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The Impact of the Local Institutional Quality at Provincial Level on Attracting Foreign Direct Investment in the Red River Delta Provinces

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Abstract

The Red River Delta is a Vietnamese economic region of special importance in terms of politics, socio-economics, national defence and security of Vietnam. Attracting foreign direct investment (FDI) is considered one of the most important tasks for promoting economic growth, job creation, income improvement, and poverty reduction in this region. One of the influencing factors of performance of FDI attraction is the local institutional quality. This study employs regression techniques with panel data using the OLS regression estimation method to assess the impact of the local institutional quality at provincial level on attracted FDI in the region.

Keywords: FDI, FDI Attraction, Institutional quality, Red River Delta region, Vietnam.

Introduction

Foreign direct investment (FDI) is important in promoting economic growth, creating jobs, improving income, and reducing poverty in recipient countries. Therefore, attracting FDI is an integral part of the development strategy of many countries. Research on factors affecting FDI to attract this capital flow is becoming increasingly urgent. There are many methods of identifying the factors that attract FDI. Still, studies often approach them from two perspectives: economic factors (market potential, costs, profit motives) and institutional factors (corruption, protection of property rights, contract enforcement, policies, political stability).

Regarding institutional factors, Quere *et al.* (2007) pointed out three reasons institutional quality can attract FDI. Firstly, increasing production productivity prospects and good governance institutional structures can attract foreign investors. Second, a weak institution increases investment costs (e.g., in the case of corruption). Third, hidden costs, FDI in particular, are a vulnerable form of investment due to uncertainty stemming from low government performance, weak property rights, and enforcement systems, or the distinction between domestic and foreign-invested investors in an unequal business environment. Most theories and studies confirm that countries with "suitable" institutional environments can attract more robust FDI.

The Red River Delta is one of six socio-economic regions of particular importance in politics, economics, society, defense, and security of Viet Nam. According to data from the Ministry of Planning and Investment, the Red River Delta region had attracted USD 133.51 billion of FDI, accounting for 30.32% of total FDI in Vietnam by the end of February 2023. With this achievement, the Red River Delta is the second largest region in the country in terms of the FDI-amount attraction, after the Southeast region.

The potential to attract investment in the Red River Delta region is expected to be large in the coming time. It should be noted that localities in the region have invited many large-scale FDI projects, however, the later are largely labor-intensive (for example, textiles and garments, footwear) and real estate. As the links between foreign-invested enterprises (FIEs and local ones are still weak this hinders the later to participate in the global value chain.

The business investment environment in the Red River Delta has improved dramatically in recent years. Specifically, according to the results of the Provincial Competitiveness Index (PCI) surveys, the average PCI score of the region increased from 58.89 points in 2011 to 66.72 points in 2021. This reflects the positive changes of local authorities in their efforts in creating an open, transparent, and attractive business environment, contributing to attracted FDI projects and promoting all economic investment in production and business. In particular, in the new context with many changes in the global economic landscape, competition to attract FDI becomes increasingly fierce, localities in the region should continue to promote infrastructure construction, be more active in reforming administrative procedures; review, revise and perfect the local institutions.

This quantitative study focuses on studying the impact of factors reflecting the institutional quality of provincial-level localities on foreign direct investment in 11 provinces in the Red River Delta. Based on the research findings, the authors propose policies to improve institutional quality, thereby improving the investment environment and enhancing competitiveness to help attract FDI inflows into the region's localities.

1. Literature review

Economists, sociologists, and political scientists have proposed many different concepts of institutions. From an economic perspective, Veblen (1994) believes that institutions are the normativity of behavior or the rules that determine behavior in specific situations, which members of a social group fundamentally accept. The regulations and compliance with those rules are either self-controlled or controlled by external powers. North (1990) is considered a pioneer in introducing a clear and specific concept of institutions, according to which institutions are the rules of the game in society. In other words, institutions are human-made constraints that shape relationships between people.

Conventional institutions can be divided into two types: internal institutions/informal institutions and external institutions/formal institutions (Kasper and Streit, 1999). Accordingly, internal (informal) institutions are formed from human experience and include the most valuable things to regulate human behavior in the past, such as customs, ethical standards, and ways. Meanwhile, external (official) institutions are imposing and punitive. This institution is established through a process; for example, laws are enforced by legal power (military, police, courts, etc.). In modern life, even in the most developed economies, official rules and regulations only account for a small part of the constraints that form choices. The interaction between individuals in society is greatly influenced by informal institutions such as ethical standards, conduct, and customs. So, it does not mean that formal institutions do not exist.

Along with the increasing division of labor and specialization, the complexity of society is also constantly increasing. This requires formalizing and institutionalizing constraints. Formal institutions can complement and increase the effectiveness of informal constraints. Thus, there are specific differences in concepts of institutions, including the three most essential aspects: "rules of the game" (formal and informal), "how to play" (mechanisms, execution talent), and “players” (people, organizations associated with the behavior).

Institutions are the formal and informal rules, which are created by humans to regulate and shape societal interactions. Institutions include three main parts: (i) Entities that promulgate laws and rules, such as the state, public agencies, organizations, businesses, and people; (ii) System of laws, such as the Constitution, legal system, statutes, rules and regulations, traditions, standards... and (iii) Enforcement mechanisms and sanctions, sanctions for violations of those laws and regulations.

Institutional quality is a multidimensional concept. The concept of institutional quality depends on the approach and perspective of each researcher. The concept of

institutional quality in previous studies is consistent in three characteristics: efficiency, adaptability, and stability. Previous studies have focused mainly on analyzing institutional quality through a series of indicators such as a composite index of governance, including component indicators: level of corruption, political rights, efficiency of the public sector and the regulatory burden on business activities; protect property rights and maintain the rule of law; institutional constraints on political leaders (Knack & Keefer (1995); Mauro (1995); Hall & Jones (1999); Acemoglu *et al.* (2001)).

According to the World Bank's World Development Report (1997), the governance mechanism must ensure three main elements: the first is internal rules and restrictions, the second is voice and partners, the third is competition, and according to the International Development Association, governance and institutional quality is based on four pillars: accountability, transparency, rule of law, and participation (IDA, 1998). From another perspective, the Asian Development Bank (ADB) offers four essential elements of good governance: accountability, ensuring the participation of stakeholders in the policy-making process, predictability, and transparency. Thus, it can be seen that institutions are a broad category. Researchers and organizations have proposed many criteria to measure and evaluate institutional quality, which need to be more consistent. However, reviewing the literature and the criteria, we can see that the most commonly used indicators to evaluate institutional quality include transparency, the ability to control corruption, the voice of the people, government accountability, and the rule of law. Nguyen Quoc Viet *et al* (2014) consider the quality of provincial-level institutions to consider the effectiveness of laws and regulations applied and implemented within a province and by implementing local government laws and policies. In this study, local institutions are understood as formal and informal local institutions. In particular, official institutions include (1) Subjects participating in local economic, political, and social activities such as state and non-state agencies and organizations, businesses, and associations assembly; (2) the constitution and laws, regulations, and policies of local government; (3) is the mechanisms and sanctions to enforce the above laws and regulations locally.

Eclectic Theory (OLI Model)

A company has an advantage in conducting FDI when it has ownership, location, and internalization advantages. Dunning (2000) built the OLI model and inherits the advantages of other theories of FDI, and proposes that there are three necessary conditions for a business to have the motivation to conduct direct investment:

(1) Ownership Advantages (O - Ownership Advantages) of a business can be a product or a production process that is superior to other businesses or that other businesses cannot access, that is, can be patents, action plans, technology, and information, management skills, marketing, organizational systems and access to final consumer markets or intermediate goods or sources raw materials, or the ability to access capital at low cost.

(2) Location Advantage (L - Location Advantage): In addition to the country's resources and resources, socio-economic factors such as market size and the country's growth and development are also considered market, infrastructure development, culture, law, institutions, and Government policies.

(3) Internalization advantages (I - Internalization Advantages) include reducing costs of signing, controlling, and implementing contracts.

According to eclectic theory, all three conditions must be satisfied for countries to attract FDI. The theory says that "push" factors originate from ownership and internalization advantages, while location advantages create "pull" factors for FDI.

Theory of investment environment:

The investment environment is a collection of specific local factors that shape the opportunities and motivations for businesses to invest effectively, create jobs, and expand production. Based on opportunity costs, risks, and competitive barriers to investment, investors learn about opportunities and motivations to invest in a particular locality. Recent studies have identified and evaluated factors affecting local economic growth, and the results show significant differences in the business environment and disparities in the level of economic growth, especially the private economy, between different provinces and regions in the country. Research results show that the difference between localities in attracting foreign investment is each locality's government and legal environment.

Many different factors affect the investment decisions of foreign investors. However, they can be divided into two types: (1) Hard infrastructure (infrastructure, seaports, population level), intelligence, and quality of human resources). These factors require time and financial resources to improve; and (2) Soft infrastructure (government capacity, preferential policies, and investment attraction...). This is a group of factors related to the leadership philosophy of local managers.

The importance of institutions in attracting FDI is increasingly being confirmed both theoretically and empirically. Theoretically, institutions are human-made constraints that regulate and shape political, economic, and social interactions (North, 1991). A country with a good institutional environment will ensure intellectual property rights and compliance with the law, promoting economic growth and attracting more and more FDI (Acemoglu *et al.*, 2005). On the contrary, poor institutional quality increases the possibility of nationalizing investors' assets, increasing business costs and thereby putting pressure on attracting FDI (Blonigen, 2005). Besides, a poor institutional system also creates many investment risks and reduces business opportunities, thereby hindering investors from entering the market. Many empirical studies have proven that institutional quality has an impact on FDI. However, there still needs to be more debate about the direction of the impact of this institutional factor.

Dunning (2000) pointed out that institutional factors such as governance and economic freedom increasingly assert an essential role in attracting investment because

multinational companies are gradually shifting their focus. The goal is to go from market search and resource exploitation (Market & Resource-seeking) to investment efficiency (Efficiency-seeking) in host countries. That means that investors are paying particular attention to governance and institutional factors instead of traditional factors such as market size, cheap labor costs, and abundant resources.

Mishra and Daly (2007) also emphasized the positive impact of institutional quality in investment-receiving countries when attracting investment flows abroad from countries belonging to the Organization for Economic Cooperation and Development (OECD). In this study, institutional quality is expressed through fairness in the legal system, compliance with the law, level of bureaucracy, and stability of the host country's government.

Many later studies, such as Chiappini (2014), Lucke and Eicher (2015), and Stoian and Mohr (2015), also confirmed the positive relationship between the institutional quality of the host country and FDI attraction. Contrary to the results of the above studies, many arguments have shown a negative relationship between FDI and the institutional quality of the receiving country. This is explained by the sunk costs incurred during the investment process in the host country and the indicators measuring institutional quality used in the studies.

Globerman and Shapiro (2002) argued that institutional quality acts as a factor that hinders the flow of investment abroad for small economies but acts as an incentive for investment in large economies. Meanwhile, Wei (2000) used a corruption index to measure institutional quality to demonstrate that corruption acts as a tax that hinders attracting FDI.

Research by Daude and Stein (2007) figured out that factors such as constantly changing legal policies, excessive regulations and policies, instability, and lack of executive commitment hinder investment flows.

On a country level, Buckley *et al.* (2007) also confirmed the inverse relationship when providing evidence that Chinese investors are attracted to countries with high political risk. Kostas and Wiig (2012) also demonstrate that China's outward investment flows are attracted to investment locations with low institutional quality and rich in natural resources. Li *et al.* (2018) show evidence that the more significant the gap between government efficiency and corruption control in China compared to the host country, the greater the restriction of capital outflows from foreign countries of this country.

Besides the studies that confirm the above statistically significant relationship, several other studies do not provide evidence showing the impact of institutions on FDI. It can be mentioned that the study of Wheeler and Moody (1992) did not find evidence of a relationship between the component indicators of institutional quality and the choice of investment locations of companies in the US. Similar conclusions about the existence of this relationship were also confirmed in several other studies by Green and Cunningham (1975), Asiedu (2002), and Nondo *et al.* (2016).

Mukherjee et al. (2011) show that countries that invest more in governance tend to attract higher levels of FDI. Institutional differences between home and host countries have

been shown to hurt FDI flows in previous decades (Benassy-Quere *et al.*, 2007). Much of the literature on institutional determinants includes corruption, with the assumption that higher levels of corruption lead to lower FDI inflows. However, research has shown mixed results.

Brothers *et al.* (2008) pointed out that the determinants of market-seeking and resource-seeking FDI inflows are not the same while highlighting specific differences in the case of corruption, suggesting statistically insignificant in market search activities but significant in resource search cases.

Several studies using panel data analysis include a set of institutional quality dimensions and reach different conclusions about their importance. Few related studies have shown a positive relationship. Saidi *et al.* (2013) showed that political stability and regulatory quality could positively influence FDI inflows.

Staats *et al.* (2012) pointed out that the rule of law and the strength of the judiciary are essential factors determining FDI inflows. On the other hand, some studies, also using panel data analysis, show that institutional factors are statistically insignificant in attracting FDI inflows. Bayar *et al.* (2016) showed that control of corruption and the rule of law do not significantly impact FDI inflows statistically. Madr *et al.* (2015) quantified the influence of the political environment, including the quality of democracy, political instability, and corruption, on FDI inflows into emerging markets. Their results show that the influence of the political environment on FDI is unclear in emerging markets, while political instability is a statistically significant variable.

Some studies show surprising results. Helmy (2013) studied the impact of corruption on FDI flows in the Middle East and North Africa (MENA) countries using panel analysis and found that FDI varies positively with corruption, GDP per capita, openness, investment freedom, and security, while negatively impacts taxes and murder rates. Helmy explained two explanations for this unexpected positive association between corruption and FDI. In this region, corruption is seen as a means to overcome bad or restrictive laws and practices, while these costs are less than the value of economic growth in the region. On the other hand, other factors that positively impact FDI inflows are more important than corruption. Bellos *et al.* (2011), when analyzing the determinants of FDI in transition countries in 1996-2005, also found that corruption has a positive coefficient. They concluded that competition from foreign invested enterprises favors bribery to secure business contracts, ultimately increasing corruption. Bellos *et al.* (2011) argued that corruption does not prevent bilateral FDI.

Abdella *et al.* (2017) shown that corruption does not significantly impact FDI flows in BRIC countries (Brazil, Russia, India, and China), while trade openness and stability politics are statistically significant. Peres *et al.* (2018) examined the impact of institutional quality (measured by control of corruption and rule of law indicators) on FDI in developed and developing countries. Their study showed that institutional quality is an essential determinant of FDI in developed countries, having a positive impact. At the same time, it is not a significant variable in developing countries due to weak institutional structure.

Recently, in Vietnam, the issue of the impact of institutional quality on attracting FDI has also received attention from many researchers. For example, Truong Minh Tuan (2017) found the level of Information transparency, Informal costs, Entry costs, Dynamics of local leaders, Business support services, Training, and labor training. Legal institutions have a substantial impact on FDI capital flows into localities. In addition, Nguyen Quoc Viet *et al.* (2014) examined the influence of the institutional environment on FDI capital flows into localities in Vietnam. The results of the study showed that factors such as Transparency, control Corruption, and Access to land show a strong and positive influence in attracting FDI, in contrast to factors such as Labor training and Education policies, the Level of creativity and dynamism of Local leaders and business support services have not found a significant impact on attracting FDI capital flows. Recently, using the GMM model for PCI data of seven provinces and cities, including Hanoi, Hai Phong, Da Nang, Dong Nai, Binh Duong, Ho Chi Minh City and Can Tho in the period 2005-2015, La Van Doan *et al.* (2018) found that factors belonging to the institutional environment such as legal institutions and the dynamism of local leaders have a positive influence on the flow of FDI investment into the locality.

2. Research methods and models

Based on the theoretical basis and synthesis of previous studies, the authors propose a research model on the impact of local institutional quality on FDI flows of provinces in the Red River Delta region as follows:

$$LnFDI = \alpha + \beta_1 LnGRDP + \beta_2 LnDS + \beta_3 CPGN + \beta_4 TCDD + \beta_5 TMB + \beta_6 CPTG + \beta_7 CPKCT + \beta_8 CT + \beta_9 LDT + \beta_{10} DVHT + \beta_{11} DTLD + \beta_{12} TCPL + \varepsilon_{it}$$

Table 1: Explanation of variables of the research model

No	Code	Variable name	Source	Note
1	LnFDI	Logarithm of registered FDI capital	Statistical Yearbook	Dependent variable
2	LnGRDP	Logarithm of total product in the area	Statistical Yearbook	Control variable
3	LnDS	Logarithm of total population in the area	Statistical Yearbook	Control variable
4	CPGN	Market entry costs	Ingredient index of PCI (VCCI)	Independent variables
5	TCDD	Access to land	Ingredient index of PCI (VCCI)	Independent variables
6	TMB	Transparency and openness	Ingredient index of PCI (VCCI)	Independent variables
7	CPTG	Time costs	Ingredient index of PCI (VCCI)	Independent variables
8	CPKCT	Unofficial costs	Ingredient index of PCI (VCCI)	Independent variables

9	CT	Fair competition	Ingredient index of PCI (VCCI)	Independent variables
10	LDT	The dynamism and pioneering of the provincial leaders	Ingredient index of PCI (VCCI)	Independent variables
11	DVHT	Business support services	Ingredient index of PCI (VCCI)	Independent variables
12	DTLD	Labor training policy	Ingredient index of PCI (VCCI)	Independent variables
13	TCPL	Legal institutions	Ingredient index of PCI (VCCI)	Independent variables

Data in the study were collected from two sources: The General Statistics Office with the variables Registered FDI, Total product in the area, and Total population. Meanwhile, data on local institutional quality is exploited from the Provincial Competitiveness Index (PCI) provincial competitiveness assessment data set. Currently, in Vietnam, PCI is considered a data set that includes many indicators that best represent the quality of market support institutions. Data were collected for 11 years from 2013 to 2022 for 11 provinces in the Red River Delta region: Bac Ninh, Ha Nam, Hanoi, Hung Yen, Hai Duong, Hai Phong, Nam Dinh, Ninh Binh, Quang Ninh, Thai Binh, Vinh Phuc.

With the research model determined, the research hypothesis is that the component indexes of PCI representing local institutional quality have the same impact on FDI capital flows attracted to the locality. This study uses regression techniques with panel data using the OLS (least squares) regression estimation method.

3. Results and discussion

According to the results in Table 2, we see the following: Prob > *F = 0.0000*: Shows the significance level of *F* test with hypothesis H0: The independent variables are simultaneously equal to 0, here we reject H0, the model Statistical significance. Adj *R-squared = 0.5235* shows that the model's independent variables explain about 52.35% of the variation of the dependent variable FDI in the model.

The regression results in Table 2 show the relationship between variables in the model. The results show that the variables affect FDI capital flows into localities differently. Specifically:

Total product in the area: The regression coefficient of the LNGRDP variable has a positive sign and is statistically significant at the 1% level, which shows that market size positively influences FDI capital flows attracted to localities.

This result is similar to the results of the studies by Khachoo and Khan (2012), Tran Nhuan Kien, Nguyen Thi Thanh Huyen (2019), Ranjan, Vinit, and Gaurav Agrawal (2011). These studies showed that the economy has a high total commodity product in the province, good economic potential, and an increasing growth rate each year, creating a more attractive

market for foreign investors and attracting more FDI flows and quality. FDI capital, especially capital flows aimed at finding markets, will tend to flow into localities with larger market sizes.

Table 2: Model regression results according to OLS estimation

Source	SS	df	MS	Number of obs	=	110
				F(12, 97)	=	10.98
Model	136.646663	12	11.3872219	Prob > F	=	0.0000
Residual	100.595074	97	1.03706262	R-squared	=	0.5760
				Adj R-squared	=	0.5235
Total	237.241737	109	2.1765297	Root MSE	=	1.0184

LNFDI	Coef.	Std. Err.	t	P>|t|	Beta
LNGRDP	2.194642	.3069802	7.15	0.000	1.276017
LNDS	-1.989786	.3729773	-5.33	0.000	-.7730164
CPGN	.170037	.1770962	0.96	0.339	.0848339
TCDD	-.0933346	.2017786	-0.46	0.645	-.051657
TMB	-.3313773	.2162808	-1.53	0.129	-.1270665
CPTG	-.1397117	.1811808	-0.77	0.443	-.0800931
CPKCT	-.3644077	.1947498	-1.87	0.064	-.2376454
CT	-.0488208	.1268792	-0.38	0.701	-.0373994
LDT	.1154676	.2025824	0.57	0.570	.0848034
DVHT	.3355911	.1976153	1.70	0.093	.1767644
DTLD	-.3114878	.1902408	-1.64	0.105	-.1524907
TCPL	-.186297	.1868349	-1.00	0.321	-.1289213
_cons	.1635558	2.949197	0.06	0.956	.

Population: The regression results show that the regression coefficient of the LNDS variable has a negative sign and is statistically significant at the 1% level, meaning that population size has a negative impact on FDI inflows into localities. That means the population fluctuates inversely with FDI inflows. The more a province's population increases, the more it has a negative impact on attracting FDI inflows into this locality. This result differs from the results of the studies of Nguyen Nhu Thao (2019), Tran Thi Kim Dao, and Nguyen Van Luan (2019). FDI can explain this in the Red River Delta region. A high proportion of industries are labor-intensive. Specifically, according to the Foreign Investment Agency (Ministry of Planning and Investment) (2021), investment projects in the region are most concentrated in the processing and manufacturing industries (mainly in fields and industries that utilize labor). Such as textiles, footwear, and equipment assembly...), with total investment capital accounting for 62.4% of the region's total investment capital. With this type of investment, rapid population growth and high urbanization rates put pressure on the cost of living, limiting the attraction of FDI in labor-intensive industries. In addition, rapid population growth also limits the ability of FDI enterprises to access land. Many localities in the region are facing the problem of lacking large-scale clean land funds to attract investment. Another explanation is that according to research by Do Thanh Tung (2022), Vietnam's population increased significantly during the period 1990-2020, but the labor force and labor source did not increase much; only the

population above 65 years old increased rapidly. Meanwhile, the labor force is limited, and low prices are one of the factors that decide foreign investors' choice of investment locations. For this reason, localities have increased population but have yet to increase FDI inflows into their localities.

Informal costs: Improving informal costs does not necessarily bring good results because sometimes these costs are a means to overcome the host locality's bad laws and practices or restrictions (Helmy, 2013). That is why FIEs are often willing to spend this cost to facilitate their work to be resolved more quickly and conveniently. Compared to other factors, it is not the top concern of enterprises when considering investment decisions.

The regression results show that the regression coefficient of the support service sign is positive and statistically significant at the 10% level, meaning this variable positively impacts FDI capital flows. This result is consistent with Huynh Thi Thuy Giang (2021) and Nguyen Kim Phuoc (2015) research. The Business Support Services Index is a tool to measure and evaluate economic management and administration based on activities, programs, and policies to facilitate support for small and medium-sized enterprises, including trade promotion, legal consulting, finding business partners, and training in business administration. Support policies for businesses in localities are of great significance. If provided regularly and with good quality, this will create motivation and conditions for businesses in the area to promote their strengths, from which businesses can promote production, increase revenue, and increase output, contributing to local economic growth. Recently, the Government of Vietnam and relevant ministries have issued new or supplemented and amended many related regulations to remove difficulties, support businesses in operating more effectively, and improve business performance the investment environment, increase Vietnam's competitiveness index, and attract foreign investors.

Variables, which are statistically insignificant in the model include entry costs, dynamism and pioneering of provincial leaders, land access, transparency, time costs, competition, and legal institutions. We can conclude that the above variables have little impact on the amount of FDI attracted to regional localities. However, the level of impact of these variables on the dependent variable may be pretty small because the scope of the study was not enough to detect those effects.

4. Conclusions and policy recommendations

In this study, the authors use panel data from 11 provinces in the Red River Delta from 2013-2022 to study the impact of institutional quality at the provincial level on attracting FDI capital flows. This study uses quantitative research methods with panel data regression techniques using the OLS meta-regression model. Research results have shown that statistically significant factors that affect FDI capital flows include market size, population size, unofficial costs, and business support policies. Besides, the remaining factors have not found statistical evidence of their influence on FDI capital flows attracted to the provinces, including market entry costs, land access, transparency, competition, the dynamism of the provincial leadership team, labor training, and legal institutions.

From these findings, the study makes some recommendations for local authorities in the Red River Delta provinces. Reviewing and supplementing practical business support service policies is necessary to increase the attractiveness of FDI capital flows. In addition, the province needs to have a transparent legal framework. Transparent information will enhance competitiveness in the market. More specifically, in the modern trend of high-level management technology, weaknesses from an unfairly competitive market and fragmented information are significant obstacles to business operations. This leads to limitations for the province in attracting high-quality FDI flows. High-quality FDI will flow into institutions that ensure a healthy competitive environment with appropriate incentives. In addition to reducing informal costs and increasing transparency, provinces need to focus on improving the pro-activeness of local governments and the effectiveness of legal institutions. In addition, the provincial government must work effectively and handle cases where local officials take advantage of local powers and regulations for personal gain and influence over businesses. Besides, instead of focusing on increasing the investment, local authorities must have policies to screen and support high-quality FDI projects, attracting long-term foreign investors with technology and management-modern management, working for sustainable development.

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