

Chapter 1: Background to the research project

1.1 A word on the periphery provinces

The notion of periphery provinces has become popular in Vietnamese development circles to describe provinces that have followed the five more economically developed regions towards private sector development. This concept, however, includes 54 other provinces and the city of Hai Phong. For the purposes of this report, it is important to be somewhat clearer about the term. Figures 1 and 2 will be helpful towards that end. Using data from the General Statistical Office 2000, these figures demonstrate the extent of private sector development in the provinces.⁴ Provinces often discussed in the literature on Vietnamese economic development are highlighted. In figure 1, the vertical axis shows the number of enterprises per 1,000 people, and figure 2 illustrates the contribution of private sector workers to the entire provincial labor force.

Figure 1: Active formal private sector enterprises, per 1000 people, in 2000

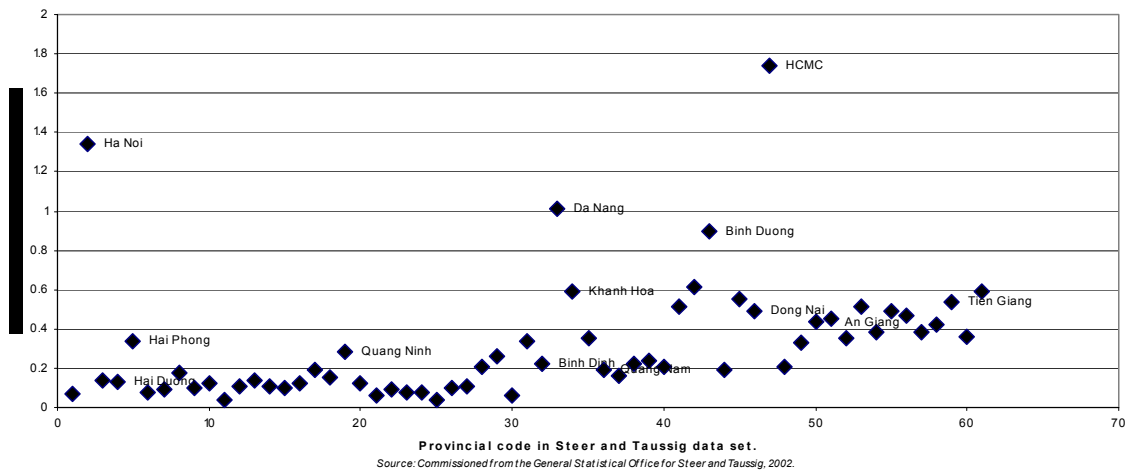
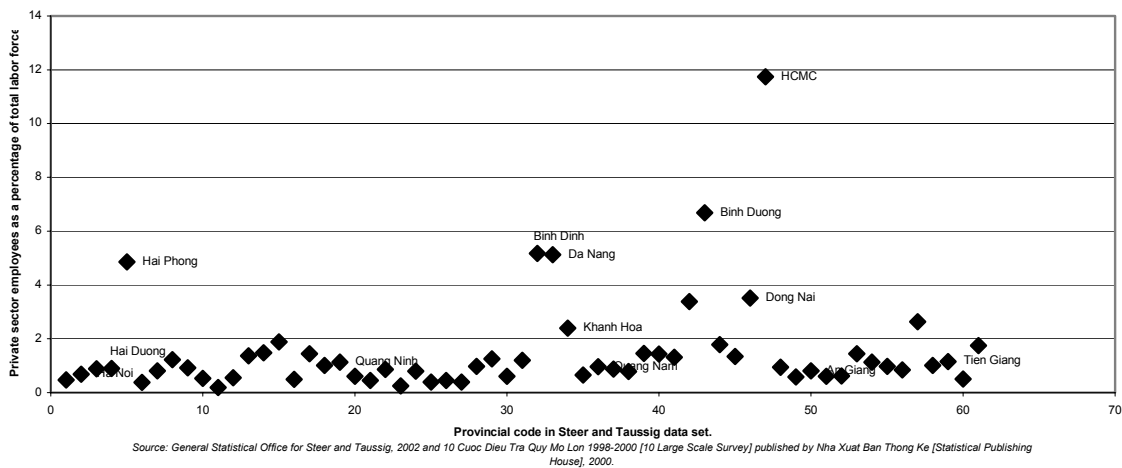


Figure 2: Formal private sector's contribution to total labor force



⁴ See Appendix 7 for a complete list of private enterprises active in each province between 1995 and 2000.

That the five high performers have distanced themselves from the pack is immediately obvious in both figures. The only exception is Ha Noi, where the large number of government employees dwarfs the number of workers dedicated to the private sector, despite the substantial number of enterprises. A second level of provinces, with approximately 0.5 firms for every 1,000 people can be seen, and a third level with less than 0.2 enterprises per 1,000 people is also apparent.

The goal in selecting firms for this study was to choose a representative sample of provinces from each level, in order to test developmental hypotheses. Researchers tried to choose provinces based on variation in infrastructure, proximity to markets, and geographic location, so as to test how important these factors were for economic development. Another contributing factor was an attempt to select provinces that had been included in earlier studies, or had been the focus of individual studies of development organizations, so that some progress over time could be considered in the analysis. After weighing these conditions, Long An, Hai Phong and Thua Tien Hue (TT Hue) were selected from the second level, and Nam Dinh, Ha Tay, and Thanh Hoa from the third level. These periphery provinces are highlighted by white lightning bolt symbols in the map of Vietnam below. The five high performing provinces are marked by blue lightning bolt symbols in the map of Vietnam below.

Red River Delta

Ha Noi, Hai Phong
Vinh Phuc, Ha Tay
Bac Ninh, Hai Duong
Hung Yen, Ha Nam
Nam Dinh, Thai Binh
Ninh Binh,

North East

Ha Giang, Cao Bang
Lao Cai, Bac Can
Lang Son, Tuyen Quang Yen Bai
Thai Nguyen, Phu Tho, Bac Giang
Quang Ninh

North West

Lai Chau, Son La
Hoa Binh

North Central Coast

Thanh Hoa, Nghe An
Ha Tinh, Quang Binh
Quang Tri
Thua Thien-Hue

South Central Coast

Da Nang, Quang Nam
Quang Ngai, Binh Dinh, Phu Yen
Khanh Hoa

Central Highlands

Kon Tum, Gia Lai
Dak Lak, Lam Dong

North East South

Ho Chi Minh, Ninh Thuan, Binh Phuoc
Tay Ninh, Binh Duong, Dong Nai
Binh Thuan, Ba Ria- Vung Tau

Mekong River Delta

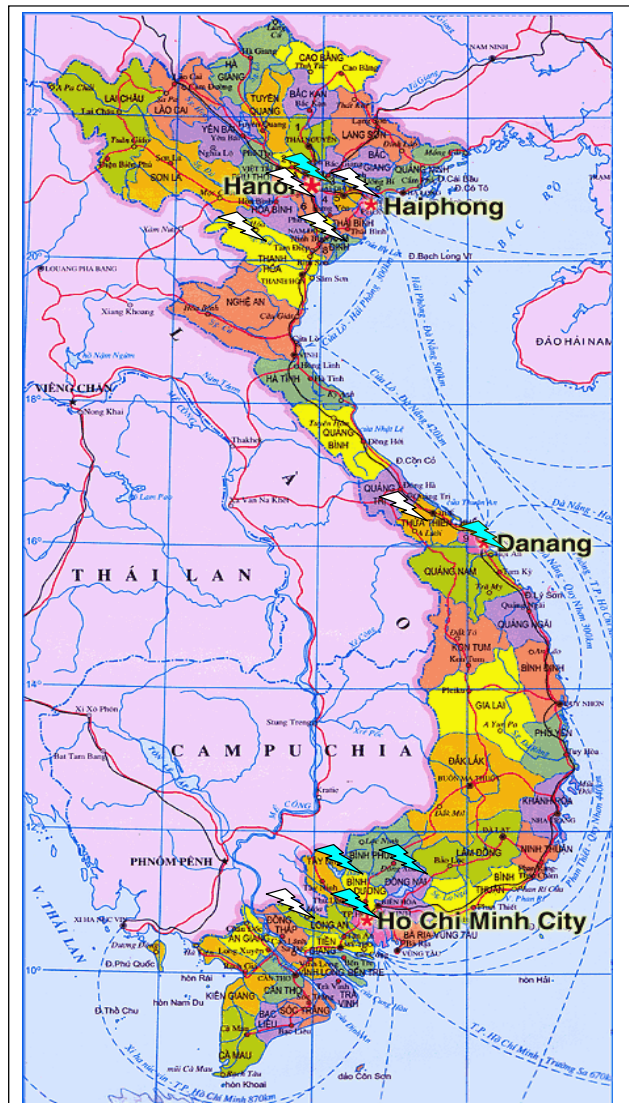
Long An, Dong Thap

An Giang, Tien Giang

Vinh Long, Ben Tre

Kien Giang, Can Tho Tra Vinh, Soc Trang

Bac Lieu, Ca Mau



1.2 Methodology⁵

For this study, four tools were used: 1) a mail-out survey to a stratified-sample of private firms; 2) follow-up interviews with directors or chief executive officers (CEO) of a subset of the mail-out firms; 3) structured interviews with representatives of eight government institutions in the province; and 4) macro-economic data on all 61 provinces supplied by the General Statistical Office (GSO) and the Ministry of Planning and Investment (MPI). The survey tools were designed by the Asia Pacific School of Economics and Management (APSEM) and administered by the Central Institute of Economic Management (CIEM). Interviews with government officials were divided between APSEM and consultants hired by MPDF. The fieldwork for the survey was conducted in early 2002.

1.2.1 *Some methodological limitations*

For the most part, the methodology chosen was successful, but a few limitations emerged that should be taken into consideration. A total of 629 questionnaires were returned for a response rate of 16 %. This is a rather low rate, as compared to 26.2 % on a similar survey conducted in China, but roughly equivalent to the rate achieved in the 2002 Japanese Bank of International Cooperation (JBIC) study of the business environment for Vietnam's private enterprises. It seems likely that the firms declining to participate included those that were more distrustful of the provincial government, and more fearful about the repercussions that their answers might have. On the positive side, CEO interviews were not simply conducted with the firms that returned questionnaires. A new random sample, undertaken for the interviews with CEOs, ensured that firms declining to participate, were captured in the second round.

Secondly, CIEM is one of the premier economic research institutes in Vietnam, but it is a governmental agency and officially a branch of the MPI. If firms were aware of this relationship, one might expect that they would be more cautious in their answers. In addition, in two provinces, Department of Planning and Investment (DPI) officials accompanied interviewers into the meetings with CEOs. Their motives were a sincere attempt to learn more about the firms in their jurisdiction, but this may have inadvertently introduced a bias. In cases where DPI staff were known to have joined the interviews, the relevant questionnaires were discarded.

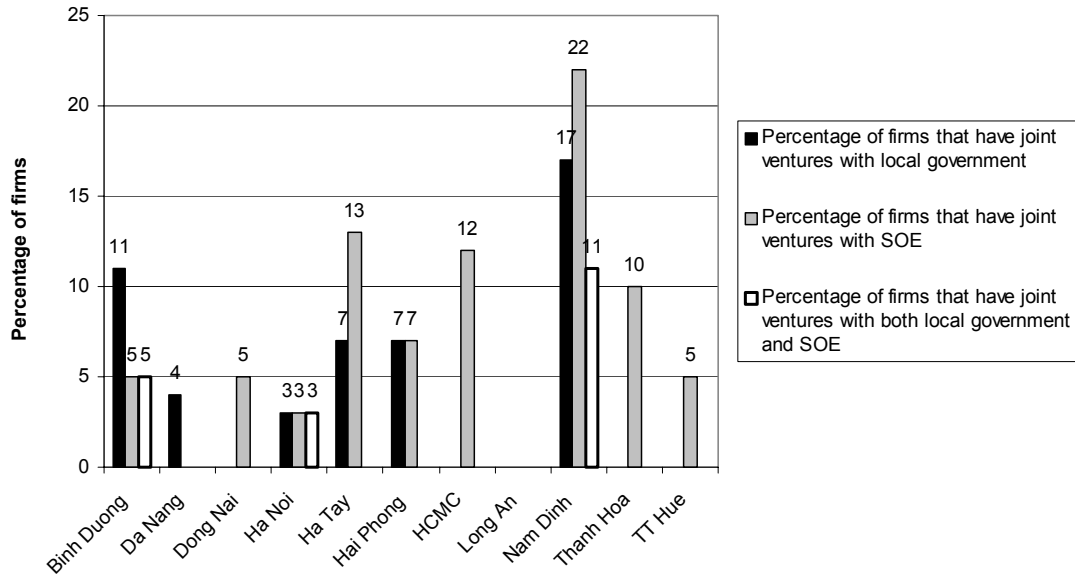
A third limitation, which is common in surveys trying to capture cross-sectional differences, is an 'anchoring' problem. Put simply, firms that have operations only in one province do not know much about the administrative quality of the neighbors. Therefore, on questions where officials were asked to rank their province along a scale, they may have ranked their province lower or higher than would an objective observer with knowledge of all provinces.

The CEO interviews, while also being limited by the anchoring problem, are much more useful because interviewers were directly in front of respondents, and therefore were able to supply context to the questions. This better enables firm managers to compare their provinces with others. Moreover, the CEO interviewers also asked several open-ended questions and objective questions, where firms had to put hard numbers to their responses. For instance, in addition to being asked how much of an obstacle bureaucracy was for their business, firms were asked how many days their senior management was required to spend dealing with provincial government paperwork. Objective numbers make comparisons between provinces much easier. As a result, this report will use the CEO interviews exclusively when analyzing firms' perceptions of governance and their legal framework.

⁵ For a more complete discussion of the methodology of the survey, please see Appendix 1 of this report, and Chapter 1 of APSEM and CIEM (2002), *Vietnam Business Environment Survey*.

The anchoring bias is particularly likely in instances where an enterprise has a close relationship with an SOE. As figure 3 demonstrates, we can see that provinces in which enterprises have a tendency to overvalue their governments have very strong business relationships with government.⁶ Altogether, 28% of Nam Dinh firms and 20% of Hai Tay firms have joint ventures with either the local government itself or SOEs located in the province.

Figure 3: Percentage of firms that have joint ventures with local government or state owned enterprises (SOEs)



⁶ Firms surveyed in Long An province either did not have joint ventures, or did not respond at all to this question.