



THE VIETNAM PROVINCIAL
**COMPETITIVENESS
INDEX**

**PCI
2015**

*Measuring economic governance
for business development*



This year, the painting Drum Beat by Henry Appiah, a Ghanaian artist has been chosen for the 2015 PCI report cover and the theme for the PCI launch. Drawing on an analogy from Vietnam lore, as the drum is beaten, cities and provinces are symbolically urged to move faster with governance reforms and quickly improve the business environment for business development. Vietnam is taking steps towards deeper economic integration - whether it develops or lags behind depends on the will and speed on the reforms in each province.



PCI2015

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FOREWORD

We are honored to announce the 11th annual Vietnam Provincial Competitiveness Index (PCI) report. This marks the third in a series of reports that is wholly administered by the Vietnam Chamber of Commerce and Industry (VCCI) with support from the U.S. Agency for International Development (USAID). We believe the endeavor represents an excellent example of international collaboration and successful development assistance, contributing both to the country's economic development and the capacity of local researchers.

In the years since its inception, the PCI has become an integral feature of the Vietnamese policy-making process. When it was originally created, the PCI sought to give voice to the thousands of private Vietnamese businesses, echoing their dreams, needs, and frustrations. While it remains true to that objective, the PCI is now used in ways we could have scarcely imagined over a decade ago. Foreign and domestic businesses look to the PCI for their relocation and expansion decisions. Local officials benchmark their governance improvements against their PCI scores, and use the rankings to identify best practices by their competitors that they can emulate and bring back to their home provinces. Central policymakers list PCI indicators as the criteria for evaluating economic reform policies. Academic researchers from around the globe employ PCI data in rigorous scientific analyses. Journalists rely on PCI data in their reporting, including both feature articles and hard-hitting investigative reports. And development practitioners use the PCI to identify and evaluate the success of their interventions.

Another sign of the increasing trust and acceptance of the PCI is the response rate to the survey itself. Including foreign investors, existing domestic firms, and new entrants, about 11,700 individual companies filled out the survey. After removing problematic addresses, this yielded almost a 60 percent response rate. Their enthusiasm for the survey is a mark of how integral a tool the PCI has become in the activities of investors. This trust is critical since, of course, the research in this report would be impossible without their candid answers.

Beyond the PCI rankings and insights into the latest developments in ten areas of economic governance within the provinces in Chapter 1, this year's report strives to be responsive to the needs identified by Vietnamese policymakers. Looking ahead to this year's legislative agenda, the PCI research team identified four priorities of Vietnamese reformers, offering tailored research to aid them in crafting their newest economic initiatives. In Chapter 2, the report offers detailed analysis on how to enhance the enabling environment for Small and Medium Size Enterprises (SMEs), which account for 98 percent of Vietnamese businesses and will be the most viable source of development and employment creation in the country's next stage of economic development. The first part of Chapter 3 builds on these findings by studying how to enhance the spillover of technology and labor productivity from the dynamic foreign investment sector to Vietnamese private companies, particularly SMEs. The second part of Chapter 3 analyzes the next generation of foreign investment reforms. Where previous reform efforts focused on attracting investment, the next set of reforms must work to reduce the post-investment risk environment. In particular, the team highlights how greater transparency and better access to

planning documents will reduce the growing regulatory risk that foreign investors have identified. Finally in Chapter 4, the report documents the perceptions and expectations of domestic and foreign firms about the Trans-Pacific Partnership in the hopes of informing the multitude of legal changes necessary to implement the comprehensive agreement.

In sum, we are confident that the *Provincial Competitiveness Index 2015* will live up to the high standards set by its predecessors. We look forward to seeing the new and creative ways stakeholders will use PCI data and analyses to inform their decisions, improve policy, and ultimately guide the Vietnamese economy into the future.

Vu Tien Loc, Ph.D.



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The PCI was developed under the overall leadership of Vu Tien Loc, Chairman and President of VCCI, and Dau Anh Tuan, General Director of VCCI's Legal Department, PCI Project Director, and benefited from assistance and input provided by Joakim Parker, USAID Vietnam Mission Director. Dr. Michael Trueblood, Director of Economic Growth and Governance for USAID/Vietnam and Le Thi Thanh Binh of USAID/Vietnam provided extensive review comments and editing support for this report as well as strong managerial support for this program.

Edmund Malesky, Professor of Political Economy at Duke University, led the development of the PCI's research methodology and was the primary author for the presentation of its analytical findings. Professor Malesky was supported by a PCI research team. Pham Ngoc Thach and Nguyen Ngoc Lan of the VCCI Legal Department were involved in the development and construction of the PCI and authored Chapters 1 and 2. Le Quoc Anh, graduate student at Duke University, authored Section 3 of Chapter 3. The PCI research and report was supported by Le Thanh Ha and Nguyen Thi Thu Hang of VCCI.

The PCI report would not be possible without a high quality survey, implemented by 50 students under the management and coordination of Nguyen Le Ha and Nguyen Hong Vuong of VCCI. We would also like to thank Bui Linh Chi, Nguyen Vu Quy, and Nguyen Dieu Linh of VCCI for their effective assistance and support to the 2015 PCI report.

This year we would like to express our gratitude to Henry Appiah, Ghanaian artist, for granting us the permission to use his painting Drum Beat as the major theme of the report design.

Special thanks go to our team whose efforts contributed to the development of the PCI methodology. These experts included Madam Pham Chi Lan, Senior Economist; Dr. Le Dang Doanh, Senior Economist; Dr. Dang Quang Vinh, Researcher, Central Institute for Economic Management, Ministry of Planning and Investment; Vu Quoc Tuan, Chairman of Advisory Council, Vietnam Craft Village Association; Tran Huu Huynh, Chairman, Vietnam International Arbitration Center; Phan Trung Can, Director, Binh Thuan Center for Small- and Medium Enterprise Assistance; Do Hai Ho, Director, Hoa Binh Department of Foreign Affairs; Dr. Vo Hung Dung, Director, VCCI Can Tho; Nguyen Phuong Lam, Vice-Director, VCCI Can Tho; Nguyen Cuong, Director and Nguyen Dien, Vice-Director, VCCI Da Nang; Pham Binh An, Director, WTO Center in Ho Chi Minh City; Nguyen Van Thoi, Chairman, Thai Nguyen Business Association of Enterprises; Dr. Nguyen Van Thang, Director, Asia-Pacific Institute of Management, National Economics University; Nguyen Minh Phong, Deputy Director, Committee of Propaganda, People's Daily; Nguyen Van Hung, Da Nang Institute of Research and Development; Le Duy Binh, Director, Economica Vietnam and Phan Nhat Thanh, Head of Economic Sector Department, Hai Duong Department of Planning and Investment.

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ABBREVIATIONS AND ACRONYMS

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CI	Confidence Interval
CIT	Corporate Income Tax
DCI	District Competitiveness Index
DONRE	Department of Natural Resources and Environment
DPI	Department of Planning and Investment
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
GSO	General Statistics Office
GDT	General Department of Taxation
HCMC	Ho Chi Minh City
HR	Human Resources
IPA	Investment Promotion Agency
IQR	Interquartile Range
ISIC	Industrial Classification Codes
IZ	Industrial Zones
JV	Joint Venture
LURC	Land Use Rights Certificate
MPI	Ministry of Planning and Investment
OECD	Organization for Economic Cooperation and Development
OSS	One-Stop-Shop
PCI	Provincial Competitiveness Index
RRT	Randomized Response Technique
SPS	Sanitary and Phytosanitary
SMEs	Small and Medium Sized Enterprises
SOEs	State-owned Enterprises

TBT	Technical Barriers to Trade
TI	Transparency International
TPP	Trans-Pacific Partnership
UCT	Unmatched Count Technique
USA	United States of America
USAID	United States Agency for International Development
USTR	United States Trade Representative
VAT	Value Added Tax
VCCI	Vietnam Chamber of Commerce and Industry





EXECUTIVE SUMMARY

SUMMARY OF CHAPTER 1: THE SURVEY OF DOMESTIC INVESTORS AND THE 2015 PCI

The 11th Provincial Competitiveness Index (PCI): The PCI is designed to assess the ease of doing business, economic governance, and administrative reform efforts by Vietnam's provincial and city governments in order to promote private sector development. The 2015 PCI is the 11th iteration of the report. The report is based on a rigorous survey of the perceptions of domestic firms. The PCI augments the collective voice of private entrepreneurs in Vietnam regarding economic governance in their province and the country.

What Does the PCI Measure? The overall PCI index score comprises ten sub-indices reflecting economic governance areas that affect private sector development. A province that is considered to perform well on the PCI is the one that has: 1) low entry costs for business start-up; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable business information; 4) minimal informal charges; 5) limited time 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) developed and high-quality business support services; 9) sound labor training policies; and 10) fair and effective legal procedures for dispute resolution.

Brief Methodology: The PCI is constructed in a three-step sequence, referred to as the "three Cs": 1) collect business survey data and published data sources, 2) calculate ten sub-indices and standardize them on a 10-point scale, and 3) calibrate the composite PCI as the weighted mean of ten sub-indices with a maximum score of 100 points.

Sampling: Firms are selected using random sampling to mirror provincial populations. Stratification is used to make sure that firm age, legal type, and sector are accurately represented.

Sample Size: The sample size is 8,335 with a response rate of about 30 percent. When businesses with incorrect addresses and closed businesses are excluded, the true response rate is about 60 percent.

Newly Registered Firms: This year, the PCI included a random sample of 1,823 newly registered firms in order to offer a more precise gauge of registration procedures in the country.

Brighter Business Prospects in 2015

Rising Growth: The PCI 2015 survey revealed signs of a positive business environment. About 10.9 percent of domestic firms planned to increase their operations after two years at a historical nadir. Inflation-adjusted average investments rose to VND16.5 billion (\$737,000), the highest level in ten years, and well over twice the amount recorded in 2006. The number of firms adding employees also almost rose to 12 percent, double the record low levels of 2012.

Increased Business Confidence: In 2015, nearly half the firms (49 percent) expected to expand their businesses in the next two years, an increase from 46 percent and 33 percent reporting such plans in 2014 and 2013, respectively.

The 2015 Provincial Competitiveness Index (PCI)

The Median PCI Score remains stable: This year, the PCI score of the median province increased to 58.47, statistically equivalent to 2014 but a significant improvement over 2013. Compared with previous years, the score gap between the provinces has increased, marking the first increase in score variation in many years. This may be a sign of top provinces trying harder to reform as Vietnam enters a new period of global integration.

For instance, Da Nang experienced the highest increase in their PCI scores since 2012 (1.5 points). Meanwhile, the score of the lowest-ranked province fell by more than 1 point, returning to the 2013 level (48.9 points).

Da Nang Again Tops the Rankings: In 2015, Da Nang continued its reign as the top performing province with a PCI score of 68.34. A key contributor to this score, especially in transparency, transaction cost reductions, and proactivity, is the new Center for Public Administration, which was established in September 2014. The Center, which coordinates local policy and serves as an information clearing house, has proven to be effective in saving time, effort and money for the people, businesses and public officials.

Other Excellent Provinces: Following Da Nang are the two provinces of Dong Thap (66.39 points) and Quang Ninh (65.75 points). Both provinces have been consistently high performers in the PCI and also demonstrate unique innovations in streamlining local regulatory practices and enhancing the transparent evaluation of personnel involved with the local business sector. Vinh Phuc and Lao Cai, consistent top performers, round out the top five.

Changes in Provincial Governance over Time

Specific Policy Improvements: In 2015, the most significant improvements were again observed in the area of entry costs, followed by transparency, business support services, and regulatory reform. Specific policy advances include:

- **Entry:** Shorter waiting periods for businesses to be fully operational with median registration wait times dropping to a new low of eight days. Wait times for altering a registration certificate dropped to a new low of five days, two full days below the previous score.
- **Transparency:** Access to provincial planning documents, such as land use maps and infrastructure maps, significantly improved. The average openness scores of provincial websites achieved the highest increase in three years (30/54 points), as the electronic portals of the provinces and cities have gradually become a useful channel to provide businesses with information. Accordingly, the proportion of private firms accessing the provinces' websites and electronic portals also dramatically increased to 72 percent from 64 percent in 2014.
- **Transaction Costs:** Post-registration regulatory burden was reduced with firms documenting less paperwork, fewer offices to visit, high quality civil servants, and more professional receptions. This was especially true of tax inspections, where the time lost for firms has dramatically fallen from 8 hours to 4.5 hours on average, the lowest level in the last 3 years.

Governance Areas in Need of Improvement: The PCI 2015 survey showed worrisome stagnation in reducing informal charges and creating a fair playing field for private sector competition.

- **Informal Charges:** The percentage of firms paying informal charges went up in recent years from 50 percent (2013), to 64.5 percent (2014) and 66 percent in 2015. Over 11 percent of firms indicated that they have spent more than 10 percent of revenue on these charges alone, a slight increase from 2014 (10 percent). Meanwhile, 65 percent of respondents agreed with the statement "the government officials causing troubles when processing procedures for businesses is common."
- **Policy Bias:** In the median province of PCI 2015 survey, 39 percent of respondents said the favoritism of provincial authorities towards state corporations caused difficulties to their firm's business, recording a statistically significant increase of four percent compared to 2014.

The 2015 PCI Infrastructure Index

Method: The Infrastructure Index ranks provinces along four dimensions: 1) industrial zone availability and quality; 2) road quality; 3) utility costs and stability; and 4) information and communications technology.

Performance: Binh Duong, Da Nang, Dong Nai, Vinh Phuc and HCM City were the five provinces rated as having with the best overall infrastructure.

Comparing the PCI ranking with the Infrastructure index, we can see that many localities know how to overcome the limitations of poor infrastructure with good governance and by creating an enabling business environment, while other provinces failed to uphold their advantages to further attract investment by creating a business environment that is more friendly and favorable to enterprises.

SUMMARY OF CHAPTER 2: ANALYSIS OF SMALL AND MEDIUM SIZED ENTERPRISES

Small and Medium Size Enterprises (SMEs) account for the major proportion of Vietnam's total business population. According to the White Book on Vietnam's SMEs published by Ministry of Plans and Investment (MPI) in 2014, 97.6 percent of enterprises in Vietnam are SMEs by the labor scale. Moreover, this sector private sector occupies a crucial position in the economic development of the country. Not every location is capable of attracting mobile investment, so most countries and provinces with them must grow indigenous businesses so that their economy functions well. As remarkable examples, economies such as Poland, Chile, Taiwan and Ghana have shown that SMEs can be the engine of economic growth in emerging markets. Thus, it is imperative that Vietnam facilitate and create a friendly, enabling environment for the development of SMEs.

To this end, 2015 PCI report reserved a chapter to reflect on the opinions of SMEs on business environment in order to contribute to the drafting process of the Law on Supporting SMEs. A more detailed report on the difficulties that SMEs are facing will be completed and published within 2016 as part of a joint effort of VCCI and USAID for the development of Vietnam's SMEs community. The findings of the 2015 PCI survey generate a complete picture of the life span of SMEs from startup to a fully operating business.

Overall Picture of Vietnamese SMEs

Origins as Household Business: A large portion of Vietnam's private enterprises were formerly household businesses that later incorporated when they found opportunities to grow. The PCI 2015 survey showed that 77 percent of micro-size enterprises and 69 percent of small-size firms were formerly household businesses.

Qualified Managers: The qualifications of SME owners remained high and diversified. Nearly 60 percent of SME owners are college graduates. Some used to be leaders of state agencies (three to five percent); some used to be managers of State Owned Enterprises (SOEs) (8-11 percent), and some used to work for SOEs (about 14-15 percent).

Reliance on Domestic Sales: The customer base of SMEs is mostly domestic. Only three percent of micro-size, four percent of small-size, and nine percent of medium-size firms have customers that are foreign individuals or enterprises. Even the big domestic enterprises have a very modest share (24 percent) of their primary customers in foreign markets. This result helps to explain why FIEs contributed 70.7 percent of Vietnam's total export value in 2015. Vietnam's domestic enterprises are recommended to get better prepared to take advantage of upcoming new trade agreements (Euro-Vietnam Free Trade Agreement (EVFTA) and the Trans-Pacific Partnership (TPP)).

Difficulties That SMEs Face When Seeking to Increase Their Scale

Poor Market Opportunities: SMEs' anticipation of market, profit, and enterprise-specific support services from local authorities have not been reached in reality. 20 percent of micro-size, 14 percent of small and medium-size enterprises remarked that the market opportunities are worse than initial expectations, while the figure for large enterprises is only 6 percent. About 32 percent of micro-size enterprises, 29 percent of small and medium-size enterprises found the competition in the market worse than expected, while only 22 percent of large enterprises shared the same view.

Relatively Poor Performance: The performance of SMEs in 2014 was much worse than that of large ones. The number of firms operating in the red with business losses was relatively high: 32 percent of micro-size, 17 percent of small, and 16 percent of medium-size enterprises reported losses while only 10 percent of large enterprises did.

More Pessimistic: Only 43 percent of micro-size and 54 percent of small-size enterprises intend to increase the size of operations within two years, indicating a low level of optimism compared with 66 percent of large-size enterprises.

Worse Assessments of Governance: Assessing the provincial business environment in 2015, SMEs' perceptions are more negative than those of large enterprises in several areas such as land access, transparency, policy bias, and business support services:

- For example, 87 percent of small and micro-size enterprises have land or business premises, but only half of them own Land Use Right Certificates (LURCs). Only 22 percent of micro-size, 24 percent of small-size and 29 percent of medium-size enterprises reported that the security of their business premises is high or very high, compared with 31 percent of large firms.
- 75 percent of SMEs confirm that they have to count on their relationships with individuals at state agencies to have access to information. 54 percent of them see negotiations with tax authorities on the payment amount as an important part of doing business.
- About 65 percent of SMEs report paying informal charges as a common practice.
- SMEs cannot access business support services. Only 20 to 30 percent of them acknowledged using these services. SMEs' awareness of business incentive policies offered by central and local offices is much lower (51 to 61 percent) than that of large firms (77 percent).

Business Obstacles for SMEs

Inspections: Up to 74 percent of firms received visits from inspection delegations in the past year. A worrying issue is visible: the bigger the firm is, the bigger the burden of inspection. SMEs receive one or two inspections per year. For large firms, the number is up to three. Furthermore, 25 percent of micro and small and 30 percent of medium enterprises were subject to duplicative inspections from agencies studying the same issues.

Administrative Burden Increase in Accordance with Firm Size. While 54 percent of micro firms and 49 percent of small firms agree that "paperwork is simple," there are some fields in which administrative procedures are regarded as more troublesome as firm size increases. These include: social insurance, land, tax, customs, fire safety, labor, environment protection, and payment clearance through state treasuries.

Policy Implications

SMEs are beset by obstacles, including limited access to such resources as land, capital, policy information and laws, burdens of informal charges, the poor quality of business support services with unreasonable prices. The report shows a worrying trend that as firms grow bigger they face greater burden of administrative procedures as well as inspections from local authorities.

In order to promote the development of SMEs in Vietnam, related policies and laws should aim at addressing difficulties these firms are facing and lifting the barriers that prevent them. In particular:

- Formulate policies that cater to the practical needs of SMEs during their development stages. Particularly, they crave assistance in starting and keeping a business running that includes policies on access to capital, land, and potential providers, as well as detailed guidance in regulation and administrative procedures.
- Increase the effectiveness of communication about policies and laws related to SMEs. Information about planning in cities and provinces should be frequently updated on cities' and provinces' websites with detailed and accessible information for SMEs.
- Improve the quality of business support services, defining the beneficiary as SMEs. Local authorities should withdraw from directly providing these services and give room for business associations or private agencies to step in. State agencies should concentrate on policy-making and quality control of services.
- Reduce the burden and better coordinate inspections, so most take place at the same, limiting the distractions for business.
- Simplify administrative procedures so they are understandable and accessible for enterprises and citizens. In particular, procedures should be more focused and streamlined related to social insurance, land, taxes, customs, fire safety, labor, and payment clearance through state treasuries.
- Finally, establish policies and laws with more systematic collaboration among both central and local ministries, sectors and agencies. In the interim, frequent exchanges with the business community are necessary to understand the real expectations and needs of SMEs.

SUMMARY AND KEY FINDINGS FROM CHAPTER 3: THE FOREIGN INVESTMENT SURVEY

The Sixth Annual Survey of Foreign Direct Investors (FDI) in Vietnam. The PCI-FDI survey covers a highly representative selection of 1,584 businesses from 43 countries whose operations are located in the 14 most economically developed provinces. While the PCI-FDI survey is not the only survey of foreign investment in Vietnam, it is the largest and most comprehensive assessment of this nature.

Optimism Among Foreign-Invested Enterprises (FIEs) Continues. Eleven percent of FIEs increased their investments in existing operations and 62 percent added new employees to their payrolls. The employment increase is the largest recorded in the PCI-FDI survey in five years.

Better News on the Horizon. Looking ahead to the next two years, according to the Business Thermometer, a question gauging prospective expansion plans, optimism appears to be rising rapidly. Just under half of the businesses in the PCI-FDI sample intend to increase the size of their operations.

Characteristics of FIEs: As we have reported in previous years, the typical FIE in Vietnam remains relatively small, export-oriented, and operates a low-margin business that is subcontracting to a larger multinational producer—and is therefore usually situated among the lowest nodes of a product's value chain. Reflecting the data on registered FDI, the vast majority of firms are from Asia, particularly, Japan, Korea, Taiwan, Singapore, and China.

Analysis of Domestic Contracting: FIEs are important contributors to employment, industrial output, and exports in Vietnam. Despite these gains, Vietnam has still not benefitted as much from investment inflows as the huge numbers on its balance of payments sheet imply. Nearly 30 years after its foreign investment law, the formal business connections between foreign and domestic investors remain small. As a result, Vietnamese domestic firms have not seen the technology and labor productivity spillovers that come with close cooperation with foreign partners. This is particularly true of the high-technology sector, where policymakers would like to see domestic private firms advance.

Change appears to be on the horizon. The number of FIEs contracting with domestic private firms has increased dramatically over the past two years. Major differences are apparent, however, across provinces, sectors, and countries of origin. Manufacturing firms in high-tech sectors are far more likely to import inputs from their home markets.

Three factors are responsible for the differences: **backward linkages** in sourcing, **geographical proximity** between FIEs and domestic firms, and **absorptive capacity** of firms and workers.

- **Linkages:** To improve spillover, Vietnam would benefit most from education improvements that enhance the capacity of its labor force and technological sophistication of domestic enterprises.
- **Proximity:** The strong effect of geographical proximity indicates that the current predilection of policymakers for industrial zones may inadvertently undermine spillover potential.
- **Absorptive Capacity:** Without basic enhancements in absorptive capacity, lucrative tax breaks and subsidies will likely continue to prove less effective than officials would prefer.

Vietnam's Competitiveness in Attracting New Foreign Direct Investors

Just about half of the FIEs currently in Vietnam considered other countries (most commonly, China (27.9 percent), Thailand (21.2 percent), and Indonesia (12.6 percent) before selecting Vietnam as their ultimate destination. Each of these has increased above last year and has nearly doubled from 2013.

Of investors considering other countries, 83 percent selected Vietnam over the competition, while 17 percent invested in Vietnam as part of a multi-country investment strategy.

Firms that considered other locations rates Vietnam's strengths as **lower tax rates, lower expropriation risk, higher opportunities policy influence, and lower policy uncertainty** than its peers.

The same firms evaluate Vietnam to be significantly less attractive when it comes to corruption, regulatory burdens, quality of public services (such as education, health care, and utilities), and the quality and reliability of infrastructure.

Risk Perceptions of Existing Foreign Direct Investors

Existing investors see Vietnam as a safe place to do business relative to other locations they have operated in or considered investing in. Sixty-five percent of FIEs perceive Vietnam as less risky and 30 percent rank it equally with its competitors. This represents a significant improvement over 2013.

FIEs are primarily concerned about two major types of risk:

- First, the majority of investors fear **macroeconomic risk** caused by changes in international or domestic finance. Vietnamese policymakers have taken a number of steps to mitigate these risks since 2010, but the perception is still quite pronounced in the investment community.
- Second, investors fear **regulatory risk**, caused by changes in regulations or taxes that reduce profitability. This risk has risen to recent prominence since 2014. Further analysis reveals that the major drivers of concern over this risk are not entry requirements, but post-entry regulatory burdens and business inspections.

About 70 percent of FIEs now report that they spend over five percent of their time dealing with bureaucratic procedures. Moreover, while median inspections are quite low by international standards (about 2 per firm), some FIEs report undue harassment with over ten inspections per year. Fear of such targeting has kept FIEs doing business in Vietnam alert.

The Benefits of Access to Information: As the Vietnam National Assembly considers the draft Law on Access to Information in its upcoming session, it should keep in mind the enormous benefits of transparency for FIEs. Greater transparency has several effects: 1) reduces the transaction costs of acquiring businesses; 2) allows for smarter and more targeted investments; 3) reduces risks and investment mistakes; 4) constrains malfeasance by local bureaucrats; and 5) increases equity and reduces entry barriers.

Ultimately, relatively simple changes in local governance can result in expanded investment, innovation, and growth in the foreign investment sector. Unfortunately, Vietnam has not been able to fully reap the benefits of FDI, because access to information – particularly key documents pertaining to local budgets and planning – actually appears to be worsening over time. FIEs report more difficulty acquiring the information, greater dependence on personal relationships and connections to obtain it, and lower quality information when they do find it.

SUMMARY AND KEY FINDINGS FROM CHAPTER 4: FOREIGN AND DOMESTIC PERCEPTIONS OF THE TRANS-PACIFIC PARTNERSHIP

In this final chapter, we return to our analysis of the Trans-Pacific Partnership (TPP) Agreement, begun last year, in order to investigate whether firms' views of the agreement have changed as the negotiations have ended and the final form of the agreement seems clear.

The final TPP Agreement was concluded on October 5, 2015 after seven years of negotiations between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The 12 TPP countries signed the agreement on February 4th, 2016, officially starting the two year ratification process for all countries.

Taking advantage of the PCI and PCI-FDI surveys, we tracked the views of businesses operating in Vietnam, probed their knowledge of the agreement, assessed their general support for the TPP as well as support for specific issue areas, and examined their predictions about the impact of this landmark pact on their businesses,

and even measured their advisory interactions with government officials and negotiators. The key points to take away from our analysis are:

Awareness of and support for the TPP remain generally high among all parties, and both have increased on average as firms have learned more about what is included in the TPP agreement. Average awareness increased from 68 percent in 2014 to 78 percent in 2015, while average support increased 62 percent to 72 percent.

- Both awareness and support were enhanced between two and three percentage points by increased certainty that the United States would ratify the agreement and uphold the terms of the negotiations, indicating that access to the U.S. market is an important part of firms' calculations about the TPP's benefits.
- Domestic firms demonstrated the lowest awareness of the TPP in 2015 (77 percent), compared to 86 percent among foreign members and 82 percent among foreign non-members.
- By contrast, domestic firms express the greatest overall support for the TPP (73 percent), compared to its 67 percent favorable ratings among FIEs from TPP members and 65 percent advocacy among foreign firms from non-TPP member countries.

Distributional Effects: Aggregate support conceals substantial concerns about the distributional effects. Comparing responses from domestic firms in sectors cited as potential winners by economic analysts with those from businesses cited as potential losers, demonstrates that the latter were far less knowledgeable about the provisions of the TPP and even less likely to support its passage. Further sub-dividing by export orientation illustrates that export-oriented firms in projected winning sectors diverged considerably from other domestic firms in terms of their levels of awareness and support. This finding has critical policy implications. The firms most likely to be harmed by the TPP are those that are the least aware of this agreement

Specific Articles: A majority of domestic and foreign firms remain positive about all provisions of the TPP, including market opening and behind the border reforms, such as the labor rights and SOE chapters.

The level of support for specific provisions of the TPP differed across types of firms:

- **For domestic firms**, support declined for four provisions that were tested: 1) market access; 2) investment; 3) labor; and 4) SOEs. Declines were extremely pronounced for domestic-oriented firms in losing sectors, but small declines were also visible among export-oriented firms as well.
- **For FIEs from TPP-member states, domestic-oriented enterprises** showed marginal increases in support for every provision of the agreement, and significant increases in support for the investment provisions.
- By contrast, **exporting foreign firms from TPP-member states** show stable support for the trade openness provisions, but demonstrably less support for the investment and behind the border chapters.
- **For FIEs originating in countries not party to the TPP**, opinions of domestic-oriented enterprises toward the trade pact have remained stable, but there is increasing negativity observable among export-oriented operations, which must pay the transaction costs of the agreement without a corresponding increase of opportunities stemming from expansion of domestic market openness.



DOMESTIC PRIVATE SECTOR SURVEY AND PROVINCIAL COMPETITIVENESS INDEX 2015

The year 2015 ended with many outstanding outcomes for Vietnam. Of the 10 most remarkable facts selected by the press, it was noteworthy that Vietnam's GDP growth rate reached 6.68 percent,¹ the highest level in 5 years. The consumer price index (CPI) was stabilized to an increase of only 0.63 percent compared to 2014, marking the lowest rate in 14 years. These figures indicate that the measures adopted by the government to ensure macroeconomic stability and inflation control proved effective. The number of newly established businesses rose to 94,754, with a total registered capital of 601.5 trillion Vietnamese dong (VND) (\$27 billion); the capital increase of the businesses with changes in their registration also rose to 851.0 trillion VND (\$38.2 billion), which is significantly higher than the previous year.² This reflects the expectations and confidence that the business community has in the country's development potential in the future. It is now apparent that green shoots are growing and Vietnam is recovering from its downturn.

The prosperity of the business environment in Vietnam over the past year was also depicted in perceptions of the private enterprises that answered the Provincial Competitiveness Index (PCI) 2015 survey. Accordingly, the ratio of firms with increased investment as well as added employees increased slightly to 10.9 percent and 12.0 percent, respectively. With 16.5 billion VND (\$737 thousand), the average inflation-adjusted capital size of enterprises in 2015 reached a new high in the 11-year history of the PCI.

¹ Online Newspaper of the Communist Party of Vietnam, 2015. "10 Outstanding Events in 2015" <<http://dangcongsan.vn/thoi-su/10-su-kien-noi-bat-nam-2015-364763.html>>

² Vneconomy, 2015. "10 Outstanding Socio-economic Events in 2015". <<http://vneconomy.vn/thoi-su/10-su-kien-kinh-te-xa-hoi-noi-bat-nam-2015-20151231113649915.htm>>

Table 1.1 Performance of Domestic, Private Firms over Time

Year	Firms Increasing Investment (%)	Average Investment Size (Billion VND)	Firm Adding Employees (%)	Average Size (Employees)	Firms Reporting Profits (%)	Firms Reporting Losses (%)
2006	27.6	7.25	22.0	31.61	77.5	10.8
2007	27.1	8.10	20.9	33.16	81.1	9.3
2008	29.3	10.20	21.6	40.57	82.3	8.7
2009	15.4	12.02	12.3	45.91	69.2	19.9
2010	22.1	12.72	17.1	47.63	74.9	16.0
2011	14.1	12.16	11.2	45.44	72.9	14.4
2012	6.4	11.11	6.0	26.33	58.9	21.9
2013	6.4	14.86	6.2	28.95	64.3	20.8
2014	10.8	15.09	11.5	26.83	60.3	26.4
2015	10.9	16.53	12.0	26.63	63.1	24.1

In particular, two indicators of firm performance revealed positive signs. According to the PCI 2015 survey, the ratio of firms reporting profits rose slightly to 63 percent from 60 percent last year. While the percentage of firms reporting losses hit a record high of 26 percent in 2014, the proportion dropped to 24 percent for this year. For the first time in five years, the percentage of firms reporting losses showed signs of leveling off.

Members of the business community expressed more optimism about their business prospects over the next two years Given this growth, members of the business community expressed more optimism about their business prospects over the next two years. For the past 11 years, the PCI survey has asked whether firms plan to increase their size of operations. We call this the PCI Business Thermometer, as it is a clean gauge of optimism and business outlook. This year, the business community showed somewhat stronger confidence in the economic prospects of the country. Nearly half the firms (49 percent) expected to expand their businesses in the next two years, which is three percentage points higher than last year's 46 percent. This is also the highest level of this indicator over the past five years of the PCI survey (Figure 1.1). Forty-four percent of firms said they would continue to maintain their current operation scale while fewer than 7 percent planned to reduce their size or close and dissolve their business.

Figure 1.1 PCI Business Thermometer (over Time)



1.1 PROVINCIAL ECONOMIC GOVERNANCE UNDER THE PCI 2015 SURVEY

Snapshot of Provincial Economic Governance over Time

2015 marks the 11th year of collaboration between the Vietnam Chamber of Commerce and Industry (VCCI) and the United States Agency for International Development (USAID) to produce the Provincial Competitiveness Index (PCI).

As observed by the research team, the PCI provides high quality assessments of provinces and cities and serves as a reflection of provincial governance quality. After initial doubts and criticisms, the provinces have proactively acted to improve their business environment based on annual PCI results. Many local government leaders and officers can now use it effectively. Some even analyze and prepare detailed reports based on PCI sub-indices and indicators of their own. The PCI is utilized by many provinces to measure the improvement in their economic governance over time, thereby putting forward proper action plans. As far as we know, between April and July 2015, eight provinces, including Tra Vinh, Kien Giang, Hoa Binh, Binh Duong, Bac Ninh, Tuyen Quang, Binh Thuan and Vinh Long, initiated and organized diagnostic workshops to analyze PCI results.

The District, Department Competitiveness Index (DCI) is intended to measure the governance quality of districts and local departments

The PCI methodology and approach³ have been replicated at the department and district levels by many local leaders. The District, Department Competitiveness Index (DCI) that is intended to measure the governance quality of districts and local departments has been employed from Kien Giang and Lao Cai to Vinh Phuc, Quang Ninh, Tuyen Quang, Thai Nguyen and other provinces. The implementation of this DCI in a number of provinces and cities has contributed to motivating and engaging local governments and departments to improve the provincial business environment, which was previously regarded as the responsibility of the Provincial People's Councils, Departments of Planning and Investment (DPI), and investment promotion agencies. Dialogues with businesses have been actively promoted not only at the provincial level, but also at district and departmental levels.

Most provinces have focused on PCI indicators as the basis for improving their provincial business environments

Improvement in key PCI indicators is now not just due to the provinces' own efforts but has officially become a request from the central government. It is stated in the government's 2014 Resolution 19/NQ-CP⁴ that PCI improvement shall be among the measures that local governments need to undertake to contribute to improving the business and investment environment, enhancing national competitiveness. In 2015 alone, 23 local governments⁵ issued programs and plans to implement Resolution 19/NQ-CP for the 2015 to 2016 period. Most provinces have focused on PCI indicators as the basis for improving their provincial business environments, including provinces with difficult structural conditions and poor endowments, such as Dien Bien, Bac Giang and Lang Son. In the opinion of the research team, a well-rounded approach couples the improvement of local business environments with the business and investment environment of the nation as a whole. Particularly, it is notable that 13 provinces and cities, including HCMC, Da Nang, Lam Dong, Hoa Binh, and Son La, have incorporated PCI improvement in their 2015-2020 resolutions of the Party Congress at all levels as an objective for their governments' apparatus.

The year 2015 can be viewed as the year when the spirit of good economic governance reform across the country has seen constructive new transformations not only in "star" provinces, but also at the provinces listed in the bottom tier. These positive signs allow us to hope for a brighter period of reforms in economic governance in times to come.

Provincial Economic Governance under the 2015 PCI Survey

The 2015 Provincial Competitiveness Index (PCI) continues to be a trusted voice of the business community that jointly reflects its assessment about governance quality as well as doing business in 63 provinces and cities across Vietnam. Within the PCI 2015 survey responses, 8,335 firms expressed their perceptions of all facets of the business environment in Vietnam and 1,823 newly established firms (those registered in 2014 and 2015) shared their experiences in complying with business registration procedures. For the first time since the launch of PCI report in 2005, the number of firms answering the PCI survey exceeded 10,000. If we add on 1,584 FIEs, the total number of responses rises to 11,700, a record high. This reinforces the fruitful and effective collaboration between the VCCI and USAID in raising the collective voice of domestic private firms in Vietnam, reflecting their perceptions about local economic governance and business environment. Undertaking its traditional mission, the PCI 2015 survey continues to measure provincial

³ For details of PCI methodology, see Annex 1.

⁴ Government Resolution 19/NQ-CP dated March 18th, 2014 on Improving the Business Environment and Enhancing National Competitiveness.

⁵ Statistics tracked by the PCI team.

governance in ten economic areas that have major impacts on the development of the private sector. Accordingly, a well-performing province is one that: 1) has low entry costs for business start-up; 2) facilitates access to land and security of business premises; 3) fosters a transparent business environment and equitable provision of business information; 4) limits time spent on bureaucratic procedures and inspection; 5) minimizes informal charges; 6) ensures a level playing field for all economic sectors; 7) features proactive and active provincial leadership in solving problems for enterprises; 8) possesses high-quality business support services; 9) provides sound labor training and education; and 10) offers just and effective legal procedures for dispute resolution.

This year, the report adheres to the last two years' methodology on stratified sampling, selecting indicators, weights and cut-off scores to rank provincial groups. This allowed the research team to keep track of the quality of local economic governance over time, analyze the main factors that create changes, and more closely evaluate the economic impact of governance improvements. This methodological consistency is the cornerstone of the stability of the PCI rankings over time. In Figure 1.2, the relationship between PCI 2015 and 2014 is correlated at 0.88 and is statistically significant at the 0.01 level. In other words, this year's rankings are relatively stable compared to the previous year. Once a firm knows the score of its province in a particular year, it can make fairly accurate predictions about future results, assuming the provincial reform efforts are maintained and promoted. Also, the high correlation coefficient demonstrates that the governance quality at present is conditional on hard work and continued efforts. It takes time for reform programs to be planned and implemented before the business community can really benefit.

Figure 1.2 The Correlation between PCI 2015 and 2014



1.2 THE 2015 PROVINCIAL COMPETITIVENESS INDEX

The 2015 Provincial Competitiveness Index is shown in Figure 1.3. As mentioned above, this year's PCI ranking does not show dramatic changes.

This is the third consecutive year Da Nang topped the ranking

This is the third consecutive year Da Nang topped the ranking with a score of 68.34, marking the sixth time the city has taken the lead since the first PCI analysis in 2006. Da Nang's Center for Public Administration, established in September 2014, has proved effective in saving time, effort and money for people, businesses and public officials.⁶ As evidence, the 2015 PCI survey found improvements in all indicators measuring time costs and administrative efficiency for Da Nang. The percentage of respondents in Da Nang who agreed that "our firm does not have to take many trips to obtain stamps and signatures" and "government officials are effective in processing procedures" increased from 67 percent (2014) to 70 percent (2015) and from 71 percent (2014) to 76 percent (2015), respectively.

At the same time, with the aim to build a "smart city," Da Nang has successfully developed a model that enables quick development of high-speed online services at low-cost, particularly enabling modernization of public administration and the monitoring of the activities of the state management agencies. The impact of this model has been captured in the 2015 PCI survey. All indicators measuring IT applications hit their highest levels since 2013. The score for the openness of the provincial e-portal reached 35.5 points, 3 points higher than 2013; over 39 percent of businesses also perceived good IT application at a one-stop-shop, 15 percentage points higher than 2013. The rate of access to the provinces' website soared to 87 percent, 20 and 30 percentage points greater than 2014 and 2013, respectively. With this number, Da Nang stands out as the province with the best rate of website access in Vietnam. This e-government model is so successful that it has been emulated by 17 provinces and cities across the country as of mid-2015.⁷ The reform spirit of 2014's "Year of Businesses" program⁸ continued to grow in 2015, reinforcing the reformist viewpoint that "in the long run, the development of enterprises would be the sole driving force for the development of the city in the future."⁹

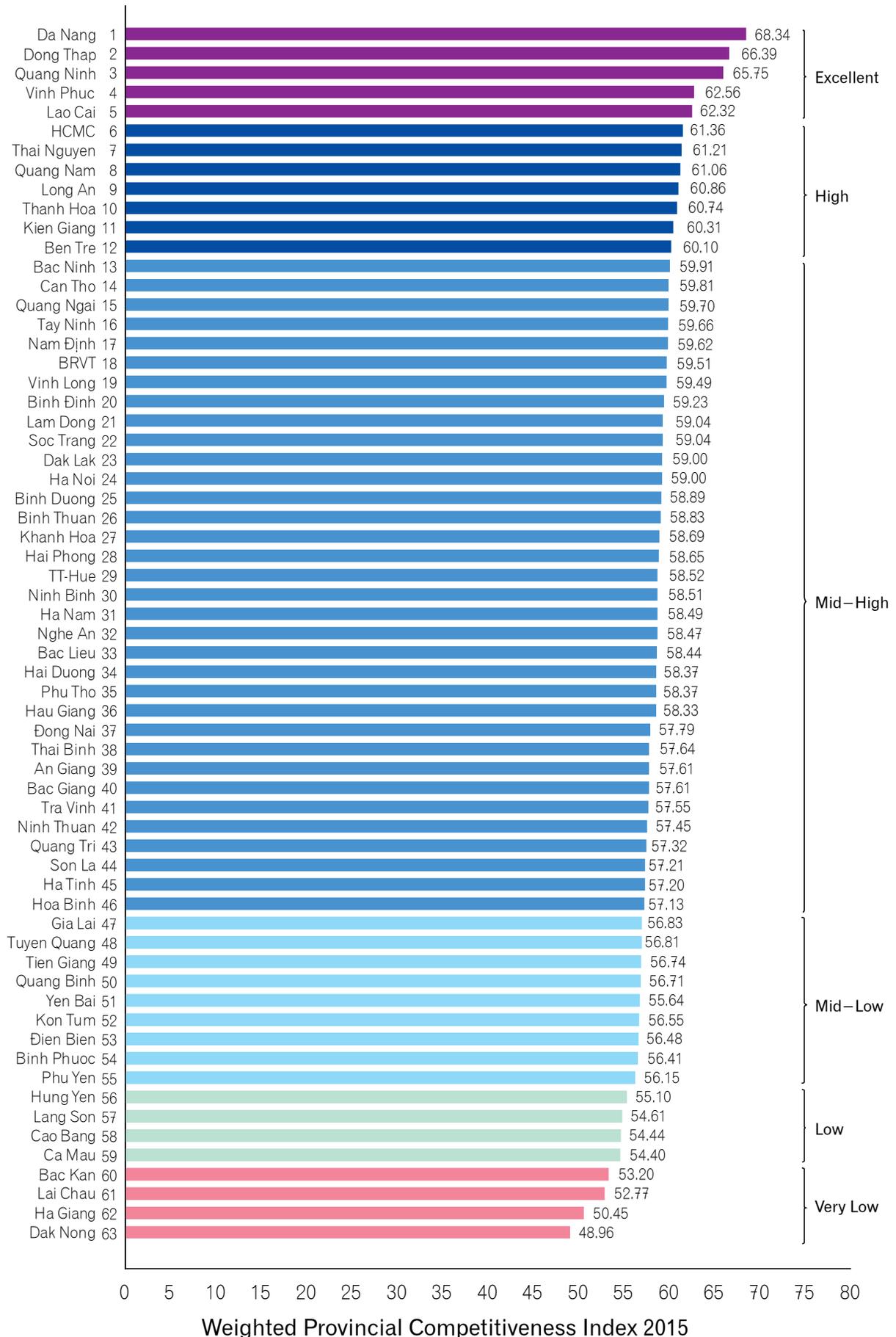
⁶ Dan Tri Newspaper, 2015. "The 2 trillion dong Center for Public Administration in the Hearts of the People in Da Nang", dated 14/11/2015, at <<http://dantri.com.vn/xa-hoi/trung-tam-hanh-chinh-2-000-ti-duoc-long-nguoi-dan-da-nang-20151114145637358.htm>>

⁷ Labor Newspaper, 2015. "The E-government Model of Da Nang is 'replicated' to 17 provinces and cities, dated 24/7/2015, at <<http://laodong.com.vn/chinh-tri/mo-hinh-chinh-quyen-dien-tu-tp-da-nang-duoc-nhan-rong-ra-17-tinh-thanh-357218.blđ>>

⁸ Da Nang is the first city to initiate the idea of "Year of Businesses." The program includes a series of activities by government agencies and departments to support the growth of local businesses and provide a business-friendly environment.

⁹ Vietnam Business Forum Newspaper, 2016. "Which Solutions for Da Nang?" dated 7/1/2016, at <<http://enternews.vn/loi-giai-nao-cho-da-nang.html>>

Figure 1.3 The 2015 Provincial Competitiveness Index



Despite being in a remote location, Dong Thap is gradually attracting more public attention due to its image as a citizen- and business-friendly place. In 2015, Dong Thap sustained its second place finish, making this the eighth consecutive year that it is listed in the top five of the PCI ranking. The province has focused its efforts on capacity building and improving the performance of the government at all levels, boosting administrative reforms toward a more friendly government. New models have been employed and implemented such as “smile at the workplace,”¹⁰ and “Friday ears for citizens’ comments.”¹¹ The Provincial People’s Committee has devised plans to reduce meetings by 30 percent, so that “the leaders of agencies and authorities would have more time to travel and interact directly with the people and businesses to help solve their difficulties.”¹² These initiatives partly explain why Dong Thap has retained its position as the country’s most proactive provincial leadership and account for business’ spending the lowest amounts of time costs for the second year in a row.

In 2015, Dong Thap sustained its second place finish

Quang Ninh ranked third in the 2015 PCI with a score of 65.75 points. This is the third consecutive year Quang Ninh is listed in the top five performers. This year, Quang Ninh achieved its highest position in both ranking and scores in the 11 years of PCI surveys. The province has made many breakthroughs over the past five years to create a business-enabling environment, including the establishment of the Center for Public Administration at provincial, district and communal levels. Quang Ninh is also launching Plan No. 25, a breakthrough political initiative to streamline the local government, enhancing transparency in the evaluation and selection of the province’s personnel.¹³ The province is also known as a pioneer in strongly promoting public-private partnerships that encourage private providers of services to act in the place of the province’s government, called the “private service provider-public user” program.¹⁴ Thanks to these efforts, the Policy Bias sub-index finds an increase of more than 1 point, from 3.7 points (2014) to 4.68 points (2015). Especially noteworthy is that the number of businesses perceiving that “contracts, land, and other economic resources mostly fall in the hands of enterprises that have strong connections to local authorities” decreased markedly in 2015 to 74 percent from 79 percent (2014) and 98 percent (2013), the lowest level in three years. As the 2014 PCI survey showed, nearly 80 percent of businesses in Quang Ninh agreed “there are good initiatives at the provincial level but they are not well implemented by departments.” In

This is the third consecutive year Quang Ninh is listed in the top five performers

¹⁰ The model that encourages local government officials at all levels in the province to be more friendly and supportive when handling administrative procedures for businesses and citizens. The People’s Newspaper online, 2015. “Dong Thap to Build a Friendly Government to Serve the People” <<http://www.nhandan.com.vn/chinhtri/item/28382902-dong-thap-xay-dung-chinh-quyen-than-thien-phuc-vu-nhan-dan.html>>

¹¹ The idea was initiated by Mr. Nguyen Van Phuong, Chairman of the People’s Committee of Tan Thanh Commune, Thanh Binh district, Dong Thap, in October, 2013. Every Friday, dialogues are held between local government officials and citizens to listen and address people’s problems or issues. The idea was so successful that it has been replicated in all districts and towns of the province.

¹² The People’s Newspaper online, 2015. “Dong Thap to Build a Friendly Government to Serve the People” <<http://www.nhandan.com.vn/chinhtri/item/28382902-dong-thap-xay-dung-chinh-quyen-than-thien-phuc-vu-nhan-dan.html>>

¹³ One feature of the Plan includes unifying management by building a one-level government at Co To district (i.e. the district Chief of Party will also hold the position of the Chairman of People’s Committee; the Deputy Chief of Party will take responsibility of Chairman of People’s Councils, etc.). In this way, the district government is expected to be centralized in its performance, reducing the personnel burden. Vietnam Business Forum Newspaper, 2015 “Quang Ninh’s Plan No.25: Motivation for Doi moi” <<http://enternews.vn/de-an-25-cua-quang-ninh-dong-luc-cua-su-nghiep-doi-moi.html>>

¹⁴ Under this program, many services that used to be provided by public agencies have been transferred to private suppliers: video-conferencing service for province’s meetings, management and operation of public tourism spots in Sa Vi, Mong Cai district, etc. Quang Ninh Newspaper, 2016, “Public Investment Guides and Encourage Private One- An Innovation from Quang Ninh” <<http://www.baoquangninh.com.vn/kinh-te/xuc-tien-dau-tu/201602/dau-tu-cong-dan-dat-dau-tu-tu-sang-tao-cua-quang-ninh-2297557/>>

2015, the province has employed and extended Lao Cai's model of assessing governance quality from the district level to the department level.¹⁵ This effort is expected to improve the performance of line departments and districts, especially in business-related services and administrative procedures.

The next two localities listed in the Excellent tier were Vinh Phuc (62.56 points) and Lao Cai (62.32 points). After experiencing sharp drops in the 2010-2012 period, Vinh Phuc has made distinct improvements. These successes were the result of a serious look by the province at the current situation of its governance and public administration, which contained the shortcoming of one shop with multiple stops. Based on that assessment, Vinh Phuc has been closely monitoring the settlement of administrative procedures through the "one-stop-shop" mechanism, as well as keeping a close watch on the progress of handling administrative procedures by each department and sector using software that provides monthly evaluations of how these authorities have been supporting businesses and investors.¹⁶ As a result, Vinh Phuc displayed strong improvement in its "Time Cost" sub-index. In 2015, 72 percent of businesses agreed that "government officials are effective," up by 8 percentage points compared to 2014. Similarly, the number of firms reporting "they do not have to travel many trips to obtain stamps and signatures" increases from 60 percent (2014) to 68 percent (2015). Meanwhile, Lao Cai continued to maintain its position among the top five performers in PCI 2015 by putting a great deal of effort into enhancing its proactive leadership and creating a level-playing field for businesses.¹⁷ Lao Cai, in fact, ranks third in both sub-indices.

The remaining top 10 best-governed provinces and cities in Vietnam includes Ho Chi Minh City, Thai Nguyen, Quang Nam, Long An and Thanh Hoa. In this group, Quang Nam is a new face, stepping in to the top PCI performers for the first time after being listed six times among the 15 best-performing provinces.

The positive assessments of Quang Nam's governance may result from the efforts that the province has channeled in carrying out administrative procedure reforms with the realization of the regulation on concerted implementation of the "one-stop shop" mechanism in the settlement of investment procedures. The province reduced and simplified nine procedures at the Investment Promotion and Business Support Agency. In addition, since October 2014, the province has organized monthly meetings with business representatives in an attempt to effectively solve problems for businesses.¹⁸

This year witnessed small changes in the bottom group, which takes in Dak Nong while still including such northern mountainous provinces as Ha Giang, Lai Chau and Bac Kan. Notably, these are also among the provinces that are disadvantaged with remote geographical locations and limited infrastructure. The provinces are nevertheless encouraged to work on improving their governance as relatively short-term and less costly means to become more attractive in the eyes of investors.

¹⁵ Vietnamnet, 2015. "Quang Ninh Seek Every Ways to Remove Obstacles for Businesses" <<http://vietnamnet.vn/kinh-doanh/278614/quang-ninh-tim-moi-cach-go-kho-cho-dn.html>>

¹⁶ Business Forum Newspaper, 2015. "Vinh Phuc: Focus on Removing Obstacles for Businesses" <<http://enternews.vn/vinh-phuc-tap-trung-go-kho-cho-dn.html>>

¹⁷ Business Forum Newspaper, 2015. "Lao Cai: Speed up Export Activities" <<http://enternews.vn/lao-cai-day-manh-xuc-tien-hoat-dong-xuat-khau.html>>

¹⁸ Quang Nam Investment Promotion and Business Support Agency, 2016. "Report on Implementation Results of Improving Investment and Business Environment, Enhancing Provincial Competitiveness of Quang Nam in 2015" <http://pcivietnam.org/tailieu/1_7_QuangNam_09_BCBXTDT.pdf>

Detailed Scores of Sub-Indices

Table 1.2 provides a list of the provinces that are the best performers and the worst performers in 10 areas of governance in PCI 2015. Accordingly, the provinces listed in the best performers' column look more diversified than in the overall PCI ranking. Hau Giang ranked top in the sub-index "Entry Cost" with 9.23 points. Ben Tre is rated the best in the field of "Access to Land" (7.82 points), while Soc Trang is the top performer in the sub-index "Informal Charges" (7.12 points). Bac Lieu scored highest in "Policy Bias" (7.29 points), and Kien Giang is the leader in the area of "Legal Institutions" (7.62 points). Dong Thap maintained its top position in the two sub-indices of "Time Costs" and "Provincial Proactivity."

Da Nang, champion of the PCI 2015 ranking, also "won the cup" in the two sub-indices of "Transparency" and "Labor Training." Finally, Ho Chi Minh City once again topped the list in the business support services. It is noteworthy that except for Da Nang and HCMC, the rest of the best performers on the list are in the Mekong Delta. Well-known as a dynamic area with frequent connections to share and learn good practices, for many years, the provinces in this region have assisted each other in learning best practices to improve governance, hence their consistent success and outstanding annual results.

The best performers on the list are in the Mekong Delta.

By contrast, the other end of performance on the sub-indices is populated by several provinces from the Red River Delta region (Hung Yen, Hanoi), the Northern Mountainous area (Lang Son, Ha Giang Bac Kan), the Central Coast (Ha Tinh) or the Highlands (Dak Nong). As clearly indicated in Figure 1.5, most of the provinces in these regions do not share the same high levels of governance quality, suggesting more efforts are needed by area leaders to learn and exchange good practices among provinces in the region, just like the Mekong Delta.

Table 1.2 The Best and Worst Performers in 10 Areas of Governance in PCI 2015

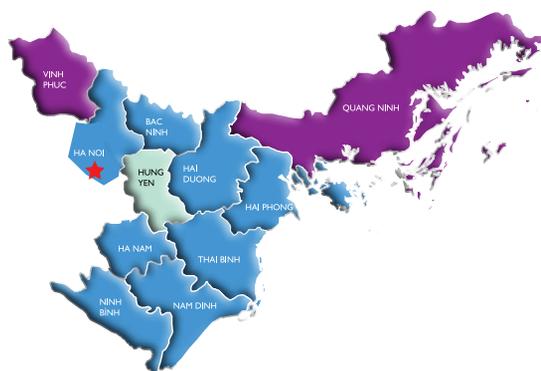
Sub index	Highest		Lowest	
	Province	Score	Province	Score
Market Entry	Hau Giang	9.23	Ha Noi	7.56
Land Access	Ben Tre	7.82	Ha Noi	4.12
Transparency	Da Nang	7.33	Hung Yen	4.88
Time cost	Dong Thap	8.54	Lang Son	5.06
Informal Charge	Soc Trang	7.12	Ha Giang	3.53
Policy Bias	Bac Lieu	7.29	Ha Tinh	3.35
Proactivity	Dong Thap	7.04	Lang Son	3.32
Biz Support	HCMC	7.00	Bac Kan	4.40
Labor	Da Nang	7.62	Tra Vinh	4.14
Legal Institution	Kien Giang	7.62	Dak Nong	4.48

Figure 1.5 PCI Map of Six Regions

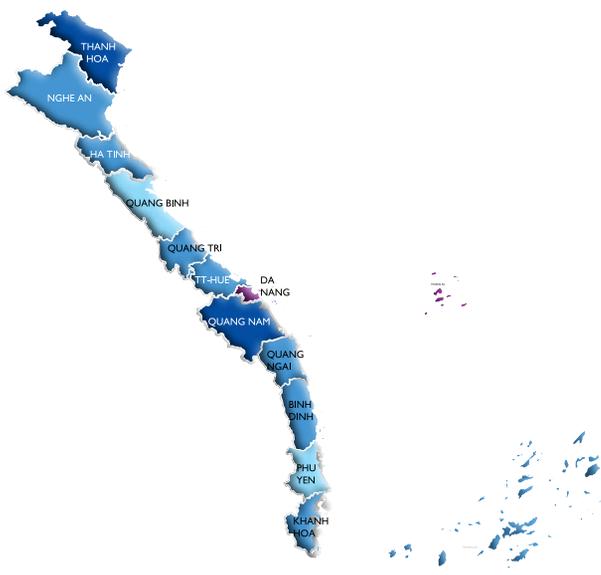
NORTHERN MOUNTAINOUS REGION



RED RIVER DELTA REGION



CENTRAL COAST REGION



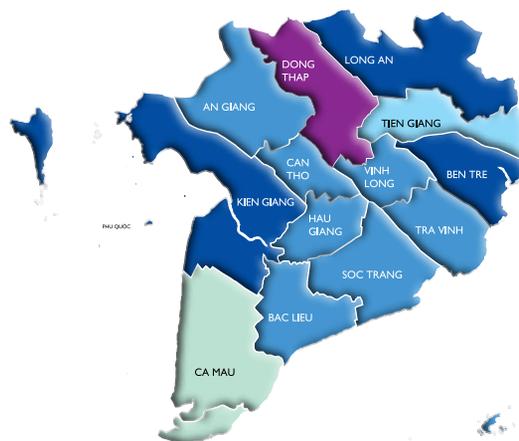
CENTRAL HIGHLANDS REGION



SOUTHEAST REGION

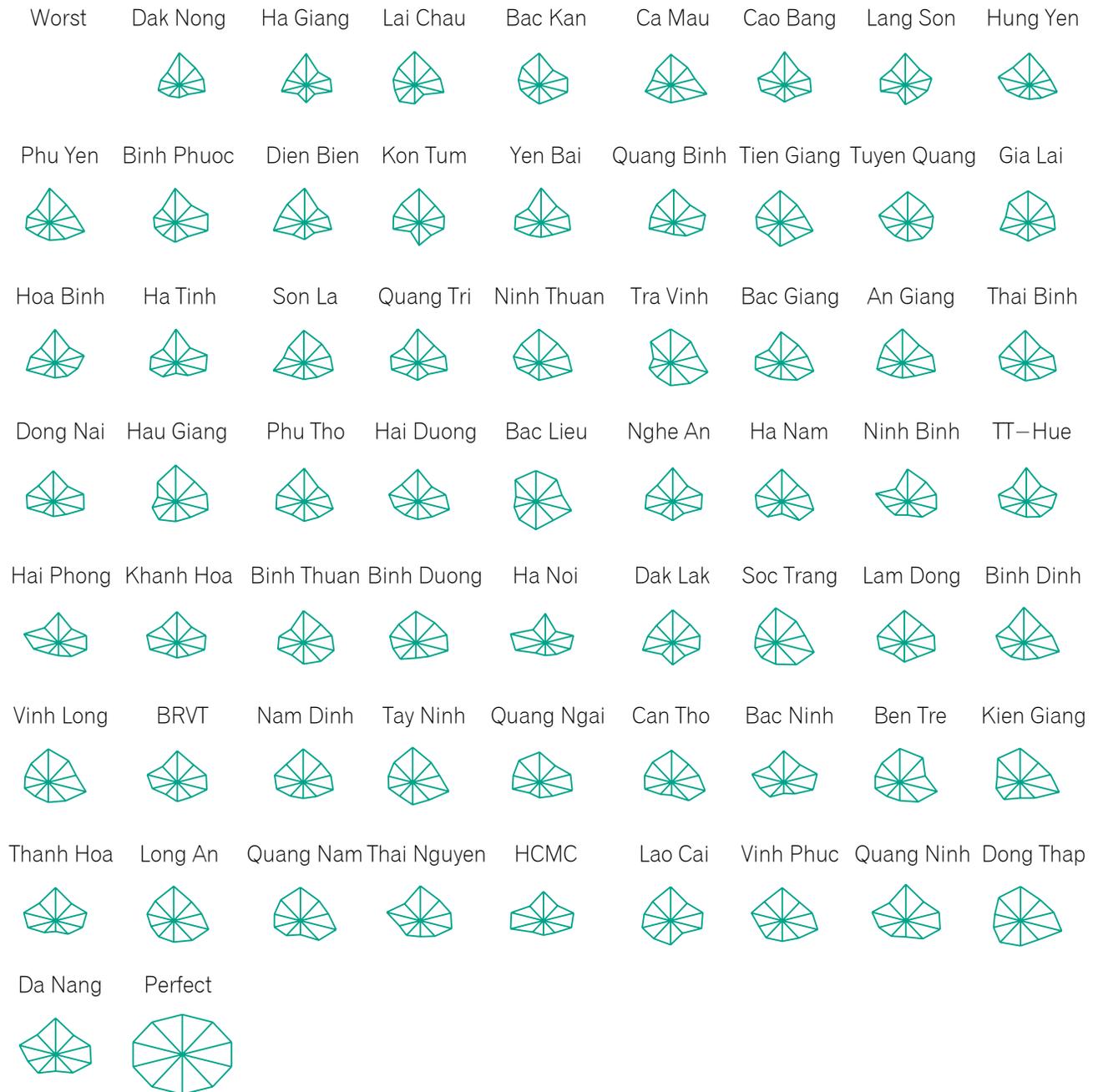


MEKONG RIVER DELTA REGION



Detailed results of 10 areas of local governance in 2015 are shown in Figure 1.6 below. This chart helps the provinces to quickly determine the strengths and weaknesses in their local economic governance over the past year. The room for reforms and innovation remains large, not only for the provinces in the bottom group but also for the top performers.

Figure 1.6 PCI 2015 Star Graph by Sub-Index



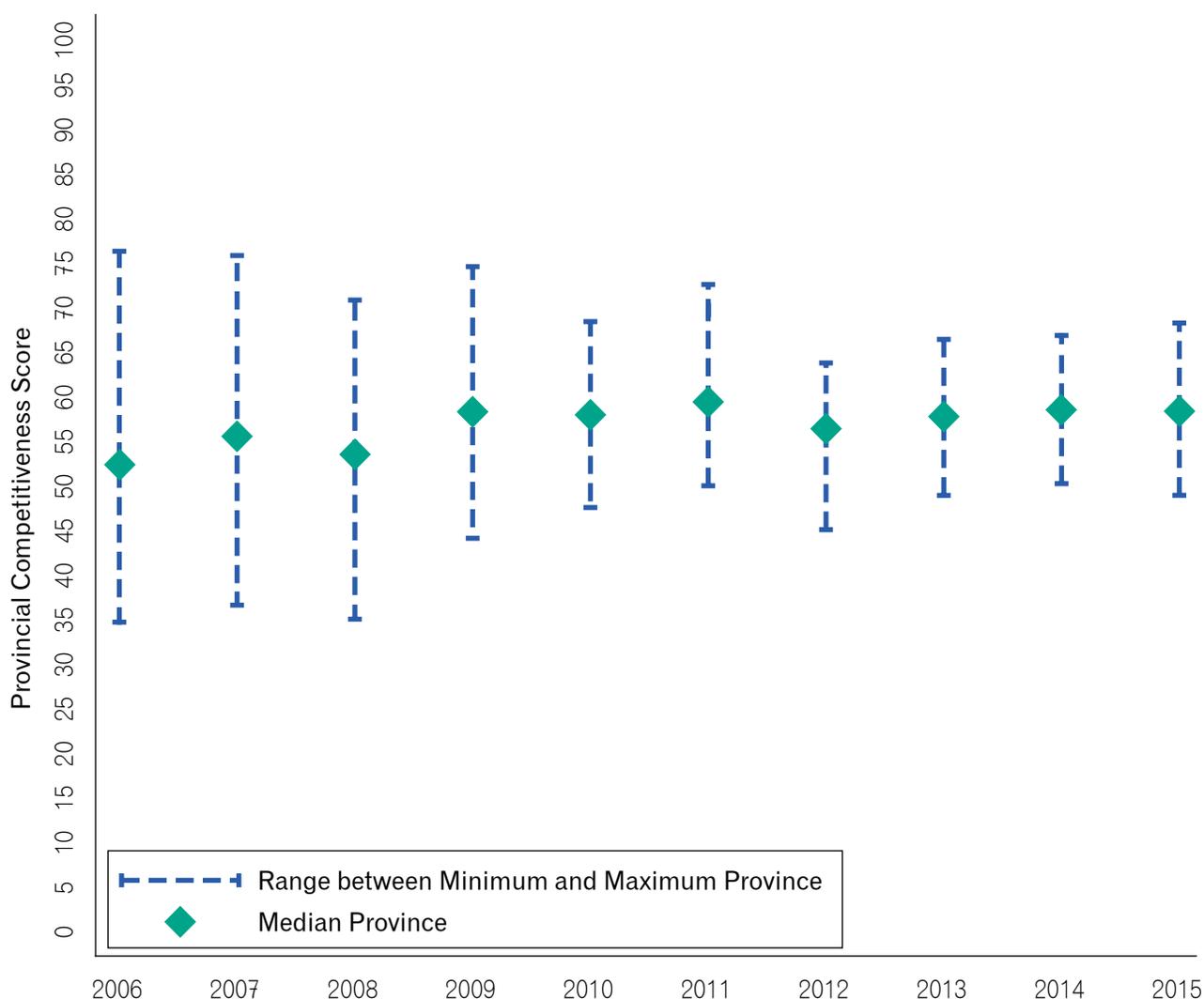
- ① Entry Costs
- ① Bias
- ② Land Access & Tenure
- ② Proactivity
- ③ Transparency
- ③ Business Support Services
- ④ Time Costs
- ④ Labor Policy
- ⑤ Informal Charges
- ⑤ Legal Institutions

1.3 HIGHLIGHTS OF PROVINCIAL GOVERNANCE OVER TIME

The top performing provinces have started to make bold transformations.

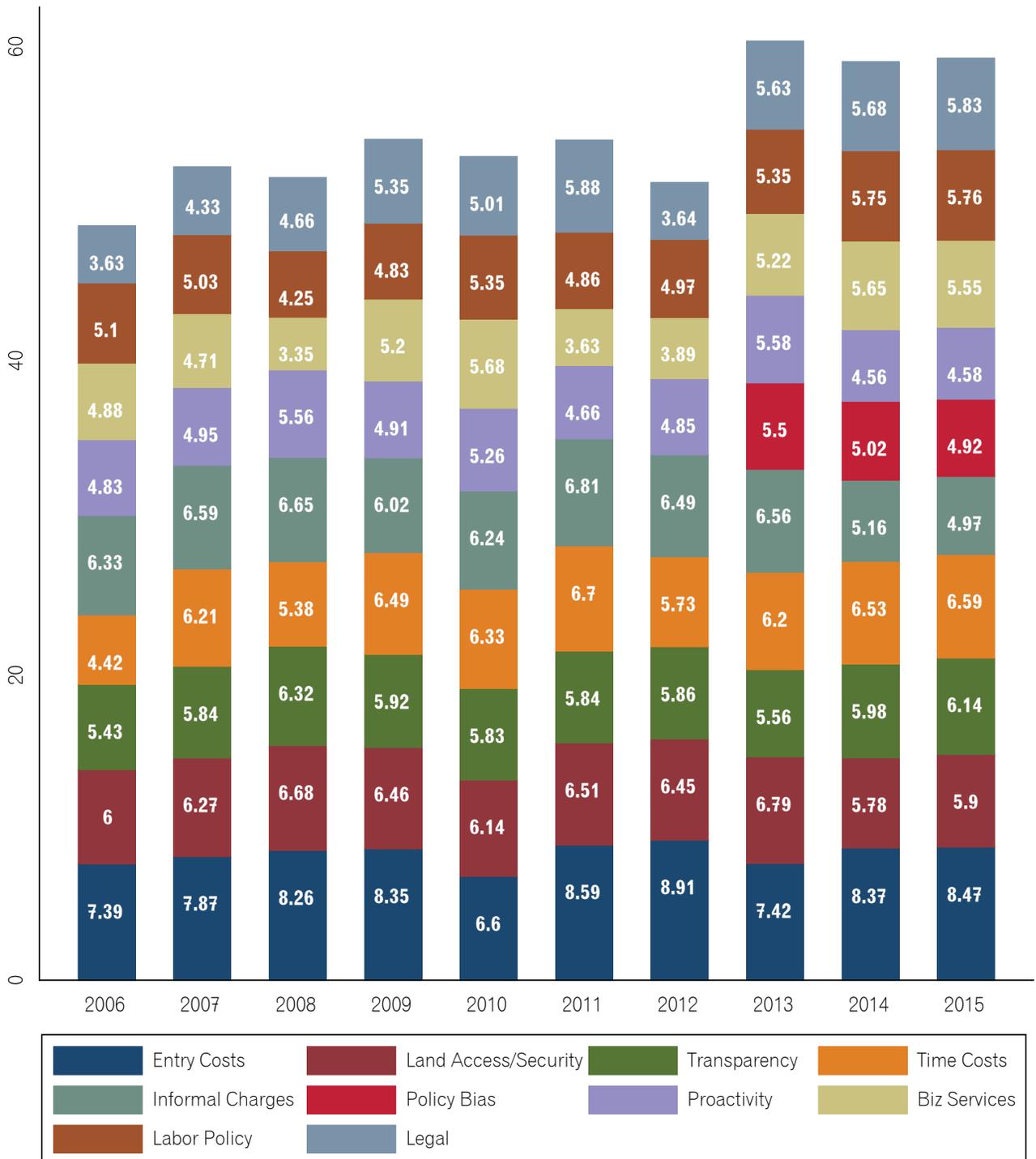
Overall, the past year has not seen many breakthroughs in terms of improvement in local economic governance quality. The PCI 2015 weighted score of the median province was 58.47 points which is statistically equivalent with 2014 (58.58 points). However, it is noteworthy that the score gap between the top and bottom groups has begun to widen. If the period 2012-2014 marked the trend toward convergence in the scores when the star provinces stood rooted to the spot and bottom provinces continuously made big jumps upwards, this year, the trend has somewhat changed. The top performing provinces have started to make bold transformations. Specifically, Da Nang experienced the highest increase in its PCI scores (nearly 1.5 points since 2012). Meanwhile, the scores of the bottom province have fallen by more than 1 point, returning to the levels last seen in 2013 (48.9 points).

Figure 1.7 Minimum, Median and Maximum PCI scores (2006-2015)



The quality of economic governance at the provincial level did not indicate any major changes this year. No significant increase or decrease was recorded for the median province across 10 governance areas. The areas of biggest improvement were at the most 0.15 points higher than in 2014, including the sub-indices of: Transparency and Legal Institutions, which were followed by Access to Land (up 0.12 points), Market Entry (up 0.09 points), and Time Costs (up 0.06 points). Three areas declined slightly in the past year, including Informal Charges (down 0.19 points), Policy Bias (down 0.1 points) and Business Support Services (down 0.1 points). Almost no changes were recorded for the proactivity and labor training as compared with the previous year.

Figure 1.8 Changes in Scores of Sub-indices



Highlights of the overall economic governance of provinces/cities in Vietnam under the PCI 2015 may be found below.¹⁹

Positive Trends

- The year 2015 witnessed positive results in the areas of business registration and establishment. The wait time for a new business to be fully legal was at a record low level. Currently, it takes only 8 days, including travel time and dossier preparation, for a firm in the median province to receive its business registration certificate. Previously, the firms had to spend about 10-12 days in total. The time to revise the contents of the business registration also dropped significantly from 7 to 5 days. It should be noted that these figures measure the actual lengths of time that the firms had to spend to comply with registration regulations, not the times provided by business registration offices.
- Accessibility to provincial planning documents was improved, up to 2.38 points in 2015 from 2.25 points in 2014. The role of local business associations in policy critiques and advocacy has also been gradually enhanced, with 43 percent of survey respondents rating it as important or very important. In particular, the average scores of provincial websites achieved the highest increase in three years (30/54 points), as the electronic portals of the provinces and cities have gradually become a channel to provide businesses with useful information. Accordingly, the proportion of firms accessing the provinces' websites and electronic portals also increased dramatically to 72 percent from 64 percent in 2014.

2015 also saw improvements in administrative reform

- 2015 also saw improvements in administrative reform. The firms expressed more positive perceptions toward many indicators measuring the performance of civil servants in dealing with administrative procedures. Fifty-one percent of PCI 2015 respondents said the paperwork was more streamlined, 5 percent points higher than 2014, while 61 percent of firms in the median province did not have to take many trips to obtain stamps and signatures. The percentage of firms that agreed with the statement "government officials are effective" increased slightly from 64 percent in 2014 to 67 percent in 2015. Fifty-nine percent said "the public officials are friendly and enthusiastic."
- This was especially true of the local tax authorities' efforts at improving administrative procedures, which were enthusiastically appreciated by the business community (whose satisfaction was expressed in a separate survey conducted by VCCI last August, which revealed similar results as the PCI survey). As noted by businesses, the average tax inspection time has dramatically fallen from 8 hours to 4.5 hours, the lowest level in the last 3 years.

¹⁹ Details of 10 PCI sub-indices in Annex 2, e-version of the 2015 PCI report.

POSITIVE TRENDS IN GOVERNANCE REFORM



2014

Wait time to register a business



2015

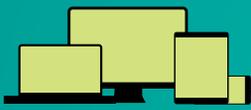


2014



2015

Wait time to re-register a business



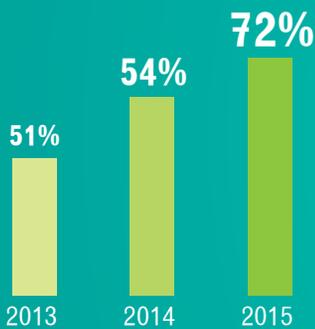
WEBSITE

achieved the highest score in three years

30/54
points



Said "Local business associations play an important role in countering economic policies."



Share of private firms accessing provinces' websites increased sharply



51%



Experienced less paper works



61%



Reported fewer trips to provincial offices to obtain stamps and signature



Tax inspection time is the lowest in the last 3 years



Agreed that local government officials are effective



Agreed that local government officials are friendly



Worrisome Trends

- Informal charges showed no sign of reduction. The percentage of firms having to pay these charges went up over the years from 50 percent (2013), to 64.5 percent (2014) and 66 percent in 2015. More than 11 percent of firms indicated that they have spent more than 10 percent of revenue on these charges alone, a slight increase from 2014 (10 percent). Meanwhile, 65 percent of the respondents agreed with the statement “government officials causing troubles when processing procedures for businesses is common.”
- In the eyes of the private sector, there exists no fair competition in the business environment across many provinces and cities. In PCI, the Policy Bias sub-index reflects the efforts of local authorities to create a level playing field for businesses of all sectors, especially small- and medium-sized enterprises. However, these efforts have not seen clear results. In the median province of the PCI 2015 survey, 39 percent said the favoritism of provincial authorities towards state corporations caused difficulties to their firm’s business, recording a statistically significant increase of 4 percent points compared to 2014. Favoritism to SOEs is lowest in Bac Lieu (25 percent agree) and Lao Cai province (29 percent agree) and worst in central cities like Ha Noi (51 percent) and Can Tho (50 percent) and undeveloped provinces like Dak Nong (46 percent) or Yen Bai (48 percent).
- Nearly 49 percent in the median province agreed with the statement that “the provincial authorities seem to prioritize FDI attraction to domestic private sector development” which was 6 percent higher than the previous year. Provinces that have the greatest number of firms reporting bias toward FIEs are Thai Nguyen (67 percent), Thanh Hoa (66 percent), and Ha Tinh (66 percent). In addition, the percentage of firms saying that “the favoritism of provincial authorities towards large firms (both state and private) caused difficulties to our firm’s business” also went up from 52 percent (2014) to 56.5 percent (2015). Yen Bai stands out on the high end, as 67 percent of businesses in the province cite preferential treatment of large-sized firms (both SOEs and private) as an obstacle to their business. Dong Thap stands out on the low end with 41 percent of local firms agreeing the business environment was biased toward large enterprises. While this is better than other provinces, 41 percent is still a figure that deserves attention from authorities.

WORRISOME TRENDS IN GOVERNANCE REFORM



The percentage of firms paying informal charges

11%

Indicated that they have spent more than 10 percent of revenue on informal charges



65%

Agreed that it is common for bureaucrats to create trouble when fulfilling normal business procedures



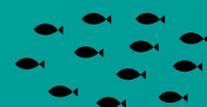
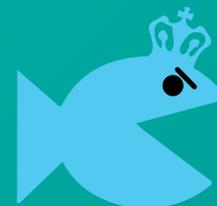
39%

Said "The favoritism of provincial authorities towards state corporations caused difficulties to their firm's business."



49%

Agreed that province prioritizes FDI attraction over private sector development



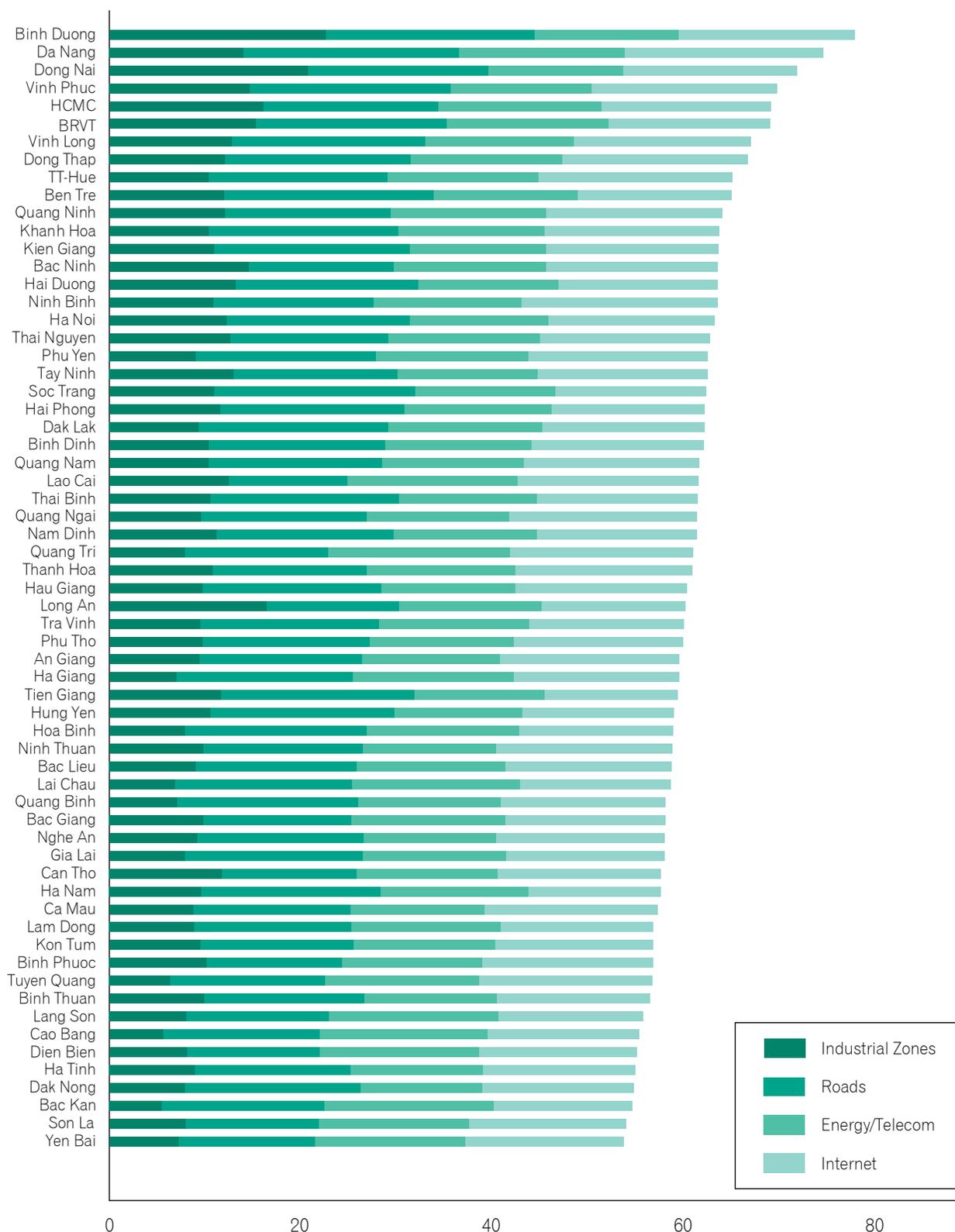
56%

Agreed that big companies received preferential treatment

1.4 THE 2015 INFRASTRUCTURE INDEX

The Infrastructure Index 2015 was again introduced with a view to helping businesses as well as policy-makers to make more informed decisions.

Figure 1.9 The Infrastructure Index 2015



This Index is a combination of survey results of firms' perceptions about infrastructure quality across provinces and cities and published data, including four sub-indices of: (1) industrial zones; (2) roads; (3) public services (telecommunications, energy); and (4) information technology. In 2015, Binh Duong, Da Nang, Dong Nai, Vinh Phuc and HCMC were the five provinces being rated the top five performers with the best infrastructure.

Comparing the PCI ranking with the Infrastructure Index, we can see that many localities know how to overcome the limitations of poor infrastructure with good governance. By creating an enabling business environment while other provinces failed to uphold their advantages to further attract investment, the best performers are able to add even more value, leading them to be regarded as more friendly and favorable to enterprises. We believe that the efforts to improve both of these metrics are equally important and are the factors critical to the economic development of each locality.

Conclusions

An improved business environment is what the provinces continue to rigorously pursue. Many provinces sought to learn good practices from the top performers but also initiated creative programs and strategies of their own. Nevertheless, the reform efforts in the provinces, as well as in Vietnam more generally, have varied in terms of quality and intensity.

It is also important to understand the motivations behind the PCI improvement programs in each province. In essence, the PCI is not about the rankings as an end goal by itself, but it is meant to provide useful information to policy makers about their performance in the competition for firms' satisfaction with local economic governance. More importantly, the PCI is intended to motivate provinces' proactivity, creativity, and friendliness towards small and medium domestic private enterprises (SMEs). For this reason, Chapter 1 of this year's PCI report will not go deep into the indicators or rankings as in the previous years. We reserve more space for in-depth analyses of the challenges and difficulties that small and medium-sized enterprises (SMEs) confront within their production and business activities. We hope that these messages, once heard and responded to by local governments, will contribute to the development of the private sector that makes up the majority of the business community but remains weak in competition with state-owned firms. Promoting this domestic private sector will be a driving force for the sustainable development of Vietnam's economy in the future.





VIETNAM BUSINESS ENVIRONMENT IN THE EYES OF SMALL AND MEDIUM SIZED ENTERPRISES

2.1 CONTEXT

Small and medium sized enterprises (SMEs) account for a major proportion of the total Vietnam business population. According to the White Book on Vietnam's SMEs published by Ministry of Planning and Investment (MPI) in 2014, 97.6 percent of enterprises in Vietnam are SMEs, implying that these firms have a labor force of less than 100 employees for trade and services, and less than 300 employees in other sectors.²⁰ Among the 8,335 domestic private enterprises responding to the PCI 2015 survey done by VCCI and USAID, 97.3 percent are small and medium sized.²¹

The private sector occupies a crucial position in the economic development of any locality or nation. Not every province is capable of attracting mobile investment; it is even uncommon to see the provinces sustain their economic development by relying on investment originating outside their borders. Conversely, most base themselves on internal forces, growing indigenous businesses so that their economies function well. Economies as diverse as Poland, Chile, Taiwan, and Ghana have shown that SMEs can be the engine of economic growth in emerging markets. Therefore, it is imperative that Vietnam facilitate and create a friendly, enabling environment for the development of SMEs.

²⁰ Ministry of Planning and Investment (2014), "White Book on Vietnam's SMEs 2014," Ha Noi: Thong Ke publisher, pp. 36.

²¹ Figure is calculated based on the number of enterprises having feedback within the PCI 2015 Survey, with criteria classified according to Decree no. 56/2009/NĐ-CP on assistance to the development of SMEs.

Currently, the community of SMEs is a significant contributor to the development of Vietnam. As of the end of 2014, SMEs contributed 45 percent to the gross domestic product (GDP) of Vietnam, 31 percent to the total national budget and nearly 50 percent to the national economic growth rate every year,²² and 51 percent to total employment of Vietnam.²³ Additionally, the importance of SMEs in securing social welfare and poverty reduction in Vietnam has been widely acknowledged by international organizations such as ADB and World Bank.²⁴

Having recognized the importance of SMEs, Vietnam's Government has offered favorable policies and legal frameworks to support SMEs' development. The Government's Decree No. 90/2001, later replaced by Decree No. 56/2009 on supporting development of SMEs, stipulates several groups of promotional policies for SMEs. Moreover, the Vietnamese Government has implemented specific policies favorable to these enterprises in areas such as access to capital; securing production premises; enhancing technological capability and technical proficiency; market promotion and expansion; participation in procurement plans and supply of public services; facilitating the supply of useful information and consultancy services; and supporting the development of labor resources. However, the efficiency of these supporting programs has not reached expectations.²⁵

In order to make a substantial change in supporting SMEs, Vietnam emphasized the need for legislation. The draft Law on Supporting SMEs is expected to be reviewed by the National Assembly at its second session in October 2016.²⁶ Legislators and policy experts have high hopes for real breakthroughs in facilitating the development of SMEs.²⁷

The 2015 PCI Report reserves this chapter for analyzing the perceptions of SMEs about the Vietnamese business environment in 2015 in order to contribute to the drafting process of the Law on Supporting SMEs. Many of the perceptions questions were derived from a new module in the PCI survey specifically devoted to SMEs. As a result, this chapter's findings focus on 2015 and do not attempt to reconstruct a time trend. A more detailed report on difficulties that are facing SMEs will be completed and published in 2016 as part of a joint effort of VCCI and USAID for the development of Vietnam's SMEs community. This report will provide more detailed analysis of the business environment of SMEs over time.

²² *Tuoi Tre Newspaper*, 2016, "It's Necessary to Give Factual Support to SMEs," available at: <<http://tuoitre.vn/tin/can-biet/20160109/can-ho-tro-doanh-nghiep-nho-va-vua-thuc-chat/1034941.html>>, accessed on 9/1/2016.

²³ *Enterprise Forum*. (2015). "Improving the Capacity of Vietnam's SME." Available at: <<http://enternews.vn/nang-cao-nang-luc-doanh-nghiep-nho-va-vua.html>>, accessed on 13 September 2015.

²⁴ *Vietnam Plus*, 2015, "ADB: Vietnam is the Most Successful Story about Poverty Reduction" available at <<http://bnews.vn/viet-nam-cau-chuyen-thanh-cong-nhat-ve-giam-ngheo-bai-1-/889.html>>, accessed on 3 September 2015.

²⁵ *Tuoi Tre Newspaper*, 2016, "It's Necessary to Give Factual Support to SMEs," available at: <<http://tuoitre.vn/tin/can-biet/20160109/can-ho-tro-doanh-nghiep-nho-va-vua-thuc-chat/1034941.html>>, accessed on 9/1/2016.

²⁶ *The National Assembly's Resolution No. 89/2015/QH13 Amending the 2015 Program of Laws, Ordinances; and Developing the 2016 Laws and Ordinances – Making Program*.

²⁷ *Web Portal of Ministry of Planning and Investment*, 2015, "Meeting of Drafting Board for the Law on Supporting SMEs," available at: <<http://www.mpi.gov.vn/Pages/tinbai.aspx?idTin=30895&idcm=188>>, accessed on 25/12/2015.

2.2 AN OVERALL PICTURE ON VIETNAM'S SMEs

The SME definition is stipulated in Decree No.56/2009/ND-CP of the Government on June 30, 2009 on assistance to the development of SMEs. According to this Decree, enterprises are classified into four categories including micro-sized enterprises, small-sized enterprises, medium-sized enterprises and large-sized enterprises. Definitions differ slightly by sector.

Table 2.1 Classification of Enterprises by Decree 56/2009/ND-CP

Sector	Micro-sized enterprises	Small-sized enterprises		Medium-sized enterprises		Large-sized enterprises	
	Number of employees	Total capital (billion VND)	Number of employees	Total capital (billion VND)	Number of employees	Total capital (billion VND)	Number of employees
1. Agriculture, forestry and fishery	<=10	<=20	From 11 to 200	20-100	From 200 to 300	More than 100	More than 300
2. Industry and construction	<=10	<=20	From 11 to 200	20-100	From 200 to 300	More than 100	More than 300
3. Trade and Service	<=10	<=10	From 11 to 50	10-50	From 50 to 100	More than 50	More than 100

Before analyzing the performance of SMEs under the current business environment in Vietnam, the research team will investigate their characteristics with respect to background, qualifications of the firm owners, as well as their main customers, which may serve as useful information for policy-makers in developing and implementing regulatory measures to better support this economic sector. *Most SMEs were formerly household businesses.*

A large part of Vietnam's private enterprises were formerly household businesses that later incorporated when they found opportunities to grow.²⁸ The PCI 2015 survey showed that 77 percent of micro-sized enterprises and 69 percent of small-sized firms were formerly household businesses. Within the medium-sized enterprises group, 55 percent have their roots in household businesses.

Table 2.2 Characteristics of Enterprises

Size of Enterprises	Equitized local state-owned enterprise (%)	Equitized central state-owned enterprise (%)	Firm that was formerly household business (%)
Micro-sized	3	0	77
Small-sized	7	1	69
Medium-sized	13	2	55
Large-sized	18	9	35
Total	5.6	0.8	71.3

Source: PCI Survey Question A12, "Please choose the categories that best describes your firm's history?"

²⁸ Communist Review Online, 2015, "Improving the Quality of SMEs' Managers in the Integration Process," dated March 16, 2013, available at <<http://www.tapchicongsan.org.vn/Home/PrintStory.aspx?distribution=32429>>

Many SMEs were also equitized from central or local state-owned enterprises (SOEs), but the percentage of small- or micro-sized enterprises falling in this category is quite low as it is generally the large-scale enterprises that stem from this origin.

Qualification of SMEs' owners remained high and diversified

Given greater international economic integration and tougher competition, business owners are required to obtain higher qualifications to catch up with and respond to the market demands in a timely manner. The PCI 2015 survey results indicate that most SMEs' owners (nearly 60 percent) have graduated from universities. Specifically, among micro-sized firms, 56 percent of firms' owners have graduated from universities; and within small- and medium-sized firms, the numbers are 61 and 62 percent, respectively. Individuals with MBA degrees account for ownership of two percent of micro-sized firms, four percent of small-sized businesses, and nine percent of medium-sized enterprises.

The PCI survey also shows that, among the SMEs in Vietnam, a small percentage of firms' owners previously worked for state agencies and acquired better political connections thanks to their work experience or personal relationships. About three to five percent of owners used to be leaders of State Agencies. The number of people who used to be managers of SOEs varies with the size of the SME: eight percent of micro-sized businesses' owners, 11 percent of small-sized or medium-sized firms' proprietors, and 22 percent of owners of large-scale firms used to manage an SOE. About 14-15 percent of micro-sized, small-sized and medium-sized firms' owners used to work for SOEs; nine percent of the owners of large-scale firms were previously employed at SOEs. Recent reforms of the state sector, including equitization, may have contributed to this migration of laborers from the SOE sector to private enterprises.

Table 2.3 Educational/Professional Backgrounds of Enterprise Owners

Size of Enterprises	Micro-sized (%)	Small-sized (%)	Medium-sized (%)	Large-sized (%)	Total (%)
Firm owner graduated from university	56	61	62	65	59
Firm owner graduated with a MBA degree	2	4	9	10	4
Firm owner was a leader of a State agency	3	4	5	5	3
Firm owner was a military officer	3	5	5	9	4
Firm owner was a manager of a state-owned enterprise	8	11	11	22	10
Firm owner was an employee at a state-owned enterprise	15	14	14	9	14

Source: PCI Survey Question A13, "Please choose the categories that best describes your firm owner's background?"

The market share of SMEs is mostly domestic

The future development of Vietnam's economy is conditional on how actively its businesses will participate in global value chains, through which they are expected to benefit most from better access to foreign capital, regional and international markets, and advanced technologies, creating spillover effects for the entire economy.²⁹ However, most domestic private enterprises still operate almost exclusively in the domestic market even after nearly ten years following Vietnam's integration into the World Trade Organization (WTO). This is clearly shown in Table 2.4. Only three percent of micro-sized, four percent of small-sized and nine percent of medium-sized firms have their customers that are foreign individuals or enterprises. Even the big domestic enterprises have a very modest share (24 percent) of their primary customers in foreign markets.

²⁹ *The People's Representatives Newspaper*, 2015. "Connecting Local Enterprises with Global Value Chains," dated 3/29/2015, accessed at <http://daibieunhandan.vn/default.aspx?tabid=75&NewsId=345071>

Table 2.4 Main Customers of Enterprises, by Firm Size (%)

Main customer	Micro-sized	Small-sized	Medium-sized	Large-sized
SOEs	10	13	13	12
State agencies	12	20	12	13
Local individuals, private enterprises	72	58	60	40
Foreign individuals, FIEs in Vietnam	3	4	7	11
Overseas individual, enterprises (direct)	2	3	6	17
Overseas individual, enterprises (indirect)	1	1	3	7
Total	100	100	100	100

Source: PCI Survey Question A11, "Please choose the category that indicates the biggest customer of your firm?"

SMEs' participation in the global manufacturing chain is relatively limited, only supplying commodities and services to foreign direct investment (FDI) enterprises in Vietnam.³⁰ As seen in Table 2.3, only three to four percent of the main customers of micro-sized and small-sized enterprises are Foreign Invested Enterprises (FIEs); in medium-sized and large firms, though higher, they account for only seven and 11 percent, respectively, of the primary customers. This may be due to limited SME marketing capability and supply-demand mismatches as well as failure to qualify production and quality standards of foreign firms in value chains.³¹ It is also worrisome that SMEs have not been fully aware of information about trade agreements that Vietnam has recently signed. Even more alarming is the fact that the smaller the scale of an enterprise, the lower its knowledge regarding these agreements. More detailed information on this issue will be published by VCCI and USAID in their forthcoming thematic report in 2016.

The PCI survey result helps to explain why FIEs contributed 70.7 percent of Vietnam's total export value in 2015.³² The ASEAN Economic Community was officially established on Jan 1st 2016, and Vietnam has recently concluded negotiations on a series of free trade agreements such as the Euro-Vietnam Free Trade Agreement (EVFTA) and the Trans-Pacific Partnership (TPP). Worryingly, Vietnam's domestic enterprises do not appear to be prepared to take advantage of these opportunities for market expansion.

³⁰ We also study this from the perspective of foreign firms in Chapter 3 of this report.

³¹ Le Duy Binh.(2015). "The Development of Enterprises and the Need for Further Reforms of the Business Sector in Vietnam: 10 Highlights." *Economica Vietnam. ANU Conference. Vientian*. Available at: <<http://www.economica.vn/ChangePages.aspx?IDKey=OL6666H3314T765868&c=0&f=1>>, accessed on 19/11/2015.

³² Sai Gon Economic Times, 2015, "Internal Force as Seen from Export and Import," available at: <<http://www.thesaigontimes.vn/141057/Noi-luc-nhin-tu-xuat-nhap-khau.html>>, accessed on 16/1/2016.

2.3 DIFFICULTIES THAT SMES FACE WHEN SEEKING TO INCREASE THEIR SCALE

Start-up and growth

Accurately anticipating the true obstacles of starting a business in Vietnam and keeping it running is an essential preparatory step for potential business owners. Having access to this type of precise information will also provide necessary inputs for policy-makers to better design and implement regulatory measures that promote business development. The PCI 2015 survey asked firms to rate, on a five-point scale ranging from no problem (1) to severe difficulty (5), start-up obstacles they actually encountered. These included: obtaining financing, establishing contacts with customers, receiving payment for outstanding invoices, accurately pricing their goods or services, finding suitable premises, finding suppliers, hiring suitable personnel, using information technology effectively, and dealing with legal and administrative matters. The results showed that no matter how large the scale, entrepreneurial firms in Vietnam face many of the same difficulties. Table 2.5 depicts some of the difficulties that Vietnam's private enterprises faced when starting their businesses:

Table 2.5 Difficulties When Starting Business (% of Firms Reporting Mild, Moderate and Severe Difficulty in Each Category)

Fields	Micro-sized (%)	Small-sized (%)	Medium-sized (%)	Large-sized (%)
To get financing	60	59	60	65
To establish contacts with customers	65	63	63	67
To obtain payment for outstanding invoices	43	43	47	47
To price my goods/services	30	29	31	41
To find suitable premises	41	39	42	43
To find suppliers	32	32	34	34
To get suitable personnel	46	44	47	47
To use information technology effectively	24	25	27	34
To deal with legal / governmental / administrative matters	42	41	42	41

Source: PCI Survey Question C10: Please rate the following potential obstacles on a five-point scale ranging from no problem (1) to severe difficulty (5). How easy/difficult did you find the following when you started your enterprise?

Anticipation versus reality

When starting up a business, every entrepreneur is full of hopes about the future; however, how do they feel after doing business in fact? Four major aspects are taken into consideration: market, profit, competitiveness, and enterprise-specific support services from local authorities. In spite of a significant proportion of enterprises from micro-sized to large-scale groups saying these factors are better in reality than expected, it is worrisome that the smaller the scale of the enterprise, the smaller this proportion is.

For example, only 20 percent of micro-sized, 14 percent of small-sized and medium-sized enterprises remarked that the market opportunities are worse than initial expectations, while the figure for large enterprises is 6 percent. Only about 32 percent of micro-sized, 29 percent of small-sized and medium-sized enterprises found their ability to compete in the current market worse than expected while only 22 percent of large enterprises shared the

same view. These numbers are relatively consistent when we pair them with the figures for profit. The larger firms with better market opportunities found themselves with higher profit than expected. It is notable that the SMEs' rating of local business support services is also significantly lower than that of large firms, which will be discussed in more detail in the following section.

Table 2.6 Comparisons with Expectation (Percent Saying Results were Better)

Size of Enterprises	Market (%)	Profit (%)	Competition (%)	Business support services from the local government (%)
Micro-sized	20	24	32	11
Small-sized	14	20	29	11
Medium-sized	14	20	29	9
Large-sized	6	17	22	5
Total	17	22	30	10

Source: PCI Survey Question C12: How do you compare the following to what you expect when you first started your business? (Better, the same, worse)

SMEs' performance

As Table 2.7 shows, the performance result of SMEs is much worse than that of large ones. The number of firms operating in the red is relatively high: 32 percent of micro-sized, 17 percent of small, and 16 percent of medium-sized enterprises reported losses while only 10 percent of large enterprises did. For contrast, only 53 percent of micro-sized enterprises reported profits; this figure rose to 83 percent for large enterprises. This phenomenon emerges, perhaps, out of the fact that some SMEs are not strong enough to survive amid the fierce competition or they find it difficult to access bank loans because they have no other assets left to mortgage but their inventory. This issue has been widely uncovered by the mass media.³³ Of course, we should be careful about the direction of causality, one obvious reason for the divergence may be that only extremely well-run firms are able to grow and eventually reach the large size category.

Gloomy results of performance

Table 2.7 Performance of Domestic, Private Firms in 2014, by Firm Size (percent)

Size of Enterprises	Micro-size	Small-size	Medium-size	Large-size
Large losses	4	2	3	1
Small losses	28	15	13	9
Break even	15	10	9	7
Small profits	50	64	59	50
Profits as planned	3	9	17	33
Total	100	100	100	100

Source: PCI Survey Question A9: Which statement best characterizes your firm's overall performance in 2014?

³³ VnExpress, 2014. "The Efficiency of Small and Medium-Sized Enterprises is at below Average Level," dated 24/6/2014, accessed at <<http://kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/hieu-qua-cua-doanh-nghiep-nho-va-vua-o-duoi-muc-trung-binh-3008419.html>>

Low level of optimism It is no surprise that the business performance is lower than their initial expectations. In fact, the gloomy performance of SMEs last year has led to a decrease in their optimism, much lower than that of large enterprises. Only 41 percent of micro-sized and 54 percent of small-sized enterprises intend to increase the size of operations within two years. The figure for both medium and large enterprises is about 66 percent. Noticeably, eight percent of micro-sized and six percent of small-sized enterprises indicated they are considering or actually plan to reduce the size of operations or close their business, while only two percent of medium-sized and large-sized enterprises checked these options.

Table 2.8 Business Thermometer by Firm Size

Size of Enterprises	Micro-size	Small-size	Medium-size	Large-size
Plan to increase the size of operations	27	36	45	50
Consider to increase the size of operations	14	18	21	16
Will continue operations at present size	51	40	31	33
Consider to reduce the size of operations	3	3	2	1
Plan to reduce the size of operations	3	2	0	1
Plan to close the business	2	0	0	0
Total	100	100	100	100

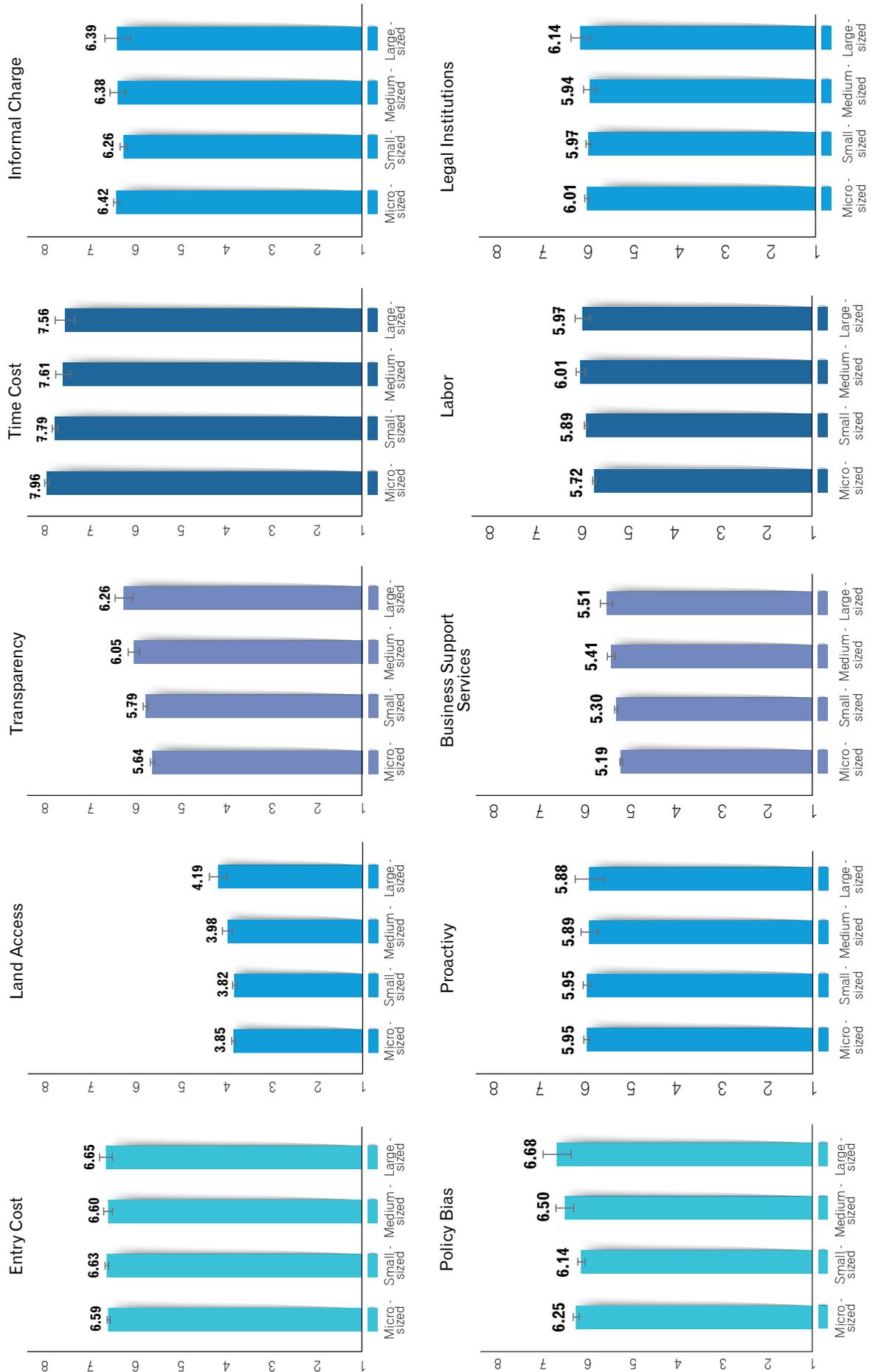
Source: PCI Survey Question A10: Which statement best characterizes your firm's investment plans over the next 2 years?

Perceptions of the business environment

In order to serve detailed analyses, besides constructing, developing and launching the PCI at the provincial level for years, the PCI research team has applied the same methodology to construct the index at the firm level. This allows us to compare enterprises' perceptions of the business environment across different aspects, such as fields of operation, year of establishment, legal status, business performance, qualifications, gender of enterprises' owners, and, new for the 2015 PCI report, scale (micro-, small-, medium-sized and large enterprises).

Unfavorable business environment Assessing the provincial business environment, SMEs' perceptions are more negative than those of large enterprises in several areas such as land access, transparency, policy bias, and business support services. There is little difference in the perceptions of SMEs and large enterprises regarding other areas such as market entry, time costs, informal charges, proactivity of local authorities, labor training, and legal institutions.

Figure 2.1 Scores of Sub-indices in PCI 2015, by Firm Size



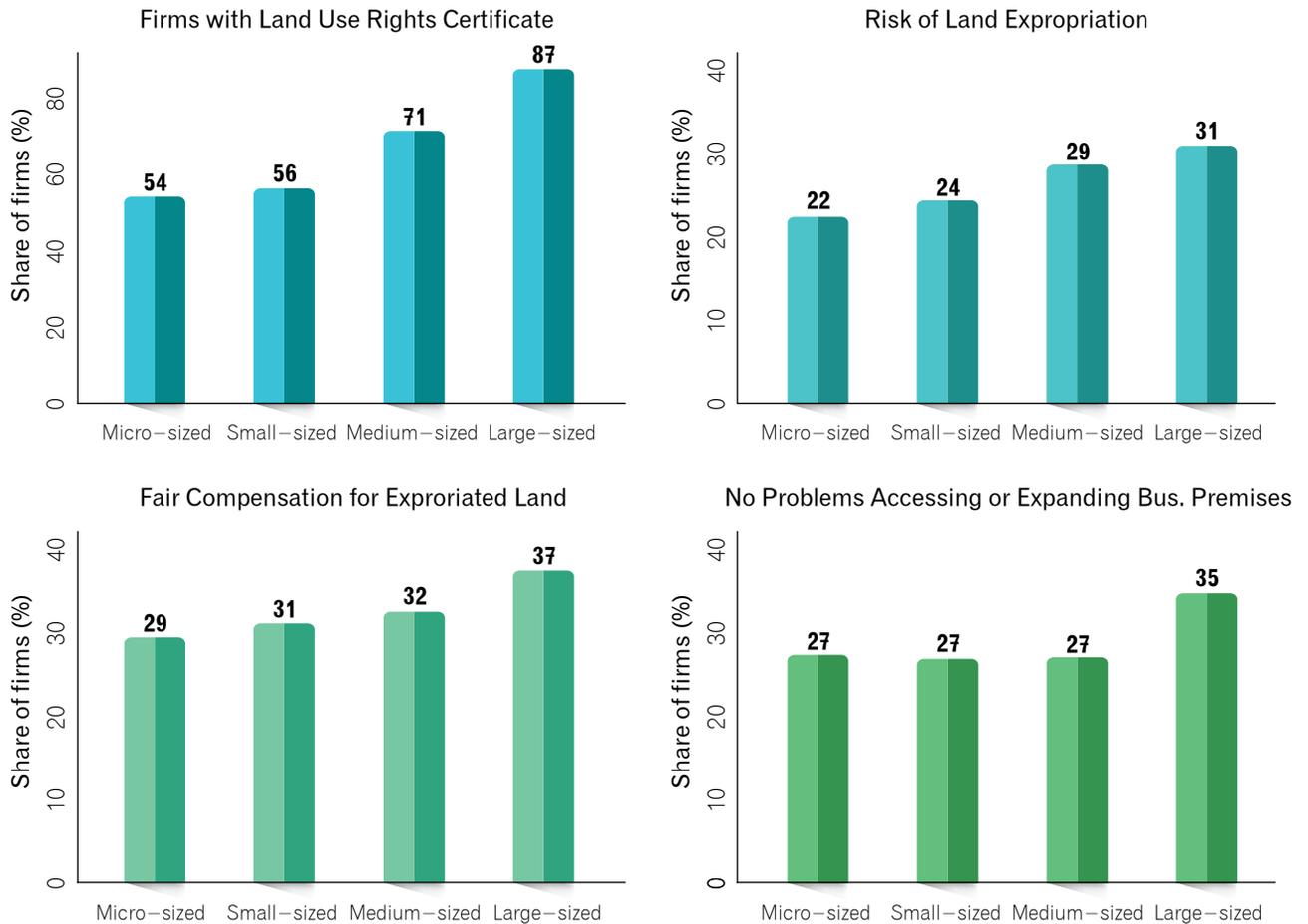
Land access

Difficulties in land access Land access is a sub-index that has the lowest average score across firms of all sizes in comparison with other sub-indices (Figure 2.1). While the number of SMEs having access to land is relatively high compared with large ones, the number of SMEs who both have land and own the Land Use Rights Certificate (LURC) is relatively low. Exploring this more closely, 93 percent of micro-sized, 83 percent of small-sized and 63 percent of medium-sized enterprises have land or business premises, which are derived from private or household properties, assigned by the government after paying land use fees, or rented directly from the government or private individuals; large enterprises account for 47 percent. However, only 54 percent of micro-sized, 56 percent of small-sized and 71 percent of medium-sized enterprises actually own the LURC, while the proportion of large enterprises is 87 percent (Figure 2.2). This may be the major reason why the number of SMEs who can access bank loans is significantly lower than that of large enterprises. On average, 40 percent of micro-sized, 62 percent of small-sized and 74 percent of medium-sized enterprises can obtain bank loans, while this figure is 81 percent for large enterprises. Approximately 90 percent of SMEs said they could not get bank loans without mortgaged properties, relatively higher than that of large enterprises (82 percent).

Furthermore, only 22 percent of micro-sized, 24 percent of small-sized, and 29 percent of medium-sized enterprises reported that the stability, implying low expropriation risk, of their business premises is high or very high, compared with 31 percent of large firms. Assessing the possibility of being fairly compensated should their land be expropriated, 29 percent of micro-sized, 31 percent of small-sized and 32 percent of medium-sized enterprises said that they very likely or always got fair compensation, while 37 percent of large ones did.

The 2015 PCI survey also shows that SMEs find it more difficult than large enterprises to access land in provinces. Twenty-seven percent of SMEs said they have no difficulty in accessing land or increasing the size of business premises, while the figure is 35 percent for large enterprises.

Figure 2.2 Indicators of Land Access, by Firm Size



Source: PCI Survey Question B4: “Does your firm have a land use rights certificate (LURC)? (Yes/No)”. Question B4.3 please evaluate the stability of your business’s premises (i.e. the risk/possibility that your land will be expropriated (seized/taken) for other purposes, change of planning, etc.): Very Low, Low, Moderate, High, Very High. Question B4.4 Based on your observations of other cases in your province, do you believe that you or your firm will receive fair compensation for your business premises in case of expropriation? Never, Rarely, Likely, Very likely, Always. Question B.7 “Based on your observations of other land and premises transactions in your province, would you say that private businesses face any obstacles to acquiring or expanding their business premises? (Yes/No/Not sure).

In the workshop on providing suggestions for drafting a Law on Supporting SMEs, organized by the VCCI in coordination with the Ministry of Planning and Investment in Ho Chi Minh City on January 20, 2016, many participants highlighted the issue of unequal land access as one of the major problems hindering the growth of SMEs. Representatives of business associations expressed SMEs’ difficulty in obtaining business premises, especially given the fact that many provinces have policy to move their production and manufacturing facilities out of urban zones to prevent pollution and ensure fire safety. Although the zoning policy is considered appropriate, most SMEs are struggling to find new locations. Industrial zones or clusters are generally inaccessible to them due to high rents, difficulties in recruiting employees, and inconvenience of the infrastructure for the transportation of goods and commodities.³⁴ Remarkably, many provinces and cities have

³⁴ Lawyer Phan Thong Anh and Jurist Nguyen Ngoc Tuan, Vice Chairman of Export – Import Association of Dong Nai province, stated and offered suggestions for supporting SMEs Law at the Conference on Offering Suggestions for Legislation of Supporting SMEs Law, organized by VCCI and Ministry of Planning and Investment in Ho Chi Minh City on 20 January 2016. <<http://vcci-hcm.org.vn/tin-vcci/su-kien-sap-toi/hien-ke-xay-dung-luat-ho-tro-danh-nghiep-nho-va-vua-ht6167.html>>

budgeted to support and invest in these industrial zones and clusters, where only large enterprises can reap the greatest benefit.

The 2015 PCI survey has provided evidence that the number of SMEs located in industrial zones and clusters is very small. Less than three percent of micro-sized and eight percent of small-sized enterprises are located in industrial zones or clusters. This figure is nearly 19 percent for medium-sized enterprises, and 35 percent for large enterprises. The Vietnamese government should make more comprehensive policies providing equal footing to SMEs with respect to land lease fees, as well as land planning, labor, and infrastructure, in order to create more favorable conditions for SMEs to access land in industrial zones and clusters.

Table 2.9 Having Land in Industrial Zones/Clusters, by Firm Size

Size of Enterprises	Having land in Industrial Zones/Clusters (%)
Micro-sized	3
Small-sized	8
Medium-sized	19
Large-sized	35
Total	7

Source: PCI Survey Question B3. "Is there any part of your firm's business premises that is located within an industrial zone/concentration area?"

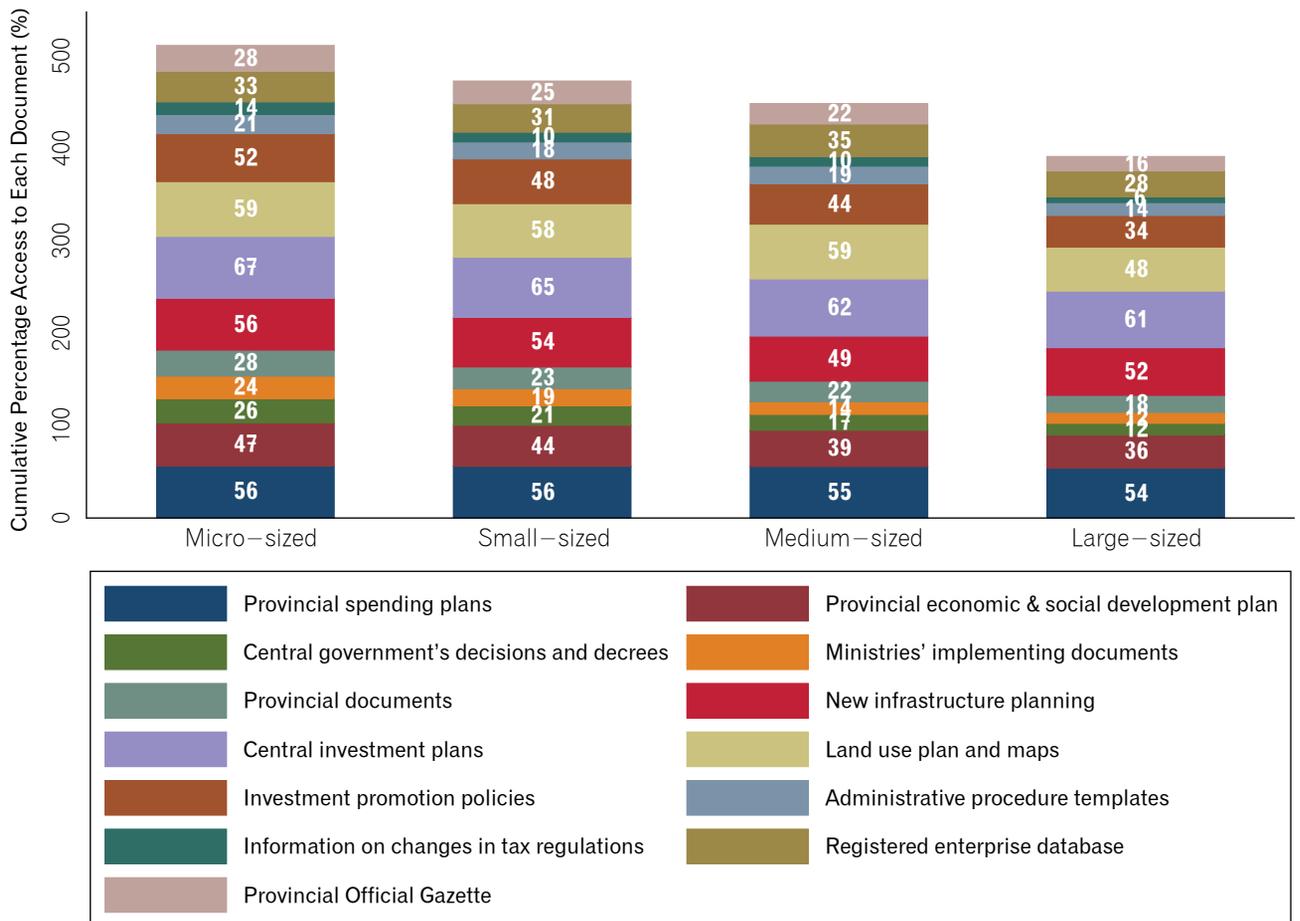
Transparency and access to information

Accurate, full, and timely information is important for enterprises when engaging in market activities. Information of governmental authorities also takes an important role for enterprises in reducing risks. Fair treatment to enterprises also means fair treatment in providing information.

Non-transparent information

Figure 2.3 shows enterprises finding it difficult to obtain or are unable to access various planning and legal documents of their provinces or cities. The proportion of SMEs indicating they had difficulties obtaining information is mostly higher than that of large enterprises. Some types of documents which SMEs find difficult or impossible to access are: provincial socio-economic development programs and plans; central government laws, ordinances, decrees and decisions; guidance documents of ministries and sectors; legal normative documents of provinces; land use plans and maps; investment preference policies; administrative procedure templates; information on changes to tax regulations; and gazettes posting legal normative documents of provinces and cities.

Figure 2.3 Accessibility to Provincial Documents and Information (Percent Reporting Difficult and Impossible)

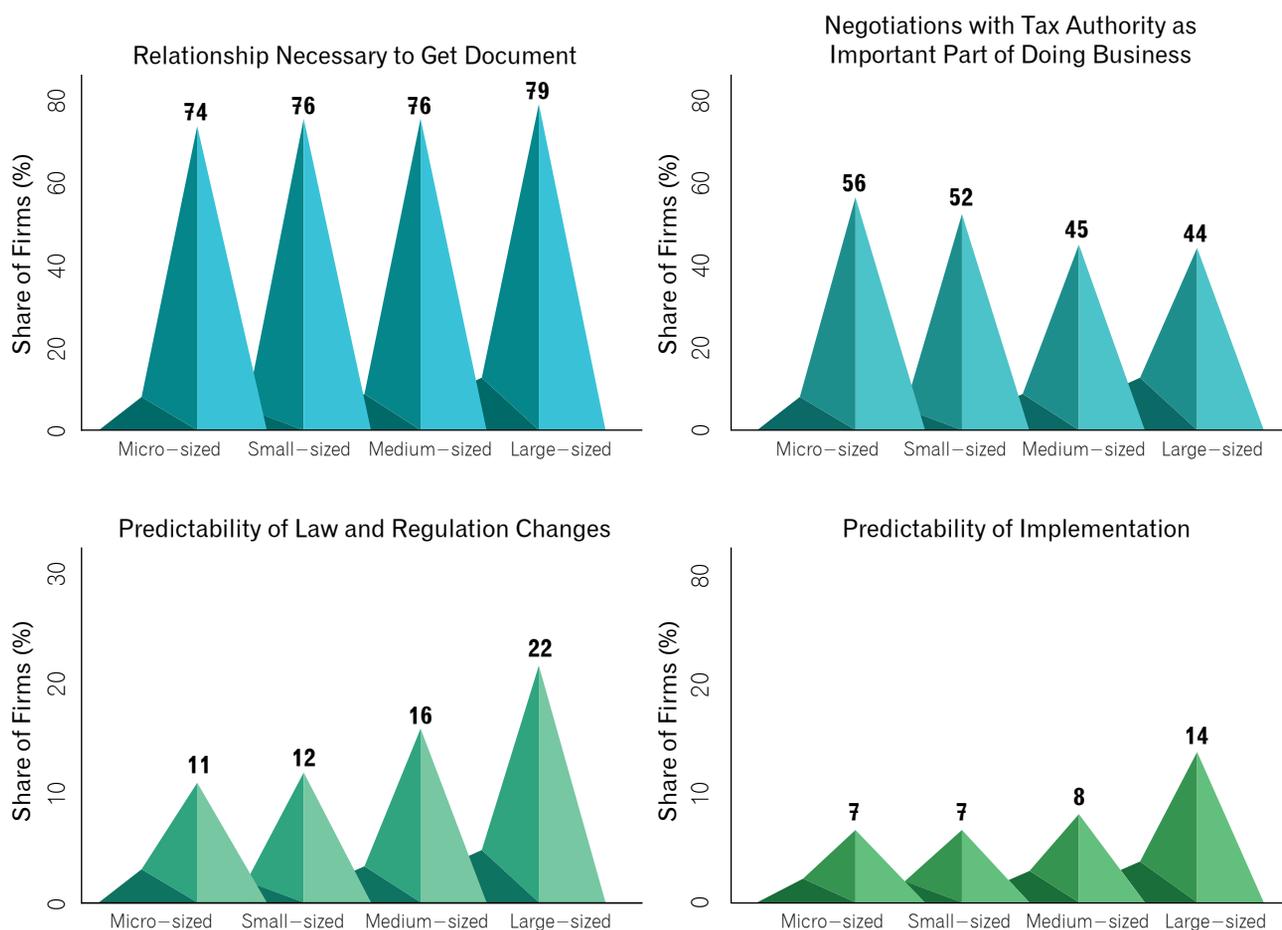


Source: PCI Survey Question F1. Please rate your accessibility to these provincial documents and information. (Please check ✓ to select one answer for each type of document)

It is important to note that the proportion of enterprises acknowledging that they have to keep good relationships with individuals at state agencies in order to obtain this information is high, regardless of their size. Between 74 and 76 percent of small-medium sized enterprises (SMEs) confirm that they have to count on their relationships with individuals at state agencies to have access to information. For large enterprises, the number is 79 percent. Additionally, 56 percent of micro-enterprises, 52 percent of small- and 45 percent of medium-sized ones see “negotiation with tax authority on the amount to be paid is an important part of doing business.” By contrast, the figure for large firms is 44 percent.

As a result of limited access to information, SMEs have difficulty predicting the potential changes in laws and their implementation. Only 11 percent of micro-enterprises, 12 percent of small- and 16 percent of medium-sized firms acknowledged that they could accurately predict changes in national laws and regulations that might affect their businesses, much lower than that of large firms (22 percent). More alarmingly, only seven percent of micro and small enterprises, respectively, and eight percent of medium ones thought they could predict how state laws will be implemented at the provincial level. The figure for large firms is just 14 percent. In a business environment with such limited policy predictability, firms are likely to face more unforeseen difficulties.

Figure 2.4 Transparency Indicators, by Firm Size



Source: PCI Survey Question F2. “Do you think that it is necessary to have a relationship with provincial officials to gain access to the above documents /information?” Question D14.3. “Negotiations on payable taxes with provincial tax officers are a necessary part of doing business” 6. Question F6. “How predictable are changes in laws at the central level which affect your business?” Question F7. “How predictable is the implementation of these central laws and regulations at the provincial level?”

Informal charges

Burden of informal charges Paying informal charges is another burden that hampers the operations of SMEs. 62 percent of micro-sized firms and 68 percent of small ones see paying informal charges as a common practice. For medium and large enterprises, the figures are 70 percent and 69 percent, respectively.

The informal charges are relatively significant compared with the revenue of SMEs. About 11 percent of micro enterprises, 13 percent of small businesses and 10 percent of medium-sized firms report that informal charges account for more than 10 percent of their revenue. The figure for large firms is seven percent. A remarkable number of micro and small firms (around 65 percent, respectively) as well as medium ones (62 percent) report the existence of “harassment during administrative procedures.” For large firms, the figure is 60 percent.

Table 2.10 Informal Charges, by Firm Size

Size off enterprises	Firms in my line of business pay bribes (%)	Percentage of revenue in informal payments (% > 10%)	Local officials use compliance with local regulations to extract rents (%)
Micro-sized	62	11	65
Small-sized	68	13	66
Medium-sized	70	10	62
Large-sized	69	7	60
Total	65	11	65

Source: PCI Survey Question D9. Do you agree with this statement? "It is common for firms in my line of business to have to pay extra 'informal payments.' ". Question D.10. On average, what percentage of income do firms in your line of business typically pay per year for informal charges to public officials? Question D14.2. "It is common that bureaucrats cause troubles when processing procedures for businesses"

Business support services

Over the past years, many policies have been adopted to help SMEs facilitate their business development. However, not many SMEs could really benefit from these policies.³⁶ The PCI survey attempts to gather more information on this issue through a series of questions related to business support services. Specifically, the annual PCI survey asks enterprises if they have used some of the basic business supporting services available at their cities and provinces in the last year, such as: support in finding market information; legal consultation; job consultation and introduction; business partner match-making services; trade promotion and trade fairs; technology and related services; and training on business administration, accounting and finance. The basic business support services, if offered broadly with decent quality, are supposed to help firms perform better.

The 2015 PCI survey shows that the number of SMEs which acknowledge using these business supporting services is between 20-30 percent. The rate of micro-sized firms that use these services is the lowest, followed by those of small and medium ones. Large firms are generally the most active clients of these services. Figure 2.5 illustrates the rates at which firms used various business support services in 2015.

³⁵ Online Customs Newspaper, 2016. "Policies to Support Small and Medium-Sized Enterprises Remain Scattered," dated 7/1/2016, accessed at <<http://www.baohaiquan.vn/Pages/Chinh-sach-ho-tro-doanh-nghiep-nho-va-vua-khong-hieu-qua.aspx>>

Figure 2.5 Use of Business Support Services, by Firm Size



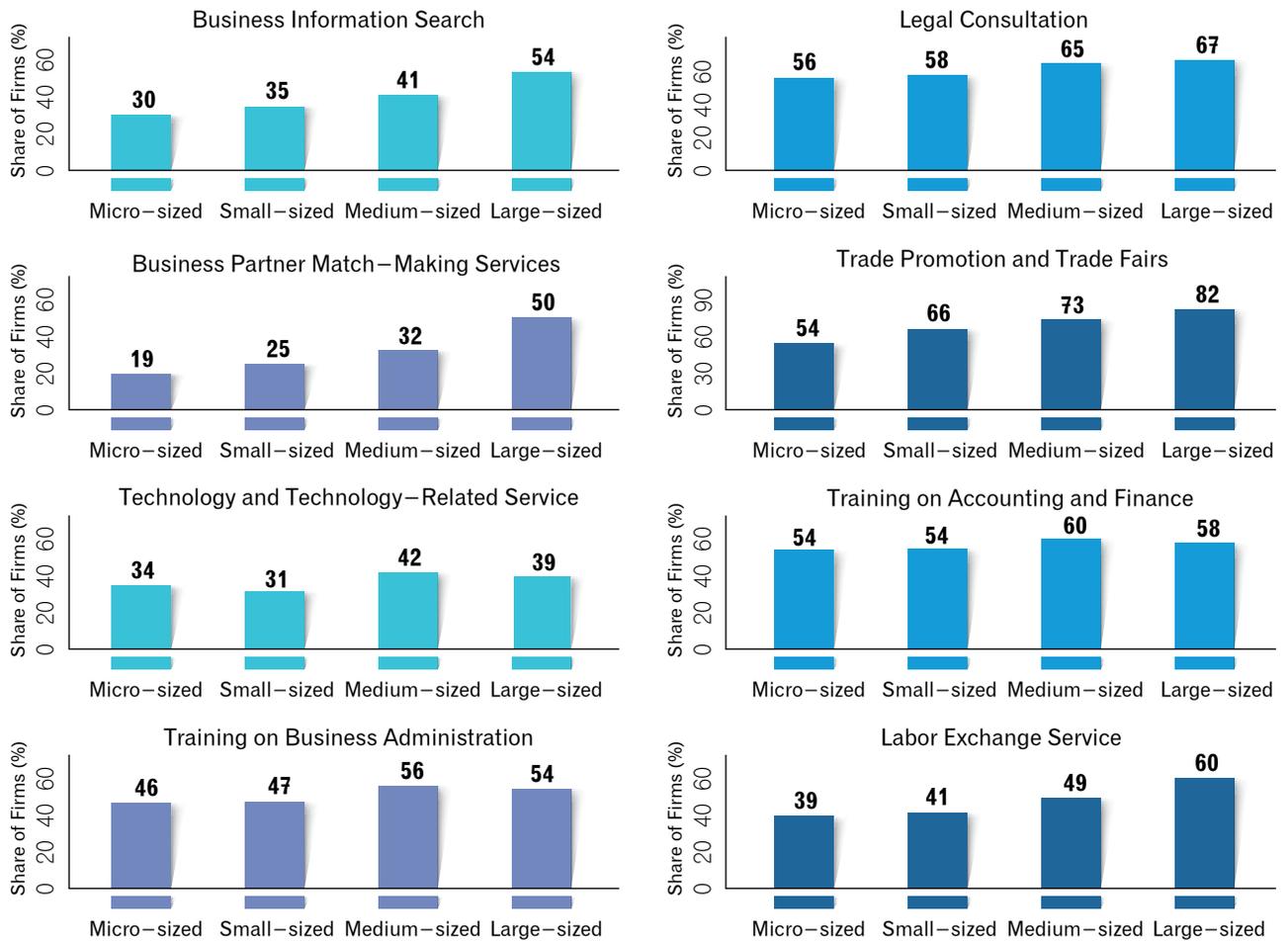
Source: PCI Survey Question E6: "In the last year, did your firm use the following services in the province? If Yes, please specify the providers."

Typically, state agencies provide certain services to the market mainly in the case of market failure. The question is whether state agencies should also participate in the market in the absence of private providers, especially in less developed economies. This really matters to SMEs because they may not have sufficient resources to pay for private service providers from other provinces with higher service charges. Therefore, SMEs can be expected to be the main customer group of provincial agencies providing business support services.

What matters is whether provincial agencies' support for SMEs has come to the right level. The 2015 PCI survey could partly answer this question. In our questionnaire, enterprises are asked whether they have used services from state-owned or private providers. Support services for SMEs from provincial agencies are considered effective if the number of SMEs using these services is higher than that of large firms.

Unfortunately, it is the large enterprises that account for the biggest share of firms who use these services, outnumbering SMEs, as seen in Figure 2.5.

Figure 2.6 Use of Provincial Agency Business Support Services, by Firm Size



The quality of provincial business support services can be shown through the proportion of firms who are likely to reuse the services to which they have access.

Table 2.11 reflects the PCI survey responses that indicated about 50-60 percent of firms said they would again use the services provided by provincial agencies and 70 percent would particularly use the service of business information search. However, services provided by provincial agencies are more likely to meet the needs of medium and large firms than micro and small ones. For the most part, the numbers of micro and small enterprises saying that they will once more use the services provided by provincial agencies are less than those of medium and large firms. This indicates that smaller firms did not find these provincial support services to be a profitable use of their time and did not help them improve their business performance.

Table 2.11 Likelihood of Provincial Agency Business Support Service Reuse, by Firm Size

Fields	Size of Enterprise				Total (%)
	Micro-sized (%)	Small-sized (%)	Medium-sized (%)	Large-sized (%)	
Business information search	71	75	80	83	74
Legal consultation	63	65	63	81	65
Business partner match-making services	64	68	66	78	67
Trade promotion and trade fairs	57	57	67	66	59
Technology and technology-related services	46	50	63	81	50
Training on accounting and finance	61	63	56	82	63
Training on biz administration	54	55	57	73	56
Labor exchange services	49	54	63	75	55

The PCI survey also compares the services provided by state and by private agencies. The results, as seen in Table 2.12, show that in particular areas, more SMEs use services provided by private offices than state ones, including business information search, legal consultation, business partner match-making, technology and related services, where the private providers are more responsive to the market needs of smaller firms. For the remaining categories, SMEs tend to use state-run support services more than private alternatives. These services have been traditionally provided by public service agencies.

Table 2.12 Likelihood of Private Business Support Service Reuse, by Firm Size

Fields	Size of Enterprise				Total (%)
	Micro-sized (%)	Small-sized (%)	Medium-sized (%)	Large-sized (%)	
Business information search	73	79	75	72	76
Legal consultation	66	69	79	50	68
Business partner match-making services	67	73	75	80	70
Trade promotion and trade fairs	41	40	58	100	43
Technology and technology-related services	53	56	48	50	54
Training on accounting and finance	50	57	56	54	54
Training on business administration	49	59	53	47	53
Labor exchange services	49	55	63	44	52

The general assessment of the state-provided business support services shows that changes in organization and implementation are necessary. The direct involvement of state or provincial agencies in business support services has made the market unhealthy by preventing the private sector from developing. Moreover, the changes in support services should be in accordance with Resolution 19/2014/NQ-CP³⁶ which requires policy makers

³⁶ Resolution 19/NQ-CP dated March 18th, 2014 on Improving the Business Environment and Enhancing National Competitiveness

to “study and propose services that can be provided by the private sector with a particular scale before introduction of any regulations that allow market openness, ensuring fair and equal access to business opportunities in this area and freedom of choice of service provider suitable with market mechanism.”³⁷

The 2015 PCI survey asks enterprises if they are aware of any incentive policies from central or provincial authorities as well as local ones that are applied in their business lines. If so, they are asked to indicate whether they are legally eligible to benefit from these policies. Another issue of interest is whether these firms actually receive support from these incentive policies.

Business supporting policies with limited coverage

It can be clearly seen in Table 2.13 that the SMEs’ awareness of business incentive policies offered by central and local offices is much lower than that of large firms. Likewise, the rate of SMEs that are eligible to benefit from these policies and the rate of SMEs that can receive support from these incentive policies are lower than those of their bigger counterparts.

Table 2.13 Information and Awareness of Incentive Policies

Fields	Size of Enterprise			
	Micro-sized (%)	Small-sized (%)	Medium-sized (%)	Large-sized (%)
Aware of incentive policies	51	61	70	77
Legal eligibility to benefit from the incentive policies	60	65	75	78
Actual receipt of the support from one of the incentive policies	32	41	51	65

2.4 SOME REASONS FOR OBSTACLES OF SMEs

Inspection from state agencies seems to be a burden for many private firms in Vietnam. According to the 2015 PCI survey, up to 74 percent of firms received visits from inspection delegations in the past year. A worrying issue is visible: the bigger the firm is, the bigger the burden of inspection is. This may be a reason that could discourage some SMEs in Vietnam from growing; firms may strategically elect to remain small in order to avoid drawing the scrutiny of inspectors.

The inspection burden increases by firm size

Usually, SMEs receive one or two inspections a year. For large firms, the number is up to three. Overall, 18 percent of micro firms, 24 percent of small and 43 percent of medium firms said that they received at least three inspections last year. Alarming, 50 percent of large firms were inspected at least three times last year.

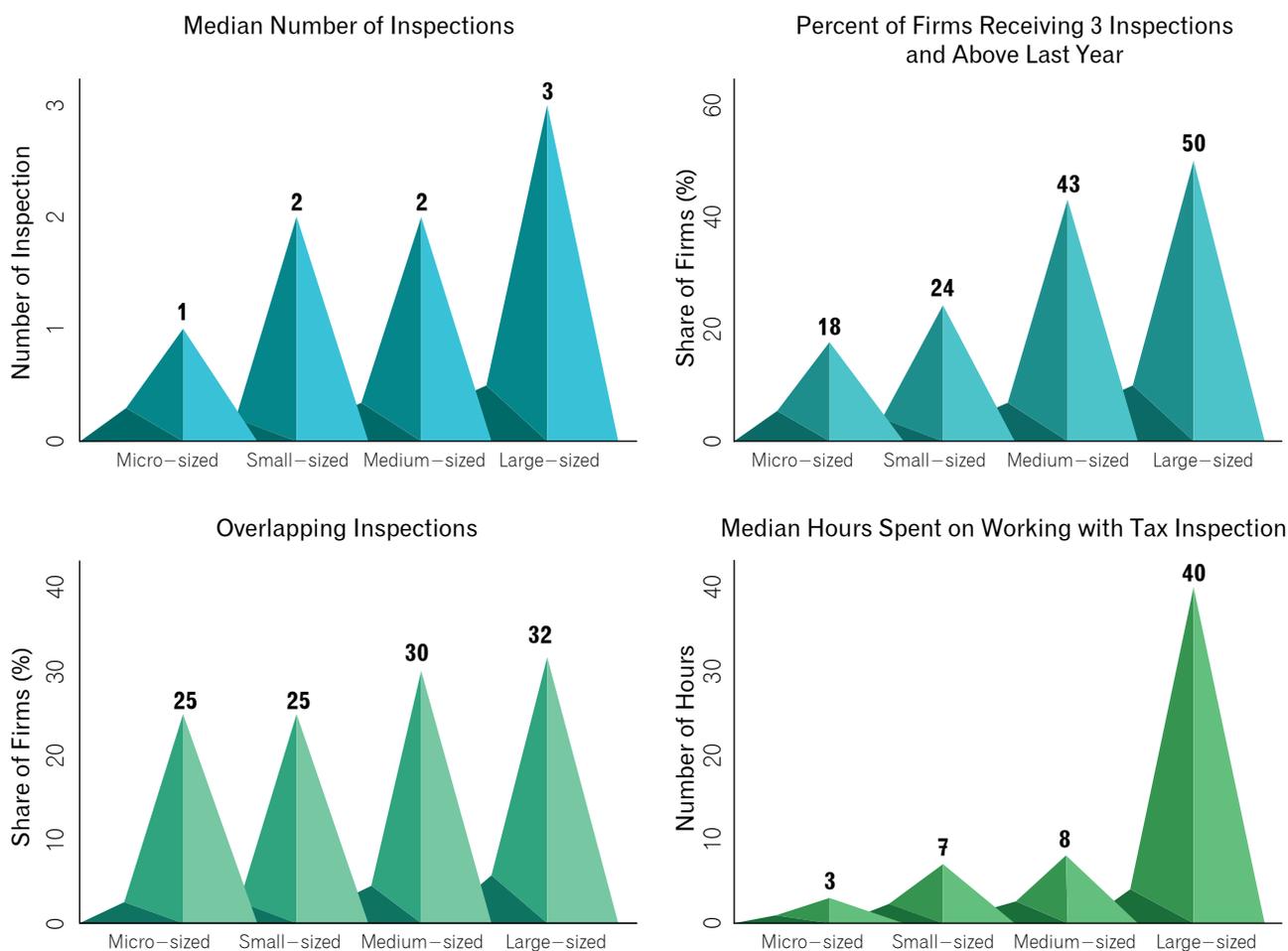
More importantly, firms express their concern about the overlap and duplication in inspections by provincial departments and agencies. As seen in Figure 2.7, the 2015 PCI survey shows 25 percent of micro and small and 30 percent of medium enterprises were subject to inspection overlap. For large firms, the figure was 32 percent. While inspections

³⁷ Resolution 19/2014/NQ-CP (March 18, 2014) on Improving the Business Environment and Viet Nam’s Competitiveness.

are important for firms' compliance with state regulations, it is quite damaging when provincial agencies expend extra resources to conduct duplicative work, costing firms (and the state) time and money. In some cases, local agencies have re-inspected before firms could respond to findings from a previous inspection. This strongly suggests better coordination of inspections is needed among line departments and agencies.

One of the most popular types of inspection, which every firm is worried to face is the tax inspection. The time burden of tax inspections also increases by firm size. With micro firms, each inspection takes about three hours on average; for small and medium firms, the figure is seven and eight hours, respectively. Even worse, a tax inspection often costs large firms about 40 hours. Further research is necessary to determine whether this indicates greater harassment for large firms, or whether their finances are more complicated and require more time to evaluate.

Figure 2.7 Burden of Inspection in 2015, by Firm Size



Source: PCI Survey Question D1 "How many total times was your business inspected and examined in 2014". Question D1 1. Was there any overlap and duplication during these inspections? Question D4. On average, how long did the tax inspection last?

Figure 2.8 reveals that administrative burden increases in accordance with firm size. *Administrative burden* Specifically, while 54 percent of micro firms and 49 percent of small firms agree that “paperwork is simple,” for medium and large firms, the figures are just 45 percent and 38 percent, respectively.

Another assessment that reveals similar encumbrance is whether enterprises confirm they do not have to take several trips to local agencies to complete the necessary administrative work. While 64 percent of micro and 58 percent of small firms agree with that statement, only 51 percent of medium and large firms do.

Figure 2.8 Use of Provincial Agency Business Support Services in 2015, by Firm Size

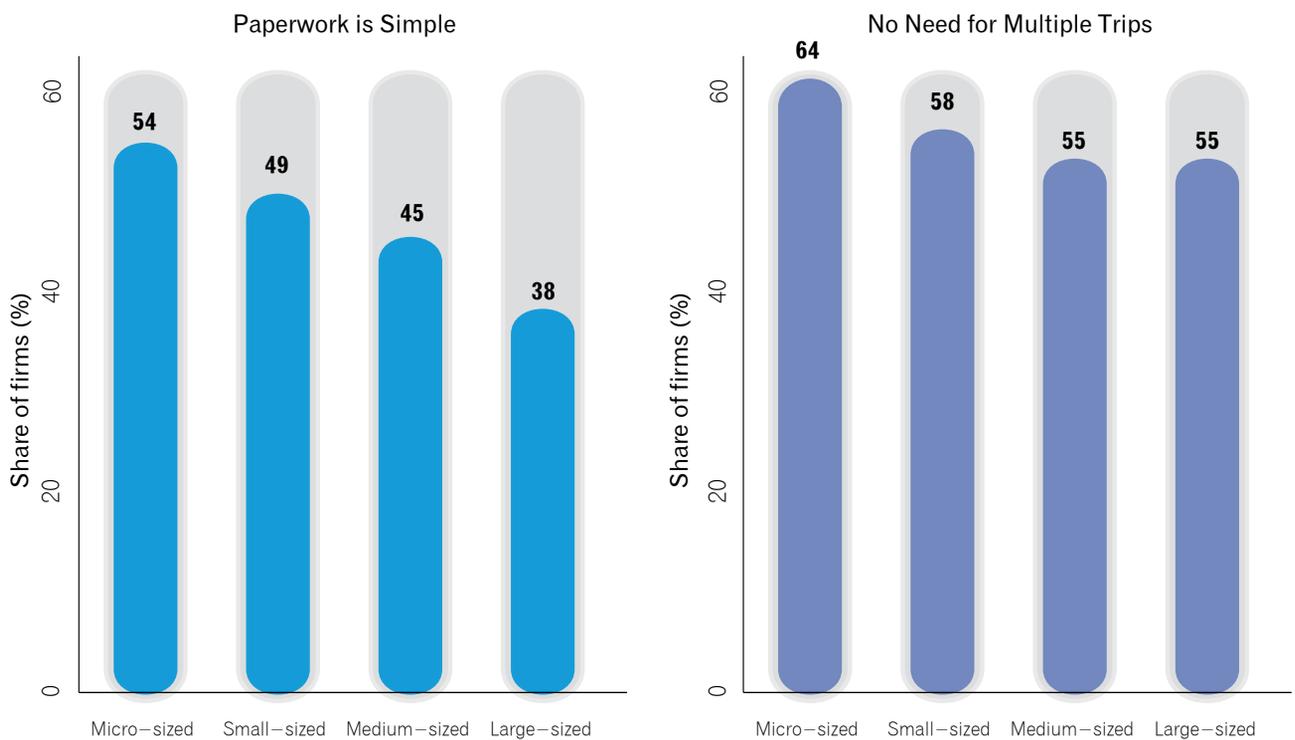


Table 2.14 reveals that there are some fields in which administrative procedures are regarded as more onerous or troublesome as firm size increases. The PCI 2015 survey found these areas to be social insurance, land, tax, customs, fire safety, labor, environment protection and payment clearance through state treasuries. In addition, the table also details the fields of administrative procedures that are the most troublesome to SMEs. This information may be useful for state management agencies to identify which domains should be prioritized to create favorable conditions for this group. Accordingly, the areas in need of immediate improvement should be social insurance, land, state treasury – the ones rated as the most troublesome to SMEs.

Table 2.14 Troublesomeness of Administrative Procedures

Fields of Administrative procedures	Micro-sized (%)	Small-sized (%)	Medium-sized (%)	Large-sized (%)	Total (%)
Social insurance	22	27	31	29	25
Environment protection	7	9	16	21	9
Land	24	25	35	37	25
Business/investment registration	11	10	16	9	11
Customs	6	7	10	14	7
Fire safety	8	10	15	15	9
Tax	31	29	28	31	30
Construction	10	13	14	13	12
Labor	6	7	9	8	7
State Treasury	14	16	12	8	15
Transportations	11	13	13	8	12

2.5 CONCLUSIONS

The 2015 PCI survey portrays an image of SMEs and provides preliminary data that suggests several reasons why SMEs have not been flourishing. They are beset by obstacles, including limited access to resources for business (land, policy information, laws, and capital), burdens of informal charges, the poor quality of business support services and misguided support policies. The report also revealed larger firms face greater burdens of administrative procedures as well as inspections from local authorities.

In order to promote the development of SMEs in Vietnam, related policies and laws should aim to address difficulties they are facing and lifting the barriers that prevent them from achieving better results. In particular:

- Formulate policies that support the practical needs of SMEs during their development and early launch stages. Particularly, they will need access to capital, land, and knowledge of potential providers, as well as detailed guidance on regulation and administrative procedures.
- Update frequently the relevant information about legal and policy planning in cities and provinces on cities' and provinces' websites with detailed and accessible data.
- Improve the transparency of the business environment to help reduce and minimize informal charges for SMEs.
- State agencies should pay attention to policy making and quality control of business support services, rather than directly providing the services. Business associations or private sector should be enabled to operate in this market

- Examine and reduce administrative procedures for firms in particular. Administrative procedures should be simple, understandable and accessible for enterprises and citizens. Areas that are particularly problematic for SMEs, like social insurance, land, tax, custom, fire safety, labor, payment clearance through state treasuries, should also be more focused and streamlined. Local authorities should reduce the burden and encourage better coordination of inspections.
- Finally, there should be more collaboration among both central and local ministries, sectors, and agencies with respect to policy-making and legislation. Frequent exchanges with business community are also necessary to understand the real expectations and demands of SMEs.

We believe further study of the unique obstacles and opportunities facing Vietnam's SMEs will enable policy-makers, entrepreneurs, and business owners to craft market-friendly legislation and regulation that enables all enterprises to thrive in the coming years. The PCI research team will continue to evaluate the business environment, bearing in mind the particular needs of this important market segment in our upcoming report.



3

THE FOREIGN INVESTMENT SURVEY

Introduction

According to aggregate data, 2015 was a banner year for the foreign investment sector. Dispersed Foreign Direct Investment (FDI) inflows totaled \$14.5 billion, an increase of 17.4 percent above the previous year, the highest year-on-year growth rate since the first foreign investment law was passed in 1987. Pledged FDI showed even greater growth, totaling 2,013 projects and \$15.57 billion, a 27 percent year-on-year increase, albeit a slight decline (0.4 percent) in the capital size per project.³⁸ Much of the investment increase comes from expansion of existing firms' operations rather than new entrants, which demonstrates their continued confidence in the Vietnamese market. Expanding firms included such blue chip companies as Samsung, LG, Microsoft, and Intel.³⁹

As we highlight in this chapter, a successful FDI policy is about far more than just attraction; it is also about creating an enabling environment that allows FDI to contribute to the broader economy. Here, there are positive signs as well. Export turnover by Foreign Invested Enterprises (FIEs) totaled \$115 billion, just under a 14 percent increase from the prior year and nearly three times the export turnover of the domestic sector. Although it is difficult to calculate, FDI also appears to be playing a role in increasing labor productivity in the general economy, which now accounts for an output of \$3,657 per worker. This represents a 6.4 percent growth from 2014.⁴⁰

The aggregate FDI statistics presented in this year's PCI report are cause for optimism. Investment expansion rates and the business thermometer show notable increases over earlier years. Nevertheless, we also push behind the headline numbers to probe

³⁸ General Statistical Office (GSO), 2016, "Socio-Economic Situation in 2015," Ha Noi, Vietnam.

³⁹ Ho Binh Minh. 2015, "UPDATE 1-Vietnam's FDI inflow hits record high so far in 2015," Reuters, (Article posted Sept. 25, but data recast at end of year). <<http://www.reuters.com/article/vietnam-economy-fdi-idUSL4N11V1QH20150925>>

⁴⁰ General Statistical Office (GSO), 2016, "Socio-Economic Situation in 2015," Ha Noi, Vietnam. https://www.gso.gov.vn/default_en.aspx?tabid=622&ItemID=15515

the post-investment environment. Specifically, what more could Vietnam do to increase the benefits of FDI? After profiling how Vietnam stacks up against its competitors in the region on key determinants of attraction, we delve into time-series data collected from five years of PCI-FDI surveys. First, we look at Vietnam's absorptive capacity, defined as the preconditions in the domestic economy to generate positive spillover from FDI that will enhance the productivity of domestic firms and ultimately lead to higher marginal wages among Vietnamese workers. Second, we look at Vietnam's risk profile, asking existing foreign investors what potential changes in the Vietnamese economy, government, and policies carry the greatest risks for their operations and what steps they are taking to mitigate these risks. Finally, building on this study, we offer advice to policymakers about how the new Law on Access to Information, scheduled to be debated this spring in the Vietnamese National Assembly (VNA), would be a key step in reducing FIEs' regulatory risk, cited by over 70 percent of firms as one of the top three risks in the Vietnamese economy today.

The survey covers the responses of 1,584 businesses from 43 different countries whose operations are located in the 14 Vietnamese provinces with the highest concentrations of FIEs, according to the General Statistical Office (GSO).⁴¹ As with the survey of domestic firms, the PCI-FDI respondents were selected from the General Tax Department (GTD) list, using a stratified random sample at the provincial level to ensure that the sampled firms mirror the underlying population of foreign firms in the province. While the PCI-FDI survey is not the only profile of foreign investment in Vietnam, it is the largest and most comprehensive. In fact, the number of respondents in the PCI-FDI module accounts for 8.2 percent of the entire population of foreign invested projects (19,277) that have registered in Vietnam since 1988, and nearly equals the number of new FIEs (1,840) that entered Vietnam in 2014.⁴²

It is critical to note that only domestic, private firms are included in the construction of the PCI. FIEs are separated and analyzed independently in this chapter because many provinces lack sufficient numbers of FIEs to confidently generalize about their provincial business environments. In addition, as FIEs have the luxury of selecting the province in which they want to operate, they tend to have a different relationship with local governments than domestic firms, which usually operate solely in their home province.

This chapter is divided into six sections. In Section 3.1, we explore the performance of FIEs in the past year, demonstrating that, while revenue and profitability have decreased, respondents record increasing optimism about their performance. In Section 3.2, we profile FIEs in Vietnam, finding that they are predominantly from neighboring Asian countries (especially Taiwan, South Korea, and Japan), are relatively small in both employment and investment size, have the majority of their operations in low-end manufacturing, and are primarily interested in the export market for goods. Section 3.3 profiles the absorptive capacity of Vietnamese provinces and the potential for spillover benefits of FDI. In Section 3.4, we study how these firms rank Vietnam against its immediate rivals and their own home country policies. Section 3.5 studies assessments of FDI evaluations of economic, political, and governance risks. Section 3.6 focuses on FIEs' perceptions of access to information.

⁴¹ General Statistical Office (GSO), 2016. "Foreign Direct Investment Projects Licensed by Province (Accumulation of projects having effect as of 31/12/2015)," Hanoi, Vietnam. <<http://www.gso.gov.vn/default.aspx?tabid=716>>

⁴² General Statistical Office (GSO), 2016. "Foreign Direct Investment Projects Licensed in Period 1988 – 2014," Hanoi, Vietnam. <<http://www.gso.gov.vn/default.aspx?tabid=716>>

3.1 PERFORMANCE OF FOREIGN FIRMS IN 2015

Consistent with the aggregate FDI flows and expansion data, FIEs in the PCI-FDI survey remain positive about their investment prospects. Table 3.1 shows that this year 11.3 percent of FIEs increased their investments in existing operations and 62.4 percent added new employees to their payrolls. These numbers are below 2014 levels, but show significant improvement from the doldrums of 2012 and 2013. On the other hand, the latter columns show that sales for the median firm are down considerably, fewer firms than ever are operating in the black (55 percent), and more firms are reporting losses (37.8 percent). The mismatch between expansion and actual performance reflects how FIEs have struggled over the past few years, but suggests they see sunnier days down the road and are making the necessary human capital and equipment expenditures to best take advantage.

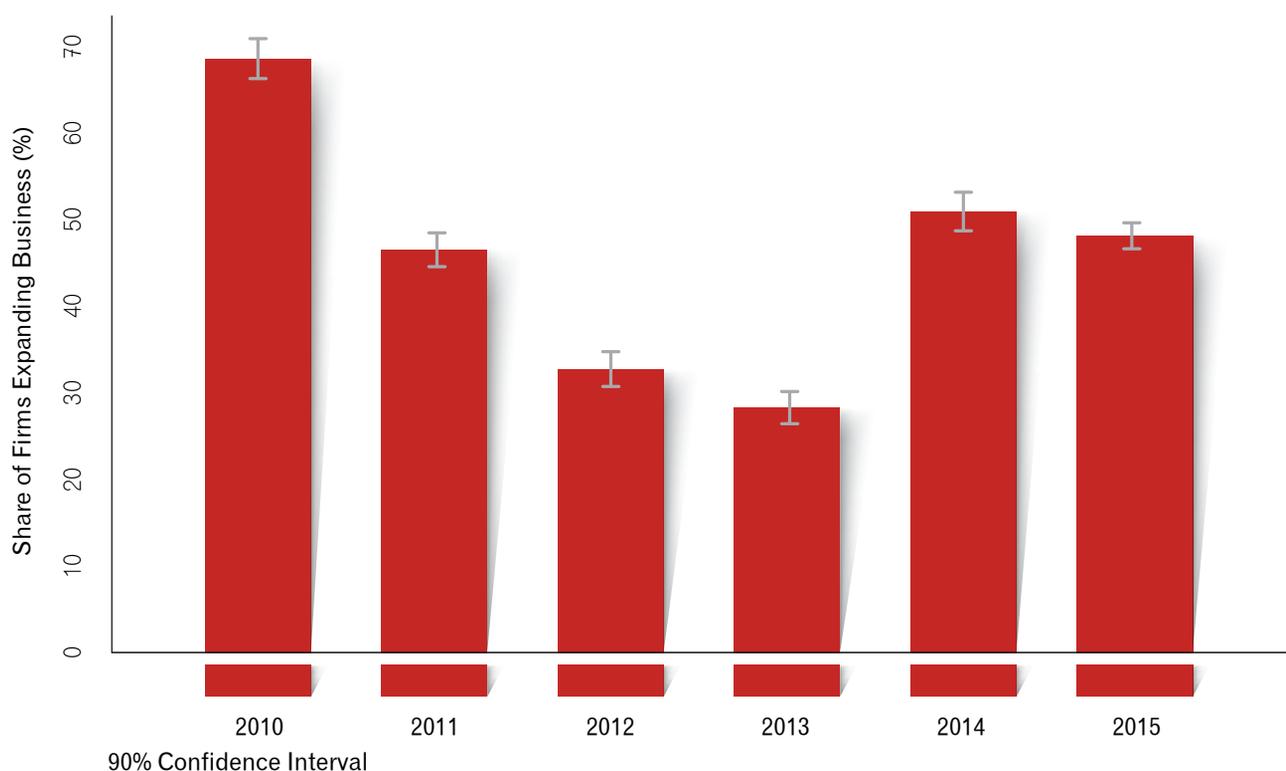
FIEs in the PCI-FDI survey remain positive about their investment prospects

Table 3.1 Performance of Foreign Firms over Time

Year	Firms Increasing Investment (%)	Firms Adding Employees (%)	Firms Reporting Profits (%)	Firms Reporting Losses (%)	Median Sales (Millions of 2010 USD)	Median Expenditures (Millions of 2010 USD)
2010	37.3	54.0	70.1	24.6	1.0	0.8
2011	27.8	47.1	73.9	20.5	1.4	0.7
2012	5.1	32.2	60.0	28.0	2.2	1.3
2013	5.1	33.4	64.1	23.8	1.8	1.1
2014	16.3	65.1	57.9	34.3	1.6	1.0
2015	11.3	62.4	55.0	37.8	1.0	2.0

Even better news appears to be on the horizon. Looking ahead to the next two years, according to the Business Thermometer, a question gauging prospective expansion plans (Figure 3.1), we see that optimism appears to be expanding rapidly. In 2013, we witnessed an all-time low in the number of FIEs intending to expand their operations over the next two years. This year, just under half of the businesses in the PCI-FDI sample intend to increase the size of their operations.

Figure 3.1 PCI-FDI Business Thermometer



Source: PCI-FDI Survey Question A12, “Which statement best characterizes your firm’s investment plans over the next 2 years?” Figure reports the share of firms that responded that they will increase or considerably increase operations.

3.2 CHARACTERISTICS OF THE FIE RESPONDENTS

As we have reported in previous years, the typical FIE in Vietnam remains relatively small, export-oriented, and operates a low-margin business that is subcontracting to a larger multinational producer—and is therefore usually situated among the lowest nodes of a product’s value chain.

Foreign operations in Vietnam are growing but remain quite small by international standards **Size:** Foreign operations in Vietnam are growing but remain quite small by international standards. The median size of an FIE is about 125 employees; 73.5 percent of FIEs in Vietnam have fewer than 300 employees. Indeed, 46.16 percent of FIEs have fewer than 50 employees, and as Table 3.2 shows, this share of small FIEs has increased over time. A few sizable operations are represented in the PCI survey; about 93 operations have over 1,000 employees. We find similar results when we disaggregate by equity—the median operation has \$1.2 million and 69 percent of FIEs have licenses for operations that are less than \$2.5 million. Only 6 percent of the sample is licensed for investments greater than \$25 million.

Table 3.2 Size of Foreign Firms over Time

Employment Size: Percent of firms with employment of								
Year	Less than 5	5 to 9	10 to 49	50 to 199	200 to 299	300 to 499	500 to 1000	1000 and over
2012	2.52	7.69	27.37	29.09	9.87	8.42	8.08	6.96
2013	3.67	5.44	28.42	30.25	9.49	7.85	8.54	6.33
2014	5.35	8.41	29.15	29.58	6.49	7.70	6.91	6.41
2015	5.75	9.30	31.12	27.37	6.52	7.10	6.84	6.00
Equity Size: Percent of firms reporting equity of								
Year	Under 0.5 BVND (25,000\$)	0.5 to under 1 BVND (50,000 \$)	1 to under 5 BVND (250,000 \$)	5 to under 10 BVND (500,000 \$)	10 to under 50 BVND (2.5 million \$)	50 to under 200 BVND (10 million \$)	200 to under 500 BVND (25 million \$)	500 BVND (25 million \$)
2012	2.23	4.17	14.84	17.07	29.41	19.48	6.77	6.03
2013	2.52	4.24	15.74	19.07	31.28	16.35	6.05	4.74
2014	5.61	5.48	13.89	15.54	30.83	16.82	6.37	5.48
2015	5.98	6.08	17.53	17.02	25.73	15.81	6.28	5.57

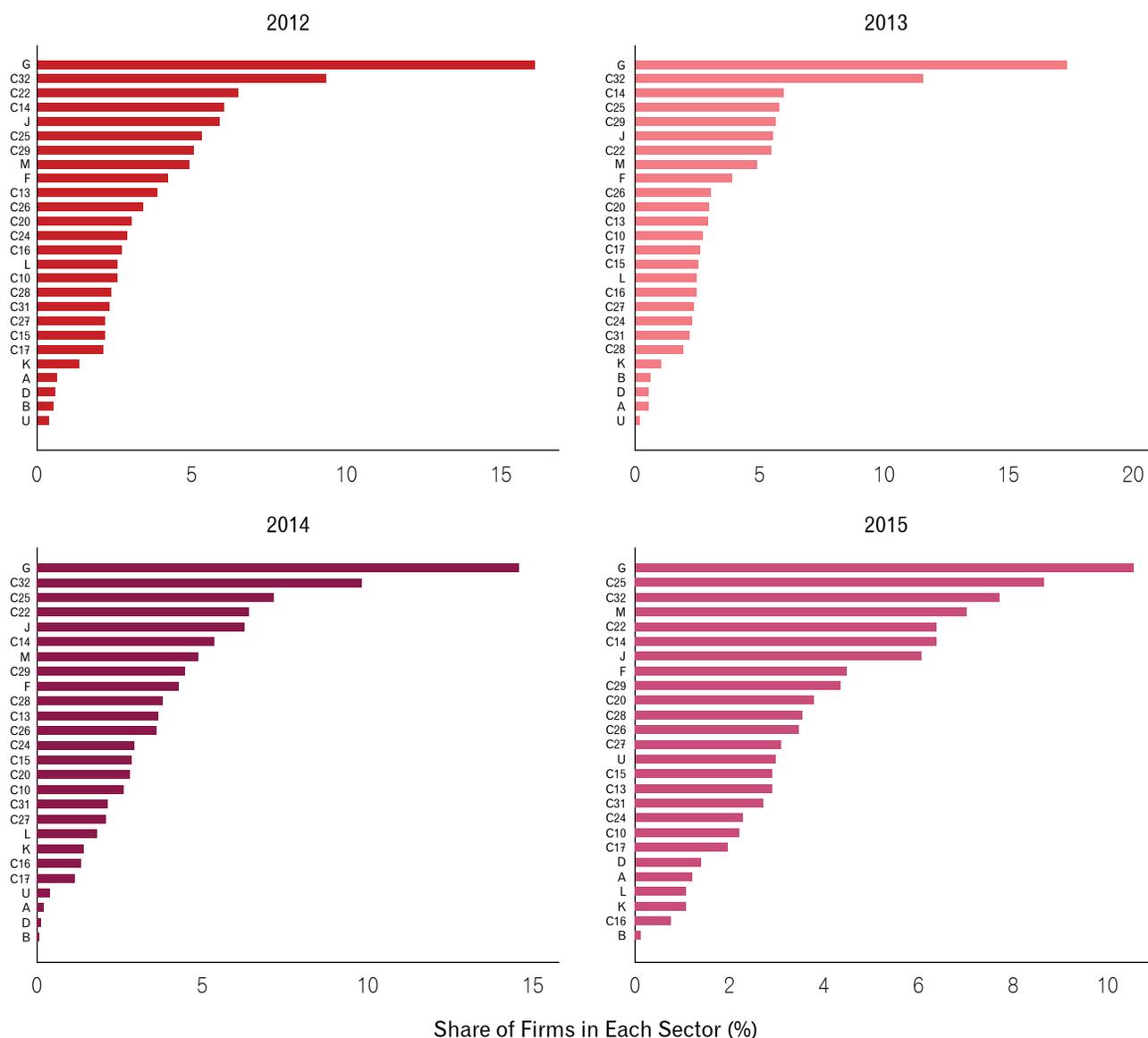
BVND=Billions of Vietnamese Dong; \$=United States Dollars

Type of Investor: Over 87 percent of FIE respondents indicate they are wholly foreign-owned. This figure, which is in agreement with the General Statistical Office Enterprise Survey,⁴³ is remarkable because early in the Vietnamese foreign investment history (1987–1991), one hundred percent foreign-owned investment was not allowed and investors were obligated to enter into joint ventures with SOEs. While 100 percent foreign ownership became legally possible under the 1991 revision to the Foreign Investment Law, it was still difficult, as access to land hinged on finding a local partner. The 1996 revisions of the law facilitated truly direct investment and led to the dominance of this wholly foreign-owned enterprise form that we observe today. Only 7 percent of respondents are in joint ventures, and less than 6 percent are registered as domestic operations.

Sector: As Figure 3.2 shows, in 2015, 64 percent of FIEs are in manufacturing, while only 36 percent of FIEs operate in services and other sectors. Manufacturing share has declined slightly from 67 percent in 2014 to 64 percent in 2015. Activity in manufacturing is extremely diverse, however. No particular type of manufacturing is particularly dominant in the economy. Dissecting manufacturing more precisely, we find that the three biggest sectors after general manufacturing in 2015 continue to be fabricated metal products (8.7 percent), rubber and plastics (6.4 percent), and apparel (6.4 percent). Motor vehicles, chemical products, machinery, and computers and electronics follow with about 4 percent of the sample each. The most populated service sectors are wholesale and retail trade (13.5 percent), and professional and scientific activities (7 percent).

⁴³ General Statistics Office of Vietnam. 2014. "The Enterprise Survey 2013 Dataset." Hanoi, Vietnam.

Figure 3.2 Sectoral Distribution of Foreign Investors



ISIC: Sector Codes		Subdivisions of Sector C (Manufacturing): 2 Digit Level	
A	Agriculture, forestry and fishing	10	Manufacture of food products
B	Mining and quarrying	12	Manufacture of tobacco products
C	Manufacturing	13	Manufacture of textiles
F	Construction	14	Manufacture of wearing apparel
G	Wholesale and retail trade; repair of motor vehicles and motor cycles	15	Manufacture of leather and related products
J	Information and communication	16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
K	Financial and insurance activities	17	Manufacture of paper and paper products
L	Real Estate Activities	20	Manufacture of chemicals and chemical products
M	Professional, scientific and technical activities	22	Manufacture of rubber and plastics products
U	Activities of extraterritorial organizations and bodies	24	Manufacture of basic metals
		25	Manufacture of fabricated metal products, except machinery and equipment
		26	Manufacture of computer, electronic and optical products
		27	Manufacture of electrical equipment
		28	Manufacture of machinery and equipment n.e.c.
		29	Manufacture of motor vehicles, trailers and semi-trailers
		31	Manufacture of furniture
		32	Other manufacturing

Customers: Table 3.3 studies the major customers of FIEs over time by looking at the share of firms that have at least one customer from each category. The overwhelming majority are either purchasers of exports (to the home country or third parties) or other foreign companies or private individuals and firms in Vietnam. This pattern suggests multinational supply chains characterize a great deal of the customer base for FIEs in Vietnam. About 40 percent of these companies sell to private Vietnamese individuals or firms, which is an indicator of spillover from FIEs into the domestic economy though this measure remains down about 9 percentage points from the 2013 peak. Sales to state-owned enterprises (SOEs) and state agencies remain low.

The major of FIEs are either purchasers of exports or other foreign companies or private individuals and firms in Vietnam

Table 3.3 Customers of Foreign Invested Firms

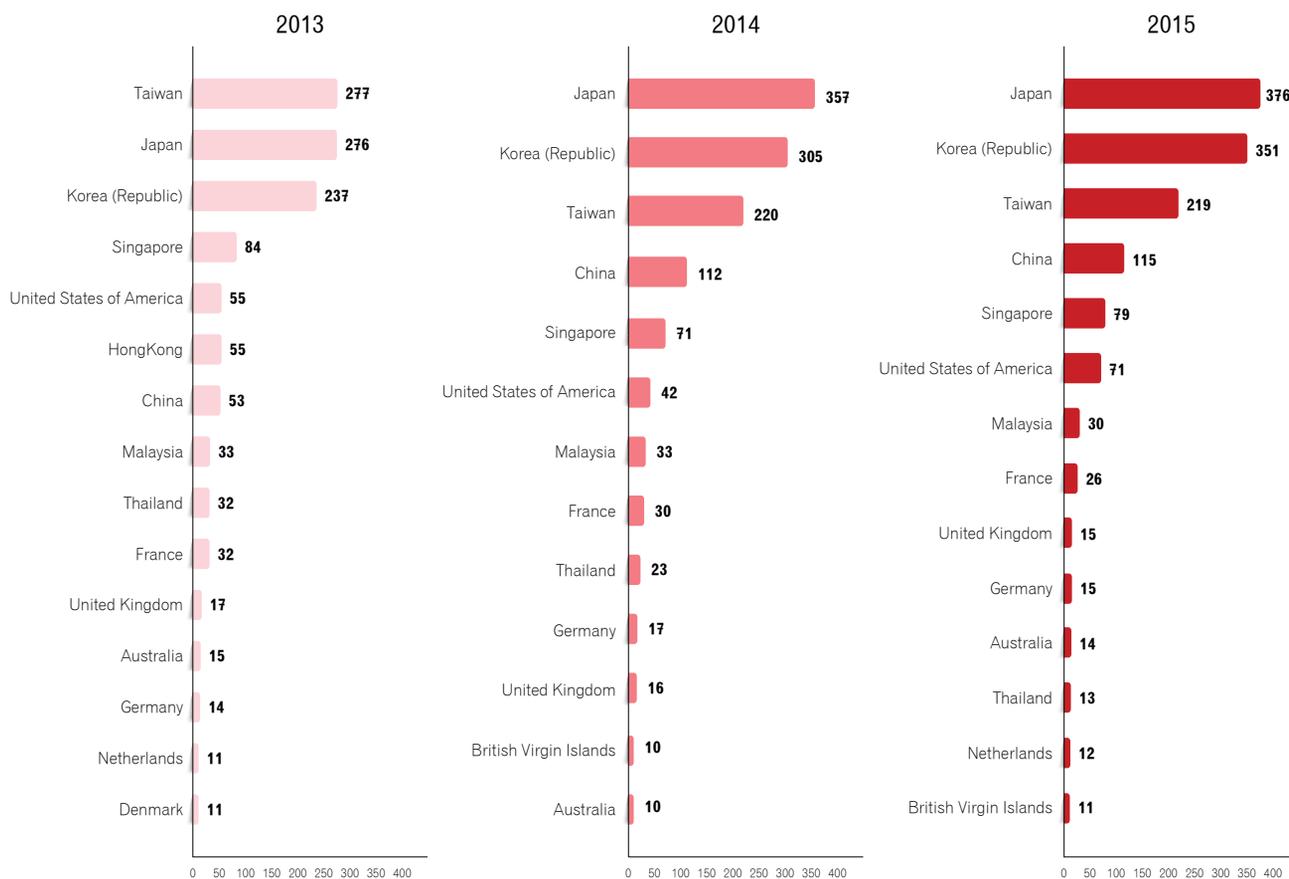
Year	State Owned Enterprise (%)	State Agency (%)	Private Individual or Firm (%)	Foreign in Vietnam (%)	Export to Home Country (%)	Export to Third Party (%)
2010	10.4	4.0	29.0	28.3	49.9	9.8
2011	7.9	6.8	38.3	15.6	40.5	3.8
2012	13.0	5.3	41.4	25.3	32.6	28.3
2013	16.6	6.3	49.1	35.7	33.9	39.6
2014	12.6	5.1	38.8	45.7	36.7	28.7
2015	13.7	4.1	40.2	51.6	39.5	32.6

Country of Origin: As in previous years, we find that investors from East Asia dominate the PCI-FDI sample (see Figure 3.3). Investors from South Korea, Taiwan, Japan, and mainland China account for 68 percent of the active businesses surveyed. When we add investors from neighbors in Southeast Asia, the figure passes 80 percent. These numbers correspond closely to the calculations made by the Ministry of Planning and Investment (MPI) and GSO.⁴⁴ Sizable numbers exist for Western investors as well. The 2015 PCI-FDI sample contains 80 investors from Europe, 77 from the United States (including Guam and the U.S. Virgin Islands), 14 from Australia, and a host of others from Russia, Eastern Europe, and Latin America. It is important to note that a great deal of U.S. investment is listed as originating in Hong Kong and Singapore for a variety of logistical and tax-based reasons; thus, U.S. investment is probably understated.

Investors from East Asia dominate

⁴⁴ GSO, 2015. "The Enterprise Survey." <<http://www.gso.gov.vn/Default.aspx?tabid=217>>

Figure 3.3 Respondents by Country, 2013-2015



Number of Firms from Each Country

3.3 ABSORPTIVE CAPACITY AND SPILLOVER OF VIETNAMESE FIEs

Developing countries all over the world have provided hefty benefits to FIEs to attract their investment. For example, in 1996, Malaysia conceded about \$2.4 billion in forgone surtax and sales tax revenues alone, which translates into \$30,000 per job created by FDI.⁴⁵ Vietnam is no exception. Since January 1, 2009, Vietnam has offered FIEs in prioritized sectors a reduced Corporate Income Tax (CIT), lowering the standard rate from 25 percent to 10-20 percent for up to 30 years. In addition, these FIEs can have their land rental fees waived for up to 15 years.⁴⁶ In our 2015 PCI-FDI survey, 62 percent of FIEs report receiving investment incentives. The share of FIEs receiving incentives is lowest in Da Nang (45 percent) and highest in Tay Ninh (89 percent).

Are investment incentives worth their price tags? There is indeed a multitude of benefits associated with FDI. For example, FDI can bring cash-strapped developing countries

⁴⁵ Oman, C. 1999, "Policy Competition and Foreign Direct Investment," Draft, OECD Development Centre, Paris, p 43. Retrieved Feb 2, 2016 from <<http://www.oecd.org/daf/inv/investmentstatisticsandanalysis/2758457.pdf>>

⁴⁶ Ministry of Planning and Investment. 2011. Investment Incentives. Retrieved February 2, 2016, from <<http://fia.mpi.gov.vn/detail/689/investment-incentives>>

much-needed capital, create employment for booming populations, and is less prone to fleeing during economic downturns than portfolio investment. Therefore, during periods of weak growth, high unemployment, or tepid investment, one can justify incentive programs that encourage investments. However, if FDI is important only for these reasons, then domestic and foreign investments should be promoted alike.⁴⁷ After all, a dollar of domestic investment is no different than a dollar of FDI.

A more compelling argument for promoting FDI is that FIEs bring advanced technologies. Through contacts between FIEs and domestic firms, especially through supplier-customer relationships, locals may improve their technological prowess by receiving higher technical specifications, standards, and/or training in the use of new equipment, being held to a higher standard, or simply observing FIEs' management techniques. The hope is that these technological spillovers will increase domestic firms' productivity and raise the competitiveness of the Vietnamese private sector on the international stage. In this sense, a dollar of FDI is potentially worth more than a dollar of domestic economic activity because of the advanced technologies foreign firms introduce.

However, several empirical studies have shown that this theoretical benefit of technological spillover is not certain in practice.⁴⁸ To facilitate such spillover, three conditions must be in place: backward linkages, geographical proximity, and absorptive capacity. We examine these factors in turn.

Backward Linkages

The first factor that facilitates technological transfer is FIEs' dense backward linkages, i.e. FIEs sourcing input from domestic firms. Motivated by the need for a high quality supply chain, corporate social responsibility, or even pressure from governments, FIEs often provide technical assistance to their domestic suppliers. For example, Samsung has set up educational programs and technical seminars on components for its local suppliers. The company has also established supplier support funds, such as a KRW9 billion (\$7.5 million) low-interest loan program to help its qualified suppliers finance "technology development, facility investment, and operations."⁴⁹ However, Vietnamese firms' opportunities to take advantage of such assistance depend on their ability to become the suppliers of and form linkages with FIEs such as Samsung. Indeed, Vietnamese economists have expressed concerns that these backward linkages are limited, leading to little technology transfer.⁵⁰

Given the importance of backward linkages, we drill deep into question A17 in the PCI-FDI survey asking FIEs where they obtain their inputs. Figure 3.4 shows the number of

⁴⁷ Blomström, M. 2002, "The Economics of International Investment Incentives," *International Investment Incentives*, 165–183. Retrieved from <<http://www.cepal.org/prensa/noticias/noticias/2/9272/blomstrom.pdf>>

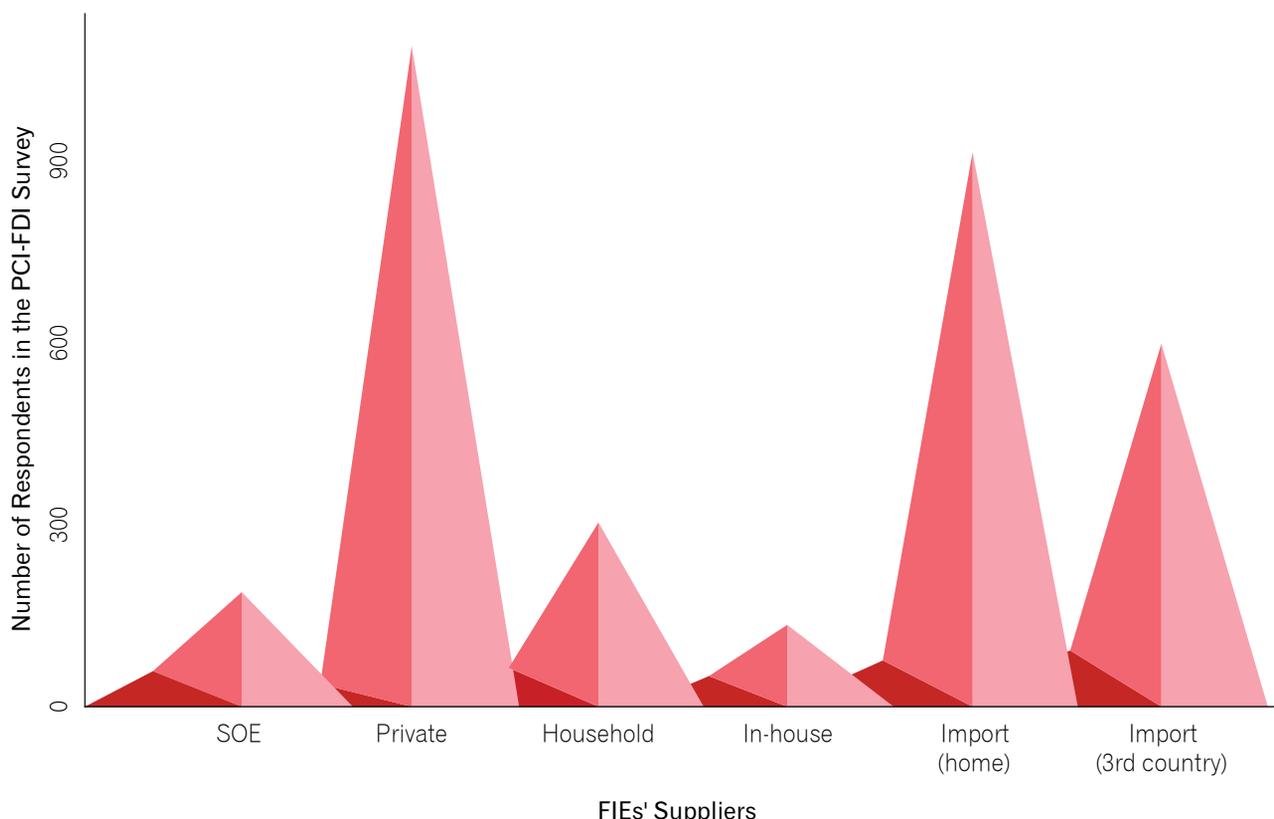
⁴⁸ Havranek, T., & Irsova, Z. 2011. "Estimating Vertical Spillovers from FDI: Why Results Vary and What The True Effect Is," *Journal of International Economics*, 85.2, 234–244; Javorcik, B. S. 2004, "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages" *American Economic Review*, 94.3, 605–627; Kokko, A. 1994, "Technology, Market Characteristics, and Spillovers," *Journal of Development Economics*, 43(2), 279–293

⁴⁹ Samsung Electronics. (2015). *Samsung Sustainability Report 2015*. Retrieved from <http://www.samsung.com/us/aboutsamsung/sustainability/sustainabilityreports/download/2015/SAMSUNG_SUSTAINABILITY_REPORT_2015_ENG.pdf>

⁵⁰ Nguyen, D. 2014. "Hi-Tech Transfers by Foreign Firms Remain a Pipe Dream," *Vietnam Investment Review*, November 11, 2014. Retrieved February 2, 2016 <<http://www.vir.com.vn/hi-tech-transfers-by-foreign-firms-remain-a-pipe-dream.html>>

FIEs that source their inputs from each type of supplier. The three main types of suppliers for FIEs are 1) domestic private suppliers, 2) foreign suppliers from home, and 3) foreign suppliers from a third country. Although 1,000 FIEs source from domestic private suppliers, 1,500 FIEs import inputs from home or a third country, suggesting that backward linkages between FIEs and domestic suppliers can still be improved.

Figure 3.4 The Number of FIEs Served by Each Supplier Type



Source: PCI-FDI Survey Question A16, "Who are your suppliers of intermediate goods and services?" Note that private includes formally registered firms while household includes only household enterprises.

Importantly, the pattern of backward linkages also varies substantially across sectors. Figure 3.5 shows the percentage of input expenditure that the average FIE in that sector spends with each of four types of supplier. Finance and service are the two sectors with the most backward linkages because they rely heavily on human capital, which cannot be imported. In contrast, FIEs in manufacturing and mining import over half of their inputs from foreign suppliers. It seems that Vietnamese suppliers still can not meet the demand of these FIEs, limiting the potential for technological transfers in these sectors.

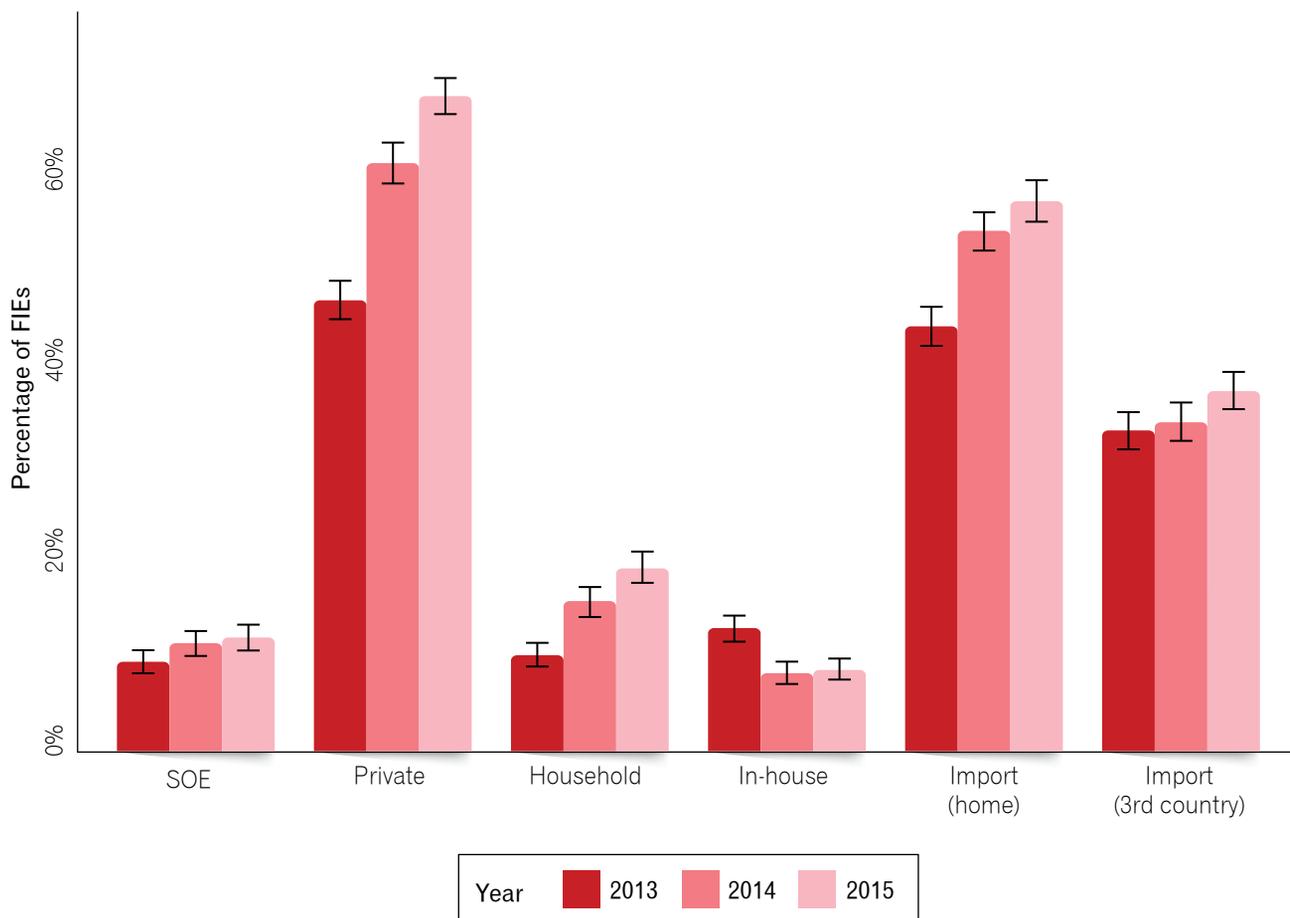
Figure 3.5 The Percentage of FIEs' Input Expenditure Served by Each Supplier Type by FIEs' Sector, 2010-2012



Source: PCI-FDI Survey Question A16, "Who are your suppliers of intermediate goods and services?" Note that private includes formally registered firms while household includes only household enterprises.

Adding historical perspective, however, paints a more positive picture for Vietnamese suppliers (Figure 3.6). In 2013, only 45 percent of FIEs bought inputs from domestic private suppliers. This number rose steadily in 2014 (62 percent) and in 2015 (68 percent), a statistically significant increase each year. The percentage of FIEs who buy from other supplier types also all increase over time (except for in-house sourcing), suggesting that FIEs are diversifying their sourcing strategy, using more supplier types than before.

Figure 3.6 FIEs’ Sourcing Strategy over Time, 2013-2015



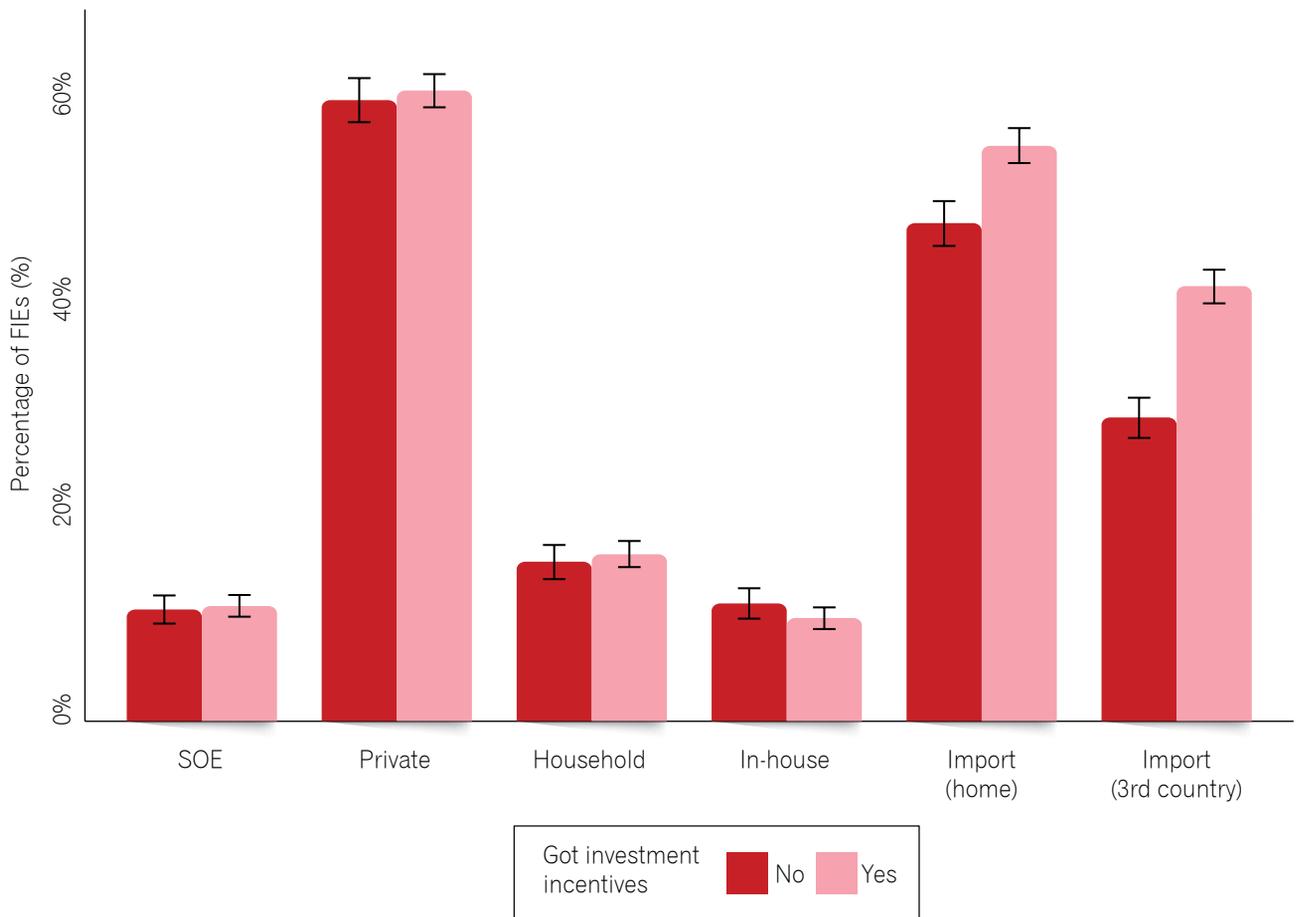
Source: PCI-FDI Survey Question A16, “Who are your suppliers of intermediate goods and services?” Note that private includes formally registered firms while household includes only household enterprises. Disaggregated by survey year. Y-axis depicts share of FIEs purchasing inputs from each group.

As mentioned above, Vietnam has provided substantial investment incentives for FIEs, including CIT exemption, preferential CIT rates, import duty exemptions for inputs, waivers of land rental fees, accelerated depreciation of fixed assets, and carrying losses forward (KPMG, 2011). The goal of these incentives is to promote investment in high-tech sectors, underprivileged regions, and other prioritized sectors (e.g. environmental technology, agriculture, forestry, and medicine).

Incentivized FIEs in priority sectors may not produce as much technological transfer to the domestic private sector as policymakers hoped

However, it is difficult to tell whether the incentives truly lead to more backward linkages between FIEs and domestic firms. As we show in Figure 3.7, 60 percent of FIEs source from domestic private suppliers regardless of investment incentives. In contrast, FIEs that receive incentives import more inputs compared to FIEs without incentives. This difference may be due to the fact that Vietnam provides incentives precisely for sectors and regions where domestic firms are underdeveloped and may be ill-equipped to participate in the FIEs’ supply chain. Without knowing the counterfactual, it is difficult to ascertain whether the lack of backward linkages would have been even greater without these investment incentives. Nevertheless, this finding suggests that incentivized FIEs in priority sectors, such as high-tech industries and those operating in underprivileged regions, may not produce as much technological transfer to the domestic private sector as policymakers hoped when authorizing the incentive programs.

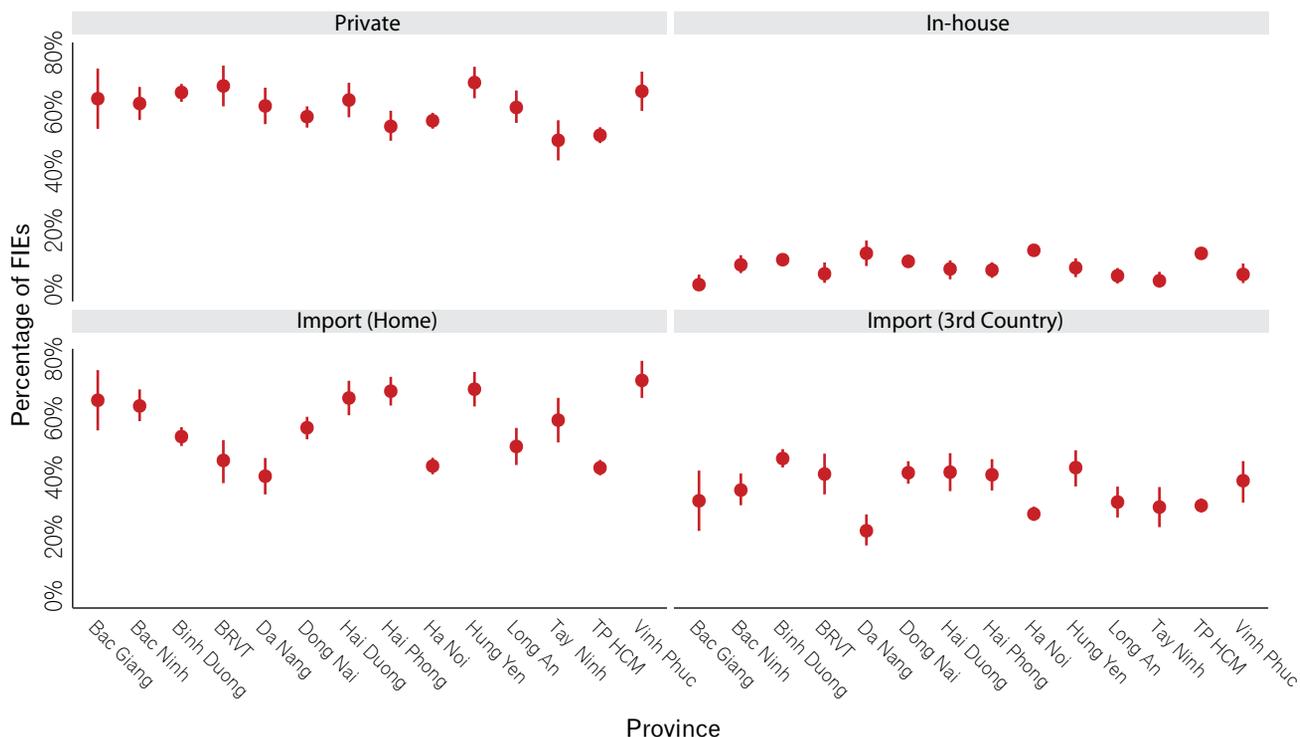
Figure 3.7 The Relationship Between Investment Incentives and FIEs’ Sourcing Strategy



Source: PCI-FDI Survey Question A16, “Who are your suppliers of intermediate goods and services?” Note that private includes formally registered firms while household includes only household enterprises. Disaggregated by whether firms received investment incentive. Y-axis depicts share of FIEs purchasing inputs from each group.

Switching gears, Figure 3.8 plots FIEs’ backward linkages across provinces. Panel 1 (top-left) shows, across provinces (x-axis), the percentage of FIEs that source from private suppliers, ranging from 50 percent (Tay Ninh) to 70 percent (Vinh Phuc and Hung Yen), though the variation is generally not statistically significant. In contrast, there is more variation in the two bottom panels, showing that Da Nang’s FIEs import substantially less than those in other provinces. For example, only 40 percent of Da Nang’s FIEs import from home while 80 percent of Vinh Phuc’s FIEs do. This difference makes sense given Da Nang’s concentration of FIEs in real estate, food processing, and IT, which tend to use more local inputs. In contrast, Vinh Phuc’s FIEs focus on the assembly of automobiles and electronics, and thus tend to import technologically sophisticated parts.

Figure 3.8 The Percentage of FIEs served by Each Supplier Type—by Province



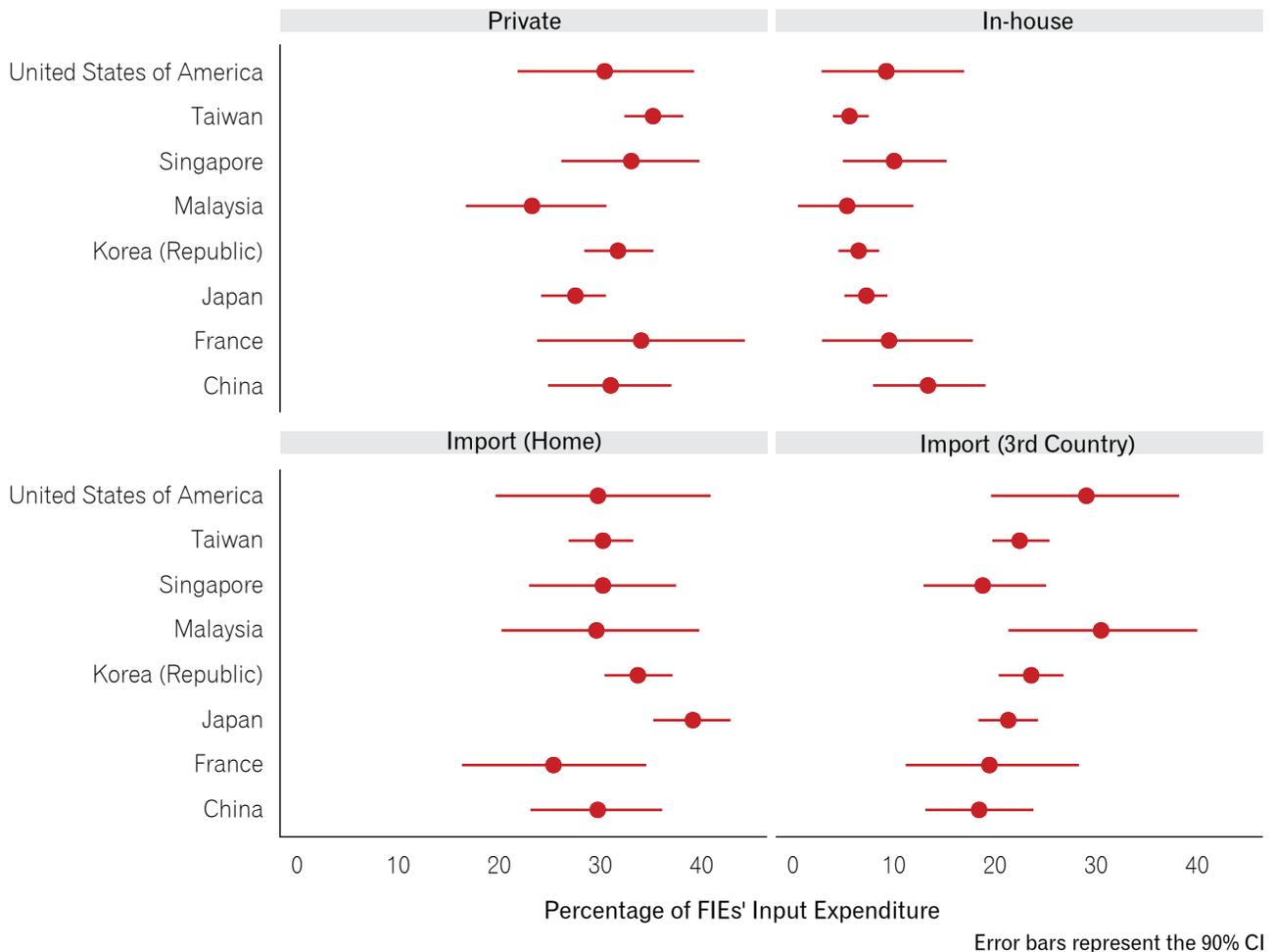
Error bars represent the 90% CI

Source: PCI-FDI Survey Question A16, “Who are your suppliers of intermediate goods and services?” Note that private includes formally registered firms while household includes only household enterprises. Disaggregated by province. Y-axis depicts share of FIEs purchasing inputs from each group.

Vietnamese suppliers are more able to form linkages with FIEs in lower-tech sectors, where the technological gap is not prohibitively large.

Figure 3.9 examines the sourcing strategy of FIEs from the most popular investor countries. Thanks to the large number of companies from Taiwan, South Korea, and Japan, we can draw reliable inferences about FIEs from these countries, as shown in the short error bars. Japanese FIEs, which concentrate on automobiles and complex electronics, import substantially more from home (40 percent) and source less from private suppliers (27 percent). In contrast, Taiwanese FIEs, which concentrate on textiles, light manufacturing, and light electronics, import less from home (30 percent) and source more from private suppliers (35 percent). This suggests that Vietnamese suppliers are more able to form linkages with FIEs in lower-tech sectors, where the technological gap is not prohibitively large.

Figure 3.9 FIEs' Sourcing Strategy—by Company Home Country

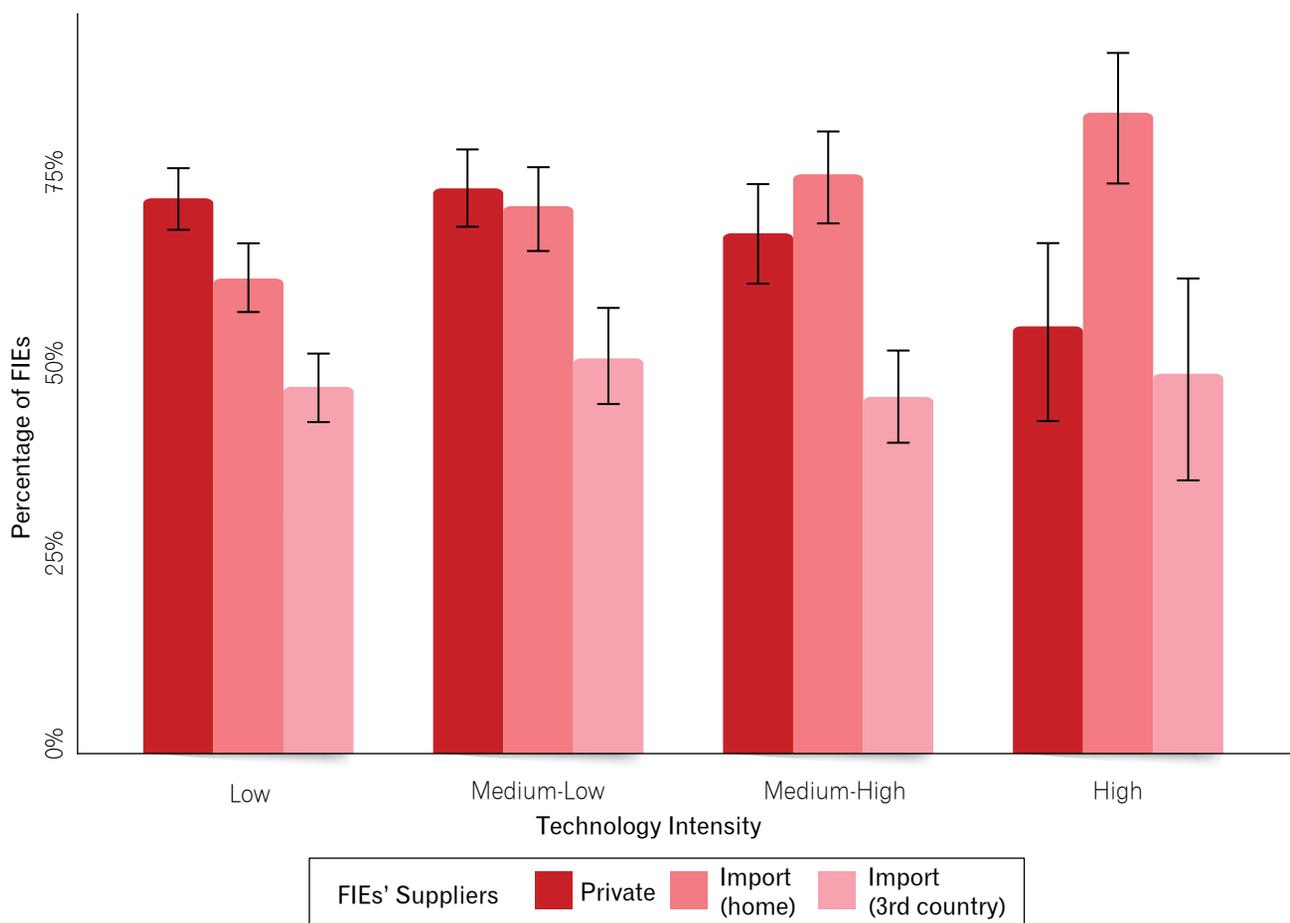


Source: PCI-FDI Survey Question A16, “Who are your suppliers of intermediate goods and services?” Note that private includes formally registered firms while household includes only household enterprises. Disaggregated by country. Y-axis depicts share of FIEs purchasing inputs from each group.

In Figure 3.10, we focus on manufacturing FIEs, disaggregating these firms by their technology intensity to investigate their sourcing strategy. Figure 3.10 shows a statistically significant difference between high-tech and low-tech manufacturing FIEs. High-tech manufacturing FIEs, compared with low-tech ones, import more from home (84 percent vs 62 percent, respectively) and use fewer domestic private suppliers (56 percent vs 73 percent, respectively). This linkage gap reiterates the concern that simply having high-tech FIEs in Vietnam does not mean technological spillover will occur. Indeed, since FIEs are under no obligation to transfer their technology, if Vietnamese firms fail to join the high-tech supply chain and establish forward linkages, there will be very limited spillover.

High-tech manufacturing FIEs, compared with low-tech ones, import more from home

Figure 3.10 FIEs' Sourcing Strategy—by Technology Intensity



Error bars represent the 90% CI

Geographical Proximity

While innovations in transportation and information technology have allowed firms to buy from and communicate with each other despite being a world apart, scholars have found that geographical proximity still matters greatly for technological transfer.⁵¹ The most famous example of a technology cluster is Silicon Valley, where IT firms - those most competent in communications technology - still congregate to facilitate a seamless exchange of ideas. In the case of FIEs and domestic suppliers, Ivarsson & Alvstam (2005) confirm the importance of proximity, showing that Volvo plants in Brazil, China, India, and Mexico, create more technological spillovers when their local suppliers are near. One key reason is that transfer of technologies most often still happens in face-to-face technical consultations between engineers.⁵²

There is one caveat in interpreting the impact of proximity on technological spillover. It is difficult to determine the extent to which the proximity between FIEs and domestic firms is exogenous and how much of it is engendered by domestic firms' strategy. In either case, geographical proximity still provides a reasonable proxy for the potential amount of technological spillover.

⁵¹ Glaeser, E., Kallal, H., Scheinkman, J., & Shleifer, A. 1991, "Growth in Cities," *National Bureau of Economic Research Working Paper 3787*, Retrieved February 2, 2016 from <<http://www.nber.org/papers/w3787>>

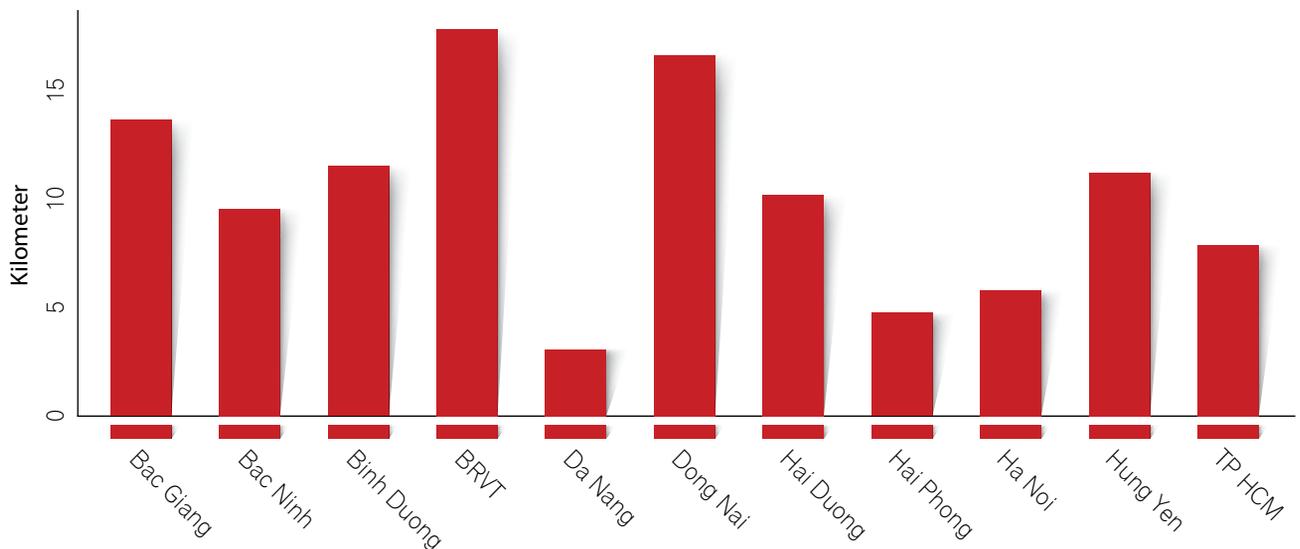
⁵² Ivarsson, I., & Alvstam, C. G. 2005, "The Effect of Spatial Proximity on Technology Transfer from TNCs to Local Suppliers in Developing Countries: The Case of AB Volvo in Asia and Latin America," *Economic Geography*, 81.1, 83-111.

Figure 3.11 focuses on the geographical proximity between FIEs and domestic firms in Vietnam. To construct Figure 3.11, we geo-code the addresses of FIEs and domestic firms to obtain their coordinates. Then, we calculate the distance between each domestic and foreign firm and find the median of these distances. The top panel shows the median distance (in kilometers) between foreign and domestic firms for each province. A typical domestic firm in Da Nang is only 2.5 kilometers away from a foreign firm, facilitating frequent contact and exchange. In contrast, a typical domestic firm in Ba Ria-Vung Tau is almost 20 kilometers away from a foreign firm.

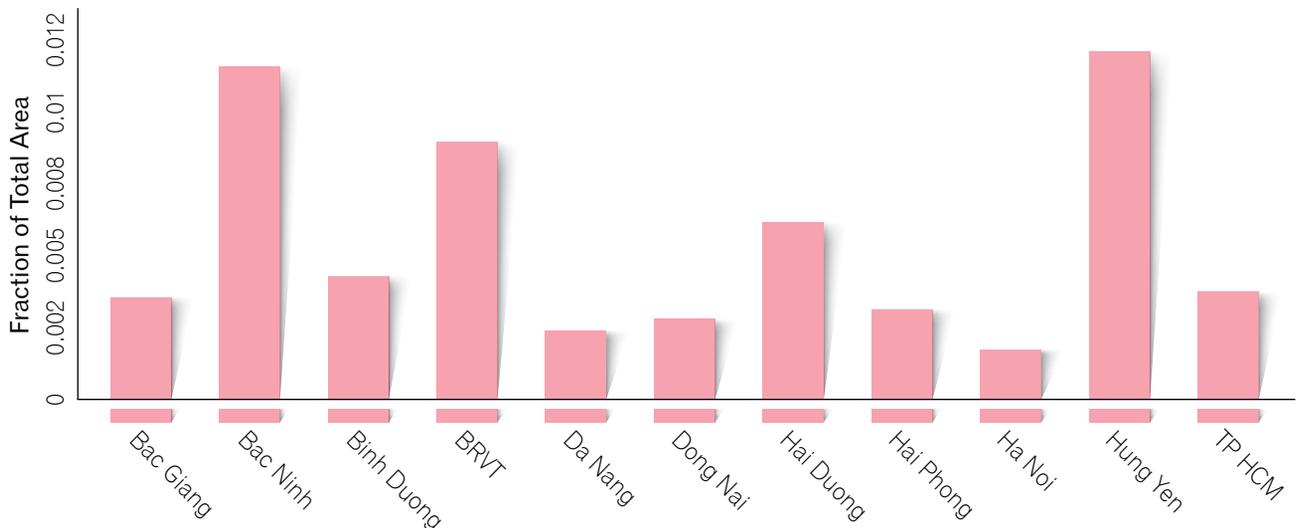
In the bottom panel, we divide this median distance by a province’s total land area for a fairer comparison between provinces of different sizes. After re-scaling, Ha Noi has the most geographical mingling of domestic and foreign firms (median distance = 0.2 percent of total area) while Hung Yen has the least (median distance = 1.25 percent of total area).

Figure 3.11 Average Distance between Foreign and Domestic Firms—by Province

Median Distance between a Foreign and a Domestic Firm



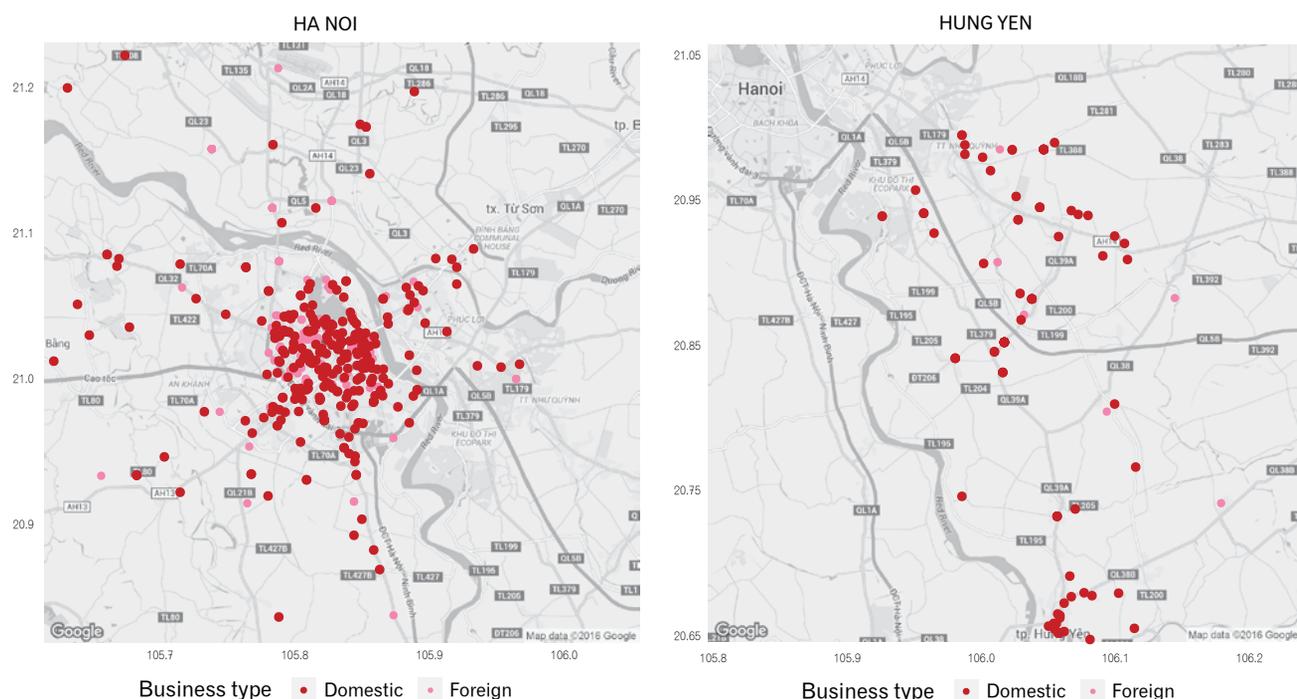
Median Distance between a Foreign and a Domestic Firm Scaled by Provincial Land Area



To visualize this geographical mingling of firms, Figure 3.12 plots the approximate locations of businesses in Ha Noi and Hung Yen. We can clearly see FIEs and domestic firms in Ha Noi mixing thoroughly while firms in Hung Yen form two disparate clusters; one stays close to Hanoi while the other centers on Hung Yen’s capital district. If proximity matters for technological spillover, there is lesser likelihood of transfer of technology between Hung Yen’s FIEs and domestic firms.

A policy implication of the proximity effect is that industrial zones which isolate FIEs from the larger economy may increase the efficiency of exporting but can undermine positive spillovers to the rest of the economy.

Figure 3.12 Mapping the Distance between Foreign and Domestic Firms—Ha Noi and Hung Yen



Absorptive Capacity

The third factor that facilitates technological transfer is the absorptive capacity of domestic firms. If the technological gaps between FIEs and domestic firms are too large, or if domestic firms’ labor force is not well trained to learn new technologies, then the potential for transfer will be limited.

Focusing on labor quality, Figure 3.13 compares the percentage of college-educated workers in domestic firms, disaggregating by their customer types. Domestic firms that serve SOEs and state agencies have the best labor quality with nearly 60 percent of the labor force having a college or graduate-level degree. In contrast, domestic private firms that supply to other private firms, to FIEs, or to the international market all have a less educated labor force (40 percent having a college education or higher). This gap in labor

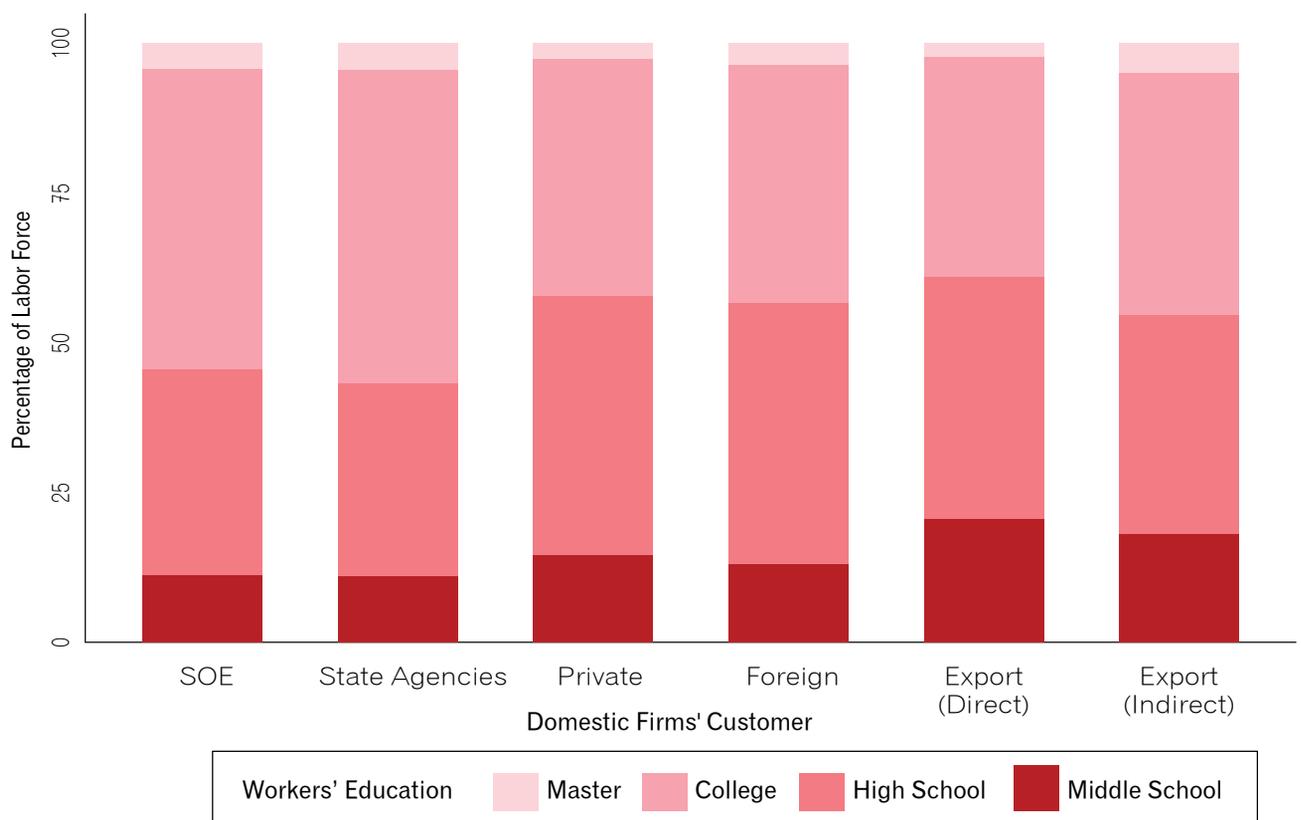
quality between SOEs and the private sector may be due in part to the income inequality across the state/non-state divide.⁵³

This statistically significant difference suggests that domestic suppliers of FIEs only have limited absorptive capacity, preventing them from learning from their foreign clients.

Therefore, improving labor quality is the key missing piece in promoting FDI spillover. Without a high quality labor force, no matter how dense the backward linkages or how geographically close the suppliers and clients are, Vietnamese firms would not be able to adopt FIEs' technologies and management techniques. After all, linkages and proximity only put people in touch. Whether learning and improving happen still depend on the people themselves.

Improving labor quality is the key missing piece in promoting FDI spillover

Figure 3.13 Percentage of College-Educated Workers in Domestic Firms—by Customer



Summary and Implications

FIEs are important contributors to employment, industrial output, and exports in Vietnam. Despite these gains, Vietnam has still not benefitted as much from investment inflows as the huge numbers on its balance of payments sheet imply. Nearly thirty years after its foreign investment law, the formal business connections between foreign and domestic investors remain small. As a result, Vietnamese domestic firms have not seen the technology and labor productivity spillovers that come with close cooperation with foreign partners. This

⁵³ Coxhead, I., & Phan, D. 2013, "Princelings and Paupers? State Employment and the Distribution of Human Capital Investments among Households in Viet Nam," *Asian Development Review*, 30.2, 26–48.

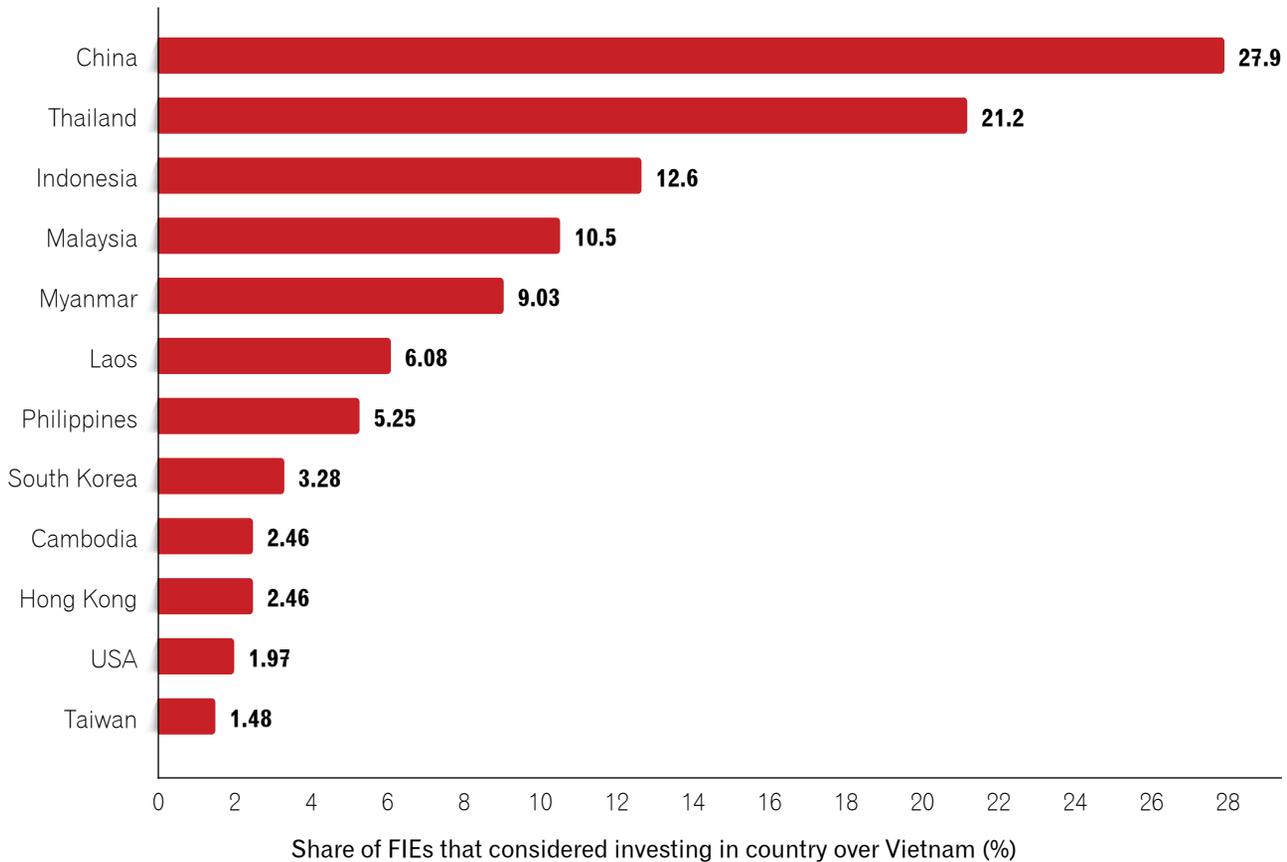
is particularly true of the high-technology sector, where policymakers would like to see domestic private firms advance. In this report, we note that change does appear to be on the horizon, as the number of FIEs contracting with domestic private firms has increased dramatically over the past two years. Major differences are apparent, however, across provinces, sectors, and countries of origin. In particular, manufacturing firms in high-tech sectors are far more likely to import inputs from their home markets. Three factors are responsible for the differences: backward linkages in sourcing, geographical proximity between FIEs and domestic firms, and absorptive capacity of firms and workers. To improve spillover, Vietnam would benefit most from education improvements that enhance the capacity of its labor force and technological sophistication of domestic enterprises. The strong effect of geographical proximity indicates that the current predilection of policymakers for industrial zones may inadvertently undermine spillover potential. Without basic enhancements in absorptive capacity, lucrative tax breaks and subsidies will likely continue to prove less effective than officials would prefer.

3.4 VIETNAM'S BUSINESS ENVIRONMENT RELATIVE TO COMPETITORS

Continuing a technique we pioneered in 2013,⁵⁴ the 2015 PCI-FDI survey asked businesses to compare factors in the Vietnamese business environment to other locations in which they considered investing (see Figure 3.14). In line with last year's survey, just about half of the FIEs currently in Vietnam considered other countries (most commonly, China (27.9 percent), Thailand (21.2 percent), and Indonesia (12.6 percent)) before selecting Vietnam as their ultimate destination. Each of these has increased above last year and has nearly doubled from 2013. The uptick itself represents an important marker of Vietnam's developmental standing. Vietnam must now compete against traditional regional destinations for FDI (China, Thailand, and Indonesia) along with several emerging competitors such as the Philippines and Laos. By contrast, the share of investors seeing Cambodia as a potential substitute for Vietnam dropped from nearly 20 percent last year to 2.5 percent in 2015, which might reflect uncertainty about the political environment in the country.

⁵⁴ Malesky, Edmund. 2014. "The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Private Sector Development." *Final Report, Vietnam Competitiveness Initiative Policy Paper*, Hanoi: US AID's Vietnam Competitiveness Initiative and Vietnam Chamber of Commerce and Industry, p57-53 Data and Codebooks Available at <www.pcivietnam.org>.

Figure 3.14 Vietnam’s Biggest Competitors for Foreign Investment



Source: PCI-FDI Survey Question B1, “When considering your company’s investment in Vietnam, what other countries did you consider?”

Of investors considering other countries, 83 percent selected Vietnam over the competition, while 17 percent invested in Vietnam as part of a multi-country investment strategy. The latter group is particularly interesting, because they are able to offer an active comparison of the Vietnamese investment environment relative to the other locations where they have direct experience.

Following up on our analysis of the past two years, the PCI survey asked firms to rate eight factors that are important for investment success in order to understand why they selected Vietnam over its competitors.⁵⁵ For each item, respondents were asked whether Vietnam offers superior performance. The results provide a fascinating glimpse into the main priorities of investors, and how Vietnam compares with its rivals on the criteria that firms use to make investment decisions. As an easy benchmark, we use all scores above 50 percent to indicate that this is an investment factor where the majority of investors prefer Vietnam to competitors. Scores below 50 percent indicate areas of weakness.⁵⁶

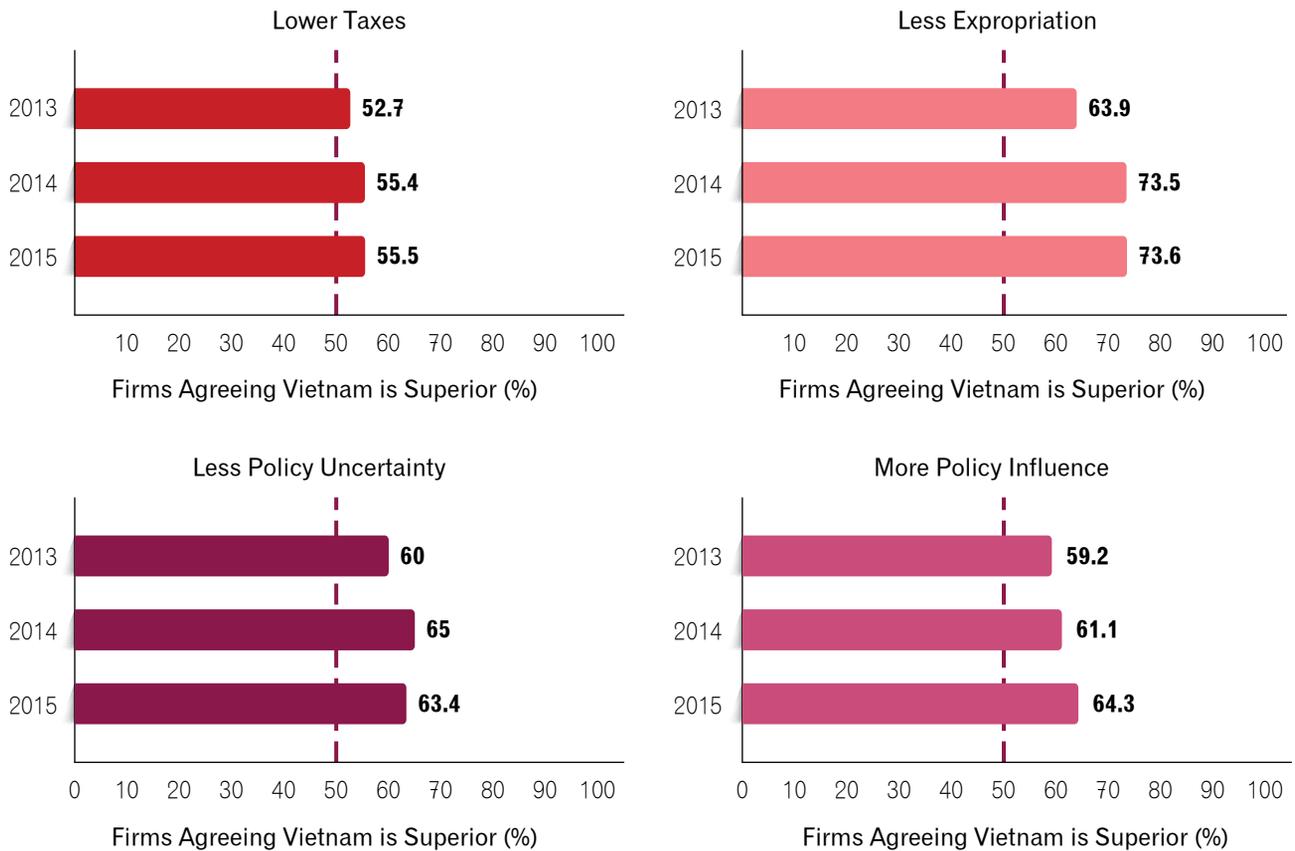
⁵⁵ The eight factors that we ask firms to compare Vietnam against competitors are: corruption, regulatory constraint, tax rate, expropriation risk, policy uncertainty, public service delivery, policy influence, and political stability.

⁵⁶ It is important to acknowledge the selection bias that influences these results. These are FIEs who already chose to invest in Vietnam and not those who weighted the competitive balance in favor of another country by investing there. This means that the satisfaction results are likely over-stated, as they do not include investors who considered these factors to be so problematic that it stopped them from investing in Vietnam. We also do not know how large this group is relative to those who did proceed with investments in Vietnam.

Four strengths: tax rates, expropriation risk, policy influence, and policy uncertainty

Figure 3.15 studies Vietnam relative to its main rivals in four strengths: tax rates, expropriation risk, policy influence, and policy uncertainty. Seeing the chart this way, we observe some important divergences. On expropriation, for instance, investors are far more confident about their investments in Vietnam; 73.6 percent of respondents argued that Vietnam has less expropriation risk than China and other countries. These numbers show remarkable consistency over time, suggesting that this conclusion is not coincidental.

Figure 3.15 Strengths of Vietnam Relative to Competitors



Source: PCI-FDI Survey Question B3A, "How would you compare the business environment in Vietnam to other countries in which you considered investing?"

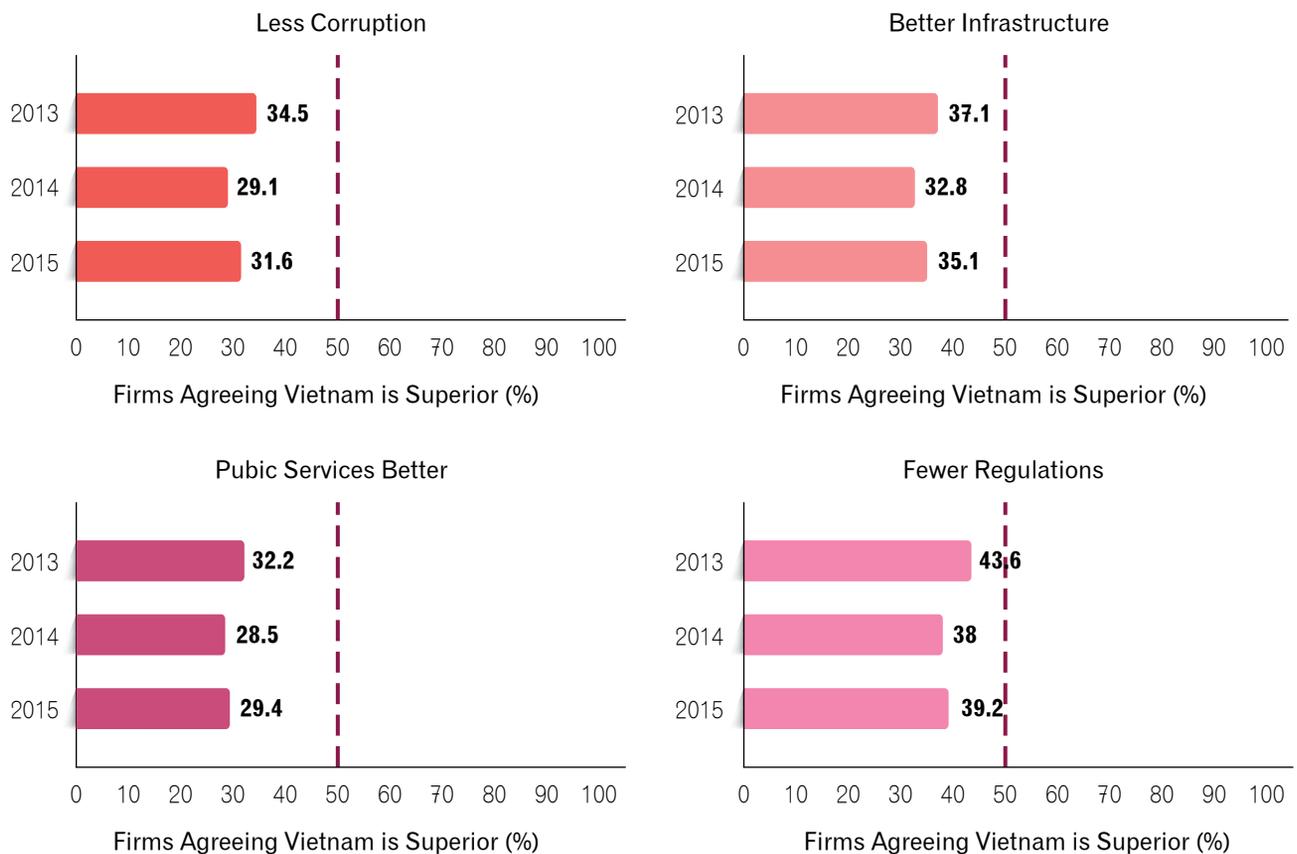
Respondents indicated that policy influence, the ability of FIEs to have a say in the drafting and implementation of laws and regulations that affect their business, is higher in Vietnam than any of its competitors, particularly neighboring Cambodia and Laos. This score likely is a function of both the strong presence of investor groups, which advocate for improvements in the business climate, and the multiple forums available for them to interact with policy-makers.

Policy uncertainty has held steady. Over 60 percent of FIEs believe Vietnam has greater stability and predictability than almost all of its competitors. These findings are critical, as FIEs value policy environments that enable them to make long-term strategic plans. Moreover, investors in high-tech goods and services value policy stability even more, as it often takes them longer to be profitable and their investments have greater inherent risks. While it is true that Vietnam does outperform its competitors, we should not conclude that work in this arena is complete. Rather, Vietnamese policymakers would be better served by building and expanding on this advantage. Thirty-seven

percent of FIEs still believe Vietnam is worse than other countries they considered. Moreover, this number is a statement of relative performance; it says nothing about how Vietnam stacks up against absolute measures. We probe more deeply into the sources of predictability in Vietnam below (see Section 2.4.2), but a critical factor is that on a companion question, 94 percent of investors report Vietnamese politics are more stable than potential competitors’.

Finally, Vietnam continues to marginally outperform some of its peers on tax levels.

Figure 3.16 Weaknesses of Vietnam Relative to Competitors



Source: PCI-FDI Survey Question B3A, “How would you compare the business environment in Vietnam to other countries in which you considered investing?”

Figure 3.16 tackles Vietnam’s main weaknesses relative to its competitors. In this graph, there is again significant variation among Vietnam’s rivals, but the general message is clear. Consistently, FIEs evaluate Vietnam to be significantly less attractive when it comes to corruption, regulatory burdens, quality of public services (such as education, health care, and utilities), and the quality and reliability of infrastructure. On infrastructure, investors place Vietnam in roughly the same level as its neighbors Cambodia and Laos. Infrastructure is always a major topic of discussion in Vietnamese policy circles. It is noteworthy that Vietnam appears to rank even worse than every possible competitor when it comes to corruption and the regulatory burden. These weaknesses are broadly consistent with Vietnam’s performance on other international rankings.⁵⁷

FIEs evaluate Vietnam to be significantly less attractive when it comes to corruption, regulatory burdens, quality of public services and the quality and reliability of infrastructure

⁵⁷ Schwab, Klaus and Sala-i-Martin, Xavier (2014). The Global Competitiveness Report 2014–2015: Full Data Edition. World Economic Forum. < http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf>

3.5 RISK PERCEPTION BY FOREIGN INVESTORS

Managing risk is essential to doing business overseas. Therefore, much effort has been devoted to studying the different types of risk that are prevalent in host countries for FIEs and the specific mitigation strategies that FIEs use. Indeed, only with this understanding of investors' sensitivity to risk can governments succeed in the increasingly fierce competition to attract FDI.

The most defining characteristic of the relationship between FIEs and the host government is the shifting imbalance of bargaining power. Before a project's implementation, investors have great leverage in negotiation with the host government because of the technology and capital that they promise to bring. However, as soon as capital has been sunk, this advantage decreases sharply, leaving investors vulnerable to threats such as shifting policies, increased taxation, expropriation, and red tape.⁵⁸ To combat this problem, FIEs have adopted a range of strategies. In addition to altering their mode of entry (moving away from joint ventures to 100 percent FDI), firms can either use non-replicable technology or spread their complex production chain across countries, so that an entire product cannot be produced in a single factory. Both strategies render the production facility much less valuable to expropriators.⁵⁹

International researchers have become increasingly aware of the need to disaggregate types of risk and investors. To capture how foreign investors were responding to the volatility in international markets and in Vietnam, the PCI-FDI survey includes a special module (Section J). The ultimate goal of this exercise is to observe the coping strategies of foreign investors in order to determine how the current uncertainty would affect Vietnam's future economic performance and interactions with the global economy. The module begins with a set of straightforward questions about what types of risks are most common for investors in Vietnam, followed by a set of more pressing questions about investors' strategies for dealing with these risks and their success at mitigating the impact of uncertainty on their businesses.

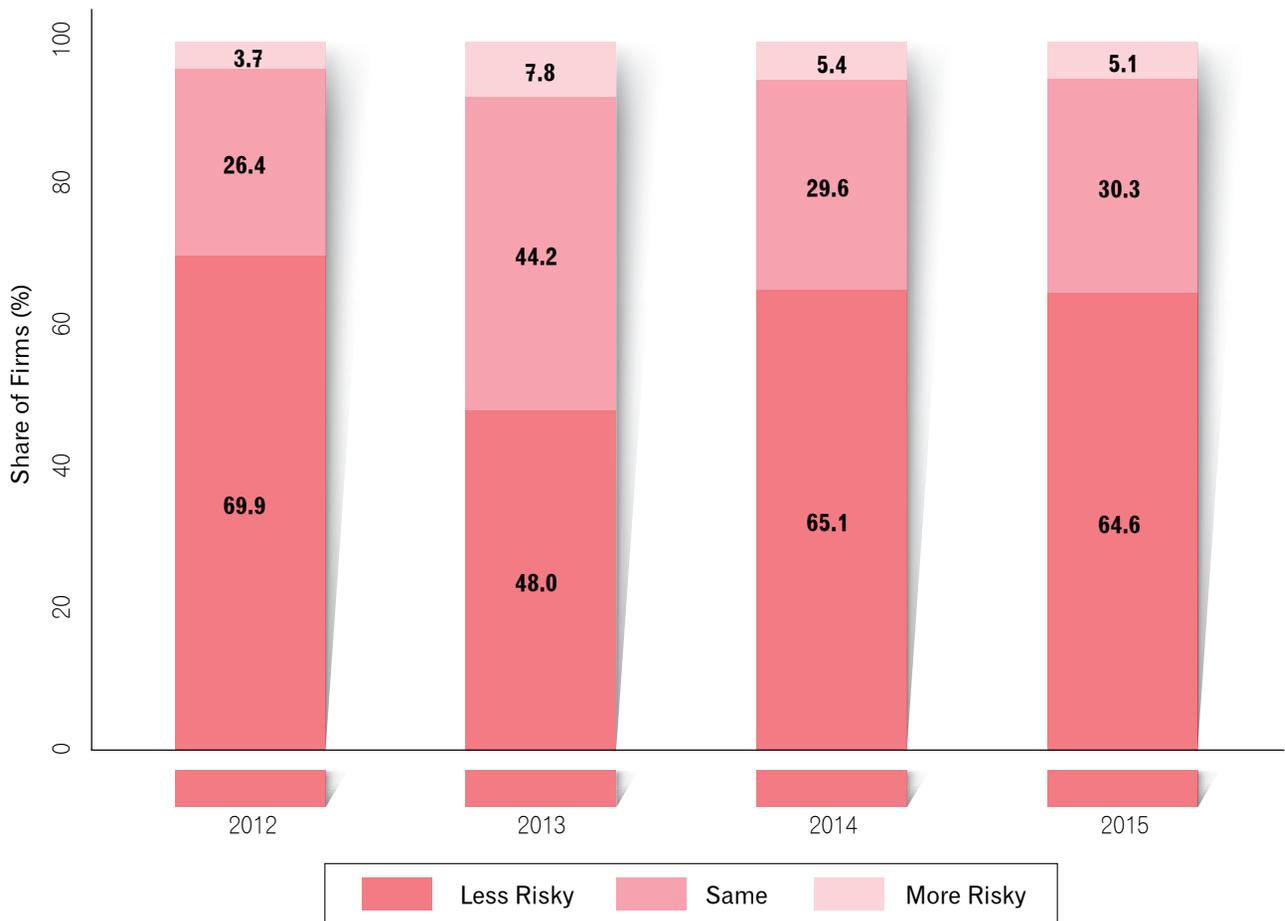
Most existing investors in Vietnam find it to be a relatively safe place

The first question in the risk module asked existing firms to rate Vietnam's risk relative to other similarly situated countries. In line with answers above, as we show in Figure 3.17, most existing investors in Vietnam find it to be a relatively safe place. Sixty-five percent believe Vietnam is less risky than competitor countries and an additional 30 percent believe it is about the same. Only 5 percent of investors believe Vietnam is more risky this year. These figures are quite close to scores in 2014 and far above the low point observed in 2013.

⁵⁸ This shift in bargaining power in favor of the host country is known as the *obsolescing bargain*. Vernon, Raymond. 1971. *Sovereignty at Bay*. New York: Basic Books; Vernon, Raymond. 1980. "The Obsolescing Bargain: A Key Factor in Political Risk," In Mark B. Winchester (ed.), *The International Essays for Business Decision Makers*. Houston: Center for International Business.

⁵⁹ Henisz, Witold. 2000. "The Institutional Environment for Multinational Investment." *Journal of Law, Economics, and Organization* 16(2): 334-64. Henisz, Witold, and Bennet Zelner. 2003. "Political Risk Management: A Strategic Perspective." In Theodore Moran (ed.), *International Political Risk Management: The Brave New World*. The World Bank Group: Washington, D.C.

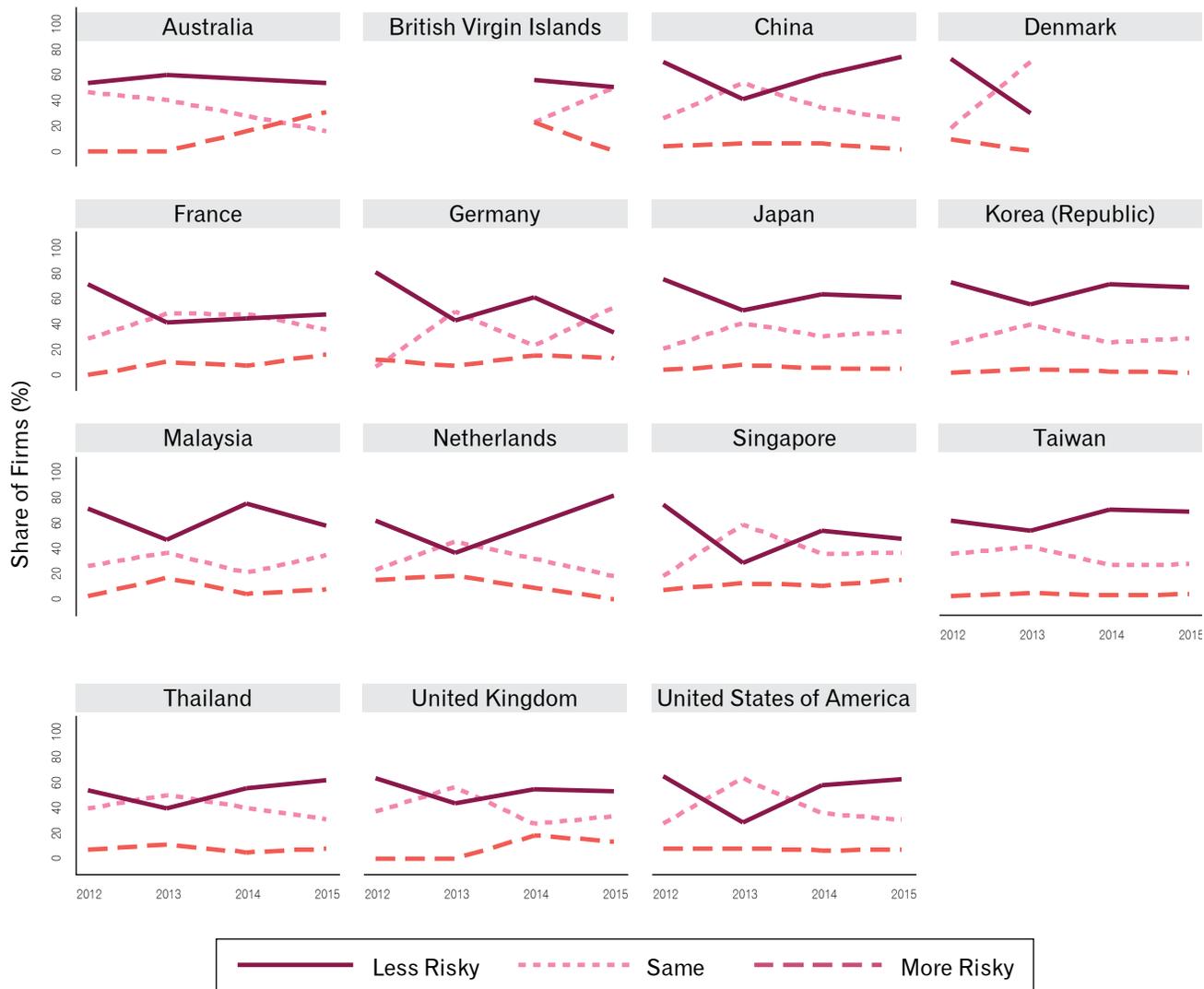
Figure 3.17 Risk of Investment for Existing Investors



Source: PCI-FDI Survey Question J1, "Overseas investments always entail some risk on the part of investors, but these risks vary across different countries. Would you say the investment climate in Vietnam is more or less risky than other countries in which you have invested or considered investing?"

Pushing the data a bit further in Figure 3.18, we see that how investors view the risk environment in Vietnam varies by country of origin. Notably, FIEs from China, Thailand, and the United States have come to perceive Vietnam as much less risky over time. By contrast, investors from Germany perceive relative risk to be increasing slightly. Other countries, like most of the neighboring Asian investors, have more consistent views over time.

Figure 3.18 Risk of Investment for Existing Investors by Country



Graphs by CompanyCountry

Source: PCI-FDI Survey Question J1, "Overseas investments always entail some risk on the part of investors, but these risks vary across different countries. Would you say the investment climate in Vietnam is more or less risky than other countries in which you have invested or considered investing?"

Primary Risks Perceived by Foreign Investors: Macroeconomic Instability

The next question in the module asks businesses to catalog their risk profiles by simply ticking which types of risk were currently prevalent in Vietnam, compared to other locations where they operate.

J2. What are the primary risks that you face in Vietnam? Please rank order the top 3.

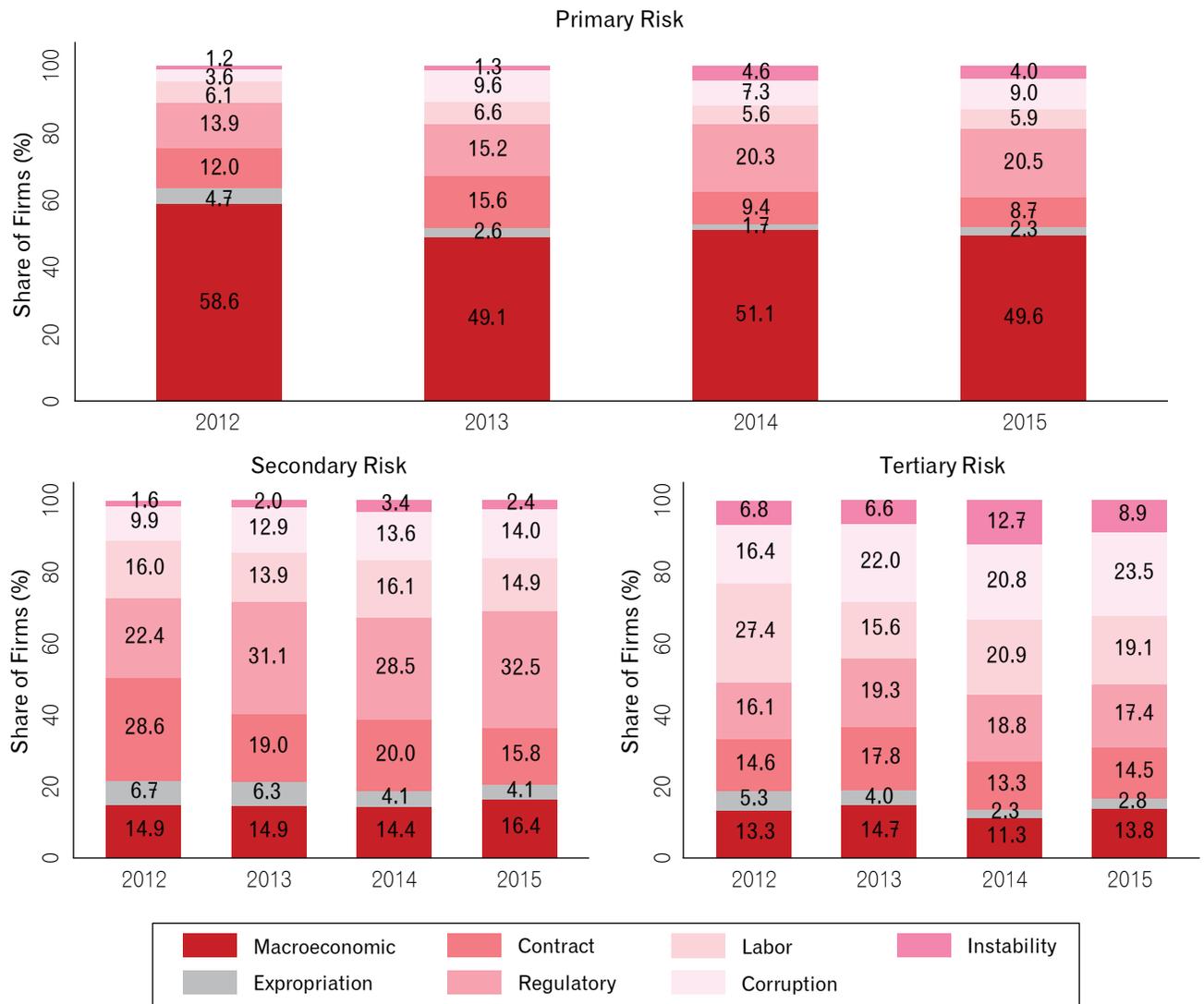
- a) Macroeconomic risk (changes in price stability and growth that affect business prospects).
- b) Expropriation risk (the loss of business premises, property, or equipment to host government).
- c) Contract risk (breach of contract by business partners, such as suppliers or customers).
- d) Regulatory 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).

Figure 3.19 demonstrates the first, second, and third primary risks in Vietnam as perceived by foreign investors (the vertical axis marks the percentage of non-missing item responses).

Responses have been fairly consistent over time. Forty-nine percent of foreign investors consider macroeconomic instability to be the primary risk they face in Vietnam. Thirty-six percent of foreign investors thought it was truly the primary risk; nearly 80 percent of investors selected it as one of their top three concerns.

Thirty-nine percent, 40 percent, and 46 percent of foreign investors considered contract, labor, and corruption risks to be among the top three, respectively. However, only 9 percent, 6 percent, and 9 percent thought one of those issues was the actual primary risk, respectively. Most saw these types as secondary and tertiary risks. Consistent with our analysis above, expropriation risk and political instability are only minor fears for most FIEs, and this has not changed much over time.

Figure 3.19 Type of Investment Risk for Existing Investors



Regulatory Risk

Regulatory risk was the only other area cited by a sizeable number of investors as a top three concern, with 20.5 percent listing it as their primary choice. Note that this number has increased over time. In 2012 and 2013, only about 15 percent of investors selected regulatory risk as the first choice – about the same amount as contract risk. Even more worrisome, regulatory risk was by far the most popular secondary and tertiary choice, as almost half of FIEs selected it at one of these levels.

The poor performance of Vietnam on the criterion of regulatory risk for foreign investors is a particular surprise because of the tremendous effort that the country has devoted to improving business registration and administrative procedures.⁶⁰ Why has regulatory risk reached such prominence among FIEs?

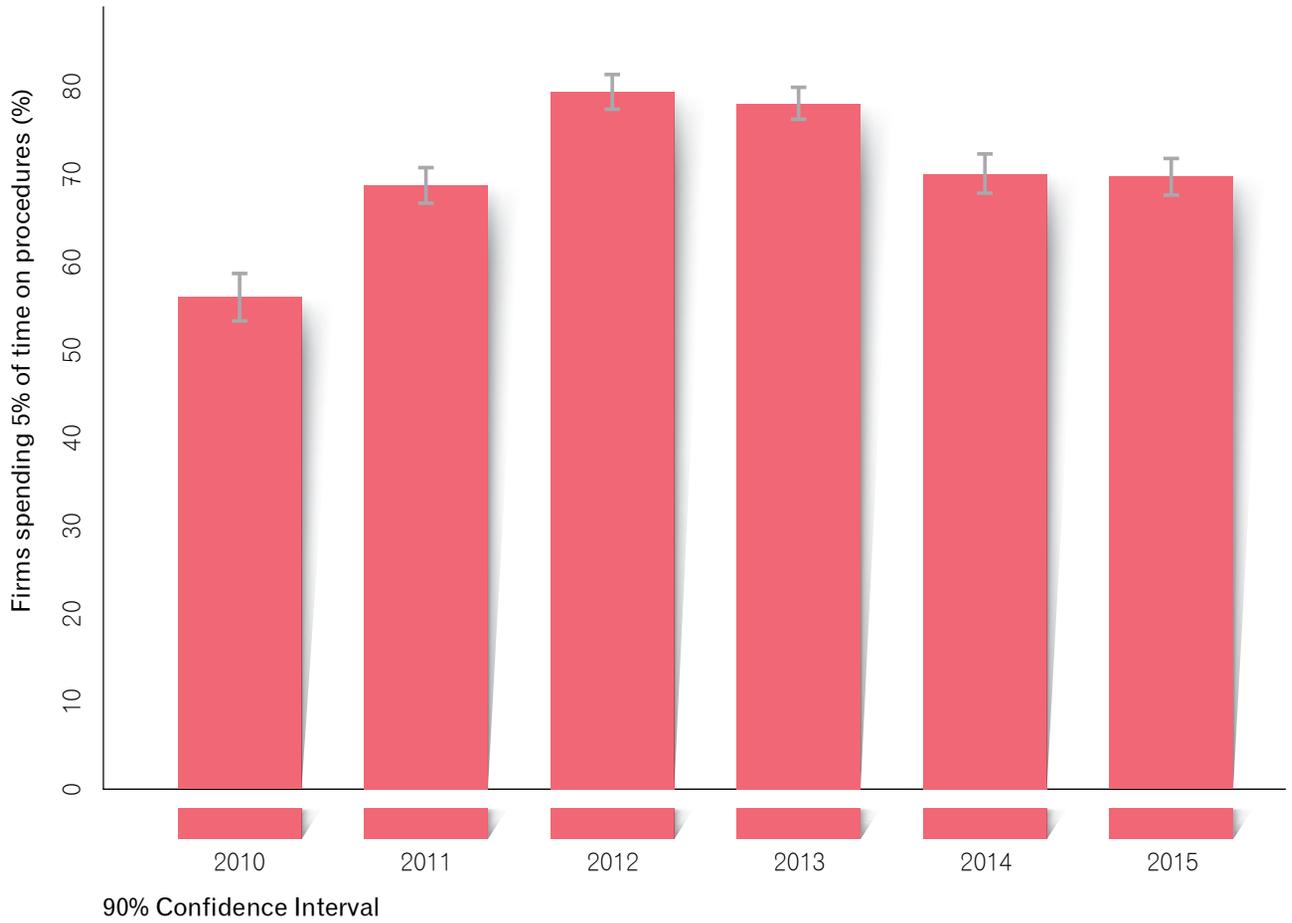
In fact, as we documented last year, entry costs are no longer a tremendous burden in the country. After licensing and registration, however, businesses are legally able to operate but still encounter a wide variety of regulations over the course of their operations. Many of these have important public interest considerations, such as environmental protection, health and sanitary standards, fire safety, and labor rights. Others have more dubious social or economic motivations, such as regulations about storefront signage or rules about foreign language use in marketing. Two indicators in the PCI-FDI survey are useful for capturing the full regulatory burden faced by foreign enterprises in the country: 1) the share of the top manager's time spent complying with business regulations; and 2) the number of inspections by regulators that the firm experienced in the past year.

Figure 3.20 and Table 3.4 study the first of these issues by looking at a PCI-FDI question which asks firms to check what percentage of their annual activities are spent complying with bureaucratic procedures. In 2015, 70 percent of firms answered that they spend over 5 percent of their time on such activities, which means time away from managing and growing their business. This number actually represents a slight decrease from last year and a significant decrease from 2013, when nearly 80 percent of firms reported a 5 percent or greater time burden. Nevertheless, it is markedly higher than the historical low of 56 percent achieved in 2010.

According to businesses, the most burdensome regulatory requirements are related to taxes (including the handling of VAT receipts), obtaining construction licenses, customs procedures, and receiving investment licenses. Interestingly, there is very little variation in responses to these questions across provinces or sectors, which all average between 60 and 75 percent.

⁶⁰ Organization for Economic Cooperation and Development (OECD), "Administrative Simplification in Viet Nam: Supporting the Competitiveness of the Vietnamese Economy, Cutting Red Tape" (OECD Publishing, Paris, 2011). <<http://dx.doi.org/10.1787/9789264096646-en>>

Figure 3.20 Total Regulatory Burden on Foreign Firms



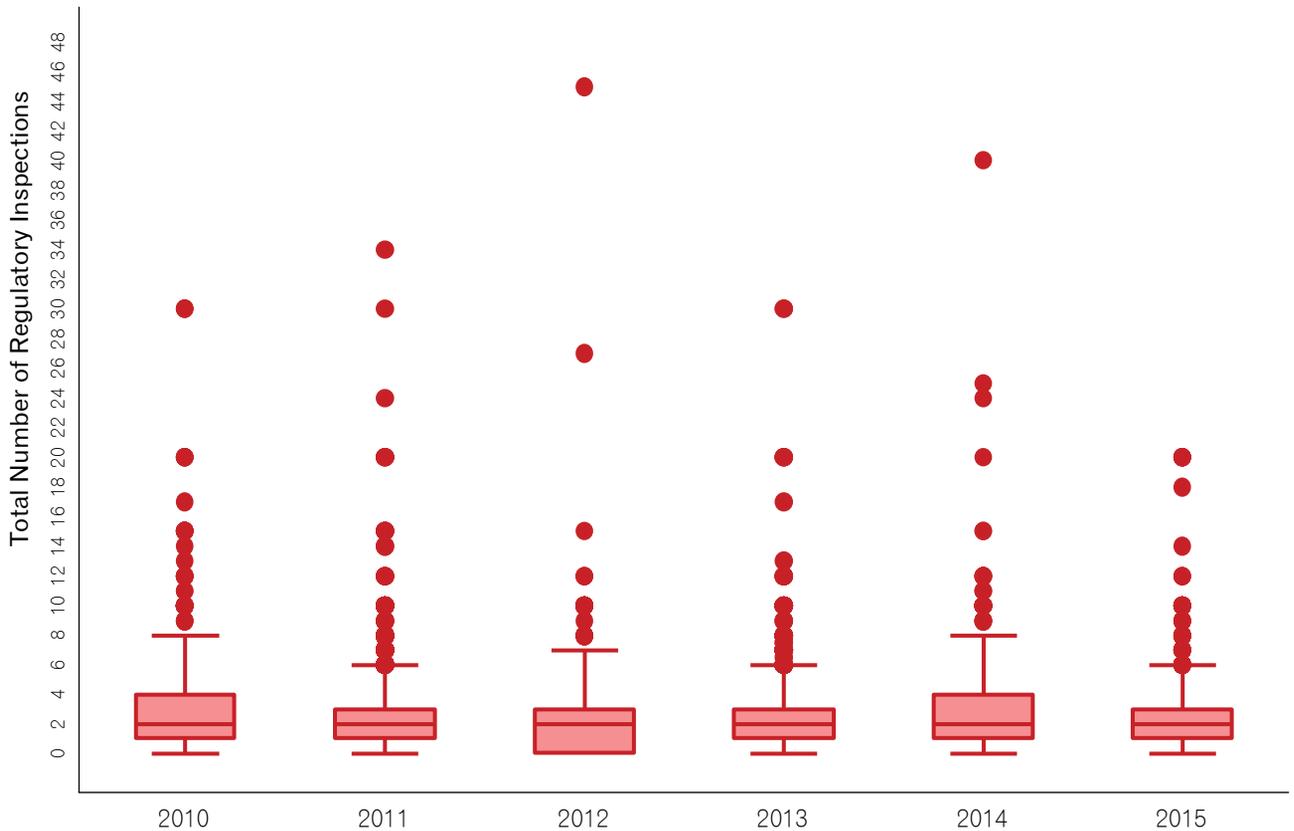
Source: PCI-FDI Survey Question E3: "What percentage of senior management's time per year is spent interacting with government officers in order to understand and comply with administrative procedures?" Bars depict the percentage of respondents who answered less than one month (≤ 2 on the 6-Point Scale).

Table 3.4 Regulatory Burden for Foreign Firms by Industrial Sector

By Industrial Sector in 2014		Fully Legal within 1 Month (percent)	Additional Documents Required (percent)	Number of Additional Documents	Final Cost of Registration Procedures in \$ (Median)	Inspections (Median)	Over 5 Percent of Time Spent on Bureaucratic Procedures (percent)
Question		C4<=3	C3	C3.1	C5	E1	E3>=2
F	Construction	43.49	30.52	1	2,000	1	72.06
G	Wholesale and retail trade	43.68	31.07	1	2,000	1	69.76
J	Information and communication	36.93	36.78	1	2,000	1	66.75
K	Financial and insurance activities	38.46	36.96	1	2,000	1	67.78
L	Real Estate Activities	35.77	27.83	2	2,000	2	68.85
M	Professional, scientific and technical activities	38.63	36.14	1	1,050	1	72.28
U	Activities of extraterritorial organizations	52.38	35.09	1	2,500	1	67.31
C	Manufacture of...						
C10	Food products	46.30	44.16	1	1,000	3	69.31
C13	Textiles	52.42	33.02	1	1,700	2.5	67.39
C14	Apparel	47.79	38.80	2	1,300	2	74.15
C15	Leather products	49.44	34.52	1.5	1,000	3	69.89
C16	Wood products	50.36	26.36	1	1,500	2	73.98
C17	Paper and paper products	48.94	24.46	1	1,500	2	74.63
C20	Chemicals and chemical products	46.77	39.09	2	2,000	3	66.83
C22	Rubber and plastics products	51.73	34.57	1	1,000	2	74.74
C24	Basic Metals	47.20	39.51	2	2,500	2	69.46
C25	Fabricated Metals	45.97	38.00	1	2,000	2	73.76
C26	Computer, electronic and optical products	52.15	31.07	1	1,350	2	76.33
C27	Electrical equipment	46.50	29.75	1	2,500	2	74.55
C28	Machinery and equipment	43.88	30.77	1	3,000	2	78.61
C29	Motor vehicles	46.80	41.58	1	1,500	2	66.22
C31	Furniture	54.44	33.72	2	2,000	2	67.65
C32	Other	54.06	30.33	2	1,495	2	71.34

Next, we examine the burden of regulatory inspections over time using a box plot (Figure 3.21).

Figure 3.21 Boxplot of Total Inspections of Foreign Firms, 2010-2015

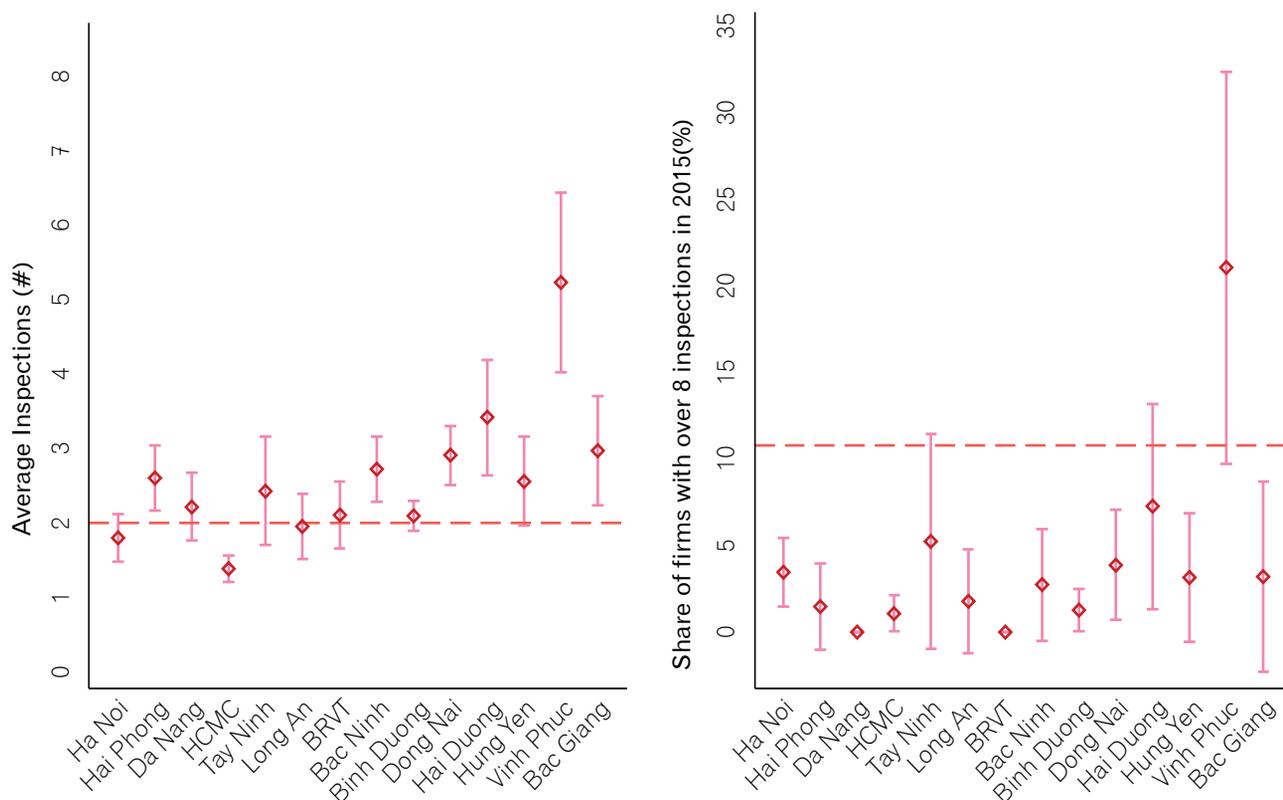


Source: PCI-FDI Survey Question E1: “How many total times was your business inspected/examined in 2014?” Responses for prior years (2010-2013) are also presented for comparative purposes. The line inside the box represents the median value, the lower and upper ends of the box represent the 25th and 75th percentiles, respectively, and the whiskers depict the lowest and highest values experienced (excluding outliers). Outliers are represented as individual dots, indicating that the number of inspections is 1.5 times greater than the 75th percentile.

The clear message of Figure 3.21 is that, for the vast majority of firms, inspections are not a very big burden. The median firm experiences about two examinations per year and this number has not changed much over time. Even at the high end, inspections do not appear to be overwhelming. Ninety-seven percent of firms experienced fewer than 8 inspections this year.

Looking at the provincial level in Figure 3.22, we can see that inspections and harassment do not vary much across provinces with one very notable exception – Vinh Phuc, which was also an outlier in 2014. Foreign firms in Vinh Phuc were subjected to an average of over 5 inspections per year, 60 percent greater than the next highest province of Hai Duong. More worrisome, 22 percent of FIEs were subjected to over eight inspections per year. Indeed, 20 percent of all the cases of exceptionally high inspections occurred in Vinh Phuc province.

Figure 3.22 Total Inspections and Excessive Inspections by Province



Dashed line=national average; 90% Confidence Interval

Source: PCI-FDI Survey Question E1: “How many total times was your business inspected/examined in 2014?” In the left panel, we present the average inspections by province. In the right panel, we display the share of firms with exceptional harassment, which we define as over eight inspections in a year.

Risk Mitigation by Foreign Investors

Given the substantial risks identified by FIEs, what are they doing to protect their businesses? By far the common approach is employing international supply chains to build key components outside of Vietnam and ship them to the country when necessary. Thirty percent of FIEs say this is their most common risk mitigation strategy in 2015. Using this approach lowers direct risk, because the factory or business operation is worthless without the key components. The company is therefore protected from expropriation risk and even corruption risk as long as its branches can produce those proprietary intermediate goods. One reason more high-tech production has not moved to Vietnamese shores has to do with this strategy of diversifying risk within a supply chain. To lure production of high-end components to Vietnam, policy-makers might want to do more to mitigate the perceived risk of expropriation and corruption.

Self-protection through contracting ranks far ahead of the other common approaches, which include international arbitration (10 percent), local arbitration (13 percent), and appeals to government officials (11 percent).

Summary and Implications

Overall, FIEs see Vietnam as a safe place to do business relative to other locations they considered. Sixty-five percent of FIEs perceive Vietnam as less risky and 30 percent rank it equally with its competitors. This represents a significant improvement over 2013. Further, FIEs are really primarily concerned about only two major types of risk. First, the majority of investors fear macroeconomic risk caused by changes in international or domestic finance. Thus, the survey echoes concerns that have dogged Vietnam since dual banking and balance of payments crises occurred in 2009 and 2010. Vietnamese policymakers have taken a number of steps to mitigate these risks, but the perception is still quite pronounced in the investment community. Second, investors fear regulatory risk, caused by changes in regulations or taxes that reduce profitability. Interestingly, this risk has risen to prominence since 2014. In 2013 and 2015, regulatory risk ranked alongside fears of enforcing contracts, labor strikes, and corruption. Further analysis reveals that the major drivers of concern over this risk are not entry requirements, but post-entry regulatory burdens and business inspections. About 70 percent of FIEs now report that they spend over five percent of their time dealing with bureaucratic procedures. Moreover, while median inspections are quite low by international standards (about 2 per firm), some FIEs report undue harassment with over ten inspections per year. Fear of such targeting has kept FIEs doing business in Vietnam alert.

3.6 ACCESS TO INFORMATION

One key reason for rising concern over regulatory risk in Vietnam has to do with the limited transparency of the Vietnamese business environment. Because the decision making process and policy change can be opaque, investors fear that they might find themselves on the wrong side of new laws or policies.

As we detail below, one of the most productive approaches to risk reduction is greater transparency. Vietnam is currently moving forward with this process. In November 2015, the 13th Vietnamese National Assembly considered the draft Law on Access to Information, which was produced by a drafting committee under the Ministry of Justice. As a result of that session, the draft law, which is now online and available for public and expert comment, will be reconsidered by the 14th Vietnamese National Assembly. The draft law is a positive step for government transparency in Vietnam, detailing the sets of documents that must be made publicly available, posted online, and the documents that must be granted upon requested by citizens and firms.⁶¹ As in Chapter 1, this section of the FDI chapter focuses on FDI views about transparency and access to information in Vietnam with the hopes of informing policy-makers as they work on the next version of the law.

One of the most productive approaches to risk reduction is greater transparency

⁶¹ Draft Law on Access to Information, Standing Committee of the 44th National Assembly, May 1, 2015. Accessed February 2, 2016, < http://duthaoonline.quochoi.vn/DuThao/Lists/DT_DUTHAO_LUAT/View_Detail.aspx?ItemID=448&LanID=1200&TabIndex=1 >

The single most influential aspect of transparency was making provincial planning documents available to a wider swathe of investors

Since 2005, the PCI research team has strongly advocated for access to new laws, implementing documents, and provincial decisions as way of enhancing business performance. The transparency sub-index is consistently the highest weighted sub-index in the PCI because of its strong correlation with business entry, investment expansion, and business performance. In a more formal analysis, Malesky et al⁶² tested the relationship between foreign firm investment and transparency, finding that transparency proved the most robust governance determinant of investment in Vietnam, outperforming property rights, contracting institutions, regulatory costs, and corruption. The authors that found that one standard deviation in the ten-point transparency index is associated with a 10 percent change in firm investment. Importantly, the effect was most pronounced for foreign firms and small, private operations. Digging deeper, the single most influential aspect of transparency was making provincial planning documents available to a wider swathe of investors – exactly the goal of the Law on Access to Information. Cross-national empirical work has also shown that transparency has important direct and indirect effects on investors’ decisions to expand their operations.⁶³

The Relationship between Transparency and Business Performance

Access to information works through five channels:

i. Reductions in transactions costs: Better access reduces the time and money spent searching for valuable information on central laws, local implementing documents, and local plans. Firms no longer need to spend energy and resources trying to develop relationships with those in the know, scouring provincial archives or websites, or investing time and money to research and replicate data that should be publicly available (i.e. land price listings).

ii. Smarter and more targeted investments: Lack of transparency can also affect investment through its impact on predictability, such that provincial laws and regulations are implemented in a manner which would allow firms to accurately forecast and build new developments into their business plans.⁶⁴ With transparency, firms can understand the decisions that are made and how they will be executed, so that they have a better chance at predicting the direction and risk of long-term strategies and increase their ability to make informed investment decisions.

iii. Reduce risks and mistakes: When changes in the legal regime cannot be reasonably anticipated or understood, a firm may operate successfully for several years, only to find itself on the wrong side of a law or regulation, simply out of ignorance. This creates the potential for an unscrupulous official to exploit asymmetric information about the legal code to his/her advantage. Conversely, a firm may be eligible for savings, investment opportunities or tax refunds, but never takes advantage because it is unaware of these benefits.

iv. Constrains malfeasance by bureaucrats: Well-developed international scholarship associates increased transparency with reduced corruption and improved public service

⁶² Malesky, E., McCulloch, N. and Nhat, N.D., 2015, “The Impact of Governance and Transparency on Firm Investment in Vietnam. *Economics of Transition*, 23.4, 677-715.

⁶³ Drabek, Z., & Payne, W. 2002, “The Impact of Transparency on Foreign Direct Investment,” *Journal of Economic Integration*, 17(4),777-810; Gelos, R. G., & Wei, S. J. 2005, “Transparency and International Portfolio Holdings,” *The Journal of Finance*, 60(6), 2987-3020

⁶⁴ Hollyer, J. R., Rosendorff, B. P., & Vreeland, J. R. 2011, “Democracy and Transparency.” *Journal of Politics*, 73(4), 1191-1205.

delivery, building on the “fire-alarm” style of public monitoring first emphasized by political scientists Mathew McCubbins and Thomas Schwartz.⁶⁵ In complex economic and social systems, “police patrol” style monitoring—where state agents inspect every action by subordinate government officials and delegates—can be costly and inefficient. An alternative strategy is the fire-alarm approach, where citizens, media, or firms “pull the alarm” when they see wrongdoing. This strategy allows for an appropriate response to the abuse without costly inspections of every subordinate government activity. For fire-alarm monitoring to be successful, however, states must increase the openness of information to citizens. Transparency thus provides an efficient mechanism for senior officials to monitor the activities of lower-level bureaucrats by essentially delegating the task of daily oversight to groups and individuals with more intimate local knowledge. Empowering firms, media, civil society, and individuals to report on political abuses by increasing transparency of government activities, documents, and rules creates “millions of auditors” who have been informally deputized by central authorities.

Transparency thus provides an efficient mechanism for senior officials to monitor

v. Increase equity: Transparency can also affect investment indirectly through its impact on the equitable use of provincial resources. Indeed, a lack of transparency can lead to severe inefficiencies that represent more than a simple transfer of resources from one party to another. Take, for instance, the issue of provincial planning. The impact of infrastructure and land conversion plans is skewed if the details are available to only a select few insiders who can unfairly profit by buying up the land or essential resources ahead of time while other investors must make large conjectures based on small bits of information.

Foreign Investors’ Evaluations of Transparency in Vietnam

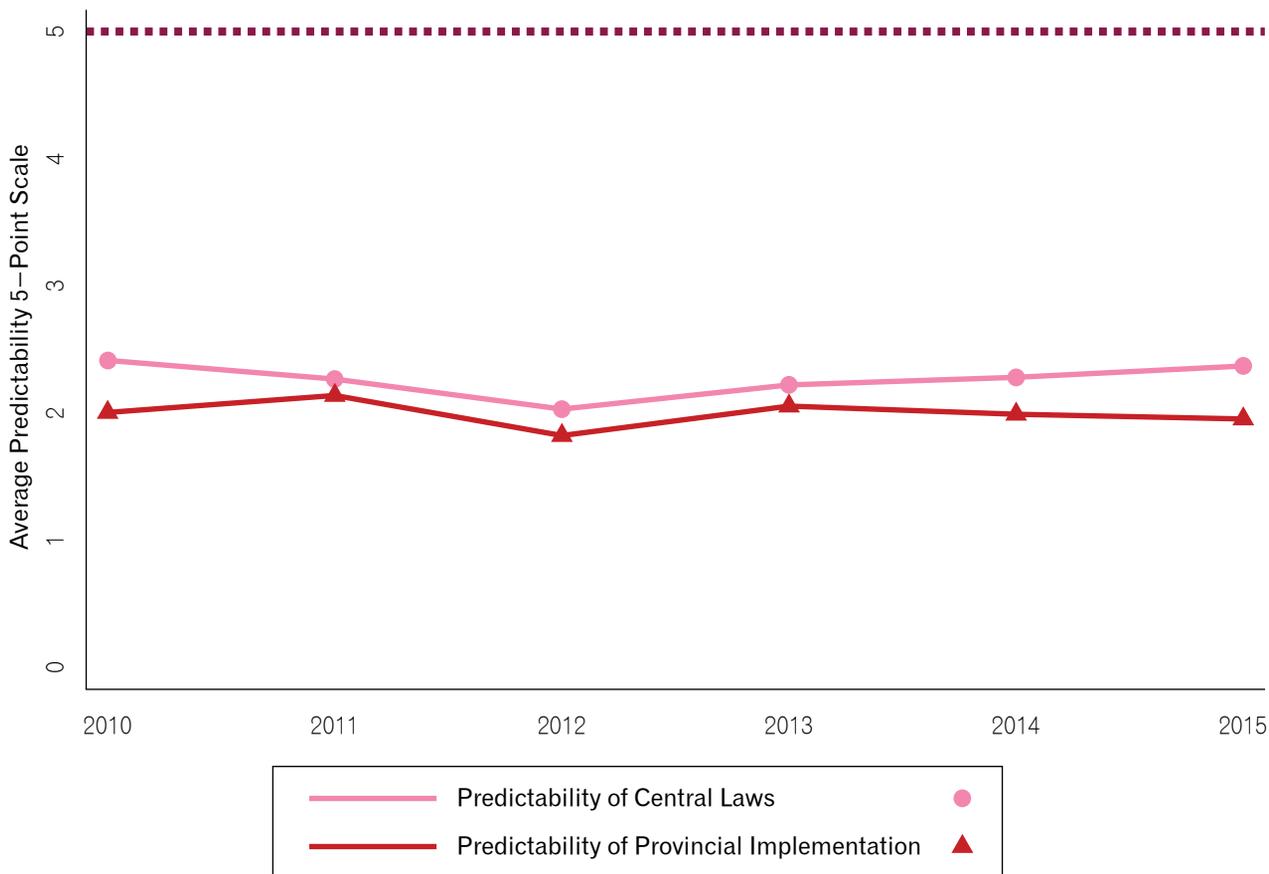
As we noted in assessing Vietnam’s strengths, FIEs report that they are better able to predict policy changes in Vietnam than in all its closest competitors. In Figure 3.23, 63.4 percent of firms reported that policies are more certain than other places they considered investing. Two caveats are important in evaluating that statistic. First, the comparison group is limited, so outperforming its rivals does not mean that there is no room for Vietnam to improve. Second, policy certainty is a broader category than transparency, including not just the availability of policy information, but also volatility and the certainty of implementation. To explore into the particular question of transparency, therefore, we take advantage of a special battery of questions included in the PCI-FDI survey, which was designed specifically to gauge FIEs’ access to information.

We begin by drilling deeper into the question of predictability. As we discussed above, predictability is critical because it cuts the transaction costs of information gathering, helps firms make more targeted investments, and reduces the probability of costly mistakes. Each year, the survey asks foreign investors to rate the predictability of central laws and provincial implementation of those laws on a five-point scale with five representing the highest level of predictability. The line graphs clearly demonstrate that predictability has effectively not changed since 2010. Predictability of the passage of laws averages between 2.0 and 2.4 throughout the period, while predictability of implementation averages a consistently lower 1.8 to 2.1. These scores are recorded on a five-point scale with five implying that laws and their implementation are very predictable. As a result, there is evidence that there is a great deal of room for improvement in the transparency of the policy-making environment. While both scores have improved marginally over time, there is little evidence to indicate substantive reform.

There is a great deal of room for improvement in the transparency of the policy-making environment

⁶⁵ McCubbins, M.D. and Schwartz, T., 1984, “Congressional Oversight Overlooked: Police Patrols Versus Fire Alarms,” *American Journal of Political Science* 28.1, 165-179.

Figure 3.23 Predictability of Laws and Regulations over Time

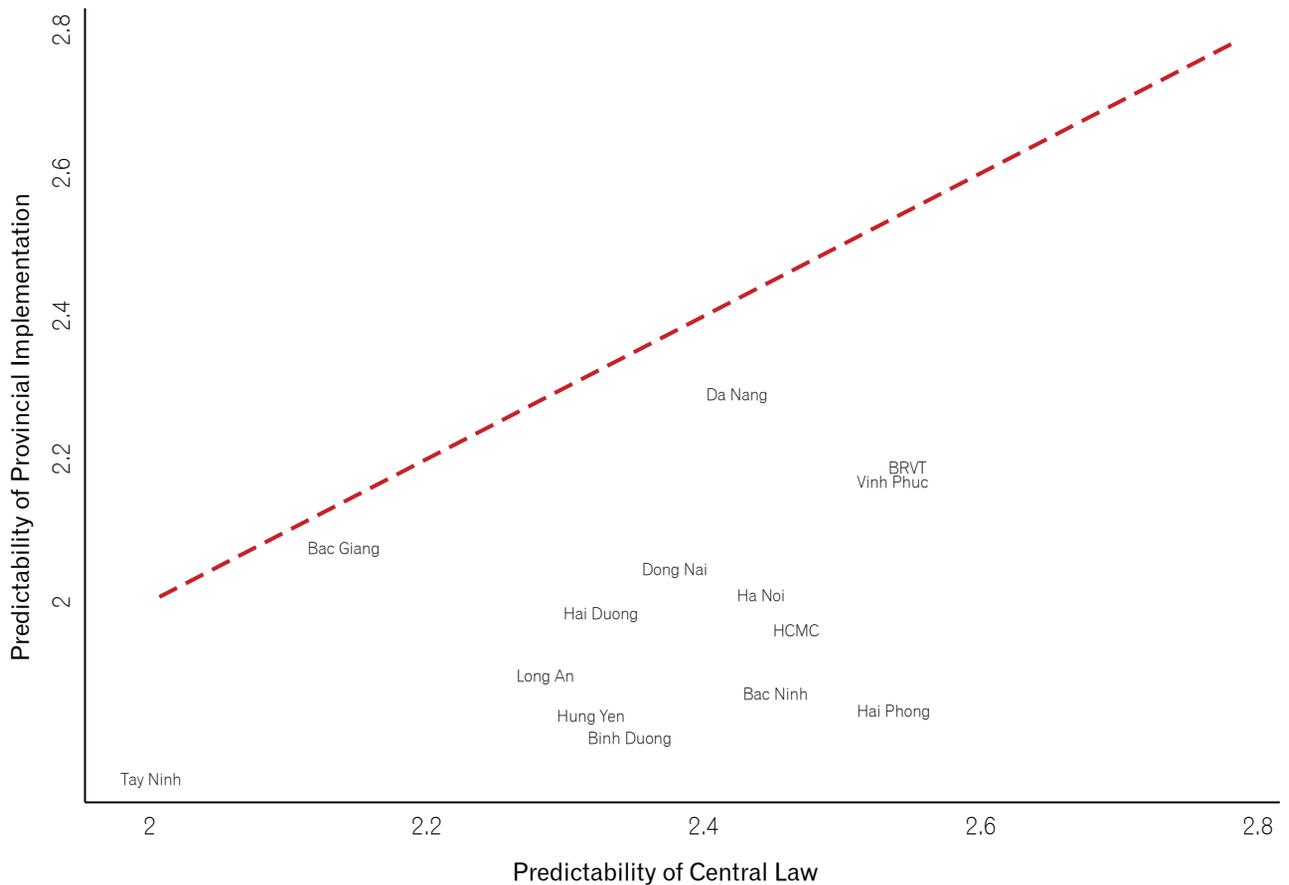


Dashed Line = Maximum Possible Score

Source: PCI-FDI Survey Question H3 “How predictable are changes in laws at the central level which affect your business?” & H4 “How predictable is the implementation of these rules, laws, and regulations at the provincial level?” Line graphs report the average of a five-point scale for both questions: 1) Never; 2) Seldom; 3) Sometimes; 4) Usually; 5) Always.

Looking specifically at how foreign investors experience policy change at the provincial level in Figure 3.24 reveals a fascinating pattern. On the horizontal axis, we plotted average responses for foreign investors regarding predictability of central laws and regulations. The graph shows that foreign investors report the highest level of predictability in BRVT (2.67) and lowest in Tay Ninh (2.1). On the vertical axis, we plot the average FDI response for provincial implementation of central laws. Investors clearly feel central laws are more predictable than provincial implementation. The big exception is Da Nang where foreign investors actually believe provincial implementation is about as predictable as central legal changes. Bac Giang also shows equivalence between central and local, but at much lower levels of predictability.

Figure 3.24 Predictability of Laws and Regulations by Province



Dashed Line = 45 Degree Line

Source: PCI-FDI Survey Question H3 “How predictable are changes in laws at the central level which affect your business?” & H4 “How predictable is the implementation of these rules, laws, and regulations at the provincial level?” Line graphs report the average of a five-point scale for both questions: 1) Never; 2) Seldom; 3) Sometimes; 4) Usually; 5) Always.

As predictability is partly a function of access to laws and documentation, we next study how foreign firms rate their ability to acquire information about key legal and planning documents that affect their businesses. As scholars have shown in other work⁶⁶, facilitating access to these documents has the largest substantive impact of any governance reform on increasing the growth of investment in Vietnam.

Transparency of Different Types of Business Information

We evaluated the six most critical documents necessary for strategic planning on the part of foreign businesses. These are very similar to the documents we use to measure transparency in the Provincial Competitiveness Index for domestic firms in Sub-Index 3. For each document, we asked respondents to rate their ability to access the document on a five-point scale, ranging from Impossible (1) to Very Easy (5). Easy access to all documents would generate a perfect score of 30. We begin by focusing on arguably the two most critical documents for the decision making of FIEs: 1) the provincial budget; and 2) land planning information.

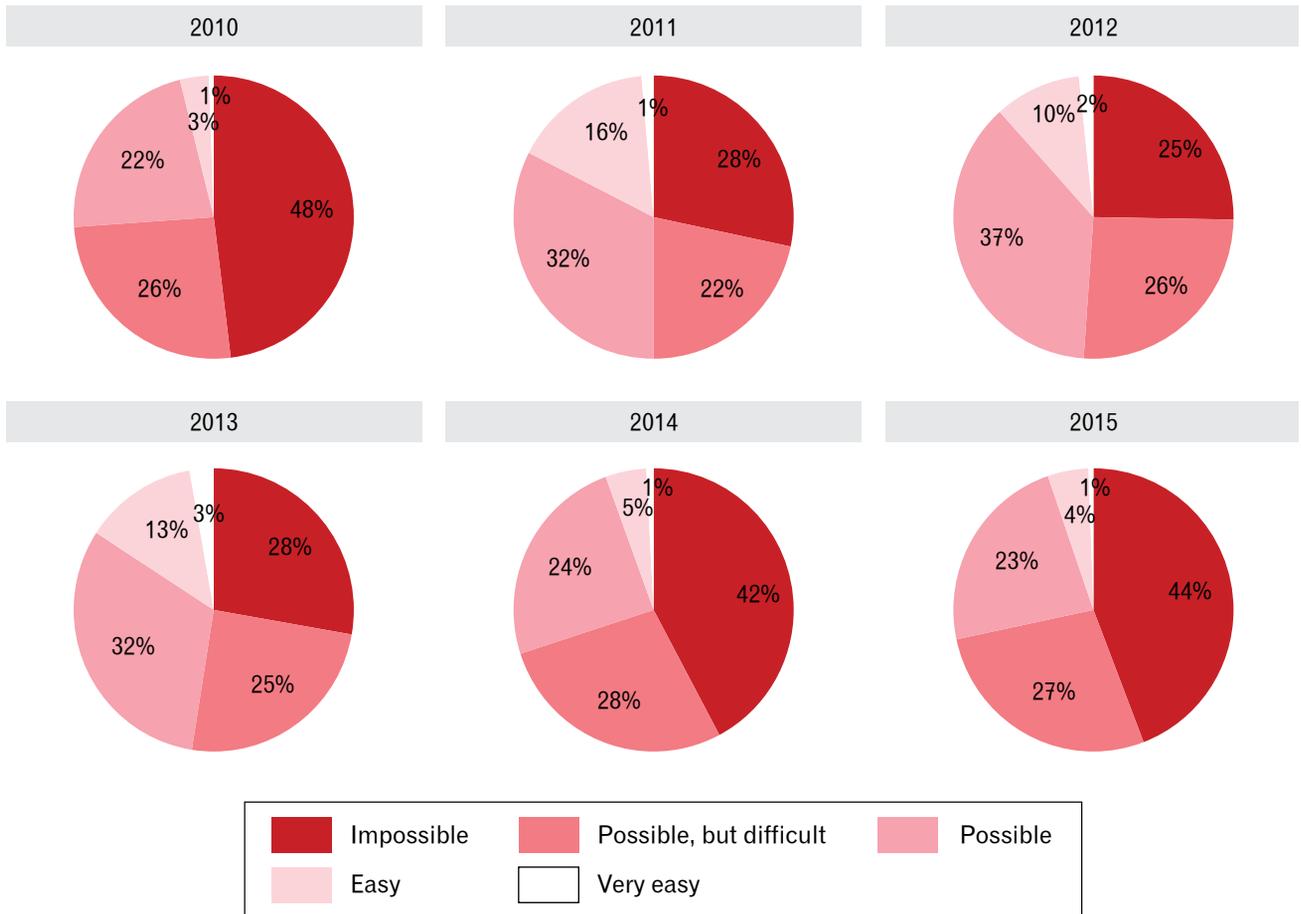
⁶⁶ Edmund Malesky, Neil McCulloch, Nguyen Duc Nhat. 2015. See footnote 26

Access to a timely and accurate budget helps FIEs quickly understand the priorities and planned allocations of a local government. Infrastructure in a province might be inadequate today, but the budget will reveal if the province intends to invest in improving, for example, road quality and connectivity. Similarly, a company that requires workers with a particular skillset can look at well-documented budgets to see if the province has allocated funds to enhance vocational training. Budgets are preferable to socio-economic plans or glossy investor brochures, because they offer a credible commitment that the province has designated money to these ventures; in other words, as the American expression goes, the provincial leaders have “put their money where their mouths are.” An additional feature of budgets is they provide concrete evidence of the province’s fiscal management. Does the government spend its assets wisely, in ways that will enhance the investment environment, or does it waste resources on gratuitous, white elephant projects? Finally, keen readers of a budget can use it to detect, and hopefully challenge, malfeasance. Does the amount allocated for a road project seem reasonable, or does the province appear to be overpaying? Do line items in the budget match actual, observed expenditures or are there hidden ghost projects that could signal illicit activity?

Do officials provide budget access to FIEs in the province where their Vietnamese headquarters is located? The pie graph in Figure 3.25 indicates a dangerous trend. According to foreign investors, budget access is declining in Vietnam. In 2011, 50 percent of FIEs thought that budget access was possible, easy, or very easy. Since that peak, however, the numbers have steadily declined. In 2015, only 29 percent of foreign investors feel this way. Forty-four percent now say it is impossible to get an accurate budget, while 27 percent say it is possible but difficult.

A follow-up question reveals because that the difficulty is caused by the increasing importance of relationships in accessing the information. In 2011, less than half of surveyed FIEs believed a relationship was necessary to get access to information like the budget; the numbers in 2014 and 2015, were 72 percent and 76 percent respectively.

Figure 3.25 Ease of Access of Provincial Budget



Graphs by year

Source: PCI-FDI Survey Question H1.1: "Please rate your access to these provincial documents and information?" Provincial Budget

Figure 2.24 applies the same analysis to the availability of Access to Land Use Plans.⁶⁷ The location of sites for initial business entry and expansion are among the most critical decisions that foreign investors must make in Vietnam. Even if they have already chosen a specific province, firms must assess the actual premises to make sure that they are located near sufficient, quality infrastructure for shipping products, interacting with suppliers, and expanding operations. Moreover, Vietnam is one of the most densely populated countries in the world with most productive land already in use by households, farmers, existing businesses, or state owned enterprises. Thus, a land transaction requires negotiations with the current occupants, which can be costly and time consuming. For even medium-sized foreign investment projects, it is not uncommon to require the resettlement of the existing tenants. Recent years have demonstrated that these relocations can be controversial and damaging to the reputation of FIEs.⁶⁸ It is not a surprise, therefore, that multiple analyses have highlighted land management and land access as critical policy concerns for Vietnamese development. Problems are exacerbated by lack of

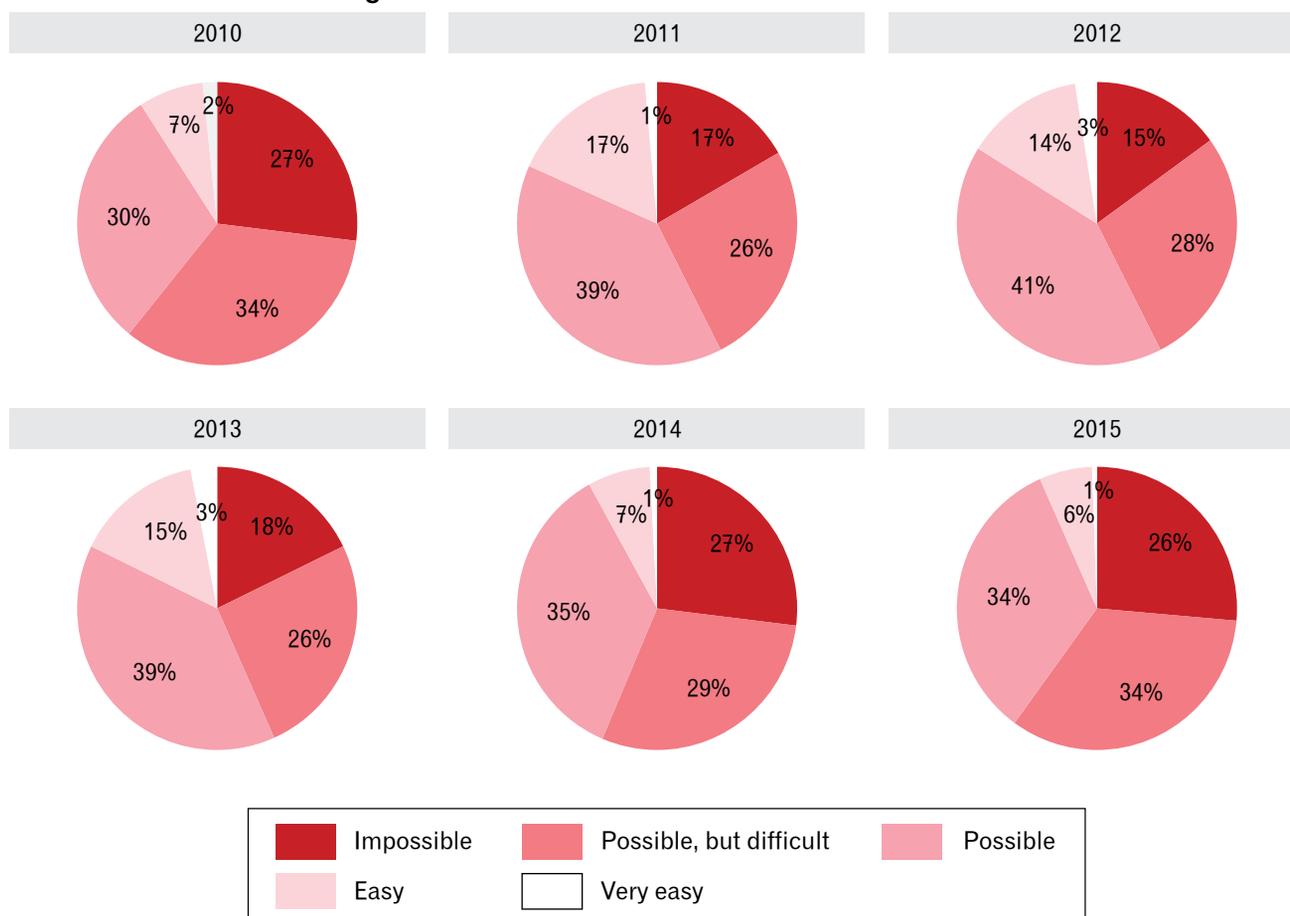
⁶⁷ World Bank. 2014. Land transparency Study: Synthesis Report. Hanoi, Vietnam : Hong Duc Publishing House. <<http://documents.worldbank.org/curated/en/2014/01/23010573/land-transparency-study-synthesis-report>>

⁶⁸ Nguyen, Hieu, 2012, "Large-Scale Land Acquisition Lessons Learnt from the Ecopark Project, Vietnam," Forum for Urban Future in Southeast Asia South-East Asian Expert Seminar, Cologne, September 12, <http://www.academia.edu/11766116/Large-scale_Land_Acquisition_Lessons_Learnt_from_the_Ecopark_Project_Vietnam>

access to land documentation, including accurate prices, plans to rezone agricultural land for commercial use, and land clearance rollout schedules. When FIEs do not have accurate information about land, they can make highly damaging mistakes. First, and most critically, FIEs can locate in areas that they anticipated would soon receive new infrastructure or clearance, only to find that those sites will not actually be reached for some time. Second, FIEs may believe that negotiations have been completed and agreed to by current residents, only to find a much more unstable situation when they commence operations. Third, FIEs may overpay for land, when lack of transparency allows connected individuals to buy up valuable land before the provincial development strategies are clearly announced. FIEs can thus end up paying a higher price than they would have if all stakeholders had been equally aware of plans for changes to the province’s land use and infrastructure allocation projects.

Figure 3.26 again demonstrates that transparency is actually declining on this critical group of documents. In 2011, 57 percent of FIEs thought land use plans were possible or easy to come by. Today, that number has shrunk to 40 percent.

Figure 3.26 Ease of Access of Land Use Plans



Graphs by year

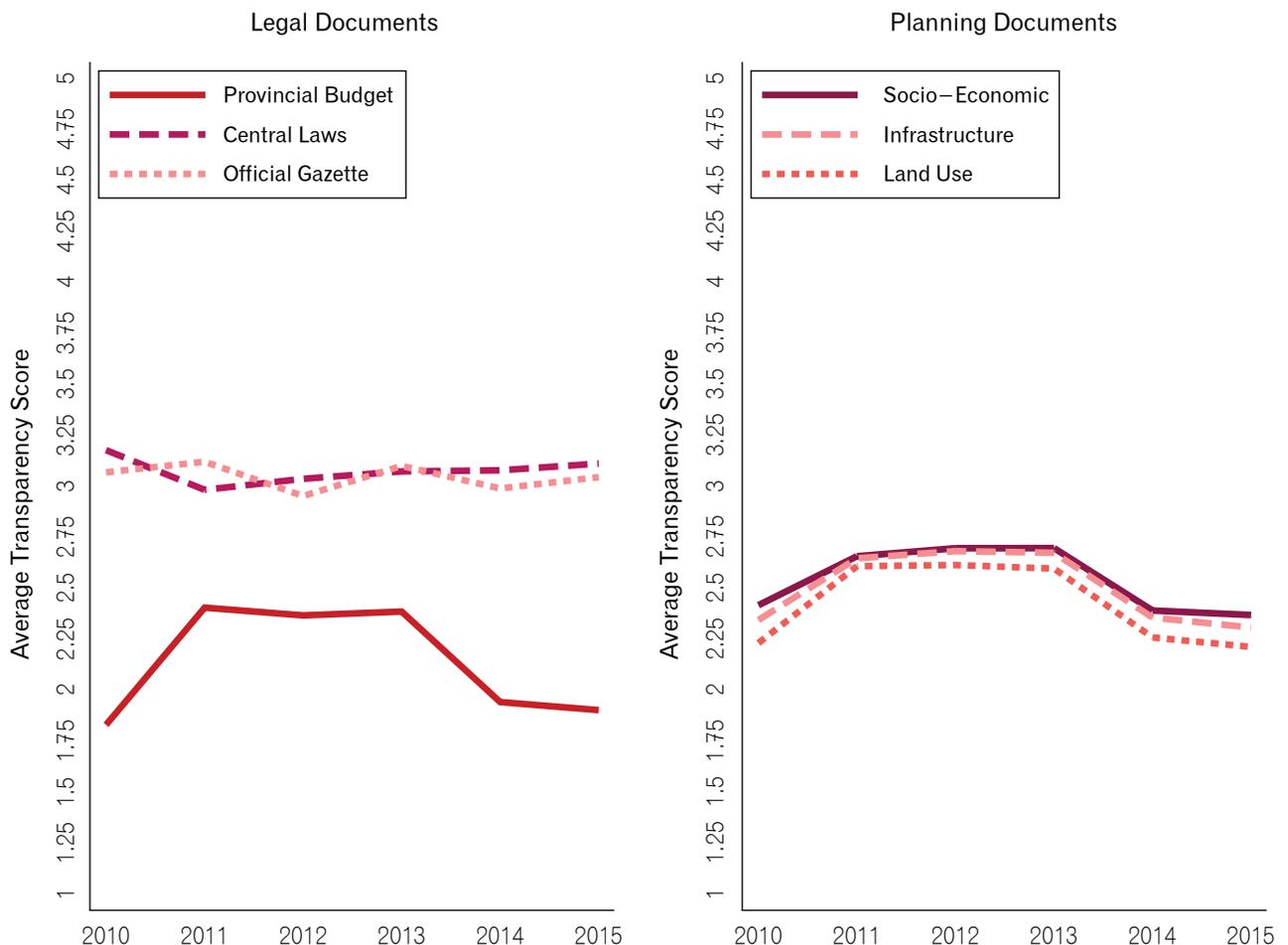
Source: PCI-FDI Survey Question H1.1: “Please rate your access to these provincial documents and information?” Land Use Allocation Plans

Figure 3.27 builds on the above analysis, studying the average scores across all of the six most important documents for FIEs. Here, we report the average scores for each type on the five-point scale. Access to two major types of legal documentation, especially central

laws, ordinances, decrees, and official gazettes, has remained quite steady. The average FIE in Vietnam believes access to these documents is possible, if not easy, to access. Notably, access to these documents was a requirement of the WTO and U.S.-Vietnam Bilateral Trade Agreement (BTA). Due to domestic needs, and perhaps in anticipation of these agreements, Vietnam’s 1996 and 2002 revisions of Law on the Promulgation of Legal Documents (known as the Law on Laws) mandated timely publication of all legal, normative documents.⁶⁹ Subsequent amendments in 2008 and 2015 have maintained these mandates and extended them to provincial People’s Committees and Councils. Indeed, the Law on Laws actually insists upon the collection and posting of both national (Article 19) and provincial (Article 27) legal documents, including draft legislation. As a result, the information is readily available and there are few surprises.

By contrast, significant declines are observed in access to budget and planning documents as we observed above. These documents are not officially included on the list of documents required for publication by the Law on Laws. The divergence indicates how legal mandates can provide stability in access, and suggests FIEs would benefit from the specific inclusion of budgets and planning documents in the draft Law on Access to Information.

Figure 3.27 Transparency of Business Documentation over Time



Source: PCI-FDI Survey Question H1: “Please rate your access to these provincial documents and information?” Bar graphs report the average of a five-point scale for all documents: 1) Impossible; 2) Difficult; 3) Possible; 4) Easy; 5) Very Easy.

⁶⁹ Vietnam Law and Legal Forum. 2015. “New Law on Promulgation of Legal Documents,” Hanoi, Vietnam. Accessed February 2, 2016 at <<http://vietnamlawmagazine.vn/new-law-on-promulgation-of-legal-documents-5061.html>>

Since provincial websites have been important conduits of transparency, the PCI-FDI survey asks specifically about access to information online. In Table 3.5 we present information on the share of firms that have accessed the provincial budget online and their opinion of the quality of that information. In line with general sentiment of foreign investors on transparency, the results are disappointingly low. Only 23 percent of FIEs have downloaded the provincial budget, and of those, only 28 percent believed the quality of the information was good enough for their business purposes. That means that only 6 percent of foreign businesses in Vietnam believe they have adequate budget information to plan for the future. The shaded panel of the table studies the other documents that firms have chosen to access online. Provincial regulations and legal documents stand out as the most frequently downloaded.

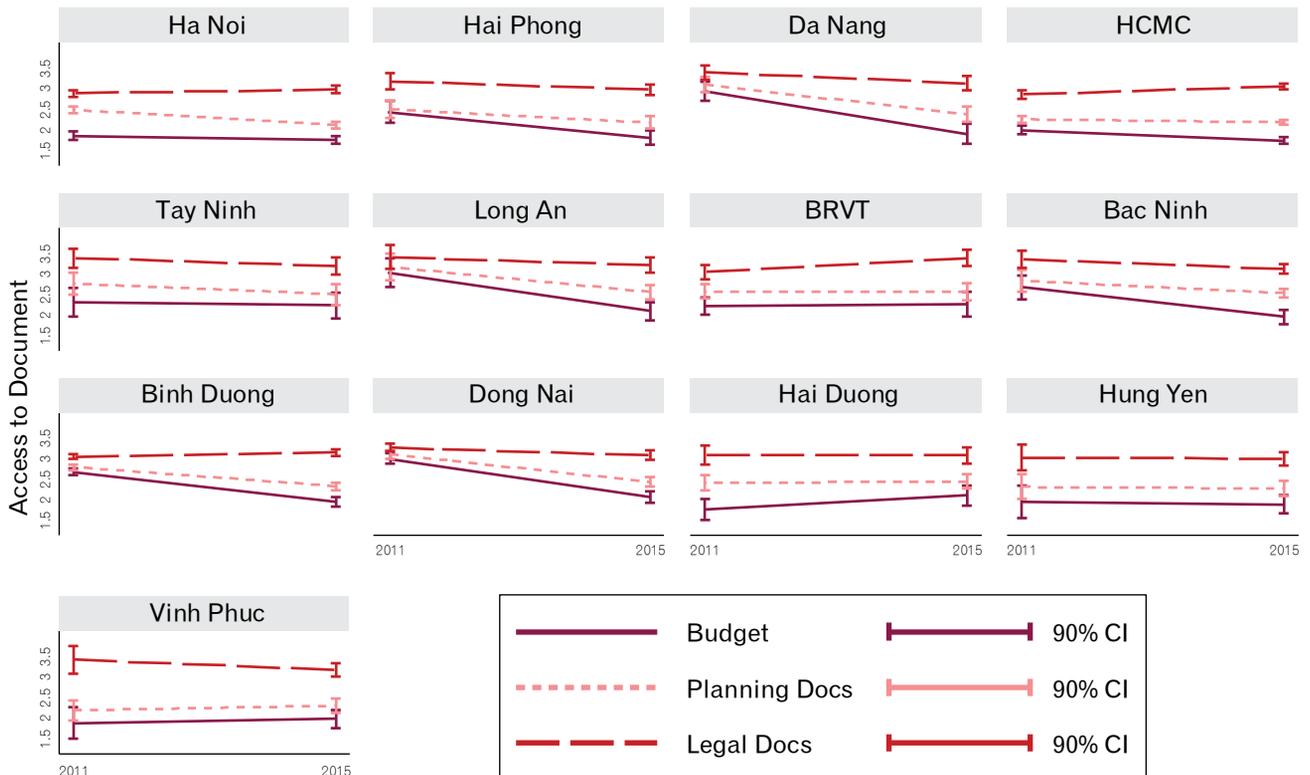
Table 3.5 Online Access to Business Information for FIEs

Online Budget Access by FIEs			Documents Accessed by FIEs				
Year	Accessed Provincial Budget (percent)	Information Good (percent)	Investment Incentives (percent)	Regulations (percent)	Planning Documents (percent)	Guiding Documents (percent)	Provincial Legal Documents (percent)
Question	H1b	H1b1	H2.1=1	H2.1=2	H2.1=4	H2.1=4	H2.1=5
2013	24.8	25.9	33.7	49.7	23.8	33.2	39.0
2014	24.0	32.6	36.8	58.8	17.8	26.8	44.4
2015	22.7	28.8	39.9	64.3	19.5	30.5	47.3

Finally, we disaggregate transparency responses by the province where the foreign investor is located, as shown in Figure 3.28. We chose the average access indicators where we have the greatest time series data. The results are presented in the form of a slope graph, where we show the average scores in 2011 and 2015, and a line plotting the slope of change between the two periods. We depict access to the three main types of documents: 1) Budget; 2) Planning Documents; and 3) Legal Documents.

A few points are worthy of note. First, as above, laws and official pronouncements are the easiest to access in every province, and the level of access holds reasonably steady with only minor changes between the two years for almost every province. Only BRVT demonstrates notable improvement over the period, moving from a score of 3 to 3.5, the highest average score in the sample in 2015. Second, the steepest declines are observed in access to the budget. Almost every province, with the notable exceptions of Hai Duong and Vinh Phuc, experience tremendous declines in the transparency of budgets over this period. Most striking is the rapid descent in Da Nang, which declined a full point from 3 (Possible) to 2 (Possible but Difficult) over the four years. Bac Ninh, Binh Duong, and Long An also record notable slides. Finally, only one province (Vinh Phuc) recorded improvements in access to planning documents over the period.

Figure 3.28 Transparency of Documents by Province



Graphs by pci_id

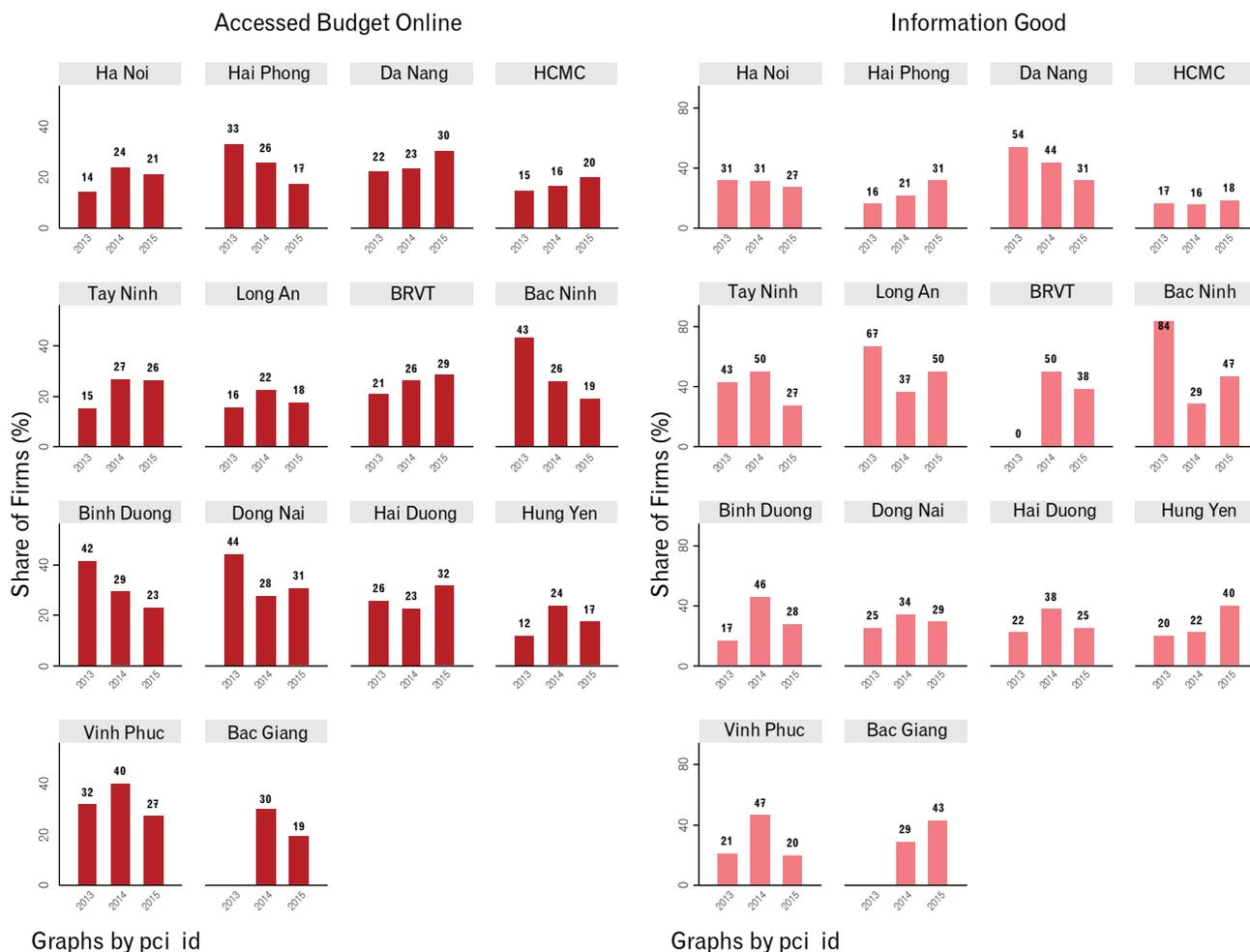
Source: PCI-FDI Survey Question H3 “How predictable are changes in laws at the central level which affect your business?” & H4 “How predictable is the implementation of these rules, laws, and regulations at the provincial level?” Line graphs report the average of a five-point scale for both questions: 1) Never; 2) Seldom; 3) Sometimes; 4) Usually; 5) Always.

Figure 3.29 explores the question of transparency more deeply by studying the share of FIEs that downloaded the provincial budget each year in the left panel and their assessment of the quality of that information in the right panel. No obvious pattern emerges as to the trajectory of budget access. In some provinces, like Da Nang and BRVT, the share of respondents downloading the budget shows a steady, incremental increase. Other provinces, like Bac Ninh and Binh Duong, show progressive declines. In the case of Bac Ninh, the decline is quite dramatic, falling from 46 percent in 2013 to 19 percent in 2015. Overall, in 2015, the highest number of respondents downloading the provincial budget was recorded in Hai Duong (32 percent).

The scores for Da Nang are puzzling. Why is the assessment of budget transparency declining, while the number of observable downloads is actually increasing? A likely answer can be seen in the next panel, when we observe perceptions of the quality of the budget data obtained. Firms’ information quality ratings in Da Nang have dropped considerably. In 2013, 54 percent of FIEs thought that the budget was adequate for their needs, compared to only 31 percent in 2015. This raises an important point. Transparency is more than just posting documents on a website; high quality, actionable information must also be provided. According to FIEs, in 2015, the highest quality budget information was available in Long An (50 percent) and Bac Ninh (47 percent).

Transparency is more than just posting documents on a website; high quality, actionable information must also be provided

Figure 3.29 Transparency of Planning Documents by Province



The Correlation between Transparency and Corruption

In the final section of the transparency analysis, we study the relationship between transparency and corruption in Vietnam. As we noted above, transparency should tame the malfeasance of officials by exposing their actions to greater public scrutiny.

To provide a more fine-grained measurement of corruption in Vietnam, the PCI-FDI survey asks a large number of questions about activities that expose businesses to corruption. These include bribes paid at various times: during entry; in pursuit of government contracts; while performing customs activities; in the process of regulatory enforcement; and while courts are adjudicating contract disputes. We present the responses to these questions below in Table 3.5.

One issue in standard measures of corruption is that respondents might be reluctant to respond candidly because they may be exposed to legal ramifications or harassment. This is especially true of firms from countries which have signed the Organization for Economic Cooperation’s and Development’s Anti-Corruption Agreement because they can also be held legally liable in their home countries for bribes paid in Vietnam. This reluctance generates two well-documented problems on surveys: 1) item non-response, whereby respondents refuse to answer the sensitive question, and 2) social desirability

bias, where respondents answer inaccurately in order to protect themselves.⁷⁰ As we have documented in the 2012 and 2013 reports,⁷¹ the PCI has pioneered a question format called the Unmatched Count Technique (UCT), or list question, which shields respondents from culpability, allowing them to answer honestly about their exposure to corruption.⁷²

The first two columns of Table 3.6 provide the percentage of firms responding affirmatively to the list questions about bribes paid during entry or during the government procurement process. When interpreting these answers, it is important to remember that these figures show the share of firms that actually engaged in the activity, not firms who heard about corruption or who may have indirectly paid through a facilitator, broker, or consulting firm. About 29 percent of FIEs admit that they paid bribes when they attempted to acquire their investment licenses, and 25 percent paid bribes when competing for government contracts.

The true cost of corruption does not just include the direct cost of the bribe; analysts must also take into account the inefficiencies created when less qualified companies are chosen over firms that refused to bribe.⁷³ A follow-up question in the 2014 PCI-FDI survey asked firms if they were disadvantaged in the selection process if they refused to pay a bribe during procurement. While 89 percent agreed they were disadvantaged in some way, there was disagreement on the frequency: 29 percent always, 32 percent usually, and 28 percent sometimes). This sizable result indicates that a culture of commissions in contracting may be impeding the best selection of service providers, leading to higher costs and worse quality.

The next three columns of Table 3.5 report scores for directly asked questions about: 1) whether firms paid bribes during customs procedures (at any stage in the process);⁷⁴ 2) whether the businesses believe administrative and market regulations are an excuse for bureaucrats to extract bribes; and 3) whether firms with contractual disputes did not use courts because they feared bribery. For all these questions, corruption also appears to be demonstrably higher in 2014 for FIEs. 59% of operations paid bribes during customs procedures, almost seven percentage points below last year. Over 66% of businesses answered that regulations were merely an excuse for bureaucrats to ask for bribes, 6 percentage points higher than last year and over twice the share of respondents agreeing in previous years. And 23% of businesses chose to avoid the Vietnamese court system during disputes because they were concerned about bribery during the process. Again, this figure is the highest score recorded in the PCI-FDI survey. Correspondingly, the cost of bribery remains high. 39% of firms claimed their total bribes amounted to over 1%.

⁷⁰ Daniel Treisman, "What We Have Learned About The Causes of Corruption from Ten Years of Cross-National Empirical Research?" *Annual Review of Political Science* 10 (2007): 211–44.

⁷¹ See Malesky, *The Vietnam Provincial Competitiveness Index*, 2014, p. 66.

⁷² Elizabeth Coutts and Ben Jann, "Sensitive Questions in Online Surveys: Experimental Results for the Randomized Response Technique (RRT) and the Unmatched Count Technique (UCT)," *Sociological Methods & Research* 40 (1), (2011):169-193; Graeme Blair and Kosuke Imai, "Statistical Analysis of List Experiments." *Political Analysis* 20.1, (2012): 47-77. To see the technique applied to PCI data, see Edmund Malesky, Dimitar Georguiev and Nathan M. Jensen, "Monopoly Money: Foreign Investment and Bribery in Vietnam, a Survey Experiment," *American Journal of Political Science* (2014, doi: 10.1111/ajps.12126).

⁷³ Asia Pacific Institute of Management and T&C Consulting. "Cost of corruption: Perspectives from Vietnamese firms," (Working Paper, Department for International Development, United Kingdom, 2014)

⁷⁴ For more details on customs procedures see VCCI and USAID Report on Assessing the Quality of Customs Service in Vietnam. Hanoi, Vietnam (2013).

Table 3.6 All Questions about Corruption in PCI Survey

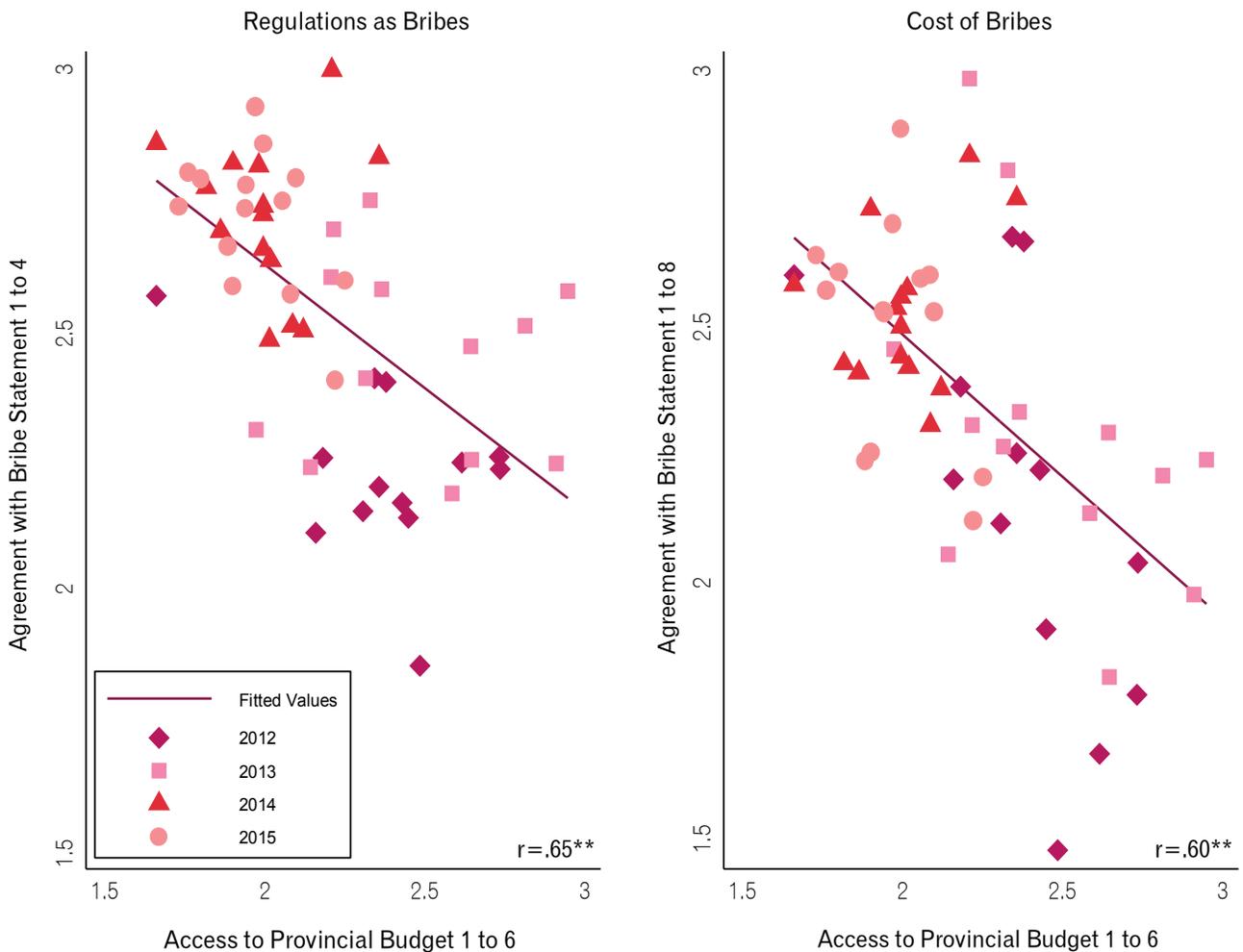
Type of Informal Charges						
Year	Informal Charges during Entry¹ (%)	Commision during Procurement¹ (%)	Bribe during Customs Procedure (%)	Regulations are an Excuse for Bribery (%)	Bribes Were a Deterrent to Using Court's (%)	Service Delivered after Bribe Payment (%)
2010	18.5	NA*	64.4	31.4	8.9	47.3
2011	9.9	9.5	53.3	23.5	8.2	46.2
2012	9.0	12.0	56.2	24.1	12.7	54.5
2013	19.7	10.3	57.4	43.9	13.9	59.2
2014	17.2	31.4	66.2	60.1	22.3	58.2
2015	28.7	24.8	58.8	66.2	23.5	59.0
Cost of Informal Charges (Amount/Annual Income)						
Year	0	<1	1-2	2-5	5-10	>10
2010	22.1	40.5	17.0	10.9	6.8	2.9
2011	31.0	33.5	19.7	7.7	6.5	1.6
2012	30.3	40.7	17.4	8.2	2.6	0.9
2013	19.5	48.6	18.4	8.6	3.2	1.7
2014	18.9	42.5	20.1	11.9	4.7	2.0
2015	16.5	44.6	18.1	12.8	6.3	1.8

* The procurement question was not asked in 2012.

1. Derived using the Unmatched Count Technique or List Estimator, which relies on two randomized versions of the survey.

In Figure 3.29, we present the bivariate relationship between two corruption and access to the provincial budget at the province level. Each mark on the scatter plot represents a province, while colors signify the year. The first panel depicts the share of firms that report that regulations are an excuse for bribery. The second depicts the average bribe payment over annual income on our eight-point scale. Both graphs show extraordinarily strong relationships between corruption and access to information by province in Vietnam.

Figure 3.30 Relationship between Predictability and Transparency for FIEs



Source: Horizontal Axis: PCI-FDI Survey Question H1: “Please rate your access to these provincial documents and information?” Bar graphs report the average of a five-point scale for all documents: 1) Impossible; 2) Difficult; 3) Possible; 4) Easy; 5) Very Easy; Vertical Axis 1 PCI - FDI survey question E9: “Do you agree with the following statement? “Government officials use compliance with local regulations to entrap informal payment from businesses like mine”

In Table 2.7, we use regression analysis to further explore the relationship between access to documentation and our measures of informal charges. We focus on three measures of corruption from the PCI-FDI survey that are collected each year: 1) whether a firm reports that regulations are an excuse for bribery, 2) the percent of annual income that is spent in bribe payments; and 3) whether a firm paid a commission during procurement.

For regressions involving the first two variables, we use ordinary least squares regression. For the procurement measure, we employ a two-step Blair and Imai procedure.⁷⁵ We also control for potential confounding variables (the labor and capital size of the firm and employ year, the province, and two-digit sector fixed effects) to help us make sure that these alternative factors are not driving changes in corruption and transparency. Provincial leadership and sectoral differences should be captured by the fixed effects. As much as possible, we are trying to ensure that the only differences that are observed between FIEs are the levels of access to information.

⁷⁵ Blair, G. and Imai, K., 2012. *Statistical Analysis of List Experiments*. *Political Analysis*, 20.1, pp.47-77.

The results are quite striking. Transparency has sizable negative effects on all three types of corruption. Access to information has a negative sign in all nine models, indicating that increasing information reduces corruption. The effect is statistically significant in 6 models, indicating that these results are not driven by coincidence.

Increasing access to information can have a formidable effect on reducing corruption Substantively, we find that increasing budget access by one point on the five-point scale is associated with a 5 percent decline in the share of firms reporting that regulations are an excuse to extract bribes, a 0.08 point decrease on the eight-point cost of corruption scale, and a 3.5 percent reduction in the share of firms bribing during procurement procedures (albeit not statistically significant by conventional standards). The coefficients on access to planning documents are even more pronounced, indicating a one-point improvement in access is associated with a 9 percent reduction in bribery assessments, a 0.13 point decline on the cost of corruption scale, and nearly a 30 percent decrease in bribery during procurement. For legal documents, the main effects are observed with respect to bribe costs. The correlations are consistent with the notion that increasing access to information can have a formidable effect on reducing corruption.

Summary and Implications

As the Vietnam National Assembly considers the draft Law on Access to Information in its upcoming session, it should keep in mind the enormous benefits of transparency for FIEs. Greater transparency has several effects; it: 1) reduces the transaction costs of acquiring businesses; 2) allows for smarter and more targeted investments; 3) reduces risks and investment mistakes; 4) constrains malfeasance by local bureaucrats; and 5) increases equity and reduces entry barriers. Ultimately, relatively simple changes in local governance can result in expanded investment, innovation, and growth in the foreign investment sector. Moreover, as we show in this section, transparency also reduces the risks of bribery and corruption considerably. Unfortunately, Vietnam has not been able to fully reap the benefits of FDI, because access to information – particularly key documents pertaining to local budgets and planning – actually appears to be worsening over time. FIEs report more difficulty acquiring the information, greater dependence on personal relationships and connections to obtain it, and lower quality information when they do find it. In the next session of the VNA, delegates would be well served to insist upon the mandatory and timely publishing of budgets and planning documents, and should insist that this information is available to foreign as well as domestic firms. Vietnamese citizens will benefit from the increased investment and job opportunities following this straightforward change.

Table 3.7 Correlation between Transparency and Bribery

Variables	Budget			Planning Documents			Legal Documents		
	Bribery (1)	Bribe Cost (2)	Procurement (3)	Bribery (4)	Bribe Cost (5)	Procurement (6)	Bribery (7)	Bribe Cost (8)	Procurement (9)
Access to Document (1 to 5)	-0.054**	-0.086***	-0.035	-0.091**	-0.132***	-0.296***	-0.041	-0.126***	-0.119
Investment Size (1 to 8)	-0.018	-0.028	-0.062	-0.035	-0.043	-0.082	-0.03	-0.033	-0.128
Labor Size (1 to 8)	0.005	-0.031***	-0.004	0.008	-0.032***	-0.019	0.009	-0.025**	-0.012
Constant	-0.01	-0.01	-0.06	-0.009	-0.011	-0.063	-0.01	-0.012	-0.063
Year FE	-0.01	-0.019	-0.079	-0.01	-0.015	-0.069	-0.012	-0.02	-0.064
Province FE	2.453***	2.635***	1.169***	2.551***	2.767***	1.718***	2.436***	2.790***	1.397***
Sector FE	-0.09	-0.09	-0.23	-0.125	-0.077	-0.269	-0.116	-0.083	-0.448
Observations	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
RMSE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	3,076	2,693	343	3,151	2,757	349	3,218	2,798	352
	0.145	0.084	0.143	0.148	0.085	0.168	0.14	0.087	0.144
	0.705	1.086	1.214	0.703	1.084	1.2	0.709	1.083	1.208

Robust standard errors, clustered at province level, in parentheses (** p<0.01, *** p<0.001, * p<0.05, ** p<0.01). All models use OLS with three different dependent variables. Bribery is the respondent's answer to the question, "Regulations are an Excuse for Bribery" which is measured on a five point scale measuring the level of agreement. Bribe Cost is measured on eight-point scale measuring the cost of bribery/annual revenue. Procurement is a list experiment question that is analyzed using a two-stage regression method following (Blair and Imai 2011).



4 FOREIGN AND DOMESTIC PERCEPTIONS OF THE TRANS-PACIFIC PARTNERSHIP

4.1 BACKGROUND ON THE TRANS-PACIFIC PARTNERSHIP (TPP) AGREEMENT

In this final chapter, we return to our analysis of the Trans-Pacific Partnership (TPP) Agreement, begun last year, in order to investigate whether firms' views of the agreement have changed as the negotiations have ended and the final form of the agreement seems clear.

The final TPP Agreement was concluded on October 5, 2015 after seven years of negotiations between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.⁷⁶ This ambitious 21st century trade compact intends to:

...promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in our countries; and promote transparency, good governance, and enhanced labor and environmental protections.⁷⁷

The 12 TPP countries signed the agreement on February 4th, 2016, officially starting the two year ratification process for all countries. If at least six countries that comprise 85 percent of group GDP ratify the agreement, it will become legally binding and enter into

⁷⁶ *The TPP has, in fact, been long in the making. It originated in 2002, when Chile, New Zealand, and Singapore, on the sidelines of that year's Asia-Pacific Economic Cooperation (APEC) meeting, decided to begin negotiations for a "Pacific Three Closer Economic Partnership" agreement. Brunei subsequently joined the negotiations, and, in 2005, the four countries concluded and signed Trans-Pacific Strategic Partnership agreement, which came into effect in 2006 and provided the launching point for the current TPP negotiations. Following the announcement by United States Trade Representative Susan Schwab of the U.S. government's intent to join the TPP, negotiations began in 2009. The negotiations were subsequently joined by Australia, Canada, Malaysia, Mexico, Peru, and Vietnam. Japan is the most recent prospective participant, having entered into the TPP negotiations in 2013.*

⁷⁷ "Summary of the Trans-Pacific Partnership Agreement". USTR. 4 October 2015. Retrieved February 3, 2016, <<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/october/summary-trans-pacific-partnership>>

force after five years. In effect, this requires ratification by the United States, Japan, and four other countries to enter into force.

The document was negotiated as a single undertaking in which signatories will be subject to new commitments in all issue areas. Early in negotiations, all parties agreed on five broad features for this landmark agreement: i) comprehensive market access through the elimination of barriers to trade and investment; ii) full regional cooperation to support the development and operation of multinational production chains among member states; iii) building on APEC efforts to resolve trade issues in the areas of regulatory coherence, domestic and regional competitiveness and business facilitation, growth of small and medium enterprises, and economic development; iv) addressing the challenges of the digital economy and green technology while fostering competition; and v) flexibility that provides institutional mechanisms for the formation of new trade rules as needed and for the expansion of membership.⁷⁸

The areas covered by TPP reflect the goal of the negotiating parties for a landmark agreement that sets high standards and formulates new rules for a broad scope of issue areas, which include: trade in goods, textiles, and services; investment; labor; environment; e-commerce and telecommunications; competition policy and state-owned enterprises (SOEs); small and medium-sized enterprises; intellectual property rights; technical barriers to trade and sanitary and phytosanitary (SPS) measures; transparency, anti-corruption, and regulatory coherence; customs, trade facilitation, and rules of origin; government procurement; development and trade capacity-building; and dispute settlement.

The comprehensiveness and flexibility of the TPP results from the negotiating party members' dissatisfaction with previous trade and investment arrangements that made progress in one core area of negotiations but found the gains undermined by developments in areas not governed by the original contract. Negotiating simultaneously across a number of core issue areas allows interlocutors to constrain potential countervailing policy developments. In addition, comprehensive legislation facilitated greater bargaining among participants, allowing trade-offs across issue areas for countries with different priorities. Finally, the flexibility of the arrangement permits renegotiation when policy, technology, or international developments alter the trade and investment landscape, obviating previous arrangements.

In Vietnam, support for and awareness of the TPP has been increasing, but the agreement has stirred up significant debate. A number of experts see the TPP as being critical for diversifying the Vietnamese economy, expanding the market for Vietnam's exports, increasing its network of international partners, reducing the country's economic dependence on any one country, and reversing the sizable trade deficit Vietnam faces with its northern neighbor.⁷⁹ Some economists have argued that Vietnam, as the least developed negotiating participant with a per capita GDP less than one third the size of the next poorest member, will benefit disproportionately from market access, making it the country with the most to gain among all TPP countries.⁸⁰ Petri and Plummer estimate

⁷⁸ Office of the United States Trade Representative. "Enhancing Trade and Investment, Supporting Jobs, Economic Growth and Development: Outlines of the Trans-Pacific Partnership." (results of proceedings in Honolulu, Hawaii, November 12, 2011) <<https://ustr.gov/tpp/outlines-of-TPP>>

⁷⁹ Truong-Minh Vu and Nhat-Anh Nguyen, "The Potential of the TPP for Vietnam." *The Diplomat*, Sep. 9, 2014 <http://thediplomat.com/2014/09/the-potential-of-the-tpp-for-vietnam/>

⁸⁰ Jack Sheehan, "Vietnam: A Clear Winner," *BBC News*, April 22, 2014. <<http://www.bbc.com/news/business-27107349>>

8 percent growth in Vietnamese GDP by 2030, fueled by a 30 percent increase in exports and a 14.4 percent increase in inward FDI from member states.⁸¹ The World Bank estimates 10 percent growth in GDP and 30 percent growth in exports as a result of the agreement.⁸² One academic study is not as optimistic, predicting GDP contractions in some member states and smaller gains (2.2 percent) for a group of four Southeast Asian countries (including Vietnam).⁸³

An issue that has received much less attention, however, has been the distributional consequences of TPP. Agriculture, aquaculture, and the export-oriented light manufacturing sectors would benefit, while livestock exporters and domestic services such as finance, insurance, logistics, and distribution may come under tremendous foreign pressure.⁸⁴ Global competition is expected to eventually lead to efficiency improvements and benefits for Vietnamese consumers, but in the short-term, a number of producers, particularly many small- and medium-size enterprises, may be harmed. As a result, the World Bank report projects real wage improvements for unskilled labor industries of nearly 14 percent, but predicts real wages may decline by three percent in skilled labor intensive industries, which have long been thought of as future drivers of Vietnamese growth.⁸⁵ The economic benefits for unskilled labor are so substantial that Vietnam agreed to major new commitments to labor rights⁸⁶ and collective bargaining on the factory floor.⁸⁷ In terms of the principle of Pareto optimality, the trade-off makes sense.⁸⁸ There are many more unskilled Vietnamese workers than skilled, and the benefits for that former group are substantial. Key questions, however, remain about whether and how the workers and firms that do not benefit from the arrangement could be compensated.

An important voice missing in all of these discussions has been the Vietnamese business community. Analysts have conjectured about the preferences of Vietnamese entrepreneurs and foreign investors without actually asking them how they view the trade-offs of Vietnam's entry into the Trans-Pacific Partnership. In this chapter, we correct for the paucity of firm-level perceptions. We study the sentiments of domestic and foreign companies in Vietnam regarding the TPP, analyze their knowledge of the proposed agreement, their support for the overall arrangement as well as specific chapters, and finally probe their assessment of the implications of Vietnam's TPP entry on their current business arrangements with overseas partners. In tackling these questions, we specifically compare the differing views of private domestic firms, foreign firms from TPP member countries, and foreign investors from countries not party to the agreement.

⁸¹ Petri, P.A. and Plummer, M.G., 2016. *The Economic Effects of the Trans-Pacific Partnership: New Estimates*. Peterson Institute for International Economics Working Paper, (16-2).

⁸² World Bank. 2016. "Potential Macroeconomic Implications of the Trans-Pacific Partnership," *Global Economic Prospects (January)*, Chapter 4: 219-255.

⁸³ Capaldo, J., Izurieta, A. and Sundaram, J.K., 2016. *Trading Down: Unemployment, Inequality and Other Risks of the Trans-Pacific Partnership Agreement (No. 16-01)*. GDAE, Tufts University <http://www.ase.tufts.edu/gdae/Pubs/wp/16-01Capaldo-IzurietaTPP.pdf> (See Table 5).

⁸⁴ Peter et al. "The TPP and Asia-Pacific Integration: A Quantitative Assessment.", 38.

⁸⁵ World Bank. 2016, p.229. *Skilled Labor Intensive Sectors are Defined as Chemicals, Vehicles and Machinery, While Unskilled Labor Intensive Industries' include textiles, apparel and metal products.*

⁸⁶ Khai Nguyen, "Vietnam risks TPP slot on labor reality," *Asia Time Online*, March 6, 2014. http://www.atimes.com/atimes/Southeast_Asia/SEA-01-060314.html

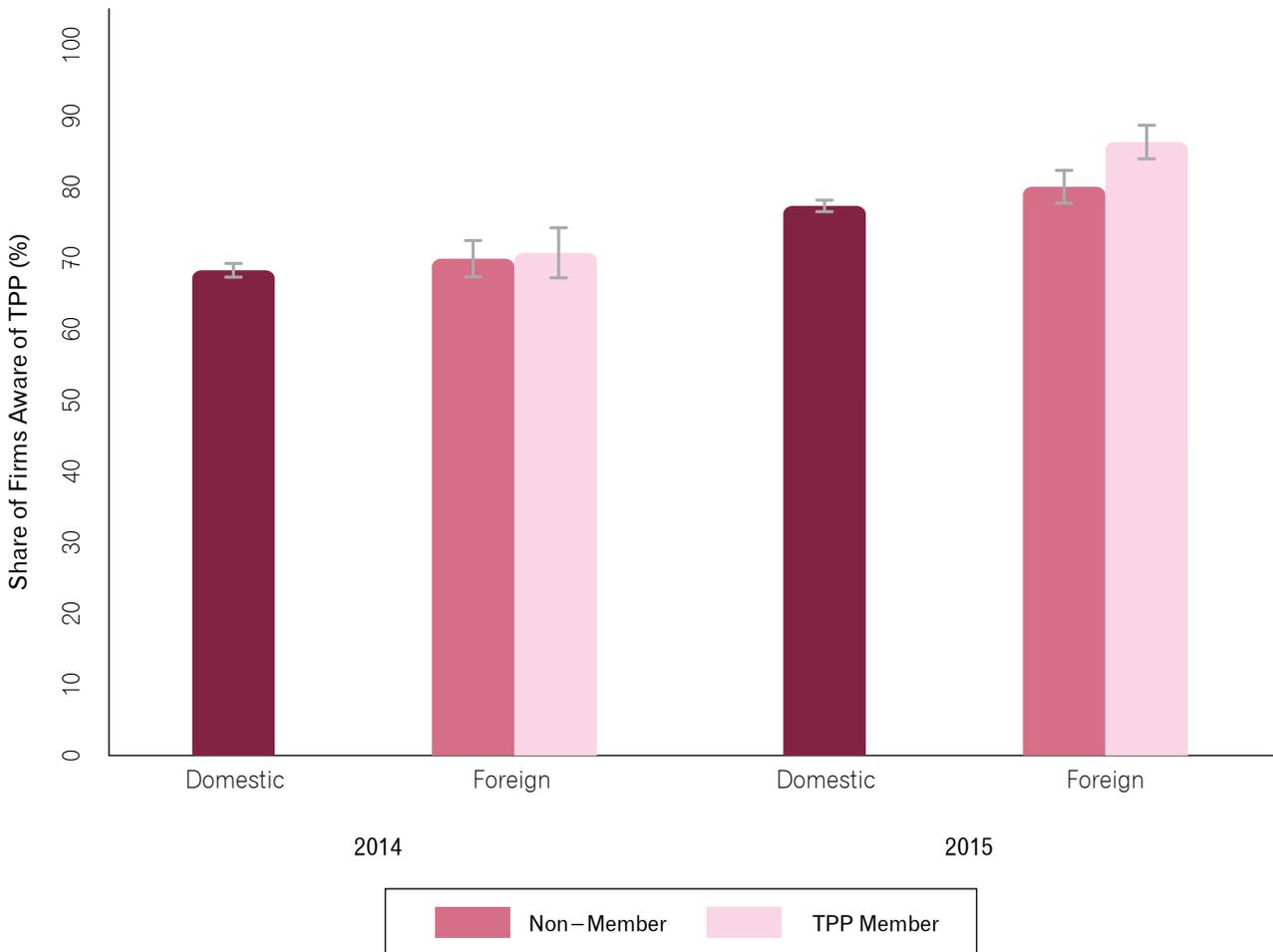
⁸⁷ Prokop, Andrew. 2016, "Why Obama Says TPP is Historic for Workers — and Why US Labor Unions Hate it," *Vox Policy and Politics* (November 12, 2015), available at <http://www.vox.com/2015/11/12/9716400/tpp-labor-vietnam>

⁸⁸ Pareto optimality is the economic idea that a policy is desirable when it will make at least one individual better off without making any other individual worse off. In theory, this can include direct and/or indirect compensation from the policies' beneficiaries to those more negatively affected.

4.2 VARIATION IN KNOWLEDGE ABOUT THE TPP

The first question asked of respondent firms regarding the TPP was a basic informational query: “Do you know of Vietnam’s participation in the TPP negotiations?” Figure 4.1 summarizes knowledge of the TPP among the three major stakeholder groups in the Vietnamese economy: 1) domestic private firms; 2) foreign firms based in nations not party to the TPP; and 3) foreign firms whose mother countries are TPP negotiations.

Figure 4.1 Knowledge about TPP Negotiations, by Firm Type

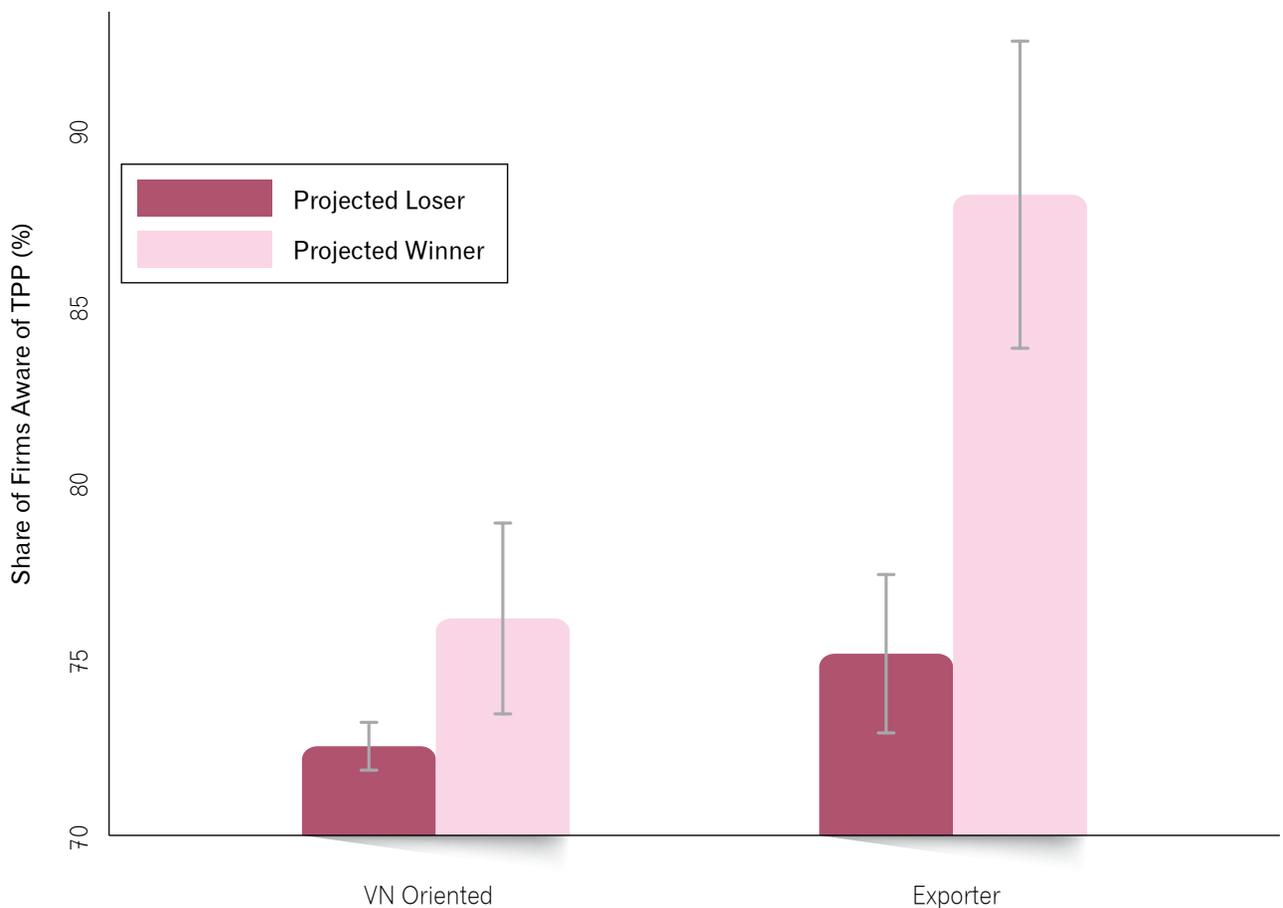


Source: PCI Survey I1 & PCI-FDI Survey Question L1, “Do you know of Vietnam’s participation in TPP negotiations?” The figure reports the share of firms in each group that responded that they had some knowledge (No=1 & Yes >1 on the 5-point scale where 1=no; 2=yes, not much; 3=yes, a little; 4=yes, a lot; 5=yes, advising negotiators). Range bars depict 95% Confidence Intervals.

There are three interesting facts to learn from Figure 4.1. First, a surprisingly low number of respondent firms replied in the negative, that is, that they were not informed about Vietnam taking part in the TPP negotiations. Second, although firms already reported high levels of information in 2014, we still document a dramatic increase of about 10 percentage point for all groups from 68 to 78 percent in 2015. Third, FIEs from TPP member states, as we might expect, are significantly more informed than domestic firms or foreign non-members.

We identified an important issue when it comes to TPP awareness. In Figure 4.2, we look only at domestic firms and code them as “projected winners” if they operate in sectors predicted to have real wage increases as a result of TPP, and “projected losers” if they are projected to have real wage declines, according to the World Bank’s analysis. Recall that the projected losers operate in more skill-intensive sectors and are generally thought to be more knowledgeable about international trade and policy.⁸⁹ Nevertheless, we find that the projected winners are slightly more informed than potential losers in manufacturing and other sectors. The difference is extremely pronounced in the export sector. This is important because it appears that the negative distributional effects are likely to come as a greater shock to those most likely to be negatively affected by TPP, which may have downstream implications on support for the TPP and other economic policies. Table 4.1 offers more detailed analysis by providing knowledge and support estimations by the exact two-digit sector.

Figure 4.2 Knowledge about TPP Negotiations among Domestic Firms, by Projected Winner and Losers



Source: PCI Survey I1 & PCI-FDI Survey Question L11, “Do you know of Vietnam’s participation in TPP negotiations?” The figure reports the share of firms in each group that responded that they had some knowledge (No=1 & Yes >1 on the 5-point scale where 1=no; 2=yes, not much; 3=yes, a little; 4=yes, a lot; 5=yes, advising negotiators). To code projected winners and losers, we follow the World Bank (2014) estimations based on the two digit sectors that are most likely to see real wage increases losses. According to the study, projected winners are those in unskilled labor intensive industries. Projected losers operate in skilled labor intensive industries. Range bars depict 95% Confidence Intervals.

⁸⁹ It is important to note that these are based on forecasting models that are subject to a great deal of uncertainty, requiring educated guesses about implementation, future growth, and the equivalence between tariffs and complicated non-tariff barriers.

Table 4.1 Knowledge and Support for TPP among Domestic Firms by Two-Digit Sector

Sector Based on International Standard Industrial Classification		Knowledge (%)	Support (%)
A	Agriculture, forestry and fishing	75.7	77.3
B	Mining and quarrying	87.8	70.5
D	Electricity, gas, steam and air conditioning supply	77.1	69.1
F	Construction	73.2	68.4
G	Wholesale and retail trade; repair of motor vehicles and motor cycles	71.0	67.9
J	Information and communication	72.9	69.9
K	Financial and insurance activities	59.5	55.9
L	Real Estate Activities	85.0	70.2
M	Professional, scientific and technical activities	80.1	71.8
U	Activities of extraterritorial organizations and bodies	73.0	68.9
C10	Manufacture of food products	82.5	78.1
C13	Manufacture of textiles	94.1	80.0
C14	Manufacture of wearing apparel	80.8	80.5
C15	Manufacture of leather and related products	100.0	82.4
C16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	78.0	72.2
C17	Manufacture of paper and paper products	75.0	71.8
C20	Manufacture of chemicals and chemical products	82.1	80.8
C22	Manufacture of rubber and plastics products	82.1	77.5
C24	Manufacture of basic metals	80.2	73.2
C25	Manufacture of fabricated metal products, except machinery and equipment	71.5	73.9
C26	Manufacture of computer, electronic and optical products	75.0	100.0
C27	Manufacture of electrical equipment	87.5	90.9
C28	Manufacture of machinery and equipment n.e.c.	84.1	81.0
C29	Manufacture of motor vehicles, trailers and semi-trailers	70.6	88.9
C31	Manufacture of furniture	70.8	70.9
C32	Other manufacturing	73.8	72.8

Knowledge: "Do you know of Vietnam's participation in TPP negotiations?" The reports the share of firms in each group that responded that they had some knowledge. Support: "How does your firm feel about Vietnam's signing of the Trans-Pacific Partnership Agreement?" The table reports the share that support or strongly support.

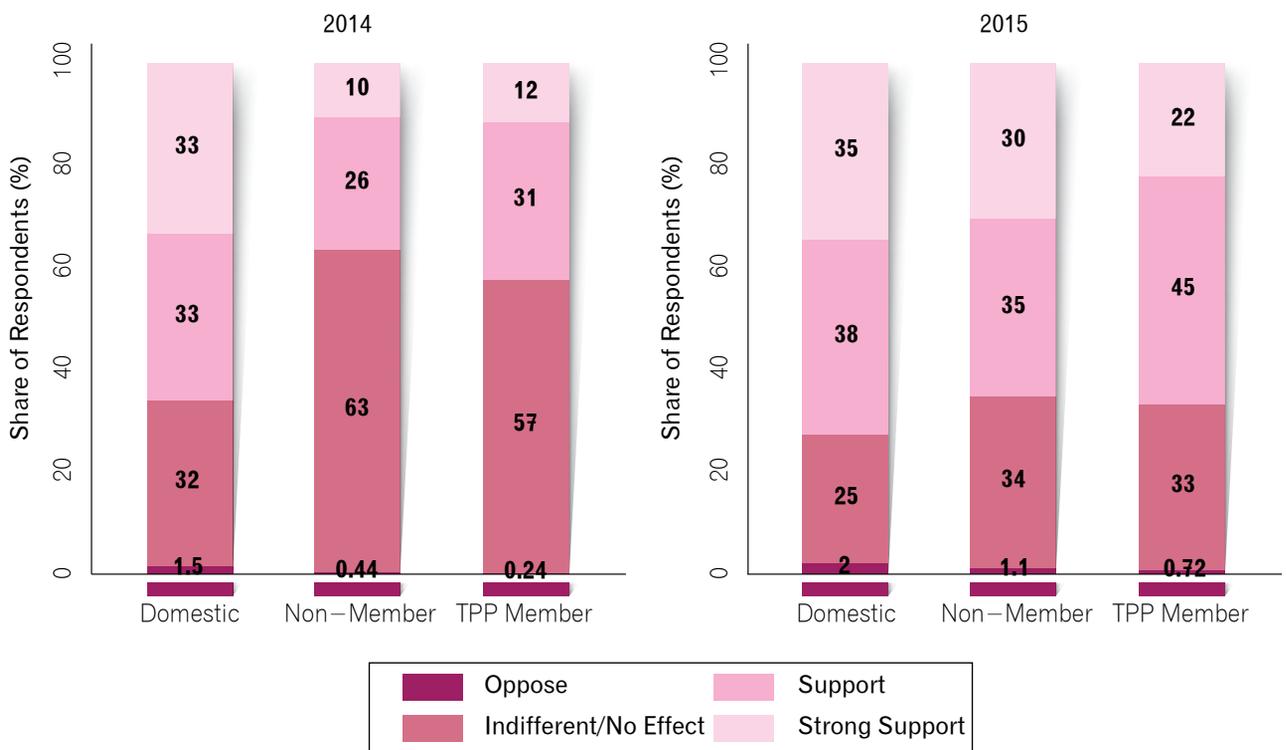
4.3 CONTINUED SUPPORT FOR THE TPP AMONG FIRMS IN VIETNAM

Although the informational capacity of firms varies across domestic and foreign entities and also across sectors, the results of the PCI surveys show wide support among firms who have some information for Vietnam's signing of the TPP. To gauge a firm's level of support for the TPP, the survey asked, "How does your firm feel about Vietnam's signing of the TPP Agreement?" Between 2014 and 2015, the average share of firms expressing support increased from 62 to 72 percent.

Figure 4.3 shows that in 2015, support was stronger from domestic than foreign firms, with the latter expecting to be largely unaffected by Vietnam’s participation in the TPP negotiations. Interestingly, support has increased somewhat in the domestic investment community since last year, rising from overall support of 66 to 73 percent. Increases, however, are much more pronounced among foreign firms, including both members and non-members. Support from foreign members increased 24 percentage points from 43 to 67 percent. Among non-members, support increased 29 percentage points from 39 to 65 percent.

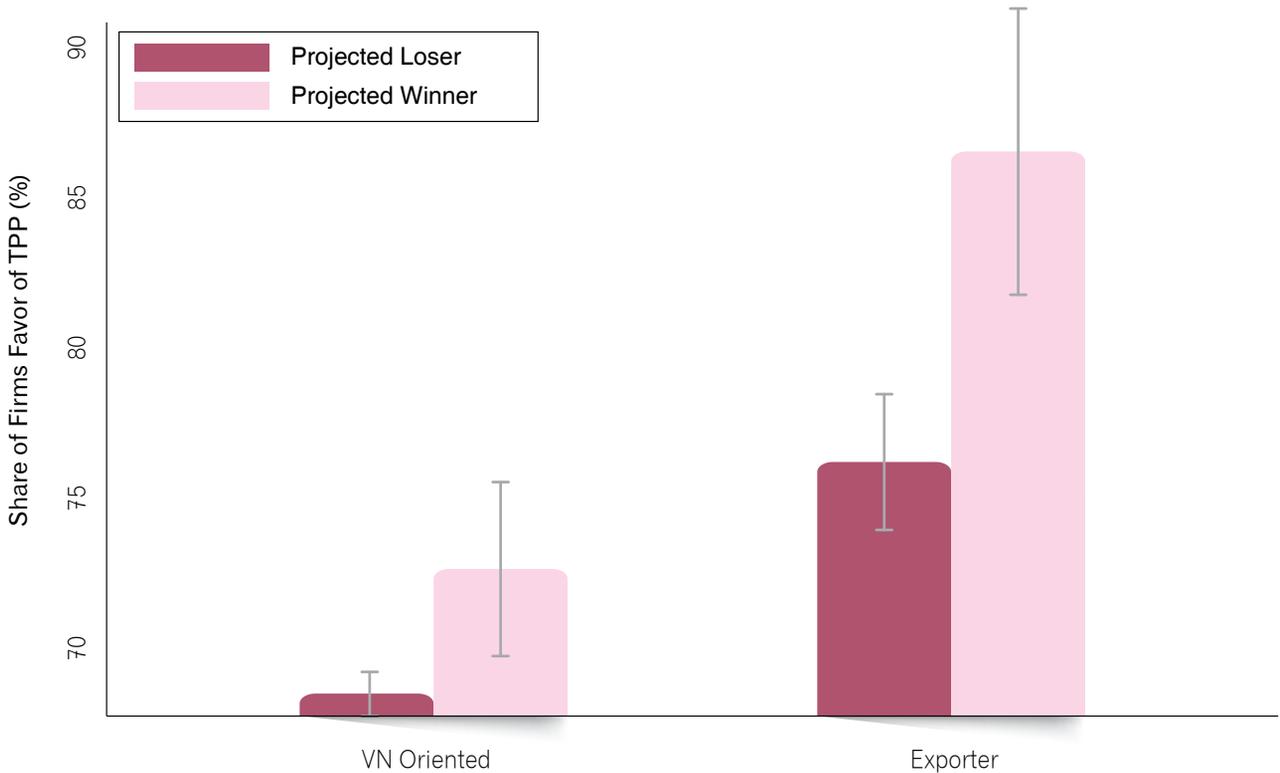
In Figure 4.4, we return to the distributional consequences for domestic firms where there is another important pattern. Domestic firms that are positioned to win are demonstrably more in favor than those in skill-intensive sectors that are projected to lose from the Trans-Pacific Partnership. Although all firms are generally positive, 86 percent of firms exporting low skill intensive goods show support, compared to 79 percent of those exporting high intensive goods. Among domestic-oriented firms that must now face both competition from imports and FIEs, 73 percent favor the agreement in industries that could potentially benefit while 71 percent are in the most threatened industrial sectors.

Figure 4.3 Firm Sentiments on Vietnam Joining the Trans-Pacific Partnership by Origin



Source: PCI Survey I2 & PCI-FDI Survey Question L2, “How does your firm feel about Vietnam’s signing of the Trans-Pacific Partnership Agreement?”

Figure 4.4 Support for TPP Negotiations among Domestic Firms, by Projected Winners



Source: PCI Survey I2 & PCI-FDI Survey Question L12, “How does your firm feel about Vietnam’s signing of the Trans-Pacific Partnership Agreement?” Firms that are projected winners are those with unskilled labor intensive industries while projected losing firms operate in skilled labor intensive industries.

4.4 IMPACT OF U.S. FAST-TRACK AUTHORITY ON KNOWLEDGE AND SUPPORT

Part of the increased general awareness and optimism about the TPP results from the finalization and publication of the agreement. Firms may know much more about what is actually in it, and can develop more sophisticated ideas about how it will impact their operations.

In the course of analyzing the PCI data, however, we discovered that a second reason for the increased support has to do with greater certainty among respondents that the United States would approve the agreement and that it would be implemented.

When the PCI-FDI survey was being designed for release in May of 2015, it was still not clear whether the United States Senate would grant the President fast track approval for the ratification of TPP. Fast track approval is important, because it means that ratification would only involve an up or down vote on the document, rather than allowing individual senators to amend provisions – a key factor that has enabled presidents to complete past trade agreements. Congress granted President Obama fast track authority in June 2015.⁹⁰

Because we were not certain what would happen when we introduced the TPP module in the survey, we randomly assigned the survey respondents into two groups. Both groups

¹⁵ Twelve of the last thirteen presidents received such authority from Congress.

received a standard introduction that explained what the TPP was and the scale of the undertaking. One group, however, was told that approval was likely (Form A), and a second group was told approval was highly uncertain (Form B).

Table 4.2 shows the results of the exercise. Firms that heard the United States was likely to pass the TPP reported 2.7 percentage points greater awareness and 2 percentage points greater support. Given that baseline awareness and support are already so high, these observations are not trivial. Moreover, both of these results are statistically significant, indicating that, although they are not extremely large, they are unlikely to have occurred by coincidence.

The results imply that greater confidence that the agreement would come to fruition generated a small “halo effect” for firm responses. That is, firms that heard that the U.S. ratification was a strong possibility developed more positive views about the prospects of the agreement for their own businesses. Uncertainty about whether the important U.S. market would be more open to Vietnamese firms led them to have slightly more negative views about the agreement’s benefits.

Box 4.1: PCI Question I1 (Domestic) and L1 (Foreign):

[STEM] The Trans-Pacific Strategic Economic Partnership Agreement (TPP) is a free trade agreement currently being negotiated by 12 countries in the Pacific area, including Vietnam, Brunei, Singapore, Malaysia, Chile, Australia, New Zealand, Peru, Mexico, Canada, the United States, and Japan. To date, TPP negotiations have come to final stage. If successful, TPP will be the largest free trade area in the world with a market of almost 800 million people, representing 1/3 global trade. However, there remain many controversies over benefits of TPP to domestic businesses. Currently, the US Congress...

[Form A]: is preparing to vote on the agreement and is likely to approve TPP by the end of 2016
[Form B]: has stalled in its preparations to vote on the agreement and is unlikely to approve TPP by the end of 2016.

Table 4.2 Improved Awareness and Support from Learning about U.S. Position

Question (%)	U.S. Will Pass (%)	U.S. Uncertain (%)	Difference (%)	P-Value
Q2: Aware of TPP	78.2	75.5	2.7	0.003
Q3 In Favor of TPP	71.5	69.5	2.0	0.05

* The procurement question was not asked in 2012.

1. Derived using the Unmatched Count Technique or List Estimator, which relies on two randomized versions of the survey.

4.5 VIEWS ON SPECIFIC NEGOTIATING AREAS

The 2015 PCI Survey also asked firms about specific areas that will fall under the Trans-Pacific Partnership. For firms that may not be closely following the negotiations, we provided explanations of the issues and their implications for business. The full list of questions can be seen here (Table 4.3). Due to space constraints, this year’s survey only contained a representative selection of the issues covered last year. Rather than

attempting to focus. on all chapters, we concentrated our efforts on the provisions deemed to be most influential for the Vietnamese economy. The first two have to do with barriers to trade and investment access, and the second two are related to domestic reforms required by the TPP, which we refer to as “behind the border provisions.” The final issue concerning the chapter on International Dispute Settlement (ISDS) was asked only of foreign firms to which it applies.

Table 4.3 Questions to Firms Regarding Select TPP Provisions

3. Please assess how the TPP’s following contents influence your business operation? (check ✓ only one box for each row)

Content	Positively	Negatively	Both positively and negatively	No influence	No comments
1. Market access (TPP countries will remove 90-100% of import taxes for Vietnam’s products and vice versa, Vietnam will remove import taxes for most of products from other TPP countries)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Investment (Foreign investors from TPP countries will be treated equally to domestic ones)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Labor (Businesses must satisfy higher labor requirements during their business operations)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. State-owned enterprises (SOEs) (SOEs will have to compete with private enterprises based on equality and fairness principles)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Investor-state dispute settlement provision (ISDS) allowing foreign companies to sue host countries that violate their investment rights.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Domestic Enterprises

Among domestic firms there remains a generally positive view towards the impact of the TPP. Figure 4.5 studies every issue area for both and exporters and non-exporters, comparing them to answers in 2014. Across the four relevant issue areas, at least 46 percent and in some cases more than 60 percent, of responding firms who were aware of the negotiations, felt that inclusion of Vietnam in the TPP will positively impact their business.

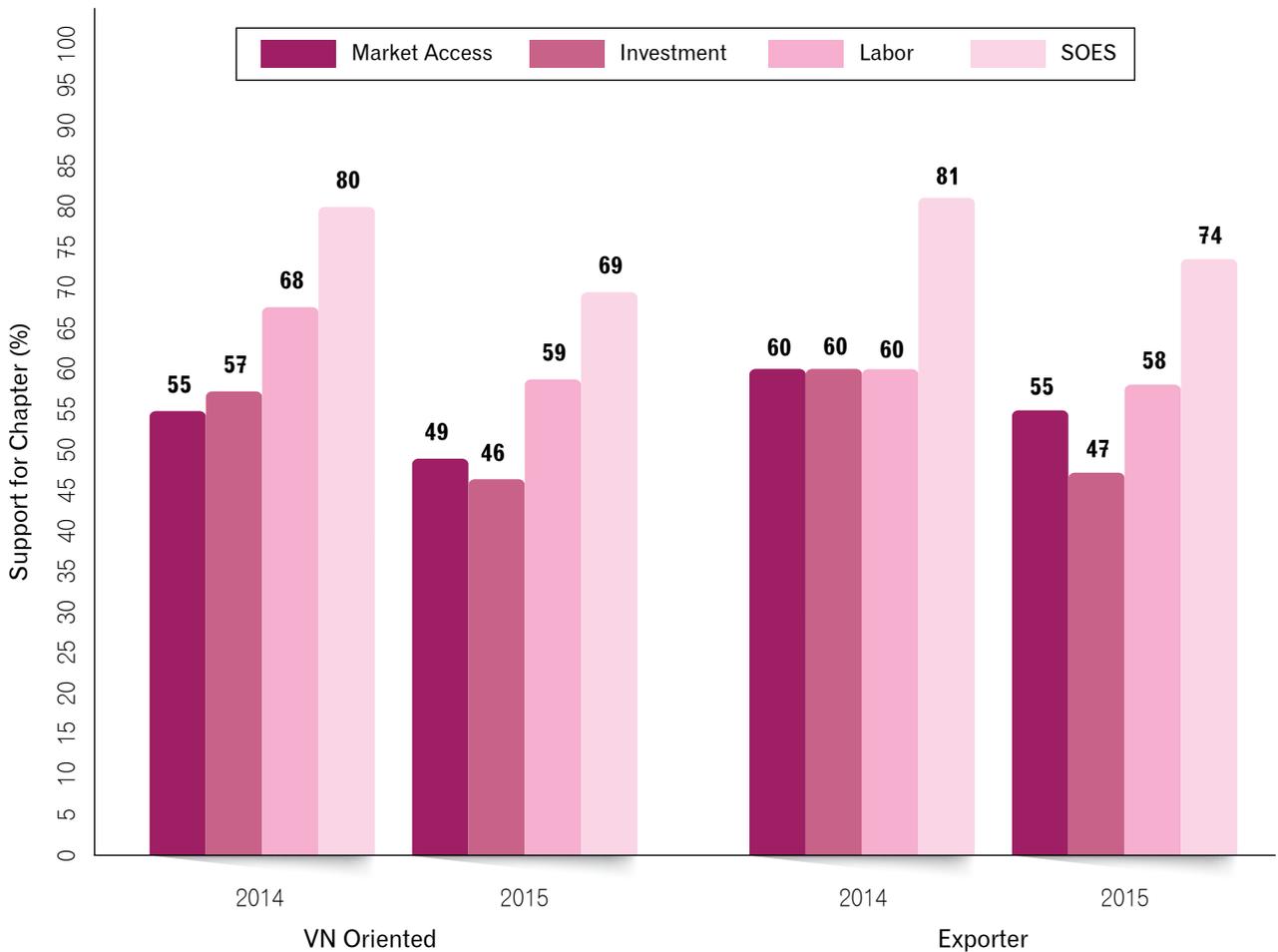
Optimism declined in every issue area, however. The least pronounced change is for the market access provisions. Support for market access dropped by six percentage points for domestic-oriented firms and five percentage points for exporters. Support for the investment provisions declined by the greatest amount. Those in favor of the investment provisions dropped by 11 percentage points among non-exporters and 13 percentage points among exporters.

The biggest divergence in change is observed in the behind the border provisions. Among domestic-oriented firms, support for the labor and SOE provisions dropped by nine

percentage points and 11 percentage points, respectively. By contrast, exporters remained more positive, demonstrating only two and seven percentage point declines, respectively, in these two areas.

The declines in support for the SOEs provision by domestic firms result from a growing realization that many of the strictest reform clauses do not apply to Vietnamese SOEs because they are too small. Exporters are less affected by the weaker SOE chapter, because they do not compete directly against SOEs. In the case of divergent changes in support for the labor chapter, one explanation is that exporters, who are projected to be the greatest beneficiaries of the TPP, are more willing accept the extra costs on the factory floor imposed by the chapter. This is especially the case if their primary export markets are developed countries where adherence to the labor standards could actually improve sales with socially conscious buyers.

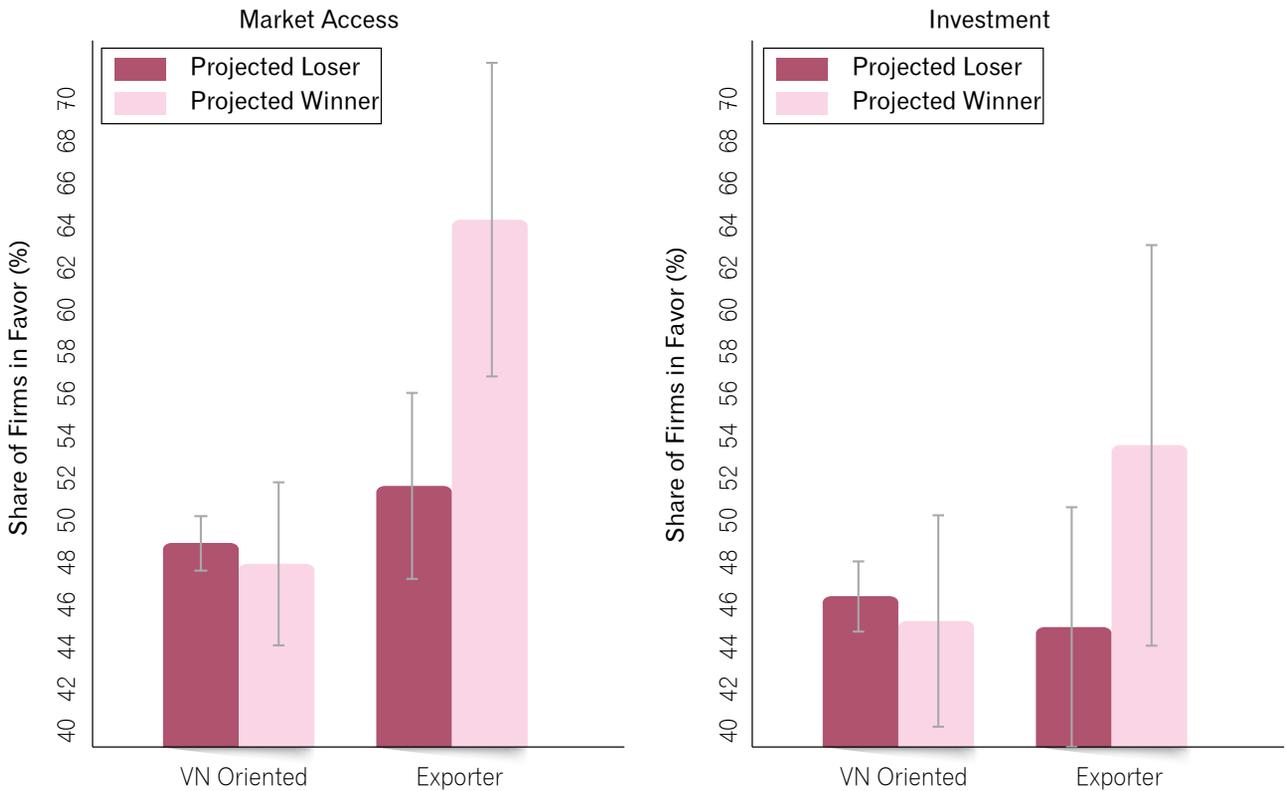
Figure 4.5 Domestic Firms Perceptions' of the Effects of Key TPP Negotiation Areas



Source: PCI Survey I3, "Please assess how the TPP's following contents influence your business operation?" The first panel calculates the share for firms that answered the TPP would have any influence at all, while the second panel calculates the direction of influence by averaging firm responses. Firms that answered positively were coded as 1, mixed views, no effect answers, and negative effects were coded as 0.

As Figure 4.6 shows, these movements reflect the distributional effects of the TPP discussed earlier. Exporting firms in sectors that are projected to win diverge from their peers in terms of support for the trade provisions. Firms in sectors that are projected to lose and those likely to face enhanced competition show less support.

Figure 4.6 Support for TPP Market Access and Investment Provisions among Domestic Firms, by Projected Winner



Range Bars=90% CIs

Source: PCI Survey I3, “Please assess how the TPP’s following contents influence your business operation?” The first panel calculates the share for firms that answered the TPP would have any influence at all, while the second panel calculates the direction of influence by averaging firm responses. Winning firms are those in unskilled labor intensive industries. Losers operate in skilled labor intensive industries. Range bars represent 95% Confidence Intervals.

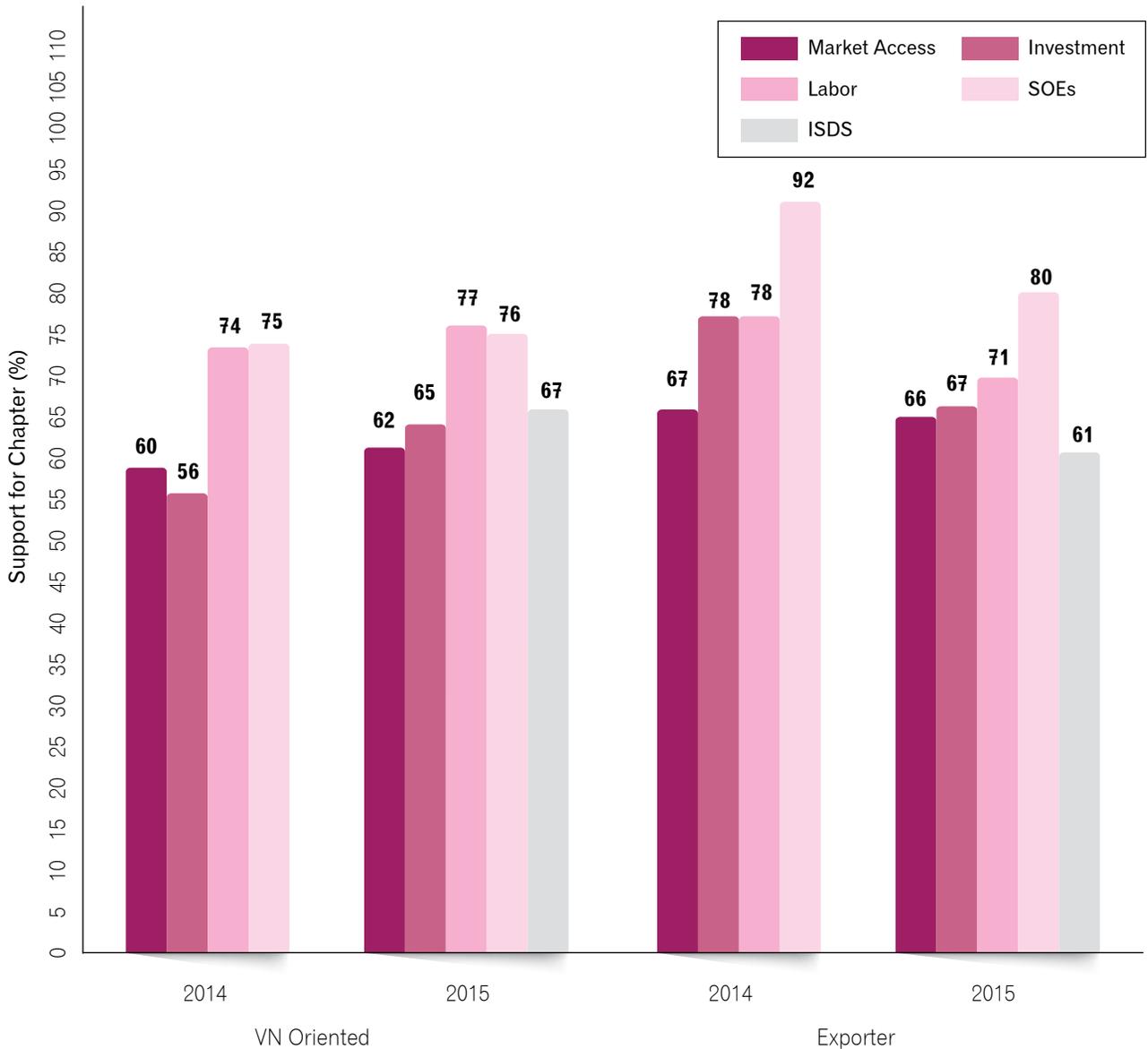
Foreign Enterprises from TPP Member Countries

Again, it is important to recognize that optimism is generally high among firms from foreign member states. The majority of firms surveyed support TPP provisions in every issue area. As Figure 4.7 shows, however, the change rates among this group demonstrate a starkly different pattern. Domestic-oriented enterprises showed marginal increases in support for every provision and, significantly, a nine percentage point increase in support for the investment provisions. This makes sense, as the investment provisions primarily aim to ensure equitable treatment for foreign companies competing against Vietnamese firms in the host country and will open up a range of new sectors to foreign competition.

By contrast, exporting foreign firms from TPP-member states showed stable support for the trade openness provisions, but demonstrably less support for the investment and behind the border chapters. Again, the decline in support for the SOE provisions reflects a general consensus that the SOE chapters did not go far enough in reducing the influence of state-owned firms on the Vietnamese market. The decline in support for the labor provisions appears to be due to the higher costs for firms in low-margin export sectors.

As might be expected, FIEs favor ISDS provisions related to property and contract disputes. Support was slightly higher among domestic-oriented firms, who are more likely to have contractual relations with Vietnamese suppliers and partners.

Figure 4.7 Foreign TPP-Members’ Perceptions of the Effects of Key TPP Negotiation Areas



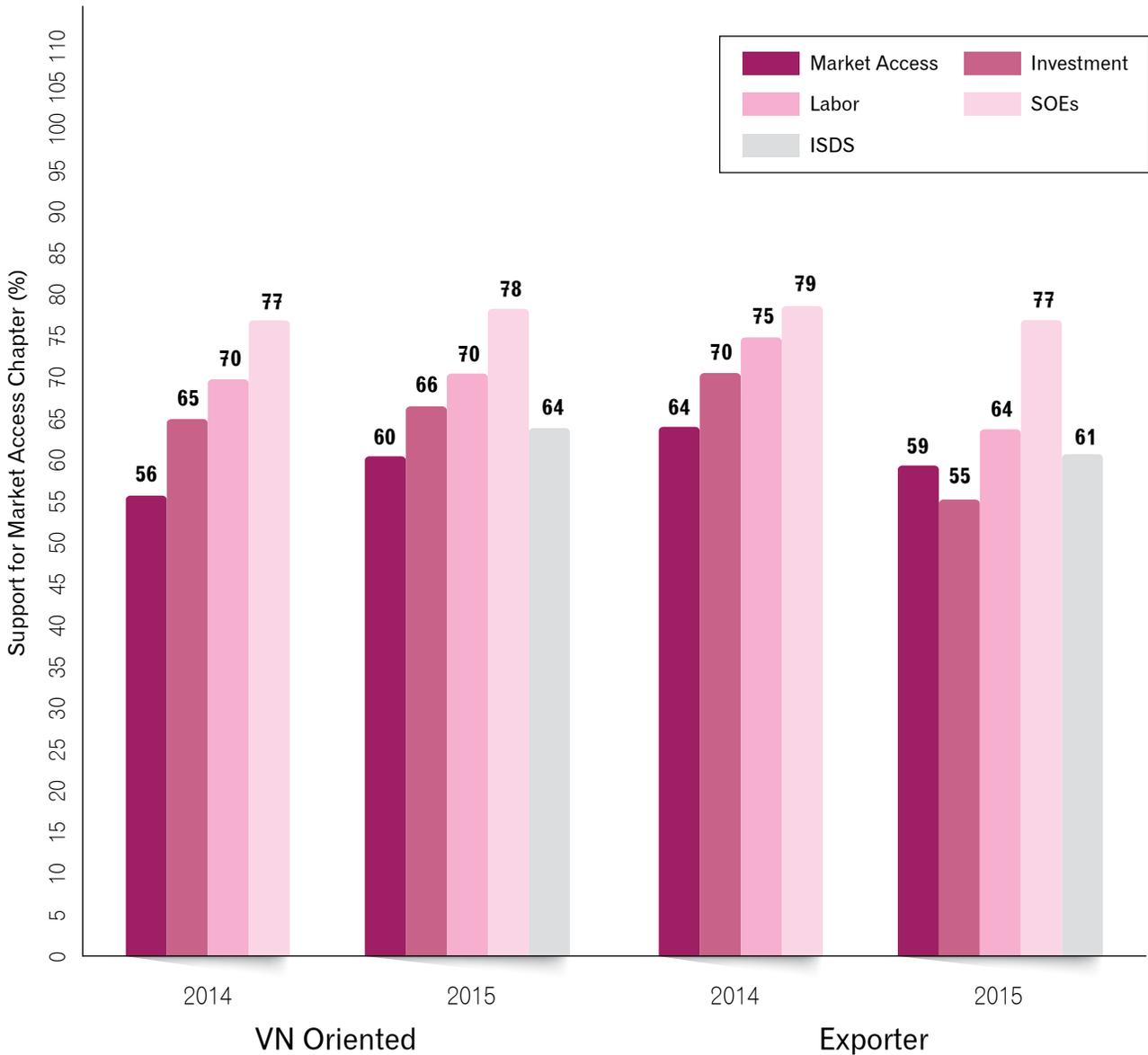
Source: PCI Survey I3, “Please assess how the TPP’s following contents influence your business operation?”

Foreign Enterprises from Non-Member Countries

A third pattern is noticeable for FIEs from non TPP-member states, as seen in Figure 4.8. In 2014, domestic-oriented firms were less optimistic than their exporting peers, as they were likely to face increased competition without corresponding benefits from the trade provisions. Their opinions on these issues remained remarkably consistent in 2015. They still demonstrated lukewarm support for the trade provisions, marginal support for the investment provisions, and high support for behind the border provisions.

Except for the SOE chapter, however, exporting FIEs from non-member states showed considerably less support for every TPP provision in 2015. Again, this is predictable as these firms are going to experience all of the costs of increased competition and behind the border provisions, but without the benefits of increased trade access for their products.

Figure 4.8 Foreign Non TPP-Members’ Perceptions of the Effects of Key TPP Negotiation Areas



Source: PCI Survey I3, "Please assess how the TPP's following contents influence your business operation?"

4.6 CONCLUSIONS

Current prognostications indicate that Vietnam will be the largest net winner from TPP implementation, but it will also face formidable distributional effects across industries that may require attention by economic policy makers. While experts continue to deliberate the long term implications of the world's most comprehensive trade and investment agreement, the current debate in Vietnam has not adequately addressed the specific concerns of Vietnamese businesses. This chapter has attempted to add their voices to the discussion. Taking advantage of the PCI and PCI-FDI surveys, we tracked the views of domestic and foreign-owned businesses operating in Vietnam, probed their knowledge of the agreement, and assessed their general support for the TPP as well as specific issue areas. The key points from this analysis are the following:

1. Awareness of and support for the TPP remain generally high among all parties, and both have increased on average as firms have learned more about what is included in the TPP agreement. Average awareness increased from 68 percent in 2014 to 78 percent in 2015 , while average support increased 62 percent to 72 percent.
2. Awareness and support were enhanced between two and three percentage points by increased certainty that the United States would ratify the agreement and uphold the terms of the negotiations, indicating that access to the U.S. market is an important part of firms' calculations about the TPP's benefits.
3. Domestic firms demonstrated the lowest awareness of the TPP in 2015 (77 percent), compared to 86 percent among foreign members and 82 percent among foreign non-members.
4. By contrast, domestic firms express the greatest overall support for the TPP (73 percent), compared to its 67 percent favorable ratings among FIEs from TPP members and 65 percent advocacy among foreign firms from non-TPP member countries.
5. Aggregate awareness and support conceal substantial concerns about the distributional effects. When we compared responses from domestic firms in sectors cited as potential winners by economic analysts with those from businesses cited as potential losers, we found the latter were far less knowledgeable about the provisions of the TPP and even less likely to support its passage. Further sub-dividing by export orientation, we found that export-oriented firms in projected winning sectors diverged considerably from other domestic firms in terms of their levels of awareness and support.

This finding has critical policy implications. The firms most likely to be harmed by the TPP are those that are the least aware of this agreement. Consequently, these firms are not taking necessary steps to prepare themselves for the increased competition or to transition workers into new sectors. Shocks to their performance could have important welfare consequences that might undermine public support for the TPP and future economic reform policies. Vietnamese policy makers may want to consider developing new programs and assistance to workers and small businesses in sectors that may not benefit from Trans-Pacific Partnership.

6. Turning to specific articles in the TPP agreement, a majority of domestic and foreign firms remain positive about all provisions of the TPP, including market opening and behind the border reforms, such as the labor rights and SOE chapters.
7. The level of support for specific provisions of the TPP differed across types of firms.
 - 7.1. For domestic firms, support declined for four provisions that were tested: 1) market access; 2) investment; 3) labor; and 4) SOEs. Declines were extremely pronounced for domestic-oriented firms in losing sectors, but small declines were also visible among export-oriented firms as well.
 - 7.2. For FIEs from TPP-member states, domestic-oriented enterprises showed marginal increases in support for every provision of the agreement, and significant increases in support for the investment provisions. This makes sense, as the investment provisions primarily aim to ensure foreign companies competing against Vietnamese firms in the host country are treated the same as domestic firms and open up a range of new sectors to foreign competition. By contrast, exporting foreign firms from TPP-member states show stable support for the trade openness provisions, but demonstrably less support for the investment and behind the border chapters.
 - 7.3. For FIEs originating in countries not party to the TPP, opinions of domestic-oriented enterprises toward the trade pact have remained stable, but there is increasing negativity observable among export-oriented operations, which must pay the transaction costs of the agreement without a corresponding increase of opportunities stemming from expansion of domestic market openness.

APPENDIX

ANNEX 1: PCI METHODOLOGY

What Does the PCI Measure? The overall PCI comprises ten subindices reflecting economic governance areas that affect private sector development. A province that is considered to perform well on the PCI is one that has: 1) low entry costs for business start-up; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable business information; 4) minimal informal charges; 5) limited time spent on required bureaucratic procedures and inspections; 6) minimal crowding out of private activity from policy biases favoring state, foreign, or connected firms; 7) proactive and creative provincial leadership in solving problems for enterprises; 8) developed and high-quality business support services; 9) sound labor training policies; and 10) fair and effective legal procedures for dispute resolution.

Brief Methodology: The PCI is constructed in a three-step sequence, referred to as the “3 Cs”: 1) Collect domestic business survey data and published data sources, 2) Calculate ten subindices and standardize to a 10-point scale, and 3) Calibrate the composite PCI as the weighted mean of ten sub-indices with a maximum score of 100 points.

Weights of PCI sub-indices

Sub-index	Weight in PCI
Entry Cost	5%
Land Access	5%
Transparency	20%
Time Cost	5%
Informal Charges	10%
Proactivity	5%
Business Support Services	20%
Policy Bias	5%
Labor Training	20%
Legal Institutions	5%
Number of provinces	63/63

ANNEX 2: DETAILS OF INDICATORS CONSTITUTING EACH PCI SUB-INDEX

See Annex 2 for details of indicators constituting each PCI sub-index in e-version of the 2015 PCI report <www.pcivietnam.org>

Table 3.1 Comparison of Entry Costs Sub-Index (2005-2015)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		
Length of business registration in days (Median).	PCI Survey Question: C1	Min		12	7	5	6.5	7	7	7	7	8	5		
		Median		20	15	12.25	10	10	8.5	10	10	10	12	8	
		Max		58	22.5	15	15	15	15	15	15	17.5	19	12	
		Correlation w/ Previous Year		NA	0.27*	0.46*	0.56*	0.49*	0.41*	0.52*	0.48*	0.26*	0.45*		
Length of business re-registration in days (Median).	PCI Survey Question: C2	Min		6	3	3	3	2.5	3	3	3	2	2		
		Median		10	7	7	7	7	7	7	7	7	7	5	
		Max		35	15	10	10	12.5	14.5	15	15	7	10.5	7	
		Correlation w/ Previous Year		NA	0.24*	0.53*	0.67*	0.48*	0.29*	0.24	0.29*	0.47*	0.31*		
Median number of days to wait for Land Use Rights Certificate	PCI Survey Questions: B4.2	Min		40	30	30	15	20	15	15	15	15	10		
		Median		121	60	38.5	32.5	30	30	30	30	30	30	30	
		Max		338	180	105	180	150	150	90	90	105	240	365	95
		Correlation w/ Previous Year		NA	0.16	0.43*	0.23*	0.26*	0.12*	0.18	0.12	0.03	0.27*		
Percentage of firms waiting for more than one month to complete all steps necessary to start operations	PCI Survey Question: C5	Min		3.23	5.18	6.67	3.84	0	0	0	0	0	1.16		
		Median		33.33	25.81	27.21	21.91	19.35	24.39	14.7	13.95	16.67	9.80	12.20	
		Max		63.41	44	53.8	39.13	38.46	39.62	33.3	42.42	45.45	27.27	28.57	
		Correlation w/ Previous Year		NA	0.24	0.26*	0.15	0.09	0.39*	0.08*	0.2	0.03	0.32*	0.27*	
Percentage of firms waiting more than three months to complete all steps necessary to start operations.	PCI Survey Question: C5	Min		0	0	0	0	0	0	0	0.00	0.00	0.00		
		Median		5.9	5.78	6.78	5.72	4.44	5.77	3.33	2.94	3.57	1.92	2.22	
		Max		21.95	25.64	27.27	16	20.72	18.87	14.8	13.04	18.18	18.18	9.30	
			0.02	0.15	0.18	0.02	0.14	0.02*	0.04	0.15	0.23	0.17			

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Percentage of firms registering or re-registering through one-stop-shop.	PCI Survey Question: C3	Min									41.58	35.24	44.55
		Median									63.41	79.17	84.78
		Max									85.71	94.44	97.22
		Correlation w/ Previous Year									0.18	-0.06	0.24
Procedures at one-stop-shop are transparently listed (% Agree)	PCI Survey Question: C3.1.1	Min									21.43	40.91	43.42
		Median									39.02	61.43	61.43
		Max									66.20	79.17	75.86
		Correlation w/ Previous Year									N.A	1.00*	1.00*
Guidance and instruction on procedures at one-stop-shop are clear and adequate (% Agree)	PCI Survey Question: C3.1.2	Min									26.67	52.04	48.83
		Median									41.14	75.00	71.13
		Max									66.90	88.37	87.64
		Correlation w/ Previous Year									N.A	1.00*	1.00*
Staffs at one-stop-shop are professional and knowledgeable (% Agree)	PCI Survey Question: C3.1.3	Min									10.61	23.47	23.94
		Median									25.52	42.50	39.64
		Max									56.38	57.69	53.66
		Correlation w/ Previous Year									N.A	1.00*	1.00*
Staffs at one-stop-shop are friendly (% Agree)	PCI Survey Question: C3.1.4	Min									10.61	15.31	17.51
		Median									24.71	42.62	40.63
		Max									56.38	68.42	61.64
		Correlation w/ Previous Year									N.A	1.00*	1.00*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
IT application at one-stop-shop is good (% Agree)	PCI Survey Question: C3.1.5	Min									3.91	14.29	17.05
		Median									16.07	28.57	27.72
		Max									44.68	48.08	42.47
None of the criteria above are met (% Agree)	PCI Survey Question: C3.1.6	Correlation w/ Previous Year									N.A	1.00*	1.00*
		Min									0.00	0.00	0.00
		Median									1.70	4.48	4.49
		Max								8.94	20.41	12.93	
		Correlation w/ Previous Year									N.A	1.00*	1.00*

* Significant at 5% level; NA = Not applicable
All values are at the provincial level.

Data include only firms registered within two calendar years preceding the survey.
2005 data only include 42 provinces and do not include the full set of indicators used in subsequent years, reflecting changes in survey questions and ordering in 2006.

Table 3.2 Comparison of Land Access and Tenure Security Sub-Index (2005-2015)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Percentage of firms that own land and are in possession of an LURC	PCI Survey Question: B4	Min		23.29	51.35	38.36	46.82	26.67	34.04	54.32	50.91	29.33	33.33	
		Median		55.28	75.57	81.16	73.68	72.89	77.55	77.55	75.86	76.54	55.07	57.58
		Max		77.78	92.45	94.74	94.51	95.89	97.05	97.05	93.59	88.57	81.43	86.96
		Correlation w/ Previous Year			0.76*	0.70*	0.77*	0.80*	0.67*	0.67*	0.49*	0.56*	0.67*	0.79*
Percentage of land that has been registered and provided with official LURCs	Ministry of Natural Resources and the Environment Datasets†	Min		11.3	13.28	19.52	23.52	27.27	42.82	29.22	76.50	85.83	85.83	
		Median		69.2	63.13	77.56	77.89	80.71	79.24	79.24	82.21	90.50	92.34	92.43
		Max		96.5	97.46	98.75	98.56	98.31	98.03	98.03	97.65	99.40	99.57	99.57
		Correlation w/ Previous Year			0.85*	0.78*	0.87*	0.87*	0.73*	0.73*	0.85*	0.30*	0.74*	0.99*
Percentage of firms that say nonstate enterprises do not have difficulties in accessing land or expanding premises	PCI Survey Question: B7	Min					11.02	8.27	12.2	11.25	16.13	12.39	9.90	
		Median					30.72	23.89	30	31.32	39.50	22.22	28.33	
		Max					52.32	49	68.5	68.5	52.89	58.44	52.44	45.10
		Correlation w/ Previous Year					NA	0.42*	0.23	0.23	0.26*	0.14	0.22	0.62*
Firms' rating of expropriation risk (1: Very High to 5: Very Low);	PCI Survey Question: B4.3	Min		1.95	1.74	1.63	2.11	1.91	1.86	2.16	2.05	1.84	1.89	
		Median		2.49	2.24	2.04	2.55	2.56	2.90	2.71	2.80	2.80	2.33	2.34
		Max		3.05	2.57	2.49	3.05	3.30	3.35	3.35	3.22	3.59	2.87	2.79
		Correlation w/ Previous Year			0.28*	0.95*	0.29*	0.31*	-0.0035	-0.0035	-0.1619	0.15	0.05	0.21
Percentage of firms that say compensation for land is always or highly likely fair	PCI Survey Question: B4.4	Min		21.43	22.22	21.25	16.9	19.12	14.7	12.95	22.78	15.56	13.04	
		Median		40	40.76	38.82	40.54	39.9	35.8	35.8	36.67	40.32	34.00	30.00
		Max		58.33	57.14	52.75	55.17	55.38	61.8	61.8	69.23	68.66	51.35	50.75
		Correlation w/ Previous Year			0.37*	0.34*	0.42*	0.37*	0.17	0.17	0.18	-0.05	0.06	0.34*

Percentage of firms that agree that changes in government land prices reflect changes in market prices	PCI Survey Question: B5	Min	53.33	53.91	41.9	36.02	60.00	56.55	53.66
		Median	69.75	72	68	69.57	77.06	71.43	76.09
		Max	81.11	86.17	86.2	87.64	89.87	85.23	87.04
		Correlation w/ Previous Year	NA	0.43*	0.36*	0.14	0.29*	0.41*	0.56*
Percentage of firms that have completed land procedures in the last two years and have encountered no difficulties in land-related procedures	PCI Survey Question: B6.1	Min					21.74%	16.67%	15.00%
		Median					44.44%	41.38%	34.29%
		Max					73.33%	61.54%	73.08%
		Correlation w/ Previous Year					N.A	0.14	0.07
Percentage of firms that want to have LURCs but don't have LURCs because of complicated procedures and troublesome staffs	PCI Survey Question: B4.5	Min					3.03	8.89	12.77
		Median					16.13	27.03	25.71
		Max					50.00	45.24	53.13
		Correlation w/ Previous Year					N.A	0.51*	0.28*

* Significant at 5% level; NA = Not applicable
All values are at the provincial-level.

2005 data only include 42 provinces and do not include the full set of indicators used in subsequent years, reflecting changes in survey questions and ordering in 2006.
† The Ministry of Natural Resources and the Environment changed the calculation of LURCs between 2003 and 2007 in the 5 national-level cities, leading to major reductions. To address this the old calculation was applied to cities.

Table 3.3 Comparison of Transparency Sub-Index (2005-2015)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Access to planning documents (1=easy to access; 5= impossible to access)	PCI Survey Question: F1.1-F1.13†	Min	1.90	2.25	2.20	2.25	2.13	2.00	2.28	1.81	2.17	1.90	2.14	
		Median	2.36	2.63	2.51	2.55	2.44	2.31	2.51	2.39	2.61	2.25	2.38	
		Max	3.80	3.17	2.96	2.79	3.08	2.62	2.97	3.14	3.31	3.31	2.51	2.65
		Correlation w/ Previous Year	NA	0.39*	0.64*	0.61*	0.49*	0.48*	0.23	0.29*	0.29*	-0.18	-0.28*	0.05
Access to legal documents (1=easy to access; 5= impossible to access)	PCI Survey Question: F1.1-F1.13†	Min	2.05	2.86	2.63	2.80	2.68	2.79	2.57	1.98	2.57	2.86	2.79	
		Median	2.81	3.15	3.05	3.11	3.11	3.05	3.03	2.84	3.14	3.10	3.03	
		Max	3.71	3.53	3.38	3.36	3.61	3.44	3.83	3.38	3.59	3.31	3.29	
		Correlation w/ Previous Year	NA	0.31*	0.61*	0.59*	0.38*	0.56*	0.55*	0.32*	0.17	0.18	0.18	0.44*
Relationship important or very important to get access to provincial documents (% Important or Very Important)	PCI Survey Question: F2	Min	50	31.48	38.4	33.57	45.57	37.28	41.17	29.73	30.33	63.51	59.52	
		Median	72.11	62.5	56.6	49.82	61.26	78.64	75.00	62.20	51.47	73.21	76.19	
		Max	100	77.14	73.4	67.9	78.26	95.71	93.33	82.69	74.68	88.31	89.29	
		Correlation w/ Previous Year	NA	0.27	0.38*	0.55*	0.37*	0.30*	-0.05	0.18	0.21	0.20	0.20	0.37*
Negotiations with tax authority are an essential part of doing business (% Agree or Strongly Agree)	PCI Survey Question: D14.3	Min	52.17	47.17	24.1	17.39	29.69	23.75	7.69	14.53	17.98	32.38	28.57	
		Median	75.22	61.05	44.7	36.71	41.32	40.78	41.09	39.21	39.44	49.25	52.00	
		Max	96.15	86.96	73.2	54.25	62.4	67.04	62.67	67.78	62.60	64.29	66.95	
		Correlation w/ Previous Year	NA	-0.16	0.52*	0.73*	0.36*	0.27*	0.09	0.37*	-0.16	0.02	0.02	0.57*
Predictability of implementation of central laws at the provincial level (% Usually or Always)	PCI Survey Question: F6	Min	4.35	2.76	1.89	1.03	3.57	2.38	0.00	1.30	1.35	1.92	2.08	
		Median	14.91	9.49	7.96	6.94	8.4	8.97	8.57	6.60	8.18	8.27	7.50	
		Max	60.38	37.88	18.3	15.69	22.22	20.24	29.48	13.51	23.17	18.07	18.75	
		Correlation w/ Previous Year	NA	0.38*	0.46*	0.3*	0.50*	0.10	0.22	0.19	0.10	0.10	0.19	0.27*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Business Associations's role in advising and countering provincial polices (% Important or Very Important)**	PCI Survey Question: F4	Min					18.64	15.15	9.52	15.33	16.16	21.74	27.27	
		Median					35.71	37.04	31.25	31.81	30.11	42.64	43.16	
		Max					57.32	55.56	60.60	66.25	55.75	59.26	61.25	
		Correlation w/ Previous Year					NA	0.32*	0.03	0.11	0.24	0.35*	0.42*	
Openness and quality of provincial webpage	Analysis by PCI Research Team (For Scorecard See Section)ψ	Min	0	0	0	0	0	0.00	9.00	0.00	11.50	15.00	17.00	
		Median	10	9	13.75	14.25	15	15.00	15.00	15.00	14.00	25.50	29.00	30.00
		Max	21	18	20	20	20	19.00	19.00	20.00	20.00	38.00	44.00	42.00
		Correlation w/ Previous Year	NA	0.36*	0.51*	0.70*	0.74*	0.79*	0.69*	0.50*	0.57*	0.82*	0.91*	
Percentage of firms have accessed provincial websites (%)	PCI Survey 2013 Question: F5	Min									21.43	47.47	51.43	
		Median									50.99	64.18	71.91	
		Max									70.00	78.23	87.03	
		Correlation w/ Previous Year										N.A	0.25*	0.48*
Budget documents have enough details for use in business activities (% YES)	PCI Survey 2013 Question: F2.2	Min									35.71	53.33	70.00	
		Median									76.92	80.65	83.33	
		Max									100	94	97	
		Correlation w/ Previous Year										N.A	-0.15	0.01
Budget documents are published right after being approved (% YES)	PCI Survey 2013 Question: F2.2	Min									27.27	48.39	46.34	
		Median									66.67	71.43	70.00	
		Max									100	95	92	
		Correlation w/ Previous Year										N.A	0.02	0.07

* Significant at 5% level; NA = not applicable
All values are at the provincial level.

2005 data only include 42 provinces.

† Indicators result from factor analysis of 13 documents. In 2009, the scale was simplified to reflect the average access on a 5 pt. scale (1 very difficult to 5 very easy)

ψ In 2007 and 2008, 0.5 values were allowed to denote provinces that provided the relevant information, but not in a sufficient manner to be useful.

** Only Business Association members respond

Table 3.4 Comparison of Time Costs of Regulatory Compliance (2005-2015)

	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Percentage of firms spending over 10 percent of their time on understanding and complying with regulations	PCI Survey Question: D6	Min	3.64	6.52	10.94	13.83	7.27	8.13	2.74	3.22	7.88	18.56	21.95	
		Median	13.67	21.24	21.87	22.99	15.38	19	11.26	13.84	20.95	35.62	35.51	
		Max	30.43	39.39	43.75	42.55	30.36	35.37	31.57	28.57	44.44	51.09	49.41	
		Correlation w/ Previous Year	NA	0.44*	0.62*	0.67*	0.44*	0.24	0.25*	0.45*	0.13	0.24	0.27*	
Median number of inspections (all agencies)	PCI Survey Question: D1	Min	1	0	1	1	1	1	1	0	1	1	1	
		Median	1	1	1	1	1	1	1	1	1	1	2	
		Max	3	2	2	2	2	2	2	2	2	2	2	3
		Correlation w/ Previous Year	NA	0.35*	0.30*	0.46*	0.34*	0.51*	0.14	0.26*	0.32*	0.45*	0.44*	
Median tax inspection hours	PCI Survey Question: D4	Min	1	1	2	1	1	1	1	1	1	2	2	1
		Median	7.5	8	8	8	5	4	4	4	4	8	8	4.5
		Max	24	40	40	32	40	28	24	24	24	40	40	32
		Correlation w/ Previous Year	NA	0.62*	0.86*	0.88*	0.75*	0.33*	0.30*	0.21	0.53*	0.70*	0.75*	
Government officials are effective (% Strongly agree or Agree)	PCI Survey Question: D8.1	Min									58.85	50.00	47.04	
		Median									75.44	64.58	67.38	
		Max									91.76	88.73	87.36	
		Correlation w/ Previous Year									N.A	0.64*	0.71*	
Government officials are friendly (% Strongly agree or Agree)	PCI Survey Question: D8.2	Min									40.16	34.78	35.53	
		Median									70.00	58.24	59.43	
		Max									86.67	82.56	83.72	
		Correlation w/ Previous Year									N.A	0.48*	0.71*	

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Firms don't have to travel many trips to obtain stamps and signatures (% Strongly agree or Agree)	PCI Survey Question: D8.3	Min									51.58	38.20	42.06
		Median									70.13	60.96	61.15
		Max									86.14	78.13	80.00
		Correlation w/ Previous Year									N.A	0.68*	0.74*
Paperwork is simple (% Strongly agree or Agree)	PCI Survey Question: D8.4	Min									44.79	30.30	34.43
		Median									62.50	46.02	51.24
		Max									84.00	68.18	71.74
		Correlation w/ Previous Year									N.A	0.50*	0.67*
Fees are listed publically (% Strongly agree or Agree)	PCI Survey Question: D8.5	Min									80.00	79.35	80.72
		Median									90.51	89.19	89.32
		Max									98.67	97.17	95.87
		Correlation w/ Previous Year									N.A	0.48*	0.19
No noticeable improvements are made (% Strongly agree or Agree)	PCI Survey Question: D8.7	Min									43.28	0.00	0.00
		Median									74.24	4.30	4.70
		Max									90.74	12.77	11.49
		Correlation w/ Previous Year									N.A	0.11	0.29*

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

Table 3.5 Comparison of Informal Charges (2005-2015)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Enterprises in my line of business usually have to pay for informal charges (% agree or totally agree)	PCI Survey Question: D9	Min	6.67	53.57	40	45.54	35.38	20.78	25	28.57	27.54	44.44	47.37
		Median	26.57	70	68.25	65.93	59.4	58.23	51.39	53.17	50.43	64.56	66.03
		Max	48.28	84.62	82.72	83.59	77.47	77.11	75.68	74.19	72.38	80.81	79.38
		Correlation w/ Previous Year	NA	0.05	0.56*	0.64*	0.66*	0.73*	0.61*	0.33*	0.42*	0.55*	0.59*
Percentage of firms paying over 10 percent of their revenue for informal charges	PCI Survey Question: D10	Min	0	4.35	1.39	2.13	2.61	0	0	0	0.72	1.52	3.23
		Median	9.6	12.99	11.54	9.89	8.75	6.78	6.56	6.45	6.96	10.34	11.11
		Max	29.41	34.38	26.19	22.08	20.78	16.92	18.42	22.73	26.56	27.91	24.32
		Correlation w/ Previous Year	NA	0.21	0.45*	0.55*	0.60*	0.43*	0.15*	0.23	0.67*	0.54*	0.63*
Rent-seeking phenomenon is popular in handling administrative procedures for businesses (% strongly agree or agree)	PCI Survey Question: D14.2	Min		22.86	17.44	20	23.93	22	18.06	18	20.27	3.59	43.82
		Median		39.76	38.21	37.12	50.35	50	40.28	43.75	41.18	65.56	65.38
		Max		76.74	79.41	64.54	71.64	73.11	73.13	68.85	75.32	78.32	77.52
		Correlation w/ Previous Year		NA	0.78*	0.68*	0.66*	0.63*	0.50*	0.51*	0.43*	0.46*	0.68*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Percentage of firms saying that informal charges usually or always deliver expected results	PCI Survey Question: D11	Min		20.83	29.03	27.94	35.42	36.4	36.9	24.75	36.84	40.32	42.11
		Median		47.89	48.28	48.99	51.51	56.32	61.11	60.71	63.16	61.33	62.37
		Max		65.93	59.8	62.91	69.01	71.64	82.35	76.81	87.23	84.06	76.25
Informal charges are at acceptable levels (% Strongly agree or Agree)	PCI Survey Question: D8.6	Correlation w/ Previous Year		NA	0.2	0.50*	0.50*	0.53*	0.34*	-0.0832	0.18	0.22	0.49*
		Min									66.67	61.22	58.54
		Median									80.19	77.59	76.84
		Max									97.92	92.77	90.09
		Correlation w/ Previous Year									N.A	0.43*	0.48*

* Significant at 5% level; NA = not applicable

All values are at the provincial level.

2005 data only include 42 provinces and do not include the full set of indicators used in subsequent years.

Table 3.6 BIAS -NEW SUB-INDEX

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Province give privileges to state-owned economic group, corporations, causing difficulties to your business (% Agree)	PCI Survey Question: H4	Min									18.26	21.69	25.30
		Median									32.14	35.00	39.29
		Max									42.86	51.19	50.89
		Correlation w/ Previous Year									N.A	-0.30*	0.31*
Land access as a privilege to state-owned economic group (% Agree)	PCI Survey Question: H4.1.1	Min									13.04	14.04	14.12
		Median									27.59	25.77	26.53
		Max									51.11	36.08	36.98
		Correlation w/ Previous Year									N.A	0.13	0.42*
Credit access as a privilege to state-owned economic group (% Agree)	PCI Survey Question: H4.1.2	Min									13.04	17.31	10.59
		Median									27.59	25.51	26.23
		Max									47.92	42.86	37.84
		Correlation w/ Previous Year									N.A	0.17	0.50*
Mineral exploitation license as a privilege to state-owned economic group (% agree)	PCI Survey Question: H4.1.3	Min									5.88	5.26	8.16
		Median									19.51	17.00	17.76
		Max									35.42	30.93	31.03
		Correlation w/ Previous Year									N.A	0.17	0.66*
Faster and simpler administrative procedures as a privilege to state-owned economic group (% agree)	PCI Survey Question: H4.1.4	Min									5.80	6.67	13.92
		Median									25.86	19.30	23.00
		Max									45.21	33.33	36.25
		Correlation w/ Previous Year									N.A	-0.03	0.18

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Ease in getting state contracts as privilege to state-owned economic group (% agree)	PCI Survey Question: H.4.1.5	Min									13.04	14.52	10.59
		Median									35.00	23.86	27.06
		Max									56.25	41.67	37.50
		Correlation w/ Previous Year									N/A	-0.03	0.35*
Province give priority in solving problems and difficulties to foreign companies over domestic one (% agree)	PCI Survey Question: H2.7	Min									11.54	23.61	25.68
		Median									28.30	42.59	47.22
		Max									49.25	59.75	66.67
		Correlation w/ Previous Year									N/A	0.26*	0.70*
Province give priority to FDI attraction than private sector development (% agree)	PCI Survey Question: H3	Min									17.81	21.57	27.27
		Median									29.50	42.86	48.75
		Max									46.30	55.41	66.92
		Correlation w/ Previous Year									N/A	0.48*	0.65*
Advantage in land access for FIEs (% agree)	PCI Survey Question: H3.1.1	Min									4.71	9.09	9.30
		Median									12.64	28.30	27.81
		Max									26.67	44.34	45.24
		Correlation w/ Previous Year									N/A	0.64*	0.68*
CIT reduction and holiday for FIEs (% agree)	PCI Survey Question: H3.1.2	Min									2.86	8.62	10.81
		Median									9.64	23.01	21.25
		Max									24.81	35.96	40.43
		Correlation w/ Previous Year									N/A	0.36*	0.59*

Advantage in procedures (faster, simplifier) for FIEs (% agree)	PCI Survey Question: H3.1.3	Min	3.66	8.62	10.84
		Median	10.85	20.91	20.93
		Max	22.07	36.36	40.43
		Correlation w/ Previous Year	N.A	0.48*	0.62*
More government support during FIEs operation (% agree)	PCI Survey Question: H3.1.4	Min	6.17	8.62	12.87
		Median	13.48	28.30	26.10
		Max	26.90	39.33	41.27
		Correlation w/ Previous Year	N.A	0.33*	0.50*
"Contracts, land, ..., and other economic resources mostly fall in the hands of enterprises that have strong connections to local authorities" (% agree)	PCI Survey Question: H5	Min	75.00	61.64	55.67
		Median	96.59	76.47	76.92
		Max	100.00	88.89	83.12
		Correlation w/ Previous Year	N.A	0.09	0.36*
Preferential treatment to big companies (both state-owned and nonstate) is an obstacle to their business operations (% agree)	PCI Survey Question: H.2.5	Min	17.57	31.48	41.03
		Median	34.62	52.00	56.52
		Max	60.92	61.40	66.67
		Correlation w/ Previous Year	N.A	0.16	0.25

Table 3.7 Comparison of Proactivity (2005-2015)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Firms' assessment of the attitude of provincial government toward private sector (% Positive or Fairly Positive)	PCI Survey Question: H1	Min	20.59	30.21	24.5	32.71	28.42	31.11	26.25	27.56	26.21	20.99	24.75	
		Median	47.83	48.28	44.97	53.4	43.75	47	45.33	44.44	43.88	43.88	38.95	35.14
		Max	78.26	71.56	67.37	72.22	71.96	67.09	82.89	66.94	69.06	65.17	60.44	
		Correlation w/ Previous Year	NA	0.63*	0.67*	0.53*	0.56*	0.56*	0.37*	0.42*	0.49*	0.34*	0.67*	
The PPC is flexible within the legal framework to create favorable business environment for nonstate firms (% Strongly Agree or Agree)	PCI Survey Question: H2.2	Min	43.75	51.61	53.68	57.35	54.67	54.37	41.67	34.48	39.66	46.84	51.39	
		Median	76.93	74.44	71.74	77.28	72.65	75.31	65.15	65.57	62.77	67.57	73.56	
		Max	94.29	93.48	92.47	91.41	91.72	90.14	92.15	88.31	90.81	90.91	88.43	
		Correlation w/ Previous Year	NA	0.60*	0.68*	0.68*	0.70*	0.68*	0.48*	0.44*	0.05	0.20	0.68*	
The PPC is very proactive and innovative in solving new problems (% Strongly Agree or Agree).	PCI Survey Question: H2.3	Min	31.25	40	40.22	40.9	23.94	25	19.35	22.48	33.04	35.53	40.96	
		Median	63.27	61.88	58.12	61.5	42.46	49.38	46.6	47.66	52.24	53.13	58.95	
		Max	85.71	88.64	87.91	85.05	72.59	71.11	78.26	71.13	82.76	76.58	82.50	
		Correlation w/ Previous Year	NA	0.69*	0.76*	0.75*	0.75*	0.61*	0.47*	0.24**	0.15	0.62*		
There are good initiatives at the provincial level but they are not well implemented by departments (% Strongly Agree or Agree).	PCI Survey Question: H2.1	Min									32.71	60.94	55.56	
		Median										56.98	76.92	79.07
		Max										87.74	91.55	90.24
		Correlation w/ Previous Year										N.A	0.26*	0.45*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Provincial leaders have good policies they are not well implemented at district level (% Strongly Agree or Agree).	PCI Survey Question: H2.5	Min									24.30	41.27	47.50
		Median									43.40	57.69	61.95
		Max									76.47	72.73	72.88
		Correlation w/ Previous Year									N/A		
Province's reaction to lack of clarity in central policies/documents: % "delay and seek instructions" and "do nothing".	PCI Survey Question: H1.1	Min									11.29	23.33	18.75
		Median									33.33	38.54	35.29
		Max									58.16	53.19	48.28
		Correlation w/ Previous Year									N/A	0.25	0.07

* Significant at 5% level; NA = not applicable

** Significant at 10% level

All values are at the provincial level.
2005 data only include 42 provinces.

Table 3.8 Comparison of Business Support Services (2005-2015)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Number of trade fairs held by province in previous year and registered for present year.**	Data provided by Viet Trade of the Ministry of Trade	Min		0	0	0	0	0	0	1	1	1	4	
		Median		0	0	2.25	6	6	6	11	10	9	9	12
		Max		6	12	80	20	166	80	80	20	44	20	20
		Correlation w/ Previous Year		NA	0.18	0.62*	0.42*	0.36*	0.23*	0.48*	0.55*	0.59*	0.59*	0.90*
Ratio of the total number of service providers to the total number of firms (%)	"Tax Authority (Author's Calculation)"	Min							N.A	0	0	0.09	0.05	
		Median							N.A	0.84	0.66	1.02	0.77	
		Max								N.A	5	4.6	4.34	3.58
		Correlation w/ Previous Year								N.A	N.A	0.97*	0.96*	0.88*
Ratio of the number of nonstate and FDI service providers to the total number of service providers (%)	"Tax Authority (Author's Calculation)"	Min						0	0	0	0	0	0	
		Median					44.44	66.67	66.67	57.14	66.67	66.67	66.67	80.57
		Max					100	100	100	100	100	100	100	100
		Correlation w/ Previous Year						0.19	0.77*	0.85*	0.95*	0.73*	0.73*	0.65*
Firm has used business information search services (%)	PCI Survey Question: E.6.1	Min					29.90%	31.48%	19.39%	19.88%	14.75%	27.69%	20.97%	
		Median					60.36%	64.35%	46.00%	37.50%	32.76%	41.27%	33.80%	
		Max					79.81%	87.10%	80.46%	59.26%	54.31%	56.96%	50.65%	
		Correlation w/ Previous Year					NA	0.47*	0.22*	-0.04	0.06	0.36*	0.36*	0.44*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Firm used private provider for above business information search services (%)	PCI Survey Question: E.6.1	Min					20.59%	16.67%	20.37%	4.35%	19.23%	23.81%	21.88%
		Median					38.81%	39.22%	41.89%	29.73%	42.86%	46.88%	37.25%
		Max					58.82%	55.56%	80.00%	56.67%	71.43%	63.64%	61.11%
		Correlation w/ Previous Year					NA	16.6*	-0.05	0.09	0.16	0.33*	-0.08
Firm intends to use above service provider again for business information search services (%)	PCI Survey Question: E.6.1.1	Min					5.56%	20.59%	14.91%	8.67%	25.00%	46.88%	47.62%
		Median					16.44%	50.00%	35.44%	22.83%	61.54%	65.52%	71.88%
		Max					24.81%	65.09%	51.92%	40.00%	86.96%	88.00%	86.36%
		Correlation w/ Previous Year					NA	0.57*	0.31*	0.09	0.25*	-0.07	0.16
Firm has used consulting on regulatory information (%)	PCI Survey Question: E.6.2	Min					30.34%	27.87%	19.39%	18.64%	12.50%	32.00%	23.60%
		Median					62.50%	57.50%	44.74%	38.68%	38.36%	44.78%	40.48%
		Max					77.42%	81.82%	77.90%	62.12%	61.11%	60.53%	55.42%
		Correlation w/ Previous Year					NA	0.48*	0.35*	0.05	-0.06	0.20	0.32*
Firm used private provider for consulting on regulatory information (%)	PCI Survey Question: E.6.2	Min					3.03%	2.04%	4.17%	4.35%	3.85%	9.09%	0.00%
		Median					16.95%	13.33%	30.00%	18.75%	28.57%	21.62%	20.83%
		Max					43.18%	33.33%	69.08%	50.00%	62.07%	54.36%	50.38%
		Correlation w/ Previous Year					NA	11.98*	0.19*	0.00	0.42*	0.15	0.58*
Firm intends to use above service provider again for consulting on regulatory information (%)	PCI Survey Question: E.6.1.2	Min					3.17%	14.06%	10.49%	4.10%	24.14%	42.86%	46.88%
		Median					14.38%	38.60%	29.31%	19.42%	56.00%	62.50%	64.50%
		Max					22.31%	57.14%	51.47%	33.67%	90.63%	82.61%	84.62%
		Correlation w/ Previous Year					NA	0.49*	0.33*	-0.05	0.29*	-0.09	-0.05

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Firm has used business match making services(%)	PCI Survey Question: E.6.4	Min					25.29%	26.98%	14.81%	13.41%	12.28%	21.57%	17.19%
		Median					53.40%	56.58%	37.50%	31.67%	30.91%	35.06%	30.56%
		Max					73.12%	81.82%	77.27%	56.96%	48.21%	46.15%	45.88%
		Correlation w/ Previous Year					NA	.50*	0.23*	-0.06	0.16	0.11	0.11
Firm used private provider for business match making services (%)	PCI Survey Question: E.6.4	Min					25.00%	0.00%	21.57%	5.56%	21.74%	28.00%	27.27%
		Median					44.12%	54.55%	50.00%	45.45%	51.43%	52.17%	50.00%
		Max					70.21%	70.37%	80.88%	84.62%	79.63%	76.92%	68.18%
		Correlation w/ Previous Year					NA	-0.1198	-0.02	-0.03	0.15	0.44*	0.13
Firm intends to use above service provider again for business match making services (%)	PCI Survey Question: E.6.1.4	Min					4.76%	16.67%	12.50%	6.42%	23.33%	45.83%	47.62%
		Median					12.68%	39.52%	24.69%	15.73%	53.33%	65.63%	66.67%
		Max					21.64%	59.18%	42.22%	32.35%	81.08%	93.33%	89.47%
		Correlation w/ Previous Year					NA	0.61*	0.47*	0.10	0.22	-0.11	0.12
Firm has used trade promotion services (%)	PCI Survey Question: E.6.5	Min					19.48%	22.92%	11.29%	12.50%	10.30%	14.06%	11.24%
		Median					45.45%	48.61%	36.67%	26.56%	27.27%	30.61%	24.64%
		Max					72.62%	78.26%	74.14%	51.61%	51.43%	46.58%	43.75%
		Correlation w/ Previous Year					NA	0.50*	0.24*	-0.03	0.21	0.14	0.34*
Firm used private provider for trade promotion services (%)	PCI Survey Question: E.6.5	Min					4.44%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
		Median					18.00%	15.79%	24.14%	17.65%	23.81%	18.18%	17.24%
		Max					38.42%	42.31%	74.60%	70.00%	72.73%	46.67%	36.36%
		Correlation w/ Previous Year					NA	0.45*	0.21*	-0.16	0.33*	0.12	0.23

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Firm intends to use above service provider again for trade promotion services (%)	PCI Survey Question: E.6.1.5	Min					1.59%	8.05%	4.54%	3.54%	9.52%	23.81%	8.33%
		Median					7.89%	20.71%	12.05%	10.00%	39.13%	50.00%	50.00%
		Max					17.46%	34.44%	25.56%	18.69%	66.67%	75.51%	80.00%
		Correlation w/ Previous Year					NA	0.39*	0.47*	24.05%	0.25*	0.02	0.18
Firm has used technology related services (%)	PCI Survey Question: E.6.6	Min					25.33%	21.54%	15.38%	13.51%	8.05%	15.38%	22.99%
		Median					50.00%	52.63%	36.51%	29.55%	29.51%	39.13%	35.14%
		Max					73.49%	81.40%	74.71%	50.00%	52.21%	54.17%	47.87%
		Correlation w/ Previous Year					NA	0.50*	0.24*	-0.02	0.20	0.20	0.20
Firm used private provider for technology related services (%)	PCI Survey Question: E.6.6	Min					17.65%	4.76%	0.00%	6.45%	23.53%	29.03%	21.88%
		Median					38.60%	40.63%	45.00%	33.33%	46.67%	52.00%	42.86%
		Max					65.85%	69.23%	83.08%	62.50%	85.11%	74.19%	61.21%
		Correlation w/ Previous Year					NA	0.29*	0.26*	0.11	0.24	0.24	0.27*
Firm intends to use above service provider again for technology related services (%)	PCI Survey Question: E.6.1.6	Min					3.17%	7.81%	4.88%	3.67%	16.13%	26.09%	28.57%
		Median					10.71%	26.83%	15.38%	9.90%	37.29%	47.62%	47.83%
		Max					17.46%	38.74%	31.00%	22.86%	66.67%	66.67%	70.59%
		Correlation w/ Previous Year					NA	0.50*	0.37*	0.21	0.23	0.23	-0.01

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Firm has used accounting and financing training services (%)	PCI Survey Question: E.6.7										18.24%	20.25%	19.77%
											35.94%	37.66%	39.44%
											65.26%	58.44%	59.21%
											N.A	0.32*	0.56*
Firm used private provider for above accounting and financing training services (%)	PCI Survey Question: E.6.7										4.76%	8.89%	3.70%
											31.82%	34.29%	29.03%
											78.26%	57.52%	53.73%
											N.A	0.28*	0.36*
Firm intends to use above service provider again for accounting and financing training services (%)	PCI Survey Question: E.6.1.7										12.50%	30.77%	35.71%
											41.94%	59.09%	54.84%
											72.73%	78.57%	80.00%
											N.A	0.39*	0.32*
Firm has used business administration training services (%)	PCI Survey Question: E.6.8										10.84%	14.86%	13.92%
											29.19%	27.87%	27.72%
											57.89%	45.95%	43.84%
											N.A	0.21	0.47*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Firm used private provider for above business administration training services (%)	PCI Survey Question: E.6.8										0.00%	9.09%	3.57%
Firm intends to use above service provider again for business administration training services (%)	PCI Survey Question: E.6.1.8										7.14%	19.23%	26.32%
Firm intends to use above service provider again for accounting and financing training services (%)	PCI Survey Question: E.6.1.7										38.89%	50.00%	50.00%
Firm has used business administration training services (%)	PCI Survey Question: E.6.8										N.A	0.39*	0.38*
											7.14%	19.23%	26.32%
											67.57%	84.21%	91.67%
											N.A	0.08	0.16
											12.50%	30.77%	35.71%
											41.94%	59.09%	54.84%
											72.73%	78.57%	80.00%
											N.A	0.39*	0.32*
											10.84%	14.86%	13.92%
											29.19%	27.87%	27.72%
											57.89%	45.95%	43.84%
											N.A	0.21	0.47*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Firm used private provider for above business administration training services (%)	PCI Survey Question: E.6.8										0.00%	9.09%	3.57%
Firm intends to use above service provider again for business administration training services (%)	PCI Survey Question: E.6.1.8										7.14%	19.23%	26.32%
											38.89%	50.00%	50.00%
											67.57%	84.21%	91.67%
											N.A	0.08	0.16

* Significant at 5% level; NA = not applicable

All values are at the provincial level.

2005 data only include 42 provinces and do not include the full set of indicators used in subsequent years.

** Because the maximum value recorded in HCMC is an outlier on both of these variables (over two standard deviations greater than the mean value), lower values of 10 and 100, the number scored by the second highest province, were used to standardize the sub-index scores.

Table 3.9 Comparison of Labor Policies (2006-2015)

Indicator	Source (2013 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
1. Services provided by provincial agencies: general education (% Very Good or Good)	PCI Survey Question: E1.7	Min	7.43	51.51	17.71	22.08	20.27%	28.77%	24.6%	31.3%	32.9%	34.4%	
		Median	19.16	73.29	35.20	45.45	46.99%	52.05%	54.7%	54.8%	57.0%	51.8%	
		Max	35.52	87.34	58.90	68.93	68.97%	75.80%	80.0%	80.0%	75.3%	73.1%	69.1%
		Correlation w/ Previous Year	NA	0.21	0.61*	0.76*	0.72*	0.54*	0.35*	0.46*	0.64*	0.76*	
2. Services provided by provincial agencies: vocational training (% Very Good or Good)	PCI Survey Question: E1.8	Min	31.25	24	6.25	10.25	10.67%	16.46%	15.25%	17.33%	16.30%	18.07%	
		Median	55.43	55.9	19.81	27.11	27.40%	34.88%	42.15%	43.10%	33.08%	31.11%	
		Max	73.17	79.49	46.28	48.51	64.37%	68.25%	73.39%	67.78%	57.47%	59.04%	
		Correlation w/ Previous Year	NA	0.66*	0.78*	0.57*	0.57*	0.39*	0.26*	0.37*	0.56*	0.68*	
3. Firm has used labor exchange services (%)	PCI Survey Question: E2.6.3	Min				15.65%	4.39%	23.76%	13.58%	9.52%	13.11%	8.99%	
		Median				33.33%	31.11%	52.56%	33.33%	30.10%	27.94%	29.76%	
		Max				47.13%	48.08%	83.17%	54%	48%	48%	51%	
		Correlation w/ Previous Year				NA	0.37*	0.31*	0.14	0.09	0.25	0.65*	
4. Firm used private provider for above labor exchange services (%)	PCI Survey Question: E2.6.1.3	Min				25.53%	0.00%	3.45%	2.00%	5.88%	5.56%	10.00%	
		Median				40.43%	39.06%	22.72%	15.62%	45.00%	40.00%	34.38%	
		Max				75.61%	84.42%	61.80%	39%	80%	84%	83%	
		Correlation w/ Previous Year				NA	0.39*	0.13*	0.09	0.25	0.34*	0.43*	
5. Firm intends to use above service provider again for labor exchange services (%)	PCI Survey Question: E2.6.1.3	Min				8.51%	32.65%	6.90%	4.76%	5.56%	13.33%	7.69%	
		Median				27.78%	62.50%	27.78%	19.56%	40.00%	50.00%	52.38%	
		Max				42.86%	93.94%	53.70%	34.54%	75.00%	66.67%	70.00%	
		Correlation w/ Previous Year				NA	0.02	0.23*	0.1479	0.29*	0.16	0.35*	

Indicator	Source (2013 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
6. Percentage of total business costs spent on labor training.	PCI Survey Question: E8 (Data is the residual after regressing labor costs on firm type, sector, size, number of enterprises in province, average industrial wage in province.)	Min				0 (-3.6)	0 (-3.37)	0(-3.31)	0.87(-2.42)	1.2(-1.54)	3.38 (-1.54)	2.00(-2.71)
		Median				1 (-2.5)	1.25 (-2.44)	1(-2.14)	3.9(-0.039)	2.9(-2.0)	5.56(-2.0)	4.57(-.018)
		Max				2.5 (-1.19)	3 (0.917)	5(1.02)	7.47(4.03)	5.2(2.68)	8.09(2.68)	7.15(2.27)
		Correlation w/ Previous Year				NA	0.37*	-0.08	0.01	0.31*	0.14	0.27*
7. Percentage of total business costs spent on labor recruitment	PCI Survey Question: E9 (Data is the residual after regressing labor costs on firm type, sector, size, number of enterprises in province, average industrial wage in province.)	Min				0 (-3.5)	0 (-3.99)	0(-2.92)	1.48(-2.29)	0.47(-2.41)	1.25(-2.53)	1.44(-2.78)
		Median				1 (-2.3)	1 (-2.8)	0(-2.30)	3.82(-0.18)	2.09(-0.23)	4.32(-1.16)	4.26(0.25)
		Max				2 (-1.27)	3 (1.99)	1(-0.94)	9.39(4.866)	6.19(4.48)	9(4.87)	8.14(4.34)
		Correlation w/ Previous Year				NA	0.21	0.11	-0.22	0.25*	0.27*	0.49*
8. Overall Satisfaction with Labor (% Agreeing labor meets firm needs).	PCI Survey Question: E.9	Min				50.4%	58.40%	42.99%	71.6%	85.0%	77.5%	82.6%
		Median				74.1%	73.47%	75.60%	92.7%	95.1%	93.6%	93.5%
		Max				83.8%	90.11%	93.75%	100.0%	99.0%	100.0%	98.9%
		Correlation w/ Previous Year				NA	0.28*	0.21*	-0.10	0.24	0.55*	0.49*

Indicator	Source (2013 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
9. Ratio of vocational training school graduates to untrained laborers	Ministry of Labor, Invalids and Social Affairs; General Labor Department	Min				1.42%	0.89%	1.03%	0.95%	1.20%	0.63%	0.60%
		Median				5.45%	3.13%	3.60%	3.72%	4.60%	4.56%	4.36%
		Max				29.02%	20.51%	20.08%	22.42%	22.37%	12.00%	12.00%
		Correlation w/ Previous Year				NA	0.58*	0.93*	0.93*	0.91*	0.93*	0.91*
10. Secondary school graduates as % of workforce	General Statistical Office	Min				4.4%	4.36%	2.73%	2.05%	2.98%	2.14%	2.57%
		Median				10.3%	8.65%	7.10%	7.69%	7.59%	7.61%	7.91%
		Max				30.2%	28.02%	16.17%	19.09%	19.53%	12.86%	12.86%
		Correlation w/ Previous Year				NA	0.91*	0.65*	0.85*	0.92*	0.89*	0.88*
11. Percentage of workers having completed training at vocational schools	PCI Survey	Min								23.18%	23.19%	20.59%
		Median								42.80%	42.49%	36.80%
		Max								67.25%	55.06%	51.23%
		Correlation w/ Previous Year									N.A	0.45*

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

Table 3.10 Comparison of Legal Institutions (2006-2015)

Indicator	Source (2013 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
1. Legal system provided mechanism for firms to appeal against officials' corrupt behavior (% Always or Usually)	PCI Survey Question: G2	Min	7.44%	17.70%	17.22%	13.04%	14.16%	0.00%	9.0%	16.1%	15.5%	18.3%	
		Median	19.16%	28.80%	27.31%	25.17%	25.00%	23.70%	23.7%	23.7%	32.6%	31.6%	31.4%
		Max	35.53%	41.41%	42.53%	43.94%	53.33%	55.80%	51.7%	51.7%	69.9%	53.4%	47.7%
		Correlation w/ Previous Year	NA	-0.24	0.48*	0.38*	0.27*	-0.08*	-0.12	0.25*	0.30*	0.55*	
2. Firm confident that legal system will uphold property rights and contracts (% Strongly Agree or Agree)	PCI Survey Question: G1	Min	50.00%	53.57%	55.05%	45.63%	43.36%	0.00%	41.7%	58.2%	71.6%	70.4%	
		Median	69.42%	66.11%	67.00%	62.32%	62.69%	69.94%	63.8%	63.8%	83.2%	81.0%	81.2%
		Max	82.14%	77.55%	78.23%	75.76%	71.11%	88.76%	81.8%	81.8%	92.6%	88.6%	88.9%
		Correlation w/ Previous Year	NA	0.50*	0.40*	0.29*	0.16	-0.14*	-0.04	0.22	0.16	0.31*	
3. Cases filed by non-state entities at Provincial Economic Court per 100 firms.	People's Supreme Court	Min	0	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00	
		Median	0.41	0.58	1.29	3.05	1.74	2.11	1.32	2.09	1.52	0.63	
		Max	9.49	8.12	6.97	35.64	62.10	14.82	9.01	21.74	14.24	12.25	
		Correlation w/ Previous Year		0.66*	0.32*	0.84*	0.84*	0.70*	0.68*	0.57*	0.65*	0.78*	
4. Non-state claimants as a percentage of claimants at Provincial Economic Court.	People's Supreme Court	Min	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
		Median	50.00	50.00	65.48	72.41	73.47	84.81	90.00	85.71	85.71	85.14	
		Max	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
		Correlation w/ Previous Year	NA	0.38*	0.05	0.41*	0.40*	0.27*	0.46*	0.30*	0.26*	0.46*	

Indicator	Source (2013 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
6. Provincial court judge economic cases by the law (% Agree or strongly agree)	People's Supreme Court	Min									44%	17%	
		Median										81%	77%
		Max										100%	100%
7. Provincial court resolve economic cases quickly (% Agree or strongly agree)	PCI Survey Question: G3.1	Correlation w/ Previous Year									N.A	0.80*	
		Min									78.13%	72.68%	77.82%
		Median									89.29%	85.98%	87.90%
8. Court judgements are enforced quickly (% Agree or strongly agree)	PCI Survey Question: G3.2	Max									98.84%	94.74%	93.51%
		Correlation w/ Previous Year									N.A	0.45*	0.47*
		Min									29.47%	42.03%	48.00%
8. Court judgements are enforced quickly (% Agree or strongly agree)	PCI Survey Question: G3.3	Median									58.00%	56.00%	63.41%
		Max									80.65%	67.80%	74.71%
		Correlation w/ Previous Year									N.A	0.11	0.37*
8. Court judgements are enforced quickly (% Agree or strongly agree)	PCI Survey Question: G3.3	Min									38.64%	43.06%	50.00%
		Median									60.00%	59.78%	65.26%
		Max									86.02%	73.13%	76.32%
8. Court judgements are enforced quickly (% Agree or strongly agree)	PCI Survey Question: G3.3	Correlation w/ Previous Year									N.A	0.03	0.36*

Indicator	Source (2013 Survey)	Measure	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
9. Legal aid agencies support businesses in the use of laws when disputes arise (% Agree)	PCI Survey Question: G3.4	Min								40.00%	53.13%	55.95%	
		Median									68.75%	65.28%	72.15%
		Max									86.67%	79.59%	86.30%
		Correlation w/ Previous Year									N.A	0.17	0.31*
10. Formal and informal costs are acceptable (% Agree or strongly agree)	PCI Survey Question: G3.5	Min								57.35%	57.35%	63.41%	
		Median									77.78%	71.03%	74.73%
		Max									93.26%	83.33%	83.56%
11. Judgement by the court is fair (% Agree or strongly agree)	PCI Survey Question: G3.6	Min									N.A	0.32*	0.40*
		Median									71.67%	66.14%	68.75%
		Max									85.96%	80.00%	81.98%
		Correlation w/ Previous Year									N.A	0.25*	0.43*
12. Willingness to use court in case a dispute arises (% Yes)	PCI Survey Question: G4	Min									29.31%	36.05%	23.42%
		Median									59.74%	50.48%	37.50%
		Max									77.87%	63.10%	50.00%
		Correlation w/ Previous Year									N.A	0.04	0.22