

Business Environment in Vietnam from Enterprises' Perspective

Vu Hung Cuong *
Luong Minh Huan **

Abstract: In the past few years, central government and provinces have attempted to improve business environment to create more favorable conditions for enterprises' investment and production, more equality among enterprises. The author tries to assess business environment in Vietnam by i) comparing Vietnam business conditions and other countries using results of Global Entrepreneurship Monitor – (GEM) and Vietnam Entrepreneurship Monitor (VEM); ii) evaluating the improvement of Vietnam business environment used mainly results of Provincial Competitiveness Index (PCI) of Vietnam Chamber of Commerce and Industry (VCCI).

Key words: Business environment; private sector.

1. Vietnam business conditions in 2013 compared with other countries

To assess business conditions in different countries, GEM study is based on the results of experts' survey in 9 fields and builds a set of 12 indicators. VEM 2013 shows the presence and restrictions on business conditions in Vietnam.

According to experts' survey, infrastructure is rated highest in Vietnam business condition, reaching 3.57 points (on a scale of 1 to 5). Experts particularly appreciate communication system development, which businesses can quickly access communication system with normal cost, while road system, electricity and water are evaluated as not up to expectations for the development of the business activities. The next two factors that experts highly appreciate are the dynamic of domestic market (3.50 points) and cultural and social norms (3.10 points). Of the 12 business condition indicators, only 3 indicators are on average (3 points), while 9 remaining indicators are evaluated below average, including three lowest positions: Government Support Program

(2.49 points), Finance for Business (2.39 points) and especially Business Education at the Secondary School (1.96 points). There seems lack of content encouraging the development of entrepreneurship, creativity, confidence and sense of initiative guidance market principles for pupils in Vietnam secondary school education.

However, when comparing Vietnam business condition and other countries, the order of business condition has big differences. Vietnam's highest ranking index is government regulations, ranked 13th out of 69 countries, though still below the average score, followed by the domestic market's dynamic indicators ranked 15th. Last three indicators ranked 20th are government policy, technology transfer and cultural and social norms. Notably, among five indicators highest ranking of Vietnam, namely government regulations, government policy and technology

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transfer are below average points. This suggests a limited extent in facilitating business development of the government policy and the technology transfer in many countries around the world. It is one of the factors that need to be improved in Vietnam to help business grow. The lowest Vietnam index of business condition is business education at the secondary school (46th) and business education after secondary (50th).

These results also indicate the status of teaching knowledge and understanding of business in both high school and post-secondary in Vietnam is lagging very much compared with other countries in the world. Moreover, Vietnam workforces also lack the cognitions, behaviors and technique skills as identified in the Vietnam Development Report 2014 of the World Bank which

suggests reforming Vietnam education program. The third lowest ranking is business support services (ranked 45th), also known as commercial infrastructure. These services such as consulting, legal, accounting and auditing in Vietnam has not developed adequately with the level of economic development, therefore they have not effectively supported business development. This makes most Vietnam enterprises still do not want to use these services to help improve and enhance business performance, except required by law. Despite enjoying the highest average scores compared with other indicators in Vietnam, Index of Infrastructure ranked only at 43rd which suggests Vietnam infrastructure still belongs to backward countries, thus infrastructure is still creating barriers to business development.

Table 1: Ranking of Business Condition in Vietnam in 2013

Business conditions	Vietnam		Best		Worst	
	Scores	Rank	Country	Scores	Country	Scores
Government Regulations	2.77	13	Singapore	4.14	Italy	1.54
Domestic dynamic market	3.50	15	Korea	4.09	Uruguay	1.97
Government policies	2.89	20	Singapore	3.65	Iran	1.85
Technology Transfer	2.54	20	Switzerland	3.48	Barbados	1.64
Cultural and Social Norm	3.10	20	USA	3.92	Slovakia	1.89
Openness of domestic market	2.66	32	Singapore	3.39	Iran	1.76
Government support program	2.50	38	Singapore	3.67	Iran	1.54
Finance for business	2.40	42	Taiwan	3.68	Spain	1.79
Infrastructure	3.58	43	Switzerland	4.69	Angola	2.28
Business support services	2.89	45	Netherlands	3.85	Iran	2.11
Education of business at secondary school	1.97	46	Philippines	3.06	Spain	1.37
Education of business at tertiary school and higher	2.64	50	Jamaica	3.50	Angola	2.12

Source: Global Experts Survey 2013.

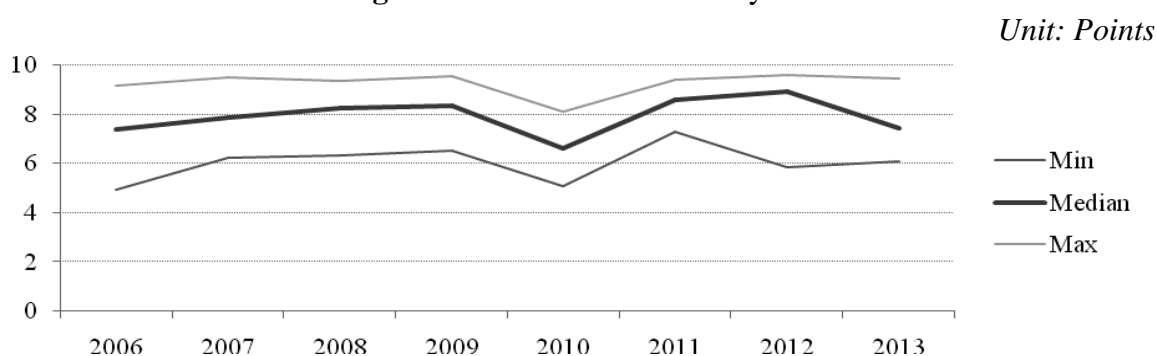
2. Business environment in Vietnam from the perspective of private sector

2.1. The cost of market entry

PCI survey results of Vietnam Chamber of Commerce and Industry show that the cost of entering market improved during 2006-2012. Most provinces are attempting to improve enterprises' market access conditions by reforming business registration

procedures, reducing license requirements and establishing one step service. As a result, provincial median calculation in 2012 reached nearly 9 out of 10 points on the index. However, the index fell in 2013 and there is a growing disparity in the cost of market entry among provinces, expressed through the gap between the lowest and the highest province points during 2012 - 2013.

Figure 1: Index of Market Entry Cost



Source: PCI Report of VCCI.

Table 2: Components of Market Entry Cost

Criteria	2006	2007	2008	2009	2010	2011	2012	2013
Enterprises' registration (day)	20	15	12.25	10	10	8.5	10	10
Changing content of enterprises' registration (day)	10	7	7	7	7	7	7	7
Waiting time for land usage registration (day)	121	60	38.5	32.5	30	30	30	30
% of enterprises waiting for more than one month registry completion to start operation	25.81	27.21	21.91	19.35	24.39	14.70	13.95	16.67
% of enterprises waiting for more than three month registry completion to start operation	5.78	6.78	5.72	4.44	5.77	3.33	2.94	3.57

Source: PCI Report of VCCI.

Considering details of the index components, business registration time reduced a half from 20 days in 2006 to 10 days in 2013.

Similarly, the time to change the content of business registration has decreased from 10 days to 7 days during 2006 - 2013. The

breakthrough improvement is the waiting time to issue a land use right certificate. In 2006, enterprises should take about 4 months to get it but in 2013, it fell sharply to just one month that businesses can obtain this license. These results show Vietnam authority attempts to reduce market entry cost. Thanks to these efforts, the proportion of enterprises waiting 1 month or 3 months for completing registry procedures to operate reduced during 2006-2012. However, in 2013, those waited more than one month increased again, up to 16.67% compared with 13.95% in 2012; similarly, the proportion waiting more than 3 months increased from 2.94% to 3.57% at the same time.

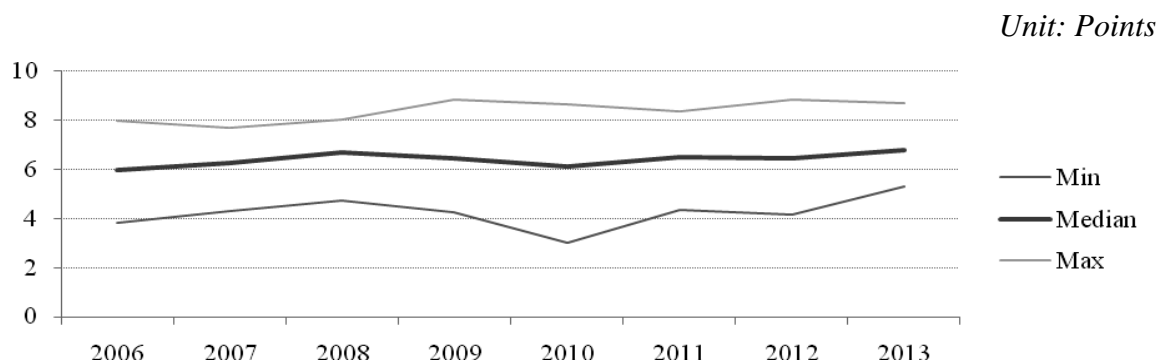
These component indicators made the median score of 2013 market entering cost index decreased in comparison to 2012. The survey sample of 918 private enterprises in Hà Nội, Hải Phòng, Đà Nẵng, Hồ Chí Minh City, Bình Dương and Cần Thơ in the project

"Some fundamental issues for private enterprises become the motivation of development" (Code II4.5 - 2011.22) carried out in 2013 shows that it takes 40-43% of enterprises from 1 to 3 months to get all the necessary paperwork, and 36-39% completes in 1 week to 1 month. In general, thanks to market access condition improvement, the number of private enterprises registration increased as soon as the economy showed signs of recovery after being affected by the global financial crisis and economic recession.

2.2. Access to land and land use stability

For enterprises, access to land for production and business is crucially "make or break". One good thing is access to land use right seems to have increasingly improved, though still at less than 7 points on a scale of 10. It is more positive that in 2013, all Vietnam provinces enjoyed above average scores on this index, which had never happened before.

Figure 2: Indicator of Land Access and Usage Stability



Source: PCI Report of VCCI.

Of the five indicators measuring access to land and its stable use, there is significant improvement in only 2 indexes: 1) firms owning business premises and land use

certificates and 2) provincial land frame for price change are consistent with market price fluctuation, more than three quarters of businesses agreed with this in 2013.

However, the majority of businesses were not satisfied with the rest three indices. Though improved, there are over 60% of businesses still believe that the private economic sector often encounters obstacles to expanding access to land or business premises. They are afraid of being revoked business premises and 60% of businesses believe that they will not receive fair

compensation in case of land acquisition. These results suggest that access to land and land stable use are issues that businesses concern most, especially non-state enterprises. This result is identical with the findings of Vũ Hùng Cường et al (2011) showing that access to land is increasingly difficult and a permanent obstacle to private businesses.

Table 3: Components Measuring Access to Land and Land Stable Use

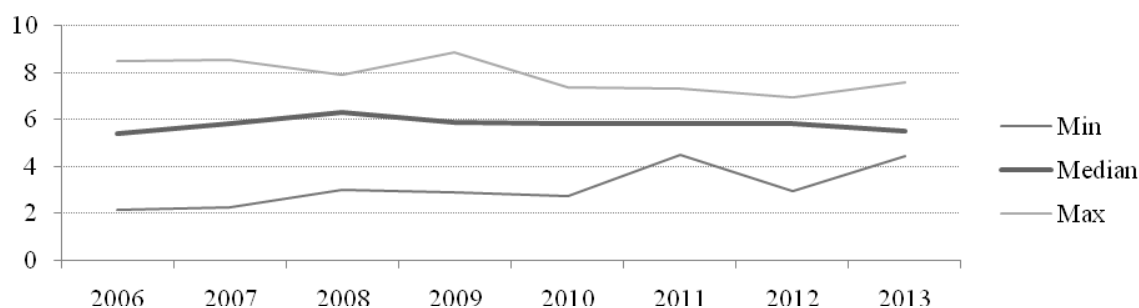
Criteria	2006	2007	2008	2009	2010	2011	2012	2013
% Percentages fo enterprises owning business premises and land use right certificates	55.28	75.57	81.16	73.68	72.89	77.55	75.86	76.54
Percentages of non-state enterprises do not face obstacles in access to land or expanding business premises				30.72	23.89	30.00	31.32	39.50
Enterprises self assess their risk of being revoked land (1: very high; 5: very low)	2.49	2.24	2.04	2.55	2.56	2.90	2.71	2.80
% of enterprises think if land is revoked, theywill be satisfactorily compenstated	40.00	40.76	38.82	40.54	39.90	35.80	36.67	40.32
Percentages of enterprises see provincial price frame for land matches market price				69.75	72.00	68.00	69.57	77.06

Source: PCI Report of VCCI.

2.3. Transparency

The planning and preparation of enterprises' business strategy depends largely on information and forecasting the volatility of the market as well as understanding and grasping authorities' policies on sectors' development strategy and planning. Therefore, enterprises need transparent policies and regulations related to their business approach. Despite

some attempts, the Transparency index has barely been improved in recent years and steadied at only less than 6 points on a scale of 10. Access to the planning documents is less transparent; businesses are not easy to find access to this type of material. The survey results of the project II4.5-2011.22 also show that approximately 30-45% of enterprises are impossible to access the maps and land use planning.

Figure 3: Transparency Indicator*Unit: Points**Source: PCI Report of VCCI.*

It is easier to access to legal documents. Most businesses implicitly need to have special relationship to get this type of material, and the relationships with tax officials are often referred to as the least transparent. Businesses often trade with tax officials to pay less corporate tax income

and in turn, they receive some bonus; this tends to decrease, but it remains high at 40%. It is also too difficult for enterprises to predict the next authorities' regulations and law execution. No more than 10% of businesses are confident to frequently predict and deal with this.

Table 4: Components Measuring Transparency

Criteria	2006	2007	2008	2009	2010	2011	2012	2013
Assessing to planning documents (1: easy access; 5: unable to access)	2.63	2.51	2.55	2.44	2.31	2.51	2.39	2.61
Assessing to legal documents (1: easy access; 5: unable to access)	3.15	3.05	3.11	3.11	3.05	3.03	2.84	3.14
Need backyard relation to have province important documents (% important or very important)	62.50	56.60	49.82	61.26	78.64	75.00	62.20	51.47
Negotiate with tax officials is necessary in business operation (% of agreement or disagreement)	61.05	44.70	36.71	41.32	40.78	41.09	39.21	39.44
Capability of predicting province performing governmental regulations (% always or usually)	9.49	7.96	6.94	8.40	8.97	8.57	6.60	8.18

Source: PCI Report of VCCI.

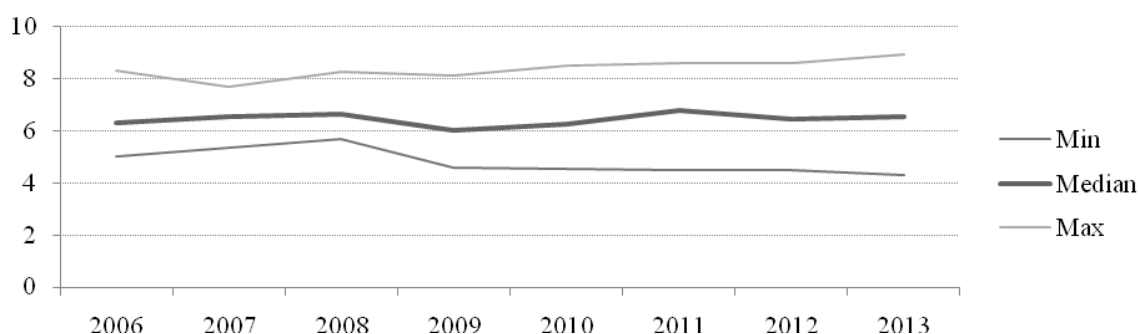
2.4. Unofficial cost

Unofficial cost tends to slightly improve, especially from 2009 to now. However, the difference of unofficial cost between the

localities in Vietnam seems to increase, this is revealed in the distance between the lowest and the highest cost index is increasing.

Figure 4: Indicator of Unofficial Cost

Unit: Points



Source: PCI Report of VCCI.

Table 5: Components Measuring Unofficial Cost

Criteria	2006	2007	2008	2009	2010	2011	2012	2013
Enterprises in the same sector often pay extra unofficial cost (% agreement or completely agreement)	70.00	68.25	65.93	59.40	58.23	51.39	53.17	50.43
% enterprises must pay more than 10% revenue for unofficial cost	12.99	11.54	9.89	8.75	6.78	6.56	6.45	6.96
Corruption when dealing with enterprises is common (agreement or completely agreement)	39.76	38.21	37.12	50.35	50.00	40.28	43.75	41.18
Business performance gain expected results after paying unofficial c cost (% always or usually)	47.89	48.28	48.99	51.51	56.32	61.11	60.71	63.16

Source: PCI Report of VCCI.

The improvement of unofficial cost index is reflected in the proportion of firms believe to have to pay unofficial charges

dropped, from 70% in 2006 to 50.43% in 2013. Despite such decreasing, this is still one of the obstacles to doing business in

Vietnam regarding over 50% of businesses supposed that they have to pay unofficial expenses. The proportion of businesses spend more than 10% of revenue for unofficial costs fell from 12.99% in 2006 to 6.45% in 2012, but it increased slightly to 6.96% in 2013. Notably, average profit margin on revenue of businesses in the private sector was only 8.3% in 2012.

This suggests that for many businesses, unofficial cost takes a high proportion and badly affects enterprises business performance. It should be noted that more and more businesses suppose that their businesses achieve better results after paying unofficial cost (from 47.89% in 2006 to 63.16% in 2013), which in turn encourage more businesses to use unofficial payment to

obtain favorable results. In addition, corruption when addressing procedures for businesses is still popular, as more than 40% of businesses have recognized this. Vũ Hùng Cường (2011) forecasts that unofficial costs for private enterprises will not be improved much in the following years.

2.5. Fair competition

One of the causes of private businesses' inefficient operation comes from unequal competition environment, or more specifically, private enterprises are deprived of many business opportunities by favored state-owned enterprises (SOEs). In fact, about one-thirds of PCI survey participants said that central authority preference for SOEs is an obstacle to their operations; this number has increased slightly compared with 2012.

Table 6: Components Measuring Fair Competition

Criteria	Year 2013
Province favors SOEs causes obstacles for enterprises (% agreement and completely agreement)	32.14
Advantages of assessing land is privilege of SOEs (% agreement)	27.59
Advantages of assessing finance is privilege of SOEs (% agreement)	27.59
Advantages of being granted mine exploitation certificate is privilege of SOEs (% agreement)	19.51
Prompt and simple administrative procedures are privilege of SOEs (% agreement)	25.86
Easy to have contracts from state agencies is privilege of SOEs (% agreement)	35.00
Province prioritizes to deal with foreign enterprises' issues than domestic ones (agree and totally agree)	28.30
Province favors to attract foreign investment than developing private enterprises (agree and totally agree)	29.50
Advantage in assessing land is privilege of SOEs (% agreement)	12.64
Tax deduction is privilege of FDI enterprises (% agreement)	9.64
Simple and prompt administrative procedures is privilege of FDI enterprises (% agreement)	10.85
FDI enterprises' operations receive more support from province (% agreement)	13.48

Contract, land and other economic resources mainly belong to those have close relations with provincial government (% agreement)	96.59
Privilege to big enterprises (state and private sectors) is obstacles to enterprises' own operation (% agreement)	34.62

Source: PCI Report of VCCI.

Not only being unfairly treated compared with the central SOEs management, but private enterprises are also treated unequally in comparison with two types of enterprises: 1) the business formerly is state-owned company and business owners have a good relationship with the government; and 2) FDI enterprises. In 2012 PCI report, 41% of respondents said the formerly SOE businesses receive most favorable conditions. These businesses may still have a stake held by the state and often have close relationship with the government, thus enjoy more favor and care in accessing resources, public spending. Besides the relationship factor, 35% of businesses believe that large enterprises in province (in terms of revenue and labor scale) are favored more.

For FDI enterprises, many localities have implemented the "red carpet" to attract foreign direct investment and give businesses many incentives especially tax and business premises. This has increased competition for FDI enterprises, which has already had more advantages than domestic private enterprises.

Many businesses also believe that a part of local officials prioritize to meet the needs of foreign investors than develop domestic private enterprises. There are about 32% of businesses share this perspective, reduce from 45% in 2008. However, in some provinces, this is common sense, especially

in Tuyên Quang (49%), Nam Định (46%) and Hà Nam (44%). In Hà Nội, Bà Rịa – Vũng Tàu and Hải Phòng, up to 40% of businesses complain that FDI enterprises are too much favored. Apart from litigation of privilege in land access and administrative procedures, the key note is that provincial government prioritizes to attract foreign investment rather than deal with chronic problems and create business conditions for private enterprises.

Incentives for large companies are most evident in public procurement (35% enterprises perceive), land access (27%), capital access (27%) and fast and simple administrative procedures (26%). Percentage of businesses sees province favors big businesses make their activities difficult significantly decreased compared with the first PCI survey in 2005, the numbers are still big enough to concern. Moreover, the lack of equal competitive conditions present in all localities across the country with varying degrees. In some provinces, more than half of PCI surveyed businesses agrees with the statement that provincial government favors SOEs in land and credit access.

Improving business environment is an inevitable trend in the context of Vietnam increasingly integrates into the world economy. Vietnam institutional reform efforts to better fit with international practice, implementation of integration commitments

have facilitated private enterprises developed rapidly in quantity recently. However, business environment improvement in Vietnam is still slower than the region and the world, there are still barriers that make institutional systems, mechanisms and policies related to the business environment reform slowly and lack of consistence due to point of view, considering private enterprises' role and the effect of group interest. To improve the business environment towards creating favorable conditions and more equal among different enterprises, we need to promote private enterprises role as fundamental force for the development of Vietnam's economy. Thus, changing perspective and thinking about the role of different ownership sectors should be resolved first.

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