

# PCI & PGI 2023

## Report

*Promoting a business-enabling  
and environmentally friendly  
investment climate*





Sức Xanh (Green Vitality) Artist: Pham An Hai



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**Primary Author and Lead Researcher**

Prof. Dr. Edmund J. Malesky

**Research Team**

Dau Anh Tuan

Pham Ngoc Thach

Le Thanh Ha

Tran Minh Thu

Phan Tuan Ngoc

Truong Duc Trong

Le Thi Hong Hanh

Nguyen Thi Le Nghia

Nguyen Le Ha

# FOREWORD

Vietnam has achieved remarkable successes in administrative reform and business climate enhancement over the years. This progress is attributable to the improvement of the legal framework, groundbreaking policies aimed at streamlining administrative processes and business regulations, and the delegation of licensing and investment project management to local authorities. The Provincial Competitiveness Index (PCI) plays a supportive role in these achievements. As a policy instrument, it assembles insights from the business community, nurturing a conducive atmosphere for grassroots-level reforms in the business environment. The empowerment of businesses to monitor and advocate for policy implementation represents two central pillars of the PCI. The PCI has been developed and implemented by the Vietnam Chamber of Commerce and Industry (VCCI) with assistance from the United States Agency for International Development (USAID) over nearly two decades.

In current times, an exemplary business investment climate is characterized not only by procedural efficiency but also by a commitment to green growth and sustainable development. During the COP26 Conference in Glasgow, Prime Minister Pham Minh Chinh announced the country's ambitious target to achieve net-zero emissions by 2050. This demonstrates the significant political dedication and determination of both the Party and the Government of Vietnam in promoting an economic transformation, thereby tackling pressing global challenges posed by climate change and environmental degradation. To this end, Vietnam has enacted numerous policies and regulations to foster a shift toward an economically sustainable model of growth that is marked by a reduction in carbon emissions.

The implementation of such critical policies and orientation by the Party and Government necessitates collaborative and proactive engagement of the business community. Consequently, since late 2022, VCCI has spearheaded the development of the Provincial Green Index (PGI). This index evaluates and ranks provinces' environmental policy from the perspective and behaviors of businesses to promote better business behavior and practices, including the application of new green technologies. It is fortuitous that this initiative has promptly received endorsement and support from private entities, USAID, and various relevant stakeholders.

Through the development and release of the PGI in tandem with the PCI, we hope that localities will persist in reforming their business environment and pay greater attention to environmentally responsive economic development. The 2023 PCI and PGI report is expected to provide state agencies at all levels with policy indications that are crucial to their policy formulation and managerial functions. Moreover, the report is envisaged to be an impetus for the local transition towards sustainable growth while offering a reference to investors

who contemplate engagements in environmentally sustainable projects, as well as to interested parties.

This year, we chose “Sức Xanh” (Green Vitality) by the renowned Vietnamese artist Pham An Hai as the cover art for the report, as it symbolizes our message and our faith in a vigorous transition towards an investment climate that not only fosters business growth but also prioritizes environmental sustainability.



Pham Tan Cong  
Chairman and President  
Vietnam Chamber of Commerce and Industry

# ACKNOWLEDGEMENTS

The 2023 Provincial Competitiveness Index (PCI) & Provincial Green Index (PGI) Report is a collaborative research product by the Vietnam Chamber of Commerce and Industry (VCCI) with assistance from the United States Agency for International Development (USAID) and private sector partners under the Provincial Green Index Initiative program. Conducted annually by VCCI, the report is designed to promote an enabling and environmentally friendly business landscape in Viet Nam.

The 2023 PCI & PGI Report was developed under the overall direction of Pham Tan Cong, Chairman and President of VCCI, Vice Chairman of the Prime Minister's Administrative Procedures Reform Advisory Council, and Dau Anh Tuan, Deputy General Secretary of VCCI, General Director of VCCI's Legal Department, and PGI Initiative Program Director. It also benefited from the important support of Aler Grubbs, USAID/Vietnam Mission Director. Additionally, Douglas Balko, Director of the Office of Governance and Economic Growth (OGEG), USAID/Viet Nam, Trevor Hublin, Deputy Director of OGEG, and Nguyen Thi Cam Binh, Program Management Specialist, USAID/Viet Nam, provided strong managerial support for the program.

Edmund Malesky, Professor of Political Economy at Duke University and Director of Duke's Center for International Development, led the development of the research methodology for the PCI and the new Provincial Green Index (PGI) and was the author for the presentation of its analytical findings. Pham Ngoc Thach, Deputy Director of VCCI's Legal Department, led the PCI data collection, index construction and data analysis, and authored the initial versions of Chapter 1. Truong Duc Trong, expert from the Legal Department supported all data processing and data analysis. Dr. Phan Tuan Ngoc, Lecturer at Fulbright University Vietnam, penned Chapter 3. Nguyen Duc Lam, independent expert, contributed an environmental policy review to Chapter 2.

The entire process of the PCI & PGI survey and research would not have been possible without the support of and coordination by an extremely competent PGI research team. Le Thanh Ha, Division Head, VCCI's Legal Department oversaw the survey process. Tran Minh Thu, PGI Program Manager, managed the PGI research and report schedule and outputs. Renate Kwon, freelance copyeditor, improved the English version of the report with excellent copyediting. The 2023 PCI & PGI report was based on a high-quality survey, implemented by over fifty students under the management and coordination of Nguyen Le Ha and Ngo Khanh Huyen at VCCI. The survey process and report development were effectively supported by Le Thi Hong Hanh, Nguyen Thi Le Nghia, Vu Ngoc Thuy, and Nguyen Thi Thu Thuong from VCCI.

This year, we would like to express our gratitude to Pham An Hai, a Vietnamese painter, for giving us permission to use his painting “Sức Xanh” (Green Vitality) as the cover art of this year’s report and the theme for the report launch event.

Special thanks go to our team whose contributions have been very important to the development and refinement of the PCI over the years and this year’s PGI, and who have made efforts to spread the PCI findings. These individuals include Madam Pham Chi Lan, Senior Economist and former member of the Prime Minister’s Advisory Board; Dr. Vu Tien Loc, former Chairman of VCCI and the Chairman of Vietnam International Arbitration; Tran Huu Huynh, former Chairman, Vietnam International Arbitration; Dr. Le Dang Doanh, Senior Economist and former member of the Prime Minister’s Advisory Board; Dr. Nguyen Dinh Cung, member of the Prime Minister’s Economic Advisory Panel and former Director of the Central Institute for Economic Development (CIEM), Ministry of Planning and Investment; Prof. Dr. Tran Dinh Thien, member of the Prime Minister’s Economic Advisory Panel and former Director of the Vietnam Institute of Economics at the Vietnam Social Sciences Academy; Phan Duc Hieu, Standing Member, Economic Committee, 15th National Assembly; Dr. Nguyen Minh Phong, Vice Director, Communication and Theory Committee, People’s Newspaper; Hoang Thi Lan Anh, Deputy Director, Modernization and Reform Committee, General Tax Department, Ministry of Finance; the late Prof. Dr. Nguyen Van Thang, Sustainable Development Institute, National Economics University; Dr. Doan Hong Quang, Senior Economist, The World Bank Viet Nam; Nguyen Thi Cuc, former Deputy Director of the General Tax Department, Ministry of Finance, Chairman of Vietnam Association of Tax Consultants; Nguyen Cao Cuong, Chief Editor, TheLeader [Online Magazine]; Tran Thi Lan Anh, Secretary-General cum Director General of Bureau for Employers’ Activities, VCCI; Dr. Luong Minh Huan, Director, Business Development Institute, VCCI; Tran Ngoc Liem, Director, VCCI Ho Chi Minh City; Nguyen Tien Quang, Director, VCCI Central-Central Highlands; Nguyen Phuong Lam, Director, VCCI Mekong Delta; Do Dinh Hieu, Director, VCCI Thanh Hoa-Ninh Binh; Dang Thi Thu Nguyet, Chief Representative, VCCI Khanh Hoa; Nguyen Huu Truong, Chief Representative, VCCI Binh Thuan; Nguyen Huu Thap, Chairman, Tuyen Quang Province Business Association; Nguyen Van Thoi, Chairman, Thai Nguyen Province Business Association; Duong Trong Khang, Secretary General, Vinh Phuc Province Business Association; Vu Thi Kim Chi, Deputy Director, Quang Ninh Department of Science and Technology; Dr. Nguyen Phuong Bac, Director, Bac Ninh Institute of Socioeconomic Studies; Dr. Le Duy Binh, Director and Pham Tien Dung, Deputy Director, Economica Vietnam; Nguyen Ngoc Anh, Director, Development and Policies Research Center (DEPOCEN); Dang Hong Hanh, Co-Founder - Managing Director, Energy and Environment Consulting Joint Stock Company (VNEEC); Cung Trong Cuong, Director, Thua Thien Hue Institute of Development Research; Nguyen Sy Linh, Expert, Institute of Strategy and Policy on Natural Resources and Environment, and many other experts from provinces, cities, research institutes, associations, and businesses that we cannot list here.



Our sincere thanks to Suntory PepsiCo Vietnam Beverage and Pharmacity for their partnerships with the PGI Initiative program in 2023.

Last, but not least, we would like to thank businesses for spending their valuable time to answer the 2023 Business Environment survey in a complete, candid, and objective way. Your inputs are crucial to the PCI & PGI report, as they help us capture the business environment to inform a broad spectrum of policy making, thereby bringing about benefits for the sustainable development of the business community.

The opinions expressed herein are the authors' own and do not necessarily reflect the views of the Viet Nam Chamber of Commerce and Industry (VCCI) and the U.S. Agency for International Development, the United States Government, the aforementioned individuals, or their agencies.

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# Table of Contents

## CHAPTER 01

### The Domestic Survey and the Provincial Competitiveness Index

05	Foreword	34	Introduction
07	Acknowledgements	37	Provincial Economic Governance and the 2023 Provincial Competitiveness Index Results
19	Executive summary	43	Key Features of Provincial Economic Governance over Time
		62	Major Challenges Faced by Businesses
		69	Business Thermometer
		72	Conclusion



## CHAPTER 02

### The 2023 Provincial Green Index

- 78 Summary of Main Findings
- 90 Legal Foundations of the PGI
- 93 PGI Methodology
- 122 The Provincial Green Index (PGI)
- 128 Relationship between Policy Inputs and Climate/Pollution Outputs
- 134 APPENDIX A: Comparing Survey and Administrative Indicators
- 136 APPENDIX B: Full Regression Results

## CHAPTER 03

### The Foreign Investment Survey

- 140 Introduction
- 141 Foreign-Invested Enterprises (FIEs) in 2023
- 152 U.S. Foreign-Invested Enterprises
- 165 PRC (People's Republic of China) Foreign-Invested Enterprises
- 173 Japanese Foreign-Invested Enterprises
- 183 Conclusion



## LIST OF FIGURES

Figure 1.1. Characteristics of private firm respondents in the 2023 survey.....	36
Figure 1.2. Box Plots of the Aggregate PCI and Core Index over Time (2016-2023) .....	39
Figure 1.3. PCI 2023 Map .....	40
Figure 1.4. Thirty provinces and cities having the best economic governance quality in 2023 (Top 30) .....	41
Figure 1.5. Scores of 10 PCI Subindices between 2021-2023.....	43
Figure 1.6. Some Indicators of Informal Charges .....	48
Figure 1.7. Troublesome Administrative Areas .....	56
Figure 1.8. Difficulties Encountered by Firms when Implementing Land-Related Administrative Procedures.....	58
Figure 1.9. Some Indicators of Proactivity.....	61
Figure 1.10. Difficulties in Access to Financing in 2023 by Business Characteristics .....	65
Figure 1.11. Business Thermometer over Time .....	70
Figure 1.12. Domestic Business Thermometer by Characteristics .....	72
Figure 2.1. Final Provincial Green Index .....	80
Figure 2.2. Better Green Governance Reduces Pollution.....	81
Figure 2.3. Resilience Policies Reduce the Costs of Climate Disasters .....	82
Figure 2.4. Regulatory Standards Reduce Nitrogen Dioxide in Air .....	83
Figure 2.5. Green Leadership and Assistance Aids Reductions in Pollution .....	84
Figure 2.6. Incentives and Support Services Remain Relatively Low Across Vietnamese Provinces.....	86
Figure 2.7. Pollution Levels Correlate with Local Latitudes .....	87
Figure 2.8. Exporters Are More Likely to Spend on Green Improvements .....	88
Figure 2.9. Subindex 1 - Pollution & Disaster Resilience .....	100
Figure 2.10. Subindex 2 - Regulatory Standards.....	105
Figure 2.11. Green Upgrades of Domestic Firms.....	109
Figure 2.12. Green Upgrades of Foreign Firms .....	109

Figure 2.13. Greening of Operations is Faster for Foreign Firms .....	111
Figure 2.14. Exporters Were More Likely to Spend for Green Improvements .....	112
Figure 2.15. Differing Motivations by Ownership and Export Orientation.....	115
Figure 2.16. Subindex 3 - Leadership & Assistance .....	116
Figure 2.17. Green Firms are Predominantly in Architecture and Engineering.....	119
Figure 2.18. Subindex 4 - Incentives & Support Services .....	121
Figure 2.19. Provincial Green Index Ranking .....	123
Figure 2.20. Range Bars and Rankings for all Four Subindices .....	125
Figure 2.21. Provincial Green Index Dashboard (Top 30) .....	126
Figure 2.22. Strong Agreement in Evaluation of Foreign and Domestic Respondents .....	127
Figure 2.23. Pollution Levels Correlate with Local Latitudes .....	130
Figure 2.24. Central Provinces Experience More Costly Disasters.....	130
Figure 2.25. Better Green Governance Reduces Pollution.....	132
Figure 2.26. Subindices Correlated with Different Pollutants and Issues .....	133
Figure 2.27. Correlation and Predictions from Hard and Soft Indicators .....	135
Figure 3.1. PCI-FDI Business Thermometer over Time.....	143
Figure 3.2. BES-FDI Business Thermometer, by Exporter Status.....	144
Figure 3.3. BES-FDI Business Thermometer, by Province.....	145
Figure 3.4. Sectoral Composition of FIEs.....	147
Figure 3.5. FIEs' Countries of Origin.....	150
Figure 3.6. Burdensome Administrative Procedures .....	152
Figure 3.7. Employment and Equity Size: U.S. FIEs vs. Others.....	154
Figure 3.8. Sectoral Composition: U.S. FIEs vs. Others .....	155
Figure 3.9. Geographical Distribution: U.S. FIEs vs. Others .....	156
Figure 3.10. Customer and Supplier Profile: U.S. FIEs vs. Others .....	157
Figure 3.11. Biggest Obstacles while Operating in Vietnam: U.S. FIEs vs. Others .....	158
Figure 3.12. Burdensome Administrative Procedures: U.S. FIEs vs. Others.....	159
Figure 3.13. Evaluation of Provincial Government's Dynamism: U.S. FIEs vs. Others.....	160

Figure 3.14. Whether Local Labor Quality Meets the Firm's Needs: U.S. FIEs vs. Others .....	161
Figure 3.15. Difficulty in Recruitment: U.S. FIEs vs. Others .....	162
Figure 3.16. Labor Cost Relative to Total Expenditures .....	163
Figure 3.17. Labor Cost: Regression Results .....	164
Figure 3.18. Percentage of Workers Staying Beyond One Year .....	165
Figure 3.19. Employment and Equity Size: PRC FIEs vs. Others .....	167
Figure 3.20. Sectoral Composition: PRC FIEs vs. Others.....	168
Figure 3.21. Sectoral Composition of PRC FIEs: Pre vs. Post-Trade War .....	169
Figure 3.22. Geographical Distribution: PRC FIEs vs. Others.....	170
Figure 3.23. Customer and Supplier Profile: PRC FIEs vs. Others.....	171
Figure 3.24. Biggest Obstacles while Operating in Vietnam: PRC FIEs vs. Others.....	172
Figure 3.25. Burdensome Administrative Procedures: PRC FIEs vs. Others .....	173
Figure 3.26. Employment and Equity Size: Japanese FIEs vs. Others .....	175
Figure 3.27. Sectoral Composition: Japanese FIEs vs. Others.....	176
Figure 3.28. Geographical Distribution: Japanese FIEs vs. Others.....	177
Figure 3.29. Customer and Supplier Profile: Japanese FIEs vs. Others.....	178
Figure 3.30. Biggest Obstacles while Operating in Vietnam: Japanese FIEs vs. Others.....	179
Figure 3.31. Burdensome Administrative Procedures: Japanese FIEs vs. Others .....	180
Figure 3.32. Difficulties with Specific Tax Procedures: Japanese FIEs vs. Others .....	181
Figure 3.33. Difficulties with Recruitment: Japanese FIEs vs. Others .....	182

## LIST OF TABLES

Table 1.1. Some Indicators of Business Support Policy over the Years.....	44
Table 1.2. Some Indicators of Informal Charges over the Years.....	49
Table 1.3. Some Indicators of Market Entry over the Years .....	51
Table 1.4. Some Indicators of Time Cost over the Years.....	54
Table 1.5. Some Indicators of Land Access over the Years.....	57
Table 1.6. Some Indicators of Policy Bias over the Years.....	59
Table 1.7. Some Indicators of Proactivity over the Years.....	62
Table 1.8. Major Challenges Faced by Firms.....	64
Table 1.9. Issues Faced by Firms When Accessing Bank Loans, 2018-2023.....	66
Table 1.10. Challenges Faced by Firms When Accessing Bank Loans in 2023, by Business Sector .....	67
Table 2.1. Summary of Indices and Indicators in PGI.....	96
Table 2.2. Indicator Scores for Subindex 1 - Pollution & Disaster Resilience.....	99
Table 2.3. Indicator Scores for Subindex 2 - Regulatory Standards .....	104
Table 2.4. Indicator Scores for Subindex 3 - Leadership & Assistance.....	107
Table 2.5. Indicator Scores for Subindex 4 - Incentives & Support Services.....	120
Table 2.6. Top 5 Provinces in Each PGI Subindex .....	123
Table 2.7. PGI Significantly Associated with Reductions in Nitrogen Dioxide.....	136
Table 2.8. Different Sub-Indices Associated with Improvement in Different Pollutants ...	137
Table 3.1. Performance of Foreign Firms Over Time .....	142
Table 3.2. Size of Foreign Firms Over Time.....	146
Table 3.3. Customers of FIEs (percent with at least one customer) .....	148
Table 3.4. Suppliers of FIEs (percent with at least one vendor) .....	149
Table 3.5. Post-Entry Regulations for FIEs .....	151

## ABBREVIATIONS AND ACRONYMS

AP	Administrative procedures
ASEAN	Association of Southeast Asian Nations
BE	Business Environment
BRVT	Ba Ria - Vung Tau
BVND	Billion Vietnamese Dong
CIT	Corporate Income Tax
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CSP	Comprehensive Strategic Partnership
EPR	Extended Producer Responsibility
EVFTA	E.U.-Vietnam Free Trade Agreement
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSO	General Statistics Office
HCMC	Ho Chi Minh City
IZ	Industrial Zone
JETRO	Japan External Trade Organization
LEP	Law on Environmental Protection
LNG	Liquefied Natural Gas
LURC	Land Use Right Certificate
MNC	Multinational Corporation
MOF	Ministry of Finance
MONRE	Ministry of Natural Resources and Environment
NE	Northeast
PGI	Provincial Green Index



PII	Provincial Innovation Index
PM	Particulate Matter
PPD	Public-private Dialogue
PRC	People's Republic of China
SBV	State Bank of Vietnam
SME	Small and Medium-sized Enterprise
SOE	State-owned Enterprises
SW	Southwest
USAID	United States Agency for International Development
VCCI	Vietnam Chamber of Commerce and Industry
VND	Vietnamese Dong





# Executive Summary



## The 2023 Provincial Competitiveness Index (PCI) & Provincial Green Index (PGI) Report

The 2023 PCI & PGI Report is a collaborative research product, conducted annually by VCCI with assistance from the United States Agency for International Development (USAID) and private sector partners, to promote an enabling and environmentally friendly business climate in Viet Nam, under the Provincial Green Index Initiative program.

The PCI is designed to assess the ease of doing business, the quality of economic governance, and the effectiveness of administrative reform efforts in 63 provinces and municipalities in Vietnam. This is the first edition of the PCI report under the PGI Initiative Program and is based on a rigorous survey of the perceptions of domestic and foreign firms – the business environment survey. The PCI strives to augment the collective voice of investors in Vietnam regarding economic governance in provinces where they invest and in the country as a whole.

This year, we present the second reiteration of the Provincial Green Index (PGI) in Chapter 2. Last year's inaugural PGI was initiated by VCCI and USAID to assess environmental protection in Vietnam's growth trajectory. Like its cousin, the PGI aggregates the perception of businesses into a common voice to communicate their views on environmental policy to national and local decision-makers.

This Executive Summary is divided into two main sections. In the first section, we describe the seven surveys and datasets that we use to create the Index and analyze governance reforms in Vietnam. As the PCI has grown, we have added more precise research tools. While examining the report, readers often conflate these very different sources of information. We delineate our data sources and the purposes for which we use them. In the second section, we present our primary research products. Over time, PCI research has diversified beyond our signature index of economic governance for private firms. Each year, we also survey foreign investors, measure business confidence, rank provincial infrastructure improvements, and pursue one particular critical research topic.

### I. The Business Environment Survey (BES) and Datasets Used in Research

Analysis in the report is based on seven datasets that the BES collects and adds to each year as part of its research enterprise:

- **Annual survey of over 8,000 existing domestic private businesses.** In 2023, 8,402 domestic private firms in all 63 provinces answered the full survey. Firms are selected using random sampling to mirror provincial populations. Stratification is used to

make sure that firm age, size, legal type, and sector are accurately represented. The adjusted response rate for the survey is 16.53 percent. In previous iterations, the response rate has been higher but it has been much harder to motivate participation this year, due to business struggles among SMEs in the post-COVID environment, it has been much harder to motivate participation. Throughout the report, we refer to these data as the “Business Environment Survey” (BES).

- **Annual survey of newly established enterprises.** This year, we identified 10,892 businesses in all 63 provinces that started operations in 2022 and 2023. Among these new entrants, enumerators were able to verify the locations and contact information of 5,813 firms. From this subgroup, 725 responded, leading to an overall response rate of 12.47 percent. The research teams use these answers exclusively to calculate the first PCI subindex on experiences with business registration and licensing. In the report, we call this the “New Business Survey.”
- **Annual survey of more than 1,500 foreign-invested enterprises (FIEs).** This section reports on data collected from 51 provinces, with a focus on 25 provinces and cities with the highest concentration of foreign direct investment (FDI). These firms are also selected using stratified random sampling. The adjusted BES-FDI response rate is 26.7 percent, which is extremely high for research published in high-quality refereed management journals.<sup>i</sup> The survey includes 1,549 FIEs from 54 different countries and territories. The highest concentration is businesses from Asia, especially South Korea (28.8 percent), Japan (23.0 percent), and China (10.4 percent). We refer to this throughout as the “BES-FDI.”
- **Provincial-level panel data on 63 provinces between 2006 and 2023.**<sup>ii</sup> This dataset records average levels of 360 measures of economic governance and business performance since the beginning of the PCI for each province. The research teams use these data to track progress over time on governance reforms and the economic outcomes of those endeavors. We refer to this throughout as “PCI panel data.”
- **Core PCI dataset.** These are data collected for each respondent of the PCI domestic survey between 2006 and 2023. These data contain 160,809 individual responses to questions asked in the annual PCI survey. Over 1,078 unique variables are covered.

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i Anseel, F., Lievens, F., Schollaert, E., & Choragwicka, B. (2010). Response rates in organizational science, 1995–2008: A meta-analytic review and guidelines for survey researchers. *Journal of Business and Psychology*, 25(3), 335–349; Mellahi, K., & Harris, L. C. (2016). Response rates in business and management research: An overview of current practice and suggestions for future direction. *British Journal of Management*, 27(2), 426–437.

ii In statistics and econometrics, panel data or longitudinal data are multi-dimensional data involving measurements over time. Panel data contain observations of multiple phenomena obtained over multiple time periods for the same provinces or respondents.

- **Core BES-FDI dataset.** This covers data for each respondent of the BES-FDI survey between 2010 and 2023. These data contain 21,003 individual FIEs' answers to over 160 questions asked in the annual BES-FDI survey.
- **Panel data on domestic, private firms.** Panel data are taken from a small sample of Vietnamese firms that have answered the PCI every year since 2006.

## II. Research Outputs

Each year, the PCI & PGI research report delivers intellectual products to assist Vietnamese businesses, policy-makers, local government officials, development practitioners, and academic researchers. Below, we describe each of the outputs and the key findings for 2023.

- The Signature Provincial Competitiveness Index (PCI).** Since 2005, this index has ranked Vietnam's 63 provinces based on economic governance areas that affect private sector development. In the 2023 PCI, we present the top 30 provinces in economic governance (see Figure 1.4 in Chapter 1).
  - What does the index measure? The overall PCI index score comprises ten subindices. A province that is considered as performing well on the PCI is one that has: 1) low entry costs for business start-ups; 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 requirements for bureaucratic procedures and inspections; 6) minimal crowding out of private activity from policy biases toward state, foreign, or connected firms; 7) proactive and creative provincial leadership in solving problems for enterprises; 8) high-quality business support services; 9) sound labor training policies; and 10) fair and effective legal procedures for dispute resolution and maintaining law and order.
  - How is the index created? The index is produced in a three-step sequence, referred to as the "three Cs": 1) **c**ollect business survey data and published data sources, 2) **c**alculate ten subindices and standardize them on a 10-point scale, and 3) **c**alibrate the composite PCI as the weighted mean of ten subindices with a maximum score of 100 points.
  - How does the index address changes in economic reform policies? To ensure the PCI reflects recent changes in the business environment of Vietnam as perceived by businesses and provides a useful tool for policymakers, every four years, the PCI re-evaluates its methodology and recalibrates the index. Recalibrations were conducted in 2009, 2013, 2017, and 2021, with the weights updated in 2022 to ensure that the

subindices with the greatest weights were those that had the largest impact on business growth and performance over time. The dynamic nature of the Vietnamese economy and ongoing reform efforts require these periodic adjustments.

- Which are the top provinces according to this year's PCI? Quang Ninh Province maintains the top ranking with 71.25 points for the sixth year in a row. Second in this year's ranking is Long An (70.94 points). Coming in third and fourth place, respectively, are Hai Phong (70.34 points) and Bac Giang (69.75 points). The remaining members of the Top 10 are Dong Thap (69.66 points), Ba Ria-Vung Tau (69.57 points), Ben Tre (69.20 points), Thua Thien Hue (69.19 points), Hau Giang (69.17 points), and Phu Tho (69.10 points).
- ii. **The Core PCI.** To measure economic governance over time, the PCI has developed a second tool, which we call the Core PCI,<sup>iii</sup> constructed from a smaller set of 35 indicators that have remained fixed for 18 years (2006-2023). The Core PCI follows the 2006 PCI methodology in its entirety and is never recalibrated, so each indicator and subindex remain comparable over the entire PCI.
- Improvement over time. According to the Core PCI, this is the seventh year in a row that the median province score has improved. The 2023 score landed at 66.57 points, which is 1.12 points higher than the Core Index in 2022 (65.45 points), continuing a generally upward trend between 2017 and 2023. The final weight PCI score of the median province in 2023 reached 66.66 points, increasing 1.44 points from 2022. This is the seventh consecutive year in which the median PCI score surpassed 60 points.
  - Key governance trends to watch. The national and provincial governments have been proactive in creating a legislative and policy framework that is conducive to the business environment. From the perspective of the business community, we highlight seven critical trends that reflect relative progress on governance reform in 2023:
  - Positive changes in business support policies. Provincial efforts to assist with business operations were recognized as recording the greatest improvements from the prior year. Positive changes were recorded in the scores of most indicators, contributing to an increase of 0.6 point in the subindex score of 6.39 points, compared to the prior year. In 2023, 73.3 percent of firms said that the eligibility procedures for accessing credit for SMEs were easy to complete (71.4 percent in 2022); 75 percent of firms reported easy access to consultancies provided by state agencies on management skills (70 percent in 2022). Notably, 44.6 percent of firms reported satisfaction with the provincial provision of FTA-related information (32.6 percent in 2022) and

iii For the List of Indicators of the Core PCI, see Annex 2, e-version of the 2017 PCI report.

66.7 percent of firms reported appropriate assistance was provided by provincial agencies to help them address problems in complying with legal documents related to FTA (56.9 percent in 2022).

- Informal charges continue to decline. The anticorruption barometer of the PCI shows continued improvement that is partly attributed to the Vietnam Communist Party's anticorruption efforts. The 2023 subindex score reached 7.08 points, up from 7.01 points in 2022 and 6.99 points in 2021, maintaining the upward trend since 2015. Compared to a recent high of 66 percent between 2015-2016, and the peak of 70 percent in 2006 (the first year all provinces across the country were surveyed), the percentage of firms reporting payment of informal charges in 2023 dropped to its lowest level. In 2023, only 33.3 percent of firms reported paying informal charges, marking a significant drop from 42.6 percent in 2022; only 2.5 percent of firms said they had to spend over 10 percent of income on informal charges, while in 2022 it was 3.8 percent. However, much more work remains, as informal charges increased in some areas, such as business registration and inspections.
- Market entry procedures have become easier to complete. Businesses have experienced greater ease in market entry procedures, especially in business registration. These changes include transparency (94.1 percent), clear and adequate guidance (84.2 percent), and professional and knowledgeable officials (80 percent) with enthusiastic and friendly attitudes (75.6 percent), all of which have improved compared to two years ago. Conditional business licensing procedures have improved as well, but still require further reform efforts, in light of a recent instruction from the Prime Minister to cut down on business requirements to further facilitate market entry. Only 43 percent of businesses agreed that sublicensing procedures were settled exactly as regulated, 42 percent of firms stated that they did not take longer than specified, and 42 percent of firms paid fees that were not higher than regulated. In 2022, these figures were 29, 27, and 27 percent respectively.
- Administrative procedure reforms have achieved positive results. Firms continued to score administrative procedures highly in approval in many aspects. These included efficient and friendly government officials (87.9 percent and 87.2 percent, respectively), not having to make many trips to complete the procedures (82.5 percent), simplified paperwork (82.4 percent), publicly listed fee rates (93.5 percent), and completion of administrative procedures before the official deadline (86.8 percent). Efforts to digitalize procedures appear to have paid off for officials, as nearly 77 percent of firms found completing procedures online saved more time and cost than traditional paper-based methods.

The burden of inspections and examinations has also lessened for businesses.



Specifically, in 2023, nearly 7 percent of firms reported receiving three or more inspection visits during the year, a slight decrease from 7.4 percent in 2022 and 9.9 percent in 2021. The proportion of firms feeling that inspections were conducted to harass businesses dropped to nearly 7 percent in 2023, from 9.6 percent in 2022 and 13.8 percent in 2021. However, there was a slight uptick in the percentage of firms reporting duplicative activities during these inspections, rising from 6.7 percent in 2022 to 8.5 percent in 2023.

- Access to land remains a bottleneck, requiring stronger reform efforts in 2024. The share of firms having no difficulty accessing land or expanding business premises has repeatedly decreased from 55.2 percent in 2021 to 48 percent in 2022 and to 40.7 percent in 2023. Land procedure hurdles include protracted processing times, with 64 percent citing delays beyond the regulated period, vague guidance from officials (46 percent), and discrepancies between actual and regulated processing steps (46 percent). Alarming, nearly 73 percent of firms reported having to delay or cancel business plans in 2023 due to land-related administrative challenges, compared to 42.9 percent in 2022 and 53.9 percent in 2021.
- There is room for improvement in creating a more equitable business environment. Efforts to level the playing field for all types of firms saw a halt this year. About 61 percent of firms felt that large firms' issues were prioritized over those of SMEs, an increase from 58.8 percent in 2022 and 52.6 percent in 2021. About 56 percent of businesses reported that provincial authorities' preferential treatment towards large enterprises, including both state-owned and private, hindered the operations of SMEs.

Remarkably, the percentage of firms perceiving "favoritism," those agreeing with the statement that "Contracts, land, and other economic resources mostly fall in the hands of enterprises that have strong connections to provincial authorities," has steadily decreased from 61.1 percent in 2021 to 57.7 percent in 2022 and 55.3 percent in 2023. When compared to the record high of 96.6 percent in 2013, the 2023 figure is truly impressive.

- The proactivity of the provincial government officials needs to be revitalized. The Proactivity subindex's average score for 2023 showed a downward trend from previous years. About 82 percent of businesses felt that the Provincial People's Committees were flexible, within the scope of laws, to create a favorable business environment, a decrease from 86 percent the previous year. Around 77 percent of firms stated that the provincial People's Committees were proactive and innovative in solving newly arising problems (down from 80 percent in 2022).

iii. **Challenges to Business Operations in 2023.** This year, the PCI repeated a module asking businesses about the greatest obstacles to business success. A large number of businesses pointed to non-governance issues as their key concerns.

- **Key challenges.** The top five obstacles are accessing banks or other forms of credit (57.1 percent), finding customers (49 percent), market downturn (34.5 percent), epidemic (COVID-19) (25.5 percent), and finding business partners (17.1 percent).

iv. **PCI Business Thermometer.** Each year, respondents to the PCI survey answer a question about their investment plans for the next year. We then record and plot the share of respondents planning to “increase the size of their operations.” The measure has become an elegant indicator of optimism and confidence felt by the business community regarding its economic prospects, and it serves as an excellent leading measure of per capita GDP growth (see Figure 1.11, Chapter 1).

- **Optimism remained low.** The 2023 survey results show a decline in business optimism. Specifically, only 27 percent of firms plan to increase the size of operations over the next two years, a significant decrease from 35 percent in 2022. The 27 percent is also below previous lows observed between 2012-2013 when Vietnam’s economy faced the dual impact of the global financial crisis and domestic macroeconomic instability. Additionally, the survey data indicates a notable increase in the proportion of firms planning to downsize or shut down their operations, reaching 16.2 percent in 2023. This figure marks a significant rise from the 10.7 percent recorded in 2022 and is nearly equivalent to the record high of 16.6 percent in 2021, during the peak of the COVID-19 pandemic.

Despite decreased optimism in 2023, when researchers disaggregate by firm characteristics, positive signs emerge. Larger firms are more optimistic. Thirty-eight percent of firms with a capital size of VND50-200 billion plan to expand their operations over the next two years; meanwhile, 40 percent of firms with a capital size larger than 200 billion dong plan to do the same. Similarly, certain industries remain optimistic. The top three sectors with the highest proportion of firms planning to expand their business include electronic equipment manufacturing (50 percent), chemicals (42.2 percent), and rubber and plastic (35.7 percent).

v. **The Provincial Green Index:** The PGI was initiated by VCCI, USAID and private partners to assess the importance of environmental protection in Vietnam’s growth trajectory and has been developed over the past five years. Like its cousin, the PCI, the PGI aggregates the perception of businesses into a common voice to communicate their views on environmental policy to national and local decision-makers. A province that performs well on the PGI is one that makes an effort to combat pollution and private

environmental accidents (subindex 1), designs and implements reasonable regulations that ensure compliance without creating overwhelming burdens (subindex 2), provides appropriate guidance to firms on green operations and operates environmentally friendly procurement (subindex 3), and incentivizes green operations through targeted incentives and subsidy programs (subindex 4).

**The goal of the PGI is to provide actionable policy advice to national and subnational officials about the appropriate policy goals to reduce the impact of climate change and pollution on business performance and longevity.** Consequently, the PGI, like the PCI, is an input-based ranking that is constructed with indicators capturing policy inputs (measures of provincial actions) that could be potentially correlated with climate and pollution outcomes that Vietnam cares about.

**Assembly of the PGI adheres to the same methodology employed in the PCI and Infrastructure Index, which the research team describes as the three Cs:** *Collection* of survey and administrative data; *Construction* of theoretically coherent subindices to critical environmental policy arenas; and a *Calibration* subindex based on the relative importance of the measures. The 2023 PGI is comprised of 44 indicators, which are divided into four subindices that measure the effectiveness of green private sector development policy at the provincial level in Vietnam.

After constructing the index, several critical findings emerge:

- ***While the PGI is comprised of indicators measuring policy, statistical analysis demonstrates that excellence in these measures is associated with less pollution and greater climate resilience.*** Provinces, that have shown improvements in PGI measures, have experienced measurable changes in exposure to measurable pollutants. A ten-point improvement in the PGI is associated with a twenty-five percentage point decline of nitrogen dioxide in the atmosphere and an eight-percentage point decline in nitrogen dioxide in the troposphere.
- ***Provinces concerned about the threat of natural disasters should focus attention on subindex 1 (Pollution & Disaster Resilience).*** Provinces that do well on this index provide transparent meteorology information and warnings to their local businesses, have hardened infrastructure to prevent the impact of disasters, and move quickly to restore transportation, infrastructure, and government services if a climate disaster happens. Stand-out provinces on this measure were less prone to disasters and better able to mitigate the costs to citizens and businesses when they did happen.
- ***Provinces that wish to address nitrogen dioxide in the atmosphere, troposphere, and at ground level, and therefore avoid respiratory and other illnesses, should***

**focus on subindex 2 (Regulatory Standard).** Locations that do well on this index have put in place environmental regulations that are both stringent and fair. Accompanying administrative data measures the scale of provincial efforts to treat wastewater and collect solid waste before they pose environmental and health risks. Controlling for structural factors and other confounders (Figure 2.4), a one-point improvement on the ten-point regulatory standards index is associated with a five-percentage point reduction in nitrogen dioxide in the atmosphere and a 1.5 percentage point reduction in the troposphere. Although it is not statistically robust, improvements in regulatory standards are also associated with small reductions in ground-level nitrogen dioxide.

- **Provinces attempting to reduce the presence of particulate matter, such as dust, dirt, and soot, in the air, which can be inhaled and pose severe health risks, should focus their efforts on subindex 3 (Leadership & Assistance).** This index measures whether provincial leaders emulate green behavior in their own behavior and whether they encourage green behavior on the part of firms in their province. Administrative data, collected from provincial budgets, gauged the financial resources provincial leaders put towards these efforts. In high-ranking provinces, the average business made over five green upgrading reforms in the past year and spent as much as two percent of operating costs on those changes. In low-ranked provinces upgrade numbers and expenditures were close to zero.
- **Provinces that excelled in leadership and encouragement were rewarded with lower particulate matter of 2.5 micrometers or smaller (PM2.5), which are easily inhalable and can enter the lungs and bloodstream, causing serious health problems.** PM 2.5 is also a major contributor to the smog, haze, and reduced visibility that characterize highly polluted cities. Analysis results of the survey data demonstrate that a one-point improvement on this ten-point index is associated with a 0.8 percentage-point change in PM 2.5, which is highly statistically significant. It is also associated with a substantial reduction of sulfur dioxide in the air, which can irritate the eyes, nose, and through, and is also associated with severe respiratory illnesses.
- **Subindex 4 (Incentives & Support Services) is not currently associated with any significant changes in pollutants.** However, this is not because the measure is not important; it is because it is much more difficult and expensive to excel upon. As a result, very few provinces have made much progress and there is little statistical difference between the highest and lowest ranked provinces.
- **Whereas the goal of leadership and assistance (subindex 3) is to encourage green upgrades among existing businesses, the goal of incentives and support services (subindex 4) is actually to encourage the entry and expansion of green industries.** These include: 1) businesses that produce goods or provide services benefiting

the environment or conserving natural resources, such as wind or solar farms; 2] businesses in which workers' duties involve making their establishment's production processes more environmentally friendly or using fewer natural resources; 3] businesses whose environmental footprint is negligible, such as those engaged in non-carbon-intensive trade or services. Provinces that rank highly on this index are those that invest in tax incentives, advisory services, and technical consultancy, to encourage the entry of green businesses, the expansion of existing green operations, and the transformation of existing businesses into green operations. The index measures not only whether provinces provide the services, but also whether local businesses are aware of them. Administrative data gauges the share of PGI responses that already operate green businesses, which ranges from nearly 50 percent in Long An to less than 15 percent in the lowest-ranked locations.

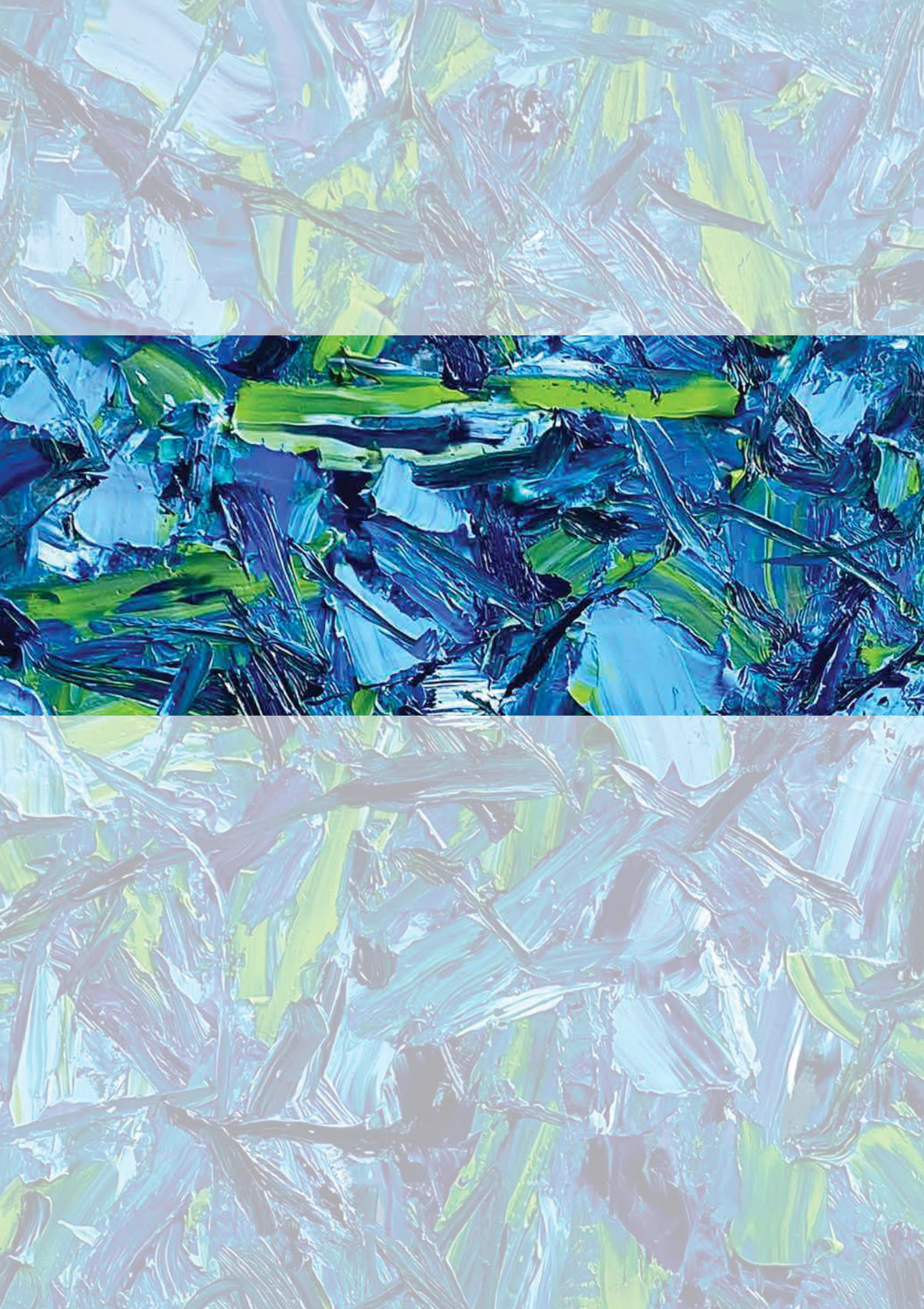
- ***Ultimately, provinces have only just begun on the path to incentivizing green industries in their borders.*** Much more work remains. While the final subindex is not correlated with environmental quality yet, environmental experts strongly believe these policies are the right approach. The PGI will allow researchers to monitor progress toward green industrial development. When significant progress is made, this data allows for a precise estimation of the impact.

vi. ***Analysis of the BES-FDI Survey.*** Each year, we present the findings from the PCI-FDI survey regarding governance improvements and challenges that influence the performance of foreign-invested enterprises (FIEs) in Vietnam.

- **Overview of FDI in 2023.** In 2023, Vietnam witnessed a substantial rise in foreign direct investment (FDI), totaling nearly 36.61 billion USD, marking a 32.1 percent increase from the previous year. This growth was primarily fueled by the initiation of 3,188 new projects, with notable capital commitments in the processing and manufacturing sectors which attracted 23.5 billion USD, representing 64.2 percent of the total FDI. Investors from Singapore, Japan, and Hong Kong prominently contributed, while the PRC led in new projects and expansion efforts.
- **Performance of FIEs.** Foreign-invested enterprises (FIEs) in Vietnam saw a notable recovery in their performance metrics. The employment rate among these enterprises increased, with 59.9 percent of firms adding employees, up from 55.8 percent in 2022. Profitability also improved modestly; 46.5 percent of FIEs reported profits, while the percentage reporting losses declined to 42.3 percent. However, business confidence dipped, with only 26 percent of firms anticipating expansion, reflecting ongoing global economic uncertainties.

- Key Developments. Significant strategic alliances were formed in 2023, enhancing Vietnam's economic cooperation with major partners. The establishment of the US-Vietnam Comprehensive Strategic Partnership (CSP) aimed to deepen economic ties, particularly in high-tech industries. The 50th anniversary of diplomatic relations between Vietnam and Japan was commemorated with the elevation of their bilateral relationship to a Comprehensive Strategic Partnership, focusing on sectors such as technology and green transformation. Additionally, there was an unprecedented surge in investment from the PRC in recent years, driven by the need for supply chain diversification amid global trade tensions.
- Characteristics of FIEs from the US, the PRC (People's Republic of China), and Japan. US FIEs predominantly occupy sectors like wholesale/retail, information and communication, and professional services, with a significant concentration in Ho Chi Minh City. Nearly half of US FIEs are based in this city, reflecting their preference for regions that support high-tech and skilled labor-intensive industries. FIEs from the PRC, accounting for 7.9 percent of the survey sample, exhibit a large-scale operation across various employment sizes, with a substantial number managing more than 200 employees. They are distinctively spread across the country, especially in emerging northern industrial provinces, benefiting from geographic proximity and competitive operational costs. Japanese FIEs are actively engaged in high-skill sectors such as Professional Services and Information and Communication, facing notable recruitment challenges especially in technical and managerial roles, with 22 percent struggling to hire technical staff and 36 percent finding it difficult to recruit supervisors.
- Challenges Regarding the Local Business Environment. FIEs from the US, the PRC, and Japan express distinct concerns regarding Vietnam's business environment. US firms frequently encounter challenges with policy and regulations, with 22 percent highlighting these as significant hurdles. This group also struggles notably with bureaucratic procedures, impacting 16 percent of respondents. Japanese FIEs, meanwhile, face acute difficulties with tax-related procedures, a consistent theme in their feedback over the years. Seventy-two percent of Japanese firms report severe issues with tax refunds, a stark contrast to the 42 percent reported by non-Japanese investors. The challenges extend to tax finalization, where 58 percent of Japanese FIEs encounter problems. FIEs from the PRC exhibit a better ability to navigate Vietnam's regulatory framework, with only 9 percent reporting difficulties with policy and regulations, and a mere 5 percent facing bureaucratic obstacles. However, these firms grapple with market-related challenges, with 38 percent affected by market volatility and 44 percent experiencing difficulties in customer acquisition.

- Policy Recommendations. To capitalize on opportunities presented by seismic shifts in the global supply chain, Vietnam needs to enhance its regulatory frameworks and make bureaucratic processes more efficient and transparent, especially in areas such as taxation, fire safety, import/export, and environmental regulations. Additionally, it is crucial to improve the connections between foreign investors and local partners and customers. Furthermore, urgent steps must be taken to improve the quality of the local labor force, particularly by increasing the availability of skilled workers for technical and supervisory roles, as Vietnam moves away from relying on low-cost labor as a primary competitive advantage in attracting foreign investment.







# CHAPTER 1

## The Domestic Survey and the Provincial Competitiveness Index

## 1.1 Introduction

The 2023 Provincial Competitiveness Index (PCI) assembles business perceptions across Vietnam's 63 provinces through a survey on business climate, providing insights into provincial economic governance and administrative reform efficacy. Since its inception in 2005 until 2023, eighteen PCI editions were released annually under the PCI program. This year's report, the 19th reiteration, marks the beginning of a new program, the Provincial Green Index (PGI) Initiative, implemented by the Vietnam Chamber of Commerce and Industry (VCCI) with assistance from the United States Agency for International Development (USAID) and private sector partners, Suntory PepsiCo Vietnam Beverage and Pharmacy.

Building upon the successful PCI program, the PGI Initiative, during its five-year project life, aims to promote an enabling business environment with a focus on green economy and environmental sustainability at the provincial level. As VCCI contributes to Vietnam's green growth trajectory,<sup>1</sup> more concerted efforts will be made to foster green private sector development, strengthen regionally coordinated green growth while promoting high quality and high technology investments, and link foreign businesses and domestic private firms, especially small and medium-sized businesses (SMEs), ultimately improving Vietnam's competitiveness in the global supply chains.<sup>2</sup>

The 2023 business environment survey took place as firms in Vietnam navigated challenges from the continuing geopolitical tensions, high inflation across countries, declines in international markets and investment influx, and heightened trade barriers. Domestically, sliding consumer demand was augmented by higher competition from imports, limited and costly access to loans, increasing prices of inputs, and intermittent

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1 Key legal documents include Resolution 10-NQ/TW dated June 3, 2017 at the fifth conference of the 12th Party Central Committee that sets forth private sector development as a critical driver in Vietnam's market economy and the Government Action Plan issued alongside Resolution 98/NQ-CP dated October 3, 2017, implementing Party Resolution 10-NQ/TW; Socioeconomic Development Strategy 2021-2030; 13th Party Congress Resolution; Prime Minister Decision 1658/QĐ-TTg dated October 1, 2021, approving the National Green Growth Strategy in the period 2021-2030, vision towards 2050. Vietnam's zero emission pledge at COP26.

2 These activities support the implementation of VCCI's Government-delegated tasks. Specifically, Prime Minister Decision 882/QĐ-TTg dated July 22, 2022 approving the National Green Growth Action Plan 2021-2030 assigns VCCI to collaborate with ministries and agencies to formulate a mechanism to monitor, evaluate and report the implementation of the National Green Growth Strategy, then devise implementation guidance and put this mechanism into operation. In Government Resolution 136/NQ-CP dated September 25, 2020, VCCI is delegated to continue activities to support and gear the business community to become sustainably developed; and to strengthen activities, programs, and projects advancing private sector sustainable development in areas such as circular economy, business integrity, public-private partnership; and to proactively seek ways to conduct research studies, advisory and initiate sustainable business initiatives/models.

power supply experienced in parts of the country. Additionally, climate-related disasters became increasingly unpredictable, leaving serious damage, while the economic and social repercussions of the COVID-19 pandemic persisted.

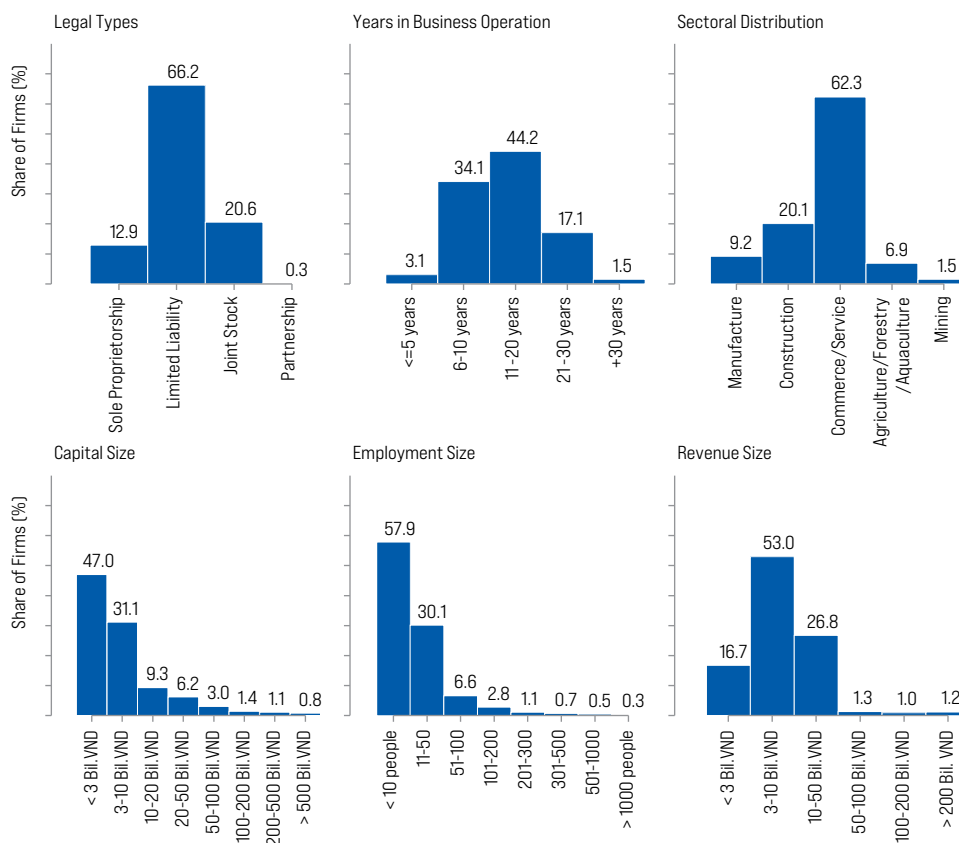
Amidst these adversities, businesses made time to respond to the 2023 business survey. Overall, 10,676 firms answered the survey, including 9,127 domestic private firms<sup>3</sup> and 1,549 foreign-invested firms (FIEs), contributing to a response rate of 17 percent.<sup>4</sup> Chapter 1 presents the construction of the Provincial Competitiveness Index and findings based on perceptions of domestic businesses combined with administrative data, measuring provincial economic governance and reform efforts to improve the ease of doing business and business growth. It is worth noting that responses from foreign-invested firms were used exclusively to present their perspective of Vietnam's business climate in Chapter 3 of this report

Figure 1.1 depicts characteristics of the 2023 business environment survey respondents. Disaggregating them by legal form, most firms (66 percent) registered as limited liability companies, followed by joint stock firms at 20.6 percent, sole proprietorships at 12.9 percent, and joint partnerships at a meager 0.3 percent. By age, firms that have been in operation for more than ten years are in the majority, indicating their adequately diversified exposure in the local business climate. Firms in operation between six and ten years accounted for 34.1 percent, while 44.2 percent reported operating between 11–20 years, and another 17.1 percent in the 21–30 years bracket. In particular, 1.5 percent of respondents started operations more than 30 years ago. New entrants, firms in operation for five years or fewer, accounted for 3.1 percent. By capital size, most private firms run on relatively small equity (small- and medium-sized enterprises). These firms are the main focus group of the PCI.

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3 In this report, private businesses refer collectively to domestic invested firms registered by the Enterprise Law, not a legal form of business.

4 The firm sample was selected following a rigorous sampling method. Random stratification is used to make sure that firm age, size, legal type, and sector are accurately represented. Among these selected firms, enumerators verified the locations, operation status, and contact information to invite them to answer the survey.

**Figure 1.1. Characteristics of private firm respondents in the 2023 survey**

Source: 2023 Business Environment (BE) Survey. Question A2. "In what year was the firm granted a business registration certificate?", Question A4.2 "What is your firm's current legal form?", Question A5 "In which field does your firm mainly focus?", Question A7 "What was the total equity capital of your firm?", Question A9. "Which statement best characterizes your firm's overall performance?" The table presents the percentage of firms selecting each question by survey year.

Consistent with the original goals set in 2005, the 2023 PCI measures economic governance, administrative reform efficacy, and efforts by the provinces to create a business-enabling climate, which ultimately contributes to private sector development. Last recalibrated in 2021, the PCI was constructed from ten subindices and 142 indicators to measure important economic governance areas influencing business growth. A province or city that has good economic governance offers: 1) low market entry costs; 2) easy access to land and secure tenure; 3) transparency and effortless access to information; 4) low informal charges; 5) quick inspection, examination and administrative procedures; 6) an unbiased competitive environment; 7) dynamic and creative provincial government in solving problems for businesses; 8) accessible and suitable business support policies and services; 9) good labor training policies; and 10) effective and fair dispute resolution procedures while maintaining security and order to ensure business operations.

The construction of the 2023 PCI index follows the same three-step (3 Cs) process employed since its inception in 2005. These steps include: (i) collecting information from businesses through questions in the annual PCI and PCI-FDI surveys and published data sources; (ii) calculating ten subindices and standardizing them on a 10-point scale; and (iii) calibrating the composite PCI as the weighted mean of the ten subindices with a maximum score of 100 points.<sup>5</sup>

Chapter 1 of the 2023 PCI report consists of six main sections. Section 1.1 presents an overview of the 2023 business survey and the Provincial Competitiveness Index. Section 1.2 describes key features in provincial economic governance and the 2023 PCI results. Section 1.3 delves into some of the main trends in provincial economic governance in recent years. Section 1.4 identifies some of the main challenges that businesses are currently facing, digging into the obstacles to accessing credit, a critical issue for firms in the past year. Section 1.5 discusses the Domestic Business Thermometer based on the share of firms planning to expand. Section 1.6 recaps the main findings and presents recommendations.

## 1.2 Provincial Economic Governance and the 2023 Provincial Competitiveness Index Results

The 2023 PCI survey results indicate that the quality of economic governance continued rising in line with a trend established over the past eighteen years. Figure 2.1 demonstrates this on two key measures, the weighted PCI (the PCI in short) and the Core Index. The PCI is the annual aggregate score, which is recalibrated every four years<sup>6</sup> to reflect changes in the regulatory environment affecting the business landscape in Vietnam. The Core Index is aggregated from a limited set of 35 indicators that have been employed since 2006 without change. Each of these measures is calculated on a 100-point scale.

The improvements of provincial economic governance are evident in the PCI and the Core PCI scores. Specifically, the final weight PCI score of the median province in 2023 reached 66.66 points, increasing 1.44 points from 2022. This is the seventh consecutive year in which the median PCI score surpassed 60 points. The 2023 Core Index score landed at 66.57 points, which is 1.12 points higher than the Core Index in 2022, continuing a broadly upward trend since 2014. This largely coincides with the adoption of a series of government

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5 In the latest PCI recalibration, the weighted PCI is calculated on a 100-point scale with weight adjustment at five percent for the subindices Entry Cost, Transparency, and Time Costs, 10 percent for Land Access, Policy Bias, Training Policy, and Law and Order, and 15 percent for Informal Charges, Proactivity of Provincial Leadership, and Business Support Policy. For further details, please see the 2022 Provincial Competitiveness Index report.

6 Previous recalibrations were in 2009, 2013, 2017 and 2021.

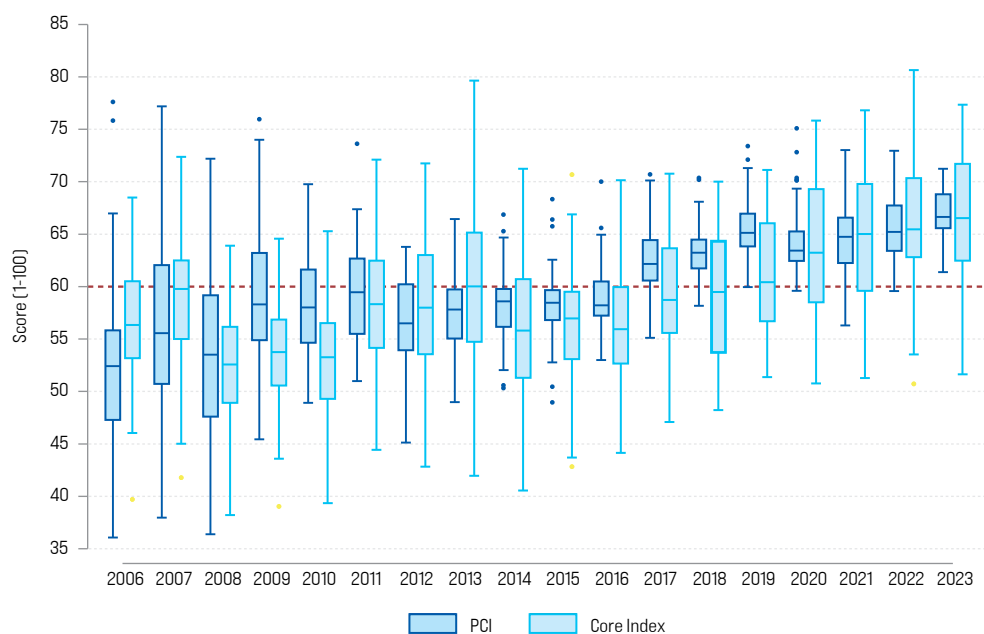
resolutions to improve the business environment and national competitiveness,<sup>7</sup> signifying that provincial proactivity increases as the central government prioritizes improving the business landscape.

Figure 1.2 shows two more notable signs. First, the lower-ranked provinces appeared to improve at a faster pace. The bottom-ranked province in 2023 reached 61.73 points, a significant increase of 1.79 points from 2022 at 59.58 points. In fact, this year, PCI score of the lowest-ranked province has exceeded 60 points for the first time in the program's history. The Core Index score of the lowest-ranked province in 2023 also rose 0.95 points higher than 2022 to reach a peak of 51.67 points. Together with the aforementioned improving trend in the median scores, it is evident that lower performers have picked up the pace of governance improvements in the past decade. These provinces have likely taken "late mover advantage" well, learning from good performers' lessons and best practices. Second, there is a halt in the performance of higher-ranked provinces. Specifically, the top-ranked province in PCI 2023 scored 71.25 points in the PCI and 77.33 points in the Core Index, declining 1.74 points and 3.32 points, respectively, from the prior year. High-performing provinces face pressure to maintain reform efforts, as their lower-performing counterparts are catching up.

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7 Between 2014 and 2018, Government Resolution 19 annually specified tasks and solutions to improve the business environment and national competitiveness. This resolution was replaced by the same themed Resolution 02 between 2019 and 2022. In 2023, improving the business environment was integrated as a part of Resolution 01, detailing key tasks and solutions to effectuate the Socioeconomic Development Plan and the Estimate State Budget and improving Vietnam's business environment. In 2024, Resolution 02 was resurrected with the same theme.

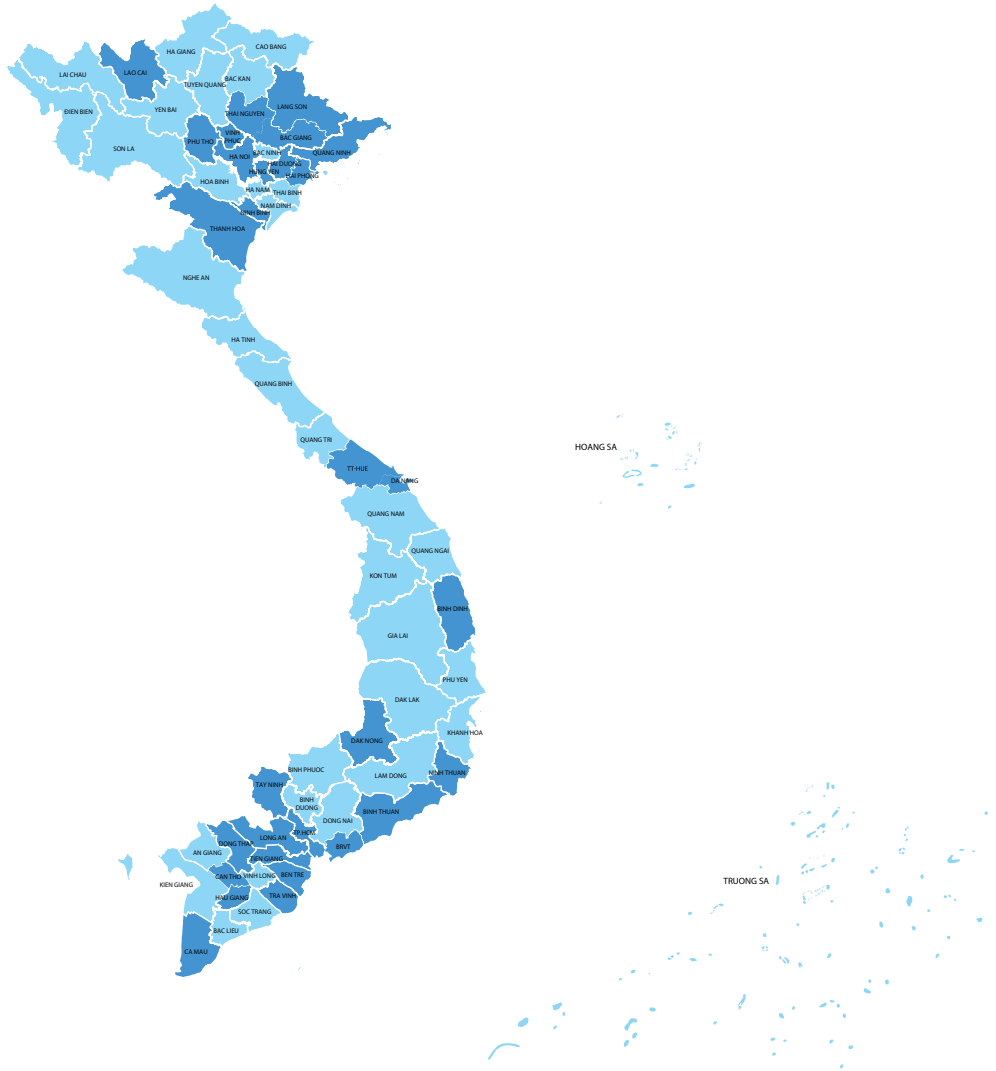
**Figure 1.2. Box Plots of the Aggregate PCI and Core Index over Time (2016-2023)**



Note: We use box plots to demonstrate the PCI and the Core Index scores. Dark blue boxes indicate the aggregate PCI and light blue boxes present core PCI scores. The horizontal lines in the middle of each box present the median scores (equal to the score of the provinces ranked 32nd) of a specific year, representing the quality of economic governance of the whole country. The lower and upper edges of each box provide the scores at the 25th percentile (the 16th-ranked province) and the 75th percentile (the 48th-ranked province). The ends of the range bar provide the lowest and highest PCI values. Dots outside the range bars are outliers—provinces that scored extraordinarily low or high that year.

The subsequent two figures provide details of the aggregate PCI scores for the year 2023 of 30 provinces and centrally administered cities that are recognized for having the highest quality of governance in the country (top 30). As explained in the 2022 PCI report, our new ranking method showcases only the 30 provinces and cities with the highest PCI scores. This approach aims to motivate all provinces and cities to put more effort into creating a conducive environment for the private sector and become a top-ranking locality. Figure 1.3 features a color-coded map that illustrates the quality of economic governance, where the dark blue regions represent the top 30 provinces, and the light blue areas denote the remaining localities. This map shows a high concentration of provinces in the top 30 around major economic hubs in the north and the south. In the north, most of the top 30-ranked provinces neighbor Ha Noi and Hai Phong, while in the south, most of the leading performers are situated close to the cities of Ho Chi Minh and Can Tho. Detailed results of the 2023 PCI scores and rankings of the top 30 provinces are presented in Figure 1.4.

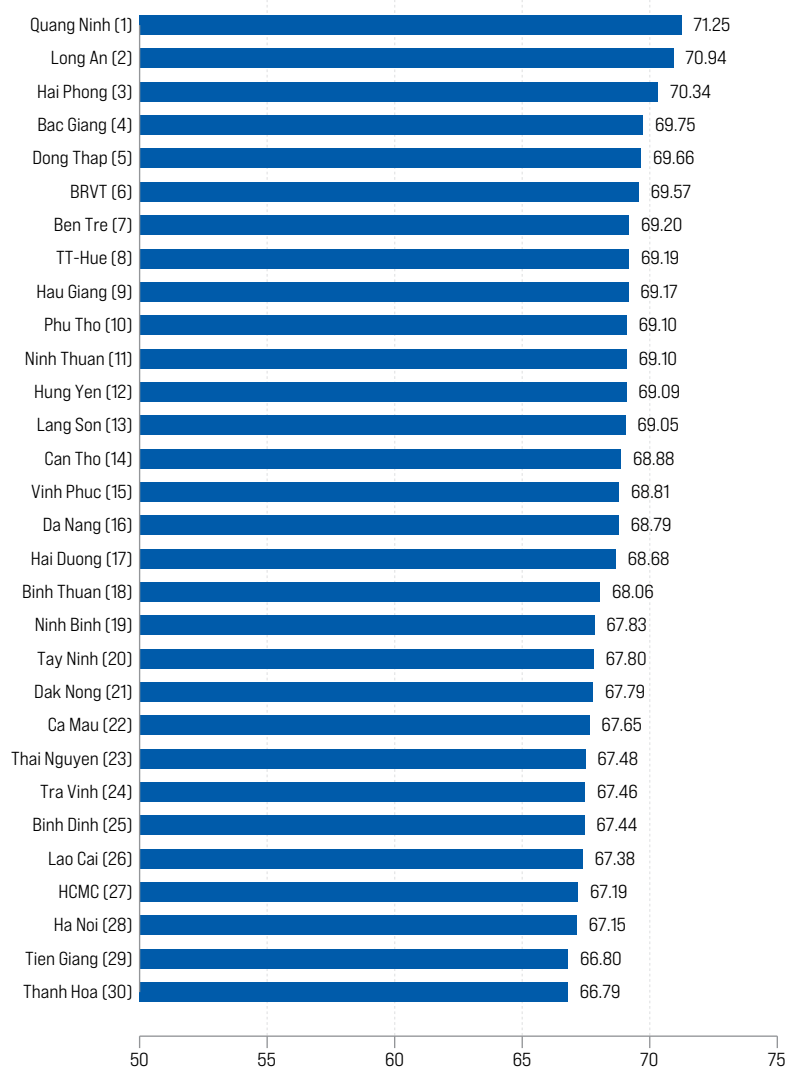
Figure 1.3. PCI 2023 Map



Note: The dark blue color represents the top 30 provinces in 2023. The light blue color depicts the remaining provinces.



**Figure 1.4. Thirty provinces and cities having the best economic governance quality in 2023 (Top 30)**



Each of the country's six regions is represented in the top 30 of the 2023 PCI rankings. The Red River Delta leads with 7 out of its 11 localities (Quang Ninh, Hai Phong, Hung Yen, Vinh Phuc, Hai Duong, Ninh Binh, and Hanoi) being top performers. The Northern and Mountainous region follows with 5 of its 14 provinces (Bac Giang, Phu Tho, Lang Son, Thai Nguyen, and Lao Cai) making this group. The Central Coast region has 6 out of 14 localities (Thua Thien Hue, Ninh Thuan, Da Nang, Binh Thuan, Binh Dinh, and Thanh Hoa), while the Central Highlands has only 1 of its 5 localities (Dak Nong) listed. The Southeast region is represented by 3 out of its 6 cities and provinces (BRVT, Tay Ninh, and Ho Chi Minh City), while the Mekong Delta region has 8 out of 14 (Long An, Dong Thap, Ben Tre, Hau Giang, Can Tho, Ca Mau, Tra Vinh, and Tien Giang) provinces in the top 30. In percentage terms, the Red River Delta is in the lead

with 63.6 percent, closely followed by the Mekong Delta (61.5 percent), the Southeast (50 percent), the Central Coast (42.9 percent), and the Central Highlands (20 percent).

In this year's PCI rankings, Quang Ninh maintains its top position with a score of 71.25 points. The province recorded a remarkable achievement in reducing the administrative burden on businesses, evidenced by its Time Cost subindex score of 8.54 points, the highest in the country. Additionally, Quang Ninh continues to effectively implement business support programs, with its Business Support Policy subindex scoring 7.72 points, ranking second place nationally. The province is also recognized for its efforts to alleviate informal costs for businesses, ranking third in the country on the Informal Charge subindex score (7.72 points).

With an increase of 2.49 points, Long An province moves up eight spots to arrive at the second position in the 2023 PCI rankings (70.94 points). The local business community appreciates the province's efforts to reduce informal charges, reflected in its Informal Charge subindex score of 7.74 points, placing it second among 63 localities. Additionally, Long An is recognized for its high-quality and efficient administrative reforms, earning a Time Cost subindex score of 8.40 points, placing it fourth rank out of 63 provinces and cities. The province's government is also appreciated for its proactive and innovative leadership, with a Proactivity subindex score of 7.24 points, making it fourth in the nation.

The subsequent spots in the top five, in descending order, are occupied by the city of Hai Phong (70.34 points), and the provinces of Bac Giang (69.75 points) and Dong Thap (69.66 points). Hai Phong has continued its three-year streak in the top rankings, while Bac Giang has secured a spot in the top five for the second time since 2022. Meanwhile, Dong Thap province has maintained its presence in the top five since 2008.

Provinces rounding out the top ten for the 2023 PCI are Ba Ria-Vung Tau (69.57 points), Ben Tre (69.20 points), Thua Thien Hue (69.19 points), Hau Giang (69.17 points) and Phu Tho (69.10 points). Notably, Ben Tre, Hau Giang, and Phu Tho are newcomers to the top ten, a change from 2022. Ba Ria-Vung Tau and Thua Thien Hue have consistently been in the top ten since 2021. Ben Tre makes a significant leap from placing in the top 20 in 2021 and 2022 to the top 10 in 2023, the group in which the province was previously present for six years. Similarly, Hau Giang made a considerable move from placing in the top 20 in 2022 to the top 10 in 2023, another uptick in its ranking since 2017. Phu Tho made its debut in the top ten provinces, being particularly appreciated by firms for its quality of labor training (with the Labor Training subindex scoring 6.77 points, ranked seventh out of 63).

The 2023 PCI rankings also welcome new entrants among the top 30 provinces and cities, including Hai Duong, Binh Thuan, Ninh Binh, Tay Ninh, Dak Nong, Ca Mau, Tien Giang, and Thanh Hoa. This is a sign that lower-ranked provinces have been closely following their higher-

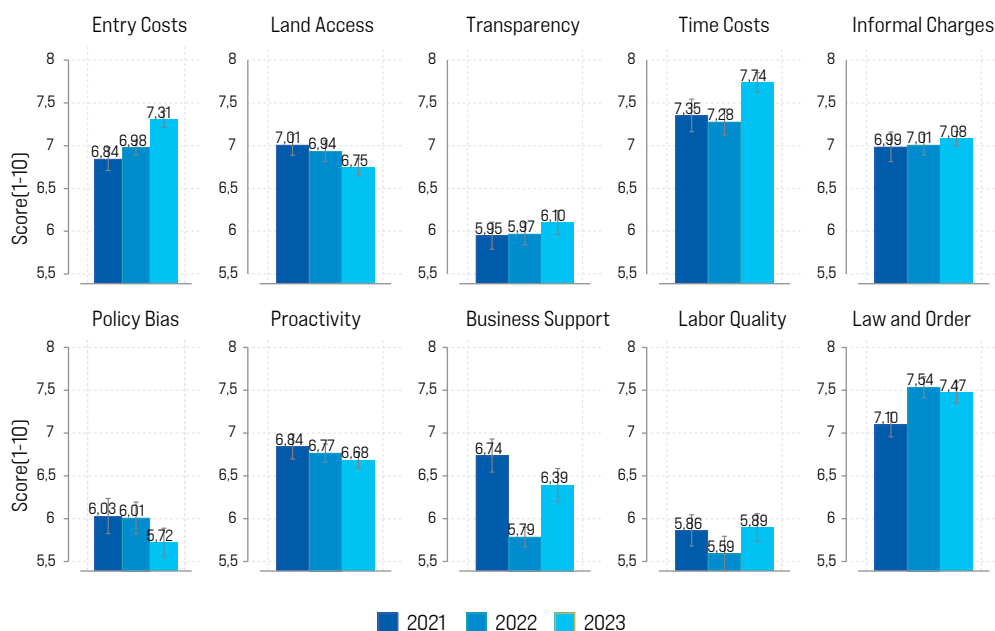
ranked counterparts to break into the top 30 of the PCI rankings. This movement supports the research team's earlier analysis, suggesting a national trend toward the improvement of economic governance quality, as introduced at the beginning of this section in Figure 1.2.

### 1.3 Key Features of Provincial Economic Governance over Time

Using the PCI data that employed the methodology revised in 2021, in this section, we provide some highlights of provincial economic governance quality from the last three years. The main features can be noticed through the changes in the scores of the ten PCI subindices shown in Figure 1.5, with seven key findings, including:

1. Business support policy implementation changed positively;
2. Informal charges continue to decline;
3. Market entry procedures are easier to follow;
4. Administrative procedure reforms achieved many positive results;
5. Access to land is declining;
6. Domestic SMEs expect a fairer business environment;
7. Proactivity of provincial officials needs to be revitalized.

**Figure 1.5. Scores of 10 PCI Subindices between 2021-2023**



### 1.3.1. Positive Changes in the Implementation of Business Support Policies

Of the ten 2023 PCI subindices, the Business Support Policy subindex has seen the most significant improvement from the prior year. Particularly, the average score of the Business Support Policy subindex in 2023 rose to 6.39 points, an increase of 0.6 points from 2022. Most indicators related to the implementation of business support policies in 2023 showed improved performance over the year. First, the metrics evaluating the accessibility to support for SMEs remained robust. For example, in 2023, 73.3 percent of firms said that the eligibility procedure for accessing credit for SMEs was easy to complete (71.4 percent in 2022). Furthermore, 75 percent of firms reported easy access to consultancies provided by state agencies on management skills (compared with 70 percent in 2022). The same percentage of firms found that the procedure for accessing land rental subsidies for land in industrial parks and industrial complexes was easy to complete, an increase from 74.5 percent in 2022. Finally, 77.1 percent said they easily completed the procedure for accessing legal aid services (much higher than 76.8 percent in 2022). While some indicators related to policy and business support implementation in 2023 showed a marginal decline, several areas still scored highly, such as the proportion of firms finding it easy to complete the procedure for accessing market information consultancies (73.3 percent), training courses on start-up and corporate management (74.4 percent), and vocational training programs for labors (79 percent). Notably, the indicators for supporting businesses' international economic integration in 2023 increased sharply compared to 2022. Specifically, according to 44.6 percent of firms, the quality of FTA-related information provided by local agencies met their needs (up from 32.6 percent in 2022). Encouragingly, 66.7 percent said that difficulties in complying with legal documents issued in the implementation of FTAs were addressed appropriately by provincial agencies (an increase from 56.9 percent in 2022).

**Table 1.1. Some Indicators of Business Support Policy over the Years**

Indicator	Measure	2021	2022	2023
1. Procedure for access to credits for SME is easy to complete (percent)	Min	45.2	16.7	38.5
	Median	82.6	71.4	73.3
	Max	98.2	100.0	100.0
	Correlation with previous year	N.A.	0.1	0.3*
2. Procedure for consultancies services to improve corporate governance is easy to complete (percent)	Min	42.9	33.3	36.8
	Median	82.0	70.0	75.0
	Max	100.0	100.0	100.0
	Correlation with previous year	N.A.	0.4*	0.1

Indicator	Measure	2021	2022	2023
3. Procedure for land rental subsidies is easy to complete (percent)	Min	45.5	59.5	30.0
	Median	86.4	74.5	75.0
	Max	100.0	85.6	100.0
	Correlation with previous year	N.A.	0.2	-0.1
4. Procedure for legal aid services subsidies is easy to complete (percent)	Min	41.7	64.1	43.8
	Median	79.4	76.8	77.1
	Max	95.5	87.1	100.0
	Correlation with previous year	N.A.	0.2	0.1
5. Procedure for market info consultancies subsidies is easy to complete (percent)	Min	48.7	66.1	33.3
	Median	82.1	75.8	73.3
	Max	100.0	86.0	100.0
	Correlation with previous year	N.A.	-0.2	0.2
6. Procedure for training courses subsidies is easy to complete (percent)	Min	38.5	71.1	33.3
	Median	81.0	78.1	74.4
	Max	100.0	90.8	100.0
	Correlation with previous year	N.A.	-0.1	0.2
7. Procedure for vocational training subsidies is easy to complete (percent)	Min	40.0	67.2	33.3
	Median	83.3	79.2	79.0
	Max	98.0	87.1	100.0
	Correlation with previous year	N.A.	0.0	0.1
8. Quality of FTA-related information provided by local agencies met firm's needs (percent meet)	Min	10.4	15.2	30.8
	Median	28.3	32.6	44.6
	Max	58.3	72.1	74.8
	Correlation with previous year	N.A.	0.1	0.1
9. Firm's difficulty in complying with FTA implementing legal documents are addressed appropriately by provincial agencies (percent)	Min	26.7	40.8	0.0
	Median	63.3	56.9	66.7
	Max	92.3	68.7	100.0
	Correlation with previous year	N.A.	-0.1	0.1

Note: \* Statistical significance level: 5 percent. (N.A.: Not applicable)

### 1.3.2. Informal Charges Continue to Decline

Anticorruption was a central mission of the Party and the Vietnamese government in 2023. Party-State organizations worked hard this year to create a legal framework that delineated the bounds of corrupt activity and developed strategies for reducing corrupt behavior in areas prone to corruption, and devised mechanisms to handle reports on corrupt behavior.<sup>8</sup> In terms of developing and refining the Party's growth mechanisms, socio-economic management, and fighting against misconduct and corruption, the Central Executive Committee, Politburo, and Secretariat released nearly 50 documents aimed at strengthening the Party and combating corruption. The National Assembly has passed 18 related laws and resolutions. Meanwhile, the Government has issued 126 decrees and resolutions; ministerial bodies and provincial governments have released 18,240 documents on socio-economic management and anticorruption. Regarding enforcing punishments, 19 officials under the management of the Politburo and Secretariat were disciplined by the Central Executive Committee, Politburo, Secretariat, and Central Inspection Commission; party committees and inspection committees at all levels disciplined 606 party organizations and 24,162 party members, marking a 12 percent increase from 2022. In inspection and audit efforts, agencies recommended the recovery and management of nearly 8.6 million U.S. dollars (219,000 billion dong), almost triple the amount in 2022. They also proposed imposing administrative punishments on 7,524 collectives and 7,944 individuals. A total of 660 cases with indications of criminal activity were identified and investigated following the law, an 18-percentage increase from 2022.<sup>9</sup> In terms of investigation, prosecution, and adjudication, legal authorities prosecuted 4,523 cases involving 9,373 defendants, a 46 percent increase in the number of cases related to corruption, economic crimes, and abuse of power compared to 2022.<sup>10</sup> It is worth noting that the Central Steering Committee on Anticorruption instructed their line committees at all the provinces to strengthen their

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8 Central Inspection Committee. (2023). Ban Chỉ đạo Trung ương về phòng, chống tham nhũng, tiêu cực họp Phiên thứ 23 [Central Committee on Anticorruption convenes 23rd session]. <<https://ubkttw.vn/danh-muc/tin-tuc-thoi-su/ban-chi-dao-trung-uong-ve-phong-chong-tham-nhung-tieu-cuc-hop-phien-thu-23.html>>

9 Vietnam News Agency. (2024). “2023: Công tác phòng, chống tham nhũng, tiêu cực tiếp tục được đẩy mạnh” [2023: Efforts to prevent and tackle corruption and negative practices are gaining momentum] (part 1) [data from the 25th Meeting of the Central Steering Committee on preventing and combating corruption and misconducts on February 1, 2024]. <<https://infographics.vn/nam-2023-cong-tac-phong-chong-tham-nhung-tieu-cuc-tiep-tuc-duoc-day-manh-phan-1/210189.vna>>

10 Vietnam News Agency. (2024). “2023: Công tác phòng, chống tham nhũng, tiêu cực tiếp tục được đẩy mạnh” [2023: Efforts to prevent and tackle corruption and negative practices are gaining momentum] (part 2) [data from the 25th Meeting of the Central Steering Committee on preventing and combating corruption and misconducts on February 1, 2024]. <<https://infographics.vn/nam-2023-cong-tac-phong-chong-tham-nhung-tieu-cuc-tiep-tuc-duoc-day-manh-phan-2/210190.vna>>

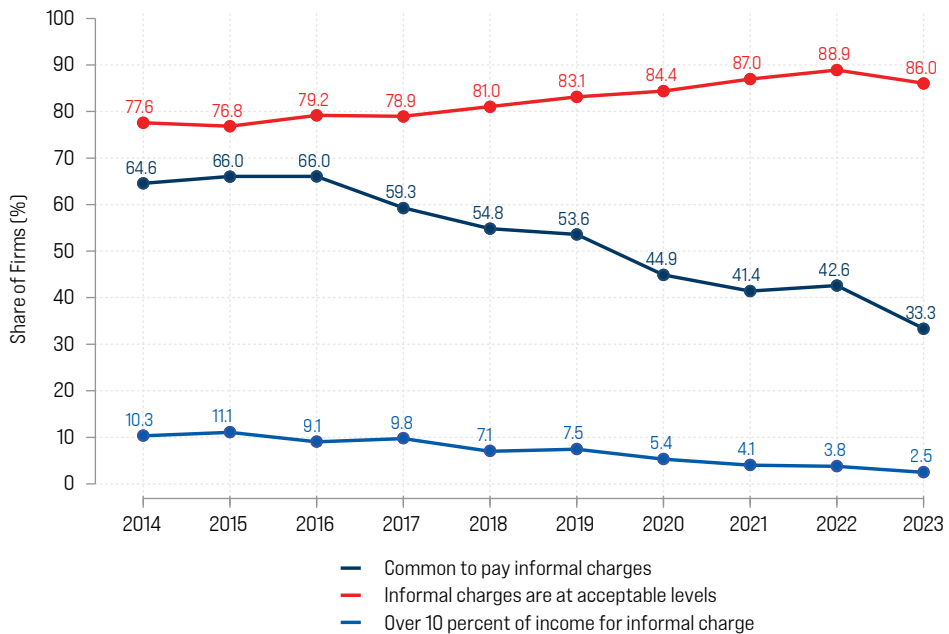
operations' efficacy, crack down on "petty corruption", and push for greater changes in anticorruption work at the provincial and grassroots levels.<sup>11</sup>

The 2023 PCI survey results demonstrate progress in the anticorruption campaign with the score of the Informal Charges subindex trending upward. The 2023 score reached 7.08 points, up from 7.01 points in 2022 and 6.99 points in 2021 (Figure 1.5). Figure 1.6 disaggregates these results. In 2023, only 33.3 percent of firms reported paying informal charges, marking a significant drop from 42.6 percent in 2022. Compared to a recent high of 66 percent between 2015-2016, and the peak of 70 percent in 2006 (the first year all provinces across the country were surveyed), the percentage of firms reporting payment of informal charges in 2023 dropped to its lowest level. The steady decline proves the tangible success of anticorruption efforts by the Party, the national government, and authorities at all levels. Another important indicator, the burden of informal charges, also lessened in 2023. Specifically, in 2023, only 2.5 percent of firms said they spent over 10 percent of income on informal charges, while in 2022 this proportion was 3.8 percent. The burden has decreased constantly since 2017 (when it was at 7.5 percent) and is more than 75 percent lower than a decade ago. The number is even more striking when compared with the 13 percent reported in 2006. The proportion of firms agreeing with the statement "informal charges are at an acceptable level" in 2023 remained high at 86 percent, a slight decrease from the 88.9 percent recorded in 2022, breaking the trend of continuous improvement observed over the last five years. This indicates that the fight against corruption is far from over and requires perseverance from the relevant authorities to intensify their anti-corruption efforts moving forward.

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11 Communist Party of Vietnam E-newspaper. (2023). Phiên họp thứ 24 Ban Chỉ đạo Trung ương về phòng, chống tham nhũng, tiêu cực [The 24<sup>th</sup> meeting session of the Central Steering Committee on Anticorruption]. <<https://dangcongsan.vn/xay-dung-dang/phien-hop-thu-24-ban-chi-dao-trung-uong-ve-phong-chong-tham-nhung-tieu-cuc-644291.html>>

Figure 1.6. Some Indicators of Informal Charges



Source: Business Survey over the years. Question D1.3.7: “To what extent, do you agree with the following statements? “Informal charges are at acceptable rate”; Question D3.12: “Do you agree with this statement: “Firms in my line of business usually have to pay extra ‘informal payments’”. Question D3.13: “On average, what percentage of income do firms in your line of business typically pay per year for informal charges to public officials?”

Some other indicators of the Informal Charges subindex in Table 1.2 clearly show the results of the anticorruption efforts from the businesses’ perspective. Specifically, firms saying that informal charges usually or always delivered expected results in 2023 was merely 43 percent, a significant decline from 58.8 percent in 2022. The percentage of firms paying informal charges to fire safety inspectors in 2023 was 19.7 percent, a sharp decrease from 33.3 percent in 2022. Only 24 percent of firms reported paying informal charges to tax inspectors in 2023, compared to 39 percent in 2022. The percentage of firms paying informal charges in land administrative procedures (APs) in 2023 was 37.5 percent, down slightly from 40 percent in 2022. Notably, the percentage of firms agreeing with the statement “Paying a ‘commission’ was essential to improve chances of winning the contract” in 2023 was only 27.6 percent, continuing a trend of decreases from 36.3 percent in 2022 and 36.8 percent in 2021.



**Table 1.2. Some Indicators of Informal Charges over the Years**

Indicator	Measure	2021	2022	2023
1. Rent-seeking phenomenon is popular in handling administrative procedures for businesses (percent Strongly Agree or Agree)	Min	16.3	49.4	47.8
	Median	57.4	71.7	69.8
	Max	78.2	88.4	81.9
	Correlation with previous year	0.3*	0.3*	0.2
2. Percentage of firms saying that informal charges usually or always deliver expected results	Min	13.1	35.2	22.9
	Median	55.2	58.8	43.0
	Max	91.3	85.0	64.0
	Correlation with previous year	0.3*	-0.1	-0.0
3. Percentage of firms paying informal payment to inspectors	Min	7.3	1.7	5.8
	Median	20.9	14.0	16.1
	Max	46.9	38.0	38.2
	Correlation with previous year	0.5*	0.6*	0.3*
4. Percentage of firms paying informal charges in business registration or re-registration (percent)	Min	7.1	0.0	0.0
	Median	18.8	6.8	9.3
	Max	51.4	32.3	34.2
	Correlation with previous year	N.A.	0.0	0.8*
5. Percentage of firms paying informal charges when implementing sublicense procedures (percent)	Min	31.7	0.0	0.0
	Median	63.2	18.8	18.8
	Max	79.6	68.6	50.0
	Correlation with previous year	N.A.	0.2	0.0
6. Percentage of firms paying informal charges to fire safety inspectors (percent)	Min	6.5	12.5	12.4
	Median	30.0	33.3	19.7
	Max	57.6	52.4	39.0
	Correlation with previous year	N.A.	0.0	0.0
7. Percentage of firms paying informal charges to environment inspectors (percent)	Min	0.0	0.0	0.0
	Median	33.3	28.6	35.3
	Max	100.0	75.0	84.2
	Correlation with previous year	N.A.	0.1	0.1
8. Percentage of firms paying informal charges to tax inspectors (percent)	Min	9.4	8.3	7.0
	Median	30.5	39.0	24.0
	Max	52.9	84.0	45.7
	Correlation with previous year	N.A.	0.2	0.5*

Indicator	Measure	2021	2022	2023
9. Percentage of firms paying informal charges in land APs (percent)	Min	0.0	17.4	14.3
	Median	26.7	40.0	37.5
	Max	66.7	84.1	64.3
	Correlation with previous year	-0.2	0.1	0.4*
10. Paying a “commission” is essential to improve chances of winning the contract (percent saying “Yes”)	Min	0.0	18.8	9.5
	Median	36.8	36.3	27.6
	Max	100.0	85.0	63.4
	Correlation with previous year	-0.1	0.1	0.3*

Note: \* Statistical significance level: 5 percent. (N.A.: Not applicable)

Despite notable progress, the fight against corruption and wrongdoings must continue with vigor. It is essential to further reduce the burden of informal charges on firms to sustain the progress made to date. There is also still work to be done in certain stubborn areas. Specifically, 69.9 percent of firms reported that the “rent-seeking phenomenon is popular in handling administrative procedures” in 2023, though this figure was down from 71.7 percent in 2022. Unfortunately, the percentage of firms paying informal charges in business registration and inspections (particularly environmental inspections) actually increased from 2022 to 2023.

### 1.3.3. Market Entry Procedures Have Become More Favorable

The 2023 survey reveals that businesses have experienced smoother market entry processes, with the average score of the Entry Costs subindex climbing to 7.31 points, up from 6.98 points in 2022 and 6.84 points in 2021. This subindex evaluates how easily firms can navigate administrative tasks related to business registration and obtaining sublicenses for a conditional business line.

In 2023, firms continued to observe positive changes in handling administrative procedures in business registration. These changes include transparency (94.1 percent), clear and adequate guidance (84.2 percent), and professional and knowledgeable officials (80 percent) with enthusiastic and friendly attitudes (75.6 percent), all of which have improved compared to two years ago. Only 5.88 percent of firms reported having to amend their business registration dossiers in the 2023 survey; this figure was 6.25 percent in 2022 and 17.24 percent in 2021.

The handling of conditional business line sublicensing procedures in 2023 has progressed compared to 2022. Specifically, 45.6 percent of firms said that guidance on how to complete the sublicense was clear and adequate (this was 29.1 percent in 2022) while 43.3 percent of businesses agreed that the settlement procedures were exactly as specified

by the regulation (up from 28.9 percent in 2022). A plurality (42.2 percent) stated that the procedures for obtaining the sublicense did not take longer than specified by the governing regulation (compared with 27.1 percent in 2022). Additionally, 42.7 percent of businesses reported that the fees for obtaining the sublicense were not more expensive than specified by the regulation (an improvement from 27.6 percent in 2022). However, these results indicate that conditional business sublicensing requires further substantial reform efforts. Specifically, this work needs to adhere to the Prime Minister's guidance from the 7th Meeting of the Government's Administrative Reform Steering Committee on February 2, 2024, which is continuing to cut down on business requirements that are unnecessary, unrealistic, ambiguous, or impractical; eliminate superfluous certifications, especially those that are repetitive.<sup>12</sup>

**Table 1.3. Some Indicators of Market Entry over the Years**

Indicator	Measure	2021	2022	2023
1. Length of business registration in days (Median)	Min	5	5	3
	Median	7	7	7
	Max	15	15	14
	Correlation with previous year	0.3*	0.5*	0.7*
2. Firms have to make one revision or more to their business registration dossier 2+ times (percent)	Min	4.9	0.0	0.0
	Median	17.2	6.3	5.9
	Max	34.1	16.1	13.9
	Correlation with previous year	N.A.	0.1	0.9*
3. Procedures at one-stop-shop are transparently listed (percent Agree)	Min	38.9	37.0	51.5
	Median	66.7	92.7	94.1
	Max	95.1	100.0	100.0
	Correlation with previous year	-0.3*	0.1	1.0*
4. Guidance and instruction on procedures at one-stop-shop are clear and adequate (percent Agree)	Min	37.0	29.6	47.2
	Median	73.7	80.0	84.2
	Max	100.0	100.0	100.0
	Correlation with previous year	0.2	-0.1	1.0*
5. Staff at one-stop-shops are professional and knowledgeable (percent Agree)	Min	18.5	30.0	37.5
	Median	44.7	73.3	80.0
	Max	82.9	100.0	100.0
	Correlation with previous year	-0.1	-0.0	1.0*

12 VnEconomy. (2024). "Thủ tướng yêu cầu tiếp tục cắt giảm các điều kiện kinh doanh không cần thiết và không khả thi" [The Prime Minister requested governmental agencies to continue cutting unnecessary and infeasible business conditions]. <<https://vneconomy.vn/thu-tuong-yeu-cau-tiep-tuc-cat-giam-cac-dieu-kien-kinh-doanh-khong-can-thiet-va-khong-kha-thi.htm>>

Indicator	Measure	2021	2022	2023
6. Staff at one-stop-shops are friendly (percent Agree)	Min	18.2	10.0	15.6
	Median	50.0	67.5	75.6
	Max	85.7	100.0	100.0
	Correlation with previous year	0.2	-0.1	0.9*
7. Guidance on how to complete the sublicense is clear and adequate (percent)—New variable in 2021	Min	34.3	12.4	22.9
	Median	57.7	29.1	45.6
	Max	80.0	59.6	62.4
	Correlation with previous year	N.A.	0.3*	0.8*
8. The settlement procedures applied to my application for conditional line sublicense were exactly as specified by the governing regulation (percent)	Min	27.9	12.4	24.0
	Median	55.9	28.9	43.3
	Max	80.8	63.6	65.8
	Correlation with previous year	N.A.	0.2	0.8*
9. The procedures for obtaining the sublicense did NOT take longer than specified by the governing regulation (percent)	Min	23.8	11.0	21.9
	Median	48.3	27.1	42.2
	Max	84.6	46.9	55.7
	Correlation with previous year	N.A.	0.1	0.8*
10. The fees for obtaining the sublicense were NOT more expensive than specified by the governing regulation (percent)	Min	23.1	9.9	21.9
	Median	42.5	27.6	42.7
	Max	68.0	46.9	56.5
	Correlation with previous year	N.A.	0.3*	0.8*

Note: \* Statistically significant at the 5 percent level. (N.A.: Not applicable)

### 1.3.4. Administrative Procedure Reforms Have Achieved Positive Results

In 2023, the government further promoted administrative reforms with a focus on six key areas: institutional reforms, administrative procedures, reorganizing the state's administrative structure, state officials' rights and responsibilities, public finance, and advancing e-government and digital governance. Specifically, concerning institutional reform, the government organized ten law-making-themed meetings while ministerial bodies submitted recommendations to the Government to promulgate 92 decrees issued under their authority 372 circulars. Provincial People's Councils and Committees released 3,427 legal documents. In the same year, the Prime Minister also set up 26 Administrative Procedures Reform Working Groups to guide ministries and local governments in addressing challenges to businesses. The Prime Minister approved a plan to cut and streamline 144 business regulations; ministerial bodies simplified 628 regulations across 53 legal documents, totaling 2,770 streamlined regulations since 2021. Additionally, 14 ministerial agencies initiated plans to delegate 86 administrative tasks, cumulating to 153 out of 699

tasks (21.9 percent) decentralized since 2022. In terms of the one-stop-shop system for administrative tasks, by year's end, digitization of records and administrative procedure handling results reached 28.59 percent at the ministerial level and 39.48% locally. The issuance of legally reusable electronic documents accounted for 28.6 percent at the ministerial level and 45.3% locally. Furthermore, in 2023, the timely or early resolution of administrative documents was at 30.6 percent for ministries and 90.8 percent for local governments.<sup>13</sup>

The 2023 survey results reflect the effectiveness of these administrative procedure reforms, with the score of the Time Cost subindex in 2023 reaching 7.74 points, an increase from 7.28 points in 2022 and 7.35 points in 2021. Firms reported improvements in the overall handling of administrative procedures, including online processes (detailed in Table 1.4).

Firms acknowledged the high quality of administrative procedure handling in 2023. This includes efficient and friendly government officials (87.9 percent and 87.2 percent, respectively), not having to make many trips to complete the procedures (82.5 percent), simplified paperwork (82.4 percent), publicly listed fee rates (93.5 percent), and completion of administrative procedures before the official deadline (86.8 percent). However, the burden of legal compliance for businesses needs to be further addressed. In 2023, 20.4 percent of businesses reported spending over 10 percent of their time on understanding and complying with regulations, a figure equivalent to that of 2022.

Catalyzed by the COVID-19 pandemic, authorities at all levels have accelerated the digitalization of administrative procedures. Findings from the 2023 survey show that nearly 77 percent of firms found that conducting administrative procedures online saved them time and money compared to traditional paper-based methods, and 77.8 percent of firms faced no issues with digital completion. These figures represent a marked improvement from two years prior.

The burden of inspections and examinations has also lessened for businesses. Specifically, in 2023, just under 7 percent of firms reported receiving three or more inspection visits during the year, a slight decrease from 7.4 percent in 2022 and 9.9 percent in 2021. The proportion of firms feeling that inspections were conducted to harass businesses dropped to nearly 7 percent in 2023, a sharp decrease from 9.6 percent in 2022 and 13.8 percent in 2021. However, there was a slight uptick in the percentage of firms reporting duplication during these inspections, rising from 6.7 percent in 2022 to 8.5 percent in 2023.

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<sup>13</sup> Governmental News. (2024). "Thủ tướng Chính phủ chủ trì Phiên họp thứ 7 của Ban Chỉ đạo cải cách hành chính của Chính phủ" [The Prime Minister chairs the 7th meeting of the Government's Administrative Reform Steering Committee]. <<https://baochinhphu.vn/thu-tuong-chinh-phu-chu-tri-phiên-hop-thu-7-cua-ban-chi-dao-cai-cach-hanh-chinh-cua-chinh-phu-102240203071908509.htm>>

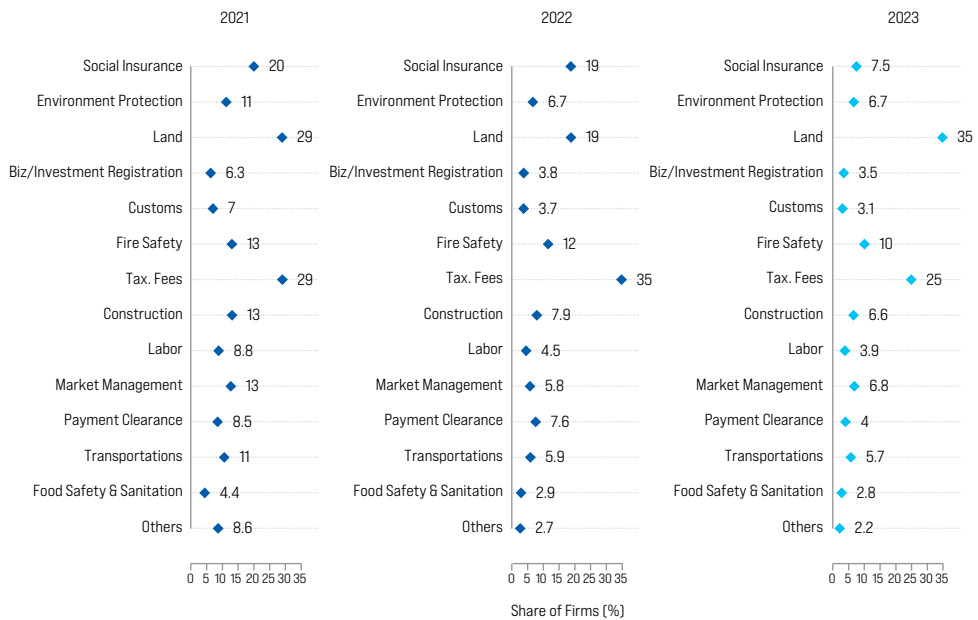
**Table 1.4. Some Indicators of Time Cost over the Years**

Indicator	Measure	2021	2022	2023
1. Percentage of firms spending over 10 percent of their time on understanding and complying with regulations	Min	13.4	5.5	6.6
	Median	25.9	20.4	20.4
	Max	42.8	36.1	36.0
	Correlation with previous year	0.1	0.3*	0.3*
2. Local government officials are effective (percent Strongly Agree or Agree)	Min	70.1	77.6	75.2
	Median	87.0	88.5	87.9
	Max	96.3	96.3	96.6
	Correlation with previous year	0.4*	0.5*	0.4*
3. Local government officials are friendly (percent Strongly Agree or Agree)	Min	58.7	73.4	75.7
	Median	83.2	86.7	87.2
	Max	95.4	96.1	95.8
	Correlation with previous year	0.4*	0.5*	0.6*
4. Firms don't have to travel many trips to obtain stamps and signatures (percent Strongly Agree or Agree)	Min	60.4	70.9	69.9
	Median	75.0	82.2	82.5
	Max	90.7	92.0	95.2
	Correlation with previous year	0.4*	0.2	0.3*
5. Paperwork is simple (percent Strongly Agree or Agree)	Min	51.9	67.3	67.5
	Median	73.9	81.4	82.4
	Max	90.3	90.3	91.9
	Correlation with previous year	0.5*	0.4*	0.5*
6. Fees are listed publically (percent Strongly Agree or Agree)	Min	85.2	87.9	86.9
	Median	94.7	93.9	93.5
	Max	99.2	99.2	99.2
	Correlation with previous year	0.3*	0.2	0.4*
7. Time to do APs is shorter than regulations specified (percent)—New variable in 2017	Min	59.5	72.7	74.8
	Median	80.0	86.4	86.8
	Max	91.4	94.2	94.5
	Correlation with previous year	0.2	0.2	0.4*
8. Firms have no difficulties completing APs digitally (percent Strongly Agree or Agree)- New variable in 2021	Min	28.6	37.5	53.6
	Median	57.3	63.6	77.8
	Max	71.2	83.3	93.1
	Correlation with previous year	N.A.	0.4*	0.2
9. Time to complete APs digitally is less than time to complete APs in-person (percent)—New variable in 2021	Min	27.1	37.5	50.0
	Median	57.1	62.5	77.0
	Max	72.8	86.1	90.2
	Correlation with previous year	N.A.	0.4*	0.2

Indicator	Measure	2021	2022	2023
10. Costs to complete APs digitally are less than costs to complete APs in-person- New variable in 2021	Min	27.8	36.8	50.0
	Median	57.1	62.8	76.9
	Max	78.3	86.1	93.1
	Correlation with previous year	N.A.	0.4*	0.2
11. Percentage of firms underwent 3+ visits per year by provincial agencies— Modified in 2021	Min	2.8	1.7	1.2
	Median	9.9	7.4	7.0
	Max	22.5	39.4	20.4
	Correlation with previous year	N.A.	0.4*	0.5*
12. Overlapping inspection (percent)—New variable in 2017	Min	1.1	0.0	1.5
	Median	9.1	6.7	8.5
	Max	28.4	20.6	24.6
	Correlation with previous year	0.4*	0.4*	0.1
13. Median tax inspection hours	Min	1.0	2.0	5.0
	Median	5.0	9.0	32.0
	Max	40.0	38.0	80.0
	Correlation with previous year	0.5*	0.4*	0.3*
14. Using inspection to extract rents (percent)—New variable in 2017	Min	1.9	0.0	0.0
	Median	13.8	9.6	7.0
	Max	28.4	26.1	18.0
	Correlation with previous year	0.4*	0.2	0.3*

Note: \* Statistically significant at the 5 percent level. (N.A.: Not applicable)

The 2023 survey reveals increasingly favorable views of businesses regarding the administrative reforms mentioned above. The VCCI's annual survey consistently probes firms for their input on administrative areas they find troublesome, such as business registration, taxation, labor, social insurance, land, construction, and market regulation. The findings reveal a general decline in the number of firms reporting difficulties across most administrative domains in 2023, with taxes and fees seeing the most significant drop. However, there was a marked increase in concerns about land-related administrative hurdles, which we will delve into in the next section.

**Figure 1.7. Troublesome Administrative Areas**

Source: Business Environment Survey, Question D1-2 "From your experience in the province, please indicate the administrative areas you found troublesome (Please check all that apply)"

### 1.3.5. Increasing Challenges in Land Access

The percentage of firms reporting land procedures as a troublesome area above aligns with the Land Access subindex score, which dipped to an average of 6.75 points in 2023, down from 6.94 in 2022 and 7.01 in 2021. The decline is further detailed in Table 1.5. Specifically, the percentage of firms having no difficulty accessing land or expanding business premises has continuously decreased from 55.2 percent in 2021 to 48 percent in 2022 and 40.7 percent in 2023. However, only 58.9 percent of firms that completed land procedures in the past two years did so without difficulty, a significant drop from 80.1 percent in 2022. Additionally, 21.2 percent of firms that sought a Land Use Right Certificate (LURC) were unable to obtain the LURC due to complicated procedures and troublesome officials, a figure nearly unchanged from 2022 and notably higher than in 2021 (10.45 percent). Nearly 73 percent of firms had to delay or cancel business plans in 2023 due to land-related administrative challenges, compared to 42.9 percent in 2022 and 53.9 percent in 2021.



**Table 1.5. Some Indicators of Land Access over the Years**

Indicator	Measure	2021	2022	2023
1. Percentage of firms that say nonstate enterprises do not have difficulties in accessing land or expanding premises	Min	36.6	18.9	21.3
	Median	55.2	48.1	40.7
	Max	82.8	74.3	68.2
	Correlation with previous year	0.2	0.2	0.3*
2. Percentage of firms that have completed land procedures in the last two years and have encountered no difficulties in land-related procedures.	Min	0.0	23.7	42.3
	Median	27.3	80.1	58.9
	Max	57.1	90.4	71.7
	Correlation with previous year	0.2	-0.3*	0.4*
3. Percentage of firms that want to have LURCs but don't have LURCs because of complicated procedures and troublesome staffs.	Min	1.6	5.0	6.9
	Median	10.5	22.2	21.2
	Max	22.5	56.8	61.5
	Correlation with previous year	0.2	0.3*	0.2
4. Firms have to delay / cancel business plans due to difficulties faced in completing land APs (percent)—New variable in 2021	Min	20.0	14.3	8.2
	Median	53.9	42.9	73.0
	Max	100.0	100.0	100.0
	Correlation with previous year	N.A.	0.2	-0.0

Note: \* Statistically significant at the 5 percent level. N.A.: Not applicable

In 2023, the biggest challenges faced by businesses involved in land administrative procedures was protracted processing time, with 64 percent citing delays beyond the regulated period. Only 46 percent of firms received vague guidance from officials, and the same percentage reported discrepancies between actual and regulated processing procedures. Determining land-use levies proved to be excessively time-consuming for 44 percent of firms, and 37 percent encountered discrepancies between the actual and the regulated land price.

**Figure 1.8 Difficulties Encountered by Firms when Implementing Land-Related Administrative Procedures**



Source: 2023 Business Environment Survey. Question C-7 “Over the last 2 years, has your firm implemented land-related administrative procedures (e.g. procedures for land purchase, transfer or rent from the State)?” Question C-7.1 “If yes, has your firm encountered any difficulties when implementing these procedures with provincial State agencies?” Question C-7.2 “If yes, please specify those difficulties?”

### 1.3.6. SMEs Expect a More Equitable Business Environment

The Policy Bias subindex, revised in 2021 to promote fairness in the business environment, saw its average score fall to 5.72 points in 2023, decreasing from 6.01 points in 2022 and 6.03 points in 2021 (Figure 1.5). This indicates a decline in business environment equality. The trend is further demonstrated in Table 1.6, which shows that 61.3 percent of firms felt that large firms’ issues were prioritized over those of SMEs, an increase from 58.8 percent in 2022 and 52.6 percent in 2021. Other figures also rose in 2023, including 32.6 percent of businesses perceiving a bias towards attracting large firms’ investments over investment by domestic SMEs’, compared with 29.9 percent in 2022. In 2023, 32.9 percent of firms stated that ease of access to information was a privilege for large firms, up from 30 percent in 2022. Additionally, 28.4 percent noted easier contract acquisition from state agencies for large firms, an increase from 20 percent in 2022.

While there have been improvements in certain aspects of Policy Bias compared to 2022, the 2023 results remained at a high level. For instance, 56.5 percent of businesses reported that provincial authorities’ preferential treatment towards large enterprises, including both state-owned and private companies, hindered the operations of SMEs. Additionally, 35.7

percent indicated that large firms enjoyed easier access to land, and 31.3 percent noted that corporate income tax (CIT) holidays or reductions were often privileges reserved for larger entities.

Remarkably, the percentage of firms perceiving “favoritism”—those agreeing with the statement that contracts, land, and other economic resources mostly fall in the hands of enterprises with strong connections to provincial authorities—has steadily decreased from 61.1 percent in 2021 to 57.7 percent in 2022 and 55.3 percent in 2023. When compared to the record high of 96.6 percent in 2013, the 2023 figure is truly impressive. This demonstrates the effective strides made in addressing “crony capitalism”, “interest group” relationships, policy manipulation, and unfair competitive practices since the Party’s enactment of Resolution No. 10/NQ-TW in 2017.<sup>14</sup>

**Table 1.6. Some Indicators of Policy Bias over the Years**

Indicator	Measure	2021	2022	2023
1. Preferential treatment to big companies (both state-owned and nonstate) is an obstacle to your business operations (percent Agree or Strongly Agree)	Min	19.6	29.1	40.0
	Median	43.4	58.2	56.5
	Max	69.8	84.8	75.9
	Correlation with previous year	-0.0	0.2	0.4*
2. Provincial authorities prioritize handling large firms' difficulties over SMEs' (percent Agree or Strongly Agree)—New variable in 2021	Min	31.9	35.4	49.2
	Median	52.6	58.8	61.3
	Max	73.3	87.7	82.4
	Correlation with previous year	N.A.	0.1	0.3*
3. Provincial authorities prioritize attracting investment from large firms over SMEs (percent Agree or Strongly agree)—New variable in 2021	Min	15.8	17.6	14.4
	Median	38.9	29.9	32.6
	Max	59.8	68.8	56.9
	Correlation with previous year	N.A.	0.2	-0.1
4. Land access as a privilege to large firms (percent Agree or Strongly Agree)—New variable in 2021	Min	11.1	29.0	14.1
	Median	24.8	54.8	35.7
	Max	47.9	85.7	53.9
	Correlation with previous year	N.A.	-0.1	0.0
5. Faster and simpler administrative procedures as a privilege to large firms (percent Agree or Strongly Agree)—New variable in 2021	Min	7.6	16.7	15.2
	Median	20.0	33.3	33.3
	Max	31.4	59.4	52.4
	Correlation with previous year	N.A.	0.3*	0.3*

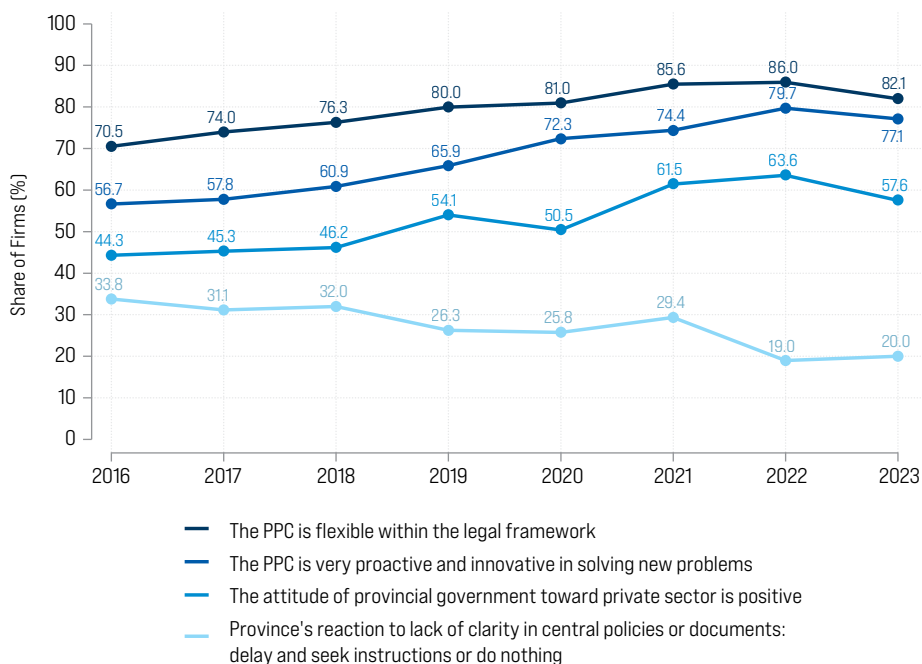
<sup>14</sup> Vietnam Communist Party. (2017). “Resolution No. 10/NQ-TW dated June 3, 2017 of the Fifth Conference of the Central Executive Committee of the Communist Party of Vietnam, 12th Term, on developing private economy into an important driving force of the socialist-oriented market economy”.

Indicator	Measure	2021	2022	2023
6. Ease in getting state contracts as a privilege to large firms (percent Agree or Strongly Agree)—New variable in 2021	Min	5.1	4.0	13.0
	Median	15.8	20.0	28.4
	Max	39.7	51.8	50.0
	Correlation with previous year	N.A.	0.3*	0.1
7. Mineral exploitation licensing as a privilege to large firms (percent Agree or Strongly Agree)—New variable in 2021	Min	2.2	0.0	9.8
	Median	9.7	13.3	28.7
	Max	20.6	34.5	46.9
	Correlation with previous year	N.A.	0.2	0.1
8. Ease in access to information as a privilege to large firms (percent Agree or Strongly Agree)—New variable in 2021	Min	8.1	14.8	10.9
	Median	23.5	30.0	32.9
	Max	36.3	51.7	53.1
	Correlation with previous year	N.A.	0.2	0.0
9. CIT holiday or reduction as a privilege to large firms (percent Agree or Strongly Agree)—New variable in 2021	Min	3.3	15.6	9.8
	Median	16.7	33.3	31.3
	Max	28.3	56.5	50.0
	Correlation with previous year	N.A.	0.2	0.1
10. "Contracts, land, ... and other economic resources mostly fall in the hands of enterprises that have strong connections to local authorities" (percent Agree)	Min	35.6	31.0	27.5
	Median	61.1	57.7	55.3
	Max	86.4	90.4	77.8
	Correlation with previous year	0.1	0.3*	0.3*
	Correlation with previous year	0.1	0.3*	0.3*

Note: \* Statistically significant at the 5 percent level. (N.A.: Not applicable)

### 1.3.7. Proactivity of the Provincial Government Officials Needs to Be Revitalized

The Proactivity subindex's average score for 2023 reflects a downward trend from previous years. The score settled at 6.68 points, a drop from 6.77 in 2022 and 6.84 in 2021. About 82.1 percent of businesses felt that the Provincial People's Committees were flexible, within the scope of laws, to create a favorable business environment, a decrease from 86 percent the previous year. Although 77.1 percent of firms stated that the provincial People's Committees were proactive and innovative in solving newly arising problems, this figure is down from 79.7 percent in 2022. Only 57.6 percent of businesses observed a positive attitude from provincial authorities towards the private sector, down from 63.6 percent in 2022. In addition, 20 percent of businesses reported that the province's reaction to any lack of clarity in central policies and documents was either "delay the implementation and request further guidance from relevant central agencies" or "do nothing," up slightly from 19 percent in 2022.

**Figure 1.9. Some Indicators of Proactivity**

Source: Business Environment Survey over the years. Question H1: “What do you perceive as the attitude of provincial government officials towards private business?”, Question H1.1: “If there are unclear points in a specific central regulation, what do the provincial People’s Committee and provincial departments tend to do?”, Question H2: “Do you agree with the following statements? My provincial People’s Committee is very flexible, within the scope of laws, to create a favorable business environment; Even when central regulations are unclear, my provincial People’s Committee is creative and clever in solving newly arising problems”

Other 2023 Proactivity subindex indicators suggest a standstill in provincial progress. Specifically, 51.5 percent of firms agreed with the statement that “There are good initiatives in the province, but they are not effectively implemented by provincial departments,” a slight increase from 50.4 percent in 2022. Up to 44.7 percent of firms observed that “provincial policies are good but improperly implemented at the district level” in 2023, a minor decrease from 45.2 percent in 2022. Notably, only 40.8 percent of firms perceived “the guiding directions and policies by the provincial government are consistent and stable” in 2023, substantially decreasing from 50 percent in 2022 and 53.4 percent in 2021. Marking a slight decline from 76.9 percent in 2022, 74.5 percent of firms indicated confidence that provincial leaders would keep their commitments to improve the business environment in 2023. This highlights the private sector’s broad confidence that provincial authorities will fulfill commitments to improve the business environment.

**Table 1.7. Some Indicators of Proactivity over the Years**

Indicator	Measure	2021	2022	2023
1. There are good initiatives at the provincial level, but they are not well implemented by departments (percent Strongly Agree or Agree)—Modified in 2021	Min	13.3	24.8	30.5
	Median	31.9	45.2	44.7
	Max	56.7	81.78	78.7
	Correlation with previous year	0.1	0.2	0.3*
2. The province has good policies but they are improperly implemented at the district level (percent Strongly Agree or Agree)—Modified in 2021	Min	15.6	25.6	35.2
	Median	36.1	50.4	51.6
	Max	69.5	84.8	79.6
	Correlation with previous year	0.1	0.3*	0.3*
3. Provincial authorities timely handle firm's difficulties raised in PPD dialogues—New variable in 2017	Min	43.6	51.3	76.0
	Median	78.5	79.8	84.1
	Max	91.7	92.9	94.4
	Correlation with previous year	0.23*	0.2	0.1
4. Provincial policies on firms are stable and consistent (percent Strongly Agree or Agree) — New variable in 2021	Min	30.3	21.2	16.5
	Median	53.4	50.0	40.8
	Max	75.2	69.4	58.7
	Correlation with previous year	N.A.	-0.0	0.3*
5. Firms were confident that provincial leaderships would keep their commitments to improve the business environment (percent)—New variable in 2021	Min	29.1	54.2	55.0
	Median	71.7	76.9	74.5
	Max	86.2	90.4	89.4
	Correlation with previous year	N.A.	0.3*	0.2

Note: \* Statistically significant at the 5 percent level (N.A.: Not applicable)

## 1.4 Major Challenges Faced by Businesses

The VCCI's 2023 annual business survey goes beyond local economic governance quality to identify the primary challenges firms face. The survey queried firms about 15 aspects of business operations, ranging from accessing financing, finding customers, locating suitable premises, sourcing suppliers, seeking business partners, and suitable personnel recruitment to dealing with natural disasters and pandemics (details in Table 1.8). The insights gathered are important for shaping future business support programs by various authorities and organizations.

Table 1.8 reveals that firms encountered more obstacles in 2023 than in the previous year. Of the 15 challenges listed, 11 saw an increase in the percentage of firms reporting

difficulties. These challenges spanned access to credit, finding premises and suppliers, recruiting personnel, completing administrative procedures, infrastructure quality, market fluctuations, changes in relevant policies and regulations, intellectual property infringement, contract enforcement, natural disasters, and climate change.

The most significant challenge in 2023 was access to credit, with nearly 57.1 percent of firms citing it as a concern, the highest percentage ever recorded in the VCCI's annual business surveys. A more detailed examination of credit access challenges will be analyzed in the subsequent section.

Finding customers continued to be a major difficulty for many firms, with 49 percent reporting it as a challenge in the 2023 survey, making it the second most common issue out of 14 listed. However, there has been a gradual decrease in the percentage of firms facing challenges in finding customers since 2021. This suggests that firms are adapting and actively seeking customers despite challenges,<sup>15</sup> possibly thanks to government programs aimed at helping businesses grow their customer base and market reach (as detailed in section 1.3.1).

The third most common challenge highlighted by firms in the 2023 survey was market fluctuations, selected by 34.5 percent of respondents. This represents a notable increase of 10.7 percentage points compared to the 2022 survey results (23.8 percent). It marks the highest increase in the percentage of firms reporting a challenge compared to 2022.

In 2023, slightly more than 25.5 percent of firms identified the COVID-19 pandemic as a concern. Positively, the percentage of firms reporting this challenge significantly decreased from 34.1 percent in 2022 and 67.4 percent in 2021. However, the COVID-19 pandemic ranked fourth overall among the year's challenges, implying that many Vietnamese businesses are still experiencing its negative impacts.

Chosen by 14.5 percent of firms and ranked sixth among the challenges identified in 2023, changes in policies and regulations need greater attention from provincial governments. The 2023 survey result increased from 9.5 percent in 2022, disrupting the downward trend observed from 2019 to 2022. This 5.1 percentage point increase is the second-largest uptick in the 2023 survey, likely driven by recent adjustments in how gasoline, electricity, and bond markets were managed.

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15 The Saigon Times. (2024). "No longer waiting for the perfect moment, firms proactively adapt to challenges to seize opportunities". <<https://thesaigontimes.vn/khong-cho-thoi-doanh-nghiep-thich-nghi-voi-kho-khan-tim-co-hoi-san-xuat/>>

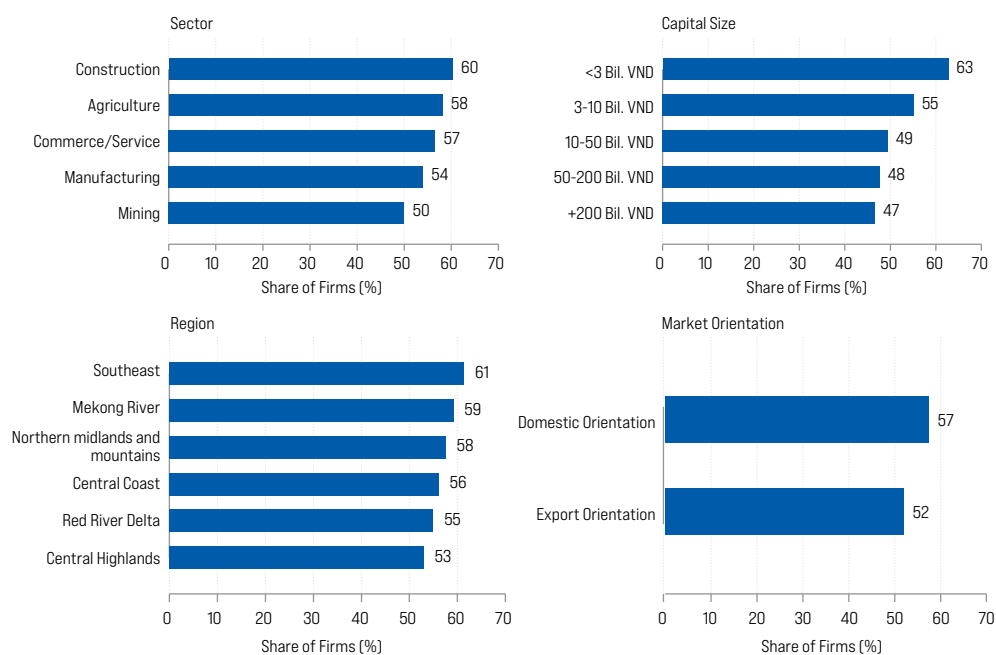
**Table 1.8. Major Challenges Faced by Firms**

Challenges	2019	2020	2021	2022	2023
To get financing (%)	34.8	40.7	46.9	55.6	57.1
To find customers (%)	63.4	63.6	68.9	55.1	49.0
Market downturn (%)	26.6	33.1	31.7	23.8	34.5
Epidemic (COVID-19) (%)			67.4	34.1	25.5
Finding business partners (%)	27.6	25.3	23.9	21.4	17.1
Abrupt changes in policies & regulations (%)	17.8	17.7	15.8	9.4	14.5
To get suitable personnel (%)	33.8	28.0	27.2	10.8	13.7
To find suppliers (%)	17.4	18.8	22.9	10.2	13.4
Climate changes and natural disasters (%)		20.3	17.1	9.3	11.7
To deal with administrative matters (%)	14.7	15.1	12.8	6.7	8.5
Enforcement of contracts with customers and vendors (%)	-	6.0	7.6	4.0	6.0
Poor infrastructure (%)	5.2	5.4	8.4	4.5	6.0
To find suitable premises (%)	13.5	11.5	12.9	5.0	5.8
Others (%)	2.0	6.6	4.2	2.8	5.1
Intellectual property infringement (%)	5.1	4.9	2.9	1.5	2.8

Source: 2023 Business Environment Survey. Question E1: "Do you face any difficulties in the following activities and services when running your business?" (N.A.: Not applicable)

In the following section, we will delve deeper into the issue of credit access for firms, which topped the list of business challenges for the last two years. The research team will pinpoint which groups are facing difficulties in getting financing, breaking it down by capital size, sector, region, and market orientation (Figure 1.10). By capital size, 62 percent of firms with capital under \$120,000 (3 billion dong) were experiencing difficulties in accessing credit, the highest rate among all groups. Even among the largest firms, those with a capital size of \$7.86 million (200 billion dong) or more, 47 percent were facing credit challenges. By sector, 60 percent of firms in the construction sector experienced challenges in credit access, followed by those in agriculture, forestry, and fisheries, at 58 percent. In the Southeast and the Mekong Delta regions, firms reported credit access troubles at rates of 61 percent and 59 percent, respectively. In terms of market orientation, 57 percent of domestic-oriented firms and 52 percent of export-oriented businesses encountered difficulties in accessing credit.



**Figure 1.10. Difficulties in Access to Financing in 2023 by Business Characteristics**

Source: 2023 Business Environment Survey. Question E1: “Do you face any difficulties in the following activities and services when running your business?” The results are calculated specifically for the “Access to Financing” option.

What are the main obstacles businesses face when they are trying to get a loan? This year’s report probed this question, with latest survey results presented in Table 1.9. The biggest obstacle in 2023 was firms’ inability to secure loans without collateral (82.1 percent). The second most common problem reported by firms was concern about banks and credit organizations imposing unfavorable credit conditions on enterprises (50.5 percent). A significant proportion of firms (45.1 percent) indicated troublesome loan application procedures or having to “give bribes” to credit staff to obtain loans (39.9 percent). A relatively high proportion of firms stated that credit staff intentionally used error detection to prolong the application processing time (36.8 percent).

However, except for the collateral requirement, it is encouraging to see that barriers to firms have lessened in 2023 compared to the previous year. Additionally, there has been a notable rebound in firms’ access to credit, from a low of 17.8 percent in 2022<sup>16</sup> back up to 33.9 percent in 2023. These positive developments might have resulted from the proactive policies of the State Bank of Vietnam (SBV). Specifically, at the beginning of 2023, the SBV instructed its provincial branches and credit institutions to identify and tackle any issues

16 VCCI-USAID. (2023). 2022 PCI report, page 44

preventing businesses from getting bank loans. Provincial SBV branches and departments of planning and investment leaders proactively coordinated with one another as well as local associations to review firms' credit accessibility and present identified problems at bank-enterprise conferences. Provincial SBV branches set up hotlines to receive feedback and suggestions via phone calls and emails. Meanwhile, commercial banks were requested to address any issues and report back to provincial SBV branches. The results were consolidated and submitted to the national SBV and then published on SBV's Electronic Information Portal.<sup>17</sup> The 2023 survey results indicate that the SBV's recent measures to facilitate businesses' access to credit have been effective.<sup>18</sup>

**Table 1.9. Issues Faced by Firms When Accessing Bank Loans, 2018-2023**

Year	Commercial banks impose unfavorable credit conditions to businesses (percent)	Loans cannot be obtained without collateral (percent)	Giving bribes to bank staff is very common (percent)	Complicated procedures (percent)	Application times delayed due to bank staffs intentionally look for errors (percent)
2018	40.4	86.1	39.1	44.1	
2019	38.9	86.3	31.0	39.3	17.4
2020	39.0	82.5	37.9	46.4	26.1
2021	41.8	81.4	37.3	46.1	27.3
2022	58.7	79.4	55.8	58.6	49.8
2023	50.5	82.0	39.9	45.8	36.8

Source: Business environment survey over the years. Question E4.14: "How would you rate access to capital in your province?" (Check all that apply)

In this year's report, the research team analyzes credit access by sector to address particular challenges faced by businesses (Table 1.10). The 2023 data shows the firms that struggled most to obtain financing were working in the computers and electronics industry (73.3 percent), information and communication (67.2 percent), and machinery manufacturing (67.2 percent). The sectors that found it hardest to get loans, claiming that banks or credit institutions imposed unfavorable credit conditions, were information and communication (90 percent), financial and insurance services (75 percent), and textiles (70.8 percent). The

17 State Bank of Vietnam. (2023). Directive No. 01/CT-NHNN dated January 17, 2023 on the implementation of key tasks of the banking industry in 2023 and Official Letter No. 953/NHNN-TD dated February 21, 2023 by the State Bank of Vietnam.

18 Governmental News. (2023). "Creating enabling conditions for firms to access bank credit". <<https://baohinhphu.vn/tao-dieu-kien-thuan-loi-cho-doanh-nghiep-tiep-can-von-tin-dung-ngan-hang-102230222164835946.htm>>

issue of not being able to obtain loans without collateral was reported most often in the information and communication (100 percent) sector, followed by financial and insurance services (100 percent) and electronic equipment (90.9 percent). The highest rates of bribery to credit officers for loan approval were seen in information and communication (70 percent), textiles (58.3 percent), and paper processing (57.9 percent). Firms reported that “lending procedures are complicated and troublesome” mostly in information and communication (70 percent), real estate (62 percent), and chemicals (60.5 percent). The sectors of computers and electronics manufacturing (83.3 percent), information and communication (80 percent), and financial and insurance services (67.5 percent) saw the most frequent occurrence of credit staff using the discovery of errors to prolong the application processing.

**Table 1.10. Challenges Faced by Firms When Accessing Bank Loans in 2023, by Business Sector**

Sector	Obstacle to get financing (%)	Commercial banks impose unfavorable credit conditions to businesses (%)	Loans cannot be obtained without collateral (%)	Giving bribes to bank staff is very common (%)	Complicated procedures (%)	Application times delayed due to bank staffs intentionally look for errors (%)	Number of observations
Agriculture, Forestry and Aquaculture	61.0	53.5	81.4	39.5	48.8	41.9	129
Mining	53.8	40.0	85.0	35.0	35.0	35.9	98
Electricity/Gas/ AC	52.1	50.3	80.1	40.9	43.7	33.5	615
Construction	60.4	45.6	79.1	36.6	43.9	32.8	1211
Accommodation And Food Service Activities	56.4	53.4	87.7	43.8	47.9	32.4	257
Information And Communication	67.2	90.0	100.0	70.0	70.0	80.0	62
Financial/ Insurance	52.8	75.0	100.0	50.0	50.0	75.0	37
Real Estate	55.3	56.0	86.0	46.0	62.0	36.0	172
Professional Services	60.3	61.9	84.9	50.0	55.6	50.8	567
Edu/Healths/ Admin services	55.1	62.8	78.2	42.3	53.8	31.2	318

Sector	Obstacle to get financing [%]	Commercial banks impose unfavorable credit conditions to businesses [%]	Loans cannot be obtained without collateral [%]	Giving bribes to bank staff is very common [%]	Complicated procedures [%]	Application times delayed due to bank staffs intentionally look for errors [%]	Number of observations
Other	67.3	50.0	80.0	30.0	30.0	20.0	58
M:Food Processing	55.5	46.3	82.9	30.1	39.0	24.6	239
M:Textiles	42.0	70.8	87.5	58.3	54.2	47.8	51
M Garments	47.1	52.3	75.0	38.6	45.5	34.1	94
M:Leather	25.0	62.5	75.0	25.0	50.0	12.5	16
M:Wood Products	57.7	49.1	85.5	41.8	41.8	35.8	115
M:Paper Products	47.1	52.6	73.7	57.9	52.6	39.5	92
M:Chemicals	63.4	57.9	81.6	55.3	60.5	52.6	78
M:Rubber/Plastics	48.2	35.1	83.8	27.0	40.5	44.4	66
M:Basic Metals	50.3	47.1	78.8	38.8	40.0	46.4	171
M:Fabricated Metals	57.6	46.5	80.3	39.4	40.8	40.0	193
M:Computers/ Electronics	73.3	50.0	66.7	50.0	33.3	83.3	17
M:Electronic Equip	40.0	27.3	90.9	27.3	18.2	36.4	16
M:Machinery	67.2	59.1	81.8	31.8	45.5	45.5	65
M:Motor Vehicles	55.6	33.3	66.7	33.3	33.3	33.3	9
M:Furniture	54.5	48.0	88.0	40.0	32.0	33.3	48
M: Other manufacturing	65.8	63.6	72.7	27.3	36.4	27.3	42
Comm: Wholesale/retail and repair of motors	51.9	47.4	81.1	37.9	43.2	31.5	199

Sector	Obstacle to get financing [%]	Commercial banks impose unfavorable credit conditions to businesses [%]	Loans cannot be obtained without collateral [%]	Giving bribes to bank staff is very common [%]	Complicated procedures [%]	Application times delayed due to bank staffs intentionally look for errors [%]	Number of observations
Comm: Wholesale, except of motors	56.6	49.1	82.4	38.2	44.8	37.8	1645
Comm: Retail trade, except of motors	59.6	54.3	86.4	43.2	50.7	37.8	1012

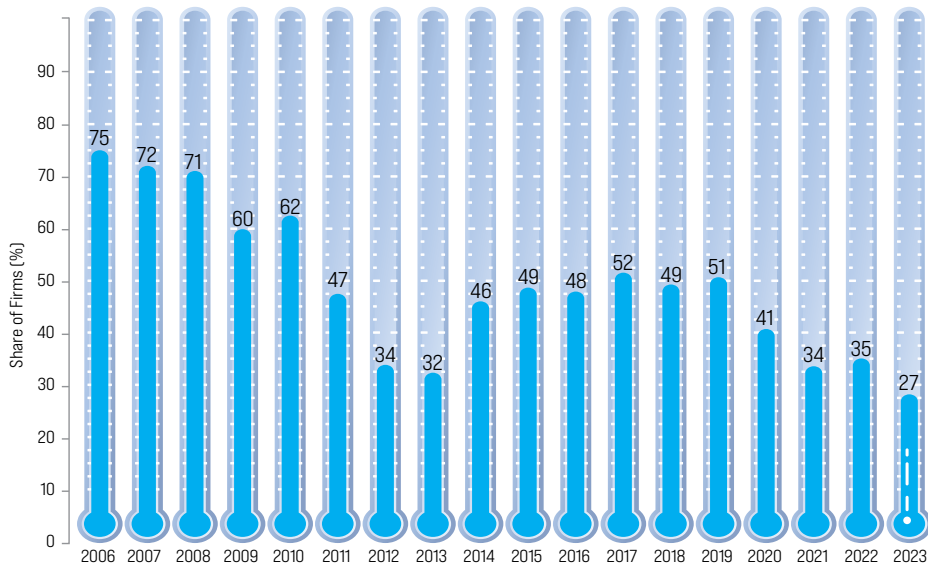
Source: 2023 Business Environment Survey. Question E1: "Do you face any difficulties in the following activities and services when running your business?" Explicit about difficulties in credit access. Question E4.14: "How would you rate access to capital in your province?" (Check all that apply). Red colors denote the highest scores with green denoting the lowest. Orange and yellow imply medium high and medium low respectively.

Note: The color of the cells follows a green-yellow-red spectrum, indicating the proportion of firms, from low to high, that reported difficulties accessing credit.

## 1.5 Business Thermometer

Facing numerous challenges to their operations, firms may be more cautious about their future business plans. This speculation can be evaluated using the survey data about firms' intentions over the next two years, including whether they will expand, maintain, or downscale their operations, or even close their businesses. The research team keeps this question in the annual survey to understand the level of optimism among firms, reflected by the proportion of those indicating that they plan to expand their business in the future. Each year, we provide a fresh look at this aspect through the Business Thermometer (Figure 1.11). It is a leading indicator of business investment and economic growth.

The 2023 survey results show a decline in business optimism. Specifically, only 27 percent of firms said that they planned to increase the size of operations over the next two years, a substantial decrease from 35 percent in 2022. The 27 percent is also below the previous lows observed between 2012-2013 when Vietnam's economy faced the dual impact of the global financial crisis and domestic macroeconomic instability.

**Figure 1.11. Business Thermometer over Time**

Source: Business Environment Survey over the years. Question A.10 “Which statement best characterizes your firm’s investment plans over the next 2 years?” The percentage of businesses shown in the illustration represents those that have selected “plan to increase the size of operations” or “consider to increase the size of operations.”

The survey data indicates a notable increase in the proportion of firms planning to downsize or close their operations, reaching 16.2 percent in 2023. This figure marks a significant rise from the 10.7 percent recorded in 2022<sup>19</sup> and is nearly equivalent to the record-high of 16.6 percent in 2021 during the peak of the COVID-19 pandemic.<sup>20</sup>

Data released by the General Statistics Office (GSO) provides further evidence that can support this survey finding. In the first quarter of 2024 alone, the number of firms withdrawing from the market reached 73.9 thousand, a 22.8 percent increase compared to the same period last year. Meanwhile, during the first quarter of 2024, there were 59.9 thousand firms that registered as new or resuming operations.<sup>21</sup> This marks the second time in all of the first quarters evaluated where the number of businesses closing or withdrawing from the market surpassed the number of new and re-entrants. This phenomenon

<sup>19</sup> VCCI-USAID. (2023). 2021 PCI Report, page 41.

<sup>20</sup> VCCI-USAID. (2022). 2021 PCI Report, page 84.

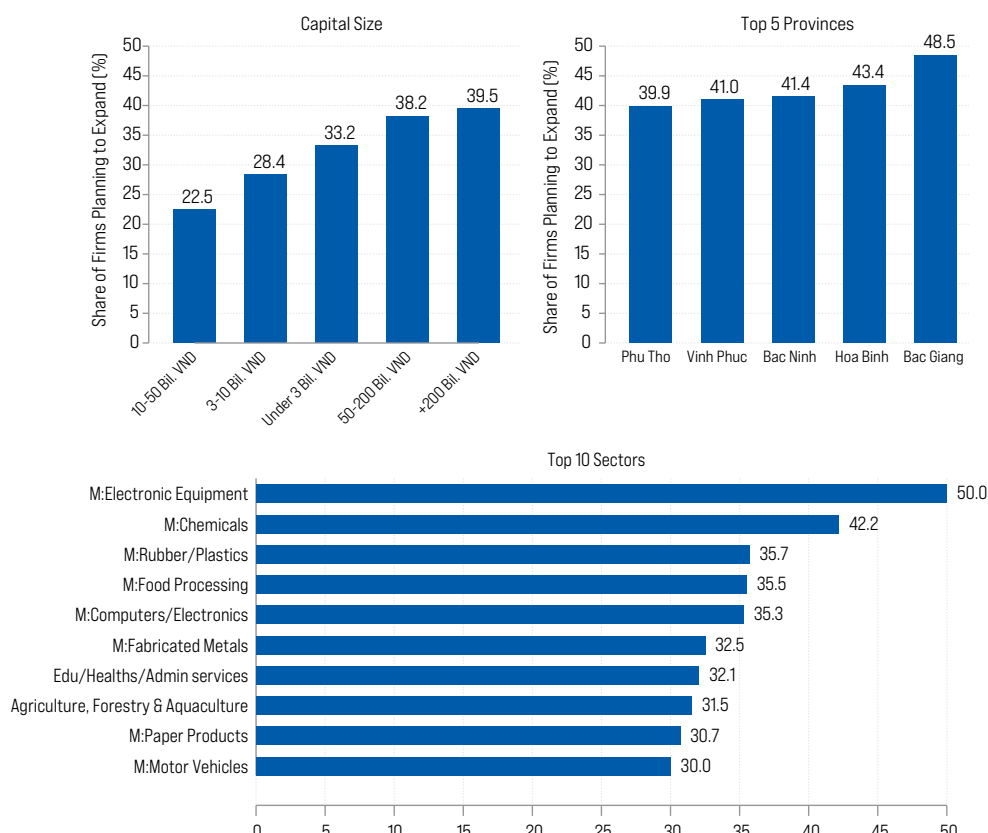
<sup>21</sup> General Statistics Office. (2024). “Report on Socio-Economic Conditions in the First Quarter of 2024”. <<https://www.gso.gov.vn/tin-tuc-thong-ke/2024/03/bao-cau-tinh-hinh-kinh-te-xa-hoi-quy-i-nam-2024>>. The report details that, comparing the numbers of newly registered businesses and those resuming operations to those withdrawing from the market, there was a decrease of 14,100 firms across the country in the first quarter of 2024, with a monthly average decline of 4,700 firms.

previously occurred in the first quarter of 2023.<sup>22</sup> The 2023 survey data from VCCI combined with GSO data highlights a noteworthy phenomenon. State management agencies need to closely monitor the situation and implement more effective measures to facilitate business recovery in the coming years.

Despite the decreased overall level of optimism in 2023, the business thermometer contains positive observations when analyzed by company type. First, medium and large-scale firms showed relatively high levels of optimism. Specifically, 38 percent of firms with a capital size of \$2 million–7.86 million (50–200 billion dong) plan to expand their operations over the next two years; meanwhile, 40 percent of firms with a capital size larger than \$7.86 million (200 billion dong), plan to do the same. The ten sectors with the highest proportion of firms planning to expand their business are electronic equipment manufacturing (50 percent), chemicals (42.2 percent), rubber and plastics (35.7 percent), food processing (35.5 percent), computers and electronics (35.3 percent), fabricated metal (32.5 percent), agriculture, forestry, and aquaculture (31.5 percent), education-health-labor services (32.1 percent), paper products (30.7 percent) and motor vehicle manufacture (30 percent). The five provinces with the highest proportion of firms planning to expand their business are all located in the Northern region, including Bac Giang (48.5 percent), Hoa Binh (43.4 percent), Bac Ninh (41.4 percent), Vinh Phuc (41 percent), and Phu Tho (39.9 percent).

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22 VnEconomy. (2023). "Q1 2023: The number of business closures surpasses the number of new registrations for the first time". <<https://vneconomy.vn/quy-1-2023-lan-dau-tien-so-doanh-nghiep-dong-cua-vuot-so-doanh-nghiep-dang-ky-moi.htm>>.

**Figure 1.12. Domestic Business Thermometer by Characteristics**

Source: 2023 Business environment survey. Question A.10 “Which statement best characterizes your firm’s investment plans over the next 2 years?” The percentage of businesses shown in the illustration represents those that have selected “Plan to increase the size of operations” or “consider to increase the size of operations.”

## 1.6 Conclusion

The 2023 PCI results reveal continued improvement in provincial economic governance over time. Leading provinces face significant pressure to innovate and foster a conducive business investment environment while maintaining effective reform efforts. Meanwhile, many lower-ranked provinces are making great strides by effectively leveraging the “followers’ advantage,” learning from successful provinces that have demonstrated better governance quality. There are tangible changes in the provincial business environment in 2023 compared to prior years. These include positive developments in the implementation of business support policies, reductions in informal charges, simpler procedures for new market entrants, and encouraging outcomes of administrative procedure reforms.



However, there remain areas of concern. Feedback from firms indicates growing obstacles in land access, an unequal business environment for SMEs, and a potential slowdown in the proactivity of local government officials. Additionally, businesses encounter multiple operational challenges, including accessing finance, finding customers, market fluctuations, changes in policy and regulations, and negative impacts from natural disasters and climate change.

In response to these challenges, businesses are becoming more cautious, with the proportion of firms intending to expand their operations reaching its lowest level in 18 years. The percentage of businesses considering downsizing or closure is lower than only the record result observed in 2021 during the peak of the COVID-19 pandemic. Nevertheless, a considerable share of medium and large-scale firms plans to increase their size of operations. Many businesses in key sectors, such as machinery manufacturing, agriculture, forestry, and aquaculture, and education, health, and labor services, remain optimistic with the intention to expand their operations in the near future.

For businesses to recover and thrive, local authorities need to engage in more substantive efforts to improve the business climate, including implementing effective administrative procedure reforms and reducing formal and informal charges for businesses. Provincial governments should focus on tackling troublesome administrative procedures in areas such as taxes, fire protection, social insurance, market regulation, construction, and environmental protection. Particularly, land access has become the most troublesome administrative areas for firms, requiring authorities at all levels to simplify procedures, shorten land-related processes, and provide information in a more transparent way for businesses. Additionally, local governments need to level the field, giving SMEs fair access to resources, including obtaining information, opportunities for tax exemption and reduction, and participation in public procurement. Business support programs should address the major challenges that firms of all sizes currently face, such as accessing loans, finding customers, market fluctuations, adapting to policy and regulatory changes, and recovering from natural disasters. Finally, proactive provincial leadership will be crucial for improving both the local and national business environments. This requires ensuring stable and consistent policy, law-making, and enforcement while enhancing the performance of government officials at all levels.

A breakthrough is expected in 2024 with regard to implementing the Five-Year Socio-Economic Development Plan for the 2021-2025 period. In Resolution 01/NQ-CP dated January 5, 2024, the Government identified the theme of the year as “Responsible discipline, timely proactivity, accelerated creativity, sustainable effectiveness.”<sup>23</sup> In addition, another

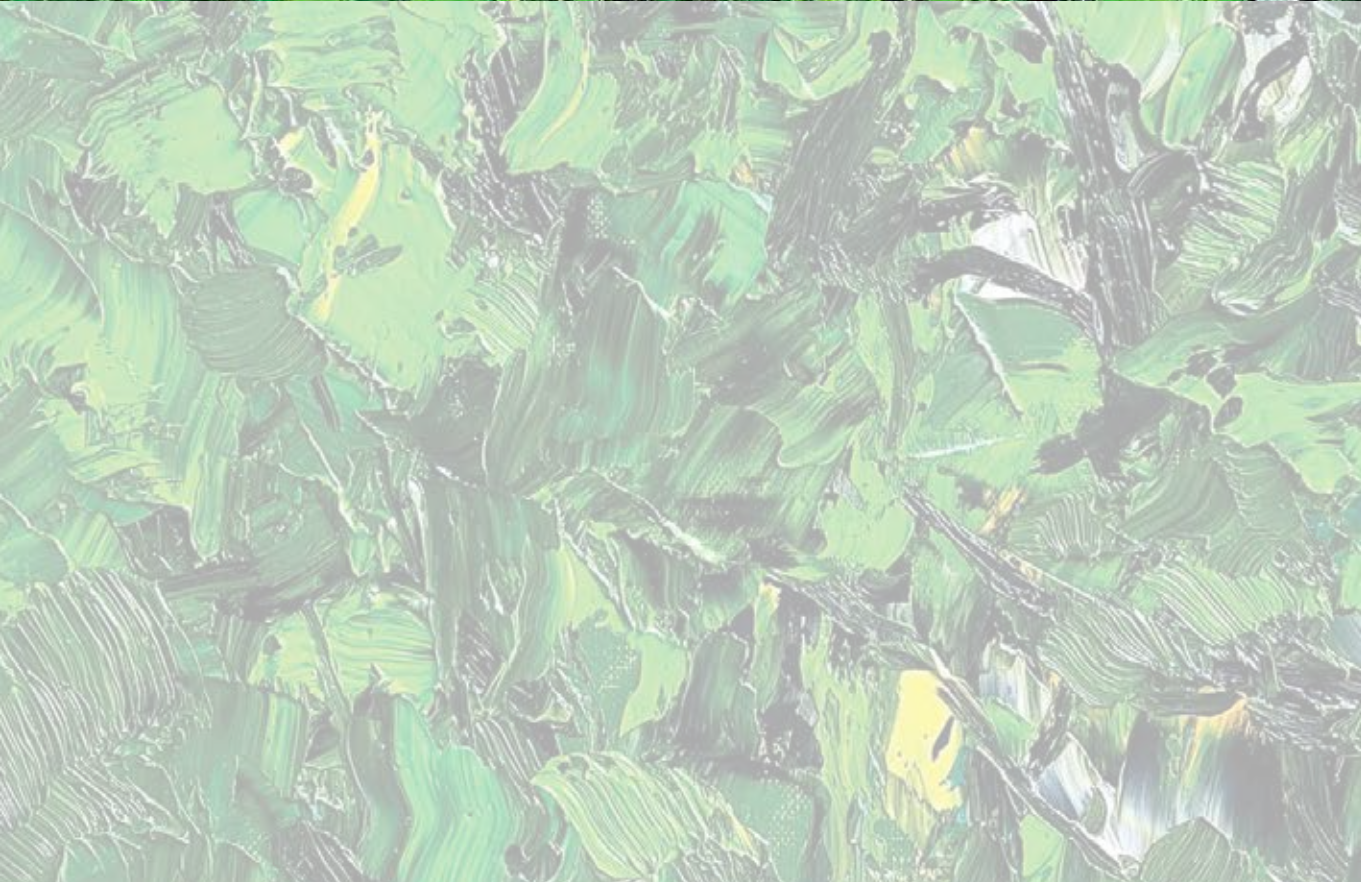
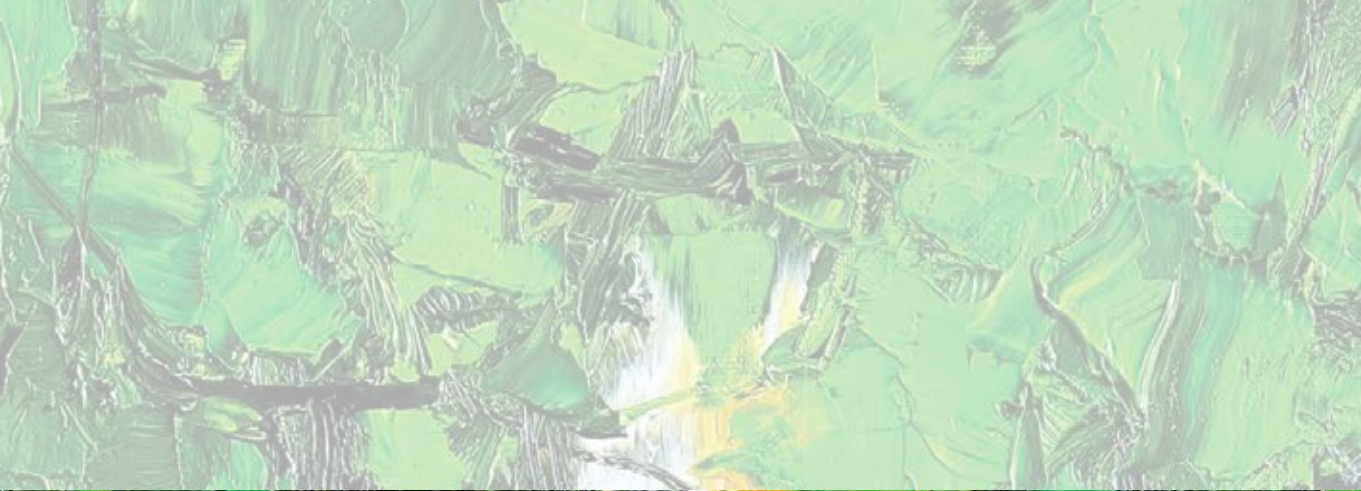
23 Government of Vietnam. (2024). Resolution 01/NQ-CP: “Key duties and solutions to implement the Socioeconomic Plan and Estimated State Budget for 2024”. <<https://vanban.chinhphu.vn/?pageid=27160&dodocid=2094296&classid=509>>

iteration of Resolution 02/NQ-CP addresses the main tasks and solutions to improve the business environment and enhance national competitiveness in 2024, with the goal of “significantly improving the business environment, fostering fair competition (...); reducing input costs and compliance costs in investment and business activities; minimizing regulatory risks; strengthening trust, creating a solid foundation for business recovery, and enhancing business resilience.”<sup>24</sup> These new directives are expected to be promptly and effectively implemented by provincial governments, elevating the business landscape and national competitiveness in 2024 and the years to come.

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<sup>24</sup> Government of Vietnam. [2024]. Resolution 02/NQ-CP: “Key duties and solutions to improve business environment and national competitiveness in 2024”. <<https://vanban.chinhphu.vn/?pageid=27160&docid=209430>>







# CHAPTER 2

## The 2023 Provincial Green Index

## 2.1 Summary of Main Findings

**This chapter presents the second iteration of the Provincial Green Index (PGI), which complements the PCI by balancing growth objectives with a sustainability orientation.**

Vietnam's economic success has been accompanied by increasing climate and environmental threats. The long-term health and welfare of the citizenry depend on plotting a path to sustainable economic growth that allows the economy to thrive while protecting Vietnam's vital environmental heritage. This challenge requires excellent data to measure the country's progress and determine what policy solutions can be most impactful. The PGI, which is constructed using the same statistical rigor and contextual country knowledge as the PCI, provides exactly this tool for national leaders, provincial decision-makers, and foreign and domestic investors.

**This section of the report provides a comprehensive summary of the main findings and policy recommendations that are detailed more fully below in the technical section of this report.**

The section begins with an outline of the methodology of the 2023 PGI and an introduction of top performers. Next, it illustrates the relationship between improvements in green governance and reductions in exposure to climate disasters and pollution. Econometric analysis provides robust evidence illustrating how improvements in the PGI are associated with reductions in atmospheric pollutants and particulate matter. Despite the positive benefits of green reforms, the research team is aware of the significant challenges that provincial leaders face in trying to design local initiatives, including resource and technical limitations, spillover from other locations, and limited market motivations for firms to undertake reforms. These are detailed in the penultimate section. The section concludes with policy recommendations.

**The rest of the technical report proceeds as follows.** Section 2.2 outlines the Vietnamese burgeoning legal framework for environment and climate policy that shapes the goals of provincial officials and motivates the selection of the PGI's four subindices. Section 2.3 provides a detailed description of the PGI's methodology, explaining how data is collected, the meaning of each of the 46 PGI indicators, the process of assembly into the four subindices, and finally the creation of the final PGI. Section 2.4 provides a detailed description of the rigorous statistical analysis used to evaluate the relationship between advances in the PGI and improvements in environmental quality and climate mitigation.

## 2.1.1. What does the PGI measure?

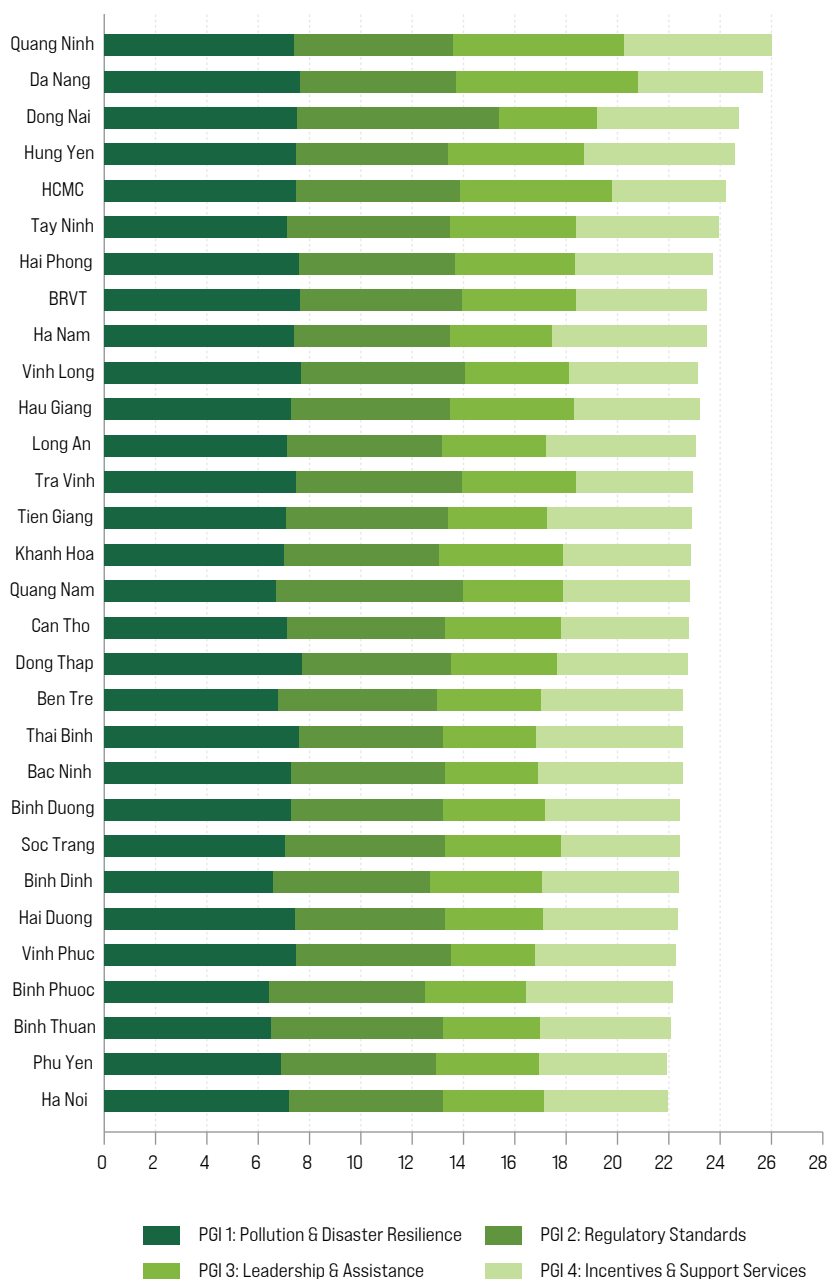
**Like its cousin the PCI, the PGI aggregates the perception of businesses into a common voice, communicating their views on environmental policy to national and local decision-makers.**

**The PGI is built to reflect the actual Vietnamese environmental policies that govern the relationship between provincial governments and businesses, beginning with the 2020 Law on Environmental Protection (LEP).** As highlighted in Section 2.2, the burgeoning Vietnamese legal framework that enables provincial governments to monitor, mitigate, and adapt to environmental and climate change can be divided into four different conceptual policy baskets: 1) Pollution and Disaster Resilience; 2) Regulatory Standards; 3) Leadership & Assistance; and 4) Incentives & Support Services.

**The four sub-indices of the PGI were constructed from 46 survey and administrative indicators to reflect these four key policy objectives, allowing provincial officials to evaluate their progress in meeting them.** A province that scores highly on the PGI is one that is making efforts to combat pollution and private environmental accidents (subindex 1), designing and enforcing reasonable regulations that ensure compliance without creating overwhelming burdens (subindex 2), providing appropriate guidance to firms on green operations and environmentally friendly procurement (subindex 3), and incentivizing green operations through targeted incentives and subsidy programs (subindex 4). These factors are measured using four subindices comprised of 46 indicators about green private sector development policy at the provincial level in Vietnam.

**Figure 2.1 presents the 2023 PGI.** Each subindex receives an equal weight of 25 percent. Thus, the total possible score of the pilot PGI equals forty points. Provinces are rank-ordered from top to bottom, so the best-performing province is on the far left. Quang Ninh, despite not ranking first in any individual index, ranks first overall due to its cumulative performance across all four subindices, achieving a total score of 26 points. It is followed by Da Nang (25.66), Dong Nai (24.71), Hung Yen (24.59), and Ho Chi Minh City (24.2).

Figure 2.1. Final Provincial Green Index



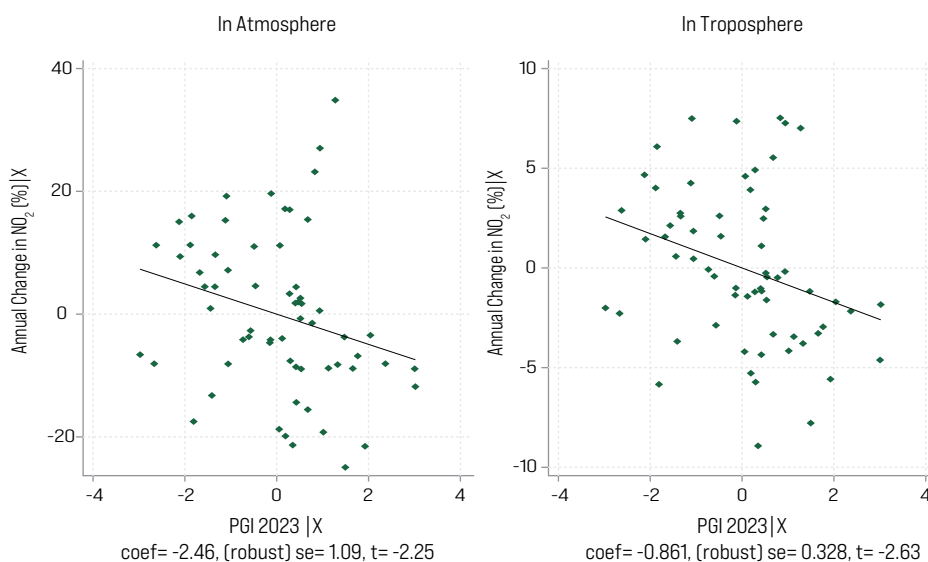
Note: The research team's calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office.



## 2.1.2. Are Improvements on the PGI Associated with Actual Environmental Quality?

While the index is comprised of indicators measuring policy, statistical analysis demonstrates that excellence in these measures is associated with less pollution and greater climate resilience. Provinces that have shown improvements in PGI measures have experienced measurable changes in exposure to measurable pollutants. Figure 2.2 shows that, holding structural factors constant, a ten-point improvement in the PGI is associated with a twenty-five percentage point decline in nitrogen dioxide in the atmosphere and an eight-percentage point decline in nitrogen dioxide in the troposphere. Nitrogen dioxide is the pungent gas that, along with airborne particulate matter, leads to the reddish-brown smog that is often seen in many provinces in Vietnam. It is associated with respiratory infections in children and poorer lung function in later life for adults. In short, provinces that improve their scores on the PGI are directly improving the health and welfare of their citizens.

**Figure 2.2. Better Green Governance Reduces Pollution**

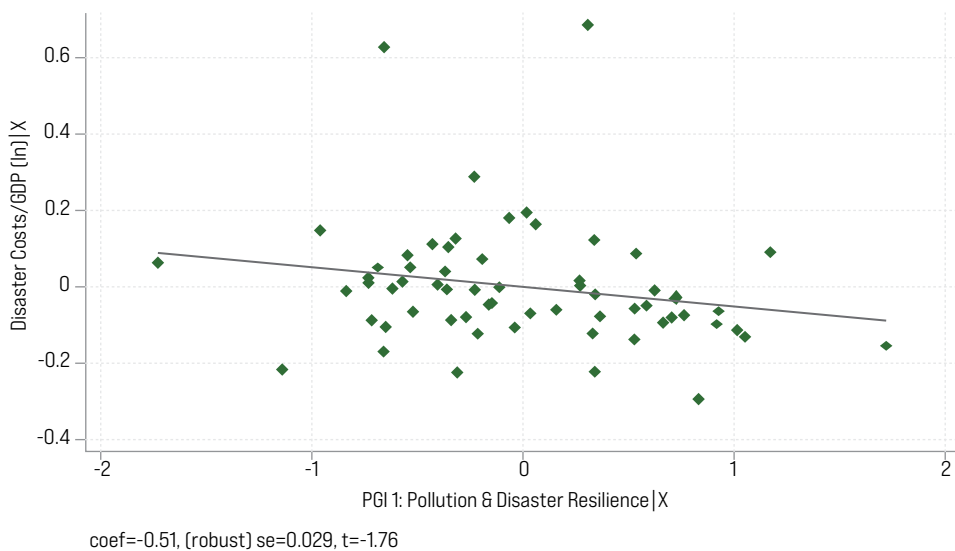


Note: Added variable plots show regressions of nitrogen dioxide in the atmosphere and troposphere on the unweighted index, controlling for GDP, population density, coal production, latitude, and latitude squared. See Appendix Table 2.7 for full results.

**To achieve the full environmental benefits of green governance, provincial leaders are best served by maximizing effort on all four subindices—something that very few provinces currently do.** Although a province can move up the final PGI ranking by concentrating on one subindex, different subindices are associated with different outcome measures.

**Provinces concerned about the threat of natural disasters should focus attention on subindex 1 (*Pollution and Disaster Resilience*).** Provinces that do well on this index provide transparent meteorological information and warnings to their local businesses, have hardened infrastructure to prevent the impact of disasters, and move quickly to restore transportation, infrastructure, and government services if a climate disaster happens. Figure 2.3 shows that a one-point improvement on the ten-point index is associated with a five percent point reduction in the cost of environmental accidents in the province as a percentage of GDP. Stand-out provinces on this measure, such as Dong Thap, Nam Dinh, and Vinh Long, were less prone to disasters and better able to mitigate the costs to citizens and businesses when they did happen.

**Figure 2.3. Resilience Policies Reduce the Costs of Climate Disasters**

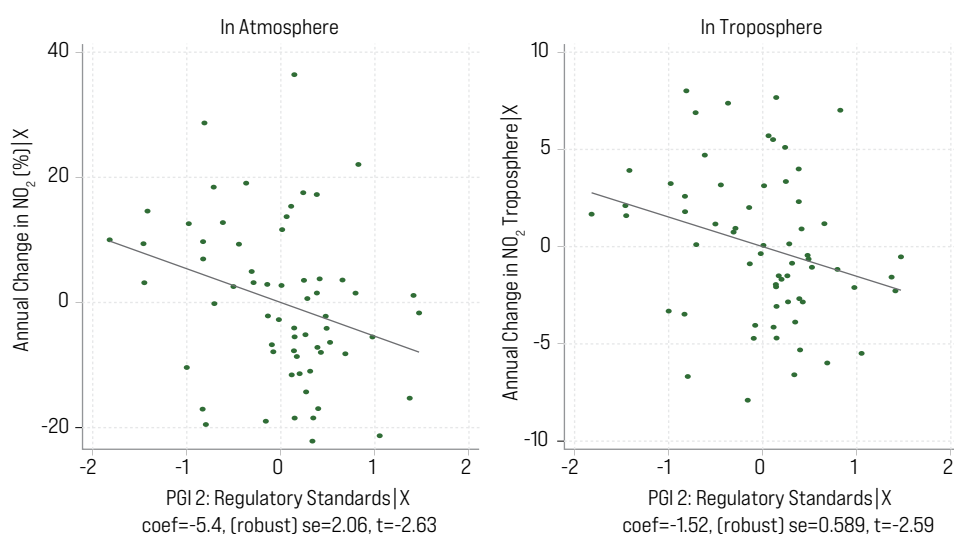


Note: Added variable plot shows regression of logged costs of natural disasters over GDP, controlling for GDP, population density, coal production, latitude, and latitude squared. See Appendix Table 2.8 for full results.

**Provinces that wish to address nitrogen dioxide in the atmosphere, troposphere, and at ground level, and therefore avoid respiratory and other illnesses, should focus on subindex 2 (*Regulatory Standards*).** Locations that do well on this index, such as Dong Nai, Quang Nam, Binh Thuan, and Tra Vinh, have put in place environmental regulations that are both stringent and fair. Stringent means that the province has clear methods for preventing pollution, that polluters are quickly punished, and that the province acts promptly to deal with pollution crises such as collected solid waste or chemical spills. Fairness requires that environmental inspections are universal and thorough while not being overly cumbersome and disruptive, that alteration requests and fines (when necessary) are considered reasonable, and that firms believe inspectors' environmental goals are legitimate and not

an excuse to demand informal charges. Accompanying administrative data measure the scale of provincial efforts to treat wastewater and collect solid waste before they pose environmental and health risks. Controlling for structural factors and other confounders in Figure 2.4, a one-point improvement on the ten-point regulatory standards index is associated with a five-percentage point reduction in nitrogen dioxide in the atmosphere and a 1.5 percentage point reduction in the troposphere. Although it is not statistically robust, improvements in regulatory standards are also associated with small reductions in ground-level nitrogen dioxide.

**Figure 2.4. Regulatory Standards Reduce Nitrogen Dioxide in Air**



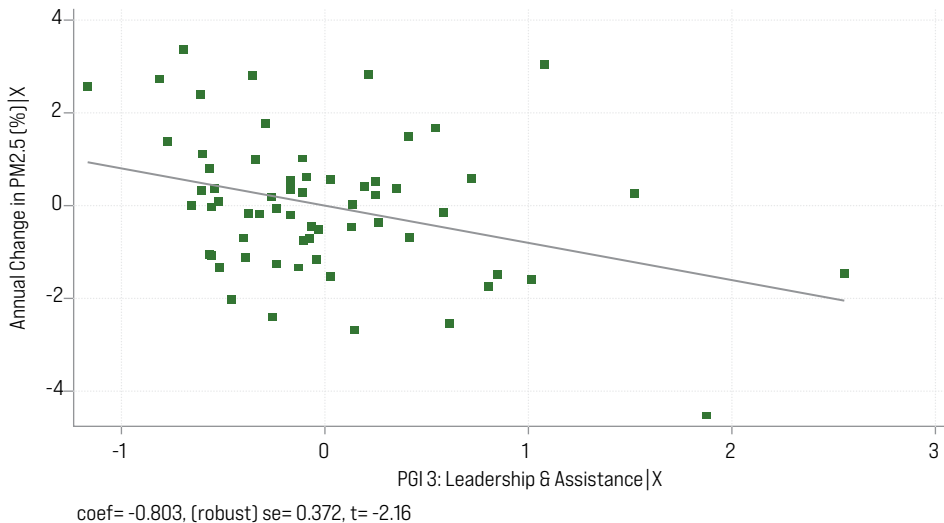
Note: Added variable plots show regressions of nitrogen dioxide in atmosphere and troposphere on unweighted index, controlling for GDP, population density, coal production, latitude, and latitude squared. See Appendix Table 2.8 for full results.

**Provinces attempting to reduce the presence of particulate matter—such as dust, dirt, and soot—in the air, which can be inhaled and pose severe health risks, should focus their efforts on subindex 3 (Leadership and Assistance).** This index measures whether provincial leaders emulate green behavior in their own actions and whether they encourage green behavior by firms in their province. Administrative data, collected from provincial budgets, gauged the financial resources provincial leaders put towards these efforts. In measuring the behavior of provincial leaders, the subindex assembles data on whether they prioritize green businesses when contracting out goods and services and whether they are willing to pay a premium in those contracts to incentivize the upgrading of local firms. In analyzing the encouragement of local firms, the index collects data on whether provincial guidance or regulations encouraged local businesses to spend resources on green upgrades, such as digitalizing paperwork, installing energy meters and conservation technology, minimizing the use of plastic, and training employees and managers. Digging deeper, the index measures

how many green upgrades the average firm made and how much it spent as a share of total operating costs. In high-ranking provinces, the average business made over five green upgrading reforms in the past year and spent as much as two percent of operating costs on those changes. In low-ranked provinces, upgrade numbers and expenditures were close to zero.

**Provinces that excelled in leadership and encouragement were rewarded with lower particulate matter of 2.5 micrometers or smaller (PM 2.5), which are easily inhalable and can enter the lungs and bloodstream, causing serious health problems.** PM 2.5 is also a major contributor to the smog, haze, and reduced visibility that characterize highly polluted cities. Figure 2.5 demonstrates that a one-point improvement on this ten-point index is associated with a 0.8 percentage point change in PM 2.5, which is highly statistically significant. It is also associated with a substantial reduction of sulfur dioxide in the air, which can irritate the eyes, nose, and throat, and is also associated with severe respiratory illnesses.

**Figure 2.5. Green Leadership and Assistance Aids Reductions in Pollution**



Note: Added variable plot shows regressions of PM 2.5 in the air on the unweighted index, controlling for GDP, population density, coal production, latitude, and latitude squared. See Appendix Table 2.8 for full results.

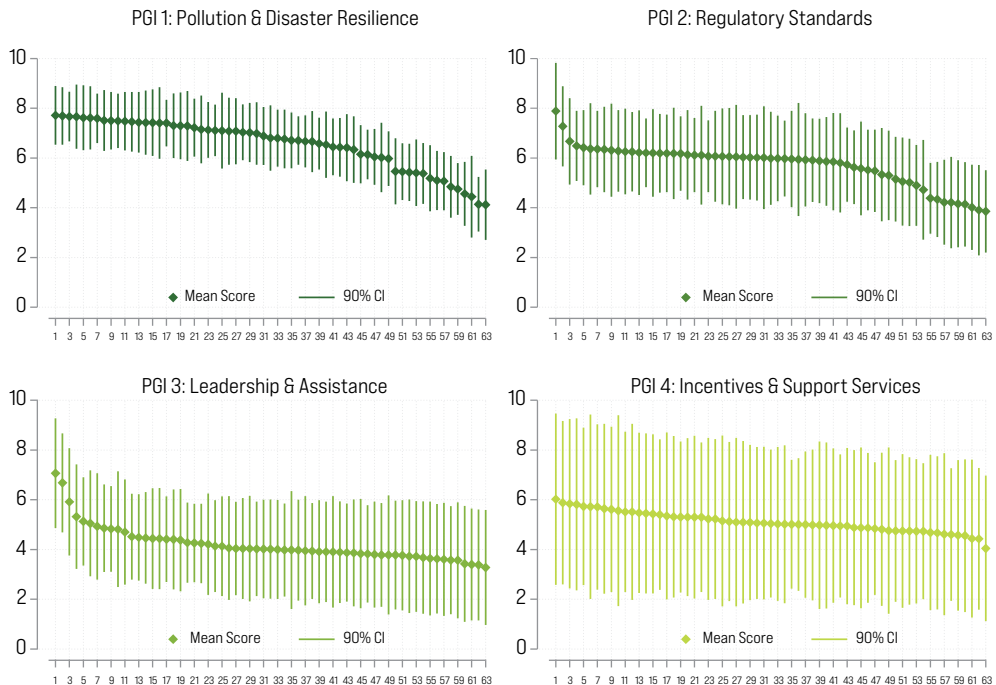
**Subindex 4 (Incentives and Support Services) is not currently associated with any significant changes in pollutants.** This is not because the measure is not important; it is because it is much more difficult and expensive to excel in this area. As a result, very few provinces have made much progress and there is little statistical difference between the highest and lowest ranked provinces. This is best seen in Figure 2.6 which shows the wide

range bars in estimates of performance for all four subindices. There are a few things to note about subindex 4. First, the score of the top-performing province is about 6, much lower than the top-performing provinces for the other three subindices. Second, the range bars are much wider, indicating there is much more variation within provinces on Subindex 4 than the other three subindices. This indicates that, in contrast to the other three, there is less agreement between provinces with the same score and that there is less correlation among indicators. In the other subindices, a province that does well on one indicator is likely to perform well on others. However, in subindex 4, provincial scores jump around much more. Finally, in the first three subindices, one can identify clear top performers, which is shown by the fact that the confidence intervals don't overlap with the bottom provinces. However, in subindex 4, there is very little difference across provinces, as the activities it measures remain new and generally untried. Consequently, the confidence intervals of the top-performing province overlap with the lowest. Consequently, there is very little relationship to reductions in pollution measures.

**Whereas the goal of leadership and assistance (subindex 3) is to encourage green upgrades among existing businesses, the goal of incentives and support services (subindex 4) is actually to encourage the entry and expansion of green industries.** These include: 1) businesses that produce goods or provide services benefiting the environment or conserving natural resources, such as wind or solar farms; 2) businesses in which workers' duties involve making their establishment's production processes more environmentally friendly or using fewer natural resources; and 3) businesses whose environmental footprint is negligible, such as those engaged in non-carbon-intensive trade or services. Provinces that rank highly on this index, such as Ha Nam, Hung Yen, and Long An, are those that invest in tax incentives, advisory services, and technical consultancy, to encourage the entry of green businesses, the expansion of existing green operations, and the transformation of existing businesses into green operations. The index measures not only whether provinces provide the services, but also whether local businesses are aware of them. Administrative data gauges the share of PGI responses that already operate green businesses, which ranges from nearly 50 percent in Long An to less than 15 percent in the lowest-ranked locations.

**Ultimately, provinces have only just begun on the path to incentivizing green industries in their borders.** Much more work remains. While the subindex is not yet correlated with environmental quality, environmental experts strongly believe these policies are the right approach. The PGI will allow researchers to monitor progress toward green industrial development. When significant progress is made, this data allows for a precise estimation of the impact.

**Figure 2.6. Incentives and Support Services Remain Relatively Low Across Vietnamese Provinces**



Note: The research team's calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office.

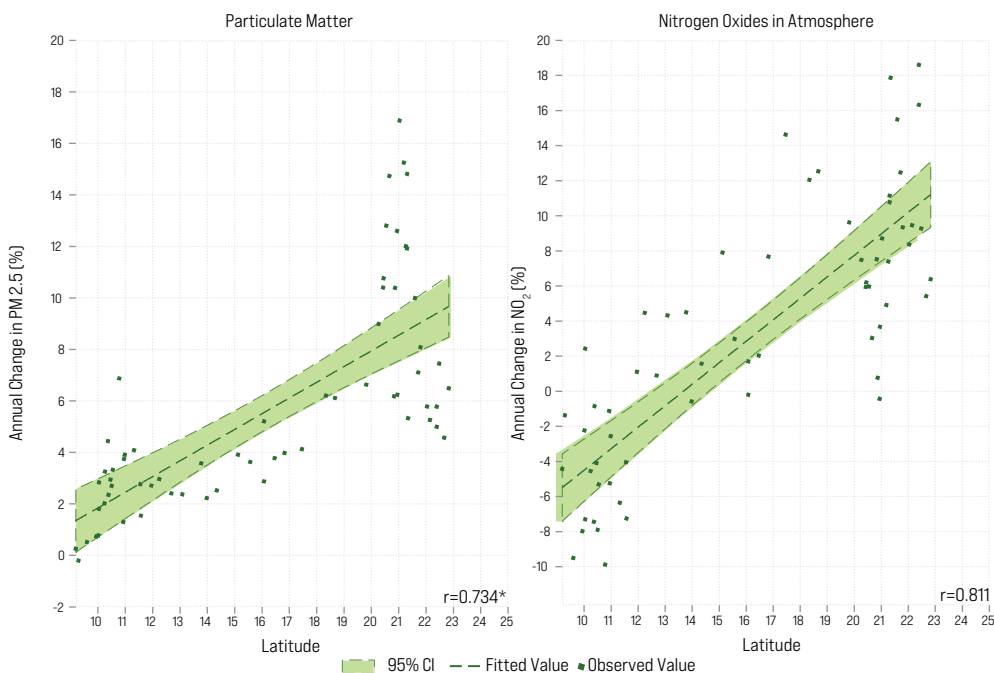
### 2.1.3. What Challenges Await Leaders Trying to Make Their Provinces Greener?

**Although the 2023 PGI identifies dozens of policy levers available to provincial leaders to improve their green governance, the research team is well aware that environmental outcomes are not entirely in their hands.** The first impediment is limited resources and capacity. The types of programs needed are expensive and require extensive scientific knowledge. Provincial leaders will certainly need financial and technical assistance to rise to these formidable challenges.

**A second major challenge is spillover; while provinces might design and implement sterling policies within their own borders, they can do little about pollution and environmental risks caused by their neighbors.** Pollutants can be carried across borders by wind and water. Environmental disasters may be precipitated by the failure of neighboring jurisdictions to police regulatory violations in shared mountain ranges, bodies of water, or common pool resources. Finally, climate change can be exacerbated by actors far removed from the ultimate consequences of their behaviors. Salinization in the Mekong Delta caused by rising sea levels is among the most salient current examples. The difficulties of this problem are

highlighted by showing the stark correlation between the latitude of the provincial capital and the growth in pollution. The left panel of Figure 2.7 shows the dramatic relationship, which has a bivariate correlation of 0.73 with PM 2.5. Each degree of increase in latitude is associated with about a 0.6 percentage point change in the growth of particulate matter between 2022 and 2023. This is a well-documented pattern, caused by the accumulation of coal-fired power plants in the North and the spillover of pollutants across the border from Vietnam's northern neighbor. The right panel shows a similar pattern for changes in  $\text{NO}_2$  in the atmosphere. A one-unit increase in latitude is associated with a 1.22 percentage point change in atmospheric nitrogen dioxide. Similarly, provinces along the central coast are more prone to flooding and monsoons and therefore accumulate far greater disaster costs. The econometric analysis addresses this problem statistically by controlling for latitude and the scale of coal production. However, the policy problem goes much deeper; some provinces face structural constraints in rooting out pollution and climate disasters within their borders.

**Figure 2.7. Pollution levels correlate with local latitudes**

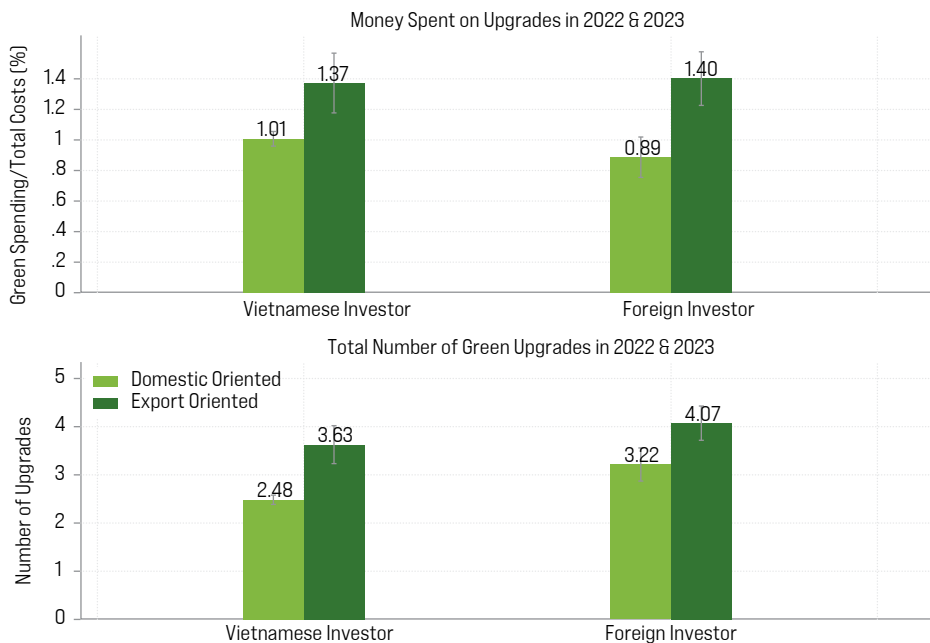


Note: The research team's calculation of PM 2.5 and nitrogen dioxide is based on data from Nguyen et al. (2023), and NASA (2024). The graph shows the bivariate correlation of pollutants with the latitude of the province.

**The third major challenge is the market incentives of businesses within provincial borders.** Provinces with business populations facing consumer pressure to make green upgrades have a far easier time excelling on the PGI than others. Ultimately, the guiding light for

businesses is their bottom line. Business leaders act when doing so will increase their profits; they avoid costly undertakings. While governments can steer the profit motive somewhat through regulation and taxes, businesses must be convinced that consumers also value their products and services. When it comes to greening operations, businesses selling to the Vietnamese market face far less market pressure to upgrade than those trying to export to international markets. This is clearly shown with the PGI data in Figure 2.8. About 47 percent of foreign firms in the PCI-FDI survey are export-oriented, compared to only 7.5 percent of domestic respondents. Export-oriented firms, who often sell to developed markets with higher levels of environmental regulation and more eco-conscious consumers, spent the most on upgrades. This is true for both foreign and domestic firms, but domestic exporters are simply rarer in Vietnam. On average, exporters spent 1.4 percent of costs on greening, compared to one percent or less for non-exporters. The same general pattern holds for the number of green upgrades with one difference. Domestic-oriented foreign firms in Vietnam made more environmental updates than their Vietnamese counterparts, although they spent somewhat less.

**Figure 2.8. Exporters Are More Likely to Spend on Green Improvements**



Note: The research team's calculation is based on responses to BES/BES-FDI survey questions J1, "In the past two years, did you invest in any of the following technology, activities, or processes to improve your company's environmental performance or reduce your company's contribution to climate change?" and J2, "If you answered yes to any of these activities or if you made an investment in prior years, please estimate how much you spent on enhanced environmental compliance as a share of your total business operating expenses." Answers are disaggregated by whether the respondent is registered as a domestic and foreign company and whether its primary customers are in Vietnam or abroad, based on the answer to question A11.



## 2.1.4. Policy Recommendations

**Every indicator in the PGI is a policy recommendation in its own right.** Each of the 46 indicators was specifically selected to provide provincial leaders with a snapshot in terms of how they are doing on actionable green policies that can be achieved in the short and medium time frame.

**Provincial leaders are advised to take the same approach to improving the PGI as they have with the PCI over the past two decades.** First, they can carefully study each subindex to make sure they understand the meaning and measurement strategy for each indicator. Second, they should take stock of how they rank on each indicator, benchmarking themselves against other provinces. Third, they should identify areas where they are weak and need improvement, exchanging ideas with higher-ranked provinces and the PGI research team to identify successful regulations and policies that can lead to improvement. Finally, provinces should develop action plans, designating teams of local officers to fashion strategies for improvement in their weak areas.

**As with the PCI, the PGI research team promises to assist in this process in multiple ways.** Longitudinal data will allow provincial leaders to track progress over time and identify which interventions are most fruitful. In addition, the PGI research team plans to identify best practices to pass on to other local policymakers. Finally, the PGI team remains available to provide tailored diagnostics to provinces, including detailed analyses of provincial indicator scores.

**The Vietnamese government and international donors can assist provincial green governance as well by helping provincial leaders overcome resource constraints and capacity deficits.** Most critically, many provinces need help in designing local regulations and guidance to encourage business upgrading. Many of the technologies that are needed for this process are still quite rare in Vietnam. Leaders will need help understanding them to design appropriate policy implementation and enforcement. The central government and international donors can assist provincial green governance by providing resource supplements and technical assistance.

**Further progress on guiding legal documents for environmental standards is also necessary.** At the time of the 2023 PGI survey, many of the critical, guiding documents for Vietnam's environmental transition, including the 2020 Law on Environmental Protection, the National Strategies on Environment Protection and Climate Change, and the National Strategy and National Action Plan on Green Growth were in effect for only 1.5 years. While it is still early, elements of these legal documents are clearly beginning to influence provincial policies, especially in regard to guidance and regulatory enforcement. However, many

components of the 2020 LEP still lack implementing documents. Most meaningful green policy action appears limited to the national level. The limited involvement of sub-national stakeholders in the green growth process is also notable in the context of the recent expansion of decentralization and increasing legal responsibility of local officials over environmental protection.

**Finally, customers matter.** Provincial policies, regulations, and taxes will ultimately face limitations in motivating behavior. Firms will only truly be motivated to take on expensive operational changes when the market rewards this behavior. Educational programs can assist Vietnamese consumers in understanding the importance of environmental upgrading, encouraging them to reward green businesses and hold dirty businesses accountable for contributing to pollution and environmental degradation. Environmental consciousness in Vietnam is beginning to change in a positive direction with more citizens willing to trade some immediate economic benefits for long-term environmental sustainability.

## 2.2 Legal Foundations of the PGI

**Over the past four decades, Vietnam's economic growth and private sector development have been the envy of the world, lifting millions out of poverty and propelling the country to middle-income status.** Vietnam's remarkable international trade performance and attractive foreign direct investment withstood the repercussions of the COVID-19 pandemic. However, this economic dynamism has come at some cost. Vietnam, like many other countries, faces unprecedented threats from climate change and pollution.

**While environmental degradation in rural and coastal areas threatens the livelihoods of farmers and fishers, air and water pollution are the top concerns of the government and citizens in urban areas.** Vietnam ranks 175<sup>th</sup> out of 177 countries for air quality and biodiversity protection (with 177 being the worst possible performance).<sup>25</sup> Air pollution, which is mainly caused by heavy industry (steel, cement, and coal-fired plants), construction, and transportation, is estimated to cause tens of thousands of deaths per year as well as losses in productivity.<sup>26</sup>

**The Vietnamese government is aware of these issues and has begun the task of shifting toward a more sustainable economic model.** In the past two years, the government has instituted several initiatives to reduce pollution, improve environmental standards, and

25 Wolf, M. J., Emerson, J. W., Esty, D. C., de Sherbinin, A., Wendling, Z. A., et al. (2024). "2022 Environmental Performance Index". New Haven, CT: Yale Center for Environmental Law & Policy. <<https://epi.yale.edu/>>

26 Hanoi Times. (2020). "Air pollution costs Vietnam \$13.6 billion a year". <<https://hanoitimes.vn/air-pollution-costs-vietnam-us132-billion-in-damage-every-year-300796.html>>

reduce the threat of climate change. The most important of these is the 2020 Law on Environmental Protection (LEP), with its implementing Decree 06/2022/ND-CP and Decree 08/2022/ND-CP, the National Strategy on Environment Protection, National Strategy on Climate Change (Resolution 138/NQ-CP), and the adoption of the National Strategy and National Action Plan on Green Growth for the period 2021-2030.<sup>27</sup>

**The 2020 LEP was passed by the National Assembly in 2020 and came into force in January 2022.** The 2020 LEP amends and builds upon the previous 2014 LEP in several important ways, including better alignment with the country's general sustainable development policy and international conventions and best practices. A critical difference from previous rules is that the new LEP considers “the community” an important subject of environmental protection, recognizing that environmental issues are best handled with the participation of all concerned citizens—a critical principle of the United Nations' 2010 Rio Declaration on Environment and Development. The 2020 LEP enhances information disclosure and public consultation so citizens have better information about environmental degradation and are more empowered to seek changes. It also strengthens regulations and increases punitive measures for violating protection standards, with more responsibilities placed on local government. Key reforms include re-classifying waste amounts to reduce incentives to litter, stricter control of projects with a high risk of adverse environmental impact, severe punishments for polluters, extended producer responsibility (EPR) mechanisms, expected reduction of administrative burdens, and strengthening air quality management.

**The National Strategy on Environmental Protection (Resolution 138) provides guidance on the use of water resources, fisheries, forest products, and minerals, environmental protection, natural disasters, and response to climate change.** Its main goal is to provide an orientation for stronger and more effective environmental regulations. The comprehensive plan addresses the protection of aquatic resources and forests, the conversion of unsustainable fisheries, the minimization of small and under-regulated mining activities, centralization of waste disposal, and enhancement of wastewater management and waste treatment among other activities.

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27 National Assembly of Vietnam. [2020]. Law No. 72/2020/QH14: “Law on Environmental Protection”. <<https://vanban.chinhphu.vn/?pageid=27160&doid=202613&classid=1&typegroupid=3>>

The Government of Vietnam. [2022]. “Resolution No. 138/NQ-CP: “Resolution on the National Master Plan for the Period of 2021-2030, with Vision Toward 2050”. <<https://vanban.chinhphu.vn/?pageid=27160&doid=206758>>

Pham Minh Chinh, Prime Minister of Vietnam. [2022]. “Decision No. 882/QĐ-TTg: “Decision on the approval of the National Action Plan on Green Growth for the period 2021 to 2030.”. <<https://vanban.chinhphu.vn/?pageid=27160&doid=206215>>

**The National Strategy and Action Plan for Green Growth aims to increase the scale of Vietnam's green economy from \$6.7 billion in 2020 to \$300 billion in 2050 by building on local advantages, improving efficiency, and strengthening competitiveness.** Green growth is prioritized in ten industries ranging from energy production to logistics to agriculture. The plan includes eight types of initiatives with the greatest emphasis on institutional development, communication and education, green finance, green job promotion, technological innovation, and international integration.

**The LEP, the Strategy on Environmental Protection and Strategy on Climate Change, and the Green Growth Plan, along with numerous other pieces of legislation and implementing documents, comprise an environmental strategy that can be divided into four broad categories.** First, authorities instituted a broad range of measures to reduce pollution in the air, rivers, ocean, forests, and deltas to improve health conditions and limit climate change. Second, in line with these goals, they have strengthened punitive measures, enacting stricter regulations and enhancing enforcement to ensure greater compliance with international environmental standards. Third, officials have tried to promote green practices through improved institutional communication as well as education and training programs, bringing innovative technology and solutions to companies and citizens. Finally, subsidies and incentive programs will motivate businesses to invest in green industries.

**Despite these laudable goals, significant obstacles to mobilization remain, highlighted by regulatory risks such as weak legal infrastructure, barriers to domestic and international finance, poor enforcement of intellectual property rights, a shortage of skilled labor, and bureaucratic inertia.** These challenges will cause entrepreneurs and investors to hesitate, weigh their risks, and reduce the ambition and size of their investments in Vietnam. Overcoming these obstacles requires designing and implementing clear and concrete policy reforms and good governance at both national and sub-national levels. To date, however, most meaningful green policy action appears to be limited to the national level. The limited involvement of sub-national stakeholders in the green growth process is also notable in the context of the recent expansion of decentralization and increasing legal responsibility of local officials over environmental protection.

**Reflecting this growing interest in provincial and private sector green growth and climate action, the PGI was initiated to reflect VCCI's concerns regarding environmental protection in Vietnam's growth trajectory and has been developed over the past five years.** The four PGI subindices were designed to mirror and operationalize the primary objectives of the Vietnamese government regarding the environment.

## 2.3 PGI Methodology

**The goal of the PGI is to provide actionable advice to national and subnational officials regarding appropriate policies to reduce the impact of climate change and pollution on business performance and longevity.** Consequently, the PGI, like its PCI cousin presented in Chapter 1, is an input-based ranking constructed with indicators capturing policy inputs (measures of provincial actions) that could be potentially correlated with downstream climate and pollution outcomes, such as natural disasters or the levels of particulate matter 2.5 (PM 2.5), nitrogen dioxide (NO<sub>2</sub>), and sulfur dioxide (SO<sub>2</sub>) in the air and water.

**Assembly of the PGI adheres to the same methodology employed in the PCI and Infrastructure Index, which the research team describes as the three Cs.** *Collection* involves gathering actionable indicators from survey questions in the annual PCI and PCI-FDI surveys alongside relevant administrative data provided by government agencies. *Construction* rescales these indicators into a 10-point scale and compiles them into theoretically coherent subindices to capture critical dimensions in environmental policy. *Calibration* weights each subindex based on its relative importance in affecting critical outcome variables.

**After the 2022 pilot PGI, the research team engaged in a large-scale expert evaluation of its methodology, scientific rigor, and policy implications.** As with the PCI, an advisory board was formed to critically evaluate the questionnaire and measurement choices, asking them to suggest ways to tighten measurement. The team also engaged with provincial leaders to better understand the policy innovations they are trying and the trade-offs they are facing between policies that enhance economic growth and protect the environment.

**Based on their advice, the PGI research team made substantial changes to the initial PGI methodology.** PGI analysts dropped several indicators that were thought to be irrelevant or non-applicable, added new ones that better captured provincial needs and ongoing initiatives, and improved the questionnaire to better elicit truthful responses about regulatory compliance. A critical change was updating administrative data from the Ministry of Finance (MOF) and the General Statistical Office (GSO) to replace data from MONRE, which discontinued its publication of individual indicators.

**The 2023 PGI is comprised of 46 indicators which are divided into four subindices that measure the effectiveness of green private sector development policy at the provincial level in Vietnam.** As with the PCI, individual indicators must balance between the advantages of survey and administrative data. Survey data is well-suited for capturing nuanced concepts and accurately reflecting the experiences of private and foreign firms about the environment. However, it can be prone to measurement error caused by perception and anchoring biases. Perception biases occur when underlying understanding, capacity, or incentives lead to answers that deviate from those that an omniscient and objective observer would provide to the same question. Anchoring biases occur when firms do not have

full knowledge of the range of possibilities reflected in the answer options. For instance, a firm based in mountainous Lao Cai may rate the province highly on economic incentives for climate mitigation without knowing about the more fulsome range of incentives available to firms in Hai Phong, leading it to provide a more positive answer about such incentives than an objective observer.

**Administrative data, collected by government agencies, is less prone to perception biases but is often limited to highly specific measures and does not always capture abstract or hidden concepts such as transparency or corruption.** To address these problems, the PGI relies primarily on survey data but takes two precautions to minimize perception and anchoring biases. First, as much as possible, indicators are selected based on firms' actual experiences with a policy to minimize opinion-based answers. For instance, firms were asked whether they have directly received guidance from provincial officials about environmental regulation rather than being asked about their opinions about regulatory guidance in the province generally. Second, when available, survey data in each subindex is combined with administrative data to connect the respondents' perceptions to measurable information. However, to ensure that firms' voices receive precedence, the PGI weights survey data more heavily (60 percent) than administrative data (40 percent) in each subindex.

**Because of the multifaceted nature of green private sector development and the associated complexity in valuing the relative socio-political and economic importance of each of these four dimensions, each subindex is equally weighted.** The four subindices are listed below, ranging from the most traditional and well-established provincial government activities to the newest and most aspirational.

- **Pollution & Disaster Resilience.** This subindex involves the basic provision of infrastructure and public services, which is a traditional duty of government in Vietnam. With increasing adverse weather events, as well as with the dramatic expansion of the private sector, these responsibilities have increased substantially in recent years as provinces are expected to provide infrastructure services in ways that help firms prepare for and limit the impacts of climate hazards, such as floods, tropical cyclones, sea level rise, and droughts. The index attempts to reflect the provincial responsibilities for disaster resilience and climate mitigation that are delineated in the 2020 LEP and Decree 08/2022/ND-CP.
- **Regulatory Standards.** This subindex relates to the effectiveness of the government's regulatory oversight and enforcement to limit the environmental damage of business operations. This is not a new area of activity for provincial governments, though it dates back only to the advent of the formal domestic private sector in the early 1990s. Naturally, these responsibilities grew substantially with the rapid expansion of the formal private sector since the Second Enterprise Law came into effect in 2000. Pressure for greater effectiveness in this area has grown with the publicization of industrial accidents. Nevertheless, inspections declined in recent years in response

to business complaints. The National Strategy on Environmental Protection gave provincial administrations greater authority to monitor the use of water resources, fisheries, and forest projects, while the National Plan on Air Quality required all provinces to submit air quality management and monitoring plans to reduce the dangerous health and safety consequences of air pollution. Decree 45/2022/ND-CP<sup>28</sup> outlines the penalties for specific polluting acts such as intentionally dumping, illegally discharging, and discharging untreated waste into the environment

- **Leadership & Assistance.** This evaluates the potential for provincial governments to incorporate environmental goals into their broader responsibilities for general policy making, procurement of goods and services, and regulatory guidance to assist firms in greening their operations and behaviors. The legal framework outlined above includes the LEP, national strategies, and numerous implementing documents, is inchoate, underdeveloped, and can be highly technical. Many small businesses need help to understand their responsibilities as well as opportunities under the law. A clear role for provincial governments is necessary to help businesses pursue strategies that model good environmental behavior. Local officials can advise firms about operational decisions that could make them leaders in energy efficiency or the use of more sustainable energies.
- **Environmental incentives and support services by provincial governments.** This refers to government policies encouraging private firms to engage in behavior and environmental decision-making above and beyond the minimum conduct mandated by Vietnamese law or international standards. For example, a government-supported supply of services, such as consulting on procedures relating to environmentally beneficial investments or training for workers needed to support such investments, would fill current voids in private markets, enabling firms to engage in these green behaviors and decisions. A legal framework exists for these types of subsidies and market interventions to promote green activities. The LEP 2020 includes regulations on green credit and green bonds, while Decree No. 08/2022/ND-CP provides detailed regulations on the roadmap and incentive mechanisms for allocating them. The Green Growth plan goes even further, although specific details of the financial mechanisms and tax credits are still being developed.

**Table 2.1 provides a brief snapshot of the PGI methodological process. Column 1 lists the four subindices summarized above.** Column 2 tallies the theoretical dimensions of each subindex. For example, subindex 1 includes three dimensions capturing provincial efforts to combat pollution (dimension 1), mitigate climate disasters (dimension 2), and measure daily waste collection (dimension 3). Column 3 records the total number of indicators derived from the PCI and PCI-FDI surveys, while column 4 displays the number of administrative

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28 The Government of Vietnam. (2022). Decree No. 45/2022/ND-CP: "Decree on regulations regarding sanctions for administrative violations in environmental protection".

indicators collected from the Ministry of Finance budget data and the General Statistical Office (GSO). The last column reveals the weight of each subindex in the final PGI.

**Table 2.1. Summary of Indices and Indicators in PGI**

Subindex	Dimensions	Survey Indicators (Weight = 60 percent)	Administrative Indicators (Weight = 40 percent)	Weight in Final PGI (percent)
1. Pollution & Disaster Resilience	3	12	1	25
2. Regulatory Standards	4	13	3	25
3. Leadership & Assistance	3	10	1	25
4. Incentives & Support Services	3	5	1	25

### 2.3.1. Pollution & Disaster Resilience

**The first subindex measures the basic infrastructure and public services provided by provincial governments to reduce business risk from pollution and climate change.** The index measures these responsibilities in three dimensions. The first focuses on firms' assessments of provincial efforts to combat pollution. The second measures local government efforts to reduce or mitigate the negative effects of natural disasters. And the third captures available hard data on these approaches. A full list of dimensions, indicators, and individual scores can be found in Table 2.2.

**The first dimension, called combating pollution, is comprised of four survey indicators from the PCI and PCI-FDI surveys.** The first indicator is derived from a scaled question asking firms to evaluate environmental quality in their province. The measure takes the provincial share of firms answering good or very good. While over half of the businesses in the country responded environmental quality was at least good (56.5 percent, up from 51.2 percent in 2022), there was considerable regional divergence. Only 21.8 percent of firms in Ha Noi responded positively, compared to 82 percent in the mountainous province of Bac Kan. The next indicator reports the share of firms that answered there was no or low pollution in their community. Nationally, only 29 percent of respondents reported low or no pollution with scores ranging from a low of 17 percent to a high of 42 percent (down 16 points from last year). Next, the survey asked if pollution was a problem for their business, extracting the share that reported "no problem" as the third indicator. Again, scores were surprisingly low with only 45 percent of firms nationally reporting no issue with pollution. The final indicator identifies the share of respondents who believe that pollution is caused by the activities of enterprises. With this indicator, a high *share* translates into a lower score on the dimension;



contrariwise, higher *scores* mean lower shares of polluting firms and better policy. Sixty-two percent of firms nationally believe that business activity is a major source of pollution (up 4 points from last year). Strikingly, nearly 84 percent of Vinh Long's respondents agreed with the statement.

**The second dimension, avoiding environmental disaster, consists of several measures that capture respondent perceptions of policies to mitigate climate-related hazards.** The first indicator measures the share of firms that believe natural disasters are an obstacle to their businesses.<sup>29</sup> Only nine percent of firms in the median province agreed with the statement. However, respondents were particularly concerned in Quang Binh, a central coast province that is highly exposed to flooding, where 23.3 percent of respondents pointed to severe threats from natural disasters. The second indicator asks more directly whether firms have been impacted by a natural disaster. Exactly two-thirds of businesses nationally agreed with the statement, which is extremely high. Even more worrisome, over 83 percent of businesses in Ha Tinh province, the site of the 2016 Formosa chemical incident, answered that they were directly affected.

**The next set of six indicators goes beyond mere exposure to disaster and probes the provincial leadership's preparation for and responsiveness to incidents.** These measures are designed to capture local environmental resilience. What steps has the provincial leadership taken to prepare and insulate businesses against environmental incidents? In general, firms are satisfied with provincial preparation. Looking at the national averages in column 2, seventy-nine percent of firms say information on meteorology was easy to access, 74 percent report that provincial infrastructure is good enough to prevent disasters, and 78 percent claim to have been forewarned about pending environmental incidents. Concerning resilience, 58 percent of firms indicated that local transport was restored after a disaster, while 79 percent stated infrastructure was rapidly restored. Finally, 76 percent hold that their provincial government helps businesses overcome the consequences of an environmental disaster.

**Two provinces stood out as experiencing problems with resiliency.** Bac Ninh, last year's highest-scoring province on this indicator, ranked last in four of the six resiliency indicators. Roughly 40 percent of businesses were doubtful about the provincial leadership's information provision, disaster warning, and preventive infrastructure. Kien Giang province ranked extremely low on its leadership's ability to restore transportation after a natural disaster; only 32 percent of firms believed it could be done quickly enough.

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<sup>29</sup> An indicator about whether a firm selected a province to avoid obstacles was dropped after consultation with experts, because it did not provide concrete policy guidance for local leaders.

**The final dimension is comprised of a single hard indicator collected by the GSO on the share of communes with daily waste collection.** This measure is a clear administrative gauge of provincial expenditures to reduce pollution and demonstrate local environmental capacity. As noted above, this dimension accounts for 40 percent of the first subindex compared to 30 percent for each of the other two.

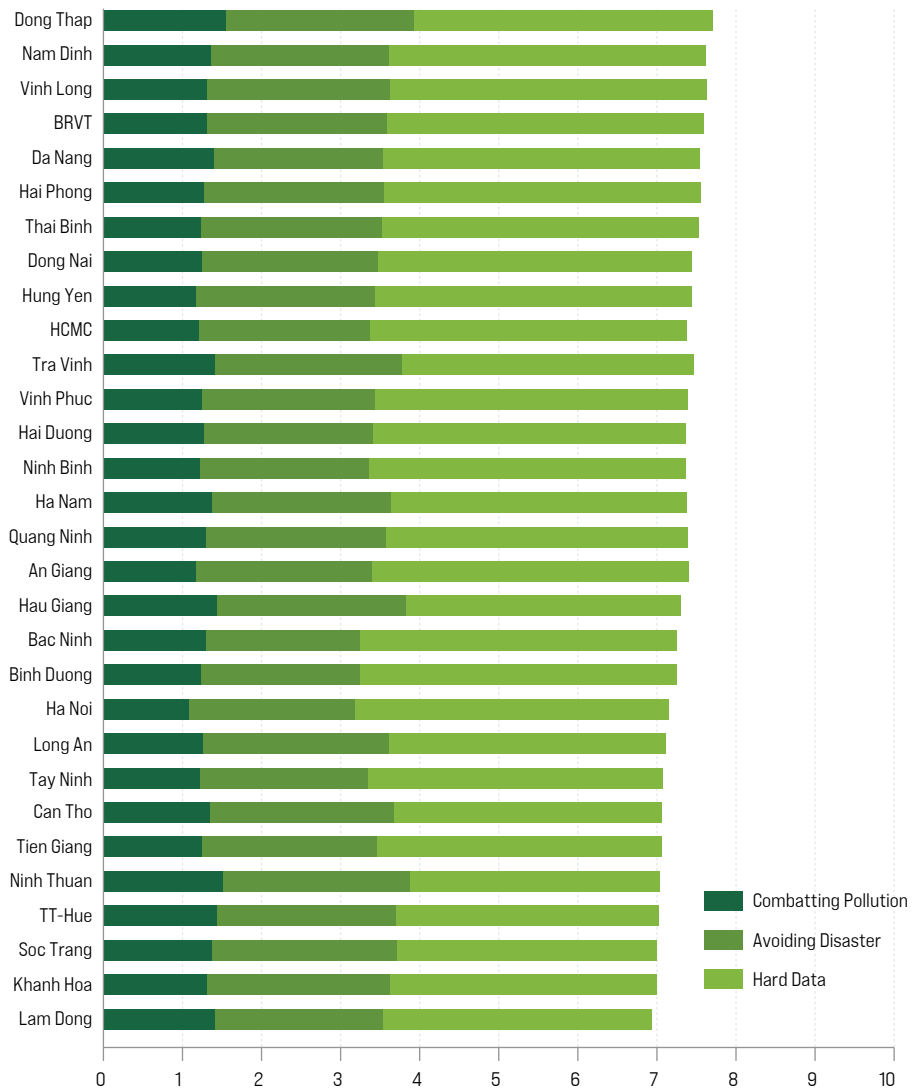
**The three dimensions were then weighted and combined into a final composite index shown in Figure 2.9.** While the possible score ranges from 1 (minimum) to 10 (maximum), none of the 63 provinces achieved above 7.75. Red River Delta and Mekong Delta provinces tended to perform well on this index. However, provinces in the northern mountains and central coast faced more difficulties.

**In the 2022 version of the PGI, national-level cities under-performed provinces on this first sub-index. This year, however, there is no statistical difference between cities and provinces, and Da Nang and HCMC both rank in the top 10.** These locations were aided by a greater focus on resilience and responsiveness rather than just measuring negative experiences with pollution.

Table 2.2. Indicator Scores for Subindex 1 - Pollution &amp; Disaster Resilience

Indicator	National Average	95% CI Low	95% CI High	Minimum Score	Minimum Province	Median Score	Median Province	Maximum Score	Maximum Province
1: Disaster & Pollution Resilience	6.75	6.73	6.78	4.12	Lai Chau	6.80	Quang Binh	7.71	Dong Thap
PGI Dimension 1.1. Combatting Pollution	1.31	1.30	1.32	1.08	Ha Noi	1.32	Dak Nong	1.57	Gia Lai
i. Environmental quality is good or v. good (%)	56.5%	55.5%	57.5%	21.8%	Ha Noi	61.3%	Yen Bai	82.2%	Bac Kan
ii. No or low pollution (% agree)	28.6%	27.7%	29.5%	16.7%	Hung Yen	30.5%	Quang Ninh	42.1%	Vinh Long
iii. Pollution is no problem (% agree)	45.0%	44.0%	46.0%	18.4%	Ha Tinh	47.1%	Dak Nong	67.2%	Gia Lai
iv. Enterprises cause pollution (% agree)	61.7%	60.8%	62.7%	44.1%	Kon Tum	63.8%	Hung Yen	84.2%	Vinh Long
PGI Dimension 1.2. Avoiding Environmental Disaster	2.22	2.21	2.23	1.94	Bac Ninh	2.24	Bac Lieu	2.41	Hoa Binh
i. Natural disasters are an obstacle (%)	8.7%	8.1%	9.2%	1.7%	Hung Yen	8.7%	Bac Lieu	23.3%	Quang Binh
ii. Natural disasters impacted my business (%)	66.0%	65.1%	66.9%	49.5%	Kon Tum	68.4%	Nam Dinh	83.3%	Ha Tinh
iii. Information on weather meteorology easy to access (%)	78.5%	77.7%	79.3%	60.3%	Bac Ninh	80.8%	Gia Lai	88.2%	Vinh Long
iv. Infrastructure good enough to prevent disasters (%)	74.4%	73.5%	75.2%	59.9%	Bac Ninh	77.2%	Hai Phong	86.7%	Thai Nguyen
v. Provincial government warns businesses about disasters (%)	77.7%	76.8%	78.5%	59.6%	Bac Ninh	80.4%	Khanh Hoa	88.9%	Bac Kan
vi. Local transport quickly restored after disasters (%)	57.8%	56.4%	59.1%	32.1%	Kien Giang	58.0%	Hai Phong	76.1%	Khanh Hoa
vii. Infrastructure quickly restored after disasters (%)	79.2%	78.4%	80.0%	62.4%	Kon Tum	80.7%	Quang Ngai	91.9%	Tra Vinh
viii. Provincial government helps businesses overcome (%)	75.9%	75.1%	76.8%	58.9%	Bac Ninh	77.6%	Hai Phong	88.2%	Vinh Long
PGI Dimension 1.3. Hard Data	3.17	3.15	3.19	0.40	Lai Chau	3.18	Bac Lieu	4.00	Hai Phong
i. Communes with daily waste collection (%)	81.3%	80.9%	81.8%	19.1%	Lai Chau	81.6%	Bac Lieu	100.0%	Hung Yen

Figure 2.9. Subindex 1 - Pollution &amp; Disaster Resilience



Note: The research team's calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office.

### 2.3.2. Regulatory Standards

**The second PGI subindex measures efforts by provincial officials to uphold environmentally safe standards through high-quality regulations, reasonable inspections, and enforcement against polluters. The subindex is divided into four dimensions.** The first two are drawn from survey data and reflect firms' assessments of provincial leaders' willingness to hold polluters accountable and the quality of environmental regulation. The second two are drawn from the administrative data to cover the government's assessment of business compliance with wastewater and solid waste regulation. In line with our methodology, dimensions 1 and 2 receive 30 percent weights each, compared to 20 percent weights for each of the two dimensions based on GSO data.

**Dimension 1, measuring actions taken to punish pollution, is comprised of four perceptions-based indicators drawn from a new module in the PCI and PCI-FDI surveys.** The four questions assess three aspects of provincial efforts to counteract and mitigate pollution: prevention, response, and accountability. The first studies preventive measures, gauging business assessments of whether authorities have effective measures to stop pollution from happening in the first place. Studying the national averages in column 2 of Table 2.3, close to 73 percent of businesses agreed that preventive measures were in place in their locality. The second measure studies responsiveness, capturing whether authorities respond promptly to pollution incidents. Seventy-one percent of firms agreed that provincial leaders were responding adequately. The third indicator drills down to focus on accountability—does the province punish polluters? Seventy-four percent of firms agreed with the statement. Vinh Long ranked first in this dimension with 92 percent of respondents answering that province has strong rules in place to prevent pollution and punish abusers. However, Bac Ninh stands out for particularly frustrated businesses. About 60 percent of respondents, far below the national average, believe the province has adequate procedures to forestall contamination and discipline polluters. The final indicator directly asks whether businesses are held accountable for their actions if they violate environmental regulations and cause pollution. This indicator reflects LEP 2020 and Decree 45, which both strengthened punishments and liability for environmental violations. Only 2.4 percent of respondents nationwide could recall an incident where a business was punished for lack of environmental compliance. Scores were close to zero respondents in Phu Yen. However, in Kon Tum province, 12.5 percent recalled such penance.

**Dimension 2 aims to measure the quality, thoroughness, and fairness of environmental regulations.** The variables seek to capture the double-edged sword of environmental regulation. Intensive and rigorous regulation is necessary to ensure compliance and avoid pollution and environmental damage. However, overly burdensome regulations can obstruct

business operations and impede the economic benefits of investment. In the worst case, unfair rules or inequitable implementation may generate negativity and feelings of illegitimacy that undermine compliance.<sup>30</sup>

The first indicator measures the level of regulatory oversight by asking whether the business was visited by environmental inspectors this year. Forty-six percent of firms reported at least one inspection. Next, the survey asked whether the inspection was troublesome as an indicator of whether environmental difficulties had been discovered. The 2020 LEP was meant to alleviate the time costs of regulations by switching to a post-inspection approach emphasizing self-enforcement and reporting by enterprises. Correspondingly, just under 5 percent of firms cited environmental inspectors as creating excess regulatory burdens. To measure whether this attention was in the public interest or merely pernicious, the survey probed whether environmental inspectors requested bribes (informal charges) during their visits. A high share of firms answering “yes” on this question is used to measure poor environmental regulations, as the focus is on pecuniary gain for the inspector rather than compliance with the rules. Moreover, a high score here indicates that businesses can avoid environmental accountability through the strategic use of informal charges, which undermines enforcement goals. Scores were quite low overall. Only 22 percent of businesses nationwide paid informal charges to inspectors. However, the low national score conceals a great deal of local variation.<sup>31</sup> Not a single firm paid an environmental bribe in Tra Vinh province while over three-quarters did so in Ninh Thuan.

**For the 2023 PGI, the research team added three additional measures that probed the quality of the regulations in more detail.** The first indicator captures whether regulations by multiple environmental agencies were harmonized to reduce disruptions to business operations. Unfortunately, looking at the national average, only 1.3 percent of firms reported streamlining by different agencies. Even in the top-performing province of Quang Binh, harmonization was still only 6 percent. The next indicator measured whether businesses thought the inspection was fair. Specifically, were the issues highlighted, problems identified, citations issued, and fines levied legitimate and reasonable? Just under one-third (30 percent) of respondents concurred. Provincial variation on regulatory fairness was quite high. Only 17.4 percent of businesses in Quang Ngai thought their environmental inspections were fair compared to 51.5 percent in Kon Tum. Finally, the survey probed the sincerity of the inspection by measuring whether the businesses achieved the ultimate

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30 Malesky, Edmund, and Markus Taussig. (2017). “The danger of not listening to firms: Government responsiveness and the goal of regulatory compliance”. *Academy of Management Journal* 60.5: 1741-1770.

31 Note that this indicator uses all firms in the province as the denominator rather than just the share of firms that underwent an inspection.

goal of reducing pollution and mitigating climate change. Slightly over 30 percent of firms nationwide agreed, with businesses most supportive in Kon Tum (48.5 percent agreement) and cynical in Quang Ngai (17.4 percent agreement). Overall, Kon Tum was ranked as having the greatest satisfaction with environmental regulation, while Kien Giang ranked last.

**Dimensions 3 and 4 capture two very different pollution reduction activities.** Dimension 3 measures wastewater treatment and disposal. The purpose of these regulations is to avoid the leakage of dangerous pollutants into the water system, which could endanger citizens' health and harm agriculture and aquaculture industries that depend on clean water for their activities. The most egregious example occurred in Ha Tinh province in 2016 when the Formosa Plastic plant agreed to pay \$500 million to compensate affected citizens and farmers for the release of toxic waste into the waters of central Vietnam.<sup>32</sup> To measure compliance with wastewater regulations, the index employs GSO's measure of the share of industrial zones (IZs) with centralized wastewater treatment facilities. According to the GSO, about 82 percent of IZs comply. Scores again range dramatically across the country. While no wastewater is currently treated in some provinces, according to the GSO, 100 percent is treated in the top cities of Hai Phong and Da Nang.

**Dimension 4 looks specifically at solid waste with two GSO indicators.** The first asks whether solid waste is collected at the source, allowing for more precise disposal. Toxic items can be dealt with before they endanger the environment or public health, normal items can be appropriately disposed of, and recyclable items can be directed to the proper companies to allow for the conservation of resources. The national average is 0.93 tons of waste per 1000 people. The second measure asks whether solid waste is appropriately treated to avoid hazardous pollutants. Nationally, an average of 0.82 tons of waste per 1000 people is appropriately treated. Dong Nai appears to have the most fulsome collection and treatment programs, properly handling over six times the national average.

**Figure 2.10 presents the cumulative results of the second subindex for all provinces above the median score.** Dong Nai ranks first due to its excellent performance on the administrative data and the general satisfaction of survey respondents. Quang Nam and Binh Thuan, which take pollution very seriously due to the negative side effects on the tourism industry, rank second and third.

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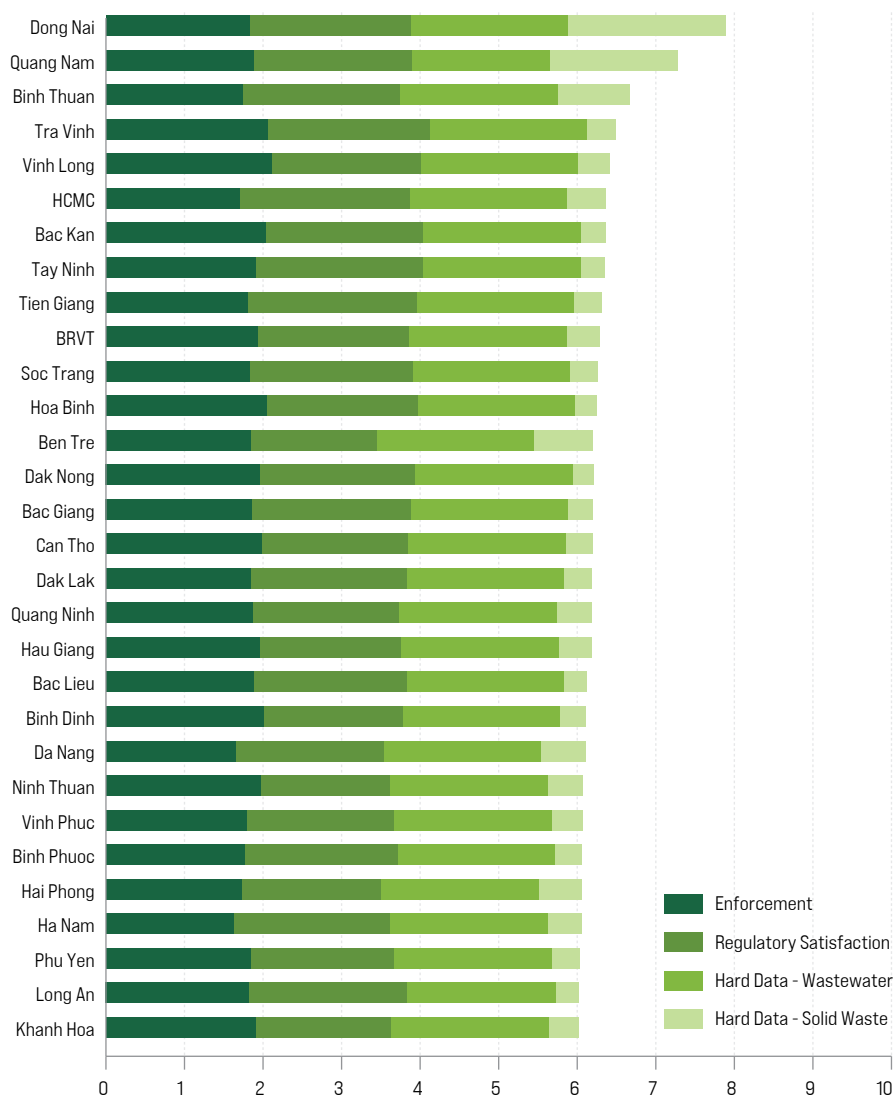
32 Reuters. (2016). "Exclusive: Broken rules at \$11 billion Formosa mill triggered Vietnam spill, report says". <<https://www.reuters.com/article/us-vietnam-environment-formosa-plastics-idUSKBN1380WH>>

**Table 2.3. Indicator Scores for Subindex 2 - Regulatory Standards**

Indicator	National Average	95% CI Low	95% CI High	Minimum Score	Minimum Province	Median Score	Median Province	Maximum Score	Maximum Province
<b>2: Regulatory Standards</b>	5.84	5.81	5.87	3.85	Quang Tri	5.99	Bac Ninh	7.89	Dong Nai
<b>PGI Dimension 2.1. Enforcement Against Polluters</b>	1.79	1.77	1.80	1.52	Bac Ninh	1.83	Kien Giang	2.12	Vinh Long
i. Province has measures to prevent pollution (% agree)	72.5%	71.6%	73.4%	58.5%	Bac Ninh	75.3%	Nam Dinh	90.8%	Vinh Long
ii. Province takes timely action to deal with pollution (% agree)	70.9%	70.0%	71.8%	57.0%	Kon Tum	74.6%	Quang Ninh	86.8%	Vinh Long
iii. Province punishes polluters (% agree)	73.9%	73.0%	74.7%	60.3%	Bac Ninh	76.1%	Tien Giang	92.1%	Vinh Long
iv. Firm cited for infractions for lack of environmental compliance (%)	2.4%	2.0%	2.8%	0.0%	Phu Yen	2.0%	Kien Giang	12.5%	Kon Tum
<b>PGI Dimension 2.2. Satisfaction w/ Environmental Regulation</b>	1.93	1.92	1.94	1.48	Quang Ngai	1.91	Lai Chau	2.25	Kon Tum
i. Environmental inspector last year (%)	45.9%	44.9%	46.9%	24.7%	Kon Tum	47.0%	Thai Binh	67.6%	Binh Dinh
ii. Selected environmental protection as a troublesome procedure (%)	4.8%	4.4%	5.2%	0.8%	Ninh Thuan	5.0%	Can Tho	12.1%	An Giang
iii. Paid informal charge to environmental inspectors (%)	22.2%	20.1%	24.2%	0.0%	Tra Vinh	25.0%	Vinh Phuc	76.2%	Ninh Thuan
iv. Inspections of environmental agencies harmonized (%)	1.3%	1.0%	1.6%	0.0%	Kon Tum	1.1%	Long An	6.1%	Quang Binh
v. Environmental inspection was fair to firm (%)	30.2%	29.0%	31.4%	17.4%	Quang Ngai	30.6%	Quang Ninh	51.5%	Kon Tum
vi. Environmental inspection helped address pollution and climate change (%)	30.6%	29.4%	31.8%	17.4%	Quang Ngai	30.9%	Thai Binh	48.5%	Kon Tum
<b>PGI Dimension 2.3. Hard Data - Wastewater</b>	1.68	1.67	1.69	0.20	Lang Son	2.00	Nam Dinh	2.00	Ben Tre
i. Operating IZs with centralized wastewater treatment plants meeting (%)	82.3%	81.6%	82.9%	0.0%	Some provinces	100.0%	Dak Nong	100.0%	Hai Phong
<b>PGI Dimension 2.4. Hard Data - Solid Waste</b>	0.44	0.44	0.45	0.23	Son La	0.34	Kon Tum	2.00	Dong Nai
i. Tons of solid waste collected per 1000 people (imputed)	0.93	0.91	0.96	0.06	Son La	0.58	Thanh Hoa	6.51	Dong Nai
ii. Tons of solid waste treated per 1000 peoi	0.82	0.80	0.85	0.11	Hoa Binh	0.45	Thai Nguyen	6.48	Dong Nai



**Figure 2.10. Subindex 2 - Regulatory Standards**



Note: The research team’s calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office.

### 2.3.3. Leadership & Assistance

**The third PGI subindex measures provincial governments' environmental leadership in two areas: 1) green procurement and 2) guidance on environmental protection policies and associated regulations that are relevant to firms' operations.** This subindex is divided into three dimensions. The first two dimensions measure firms' responses to questions in the PCI and PCI-FDI survey about their experience with government practices in green procurement and whether they have received guidance on sustainable practices from their provincial government. The third dimension relies on hard data hand-coded from provincial budgets posted on the Ministry of Finance website and captures the amount of financial and human resources provincial governments devote to environmental protection. Table 2.4 gives an overview of all three dimensions and their corresponding indicators.

**Dimension 1 focuses on green procurement using firms' perception of their provincial government's commitment and readiness to purchase goods and services from providers with positive environmental records.** It is based on two questions from the PCI and PCI-FDI surveys. The first question measures firms' agreement that the provincial government prioritizes purchasing goods and services from environmentally friendly providers. The second question asks to what extent firms believe the provincial government is willing to pay a premium for goods and services that are sourced in an environmentally sustainable manner. Overall, there is considerable consistency in the responses. On average, 70 percent of respondents agree that provincial governments are committed to green procurement, but there is considerable variation across the provinces. From the firms' perspective, commitment to green procurement is relatively low in Bac Giang (53 percent), but high in Thua Thien Hue, where 89 percent of firms agree their provincial government prioritizes green producers and businesses when procuring goods and services. The median response to the second question comes from firms located in Ben Tre. There, 68 percent of the firms think the government is prepared to pay more for sustainable products or services. Similarly, there is sizeable variation across the provinces. At one end, less than half of the firms surveyed in Bac Giang (47.5 percent) agree that the provincial government is ready to pay higher prices for goods or services from green providers. At the other end, Lao Cai emerges as highly committed to green procurement with 83.9 percent of the firms there sharing the view that the provincial government is willing to pay a premium for green goods and services.

Table 2.4. Indicator Scores for Subindex 3 - Leadership &amp; Assistance

Indicator	National Average	95% CI Low	95% CI High	Minimum Score	Minimum Province	Median Score	Median Province	Maximum Score	Maximum Province
3: Leadership & Assistance	4.29	4.26	4.32	3.28	Vinh Phuc	4.02	Phu Tho	7.07	Da Nang
PGI Dimension 3.1. Green Procurement	2.12	2.10	2.15	1.66	Bac Giang	2.20	Hai Phong	2.62	TT-Hue
i. Provincial government prioritizes purchasing from green firms (%)	70.4%	69.5%	71.3%	53.1%	Bac Giang	73.0%	Hung Yen	88.6%	TT-Hue
ii. Provincial government pays premium for green goods & services (%)	64.5%	63.5%	65.4%	47.5%	Bac Giang	68.1%	Ben Tre	83.9%	Lao Cai
PGI Dimension 3.2. Green Regulatory Guidance	1.19	1.18	1.20	0.96	Kien Giang	1.21	Tay Ninh	1.37	Ha Nam
i. Total green upgrades made by firm (#)	2.73	2.64	2.82	0.94	Ha Tinh	2.60	Bac Giang	5.21	Ben Tre
ii. Any green upgrades made (%)	38.7%	37.8%	39.7%	10.5%	Ha Tinh	38.0%	Nam Dinh	59.6%	Ben Tre
iii. Total green current processes already in place (#)	1.86	1.77	1.96	0.22	Ninh Thuan	1.20	Lam Dong	8.20	Ha Tinh
iv. Any green processes already in place (%)	17.7%	17.0%	18.5%	2.7%	Tra Vinh	13.2%	Nghe An	57.0%	Ha Tinh
v. Amount spent on green upgrades/operating costs (%)	1.0%	1.0%	1.1%	0.3%	Ha Tinh	1.1%	Binh Phuoc	2.0%	Binh Thuan
vi. Received guidance from local authorities	60.9%	59.4%	62.5%	33.7%	HCMC	64.3%	Dong Thap	86.0%	Quang Ninh
vii. Regulation influential in change (%)	14.3%	13.2%	15.4%	4.5%	BRVT	13.0%	Vinh Phuc	25.0%	Ha Tinh
viii. Did not make green upgrades because of lack of regulation (%)	7.5%	6.9%	8.1%	0.0%	Kon Tum	6.4%	Binh Dinh	26.8%	Ha Tinh
PGI Dimension 3.3. Hard Data	0.98	0.96	0.99	0.40	Dong Nai	0.58	Quang Ngai	4.00	Da Nang
i. Proportion of state budget allotted to environmental protection work (%)	0.7%	0.6%	0.7%	0.0%	Lang Son	0.2%	Quang Ngai	4.1%	Da Nang

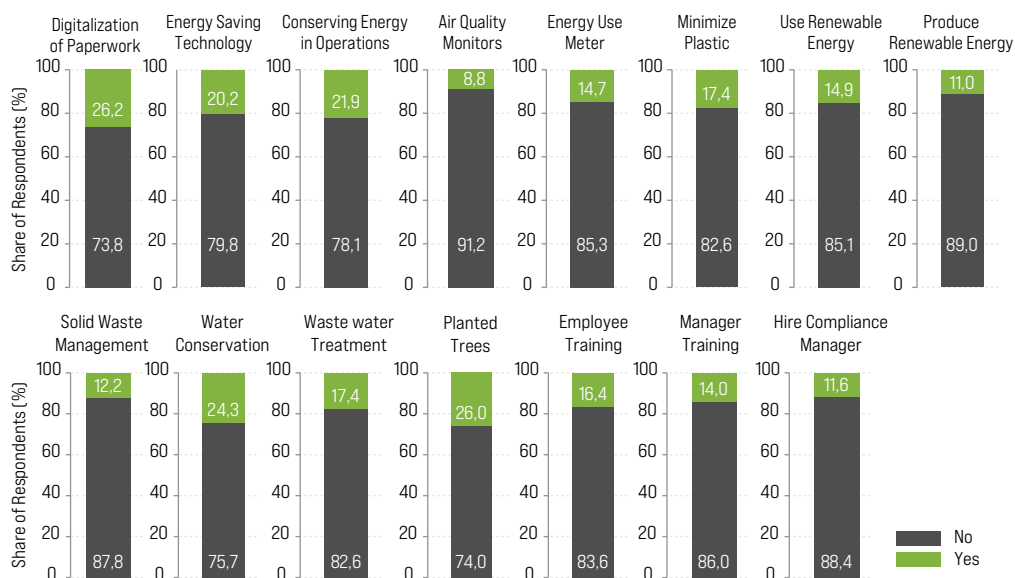
**Dimension 2 captures the share of firms receiving guidance from the provincial government on environmental regulations and activities to help minimize their environmental impact.**

The dimension consists of 8 indicators that capture the level of environmental upgrading of businesses in the province, the amount they spent on these upgrades, the assistance the firms received in contemplating and executing the changes, and finally the role of regulatory oversight in incentivizing them.

**To create the index, the research team first asked firms a battery of survey questions asking about green upgrades they undertook in the past year as well as completed upgrades initiated during the years preceding the survey.** Firms were provided with a list of 15 common but important firm-level green upgrades, including 1) digitalization of paperwork to reduce paper usage; 2) deployment of energy-saving technology; 3) attention to energy conservation in business operations; 4) installation of an air quality monitor; 5) installation of an energy use meter to measure how much energy a firm uses over the course of the day; 6) use of renewable energy (i.e., solar panels); 7) production of renewable energy; 8) minimization of plastics in production and packaging; 9) investing in cleaner solid waste management; 10) water conservation; 11) improved wastewater treatment; 12) planting new trees; 13) training employees on green processes; 14) training managers on green processes; and 15) hiring an environmental compliance manager. Upgrades not on our established list were captured with an “other” category.

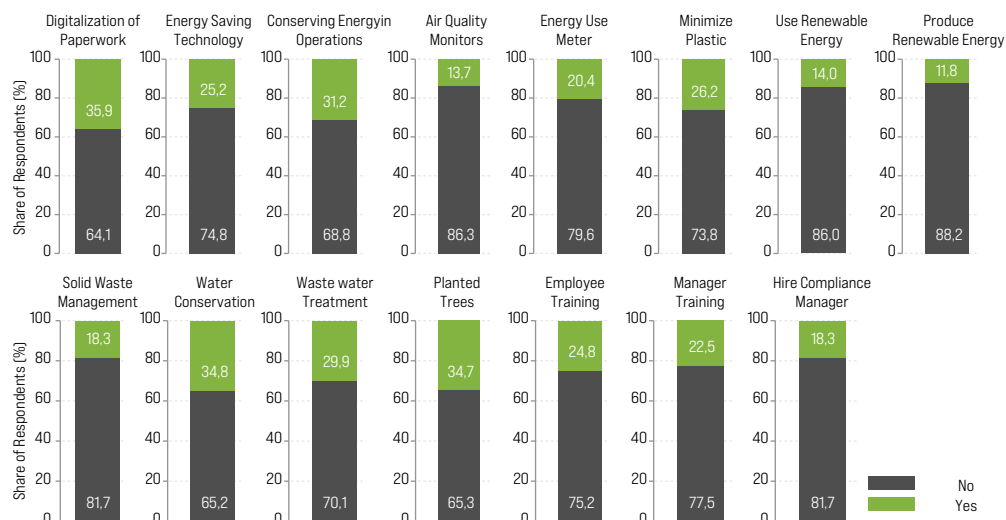
**Figure 2.11 and Figure 2.12 show the frequency of these upgrades for domestic and foreign businesses in the past two years.** For both types, digitalization of paperwork and water conservation were the most common upgrades. About one-quarter of domestic firms spent money on these upgrades compared to about one-third of foreign firms. Other common activities include planting trees, conserving energy in operations, and treating wastewater. Again, a larger share of foreign firms implemented these changes than domestic businesses. Unfortunately, several vital changes remain infrequent. Only 9 percent of domestic firms and 14 percent of foreign firms installed air quality monitors, while only 12 percent of domestic businesses and 18 percent of foreign businesses improved their solid waste management operations.

**Figure 2.11. Green Upgrades of Domestic Firms**



Note: The research team’s calculation comes from responses to BES/BES-FDI survey question J1, “In the past two years, did you invest in any the following technology, activities, or processes to improve your company’s environmental performance or reduce your company’s contribution to climate change?” Analysis is limited to private, domestic firms.

**Figure 2.12. Green Upgrades of Foreign Firms**



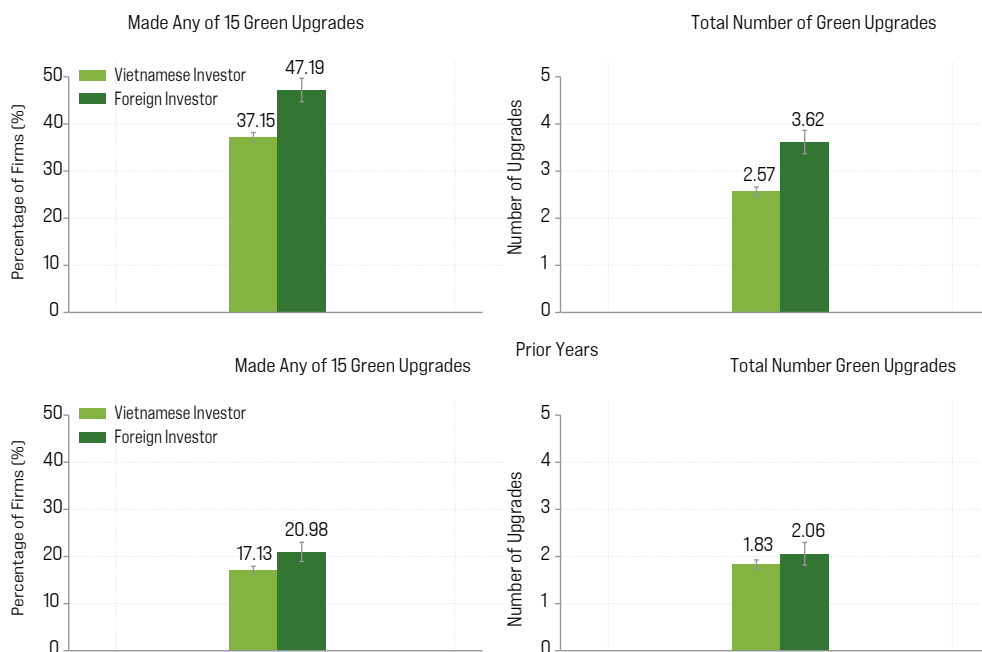
Note: The research team’s calculation comes from responses to BES/BES-FDI survey question J1, “In the past two years, did you invest in any the following technology, activities, or processes to improve your company’s environmental performance or reduce your company’s contribution to climate change?” Analysis is limited to foreign invested enterprises.

**Building on these questions, the index deploys four indicators for Dimension 3 to measure the scale of green upgrades by businesses in each province.** The first indicator captures the total amount of upgrades in the past two years, while the second indicator captures the share of firms that made any changes at all. Because company and provincial characteristics vary and some of these changes may not have been necessary for a particular context, the index focuses on these two general assessments. Second, because some of the changes may not have been warranted because of previous greening in operations, the research team also recorded the number and share of green upgrades in the years before the two-year window. Nationally, 38.7 percent of respondents made an average of 2.73 upgrades in the past two years, compared to 18 percent of 1.86 upgrades in prior periods. Ben Tre led the pack in greening businesses in the past two years. Roughly 60 percent of its businesses made at least one upgrade while many made more—the provincial average was 5.2 upgrades. Ha Tinh province did not have great advances in the past two years, but this was because many greening activities occurred earlier. Fifty-seven percent of businesses in Ha Tinh made prior changes, including an average of 8.2 items from our list.

**Figure 2.13 studies the differences in green upgrading by domestic and foreign businesses.** The top row displays changes made in the past two years, while the bottom row displays historical changes. Two facts stand out. First and unsurprisingly, foreign firms have been more committed to green upgrading than their domestic counterparts. More interestingly, the growth rate of foreign firms in upgrading has been faster than domestic firms. Before our two-year window, the share of foreign and domestic firms that had made green upgrades was very similar, about 21 and 17 percent, respectively. They also had a similar number of green upgrades from our list—about two items for foreign firms and 1.8 for domestic firms. In the past two years, however, foreign businesses have spent much more time and money on improving sustainability. The share of foreign firms making environmentally friendly upgrades grew by 26 percentage points to 47.19, while green growth among domestic firms increased by only 20 points. In terms of the number of upgrades, foreign firms nearly doubled their activities from 2.06 items to 3.62, while domestic firms grew by less than one item to 2.6. Foreign firms face greater regulatory pressure in Vietnam due to their higher visibility; they are also concerned about appealing to environmentally concerned customers in their home and export markets. As attention to the environment has increased both in Vietnam and abroad, foreign firms have faced greater upgrading pressure. However, for Vietnam to achieve its environmental and climate goals, domestic operations need to be similarly motivated.

**Figure 2.13. Greening of Operations is Faster for Foreign Firms**

Past Two Years (2022 &amp; 2023)



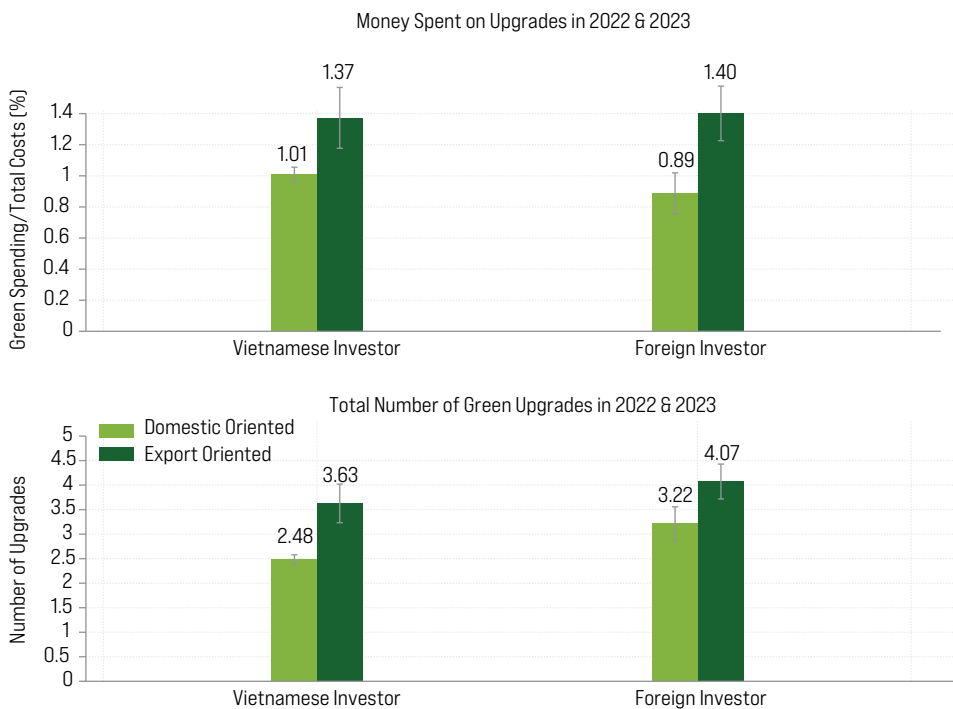
Note: The research team's calculation is based on responses to BES/BES-FDI survey question J1, "In the past two years, did you invest in any the following technology, activities, or processes to improve your company's environmental performance or reduce your company's contribution to climate change?" Includes both foreign and domestic firms.

**The fifth indicator in dimension 2 measures financial commitment by asking about the amount that each firm spent on its green upgrading.** More resources expended indicates that businesses take environmental protection seriously in comparison to other business activities. On average, environmental expenditures were quite low. The average firm spent only 1 percent of its operating costs on green updates. Variance was quite low overall, but firms in Binh Thuan showed a greater financial commitment, spending close to double the national average.

**Figure 2.14 studies the expenses of green upgrading by ownership and export orientation.** The top panel presents the amount spent on green upgrades in the past year disaggregated by whether the firm is foreign or domestic and whether the majority of its sales are in Vietnam (domestic-oriented) or to customers overseas (export-oriented). About 47 percent of foreign firms in the PCI-FDI survey are export-oriented, compared to only 7.5 percent of domestic respondents. Part of the difference between foreign and domestic firms is explained by the greater concentration of exporters in the foreign survey. Export-

oriented firms, who often sell to developed markets with higher levels of environmental regulation and more green-conscious consumers, spent the most on upgrades. This is true for both foreign and domestic firms, but domestic exporters are simply rarer in Vietnam. On average, exporters spent 1.4 percent of costs on greening, compared to one percent or less for non-exporters. The same general pattern holds for the number of green upgrades with one difference. Domestic-oriented foreign firms in Vietnam made more environmental updates than their Vietnamese counterparts, although they spent somewhat less.

**Figure 2.14. Exporters Were More Likely to Spend for Green Improvements**



Note: The research team's calculation is based on responses to BES/BES-FDI survey questions J1, "In the past two years, did you invest in any the following technology, activities, or processes to improve your company's environmental performance or reduce your company's contribution to climate change?" and J2, "If you answered yes to any of these activities or if you made an investment in prior years, please estimate how much you spent on enhanced environmental compliance as a share of your total business operating expenses." Answers are disaggregated by whether the respondent is registered as a domestic and foreign company and whether its primary customers are in Vietnam or abroad, based on the answer to question A11.

**The final set of three indicator questions for the second dimension of "green regulatory guidance" captures the province's role in assisting and proposing green upgrading.**

First, if a firm engaged in any green upgrading, the survey followed up with a battery of questions asking whether it received guidance, instruction, or communication from the



local authorities on how to comply with environmental regulations. A higher share of firms answering yes to these questions suggests more concerted efforts by the provincial government to increase firms' environmental literacy and awareness of existing regulatory frameworks and sustainable practices. Nationally, a relative high share of upgraders (61 percent) report that they obtained support from their provincial government in navigating environmental regulations. Communication was the greatest in Quang Ninh, with 86 percent of green upgraders responding affirmatively, compared to only 34 of upgraders in Ho Chi Minh City, which indicates that firms in the business capital may have been more motivated by market concerns than regulatory enforcement.

**Addressing this issue of motivation, the survey next asked whether regulatory enforcement mattered.** The research team queried what factors motivated the firm to upgrade. If a firm listed regulation as a factor, the response was scored as a positive sign for the provincial regulatory environment. Only 14 percent of firms nationally listed regulation as important in their decision. Scores were the highest in Ha Tinh, where a quarter of firms listed regulations as influential. However, only 4.5 percent of firms in Ba Ria-Vung Tau cited regulations as being critical to their decision.

**Since firms' decision not to upgrade is just as important as their motivation, the survey also asks whether a "lack of regulation" was important in their decision to not invest in greening their business.** Only 7.5 percent of non-upgrading firms nationally thought they would be more likely to invest if their localities had more fulsome regulations. Interestingly, Ha Tinh also emerged as the maximum score on this index; 29 percent of non-upgraders cited a lack of regulation as their primary disincentive. Combining the two findings, it appears that firms in Ha Tinh and the north-central coast are more generally supportive of regulatory authorities in their localities and are more likely to respond positively to greater enforcement.

**One can observe the varying importance of regulations as a motivation by the type and orientation of businesses.** Firms were asked to select the most influential reason for investing in upgrades from a set of factors including: 1) national and provincial regulations; 2) cost savings; 3) market demands; 4) personal concerns about the impact of business on pollution and climate change; 5) provincial government incentive programs; and 6) provincial government training programs. Across all firms, market demands ranked as most important with 25 percent of responses, followed by 19 percent for savings, 18 percent for personal concerns, and 16 percent for regulation.

**However, when the analysis disaggregates by ownership and export orientation, it is possible to see wide differences across firm types, as shown in Figure 2.15.** At 25.9 percent, regulation is by far the most important factor for foreign non-exporters, who sell their products primarily within Vietnam. These firms are less influenced by the demands of international consumers.<sup>33</sup> Regulation is the least important motivation for domestic-oriented Vietnamese businesses with only 15 percent selecting the factor. These businesses are generally small and are thus less likely to be inspected than larger operations. Market demands are of greatest importance for both domestic and foreign exporters with roughly 24 percent of firms in each category selecting this measure. Across firms, cost-saving and personal concerns rank third and fourth, respectively, while training and advisory programs continue to play only minor roles. The analysis returns to the lack of provincial use of these factors in the next subindex.

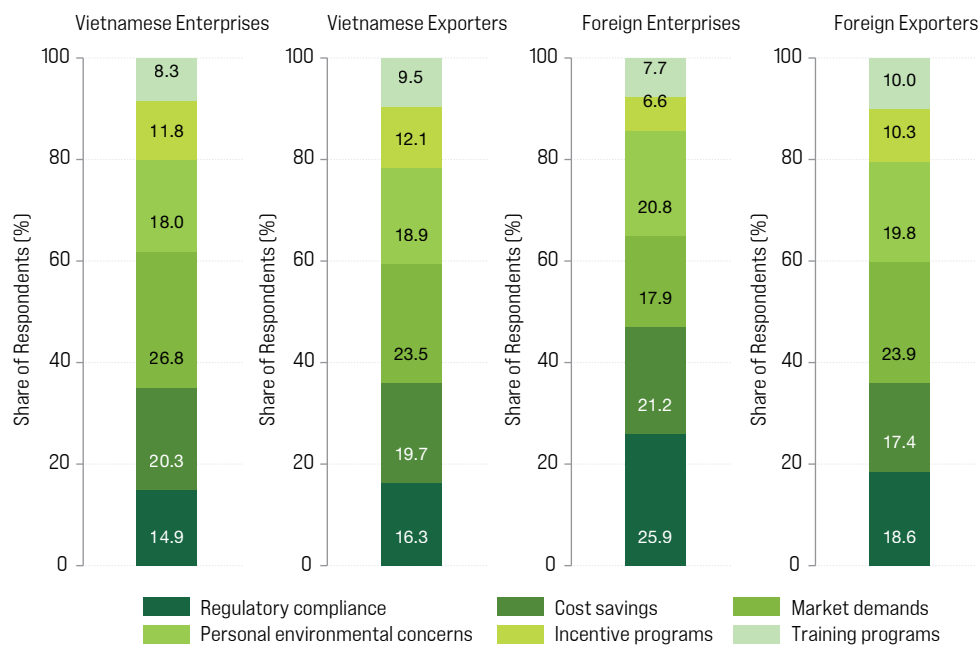
**The third dimension reflects the provincial government's financial commitment to environmental protection.** The research team hand-coded data from provincial budgets posted on the MOF webpage to measure the share of a province's total budget that was dedicated to environmental enforcement. Overall, the national average of 0.7 percent expenditure on environmental protection indicates that, in terms of financial contribution, this is still a relatively low-priority issue area, particularly when compared to over 5 percent that is spent on healthcare. However, differences across provinces suggest that some local governments recognize the need to protect the environment and have ramped up their financial commitments to this end. Notably, Da Nang dedicates 4.1 percent of its total budget to environmental protection. However, at present, Da Nang is a clear outlier. The median province of Quang Ngai spends two-tenths of a percent of its budget on enforcement.

**Dimensions 1 and 2 counted 60 percent toward the subindex, while Dimension 3 contributed the remaining 40 percent (see Table 2.1).** The provincial ranking on the aggregated subindex is shown in Figure 2.16. With an average score of 7.07, Da Nang emerges as the top performer on this subindex, followed by Quang Ninh, Ho Chi Minh City, and Hung Yen. Again, large service sectors, especially businesses interested in tourism, appear to play a role in motivating provincial leadership to adopt environmentally friendly changes.

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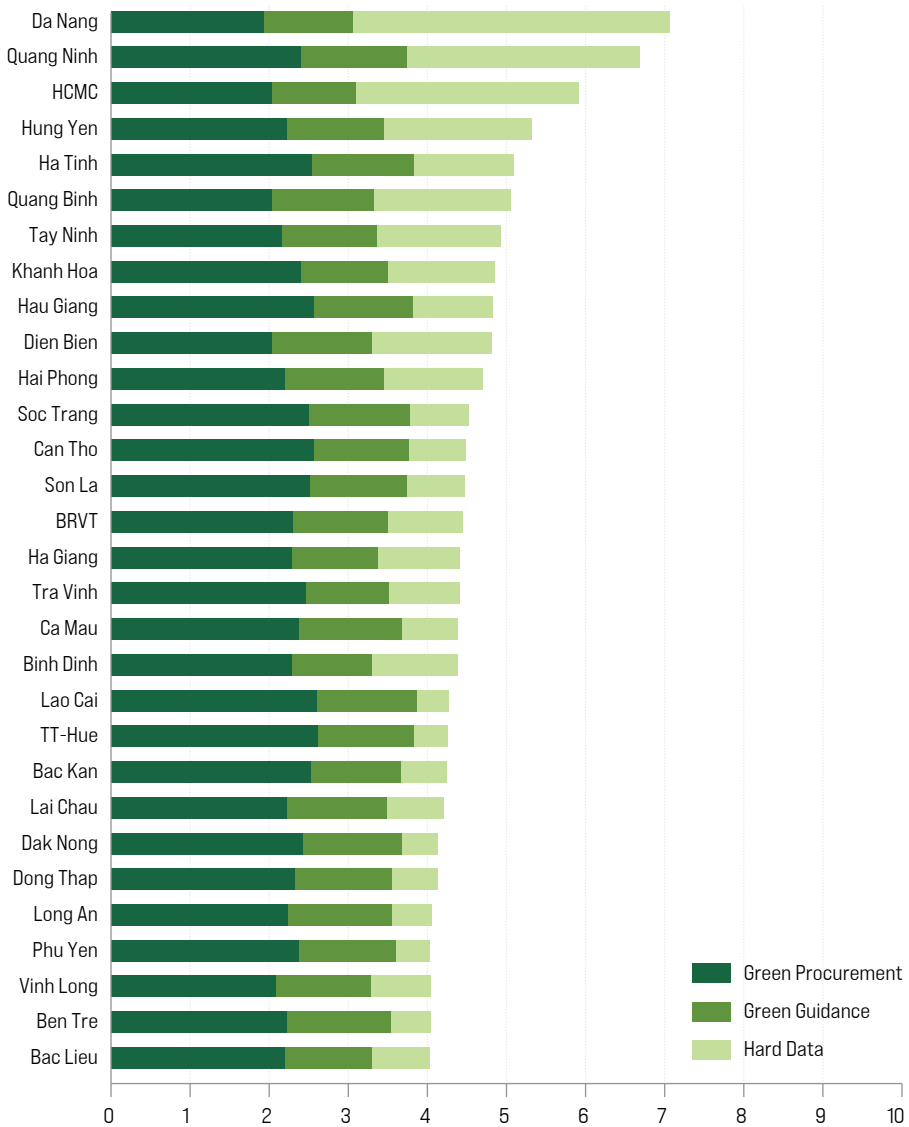
<sup>33</sup> Malesky, Edmund J., and Quynh Nguyen. (2023). "Testing the Drivers of Corporate Environmentalism in Vietnam". *Studies in Comparative International Development*: 1-27.

**Figure 2.15. Differing Motivations by Ownership and Export Orientation**



Note: The research team’s calculation is based on responses to BES/BES-FDI survey question J1, “What was the most influential factor in motivating you to invest in greener operations?” Answers are disaggregated by whether the respondent is registered as a domestic or foreign company and whether its primary customers are in Vietnam or abroad, based on the answer to question A11.

Figure 2.16. Subindex 3 - Leadership &amp; Assistance



Note: The research team's calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office.

### 2.3.4. Incentives & Support Services

**The final subindex describes the availability and the reach of government instruments aimed at improving the private sector's environmental performance.** Specifically, this subindex captures two dimensions measuring firms' access to local government-sponsored programs that incentivize businesses to adopt environmentally sustainable practices as well as public advisory and training services to increase the uptake of sustainable approaches to doing business. Both dimensions draw on data from the PCI and PCI-FDI surveys. Table 2.5 lists all the indicators employed in the subindex.

**Dimension 1 provides information about the existence and accessibility of government incentive programs to support local green growth strategies.** It is measured as the share of firms engaged in green upgrading that benefited from government incentive schemes. Firms that never received support from an incentive program financed by the local government were coded as 0. The analysis shows that nationally, 33 percent of upgrading firms received either a tax incentive, tax holiday, or subsidy. Scores were particularly high in Dien Bien, where 56 percent of the 66 green upgraders received some benefit. At the other end of the scale, only 14 percent of Nam Dinh's 57 green upgraders received a benefit for doing so. The second indicator turns to the firms that did not make upgrades, asking why they chose not to initiate such improvements. The index records the share of firms that said they lacked financial capacity. In total, 14 percent of firms did not upgrade because they lacked the resources. However, for some provinces, the percentage was extremely high. Under 40 percent of businesses in Binh Dinh did not improve the environmental compliance of their businesses because of capacity constraints.

**Dimension 2 uses three questions from the PCI and PCI-FDI surveys to measure the accessibility of advisory and training services to improve businesses' environmental performance.** First, the analysis takes the share of green upgraders that benefitted from advisory services offered by the provincial government. Next, the team applies the same approach to obtain information about the percentage of green upgraders that benefitted from training to improve environmental performance and their overall experience with the service. Green advisory and training services are reasonably accessible; nationally, 38 percent and 36 percent of green upgraders were able to access them, respectively. Firms in Dien Bien were particularly likely to say they benefitted from advisory programs, with 61 percent receiving them in the past two years. Dak Nong stood out for its training programs with 60 percent of their businesses benefitting from them. Interestingly, firms in An Giang felt deprived of both. Only 17 percent and 15 percent of An Giang's upgraders benefitted from provincial programs to provide advice and training, respectively.

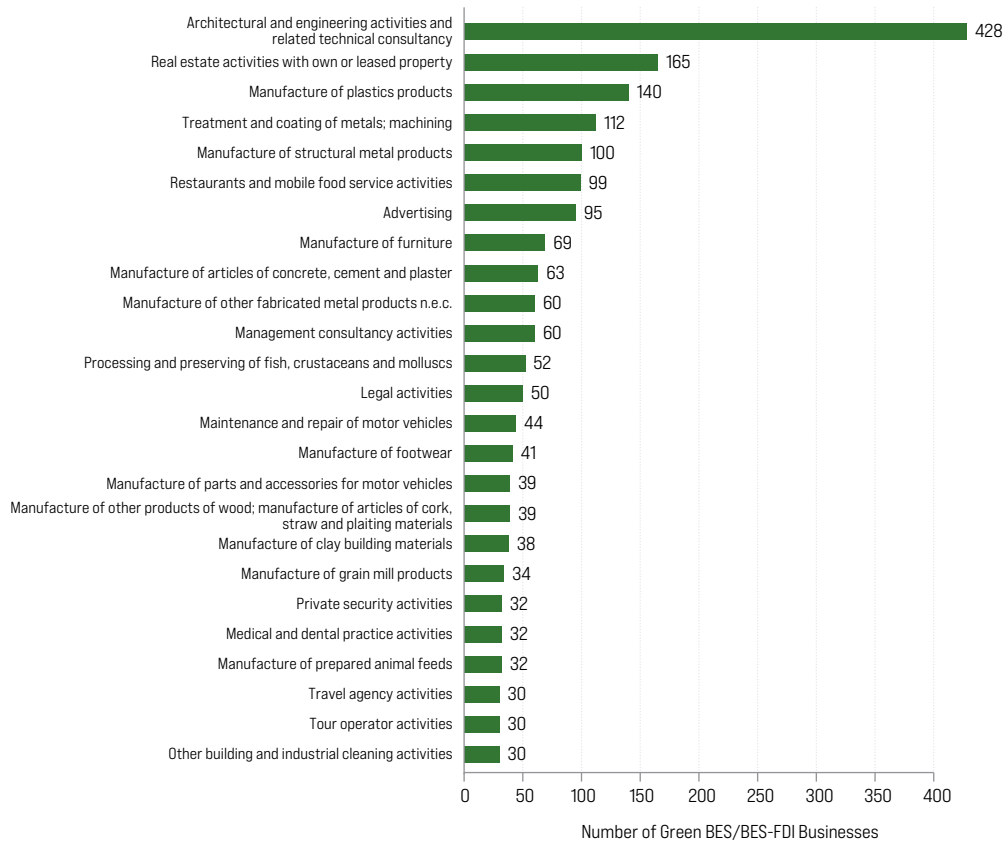
**The hard data of dimension 3 is supplied by our calculations of the share of firms operating in green industries in each province.** The more firms in green industries, the more one can say that the provincial government has been encouraging this activity in line with the government's green growth strategy. There are three types of green business lines. First and most prominent are businesses that produce goods or provide services benefiting the environment or conserving natural resources. This category includes firms that produce energy from renewable sources such as wind or solar farms, businesses that produce energy-saving products such as solar panels, electric vehicles, or smart grids, and businesses that reduce or eliminate the use of pollutants. The first category also includes businesses that conserve natural resources, such as organic agriculture or sustainable forestry. Finally, the first type includes businesses that provide education, training, or awareness of environmental compliance, such as consulting or legal advisory firms. Examples of the second category include businesses in which workers' duties involve making their establishment's production processes more environmentally friendly or using fewer natural resources. Businesses that employ workers to reduce their energy usage, increase efficiency, remove waste, or conserve resources within a particular business line also count. The third type is businesses whose environmental footprint is negligible, such as those engaged in non-carbon-intensive trade or services. Many of Vietnam's very small wholesale and retail trading businesses fall into this category. To generate this measure, the research team took the 325 goods and services counted by the United States Bureau of Labor Statistics as green jobs and matched them to the four-digit industrial codes in the PCI data.<sup>34</sup>

**The research team then calculated the share of firms in each province that operate in these 325 business lines.** These results are shown in Figure 2.17. By far, the most common green businesses, with 428 operations, are firms in architecture, engineering, and technical consultancy, followed by real estate with 165 operations. Plastic manufacturing is a surprising third-place finisher, which results from the small number of firms that are engaged in the production of plastic using biodegradable materials or who are in industries that employ carbon capture in the manufacturing process. It is not clear that all Vietnamese plastic manufacturers have adopted these practices, but they are coded as green because their counterparts in the US Bureau of Labor Statistics survey have done so and the opportunity exists for firms in Vietnam to do the same. The same is true for the 99 firms in the structured metal products sector.

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34 US Bureau of Labor Statistics. [2023]. "Green Goods and Services [GGS]". <<https://www.bls.gov/ggs/ggsoverview.htm>>. Because these data were coded using the NAICS coding system for industries, the research team wrote a convergence table to match them to the ISIC coding system used for PCI data.

**Figure 2.17. Green Firms are Predominantly in Architecture and Engineering**



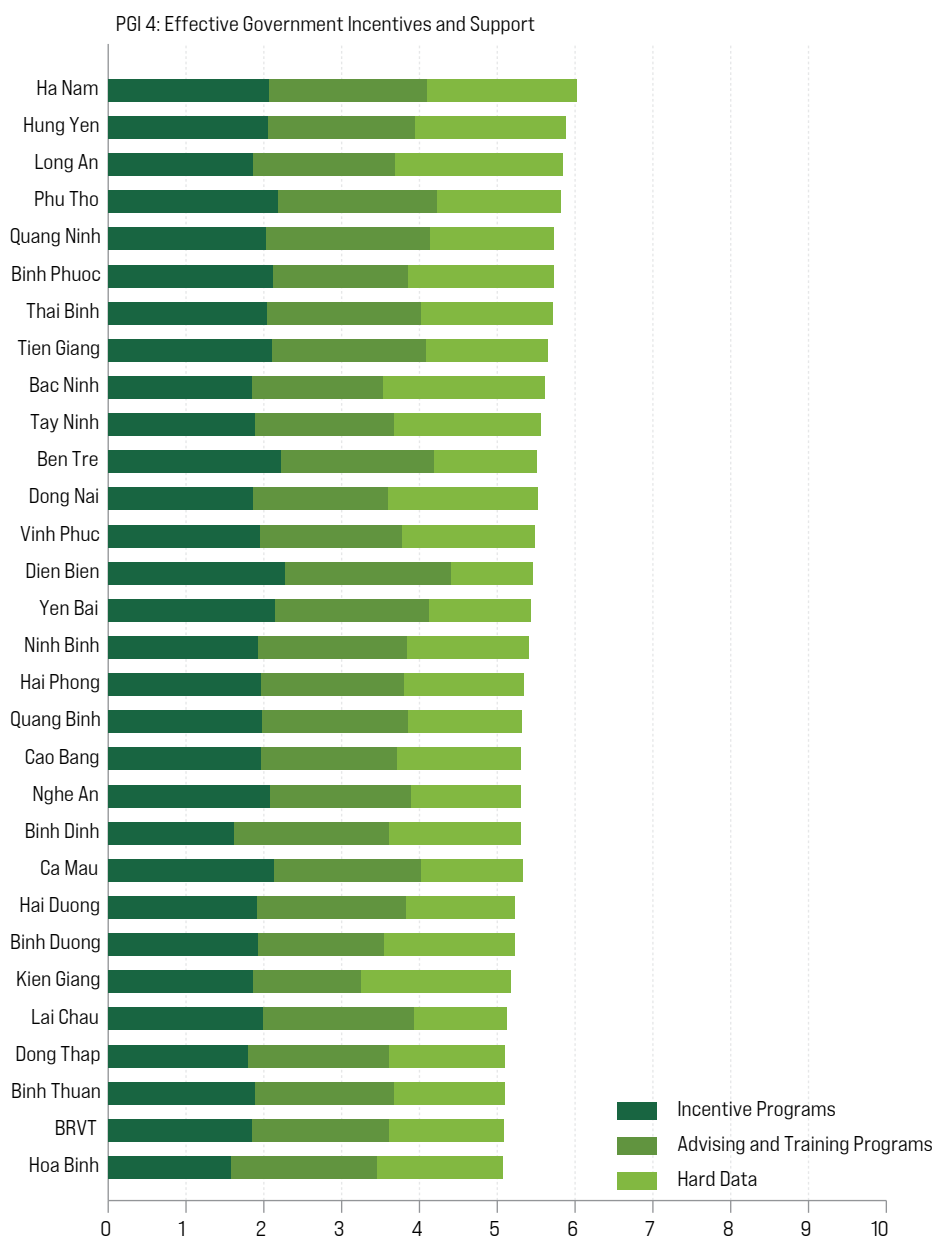
Note: The research team's calculation uses BES/BES-FDI survey data and Bureau of Labor Statistics Coding Rules.

**Table 2.5. Indicator Scores for Subindex 4 - Incentives & Support Services**

Indicator	National Average	95% CI Low	95% CI High	Minimum Score	Minimum Province	Median Score	Median Province	Maximum Score	Maximum Province
4: Environmental Incentives	S	5.07	5.15	4.04	Bac Kan	5.04	Thanh Hoa	6.02	Ha Nam
PGI Dimension 4.1. Incentive Programs	1.89	1.88	1.91	1.58	Hoa Binh	1.91	Khanh Hoa	2.27	Dien Bien
i. Green upgrades benefitted from tax incentive programs (%)	33.1%	31.6%	34.6%	14.0%	Nam Dinh	34.9%	Ninh Thuan	56.1%	Dien Bien
ii. Did not make green upgrades because of lack of capacity (%)	14.7%	13.9%	15.4%	4.0%	Ha Nam	13.5%	Ha Giang	39.7%	Binh Dinh
PGI Dimension 4.2. Advising and Training Programs	1.73	1.72	1.74	1.08	Bac Kan	1.75	Quang Tri	2.14	Dien Bien
i. Green upgrades benefitted from government's advisory services (%)	38.1%	36.6%	39.6%	17.1%	An Giang	39.4%	Son La	60.9%	Dien Bien
ii. Green upgrades benefitted from government's training services (%)	36.4%	34.8%	37.9%	15.0%	An Giang	36.9%	Lang Son	60.0%	Dak Nong
iii. Did not make green upgrades because of lack of awareness (%)	14.7%	13.9%	15.4%	3.4%	Ha Nam	12.9%	Hung Yen	58.3%	Ha Tinh
PGI Dimension 4.3. Hard Data	1.48	1.45	1.52	0.85	Dak Nong	1.42	Binh Thuan	2.15	Long An
i. Firm operates in green industry (%)	30.1%	29.2%	31.0%	12.5%	Dak Nong	28.2%	Binh Thuan	48.7%	Long An



**Figure 2.18. Subindex 4 - Incentives & Support Services**



Note: The research team's calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office.

**Overall, Ha Nam, Hung Yen, and Long An produce the highest scores on the effectiveness of government support.** Nevertheless, scores are relatively low and there is limited variation across provinces overall. Future investigation can hopefully determine the extent to which findings from subindex 4 reflect an actual undersupply of local government programs versus the under usage of these services by the private sector. However, matching the findings from subindex 3, especially the low share of provincial governments' budgets dedicated to environmental protection, with the findings from this subindex, the results are more likely to indicate a lack of government incentives and support services to help businesses improve their environmental performance. This is consistent with the notion that this subindex represents a more aspirational role for local governments, unlike subindices 2 and 3 which represent more traditional official action and involvement. Provincial governments need to step up their contributions to help local businesses achieve the transition towards green growth.

## 2.4 The Provincial Green Index (PGI)

### 2.4.1. Relationship between Subindices

**A notable feature of the four subindices is that only a few provinces are represented at the top of more than one or two dimensions.** Da Nang, Vinh Long, and Hung Yen rank highly in two. Policies necessary to excel in each of the different subindices are very different and few provinces have the inclination, resources, or capacity to successfully prepare for disasters, enforce environmental regulations, provide effective guidance for green business activities, and subsidize green business operations. Most provinces demonstrate reasonable success in only one or two facets of green behavior. As shown below, this leads to low overall performance on the PGI and very little difference in cumulative scores between high- and low-ranking provinces. Consequently, policymakers may best view the results as a dashboard of independent policy dimensions rather than a cumulative index.

**Additionally, Vietnam's green development is in the very early stages, so it is reasonable to consider the 2023 PGI as a useful baseline by which to measure future policy advances in each of the four dimensions and the cumulative index.**

Table 2.6. Top 5 Provinces in Each PGI Subindex

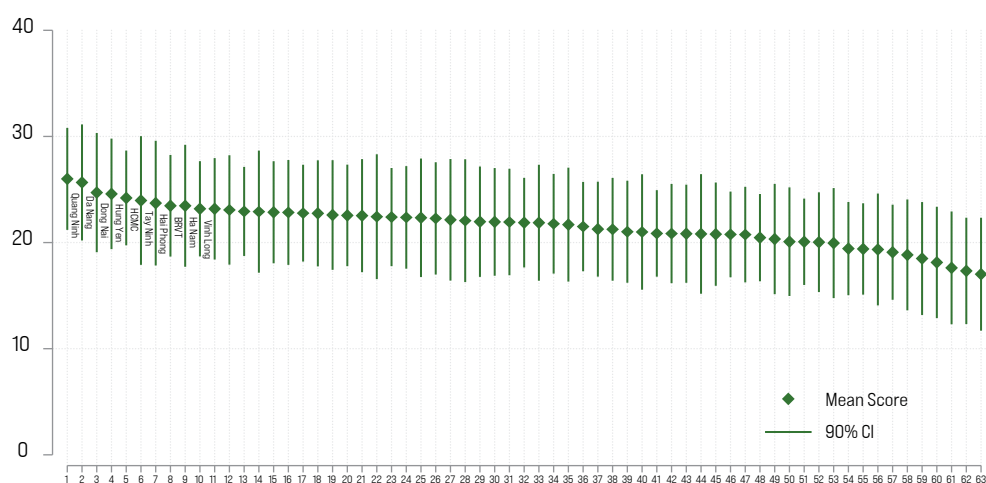
Top 5 Ranking	1. Minimizing the Risk of Climate Hazards (to Firms)	2. Maintaining Minimum Environmental Standards (by Firms)	3. Environmental Leadership (by Provincial Governments)	4. Environmental Incentives and Support Services (by Provincial Governments)
1	Dong Thap	Dong Nai	Da Nang	Ha Nam
2	Nam Dinh	Quang Nam	Quang Ninh	Hung Yen
3	Vinh Long	Binh Thuan	Ho Chi Minh City	Long An
4	Ba Ria Vung Tau	Tra Vinh	Hung Yen	Phu Tho
5	Da Nang	Vinh Long	Ha Tinh	Quang Ninh

## 2.4.2. Constructing the Composite PGI

The final PGI is constructed by summing the four subindices to create an unweighted index. Each subindex receives an equal weight of 25 percent. Thus, the total possible score of the pilot PGI equals forty points.

Figure 2.19 presents the 2023 PGI. The score for each province is displayed by the green diamond. The horizontal axis shows the implied rank of the provinces. Provinces are rank-ordered from left to right, so the best-performing province is on the far left. Quang Ninh, despite not ranking first in any individual index, ranks first overall due to its cumulative performance across all four subindices, achieving a total score of 26 points. It is followed by Da Nang (25.66), Dong Nai (24.71), Hung Yen (24.59), and Ho Chi Minh City (24.2).

Figure 2.19. Provincial Green Index Ranking



Note: The research team's calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office.

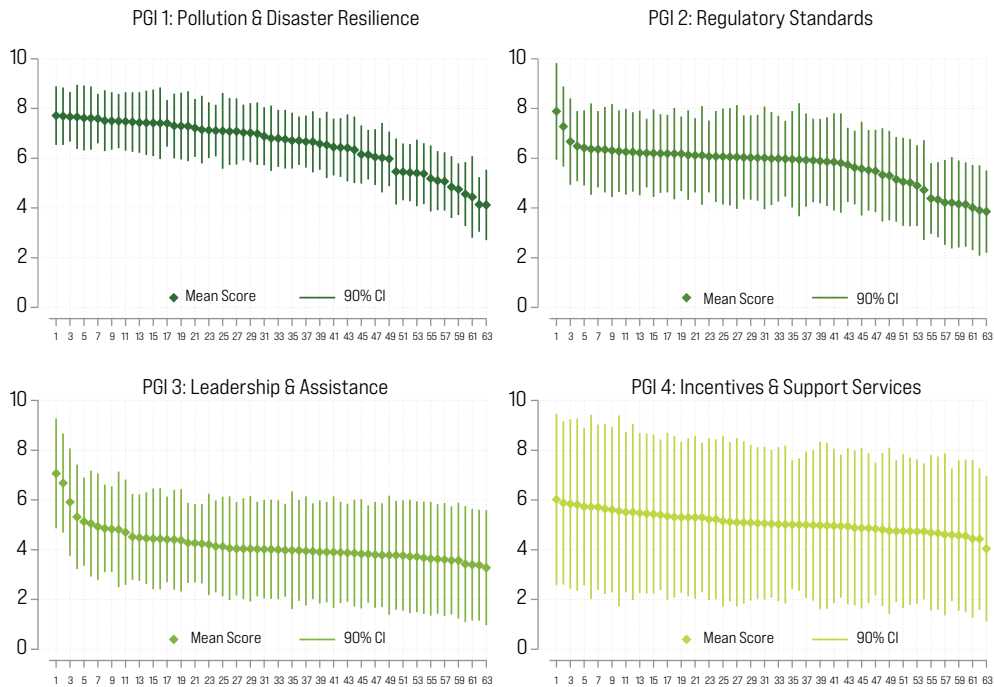
**The range bars depict 90 percent confidence intervals around the mean score.** The confidence intervals can be interpreted as the range of possible scores a province's PGI could take if the research team repeated the PGI survey and construction of the index 1000 times. Thus, for instance, the possible scores for Tra Vinh (in 13<sup>th</sup> place) could range from as high as 23.3 to a low of 19.

**Depicting the index this way leads to two critical findings.** First, no province comes close to the maximum possible score of 40 for green policies. Second, there is very little statistical difference between the highest and lowest-ranked provinces. In alternative samples of the domestic and foreign populations, it would be possible for even the lowest-ranked provinces to achieve high scores. As noted above, a key reason for this low performance and lack of variance in overall provincial scores has to do with the clear decisions provinces are making in choosing to specialize in only one or two facets of green behavior. One reason for this may be that the country's green growth strategy is still being rolled out quite slowly and has yet to be fully integrated into provincial socio-economic development plans. In many provinces, although green growth action plans have been approved and issued, there is a lack of specificity and some plans are currently not well-suited or feasible for a province given underlying economic conditions.

**While there is little evidence of star performers in the aggregate, some provinces are distinguishing themselves with high-quality policies.** To illustrate this point, Figure 2.20 creates the same 90 percent confidence intervals for each of the four PGI subindices. The plot indicates much tighter confidence intervals and clearer differentiation in subindices 1 and 2 than in subindices 3 and 4. For instance, in the PGI 2 quadrant, Dong Nai and Quang Nam provinces have confidence intervals that do not overlap with the low-ranked provinces, such as Quang Tri and Cao Bang. In repeated samples, readers can be confident that Dong Nai and Quang Nam would emerge as high performers, indicating that their placement is statistically reliable and that they are good provinces to learn from. The tight confidence intervals indicate less variance in provincial responses, which means that firms within a locality tend to agree in their assessments.

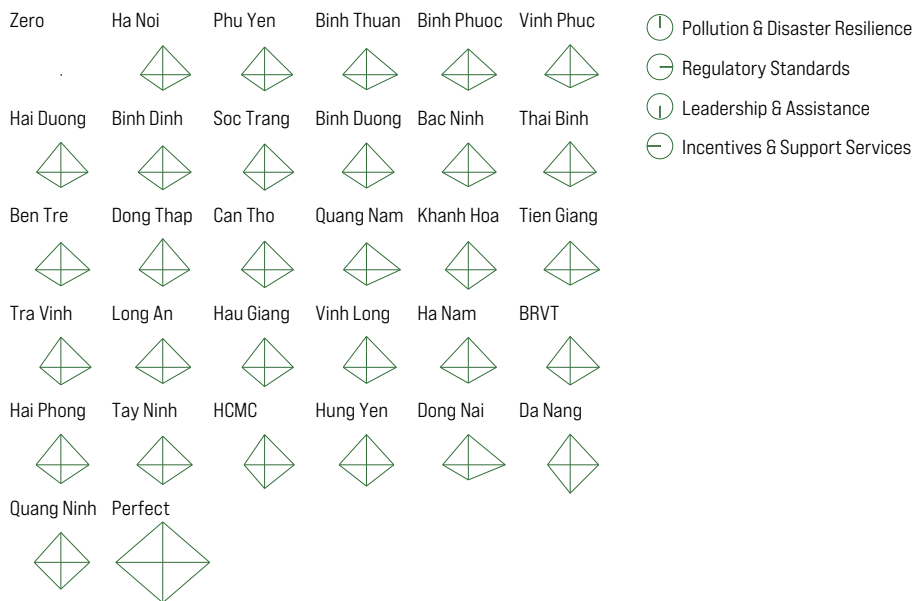
**In subindex 4, where the policy practices are newer to Vietnam, the confidence intervals are larger, which indicates a great deal of disagreement and uncertainty about firms' ability to evaluate provincial leadership in those areas.**

**Figure 2.20. Range Bars and Rankings for all Four Subindices**



Note: The research team's calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office.

**Figure 2.21 demonstrates an alternative dashboard approach using a star plot, where each stem represents a score on a subindex.** The graphs show each province's scores against a perfect score of ten and a low score of one. Again, it is possible to see how even the best-performing provinces fall short in one area. Furthermore, it is clear that most provinces score quite poorly, especially in subindex 4, as few provinces have active incentive programs at the time of the survey.

**Figure 2.21. Provincial Green Index Dashboard (Top 30)**

Note: The research team's calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office.

### 2.4.3. Domestic versus Foreign Investors

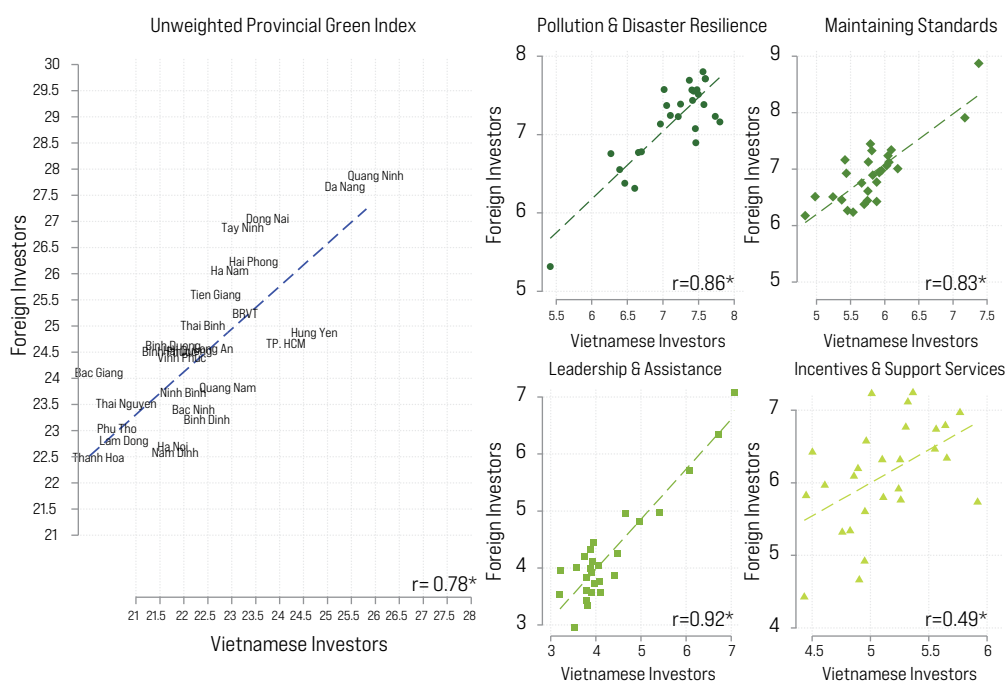
**Disaggregation also provides an opportunity to observe differences in foreign and domestic investors' evaluation of the same province.** A strong correlation between the perceptions of the two groups would provide confidence that the PGI is capturing true latent features of green behavior in the locality, as two types of investors apparently come to the same conclusions about the officials' behavior. At the same time, differences could provide insight into biases in the ways provincial leaders administer green programs in terms of enforcement, access to guidance, or allocation of incentive programs.

**Figure 2.22 allays fears that there is bias in the PGI toward particular ownership types by way of a scatter and linear fit plot, illustrating strong correlations between the overall PGI and every subindex.** In other words, foreign and domestic investors come to remarkably similar conclusions about green performance in their host provinces. The far-left panel shows the association with unweighted PGI. The provincial names depict the observed value on the graph, illustrating the average foreign and domestic scores for that province. The dashed blue line represents the linear fit between the two measures. The steep upward slope indicates a strong positive relationship, which is also captured by the highly significant bivariate correlation of 0.69.

**Provinces that domestic investors regard as performing reasonably well are assessed similarly by foreign investors.** For example, Quang Ninh tops the rankings of both types of investors, primarily due to its high scores in subindices 2 and 3. Da Nang, Dong Nai, Tay Ninh, and Hung Yen are similarly ranked in the top six by both foreign and domestic investors. At the same time, Ha Noi, Lam Dong, and Thai Nguyen rank near the bottom of both lists for environmentally friendly behavior. The graph also tells us something about misalignment. Despite the correlation, provinces above the regression line are those where foreign investors have more positive views about the province's environmental policy, while those below the line are more favored by domestic investors. Dong Nai and Tay Ninh stand out as places where foreign investors express more positivity than domestic investors. The gap between perceptions is about 3 points. By contrast, Hung Yen and Ho Chi Minh City are places where domestic investors are relatively more favorable.

**The smaller four plots in Figure 2.22 tell the same story. Foreign and domestic investors strongly agree on all four subindices.** Associations are much stronger for subindices 1, 2, and 3, which have bivariate correlations of 0.75, 0.82, and 0.92, respectively, but are also quite high for subindex 4, which records correlations of 0.42. Again, these lower correlations result from the fact that these activities remain quite rare and domestic investors especially have little information about them. This lack of information results in noisy estimates and less precision in identifying patterns.

**Figure 2.22. Strong Agreement in Evaluation of Foreign and Domestic Respondents**



Note: The research team's calculation uses BES/BES-FDI survey data and administrative data from the General Statistical Office. This graph limits analysis to provinces with over 10 foreign invested respondents.

## 2.5 Relationship between Policy Inputs and Climate/Pollution Outputs

**Are higher scores on the PGI associated with reductions in environmental disasters and pollution?** The final section of the report explores this question econometrically to study the association between critical outcomes and provincial policies. The research team collected data on basic pollutants, including particulate matter 2.5 (PM 2.5),<sup>35</sup> sulfur dioxide (SO<sub>2</sub>), and nitrogen dioxide (NO<sub>2</sub>) in the atmosphere, troposphere, and at ground level, and which are known to result from industrial behavior.<sup>36</sup> The team also collected a measure of the total cost of climate and environmental disasters, such as flooding, landslides, and droughts.<sup>37</sup>

**While better green policies should reduce pollution and natural disasters, several confounding factors might reduce the chances of finding a correlation.** As discussed, PGI scores tend to be low with relatively low variance. Most provinces have just begun the process of environmental reform and there has been limited time for improvements to be noted. Even where provinces have excelled, none have been successful at the full suite of efforts necessary to truly combat environmental degradation and climate change. Finally, on two of the subindices, there is simply too little variation to adequately distinguish high and low performers or to attribute those differences to reduced pollution.

**A final confounder is spillover. While provinces might design and implement sterling policies within their own borders, they can do little about pollution and environmental risks caused by their neighbors.** Pollutants can be carried across borders by wind and water. Environmental disasters may be precipitated by the failure of neighboring jurisdictions to police regulatory violations in shared mountain ranges, bodies of water, or common pool resources. Finally, climate change can be exacerbated by actors far removed from the

35 PM 2.5 data comes from the LASER PULSE Research for Development Program and VNU - University of Engineering and Technology. Thanh T.N. Nguyen, Truong X. Ngo, Ha V. Pham, Hieu D.T. Phan, Anh T.N. Nguyen, Luan N. Vuong, Thuy T. Pham, Nam H. Tran, Huy C. Pham, Bang Q. Ho, Vinh T. Tran, Phat T. Nguyen, Krishna P. Vadrevu, Chris Justice. (2022). LASER Vietnam Air Pollution Monitoring Project PM 2.5 Data (2019-2024). LASER PULSE Research for Development Program and VNU - University of Engineering and Technology

36 NO<sub>2</sub> in the atmosphere, NO<sub>2</sub> in the troposphere, and SO<sub>2</sub> data come from Nasa's Earthdata repository, which provides daily gridded measurements of pollutants, including NO<sub>2</sub> and SO<sub>2</sub>. For this purpose, the team downloaded all 365 data files to aggregate the data to the annual level. Next, researchers aggregated the point-based estimates to the next higher administrative level to obtain data at the provincial level. Nickolay A. Krotkov, Lok N. Lamsal, Sergey V. Marchenko, Eric J. Bucsela, William H. Swartz, Joanna Joiner and the OMI core team (2019), OMI/Aura Nitrogen Dioxide (NO<sub>2</sub>) Total and Tropospheric Column 1-orbit L2 Swath 13x24 km V003, Greenbelt, MD, USA, Goddard Earth Sciences Data and Information Services Center (GES DISC), Accessed: [Data Access Date], 10.5067/Aura/OMI/DATA2017. NO<sub>2</sub> in ground water comes from Thanh et al (2023) [see fn18]

37 General Statistical Office (GSO). (2023). "Environmental Statistics in Vietnam". Hanoi: Statistical Publishing House.



ultimate consequences of their behaviors. Salination in the Mekong Delta caused by rising sea levels is among the most salient current examples.

**The difficulties of confounding are highlighted by the stark correlation between the latitude of the provincial capital and the growth in pollution.** The left panel of Figure 2.23 shows the dramatic relationship, which has a bivariate correlation of 0.73 with PM 2.5. Each degree of increase in latitude is associated with about a 0.6 percentage point change in the growth of particulate matter between 2022 and 2023. This is a well-documented pattern, caused by the accumulation of coal-fired power plants in the North and the spillover of pollutants across the border from Vietnam's northern neighbor. A similar pattern is observed in the right panel when studying changes in NO<sub>2</sub> in the atmosphere. A one-unit increase in latitude is associated with a 1.22 percentage point change in nitrogen dioxide in the atmosphere.

**A geographic issue can also be observed in natural disaster preparation.** Central coastal provinces are disproportionately affected by flooding and tropical storms. This can be seen in Figure 2.23 where the analysis applies a quadratic fit model which shows the inverted-U-shaped relationship between latitude and the costs of natural disasters over provincial GDP.

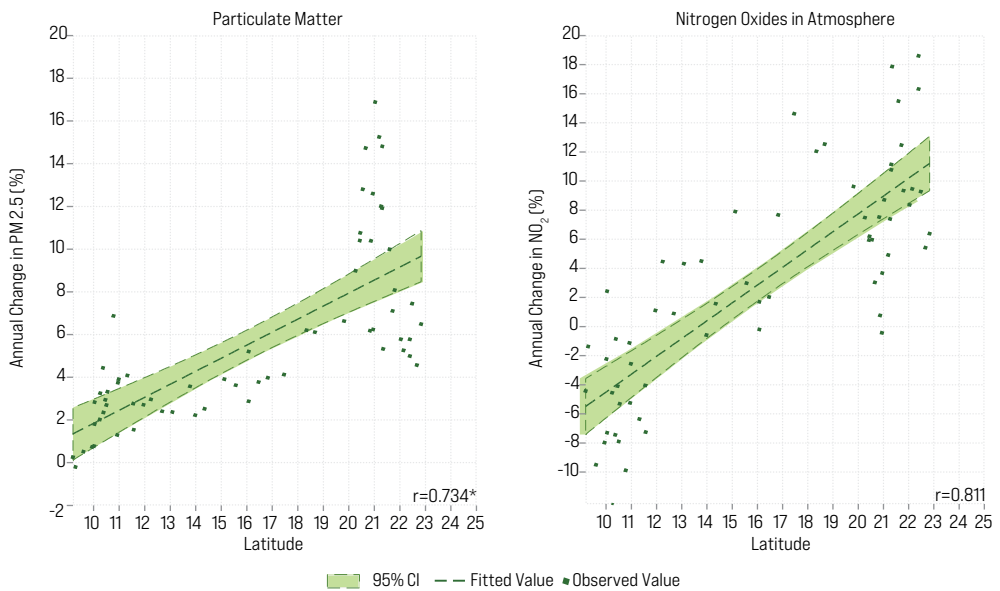
**To address the issue of confounding by geographical and other variables in our statistical analysis, the research team employed a linear regression model that controls for several potential factors that might obscure the relationship between green policy (measured by the PCI) and the outcomes citizens care about.**<sup>38</sup> In particular, the estimation controls for provincial GDP to capture the amount of economic activity taking place, as more commercially vibrant provinces may have more polluting activity. The estimation also controls for population size to address the fact that more densely populated areas tend to generate more pollutants as residents go about their daily commutes and household tasks. To address the spillover caused by proximity to coal-fired power plants, the analysis controls for the total megawatts of power generated by coal plants in the province.<sup>39</sup> Finally, the analysis controls for both latitude and latitude squared to address spillover pollution caused by China and the national-level cities. Full results are available in Tables 2.8 and 2.9 in the appendix.

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38 Specifically, the analysis employs ordinary least squares regression with robust standard errors to correct for heteroskedasticity.

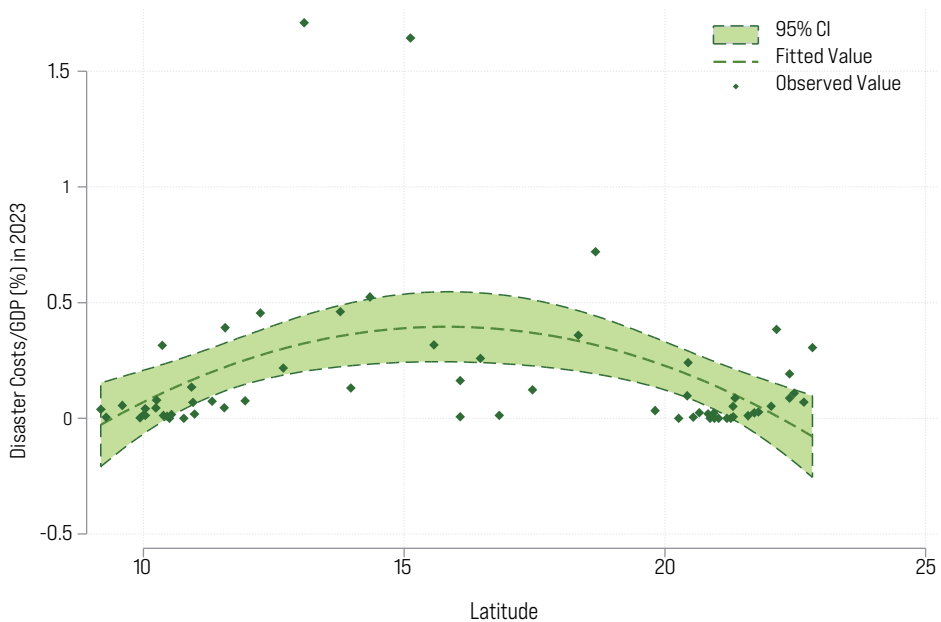
39 The analysis takes the natural log of all these measures to reduce the impact of skew and outliers, as well as ease interpretation. Our outcome variables can be interpreted as changes in percentage points.

**Figure 2.23. Pollution Levels Correlate with Local Latitudes**



Note: The research team’s calculation of PM 2.5 and nitrogen dioxide is based on data from Nguyen et al. (2023), and NASA (2024). The graph shows the bivariate correlation of pollutants with the latitude of the province.

**Figure 2.24. Central Provinces Experience More Costly Disasters**



Note: The research team’s calculation uses the costs of economic disasters and provincial GDP from the GSO (2023). The graph shows the quadratic relationship between disasters and latitude.

**Overall, green governance is strongly associated with reductions in Nitrogen Dioxide in the atmosphere and troposphere.** Figure 2.25 shows that a one-unit increase in the 2023 PGI score, about a 0.5 standard deviation in provincial-level scores, is associated with a 2.46 percent reduction of nitrogen dioxide in the atmosphere and a 0.86 percent reduction in nitrogen in the troposphere.<sup>40</sup> If these findings were purely causal, if Lang Son could improve from 17.33 its PGI to the 26 level of its northeastern neighbor Quang Ninh, it would likely experience atmospheric reductions of NO<sub>2</sub> of 22 percent and tropospheric reductions of 7.7 percent. This would have a tremendous impact on health-related illnesses and potential deaths in the region.

**Caution should be taken in interpreting these findings causally.** PGI survey responses may reflect existing pollution and environmental conditions. In this case, the causality may be reversed with bad pollution leading to lower PGI scores. Further research will be necessary to disentangle these mutually reinforcing trends.

**Different PGI subindices are associated with different types of environmental outcomes.** Figure 2.26 provides the disaggregated regression analysis of each of the four components of the aggregate PGI.<sup>41</sup> Improvements in subindex 1, subindex 2, and subindex 3 are associated with significant improvements in environmental conditions.

**First, taking steps to combat natural disasters through subindex 1 is associated with reductions in climate-related harms and environmental catastrophes.** This can be seen in the upper left quadrant of Figure 2.26 which presents a partial regression plot showing the relationship between subindex 1 and our outcome variable of the costs of environmental disasters over GDP (ln) after parsing out the impact of the control variables for GDP, population, coal, and geographical spillovers. The negatively sloping line indicates that a one-point improvement in the index is associated with a five percent reduction in environmental accidents in the province. Since the average province spends about 1.6 percent of its output on cleaning up accidents and compensating citizens, this is a substantial improvement that would make many citizens safer while financially benefitting the province.

**Second, maintaining environmental standards through higher quality regulation and punishment of polluters in subindex 2 is strongly associated with reductions in NO<sub>2</sub> in the atmosphere and troposphere.** This relationship can be seen in the NE quadrant of Figure 2.26, which depicts a partial regression plot of the relationship after controlling for confounders. A one-unit increase in subindex 2 is associated with a 5.3 percent reduction of nitrogen dioxide in the atmosphere and a 1.5 percent reduction of nitrogen in the troposphere.

**Third, improving environmental leadership by providing guidance on environmental standards and best practices is associated with reductions in both PM 2.5 and sulfur**

40 Appendix Table 2.7 shows the full regression results.

41 Full results are available in Appendix Table 2.8

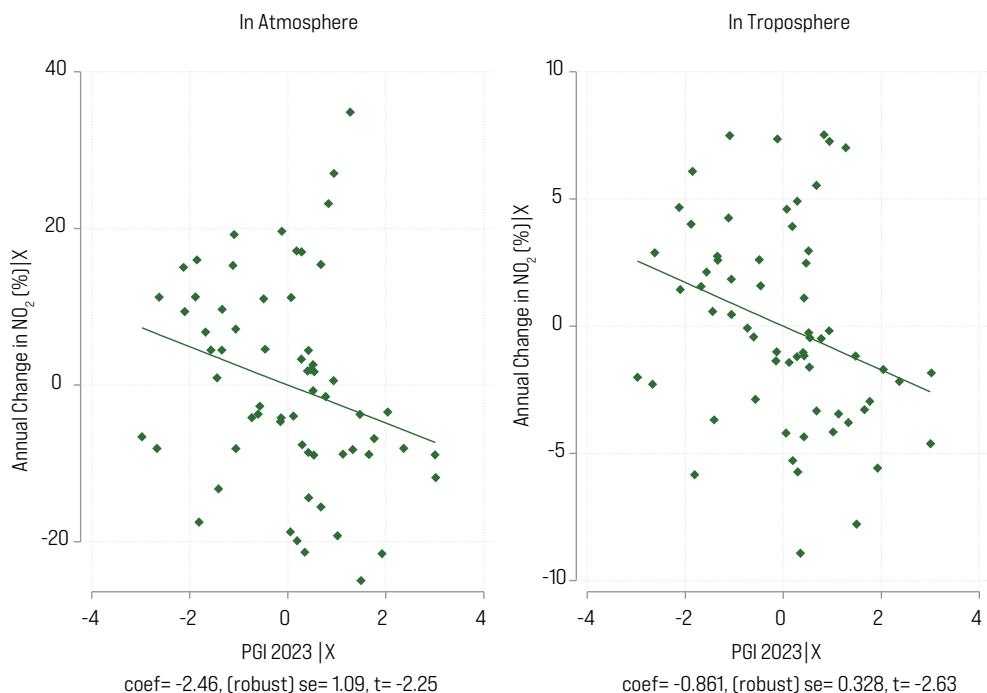
**dioxide.** A one-point improvement in subindex 3 is associated with a 0.8 percent reduction in PM 2.5 in the atmosphere. To put this result in perspective, if Vinh Phuc could improve its subindex score by two points (to the level of 4<sup>th</sup> place Hung Yen), it would see PM 2.5 in its air fall from the current level of 30.5 to 29.7. This would be about the level of air quality currently experienced in Ha Nam. The lower right quadrant of Figure 2.26 shows that improvements in subindex 3 will also lead to significant reductions in sulfur dioxide, although the results are much noisier.

**Subindex 4 on environmental incentives is not associated with any reduction in pollutants.**

Very few provinces have made much progress on this score and variance on this measure is high. Ultimately, there are too few differences between provincial performances to detect the impact.

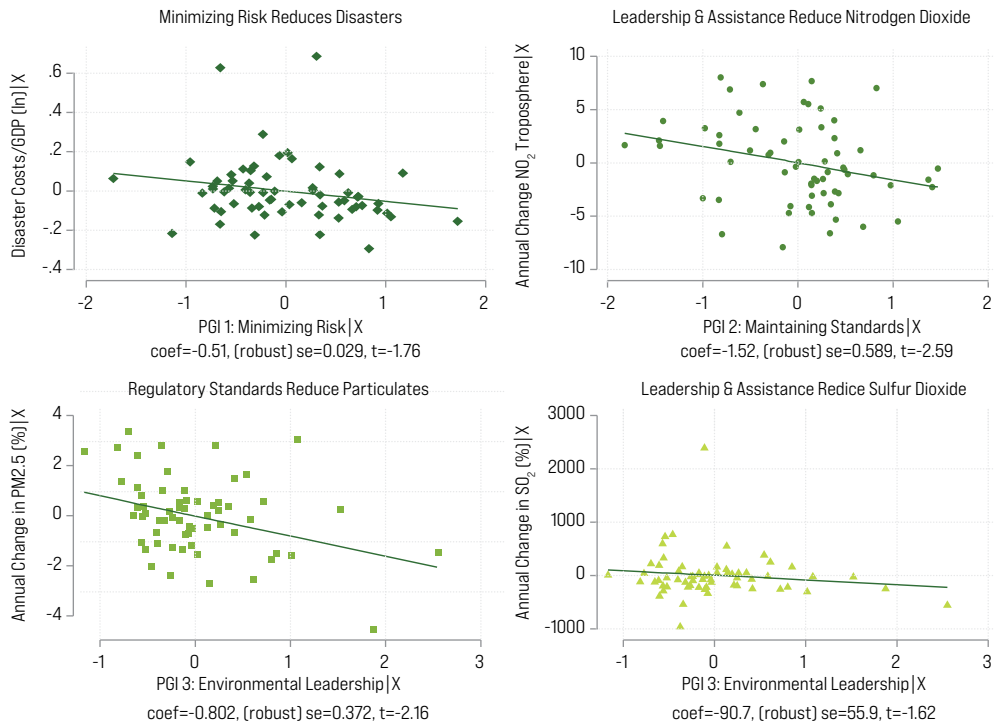
**In short, while Vietnam is just beginning its environmental reforms and the PGI remains a new product, there is reason to be optimistic the subindices are guiding policymakers toward sustainable practices that could improve the lives of citizens.** Efforts to reduce environmental disasters can be effective and providing firms with guidance on ways to improve their businesses can reduce pollution.

**Figure 2.25. Better Green Governance Reduces Pollution**



Note: Added variable plots show regressions of nitrogen dioxide in atmosphere and troposphere on unweighted index, controlling for GDP, population density, coal production, latitude, and latitude squared. See Appendix Table 2.7 for full results.

Figure 2.26. Subindices Correlated with Different Pollutants and Issues



Note: Added variable plots show regressions of multiple pollutants on each subindex, controlling for GDP, population density, coal production, latitude, and latitude squared. See Appendix Table 2.8 for full results.

## APPENDIX A: Comparing Survey and Administrative Indicators

**Administrative indicators, which receive 40 percent of the PGI weight, are meant to complement the survey data that is weighted at 60 percent of the subindex.** The goal is to correct for biases in perceptions by including data to anchor the opinions and experiences of firms to what an objective observer, who is aware of policy in all provinces in Vietnam, would include.

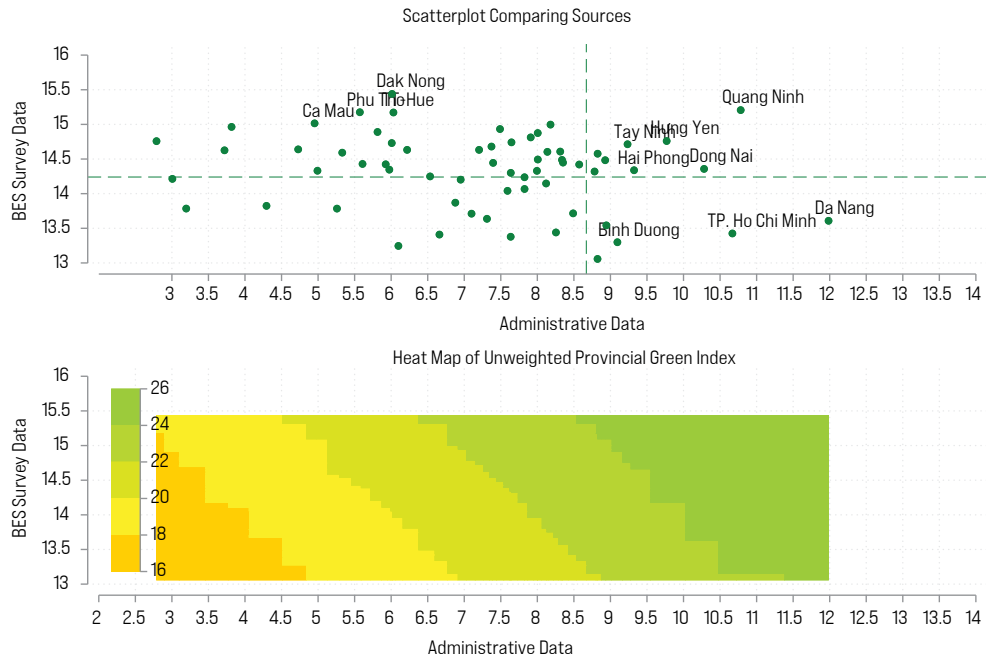
**Figure 2.26 demonstrates this process by comparing the relative performance of provinces on administrative and survey data.** The upper panel presents a scatter plot with administrative data on the horizontal axis and PCI survey data on the vertical axis, while the lower panel presents a heat map of the contribution of the two types of data to final scores.

**The analysis reveals that provincial officials and businesses view environmental performance quite differently.** The first thing to notice about the upper panel is that there is very little correlation between the implied provincial ranking based on firms' responses to surveys and the administrative data collected from the GSO and MOF. The formal correlation coefficient is  $-0.054$ , which is not significantly different from zero.

**However, some provinces perform well on both types of measures.** Provinces in the NE quadrant, such as Quang Ninh, Hung Yen, and Tay Ninh, have both administrators and firms rate their provincial leadership as doing well along the four dimensions of green governance highlighted. By contrast, the SW quadrant shows the provinces Kien Giang, An Giang, and Kon Tum, where officials and firms agree improvement is needed.

**The lower panel of Figure 2.27 uses a heat map to illustrate how performance on survey and administrative indicators translates into cumulative PGI scores.** To be a top-rated province requires stellar scores on either the survey (e.g., Dak Nong) or administrative data (e.g., Da Nang), indicated by the dark green pixels at the top or bottom right corner of the graph, or good performance on both (e.g., Quang Ninh). The lowest PGI score can be seen in orange in the bottom left corner, indicating that a province performed poorly on both sources of data.

**Figure 2.27. Correlation and Predictions from Hard and Soft Indicators**



## APPENDIX B: Full Regression Results

Table 2.7. PGI Significantly Associated with Reductions in Nitrogen Dioxide

Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)
	Disaster Costs/GDP (%)	Change in PM 2.5 (%)	Change in NO <sub>2</sub> Atmosphere (%)	Change in NO <sub>2</sub> Troposphere (%)	Change in NO <sub>2</sub> Ground-level (%)	Change in SO <sub>2</sub> (%)
Unweighted Final PGI	-0.014 (0.018)	0.495** (0.212)	-2.458** (1.094)	-0.861** (0.327)	0.262 (0.257)	-10.270 (48.069)
Provincial GDP (ln)	-0.084 (0.058)	1.613* (0.873)	-2.091 (4.115)	-1.635 (1.238)	0.413 (0.778)	-10.129 (213.474)
Population (ln)	0.057 (0.083)	0.282 (1.200)	3.257 (5.539)	1.955 (1.641)	-0.890 (1.052)	-38.604 (283.688)
Latitude of capital	0.224*** (0.079)	-0.044 (0.434)	-0.923 (4.647)	4.108*** (1.314)	1.060 (0.820)	-261.240* (130.901)
Latitude Squared	-0.007*** (0.003)	0.024* (0.014)	0.109 (0.145)	-0.094** (0.041)	-0.025 (0.026)	7.571* (3.872)
Coal Power Capacity MW (ln)	-0.003 (0.004)	-0.236* (0.121)	0.661 (0.709)	0.132 (0.212)	-0.169* (0.099)	16.681 (17.754)
Constant	-5.644*** (0.709)	-32.560*** (9.609)	13.787 (63.343)	-27.788 (18.267)	-6.635 (13.496)	2,991.772 (2,081.546)
Observations	63	63	63	63	63	63
R-squared	0.304	0.811	0.598	0.742	0.243	0.104
rmse	0.176	1.868	13.10	3.969	2.503	444.4

Ordinary least squares (OLS) regression; Robust standard errors in parentheses [\*\*\* p<0.01, \*\* p<0.05, \* p<0.1]



**Table 2.8. Different Sub-Indices Associated with Improvement in Different Pollutants**

Dependent Variable	(1)	(2)	(3)	(4)	(5)	(6)
	Disaster Costs/GDP (%)	Change in PM 2.5 (%)	Change in NO <sub>2</sub> Atmosphere (%)	Change in NO <sub>2</sub> Troposphere (%)	Change in NO <sub>2</sub> Ground-level (%)	Change in SO <sub>2</sub> (%)
PGI 1: Pollution & Disaster Resilience	-0.051* (0.029)	1.436*** (0.323)	-1.528 (2.465)	-0.836 (0.777)	0.416 (0.478)	-43.013 (47.405)
PGI 2: Regulatory Standards	0.048* (0.026)	0.241 (0.221)	-5.396** (2.056)	-1.524** (0.589)	-0.038 (0.508)	22.208 (78.864)
PGI 3: Leadership & Assistance	-0.019 (0.029)	-0.803** (0.372)	-0.125 (2.395)	-0.005 (0.758)	0.537 (0.447)	-90.696 (55.937)
PGI 4: Incentives & Support Services	-0.064 (0.051)	0.961* (0.564)	-1.733 (3.210)	-0.797 (0.973)	0.070 (0.828)	171.762 (183.733)
Provincial GDP (ln)	-0.069 (0.054)	1.372* (0.753)	-2.687 (4.266)	-1.729 (1.282)	0.321 (0.831)	10.009 (207.305)
Population (ln)	0.045 (0.075)	0.051 (1.039)	4.320 (5.855)	2.265 (1.761)	-0.765 (1.087)	-64.369 (279.093)
Latitude of capital	0.230*** (0.073)	-0.106 (0.426)	-1.283 (4.611)	4.033*** (1.319)	0.989 (0.820)	-236.569** (112.349)
Latitude Squared	-0.007*** (0.002)	0.027* (0.014)	0.118 (0.144)	-0.092** (0.042)	-0.023 (0.026)	6.695** (3.244)
Coal Power Capacity MW (ln)	-0.005 (0.005)	-0.200** (0.092)	0.639 (0.710)	0.118 (0.217)	-0.179 (0.107)	22.893 (19.080)
Constant	-5.517*** (0.731)	-28.264*** (9.725)	5.691 (72.177)	-30.668 (19.835)	-6.366 (12.885)	2,416.497 (2,432.588)
Observations	63	63	63	63	63	63
R-squared	0.373	0.879	0.616	0.752	0.255	0.149
rmse	0.172	1.534	13.16	4.001	2.552	445.4

Ordinary least squares (OLS) regression; Robust standard errors in parentheses [\*\*\* p<0.01, \*\* p<0.05, \* p<0.1]





# CHAPTER 3

## The Foreign Investment Survey

## 3.1 Introduction

In 2023, Vietnam's FDI landscape experienced a remarkable upturn, welcoming an influx of nearly \$36.61 billion. According to the Foreign Investment Agency under the Ministry of Planning and Investment, this impressive figure represents a year-on-year increase of 32.1 percent compared to 2022. The inflow was predominantly driven by the launch of 3,188 new projects. While additional capital injected into current FDI projects was down 22.1 percent compared to 2022, the total amount of equity poured into new projects reached \$20.19 billion. This surge represented a year-on-year increase of 62.2 percent in new capital.<sup>42</sup>

Emblematic of this growth were four substantial projects: the Japanese-funded Thai Binh LNG thermal power plant with a capital registration of \$1.99 billion, the Hong Kong-backed Jinko Solar Hai Ha Vietnam technology complex with \$1.5 billion in Quang Ninh, the Taiwanese Lite-On Quang Ninh factory with an investment of \$690 million, and the South Korean LG Innotek Hai Phong's additional investment of \$1 billion.<sup>43</sup>

Regarding the type of FDI, the processing and manufacturing sector accounts for the majority of new FDI with \$23.5 billion. This figure represents 64.2 percent of total FDI into the country and up 39.9 percent from its level in 2022. Real estate accounts for almost \$4.67 billion, while power production and distribution as well as finance-banking sectors attract \$2.37 billion and \$1.56 billion of FDI, respectively.<sup>44</sup>

Vietnam's investment landscape boasts 111 source countries and territories, each contributing to the nation's FDI profile. Singapore stood out as the top investor with an inflow of \$6.9 billion, constituting 18.6 percent of the total FDI and marking a 5.4 percent increase from the previous year. Japan followed as the second-largest investor, with Hong Kong (China) also listed among the top contributors, indicating the continued strong presence of FDI from East Asia in the Vietnamese market. Investors from the PRC (People's Republic of China) boasted the highest number of new FDI projects, while South Korean investors led in expanding existing ventures.<sup>45</sup>

42 Vietnam Plus. [2023]. "Vietnam enjoys surge in FDI inflows in 2023". <<https://en.vietnamplus.vn/vietnam-enjoys-surge-in-fdi-inflows-in-2023/275433.vnp>>

43 Thanh Nien News. [2023]. "4 dự án FDI thu hút vốn 'khủng', gần 5,2 tỉ USD" [Four FDI projects of 'massive' capital total nearly 5.2 billion USD]. <<https://thanhnien.vn/4-du-an-fdi-thu-hut-von-khung-gan-5-2-ti-usd-185231229165957896.htm>>

44 Vietnam Plus. [2023]. "Vietnam enjoys surge in FDI inflows in 2023". <<https://en.vietnamplus.vn/vietnam-enjoys-surge-in-fdi-inflows-in-2023/275433.vnp>>

45 General Statistics Office. [2024]. "Tình hình thu hút đầu tư nước ngoài năm 2023" [FDI investment attraction in Vietnam in 2023]. <<https://www.gso.gov.vn/du-lieu-va-so-lieu-thong-ke/2024/01/tinh-hinh-thu-hut-dau-tu-nuoc-ngoai-nam-2023/>>

There were three important trends in Vietnam's investment landscape in 2023. First, the Vietnamese and U.S. governments signed a long-awaited Comprehensive Strategic Partnership (CSP) on September 10, 2023, opening up opportunities for increased cooperation in a wide range of economic areas, especially high-tech sectors such as semi-conductors and renewable energy.<sup>46</sup> Second, the past year saw an unprecedented surge in FDI from the PRC, especially into the northern provinces and economic zones.<sup>47</sup> This trend is expected to continue due to trade tensions between global economic power, the need for diversification in supply chains, and rising labor costs in the world's largest manufacturing center. Third, on the 50th anniversary of the two countries' establishment of relations, Vietnam and Japan elevated their bilateral ties to a Comprehensive Strategic Partnership, signaling a commitment to further collaboration in a wide range of areas.<sup>48</sup> To inform policymakers' response to these new trends, the later parts of this chapter delve into the distinct characteristics and specific needs of U.S., PRC, and Japanese FIEs in Vietnam, distinguishing them from other foreign investments.

## 3.2 Foreign-Invested Enterprises (FIEs) in 2023

### 3.2.1. Performance

Table 3.1 presents a detailed overview of the performance of foreign firms in recent years. In 2023, there was a modest rise (to 30.3 percent) in the percentage of firms increasing investment, up from 30 percent in 2022, indicating a cautious commitment to growth amid uncertain economic conditions.

The percentage of firms adding employees rose from 55.8 percent in 2022 to 59.9 percent in 2023, signifying a significant recovery in employment activities by foreign-invested enterprises. Profitability rose more modestly, with 46.5 percent of firms reporting profits in 2023 compared to 42.8 percent in 2022. Concurrently, the proportion of firms reporting losses decreased to 42.32 percent in 2023, lower than the 44.9 recorded in 2022 and down significantly from the peak of 51.3 percent in 2021. This positive trajectory suggests a sustained rebound from the pandemic's shadow.

46 WTO Center. (2023). "Việt - Mỹ là đối tác chiến lược toàn diện, kinh tế được lợi gì?" [What benefits will the economy get from Vietnam-U.S. comprehensive strategic partnership?]. <<https://trungtamwto.vn/hiep-dinh-khac/24439-viet-my-la-doi-tac-chien-luoc-toan-dien-nen-kinh-te-huong-loi-gi>>

47 Stockbiz News. (2024). "Vốn FDI Trung Quốc đổ vào Việt Nam: Nhận diện một làn sóng lớn" [Chinese FDI influx into Vietnam: Identifying a big wave]. <<https://stockbiz.vn/tin-tuc/von-fdi-trung-quoc-do-vao-viet-nam-nhan-dien-mot-lan-song-lon/23109768>>

48 Tuoi tre Online. (2023). "Nhật Bản trở thành Đối tác chiến lược toàn diện thứ sáu của Việt Nam" [Japan becomes Vietnam's sixth comprehensive strategic partner]. <<https://tuoitre.vn/nhat-ban-tro-thanh-doi-tac-chien-luoc-toan-dien-thu-sau-cua-viet-nam-20231127195718372.htm>>

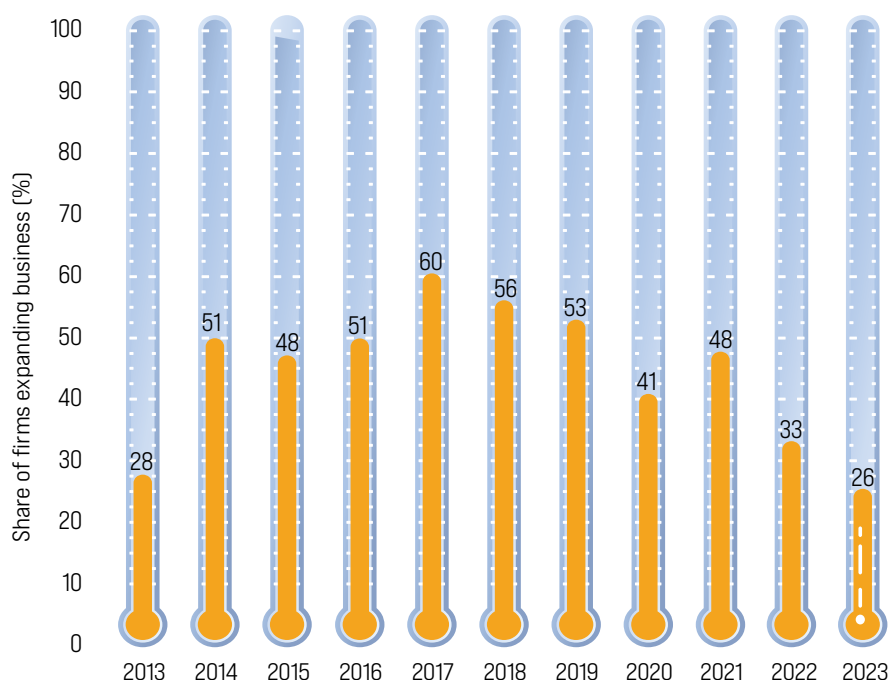
**Table 3.1. Performance of Foreign Firms Over Time**

Year	Firms Increasing Investment*	Firm Adding Employees	Firms Reporting Profits	Firms Reporting Losses
2013	34.6	30.0	63.6	24.1
2014	51.4	62.4	57.9	34.2
2015	51.0	62.4	55.1	37.6
2016	49.2	63.3	59.0	33.4
2017	47.6	62.4	54.3	37.9
2018	45.9	58.2	53.1	36.7
2019	45.4	61.6	56.2	34.3
2020	43.5	55.0	42.6	47.1
2021	35.4	50.6	42.1	51.3
2022	30.0	55.8	42.8	44.9
2023	30.3	59.9	46.5	42.3

Source: BES-FDI 2023, Question A6 “What was the total employment size of your firm?”, Question A7 “What was the total equity capital of your firm?” and Question A9 “Which statement best characterizes your firm’s overall performance?”

\*: For all years, the share of firms that increased their investment is recalculated by comparing the survey year with the establishment year to ensure consistency. In previous reports, it was calculated by comparing the survey year with the previous year. In addition, starting with this year’s report, to present the analysis results in the most consistent manner, we will use 10-year and 5-year milestones before the current year as the data points for the charts that follow.

The business confidence among FIEs, as captured by the PCI-FDI Business Thermometer, shows a marked decline in the share of firms anticipating expansion in 2023. This year, only 26 percent of firms expect to expand, a decrease from the 33 percent seen in the previous year and significantly lower than the post-pandemic optimism peak of 47.7 percent in 2021. Moreover, as shown in Figure 3.1, the current sentiment starkly contrasts the pre-pandemic era’s steadier confidence levels, where expansion expectations consistently remained above 45 percent from 2014 to 2019. Such a downturn reflects a continued sense of caution in the business climate, which could be attributed to ongoing global economic uncertainties.

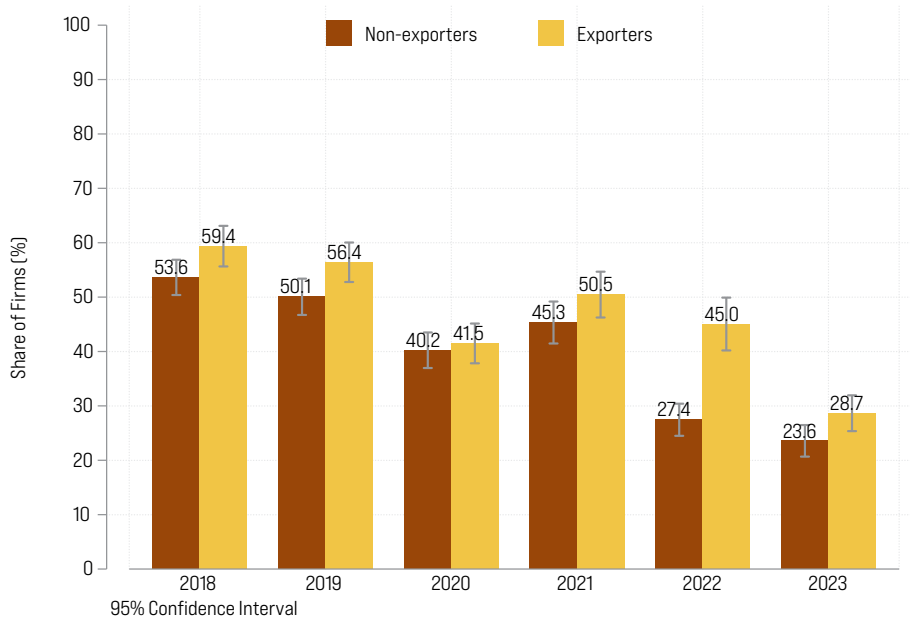
**Figure 3.1. PCI-FDI Business Thermometer over Time**

Source: BES-FDI 2023, Question A.10 “Which statement best characterizes your firm’s investment plans over the next 2 years?”

Analyzing Figure 3.2 which compares business confidence among non-exporting and exporting firms in Vietnam, we see a distinct divergence in outlook over the years. While both categories experienced a drop in confidence in 2020 due to the onset of the global pandemic, exporters exhibited a more pronounced rebound in 2021, with 50.5 percent anticipating growth compared to 45.3 percent of non-exporters. This gap widened significantly by 2022, where only 27.4 percent of non-exporters expressed confidence in expansion, a striking contrast to 45.0 percent of exporters.

However, by 2023, both groups expressed more pessimism, with non-exporters’ confidence declining slightly to 23.6 percent and exporters’ confidence dropping sharply to 28.7 percent. This may be attributed to a combination of international events and market dynamics. The ongoing war in Ukraine and the widening conflict in the Middle East, for instance, have disrupted global trade patterns and created significant uncertainty in international markets, which could directly impact exporters by complicating supply chains and increasing costs.

**Figure 3.2. BES-FDI Business Thermometer, by Exporter Status**

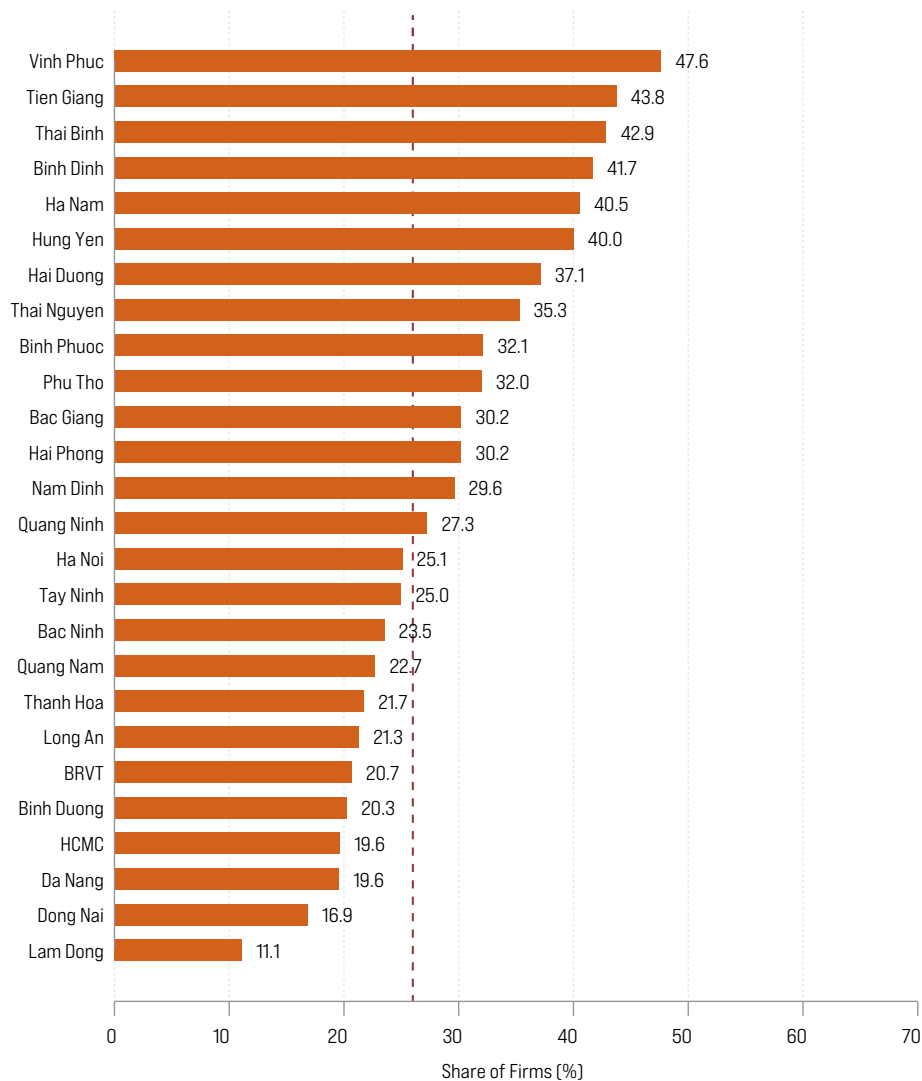


Source: BES-FDI 2023, Question A.10 “Which statement best characterizes your firm’s investment plans over the next 2 years?”

Comparing the provincial-level business thermometer in 2022 and 2023, it is evident that the overall business confidence among FIEs has diminished across the board. According to Figure 3.3, Vinh Phuc leads the sentiment in 2023, at 47.6 percent. However, even in this leading province, the confidence level has seen a decrease from the previous year’s leaders. The confidence levels among FIEs in traditional industrial powerhouses like Binh Duong and Ho Chi Minh City, sit at a modest 20.3 and 19.6 percent, respectively. These low numbers could reflect saturation in these markets or shifts in industrial trends away from these provinces.



**Figure 3.3. BES-FDI Business Thermometer, by Province**



Source: BES-FDI 2023, Question A.10 “Which statement best characterizes your firm’s investment plans over the next 2 years?” The dashed line represents the national average (27 percent).

### 3.2.2. Characteristics

Table 3.2 tracks the size of FDI respondents in the PCI over time by employment and equity. PCI-FDI respondents have grown bigger in the last three years. The share of firms belonging to the three smallest brackets all dropped in 2023. Notably, the segment of FIEs employing fewer than 10 individuals decreased from 27.9 percent in 2021 to 21.8 percent in 2023, reflecting a potential move towards larger employment scales or fewer entries by very

small FIEs. Concurrently, the bracket of FIEs with a workforce ranging between 501 to 1000 almost doubled from 3.0 percent in 2022 to 6.0 percent in 2023.

A similar pattern manifests when it comes to FIEs' equity size. The share of the smallest FIEs with under \$150,000 (3 billion VND) dropped from 23.1 percent in 2021 to 18.8 percent in 2023. There has also been substantial growth in the upper equity range – firms with more than \$25 million (500 billion VND) increased from 4.5 percent in 2022 to 6.2 percent in 2023.

**Table 3.2. Size of Foreign Firms Over Time**

Employment Size: Percent of firms with employment of:								
	Less than 10	11 to 50	51 to 100	101 to 200	201 to 300	301 to 500	501 to 1000	Above 1000
2021	27.9	30.8	15.2	11.5	4.5	4.7	3.0	2.3
2022	25.8	31.6	15.4	11.5	5.2	3.7	3.0	3.9
2023	21.8	29.2	12.9	11.9	6.3	5.5	6.0	6.5

Equity Size: Percent of firms reporting equity of:								
	Under \$150,000 (3 BVND)	\$150,000–\$500,000 (3 to under 10 BVND)	\$500,000–\$2.5 million (10 to under 50 BVND)	\$2.5 million–\$5 million (50 to under 100 BVND)	\$5 million–\$10 million (100 to under 200 BVND)	\$10 million–\$15 million (200 to under 300 BVND)	\$15 million–\$25 million (300 to under 500 BVND)	More than \$25 million (500 BVND and over)
2021	23.1	20.1	13.3	16.2	9.7	7.5	4.8	5.4
2022	22.5	24.0	13.3	15.0	8.0	7.3	5.4	4.5
2023	18.8	20.2	12.7	15.0	10.7	9.4	6.9	6.2

Source: BES-FDI 2023, Question A6 “What was the total employment size of your firm?” and Question A7 “What was the total equity capital of your firm?”

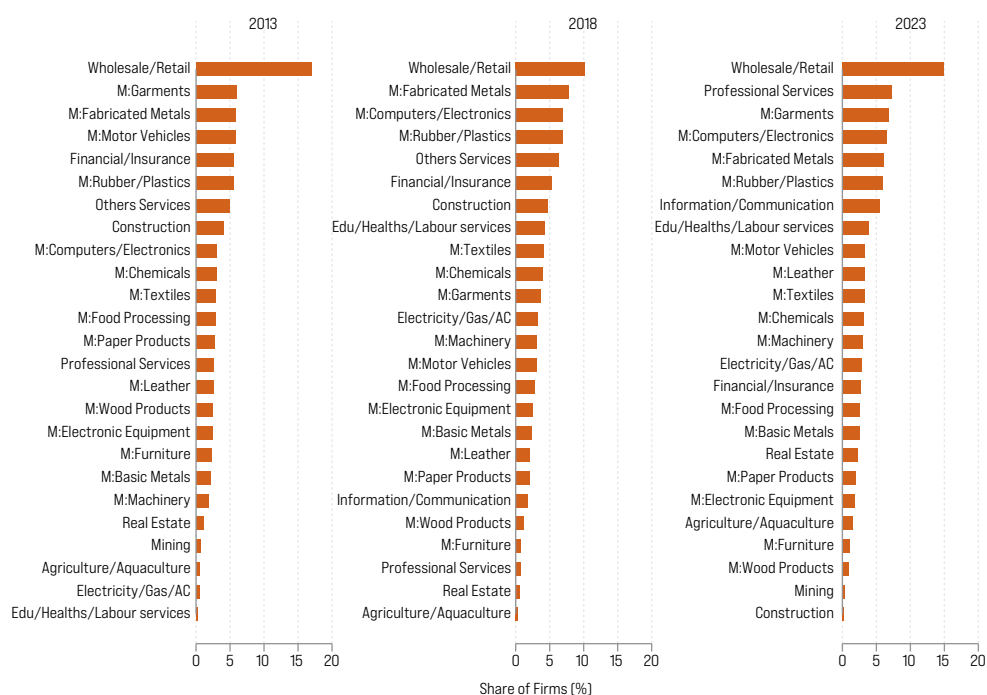
In 2023, the PCI-FDI survey reveals a notable concentration of foreign-invested firms in the wholesale/retail sector, maintaining its position as the leading sector, similar to previous years. The continuity signals a persistent demand and a thriving commercial climate in Vietnam. According to the Ministry of Industry and Trade, the Vietnamese retail market is worth \$142 billion and is projected to increase to \$350 billion by 2025. Major retailers from Thailand and Japan have aggressively expanded their operations in Vietnam in 2023.<sup>49</sup>

As depicted in Figure 3.4, professional services emerged more prominently in 2023, suggesting a burgeoning market for expertise and specialized skills, a shift towards the knowledge-based economy. Despite significant difficulties owing to reduced orders from

49 Viet Nam News. [2023]. “Việt Nam’s retail market proves attractive for foreign investors”. <<https://vietnamnews.vn/economy/1502559/viet-nam-s-retail-market-proves-attractive-for-foreign-investors.html>>

abroad and mass layoffs in major FDI companies, the garments sector remains a significant player, reflecting Vietnam's historical strength in textiles.<sup>50</sup> Computers/electronics also continue to represent a substantial share, indicating sustained investment in Vietnam's technological manufacturing capabilities.

**Figure 3.4. Sectoral Composition of FIEs**



Source: The BES-FDI sample by Vietnam industrial classification. “M” indicates sub-sectors within the manufacturing sector.

According to Table 3.3, there was a noticeable uptick in sales to SOEs in 2023, rising to 7.4 percent from 6.0 percent in 2022. Similarly, sales to state agencies also increased from 1.7 percent in 2022 to 3.3 percent in 2023. Sales to private individuals have seen a significant increase to 23.0 percent in 2023, a notable rebound from 12.2 percent in 2022. This growth indicates robust domestic demand and could reflect increased consumer spending power or successful market penetration efforts by FIEs. Enterprise sales have also jumped to 46.3 percent.

50 Tuoi Tre News. (2023). “PouYuen Vietnam to cut nearly 6,000 more employees”. <<https://tuoitrenews.vn/news/business/20230519/pouyuen-vietnam-to-cut-nearly-6000-more-employees/73214.html>>

**Table 3.3. Customers of FIEs (percent with at least one customer)**

Year	Sales to Vietnamese State		Sales to Private Vietnamese			Sales to Foreigners in Vietnam			Exports
	SOEs	Agency	Individual	Both	Enterprise	Individual	Both	Enterprise	
2013	16.9	6.3	N.A.	48.6	N.A.	N.A.	35.8	N.A.	55.3
2014	12.9	5.2	N.A.	39.2	N.A.	N.A.	46.1	N.A.	53.0
2015	13.6	4.1	N.A.	40.2	N.A.	N.A.	51.6	N.A.	55.4
2016	11.9	4.8	18.3	N.A.	41.1	13.3	N.A.	53.1	56.2
2017	10.7	4.3	18.3	N.A.	41.0	11.6	N.A.	56.0	47.3
2018	5.3	2.5	14.1	N.A.	33.9	7.2	N.A.	53.5	42.3
2019	8.4	3.5	16.9	N.A.	40.8	10.4	N.A.	57.1	45.4
2020	9.2	3.4	21.7	N.A.	42.4	10.2	N.A.	53.2	44.7
2021	5.2	1.9	13.1	N.A.	32.8	7.2	N.A.	48.4	45.8
2022	6.0	1.7	12.2	N.A.	33.6	7.0	N.A.	45.0	40.9
2023	7.4	3.3	23.0	N.A.	46.3	13.5	N.A.	55.0	51.8

Source: BES-FDI 2023, Question A11 "Who are your customers?" (N.A.: Not applicable)

There was a rise in sales to both individual and enterprise foreign customers in Vietnam, with individual sales more than doubling to 13.5 percent, and enterprise sales increasing to 55.0 percent in 2023. Perhaps the most striking figure is the substantial growth in exports, which leapt from 40.9 percent in 2022 to 51.8 percent in 2023. This could be attributed to Vietnam's participation in key trade agreements. Agreements like the E.U.-Vietnam Free Trade Agreement (EVFTA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) lower trade barriers and open up new opportunities for FIEs. In addition, shifts in global supply chains, including the ramifications of the U.S.-China trade wars, may lead companies to relocate production to Vietnam, thus boosting exports. According to the Foreign Investment Agency of the Ministry of Planning and Investment, investors from the PRC (People's Republic of China) accounted for the highest number of new FDI projects with a total registered amount of more than \$3 billion.<sup>51</sup>

The 2021 and 2022 reports noted encouraging signs of the increasingly important role of Vietnamese businesses in supplying FIEs. This trend, which indicates domestic firms' ability to integrate into global supply chains, accelerated in 2023. As illustrated by Table 3.4, FIEs' reliance on private firms has gradually increased over the years, with a notable jump to 75 percent in 2023 from 63.3 percent in 2022. Suppliers that are household businesses have also shown a marked increase from 13.4 percent in 2022 to 23.4 percent in 2023. This

51 Tien Phong News. [2023]. "Trung Quốc tăng tốc đầu tư vào Việt Nam" [China accelerates investment into Vietnam]. <<https://tienphong.vn/trung-quoac-tang-toc-dau-tu-vao-viet-nam-post1594863.tpo>>

encouraging trend could partially be attributed to efforts by local authorities to facilitate connections between FDI firms and domestic supporting industries.<sup>52</sup>

**Table 3.4. Suppliers of FIEs (percent with at least one vendor)**

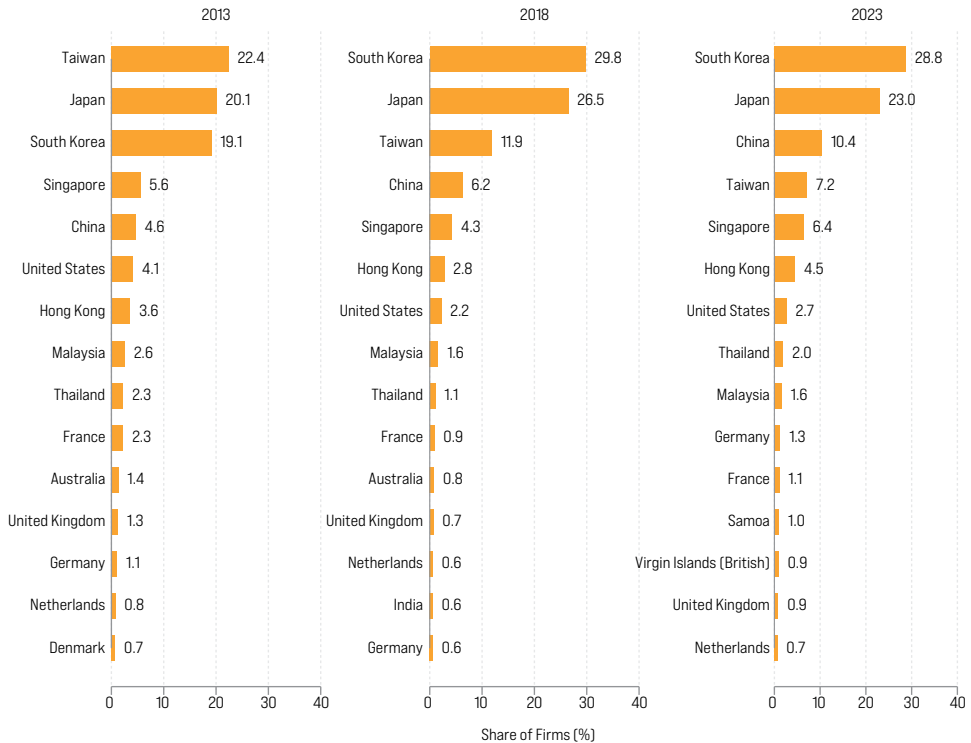
Year	State Owned Enterprise	Private Firm	Household Business	In-House	Home Country Businesses	Third Party	Foreign Buyer*	MNCs*
2013	9.5	47.9	10.0	12.9	45.6	34.0	N.A.	N.A.
2014	11.5	62.6	15.9	8.3	55.5	34.8	N.A.	N.A.
2015	11.9	68.9	19.3	8.5	58.0	38.3	N.A.	N.A.
2016	12.1	68.5	18.4	9.9	58.7	39.0	N.A.	N.A.
2017	10.0	62.56	16.1	6.9	49.2	26.6	N.A.	N.A.
2018	6.8	60.2	15.0	5.7	47.1	22.8	N.A.	N.A.
2019	10.1	66.0	17.1	7.3	44.4	24.8	N.A.	N.A.
2020	8.2	62.5	14.8	7.5	41.4	26.8	N.A.	N.A.
2021	6.9	52.4	9.9	4.9	38.3	22.6	5.8	5.0
2022	5.7	63.3	13.4	5.5	30.5	16.0	12.5	6.4
2023	10.0	75.0	23.4	14.3	45.4	26.3	16.4	10.6

Source: BES-FDI 2023, Question A13 “Who are your suppliers of intermediate goods and services?” \* supplier category introduced in 2021 (N.A.: Not applicable)

In-house sourcing has remained relatively stable for several years until a sharp increase to 14.3 percent in 2023. The increased reliance on in-house suppliers bolsters the theory that foreign firms are rerouting goods through Vietnam to avoid negative effects from U.S.-China trade tensions.

52 Ministry of Industry and Trade. (2023). “Hải Phòng: Kết nối các doanh nghiệp phụ trợ và doanh nghiệp FDI hợp tác cùng phát triển” [Hai Phong: Connecting supporting businesses and FDI enterprises for future cooperation and development]. <<https://moit.gov.vn/tu-hao-hang-viet-nam/hai-phong-ket-noi-cac-doanh-nghiep-phu-tro-va-doanh-nghiep-fdi-hop-tac-cung-phat-trien.html>>

Customs News. (2023). “Doanh nghiệp FDI tìm kiếm nhà cung cấp công nghiệp hỗ trợ trong nước” [Foreign investors seeking domestic suppliers in supporting industries]. <<https://haiquanonline.com.vn/doanh-nghiep-fdi-tim-kiem-nha-cung-cap-cong-nghiep-ho-tro-trong-nuoc-177683.html>>

**Figure 3.5. FIEs' Countries of Origin**

Source: BES-FDI 2023, Question A4.1. Background information "If your firm is operating in the foreign direct investment sector, which country is the headquarter of your firm's mother company or your largest foreign shareholder is located?"

Figure 3.5 provides a revealing snapshot of the changing landscape of foreign investment in Vietnam. In 2013, Taiwan was the leading source of FIEs at 22.4 percent, followed by Japan and South Korea. By 2018, South Korea had risen to the top position with 29.8 percent, with Japan still maintaining a significant presence. This shift reflects South Korea's increasing economic engagement with Vietnam, likely spurred by strategic business initiatives and bilateral agreements.

In 2023, South Korea continues to dominate as the main country of origin with 28.8 percent of FIEs. Japan remains a steady investor at 23.0 percent. The PRC increased its share to 10.4 percent, possibly due to geographical proximity, escalating manufacturing costs, and changes in global trade driving PRC businesses to look outward. For new FIEs, navigating Vietnam's regulatory landscape remains a significant challenge, involving complexities in investment registration, regulatory compliance, and managing export/import processes. The next section will present a condensed analysis of how FIEs perceive their regulatory obligations in Vietnam.

### 3.2.3. Regulatory Burden

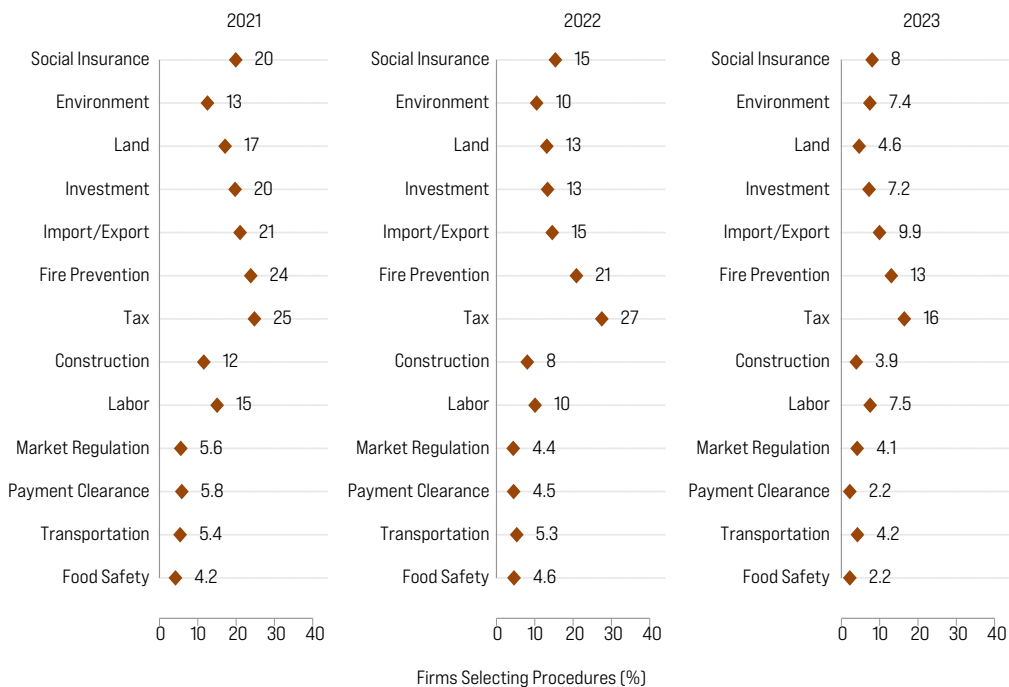
Table 3.5 reveals interesting shifts in the regulatory landscape for FIEs in Vietnam. Notably, the years following 2018 have seen an overall decrease in the time FIEs spend on bureaucratic procedures, suggesting a move towards more efficient governance, possibly accelerated by the need for agility during the pandemic. However, the share of firms spending more than 5 percent of their time on procedures is still higher in the last two years compared to pre-pandemic levels of 2018-2019, indicating that fluctuations remain in regulatory demands.

**Table 3.5. Post-Entry Regulations for FIEs**

Year	Over 5 Percent of Time Spent on Bureaucratic Procedures	Inspections (Median)	Harassment (4+ Inspections)	Days for Exports to Clear Customs (Median)	Days for Imports to Clear Customs (Median)
2013	77.8	2.0	21.9	2.00	2.00
2014	70.2	2.0	25.9	1.00	2.00
2015	69.8	2.0	20.7	1.00	2.00
2016	71.9	2.0	33.5	1.00	2.00
2017	66.2	2.0	24.48	1.00	2.00
2018	42.6	2.0	16.34	2.00	2.00
2019	41.3	2.0	15.73	2.00	2.00
2020	32.9	1.0	10.99	1.00	2.00
2021	60.6	0.0	4.72	2.00	3.00
2022	49.3	1.0	5.26	2.00	2.00
2023	50.2	1.0	6.61	1.00	2.00

Source: BES-FDI 2023, Question D1.1 “What percentage of senior management’s time was spent to understand and comply with administrative procedures over the past year?”, Question D2.6 “How many total times was your business inspected and examined in the last year?”, Question I5.1 “On average, how long does it take to clear customs for your exported goods?”, and Question I5.2 “If you import goods, on average, how long does it take you to clear customs?”

Harassment cases, measured by the number of firms reporting four or more inspections per year, have seen a general decline from 21.9 percent in 2013 to 6.6 percent in 2023. This substantial decrease reflects improvements in the business environment and regulatory practices in Vietnam. However, the time for exports and imports to clear customs has remained largely consistent since 2013, which suggests room for further improvements.

**Figure 3.6. Burdensome Administrative Procedures**

Source: BES-FDI 2023, Question D1.2 “From your experience in the province, please indicate troublesome administrative procedures.”

Overall, the trend shown in Figure 3.6 suggests a continuation of the positive trajectory in regulatory reform in Vietnam. While tax and fire prevention procedures continue to be considered among the most troublesome, the fraction of firms expressing concerns has decreased. The percentage of firms having issues with taxes decreased to 16 percent in 2023 from 27 percent in 2022. Fire prevention, which was at 21 percent in 2021, also improved, with only 13 percent of respondents in this year’s survey highlighting it as the main concern.

There is a notable decrease in the percentage of firms that find social insurance a troublesome procedure, down to 8 percent in 2023 from 15 percent in 2022. This aligns with the downward trend from 23 percent in 2020 which was demonstrated in last year’s report.

### 3.3 U.S. Foreign-Invested Enterprises

On September 10, 2023, a milestone in U.S.-Vietnam relations was reached with the establishment of the Comprehensive Strategic Partnership (CSP). The agreement marks a significant evolution from traditional ties to a more profound alliance. Historically, the U.S.



has been an instrumental trading partner for Vietnam as its largest export market.<sup>53</sup> The elevation of the relationship to a CSP is set to catalyze the economic interchange between the two nations, ensuring Vietnam's deeper entrenchment in the global supply network.<sup>54</sup>

With the advent of the CSP, Vietnam is well-positioned to become a pivotal entity in the U.S.'s strategic diversification of supply chains, known as "friendshoring." This approach aims to create a network of dependable trading partners, reducing overreliance on Chinese manufacturing.<sup>55</sup> The expected influx of U.S. capital will invigorate multiple Vietnamese sectors, notably semiconductors, epitomized by Amkor's commitment and Intel's expansive operations in Ho Chi Minh City, which represents the largest assembly and testing site globally.<sup>56</sup>

The ripple effect of this partnership is likely to extend to other sectors, including renewable energy sources, aviation, infrastructure, and education.<sup>57</sup> As we explore U.S. FIEs in Vietnam, we will examine their distinct characteristics, the scope of their operations, and the persistent hurdles they must overcome to tap into the full potential offered by this burgeoning partnership.

### 3.3.1. Characteristics

There are 32 U.S. FIEs in this year's PCI-FDI survey, accounting for two percent of the total number of respondents. Figure 3.7 compares employment sizes between U.S. companies and FDI firms from other countries operating in Vietnam. U.S. FIEs appear to have a higher concentration in smaller employment categories, with 56 percent employing fewer than 50 people. Conversely, non-U.S. FDI firms show a more even distribution across different employment size categories, with significant representation in the 51-200 and 201-500 employee brackets, at 25 percent and 12 percent, respectively.

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53 Viet Nam News. (2023). "VN-US comprehensive strategic partnership to unlock bilateral cooperation potential". <<https://vietnamnews.vn/economy/1635959/vn-us-comprehensive-strategic-partnership-to-unlock-bilateral-cooperation-potential.html>>

54 VnEconomy. (2024). "US Business Giants Forge Deeper Ties with Vietnam Amidst Record Delegation". <<https://vneconomy.vn/us-business-giants-forge-deeper-ties-with-vietnam-amidst-record-delegation.htm>>

55 Reuters. (2023). "US Treasury's Yellen sees Vietnam as key partner in 'friendshoring' supply chains". <<https://www.reuters.com/markets/asia/us-treasurys-yellen-sees-vietnam-key-partner-friendshoring-supply-chains-2023-07-21/>>

56 Reuters. (2024). "Chipmakers among 15 US firms eyeing \$8 bln Vietnam investment – US official". <<https://www.reuters.com/technology/fifteen-us-semiconductors-firms-eye-8-bln-investment-vietnam-senior-us-official-2024-01-26/>>

57 WTO Center. (2023). "Việt - Mỹ là đối tác chiến lược toàn diện, kinh tế được lợi gì?" [What benefits will the economy get from Vietnam-U.S. comprehensive strategic partnership?]. <<https://trungtamwto.vn/hiep-dinh-khac/24439-viet--my-la-doi-tac-chien-luoc-toan-dien-nen-kinh-te-huong-loi-gia>>

**Figure 3.7. Employment and Equity Size: U.S. FIEs vs. Others**

Source: BES-FDI 2023, Question A6 “What was the total employment size of your firm?” and Question A7 “What was the total equity capital of your firm?”

Note: For certain graphs and figures in this chapter, the bar label values are rounded to the nearest whole number. This may result in bars with slightly different heights having the same label value.

Similarly, U.S. FDI firms in Vietnam lean toward smaller investments in terms of equity. Approximately 59 percent of these American firms are categorized in the lowest equity range of under \$500,000 (10 billion VND), showcasing that many U.S. FDI firms are smaller enterprises or possibly startups. This is a marked contrast to FDI firms from other nations, where the representation in this lowest bracket drops to 38 percent.

On the other hand, there is a striking absence of U.S. FIEs in the lower-middle size range of \$500,000–\$2.5 million (10–50 billion VND). A meagre six percent of such firms are in this bracket, which is less than one-fourth the share of non-U.S. firms in the same category. U.S. representation in the top two brackets is similar to that of the general population of FIEs in Vietnam. Research has shown that, in contrast to other foreign firms that seek to exploit existing markets with large demand, U.S. FIEs tend to operate in new sectors with a high intensity of R&D components.<sup>58</sup> This results in smaller enterprises with highly skilled workforces. In addition, an uncertain legal environment with frequent policy changes also discourages U.S. FIEs from committing resources to large ventures.<sup>59</sup> This is consistent with

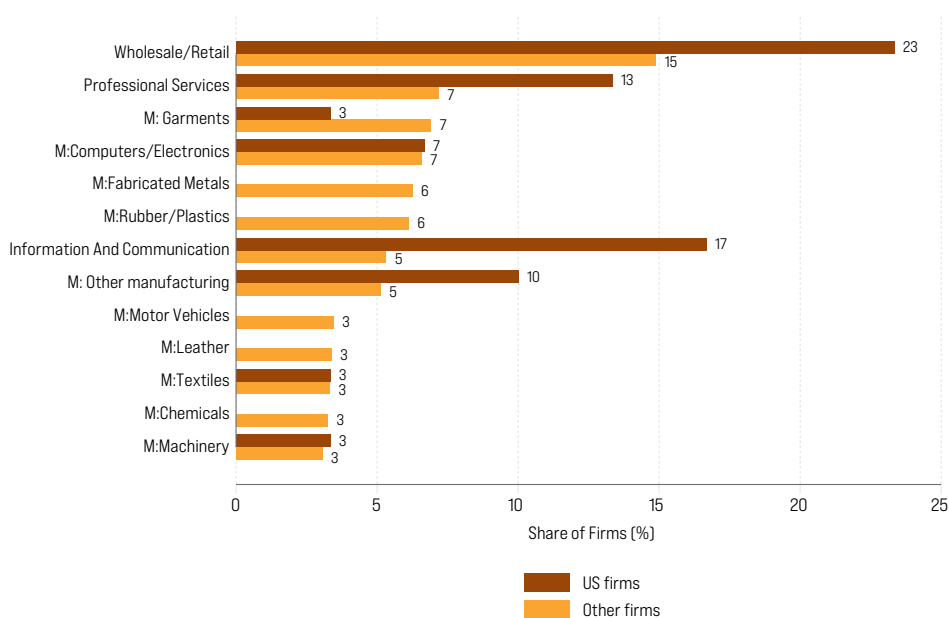
58 Nguyen Huu Loc. (2019). “Vi sao vốn đầu tư Hoa Kỳ vào Việt Nam rất khiêm tốn?” [Why does US investment capital in Vietnam remain modest?]. University of Economics of Ho Chi Minh City. <<https://se.ueh.edu.vn/wp-content/uploads/Loc-Nguyen-Huu-2019-Vi-sao-dau-tu-Hoa-Ky-vao-Viet-Nam-khiem-ton.pdf>>

59 Ho Chi Minh City Law Newspaper. (2017). “Vi sao nhà đầu tư Mỹ dè dặt vào Việt Nam?” [Why are American investors cautious about entering Vietnam?] <<https://plo.vn/vi-sao-nha-dau-tu-my-de-dat-vao-viet-nam-post464702.html>>

findings depicted in Figure 3.11 which show that American investors are much more likely than others to be wary of difficulties with policy and regulations, bureaucratic procedures, and uncertain land and property rights.

Figure 3.8 showcases U.S. FIEs' distinct sectoral profile compared to other international investors. American firms are more prevalent in Vietnam's leading sector, with 23 percent in wholesale/retail compared to 15 percent of all FIEs. Additionally, U.S. firms are notably present in information and communication, where they represent 17 percent, almost tripling the overall FIE rate of 5 percent. Likewise, 13 percent of U.S. firms are engaged in professional services, nearly doubling the general rate of 7 percent.

**Figure 3.8. Sectoral Composition: U.S. FIEs vs. Others**

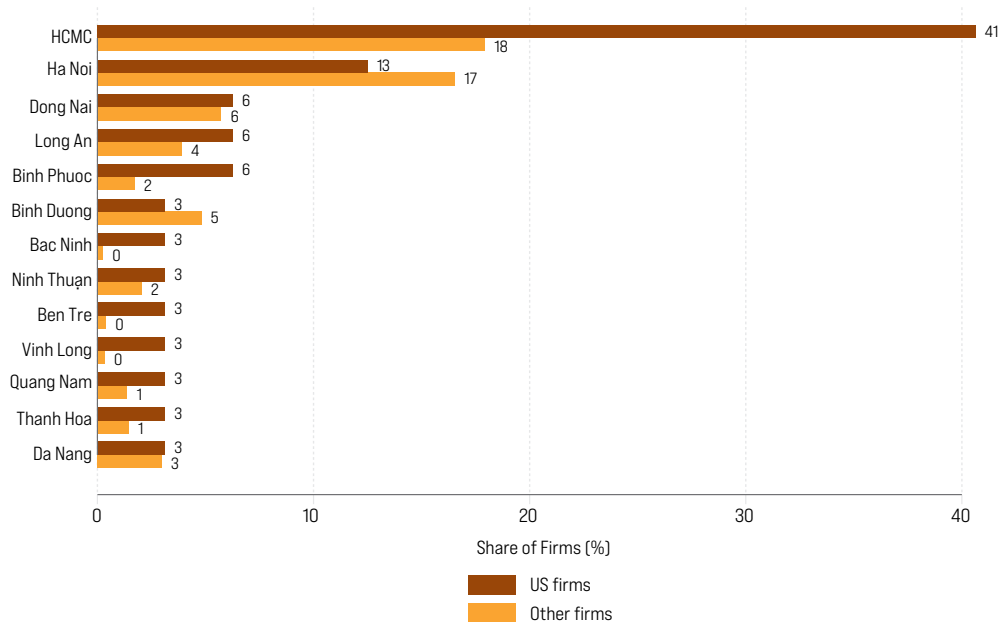


Source: The BES-FDI sample by Vietnam industrial classification. "M" indicates sub-sectors within the manufacturing sector.

The location preferences of U.S. FIEs in Vietnam stand out from other international firms, as illustrated by Figure 3.9. Over 40 percent choose Ho Chi Minh City as their base, a stark contrast to the 18 percent average among all PCI-FDI respondents. Hanoi ranks as the second most-favored location for American companies, attracting 13 percent. Other industrial hubs in the Southeast, such as Dong Nai, Long An, Binh Phuoc, and Binh Duong, form another preferred cluster for U.S.-owned operations.

The preference of U.S. firms for Ho Chi Minh City could rejuvenate its economic growth, which has recently slowed.<sup>60</sup> The city is well-placed to capture the expected influx of U.S. investment in Vietnam. As U.S. firms are inclined towards high-tech sectors that demand a skilled workforce and advanced processes, Ho Chi Minh City and the southeastern region should further bolster their role as innovation hubs, as indicated by the newly-released Provincial Innovation Index (PII) from the Ministry of Science and Technology.<sup>61</sup>

**Figure 3.9. Geographical Distribution: U.S. FIEs vs. Others**

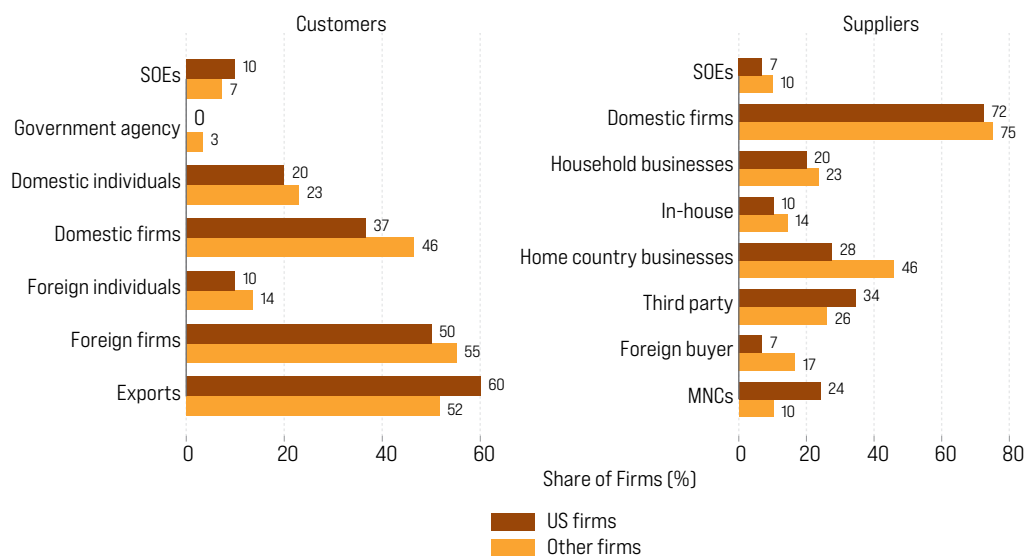


Source: The BES-FDI sample by province.

According to Figure 3.10, U.S. FIEs in Vietnam have a distinct customer profile as highly export-oriented. Around 60 percent of U.S. firms focus on international markets for their customer base, surpassing the average export rate of 52 percent observed across FIEs from various nationalities. Additionally, these entities are comparatively less engaged in serving local businesses, government agencies, or other foreign firms and individuals within Vietnam.

60 Dan Tri News. (2023). "Vi sao TPHCM đang suy giảm vị thế đầu tàu kinh tế?" [Why is Ho Chi Minh City's economic leading position waning?]. <<https://dantri.com.vn/xa-hoi/vi-sao-tphcm-dang-suy-giam-vi-the-dau-tau-kinh-te-2023033112011951.htm>>

61 VnExpress. (2024). "Hà Nội dẫn đầu về Chỉ số đổi mới sáng tạo cấp địa phương 2023" [Hanoi leads the Provincial Innovation Index 2023]. <<https://vnexpress.net/ha-noi-dan-dau-ve-chi-so-doi-moi-sang-tao-cap-dia-phuong-2023-4721234.html>>

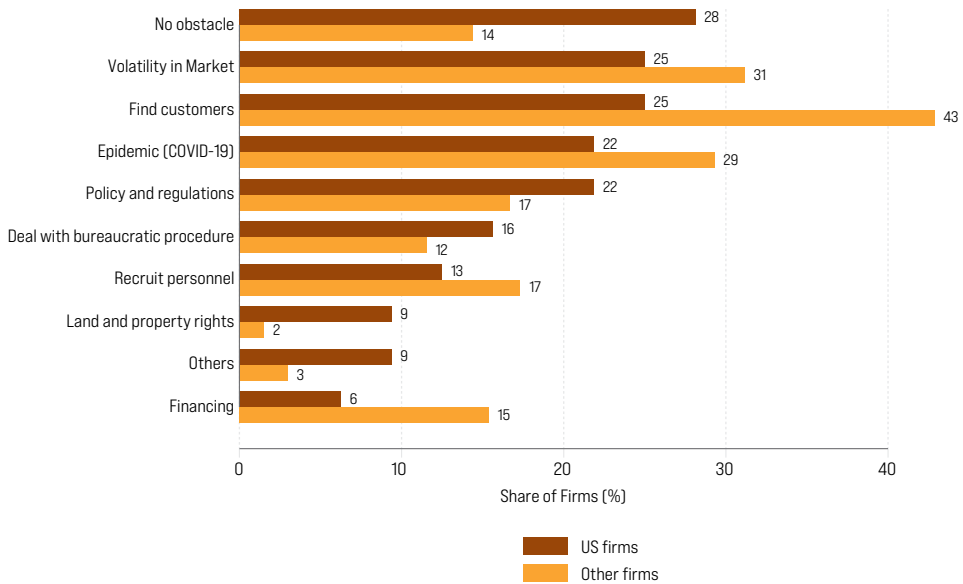
**Figure 3.10. Customer and Supplier Profile: U.S. FIEs vs. Others**

Source: BES-FDI 2023, Question A11 “Who are your customers?” and Question A13 “Who are your suppliers of intermediate goods and services?”

Like other FIEs in Vietnam, U.S. companies primarily rely on domestic businesses for supplies, with 72 percent sourcing locally. However, they differ in their higher propensity to procure from third-party businesses and multinational corporations. Furthermore, U.S. FIEs demonstrate a greater degree of autonomy from their home markets. Only 28 percent source from U.S.-based businesses in contrast to the 46 percent average among all FIEs in the PCI-FDI survey.

### 3.3.2. U.S. FIEs and Local Business Environment

Question E1 in the PCI-FDI survey asks firms about the biggest obstacles they face in their operation. The results are graphically illustrated in Figure 3.11. Notably, 28 percent of U.S.-owned businesses report no major challenges in Vietnam, a stark contrast to the 14 percent average among other respondents. Possibly due to the sectors in which they are concentrated, U.S. FIEs are less likely to be exposed to market volatility or to have issues finding customers than FIEs of other nationalities. However, U.S. investors face more difficulties in legal and administrative areas, including policy and regulations (22 percent), dealing with bureaucratic procedures (16 percent), and land and property rights (9 percent).

**Figure 3.11. Biggest Obstacles while Operating in Vietnam: U.S. FIEs vs. Others**

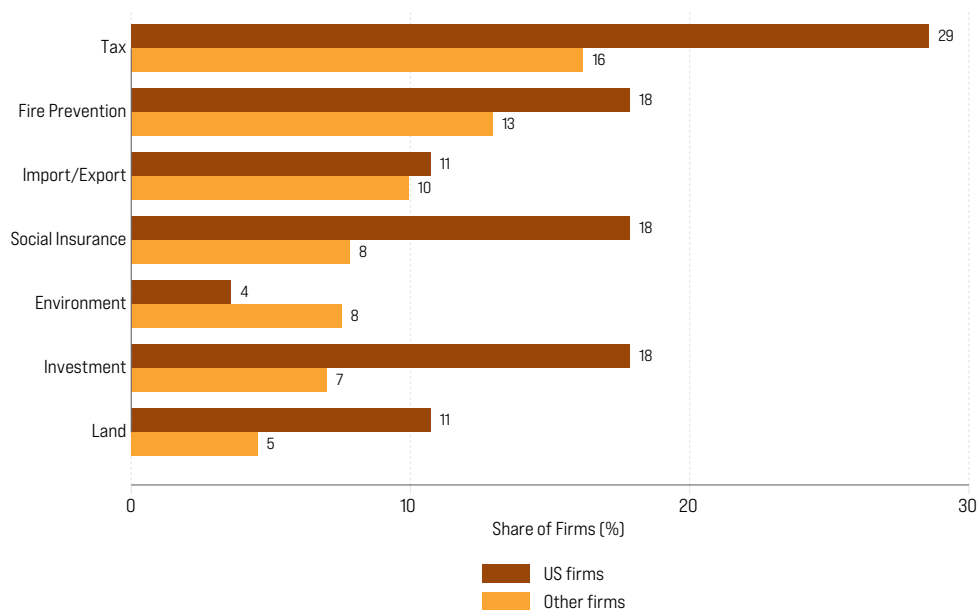
Source: BES-FDI 2023, Question E1 “What obstacles is your firm encountering in your business operations?”

These findings are corroborated by Figure 3.12, which contrasts the regulatory challenges faced by U.S. FIEs with those encountered by the broader FIE community in Vietnam, organizing the data by the most burdensome administrative tasks as reported by non-U.S. FIEs.

Generally, U.S. FIEs are more demanding and anticipate more efficient bureaucratic processes, evidenced by a higher percentage of these firms reporting issues across various regulatory domains. Like their counterparts, U.S. entities struggle with fire safety and import-export regulations. However, tax-related procedures pose a significantly greater challenge for U.S. firms, with 29 percent expressing concerns, compared to 16 percent of FIEs from other countries. This result is consistent with recent concerns among U.S. entities regarding new rules introduced by the Vietnamese tax authorities to combat transfer pricing.<sup>62</sup> Additionally, U.S. companies encounter more difficulties with social insurance, investment, and land regulations, often at double the rate of other FIEs.

62 Exactera. (2022). “Vietnam’s Brilliant (?) Transfer Pricing Move”. <https://exactera.com/resources/vietnams-brilliant-transfer-pricing-move/>

CrossBorder Solutions (2021). “Episode 101: Audits on the Rise in Vietnam” <<https://iono.fm/e/1051906>>

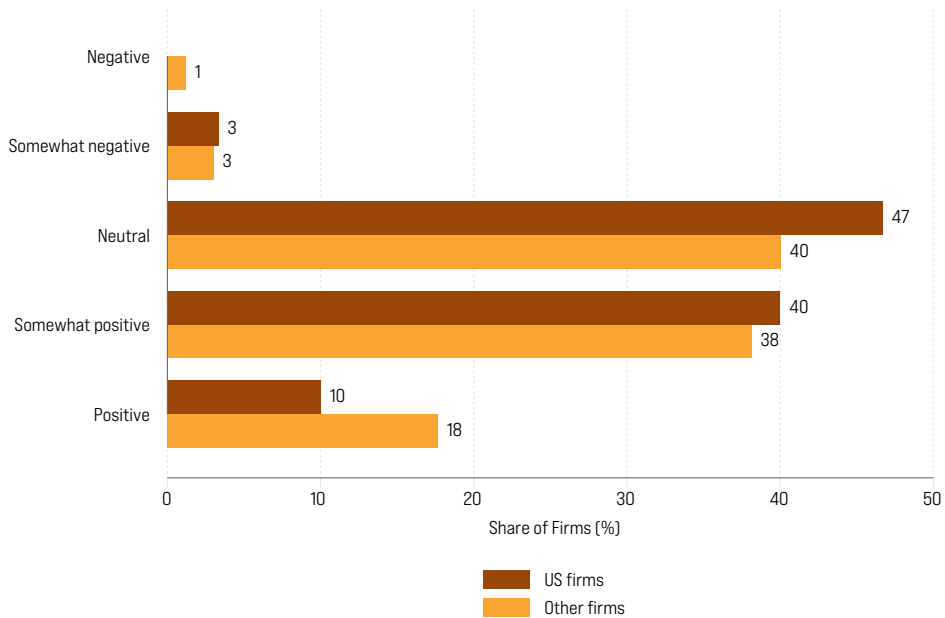
**Figure 3.12. Burdensome Administrative Procedures: U.S. FIEs vs. Others**

Source: BES-FDI 2023, Question D1.2 “From your experience in the province, please indicate the most troublesome administrative procedures.”

These results are consistent with recent surveys of U.S. businesses, which acknowledge that doing business in Vietnam remains challenging despite a promising investment outlook. Highlighted issues include across-the-board bureaucratic delays, corruption, laws and regulations, tax structure, and the legal system, among others.<sup>63</sup>

When evaluating provincial government dynamism and support for private enterprises, U.S. FIEs have higher expectations than other investors. As shown in Figure 3.13, only 10 percent of American respondents in the PCI-FDI survey positively rate this governance aspect, lower than the 18 percent seen among other FIEs. A larger proportion of U.S. investors, 47 percent, remain neutral on this matter, exceeding the overall neutral response rate of 40 percent among all FIEs.

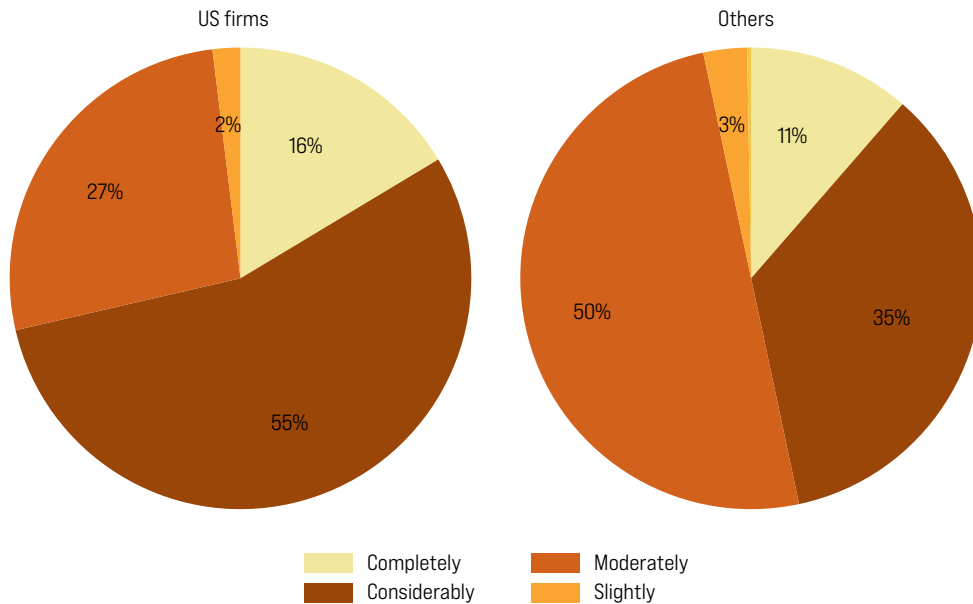
<sup>63</sup> International Trade Administration. (2024). “Market Challenges”. <<https://www.trade.gov/country-commercial-guides/vietnam-market-challenges>>

**Figure 3.13. Evaluation of Provincial Government's Dynamism: U.S. FIEs vs. Others**

Source: BES-FDI 2023, Question H1 "Please evaluate the attitude of the local government toward businesses in the private sector."

U.S. businesses are more positive when it comes to the local labor supply. Figure 3.11 demonstrated that U.S. companies have fewer difficulties recruiting personnel compared to other foreign businesses (13 percent versus 17 percent). This result is consistent with findings shown in Figure 3.14 which address whether the labor quality in the province meets companies' needs. U.S. firms are much more likely than others to be "completely" and "considerably" satisfied with the local workforce, at 16 percent and 55 percent, respectively. The finding could be attributed to U.S. FIEs' concentration in Ho Chi Minh City, where skilled labor is abundant.



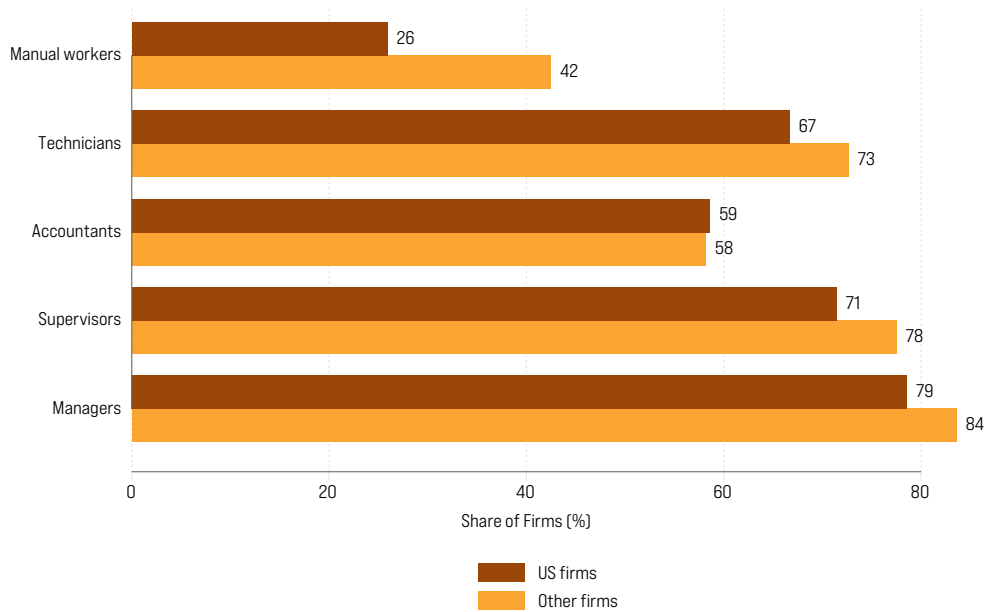
**Figure 3.14. Whether Local Labor Quality Meets the Firm's Needs: U.S. FIEs vs. Others**

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Source: BES-FDI 2023, Question E3.10 "From your experience in employment, please judge the quality of local labor."

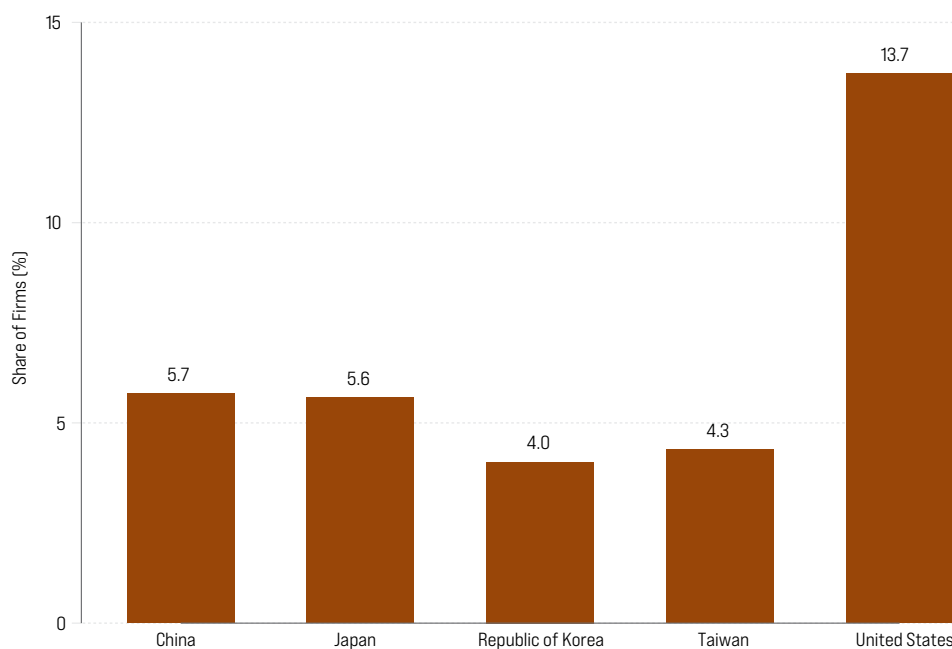
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Figure 3.15 illustrates a consistent trend previously observed: FIEs in Vietnam face challenges in hiring high-skilled workers, especially for supervisory and managerial roles, with 78 to 84 percent of non-U.S. FIEs reporting recruitment difficulties, respectively for these specialized positions. American investors encounter similar issues, but to a lesser extent across all employee categories (except accountants).

**Figure 3.15. Difficulty in Recruitment: U.S. FIEs vs. Others**

Source: BES-FDI 2023, Question E3.8.1 "Please evaluate the level of easiness in the recruitment of the following workers groups in your areas." The graphs present shares of firms rating the easiness level of workers groups in 2023.

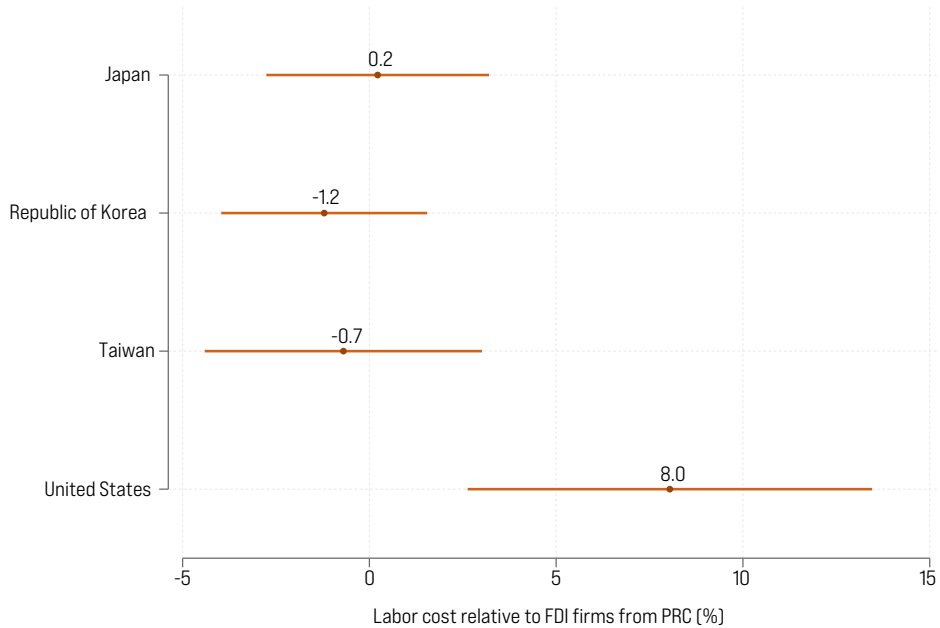
In return, U.S. FIEs allocate a significantly higher portion of their expenditures to personnel. Recruitment and training costs account for 13.7 percent of their total input costs as shown in Figure 3.16. This is nearly three times as much as each of the other major investors in Vietnam such as the PRC, Japan, South Korea, and Taiwan, where the average labor expenditure ranges only between 4 and 5.7 percent.

**Figure 3.16. Labor Cost Relative to Total Expenditures**

Source: BES-FDI 2023, Question E3.9.3 “What is your firm’s labor costs as a percentage of total expenditure?”

The pronounced investment in personnel by U.S. FIEs may relate to their operational locations, which often involve cities with higher living costs, and industry sectors demanding skilled labor. To examine this, we conducted a regression analysis, controlling for the firms’ locations and sectors. The results, graphically demonstrated in Figure 3.17, shows that American investors still stand out from their counterparts.

Regression analysis requires a reference group, for which we choose PRC FIEs. Compared to PRC firms, South Korean and Taiwanese FIEs have marginally lower labor expenditures, while Japanese FIEs show a slightly higher rate of payment. However, these differences are not statistically significant. By contrast, U.S. FIEs spend 8 percent more on labor than PRC FIEs, a statistically significant result at the 95-percent confidence level. This discrepancy highlights the distinct investment and operational strategies of U.S.-owned companies in the Vietnamese market.

**Figure 3.17. Labor Cost: Regression Results**

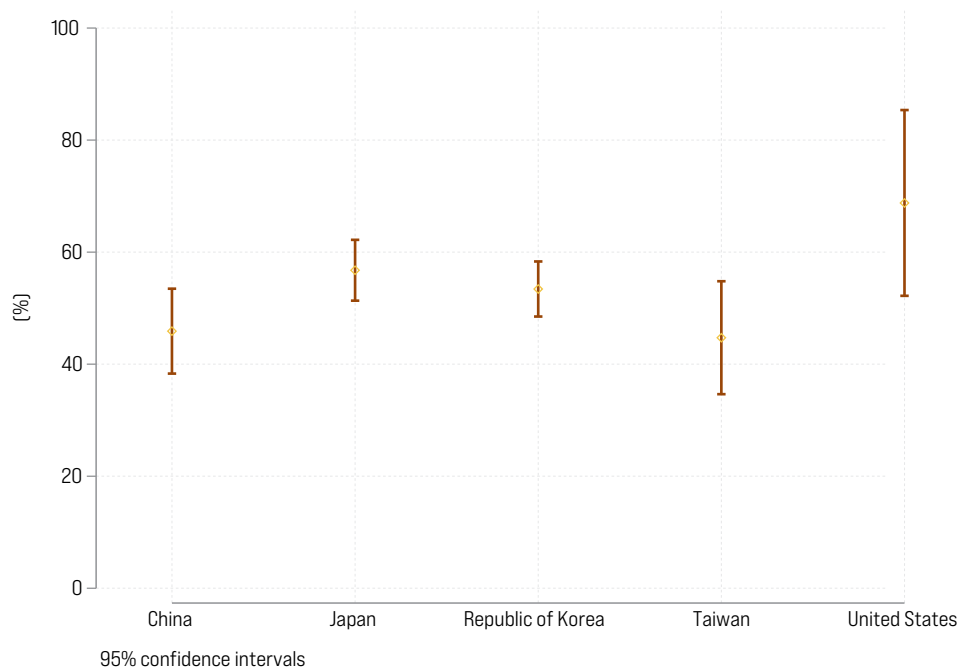
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Source: BES-FDI 2023, Question E3.9.3 “What is your firm’s labor costs as a percentage of total expenditure?” The bar signifies the 95-percent confidence interval.

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Concurrently, there is evidence that the employee retention rate is also higher at American businesses. Figure 3.18 demonstrates the percentage of workers that stay at firms beyond one year. The share is almost 70 percent among U.S. FIEs, significantly outpacing the 47 percent retention at PRC and Taiwanese firms. This contrast, underscored by non-overlapping 95-percent confidence intervals, highlights the statistical significance of these findings in addition to their considerable magnitude.

**Figure 3.18. Percentage of Workers Staying Beyond One Year**



Source: BES-FDI 2023, Question E3.9.1 “On average, how many percent of your trained employees stay at the firm for one year or more?”

### 3.4 PRC (People’s Republic of China) Foreign-Invested Enterprises

Since 2019, amidst trade tensions with the United States and a decelerating domestic economy, PRC investors have increasingly sought opportunities in Vietnam.<sup>64</sup> The inflow of Chinese investment saw a significant uptick, escalating from \$2.92 billion in 2021 to \$4.47 billion by 2023.<sup>65</sup> Beyond traditional sectors like hospitality and retail, investments now extend to electronics, leather, textiles, and energy.

64 National Institute for Finance Portal. (2019). “Vốn FDI Trung Quốc vào Việt Nam tăng vọt: Cần ứng phó như thế nào?” [Chinese FDI capital into Vietnam skyrockets: How to respond?]. <[https://mof.gov.vn/webcenter/portal/vclvcstc/pages\\_r/l/chi-tiet-tin?dDocName=MOFUCM153714](https://mof.gov.vn/webcenter/portal/vclvcstc/pages_r/l/chi-tiet-tin?dDocName=MOFUCM153714)>

65 Stockbiz News. (2024). “Vốn FDI Trung Quốc đổ vào Việt Nam: Nhận diện một làn sóng lớn” [Chinese FDI influx into Vietnam: Identifying a big wave]. <<https://stockbiz.vn/tin-tuc/von-fdi-trung-quoc-do-vao-viet-nam-nhan-dien-mot-lan-song-lon/23109768>>

Major new projects include a \$1.5 billion solar panel production facility in Quang Ninh, a semiconductor plant worth \$293 million in Nghe An, a \$269 million automobile parts project in Phu Tho, and a stationery factory in Hai Duong.<sup>66</sup>

Vietnam's strategic location and competitive industrial zones make it a key player in the PRC government's "China+1" strategy which entails diversification from the PRC amid rising geopolitical tensions. Vietnam shares a border with China which facilitates the movement of goods, materials, and inputs. In addition, Vietnam's northern economic area offers geographical proximity and competitive industrial land rates which appeal to PRC investors.<sup>67</sup>

However, this wave of investment raises concerns about the quality of FDI and its impact on Vietnam's environmental and energy standards, underscoring the need for careful policy planning. This next examination delves into the characteristics of PRC FDI in Vietnam, contrasting them with investments from other nations.<sup>68</sup>

### 3.4.1. Characteristics

There are 122 respondents from PRC in the 2023 PCI-FDI survey, accounting for 7.9 percent of the sample. Figure 3.19 shows that PRC FIEs in Vietnam tend to operate on a larger scale than other FIEs when it comes to employment size. Notably, firms with below 50 employees account for only 35 percent of PRC FIEs. This contrasts with non-PRC FIEs, for whom the corresponding figure is 52 percent.

PRC investors show a broader distribution across different employment size categories, with a significant presence in larger size brackets. For instance, PRC firms have roughly similar representation in the over-500 employee category compared to non-PRC firms, suggesting that many PRC investments are on a larger scale. Additionally, there is a notable presence of PRC FIEs in the mid-range employment sizes, with 32 percent employing between 51 to 200 people, and 21 percent in the 201 to 500 employee bracket, indicating a substantial engagement in operations that require a mid-sized workforce.

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66 Tien Phong News. (2023). "Trung Quốc tăng tốc đầu tư vào Việt Nam" [China accelerates investment into Vietnam]. <<https://tienphong.vn/trung-quoc-tang-toc-dau-tu-vao-viet-nam-post1594863.tpo>>

67 Vietnam Economic News. (2023). "Doanh nghiệp Trung Quốc đang quan tâm đầu tư những lĩnh vực nào ở Việt Nam?" [What sectors are Chinese investors eying in Vietnam?]. <<https://congthuong.vn/doanh-nghiep-trung-quoc-dang-quan-tam-dau-tu-nhung-linh-vuc-nao-o-viet-nam-287035.html>>

68 National Institute for Finance Portal. (2019). "Vốn FDI Trung Quốc vào Việt Nam tăng vọt: Cần ứng phó như thế nào?" [Chinese FDI capital into Vietnam skyrockets: How to respond?]. <[https://mof.gov.vn/webcenter/portal/vclvcstc/pages\\_r/1/chi-tiet-tin?dDocName=MOFUCM153714](https://mof.gov.vn/webcenter/portal/vclvcstc/pages_r/1/chi-tiet-tin?dDocName=MOFUCM153714)>

**Figure 3.19. Employment and Equity Size: PRC FIEs vs. Others**

Source: BES-FDI 2023, Question A6 “What was the total employment size of your firm?” and Question A7 “What was the total equity capital of your firm?”

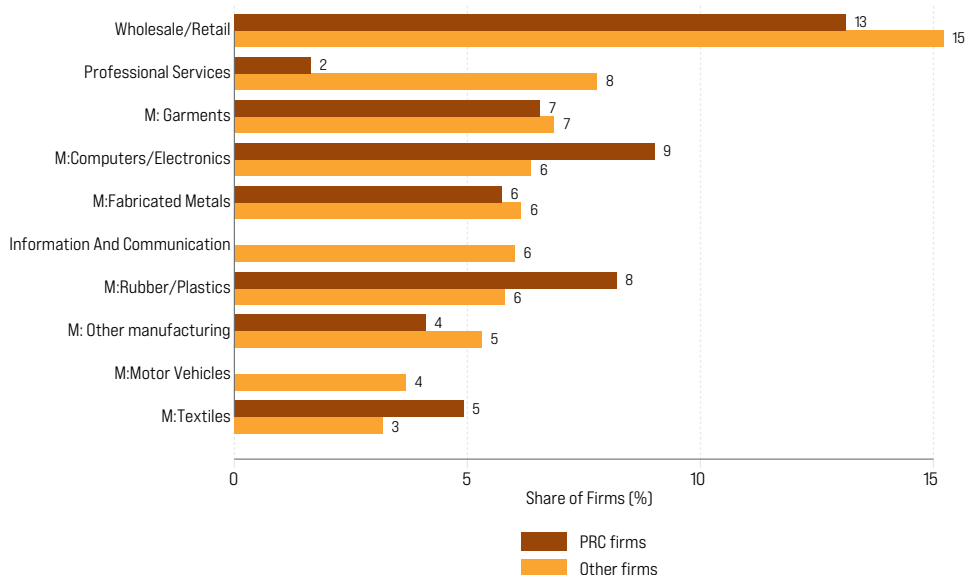
When examining the equity sizes of PRC FDI firms in Vietnam, a similar distribution pattern is noticeable. PRC-owned FIEs with equity under \$500,000 (10 billion VND) are rarer in comparison to non-PRC FIEs, where 40 percent fall within this lower bracket. In contrast, a significant portion of Chinese firms are in the higher equity brackets: 35 percent and 21 percent report equity sizes between \$500,000 and \$2.5 million (10 and 50 billion VND) and \$2.5 million and \$10 million (50 and 200 billion VND), respectively. Furthermore, an impressive 20 percent of PRC FIEs are in the highest bracket, with equity exceeding \$10 million (200 billion VND). This demonstrates the considerable financial clout of Chinese firms within Vietnam’s FDI landscape.

Figure 3.20 compares the most prevalent sectors among FIEs in Vietnam, highlighting the distribution of PRC firms within these sectors. Akin to other international firms, PRC companies prominently feature in the wholesale/retail sector, accounting for 13 percent of the participants in the PCI-FDI survey. Notably, they have a commanding presence in the computers/electronics sector at 9 percent, as well as in rubber/plastics and textiles, where they hold 8 percent and 5 percent respectively. Additionally, PRC firms have significant involvement in the metal fabrication and garment industries.

Conversely, PRC firms are considerably less represented in professional services and the information and communication sector, at 2 percent and near zero, respectively. This divergence from the distribution of U.S. firms—which tend to cluster in these particular

sectors—draws an intriguing parallel. However, the investment landscape is shifting as Chinese engagement in Vietnam broadens, showing increasing movement towards sectors with higher added value.<sup>69</sup>

**Figure 3.20. Sectoral Composition: PRC FIEs vs. Others**



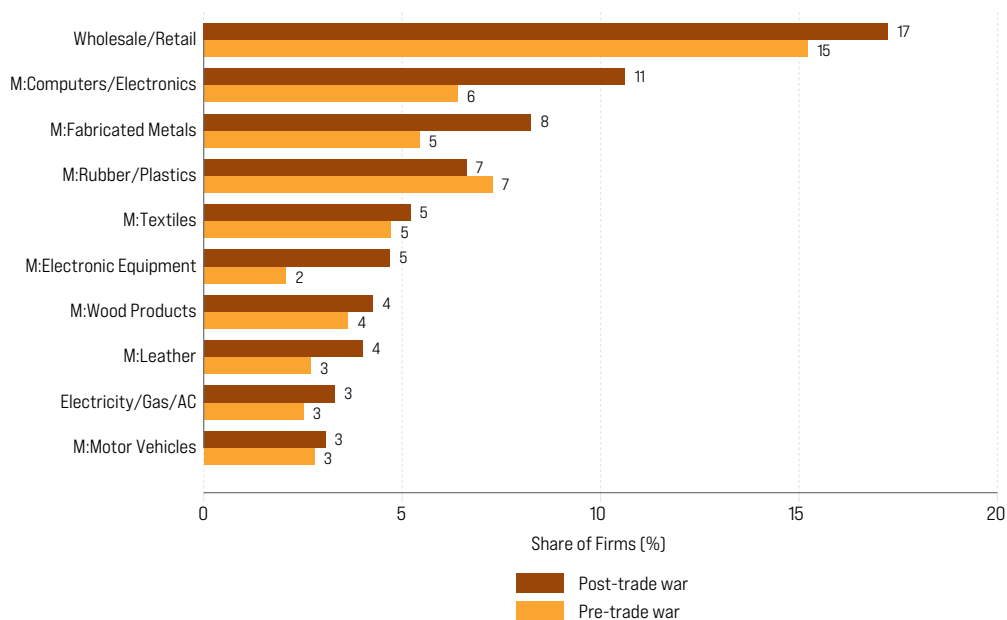
Source: The BES-FDI sample by Vietnam industrial classification. “M” indicates sub-sectors within the manufacturing sector.

To examine this emerging pattern, we divide PRC FIEs into two groups: those that entered Vietnam before trade tensions increased with the U.S. in 2018, and those that entered after. Figure 3.21 below shows important differences in the sectoral composition across these two groups. PRC companies that registered for an investment license in Vietnam since 2019 are much more likely to be in sectors such as wholesale/retail, computers/electronics, metal fabrication, and electronic equipment. PRC-based exporters in some of these sectors, such as computers/electronics and electronic equipment, are among those most affected by tariffs recently imposed by the United States.<sup>70</sup> On the other hand, recent PRC-owned entrants to Vietnam are less well represented in traditional sectors such as rubber and plastics.

69 Stockbiz News. (2024). “Vốn FDI Trung Quốc đổ vào Việt Nam: Nhận diện một làn sóng lớn” [Chinese FDI influx into Vietnam: Identifying a big wave]. <<https://stockbiz.vn/tin-tuc/von-fdi-trung-quoc-do-vao-viet-nam-nhan-dien-mot-lan-song-lon/23109768>>

70 Investopedia. (2019). “The Top 3 Industries Affected by the Trade War With China”. <<https://www.investopedia.com/industries-most-likely-to-be-impacted-by-trade-disputes-with-china-in-2019-4580508>>



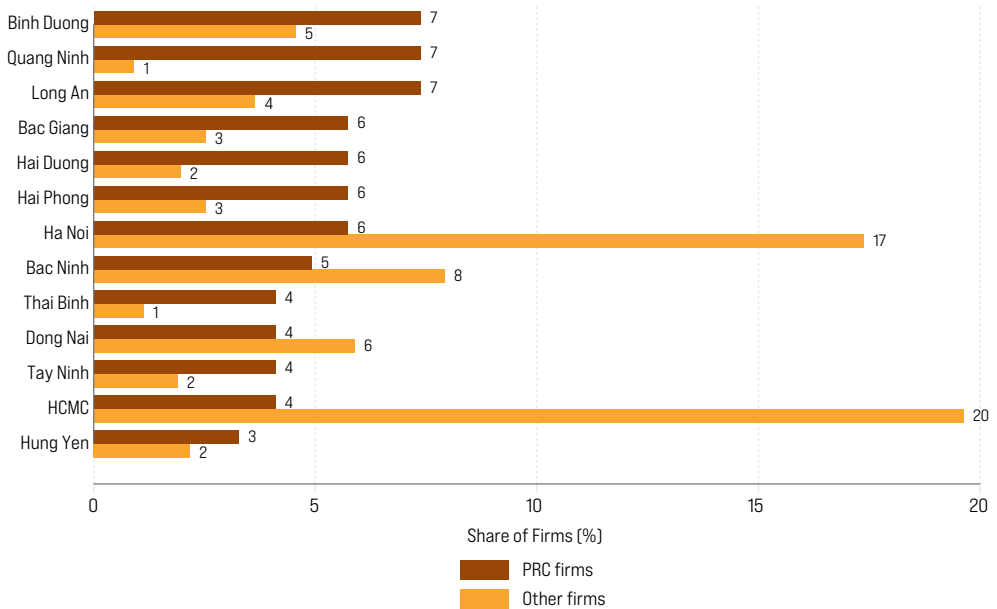
**Figure 3.21. Sectoral Composition of PRC FIEs: Pre vs. Post-Trade War**

Source: The BES-FDI sample by Vietnam industrial classification. “M” indicates sub-sectors within the manufacturing sector.

PRC FDI firms in Vietnam present a distinctive geographical spread compared to FIEs from other nations. Rather than clustering in the primary urban hubs of Ho Chi Minh City and Hanoi, as is typical for non-PRC FIEs, PRC enterprises display a more uniform distribution across various provinces. Binh Duong, Quang Ninh, and Long An each host 7 percent of these PRC entities, while emerging northern industrial provinces such as Bac Giang, Hai Duong, and Hai Phong are each home to 6 percent. The lure for PRC investors lies in the proximity and competitive land prices these regions offer.<sup>71</sup> This distribution stands in contrast with that of U.S. FIEs, discussed above, which have not increased their presence in these areas.

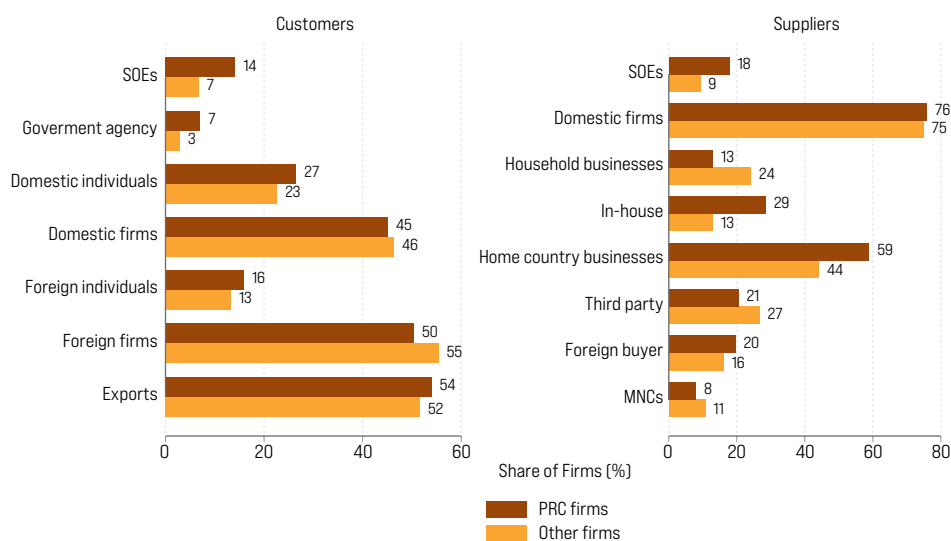
71 Vietnam Economic News. (2023). “Doanh nghiệp Trung Quốc đang quan tâm đầu tư những lĩnh vực nào ở Việt Nam?” [What sectors are Chinese investors eyeing in Vietnam?]. <<https://congthuong.vn/doanh-nghiep-trung-quoc-dang-quan-tam-dau-tu-nhung-linh-vuc-nao-o-viet-nam-287035.html>>

**Figure 3.22. Geographical Distribution: PRC FIEs vs. Others**



Source: The BES-FDI sample by province.

As Figure 3.23 illustrates, PRC FIEs in Vietnam display a customer profile aligned with the broader FIE community. A majority focus on exporting, with 54 percent engaging in export activities. About half of the PRC FIEs cater to other foreign companies within Vietnam, and 45 percent serve local Vietnamese enterprises. Notably, PRC firms are somewhat more inclined to do business with Vietnamese state entities compared with their non-PRC counterparts; 7 percent of PRC FIEs have government agencies as clients, and 14 percent serve SOEs, showcasing their deeper integration into the public sector of Vietnam's market.

**Figure 3.23. Customer and Supplier Profile: PRC FIEs vs. Others**

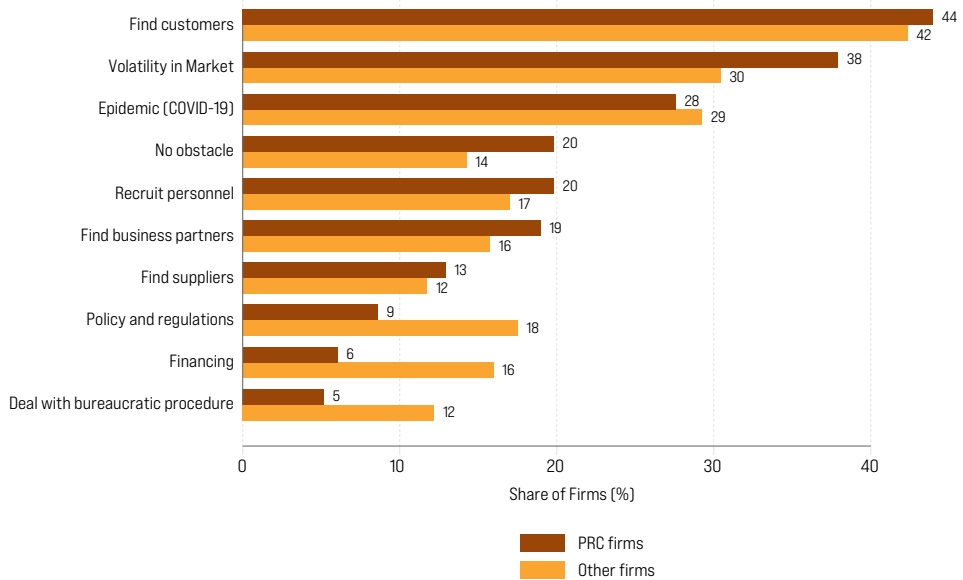
Source: BES-FDI 2023, Question A11 “Who are your customers?” and Question A13 “Who are your suppliers of intermediate goods and services?”

Interesting insights emerge as we delve deeper into the type of firms that supply PRC FIEs in Vietnam. PRC firms predominantly source from their home country, with 59 percent utilizing inputs from Chinese businesses, a higher rate than the 44 percent observed in other FIEs. Furthermore, in-house supply chains hold significant importance for PRC entities, with 29 percent relying on internal sources, markedly above the 13 percent seen in their counterparts. These patterns can be attributed to geographical proximity, and the fact that certain PRC companies are turning to Vietnam to avoid the negative effects of tariffs erected during the trade war with the U.S..<sup>72</sup>

### 3.4.2. PRC FIEs and Local Business Environment

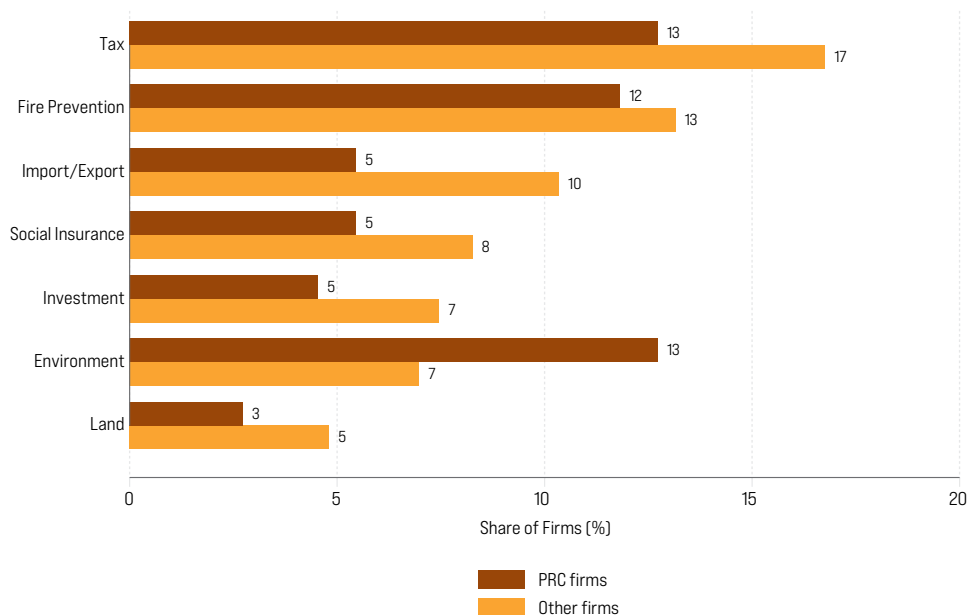
Figure 3.24 highlights key challenges faced by PRC FIEs operating in Vietnam. Market factors feature predominantly in the list of concerns. Notably, 44 percent struggle with customer acquisition, while 38 percent grapple with market volatility. Additionally, 20 percent face recruitment issues, and 19 percent have difficulty forging business partnerships.

<sup>72</sup> Stockbiz News. (2024). “Vốn FDI Trung Quốc đổ vào Việt Nam: Nhận diện một làn sóng lớn” [Chinese FDI influx into Vietnam: Identifying a big wave]. <<https://stockbiz.vn/tin-tuc/von-fdi-trung-quoc-do-vao-viet-nam-nhan-dien-mot-lan-song-lon/23109768>>

**Figure 3.24. Biggest Obstacles while Operating in Vietnam: PRC FIEs vs. Others**

Source: BES-FDI 2023, Question D1.D2 "What obstacles is your firm encountering in your business operations?"

In contrast to U.S. FIEs, PRC companies fare better in navigating Vietnam's policy landscape and bureaucratic processes. Only 9 percent of PRC FIEs encounter difficulties with policy and regulations, while a mere 5 percent face challenges with bureaucratic procedures. This is significantly lower than the rates among non-PRC FIEs, where these issues affect 18 percent and 12 percent of firms, respectively, highlighting a stark disparity among FIEs in dealing with the regulatory environment.

**Figure 3.25. Burdensome Administrative Procedures: PRC FIEs vs. Others**

Source: BES-FDI 2023, Question D1.2 “From your experience in the province, please indicate the most troublesome administrative procedures”

As shown in Figure 3.25, PRC companies are less likely to have issues with procedures that commonly bug other FIEs, such as taxes, fire prevention, and import/export. Notably, however, environmental regulation is a challenging area for PRC FIEs. About 13 percent of PRC PCI-FDI respondents highlight this as the most burdensome procedure, compared to only 7 percent of non-PRC FIEs.

### 3.5 Japanese Foreign-Invested Enterprises

In November 2023, commemorating the 50th anniversary of diplomatic relations between the two countries, Japan and Vietnam elevated their partnership to a Comprehensive Strategic Partnership, making Japan Vietnam’s sixth partner at this level. This enhancement underscores the two countries’ dedication to advancing economic collaboration, with a focus on technology enhancement, green transformation, and digitalization, among other areas.<sup>73</sup> Japanese investment in Vietnam reached \$6.57 billion in 2023, marking a year-on-year growth of 37.3 percent and maintaining Japan’s position as the second-largest foreign investor in Vietnam.<sup>74</sup>

73 Tuoi tre Online. (2023). “Nhật Bản trở thành Đối tác chiến lược toàn diện thứ sáu của Việt Nam” [Japan becomes Vietnam’s sixth comprehensive strategic partner]. <<https://tuoitre.vn/nhat-ban-tro-thanh-doi-tac-chien-luc-toan-dien-thu-sau-cua-viet-nam-20231127195718372.htm>>

74 People’s Representative Newspaper. (2024). “Vốn đầu tư từ Nhật Bản vào Việt Nam tăng hơn 37% trong năm 2023” [Investment capital from Japan into Vietnam increases by more than 37% in 2023]. <<https://daibieunhandan.vn/kinh-te-xa-hoi/von-dau-tu-tu-nhat-ban-va-viet-nam-tang-hon-37-trong-nam-2023-i357165/>>

Despite these positive developments, Japanese FIEs in Vietnam face certain challenges. A JETRO (Japan External Trade Organization) survey of Japanese FIEs operating in Vietnam revealed that 56.7 percent of respondents expressed intentions to expand their operations, a figure that, while still high compared to the ASEAN average of 47.5 percent,<sup>75</sup> indicates a 3.3 percent decline from 2022. Notably, Vietnam was the only major ASEAN investment destination where plans for expansion by Japanese FIEs decelerated last year, particularly among manufacturing firms, which saw a 7.3 percent decrease in expansion plans compared to a 0.4 percent decrease in non-manufacturing sectors. Additionally, the percentage of Japanese investors considering reducing their investments or withdrawing completely from Vietnam rose by 1.4 percent to 2.5 percent.<sup>76</sup>

These findings highlight the need for improvements in Vietnam's business environment to retain Japanese FIEs. The most pressing issues include burdensome and time-consuming bureaucratic procedures, a lack of highly skilled labor, and increasing labor costs.<sup>77</sup> In this section, we delve deeper into Japanese respondents to the PCI-FDI survey to highlight their characteristics and experience with the local business environment in Vietnam.

### 3.5.1. Characteristics

There are 270 Japanese FIEs in this year's PCI-FDI survey, accounting for 17.4 percent of the total number of respondents. Japanese FIEs in Vietnam are similar in size to FIEs from other nationalities, albeit with a slightly higher presence in smaller size categories. According to Figure 3.26, fifty-seven percent of Japanese FIEs have fewer than 50 employees, surpassing the 50 percent seen in non-Japanese companies. Conversely, a mere 9 percent of Japanese respondents in the 2023 PCI-FDI survey are in the top employment bracket of "above 500 people," which is four percentage points lower than that of their counterparts from other countries.

This trend is mirrored in terms of equity size. Forty-four percent of Japanese FIEs possess less than \$500,000 (10 billion VND) in equity, compared to 38 percent among non-Japanese firms.

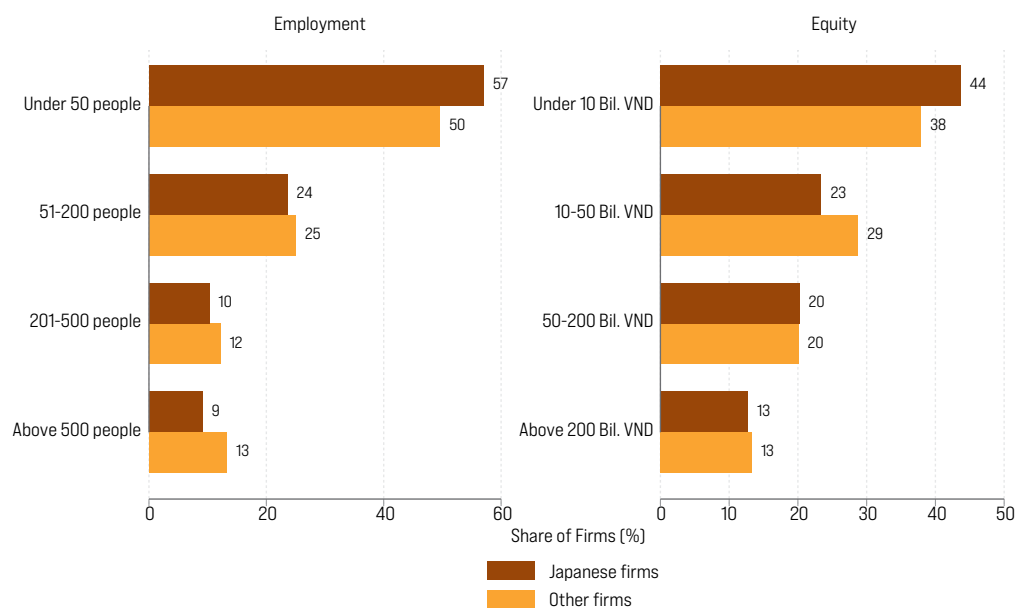
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75 Government Newspaper. (2023). "Nhiều nhà đầu tư Nhật Bản có kế hoạch mở rộng kinh doanh tại Việt Nam" [Many Japanese investors plan to expand their business in Vietnam]. <<https://baochinhphu.vn/nhiều-nha-dau-tu-nhat-ban-co-ke-hoach-mo-rong-kinh-doanh-tai-viet-nam-102231215104711549.htm>>

76 The Saigon Times. (2024). "Doanh nghiệp Nhật Bản đang 'giảm lượng tăng chất' khi đầu tư ở Việt Nam" [Japanese businesses are 'reducing quantity and increasing quality' when investing in Vietnam]. <<https://thesaigontimes.vn/doanh-nghiep-nhat-ban-dang-giam-luong-tang-chat-khi-dau-tu-o-viet-nam/>>

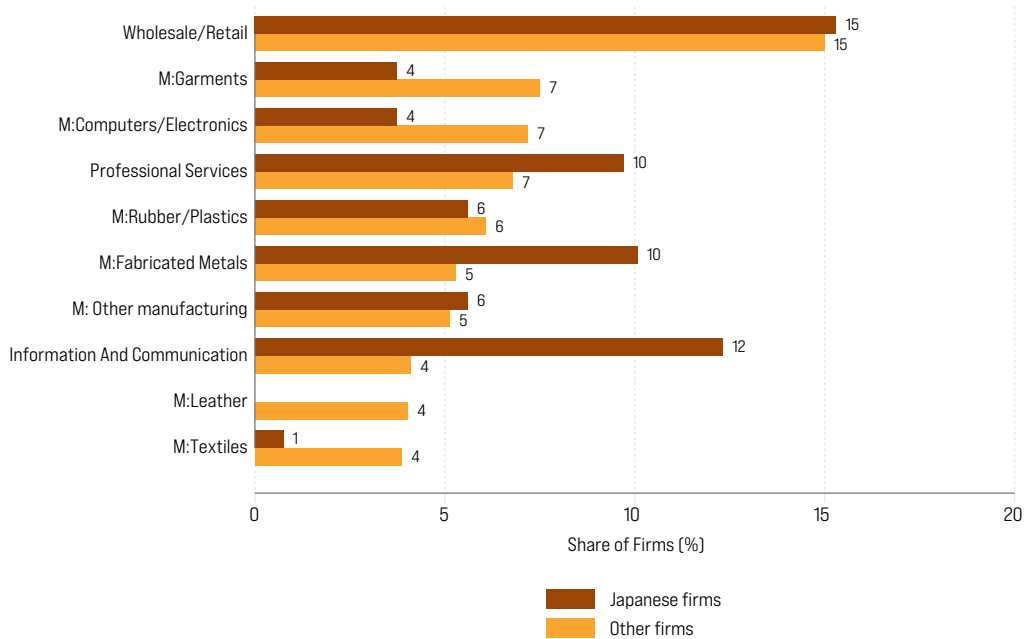
77 Government Newspaper. (2023). "Nhiều nhà đầu tư Nhật Bản có kế hoạch mở rộng kinh doanh tại Việt Nam" [Many Japanese investors plan to expand their business in Vietnam]. <<https://baochinhphu.vn/nhiều-nha-dau-tu-nhat-ban-co-ke-hoach-mo-rong-kinh-doanh-tai-viet-nam-102231215104711549.htm>>

**Figure 3.26. Employment and Equity Size: Japanese FIEs vs. Others**



Source: BES-FDI 2023, Question A6 “What was the total employment size of your firm?” and Question A7 “What was the total equity capital of your firm?”

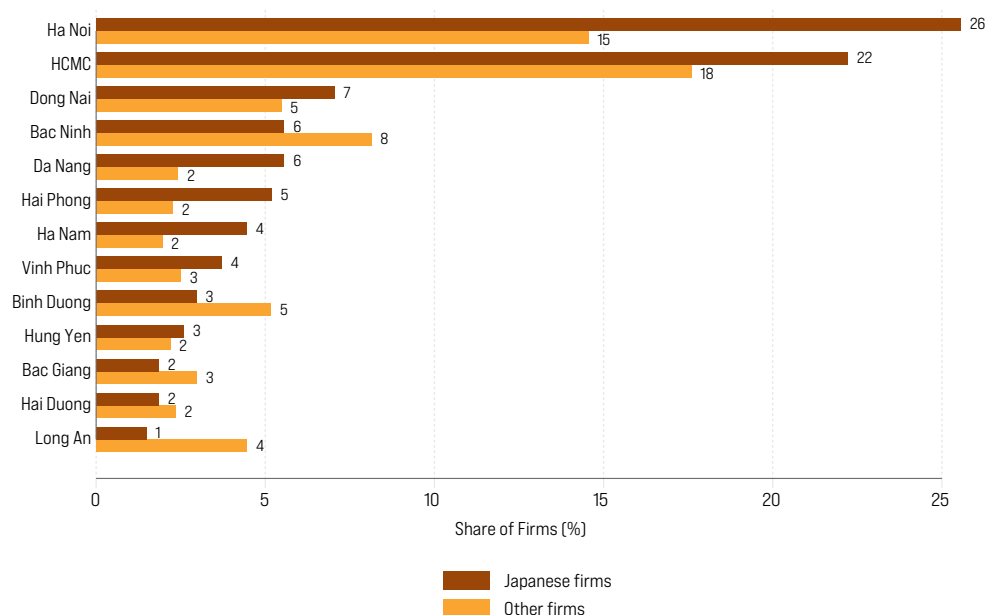
Regarding sectoral distribution, Japanese firms in Vietnam have a notable presence in professional services, fabricated metals, and information and communication, as depicted in Figure 3.27. These sectors comprise 10 percent, 10 percent, and 12 percent of Japanese respondents to the 2023 PCI-FDI survey, respectively. In contrast, these sectors represent 7 percent, 5 percent, and 4 percent, respectively among non-Japanese investors, highlighting the distinct sectoral preferences of Japanese firms in the Vietnamese market.

**Figure 3.27. Sectoral Composition: Japanese FIEs vs. Others**

Source: The BES-FDI sample by Vietnam industrial classification. “M” indicates sub-sectors within the manufacturing sector.

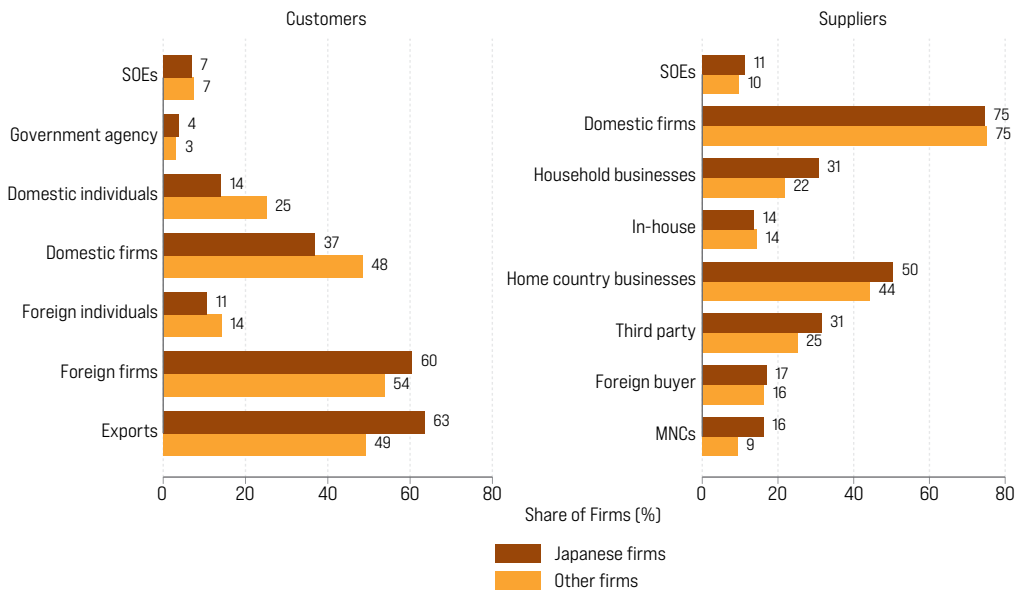
Japanese firms in Vietnam predominantly establish their operations in the major cities of Hanoi and Ho Chi Minh City, with their presence significantly exceeding that of non-Japanese firms in these urban centers (26 percent in Hanoi and 22 percent in Ho Chi Minh City, compared to 15 percent and 18 percent, respectively, among other firms). Beyond these metropolises, Japanese companies gravitate towards industrial hubs and port cities like Dong Nai, Hai Phong, Ha Nam, and Vinh Phuc, indicating a strategic preference for locations with robust infrastructure and connectivity (see Figure 3.28).



**Figure 3.28. Geographical Distribution: Japanese FIEs vs. Others**

Source: The BES-FDI sample by province.

Japanese enterprises in Vietnam are notably oriented towards serving other foreign firms within the country and engaging in export activities. As seen in Figure 3.29, 60 percent of Japanese FIEs engage in transactions with other FIEs in Vietnam, and 63 percent partake in exporting activities beyond the national borders. These figures contrast those of non-Japanese firms, where 54 percent engage with other FIEs and 49 percent are involved in exports. Conversely, Japanese firms exhibit a lower propensity to target the domestic market. Only 14 percent of Japanese FIEs have domestic individuals as customers, a figure significantly lower than the 25 percent observed among other FIEs. Furthermore, Japanese companies are 11 percentage points less inclined to serve domestic Vietnamese businesses (37 percent) compared to their non-Japanese counterparts (48 percent).

**Figure 3.29. Customer and Supplier Profile: Japanese FIEs vs. Others**

Source: BES-FDI 2023, Question A11 “Who are your customers?” and Question A13 “Who are your suppliers of intermediate goods and services?”

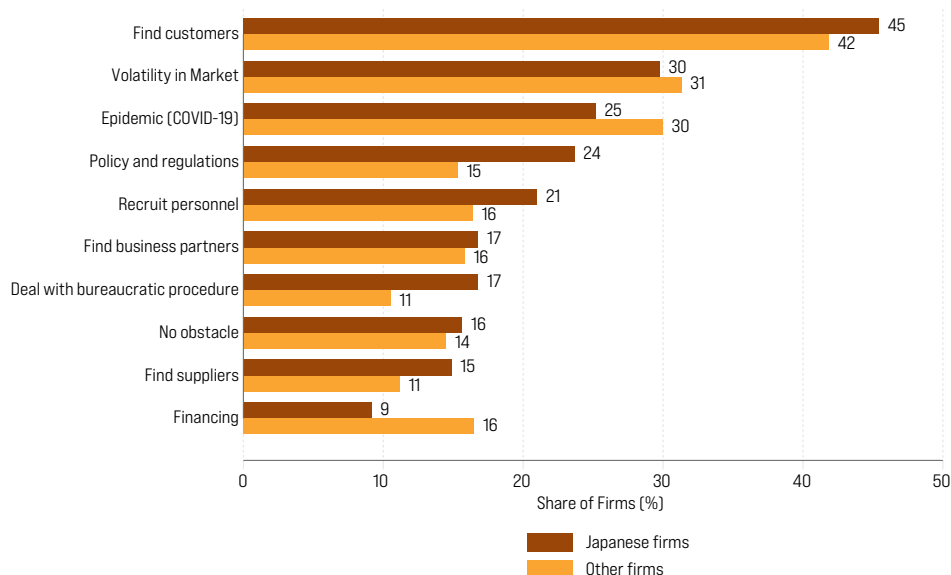
Japanese firms in Vietnam exhibit a diversified approach to sourcing inputs, engaging with suppliers across a wide spectrum of categories more frequently than other FIEs, except for domestic Vietnamese companies and in-house sources where the ratios are nearly identical. Notably, half of the Japanese FIEs prefer sourcing from businesses in their home country, a figure slightly higher than the 44 percent seen among other FIEs. They also display a greater propensity to procure from third-party businesses (31 percent) and multinational corporations (16 percent). Within the domestic market, Japanese firms are particularly inclined to collaborate with Vietnamese household businesses, with 31 percent utilizing such sources, a rate notably higher than the 22 percent observed among other foreign-invested enterprises.

### 3.5.2. Japanese FIEs and Local Business Environment

As shown in Figure 3.30, Japanese FIEs in Vietnam face significant challenges dealing with policy and regulations (24 percent) and bureaucratic procedures (17 percent), more so than their non-Japanese counterparts, who report difficulties at lower rates of 15 percent and 11 percent, respectively. This discrepancy aligns with findings from a JETRO survey, underscoring the legal and bureaucratic hurdles that Japanese firms encounter in Vietnam.

Interestingly, these institutional challenges are less pronounced for Japanese investors in other ASEAN nations like Thailand, Singapore, and Malaysia, suggesting a unique set of obstacles within the Vietnamese regulatory landscape.<sup>78</sup>

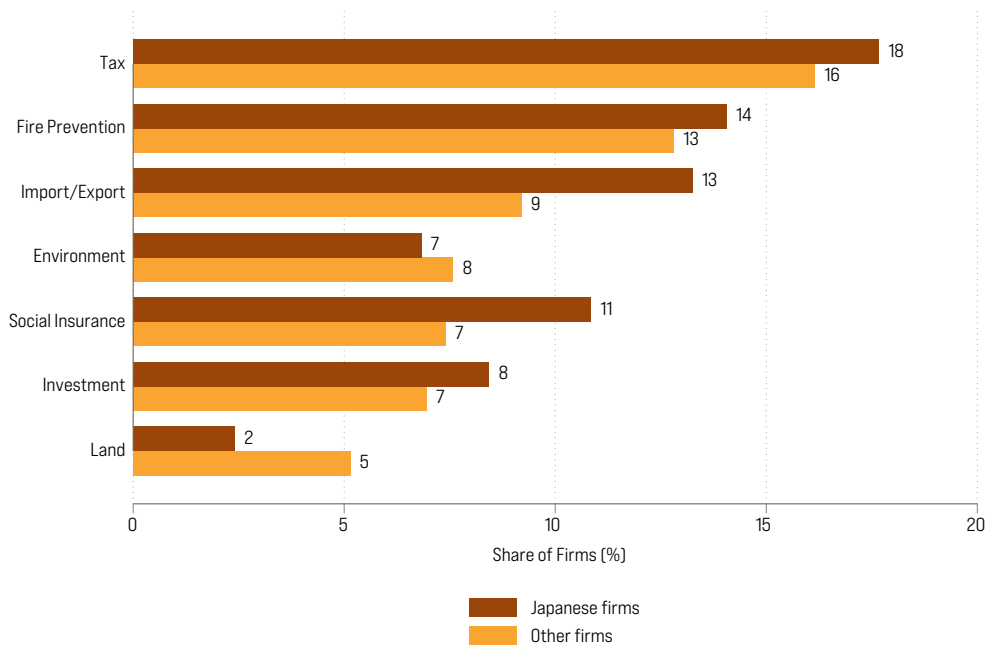
**Figure 3.30. Biggest Obstacles while Operating in Vietnam: Japanese FIEs vs. Others**



Source: BES-FDI 2023, Question E1 “What obstacles is your firm encountering in your business operations?”

For Japanese FIEs, the most burdensome administrative procedures include those related to taxes, fire prevention, and import/export. They are also comparatively more likely to cite these as the biggest trouble areas compared to their counterparts from other countries. In addition, 11 percent of Japanese investors reported having difficulties with social insurance, a higher rate than non-Japanese FIEs (7 percent).

<sup>78</sup> JETRO. (2023). “2023 Survey on Business Conditions of Japanese Companies Operating Overseas”. <[https://www.jetro.go.jp/ext\\_images/en/reports/survey/pdf/2023/EN\\_Asia\\_and\\_Oceania\\_2023\\_r2.pdf](https://www.jetro.go.jp/ext_images/en/reports/survey/pdf/2023/EN_Asia_and_Oceania_2023_r2.pdf)>

**Figure 3.31. Burdensome Administrative Procedures: Japanese FIEs vs. Others**

Source: BES-FDI 2023, Question D1.2 “From your experience in the province, please indicate the most troublesome administrative procedures”

Several persistent challenges impact the operations of Japanese foreign-invested enterprises in Vietnam. Paperwork related to taxes, the most serious issue highlighted in Figure 3.31, has been a recurrent concern flagged by Japanese firm representatives for years.<sup>79</sup> Delving into the nuanced questions, we aim to spotlight the specific tax-related hurdles that these foreign companies face, as illustrated in Figure 3.32.

The tax refund process emerges as a significant issue for all FIEs, with Japanese FIEs feeling the brunt most acutely. An overwhelming 72 percent of Japanese respondents indicated complications with this procedure, much higher than the 42 percent reported by non-Japanese investors. Tax finalization also poses a notable challenge, particularly for Japanese FIEs, with 58 percent facing difficulties compared to 38 percent of other foreign companies.

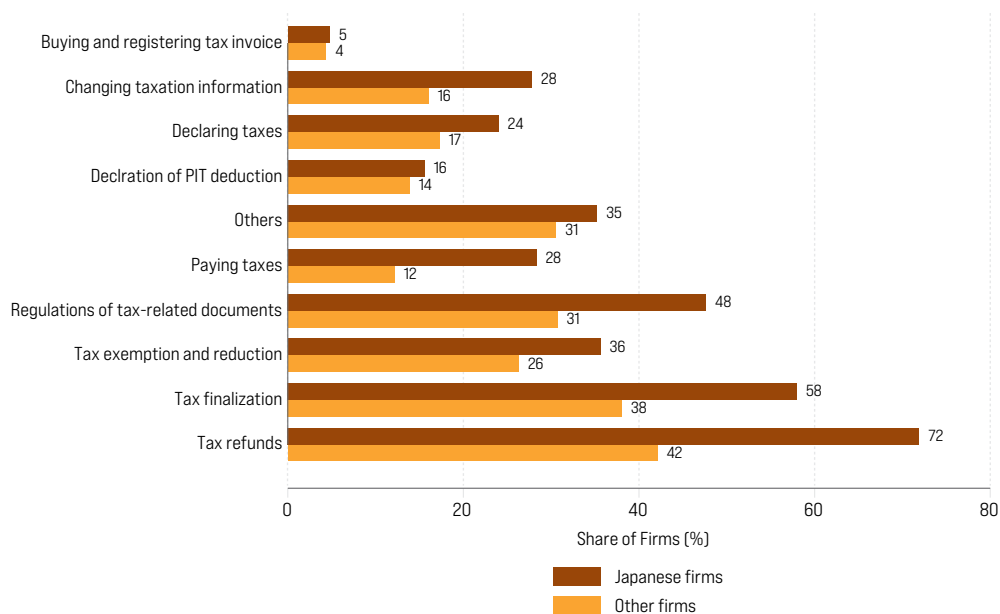
<sup>79</sup> Tuoi Tre Online. (2015). “Doanh nghiệp nước ngoài vẫn “kêu” thủ tục” [Foreign businesses still complaining about troublesome procedures]. <https://tuoitre.vn/doanh-nghiep-nuoc-ngoai-van-keu-khau-thu-tuc-716048.htm>

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The Saigon Times. (2024). “Doanh nghiệp Nhật Bản đang ‘giảm lượng tăng chất’ khi đầu tư ở Việt Nam” [Japanese businesses are ‘reducing quantity and increasing quality’ when investing in Vietnam]. <https://thesaigontimes.vn/doanh-nghiep-nhat-ban-dang-giam-luong-tang-chat-khi-dau-tu-o-viet-nam/>

Japanese FIEs are distinct in their struggles with tax payments and the regulations surrounding tax-related invoices and documentation, further distinguishing them from their counterparts.

**Figure 3.32. Difficulties with Specific Tax Procedures: Japanese FIEs vs. Others**

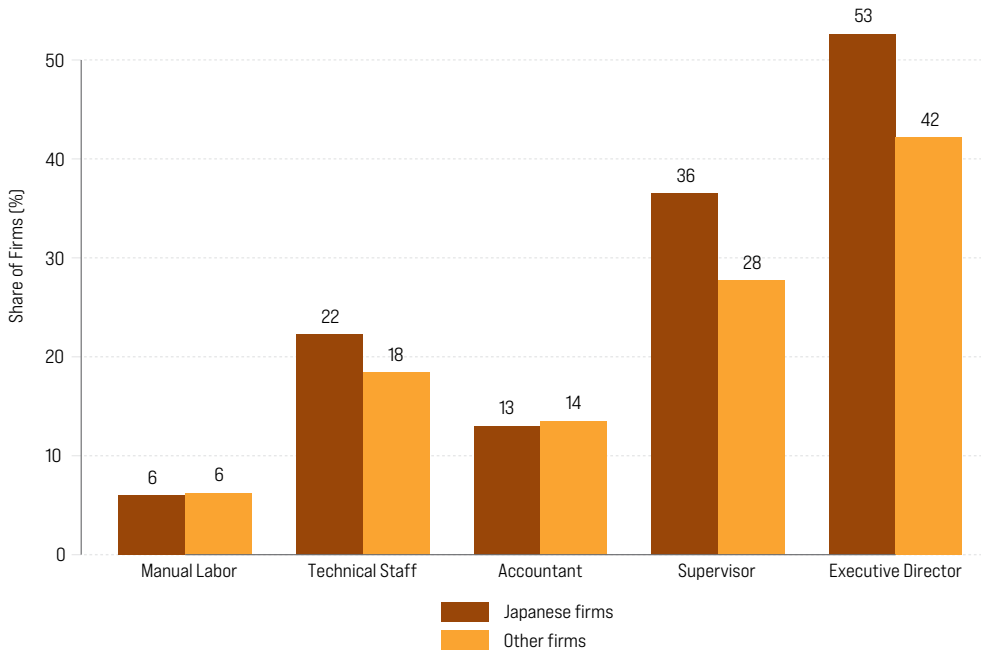


Source: BES-FDI 2023, Question D1.4 “From your experience in doing tax administrative procedures, please indicate the issues you found troublesome”

As highlighted in Figure 3.30, personnel recruitment stands out as a particularly challenging area for Japanese FIEs in Vietnam, more so than for other foreign investors. The scarcity of highly skilled workers has been a persistent obstacle for Japanese entities.<sup>80</sup> This issue was further exacerbated in recent years by increasing concerns over the escalating costs of labor and other operational inputs in Vietnam.<sup>81</sup>

80 Government Newspaper. (2023). “Nhiều nhà đầu tư Nhật Bản có kế hoạch mở rộng kinh doanh tại Việt Nam” [Many Japanese investors plan to expand their business in Vietnam]. <<https://baochinhphu.vn/nhieu-nha-dau-tu-nhat-ban-co-ke-hoach-mo-rong-kinh-doanh-tai-viet-nam-102231215104711549.htm>>

81 The Saigon Times. (2024). “Doanh nghiệp Nhật Bản đang ‘giảm lượng tăng chất’ khi đầu tư ở Việt Nam” [Japanese businesses are ‘reducing quantity and increasing quality’ when investing in Vietnam]. <<https://thesaigontimes.vn/doanh-nghiep-nhat-ban-dang-giam-luong-tang-chat-khi-dau-tu-o-viet-nam/>>

**Figure 3.33. Difficulties with Recruitment: Japanese FIEs vs. Others**

Source: BES-FDI 2023, Question E3.8.1 “Please evaluate the level of easiness in the recruitment of the following workers groups in your areas.”

Figure 3.33 delineates the challenges FIEs face in recruiting for specific job roles. It reveals that manual labor is readily available, making recruitment in this segment relatively straightforward for FIEs regardless of their origin. However, the landscape shifts dramatically for more specialized positions. Skilled technicians and supervisory or managing roles pose significant recruitment challenges, particularly for Japanese firms. Twenty-two percent of Japanese companies reported difficulties in hiring technical staff, and a notable 36 percent encounter obstacles when recruiting for supervisory positions. These figures contrast the experiences of non-Japanese FIEs, where the corresponding rates are reported at 18 percent and 28 percent, respectively.

The disparity becomes even more pronounced in the realm of high-level managerial positions, such as executive directors. More than half (53 percent) of Japanese firms categorize filling these pivotal roles as “difficult” or “very difficult,” a sentiment echoed by 42 percent of non-Japanese FIEs, underscoring a significant challenge in the talent acquisition process for Japanese companies in Vietnam.

## 3.6 Conclusion

The year 2023 was notable for Vietnam's business environment, especially in terms of foreign direct investment (FDI) dynamics. FDI into Vietnam saw a significant uptick, growing by 32.1 percent from the previous year, largely fueled by the influx of new projects, indicating a shift in the country's FDI landscape. Despite global market uncertainties and a cautious economic outlook, FDI enterprises in Vietnam showed resilience, with many recovering profitably from the pandemic's impacts, reducing losses, and expanding their workforce. This trend underscores Vietnam's deeper integration into the global supply chain, with FIEs increasingly contributing to exports. However, while regulatory burdens have lessened, the mixed pace of improvement suggests there is still room for progress.

Two pivotal events in 2023 were the Comprehensive Strategic Partnerships with the U.S. and Japan, promising broader economic collaboration, and a notable increase in PRC FDI, reflecting a diversification in the global supply chain. This chapter delves into U.S., PRC, and Japanese FIEs, comparing their unique traits and requirements with other foreign enterprises in Vietnam.

U.S. FIEs tend to gravitate towards Ho Chi Minh City and its environs, favoring sectors like professional services and information and communication which face fewer market-related challenges but are prone to more regulatory and bureaucratic hurdles. They appreciate the local labor quality and allocate significant portions of their budget to workforce development. Conversely, PRC FIEs, generally larger and geographically more dispersed, are moving towards high-tech sectors, showing adeptness in navigating Vietnam's regulatory landscape. Their main challenges lie in customer acquisition, market stability, and labor recruitment.

In contrast to these two countries, Japan has consistently maintained its position as one of the leading foreign investors in Vietnam. Despite this enduring relationship, reforms in Vietnam have been slow to tackle persistent challenges faced by Japanese FIEs. These challenges include stringent policy regulations, cumbersome bureaucratic procedures such as tax documentation, and a notable shortage of skilled personnel for technical and supervisory positions.

This analysis offers useful insights for Vietnamese policymakers. Vietnam currently finds itself at an important crossroads, where it stands to benefit from seismic shifts in global supply chains. To leverage these opportunities, the country should refine its regulatory frameworks as well as streamline and increase the transparency of bureaucratic procedures, particularly those related to taxes, fire safety, import/export, and the environment. Other priorities include facilitating connections between foreign investors and domestic partners as well as customers. In addition, policymakers should take urgent action to upgrade the quality of the local workforce, especially skilled workers, and prepare them for technical and supervisory roles. Vietnam is gradually upgrading from cheap labor as one of its main competitive advantages in attracting foreign investment and should invest in its human capital to retain its appeal.

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