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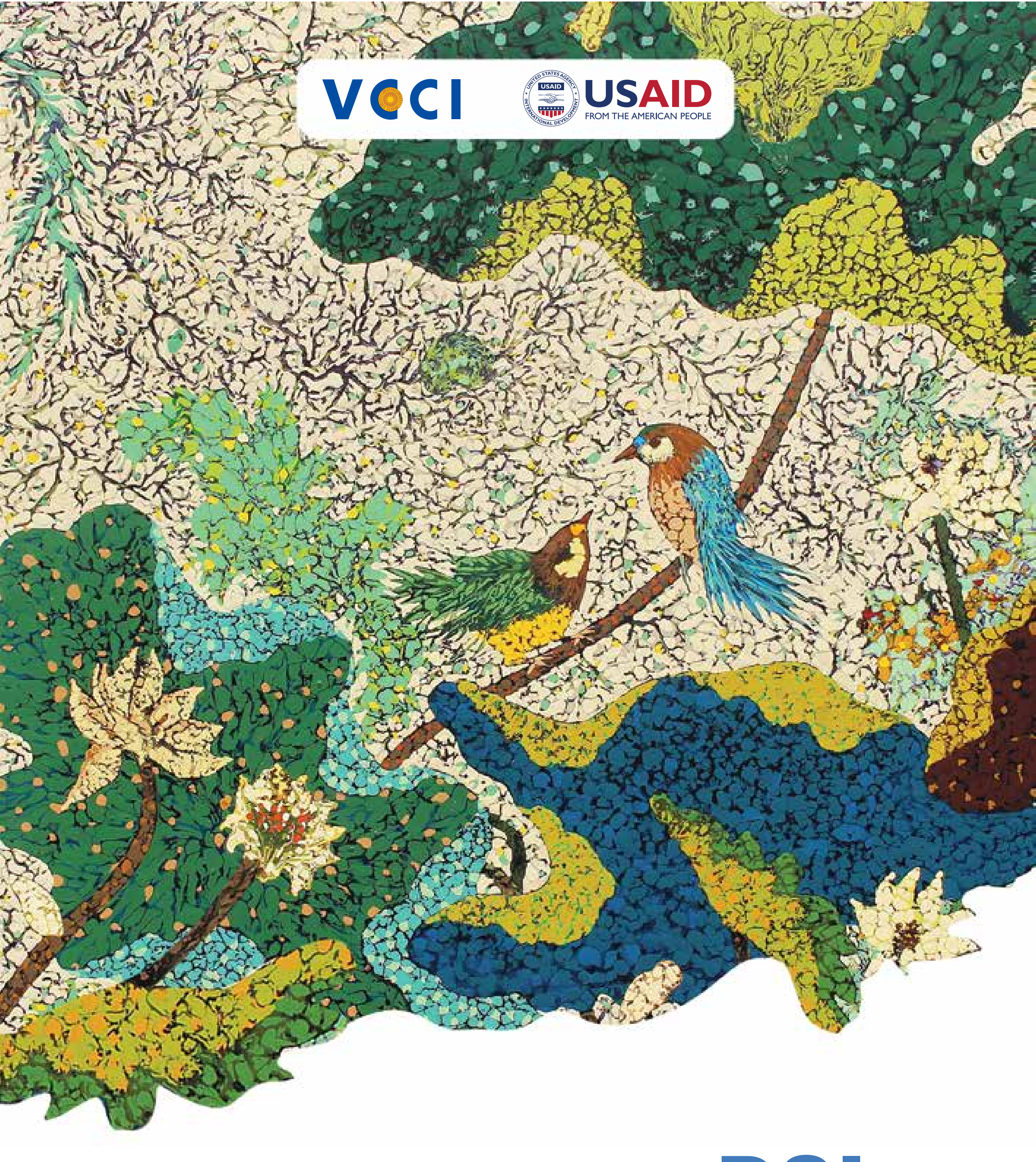

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX

PCI 2018

Measuring economic governance for business development

Shades of Autumn
Pham Hoang Anh

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX PCI 2018

Measuring economic governance for business development

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FOREWORD

The 2018 PCI Report is the product of a long-standing collaboration between the Vietnam Chamber of Commerce and Industry (VCCI) and the United States Agency for International Development (USAID).

Since 2005, VCCI and USAID have cooperated to produce the annual PCI to measure provincial governance from the perspective of the domestic private sector. The PCI not only informs investors on decisions regarding the location of business operations, but also articulates the perceptions of private businesses regarding administrative procedures and the conduct of authorities at all levels.

Over the past decade and a half, the PCI has contributed to a fundamental change of mindset in the country. Businesses themselves have become important participants in rating the quality of the public services they use every day. Their efforts help make up for the lack of a formal feedback mechanism, informing officials about the quality and efficiency of public and business support services. When policy-makers are responsive and utilize the PCI's feedback in reforms and new initiatives, businesses believe they have a greater stake in the overall system, and are more likely to comply with critical safety, health, and environmental regulations. At the same time, the PCI project endeavors to empower Vietnamese entrepreneurs and the micro-, small- and medium-sized enterprise (MSME) community – businesses that create jobs and drive innovation. The focus of the PCI has contributed to local authorities becoming more responsive to the needs of the MSME community. Since the initiation of the PCI-FDI survey in 2010, foreign investors have also been able to learn about auspicious locations for investment and share their concerns about the direction of provincial governance and infrastructure reforms with local officials.

Through the independent voice of the PCI report, businesses have found it easier to be heard regarding the obstacles they face and their governance concerns, relieving them of the difficulty of direct and sensitive conversations with officials at state agencies. Provincial leaders have likewise found it easier to understand the actual experience of doing business in their provinces. This has enabled them to learn about the strengths and weaknesses of policy and to pursue reforms. Elected agencies, such as the National Assembly and Provincial People's Councils, have also referred to the PCI to inform their supervisory and consultative activities.

We are pleased to observe the extent to which the PCI reports have promoted the sharing of best practices among provinces. The PCI has led to the countrywide replication of several administrative initiatives: The “one stop shops” in Binh Duong and Da Nang; the streamlining of administrative procedures for investment, land, and construction in Bac Ninh and Binh Dinh; the “cafe with businesses” dialogue model from Dong Thap; and the centralized administrative center model in Quang Ninh and Binh Duong.

On a national scale, the PCI surveys provide rigorous empirical overviews of the business environment. The PCI informs the Government of areas that are performing well and those that need improvement. For example, Government Resolution 139 (2018), which initiated an action plan to reduce business costs, set the target of cutting the share of businesses paying informal charges in half. These efforts have added to the “voice” of the business community to further the reform process.

Over time, the PCI has assumed a more structured role. For example, Government Resolution 19 (2017) on improving the business environment and national competitiveness made raising provincial PCI rankings a key task of local officials. Similarly, Government Resolution 02 (2019) tasked the VCCI to continue the PCI surveys in coordination with business associations to provide regular and independent monitoring and evaluation of reforms.

As Vietnam endeavors to build on its economic achievements, VCCI and USAID are proud to present this year’s PCI report. Professor Tran Dinh Thien, former Director of the Vietnam Economics Institute, captured our feeling eloquently when he said, “During the economic renovation process in Vietnam, we have rarely seen a work that promotes development in such a strong and direct way.”

Vu Tien Loc, Ph.D.

Chairman and President
Vietnam Chamber of Commerce and Industry

Michael Greene

Mission Director
United States Agency for International Development in Vietnam

ACKNOWLEDGMENTS

The Provincial Competitiveness Index (PCI) 2018 is the result of a major ongoing, collaborative effort between the Vietnam Chamber of Commerce and Industry (VCCI) and the U.S. Agency for International Development (USAID).

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. The report also benefited from assistance and input from Michael Greene, USAID Vietnam Mission Director. Michael Trueblood, Director of Economic Growth and Governance for USAID Vietnam, and Nguyen Thi Cam Binh, USAID Vietnam Program Management Specialist, provided comments and editing support for the report as well as strong managerial support for the program.

Edmund Malesky, Professor of Political Economy at Duke University, led the development of the PCI research methodology and was primarily responsible for the presentation of its analytical findings. Professor Malesky was supported by an excellent PCI research team. Le Thanh Ha and Nguyen Thi Thu Hang of the VCCI Legal Department managed the PCI research and report schedule and outputs. Pham Ngoc Thach of the VCCI Legal Department led the data collection, index construction, data analysis. Phan Tuan Ngoc, Ph.D. candidate at Duke University, authored Chapter 2 with input from Layna Mosley, Professor of Political Science at the University of North Carolina at Chapel Hill. Helen Milner, B.C. Forbes Professor of Politics and International Affairs at Princeton University, participated in the analysis of Chapter 3. Daniel Burns and Renate Kwon significantly improved the report with their excellent copyediting.

The PCI report would not be possible without a high quality survey implemented by fifty students under the management and coordination of Nguyen Le Ha, Nguyen Vu Quang, and Luu Ngoc Anh at VCCI. We would also like to thank Nguyen Thi Le Nghia, Bui Linh Chi, and Vu Ngoc Thuy at VCCI for their effective assistance and support for the 2018 PCI report.

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Special thanks go to our team, whose efforts contributed to the development of the PCI methodology. These experts include: Madam Pham Chi Lan, Senior Economist; Dr. Le Dang Doanh, Senior Economist; Tran Huu Huynh, Chairman, Vietnam International Arbitration Center; Prof. Dr. Nguyen Van Thang, National Economics University; Dr. Nguyen Dinh Cung, Director and Phan Duc Hieu, Vice Director, Central Institute for Economic Development (CIEM), Ministry of Planning and Investment; Nguyen Duc Lam, Training Center for Elected Representatives, Board of Deputy Affairs, Standing Committee of Vietnam’s National Assembly; Tran Thi Lan Anh, VCCI Deputy Secretary General cum Director General of Bureau for Employers’ Activities; Dr. Nguyen Thi Thu Trang, Director of VCCI’s WTO Center and Integration; Pham Hoang Tien, Director, VCCI’s Small and Medium Enterprise Support Center; Nguyen Phuong Lam, Director, VCCI Can Tho; Nguyen Tien Quang, Director, VCCI Da Nang; Nguyen Dien, Director of the Center for Enterprise Support and Consultancy, former Director, VCCI Da Nang; Nguyen Huu Thap, Chairman, Tuyen Quang Province Business Association; Nguyen Van Thoi, Chairman, Thai Nguyen Province Business Association; Duong Trong Khang, Standing Vice Chairman, Vinh Phuc Province Business Association; Tran Ngoc Nam, Deputy Director, Hanoi Department of Planning and Investment; Pham Binh An, Director, Ho Chi Minh City Center for International Integration Support; Phan Trung Can, former Director, Binh Thuan Center for Small and Medium Enterprise Assistance; Dr. Nguyen Phuong Bac, Director, Bac Ninh Institute of Research and Development; Dr. Nguyen Van Hung, Vice Director, Da Nang Institute of Research and Development; Dr. Dang Quang Vinh, Deputy Director, Department of Business Environment, Central Institute for Economic Development (CIEM); Ngo Vinh Bach Duong, Director, Department of Economic Law, Institute for State and Law, Vietnam Academy of Social Sciences; Vu Thi Kim Chi, Vice Director, Quang Ninh Investment Promotion Agency; Le Xuan Hien, Director, Division of Bidding, Appraisal and Investment Supervision, Hai Duong Department of Planning and Investment; Dr. Le Duy Binh, Director, Economica Vietnam; Truong Thanh Duc, Chairman, Members’ Council at BASICO Law Firm, and many other experts from provinces, cities, research institutes, associations, and businesses that we cannot list here.

Last, and most importantly, we would like to thank the enterprises for giving their precious time to answer the 2018 PCI Survey completely, candidly, and objectively. This was essential for us to capture and convey their voices with the aim of improving the business environment, thereby bringing practical benefits for the development of the business community.

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ASEAN	Association of Southeast Asian Nations
BITs	Bilateral Investment Treaties
CATE	Conditional Average Treatment Effect
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DDCIs	Department and District Competitiveness Indices
FDI	Foreign Direct Investment
FIEs	Foreign Invested Enterprises
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSO	General Statistical Office
GTD	General Tax Department
GVCs	Global Value Chains
IPE	International Political Economy
IRC	Investment Registration Certificate
ISDS	Investor-State Dispute Settlement
JETRO	The Japan External Trade Organization
LCA	Law on Commercial Arbitration
MFN	Most Favored Nation
MNC	Multinational Corporations
MOJ	Ministry of Justice

MPI	Ministry of Planning-Investment
MSMES	Micro-, Small-, and Medium-Sized Enterprises
OECD	Organization for Economic Cooperation and Development
PAPI	Viet Nam Governance and Public Administration Performance Index
PCI	Provincial Competitiveness Index
PTAs	Preferential Trade Agreements
SOEs	State-Owned Enterprises
TPP	Trans-Pacific Partnership
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USBTA	U.S.-Vietnam Bilateral Trade Agreement
VCCI	Vietnam Chamber of Commerce and Industry
VIAC	Vietnam International Arbitration Center
VND	Vietnam Dong
WTO	World Trade Organization

EXECUTIVE SUMMARY

The 14th Provincial Competitiveness Index (PCI) Report

The PCI Research team at the Vietnam Chamber of Commerce and Industry (VCCI) designed the PCI to assess the ease of doing business, economic governance, and the administrative reform efforts of Vietnam's provincial and city governments. The 2018 PCI is the 14th iteration of the report, and is based on rigorous surveys of the perceptions of domestic and foreign firms. The PCI strives to augment the collective voice of investors in Vietnam regarding governance in the provinces where they invest and in the country as a whole. This *Executive Summary* is divided into two main sections.

In the first section, we describe the seven surveys and datasets we use to create the index and analyze governance reforms in Vietnam. As the PCI has grown, we have added more precise tools. In the midst of reading the report, readers often conflate these very different sources of information. Here, we step back and delineate our data sources and the purposes for which we use them.

In the second section, we describe our primary research products. Over time, the PCI research endeavor has diversified beyond our signature index of economic governance for private businesses. Each year, we also survey foreign investors, gauge business confidence, rank infrastructure quality, and pursue one unique and urgent research topic. In such a large report, it can be easy to lose sight of these individual research findings. Consequently, in Section 2, we summarize our core findings and conclusions from each research component.

This year, readers will be particularly excited about our survey module to measure the impact of global integration on contract enforcement, which we devised for this year's Chapter 3, the section of the report we devote annually to rigorous analysis of critical policy issues. We find that Vietnam's entry into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) strengthens the confidence that both domestic and foreign firms have in dispute resolution procedures, which we predict will lead to greater expansion of business partnerships, enhanced sales, and increased participation in global value chains (GVCs).

I. PCI Survey and Datasets Used in Research

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

- *Annual survey of over 8,000 existing domestic private businesses.* In 2018, 8,681 domestic private firms in all 63 provinces answered the full survey. Firms are selected using random sampling to mirror provincial populations. Stratification is used to make sure that firm age, size, legal type, and sector are accurately represented. The total uncorrected response rate for the survey is 30 percent, which experts deem extremely high for surveys of business leaders. Moreover, the Chief Executive Officer (CEO) or General Director filled out 70 percent of all surveys. Throughout the report, we refer to these data as the "PCI survey."

- *Annual survey of over 2,000 newly established enterprises.* This year, we identified 10,111 businesses in all 63 provinces that started operations in 2017 and 2018. Among these new entrants, enumerators were able to verify the locations and contact information of 5,460 firms and from this group 2,000 responded, leading to an overall response rate of 37 percent. The research teams use these answers exclusively to calculate the first PCI subindex on experiences with business registration and licensing. In the report, we call this the "New Business Survey."

- *Annual survey of over 1,500 foreign-invested enterprises (FIEs).* This section reports on data collected from the 20 provinces and cities with the highest concentration of foreign direct investment (FDI). These firms are also selected using stratified random sampling. The unadjusted PCI-FDI response rate is 32 percent with only limited variation by province. The survey includes FIEs from 36 different countries with the highest concentration from Asia, especially South Korea (459), Japan (408), and Taiwan (183). We refer to this throughout as the "PCI-FDI survey."

- *Provincial-level panel data on 63 provinces between 2006 and 2018.*[1] This dataset records average levels on 360 measures of economic governance and business performance since the beginning of the PCI for each province. The research teams use these data to track progress over time on governance reforms and the economic outcomes of those endeavors. We refer to this throughout as "PCI panel data."

- *Core PCI dataset.* These are data collected for each respondent of the PCI domestic survey between 2006 and 2018. These data contain 114,316 individual responses to questions asked each year in the annual PCI survey. Over 1,078 unique variables are covered.

- *Core PCI-FDI dataset.* This covers data for each respondent of the PCI-FDI survey between 2010 and 2018. These data contain 14,266 individual FIEs' answers to over 160 questions asked annually in the annual PCI survey.

- *Panel data on domestic, private firms.* Small sample of firms that have answered the PCI every year since 2006.

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

II. Research Outputs

Each year, the PCI research report delivers seven intellectual products to assist Vietnamese businesses, policy-makers, local government officials, development practitioners, and academic researchers. Below, we describe each of the outputs and the key findings for 2018 from each.

i. The Signature Provincial Competitiveness Index (PCI). Since 2005, this index has ranked Vietnam's 63 provinces based on economic governance areas that affect private sector development (see Figure 1.3 in Chapter 1).

- o What does the index measure? The overall PCI index score comprises ten subindices. A province that is considered as performing well on PCI is the one that has: 1) low entry costs for business start-ups; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable business information; 4) minimal informal charges; 5) limited time requirements for bureaucratic procedures and inspections; 6) minimal crowding out of private activity from policy biases toward state, foreign, or connected firms; 7) proactive and creative provincial leadership in solving problems for enterprises; 8) developed and high-quality business support services; 9) sound labor training policies; and 10) fair and effective legal procedures for dispute resolution and maintaining law and order.

- o How is the index created? The index is produced in a three-step sequence, referred to as the "three Cs": 1) **c**ollect business survey data and published data sources, 2) **c**alculate ten subindices and standardize them on a 10-point scale, and 3) **c**alibrate the composite PCI as the weighted mean of ten subindices with a maximum score of 100 points (see Section 1.5 in in the 2017 PCI Report for a full discussion of the methodology).[2]

- o How does the index address changes in economic reform policies? The PCI re-evaluates its methodology and recalibrates the index every four years. As in 2009 and 2013, we conducted an extensive review process in 2017 that began by engaging our advisory board as well as a large number of potential PCI respondents, which led to methodological refinements. While altering the methodology poses problems for measuring improvements over time, the dynamic nature of the Vietnamese economy and ongoing reform efforts require these periodic adjustments**.** This year's report applies the same methodology as 2017. Therefore, scores, rankings, and performance tiers are directly comparable over the two-year period.

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2 *http://pcivietnam.org/an-pham/bao-cao-pci-2017/*

- o Which are the top provinces according to this year's PCI? The overall PCI rankings are remarkably stable. Quang Ninh Province maintains the top ranking with 70.36 points for the second year in succession. Second in this year's ranking is the Mekong Delta province of Dong Thap, which surpassed its own record on the aggregate PCI score, scoring 70.19 points and continuing its eleven-year run in the top five. Coming in third and fourth place, respectively, are Long An (68.09 points) and Ben Tre (67.67 points). This year's fifth place finisher is Da Nang with 67.65 points. The lower half of the top ten include Binh Duong (66.09 points), Quang Nam (65.85 points), Vinh Long (65.53 points), Hanoi (65.40 points), and Ho Chi Minh City (65.34 points).

ii. *The Core PCI.* To measure economic governance over time, the PCI has developed a second tool, which we call the "Core PCI,"[3] constructed from a smaller set of 41 indicators that have remained fixed for 12 years (2006-2018). The Core PCI follows the 2006 PCI methodology in its entirety and is never recalibrated, so each indicator and subindices remain comparable over the entire PCI - unlike the signature PCI index, which is recalibrated every four years.

- o Improvement over time. According to the Core PCI, there has been dramatic improvement in governance over time. In 2018, the Core PCI reached a score of 61.76, the highest score achieved since we began the exercise in 2005 (see Figure 1.6, Chapter 1).

- o Growing convergence among provinces. We identify a narrowing gap between the best and worst performing provinces in both the annual PCI and core PCI rankings. While the improving scores of low-ranked provinces is reason for celebration, stagnation and decline at the top of the index is worrying. The bottom-ranked provinces are reaping the advantages of following behind, drawing on the good practices of the top-ranked provinces to improve their business environments. Meanwhile, the leading provinces, having already put initiatives into practice in easy-to-reform areas such as business registration, seem to have hit a regulatory ceiling and have had difficulty implementing reform-accelerating initiatives.

- o Changes in local economic governance between 2017 and 2018. Governance subindices with robust improvement include informal charges (increasing by 0.73 points, representing the success of the anti-corruption campaign), policy bias (with a 0.54 point increase), and administrative reforms (up 0.46 points). Land access and law and order (each up 0.27 points) and proactive leadership (with an increase of 0.11) had more modest improvements. However, declines were

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

observed in the remaining areas of transparency (down 0.09), labor policy (down 0.11), business support services (a decrease of 0.17), and entry costs (down 0.41 points).

- Key governance trends to watch. Beyond these broader changes (described in Section 1.3, Chapter 1), we also highlight six critical trends that reflect progress on policies begun by the new Vietnamese leadership in 2016.

  - *Declining informal charges:* "Petty corruption," small facilitation fees that firms pay to receive licenses or other documentation, abated in 2018.

    - Only 54.8 percent of firms claimed they paid informal charges in 2018 to expedite procedures, the lowest level in the last five years.

    - The amounts of these payments have also diminished, with only 7.1 percent of respondents stating that it cost more than 10 percent of turnover to pay informal charges.

    - With regard to settling administrative procedures, 58.2 percent of firms affirmed the existence of corruption in these activities.

    - This year's findings also illustrate signs of declining "grand corruption." Only 30.8 percent of business operations claimed to have paid informal charges to expedite land procedures, a decrease from the 32 percent that reported doing so in 2017. Most impressively, only 39.3 percent of firms paid informal charges to inspectors and examiners compared with 51.9 percent in 2017 and 65.6 percent in 2914.

    - This year, 48.4 percent of respondents agreed with the statement "paying a 'commission' is necessary to win procurement contracts"; this figure was 54.9 percent in 2017.

    - Despite these successes, the informal charges indicators remain quite high, implying that more sustained effort is needed and the fight certainly needs the cooperation of businesses as well. Firms need to improve the sophistication of their management, strengthen their legal understanding and compliance, and operate with integrity.

  - *Less favoritism toward state and foreign investors:* Overall, favoritism toward select businesses appears to have declined this year.

    - The percentage of firms agreeing with the statement "the favoritism of provincial authorities towards state corporations causes difficulties to my firm's business operation" declined from 41.2 percent in 2017 to 32.4

percent in 2018.

- Only 37 percent of surveyed businesses stated, “the provincial authorities seem to prioritize FDI attraction to domestic private sector development”; a significantly lower share than the 45.7 percent recorded in 2017.
- Despite this more balanced playing field, there is still a need for further efforts to create a fair playing field for the domestic private sector.

▪ *Provincial authorities demonstrate more proactivity and creativity in policy implementation.* In 2018, 46.2 percent of respondents rated provincial authorities’ attitude towards the private sector as “positive.” This figure has improved annually since its low of 35.1 percent in 2015.

- 76.3 percent of firms agreed with the statement “my provincial People’s Committee is very flexible, within the scope of laws, to create a favorable business environment”, the highest level in the last five years.
- 60.9 percent of firms stated, “My provincial People’s Committee is creative and clever in solving newly arising problems,” the highest approval rating since 2009.
- Other indicators measuring how authorities handled concerns and difficulties for business operations also reflected firms’ positive perceptions. For 2018, 68.5 percent stated that their obstacles were addressed through dialogue and business meetings with provincial authorities (versus 67 percent in the prior year), and 77.4 percent of firms were satisfied with the way provincial regulators dealt with their concerns (up slightly from 76.7 percent in 2017).

▪ *Administrative reforms continue to progress:* Most indicators included in the post-registration time costs subindex (Subindex 4) showed improvement since the beginning of the new administration in 2016. In particular, 30.7 percent of firms reported spending more than 10 percent of their time understanding and complying with laws and regulations (down from 35.5 percent in 2015).

- When rating government efficiency, 74.7 percent of respondents found “state employees handled work effectively” (compared to 67.4 percent in 2015), and 74.1 percent of respondents rated “paperwork and procedures” as simple (versus 51.2 percent in 2015).
- The percentage of firms saying that “administrative procedures were often

completed by officials before deadlines" also improved to 68.9 percent of firms in 2018 from 67 percent the prior year.

- Other indicators of inspections and examinations show similar improvements. In 2017, 7.2 percent of businesses underwent at least five visits; this number dropped to 6.4 percent in 2018.

- There were also significant decreases in the duplication and overlap of inspections. By 2018, only 10.8 percent of respondents reported replication, a continuation of this indicator's annual decline and a tremendous improvement over the national high of 25.8 percent recorded in 2015, when this question was introduced in the PCI questionnaire.

▪ *Entry procedures are still burdensome:* The PCI 2018 found that many firms still feel that entry costs remain too high with 15.8 percent having to wait over one month to complete all the required paperwork (aside from the business license) to become fully legal.

  - This number has increased consistently over the last five years. The share of firms that claimed difficulty completing administrative procedures to obtain these licenses is also alarming.

  - Thirty-four percent of firms met with obstacles when obtaining certificates of qualification to do business, while 30 percent experienced delays obtaining fire safety certificates.

  - A further 29 percent reported challenges with receiving certificates of technical-regulation conformity or with other types of required certificates.

▪ *Transparency remains low:* Adequate access to information remains an ongoing problem.

  - On a scale of 1-5 (ranging from Impossible (1) to Very Easy (5)), access to planning documents was rated 2.38 points in 2018, approximating the scores achieved in 2015 and 2016, and was significantly lower than the high of 2.63 recorded in 2006.

  - Accessibility of legal documents scored better, yet also shows only marginal improvement since the early years of the PCI. 69.4 percent of respondents stated they needed "relations" to access provincial documents (compared to 70 percent in 2017).

iii. The PCI Infrastructure Index ranks the quality of infrastructure and connectivity in each province. The infrastructure index is not included in the calculation of the PCI scores. However, it serves as a useful reference for businesses as well as policy-makers (see Figure 1.21, Chapter 1).

- Why is infrastructure not included in the signature PCI? The PCI research team has determined it is unfair to include infrastructure in the overall PCI ranking for three reasons: i) initial endowments were dramatically different across provinces, making it very difficult for some rural provinces to catch up; ii) provinces are not solely responsible for infrastructure within their borders, as many investments are funded through central government initiatives; and iii) the team strongly believes improvement of infrastructure is best achieved through regional cooperation and does not want to encourage duplicative and damaging competition in port or airport construction.

- What does the infrastructure index measure? This index is built upon the survey results of firms' perceptions about infrastructure quality across provinces and cities and published data from government sources. It includes four subindices, measuring: i) industrial zone quality; ii) roads; iii) public services (telecommunications, energy); and iv) information technology. The index methodology has remained the same since it began in 2006.

- Which provinces have the best infrastructure? Binh Duong, Da Nang, Vinh Phuc, Hai Duong, and Ba Ria-Vung Tau are rated as having the best infrastructure. These provinces have all frequented the top performers list over many years.

- Has infrastructure quality changed over time? Infrastructure in Vietnam is generally improving, a trend that has held steady since 2014. The median score of the Infrastructure Index reached a record high of 66.06 points in 2018.

- Provinces diverging in infrastructure quality. This year's findings show a different pattern than that of 2015-2017 when scores appeared to converge over time. The difference between the best and worst performers reached a record low of 21 points in 2017. In 2018, the gap widened to a 26.5-point difference, with the top performer scoring 82.3 points and the bottom ranked scoring 55.9 points, substantially lower than the 57 points recorded in 2017. This divergence indicates that some provinces are lagging behind the others in terms of infrastructure quality, and need to make meaningful investments to improve.

- Zones of prosperity. A strong correlation exists between governance and infrastructure. In general, well-governed places tend to have higher quality infrastructure, though there are exceptions. Furthermore, the best economic performance is found in locations that have the underlying infrastructure for businesses to prosper as well as above-average governance, as measured by the PCI. Unsurprisingly, the wealthiest and fastest-growing provinces in the country are in this group, including Da Nang, Binh Duong, Bac Ninh, BRVT, Dong Nai, and Vinh Phuc (see Figure 1.23, Chapter 1).

iv. *Challenges to Business Operations in 2018*. This year, the PCI included a module asking businesses about the greatest obstacles to business success. A large number of businesses pointed to non-governance issues as their key concerns.

- o Key challenges. The most common difficulties included finding customers (60 percent), accessing credit and financing (37 percent), and dealing with market downturns (32 percent). These major challenges are followed by difficulty recruiting workers (28 percent), finding business partners (27 percent), and regulatory changes (23 percent).
- o The perils of being small and young. Micro- and small-sized firms found it more difficult to find customers, get credit, and find suitable premises than larger-sized companies. Young firms (less than five years old) similarly found these areas to be among the most challenging, especially in finding customers, accessing finance, finding premises, hiring employees, finding business partners, and complying with administrative procedures.
- o Correlates of loss-making. Firms running their business at a loss face considerably more challenges in accessing finance, finding customers, finding premises, finding suppliers, hiring employees, and finding business partners. Those planning to close their business had a harder time coping with abrupt changes of regulations and faced a significantly higher level of infrastructure challenges than those who plan to continue operating.

v. *PCI Business Thermometer*. Each year, respondents to the PCI survey answer a question about their investment plans for the next year. We then record and plot the share of respondents planning to "increase the size of their operations." The measure has become an elegant indicator of optimism and confidence felt by the business community regarding its economic prospects, and it serves as an excellent leading measure of GDP growth (see Figure 1.1, Chapter 1).

- o Optimism remains high. This year, the thermometer demonstrates that business confidence in 2018 remained at a fairly high level, with 49.3 percent of the surveyed firms planning to expand their operations in the following two years. The share of operations intending to maintain their business at its present scale is 42.4 percent.

- o <u>Higher likelihood of closure.</u> Despite the generally high levels of confidence, the fact that 8.3 percent of businesses plan to reduce their operations or close is the third highest number since the first PCI report in 2005. The only other instances of businesses planning closure at this rate were recorded during the economic downturn in 2012-2014. However, higher closure rates may indicate a more dynamic business environment, greater consolidation and productivity of successful businesses, which are signs of economic development and upgrading.

- o <u>Foreign investors also remain positive.</u> Fifty-six percent of FIEs plan to increase the size of their operations in the coming years.

  - Twelve percent of the surveyed foreign firms actually increased their investments in the past year, while 58 percent hired more employees.

  - However, all three of these figures, projected expansion (60 percent in 2017), investment increases (13 percent in 2017), and additional employment (62 percent in 2017) are all down slightly from the previous year.

vi. *Analysis of PCI- FDI Survey*. Each year in Chapter 2 of the report, we present the findings from the PCI-FDI survey regarding governance improvements and challenges that influence the performance of FIEs in Vietnam. This year's highlights include:

- o <u>Characteristics of foreign investors.</u> The typical FDI enterprise in Vietnam remains small and export-oriented. They are usually subcontractors to larger multinational producers, often through global value chains (GVCs).

  - Most foreign investors are from Asia, with South Korea, Japan and Taiwan topping the list.

  - Data in recent years show an increase in the fraction of small FIEs. The percentage of foreign-invested firms with equity of less than 5 billion VND increased steadily from 29.6 percent in 2015 to 37.7 percent in 2018.

- o <u>Most FIEs are manufacturers.</u> The three leading sub-sectors are fabricated metal products, computer, electronic and optical products, and rubber and plastics products.

  - Manufacturers of electronics account for an increasingly large share of FIEs, while the percentage of textile and apparel firms decreased from 6 percent to 3.8 percent between 2016 and 2018.

- The increasing share of businesses in higher technology operations indicates industrial upgrading.

o The 2018 PCI-FDI provides several optimistic insights. FIEs remain extremely confident about the business environment due to three continuing reform efforts of Vietnamese policy-makers: reductions in regulatory burdens; signs of decreased corruption; and infrastructure enhancements.

- *Lessened Regulatory Burden*. Recent policy efforts aimed at improving the business environment are taking effect. In February 2017, the Government issued Resolution 19-2017/NQ-CP on "Improving the Business Environment and National Competitiveness toward 2020." The Resolution outlines specific goals regarding governance, competitiveness, innovation and e-government. In May, the Prime Minister issued Resolution 20/CT-TTg on rectifying inspection activities to prevent redundant, overlapping and unnecessary inspections that interfere with the operation of enterprises.
  - The share of firms reporting spending more than 5% of manager's time on bureaucratic procedures dropped from 66.2 percent in 2017 to 42.6 percent in 2018.
  - The fraction of firms reporting harassment from inspections (over 8 inspections per year) decreased from 3.4 percent last year to 1.4 percent this year.
  - According to firms, however, the three most burdensome administrative procedures are customs, social insurance, and tax inspections.

- *Concrete progress in alleviating corruption.* Initial improvements reported in the 2017 PCI report were sustained and accelerated across a range of indicators.
  - The share of foreign firms considering regulations as an excuse for bribery extraction dropped from 44.6 percent in 2017 to 36.5 percent in 2018.
  - 44.9 percent of respondents had to pay informal charges to inspectors in 2017. However, only 39.9 percent reported doing so this year.
  - Bribes during land procedures dropped from 17.5 percent to 6.8 percent in the past year.

- *Improved infrastructure.* Recent investments in infrastructure have paid off.
  - Foreign investors widely acknowledge improvements in electricity
  - provision and connectivity between highways, ports and railroads.

        - However, the boost in road quality is geographically uneven, with provinces such as Long An and Tay Ninh lagging behind.

        - Power outages also remain common. Manufacturing FIEs had an average of six power outages last year, and 87 percent of respondents reported damage to production from such blackouts.

- o <u>Stagnant Labor Quality.</u> There has been very little change in FIEs' perception toward the quality of local labor supply for several years.

    - ▪ FIEs are generally positive about general and vocational education for low-skilled labor.

    - ▪ However, FIEs still face considerable difficulties in recruiting employees for skilled positions, including accountants, managers, and technicians.

    - ▪ Costs of in-house training and loss of trained workers are increasing concerns for businesses.

    - ▪ A special experimental analysis shows that, in the context of the U.S-China trade conflict, FIEs in Vietnam are willing to offer more attractive wages and benefits to skilled workers in order to export higher value-added products to the United States.

        - The increase in FIE's willingness to increase costs for labor is entirely concentrated in the set of goods goods exposed to increased tariff lines raised by the Trump administration. Firms manufacturing goods exposed to the tariffs are willing to spend 6 percent more to improve labor conditions when they have an opportunity to export to the United States (13.6 percent higher costs) instead of China (7.4 percent higher costs).

        - These expenses are concentrated in higher wages and social benefits. Firms are less enthusiastic about spending resources on labor conditions or worker representation.

vii. Special Investigation. Every year, the team chooses a relevant policy concern and leverages the team's full arsenal of data, analytics, and visualization to address it. These results are reported in Chapter 3. In past years, we have studied the environmental consequences of business development (PCI 2016), unique challenges for Vietnam's SMEs (2015), business perceptions and understanding of the Trans-Pacific Partnership (PCI 2014), the impact of business participation on regulatory quality and compliance (PCI 2013), and whether the talent and skills of Vietnam's business managers affects the performance of their companies (2017). This year, we ask whether global integration will enhance perceptions of dispute resolution and facilitate business expansion.

Limited global integration of domestic firms: Vietnamese policy-makers have demonstrated increasing concern about the lack of global integration of the domestic private sector. Very few private firms are involved in global value chains (GVCs), either as vendors of goods or services to foreign companies based in Vietnam, or in the form of exports to third parties who participate in GVCs.

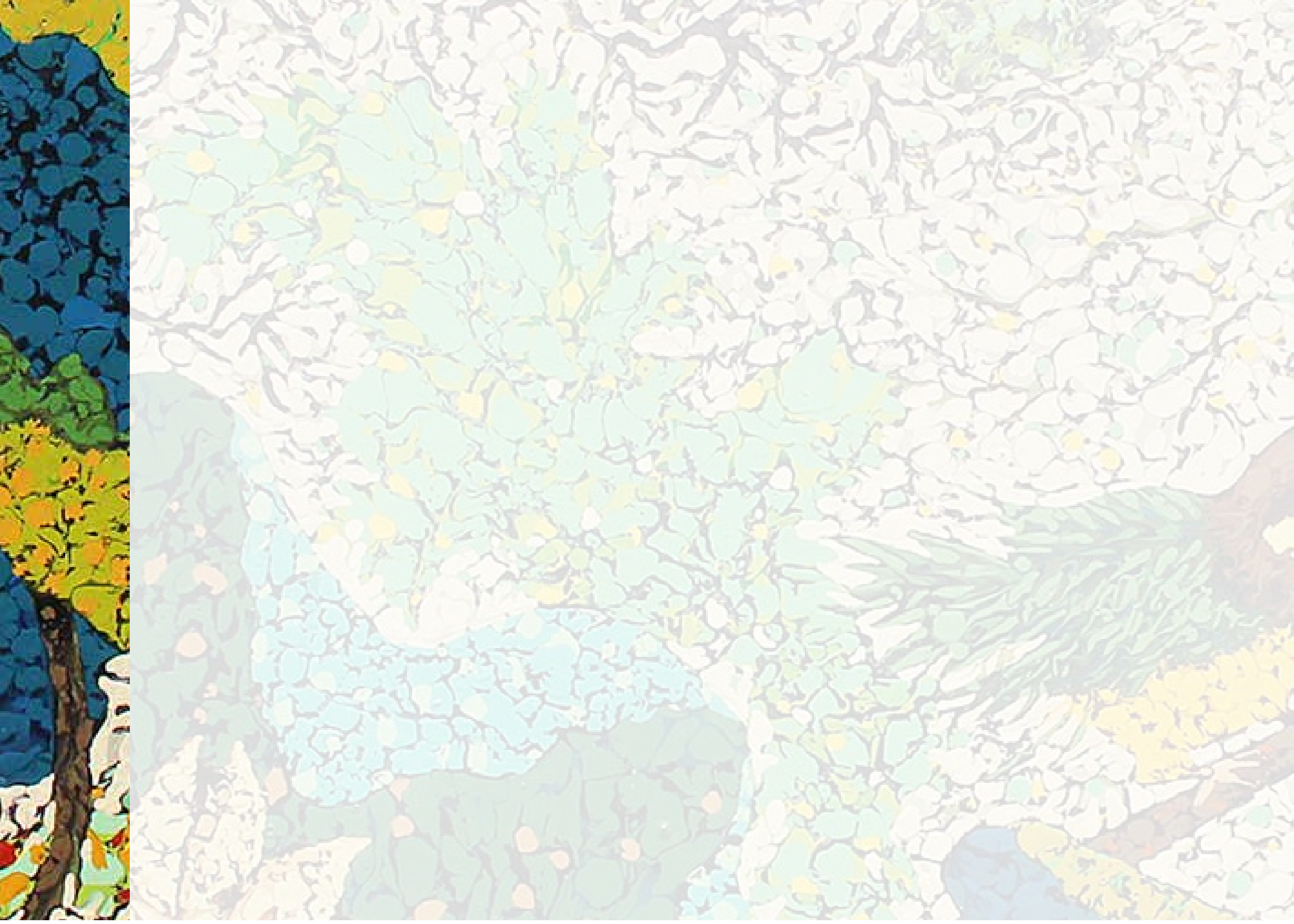
- This is surprising, because GVCs are tremendously active in the country, and analysts have begun to see Vietnam as one of Asia's main "manufacturing powerhouses."
- Trade accounts for over 200 percent of the country's GDP (World Bank, 2018), and GVCs produce between 50 and 60 percent of total valued added in the country.
- Most of this economic activity, however, is due to the activities of foreign-invested enterprises.

o Enhanced dispute resolution as a solution. While scholars and practitioners have suggested a number of policy steps to resolve this puzzle, very little attention has been paid to the credibility of domestic and international dispute resolution mechanisms in enhancing trust between potential business partners and facilitating contracts with far-flung business actors outside of the immediate networks of Vietnamese firms.

o Experimental analysis. We take up this question by embedding a survey experiment in both the 2018 domestic and foreign services. The experiment primed respondents to consider either the contract enforcement protections in Vietnam's Law on Commercial Arbitration (LCA) or Chapter 28 of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

- We randomly assigned respondents to each document, ensuring that the two treatment groups were similar on average across descriptive characteristics (e.g. size, sector, and experience with disputes). As a result, their answers to follow-up questions indicate the influence of exposure to the new information on the agreements.
- Another way to think about this research design is the comparison of Vietnam's status quo of commitments under the LCA to the prospective benefits of commitments under the CPTPP. Essentially, we asked firms whether international cooperation will promote business beyond the protections they can already avail themselves of in Vietnamese law.

- o <u>The benefits of local and national dispute resolution procedures.</u> We find that both LCA and CPTPP encourage greater business partnerships, but the effect is far greater for those receiving the CPTPP treatment.
  - For domestic firms, predicted sales growth is 1.65 percent for those exposed to the LCA and 4.3 percent for those exposed to the CPTPP (a 2.7-point difference).
  - For foreign firms, the difference is smaller at 2.12 percentage points (1.05 v. 3.18 percent), but still statistically significant.
- o <u>More business partnerships with whom?</u> Probing further, we find that the most likely business partners for the increased activity are foreign-invested enterprises, multinational corporations (MNCs), and third-party overseas buyers – precisely the actors involved in GVCs.
  - While the CPTPP also has a positive effect on potential partnerships with domestic private enterprises, the size of the increase is far less substantial.
  - The positive effect of internationalization of contract enforcement does not differ dramatically whether the respondent was a private domestic firm or foreign investor.



1 SURVEY OF DOMESTIC FIRMS AND THE FINAL PROVINCIAL COMPETITIVENESS INDEX

INTRODUCTION

2018 was a successful but intense year for provincial authorities across Vietnam. As we predicted in our 2017 PCI business thermometer, the country's growth rate of 7.08 percent in 2018 was the highest in a decade. However, central authorities are not satisfied and have continued to prioritize improvement of the business environment in their agenda for provincial officials. Indeed, the beginning of 2019 was marked by two key resolutions[4] introduced on January 1 by the Vietnamese Government aimed at bolstering economic growth with specific targets and measures, and urging local governments to put specific measures into practice for economic growth. These include enhancing economic self-reliance; building an apparatus of discipline, integrity and action; improving Vietnam's position in international rankings on competitiveness; increasing the number of new businesses; reducing informal costs for enterprises; and simplifying administrative procedures.

4 *Government Resolution 01/NQ-CP dated 1/1/2019 on key measures to implement socio-economic development plan and State budget estimate in 2019 and Government Resolution 02/NQ-CP dated 1/1/2019 on continued implementation of major tasks and solutions for improving the business environment and national competitiveness in 2019 with an orientation towards 2021.*

In 2018, the PCI remains a well-received tool for businesses in Vietnam. Specifically, the latest survey collected responses from 10,681 domestic private enterprises, operating across all 63 provinces. Of these, 8,681 firms responded to the PCI questionnaires focusing on doing business, and 2,000 firms that were established in 2017 and 2018 took a specialized survey instrument focusing exclusively on market entry. This year marked the highest volume of responses since the initiation of the PCI in 2005. The total uncorrected response rate for the PCI domestic private firm survey is 29.5 percent.[5] It is encouraging that the PCI continues to be viewed as an effective channel that conveys the domestic business community's voice on economic governance and the business environment in Vietnam.

The Provincial Competitiveness Index: As in previous years, the PCI 2018 assesses the economic governance and administrative reform efforts of provincial governments and national-level cities in Vietnam. Ultimately, the goal is to assess whether provinces have put in place the appropriate short- and medium-term institutions and policies for promoting private sector development. A province that is considered as performing well on the PCI is one that has: 1) low entry costs for business start-ups; 2) easy access to land and security of business premises; 3) a transparent business environment and provides information equitably to businesses; 4) limited time requirements for bureaucratic procedures and inspections; 5) minimal informal charges; 6) low crowding out of private activity from policy biases toward state, foreign, or connected firms; 7) a proactive and creative provincial leadership in solving problems for enterprises; 8) high-quality business support services; 9) sound labor training policies; and 10) fair and effective legal procedures for dispute resolution and maintaining law and order.

Methodology of the PCI: Following the methodology used in previous years,[6] the PCI was constructed through the following 3-step process: 1) collecting information from responses to mailed surveys returned by business operations and from state statistical data (businesses are selected from provincial lists of enterprises actually paying tax; a computer program ensures stratified random sampling); 2) calculating 10 subindices and standardizing each of them on a 10-point scale; and 3) calculating the aggregate PCI score from the weighted means of the 10 subindices on a maximum scale of 100. The PCI 2018 uses a system of 128 indicators and 10 areas of evaluation, which were last adjusted in 2017 and will be used over the next 2 years.[7]

This first chapter of the PCI 2018 report includes five main sections. Section 1.1 updates the thermometer of domestic business confidence. Section 1.2 elaborates on the PCI 2018

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5 *After correcting for incorrect addresses in the sampling frame, the response rate rises to 50 percent.*

6 *For more detail on the PCI methodology see Section 1.5 (p. 54-65) of E. Malesky et al. (2017).*

7 *Read the PCI 2017 report for more details on PCI methodology at www.pcivietnam.vn*

ranking and highlights the performance of various provinces. Section 1.3 reviews the main trends in economic governance as perceived by the Vietnamese business community over recent years. In Section 1.4, the research team identifies key obstacles these firms are facing, in an effort to inform state agencies involved in the creation and implementation of business support services. The final section, Section 1.5, broadens the analysis to include a wider understanding of the business environment, including an infrastructure index, and its relationship with economic governance.

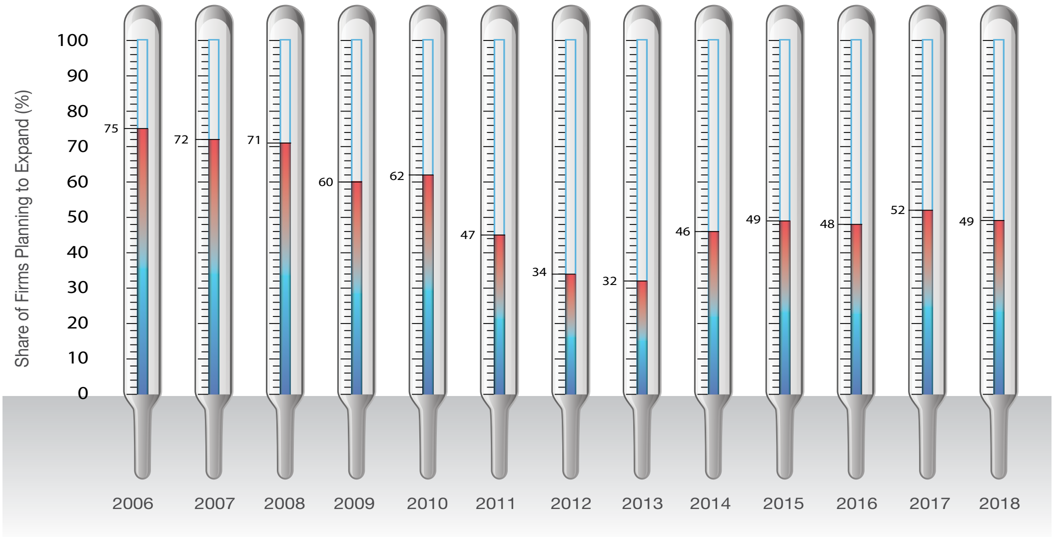
1.1 BUSINESS CONFIDENCE

Each year, the PCI research team queries businesses about their business plans for the next two years. The question specifically asks whether they: 1) will considerably increase the size of their operations; 2) increase the size of their operations; 3) will continue the business at its present size; 4) consider reducing the size of the operations; 5) intend to considerably reduce the size of their operations; or 6) plan to close the business. How businesses respond to this question is a strong gauge of the level of optimism and confidence in the business community and a leading predictor of economic performance. The PCI business thermometer falls in the years before GDP contraction and expands in the years preceding economic growth (Figure 1.1). Last year, we observed the highest PCI thermometer scores since the economic crisis of 2011.[8] The country then achieved a growth rate of 7.08 percent in 2018, the highest rate in over a decade, surpassing the prediction of the General Statistical Office (GSO).[9]

8 *See the PCI 2017 report, pg. 20.*

9 *For detailed data, see Trading Economics < https://tradingeconomics.com/vietnam/gdp-growth>*

Figure 1.1 PCI Business Thermometers over Time

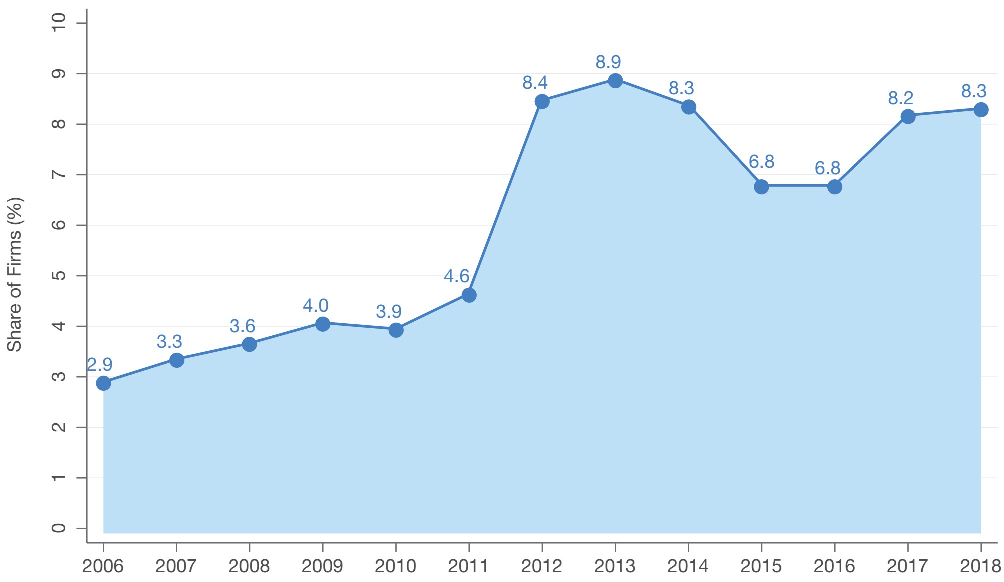


This year, the thermometer demonstrates that business confidence in 2018 remained at a fairly high level, with 49.3 percent of the surveyed firms planning to expand their operations in the following two years. The share of operations intending to maintain their business at its present scale is 42.4 percent. The remaining 8.3 percent of companies are considering reducing or closing their business. Judging by previous years, this means we should expect continued growth in Vietnam over 2019, but probably at a rate slightly less than the record high posted in 2018.

Levels of business optimism appear to be correlated with the size of business operations. Further analysis reveals that expansion plans are greatest among larger firms. Forty-one percent of businesses with investment of less than 1 billion Vietnamese Dong (VND) (about $43,000) report plans to expand their operations over the next two years. By sharp contrast, 70 percent of businesses with investment greater than 200 billion VND ($8.7 million) have plans to expand their operations. The same trend can be observed when we use labor size to disaggregate responses. A meager 43 percent of businesses employing fewer than 10 workers plan to increase their operations whereas 68 percent of firms with a workforce of 300 or more intend to expand. The greater confidence of larger businesses has both positive and negative interpretations. On the positive side, it indicates the greater consolidation and productivity that tend to accompany economic development (Melitz and Ottaviano, 2008). On the other hand, it is the micro-, small-, and medium-sized enterprises (MSMEs) that play a vital role in providing jobs for Vietnam's labor force, which expands by over one million individuals every year. Lack of confidence could keep them from fulfilling this vital role through investment and expansion over the next two years (Coxhead and Shrestha, 2017).

Despite the generally high levels of confidence, the fact that 8.3 percent of businesses plan to reduce their operations or close is noteworthy. As Figure 1.2 shows, the number represents a slight increase over the 8.2 percent recorded in 2017; however, this is the third highest number since the first PCI report in 2005. The only other instances of businesses planning closure at this rate were recorded during the economic downturn in 2012-2014. The PCI 2018 reveals it is the small and very small enterprises that account for the greatest proportion of these planned closures. To be specific, among businesses with investment of less than 1 billion VND, 13 percent of firms plan to shrink or close. Among businesses with investment greater than 200 billion VND, the rate of planned shrinkage or closure is 2.5 percent. The same pattern is evident when disaggregating by labor size: 11 percent of firms employing fewer than ten workers plan to decrease their business size, while this number is 2.5 percent for businesses with more than 300 employees.

Figure 1.2 Share of Firms Planning to Reduce Size or Close over the Next Two Years



Our results are consistent with GSO data from December 2018 showing 90,651 businesses temporarily stopped operations in 2018, which represents a 49.7 percent increase over 2017. Furthermore, 16,314 completed dissolution proceedings in 2018, representing an annual increase of 34.7 percent (GSO, 2018).

Together, the two trends provide evidence that a sizable share of firms are struggling in the current economy. They are not adapting well to the greater sophistication in the domestic marketplace or the increased competition from Vietnam's global integration.

This is normal in emerging economies, but policy-makers should pay attention to these challenges because of the vital role that MSMEs currently play [for entrepreneurs and entry-level and low-skilled workers] in Vietnam.

The negativity in the MSME sector assumes increasing importance in the context of the implementation of Government Resolution 35 in 2016, when the government set a target of one million active firms by the year 2020, and tasked provincial governments with creating the conditions for fueling that growth.[10] By the end of 2018, there were only 700,647 businesses in operation in Vietnam ("700,647 Businesses Running Nationwide", 2019). Functionally speaking, the one million active firms target should be second to the goal of an economic climate supported by sound policy at the central and provincial level that encourages development of successful, productive businesses that expand their operations and increase the size of their labor forces. Section 1.4 of this chapter will provide further information on this group of struggling businesses.

1.2 PROVINCIAL COMPETITIVENESS INDEX 2018

The 2018 PCI rankings are displayed in Figure 1.3, arranged in descending order with the best performing provinces at the top. Each province is scored on a 100-point scale, which results from a weighted sum of ten subindices. These subindices themselves are created from the assessments of a stratified random sample of businesses in each province, combined with administrative data to address perception and anchoring bias in survey responses.[11] Figure 1.4 presents the information in the form of the national PCI map, where provinces are colored according to their aggregate PCI score.

10 Government Resolution 35/NQ-CP dated 16/5/2016 on business support and development towards 2020

11 For details on the most updated methodology, refer to the PCI 2017 report, http://pcivietnam.vn/

Figure 1.3 Weighted Provincial Competitiveness Index 2018

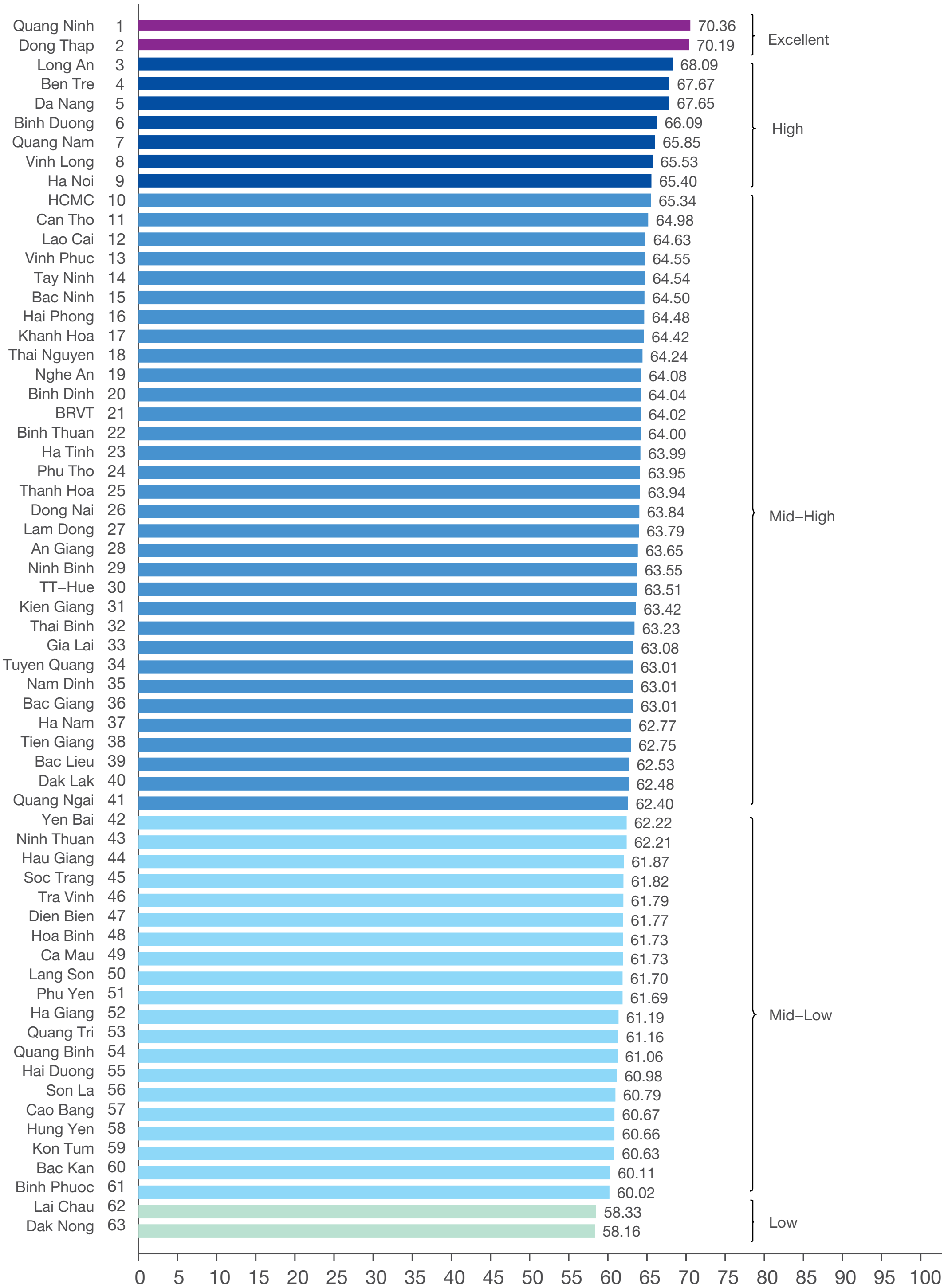
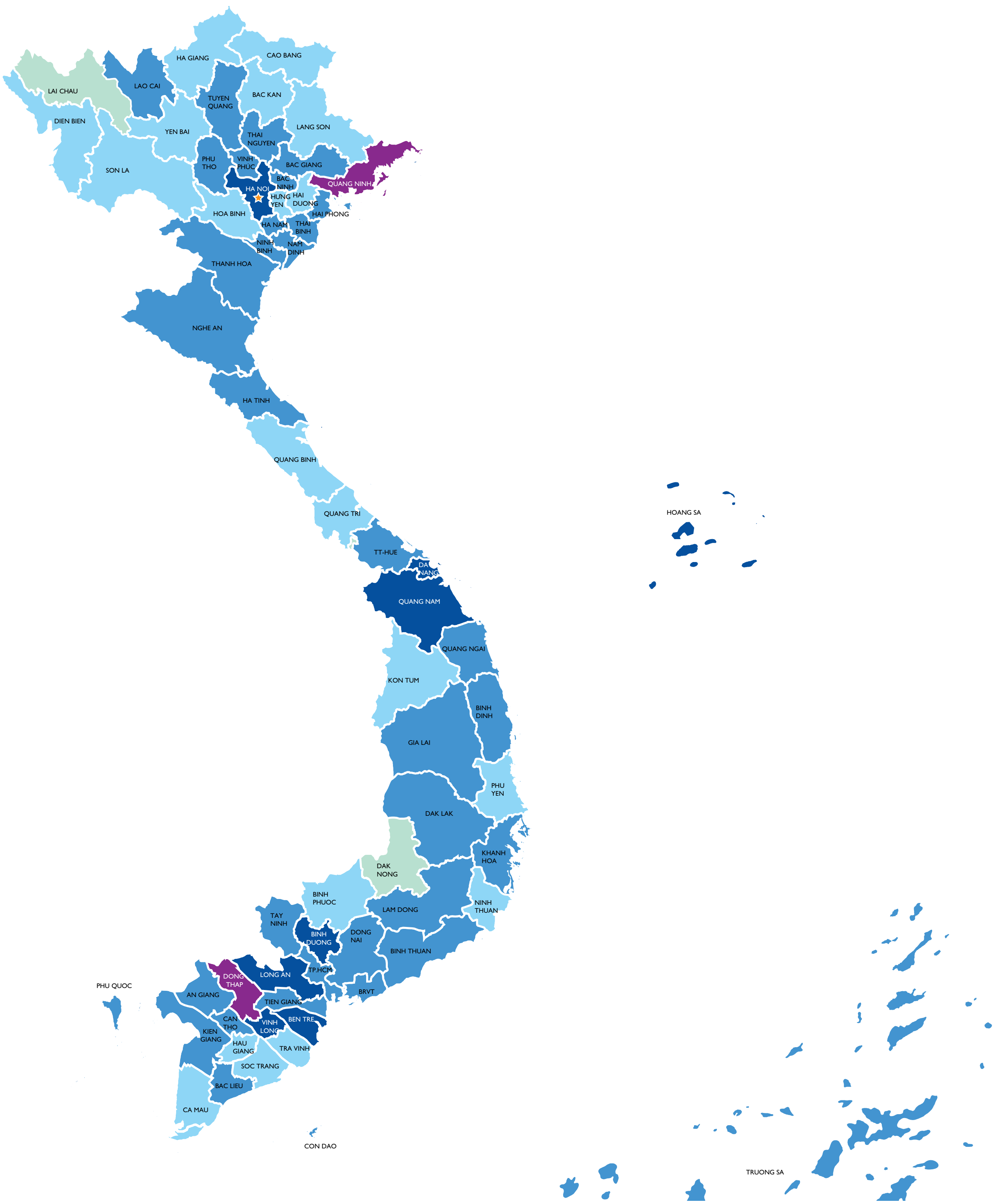


Figure 1.4 PCI 2018 Map



The top performers in the 2018 PCI are remarkably stable. Quang Ninh Province maintains the top ranking with 70.36 points for the second year in succession. The province managed to maintain its momentum by applying the “four on-site principle” (receiving, reviewing, approving, and returning the results of administrative dossiers at public administrative centers) at the provincial and district level (“Quang Ninh’s Breakthroughs in Administrative Procedure Reforms,” 2019). The performance of all local government agencies related to business can be tracked via their own competitiveness index at the department and district levels (DDCI). The province also hosts the Entrepreneurs’ Café, where provincial leaders regularly meet with representatives of firms on an informal basis to resolve their problems.

These efforts have yielded improvements in Quang Ninh’s PCI 2018 score. In 2018, 80 percent of firms in the province said that administrative procedures were less time-consuming than in previous years, and 74 percent stated that paperwork was simplified and easy (the highest score in the country). In land procedures, which are traditionally among the most controversial and problematic, 65 percent of firms engaged in this process reported they did not face any difficulties. Consequently, Quang Ninh ranks first in this indicator for 2018. Furthermore, the provincial business environment has become more transparent. Only 53 percent of firms said that they depend on “relationships” to access provincial legal and planning documents, which is the lowest among all provinces.

Second place in this year’s ranking is the Mekong Delta province of Dong Thap, which surpassed its own record on the aggregate PCI score, scoring 70.19 points and continuing its eleven-year run in the top five. This success is the result of effective management by a provincial administration that must overcome severe geographical and infrastructure disadvantages. Le Minh Hoan, the Secretary of the Provincial Party Committee, stated that he would like to build the name of Dong Thap as a brand of love and compassion that leaves businesses and citizens with a positive impression. When spoken together, the Vietnamese words “thương” (“love”) and “hiệu” (“name”) mean brand or trademark (thương hiệu). Hoan uses this clever wordplay to convey his goal of using policy to build trust for the people and the business community in his province. To do this, he has set three priorities: 1) transparency; 2) user-centered administrative procedures; and 3) integrity and innovation in the provision of public services (Le, 2016). According to PCI responses, it appears that these goals have positively influenced the awareness, attitudes, and actions of provincial bureaucrats. Accordingly, the 2018 PCI survey found that up to 92 percent of the firms in Dong Thap rated state employees as “friendly” when dealing with work, and 90 percent said state employees handled their tasks effectively (the top rate in the country). Dong Thap is also the highest performer of the PCI 2018’s subindex on policy bias, which reflects the least crowding out of private activity stemming from policy biases toward state-owned, foreign, or well-connected firms.

In third and fourth place, respectively, are Long An (68.09 points) and Ben Tre (67.67 points). Long An made significant improvements in creating a fairer business environment with less policy bias toward state-owned, foreign, or connected firms, and facilitation of land access and tenure for the private sector. Ben Tre was rated positively on efforts to reform administrative procedures and for creating a conducive legal environment for business contraction and expansion. This year's fifth place finisher, Da Nang, was also noted for its further reduction of informal charges. However, Da Nang recorded significant declines in evaluations of its administrative procedures, and firms reported an increasing gap in the attitude and effectiveness of the municipal management and its subordinate departments and districts, causing the city to drop to fifth spot in the PCI 2018, with 67.65 points.

The lower half of the top ten include Binh Duong (66.09 points), Quang Nam (65.85 points), Vinh Long (65.53 points), Hanoi (65.39 points), and Ho Chi Minh City (65.34 points). Binh Duong returned to the top ten in 2018, taking sixth place after receiving positive ratings for its proactive leadership and transparency. Specifically, 87 percent of the 2018 PCI survey respondents in Binh Duong agreed with the statement "The Provincial People's Committee is flexible within legal frameworks to create a favorable business environment" (compared to 80 percent in 2017). Seventy-six percent of firms in the province agreed that, in 2018, "the PPC is very proactive and creative in solving new problems" (compared to 70 percent in 2017). The share of firms reporting transparency in local government contracting and bidding processes was 59 percent in 2018; the corresponding figure in 2017 was 47 percent. Eighty-one percent of firms received information requested in 2018, a marked improvement over the 62 percent agreeing with this statement in 2017.

Hanoi joins the top ten in 2018 for the first time in the history of the PCI after firms gave it high marks for minimizing entry costs, especially one-stop-shop business registration. Seventy-one percent of firms in Hanoi said state employees understood their technical responsibilities (compared to 57 percent in 2017), and 86 percent rated state employees as friendly and hard-working (compared to 53 percent in 2017). The share of firms waiting more than three months to complete procedures for business operations declined from 17 percent in 2017 to only 5 percent in 2018. In 2018, Hanoi also promoted business dialogues at the district level, creating an effective channel to discover and address business issues ("Increase Dialogues to Handle Concerns", 2019). This is clearly reflected in the 2018 PCI results: 67 percent of firms felt their business concerns were settled by the local government in a timely manner (a ten percentage point increase over 2017) and 87 percent of firms reported being satisfied with the way local authorities dealt with paperwork (a twenty-two percentage point improvement over 2017).

At the bottom end of the scale are Dak Nong, Lai Chau, Binh Phuoc, Bac Kan, and Kon Tum. Despite their low rankings, each of these provinces showed remarkable improvements over the year. Dak Nong and Binh Phuoc's total scores each rose by three points from

2017 – the biggest year-on-year increase among all provinces. Although they still have a way to go, these provinces have diligently endeavored to improve, and the research team is hopeful they will keep up the reform momentum.

Figure 1.5 uses a star chart to depict the results for the ten governance indices across all 63 provinces. Each point on the graph represents one of the ten subindices. The chart illustrates each province's strengths and weaknesses in economic governance in 2018, revealing that there is still much room for improvement and reform for both high and low performers.

Figure 1.5 Star Diagram of the PCI 2018 Subindices

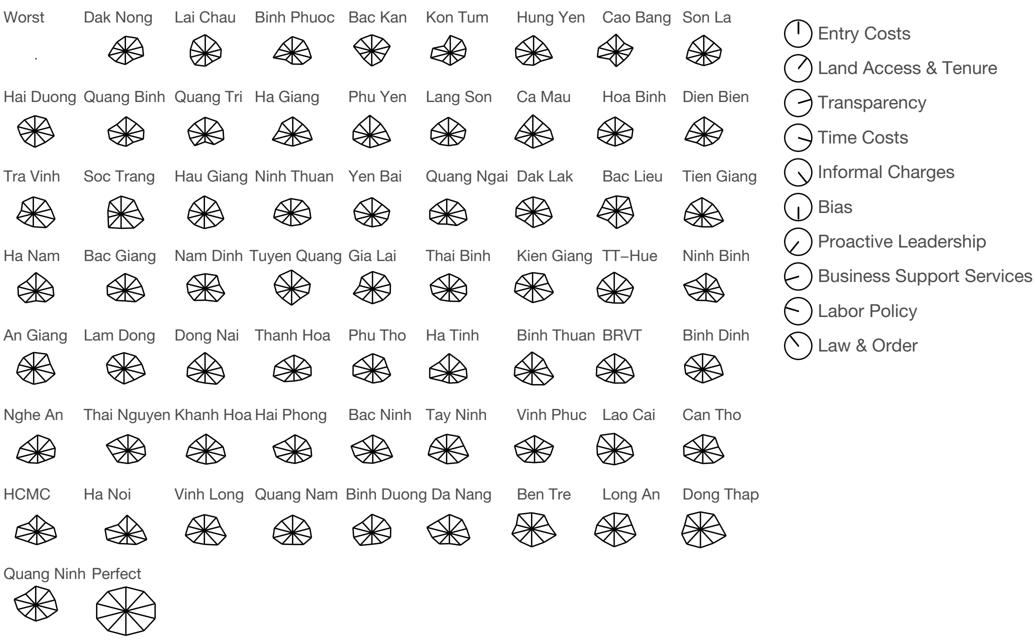


Table 1.1, below, lists the top and bottom performers in each of the ten areas of governance measured by the PCI. Two provinces in the Mekong Delta hold the leading places in five PCI subindices. Dong Thap is the leading province in four of these, including land access, time costs, policy bias, and proactive leadership. Its neighbor, Vinh Long, was the highest rated province for reductions in informal charges. Two central coast provinces, Hue and Da Nang, took the lead in the categories of entry costs, transparency, and labor policy. A southeastern representative, Ho Chi Minh City, is the leading provider of business support services, while the northern mountainous province of Lao Cai is the highest performer in offering a secure legal environment for business operations. Provinces with the lowest scores in the PCI governance areas are Cao Bang and Bac Kan in the northern mountains, Quang Binh and Quang Tri on the central coast, Kien Giang and Tra Vinh in the Mekong Delta, and Ninh Binh in the Red River Delta.

Table 1.1 Top and Bottom Performers in the PCI 2018 Subindices

Subindex	Highest		Lowest	
	Province/city	Score	Province/city	Score
Entry Costs	TT-Hue	8.50	Kien Giang	6.41
Land Access and Tenure	Dong Thap	7.79	Cao Bang	5.13
Transparency	TT-Hue	6.95	Ninh Binh	5.26
Time Costs	Dong Thap	8.90	Cao Bang	4.91
Informal Charges	Vinh Long	7.61	Quang Binh	4.54
Policy Bias	Dong Thap	7.87	Quang Tri	3.68
Proactive Leadership	Dong Thap	7.81	Cao Bang	4.20
Business Support Services	Ho Chi Minh City	7.64	Bac Kan	4.68
Labor Policy	Da Nang	7.92	Tra Vinh	4.70
Law and Order	Lao Cai	7.99	Kon Tum	4.13

The average regional scores for the ten governance areas measured by the PCI 2018 are presented in Table 1.2. These largely mirror the individual provincial findings, with the Mekong Delta being home to the top performers in five areas: land access and tenure, time costs, informal charges, policy bias, and proactive leadership. The central coast ranks highly in the two subindices of entry costs and transparency, though it lost the top aggregate spot in labor policy to the Red River Delta, despite being home to the highest performing province (Da Nang) in this category. The southeast is the top performer in business support services, and the northern mountainous region was rated highest in law and order.

Table 1.2: Ten PCI 2018 Subindices by Region

Region	Entry Costs	Land Access	Transparency	Time Costs	Informal Charges	Policy Bias	Proactive Leadership	Business Support Services	Labor Policy	Law and Order
Red River Delta	7.33	6.38	5.98	6.74	5.93	5.43	5.89	6.40	7.18	6.05
Northern Highland	7.49	6.14	6.28	6.07	5.50	5.75	5.43	6.27	6.33	6.50
Central Coast	7.61	6.64	6.42	6.76	5.62	5.05	5.57	6.54	6.60	6.21
Central Highland	7.02	6.87	6.23	6.59	5.64	6.31	5.52	6.48	5.77	5.72
Southeast	7.43	6.56	6.27	7.17	6.34	5.58	5.48	6.71	6.21	5.88
Mekong Delta	7.23	7.11	6.16	7.65	6.89	6.62	6.13	6.51	5.74	6.47

1.3 KEY FEATURES IN PROVINCIAL ECONOMIC GOVERNANCE OVER TIME

Figure 1.6 uses box plots for the PCI and Core Index scores to describe changes in economic governance over time. The PCI is the annual index, which has changed over time to reflect targeted reforms in the Vietnamese economy. In the annual PCI, subindices have been altered, indicators were added and dropped, and calculations and weighting were revised. The Core Index, however, uses a limited set of 45 indicators that have been employed since 2006, enabling analysis of trends.[12] The horizontal lines in the middle of each box present median scores (equal to the score of the province ranked thirty-second) of a specific year. The lower and upper edges of each box provide the scores at the 25th percentile (the 16th ranked province) and the 75th percentile (the 48th ranked province), respectively. The ends of the range bar provide the lowest and highest values that are not outliers by standard statistical definitions. Dots outside the range bars are the outliers – provinces that scored extraordinarily low or high in a given year. Dark purple boxes indicate the weighted aggregate PCI, which is adjusted every four years. Light purple boxes present core PCI scores.

1.3.1. Improved Economic Governance

Figure 1.6 shows the overall improvement in Vietnam's economic governance. This is the second consecutive year in which the median PCI score exceeded 60 points (63.23 points for the overall PCI score and 61.76 points for Core Index). Remarkably, this is the second year in a row this threshold has been exceeded and the third consecutive year the Core Index has risen. Moreover, the overall PCI and Core Index improved from 2017, rising to the highest levels recorded in the PCI to date. This partially reflects the outcome of the Government of Vietnam's steadfast management efforts, embodied in Resolution 19, which focused on improving the business environment and national competitiveness.[13]

Figure 1.6 demonstrates the convergence of PCI scores over time, illustrating a narrowing gap between the best and worst performing provinces. In 2018, the lowest ranked province scored 58.16 points, a strong improvement over the score of 55.12 points in 2017, while the top-ranked province only achieved 70.36 points, dropping slightly from a score of 70.69 in 2017.

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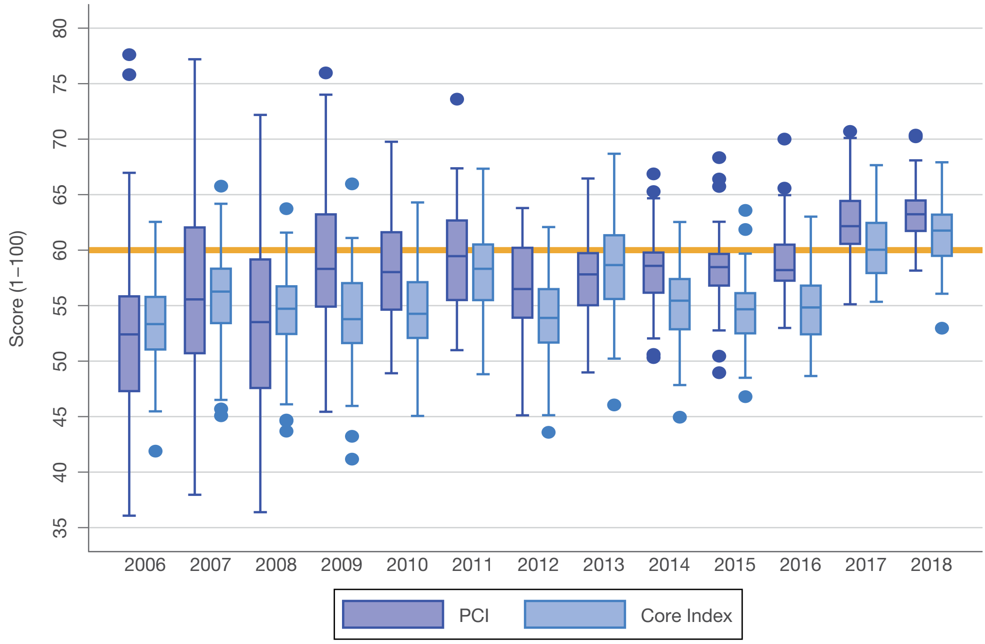
12 For more detail on both indices, see the methodology section of last year's report (p. 54-65).

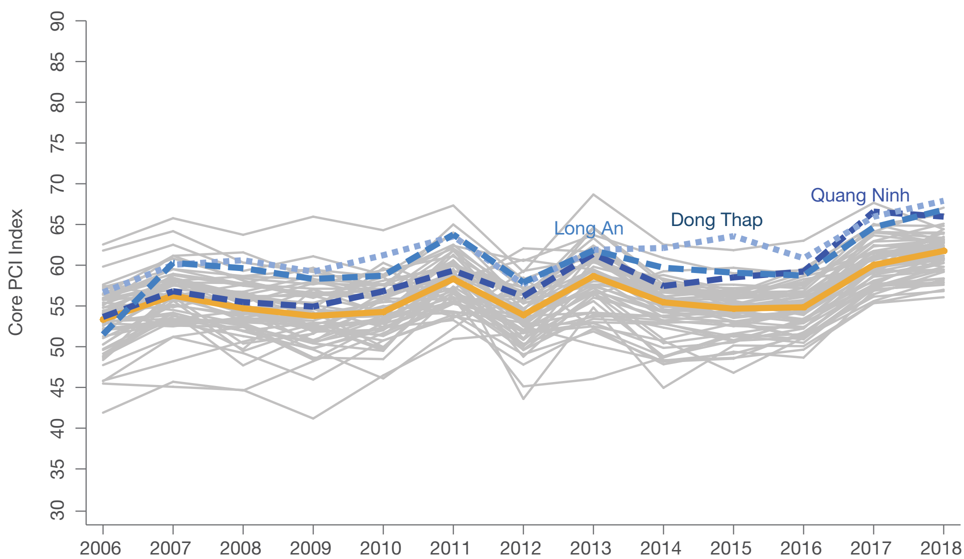
13 Government Resolution 19/NQ-CP dated 15/5/2018 ongoing implementation of major duties and measures to improve business environment and enhance national competitiveness in 2018 and subsequent years; Online Newspaper of the Government of Vietnam, "Business environment improving," November 2, 2019. < http://baochinhphu.vn/Kinh-te/Moi-truong-kinh-doanh-co-nhieu-cai-thien/351069.vgp>

Figure 1.6: Box Plots of the PCI and Core Index over Time



Similarly, Figure 1.7 illustrates trends in the Core PCI Index over time, revealing a significantly narrowed divergence of the scores of Vietnam's 63 provinces since 2006. This can be seen in the uppermost and the lowermost trajectories getting closer, demonstrating that the provinces in the bottom-ranked group are gaining on the top performers.

Figure 1.7: Trends of Change in the Core PCI Index over Time

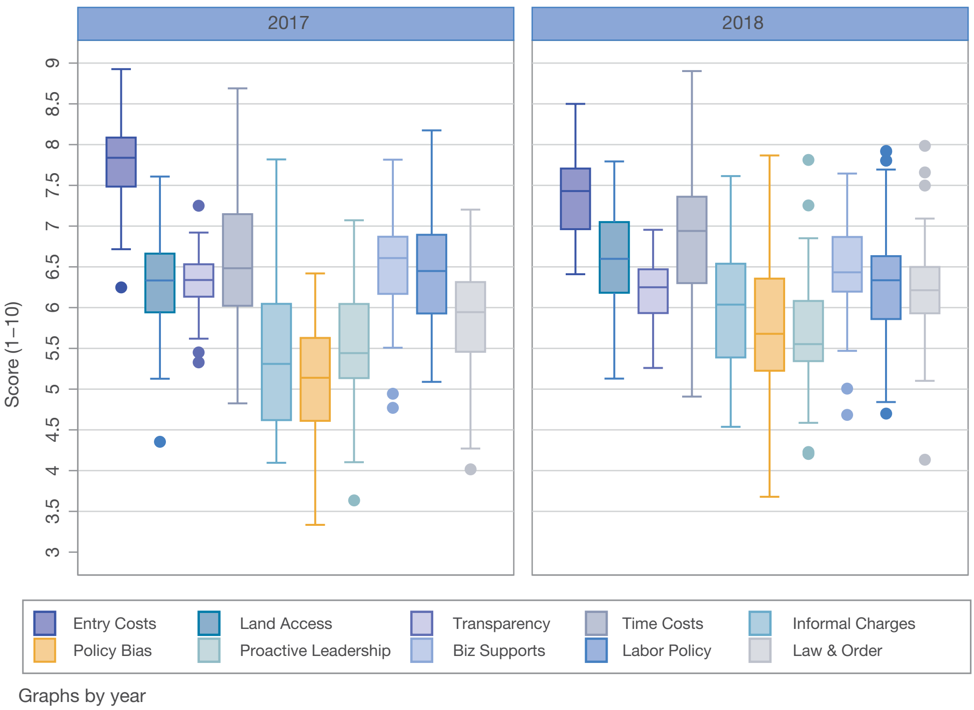


Gray lines depict trajectories of all 63 provinces.
The solid orange line represents the median score in each year.

While the improving scores of low-ranked provinces is reason for celebration, stagnation and decline at the top of the index is worrying. The phenomenon of PCI score convergence reflects a point first raised in the PCI 2014 report. The bottom-ranked provinces are gaining "successor" advantages, drawing on good practices of the top-ranked provinces to improve their business environments. Meanwhile, the leading provinces, having already put initiatives into practice in easy-to-reform areas such as business registration, seem to have hit a "regulatory ceiling" and have difficulty implementing reform-accelerating initiatives (Vu Tien Loc, 2018). We will delve into this aspect below when we discuss the specific performance of provinces on "post-registration" policies.

The PCI research team is able to draw on the 128 indicators shared between 2017 and 2018 to rigorously demonstrate changes in ten major subindices over the two years (Figure 1.8). Areas with robust improvement include informal charges (increasing by 0.73 points, representing the success of the anti-corruption campaign), policy bias (a 0.54 point increase), and administrative reforms (up 0.46). Other improving areas are land access and law and order (each up 0.27), and proactive leadership (which saw an increase of 0.11). However, declines were observed in the remaining areas of transparency (down 0.09), labor policy (down 0.11), business support services (a decrease of 0.17), and entry costs (which declined by 0.41).

Figure 1.8: Changes in Scores of the PCI 2018 and 2017 Subindices



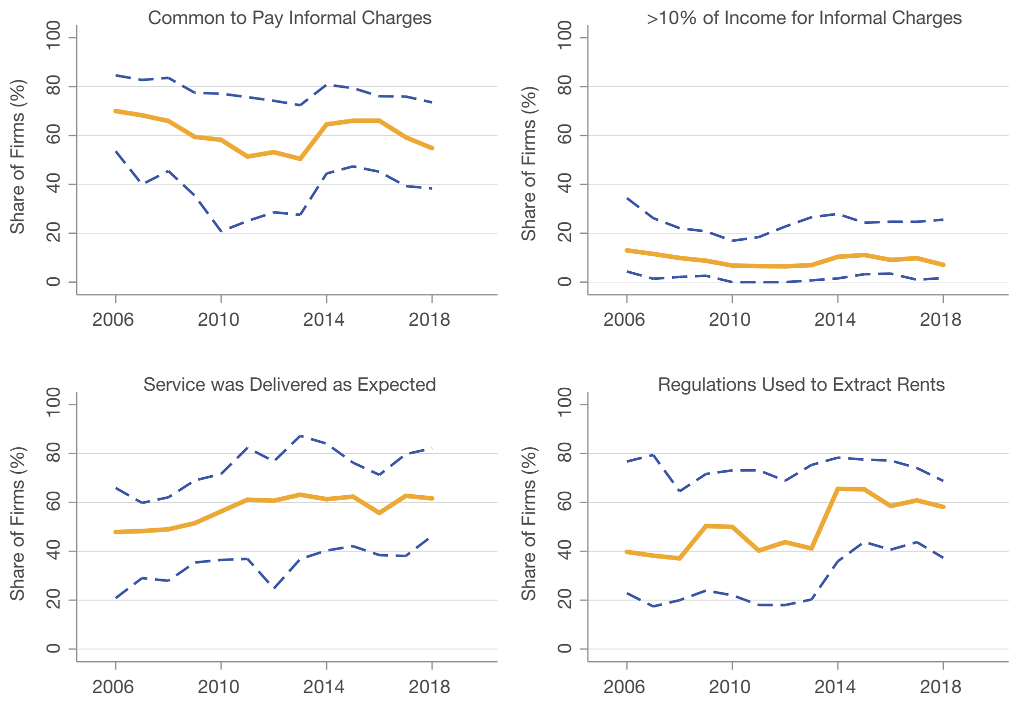
1.3.2. Highlights of the PCI 2018

Reduced informal charges

The 2018 findings reflect the positive perceptions of the private sector regarding the new administration’s efforts to fight corruption and informal charges (Figure 1.9). Each of the nine indicators of informal charges saw improvements over the preceding year, the first time this has happened since the 2006 inception of the PCI survey.

First, “petty corruption,” small facilitation fees that firms pay to receive licenses or other documentation, abated in 2018. Only 54.8 percent of firms claimed they paid informal charges in 2018 to expedite procedures, the lowest level in the last five years. The amounts of these payments have also diminished, with only 7.1 percent of respondents stating that it cost more than 10 percent of turnover to pay informal charges. With regard to settling procedures, 58.2 percent of firms affirmed the existence of corruption.

Figure 1.9: A Sample of Indicators of Informal Charges over Time



Orange lines represent the median provincial score, while the dashed blue lines depict the minimum and maximum scores, respectively.

This year's findings also illustrate signs of declining "grand corruption." Only 30.8 percent of business operations claimed to have paid informal charges to expedite land procedures, a decrease from the 32 percent that reported doing so in 2017. Most impressively, only 39.3 percent of firms paid informal charges to inspectors and examiners compared with 51.9 percent in 2017. This year, 48.4 percent of respondents agreed with the statement "paying a 'commission' is necessary to win procurement contracts;" this figure was 54.9 percent in 2017. Finally, only 28.8 percent of firms claimed that "it is common to pay bribes to influence court decisions in legal proceedings, declining from 31.6 percent in 2017.

These changes in business perceptions may have resulted from strong and determined government and Party actions implemented in 2016 to fight corruption. A series of important corruption cases were discovered and adjudicated in 2018, reinforcing the government's unified emphasis on eliminating corruption. The attitude of the leadership, expressed in slogans such as "words match actions," and "no exemptions, no exceptions" ("A year of breakthroughs in combatting corruption", 2018) in handling corruption cases, is progressively making an impact that businesses favorably perceive when engaging in administrative procedures.

Nevertheless, the informal charges indicators remain quite high, implying that more sustained effort is needed. The business community continues to pin its hopes on these efforts, especially after the Government's Business Cost-Cutting Action Plan was issued (Resolution 139/2018). This policy emphasizes enhanced regulatory quality, reform of administrative procedures, promotes transparency, and sets a goal to cut the number of firms stating their counterparts pay informal charges by half, as mentioned in PCI surveys, by 2020.[14] The 2017 share of firms that agreed with the statement "enterprises in my line of business usually have to pay for informal charges" was 59.3 percent, which means that the government's goal is to get the figure below 30 percent by 2020.

Of course, corruption is a two-way street, and the fight certainly needs the cooperation of businesses. Firms need to improve the sophistication of their management, strengthen their legal understanding and compliance, and operate with integrity.

Less biased business environment

As part of the adjustments made in 2013, the PCI introduced a policy bias subindex to measure provincial authorities' efforts to create an unbiased playing field for the private sector. This subindex touches on three dimensions: 1) favoritism towards state-owned enterprises (SOEs); 2) favoritism towards foreign-invested enterprises (FIEs); and 3)

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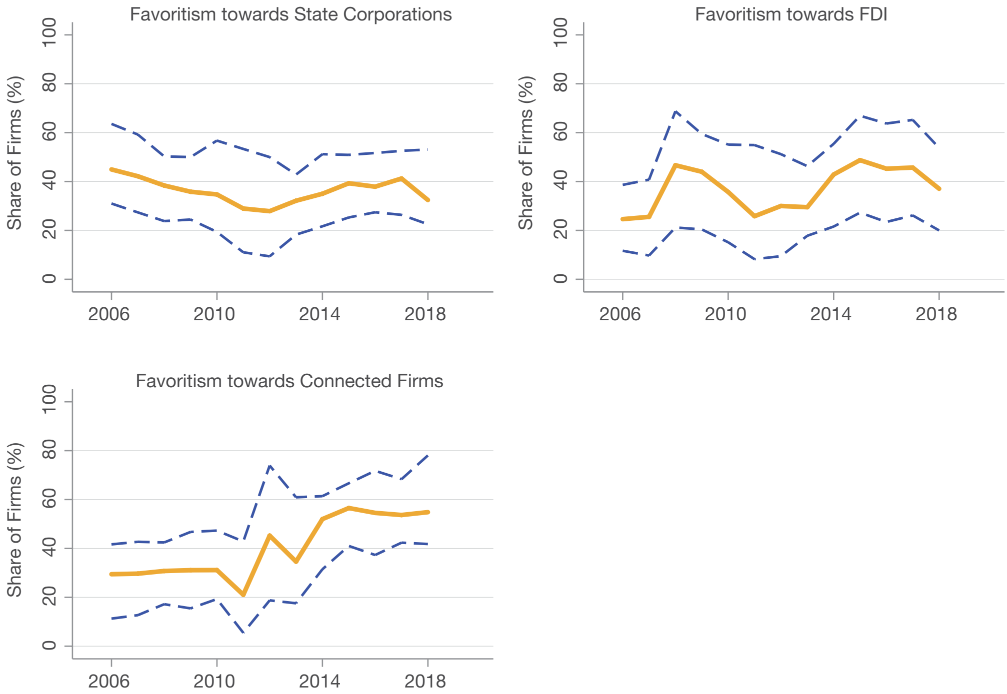
14 Section II. Objectives of the Government's Business Cost-cutting Action Plan. Government Resolution 139/NQ-CP dated 9/11/2018 promulgating Business Cost-cutting Action Plan <http://chinhphu.vn/portal/page/portal/chinhphu/hethongvanban?class_id=2&mode=detail&document_id=195260&category_id=0>

favoritism towards connected firms. The index consists of indicators that gauge the types of bias affecting the playing field for domestic private firms.

What is clear in the PCI 2018 findings is that there is less favoritism in this period towards SOEs and foreign investors on the part of local officials (Figure 1.10). Specifically, the percentage of firms agreeing with the statement “the favoritism of provincial authorities towards state corporations causes difficulties to my firm’s business operation” declined from 41.2 percent in 2017 to 32.4 percent in 2018. Only 37 percent of surveyed businesses stated, “the provincial authorities seem to prioritize FDI attraction to domestic private sector development,” a significantly lower share than the 45.7 percent recorded in 2017. In addition, there were declines in all the specific dimensions of favoritism, such as land and credit access, favoritism in contracting, and access to information.

Figure 1.10: A Sample of Indicators in the Policy Bias Subindex over Time



Orange lines represent the median provincial score, while the dashed blue lines depict the minimum and maximum scores, respectively.

There is still a need for further efforts to create a fair playing field for the domestic private sector, especially concerning the relationships between local officials and large corporations and connected firms. As many as 54.8 percent of firms still claimed, “favoritism towards big companies (both SOEs and private) is an obstacle to the operation of my business,” representing only a marginal drop from the high of 56.5 percent recorded in 2015. Up to

POSITIVE TRENDS

Declining Corruption

66%
2015

55%
2018

Percentage of firms paying bribes

11%
2015

7%
2018

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

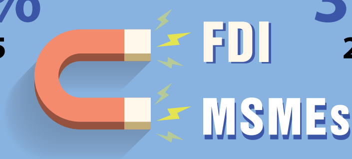
Less Biased Business Environment

39%
2015

32%
2018

The province's privileges to state-owned economic groups and corporations cause difficulties to your business

49%
2015



37%
2018

The province gives greater priority to FDI attraction than private sector development

Continued Progress on Administrative Reforms

75%
2018

67%
2015

Local government officials are effective

68%
2018

59%
2015

Local government officials are friendly

67%
2015

69%
2018

Time to complete administrative procedures is shorter than specified in regulations

26%
2015

11%
2018

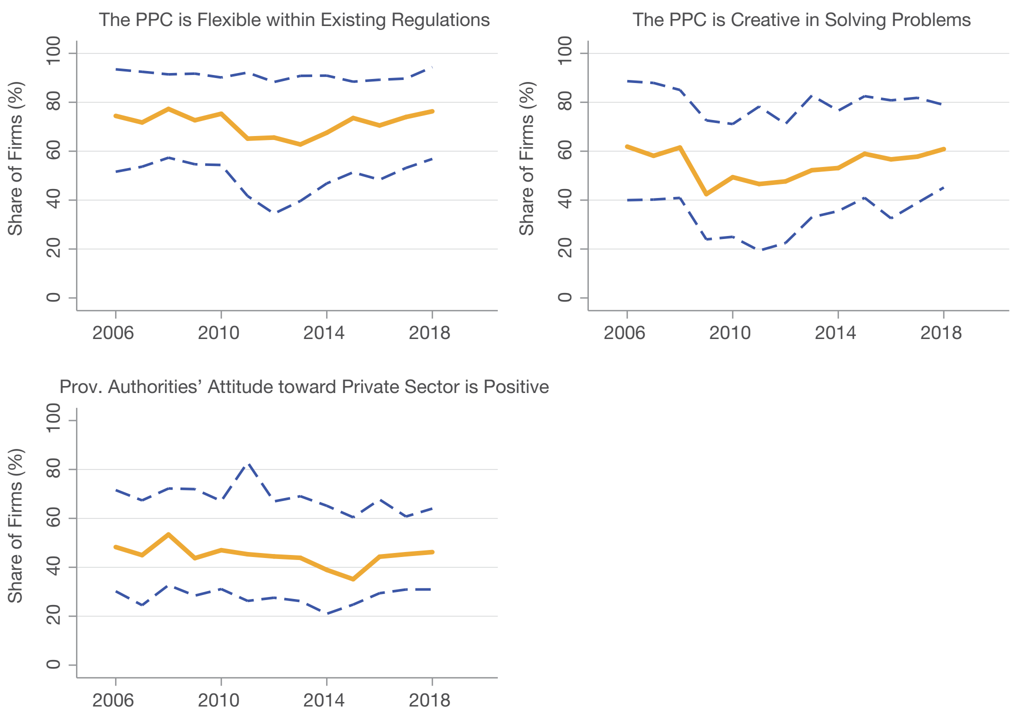
Share of firms receiving overlapping regulatory inspections

70.2 percent of firms concurred that "government procurement contracts, land and other business resources mostly fall into the hands of enterprises that have strong connections with the provincial authorities." Although this is the lowest rate since 2013, 70 percent is still an extraordinarily high and dangerous number.

Provincial authorities are more proactive and creative

Consistent with the positive perceptions on the policy bias subindex, the business community also recognized the dynamism and creativity of provincial authorities in applying their own initiatives to develop the private sector. As depicted in Figure 1.11, 46.2 percent of respondents rated provincial authorities' attitude towards the private sector as "positive." This figure has improved annually since its low of 35.1 percent in 2015. Additionally, 76.3 percent of firms agreed with the statement "my provincial People's Committee is very flexible, within the scope of laws, to create a favorable business environment," the highest level in the last five years. Finally, 60.9 percent of firms stated, "My provincial People's Committee is creative and clever in solving newly arising problems," the highest approval rating since 2009.

Figure 1.11: A Sample of Indicators on Proactive Leadership over Time



Orange lines represent the median provincial score, while the dashed blue lines depict the minimum and maximum scores, respectively.

Other indicators measuring how authorities handled concerns and difficulties for business operations also reflected firms' positive perceptions. For 2018, 68.5 percent of firms stated that their obstacles were addressed through dialogue and business meetings with provincial authorities (versus 67 percent in the prior year). 77.4 percent of firms were satisfied with the way provincial regulators dealt with their concerns (up slightly from 76.7 percent in 2017).

Administrative reforms continue to progress

The national government directive in 2018 was targeted to enhance the effectiveness and efficiency of the government apparatus at all levels. Vietnamese Government Resolution 01/NQ-CP, dated January 1, 2018, set "strongly promoting administrative reform" and "tightening administrative discipline and order" as key tasks for all agencies. In tandem, additional legislation required provincial People's Committees to "implement Resolution 19-2018/NQ-CP in combination with improving the Provincial Competitiveness Index," "coordinate business inspections and examinations, minimize inspection/examination visits to businesses, including technical inspections/examinations," and "conduct reviews of the creativeness and management results of provincial departments and district Peoples' Committees according to scores on the Department and District Competitiveness Indices (DDCIs)."[15] DDCIs are modeled on the national PCI and have been piloted in about 20 provinces, including Lao Cai, Vinh Phuc, Tuyen Quang, Quang Ninh, Bac Ninh, Kien Giang, and Quang Ngai.

Given this central government emphasis, it is not surprising that most of the indicators under the time costs subindex showed improvement since the beginning of the new administration. As shown in Table 1.3, in 2018, 30.7 percent of firms reported spending more than 10 percent of their time understanding and complying with laws and regulations (down from 35.5 percent in 2015). When rating government efficiency, 74.7 percent of respondents found "state employees handled work effectively" (compared to 67.4 percent in 2015) and 74.1 percent of respondents rated "paperwork and procedures" as simple (versus 51.2 percent in 2015). A new indicator that was introduced in 2017, asking firms whether "administrative procedures were often completed by officials before deadlines," also improved to 68.9 percent of firms in 2018 from 67 percent the prior year.

There have been signs of improvement in other indicators of inspections and examinations. In 2017, 7.2 percent of businesses underwent at least five visits; this number dropped to 6.42 percent in 2018. What is noteworthy is that there were significant decreases in the duplication and overlap of inspections. By 2018, only 10.8 percent of respondents

15 *Government Resolution 19-2018/NQ-CP dated 15/5/2018 on "Continued implementation of key tasks and solutions to improve business environment and national competitiveness in 2018 and following years."*

reported replication, a continuation of this indicator's annual decline and a tremendous improvement over the national high of 25.8 percent recorded in 2015 when this question was introduced in the PCI questionnaires. The number of hours firms spent in 2018 on tax inspections and examinations also declined compared to 2017. This shows the ongoing, positive impact of Directive 20/CT-TTg, dated May 17, 2017, on rectifying inspections and examinations of businesses, which the Prime Minister signed at a personal meeting with business leaders.

Table 1.3: A Sample of Indicators about Time Costs over Time

Indicator	Source (2018 Survey)	Measure	2014	2015	2016	2017	2018
1. Percentage of firms spending ***over*** 10 percent of their time on understanding and complying with regulations	PCI Survey Question: D1-1	Min	18.56	21.95	24.71	21.78	16.12
		Median	35.62	35.51	35.71	31.53	30.69
		Max	51.09	49.41	51.52	46.30	46.42
		Correlation w/ Previous Year	0.24	0.27*	0.31*	-0.08	0.13
2. Median tax inspection hours	PCI Survey Question: D2-7	Min	2	1	1	2	2
		Median	8	4.5	8	9	8
		Max	40	32	40	40	40
		Correlation w/ Previous Year	0.70*	0.75*	0.61*	0.53*	0.64*
3. Local government officials are effective (% Strongly agree or Agree)	PCI Survey Question: D1-3.1	Min	50.00	47.04	40.91	58.00	63.33
		Median	64.58	67.38	58.02	72.09	74.74
		Max	88.73	87.36	82.65	86.90	89.89
		Correlation w/ Previous Year	0.64*	0.71*	0.63*	0.64*	0.63*
4. Local government officials are friendly (% Strongly agree or Agree)	PCI Survey Question: D1-3.2	Min	34.78	35.53	47.47	50.96	55.02
		Median	58.24	59.43	65.56	67.26	67.50
		Max	82.56	83.72	88.66	87.06	91.92
		Correlation w/ Previous Year	0.48*	0.71*	0.68*	0.71*	0.68*
5. Firms don't have to make many trips to obtain stamps and signatures (% Strongly agree or Agree)	PCI Survey Question: D1-3.3	Min	38.20	42.06	46.39	40.38	47.24
		Median	60.96	61.15	63.28	54.55	57.48
		Max	78.13	80.00	85.41	74.12	72.72
		Correlation w/ Previous Year	0.68*	0.74*	0.67*	0.53*	0.50*

Indicator	Source (2018 Survey)	Measure	2014	2015	2016	2017	2018
6. Paperwork is simple (% Strongly agree or Agree)	PCI Survey Question: D1-3.4	Min	30.30	34.43	31.53	40.40	40.51
		Median	46.02	51.24	49.52	52.25	56.89
		Max	68.18	71.74	74.22	76.47	74.05
		Correlation w/ Previous Year	0.50*	0.67*	0.56*	0.59*	0.56*
7. Fees are listed publicly (% Strongly agree or Agree)	PCI Survey Question: D1-3.5	Min	79.35	80.72	78.72	79.81	81.36
		Median	89.19	89.32	91.11	91.76	93.20
		Max	97.17	95.87	97.96	97.25	99.07
		Correlation w/ Previous Year	0.48*	0.19	0.35*	0.39*	0.32*
8. Percentage of 5+ visits per years - new variable in 2017	PCI Survey Question: D2-4	Min				2.00	0.88
		Median				7.22	6.42
		Max				15.56	13.21
		Correlation w/ Previous Year				N.A	0.62*
9. Overlapping and duplicative inspections (%) - new variable in 2017	PCI Survey Question: D2-4.1	Min		11.63	6.25	6.93	1.29
		Median		25.87	14.12	13.46	10.76
		Max		36.36	25.29	25.33	19.69
		Correlation w/ Previous Year		N.A	0.37*	0.41*	0.23
10. Time to do administrative procedures is shorter than regulations specified (%) - new variable in 2017	PCI Survey Question: D1-3.7	Min				55.00	53.57
		Median				67.01	68.85
		Max				82.72	80.27
		Correlation w/ Previous Year				N.A	0.32*
11. Using inspection to extract rents (%) - new variable in 2017	PCI Survey Question: D2-5.1	Min				5.08	5.33
		Median				18.92	17.65
		Max				34.09	30.00
		Correlation w/ Previous Year				N.A	0.66*

Remarks: * = Statistically Significant; N.A: Not Applicable

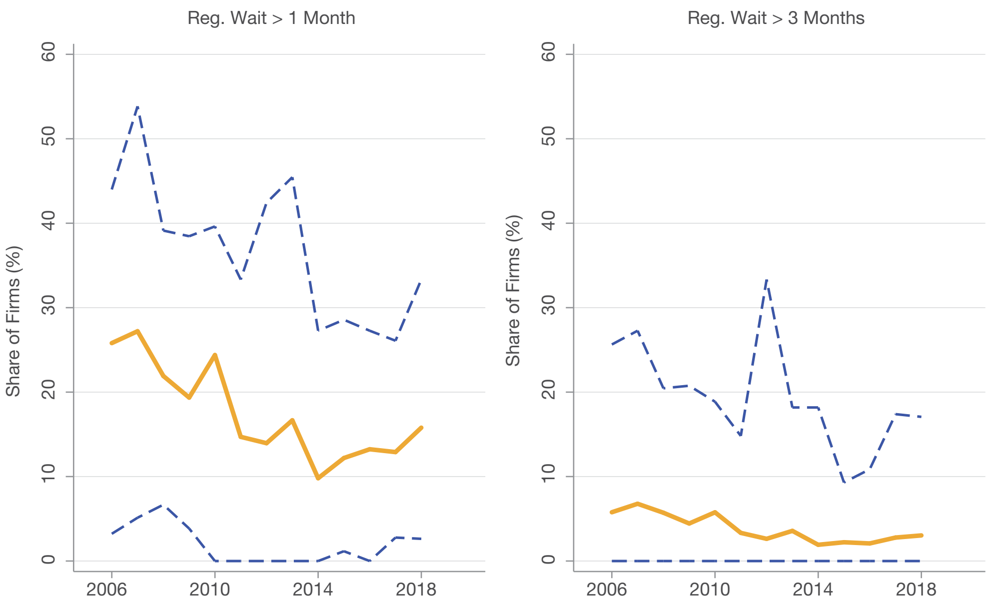
1.3.3. Areas that Need Further Reform

“Post-registration” procedures still burdensome

To explore the burden of “post-registration” procedures, the PCI surveys have over many years asked the question “how long did it take you to get all required registration certificates, licenses, and stamps to become a fully legal business in your province?”[16] The share of firms having to wait for a) more than one month; and b) at least three months is calculated in individual provinces and considered an indicator for measuring the “post-registration” burden in the subindex of entry costs. Results are shown in Figure 1.12.

The PCI 2018 found that many firms still feel that the burden is substantial with 15.8 percent having to wait over one month to complete all the required paperwork (aside from the business license) to become fully legal. It should be noted that this number, after a drastic decline from 27.2 percent in 2007 to 9.8 percent in 2014, has tended to climb over the last five years. Another indicator, the share of firms waiting more than three months to legally operate, was at three percent in 2018. This figure is also on the rise in recent years after a remarkable decline to 1.92 percent in 2014.

Figure 1.12: A Sample of Entry Costs Indicators over Time

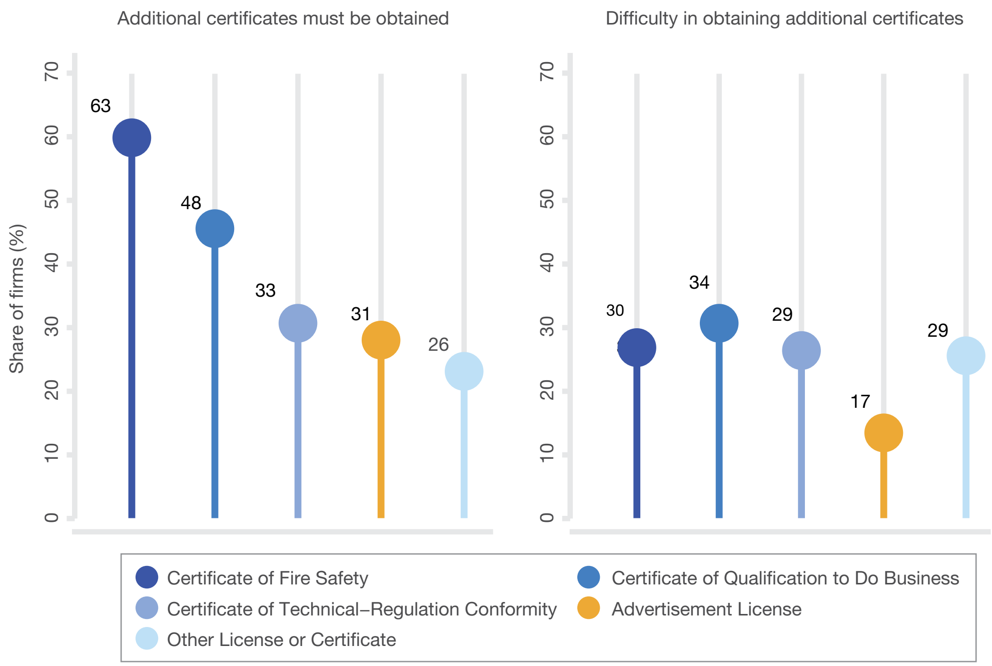


Orange lines represent the median provincial score, while the dashed blue lines depict the minimum and maximum scores, respectively.

16 *2018 PCI Survey Question C5: Respondents were given multiple choice answers: 1) Within one day; 2) Within one week; 3) From one week to less than a month; 4) 1-3 months; 5) 3-6 months; 6) More than 6 months.*

The PCI 2018 survey examined the areas that were creating the largest burdens, and found that businesses needed the following certificates: fire safety (63 percent); qualification to do business (48 percent); technical-regulation conformity (33 percent); advertising license (31 percent); and other permits (26 percent). The share of firms that claimed difficulty completing administrative procedures to obtain these licenses is alarming. As depicted in Figure 1.13, 34 percent of firms met with obstacles when obtaining certificates of qualification to do business while 30 percent experienced delays obtaining certificates of fire safety. A further 29 percent reported challenges with receiving certificates of technical-regulation conformity or with other types of certificates, and 17 percent had difficulty with advertising licenses.

Figure 1.13: Level of Difficulty Completing Administrative Procedures to Obtain Documents Required to Operate Legally



Question C4. PCI 2018 Questionnaire: Apart from business licenses, did your firm need any of the following documents to legally operate and please rate your experience completing the procedure to obtain the document(s).

Reforms of administrative procedures need more focus

Over the years, PCI surveys have asked firms to list the most burdensome administrative procedures that take place after registration and recur as the business grows and expands. Understanding which of these critical procedures still require attention may be useful information for public administration reform.

Figure 1.14 shows which administrative procedures the firms consider as being the most burdensome. Procedures related to land (30 percent), tax (28 percent), social insurance (25 percent), market management (16 percent), transportation (15 percent), and construction (14 percent) remain the costliest for domestic firms in Vietnam.

Figure 1.14: Troublesome Administrative Procedures

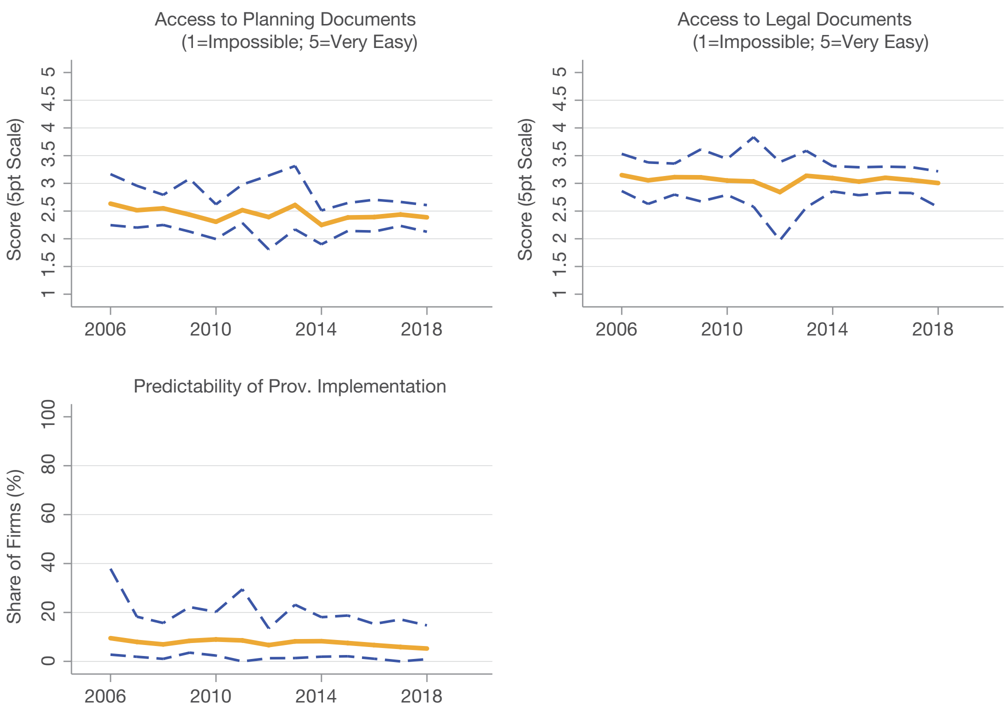
Question D2. PCI 2018 Questionnaire: From your experience, please indicate the most troublesome administrative procedure (multiple choice).

Transparency has yet to be improved

The Law on Access to information, which was ratified by the Vietnamese National Assembly on June 4, 2016, and came into effect on July 1, 2018, was expected to ensure people's right to access information ("Information Access Law: Will information 'stifle' end?", VOV.VN, 2018). Article 17 of this law lists 14 types of information subject to mandatory disclosure, including various types of information covered by the PCI survey, such as legal documents, social and economic development strategies, projects, master plans, plans at national and local levels, technical sector plans, local budget documents, statistical information in management areas/fields, and national technical databases. Although the law has been in effect for part of the year, the 2018 PCI demonstrates that much still needs to be done.

It is clear in the 2018 findings that businesses' access to information is an ongoing issue (Figure 1.15). On a scale of 1-5 (ranging from Impossible (1) to Very Easy (5)), access to planning documents was rated 2.38 points in 2018, approximating the scores achieved in 2015 and 2016, and was significantly lower than the high of 2.63 recorded in 2006. Accessibility of legal documents scored better, yet also shows only marginal improvement since the early years of the PCI. 69.4 percent of respondents stated they needed "relations" to access provincial documents (compared to 70 percent in 2017). The lack of openness prevents businesses from anticipating how local governments will implement national laws and regulations, and leaves them vulnerable to shocks. Limited information constrains business expansion and investment plans.

Figure 1.15: A Sample of Transparency Indicators over the Years



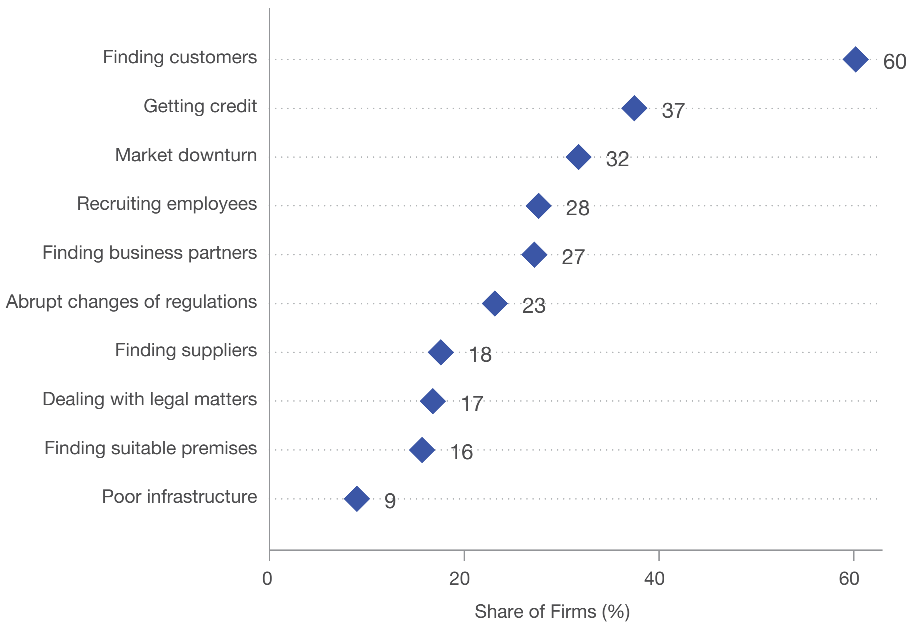
Orange lines represent the median provincial score, while the dashed blue lines depict the minimum and maximum scores, respectively.

1.4 WHAT CHALLENGES ARE BUSINESS OPERATIONS FACING?

Each year, the PCI team dedicates a module of the survey to find out about operational difficulties faced by businesses, in addition to the governance questions that are the focus of our research. These findings have been presented at the PCI diagnostic workshops in many provinces over the years. This year, we include the information in the PCI 2018 report to helping policy-makers better define the problems and diagnose solutions to support business operations. In this section, we identify problems faced by firms in general, followed by the particular obstacles affecting the subset of firms that are operating at a loss or planning to close their business, which were highlighted in Section 1.1.

First, as depicted in Figure 1.16, issues that all firms are facing include difficulties finding customers (60 percent), getting credit/finance (37 percent), and facing market downturns (32 percent). These major challenges are followed by difficulty recruiting workers (28 percent), finding business partners (27 percent), and regulatory changes (23 percent). Other, relatively minor, challenges include finding suppliers (18 percent), dealing with legal matters (17 percent), finding suitable business premises (16 percent), and working with poor infrastructure (9 percent).

Figure 1.16: Major Challenges Faced by Firms



Question E1, PCI 2018 questionnaire: Do you face any of the following difficulties when running your business?

WORRISOME TRENDS

Regulatory Procedures Still Cumbersome

10%
2014

16%
2018

Percentage of firms waiting more than one month to complete all steps necessary to start operations

39%
2013

53%
2018

Percentage of firms acknowledging "Negotiations with tax authority are an essential part of doing business"

29%
2018

Percentage of firms encountering difficulties when obtaining certificates of technical-regulation conformity

34%
2018

Percentage of firms encountering difficulties when obtaining certificates of qualification for doing business in conditional lines

Transparency Has Not Improved

2.38
2015

2.38
2018

Access to planning documents
(1= Impossible to access ; 5= Easy to access)

69%
of firms said

"Relationship is important or very important to get access to provincial documents"

Land Access Declining Slightly

29%
2017

31%
2018

Percentage of firms reporting access to land information was inadequate

15%
2017

19%
2018

Percentage of firms claiming land not available

Figures 1.17 and 1.18 depict the challenges faced by all businesses and disaggregate them by a firm's size and age. Micro- and small-sized firms found it more difficult to find customers, get credit or find suitable premises than larger-sized companies. Young firms, those no more than five years old, similarly found these areas to be among the most challenging. Meanwhile, the oldest firms that have been operating for at least 20 years said they had more difficulties coping with market downturns, adjusting to abrupt changes in regulations, finding suppliers, complying with administrative procedures, and dealing with poor infrastructure.

Figure 1.17: Major Challenges by Firm's Size

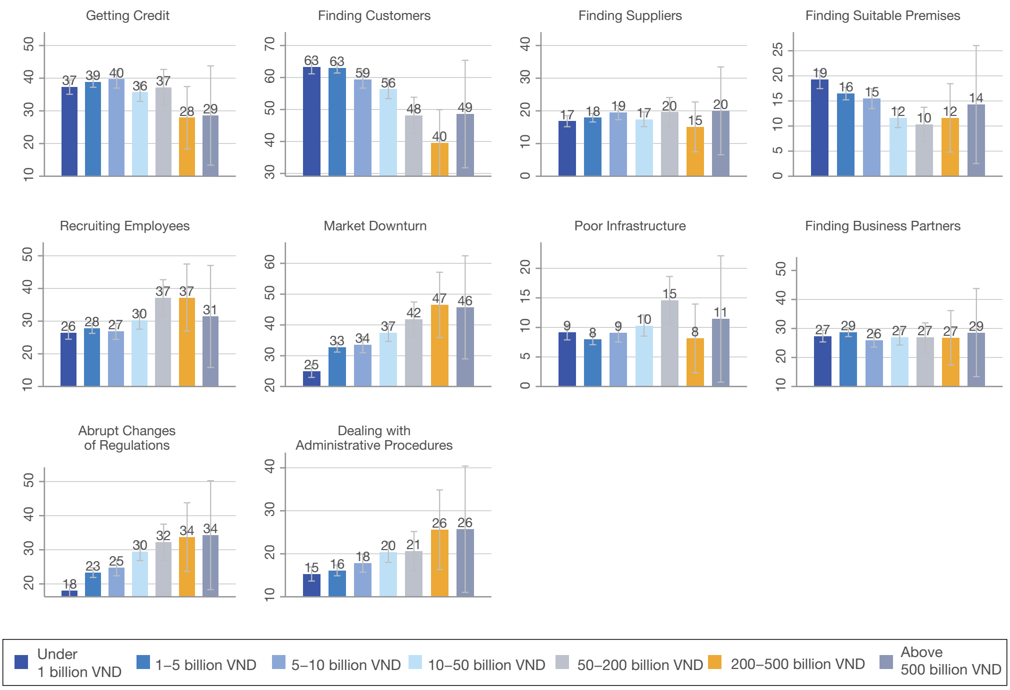
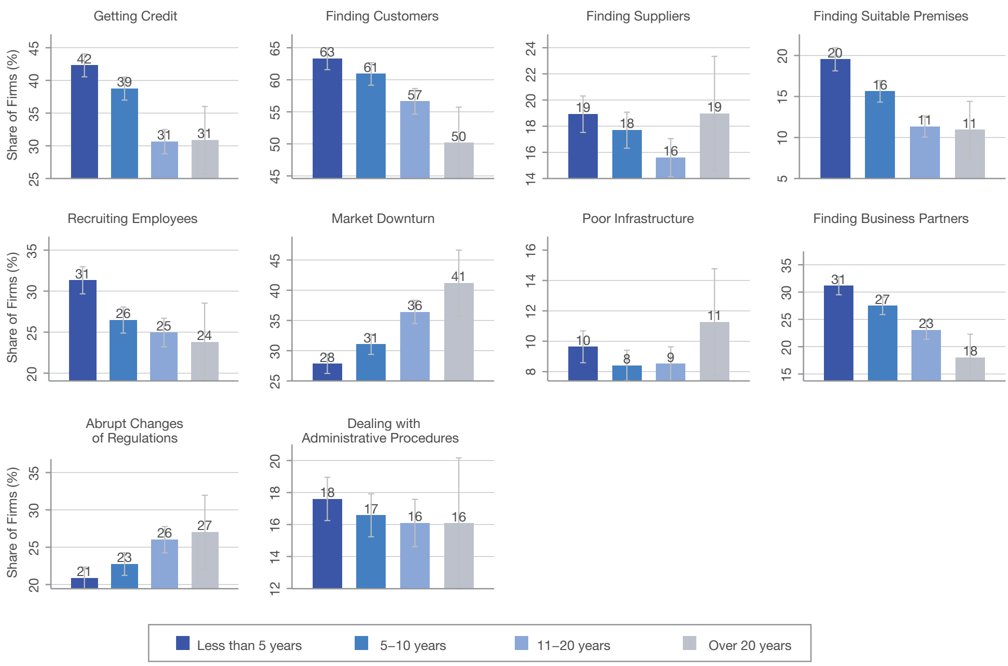


Figure 1.18: Major Challenges by Firm's Age



The annual PCI survey also includes a question about how well firms are operating; we can therefore group answers to the obstacle questions by profit-making and loss-making operations. Figure 1.19 indicates the level of challenges faced by the two groups in 2018. Unsurprisingly, firms running their business at a loss face considerably more challenges in accessing finance, finding customers, finding premises, finding suppliers, hiring employees, and finding business partners. This may, however, result from the firm's own mistakes in formulating operational strategies or making business plans. Bad management could also be a major contributor to their inability to turn a profit. As noted in our PCI 2017 report, "better managed firms are more successful." (Malesky, Phan and Pham, 2017).

Figure 1.19: Major Challenges by Firms' Performance

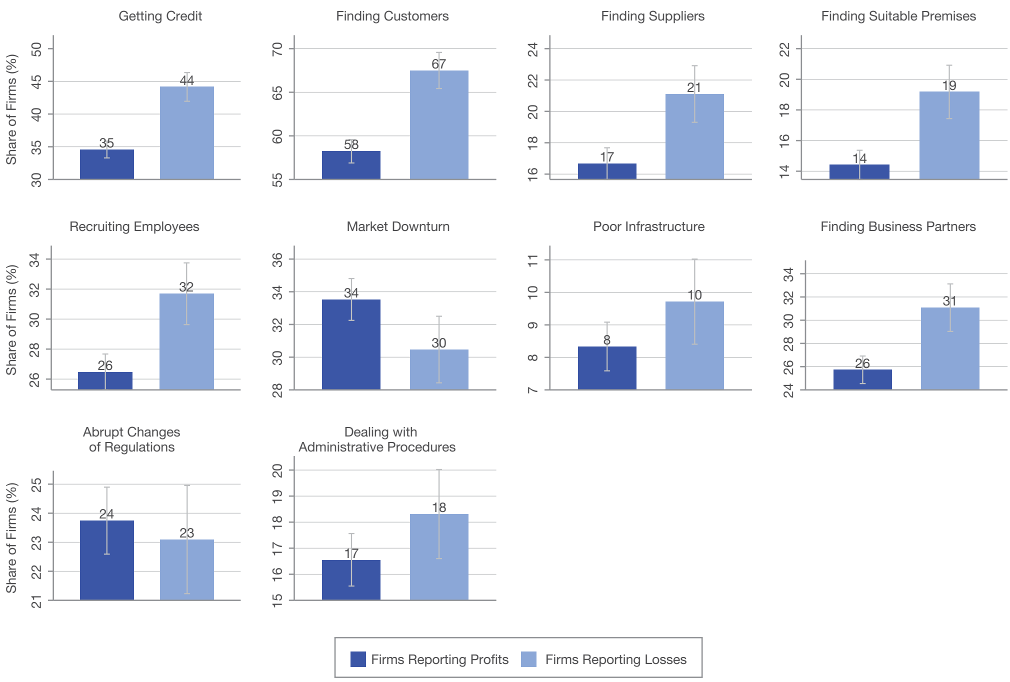
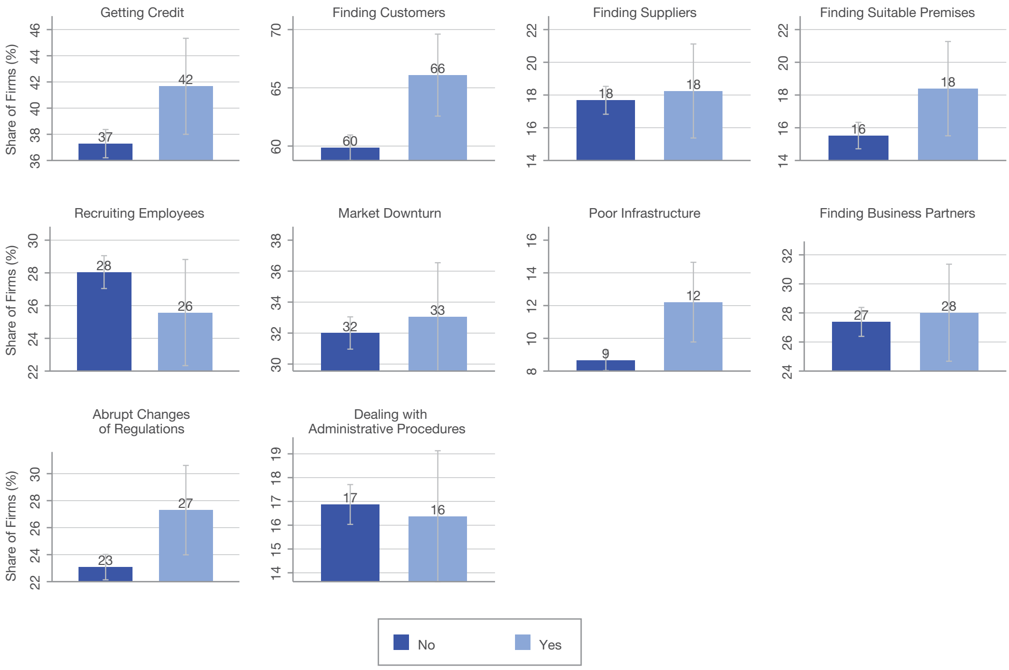


Figure 1.20 illustrates the difficulties faced by firms in respect of their choices of business plans over the next two years. Specifically, we group firms into those that plan to increase operations, those that plan to decrease the size of their operations, and those that plan to close entirely (i.e. accounting for 8.3 percent of this year's respondents as mentioned in Section 1.1). We find that those planning to close their business had a harder time coping with abrupt changes of regulations and faced a significantly higher level of infrastructure challenges than those who plan to continue operating. These issues are not entirely within a firm's ability to control, and even the best managers are limited in their ability to address them. This shows the importance of a high-quality and stable regulatory environment to all businesses.

Figure 1.20: Major Challenges Faced by Firms (Grouped by Expansion Plans)



1.5 INFRASTRUCTURE INDEX 2018

We continued construction of the Infrastructure Index in 2018 based on data collected through the PCI questionnaires and published statistics. The Infrastructure Index is not included in the PCI assessment, as infrastructure is beyond provincial authorities' jurisdiction.

This year's index retains the methodology developed in 2008, consisting of four subindices rating the quality of four fundamental infrastructure areas related to business activities: 1) industrial zones/clusters; 2) roads and transportation; 3) basic utilities; and 4) accessibility and application of IT.

Figure 1.21 illustrates the 2018 Infrastructure Index findings, which saw Binh Duong, Da Nang, Vinh Phuc, Hai Duong, and Ba Ria–Vung Tau rated as having the best infrastructure. These provinces have all frequented the top performers list over many years.

Figure 1.21: The Infrastructure Index 2018

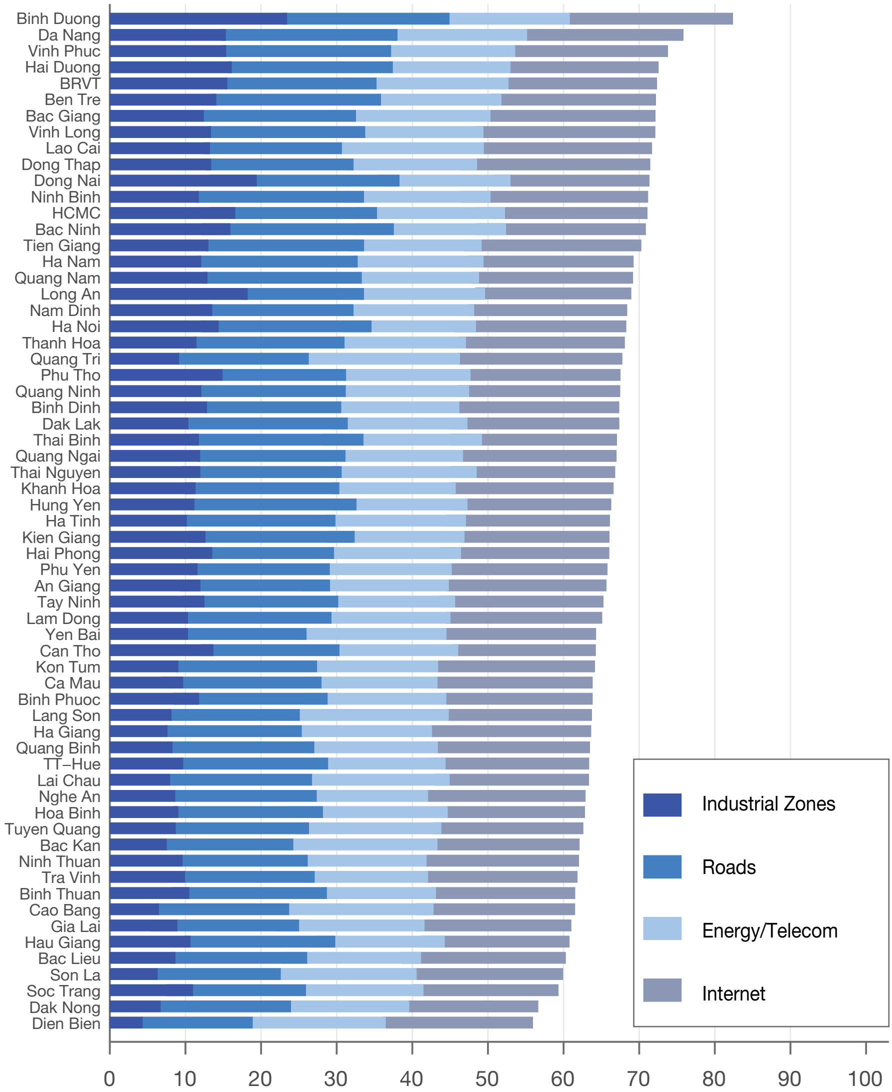
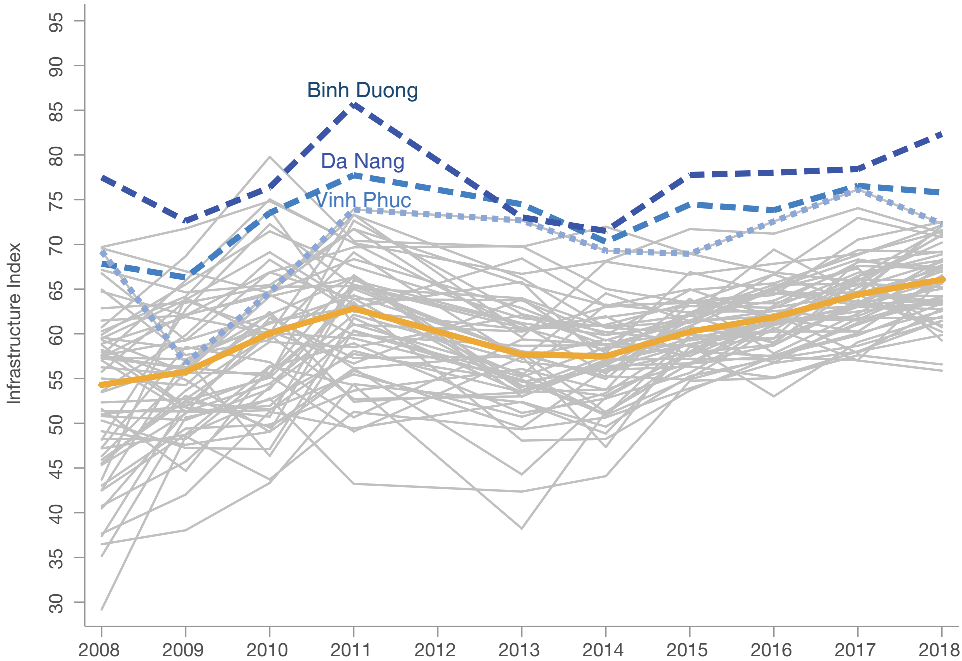


Figure 1.22 shows changes in quality of infrastructure over time. The gray dotted lines represent changes in infrastructure quality for each of the provinces and the three blue lines demonstrate the trajectory of the best three performers of the Infrastructure Index this year, Binh Duong, Da Nang, and Vinh Phuc. The orange line depicts the median province, which is the representative benchmark over time.

Infrastructure in Vietnam is generally improving, a trend which has held steady since 2014. The median score of the Infrastructure Index reached a record high of 66.06 points in 2018.

However, this year's findings show a different pattern than that of 2015-2017. Previously, the scores generally converged; the difference between the best and worst performers reached a record low of 21 points in 2017. In 2018, the gap widened to a 26.5-point difference, with the top performer scoring 82.3 points and the bottom ranked scoring 55.9 points, substantively lower than the 57 points recorded in 2017. These diverging marks indicate that some provinces are lagging substantially behind the others in terms of infrastructure quality, and need to make meaningful investments to improve.

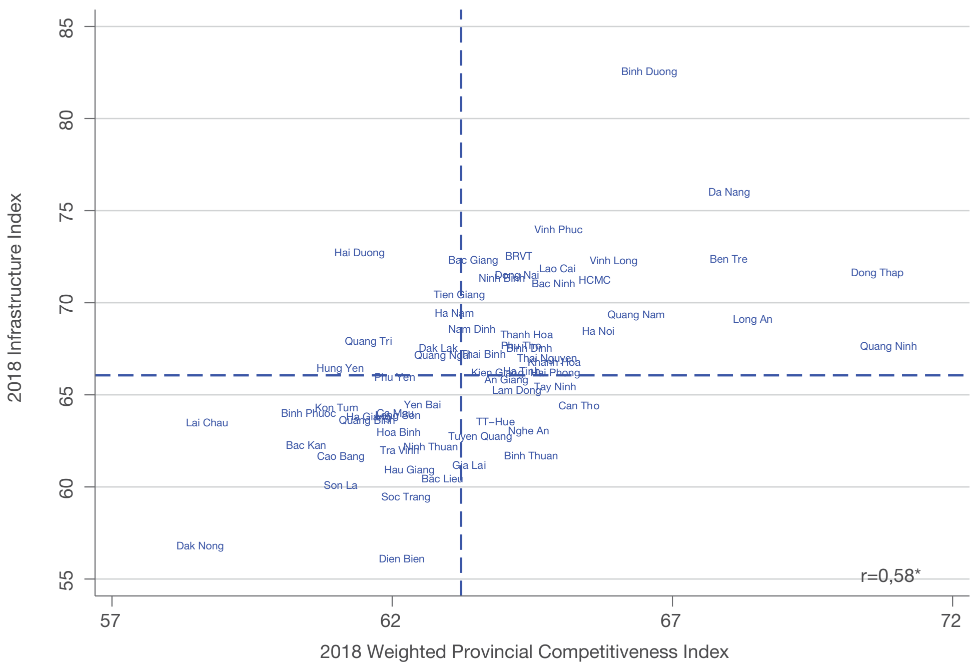
Figure 1.22: Nationwide Improving Infrastructure Trend over the Years



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

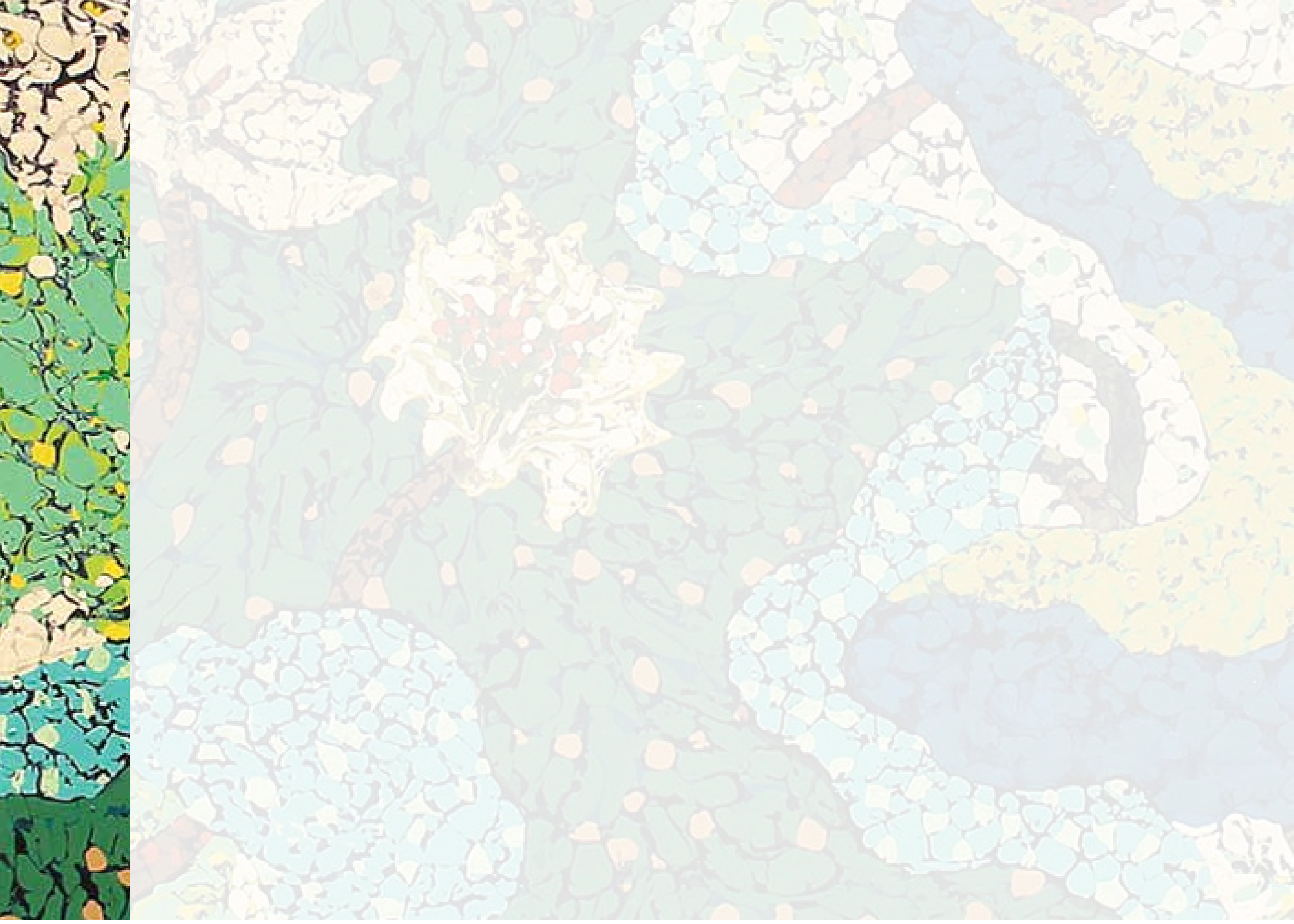
Figure 1.23 graphs the relationship between governance quality and infrastructure. Specifically, the PCI 2018 results indicate a close correlation between the quality of governance and infrastructure across the 63 provinces and cities of Vietnam. This is in keeping with the findings of the previous PCI reports: good governance tends to produce better infrastructure. Provinces appearing on the upper right quadrant of the diagram have better governance and infrastructure than the median province. Provinces in the lower left quadrant saw poorer governance and infrastructure quality than the median, which means they must make the most efforts to improve both infrastructure and governance. Provinces in the upper left quadrant perform better than the median in terms of infrastructure, but do not perform as well in governance. These provinces are not using their structural advantages efficiently. With better governance, they could generate even greater business opportunities and growth. Finally, provinces in the lower right quadrant have better governance than the median, but still struggle with limited infrastructure.

Figure 1.23: Correlation between Quality of Governance and Infrastructure



CONCLUSION

The 2018 PCI survey results show sustained improvement in many areas of provincial economic governance across Vietnam. These achievements include reduced informal charges for enterprises, a more level playing field for private firms, and substantial business-friendly reforms of administrative procedures. However, constant effort is required to create a more enabling environment, and there are several major challenges facing provincial governments. Transparency has yet to be improved, labor quality and business support services must be further enhanced, and post-registration administrative procedures need to be accelerated. Private enterprises are still facing many difficulties in their production and business activities. Timely and effective policy measures that stem from careful attention to the issues raised in this report will play a vital role in the development of a healthy, productive, and sustainable private sector in Vietnam.



2 ANALYSIS OF FOREIGN-INVESTED ENTERPRISES

INTRODUCTION

In 2018, Vietnam celebrated 30 years of FDI mobilization; however, the country now faces a paradox regarding FDI and economic development. On the one hand, FDI numbers in 2017 and 2018 broke several records from the last 30 years. The amount of realized FDI increased from $15.8 billion in 2016 to $17.5 billion in 2017 and to $19.1 billion this year. Newly licensed FDI in 2018 amounted to $35.5 billion, approximately 99 percent of the 2017 level (Tuoi Tre, 2018). Foreign investment is also improving in quality. Although attraction of licensed FDI slowed, realized FDI, which indicates more authentic investment activity, increased by 9.1 percent compared to 2017. FDI in 2018 also shifted toward high-technology sub-sectors and away from environmentally damaging sectors such as thermal power and steel production (CafeF, 2018). On the other hand, Vietnam is still not taking full advantage of the opportunities offered by FDI. The degree of technology and management expertise spillovers from foreign investors to domestic producers has not met expectations, and the domestic sector is still not adequately integrated into FIEs' supply chains (a topic we return to in Chapter 3).

This year, to address these problems, Vietnam started working with the World Bank Group to build a new Strategic Plan for New-Generation FDI Attraction in the 2018-2030 period.[17] The main emphasis of this new plan is to switch from attracting investors suitable for Vietnam's products, to developing the appropriate business environment and investment conditions to target more appropriate types of investment in the future. The goal is to move toward "new-generation, technology- and skill-intensive sectors, in order to maximize FDI's value-added and spillover effects." At the same time, "first-generation" FDI will still play an important role in the economy, including bridging gaps in domestic supply chains, creating jobs, and reducing inter-province development imbalances.

Chapter 2 surveys FIEs' characteristics and their experiences with regulatory burdens, corruption, and labor quality. In order to inform the discussion around the 2018 Strategic Plan, this chapter will also investigate whether the recent wave of investment in infrastructure has borne fruit, as well as whether Vietnam's infrastructure is ready for upgrading in some of the sub-sectors prioritized by the Strategic Plan. In addition, a special experimental analysis is intended to show how Vietnam can take advantage of the US-China trade conflict.

This year's PCI-FDI survey includes 1,577 foreign enterprises from the 20 provinces and cities with the highest concentration of FIEs. As with the survey of domestic firms, the PCI-FDI respondents were selected from the General Tax Department (GTD) list. While the PCI-FDI survey is not the only profile of foreign investment in Vietnam, it is the largest and most comprehensive.[18]

The chapter is structured as follows: Firstly, section 2.1 looks at the performance of FIEs in recent years and reports their levels of confidence and future expansion plans. Section 2.2 investigates characteristics of FDI enterprises including size, type, sector, customer base, suppliers, and country of origin. In Section 2.3, we examine the fruits of recent efforts to reduce regulatory burdens on FIEs. Section 2.4 investigates the extent and persistence of corruption. Section 2.5 analyzes the labor quality and the impact of the U.S.-China trade conflict on labor upgrading in Vietnam. Finally, Section 2.6 evaluates the impact of investment in infrastructure in recent years. Section 2.7 concludes.

2.1 PERFORMANCE

The performance of FIEs in 2018 continued the trends of recent years, with some signs of slowdown compared to 2017. The share of firms increasing investment dropped to 11.8 percent from 13.2 percent. Only 58.2 percent of respondents added employees compared to 62.4 percent in 2017. These figures are consistent with patterns in FIEs' investment plans. According to Figure 2.1, 56 percent of foreign firms plan to expand their operations in Vietnam, a healthy level, but also a slight decrease from the apex of 60 percent last year.

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17 The 2018 Strategic Plan from now on.

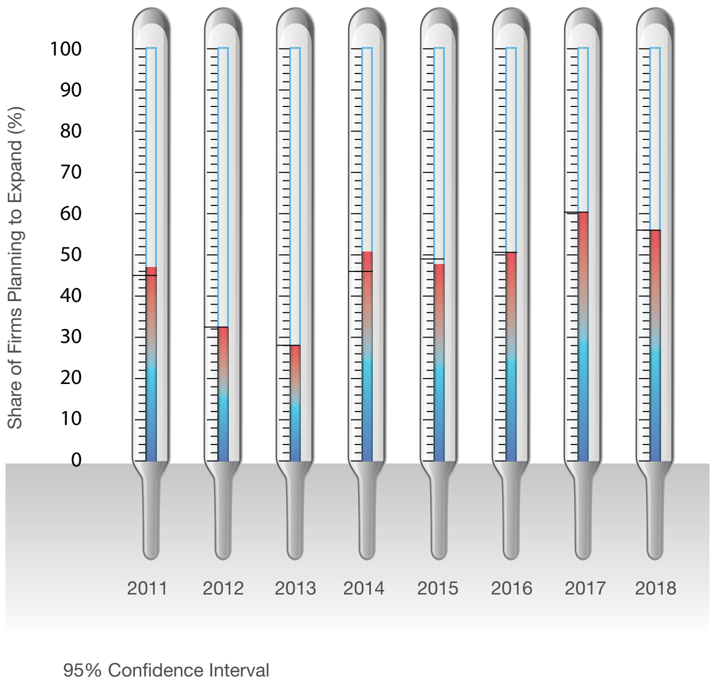
18 The unadjusted PCI-FDI response rate is 30 percent with only limited variation by province. Over 80 percent of respondents of General Director or are the top manager of their company hold the position in Vietnam.

Table 2.1 Performance of Foreign Firms over Time

Year	Firms Increasing Investment (%)	Firm Adding Employees (%)	Firms Reporting Profits (%)	Firms Reporting Losses (%)	Median Sales (Millions of 2010 USD)	Median Expenditures (Millions of 2010 USD)
2012	5.2	31.0	60.4	27.5	1.54	0.97
2013	5.1	30.0	63.6	24.1	1.45	0.94
2014	16.1	62.4	57.9	34.2	1.14	0.71
2015	11.4	62.4	55.1	37.6	0.69	1.42
2016	11.0	63.3	59.0	33.4	0.73	0.49
2017	13.2	62.4	54.3	37.9	2.43	2.02
2018	11.8	58.2	53.1	36.7	2.57	2.20

The majority of FIEs (53.1 percent) reported profits in 2018, while 36.7 percent suffered losses, roughly equivalent to 2017 levels. Median sales and median expenditures both increased in 2018, to $2.57 million and $2.20 million, respectively. These high figures show that the spike in activity in 2017 is not just a blip, but also rather a new trend.

Figure 2.1 PCI-FDI Business Thermometer



Source: PCI Survey 2018 Question A.12: “Which statement best characterizes your firm’s investment plans over the next 2 years?” Figure reports the percentage of firms who responded that they will increase or considerably increase operations.

2.2 CHARACTERISTICS

2.2.1 Size

The 2017 PCI report noted that FIEs seemed to be getting smaller in 2017, both in equity and size of labor force. This remark is corroborated further by the 2018 data. As seen in Table 2.2, the share of FIEs falling into the smaller categories increased markedly. Nine percent of respondents have less than five employees, 11 percent employ between five to nine employees, and 32 percent employ less than 50 employees. The corresponding numbers for 2017 were 7.4, 10.9, and 31 percent.

At the other end of the spectrum, the share of respondents employing more than 1,000 workers dropped to 4 percent from 6.4 percent in 2017. Only 5.4 percent fall into the second largest category (500 to 999 employees), compared to 5.8 percent in 2017.

Table 2.2 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 999	1000 and over
2012	2.5	7.5	27.3	29.1	9.9	8.6	8.1	7.0
2013	3.6	5.5	28.1	30.5	9.5	8.0	8.3	6.4
2014	5.3	8.5	29.0	29.5	6.6	7.6	6.9	6.6
2015	5.7	9.3	31.0	27.7	6.4	7.0	6.8	6.1
2016	5.9	9.7	29.1	29.8	6.9	7.3	4.9	6.2
2017	7.4	10.9	31.0	26.2	7.3	5.0	5.8	6.4
2018	9.4	11.0	32.0	26.4	6.3	5.5	5.4	4.0
	Captital 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 and over ($50 million)
2012	2.3	4.2	14.8	17.0	29.6	19.5	6.7	5.9
2013	2.5	4.1	15.3	19.3	31.4	16.4	6.1	4.9
2014	5.7	5.5	14.0	15.7	30.6	16.8	6.2	5.5
2015	6.1	6.1	17.4	16.9	25.8	15.8	6.3	5.7
2016	7.0	3.5	16.3	13.3	31.6	17.0	5.6	5.7
2017	7.9	5.7	16.7	15.1	27.3	16.8	4.7	5.9
2018	10.8	6.6	20.3	13.0	25.7	15.9	4.0	3.9

The FIEs' shrinking labor force goes hand-in-hand with a reduction in equity. In 2018, more FIEs than ever fall into the smaller categories – under 0.5 billion VND, 0.5 to under 1 billion VND, and 1 to 5 billion VND. These groups account for 10.8 percent, 6.6 percent and 20.3 percent of the respondents, respectively. In comparison, the corresponding figures in 2017 were 7.9, 5.7, and 16.7 percent.

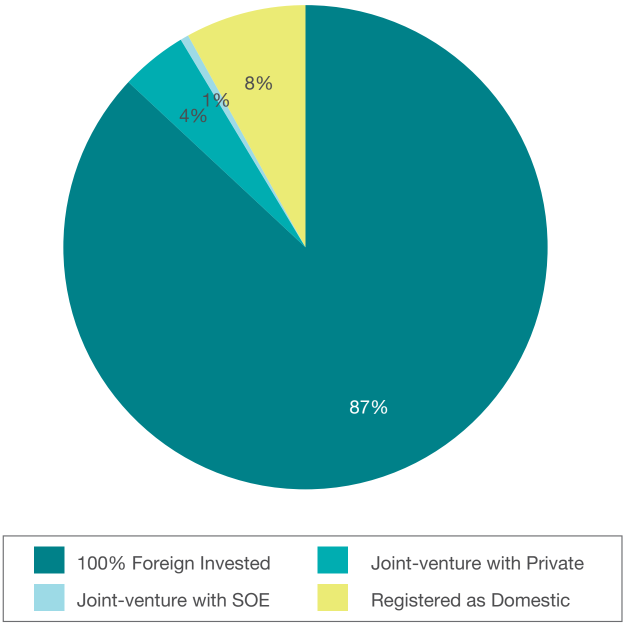
Furthermore, there are clearly fewer firms in the four largest categories this year. Notably, 5.9 percent of respondents reported equity of 500 billion VND and over in 2017, but only 3.9 percent did so this year. The figures tell a clear story that FIEs in Vietnam are getting smaller on average.

Official statistics from the Ministry of Planning and Investment confirm this finding (Lê Thúy, 2018). Some experts warn that many small FIEs are entering Vietnam solely to serve as satellites – suppliers for larger FDI projects. Such FIEs may crowd out domestic suppliers and prevent the domestic sector from integrating into global value chains. As will be shown in Chapter 3, this is an area in which Vietnamese firms are already struggling. To deal with this problem, the Ministry of Planning and Investment has considered imposing minimum requirements on the size of FDI projects.

2.2.2 Type

We asked FIEs if they are 100 percent foreign invested, a joint venture with private Vietnamese firms, a joint venture with Vietnamese SOEs, or registered as domestic firms. The composition of FIEs' legal form remains largely unchanged. Eighty-seven percent of respondents to the PCI-FDI questionnaire are 100 percent foreign invested, the same level as in 2017. The share of FIEs registered as domestic increased from 6 percent in 2017 to 8 percent in 2018.

Figure 2.2 Legal Form of Foreign Invested Enterprises

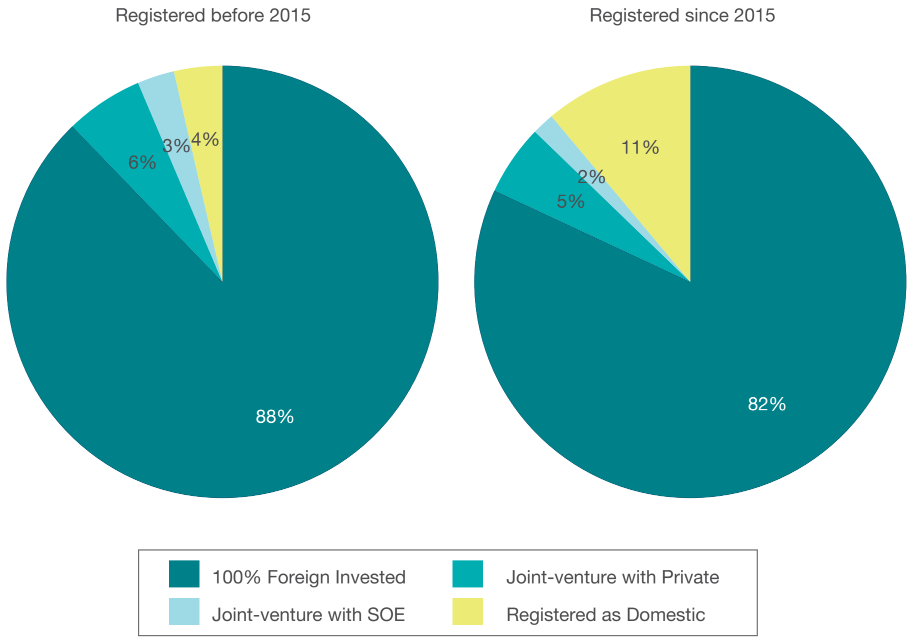


Source: PCI Survey 2018 Question A.8: "Which of the following categories best describe your company's current legal form?"

The 2016 PCI report predicted that the fraction of FIEs that registered as domestic operations would increase following the introduction of the 2014 Investment Law (Malesky et. al., 2016, p. 58). The law officially came into effect on July 1, 2015. Accordingly, the Vietnamese legal system considers firms with over 51 percent local ownership to be domestic investors and thus does not require an Investment Registration Certificate (IRC). The 2017 report provided initial evidence of this phenomenon (Malesky et. al., 2017, p. 71).

The newly collected 2018 data further substantiate these findings. As can be seen in Figure 2.3, domestic operations accounted for only 4 percent of applicants for business licenses before 2015, but increased to 11 percent of those applying after the National Assembly promulgated the Law.

Figure 2.3 Legal Form of Foreign-Invested Enterprises before and after 2015

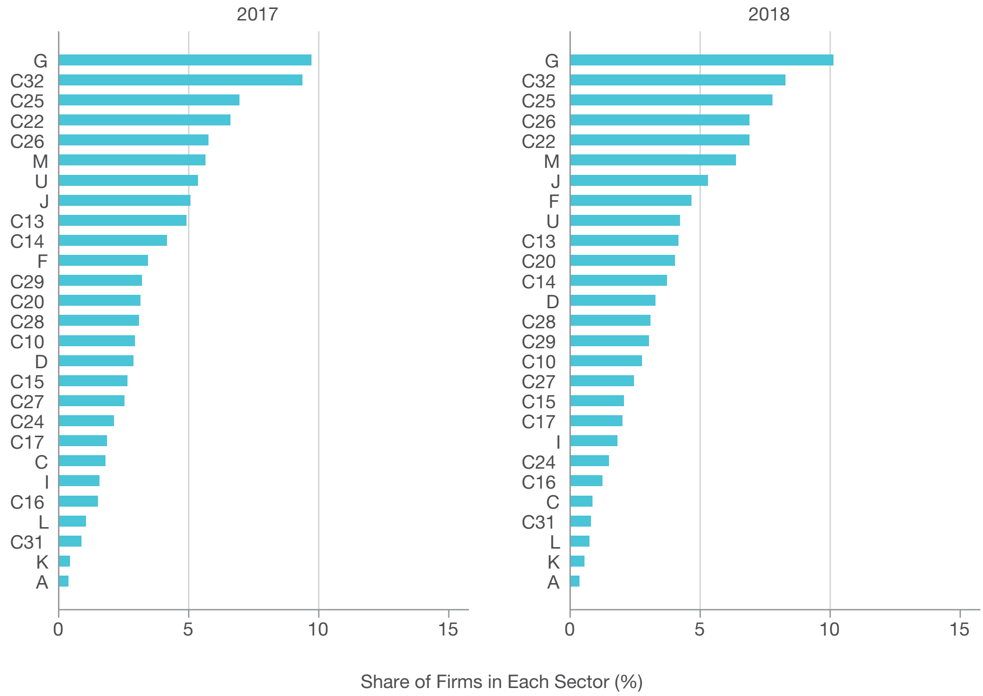


Source: PCI Survey (Multiple Years) Question A.8: "Which of the following categories best describe your company's current legal form?" and Question A.1: "In what year did your firm first apply to receive a license to invest in Vietnam?"

2.2.3 Sector

Next, we consider the sectoral composition of FIEs in Vietnam. Manufacturing is the leading foreign-invested sector. The share of PCI respondents whose primary business is in industry/manufacturing is 37 percent. Next in line is the service sector with 27 percent. Construction and agriculture/forestry/aquaculture account for six percent and two percent, respectively. The shares of FIEs operating in mining and finance/banking/insurance are both miniscule, at 0.13 percent.

Figure 2.4 Sectoral Distribution of FIEs



Source: PCI Survey (Multiple Years) Question A.6: "In which field does your firm mainly focus?" and Question A.7: "Please list the firm's 3 main product lines or services in as much detail as possible."

Figure 2.4 provides a more detailed picture. The sub-sectoral composition of FIEs is largely stable. The leading sub-sector, by share of respondents, is still wholesale and retail trade; and repair of motor vehicles and motorcycles, which accounts for 10.2 percent of respondents. Next in line is manufacture of fabricated metal products (7.8 percent), computers, electronic and optical products (6.9 percent), and rubber and plastics products (6.9 percent).

The 2017 PCI report directed attention to the remarkable rise of the computer, electronic and optical product sub-sector, which took textile and apparel's third place in the rankings. The former consolidated its position in 2018: Its share of respondents increased from 5.8 percent to 6.9 percent. At the same time, the fraction of textile and apparel FIEs continued its decline from 6 percent in 2016 to 4.2 percent in 2017 and to 3.8 percent in 2018. This represents the beginning of an important shift towards higher value-added products, which has the potential to bring about higher wages and greater technology spillovers.

ISIC: Sector Codes		Subdivisions of Secior C (Manufacturing): 2 Digit Level			
A	Agriculture, forestry and fishing	10	Manufacture of food products	25	Manufacture of fabricated metal products, except machinery and equipment
B	Mining and quarrying	12	Manufacture of tobacco products	26	Manufacture of computer, electronic and optical products
C	Manufacturing	13	Manufacture of textiles	27	Manufacture of electrical equipment
D	Electricity, gas, steam, and air-conditioning supply	14	Manufacture of wearing apparel	28	Manufacture of machinery and equipment n.e.c.
F	Construction	15	Manufacture of leather and related products	29	Manufacture of motor vehicles, trailers and semi-trailers
G	Wholesale and retail trade; repair of motor vehicles and motor cycles	16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	31	Manufacture of furniture
J	Information and communication	17	Manufacture of paper and paper products	32	Other manufacturing
K	Financial and insurance activities	19	Manufacture of coke and refined petroleum products	32	Other manufacturing
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		

2.2.4 Customers

The PCI questionnaire asks respondents to identify the buyers of their products. Most FIEs in Vietnam are links in multinational supply chains and are therefore strongly oriented toward exporting their products.

Among PCI respondents, 31 percent export back to their home country while 20.7 percent sell to a third country. When FIEs serve the domestic market, their clients are mostly other foreign enterprises (53.5 percent), followed by private Vietnamese firms (33.9 percent). There are few ties between the FDI and the state sector. In 2018, only 5.3 percent of FIEs sold their products to SOEs and even fewer (2.5 percent) to state agencies.

It is notable in Table 2.3 that the 2018 figures are lower across the board compared to those in 2017. This may indicate a consolidation process where FIEs now cater to a smaller pool of customers rather than multiple outlets as was the case before. The same patterns can be seen with regard to suppliers of FIEs in Table 2.4.

Table 2.3 Customers of FIEs (Percentage with at Least One Customer)

	Sales to Vietnamese State		Exports		Sales to Foreigners in Vietnam			Sales to Private Vietnamese		
Year	SOEs (%)	Agency (%)	Home (%)	Third Country (%)	Individual (%)	Both (%)	Enterprise (%)	Individual (%)	Both (%)	Enterprise (%)
2010	10.2	4.0	51.0	9.5		29.1			29.1	
2011	8.1	7.4	44.5	4.2		17.1			41.9	
2012	13.1	5.4	32.8	28.5		24.9			41.3	
2013	16.9	6.3	34.9	40.0		35.8			48.5	
2014	12.9	5.2	37.5	29.3		46.1			39.2	
2015	13.6	4.1	39.9	33.0		51.6			40.2	
2016	11.9	4.8	39.0	34.2	13.3		53.1	18.3		41.1
2017	10.7	4.3	33.7	26.6	11.6		56.0	18.3		41.0
2018	5.3	2.5	31.0	20.7	7.2		53.5	14.1		33.9

2.2.5 Suppliers

Vietnamese firms can benefit from technological and management spillovers from the foreign-invested sector by taking part in the supply chain – becoming suppliers of inputs and services to FIEs. While many more FIEs are turning to Vietnamese suppliers compared to the early 2010s, this integration process has stalled in recent years. About 69 percent of FIEs acquired inputs from domestic private firms in 2015 and 2016, but these numbers dropped to 62.5 percent in 2017 and to 60.2 percent in 2018.

Household businesses also see similar trends. According to Table 2.4, the share of FIEs with this type of domestic supplier declined from 19.3 percent in 2015 to 18.4 percent in 2016, 16.1 percent in 2017 and 15 percent in 2018. Consistent with historical data, SOEs rarely supply to FIEs, at 6.8 percent. Overall, many FIEs still turn to home country businesses (47.1 percent) and third country suppliers (22.8 percent).

Table 2.4 Suppliers of Foreign-Invested Firms (Percent with at Least One Vendor)

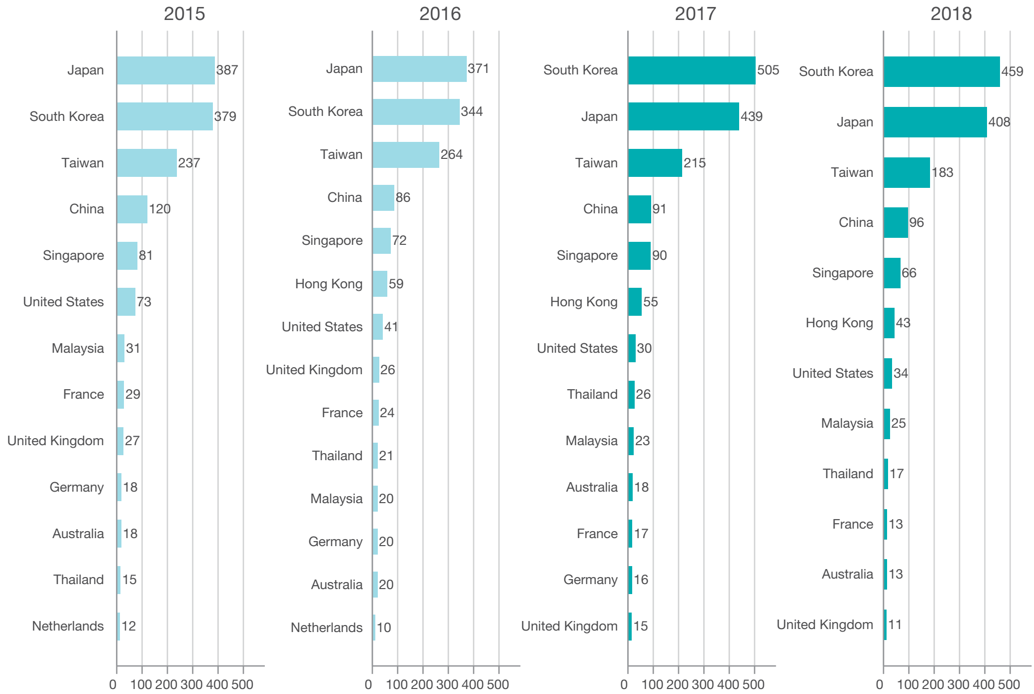
Year	State Owned Enterprise (%)	Private Firm (%)	Household Business (%)	In-House (%)	Home Country Businesses (%)	Third Party (%)
2010	13.5	53.6	12.8	7.4	28.3	34.0
2011	7.6	30.4	7.4	8.6	15.9	18.6
2012	5.6	43.1	4.8	6.6	39.7	24.5
2013	9.5	47.9	10.1	12.8	45.6	34.0
2014	11.5	62.6	15.9	8.3	55.5	34.8
2015	11.9	68.9	19.3	8.5	58.0	38.3
2016	12.1	68.5	18.4	9.9	58.7	39.0
2017	10.0	62.5	16.1	6.9	49.2	26.6
2018	6.8	60.2	15.0	5.7	47.1	22.8

2.2.6 Country of Origin

The largest sources of FDI in Vietnam are still the economically advanced East Asian countries. After overtaking Japan as the country with the highest number of PCI respondents in 2017, South Korea continues to consolidate its position at the top with 459 firms in the 2018 sample. Japan follows with 408 firms. Next in line by a considerable distance is Taiwan and China with 183 and 96 FIEs, respectively. These figures also match the data from the Ministry of Planning Investment (MPI) on FDI flows and licenses granted.

Western FIEs in Vietnam remain few and far between. According to the 2018 PCI-FDI 34 are American, 13 French, 13 Australian, and 11 are British. It is important to note, however, 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, the United States is probably understated in our sample.

Figure 2.5 FIEs' Country of Origin



2.3 REGULATORY BURDEN

In 2017, Vietnamese policy-makers continued to implement measures to reduce the regulatory burden on FIEs. In February 2017, the Government issued Resolution 19-2017/NQ-CP on "Improving the Business Environment and National Competitiveness toward 2020." The Resolution outlines specific goals regarding governance, competitiveness, innovation and e-government (Nguyen, 2018a). In May, the Prime Minister issued Resolution 20/CT-TTg on rectifying inspection activities to prevent redundant, overlapping and unnecessary inspections that interfere with the operation of enterprises (Nguyen, 2017). This year, the government issued Resolution 19-2018 on improving business environment and national competitiveness, with more concrete targets. In November, the Prime Minister's office also introduced Resolution 139/NQ-CP on reducing costs of doing business for firms. This action plan aims at, among other things, reducing informal fees and harassment in inspection activities (Nguyen, 2018b).[19]

19 Resolution 139 was issued in November 2018, after the PCI survey for this report was conducted.

We saw the initial benefits of these policies in the 2017 report, but 2018 is the year significant and positive improvements started to show. The share of firms having to spend over five percent of managers' time on bureaucratic procedures dropped from an average of 70 percent between 2012 and 2016 to 66.2 percent in 2017 and to 42.6 percent in 2018. This is very substantial progress. This finding is consistent with reductions in harassment activities. The share of firms enduring harassment – defined as having eight or more visits per year – decreased from 4.6 percent in 2016 to 3.4 percent in 2017 and to only 1.4 percent in 2018.

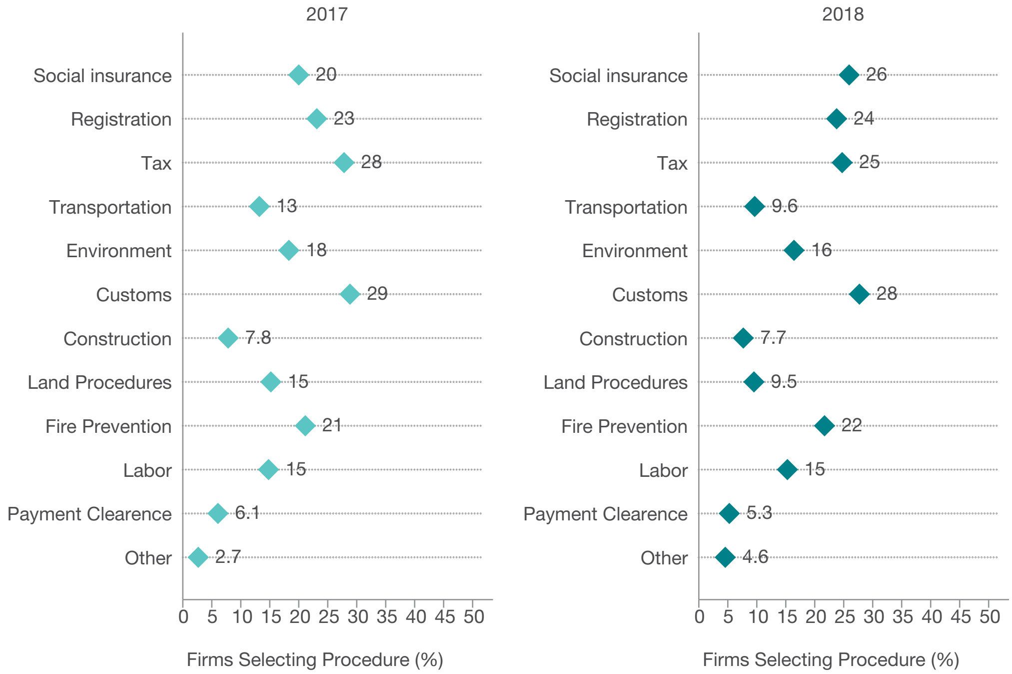
Despite positive signs regarding bureaucratic procedures and inspection activities, FIEs still face considerable challenges in customs. According to Table 2.5, the median number of days needed for imports to clear customs remains stable at two, but the time needed for exports increased from one to two days in 2018.

Table 2.5 Post-Entry Regulations for Foreign Firms

Year	Over 5% of Time Spent on Bureaucratic Procedures (%)	Inspections (Median)	Harassment (8+ Inspections) (%)	Days for Exports to Clear Customs (Median)	Days for Imports to Clear Customs (Median)
2010	56.6	2.00	6.3	1.00	2.00
2011	68.1	2.00	2.9	1.50	2.00
2012	79.4	2.00	2.9	2.00	2.00
2013	77.8	2.00	2.6	2.00	2.00
2014	70.2	2.00	3.3	1.00	2.00
2015	69.8	2.00	2.9	1.00	2.00
2016	71.9	2.00	4.6	1.00	2.00
2017	66.2	2.00	3.4	1.00	2.00
2018	42.6	2.00	1.4	2.00	2.00

Figure 2.6 shows the agencies that FIEs rank as having the most burdensome administrative procedures. Consistent with the findings in Table 2.5, customs procedures remain a big concern for foreign investors. The share of respondents considering customs the most burdensome administrative procedures is the highest at 28 percent, followed by social insurance, registration, and tax, at 26, 24 and 25 percent, respectively.

Figure 2.6 Most Burdensome Administrative Procedures



Source: PCI Survey (Multiple Years) Question D.2 "From your experience in the province, please indicate the troublesome administrative procedures (Multiple choice)."

2.4 EXPERIENCE WITH CORRUPTION

Since taking charge in 2016, the new administration has been aggressively tackling corruption and informal charges in government-business interactions, with policy measures such as Resolution 35/NQ-CP on supporting the development of enterprises toward 2020 (Nguyen, 2016). As a further step, Resolution 139/NQ-CP, issued in November 2018, specifies five specific goals to reduce the cost of doing business. One of these targets is to halve the share of firms reporting having to pay informal fees in the PCI report by 2020 (Nguyen, 2018b).[20]

The 2017 PCI report drew attention to a significant decrease in corrupt behavior. Progress continued and even accelerated this year. While 45.8 percent of firms had to pay informal charges to inspectors in 2016, this number dropped to 44.9 percent in 2017 and to 39.9 percent in 2018. The share of firms having to pay a bribe during customs procedures went from 56.4 percent two years ago to 53 percent in 2017 and to 44.4 percent in 2018. The improvement is even more substantial regarding land procedures. More than one-fifth of

20 Resolution 139 was issued in November 2018, after the PCI survey for this report was conducted.

FIEs paid bribes during land transactions in 2016. This year, the number dropped to only 6.8 percent.

The survey also asks respondents if public officials actually deliver the services after receiving bribes, instead of harassing the firms for additional payments. Among respondents to the PCI-FDI survey who paid bribes in 2018, 38.1 percent had the service in question delivered, approximately the same rate as in 2017.

One important effect of the reduction in corruption is firms' attitude toward regulations. Recent achievements in reducing informal charges have significantly altered FIE's perception of regulation as simply an excuse for rent seeking and bribery. According to Table 2.6, the share of FIEs agreeing with this statement dropped from 58.8 percent in 2015 to 49.7 percent in 2016. Last year saw progress that is even more eye-catching: The corresponding figure fell from 44.6 percent in 2017 to 36.5 percent in 2018.

Table 2.6 Questions on Corruption in the PCI Survey

			Type of Informal Charges			
Year	Regulations are an Excuse for Bribery (%)	Paid informal charges to Inspectors (%)	Bribe during Customs Procedures (%)	Bribe during Land Procedures (%)	Bribes Were a Deterrent to Using Courts (%)	Service Delivered after Bribe Payment (%)
2010	32.0		64.9		9.3	48.0
2011	23.9		52.9		5.2	46.1
2012	24.2		56.2		13.1	54.7
2013	44.0		58.6		14.5	59.0
2014	59.9		66.2		21.9	58.2
2015	58.8		66.5		23.9	59.1
2016	49.7	45.8	56.4	22.6	18.7	45.3
2017	44.6	44.9	53.0	17.5	18.9	50.3
2018	36.5	39.9	44.4	6.8	14.3	49
			Cost of Informal Charges (Amount/Annual Income)			
Year	**0%**	**<1%**	**1-2%**	**2-5%**	**5-10%**	**>10%**
2010	21.8	40.4	16.7	11.4	7.0	2.6
2011	30.2	33.7	20.0	7.7	6.7	1.6
2012	30.0	41.0	17.4	8.3	2.6	0.8
2013	19.7	48.5	18.3	8.7	3.1	1.7
2014	18.7	42.7	20.4	11.8	4.5	1.9
2015	16.4	44.5	18.2	12.8	6.4	1.8
2016	25.9	43.9	15.2	8.8	4.1	2.1
2017	31.3	41.1	14.4	6.8	3.8	2.6
2018	37.5	39.8	14.6	4.8	1.8	1.5

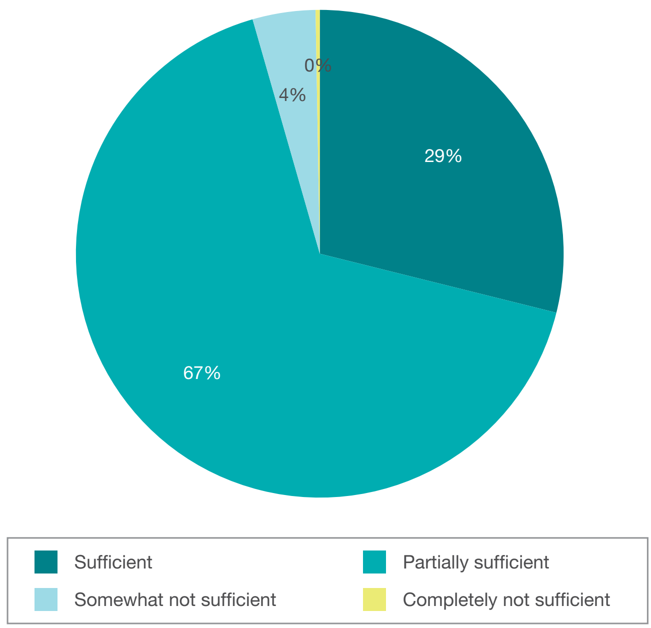
FIEs' responses on the costs of informal charges mirror the findings mentioned above. Increasingly, firms are reporting that they do not have to pay any informal charges. The fraction of firms paying no bribes increased steadily from 16.4 percent in 2015 to 25.9 percent in 2016, 31.3 percent in 2017 and to 37.5 percent last year. Among those who do, the burden of informal charges has alleviated. In 2017, 2.6 percent of PCI respondents reported paying more than 10 percent of annual income in bribes. The corresponding number is 1.5 percent in 2018. Similarly, the share of firms paying between 5 and 10 percent of income in bribes decreased from 3.8 percent in 2017 to 1.8 percent in 2018.

2.5 LABOR QUALITY AND THE IMPACT OF THE U.S.-CHINA TRADE CONFLICT ON LABOR UPGRADING IN VIETNAM

2.5.1 Labor Quality

As seen in Figure 2.7, most FIEs consider the quality of labor in the province in which they operate as either sufficient (29 percent) or partially sufficient (67 percent). Only 4 percent of PCI respondents think that the quality of labor is somewhat not sufficient. These results remain largely unchanged from 2017.

Figure 2.7 Quality of Labor in the Province

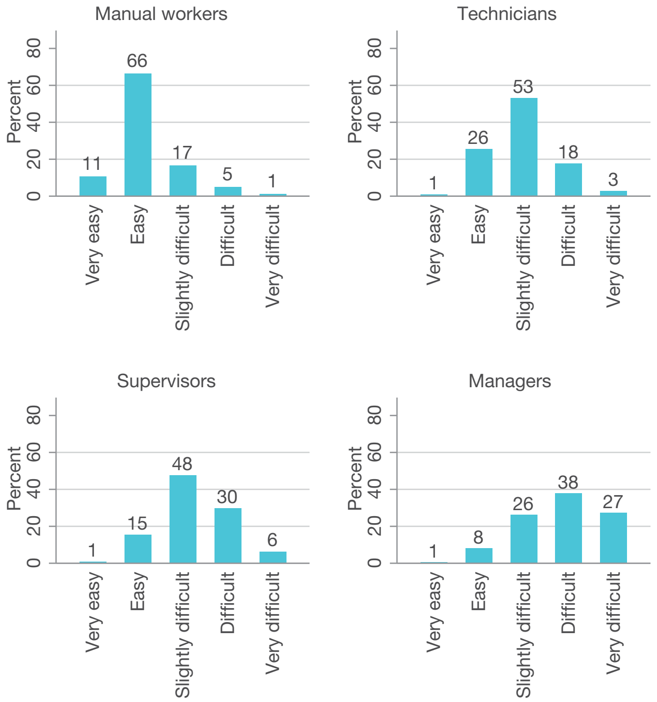


Source: PCI Survey 2018 Question F1.2.1: "Based on your experience of using local labor, please assess the quality of labor in the province:"

Figure 2.8 shows that firms have abundant access to manual workers, with 77 percent considering it “Easy” or “Very Easy”. Accountants are also in relatively good supply, with 50 percent of respondents having no difficulty recruiting them.

The picture is gloomier when it comes to higher-skilled workers such as technicians, supervisors, and managers. The fraction of FIEs reporting difficulties recruiting technicians is very high, at 74 percent. Similarly, firms find it difficult to recruit supervisors (84 percent) and to recruit managers (91 percent).

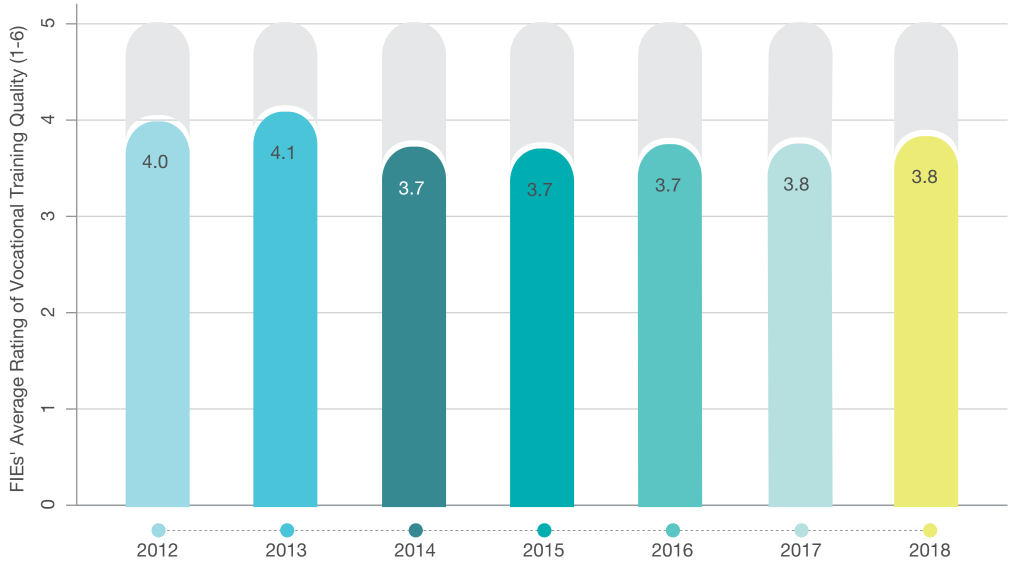
Figure 2.8 Difficulty in Recruiting Workers



Source: PCI Survey 2018 Question F1.1.7: “Please evaluate how easy or difficult it is to recruit workers in these specific areas?”

The year 2014 saw a sudden decline in FIEs’ ratings of vocational training. Since then, progress in improving labor quality has been slow. Figure 2.9 shows that ratings by FIEs of the quality of vocational training have remained relatively constant for the last five years and have yet to recover to pre-2014 levels.

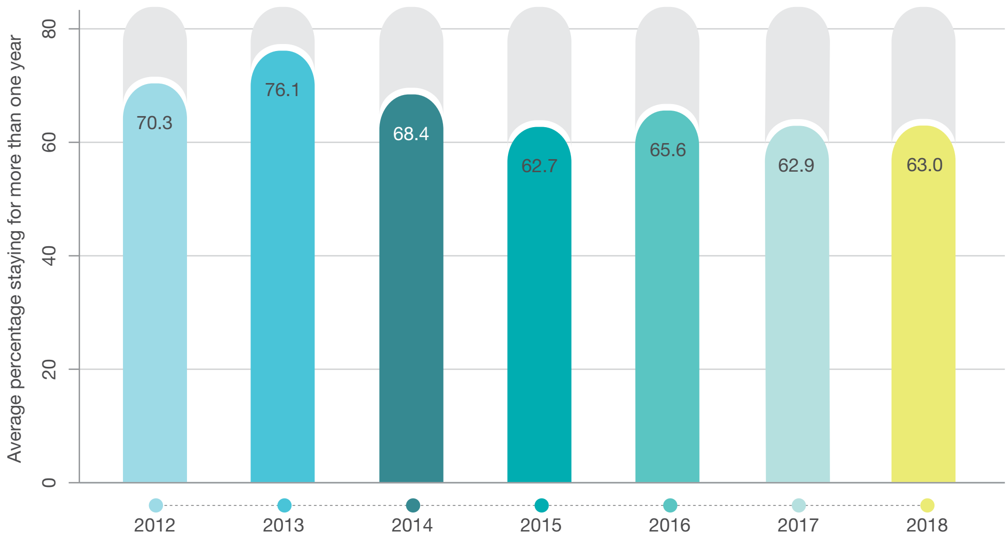
Figure 2.9 Quality of Vocational Training



Source: PCI Survey 2018 Question F1.2: "How do you rate the overall quality and efficiency of these services delivered by provincial public agencies?" (From 1 "Very Poor" to 6 "Very good").

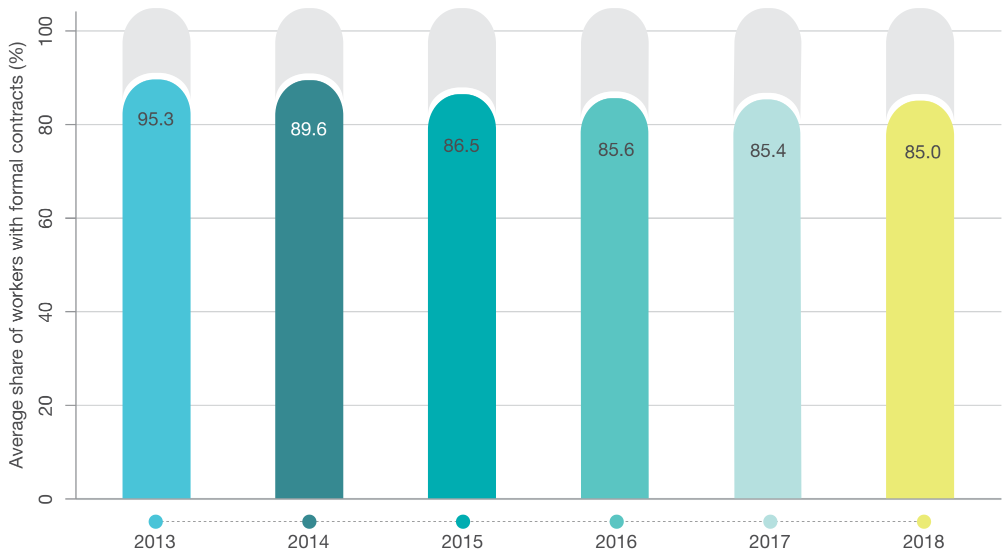
FIEs will be discouraged from providing in-house training if the workers they train do not remain with the firm. As can be seen in Figure 2.10, the share of trained workers staying with the firm for more than one year decreased from 76.1 percent in 2013 to just 63 percent in 2017 and 2018.

Figure 2.10 Do Trained Workers Stay with the Firm?



Source: PCI Survey 2018 Question F1.3.2: "On average, what percentage of workers trained by your company remain with the firm for longer than a year?"

Figure 2.11 Proportion of Formal Workers

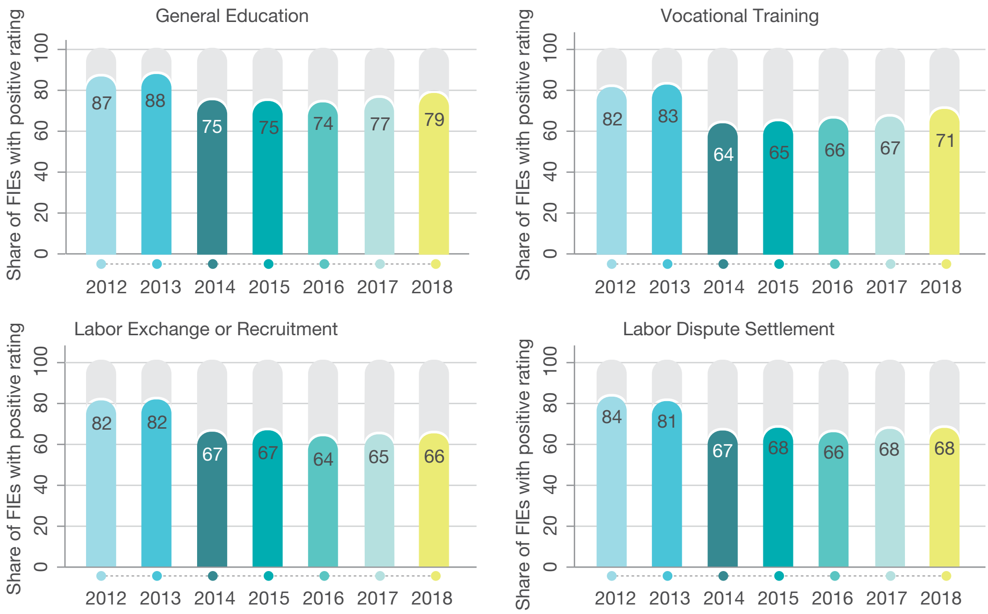


Source: PCI Survey 2018 Question F1.1.3: "What proportion of your total workforce are long-term workers hired with formal contracts?"

The increasing tendency among employees of FIEs to leave the firms that train them is accompanied by a decreasing share of workers with formal labor contracts. From 95.3 percent in 2013, this figure has gradually declined to 85 percent in 2018. Thus, the firm-worker relationship appears to have become more short-term and casual.

The 2017 report warned of this parallel phenomenon. The potential consequences are twofold. First, some of the skills being trained are firm-specific, meaning that the training is wasted when workers switch employers. Second, and more importantly, the increasing transience of labor can discourage foreign investors from training the Vietnamese labor force. This will limit the knowledge and skill spillovers from the FDI sector as well as hinder firms in moving up global value chains. The lack of long-term commitment from workers, combined with their insufficient initial skill levels, represents a difficult dilemma for foreign investors.

Figure 2.12 Quality of Labor Services



Source: PCI Survey 2018 Question F1.2: "How do you rate the overall quality and efficiency of services delivered by provincial public agencies?"

Figure 2.12 shows the share of FIEs with a positive view of the quality of general education, vocational training, labor exchange or recruitment, and labor dispute settlement. What we see confirms the observation elsewhere that labor quality has been slow to improve. Firm's satisfaction dropped markedly between 2013 and 2014, and has remained largely constant in the last five years. In 2018, 79 percent of PCI respondents are pleased with the quality of general education, while only 71 percent are pleased with vocational training. The corresponding figures for labor exchange/recruitment and labor dispute settlement are 66 and 68 percent, respectively.

2.5.2 The Impact of the U.S.-China Trade Conflict on Labor Upgrading in Vietnam

In this section, we provide evidence that FIEs in Vietnam are moving to take advantage of the trade conflict between China and the United States. Specifically, we use a survey experiment to show that FDI firms are willing to make significant investments in upgrading their labor force to exploit the tariffs that the Trump Administration imposed on China in 2018. This is a great opportunity for Vietnam to create well-paid jobs for high-skilled domestic workers and help FIEs and domestic firms move up global value chains.

The Trump Administration Tariffs and Vietnam

On June 18, 2018, the U.S. President, Donald Trump, exerted his authority under Section 301 of the 1974 Trade Act to issue across-the-board 10 percent tariffs on a range of Chinese products (Morrison, 2019). The decision was justified by the belief that China had established a sizable trade surplus with the United States through unfair trade practices and currency manipulation. The dispute between the two countries is still being negotiated by their respective trade officials.

In Vietnam, the tariffs on Chinese products were argued by many commentators with some enthusiasm that it would provide a boost to both Vietnamese exports to the United States and integration of Vietnamese companies into global value chains (Ng, 2019; Huang, 2018; Shira, 2018). The main argument for optimism is that many foreign firms (especially Japanese, Korean, and Taiwanese) employ a so-called “China Plus 1” strategy with most of their global value chains located in China, but with one or more factories located in Vietnam to address possible uncertainty in China and as a bet on future Vietnamese growth (Symington, 2018; Shira, 2018). For the most part, the Vietnamese operations participate in the least intensive portions of the supply chain, engaging in either final assembly (based on goods produced elsewhere) or providing the least technologically intensive inputs. As noted above in discussing the sectors of FIE production, this has been changing slowly over time.

The U.S.-China trade dispute, however, may have provided a kick-start to industrial upgrading from the foreign sector. As the trade dispute between the U.S. and China escalated, these companies began to shift production to their Vietnamese operations. Many MNCs also began to open up new factories and locate higher value-added production from their supply chains in the country. The goal of this strategy was to avoid U.S. tariffs on exports to the U.S. by channeling the production through Vietnam, Production shifts of this nature should be most likely in the specific goods targeted with import duties by the U.S. government. As the tariffs were only introduced in June 2018, it is hard to pin down how much of this activity has taken place, but there are a number of signs that it is happening, including a number of visits to investment locations by Japanese and Korean investors currently working in China.

What most of the popular commentary has missed thus far, however, is that shifting higher value-added production to Vietnam is not a seamless exercise. Even for those companies increasing production in their Vietnamese factories without new construction or investment, most of the goods targeted for tariff increases are not currently produced at scale in Vietnam. Production will require factory alterations, new equipment, and higher-quality labor.

Yet, as we noted for Figure 2.8 above, recruiting the high-quality labor necessary for industrial upgrading in Vietnam is among FIEs' greatest concerns. They find it easy to recruit low-skilled manual workers, but recruiting workers with specialized skills, high-quality technicians, managers, and supervisors has been much more of a challenge. Consequently, if the kick-start expectation is correct, companies hoping to avoid U.S. tariffs on their Chinese exports by shipping through Vietnam should be willing to compete more aggressively for Vietnamese workers. In particular, they should be willing to increase wages and social benefits in order to attract the types of workers they need to export higher value-added products to the United States. In particular, they should be willing to compensate workers roughly up to the 10 percent value of the U.S. tariff, as that is the point when exporting out of Vietnam is no longer profitable.

The Trump Administration Tariffs and FIEs' Increased Willingness to Invest in High-Skilled Domestic Labor: A Survey Experiment

To test this hypothesis, we took advantage of a survey experiment we have been running in the PCI survey for the last three years. For each of the three years, half of the firms were assigned to the treatment group (n=2,367), while half were assigned to the control group (n=2,225). In the question, we asked respondents to imagine a scenario in which an international consultant contacts the firm as part of its efforts to connect large multinationals with suppliers in emerging markets. The benefit of using a survey experiment is that firms receiving each prime are similar in terms of their descriptive features, such as age, size, sector, and country of origin. Thus, we can be certain that differences between their answers are caused by the experimental priming information, and not the underlying characteristics of the firm.

The experimental question was originally added in 2016 in order to capture the impact of Vietnam's entry into the Trans-Pacific Partnership (TPP) and its signing of the Labor Covenant Appendix with the United States. At the time, our expectation was that firms would be willing to adapt their labor standards in compliance with TPP commitments. The United States withdrew from the TPP on January 30, 2017, invalidating Vietnam's labor covenant commitments. In that context, studying the evolution of answers to the question over time provides an excellent opportunity to compare firms' expectations about the importance of international commitments on labor rights (prior to the June 2018 tariffs) with their beliefs about the importance of market opportunities on labor conditions (after the 2018 tariffs).

The question starts by first noting that, for a Vietnamese firm to be shortlisted as a potential supplier for the multinational client, it would need to adopt the multinational client firm's Labor Code of Conduct for Suppliers. The code covers health and safety regulations, limits on overtime hours, and greater worker representation. As such, it is typical of industry-wide, multinational firm and supplier codes of conduct, which originated in the late 1990s, and are now widespread in both developed and developing countries (Locke, 2013). We describe the code as one that will increase operating costs, but also increase the possibility of future orders. It is important to note that codes of conduct tend to increase variable costs, requiring ongoing expenditures that vary with the level of output (i.e. limits on overtime, greater worker capacity to bargain over wages, safety equipment for each worker).

Following Malesky and Mosley (2018), we use a contingent valuation approach to better measure firms' interest in labor upgrading by asking them directly how much they would be willing to spend to do so.[21] The specific reforms necessary to improve labor conditions may vary according to industry, production stage, manufacturing technology, and employment demographics. The contingent valuation method allows us to measure the propensity for labor-related upgrading in a way that is comparable across FIEs. We ask respondent firms to specify the maximum costs of adjustments as a percentage of current operating costs that they would be willing to make to comply with the code. The adjustment cost options are consistent with prevailing estimates for implementing internationally recognized labor codes of conduct.

Overall, surveyed firms report being willing to spend, on average, 12 percent of operating costs on labor-related improvements. This strikes us as a significant amount, indicating a marked willingness to spend on global standards as a means of gaining access to new supply chain relationships.

The experimental part of this research is derived from how the multinational firm is described. In one version of the survey, it is a "large Chinese company selling primarily to the Chinese market" (version A). In the other version, it is a "large U.S. company selling primarily to the U.S. market" (version B).

A follow-up question asked firms to indicate which changes in labor conditions they would be most likely to make. This question provides a second opportunity to test the relative impact of the TPP commitments versus the market opportunity caused by tariffs on firms' decision-making. If it is purely the market opportunity, we should expect firms to make changes that improve their ability to attract new workers, such as increased wages and social benefits. However, if the TPP commitments were the driving factor, we should expect to see greater changes in other labor improvements, such as restrictions on overtime, health and safety upgrading, and improvements in worker representation procedures including unions and collective bargaining.

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21 *Contingent Valuation is a method of estimating the value that a person places on a good. The approach asks people to directly report their willingness to pay (WTP) to obtain a specified good, or willingness to accept (WTA) to give up a good, rather than inferring them from observed behaviors in regular market places.*

F.4a. Imagine the following scenario. A consulting company would like to shortlist your company, along with two other companies in your region, as potential suppliers of your product to a large ***[Form A= US-based/Form B =China-based]*** company that sells primarily to the ***[Form A= US/ Form B =China] market***. To be eligible to be included on the shortlist, the company requires that your firm adopt the multinational's Labor Code of Conduct for Suppliers. *This Code of Conduct includes greater representation for workers, limits on overtime work, and regulations to protect the health and safety of workers*. Adopting the Code of Conduct will allow you the possibility of future orders from this multinational and others like it, but it also will increase your operating costs. Please tell us the maximum amount of adjustments (as a share of operating costs) that you would be willing to make in order to comply with the code of conduct and thereby eligible for the contract.

Share of Operating Costs: *(Please simply write the highest cost you would be willing to assume)*
_______________ % ☐ 0%

F.4b. Which types of reforms would your firm be most likely to make?
- ☐ Increases in the average wage
- ☐ Limits on overtime
- ☐ Greater social benefits payments
- ☐ Greater safety and health protections
- ☐ Greater representation of workers in negotiations with management
- ☐ Other_________________________

F.4c. Which of your products or services do you believe the consulting company is most interested in? Please write it here____

Figure 2.13 provides the straightforward over time results for the question. We present them in the form of bar graphs with range bars representing 95% confidence intervals. Again, when these intervals overlap, they indicate that predicted labor upgrading costs are not significantly different from one another – in another random sample of firms, the differences between groups might be greater.

The Figure is divided into 12 bars.[22] First, we group FIEs according to the year they answered the survey (2016, 2017, 2018), which can be seen on the x-axis. Second, we organized firms according to whether they were exposed to the third-party buyer from the United States in red or China in blue. Third, we group firms by whether they operate in a sector listed in the United States Trade Representative's letter authorizing the tariffs (USTR-2018-0026; USTR, 2018). Firms to the left of the purple line were not affected by the tariffs, while firms to the right are those most likely to change their behavior.

The first thing to note is that before 2018 the average share of operating costs that all firms were willing to spend on labor enhancements was only 7.6 percent. However, in 2018, there is a large rise in willingness to spend up to 12.6 percent for all firms. This

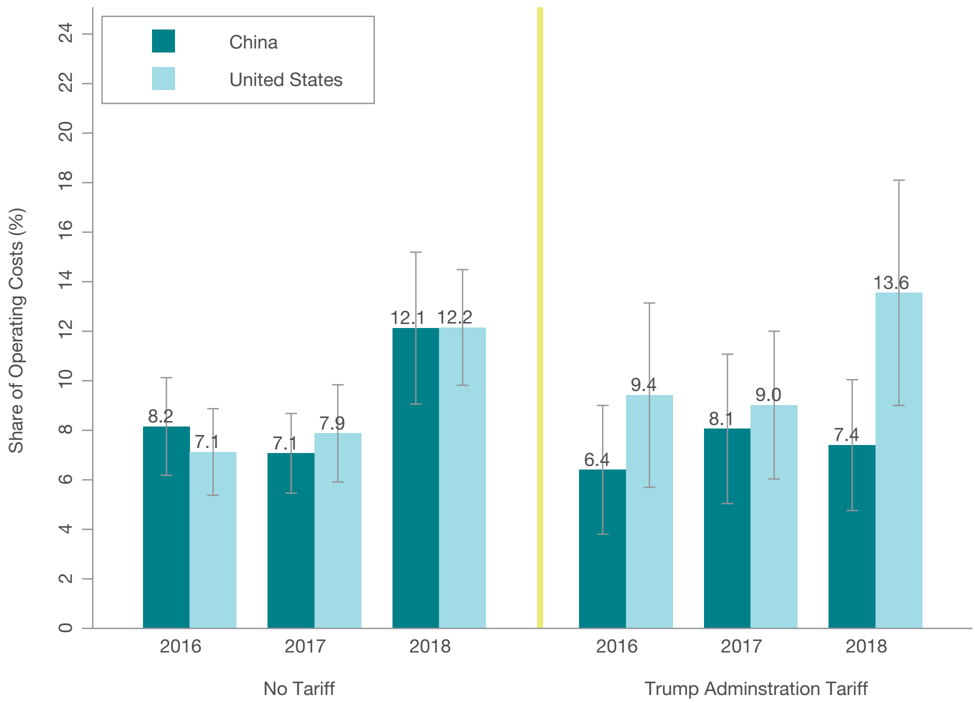
22 *Note that results are limited only to foreign investors who are not from the United States and China and operate in manufacturing sectors. The total number of observations is 1,273 over the three years.*

increase over time reflects both the greater optimism about the Vietnamese economy and the general shifting of production to higher value-added goods in the country, leading to greater demand for skilled workers.

The second thing to note is that before 2018 there is also very little difference between the responses to the U.S. and Chinese treatments. On average, firms in both treatment groups were willing to spend 8.14 percent of operating costs on local improvements. In 2018, however, there is a 4 percentage-point difference in favor of those receiving the U.S. treatment (14.5 percent versus 10.5 percent).

Third and most importantly, the change over time in terms of willingness to spend on labor is primarily concentrated in manufacturing goods exposed to the tariff increases imposed by the Trump Administration. For goods not exposed to the increased tariffs, the difference in willingness to spend is statistically insignificant (12.2 percent for the U.S. treatment versus 12.1 for the China treatment). However, for goods exposed to the increased tariffs, the difference is nearly 6 percentage points (13.6 percent for the U.S. treatment versus 7.4 percent for the China treatment). In other words, the increase in FIE's willingness to increase costs for labor is entirely concentrated in the set of goods exposed to the increased tariff lines.

Figure 2.13 Results of the Labor Upgrading Survey Experiment



Note: This figure presents the predicted effects of linear regression results, controlling for the age of the firm, the initial labor size, and two-digit sector fixed effects. Standard errors are clustered among firms from the same home country.

Explaining the experiment's results

While it is clear that firms are more willing to spend on labor conditions in goods exposed to new U.S.tariffs, the motivation is not clear. In addition to the relocation of production in Vietnam through global value chains, there may be other reasons. For instance, firms may believe that U.S. consumers are less accepting of violations in labor rights or that regulatory standards for labor are higher in the United States. There is evidence that some foreign companies internalize these higher standards and incorporate them into their production – a phenomenon called the "California Effect" (Fredriksson and Millimet, 2002). At the same time, some scholars have identified that exports destined for Chinese consumers often internalize the lower consumer demands and regulations in the Chinese market – a phenomenon referred to as the "Shanghai Effect" (Adolph, Quince and Prakash, 2017).

Fortunately, a follow-up question (F.4b) on the PCI-FDI survey allowed us to isolate which motivation was strongest by asking specifically which labor conditions firms would be willing to enact. Five improvements were listed that followed the Code of Conduct mentioned in the prime. These included: 1) increased wages; 2) limits on overtime; 3) greater social benefits; 4) greater health protections; and 5) enhanced worker representation.

If the labor conditions are primarily about attracting high-quality workers, we should observe that firms are more likely to increase wages and benefits. However, if it is about meeting the expectations of American consumers and regulatory standards, we should expect improvements in worker rights, particularly limits on overtime, health protections, and representation (all key features of the labor consistency plan signed between Vietnam and the United States as part of the TPP).[23]

Table 2.7 shows the results of this analysis, which accounts for the age, initial size, and two-digit sector in which the firm operates, and home country of the FIE. The first thing the table shows is the share of firms from each treatment condition that expressed they would engage in the reform. For instance, for firms receiving the U.S. treatment, 48.9 percent of respondents in tariff lines claimed that they would increase wages for their workers. By contrast, only 44.7 percent of firms in non-tariff, manufacturing products said they would increase wages. We can then take those numbers to work out how much greater the interest is in increasing wages for those manufacturing products in the Trump Administration's tariff schedule. The difference between these answers for the U.S. treatment is 4.1 percentage points (48.9 compared to 44.7). For those receiving the China treatment, only 38.6 percent of those in products receiving tariffs said they would increase wages. In contrast, 48.4

23 The formal title of the letter is the United States - Viet Nam Plan for the Enhancement of Trade and Labour Relations.

percent in non-tariff goods said they would. Thus, with the China treatment, firms not exposed to tariffs raised by the Trump Administration are more open to wage increases, with the difference being 9.8 percentage points.

In addition, it is also important to understand how much greater the incentive is to increase wages for tariffed goods in the U.S. and China treatments. To do this, we calculate the difference-in-differences between these two results, which is shown in the fifth column (4.1-(-9.8) =13.9). This implies that the effect of the U.S. treatment is 13.9 percentage points higher for goods exposed to the Trump Administration tariffs than for non-tariffed goods. In other words, when firms learn they have an opportunity to export to the United States, they are more likely to spend resources on wage increases, but are much more likely to do so if they produce the specific goods marked for tariffs in China.

The sixth and seventh columns show the 95% confidence interval for the analysis. As with the graphs above, when the confidence interval does not include zero, we know that the result is not due to chance. However, if it includes zero, we should be cautious that the result might simply be an artefact of a sampling error. Looking closely at the table, the only result that is statistically significant is for wages. The willingness to spend on social benefits has a difference-in-differences coefficient of 15.4 percentage points and is statistically significant at the .1 level. All other estimates are insignificant.

Table 2.7 Which Type of Labor Improvements?

(Share of Firms Willing to Engage in Activity)

Type of Labor Reform	USA		China		Difference in Difference (95% CI)		
	No Tariff	Tariff	No Tariff	Tariff	β	Low	High
Increases in average wage	44.7	48.9	48.4	38.6	13.9	5.8	22.0
Limits on overtime	40.7	44.5	43.9	40.0	7.6	-2.8	18.1
Greater social benefits payments	24.9	33.6	26.4	19.7	15.4	-2.7	33.5
Greater safety and health protections.	55.1	53.2	50.2	45.6	2.7	-8.4	13.8
Greater representation of workers in negotiations with management	19.2	19.7	18.4	11.6	7.4	-1.6	16.3
Other	0.6	3.3	2.9	2.1	3.4	-1.4	8.3

Note: This table presents the predicted effects of linear regression results, controlling for the age of the firm, the initial labor size, and two-digit sector fixed effects. Standard errors are clustered among firms from the same home country.

The bottom line is that firms are willing to spend more on labor but only on wages and (perhaps) social benefits. They appear to be unwilling to spend to improve other forms of labor conditions and labor rights.

Takeaways

The analysis above suggests that the recent tariffs increase FIE's demand for workers with greater skills and technical ability. FDI firms are willing to use higher wages and social benefits to attract skilled Vietnamese employees in order to export higher value-added products to the United States. However, as shown in section 2.5.1, respondents still face considerable obstacles in recruiting local workers for technical, supervisory and managerial roles. By improving the quality of labor on offer, Vietnam can take advantage of the U.S.-China trade conflict and create better paying jobs for local workers.

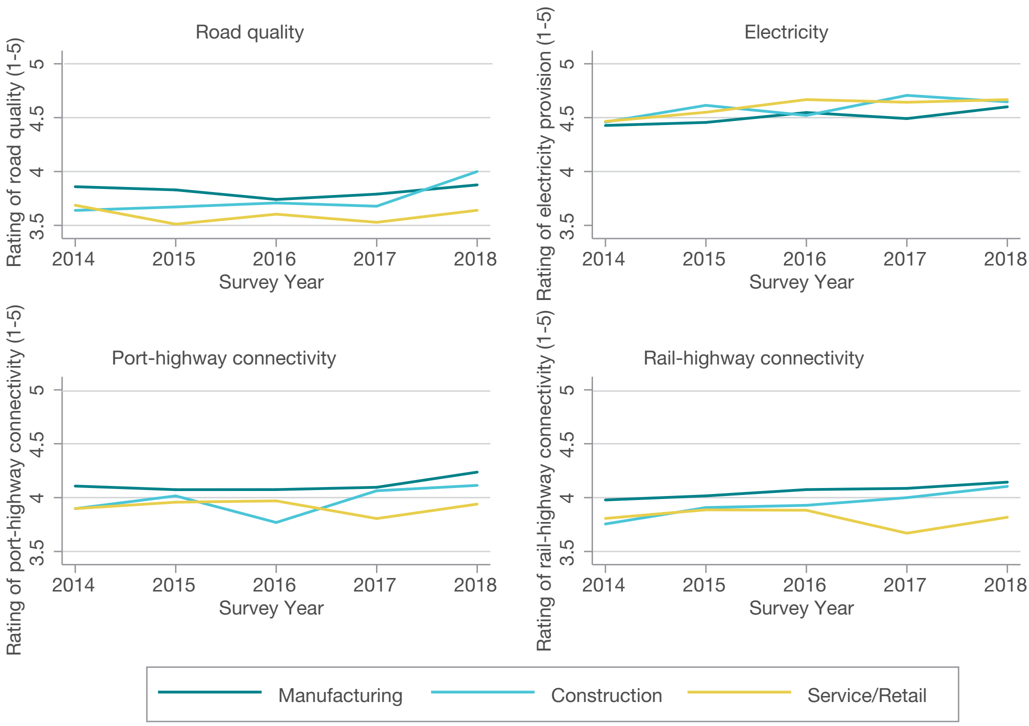
2.6 INFRASTRUCTURE

2.6.1 Overall

Since 2010, Vietnam has increased investment in infrastructure. Several new projects have been completed, including the expansion of National Highway 1 from Thanh Hoa to Can Tho, the Ho Chi Minh Road through the Central Highlands, several ports and airports, and more than 1,000 kilometers of highway (Đỗ, 2019).

The impact of these efforts is reflected in FIEs' increased satisfaction with the quality of infrastructure. Figure 2.14 demonstrates FIEs' ratings of four important infrastructure items: Road quality, electricity provision, port-highway connectivity, and rail-highway connectivity from 2014 until now. On a five-point scale, FIEs' ratings of road quality have fluctuated between 3.5 (average) and 4 (good) since 2014. Regarding port-highway and rail-highway connectivity, FIEs' ratings are high, especially among manufacturing firms, and have continuously increased.

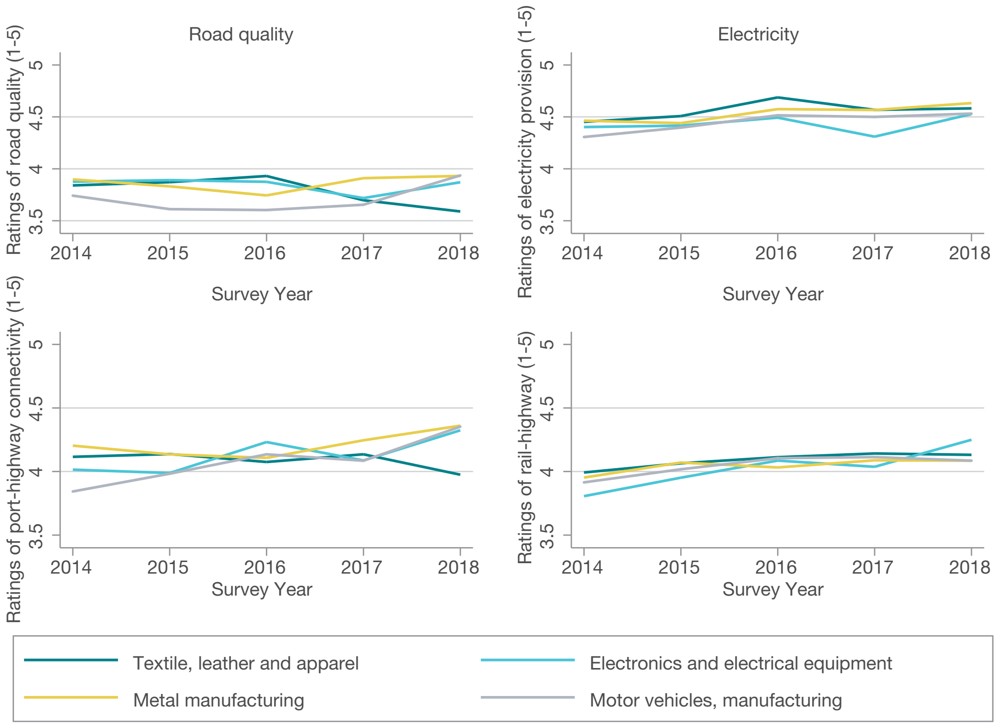
Figure 2.14 Rating of Infrastructure by Sector



The 2018 Strategic Plan targets a move toward higher-technology, new-generation FDI subsectors. We investigate whether Vietnam's infrastructure is ready for the upgrade. The figure below examines four specific subsectors prioritized by the plan in the short- and medium-term: (1) Textile, leather and apparel; (2) Electronics and electrical equipment; (3) Metal manufacturing; and (4) Motor vehicle manufacturing.

As shown in Figure 2.15, the overall picture is encouraging. FIEs in these sectors are generally pleased with the quality of infrastructure, rating infrastructure as good or better across several dimensions. Specifically, they provided a score of 3.9 out of 5 for road quality, 4.5 for electricity provision, 4.2 for port-highway connectivity, and 4.3 for railroadhighway connectivity. In most cases, their ratings have also improved between 2014 and 2018. As the graph shows, the greatest change over time for foreign investors has come for firms in the electronic industries, a key target group for the strategic plan.

Figure 2.15 Rating of Infrastructure by Subsector



2.6.2 Electricity provision

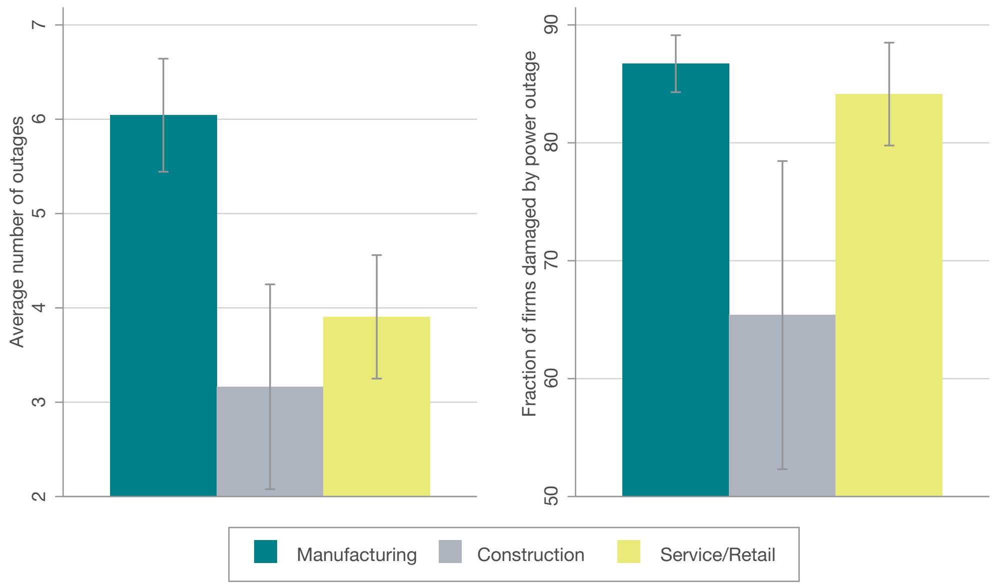
FIEs rated Vietnam's electricity provision with a very high initial rating of 4.5 out of 5 in 2014. Provision of electricity shows even stronger improvement in the last four years across all three sectors shown (manufacturing, construction, and service/retail). This finding corroborates the World Bank's Doing Business report: Vietnam's "Getting Electricity" score increased from 78.69/100 in 2017 to 87.94 in 2018. Out of 190 countries and territories, this translates to a climb in ranking from 64th to 27th (Bảo Vy, 2018; The World Bank Group, 2018).

However, manufacturing FIEs, arguably the sector that relies most on electricity, gave the lowest ratings (see Figure 2.14). This partially reflects manufacturing firms' experiences with power outages, as shown below. According to Figure 2.16, the average manufacturing firm experienced six power outages in 2018, significantly higher than the other two sectors.

Worryingly, most manufacturing FIEs (87 percent) reported damage to their business from such blackouts as they miss delivery dates or suffer spoiled or damaged products.

In addition, one reason for FIEs' high regard for Vietnam's electricity provision is its low prices. Concerns have been raised that such a pricing scheme is unfair for household users and may drive FDI firms to use more energy-intensive, less efficient and more pollution-prone forms of technology, rather than more expensive energy from renewable and less dirty sources (Hoài An, 2018). According to UNDP's Provincial Administrative Performance Index Survey (PAPI) survey, this is clearly against the stated wishes of the majority of Vietnamese citizens, who favor greener investments in their local areas (Nguyen and Malesky, 2018).

Figure 2.16 Power Outage by Sector



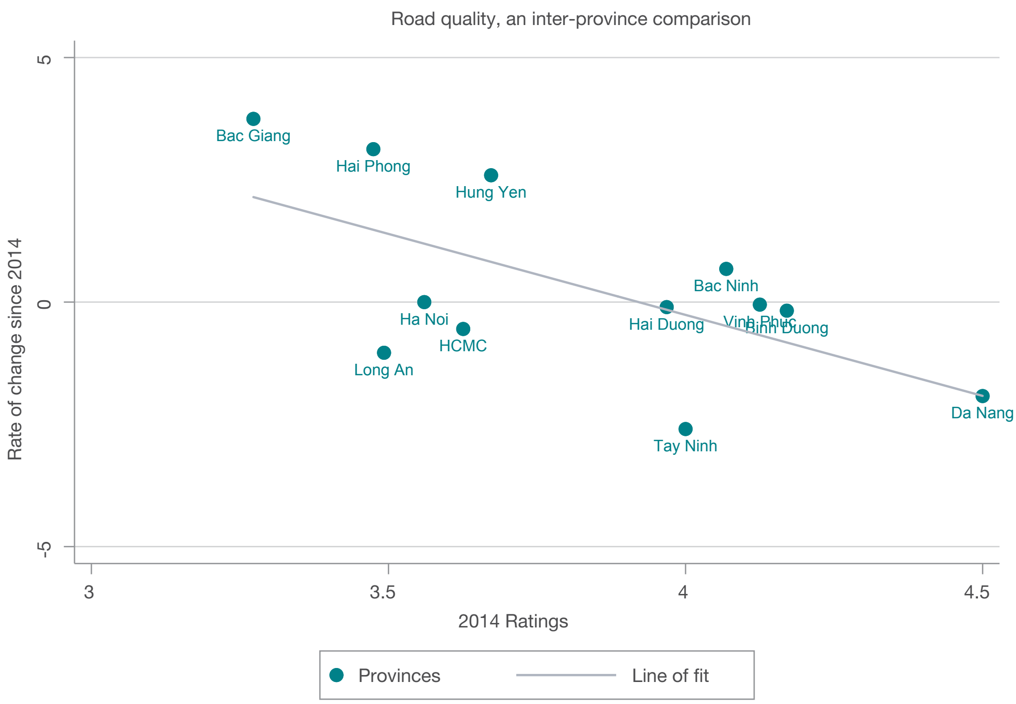
2.6.3 Road quality

Figure 2.17 plots the average rate of change in road quality ratings against the initial 2014 ratings for 12 provinces. High-performing provinces in 2014 generally see a lower rate of change, which is understandable as, by definition, they have less room to improve.

The line of fit represents the average performance among the provinces. Those above the line of fit can be said to have performed well in terms of improving road quality, given their initial ratings. FIEs' evaluation of road quality has improved significantly in Hai Phong and Hung Yen, most likely thanks to the Hanoi-Hai Phong highway inaugurated in 2015. Bac Giang and Bac Ninh also showed improvement, which can be attributed to the opening of the Hanoi-Lang Son highway in 2016.

On the other hand, the sub-par performance of provinces such as Long An and Tay Ninh reflects the delayed completion of important infrastructure projects in these areas. For example, the construction of the Trung Luong-My Thuan highway, which also serves Long An, started in 2009 (Tạ Lư - Đoàn Loan, 2019). As of February 2019, only 15.8 percent of the work had been completed although the scheduled date of completion is 2018 (Thế Dũng - văn Duẩn, 2019). The Ben Luc-Long Thanh highway is also lagging behind schedule. Regarding Tay Ninh, the province is pushing for a highway to connect Ho Chi Minh City and the Moc Bai border gate to Cambodia (Giao Thông Vận Tải, 2018). As of now, Highway 22, which suffers from overcapacity, is the only road connecting these two important junctures (Anh Minh, 2018).

Figure 2.17 Road Quality by Province



2.7 CONCLUDING THOUGHTS

Vietnam celebrates 30 years of FDI in 2018. FDI attraction is strong, with realized investment reaching a new record and newly registered FDI maintaining the high performance from 2017. High-technology sub-sectors, such as electronics, are accounting for an increasing share of foreign investment. In recent years, the regulatory burden has been alleviated and petty corruption has been declining.

However, several areas require the government's immediate attention. The size of FDI projects is decreasing, which may indicate an influx of satellite FIEs seeking to supply to larger FDI projects. Such firms can crowd out domestic competitors, making it harder for Vietnamese firms to integrate into global value chains and benefit from technology and management spillovers. While large investment into infrastructure is paying off, some provinces are lagging behind. Finally, FIEs have had difficulty recruiting skilled local labor for several years. As shown in section 2.5, Vietnam is well situated to benefit from the U.S.-China trade conflict, but only if it can provide FIEs with the high-skilled employees that they need to export high value-added products.

3

SPECIAL INVESTIGATION OF GLOBAL INTEGRATION AND INTERNATIONAL CONTRACTING IN VIETNAM

Vietnamese policy-makers have demonstrated increasing concern regarding the lack of global integration of the domestic private sector. While scholars and practitioners have suggested a number of policy steps to resolve this puzzle, very little attention has been paid to the credibility of domestic and international dispute resolution mechanisms in enhancing trust between potential business partners and facilitating contracts with far-flung business actors outside of the immediate networks of Vietnamese firms.

We take up this question in this year's *PCI Chapter 3 Special Investigation* by embedding a survey experiment in both the 2018 domestic and foreign services. The experiment primed respondents to consider either the contract enforcement protections in Vietnam's Law on Commercial Arbitration (LCA) or Chapter 28 of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). We find that both LCA and CPTPP encourage greater business partnerships, but the effect is far greater for those receiving the CPTPP treatment. For domestic firms, predicted sales growth is 1.65 percent for those exposed to the LCA and 4.3 percent for those exposed to the CPTPP (a 2.7 point difference). For foreign firms, the difference is smaller at 2.12 percentage points (1.05 v. 3.18 percent), but still statistically significant.

Probing further, we find that the most likely business partners for the increased activity are foreign-invested enterprises (FIEs), multinational corporations (MNCs), and third-party overseas buyers – precisely the actors involved in global value chains (GVCs). While the CPTPP also has a positive effect on potential partnerships with domestic private enterprises, the size of the increase is far less substantial. Surprisingly, the positive effect of internationalization of contract enforcement does not differ dramatically whether the respondent was a private, domestic firm, or foreign investor.

INTRODUCTION

Vietnamese policy-makers have demonstrated increasing concern regarding the lack of global integration of the domestic private sector. Vietnamese private firms tend to concentrate their energies and entrepreneurial innovation inward, selling primarily to the Vietnamese domestic market (Dinh, 2014; Hoang and Pham, 2016). Very few private firms are involved in GVCs, either as vendors of goods or services to foreign companies based in Vietnam, or in the form of exports to third parties who participate in GVCs (Ngoc, 2016). This is surprising, because GVCs are tremendously active in the country, and analysts have begun to see Vietnam as one of Asia's main "manufacturing powerhouses" (Hollweig et al., 2017, p .1). Trade accounts for over 200 percent of the country's GDP (World Bank, 2018), and GVCs produce between 50 and 60 percent of total value added in the country (OECD-WTO, 2017).

Most of this economic activity, however, is due to the activities of FIEs. In 2018, Foreign Direct Investment (FDI) inflows into Vietnam accounted for 23.4 percent of gross capital formation, rising sharply over previous years (GSO, 2018). In 2017, the stock of total FDI as a percentage of gross domestic product was over 60 percent (UNCTAD, 2018), a tremendous increase from 28 percent in the late 1990s. Certainly, FDI has played a key role in Vietnam's economic transformation, representing a very large share of output and employment. More importantly for our purposes, however, FDI accounts for roughly 80 percent of manufacturing exports and 72 percent of the country's total exports (GSO, 2018; Nguyen and Ramstetter, 2016).

By contrast, the domestic private sector is disproportionally under-represented in supply chain activity. Only 21 percent of Vietnam's domestic SMEs participate in GVCs, much lower than the 46 percent in neighboring ASEAN countries (Anh, 2019; Sturgeon and Zylberberg, 2017). Enhancing private sector participation in GVCs has therefore become an important policy priority for national and local officials. In a speech to investors at the World Economic Forum-ASEAN summit, Prime Minister Nguyen Xuan Phuc argued, "Vietnam needs to move to a higher position in global value chains and strengthen the connectivity between Vietnamese and FDI businesses" (Anh, 2019).

While scholars and practitioners have suggested a number of policy steps to resolve this puzzle, very little attention has been paid to the credibility of domestic and international dispute resolution mechanisms in enhancing trust between potential business partners and facilitating contracts with far-flung business actors outside of the immediate networks of Vietnamese firms (Berger and Bruhn 2017).

We take up this question in this year's *PCI Chapter 3 Special Investigation* by embedding a survey experiment in both the 2018 domestic and foreign services. The experiment primed respondents to consider either the contract enforcement protections in Vietnam's Law on Commercial Arbitration (LCA) or Chapter 28 of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). We randomly assigned respondents to each document, ensuring that the two treatment groups were similar on average across descriptive characteristics (e.g. size, sector, and experience with disputes). As a result, their answers to follow-up questions indicate the influence of exposure to the new information on the agreements. Another way to think about this research design is the comparison of Vietnam's *status quo* of commitments under the LCA to the prospective benefits of commitments under the CPTPP. Essentially, we are asking firms whether international cooperation will promote business beyond the protections they can already avail themselves of in Vietnamese law.

Anticipating our findings, we find that both LCA and CPTPP encourage greater business partnerships, but the effect is far greater for those receiving the CPTPP treatment. For domestic firms, predicted sales growth is 1.65 percent for those exposed to the LCA and 4.3 percent for those exposed to the CPTPP (a 2.7 point difference). For foreign firms, the difference is a smaller 2.12 percentage points (1.05 v. 3.18 percent), but still statistically significant. Probing further, we find that the most likely business partners for the increased activity are FIEs, multinational corporations (MNCs), and third-party overseas buyers, precisely the actors involved in GVCs. While the CPTPP also has a positive effect on potential partnerships with domestic private enterprises, the size of the increase is far less substantial. Surprisingly, the positive effect of internationalization of contract enforcement does not differ dramatically whether the respondent was a private, domestic firm, or foreign investor.

The chapter proceeds as follows. First, we describe the puzzle of Vietnam's growth, statistically illustrating the lack of participation by domestic firms in GVCs and the existing policy prescriptions for the problems. Second, we discuss Vietnam's domestic approaches to addressing this dilemma through the strengthening of contract enforcement. Third, we discuss the country's alternative strategy of enhanced enforcement through international commitments, such as the TPP. We describe our research design in the fourth section, and discuss the statistical results in the fifth. The final section concludes with policy recommendations.

3.1 CURRENT BUSINESS PARTNERS OF VIETNAMESE PRIVATE FIRMS

Table 3.1 provides the top customers for products of Vietnamese domestic firms over the past three years. Notice that the vast majority of businesses sell their goods or services to other Vietnamese individuals (66 percent), private companies (64 percent), and SOEs (24 percent). Roughly 28 percent also engage in government procurement as a primary source of sales revenue. There is nothing concerning about this concentration on domestic activity, especially given Vietnam's sizable domestic market of 94 million people. However, these numbers dwarf the share of firms that are engaged in contracts with foreign business partners, who are likely linked into global supply chains. Only 15 percent of businesses sell to foreign companies in Vietnam, only 8.4 percent export their products directly, and only 7.4 percent of businesses sell to third-party buyers. Furthermore, foreign investors operating in Vietnam complain about the quality and capacity of Vietnamese vendors (Dinh, 2014). Nearly 60 percent claim it is either difficult (57.2 percent) or very difficult (2 percent) to satisfy the local origin obligations enshrined in preferential trading arrangements because of these issues.[24]

The PCI-FDI survey mirrors these numbers. Although 60 percent of foreign companies claim to purchase some of their intermediate goods and services from domestic private companies,[25] a few, very large companies account for the vast majority of these sales. The average share of the largest supplier to foreign firms in Vietnam is 62 percent.[26] Indeed, Figure 3.2 demonstrates that the difficulties look less severe when we limit the analysis to manufacturing firms and large firms with over 500 employees. Manufacturing firms are far more globally integrated than firms in agriculture or services. Twenty percent of manufacturing businesses sell to foreign companies in Vietnam, 17.4 percent export their products directly, and 12 percent of businesses sell to third-party buyers. Large firms also demonstrate slightly higher integration, especially in terms of their ability to export directly. In both cases, however, there is still tremendous room to improve connections between firms and GVCs.

24 See question K2 of the PCI-FDI survey

25 See question A16 of the PCI-FDI Survey

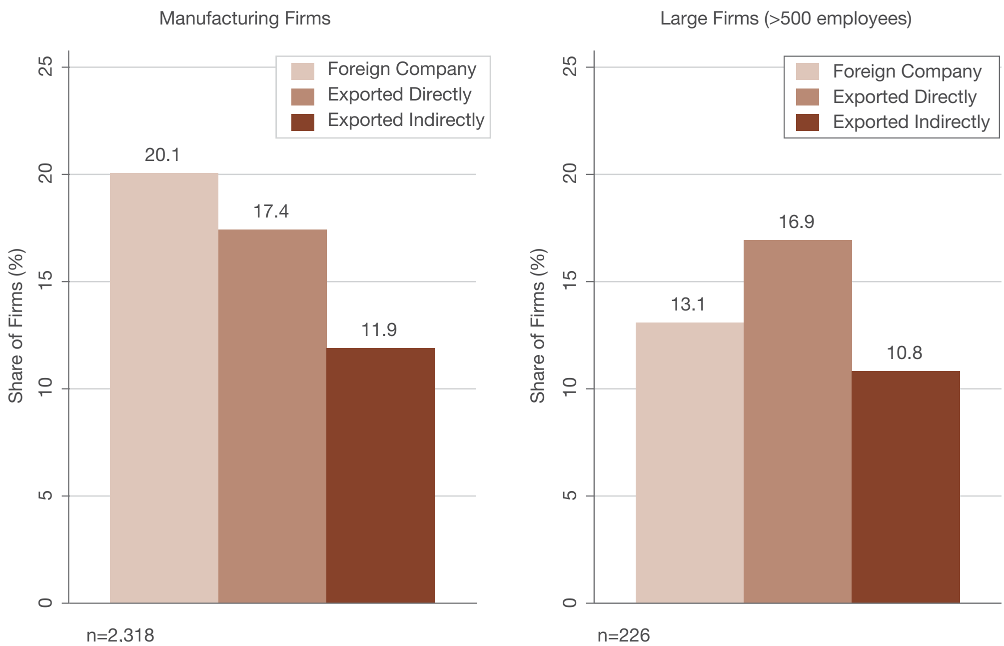
26 See question A14 of the PCI-FDI Survey

Table 3.1 Primary Customers of Vietnamese Domestic Firms

Year	Domestic Origin			
	SOEs	Government	Private Individual	Private Company
	%	%	%	%
2016	24.7	28.9	61.6	62.1
2017	22.8	27.8	63.9	60.5
2018	23.8	27.8	65.7	63.8
Year	**Foreign Origin**			
	Foreign Individuals	**Foreign Company**	**Exported Directly**	**Exported Indirectly**
	%	%	%	%
2016	7.8	14.1	9.8	7.5
2017	7.0	13.9	8.4	6.8
2018	7.7	14.6	8.4	7.4

Based on question A11, “Please choose the main customers of your firm (Please check all categories that apply).”

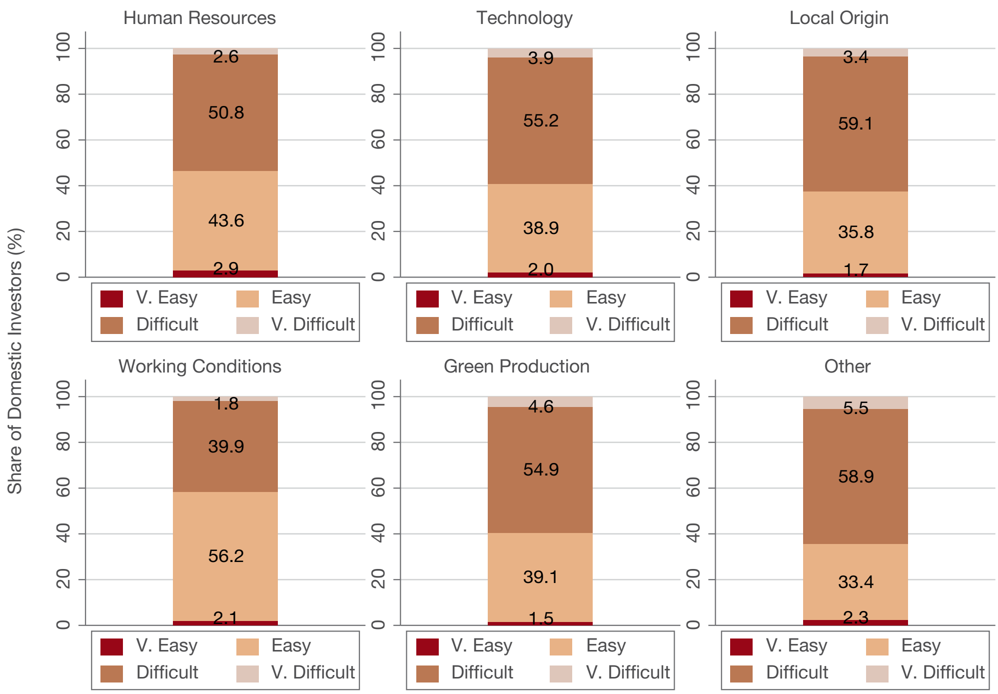
Figure 3.1 Customers of Manufacturing and Large Firms



The limited international engagement of the domestic private sector has become a key concern for academics and policy-makers, with many suggesting policy improvements. These have included efforts to improve infrastructure (Banomyong, 2017; Shephard, 2017)[27], reduce the regulatory barriers of customs inspections and port hold-ups (VCCI, 2018), and augment local content requirements (JETRO, 2017). Additional suggested policy improvements include better education to improve human capital (Ngoc, 2016), the upgrade of local working conditions (Malesky and Mosley, 2018), and even the introduction of better technology (especially green technologies) that might improve the acceptance of Vietnamese products by foreign producers (Dinh, 2014).

These approaches have yet to bear fruit. Figure 3.2 demonstrates that most domestic investors believe they have had trouble making the types of firm-level adjustments necessary to improve their attractiveness to international customers. While a majority of firms see improving labor conditions as easy or very easy (58.3 percent), less than half feel similarly about enhancing human resources (46.5 percent), adapting new technology (40. 9 percent), engaging in green production (40.6), or satisfying local origin requirements (37.2 percent).

Figure 3.2 Ease of Activities to Prepare for Global Integration



Question K2. PCI 2018 Questionnaire: "Please rate the ease of taking following measures to prepare for increasing global integration."

27 *Also see Chapter 2 in this year's report*

3.2 THE IMPORTANCE OF ENFORCEABLE CONTRACTS

In a 2009 statistical analysis of Vietnam's private firms, Nguyen and Nishijima (2009) suggested that the key determinants of international integration and value-added upgrading were not firm-level technology or human capital, or structural conditions such as market proximity and infrastructure. Instead, the authors suggested that the major bottlenecks were policy barriers, pointing to issues with policy uncertainty, corruption, and mechanisms for dispute resolution as key contributors.

This finding is consistent with the PCI research team's motivation for including Subindex 10 on Legal Institutions in the overall index to shed light on the importance that dispute resolution institutions have on motivating firms to do business with partners outside their social circles. The academic literature has demonstrated the importance of institutions that help enforce contracts between businesses. For instance, an independent legal system that allows small businesses and minority shareholders to defend their rights is essential for business growth (Djankov et al., 2008; Beck et al., 2002). Without the ability to uphold contracts, businesses are forced to depend on social enforcement, relying on family, friends, and local notables to shame vendors who refuse to deliver or customers who fail to pay (McMillan and Woodruff, 1999). This limits the scope of potential business partners to those in a firm's immediate social network. Only with external enforcement possibilities will firms be willing to do business outside of their social network, allowing for greater expansion and growth. The law-and-finance-nexus literature has further shown that credit markets function best in locations with regions with better legal protections (Levine, 1999). Drawing on this literature, we have argued that weak institutions for enforcing contracts have constrained business expansion and innovation in Vietnam.

All successful businesses are built on dense networks of trust with outside parties (Butler et al., 2016). The most obvious example is the relationship between trust and financial access (Sapienza, 2012). Lenders depend on being confident that the investors they support are sincere and trustworthy and that their loans will be repaid in a timely manner. However, the importance of trust and contracting goes far deeper than bank lending (Sapienza et al., 2013), especially when it comes to GVC partners. Owners and managers must be certain that their raw materials and equipment will be delivered on time and with minimal damage or waste. They must trust that their distributors will get their products to the proper outlets at the right time. They must be certain that retailers will stock their products when they arrive and they must be confident that third-party buyers will pay fully upon delivery.

In all of these transactions, contractual disputes are a normal risk in everyday business. While domestic firms in Vietnam report very few disputes, 20 percent of foreign firms in the PCI-FDI survey reported that they had encountered a contract dispute with an outside party in the past year, usually with domestic enterprises. Sometimes goods arrive late or damaged, payments fall short of expectations, and services are of insufficient quality. In these cases, well-meaning business partners must find a way to resolve these disputes.

However, contract enforcement is costly and uncertain in the country. According to the World Bank's Annual Doing Business Report (World Bank, 2019), enforcing a contract in the People's Court of Ho Chi Minh City takes about 400 days, costs firms roughly 29 percent of the contract value, and involves a judicial process that is well below average in terms of efficiency, management quality, transparency, and equity. As a result, Vietnam ranks 62nd on the *Enforcing Contracts* subindex. This is an improvement over previous years, but is far below other measures of the Vietnam business environment. By comparison, the country ranks 21st in "Getting Construction Permits" and 27th in "Getting Electricity."

Consequently, firms in Vietnam have generally been reluctant to turn to the courts when disputes arise. Only 39 percent of private domestic firms and 2 percent of foreign firms have been willing to use courts to resolve ongoing disputes. The most common reasons for avoiding formal dispute resolution through the courts were that resolution took too long (36 percent), was costly (23 percent), and could involve bribes to solicit favorable rulings (23 percent).

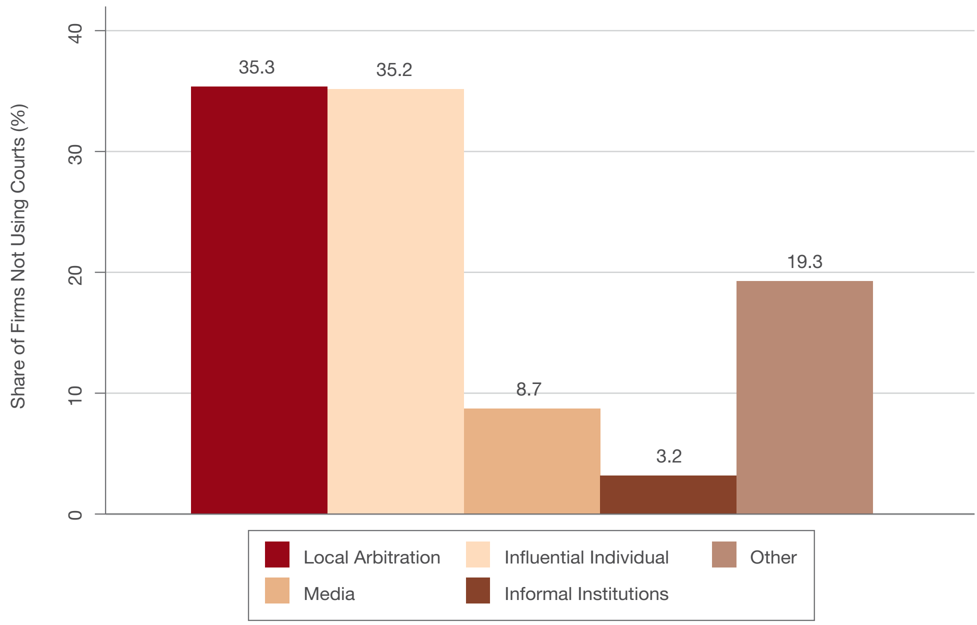
Table 3.2 Opinions of Courts in Vietnam

Variable	Private %	Foreign %
Dispute in last two years	3.9	20.2
Would use court in dispute	39.4	2.0
Why didn't you use the courts?		
Takes too long	35.8	7.8
Expensive	23.0	5.1
Bribe required	23.2	3.5
Low capacity of officials	8.3	1.4
Reveals trade secrets	16.0	2.5
Other methods better	40.0	15.4

Source: PCI Survey H3-H4; PCI-FDI Survey I1-I3

Because of these difficulties, firms have tended to turn to other means of dispute resolution. Historically, the most common form was social enforcement – enlisting an influential person, trusted by both parties to resolve the dispute. Today, 34 percent of domestic firms still report that this is their preferred method, in addition to 3.2 percent using informal groupings (sometimes even criminal organizations), and 19 percent using other methods, which are predominantly forms of social enforcement. As noted above, however, social enforcement comes at a severe cost to businesses. To make sure disputes can be dealt with informally, firms limit their business exposure to partners within their social networks. This often means that a vendor that the business already knows is used in favor of a more efficient vendor. Similarly, geographical expansion is limited because it depends too heavily on trust outside of a manager's immediate network.

Figure 3.3 Forms of Non-Judicial Dispute Resolution for Domestic Firms



With increased global integration, the importance of trust and contracting has been amplified. New business opportunities to sell and purchase from foreign investors and overseas businesses have increased, but each of these transactions also carries the risk of disputes for both parties. Foreign investors worry that local vendors may shirk on quality or timeliness, but they will be unable to hold them accountable in Vietnamese courts. At the same time, Vietnamese businesses worry about taking on debt to purchase high-end equipment or to attract expensive technical experts to meet the demands of foreign buyers, only to end up shouldering the burden of these costs in disputes over payment.

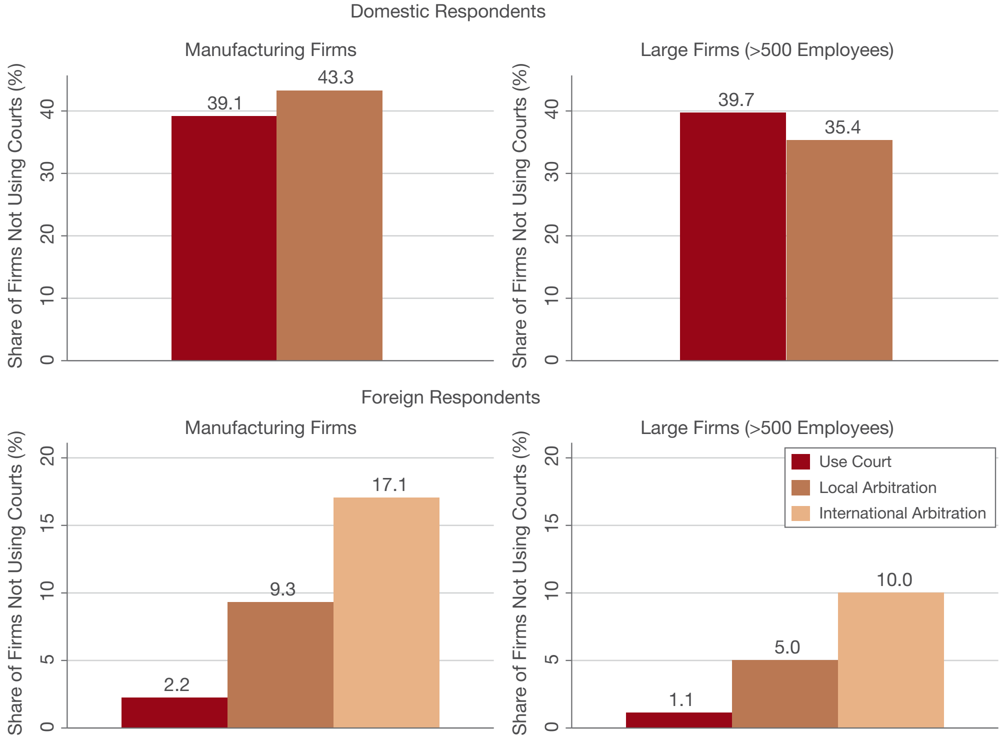
Because foreign investors rarely use the courts, they protect themselves in other ways within Vietnam. Table 3.3 shows the range of techniques that foreign firms use to ensure contract enforcement in Vietnam. Clearly, the most common form is to self-protect by writing contracts in a way that reduces the potential for costly disputes, such as including incentive structures, insisting on clawbacks of investment, or staged implementation of contracts.

Figure 3.4 analyzes whether courts and arbitration are more popular for manufacturing and larger firms. Unfortunately, here we find disappointing news. For domestic firms, there is very little difference. The shares of firms using courts and local arbitration are extremely similar to the general population. The only recognizable difference is that manufacturing firms are 8 percentage points more likely to use local arbitration. For foreign firms, the news is even more disappointing. Large and manufacturing FIEs are actually much less likely to rely on formal dispute resolution institutions in Vietnam. These firms are more likely to distrust the fairness of these institutions, and are more likely to use contracting and belated entry strategies to protect themselves.

Table 3.3 Forms of Non-Judicial Contract Enforcement for Firms

Outside of courts, what other means do you use to ensure the sanctity of contracts in your province? *(Check all that apply)*	**%**
International arbitration	18.07
Local arbitration	18.49
Appeal to local government officials	15.97
Appeal to home country embassy/consulate.	10.08
Write contracts with incentive structures and staged-implementation to encourage compliance	41.60
Only do business with close friends and family	2.52
Asking an influential person in the government to handle	5.88
Bring media attention to the case	3.36
Using criminal gangs, mafia groups	0.42

Figure 3.4 Use of Formal Institutions by Sector and Size



Vietnamese authorities are aware of these problems and have attempted to deal with them. Domestically, Vietnam has sought to strengthen local dispute resolution institutions. Enormous resources and energy have been spent on the training of judges and prosecutors to improve the quality and fairness of court pro ceedings. Evidence is emerging that these efforts have paid some dividends in court efficiency and equity (Nicholson, 2001; Lien, 2005).

In addition, beginning in 2003, the country has sought to create alternative forums for dispute resolution through local arbitration (Le, 2016). After Vietnam's entry into the World Trade Organization (WTO), it began working on a domestic law that was based on the United Nations Commission on International Trade Law's (UNCITRAL) model law (Nam and Ho, 2015). In 2010, the National Assembly passed the Law on Commercial Arbitration (No. 54/2010/QH12), which took effect in 2011 and opened up the door for contract dispute resolution outside of the courts.[28]

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28 *http://eng.viac.vn/legal-normative-documents/law-on-commercial-arbitration-a293.html*

According to lawyers involved, since its passage it has become an, "attractive method of resolving domestic and international disputes." Parties have expressed a preference for the private setting and control over key conditions, such as the relevant legal origin, venue, and language. Currently, there are 25 operating arbitration centers in Vietnam (MOJ, 2018).[29] Since its establishment in 1993, the VIAC has handled 1,494 cases, approximately 70 percent of which involved sales contracts between domestic firms and a foreign party (Nam and Ho, 2015).

According to Nam and Ho, "it is fair to say that the development of the Vietnam International Arbitration Center (VIAC) illustrates the rising trend of arbitration in Vietnam" (2015, p.1). The leading venue, VIAC, witnessed a 55 percent increase in its caseload in the first year since the law's promulgation. In 2018, VIAC handled 180 cases, half of which were domestic cases (VIAC, 2019). The PCI's data confirms this in Figure 3.2 and Table 3.3. In 2012, the share of firms using arbitration centers was close to zero, but in 2018, 35 percent of domestic firms and 18 percent of foreign firms acknowledged an interest in using arbitration centers to settle disputes.

Nevertheless, despite Vietnam's best efforts, many foreign investors still tend to see the country as a single-party regime and distrust the fairness and equity of domestic institutions. Because of the close connections between the party-state and courts, they worry local arbitration may be compromised by political necessity. In particular, international lawyers have pointed to the unusual power of Vietnamese courts to invalidate arbitration settlements, frequently using the justification of, "being contrary to the fundamental principles of the Vietnamese law" (Nam and Ho, 2015, p. 1). This has often been the case when the terms of the contract between two parties differed with Vietnamese legal statutes. According to VIAC data, between 2004 and 2018, there were 84 requests to enforce foreign arbitral awards, but only half of these were upheld by the Vietnamese legal system (Nguyen and Pham 2018). In 2014, Resolution 01/2014/HDTP was issued to address this problem, but its scope has been seen by investors as limited (Nam and Ho 2015).[30] The resolution has had a positive effect on domestic arbitration. After 2015, only 6 out of 612 arbitral awards (less than one percent) were canceled, a staggering improvement of the 50 percent cancelation rate before the resolution (Nam and Ho, 2015). However, the improvements for foreign arbitration have been much less pronounced.

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29 The biggest are Ho Chi Minh City Commercial Arbitration Centre (TRACENT), established in 1997 (27 arbitrators); ASEAN International Commercial Arbitration Centre (ACIAC), also established in 1997 (37 arbitrators); Centre for Commercial Arbitration in Can Tho (CCAC), established in 1999 (12 arbitrators); Pacific International Arbitration Centre (PIAC), established in 2006 (77 arbitrators and seven foreign arbitrators); Vietnam Finance & Banking Commercial Arbitration Centre (VIFIBAR), established in 2012 (seven arbitrators); Finance Commercial Arbitration Centre (FCCA) also established in 2012 (nine arbitrators); Indochina Trade Arbitration Centre (ITAC), established in 2014 (18 arbitrators); and the Vietnam International Arbitration Centre (VIAC).

30 Resolution 01/2014/NQ-HDTP "Guiding the Implementation of Certain Provisions of Law on Commercial Arbitration," March (2014).

Foreign investors also complain about enforcement of their awards in arbitration. While domestic cases are enforceable immediately, foreign awards require filing with the Ministry of Justice and then confirmation by the Vietnamese courts for recognition and enforcement in Vietnam. This additional complication has made it very difficult for foreign parties to collect on their dispute settlements, especially in cases where the losing domestic party is an SOE and therefore was seen differently by Vietnamese authorities and the courts (Eurocham, 2017; Bich Thuy, 2018).

3.3 INTERNATIONALIZATION OF DISPUTE RESOLUTION

To counteract these negative perceptions, Vietnam has sought to reinforce its domestic legal commitments in international agreements. The country has done this through the signing of bilateral and multilateral Bilateral Investment Treaties (BITs) and Preferential Trade Agreements (PTAs) with investment protection provisions. In a few short years, the country has become one of the most globally integrated developing countries. After acceding to the WTO in 2007, the country signed several PTAs as a member of ASEAN and is one of the few emerging markets to take part in the growing trend of deeper PTA that emphasizes non-trade issues, such as labor and the environment, and include dispute resolution mechanisms. In the past five years, Vietnam has concluded a number of such high-powered arrangements, including the Eurasian Customs Union, the Korean-Vietnam Free Trade Agreement (FTA), the European Union-Vietnam FTA, and the main subject of our analysis, the CPTPP.

While the main goal has been to provide greater trade and investment opportunities for its firms, Vietnamese leaders have also expressed support for the benefits of dispute settlement mechanisms. There is tremendous evidence in the academic literature on International Political Economy (IPE) for this approach. Bilateral investment treaties (BITs) have been one way to internationalize investment commitments, and they have proliferated over the past four decades (Kerner, 2009; Neumeyer and Spess, 2005). In addition, larger economic and trade agreements among countries have included investment protection increasingly over time (UNCTAD, 2018). There are now some 3,000 international agreements globally that allow foreign investors to sue the governments of countries in which they invest for violating their property rights, using decentralized international tribunals to decide whether or not the investor is owed compensation with no appeals system for governments yet in place (Wellhausen, 2016).

The most important of these international commitments is the use of investor-state dispute settlement (ISDS) regimes, which are intended to help governments credibly commit to allow foreign investors to operate on their soil without undue interference (Wellhausen, 2016). The IPE literature suggests that international agreements that protect foreign investment and provide for international arbitration can reassure foreign investors and bring in more FDI (Buthe and Milner, 2008, 2014; Tang and Wei, 2009; Haftel, 2010; Dreher and Voigt, 2011).

To this end, on November 12, 2018, Vietnam took its most ambitious step yet in encouraging contract enforcement by ratifying the conditions of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) with ten other countries in the Pacific Region, including Japan, Singapore, and Australia. Although the main benefit and objective for Vietnam is the free trade agreement that will cover nearly 500 million people and total GDP of $13.5 trillion (13 percent of global GDP), the CPTPP also includes strong provisions for dispute resolution. Section B of Chapter 28 specifically lays out the rules for dispute resolution for individual investors. The agreement took effect on January 14, 2019.

Chapter 28 of the CPTPP lays out a number of procedures adjudicating disputes between investors and states, relying on a light institutional structure of arbitration panels without support from a permanent secretariat. This allows parties a wider scope for reaching negotiated outcomes, either before or after adjudication. Importantly for our analysis, CPTPP extends important protections to investments made by foreign investors from CPTPP member states in other member states, and entitles those investors to submit disputes with member states to binding investment arbitration. Because of the scope of the agreement, the CPTPP will be the second largest multilateral area of investment protection backed by arbitration in the world. Section B of the chapter reaffirmed Vietnam's commitment to private arbitration under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Within this area, covered investors will normally be entitled to a range of protections, including: 1) *national treatment* (Vietnam must treat foreign investment at least as well as it treats those of its own nationals); 2) *most favored nation* ("MFN") (Vietnam must treat FIEs investments at least as well as it treats those of other FIEs); 3) *fair and equitable treatment* (Vietnam must treat FIES fairly and equitably, often understood to require respect for legitimate expectations and prohibitions on arbitrary and unreasonable actions as well as denials of justice; 4) *full protection and security* (Vietnam must police protection to FIEs; 5) *no expropriation without compensation* (Vietnam cannot seize a foreign investment without paying prompt, adequate, and effective compensation) (Franzetti et al., 2018).[31]

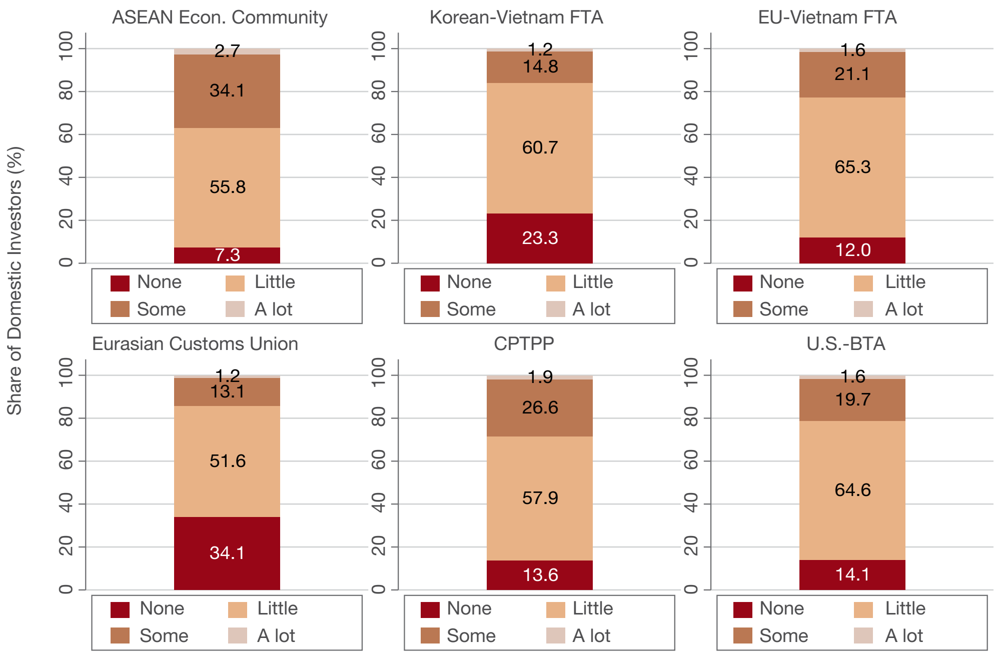
31 A limited exception to note is that investors will not be able to bring claims for breaches of investment agreements and investment authorizations under the CPTPP as the relevant provisions are currently suspended (The suspension may be lifted by the agreement of the CPTPP parties). In addition, New Zealand entered into several side letters with five other signatories, including Vietnam, which limit investment arbitration for their companies. The side letters are bilateral and only apply between the two states that are party to the letter. Investors from member states that are party to side letters who are investing in the territory of other side letter signatories may still be able to seek protection under other trade agreements (Franzetti et al. 2018).

Because of the alignment of these commitments with Vietnamese law, Vietnamese leaders expect that the CPTPP will enhance the commitments of local law, including the LCA, and encourage more foreign investors to do business with Vietnamese firms, better linking them in to GVCs. This is the core hypothesis that we seek to test in the next section.

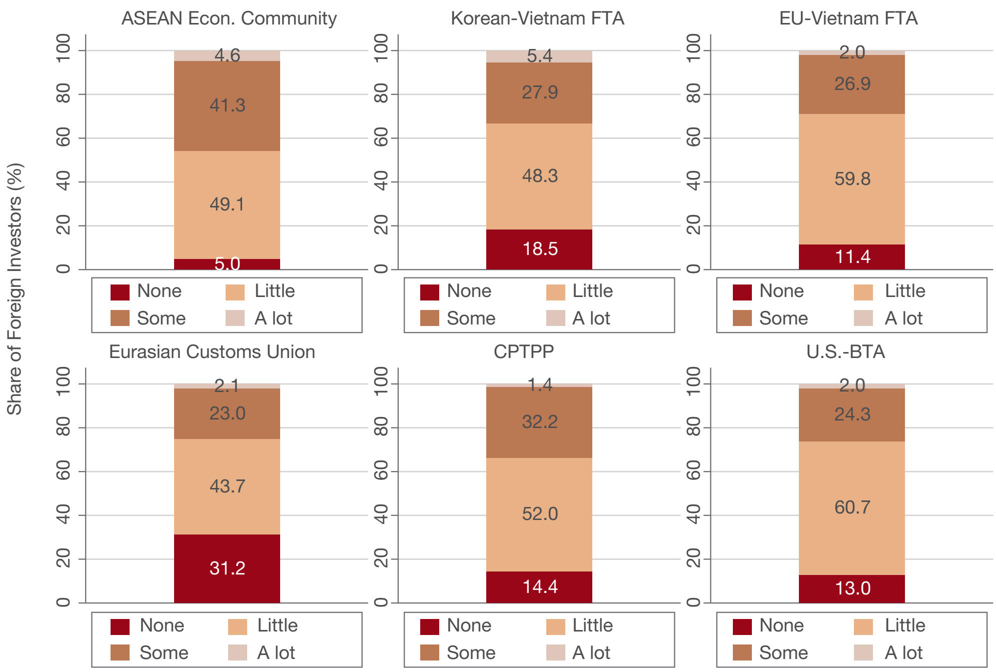
While these expectations are well grounded in academic and policy work, one potential obstacle to enhanced business activity is the low-level of knowledge of both domestic and foreign firms in Vietnam regarding these commitments. Figure 3.5 depicts domestic and foreign investor knowledge respectively regarding Vietnam's most recent and important international commitments. For all six of the depicted international arrangements, the majority of both domestic and foreign firms have either never heard of the international agreement or only know the name of the agreement, but do not have any details on the commitments or opportunities (coded as "Little" in the graph). This is even true of the longest standing arrangement, the US-Vietnam Bilateral Trade Agreement (USBTA), which was signed in 2000. Seventy-nine percent of domestic firms and 74 percent of foreign firms have, at best, a passing knowledge of it because it was eventually superseded by WTO commitments. The more recently signed CPTPP is better known, but just barely – only 29 percent of domestic firms and 34 percent of foreign firms know more than the agreement's name. However, less than 2 percent of both groups claim they know a lot about the details of the arrangements.

This insight motivates our research experiment that follows. Since so few firms know about the agreement, how might informing them about the dispute resolution commitments enhance their prospective plans? By learning that their contracts made with foreign parties are more likely to be protected, are they more likely to take steps to pursue new partners and ultimately expand their sales?

Figure 3.5 Knowledge Regarding Vietnam's International Commitments
Respondents to PCI Domestic Enterprise Survey



Respondents to Foreign Enterprise Survey



3.4 RESEARCH DESIGN

To address these questions, we included a survey experiment in the 2018 PCI survey for both foreign (n=1,577) and domestic (n=8,681) investors.[32] This type of experiment is known as an information priming experiment, where we explain new information to respondents to see if it changes their beliefs about the future and their perceptions of their future behavior. For us, the key feature that we want to isolate is the internationalization of Vietnam's contract provisions. By learning that Vietnam has agreed to a multilateral agreement that reaffirms these provisions, are respondents more likely to take actions that further Vietnam's engagement in GVCs? In short, does learning of an international commitment that reaffirms Vietnam's arbitration commitments while allowing for ISDS to enhance business decisions beyond local dispute-resolution commitments? The full question is provided in Box 3.1 below. The question has several features that are designed to isolate the importance of international agreements in facilitating business activity and expansion.

First, we took advantage of the fact that the PCI survey has two separate forms that are randomly assigned to respondents, ensuring that recipients are identical in terms of the characteristics of management, business, and location.[33] Firms receiving Form A and Form B, on average, have the same investment size, number of employees, operate in the same sectors, and have similar customer bases prior to exposure to the treatment. The only difference between the two groups is whether they were informed that they were hearing about provisions of LCA (Form A) or Chapter 28 of the CPTPP agreement. Furthermore, the text of Form A and Form B in Box 3.1 below is exactly the same, aside from the introduction of different documents. Both survey primes reveal exactly the same information to respondents about the protections ensured by the agreements. In each subsequent question, we remind respondents of the document and protections to which they were exposed, so that those commitments are on their mind as they answer the questions about potential business behavior.

Another way to think about this experiment is the comparison of Vietnam's status quo of commitments under the LCA to the prospective benefits of commitments under the TPP.

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32 The PCI uses a stratified random sampling strategy within each province with strata based on the age (entered before or after 2010), broad sector (agriculture, manufacturing, services, natural resources), and investment type (sole proprietorship, limited liability, join stock, joint venture, and 100 percent foreign-owned). For domestic firms, all 63 provinces are surveyed, whereas the PCI-FDI survey is limited to the 20 provinces with the greatest FDI share. The uncorrected response rate for the domestic survey is 30 percent and 40 percent for the foreign survey, although after correcting for incorrect addresses and contact information, the final response rate is about 50 percent for both instruments. About 70% of surveys are answered by the owner, CEO, or top manager with the rest completed by other high managers or financial officers.

33 See Appendix 3.1 for a detailed analysis of balance and selection effects in the survey experiment.

Essentially, we are asking firms whether international cooperation will promote business beyond the protections they can already avail themselves of in Vietnamese law.

Second, the key outcome variable of interest that we care about is asked in Question 5.4. This is the respondent's self-reported estimate of how their sales of products and services will change over the next year as a result of the protections made in the document to which they were exposed. We allow respondents to answer about an increase if they are made more confident by the provisions, decrease if they are less confident, and zero if the document will not change their behavior at all.

Getting to this outcome of interest, however, required careful organization of the battery of questions. Respondents who answered that they were not familiar with either document or who believed the documents' protections were adequate were dropped due to the filtering pattern of the survey, and they were not invited to answer the more in-depth questions. This decision was made to reduce measurement errors caused by speculation of respondents who had no familiarity or understanding of the documents. The filtering decision also allowed us to compare the effects of the LCA and CPTPP on an equal footing. By limiting the respondents to those who were familiar and believed in the adequacy of their respective document, we could ascertain the effect on behavior of internationalizing the commitment without worrying that the treatment had differential effects based on awareness and confidence, which may have biased results. In particular, we worried that respondents might not see the provisions of the documents as equivalent, despite the prime, as some might believe that the actual protections of the LCA were less extensive. In analyzing Question 5.4 then, we would be unable to determine whether the response was due to differences in the content of the documents, or differences in the national and international origin. To highlight the importance of international commitments, we limited the sample in Questions 5.3 and 5.4 to those who answered yes to both familiarity and adequacy. This decision, however, comes at some cost. It reduces our sample size, and limits the responses to the most well-informed and successful businesses. We explore the implication of these concerns in more detail in Appendix 3.1

Third, in Question 5.3 we walked respondents through a number of potential business contracts to remind them about the full spectrum of their potential clients, buyers, and vendors prior to answering the final question. This meant that respondents had a more robust understanding of their sales potential when they answered 5.4. On its own, Question 5.3 also allows us to see which business partnerships are more likely to prosper as a result of the CPTPP. Will the international agreement increase contracting within the group of actors involved in GVCs?

5. FORM A: “Vietnam recently passed the **Law on Commercial Arbitration (LCA)**. Articles 2 and 5 of the domestic law give firms in Vietnam more opportunities to address disputes with business partners. *The law allows for disputants to seek binding arbitration over contracts in Vietnamese economic courts, but also in local and international arbitration centers. The article will protect businesses from discrimination, uncompensated seizure of property, denial of justice, intellectual property theft, and ensure free movement of capital.”*

5. FORM B: “Vietnam recently joined the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**, an international trade and investment arrangement involving eleven countries. Chapter 28 of the international agreement gives firms in Vietnam more opportunities to address disputes with business partners. *The law allows for disputants to seek binding arbitration over contracts in Vietnamese economic courts, but also in local and international arbitration centers. The chapter will protect businesses from discrimination, uncompensated seizure of property, denial of justice, intellectual property theft, and ensure free movement of capital.”*

5.1. Are you familiar with this **[Form A=Domestic/Form B=International]** legal document?

☐ Yes (please answer question 5.2)

☐ No (please skip to question 6)

5.2. If you are familiar with the **[Form A=LCA /Form B=CPTPP]**, do you believe the legal protections are adequate?

☐ Yes (please answer questions 5.3)

☐ No (please answer questions 6)

5.3. “We are interested in how this new **[Form A=Domestic Law/Form B=International Agreement]** will affect your contracting decisions in Vietnam.” Are you more or less likely to do business with the following partners?”

5.4. “Please estimate the effect of the **[Form A=Domestic Law/Form B=new International Agreement]** on sales growth for your business next year.”

Increase by_________%

Decrease by ________%

No change_0%

3.5 RESULTS

We begin our analysis by studying the two filtering questions 5.1 and 5.2. The statistical analysis is presented in the form of bar graphs for both the domestic and foreign respondents. Red bars indicate firms that were exposed to the LCA treatment and blue bars indicate exposure to the CPTPP treatment. The range bars around the average scores are 95 percent confidence intervals, which indicate the margin of error around the average predictions that result from the sample size and variation in responses within groups.[34]

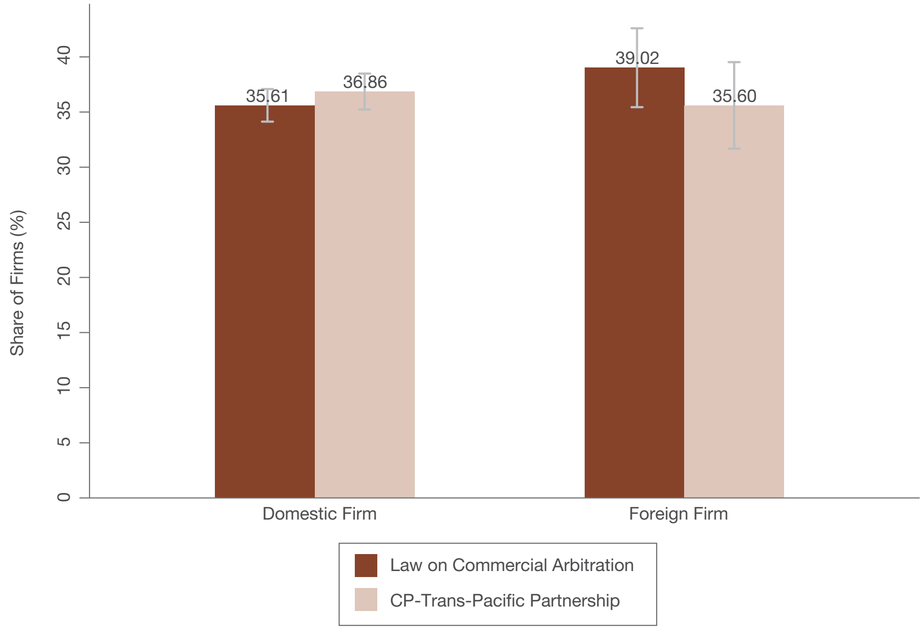
3.5.1 Familiarity with Domestic and International Legal Protections

Figure 3.6 provides the average scores for answers to the question of whether firms were familiar with the legal document in their priming narrative. The first thing to notice is that familiarity with both documents is extremely low (exactly in line with the distribution in Figure 3.5 above). Even though the LCA was passed in 2010 and became law in 2011, only 36.1 of all firms are familiar with its protections. This helps explain why so few firms have taken advantage of the arbitration provisions it allows. Similarly, despite the high profile negotiations and extensive coverage in Vietnamese media, only 36.7 percent of all firms are familiar with CPTPP provisions.

In short, about 64 percent of all respondents lacked the necessary familiarity with the documents to adequately answer the behavioral questions that followed. This result has important policy implications. Because firms do not know about these legal protections, they are unable to take advantage of the tools made available to them, and thus resort to informal and less rigorous means of contract enforcement. This decision ultimately stifles the ambitions of their firms and leads to less investment and business growth. An awareness campaign that attempted to inform firms about the opportunities and protection in the LCA and CPTPP could pay large dividends in enhanced business activity. Next, we study differences between sub-groups. On average, foreign firms, despite their greater international knowledge, are only marginally more familiar with both documents than the domestic firms (the difference is about 1.3 percent). This result is shocking, as we expected foreign investors to have considered these arrangements more seriously prior to starting a business in Vietnam. Within groups, we also do not observe statistical differences in knowledge of the documents. Surprisingly, foreign firms are slightly more familiar with the LCA (39 percent) than CPTPP (35.6 percent); however, this difference is not statistically significant, and there is virtually no difference between domestic firms' knowledge of both documents (35.6 percent versus 36.8 percent).

34 *When confidence between bars overlap, the implication is that the differences between the bars are not statistically meaningful, and that we should be aware that alternative random sampling of firms might deliver slightly different results. When confidence intervals do not overlap, we can feel more comfortable that the differences between groups were not due to chance.*

Figure 3.6 Familiarity with Legal Protections in Domestic and International Law



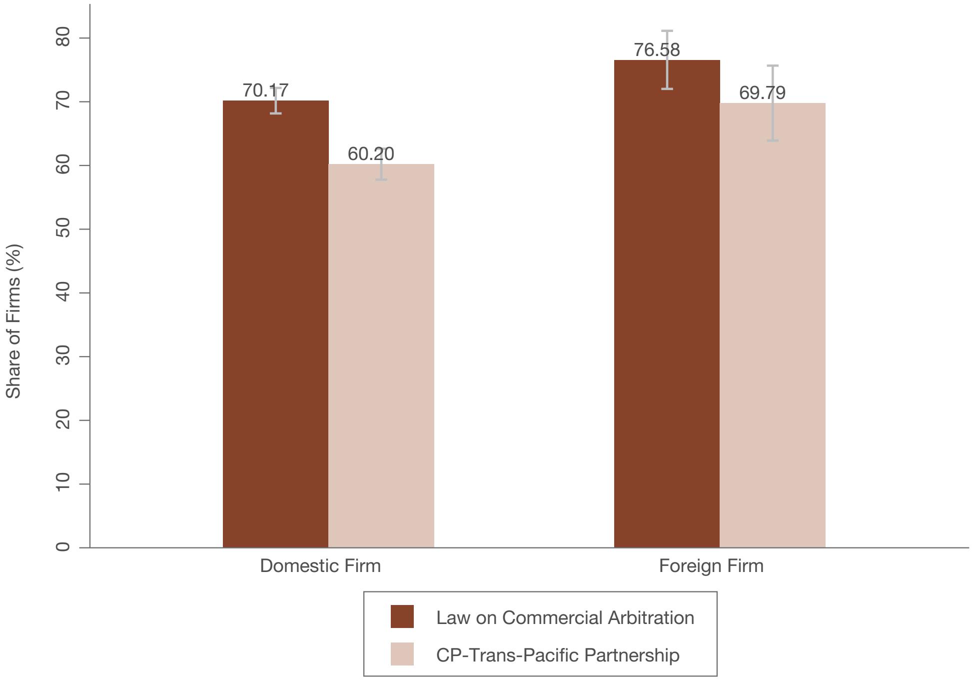
Range Bars=95% Confidence Intervals; n=8,693 (D_LCA=4,030; D_CPTPP=3,375; F_LCA=715; F_CPTPP=573)

3.5.2 Adequacy of Contract Enforcement in Domestic and International Law

Figure 3.7 tackles the next filtering question of adequacy of legal protections. Of firms that were aware of the protections, how many firms believed the protections were sufficient to address the specific needs of their operations and potential disputes? Here, we can see clearly that beliefs about adequacy are generally quite high. Overall, 67 percent of familiar firms rated the document to which they were exposed as adequate for their needs.

Here, however, we see quite large differences by sub-group. First of all, given that the LCA had already been legislated in 2010, promulgated in 2011, and had implementing documents issued to ensure compliance around the country between 2011 and 2014, both domestic and foreign firms see its protections as currently more legitimate and tangible than the CPTPP, which is an international treaty yet to be fully ratified by all parties at the time of the survey. Full ratification by Vietnam did not take place until November 2018. Consequently, 70 percent of domestic firms saw the protections of the LCA as adequate, compared to only 60 percent of domestic firms exposed to the CPTPP. This difference is statistically significant at the .05 level. While not statistically significant, 77 percent of foreign firms saw the LCA as adequate, compared to 70 percent who saw the CPTPP as adequate. These differences are reasonable, given the fact that the CPTPP is a much newer commitment, and ratification and implementation of its commitments remain incomplete.

Figure 3.7 Legal Protections are Adequate



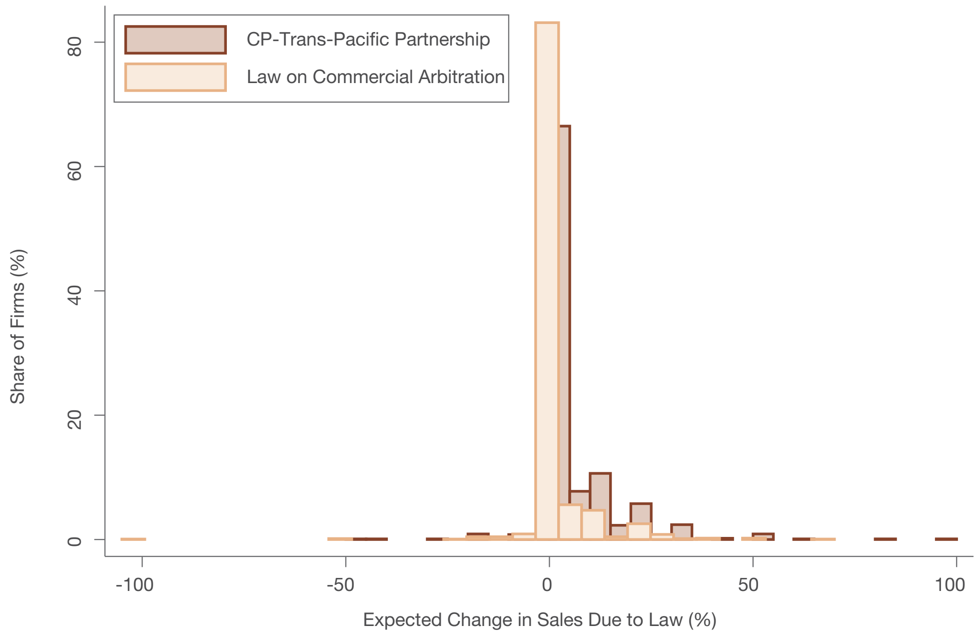
Range Bars=95% Confidence Intervals; n=4,144 (D_LCA=2,008; D_CPTPP=3,375; F_LCA=715; F_CPTPP=573)

3.5.3 Impact of International Commitments on Sales

In the next analyses, we work with the remaining firms that were familiar with their respective legislative document and thought the protections were adequate. This leaves us with 2,347 operations (1,981 domestic firms and 366 foreign firms), who were exposed to the priming experiment. Because we know that these firms found the protections of both documents to be sufficient, we can now ask the subsequent question of how much an international commitment enhances the legitimacy of those protections. In short, is internationalization improving firms' beliefs about contracting institutions and affecting their business decisions?

To gauge this result, we asked firms to predict how they thought their sales might change as a result of the respective protection to which they were exposed. Figure 3.8 provides the distribution of the main outcome variable of interest. Notice that nearly three quarters of firms (74.2 percent) answered zero change, implying that these documents would have no impact on their future contracting. However, we can immediately see a profound difference in responses depending on whether the firm was exposed to the LCA (81.5 percent) versus the CPTPP (64.4 percent). At first glance, internationalization appears to increase the confidence in doing business for all firms by 27.1 percentage points. Not only are there far more firms in the CPTPP treatment reporting positive sales growth, but those firms are also much more optimistic. The average firm in the CPTPP treatment expects 4.2 percent greater sales as a result of the legislation, compared to 1.53 percent for the protections in the LCA.

Figure 3.8 Distribution of Change in Sales by Treatment Condition



n=2,347; LCA=1,341; CPTPP=1,006

To dig deeper and account for the origin of the firm, as well as differential effects based on sector, we employ regression analysis.[35]

The main results of the regression analysis can be seen in Figure 3.9 below.[36] As in the descriptive statistics above, there is a clear benefit to internationalization. For all firms, predicted sales growth for firms exposed to the CPTPP is significantly higher than for firms exposed to the LCA. The confidence intervals within both groups do not overlap. For

35 *Our preferred specification is a linear interaction model with sector-fixed effects and standard errors clustered at the broad industrial level to account for non-independence within industrial groupings. β0 is the constant provides us with the predicted change in sales in the domestic firms that were exposed to the LCA treatment; β1 provides the additional impact of the CPTPP treatment among domestic firms; β2 indicates the additional impact of the LCA treatment among foreign firms; and β3, the interaction coefficient, identifies whether there is a differential effect of the CPTPP treatment among foreign firms.*

$$sales_{is} = \beta_0 + \beta_1 CPTPP_{is} + \beta_2 FDI + \beta_3 CPTPP{*}FDI_{is} + \delta_s + u_i$$

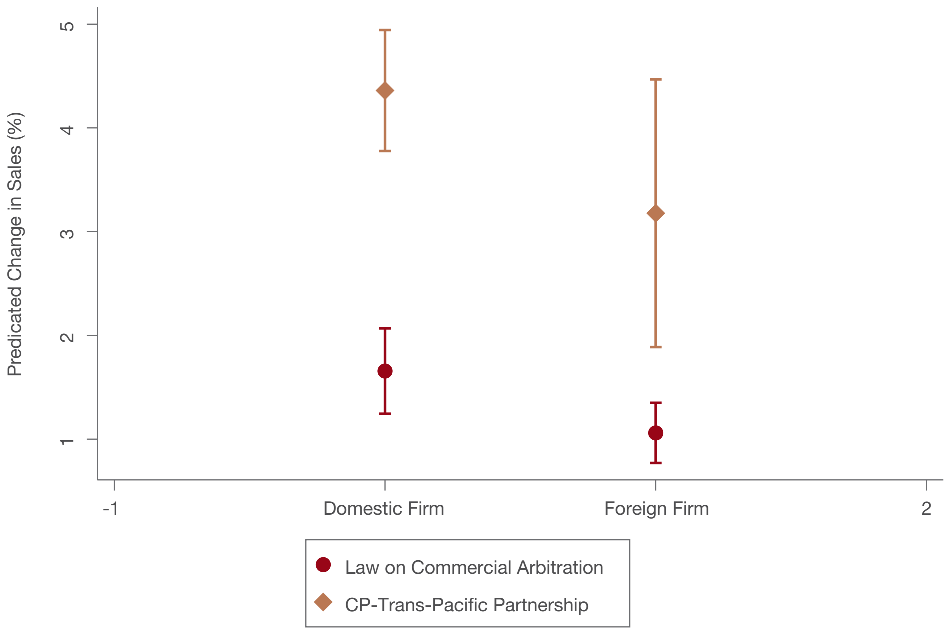
36 *For full econometric specifications and robustness tests, see Appendix 3B.*

domestic firms, predicted sales growth is 1.65 percent for those exposed to the LCA and 4.3 percent for those exposed to the CPTPP (a 2.7 point difference). For foreign firms, the difference is a smaller 2.12 points (1.05 v. 3.18 percent), but still statistically significant.

Surprisingly, however, this positive effect of internationalization does not differ dramatically depending on whether the respondent was a private domestic firm or foreign investor. As the graph shows, private firms exposed to the CPTPP predict higher sales, but the overlapping confidence intervals and high variance within the FDI group indicate that this difference is not statistically meaningful.

The bottom line is that membership in the CPTPP is likely to increase the business activity of all actors in Vietnam, increasing sales performance and hopefully incentivizing greater investment and business expansion.

Figure 3.9 Impact of CPTPP on Sales Growth Based on Linear Regression



Predicted Effects of Appendix 3.4 (Model 2). OLS with SEs clustered by broad industry with fixed effects for sector at two-digit ISIC level

3.5.4. Increased Business Activity with Whom?

In our final analysis, we look to see whether the internationalizing of Vietnam's domestic commitment to foreign arbitration will increase greater integration of Vietnamese firms into global supply chains. Will they be more likely to contract with foreign investors in Vietnam or sell their products to overseas buyers? To do this, we run the same linear analysis as above, but this time analyze respondents' answers to the seven-point Likert scales measuring willingness to do business with other parties.[37]

To begin, we present the distribution of the potential business partnerships in Figure 3.10 below. There are a few points to note about the graphs. First, the most common response across all business partners and treatment groups is four (no change), which can be seen by the spike in the middle of the distribution. Nevertheless, the size of the spike varies dramatically across business partners. Averaging over both treatment conditions, the share that answered there would be no change in partnerships is much higher for the Vietnamese firms, including both SOEs (47.5 percent) and domestic enterprises (46.8 percent) than it is for foreign partners, including FIEs in Vietnam (38.2 percent), MNCs (40.1), and third-party buyers (40.4). This appears to indicate that there is some hope that contract protections will facilitate greater foreign engagement.

Even more interestingly, there are wide differences between the behaviors of those exposed to the LCA treatment versus those exposed to the CPTPP treatment. Despite the fact that all firms agreed the protections were adequate, the size of the spike at four and the shape of the distribution is much more positively disposed for those responding about the CPTPP. They are much more likely to answer that increases in business interaction are somewhat likely (5), more likely (6), and much more likely (7) for almost all prospective partners. The share of firms answering five or above for the CPTPP is 33 percent for private firms, 56 percent for FIEs, 55 percent for MNCs, and 50 percent for third-party buyers. By contrast, for those responding to the LCA, the share of positive responses are much more muted: 27 percent (private), 34 percent (FIE), 33 percent (MNCs), and 31 percent (third-party buyers). This implies that the impact on foreign engagement appears to be augmented by enshrining dispute resolution mechanisms in international agreements.

37 The Likert Scale is a 5- or 7-point scale that offers a range of answer options — from one extreme attitude to another, like "extremely likely" to "not at all likely." Typically, they include a moderate or neutral midpoint.

Figure 3.10 Distribution of Answers to Prospective Business Partnerships

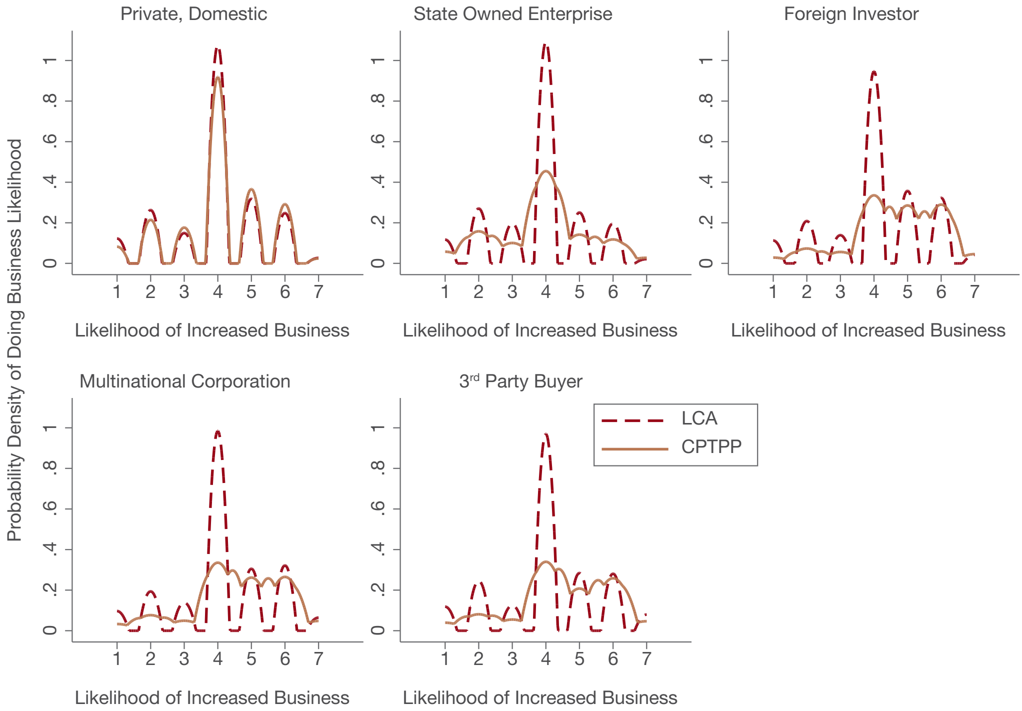


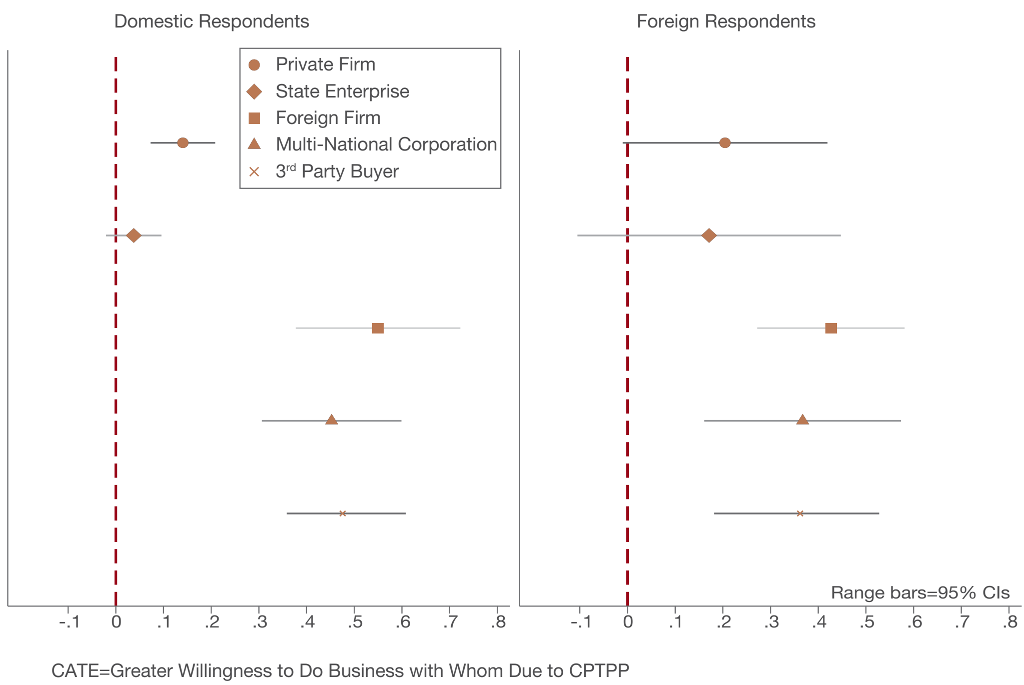
Figure 3.11 provides the regression results that probe the benefits of the international agreement with more precision. The left panel of the graph shows the impact (e.g. Conditional Average Treatment Effect (CATE)) of the clause on the contracting behavior of domestic firms, while the right panel provides the CATE for foreign firms. Again, the range bars depict 95% confidence intervals, which the red-dashed line indicates a zero CATE. When the range bars cross the dashed line, this effect is considered statistically insignificant. Range bars that do not overlap with the dashed line are considered statistically significant, implying that the result did not occur due to coincidence or is an artefact of our sampling design. There are very clear and important patterns to be gleaned from Figure 3.11.

First, there is not a significant difference between the domestic and foreign respondents in their contracting decisions. Their responses to international commitments are statistically indistinguishable. Internationalization of dispute resolution motivates their behavior in very similar ways.

Second, the CPTPP positively influences the contracting decisions with most partners. Both domestic and foreign firms respond that they will increase their business significantly with all parties after hearing about the commitment.[38] Interestingly, the major exception is that neither domestic nor international businesses believe that the CPTPP will improve their business engagement with SOEs. Both lines clearly cross the dashed line, implying null results. This is fascinating because it implies that even international commitments cannot overcome the barriers to trust that firms have with SOEs. This likely results from the patterns we observed in Chapter 2. Many firms believe that SOEs receive special treatment and might be favored due to their connections and favoritism by government officials. It also reflects the beliefs in the foreign investment community that arbitration agreements have not been well enforced against state actors.

Third, the impact of the CPTPP is significantly higher for foreign partners. CPTPP commitments increase interest in working with private firms by .14 and .20 points on the eight-point likelihood scale for domestic and foreign firms, respectively. Both of these are statistically significant but substantively small (about one-tenth of a standard deviation). By contrast, the effects for working with foreign investors are .55 points for private firms and .43 for foreign firms. These represent effects that are about one half and one third of standard deviation, respectively. The results for doing business with MNCs and third-party buyers are equally impressive.

Figure 3.11 The Impact of International Commitments on Contracting (by Partner)



38 *The result for foreign respondents contracting with private firms is just shy of statistical significance at the .05 level, but is significant at the .1 level.*

3.6 CONCLUSION

Policy-makers in Vietnam have been extremely worried about the ability of domestic companies to plug into global supply chains. While a number of solutions to this problem have been explored, a key concern among both foreign and domestic businesses operating in Vietnam is that they may not be able to defend themselves in contract disputes with parties outside their social circle. While Vietnam has taken steps to address this problem by permitting both local and foreign arbitration in the country, some foreign investors have complained that too many arbitration settlements have been overturned by the Vietnamese courts, rendering the protections less meaningful.

In this chapter, we have investigated whether reaffirming those commitments as part of CPTPP, as well as agreeing to investor-state dispute settlement (ISDS) in Chapter 28, might give foreign firms more confidence to do business with local parties. We tested this using a survey experiment embedded in both the PCI and PCI-FDI surveys.

In sum, we conclude from the analysis that while the LCA and CPTPP have both increased the opportunities for business expansion and investment by increasing the trust between business partners who are unfamiliar with each other. The CPTPP is much more valuable for enhancing Vietnam's global integration. Both foreign and domestic firms expect their sales to be three times higher after the CPTPP is signed than under the previous regime governed by the LCA. They particularly expect the agreement to facilitate their engagement with foreign investors and overseas buyers.

However, the results also point to a tremendous concern. Despite the promises of both the LCA and CPTPP, the benefits in increased cooperation will be greater for foreign business actors in Vietnam than domestic enterprises. The likelihood of business partnership opportunities for domestic firms is less than 25 percent for foreign partners in both the domestic and foreign surveys. Domestic respondents said the CPTPP will make them much more likely to engage with foreign parties, but foreign respondents did not share this exuberance – only expecting to moderately enhance cooperation with domestic private firms.

Two clear policy implications result from this analysis. First, encouraging trust in business relationships first requires knowledge of the protections available. Nearly 65 percent of both foreign and domestic businesses in Vietnam were unaware of the dispute resolution procedures available in either the LCA or CPTPP, and therefore were forced to operate as if Vietnam's legal protections were still in the infancy of the early stages of Vietnam's Đổi Mới reforms. These unaware firms were obviously the most likely to engage in forms of social enforcement through notables and informal organizations that discourage investment and expansion. A very easy solution would be to better publicize and educate firms on

Vietnam's domestic and foreign commitments to arbitration. Central and local authorities could even go further by providing legal education on how to file grievances, prepare arbitration cases, and lodge appeals. This might provide both local and domestic actors with more confidence in the system.

Second, international dispute resolution commitments will not be enough to rectify the lack of domestic private sector participation in GVCs. In fact, on their own, they are likely to exacerbate the dilemma by encouraging greater participation between foreign parties within Vietnam. Thus, Vietnam will need to continue with a comprehensive policy that treats dispute resolution as one pillar in a basket of reforms that include infrastructure improvement, human capital enhancement, and regulatory and governance reforms.

3.7 METHODOLOGICAL APPENDIX TO CHAPTER 3

3.7.1 Balance and Selection Effects

Every research design involves trade-offs and this one is no exception. In particular, we were limited by the fact that the mail-out distribution of the PCI survey permits only two versions of the survey (Form A and Form B), not the multiple randomizations that are possible on tablet-based surveys. Because of this, we were unable to experiment with a factorial design that would have permitted four treatment groups (a pure control, just LCA, just CPTPP, and both LCA and CPTPP). The fourth group would have allowed us to observe how international commitments enhance the benefits of domestic dispute resolution procedures, because we would have been able to compare the fourth group to the second group (who only received the LCA).

As a second best alternative, we chose to filter out firms who were unfamiliar with one of the agreements or who found one of the agreements to be inadequate. This allowed us the ability to limit responses to a similar set of respondents who saw the legal provision as adequate. By studying the CPTPP treatment, we could then isolate the effect of international commitments, given that all firms agreed the provisions in the law were adequate. In essence, we attempted to achieve the benefits of the factorial design by limiting our sample.

The trade-off of this approach is that we allow non-random selection to influence our results. To see how problematic this effect is, we tested covariates of selection into treatment by regressing those covariates (y) on the multiplicative interaction term of the treatment condition (CPTPP) and the selection variables (Familiar and Adequate). We present the results in four panels of Appendix 3.1 below, showing the non-balance on covariates for both selection variables in both the foreign and domestic surveys.

$$y_i = \beta_0 + \beta_1 CPTPP_i + \beta_2 Familiar_i + \beta_3 CPTPP^* \, Familiar_i + \delta_s + u_i$$
$$y_i = \beta_0 + \beta_1 CPTPP_i + \beta_2 Adequate_i + \beta_3 CPTPP^* \, Adequate_i + \delta_s + u_i$$

We can observe three parameters of interest for adjudicating the bias in our research design. β_1 provides a traditional balance test in randomization. Ideally, the treatment variable (CPTPP) should not be associated with features of the firms or it is possible those features and not the priming of the experiment are driving the results across firms. β_1 shows the non-balance in the experiment that was not influenced by selection into treatment. We find that there is only one covariate where the CPTPP treatment is not balanced among firms that were not familiar with either document – this is the traditional balance test on firms that were randomly assigned and did not select themselves into further questions. This can be seen in the first column of Panel D (Foreign Supplier, Selection Based on Confidence). Here, we see that foreign firms who received the CPTPP treatment were slightly smaller than firms receiving the domestic treatment. Non-balance is always possible and the expectation is that at least one in twenty covariates will not be balanced by accident. Thus, we can conclude that non-balance in the randomization is not a threat.

β_2 provides an estimate of general selection bias by studying the difference in firms receiving the LCA treatment that answered yes to the familiarity and adequacy questions, and thus were permitted to answer the follow-up questions regarding sales. This coefficient therefore provides a test of external validity. How much does the sample of firms that answered the sales question differ from the larger population of Vietnamese firms to which we hope to generalize. This test makes it exceedingly clear that we have a lot of selection bias. A large number of covariates are associated with selection into the next stage of the filter for both familiarity and confidence. Selection based on familiarity is more problematic than selection based on confidence. After both filtering exercises, the firms that answered the sales questions are significantly different from the firms that did not. They are bigger, better performing, more likely to have had previous disputes, more likely to export, and more likely to be in manufacturing. In terms of inference, this means that our experimental results are only applicable to a specialized sample and we cannot claim that our experiment is externally valid. It only applies to firms that are sophisticated enough to be familiar with contract protections and believe them to be adequate.

β_3 is the most important coefficient as it provides a test of internal validity. That is, covariates that are correlated with the selection into the filtering questions are also associated with the experimental treatment conditions. If this was the case, our experiment would be biased and lack internal validity. Because of selection, the LCA and CPTPP treatment groups would be composed of different firms, and we would not be able to tell whether it was the treatment or differences in the firms caused by selection that are associated with the greater sales growth. This test provides very good news for our findings. There is only one covariate where the interaction term is statistically significant at the .05 level, indicating selection bias that is associated with the treatment (Panel C, Column A). Among foreign firms, those receiving the CPTPP treatment and saying they were familiar with the document were 14 percent more likely to be exporters. In other words, exporters were more familiar with the CPTPP than domestic law, which is logical. Thus, when we get to the sales questions, we have a much larger portion of foreign exporters. The same bias exists for domestic firms, but it is much smaller (3 percent and only significant at the .1 level). There are a small smattering of other covariates that are significant at the .1 level (especially among domestic firms), but with a sample size of 7,405, these should not be considered a threat as .05 is a far more reasonable cut-off. It should be very easy to find significance on such a large sample size. From this analysis, we can conclude that our experiment has sufficient internal validity.

In sum, our results indicate that the experiment is balanced on covariates and that the treatment conditions are not associations with covariates that might bias our results. However, selection into the latter questions was severe and damages our ability to generalize to the larger population of foreign and domestic Vietnamese firms.

Appendix 3.1 Balance and Selection Effects by Sample and Filtering Question

	Capital Size (1-8)	Employment Size (1-8)	Busienss Performance (1-6)	Female CEO Manage=1	Previous Legal Dispute=1	Used Courts Before=1	Major Customer is Domestic Firm=1	Exports Directly or Indiectly=1	Manufacturing Firm=1
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel A: Domestic Sample, Selection Based on Familiarity									
Familiar=1	0.188***	0.203***	0.056*	-0.025*	0.028***	-0.009	0.087***	0.041***	0.027**
	(0.045)	(0.039)	(0.034)	(0.014)	(0.006)	(0.028)	(0.015)	(0.011)	(0.012)
CPTPP=1	-0.042	-0.002	-0.023	0.003	-0.008	0.012	-0.003	-0.010	0.000
	(0.040)	(0.035)	(0.030)	(0.012)	(0.006)	(0.025)	(0.014)	(0.010)	(0.011)
Familiar*CPTPP	0.037	-0.059	0.039	0.006	-0.000	0.069*	-0.042*	0.031*	-0.006
	(0.066)	(0.058)	(0.049)	(0.020)	(0.009)	(0.041)	(0.023)	(0.016)	(0.018)
Constant	3.230***	2.348***	3.417***	0.230***	0.030***	1.824***	0.643***	0.106***	0.146***
	(0.027)	(0.023)	(0.020)	(0.008)	(0.004)	(0.017)	(0.009)	(0.006)	(0.007)
Observations	6,952	7,149	7,155	7,405	7,220	7,146	7,405	7,405	7,405
R-squared	0.006	0.005	0.001	0.001	0.006	0.001	0.006	0.007	0.001
RMSE	1.319	1.172	1.002	0.416	0.188	0.838	0.471	0.325	0.362
Panel B: Domestic Sample, Selection Based on Confidence									
Confident=1	0.219***	0.297***	0.036	-0.026	-0.007	-0.103**	0.058**	0.019	0.042**
	(0.068)	(0.060)	(0.050)	(0.020)	(0.011)	(0.042)	(0.023)	(0.017)	(0.018)
CPTPP=1	0.101	0.112	-0.024	-0.004	-0.007	0.032	-0.006	0.001	0.030
	(0.080)	(0.071)	(0.058)	(0.023)	(0.012)	(0.049)	(0.026)	(0.020)	(0.021)
Confident*CPTPP	-0.125	-0.150*	0.043	0.014	0.009	0.072	-0.030	0.022	-0.047*
	(0.099)	(0.088)	(0.072)	(0.029)	(0.015)	(0.060)	(0.033)	(0.025)	(0.026)

	Capital Size (1-8)	Employment Size (1-8)	Busienss Performance (1-6)	Female CEO Manage=1	Previous Legal Dispute=1	Used Courts Before=1	Major Customer is Domestic Firm=1	Exports Directly or Indiectly=1	Manufacturing Firm=1
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Constant	3.167***	2.234***	3.451***	0.229***	0.052***	1.900***	0.661***	0.127***	0.137***
	(0.057)	(0.050)	(0.042)	(0.017)	(0.009)	(0.035)	(0.019)	(0.014)	(0.015)
Observations	3,374	3,472	3,456	3,576	3,462	3,439	3,576	3,576	3,576
R-squared	0.004	0.008	0.001	0.001	0.000	0.005	0.003	0.002	0.002
RMSE	1.358	1.217	1.001	0.410	0.211	0.830	0.463	0.353	0.371
Panel C: Foreign Sample Selection Based on Familiarity									
Familiar=1	0.348**	0.292**	0.079	0.008	0.013	-0.001	0.015	-0.011	0.020
	(0.170)	(0.130)	(0.170)	(0.022)	(0.031)	(0.040)	(0.036)	(0.038)	(0.038)
CPTPP=1	-0.082	0.022	-0.106	-0.029	-0.015	0.004	0.008	-0.020	0.022
	(0.161)	(0.120)	(0.159)	(0.020)	(0.028)	(0.039)	(0.033)	(0.035)	(0.035)
Familiar*CPTPP	-0.085	0.172	-0.029	0.018	-0.041	-0.048	-0.039	0.144**	-0.006
	(0.260)	(0.197)	(0.257)	(0.033)	(0.047)	(0.063)	(0.055)	(0.057)	(0.057)
Constant	4.069***	3.445***	4.243***	0.096***	0.207***	1.952***	0.326***	0.427***	0.571***
	(0.109)	(0.081)	(0.109)	(0.014)	(0.019)	(0.025)	(0.023)	(0.024)	(0.024)
Observations	834	1,267	1,034	1,288	1,268	352	1,288	1,288	1,288
R-squared	0.008	0.012	0.001	0.002	0.002	0.003	0.000	0.008	0.001
RMSE	1.809	1.686	1.996	0.285	0.399	0.283	0.470	0.495	0.493

	Capital Size (1-8)	Employment Size (1-8)	Busienss Performance (1-6)	Female CEO Manage=1	Previous Legal Dispute=1	Used Courts Before=1	Major Customer is Domestic Firm=1	Exports Directly or Indiectly=1	Manufacturing Firm=1
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Panel D: Foreign Sample, Selection Based on Confidence									
Confident=1	0.111	0.204	0.378	0.075**	-0.098*	0.012	0.026	0.100	0.037
	(0.288)	(0.227)	(0.284)	(0.038)	(0.055)	(0.055)	(0.061)	(0.064)	(0.064)
CPTPP=1	-0.671*	-0.226	0.131	0.074	0.034	0.026	0.087	0.064	-0.044
	(0.355)	(0.287)	(0.358)	(0.049)	(0.070)	(0.068)	(0.077)	(0.082)	(0.081)
Confident*CPTPP	0.614	0.402	-0.194	-0.096*	-0.132	-0.097	-0.133	0.002	0.090
	(0.422)	(0.337)	(0.419)	(0.057)	(0.082)	(0.085)	(0.090)	(0.096)	(0.095)
Constant	4.208***	3.564***	3.919***	0.038	0.338***	1.939***	0.308***	0.359***	0.551***
	(0.252)	(0.198)	(0.250)	(0.033)	(0.048)	(0.046)	(0.053)	(0.056)	(0.056)
Observations	386	560	468	568	559	187	568	568	568
R-squared	0.020	0.012	0.005	0.007	0.034	0.013	0.005	0.011	0.007
RMSE	1.836	1.751	1.970	0.296	0.422	0.267	0.468	0.497	0.493

Standard errors in parentheses (* p<0.01, ** p<0.05, * p<0.1)**

3.7.2 Full Regression Results

Appendix 3.2 Main Experimental Findings (For Figure 3.6 and 3.7)

Dependent Variables	**Familiar**	**Adequate**	**Sales (%)**
	(1)	(2)	(3)
FDI =1	0.032*	0.065***	-0.695***
	(0.016)	(0.016)	(0.206)
CPTPP=1	0.012*	-0.100***	2.705***
	(0.006)	(0.026)	(0.454)
FDI*CPTPP	-0.043	0.031	-0.218
	(0.026)	(0.047)	(0.798)
Constant	0.356***	0.702***	1.647***
	(0.011)	(0.019)	(0.173)
Observations	8,671	4,129	2,341
N_clust	19	19	19
R-squared	0.000	0.014	0.024
rmse	0.481	0.468	8.576

Robust standard errors, clustered at broad sector level, in parentheses (*** p<0.01, ** p<0.05, * p<0.1).

Appendix 3.3 Robustness of Sales Findings (Results for Figure 3.9)

DV=Change in Sales (%)	Baseline	Sector FE	Only Manufacturing	Only Exporters		No Previous Legal Dispute	Previous Legal Dispute
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
FDI =1	-0.695***	-0.596**	-0.432	-1.446**	-0.513	-0.813**	-0.513
	(0.206)	(0.229)	(0.937)	(0.668)	(0.860)	(0.329)	(1.819)
CPTPP=1	2.705***	2.704***	3.286***	3.883***	4.182***	2.599***	1.382
	(0.454)	(0.466)	(0.876)	(0.848)	(0.911)	(0.516)	(1.504)
FDI*CPTPP	-0.218	-0.586	0.062	-0.543	-1.092	-0.206	-0.342
	(0.798)	(0.761)	(1.430)	(1.214)	(1.259)	(1.132)	(2.338)
Constant	1.647***	1.656***	1.269**	2.209***	1.822***	1.640***	2.596***
	(0.173)	(0.196)	(0.562)	(0.655)	(0.564)	(0.229)	(0.826)
Two Digit ISIC FE	No	Yes	No	No	Yes	Yes	Yes
Observations	2,341	2,341	563	490	490	2,105	182
R-squared	0.024	0.039	0.040	0.048	0.102	0.035	0.232
N_clust	19	19	.	16	16	19	14
rmse	8.576	8.587	8.110	9.010	9.094	8.534	7.685

Robust standard errors, clustered at broad sector level, in parentheses (*** p<0.01, ** p<0.05, * p<0.1). Column 1 provides the unadjusted experimental results; Column 2 introduces sector fixed effects at the two-digit ISIC level; Column 3 restricts firms to those doing manufacturing; Columns 4 and 5 restrict firms to those exporting; and Columns 5 and 6 divide firms by whether they have previously suffered a legal dispute that may require arbitration.

Appendix 3.4 Increased Sales with Whom? (Results for Figure 3.11)

More likely to do business with:	Private Companies		State Owned Enterprises		Foreign Firms		Branch of MNC		Overseas Buyers	
	Baseline	Sector FE	Baseline	Sector FE	Baseline	Sector FE	Baseline	Sector FE	Baseline	Sector FE
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
FDI =1	0.102*	0.001	-0.045	-0.126*	0.220**	0.314***	0.160***	0.076	0.147	0.147
	(0.050)	(0.071)	(0.045)	(0.071)	(0.100)	(0.070)	(0.055)	(0.069)	(0.094)	(0.094)
CPTPP=1	0.141***	0.141***	0.038	0.047	0.553***	0.550***	0.453***	0.455***	0.486***	0.486***
	(0.032)	(0.035)	(0.028)	(0.032)	(0.082)	(0.082)	(0.070)	(0.069)	(0.059)	(0.059)
FDI*CPTPP	0.064	0.009	0.134	0.095	-0.115	-0.123*	-0.085	-0.103	-0.165	-0.165
	(0.087)	(0.086)	(0.130)	(0.132)	(0.075)	(0.062)	(0.081)	(0.077)	(0.109)	(0.109)
Constant	3.919***	3.936***	3.829***	3.839***	4.073***	4.060***	4.132***	4.144***	4.032***	4.032***
	(0.032)	(0.016)	(0.037)	(0.020)	(0.039)	(0.057)	(0.051)	(0.034)	(0.033)	(0.033)
Two Digit ISIC FE	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
Observations	2,830	2,830	2,450	2,450	2,418	2,418	2,271	2,271	2,277	2,277
R-squared	0.004	0.016	0.001	0.015	0.055	0.041	0.026	0.041	0.045	0.045
N_clust	19	19	19	19	19	19	19	19	19	19
rmse	1.314	1.316	1.336	1.337	1.358	1.356	1.370	1.372	1.433	1.433

Robust standard errors, clustered at broad sector level, in parentheses (*** $p<0.01$, ** $p<0.05$, * $p<0.1$). Each partner is studied with two specifications including an unadjusted result and one with sector fixed effects.

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VCCI's two main functions are: (i) representing the Vietnamese business community through the promotion and protection of the lawful, legitimate interests of Vietnamese enterprises and employers in domestic and international relations; and (ii) promoting the development of business enterprises, facilitating cooperation among business entities, and offering assistance in trade and investment, economic and technical cooperation as well as other business activities of enterprises in Vietnam and abroad.

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