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LAUNCH OF THE 2020 VIETNAM PROVINCIAL COMPETITIVENESS INDEX (PCI)

## The 2020 Survey of Foreign Investors & Special Investigation into Environmental Regulations

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## WHO ANSWERS THE PCI-FDI SURVEY?



## WHAT ATTRACTS FOREIGN INVESTORS TO VIETNAM IN 2020?



## KEY FINDINGS IN THE 2020 PCI-FDI SURVEY

- Corruption and inspections down
- Import/Export procedures remain troublesome
- Tax procedures need improvement



## SPECIAL INVESTIGATION

Why do firms invest in Green Technologies?





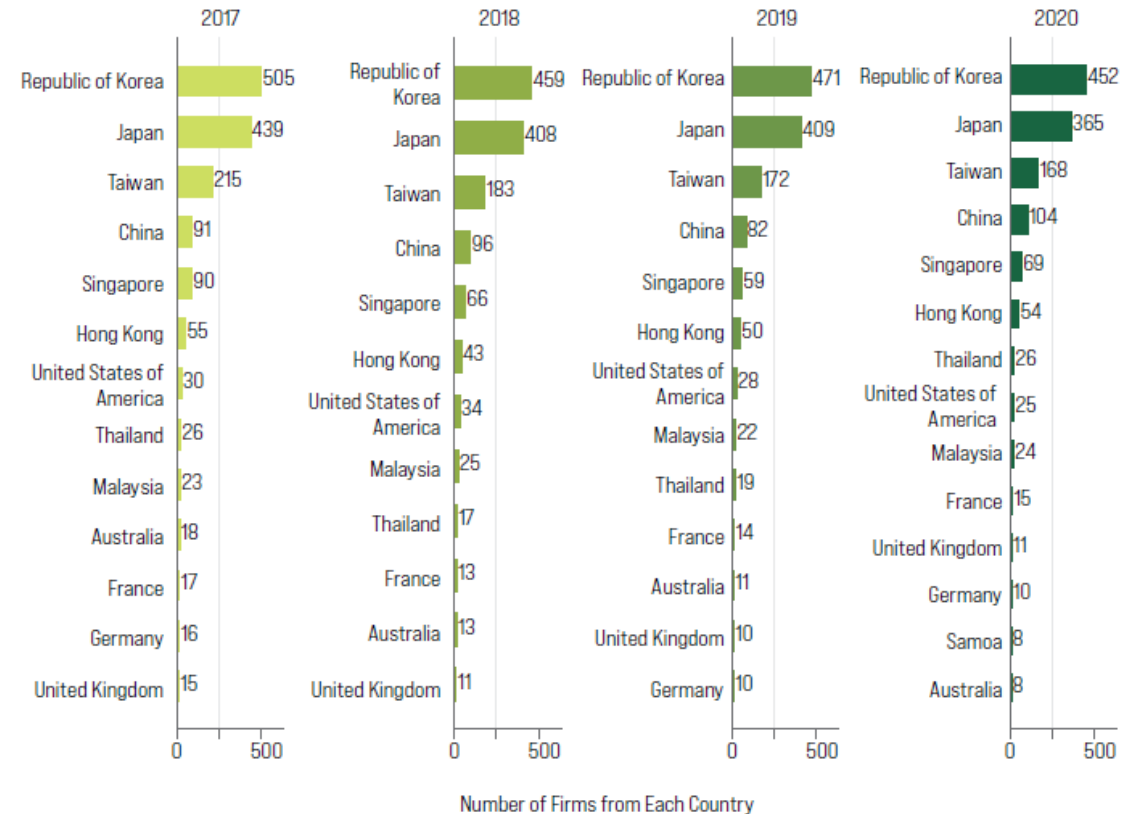
# 1

WHO ANSWERS  
THE PCI-FDI SURVEY?

# Who Answers the PCI-FDI Survey?

- Annual Survey from 2010 to 2020
- 1,564 foreign firms
  - 44 countries
  - 22 provinces with large enough investment to sample to analyze
- Representative samples by province and sectors
  - 34.5% Manufacturing
    - Metals, plastics, computers/electronics, garments
  - 28% Service/Commerce
    - Wholesale/retail, finance, education/health/labor
- Most investors are medium or small sized
  - 80% < 100 employees; 54% < 10 employees
  - 76% < US\$ 10M equity; 52% < US\$ 2.5 M equity
- 32% export home; 23% export to 3rd country
- 25% response rate
  - 50% when corrected for bad addresses
  - 70% of respondents are CEO or top manager

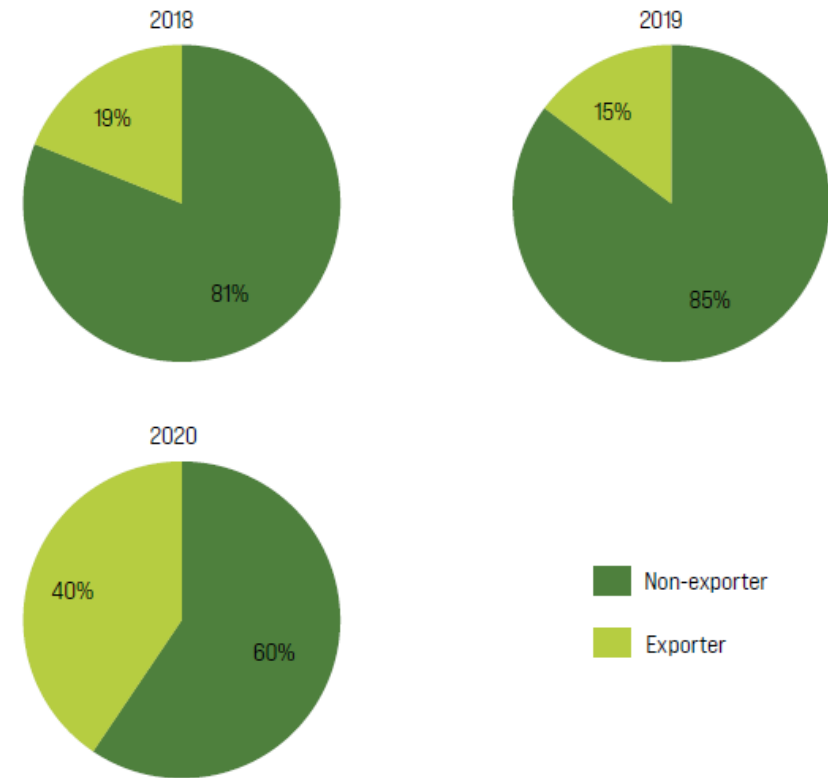
## Main Investors by Country of Origin



Source: PCI Survey 2020 Question A.9.2: "Which country is the official home of the multi-national company?"

# Share of Chinese Firms Exporting from Vietnam Jumped in 2020

Due to the US-China trade war, Vietnam has become an increasingly important link in the production chain before goods are exported to the United States, influencing the US-Vietnam bilateral trade surplus.



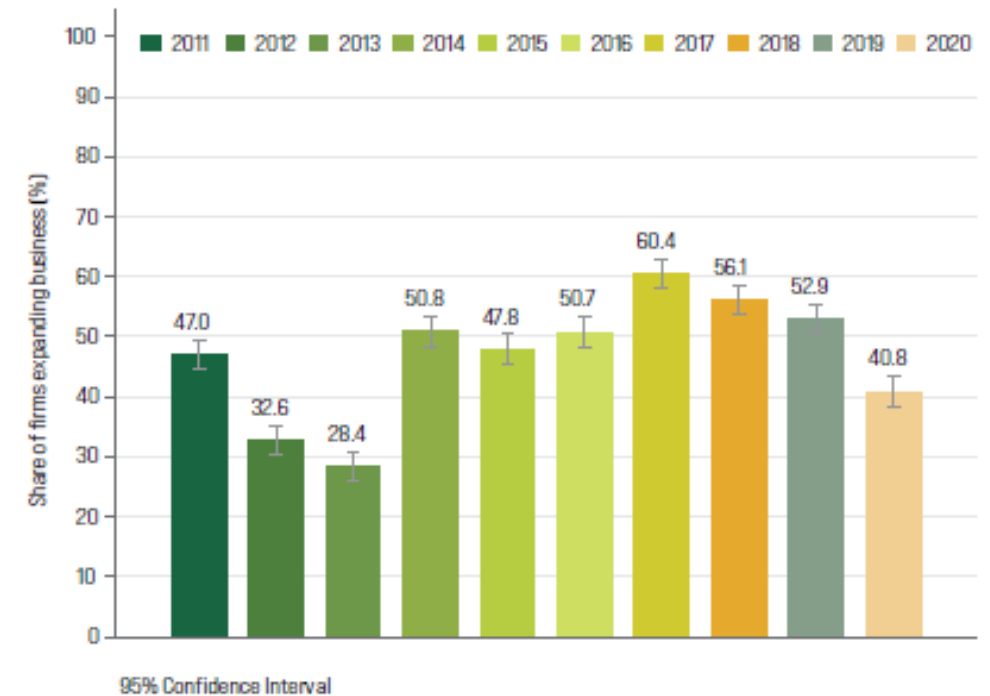
Source: PCI Survey 2020 Question A.14: "Who are your customers? Please check all that apply."

# Performance & Expectations of Foreign Investors Declined in 2020

## Investment and Sales over Time

Year	Firms Increasing Investment [percent]	Firms Adding Employees [percent]	Firms Reporting Profits [percent]	Firms Reporting Losses [percent]	Median Sales (2010 US\$, in Millions)	Median Expenditures (2010 US\$, in Millions)
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
2017	13.2	62.4	54.3	37.9	2.43	2.02
2018	11.8	58.2	53.1	36.7	2.57	2.20
2019	10.4	61.6	56.2	34.3	0.93	1.51
2020	8.4	55.0	42.6	47.1	0.67	1.28

## Business Thermometer over Time



Source: PCI Survey 2020 Question A.12: "Which statement best characterizes your firm's investment plans over the next 2 years?" Figure reports the percentage of firms who responded that they will increase or considerably increase operations.



# 2

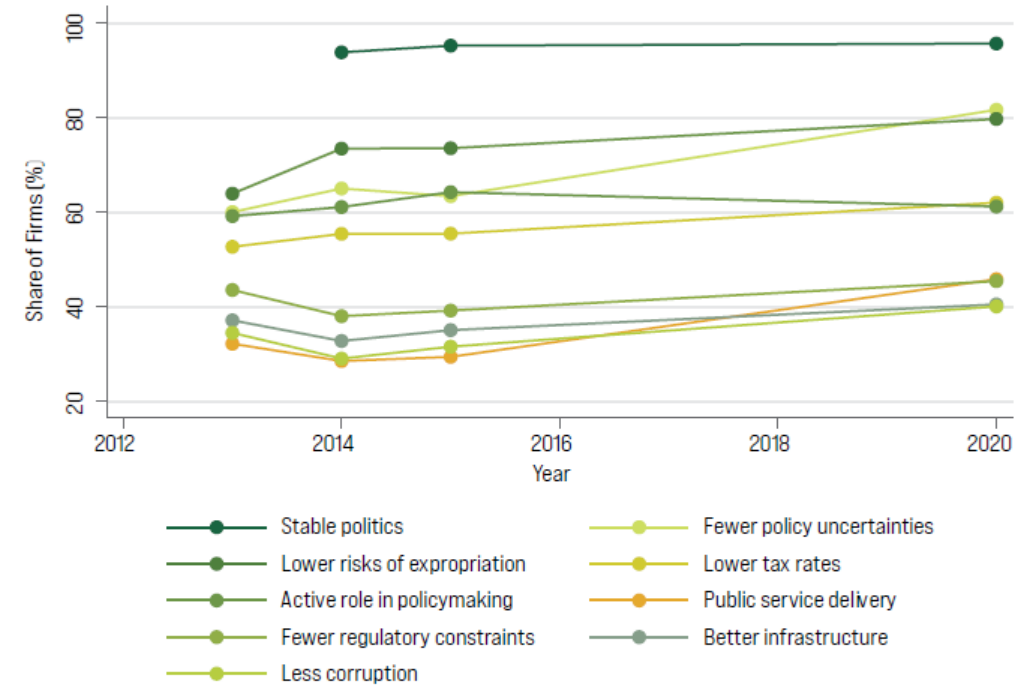
**WHAT ATTRACTS FOREIGN  
INVESTORS TO VIETNAM?**

# Reasons Foreign Investors Chose Vietnam over Competitors

## Perceptions Improving Almost Everywhere



## Change Rate Differs by Category



Source: PCI Survey (Multiple Years) Question B7a: "How would you compare the business environment in Vietnam to other countries in which you considered investing?"





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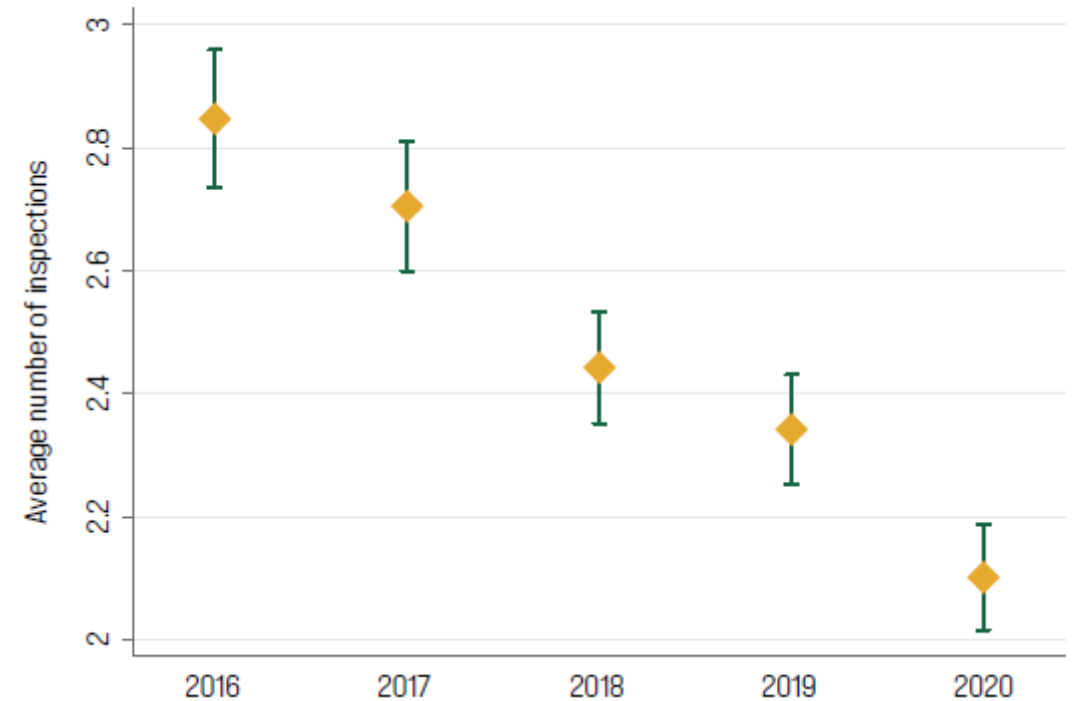
**KEY FINDINGS  
IN THE 2020 PCI-FDI SURVEY**

# Informal Charges and Inspections Continue to Decline

## Informal Charge by Type

Year	Regulations are an excuse for bribery (percent agree)	Paid informal charges to inspectors (percent agree)	Bribe paid during customs procedures (percent agree)	Bribe paid during land procedures (percent agree)	Bribes were a deterrent to using courts (percent agree)
2010	32.0		64.9		9.3
2011	23.9		52.9		5.2
2012	24.2		56.2		13.1
2013	44.0		58.6		14.5
2014	59.9		66.2		21.9
2015	58.8		66.5		23.9
2016	49.7	45.8	56.4	22.6	18.7
2017	44.6	44.9	53.0	17.5	18.9
2018	36.5	39.9	44.4	6.8	14.3
2019	33.7	32.5	42.5	10.0	14.9
2020	34.7	25.4	37.1	10.3	17.2

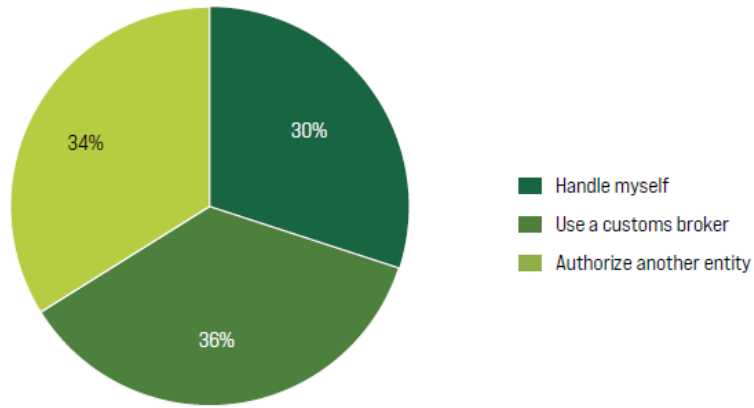
## Number of Inspections over Time



Source: PCI Survey 2020 Question D2.5: "How many total times was your business inspected/ examined in LAST YEAR?"

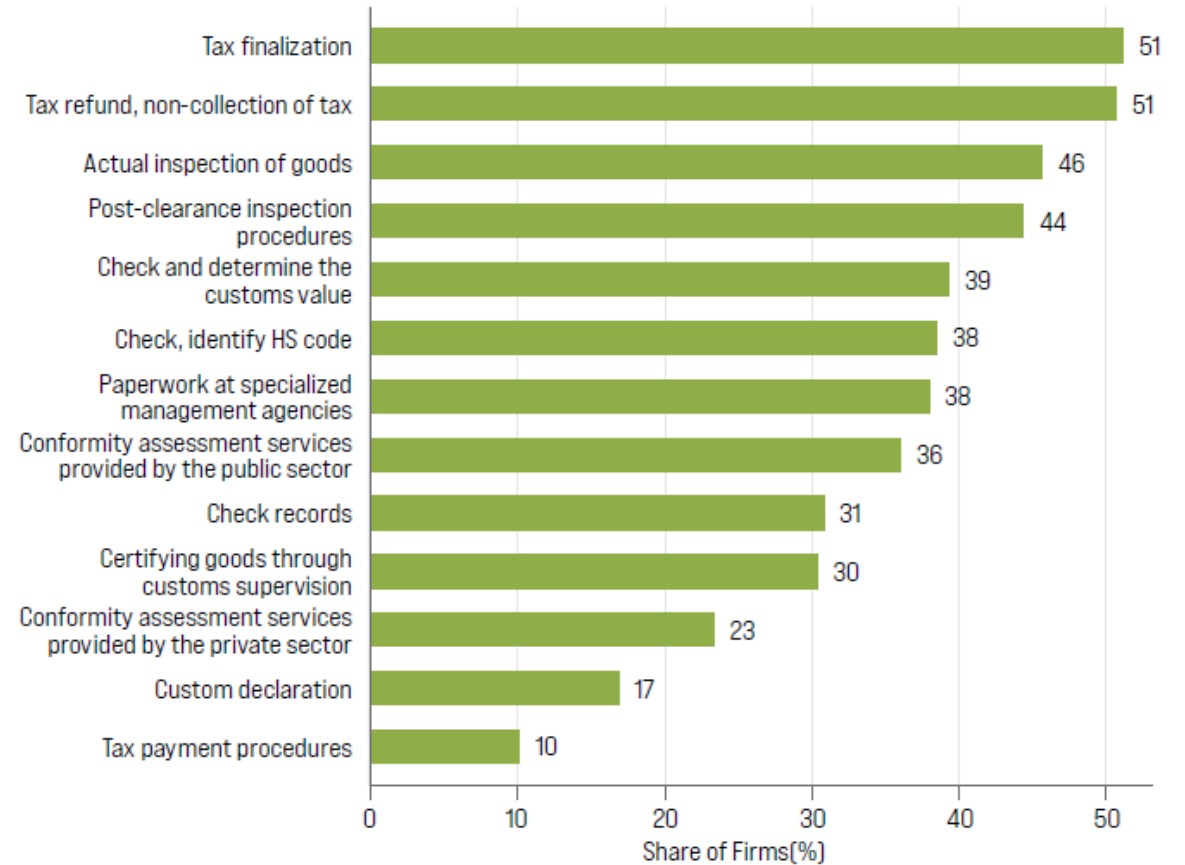
# Firms Facing Difficulties During Import/Export Procedures in 2020

## Who Completes Export Procedures?



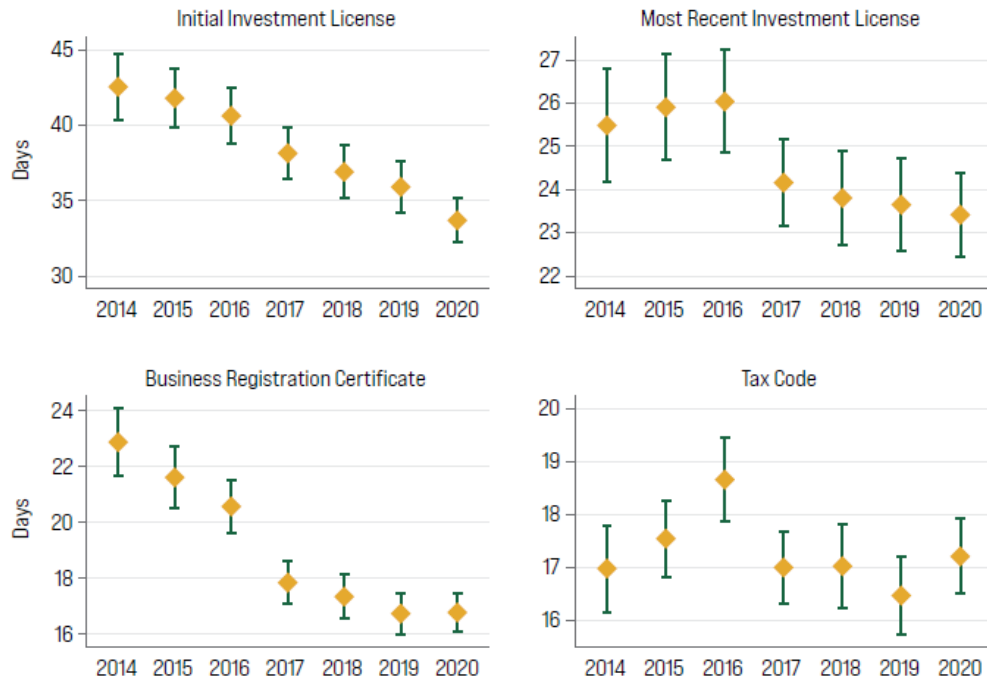
Source: PCI Survey 2020 Question D6.16.1: "Through which channel did you usually handle import/export procedures?"

## Critical Export/Import Hold-Ups



# Burden of Procedures Declining Except for Tax Activities

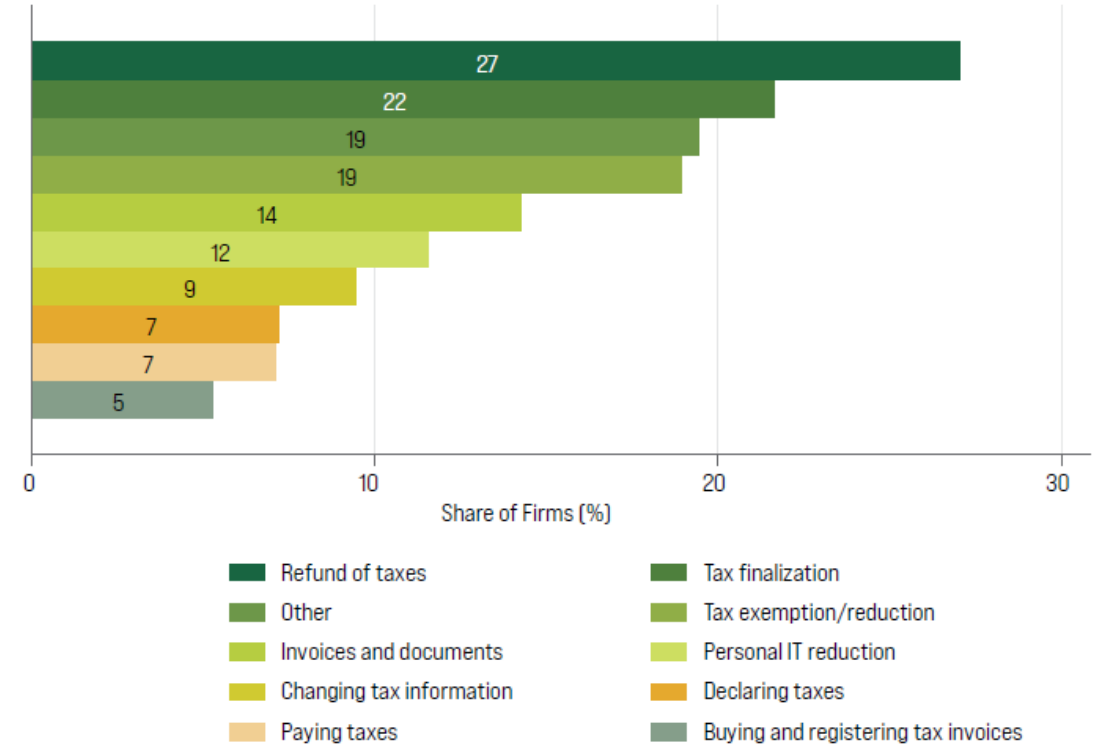
## Most Entry Procedures Declining



95% confident intervals

Source: PCI Survey (Multiple Years) Question B1: "From the day you submitted the application to the day you received it, how long did it take for you to receive your (Feel free to calculate months as 30 days and years as 365 days)"

## Troublesome Tax Procedures in 2020



Source: PCI Survey 2020 Question D1.3: "From your experience in doing tax administrative procedures, please indicate the troublesome issues? You can choose more than one."



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## **SPECIAL INVESTIGATION**

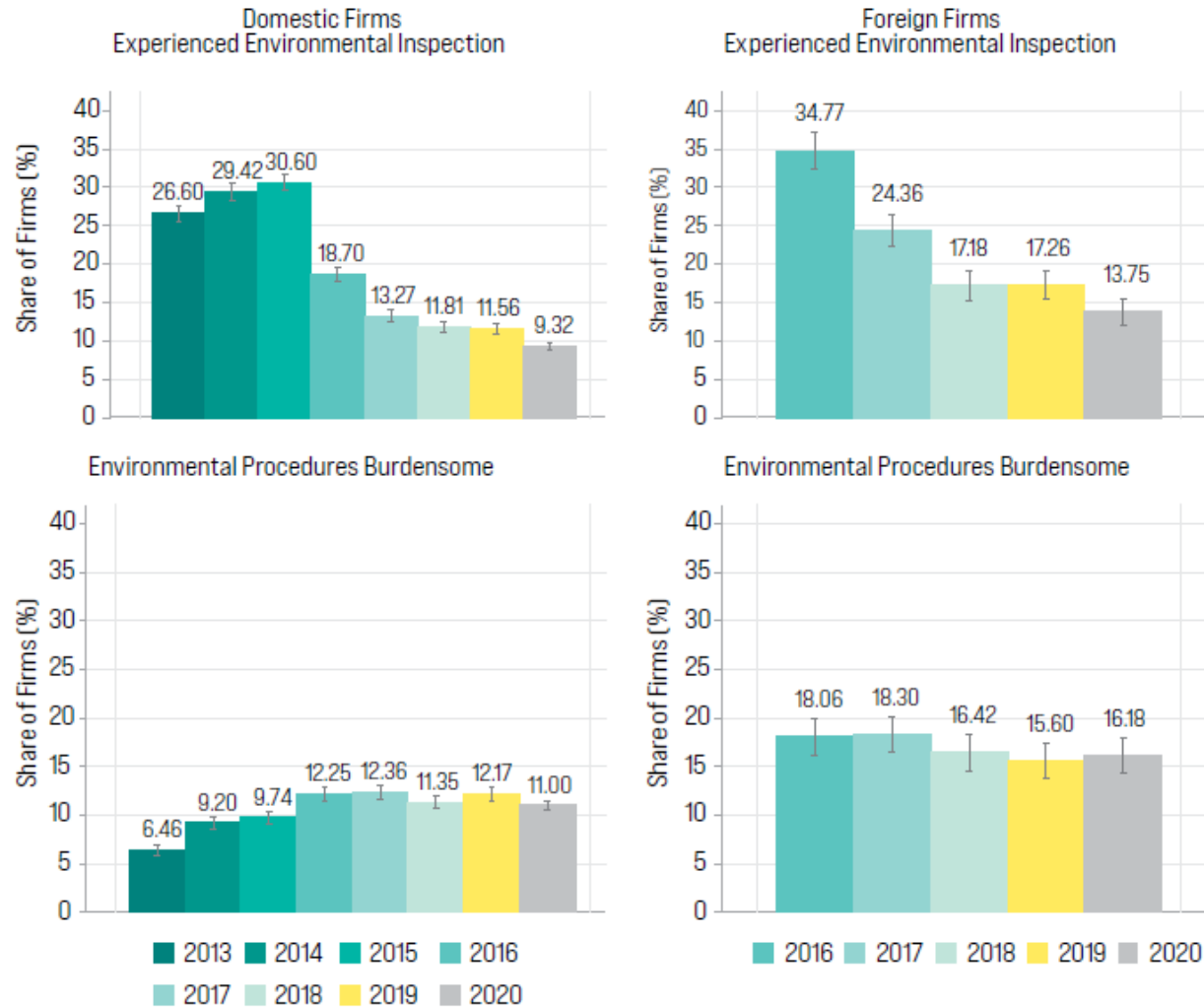
When Do Firms Invest in Green Technologies and Operations?

# The Trade-Off: Encourage Growth While Protecting Environment

- Faced by all emerging markets including Vietnam
- Clear recognition that businesses play central role in promoting clean growth and environmental action
- How do governments encourage businesses to upgrade equipment and operations?
- Vietnamese policy-makers recognize issue:
  - **Law on Environmental Protection** (December 2020)
  - **Vietnam Politburo Conclusion 56** on proactively responding to climate change, enhancing natural resource management and environmental protection (August 2019)
  - **Vietnam Politburo Resolution 50** to perfect institutions, policies, and improve the quality and efficiency of foreign investment cooperation to 2030 (August 2019)
    - Proportion of enterprises using advanced technology, modern management, and environmental protection measures must increase by 50 percent by the year 2025 and by 100 percent by 2030.
- Two general approaches:
  - **Regulatory pressure:** increased inspections and compliance criteria
  - **Social pressure:** governments publicize goals, but outsource monitoring to non-state actors and punishment to market.



# Regulatory Pressure Has Declined or Stayed Constant over Time



Source: PCI Survey 2020 Question D1.2 "From your experience in the province, please indicate the troublesome administrative procedures (Multiple choices);" D1.6 Please list the agencies that inspected and examined your firm in last year?"

## Randomly Assign Firms to Different Forms of Pressure

### *Form A*

#### Regulatory Pressure

The **national government** has announced **stricter environmental laws** (i.e. environmental impact assessments for new investment projects, compliance review of environmental regulations). These laws **involve high penalties**, including the withdrawal of firm's business license in case of violation.

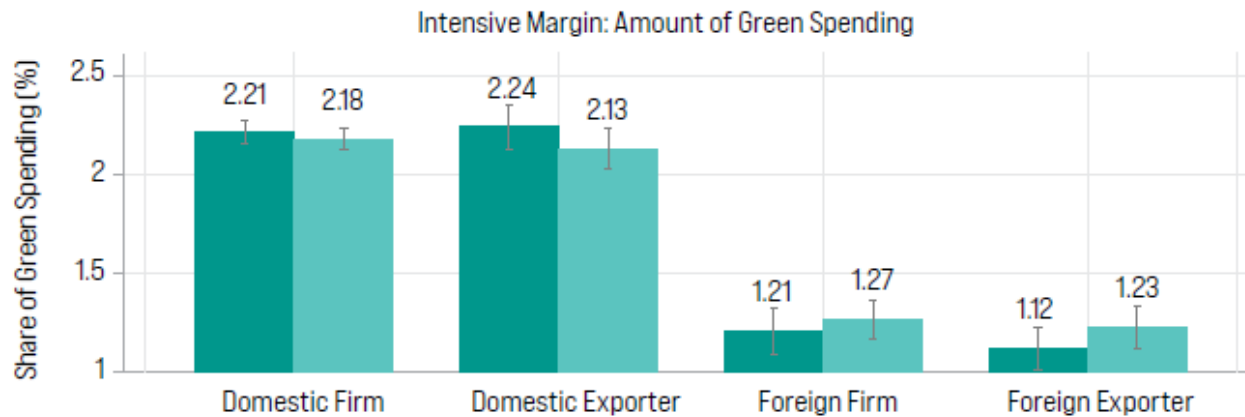
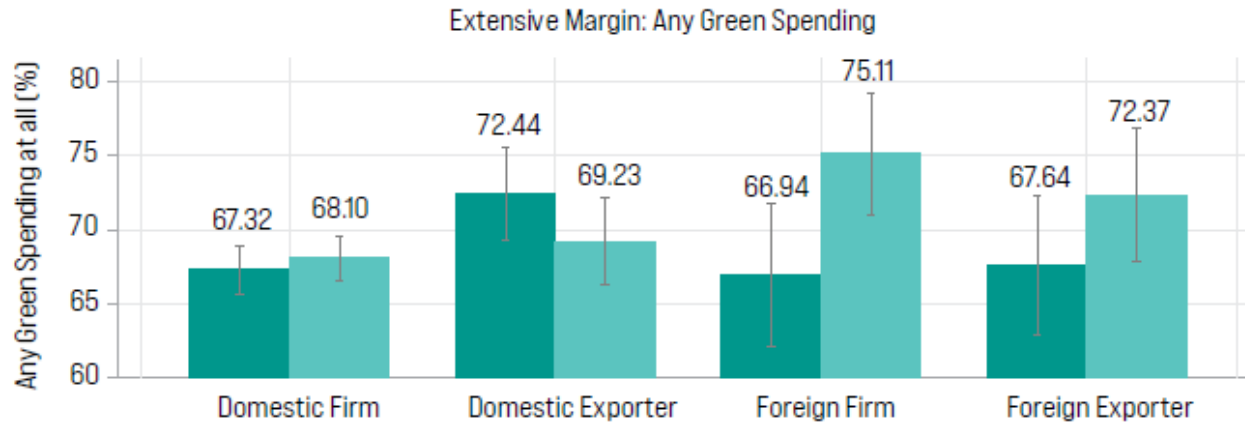
### *Form B*

#### Social Pressure

A **non-state organization** in Vietnam has begun to **publish a green list**, ranking individual firms on the size of their environmental impact and classifying firms (including SMES) as either green champions or dirty polluters. This ranking **will be released to customers**, who may make purchasing decisions based on a firm's environmental reputation.



# Effect of Pressure Depends on Ownership and Customers



Source: PCI Survey 2020 Question H3 "Based on this trend, please tell us the maximum amount of adjustments (as a share of operating costs) that you would be willing to make in order to make your company more environmentally friendly."

0 percent 
  1 to 2 percent 
  2 to 5 percent 
  5 to 10 percent 
  Over 10 percent

Range Bars=90% CIs; Domestic Firms (n=6,882); Domestic Exporters (n=1,750); Foreign Firms (n=804); Foreign Exporters (n=757)

■ Social Pressure 
 ■ Regulatory Pressure

## Summing Up

- What strategy works best for achieving goals set forth in Law on Environmental Protection?
- No one-size-fits-all approach
  - Foreign investors are more susceptible to intensive regulatory pressure.
  - No difference in the effects of the two approaches on domestic firms.
- Once we account for export orientation, we find that the most amenable policy targets for regulatory pressure are foreign firms who wish to sell in the Vietnamese domestic market.
  - These firms are both more visible and also more likely to engage in preemptive upgrading as a way of signaling to Vietnamese leaders that regulation is useful, and thereby also creating an entry barrier for domestic competitors and other foreign firms attempting to enter Vietnam.
- The best target for social pressure is Vietnamese domestic firms that wish to sell abroad.
  - They are concerned about selling to overseas consumers with potentially stronger environmental values.



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