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PCI 2020

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX

Measuring economic governance for business development

Artist: Pham Luan

The Vietnam Provincial Competitiveness Index

Measuring economic governance for business development

PCI 2020

Primary Author and Lead Researcher
Edmund J. Malesky, Ph.D

Research Team
Dau Anh Tuan
Pham Ngoc Thach
Le Thanh Ha
Tran Minh Thu
Phan Tuan Ngoc
Truong Duc Trong
Nguyen Thi Le Nghia
Nguyen Le Ha

FOREWORD

The 2020 Provincial Competitiveness Index is the sixteenth PCI report on the quality of economic governance in Vietnam's 63 provinces. This year's report continues to represent the collective perceptions of private domestic and foreign firms who are doing business in Vietnam about the business and regulatory climate in 2020.

The PCI does much more than merely rank provincial economic governance. It motivates the acceleration of reforms at the provincial level, providing an effective channel for dialogue that bridges the goals of authorities with the experiences of hundreds of thousands of private firms. Over its history, the PCI has also demonstrated the power of change at the grassroots level. Good practices and models discovered by PCI research have driven national-level reforms, permeated into new provinces, and inspired creative thinking across the country. As Vietnam watchers know, provincial actions rank among the chief forces of business environment reform.

The year 2020 was a challenging and unique time, as the business community and governments at all levels strived to cope with the calamity of COVID-19, which negatively affected business and investments of almost every operation - from micro-sized firms to giant corporations. Every part of the country felt the effect of the global pandemic, from mountainous regions to coastal beaches to major, urban metropolises. The 2020 PCI report therefore dedicates a special chapter to investigate how COVID-19 has impacted the business community in Vietnam, bringing fresh insights into the challenges that firms had to face. Prompt responses were essential to contain the virus' spread and support from the national and provincial governments helped businesses cope with the economic shock.

Vietnam was successful in its dual efforts to contain the pandemic and maintain economic growth, emerging as one of the few countries in the world to record a reasonably high rate of positive economic growth in 2020. Furthermore, the PCI-FDI survey, which received over 1,500 responses from foreign invested firms operating in Vietnam, shows that the country remains an attractive destination for foreign investment, despite the hardships experienced over the course of the year.

Domestically, 2020 marked the conclusion of the five-year administrative term of the national Vietnamese government, which presided over impressive changes across many domains of the business landscape during its time in office. Highlights include political and regulatory stability, administrative procedures reform, enhanced bureaucratic proactivity and ingenuity, and, perhaps most importantly, historic lows of informal charges due to the anticorruption campaign.

The 2020 PCI report also dedicates another special chapter to explore factors that drive businesses to invest in green technologies and discover what motivates them to become more environmentally friendly. The Vietnamese government has declared environmental protection as a key element in its FDI attraction and economic development policies.

Despite laudable and effective efforts to improve the business environment over time, there is substantial need and scope for further reforms. To illustrate this theme, the painting *Stairs* by artist Pham Luan was chosen to grace the 2020 PCI report cover. What has been achieved is encouraging, but reforming the business environment in Vietnam is a journey which requires sustained fortitude and patient effort to make successful progress, step by step.

We believe, in 2021, the first year of the new central government's term (2021-2025) and the first year of the national 10-year socioeconomic strategy (2021-2030), the Vietnamese business environment will take the first of many steady steps forward towards even greater opportunity and sustainability.

Vu Tien Loc, Ph.D.

Chairman and President
Vietnam Chamber of Commerce and Industry

ACKNOWLEDGEMENTS

The Provincial Competitiveness Index (PCI) 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) to enhance provincial economic governance to create a business-enabling environment for private sector development in Vietnam.

The PCI 2020 Report was developed under the overall direction of Vu Tien Loc, Chairman and President of VCCI, Vice Chairman of the Prime Minister's Administrative Procedures Reform Advisory Council, Head of the Steering Committee of the PCI Program, and Dau Anh Tuan, General Director of VCCI's Legal Department, PCI Program Director, and benefited from important support by Ann Marie Yastishock, USAID Vietnam Mission Director. Gregory Leon, Director of Economic Growth and Governance for USAID/Vietnam and Nguyen Thi Cam Binh, Program Management Specialist, USAID/Vietnam, provided comments for the report, and strong managerial support for the program.

Edmund Malesky, Professor of Political Economy at Duke University and Director of Duke's Center for International Development, led the development of the PCI research methodology and was the primary author for the presentation of its analytical findings. Pham Ngoc Thach, Deputy Director of VCCI's Legal Department led the data collection, index construction and data analysis, supported by Phan Tuan Ngoc, Ph.D. candidate at Duke University, who also served as the primary author of Chapter 2. Quynh Nguyen of Australia National University contributed to the research design in Chapter 4.

The entire process of the PCI survey and research would not be possible without the support and coordination by a competent PCI research team. Le Thanh Ha, Division Head, VCCI's Legal Department and Tran Minh Thu, PCI Project Coordinator managed the PCI research and report schedule and outputs. Renate Kwon improved the report with excellent copyediting. The PCI 2020 report was based on a high quality survey, implemented by fifty students under the management and coordination of Luu Ngoc Anh at VCCI. The survey process and report development was effectively supported by Truong Duc Trong, Nguyen Thi Le Nghia, Nguyen Le Ha, Bui Linh Chi, and Vu Ngoc Thuy from VCCI.

This year, we would like to express our gratitude to Pham Luan, a Vietnamese painter, for giving us permission to use his painting "Stairs" as the theme for the report design.

Special thanks go to our team whose contributions have been very important to the development and refinement of the PCI over the years, and who have made efforts to spread the PCI findings. These experts included Madam Pham Chi Lan, Senior Economist, former member of the Prime Minister's Advisory Board; Dr. Le Dang Doanh, Senior Economist, former member of the Prime Minister's Advisory Board; Dr. Nguyen Dinh Cung, member of the Prime Minister's Economic Advisory Panel, former Director, Central Institute for Economic Development (CIEM), Ministry of Planning and Investment; Prof. Dr. Tran Dinh Thien, member of the Prime Minister's Economic Advisory Panel, former Director, Vietnam Institute of Economics, Vietnam Social Sciences Academy; Tran Huu Huynh, Chairman, Vietnam International Arbitration Center; Phan Duc Hieu, Vice Director, Central Institute for Economic Development (CIEM), Ministry of Planning and Investment; Prof. Dr. Nguyen Van Thang, National Economics University; Dr. Nguyen Minh Phong, Vice Director, Communication and Theory Committee, Nhan dan Newspaper; Dr. Doan Hong Quang, Senior Economist, The World Bank Vietnam; Tran Thi Lan Anh, Vice Secretary-General cum Director General of Bureau for Employers' Activities, VCCI; 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 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; Nguyen Duc Lam, Department Director, Training Center for Elected Representatives; Deputies' Affairs Committee, Standing Committee of the National Assembly; Pham Binh An, Director, Ho Chi Minh City Center for International Integration Support; Vu Thi Kim Chi, Vice Director, Quang Ninh Investment Promotion Agency; Dr. Nguyen Phuong Bac, Director, Bac Ninh Institute of Socio-economic Studies; Dr. Nguyen Van Hung, Vice Director, Da Nang Institute of Socio-economic Studies; Dr. Cung Trong Cuong, Director, Thua Thien-Hue Institute of Development Studies; Ngo Vinh Bach Duong, Director, Department of Economic Law, Institute for State and Law, Vietnam Academy of Social Sciences; Dr. Le Duy Binh, Director, Economica Vietnam; and many other experts from provinces, cities, research institutes, associations, and businesses that we cannot list here.

We would like to express our acknowledgements to the Government of Australia and The World Bank in Vietnam for their collaboration in the survey modules on the impact of COVID-19 on firms in Vietnam, and the analyses on the implementation of administrative and governance under Resolution 02/NQ-CP on improving business environment and national competitiveness.

Our sincere thanks to Coca-Cola Vietnam for their partnership with the PCI program in 2020.

Last but not least, we would like to thank businesses for spending their valuable time to answer the PCI 2020 survey in a complete, candid, and objective way. Your inputs are crucial to the PCI report, as they help us capture the business environment from a broad spectrum of perspectives to inform policy making, thereby bringing benefits to the business community.

Please use this suggested citation when referencing report or data: Malesky, Edmund, Phan Tuan Ngoc, and Pham Ngoc Thach, 2021. *The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Private Sector Development*, 2020 Final Report, Vietnam Chamber of Commerce and Industry and United States Agency for International Development: Hanoi, Vietnam.

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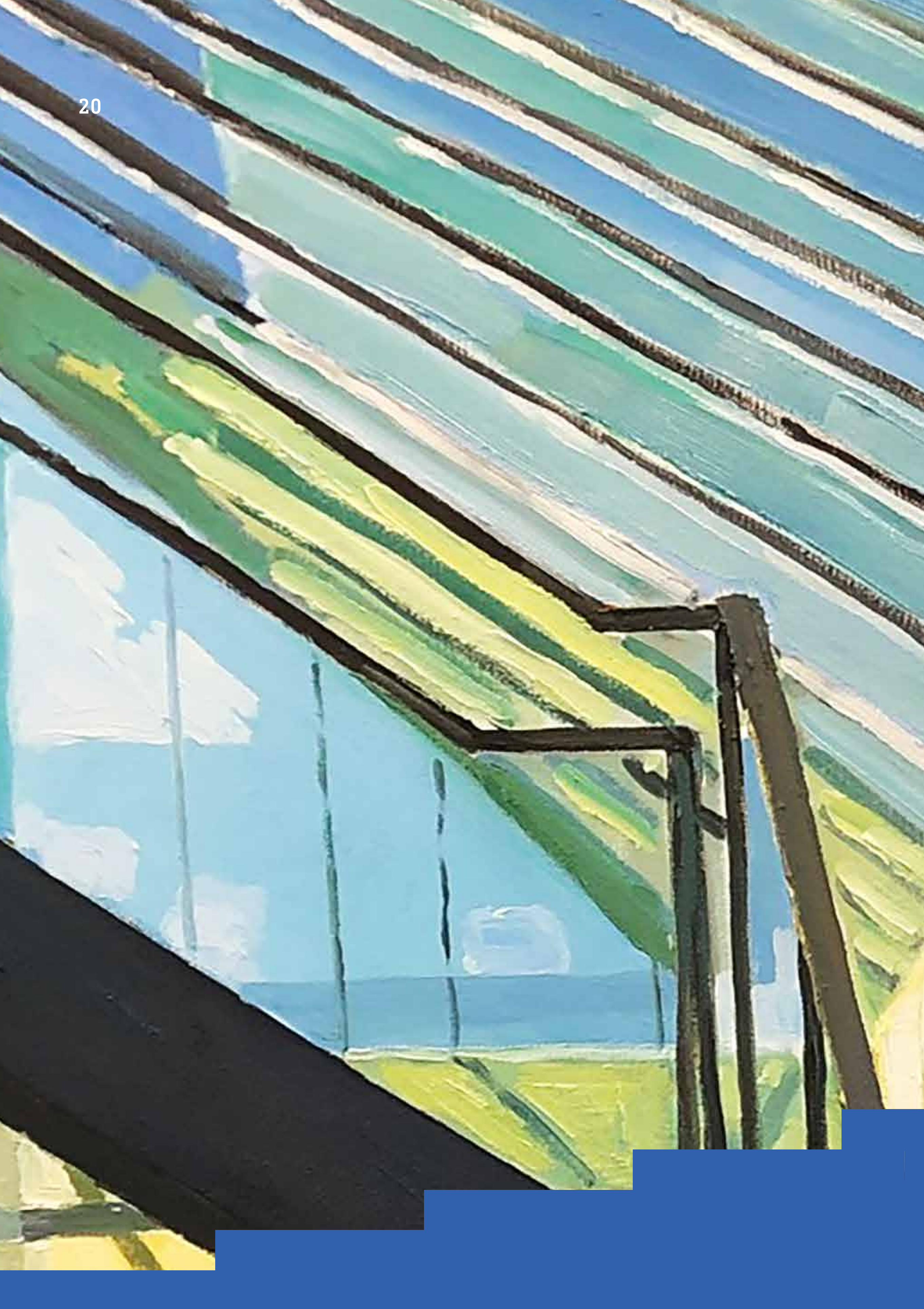
ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
ATE	Average Treatment Effect
BRVT	Ba Ria - Vung Tau
CECODES	Centre for Community Support and Development Studies
CEO	Chief Executive Officer
CIEM	Central Institute for Economic Development
CIT	Corporate Income Tax
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CSR	Corporate Social Responsibility
DDCI	Department and District Competitiveness Index
DDI	Domestic Direct Investment
EIA	Environmental Impact Assessment
EVFTA	Europe-Vietnam Free Trade Agreement
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
GDP	Gross Domestic Product
GOV	Government of Vietnam
GRDP	Gross Regional Domestic Product
GSO	General Statistics Office of Vietnam
IMF	International Monetary Fund

IRI	International Republican Institute
ISIC	International Standard Industrial Classification
IT	Information Technology
JETRO	Japan External Trade Organization
KORCHAM	Korean Chamber of Business in Vietnam
LEP	Law on Environmental Protection
MDRI	Mekong Development Research Institute
MNCs	Multi-national Corporations
MONRE	Ministry of Natural Resources and Environment
MSMEs	Micro, Small, and Medium-sized Enterprises
NGO	Non-Governmental Organization
NSW	National Single Window
OECD	Organization for Economic Co-operation and Development
PCI	Provincial Competitiveness Index
PPC	Provincial People's Committee
PPD	Public-Private Dialogue
SOE	State-owned Enterprise
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
VCCI	Vietnam Chamber of Commerce and Industry
VCP	Vietnam Communist Party
VGCL	Vietnam General Confederation of Labor

VNA	Vietnam National Assembly
VND	Vietnamese dong
VOA	Voice of America
WEF	World Economic Forum



EXECUTIVE SUMMARY

THE 16TH PROVINCIAL COMPETITIVENESS INDEX (PCI) REPORT

The PCI is designed to assess the ease of doing business, economic governance, and the efficacy of administrative reform efforts by local governments in Vietnam's 63 provinces and municipalities. This year, the PCI marks its sixteenth anniversary with the 2020 PCI report. Based on analysis of a rigorous annual survey of the perceptions of domestic and foreign firms operating across Vietnam, the PCI report endeavors to augment the collective voice of privately-owned businesses in their interaction with policymakers in provinces where they invest and in the country as a whole. We summarize the main tools and findings in this Executive Summary, which is divided into two main parts.

The first section describes the seven surveys and datasets which we use to formulate the index and analyze governance reforms in Vietnam. Over 16 years, the PCI has added more precise research instruments. When reading the report, readers often conflate these very different sources of information. In this introduction, we step back and delineate our data sources and the purposes for which we use them.

In the second section, we present our primary research products. Each year, the PCI research explores topics beyond our signature index. We survey foreign investors, gauge business confidence, rank provincial infrastructure improvements, and inspect one particularly salient research topic. This year, readers will be particularly excited about two new survey modules that were specially designed to measure the impact of two ongoing crises in the country: the impact of COVID-19 on firms and the role of businesses in promoting green investment and climate action in Vietnam. Our core findings and conclusions from each research component are subsequently summarized for the reader's ease of reference.

I. PCI SURVEY AND DATASETS USED IN RESEARCH

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

- *Annual survey of over 8,500 existing domestic private businesses.* In 2020, 8,633 domestic private firms in all 63 provinces and municipalities answered the full survey. Firms are selected using random sampling to mirror provincial populations. Stratification is used to make sure that firm age, size, legal type, and sector are accurately represented. The adjusted response rate for the survey is 27.4 percent. 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 11,000 businesses in all 63 provinces that started operations in 2019 and 2020. Among these new entrants, enumerators were able to verify the locations and contact information of 5,481 firms. From this group, 2,098 responded, leading to an overall response rate of 38 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 1,564 foreign-invested enterprises (FIEs).* This section reports on data collected from the 22 provinces and cities with the highest concentration of foreign direct investment (FDI). These firms are also selected using stratified random sampling. The adjusted PCI-FDI response rate is 25 percent, which is extremely high for research published in high quality refereed management journals.[1] The survey includes FIEs from 44 different countries with the highest concentration from Asia, especially South Korea (452), Japan (365), and Taiwan (168). We refer to this throughout as the "PCI-FDI survey."

- *Provincial-level panel data on 63 provinces between 2006 and 2020.*[2] 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 2020. These data contain 135,893 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 2020. These data contain 17,413 individual FIE's answers to over 160 questions asked annually in the PCI survey.

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

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

2 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

This year, the PCI research report delivers eight intellectual products to assist Vietnamese businesses, policymakers, local government officials, development practitioners, and academic researchers. Below, we describe each of the outputs and the key findings for 2020.

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 1.4 in Chapter 1).

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

- o <u>How is the index created?</u> The index is produced in a three-step sequence, referred to as the "three Cs": 1) <u>**c**</u>ollect business survey data and published data from official sources, 2) <u>**c**</u>alculate ten subindices and standardize them on a 10-point scale, and 3) <u>**c**</u>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).[3]

- o <u>How does the index address changes in economic reform policies?</u> To ensure the PCI reflects recent changes in the business environment of Vietnam as perceived by businesses, and provides a useful tool for policymakers, every four years, the PCI re-evaluates its methodology and recalibrates the index. The current PCI was most recently recalibrated in 2017, preceded by adjustments in 2013 and 2009. PCI 2020 consists of ten subindices and a set of 128 indicators that were used in the previous three years' reports.

- o <u>Which are the top provinces according to this year's PCI?</u> Quang Ninh Province maintains the top ranking with 75.09 points for the fourth year in succession. Second in the 2020 ranking is Dong Thap, which once again broke its own record on the aggregate PCI score with 72.81 points and continues its thirteen-year run in the

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

top five. Coming in third and fourth place, respectively, are Long An (70.37 points) and Binh Duong (70.16 points). Making up the remaining part of the Top 10 are Da Nang (70.12 points), Vinh Long (69.34 points), Hai Phong (69.27 points), Ben Tre (69.08 points), Ha Noi (66.93 points), and Bac Ninh (66.74 points).

ii. *The Core PCI.* To measure economic governance over time, the PCI has developed a second tool, which we call the *Core PCI*,[4] constructed from a smaller set of 41 indicators that have remained fixed for 15 years (2006-2020). The Core PCI follows the 2006 PCI methodology in its entirety and is never recalibrated, so each indicator and subindex remain comparable over the entire PCI - unlike the signature PCI index, which is recalibrated every four years.

<u>Improvement over time.</u> According to the Core PCI, this is the fourth year in a row that the median province has scored above 60 points on the 100-point scale. Nevertheless, there was a slight decline to 62.91 from the all-time high of 63.44 achieved in 2019.

<u>Convergence among provinces after 16 years of PCI continues.</u> The gap between the best and worst performing provinces in both the annual PCI and core PCI rankings is narrowing. There is a broad trend of positive improvement. While the improving scores of low-ranked provinces is reason for celebration, there are signs that the top performers are targeting only easy-to-reform areas. They have yet to identify policy and institutional solutions to tougher governance problems.

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

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

    - The share of domestic firms perceiving difficulties in doing business due to provincial authorities' favoritism towards SOEs dropped from 37.9 percent in 2016 to 24.7 percent in 2020.

    - Only 29 percent of firms felt provincial governments prioritized FDI attraction over domestic investment, a significant decline from 42.3 percent in 2016. Similarly, administrative procedure settlement and land access are perceived as becoming less biased over time, except for the priority given to handling FIEs' problems. There are also signs of declining favoritism towards large and connected firms. About 57.9 percent of respondents agreed that "government procurement contracts, and other business resources mostly fall into the hands of enterprises that have strong connections with the provincial authorities" (versus 72.3 percent in 2016).

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

- o In spite of this more balanced business environment, favoritism towards big and connected firms remains high (53.9 percent), requiring yet more efforts by provincial authorities to create a fair playing field for the private sector.

  - *Legal proceedings improved:* The quality of court proceedings regarding private business issues appears to have improved, while the security of business operations and property has been enhanced.

    - o A record 89.3 percent of firms expressed confidence in 2020 that the provincial courts will protect their contracts and property rights in case of disputes, compared to 81.3 percent in 2016.
    - o The full domestic PCI survey shows that the share of firms agreeing that provincial courts judge economic cases by the law increased to 92.2 percent in 2020 from 83.3 percent in 2016.
    - o The share of firms concurring that "court judgements are enforced quickly" rose to 79.1 percent (against 62.8 percent in 2016).
    - o The share of firms concurring with the statement "provincial courts resolve economic cases quickly" increased to nearly 78 percent over 59.4 percent in 2016.
    - o The number of firms agreeing court judgements were fair rose to 88.1 percent (compared to 78.4 percent in 2016).
    - o About 84 percent of firms assessed formal and informal fees paid at court as at acceptable levels, compared to 72.9 percent in 2016.
    - o Firms in 2020 were more likely to entrust their disputes to the court system; 56.8 percent of firms indicated they were willing to bring economic disputes to courts, compared to 35.8 percent in 2016.
    - o The share of firms rating local security and order as good or very good rose steadily from 56.5 percent in 2017 (the first year the question was asked by the PCI) to over 67 percent in 2020.
    - o The share of firms experiencing break-ins or theft gradually slid from 13.6 percent in 2017 to 10.9 in 2020.
    - o It is noteworthy that the percentage of firms having to pay "protection" money to gangsters dropped from 2.9 percent in 2017 to about one percent in 2020.

- *Informal charges continue to decline.* The private sector's perception of the efficacy of the fight against corruption and informal charges at the provincial level is increasing.
    - o The share of firms reporting that they paid informal charges in 2020 dropped to 44.9 percent from a height of 66 percent in 2016.
    - o The burden of informal charges has shrunk over time, with 84.4 percent of firms rating it as at an acceptable level in 2020, compared to 79.2 percent of firms in 2016.
    - o Among a broad range of specific indicators, informal charges are also showing a decline:
        - The share of domestic private firms paying informal charges to inspectors dropped from 51.9 percent in 2016 to only 27.9 percent in 2020.
        - The share of firms agreeing with the statement "paying a commission is necessary to win procurement contracts" decreased from a high of 54.9 percent in 2017 to 40 percent in 2020.
        - In 2017, 31.6 percent of firms indicated that offering a bribe to obtain favorable judgement in a court proceeding was common; only 23 percent reflected this belief in 2020.
    - o However, stronger effort is needed in some areas. For example, the share of firms who reported having paid informal charges to expedite land procedures in 2020 returned to the same level (32 percent) as 2017, after reaching a high of 36 percent in 2019. The share of firms that reaffirmed the existence of corruption when settling procedures also only marginally declined from 60.8 percent in 2017 to 54.1 percent in 2020.
    - o Informal charges in 2020 remain burdensome to construction firms, with 14 percent reporting having paid more than ten percent of sales revenue for these bribes.
        - There is little difference in the burden of informal charges over firms, regardless of how long they have been in operation.
        - The burden on large firms is also noteworthy. Thirty-nine percent of firms with equity over 200 billion Vietnamese dong reported paying around one percent of revenue for informal charges. As these firms generally have high turnover, the absolute level of these payments can be substantial.

- *Provincial authorities demonstrate more proactivity and creativity in policy implementation.* In 2020, a record 81 percent of respondents approved of provincial authorities' flexibility in creating an enabling business environment for the private sector, surpassing the prior high mark in 2019.
    - o Seventy-two percent of firms recognized provincial People's Committees' proactivity and creativity in dealing with newly arising problems, the highest such approval rating in PCI history.
    - o The share of firms believing that provincial authorities reacted unfavorably to their requests by claiming that there was "a delay to seek central instruction" or doing nothing when handling business issues fell to 25.8 percent in 2020, a record low since the indicator was first introduced in 2013.
    - o Just over half (50.5 percent) of firms acknowledged the provincial government's positive attitude towards the private sector in 2020, which is a decline from its height in 2019 but still in line with a rising trend observed since 2016.
    - o An astounding 94.9 percent of domestic firms said they received timely feedback to their concerns in 2020, a continuation of the high approval rate.
    - o As many as 73.8 percent of firms had their problems resolved at public dialogues and meetings, compared to 67 percent in 2017.
    - o Eighty percent of firms expressed satisfaction with local authorities' responses or their ways of handling the issue, an increase from 76.7 percent in 2017.
- *Implementation at local level progresses slowly.* Despite recent remarkable changes in the business climate, implementation at the district and department levels remains a bottleneck.
    - o A disturbing 73.5 percent of domestic firms felt that provincial initiatives were not implemented properly at the department level.
    - o Similarly, sixty percent of domestic firms agreed with the statement "[a] good initiative at [the] provincial level [is] not implemented well at [the] district level."
- *Reforms of administrative procedures progress, but some areas remain burdensome.* However, firm perceptions of the handling of administrative procedures are positive, overall.

- Simplified procedures and paperwork were acknowledged by 66.5 percent of domestic firms, compared to 49.5 percent in 2016.

- Seventy-six percent of firms felt time spent on implementing administrative procedures was less than formally required, up from 67 percent in 2017.

- Eighty-four percent of firms agreed that "public officials handled work effectively," a significant leap from 58 percent in 2016.

- Eighty percent of firms recognized public officials as "friendly" in handling administrative procedures, versus 65.6 percent in 2016.

- The share of firms that reported needing fewer visits to administrative offices to complete procedures was 69 percent, compared with 63.3 percent in 2016.

- However, procedures remain complicated and time-consuming. Only 22 percent of firms reported spending less than 10 percent of their time understanding and implementing regulations, a decline from 35.7 percent in 2016.

- Land, taxes, and social insurance were again rated the most burdensome; land was regarded as the most troublesome by 29 percent; 22 percent had the greatest difficulty with taxes and fees; and 21 percent deemed social insurance to be most onerous.

- On market entry, considerable difficulties applying for licenses remain. Topping the list are certificates of eligibility for doing business (32 percent), certificates of fire safety (30 percent), and approval of environmental impact assessment/commitment or environmental protection plans (30 percent). After that are certificates of workplace/occupational safety (26 percent), certification of conformity with technical regulations (25 percent), and certificates of security conditions (23 percent).

- One notable achievement in this area is the reduced burden of inspections.

    - The share of domestic private firms having experienced duplicative inspections significantly declined from 14.1 percent in 2016 to 8.3 percent in 2020 and is a far cry from 25.6 percent in 2015.

    - The share of firms receiving five inspections or more in one year decreased from 11.9 percent in 2016 to three percent in 2020.

    - Just 14.3 percent of firms reported inspections were used to extract rent, compared to 18.9 percent in 2017.

- *Transparency should be further enhanced.* Access to planning documents has grown, but there is room for improvement when obtaining other important forms of information.

    - On a scale of 1-5 (ranging from Impossible (1) to Very Easy (5)), access to planning documents remained at 2.50 points and access to legal documents was rated 3.03 points, showing little sign of improvement over prior years.

    - The quality of provincial websites only marginally improved to 34.5 points on a 50-point scale, a slight increase from 31 points in 2016.

    - The lack of improvement in the quality of provincial websites may be why fewer firms regularly accessed them in 2020 (52.3 percent), compared to a significantly higher share (76.8 percent) in 2016.

    - Notably, only 56.3 percent of firms in 2020 reported receiving responses to their requests for information from provincial authorities, significantly declining from 71.4 percent in 2017 when this indicator was first added to the PCI.

    - The share of firms reporting provincial implementation of centrally issued legal documents was always or sometimes predictable lingered around five to six percent in recent PCI surveys, showing virtually no improvement over time.

    - In 2020, 57.4 percent of domestic firms indicated relations with public officials were necessary to access provincial documents, a noticeable decline from 66.3 percent in 2016.

    - Firms reported greatest difficulty obtaining land use allocation plans and maps (51 percent), public investment plans (50 percent), provincial budget documents (48 percent), local industry development planning papers (47 percent), information about new infrastructure projects (45 percent), and investment incentive policy (40 percent). Even provincially issued legal documents were rated difficult to access by a considerable share of firms (24 percent).

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 policymakers (see Figure 1.28, Chapter 1).

- o 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 construction, particularly for large projects such as ports and airports.

- o What does the infrastructure index measure? This index is built upon the survey results of firms' perceptions about infrastructure quality across provinces and municipalities 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.

- o Which provinces have the best infrastructure? Binh Duong, Ba Ria-Vung Tau, and Da Nang made up the Top 3 in the 2020 Infrastructure Index. These provinces have frequented the top spots in the rankings for many years, due to their inherent advantages in infrastructure.

- o Has infrastructure quality changed over time? Infrastructure in Vietnam has generally improved since 2014. However, in 2020, the median score of the Infrastructure Index dropped slightly to 67.41 points from the all-time high of 68.45 points, achieved in 2019.

- o The relationship between governance and infrastructure. The PCI findings show the correlation between the quality of governance and infrastructure in 2020. There remains a close correlation across the 63 provinces. Consistent with previous PCI surveys, PCI 2020 finds that provinces performing well in governance indicators tend to have higher quality infrastructure. Provinces that outperform the median province in terms of infrastructure but do not perform as well in governance appear to be caught in a structural advantage trap. They have not vigorously pursued good governance because they were confident that investment would come regardless of their efforts. Finally, provinces that perform better than the median province in terms of their governance but face the obstacle of limited infrastructure have to "conquer hardships" through dedicated reforms to overcome their limited endowments.

iv. Challenges to Business Operations in 2020. This year, the PCI repeated a module asking businesses about the greatest obstacles to business success. A large number of businesses pointed to non-governance issues as their key concerns.

- o <u>Key challenges.</u> The top five obstacles were: finding customers (64 percent); getting credit (41 percent); the market downturn (33 percent); recruiting employees (28 percent); and finding business partners (25 percent). Only 15 percent of firms reported concerns related to unpredictability in dealing with regulatory matters.

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 per capita GDP growth (see Figure 1.1, Chapter 1).

- o <u>Optimism suffered a blow.</u> For 2020, the thermometer demonstrates that business confidence was hit quite hard by the COVID-19 pandemic with only 41 percent of respondents planning to expand their business operations in the following two years. This is the lowest confidence recorded in Vietnam since the 2012-2013 hyperinflation crisis.

    - Firms that were able to export manufactured products, such as those in making furniture (64 percent), motor vehicles (55 percent), and chemicals (52 percent) remained optimistic about expansion, as did businesses in the finance and insurance industry. However, other sectors appeared to have been more injured by the pandemic and are less confident about their prospects. Businesses in mining (30 percent) and information/communication (32 percent) were particularly negative.

vi. *Analysis of PCI-FDI Survey*. Chapter 2 of the report presents the findings from the PCI-FDI survey regarding governance improvements and challenges that influence the performance of FIEs in Vietnam. In the broader context of COVID-19's impact on the world economy, FDI activities in Vietnam remained remarkably robust over the course of 2020. Despite unavoidably negative effects from the pandemic, thanks to its impressive efforts to contain the virus and investors' shifting strategy, Vietnam remains in a position to take advantage of U.S.-China trade tensions to cement its role as one of the world's factories. It is imperative that we review the country's strengths and weaknesses in attracting foreign firms that are seeking to diversify away from and move out of China. Our in-depth analysis of how foreign investors view Vietnam in comparison with alternative destinations shows that Vietnam's competitive edge has grown in recent years. While the government has succeeded in presenting foreign investors with a stable political environment, acceptable risks of expropriation, and reduced policy uncertainties, there remains plenty of room for improvement when it comes to corruption, public service delivery, regulatory constraints, and infrastructure. This year's highlights include:

o Clear evidence of the adverse impact of COVID-19. The pandemic had clear negative effects on FIEs' activity and performance:

- Economic activity: Median sales decreased from US$0.93 million in 2019 to US$0.67 million in 2020. Median expenditures also dropped to US$1.28 million from US$1.51 million last year.

- Performance: The share of FIEs reporting losses increased from 34.3 percent in 2019 to 47.1 percent this year — the highest rate ever recorded by the PCI-FDI survey.

o Tempered optimism for the future. In such an uncertain economic environment, FDI firms are more reluctant to commit to expanding their operations in Vietnam. The Business Thermometer shows that only 41 percent of businesses in the survey plan to increase the size of their operations in the coming years, compared to 53 percent in 2019.

o Vietnam's new assets and remaining weaknesses in attracting foreign investment. Between 2013 and 2015, we asked PCI-FDI respondents if they selected Vietnam over other countries as the sole destination of their investment, and, if so, what factors gave Vietnam the edge over these competitors. There were nine major criteria: (1) corruption; (2) regulatory constraints; (3) tax rates; (4) risks of expropriation; (5) policy uncertainties; (6) infrastructure; (7) public service delivery; (8) active role in policymaking; and (9) stable political institutions. We reintroduced these questions in the 2020 survey to evaluate how Vietnam's competitive edge has evolved after five years. Based on the results, we assign these nine criteria to four categories.

- Lasting advantages: Vietnam's *stable political institutions* have always been a pulling factor for foreign investors. A consistent rate of more than 90 percent of PCI-FDI respondents cite this as a reason for which they decided to invest in Vietnam.

- Emerging assets: FDI firms also increasingly consider Vietnam as a destination with *lower risks of expropriation* and *fewer policy uncertainties* after remarkable recent progress in these two areas. Since the passing of the 2013 Land Law, the share of FIEs agreeing that they face lower risks of expropriation in Vietnam increased from 64 percent to 80 percent. In addition, 82 percent consider Vietnam to present fewer policy uncertainties than its alternative destinations do, as compared to 60 percent in 2013.

- Modest gains: Despite some recognizable improvements, Vietnam remains relatively weak vis-à-vis competitors for FDI in *tax rates* and *active role in* *policymaking*. The fraction of FIEs picking Vietnam for these factors hovered around the 60-percent mark in 2020.

- Persisting weaknesses: Vietnam still scores below 50 percent in four areas — *corruption, public service delivery, regulatory constraints*, and *infrastructure*. Of these, there have been encouraging improvements in two criteria. Nearly 40 percent of FIEs considered anticorruption to be one of Vietnam's strong points in 2020, up from approximately 30 percent in 2014. The share of investors picking Vietnam due to superior public service delivery also increased from 29 percent in 2014 to just under 46 percent in 2020. On the other hand, FIEs' evaluation of regulatory constraints and infrastructure has not improved much in the past few years.

o Dividends from the government's anticorruption campaign. Government leaders made anticorruption a central policy priority since taking office in 2016. Data from PCI-FDI 2020 provides further evidence of a sustained reduction in the extortion of the business sector across various aspects of operations.

- The shares of firms having to make informal payments during land procedures, inspections, and customs procedures all decreased in recent years.

- The overall cost of bribery also shows signs of decreasing over time. The share of respondents paying upward of 10 percent of revenue in informal charges dropped from more than two percent in 2016-2017 to 1.2 percent in 2020.

- There has been a clear and steady decline in the number of inspections firms undergo, from an average 2.85 inspections per firm in 2016 to only 2.1 in 2020.

o Most burdensome administrative procedures. Regulatory constraints remain stubborn problems in Vietnam in the eyes of prospective investors. Five areas (social insurance, registration, tax, customs, and fire prevention) top the list, with 23-24 percent of PCI-FDI respondents selecting these as the most troublesome administrative procedures.

vii. *An Investigation of the Impact of COVID-19 on Businesses in Vietnam*. While no country can yet boast of having defeated COVID-19, some have managed the conjoined challenges of curbing the spread of the disease while simultaneously maintaining economic vitality. Vietnam, among the first countries outside of China to document infections, is certainly on this very short list. Despite unexpected and complex developments with COVID-19 that occurred after the administration of the PCI survey, some analysts project that Vietnam's near-term growth path is likely to diverge from the global trend. A number of analysts have predicted a V-shaped economic recovery and the country's elevation to a leading position among emerging market economies. Despite the well-deserved commendations, Vietnam's headline COVID-19 performance statistics conceal a great deal of hardship that Vietnamese companies and workers have endured over the past twelve months. In Chapter 3 of the 2020 PCI Report, we analyze data from a special module dedicated to analyzing the impact of the pandemic on business operations and performance as well as the perceived effectiveness of the government response. Several critical findings emerge:

- The negative impact of COVID-19 on business operations was widespread. Over 87 percent of both foreign and domestic firms experienced some pandemic-related business setback in 2020. Nearly 15 percent of domestic businesses and 13 percent of foreign businesses reported that their experiences were "completely negative." Only two percent of domestic businesses reported positive experiences (under one percent of foreign firms), while about 11 percent of firms in each group reported no effect at all.

- Shrinking domestic market and disrupted supply chains were main issues faced by businesses. For domestic firms, which disproportionately operate in wholesale/retail and other services, the biggest challenges were caused by the shrinking domestic market, which led to declining cash flow (47 percent) and fewer domestic customers (44 percent). COVID-19 has also caused major disturbances to FIEs, mainly affecting their access to international markets (63%), reducing cash flow (42%), and disrupting their supply chains (41%).

- The negative economic effects differed dramatically by sector. Companies in information and communication service, as well as manufacturers of computers and electronics, motor vehicles, leather, garments, and textiles, were the most severely hit in terms of declining sales and layoffs. On the other end of the spectrum, real estate and finance companies weathered the storm more effectively. The struggles in the more technologically intensive and high value-added goods are critically important as these have been cited as key target industries for Vietnam's sustainable investment policy.

- Effects on Sales and Profitability. Sales revenue dropped precipitously for many businesses, as consumers stayed home due either to health precautions or adherence to the government's strict lockdown policy. Sixty-six percent of domestic businesses and 62 percent of foreign businesses reported sales revenue declines in 2020 with the median firm facing a revenue downturn of 36 percent compared to previous years.

- Effects on Employment. As budgets tightened, companies struggled to keep afloat, leading to spikes in unemployment as workers were laid off either due to business closures or drastic cost-cutting measures. Among the 10,197 firms that answered the two PCI surveys, just under one-third (3,373; including about 35 percent of domestic companies and 22 percent of foreign companies) laid off at least one employee by December 2020.

- Approaches Used by Businesses to Address Economic Crisis. Surviving companies tried a range of measures to maintain operations during 2020. The two most popular approaches addressed the impact of the crisis on business partnerships. As the business community struggled, companies not only had trouble maintaining traditional sales relationships, they also had difficulty accessing critical supplies and intermediate goods and services. Thus, the prevailing company policies were stockpiling vital supplies (20 percent of domestic companies and 24 percent of foreign companies) and seeking out alternative supply chain partnerships (18.5 percent of domestic companies and 23 percent of foreign companies). Very few companies enhanced their investments in digital training (13 percent domestic and 15 percent foreign) or in automating manufacturing processes (5 percent domestic and 6 percent foreign) as a way of reducing their dependence on labor during the lockdown. Only large firms of over 200 people and companies in high-end service industries (regardless of size), such as finance, insurance, real estate, and education training, had the capital and skilled manpower on hand to adjust during the crisis.

- Local and Central Government Policies to Ameliorate the Crisis. Major strategies employed by government officials to alleviate financial stress on businesses can be organized around three pillars: 1) interest rate reductions and loan extensions; 2) suspensions of social insurance and trade union fee payments; and 3) reductions in tax payments and land fees. These measures were aimed at reducing business costs and maintaining balance sheets. While firms appreciated these efforts, the PCI data demonstrates that firms tended to find the adjustments to tax policies both the easiest to access and most useful. Next was postponement of social insurance and labor union fees, while bank interest reductions and loan extensions placed third in popularity. For example, 57 percent of businesses reported difficulty receiving interest rate reductions and loan extensions, compared to 44 percent for the postponement of social insurance, and less than 40 percent for corporate income tax (CIT) and value added tax (VAT) relief. Domestic and foreign firms tended to agree on the rank-ordering of the relief policies. However, foreign firms were decidedly more negative about their utility.

- Businesses support future lockdowns if necessary. Given the lockdown's harsh impact on business activity, we suspected that businesses would be wary of further stringent closures. This was not the case. To test this notion, half the firms were randomly selected to receive a message that there was a 25 percent probability of a second outbreak, while the other half were told the probability was 75 percent.

Support for a strict lockdown to contain the hypothetical crisis was extremely high (about 85 percent for both domestic and foreign businesses) regardless of the probability of a future outbreak. Those receiving the higher probability exposure were only about 2.5 percentage points more supportive. This finding points to the reservoir of support the Vietnamese government built up among the business community for its deft management of the pandemic. Businesses trust that the government response to the pandemic was worthwhile and legitimate, and are therefore willing to subject their operations to additional closures to preserve public health despite the documented economic damage lockdowns can do.

- Policy recommendations. As Vietnam recovers in 2021, a critical policy concern will be the uneven impact of the crisis across regions and economic sectors. Layoffs in the northern mountainous regions and Red River Delta were significantly higher than in the Mekong Delta or the provinces surrounding Ho Chi Minh City. Manufacturers suffered more than service sector businesses; within manufacturing, certain industries, such as autos, computers, and electronics, were particularly hard-hit. The government should prioritize addressing the exogenous shock fairly and equitably to make sure that all business and citizens share in the recovery. In particular, Vietnam may want to invest resources in retraining laborers who now need to find work in more resilient sectors.

viii. *Promoting Green Growth and Climate Action in Vietnam*. In emerging markets like Vietnam, where much of the world's future demand for energy and infrastructure will be located, there is a clear recognition of the central role that businesses can play in promoting green growth and climate action. However, there is less clarity about how to motivate private firms to invest in green technologies and environmentally friendly operations. In chapter 4 of the 2020 PCI Report, we use a survey experiment embedded in two nationally representative surveys in Vietnam to test which type of stakeholder pressure (governmental or societal) has the strongest impact on whether and how much domestic and foreign business leaders are willing to invest in green operations. Our main findings include:

- Foreign investors are more susceptible to intensive regulatory pressure. Seventy-four percent of foreign businesses that received the regulatory treatment expressed a willingness to expend greater resources on environmental upgrading, compared to 67 percent of firms that received the social pressure treatment (a seven percentage point average treatment effect (ATE) that is significant at the $p<.05$ level). By contrast, we find no difference for domestic investors; 68 percent expressed a willingness to invest in new environmental equipment and processes, regardless of treatment. We also do not find evidence for change with respect to the intensive margin (the increase in the share of operating costs that foreign and domestic firms were willing to incur to increase the environmental cleanliness of their operations).

- o The most effective policy varies by actor. Digging deeper, we disaggregated our analysis by whether firms' primary customers are citizens and businesses in Vietnam or customers outside the country, who are reached through export. Fascinatingly, the effects on the extensive margin (the firm's willingness to pay for environmental upgrading) are most pronounced for foreign firms seeking to access the domestic market, and domestic firms pursuing export. However, the type of stakeholder pressure that matters most varies between the two groups. Domestic-oriented foreign firms, particularly because of their visibility and size, are more likely to respond to the regulatory pressure treatment (ATE=8.2 percentage points). By contrast, export-oriented domestic firms, because they are concerned about selling to consumers with Western values, are more likely to be influenced by the social pressure treatment (ATE=3.21 percentage points).

- o Firms' assessment of climate risk does not influence the effect of regulatory or social pressure on their decisions to upgrade. Firms' subjective and objective vulnerability to climate risk does not influence the effects of regulatory or social pressure. The higher the climate risk to a firm's particular business, the more likely they are to upgrade, but this effect is not enhanced by additional social or governmental pressure.

- o Policy implications. As businesses' role in climate action becomes increasingly important, the question is whether more government regulation is needed to bring about change in firms' behavior or whether there is room for "self-regulation," when firms respond most strongly to pressures from non-government actors, including NGOs and citizens' demands. The bottom line is that there is not a one-size-fits-all approach to encouraging environmental upgrading. Enhanced regulation of domestic firms will not pay the same dividends as it does for foreign firms and comes with significantly more costs to inspect the numerous, diffuse, and small domestic companies. At the same time, ambitious domestic businesses hoping to reach international markets will find that social pressure is an extremely effective force in motivating green behavioral change.

CHAPTER 1

THE DOMESTIC BUSINESS SURVEY AND PROVINCIAL COMPETITIVENESS INDEX

INTRODUCTION

The Vietnam Chamber of Commerce and Industry (VCCI) and the United States Agency for International Development (USAID) collaborated to produce the 2020 Provincial Competitiveness Index (PCI) surveys to convey the collective voice of the business community in Vietnam to central and local governments. A major goal of the PCI is to inform the creation of business-enabling environments at the provincial level. Since its induction in 2005, the PCI survey has become a trusted source of reference for provincial governments in Vietnam seeking to create and implement policy aimed at improving local business landscape. According to VCCI's records, as of 2020, 1,616 documents (decrees, decisions, instructions, etc.) have been issued and executed by provincial governments to improve their performance in the PCI. The central government has also required provincial authorities to use PCI results to take proactive steps to improve the business environment and national competitiveness, most notably with Resolution 19 in 2014 and Resolution 02 in 2019. In fact, the Central Government has even used the PCI to support key long-term reform programs, such as the action plan to cut costs for business operations (Resolution 139/2018/NQ-CP),[5] the plan for sustainable development of the private sector (Decision 1362/2019/QD-TTg)[6] and the national digitalization program (Decision 749/2020/QD-TTg).[7]

Since 2005, the PCI surveys have received 153,306 responses, including 135,893 domestic firms and 17,413 foreign invested firms (FIEs). In 2020 alone, a year marked by the global COVID-19 pandemic, the combined number of respondents to the PCI survey reached 12,295 (10,731 private domestic firms[8] and 1,564 FIEs), which is the second highest total number of responses since the 2019 peak (12,429 firms). The high response rate of this year's PCI survey (27.4 percent) shows companies' explicit trust in the PCI as an effective channel to make their voices on local economic governance heard.

5 *Government Resolution 139/2018/NQ-CP dated November 9, 2018 promulgating the Action Program to reduce costs for enterprises.*

6 *Prime Ministerial Decision 1362/QD-TTg dated October 11, 2019 approving the plan on sustainable development of private enterprises through 2025, with a vision toward 2030.*

7 *Prime Ministerial Decision 749/2020/QD-TTg dated June 3, 2020 approving the national digital transformation program through 2025, with orientations toward 2030.*

8 *Including 8,633 firms responding to the full PCI survey for domestic private firms, covering key areas of local business environment, and 2,098 firms that incorporated in 2019 and 2020 answered a dedicated survey on market entry. The response rate to the domestic PCI survey is 27.4 percent. The response rate was 45 percent after correcting erroneous contact information.*

Based on the domestic PCI survey results and official statistical data, the 2020 PCI measures economic governance as well as the administrative reform efforts of provincial governments and national-level cities in Vietnam to provide an enabling business environment across ten areas influencing private sector development. A province that is considered as performing well on the PCI is one that has: 1) low entry costs for businesses; 2) easy access to land and security of business premises; 3) a transparent business environment that provides information equitably to firms; 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 that works to solve problems for enterprises and management; 8) high-quality business support services; 9) labor quality sufficient to meet firm needs; and 10) fair and effective legal procedures for dispute resolution and well-maintained law and order.

The construction of the 2020 PCI adheres to the index's historical annual survey process and maintains the same methodology, which was most recently calibrated in 2017. The process consists of three steps: 1) collecting information from responses to mailed surveys returned by businesses and from state statistical data (businesses are selected from provincial lists of tax-paying enterprises using stratified random sampling); 2) calculating 10 subindices and standardizing each of them on a 10-point scale; and 3) calculating the aggregate PCI score for the weighted means of the 10 subindices on a maximum scale of 100 points.[9] Every four years, the PCI research team reviews and adjusts the PCI methodology. The next calibration will be in PCI 2021, to reflect changes in the business and regulatory environment and private sector development. Improvements will continue to be based on consultations with academic and business experts and we look forward to their continued support and participation.

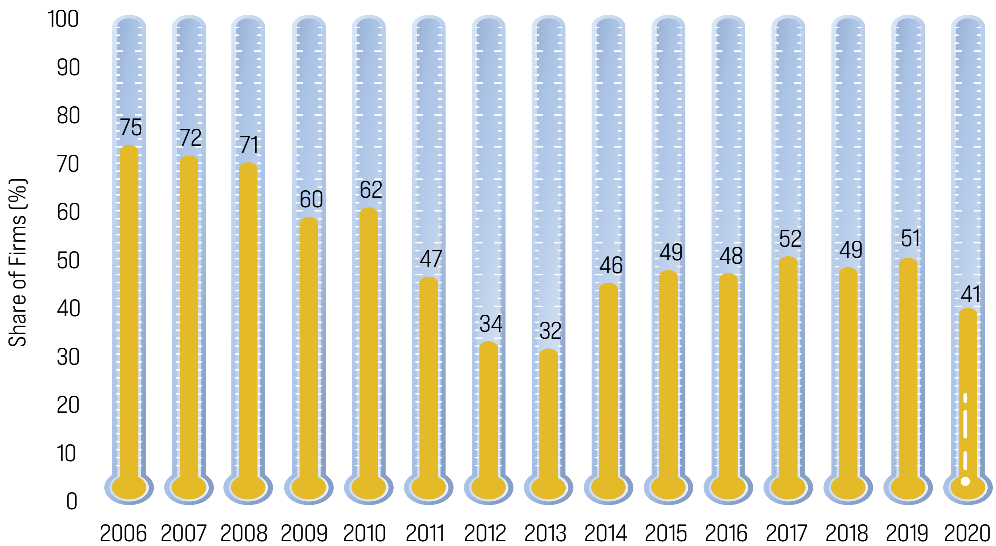
The first chapter of the PCI 2020 report consists of five sections. The traditional Business Thermometer – a gauge of firm confidence in business potential extracted from the PCI 2020 data with comparative analyses from previous years, is presented in Section 1.1. The second section captures the results of the PCI 2020 rankings and highlights the most updated reform efforts in some provinces. Section 1.3 identifies key trends in local governance across the country in the last five years from the perspective of domestic firms. Section 1.4 features the largest obstacles faced by firms in 2020 and analyzes those related to seeking markets, access to bank loans, and market fluctuations. Finally, section 1.5 provides an overview of the infrastructure quality in provinces in its association with local governance, as perceived by domestic firms.

9 For more details on the PCI methodology, see the PCI 2017 report at www.pcivietnam.vn

1.1 BUSINESS THERMOMETER

As the PCI research team predicted,[10] the global COVID-19 pandemic has injured business operations of firms across the country, leading to a sharp decline of business confidence. The 2020 business thermometer[11] in Figure 1.1 shows only 41 percent of domestic firms were planning to expand in the next two years, a considerable decrease from the 51 percent who planned expansion in 2019. This is the third-lowest recorded level of business confidence since 2006, when the PCI surveys expanded nationwide. This level is slightly higher than the record lows between 2012 and 2013 when Vietnam underwent the dual calamities of the global financial crisis and domestic hyperinflation. This year, up to 13 percent of domestic operations reported they planned to downsize or close, the highest level in the PCI history.

Figure 1.1 PCI Business Thermometer over Time

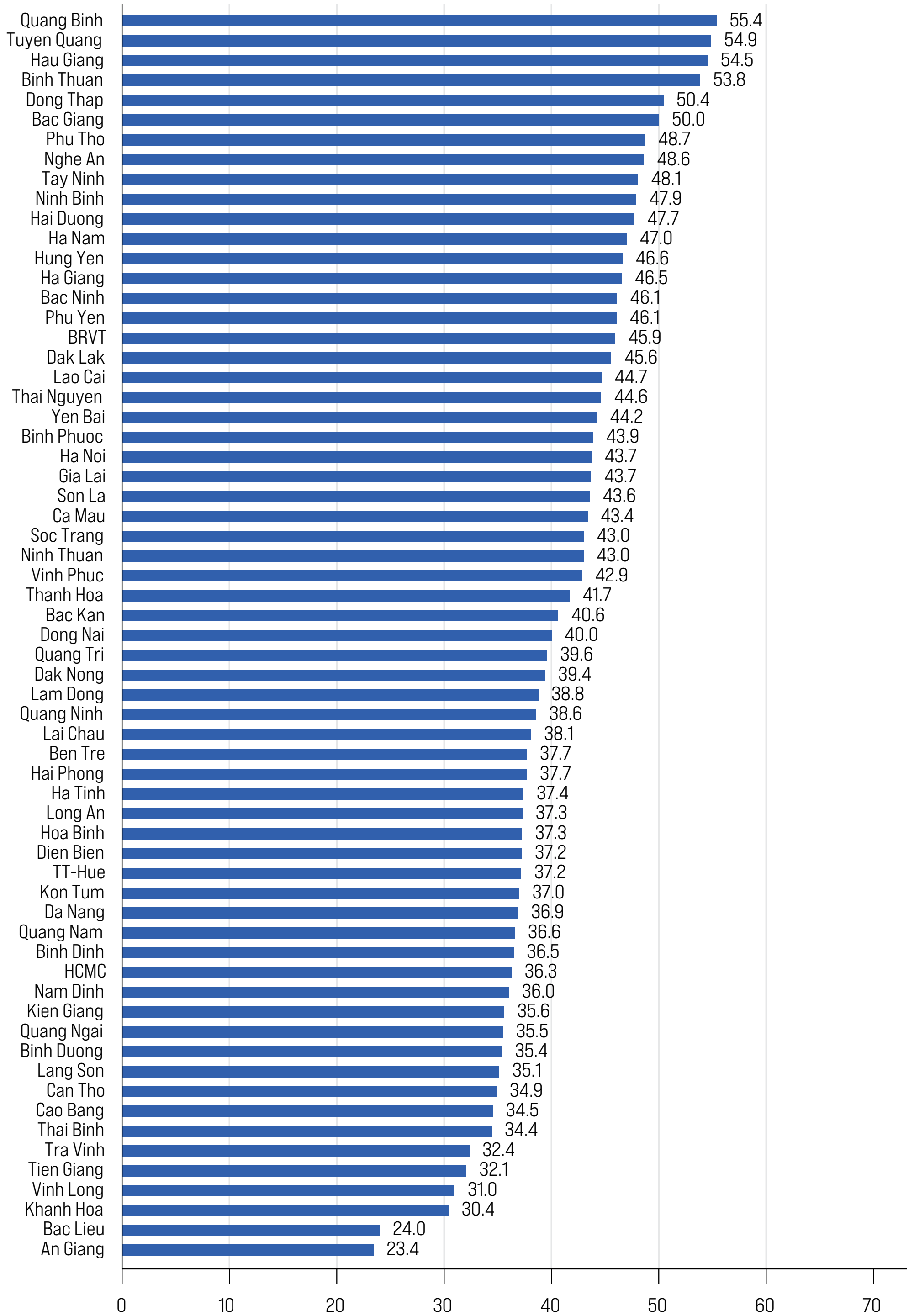


Source: PCI survey, Multiple years, Question A10: "Which of the following statements best describe your business plan in the next two years?" Share of firms selecting "plan to increase size of operations" or "intend to increase operation"

10 VCCI and USAID, The Provincial Competitiveness Index 2019, page 41, published May 5, 2020, posted at <www.pcivietnam.vn>

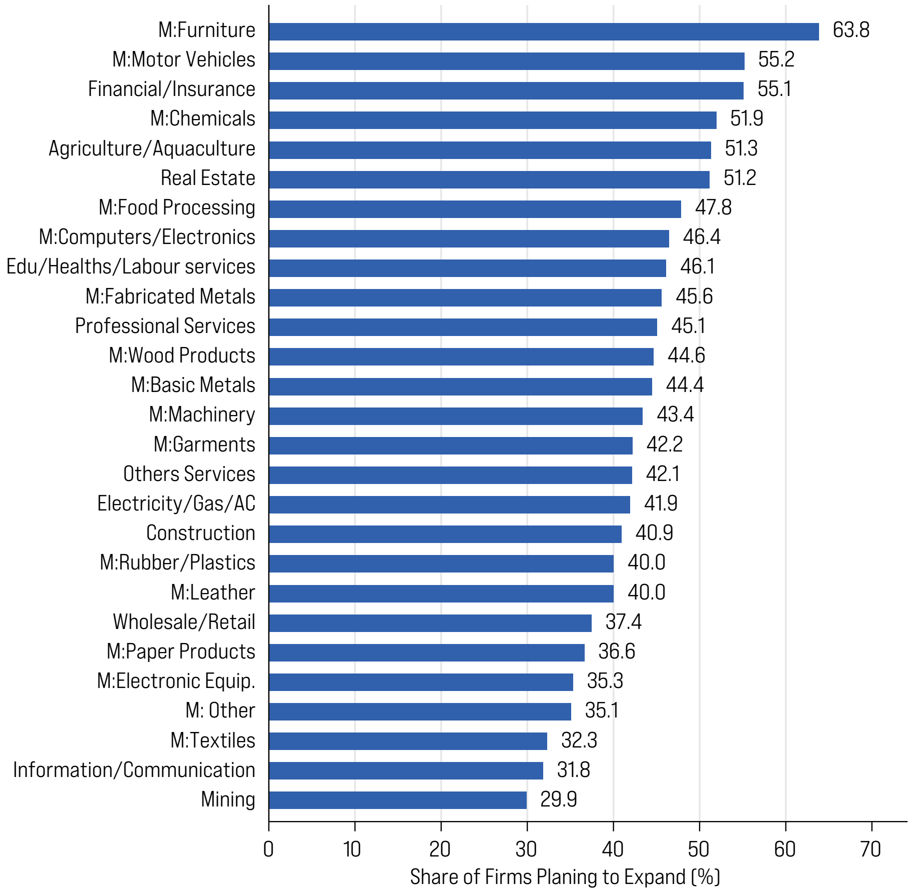
11 Since 2006, the business thermometer has been used to measure business prospect of the private sector in Vietnam. This gauge is constructed by the question on business plans in the annual survey, which asks firms to specify whether they: 1) plan to increase the size of operations; 2) are considering increasing the size of operations; 3) will continue operations at present size; 4) are considering reducing the size of operations; 5) plan to reduce the size of operations; and 6) plan to close the business. The shares of firms picking the first two choices are used to calculate this measure.

Figure 1.2 The 2020 PCI Business Thermometers by Province



We took a closer look at the business outlook for firms in Vietnam by disaggregating by province (Figure 1.2). Only six provinces (Quang Binh, Tuyen Quang, Hau Giang, Binh Thuan, Dong Thap, and Bac Giang) had at least 50 percent of firms planning to expand their operations in the next two years, a decline from 37 provinces in 2019. Some provinces reported only one-third of local firms intending to expand, including An Giang, Bac Lieu, Khanh Hoa, Vinh Long, and Tien Giang. Among the five centrally run cities, also the country's economic hubs, four of them (Can Tho, Ho Chi Minh City, Da Nang, and Hai Phong) saw firms' expansion plans drop below the national average.

Figure 1.3 The 2020 PCI Business Thermometer by Sector



Across different sectors, struggling businesses were showing more caution. We found that only six sectors reported more than half of firms planning to expand in the next two years. Furniture manufacturers are the most optimistic, with 63.8 percent projecting expansions. The sector saw some hopeful signs in the second half of 2020 when Vietnam increased its global market access via the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Europe-Vietnam Free Trade Agreement (EVFTA) as well as in big markets such as the U.S., South Korea, and China, though all of these businesses struggled in the first half of the year after the outbreak of COVID-19 (GSO 2020). The next four most positive sectors are motor vehicle manufacturers, finance/insurance, agriculture/forestry/aquaculture, and real estate. Mining, information/communication, and textile recorded the lowest levels of anticipated expansion in the next two years. We will delve further into how business confidence by sector correlates to COVID-19's impact on businesses, and how well some firms ameliorated the effects of the crisis, in Chapter 3.

Although COVID-19 continues to pose challenges to businesses at the beginning of 2021, there are encouraging signs. Struggling firms have learned to adapt or even find new opportunities in calamities. The dual efforts of the government to contain the virus and promote economic recovery and growth played a crucial role, providing effective support to boost entrepreneurship. Companies will further benefit as trade partners roll out vaccines and the global economic recovery commences. Huge challenges remain, but these signs of hope indicate the possibility of a strong recovery and development of the private sector in the near future.

1.2 PROVINCIAL COMPETITIVENESS INDEX 2020

The Provincial Competitiveness Index (PCI) measures the overall business confidence in economic governance at the provincial level in an effort to create an enabling business environment. The PCI sums the weighted aggregate scores of the ten subindices on a 100-point scale, quantifying private firms' perceptions of local economic governance in ten governance areas influencing private sector development.[12] Figure 1.4 presents the 2020 PCI rankings with scores, and Figure 1.5 represents these results on a national map.

12 The PCI's ten indices include: 1) market entry costs; 2) land access and security of tenure; 3) transparency; 4) time costs; 5) informal charges; 6) policy bias; 7) proactivity; 8) business support services; 9) labor policy; and 10) law and order. For details on the most updated methodology, refer to the 2017 PCI report at <http://pcivietnam.vn>

Figure 1.4 Weighted Provincial Competitiveness Index 2020

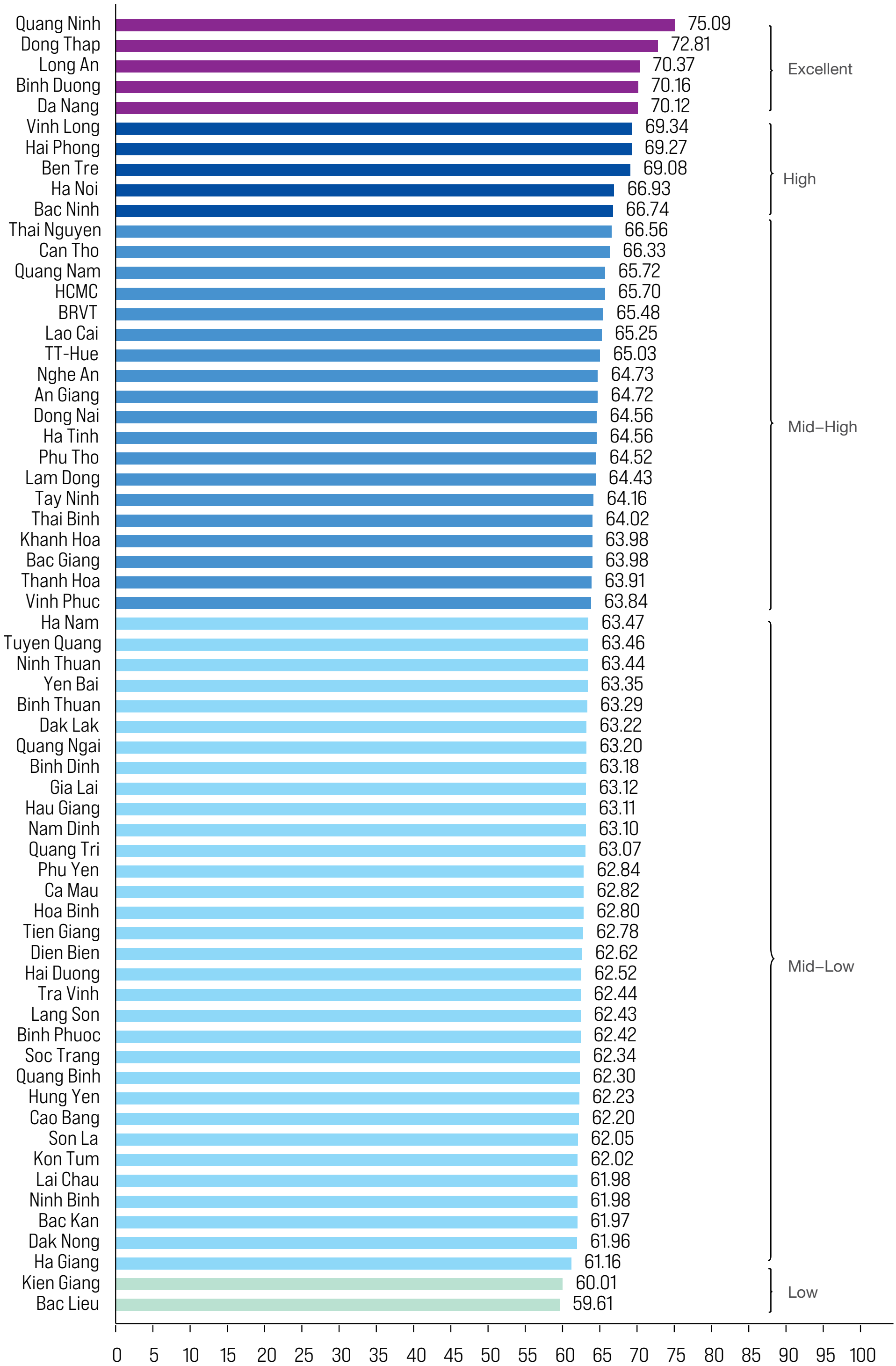
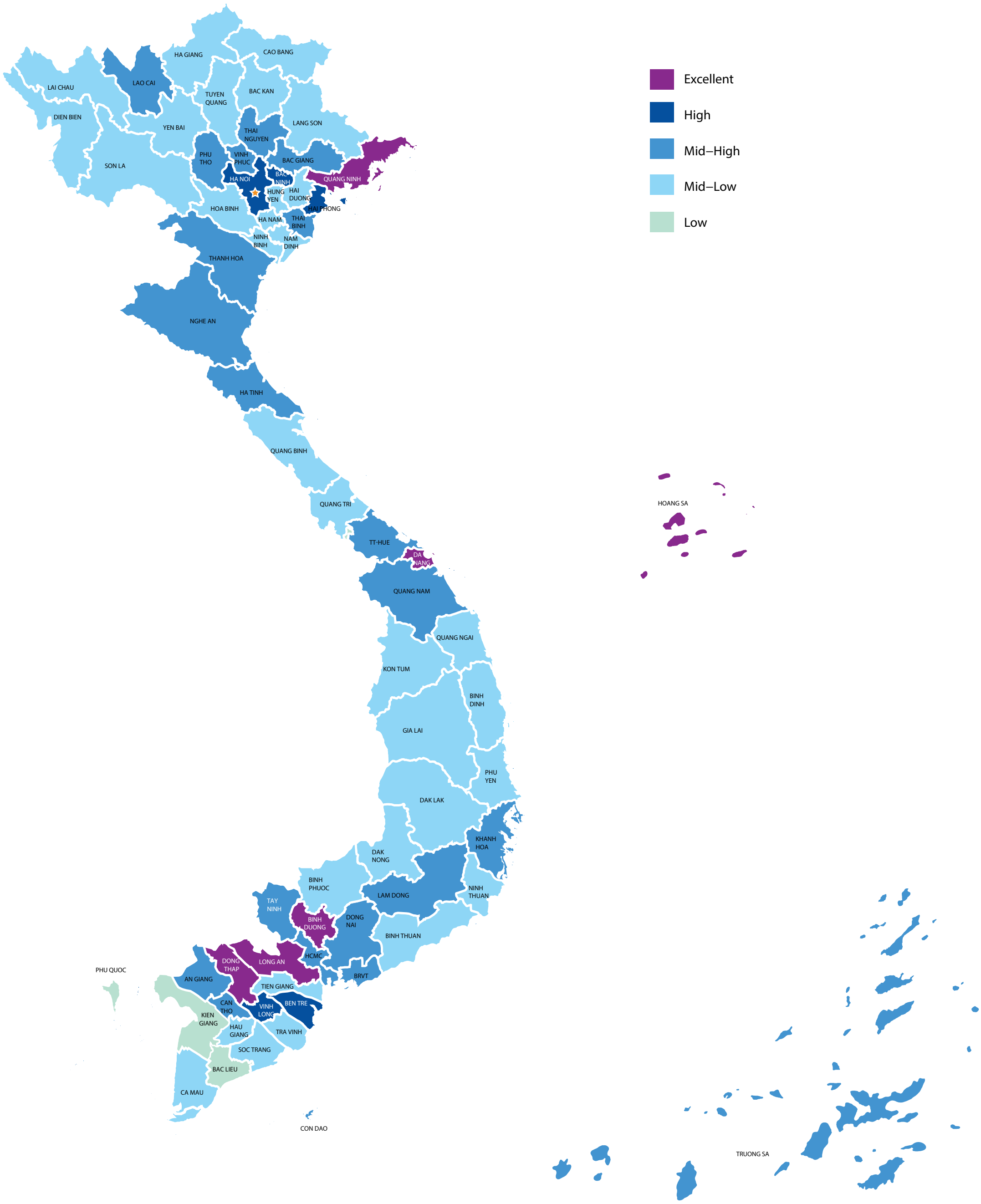


Figure 1.5 PCI 2020 Map



Quang Ninh tops the 2020 PCI ranking, scoring 75.09 points. With an overall PCI score increase of 1.69 points, the province broke its own record to secure the top position for the fourth consecutive year. It is also the only province to surpass 75 points in the PCI rankings since 2010.

Quang Ninh's achievement results from its special efforts in 2020. In a year of unprecedented hardships from COVID-19, the government of Quang Ninh made support to struggling firms its central focus to improve the local business landscape.[13] In the early months of 2020, the provincial government required lower-level agency leaders to take prompt actions to improve businesses' resilience in the COVID-19 context. These were mostly focused on identifying the most affected sectors, such as tourism, agriculture, and export, and providing access to government support measures, which included extension of debt payments, exemption from or reduction of loan interest rates, access to finance, identifying and accessing new export markets, finding business partners, and product branding development. Many interactive meetings with local businesses were sponsored by the provincial government with proactive support from the local business association. At these dialogues, leaders heard businesses speak up regarding obstacles and concerns. They then worked to develop business-enabling policy solutions, which include some resolutions supporting the recovery of the tourism and service sectors.[14]

Amidst the COVID-19 crisis, Quang Ninh diligently engaged in reform efforts to improve the local business climate. Close communication with businesses about their problems enabled the provincial government to promptly address issues arising from COVID-19 in the import-export procedures.[15] The Provincial Public Service Center managed 1,939 procedures at the provincial level, 293 procedures at the district level, and 111 procedures at the commune level. The number of public services provided digitally increased to 1,552 (grade 3 and 4). In particular, 525 third- and fourth-grade administrative procedures were provided online on

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13 *Plan no. 38/KH-UBND dated 20 February 2020 by the Quang Ninh Provincial People's Committee on implementation of Government Resolution 02/NQ-CP dated 1 January 2020 on continuing the implementation of tasks and solutions to improve business environment and national competitiveness (PCI), and competitiveness at departmental and district level (DDCI) in 2020.*

14 *Resolution 256/2020/NQ-HĐND "on a number of solutions to boost tourist demand in Quang Ninh in 2020," became effective from May 14, 2020. This document mentions specific solutions such as exemption from and reduction of entrance fees to major tourist attractions, and a tourist incentive package worth around 200 billion Vietnamese dong. On September 8, the Provincial People's Council passed a resolution supplementing and amending some contents of this Resolution, with a demand incentive package worth about 100 billion VND with immediate effect. Government News Online (Báo Điện tử Chính phủ), retrieved at <http://baochinhphu.vn/Du-lich/Quang-Ninh-Tung-them-goi-kich-cau-du-lich-100-ty-dong/407638.vgp>*

15 *Quang Ninh Province tackles obstacles faced by firms in industrial zones and economic zones. The Communist Magazine Online, 22 October 2020, retrieved at <https://www.tapchicongsan.org.vn/web/guest/tap-oan-dau-khi-viet-nam/-/2018/820408/tinh-quang-ninh-thao-go-kho-khan-cho-doanh-nghiep-trong-cac-khu-cong-nghiep%2C-khu-kinh-te.aspx>*

the National Public Services Portal, the highest number of any province.[16] These effective reform efforts have enhanced Quang Ninh's reputation as a proactive government,[17] and the province's responsiveness benefitted the recovery and development of local private firms, contributing to a notable leap in the province's GRDP to 10.05 percent, placing it third in the nation.

In the 2020 PCI, local firms in Quang Ninh continued to recognize the local government's efforts to improve the business landscape. Specifically, 89 percent of firms rated the provincial authorities as flexible in using regulations to facilitate business. Seventy-nine percent approved of the government proactivity in handling emerging issues. Ninety-seven percent of firms reported that their concerns were addressed by local agencies and 81 percent expressed satisfaction with the way the provincial authorities handled business obstacles. The reductions in required procedures, time, and costs for investors, begun in 2017, led to positive firm perceptions: 71 percent of firms felt the paperwork was simpler (compared to 66 percent in 2019) and 84 percent of firms experienced shortened time to implement procedures (76 percent in 2019). Local firms also saw a reduction in the burden of informal charges, with only three percent of firms reporting paying over 10 percent of revenue for bribes (this figure was five percent in 2019). Evidence of significant provincial improvements in business support services is found in high firm ratings for such services as market information search (81 percent), legal consulting (88 percent), and technology-related services (75 percent).

Dong Thap and Long An round out the top three performers of 2020. Dong Thap scored 72.8 points, earning a second-place ranking, thanks to significant improvements in administrative reform (up 1.1 points), market entry (up 0.81 points), and reduced informal charges (up 0.45 points). Long An comes in third with 70.37 points, jumping five places over its 2019 ranking after making strong progress in the criteria of building a level business environment for local firms (up 1.17 points) and administrative reform (up 1.32 points).

Other Top 10 performers included Binh Duong (70.16 points), Da Nang (70.12 points), Vinh Long (69.34 points), Hai Phong (69.27 points), Ben Tre (69.08 points), Ha Noi (66.93 points), and Bac Ninh (66.74 points). Binh Duong improved the most to place fourth overall, moving

16 Quang Ninh People's Committee, Report no. 267 dated 31 December 2020 on the implementation of Government Resolution 02/NQ-CP dated January 1, 2020 on continuing the implementation of tasks and solutions to improve the business environment and national competitiveness.

17 A model titled "Five on-site" includes five principles to be conducted in the Public Administration Center: on-the-spot receipt, appraisal, approval, stamp, and results return. The Quang Ninh Investment Promotion and Support Committee works to support potential investors throughout the process, from calling for interest to preparing applications and settlement of initial procedures. Additionally, the province promotes the use of IT applications ("e-governance") to improve governance, and the implementation of the Department and District Competitiveness Index (DDCI) helps strengthen official monitoring and improve local agencies' performance.

up 2.78 points and 9 places compared to the previous year, as the local business community lauded its facilitated market entry procedures (up 1.22 points) and business support activities (up 0.91 points). This achievement resulted from Binh Duong's improvement in one-stop services to jointly process business registration and investment procedures. The province publicized all mechanisms, policies, processes, and administrative procedures for business and investment licensing, enhancing collaboration among agencies and across levels in seeking and management of investment projects. The provincial government also addressed licensing issues faced by projects, facilitating the efficient launch of operation.[18] Hai Phong secured the seventh-place ranking, increasing its score by 0.53 points and three places over the prior year, owing to considerable improvements in administrative reform (scoring 1.8 points higher in Time Costs) and government engagement in tackling business obstacles (Proactivity up 0.84 points). Thanks to an innovative accountability mechanism, all the heads of departments and agencies at provincial to department and district levels are now responsible for their respective administrative reform performance, which is subject to verification and inspections by these leaders. What is new about these inspections is that working groups are formed to inspect all documentation and publish the inspection results along with guidance on how to address existing problems. Regular business dialogues with the city government, held monthly or quarterly, provide a space for firms to speak about their concerns and receive specific answers and response timelines from leaders of departments and districts. State agencies' response to these concerns is accounted for in annual bureaucratic performance reviews.[19]

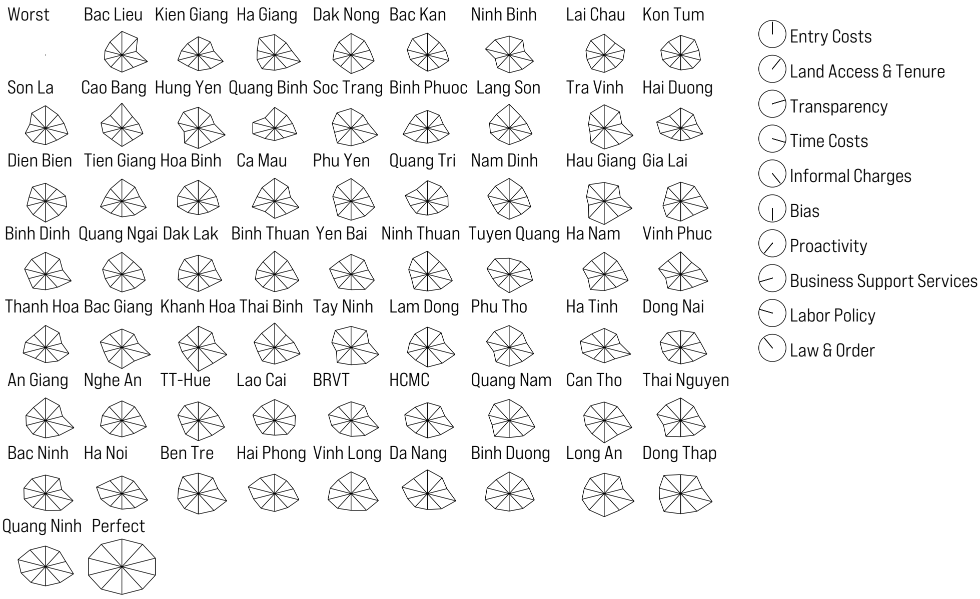
The star graph in Figure 1.6 describes the results of the ten governance areas for each of the provinces. Each point on the graph represents one of the ten subindices on a 10-point scale (higher scores mean better performance). For full details on the ten subindices' scores and indicator scores by province, please visit the data section of the PCI website.[20]

18 Nhân Dân Newspaper, Binh Duong creating appealing investment climate, 4 December 2020, retrieved at <https://nhandan.com.vn/kinh-te/binh-duong-tao-moi-truong-dau-tu-hap-dan-doanh-nghiep-626938>

19 For instance, Notice no. 58/TB-VP dated 26 June 2020 made by the Office of the Hai Phong City People's Committee on the results of the Quarterly Business Dialogue taking place on 17 June 2020, retrieved at <https://haiphong.gov.vn/Ho-Tro-Doanh-Nghiep/Doi-thoai-doanh-nghiep/Thong-bao-Ket-luan-cua-Pho-Chu-tich-UBND-thanh-pho-Nguyen-Van-Thanh-tai-Hoi-nghi-doi-thoai-doanh-nghiep-hang-quy-ngay-1762020-48574.html >

20 For full details, please see the Data tab on the website: <www. pcivietnam.vn/du-lieu-pci>

Figure 1.6 Star Diagram of the PCI 2020 Subindices



1.3 KEY FEATURES IN PROVINCIAL ECONOMIC GOVERNANCE OVER TIME

To analyze changes in economic governance over time, the PCI 2020 report uses box plots (Figure 1.7) for the PCI and the Core Index. The PCI is the annual aggregate score, recalibrated and updated every four years to reflect changes in the regulatory environment on the business climate in Vietnam. The Core Index is aggregated from a limited set of 45 indicators, employed since 2006, enabling analysis and fair comparison of trends over time.[21] In Figure 1.7, blue boxes indicate the aggregate PCI and yellow boxes present core PCI scores. The horizontal lines in the middle of each box present the median scores (equal to the score of the provinces ranked 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.

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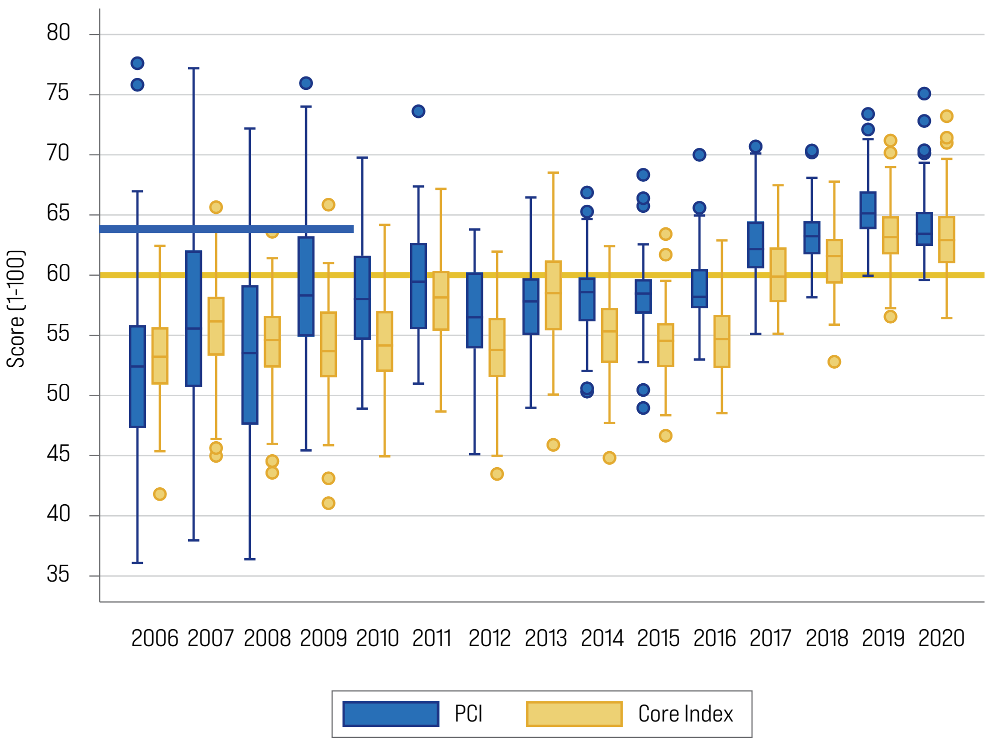
21 *For details on the PCI methodology, see the 2017 PCI report, pages 54-65, www.pcivietnam.vn.*

Trends

Economic governance at the provincial level in Vietnam shows an improving trend over time. 2020 is the fourth year in a row that the median province scored at least 60 points on the 100-point scale (63.44 points for the aggregate PCI and 62.91 points for the core PCI). Nevertheless, there is a halt in improvements in overall governance this year, which means persistent reform efforts will be needed to produce substantive outcomes in the future.

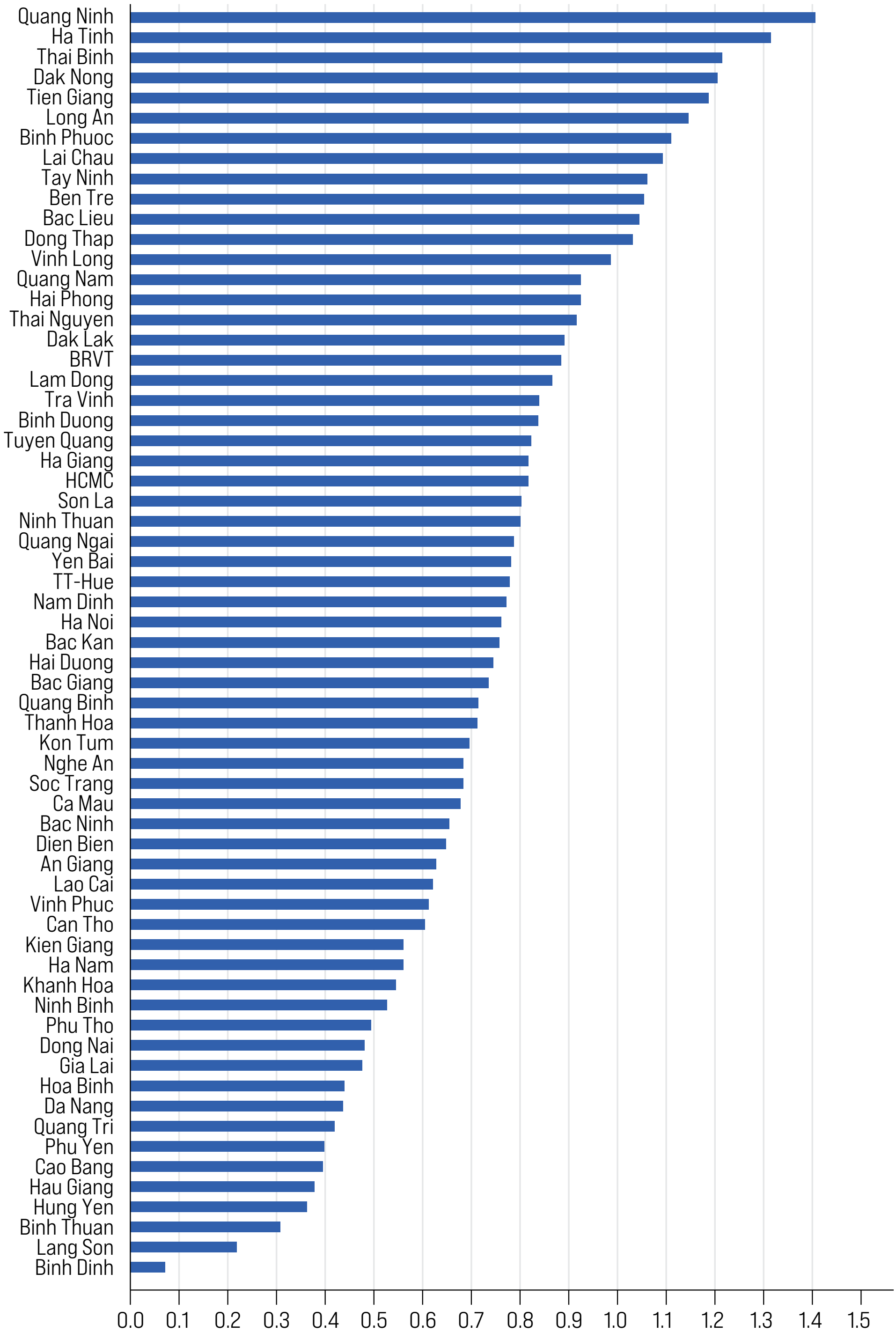
The consolidation of scores over time is also quite remarkable. Even the "low" performers are catching up to the provinces at the top. Notably, while the highest-ranking provinces score around 75 points (aggregate PCI) and 73 points (core PCI), the lowest-ranked provinces score around 60 points (aggregate PCI) and 56.5 points (core PCI). Remarkably, the top performer in 2020 records the highest annual PCI score by an individual province since 2010, and its core PCI score is the highest in PCI history by far.

Figure 1.7 Box plots of the PCI and Core Index over Time (2016-2020)



As the core PCI Index consists of a set of 45 indicators consistently used since 2006, the research team can track how the provinces make progress over time. Figure 1.8 shows that there is a broad positive trend across 63 provinces since the beginning of the PCI, demonstrated by the average annual growth on the core PCI showing all positive numbers, reflecting improved provincial economic governance everywhere over time.

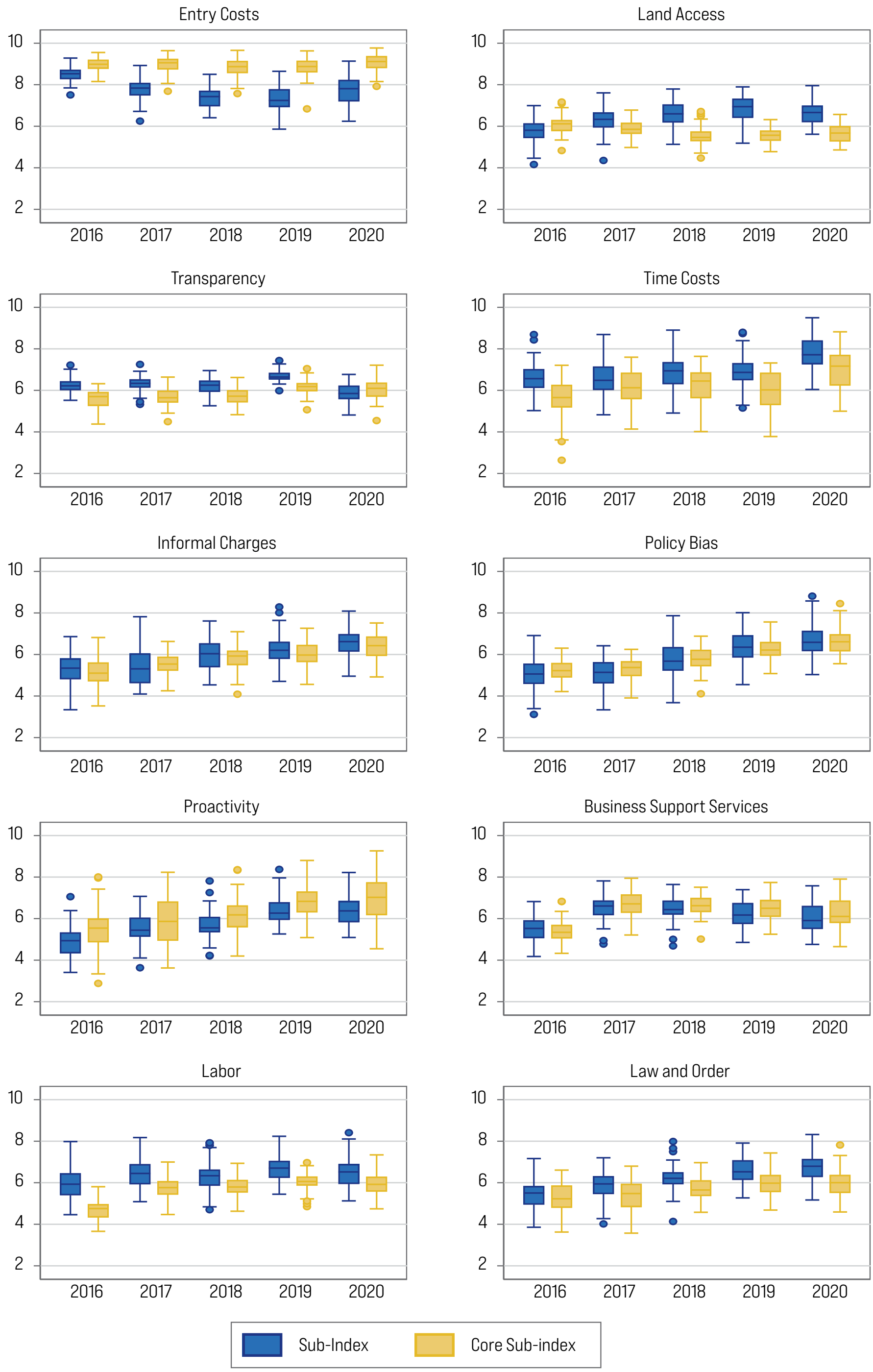
Figure 1.8 Average Annual Change in Core PCI Scores



For a fine-grained analysis of the trends of these changes in economic governance, we examined changes in the PCI subindices and core PCI subindices between 2016 and 2020 (Figure 1.9). The latter analysis allows us to measure how recent provincial administrations have fared in terms of their economic governance, and provides evidence-based policy recommendations on key areas to focus reform efforts after the elections scheduled to take place in May 2021.

In the past five years, positive changes were observed in reduced informal charges, well-maintained law and order, increased proactivity, significantly improving administrative reforms and a less skewed business climate. However, the PCI reports over the years, especially the last five years, show that there is still room for improvement in transparency, effectiveness of enforcement at district and departmental levels, reducing regulatory compliance costs through strengthened administrative procedure reform, curtailing the burden of inspections, and further reducing informal charges.

Figure 1.9 Box plots of the PCI subindices and Core Index over Time (2016-2020)



Minimizing the level of policy bias in the business environment

In Resolution 35/NQ-CP dated May 16, 2016 on fostering and developing businesses until 2020, the Central Government set key policy priorities for the beginning of a new administration term, reaffirming that "the State ensures that all businesses, regardless of legal form [or] economic sector, have equal opportunities to access resources including capital, natural resources, [and] land, among others, and investment and business operations." Early in 2017, Prime Minister Nguyen Xuan Phuc articulated a message to the international business community at the World Economic Forum (WEF) Davos[22] that "Vietnam is creating an equal and favorable business environment for firms." In the last government term 2016-2020, this was a vital policy in many of the Government's executive actions.

Promoting an unbiased business climate has also been one of the key aims of the PCI. The Policy Bias subindex measures the domestic private sector's perceptions of government bias towards 1) state owned enterprises (SOEs); 2) foreign invested enterprises; and 3) well connected businesses.

Table 1.1 shows an improving trend in the Policy Bias subindex over time. The share of domestic firms perceiving difficulties in doing business due to provincial authorities' favoritism towards SOEs dropped from 37.9 percent in 2016 to 24.7 percent in 2020. Only 29 percent of firms felt provincial governments prioritized FDI attraction over domestic investment, a significant decline from 42.3 percent in 2016. Similarly, administrative procedure settlement and land access are perceived as becoming less biased over time, except for the priority given to handling FIEs problems. It is worth noting that the share of firms agreeing that "Contracts, land, ... and other economic resources mostly fall in the hands of enterprises that have strong connections to local authorities" sharply declined from 72.3 percent in 2016 to 57.9 percent in 2020. However, the share of firms affirming governments' preferential treatment toward big companies (whether state-owned or not) is an obstacle that stubbornly stayed at 53.9 percent, only a marginal decrease from 54.6 percent in 2016. This indicates further efforts should be made by provincial governments to level the business playing field for private firms.

22 Finance Review, "Vietnam is creating an equal and favorable business environment for firms", January 20, 2017, retrieved at <https://tapchitaichinh.vn/su-kien-noi-bat/tin-tuc/viet-nam-tao-moi-truong-kinh-doanh-binh-dang-va-thuan-loi-cho-doanh-nghiep-116997.html>

Table 1.1 Some Sample Indicators in the Policy Bias Subindex

Indicator	Source	Measure	2016	2017	2018	2019	2020
Province privileges state-owned economic groups or corporations, causing difficulties to your business (percent agree)	PCI Survey Question: I4	Min	27.43	26.36	22.53	20.00	12.25
		Median	37.89	41.24	32.43	31.09	24.72
		Max	51.68	52.56	53.09	40.91	37.36
		Correlation w/Previous Year	0.38*	0.24	0.20	0.19	0.22
Land access is a privilege given to state-owned economic groups (percent agree)	PCI Survey Question: I4.1.1	Min	14.93	19.30	15.84	14.29	9.73
		Median	31.39	29.88	26.73	24.14	26.58
		Max	50.55	43.59	38.78	35.04	51.11
		Correlation w/Previous Year	0.27*	0.16	0.21	0.18	0.10
Credit access is a privilege given to state-owned economic groups (percent agree)	PCI Survey Question: I4.1.2	Min	18.48	18.82	11.88	12.66	6.80
		Median	26.74	29.07	24.72	22.76	17.58
		Max	38.82	42.31	38.55	35.90	32.63
		Correlation w/Previous Year	0.44*	0.17	0.08	0.16	-0.01
Mineral exploitation license is a privilege given to state-owned economic groups (percent agree)	PCI Survey Question: I4.1.3	Min	6.67	6.56	2.70	6.72	3.60
		Median	21.05	18.52	15.94	14.86	10.87
		Max	40.00	27.27	26.50	27.06	23.47
		Correlation w/Previous Year	0.33*	0.40*	0.42*	0.41*	0.27*
Faster and simpler administrative procedures is a privilege given to state-owned economic groups (percent agree)	PCI Survey Question: I4.1.4	Min	14.77	14.75	8.91	10.75	6.12
		Median	22.22	25.29	20.55	19.61	14.44
		Max	45.20	36.36	34.94	32.48	26.51
		Correlation w/Previous Year	0.13	0.29*	0.19	0.16	0.12
Ease in getting state contracts is a privilege given to state-owned economic groups (percent agree)	PCI Survey Question: I.4.1.5	Min	13.70	7.14	6.93	10.14	6.19
		Median	25.53	22.86	22.86	21.00	15.45
		Max	43.33	32.04	34.83	32.94	29.09
		Correlation w/Previous Year	0.33*	0.32*	0.16	0.15	0.10

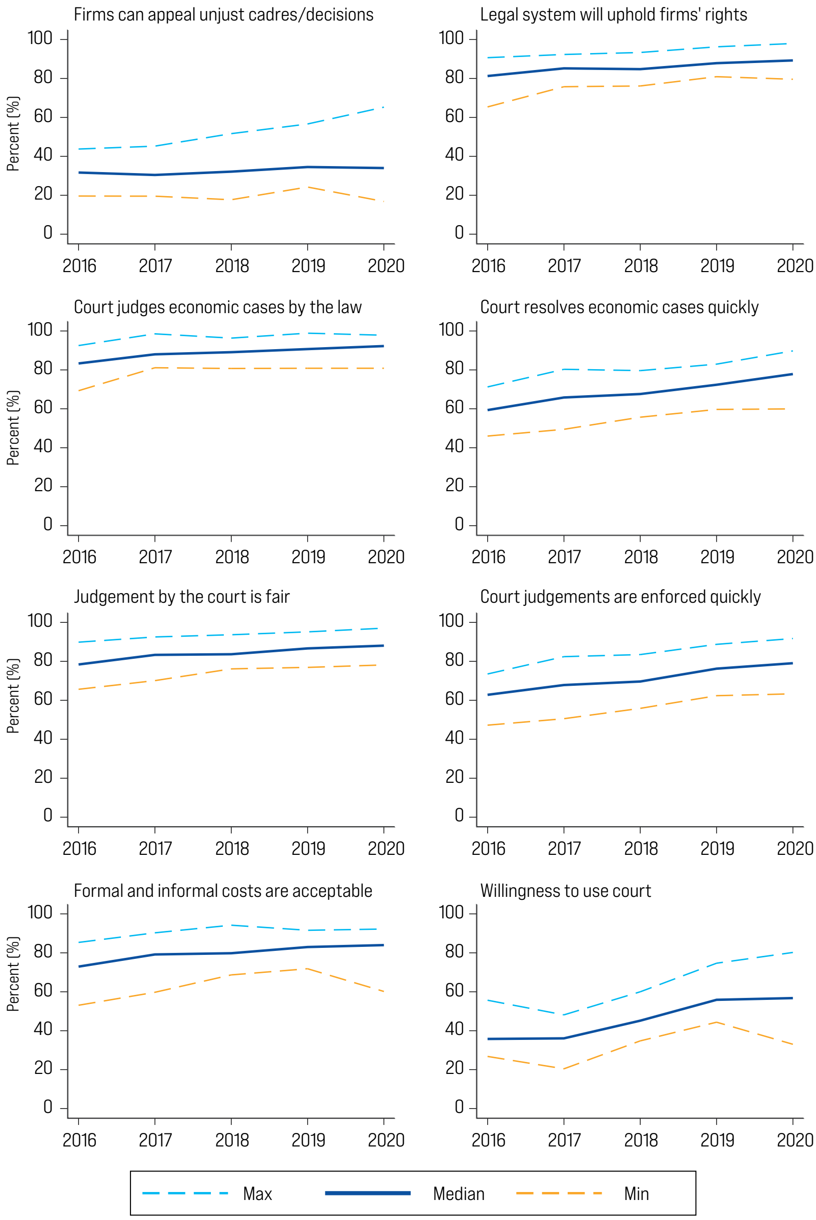
Indicator	Source	Measure	2016	2017	2018	2019	2020
Province prioritizes solving foreign companies problems and difficulties over domestic ones (percent agree)	PCI Survey Question: I2.6	Min	29.63	23.08	30.19	26.51	23.08
		Median	42.35	44.03	45.45	41.32	44.44
		Max	61.39	61.33	61.96	55.70	64.74
		Correlation w/Previous Year	0.52*	0.49*	0.51*	0.31*	0.19
Province prioritizes FDI attraction above private sector development (percent agree)	PCI Survey Question: I3	Min	23.46	26.14	20.00	19.79	14.94
		Median	45.26	45.71	37.04	34.78	29.00
		Max	63.72	65.22	53.77	49.50	47.66
		Correlation w/Previous Year	0.73*	0.65*	0.69*	0.68*	0.35*
Advantage in land access for FIEs (percent agree)	PCI Survey Question: I3.1.1	Min	15.85	11.11	10.71	7.29	7.95
		Median	32.29	27.85	26.58	21.74	16.67
		Max	55.23	48.75	43.12	37.96	30.97
		Correlation w/Previous Year	0.80*	0.69*	0.69*	0.72*	0.54*
CIT reduction and holiday for FIEs (percent agree)	PCI Survey Question: I3.1.2	Min	9.86	5.56	6.38	6.25	4.54
		Median	23.81	17.98	20.00	17.86	13.79
		Max	42.39	31.25	38.53	34.26	27.43
		Correlation w/Previous Year	0.58*	0.56*	0.61*	0.64*	0.42*
Advantage in procedures (faster, more simplified) for FIEs (percent agree)	PCI Survey Question: I3.1.3	Min	11.69	7.53	10.11	6.67	7.62
		Median	20.21	21.33	18.52	17.56	12.77
		Max	36.44	37.84	30.26	30.77	29.90
		Correlation w/Previous Year	0.55*	0.40*	0.53*	0.34*	0.21
More local government support during FIEs operation (percent agree)	PCI Survey Question: I3.1.4	Min	13.41	13.58	10.11	9.86	4.55
		Median	24.69	27.47	22.64	21.62	17.07
		Max	40.00	40.26	33.33	32.41	30.97
		Correlation w/Previous Year	0.57*	0.37*	0.64*	0.47*	0.35*

Indicator	Source	Measure	2016	2017	2018	2019	2020
"Contracts, land, ... and other economic resources mostly fall in the hands of enterprises that have strong connections to local authorities" (percent agree)	PCI Survey Question: I5	Min	46.99	59.68	52.50	51.35	36.81
		Median	72.29	74.00	70.19	63.44	57.95
		Max	84.44	85.88	80.59	77.78	69.77
		Correlation w/Previous Year	0.54*	0.52*	0.38*	0.36*	0.10
Preferential treatment to big companies (both state-owned and nonstate) is an obstacle to your business operations (percent agree)	PCI Survey Question: I4	Min	37.31	42.35	41.82	34.57	33.68
		Median	54.55	53.68	54.84	51.12	53.93
		Max	71.76	68.33	78.05	65.85	70.65
		Correlation w/Previous Year	0.34*	0.14	0.20	0.44*	0.10

Law and Order

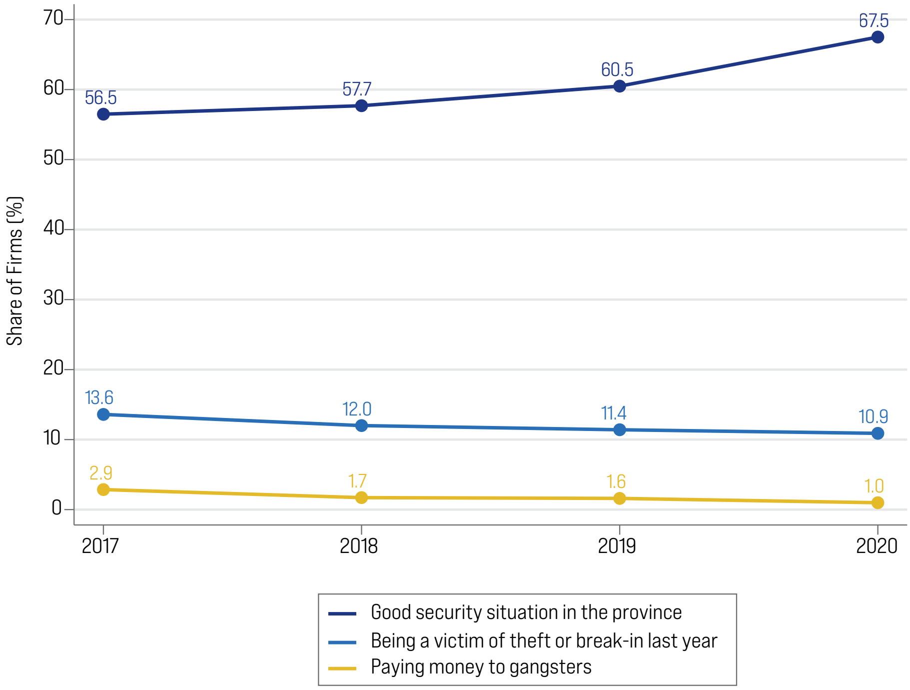
A regulatory climate that ensures legal rights and benefits and provides for effective, legitimate dispute resolution is conducive to lower risks and costs for doing business. The 2020 PCI shows there are positive signs in this area. A record 89.3 percent of firms affirmed their trust in the legal protection of copyrights or contract execution in 2020, up from 81.3 percent in 2016. Surveying all respondents to the survey, the share of firms agreeing that provincial courts judge economic cases by the law increased almost nine percentage points to 92.2 percent in 2020 from 83.3 percent in 2016. Nearly 78 percent of firms in 2020 said provincial courts resolved economic cases quickly, a significant rise from 59.4 percent in 2016. The share of firms perceiving court judgements as fair climbed to 88.1 percent in 2020 from 78.4 percent five years prior. On the statement, "court judgements are enforced quickly," 79.1 percent of firms concurred (against 62.8 percent in 2016). About 84 percent of firms assessed formal and informal fees paid at court as being at acceptable levels, compared to 72.9 percent in 2016. Firms in 2020 were also far more likely to entrust their disputes to the court system; 56.8 percent indicated they were willing to bring economic disputes to courts, compared to 35.8 percent in 2016.

Figure 1.10 Some Indicators on Law and Order



In terms of security, firms acknowledged improvements in the last year. Over 67 percent of domestic forms rated local order and security as "good" or "very good," up from 56.5 percent in 2017. In 2020, 10.9 percent of firms experienced theft or break-ins, representing a gradual decrease from 13.6 percent in 2017. Similarly, fewer firms (one percent) had to pay money to gangster groups in 2020, compared to 2.9 percent in 2017.

Figure 1.11 Some Indicators on Law and Order



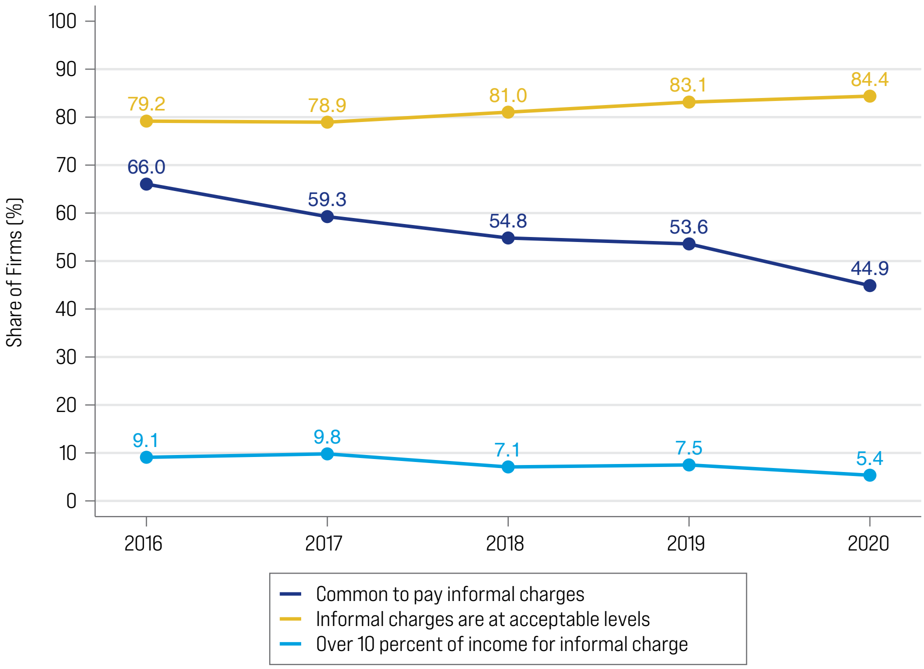
Informal charges

In the last five years, anticorruption has been a central mission of the Party and government at all levels, realized by orchestrated efforts to improve the regulatory framework on anticorruption combined with actions to reinforce investigations and legal proceedings.[23] We find that the business community expresses positive perceptions about reductions in informal charges, evidenced by considerable improvements in PCI indicators of anticorruption measures. The share of firms who reported that paying informal charges was common in 2020 dropped to 44.9 percent from 66 percent in 2016, (this measure was 70 percent in 2006). The size of informal charges is declining significantly over time, as the most burdensome informal charges (those that exceed ten percent of a firm's sales revenue) were paid by a much lower share of firms in 2020—5.4 percent compared to

23 *The Vietnamese Central Committee, Politburo, and Party Secretariat issued nearly 30 documents on formulation of the Party, political system and anticorruption. The National Assembly adopted 18 laws, 20 resolutions; the Government, the Prime Minister issued 100 decrees, 110 resolutions, 37 decisions, 33 directives on the improvement of the effectiveness and efficiency of state management in all fields of social life in contribution to anticorruption. In the Party's 12th Congress, 90 centrally managed cadres were disciplined. For further details, please see Nhan Dan Newspaper, Nhiệm kỳ của sự quyết liệt đấu tranh phòng chống tham nhũng [A term of decisive corruption combat], June 18 2020, retrieved at <https://nhandan.com.vn/tin-tuc-su-kien/nhiem-ky-cua-su-quyet-liet-dau-tranh-phong-chong-tham-nhung-475027/>*

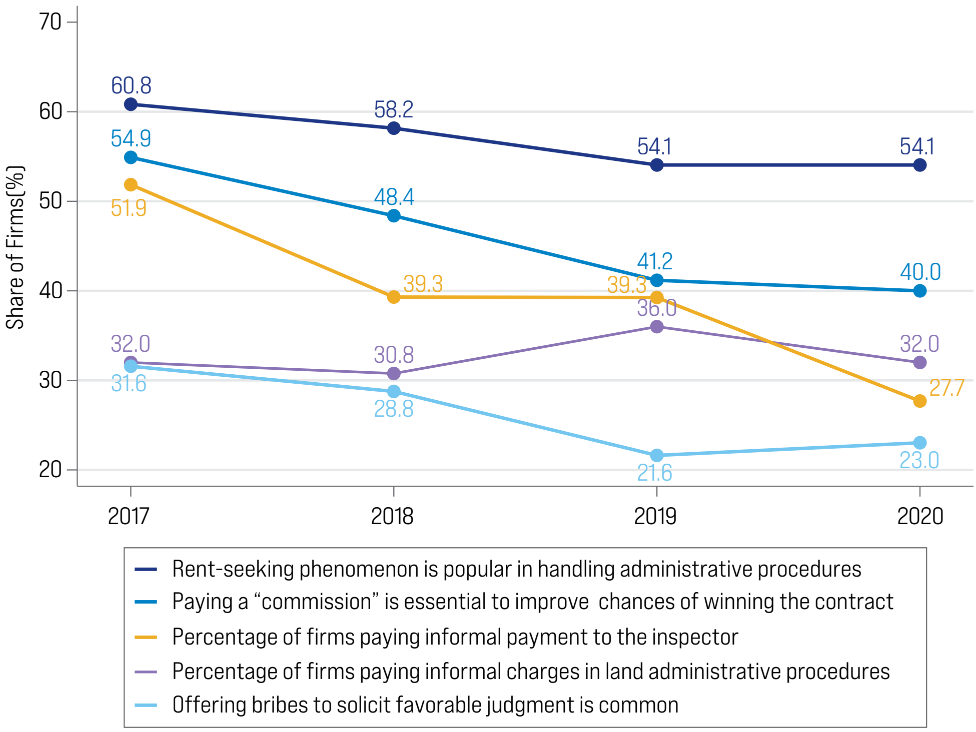
9.1 percent in 2016, and halfway down from an astonishing thirteen percent in 2006. The burden of informal charges has shrunk over time, with 84.4 percent of firms rating it as at an acceptable level in 2020, compared to 79.2 percent of firms in 2016.

Figure 1.12 Some Indicators on Informal Charges



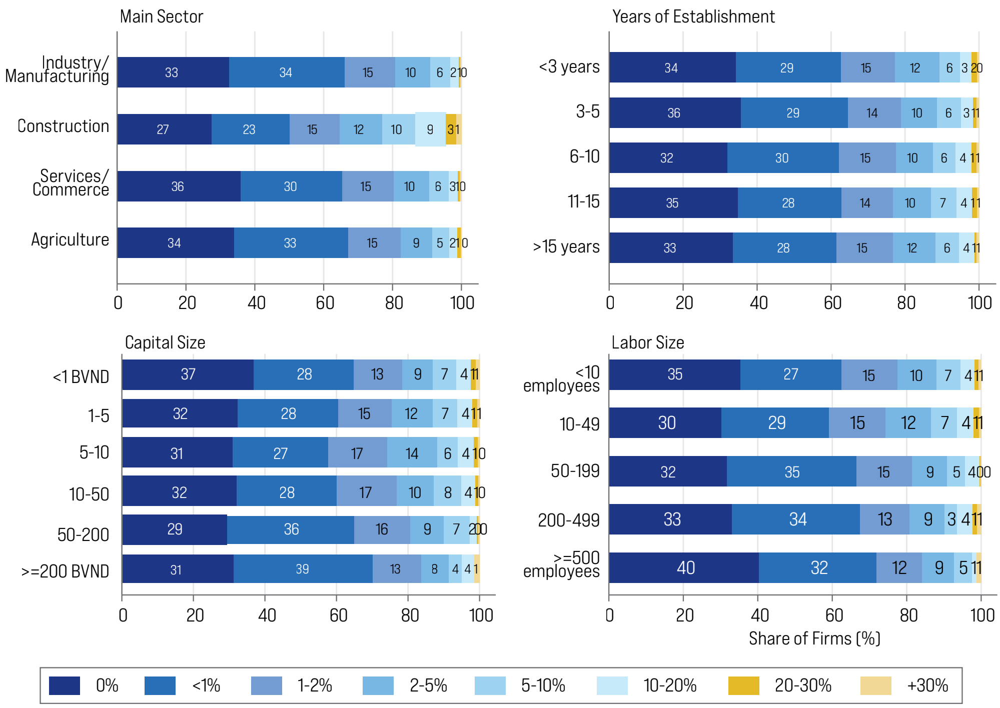
Across a broad range of indicators, informal charges in specific areas are showing a decline. The share of domestic private firms paying informal charges to inspectors dropped from 51.9 percent in 2017 to only 27.7 percent in 2020. The share of firms agreeing with the statement "paying a commission is necessary to win procurement contracts" decreased from a high of 54.9 percent in 2017 to 40 percent in 2020. In 2017, 31.6 percent of firms indicated that offering a bribe to obtain favorable judgement in a court proceeding was common, while only 23 percent reflected this belief in 2020. However, stronger efforts are needed in some areas. For example, the share of firms reported having paid informal charges to expedite land procedures in 2020 returned to the same level (32 percent) as 2017, after reaching a high of 36 percent in 2019. The share of firms that reaffirmed the existence of corruption when settling procedures also only marginally declined from 60.8 percent in 2017 to 54.1 percent in 2020.

Figure 1.13 Breakdown of Indicators on Informal Charges



Informal charges in 2020 remain burdensome to construction firms, with 14 percent reporting having paid more than ten percent of sales revenue for these bribes. There is little difference in the burden of informal charges over firms, regardless of how long they have been in operation. The burden on large firms is also worth noting. For example, 39 percent of firms with equity over 200 billion Vietnamese dong reported paying around one percent of revenue in informal charges. As these firms generally have high turnover, the absolute level of these payments can be substantial.

Figure 1.14 Informal Charges Burden

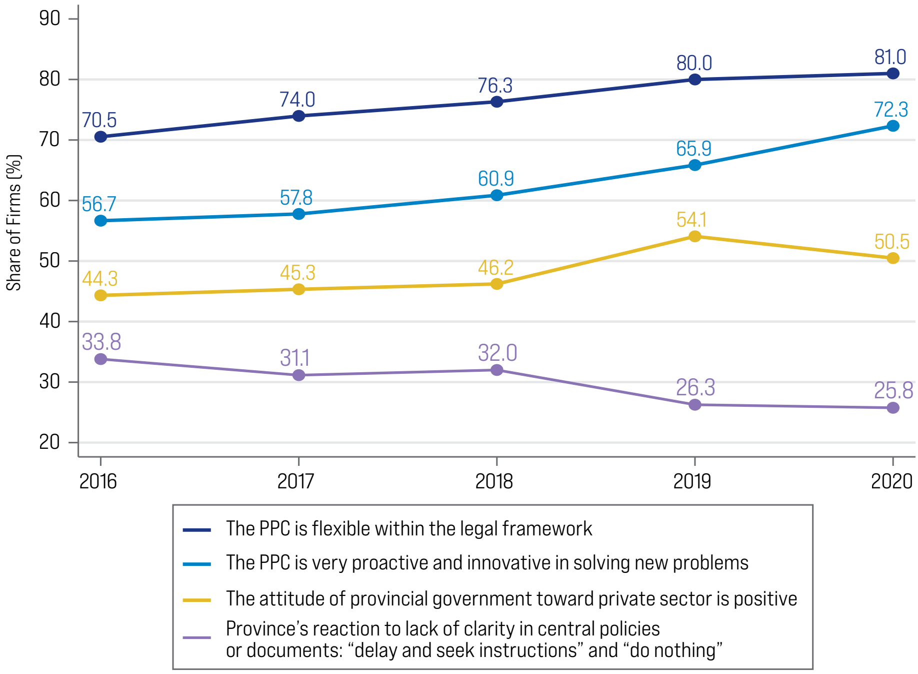


Proactivity

The Proactivity subindex measures the flexibility and innovation of provincial leaders when implementing central regulations and policies, their timeliness and helpfulness in settling problems for firms, and the effectiveness and efficiency of policy implementation at departmental and district levels.

Proactivity has been positively rated by the business community in recent PCI reports. As shown in Figure 1.15, eighty-one percent of domestic firms agreed with the statement "The PPC [Provincial People's Committee] is flexible within the legal framework to create [a] favorable business environment for nonstate firms," an increase from 70.5 percent in 2016 and also the highest level recorded in the PCI. Seventy-two percent of firms felt the PPC was proactive in handling emerging issues in 2020, a significant rise from 56.7 percent in 2016, reaching the highest point in the PCI history. The share of firms disfavorably viewing provincial authorities' reaction fell from 33.8 percent in 2016 to 25.8 percent in 2020, a record low since the indicator was introduced in 2013. A slight majority of firms (50.5 percent) acknowledged their provincial government's positive attitude towards the private sector in 2020, which is a notable decline from a height of 54.1 percent in 2019 but still comfortably in line with a rising trend observed since 2016.

Figure 1.15 Some Indicators on Proactivity



In addition to general perceptions of the provincial government, since 2017, the PCI survey has asked how provincial authorities handle specific concerns and obstacles. As seen in Table 1.2, up to 94.9 percent of domestic firms received responses to concerns or questions in 2020, a continuation of the high approval rate. Firms are also largely satisfied with the timeliness of provincial authorities; at the median, 73.8 percent of firms indicated the response was timely, compared to 67 percent in 2017. Eighty percent of firms expressed satisfaction with local authorities' responses or their ways of handling the issue, a significant increase from 76.7 percent in 2017.

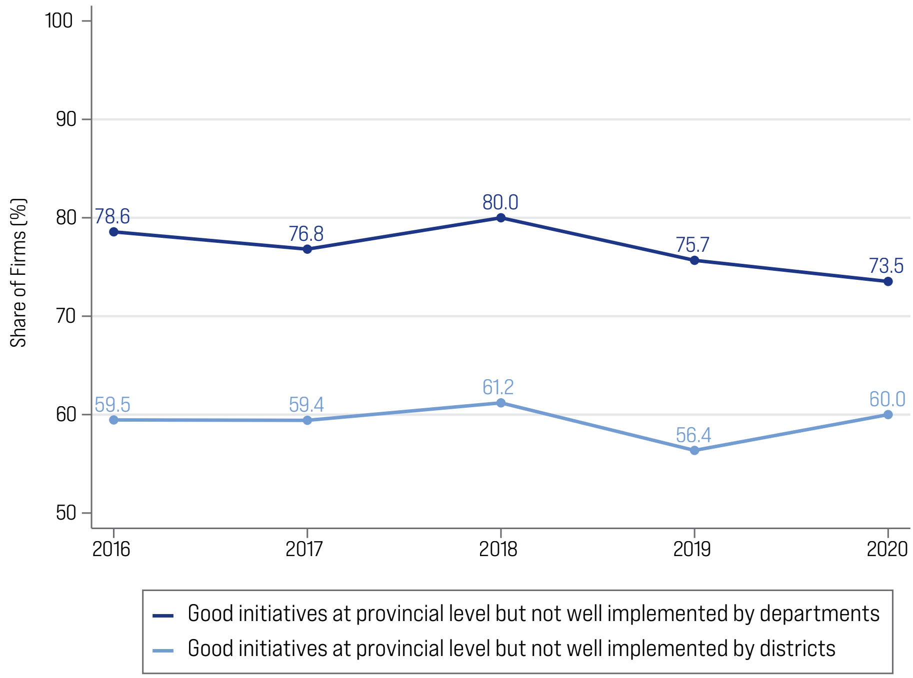
Table 1.2 Some Sample Indicators on Proactivity

Indicator	Source	Measure	2017	2018	2019	2020
Provincial authorities timely handle firm's difficulties raised in PPD dialogues	PCI Survey Question: I2.7	Min	49.35	54.72	60.29	53.41
		Median	67.01	68.48	74.12	73.81
		Max	80.00	86.3	87.06	87.88
		Correlation with previous year	N.A	0.26*	0.43*	0.06
Received local authorities' responses and/or feedback to firm's questions/problems (% Yes)	PCI Survey Question: F2-6.3	Min	84.62	78.26	81.48	76.47
		Median	94.12	94.87	94.87	94.87
		Max	100.00	100	100.00	100.00
		Correlation with previous year	N.A	-0.13	-0.01	0.17
Satisfied with local authorities' responses or their ways of handling the issue (% Yes)	PCI Survey Question: F2-6.4	Min	51.52	44.83	64.71	55.88
		Median	76.67	77.42	82.50	80.00
		Max	93.33	95.24	97.14	100.00
		Correlation with previous year	N.A	0.42*	0.12	0.11

Policy implementation at local level should be enhanced

Despite recent positive changes in the business climate as a whole, policy implementation at the district and department levels remains a bottleneck that calls for stronger solutions on the part of provincial governments. We find that, in 2020, 73.5 percent of domestic firms still felt that good provincial initiatives were not implemented properly at the department level. Sixty percent of domestic firms agreed with the statement "[a] good initiative at [the] provincial level [is] not implemented well at [the] district level." These two indicators have exhibited mixed progress over the years. This validates the premise underlying Resolution 19, issued in 2018, requiring implementation of the District and Department-level Competitiveness Index (DDCI) and indicates stronger efforts are needed.

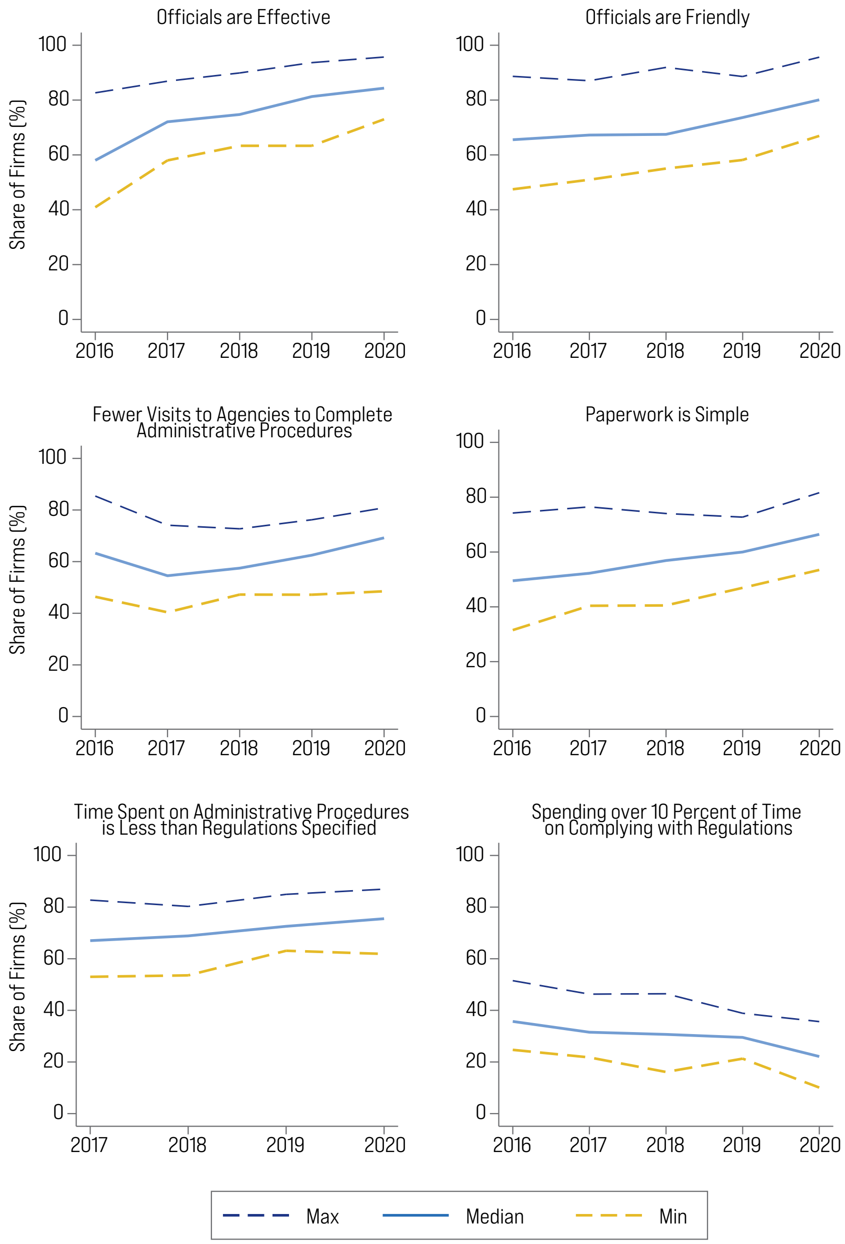
Figure 1.16 Some Indicators on District and Departmental-level Implementation



Administrative reforms and compliance burden

Recent administrative reform efforts to reduce and simplify administrative procedures are bearing fruit. As seen in Figure 1.17, in 2020, 66.5 percent of domestic firms acknowledged simplified procedures and paperwork, compared to 49.5 percent in 2016. Seventy-six percent of firms felt time spent on implementing administrative procedures was less than formally required, up from 67 percent in 2017 (the year this indicator was first introduced). Eighty-four percent of firms agreed that “public officials handled work effectively,” a substantial leap from 58 percent in 2016. Eighty percent of firms recognized public officials as being “friendly” in handling administrative procedures, while 65.6 percent thought so in 2016. The share of firms needing fewer visits to complete procedures was 69 percent, compared to 63.3 percent in 2016. Notably, only 22 percent of firms reported spending more than 10 percent of their time understanding and implementing regulations, a decline from 35.7 percent in 2016. These numbers demonstrate positive firm perceptions of changes in settlement of administrative procedures.

Figure 1.17 Some Indicators in the Time Costs Subindex

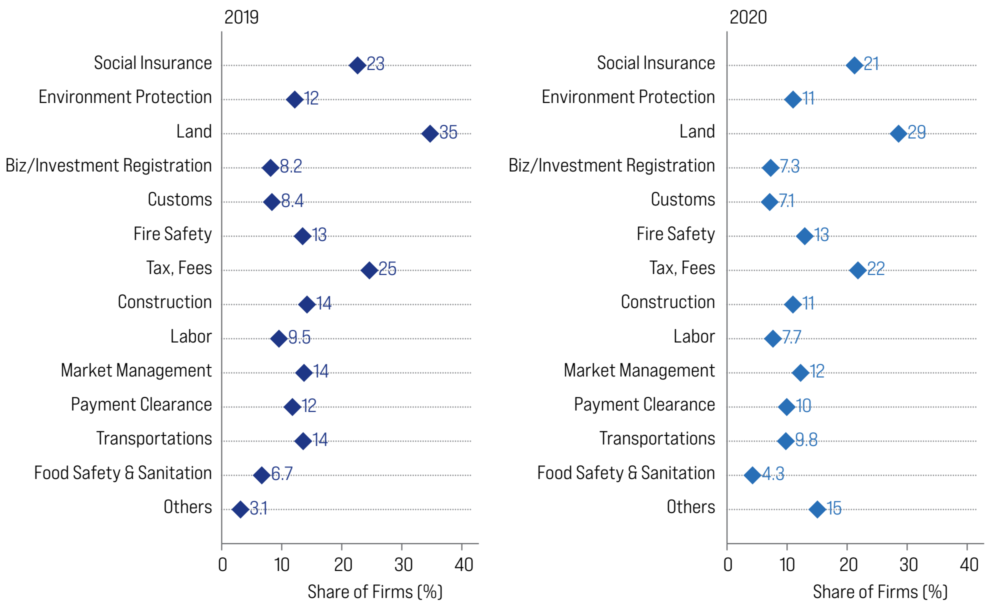


Reduction of compliance cost burden

Reducing the regulatory compliance burden at the provincial level is a central government priority. This mandate was explicit in the 2019 and 2020 series of Resolution 02 on improving business environment and national competitiveness which itself was a continuation of Resolution 19, renewed annually between 2014 and 2018. Additionally, Resolution 139/NQ-CP, dated November 9, 2018, promulgated an action plan to cut costs for businesses and required ministries and provincial authorities to minimize unreasonable compliance costs for firms. Resolution 139/NQ-CP further authorized VCCI to "take initiative and collaborate with ministries and agencies to conduct a review of administrative procedures and business conditions to reduce compliance costs for businesses." In this section, we evaluate firms' assessments of the provincial implementation of the national government's instruction.

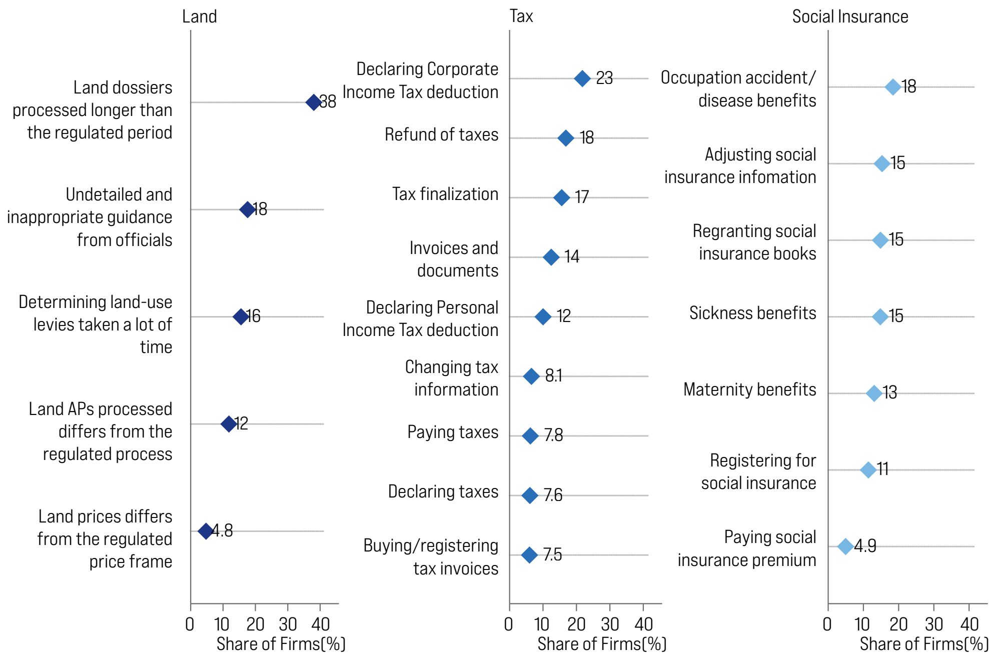
Land, tax, and social insurance: Although administrative procedures reform has made positive progress, some specific areas are still perceived as troublesome. Figure 1.18 depicts firms' perceptions of the difficulty of administrative procedures by respondents to the PCI surveys in 2019 and 2020. Procedures related to land, taxes, and social insurance are consistently regarded as the most problematic.

Figure 1.18 Troublesome Land, Tax and Social Insurance Procedures



With support from the World Bank in Vietnam, the PCI research team integrated a set of questions into the 2019 and 2020 PCI surveys to dig deeper into problems posed by administrative procedures in the areas of land, tax and social insurance. As the leftmost graph of Figure 1.19 indicates, the three largest obstacles faced by firms with respect to land procedures include unduly long times for settling land dossiers (38 percent), lack of clarity and guidance provided by public officials (18 percent), and the length of time required for valuation of land use rights (16 percent). For taxes (middle graph), the procedures found the most troublesome are declaration of corporate income tax deduction/exemption (23 percent), tax refund (18 percent) and tax finalization (17 percent). For social insurance (rightmost graph), major barriers occur when applying for occupational accident or disease benefits (18 percent), adjusting social insurance information (15 percent), and re-granting social insurance books (15 percent).

Figure 1.19 Specific Troubles in Implementation of Land, Tax and Social Insurance Procedures

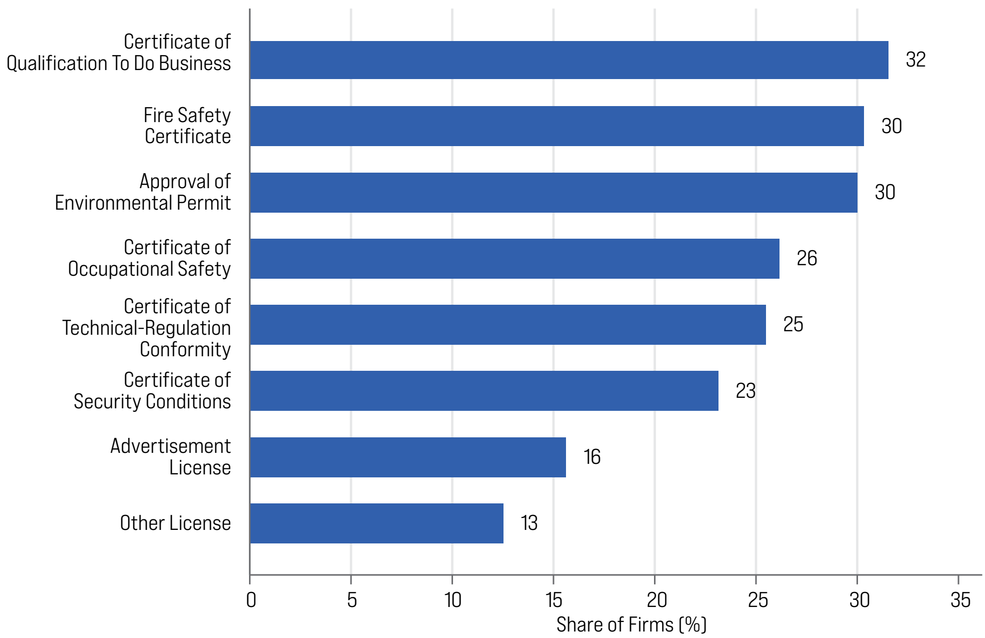


Procedures in business licensing and other necessary licenses: The 2020 PCI surveys also asked firms about difficulties faced during their licensure process. Depending on the type of business activity, required licenses may include certification of fire safety, promotion or advertising permits, certificates of eligibility for doing business, certification of conformity with technical regulations, certificates of satisfactory security conditions, certificates of workplace/occupational safety or approval of environmental impact assessments or environmental protection plans.

While recent tragedies have shown that these licenses, for example fire safety, are important for businesses, workers, insurers, and society, it also helps to know if firms have trouble applying for licenses (unnecessarily complicated paperwork, confusing instructions, opaque requirements for supporting documents, arbitrary last-minute additions, high application fees) or obtaining them (unclear or unduly lengthy timelines for license delivery, unspoken requirements of informal payments, etc.) Figure 1.20 depicts the share of firms that had difficulty when completing procedures to obtain required licenses in descending order. Firms reported greatest difficulty with certificates of eligibility for doing business (32 percent), followed closely by certificates of fire safety (30 percent) and approval of environmental impact assessment/commitment or environmental protection plans (30 percent). Next come certificates of workplace/occupational safety (26 percent), certification of conformity with technical regulations (25 percent), and certificates of security conditions (23 percent).

These figures show that more attention is needed to minimize obstacles for firms during these licensing procedures. Provincial authorities should put stronger efforts to facilitate regulatory compliance by minimizing unnecessarily complicated paperwork, confusing instructions, opaque requirements for supporting documents, arbitrary last-minute additions, unclear or unduly lengthy timelines for license delivery, and unspoken requirements of informal payments, etc.

Figure 1.20 Difficulties in obtaining some licenses



Inspection burden should be further reduced: While inspection is a necessary state management function effected to ensure regulatory compliance from business operations, protect consumer rights, and foster social order and safety, it can create unnecessary burdens for business operations. Duplicative or redundant inspections, exploitation of inspection to extract informal payments, and over-inspection all carry significant costs. Consequently, firms have to divert their time or even temporarily stop business activities to handle inspectors' demands. VCCI and the business community have asked the national government and local authorities to take stronger reform actions to improve inspections. One important action was Resolution 35/NQ-CP, dated May 16, 2016, on business support and development until 2020. In this Resolution, all state agencies were required to conduct inspections in ways that "integrate, combine, and inherit the results of inspections among agencies. Inspection and audit plans must be provided publicly to firms to prevent duplication; inspections may not be conducted in absence of legal grounds, especially those in tax management." Another remarkable executive action is Directive 20/CT-TTg which was signed by the Prime Minister at a special meeting with businesses on July 15, 2017. The Directive focused on addressing duplications and minimizing the burden of inspections for businesses.

Decisive executive action is yielding positive results. Five recent PCI surveys show a decrease in the number of inspections firms undergo, as presented in Table 1.3. Some agencies, including customs, economic police, and environmental regulators, inspected and examined a share of firms that was 50 percent lower than in 2016. Even the agencies with the highest rate of inspections, taxes and fire safety, are showing a downward trend. In 2016, 34.4 percent of firms were inspected by fire safety regulators while the share in 2020 dropped to 26.1 percent. Similarly, the share of firms inspected by tax agencies was 35.5 percent in 2020, compared to 43.6 percent in 2016. We will discuss this finding in greater detail in Chapter 4.

Table 1.3 Inspections by Agency over Time (percent)

Agency	2016	2017	2018	2019	2020
Fire and Safety	34.4	29.8	29.5	30.8	26.1
Transportation Inspection	8.3	5.3	4.8	4.3	3.4
Economic Police	14.5	9.4	8.6	7.8	5.7
Customs Authorities	6.9	2.2	2.0	2.5	1.6
Labor Regulators	16.4	10.7	10.8	12.9	8.5
Market Regulator	23.3	20.4	19.3	16.7	14.6
Environment Inspector	18.7	13.3	11.8	11.6	9.3
Tax Inspectors	43.6	42.9	39.1	42.0	35.5
Food Safety	11.8	9.8	9.1	9.5	7.4
Construction	9.8	5.9	6.1	6.0	5.1
Investment and planning		3.7	2.9	4.2	2.8
Auditing		7.0	7.5	8.0	5.4

The burden has clearly lessened, as seen in Table 1.4. The share of domestic private firms experiencing duplicative inspections significantly declined from 14.1 percent in 2016 to 8.3 percent in 2020. The share of firms receiving five inspections or more in one year decreased from 11.9 percent in 2016 to three percent in 2020. Just 14.3 percent of firms reported inspections were used to extract rent, compared to 18.9 percent in 2017.

Table 1.4 Some Sample Indicators on Inspection Burden

Indicator	Source	Measure	2016	2017	2018	2019	2020
Overlapping inspection (percent)	PCI Survey Question: D2-4.1	Min	6.25	6.93	1.29	3.53	1.94
		Median	14.12	13.46	10.76	10.81	8.26
		Max	25.29	25.33	19.69	19.18	21.25
		Correlation w/ Previous Year	0.37*	0.41*	0.23	0.06	0.57*
Percentage of 5+ visits per years	PCI Survey Question: D2-4	Min		2.00	0.88	0.00	0.00
		Median		7.22	6.42	5.95	3.06
		Max		15.56	13.21	13.27	10.42
		Correlation w/ Previous Year		N.A	0.62*	0.31*	0.39*
Using inspection to extract rents (percent)	PCI Survey Question: D2-5.1	Min		5.08	5.33	2.41	2.94
		Median		18.92	17.65	14.95	14.29
		Max		34.09	30.00	29.51	40.00
		Correlation w/ Previous Year		N.A	0.66*	0.51*	0.58*

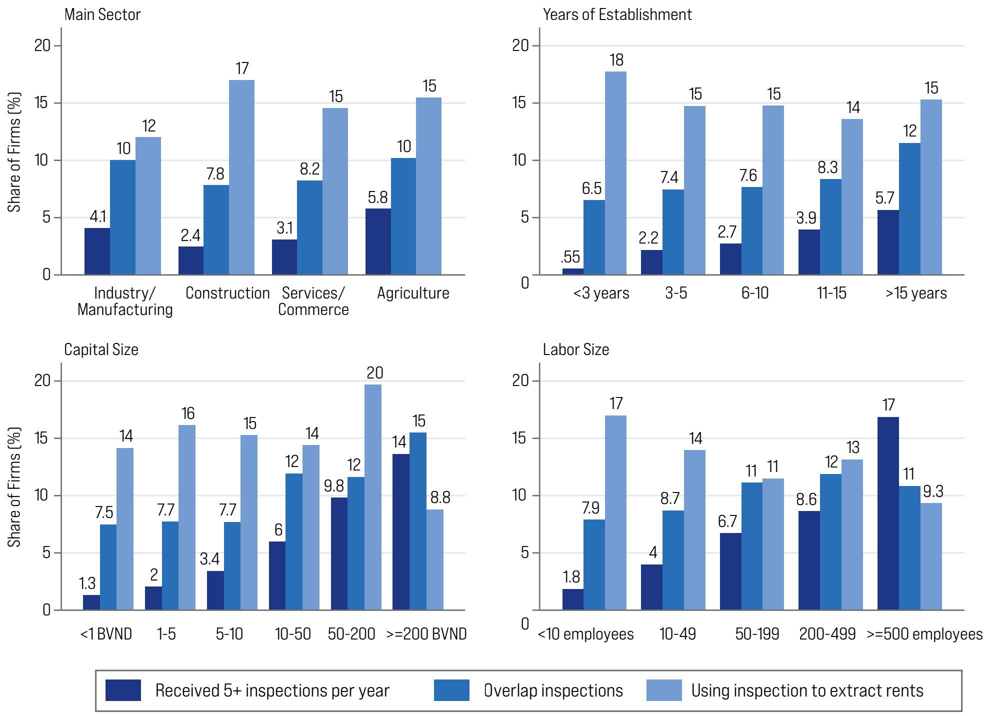
Nevertheless, inspections pose a considerable burden for business operations. As Figure 1.21 (top left panel) shows, firms in agriculture and industry/manufacturing bore a significant burden. These two sectors had the highest share of firms reporting more than 5 inspections per year as well as the highest levels of duplicative inspections. This may be due to the fact that they are very broad sectors involving a large scope of business activities that necessitates management by various agencies and authorities, and a wide range of product origins, business and environmental conditions, and standards with respect to material supplies and goods in market circulation. Firms in the construction sector report the biggest rent extraction, which reflects the same phenomenon reported by the media, and pointed out in a VCCI report released in 2020.[24]

The other panels in Figure 1.21 depict the inspection burden by firm age, capital size and labor size. Firms that have less than 3 years of operations, as well as MSMEs, reported more rent-seeking from inspectors. However, with respect to the number of over-inspections

24 VCCI and FNF, Inter-sectoral administrative procedures on granting construction permits and related procedures. Ha Noi, November 2020.

(five inspections or more in one year) and duplicative inspections, the inspection burden generally rises relative to firm age and size.

Figure 1.21 Inspection Burden by Firm Characteristics



From the PCI findings over the years, a persistent policy recommendation is that the inspection burden should be both reduced and fairly distributed. Good regulation and compliance monitoring are important. No one wants businesses to cause fires, endanger workers or customers, contaminate the environment, or make people sick. However, scrutiny should be conducted reasonably and align with public health and safety goals. Inspections should not be arbitrary or serve as the basis for informal charges. Provincial People's Committees should delegate provincial inspecting agencies to supervise local inspection activities in all sectors. Even central agencies planning to conduct inspections should ensure such plans are closely coordinated with provincial inspectors.

Provincial agencies should be notified of planned inspections so they can arrange and coordinate the action with an eye toward achieving three goals: (1) minimizing the duration of inspections; (2) avoiding duplicate or redundant inspections; (3) maximizing intersectoral inspections, rather than individual sectoral inspections. The scope of an inspection should be in line with the given state management and in accordance with the Prime Ministerial Directive 20/2017/CT-TTg. State regulators should expeditiously shift to risk management-based inspections to ensure compliance in all sectors and fields.

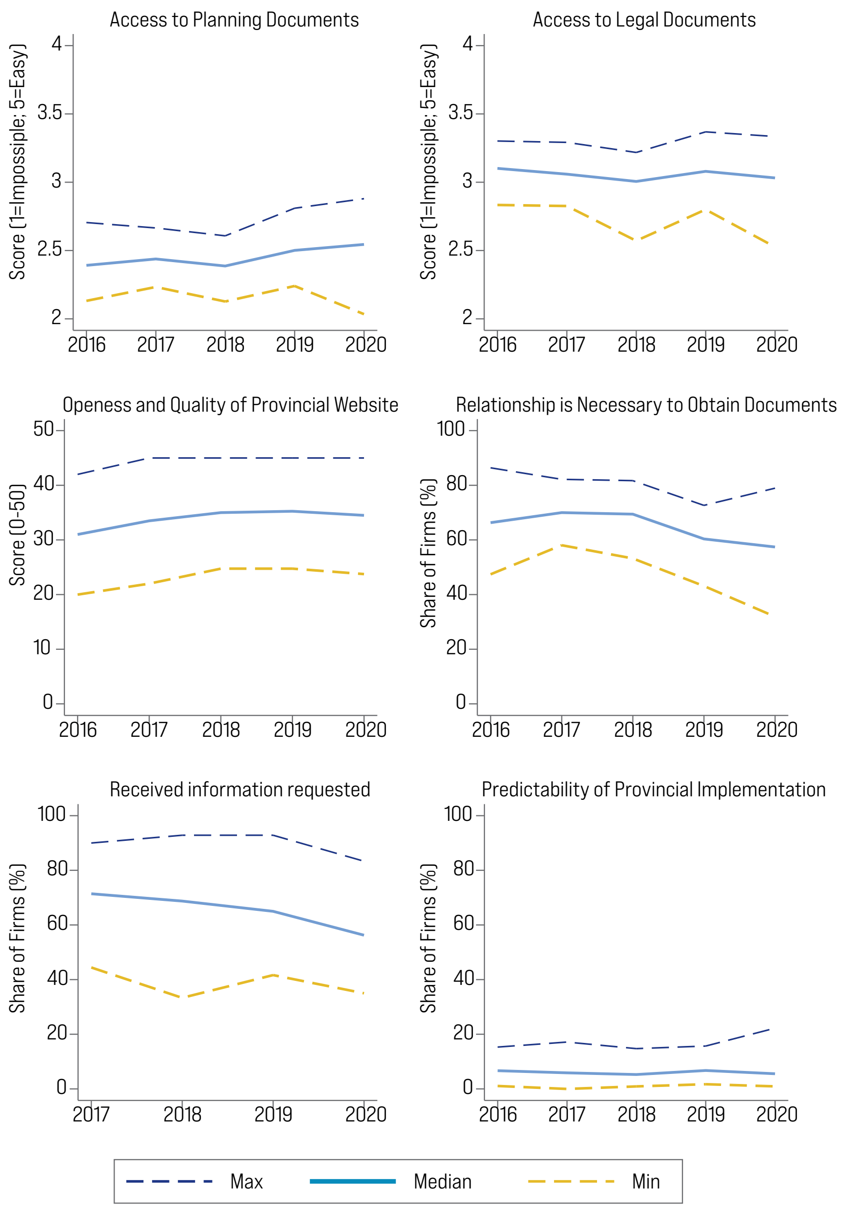
Transparency

More ease in access to information

The 2020 PCI survey results find that more effort from provincial governments to increase ease of access to information is necessary. As Figure 1.22 shows, access to provincial planning documents in 2020 hinged around 2.5 points on a 5-point scale (from 1=impossible to 5=easy), and access to legal documents was rated 3.03 points, showing little sign of improvement. The quality of provincial websites only marginally improved, rated at 34.5 points on a 50-point scale, a slight increase from 31 points in 2016. The lack of improvements in the quality of provincial websites may be the reason fewer firms regularly accessed them in 2020 (52.3 percent) compared to the 76.8 percent that did so in 2016. Notably, only 56.3 percent of firms received responses to their requests for information from provincial authorities, significantly declining from 71.4 percent in 2017 when this indicator was first introduced into the PCI. Causes will be explored in future PCI surveys. In the indicator measuring predictability, the share of firms reporting provincial implementation of centrally issued legal documents was always or sometimes predictable hinged around five to six percent in recent PCI surveys, showing consistency but little improvement in recent years.

As seen in Figure 1.22, the widely recognized necessity of personal relationships with government officials to obtain provincial documents shows that much work remains to be done. In 2020, 57.4 percent of domestic firms indicated relations with public officials were necessary to access provincial documents, compared to 66.3 percent in 2016.

Figure 1.22 Some Sample Indicators in the Transparency Subindex



Turning to look at the types of documents, firms reported greatest difficulty obtaining land use allocation plans and maps (51 percent), public investment plans (50 percent), provincial budget documents (48 percent), local industry development planning papers (47 percent), information about new infrastructure projects (45 percent), and investment incentive policies (40 percent). Even provincially issued legal documents were rated as not easy to access by a considerable share of firms (24 percent).

This complexity is troubling. Access to these types of documents is very important for firms to develop and effect their business plans. Risks in doing business can be reduced if information is made readily available to businesses before and during operation. Firms may also take advantage of investment and business opportunities if information access is equitable. Improving both the availability of information and equality of access to information should be important policy considerations for provincial governments in Vietnam.

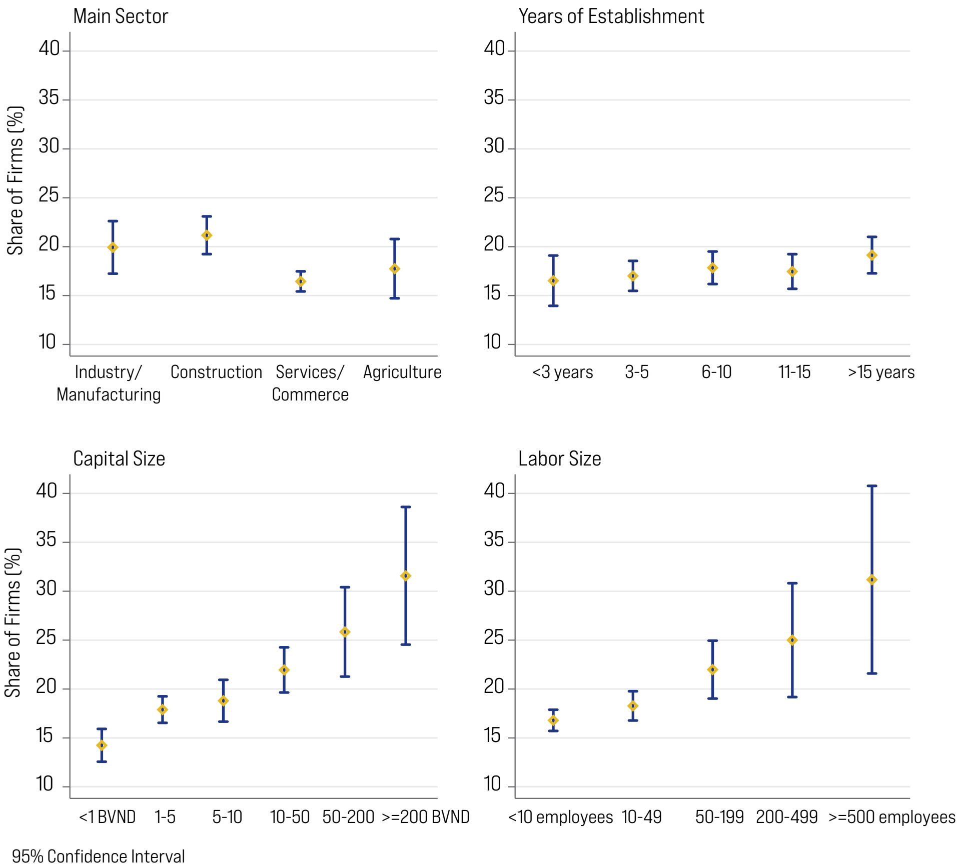
A stable regulatory environment should be fortified

Regulatory change remains high on the list of challenges for quite a number of respondents of the annual PCI surveys. Businesses are concerned that opacity and surprise about regulations will result in operational instability and increased costs. This has not only hindered some daily business operations but also discourages investors from considering long-term investments. In fact, some firms have had to suspend business operations due to regulatory changes.[25] In the 2020 PCI survey, we asked firms to specify difficulties caused by abrupt regulatory changes to their operations; now, we scrutinize the results in relation to transparency.

As seen in Figure 1.23, firms in construction appeared the most worried about the business risk from regulatory caprice (21.2 percent), followed by industry/manufacturing (19.9 percent), agriculture (17.8 percent) and commerce/services (16.4 percent). It seems that the longer firms have been in business, the more concerned they are. Specifically, only 16.5 percent of firms operating for less than three years expressed concern about the regulatory risks while 19.1 percent of firms that have been in operation for more than 15 years felt concerned about abrupt changes. Apprehension about regulatory change also increases with a firm's capital. Only 14.2 percent of firms with investment under one billion VND reported concern about this type of risk, while 31.6 percent of firms with capital over 200 billion VND expressed fear about this threat. Similarly, only 16.8 percent of firms employing fewer than ten workers were wary of regulatory changes whereas 31.2 percent of firms employing at least 500 workers were anxious about this risk.

25 *Stability and certainty – the key in policy making. The People's Deputies Newspaper, November 4, 2019, retrieved at <https://www.daibieunhandan.vn/tinh-on-dinh-chac-chan---dieu-quan-trong-trong-xay-dung-chinh-sach-428601>*

Figure 1.23 Challenges from abrupt Regulatory Changes



To address these challenges, when developing policy, state agencies should identify those involved and ensure participatory consultation with these firms throughout the drafting process. The procedures and draft documents with full explanations should be made publicly available and adjustments to the drafts should be devised in consultation with all stakeholders. These are not new requirements; they are part of the Law on Promulgation of Legal Normative Documents 2015, and the revised Law of 2020. Adequate and substantive implementation of the Law is now needed to build a stable regulatory environment for business operations.

1.4 WHAT CHALLENGES ARE BUSINESS OPERATIONS FACING?

To inform good policy, the PCI dedicates a module each year to analyzing operational barriers that firms face. Table 1.5 presents the data collected from the four most recent surveys. There are variations in each year's results, but overall, the largest barriers are finding customers, getting credit or loans from banks, and market downturns. For 2020, given the effects of COVID-19 on business operations, we dig deeper into the level of difficulty firms encountered in these areas of concern.

Table 1.5 Major Challenges Faced by Firms (percent)

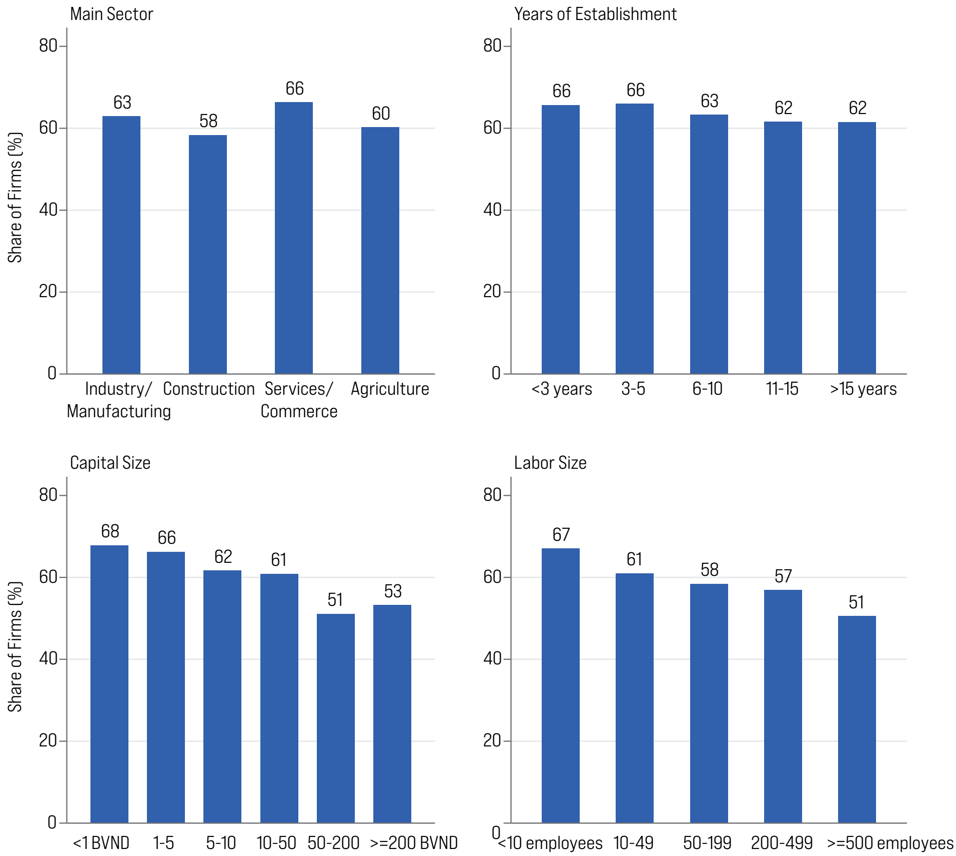
Obstacles	2017	2018	2019	2020
Finding customers	58	60	63	64
Getting bank loans	38	37	35	41
Market downturn	31	32	27	33
Recruiting suitable employees	25	28	34	28
Finding business partners	24	27	28	25
Finding suppliers	16	18	17	19
Abrupt change of regulations	21	23	18	18
Dealing with legal matters	16	17	15	15
Finding suitable business premises	14	16	14	11
Others	1	2	2	7
Poor infrastructure	9	9	5	5
Intellectual property infringement			5	5

Finding customers

Finding customers is the largest concern for the domestic private sector, since it is a key factor influencing a firm's market share, sales revenue, and profitability. However, as Table 1.5 shows, in 2020, 64 percent of domestic PCI respondents faced this obstacle.

Digging into the types of business operations, as seen in Figure 1.24, new firms with less than five years of operation (66 percent) find this to be an area of concern, though it also affects older firms that have been around for at least 10 years (62 percent). MSMEs faced the biggest challenge finding customers (67 percent), but this is also a big obstacle for over half (51 percent) of the largest firms. Many firms, especially small- and medium-sized businesses, lack skills and knowledge of seeking customers. Therefore, a policy recommendation is that business support programs at provincial level should include training and capacity building activities to further improve firms' skills in finding customers.

Figure 1.24 Challenges in Finding Customers by Firm Characteristics

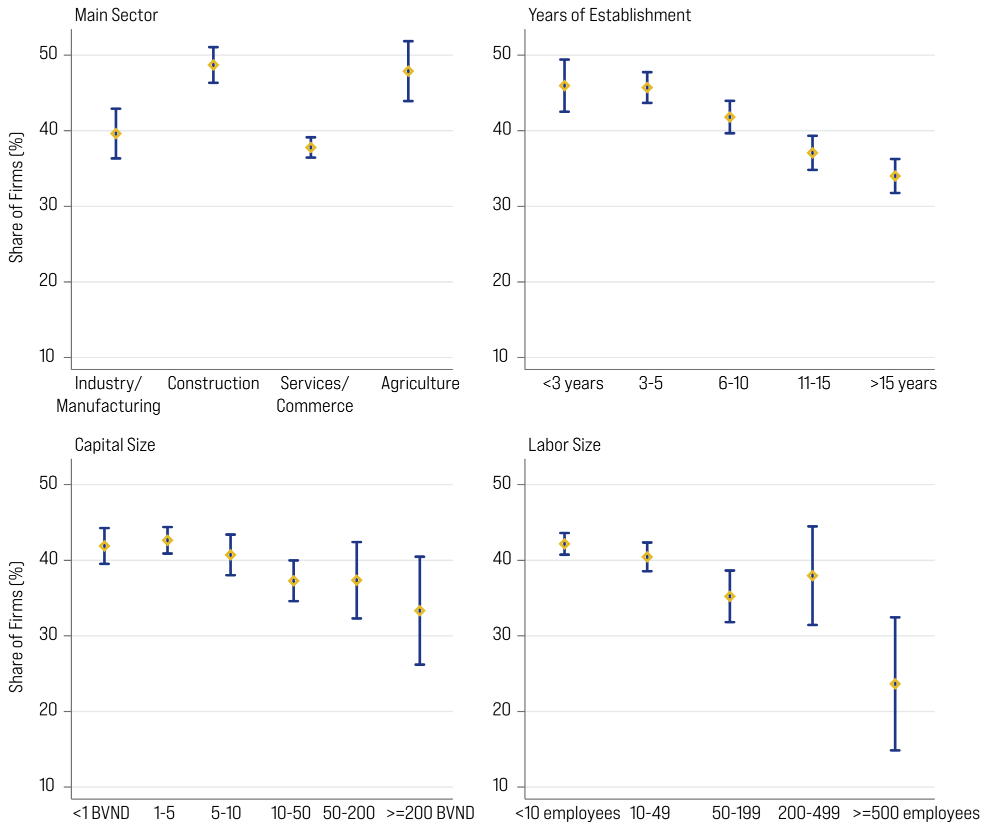


Accessing bank loans

We find that 41 percent of domestic firms encountered challenges accessing bank loans, up from 35 percent in 2019.

Figure 1.25 shows that firms with the fewest years of operation reported the most challenges. Forty-six percent of firms in operation for less than three years rated credit access challenging compared with 34 percent of firms that have been in business over 15 years. By labor and investment size, MSMEs faced more difficulty than large-sized firms. Forty-two percent of firms with capital under one billion Vietnamese dong found it hard to access bank loans, while 33 percent of firms with capital over 200 billion Vietnamese dong reported the same problem. Similarly, while 42 percent of firms employing fewer than 10 workers rated loan access difficult, only 23 percent of firms with a labor force exceeding 500 employees cited bank loans as a challenge.

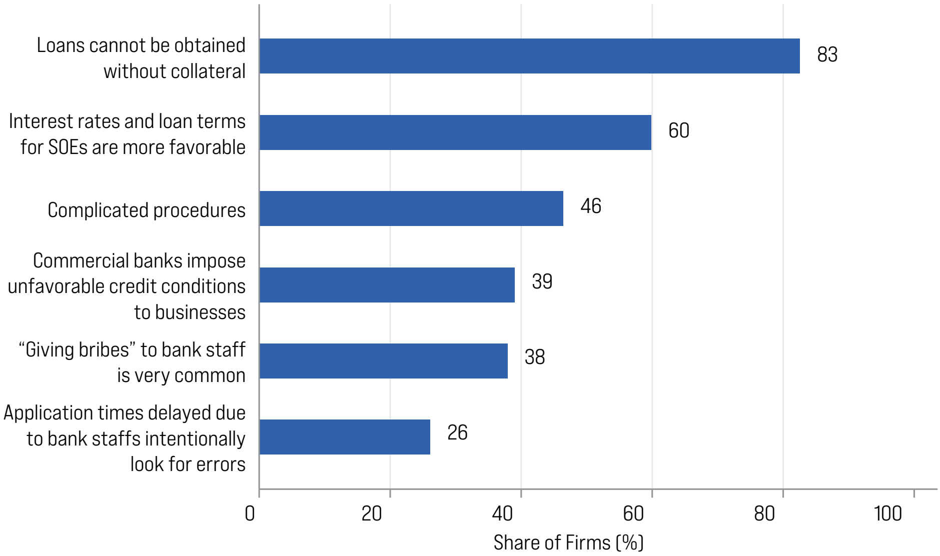
Figure 1.25 Challenges in Accessing Bank Loans by Firm Characteristics



95% Confidence Interval

Figure 1.26 presents specific challenges firms encountered in getting bank loans. Eighty-three percent of firms reported that getting bank loans was impossible without mortgageable assets. Up to 60 percent of firms felt that interest on loans and conditions for borrowing were more difficult for private firms than SOEs. Forty-six percent of firms rated loan procedures as very troublesome while 39 percent felt that they were given unfavorable credit conditions. Alarmingly, up to 38 percent of firms agreed that bribes to bank staff are very common to get credit. Paperwork was the area of least concern; only 26 percent of firms reported "Bank staff look for errors in applications, leading to extended application times."

Figure 1.26 Specific Challenges in Credit Access



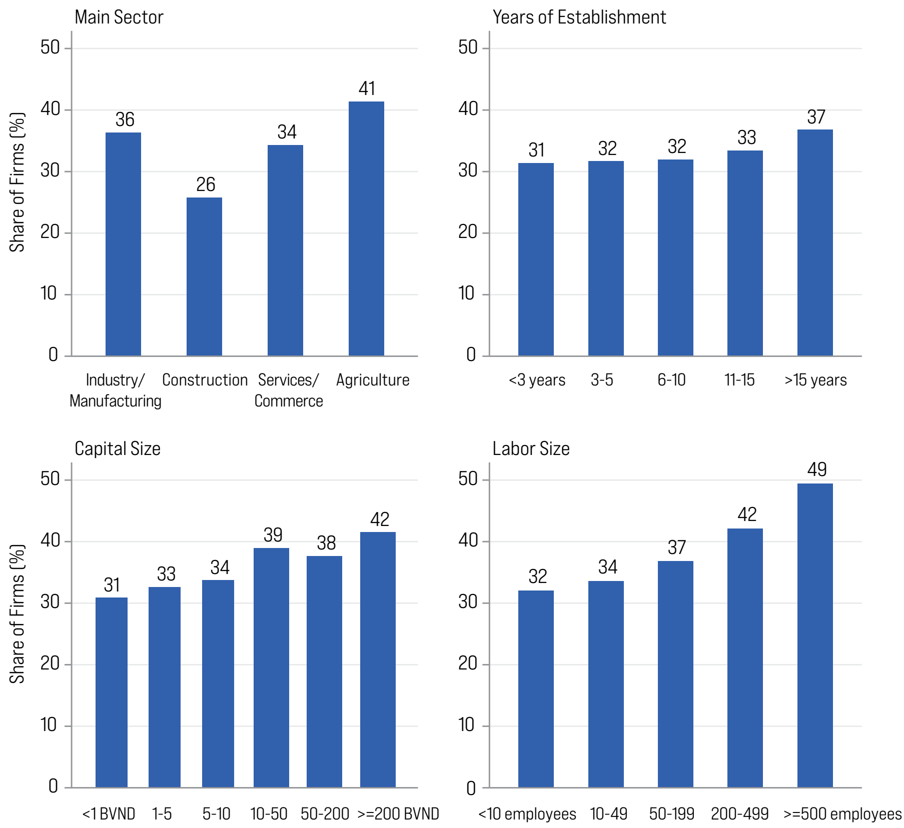
Facilitating businesses' credit access has been emphasized in the Government Decree 35/NQ-CP dated May 16, 2016 which sets out policies to boost business development towards 2020. In this Decree, state agencies governing the field are tasked to conduct reviews to renovate the borrowing processes in ways that simplify loan procedures, reduce compliance burden while ensuring prudential ratios and alignment with regulations. The decree further required these regulators to take measures to improve appraising capacity to shorten time to process loan applications, develop finance programs with reasonable interests, and encourage diversification of banking services and products to improve finance access by firms. The PCI survey data shows that these policies are likely in the right direction and should be translated into more effective implementation. As a matter of fact, businesses should also enhance their management sophistication and financial capacity to better meet credit conditions prescribed by government and financial institutions, and become more proactive in seeking and making use of other financing sources.

Market downturns

The 2020 survey data shows that 33 percent of firms faced difficulties resulting from market downturns. The negative effects of COVID-19 may have led to a considerably higher share of firms in 2020 reporting problems in doing business (27 percent), marking the highest rate over the last four years.

The longer a firm has been in operation and the larger its size (both in terms of capital and workforce), the more difficulties it is likely to face. Several of the largest firms are either critical links in global value chains or are more export-oriented, thus increasing their vulnerability to the international market crisis caused by COVID-19.

Figure 1.27 Share of Firms Facing Challenges from Market Downturn



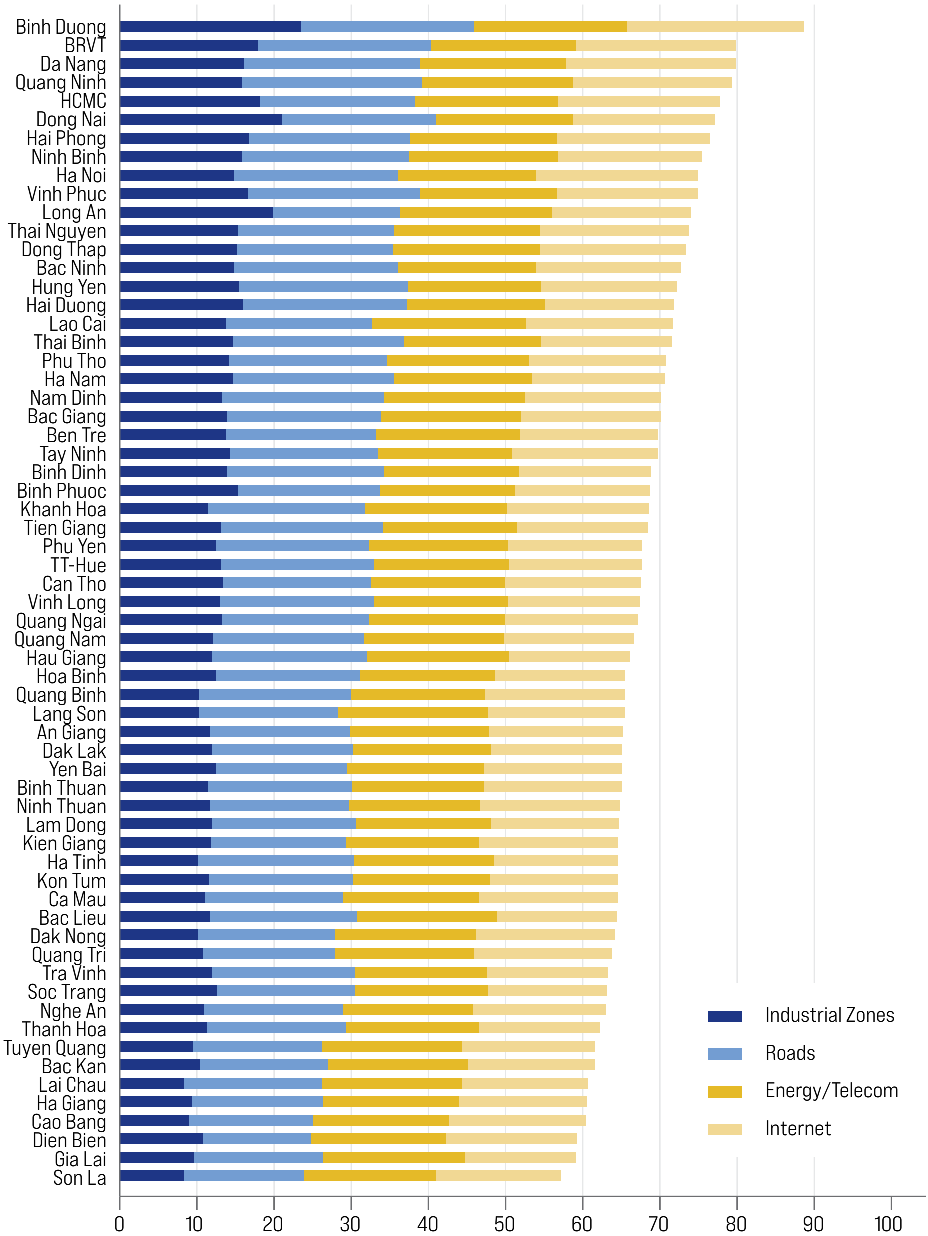
1.5 THE INFRASTRUCTURE INDEX 2020

The 2020 PCI continues to develop the Infrastructure Index based on data collected through the PCI-DDI survey and published statistics. The Infrastructure Index is separated from the main PCI assessment, as infrastructure is mostly beyond provincial authorities' purview.

We retain four subindices measuring the quality of fundamental business-related infrastructure areas. These include: 1) industrial zones/clusters; 2) roads and transportation; 3) basic utilities; and 4) accessibility and application of IT.

Figure 1.28 portrays the 2020 Infrastructure Index results. Three provinces topped this ranking, including Binh Duong, Ba Ria – Vung Tau, and Da Nang. These provinces have frequented the top rankings for many years, with their advantages in infrastructure.

Figure 1.28 The Infrastructure Index 2020



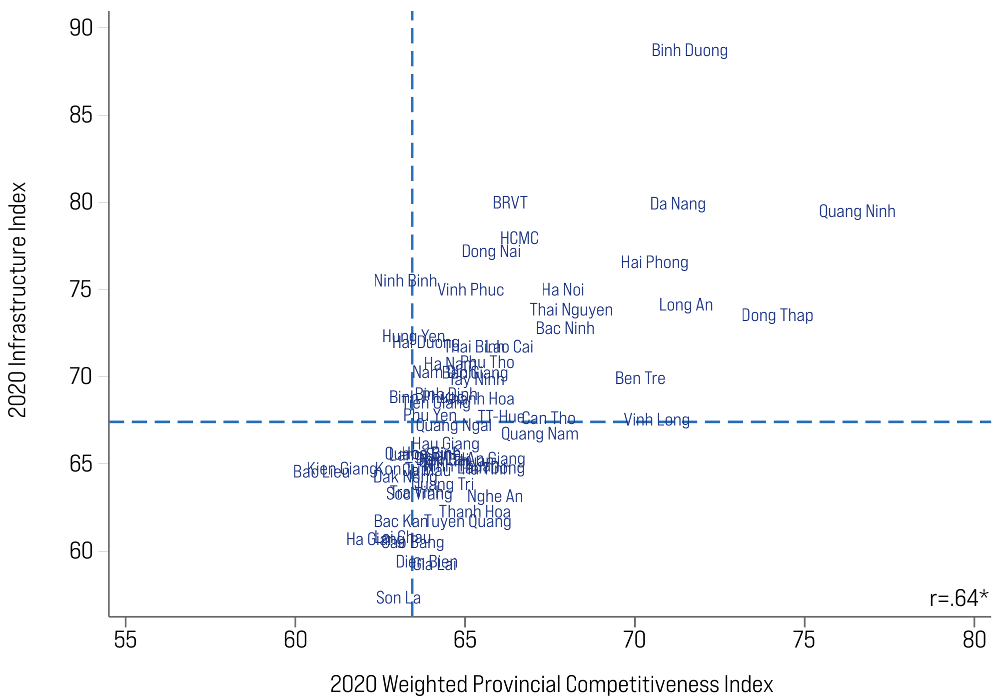
The quality of Vietnamese infrastructure continues to improve, with the median score at 67.41 points. With a slight decrease of one point from 2019, it remains the second-highest score since the addition of the Infrastructure Index to the PCI surveys in 2009. Table 1.6 presents some indicators in the Infrastructure Index over the last five years. Quality of industrial zones/clusters, roads, and electricity maintain a steady upward pace.

Table 1.6 A Sample of Indicators of the Infrastructure Index over Time

Indicator	Source	Measure	2016	2017	2018	2019	2020
Quality of Industrial Zone/Cluster (percent good and very good)	PCI Survey Question: E2-5	Min	10.42	13.46	10.53	22.54	32.86
		Median	40.91	46.38	46.67	50.00	53.75
		Max	73.48	73.91	77.22	76.40	77.27
		Correlation w/ Previous Year	0.85*	0.77*	0.86*	0.74*	0.72*
Quality of road (percent good and very good)	PCI Survey Question: E2-1	Min	23.86	23.00	24.24	29.06	33.33
		Median	42.06	41.30	41.12	44.14	51.02
		Max	79.81	80.43	77.13	80.00	79.77
		Correlation w/ Previous Year	0.76*	0.71*	0.74*	0.72*	0.77*
Number of days with blocked roads	PCI Survey Question: E3	Min	2.68	1.96	1.76	1.20	1.11
		Median	5.81	4.11	3.77	3.42	2.74
		Max	192.25	6.06	11.42	7.38	6.56
		Correlation w/ Previous Year	0.71*	0.22	0.58*	0.73*	0.71*
Hours of lost power in the last month (Median number)	PCI Survey Question: E4-4	Min	1.00	3.00	3.00	3.00	0.00
		Median	8.00	8.00	7.55	7.84	4.00
		Max	16.00	11.87	10.75	9.60	8.00
		Correlation w/ Previous Year	0.60*	0.56*	0.57*	0.57*	0.46*
Percentage of pre-informed power cuts	PCI Survey Question: E4-3	Min	10.00	42.87	48.18	45.52	50.00
		Median	50.00	57.08	65.06	57.84	64.34
		Max	80.00	80.00	90.00	80.00	90.00
		Correlation w/ Previous Year	0.31*	0.52*	0.89*	0.88*	0.60*
Telecom quality	PCI Survey Question: E2-2	Min	65.26	67.74	68.22	69.83	61.29
		Median	76.84	78.17	81.08	82.57	79.38
		Max	88.46	90.12	91.43	91.30	89.11
		Correlation w/ Previous Year	0.40*	0.43*	0.44*	0.56*	0.30*
Telecom hours lost (Median)	PCI Survey Question:E5	Min	0.00	0.00	0.00	0.00	0.00
		Median	0.01	1.00	0.00	0.00	0.00
		Max	5.00	5.40	3.98	2.30	2.00
		Correlation w/ Previous Year	0.45*	0.34*	0.06	0.36*	0.04
Good quality of Internet supply (%)	PCI Survey Question: E2-6	Min	43.00	42.86	53.64	59.14	49.32
		Median	57.02	61.76	64.42	70.13	64.08
		Max	70.71	80.23	80.77	82.61	79.64
		Correlation w/ Previous Year	0.41*	0.56*	0.26*	0.29*	0.22

The 2020 PCI records the positive correlation between the quality of governance and infrastructure across the country. In other words, provinces rated better by firms in governance tend to have better infrastructure. Digging deeper, Figure 1.29 shows that 24 provinces (the upper right quadrant) perform better in both governance and infrastructure than the median province. The provinces in the lower left quadrant are those that have poorer governance and infrastructure than the median province, which means they must make stronger efforts to overcome both infrastructure and governance limitations. Eight provinces in the upper left quadrant outperform the median province in terms of infrastructure but do not perform as well in governance, meaning they should beware the structural advantage trap. Finally, seven provinces located in the lower right quadrant are those that perform better than the median province in terms of their governance but face the obstacle of limited infrastructure. These provinces are called “hardship conquerors” by the research team, as they have improved economic governance to attract investment and foster economic development.

Figure 1.29 Correlation between Quality of Governance and Infrastructure



CONCLUSION

The PCI survey shows that domestic firms in Vietnam are operating in a quite favorable business climate, demonstrated by the improving trend of the PCI over time. During the first Phuc administration (2016-2020), the business landscape become less biased, legal procedures were deemed effective and fair, provincial proactivity improved, administrative reforms produced positive results, and informal charges declined. These findings demonstrate that the national government reform efforts during the last term, together with efficient implementation at the provincial level, have yielded positive results.

Despite this commendable progress, the PCI survey indicates that the business community expects stronger and more substantive reforms in many domains of governance. One major area where improvements can be made involves reducing regulatory compliance time and cost, particularly with respect to land, taxes, and social insurance. Businesses also seek improved ease of access to information and resources for development. Firms would appreciate further enhancements to bureaucratic effectiveness and efficiency of implementation at all levels. Finally, the government needs to expedite identification of issues and quickly move to address policy-related challenges faced by firms, providing prompt support to enable them to overcome difficulties and grow.

The year 2021 ushers in a new government term in which "creating an enabling, robust and fair business and investment environment for all actors, promoting innovative" has been set as one of the key governance priorities for Vietnam in the next decade.[26] Policy-making process and enforcement mechanisms need to be instituted in a consistent, stable and equitable manner. Coordination among agencies, sectors, and levels will help ensure transparency, accessibility, and accountability of relevant authorities. Accelerating the development and operation of digital government can also greatly contribute to the realization of a regulatory breakthrough in line with the new administration's priorities while simultaneously promoting sustainable and dynamic development of the business community and Vietnamese economy.

26 The Vietnamese Communist Party Resolution, 13th Congress, dated February 26, 2021, retrieved at <https://daihoi13.dangcongsan.vn/tin-moi/nghi-quyet-dai-hoi-dai-bieu-toan-quoc-lan-thu-xiii-cua-dang-4675>

APPENDIX: SECTORAL ANALYSIS OF ECONOMIC GOVERNANCE

Based on the two-digit sectors used in the sampling frame and information provided by firms, the research team can calculate an individual PCI score for each firm in the dataset. This can be used to aggregate PCI scores by sectors. These scores reflect how firms in two-digit sectors perceive the ease of doing business and may give insights into sectors that remain problematic and need stronger reforms.

Figure 1.30 dissects the PCI scores by sectors at the firm level. The blue bars present 95 percent confidence intervals of the PCI firm-level scores in each two-digit sectors. The orange diamonds represent average scores while the brown vertical lines indicate the median PCI scores at the firm level. We find that the plastics, professional services and electric/gas sectors had the highest governance according to businesses. On the other end of the spectrum, firms in the sectors of agriculture/forestry/aquaculture (collectively, agriculture) gave the lowest rating.

Agriculture accounted for a significant share of Vietnam's economic structure in 2020 (14.85 percent).[27] Despite the country being one of the world's largest exporters of some products, such as wood and wooden products, coffee, rice, cashew nuts, vegetables and fruits, and shrimp, most exported agricultural products are unprocessed, leaving a big opportunity for value-added processing and for brand identity development. The biggest gap is the limited number of domestic businesses operating in agricultural development.[28]

The sectoral analysis allows us to reflect directly on a key policy priority of Vietnamese authorities. In Resolution 53/NQ-CP (dated July 17, 2019) on promoting investments in efficient, safe, and sustainable agriculture, the government considered firms as "pillars" in fostering development to make Vietnamese agricultural products globally competitive. This resolution also set a target such that, "by 2030, there are between 80 thousand to 100 thousand firms doing business in the agricultural sector,"[29] a far cry from 10,200 firms in 2019. The PCI 2020 results show that making progress toward this target will be primarily conditioned by an enabling business landscape for agricultural operations. Currently, as Figure 1.30 shows, agricultural firms experience significantly below-average governance.

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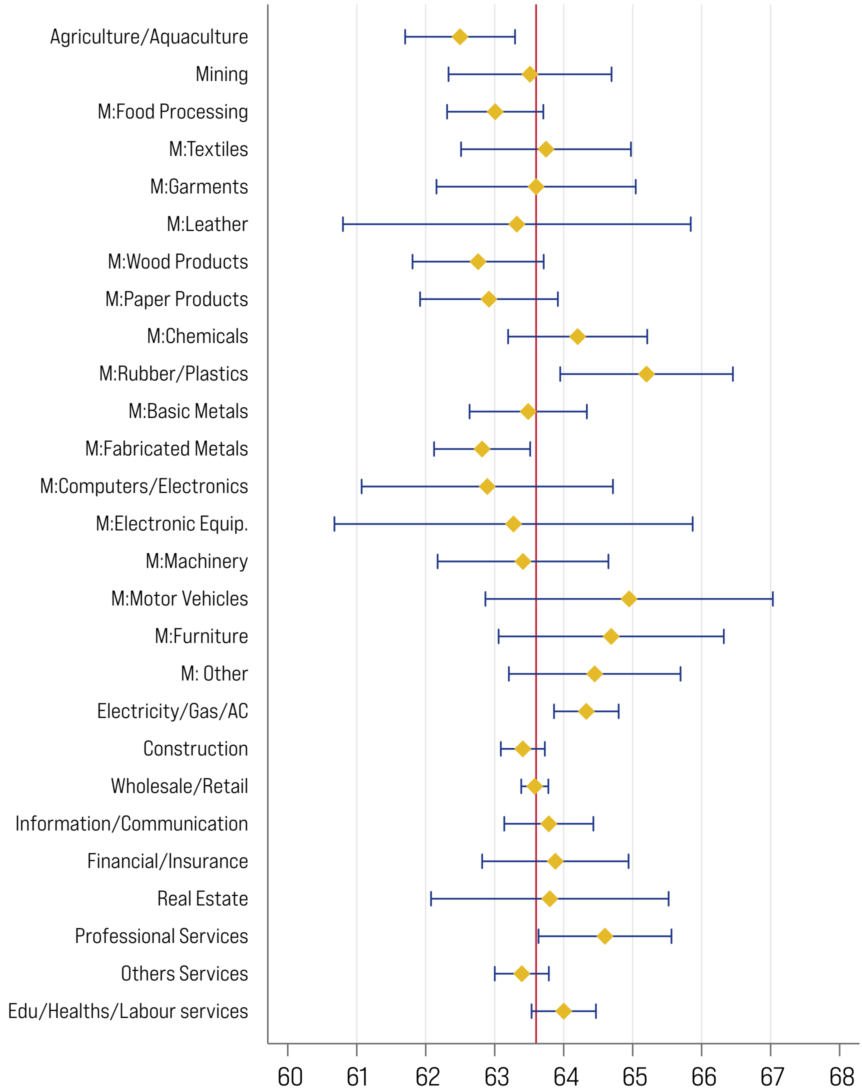
27 *General Statistics Office, Socioeconomic Report for 4th quarter and the entire year 2020, retrieved at < https://www.gso.gov.vn/du-lieu-va-so-lieu-thong-ke/2020/12/baocao-tinh-hinh-kinh-te-xa-hoi-quy-iv-va-nam-2020/>*

28 *What benefit agricultural firms bring? The National Competitiveness Forum, June 2, 2017, retrieved at < https://nangluccanhtranh.chinhphu.vn/Hop-tac-xa-kieu-moi/Phat-trien-doanh-nghiep-nong-nghiep-duoc-loi-gi/307738.vgp>*

29 *Resolution 53/NQ-CP dated July 17, 2019 on solutions to encourage and promote business investments in efficient, safe and sustainable agriculture. Retrieved at <http://vanban.chinhphu.vn/portal/page/portal/chinhphu/hethongvanban?class_id=509&_page=1&mode=detail&document_id=197400>*

Figure 1.30 PCI 2020 Scores at Individual Firm Level by Sector



Blue bars represent 95% confidence interval

The maroon line represents the median score at firm level (63.60 points)

CHAPTER 2

THE FOREIGN INVESTMENT SURVEY

INTRODUCTION

Early in 2020, Vietnam was expected to take advantage of the U.S.-China trade war, cement its role as one of the world's factories, and experience an annual economic growth rate of seven percent (VOA News 2020, Connors 2020). The country had already been a prime candidate for investors' China-plus-one strategy; bitter trade disputes between the U.S. and China only increased Vietnam's allure to foreign investors. The pandemic partially disrupted this process, leading to Vietnam's actual GDP growth rate being 2.9 percent in 2020 (Bảo Ngọc 2020). However, in the broader context of COVID-19's impact on the world economy, FDI activities in Vietnam remained remarkably robust over the course of the year. As of late December 2020, newly injected capital amounted to US$28.5 billion, which was 75 percent of the corresponding figure in 2019. Realized capital reached nearly US$20 billion — essentially the same as last year's amount (GSO 2020). Vietnam's impressive performance in containing the pandemic has strengthened the country's appeal as a destination for foreign investment. According to the Japan External Trade Organization (JETRO), Vietnam is by far the most popular destination for Japanese firms seeking to diversify their supply chains and move out of China, with Thailand coming in a distant second (Duc Minh 2020).

Despite reductions in the total amount of FDI, there are several noteworthy mega-projects. The largest among these is the Liquefied Natural Gas (LNG) factory project in Bac Lieu by Singapore's Delta Offshore Energy Pte. Ltd. With registered capital of US$4 billion, this project propelled Singapore to the status of the largest foreign investor in Vietnam in 2020 (Thuy Hien - Anh Tuan 2020). Thailand also left its mark with the Long Son Petrochemicals (LSP) project in Ba Ria-Vung Tau (Tue Linh 2020). LSP is a joint project between Siam Cement Group (SCG) and PetroVietnam (PVN) which started in 2018 and recently injected US$1.4 billion in additional capital (TCNLVN 2018). Three other mega-projects are in diverse sectors including real estate, electronics, and plastics manufacturing. Hanoi Starlake, an urban center supported by South Korean investors, received newly added capital of US$774 million. Pegatron, a Taiwanese tech corporation, invested US$481 million in a mega-project in the Dinh Vu Industrial Zone in Hai Phong, focusing on electronic parts and components. Finally, China also registered its presence with the Radian Jinyu Tire Factory, worth US$300 million, in Tay Ninh.

In this year's foreign enterprise section of the PCI report, we dissect the evolution of Vietnam's appeal as a destination for foreign investment. From 2013-2015, we asked PCI-FDI respondents annually what factors initially persuaded them to invest in Vietnam instead of other countries that they also considered. There were nine major factors for them to assess: (1) corruption; (2) regulatory constraints; (3) tax rates; (4) risks of expropriation; (5) policy uncertainties; (6) infrastructure; (7) public service delivery; (8) active role in policymaking; and (9) stable political institutions. We included these questions again in the 2020 survey to evaluate how Vietnam's competitive edge has evolved after five years. In a nutshell, Vietnam has done an impressive job of improving its appeal in most of these aspects. We extend the analysis by investigating in greater depth one criterion with unmistakable progress — corruption — and one area where there remains plenty of room for improvement in the minds of investors — regulatory constraints.

The chapter is structured as follows: First, we take a look at foreign-invested enterprises' (FIEs) overall performance in a year beset with troubles and uncertainty. Section 2.2 examines the characteristics of PCI-FDI respondents. Then comes the focal point of the chapter, Section 2.3, which is the in-depth analysis of the factors that have "pulled" foreign investment into the country, and how these motivations for investing in Vietnam have evolved overtime. Section 2.4 focuses on the laudable progress that Vietnam has made in containing corruption and harassment of FIEs. In Section 2.5, we take a close look at foreign investors' troubles with regulatory constraints in the areas of customs, registration, tax, and social insurance. Section 2.6 offers some concluding thoughts.

2.1 PERFORMANCE

Table 2.1 shows clear evidence of the COVID-19 pandemic's adverse impact on the performance of FIEs in Vietnam. In the middle of an economic downturn, FIEs become more hesitant to increase their investment. Only eight percent of FIEs reported doing so in 2020 compared to ten percent in 2019; both of which were down from the peak of 13 percent in 2017. Similarly, the share of firms adding new employees dropped to 55 percent from 62 percent last year. The fact that more than half of the PCI-FDI respondents are still hiring, however, testifies to their confidence in Vietnam's efforts to contain the virus and its relatively less-affected economic environment.

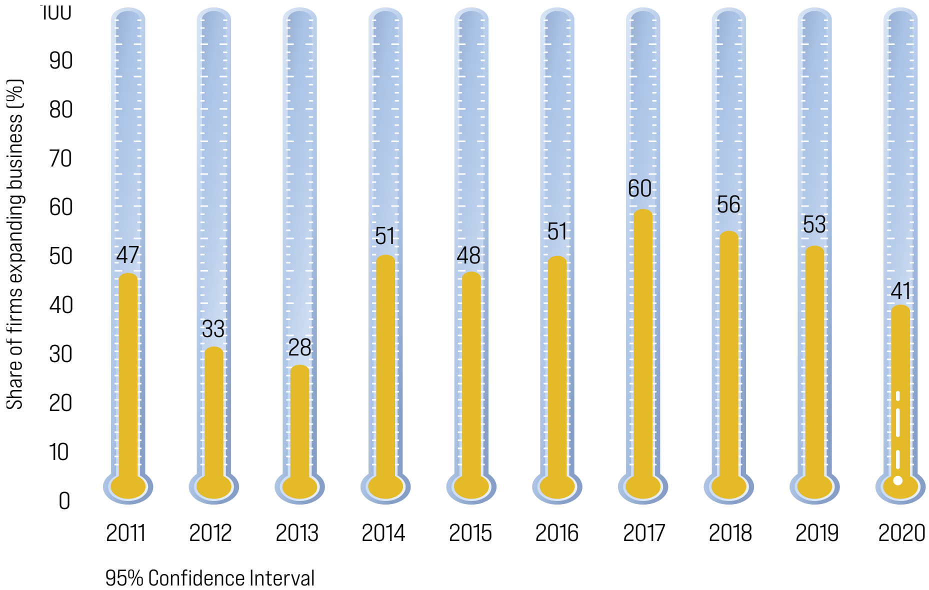
The impact of the pandemic is clearly reflected in FIEs' gains and losses. While the majority of FIEs reported profits in 2019, only 43 percent did so in 2020. Meanwhile, the fraction of firms with losses shot up dramatically from 34 percent (2019) to 47 percent (2020). This was by far the worst year in terms of FIE performance in the history of the PCI survey. The pandemic put a brake on virtually all economic activities. Median sales by FIEs dropped from US$0.93 million in 2019 to only US$0.67 million — the lowest since 2012. Median expenditures also fell to US$1.28 million from US$1.51 million the prior year.

Table 2.1 Performance of Foreign Firms over Time

Year	Firms Increasing Investment (percent)	Firms Adding Employees (percent)	Firms Reporting Profits (percent)	Firms Reporting Losses (percent)	Median Sales (2010 US$, in Millions)	Median Expenditures (2010 US$, in Millions)
2012	5.2	31.0	60.4	27.5	1.54	0.97
2013	5.1	30.0	63.6	24.1	1.45	0.94
2014	16.1	62.4	57.9	34.2	1.14	0.71
2015	11.4	62.4	55.1	37.6	0.69	1.42
2016	11.0	63.3	59.0	33.4	0.73	0.49
2017	13.2	62.4	54.3	37.9	2.43	2.02
2018	11.8	58.2	53.1	36.7	2.57	2.20
2019	10.4	61.6	56.2	34.3	0.93	1.51
2020	8.4	55.0	42.6	47.1	0.67	1.28

Figure 2.1 gives us a glimpse of COVID-19's likely longer-term business impact. The uncertain economic environment caused by the pandemic affected not only FIEs' current performance but also their future plans. According to the PCI-FDI Business Thermometer, the share of firms planning to expand their business decreased by more than 12 percentage points, from 53 percent in 2019 to 40.8 percent in 2020. Foreign investors' optimism is now at its lowest point since the economic growth slump of 2012-2013.

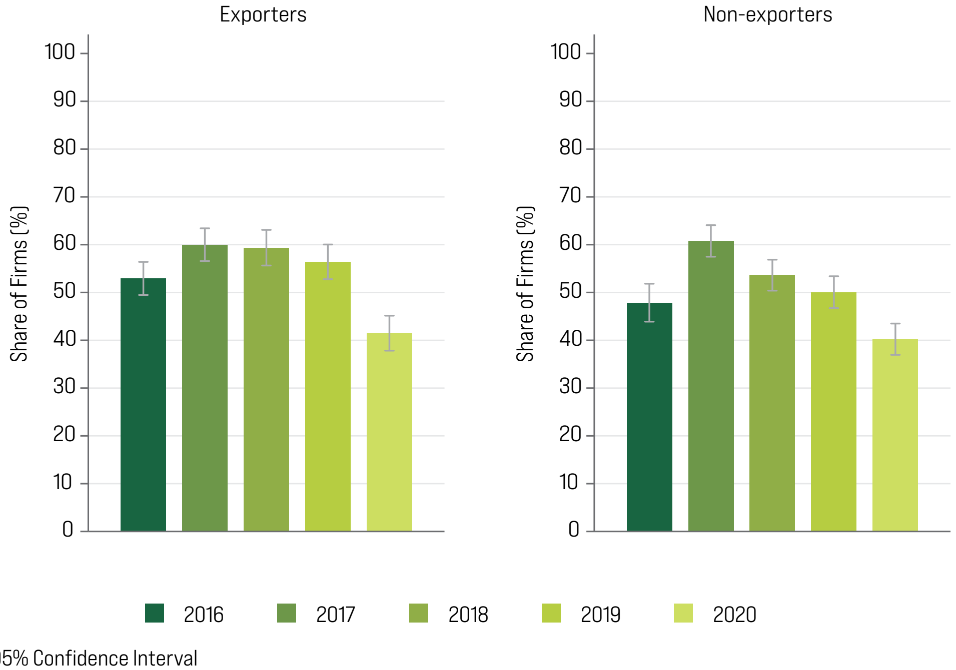
Figure 2.1 PCI-FDI Business Thermometer



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

In Figure 2.2, we break down FIEs' expansion plans by exporter status. The pandemic, with its disruptive effects on international supply chains, seems to have affected the outlook of exporters more than their inward-looking counterparts. Among the former group, the share of firms with plans to expand operations in Vietnam dropped from 56.4 percent to 41.5 percent, a reduction of nearly 15 percentage points. The corresponding figure is ten percent for non-exporters. Only 40.2 percent of respondents reported planned expansion as compared to 50.1 percent in 2019. While exporters were more eager to expand than non-exporters before the pandemic, the turn of events pulled both groups' optimism down to similar levels.

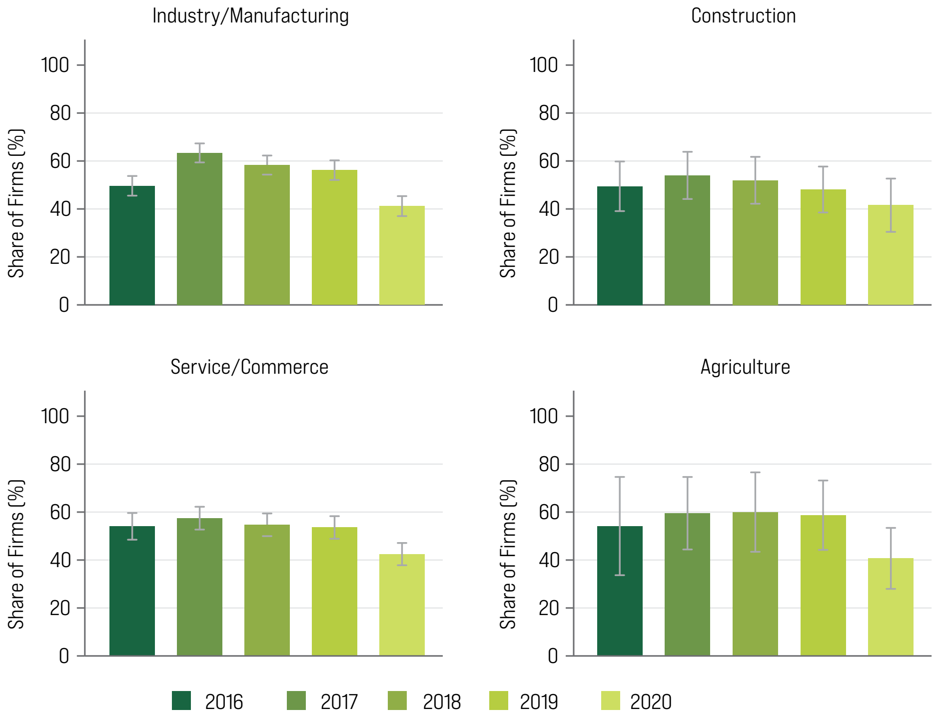
Figure 2.2 PCI-FDI Business Thermometer, by Exporter Status



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

COVID-19 has had an especially uneven impact when we break firms down by sector, as seen in Figure 2.3. PCI-FDI respondents that operate in industry/manufacturing are the hardest hit: The share of firms planning to expand plummeted from 56.2 percent in 2019 to 41.2 percent in 2020. Next in line is the service/commerce sector, where the decrease was 11.1 percentage points. These findings are unsurprising, since businesses in these sectors rely heavily on fluid supply chains and large workforces. In the case of service and commerce, face-to-face interaction with customers is critical. By comparison, FIEs in construction and agriculture were less affected. Although FIEs in agriculture also saw a sharp decline from 58.7 percent to 40.7 percent, the difference is not statistically significant due to the relatively small number of such firms in the sample.

Figure 2.3 PCI-FDI Business Thermometer, by Sector



95% Confidence Interval

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

2.2 CHARACTERISTICS

2.2.1 Size

Recent PCI reports have raised the alarm of a steady decline in the size of FIEs. While the number of investors had been increasing, the average size of employment and investment capital was decreasing. 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 (Malesky, Phan, & Pham 2019).

In 2019, we saw some early signs of a halt in that downward trend (Malesky & Pham 2020). Unfortunately, in 2020, possibly due to the impact of COVID-19, the trend made quite a dramatic U-turn. For the first time since the creation of the PCI-FDI, the percentage of firms with employment of fewer than five workers exceeded ten percent, reaching 10.8 percent from 9.1 percent in 2019. The next category (five to nine employees) also saw an increase from 10.6 to 11.3 percent.

Table 2.2 Size of Foreign Firms over Time

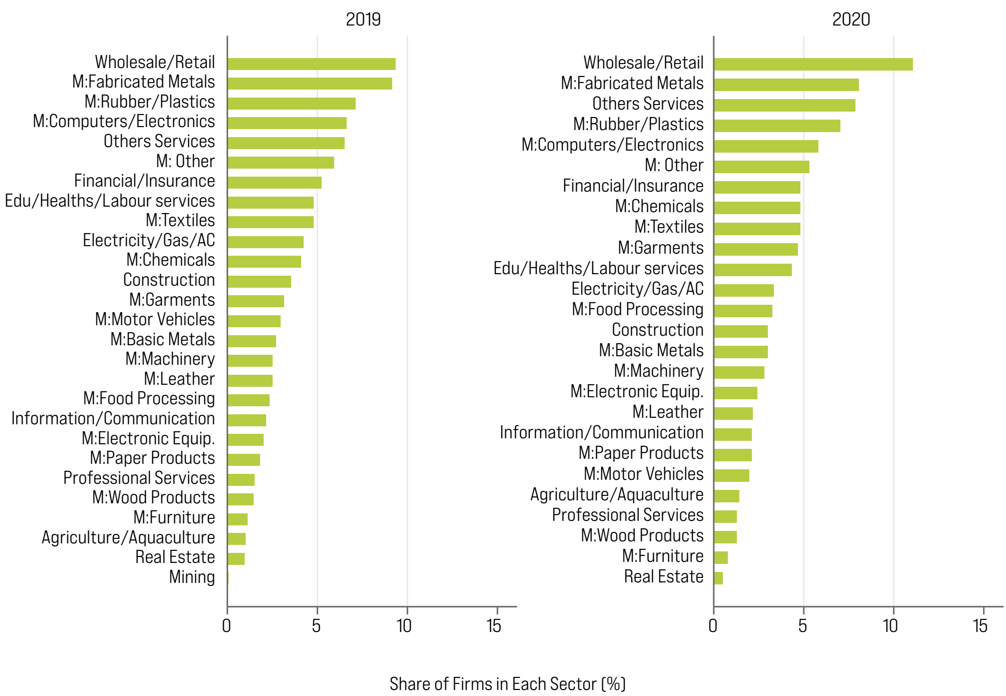
Employment Size: Percent of firms with employment of:								
Year	Less than 5	5 to 9	10 to 49	50 to 199	200 to 299	300 to 499	500 to 999	1000 and over
2012	2.5	7.5	27.3	29.1	9.9	8.6	8.1	7.0
2013	3.6	5.5	28.1	30.5	9.5	8.0	8.3	6.4
2014	5.3	8.5	29.0	29.5	6.6	7.6	6.9	6.6
2015	5.7	9.3	31.0	27.7	6.4	7.0	6.8	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
2019	9.1	10.6	32.7	26.4	5.6	5.4	5.2	4.9
2020	10.8	11.3	31.5	26.2	5.3	5.6	5.3	4.0
Equity Size: Percent of firms reporting equity of:								
Year	**Under 0.5 BVND (US$ 25,000)**	**0.5 to under 1 BVND (US$ 50,000)**	**1 to under 5 BVND (US$ 250,000)**	**5 to under 10 BVND (US$ 500,000)**	**10 to under 50 BVND (US$ 2.5 million)**	**50 to under 200 BVND (US$ 10 million)**	**200 to under 500 BVND (US$ 25 million)**	**500 BVND and over (US$ 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
2019	9.8	6.2	19.3	11.7	26.7	16.3	5.0	5.1
2020	13.1	5.7	19.3	13.4	24.3	15.8	3.7	4.6

This reversal can also be seen in the size of investment capital. In 2019, the share of firms with equity of less than 0.5 billion VND was only 9.8 percent. One year later, the corresponding figure is an unprecedented 13.1 percent. At the other end of the spectrum, only 3.7 percent of respondents reported equity between 200 and 500 billion VND, and only 4.6 percent reported equity size exceeding 500 billion VND. The corresponding figures in 2019 were 5.0 and 5.1 percent, respectively. Like many firms around the world, FIEs seem to have shed labor and checked their capital investment in order to stay afloat during the economic downturn.

2.2.2 Sector

Among PCI respondents, manufacturers remain the largest group, accounting for 34.5 percent of the sample. Next in line is the service/commerce sector at 28 percent. FIEs in construction account for 4.9 percent of the sample, while the agriculture/forestry/aquaculture sector comes in at about 3.8 percent. Figure 2.4 shows that the composition of FIEs by sub-sectors remains stable in recent years. Firms from wholesale/retail represent the largest group in the sample (around 11 percent in 2020). The other noteworthy subsectors include rubber/plastics and computer/electronics. Data from 2020 offer evidence of a continuing movement away from garment production into more technologically sophisticated industries such as computers and electronics, as documented in last year's PCI report (Malesky & Pham 2020).

Figure 2.4 FIEs by Sub-Sector



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."

2.2.3 Customers

The PCI questionnaire asks respondents to identify the buyers of their products. Most foreign firms in Vietnam are links in multinational supply chains and are therefore strongly oriented toward exporting their output. However, the pandemic could have shifted these trading relationships through its disruptive effects on international trade. In this section, we investigate this possibility.

Table 2.3 shows no major changes in the composition of FIEs' customers. Most FIEs are exporters, and their share in the PCI-FDI sample decreased by only two percent in the past year. Large proportions of FIEs still export back to their home countries (32 percent) or to a third nation (23 percent). Sales to Vietnamese state-owned enterprises (SOEs) increased only slightly from eight to nine percent, while sales to Vietnamese state agencies remained steady at three percent. Most FIEs (53 percent) still supply other FIEs in Vietnam. Forty-two percent of PCI respondents cater to Vietnamese businesses, while 22 percent sell to Vietnamese individuals. These findings seem to suggest that while COVID-19 forced FIEs to curtail their activities (as shown in Section 2.1), in the short term, the pandemic has not fundamentally altered their business relationships.

Table 2.3 Customers of FIEs (percent with at least one vendor)

	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
2019	8.4	3.5	34.2	22.6	10.4		57.1	16.9		40.7
2020	9.2	3.4	31.7	23.3	10.2		53.2	21.7		42.4

2.2.4 Suppliers

Foreign direct investment can generate gains to Vietnamese businesses through technological and management spillovers as the latter increase their participation in international supply chains. Vietnamese firms need to become suppliers of inputs to foreign invested firms in order to take advantage of this opportunity. However, progress has been slow in this regard. In 2020, only eight percent of PCI-FDI respondents turned to Vietnamese SOEs for inputs. More FIEs rely on Vietnamese household businesses (14.8 percent) and private firms (62.5 percent).

Table 2.4 Suppliers of FIEs (percent with at least one vendor)

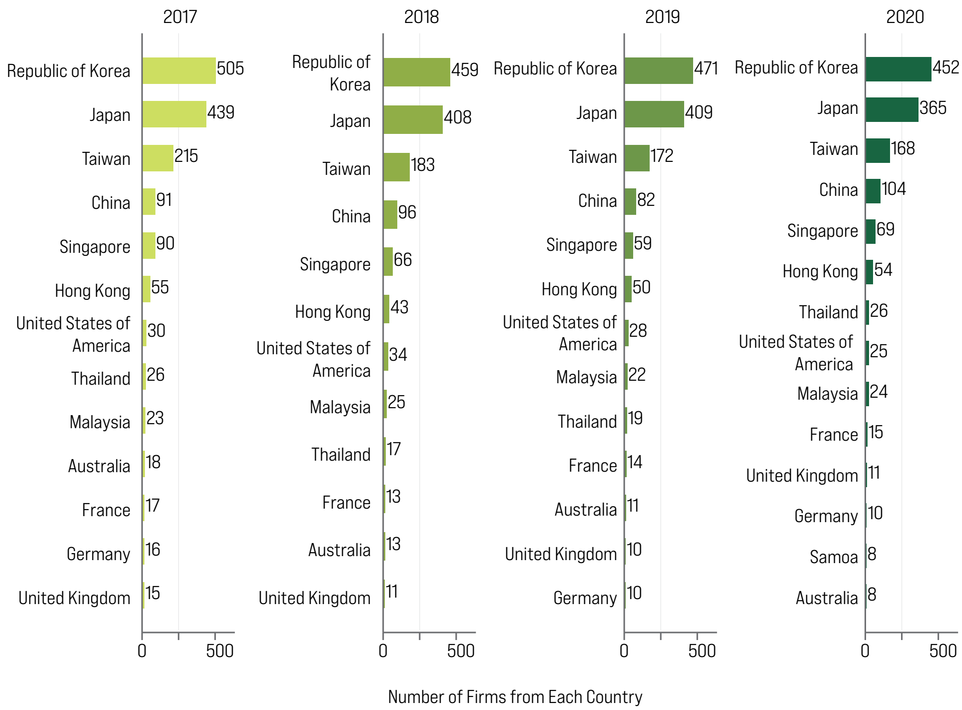
Year	State Owned Enterprises	Private Firms	Household Business	In-House	Home Country Businesses	Third Party
2010	13.5	53.6	12.8	7.4	28.3	34.0
2011	7.6	30.4	7.4	8.6	15.9	18.6
2012	5.6	43.1	4.8	6.6	39.7	24.5
2013	9.5	47.9	10.1	12.8	45.6	34.0
2014	11.5	62.6	15.9	8.3	55.5	34.8
2015	11.9	68.9	19.3	8.5	58.0	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
2019	10.1	66.0	17.1	7.3	44.3	24.8
2020	8.2	62.5	14.8	7.5	41.4	26.8

There are signs for optimism, however. Since 2016, FIEs have become increasingly less reliant on suppliers in their home countries. The share of FIEs taking inputs from home country businesses declined from 58.7 percent in 2016 to 41.4 percent this year. At the same time, they are also less dependent on third-party suppliers than five years ago. Only 26.8 percent of PCI-FDI respondents reported having third-party suppliers in 2020, as compared to 39 percent in 2016. These two findings suggest that FIEs are relying more on Vietnamese suppliers on the intensive, but not the extensive, margins. In other words, while the share of FIEs taking inputs from domestic firms has not increased, those that used to have a diversified portfolio of input sources seem to have been satisfied enough with Vietnamese suppliers that they can afford to drop the foreign ones and rely solely on the former group.

2.2.5 Country of Origin

FIEs' countries of origin remain consistent with PCI samples from previous years. South Korea boasts the greatest number of PCI-FDI respondents (452), reflecting the country's status as the largest foreign investor in Vietnam. Next in line are Japan and Taiwan with 365 and 168 respondents, respectively. China, which had only 82 respondents in 2019, ventured into three-digit territory for the first time in the history of the PCI-FDI, with 104 firms taking the survey in 2020. The number of Singaporean FIEs also increased from 59 to 69 in the past year. The number of respondents coming from the next largest investors (Hong Kong, Thailand, the United States, and Malaysia) remained largely the same.[30]

Figure 2.5 Country of Origins of FIEs



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

These changes in the composition of the PCI-FDI sample are largely consistent with data from the General Statistics Office (GSO). According to the GSO, the relatively small number of firms notwithstanding, Singapore was actually the largest investor into Vietnam in 2020,

30 *The number of investors from the United States is higher if we include tax havens such as the Cayman Islands, U.S. Virgin Islands, Seychelles, Ireland, and Luxembourg. In 2020, 34 U.S. investors fall under this broader definition.*

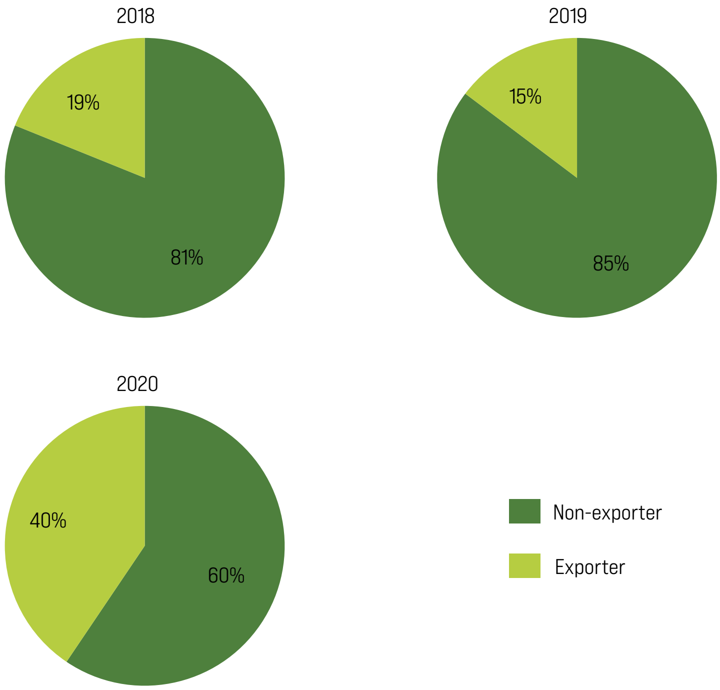
with US$6.2 billion, equivalent to 42 percent of total foreign investment. China ranks second with US$1.6 billion, accounting for 10.8 percent of total foreign investment (GSO 2020).

Data on country of origin from the PCI-FDI survey can provide evidence speaking to an issue that recently surfaced in U.S.-Vietnam trade relations. On December 16, 2020, the U.S. Treasury labeled Vietnam a currency manipulator, suspecting the latter of taking measures to devalue its currency against the U.S. dollar in order to gain unfair competitive advantage in international trade (Reuters 2020). The White House was concerned by Vietnam's large and growing bilateral trade surplus with the United States. According to Harvard economist David Dapice (2020), this trade surplus stems from the influx of FDI into Vietnam rather than deliberate currency manipulation by the Vietnamese government. Dapice argues that all important indicators of currency manipulation are absent in this case, including GDP deflator-adjusted currency depreciation, excessive foreign exchange reserves, and lopsided overall trade balance. At the same time, according to World Bank data, net inflow of FDI increased from US$9.2 billion in 2014 to US$16.1 billion in 2019 (The World Bank 2020).

Dapice further contends that the United States' recent trade policy diverted FDI into Vietnam as international investors clamored to diversify away from China in response to rising trade tensions. For instance, the Japanese government is subsidizing its firms' efforts to move factories out of China, with Vietnam being the primary destination (Duc Minh 2020). While Vietnam's exports of goods grew rapidly in recent years, so did imports of inputs. According to Dapice, "the value added of the FDI exports is typically very low and a lot of the 'Vietnamese' surplus with the United States reflects imported inputs from the rest of Asia" (Dapice 2020). In other words, due to the U.S.-China trade war, Vietnam has become an increasingly important link in the production chain before goods are exported to the United States, which further tips the U.S.-Vietnam bilateral trade surplus toward the latter.

Data from the PCI-FDI provides some evidence for this argument. The Trump administration has expressed concern that Chinese exporters may move to Vietnam to circumvent U.S. tariffs. Statistics from the 2020 PCI-FDI sample suggest this may be the case. Forty-one percent of Chinese FIEs in the 2020 sample are new entrants — businesses that have operated in Vietnam for less than three years. The corresponding figures for 2018 and 2019 are 23.7 and 24 percent, respectively. Among these new entrants, Chinese FIEs in the 2020 sample are much more likely to be exporters. According to Figure 2.6, 40 percent of new entrants were exporters in 2020, compared to less than 20 percent in each of the previous two years.

Figure 2.6 New Chinese FIEs by Exporter Status



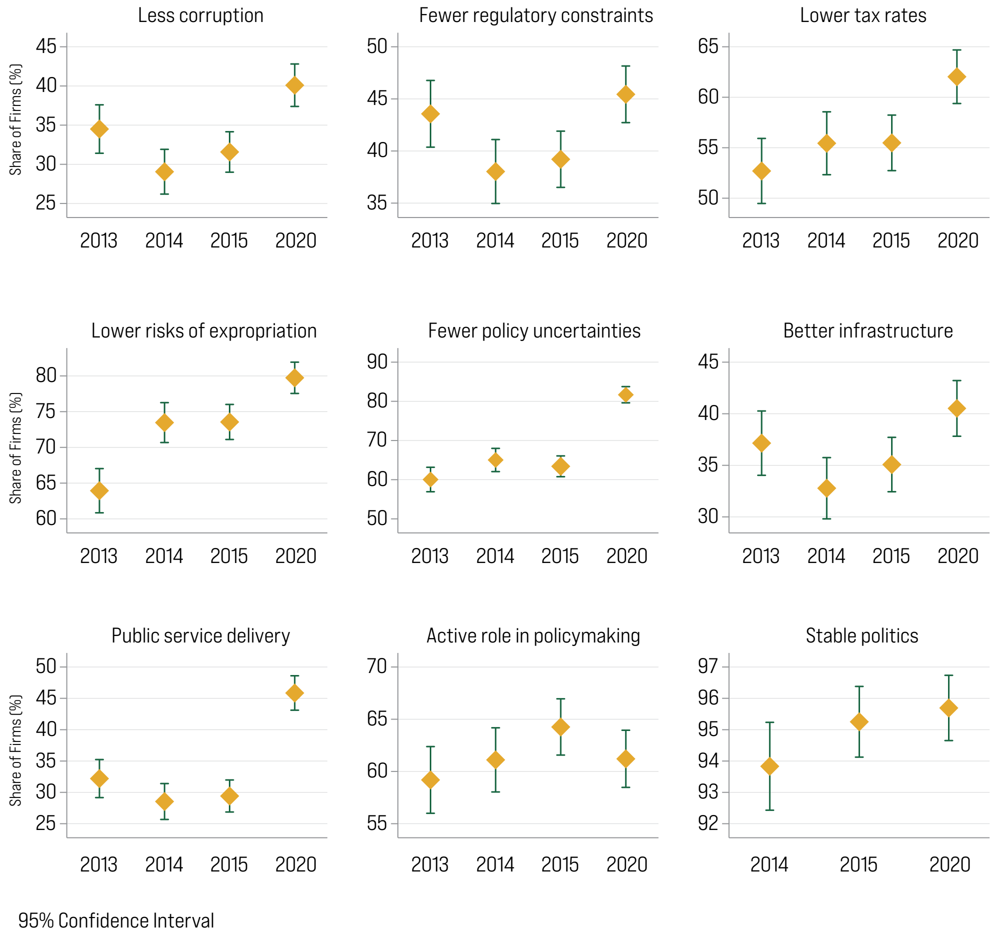
Source: PCI Survey 2020 Question A.14: "Who are your customers? Please check all that apply."

2.3 INVESTMENT ATTRACTION

2.3.1 Overall

Between 2013 and 2015, we asked PCI-FDI respondents if they selected Vietnam over other countries as the sole destination of their investment, and, if so, what factors gave Vietnam the edge over these competitors. There are nine major criteria: (1) corruption; (2) regulatory constraints; (3) tax rates; (4) risks of expropriation; (5) policy uncertainties; (6) infrastructure; (7) public service delivery; (8) active role in policymaking; and (9) stable political institutions. We reintroduced these questions in the 2020 survey to evaluate how Vietnam's competitive edge has evolved after five years.

Figure 2.7 Reasons FIEs Chose Vietnam over Competitors



Source: PCI Survey (Multiple Years) Question B7a: "How would you compare the business environment in Vietnam to other countries in which you considered investing?" (The "Stable politics" category is only available starting in 2014).

Figure 2.7 plots the share of PCI respondents that picked each factor as the reason why they initially chose to invest in Vietnam. As of 2020, Vietnam has improved in nearly all categories. Figure 2.8 clearly demonstrates differentiation among investment attraction factors. In 2013, with the exception of stable political institutions, the factors' scores were relatively concentrated in a narrow range from 30 to 60 percent. By 2020, there was a broader and higher spread. We then divided these nine factors into four groups.

The first group *(lasting advantages)* looks at factors for which Vietnam has always been attractive to foreign investors. There is only one criterion: stable political institutions.

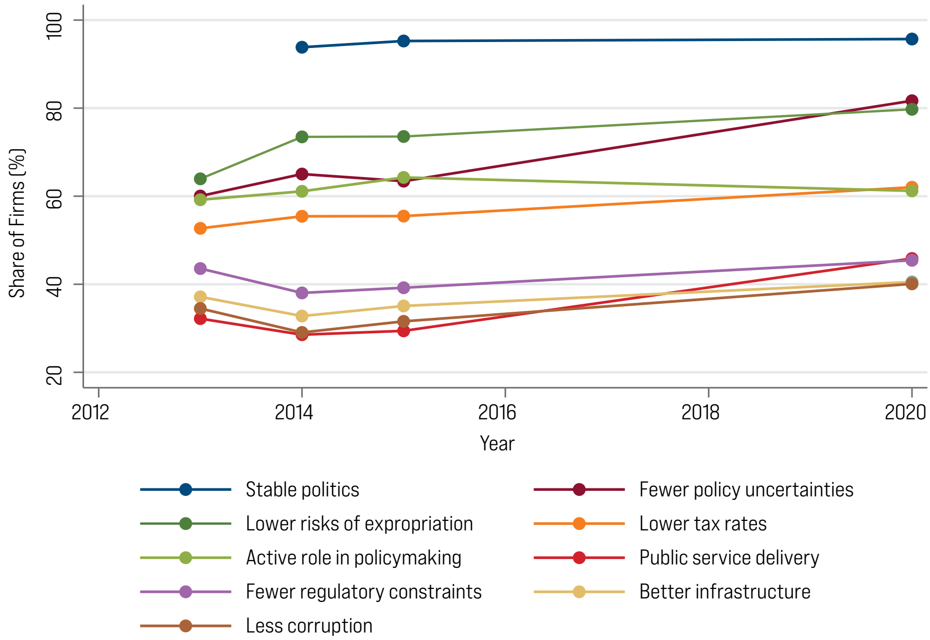
Vietnam consistently scores in the mid-90s in this category, and the fluctuation over time is not statistically significant.

The second group *(emerging assets)* includes criteria that, after extraordinary progress in recent years, have become clear strong points: (4) risks of expropriation and (5) policy uncertainties. In 2013, 64 percent of FIEs surveyed agreed that they faced lower risks of expropriation and 60 percent reported fewer policy uncertainties in Vietnam as compared to the firms' alternatives. Seven years on, the country's scores in these two areas are now around the 80-percent mark, at 79.7 percent for risks of expropriation and 81.7 percent for policy uncertainties. It is apparent that FIEs became much more confident in the security of land tenure after the passing of the 2013 Land Law. Concerns about policy uncertainties, on the other hand, seem to have been alleviated between 2015 and 2020 under the country's current leadership.

The third group *(modest gains)* includes criteria that, despite progress, remain weaknesses when comparing Vietnam to other destinations for foreign investment. It consists of two factors: (3) tax rates and (8) active role in policymaking. Vietnam has made notable strides in offering attractive tax rates such that the share of FIEs choosing Vietnam because of this factor increased from 55 percent in 2015 to 62 percent in 2020. Foreign investors also feel somewhat limited in their ability to contribute to policymaking. Although a comfortable majority (61 percent) of PCI-FDI respondents agree that they have a more active role in policymaking in Vietnam compared with other destinations, this represents a very small increase from 59 percent in 2013 and a decline from 2015. Improving this aspect of performance can increase Vietnam's appeal as a target for foreign investment. Academic research has shown that firms more readily comply with policy and regulations when they are allowed to participate in the decision-making process (Malesky & Taussig 2017).

The last group, perhaps the most interesting one, includes areas that Vietnam has not been able to fully address *(persisting weaknesses).* These include (1) corruption, (2) regulatory constraints, (6) infrastructure, and (7) public service delivery. Nearly 40 percent of FIEs considered anticorruption to be one of Vietnam's strong points in 2020, up from approximately 30 percent in 2014, so the current leadership's anticorruption campaign is clearly paying dividends. However, the absolute level remains low—below 50 percent—which means there are possible extra gains that Vietnam can exploit by further enhancing its business environment. Regulatory constraints remained virtually unchanged; only 44 percent of PCI-FDI respondents considered this criterion Vietnam's advantage over alternatives in 2013 and 45 percent selected this factor in 2020. Despite the Vietnamese government's increasing attention to infrastructure improvements, in 2020, a meager 40 percent of FIEs considered the country's infrastructure to be more appealing than that of its competitors. Although it remains a relative weakness, evaluations of public service delivery improved significantly, up from a depressing low of 29 percent in 2014 to just under 46 percent in 2020.

Figure 2.8 Differentiation in Pull Factors



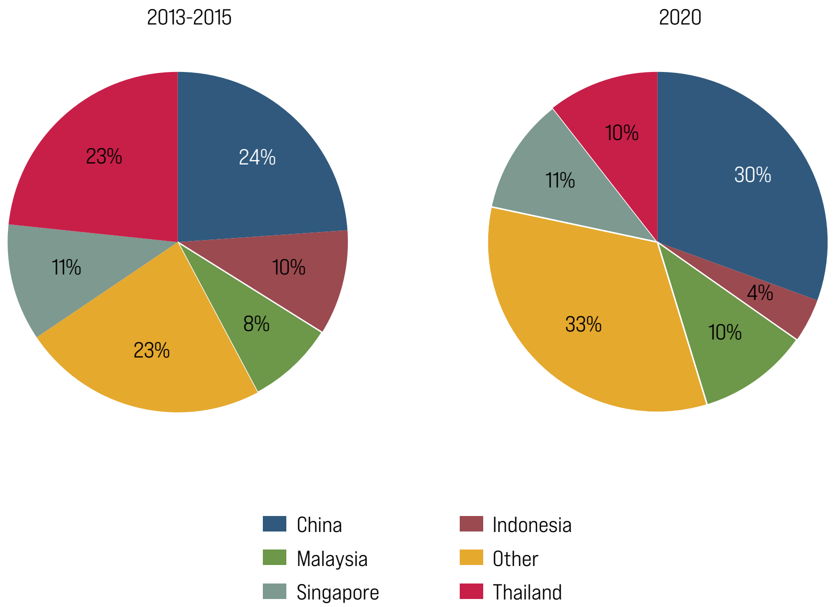
Source: PCI Survey (Multiple Years) Question B7a: "How would you compare the business environment in Vietnam to other countries in which you considered investing?"

2.3.2 Major competitors

In this section, we focus on how Vietnam compares with its major competitors for foreign investment in terms of these nine factors. The PCI-FDI survey asks firms to list other Asian countries in their multi-country strategy. The five most common answers are China, Thailand, Singapore, Indonesia, and Malaysia. Figure 2.9 illustrates how alternative preferences changed between 2013-2015 and 2020.

China is the primary rival for the type of FDI that eventually went to Vietnam. On average, twenty-four percent of PCI-FDI respondents specified China was their primary alternative investment destination in 2013-2015 while 30 percent did so in 2020. This reflects Vietnam's growing role as an alternative to China and as the foremost candidate for MNCs with a China-plus-one strategy. FIEs in Vietnam also looked at four Southeast Asian nations as potential options. Thailand's share shrank quite dramatically, declining from an average of 23 percent in the period 2013-2015 to ten percent in 2020. However, it remains one of the most popular alternatives to Vietnam in the ASEAN region, neck to neck with Singapore and Malaysia (11 and 10 percent, respectively), and ahead of Indonesia (four percent in 2020).

Figure 2.9 The Five Largest Alternative Destinations to Vietnam in Multi-Country Strategy



Source: PCI Survey (Multiple Years) Question B7: "Did your company eventually select Vietnam over the other countries, or did you choose to invest in Vietnam as part of a multi-country strategy?"

Figure 2.10 breaks down the factors that encouraged FIEs to include Vietnam in their multi-country strategy. The numbers indicate the average share of PCI-FDI respondents attributing their eventual investment in Vietnam to each of nine individual factors. Since the question was last asked in 2015, Vietnam has improved in every single one of these criteria. Investors are clearly pleased with Vietnam's progress in lowering risks of expropriation and, especially, reducing policy uncertainties. Between the two periods in question, the share of FIEs that chose Vietnam due to these two factors increased by 11 and 28 percentage points, respectively.

Figure 2.10 Why FIEs Chose Vietnam in Addition to Major Competitors

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

However, in more concerning news, the graph clearly shows Vietnam's vulnerabilities including corruption, regulatory constraints, infrastructure, and public service delivery. Despite visible progress in these areas, in 2020, only 27 percent of FIEs regard Vietnam as having less corruption than China, Thailand, Singapore, Indonesia, and Malaysia. At the same time, only 32 percent think that Vietnam offers fewer regulatory constraints or better infrastructure, while 42 percent consider Vietnam's delivery of public services to be better than their other options. These findings are consistent with remarks from the Korean Chamber of Business in Vietnam (KORCHAM) which highlight infrastructure and regulations as the two major areas that Vietnam should work on to attract new investors (Vietnamnet 2020).

In the following sections, we will delve deeper into two of these criteria. First, we look closely at a relative success story, anticorruption, where aggressive actions on the part of the Vietnamese leadership have started to bear fruit. Then comes an in-depth analysis of a major issue area: regulatory constraints. We survey the regulatory areas that FIEs consider most burdensome—registration, tax, social insurance, and customs—to see where the largest problems lie.

2.4 GENERAL CORRUPTION

The current leadership has made anticorruption a central policy priority since taking office in 2016. Prior PCI reports acknowledged significant and sustained reduction in the extortion of the business sector as a result of these efforts (Malesky, Phan, & Pham 2019; Malesky & Pham 2020). Data from PCI-FDI 2020 further confirm the solidity of these achievements across various aspects of business operations.

The share of FIEs who agreed that regulations are simply excuses for public officials to extort the business sector has fluctuated over time, peaking at nearly 60 percent in 2014 and 2015, then steadily declining each subsequent year. In 2020, this figure rose marginally over the prior year to slightly under 35 percent. The share of firms having to make an informal payment during land procedures also went down, from a high of almost 23 percent in 2016, to 10 percent in 2019 and 2020. In addition, in 2020, only 17 percent of FIEs considered bribery a deterrent to using courts to settle disputes, compared to the apex of nearly 24 percent in 2015. The overall cost of bribery also shows signs of decreasing over time. The share of respondents paying upward of 10 percent of revenue in informal charges dropped from more than two percent in 2016-2017 to 1.2 percent this year.

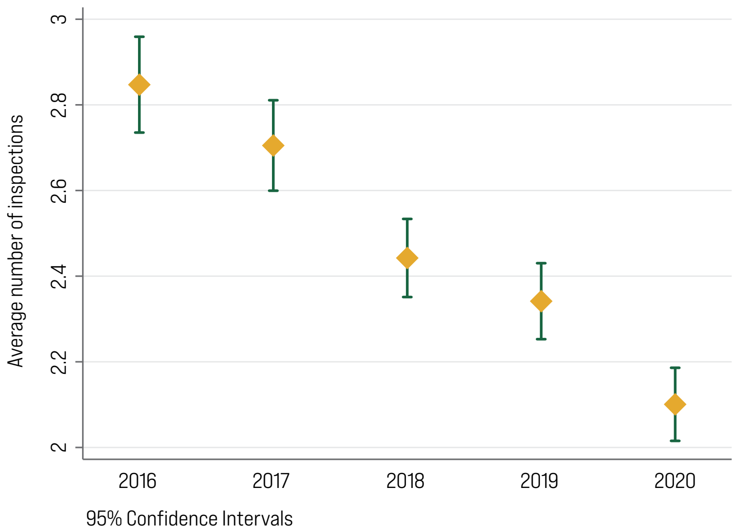
Table 2.5 Informal Charges

Type of Informal Charge						
Year	Regulations are an excuse for bribery (percent agree)	Paid informal charges to inspectors (percent agree)	Bribe paid during customs procedures (percent agree)	Bribe paid during land procedures (percent agree)	Bribes were a deterrent to using courts (percent agree)	Service delivered after bribe payment (percent agree)
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	49.0
2019	33.7	32.5	42.5	10.0	14.9	44.5
2020	34.7	25.4	37.1	10.3	17.2	39.1

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
2019	36.6	40.0	13.1	6.0	2.8	1.4
2020	34.7	41.0	14.0	6.9	2.1	1.2

These findings provide evidence to support the idea that the downward trend observed in the data comes from systematic and sustained reduction in official wrongdoing. Most remarkably, Vietnam has gained significant additional ground in the fight against corruption in two essential business areas: inspections and customs. Only 25 percent of PCI-FDI respondents reported having paid bribes during inspections in 2020, a significant decrease from 33 percent in 2019 and a far cry from the height of 46 percent in 2016. Recent years have also seen a rapid decrease in bribery during customs procedures, from 67 percent in 2015 to 37 percent just five years later.

Figure 2.11 Number of Inspections over Time



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

While it is encouraging that FIEs have become increasingly less likely to equate regulatory enforcement with rent-seeking opportunities for public officials, another positive sign is the decrease in the number of inspections firms undergo. Figure 2.11 demonstrates the average number of inspections that PCI-FDI respondents reported each year from 2016-2020. There has been a clear, steady and statistically significant decline from the annual average of 2.85 inspections per firm in 2016 to only 2.1 in 2020.

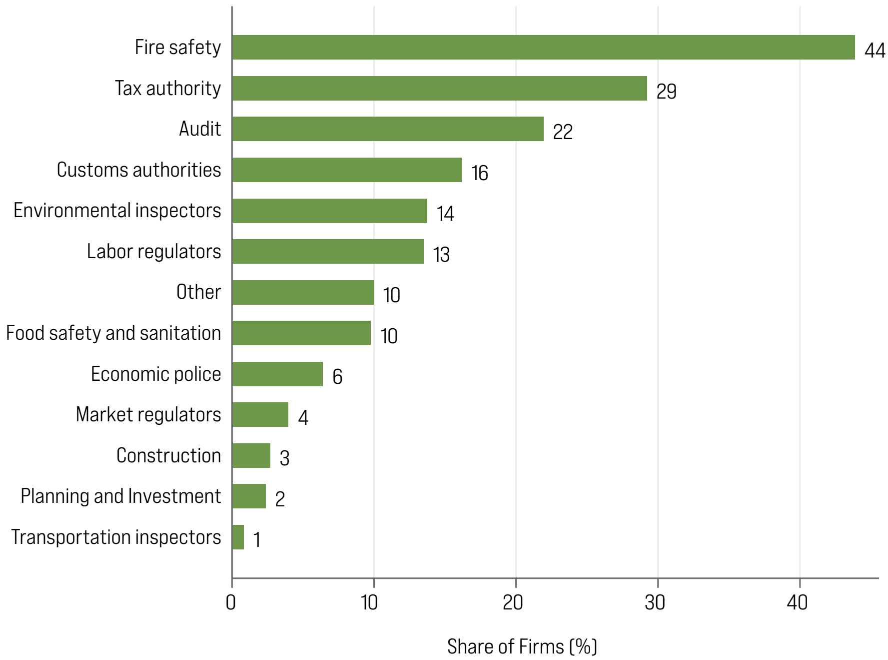
The middle column in Table 2.6 shows that the median number of inspections dropped to one for the first time in the history of the PCI-FDI survey, from a consistent level of two in all the other years. The fact that the average number of inspections (2.1) is larger than the median (1) means that a small number of firms shoulder a much larger number of inspections than others, as discussed in the 2019 PCI report (Malesky & Pham 2020). Table 2.6 also confirms that FIEs now need to spend far less of their time on bureaucratic procedures. The share of firms spending more than five percent of management's time on efforts to comply with regulations dropped sharply from 41 percent in 2019 to 33 percent in 2020, representing substantive improvement from prior peaks in 2012 and 2016.

Table 2.6 Post-Entry Regulations for Foreign Firms

Year	Over 5% of Time Spent on Bureaucratic Procedures	Inspections (Median)	Harassment (5+ Inspections) (%)
2010	56.6	2.00	19.9
2011	68.1	2.00	11.8
2012	79.4	2.00	12.9
2013	77.8	2.00	14.5
2014	70.2	2.00	17.5
2015	69.8	2.00	12.9
2016	71.9	2.00	23.8
2017	66.2	2.00	15.8
2018	42.6	2.00	9.8
2019	41.3	2.00	9.3
2020	32.9	1.00	6.3

To obtain a more fine-grained picture, the PCI-FDI survey also asked firms which government agencies inspected them during a particular year. According to Figure 2.12, fire safety was the area in which FIEs were most frequently inspected, at 44 percent. Next, tax authorities and state auditors visited 29 and 22 percent of firms, respectively. The other areas with relatively frequent inspections are customs (16 percent), environmental regulations (14 percent), and labor issues (13 percent).

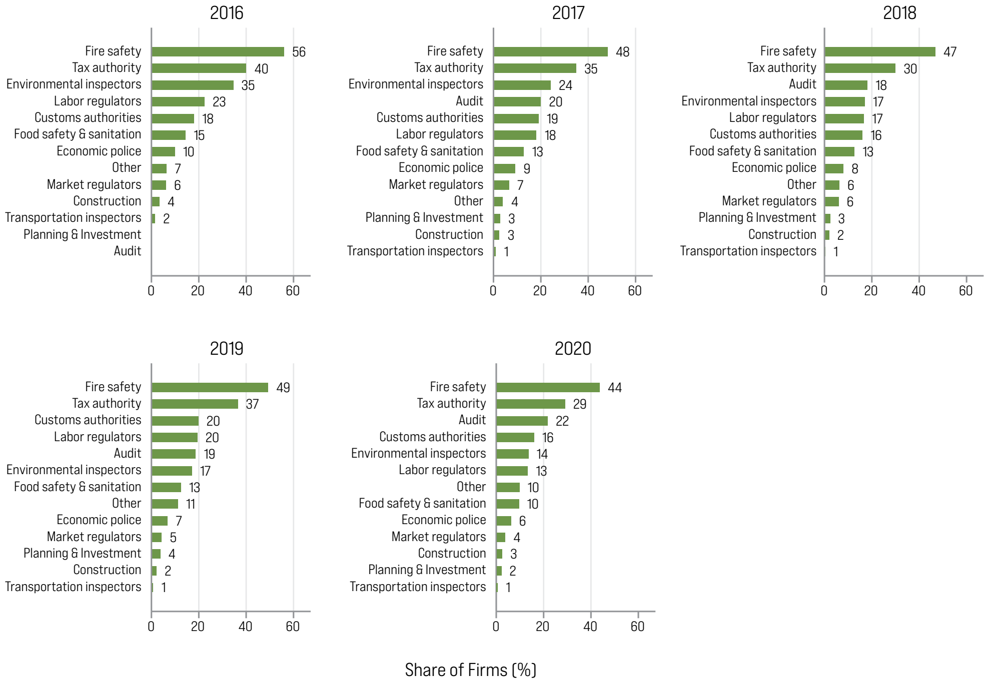
Figure 2.12 Inspections by Agency in 2020



Source: PCI Survey 2020 Question D2.6: "Please list the agencies that inspected and examined your firm in last year"

Figure 2.13 demonstrates how patterns in regulatory enforcement have evolved over time. Overall, the burden of inspections on FIEs has lessened. Even in highly regulated areas, such as fire safety and tax, there is a clear decline in the number of inspections. In 2015, more than half (56 percent) of the PCI-FDI respondents were visited by fire safety authorities. This number went down to 44 percent in 2020. Tax inspections also saw a significant decrease, from 40 percent in 2016 to 29 percent in 2020. Furthermore, Figure 2.13 demonstrates remarkable changes in the enforcement of environmental regulations. Only 14 percent of FIEs reported being visited by environmental regulators in 2020; this category once ranked among the most inspected areas (35 percent in 2016). We will discuss this finding in greater detail in Chapter 4. On the other hand, certain policy areas such as audit and customs showed little change over time.

Figure 2.13 Inspections by Agency over Time



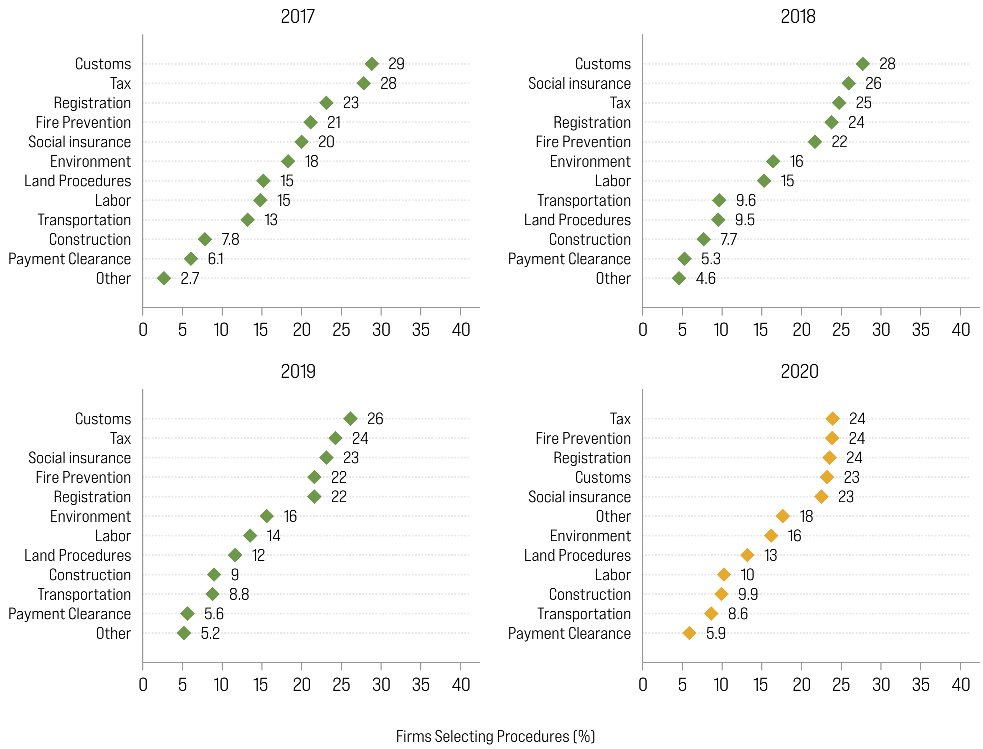
Source: PCI Survey (Multiple Years) Question D2.6: "Please list the agencies that inspected and examined your firm in last year?" (The "Audit" and "Planning and Investment" categories are only available between 2017 and 2020)

2.5 REGULATORY BURDEN

As shown in Section 2.3, regulatory constraints remain stubborn problems in Vietnam in the eyes of prospective investors. Only 45.4 percent of FIEs considered Vietnam to fare better than alternative destinations in this criterion.

In this section, we examine the onus of regulation in greater depth. Figure 2.14 lays out the administrative procedures that FIEs found the most burdensome to their business, several of which have consistently been featured on this list in recent years, including customs, tax, fire safety, registration, and social insurance.

Figure 2.14 Most Burdensome Administrative Procedures



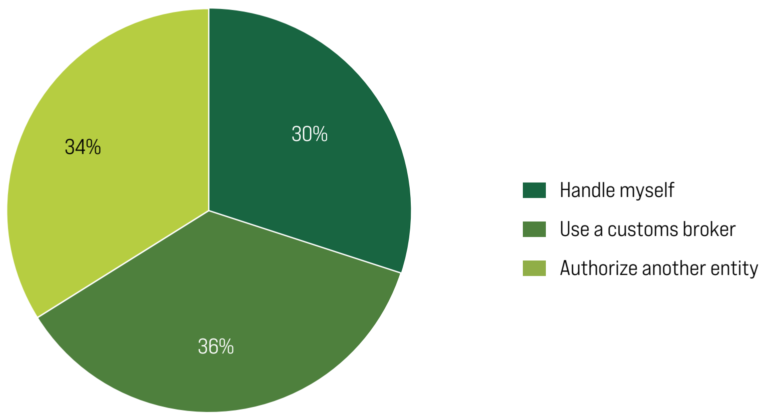
Source: PCI Survey (Multiple Years) Question D1.2: "From your experience in the province, please indicate the most troublesome administrative procedures"

2.5.1 Import/Export Procedures

Vietnam attempted to streamline and digitalize customs procedures with the official introduction of the National Single Window (NSW) in 2014. According to data in the VCCI's Assessment Report on Business Satisfaction and Time Needed to Carry Out Administrative Procedures Through the National Single Window, survey respondents complained that the system is not fully electronic; i.e., firms still had to manually process paperwork in addition to the online procedures (VCCI 2020). Incomplete digitalization thus backfired since it actually increased the administrative burden on firms who also raised issues with long processing times, unclear status reports, and inadequate feedback from government authorities on incomplete or incorrect applications (VCCI 2020:54). In technical aspects, 27 percent of businesses are dissatisfied with the portal's operational stability, while others are unimpressed with the task processing speed and the number of administrative procedures that are integrated (VCCI 2020:43).

As Figure 2.15 shows, 30 percent of PCI-FDI respondents handle import/export procedures themselves. Another 36 percent use customs brokers and the rest (34 percent) authorize another person or entity to complete import/export procedures on their behalf. The high share of FIEs ranking customs among the most burdensome administrative procedures in 2020 (23 percent) potentially explains why a majority of firms still do not do the work themselves and a plurality of firms delegate this step to specialized actors such as customs brokers.

Figure 2.15 How Firms Completed Import/Export Procedures



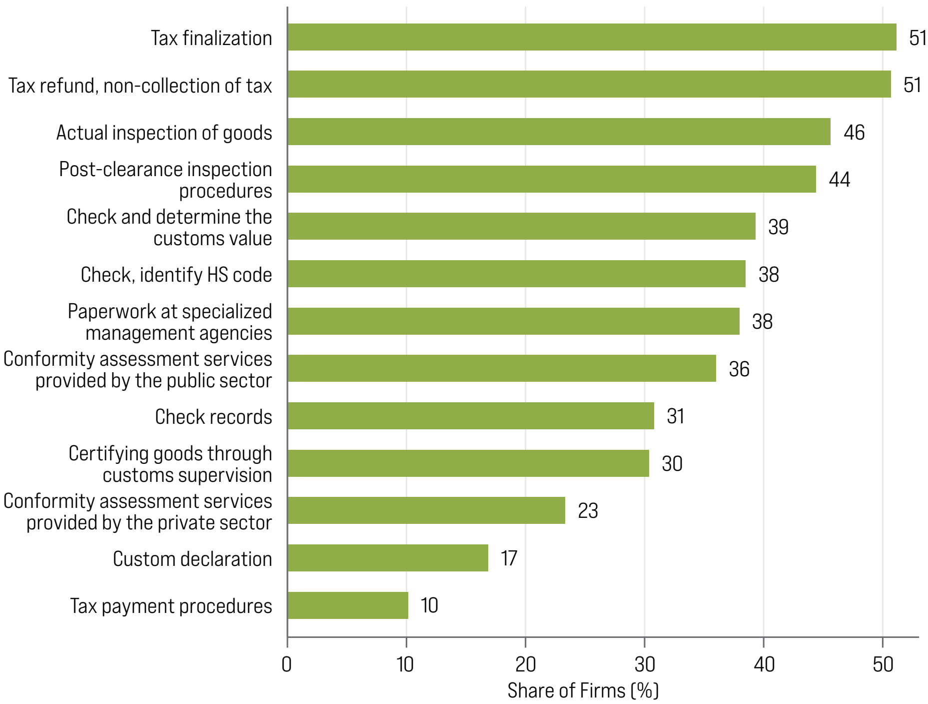
Source: PCI Survey 2020 Question D6.16.1: "Through which channel did you usually handle import/export procedures?"

Figure 2.16 breaks down the specific administrative points at which FIEs encountered obstacles in 2020. Firms seem to have particular difficulties with procedures related to taxes. The two steps ranked most onerous for firms were tax finalization and tax refund/non-collection of taxes, both at 51 percent. Next in line were procedures related to inspections. Forty-six percent of respondents reported difficulties during actual inspection of goods, while the corresponding figure for post-clearance inspection procedures was 44 percent. In addition, 38 percent of firms found it difficult to navigate paperwork at specialized inspection and management agencies.

The third group of procedures that are challenging to FIEs include determining customs values and Harmonized System codes. The shares of firms finding these steps challenging were 39 and 38 percent, respectively. About one-third of PCI-FDI respondents also cited issues with "assessment of conformity" services provided by the public sector, checking records, and certifying goods via automatic customs supervision.

Overall, between one-third and one-half of respondents reported problems during most of the steps about which the PCI-FDI survey inquired. This shows that much more can be done to streamline import/export procedures. Despite recent progress, export-import procedures remain difficult waters for foreign businesses to navigate. Resolution 02/NQ-CP, issued by the government in January 2020, is a solid first step in a positive direction, calling for further digitalization of import/export procedures and reforms in specialized inspections (Nguyen 2020).

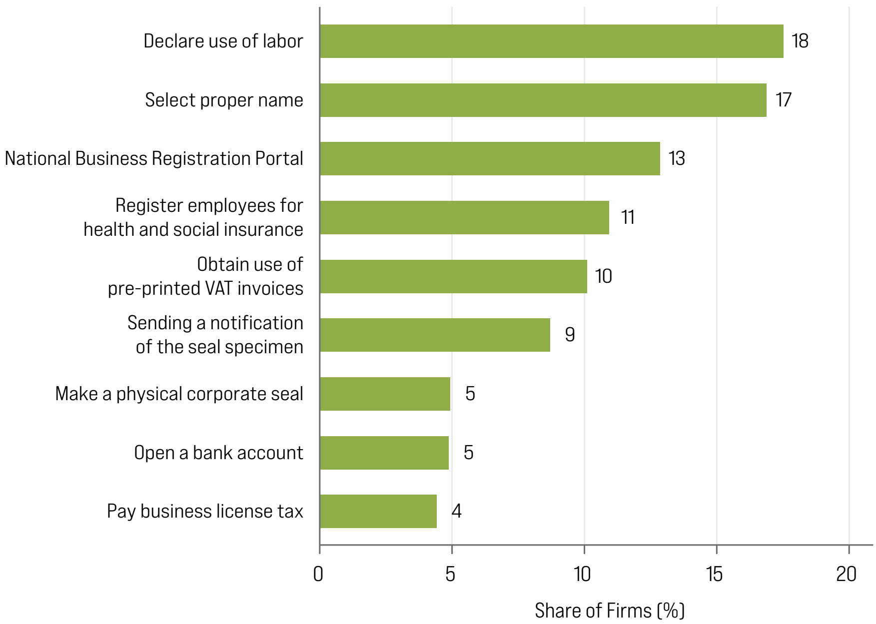
Figure 2.16 Firms Had Difficulties during Import/Export Procedures in 2020



2.5.2 Registration

Business registration is another administrative procedure that proved burdensome to FIEs, with 24 percent reporting difficulty in 2020 (see Figure 2.14). Figure 2.17 delves deeper and demonstrates the particular steps that firms found most troublesome during business registration. The largest obstacle to successful registration was the requirement to declare use of labor with the relevant Department of Labor, Invalids and Social Affairs, at 18 percent. A somewhat surprisingly high share (17 percent) found it difficult to select a firm name that would avoid duplicates or confusion with existing businesses. Next, 13 percent of respondents pointed to the challenge of declaring their business information on the National Business Registration Portal.

Figure 2.17 Troublesome Steps during Business Registration in 2020



Source: PCI Survey 2020 Question B2: "Please indicate the steps you found the most troublesome during business registration? *(Check all that apply)*"

FIEs were also frustrated with registering employees for health and social insurance (11 percent), obtaining use of pre-printed VAT invoices (10 percent), and sending a notification of the seal specimen to the business registration authority (nine percent).[31] By contrast, steps that involve private sector actors, such as making a physical corporate seal and opening a bank account, only posed minor problems (five percent in each category). In agreement with previous findings in Section 2.5.1 on import/export procedures, paying taxes tended to be easy for firms in 2020, with only four percent of FIEs reporting any difficulties.

Apart from investment licenses, registration certificates, and tax codes, FIEs may also need additional documentation, such as certificates of fire safety, advertisement licenses, certificates of eligibility,[32] and certificates of conformity,[33] to operate legally. The 2014 Investment Law lists a number of conditional business lines covering a wide range of products and services including medical devices, fertilizers, and kindergartens. Business in these areas must meet and maintain certain standards throughout their entire period of

31 *The 2020 Enterprise Law did take a step toward simplifying registration for firms by discarding the latter procedure. Since January 1, 2021, firms no longer have to send a notification of the seal specimen to the business registration authority (Thanh Loi 2020). The findings reported above reflect PCI respondents' experience in 2020, before this requirement was dropped.*

32 *Certificate of eligibility for doing business, business licenses, and practicing certificates for conditional business lines*

33 *Certificate of conformity with technical regulations, registration of circulation of products, quarantine certificates*

operation, the proof of which is the certificate of eligibility. On the other hand, certificates of conformity are required for certain products such as electronics and electrical appliances, as stipulated in the 2006 Law on Standard and Technical Regulations.

As shown in Figure 2.18, it remains remarkably challenging to obtain some of these documents in 2020. Forty percent of FIEs found it difficult to acquire fire safety certificates. The corresponding figures are 35 and 27 percent for certificates of eligibility and certificates of conformity, respectively. On the other hand, advertisement licenses are more straightforward to acquire, with only 16 percent of firms encountering difficulties.

Even more important than the absolute level is the lack of improvement over time shown in Figure 2.18. Obtaining these documents has not become any easier since 2017, and the fluctuations over time are not statistically insignificant. Clearly, there is ample room to make registration-related procedures a less daunting task for FIEs.

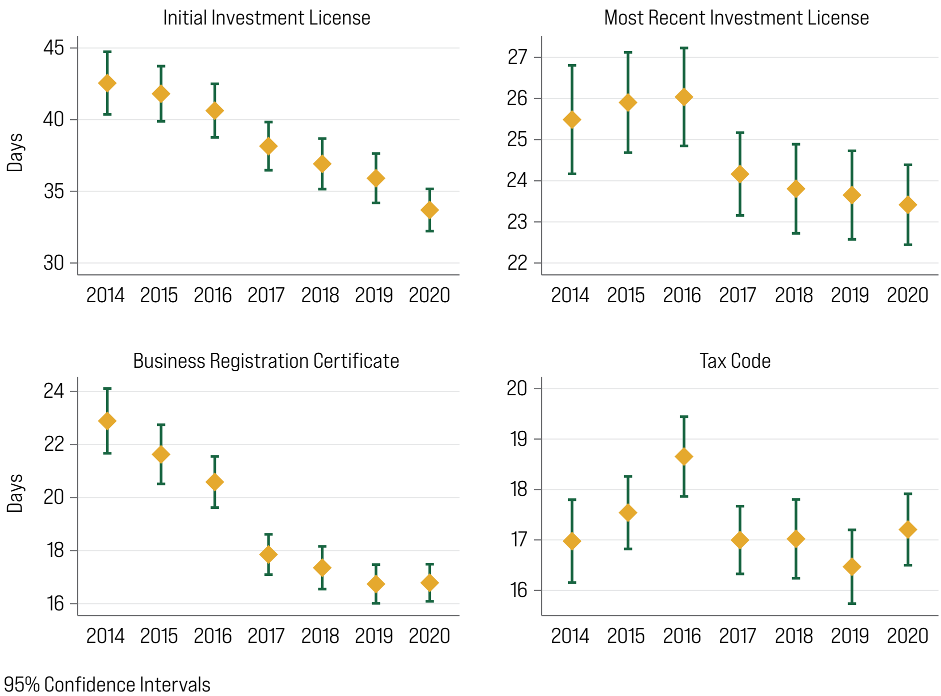
Figure 2.18 Firms Face Difficulties in Obtaining Documents in 2020

Source: PCI Survey 2020 Question B3: "Do you encounter any difficulty when completing procedures to obtain the document?"

Figure 2.19 provides grounds for optimism, however. Regulatory agencies have become much quicker at issuing documents that are vital to launching an FIE. In 2014, firms needed to wait almost 43 days to receive their initial investment license. The corresponding figure for

2020 is only 34 days. Similarly, the time needed to obtain a business registration certificate dropped from 23 days in 2014 to 17 days in 2020. Progress was not observed equally across the board, however. FIEs still have to wait for a tax code almost as long as they did in 2014 (around 17 days). Simplifying registration procedures will contribute greatly to fulfilling the government's goals on improving the business environment and national competitiveness, as laid out in Clause 4, Part III, Resolution 02/NQ-CP (Nguyen 2020).

Figure 2.19 Days Needed to Receive Essential Business Start-Up Documents in 2020



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

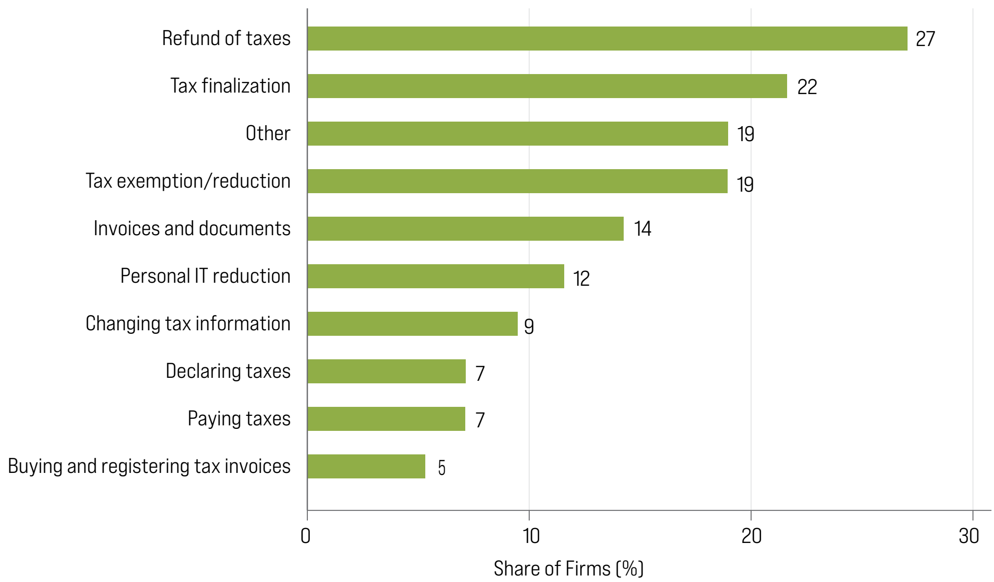
2.5.3 Tax and Social Insurance

This section dissects two other major problem areas: procedures related to tax and social insurance. As reported in Figure 2.14, in 2020, relatively high proportions of FIEs indicated these two areas were most burdensome (24 and 23 percent, respectively).

The 2019 Assessment Report on Tax Administrative Procedure Reform (hereafter referred to as the Tax Reform Assessment Report) by the VCCI showed that, among SOEs, private firms, and FIEs, the latter are the least satisfied with tax administrative procedures in Vietnam (VCCI 2019). In the PCI-FDI survey, we break down the steps related to tax procedures, asking firms to identify the most troublesome. The results are shown in Figure 2.20. Paralleling the findings reported in earlier sections, FIEs were most frustrated by dealing with tax refunds (27 percent) and finalization (22 percent). In addition, about 19 percent of respondents indicated problems with procedures related to tax exemption. These results are consistent with the findings of the Tax Reform Assessment Report, where 56 percent of respondents complained about tax refunds and 62 percent found it difficult to apply for tax exemption and reductions (VCCI 2019).

On the other hand, only seven percent of businesses tend to find declaring and paying taxes to be less than straightforward, and a mere five percent reported hardship buying and registering tax invoices. Importantly, these steps are also the most digitalized ones. According to the Tax Reform Assessment Report, 98.4 percent and 92 percent of respondents declared and paid taxes online, respectively. E-governance in these steps is warmly welcomed by firms. Nearly all businesses acknowledged that online transactions helped them reduce time and monetary costs. In stark contrast, only 10.2 percent of firms performed tax refund procedures digitally (Le 2019). It is no coincidence that this is also considered the most burdensome item in tax paperwork, as Figure 2.20 demonstrates.

Figure 2.20 Troublesome Steps During Tax Procedures in 2020

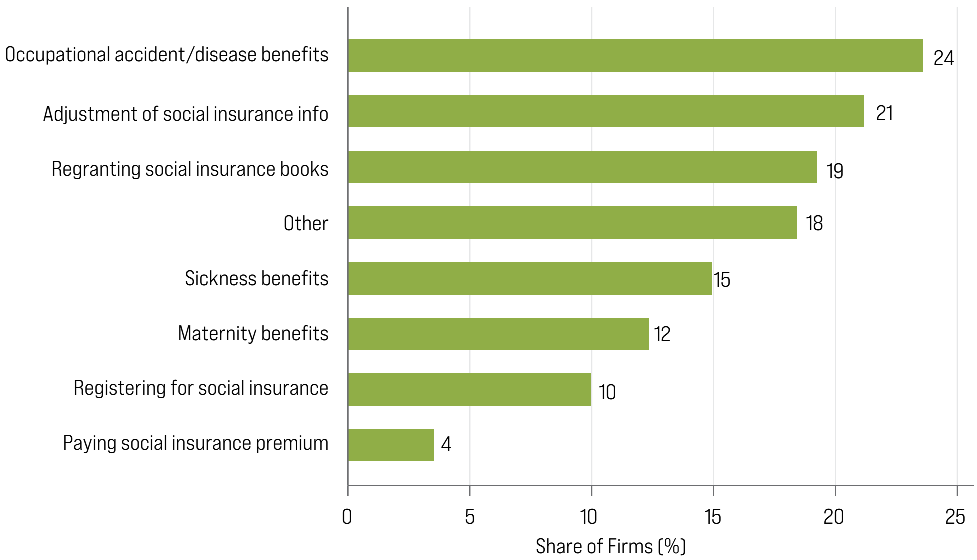


Source: PCI Survey 2020 Question D1.3: "From your experience in doing tax administrative procedures, please indicate the troublesome issues? You can choose more than one."

Figure 2.21 presents an analysis of troublesome social insurance procedures. The vast majority of FIEs found it straightforward to register for social insurance and pay social insurance premiums. However, regarding filing for payouts, there are clear distinctions across different types of benefits. Fifteen percent of FIEs had trouble filing for sickness benefits; 12 percent had issues filing for maternity benefits. Twenty-four percent of firms had the most difficulty with paperwork related to occupational accident and disease benefits, the highest share. Filing for these benefits is a complex series of processes; firms are required to submit investigation reports, medical reports, and autopsy reports, among others (Diep 2015). PCI-FDI respondents also found it difficult to adjust their social insurance information (21 percent) and to obtain re-granting of social insurance books (19 percent).

Vietnamese social insurance authorities have acknowledged firms' concerns and have taken steps to simplify procedures for all three of the most troublesome categories listed in Figure 2.21 (Kim An 2020). However, further efforts are necessary. By the end of 2020, social insurance authorities successfully made all administrative procedures accessible to firms through the National Public Administrative Procedures Portal (Thuy Nga 2020). Digitalization is an important first step toward reducing the burden on firms, especially for relatively straightforward administrative procedures such as adjustment of social insurance information and re-granting of social insurance books. However, as noted in section 2.5.1 (import/export procedures), partial digitalization is paradoxically more burdensome for businesses than the status quo, so the new electronic processes must be carefully implemented and thoughtfully managed.

Figure 2.21 Troublesome Steps During Social Insurance Procedures in 2020



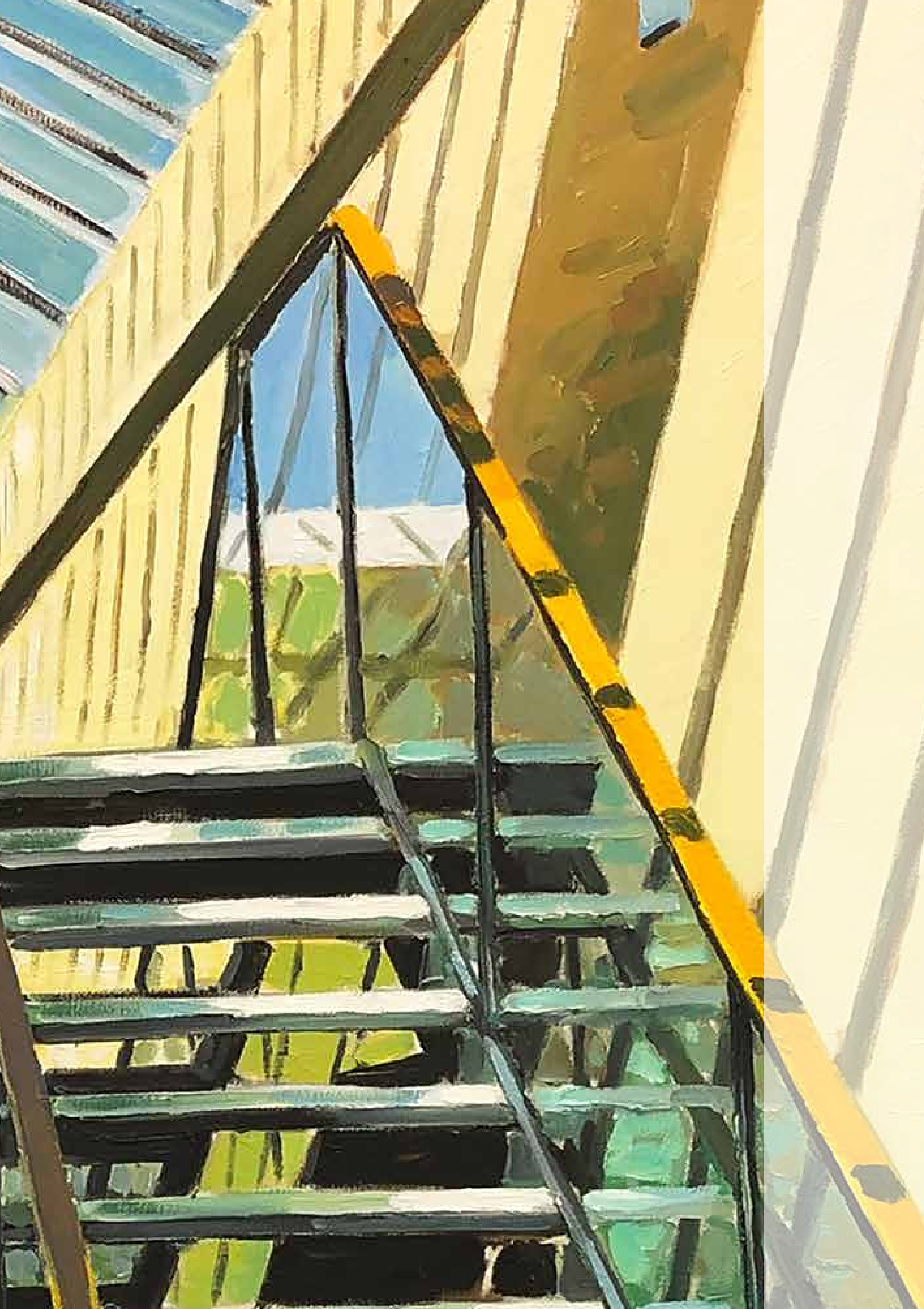
Source: PCI Survey 2020 Question D1.4.1: "From your experience in paying social insurance, please indicate the troublesome administrative procedures? You can choose more than one."

2.6 CONCLUDING THOUGHTS

Thanks to its stellar performance in containing the pandemic, Vietnam has been able to limit the adverse impact of COVID-19 on FIEs — a crucial component of the economy. The global shock resulted in an unexpectedly quiet year for FIEs in terms of sales and expenditures. Investors remain cautious regarding future expansion plans, given the lingering uncertainty around the world. Even so, over the course of a tumultuous year, Vietnam largely cemented its role as one of the most popular options for companies seeking to diversify away from China.

Our analysis also provides evidence of the great strides Vietnam has made in improving its appeal as a destination for foreign investment. The country turned certain former weaknesses — risks of expropriation and policy uncertainties — into relative strengths compared to its regional competitors. At the same time, Vietnam has solidified its reputation as an attractive economy supported by stable political institutions. The government also made valuable progress in addressing perennially difficult areas: corruption, tax rates, and public service delivery.

Nonetheless, there are two areas where foreign investors have indicated improvement is still very much needed: regulatory constraints and infrastructure. Vietnam can further improve its competitiveness vis-à-vis its neighbors by streamlining registration process, digitalizing and simplifying paperwork related to customs, and successfully carrying out reforms that target problematic steps in tax and social insurance administrative procedures.



CHAPTER 3

THE IMPACT OF COVID-19 ON BUSINESS PERFORMANCE IN VIETNAM

While no country can boast of having defeated COVID-19, some governments have managed the conjoined challenges of curbing the spread of the disease while simultaneously maintaining economic vitality better than others. Vietnam, among the first countries outside of China to document infections, is certainly on this very short list (Ainslie et al. 2020, Fforde 2020). Its 98 million citizens suffered only 1,515 cases and 35 deaths from the disease by the end of 2020. By way of comparison, Southeast Asian neighbor Indonesia, with a population of 270 million, has experienced 828,000 cases and 24,129 deaths. Despite the severe lockdown necessary to contain the virus, according to the International Monetary Fund, the country achieved a positive economic growth rate of 1.6 percent in 2020, while Indonesia suffered a 1.5 percent contraction (IMF 2020).[34] Despite unexpected and complex developments with COVID-19 that occurred after the administration of the survey, some analysts continue to project that Vietnam's near-term growth path is likely to diverge from the global trend since it ended its first lockdown in September 2020 and resumed normal domestic economic activity. A number of analysts have predicted a V-shaped economic recovery and the country's elevation to a leading position among emerging market economies.

Despite the well-deserved commendations, Vietnam's headline COVID-19 performance statistics conceal a great deal of hardship that Vietnamese companies and workers have endured over the past twelve months. According to the General Statistics Office, in 2020, 101,700 businesses either: i) ceased operations for a period of time (46,600); ii) completed dissolution procedures (17,500); or iii) are currently awaiting dissolution (37,700), negatively affecting an estimated 7.2 million workers (GSO 2021). All of these figures are up tremendously from 2019. Understanding the scale of the impact is critical, because it is likely to reverberate through the Vietnamese economy for some time. Businesses will struggle to restore their balance sheets, resume old business partnerships, and secure new markets. At the same time, laid-off workers may struggle to find employment, and the skill sets of the long-term unemployed may atrophy. In this year's PCI special report, we analyze data from a special module dedicated to analyzing the impact of the pandemic on business operations and performance as well as the perceived effectiveness of the government response policy. Several critical findings emerge.

Over 87 percent of both foreign and domestic firms answered that they experienced some pandemic-related business setbacks in 2020. Sales revenue dropped precipitously for many businesses as consumers stayed home due either to health precautions or adherence to the government's strict lockdown policy. Sixty-six percent of domestic businesses and 62 percent of foreign businesses reported sales revenue declines with the median firm facing a revenue downturn of 36 percent compared to previous years.

34 Note that the General Statistical Office (GSO) of Vietnam calculated Vietnam's 2020 growth rate at 2.91 percent using a different methodology (GSO 2020)

At the same time, expenditures escalated as companies devoted resources to safety and hygiene procedures (57 percent of domestic businesses and 71 percent of foreign businesses), shifted to flexible work schedules (36 percent of domestic businesses and 40 percent of foreign businesses), or paid sick leave for quarantined workers (9 percent of domestic businesses and 15 percent of foreign businesses).

As their budgets tightened, companies struggled to keep afloat, leading to spikes in unemployment as workers were laid off either due to business closures or drastic cost-cutting measures. Among the 10,197 firms that answered the two PCI surveys, just under one-third (3,373; including about 35 percent of domestic companies and 22 percent of foreign companies) laid off at least one employee by December 2020. The total number of layoffs accounted for in the 2020 PCI survey is 40,239 workers (27,918 in domestic businesses and 12,321 from foreign businesses). As the PCI surveys are representative samples, we can extrapolate these numbers to the larger population of 697,780 domestic firms and 11,758 foreign firms represented in the GSO Enterprise survey, implying that 743,016 workers in formal private and foreign enterprise sectors lost their jobs at some point during 2020. This is in line with the GSO finding that 14 percent of workers reported job losses in 2020 and 69.2 percent of people reported reduced income (GSO 2021). Another nationally representative survey reported 24 percent of Vietnamese workers experienced job loss and 65 percent had reduced income (MDRI-UNDP 2021). The main difference across these surveys has to do with the fact that the PCI sample only covers job losses in the formal private sector and foreign sector, whereas the MDRI and GSO draw on the state and informal sectors as well.

The negative economic effects differed dramatically by sector. Companies in information and communication service, as well as manufacturers of computers and electronics, motor vehicles, leather, garments, and textiles, were the most severely hit in terms of declining sales and layoffs. On the other end of the spectrum, real estate and finance companies weathered the storm more effectively. The struggles in the more technologically intensive and high value-added goods are critically important as these have been cited as key target industries for Vietnam's sustainable investment policy.

Surviving companies tried a range of measures to maintain operations during 2020. The two most popular approaches addressed the impact of the crisis on their business partnerships. As the community of businesses struggled, companies not only had trouble maintaining traditional sales relationships, but they also had difficulty accessing critical supplies and intermediate goods and services. Thus, the prevailing company policies were stockpiling vital supplies (20 percent of domestic companies and 24 percent of foreign companies) and seeking out alternative supply chain partnerships (18.5 percent of domestic companies and 23 percent of foreign companies). Contradicting a prediction in last year's report, very few companies enhanced their investments in digital training (13 percent domestic and 15 percent foreign) or in automating manufacturing processes (5 percent domestic and 6 percent foreign) as a way of reducing their dependence on labor during the lockdown. Only large firms of over 200 people and companies in high-end service industries (regardless of size), such as finance, insurance, real estate, and education training had the capital and skilled manpower on hand to adjust during the crisis.

The Vietnamese government mounted a three-pronged policy response of generous bank loan policies, postponement of social insurance and trade union fees, and tax relief. These efforts were aimed at reducing business costs and maintaining balance sheets. While firms appreciated these efforts, the PCI data demonstrates that the reception differed across the different relief policy arms. Firms tended to find the tax policies both the easiest to access and most useful, followed by postponement of social insurance and labor union fees, while bank interest reductions and loan extensions placed third in popularity. For example, 57 percent of businesses reported difficulty receiving interest rate reductions and loan extensions, compared to 44 percent for the postponement of social insurance, and less than 40 percent for corporate income tax (CIT) and value added tax (VAT) relief. This is somewhat surprising, as a major criticism of corporate tax relief efforts was that they only benefitted successful firms, who earned enough money to pay corporate income taxes, while having little impact on firms with diminished sales and earnings (OECD 2020). Domestic and foreign firms tended to agree on the rank-ordering of the relief policies. However, foreign firms were decidedly more negative about the utility of the policies.

A final analysis uses a survey experiment to anticipate support for a hypothetical future lockdown. As the Ministry of Health rolls out vaccines, new variants of COVID-19 have emerged, which might necessitate additional measures before the population can be inoculated. Given the previous lockdown's harsh impact on business activity, we suspect that businesses would be wary of further stringent closures. To test this notion, half the firms were randomly selected to receive a message that there was a 25 percent probability of a second outbreak, while the other half were told the probability was 75 percent. Support for a strict lockdown to contain the hypothetical crisis was extremely high (just about 85 percent for both domestic and foreign businesses) regardless of the probability of outbreak. Those receiving the higher probability exposure were only about 2.5 percentage points more supportive. This finding points to the reservoir of support the Vietnamese government built up among the business community for its deft management of the pandemic. Businesses trust that the government response to the pandemic was worthwhile and legitimate, and are therefore willing to subject their operations to additional closures to preserve public health despite the documented damage they can do.

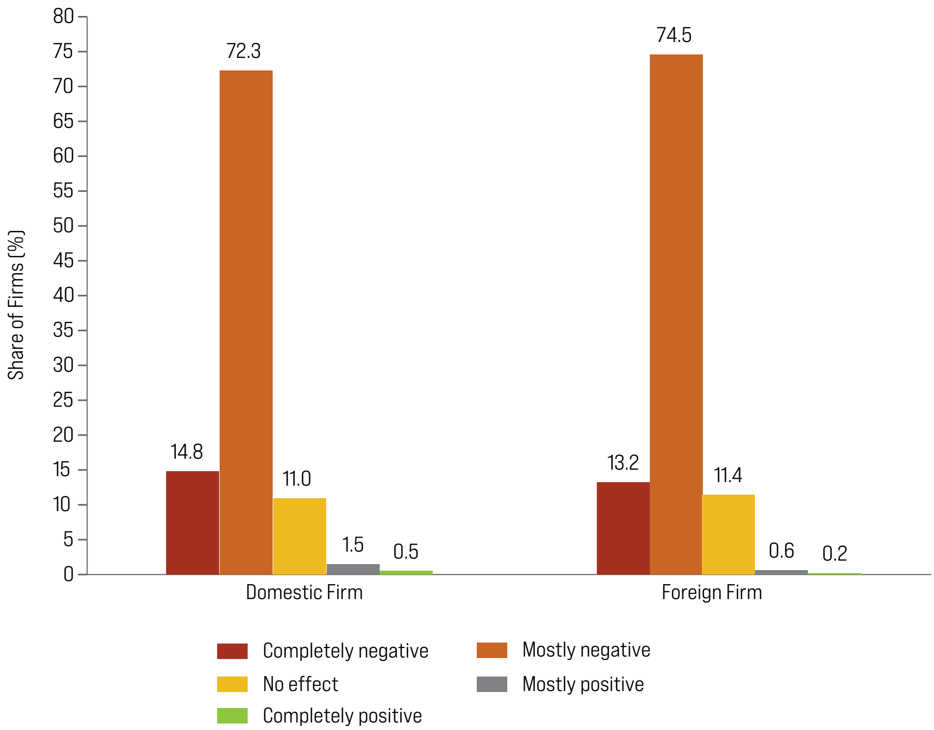
As Vietnam recovers in 2021, a critical policy concern will be the uneven impact of the crisis across regions and economic sectors. Layoffs in the northern mountainous regions and Red River Delta were significantly higher than in the Mekong Delta or the provinces surrounding Ho Chi Minh City. Manufacturers suffered more than service sector businesses; within manufacturing, certain industries, such as autos, computers, and electronics, were particularly hard hit. The government should prioritize addressing the exogenous shock fairly and equitably to make sure that all business and citizens share in the recovery. In particular, Vietnam may want to invest resources in retraining laborers who now need to find work in more resilient sectors.

The chapter is organized as follows. We begin Section 1 with an analysis of the economic impact of the crisis. Section 2 studies the approaches Vietnamese businesses used to adapt to events and maintain operations. Section 3 analyzes the effectiveness of the Vietnamese Government's relief policies. Finally, Section 4 describes the survey experiment used to test lockdown support.

3.1 THE EFFECTS OF COVID-19 ON BUSINESS OUTCOMES

Figure 3.1 demonstrates that the negative impact of COVID-19 on business operations was widespread. Over 87 percent of both foreign and domestic firms answered that they experienced some pandemic-related business setback in 2020. Nearly 15 percent of domestic businesses and 13 percent of foreign businesses reported that their experiences in 2020 were "completely negative." Only two percent of domestic businesses reported positive experiences (under one percent of foreign firms), while about 11 percent of firms in each group reported no effect at all. For domestic firms, the sector which appeared to suffer least during COVID-19 was real estate, where 21 percent of firms reported positive or neutral performances. Among foreign firms, manufacturers of paper products (24 percent), machinery (18 percent), and rubber and plastics (18 percent) reported the highest share of positive or neutral experiences. Of course, the vast majority of businesses in even these industries were severely damaged in 2020.

Figure 3.1 Perceptions of Impact of COVID-19 on Business Performance



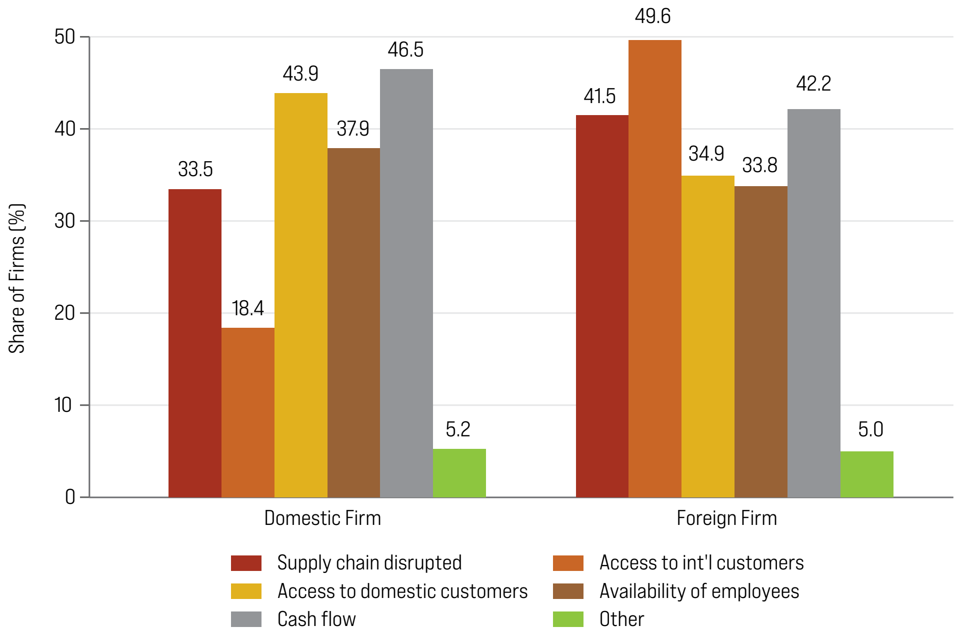
Source: PCI Survey 2020 Question L1: "How has your business been impacted by COVID-19?"

3.1.1. Main Issues Faced by Businesses

A follow-up question, reported in Figure 3.2, probed the main types of difficulties faced by businesses due to COVID-19. Here, key differences are visible between foreign and domestic firms.

Foreign firms were primarily concerned about disrupted supply chains (42 percent) and access to international markets (50 percent). For domestic firms, which disproportionately operate in wholesale/retail and other services, the biggest challenges were caused by the shrinking domestic market, which led to declining cash flow (47 percent) and domestic customers (44 percent). The lack of domestic consumers resulted from three different factors that are difficult to disentangle statistically. First, Vietnamese consumers stayed home due to health concerns and reduced purchases in retail outlets and restaurants. Second, the extremely strict lockdown policy in many provinces compounded the decreased consumption. Finally, as businesses laid off workers, their reduced purchasing power further diminished their willingness and ability to spend. Limited employee availability, due to mandatory lockdowns and voluntary health precautions, posed obstacles for just under 38 percent of firms while disrupted supply chains affected nearly 34 percent of domestic businesses.

Figure 3.2 Main Business Obstacles Posed by COVID-19

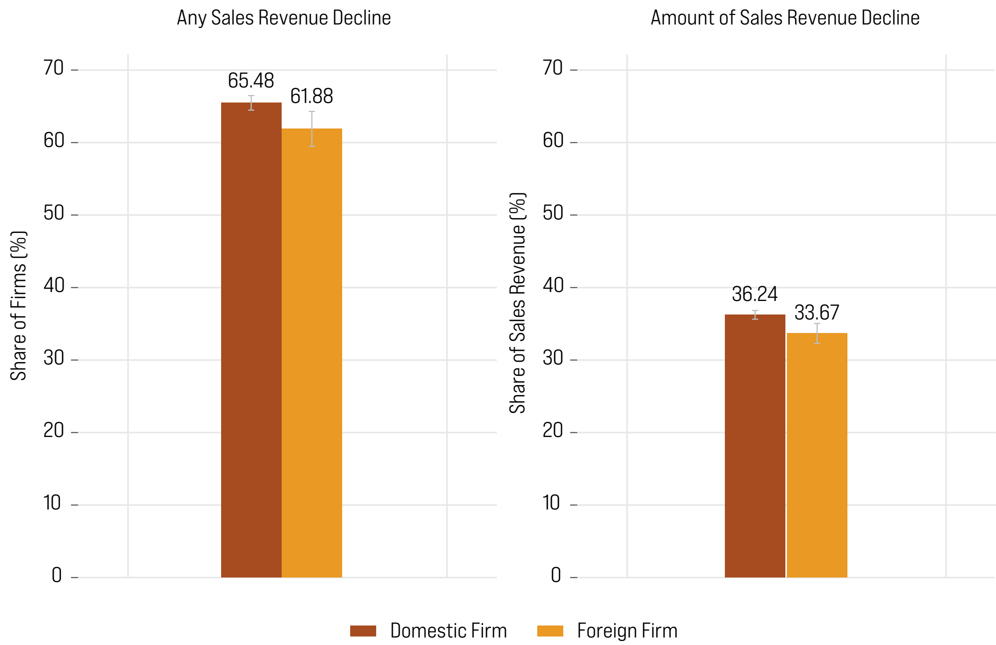


Source: PCI Survey 2020 Question L1.1: "If you answered "Mostly negative or Completely negative," in what ways has your business been affected so far?"

3.1.2. Effects on Sales and Profitability

As a result of declining domestic and international consumption, firms reported dramatically lower sales revenue in 2020. As Figure 3.3 shows, more than 65 percent of domestic firms and nearly 62 percent of foreign firms reported sales revenue declines relative to last year. The average decline was over one-third (over 36 percent for domestic companies), as reflected in the right panel.

Figure 3.3 Average Sales Revenue Declines for Foreign and Domestics Firms



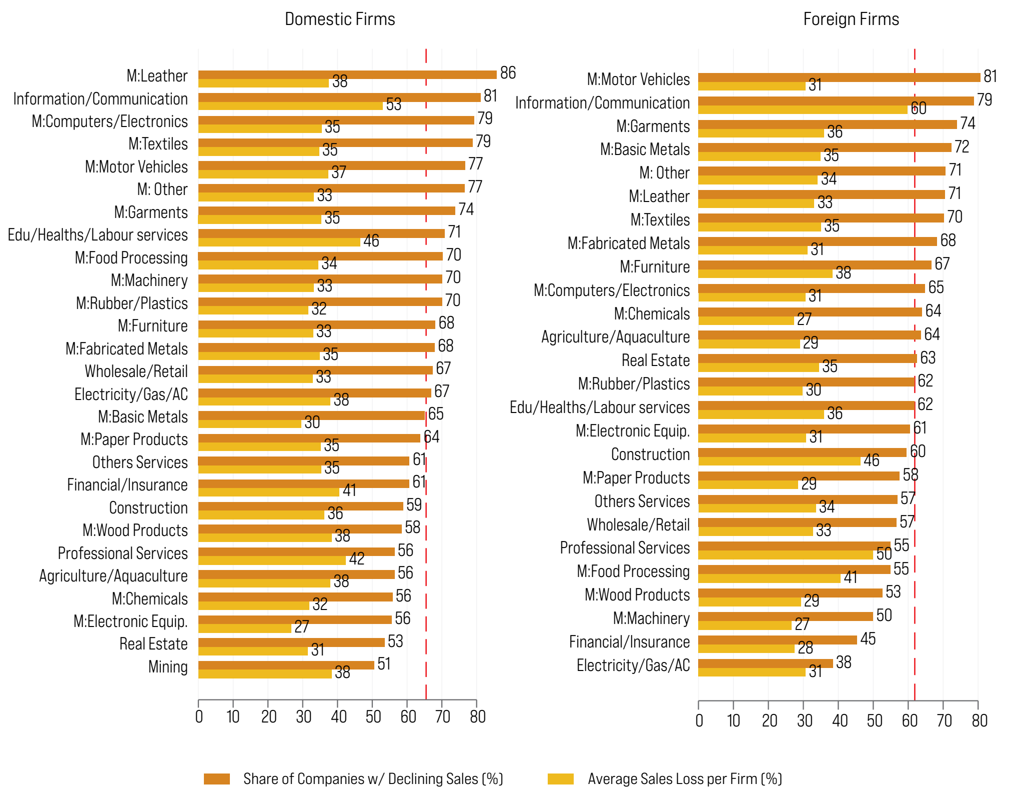
Source: PCI Survey 2020 Question L5: "Please estimate your company's total revenue in 2020 compared to 2019 due to COVID-19: Increase __ %; No change; Decrease __%."

Figure 3.4 depicts the sales effects by sector for both foreign (right panel) and domestic firms (left panel). The dark orange bar reports the intensive margin - the share of firms that reported sales declines relative to last year, while the light orange bar reports the extensive margin - the average of firms' annual declines in sales revenue. The dashed red line provides the national average revenue decline as a benchmark.

For both foreign and domestic firms, companies involved in information/communication services had an extraordinarily difficult year. About 80 percent of domestic and foreign businesses in this area reported declines that averaged roughly 53 percent (domestic) and 60 percent (foreign) of 2019 sales revenue. Domestic education and labor services also appear to have been dramatically affected with 71 percent of firms reporting average sales declines in 2020 equal to about 46 percent of the prior year's revenue. Businesses in "other services," including restaurants and hotels, did not suffer quite as much, but they nevertheless experienced significant hardship; 61 percent of domestic firms and 57 percent of foreign providers reported declining sales.

A few manufacturing industries also appear notably high on the list. Manufacturers of leather, garments and textiles ranked among the top ten most-affected industries for both domestic and foreign companies. Motor vehicle production was the most negatively affected industry among foreign manufacturers with 81 percent reporting some sales decline; it also ranks as the fifth most-affected domestic industry. Similarly, computers and electronics ranked third among the hardest-hit domestic firms with 79 percent reporting some injury. The effects were only slightly less severe among foreign firms (65 percent), ranking 10th overall but still above the national average.

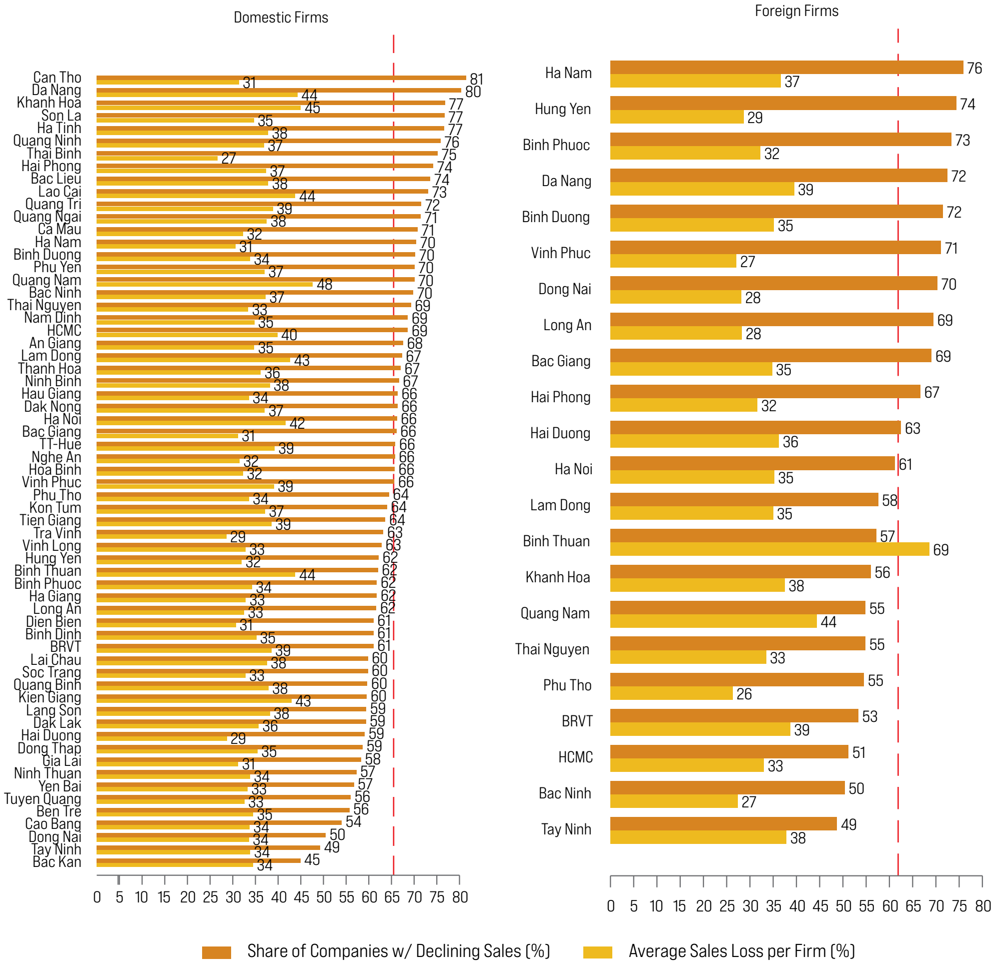
Figure 3.4 Average Sales Revenue Declines for Foreign and Domestic Firms (by Sector)



Source: PCI Survey 2020 Question L5: "Please estimate your company's total revenue in 2020 compared to 2019 due to COVID-19: Increase __ %; No change; Decrease __%." Analysis by two-digit ISIC Sector (Rev. 4). Analysis limited to sectors with at least ten firms answering the sales question. The red line represents the national mean of firms experiencing sales losses.

Figure 3.5 breaks down the negative sales revenue effects of COVID-19 by province. Unsurprisingly, domestic firms in provinces highly dependent on tourism, such as Can Tho, Da Nang, Khanh Hoa, Quang Nam, and Lao Cai, as well as those in provinces suffering severe lockdowns, suffered the largest declines. Among foreign firms, major industrial manufacturers and exporters, such as Binh Duong, Vinh Phuc, and Dong Nai, also reported extremely bad years.

Figure 3.5 Average Sales Revenue Declines for Foreign and Domestic Firms (by Province)



Source: PCI Survey 2020 Question L5: "Please estimate your company's total revenue in 2020 compared to 2019 due to COVID-19: Increase __ %; No change; Decrease __%." Analysis by province; limited to sectors with at least ten firms answering the sales question. The vertical dashed red line represents the national mean of firms experiencing sales losses.

3.1.3. Effects on Employment

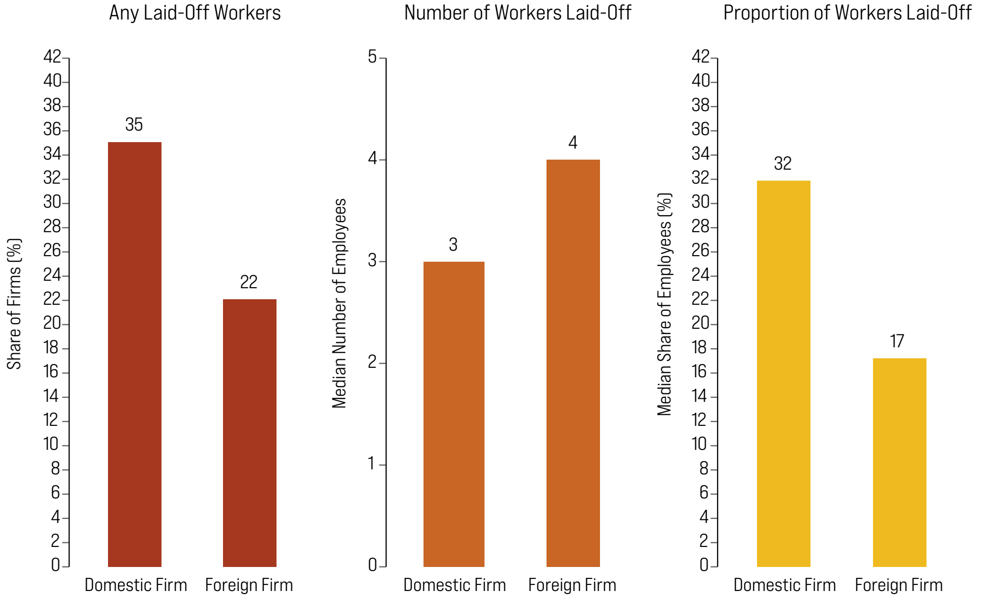
As firms struggled to deal with declining business opportunities and sales revenue, many were forced to severely cut costs to keep their operations afloat. As Figure 3.6 demonstrates, this resulted in dramatic layoffs. Among the 10,197 firms that answered the two PCI surveys, nearly one-third (3,373) reduced their workforce by at least one employee by December 2020. The total number of COVID-19-related layoffs in the PCI 2020 survey is 40,239 workers (27,918 in domestic businesses and 12,321 from foreign businesses).

Thirty-five percent of domestic firms and 22 percent of foreign firms laid off at least one worker in 2020. Domestic firms released a median of three employees per firm. However, given the small size of most domestic private businesses (56 percent have fewer than 10 employees and 87 percent have fewer than 50 employees), this resulted in a substantial reduction in the share of the workforce at the beginning of the pandemic. In the average firm, about 32 percent of the workforce was let go. On the extreme end, 53 private domestic firms laid off 100 (or more) workers with three firms releasing at least 400 workers.

About 22 percent of foreign firms laid off workers as well, with the median loss being four employees, accounting for 17 percent of the workforce in the average firm. Forty-two foreign firms (2.6 percent) laid off at least 100 workers, and four firms released 400 or more employees.

As the PCI surveys are representative samples, we can extrapolate these numbers to the larger population of 697,780 domestic firms and 11,758 foreign firms represented in the GSO Enterprise survey. This implies that 743,016 workers lost their jobs at some point during 2020. Certainly, as the Vietnamese economy rebounds, many of these workers are being rehired. Nevertheless, the effects of 2020 employment loss on household income, wealth, and poverty alleviation will take longer to recover.

Figure 3.6 Employment Effects of COVID-19



Source: PCI Survey 2020 Question L2: "How many employees did you have to let go (lay off) because of the business slowdown from the COVID-19 pandemic?"

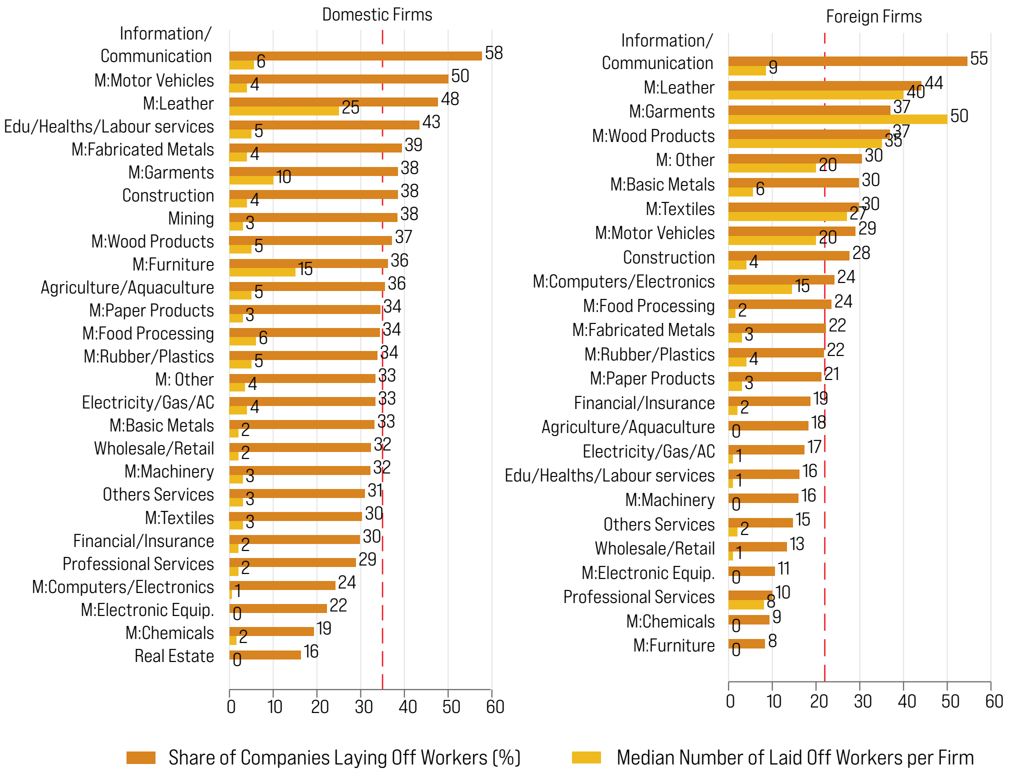
Figure 3.7 disaggregates the analysis by two-digit industrial sector. To ensure representative samples, we limit analysis to sectors with at least 10 respondents to question L2, which asked about layoffs related to COVID-19. The left panel presents the sectoral results for domestic firms, while the right panel provides the results for foreign firms. Sectors with bars extending beyond the blue dashed lines are sectors with layoff shares that were greater than the national average.

A few sectors stand out as particularly hard-hit for both foreign and domestic firms. The most affected sector was Information/Communication related services, which includes businesses involved in publishing, video and music production, broadcasting, telecommunications sales and consultation, and computer programming, sales, and consultation. Fifty-eight percent of domestic firms and 55 percent of foreign firms laid off at least one employee, though these reductions were relatively small, with the median business releasing six and nine workers, respectively. Others sectors with above-average layoffs for both domestic and foreign companies included manufacturers of motor vehicles, leather products, and garments, and businesses involved in construction.

The leather and garment industries require particular attention because of the larger number of layoffs per firm. In the leather industry, which includes manufacturers of belts, shoes, and bags, the median number of layoffs in domestic and foreign firms was 25 and 40 employees, respectively. At the median, domestic and foreign garment manufacturers laid off 10 (domestic firms) and 50 employees (foreign firms). Other severely hit sectors include foreign manufacturers of wood products, textiles, and computers and electronics, as well as domestic furniture manufacturers.

A critical concern for Vietnamese policymakers is that many of the most injured businesses are in sectors that have been highlighted as target areas for Vietnam's economic development, particularly in Party Resolution 50-NQ/TW on improving the quality of foreign investment, including information and communication services as well as computer and electronics and auto manufacturing (VCP 2020). Careful attention should be paid to these sectors to see how they are managing as the economy comes back to life in 2021.

Figure 3.7 Employment Effects of COVID-19 (by Sector)



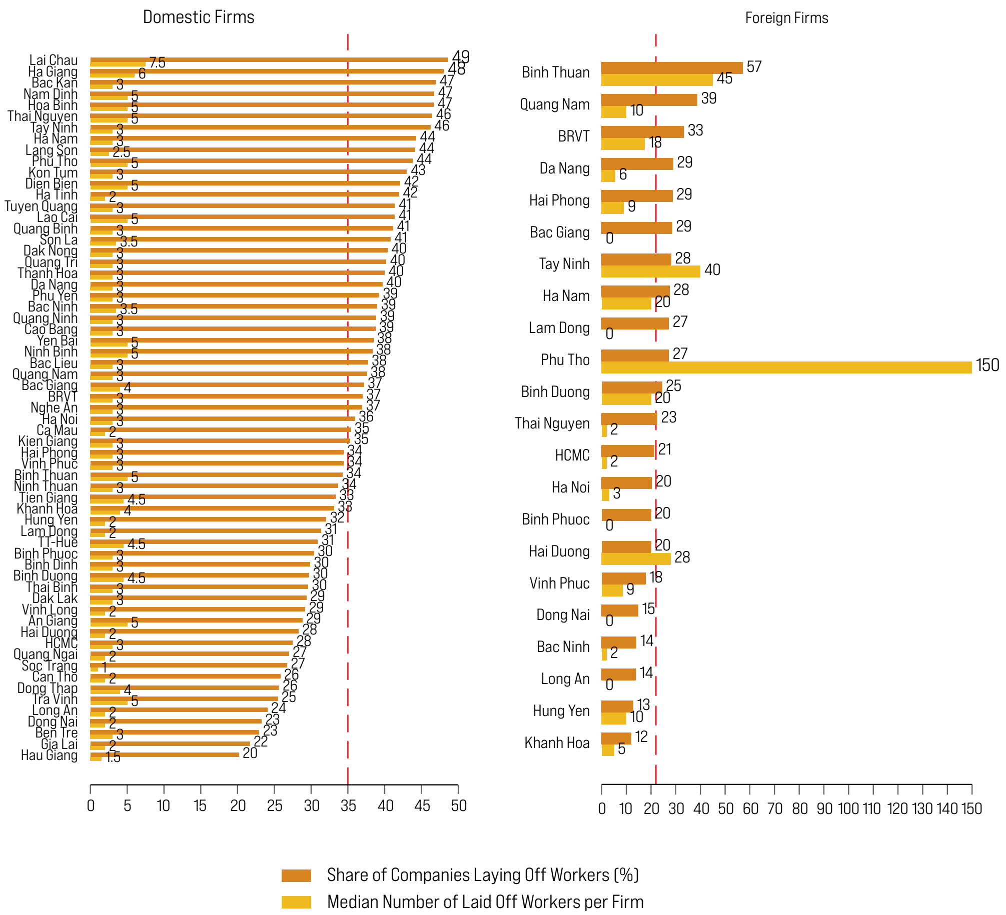
Source: PCI Survey 2020 Question L2: "How many employees did you have to let go (layoff) because of the business slowdown from the COVID-19 pandemic?" Analysis by two-digit ISIC Sector (Rev. 4). Analysis limited to sectors with at least 10 respondents to the COVID-19 employment question. The blue dashed line represents the national median number of laid-off workers.

Figure 3.8 disaggregates the employment effects by province. Among domestic businesses, the share of firms laying off workers appears to be highest among provinces in the Northern Mountain regions (Lai Chau, Ha Giang, Bac Kan, Thai Nguyen, and Hoa Binh) and Red River Delta (Nam Dinh, Ha Nam, and Phu Tho). Firms in the Mekong Delta (Hau Giang, Ben Tre, Long An, Tra Vinh, Dong Thap, Can Tho, and Soc Trang) and the industrial provinces adjacent to Ho

Chi Minh City (Long An, Dong Nai, and Binh Duong) appear to have had the most resilience to the crisis.

Among foreign firms, layoffs were concentrated among businesses located in the major tourist destinations and where outbreaks were discovered, including Binh Thuan, Quang Nam, Ba Ria – Vung Tau, and Da Nang. A few provinces stand out for the dramatic number of layoffs per firm. In Phu Tho, six firms laid off over 65 workers and one laid off 500 employees. The hardest-hit sectors in the province included manufacturers of garments/textiles, leather, and computers and electronics. The three other provinces in greatest need of relief are Binh Thuan, Tay Ninh, and Hai Duong, which all recorded more layoffs per firm than the national median.

Figure 3.8 Employment Effects of COVID-19 (By Province)



Source: PCI Survey 2020 Question L2: "How many employees did you have to let go (layoff) because of the business slowdown from the COVID-19 pandemic?" Analysis limited to province with at least 10 respondents to the COVID-19 employment question. The blue dashed line represents the national median number of laid off workers.

3.2 APPROACHES USED BY BUSINESSES TO ADDRESS ECONOMIC CRISIS

How did business leaders in Vietnam respond to the crisis? Figure 3.9 reports the main strategies companies used to address the effects of the pandemic within their own operations. Firms were allowed to select multiple response options. Only seven percent of domestic operations and four percent of foreign operations reported taking no protective measures at all.

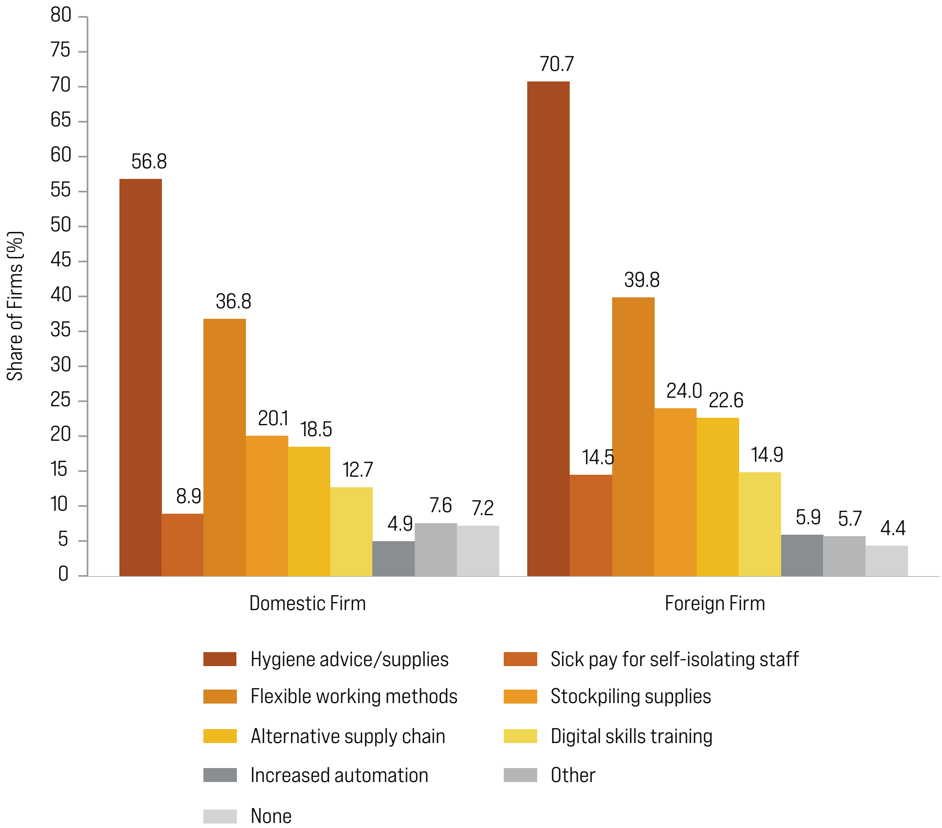
We can group these responses into three categories. The first three relate to preventing transmission of the disease in the workplace and protecting workers. Fifty-seven percent of domestic businesses and 71 percent of foreign businesses provided staff with hygiene advice and supplies, such as masks and liquid disinfectants. Slightly less than 40 percent of both foreign and domestic operations offered flexible working hours, allowing staff to work remotely or in shifts with reduced numbers of co-workers. Only nine percent of domestic businesses and fifteen percent of foreign businesses compensated workers with sick pay for self-isolating at home to prevent disease transmission in the workplace.

The second group consists of strategies for maintaining and altering business operations in the midst of declining sales and limited access to vital supplies, such as equipment, business inputs, and intermediate goods and services. About 20 percent of domestic businesses and one quarter of foreign businesses stockpiled supplies, purchasing as much as they could on the market and storing them for later use. Just over 19 percent of domestic businesses and almost 23 percent of foreign operations altered their supply chains by shifting purchases to new suppliers and relying on different outlets for sales of their products.

The third set of options includes increased digitalization and automation, allowing for reduced dependence on manual labor (Cao et al. 2020). This strategy was promoted by the Vietnamese government and even aided by one of Vietnam's leading technology companies, FPT, which offered its *akaBot* product to companies for three months free of charge, enabling firms to automate repetitive processes and improve productivity (Businesswire 2020).

However, few firms ultimately trained workers in digital skills to allow for remote labor and online orders (just under 13 percent of domestic and 15 percent of foreign companies) or expanded their use of automated technology, such as manufacturing robots and driverless vehicles (nearly five percent of domestic and six percent of foreign businesses). These results are at odds with predictions the PCI team made in Chapter 3 of its 2019 report, which documented increased automation trends, and related research that anticipated greater mechanization would be used to alleviate the effects of COVID-19 (Malesky and Pham 2020).

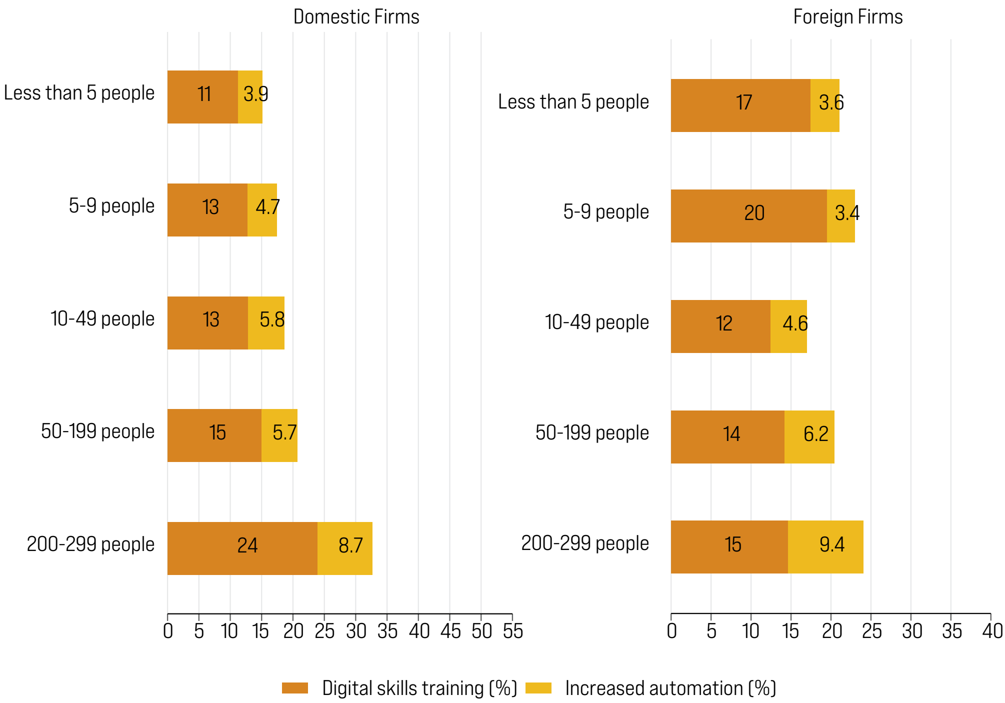
Figure 3.9 Main Business Responses to COVID-19 Crisis



Source: PCI Survey 2020 Question L3: "What contingency measures has your business taken to date to offset the negative impact of Coronavirus (COVID-19)?"

Figures 3.10 and 3.11 dig deeper, disaggregating the use of digital tools by size and sector. Among domestic firms, Figure 3.10 clearly demonstrates that digitalization and automation were predominantly employed by large firms with over 200 workers. On the domestic side, it is likely that only big companies had the financial and human capital resources to quickly adapt during the early stages of the pandemic. Among foreign firms, digital training does not appear correlated with size. Foreign firms of all sizes shifted to digital training at comparable rates. However, there is a clear increasing trend when it comes to automation. Firms with over 200 employees were about three times more likely to use robots and other automated technology than smaller firms (9.4 percent versus 3.4 percent among FIEs with 5-9 people).

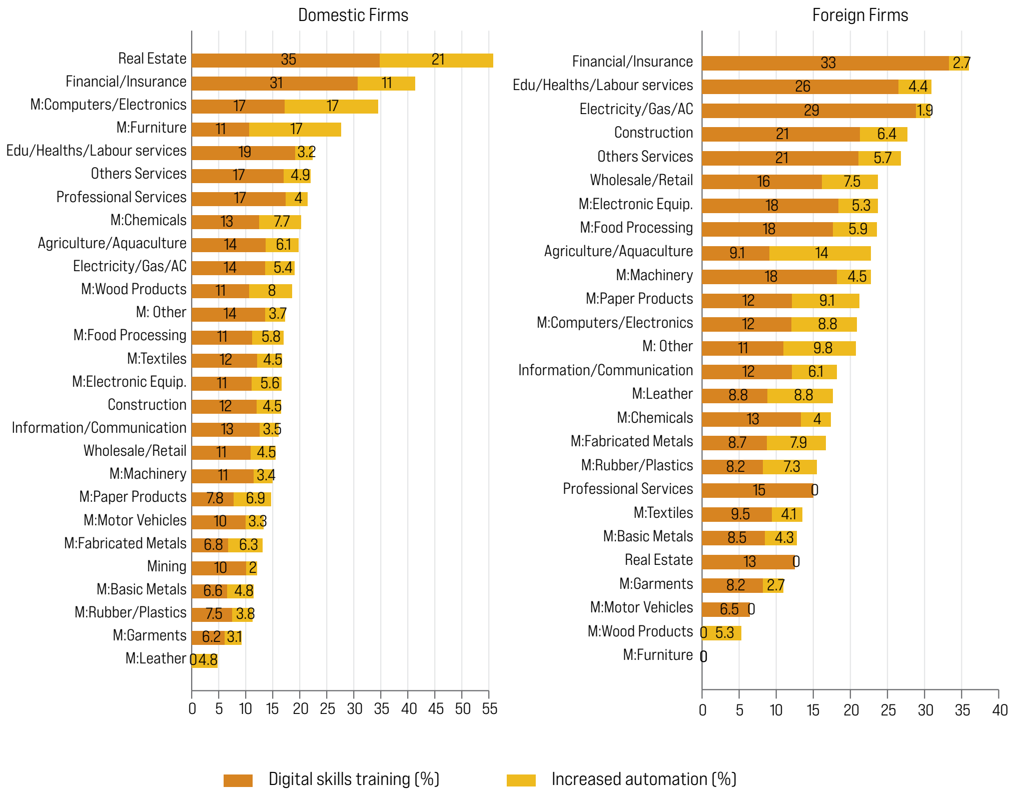
Figure 3.10 Digital Training and Automation during COVID-19 by Business Size



Source: PCI Survey 2020 Question L3: "What contingency measures has your business taken to date to offset the negative impact of Coronavirus (COVID-19)?" Share of firm answering Question L3.3 (Digital skills training) and L3.7 (Automation) by labor size.

Digitalization and automation as responses to the workforce-related challenges of COVID-19 were most prominent among large service sector firms, including domestic real estate companies, foreign energy and construction businesses, and domestic and foreign finance/insurance firms as well as providers of health/education/labor services. These sectors already demonstrated a higher propensity toward automation before the COVID-19 outbreak and were better prepared to make the transition (Malesky and Pham 2020). Manufacturing firms were generally less likely to make the transition during the pandemic because converting to automation in these industries is both time-consuming and capital intensive, requiring substantial adjustment of factory operations. With declining sales and limited capital, most manufacturing firms were reluctant to risk significant investment in 2020. However, they may be more willing to pursue digitization and automation when the Vietnamese and global economies show signs of strong recovery.

Figure 3.11 Digital Training and Automation during COVID-19 by Sector



Source: PCI Survey 2020 Question L3: "What contingency measures has your business taken to date to offset the negative impact of Coronavirus (COVID-19)?" Share of firms answering L3.3 (Digital skills training) and L3.7 (Automation) by two-digit ISIC sector.

3.3 LOCAL AND CENTRAL GOVERNMENT POLICIES TO AMELIORATE THE CRISIS

The COVID-19 module in the 2020 PCI survey also asked questions about firms' access to and use of central and local government relief policies for struggling businesses. The module probed the major strategies employed by government officials to alleviate financial stress on businesses which can be organized around three pillars: 1) interest rate reductions and loan extensions; 2) suspensions of social insurance and trade union fee payments; and 3) reductions in tax payments and land fees.

Among the very first business relief efforts was the March 4th Prime Ministerial Directive 11/TTg (Nguyen 2020) requesting the Ministry of Finance to prepare a 30 trillion VND package, including interest rate reductions and bank loan extensions. The Directive also requested that the Social Security Administration delay the collection of social insurance payments without charging late fees. Official dispatch No. 860/BHXH-BT on March 17th suspended company contributions to employee pensions and death benefits, while the Vietnam General Confederation of Labor (VGCL) issued Decision 643/QD-TLD that allowed for delays in the payment of trade union fees (VGCL 2020).

While social policy and interest rate reductions were primarily aimed at the domestic business sector, Resolution No. 84/NQ-CP aimed to assist the foreign labor force in Vietnam by extending their work permits and reducing land tenancy fees by 15 percent (GOV 2020a).[35] Another measure to reduce business costs and allay threats of mass layoffs was National Assembly Resolution No. 116/2020/QH14, which reduced corporate income tax (CIT) by 30 percent for businesses with total revenue less than VND 200 billion (VNA 2020).[36]

A key feature of the national administration's efforts was that provincial governments were expected to pay for some of the relief out of their own budgets. Resolution No. 42/NQ-CP, passed on April 9th, allocated 62 trillion VND to citizens who lost jobs or were affected by the crisis (GOV 2020b). For individual relief, the Vietnamese government initially adopted a tiered policy such that wealthy provinces (those contributing over 50 percent of their revenue to the central government) covering the cost of relief themselves. A subsequent policy divided provincial relief contributions into three additional categories (70 percent, 50 percent, and 30 percent central government support) based on the tax contribution of each province. While provincial funding particularly applied to relief for affected individuals, the policy placed greater financial strain on wealthier provinces, limiting their ability to relieve struggling businesses.

Figures 3.12 and 3.13 look at each of the policy packages for businesses, studying first whether businesses were able to easily access them (Figure 3.12) and whether businesses found those policies useful (Figure 3.13). Because businesses needed to first apply for assistance and receive approval from authorities for the relief, some managers reported bottlenecks in receiving benefits. In addition, strict criteria for certain types of assistance, particularly the zero-interest rate program, narrowed the sets of firms that were eligible for support.

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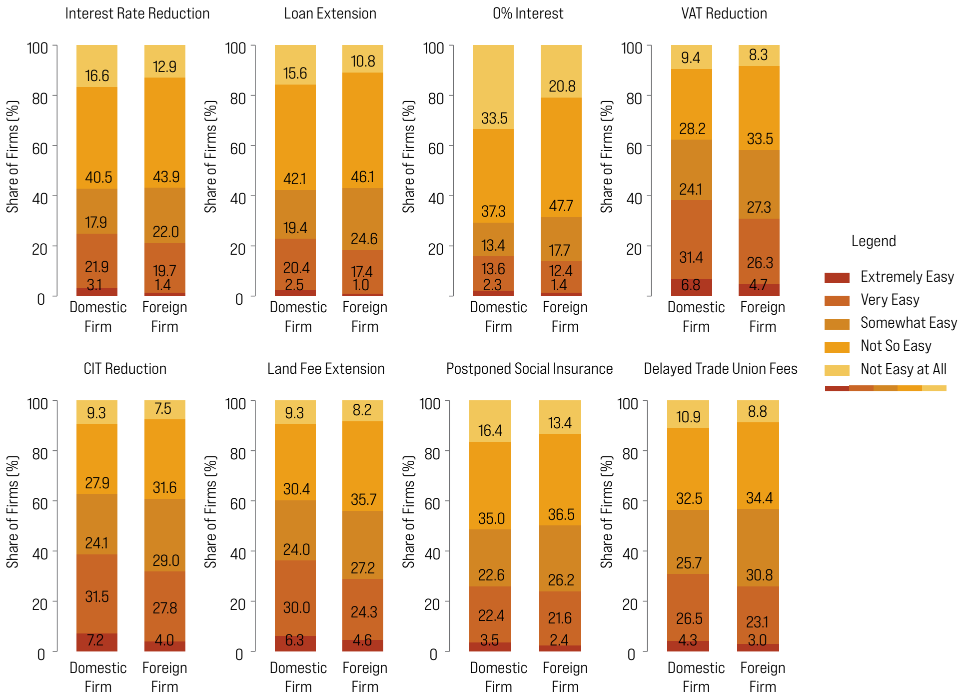
35 This resolution was further supported by Decision 22/2020/QD-TTg from the Prime Minister on reduction in land rents of 2020 for those influenced by COVID-19 pandemic in accordance with the Government's Resolution no. 84/NQ-CP dated May 29, 2020.

36 More instructions were later provided by the Decree 114/2020/ND-CP on September 25 to elaborate the National Assembly's Resolution no. 116/2020/QH14 on reduction in corporate income tax payable in 2020 by enterprises, cooperatives, public service providers and other organizations.

In general, firms felt that the government interventions with respect to bank loans were the most challenging relief measures to access, particularly the zero percent interest policy. Seventy-one percent of domestic firms and 68.5 percent of foreign firms reported that the zero-interest program was hard to access. Additionally, 57 percent of domestic and foreign businesses reported that they found it difficult to receive interest rate reductions or loan extensions. The postponement of social insurance policies was more accessible, with 40 percent of domestic and 44 percent of foreign companies reporting eligibility challenges. Delayed trade union fees were also considered moderately difficult to access with 43 percent of domestic and foreign firms reporting challenges.

Figure 3.12 Ease of Government Relief Policies

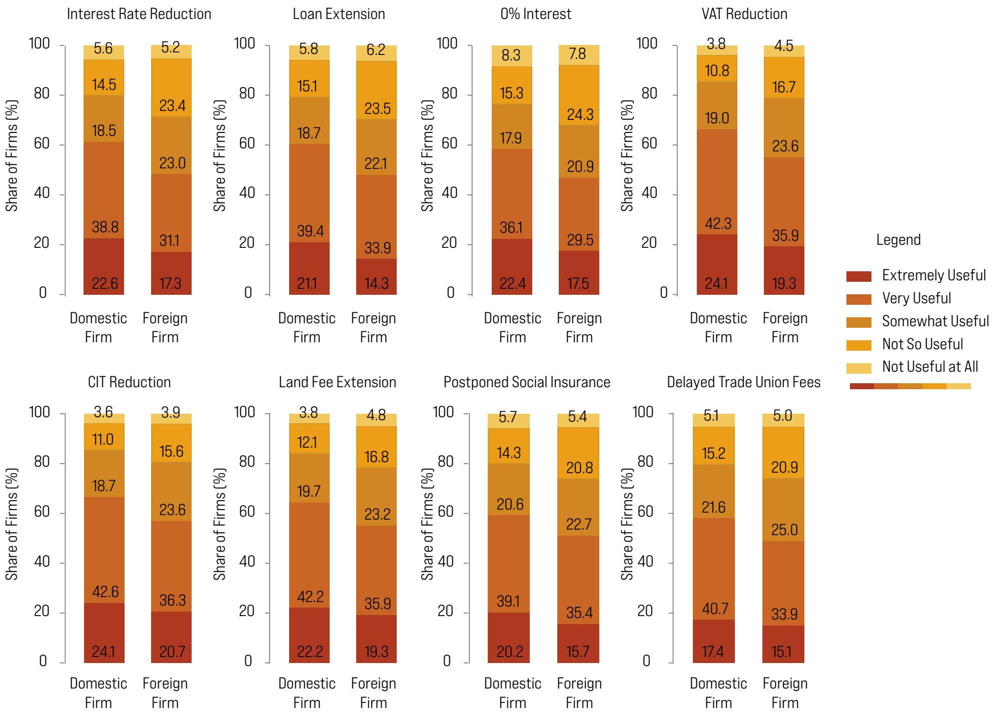


Source: PCI Survey 2020 Question L4b1-4b9: "How easy was it to access government support policy for businesses?"

Tax relief was the most readily accessible basket of policy remedies. Less than 40 percent of domestic firms reported difficulty accessing VAT extensions (37.6 percent), CIT payment extensions (37.2 percent) and extensions of land rental payments (39.7 percent). Foreign firms had more challenges but still reported that tax relief and land fee policies were easier to receive than the more direct forms of support. Reported difficulties were less than 45 percent overall for foreign firms in this category of VAT reductions (41.8 percent), CIT reductions (39.1 percent), and land fees (43.9 percent).

Figure 3.13 reports the utility of policies using the same five-point scale. Firms reported finding the tax policies most useful, followed by postponement of social insurance and labor union fees, while bank interest reductions and loan extensions placed third. This is somewhat surprising, as a major criticism of the tax relief efforts was that they only benefitted successful firms who earned enough money to pay corporate income taxes (OECD 2020). Nevertheless, 67 percent of domestic firms and 57 percent of foreign firms ranked CIT reductions as useful. It is also notable that the share of firms finding policies useful was far higher than those who rated access as easy. Over 60 percent of firms rated each relief policy as somewhat useful. By contrast, the majority of firms rated nearly all of them as difficult to access. The policy conclusion is clear. Vietnam's economic relief policies were helpful, but only for those with the knowledge, resources, connections, and wherewithal to access them. Finally, it is clear that foreign firms were substantially less likely to regard the relief policies as useful. On average, foreign firms found each relief policy to be about ten percentage points less useful than domestic firms.

Figure 3.13 Usefulness of Government Relief Policies



Source: PCI Survey 2020 Question L4b1-4b9: "How useful are you finding the government support policy for businesses?"

To demonstrate these three trends, Figure 3.14 uses the full five-point scale and generates average measures ranging from 1 (Not Easy/Useful at All) to 5 (Extremely Easy/Useful). The average ease of each policy on the five-point scale is presented on the x-axis, while the average usefulness on the five-point scale is depicted on the y-axis. Scores for domestic firms appear in purple, while scores for foreign firms appear in blue. The graph crystallizes the patterns we noted above.

First, there are strong positive correlations between ease and usefulness of policies, indicating that the firms ranked the same measures both as easy to access and useful (or not). The only exception to this trend is delayed trade union fees, which were ranked as easy to access, but were not deemed very useful. This can be seen by the placement of delayed trade union fees far below the linear fit lines for both domestic and foreign firms.

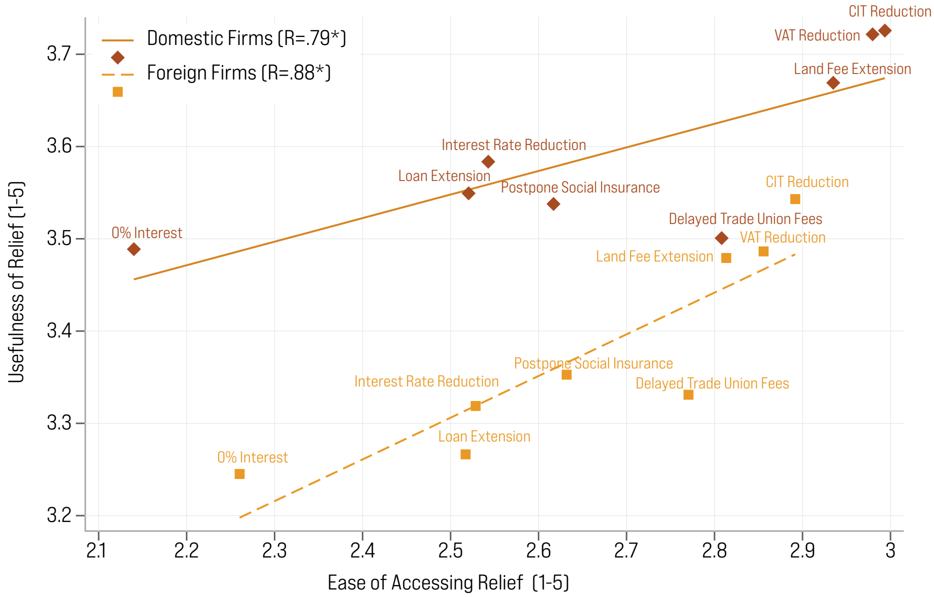
Second, the most highly favored policies for both foreign and domestic firms were the tax and land fee reductions. Postponement of social insurance and trade union fees ranked second, and bank interest and loan policies were considered the hardest to access and least useful.

Third, on average, firms saw the relief policies as relatively useful but difficult to access. The average five-point score for ease of access was 2.69 and 2.65 for domestic and foreign firms, respectively. By contrast, the average five-point policy usefulness was 3.6 and 3.78, respectively.

Fourth, foreign firms tended to offer very similar scores as domestic firms with respect to ease of access. This can be seen by the similar average scores on the x-axis. For example, both foreign and domestic firms' evaluation of the ease of loan access was slightly over 2.5, on average.

Finally, foreign firms tended to regard the policies as less useful, placing the linear fit line for foreign firms far below that of domestic firms. For example, average relief policy usefulness for foreign firms was 3.27 compared to 3.55 for domestic firms.

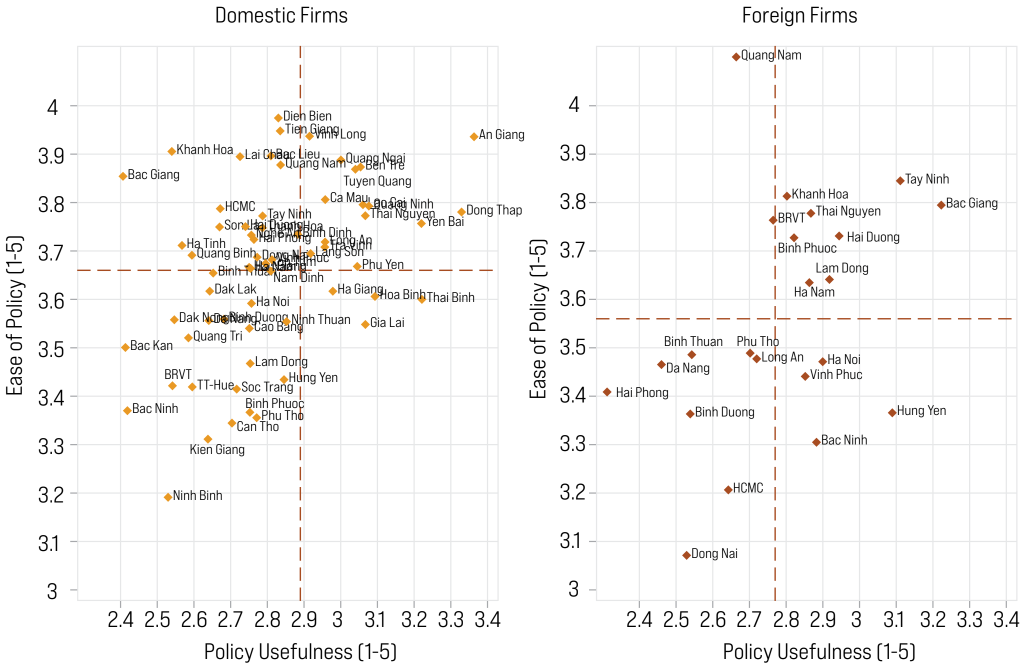
Figure 3.14 Relationship between Ease and Usefulness of Policies



Source: PCI Survey 2020 Question L4a1-4a9: "How easy/straightforward has it been to apply for this support?" (1=Extremely Difficult; 5=Not Easy at All). PCI Survey 2020 Question CV 4b1-4b9: "How useful are you finding this Government's support policy for businesses?" (1=Not Useful at All; 5=Extremely Useful).

Recalling that government COVID-19 relief efforts toward businesses were heavily decentralized in both funding and implementation, Figures 3.15 extends the analysis by creating overall measures of policy ease and usefulness for each province. These are presented in two scatter plots for domestic (left) and foreign businesses. Each graph plots the average policy access ease (y-axis) and usefulness (x-axis) scores for firms in each province. Provinces in the upper right quadrant score above average on both ease and usefulness of the relief policies, as ranked by firms. Provinces in the lower left quadrant score below average on both.

Figure 3.15 Provinces with Effective Covid-19 Relief Policies



Source: PCI Survey 2020 Question L4a1-4a9: "How easy/straightforward has it been to apply for this support?" (1=Extremely Difficult; 5=Not Easy at All). PCI Survey 2020 Question L4b1-4b9: "How useful are you finding this Government's support policy for businesses?" (1=Not Useful at All; 5=Extremely Useful). Dashed lines represent average national scores.

3.4 SUPPORT FOR FUTURE LOCKDOWNS

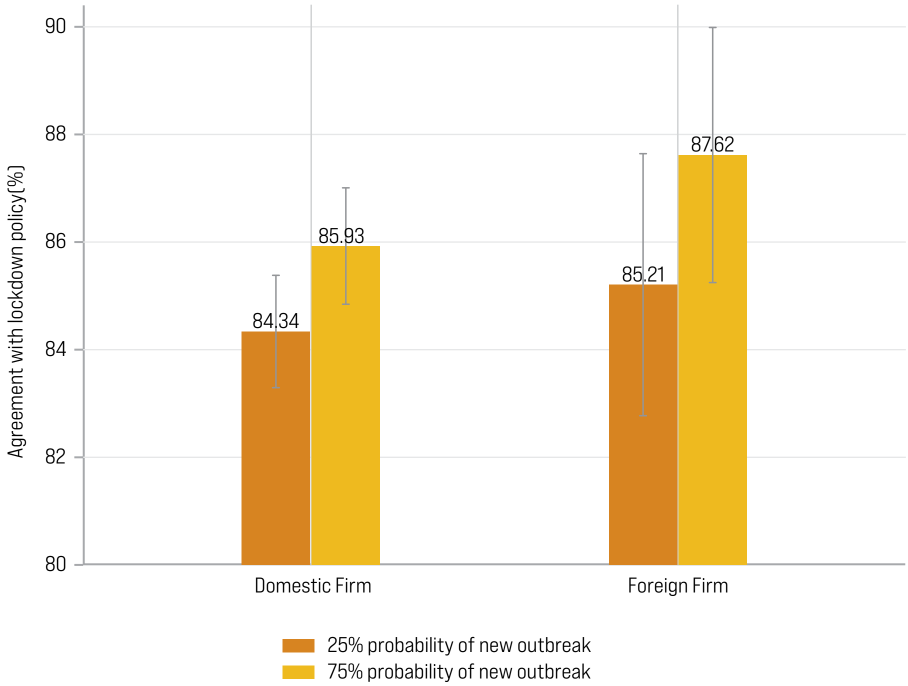
We have demonstrated that the pandemic had devastating effects on business performance and survival. However, as we noted above, it is unclear which factor was most damaging to the Vietnamese business community. If firms felt their losses were primarily due to the government lockdown, we might expect that businesses would not be supportive of future lockdowns if the country were to experience another outbreak in 2021.

To test business leaders' tolerance for future lockdowns, we introduced a survey experiment that simply provided leaders with two different estimates of a renewed outbreak in the country. The first suggested a low probability event (25 percent chance of a resurgence in COVID-19 rates), the second suggested a relatively high probability (75 percent chance a COVID-19 surge would happen in 2021).

The most important finding is that, regardless of the probability of outbreak, the vast majority of businesses indicated support for potential future lockdowns, despite the economic difficulties stemming from such measures in 2020. About 85 percent of businesses asked to consider the possibility of a 25 percent likelihood of a COVID-19 surge would support additional lockdowns. Firms in the group receiving the 75 percent probability treatment were only slightly more likely to support economic closure than firms in the first group.

These results are a credit to the Vietnamese government's handling of the initial outbreak in early 2020, as it speaks to the business community's belief in the legitimacy of the policy response and confidence in the government's ability to manage another crisis.

Figure 3.16 Support for Future Lockdown



Source: PCI Survey 2020 Question L6: "Suppose there is a [Form A= 25%/Form B=75%] probability of a second wave of new COVID-19 infections. If an outbreak happens Vietnamese policy-makers will resume strict social isolation measures and economic lockdown as in March and April 2020. Rate your agreement with this policy."

3.5 CONCLUSION

The key message from this special investigation is that, despite Vietnam's success at containing the novel coronavirus in 2020, the economic impacts of both the outbreak and associated lockdown policy were severe. We also demonstrate that government relief policies, while generous, were often hard for firms to access and insufficient for the scale of the shock to businesses. However, unlike other recessions, declines caused by lockdowns are reversible almost immediately. In fact, a V-shaped recovery is possible once supply chain partnerships are restored and workers are re-hired. In 2021, the market may yet roar back to life as consumers return to public spaces and demand for goods increases. In addition, Vietnamese policymakers should take comfort in the fact that their efforts to contain the virus were seen as effective, increasing the well of legitimacy for future crises requiring shared sacrifice.

One note of caution for policymakers is that the effects of the COVID-19 crisis were not experienced equally throughout the country. Some regions and industries weathered the storm more effectively than others. Layoffs in the Northern mountainous regions and Red River Delta were significantly higher than in the Mekong Delta or Southern provinces surrounding Ho Chi Minh City. Manufacturers suffered more than service providers; within manufacturing, certain industries (autos, computers, and electronics) were particularly hard-hit.

The differential impact had less to do with provincial responsiveness than the idiosyncratic nature of COVID-19. Businesses in some provinces were affected more than others because they happened to be adjacent to outbreaks. Some industries were well-suited to switching to work-at-home operations and could more readily alter their supply lines and markets. Consequently, the national and provincial governments should prioritize fair and equitable assistance to help all businesses and citizens recover from the shock to their incomes and minimize inequality.

In particular, the Vietnamese government may want to invest resources in retraining workers made redundant by the crisis who now need to find jobs in more resilient sectors of the economy. At the same time, provincial transfers to more hard-hit areas of the country should be enhanced. This is important, as long layoffs and labor stagnation can atrophy worker skillsets, making finding future opportunities even more difficult for affected citizens and firms.

CHAPTER 4

WHAT WILL DRIVE CORPORATE ENVIRONMENTALISM IN VIETNAM?

In emerging markets like Vietnam, where much of the world's future demand for energy and infrastructure will be located, there is a clear recognition of the central role that businesses can play in promoting green growth and climate action. However, there is less clarity about how to motivate private firms to invest in green technologies and environmentally friendly operations. Some scholars and practitioners emphasize enhanced government regulation and enforcement, while others point to the greater potential of societal pressure. In this chapter, we use a survey experiment embedded in two nationally representative surveys in Vietnam to test which type of stakeholder pressure (governmental or societal) has the strongest impact on whether and how much domestic and foreign business leaders are willing to invest in green operations. In addition, we test how important firm characteristics, such as ownership structure, export market, and exposure to environmental risk, moderate this relationship.

In response to the emerging environmental pressures that have accompanied the country's economic growth, the national Vietnamese leadership has issued numerous laws, decrees, and circulars aimed at managing its environmental challenges and ensuring sustainable development of its emerging economy. Among the most recent and important contributions to this legislative cannon is the amended Law on Environmental Protection (LEP), which was passed on December 11, 2020. The new LEP attempts to address both the effects of climate change and economic degradation by improving environmental regulations and implementation of those regulations, requiring more precise environmental impact statements, while simultaneously enhancing institutions and governance to facilitate take-up of the LEP's provision by stakeholders. In particular, the new LEP cuts administrative procedures and enhances the transparency of the environmental impact in the project approval process.

The 2020 LEP was developed according to the instructions in the Vietnamese Politburo's Conclusion No. 56-KL/TW on "Continuing to implement Central Resolution 7, Session XI on proactively responding to climate change, enhancing natural resource management and environmental protection," which was decided on August 23, 2019. Conclusion 56 declares definitively that the Vietnamese leadership does not see a trade-off between policies that spur economic growth and those protecting the environment, especially in terms of preventing natural disasters and climate change that threaten vital sectors and industries. In so doing, policy-makers asked for greater analysis of the 2014 LEP and subsequent implementing documents to identify if there were contradictions in legal, normative documents that might impede the dual goals of environmental protection and sustainable development. Most importantly, Conclusion 56 mandates that central and local leaders find ways to encourage stakeholders, like Vietnamese businesses, to actively participate in environmentally friendly practices.

To address the specific environmental impact of foreign investors, the Vietnamese Politburo issued Resolution No. 50-NQ/TW, "On the orientation to perfect institutions, policies, and improve the quality and efficiency of foreign investment cooperation to 2030," on August 20, 2019. Resolution 50 mandates that foreign investors take steps to reduce environmental pollution in the country and specifically calls for the proportion of enterprises using advanced technology, modern management, and environmental protection measures to increase by 50 percent by the year 2025 and by 100 percent by 2030. The main challenge for Vietnamese central and local authorities is to identify what policy steps are necessary to encourage businesses to take these complicated and expensive moves in the interest of meeting these ambitious targets and enhancing sustainable development in Vietnam.

There are two broad approaches to motivating the type of behavioral change among firms that is expected by Conclusion 56, the new LEP, and Resolution 50. First, Vietnamese leaders can invest in more stringent environmental legislation, regulation, and enforcement, which we refer to as the ***Regulatory Pressure*** mechanism. Second, Vietnamese leaders can transparently publicize their goals but outsource monitoring and publication of environmental upgrading to non-state actors, allowing market forces to punish negligent firms through activism by NGOs (e.g.: media campaigns and coordinated boycotts). We refer to this mechanism as the ***Social Pressure*** mechanism.

There are trade-offs with each approach. Regulatory enforcement can be managed directly by the Vietnamese leadership and therefore has the benefit of efficiency. However, increased regulation is expensive, requiring a significant investment in the scale and technical capacity of environmental regulators. As the PCI research program has argued for years, regulation can also be cumbersome for businesses, who fear the increased costs of compliance as well as the enhanced opportunity for informal charges by less-than-scrupulous regulators. Social pressure is clearly less expensive for the Vietnamese state and investors, but has far less certain outcomes because it hinges both upon the ability of non-state actors to access adequate information on firms' environmental behavior and upon consumers to respond by reducing their consumption of goods and services from dirty businesses.

Economists and public policy experts have rigorously examined the impact of these different types of pressure on corporate environmental strategies and practices. Some studies show that regulatory pressure exercised by state agencies has a positive impact on corporate sustainability action (Campbell 2007, Kolko 1963, Schneiberg 1999, Prakash 2000, Werner and Urpelainen 2011, Denicolo 2008), whereas others find societal pressure from NGOs and other activist groups to have positive outcomes on firms' environmental behavior (Maggioni and Santangelo 2017, McDonnell et al., 2015, Lee et al. 2018). Thus, while the existing evidence from previous research provides important insights and starting points, there is no conclusive evidence as to whether firms are most responsive to one or the other of these social accountability mechanisms. A key problem is that most studies have focused on testing the impact of each type of pressure individually but did not compare the effects against one another.

Adding even greater complexity to the trade-off is the fact that the effectiveness of the different measures is likely to vary by firm type. Regulatory pressure is unlikely to be successful with firms that are small or in industries that are going to be difficult and expensive for inspectors to observe. Social pressure is less likely to work on firms that don't expect to be punished by Vietnamese consumers, because they are exporting abroad or because it is difficult for consumers to tie environmental transgressions to specific products. Market leaders, larger businesses, or more visible industries may also be more likely to be targeted by activists, and public censure may thus have a greater impact on their behavior.

To answer this important policy question, we fielded a survey experiment as part of the Provincial Competitiveness Index survey on domestic (PCI) and foreign investors (PCI-FDI). Our sample consists of 8,633 domestic and 1,564 foreign firms. Our experimental design allows us to directly compare the relative importance of regulatory and social pressure on firms' sustainability behaviors rather than simply testing whether public or private policy mechanisms has an effect at all (compared to a state in which no such pressure exists). Specifically, putting these two types of pressure in a horse race, we examine which stakeholder pressure has the strongest impact on firms' willingness to invest in environmental upgrading. Furthermore, in addition to testing the influence of regulatory and societal pressures from NGOs and consumers on corporate environmentalism, we test how important firm characteristics, such as firm size, export market, ownership structure, and firms' exposure to environmental risk, moderate this relationship.

We find that foreign investors are more susceptible to intensive regulatory pressure. Seventy-four percent of foreign businesses that received the regulatory treatment expressed a willingness to expend greater resources on environmental upgrading, compared to 67 percent of firms that received the social pressure treatment (a 7-percentage point average treatment effect (ATE) that is significant at the $p<.05$ level). By contrast, we find no difference for domestic investors; 68 percent expressed a willingness to invest in new environmental equipment and processes, regardless of treatment. We also do not find evidence for change with respect to the intensive margin - the increase in the share of operating costs that foreign and domestic firms were willing to spend to increase the environmental cleanliness of their operations.

Digging deeper, we disaggregated our analysis by whether firms' primary customers are citizens and businesses in Vietnam or customers outside the country, who are reached through export. Fascinatingly, the effects on the extensive margin (the firm's willingness to pay for environmental upgrading) are most pronounced for foreign firms seeking to access the domestic market, and domestic firms pursuing export. However, the type of stakeholder pressure that matters most varies between the two groups. Domestic-oriented foreign firms, particularly because of their visibility and size, are more likely to respond to the regulatory pressure treatment (ATE=8.2 percentage points). By contrast, export-oriented domestic firms, because they are concerned about selling to consumers with Western values, are more likely to be influenced by the social pressure treatment (ATE=3.21 percentage points).

Contrary to our expectations, we find that firms' subjective and objective vulnerability to climate risk does not influence the effects of regulatory or social pressure. The higher the climate risk to a firm's particular business, the more likely they are to upgrade, but this effect is not enhanced by additional social or governmental pressure.

Our findings have important policy implications. As the role of business in climate action becomes increasingly important, the question is whether more government regulation is needed to bring about change in firms' behavior or whether there is room for "self-regulation," when firms respond strongly to pressures by non-government actors, including NGOs and citizens' demands (Kolcava et al. 2020, Malhotra et al. 2018, Baron 2014, Fleckinger and Glachant 2011, Maxwell et al. 2000).

Finally, with the exception of a handful of studies,[37] the majority of work has been limited to analyses of firms operating in developed countries. However, the theorized dynamics of the impact of stakeholder pressure can greatly depend on the local regulatory framework and state enforcement capacity, which differ dramatically between developed and developing economies. Notably, the impact of public politics and social pressure on firms requires well-established enforcement mechanisms. However, in less-developed countries, regulations and enforcement mechanisms are typically underdeveloped and bribery allows firms to skirt implementation (Malhotra et al. 2019, Malesky and Taussig 2019). We show that, beyond the existing regulatory framework and NGO activity, the types of businesses at the receiving end of such pressures are also likely to matter when evaluating the impact of stakeholder pressure. Specifically, our results highlight that there is no one-size-fits-all solution. The question of which type of pressure is more effective in encouraging environmental corporatism will depend on the interaction between the pressure type and the firms' business orientation.

37 For China, see He et al. 2018. For a study of Indian firms, see Singh et al. 2014.

4.1 INCREASING NEED FOR ENVIRONMENTAL PROTECTION IN VIETNAM

In this study, we focus on recent Politburo documents and Vietnamese National Assembly (VNA) legislation, because of the ambitious targets they have set for enhancing environmental sustainability of Vietnam's economic development.

Vietnam's first Law on Environmental Protection was adopted in 1993. Since then, the LEP has undergone several rounds of revisions (2005 and 2014). On November 27, 2020, the VNA passed a revised version of the LEP, which will take effect on January 1, 2022. One new focus of the 2020 revision is the update of the chapter on climate change. While specific protections remain to be worked out by implementing agencies, the focus better aligns the LEP's contents with the country's other climate mitigation policies. Importantly, the revision also addresses the need for improved environmental regulations, permit handling, economic instruments, and environmental impact assessments, along with a better governance framework to administer and enforce the new Law.[38] In meeting these goals, the LEP attempted to balance the goals of enhanced regulation and reduced administrative burdens on firms by cutting administrative procedures regarding the environment by 40 percent and reducing the time that firms spend on compliance from 85 to 20 days. This was achieved by focusing on the most vital environmental regulations and synchronizing regulatory activities across agencies. Vietnamese lawmakers hailed the new law as a policy framework that is holistic, comprehensive, and in harmony with Vietnam's socio-economic development goals (MONRE 2020).

Conclusion 56's focus on the sustainability commitments of individual businesses is also directly in line with recent trends in international political economy. The 2030 Agenda for the UN Sustainable Development Goal 12, for example, encourages companies to adopt sustainable practices and integrate sustainability information into their reporting cycle.[39] The Addis Ababa Action Agenda takes this further and encourages greater accountability by the private sector to embrace business models that minimize negative social and environmental impacts.[40] Business executives have also increasingly made the case for expanding environmental consciousness. On September 18, 2019, two hundred CEOs and business leaders in Canada, the U.S. and U.K., issued a statement calling for Climate Action Now in support of the global climate strikes organized by Greta Thunberg.[41]

38 *Partnership on Transparency in the Paris Agreement. Vietnam's Law on Environmental Protection under revision. December 02, 2019. https://www.transparency-partnership.net/news/viet-nams-law-environmental-protection-under-revision. Accessed: June 13, 2020.*

39 *https://sustainabledevelopment.un.org/sdg12, accessed June 12, 2020.*

40 *https://sustainabledevelopment.un.org/index.php?page=view&type=400&nr=2051&menu=35, accessed June 12, 2020.*

41 *https://www.globenewswire.com/news-release/2019/09/18/1917487/0/en/100-CEOs-sign-statement-in-support-of-Climate-Action.html, accessed July 26, 2020.*

In line with our discussion of the regulatory enforcement mechanism above, Resolution 50 specifically focuses on enhanced regulatory enforcement by calling for re-organization of bureaucracies to put environmental sustainability at the center of policies for screening investment license applications, granting investment licenses, adjusting investment sizes and alternations of business lines, and termination of business operations. Resolution 50 also involves local governments specifically in the environmental supervision of investments by calling for more rigorous and effective inspections to identify polluting businesses. It calls on provincial governments to "definitively handle" businesses that engage in pollution, use land inefficiently, and do not meet commitments in their license agreements.

Conclusion 56, the new LEP, and Resolution 50 are responsive to the demands of Vietnamese citizens, who have become increasingly environmentally conscious over the past decade. With exacerbating levels of environmental degradation, citizens in Vietnam are expressing growing awareness and concern over the environment. A public poll of 14,000 respondents across all provinces reports that the environment is the third most important issue facing Vietnam, right behind poverty/hunger and economic growth concerns (CECODES et al. 2020). In addition, the survey also found that an overwhelming majority of the citizens supports a ban on plastic bags (84 percent), and there is even a slight plurality (48 percent) in favor of the government's plan to ban the ubiquitous motorcycles in big cities like Hanoi and Ho Chi Minh City. Using the same survey data, Nguyen and Malesky (2020) show in a survey experiment that, when forced to choose between doing business with a company that generates large economic benefits (employment, purchases, revenue generation) but is a polluting firm and a company with smaller economic benefits but greener investment, Vietnamese citizens overwhelmingly prefer the latter, greener option. While these survey responses cannot reflect an actual willingness to pay for environmental protection, and some of these responses may be subject to social desirability bias, they are nevertheless indicative of the increasing importance of environmental issues in Vietnam. The public protests that erupted across the country in response to the 2016 chemical spill from a Taiwanese company that poisoned the Vietnamese central coast, killing millions of fish, have further sparked public consciousness over environmental issues (Hoang et al. 2018).

Together, the three legal documents make clear that Vietnamese authorities see private foreign and domestic businesses as part of the solution. On the one hand, businesses can transform their operations and practices to reduce their impact on pollution and habitat degradation. On the other hand, the private sector can provide an invaluable source of finance for investments in low-carbon, climate-resilient infrastructure, and serve as an incubator of innovation in clean technologies and resource efficiency. The critical question, however, is under what conditions will firms and businesses engage in environmentally sustainable behavior.

4.2 TWO PATHWAYS TO SUSTAINABLE INVESTMENT BY VIETNAMESE BUSINESSES

From an economic standpoint, firms' decisions about whether to implement environmental measures are driven by considerations of the total costs and benefits of the activity. A number of studies demonstrate that firms can gain significant competitive advantage from environmentally responsible business conduct[42] through cost savings from environmental innovation (Ghisetti and Rennings 2014, van Leeuwen and Mohnen 2017, Rexhäuser and Rammer, 2014) and sustainable supply chain management (Delmas and Toffel 2008, Fang and Zhang 2018, Johnstone and Labonne 2009). In addition, corporate environmental action has been shown to create stronger consumer relationships (Bullock and van der Ven 2020, Distelhorst and Locke 2018, Hainmueller et al. 2015, Malesky and Mosley 2018) and attract more productive employees who are willing to accept lower salaries (Cassar and Meier 2018, Hedblom et al. 2019).

On the cost side, firms do not only incur implementation costs, regulatory compliance costs, and opportunity costs from forgone benefits from investment in another activity, they may also incur costs from non-implementation of environmental practices in the face of pressure from various stakeholders to do so. For instance, non-compliance with government regulations may lead to the loss of a firm's investment license while not responding to demands by activist groups to act green can engender reputational costs. The literature on corporate environmental action generally distinguishes between pressure through public and private politics (Baron 2001, Baron et al. 2011, Druckman and Valdes 2019). While the former refers to pressure from government regulation, the latter refers to pressure for social change demanded by NGOs and social activists.

4.2.1. Regulatory Pressure and Environmental Compliance

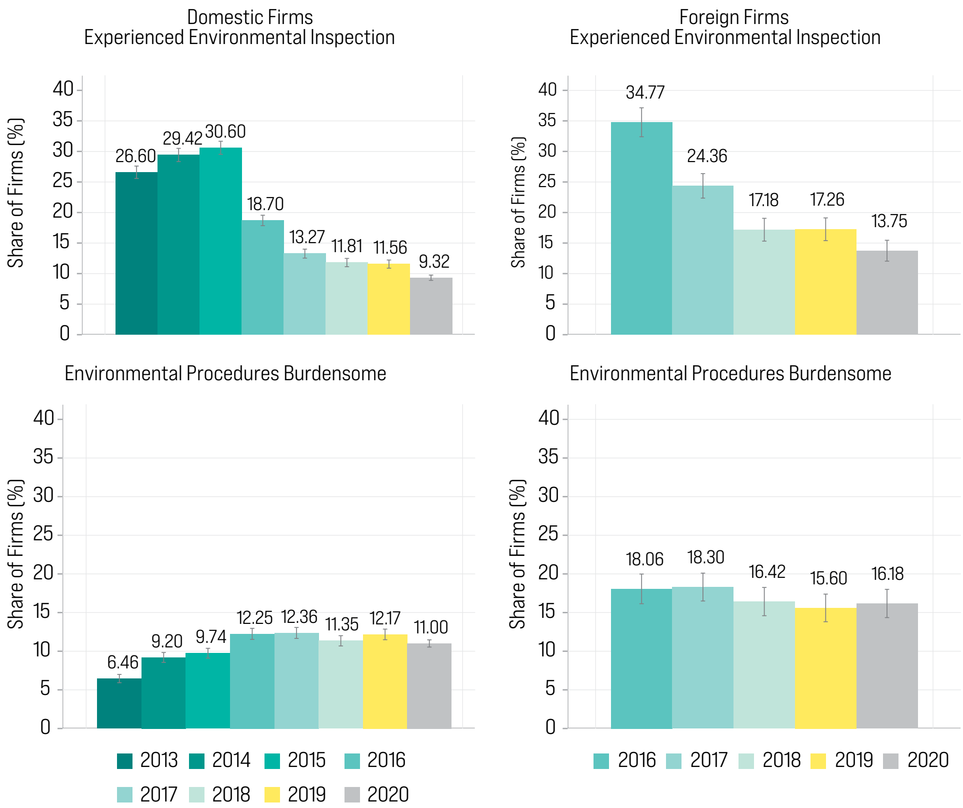
Firms are embedded in the broader regulatory environment of the state in which they operate. Thus, coercive pressures from the government, regulators, and legal policies on firms' environmental strategies is considered to be one of the most important factors influencing corporate environmental behavior (Wang et al. 2020; see also Henriques and Sadorsky 1996, Dasgupta et al. 1998, Laplante and Rilstone 1996). For example, it is widely assumed that variation in regulation and regulatory enforcement accounts for differences in environmental performance by regulated businesses.

Scholars broadly differentiate between command-and-control regulation (direct regulation) and incentive-based regulation (voluntary regulation) with each arguably generating

42 See Brekke and Pekovic (2018) for a comprehensive review.

different incentive structures for corporate environmental action (Williams 2012, Testa et al. 2011, Lopez-Gamero et al. 2010). In this study, we focus on direct regulation, which is the dominant form of environmental regulation in our study site in Vietnam. This type of pressure compels firms to adopt green practices through coercive means such as regulatory inspections and fines and penalties for non-compliance. Typically, the government exerts pressure on firms by issuing environmental regulations through which they seek to promote firms' environmental practices with administrative power and to urge them to adjust their environmental strategies (Wang et al. 2020).

Figure 4.1 Environmental Regulation Enforcement in Vietnam over Time



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

Figure 4.1 looks at direct environmental regulation over time in Vietnam through two measures: 1) the share of PCI and PCI-FDI respondents who experienced an environmental inspection in the past year; 2) the share of firms who noted that compliance with environmental procedures was burdensome. Despite the stated intent of Vietnamese policymakers to increase business environmental compliance over time, it is clear that formal regulatory efforts have actually either declined or plateaued. The share of domestic firms who experienced an inspection declined from 30.1 percent in 2015 to 9.3 percent in 2020. Inspections of foreign firms have declined from 34.8 percent to 13.8 percent over roughly the same period. The bottom half of Figure 4.1 also shows that the burden of environmental regulatory compliance has hardly budged since 2016, ranging between 11 and 13 percent of domestic firms and 16 and 18 percent of foreign firms.

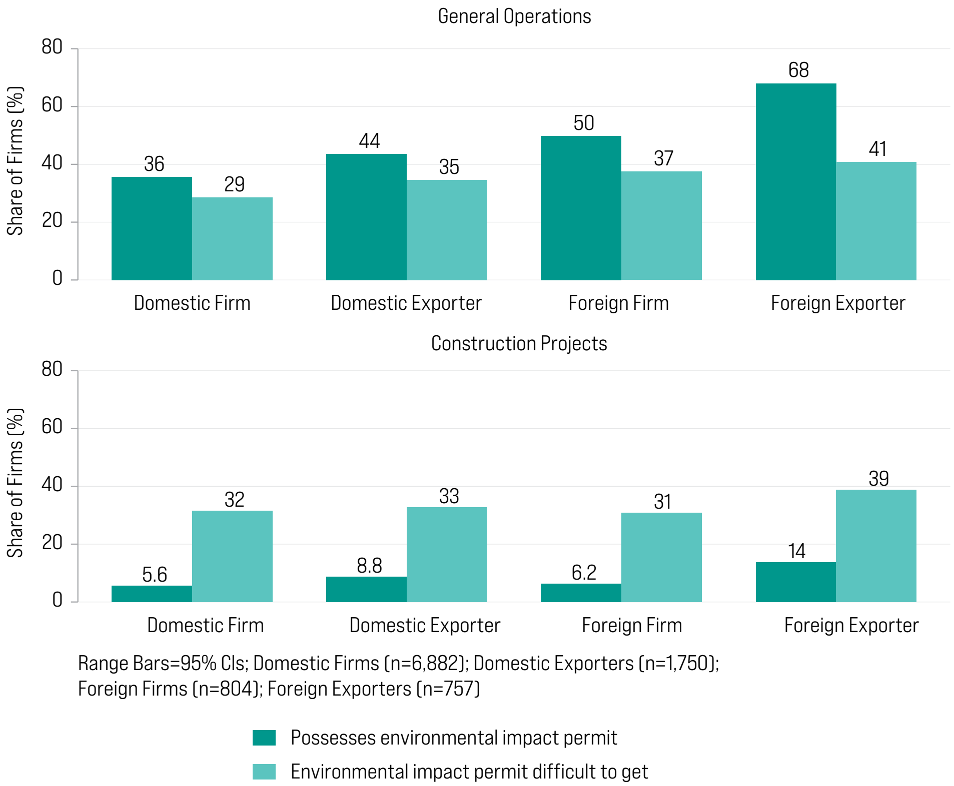
These results make sense. The Vietnamese business community has grown tremendously over this time period with over 200,000 enterprises commencing operations. Environmental regulators have certainly had trouble keeping up with expanding scale, especially since 80 percent of these firms have fewer than ten employees and are quite difficult to locate. Authorities have also been focused on reducing the burdens of regulation, knowing that the high costs of regulatory compliance can distract business managers from their core competency. However, the graph does indicate that significant effort and resources will be necessary to meet the mandates of Resolution 50 and the new LEP.

While one obvious reason why firms would comply with environmental regulations is to avoid the punishment that may result from non-compliance, the literature on corporate social responsibility (CSR) has put forward two additional motives for firms' willingness to be responsive to state pressure, or in some cases, to over-comply with state regulations.

According to the *signaling model,* more efficient firms have an incentive to voluntarily over-comply with an existing government regulation "before a stricter regulation is enacted [,] in order to signal that compliance is not too costly" (Denicoló 2008: 302). In assuming the government is poorly informed about the true costs of the implementation of the new regulation, over-compliance by some firms lets the government choose a more ambitious level of regulation. This, in turn, increases the costs for less productive firms and acts as an entry barrier, giving a competitive advantage to the more productive, previously over-complying firms (Denicoló 2008: 302, Urpelainen 2011). If regulation is so severe that it drives out competitors or increases entry barriers to new players, signaling over-compliance can even generate market dominance in some industries.

Figure 4.2 provides some evidence for the signaling model in Vietnam. Firms are organized by their implicit level of productivity according to international economic theory (Helpman et al. 2004). Firms solely focused on the domestic market are thought to be the least productive, followed by domestic firms which export, domestic-oriented foreign firms, and finally export-oriented foreign firms. As predicted by the signaling model, possession of environmental permits increases with the level of productivity. Foreign firms and exporters are far more likely to possess environmental permits for general operations and construction. The highest level of signaling exists for foreign exporters, where 68 percent of firms possess general environmental permits and 14 percent of them obtained government permits for their business construction in 2020. Domestic firms working solely in the Vietnamese market are the least likely to seek environmental permits for their business activities.

Figure 4.2 Possession of Environmental Permit by Type of Firm

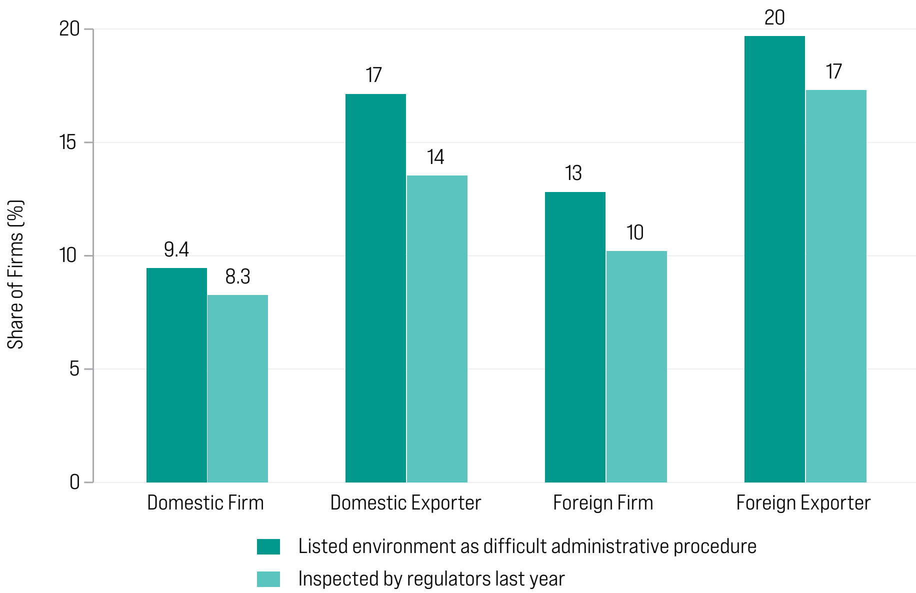


Source: PCI Survey 2020 Question B3.5: "Do you have an approval of environmental impact assessment, discharge permit, commitment or environmental protection plan for your business?" "Was it difficult to get?" and D5.14.6: "Do you have an Appraisal of environmental protection plans for your construction projects?" "Was it difficult to get?"

By contrast, the regulatory preemption literature assumes that firms always prefer the least amount of regulation. Accordingly, some scholars argue firms' voluntary pollution abatement efforts serve mainly to "preempt threats of future regulation" rather than to signal readiness for tough regulation (Maxwell and Decker 2006: 435; see also Maxwell et al. 2000, Segerson and Miceli 1998). This strategy offers potential for welfare gains, as it allows firms to avoid the costly acts of involving themselves in the design of regulations and pushing those ideas through the legislative process, which is required by the signaling model. (Maxwell and Lyon 2008). Hitherto, the empirical evidence on these underlying motives of firms' responsiveness to state regulations was inconclusive. However, despite a lack of consensus on the mechanism behind the coercive pressure of the government and regulatory agencies on corporate environmental strategic responses, regulatory pressure is widely considered to be one of the most important factors influencing corporate environmental strategies (Wang et al. 2020).

Figure 4.3 provides some evidence for the regulatory preemption theory as well. Foreign firms and exporters are more likely to see environmental regulations as burdensome. Foreign exporters are twice as likely as domestic companies to have been inspected and to regard environmental administrations as a burden.

Figure 4.3 Environmental Regulatory Burden by Type of Firm



Range Bars=95% CIs; Domestic Firms (n=6,882); Domestic Exporters (n=1,750); Foreign Firms (n=804); Foreign Exporters (n=757)

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

Although their perspectives differ, both the signaling and regulatory preemption logic point to similar conclusions; namely, that state regulations may have varying effects on different firms. Productive firms are much more likely to benefit from (over-) compliance with regulatory pressures for signaling and regulation preemption purposes, respectively, because their (over-) compliance serves as an entry barrier to less productive firms.

Pulling these insights together, we hypothesize that:

Hypothesis 1: Direct coercive pressure by the government is likely to increase firms' willingness to engage in environmentally friendly behavior.

Hypothesis 2: More productive foreign firms are more likely to be responsive to direct coercive pressure by the government than their less productive domestic counterparts.

4.2.2. Social Pressure and Environmental Compliance

For regulatory pressure to have a meaningful impact on firms' behavior, strong and well-established institutions are required (Campbell 2007). Yet, in many countries, especially low-income and emerging markets, the government lacks the regulatory and governance framework to enforce its laws (Blackman 2010). Indeed, in Vietnam, effective implementation of the existing environmental laws has been hampered by limited human and financial capacity, inconsistency, contradictions within the laws, and the division of enforcement responsibilities across the involved government agencies (Schulte 2016).

One area where regulatory resource constraints are most visible is in environmental inspection and compliance monitoring. A review of the environmental impact assessment (EIA) systems of various Mekong countries conducted by Earth Rights International (ERI) finds that this is a common challenge across the sub-region (ERI 2016). Thus, in such a context, non-regulatory, external pressure exercised by civil society actors and consumers may have a stronger impact on firms' environmental strategies.

Although citizens and civil society actors, such as non-governmental organizations (NGOs), lack the authority and instruments to subject firms to sanctions and legal punishment for unsustainable behavior, they may still be able to impose considerable costs on firms. For example, NGOs can impact the reputation of the company through indirect mechanisms, such as public protests and environmental litigation (Sharma and Henriques 2005, Eesley and Lenox 2006). In addition, NGOs can directly affect the economic performance of firms by calling on consumers to boycott certain firms or certain products (Horbach et al. 2012). In sum, firms may be encouraged to accommodate social pressure for corporate environmental action in order to avoid these reputational and economic costs.

Conversely, firms may also stand to benefit by responding to social pressure. Focusing on consumer preferences and decisions, the green consumerism literature underlines market-based explanations for firms' willingness to engage in environmental actions (Arora and

Gangopadhyay 1995, Maxwell and Decker 2006). Green consumer models see voluntary environmental initiatives as an attractive way to differentiate firms' products. Assuming that citizens have heterogenous preferences, some might be willing to buy greener products while others would opt for a regular product. Hence, firms can offer environmentally friendly goods to reach consumers with green preferences. Moreover, as a result of the product differentiation, producers can reduce the price competition and attract green consumers willing to pay a price premium (Maxwell and Decker 2006: 435).

However, firms' level of responsiveness to social pressure will depend on their size and market power. We predict the salience of social pressure will vary with firms' exposure to foreign markets. Exporting firms need to not only comply with the regulations of the foreign market, but also with the consumer preferences in these markets. Especially when exporting their products to developed country markets, which typically have more stringent environmental regulations and a more environmentally conscious consumer base, firms are more likely to be sensitive to social pressure to upgrade their corporate environmental practices (Prakash and Potoski 2006, Vogel 1995).[43] Unfortunately, too few domestic firms in the PCI surveys export and the surveys do not provide adequate information about the final destination markets of the domestic firms' exports to allow for distinction between developed and developing export markets.[44] However, we argue that firms that engage in exporting are more likely to be responsive to societal pressure because exporting raises the probability of exposure to foreign demands, as at least some of the exports will go to foreign (and developed) countries.

Reflecting on the pressure that can be brought by civil society actors, we hypothesize that:

Hypothesis 3: Social pressure is likely to increase firms' willingness to engage in environmentally friendly behavior.

Hypothesis 4: Firms that export their products/services are more likely to be responsive to social pressure than firms that solely serve the domestic market.

43 Moreover, exporting to developed markets also promises higher markups, which may incentivize firms to engage in product differentiation in order to benefit from a higher price premium for their environmentally friendly product. Malesky and Mosley (2018) make a similar argument with regards to firms' motives to engage in labor standards upgrading.

44 In the Vietnam foreign firm sample, respondents were asked to report the name of the country it is exporting to if it is not the home country of the firm. Thus, to test the developed country hypothesis, we will rely on the PCI-FDI survey.

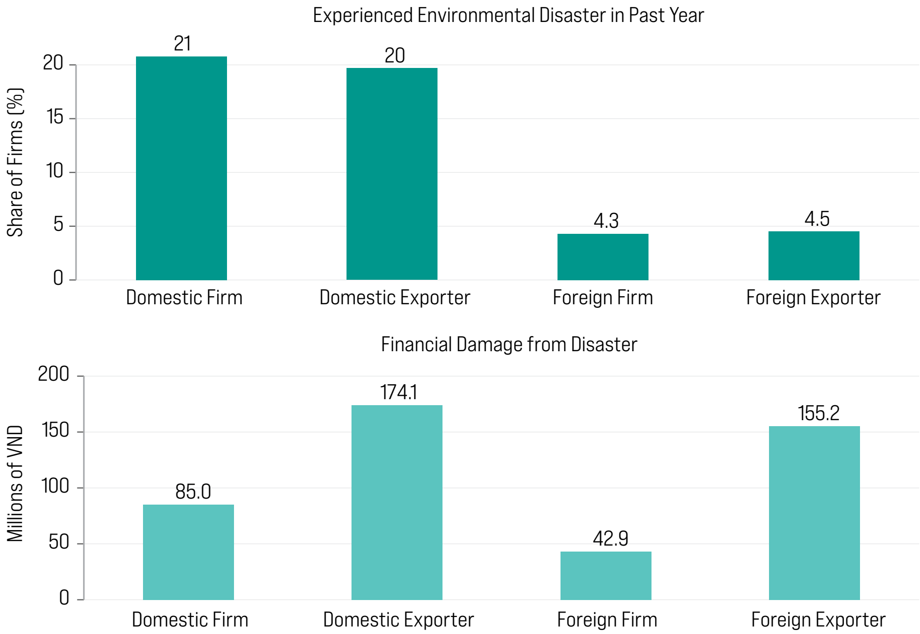
4.2.3. Vulnerability to Environmental Risk

In addition, regardless of the type of stakeholder pressure, we expect firms' willingness to act green to increase when they perceive the environmental risk to their business to be severe. There are two types of environmental risk that are measured in the PCI survey.

The first is the objective, direct impact of environmental disasters on a firm's business. Our analysis includes both natural disasters that are related to climate and man-made disasters caused by pollution and other business activities that harm the environment. In the past five years, Vietnam has experienced a large number of expensive environmental events including the leakage of chemical waste into the Eastern Sea, salination in the Mekong Delta, and landslides and flooding in central Vietnam. These events injured many businesses by damaging facilities, products, and equipment. They also disrupted sales due to supply chain breakdowns or declining demand for the product. Companies engaged in tourism or accommodation suffered from declining customers, while companies selling to international markets faced increasing wariness about the health and safety of their products. As far back as 1995, the Vietnamese government has highlighted eight types of environmental concerns that have direct effects on sustainable development and deserve special attention in the National Environmental Protection Research Program: 1) deforestation; 2) decrease of agricultural land resources; 3) irrational use of water resources; 4) over-exploitation of fishery resources; 5) irrational use of mineral resources; 6) loss of genetic resources; 7) environmental pollution; and 8) environmental damage due to war (See Matsuda 1995). These concerns remain salient today.

Figure 4.4 illustrates the severity of these effects. Over 20 percent of domestic businesses and four percent of foreign businesses were in provinces that experienced a natural or man-made environmental crisis that negatively impacted their business in 2020. Exporters were particularly injured by these crises. Domestic importers reported an average environmentally induced loss of 174 million VND (US$7,565) and foreign exporters lost 155 million VND (US$6,739).

Figure 4.4 Direct Impact of Environmental Crises on Business

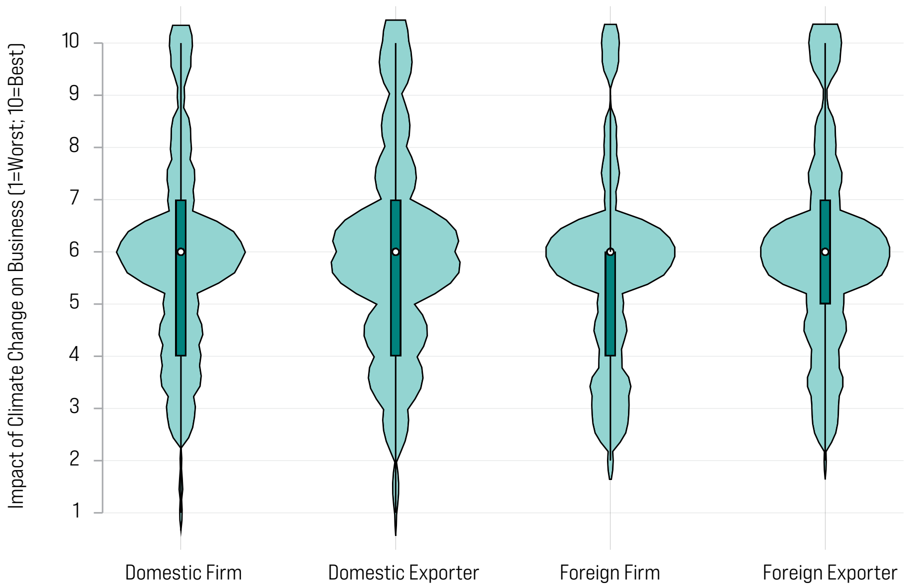


Range Bars=95% CIs; Domestic Firms (n=6,882); Domestic Exporters (n=1,750);
Foreign Firms (n=804); Foreign Exporters (n=757)

Source: PCI Survey 2020 Question H2: "Did your province experience a natural disaster in the past year, such as drought, flooding, or salination?" and Question H2.1: "Please estimate the level of overall damage from the above-mentioned weather phenomena to your firm: _____million Vietnam Dong."

The second measure captures firms' subjective assessment of the impact of climate change on their business. Figure 4.5 is a violin graph, which has four descriptive features. First, the median value for each group can be observed in the center of each violin. The dark bar surrounding the median provides the interquartile range (the distance between the 75th percentile and the 25th percentile). The lower and upper values, the black lines that stretch from the top to the bottom of the violin, show the effective range of the data, which helps identify outliers, because observations lying outside of these "fences" can be considered outliers. The final feature is the bulges in the violin moving down the black bar, which viscerally illustrate the distribution of answers, showing us where the bulk of responses lie. Wide bulges capture most of the respondents' answers, while narrow bulges depict rarer answers.

Figure 4.5 The Impact of Climate Change on Business Performance



Range Bars=95% CIs; Domestic Firms (n=6,882); Domestic Exporters (n=1,750); Foreign Firms (n=804); Foreign Exporters (n=757)

Source: PCI Survey 2020 Question H1: "How would you evaluate the impact of climate change on the activities of your firm? (Please circle the number between 1 and 10 that best fits your experience)?"

The median firm in all groups believes that climate change has had a neutral effect of 6. The interquartile range, however, shows that the distribution varies slightly. While domestic firms and domestic exporters had interquartile ranges from 4 to 7 and foreign exporters had interquartile ranges from 5 to 7, domestic-oriented foreign-firms had an interquartile range of 4 to 6. This indicates that these firms, who are predominantly in service sectors, are significantly more likely to report stronger concerns about the impact of climate change on their businesses. There are so few firms in this area that reported that climate change was beneficial that the 75th percentile is effectively equal to the median. This can also be seen in the extremely thin bulge for values greater than six in the violin graph. The bulge below the median, however, is roughly equivalent between all types of firms. About 38 percent of all firms reported that climate change has a negative effect on their businesses (<5).

Because some firms are more likely to be injured by climate change, we predict:

Hypothesis 5: Firms that perceive high environmental risks are more likely to be responsive to both types of stakeholder pressure than firms that consider environmental degradation to pose no/lower risks to the firm's operations.

4.3 RESEARCH DESIGN

We inserted a randomized experiment into the environmental module of the PCI and PCI-FDI surveys of: 1) 8,600 domestic firms in all 63 Vietnamese provinces; and 2) 1,600 foreign firms in the 22 Vietnamese provinces with the greatest concentrations of foreign investment.[45]

4.3.1. Data

Both the PCI and PCI-FDI surveys are mail-out surveys. Due to budget limitations and the fact that the survey is paper-based, complex randomizations are not feasible. The format only allows for two different versions of the survey (A and B), which are randomly assigned to respondents within each province. This limitation means that the testing of mechanisms and ruling out of alternative interpretations must be dealt with through question wording and ordering, rather than through additional randomization.

4.3.2. Informational Treatments

In all four surveys (A and B versions for both foreign and domestic firms), we examined the impact of different types of stakeholder pressure on firms' willingness to engage in corporate environmentalism by randomly assigning respondents to information treatments. Specifically, the treatments consisted of short texts, which either emphasize government-induced or a civil-society and consumer-induced pressure. Comparing the two allows us to differentiate which type of information is more influential for firm behavior. The treatment texts read as follows:

Form A	Form B
Regulatory pressure (RegPress)	*Social pressure (SocPress)*
The national government has announced stricter environmental laws (i.e. environmental impact assessments for new investment projects, compliance review of environmental regulations). These laws involve high penalties, including the withdrawal of firm's business license in case of violation.	*A non-state organization in Vietnam has begun to publish a green list, ranking individual firms on the size of their environmental impact and classifying firms (including SMES) as either green champions or dirty polluters. This ranking will be released to customers, who may make purchasing decisions based on a firm's environmental reputation.*

45 The PCI uses a stratified random sampling strategy within each of the surveyed provinces 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 company, joint-stock company, joint venture, 100 percent foreign owned) of the firm. The uncorrected response rate for the PCI surveys is about 32 percent, although after correcting for incorrect addresses and contact information, the adjusted response rate is usually about 50 percent. About 70 percent of surveys are answered by the owner, CEO, or top manager with the rest completed by other high managers or financial officers.

4.3.3. Outcome Variables

After reading the information, respondents were asked a) whether, and, if so, b) how much money they would be willing to invest (as a share of their company's operating costs) in upgrading their firm's environmental performance. Thus, we use two variables to measure firms' responsiveness to government and civil society pressure, respectively: 1) the extensive margin or the firm's willingness to pay for environmental upgrading *(Any spending)*, and 2) the intensive margin or the share of operating costs (in percent) the firm is willing to invest in environmental upgrading *(Share)*.

Any spending is coded as 1 if the firm checked any question in the scale greater than zero, and 0 otherwise. This provides us with the extensive margin for upgrading. We measure *Share* using a five-point scale ranging from 0 percent (1) to over 10 percent (5).

4.3.4. Stratification of Blocking Variables

As noted, both surveys use two-stage sampling strategies, where the province is the primary sampling unit. Firms located within these units are likely to interact as well have similar interactions with local regulatory officials, workers, and citizens. Consequently, the errors between firms within sampling units are likely to be correlated, violating the independent and identically distributed (i.i.d) assumptions of the linear model. In other words, each draw of a new firm from the underlying sample within each unit provides less information than a purely random draw. To address this problem, we cluster standard errors at the provincial level.

Table 4.1. Error Correction and Strata/Blocking Variables used in Analysis

Adjustment	VN-Domestic	VN-Foreign
Clustered standard errors (primary sampling unit)	Province	Province
Sector (1. Natural Resources, 2. Manufacturing, 3. Construction, 4. Wholesale/Retail, 5. Other Services)	Yes	Yes
Age (1. Entered before 2014 Investment Law; 2. Entered after 2014 Investment Law)	Yes	Yes
Legal form (1. Sole proprietorship, 2. Limited Liability company, 3. Joint-Stock Company, 4. Joint-Venture, 5. 100 Percent Foreign Owned)	Yes	Yes

4.3.5. Sub-Group Effects

As stated in our hypotheses, we predict ownership (H2), export activity (H4), and firms' vulnerability to environmental risk (H5) to moderate the relationship between the stakeholder pressure firms receive and their willingness to engage in corporate environmentalism. All data required for the analysis of these hypothesized heterogeneous treatment effects were collected either from administrative data prior to the survey or from questions in the survey prior to administration of the survey experiment.

To determine firms' ownership structure *(Foreign)*, we use a dichotomous measure. *Foreign* is coded as 1 if a firm is registered as a foreign company and answered the PCI-FDI survey (FDI=1). In contrast, firms that are registered as a domestic firm and answered the PCI survey are coded as 0.

We measure firms' exposure to foreign markets based on firms' reported customer base, which we then collapse into a dichotomous variable *(Export)*. Firms that are partly or exclusively engaging in exporting to home country (only applicable in the Vietnam foreign firm sample), exporting to a third country, or exporting indirectly through an overseas buyer or larger foreign company are coded as 1 and 0 otherwise.[46]

To measure environmental risk exposure, we use two measures. First, *Environmental damage* is a continuous variable indicating the (logged) economic loss (in VND) due to environmental disaster(s) suffered by the firm in the previous year. Second, *Environmental impact* is the firm's answer on a ten-point scale of environmental risk pioneered in the Rockefeller Foundation's City Resilience Index of climate change.[47]

Question wording of all survey items used in the main analysis is included in Table 1 of the Appendix.

4.4 EMPIRICAL SPECIFICATION

4.4.1. Difference-in-Means

Given random assignment, we can estimate the average treatment effect (ATE) as:

$$\alpha_{ATE} = \mathrm{E}\left[\mathrm{Y}_{Reg.} - Y_{Soc.}\right] = \mathrm{E}[Y|D = RegPress] - E[Y|D = SocPress]$$

where Y denotes our outcome variable of interest and D indicates whether the respondent was assigned to the government pressure text (*RegPress*) or the NGO social pressure text (*SocPress*). We then use a two-sample t-test to evaluate whether there is a significant difference between the means of our two treatment groups. We reject the null hypothesis H_0: $\alpha_{ATE}=0$ against the alternative H_1: $\alpha_{ATE}\neq 0$ at the 5 percent significance level if $|t|>1.96$.

46 An analysis of foreign firms' exports to developed versus developing countries is included in the online appendix.

47 https://www.rockefellerfoundation.org/report/city-resilience-index-2/

4.4.2. Regression Analysis

We use a linear regression model with robust standard errors (u) clustered at the primary sampling unit (p) level. Firms are indexed by i. As above, there are two outcome variables (y) to capture the extensive margin (1=any investment) and the intensive margin (five-point scale of investment size). The constant α_0 depicts the average green investment for firms receiving the *SocPress*, whereas α_1 provides the ATE of the *RegPress* over and above the effect of the *SocPress*. We include fixed effects for the relevant blocking variables, including broad sector (γ), age (χ) and legal form (φ). In sensitivity tests, we substitute entry year fixed effects, which range from 1996 to 2019, for the dichotomous measure of firm age, and we replace broad sector with more fine-grained two-digit sector fixed effects based on the fourth revision of the International Standard Industrial Classification (ISIC) coding scheme.[48] We also control for firm size, including the number of employees to date (in 2020) *(Labor)* which we consolidate to a six-point scale ranging from fewer than 5 (1) to over 200 workers (6). As a second measure of size, we use firms' reported equity capital *(Equity).* Firms indicated the amount of their investment size to date (in 2020) on a 1-8 point scale. This measure ranges from under 0.5 billion VND (equivalent to US$25,000) (1) to above 500 billion VND (equivalent to US$25 million).[49]

$$y_{ip} = \alpha_o + \alpha_1 \text{RegPress}_{ip} + \gamma_{ip} + \chi_{ip} + \varphi_{ip} + u_{ip}$$

We use OLS regressions to estimate heterogeneity in treatment effects among firm subgroups, where we regress our outcome variable on treatment status as well as interaction terms of the treatment variable and the covariate of interest.

4.5 RESULTS

4.5.1. Difference-in-Means

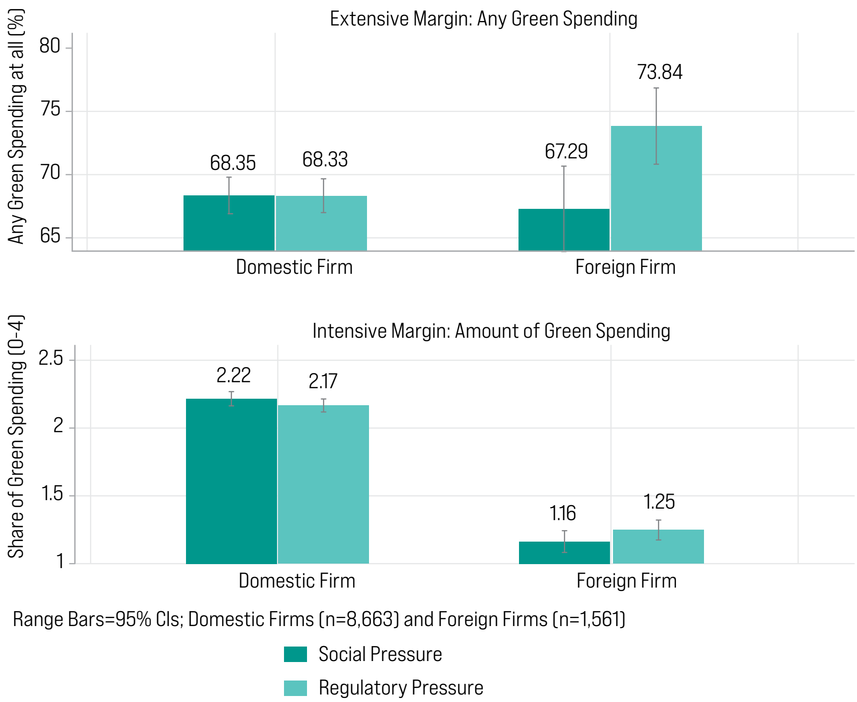
Figure 4.6 shows the average treatment effects for firms' willingness to invest in improving their environmental performance in response to the information treatments for both samples. The top panel tests the extensive margin (any investment at all), while the bottom panel displays the intensive margin (share of investment). The dark green bars depict the firms exposed to the social pressure treatment, while light green shows the firms exposed to regulatory treatment. Domestic firms appear on the left side of each panel and foreign firms are on the right.

48 https://unstats.un.org/unsd/publication/seriesM/seriesm_4rev4e.pdf

49 Additional sensitivity tests control for profitability on an eight point scale, profit margin, and equity size on an eight point scale.

We find that foreign investors are susceptible to intensive regulatory pressure. Seventy-four percent of foreign businesses that received the regulatory treatment expressed a willingness to expend greater resources on environmental upgrading, compared to 67 percent of firms that received the social pressure treatment (a 7-percentage point average treatment effect (ATE) that is significant at the p<.05 level). By contrast, we find no difference for domestic investors; 68 percent expressed a willingness to invest in new environment equipment and process, regardless of treatment. We also do not find evidence for change on the intensive margin - the amount of expenditures relative to operating costs that foreign and domestic firms were willing to put forth on green operations.

Figure 4.6 Difference-in-Means by Regulatory Pressure and Ownership Type



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

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

4.5.2. Regression Analysis

Table 4.2 provides the fully specified regression results in two models for each sample. Model 1 uses fixed effects for all blocking variables and controls for firm labor size. Model 2 uses more fine-grained measures of entry year and two-digit fixed effects, also controlling for firm labor size.

After controlling for potential confounders, we find very similar outcomes to Figure 4.6. We find statistical evidence of the greater regulatory pressure on foreign firms on the extensive margin, but no evidence for domestic firms. Foreign firms receiving the regulatory enforcement treatment have a 6.7 percentage point greater probability of investment than those receiving the social pressure treatment. Results for the intensive margin (investment share) are small and statistically insignificant, equal to about 1/10th of a point on the 0 to 4-point scale.

Table 4.2: Effect of Regulatory Pressure on Environmental Spending

Dependent variable:	Any Green Spending=1				Amount of Green Spending (0-4)			
	VN-Foreign		VN-Domestic		VN-Foreign		VN-Domestic	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Regulatory Pressure=1	0.066*	0.067**	0.002	0.011	0.095^	0.075	-0.043	-0.050
	(0.025)	(0.022)	(0.014)	(0.012)	(0.050)	(0.055)	(0.044)	(0.045)
Labor Size (1-6)	-0.001	-0.007	0.012*	0.011*	-0.019	-0.013	0.032^	0.040*
	(0.013)	(0.011)	(0.006)	(0.005)	(0.025)	(0.028)	(0.018)	(0.020)
Constant	0.673***	0.972***	0.639***	0.297^	1.191***	0.975***	2.082***	0.992*
	(0.068)	(0.074)	(0.023)	(0.160)	(0.113)	(0.148)	(0.082)	(0.451)
Categorical Age FE	YES	NO	YES	NO	YES	NO	YES	NO
Broad Sector FE	YES	NO	YES	NO	YES	NO	YES	NO
Legal Form FE	YES	YES	YES	YES	YES	YES	YES	YES
License Year FE	NO	YES	NO	YES	NO	YES	NO	YES
2-Digit ISIC FE	NO	YES	NO	YES	NO	YES	NO	YES
Observations	1,514	1,413	7,853	9,266	1,514	1,413	7,853	7,853
Clusters	22	22	63	63	22	22	63	63
R-squared	0.006	0.033	0.003	0.011	0.008	0.045	0.003	0.013
RMSE	0.454	0.456	0.461	0.460	1.093	1.099	1.666	1.665

Robust standard errors, clustered at province level in parentheses (*** p<0.001, ** p<0.01, * p<0.05, ^ p<0.1).

4.5.3. Heterogenous Effects

Ownership (Hypothesis 2)

To formally estimate the potential heterogenous treatment effect across domestic versus foreign firms as claimed in Hypothesis 2, we merge the firm responses from the PCI and PCI-FDI surveys into one Vietnam dataset, generating a binary variable which denotes whether a firm is registered as a foreign firm (Foreign=1) or a domestic firm (Foreign=0). We run the following regression model, which includes the interaction between RegPress and Foreign:

$$y_{ip} = a_0 + a_1 RegPress + a_2 Foreign + a_3 RegPress_{ip} * Foreign_{ip} + y_{ip} + \chi_{ip} + \varphi_{ip} + u_{ip}$$

Table 4.3 report the results. Models 1 and 2 show the results for the extensive margin. Models 3 and 4 report the results for the intensive margin. We include a set of firm characteristics variables (employment size, age, and sector fixed effects) to account for the fact that while assignment to our information treatment is random, a firm's ownership structure is not and foreign firms might differ significantly from domestic firms on a number of structural characteristics that we care about.

Consistent with the above analysis, we find that foreign firms are significantly more likely than domestic firms to respond to regulatory pressure. The effect of the regulatory treatment leads to about a seven percentage point greater likelihood of spending on green activities among foreign firms than domestic firms. Similarly, the share of resources the firms are likely to spend is 0.14 points higher among foreign firms on the 0 to 4-point scale.

The clear policy conclusion for Vietnamese decision-makers is that enhanced regulatory pressure may enhance green spending among foreign firms, but will have little to zero effect among domestic firms. For domestic firms, there appears to be no difference between the utility of social versus regulatory pressure.

Table 4.3: Conditional Effect of FDI and Regulatory Pressure on Environmental Spending

Dependent variable:	Any Green Spending=1		Amount of Green Spending (0-4)	
	(1)	(2)	(3)	(4)
Regulatory Pressure=1	0.002	0.001	-0.044	-0.048
	(0.014)	(0.014)	(0.044)	(0.045)
FDI==1	-0.024	-0.035	-1.079***	-1.093***
	(0.027)	(0.024)	(0.074)	(0.082)
RegPressure*FDI	0.065*	0.071**	0.140*	0.134^
	(0.028)	(0.026)	(0.063)	(0.069)
Labor Size (1-6)	0.010^	0.011^	0.023	0.031^
	(0.005)	(0.006)	(0.016)	(0.018)
Constant	0.646***	0.299^	2.106***	0.971*
	(0.023)	(0.156)	(0.078)	(0.429)
Categorical Age FE	YES	NO	YES	NO
Broad Sector FE	YES	NO	YES	NO
Legal Form FE	YES	YES	YES	YES
License Year FE	NO	YES	NO	YES
2-Digit ISIC FE	NO	YES	NO	YES
Observations	9,367	9,266	9,367	9,266
Clusters	63	63	63	63
R-squared	0.004	0.011	0.053	0.057
RMSE	0.460	0.460	1.587	1.593

Robust standard errors, clustered at province level in parentheses (*** p<0.001, ** p<0.01, * p<0.05, ^ p<0.1).

Export activity (Hypothesis 4)

Hypothesis 4 represents the notion that social pressure will be more effective among firms hoping to access foreign markets, where consumers may be willing to pay attention to environmental standards in their purchasing decisions. We examine the extent to which firms' exposure to foreign markets affects their responsiveness to different types of external pressure to pursue environmental upgrading by estimating the following regression:

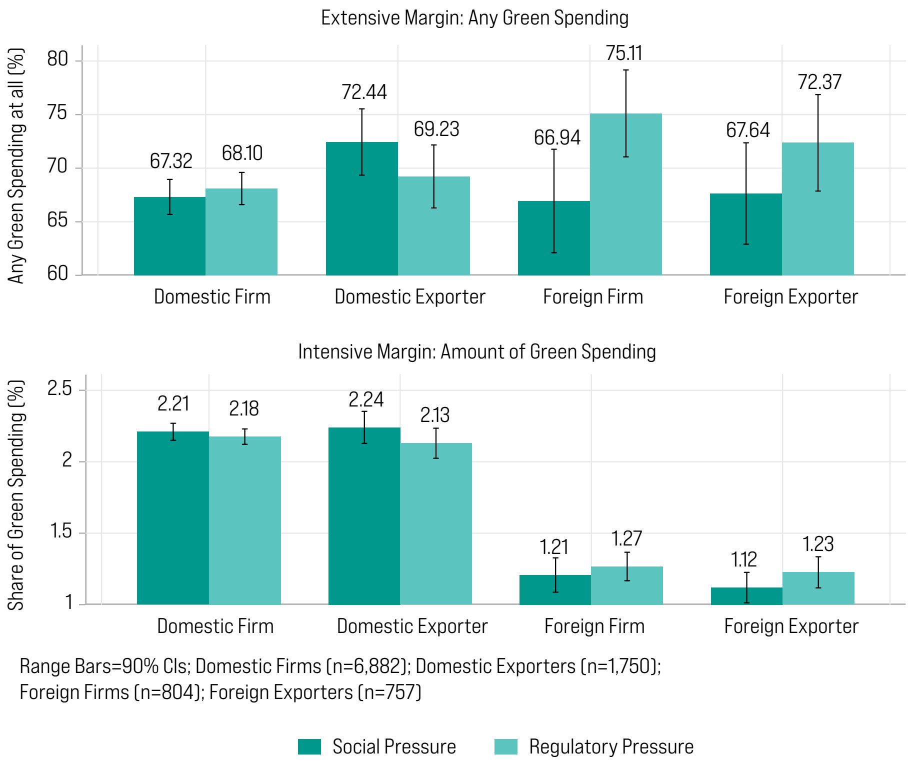
$$y_{ip} = a_0 + a_1 RegPress + a_2 Export + a_3 FDI_{ip} + a_4 RegPress_{ip} * Export_{ip} + a_5 RegPress_{ip} * FDI_{ip} + a_6 RegPress_{ip} * FDI_{ip} * Export_{ip} + \chi_{ip} + \varphi_{ip} + u_{ip}$$

The unadjusted results are reported in Figure 4.7, where we label non-exporters as domestic and foreign firms, respectively, while firms that export are called domestic and foreign exporters. Full regressions are reported in Table 4.4, where we include categorical age, broad sector, and legal form fixed effects, and cluster standard errors at the primary sampling unit level.

Figure 4.7 shows that the effects on the extensive margin are most pronounced for foreign firms seeking to access the domestic market and domestic firms pursuing export. However, the type of stakeholder pressure that matters most varies between the two groups. Domestic-oriented foreign firms, particularly because of their visibility and size, are more likely to respond to the regulatory pressure treatment (ATE=8.2 percentage points versus 4.6 percentage points for foreign exporters). By contrast, export-oriented domestic firms, because they are concerned about selling to overseas consumers who may be willing to pay higher prices for green produces, are more likely to be influenced by the social pressure treatment (ATE=3.21 versus 0.8 percentage points for domestic-oriented domestic firms). Again, we do not see any effects on the intensive margin.

The results are confirmed in the more rigorous regression specification (Table 4.4). Domestic exporters are most likely to be influenced by social pressure, whereas foreign firms respond more aggressively to enhanced regulatory pressure.

Figure 4.7 Difference-in-Means by Regulatory Pressure, Ownership Type, and Export Orientation



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

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

Table 4.4 Conditional Effects of FDI, Export Orientation, and Regulatory Pressure on Environmental Spending

Dependent variable:	Any Green Spending=1		Amount of Green Spending (0-4)	
	(1)	(2)	(3)	(4)
Regulatory Pressure=1	0.011	0.010	-0.026	-0.030
	(0.015)	(0.015)	(0.050)	(0.051)
Domestic Exporter (DDE)=1	0.041*	0.042*	0.001	0.000
	(0.019)	(0.020)	(0.069)	(0.069)
Foreign Firm (FDI)=1	-0.017	-0.030	-1.028***	-1.038***
	(0.032)	(0.031)	(0.093)	(0.106)
Foreign Exporter (FDE)=1	-0.014	-0.022	-1.143***	-1.165***
	(0.037)	(0.034)	(0.086)	(0.088)
RegPressure*DDE	-0.044*	-0.046*	-0.084	-0.085
	(0.022)	(0.022)	(0.079)	(0.079)
RegPressure*FDI	0.076*	0.080*	0.099	0.093
	(0.030)	(0.032)	(0.091)	(0.095)
RegPressure*FDE	0.033	0.041	0.141	0.136
	(0.041)	(0.037)	(0.088)	(0.095)
Labor Size (1-6)	0.009	0.010^	0.027	0.035^
	(0.006)	(0.006)	(0.017)	(0.018)
Constant	0.641***	0.300^	2.095***	0.956*
	(0.023)	(0.159)	(0.079)	(0.437)
Categorical Age FE	YES	NO	YES	NO
Broad Sector FE	YES	NO	YES	NO
Legal Form FE	YES	YES	YES	YES
License Year FE	NO	YES	NO	YES
2-Digit ISIC FE	NO	YES	NO	YES
Observations	9,367	9,266	9,367	9,266
Clusters	63	63	63	63
R-squared	0.004	0.012	0.053	0.057
RMSE	0.460	0.460	1.587	1.593

Robust standard errors, clustered the province level in parentheses (*** p<0.001, ** p<0.01, * p<0.05, ^ p<0.1).

Environmental risk vulnerability (H5)

In Hypothesis 5, we postulate that firms that are more exposed to environmental risk business are likely to show greater responsiveness to any type of pressure to engage in environmental upgrading. To test H5, we run the following regressions:

$$(1)\ y_{ip} = a_0 + a_1 RegPress + a_2 Env.risk + a_3 RegPress_{ip} * Env.damage_{ip} + y_{ip} + \chi_{ip} + \varphi_{ip} + u_{ip}$$

$$(2)\ y_{ip} = a_0 + a_1 RegPress + a_2 Env.risk + a_3 RegPress_{ip} * Env.impact_{ip} + y_{ip} + \chi_{ip} + \varphi_{ip} + u_{ip}$$

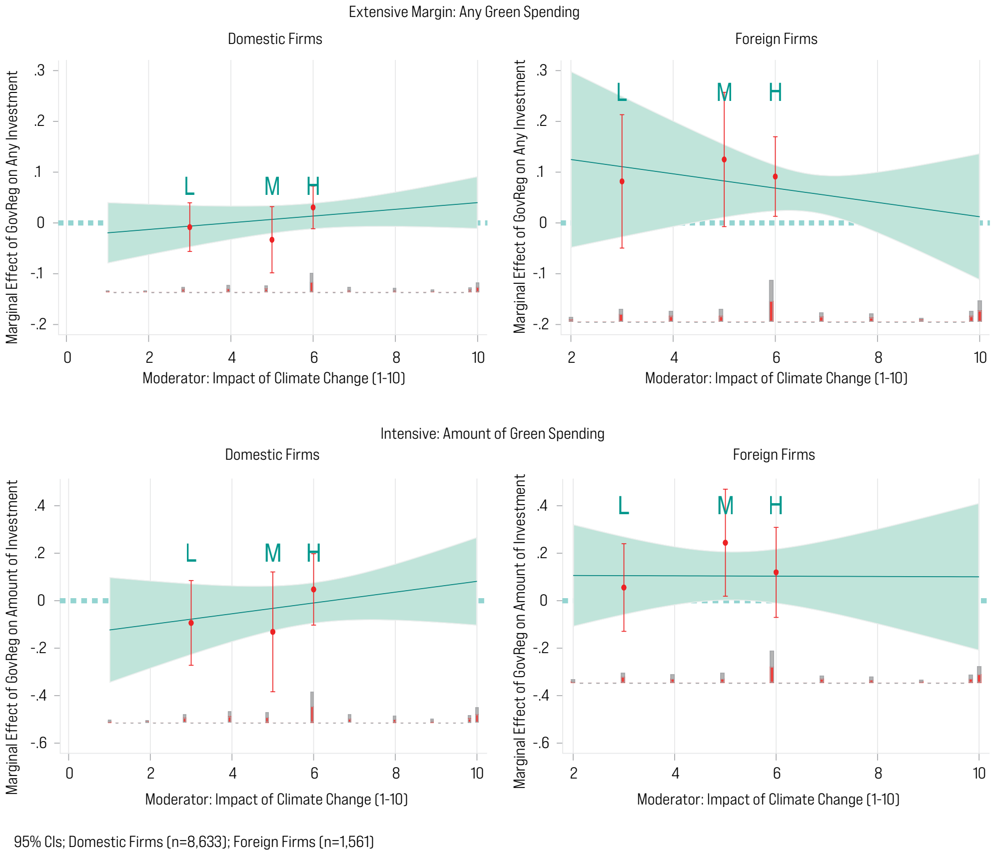
In Figure 4.8 we use the binning estimator suggested by Hainmueller et al. (2019) to estimate the effect of the interaction term between our treatment and firms' experienced damage from environmental disasters on our measures of environmental upgrading for both foreign and domestic firms. To this end, we use STATA's interflex commands to ensure that the core theoretical assumptions of the interaction effect are upheld, including: 1) effect sizes changing at a constant rate; and 2) common support across the moderator.

The results of the interaction analysis are clear. Firms' assessment of climate risk does not influence the effect of regulatory or social pressure on their decisions to upgrade. This can be seen most clearly by the range bars depicting 95 percent confidence intervals on the plots of low (L), medium (M), and high (H) levels of climate risk assessments by firms. Notice that in each of the four panels, the L, M, and H range bars overlap. This means that the average treatment effect of regulatory pressure does not significantly differ at different levels of climate risk.

These findings are consistent with the results from the fully-specified regression models. Table 4.5 presents the results from the regression analysis, where we control for firm size and performance, categorical age, broad sector, and legal form fixed effects, as well as clustered standard errors at the primary sampling unit level. We obtain the same findings for our objective measure of firms' exposure to environmental risk *(Environmental damage)* using firms' log economic loss caused by environmental disasters.

In sum, contrary to our expectations, we find that firms' objective and subjective exposure to climate risk does not influence their susceptibility to regulatory or social pressure. The higher the climate risk to a firm's particular business, the more likely they are to upgrade, but this effect is not enhanced by additional social pressure.

Figure 4.8 Interaction between Regulatory Pressure and Environmental Risk on Green Upgrading



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

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

Table 4.5 Regulatory Pressure Conditioned by Climate Change Risk

	Any Green Spending=1				Amount of Green Spending (0-4)			
Dependent variable:	VN-Foreign		VN-Domestic		VN-Foreign		VN-Domestic	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Regulatory Pressure=1	0.196^	0.210^	-0.017	-0.017	0.196^	0.210^	-0.017	-0.017
	(0.111)	(0.116)	(0.038)	(0.038)	(0.111)	(0.116)	(0.038)	(0.038)
Climate Risk (1-10)	0.013	0.014	0.000	0.001	0.013	0.014	0.000	0.001
	(0.010)	(0.012)	(0.005)	(0.005)	(0.010)	(0.012)	(0.005)	(0.005)
RegPressure*Risk	-0.020	-0.023	0.004	0.004	-0.020	-0.023	0.004	0.004
	(0.017)	(0.018)	(0.006)	(0.006)	(0.017)	(0.018)	(0.006)	(0.006)
Labor Size (1-6)	0.006	0.008	0.006	0.007	0.006	0.008	0.006	0.007
	(0.007)	(0.007)	(0.006)	(0.006)	(0.007)	(0.007)	(0.006)	(0.006)
Performance (1-8)	-0.004	-0.005	0.007	0.007	-0.004	-0.005	0.007	0.007
	(0.012)	(0.010)	(0.006)	(0.007)	(0.012)	(0.010)	(0.006)	(0.007)
Constant	0.636***	0.846***	0.674***	1.241***	0.636***	0.846***	0.674***	1.241***
	(0.078)	(0.148)	(0.045)	(0.113)	(0.078)	(0.148)	(0.045)	(0.113)
Categorical Age FE	YES	NO	YES	NO	YES	NO	YES	NO
Broad Sector FE	YES	NO	YES	NO	YES	NO	YES	NO
Legal Form FE	YES	YES	YES	YES	YES	YES	YES	YES
License Year FE	NO	YES	NO	YES	NO	YES	NO	YES
2-Digit ISIC FE	NO	YES	NO	YES	NO	YES	NO	YES
Observations	1,098	1,070	6,874	6,874	1,098	1,070	6,874	6,874
Clusters	22	22	63	63	22	22	63	63
R-squared	0.013	0.049	0.003	0.014	0.013	0.049	0.003	0.014
RMSE	0.429	0.430	0.441	0.441	0.429	0.430	0.441	0.441

Robust standard errors, clustered the province level in parentheses (*** p<0.001, ** p<0.01, * p<0.05, ^ p<0.1).

4.6 CONCLUSIONS

In Conclusion 56, the new Law on Environmental Protection, and Resolution 50, the Vietnamese leadership outlined admirable ambitions for promoting sustainable development in the country. A key part of this plan requires individual foreign and domestic investors to adopt more environmentally friendly technology, processes, and management. As with all VCP resolutions, Conclusion 56 and Resolution 50 offer broad targets and big ambitions, but leave the details of how to achieve these goals to the country's legislative institutions. Additional environmental goals were taken up by the VNA when it passed the revised LEP in 2020 and attempted to achieve sustainable economic growth through more streamlined and targeted regulations.

In this chapter, we test the relative effectiveness of two different approaches to encourage this expensive and potentially risky behavior by firms. First, the Vietnamese government can pass stringent environmental legislation and enforcement procedures, which we refer to as the ***Regulatory Pressure*** mechanism. Second, Vietnamese leaders can transparently publicize their goals but outsource monitoring and publication of environmental upgrading to non-state actors, allowing market forces to punish negligent firms through NGO and civil society activism, such as media campaigns and coordinated boycotts. We refer to this as the ***Social Pressure*** mechanism.

We find that the most effective policy varies by actor. Foreign investors are more susceptible to intensive regulatory pressure, but there is no difference in the effects of the two approaches on domestic firms. Once we account for export orientation, however, we find that the most amenable policy targets for regulatory pressure are foreign firms who wish to sell in the Vietnamese domestic market. These firms are both more visible and also more likely to engage in preemptive upgrading as a way of signaling to Vietnamese leaders that regulation is useful, and thereby also creating an entry barrier for domestic competitors and other foreign firms attempting to enter Vietnam. By contrast, the best target for social pressure is Vietnamese domestic firms that wish to sell abroad, because they are concerned about selling to overseas consumers with potentially stronger environmental values.

The bottom line is that there is not a one-size-fits-all approach to the encouragement of environmental upgrading. Enhanced regulatory effort on domestic firms will not pay the same dividends as it does for foreign firms and comes with significantly more costs to inspect the numerous, diffuse, and small domestic firms. At the same time, for ambitious domestic firms hoping to reach international markets, social pressure will be an extremely effective force in motivating green behavioral change.

4.7 APPENDIX

Question Wording of Key Variables

Variable	Question	Response categories
Any spending **(Extensive margin)**	Based on this trend, please tell us the maximum amount of adjustments (as a share of operating costs) that you would be willing to make in order to make your company more environmentally friendly.	0= Zero percent 1=Values > than zero percent
Share **(Intensive margin)**	Based on this trend, please tell us the maximum amount of adjustments (as a share of operating costs) that you would be willing to make in order to make your company more environmentally friendly.	1=1 to 2 percent 2=2 to 5 percent 3=5 to 10 percent 4=Over 10 percent
Equity	What was your firm's actual (implemented) investment size (total assets, BVND) to date in 2020?	1=Under 0.5 BVND 2=From 0.5 to under 1 BVND 3=From 1 to under 5 BVND 4=From 5 to under 10 BVND 5=From 10 to under 50 BVND 6=From 50 to under 200 BVND 7=Between 200 and 500 BVND 8=Above 500 BVND
Labor	What was the employment size of your firm to date in 2020?	1=Less than 5 2=From 5 to 9 3=From 10 to 49 4=From 50 to 199 5=200 and over

Variable	Question	Response categories
Performance	We would like to know a little bit about your company's performance. This will help us understand how changes in the business environment affect the success of foreign enterprises in your industry. Please let us know how your firm's profit margin (net profit after taxes/revenue) has changed over time?	1=Loss of 10 percent of revenue or greater 2=Between 10 and 5 percent loss 3=Between 5 and 0 percent loss 4=Broke even 5=Between 0 and 5 percent profit margin 6=Between 5 and 10 percent profit margin 7=Between 10 and 20 percent profit margin 8=Over 20 percent profit margin
Profit margin	**VN-Domestic and VN-Foreign only:** $\text{profit.margin} = \ln \frac{\text{sale - expenditure}}{\text{equity}}$ Sales: Please estimate the total value of your sales of goods and services in LAST YEAR? Expenditure: Please estimate the total value of your expenditures (including those purchases in domestic market and imported) for intermediate goods and services in 2019?	Sales: Nominal value in USD Expenditure: Nominal value in USD
Foreign	**VN-Domestic and VN-Foreign only**	0=Answered PCI survey 1=Answered PCI-FDI survey

Variable	Question	Response categories
Export	Who are your customers? Please check all that apply.	1=Sold domestically to a state-owned enterprise (SOE) 2=Sold to state agencies (at central and local level) 3=Sold domestically to private individuals 4=Sold domestically to private firms 5=Sold to foreign individuals located in Vietnam 6=Sold to foreign firms located in Vietnam 7=Exported to home country 8=Exported indirectly through overseas buyer or larger foreign company.
Environmental impact	**VN-Domestic, VN-Foreign:** Assume that there are two extreme scenarios in the ten-point scale below of climate change that could potentially impact your business: A score of ten means that climate change has *no negative impact* and *it only creates opportunities* for your business (for example, creating new business opportunities, new products or service on climate forecasts, generates electricity from new energy industries such as solar and wind power). A score of one means that climate change *only creates negative impacts* and it offers *no positive benefits* for your business (for example, damaging offices, manufacturing facilities, disrupting the business's production or service). How would you evaluate the impact of climate change on the activities of your firm? (Please circle the number between 1 and 10 that best fits your experience).	1 Best-case scenario 2 3 4 5 6 7 8 9 10 Worst-case scenario
Environmental damage	Please estimate the level of overall damage from the above-mentioned weather phenomena to your firm.	Nominal value in million VND

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Design by Golden Sky Co.,Ltd. | 0243 9728458
Publishing licence No: 899-2021/CXBIPH/129-27/TN and 573/QĐ-NXBTN Issued on March 31, 2021
ISBN: 978-604-326-389-3

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