PCI 2014

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2014

Measuring economic governance for business development

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FOREWORD

The 2014 PCI report marks the 10th Anniversary of the Vietnamese Provincial Competitiveness Index (PCI). The longevity of this humble research tool is credited to the entrepreneurs and investors who dutifully take time out of their busy days to respond to the questionnaire, and to the national and provincial leaders who employ the index in their reform efforts. The PCI would not have existed so long and reached so many people without the efforts of these stakeholders.

For a decade, the PCI has proudly provided a voice for the needs, the hopes, and the dreams of thousands of investors in Vietnam, allowing them to speak directly and powerfully to policy-makers at both national and local levels. This voice is even more important today, as Vietnam embarks on the next stage of its development as a middle-income country. The challenges before businesses are even more daunting now, as they must find ways to succeed in a fast-changing, hyper-connected global economy, where mistakes may be quickly and expensively punished. The PCI intends to be there for investors in this new era, making sure policy-makers understand the challenges Vietnamese businesses along with companies doing business in Vietnam face, and suggesting effective solutions.

Through the years, the PCI has also aspired to be useful tool for Vietnam's policy-makers by providing objective indicators of the quality of economic governance in areas that are crucial to investment and growth. These indicators shed light on where reforms are needed and provide clear signals about how to improve regulatory quality.

Like its predecessors, *Provincial Competitiveness Index 2014* is built on the voices of 9,859 domestic non-state enterprises from all 63 provinces. It also covers the opinions of 1,491 foreign-invested enterprises operating in Vietnam, in order to place provincial competitiveness in the broader context of Vietnam as an international investment destination.

The *Provincial Competitiveness Index 2014* is the second of a series of Provincial Competitiveness Index reports that is wholly administered by the Vietnam Chamber of Commerce and Industry (VCCI) with support from the U.S. Agency for International Development (USAID). This is a symbol of successful development assistance with lasting effects where a local partner, i.e. VCCI, has evolved to become a fully capable partner to continue bringing the Program to the next level of success.

Chapter 1 of the *Provincial Competitiveness Index 2014* provides insights into the latest developments in ten areas of economic governance within the provinces. It also sheds light on confidence levels and perceptions of future business prospects, as expressed by Vietnam's private sector. This year,

the PCI research team also defended the research methodology from outside interference, exposing how they identify manipulation, and the precautions taken to maintain the integrity of the rankings. The key lesson here is that advancing in the PCI rankings requires hard work at improving actual governance for local businesses. There are no easy short-cuts.

Chapter 2 discusses the views of Foreign Invested Enterprises regarding local governance and includes a special analysis into labor quality and business-labor relations in Vietnam. These issues have become critical as Vietnam seeks to attract the types of investors who can upgrade the Vietnamese economy and launch a new era of rapid economic growth.

Chapter 3 studies the knowledge about and support for the Trans-Pacific Partnership (TPP) among domestic and foreign investors in Vietnam. The chapter illustrates that businesses are broadly supportive, but are not fully informed about the details of the agreement. One fascinating finding is that all businesses, regardless of market orientation or sector, are most supportive of the chapters of the TPP agreement that will push the country toward even greater economic reform.

As with previous PCI reports, we hope that the *Provincial Competitiveness Index 2014* will provide policy-makers and provincial leaders with useful information and recommendations for consideration and action. We also hope that this effort will contribute toward improving Vietnam's regulatory and institutional quality, leading to greater competitiveness and a higher standing in the world economic system. The ultimate goal is to promote greater investment, job creation, and prosperity for all Vietnamese citizens.

Vu Tien Loc, Ph.D.

Chairman and President
Vietnam Chamber of Commerce & Industry

Joakim Parker

Mission Director
USAID/Vietnam

"PCI is increasingly appreciated at the provincial level, partly because of its usefulness to provincial leaders, as it gives insights into areas in need of improvement and change from the local businesses' perspectives. Yet another reason showing PCI's influence is that it has become an important reference for investors considering investment decisions. PCI can be considered as an important drive for business environment reforms in Vietnam."

Mr. Nguyen Cao Cuong

Chief Editor, Foreign Investment Review, March 2013, Vietnam

"The PCI is very important in strengthening the role and the voice of business associations in Vietnam. Fostered by PCI, many provincial governments have been aware of the increasing importance of private sector and business associations in their provinces. Special thanks to VCCI for this great initiative."

Mr. Nguyen Van Thoi

Chairman, TNG Investment and Trading JSC, President of Thai Nguyen Business Association

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"Foreign investors use PCI data and find it as a valuable information for consideration in the overall decision making process in the context of "investment/expansion" of their investment in a certain province or city in Vietnam..."

Mr. Gaurav Gupta

General Director, General Motors Vietnam Company Ltd

"PCI has become an important tool used to bring economic governance insights to provincial leaders and enable them to find ways of improving governance and promoting local socio-economic development. For businesses, PCI serves as the most important channel to voice opinions and expectations. For the central government, PCI gauges the gaps to be filled between policy design and implementation, between centralization and decentralization, between policy ideas and what is needed in real life, by businesses and citizens – the key subject of every policy."

Mdm. Pham Chi Lan

Senior Economist, Vietnam

"Congratulations on your 10 years! The PCI has overcome harsh criticism on its first days, and become a recognized, reliable tool for the Government and People's Committees of cities and provinces to refer to during administrative reforms, as well as a basis for domestic and foreign enterprises to consider their investment locations. The reputation of the PCI has come beyond Vietnam's border, as it has been replicated by a number of countries.

The PCI has turned 10 at the time when Vietnam strongly commits to international economic integration, thus, enhancing competitiveness has become the country's vital mission. May the PCI continue to grow and accompany these reforms of the country."

Dr. Le Dang Doanh
Senior Economist, Vietnam

"PCI is carrying out what deserves to be called a "noble mission": evaluating capacity and effectiveness of local governments in facilitating a market and pro-business economy via provision of a regulatory framework and favorable conditions for businesses. The important, practical value of the annual PCI reports does not only lie in their provision of a "static" picture which helps identify and monitor performance of the central government in general and provincial governments in particular. More importantly, these reports create motivation to drive the mindset development process toward a healthy competition among provincial governments in providing better services to businesses and the market.

In Vietnam, during the economic innovation process, to date, few works have been found to show such strong and direct forces for development as PCI"

Associate Professor Dr. Tran Dinh Thien
General Director, Vietnam Institute of Economics

"PCI is a powerful tool for businesses, policymakers and researchers. Businesses can use PCI to decide where to invest. Policymakers can use PCI to benchmark the performance of their provincial government and identify areas to improve. Researchers, like me, use PCI to show how governance quality can advance many economic and social outcomes."

Dr. Tran Ngoc Anh
Associate Professor, Indiana University and Harvard University, USA

"The PCI provided critical capacity to monitor reform efforts and contributed to multiple learning effects within and across provinces. It thus enhanced Vietnam's capacity to find its own way forward."

Hubert Schmitz
Professor, Institute of Development Studies, University of Sussex, United Kingdom

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"In doing research on determinants of governance at the subnational level, I looked around the world for surveys that systematically tracked the performance of provincial governments over time. I discovered that the Vietnam PCI survey is really unique in the world in providing an annual, provincial comparison over such a long time period. It's a great dataset."

Benjamin Olken
Professor of Economics, MIT Department of Economics, Cambridge, USA

The PCI's data on how firms interact with government enabled us to produce our research study. No other data source has such rich information on firm-government relations.

Seema Jayachandran
Economist, Northwestern University, USA

"PCI has allowed us to compare business perceptions of a broad set of governance issues in places with very different political histories, providing a detailed snapshot of subnational governance that is simply not available for most other parts of the world. It is incredibly rare to find such a rich dataset on governance that is also useful for doing statistical analysis at a sub-national level."

Melissa Dell
Assistant Professor of Economics, Department of Economics, Harvard University, USA

"The single best sub-national governance index in the world."

Dr. Neil McCulloch
Director for Economic Policy, Oxford Policy Management, United Kingdom

"The Provincial Competitiveness Index (PCI) marks an important milestone in VCCI's efforts to improve the Vietnam's business environment ... contributing to enhancing transparency and competitiveness, pushing local governments to create an enabling and level-playing business environment to attract domestic and foreign investment. Such efforts are highly appreciated by international donors in Vietnam "

Mdm. Victoria Kwakwa

World Bank's Country Director in Vietnam, March 28, 2015 at VCCI

"As a leader donor on anti-corruption, the UK uses the Provincial Competitiveness Index data to help inform policy dialogue and policy makers respond positively. PCI forms a bed rock of data for what we know about the challenges that corruption poses to business. It is an invaluable survey which gives, over time, strong evidence of provincial performance against critical parameters that affect how firms and enterprises can do business."

Fiona Louise Lappin

Head of Department for International Development (DFID) in Vietnam, March 2013

"Not only being useful for businesses and investors, but PCI is also a valuable tool for National Assembly delegates, and representatives of Provincial people's councils to oversee the quality of economic governance and provincial business environment in Viet Nam."

Mr. Nguyen Van Phuc

Vice Chairman of the Economic Committee, Vietnam's National Assembly

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"... Improving the investment environment, providing support for enterprises to do business is one of top priorities of action for Ha Noi city. Improving PCI is considered one of key and regular tasks for Ha Noi government this year and the years to come…"

Mr. Nguyen The Thao

Chairman of Hanoi People's Committee, Vietnam Business Forum Newspaper, dated 10/14/2013

"It is worthy to consider PCI as a "thermometer" measuring businesses' attitudes toward local governments, which, in turn, serves as a basis for the governments to "prescribe" and know how to use the right "medication" for any "fever" that needs treatment, in other words, to find the right solutions to improve weaknesses in governance, in order to have a healthy business and investment environment."

Mr. Le Minh Hoan

Secretary of the Party Committee of Dong Thap Province, Vietnam Business Forum Newspaper, dated 03/21/2014

"Without PCI, efforts to improve the business environment of the country in general and provinces in particular will still be made. It is, however, very likely that business satisfaction as a measure of success in local economic governance may have not become one of the most important criteria in such efforts like today. This is the driver for administrative procedure reforms at local governments."

Mr. Vu Dai Thang

Vice Chairman of the People's Committee of Ha Nam Province, Vietnam Business Forum Newspaper, dated 03/28/2015.

… "At district level, from the findings of PCI survey, especially PCI sub-indices and indicators, district governments in cities and provinces can learn how to simplify administrative procedures, improving the business environment, promoting Information Technology application, etc in order to better serve the increasingly high demand of public services of businesses and citizens"

Mr. Ho Ky Minh

Secretary of District Committee of Cam Le district, Da Nang City

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Edmund Malesky, Associate Professor of Political Economy at Duke University, led the development of the PCI's research methodology and was the primary author for the presentation of its analytical findings.

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ABBREVIATIONS AND ACRONYMS

AMCHAM	American Chamber of Commerce
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CI	Confidence Interval
CIT	Corporate Income Tax
DCI	District Competitiveness Index
DONRE	Department of Natural Resources and Environment
DPI	Department of Planning and Investment
FDI	Foreign Direct Investment
FIE	Foreign Invested Enterprise
GSO	General Statistics Office
GDT	General Department of Taxation
HR	Human Resources
ILO	International Labor Organization
IPA	Investment Promotion Agency
IQR	Interquartile Range
ISIC	Industrial Classification Codes
IZ	Industrial Zones
JBAV	Japanese Business Association in Vietnam
JETRO	Japan External Trade Organization
JV	Joint Venture
LURC	Land Use Rights Certificate
MOET	Ministry of Education and Training
MOF	Ministry of Finance
MPI	Ministry of Planning and Investment
OECD	Organization for Economic Cooperation and Development
OSS	One-Stop-Shop

PCI	Provincial Competitiveness Index
RRT	Randomized Response Technique
SPS	Sanitary and phytosanitary
SOEs	State-owned Enterprises
TBT	Technical Barriers to Trade
TI	Transparency International
TPP	Trans-Pacific Partnership
UCT	Unmatched Count Technique
USA	United States of America
USAID	United States Agency for International Development
USTR	United States Trade Representative
VAT	Value Added Tax
VCCI	Vietnam Chamber of Commerce and Industry

PCI 2014

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2014

EXECUTIVE SUMMARY

SUMMARY AND KEY FINDINGS FROM CHAPTER 1

Domestic Private Sector Survey and Provincial Competitiveness Index 2014

- ***The Tenth Provincial Competitiveness Index (PCI):*** The PCI, in order to promote the development of the private sector, is designed to assess the ease of doing business, economic governance, and administrative reform efforts by local governments of provinces and cities in Vietnam. The 2014 PCI is the tenth iteration of the report. The report is based on a rigorous survey of the perceptions of 9,859 domestic firms. The PCI augments the collective voice of private entrepreneurs in Vietnam regarding economic governance in their province and the country.

- ***What Does the PCI Measure?*** The overall PCI comprises ten subindices reflecting economic governance areas that affect private sector development. A province that is considered to perform well on the PCI is the one that has: 1) low entry costs for business start-up; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable business information; 4) minimal informal charges; 5) limited time requirements for bureaucratic procedures and inspections; 6) minimal

crowding out of private activity from policy biases toward state, foreign, or connected firms; 7) proactive and creative provincial leadership in solving problems for enterprises; 8) developed and high-quality business support services; 9) sound labor training policies; and 10) fair and effective legal procedures for dispute resolution.

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

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

- ***Newly Registered Firms***: This year, the PCI included a random sample of 1,768 newly registered firms in order to offer a more precise gauge of registration procedures in the country.

Brighter Business Prospects in 2014

- ***Rising growth***: The PCI 2014 Survey revealed signs of a positive business environment. 10.8% of domestic firms planned to increase their operations after two years at a historical nadir. Inflation-adjusted average investments rose to VND15.1 billion, the highest level in nine years, and twice the amount recorded in 2006. The number of firms adding employees also almost doubled to 11.5% from the record low levels of 2012 and 2013.

- ***Increased business confidence***: In 2014, nearly half the firms (46.1%) expected to expand their businesses in the next two years, an increase from the 32.5% reporting such plans in 2013. Only 8.3% planned to reduce the size of their operations or to close the business. For the first time in five years, the PCI Business Thermometer is able to report improved business confidence.

The 2014 Provincial Competitiveness Index (PCI)

- ***The Median PCI Score is Up***: This year, the PCI score of the median province increased to 58.58 points from 57.81 in 2013. Compared with previous years, the score gap between the provinces continues to narrow. This reflects a trend toward convergence in the quality of governance with "star" provinces hindered by limited breakthroughs on hard reforms while provinces in the more poorly-governed areas continue to catch up by implementing relatively easy reforms, such as accelerating the process of business registration and reducing time spent on administrative procedures.

- ***Da Nang Again Tops the Rankings***: In 2014, Da Nang continued its reign as the top performing province with a PCI score of 66.87. Its success results from the effective implementation of the "Year of Enterprise" program, under which the city government has implemented many practical initiatives to create a favorable environment for business development.

- ***Other Excellent Provinces***: Following Da Nang are the two provinces of Dong Thap (65.28 points) and Lao Cai (64.67 points). Both provinces demonstrate unique innovations. While Dong Thap's culture of considering enterprises as partners in socioeconomic development is greatly appreciated by local enterprises, Lao Cai created its own district competitiveness index (DCI) to receive feedback from businesses and other economic actors regarding the district and city governance. After ten years in the PCI Survey, Ho Chi Minh City achieved the distinction of being one of the five best-governed provinces and cities in Vietnam. This group also welcomes Quang Ninh for the second time. The lower half of the top ten provinces and cities is comprised of Vinh Phuc, Long An, Thai Nguyen, Kien Giang and Bac Ninh.

- ***Notable Improvement***: After being listed last in the PCI rankings for the past two years, Tuyen Quang's rise is a phenomenon that is explained by significant changes in its approach to business-government interactions and responsiveness.

Changes in Provincial Governance over Time

- ***Specific Policy Improvements***: In 2014, the most significant improvements were observed in the area of entry costs, followed by transparency, business support services, labor training and time costs. Specific policy advances include:
  - Shorter waiting periods for business to be fully operational
  - Increased One-Stop-Shop quality and efficiency
  - Greater business participation in policy-making processes and an enhanced local role of business associations.
  - Enhancements to business support services and labor quality.

- ***Governance Areas in Need of Improvement***: The PCI 2014 Survey showed worrisome declines in the markers of informal charges, leadership proactivity, and access to and security of land. In all three areas, respondents in the median province expressed the highest recorded pessimism since the first PCI report in 2005

The 2014 PCI Infrastructure Index

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

- ***Performance***: Ho Chi Minh City, Binh Duong, Da Nang, Ba Ria-Vung Tau and Dong Nai were rated the top five performers with the best infrastructure; the provinces finding themselves at the other bottom of the rankings were Cao Bang, Lai Chau, Bac Kan, Tra Vinh, and Dak Nong.

SUMMARY AND KEY FINDINGS FROM CHAPTER 2

The Foreign Investment Survey

- ***The Fifth Annual Survey of Foreign Direct Investors (FDI) in Vietnam***. The PCI-FDI survey covers a highly representative selection of 1,491 businesses from 43 countries whose operations are located in the 14 most economically developed provinces. While the PCI-FDI survey is not the only survey of foreign investment in Vietnam, it is the largest and most comprehensive assessment of this nature.

- ***Newfound Optimism Among Foreign-Invested Enterprises (FIEs)***. 16.3% of FIEs increased their investments in existing operations and 65.1% added new employees to their payrolls. The employment increase is the largest recorded in the PCI-FDI survey in five years.

- ***Better News on the Horizon***. Looking ahead to the next two years, according to the Business Thermometer, a question gauging prospective expansion plans, we see that optimism appears to be expanding rapidly. Over half of the businesses in the PCI-FDI sample intend to increase the size of their operations - the highest share recorded since 2010.

- ***Overall Competitiveness for Foreign Investment:***

  - *How does Vietnam compare to these other locations?* To pin this down, we asked firms to consider several factors that are important for investment success, and to designate whether Vietnam is superior to its main competitors in each category.

  - *Competitors*: In line with last year's survey, about half of the FIEs currently in Vietnam considered other countries (most commonly, China (20.5%), Thailand (18%), and Cambodia (13.9%)) before selecting Vietnam as their ultimate destination. Each of these shares has increased from 2013. The uptick itself represents an important marker of Vietnam's developmental standing. Vietnam is no longer the darling of the international investment community as it was between 2007 and 2010, and it must now compete against traditional regional destinations for FDI along with several emerging competitors such as the Philippines and Laos.

  - *Investment Strategy*: Of investors considering other countries, 83% selected Vietnam over the competition, while 17% entered Vietnam as part of a multi-country investment strategy.

  - *Competitive Advantages*: Asked to compare Vietnam to the other countries considered, FIEs answered very similarly to respondents in 2013. They noted that Vietnam fared well on: expropriation risk, policy stability, and ability to influence policies that affect their business. They rated Vietnam reasonably well on the burden of tax rates relative to its competitors.

  - *Competitive Disadvantages*: Echoing 2013, FIEs again consider Vietnam to be significantly less attractive when it comes to corruption, regulatory burdens, quality of public services (such as education and health care), and the quality and reliability of infrastructure.

- ***Detailed Analysis of Advantages***:

  - *Reasonable Taxes*: Vietnam has competitive tax rates; these are supplemented by generous tax incentives at the national and local levels. While investors appear to be motivated by the competitive tax regime, the evidence is not clear regarding whether targeted tax incentives are providing additional motivation for investors to select particular locales.

  - *Low Expropriation Risk*: Perceptions of property security have increased recently, coinciding with the passage of the amended Land Law in 2013. In past years, possession of land use rights certificates (LURCs) and industrial zone (IZ) location influenced firm responses to questions about expropriation risk by making them more confident. In 2014, there is little difference between firms with and without LURCs or between those in IZs and those outside. The key difference in expropriation risk appears to be at the provincial level with FIEs in the southern provinces of Da Nang and Tay Ninh reporting substantially more confidence than their peers in the security of their business premises.

  - *Low Policy Uncertainty*: FIEs report that they are better able to predict policy changes in Vietnam than in all its closest competitors. Scores on this measure have improved over time. Last year, policy predictability in Vietnam scored lower than in Malaysia and Indonesia. This year, however, investors report that they have even greater certainty about the Vietnamese policy-making process. Nevertheless, there is a great deal of room for improvement in the transparency of the policy-making environment. While scores have improved marginally over time, there is little evidence of substantive reform. Da Nang, Tay Ninh, Bac Giang, and Vinh Phuc stand out as the most transparent locations when it comes to documentation for foreign investment. Unsurprisingly, these were also the provinces considered by investors to have the most predictable policy implementation.

  - *Policy Influence*: FIEs report a high degree of policy influence in Vietnam, predominantly through their ability to join together and lobby the national government for key policy and regulatory changes that will improve their businesses. A second channel of influence favored by FIEs is lobbying at the provincial level. Here, success varies significantly by province. Investors in Da Nang and Bac Giang report that local leaders are responsive to their concerns, but investors in other locations have not been as successful. A noticeable trend appears to be that the success of the provincial approach for resolution is declining, as investors report increasing reluctance on the part of provincial officials to act independently of central decision-makers. Interestingly, this change appears to coincide with increasing reports of bias toward State Owned Enterprises in local decision-making.

  - *Corruption*: Perceptions of corruption among foreign investors are getting worse despite efforts made by Vietnamese authorities to address the problem. From business entry to procurement to customs to courts, FIEs acknowledge higher frequency and scale of unofficial side payments, and are concerned about the effect of this corruption on their operations. The most prominent exception to the national trend is Binh Duong province, where investors report lower frequency of bribe requests and smaller sizes of payments. Most strikingly, far fewer FIEs in Binh Duong (50%) report that they are disadvantaged when they refuse to pay, compared to 89% in the rest of the country.

- *Poor Infrastructure and Public Services*: With the exception of telephone services, FIEs in Vietnam express declining satisfaction with infrastructure. On infrastructure, investors place Vietnam in roughly the same neighborhood as its neighbors Cambodia and Laos. The greatest declines were recorded in roads, railways, connectivity between road and rail, and waste treatment. The only province not to experience declining perceptions of infrastructure was Da Nang, which ranks substantially ahead of its peers in all categories.

- *Regulatory Burden*: It is clear that Vietnam has put great effort into reducing the regulatory burden on foreign firms. Indeed, with regard to business entry, the time and monetary costs of registration and licensing have remained reasonable and steady for the entire timeframe of the PCI-FDI survey. Nevertheless, most firms appear to incur costs from the regulatory burden following registration, when they must comply with business regulations, inspections, and customs procedures.

  These areas represent the next focal points of Vietnamese regulatory reform efforts. On March 18, 2014, the government passed Resolution 19 which aims to simplify custom and tax procedures, harmonizing them with those of the original ASEAN 6 signatories. In addition, the Ministry of Finance (MOF) has passed a wide spectrum of circulars to reduce the customs and tax burdens. These may not have been enacted in time to be reflected in our survey in 2014, but might show up in next year's data.

- ***Special Analysis of Labor Quality and Labor-Business Relations:***

  - *Quality of Labor Force and Training Needs*: In order to upgrade the status of Vietnam's industries in the global production chain, the importance of a technically skilled labor force cannot be overstated. Unfortunately, the supply of skilled labor in Vietnam is woefully insufficient.

    - From 2010 to 2014, FIEs had to provide further training to 20-35% of newly hired workers, accounting for some 3.6-7.8% of business costs. Even though the skills mismatch steadily declined from 2010 to 2013, all of the improvement was erased in 2014 when the percentage of under-trained new hires and the cost of training surged back to 2010 levels. Importantly, this skill mismatch appears correlated with the poor quality of vocational training, using a variety of different measures of both skill and training.

    - For the high-tech and high-margin industries and services most vital to the strategic plans of the Vietnamese government, neither general educational training nor vocational training appears to be sufficient. FIEs in these industries are forced to supplement their employees' basic numeracy and literacy skills as well as to provide more specialized knowledge.

    - *There is a silver lining*. Consistently, over the past five years, over two-thirds of trained workers have stayed with their employers, rather than taking their employer-provided skills and seeking higher salaries at rival companies. Moreover, the retention rates are highest in sectors requiring the most skills. Financial firms retain 77% of their retrained employees, motor vehicle producers retain 75%, and computer manufacturing firms retain 73%. Thus, companies can safely invest in supplementing their employees' skillsets without too much fear of losing those workers to competitors.

- *Foreign Work Permits*: Another option for FIEs seeking to maintain a highly skilled workforce in high-tech and knowledge-based industries is to attract and recruit foreign specialists. Bringing in external experts serves as both a substitute and complement to in-house training programs.

  - Consequently, difficulty in obtaining work permits for foreign personnel leads to fewer specialists and less knowledge transfer in existing FIEs. Unfortunately, 74% of FIEs report that obtaining work permits is difficult.

  - There is also evidence that these lengthy waiting periods open up opportunities for corruption. A follow-up question on the PCI Survey asked firms if they felt obligated to make an extra payment to expedite the processing of the work permit. Analysis shows very clearly that the more days it takes to obtain a permit, the more obligated FIEs feel to pay more.

- *Labor Relations*
  - Given the focus on collective bargaining and dispute resolution in the new 2012 Labor Code, the 2014 PCI-FDI Survey included a battery of questions to illuminate the frequency and the nature of strikes in FIEs.

  - In the past three years, 9% of FIEs have experienced strikes or similar work stoppages, losing an average of two work days and 3% of annual revenue each time. However, average figures may be misleading since there is a large variation in how damaging a strike can be to firms and workers. In extreme cases, losses amounted to half a year of production and 80% of revenue.

  - The most frequently cited reasons for strike are salary (45%) and benefits (38%), with work conditions being a distant third at 7.8%. All of these are considered legitimate by the vast majority (> 80%) of FIEs.

  - The 2012 Labor Code also made participation in labor-management committees compulsory as a way to promote social dialogue and workplace democracy. Indeed, these are the most common response by local governments to workers' strike (28%), followed by sending in labor bureau officers to investigate the situation (19%) and mobilizing a tripartite task force for mediation of the dispute (18%).

  - Correspondingly, we see firms reporting more engagement in social dialogue and collective bargaining. The vast majority (> 80%) of firms agree that it is beneficial to take workers' opinions into account, to integrate labor in the decision-making process, and to have worker representative bodies.

SUMMARY AND KEY FINDINGS FROM CHAPTER 3

Foreign and Domestic Perceptions of the Trans-Pacific Partnership Agreement

The Trans-Pacific Partnership (TPP) is a trade agreement currently under negotiation among twelve countries, including: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. This ambitious 21st century trade compact is under negotiation as a single undertaking in which signatories will be subject to commitments in multiple, interconnected issue areas.

Because the negotiations over the TPP have been shrouded in secrecy, only the negotiators have a clear sense of the shape the final agreement will take across all the vital issue areas. Current prognostications indicate that Vietnam will be the largest net winner, but it will also face formidable distributional effects across industries that will need to be ameliorated by economic policy. While experts have deliberated the long-term implications of the world's most comprehensive trade and investment agreement, to date, the current debate has not adequately addressed the specific concerns of Vietnamese businesses.

Taking advantage of the PCI and PCI-FDI surveys, we tracked the views of businesses operating in Vietnam, probed their knowledge of the agreement, assessed their general support for the TPP as well as support for specific issue areas, examined their predictions about the impact of this landmark pact on their businesses, and even measured their advisory interactions with government officials and negotiators. The key points to take away from our analysis are:

- ***Knowledge***: About 70% of foreign and domestic firms in Vietnam have at least some knowledge of the TPP. Most of these firms, however, report only limited understanding of the trade pact. Very few firms have been closely following the negotiations or have detailed knowledge of the potential implications for their business. Limited knowledge is consistent across domestic and foreign firms and the major business sectors, except for the foreign financial industries, where firms appear to be considerably more informed. This result speaks to both the informational capacity of many firms as well as the extent of information available in the public domain in Vietnam.

- ***General Support***: In general, domestic firms favor the TPP with over 66% answering they strongly support it or offer support with some concerns. Only 1.5% of firms express opposition. Foreign firms are more circumspect. About a quarter of firms support the TPP with the rest expressing indifference or claiming it will have no effect. Interestingly, there is very little difference in the response between FIEs from TPP member states and those whose home is in a non-member state.

- ***Most Support for Behind the Border Issues***: Firms are generally most positive about the effects of the TPP in behind-the-border regulatory areas, such as opening up the domestic market to investment, intellectual property, government procurement, environment, labor, and reforming state-owned enterprises. Indeed, the SOE reform chapter was consistently cited by all firms as being likely to have the most positive impact on their operations. This bodes well for the TPP, which is expected to yield a high-standard agreement, labelled as such precisely for the strength of obligations and coordination in these trade-related regulatory areas. Support in these areas can also be considered evidence for the theory that a key motivation for Vietnam's becoming party to the TPP is to further its domestic economic reform commitments.

- ***Mixed Support for Market Opening***: Responses were far more mixed for traditional issues that reduce trade and investment barriers, such reductions to tariff and non-tariff barriers, limitations on rules of origin, and expanded access to the service market. Although firms positively regarded the TPP's approach to these matters, those in services or oriented toward sales in the Vietnamese market were concerned about increasing import competition.

- ***Exporters***: Among foreign firms, those exporting products abroad express far more optimism about all issues covered by the agreement. They are also most supportive of behind-the-border issues, but express higher optimism than Vietnam-oriented firms about expanded trade access. This is because exporting firms are unlikely to incur costs associated with opening Vietnam's domestic market to foreign competition, while domestic market-oriented firms are sure to lose market share.

- ***Relative Losers***: The biggest perceived losers of the TPP are Vietnam-oriented FIEs from non-TPP member states. These firms acknowledge that they will be negatively affected by trade openness measures, and will not benefit from corresponding openness in other member states. Nevertheless, even they appear to recognize the benefits of the agreement on behind-the-border measures, especially those that stimulate economic reform.

- ***Relative Winners***: The biggest perceived winners appear to be exporting FIEs whose home countries are TPP-member states. These firms will experience the benefits of improved regulatory quality in Vietnam, including structural reforms resulting from the SOE and procurement chapters, and expanded market access for their exports. At the same time, they will face far fewer negative consequences in regard to expanded Vietnamese market access for imports and competitors.

- ***Trade Diversion***: According to our respondents, trade diversion due to the TPP may be limited, as only about 40% of operations have significant economic relations with overseas partners. Moreover, many firms do not expect the TPP to have an impact on their interactions with their current partners. Any trade diversion taking place will likely be away from China and toward the United States, Southeast Asia, and East Asia and the Pacific, especially Japan. About 13% of domestic firms doing business with Chinese partners believe their businesses will be negatively affected, while 26% claim it will have a mixed impact. For FIEs from TPP-member states, 4.6% anticipate a negative effect on their business with China, and 32% suggested a mixed impact.

- ***Post-TPP Assistance***: Domestic firms expect the Vietnamese government to assist them with adjusting to the TPP by creating agencies that help with remuneration for affected firms, provide re-training, and offer consultancy on how best to take advantage of the new market opportunities.

All in all, our survey bodes well for the prospects of Vietnam's entry into the TPP. Nevertheless, significant work lies ahead in both informing the public about the arrangement and preparing for the structural adjustments that will be part of the agreement. Together, the survey findings call for efforts to enhance the informational capacity of firms, both within the businesses and more broadly in the public domain. Though the lack of transparency of the TPP negotiations poses practical challenges for the acquisition of information, the findings of this survey indicate that many firms remain in the dark about important features of this landmark agreement that has the potential to be a game-changer in international trade agreements.

PCI 2014

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2014

1 DOMESTIC PRIVATE SECTOR SURVEY AND PROVINCIAL COMPETITIVENESS INDEX 2014

The Vietnamese economy experienced an impressive transformation in 2014 despite the complicated regional economic and political context. This year, Vietnam recorded a remarkable 5.98% growth in its GDP while reducing inflation to 1.84%, the lowest level in many years.[1]

As Table 1.1 shows, the 2014 Provincial Competitiveness Index (PCI) Survey also revealed signs of a positive business environment. This year, 10.8% of domestic firms planned to increase their operations after two years at a historical nadir (6.4% planned to increase investment in 2012 & 2013). Inflation-adjusted average investments rose to VND15.1 billion, the highest level in nine years, and twice the amount recorded in 2006. The number of firms adding employees also almost doubled to 11.5% from the record low levels of 2012 and 2013.

[1] Press release, 2014. *"The 29/12/2014 conference by the government and localities on implementation of socio-economic development tasks in 2015"*, VGP news, <http://baodientu.chinhphu.vn/Thong-cao-bao-chi/Hoi-nghi-Chinh-phu-voi-cac-dia-phuong-trien-khai-nhiem-vu-phat-trien-KTXH-nam-2015/217131.vgp>

TABLE 1.1 Performance of Domestic, Private Firms over Time

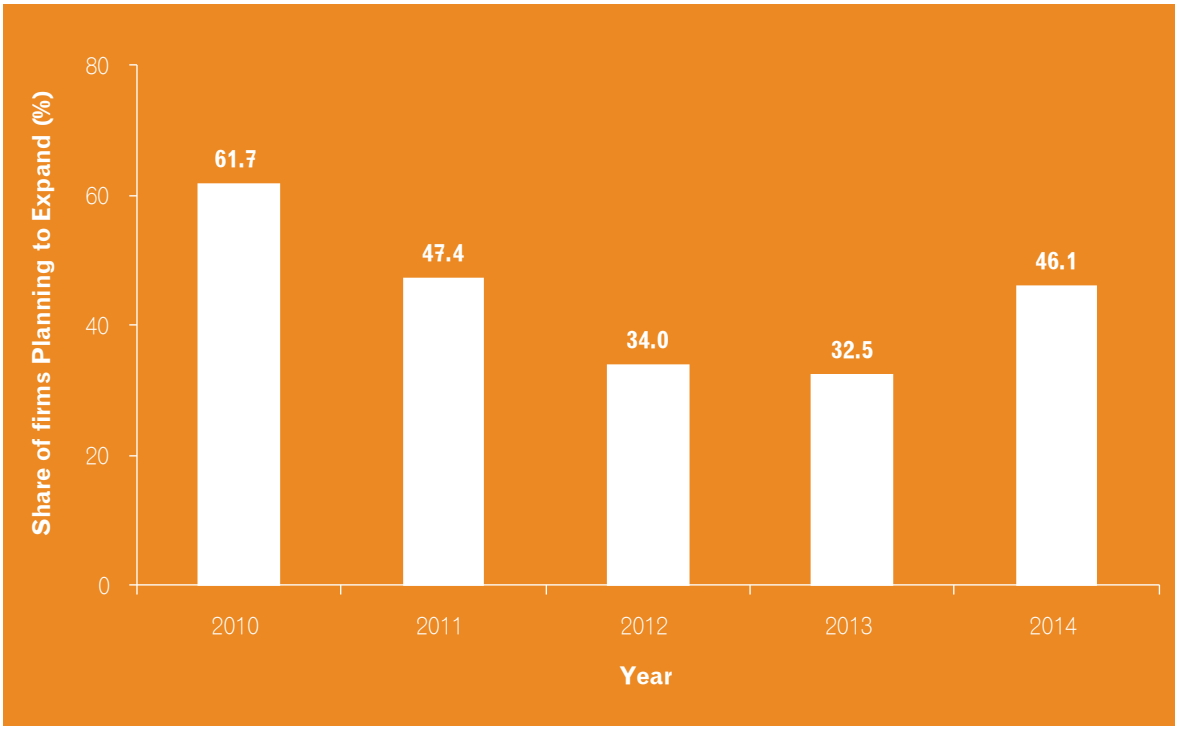
Year	Firms Increasing Investment	Average Investment Size (Billion VND)	Firm Adding Employees	Average Size Employees
2006	27.6%	7.25	22.0%	31.61
2007	27.1%	8.10	20.9%	33.16
2008	29.3%	10.20	21.6%	40.57
2009	15.4%	12.02	12.3%	45.91
2010	22.1%	12.72	17.1%	47.63
2011	14.1%	12.16	11.2%	45.44
2012	6.4%	11.11	6.0%	26.33
2013	6.4%	14.86	6.2%	28.95
2014	10.8%	15.09	11.5%	26.83

Year	Firms Reporting Profits	Firms Reporting Losses		
2006	77.5%	10.8%		
2007	81.1%	9.3%		
2008	82.3%	8.7%		
2009	69.2%	19.9%		
2010	74.9%	16.0%		
2011	72.9%	14.4%		
2012	58.9%	21.9%		
2013	64.3%	20.8%		
2014	60.3%	26.4%		

It is, however, necessary to be cautious with these positive statistics. In fact, many domestic private firms are still facing difficulties. As Table 1.1 also shows, fewer firms (60%) reported a profit than in previous years. More than a quarter of respondents (26.4%) reported losses, the highest level in nine years.

Despite difficulties, firms still express optimism about their future business prospects. For the past decade, the PCI Survey has questioned respondents regarding their plans to increase the size of operations, as this is a simple and clear indicator to gauge optimism and business outlook. We call this metric the PCI Business Thermometer. In 2014, nearly half the firms (46.1%) expected to expand their businesses in the next two years, an increase from the 32.5% reporting such plans in 2013 (Figure 1.1). Only 8.3% planned to reduce the size of their operations or to close the business. Thus, for the first time in five years, the PCI Business Theremometer is able to report improved business confidence.

FIGURE 1.1 **PCI Business Thermometer (over Time)**



Source: PCI Survey Question A10, "Which statement best characterizes your firm's investment plans over the next 2 years?" Figure reports the share of firms that responded that they will increase or considerably increase operations.

2014 also marks the 10th year of collaboration between the Vietnam Chamber of Commerce and Industry (VCCI) and the United States Agency for International Development (USAID) to produce the Provincial Competitiveness Index (PCI). The PCI continues to be a trusted voice of the business community as it is seen as a useful channel for reflecting their perceptions about doing business in Vietnam and communicating these views to government agencies at both the central and local levels.

Over the past 10 years, the PCI Survey has received responses from 88,388 firms throughout the country, of which 80,589 are from the domestic private sector and 7,799 are from foreign investors. Dropping duplicate responses, the survey is estimated to reflect the views of approximately 20% of all the 400,000 businesses in operation in Vietnam.[2] Even if we compare survey responses to the number of currently registered businesses (830,000),[3] then the percentage is a still-respectable 10%. Thus, it is clear that that the PCI Survey is the largest, most comprehensive, and longest-standing review of the perceptions of domestic private firms in Vietnam.

[2] Vietnam Government Portal, 2015. *"Highest number of businesses in operation since 2011"* <http://baodientu.chinhphu.vn/Chinh-sach-va-cuoc-song/So-DN-dang-hoat-dong-cao-nhat-ke-tu-nam-2011/219862.vgp>

[3] General Statistics Office, 2014. *"Number of firms leaving market is not so worrying"*, VN Express, December 28, 2014 <http://kinhdoanh.vnexpress.net/tin-tuc/doanh-nghiep/tong-cuc-thong-ke-so-doanh-nghiep-roi-thi-truong-khong-dang-lo-3126563.html>

In 2014 alone, 9,859 domestic private enterprises participated in the survey and provided their opinions on the business environment in the provinces and cities of Vietnam. Of these respondents, 8,091 established firms expressed their perceptions of all aspects of the business environment. In a new feature of the ranking methodology, 1,768 newly established firms (e.g. those registered in 2013 or later) also shared their experience in complying with business registration procedures.

10 years of the PCI initiative 2005-2015

80,589 domestic private firms and
7,799 foreign invested enterprises responded to the PCI Survey
63/63 cities and provinces have come up with PCI improvement plans
147 legal documents on PCI improvement issued
255 PCI regional and provincial diagnostic workshops organized.

With a reasonably high survey response rate of only 30%, some have asked how the PCI could truly reflect governance across the provinces. After all, this figure means seven out of ten surveys go unanswered. Despite our best efforts to further engage the private sector in the survey, we must admit that the raising the response rate remains a very big challenge. Significantly improving the reach of the survey, however, involves progress in areas that are out of our hands. Regularly updated information about Vietnamese firms is still not consistently available. While databases exist for business registrants and taxpayers, there is no comprehensive system available for regular updates of businesses' status, including: dissolution; relocation; and changes in name, address or phone number. As reported by the Agency for Business Registration in the Ministry of Planning and Investment (MPI), in 2014, 48% of firms and organizations in the national database of business registration have not been updated since they were originally entered.[4] Even for those agencies that have frequent contact with businesses, like the General Department of Taxation, our own research shows that the proportion of businesses without updated information is about 50%.

[4] Department of Business Registration, 2014. "Reality of enterprise data in the National Business Registration Database", *Ministry of Planning and Investment* <http://dangkykinhdoanh.gov.vn/NewsandUpdates/tabid/91/ArticleID>

Consequently, the true response rate is certainly higher when we take into account that many firms that were mailed surveys had incorrect addresses or contact information. Because we do not know in advance which addresses cannot be trusted, we are forced to maintain a random sample that includes all listed firms to ensure the most accurate representation of the private sector business community. Nevertheless, we can calculate an adjusted response rate that takes into account the high proportion of incorrect addresses by subtracting problematic listings from the denominator of the response rate. Doing this provides an adjusted response rate of just over 60%, confirming that the PCI index is an extremely representative sample of the Vietnamese business community.

The annual goals of the PCI report are to provide useful information for Vietnam's most important policy discussions through scientific, objective analyses, using advanced research techniques to support policy makers in making optimal decisions, as well as to produce useful information for the businesses and citizens of Vietnam. Chapter 1 presents the views and comments of domestic private sector entities from 63 provinces and cities across Vietnam regarding areas that impact their business operations, as well as the advantages and challenges of governance of the province in which they operate. In this chapter, we also present the results of the PCI 2014 Ranking. The final section presents a summary index of infrastructure, one of the key motivating factors for choosing an investment location, but not measured directly in the PCI.

1.1 PROVINCIAL GOVERNANCE UNDER THE 2014 PCI SURVEY

The PCI Survey measures provincial governance in ten economic areas that affect private sector development. A well-performing province is one that has: 1) low entry costs for business start-up; 2) easy access to land and security of business premises; 3) a transparent business environment and equitable provision of business information; 4) limited time spent on bureaucratic procedures and inspection ; 5) minimal informal charges; 6) a level playing field for all economic sectors; 7) proactive and active provincial leadership in solving problems for enterprises; 8) high-quality business support services; 9) sound labor training ; and 10) just and effective legal procedures for dispute resolution.

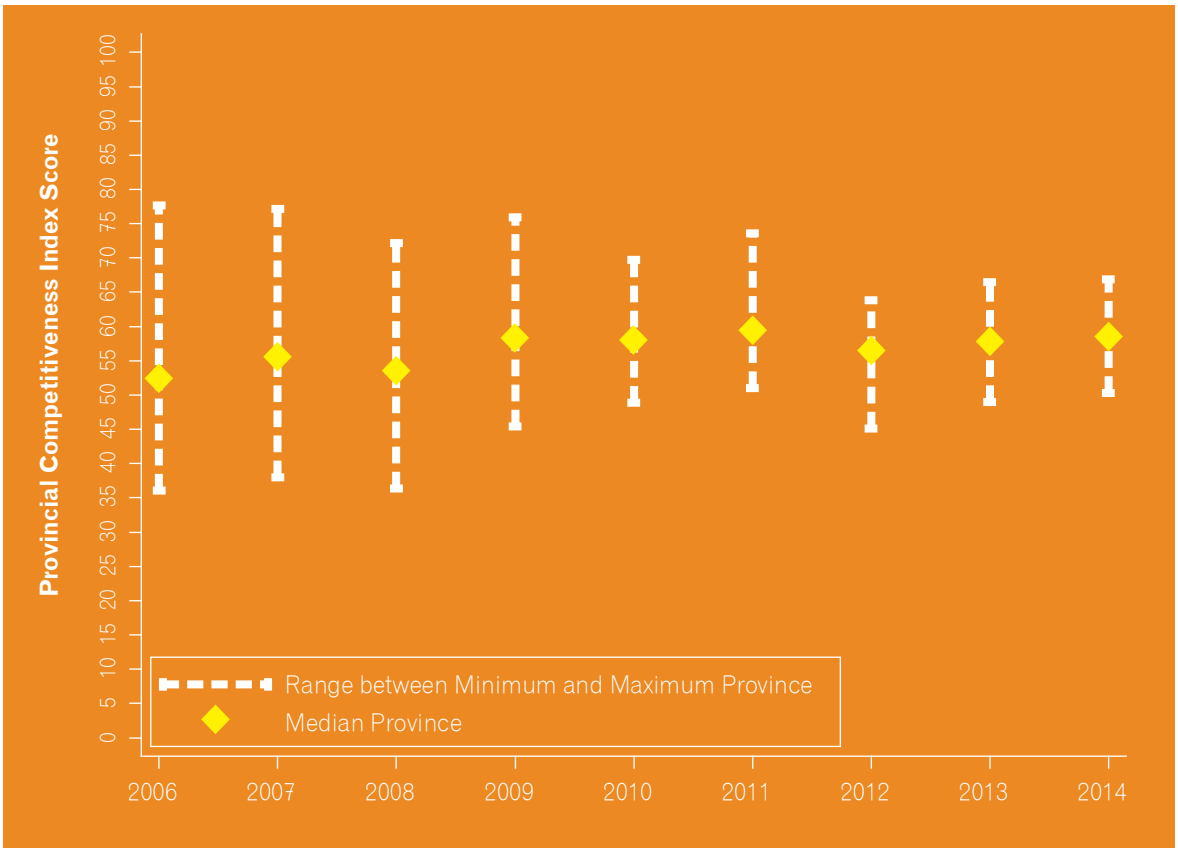
The 2014 PCI Report adheres to the annual survey process and maintains the previous year's entire methodology on stratified sampling, selecting indicators,[5] weights, and cut-off scores to rank provincial groups. This allows the research team to keep track of the quality of local economic governance through 2013 and 2014, analyze the main factors that create changes, and more closely evaluate the economic impact of governance improvements. The PCI score comparison over time should be based on the core PCI to ensure accuracy.[6] It is, however, possible to look at the PCI score of the median province to have a basic sense of changes in governance performance over time.

In Figure 1.2, the yellow diamond indicates the PCI score of the median province, while the dashed line depicts the range between the minimum and maximum province. This year, the median score increased to 58.58 points from 57.81 in 2013. Overall governance, however, despite signs of gradual improvement over three years, has yet to pass the record level achieved in 2011 (59.45 points). Compared with 2013, the score gap between the provinces continues to narrow, demonstrated by the decreasing length of the dashed lines. As in previous years, the PCI demonstrates a trend toward convergence in the quality of governance with "star" provinces hindered by limited breakthroughs on hard reforms while provinces in the more poorly-governed areas continue to catch up through implementing relatively easy reforms, such as accelerating the process of business registration and reducing time spent on administrative procedures.

[5] Department of Business Registration, 2014. "Reality of enterprise data in the National Business Registration Database", *Ministry of Planning and Investment* <http://dangkykinhdoanh.gov.vn/NewsandUpdates/tabid/91/ArticleID> The core

[6] The core PCI comprises sub-indexes continually employed since 2006. Edmund Malesky, *The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Private Sector Development: 2013 Final Report #9*. Hanoi, Vietnam: Vietnam Chamber of Commerce and Industry and United States Agency for International Development, 2014, 29-41.

FIGURE 1.2 **Minimum, Median, and Maximum PCI Scores (2006-2014)**

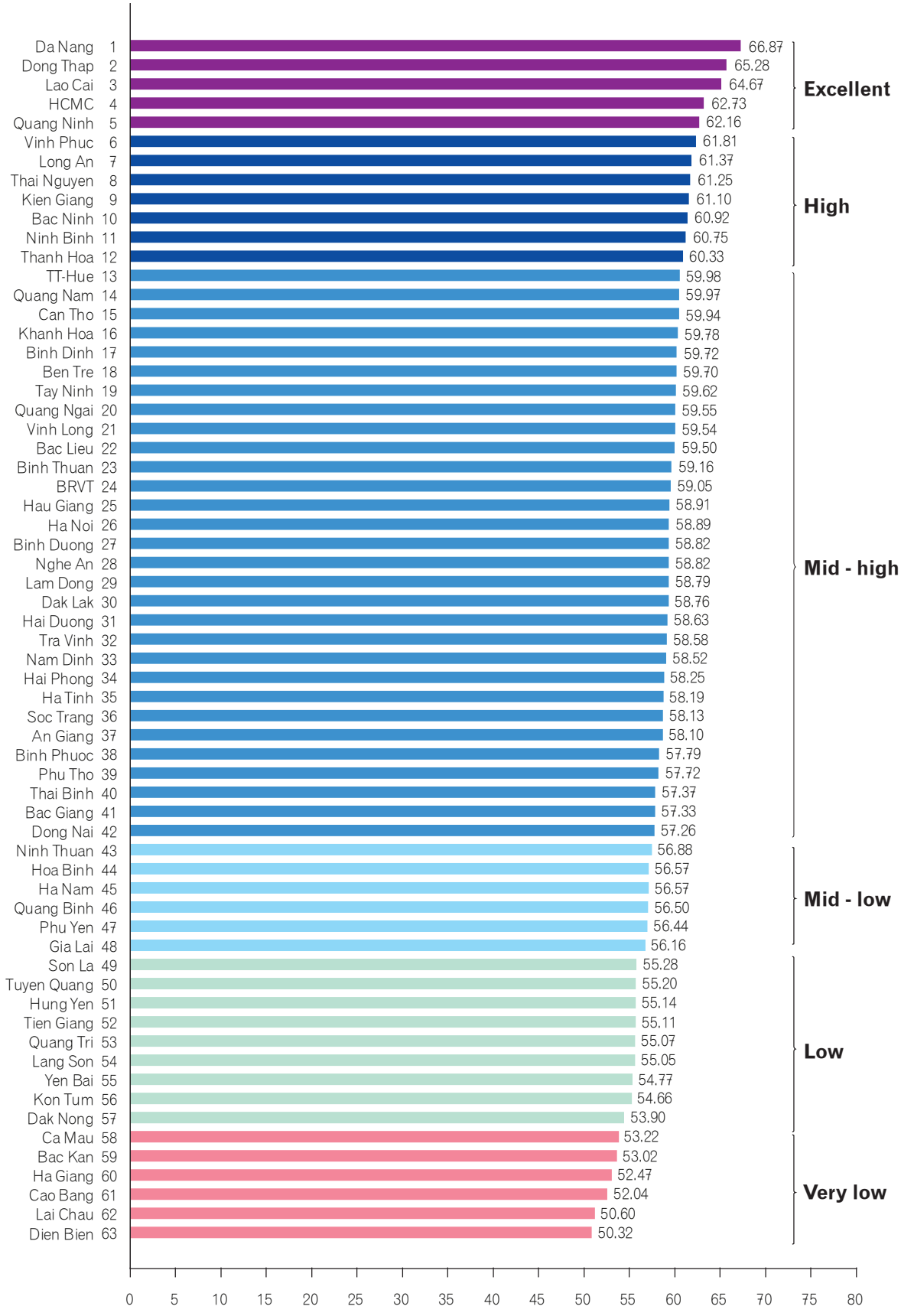


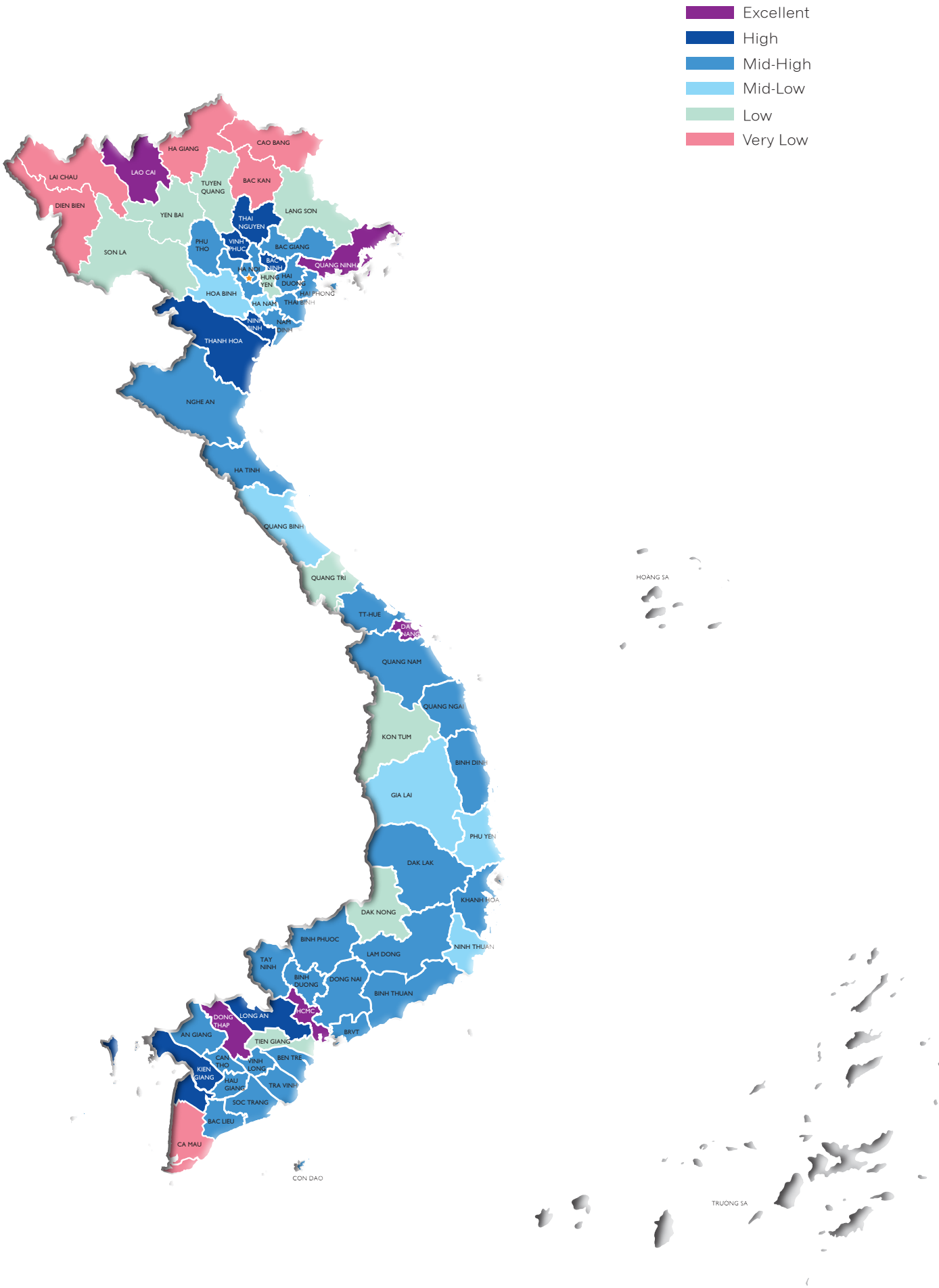
In general, quite a few governance areas were rated "good" for 2014. The respondents in the median provinces reported significant improvement in the areas of market entry, transparency, time costs, labor training, and business support services. However, there is evidence that there is a great deal of room for improvement on proactivity, informal charges and access to land. Detailed changes in each of these regulatory areas will be analyzed in the next section.

1.2 THE PROVINCIAL COMPETITIVENESS INDEX 2014

This year's PCI ranking continues to recognize the efforts of the provinces that pioneered business environment reforms in Vietnam. The top-performing tier has little to no variation from 2013, and again features well-known representatives from all regions of the country. Not surprisingly, the bottom tier includes five provinces from the northern mountainous region. The Vietnam Provincial Competitiveness Index in 2014 is shown in detail in Figure 1.3.

FIGURE 1.3 **The 2014 Provincial Competitiveness Index**




Excellent
High
Mid-High
Mid-Low
Low
Very Low
CAO BANG
HA GIANG
LAI CHAU
LAO CAI
TUYEN QUANG
BAC KAN
DIEN BIEN
YEN BAI
LANG SON
THAI NGUYEN
PHU THO
VINH PHUC
BAC GIANG
SON LA
QUANG NINH
BAC NINH
HA NOI
HUNG YEN
HAI DUONG
HOA BINH
HAI PHONG
HA NAM
THAI BINH
NINH BINH
NAM DINH
THANH HOA
NGHE AN
HA TINH
QUANG BINH
QUANG TRI
HOANG SA
TT-HUE
DA NANG
QUANG NAM
QUANG NGAI
KON TUM
BINH DINH
GIA LAI
PHU YEN
DAK LAK
KHANH HOA
DAK NONG
BINH PHUOC
NINH THUAN
LAM DONG
TAY NINH
BINH DUONG
DONG NAI
BINH THUAN
HCMC
DONG THAP
LONG AN
BRVT
AN GIANG
TIEN GIANG
BEN TRE
CAN THO
VINH LONG
KIEN GIANG
HAU GIANG
TRA VINH
SOC TRANG
BAC LIEU
CA MAU
CON DAO
TRUONG SA

Da Nang continued its reign as the top performing province in the PCI Survey with a score of 66.87. This success may result from the effective implementation of the "Year of Enterprise" program, under which the city government has implemented many practical initiatives to create a favorable environment for business development. These include strengthening administrative procedural reform, improving the security of land and business premises, facilitating access to credit financing, and actively organizing dialogues and meetings to remove barriers, identified directly by the business community.[7]

Following Da Nang are the two provinces of Dong Thap (65.28 points) and Lao Cai (64.67 points), which are familiar faces in the first tier of the annual rankings. Dong Thap's culture of considering enterprises as partners in socio-economic development is greatly appreciated by local enterprises.[8] Evidence for this is seen in the efforts by the provincial leadership to solve individual difficulties and obstacles for businesses, carry out administrative reform under the One-Stop-Shop (OSS) mechanism, and create favorable conditions for investors under the motto "Our [Province's] Potential, Your [Business] Opportunity."[9]

Lao Cai returned to third place in the PCI Survey this year due to its impressive improvement of fourteen ranks from 2013. It achieved this high ranking by reviewing, amending, and supplementing its provisions relating to a favorable investment environment, ensuring the ease and convenience of businesses, and instituting meetings and discussions with the business community about pro-business mechanisms, policies, and solutions in areas such as tax, customs, banking, natural resources and environment. Additionally, Lao Cai created its own district competitiveness index (DCI) as a critical channel to receive feedback from businesses and other economic actors regarding the district and city governance.[10] This innovative subprovincial ranking represents a new mechanism for incorporating the perspectives of district and city governments under provincial management, in order to kick-start an innovative, dynamic, and creative process to support business and enhance socio-economic development, thereby contributing to the overall success of the province.

7 Vo Duy Khuong, 2014. "Da Nang business development in the new period", *Da Nang portal*, <http://www.danang.gov.vn/portal/page/portal/danang/chinhquyen/tin_tuc?p_pers_id=42058&p_folder_id=&p_main_news_id=71580238>

8 "The policy of considering enterprises as companions is not an empty slogan, but a consistent one and a commitment by the government for the growth of local business and the whole province", said Province Secretary Le Minh Hoan in an interview with Tin Tuc newspaper. Tin tuc Newspaper, 2014 *"Stand by businesses"* <http://baotintuc.vn/kinh-te/sat-canh-cung-doanh-nghiep-20140702194430553.htm>

9 Dong Thap online newspaper, 2014, *"Strong improvement in business & investment environment"* <www.baodongthap.com.vn/newsdetails/1D3FE187CCD/Cai_thien_manh_me_moi_truong_dau_tu_kinh_doanh.aspx>

10 Vietnam Business Forum, 2015. *"Lao Cai: Fully aware of the role of investment in economic development"* <http://vccinews.vn/news/12800/lao-cai-nhan-thuc-dung-vai-tro-cua-thu-hut-dau-tu-trong-phat-trien-kinh-te.html>

Also, after ten years in the PCI Survey, Ho Chi Minh City stepped into the top five group of best-governed provinces and cities in Vietnam. Ho Chi Minh City has always been an attractive destination for many domestic and foreign investors and it has recently implemented many activities to improve the operational efficiency of its governance apparatus, especially in streamlining administrative procedures. The strengthening of business-government dialogues in order to solve problems for the business community in the city has spurred local confidence in investment and business expansion. Such improvements were especially challenging when one considers the scale and complexity of the Ho Chi Minh City economy.[11]

This is the second consecutive year Quang Ninh is listed in the top five performers. A key reason for this success has been the establishment of the Quang Ninh's Public Administration Center, which focuses on the principle of evaluation and approval on the premises. Not only does this contribute to downsizing bureaucracy and regular expenditure savings, but it also helps to reduce transaction costs, both in terms of money and time, for businesses.[12] Additionally, the Investment Promotion Agency (IPA) under the Provincial People's Committee has proved effective at supporting investors in the investment process and during project implementation.[13]

The lower half of the top ten provinces and cities with the best governance in 2014 includes Vinh Phuc, Long An, Thai Nguyen, Kien Giang and Bac Ninh. Vinh Phuc, originally in the top ten between 2006 and 2009, has now found its way back in the top tier since 2013 after a considerable drop in rank between 2010 and 2012. Long An has also returned to the top ten, a position it has not enjoyed since 2011. Making its first appearance in this upper bracket, Thai Nguyen impressed investors and the PCI team with its real transformation not only in attracting foreign investment, but also in its persistent implementation of its "Three Friendlies" campaign that focused on environment, business, and citizen development.[14]

This year, Bac Ninh also returned to the top-ten group after implementing a program to hold the heads of agencies, organizations, and units of the State accountable for supporting and resolving petitions of business entities across the province. This initiative was introduced in early 2013.

11 The Voice of HCMC People, 2015. *"HCMC in 2015 - The highlight for an attractive investment environment"* <http://www.voh.com.vn/kinh-te/tphcm-nam-2015-diem-nhan-cho-moi-truong-dau-tu-hap-dan-175049.html>

12 Quang Ninh online newspaper, 2015. *"Nation-wide replication of Danang's model of Center for the public administration of Quang Ninh"*, <http://www.baoquangninh.com.vn/chinh-tri/tin-tuc/201502/nhan-rong-mo-hinh-trung-tam-phuc-vu-hanh-chinh-cong-cua-tinh-quang-ninh-ra-ca-nuoc-2258784/>

13 Tin tuc online newspaper, 2015. *"Investment promotion professionalized in Quang Ninh"* < http://baotintuc.vn/kinh-te/quang-ninh-chuyen-nghiep-hoa-xuc-tien-dau-tu-20150219074901856.htm>

14 VCCI-FNF, 2013. *"The report on Improving the business and investment environment in midland and northern mountainous region"*, Hanoi

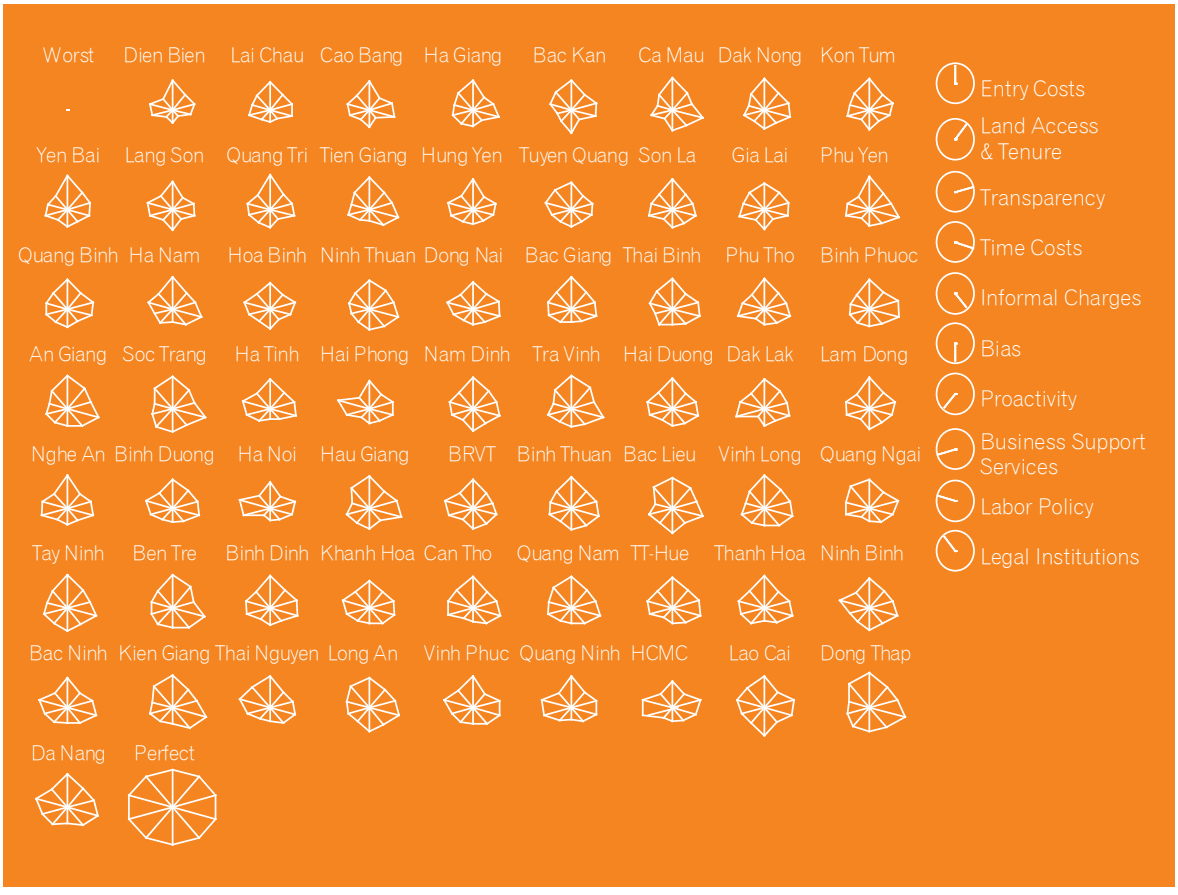
After being listed last in PCI rankings for the past two years, Tuyen Quang's rise is a phenomenon that can be explained by significant changes in its approach to government. In 2014, Tuyen Quang increased its final PCI score by 6.22 points. Consequently, the province has climbed up thirteen places in the rankings from 2013. While stunning to outside observers, the success will not come as a surprise to the leaders of Tuyen Quang. In 2013, the province established a steering committee, led by the provincial Vice Chairman and supported by leaders of several departments, with the goal of improving its PCI ranking. Presidents of two business associations in the province were included as committee members. Having identified shortcomings in the provincial business environment which originated from the mistrust between the government and businesses, the steering committee took action. In 2014, Tuyen Quang, imitating Dong Thap's model, launched a recurring program entitled "Coffee with Businesses," which serves as a channel whereby members of the business community can raise their voices to the leaders of the province, as well as subordinate departments and sectors.

It is notable that these informal discourse programs are run in tandem by provincial leaders and heads of business associations, whose names appear jointly on the invitation letters sent to businesses. This cooperation is unprecedented. To date, the "Coffee with Businesses" program has been convened five times in Tuyen Quang, focusing on themes that are of great interest to local businesses.[15] The forum has become a regular activity, and has gradually created an open, friendly dialogue where provincial and departmental leaders and businesses meet to discuss win-win solutions to removing longstanding obstacles to development in the province.

Detailed results of the ten dimensions of governance for each locality in 2014 are shown below in Figure 1.5. This chart helps a province identify its specific areas of weakness. It can be seen that very few provinces or cities achieved comprehensive development across all areas. Even the "stars" like Da Nang, Lao Cai, and Dong Thap have to make further effort to reach a well-rounded governance scorecard. Clearly, he lowest-ranked provinces have their own relative advantages in such areas as reducing entry time costs or enhancing access to land, but they have more formidable weaknesses.

[15] Popular themes and issues for discussion include: 1) agriculture, farmers, rural areas - potential and investment opportunities for businesses; 2) experience-sharing in business management; and 3) reducing time spent on implementing administrative procedures for production and business activities.
Tuyen Quang online newspaper, 2014 <www.baotuyenquang.com.vn>

FIGURE 1.5 **Provincial Performance by Sub-Index (Organized from lowest to highest PCI scores)**



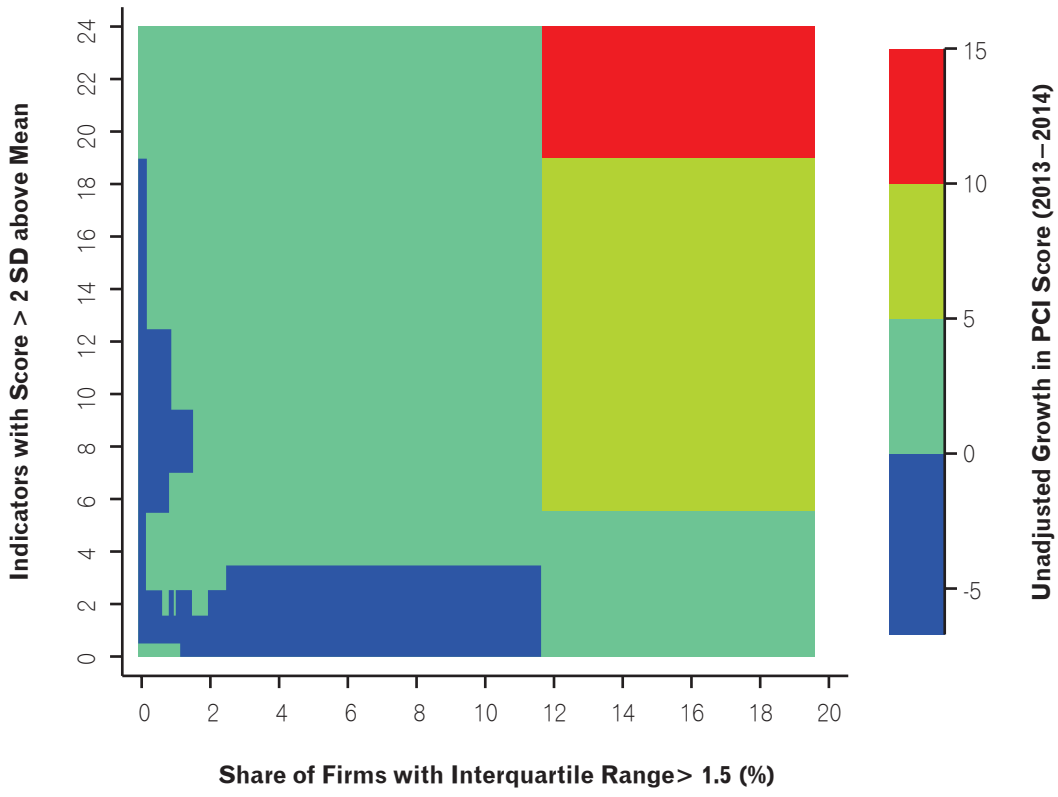
Addressing Manipulation in the Final PCI Score

It is critical to note that the final PCI scores and ratings above are presented after undergoing analysis and correction for statistical anamolies by the research team. Over the years, the survey has identified telltale signs of a coordinated intervention on the part of a few provinces attempting to improve their scores. In these instances, we detected and treated this problem using statistical techniques which were not reflected in the report. In 2014, however, manipulation by local authorities in a few provinces rose to such a serious level that the survey results were distorted and the ability of obtaining a fair and accurate evaluation of provincial governance became threatened.

As the survey was rolled out, we immediately began to receive feedback from firms indicating they were coerced by the local government to respond positively about local governance or, if they could not be positive, to decline to answer the survey. We catalogued all of these concerns and re-checked all responses, using a variety of statistical techniques for identifying fraudulent data and influential outliers that were beyond the confines of statistical probability.

Figure 1.6 (below) provides a summary of some of our analysis using a heat map. On the y-axis, we report the number of indicators (out of the 110 used in the PCI Survey) in each province where the responses were greater than two standard deviations above the national mean. Statistically, a score that is two standard deviations above the mean indicates that 95% of the observed responses on that indicator were lower. If PCI scores were assigned randomly, we would expect that the average province would annually achieve about 5.5 excellent scores of this type. Of course, scores are not assigned randomly and some provinces really do excel. Therefore, in any given year, a top-ranked province like Da Nang might have about ten indicators that are two standard deviations above the mean. It is virtually, statistically impossible to have over ten outstanding indices without some type of intentional manipulation. This year, we identified a few provinces with over fifteen outstanding indicators.

FIGURE 1.6 **Heat Map Showing Impact of Outliers on Unadjusted Annual Change in PCI Scores**



On the x-axis, we report a different measure of outliers – the share of individual respondents (firms) that gave their province an unadjusted PCI score greater than 1.5 times the interquartile range (IQR). In this case, 1.5*IQR is equal to about a score of 76 on the one hundred-point PCI scale.[16] Each year, as a robustness exercise, the PCI research team calculates a firm-level PCI, which is analogous to the province's PCI, but essentially records the provincial governance assessment of each individual firm in the country. This technique allows us to measure the variance in scores for each province and aggregate the scores at different levels of analysis. We can, for example, create sectoral or district measures of competitiveness. In this case, it also allows us to see how many firms have extremely positive or negative assessments of their leadership.

Once again, it is extremely rare to have any firms in a province give outstanding scores on every measure of governance. For objectively excellent provinces in a normal year, the share of scores above 1.5*IQR is usually about 2%. In 2014, we had four provinces with 2% of their firms above this outlier category, one province with 4% of firms in this range, and one province with nearly 20% of the firms in its province identified as statistical outliers. Some of these firms had scores that were three standard deviations greater than the national mean, indicating that 99% of the observed PCI scores in the entire country were lower. Since this province had never before had such a high level of optimistic respondents, the score raised red flags.

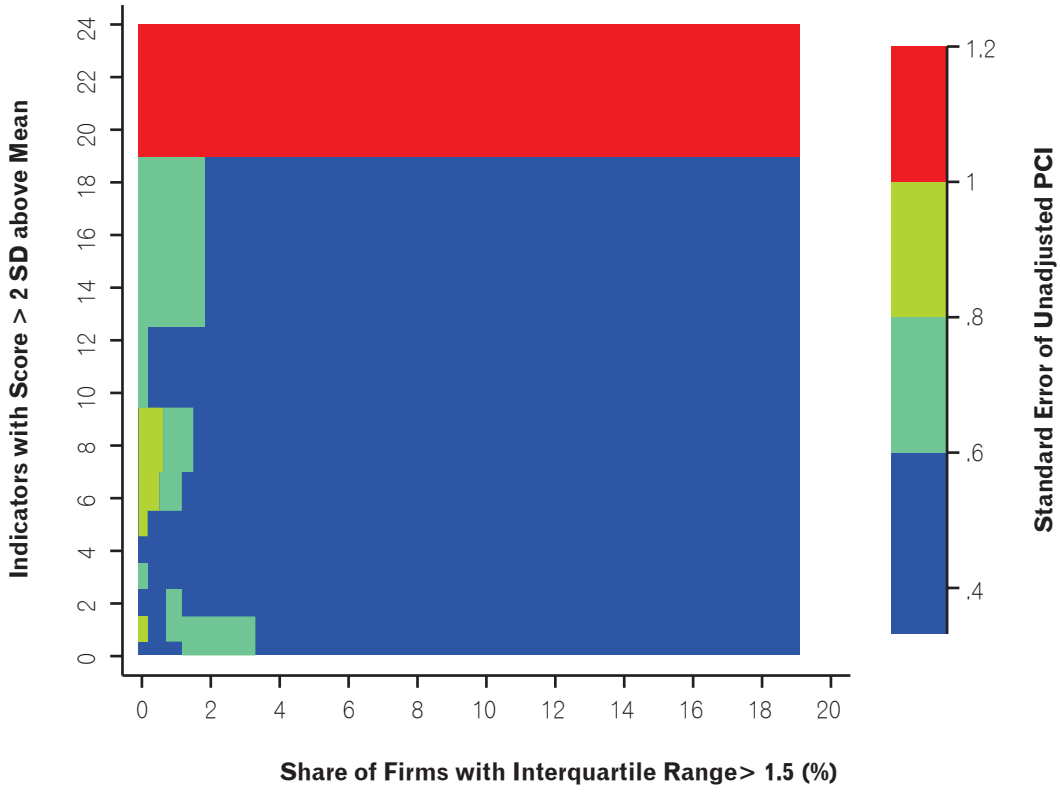
Using both of these indicators, we demonstrate our calculation of the outliers' influence on unadjusted PCI scores. In the heat map, we color code the unadjusted annual change in the PCI that we first observed when we created this year's index. The map uses colors to plot changes in the PCI score. Blue indicates that the province either had no increase in the PCI or declined in scores. Green, where most provinces are found, indicates typical growth in PCI scores, corresponding with incremental improvements in government. Yellowish-green blocks indicate large, but not unprecedented leaps in PCI scores. Finally, red indicates a highly unprecedented change (ten points or more) in the weighted PCI score. In provinces glowing red in the heat map, we detected a substantial proportion of responses with all positive answers.

Figure 1.7 demonstrates another telltale sign of manipulation to improve scores – extremely high variation of scores. In this heat map, we plot colors based on the standard error[17] of the unadjusted PCI score. The top of the graph indicates that provinces identified as a having a large number of outlying indicators and firm-level scores have very high standard errors. This is akin to ballot-box stuffing in dirty elections, reporting a large number of positive scores to raise the score above the true level. Because the true level is usually quite low, the newly-added high scores generate a high degree of variation, which is essentially the statistical disagreement between the true, unmanipulated responses and the overly positive additions. As the graph shows, most provinces have very low standard errors, indicating relatively high agreement between respondents. A few provinces with a large number of outliers, however, have standard errors as large as 1.2 on the unadjusted PCI score.

[16] In descriptive statistics, the interquartile range (IQR), also called the midspread or middle fifty, is a measure of statistical dispersion. A statistician divides the data into quartiles and the IQR is equal to the difference between the upper and lower quartiles, IQR = Q3 − Q1. In other words, the IQR is the 1st quartile subtracted from the 3rd quartile. A score greater than 1.5 times the IQR is considered an outlier.

[17] Standard Deviation/√n

FIGURE 1.7 **Heat Map Showing Impact of Outliers on Unadjusted Standard Error in PCI Scores**



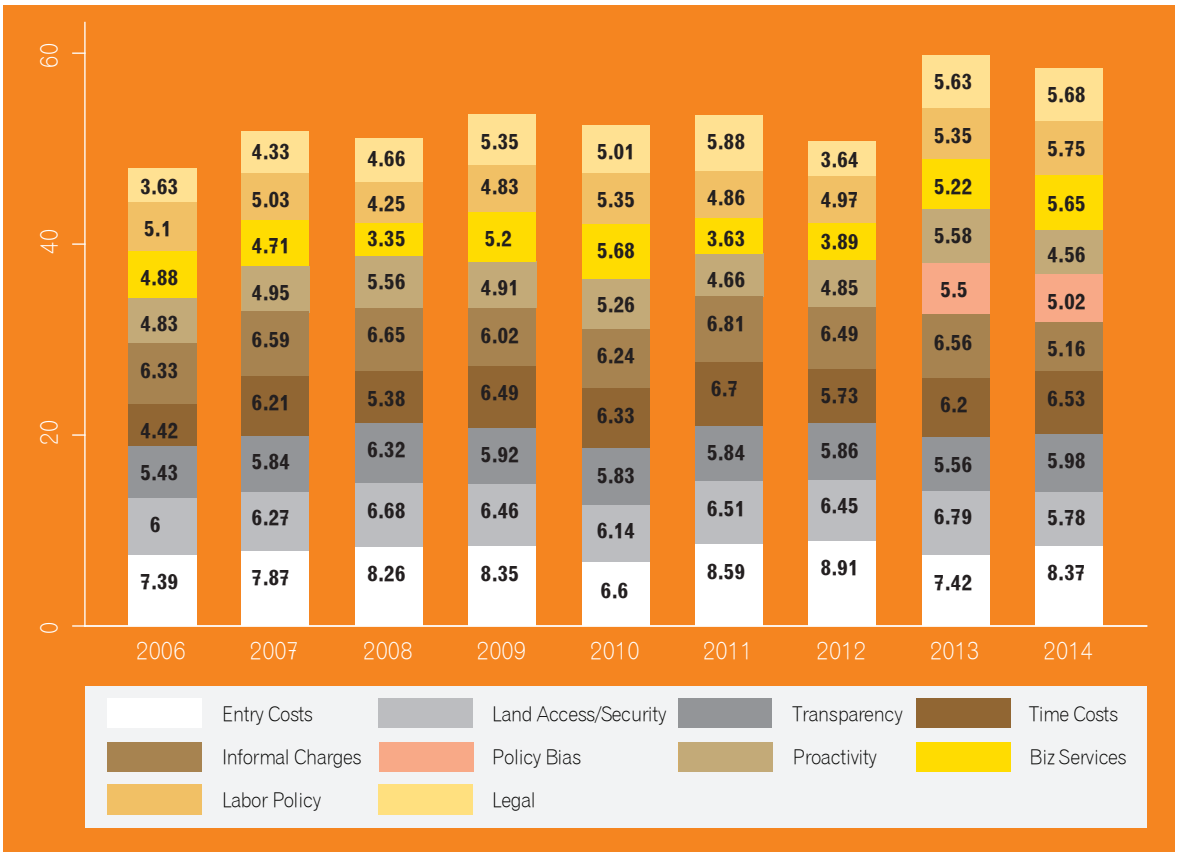
Concerned by these findings, the team compared the province's scores over the years while simultaneously gathering information about the business environment in the province through alternative channels to strengthen our judgements, including qualitative information from interviews and hard data gathered from official sources. After an extremely careful review, we decided to remove 163 surveys whose answers were qualitatively and quantitatively highly suspect. Our selection criteria for dropping included prevalence of irrationally high appraisals, using the techniques identified above, as well as a series of other robustness checks. We also dropped pairs of responses when the answers mirrored each other too closely to be coincidental.

Besides ensuring the scientific measurement of provincial governance, the message that we wish to convey is that only substantial efforts to improve the business environment can guarantee sustainable economic development in the future. There is no easy route to a high PCI score.

1.3 CHANGES IN PROVINCIAL GOVERNANCE OVER TIME

Figure 1.8 illustrates the annual scores in governance subindices, by depicting the score of the median province on each sub-index over time. In 2014, as previously mentioned, the most significant improvements were observed in the area of Entry Costs (by 0.95 points), followed by Transparency (0.42 points), Business Support Services (0.43 points), Labor Training (0.4 points) and Time Costs (0.33 points). Compared with last year, there is a decline in the scores of the median province on four subindices, of which three were significant drops: Informal Charges (down 1.4 points), Proactivity (1.02 points) and Land Access (1.01 points). Finally, the subindex on Policy Bias dropped 0.5 points. Legal Institutions had no change compared to 2013.

FIGURE 1.8 **Changes in Scores of Subindices**



Entry Costs

The biggest improvement was in the subindex of entry costs, with the score increasing to 8.37 points from 7.42 last year. It should be noted that, since 2013, the PCI methodology had been enhanced through an additional random sample of only newly registered firms. The research team also added a number of indicators to reflect changes in the business environment and to capture new policy

initiatives in Vietnam. In particular, five new indicators were included for the entry costs subindex to measure the operational efficiency of the OSS office in charge of granting business registration certificates. These new measures are: public disclosure; clarity; and adequacy of information and instructions on procedures; professionalism; knowledge and attitude of officials; and the application of information technology to ensure high-quality services.

This year's survey witnessed strong improvements in all five indicators, reported in Table 1.2. On average, 61% of respondents said the procedures are listed publicly at OSS offices; 75% commented that the instructions on procedures were clear and adequate (in 2013 the percentages were 39% and 41%, respectively). The percentage of firms that agreed government officials were knowledgeable as well as being professional and friendly, nearly doubled, rising to 43% in each category this year. Additionally, 29% of firms said information technology was applied well at the OSS, again nearly doubling the share saying this was the case in 2013.

These positive signals could be the result of a series of efforts by the national government to promote administrative procedural reforms, inspired by Government Resolution 19 on improving the business environment and enhancing national competitiveness, which was promulgated on March 18th, 2014. According to Resolution 19, for the period of 2014-2015, localities should focus on improving the business environment, promoting administrative procedural reforms, streamlining the process, reducing the time and cost of implementing administrative procedures, ensuring openness and transparency, and enhancing accountability of state administrative agencies.[18] Moreover, Resolution 19 insisted that the OSS should still be considered as the primary "front" targeted for reform efforts in order to improve the quality of administrative services. Consequently, it is understandable that business entry procedures have undergone a significant and positive transformation.

TABLE 1.2 Key Indicators of One-Stop-Shop Quality

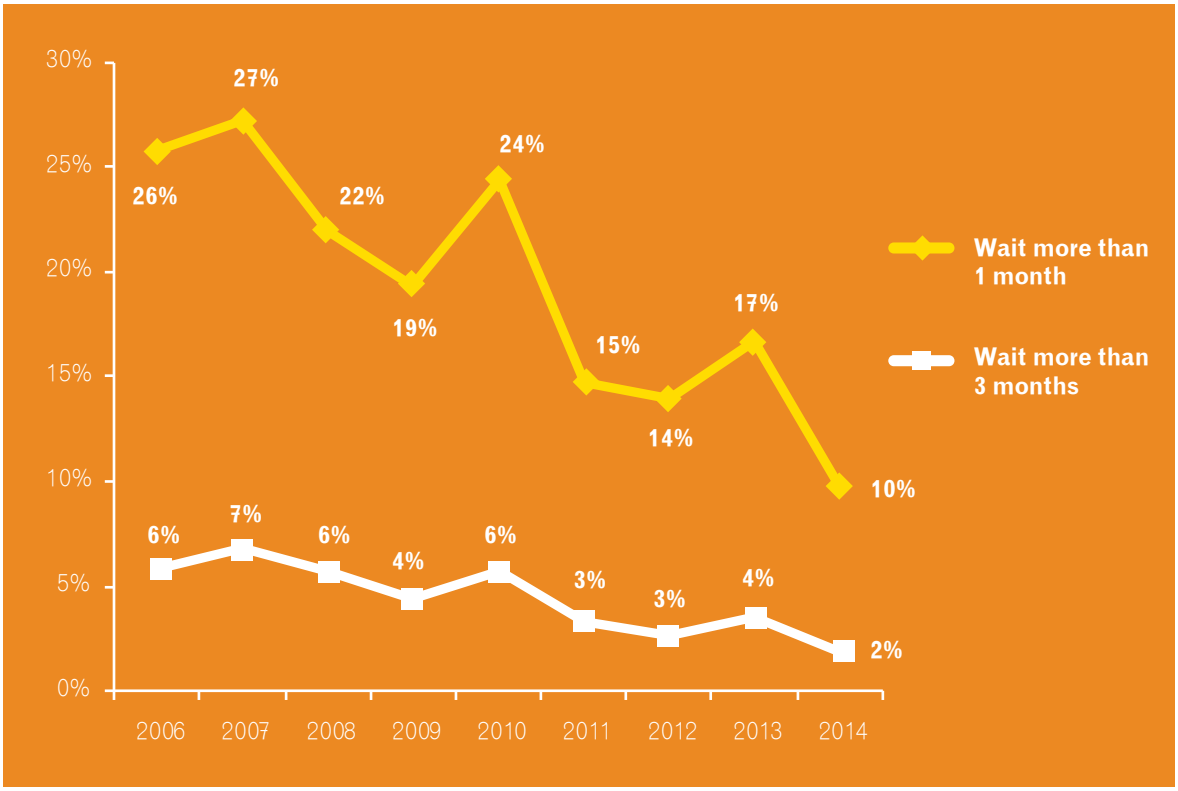
	2013	2014
Publicly listed procedures	39%	61%
Clear guidance	41%	75%
Knowledgeable officials	26%	43%
Friendly officials	25%	43%
Useful IT Systems	16%	29%

Source: PCI Survey Question C3.1, "What do you think about the one-stop shop or inter-departmental one stop shop when registering your business in the province?". Table reports the share of firms in a median province that checked a particular item.

The typical wait time for a firm to be fully operational reached a record low in 2014, as measured by the wait time of the median firm. Only 10% of firms had to wait over one month to complete all procedures and become a fully legal entity, less than half compared to 2006 (26%). And less than 2% had to wait three months to be fully legal. Figure 1.9 shows the annual wait times experienced by firms.

[18] Section II. Solutions to improve business environment and enhance national competitiveness, *Government Resolution 19/ND-CP on improving the business environment and enhancing national competitiveness*, dated March 18, 2014. <http://www.chinhphu.vn/portal/page/portal/chinhphu/hethongvanban?class_id=509&mode=detail&document_id=172833>

FIGURE 1.9 **Indicators of Entry Costs (Wait Time to be Fully Legal)**



Source: PCI Survey Question C5, "How long did it take you to get all required registration certificate, licenses, and stamps to become a fully legal business in your province?" Figure reports the scores in the median province.

In the PCI 2014 survey, we clarified one indicator of the subindex entry concerning time spent on business registration. In previous surveys, the respondent was asked how many days it took to be granted the business registration certificate (Question C.1). The different provincial waiting periods were calculated based on the normal time (in median days) until the firm received the certificate. However, through the PCI diagnostic workshops, representatives from the Department of Planning and Investment (DPI) still wondered why the wait times recorded in the registry office systems were significantly lower than those reflected by PCI respondents. In our opinion, this problem may stem from different understandings of waiting periods held by businesses and government agencies.

From a firm's perspective, the registration period is calculated from the time of the first application until they receive the final result. However, the business registration agency system usually records the time from when the application was considered valid by the relevant authority until the date of granting the business registration certificate. Many concerns remained about this discrepancy despite our explanations during the diagnostic workshops.

This discussion motivated us to clarify the PCI 2014 Survey questionnaire. Specifically, we asked the firm to indicate the number of days required to implement each of the following steps: "from the dossier preparation until the submission at the one-stop-shop office" (Question C1.1.1); "from the

submission at the one-stop-shop office until being accepted as eligible by competent authorities" (Question C1.1.2); and "for firms using facilitation services, please indicate the estimated number of days from the contracting of such services until the receipt of the Business Registration Certificate"(Question C1.1.3). To ensure the consistency between this revised indicator with those of previous years, the time to register a business calculated in PCI 2014 is the total median days of C1.1.2 and C1.1.3 in each province.

We also continue to calculate this indicator only for firms that were established in the latest years of the survey, along with an additional survey of approximately 1,800 new businesses established in the year 2014. This allows us to have a representative sample of all the new firms in each province.

As the survey results demonstrated, in 2014, it took firms twelve days on average to receive the business registration certificate. Out of these twelve days, the average time for the business to modify the dossiers until they were accepted as eligible by competent authorities was five days, and the business registration office in the province then took an average of seven days to process the final application and return the results. These results also reflect the actual days for business registration which were five working days in cases of good compliance (approximately one business week). Recently, many provinces have pledged to further reduce time for processing business licenses to three days. These include Da Nang, Lao Cai, Ba Ria - Vung Tau and Ha Noi, home to the country's largest number of domestic businesses.[19] Future PCI surveys are expected to reflect the implementation of these commitments at various localities.

Thus, it can be concluded that the provincial and city governments have been actively working to shorten the registration time for new businesses. However, from the firm's perspective, the total time spent to obtain the registration certificate remained lengthy with no indication of reductions, particularly in the time needed to prepare and amend dossiers to be accepted as eligible. Survey results show that the total time to complete all registration procedures increased to at least eight days (Vinh Long, Hau Giang, Tra Vinh) or nine days (Da Nang), of which firms had to spend about three days to complete the dossier, because of rejections of the initial application. The longest wait time was fifteen days, reported in Ha Noi and Tuyen Quang; half of this time was spent on the amendment of dossiers in order to make them valid.

As observed in recent years, reforms of the business registration procedure seemed to focus only on internal processes among the relevant agencies, such as business registries, tax authorities (tax code), and police (seal) after the dossier was validated. These efforts have reached their limits, as coordination among the relevant agencies has been strengthened in most localities, minimizing registration times. Therefore, in many localities, this indicator, though improved, demonstrates no notable breakthrough.

[19] Under the newly revised Enterprise Law, effective July 1, 2015, it will take only three days to register a new business. In Ha Noi, this commitment has been realized since January 1, 2015 as announced in the National Conference on Business Registration in 2014 and implementation of key missions for business registration agencies in 2015 on December 30, 2014, <http://dddn.com.vn/phap-luat/tu-nam-2015-thu-tuc-thanh-lap-doanh-nghiep-chi-con-3-ngay-20141230023114137.htm>

Provinces seeking to improve their competitiveness in the area of reducing entry costs should take the additional step of providing better guidance to prospective business applicants regarding documents and procedures. Presently, many firms do not fully understand the procedures; this is leading to avoidable mistakes that cost bureaucrats time to detect and businesses time to fix. Therefore, it is recommended that provincial registry offices focus on enhancing guidance for enterprises, so that they can prepare an eligible dossier in the shortest possible time.

Transparency

A transparent business environment contributes to increased confidence in the effectiveness of administration by the state's management agencies, improving the efficiency of resource allocation by businesses while increasing their equality of opportunity.[20] Therefore, it is critical for Vietnam to improve transparency in administration, procedures, and policies in order to build the confidence of businesses and investors. The survey data this year showed some positive movements for the transparency sub-index, increasing to 5.98 points from 5.56 points in 2013, the second highest single-year increase since 2008 (when it reached a high of 6.32 points compared to 5.84 points in 2007).

This result is mainly due to increased firm engagement in the policy-making process, as well as the enhanced role of local business associations. The PCI Survey also showed that, for the past year, local business associations were given many opportunities to demonstrate and promote their role in policy consultation and judgment. 43% of firms agreed that business associations played an important or a very important role in these processes, a record high level since 2006.

Along with better understanding the need for a business voice in the policy-making process, cities and provinces across the country have also actively improved electronic portals or websites throughout their respective localities. This includes updating information and enhancing online administrative services to provide more effective channels for those seeking to learn about rules, policies, and business operations. These changes contribute to enhanced transparency of the business environment. In 2013, the median province's website received only 25.5 out of 50 points regarding its accessibility. This year, the score increased to 29 points, indicating administrative acknowledgement regarding the utility of e-portals or website quality and recognition by firms of improvements in this area. The rate of access to the provinces' websites also increased to 64% from 51% in 2013. In particular, Lam Dong outperformed its peers in this area with 78% of firms visiting its website.

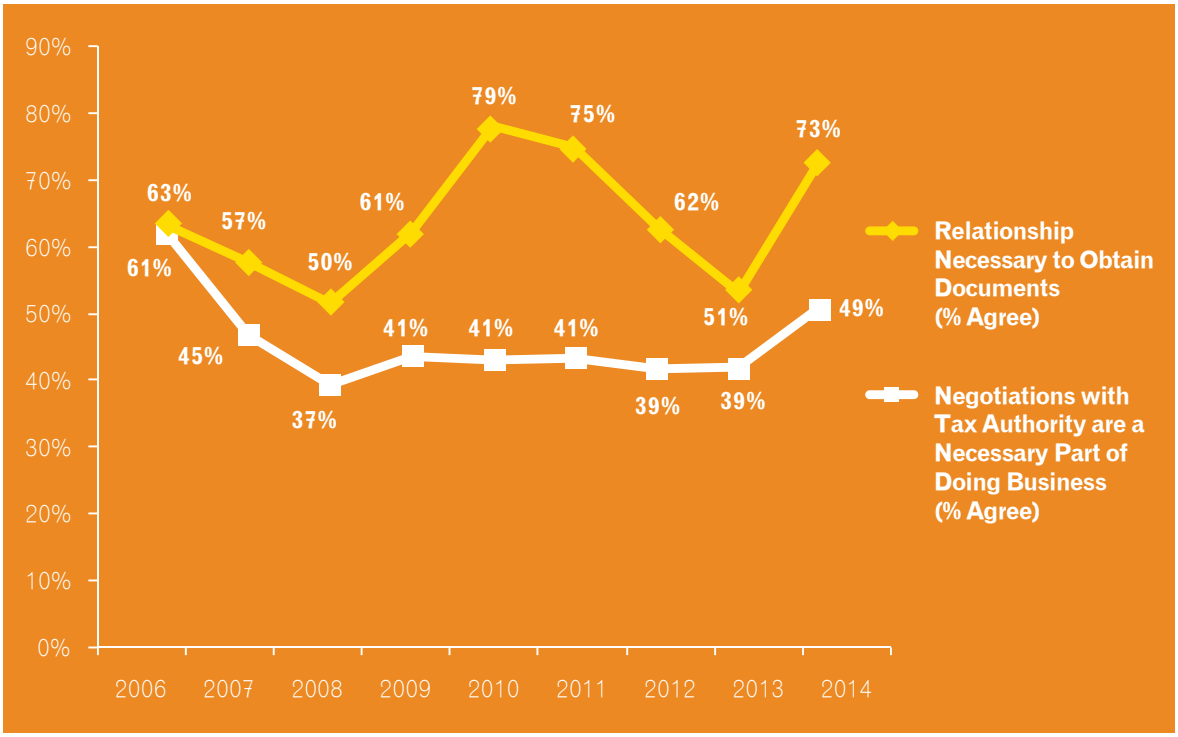
[20] Malesky, Edmund , Neil McCulloch, Nguyen Duc Nhat. 2015. "The Impact of Governance and Transparency on Firm Investment in Vietnam." *Economics of Transition* (Forthcoming).

For the remaining indicators, however, survey results showed signs of concern. Efforts to enhance information accessibility for businesses tended to stagnate. In 2014, enterprises still report difficulties in obtaining legal documents (such as laws, decrees and guidelines of the central government, provincial gazette, and administrative forms). Furthermore, firms encounter obstacles in their efforts to access important business information, such as documents related to provincial planning, including budgeting, land use plans and zoning, infrastructure projects, and investment incentives. On a five-point scale, with 1 being easy and 5 being impossible, the median provincial score in the area of accessibility to provincial planning information and documents this year hit its lowest level since the first PCI iteration in 2006, when it was 2.2 points (down from 2.6 points in 2013). The accessibility of legal documents, though higher, remained the same as last year at 3.1 points. Obviously, given a lack of specific information about land use planning or planned infrastructure development, firms are reluctant to invest in costly expansion.[21]

Of more concern, personal relationships continue to play an important role. As shown in Figure 1.10, seven out of every ten respondents said it was necessary to have a relationship with provincial officials in order to gain access to documents or information, reversing the a four-year trend of improvement that took place from 2010 to 2013. The percentage of firms that agreed with the statement "Negotiations on payable taxes with provincial tax officers are a necessary part of doing business " this year also soared to 49%, the second highest level since 2006.

[21] Malesky et al. 2015, "The Impact of Governance and Transparency"

FIGURE 1.10 **Key Indicators of Transparency**



Source: PCI Survey Question F2, "Do you think that it is necessary to have a relationship with provincial officials to gain access to the above documents /information" and D14.3, Do you agree with this statement? "Negotiations on payable taxes with provincial tax officers are a necessary part of doing business." Figure reports the scores in the median province.

Business Support Services, Labor Training and Time Costs

With the development of any economy, private businesses increasingly use technical support from public and private service providers to improve operational efficiency. The PCI Survey service list includes seven groups: (i) market information search; (ii) legal consultancy; (iii) business matchmaking services; (iv) trade promotion and trade fair/exhibition services; (v) technology and technology-related services; and (vi) training courses administration. This year's survey results show that the percentage of firms using these services is higher than last year. In particular, the quality of services is gradually improving. The percentage of respondents in the median province intending to continue to use the services is higher in all categories than in 2013: business matchmaking services (+12%); trade promotion (+11%); technology-related services (+ 10%); training courses on accounting and finance (+17%); and training courses on business administration (+11%).

Government Resolution 19 of 2014, and the revised 2015 version, also insisted that ministries, agencies, and provincial governments have to promote rapid improvements in the share of the provision of public services handled by private contractors. If this task is realized, enterprises will have more incentive and opportunities to use business support services provided by the private sector, which operates in a more competitive environment.

Investors in the PCI Survey regard high-quality labor training as one of the leading determinants for attracting investment, which impacts the future development of the economy. According to the PCI 2014 Survey, labor training scores increased slightly compared to last year, reaching 5.75 points. Firms are optimistic about the future level of labor quality. Overall, in 2014, only about half of the businesses in the median province were satisfied with the quality of general education, while only one third were satisfied with the quality of vocational training.

Administrative burdens remain for businesses, as respondents found no significant improvement in efforts to cut post-registration administrative costs. In 2013, only 21% of firms said they had spent over 10% of their management time to implement administrative procedures. This figure this year hit the highest level since 2006 (36%). In regard to inspections and examinations, the median inspection still lasts about eight hours. This year's survey also witnessed declines across other indicators of administrative efficiency. The percentage of enterprises that agreed with the statements "our firm doesn't have to take many trips to obtain stamps and signatures" (65% agreeing) and "government officials are effective in processing procedures" (61% agreeing) were 10% down from 75% and 70%, respectively, in 2013, though they do represent an improvement over evaluations from 2006-2012.

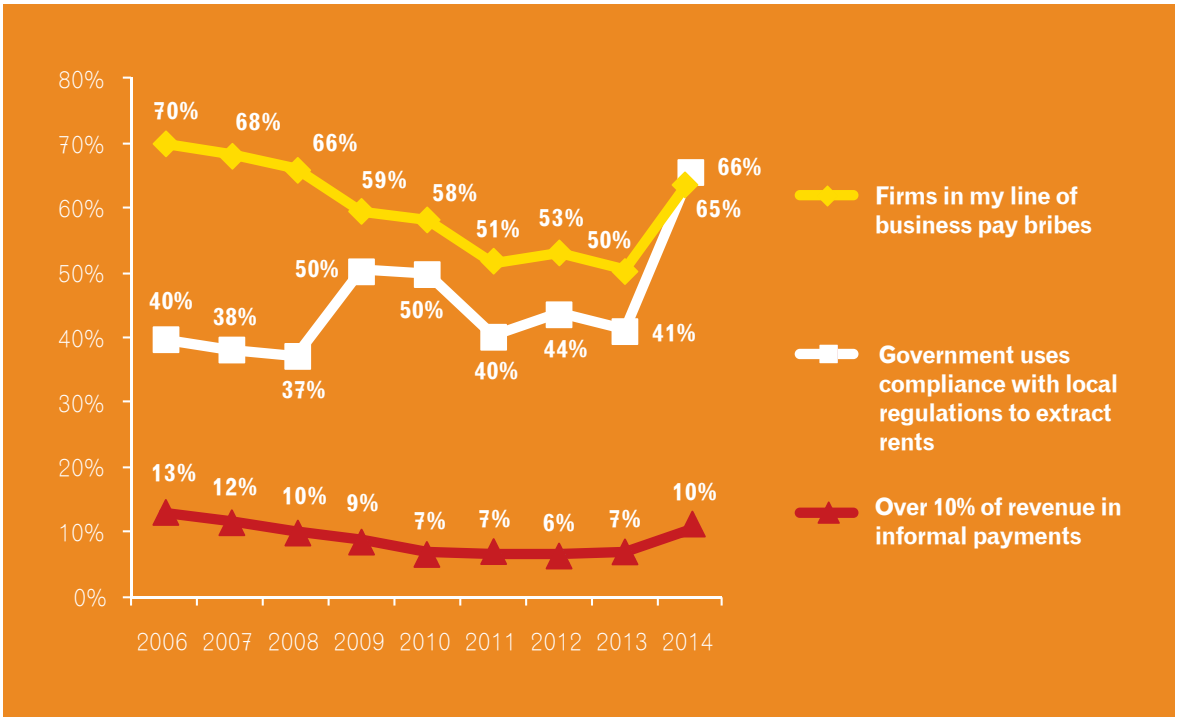
Worrisome Declines

The PCI 2014 Survey showed worrisome declines in the fields of controlling informal charges, leadership proactivity and access to land. In all three areas, the respondents in the median province expressed the highest ever pessimism since the first iteration of the PCI Survey.

Figure 1.11 displays the history of businesses' encounters with informal charges. In 2008, 66% of surveyed firms in the median province said they usually have to pay extra informal charges to facilitate business activities. After many years of decline, in 2014 this figure returned to a high level. This year, 10% of firms indicated they have spent more than 10% of revenue on bribes. In addition, an increasing number of businesses say they were exposed to harassment in complying with procedures (66% in 2014, up from 41% in 2013). The PCI-FDI Survey over this time also showed the same result (60%).[22] Nevertheless, the frequency of bribery attempts reported by firms when competing for a government contract showed signs of slowdown. This rate, although it has been same as 2013 level (55%) remains worryingly high.

[22] See details in Chapter 2, PCI-FDI survey results of this report.

FIGURE 1.11 **Key Indicators of Informal Charges (2006 to 2014)**



Source: PCI Survey Questions: To what extend do you agree with these statement, "Firms in my line of business pay bribes"(D9), "Government uses compliance with local regulations to extract rents" (D10) and Percentage of revenue firm has to spend for informal payments (D14.2). Figure reports the scores in the median province.

Along with the pessimistic views reflecting the lack of improvement in the area of informal charges, the PCI respondents also demonstrate firms' concerns about the operational efficiency of the provincial governments. Every year, we observe how firms perceive leadership proactivity based on their level of agreement with the following statements: "When central regulations are unclear, my provincial People's Committee is creative and clever in solving newly arising problems;" and "There are good initiatives in the province but they are not effectively implemented by provincial departments." The survey results showed that leadership proactivity stagnated at the same level as in 2013 (53%). Obviously, despite many reform initiatives, enforcement is not effective at the lower levels typically encountered by firms, namely the departmental level. This year, the percentage of firms agreeing with the latter statement regarding ineffective implementation of initiatives increased to 77%, the highest ever observed in the PCI Survey, and double the 2006 level.

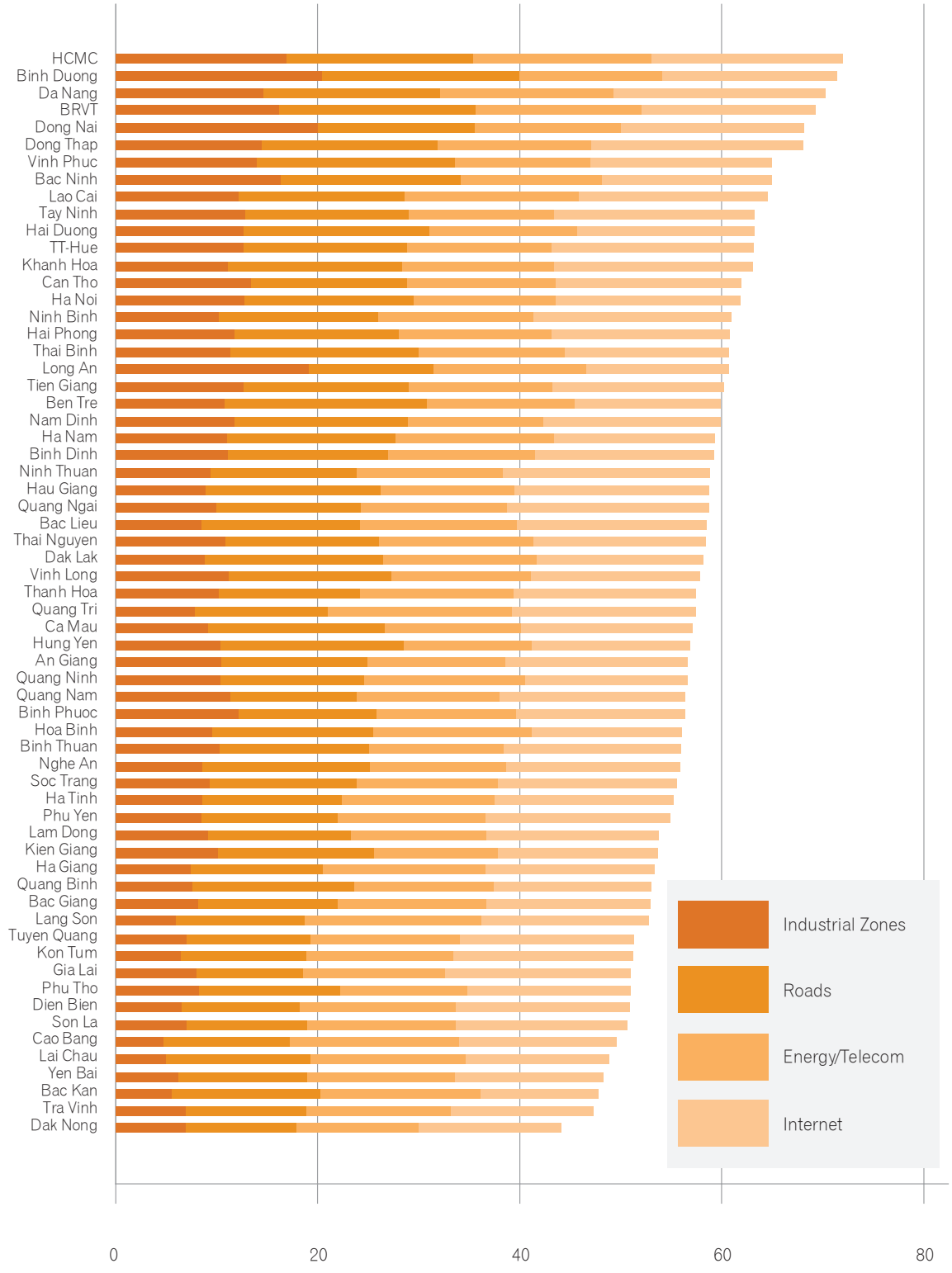
Finally, this year, respondents expressed more concern over access to land. Only 55% of surveyed firms have land use rights certificates (LURCs). Without this certificate, a firm's business premises are more exposed to loss and expropriation. The respondents expressed fears about the risk of land acquisition, and in the worst cases where the land was actually seized by government, only one third of the firms believed that they would receive fair compensation. The land issue is becoming a more common trend, adversely impacting firms' business operations. The percentage of respondents saying that they faced no obstacles in access to land is at a record low this year at less than 22%.

1.4 THE 2014 INFRASTRUCTURE INDEX

The Infrastructure Index is a combination of i) survey results of firms' perceptions about infrastructure quality across provinces and cities and ii) published data. The composite index is comprised of sub-indices that represent four basic areas related to infrastructure that businesses use in their operations. They are (1) industrial zones; (2) roads; (3) public services (telecommunications, energy); and (4) information technology.

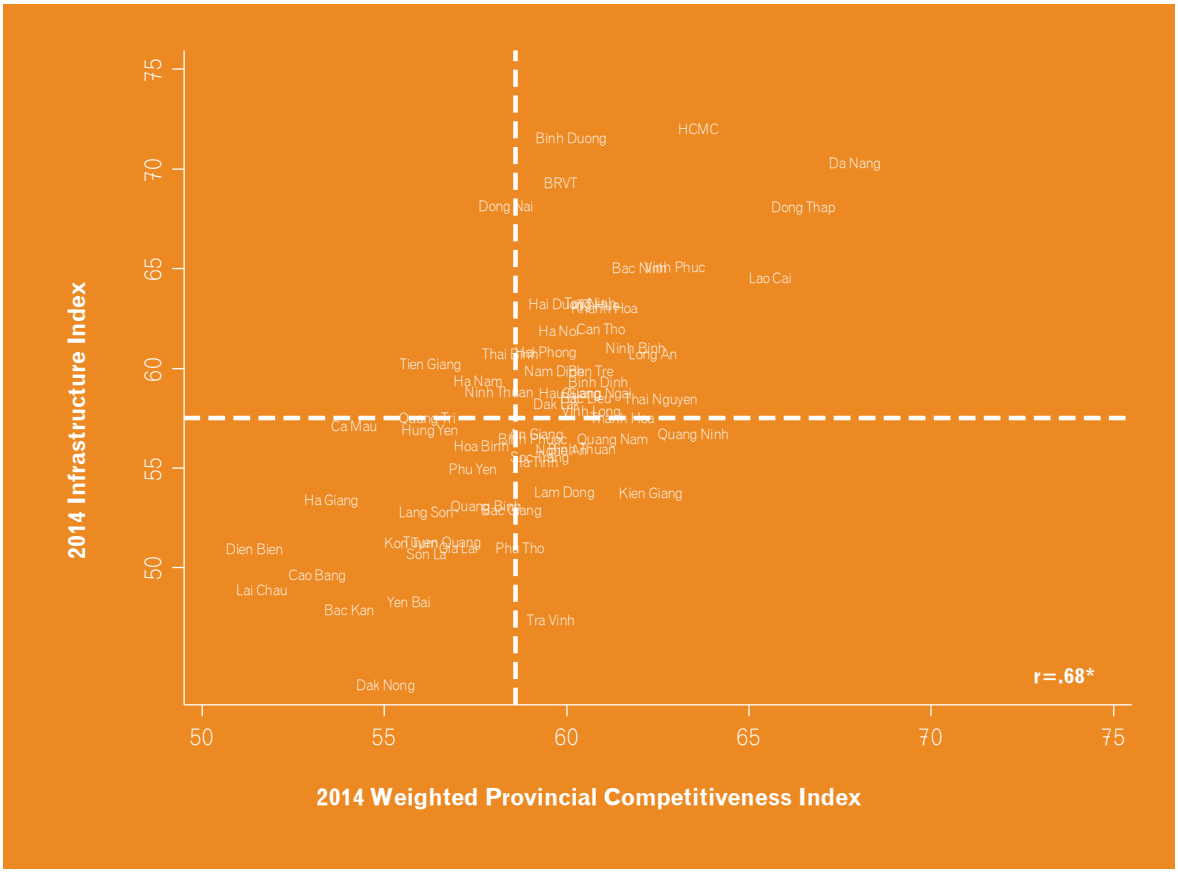
Figure 1.12 details the results of the infrastructure index in 2014. Ho Chi Minh City, Binh Duong, Da Nang, Ba Ria-Vung Tau and Dong Nai were rated the top five performers with the best infrastructure. The provinces finding themselves at the other end of the rankings were Cao Bang, Lai Chau, Bac Kan, Tra Vinh and Dak Nong.

FIGURE 1.12 **The 2014 Infrastructure Index**



We continue to take a cautious approach towards assessment of the infrastructure index. As previous reports have pointed out, this indicator does not depend entirely on the provincial leadership given that the majority of decisions regarding infrastructure are made at the central level. This index is introduced simply for the purpose of helping businesses as well as policy-makers to make more informed decisions. As indicated in Figure 1.13 on the relationship between the PCI Index and the Infrastructure Index, localities with good infrastructure may still face many problems in economic operation. However, they can overcome the limitations of poor infrastructure with good governance and by creating an enabling business environment.

FIGURE 1.13 **Relationship between the PCI and the Infrastructure Index 2014**



Conclusion

To conclude, the 2014 PCI shows positive signs for the business environment in Vietnam. Optimism regarding future business prospects has risen over the last five years. The quality of economic governance in provinces has also seen a gradual improvement. This year, reform efforts were most noticeable in entry costs, followed by transparency, business support services, labor training and time costs. The report also shows, however, that much remains to be done by local governments to reduce informal charges, improving proactivity, facilitating more land access, and creating a level playing-field for all economic actors.

PCI 2014

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2014

2 THE FOREIGN INVESTMENT SURVEY

SUMMARY FINDINGS

This chapter summarizes the results of the fifth annual PCI foreign direct investment (FDI) survey. The survey covers a highly representative selection of 1,491 businesses from 43 different countries whose operations are located in the 14 Vietnamese provinces with the highest concentrations of foreign invested enterprises (FIEs), according to the General Statistical Office (GSO).[23] As in the survey of domestic firms, the PCI-FDI respondents were selected from the General Tax Department (GTD) list, using a stratified random sample at the provincial level to ensure that the sampled firms mirror the underlying population of foreign firms in the province. While the PCI-FDI survey is not the only survey of foreign investment in Vietnam, it is the largest and most comprehensive. In fact, the number of respondents in the PCI-FDI module accounts for 8.6% of the entire population of foreign invested projects (17,434) that have registered in Vietnam since 1988 according to the GSO, and nearly equals the number of new FIEs that entered Vietnam in 2013.[24]

[23] General Statistical Office (GSO), 2015. "Foreign direct investment projects licensed by province (Accumulation of projects having effect as of 31/12/2013)," Hanoi, Vietnam.

[24] General Statistical Office (GSO), 2015. "Foreign direct investment projects licensed in period 1988 – 2013," Hanoi, Vietnam. <http://www.gso.gov.vn/default_en.aspx?tabid=471&idmid=3&ItemID=15488>

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

This chapter is divided into six sections. In Section 2.1, we explore the performance of FIEs in the past year, demonstrating that while actual revenue and profitability have decreased, respondents record increasing optimism about their performance. In Section 2.2, we profile FIEs in Vietnam, finding that they are predominantly from neighboring Asian countries (especially Taiwan, South Korea, and Japan), are relatively small in both employment and investment size, have the majority of their operations in low-end manufacturing, and are primarily interested in the export market for their products. In Section 2.3, we study how these firms rank Vietnam in the competition for FDI against the country's immediate rivals and home country policies. Using the strengths and weaknesses identified in the head to head competition as the skeleton, we then flesh out each of these findings with additional data from the survey in the two subsequent sections. Section 2.4 drills down into the areas where FIEs rate Vietnam as highly competitive compared to rivals: low tax burden, low expropriation risk, high predictability of laws and regulation, and high influence over policy. Section 2.5 more deeply analyzes the core weaknesses that were identified: corruption, low infrastructure / public service quality, and burdensome regulations. Section 2.6 is a special section devoted specially to Vietnam's labor policy, including educational training, regulations on hiring foreign experts, and relations between business and labor.

2.1 PERFORMANCE OF FOREIGN FIRMS IN 2014

In 2013, we reported that the performance of FIEs in Vietnam was slightly better, while optimism appeared to be declining.[25] This year, the opposite appears to be true. Table 2.1 shows that sales in inflation adjusted dollars for the median firm are slightly down, fewer firms are operating in the black (57.9%), and more firms are reporting losses (34.3%). On the other hand, FIEs are much more positive about their investment prospects. This year, 16.3% of FIEs increased their investments in existing operations and 65.1% added new employees to their payrolls. The employment increase is the largest increase recorded in the PCI-FDI survey in five years.

[25] *Edmund Malesky, The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Private Sector Development:* 2013 Final Report #9. Hanoi, Vietnam: Vietnam Chamber of Commerce and Industry and United States Agency for International Development, 2014, 44-45.

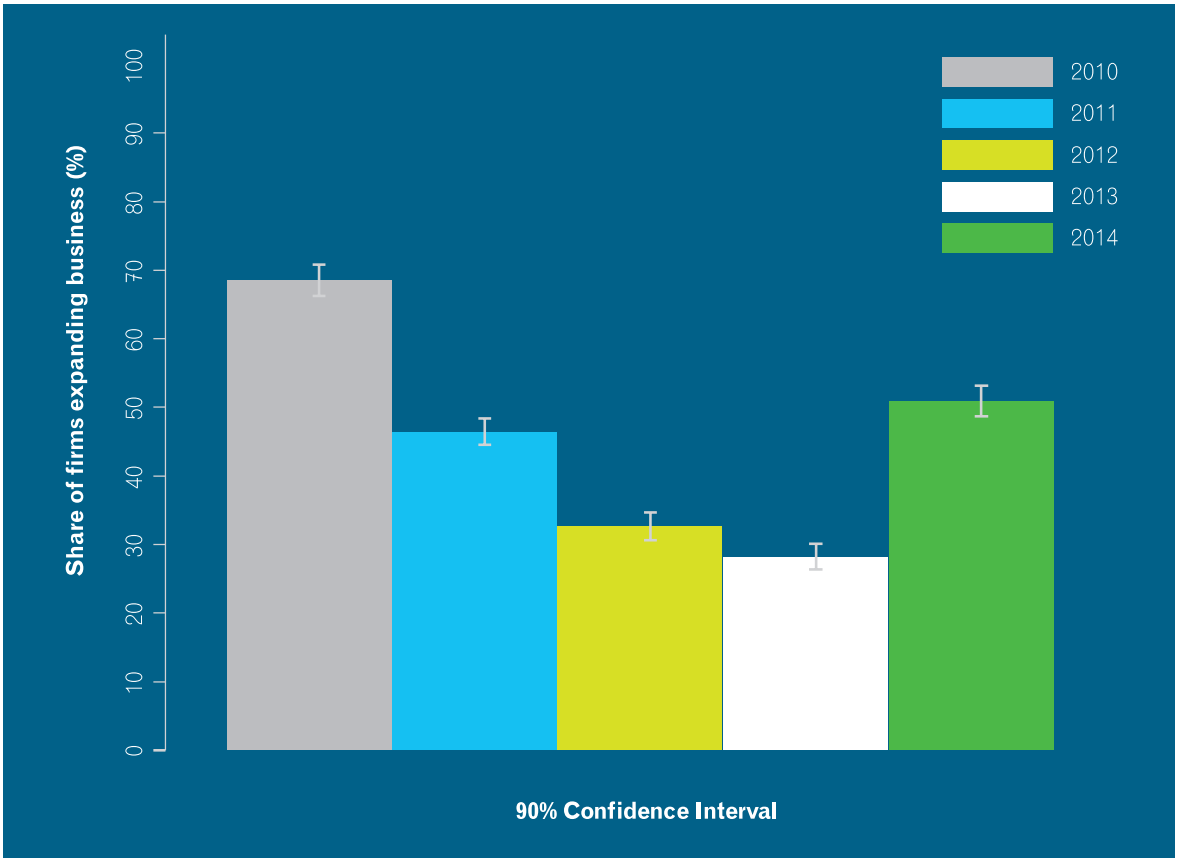
TABLE 2.1 Performance of Foreign Firms over Time

Year	Firms Increasing Investment	Firm Adding Employees	Firms Reporting Profits	Firms Reporting Losses	Median Sales (Millions of 2010 USD)	Median Expenditures (Millions of 2010 USD)
Question	QA5.2 & QA5.3	QA8.2 & QA8.3	QA11 >=5	QA11 <=3	QA13	QA15
2010	37.3%	54.0%	70.1%	24.6%	1.0	0.8
2011	27.8%	47.1%	73.9%	20.5%	1.4	0.7
2012	5.1%	32.2%	60.0%	28.0%	2.2	1.3
2013	5.1%	33.4%	64.1%	23.8%	1.8	1.1
2014	16.3%	65.1%	57.9%	34.3%	1.6	1.0

Even better news appears to be on the horizon. Looking ahead to the next two years, according to the Business Thermometer, a question gauging prospective expansion plans (Figure 2.1), we see that optimism appears to be expanding rapidly. In 2013, we witnessed an all-time low in the number of FIEs intending to expand their operations over the next two years. This year, over half of the businesses in the PCI-FDI sample intend to increase the size of their operations - the highest share recorded since 2010.[26]

[26] ibid, p.45

FIGURE 2.1 **PCI-FDI Business Thermometer**



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

2.2 CHARACTERISTICS OF THE FIE RESPONDENTS

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

Size: Foreign operations in Vietnam are growing but remain quite small by international standards. The median size of an FIE is about 125 employees and 79% of FIEs in Vietnam have fewer than 300 employees. Indeed, 30% of FIEs have fewer than 50 employees. A few sizable operations are represented in the PCI survey: about 90 operations have over 1,000 employees. We find similar

results when we disaggregate by capital size—the median operation is $1.2 million USD and 62% of FIEs have licenses that are less than $2.5 million. Only 6% of the sample is licensed for investments greater than $25 million.

Type of investor: Over 88% of the FIE respondents are wholly foreign-owned. This figure, which is in agreement with the General Statistical Office Enterprise Survey,[27] is remarkable because early in the Vietnamese investment history (1987–1991), 100% foreign-owned investment was not allowed and investors were obligated to joint venture with state-owned enterprises (SOEs). While 100% foreign ownership was possible under the 1991 revision to the Foreign Investment Law, it was still difficult, as access to land hinged heavily on finding a state-owned local partner. The 1996 revisions of the law facilitated 100% direct investment and led to the dominance of this foreign owned enterprise form that we observe today. Only 8% of respondents are in joint ventures, and less than 5% are registered as domestic operations.

Sector as Appendix A shows, in 2014, 67.6% of FIEs are in manufacturing, while only 33% of FIEs operate in services and other sectors. Activity in manufacturing is extremely diverse, however. No particular type of manufacturing is particularly dominant in the economy. Dissecting manufacturing more precisely, we find that the three biggest sectors after general manufacturing in 2014 are fabricated metal products (7.4%), rubber and plastics (6.7%), and apparel (5.6%). Textiles, food processing, chemical products, paper products, electronics and computer products follow with about 3% of the sample each. Other sectors, such as leather, machinery, and metal fabrication account for less than 2%. The most populated service sectors are wholesale and retail trade (9.6%), and information and communications (6.5%). Construction represents about 4% of the sample.

Customer: Table 2.2 studies the major customers of FIEs over time by looking at the share of firms that have at least one customer from each of the different categories. We find that the bulk of sales are either the result of exports (either to the home country or third parties) or to other foreign companies or individuals living in Vietnam. This pattern is indicative of the multinational supply chains that characterize a great deal of the activity in Vietnam. About 39% of companies sell to private individuals or firms, which is an indicator of spillover from FIEs into the domestic economy. The number is down about ten percentage points from the previous year. Sales to SOEs and state agencies continue to decline from the prior two years.

[27] General Statistics Office of Vietnam. 2014. "The Enterprise Survey 2013 Dataset." Hanoi, Vietnam.

TABLE 2.2 Customers of Foreign Invested Firms (% with at least one customer)

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

Source: PCI-FDI Survey Question A14, "Who are your customers? Please check all that apply."

Suppliers: Linkages to the domestic sector appear to be increasing. The PCI survey asks firms to identify the types of all of their suppliers of intermediate goods and services. Table 2.3 records the share of firms which have at least one vendor from these groups. It is possible for a firm to have checked every category. 88% of FIEs source some share of their intermediate goods and services domestically, including SOEs, domestic private firms, and household businesses. By comparison, in 2011, only 42% of firms sourced domestically from one of those three groups. Even better, domestic private operations account for a hefty share of the total (61%), compared to 11% from SOEs in 2014.

Nevertheless, overseas purchases are still critically important, as 8.1% of operations purchase inputs in-house through their parent companies, 54% buy goods from businesses in their home countries, and 34% purchase from third-country suppliers. The continued reliance on overseas inputs contributes to the Vietnamese government's concerns about the risk of transfer mispricing, which we explored in last year's report.[28]

TABLE 2.3 Suppliers of Foreign Invested Firms (% with at least one vendor)

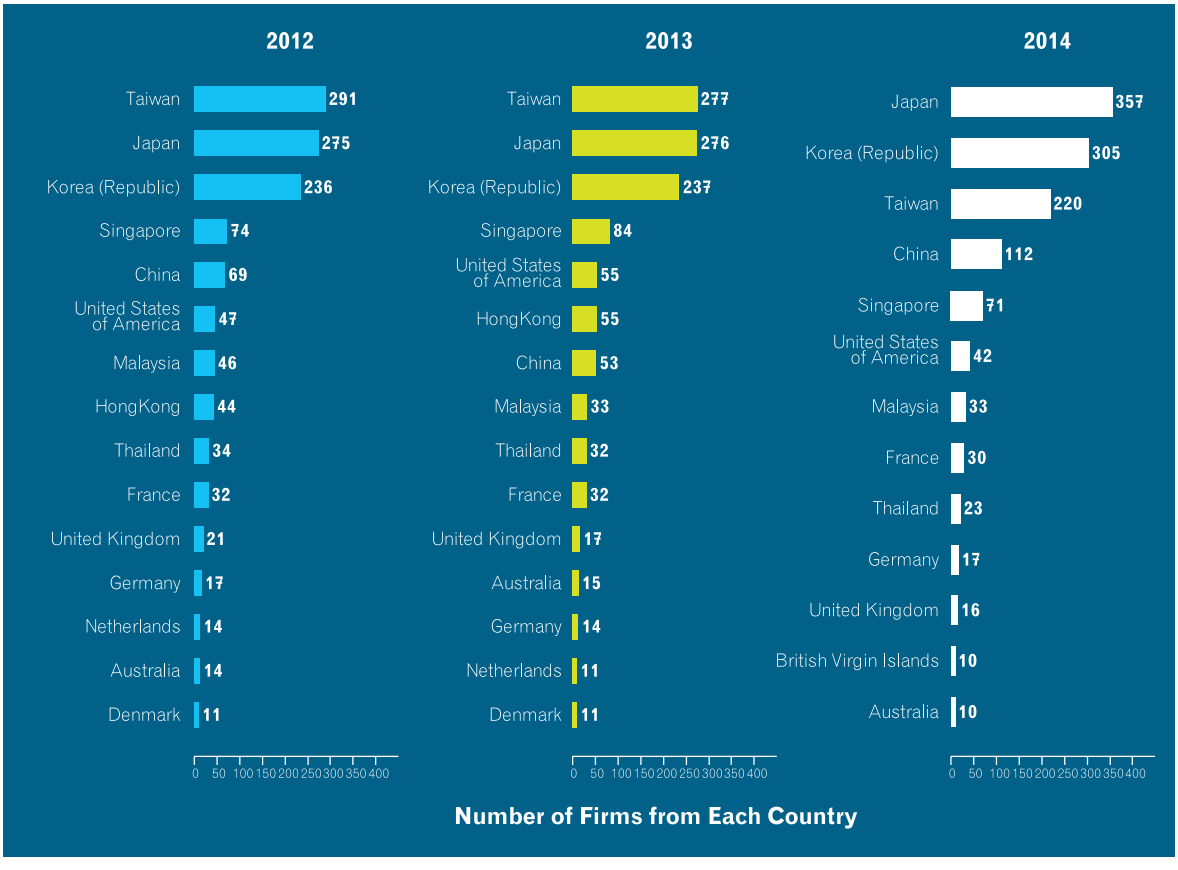
Year	State Owned Enterprise	Private Firm	Household Business	In-House	Home Country Businesses	Third Party
2010	13.4%	52.6%	12.8%	7.0%	28.0%	33.5%
2011	7.0%	27.9%	6.8%	7.9%	14.5%	16.7%
2012	5.5%	42.9%	4.9%	6.6%	39.3%	24.3%
2013	9.4%	47.3%	10.1%	12.9%	44.6%	33.7%
2014	11.2%	61.3%	15.6%	8.1%	54.2%	34.3%

Source: PCI-FDI Survey Question A16, "Who are your suppliers of intermediate goods and services? Please check all that apply."

[28] Malesky, *The Vietnam Provincial Competitiveness Index*, 2014.56-73.

Country of Origin: As in previous years, we find that investors from East Asia dominate the PCI-FDI sample (see Figure 2.2). Investors from South Korea, Taiwan, Japan, and mainland China account for 65% of the active businesses surveyed. When we add investors from neighbors in Southeast Asia, the figure approaches 81%. These numbers correspond closely to the calculations made by the Ministry of Planning and Investment (MPI) and GSO.[29] Sizable numbers exist for Western investors as well. The 2014 PCI-FDI sample contains 116 investors from Europe, 51 from the United States (including Guam and the U.S. Virgin Islands), 10 from Australia, and a host of others from Russia, Eastern Europe, and Latin America. It is important to note that a great deal of U.S. investment is listed as originating in Hong Kong and Singapore for a variety of logistical and tax-based reasons; thus, U.S. investment is probably understated.

FIGURE 2.2 **Respondents by Country, 2012-2014**

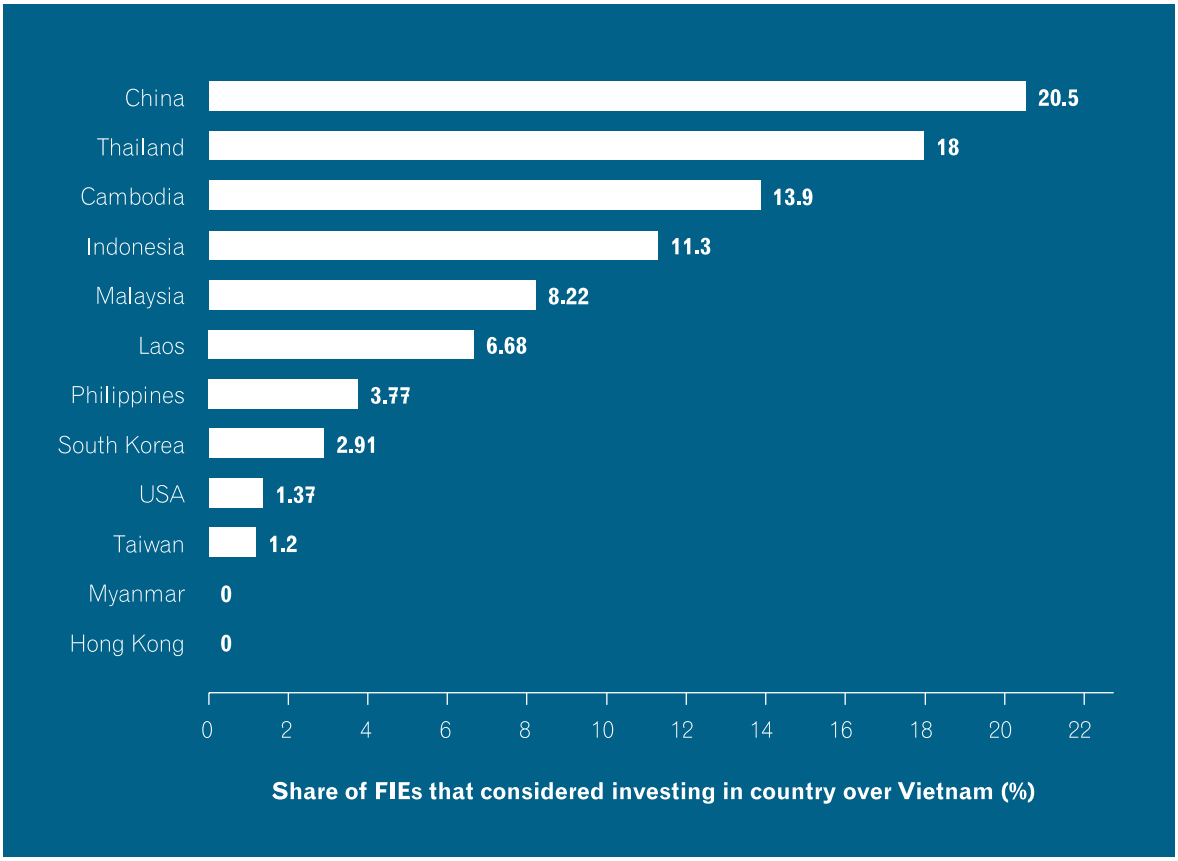


[29] GSO, 2015. "The Enterprise Survey." http://www.gso.gov.vn/Default.aspx?tabid=217

2.3 VIETNAM'S BUSINESS ENVIRONMENT RELATIVE TO COMPETITORS

Continuing a technique we pioneered last year,[30] the 2014 PCI-FDI survey asked businesses to compare factors in the Vietnamese business environment to other locations in which they considered investing (see Figure 2.3). In line with last year's survey, just about half of the FIEs currently in Vietnam considered other countries (most commonly, China (20.5%), Thailand (18%), and Cambodia (13.9%)) before selecting Vietnam as their ultimate destination. Each of these shares has increased from 2013. The uptick itself represents an important marker of Vietnam's developmental standing. Vietnam is no longer the darling of the international investment community as it was between 2007 and 2010, and must now compete against traditional regional destinations for FDI (China, Thailand, and Indonesia) along with several emerging competitors such as the Philippines and Laos.

FIGURE 2.3 Vietnam's Biggest Competitors for Foreign Investment



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

[30] Malesky, *The Vietnam Provincial Competitiveness Index, 2014, p.57-53.*

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

Following up on our analysis last year, the PCI survey asked firms to consider eight factors that are important for investment success in order to understand why investors selected Vietnam over the competitors.[31] For each item, respondents were asked whether Vietnam offers superior performance to its main competitors. The results provide a fascinating glimpse into the main priorities of investors, and how Vietnam compares with its rivals on the criteria that firms use to make investment decisions. As an easy benchmark, we use all scores above 50% to indicate that this is an investment factor where the majority of investors prefer Vietnam to competitors. Scores below 50% indicate areas of weakness.[32]

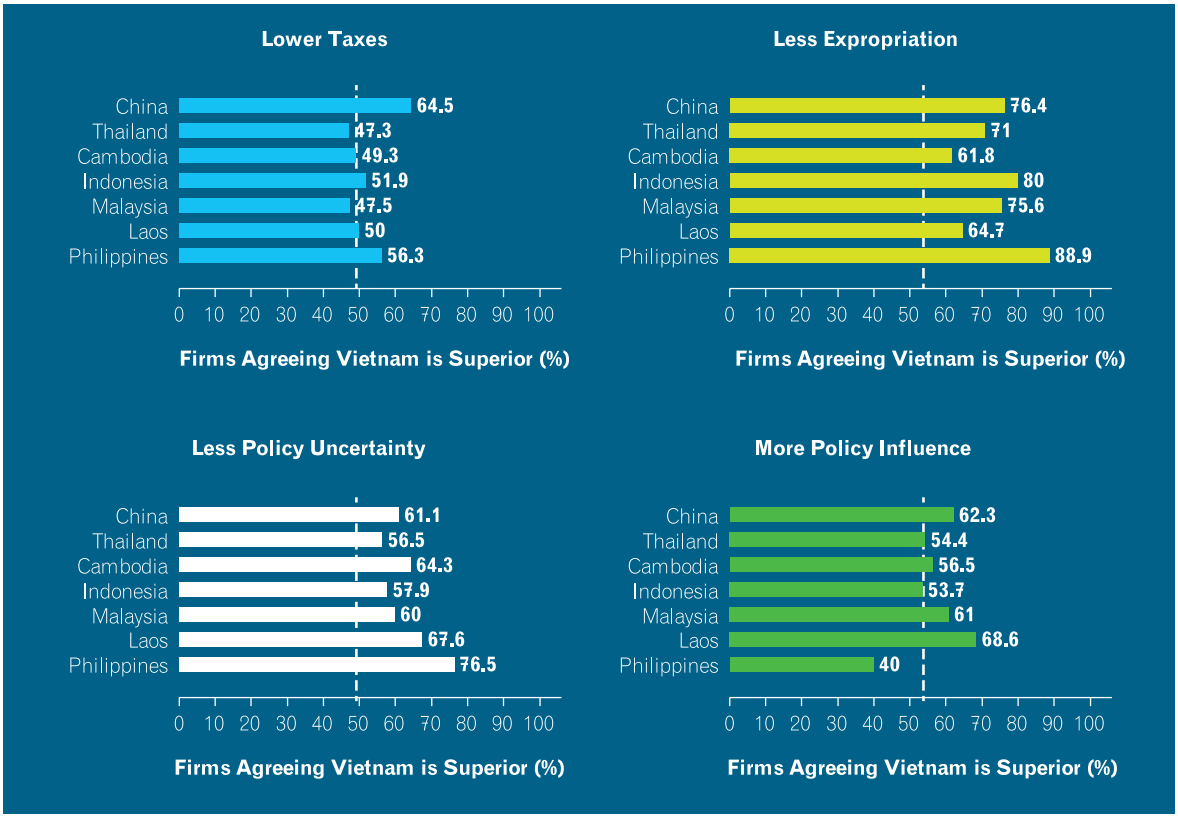
Figure 2.4 studies Vietnam relative to its main rivals in four strengths: tax rates, expropriation risk, policy influence, and policy uncertainty. Seeing the chart this way, we observe some important divergences. On expropriation, for instance, investors are far more confident about their investments in Vietnam than competitors. 76.4% of respondents argued that Vietnam has less expropriation risk than China, and 71% ranked Vietnam ahead of Thailand, reflecting concerns about ongoing political risk in the country. These numbers show remarkable consistency between 2013 and 2014, suggesting that this conclusion is not coincidental.

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

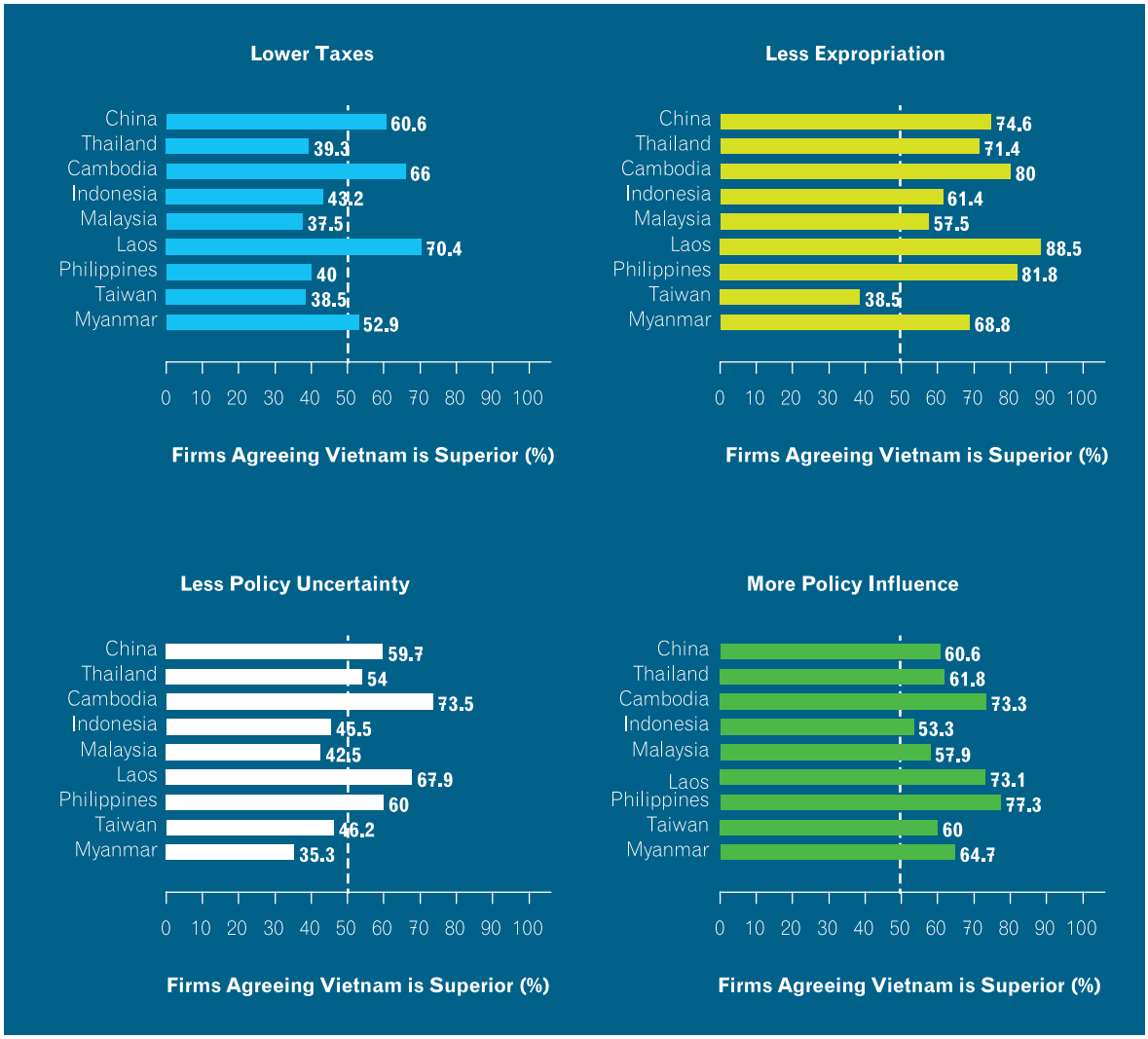
[32] It is important to acknowledge the selection bias that influences these results. These are FIEs who already chose to invest in Vietnam and not those who weighted the competitive balance in favor of another country by investing there. This means that the satisfaction results are likely over-stated,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

FIGURE 2.4 **Strengths of Vietnam Relative to Competitors in 2013 & 2014**

2014



2013



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

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

Policy uncertainty shows improvement over 2013. FIEs believe Vietnam has greater stability and predictability than almost all of its competitors. These findings are critical, as FIEs value the ability to predict changes in laws well into the future, allowing them to make long-term strategic plans. Moreover, investors in high-tech goods and services value policy stability even more, as it often takes them longer to

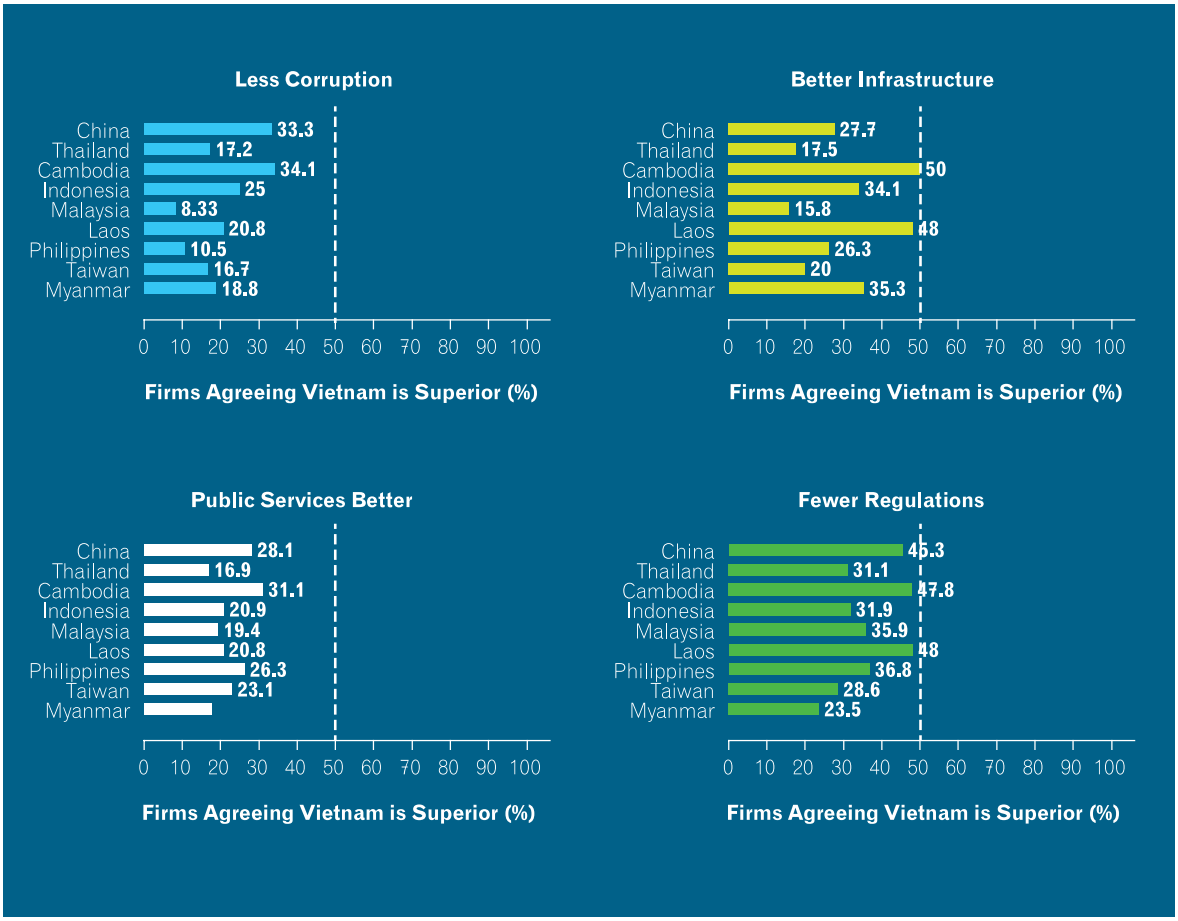
be profitable and their investments have greater inherent risks. We probe more deeply into the sources of predictability in Vietnam below (see Section 2.4.2), but a critical factor is that on a companion question, 94% of investors report Vietnamese politics is more stable than potential competitors'.

Last year, Vietnam outperformed some of its peers on tax levels (see Figure 2.4), but this year shows even greater improvement. According to investors, Vietnamese tax levels are superior to those of China, Indonesia and the Philippines, and Vietnam has lowered the gap between itself and its regional peers.

FIGURE 2.5 Weaknesses of Vietnam Relative to Competitors in 2013 & 2014

2014

2013



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

Figure 2.5 tackles Vietnam's main weaknesses relative to its competitors. In this graph, there is again significant variation among Vietnam's rivals, but the general message is clear. Consistently, FIEs evaluate Vietnam to be significantly less attractive when it comes to corruption, regulatory burdens, quality of public services (such as education, health care, and utilities provision), and the quality and reliability of infrastructure. On infrastructure, investors place Vietnam in roughly the same level as its neighbors Cambodia and Laos. Infrastructure is always a major topic of discussion in Vietnamese policy circles. Surprisingly, however, Vietnam appears to rank even worse than every possible competitor when it comes to corruption and the regulatory burden.

These weaknesses are broadly consistent with Vietnam's performance in the most recent *Global Competitiveness Index* rankings (2014-2015) where it ranked 92nd out of 144 countries in the Institutions Pillar. On institutions specifically, Vietnam ranked 75th in corruption and 101st in

regulatory burden. Similarly, Vietnam ranked 81st for Infrastructure and 96th for Education and Training.[33]

On all these issues, Thailand and Malaysia appear as standout alternatives to Vietnam, which is again illustrative. Both economies are far more likely to attract the high-technology and value-added investors that Vietnamese policy-makers desire.

2.4 A CLOSER LOOK AT VIETNAM'S BUSINESS ENVIRONMENT

In this section, we probe more deeply into the specific determinants of the business environment for Vietnamese foreign investors. Using the four strengths and four weaknesses detected above, we now put flesh on the bones of each of these general perceptions.

2.4.1. Strength #1: Low Taxes

According to the PCI-FDI survey, about 76% of FIEs in Vietnam pay Corporate Income Tax (CIT), 80% pay the Value Added Tax (VAT),[34] and 81.3% must pay personal income taxes for high wage employees. Less common taxes faced by foreign investors include the special consumption tax (paid by 4.5% of respondents), land conversion fees (21%), and customs taxes (59%).

The perceptions of investors line up with the actual tax rates of Vietnam's competitors. Vietnam's average VAT of 10% and CIT of 22% in 2013 (25% in previous years) is in line with many of its competitors. China, Indonesia, Malaysia all have average CIT rates of 25%. The Philippines and Myanmar have slightly higher CIT of 30% and VAT 12%. On the other hand, Thailand has comparatively lower CIT tax rates (20%). Thus, Vietnam sits on the low end.[35] For small and medium size FIEs with annual revenue lower than $952,000 US, Vietnam's CIT tax rate is even more attractive (20%) thanks to a 2013 change in the Law on Corporate Income Tax.[36]

Attempting to reduce the tax burden on strategic investors, Vietnam has also experimented with targeted tax incentives for individual operations that are entering sectors or regions encouraged by Vietnamese authorities. Additional reductions for land use and other service fees are often granted by provincial authorities.[37] About 62% of PCI-FDI respondents received at least one

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

34 Those not paying VAT had tax holidays as part of their entrance agreements.

35 KPMG. 2015. Tax Rates Online. <*http://www.kpmg.com/global/en/services/tax/tax-tools-and-resources/pages/tax-rates-online.aspx>online.aspx*>

36 Law No. 32/2013/QH13, Amending and Supplementing a Number of Articles of the Law on Corporate Income Tax (June 29, 2013). < http://vbqppl.mpi.gov.vn/en-us/Pages/default.aspx?dv=5ef608c9-6406-4885-b639-4253f38bd3a8&list=document >

37 PwC, 2015. Vietnam Pocket Tax Book 2014, p. 7. < http://www.pwc.com.au/asia-practice/south-east/assets/publications/Vietnam-Pocket-Tax-Book-Mar14.pdf>

type of tax incentive when they made their initial investment, and 61% received that incentive in the form of both a reduction and a tax holiday. 12% of firms received only a reduction, while 3% received only a holiday. About 32% noted that the primary incentive they were granted was a reduction in land use fees.

Despite the widespread use of incentives at the national and provincial levels in Vietnam, they were surprisingly ineffective. It is important to note that in 92% of these cases, these incentives were part of the original recruitment offer from the country and/or province, and did not require negotiation by foreign investors. Moreover, 71% of foreign investors reported that the offer they received from the province they eventually selected was the same or worse than what they were offered by other provinces trying to attract their investment.

More strikingly, 62% of foreign investors answered that they would have invested in their current location even in the absence of the tax incentives, as location, market size, infrastructure, and human capital were more important to their strategic plans. In other words, in many cases, the Vietnamese national government and provinces may have foregone tax revenue in the hopes of luring investors who would have come anyway.

In sum, Vietnam does indeed have very competitive tax rates; these are supplemented by generous tax incentives at the national and local levels. While investors appear to be motivated by the competitive tax regime, the evidence is not clear regarding whether targeted tax incentives are providing additional motivation for investors to select particular locales.[38]

2.4.2. Strength #2: Low Expropriation Risk

The PCI-FDI survey includes a number of questions that more directly tackle the stability of foreign investors' property. The confidence of respondents that expropriation risk is low in Vietnam is quite surprising. One reason that it raises eyebrows is that, before 2009, it was virtually impossible for foreign investors to directly obtain Land Use Rights Certificates (LURCs).[39] Most investors chose a joint venture (JV) or to lease land from an existing holder, exposing them to a great deal of risk based on the opaque plans of their JV partner or landlord. Some FIEs tried to avoid this problem by entering industrial zones (IZ), where the LURC was held by the IZ management office but long-term contracts allowed them greater security. Currently, about 50% of the PCI-FDI respondents are located in IZs around the country, taking advantage of the de facto land security.

[38] This finding is in line with a large economics literature questioning the effectiveness of targeted tax incentives (see Jacques Morisset and Neda Pirnia. How Tax Policy and Incentives Affect Foreign Direct Investment, World Bank Policy Research Working Paper 2509 (1999); Keith C. Head; John C. Ries and Deborah L. Swenson. "Attracting Foreign Manufacturing: Investment Promotion and Agglomeration," Regional Science and Urban Economics 29 (2000): 197-218.).

[39] Law No. 13/2003/QH11, Law on Land (March 31, 2004), Articles 90-92. < http://vbqppl.mpi.gov.vn/en-us/Pages/default.aspx?dv=5ef608c9-6406-4885-b639-4253f38bd3a8&list=document >

Since 2009, a number of Land Law implementing documents have been issued and the 2013 revision of the Land Law was passed, making it easier for foreigners to acquire LURCs.[44] Although not the same as a title, it does allow for mortgage and exchange, and certainly provides more stability than a JV partnership or short-term lease. As Table 2.4 shows, the PCI-FDI data documents a ten percentage point increase in FIEs holding LURCs in 2014. Correspondingly, the length of time to obtain a LURC after submitting an application also decreased for the median firm (from 42.5 to 30 days).

TABLE 2.4 Land Use Rights Certificate and Business Premises

Year	Land Use Rights Certificate Held by FIE (%)	Median Days to Receive (after application)	LURC Held by JV Partner (%)	Renting Land from an LURC Holder (%)	FIE Located in Industrial Zone (%)
Question	QD4=1	QD4.2	QD4=3	QD4=2	QD2
2011	28.86		6.32	64.82	46.86
2012	26.1		1.79	72.12	51.23
2013	27.31	42.5	2.86	69.83	48.2
2014	37.25	30	4.26	58.49	49.58

Figure 2.6 documents the changes in expropriation risk in the PCI-FDI sample over time. For each graph, we report the share of firms reporting low or very low expropriation risk every year, dividing the sample by whether firms have a LURC or are located in an industrial zone. To demonstrate statistical significance, we added 90% Confidence Intervals (CIs) to the average shares. There are three important things to notice about the graph. First, for all firms in the country, there has been a tremendous reduction in expropriation risk overtime. Between 2010 and 2012, 46% of foreign investors said that they viewed expropriation risk as low or very low. After passage of the 2013 Land Law revision, however, the share of firms volunteering that they feel secure on their business premises is 82%. Noticeably, this reduction in risk corresponds directly to the calendar year in which the National Assembly chose to debate the amended Land Law. Second, there is very little difference in expropriation risk between respondents with LURCs and those without. Location in industrial zones was extremely important in 2010, which is evidenced by the fact that the 90% CIs do not overlap. After 2011, however, land outside industrial zones was considered to be just as secure as land within it.

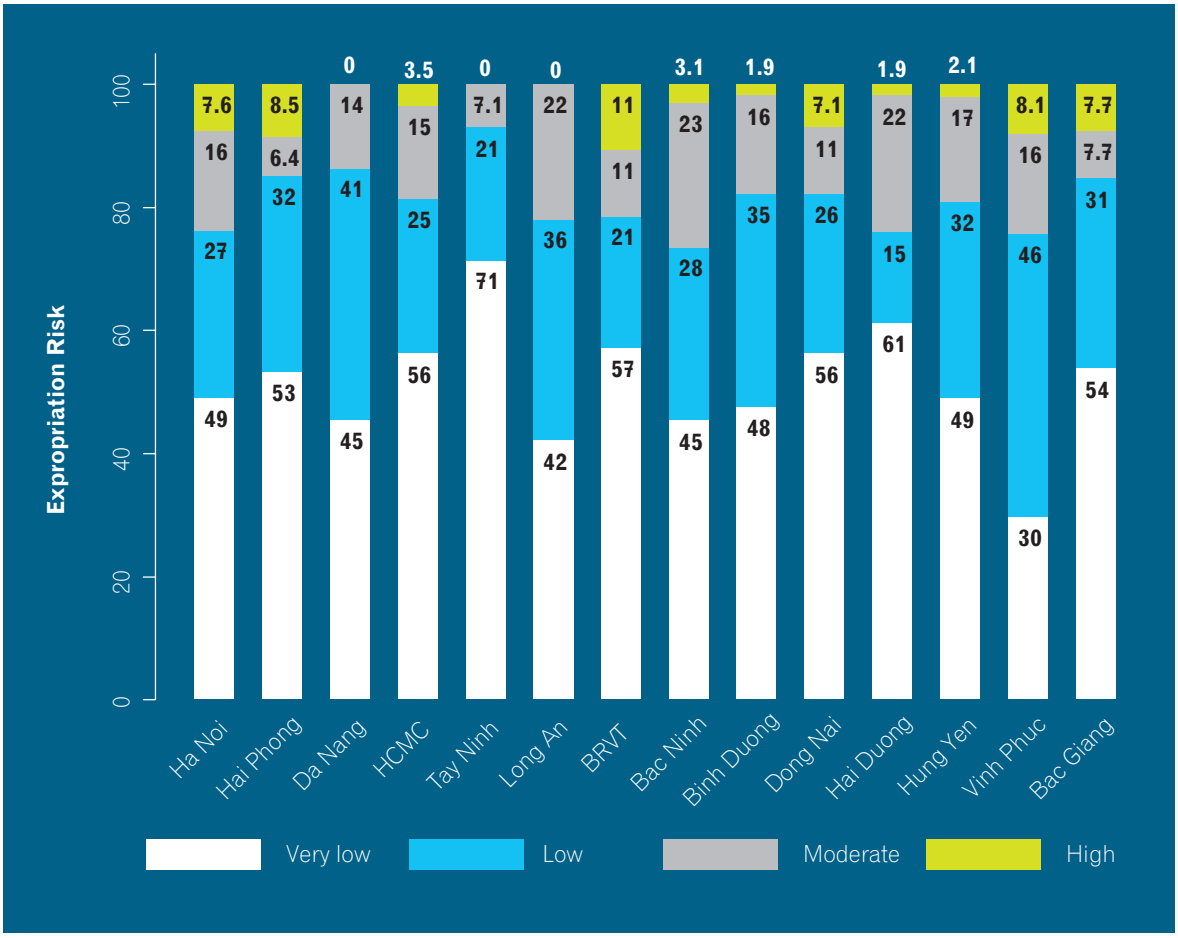
[44] Law No. 45/2013/QH13, *Law on Land* (November 29, 2013). < http://vbqppl.mpi.gov.vn/en-us/Pages/default.aspx?dv=5ef608c9-6406-4885-b639-4253f38bd3a8&list=document >

FIGURE 2.6 **Expropriation Risk for FIEs over Time**

Source: PCI-FDI Survey Question D5, "Please evaluate your perception of the risk of expropriation of your business premises." Graph reports the share of firms saying Very Low (1) or Low (2) subdivided by year of survey and LURC possession (D4) or location in industrial zone (D2).

Although LURC and IZ status have little influence, expropriation risk varies significantly by province, as we demonstrate in Figure 2.7. In general, businesses operating in southern Vietnam tend to report higher levels of confidence. In Tay Ninh Province (92%) and Da Nang (86%), most firms report that expropriation risk in their province is low or very low. Although still quite a high figure by historical standards, only about 76% of FIE respondents in Ha Noi, Hai Duong, and Vinh Phuc, in Northern Vietnam, feel that expropriation risk is low in their localities.

FIGURE 2.7 **Expropriation Risk by Province in 2014**



Source: PCI-FDI Survey Question D5, "Please evaluate your perception of the risk of expropriation of your business premises." Graph reports the share of firms saying Very Low (1) or Low (2) in 2014 subdivided by the province in which the investor is located.

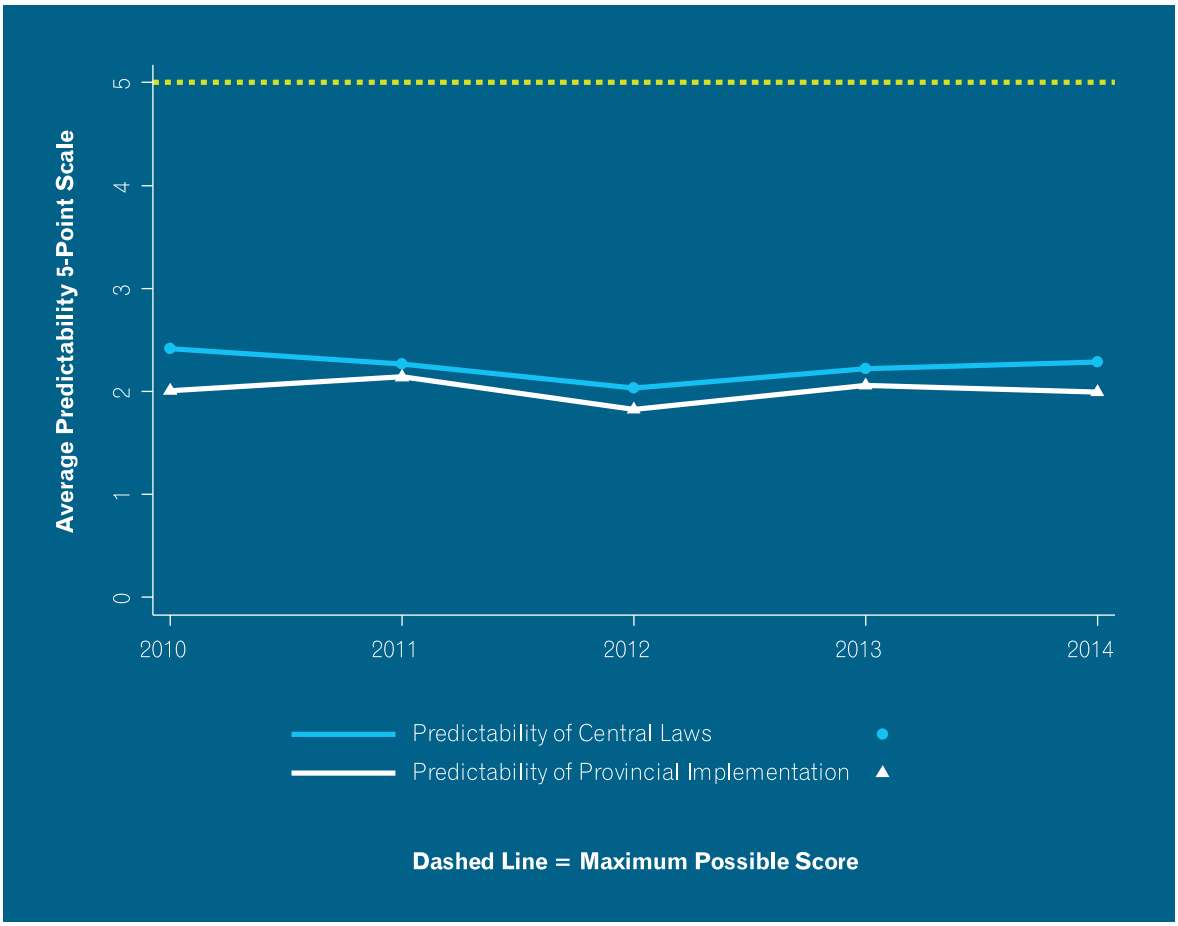
In sum, expropriation risk is extremely low for FIEs in Vietnam and perceptions of property security have increased recently, coinciding with the passage of the amended Land Law in 2013. In past years, LURC possession and IZ location influenced firm responses to questions about expropriation risk by making them more confident, these days there is little difference between firms with LURCs and those without, and between those in IZs and those outside. The key difference in expropriation risk appears to be at the province level with FIEs in the southern provinces of Da Nang and Tay Ninh reporting substantially more confidence in secure property than their peers.

2.4.3. Strength #3: Low Policy Uncertainty

FIEs report that they are better able to predict policy changes in Vietnam than in all its closest competitors. Scores on this measure have improved over time. Last year, policy predictability in

Vietnam scored lower than in Malaysia and Indonesia. This year, however, perhaps because of recent political events in both countries, investors report that they have greater certainty about the Vietnamese policy making process. As Figure 2.8 shows, it is unlikely that the change in Vietnam's relative predictability is a result of domestic policy change. Each year, the PCI-FDI asks foreign investors to rate the predictability of central laws and provincial implementation of those laws on a five-point scale with five representing the highest level of predictability. The line graphs clearly demonstrate that predictability has hardly changed since 2010. Predictability of the passage of laws averages between 2.0 and 2.4 throughout the period, while predictability of implementation averages a consistently lower 1.8 to 2.1. These scores are recorded on a five-point scale with five implying that laws and their implementation are very predictable. As a result, there is evidence that there is a great deal of room for improvement in the transparency of the policy-making environment. While both scores have improved marginally over time, there is little evidence to indicate substantive reform.

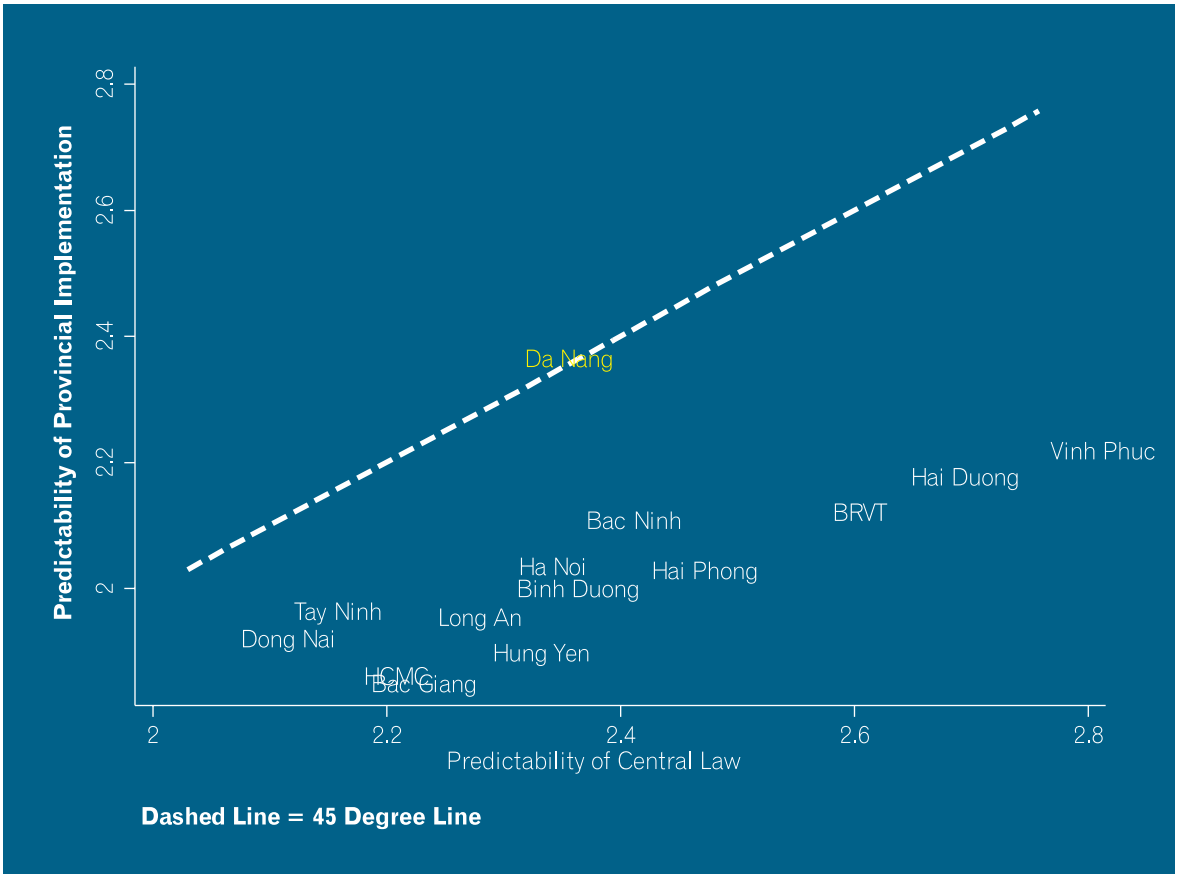
FIGURE 2.8 **Predictability of Laws and Regulations over Time**



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

Looking specifically at how foreign investors experience policy change at the provincial level in Figure 2.9 reveals a fascinating pattern. On the horizontal axis, we plotted average responses for foreign investors regarding predictability of central laws and regulations. The graph shows that foreign investors report the highest level of predictability in Vinh Phuc (2.8) and lowest in Dong Nai (2.1). On the vertical axis, we plot the average FDI response for provincial implementation of central laws. The dashed line charts a hypothetical perfect equivalence between the two scores. Notice that nearly all of the provinces are located far below the line, indicating that investors feel central law is more predictable that provincial implementation. The lone exception is Da Nang where foreign investors actually believe provincial implementation is more predictable than central legal changes.

FIGURE 2.9 Predictability of Laws and Regulations by Province

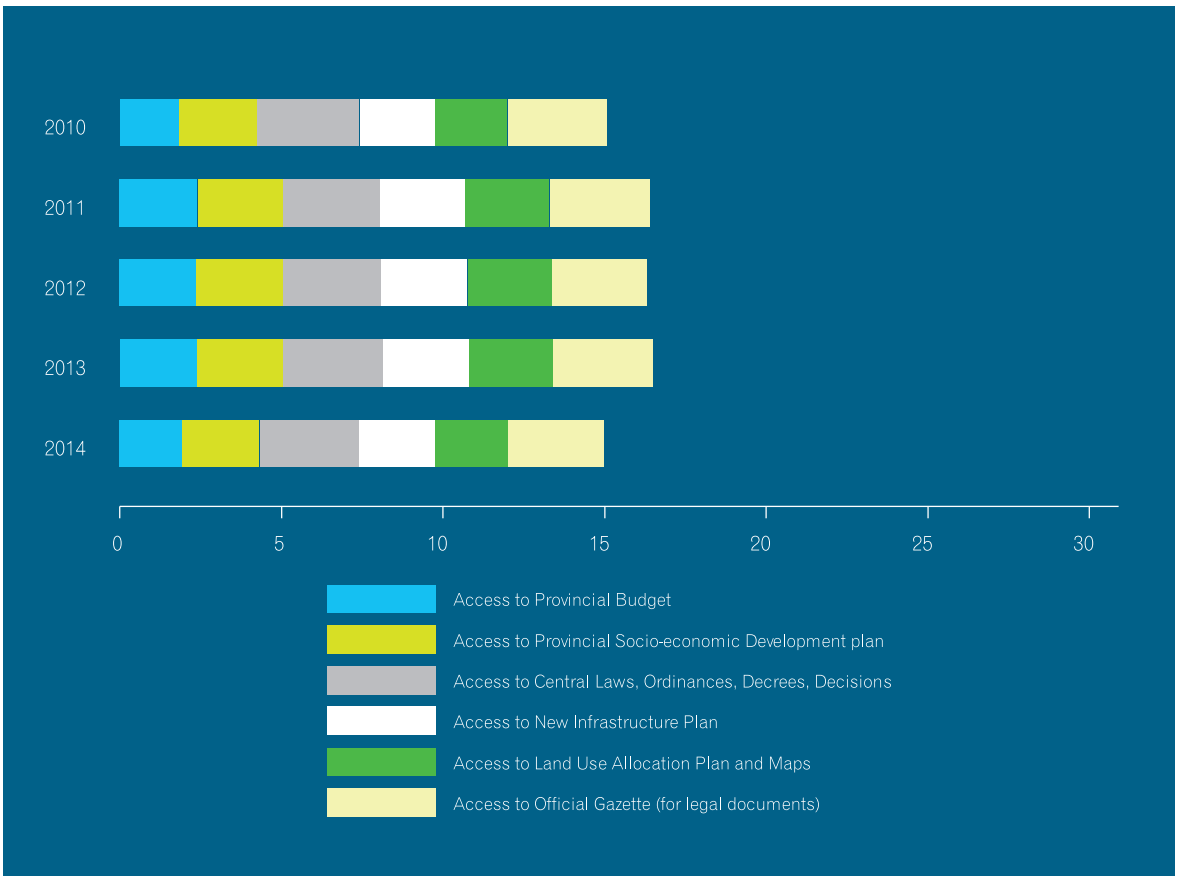


Source: PCI-FDI Survey Question H3 "How predictable are changes in laws at the central level which affect your business?" & H4 "How predictable is the implementation of these rules, laws, and regulations at the provincial level?" Scatter plots report the average of a five-point scale for both questions for each province in 2014: 1) Never; 2) Seldom; 3) Sometimes; 4) Usually; 5) Always.

As predictability is a function of access to laws and documentation, we next study how foreign firms rate their ability to acquire information about key legal and planning documents that affect their businesses. As we have shown in other works, facilitating access to these documents has the largest substantive impact of any governance reform on increasing the growth of investment in Vietnam.[45]

We chose the six most critical documents necessary for strategic planning on the part of businesses for evaluation. These are very similar to the documents we use to measure transparency in the Provincial Competitiveness Index for domestic firms in Sub-Index 3. For each document, we asked respondents to rate their ability to access the document on a five-point scale, ranging from Impossible (1) to Very Easy (5). Easy access to all documents would generate a perfect score of 30. As Figure 2.10 shows, access to documentation has not improved greatly over time, which is consistent with our findings on predictability. The average score on all documents for FIEs always is about 15 and actually decreased slightly between 2013 and 2014. In fact, in 2014, over 42% of FIEs still maintain that it is impossible to access provincial budgets.

FIGURE 2. 10 **Transparency of Business Documentation over Time**



[45] Edmund Malesky, Neil McCulloch, Nguyen Duc Nhat. "The Impact of Governance and Transparency on Firm Investment in Vietnam." Economics of Transition (Forthcoming).

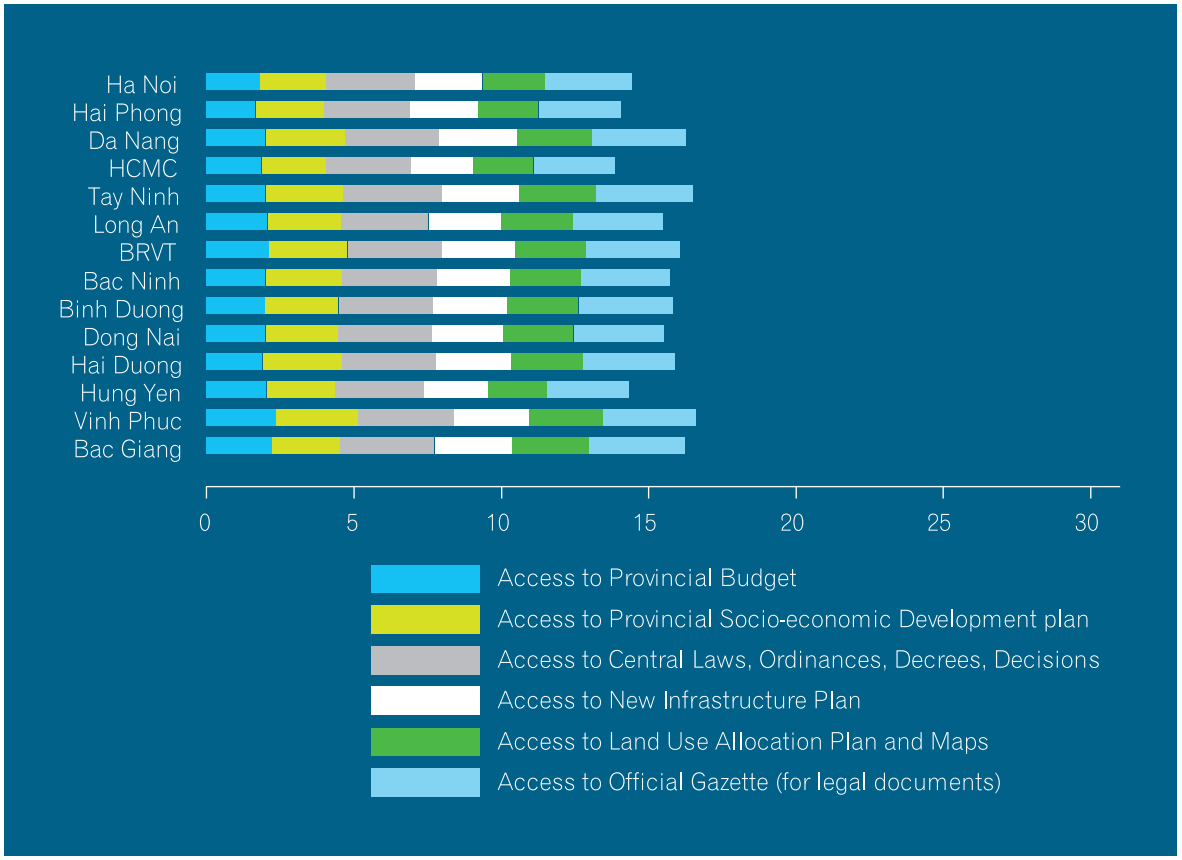
Since provincial websites have been important conduits of transparency, the PCI-FDI survey asks specifically about access to information online. In Table 2.5 we present information on the share of firms that have accessed the provincial budget online and how they felt about the quality of that information. In line with general transparency, the results are disappointingly low. Only 24% of FIEs have downloaded the provincial budget, and of those, only 33% believed the quality of the information was good enough for their business purposes. That means that only 6% of foreign businesses in Vietnam believe they have adequate budget information to plan for the future. The shaded panel of the table studies the other documents that firms have chosen to access online. Clearly, provincial regulations and legal documents stand out as the most popular.

TABLE 2.5 Online Access to Business Information for FIEs

Online Budget Access by FIE			Documents Accessed by FIE				
Year	**Accessed Provincial Budget**	**Information Good (%)**	**Investment Incentives**	**Regulations**	**Planning Documents**	**Guiding Documents**	**Provincial Legal Documents**
Question	H1b	H1b1	H2.1=1	H2.1=2	H2.1=4	H2.1=4	H2.1=5
2013	24.8%	25.9%	33.7%	49.7%	23.8%	33.2%	39.0%
2014	24.0%	32.6%	36.8%	58.8%	17.8%	26.8%	44.4%

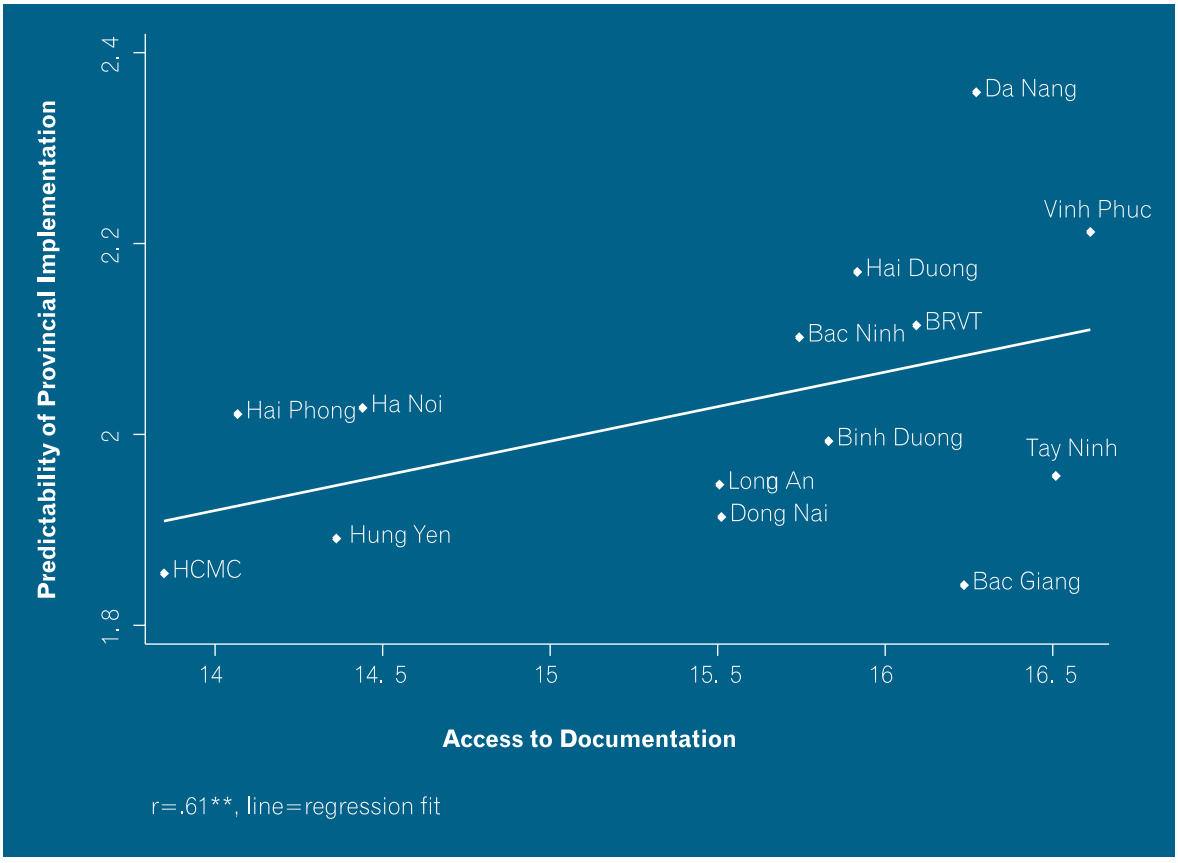
Finally, we disaggregate transparency responses by the province where the foreign investor is located, as shown in Figure 2.11. Once again, there is very little variation. Most provinces have disappointing levels of transparency. Nevertheless, Da Nang, Tay Ninh, Bac Giang, and Vinh Phuc stand out as the most transparent locations when it comes to documentation. Unsurprisingly, these were also the provinces considered by investors to have the most predictable provincial implementation. Indeed, as Figure 2.12 shows, the correlation between the two statistics is 0.61.

FIGURE 2.11 **Transparency of Business Documentation by Province**



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

FIGURE 2.12 **Relationship between Predictability and Transparency for FIEs**



Source:

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

Horizontal Axis: PCI-FDI Survey Question H4 "How predictable is the implementation of these rules, laws, and regulations at the provincial level?" Line graphs report the average of a five-point scale for both questions: 1) Never; 2) Seldom; 3) Sometimes; 4) Usually; 5) Always.

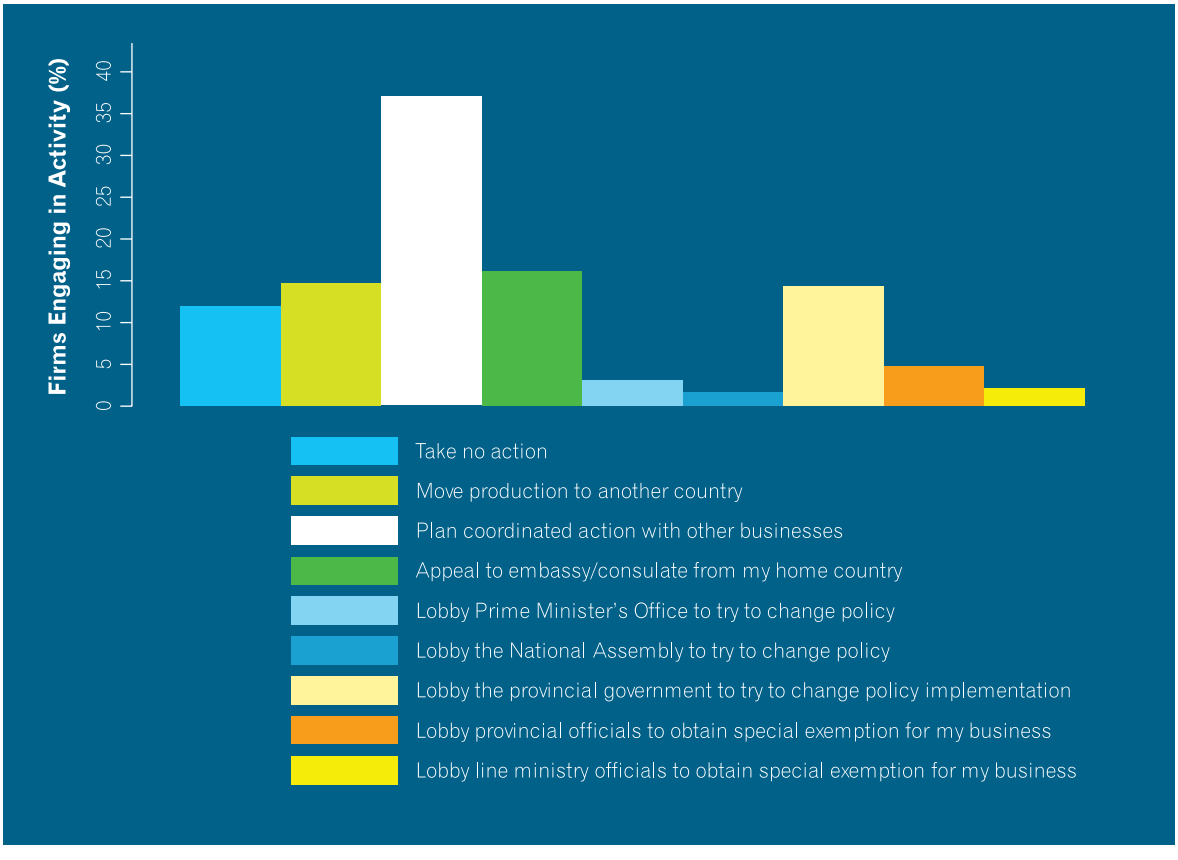
2.4.4. Strength #4: Policy Influence

Foreign investors in Vietnam strongly believe that they have a greater ability to shape policy than they do in other potential locations in Asia, although Figure 2.4 shows some decline in 2014. This belief reflects the strong presence of business associations, chambers of commerce, availability for online commentary on draft laws and regulations, and unique discussions like the biannual Vietnam Business Forums, which open up opportunities for direct dialogue between the foreign business community and Vietnamese government officials.

To identify the sources of the influence, the PCI-FDI survey asked firms to reflect on the actions they take when they believe a national or provincial policy change may affect their businesses. Respondents were invited to check all actions that they had recently taken. The results of this analysis are reported in Figure 2.13.

The figure reveals that investors believe there is strength in numbers. Over 36% believe the most successful approach is to band together with other investors to plan coordinated interactions with policy-makers. Membership in business associations and chambers is strongly consistent with this response. Over 32% of respondents are members of some form of business association, including national groupings (such as the Japanese Business Association in Vietnam (JBAV) & American Chamber of Commerce (AMCHAM)), sectoral groupings (for example, the Vietnam Plastics Association) and provincial organizations (like the Taiwanese Investors Group in Binh Duong). Of those that are currently not members, 31% are looking for an organization to join. The biannual Vietnam Business Forum is the largest and most organized method, where working groups of foreign and domestic investors from a wide variety of countries and sectors report to high-ranking Vietnamese government officials about particular obstacles in the Vietnamese business environment. Less formal meetings also take place and investors appear pleased with their ability to facilitate change on issues that affect their business.

FIGURE 2.13 FIE Approaches to Policy Influence



Another popular strategy includes requesting international assistance by turning to diplomatic representatives in embassies and consulates. About 15% of investors have taken this approach. Approximately 20% of foreign investors report that they lobby provincial officials, either for general changes in the policy (15%) or for specific exemptions for their operation. The provincial appeal appears far more common than national level approaches.

Focusing on the provincial lobbying angle, we next asked investors what provincial leaders were most likely to do when approached about a policy issue that affected their businesses. Again, this question is intentionally very similar to the question we use to gauge provincial leadership proactivity in the PCI survey of domestic investors in Sub-Index 7. Table 2.6 reports the answer to this question over time for foreign investors. In the ideal situation, the provincial leadership recognizes the problem that affects investors and alters the issue with a general policy change.

Less satisfactorily, the provincial leadership resolves the situation, but only for the affected business. This is great news for the specific firm, but can generate complications. Such arrangements tend to generate two separate regulatory regimes in the province, which must be separately governed. More perniciously, these activities can be open to abuse, exposing investors to bribe requests and provincial leaders to capture by influential investors, which can both severely bias policy-making and distort the business environment.

Third, risk-averse provincial leaders tend to wait until they receive central directives on how to manage the policy issue. While safe, this can often severely damage the business prospects of investors who must wait for resolution while their business opportunities stagnate. The worst possible scenario is option four, whereby the provincial leadership does nothing. It does not offer a general solution, firm-specific rectification, or appeal to the central government; instead, it simply waits and hopes that the situation changes on its own.

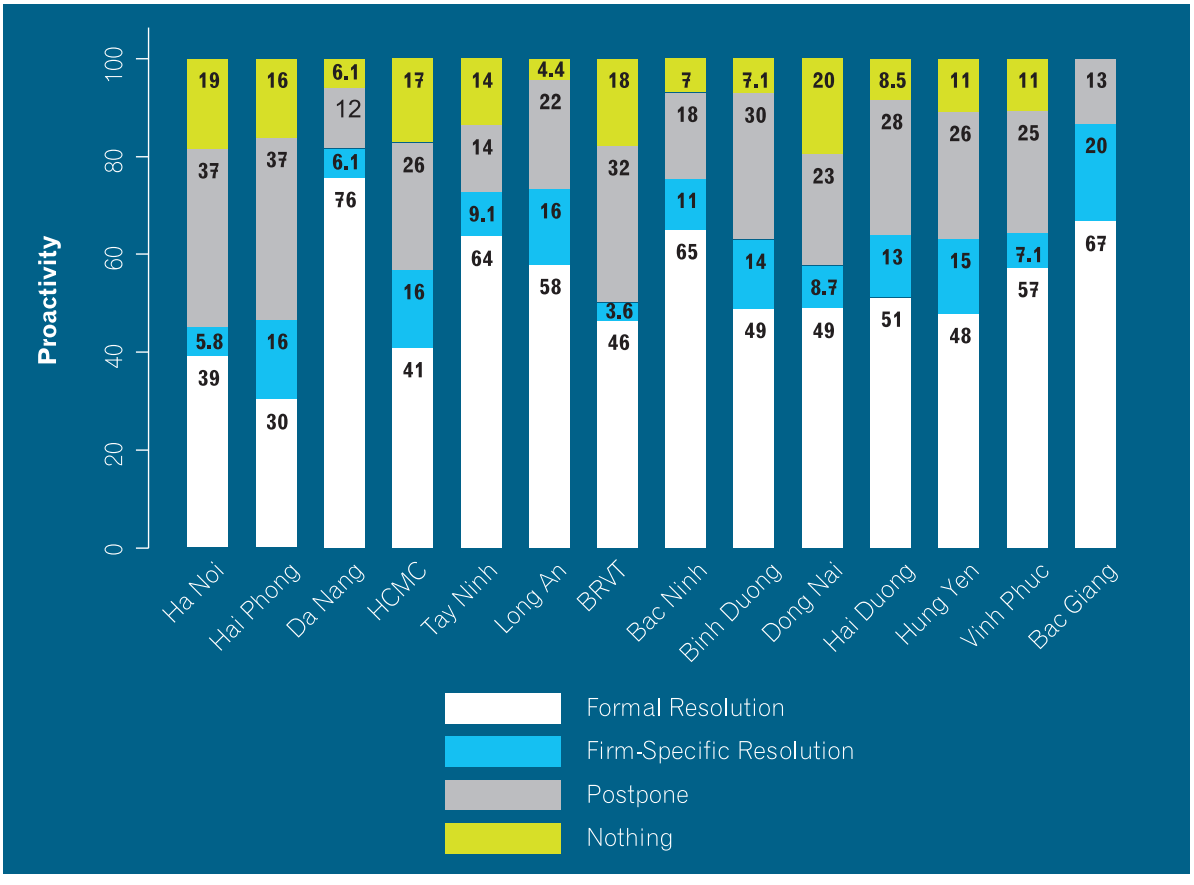
TABLE 2.6 Provincial Strategies for Resolving Business Policy Problems for FIEs (over Time)

Provincial Action	2011	2012	2013	2014
Formally resolve the issue through provincial legislation	51.72	49.19	55.56	47.76
Resolve the issue informally on behalf of affected firms	22.07	15.69	16.58	11.6
Postpone implementation and seek advice of central authority	18.62	18.43	17.74	27.1
Don't do anything and wait for central to resolve the issue	7.59	16.69	10.12	13.55

Source: PCI-FDI Survey Question K1: "If there are unclear points in a particular central regulation, provincial People's Committee and provincial departments tend to: (Please check only one)." Table reports the share of firms in each year that checked a particular item.

Over time, we have noticed a general decline in the willingness of provincial leaders to unilaterally resolve business problems. The most severe drop has been in the identification of general solutions, but firm-specific approaches have also declined significantly from a high of 22% in 2011 to 11% today. In its place, provincial officials have substituted appeals to central government agencies, which is consistent with other reports of increasing recentralization in the Vietnamese policy-making environment.[42]

FIGURE 2.14 **Provincial Strategies for Resolving Business Policy Problems (by Province)**



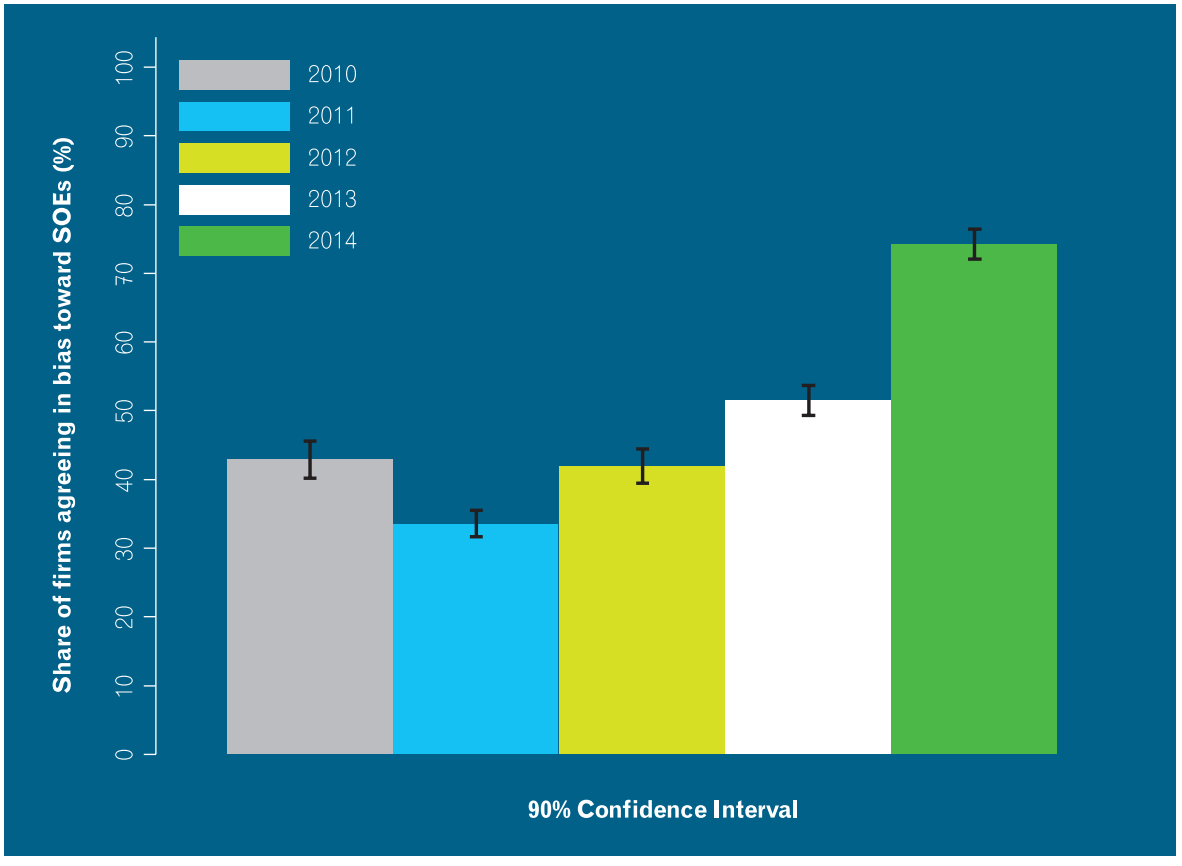
Source: PCI-FDI Survey Question K1: "If there are unclear points in a particular central regulation, provincial People's Committee and provincial departments tend to: (Please check only one)." The figure reports the share of firms in each province that checked a particular item.

[42] Edmund Malesky, Neil McCulloch, Nguyen Duc Nhat. "The Impact of Governance and Transparency on Firm Investment in Vietnam." Economics of Transition (Forthcoming).

Disaggregating the data by province in Figure 2.14, we see that again Da Nang stands apart as the province most open to foreign investor ideas. Exactly 76% of FIEs located in Da Nang responded that the most common provincial approach is to use formal resolutions that apply to all businesses. Bac Giang ranks slightly behind Da Nang in formal resolution (67%), but has made more frequent use of firm-specific solutions (20%). Hanoi is clearly the least dynamic province in responding to FIEs, which likely results from its close proximity to the central government, making independent solutions difficult. Hai Phong, BRVT, and Dong Nai also rank as locations where localized action is highly constrained.

A further indication of decreasing foreign investor influence at the provincial level is the share of investors that report provincial biases favoring SOEs in regard to provincial procurement contracts. In 2012, only 30% of FIEs reported bias toward SOEs affecting their operations; this share has increased dramatically over time and now reaches over 74%. The pattern does not vary significantly across most provinces in Vietnam with two exceptions. BRVT stands out on the high end, as 86% of FIEs in the oil-rich province cite preferential treatment of SOEs as an obstacle to their business. Da Nang stands out on the low end with 63% of FIEs agreeing the environment was biased toward SOEs. While this is better than other provinces, 63% is still quite a high figure that deserves attention from authorities.

FIGURE 2.15 **FIE Assessment of Bias toward the State Owned Sector**



Source: PCI-FDI Survey Question K1: "If there are unclear points in a particular central regulation, provincial People's Committee and provincial departments tend to: (Please check only one)." The figure reports the share of firms in each province that checked a particular item.

In sum, FIEs report a high degree of policy influence in Vietnam, predominantly through their ability to join together and lobby the national government for key policy and regulatory changes that will improve their businesses. A second channel of influence favored by FIEs is lobbying at the provincial level. Here, success varies significantly by province. Investors in Da Nang and Bac Giang report that local leaders are responsive to their concerns, but investors in other locations have not been as successful. A noticeable trend appears to be that the success of the provincial approach for resolution is declining, as investors report increasing reluctance on the part of provincial officials to act independently of central decision-makers. Interestingly, this change appears to coincide with increasing reports of bias toward State Owned Enterprises in local decision-making. The relationship between these trends is highly speculative, but both trends indicate negative developments in provincial business environments.

2.4.5. Weakness #1: High Corruption

Corruption is an area where Vietnam has recently acquired quite a bad reputation among investors due to international rankings. In 2014, Vietnam ranked 119th out of 175 countries in the Transparency International (TI) Corruption Perceptions, 126th on the World Bank's Control of Corruption Index, and

74th on the International Country Risk's Guide corruption rankings. In all of these metrics, Vietnam's score was far below the median score, and, on the TI score, Vietnam ranked over half a standard deviation below the median score – meaning 34% of ranked countries were between Vietnam and the median country.[43]

To provide a more fine-grained understanding of how corruption works in Vietnam, the PCI-FDI survey asks a large number of questions about activities that expose businesses to corruption. These include bribes paid at various times: during entry; in pursuit of government contracts; while performing customs activities; in the process regulatory enforcement; and while courts are adjudicating contract disputes. We present the responses to these questions below in Table 2.7.

TABLE 2.7 All Questions about Corruption in PCI-FDI Survey

Type of Informal Charge (Share of Firms Paying Bribe or Agreeing Activity is Common)

Year	Informal Charge during Entry[1]	Commission during Procurement[1]	Bribe during Customs Procedures	Regulations are an Excuse for Informal Charges	Bribes Were a Deterrent to Using Court	Service Delivered after Bribe Payment
Question	C6	E11	F9	E5	I3	E10.1
2010	18.5%	NA*	64.4%	31.4%	8.9%	47.3%
2011	9.9%	9.5%	53.3%	23.5%	8.2%	46.2%
2012	9.0%	12.0%	56.2%	24.1%	12.7%	54.5%
2013	19.7%	10.3%	57.4%	43.9%	13.9%	59.2%
2014	17.2%	31.4%	66.2%	60.1%	22.3%	58.2%

Cost of Informal Charges (Amount/Annual Income, Question E10.

Year	0%	<1%	1-2%	2-5%	5-10%	>10%
2010	22.1%	40.5%	17.0%	10.9%	6.8%	2.9%
2011	31.0%	33.5%	19.7%	7.7%	6.5%	1.6%
2012	30.3%	40.7%	17.4%	8.2%	2.6%	0.9%
2013	19.5%	48.6%	18.4%	8.6%	3.2%	1.7%
2014	18.9%	42.5%	20.1%	11.9%	4.7%	2.0%

* The procurement question was not asked in 2012.

[1]. Derived using the Unmatched Count Technique or List Estimator, which relies on two randomized versions of the survey. In the first version, the respondent receives a list of three non-sensitive items and is asked how many of the actions they participated in. In the second version, the respondents receive the three non-sensitive actions plus the sensitive item, corrupt activity, and are again asked in how many they participated. The difference-in-means between the two versions of the survey reveals the share participating in the sensitive activity without any respondent ever needing to admit directly to it.

[43] Full sets of comparative data for these rankings are available at: JanTeorell, Stefan Dahlberg, Sören Holmberg, Bo Rothstein, Felix Hartmann & Richard Svensson. 2015. The Quality of Government Standard Dataset, version Jan15. University of Gothenburg: The Quality of Government Institute, http://www.qog.pol.gu.se.

One issue in standard measures of corruption is that respondents might be reluctant to respond accurately because they may be exposed to legal ramifications or harassment. This is especially true of firms from countries which have signed the Organization for Economic Cooperation's and Development's Anti-Corruption Agreement because they can also be held legally liable in their home countries for bribes paid in Vietnam. This reluctance generates two well-documented problems on surveys: 1) item non-response, whereby respondents refuse to answer the sensitive question, and 2) social desirability bias, where respondents answer inaccurately in order to protect themselves.[44] As we have documented in the 2012 and 2013 reports,[45] the PCI has pioneered a question format called the Unmatched Count Technique (UCT) or list question that shields respondents from culpability, allowing them to answer honestly about their exposure to corruption.[46]

The first two columns of Table 2.7 provide the results of the list questions about bribes paid during entry or during the government procurement process. When interpreting these answers, it is important to remember that these figures show the share of firms that actually engaged in the activity, not firms who heard about corruption or who may have indirectly paid through a facilitator, broker, or consulting firm. As the international reputational surveys have documented, the news is not very good for Vietnam. About 17% of FIEs admit that they paid bribes when they attempted to acquire their investment licenses, and 31% paid bribes when competing for government contracts. The bribe during licensing is not too far out of line with previous years and in fact demonstrates a slight decline from 2013. In contrast, the procurement bribery is startlingly high - over three times the score recorded last year!

The true cost of corruption does not just include the direct cost of the bribe; analysts must also take into account the inefficiencies created when less qualified companies are chosen over firms that refused to bribe.[47] A follow-up question in the 2014 PCI-FDI survey asked firms if they were disadvantaged in the selection process if they refused to pay a bribe during procurement. While 89% agreed they were disadvantaged in some way, there was disagreement on the frequency (29% always, 32% usually, and 28% sometimes). This sizable result indicates that a culture of commissions in contracting may be impeding the best selection of service providers, leading to higher costs and worse quality.

The next three columns of Table 2.7 report scores for directly asked questions about: 1) whether firms paid bribes during customs procedures (at any stage in the process);[48] 2) whether the businesses

44 Daniel Treisman, "What we have learned about the causes of corruption from ten years of cross-national empirical research?" *Annual Review of Political Science* 10 (2007): 211–44.

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

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

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

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

believe administrative and market regulations are an excuse for bureaucrats to extract bribes; and 3) whether firms with contractual disputes did not use courts because they feared bribery. For all these questions, corruption also appears to be demonstrably higher in 2014 for FIEs. Over 66% of operations paid bribes to expedite service at the port, almost nine percentage points above last year and the highest level ever recorded in the PCI-FDI survey. Over 60% of businesses answered that regulations were merely an excuse for bureaucrats to ask for bribes, 14 percentage points higher than last year and over twice the share of respondents agreeing in previous years. And 22% of businesses chose to avoid the Vietnamese court system during disputes because they were concerned about bribery during the process. Again, this figure is the highest score recorded in the PCI-FDI survey.[49]

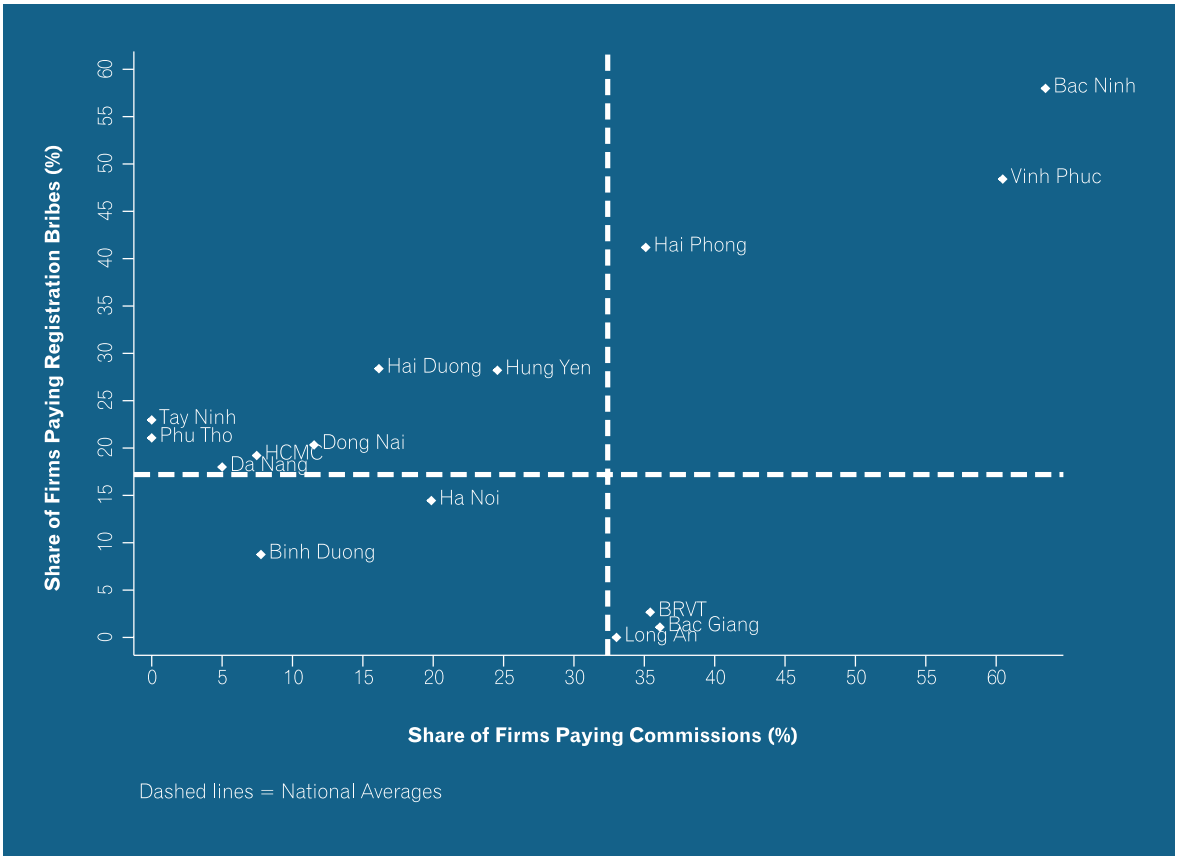
Correspondingly, the cost of bribery has also gone up since 2013. Whereas last year about 32% of firms claimed their total bribes amounted to over 1% of their annual income, this year, the number is 38%. Indeed, the average bribe size in Vietnam is the highest witnessed in the PCI-FDI survey since 2011 (PCI-FDI survey Question E10).

Figure 2.16 applies the registration and procurement list questions at the provincial level, calculating the average share of foreign investors that paid bribes during registration or corruption on procurement between 2010 and 2014. The dashed lines illustrate the national averages from 2014 shown in Table 2.7. Clearly, the best quadrant in the table for foreign investors is the southwest quadrant where firms have experienced below average bribery and commission requests. Binh Duong province clearly stands out for being a low corruption environment. FIEs in Binh Duong also stand out for being far less likely than the average firm to say they were disadvantaged in contracting due to corruption. Only 50% of firms felt they lost out due to bribery and 92% of those believed it was only “sometimes.”

Ha Noi is also in the low corruption quadrant for foreign investors, but with significantly higher frequency of corruption in government procurement. Da Nang, HCMC, and Dong Nai all rank slightly out of the low corruption quadrant due to their higher frequency of registration bribes. For foreign investors, the most problematic quadrant is the northeast quadrant, including Vinh Phuc and Bac Ninh provinces, where over 50% of investors report paying bribes and commissions on contracts.

[49] On a positive note, bribery does appear to be more predictable in Vietnam over time. 58% of firms believe that when they pay a bribe that the agreed service is delivered. By comparison, only 12% believe the service is delivered if a bribe is not paid. Some research indicates that a predictable bribery environment is superior to unpredictable bribery, because businesses can estimate the bribe amount and treat it like a tax (see Andrei Shleifer and Robert W. Vishny. "Politicians and firms." The Quarterly Journal of Economics 109(4) (1999): 995-1025)

FIGURE 2.16 **Corruption by Province for Foreign Investors in 2010-2014**



Source: Vertical Axis: PCI-FDI Survey Question C6, "Please take a look at the following list of common activities that firms engage in to expedite the steps needed to receive their investment license… Please do not answer about any one of these activities specifically, we are only interested in the total number you may have utilized. How many of the above activities did you engage in when fulfilling any of the business registration activities listed above?"

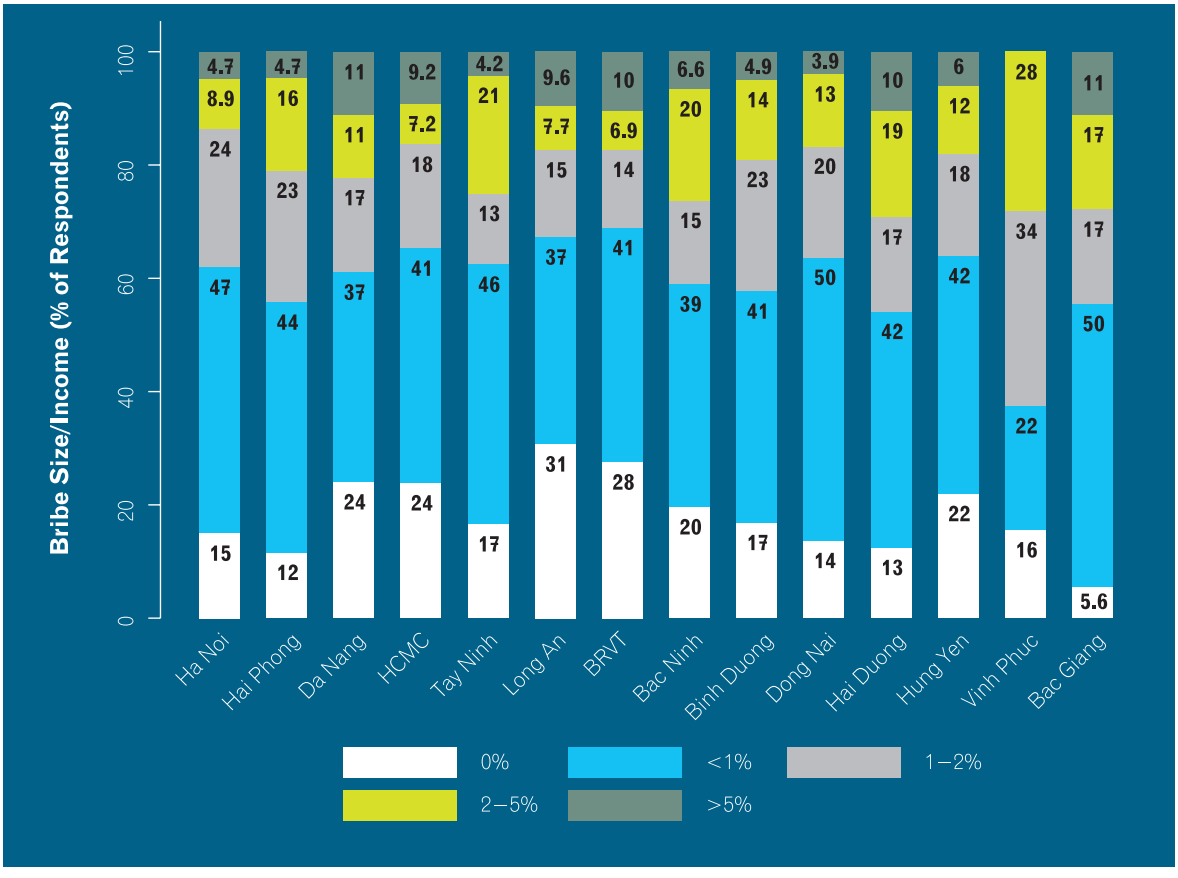
Horizontal Axis: PCI-FDI Survey Question E11, "If your firm has competed for a contract to supply goods and services to the government, please look at the following list of common activities firms engage in to make their goods or services more attractive to government clients… Please do not answer about any one of these activities specifically, we are only interested in the TOTAL NUMBER you may have utilized to win government business. How many of the above activities did you engage in when competing for such a government contract?"

Figure 2.17 studies how the bribe schedule varies across provinces. In this figure, Long An and BRVT stand out for having over 67% of foreign firms paying less than 1% of their revenue per year. By contrast, Vinh Phuc stands out as an expensive place to do business with only 38% of operations annually paying less than 1% of their income.

The bottom line is that perceptions of corruption among foreign investors are getting worse despite efforts made by Vietnamese authorities to address the problem, such as the National Assembly's

revised National Anti-Corruption Law and a government decree elaborating on its implementation.[50] From business entry to procurement to customs to courts, FIEs acknowledge higher frequency and scale of payments, and are concerned about the effect of this corruption on their operations. The most prominent exception to the national trend is Binh Duong province, where investors report lower frequency of bribe requests and smaller sizes of payments. Most strikingly, far fewer FIEs in Binh Duong (50%) report that they are disadvantaged when they refuse to pay, compared to 89% in the rest of the country.

FIGURE 2.17 Size of Bribes for Foreign Investors



Source: PCI-FDI Survey Question E10: "On average, what percentage of income do firms in your line of business typically pay per annum in unofficial payments to public officials?"

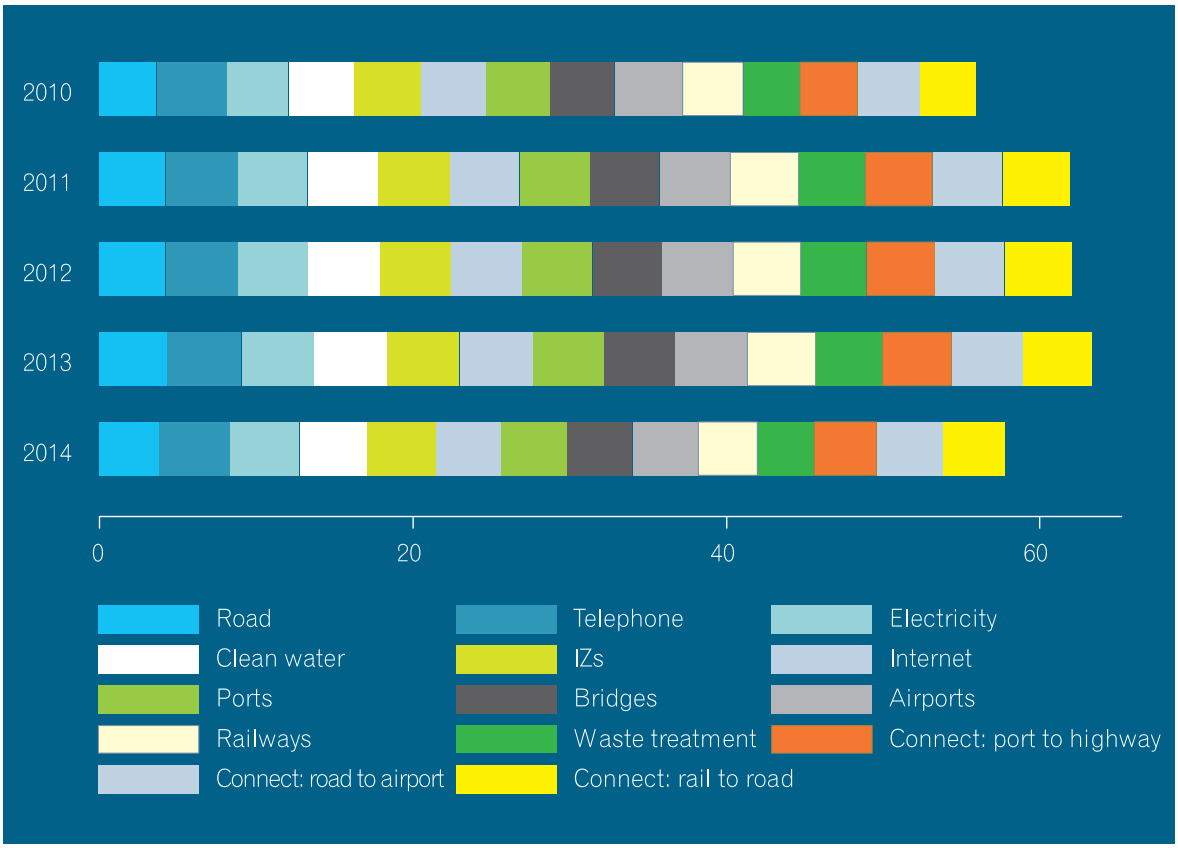
[50] Law on Anti-Corruption No. 55/2005/QH11, as amended by the Law No. 01/2007/QH12 and the Law No. 27/2012/QH13; Decree No. 59/2013/ND-CP Elaborating on Some Articles of Anti-Corruption Law. < http://www.oecd.org/site/adboecdanti-corruptioninitiative/46817414.pdf >

2.4.6. Weaknesses #2 and #3: Poor Infrastructure and Public Services

Surprisingly, foreign investors ranked Vietnam's infrastructure and public services worse than almost every other country considered as an alternative. This is shocking given the effort and resources that Vietnam has poured into improving infrastructure, education,[51] and public health.[52]

Since 2010, the PCI-FDI survey has asked foreign firms to rate a number of critical types of infrastructure, utilities, and services on a six-point scale ranging from (1) very bad to (6) very good. The assessments of these various types of infrastructure are displayed in Figure 2.18. With fourteen different types of infrastructure to rank, the maximum score possible is 84, but the average annual assessment is consistently around 60. This year, investors displayed particular frustration, recording a statistically significant decline in the average assessment of infrastructure from 63 in 2013 to 57 in 2014.

FIGURE 2.18 **Foreign Investors' Assessments of Infrastructure**



Source: PCI-FDI Survey Question F1: "How do you rate the overall quality and efficiency of these services delivered by provincial public agencies?" Bar graphs report the annual sum of average scores on a six-point scale for all infrastructure categories: 1)Very Poor; 2) Poor; 3) Somewhat Poor; 4) Somewhat Good; 5) Good; and 6) Very Good.

51 We study education more closely below in our special report on labor relations.

52 see T.Q. Tran "Sudden surge in FDI and Infrastructure Bottlenecks: The Case In Vietnam." ASEAN Economic Bulletin, 26(1) (2009): 58-76; Jay Rosengard, Bui Van, and Huynh The Du, "Paying for Urban Infrastructure Services: A Comparative Study of Municipal Finance in Ho Chi Minh City, Shanghai, and Jakarta." (Fulbright Economics Teaching Program Policy Research Paper 65, Fulbright School, Ho Chi Minh City, Vietnam, 2007). <http://www.fetp.edu.vn/en/policy-papers/policy-research/paying-for-urban-infrastructure-services-a-comparative-study-of-municipal-finance-in-ho-chi-minh-city-shanghai-and-jakarta/>.

Zeroing in on the specific areas of concern in Figure 2.18, we can see that the order of the ranking of types of infrastructure is roughly the same (see Figure 2.19). Foreign investors believe that telecommunications is of reasonable quality, rate other utilities in a tier below telephony, connectivity between transit networks in a third tier, and express extreme frustration with road quality and waste treatment, which rank noticeably below the rest. Between 2013 and 2014, however, rankings of infrastructure quality were significantly worse in almost every category (i.e. the 2014 scores are lower and 90% CIs do not overlap). The largest declines were experienced in the areas of waste treatment, roads, railways, and, unsurprisingly given previous scores, the connectivity between road and rail transport.

It is possible that some of these low scores might improve in next year's PCI. Several big roadway construction projects were started in late 2014 after investors had already responded to the survey. These include the highway linking Hanoi and Lao Cai, the expressway from HCMC to Dau Giay in Dong Nai province, and the Nhat Tan Bridge and highway improvements which have expedited the connection between Noi Bai airport and Hanoi.

FIGURE 2.19 **Change in FIE Infrastructure Rating between 2013 and 2014**

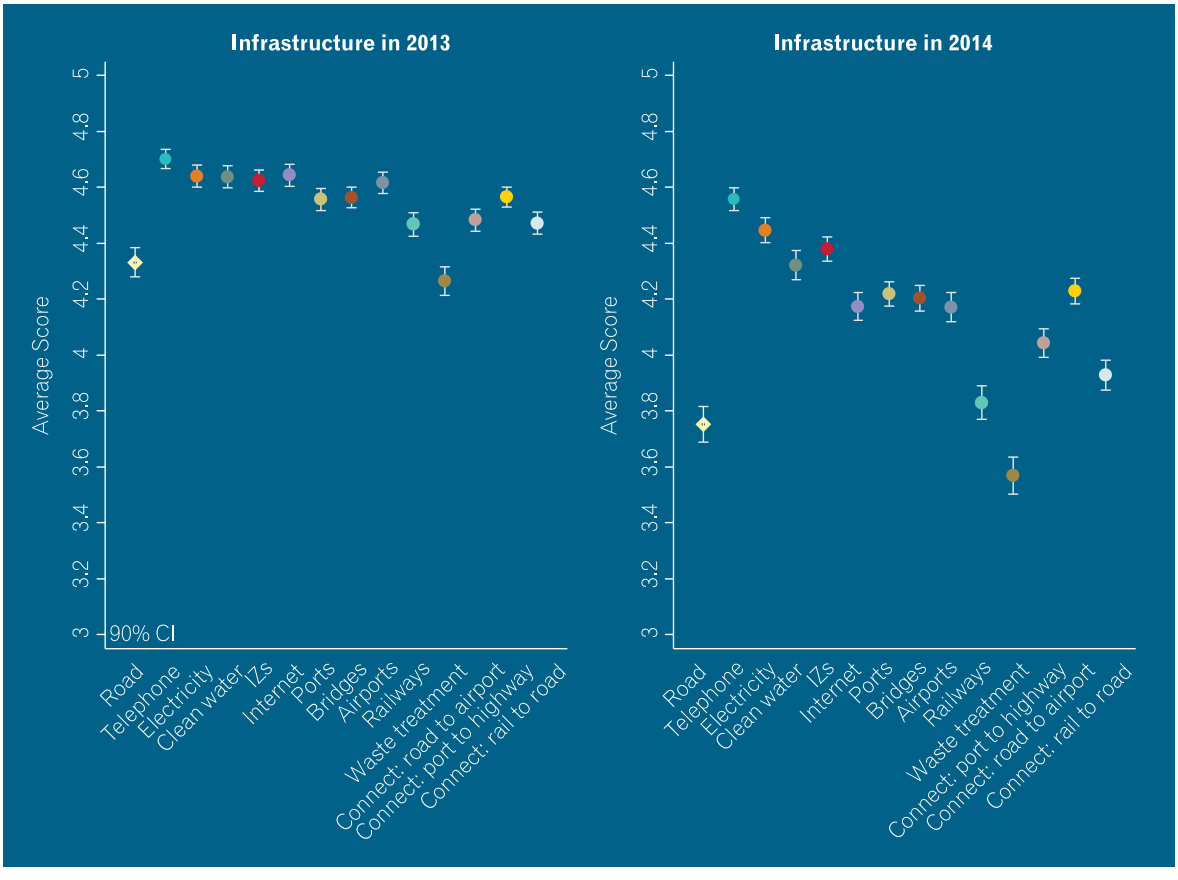
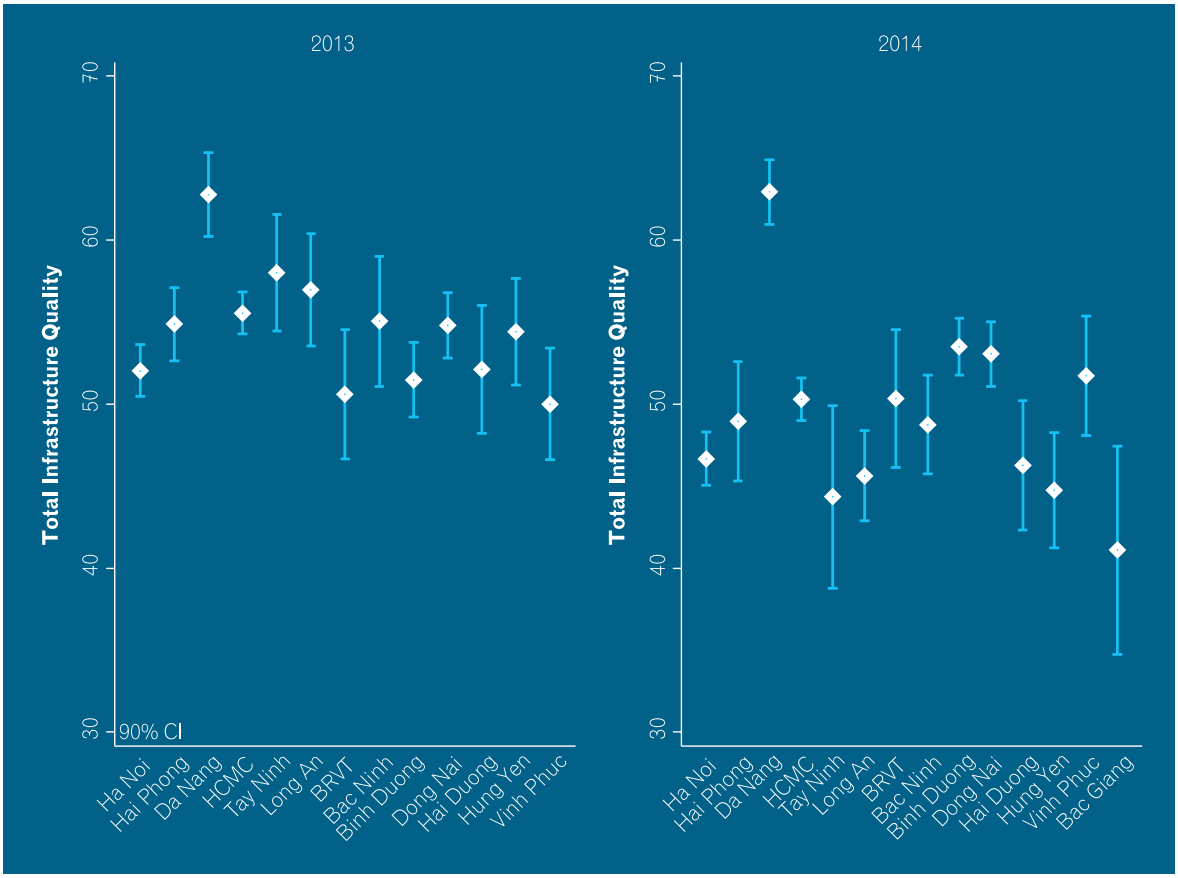


Figure 2.20 illustrates that the decline in the perception of infrastructure was experienced everywhere around the country with one standout exception, Da Nang, which already had the highest overall assessment in the country. While the size of variation in responses differs by locality, the confidence intervals overlap indicating the differences between locations in both 2013 and 2014 are marginal. Moreover, Da Nang ranks significantly above the rest of its provincial competitors for foreign investment. Da Nang's total infrastructure score of 62 is over half a standard deviation greater than the next nearest provinces of Binh Duong and Dong Nai.

FIGURE 2.20 **Total FIE Rating of Infrastructure by Province**



Source: PCI-FDI Survey Question F1: "How do you rate the overall quality and efficiency of these services delivered by provincial public agencies?" Range graphs report the average and 90% confidence intervals of a six-point scale for all documents: 1) Very Poor; 2) Poor; 3) Somewhat Poor; 4) Somewhat Good; 5) Good; and 6) Very Good.

Table 2.8 provides more insight into the decline in infrastructure ratings over time. In 2012, FIEs report that it took about 10 days to repair potholes on roads where they operate with 9.4% reporting that the roads were never fixed. By contrast, in 2014, firms report 20 days for basic road maintenance with nearly 21% claiming inaction. Turning to power outages, in 2012, the median number of electricity outages was 1.25 for FIEs in Vietnam and 100% of these were pre-informed with local

authorities communicating the issue to investors, so they could adjust for them in their operations. By contrast, in 2014, the median FIE reports at least three outages with 10% of those coming as surprises. Telephone service is universally excellent with zero median outages per firm over time. The bottom halves of Table 2.8 and Table 2.9 further elaborate how infrastructure maintenance is experienced across provinces and industrial sectors in Vietnam.

TABLE 2.8 Infrastructure Maintenance (By Year & Province)

Year	Average Days to Repair Road (#)	Still Not Fixed	Median Electric Outages (#)	Informed ahead	Median Telephone Outages (#)
Question	E2	E2.1	E3	E4	E5
2010	30	26.8%	5	80%	0
2011	15	11.1%	1	100%	0
2012	10	9.4%	1.25	100%	0
2013	3.5	9.1%	0	90%	0
2014	20	20.6%	3	90%	0
By Province in 2014	**Average Days to Repair Road (#)**	**Still Not Fixed**	**Median Electric Outages (#)**	**Informed ahead**	**Median Telephone Outages (#)**
Question	E2	E2.1	E3	E4	E5
Ha Noi	10	18.0%	2	80%	0
Hai Phong	30	14.1%	2	85%	0
Da Nang	15	20.3%	3	90%	0
HCMC	30	22.1%	1	80%	0
Tay Ninh	30	22.9%	5	85%	0
Long An	25	31.0%	6	80%	0
BRVT	5	14.6%	8	90%	0
Bac Ninh	25	20.5%	8	90%	2
Binh Duong	12.5	20.9%	4	95%	0
Dong Nai	30	16.9%	1.5	90%	0
Hai Duong	25	15.9%	2	90%	0
Hung Yen	60	27.4%	8	73%	1
Vinh Phuc	45	20.9%	4	80%	0
Bac Giang	180	39.1%	5	80%	6.5

TABLE 2.9 **Infrastructure Maintenance (By Two-Digit Sector)**

By Industrial Sector in 2014		Infrastructure Quality		Days to Repair Road (#)	Still Not Fixed	Electric Outages (#)	Informed ahead	Telephone Outages (#)
		Mean	SE					
Question		E1		E2	E2.1	E3	E4	E5
A	Agriculture, forestry and fishing	42.7	1.9	25	17.5%	16	80%	0
B	Mining and quarrying	42.4	3.4	48	12.8%	4	90%	0
F	Construction	48.7	1.0	6	13.4%	2	80%	0
G	Wholesale and retail trade	51.0	0.5	15	13.9%	1	95%	0
J	Information and communication	48.3	0.9	15	17.3%	1	80%	0
K	Financial and insurance activities	49.5	1.9	50	11.7%	0	80%	0
L	Real Estate Activities	51.8	1.5	12.5	9.8%	1	90%	0
M	Professional, scientific and technical activities	50.5	1.0	21.25	14.1%	0	90%	0
U	Activities of extraterritorial organizations	48.4	0.8	15	10.0%	0	90%	0
C	Manufacture of…							
C10	Food products	47.5	1.2	30	17.9%	5	95%	0
C13	Textiles	49.1	1.2	25	22.6%	8	90%	0
C14	Apparel	49.5	0.9	30	15.4%	4	90%	0
C15	Leather products	48.7	1.3	10	14.5%	5	98%	0
C16	Wood products	52.9	1.3	20	14.1%	3	100%	0
C17	Paper and paper products	48.1	1.7	11	13.8%	0	99%	0
C20	Chemicals and chemical products	49.3	1.4	30	14.2%	4	90%	0

By Industrial Sector in 2014		Infrastructure Quality		Days to Repair Road (#)	Still Not Fixed	Electric Outages (#)	Informed ahead	Telephone Outages (#)
		Mean	SE					
Question		E1		E2	E2.1	E3	E4	E5
C22	Rubber and plastics products	48.9	1.0	8.5	12.6%	5	95%	0
C24	Basic Metals	50.3	1.2	20	17.6%	4	90%	0
C25	Fabricated Metals	49.8	1.0	12	14.9%	3	90%	0
C26	Computer, electronic and optical products	48.2	1.2	30	16.0%	4	90%	0
C27	Electrical equipment	48.7	1.5	10	17.0%	4	90%	0
C28	Machinery and equipment	49.7	1.3	30	12.4%	3	85%	0
C29	Motor vehicles	47.9	1.1	21	18.8%	4	90%	0
C31	Furniture	47.3	1.4	22.5	15.8%	5	95%	0
C32	Other	49.7	0.6	10	12.5%	2	90%	0

In conclusion, with the exception of telephone services, FIEs in Vietnam express declining satisfaction with infrastructure. The greatest declines were recorded in roads, railways, connectivity between road and rail, and waste treatment. The only province not to experience declining perceptions of infrastructure was Da Nang, which ranks substantially ahead of its peers. In technical terms, the distance is about half a standard deviation, which means that the distance between Da Nang and the second rated province is the same distance as if we started at the mean value and counted upwards to 34% of the observed values.

2.4.7. Weakness #4: Regulatory Burden

The poor performance of Vietnam on the criterion of regulatory burden for foreign investors is also a surprise because of the tremendous effort that the country has devoted to improving business registration and administrative procedures.[53] To keep things tractable, we divide our analysis into four critical dimensions of regulatory burden: entry; ongoing bureaucratic procedures; inspections; and customs.

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

Table 2.10 demonstrates that there is still room for improvement with regard to entry procedures in Vietnam, but it does not appear to be the source of the increasing discontent. The table is divided into four panels. The upper left panel reports the median days necessary to receive the three major documents that are required for all firms to legally operate in Vietnam. The survey question asks firms to consider the response time from the moment the application was officially submitted either in person or through the provincial website. As we can see, these rates have remained relatively constant over the past five years for new firms in Vietnam. Currently, according to a subset of the PCI-FDI survey, the newest FIEs report that it took them 30 days to obtain or renew an investment license, 30 days to complete business registration procedures, and 15 days to receive a tax code number from the General Department of Taxation. Keep in mind that these are self-reported figures and not official statistics. Most firms can complete all of these procedures at the provincial level with exceptions for very large projects (above 1500 Billion VND ($70 million USD) or firms in restricted sectors that require special approval from the prime minister's office. The 2014 results are very much in line with previous years; 2011 appears to be an anomaly for exceptionally fast response times.

Furthermore, as the upper right panel shows, one-stop-shop (OSS) procedures allowed 85% of FIEs to complete these activities concurrently, so the total time period for a new business to be fully legal is less than the sum of the days needed to receive the required documents.[54] Indeed, 81% of operations report having all documentation within three months of application and 38% were fully legal within one month. Both of these numbers are slightly down from previous years but not dramatically so. In a notable change, the draft Vietnam Enterprise Law and Investment Law, which was passed by the Vietnamese National Assembly in 2014, removed concurrent licensing and registration. Starting in 2015, FIEs will need to have an investment license before they can begin registration.[55]

[54] see: David Walke, "Business Registration in Vietnam: Burden or Opportunity?" Vietnam Economic Management Review 2(27) (2007): 3-16 <http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan031904.pdf>; Vietnam Briefing "Key Changes to Vietnam's Laws on Enterprises and Investment in 2015," (December 26, 2014). <http://www.vietnam-briefing.com/news/key-vietnams-laws-enterprises-investment-2015.html/#sthash.HNcIFjNO.dpuf>

[55] Draft Law on Enterprises (Amended), November 26, 2014. Takes effect July 1, 2015.

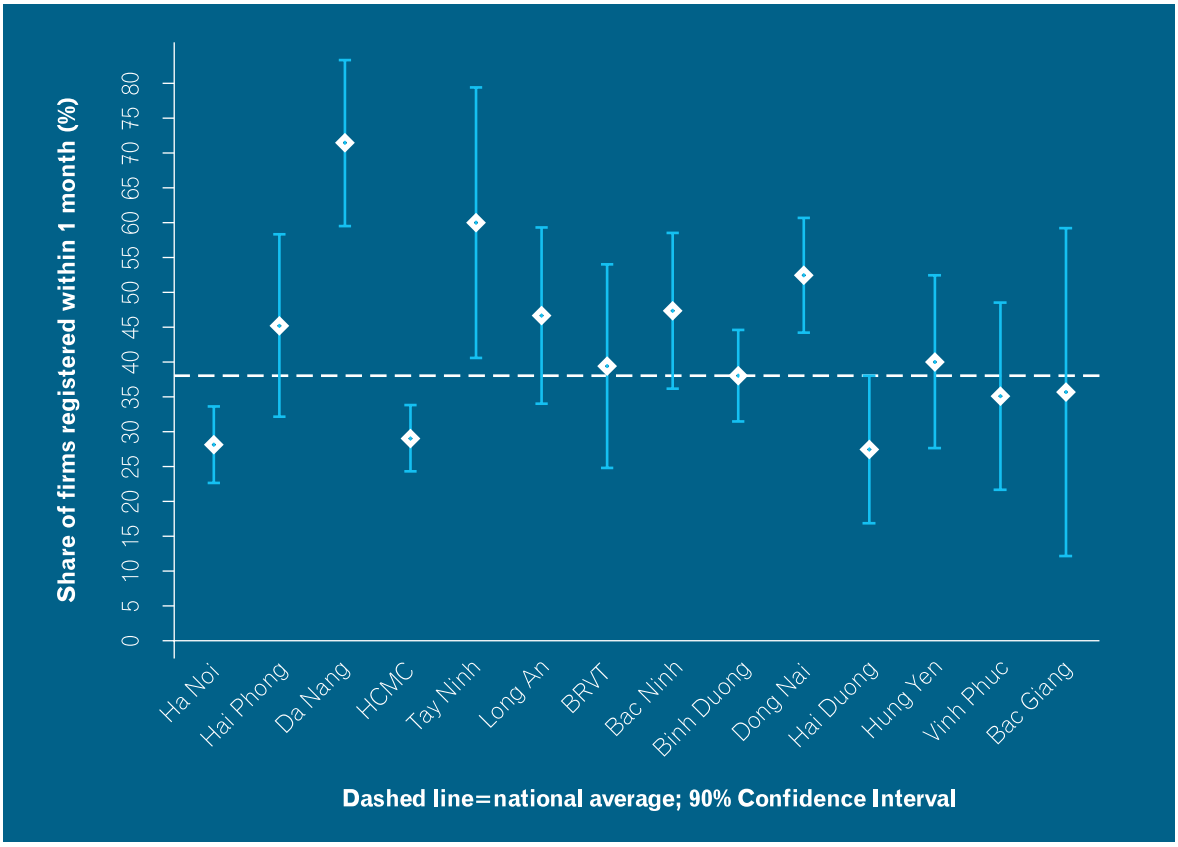
TABLE 2.10 Regulatory Burden of Entry Procedures for FIEs

	Days to Receive (Median)				Ease of Process		
Year	**Investment License (median days)**	**Renewed License (median days)**	**Business Registration Certificate (median days)**	**Tax Code Number (median days)**	**License and Certificate Issued Concurrently (%)**	**Fully Legal Within 3 Months (%)**	**Fully Legal Within 1 Month (%)**
Question	C1.1	C1.2	C1.3	C1.4	C2	C4<=4	C4<=3
2010	30	30	30	15	87.8%	83.2%	45.2%
2011	30	15	15	15	65.7%	88.9%	57.0%
2012	30	30	30	15	70.8%	84.3%	47.6%
2013	30	20	30	15	78.4%	87.0%	47.4%
2014	30	30	30	15	84.9%	80.5%	38.0%

	Additional Documents				Total Costs		
Year	**Firms Requiring Additional Documents**	**# of Required Documents (25th Percentile)**	**# of Required Documents (Median)**	**# of Required Documents (75th Percentile)**	**Final Cost of Registration Procedures in $USD (25th Percentile)**	**Final Cost of Registration Procedures in $USD (Median)**	**Final Cost of Registration Procedures in $USD (75th Percentile)**
Question	C3		C3.1			C5	
2010	44.3%	1	2	3	50	2000	30000
2011	23.5%	1	1	2	100	2000	20000
2012	22.2%	1	1	3	100	2000	15000
2013	26.6%	1	1	3	100	2000	20000
2014	47.0%	1	1	2	100	2000	20000

As most FIEs complete their entry activities at the provincial level, Figure 2.21 takes a look at provincial variation in the total wait period to be fully registered for business. Again, Da Nang stands out from the pack with over 70% of foreign operations completing procedures within a month. Tay Ninh (60%) and Dong Nai (53%) rank next, but have considerably slower procedures. Ha Noi, HCMC, and Hai Duong all score poorly on this measure with fewer than 30% of FIEs agreeing that they were fully legal within a month.

FIGURE 2.21 **Waiting Period for Entry by Province**



Source: PCI-FDI Survey Question C4: "Considering all your documentation, how long did it take you to get all required registration certificate, licenses, and stamps to be a fully legal business in your province?" Range bars depict the percentage of respondents who answered less than one month (≤3 on the 7-Point Scale).

Costs of business entry are recorded in the lower right panel of Table 2.11. For most foreign investors, the total formal costs of entry (including all fees, clerical, and legal expenses) are relatively inexpensive, about $2,000 for the median business. There is considerable variation in the data, however. For many small firms, the costs of entry are limited to about $100. Other firms, especially large operations or those in strategic sectors, may endure fairly large costs. At the 75th percentile, firms pay about $20,000. A handful of firms, however, describe severe financial burdens. Twenty-nine operations, which vary in size and business sector, paid over $500,000 USD to complete entry procedures. Seventeen firms paid over $1,000,000. Almost all of these firms are from Japan or Korea, but that is not surprising, as they dominate the general sample of FIEs as well.

One area where there appears to be some retrenchment from previous years is the number of firms requiring additional documentation beyond the three required items. 47% of firms needed new baby licenses or stamps, which is nearly twice the average from the three previous years.

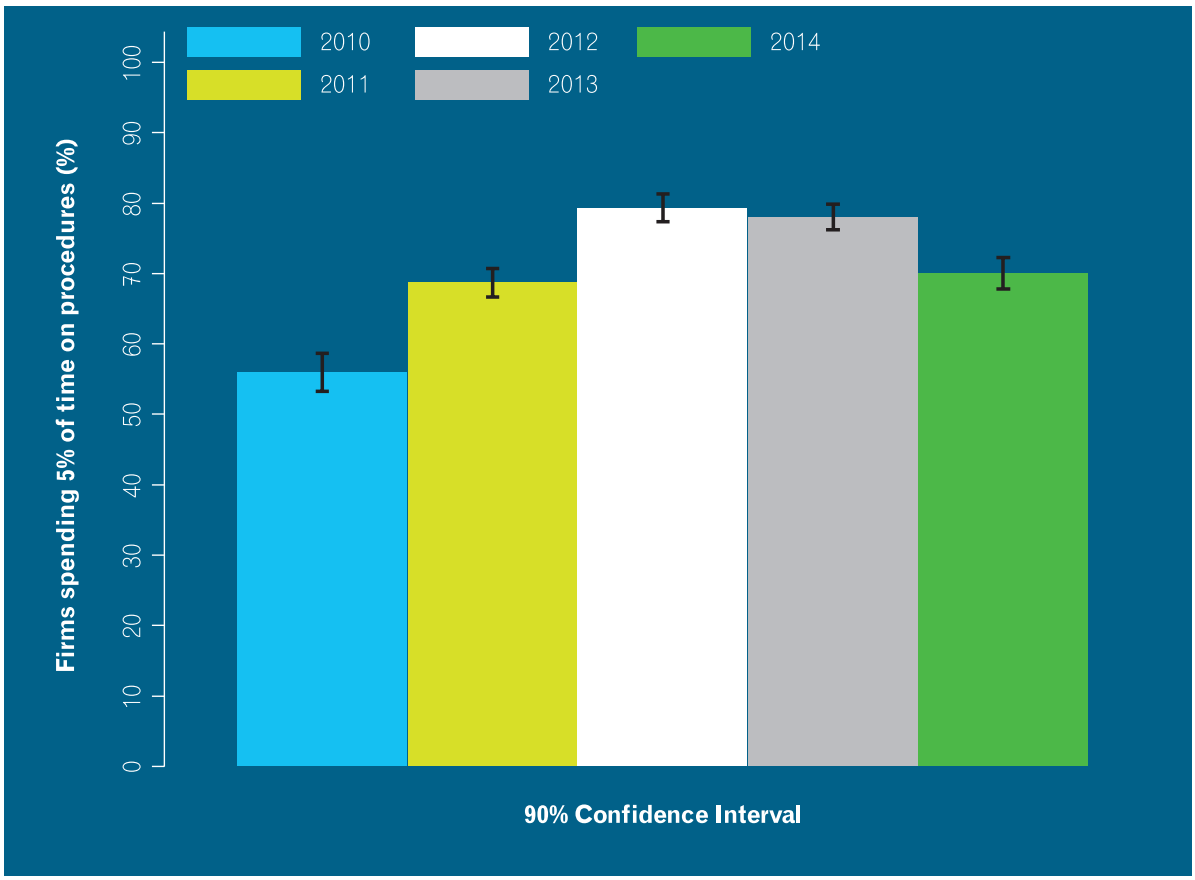
After licensing and registration, businesses are legally able to operate but still encounter a wide variety of regulations in the course of their operations. Many of these have important public interest

considerations, such as environmental protection, health and sanitary standards, fire safety, and labor rights. Others have more dubious social or economic motivations, such as regulations about storefront signage or rules about foreign language use in marketing. Two indicators in the PCI-FDI survey are useful for capturing the full regulatory burden faced by foreign enterprises in the country: 1) the share of the top manager's time spent complying with business regulations; and 2) the number of inspections by regulators that the firm experienced in the past year.

Figure 2.22 studies the first of these issues by looking at a PCI-FDI question which asks firms to check what percentage of their annual activities are spent complying with bureaucratic procedures. In 2014, 70% of firms answered that they spend over 5% of their time on such activities, which means time away from managing and growing their business. This number actually represents a significant decrease from the previous two years, when nearly 80% of firms reported a 5% or greater time burden. Nevertheless, it is markedly higher than the historical low of 56% achieved in 2010.

According to businesses, the most burdensome regulatory requirements are related to taxes (including the handling of VAT receipts), obtaining construction licenses, customs procedures, and receiving investment licenses.

FIGURE 2.22 **Total Regulatory Burden on Foreign Firms**



Source: PCI-FDI Survey Question C4: "Considering all your documentation, how long did it take you to get all required registration certificate, licenses, and stamps to be a fully legal business in your province?" Range bars depict the percentage of respondents who answered less than one month (≤3 on the 7-Point Scale).

Interestingly, there is very little variation in responses to these questions across provinces, which all average between 60% and 75%. In fact, most of the variation appears to be between different business sectors as Table 2.11 shows. Only 50% of businesses in the chemical, finance, and real estate sectors report a regulatory burden greater than 5%. By contrast, over 80% of firms in construction, manufacturing of heavy machinery, and production of rubber and plastic products report excessive regulations.

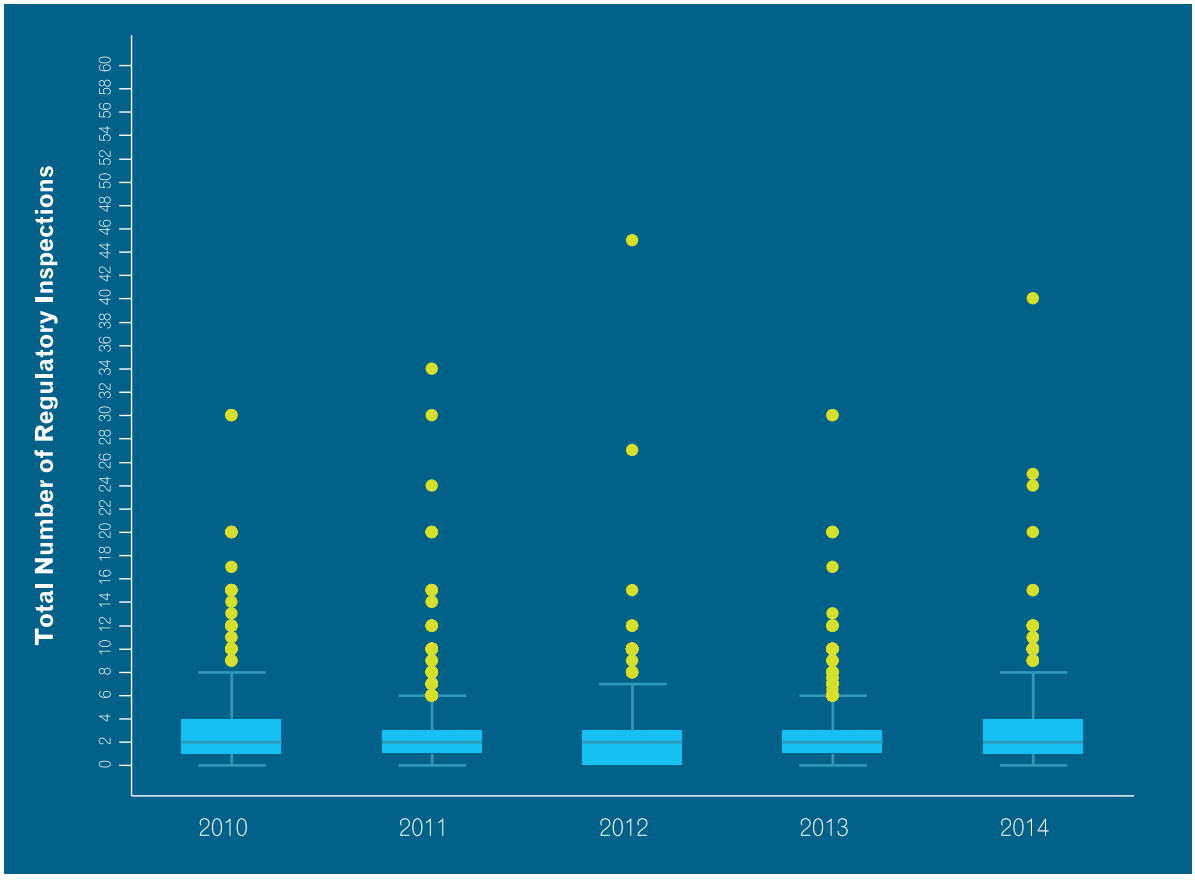
TABLE 2.11 Regulatory Burden for Foreign Firms by Industrial Sector

By Industrial Sector in 2014		Fully Legal within 1 Month	Additional Documents Required	Number of Additional Documents	Final Cost of Registration Procedures in $USD (Median)	Inspections (Median)	Over 5% of Time Spent on Bureaucratic Procedures
Question		C4<=3	C3	C3.1	C5	E1	E3>=2
F	Construction	36.7%	42.0%	1	2600	1	82.0%
G	Wholesale and retail trade	33.0%	46.2%	1	4000	1	71.6%
J	Information and communication	25.7%	46.1%	1	2250	0	66.7%
K	Financial and insurance activities	43.8%	31.3%	1	3250	1	58.8%
L	Real Estate Activities	25.0%	50.0%	1	4000	2	59.1%
M	Professional, scientific and technical activities	29.1%	41.7%	1	2000	1	74.2%
U	Activities of extraterritorial organizations	30.9%	45.2%	1	2000	1	67.9%
C	Manufacture of…						
C10	Food products	33.3%	51.6%	1	1000	3	65.5%
C13	Textiles	35.7%	40.0%	1	2250	2	61.7%
C14	Apparel	41.5%	52.3%	1	2500	3	73.9%
C15	Leather products	61.8%	48.6%	1	750	3	68.6%
C16	Wood products	42.9%	33.3%	1	1250	2	64.3%
C17	Paper and paper products	30.0%	30.8%	1	1750	3	60.0%

By Industrial Sector in 2014		Fully Legal within 1 Month	Additional Documents Required	Number of Additional Documents	Final Cost of Registration Procedures in $USD (Median)	Inspections (Median)	Over 5% of Time Spent on Bureaucratic Procedures
Question		C4<=3	C3	C3.1	C5	E1	E3>=2
C20	Chemicals and chemical products	33.3%	50.0%	1	2000	3	50.0%
C22	Rubber and plastics products	39.5%	51.9%	1	1000	3	79.5%
C24	Basic Metals	37.8%	47.4%	1	4000	2	71.9%
C25	Fabricated Metals	39.7%	51.2%	1	3000	2	70.5%
C26	Computer, electronic and optical products	45.2%	43.8%	1	3500	3	70.5%
C27	Electrical equipment	47.6%	32.0%	1	1750	3	63.6%
C28	Machinery and equipment	38.1%	46.5%	1	5000	1	81.8%
C29	Motor vehicles	53.2%	51.9%	1	2000	3	66.7%
C31	Furniture	54.2%	50.0%	1	2200	4	66.7%
C32	Other	40.4%	48.6%	1	1000	2	70.3%

Next, we examine the burden of regulatory inspections over time using a box plot. In a box plot, the line inside the box represents the median value, the ends of the box represents the 25th and 75th percentile respectively, and the whiskers depict the lowest and highest values experienced (excluding outliers). Outliers are represented as individual dots, indicating that the number of inspections is 1.5 times greater than the 75th percentile.

FIGURE 2.23 **Boxplot of Total Inspections of Foreign Firms, 2010-2014**



Source: PCI-FDI Survey Question C5: "How many total times was your business inspected/examined in 2013?" Responses for prior years (2010-2013) are also presented for comparative purposes. The line inside the box represents the median value, the lower and upper ends of the box represent the 25th and 75th percentiles, respectively, and the whiskers depict the lowest and highest values experienced (excluding outliers). Outliers are represented as individual dots, indicating that the number of inspections is 1.5 times greater than the 75th percentile.

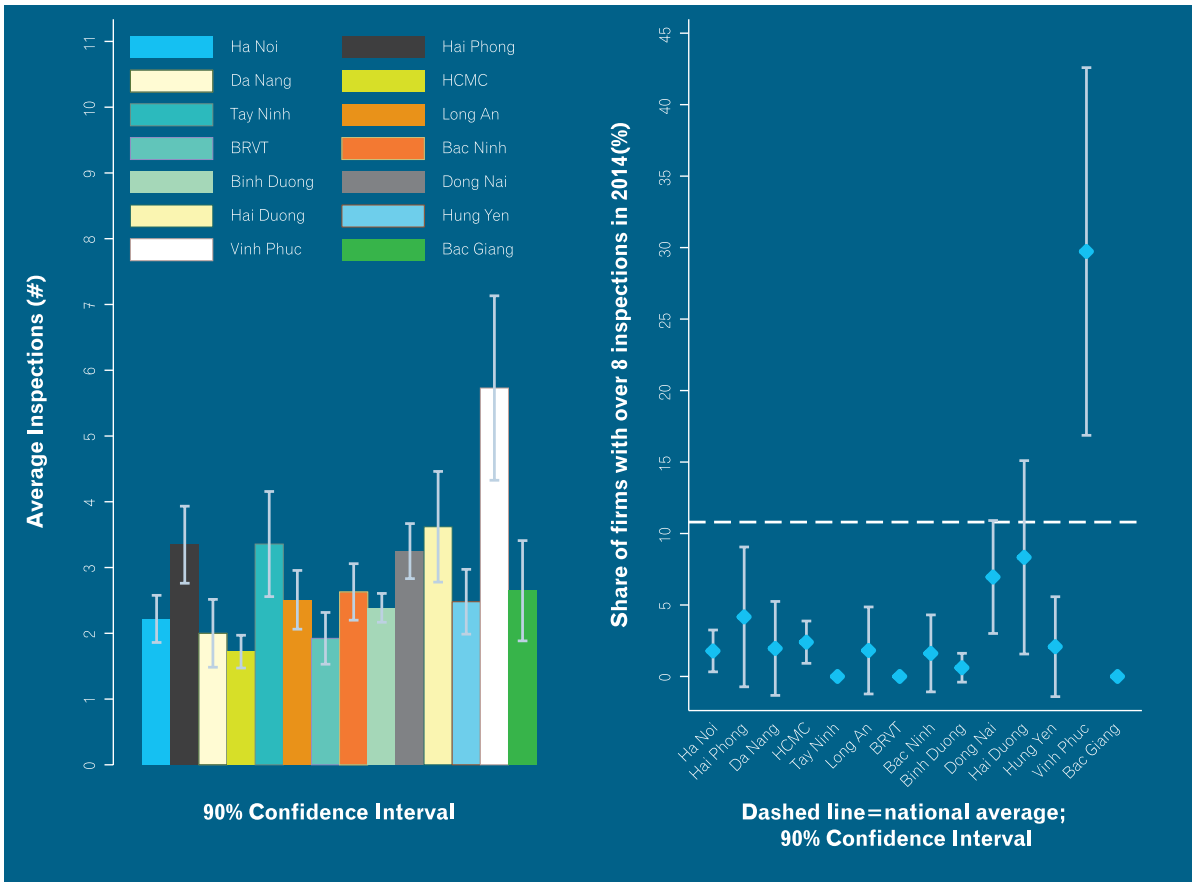
The clear message of Figure 2.23 is that for the vast majority of firms, inspections are not a very big burden. The median firm experiences about two examinations per year and this number has not changed much over time. Even at the high end, inspections do not appear to be overwhelming. In 2014, there were four inspections at the upper quartile and the maximum non-outlier recorded was eight. There does appear to be higher variation in the number of inspections in 2014 than in previous years, but this is not alarming.

Where the graph does illustrate cause for concern is that, each year, there are several dozen extreme values, where a small number of operations experienced exceptional harassment (defined as more than eight inspections over the course of a year). In 2014, for instance, four firms were inspected over twenty times and one operation had forty separate inspections. Harassment does not vary much across sectors, but was concentrated among medium to large FIEs. A firm with over 500 employees had a 10% probability of being in the extreme inspection group, and a one-point increase on the eight-point

employment size scale in the PCI-FDI survey increases the probability of inspection by 8%. A similar pattern was observed for size measured by the monetary value of the investment license. In 2014, FIEs of Chinese and Singaporean origin had a slightly higher probability of extreme inspections than those from other countries (about 6% compared to a national average of less than 1%).

Looking at the provincial level in Figure 2.24, we can see that inspections and harassment do not vary much across provinces with one very notable exception – Vinh Phuc. Foreign firms in Vinh Phuc were subjected to an average of six inspections per year, 60% greater than the next highest province of Hai Duong. More worrisome, 30% of FIEs were subjected to over eight inspections per year. Indeed, 53% of all the cases of exceptionally high inspections occurred in Vinh Phuc province.

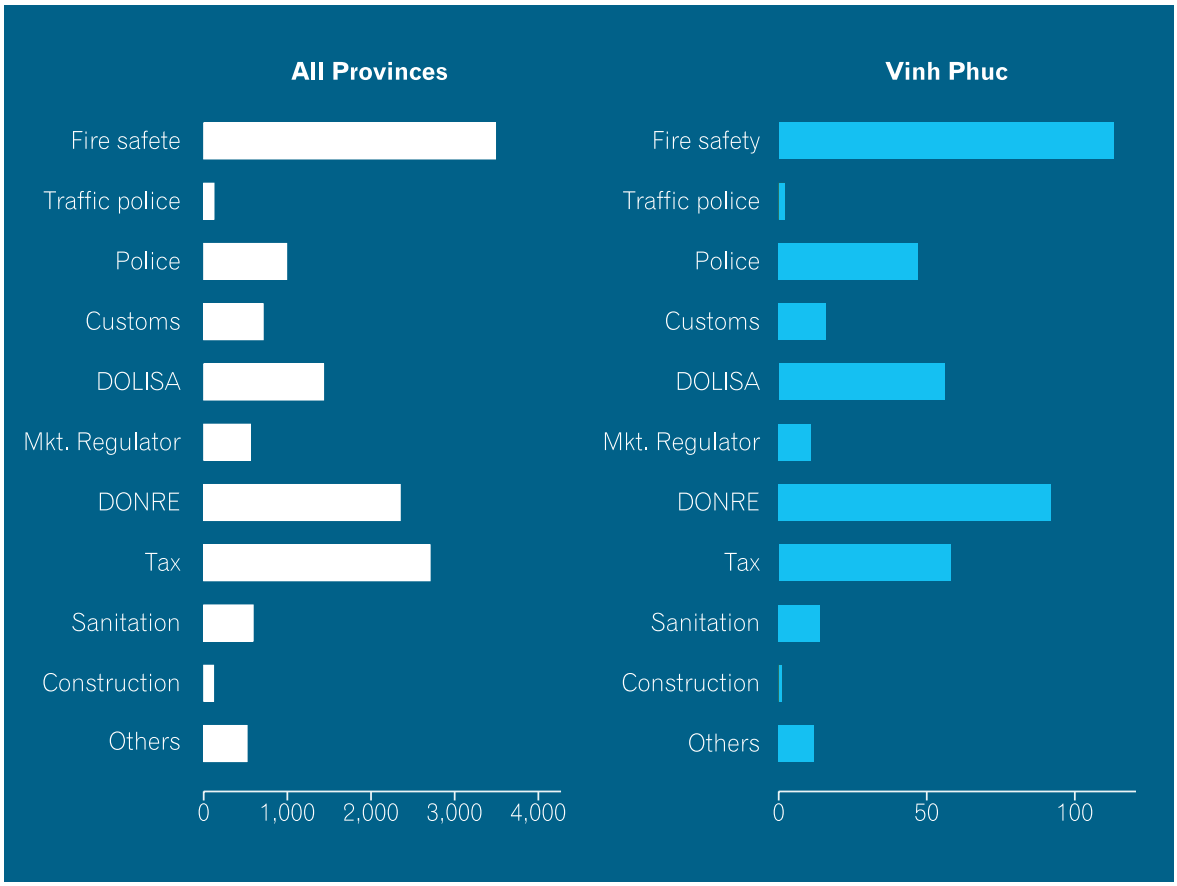
FIGURE 2.24 **Total Inspections and Excessive Inspections by Province**



Source: PCI-FDI Survey Question C5: "How many total times was your business inspected/examined in 2014?" In the left panel, we present the average inspections by province. In the right panel, we display the share of firms with exceptional harassment, which we define as over eight inspections in a year.

Figure 2.25 shows that throughout the country, just as in the province of Vinh Phuc, FIEs select fire safety, tax, and the Department of Natural Resources and Environment (DONRE) as the most burdensome agencies for inspections.

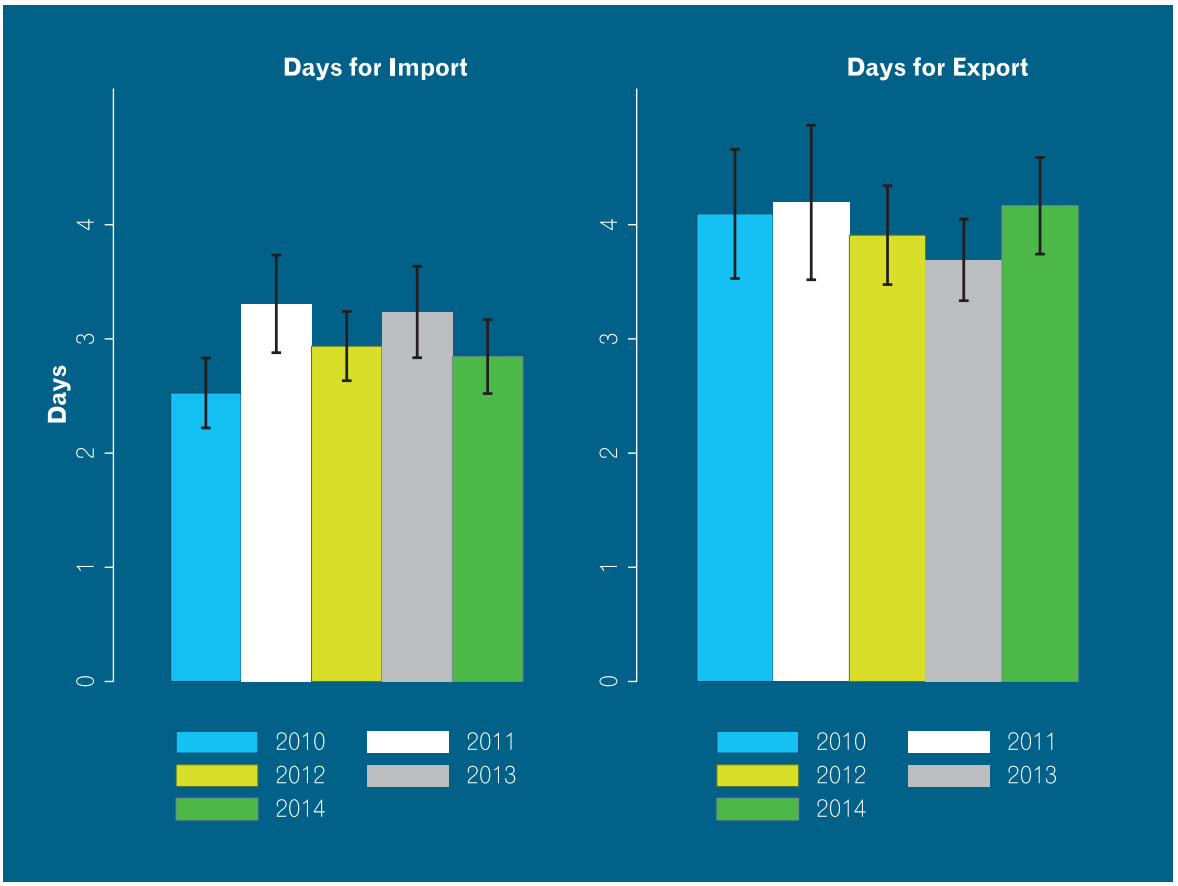
FIGURE 2.25 **Inspections by Regulatory Agency**



Source: PCI-FDI Survey Question C5.2: "From this list, please select the three agencies that most frequently completed inspections/examinations of your firm in 2014" In the left panel, we present the number of respondents selecting each agency in the whole country. In the right panel, we limit the analysis to respondents in Vinh Phuc province.

For the final regulatory burden, we look at customs procedures, summarizing the findings in Figure 2.26. In our sample, 66% of FIEs hired a customs broker to facilitate their transactions and 34% completed the procedures themselves. 16% of surveyed firms handled their customs procedures at the seaport, 5% completed their documents at the airport, and about 22% used the provincial office of the National Customs Agency to handle the paperwork. Aggregating the responses from all groups, the figure shows that firms lose about 2.8 days waiting for imported goods to be approved, while exporters must wait about 4.2 days. Approval of imports is slightly improved from 2013 and export delays are slightly worse, but neither is outside the range of experience previously recorded. The most time-consuming and complicated step in customs procedures was reportedly during the inspection stage, when businesses felt there was most likely to be a request for informal payment.

FIGURE 2.26 **Waiting Period for Customs Procedures**



Sources: PCI-FDI Survey Question F7: "On average, how long does it take to clear customs for your exported goods?" PCI-FDI Survey Question F8: "If you import intermediate goods, on average how long does it take you to clear customs?"

In sum, it is clear that Vietnam has put great effort into reducing the regulatory burden on foreign firms. Indeed, with regard to business entry, the time and monetary costs of registration and licensing have remained reasonable and steady for the entire timeframe of the PCI-FDI survey. It appears that entry procedures will continue to improve, as the National Assembly, the Government and the Ministry of Finance has recently passed draft revisions of the Investment and Enterprise Laws, which further simplify registration procedures (such as removing the requirement for a corporate seal) in addition to removing restrictions on entry into many industries.[56] Nevertheless, most firms seem to experience costs from the regulatory burden after registration, when they must comply with business regulations, inspections, and customs procedures. Indeed, these areas represent the next focal point of Vietnamese regulatory reform efforts. On March 18, 2014, the government passed Resolution 19[57] which aims to simplify custom and tax procedures, harmonizing them with the original ASEAN 6 signatories. In addition, the Ministry of Finance (MOF) has passed a wide spectrum of circulars to reduce the customs and tax burdens. These may not have been enacted in time to be reflected in our survey in 2014, but might show up in next year's data.

[56] Draft Law on Enterprises (Amended), November 26, 2014. Takes effect July 1, 2015; Draft Law on Investment (Amended), November 26, 2014. Takes effect July 1, 2015.

[57] Resolution No. 19/NQ-CP of the Government on Key duties and solutions to improve business environment and national competitiveness (March 18, 2014). <http://36mfjx1a0yt01ki78v3bb46n15gp.wpengine.netdna-cdn.com/wp-content/uploads/2014/03/Resolution-19-NQ-CP-18-03-2014-of-the-Government-Informal-English-Translation-24MAR.pdf>

2.5 SPECIAL ANALYSIS OF LABOR QUALITY AND LABOR-BUSINESS RELATIONS

2.5.1. Labor Training

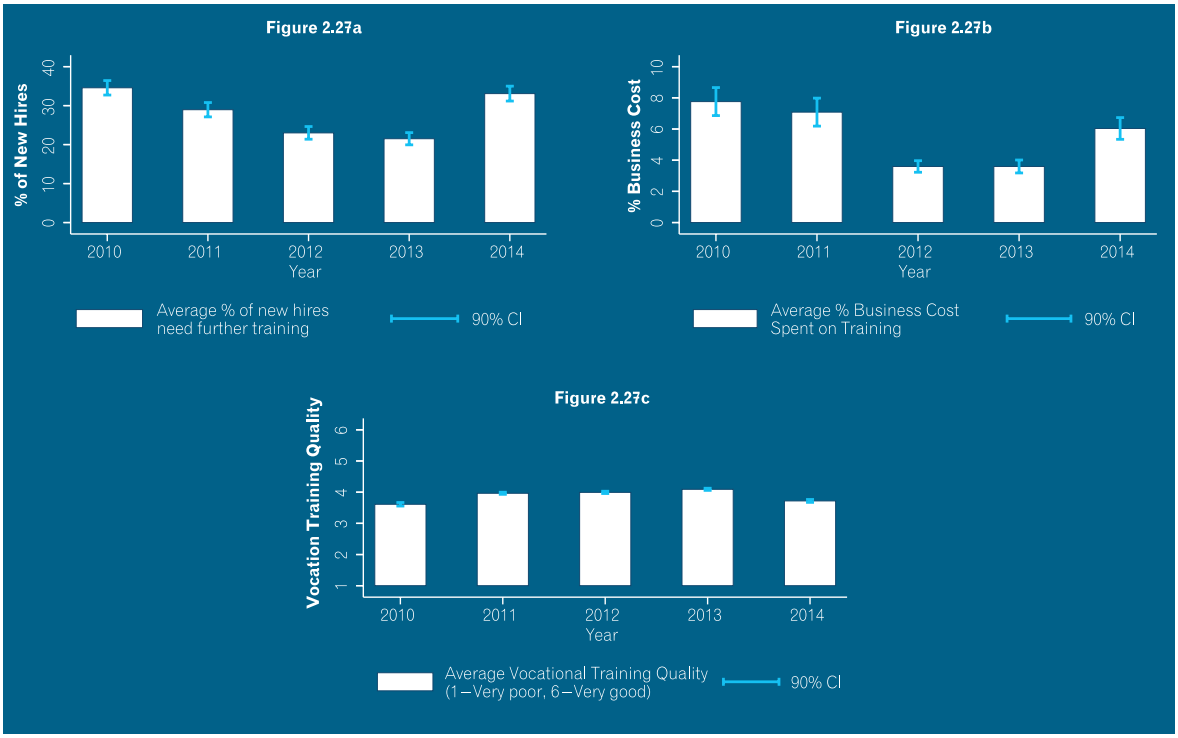
In order to upgrade the status of Vietnam's industries in the global production chain, the importance of a technically skilled labor force cannot be overstated. Indeed, according to a survey by the Japan External Trade Organization (JETRO), 80% of respondents currently need technicians and 89% will need technicians in the future.[58] Unfortunately, the supply of skilled labor in Vietnam is woefully insufficient. In a recent World Bank survey, 80% of employers replied that applicants for positions as professionals and technicians lack the required skills.[59]

Figure 2.27 substantiates this widespread concern about the mismatch between labor skills and businesses' demands. From 2010 to 2014, FIEs had to provide further training to 20-35% of newly hired workers (Figure 2.27a), accounting for some 3.6-7.8% of business costs (Figure 2.27b). The sudden change reported in the most recent iteration of the survey is particularly worrisome. Even though the skills mismatch steadily declined from 2010 to 2013, all of the improvement was erased in 2014 when the percentage of under-trained new hires and the cost of training surged back to 2010 levels.
More importantly, this skill mismatch appears correlated with the poor quality of vocational training. Figure 2.27c shows the average score FIEs gave to the quality of vocational training on a scale ranging from 1 (Very Poor) to 6 (Very Good). We can see clearly that the top half and the bottom half of Figure 2.27 have opposite trends across years. Whenever FIEs' rating of training quality (Figure 2.27c) is high, the number of re-trained workers (Figure 2.27a) and the cost of re-training (Figure 2.27b) is low.

58 Small, Charles. "Survey Reveals Japanese Investor Confidence in Future of Vietnam," Vietnam Briefing (February 7, 2015), http://www.vietnam-briefing.com/news/japanese-investors-confident-vietnam.html/#sthash.OLXnOVaz.dpuf

59 World Bank, "Skilling up Vietnam: Preparing the workforce for a modern market economy." (Vietnam Development Report 2014 – Main Report. Washington, D.C., 2013) <http://documents.worldbank.org/curated/en/2013/11/18556434/vietnam-development-report-2014-preparing-work-force-modern-market-economy-vol-2-2-main-report>

FIGURE 2.27 **Quality of Provincial Vocational Training and Its Impact on Firms' Labor Quality (2010-2014)**



Source: PCI-FDI Survey Questions: G7.1 "What percentage of these newly hired workers needed additional/further training?" G7.2 "What percentage of business costs did your firm spend in labor training?" G2.2 "How do you rate the overall quality and efficiency of these services delivered by provincial public agencies – vocational training for labor?

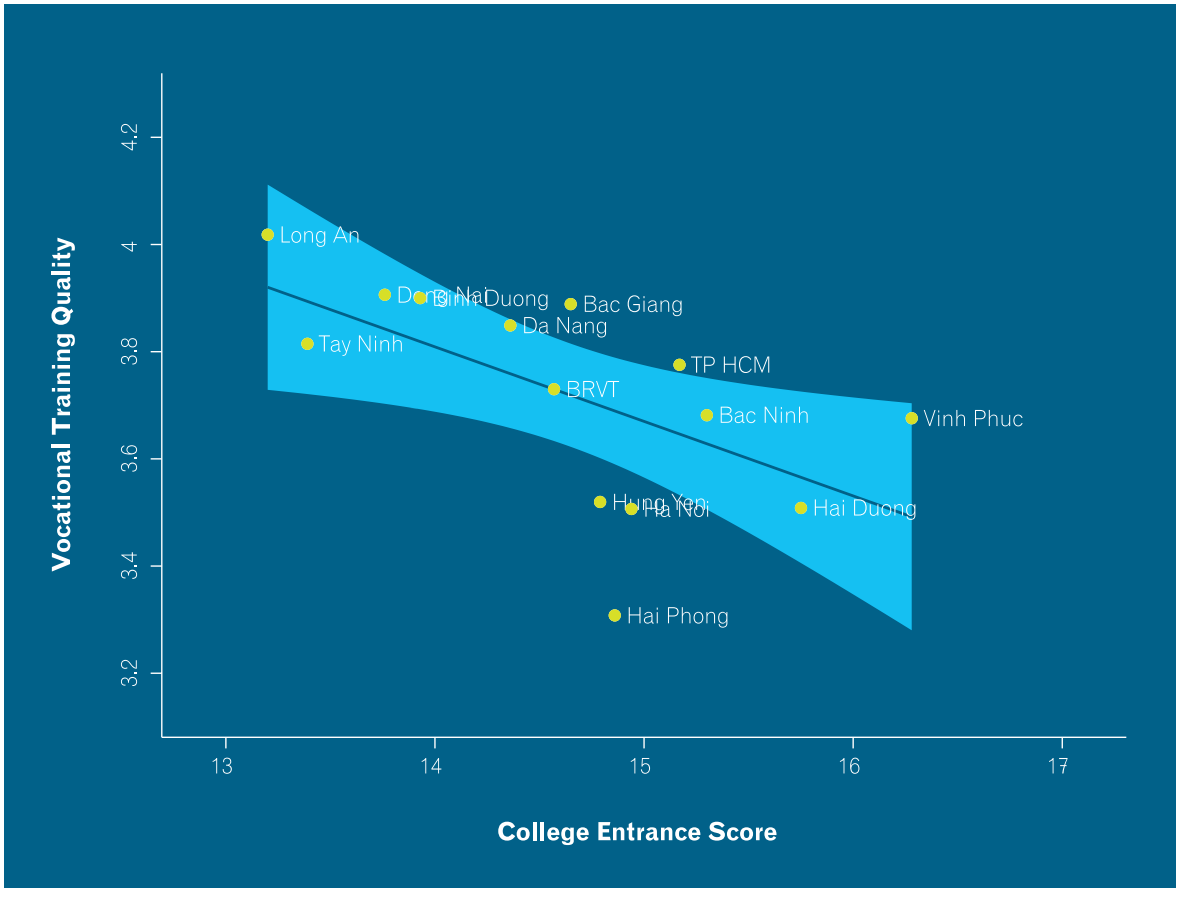
The relationship between provincial vocational training and the quality of new hires holds across provinces. In Figure 2.28, the blue line represents the percentage of new workers that needed retraining, while the yellow line represents the quality of provincial vocational training. Across almost all provinces, these two lines move in opposite directions; the better the vocational training, the less FIEs have to invest in retraining their new hires. Except for those in Long An, FIEs in all provinces expressed sudden declining perceptions of training quality in 2014 (i.e., yellow line dipping down).

FIGURE 2.28 **Quality of Provincial Vocational Training and Its Impact on Firms' Labor Quality—by Province**

Source: PCI-FDI Survey Questions: G7.1 "What percentage of these newly hired workers needed additional/further training?" G7.2 "What percentage of business costs did your firm spend in labor training?" G2.2 "How do you rate the overall quality and efficiency of these services delivered by provincial public agencies – vocational training for labor?

Another important finding is that firms' perceptions of vocational training have almost no relationship to the actual quality of the students in the province. Figure 2.29 plots the average college entrance score of students from a province on the x-axis, and the perceived vocational training quality of that province on the y-axis. The regression line has a slightly negative slope, meaning that a province with a higher average college entrance score does not necessarily have better vocational training quality (from the perspective of FIEs). To put it another way, some provinces do better at providing vocational labor education suitable for FIE employment purposes, whereas others do better at college preparation.

FIGURE 2.29 **Relationship between College Entrance Score in a Province and Firms' Perception of Vocational Training Quality**



Source: PCI-FDI Survey Question G2.2 "How do you rate the overall quality and efficiency of these services delivered by provincial public agencies – vocational training for labor?"; Ministry of Education and Training (MOET), *2014 College Entrance Exams*

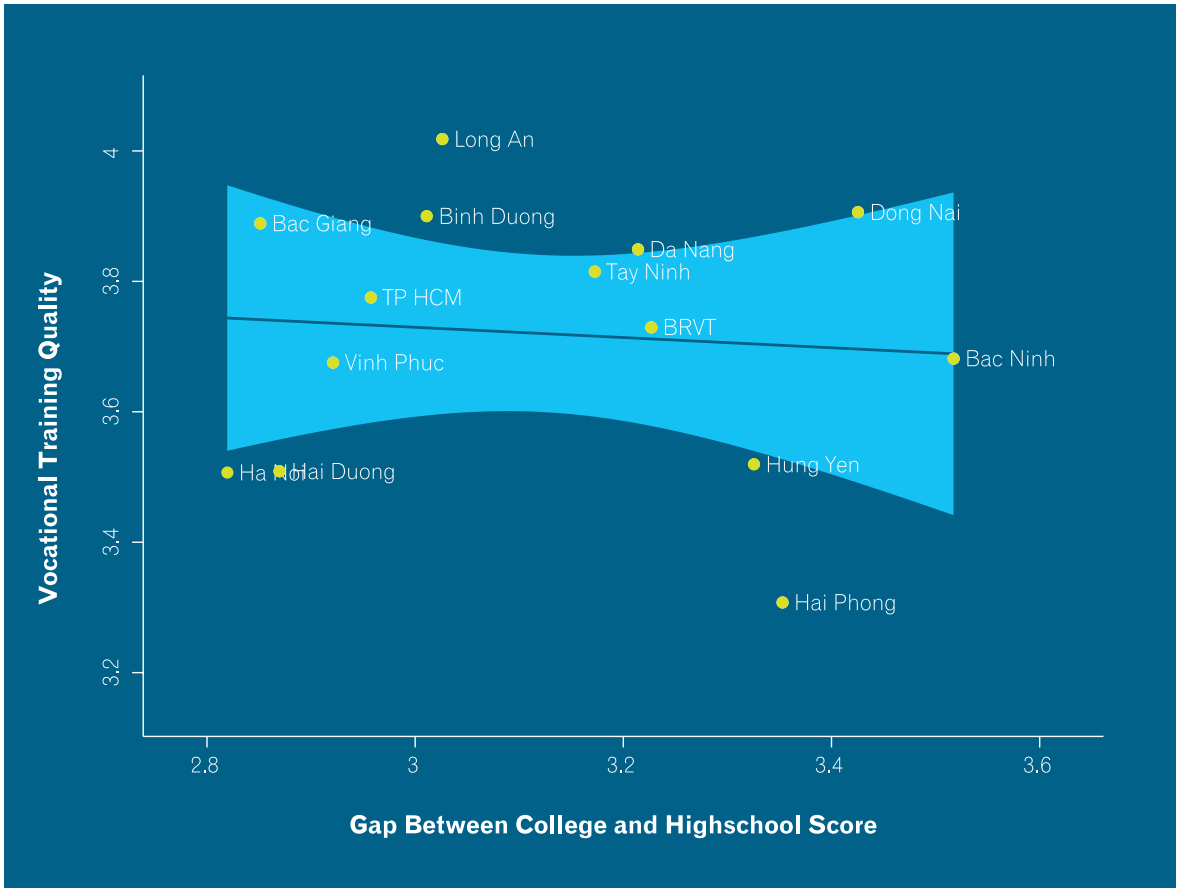
However, it is possible that the students who take the college entrance exam are not in the portion of the labor force which most FIEs rely on for employment. Therefore, to obtain a more accurate measurement of a province's general educational quality, Figure 2.30 studies the gap between the math score on the college entrance exam and the math score on the high school graduation exam of students from a province. Since the college exam is much more rigorously proctored than the high school exam, according to the Ministry of Education and Training (MOET), a large gap suggests a sizable degree of impropriety at the high school level evaluation stage.[60]

Using the gap between scores as a proxy measure for the quality of the province's general educational system, we would expect that provinces with large gaps (signifying low-quality education) need to bolster the quality of their workforce with comprehensive labor training. Provinces with small gaps (i.e., those that provide high-quality education) should need to rely less on comprehensive vocational training.[61] As a result, we would expect a negative relationship between the two indicators. However, Figure 2.30 shows quite clearly that the expected relationship does not exist. Provinces with under-performing general education systems do not appear to be investing more in training than their peers with high quality systems. In provinces with low-quality general training, therefore, the bulk of the extra training is being conducted by FIEs themselves. Indeed, this is visible in Figure 2.28, as FIEs in Bac Ninh and Dong Nai have steeper shifts in the share of workers trained internally compared to other provinces over the past year.

60 Ministry of Education and Training (MOET), "Kết quả đánh giá so sánh chất lượng 2 kì thi tốt nghiệp THPT và tuyển sinh đại học" [Results of Comparative Quality Assessment for High School Graduation Exam and University Admissions] (2006), <https://drive.google.com/file/d/0B91KC91IdyptWXNhVTUyMTBpZTMzVDBtVHVUa3I2V1JUTWNn/view>

61 In 2015, MOET will combine graduation and college entrances into a single exam, so this technique will no longer be valid. Up until 2014, however, the strategy has worked extremely well.

FIGURE 2.30 **Relationship between the Quality of High School Education in a Province and Firms' Perception of Vocational Training Quality, 2014**



Source: PCI-FDI Survey Question G2.2 "How do you rate the overall quality and efficiency of these services delivered by provincial public agencies – vocational training for labor?"; Ministry of Education and Training (MOET), *2014 College Entrance Exams*

This is only one portion of the likely reason for the low correlation, however. Another answer is that vocational education is better suited for supplying industry-specific knowledge that has little analogue in the general education system. For instance, garment firms need workers who are efficient with sewing machines, manufacturing firms need skilled machinery maintenance workers, and restaurants and retail outlets need employees who possess "soft," interpersonal skills that are not reflected in high school math scores.

To make sense of the specific sector needs, Table 2.12 looks at the average responses of FIEs between 2010 and 2014 to the PCI-FDI labor questions, aggregating to the sector level. The first thing to notice is that there is a great deal of variation across sectors. Firms in manufacturing tend to be slightly more negative about the quality of training in their location and also most likely to invest in in-house training. Even within the manufacturing area, however, there are substantial differences. The lowest

evaluations of quality and highest expenditures on internal training are concentrated among the higher value-added producers, specifically those manufacturing computers, electronics, and motor vehicles. Computer manufacturers, for instance, provide additional training to over 41% of their workforce, accounting for about 4.5% of their total costs. Motor vehicles manufacturers feel obligated to train 35% of their workforce at a cost of about 4.7% of total expenditures. And electrical equipment retrains 37% of its workforce and a shockingly high cost of 7.6% of total costs. Paper and leather production also appear to be industries requiring specialized training that are currently not being met by vocational training programs in Vietnam. Agriculture and service sector businesses, on the other hand, especially those in retail, express higher satisfaction with the education their workers have received and spend substantially less on labor training.

TABLE 2.12 **Labor Quality Assessment of Foreign Firms by Industrial Sector (2010-2014)**

By Industrial Sector		FIE Rating on 6-Point Scale (6=Very Good)				Share of (%):		
		General Educational Training	Vocational Training	Labor Exchange Services	Labor Recruitment Bureaus	Workers Needed Training	Costs on Labor Training	Staying with Company after Training
Question		G2.1	G2.2	G2.3	G2.4	G7.1	G7.2	G7.3
A	Agriculture	4.14	3.85	3.76	3.93	21.52	5.87	63.70
B	Mining and Quarrying	4.11	3.86	3.86	4.07	24.70	5.40	71.17
D	Electricity, Gas, Steam	4.12	4.12	3.96	3.91	16.37	5.60	72.68
F	Construction	4.04	3.91	3.89	3.81	20.86	4.36	69.33
G	Wholesale and retail trade	4.08	3.96	3.92	3.91	23.02	5.66	67.32
J	Information and communication	4.07	3.91	3.82	3.81	30.16	6.86	72.73
K	Financial and insurance activities	4.29	4.07	4.04	3.88	14.54	4.41	77.10
L	Real Estate Activities	4.19	4.07	4.03	3.93	19.64	3.04	79.97
M	Professional, scientific and technical activities	4.04	3.88	3.85	3.87	21.61	5.27	71.34
U	Activities of extraterritorial organizations	4.14	4.05	3.88	4.05	24.50	10.57	65.56
C	Manufacture of…							
C10	Food products	4.08	3.89	3.86	3.98	24.80	5.75	70.03
C13	Textiles	4.04	3.84	3.87	3.91	29.97	4.81	65.44
C14	Apparel	4.04	3.83	3.80	3.86	30.85	6.05	62.97

By Industrial Sector		FIE Rating on 6-Point Scale (6=Very Good)				Share of (%):		
		General Educational Training	Vocational Training	Labor Exchange Services	Labor Recruitment Bureaus	Workers Needed Training	Costs on Labor Training	Staying with Company after Training
Question		G2.1	G2.2	G2.3	G2.4	G7.1	G7.2	G7.3
C15	Leather products	3.97	3.89	3.88	4.04	33.54	4.38	67.06
C16	Wood products	4.16	4.09	4.05	4.02	18.33	4.55	66.40
C17	Paper and paper products	4.00	4.04	4.12	4.04	34.38	2.87	64.55
C20	Chemicals and chemical products	3.96	3.75	3.83	3.96	26.92	5.56	71.44
C22	Rubber and plastics products	4.06	3.87	3.93	3.99	30.01	4.56	67.09
C24	Basic Metals	3.99	3.87	3.81	3.97	32.20	5.32	65.79
C25	Fabricated Metals	4.00	3.93	3.99	3.98	32.42	6.33	71.28
C26	Computer, electronic and optical products	3.94	3.73	3.85	3.87	41.22	4.52	72.66
C27	Electrical equipment	4.06	4.02	4.00	4.10	37.63	7.29	75.83
C28	Machinery and equipment	3.97	3.76	3.86	3.85	30.91	7.64	74.67
C29	Motor vehicles	3.96	3.79	3.85	3.93	35.01	4.74	75.69
C31	Furniture	4.08	4.06	3.96	4.05	30.00	4.20	64.79
C32	Other	3.98	3.87	3.89	3.96	32.62	5.82	66.86

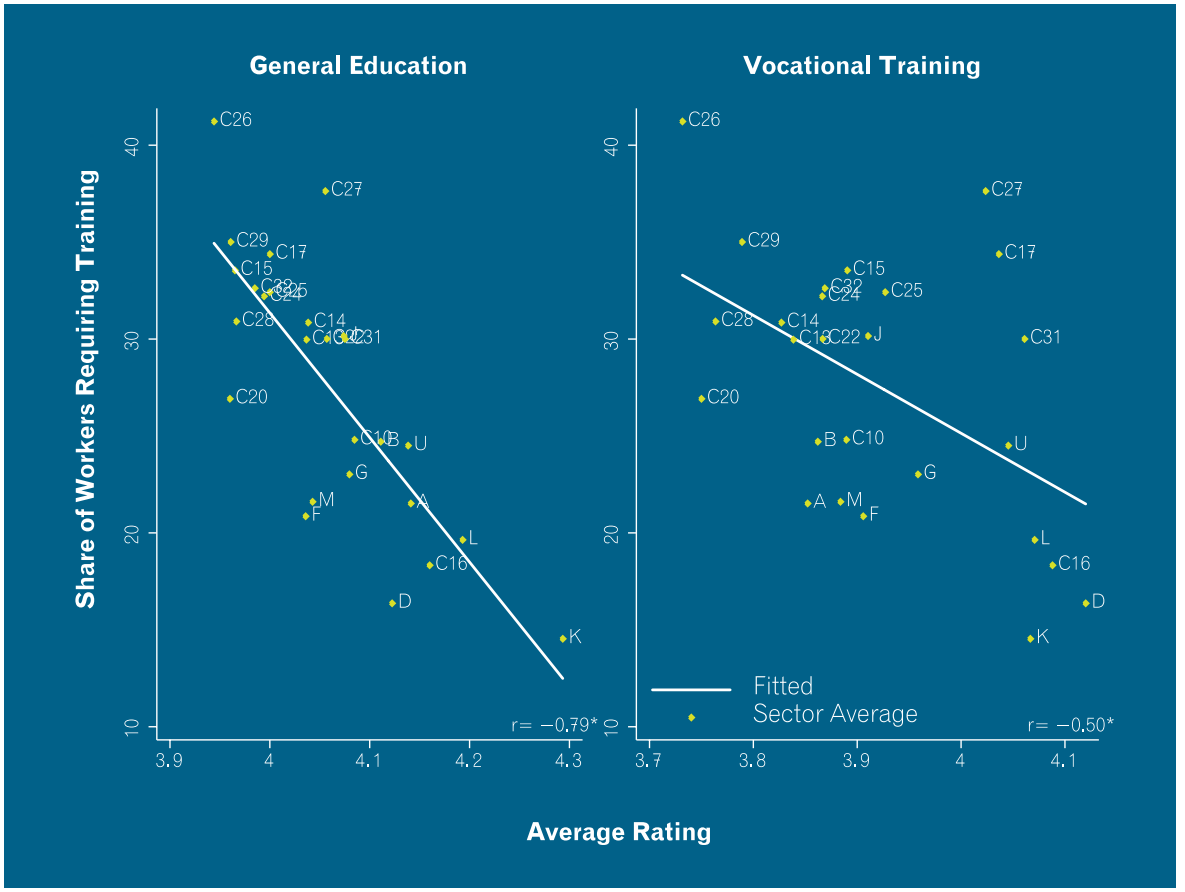
To probe this relationship further, Figure 2.31 illustrates the correlation between perceptions of educational quality among FIEs and investment in training at the sector level. To enhance precision, we average all survey responses between 2010 and 2014. The first panel shows the extremely high correlation between evaluations of general educational quality at the sector level. Here, we see clearly that the sectors requiring high skilled employees provide the lowest ratings of general education and feel obligated to most extensively train their workers.

The relationship is still negative, but less pronounced for vocational training. While overall evaluations of vocational training are lower, the slope of the fitted line is flatter, indicating that provincial vocational training deficits do not appear to be as significant a driver of retraining decisions. Manufacturers of electrical equipment and paper products, for instance, are positioned on the high end of satisfaction with vocational training, but still spend a great deal on in-house programs.

The bottom line is that, for the industries most vital to the strategic plans of the Vietnamese government, neither general educational training nor vocational training appears to be sufficient. FIEs in these industries are forced to supplement their employees' basic numeracy and literacy skills as well as to provide more specialized knowledge.

Fortunately, there is a silver lining. Consistently, over the past five years, over two-thirds of trained workers have stayed with their employers, rather than taking their employer-provided skills and immediately looking for higher salaries at rival companies. Moreover, the retention rates are highest in sectors requiring the highest skills. Financial firms retain 77% of their retrained employees, motor vehicle producers retain 75%, and computer manufacturing firms retain 73%. Thus, companies can safely invest in supplementing their employees' skillsets without too much fear of losing those workers to competitors.

FIGURE 2.31 **Relationship between Perceptions of Labor Training Quality and Expenditures on Labor Force (by Sector, Average between 2010-2014)**



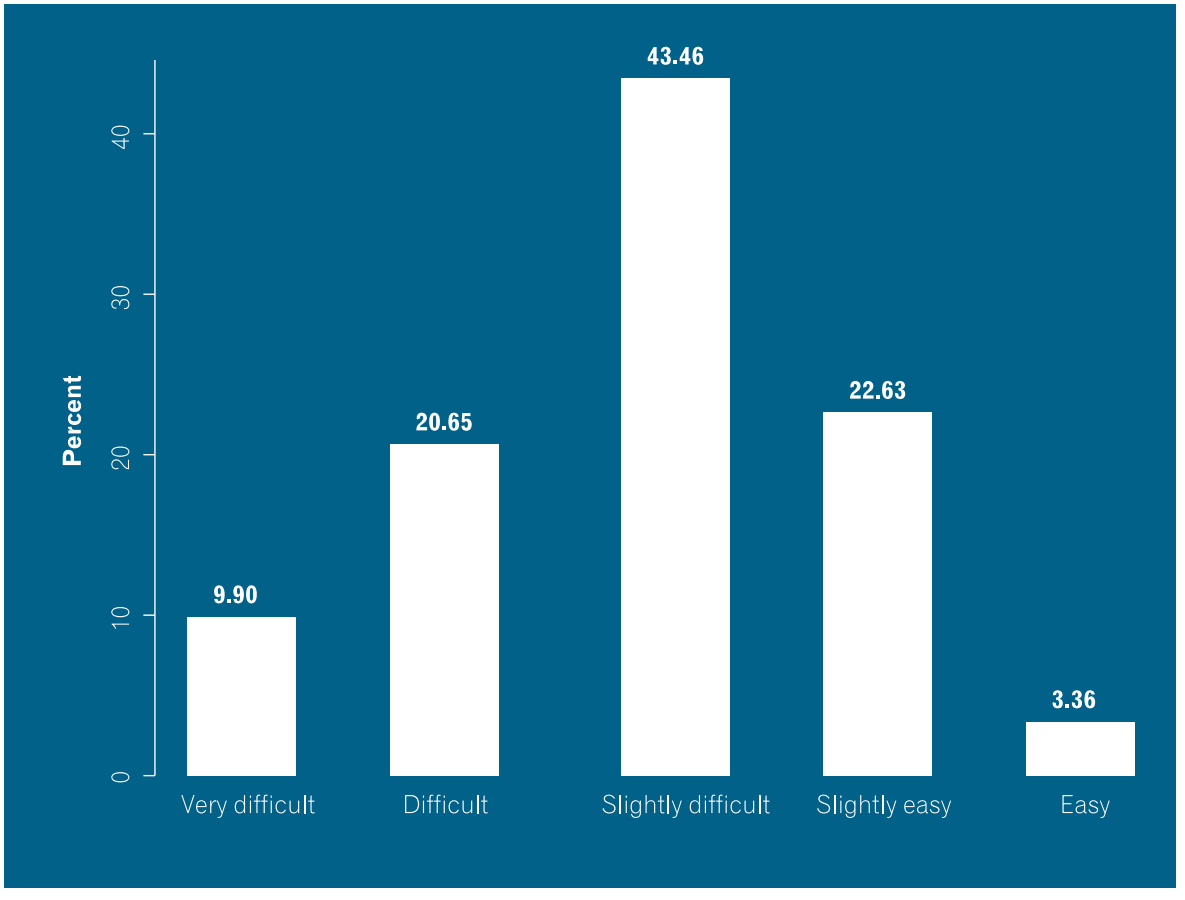
2.5.2. Work Permits for Foreign Experts

Another option for FIEs seeking to maintain a highly skilled workforce in high-tech and knowledge-based industries is to attract and recruit foreign specialists. Bringing in external experts serves as both a substitute and complement to in-house training programs. When certain skillsets are too difficult to reasonably acquire within the operation's production plans, foreign firms must turn to outside specialists to come in and do the heavy lifting until the Vietnamese workforce is capable. At the same time, however, foreign specialists facilitate skills transition by flying in to offer short-term training courses as well as by working directly with their Vietnamese counterparts in a mentor-protégé relationship. Consequently, difficulty in obtaining work permits for foreign personnel leads to fewer specialists and less knowledge transfer in existing FIEs.

More immediately, it also deters potential investors, especially the high-tech firms in which Vietnamese policymakers are interested. Unfortunately, getting work permits is still difficult for FIEs, ranking among the top three human resources (HR) concerns.[62] Figure 2.32 confirms the severity of this issue: 74% of FIEs report that obtaining work permits is "very difficult," "difficult," or "slightly difficult."

[62] Vietnam Business Forum 2014 "Human Resources Position Paper." (year): 2. http://www.vbf.org.vn/vi/

FIGURE 2.32 **The Percentage of Firms Having Difficulty in Obtaining Work Permits for Non-Vietnamese Workers**

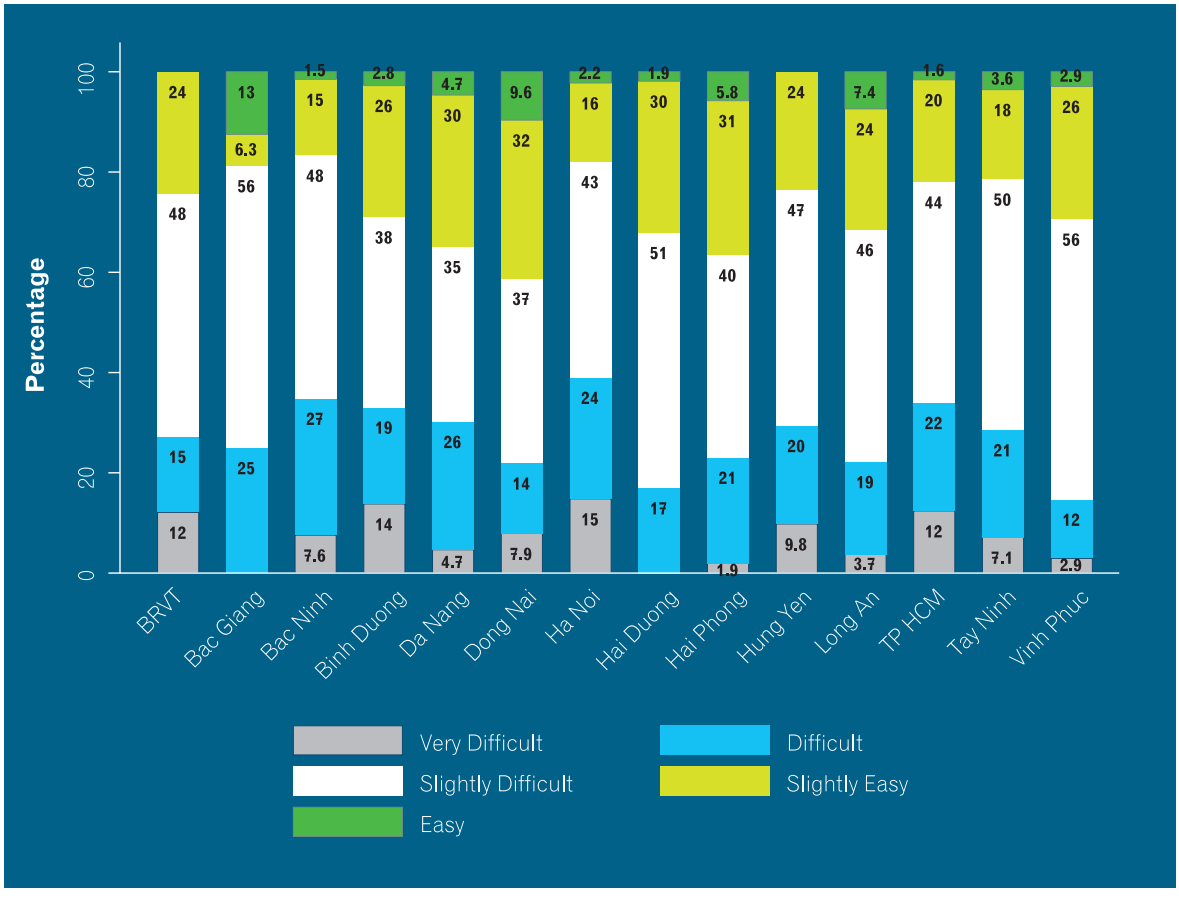


Source: PCI-FDI Survey Question G8: "How do you rate the difficulty level in acquiring the work permit for your non-Vietnamese workers?"

Despite the issuance of Circular No. 03[63] to detail and streamline the implementation of the labor code on foreign workers in Vietnam, FIEs have reported wide variation in provinces' implementation. Figure 2.33 shows the percentage of FIEs that found it difficult to obtain the work permit in each of the 14 provinces: Dong Nai performs best (59% of respondents reported at least some difficulty) while Bac Ninh performs worst (83%). The fact that over half of FIEs in Dong Nai, the best performing province, still found the process troublesome calls for more effort to the relieve this administrative burden.

[63] Ministry of Labor-Invalids, and Social Affairs. Circular No. 03/2014/TT-BLĐTBXH: "Hướng dẫn thi hành một số điều của Nghị định số 102/2013/NĐ-CP ngày 05 tháng 9 năm 2013 của chính phủ quy định chi tiết thi hành một số điều của Bộ luật lao động về lao động nước ngoài làm việc tại Việt Nam" [Guidelines for the implementation of a number of articles of Decree No. 102/2013 / ND-CP dated 05 2013; Performance of government regulation in relation to details of the labor code of foreign employees working in Vietnam] (Hanoi, Vietnam, May 20 2014)< http://thuvienphapluat.vn/archive/Thong-tu-03-2014-TT-BLDTBXH-huong-dan-Nghi-dinh-102-2013-ND-CP-lao-dong-nuoc-ngoai-tai-Viet-Nam-vb221669.aspx >

FIGURE 2.33 **Difficulty in Obtaining Work Permit—by Province, 2014**

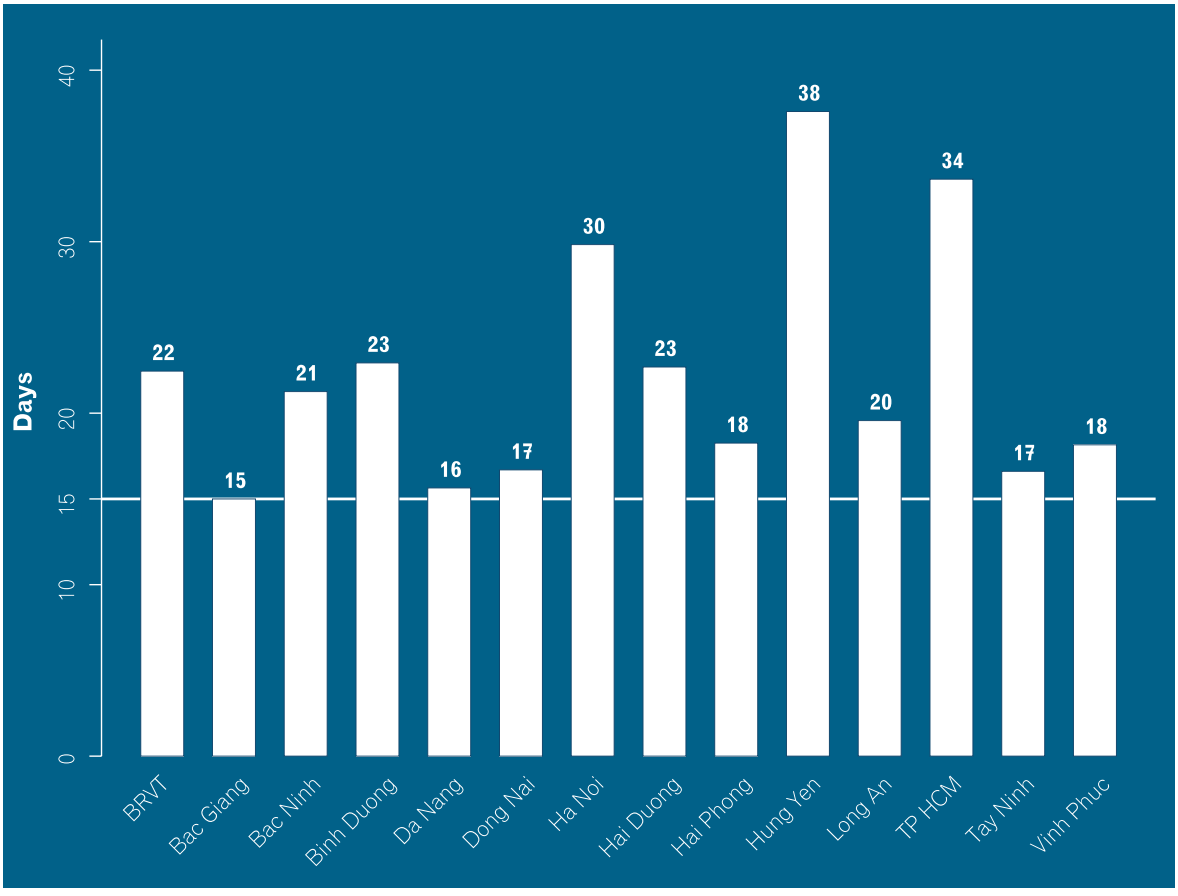


Source: PCI-FDI Survey Question G8: "How do you rate the difficulty level in acquiring the work permit for your non-Vietnamese workers?" Bars represent provincial averages.

One of the concrete way provinces can facilitate the application process is to reduce the number of days it takes to obtain the work permit. While Circular No. 03 states that the local Department of Labor-Invalids and Social Affairs must process all applications within 15 days,[64] FIEs experience longer waits in most provinces. Figure 2.34 shows that only Bac Giang, Da Nang, Dong Nai, and Tay Ninh perform close to the decreed processing speed (15-17 days), while Ha Noi, HCMC, and Hung Yen are by far the worst performers (30, 34, and 38 days, respectively).

[64] ibid.

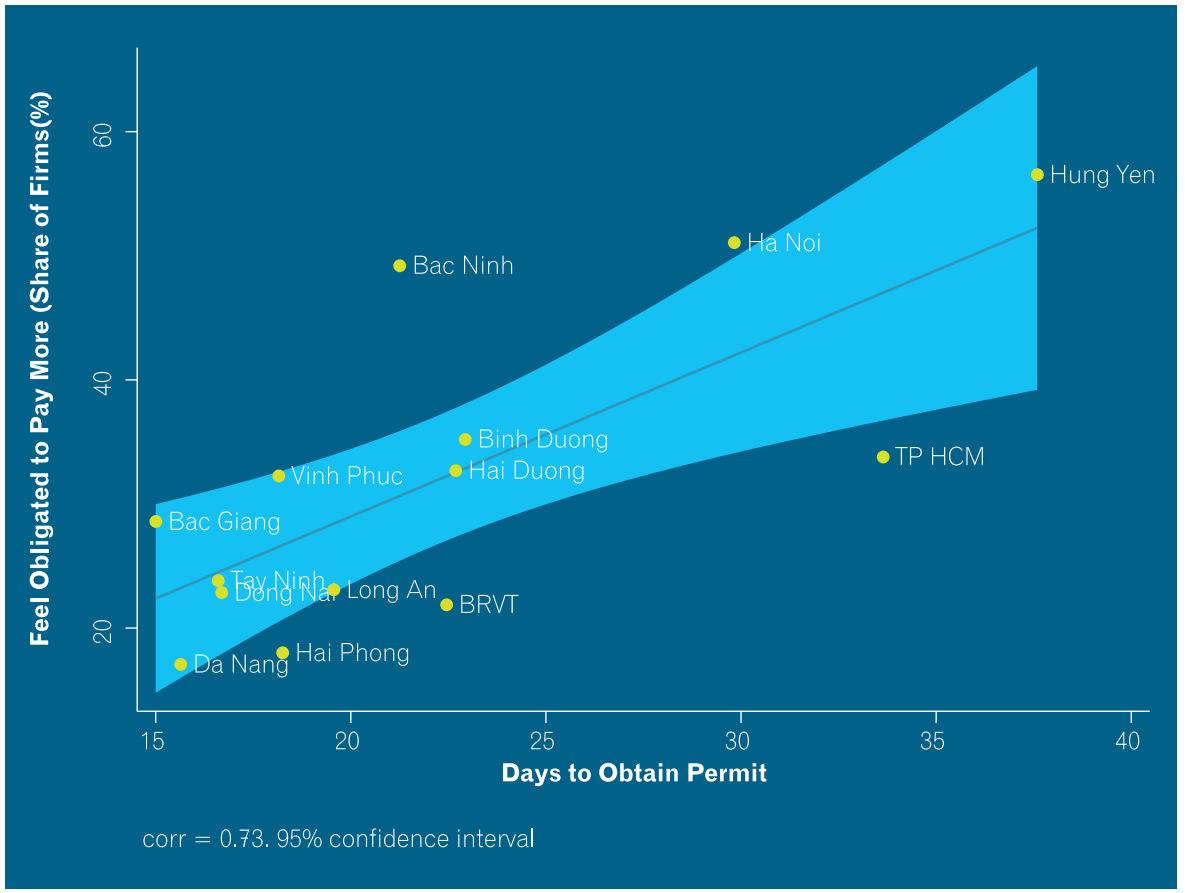
FIGURE 2.34 **Days to Obtain Work Permit—by Province, 2014**



Source: PCI-FDI Survey Question G8.1: "How long did it take you to receive the work permit for your non-Vietnamese workers from the day you submit the application?" Bars represent provincial averages.

There is evidence that these lengthy waiting periods open up opportunities for corruption. A follow-up question on the PCI survey asked firms if they felt obligated to make an extra payment to expedite the processing of the work permit. Figure 2.35 shows very clearly that the more days it takes to obtain a permit (x-axis), the more obligated FIEs feel to pay more (y-axis). In provinces that lie above the fitted regression line (such as Bac Ninh, Ha Noi, and Hung Yen), FIEs feel more obligated to make an unofficial extra payment compared to other provinces with the same waiting period. On the other hand, the best performers lie in the cluster at the lower-left corner of the graph (Da Nang, Tay Ninh, Dong Nai, and Hai Phong) where there are both short waiting periods for the work permit and little pressure for FIEs to pay more.

FIGURE 2.35 **Lengthy Waits Force Firms to Pay More for Worker Permit**



Source: PCI-FDI Survey Question G8.1: "How long did it take you to receive the work permit for your non-Vietnamese workers from the day you submit the application?" G8.2: "Did you feel obligated to pay more to have the application processed faster?" Points represent provincial averages.

2.5.3. Labor Unrest and Stability

In Section 2.4, we reported that stability and predictability are among the greatest strengths of Vietnam for attracting foreign investors, with over 90% of investors considering Vietnam to be more politically stable than alternative locations. Consequently, the PCI-FDI researchers looked into the implications of the May 2014 dispute with China over the oil rig Haiyang Shiyou 981 (HS-981) anchoring in Vietnam's waters, which inspired protests throughout Vietnam involving tens of thousands of citizens. The protests in Binh Duong and Ha Tinh provinces were particularly momentous for foreign investors. Riots in Binh Duong province alone were reported to have damaged more than 350 factories, including a few that were burned to the ground, though only fourteen of the plants were owned or operated by mainland Chinese.[65] Those belonging to Taiwanese,

[65] Patrick Boehler, "Just 14 Factories Targeted in Vietnam's Anti-China Protests Belonged to Mainland Chinese," South China Morning Post, May 19, 2014, <http://www.scmp.com/news/asia/article/1515912/few-factories-hit-vietnams-anti-china-riots-were-mainland-chinese-owned>

South Koreans, and Singaporeans, three of the four largest foreign investors in Vietnam, were disproportionately targeted by rioters. In Ha Tinh, the riots began with a brawl between Vietnamese and Chinese workers at the Taiwanese-owned Formosa - Ha Tinh Steel Corporation, resulting in the death of at least one Chinese national.[66]

While most affected investors were able to restart operations relatively quickly, and the owners of the damaged Vietnam-Singapore Industrial Park in Binh Duong got right to work repairing infrastructure and enrolling tenants, the riots spawned a palpable fear. Vietnamese top officials met with the business associations and diplomatic missions of the affected countries to work out country-specific support packages.[67] But a larger question remained: would investors from these countries feel secure about continuing their operations in Vietnam?

To sort out the answer to this question, we used a survey experiment in the 2014 PCI-FDI survey. Because the Binh Duong and Ha Tinh events differ in their scale, countries affected, and target of the protests, we randomly chose to ask firms about either the Binh Duong (Form A) or the Ha Tinh riots (Form B). This methodological approach allows us to separate the specific signals sent by each of the two events without the risk of respondents conflating them.

The first obvious difference between respondents asked to reflect on Binh Duong and those asked to think about Ha Tinh has to do with simple awareness. In both cases, the vast majority of respondents were aware of the protests, although there were significant differences in the relative resonance of the events and its implications for investment. While 90% of the PCI-FDI sample was aware of the events in Binh Duong, a substantially smaller share of respondents (73%) knew about the incident in Ha Tinh. This is to be expected, as Binh Duong is the epicenter for foreign investment in Vietnam, and the number and of diversity of foreign investors affected by the riots there was considerably larger.

When asked about the motivations for the protests, FIEs offered very little distinction between the two events. Figure 2.36 displays the aggregate conjectures about causes. Respondents exposed to both events expressed similar opinions regarding whether the protests represented: i) issues in labor relations (11%), ii) dissatisfaction with all foreign (2%), Asian (1%), or Chinese (20%) investors; iii) ill sentiment between Vietnamese and Chinese workers (24%); and iv) spontaneous displays of nationalism (29%). Clearly, among these categories, nationalist and anti-Chinese motivations were deemed the most likely considerations regardless of the protest location.

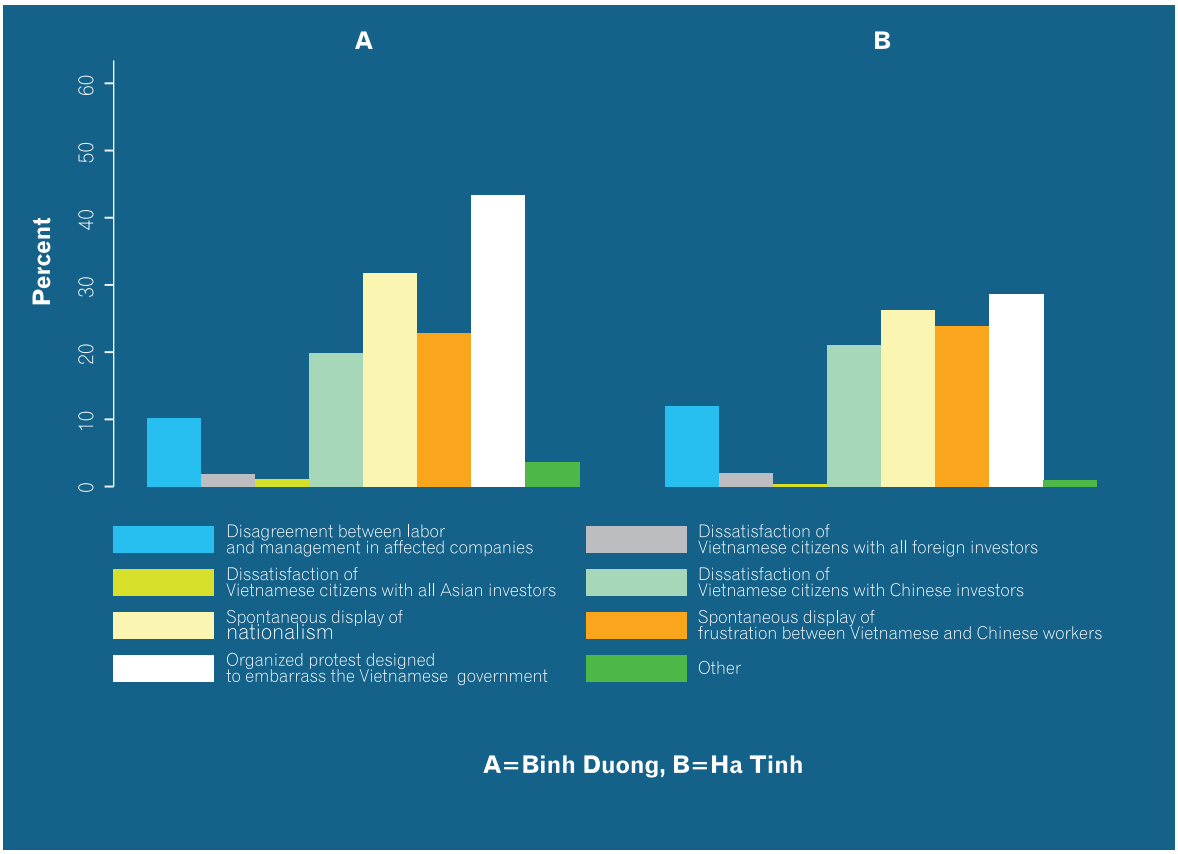
There was, however, one critical difference in the post-hoc reflections of the two respondent groups. When asked about Binh Duong, FIEs were more likely to attribute the riot to an effort "designed to embarrass the Vietnamese government." About 43% of respondents queried about Binh Duong

[66] *BBC News*, "Vietnam-China tensions: One dead in Taiwan mill protest," May 5, 2014 <http://www.bbc.com/news/world-asia-27420008>

[67] Fanny Liu, "Local Vietnam Government to Compensate Taiwanese Firm," *Wall Street Journal* (July 21, 2014), <http://www.wsj.com/articles/vietnam-local-government-to-compensate-taiwan-firm-hit-during-anti-chinese-riots-1405934404>

agreed with this cause, compared to 28% for Ha Tinh. The conspiratorial answers may be the best way to explain the attacks on non-Chinese factories, which neither fit into the frame of a nationalist movement nor specifically benefitted individual workers.[68]

FIGURE 2.36 **What do Firms Think Are the Reasons for the Labor Unrest in Binh Duong and Ha Tinh?**



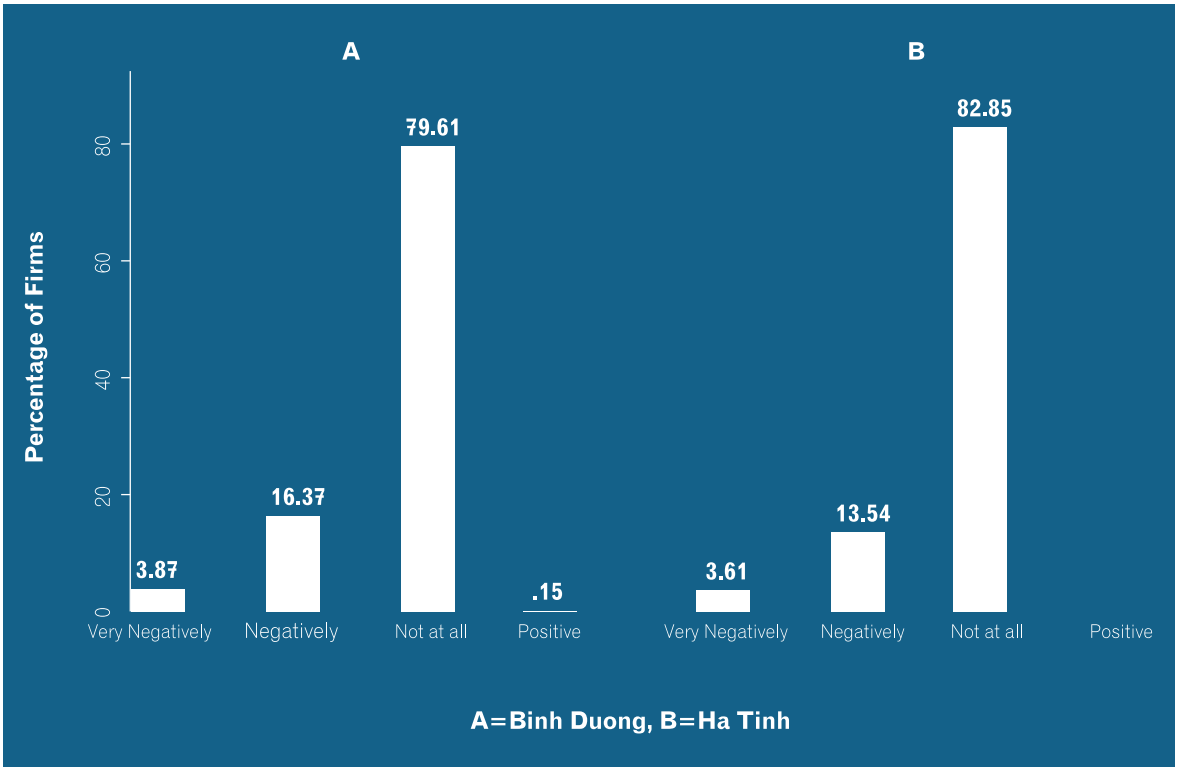
Source: PCI-FDI Survey Question D10: "If you were aware, what do you think were the main causes of the Binh Duong/Ha Tinh unrest?" Bars depict national averages, subdivided by the version of the survey (A or B) the respondent received.

68 A debate exists about the level of organizational capacity of the Binh Duong protesters. Some have argued that the protests were unorganized and spontaneous (see Eva Dou and Richard Paddock. "Behind Vietnam's Anti-China Riots, a Tinderbox of Wider Grievances," *Wall Street Journal* (June 17, 2014), < http://www.wsj.com/articles/behind-vietnams-anti-china-riots-a-tinderbox-of-wider-grievances-1403058492>). Others have argued that the rioters displayed a remarkable sophistication, appeared to have leaders, and were paid for their participation (see Ivan Franceschini, "Interview with Angie Ngoc Tran," New Mandala (July 29, 2014), < http://asiapacific.anu.edu.au/newmandala/2014/07/29/interview-with-angie-ngoc-tran/>. A third position is that there were elements of both organization and spontaneity with a small number of outside organizers stirring up a largely unprofessional group of protestors who were mostly concerned about specific labor issues (see Respect Vietnam, "Research on Anti-Chinese Riots: A Crowd Behavior Approach," Unpublished Manuscript, 2015) Respect Vietnam interviewed 16 managers in the affected Binh Duong Industrial Zone, finding that many workers were drawn into the unconscious social actions but did try to protect their own factories from the crowds. Images of workers forming a human fence around factories can be found here (https://www.youtube.com/watch?v=6ADqnLh4Mjk).

Returning to our motivating question: for foreigners with a business presence in Vietnam, did the May 2014 protests affect perceptions of the Vietnamese investment climate? The clear answer is no. The vast majority of firms (see Figure 2.37) replied that their investment plans and anticipated future engagements with Vietnam were not affected negatively by either the Binh Duong riot (80% of firms) or the Ha Tinh riot (83% of firms). Make no mistake, this still means that a considerable 20% of FIEs did become gravely concerned, but this number is substantially lower than expected given the explosive nature of the riots and the widespread media attention they received.

The quick response of the Vietnamese government likely played a role in reassuring foreign investors about the political and social stability in Vietnam. The presence of Prime Minister Nguyen Tan Dung at both Mid-Term and Annual Vietnam Business Forums (held in June and December 2014, respectively) showed a strong government commitment to stabilizing the business environment for the foreign investors.

FIGURE 2.37 **Did the Labor Unrests in Binh Duong and Ha Tinh Affect Firms' Plan in Vietnam?**



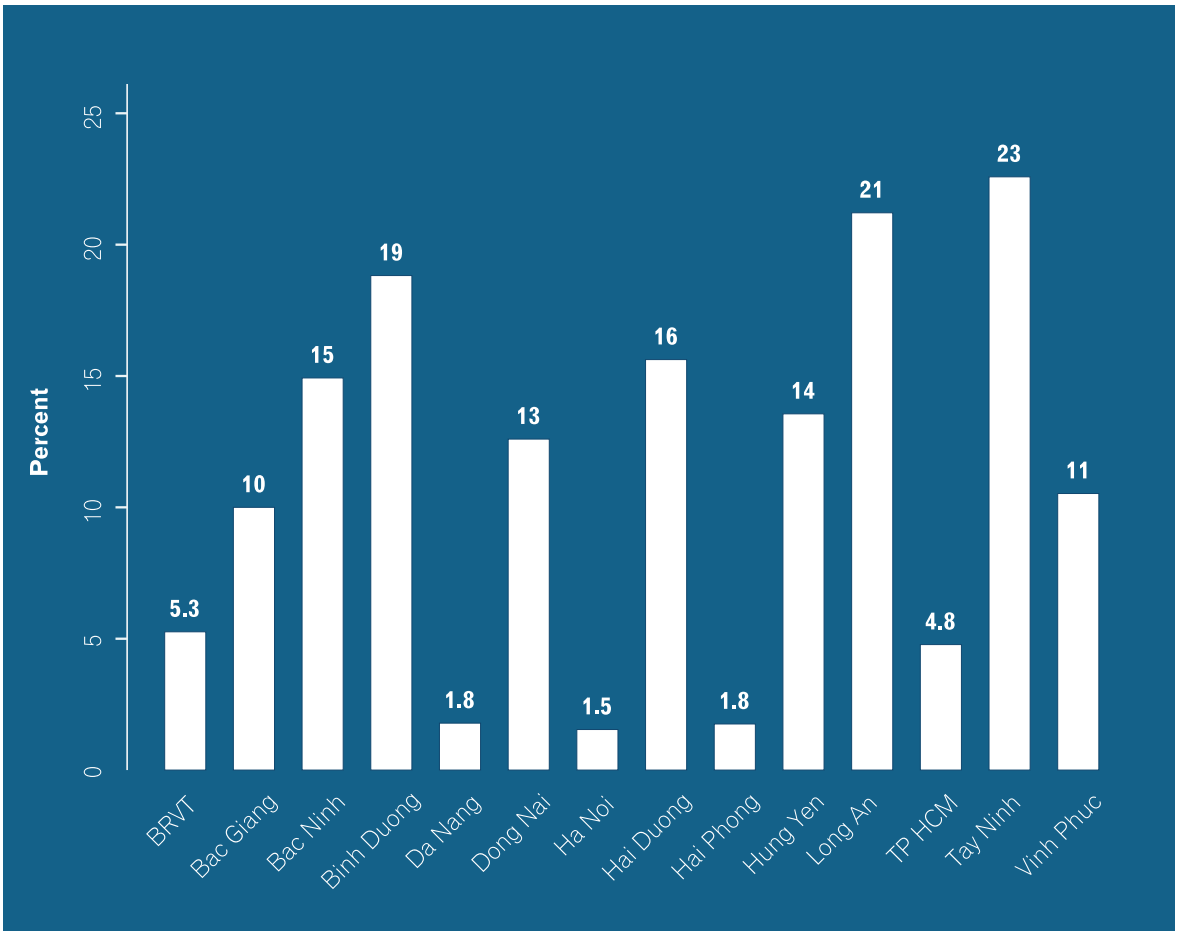
Source: PCI-FDI Survey Question D12: "How did the events in Binh Duong/Ha Tinh province affect your plans for continue your investment in Vietnam?" Bars depict national averages, subdivided by the form of the survey the respondent received.

2.5.4. Labor Relations

Given the focus on collective bargaining and dispute resolution in the new 2012 Labor Code, this year, the PCI-FDI survey included a battery of questions to illuminate the frequency and the nature of strikes in FIEs. In the past three years, 9% of FIEs have experienced strikes or similar work stoppages, losing an average of two work days and 3% of annual revenue each time. However, average figures

may be misleading since there is a large variation in how damaging a strike can be to firms and workers. In extreme cases, losses amounted to half a year of production and 80% of revenue. Figure 2.38 also shows great variation in strike incidents across provinces: less than 2% of FIEs in Da Nang, Ha Noi, and Hai Phong experienced a strike in the past three years, whereas the number is 19% for Binh Duong, 21% in Long An, and 23% in Tay Ninh.

FIGURE 2.38 **Percentage of Firms Having a Strike in the Past Three Years, by Province**

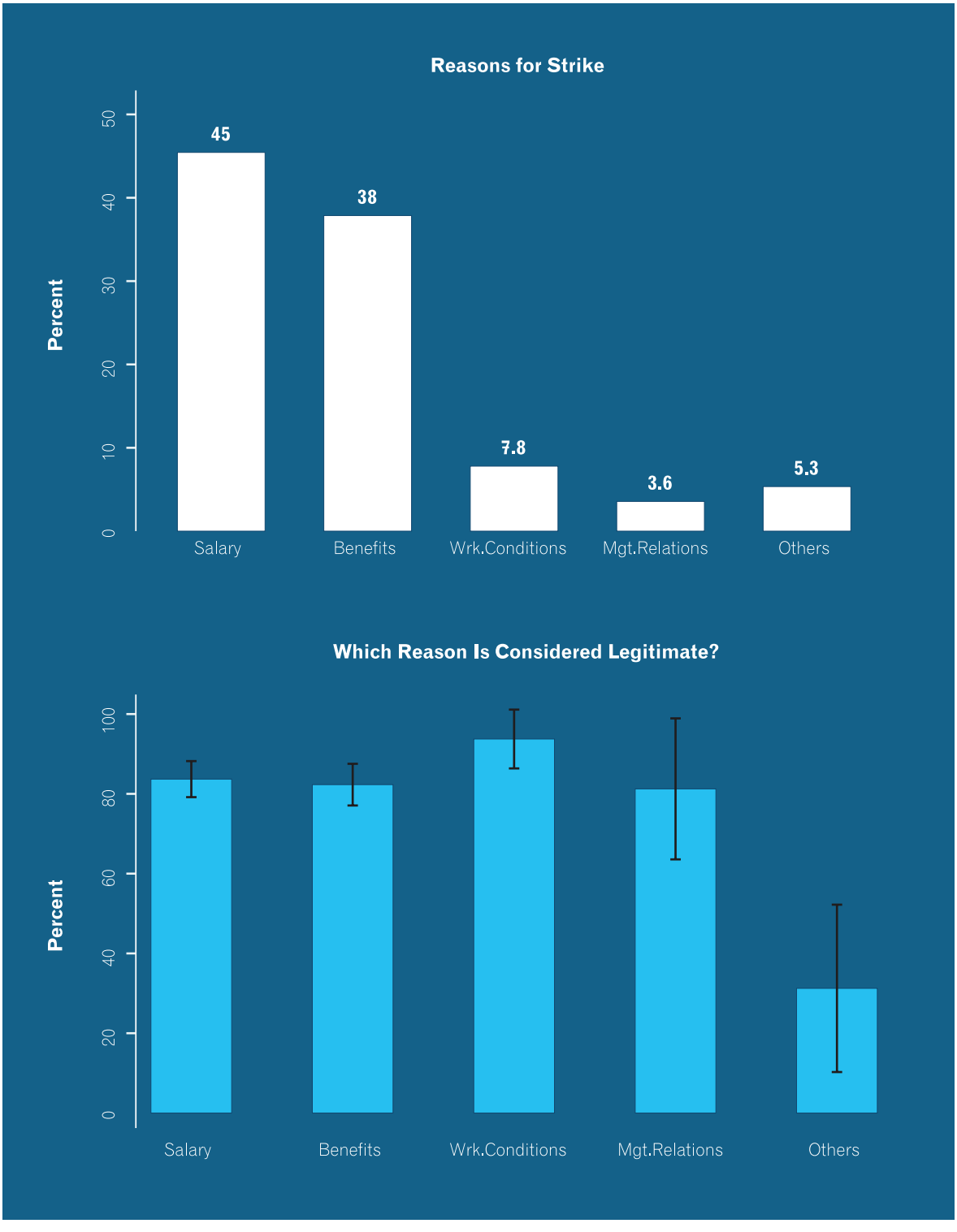


Source: PCI-FDI Survey Question G9: "In the past THREE years, has your firm experienced a labor strike or work stoppage?" Bars depict the percent share of firms responding affirmatively in each province.

The most frequently cited reasons for strike are salary (45%) and benefits (38%), with work conditions being a distant third at 7.8% (Figure 2.39, top).[69] All of these are considered legitimate by the vast majority of FIEs (> 80%), with the exception of the "others" category, which most often mentioned the May 2014 labor unrest as the impetus for strike (see Figure 2.39, bottom).

[69] This is consistent with Respect Vietnam's 2014 report which showed a longitudinal correlation between inflation and the propensity to strike.

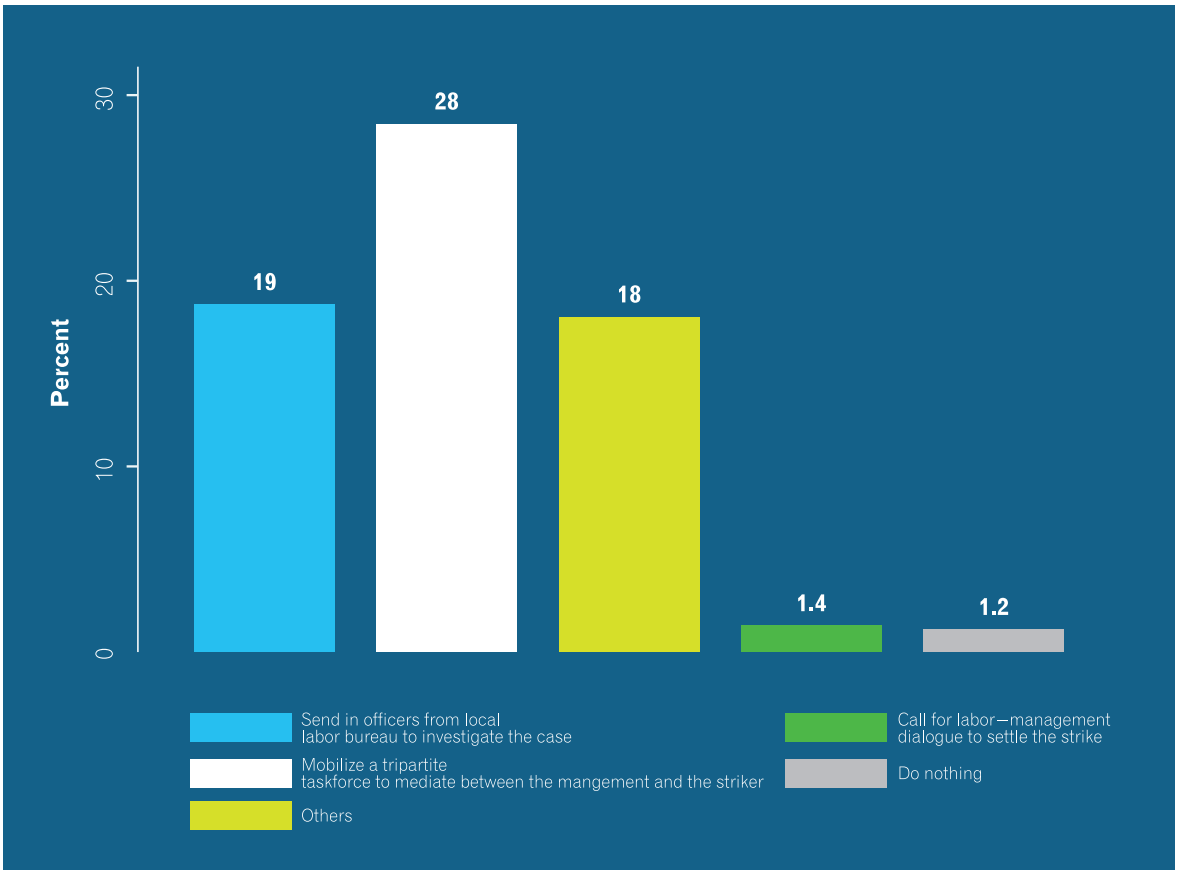
FIGURE 2.39 **Different Reasons for Strikes and Their Perceived Legitimacy by Firms**



Source: PCI-FDI Survey Question G9.4: "What would you say is the primary motivation for the strikes?" G9.5 "In your opinion, were the workers' demands legitimate?"

Since 2009, with support from international organizations such as International Labor Organization (ILO), many firms have volunteered to participate in labor-management communication initiatives. Recently, the 2012 Labor Code also made participation in labor-management committees compulsory as a way to promote social dialogue and workplace democracy. Figure 2.40 shows that calling for bipartite dialogue between labor and management is indeed the most common response by local governments to workers' strike (28%), followed by sending in labor bureau officers to investigate the situation (19%) and mobilizing a tripartite task force for mediation of the dispute (18%).

FIGURE 2.40 Local Governments' Responses to Workers' Strike

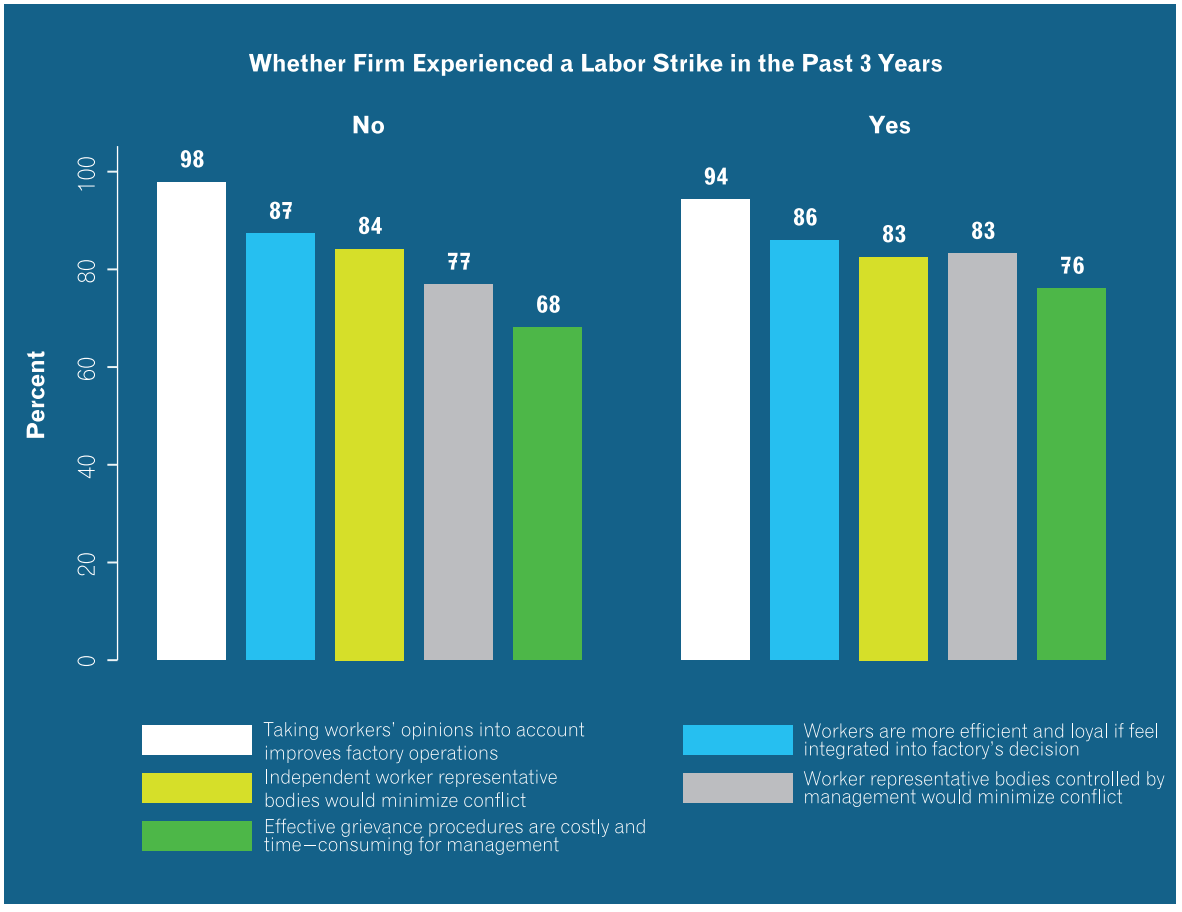


Source: PCI-FDI Survey Question G10: "When the strike occurred, how did the local government respond?"

There is a similar willingness by FIEs to engage in social dialogue with workers. The vast majority (> 80%) of firms agree that it is beneficial to take workers' opinions into account, to integrate labor in the decision-making process, and to have worker representative bodies (Figure 2.41). However, we must be cautious in taking these results at face value since few firms would be willing to truthfully say "no" to these statements given the embarrassment stemming from directly admitting to such negative views, a methodological problem referred to as social desirability bias. Indeed, there is an identical number of firms agreeing with the benefit of having a worker representative body, no matter whether the agent is "independent" (i.e. – not accountable to management) or "management-controlled." This would not be the likely result if FIEs were revealing their true opinions.

Furthermore, even if firms were genuinely enthusiastic about social dialogue and collective bargaining, the majority of FIEs are still worried about the cost associated with grievance procedures. This concern is especially pronounced among firms who did experience a strike in the past (76% agreeing that grievances are costly), compared with those who did not (68% agreed that).

FIGURE 2.41 Firms' Opinion about Different Ways to Manage Relationship with Workers



Source: PCI-FDI Survey Question G11: "To what extent do you agree with the following statements?"

2.5.5. Conclusions about Labor

In sum, our analysis of FIEs' responses calls for attention to three main concerns: 1) the general burden of administrative procedures related to labor; 2) the specific issue of non-Vietnamese worker permits; and 3) the skill mismatch in Vietnam's labor force. The shortage of skilled workers is a long-standing challenge that is by no means unsolvable, as shown by the steady improvement from 2010 to 2013 in firms' perception of vocational training quality. However, provinces must keep focused on the issue, or else the quality would slip and directly cost FIEs more in re-training as it did in 2014. On the other hand, some administrative procedures remain problematic for FIEs, especially the application for worker permits, a new issue that exposes firms to not only administrative delay but also to bribe

requests. Expediting the application and permit approval process is a straightforward way for provinces to attract more foreign specialists and promote their knowledge economy.

On a positive note, we see firms reporting more engagement in social dialogue and collective bargaining, in keeping with the spirit of the 2012 Labor Code. In the coming years, it will be important to continue tracking this progress as well as to begin corroborating it with reports from the labor side.

PCI 2014

THE VIETNAM PROVINCIAL COMPETITIVENESS INDEX 2014

3 FOREIGN AND DOMESTIC PERCEPTIONS OF THE TRANS-PACIFIC PARTNERSHIP AGREEMENT

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

The Trans-Pacific Partnership (TPP) Agreement is a trade agreement currently under negotiation among twelve countries, including: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.[70]

This ambitious 21st century trade compact is under negotiation as a single undertaking in which signatories will be subject to commitments in all issue areas. Early in negotiations, all parties agreed on five broad features for this landmark agreement: i) comprehensive market access through the elimination of barriers to trade and investment; ii) full regional cooperation to support the development and operation of multinational production chains among member states; iii) building on APEC efforts to resolve trade issues in the areas of regulatory coherence, domestic and regional competitiveness and business facilitation, growth of small and medium enterprises, and economic

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

development; iv) addressing the challenges of the digital economy and green technology while fostering competition; and v) flexibility that provides institutional mechanisms for the formation of new trade rules as needed and for the expansion of membership.[71]

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

The comprehensiveness and flexibility of the TPP results from dissatisfaction of the negotiating party members with previous trade and investment arrangements that made progress in one core area of negotiations, but found the gains undermined by developments in areas not governed by the original contract. Historically, the trade benefits of agreements on tariff reductions were undone by the rise of non-tariff barriers to trade (technical standards, regulation, and SPS measures) to protect the same industries that were exposed to external competition by the treaties. Another example is the granting of market access to foreign investors while simultaneously subsidizing the domestic champions (often State-Owned Enterprises) that might be injured by increased global competition. Negotiating simultaneously across a number of core issue areas allows interlocutors to constrain potential countervailing policy developments. In addition, comprehensive legislation facilitates greater logrolling among participants, allowing negotiators to link issue areas to move the overall agreement forward. For instance, a negotiator might offer to forego some of the reductions in technical barriers to trade (TBTs) in exchange for more comprehensive enforcement of intellectual property rights. To make sure the TPP is immediately effective, negotiating partners have also agreed to limit their reliance on phase-in periods, so all countries will be encouraged to adopt the final agreement regardless of their level of development. This is a big departure from accession to the World Trade Organization and other trade arrangements where developing countries were allowed significant adjustment periods for certain tariff reductions. Finally, the flexibility of the arrangement permits renegotiation when policy, technology, or international developments alter the trade and investment landscape, obviating previous arrangements.

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

As of this writing, the prospects appear positive for a conclusion of the negotiations in 2015. Though the negotiations have been heavily criticized by prominent public figures for their secrecy and lack of transparency,[72] it appears that a full draft of the TPP may be finalized in the first half of 2015. In January 2015, United States Trade Representative (USTR) Froman referred positively to the prospects of a final draft emerging from negotiations "in a small number of months." [73] At the same time, the Obama administration has been pursuing the granting of "fast track" trade-promotion authority in Congress in anticipation of the conclusion of negotiations. With its current membership of twelve countries, the TPP would govern trade among nations that comprise 40% of global economic output.[74]

In Vietnam, progress on the TPP has been incrementally moving forward, but has stirred up significant debate. Some have seen the TPP as being critical for diversifying the Vietnamese economy, expanding the market for Vietnam's exports, increasing its network of international partners, reducing the country's economic dependence on any one country, and reversing the sizable trade deficit Vietnam faces with its Northern neighbour.[75] According to forecasting models, Vietnam, as the least developed negotiating participant with a per capita GDP less than one third the size of the next poorest member, will benefit disproportionately from market access, making it the only clear winner.[76] Some estimates put the purported gains for Vietnam from TPP entry at $46.1 billion USD and a 13.6% enhancement in growth above the status quo trade arrangements, due to a 37% increase in export growth.[77]

[72] Nobel Laureate Joseph Stiglitz has been a particularly vocal critic of the lack of transparency in the TPP negotiations, believing it is creating possibilities for corrupt deals that favor large, multi-national corporations. See Joseph E. Stiglitz, "On the Wrong Side of Globalization." New York Times, March 15, 2014) <http://opinionator.blogs.nytimes.com/2014/03/15/on-the-wrong-side-of-globalization/?_r=0>>; and Joseph E. Stiglitz, "Don't Trade Away Our Health," New York Times, Jan. 30, 2015. <http://www.nytimes.com/2015/01/31/opinion/dont-trade-away-our-health.html>

[73] Shawn Donnan, Shawn. 2015. "US Trade Chief Says Pacific Deal is Close." Financial Times, Jan. 27, 2015 < http://www.ft.com/cms/s/0/780076d2-a62f-11e4-abe9-00144feab7de.html#axzz3TLfznJR7>

[74] Office of the U.S. Trade Representative, "U.S.-Japan Bilateral Negotiations on Motor Vehicle Trade and Non-Tariff Measures" TPP Issue-by-Issue Information Center < https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-chapter-chapter-negotiating-16 >

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

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

[77] Peter A. Petri, Michael G. Plummer, and Fan Zhai, "The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment," Policy Analyses in International Economics 98 (November 2012): 41-45 < http://bookstore.piie.com/book-store/6642.html>

However, a number of counter-arguments have been raised. First, some analysts have openly questioned the projected size of benefits for Vietnamese producers, wondering, for instance, whether Vietnamese producers would even be eligible for tariff reductions under the TPP, due to their dependence on imported raw materials like wood and yarn. [78] Other researchers have highlighted the distributional consequences for Vietnamese companies, pointing out that agriculture, aquaculture, and the export-oriented light-manufacturing sectors would benefit, while livestock exporters and domestic services such as finance, insurance, logistics, and distribution would come under tremendous foreign pressure.[79] Global competition would eventually lead to efficiency improvements and benefits for Vietnamese consumers, but in the short-term, a number of producers, particularly many small- and medium-size enterprises, would be injured. The state-owned sector will certainly be affected by the TPP, as the chapter on competition policy deals explicitly with direct and indirect support for this sector. Some analysts see this as a benefit, as it commits Vietnam to comprehensive reforms that might not have been taken in the absence of international pressure.[80] On the other hand, SOEs, despite well-documented inefficiencies, have a powerful political presence that could scuttle Vietnam's participation. Other areas of concern for Vietnamese policy-makers are the labor rights and collective bargaining requirements, as policy-makers have wondered about the ability of Vietnam to meet the commitments of the arrangement, which are significantly beyond the status quo in the country.[81]

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

78 Yarn imports from China have been the primary example, but others exist. Vu and Nguyen, "The Potential of the TPP for Vietnam."

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

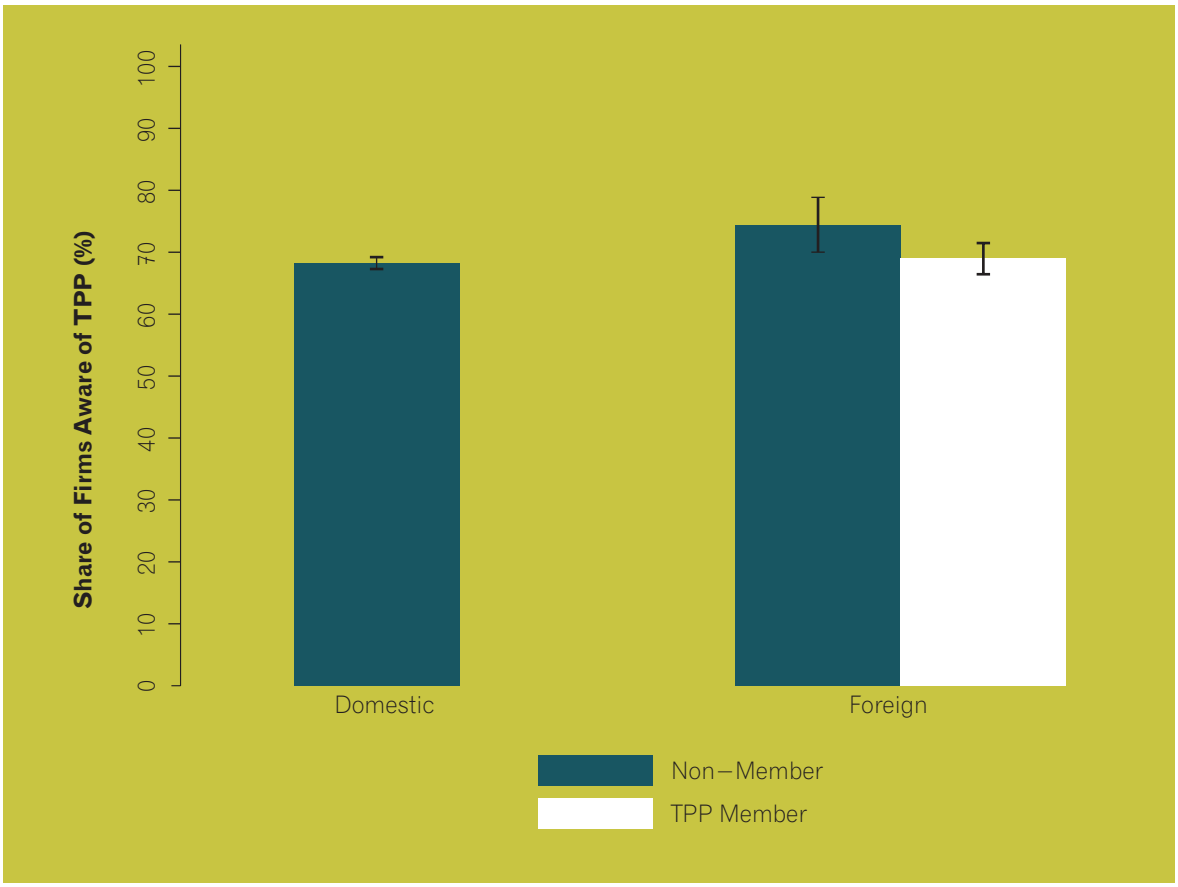
80 Banyan, "Vietnam's State Capitalism: A Boomerang for the Zombies," The Economist, Oct. 3, 2014 <http://www.economist.com/blogs/banyan/2013/10/vietnams-state-capitalism>; Hoang Chi Cuong, "The Transpacific Partnership: Opportunities and Challenges for Vietnam." Science research (2014): 7-10 <http://www.hpu.edu.vn/upload/company/121/142/The-Trans-Pacific-Partnership-%28TPP%29-Opportunities-and-Challenges-for-Vietnam.pdf>

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

3.2 VARIATION IN KNOWLEDGE ABOUT THE TPP

The first question asked of respondent firms regarding the TPP was a basic informational query: "Do you know of Vietnam's participation in the TPP negotiations?" Figure 3.1 summarizes knowledge of the TPP among the three major stakeholder groups in the Vietnamese economy: 1) Domestic, Private Firms; 2) Foreign firms outside of the TPP negotiations; and 3) Foreign firms whose mother countries are involved in the TPP negotiations.

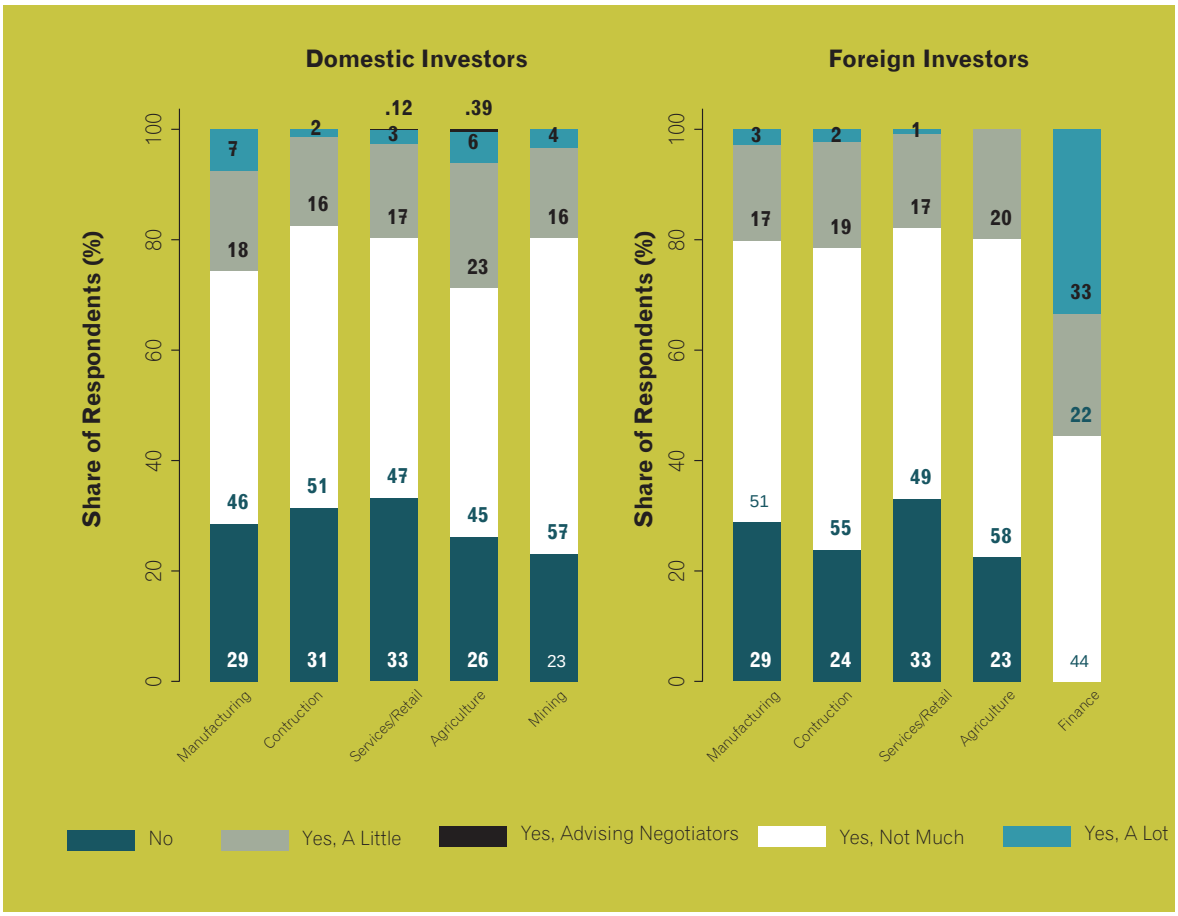
FIGURE 3.1 Knowledge about TPP Negotiations, by Firm Type



Source: PCI Survey I1 & PCI-FDI Survey Question L11, "Do you know of Vietnam's participation in TPP negotiations?" The figure reports the share of firms in each group that responded that they had some knowledge (No=1 & Yes >1 on the 5-point scale where 1=no; 2=yes, not much; 3=yes, a little; 4=yes, a lot; 5=yes, advising negotiators).

There are two interesting things to learn from Figure 3.1. First, a surprisingly low number of respondent firms replied in the negative, that is, that they were not informed about Vietnam taking part in the TPP negotiations. The proportion of uninformed respondents was slightly higher (31.5%) in the sample of domestic firms relative to the foreign firms, of which approximately 29.8% responded that they did not know about Vietnam's participation in the TPP negotiations.[82] Second, the differences in knowledge among types of firms are statistically insignificant with just about 70% in each category demonstrating some awareness. Domestic Vietnamese firms and firms from non-member countries were just as likely to know about the TPP as firms from negotiating countries. In fact, firms from non-TPP nations were marginally more likely to be informed about the TPP than those from member countries.

FIGURE 3.2 **Knowledge of TPP Negotiations, by Origin of Investor & Self-Declared Industrial Sector**[83]



Source: PCI Survey I1 "Do you know of Vietnam's participation in TPP negotiations?"

82 About 20% of firms in each category either skipped or refused to answer the question, so actual knowledge may even be lower.

83 We do not disaggregate foreign firms by home country TPP membership, because of the limited differences in their responses.

As Figure 3.2 shows, the largest percentage of responses by far can be found among firms that replied that they were aware of Vietnam's participation but did not know very much about it. Nearly half of both domestic and foreign firms replied with "yes, but I don't know much about it," with the exception of foreign finance companies. About 20% overall replied that they had obtained some or a lot of information. A handful of domestic firms noted that they had provided consultancy to the government for the negotiations. This general result speaks to both the informational capacity of the firms as well as the overall level of information available to them in the public domain regarding the negotiations. In addition, the secret, closed-door negotiations and the overall lack of transparency of the TPP is possibly a contributing factor to the lack of true knowledge at the firm level. Negotiators have been willing to accept the lack of information, as there are legitimate reasons for shielding on-going negotiations, allowing for more candid discussion and trade-offs.

3.2.1. Sectoral Patterns in Responses from Domestic Firms

Looking more closely at Figure 3.2, among domestic firms, the information gap appears to be the largest for service/retail sector (including contruction), in which over 31% of firms report that they did not know of Vietnam's participation in the TPP negotiations. This is notable given the large number of respondents in the service sector, which comprises two-thirds of active operations in the country. Heated debates between stakeholders in the service sector likely also contribute to the higher figure. The figures are lower but still significant in the manufacturing and agriculture/forestry/aquaculture sectors, with the information gap very close to 30% for the former and about 25% in the latter category. As in the aggregate figure, the largest proportion of respondents were aware of Vietnam's taking part in the TPP negotiations, but they felt they had only limited knowledge of the details. This result is observed across firms in all sectors represented in the survey.

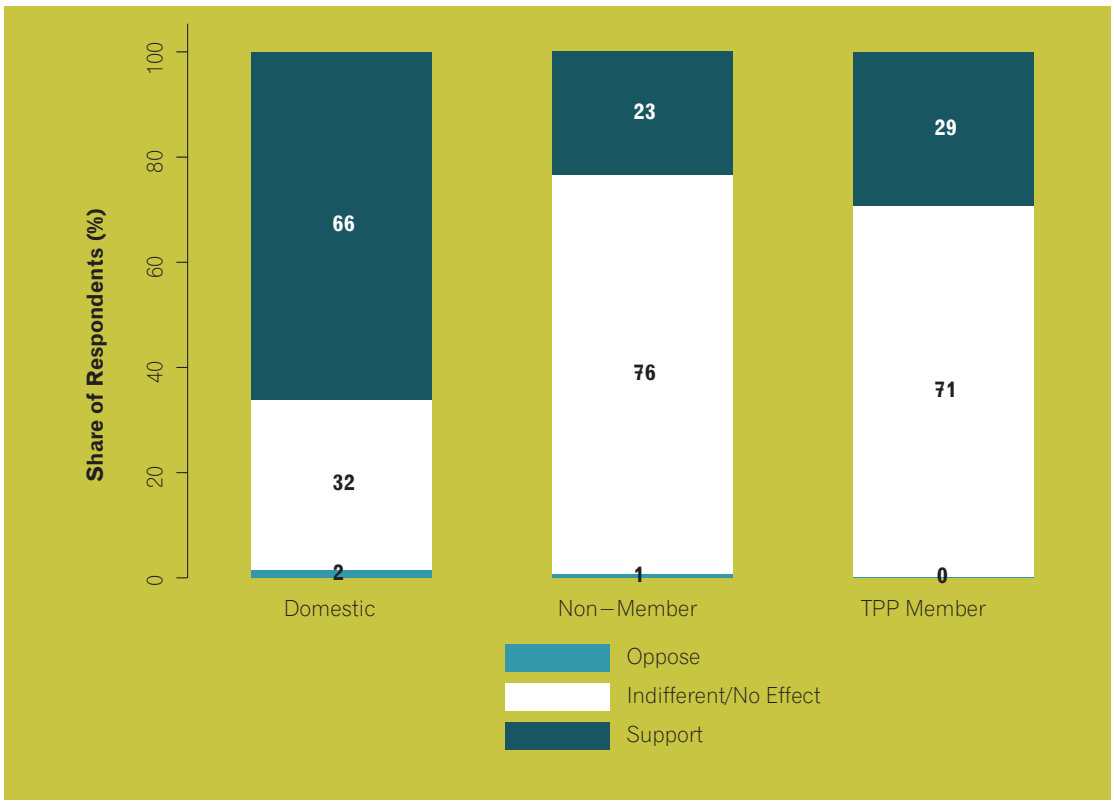
3.2.2. Sectoral Patterns in Responses from Foreign Firms

Among foreign firms, the industry/manufacturing and service/commerce sectors have the highest percentage of 'no' responses, with about 29% and 33% of firms, respectively, responding that the survey is the first time they are learning of Vietnam's participation in the TPP negotiations. The figures are somewhat lower in the remaining sectors: 24% in construction/infrastructure investment; 23% in agriculture/forestry/aquaculture, and none in the finance/banking/insurance sector. As in the aggregate figures and similar to response patterns among domestic firms, the largest proportion of foreign firms responded with a qualified affirmative; they are aware of Vietnam's participation in the TPP negotiations, but they do not know much about it. A significant number of firms—close to 20% in each sector—also responded that they have obtained some information. The finance/banking/insurance industry appears to be an interesting exception. There are not many foreign firms in the survey sample, but they are all at least somewhat informed about Vietnam's participation in the TPP negotiations, and the number of knowledgeable firms exceeded those with no information. This may be because they tend to be larger actors who are already tied in to international markets.

3.3 WIDESPREAD SUPPORT FOR THE TPP AMONG FIRMS IN VIETNAM

Although the informational capacity of firms varies across domestic and foreign entities and also across sectors, the results of the PCI surveys show wide support among firms who have some information for Vietnam's signing of the TPP. This support is much stronger from domestic than foreign firms, with the latter expecting to be largely unaffected by Vietnam's participation in the TPP negotiations. Interestingly, indifference to Vietnam's entry into the TPP is the modal answer regardless of whether the foreign firm is from a TPP member nation. Despite debates about distributional differences, this pattern is consistent across the broad sectors covered in this survey: industry/manufacturing; construction; service/retail; agriculture/forestry/aquaculture; mining (domestic only [84]); and finance/banking/insurance (foreign only). To gauge a firm's level of support for the TPP, the survey asked, "How does your firm feel about Vietnam's signing of the TPP Agreement?"

FIGURE 3.3 Firm Sentiments on Vietnam Joining the Trans-Pacific Partnership by Origin of Investor



Source: PCI Survey I2 & PCI-FDI Survey Question L12, "How does your firm feel about Vietnam's signing of the Trans-Pacific Partnership Agreement?"

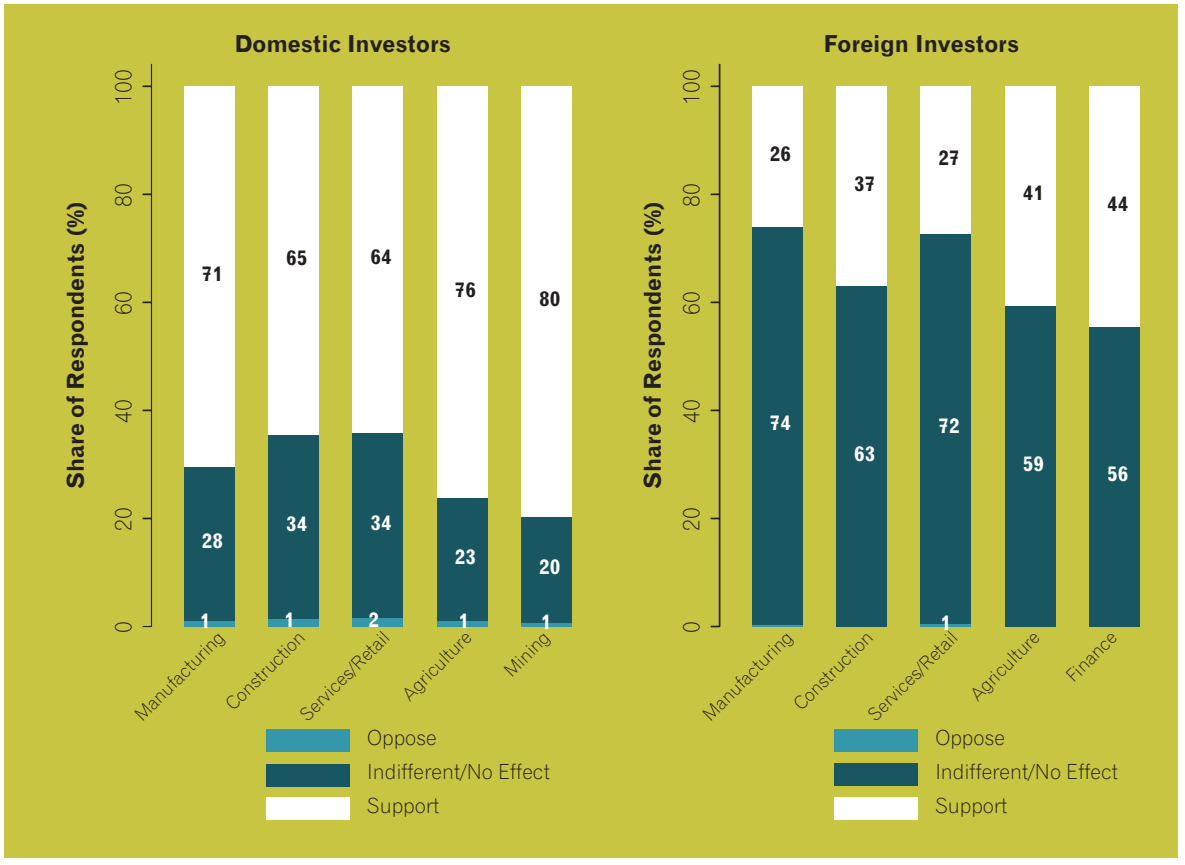
84 There are too few foreign firms in the mining sector to draw confident policy conclusions.

There is support from both domestic and foreign firms for Vietnam's participation in the TPP. This support appears to be very strong for domestic firms, with 66% of firms that either strongly or reservedly support the measure. Approximately 1.5% of domestic firms registered strong opposition to Vietnam's eventual signing of the TPP. For foreign firms, however, the majority of respondents were indifferent to or felt they would be unaffected by Vietnam's participation in the trade agreement. Again, surprisingly, there was very little distinction between firms from TPP member and non-member states. In contrast to the strong support by domestic firms, however, less than a third of foreign firms support Vietnam becoming a signatory to the TPP.

3.3.1. Sectoral Patterns in Responses from Domestic Firms

Support for Vietnam's participation in the TPP (see Figure 3.4) is consistent across sectors, with variation in the level of concern. Firms in the manufacturing sector, and also those in the agriculture, forestry, and aquaculture sectors generally support Vietnam's membership in the TPP. However, for these firms, deeper inspection of the question shows that support with concerns outweighs unrestricted support. In the remaining sectors—construction, service/retail, and mining—Vietnamese firms registered strong support for signing the TPP. Interestingly, support remains high in the construction and service sectors which are most likely to be adversely affected by Vietnam's entry to the TPP. About two-thirds of firms in the construction and service sectors said that they would benefit, while 34% responded that they were either indifferent to the TPP or expect their businesses to be unaffected.

FIGURE 3.4 **Firm Support for Vietnam Joining the Trans-Pacific Partnership, by Origin of Investor and Sector** [85]



Source: PCI Survey I2 & PCI-FDI Survey Question L12, "How does your firm feel about Vietnam's signing of the Trans-Pacific Partnership Agreement?"

3.3.2. Sectoral Patterns in Responses from Foreign Firms

The pattern of responses from foreign firms diverges somewhat across sectors (see Figure 3.4). Firms involved in manufacturing and general services largely feel their business will be unaffected by Vietnam's signing of the TPP. In both sectors, more than a quarter of firms support Vietnam joining the TPP. In the construction sector, however, a slightly higher number (37%) believe they will benefit from TPP and support entry. Firms in agriculture (including forestry and aquaculture) and finance (including insurance and banking) are the largest supporters, with 41% and 44%, respectively, indicating they would benefit from Vietnam's entry to the TPP.

85 We do not disaggregate foreign firms by home country TPP membership, because of the limited differences in their responses.

3.4 VIEWS ON SPECIFIC NEGOTIATING AREAS

The 2014 PCI Survey also asked firms about specific areas under negotiation in the TPP. For firms that may not be closely following the negotiations, we provided explanations of the issues and their implications for business. The full list of questions can be seen here (Figure 3.5).

FIGURE 3.5 Questions to Firms Regarding Select TPP Provisions

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

Content	Positively	Negatively	Both positively and negatively	No influence	No comments
1. Market access *(TPP signatory countries will remove 90-100% of import taxes for Vietnam's products and vice versa, and Vietnam will remove import taxes for most of products from other TPP countries)*	☐	☐	☐	☐	☐
2. Rules of origin *(For tax privileges, each product must satisfy specific rules of origin according to TPP regulations, with high quality requirements applied to TPP signatory countries)*	☐	☐	☐	☐	☐
3. Technical Barriers to Trade (TBT) & Sanitary and Phytosanitary Measures (SPS) *(TPP signatory countries preserve their autonomy in issuing TBT&SPS regulations but must ensure logic, transparency, cooperation, and quick resolution of complaints, if any)*	☐	☐	☐	☐	☐
4. Trade remedies (anti-dumping and anti-subsidy) *(TPP signatory countries preserve their rights to conduct investigations and apply trade remedy measures, but must enhance transparency and cooperation in quick resolution of complaints, if any)*	☐	☐	☐	☐	☐
5.Access to service market *(TPP signatory countries will ease conditions and allow service providers from other TPP ones to have more access to their domestic markets)*	☐	☐	☐	☐	☐
6. Investment *(Foreign investors from other TPP countries will be treated equally to domestic ones)*	☐	☐	☐	☐	☐
7. Intellectual property *(Intellectual property rights will be reinforced – products with copyrights/ patents will be better protected and stricter punishments for violations will be applied)*	☐	☐	☐	☐	☐
8. Government procurement *(State agencies' procurement process of goods and services must ensure more publicity and transparency, allowing bidders from other TPP countries to compete in fairer tenders)*	☐	☐	☐	☐	☐
9. Environment *(Businesses must satisfy higher environmental protections requirements during their business operations)*	☐	☐	☐	☐	☐
10. Labor *(Businesses must satisfy higher labor rights and safety requirements during their business operations)*	☐	☐	☐	☐	☐
11. State-owned enterprises (SOEs) *(SOEs will have to compete with private enterprises based on principles of equality and fairness)*	☐	☐	☐	☐	☐

Findings from responses to this question are reported below in sections 3.4.1, 3.4.2, and 3.4.3. There is an overwhelmingly positive view towards the impact of the TPP on the business of domestic and foreign firms. Across the eleven issue areas, at least half, and in some cases, more than 60% of responding firms who were aware of the negotiations, felt that inclusion of Vietnam in the TPP will positively impact their business.

To analyze the question of issue-specific effects, we first assessed the share of firms that thought the issue would have any effect at all on their business, calculating the percentage of firms which answered positive (1), mixed (2), or negative (3). These results are displayed in the top panel of figures 3.6-3.8. Next, we assessed the direction of the influence. Firms that said an agreement on the issue area would be positive for their business received a score of 1. Firms answering it would have both positive and negative effects or no effect received a score of 0. Firms responding that the effect would be negative received a score of negative 1. The average score with 90% confidence intervals is reported for each sector in the second panel of figures 3.6-3.8. Higher scores represent a larger share of firms believing the issue would have a positive effect on their business.

3.4.1. Responses of Domestic Firms to Specific Negotiating Areas

Studying the top panel of Figure 3.6, we can see that there is very little difference in the share of domestic firms that thought the issue areas would have any effect at all on their business operations. The effect of reductions in non-tariff barriers, such as rules of origin (ROOs), technical barriers to trade (TBTs) and sanitary and phytosanitary (SPS) measures, were thought to be slightly less influential than other areas. Nevertheless, 40% of firms consistently signaled that they believed there would be some effects.

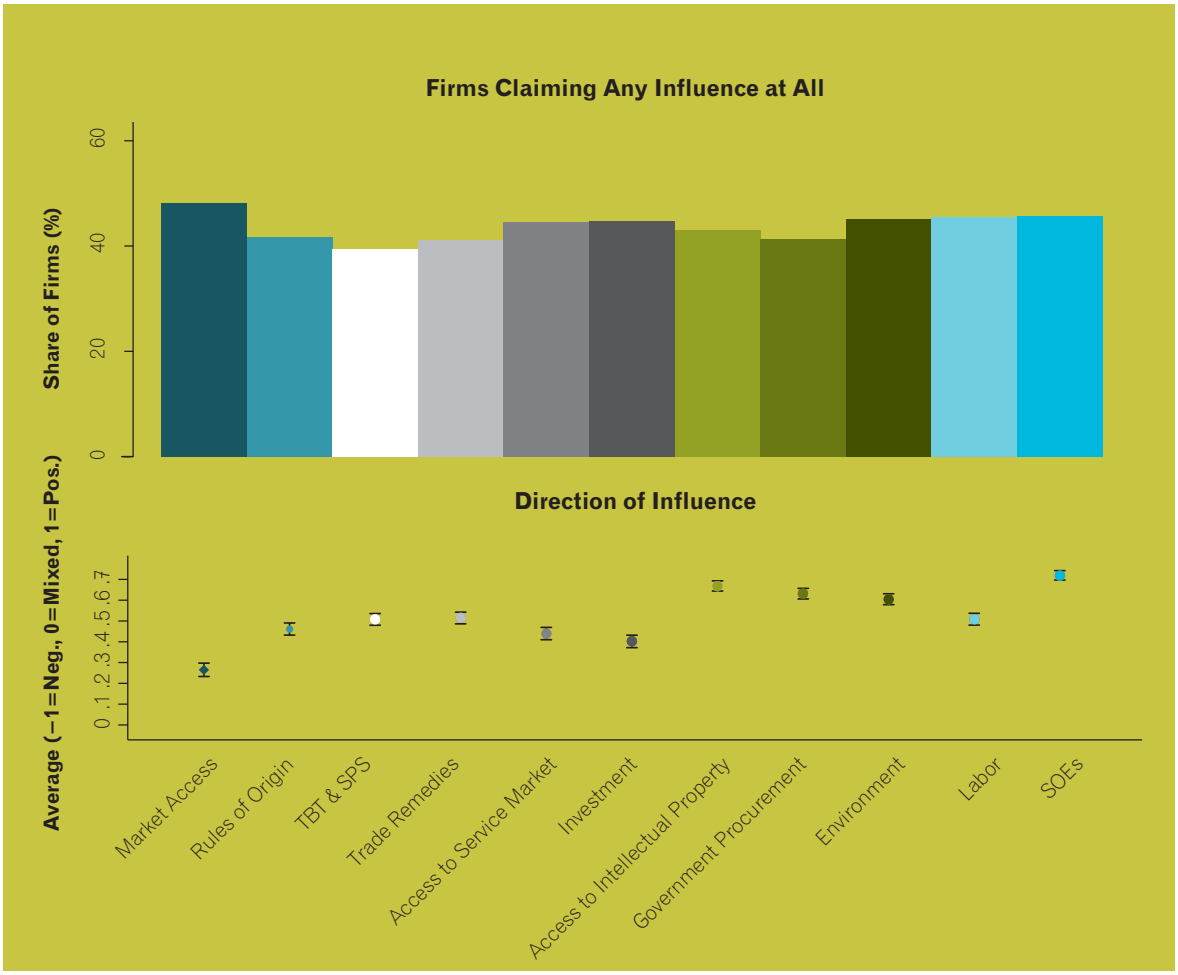
The first thing to notice about the second panel is that the average score for every issue area is positive and significantly above zero, indicating that the average firm believes progress on TPP negotiations in that area will be at least somewhat propitious for their business. Far more variation is to be found in the scale of optimism. Close to 80% of privately-owned domestic firms responded that they expect their business to be positively affected by the TPP's commitments regarding state-owned enterprises (SOEs), leading to a direction-of-influence score of 0.75 in this category. The TPP is expected to yield commitments that ensure these private-sector firms and employees are able to maintain competitiveness vis-à-vis SOEs, especially in cases where the latter may receive significant government support for their business activities. Consistent with this view, firm responses regarding government procurement also register a very high proportion—well over 60% (direction-of-influence score of 0.63)—that consider the TPP will have a positive impact on their business operations. A third issue area with profoundly positive support was protection of intellectual property rights with a direction-of-influence score of 0.68. Interestingly, the majority of private firms also demonstrated support for chapters requiring protection of the environment and labor, where the definition specifically said private firms would be committed to upholding higher standards.

Some negotiating areas, however, revealed more ambivalence by domestic firms regarding the TPP's impact on their businesses. In the area of market access, although more than half of the responding firms felt the TPP would have a positive impact, over 30% responded that the TPP will affect their

business both positively and negatively. Consequently, market access received the lowest direction-of-influence score of 0.27. Mixed views were also expressed for the chapters on rules of origin, trade remedies, access to the services market, and investment, where such sentiments comprised approximately 20% of responses.

Very few firms appear to expect the TPP to have a negative impact or predict that it would have no influence on their business. A largely positive outlook, tempered by some sentiments revealing a mixed positive-negative impact in specific areas, is prevalent in the responses of domestic firms.

FIGURE 3.6 **Domestic Firms Perceptions of the Effects of Key TPP Negotiation Areas**



Source: PCI Survey I4.1 to I4.11, "Please assess how the TPP's following contents influence your business operation?" The first panel calculates the share for firms that answered the TPP would have any influence at all, while the second panel calculates the direction of influence by averaging firm responses. Firms that answered positively were coded as 1, mixed views or no effect answers were coded as 0, and negative effects were coded as -1.

3.4.2. Responses of Foreign Firms from TPP-Member States to Specific Negotiating Areas

As with domestic firms, the majority of foreign firms from TPP member-states responded that they expect their business operations to be positively affected by Vietnam's participation in the TPP. Looking at the top panel of Figure 3.7, we can see that there is slightly more variation in the predicted areas of likely influence. Foreign firms cited the market access (52%) and investment (49%) provisions as those most likely to affect their businesses. About 45% of firms claimed they would primarily be affected by other chapters such as technical barriers to trade, trade remedies, and procurement (each about 41%).

Turning to the direction of influence, in contrast to the responses of the domestic firms, foreign firms were more equivocal in their responses regarding the prospective effects of the TPP on their business operations. While fewer domestic firms expressed mixed expectations of influence, a higher proportion of foreign firms gave responses of "both positively and negatively," leading to slightly lower direction-of-influence scores.

Foreign firms from countries party to the TPP tended to express the most positivity regarding issue areas in which the TPP seeks regulatory coherence as a key objective. The division among foreign firms, which splits the evaluation at about 0.55 on the direction-of-influence score (meaning roughly 60% of responses from foreign invested enterprises (FIEs) are positive), appears largely to be about barriers at the border, which reduce trade obstacles and open up the Vietnamese market to competition from foreign exports. These concerns constitute the first five issue areas in the PCI questions (Figure 3.5), including: market access, rules of origin, technical barriers to trade, and sanitary and phytosanitary measures. In all these areas, some firms express mildly positive sentiments because Vietnam's participation in the TPP would open up export markets for them. Negative views stem from the realization that changes in these areas will expose their businesses to global competition, potentially cutting into their market share and profit margins.

The most distinctive pattern of positive responses are found among those concerning behind-the-border measures, such as opening up the domestic market to foreign investment, protection of intellectual property, fairness in government procurement, environmental protection, labor standards, and eliminating preferences for state-owned enterprises. These issue areas are especially interesting as the TPP is likely to produce high-standards that go well beyond the current level of Vietnam's obligations under the WTO and, in the case of environmental protection and labor standards, commitments that are currently outside the purview of the WTO.

FIGURE 3.7 **Perceptions of Foreign Investors from TPP Member Nations on Effects of Key TPP Negotiation Areas**

Source: PCI-FDI Survey L4.1 to L4.11, "Please assess how the TPP's following contents influence your business operation?" The first panel calculates the share for firms that answered the TPP would have any influence at all, while the second panel calculates the direction of influence by averaging firm responses. Firms that answered positively were coded as 1, mixed views or no effect answers were coded as 0, and negative effects were coded as -1.

Looking at Table 3.1, we can see the stark differences in responses. When we average the first five issue areas together, the average direction-of-influence score for foreign firms from TPP members is 0.40. By contrast, the average score on the latter five issue areas is 0.54, 35% higher than the chapters affecting barriers at the border.

Why are foreign firms more negative about reforms that will increase access for imports into the Vietnamese market? Table 3.1 provides the answer, showing that a key divide in perceptions of the influence of sectors among foreign investors is whether the firm's primary customers are in Vietnam (VN-Oriented) or in other countries (Exporters). While exporters from TPP-member states are slightly less supportive of the TPP overall, when polled about the specific issues they are uniformly more positive. This is especially true when it comes to tariff- and non-tariff barriers to trade. 30% of exporters from TPP states (versus 37% of non-exporters) believe market access will have a negative influence on their business, leading to a difference of 0.12 in the direction-of-influence score. Only 20% of exporters believe removing technical barriers to trade will hurt their operations versus 30% of non-exporters, leading to a .15 point reduction in the influence scores.

The key to understanding this difference is the distributional effects of the TPP. Exporting firms will benefit from improved market access to other countries, but are generally unharmed by the features of the TPP which open up the Vietnamese market to increased imports. By contrast, Vietnam-oriented foreign firms benefit from the reductions in regulatory barriers and improvement of investment provisions of the TPP, and are therefore supportive of those features. Nevertheless, they will likely pay a cost from import competition, which exposes their own products and exports to international rivals. In other words, foreign investors based in Vietnam and oriented toward the domestic market will expect to bear the highest burden from the costs of the TPP.

TABLE 3.1 **Average Support for TPP Issues Areas by Origin of Respondent and Market Orientation**

Type of Firm	Domestic			Foreign Investor, TPP Member			Foreign Investor, TPP Non-Member		
	Total	VN Oriented	Exporter	Total	VN Oriented	Exporter	Total	VN Oriented	Exporter
N	8,120	7,474	646	1,163	540	623	340	185	155
Know about TPP=1	53.2%	52.6%	60.4%	54.3%	51.9%	56.3%	58.2%	54.6%	62.6%
Support TPP=1	66.0%	65.3%	73.7%	29.3%	30.9%	28.0%	23.4%	27.4%	19.4%
Influence of Provision									
1. Market Access	0.24	0.23	0.34	0.33	0.25	0.38	0.32	0.24	0.40
2. Rules of Origin	0.42	0.44	0.26	0.32	0.28	0.35	0.35	0.26	0.46
3. TBT & SPS	0.48	0.49	0.40	0.45	0.37	0.52	0.24	0.09	0.39
4. Trade Remedies	0.50	0.50	0.44	0.48	0.42	0.52	0.34	0.29	0.40
5. Access to Service Market	0.41	0.41	0.43	0.45	0.42	0.47	0.34	0.20	0.46
6. Investment	0.35	0.35	0.37	0.50	0.40	0.56	0.43	0.34	0.52
7. Access to Intellectual Property	0.66	0.67	0.65	0.71	0.65	0.75	0.57	0.49	0.63
8. Government Procurement	0.61	0.60	0.66	0.67	0.59	0.72	0.62	0.51	0.72
9. Environment	0.57	0.57	0.47	0.57	0.54	0.58	0.61	0.52	0.70
10. Labor	0.48	0.49	0.38	0.56	0.52	0.60	0.52	0.42	0.62
11. SOEs	0.72	0.71	0.75	0.72	0.65	0.78	0.59	0.52	0.67
Barriers at Border (Issues 1-5)	0.41	0.42	0.37	0.40	0.35	0.44	0.32	0.22	0.42
Behind the Border (Issues 6-11)	0.56	0.57	0.55	0.62	0.56	0.66	0.56	0.47	0.65
Average Influence Score (All Issues)	0.51	0.52	0.48	0.54	0.48	0.58	0.46	0.36	0.55

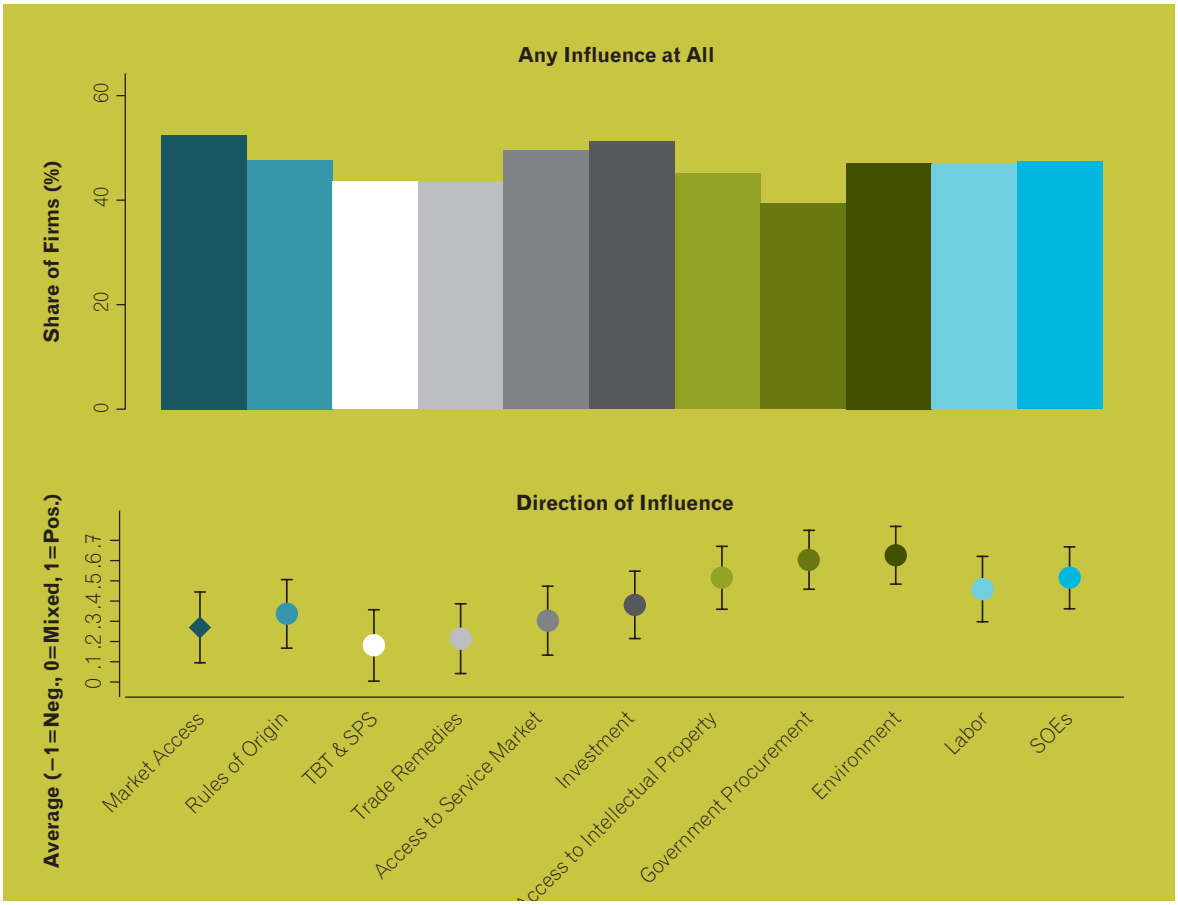
3.4.3. Responses of Foreign Firms from Non-TPP Member States to Negotiating Areas

According to international economic theory, the biggest losers from the TPP should be foreign firms who are not from TPP member states. These firms will not benefit as much from the market-opening provisions, but will face greater exposure to international competition, especially imports from TPP member states. Further sub-dividing this group, Vietnam-oriented foreign investors should be the most negatively affected of all, as exporters from non-TPP states will be considered Vietnamese, benefitting from lower trade barriers to products manufactured in Vietnam, and will not pay the costs of increased competition for Vietnamese market share that their domestically-focused counterparts will incur.

Figure 3.8 demonstrates that firms from non-TPP countries express roughly the same pattern of support for the TPP as their competitors from member states. In contrast to firms from TPP members, however, non-TPP firms were significantly more likely to recognize the negative effects of TPP membership in each issue area. Consequently, the average direction of influence score for FIEs from non-TPP countries was about 0.45, compared to 0.54 among those from TPP member states.

Pushing a bit further on the data in Table 3.1, we can see that, like domestic firms and FIEs from TPP members, companies from non-TPP member states differ starkly in their assessments of the TPP chapters regarding barriers-at-the-border and behind-the-border issues. They offer lukewarm support, about 0.32 on average, for the market access provisions, which reduce formal and informal barriers to trade. By contrast, they express relatively stronger agreement, averaging 0.46, for the features of the agreement that improve the regulatory environment within Vietnam. Yet, they also indicate surprising support for the TPP environmental and labor provisions, which will increase regulatory enforcement in these areas. These firms are particularly positive about the TPP provisions that impose structural reforms on the Vietnamese economy, such as the SOE and government procurement, like firms in the other categories, there are big differences between Vietnam-oriented and exporting firms. The average direction-of-influence score for exporters across all sectors is 0.55, compared to 0.36 for domestic-oriented firms. The support for Vietnam's joining the TPP varies even more dramatically when we look at the barriers-at-the-border issue areas. Non-TPP FIEs who do not export have an average direction–of-influence score of 0.22, compared to 0.42 for exporting firms. Clearly, Vietnam-oriented companies not based in TPP countries are aware that they risk being the biggest losers from the conclusion of the agreement.

FIGURE 3.8 **Perceptions of Foreign Investors from Non-TPP Member Nations on Effects of Key TPP Negotiation Areas**



Source: PCI-FDI Survey L4.1 to L4.11, "Please assess how the TPP's following contents influence your business operation?" The first panel calculates the share for firms that answered the TPP would have any influence at all, while the second panel calculates the direction of influence by averaging firm responses. Firms that answered positively were coded as 1, mixed views or no effect answers were coded as 0, and negative effects were coded as -1.

3.4.4. Summarizing Direction of Influence

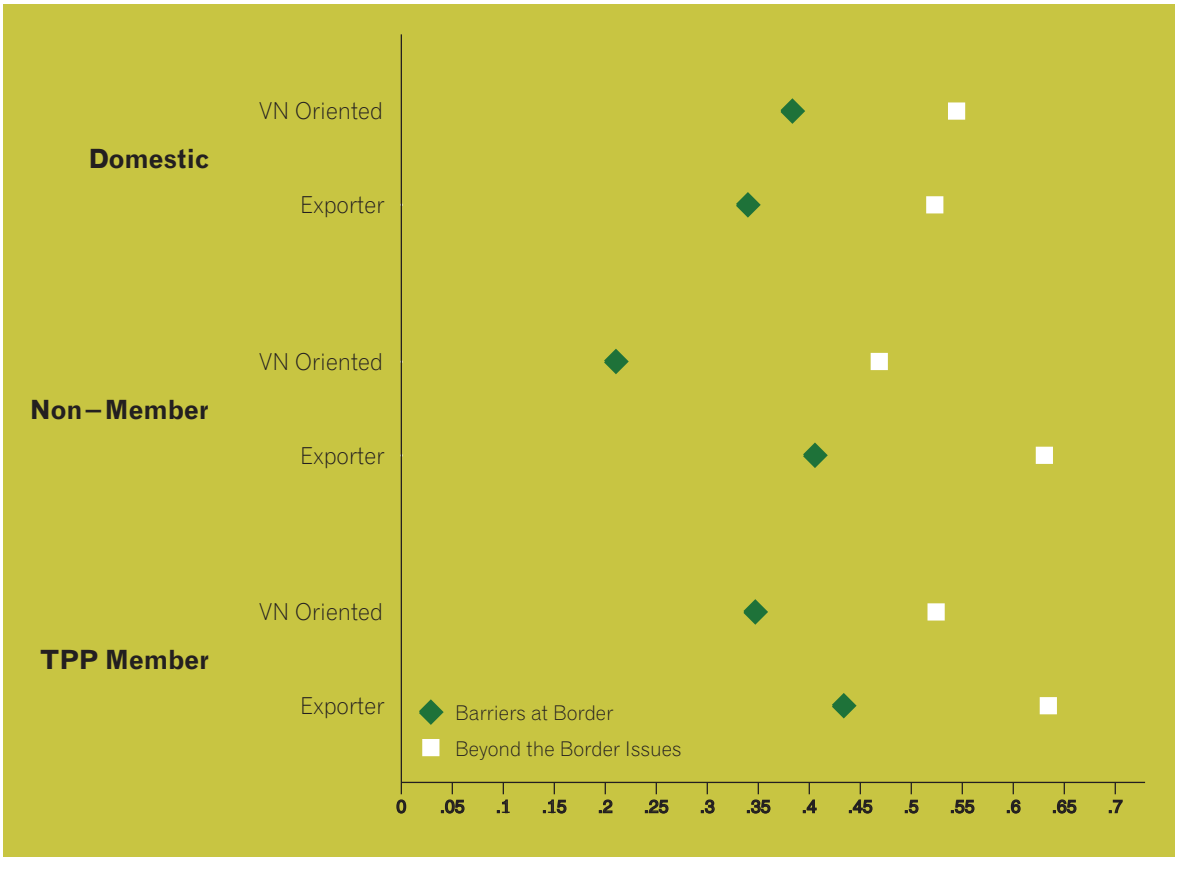
Figure 3.9 summarizes the key findings from the direction-of-influence analysis. Dark green diamonds represent the average score on the barriers-at-the-border issues, while white squares represent the average score on the behind-the-border issues. Scores are reported for private domestic firms, FIEs from TPP states, and FIEs from TPP non-member states, with each of those groups subdivided by whether the firm exports or not. On average, domestic and foreign firms operating in Vietnam are positive about how Vietnamese participation in the TPP is likely to affect their business operations. We can observe this as the average direction-of-influence score for all groups is well above zero.

Three interesting patterns are evident. First, firms are generally more positive about the effects of the TPP on behind-the-border regulatory areas, while the responses are far more mixed for traditional trade agreement issues such as market access, rules of origin, and access to services. This bodes well for the TPP, which is expected to

yield a high-standard agreement, labelled as such precisely for the level of openness and strength of obligations and coordination in these trade-related regulatory areas. Second, among foreign firms, exporters are far more positive about both major categories of issues. They are most enthusiastic about potential changes to behind-the-border issues, but express higher optimism than Vietnam-oriented firms about expanded trade access. As we have noted, this is because exporting firms are unlikely to pay the consequences of opening Vietnam's market to foreign competition. Finally, the biggest perceived losers of the TPP are VN-oriented firms from non-TPP member states. Firms in this category acknowledge that they will be negatively affected by trade openness measures, and will not benefit from corresponding openness in other areas. Nevertheless, even these firms appear to recognize the benefits of the agreements on behind-the-border issues. The biggest perceived winners appear to be exporting FIEs from TPP-member states.

These firms will experience the benefits of improved regulatory quality in Vietnam, structural reforms resulting from the SOE and procurement chapters, and expanded market access for their exports. At the same time, they will face far fewer costs associated with expanded market access for imports and competitors.

FIGURE 3.9 **Perceived Effects of the Trans-Pacific Partnership, by Firm Origin, Market Orientation, and Issue Area**



Source: PCI Survey I4.1 to I4.11 & PCI-FDI Survey L4.1 to L4.11, "Please assess how the TPP's following contents influence your business operation?" Dark green diamonds represent the average influence score on the barriers-at-the-border issues, (I4.1 to I4.5) while white squares represent the average score on the behind-the-border issues (I4.6 to I4.11). Scores are reported for private, domestic firms, FIEs from TPP states, and FIEs from TPP non-member states, with each of those groups subdivided by whether the firm exports or not.

3.5 IMPACT ON BUSINESS PARTNERSHIPS

In addition to the inquiry about the impact of the TPP in specific negotiating areas, domestic and foreign firms in Vietnam were also how asked how business partnerships of various regional origins would be affected by the agreement. All firms were queried regarding the impact of the TPP on business opportunities with U.S. partners, Chinese partners, Southeast Asian partners, East Asian partners, E.U. partners, and Latin American partners.

As Figure 3.10 shows, many domestic and foreign firms claimed that they had no current business relationship with particular regional partners, as either customers or vendors of intermediate goods and services. For instance, just over 62% of domestic Vietnamese firms do no business at all with partners from the United States, and about 55% do no business at all with Chinese companies. Over 60% of FIEs based in other TPP member states do business with East Asian countries, such as Japan and South Korea, which likely results from the large presence of firms from those countries in the PCI-FDI sample. For all firm types, the United States and Latin America were the least likely business counterparts.[86]

FIGURE 3.10 **Share of Firms Not Currently in Business with Specific Overseas Partners by Origin of Firm**

Source: PCI Survey I5.1 to I5.16 & PCI-FDI Survey L5.1 to L5.16, "Does your firm presently do business with the following partners?" Graph reports the share of firms answering 'no.'"

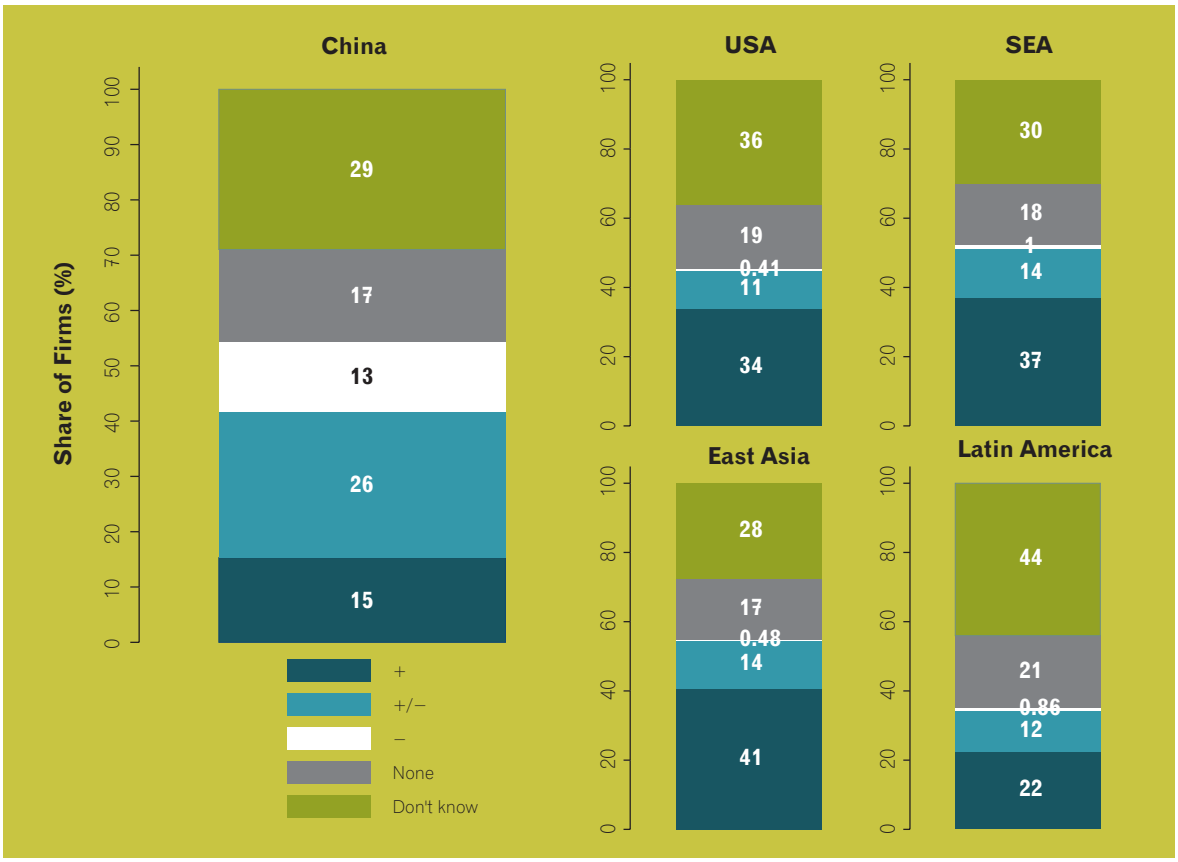
86 About 20% of firms in each category either skipped or refused to answer the question, so actual knowledge may even be lower.

3.5.1. Effect on Business Partnerships of Domestic Firms

As seen in Figure 3.11, among the 40% of privately-owned Vietnamese firms that do some business with overseas companies, those with East Asian business partners record the most positive responses to the TPP, with over 41% responding that the agreement will increase their activities. Those with Southeast Asian and United States partnerships form the second tier of positive responses, as one third responded that the TPP will have a positive impact. Firms with Latin American and European (not shown) business partnerships report slightly lower percentages of positive responses.

The most notable responses are those concerning domestic firms that have business partnerships with Chinese firms. Firms with Chinese business partnerships record the lowest percentage of positive responses; that is, only about 15% percent of firms surveyed expected their business partnership with Chinese firms to be positively affected by the TPP. These firms record the most ambivalent expectations of the TPP's impact on business operations; 26% indicate they are likely to be both positively and negatively affected in their business partnerships with China. Domestic firms with Chinese business partners also have the highest percentage of responses in the negative category: almost 13% of firms—over 240 in number—feel that the TPP will negatively impact their business partnerships with Chinese firms. Those who have business partnerships with enterprises in other countries and regions record only a negligible expectation—less than 1.5%—of a negative impact stemming from adoption of the TPP. As the TPP proceeds with its negotiations, the resulting package may well lead to the creation of increased trade among TPP members but also represents the potential diversion of trade away from China.

FIGURE 3.11 **Effect of TPP on Economic Relations between Domestic Firms and Partners**



Source: PCI Survey I5.1 to I5.16, "In the case that Vietnam becomes a TPP country, how will your business opportunities with such partners be affected?"

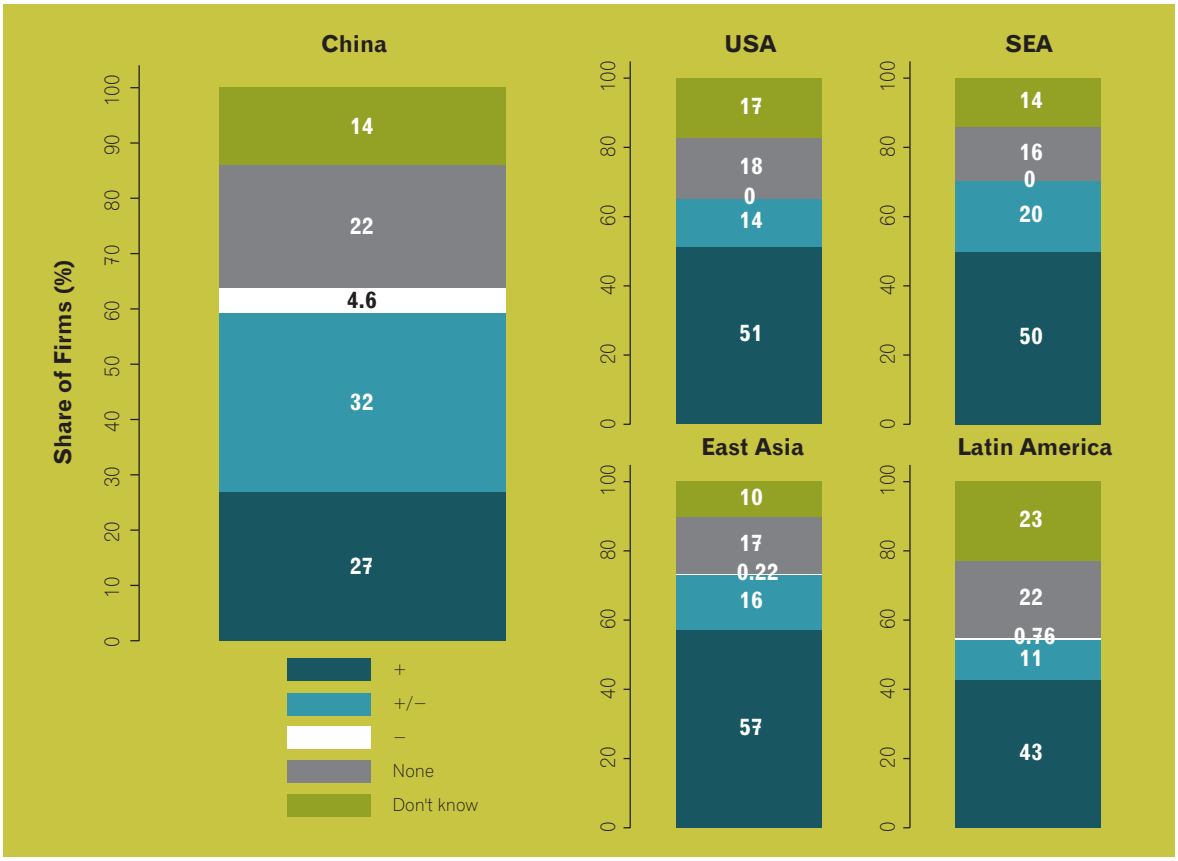
3.5.2. Effect on Business Partnerships of Foreign Firms from TPP-Member States

In general, FIEs from TPP member states believe that the agreement will generate positive developments for their interactions with overseas partnerships. As Figure 3.12 shows, over half of the firms currently doing business with partners from East Asia (57%), the United States (51%), and Southeast Asia (50%), and about 43% of businesses working with Latin American partners, believe that the TPP will be positive for their business relations. Interestingly, these companies expect the roughly the same benefits from Europe as they do from states that are party to the TPP, which may be evidence of uncertainty about the long-term implications of TPP.

Although hardly any firms expect that the agreement will have a negative impact on business operations with non-Chinese partners, there is some degree of ambivalence as well. A notable proportion of firms indicate mixed effects or express uncertainty about the impact of the TPP on these relationships.

In terms of differences in responses across domestic and foreign firms, foreign firms in Vietnam based in countries also party to the TPP appear to be somewhat more sanguine regarding the impact of the TPP on partnerships with Chinese firms. About 27% of these FIEs expect business with Chinese partners to be positively affected by the TPP. This is tempered, however, by almost 32% of firms that expect both positive and negative effects and another 4.6% (20 firms) that expect negative effects. Far fewer foreign firms from TPP member states expect negative effects than do domestic firms (6%), and this pattern indicates that domestic firms face greater uncertainty in terms of their business partnerships with Chinese firms if the TPP comes to pass.

FIGURE 3.12 **Effect of TPP on Economic Relations between FIEs from TPP Member States and Partners**



Source: PCI-FDI Survey L5.1 to L5.16, "In the case that Vietnam becomes a TPP country, how will your business opportunities with such partners be affected?"

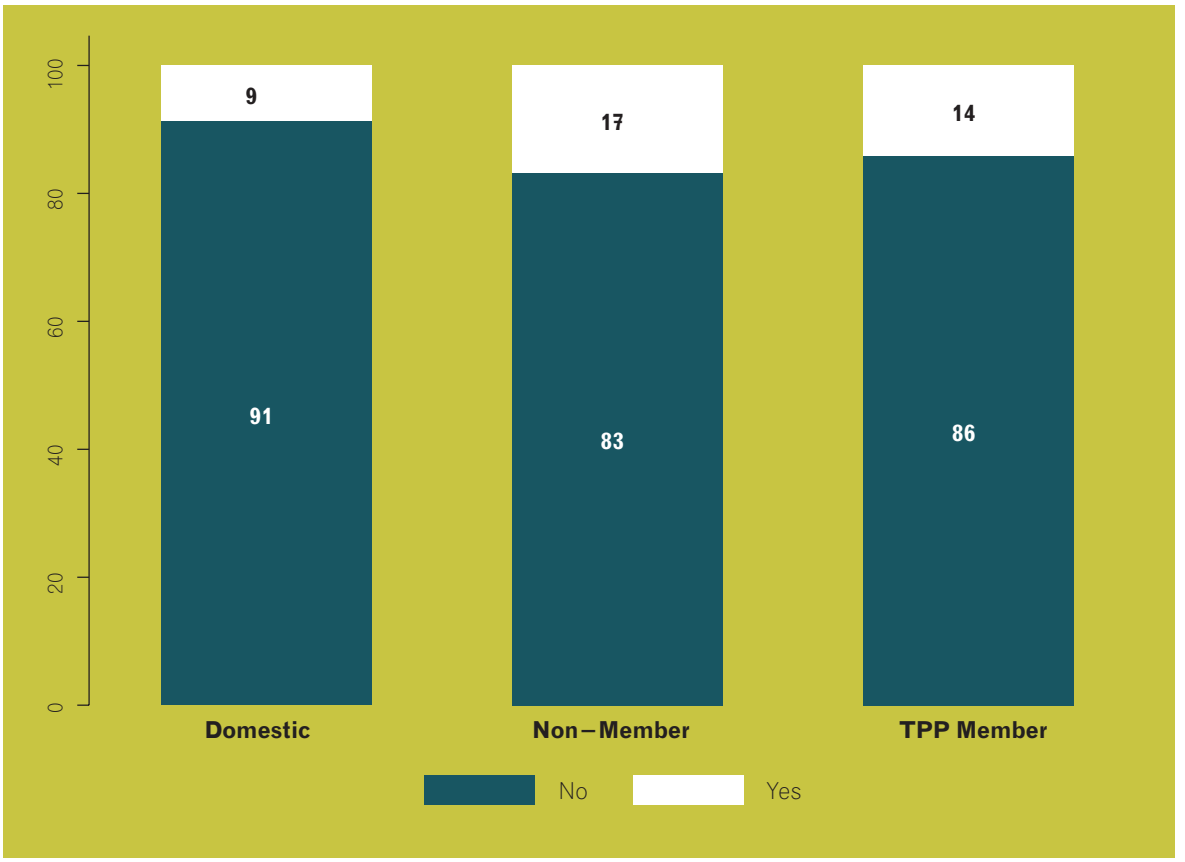
The domestic and foreign business communities overall register positive expectations regarding the impact of the TPP on their business prospects with partners from all regions included in this survey. The positive pattern is most pronounced for the firms doing business with entities in TPP countries that are geographically proximate to Vietnam; namely, those with East Asian and Southeast Asian business partnerships. There also appears to be significant uncertainty about how the TPP is likely to affect business partnerships with firms from China, which is not a negotiating party at this time, indicating potential for significant trade diversion.

3.6 ENGAGEMENT IN THE PUBLIC SPHERE

Last, but not least, the PCI 2014 Survey queried domestic and foreign firms about the extent of their engagement of the TPP negotiations. Both domestic companies and FIEs were asked whether they submitted comments on the TPP to relevant authorities and to which particular authorities such comments were relayed. In addition, for domestic firms only, respondents were asked about the type of institutional support their firm expected from the government following the signing of the TPP.

"Have you ever provided your comments on TPP to relevant authorities?" Very few firms have actively engaged in the TPP negotiation process by providing comments to relevant authorities. As Figure 3.13 shows, less than one-tenth of domestic respondents indicate they have submitted advice. Slightly larger shares of FIEs from TPP member states (17%) and from non-member states (14%) have expressed opinions to Vietnamese authorities about the potential impact of the agreement on their business.

FIGURE 3.13 Comments Provided About TPP by Firms to Vietnamese Government



Source: PCI Survey I3 & PCI-FDI Survey L3, "Have you ever provided your comments on TPP to relevant authorities?"

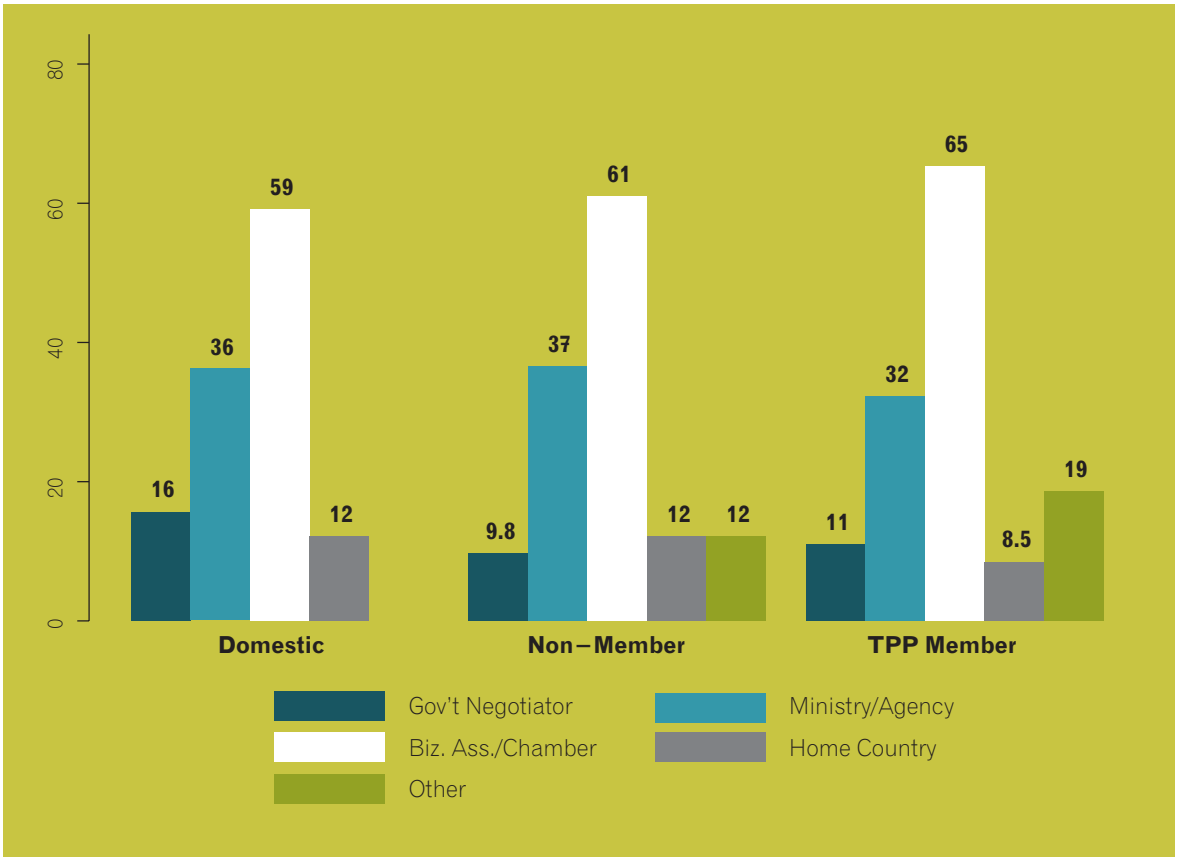
The next survey question referred to specific authorities identified for the submission of comments on the TPP: i) the government's negotiating agency; ii) ministries and line agencies related to the firm's line of business; iii) other agencies such as the National Assembly, the government, or Party agencies and the like; iv) the Vietnam Chamber of Commerce and Industry or other business associations; and v) their home government.

Figure 3.14 shows that most favoured pathway for articulating preferences and interests regarding the TPP appears to be business associations, including the Vietnam Chamber of Commerce and Industry (VCCI). 344 (59%) of the 592 domestic firms surveyed indicated that they had submitted comments through business associations or VCCI. The figure is even higher for foreign firms, with 61% of FIEs from TPP-member states and 65% of FIEs from non-member nations relying on industry groups, such as chambers of commerce, to express their opinions.

Among government agencies, about a third of foreign and domestic firms approached ministries or other agencies related to their line of business to provide comments. Few firms, however, directly approached the government's negotiating agency. Domestic firms were about twice as likely as foreign firms to interact with Vietnam's TPP negotiators. By contrast, about 12% of foreign firms from TPP members and 8.5% of FIEs from TPP non-members approached their own home governments to submit comments on the TPP.

These results suggest that firms, in articulating their interests and preferences in the TPP negotiations, approach authorities with whom they have the most familiarity—ministries and line agencies relevant to their business area—and the most interactions, such as business associations or the VCCI. They appear to favor these authorities over directly approaching the negotiating body itself. This is a reasonable strategy given that the negotiating teams are often composed of ministerial representatives. The results also point to the importance of business associations, the VCCI, and ministries and line agencies as important arenas for political contestation and interest aggregation.

FIGURE 3.14 **Target of Comments Regarding TPP**



Source: PCI Survey I3.1 & PCI-FDI Survey L3.1, "If yes, which agency did you provide the comments to?"

3.7 POLICY EXPECTATIONS FROM DOMESTIC FIRMS

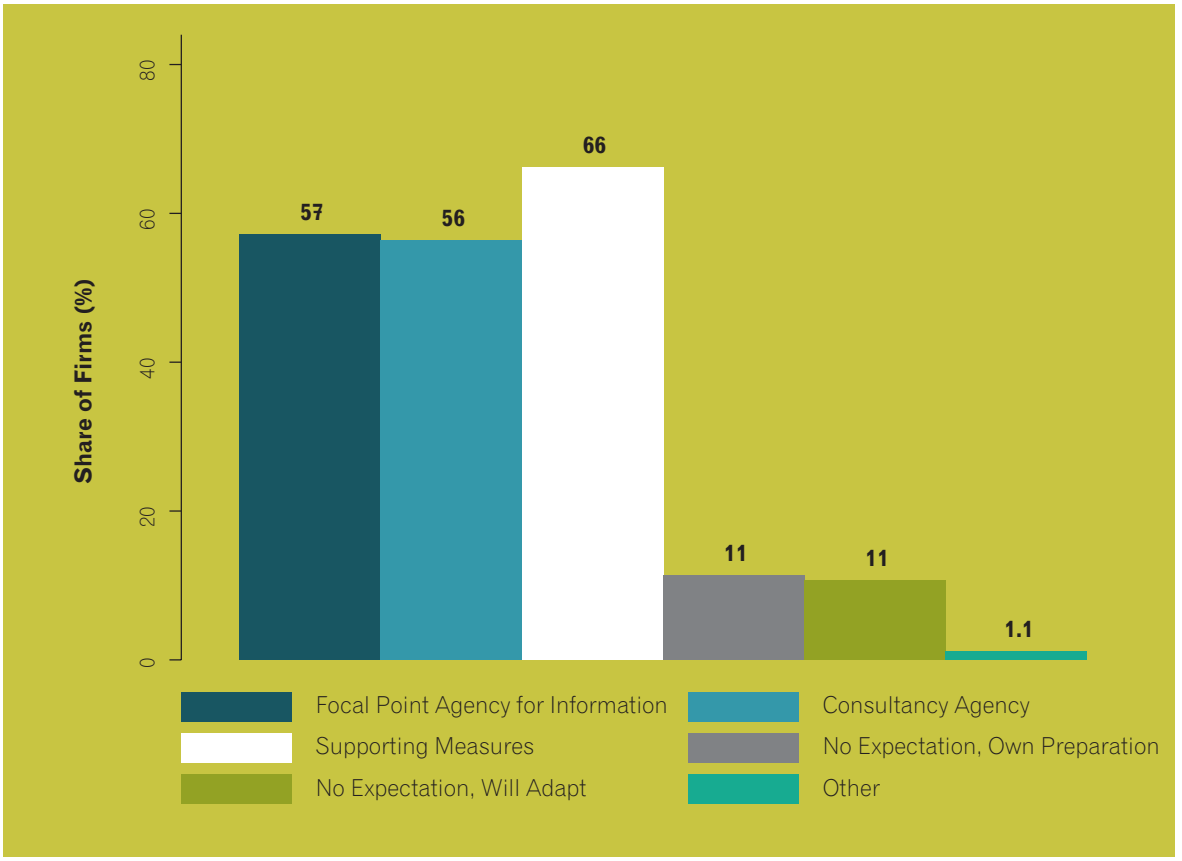
"If Vietnam signs the TPP, what do you expect the State agencies to do?" This question was asked only of domestic firms in order to gauge the expectations of the native Vietnamese business community regarding institutional support for firms in the post-agreement stage of the TPP. Response choices included i) "to set up a focal-point agency to provide all TPP-related information that my firm needs;" ii "to set up an agency providing instructions, explanations, and consultancy on the TPP to my firm;" iii) "to provide supporting measures to enable my firm to take the best advantage of the opportunities from the TPP and overcome difficulties arising from the TPP, if any;" iv) "my firm has no expectations of state agencies and will make our own preparation;" and v) "my firm has no expectations of state agencies and will make no preparation but will adapt to the specific situation."

The results of the survey (Figure 3.15) show that just under half (56%, 3,062 firms) of the 5,202 firms that registered a response in one of the five above-mentioned categories expect state agencies to provide supporting measures that will assist domestic firms in reaping the benefits of the TPP agreement, as well as overcoming difficulties associated with its implementation in Vietnam. These steps may include remuneration for distributive effects as well as training to overcome competitive disadvantages.

About 10% (524) of firms expect (or perhaps prefer) a focal-point agency that will provide full-service support with TPP-related matters, and almost 12% (622 firms) indicated expectations for an agency to offer instruction, explanation, and consultancy. As we have shown, Vietnamese firms know very little about the TPP and will need guidance on how to best prepare for its effects. Together, these response categories represent 22% of firms that expect formal institutional support with the signing of the TPP. A minority of firms have no expectations for support from state agencies. 8.4% (439 firms) expect to make their own preparations, and 10.7% (555 firms) indicated they would adapt as necessary to specific situations.

Overall, Vietnamese firms appear to have strong expectations of support from government agencies if Vietnam signs the TPP and implements its obligations under the agreement, but the emphasis is more on supporting measures than the establishment of any formal mechanisms for this purpose.

FIGURE 3.15 **If Vietnam Joins the TPP, What Are Your Expectations for Policy?**



Source: PCI Survey I6, "If Vietnam signs the TPP, what do you expect the State agencies to do?"

3.8 CONCLUSION

Because the negotiations over the TPP have been shrouded in secrecy, only the negotiators have a clear sense of the shape the final agreement will take across all the vital issue areas. Current prognostications indicate that Vietnam will be the largest net winner, but it will also face formidable distributional effects across industries that will need to be ameliorated by economic policy. While experts have deliberated the long-term implications of the world's most comprehensive trade and investment agreement, to date, the current debate has not adequately addressed the specific concerns of Vietnamese businesses. This chapter has attempted to add their voices to the discussion.

Taking advantage of the PCI and PCI-FDI surveys, we tracked the views of businesses operating in Vietnam, probed their knowledge of the agreement, assessed their general support for the TPP as well as support for specific issue areas, examined their predictions about the impact of this landmark pact on their businesses, and even measured their advisory interactions with government officials and negotiators. The key points to take away from our analysis are:

1. About 70% of foreign and domestic firms in Vietnam have at least some knowledge of the TPP agreement. Most of these firms, however, report only limited understanding of the trade pact. Very few firms have been closely following the negotiations or have detailed knowledge of the potential implications for their business. Limited knowledge is consistent across domestic and foreign firms and the major business sectors, except for the foreign financial industries, where firms appear to be considerably more informed. This result speaks to both the informational capacity of many firms as well as the extent of information available in the public domain in Vietnam.

2. In general, domestic firms favor the TPP with over 66% answering they strongly support it or offer support with some concerns. Only 1.5% of firms express opposition.

3. Foreign firms are more circumspect. About a quarter of firms support the TPP with the rest expressing indifference or claiming it will have no effect. Interestingly, there is very little difference in the response between FIEs from TPP member states and those whose home is in a non-member state.

4. For both domestic and foreign firms, general support for the TPP is largely consistent across economic sectors.

5. Turning to specific articles in the TPP agreement, domestic and foreign firms are generally most positive about the effects of the TPP in behind-the-border regulatory areas, such as opening up the domestic market to investment, intellectual property, government procurement, environment, labor, and reforming state-owned enterprises. Indeed, the SOE reform chapter was consistently cited by all firms as being likely to have the most positive impact on respondent operations. This bodes well for the TPP, which is expected to yield a high-standard agreement, labelled as such precisely for the strength of obligations and coordination in these trade-related regulatory areas.

6. Support in these areas can be considered evidence for the theory that a key motivation for Vietnam's becoming party to the TPP is to further its domestic economic reform commitments.

7. Responses were far more mixed for traditional issues that reduce trade and investment barriers, such reductions to tariff and non-tariff barriers, limitations on rules of origin, and expanded access to the service market. Although firms were positive with respect to the TPP's approach to these matters, those in services or oriented toward sales in the Vietnamese market were concerned about increasing import competition.

8. Among foreign firms, those exporting products abroad express far more positivity about all issues covered by the agreement. They are also most supportive of behind-the-border issues, but express higher optimism than Vietnam-oriented firms about expanded trade access. As we have noted, this is because exporting firms are unlikely to incur costs associated with opening Vietnam's domestic market to foreign competition, while domestic market-oriented firms are sure to lose market share.

9. The biggest perceived losers of the TPP are VN-oriented FIEs from non-TPP member states. These firms acknowledge that they will be negatively affected by trade openness measures, and will not benefit from corresponding openness in other member states. Nevertheless, even they appear to recognize the benefits of the agreement on behind-the-border measures, especially those that stimulate economic reform.

10. The biggest perceived winners appear to be exporting FIEs whose home countries are TPP-member states. These firms will experience the benefits of improved regulatory quality in Vietnam, including structural reforms resulting from the SOE and procurement chapters, and expanded market access for their exports. At the same time, they will face far fewer negative consequences in regard to expanded Vietnamese market access for imports and competitors.

11. According to our respondents, trade diversion due to the TPP may be limited, as only about 40% of operations have significant economic relations with overseas partners. Moreover, many firms do not expect the TPP to have an impact on their interactions with the partners they do have.

12. Any trade diversion taking place will likely be away from China and to the United States, Southeast Asia, and East Asia and the Pacific, especially Japan. About 13% of domestic firms doing business with Chinese partners believe their businesses will be negatively affected, while 26% claim it will have a mixed impact. For FIEs from TPP-member states, 4.6% express a negative effect on their business with China, and 32% suggested a mixed impact.

13. About one third of domestic firms claim that their businesses will be enhanced after passage of the TPP with partners from the U.S., Southeast Asia, and East Asia. 22% even say it will increase their business opportunities in Latin America.

14. Over half of the FIEs from TPP member states responded that their business will increase with U.S., Southeast Asian, and East Asian and Pacific partners. 43% will do more business with Latin America.

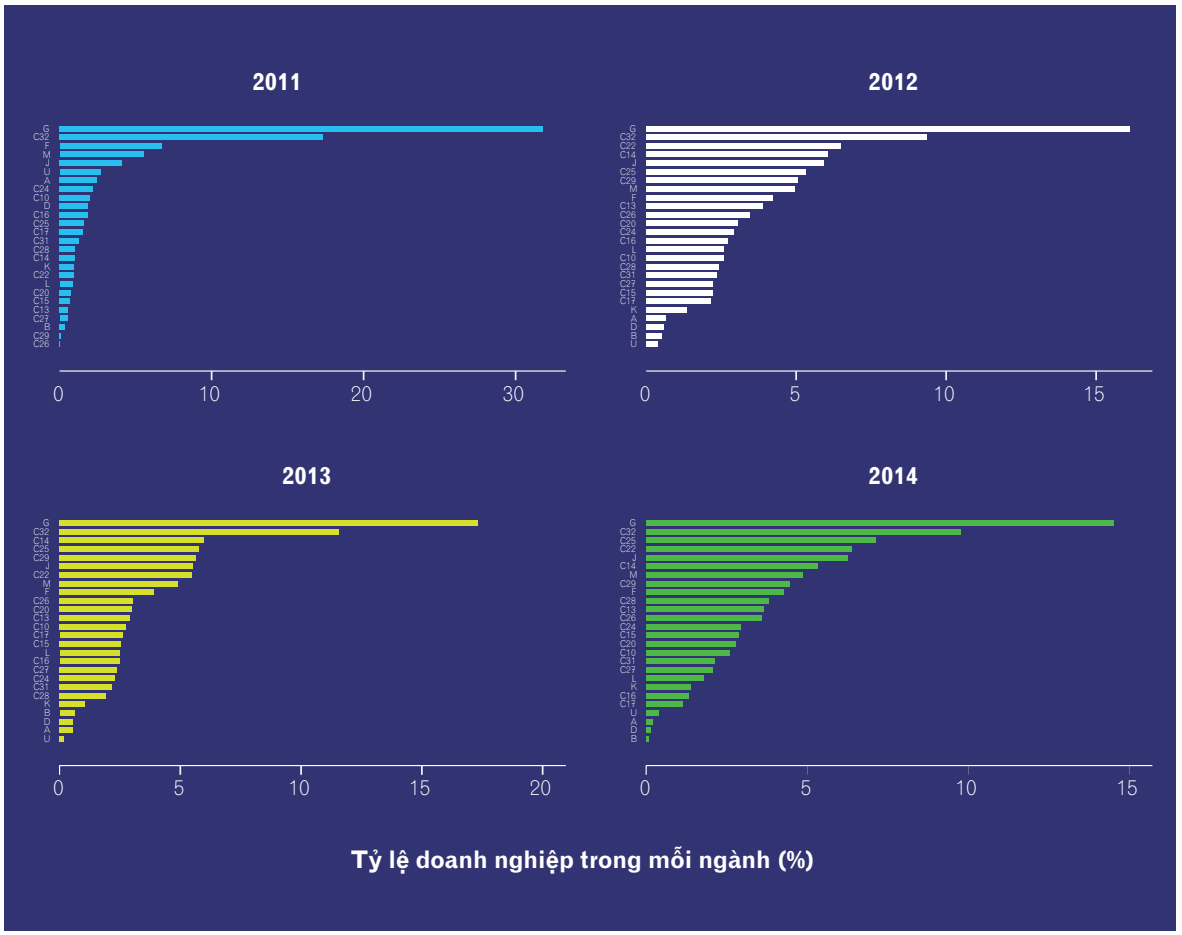
15. Despite the Vietnamese business community's widespread support for and anticipation of significant distributional consequences of the TPP, very few firms are playing a role in the policy-making process. Only 9% of domestic firms and 15% of FIEs have offered comments to those involved in the decision-making process. The vast majority of these comments have been expressed indirectly through business associations, international chambers of commerce, or, for FIEs, through their home country negotiators.

16. Finally, domestic firms do expect the Vietnamese government to assist them with adjusting to the TPP by creating agencies that help with remuneration for affected firms, provide re-training, and offer consultancy on how best to take advantage of the new market opportunities.

All in all, our survey bodes well for the prospects of Vietnam's entry into the TPP. Nevertheless, significant work lies ahead in both informing the public about the arrangement and preparing for the structural adjustments that will be part of the agreement.

Together, the survey findings call for efforts to enhance the informational capacity of firms, both within the businesses and more broadly in the public domain. Though the lack of transparency of the TPP negotiations poses practical challenges for the acquisition of information, the findings of this survey indicate that many firms remain in the dark about important features of this landmark agreement that has the potential to be a game-changer in international trade agreements.

APPENDIX A | Respondents by Industrial Sector over Time



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

Source: PCI-FDI Survey Question A7.1: Reports first product listed in PCI Survey. PCI team hand-coded the firm's self-reported product and matched it to the United Nations Statistics Division's International Standard Industrial Classification Codes (ISIC, Revision 4) at the four digit level (http://unstats.un.org/unsd/cr/registry/isic-4.asp). Figure A.1, above, reports these data at the one-digit level using letters (and numerically at the two-digit level for manufacturing).

Table 3.1 Comparison of Entry Costs Sub-Index (2005-2014)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Length of business registration in days (Median).	PCI Survey Question: C1	Min		12	7	5	6.5	7	7	7	7	8
		Median		20	15	12.25	10	10	8.5	10	10	12
		Max		58	22.5	15	15	15	15	15	17.5	19
		Correlation w/Previous Year		NA	0.27*	0.46*	0.56*	0.49*	0.41*	0.52*	0.48*	0.26*
Percentage of land that has been registered and provided with official LURCs	Ministry of Natural Resources and the Environment Datasets†	Min		11.3	13.28	19.52	23.52	27.27	42.82	29.22	76.50	85.83
		Median		69.2	63.13	77.56	77.89	80.71	79.24	82.21	90.50	92.34
		Max		96.5	97.46	98.75	98.56	98.31	98.03	97.65	99.40	99.57
		Correlation w/Previous Year			0.85*	0.78*	0.87*	0.87*	0.73*	0.85*	0.30*	0.74*
Percentage of firms that say nonstate enterprises do not have difficulties in accessing land or expanding premises	PCI Survey Question: B7	Min					11.02	8.27	12.2	11.25	16.13	12.39
		Median					30.72	23.89	30	31.32	39.50	22.22
		Max					52.32	49	68.5	52.89	58.44	52.44
		Correlation w/Previous Year					NA	0.42*	0.23	0.26*	0.14	0.22
Firms' rating of expropriation risk (1: Very High to 5: Very Low);	PCI Survey Question: B4.3	Min		1.95	1.74	1.63	2.11	1.91	1.86	2.16	2.05	1.84
		Median		2.49	2.24	2.04	2.55	2.56	2.90	2.71	2.80	2.33
		Max		3.05	2.57	2.49	3.05	3.30	3.35	3.22	3.59	2.87
		Correlation w/Previous Year			0.28*	0.95*	0.29*	0.31*	-0.0035	-0.1619	0.15	0.05
Percentage of firms waiting more than three months to complete all steps necessary to start operations.	PCI Survey Question: C5	Min	0	0	0	0	0	0	0	0	0.00	0.00
		Median	5.9	5.78	6.78	5.72	4.44	5.77	3.33	2.94	3.57	1.92
		Max	21.95	25.64	27.27	16	20.72	18.87	14.8	13.04	18.18	18.18
		Correlation w/Previous Year		0.02	0.15	0.18	0.02	0.14	0.02*	0.04	0.15	0.23
Percentage of firms registering or re-registering through one-stop-shop. NEW INDICATOR	PCI Survey Question: C3	Min									41.58	35.24
		Median									63.41	79.17
		Max									85.71	94.44
		Correlation w/Previous Year									0.18	-0.06

Procedures at one-stop-shop are transparently listed (% Agree) NEW INDICATOR	PCI Survey Question: C3.1.1	Min									21.43	40.91
		Median									39.02	61.43
		Max									66.20	79.17
		Correlation w/Previous Year									N.A	1.00*
Guidance and instruction on procedures at one-stop-shop are clear and adequate (% Agree) NEW INDICATOR	PCI Survey Question: C3.1.2	Min									26.67	52.04
		Median									41.14	75.00
		Max									66.90	88.37
		Correlation w/Previous Year									N.A	1.00*
Staffs at one-stop-shop are professional and knowledgable (% Agree) NEW INDICATOR	PCI Survey Question: C3.1.3	Min									10.61	23.47
		Median									25.52	42.50
		Max									56.38	57.69
		Correlation w/Previous Year									N.A	1.00*
Staffs at one-stop-shop are friendly (% Agree) NEW INDICATOR	PCI Survey Question: C3.1.4	Min									10.61	15.31
		Median									24.71	42.62
		Max									56.38	68.42
		Correlation w/Previous Year									N.A	1.00*
IT application at one-stop-shop is good (% Agree) NEW INDICATOR	PCI Survey Question: C3.1.5	Min									3.91	14.29
		Median									16.07	28.57
		Max									44.68	48.08
		Correlation w/Previous Year									N.A	1.00*
None of the criteria above are met (% Agree) NEW INDICATOR	PCI Survey Question: C3.1.6	Min									0.00	0.00
		Median									1.70	4.48
		Max									8.94	20.41
		Correlation w/Previous Year									N.A	1.00*

* Significant at 5% level; NA = Not applicable
All values are at the provincial level.
Data include only firms registered within two calendar years preceding the survey.

2005 data only include 42 provinces and do not include the full set of indicators used in subsequent years, reflecting changes in survey questions and ordering in 2006.

Table 3.2 Comparison of Land Access and Tenure Security Sub-Index (2005-2014)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Percentage of firms that own land and are in possession of an LURC	PCI Survey Question: B4	Min		23.29	51.35	38.36	46.82	26.67	34.04	54.32	50.91	29.33
		Median		55.28	75.57	81.16	73.68	72.89	77.55	75.86	76.54	55.07
		Max		77.78	92.45	94.74	94.51	95.89	97.05	93.59	88.57	81.43
		Correlation w/ Previous Year			0.76*	0.70*	0.77*	0.80*	0.67*	0.49*	0.56*	0.67*
Percentage of land that has been registered and provided with official LURCs	Ministry of Natural Resources and the Environment Datasets†	Min		11.3	13.28	19.52	23.52	27.27	42.82	29.22	76.50	85.83
		Median		69.2	63.13	77.56	77.89	80.71	79.24	82.21	90.50	92.34
		Max		96.5	97.46	98.75	98.56	98.31	98.03	97.65	99.40	99.57
		Correlation w/ Previous Year			0.85*	0.78*	0.87*	0.87*	0.73*	0.85*	0.30*	0.74*
Percentage of firms that say nonstate enterprises do not have difficulties in accessing land or expanding premises	PCI Survey Question: B7	Min					11.02	8.27	12.2	11.25	16.13	12.39
		Median					30.72	23.89	30	31.32	39.50	22.22
		Max					52.32	49	68.5	52.89	58.44	52.44
		Correlation w/ Previous Year					NA	0.42*	0.23	0.26*	0.14	0.22
Firms' rating of expropriation risk (1: Very High to 5: Very Low);	PCI Survey Question: B4.3	Min		1.95	1.74	1.63	2.11	1.91	1.86	2.16	2.05	1.84
		Median		2.49	2.24	2.04	2.55	2.56	2.90	2.71	2.80	2.33
		Max		3.05	2.57	2.49	3.05	3.30	3.35	3.22	3.59	2.87
		Correlation w/ Previous Year			0.28*	0.95*	0.29*	0.31*	-0.0035	-0.1619	0.15	0.05

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Percentage of firms that say compensation for land is always or highly likely fair	PCI Survey Question: B4.4	Min		21.43	22.22	21.25	16.9	19.12	14.7	12.95	22.78	15.56
		Median		40	40.76	38.82	40.54	39.9	35.8	36.67	40.32	34.00
		Max		58.33	57.14	52.75	55.17	55.38	61.8	69.23	68.66	51.35
		Correlation w/ Previous Year			0.37*	0.34*	0.42*	0.37*	0.17	0.18	-0.05	0.06
Percentage of firms that agree that changes in government land prices reflect changes in market prices	PCI Survey Question: B5	Min					53.33	53.91	41.9	36.02	60.00	56.55
		Median					69.75	72	68	69.57	77.06	71.43
		Max					81.11	86.17	86.2	87.64	89.87	85.23
		Correlation w/ Previous Year					NA	0.43*	0.36*	0.14	0.29*	0.41*
Percentage of firms that have completed land procedures in the last two years and have encountered no difficulties in land-related procedures NEW INDICATOR	PCI Survey Question: B6.1	Min									21.74%	16.67%
		Median									44.44%	41.38%
		Max									73.33%	61.54%
		Correlation w/ Previous Year									N.A	0.14

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Percentage of firms that want to have LURCs but don't have LURCs because of complicated procedures and troublesome staffs NEW INDICATOR	PCI Survey Question: B4.5	Min									3.03	8.89
		Median									16.13	27.03
		Max									50.00	45.24
		Correlation w/ Previous Year									N.A	0.51*

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

Table 3.3 Comparison of Transparency Sub-Index (2005-2014)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Access to planning documents (1=easy to access; 5= impossible to access)	PCI Survey Question: F1.1-F1.13†	Min	1.90	2.25	2.20	2.25	2.13	2.00	2.28	1.81	2.17	1.90
		Median	2.36	2.63	2.51	2.55	2.44	2.31	2.51	2.39	2.61	2.25
		Max	3.80	3.17	2.96	2.79	3.08	2.62	2.97	3.14	3.31	2.51
		Correlation w/ Previous Year	NA	0.39*	0.64*	0.61*	0.49*	0.48*	0.23	0.29*	-0.18	-0.28*
Access to legal documents (1=easy to access; 5= impossible to access)	PCI Survey Question: F1.1-F1.13†	Min	2.05	2.86	2.63	2.80	2.68	2.79	2.57	1.98	2.57	2.86
		Median	2.81	3.15	3.05	3.11	3.11	3.05	3.03	2.84	3.14	3.10
		Max	3.71	3.53	3.38	3.36	3.61	3.44	3.83	3.38	3.59	3.31
		Correlation w/ Previous Year	NA	0.31*	0.61*	0.59*	0.38*	0.56*	0.55*	0.32*	0.17	0.18
Relationship important or very important to get access to provincial documents (% Important or Very Important)	PCI Survey Question: F2	Min	50	31.48	38.4	33.57	45.57	37.28	41.17	29.73	30.33	63.51
		Median	72.11	62.5	56.6	49.82	61.26	78.64	75.00	62.20	51.47	73.21
		Max	100	77.14	73.4	67.9	78.26	95.71	93.33	82.69	74.68	88.31
		Correlation w/ Previous Year	NA	0.27	0.38*	0.55*	0.37*	0.30*	-0.05	0.18	0.21	0.20
Negotiations with tax authority are an essential part of doing business (% Agree or Strongly Agree)	PCI Survey Question: D14.3	Min	52.17	47.17	24.1	17.39	29.69	23.75	7.69	14.53	17.98	32.38
		Median	75.22	61.05	44.7	36.71	41.32	40.78	41.09	39.21	39.44	49.25
		Max	96.15	86.96	73.2	54.25	62.4	67.04	62.67	67.78	62.60	64.29
		Correlation w/ Previous Year	NA	-0.16	0.52*	0.73*	0.36*	0.27*	0.09	0.37*	-0.16	0.02

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Predictability of implementation of central laws at the provincial level (% Usually or Always)	PCI Survey Question: F6	Min	4.35	2.76	1.89	1.03	3.57	2.38	0.00	1.30	1.35	1.92
		Median	14.91	9.49	7.96	6.94	8.4	8.97	8.57	6.60	8.18	8.27
		Max	60.38	37.88	18.3	15.69	22.22	20.24	29.48	13.51	23.17	18.07
		Correlation w/ Previous Year	NA	0.38*	0.46*	0.3*	0.50*	0.10	0.22	0.19	0.10	0.19
Business Associations's role in advising and countering provincial polices (% Important or Very Important)**	PCI Survey Question: F4	Min					18.64	15.15	9.52	15.33	16.16	21.74
		Median					35.71	37.04	31.25	31.81	30.11	42.64
		Max					57.32	55.56	60.60	66.25	55.75	59.26
		Correlation w/ Previous Year					NA	0.32*	0.03	0.11	0.24	0.35*
Openness and quality of provincial webpage	Analysis by PCI Research Team (For Scorecard See Section) ψ	Min	0	0	0	0	0	0.00	9.00	0.00	11.50	15.00
		Median	10	9	13.75	14.25	15	15.00	15.00	14.00	25.50	29.00
		Max	21	18	20	20	20	19.00	20.00	20.00	38.00	44.00
		Correlation w/ Previous Year	NA	0.36*	0.51*	0.70*	0.74*	0.79*	0.69*	0.50*	0.57*	0.82*
Percentage of firms have accessed provincial websites (%) NEW INDICATOR	PCI Survey 2013 Question: F5	Min									21.43	47.47
		Median									50.99	64.18
		Max									70.00	78.23
		Correlation w/ Previous Year									N.A	0.25*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Budget documents have enough details for use in business activities (% YES) NEW INDICATOR	PCI Survey 2013 Question: F2.2	Min									35.71	53.33
		Median									76.92	80.65
		Max									100	94
		Correlation w/ Previous Year									N.A	-0.15
Budget documents are published right after being approved (% YES) NEW INDICATOR	PCI Survey 2013 Question: F2.2	Min									27.27	48.39
		Median									66.67	71.43
		Max									100	95
		Correlation w/ Previous Year									N.A	0.02

* Significant at 5% level; NA = not applicable
All values are at the provincial level.
2005 data only include 42 provinces.
† Indicators result from factor analysis of 13 documents. In 2009, the scale was simplified to reflect the average access on a 5 pt. scale (1 very difficult to 5 very easy)
ψ In 2007 and 2008, 0.5 values were allowed to denote provinces that provided the relevant information, but not in a sufficient manner to be useful.

** Only Business Association members respond

Table 3.4 Comparison of Time Costs of Regulatory Compliance (2005-2014)

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

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Government officials are friendly (% Strongly agree or Agree) NEW INDICATOR	PCI Survey Question: D8.2	Min									40.16	34.78
		Median									70.00	58.24
		Max									86.67	82.56
		Correlation w/ Previous Year									N.A	0.48*
Firms don't have to travel many trips to obtain stamps and signatures (% Strongly agree or Agree) NEW INDICATOR	PCI Survey Question: D8.3	Min									51.58	38.20
		Median									70.13	60.96
		Max									86.14	78.13
		Correlation w/ Previous Year									N.A	0.68*
Paperwork is simple (% Strongly agree or Agree) NEW INDICATOR	PCI Survey Question: D8.4	Min									44.79	30.30
		Median									62.50	46.02
		Max									84.00	68.18
		Correlation w/ Previous Year									N.A	0.50*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Fees are listed publically (% Strongly agree or Agree) NEW INDICATOR	PCI Survey Question: D8.5	Min									80.00	79.35
		Median									90.51	89.19
		Max									98.67	97.17
		Correlation w/ Previous Year									N.A	0.48*
No noticeable improvements are made (% Strongly agree or Agree) NEW INDICATOR	PCI Survey Question: D8.7	Min									43.28	0.00
		Median									74.24	4.30
		Max									90.74	12.77
		Correlation w/ Previous Year									N.A	0.11

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

Table 3.5 Comparison of Informal Charges (2005-2014

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

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

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

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

Table 3.6 BIAS -NEW SUB-INDEX

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Province give privileges to state-owned economic group, corporations, causing difficulties to your business (% Agree)	PCI Survey Question: H4	Min									18.26	21.69
		Median									32.14	35.00
		Max									42.86	51.19
		Correlation w/ Previous Year									N.A	-0.30*
Land access as a privilege to state-owned economic group (% Agree)	PCI Survey Question: H4.1.1	Min									13.04	14.04
		Median									27.59	25.77
		Max									51.11	36.08
		Correlation w/ Previous Year									N.A	0.13
Credit access as a privilege to state-owned economic group (% Agree)	PCI Survey Question: H4.1.2	Min									13.04	17.31
		Median									27.59	25.51
		Max									47.92	42.86
		Correlation w/ Previous Year									N.A	0.17
Mineral exploitation license as a privilege to state-owned economic group (% agree)	PCI Survey Question: H4.1.3	Min									5.88	5.26
		Median									19.51	17.00
		Max									35.42	30.93
		Correlation w/ Previous Year									N.A	0.17

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Faster and simpler administrative procedures as a privilege to state-owned economic group (% agree)	PCI Survey Question: H4.1.4	Min									5.80	6.67
		Median									25.86	19.30
		Max									45.21	33.33
		Correlation w/ Previous Year									N.A	-0.03
Ease in getting state contracts as privilege to state-owned economic group (% agree)	PCI Survey Question: H.4.1.5	Min									13.04	14.52
		Median									35.00	23.86
		Max									56.25	41.67
		Correlation w/ Previous Year									N.A	-0.03
Province give priority in solving problems and difficulties to foreign companies over domestic one (% agree)	PCI Survey Question: H2.7	Min									11.54	23.61
		Median									28.30	42.59
		Max									49.25	59.75
		Correlation w/ Previous Year									N.A	0.26*
Province give priority to FDI attraction than private sector development (% agree)	PCI Survey Question: H3	Min									17.81	21.57
		Median									29.50	42.86
		Max									46.30	55.41
		Correlation w/ Previous Year									N.A	0.48*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Advantage in land access for FIEs (% agree)	PCI Survey Question: H3.1.1	Min									4.71	9.09
		Median									12.64	28.30
		Max									26.67	44.34
		Correlation w/ Previous Year									N.A	0.64*
CIT reduction and holiday for FIEs (% agree)	PCI Survey Question: H3.1.2	Min									2.86	8.62
		Median									9.64	23.01
		Max									24.81	35.96
		Correlation w/ Previous Year									N.A	0.36*
Advantage in procedures (faster, simplifier) for FIEs (% agree)	PCI Survey Question: H3.1.3	Min									3.66	8.62
		Median									10.85	20.91
		Max									22.07	36.36
		Correlation w/ Previous Year									N.A	0.48*
More government support during FIEs operation (% agree)	PCI Survey Question: H3.1.4	Min									6.17	8.62
		Median									13.48	28.30
		Max									26.90	39.33
		Correlation w/ Previous Year									N.A	0.33*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
"Contracts, land, …, and other economic resources mostly fall in the hands of enterprises that have strong connections to local authorities" (% agree)	PCI Survey Question: H5	Min									75.00	61.64
		Median									96.59	76.47
		Max									100.00	88.89
		Correlation w/ Previous Year									N.A	0.09
Preferential treatment to big companies (both state-owned and nonstate) is an obstacle to their business operations (% agree)	PCI Survey Question: H.2.5	Min									17.57	31.48
		Median									34.62	52.00
		Max									60.92	61.40
		Correlation w/ Previous Year									N.A	0.16

Table 3.7 Comparison of Proactivity (2005-2014)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Firms' assessment of the attitude of provincial government toward private sector (% Positive or Fairly Positive)	PCI Survey Question: H1	Min	20.59	30.21	24.5	32.71	28.42	31.11	26.25	27.56	26.21	20.99
		Median	47.83	48.28	44.97	53.4	43.75	47	45.33	44.44	43.88	38.95
		Max	78.26	71.56	67.37	72.22	71.96	67.09	82.89	66.94	69.06	65.17
		Correlation w/ Previous Year	NA	0.63*	0.67*	0.53*	0.56*	0.56*	0.37*	0.42*	0.49*	0.34*
The PPC is flexible within the legal framework to create favorable business environment for nonstate firms (% Strongly Agree or Agree)	PCI Survey Question: H2.2	Min	43.75	51.61	53.68	57.35	54.67	54.37	41.67	34.48	39.66	46.84
		Median	76.93	74.44	71.74	77.28	72.65	75.31	65.15	65.57	62.77	67.57
		Max	94.29	93.48	92.47	91.41	91.72	90.14	92.15	88.31	90.81	90.91
		Correlation w/ Previous Year	NA	0.60*	0.68*	0.68*	0.70*	0.68*	0.48*	0.44*	0.05	0.20
The PPC is very proactive and innovative in solving new problems (% Strongly Agree or Agree).	PCI Survey Question: H2.3	Min	31.25	40	40.22	40.9	23.94	25	19.35	22.48	33.04	35.53
		Median	63.27	61.88	58.12	61.5	42.46	49.38	46.6	47.66	52.24	53.13
		Max	85.71	88.64	87.91	85.05	72.59	71.11	78.26	71.13	82.76	76.58
		Correlation w/ Previous Year	NA	0.69*	0.76*	0.75*	0.75*	0.61*	0.47*	36*	0.24**	0.15

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
There are good initiatives at the provincial level but they are not well implemented by departments (% Strongly Agree or Agree).	PCI Survey Question: H2.1	Min									32.71	60.94
		Median									56.98	76.92
		Max									87.74	91.55
		Correlation w/ Previous Year									N.A	0.26*
Provincial leaders have good policies they are not well implemented at district level (% Strongly Agree or Agree).	PCI Survey Question: H2.5	Min									24.30	41.27
		Median									43.40	57.69
		Max									76.47	72.73
		Correlation w/ Previous Year									N.A	
Province's reaction to lack of clarity in central policies/documents: % "delay and seek instructions" and "do nothing".	PCI Survey Question: H1.1	Min									11.29	23.33
		Median									33.33	38.54
		Max									58.16	53.19
		Correlation w/ Previous Year									N.A	0.25

* Significant at 5% level; NA = not applicable
** Significant at 10% level
All values are at the provincial level.
2005 data only include 42 provinces.

Table 3.8 Comparison of Business Support Services (2005-2014)

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

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

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Firm intends to use above service provider again for consulting on regulatory information (%)	PCI Survey Question: E.6.1.2	Min					3.17%	14.06%	10.49%	4.10%	24.14%	42.86%
		Median					14.38%	38.60%	29.31%	19.42%	56.00%	62.50%
		Max					22.31%	57.14%	51.47%	33.67%	90.63%	82.61%
		Correlation w/ Previous Year					NA	0.49*	0.33*	-0.05	0.29*	-0.09
Firm has used business match making services(%)	PCI Survey Question: E.6.4	Min					25.29%	26.98%	14.81%	13.41%	12.28%	21.57%
		Median					53.40%	56.58%	37.50%	31.67%	30.91%	35.06%
		Max					73.12%	81.82%	77.27%	56.96%	48.21%	46.15%
		Correlation w/ Previous Year					NA	.50*	0.23*%	-0.06	0.16	0.11
Firm used private provider for business match making services (%)	PCI Survey Question: E.6.4	Min					25.00%	0.00%	21.57%	5.56%	21.74%	28.00%
		Median					44.12%	54.55%	50.00%	45.45%	51.43%	52.17%
		Max					70.21%	70.37%	80.88%	84.62%	79.63%	76.92%
		Correlation w/ Previous Year					NA	-0.1198	-0.02	-0.03	0.15	0.44*
Firm intends to use above service provider again for business match making services (%)	PCI Survey Question: E.6.1.4	Min					4.76%	16.67%	12.50%	6.42%	23.33%	45.83%
		Median					12.68%	39.52%	24.69%	15.73%	53.33%	65.63%
		Max					21.64%	59.18%	42.22%	32.35%	81.08%	93.33%
		Correlation w/ Previous Year					NA	0.61*	0.47*	0.10	0.22	-0.11

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Firm has used trade promotion services (%)	PCI Survey Question: E.6.5	Min					19.48%	22.92%	11.29%	12.50%	10.30%	14.06%
		Median					45.45%	48.61%	36.67%	26.56%	27.27%	30.61%
		Max					72.62%	78.26%	74.14%	51.61%	51.43%	46.58%
		Correlation w/ Previous Year					NA	0.50*	0.24*	-0.03	0.21	0.14
Firm used private provider for trade promotion services (%)	PCI Survey Question: E.6.5	Min					4.44%	0.00%	0.00%	0.00%	0.00%	0.00%
		Median					18.00%	15.79%	24.14%	17.65%	23.81%	18.18%
		Max					38.42%	42.31%	74.60%	70.00%	72.73%	46.67%
		Correlation w/ Previous Year					NA	0.45*	0.21*	-0.16	0.33*	0.12
Firm intends to use above service provider again for trade promotion services (%)	PCI Survey Question: E.6.1.5	Min					1.59%	8.05%	4.54%	3.54%	9.52%	23.81%
		Median					7.89%	20.71%	12.05%	10.00%	39.13%	50.00%
		Max					17.46%	34.44%	25.56%	18.69%	66.67%	75.51%
		Correlation w/ Previous Year					NA	0.39*	0.47*	24.05%	0.25*	0.02
Firm has used technology related services (%)	PCI Survey Question: E.6.6	Min					25.33%	21.54%	15.38%	13.51%	8.05%	15.38%
		Median					50.00%	52.63%	36.51%	29.55%	29.51%	39.13%
		Max					73.49%	81.40%	74.71%	50.00%	52.21%	54.17%
		Correlation w/ Previous Year					NA	0.50*	0.24*	-0.02	0.20	0.20

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Firm used private provider for technology related services (%)	PCI Survey Question: E.6.6	Min					17.65%	4.76%	0.00%	6.45%	23.53%	29.03%
		Median					38.60%	40.63%	45.00%	33.33%	46.67%	52.00%
		Max					65.85%	69.23%	83.08%	62.50%	85.11%	74.19%
		Correlation w/ Previous Year					NA	0.29*	0.26*	0.11	0.24	0.27*
Firm intends to use above service provider again for technology related services (%)	PCI Survey Question: E.6.1.6	Min					3.17%	7.81%	4.88%	3.67%	16.13%	26.09%
		Median					10.71%	26.83%	15.38%	9.90%	37.29%	47.62%
		Max					17.46%	38.74%	31.00%	22.86%	66.67%	66.67%
		Correlation w/ Previous Year					NA	0.50*	0.37*	0.21	0.23	-0.01
Firm has used accounting and financing training services (%) NEW INDICATOR	PCI Survey Question: E.6.7										18.24%	20.25%
											35.94%	37.66%
											65.26%	58.44%
											N.A	0.32*

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Firm used private provider for above accounting and financing training services (%) NEW INDICATOR	PCI Survey Question: E.6.7										4.76%	8.89%
											31.82%	34.29%
											78.26%	57.52%
											N.A	0.28*
Firm intends to use above service provider again for accounting and financing training services (%) NEW INDICATOR	PCI Survey Question: E.6.1.7										12.50%	30.77%
											41.94%	59.09%
											72.73%	78.57%
											N.A	0.39*
Firm has used business administration training services (%) NEW INDICATOR	PCI Survey Question: E.6.8										10.84%	14.86%
											29.19%	27.87%
											57.89%	45.95%
											N.A	0.21

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Firm used private provider for above abusiness administration training services (%) NEW INDICATOR	PCI Survey Question: E.6.8										0.00%	9.09%
											36.36%	31.82%
											73.27%	73.33%
											N.A	0.39*
Firm intends to use above service provider again for business administration training services (%) NEW INDICATOR	PCI Survey Question: E.6.1.8										7.14%	19.23%
											38.89%	50.00%
											67.57%	84.21%
											N.A	0.08

* Significant at 5% level; NA = not applicable
All values are at the provincial level.
2005 data only include 42 provinces and do not include the full set of indicators used in subsequent years.
**Because the maximum value recorded in HCMC is an outlier on both of these variables (over two standard deviations greater than the mean value), lower values of 10 and 100, the number scored by the second highest province, were used to standardize the sub-index scores.

Table 3.9 Comparison of Labor Policies (2006-2014)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Services provided by provincial agencies: general education (% Very Good or Good)	PCI Survey Question: E1.7	Min	7.43	51.51	17.71	22.08	20.27%	28.77%	24.6%	31.3%	32.9%	
		Median	19.16	73.29	35.20	45.45	46.99%	52.05%	54.7%	54.8%	57.0%	
		Max	35.52	87.34	58.90	68.93	68.97%	75.80%	80.0%	75.3%	73.1%	
		Correlation w/ Previous Year	NA	0.21	0.61*	0.76*	0.72*	0.54*	0.35*	0.46*	0.64*	
2.Services provided by provincial agencies: vocational training (% Very Good or Good)	PCI Survey Question: E1.8	Min	31.25	24	6.25	10.25	10.67%	16.46%	15.25%	17.33%	16.30%	
		Median	55.43	55.9	19.81	27.11	27.40%	34.88%	42.15%	43.10%	33.08%	
		Max	73.17	79.49	46.28	48.51	64.37%	68.25%	73.39%	67.78%	57.47%	
		Correlation w/ Previous Year	NA	0.66*	0.78*	0.57*	0.57*	0.39*	0.26*	0.37*	0.56*	
3. Firm has used labor exchange services (%)	PCI Survey Question: E2.6.3	Min				15.65%	4.39%	23.76%	13.58%	9.52%	13.11%	
		Median				33.33%	31.11%	52.56%	33.33%	30.10%	27.94%	
		Max				47.13%	48.08%	83.17%	54%	48%	48%	
		Correlation w/ Previous Year				NA	0.37*	0.31*	0.14	0.09	0.25	
4. Firm used private provider for above labor exchange services (%)	PCI Survey Question: E2.6.1.3	Min				25.53%	0.00%	3.45%	2.00%	5.88%	5.56%	
		Median				40.43%	39.06%	22.72%	15.62%	45.00%	40.00%	
		Max				75.61%	84.42%	61.80%	39%	80%	84%	
		Correlation w/ Previous Year				NA	0.39*	0.13*	0.09	0.25	0.34*	

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
5.Firm intends to use above service provider again for labor exchange services (%)	PCI Survey Question: E2.6.1.3	Min				8.51%	32.65%	6.90%	4.76%	5.56%	13.33%	
		Median				27.78%	62.50%	27.78%	19.56%	40.00%	50.00%	
		Max				42.86%	93.94%	53.70%	34.54%	75.00%	66.67%	
		Correlation w/ Previous Year				NA	0.02	0.23*	0.1479	0.29*	0.16	
6.Percentage of total business costs spent on labor training.	PCI Survey Question: E8 (Data is the residual after regresssing labor costs on firm type, sector, size, number of enterprises in province, average industrial wage in province.)	Min				0 (-3.6)	0 (-3.37)	0(-3.31)	0.87(-2.42)	1.2(-1.54)	3.38 (-1.54)	
		Median				1 (-2.5)	1.25 (-2.44)	1(-2.14)	3.9(-0.039)	2.9(-.20)	5.56(-.20)	
		Max				2.5 (-1.19)	3 (0.917)	5(1.02)	7.47(4.03)	5.2(2.68)	8.09(2.68)	
		Correlation w/ Previous Year				NA	0.37*	-0.08	0.01	0.31*	0.14	
7. Percentage of total business costs spent on labor recruitment	PCI Survey Question: E9 (Data is the residual after regresssing labor costs on firm type, sector, size, number of enterprises in province, average industrial wage in province.)	Min				0 (-3.5)	0 (-3.99)	0(-2.92)	1.48(-2.29)	0.47(-2.41)	1.25(-2.53)	
		Median				1 (-2.3)	1 (-2.8)	0(-2.30)	3.82(-0.18)	2.09(-0.23)	4.32(-.16)	
		Max				2 (-1.27)	3 (1.99)	1(-0.94)	9.39(4.866)	6.19(4.48)	9(4.87)	
		Correlation w/ Previous Year				NA	0.21	0.11	-0.22	0.25*	0.27*	

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
8. Overall Satisfaction with Labor (% Agreeing labor meets firm needs).	PCI Survey Question: E.9	Min				50.4%	58.40%	42.99%	71.6%	85.0%	77.5%	
		Median				74.1%	73.47%	75.60%	92.7%	95.1%	93.6%	
		Max				83.8%	90.11%	93.75%	100.0%	99.0%	100.0%	
		Correlation w/ Previous Year				NA	0.28*	0.21*	-0.10	0.24	0.55*	
9. Ratio of vocational training school graduates to untrained laborers	Ministry of Labor, Invalids and Socal Affairs: General Labor Department	Min				1.42%	0.89%	1.03%	0.95%	1.20%	0.63%	
		Median				5.45%	3.13%	3.60%	3.72%	4.60%	4.56%	
		Max				29.02%	20.51%	20.08%	22.42%	22.37%	12.00%	
		Correlation w/ Previous Year				NA	0.58*	0.93*	0.93*	0.91*	0.93*	
10. Secondary school graduates as % of workforce	General Statistical Office	Min				4.4%	4.36%	2.73%	2.05%	2.98%	2.14%	
		Median				10.3%	8.65%	7.10%	7.69%	7.59%	7.61%	
		Max				30.2%	28.02%	16.17%	19.09%	19.53%	12.86%	
		Correlation w/ Previous Year				NA	0.91*	0.65*	0.85*	0.92*	0.89*	
11. Percentage of workers having completed training at vocational schools NEW INDICATOR	PCI Survey Question: E12	Min								23.18%	23.19%	
		Median								42.80%	42.49%	
		Max								67.25%	55.06%	
		Correlation w/ Previous Year								N.A	0.45*	

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

Table 3.10 Comparison of Legal Institutions (2006-2014)

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Legal system provided mechanism for firms to appeal against officials' corrupt behavior (% Always or Usually)	PCI Survey Question: G2	Min	7.44%	17.70%	17.22%	13.04%	14.16%	0.00%	9.0%	16.1%	15.5%	
		Median	19.16%	28.80%	27.31%	25.17%	25.00%	23.70%	23.7%	32.6%	31.6%	
		Max	35.53%	41.41%	42.53%	43.94%	53.33%	55.80%	51.7%	69.9%	53.4%	
		Correlation w/ Previous Year	NA	-0.24	0.48*	0.38*	0.27*	-0.08*	-0.12	0.25*	0.30*	
2. Firm confident that legal system will uphold property rights and contracts (% Strongly Agree or Agree)	PCI Survey Question: G1	Min	50.00%	53.57%	55.05%	45.63%	43.36%	0.00%	41.7%	58.2%	71.6%	
		Median	69.42%	66.11%	67.00%	62.32%	62.69%	69.94%	63.8%	83.2%	81.0%	
		Max	82.14%	77.55%	78.23%	75.76%	71.11%	88.76%	81.8%	92.6%	88.6%	
		Correlation w/ Previous Year	NA	0.50*	0.40*	0.29*	0.16	-0.14*	-0.04	0.22	0.16	
3. Cases filed by by non-state entities at Provincial Economic Court per 100 firms.	People's Supreme Court	Min	0	0	0	0	0.00	0.00	0.00	0.00	0.00	
		Median	0.41	0.58	1.29	3.05	1.74	2.11	1.32	2.09	1.52	
		Max	9.49	8.12	6.97	35.64	62.10	14.82	9.01	21.74	14.24	
		Correlation w/ Previous Year		0.66*	0.32*	0.84*	0.84*	0.70*	0.68*	0.57*	0.65*	
4. Non-state claimants as a percentage of claimants at Provincial Economic Court.	People's Supreme Court	Min	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
		Median	50.00	50.00	65.48	72.41	73.47	84.81	90.00	85.71	85.71	
		Max	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	
		Correlation w/ Previous Year	NA	0.38*	0.05	0.41*	0.40*	0.27*	0.46*	0.30*	0.26*	

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
5. Ratio of economic cases solved(%) (NEW indicator 2014)	People's Supreme Court	Min									44%	
		Median									81%	
		Max									100%	
		Correlation w/ Previous Year									N.A	
6. Provincial court judge economic cases by the law (% Agree or strongly agree) NEW INDICATOR	PCI Survey Question: G3.1	Min								78.13%	72.68%	
		Median								89.29%	85.98%	
		Max								98.84%	94.74%	
		Correlation w/ Previous Year								N.A	0.45*	
7.Provincial court resolve economic cases quickly (% Agree or strongly agree) NEW INDICATOR	PCI Survey Question: G3.2	Min								29.47%	42.03%	
		Median								58.00%	56.00%	
		Max								80.65%	67.80%	
		Correlation w/ Previous Year								N.A	0.11	
8. Court judgements are enforced quickly (% Agree or strongly agree) NEW INDICATOR	PCI Survey Question: G3.3	Min								38.64%	43.06%	
		Median								60.00%	59.78%	
		Max								86.02%	73.13%	
		Correlation w/ Previous Year								N.A	0.03	

Indicator	Source (2013 Survey)	Measure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
9. Legal aid agencies support businesses in the use of laws when disputes arise (% Agree) NEW INDICATOR	PCI Survey Question: G3.4	Min								40.00%	53.13%	
		Median								68.75%	65.28%	
		Max								86.67%	79.59%	
		Correlation w/ Previous Year								N.A	0.17	
10.Formal and informal costs are acceptable (% Agree or strongly agree) NEW INDICATOR	PCI Survey Question: G3.5	Min								57.35%	57.35%	
		Median								77.78%	71.03%	
		Max								93.26%	83.33%	
		Correlation w/ Previous Year								N.A	0.32*	
"11.Judgement by the court is fair (% Agree or strongly agree) NEW INDICATOR"	PCI Survey Question: G3.6	Min								71.67%	66.14%	
		Median								85.96%	80.00%	
		Max								96.70%	92.86%	
		Correlation w/ Previous Year								N.A	0.25*	
12.Willingness to use court in case a dispute arises (% Yes) NEW INDICATOR	PCI Survey Question: G4	Min								29.31%	36.05%	
		Median								59.74%	50.48%	
		Max								77.87%	63.10%	
		Correlation w/ Previous Year								N.A	0.04	

NOT FOR SALE