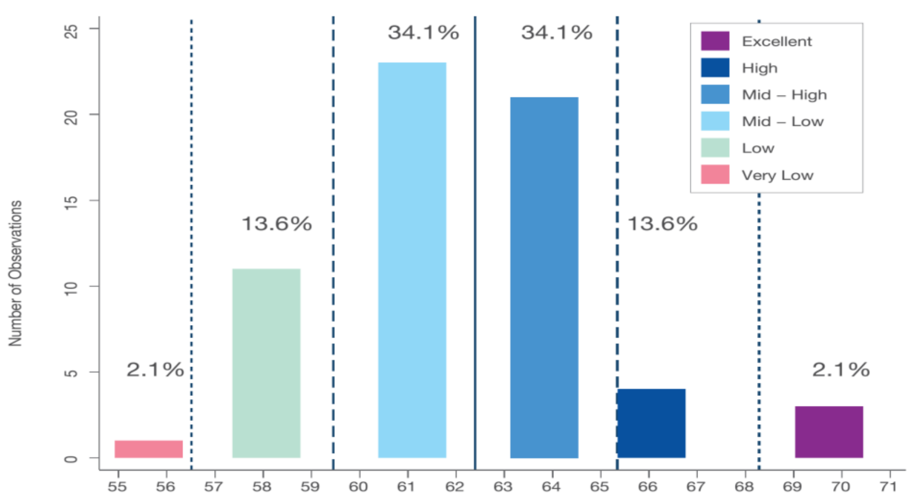
1. **Entry Costs**
2. **Land Access**
3. **Transparency**
4. **Time Costs**
5. **Informal Charges**
6. **Policy Bias**
7. **Proactive Leadership**
8. **Business Support Services**
9. **Labor Training**
10. **Law & Order**

PCI Methodology

- Three-step process:
  - (i) Collection of data: survey data combined with published, administrative data;
  - (ii) Construction of 10 subindices, which are standardized to a ten-point scale; and
  - (iii) Calibration through weighting subindices to create a final index on a 100 point scale.
- Methodological revision in 2017: to capture and reflect the changes in the business environment and the economy of Vietnam. Recalibrations occur every 4 years (previous in 2009 and 2013)

  Changes:
  - Drop indicators that are no longer meaningful (6)
  - Add new indicators to capture new reform initiatives (24)
  - Reorganize the subindices around key business environment concepts (2)
  - Update the subindex weightings (7)
- There are 128 indicators in total in PCI 2017 → To be maintained for the next 4 years.

Defining PCI performance tiers by standard deviation, in place of "break-point" approach



Source: PCI 2017
Solid Line=Mean; Dash=1 Standard Deviation; Short Dash=2 Standard Deviations

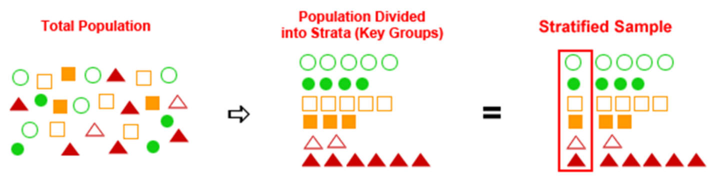
Size of the 2017 PCI survey

10.295 Domestic private enterprises

2.003 Newly registered enterprises

A random sample stratified by province/city:

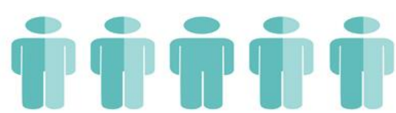
- Legal form
- Business sector
- Firm age



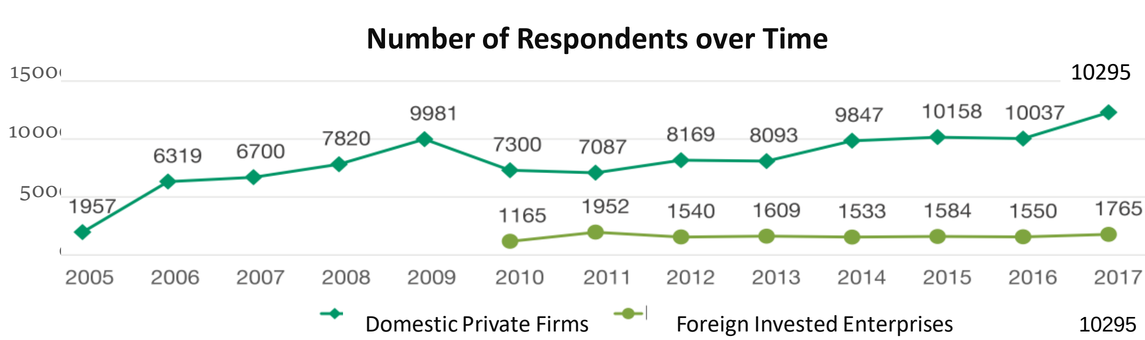
13 Years of PCI 2005-2017

105.000 Domestic private firms

12.263 Foreign invested enterprises



1 out of every 5 firms in operation has responded to the PCI survey



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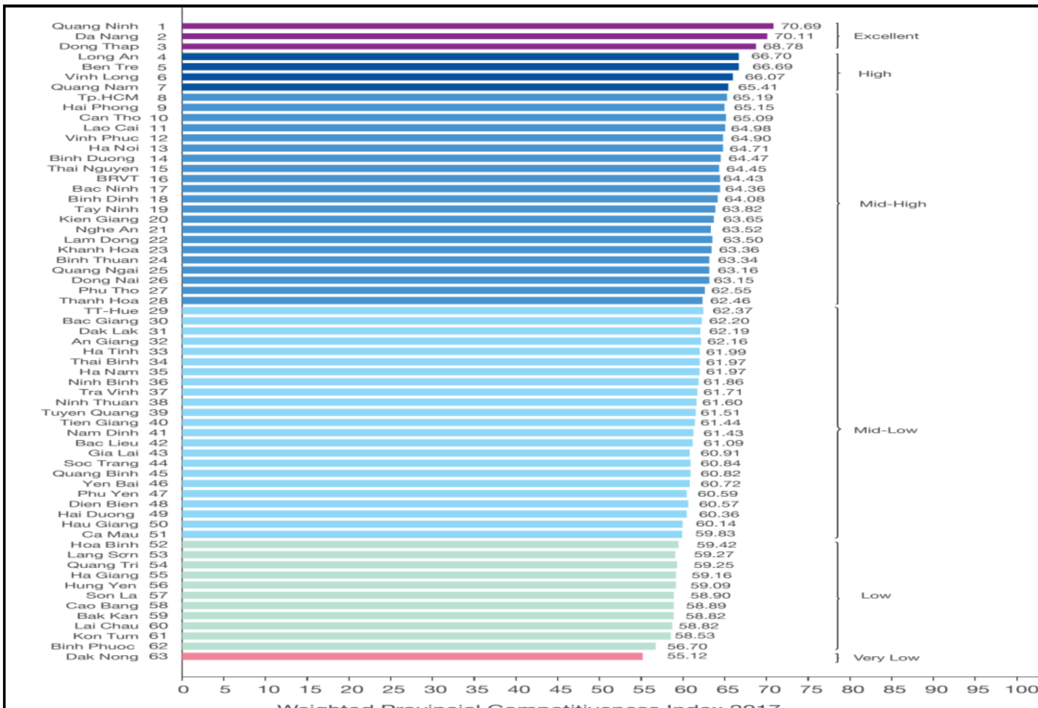
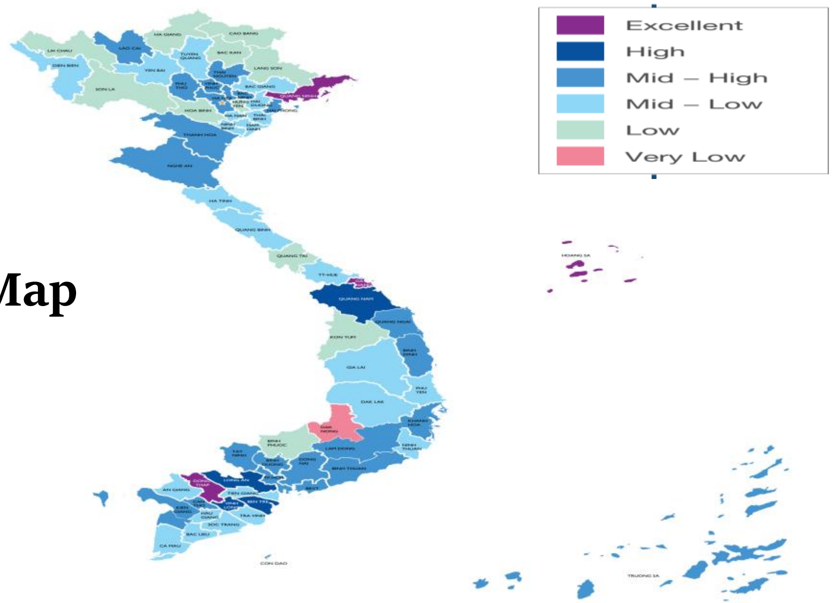
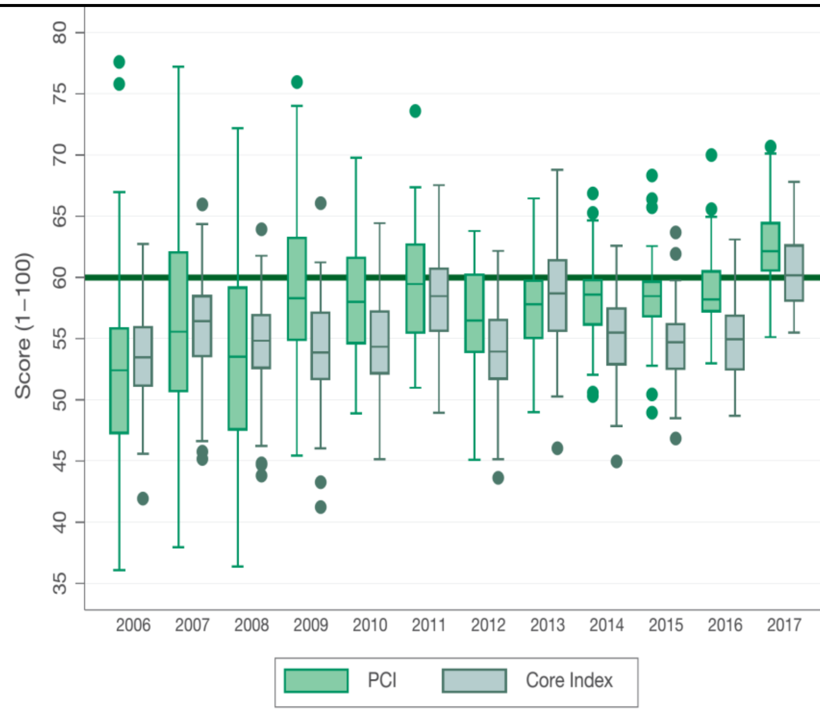
2017 PCI Findings



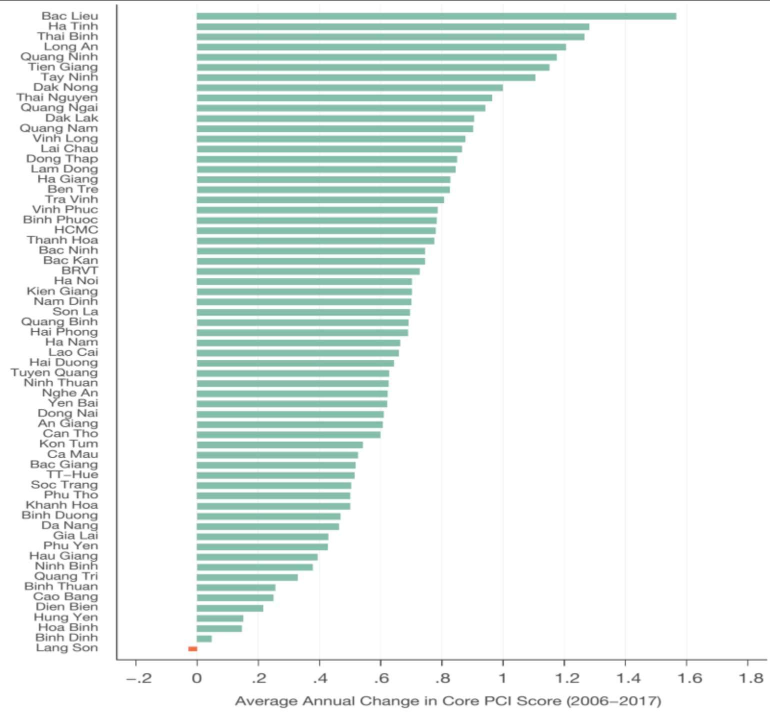
2017 PCI Map

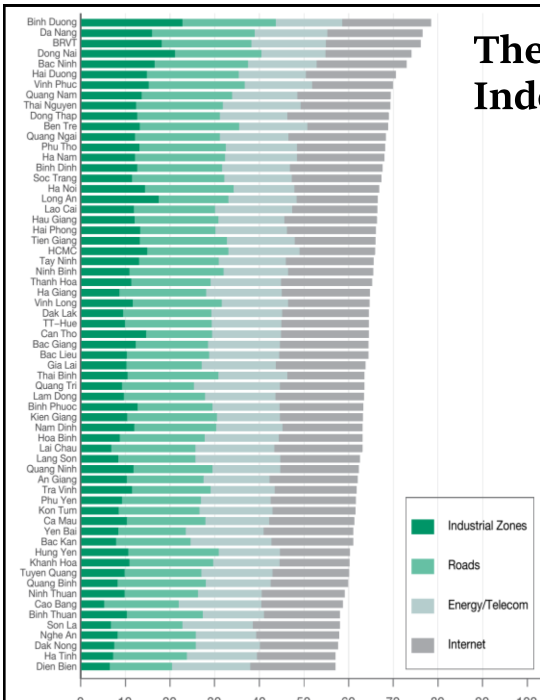


PCI and Core PCI over Time

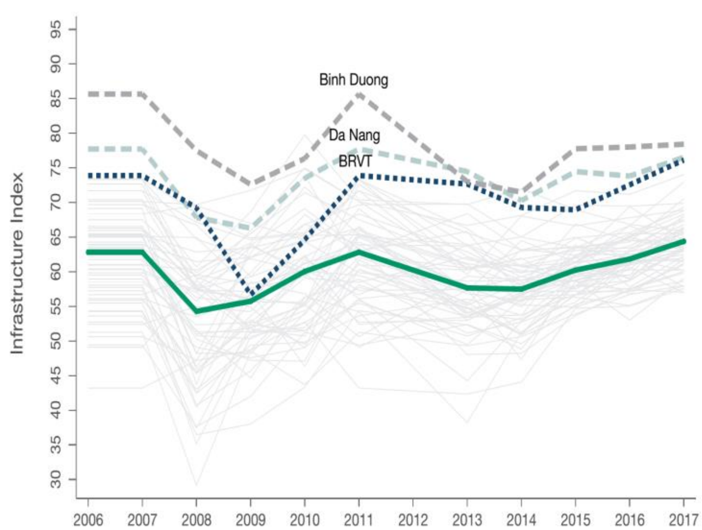


Improvement in Core Index between 2006 and 2007



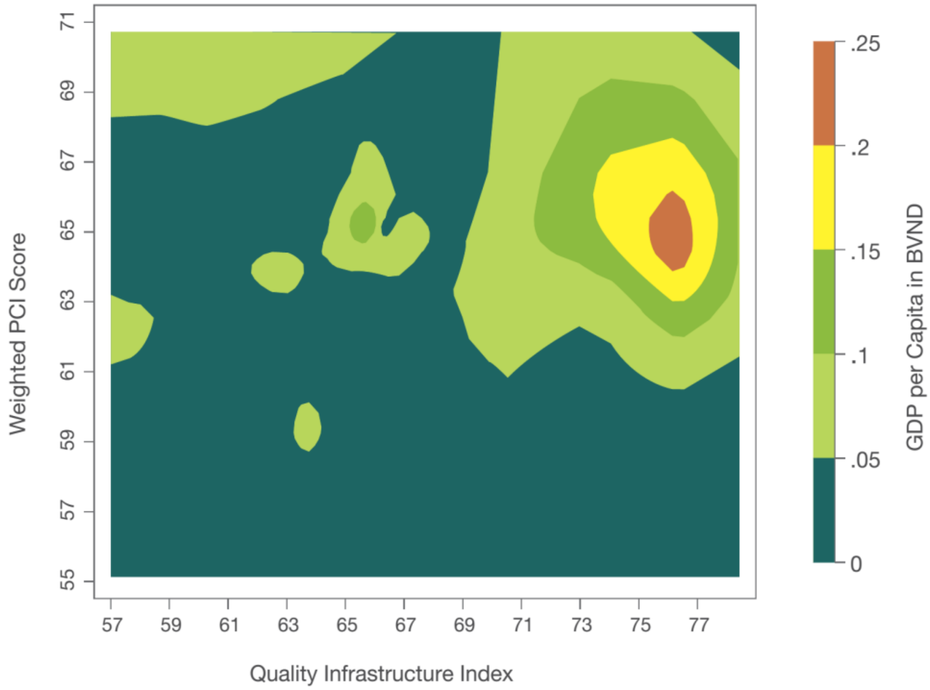


The 2017 Quality of Infrastructure Index and Improvements over Time



Gray lines depict trajectories of all 63 provinces.
The solid green line represents the median score in each year.

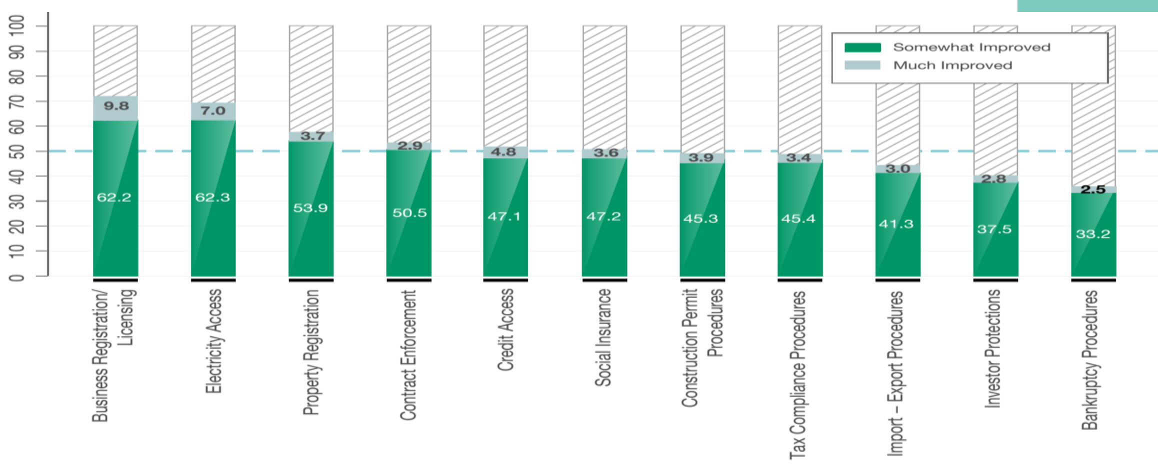
The wealthiest and fastest growing locations are those that excel in both governance and infrastructure



Key Trends after Initiation of Resolution 19 and Resolution 35 of the Government

Opinions on Economic Reform Progress

PCI 2017



Source: PCI Survey Question K3, "From your firm's observation and experience, how do you rate the changes in the following areas in your province in 2017 as compared the previous years?"

POSITIVE TRENDS

IMPROVING ADMINISTRATIVE PROCEDURES

72% Local government officials are effective

59% 2015 **67%** 2017

Local government officials are friendly

67% Agree "Time to complete APs is shorter than specified in regulations"

26% 2015 **13%** 2017

Share of firms receiving overlapping regulatory inspections

POSITIVE TRENDS

DECLINING CORRUPTION

66% 2016 **59%** 2017

of firms pay bribes

11.1% 2015 **9.8%** 2017

Percentage of firms paying over 10% of their revenue in informal charges

POSITIVE TRENDS

GOVERMENT AS FIRMS' PARTNER FOR DEVELOPMENT

35% 2015

45% 2017

Positive attitude of provincial government toward private sector

67%

firms agree that "Provincial authorities handle firms' difficulties raised in PPD dialogues quickly"


WORRISOME TRENDS
LAND ACCESS
40%
2013
25%
2017
Only 25% of firms face no difficulties with land-related procedures
2.8
2013
1.6
2017
High expropriation risk
(1= Very high; 5 = Very small)


WORRISOME TRENDS
TRANSPARENCY
3.14
2013
3.06
2017
Access to planning documents
(1 = Impossible ; 5 = Very easy)
70%
of firms said "Relationship is important or very important to get access to provincial documents"
Only 50% firms found transparency in procurement bidding
2.61
2013
2.44
2017
Access to legal documents
(1 = Impossible ; 5 = Very easy)


WORRISOME TRENDS
LEGAL INSTITUTIONS
60%
2013
36%
2017
Willingness to use court when a business dispute arises
67%
of firms agree "Provincial court resolves economic cases quickly"

3

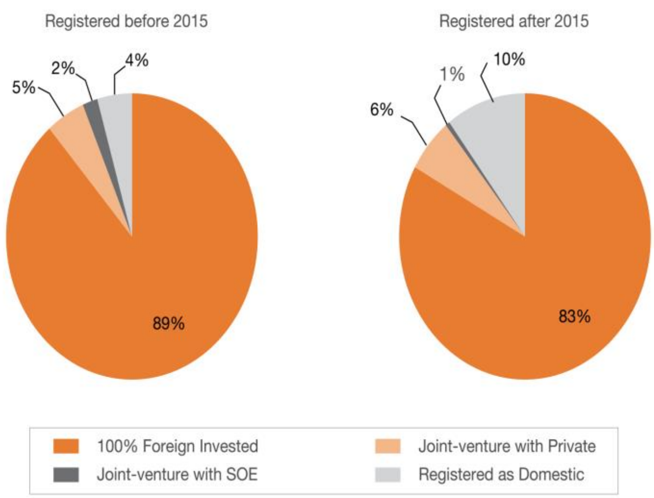
Foreign Invested Enterprises (FIEs) views of Vietnam's Business Environment

THE 2017 PCI-FDI

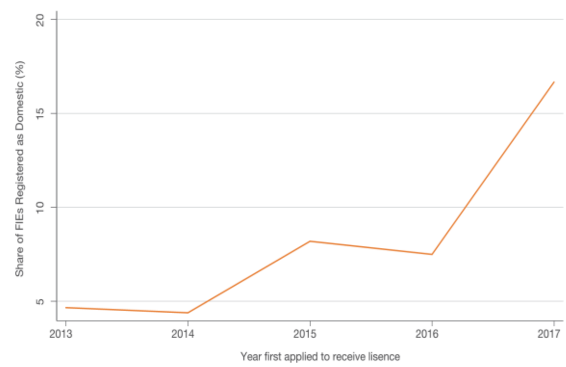
1765 FIEs respondents, from **46** countries and territories

Year	Firms Increasing Investment (%)	Firm Adding Employees (%)	Firms Reporting Profits (%)	Firms Reporting Losses (%)	Median Sales (Constant Millions of 2010 USD)	Median Expenditures (Constant Millions of 2010 USD)
2012	5.2	31.0	60.4	27.5	1.54	0.97
2013	5.1	30.0	63.6	24.1	1.45	0.94
2014	16.1	62.4	57.9	34.2	1.14	0.71
2015	11.4	62.4	55.1	37.6	0.69	1.42
2016	11.0	63.3	59.0	33.4	0.73	0.49

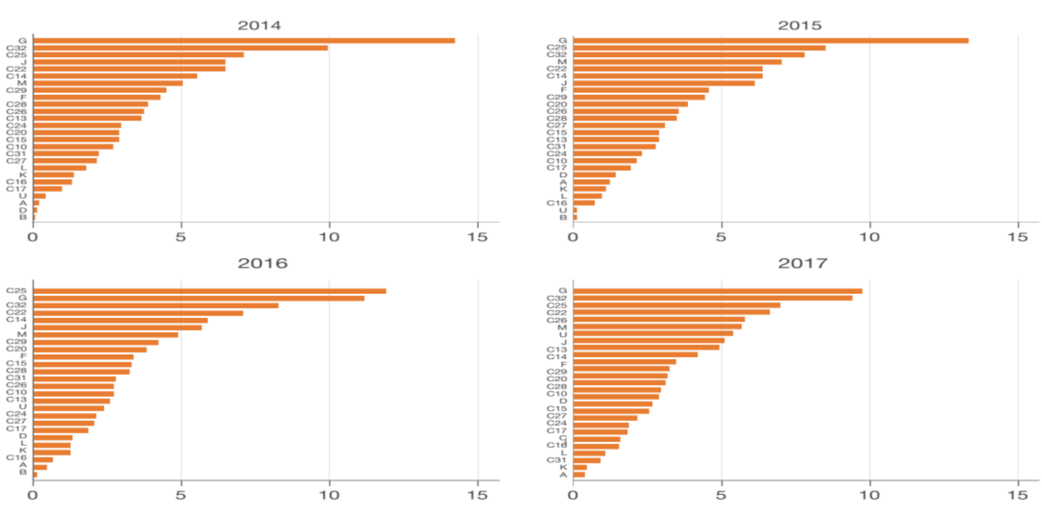
Legal Form



Registration as domestic company under Enterprise Law on the rise



A positive trend toward higher-value-added products among FIEs!



FIEs are mainly export-oriented

Question A14: Who are your customers?

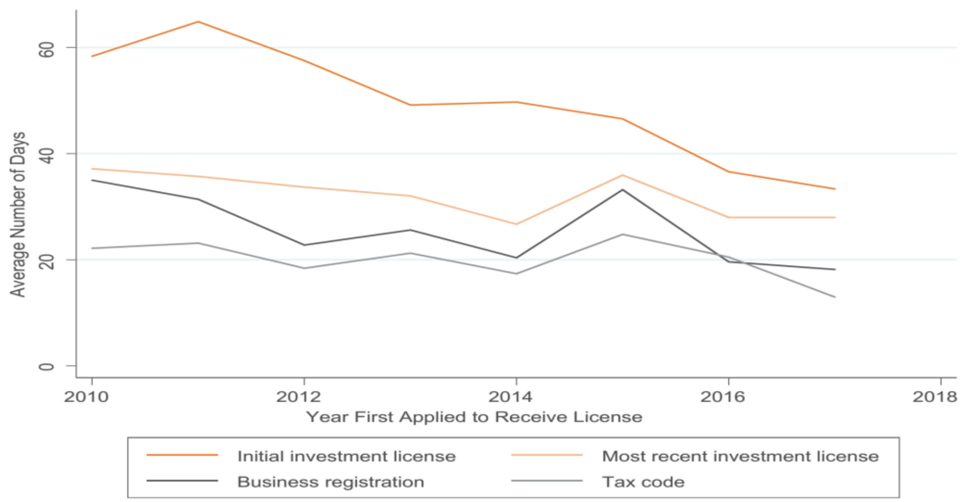
	Sales to Vietnamese State		Exports		Sales to Foreigners in Vietnam			Sales to Private Vietnamese		
Year	SOEs (%)	Agency (%)	Home (%)	Third Country (%)	Individual (%)	Both (%)	Enterprise (%)	Individual (%)	Both (%)	Enterprise (%)
2010	10.2	4.0	51.0	9.5		29.1			29.1	
2011	8.1	7.4	44.5	4.2		17.1			41.9	
2012	13.1	5.4	32.8	28.5		24.9			41.3	
2013	16.9	6.3	34.9	40.0		35.8			48.5	
2014	12.9	5.2	37.5	29.3		46.1			39.2	
2015	13.6	4.1	39.9	33.0		51.6			40.2	
2016	11.9	4.8	39.0	34.2	13.3		53.1	18.3		41.1
2017	10.7	4.3	33.7	26.6	11.6		56.0	18.3		41.0

FIEs' inputs are largely imported, but significantly declined in 2017

Question A16: Who are your suppliers of intermediate goods and services?

Year	State Owned Enterprise (%)	Private Firm (%)	Household Business (%)	In-House (%)	Home Country Businesses (%)	Third Party (%)
2010	13.5	53.6	12.8	7.4	28.3	34.0
2011	7.6	30.4	7.4	8.6	15.9	18.6
2012	5.6	43.1	4.8	6.6	39.7	24.5
2013	9.5	47.9	10.1	12.8	45.6	34.0
2014	11.5	62.6	15.9	8.3	55.5	34.8
2015	11.9	68.9	19.3	8.5	58.0	38.3
2016	12.1	68.5	18.4	9.9	58.7	39.0
2017	10.0	62.5	16.1	6.9	49.2	26.6

The time needed to complete entry procedures is on the decline



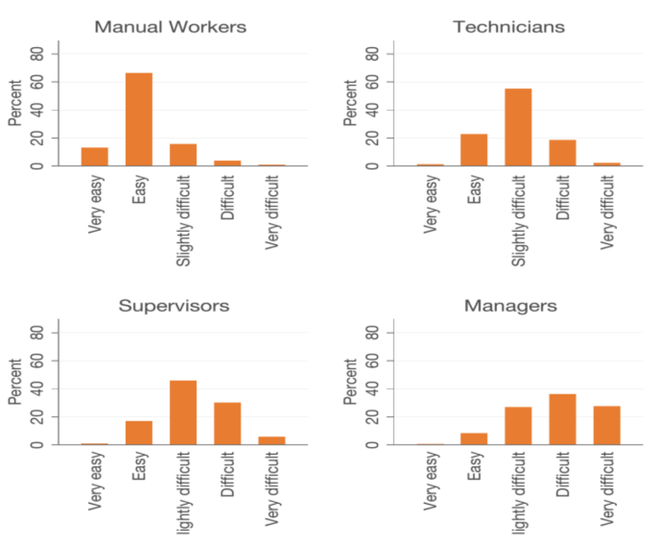
Burden of post-entry regulations in decline

Year	Over 5% of Time Spent on Bureaucratic Procedures (%)	Inspections (Median)	Harassment (8+ Inspections)	Days for Exports to Clear Customs (Median)	Days for Imports to Clear Customs (Median)
2010	56.6	2.00	6.3	1.00	2.00
2011	68.1	2.00	2.9	1.50	2.00
2012	79.4	2.00	2.9	2.00	2.00
2013	77.8	2.00	2.6	2.00	2.00
2014	70.2	2.00	3.3	1.00	2.00
2015	69.8	2.00	2.9	1.00	2.00
2016	71.9	2.00	4.6	1.00	2.00
2017	66.2	2.00	3.4	1.00	2.00

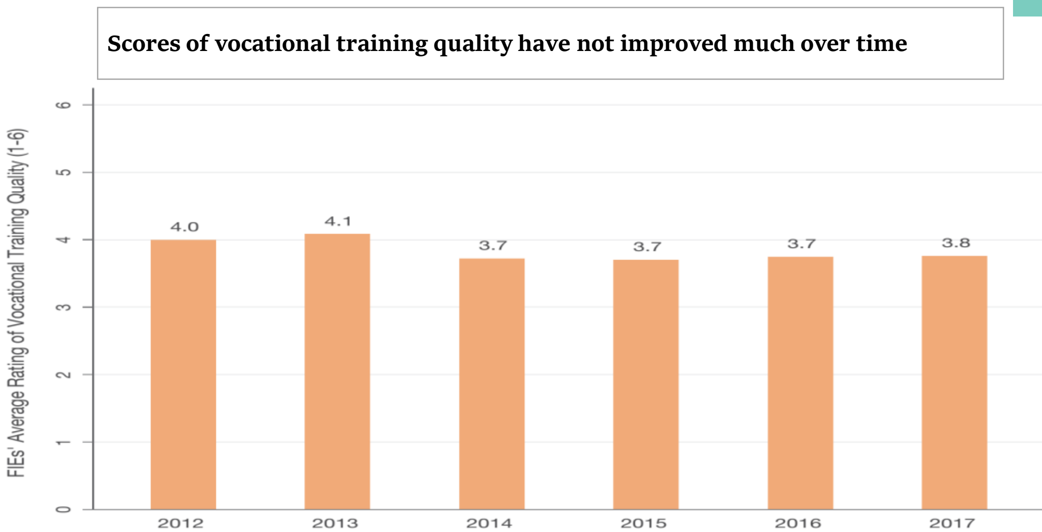
Informal charges on a downward trend

	Type of Informal Charge					
Year	Regulations are an Excuse for Bribery (%)	Paid informal charges to Inspectors (%)	Bribe during Customs Procedures (%)	Bribe during Land Procedures (%)	Bribes Were a Deterrent to Using Court's (%)	Service Delivered after Bribe Payment (%)
2010	32.0		64.9		9.3	48.0
2011	23.9		52.9		5.2	46.1
2012	24.2		56.2		13.1	54.7
2013	44.0		58.6		14.5	59.0
2014	59.9		66.2		21.9	58.2
2015	58.8		66.5		23.9	59.1
2016	49.7	45.8	56.4	22.6	18.7	45.3
2017	44.6	44.9	53.0	17.5	18.9	50.3

Difficulty in recruiting skilled employees



Only 31% FIEs are satisfied with labor quality



Labor relations have improved

	Experienced strikes/work stoppages (%)	Number of work days lost	Share of annual revenue lost due to strikes (%)	Considered workers' demands legitimate (%)	Accommodated workers' demands (%)
2014	9.0	2.0	3.0	80	
2017	4.9	1.5	3.1	62	92

Business confidence is growing!

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Percentage of firms planning to increase the size of operations over the next 2 years (%)