

PCI 2012 Organization

- Important Features of the PCI and PCI-FDI Surveys
- FDI Performance
- The PCI Risk Module
- Corruption Risk

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Key Features of the PCI and PCI-FDI Surveys

- Annual business survey used to gauge Vietnamese business environment.
- 2012 data contains 8,053 private, domestic operations and 1,540 foreign firms (87% are 100 percent foreign owned).
- 75% of firms from Asia (Japan, Korea, Taiwan, Singapore). 20% are from US, EU, Australia.
- Sample is stratified by age, legal form, and broad industrial sector.
 - Foreign sample is only completed in 13 provinces with large investor populations (nationally representative survey).

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Key Features of the PCI and PCI-FDI Surveys

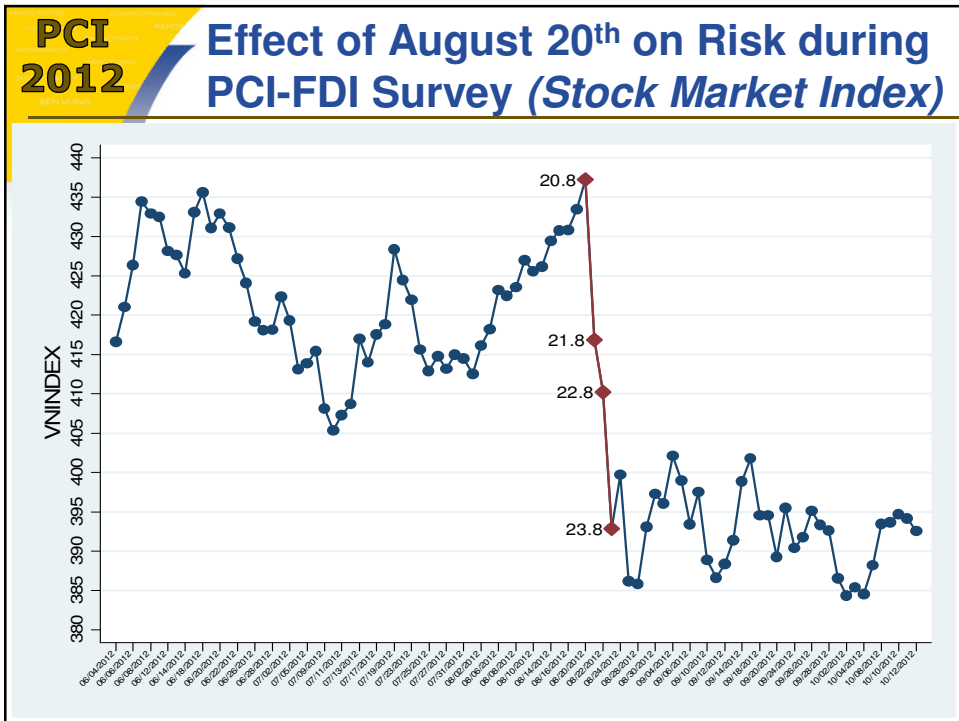
- Mail-out survey in order to protect confidentiality of investors
- Response rate is about 30%, varying slightly across provinces.
- Release Dates: July 14th
 - Released in batches with randomly sampled locations.
 - War room of college students randomly-assigned calls firms to remind them to complete survey and offer assistance on technical questions.
- **2012 INCLUDED A MODULE ON POLITICAL RISK!!**

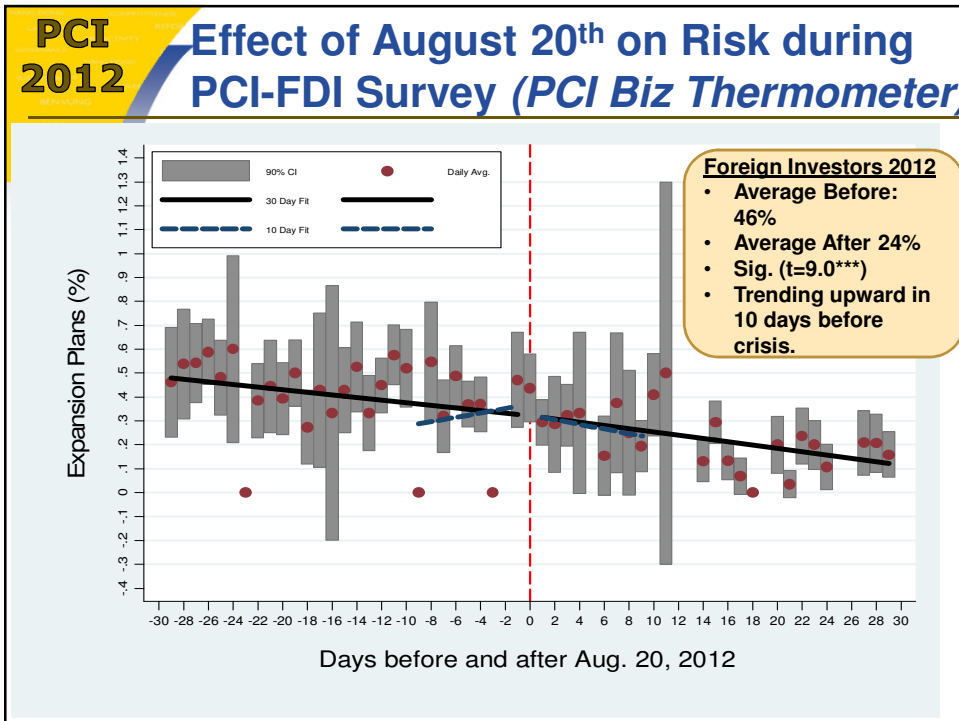
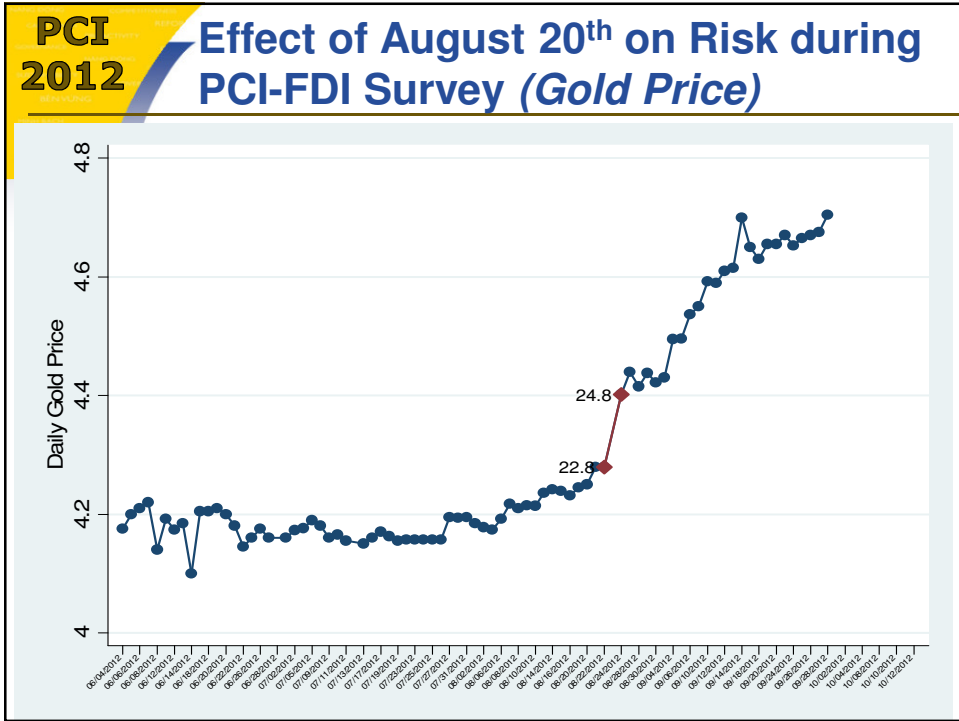
PCI 2012 Performance of FIEs in Recent Years

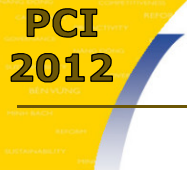
Year	Firms Intending to Expand	Firms Reporting Profits	Firms Reporting Losses
2010	68.5%	70.1%	24.6%
2011	45.5%	73.9%	20.5%
2012	32.7%	60.0%	28.0%

Year	Firms Increasing Investment	Median K Size (\$ Million)	Firm Adding Employees	Median L Size (Employees)
2010	37.3%	2.00	54.0%	90.00
2011	27.8%	1.50	47.1%	85.00
2012	5.1%	1.50*	32.2%	87.50

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





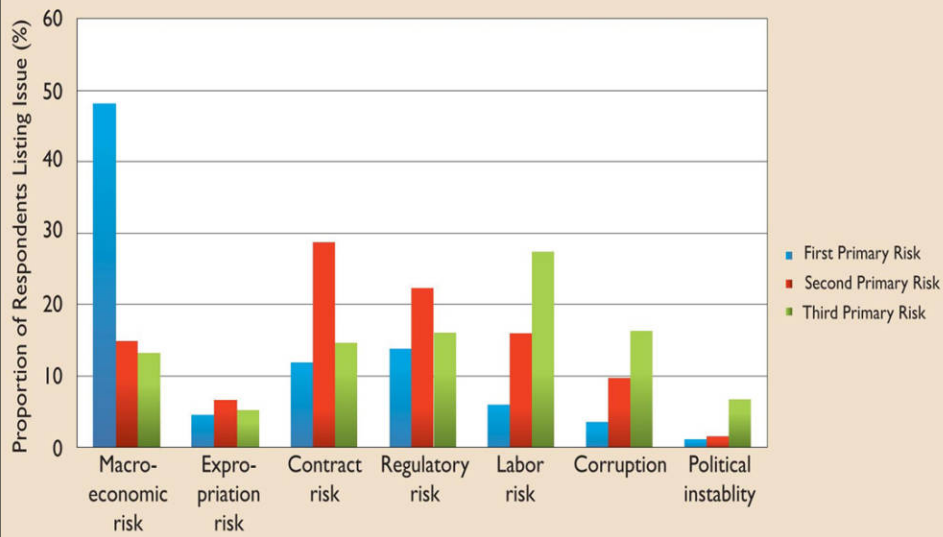


What Worries FIEs about Vietnam?

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

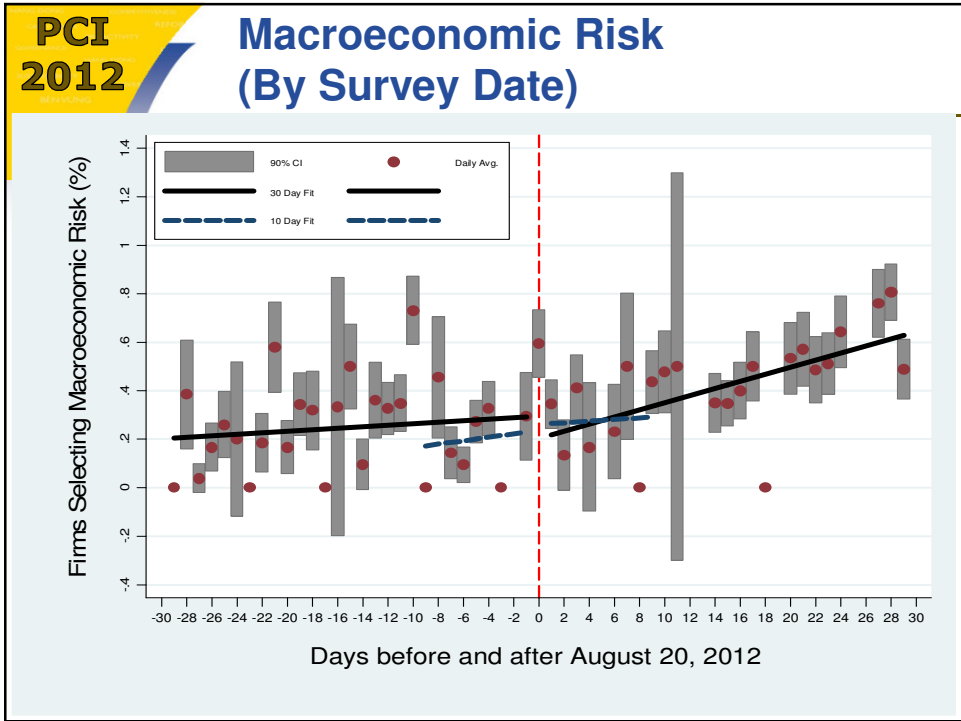
- a) Macroeconomic risk (changes in price stability and growth that affect business prospects).
- b) Expropriation risk (the loss of business premises, property, or equipment to host government).
- c) Contract risk (breach of contract by business partners, such as suppliers or customers).
- d) Regulatory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

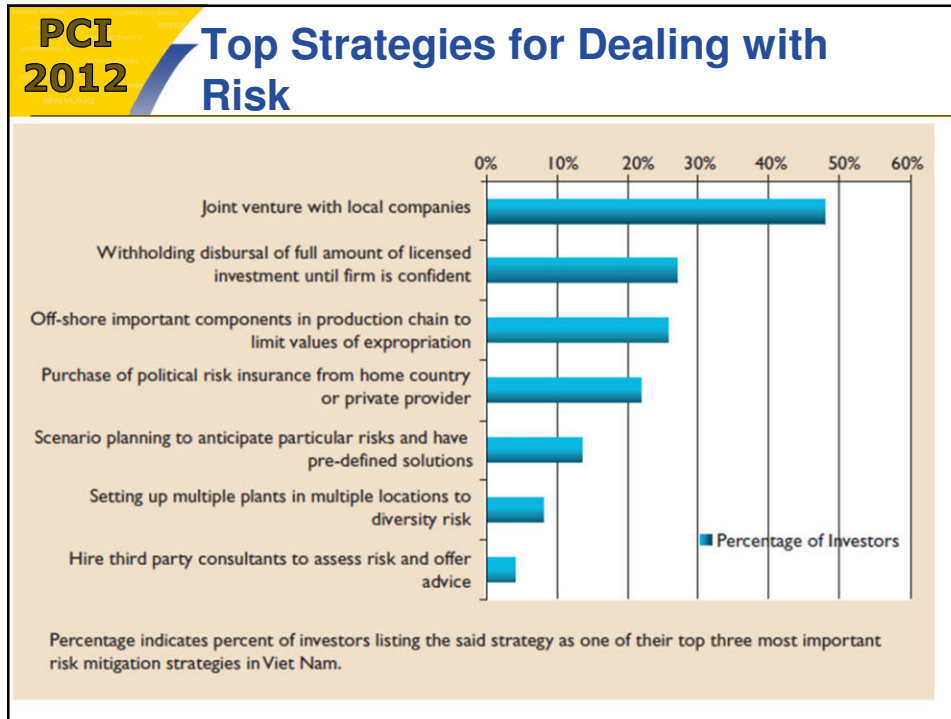
What Worries FIEs about Vietnam?



PCI 2012 **Change in Risk Perception after Aug. 20th**

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





PCI 2012 **Survey Experiment to Measure Policy Risk**

- Randomized hypothetical legal change to gauge differences in firm reactions to changes in domestic content requirements OR new licenses.
 - Question J5 of the risk module presented respondents with one of the following two versions of hypothetical unforeseen events
- **Event A** — The government suddenly **increased domestic input requirements** in the respondent's industry, which would limit the respondent's ability to purchase intermediate goods from overseas and reduce its annual revenue by about **10 percent**.
- **Event B** — The government suddenly **instituted a new license requirement**. The license would only cost a marginal fee, but it must be renewed annually, requiring a visit to a provincial official and a 30-day wait.

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List Experiment to Gauge Corruption

- Known officially as the *Unmatched Count Technique*, the strategy is derived from the social psychology and public health literature.
- Goal is to learn information about sensitive questions that respondents are reluctant to share, as it may be illegal or embarrassing.
- How do you do it?
 - Sample is randomly divided into two groups.
 - One half receives a question with a list of innocuous but relatively infrequent action items.
 - A second half receives a list of the same items, plus an additional sensitive question.
 - Both samples are invited to count the number of activities they participated in.
 - The proportion engaging in sensitive behavior can be estimated by comparing the results of the two groups.
- Critically, non-sensitive items must be uncorrelated and the control group should have limited responses near the floor or ceiling of activity numbers.

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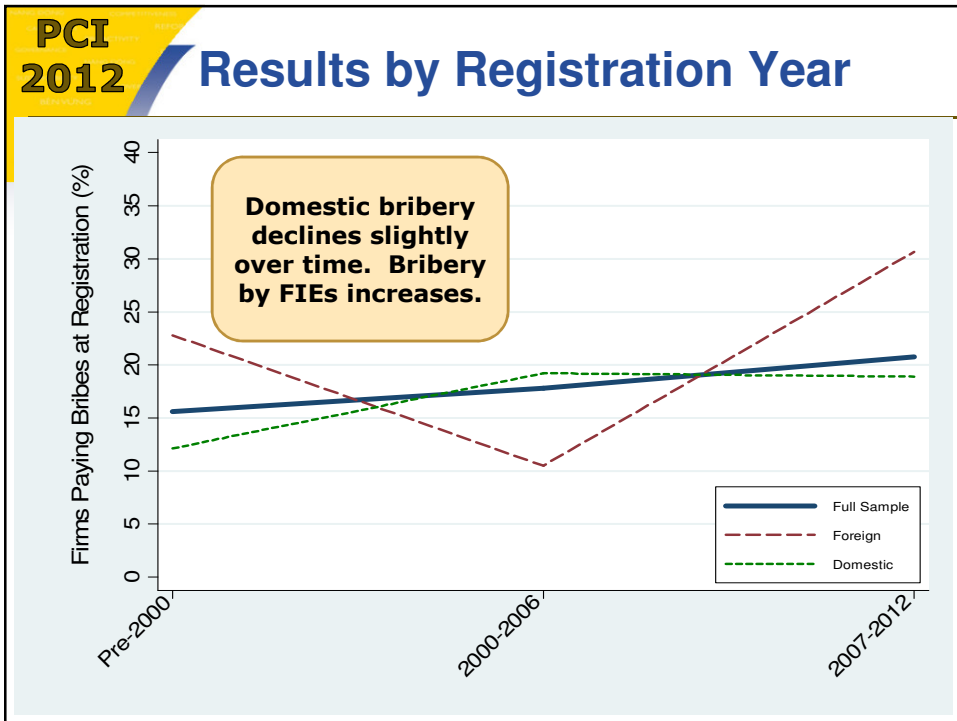
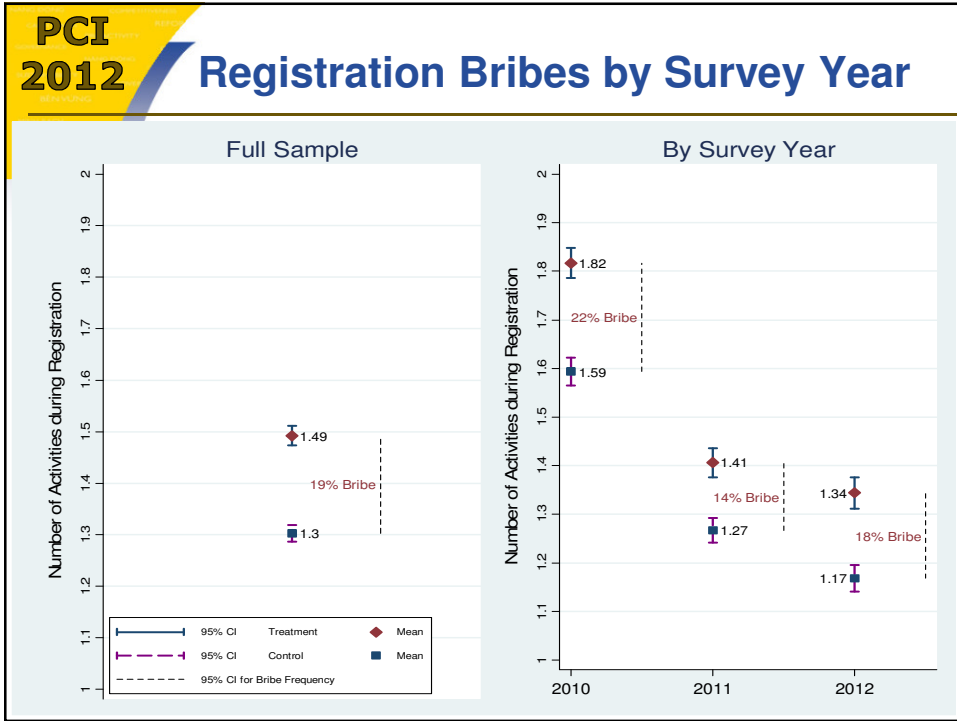
List Question #1: Registration

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

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

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

NUMBER OF ACTIVITIES: 0 1 2 3 4



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Are all FIEs Paying More?

No, bribery is concentrated in Group A sectors requiring special investment approval.

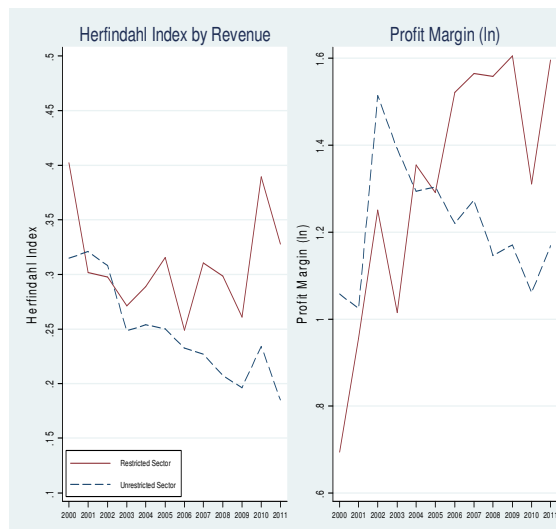
Difference in Means of Number of Activities Completed during Registration

Type	Group A Bribe Frequency (Treatment-Control)				
	Restriction	Mean	SE	T-Stat	P-Value
Domestic	No	18.8%	1.6%	12.1	0.000
Domestic	Yes	15.2%	3.4%	4.5	0.000
FIE	No	19.4%	3.4%	5.6	0.000
FIE	Yes	23.3%	7.8%	3.0	0.001

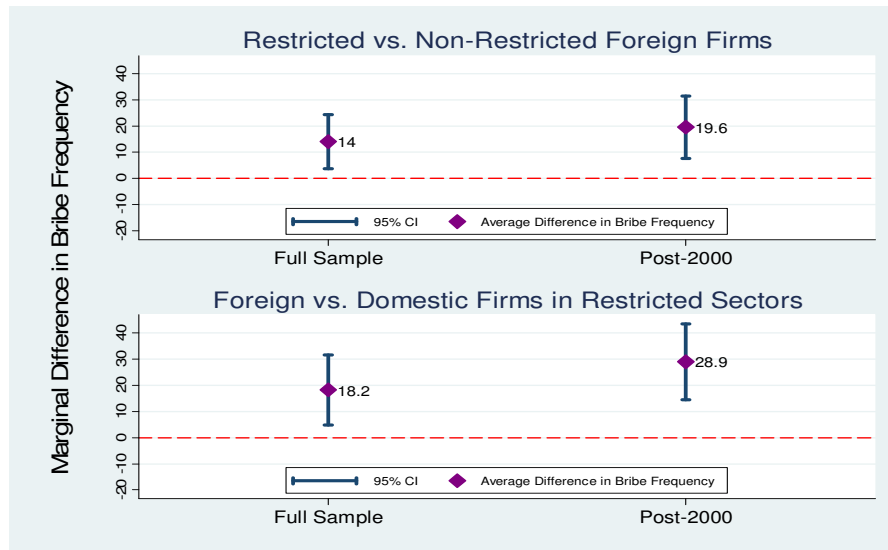


Bribery is a Two-Way Street

- Group A sectors are harder to enter, leading to malfeasance by gatekeepers.
- But Group A sectors are also highly lucrative relative to unrestricted sectors, as they create artificial monopolies.



Results of Multiple Regression Analysis (Using Specialized Model to Control for Size, Type, Age, and Other Covariates).



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Key Take-Aways

- FIE performance and confidence are at historical lows from the PCI-FDI Survey.
 - The crisis of the summer of 2012 sent a strong signal to investors that Vietnam is struggling.
 - Within 20 days, investor confidence was halved.
 - Most investors believe the crisis is macroeconomic.
 - Firms rely primarily internal mitigation strategies
- FIEs are more afraid of new licensing requirements than a 10% increases in costs caused by a domestic content requirements.

Why?

 - Licensing requirements strongly raise the opportunities for rent-seeking and reduce competition in sector.
 - FIEs in this sector can be assured of high profits, but are 20% more likely to have bribe upon entry than other FIE, and 30% more likely than domestic firms in the same sector;.

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Thank You !

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