

THE 2018 PROVINCIAL COMPETITIVENESS INDEX (PCI)

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Agenda

1. Overview of PCI
2. 2018 PCI Main Findings and Trends to Watch
3. Views of Foreign Invested Enterprises (FIEs) about Vietnam's Business Environment

1. OVERVIEW OF PCI

Brief Information about PCI

- What does the PCI measure? Actual quality of economic through best governance practices already found in provinces, thereby promoting business development.

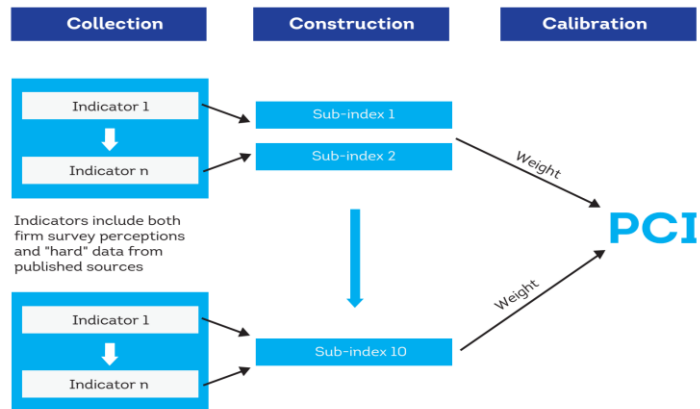
10 PCI Subindices

- | | |
|----------------------------|-------------------------------------|
| 1. Entry Costs | 6. Policy Bias |
| 2. Land Access | 7. Proactive Leadership |
| 3. Transparency | 8. Business Support Services |
| 4. Time Costs | 9. Labor Training |
| 5. Informal Charges | 10. Law & Order |

PCI Methodology: The Three Cs

- Three-step process:

- (i) Collection of data: survey data combined with other published data;
- (ii) Construction of 10 subindices, which are standardized to a ten-point scale; and
- (iii) Calibration through weighting subindices to create a final index on a 100 point scale.



Size of the 2018 PCI survey

12,258 enterprises

Domestic private sector
(PCI - 63 provinces, cities)

Foreign invested enterprises
(FIEs)
(20 provinces, cities)

8,681 firms

2,000
Newly registered enterprises

1,577 FIEs

A stratified random sample by province/city:

- Legal form
- Business sector
- Firm age



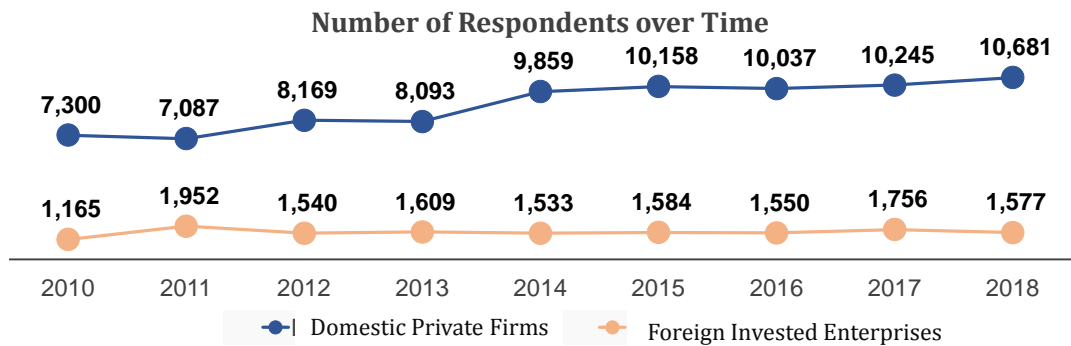
14 Years of PCI 2005-2018

128,582
responses

114,316 Domestic
private
firms
14,266 FIEs

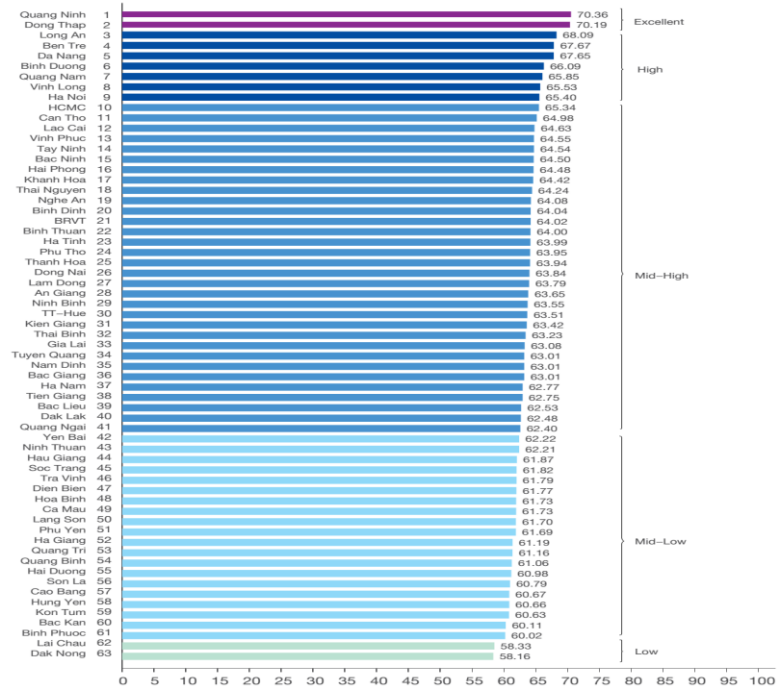


1 out of every 5 firms in operation has
responded to the PCI survey

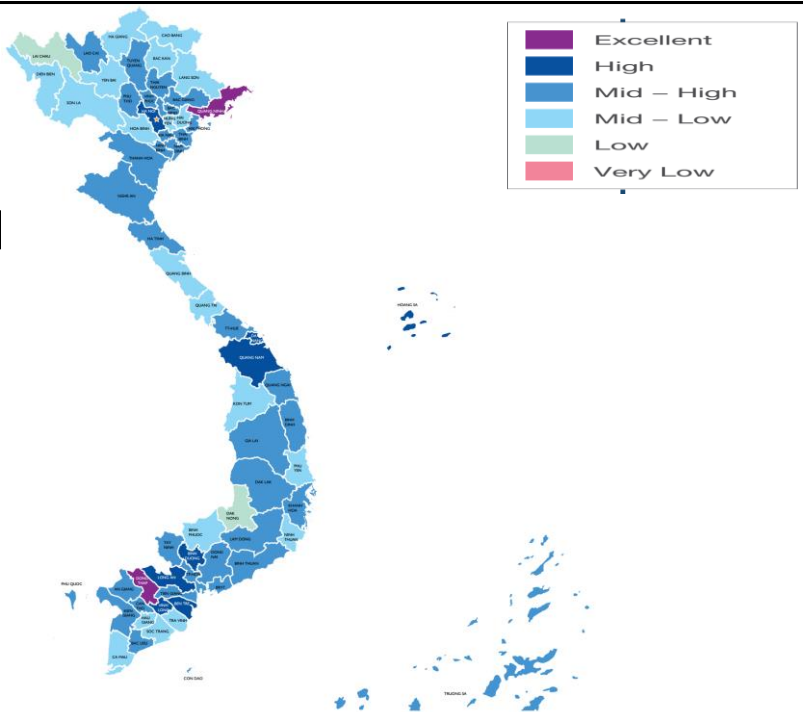


2. 2018 PCI FINDINGS

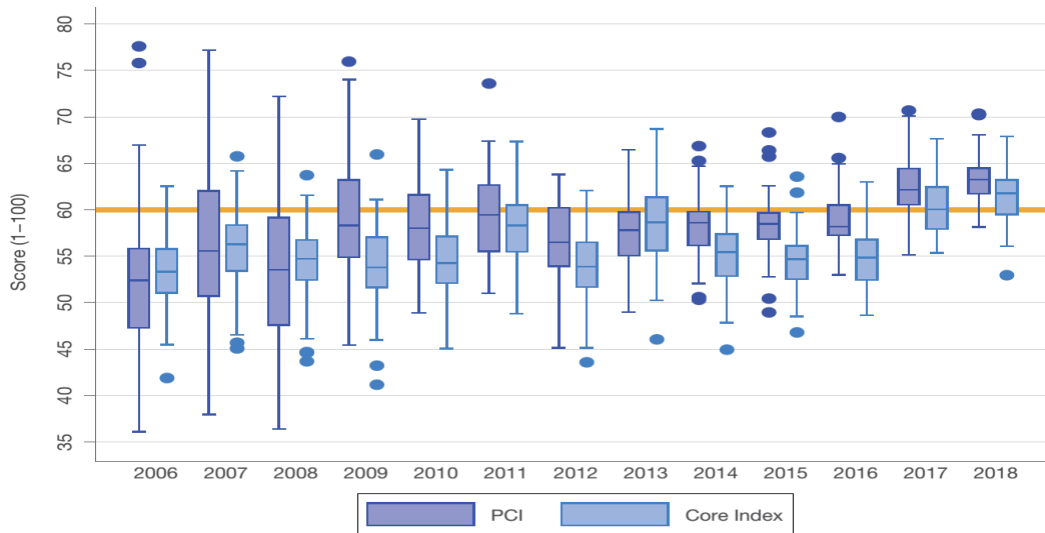
The 2018 PCI Rankings



The 2018 PCI Map



Improved Economic Governance over Time



Key Trends in the 2018 PCI

POSITIVE TRENDS

Declining Corruption

66%
2015



55%
2018

Percentage of firms paying bribes

11%
2015



7%
2018

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

Less Biased Business Environment

39%
2015



32%
2018

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

49%
2015



FDI

37%
2018

MSMEs

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

POSITIVE TRENDS

Continued Progress on Administrative Reforms

75%
2018

67%
2015

Local government officials are effective



68%
2018

59%
2015

Local government officials are friendly

67%
2015



69%
2018

Time to complete administrative procedures is shorter than specified in regulations

26%
2015



11%
2018

Share of firms receiving overlapping regulatory inspections

WORRISOME TRENDS

Regulatory Procedures Still Cumbersome

10%
2014



16%
2018

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

39%
2013



53%
2018

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

29%
2018

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



34%
2018

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

WORRISOME TRENDS

Transparency Has Not Improved

2.38
2015



2.38
2018

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

69%
of firms said



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

Land Access Declining Slightly

29%
2017



31%
2018

Percentage of firms reporting access to land information was inadequate

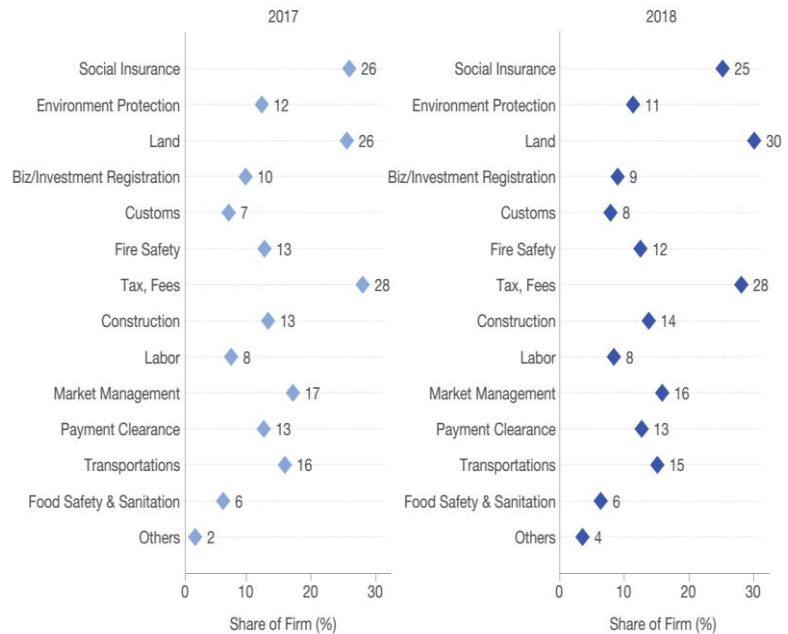
15%
2017



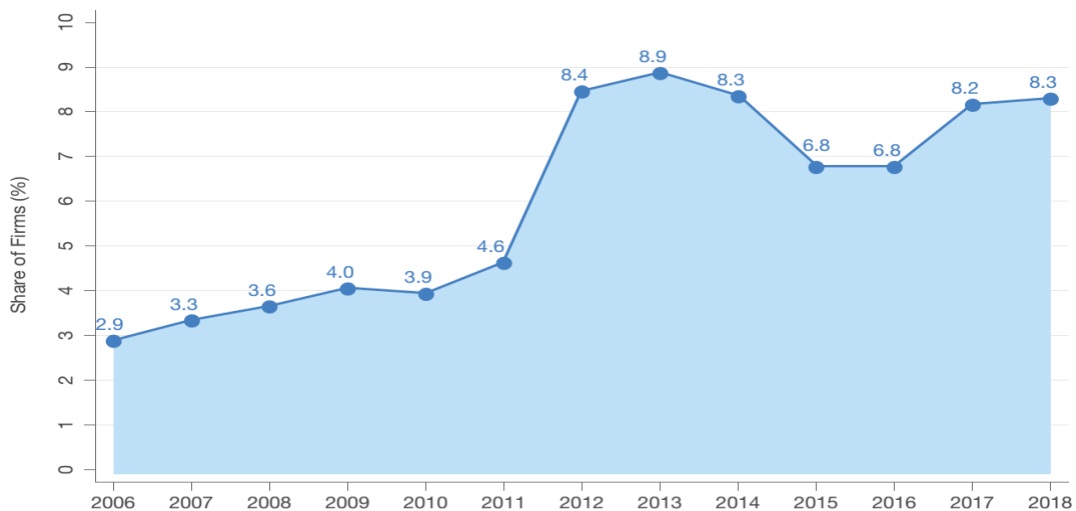
19%
2018

Percentage of firms claiming land not available

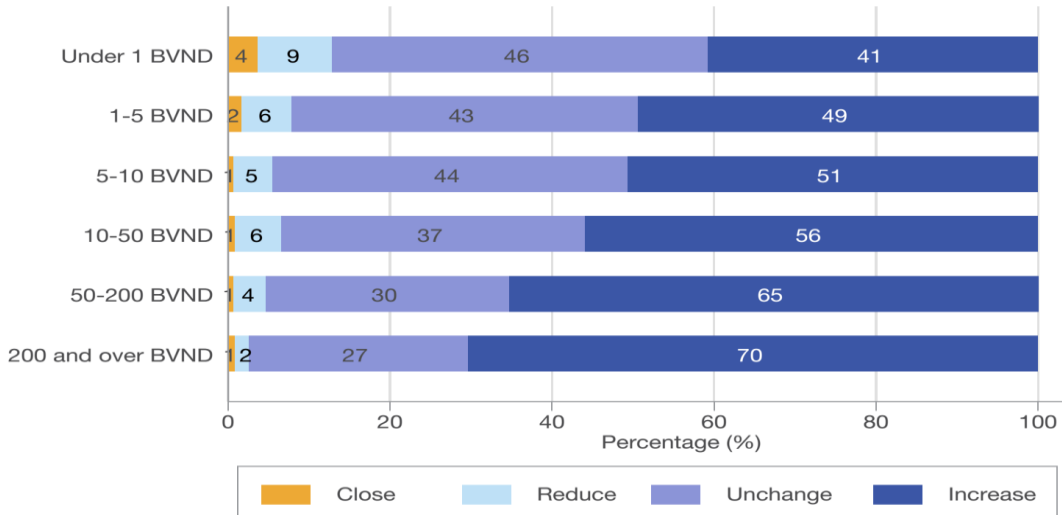
Most Troublesome Administrative Procedures: Land, Tax, Social Insurance, Market Management, and Transportation



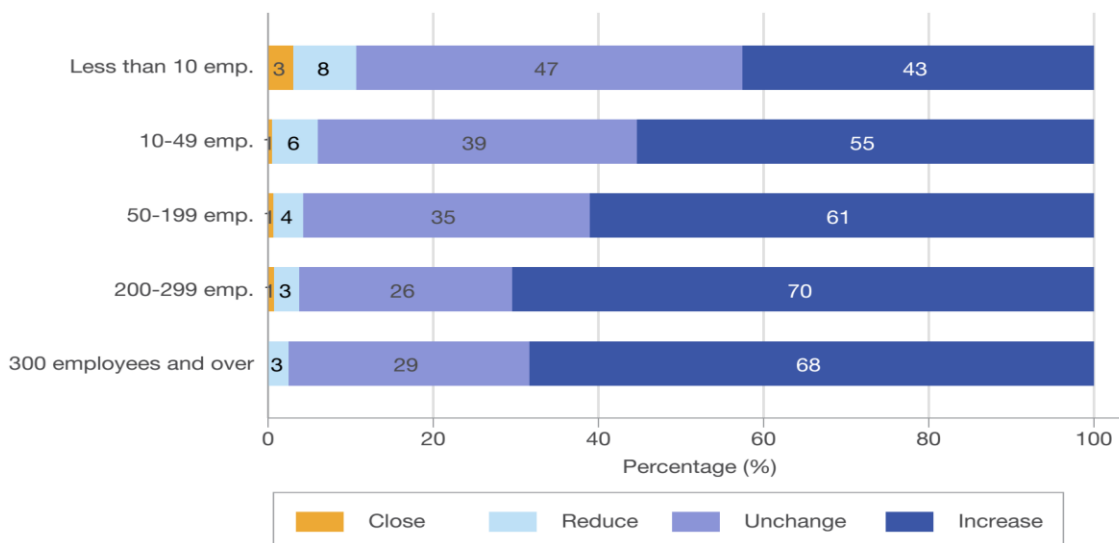
Share of Firms Planning to Reduce Size or Close is High!



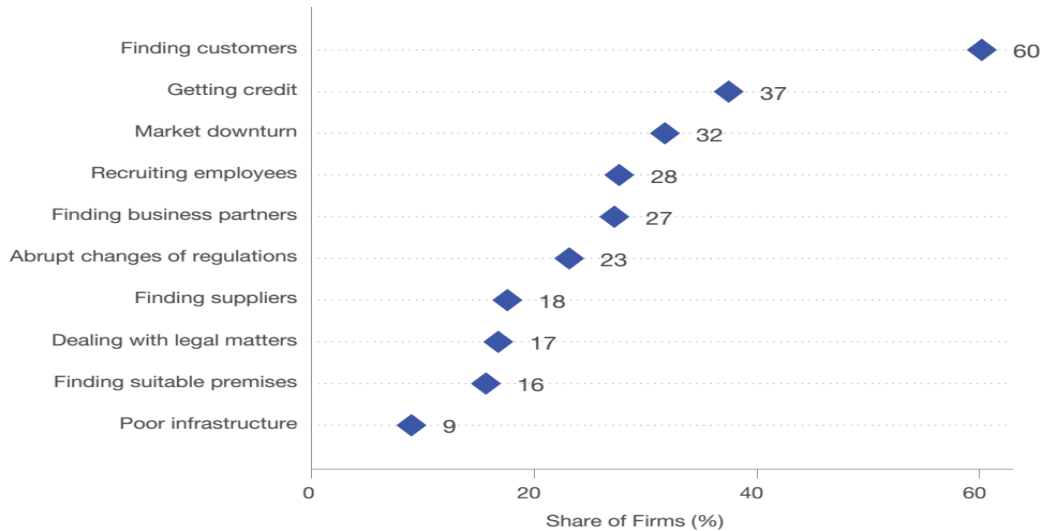
Business Prospects over Next 2 Years (By Firms' Capital Size)



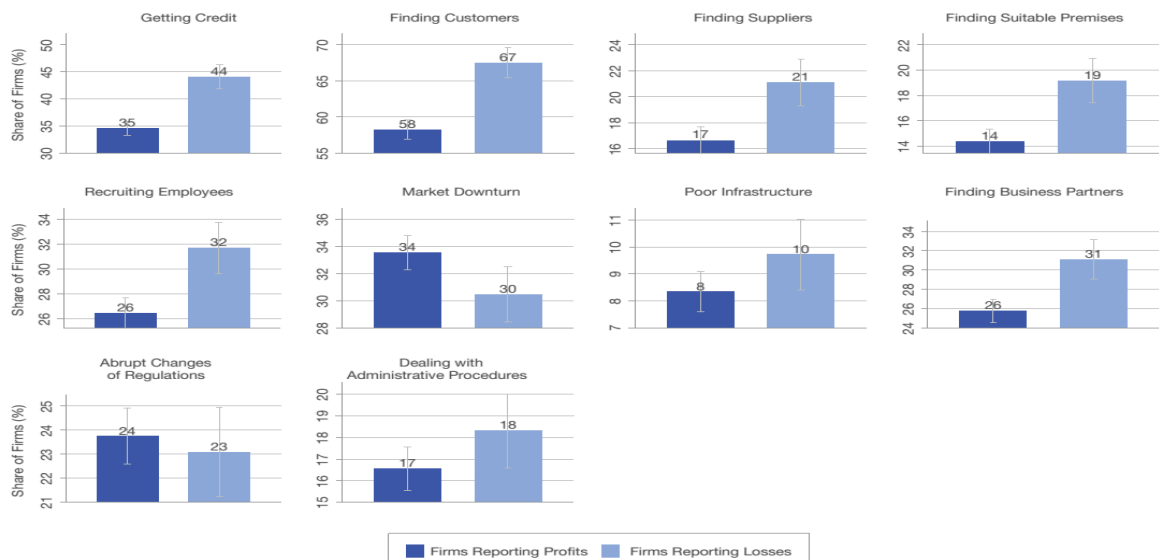
Business Prospects over Next 2 Years (By Firms' Employment Size)



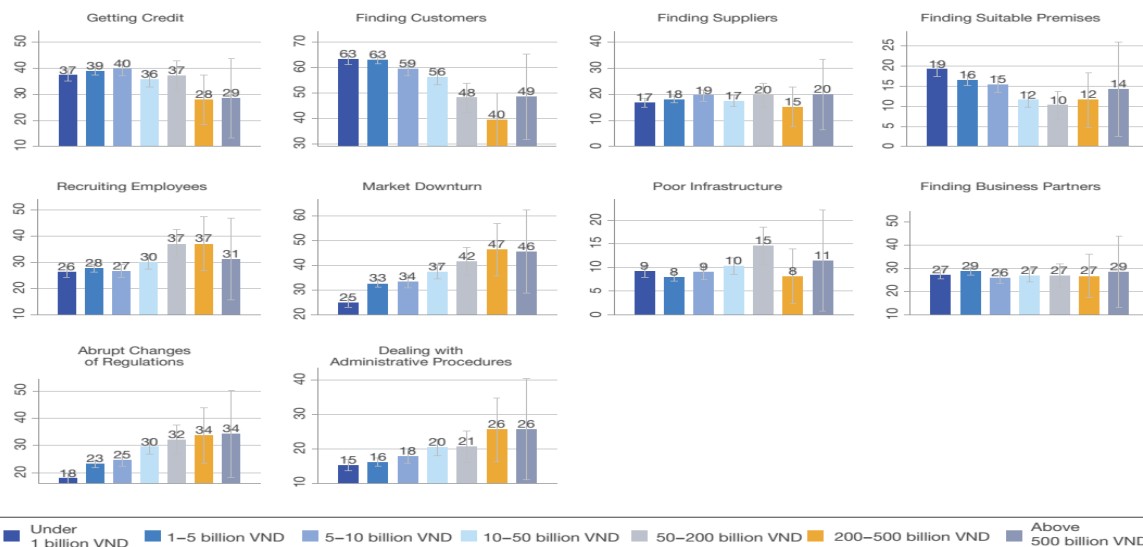
What Challenges are Business Operations Facing?



Major Challenges by Firms' Business Performance



Major Challenges by Firms' Investment Size



Summary of Domestic Private Enterprises Survey Results

- Sustained improvement in many areas of provincial economic governance in Vietnam:
 - Reduced informal charges for enterprises.
 - More level playing field for private firms.
 - Substantial business-friendly reforms of administrative procedures.
 - Continuous effort is required to create a more enabling environment:
 - Transparency has yet to be improved.
 - Labor quality and business support services must be further enhanced.
 - Post-registration administrative procedures need to be accelerated.
 - Private enterprises are still facing many difficulties in their production and business activities.
- Timely and effective policy measures that stem from careful attention to the issues raised will play a vital role in the development of a healthy, productive, and sustainable private sector in Vietnam.

3. VIEWS OF FOREIGN INVESTED ENTERPRISES (FIES) ABOUT VIETNAM'S BUSINESS ENVIRONMENT

The 2018 PCI-FDI Survey

1,577 FIEs respondents, from **36** countries and territories

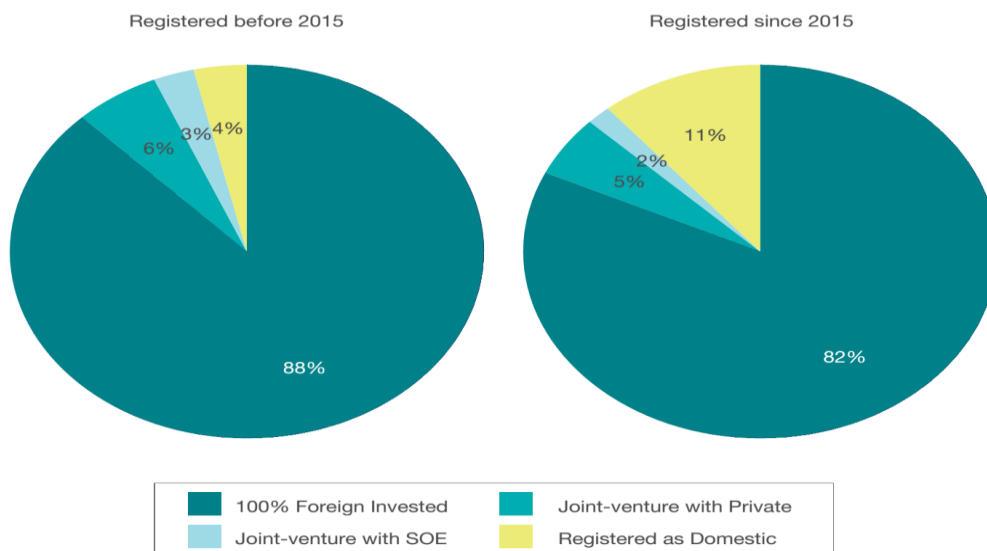
Year	Firms Increasing Investment (%)	Firm Adding Employees (%)	Firms Reporting Profits (%)	Firms Reporting Losses (%)	Median Sales (Millions of 2010 USD)	Median Expenditures (Millions of 2010 USD)
2012	5.2	31.0	60.4	27.5	1.54	0.97
2013	5.1	30.0	63.6	24.1	1.45	0.94
2014	16.1	62.4	57.9	34.2	1.14	0.71
2015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

FIEs Seem to be Shrinking

Employment Size: Percent of firms with employment of:								
Year	Less than 5	5 to 9	10 to 49	50 to 199	200 to 299	300 to 499	500 to 999	1000 and over
2012	2.5	7.5	27.3	29.1	9.9	8.6	8.1	7.0
2013	3.6	5.5	28.1	30.5	9.5	8.0	8.3	6.4
2014	5.3	8.5	29.0	29.5	6.6	7.6	6.9	6.6
2015	5.7	9.3	31.0	27.7	6.4	7.0	6.8	6.1
2016	5.9	9.7	29.1	29.8	6.9	7.3	4.9	6.2
2017	7.4	10.9	31.0	26.2	7.3	5.0	5.8	6.4
2018	9.4	11.0	32.0	26.4	6.3	5.5	5.4	4.0

Capital Size: Percent of firms reporting equity of:								
Year	Under 0.5 BVND (\$25,000)	0.5 to under 1 BVND (\$50,000)	1 to under 5 BVND (\$250,000)	5 to under 10 BVND (\$500,000)	10 to under 50 BVND (\$2.5 million)	50 to under 200 BVND (\$10 million)	200 to under 500 BVND (\$25 million)	500 BVND and over (\$50 million)
2012	2.3	4.2	14.8	17.0	29.6	19.5	6.7	5.9
2013	2.5	4.1	15.3	19.3	31.4	16.4	6.1	4.9
2014	5.7	5.5	14.0	15.7	30.6	16.8	6.2	5.5
2015	6.1	6.1	17.4	16.9	25.8	15.8	6.3	5.7
2016	7.0	3.5	16.3	13.3	31.6	17.0	5.6	5.7
2017	7.9	5.7	16.7	15.1	27.3	16.8	4.7	5.9
2018	10.8	6.6	20.3	13.0	25.7	15.9	4.0	3.9

Share of FIEs Registering as Domestic Operations Increased



FIEs in Vietnam Remain Strongly Export Oriented

2018 PCI-
FDI Survey
Question
A14: Who
are your
main
customers?

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

Customers of FIEs (Percentage with least one customer)

FIEs' Inputs are Largely Imported, but Share Declined over Past Two Years

2018 PCI-
FDI Survey
Question
A16: Who
are your
suppliers of
intermediate
goods and
services?

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

Suppliers of FIEs (Percent with a least one vendor)

Burdens of Post-Entry Regulations Are Declining

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

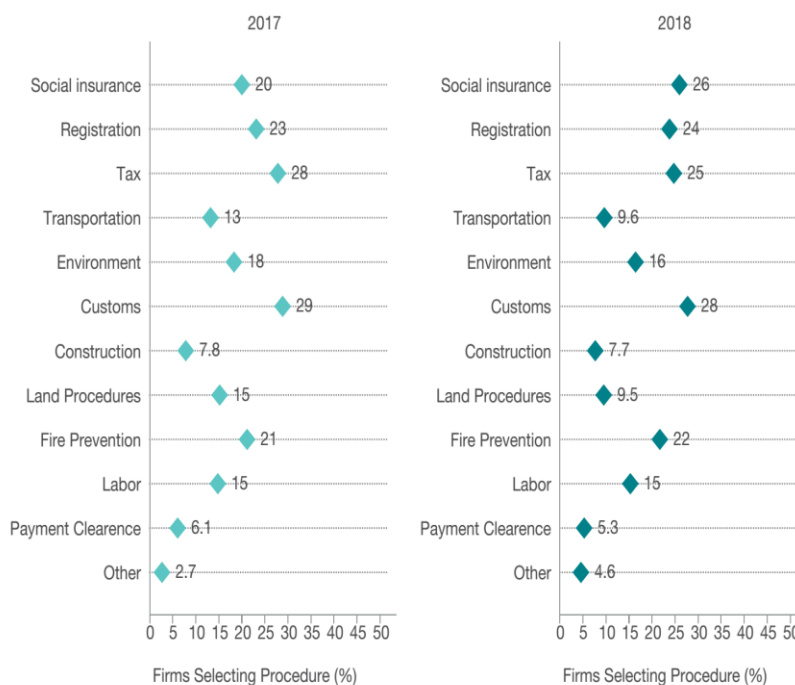
Frequency of Informal Charges is Declining

Year	<u>Type of Informal Charges</u>					
	Regulations are an Excuse for Bribery (%)	Paid informal charges to Inspectors (%)	Bribe during Customs Procedures (%)	Bribe during Land Procedures (%)	Bribes Were a Deterrent to Using Courts (%)	Service Delivered after Bribe Payment (%)
2010	32.0		64.9		9.3	48.0
2011	23.9		52.9		5.2	46.1
2012	24.2		56.2		13.1	54.7
2013	44.0		58.6		14.5	59.0
2014	59.9		66.2		21.9	58.2
2015	58.8		66.5		23.9	59.1
2016	49.7	45.8	56.4	22.6	18.7	45.3
2017	44.6	44.9	53.0	17.5	18.9	50.3
2018	36.5	39.9	44.4	6.8	14.3	49

Cost of Informal Charges is Declining

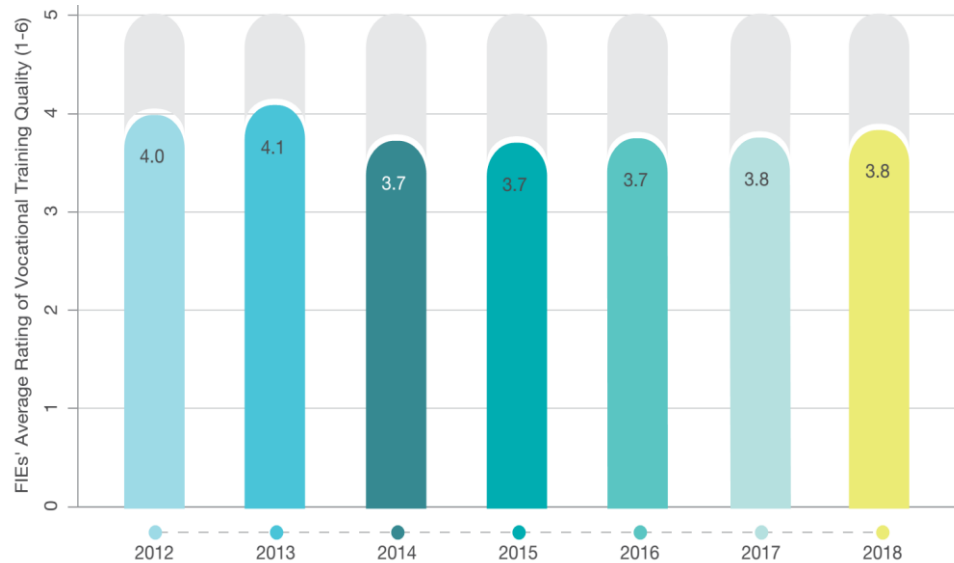
Year	Cost of Informal Charges (Amount/Annual Income)					
	0%	<1%	1-2%	2-5%	5-10%	>10%
2010	21.8	40.4	16.7	11.4	7.0	2.6
2011	30.2	33.7	20.0	7.7	6.7	1.6
2012	30.0	41.0	17.4	8.3	2.6	0.8
2013	19.7	48.5	18.3	8.7	3.1	1.7
2014	18.7	42.7	20.4	11.8	4.5	1.9
2015	16.4	44.5	18.2	12.8	6.4	1.8
2016	25.9	43.9	15.2	8.8	4.1	2.1
2017	31.3	41.1	14.4	6.8	3.8	2.6
2018	37.5	39.8	14.6	4.8	1.8	1.5

Most burdensome administrative procedures: Customs, Social Insurance, Tax, Registration, Fire Prevention, Environment, and Labor

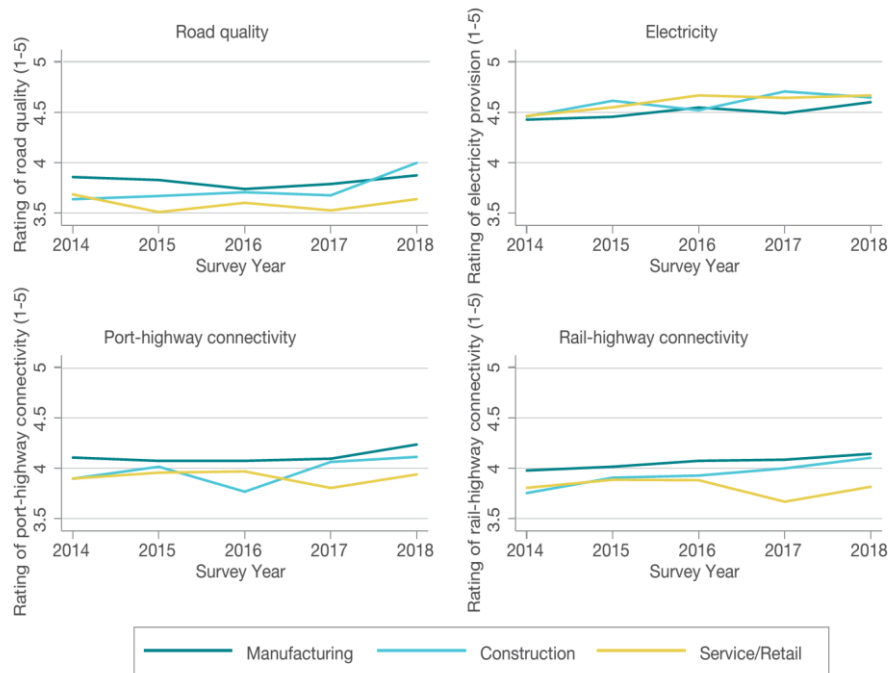


Slow Progress in Labor Quality Improvements

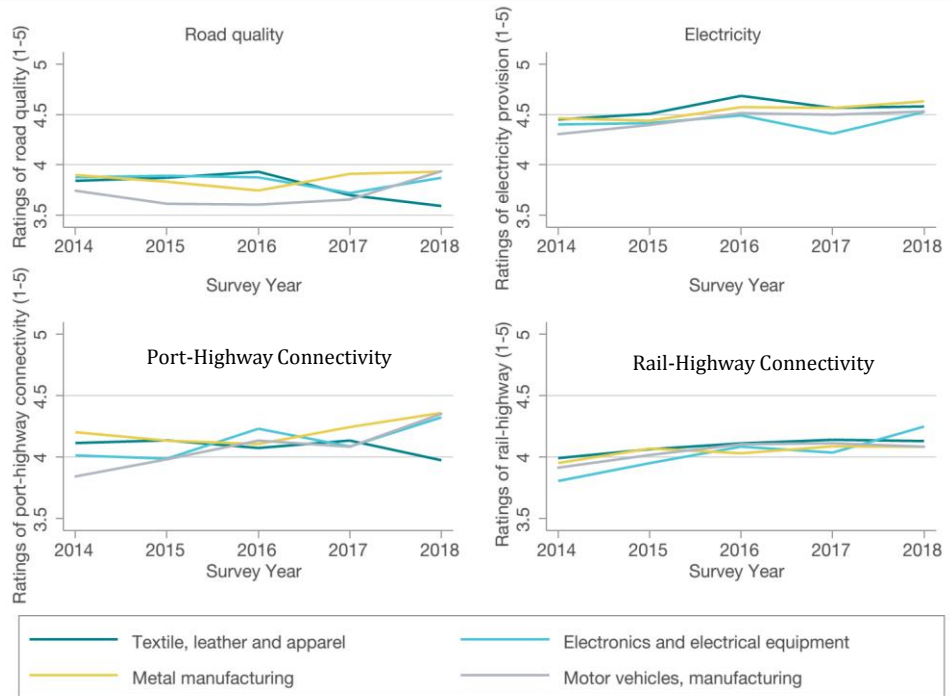
Only 31%
FIEs are
satisfied
with
labor
quality



**FIEs' rating of
infrastructure
by sector**



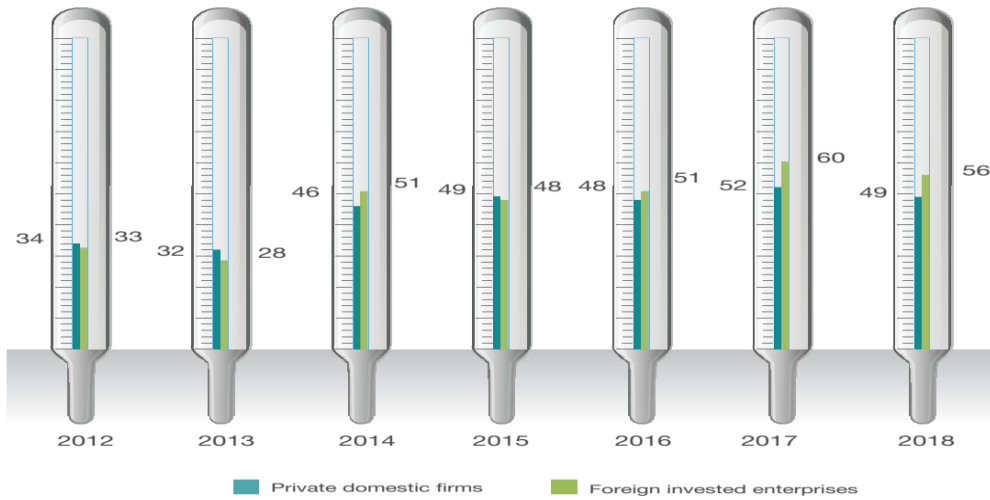
FIEs' rating of infrastructure by subsector (target group for the strategic plan)



Summary of the 2018 PCI-FDI Survey Results

- Bright spots:
 - High-technology subsectors, such as electronics, are accounting for an increasing share of foreign investment.
 - Regulatory burden has been alleviated
 - Informal charges have been declining significantly.
- Areas that require attention:
 - It is critical to improve labor quality, **especially in high-skilled and management professions.**
 - The size of FDI projects is decreasing, which may indicate an influx of satellite FIEs seeking to supply to larger FDI projects.
 - → Such firms can crowd out domestic vendors
 - While large investment into infrastructure is paying off, some provinces are lagging behind.

Business Confidence Remains High!



Business Thermometer

*THANK
YOU!*