

## Chapter 5: Views of local governance and the regulatory environment

### 5.1. Implementation of the Enterprise Law

Recent work charting Vietnam's progress toward the development of economic institutions has focused primarily on implementation of the Enterprise Law, which is usually measured by counting the number of registrations in each province. This is a useful measurement, but it is slightly misleading. Firms can register their businesses without actually starting business activities, leading to the highly publicized, but probably overblown problem of 'ghost firms'. Or worse, a firm could register, but find the business environment so troublesome and tilted toward the state sector that it closes its doors.

As discussed in Chapter 3, private firms were able to register and in many provinces did register prior to the Enterprise Law. Many of the ideas legislated nationally in the Enterprise Law simply formalized the policies already practiced by several reform-oriented provinces over the course of the 1990s. These provinces had already registered a substantial number of firms and could be helped only marginally by the new law, which improved the efficiency of the registration process in the slower and SOE-dominated provinces. As a result, a high number of post-Enterprise Law registrations may not be a measure of present good governance practices, but rather a measure of the problems faced by the private sector in those provinces over the course of the *doi moi* period.<sup>22</sup> Finally, the Enterprise Law covered a range of issues – from tax procedures, to financing, to land allocation – and was not simply confined to business registration. Measuring the implementation of these policies requires a closer look at the perceptions of firms that actually face these obstacles.

In figure 13, we can see immediately that business registration and business licensing are only minor problems faced by firms across the sample.<sup>23</sup> No firms in the entire sample listed business registration as an obstacle to development. Of course, there is a selection bias in this question; these were the firms who already registered, not the firms that had quit because of complications. Nevertheless, one can presume that given the opportunity, firms that struggled to register their activities would have voiced their grievances on this question. But in this case, few did. In-depth interviews with a few firms revealed that their primary complaints about the registration process occurred in the mid-1990s, before enactment of the Enterprise Law. At the time, the long waiting periods before decisions were made and multiple actors in the process were considered to be major transaction costs for firms hoping to begin their business activities immediately. This report will cover this notion of transaction costs in more detail in section 3 of this chapter. The answers from the survey reveal a widespread acknowledgement that the situation has improved tremendously over the past three years. Now, firms can worry more about policies that are fundamental to their businesses and not simply the start-up.

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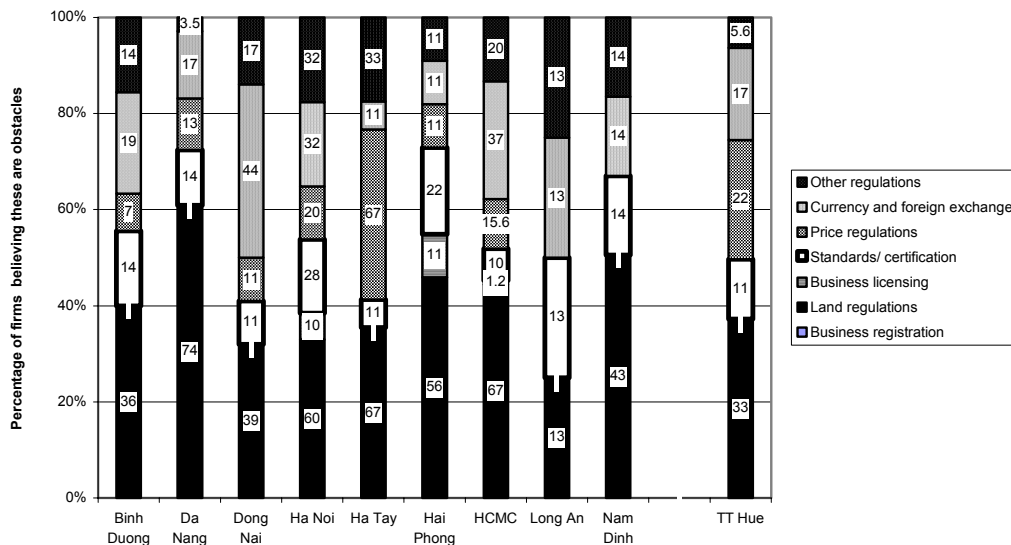
<sup>22</sup> See Malesky (2002a).

<sup>23</sup> Thanh Hoa is dropped from the analysis because too few firms responded to the survey to allow for statistical significance.

Licensing was only considered to be a problem in the high performing provinces and Hai Phong. This may be because so many business licenses were removed as a result of the Enterprise Law. Those additional licenses that remain concern restrictions related to environmental protection, technology usage, and importing. These are problems primarily for high value-added, large-scale firms. Registering small service sector businesses usually proceeds without significant difficulty. Therefore, it is firms with the larger and more technologically dependent operations that are more likely to face problems with licensing. The same can be said of currency and foreign exchange regulations. These are dilemmas faced by firms involved heavily in importing and exporting—the exclusive sphere of the high performing provinces and Hai Phong, according to earlier evidence. The 17% of firms in TT Hue facing currency and foreign exchange problems can probably be attributed to the importance of the tourist sector, but this merits further exploration. Land problems were also a much smaller issue for periphery firms. As a result, on the whole, periphery provinces like Long An, TT Hue and even Nam Dinh outperformed their more well-known peers on these categories of Enterprise Law implementation.

**Interview Insights Box 13: The ‘price scissors’ in Ha Tay.**  
 One clear warning from this analysis is the 67% of firms in Ha Tay who cited price regulations as an impediment to their development. Follow-up interviews in Ha Tay revealed that this is related to the proliferation of smuggled goods, which 15.25% of firms believed were their primary competitors. Ha Tay firms, especially those involved in the motorcycle industry, complained about being stuck between ‘price scissors’. Imports of spare parts for motorcycles were limited by expensive tariffs, but cheap Chinese motorcycles were being shipped into the Ha Noi market in droves. Ha Tay firms, which specialized in assembling motorcycles from kits or retailing spare parts, were unable to lower their prices to compete with Chinese knockoffs.

**Figure 13: Implementation of the Enterprise Law (provincial obstacles faced)**  
*Firms in joint ventures with the local government or local SOE were dropped from analysis.*



## 5.2. Land use policies

### 5.2.1. Problems in obtaining land

The clear factor differentiating provinces across the sample is land. Over 50% of the firms in the high performing provinces, Hai Phong, and Ha Tay cited land regulations as an obstacle to their development. Nam Dinh followed closely, with 43% of firms citing land problems as debilitating to their progress. On the other hand, land was only of minor difficulty in Long An and TT Hue. Differences among these provinces can be attributed in part to the land price bubble and land speculation in Vietnamese metropolises, which has subsequently spread to the adjacent provinces. But this is one slice of the problem. Divergence in land use policies and practices deserves a much closer look.

#### **Interview Insights Box 14: Land dilemmas.**

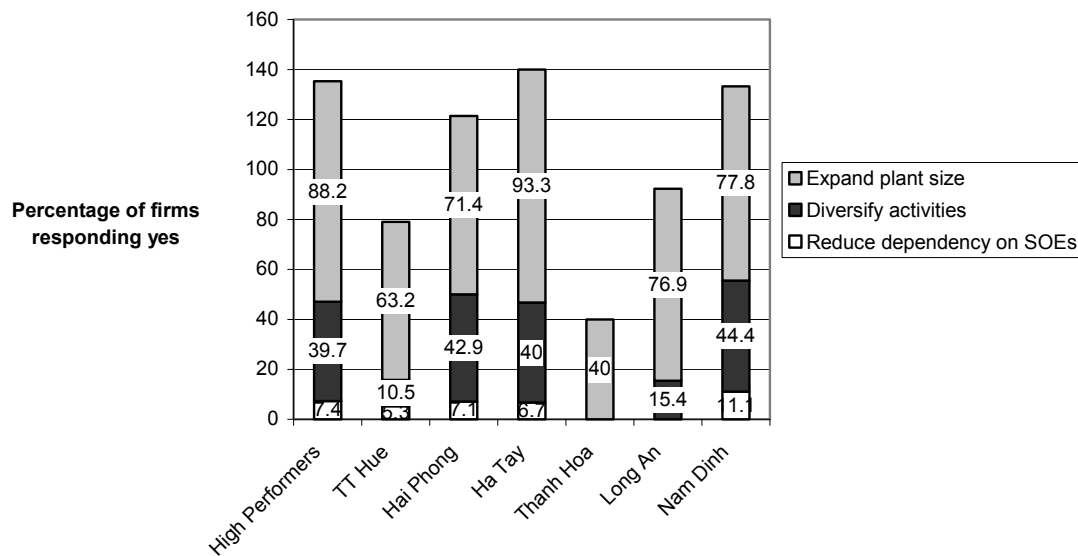
It was not uncommon for firms across the sample to complain about waiting for two years or more for decisions about land titles. Some firms, such as a biochemical partnership in Nam Dinh, have never actually received a formal land title, and an LLC in Ha Tay claimed that land acquisition had been its "most consistent headache."

The present piece of land the biochemical firm is using took three separate agreements with local authorities in 1993, 1997, and 1999 with a maximum time cost to the firm of three full years waiting to obtain 2,700 square meters of land. Similarly, a Ha Noi firm waited over two and a half years, visited 10 different local institutions, and received 17 different seals before being granted formal title.

A Nam Dinh CEO argued that were it not for his cramped space, he would have been able to expand the scope and profitability of his business. As figure 14 shows, he is clearly not the only entrepreneur who feels this way.

In every province except Thanh Hoa and TT Hue, over 70% of the firms claimed that if land were easier to obtain they would expand their businesses. The problem is most acute in the high performing provinces and Ha Tay. Nam Dinh and Hai Phong joined these same provinces, as provinces with over 40% of firms surveyed claiming that they would diversify their business activities if land were easier to obtain. Nam Dinh had a unique problem that is associated with the close relationship between its firms and the state-owned sector; 11% of firms in Nam Dinh felt that if land were easier to obtain it would reduce their dependence on SOEs. Long An, Thanh Hoa and TT Hue had the most accessible land according to firms in the sample.

**Figure 14: If land were easier to obtain we would...**  
*Firms in joint ventures with the local government or local SOE were dropped from analysis.*



**Interview Insights Box 15: Improving land acquisition in Long An Province**

Long An's success in this category is a new phenomenon. One of the original problems Long An had in attracting foreign direct investment was the lack of quality land for factory construction. Long An was burdened by two fundamental concerns. First, its land was judged to be of poor quality early on in the reform period because of its sandy composition. Projects would have required additional expenditure to stabilize the land prior to factory construction, which made construction on this land relatively more expensive than similar investments in Long An's neighbors of Binh Duong and Dong Nai. Secondly, a large amount of the land in Long An was held by individual farmers who required very high compensation in exchange for the land use rights certificate.

Over time, these problems have reversed in Long An's favor. In part, this change is the result of basic economic forces. Diminishing marginal returns and the rising cost of land in the neighboring provinces of HCM City, Binh Duong, and Dong Nai have lowered the relative cost of land in Long An, making it more attractive to investors. Nevertheless, Long An officials have also done a great deal to facilitate land acquisition and lower transaction costs for investors. In fact, a multi-million dollar joint-stock company was lured away from HCM City to invest and expand its business in Long An primarily because of the ease of land acquisition. After applying for land in HCM City in 1992, the company waited over three years for a decision by the various actors involved in the process. These actors included the provincial People's Committee, land authority, and chief architect, as well as the district-level People's Committee. Each actor had its own agenda and eventually the determination was made that the Indo-Petrol project did not match city plans, and the firm was asked to submit a new application.

By contrast, the Long An People's Committee responded within ten days to a company's request for a location for its project. Compensation for the committee of farmers, who were to be replaced, was more complicated and took an additional three months and two billion VND. This time period, however, was minute compared to the years of waiting in HCM City. In 2001 when the joint stock company submitted an application to expand its operation on to new land, the procedure was even easier and faster, at just 10 days. To be fair, this firm was highly valuable with large employment and revenue potential. Clearly, Long An province stood to gain a great deal from improved hospitality. Long An's improved easy land procedures are reflected in the survey of other firms below.

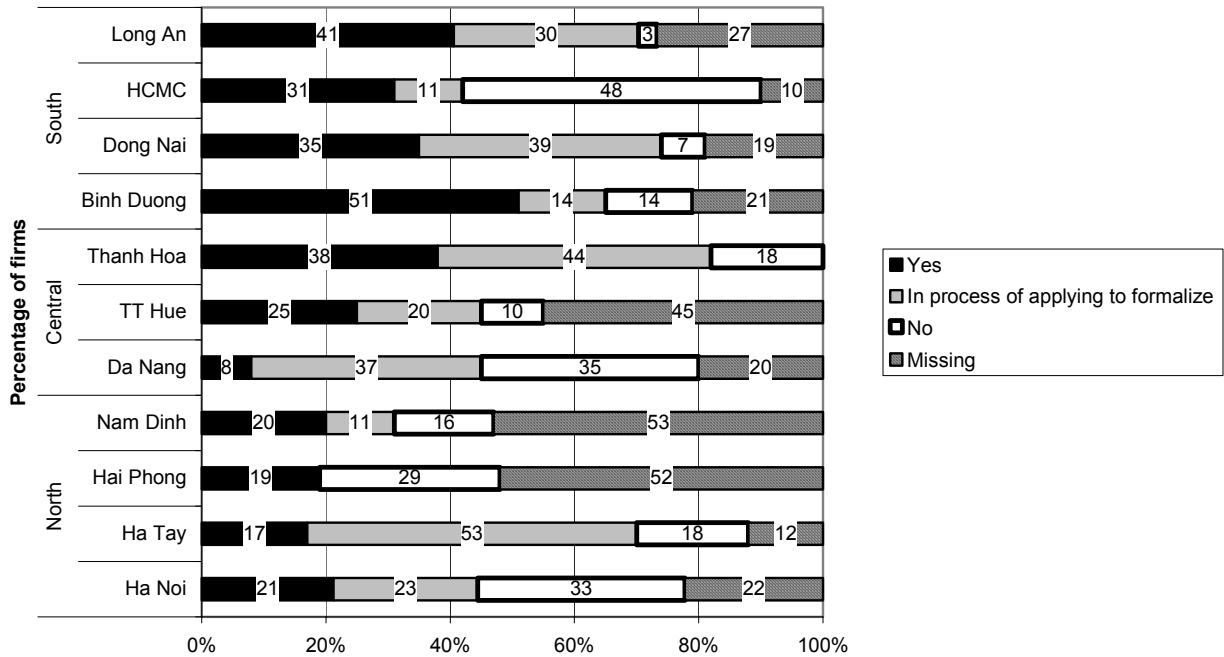
### 5.2.2. Land use rights certificates

In this section, the land issue is pursued further by asking firms if they have the formal title for their land (*bia do* or red book) and thus the stability and confidence to make future investments. There is clear variance even among the high performing provinces. Binh Duong, Dong Nai, and HCM City, often cited as the cutting-edge provinces in terms of economic governance, are among the provinces with the largest number of firms who possess their land use rights certificates. After viewing this figure, it is clear why Long An, Thanh Hoa and Hue had the fewest number of firms complaining about land procedures. Among periphery provinces, they have the largest number of companies with land use rights certificates. ‘In the process of applying’, means that these firms either have an informal title to the land and have applied to convert it under the new procedures, or that a firm has applied for land outside of its original household land use rights certificate.

**Interview Insights Box 16: Conversion to legal land holdings**  
 An LLC in Nam Dinh province recorded itself as applying to formalize its land use rights certificate. It acquired one of its land titles after buying out another firm (the original holder), when the two split apart after a failed venture into the hotel business. The land authority, however, has refused to recognize this transaction as legal. As a result, the firm has not been able to convert its land certificate into an official red book and constantly worries that its premises could be seized.

The number of firms that did not answer whether or not they have land certificates (see figure 15) is rather worrisome (shown as “missing” in figure 15). These are firms that, for whatever reason, chose to remain silent on this question. One might speculate that these firms are on unregistered premises, or on land where the title is in dispute.

**Figure 15: Possession of Land Use Rights Certificates**  
*Firms in joint ventures with the local government or local SOE were dropped from analysis.*



### 5.2.3. Firm premises

Table 21 explores what exactly is meant by the "no" category in the analysis above, by looking at the exact location of firms' premises. The vast majority of firms in the sample either used their own household land for their business activities, or had somehow obtained the residential land of others. This was done through direct purchase, leasing, or simply borrowing the land of a close friend or relative. Firms in Long An and Nam Dinh rely most heavily on residential land. Very few firms had made use of the cheap and serviceable land in industrial zones or other concentrated areas. Thanh Hoa was the only province with a significant number of private firms choosing to solve their land problems by locating within an industrial zone.

The most interesting category is that of firms that are renting land directly within an SOE compound. Land rented directly from provincial People's Committees, who have control of the land owned by local SOEs, was also counted in this category. Compared to the high performing provinces, firms in Hai Phong, Thanh Hoa, and Nam Dinh were heavily tied to the land of SOEs. Hai Phong had a particularly high number of renters, whereas TT Hue and Long An had very few firms directly renting the land of SOEs. Though one would surmise that renting SOE land is an uncomfortable position for firms, as their futures are tied to the business prospects and fortunes of the respective SOEs, very few firms in this position seemed to register concern.

**Interview Insights Box 17: Advantage of renting land from SOEs**

A marble producer in Thanh Hoa province actually saw renting from SOEs as advantageous, because it cuts down on their administrative responsibilities and interactions with local officials.

Province	Household property	Other residential land	Renting land inside SOE compound	In an industrial zone or concentration	Other	Did not answer	Total
TT Hue	66.0	4.0	6.0	2.0	0.0	22.0	100
Hai Phong	27.9	3.5	37.9	6.9	24.1	0.0	100
Ha Tay	57.9	3.5	10.5	5.3	0.0	22.8	100
Thanh Hoa	50.0	6.3	18.8	12.5	0.0	12.5	100
Long An	76.7	2.3	7.0	7.0	0.0	7.0	100
Nam Dinh	68.3	0.0	17.1	0.0	0.0	14.6	100
High Performers (average)	50.0	16.9	10.7	8.2	0.0	14.2	100
Total (average)	54.2	11.5	12.0	6.8	1.2	14.5	100

Table 22 is more difficult to interpret. There seems to be some confusion among firms about whether they purchased or hold a long-term lease to the land. Under the present Land Law, a land use rights certificate is really only a long-term lease, of as long as ninety years, but the "purchasing firm" continues to hold the title. Most of these purchases took place in the mid-1990s. Median years of purchasing range from 1992 in TT Hue, to 1995 in Long An and the high performing provinces. In the high performing provinces, some firms hold land titles that date back to 1968. Firms in the high performing provinces are much more likely than other firms to be renting land from SOEs, other private firms and local government institutions. Primarily Da Nang and Ha Noi, however, drive this result. Firms in Binh Duong and Dong Nai are unlikely to be renters.

Table 22: How did you obtain your land? (Percentage of firms from mail-out survey)						
Province	Purchased long term lease and title	Inherited the land	Renting the land	Informal arrangements	Did not answer	Total
TT Hue	38.9	7.40	25.90	3.70	24.1	100
Hai Phong	13.8	0.0	0.0	0.0	86.2	100
Ha Tay	28.8	30.5	13.6	0.0	27.1	100
Thanh Hoa	56.2	6.3	31.2	0.0	6.3	100
Long An	40.0	22.2	17.8	0.0	20.0	100
Nam Dinh	47.9	4.0	25.0	0.0	23.1	100
High Performers (average)	31.5	14.5	45.8	1.6	6.6	100
Total (average)	33.5	14.0	35.0	1.3	16.2	100

### 5.3 Transparency and accountability

A third dimension of local governance can be characterized as transparency and accountability. Simply put, are domestic entrepreneurs in the provinces aware of the activities of their provincial leaders? Are budgets, master plans, statistics, and land use allocations available to all that ask, or only to a lucky few with good connections? Do businesses feel that the local government is accountable to the needs of all citizens, or does it require special relations to win the attention of government?

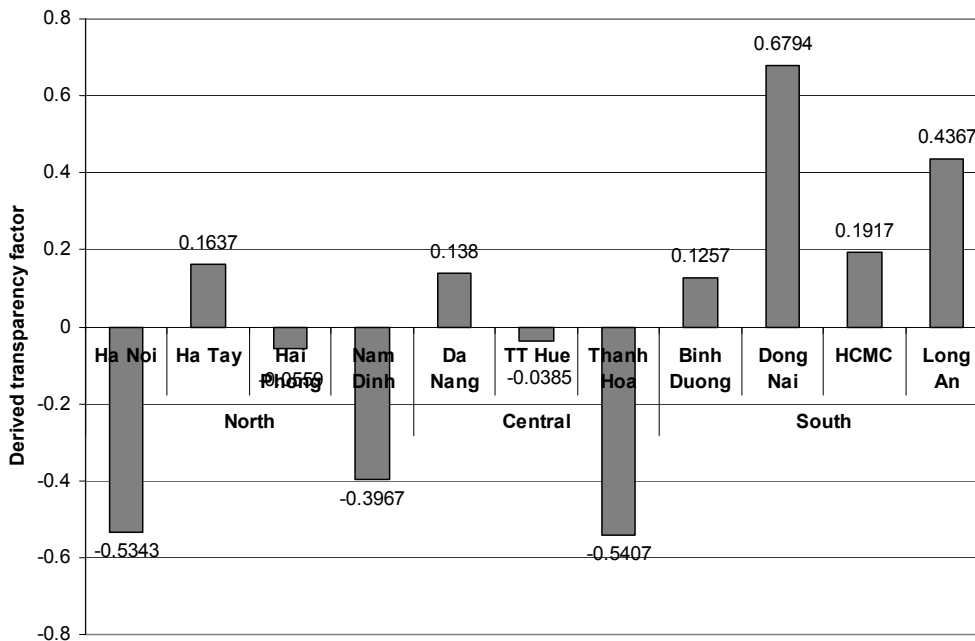
In table 23, five key dimensions of transparency and accountability were derived from the CEO interviews. Columns 1 and 2 stemmed from questions that probed whether special relations with government actors are needed to survive in business in the province. Column 1 records the earlier discussion of whether firms feel that the government tilts competition against them by aiding their competitors in the form of land, financing, or market information. Columns 3 and 4 are designed to judge the predictability of laws in the province. Firms that felt a lack of information was an obstacle, or who must negotiate with tax authorities, demonstrate the limited value of legal documents in the province. Information problems do not seem to be associated with high performing provinces. Binh Duong and HCM City have as many firms complaining as Nam Dinh. Finally, column 5 reports whether provincial officials can be distracted by political concerns. Firms were asked whether their provincial officials were hard to deal with during either local or national party conferences. This question was designed to gauge whether the normal business-to-government interface was put on hold during major political events or whether procedures and institutions performed their regular functions even during these events. Provinces with few firms agreeing to this question had more formalized business procedures, which are not subordinate to politics. Provinces with high agreement are more likely to have amorphous and politically contingent mechanisms. Not surprisingly, Ha Noi, Nam Dinh, and Thanh Hoa, which all have close contacts with the central government, are not transparent by this measure.

A method known as principal component analysis was used to replace the five highly correlated variables with a much smaller number of uncorrelated variables. (The procedure is akin to rotating these variables in space until underlying dimensions are found that they share.)<sup>24</sup> The new factor is then subtracted from zero, so we can interpret provinces with above 0 scores as being transparent and provinces below 0 as less transparent. The farther a province diverges from 0, the more powerful its score. The final factors are shown in figure 16.

<sup>24</sup> For information on this useful statistical tool, see Bartholomew et. al. (2002).

Table 23: Transparency and accountability						
Province	Percentage of firms who felt government was aiding their main competitor	Percentage of firms who say friends are highly important in negotiating with government	Percentage of firms who feel that lack of information on laws is an obstacle	Percentage of firms who claim that they negotiate with tax authority	Percentage who agree or strongly agree that local government is difficult to deal with during party conferences	Derived Transparency Factor
North						
Ha Noi	66.7	8.3	34.4	8.6	83.3	-0.5343
Ha Tay	73.3	13.3	28.6	6.7	46.7	0.1637
Nam Dinh	72.2	38.9	33.3	11.1	71.4	-0.3967
Hai Phong	42.9	21.4	16.7	7.7	91.7	-0.0559
Central						
Da Nang	61.5	15.4	17.4	3.8	12.5	0.1380
TT-Hue	52.6	36.8	26.3	20.0	27.8	-0.0385
Thanh Hoa	60.0	20.0	10.0	0.0	80.0	-0.5407
South						
Binh Duong	52.6	10.5	37.5	0.0	21.4	0.1257
Dong Nai	23.8	9.5	15.8	0.0	46.2	0.6794
HCMC	47.1	11.8	36.4	3.0	41.9	0.1917
Long An	38.5	0.0	16.7	0.0	50.0	0.4367
Total	53.8	16.9	26.8	5.7	50.3	0.0154

**Figure 16: How transparent are the provinces using the derived transparency factor?**  
*Firms in joint ventures with the local government or local SOE were dropped from analysis.*



#### 5.4. Transaction costs in terms of time

Another governance factor that some suggest may limit the success of firms in periphery provinces is the amount of productive business activity that is lost to inefficient relations with local

government. Provincial governments can cost their private firms significant amounts of money by being slow to remove obstacles and bottlenecks that produce transaction costs for local entrepreneurs. A few examples of strategies for removing such costs are: 1) reducing the number of workdays that managers of enterprises must spend negotiating with senior officials; 2) reducing information gathering costs by making statistical annexes and land plans publicly available; and 3) reducing the number of inspections domestic firms must endure from provincial agencies.

To analyze whether periphery provinces were more likely to impose high transaction costs on their firms in terms of time, questions from the survey were chosen that captured how much time firms lost in meeting local government requirements, or waiting for provincial government approval. As can be seen in table 24, eight factors were highlighted, related to how long firms waited to receive:

- their licenses
- land use requests
- bank loans
- imports from the port
- and export approval from customs

Principal component analysis yielded three separate components for these questions.<sup>25</sup> The first component included total inspections and average inspection hours. The second component comprised all the waiting periods for loans, land, and licenses. The third component included days to receive imports and exports after customs procedures, and days senior management dealt with government requirements.

Province	Inspections and regulations			Waiting Period				Customs			
	Total Inspections (md)	Avg. Inspection hours (md)	Trans costs – Inspections (Factor 1)	Wait for bank loan (md. days)	Land wait sum of all agencies (md. days)	% of firms waiting over 1 month for licenses	Transaction costs - Waiting (Factor 2)	# days to get imported goods from port (md days)	# days to get exported goods to clear customs (md days)	# days senior mangmt deals with govt requirements (md days)	Transaction costs, Customs
North											
Ha Noi	4	24	0.044	7	411	42.2	0.8924	6	9	17.5	1.2184
Ha Tay	4	15.5	-0.732	10	317	14.3	-0.4464	3	2	10	-0.5322
Hai Phong				15	320	40	0.0833	3	3	22.5	-0.3888
Nam Dinh	5.5	32	1.503	7	78		-0.6503		16	15	
Central											
Da Nang	2	48	1.698	7.5	65	12.5	-0.4816	4.5	2.5	30	1.2926
Thanh Hoa	5.5	96	0.165	1.5	68		-0.6595			20	
TT-Hue	3	9.5	-0.638	4	72	100	0.0329			20	0.7539
South											
Binh Duong	4.5	8	-0.618	6	75	29.4	-0.3355	2	1	15	-0.421
Dong Nai	3	4	-0.718	12	278	75	0.1132	3	2.5	22	-0.2424
HCMC	3	20.5	-0.436	7	414	31	-0.2897	7	2.5	20	0.7539

<sup>25</sup> See the Appendix 3 and 4 for loadings.

Table 24: Transaction costs (time)											
Long An	3	14.5	-0.416	15	147	27.3	-	3	1.5	18.5	
Total Sample	3	15	-0.378	7	90	28.4	0.4637	3	90	20	0.4358

**Interview Insights Box 18: Damaging fines**

One beverage wholesaler in a province had a particularly rough time with transactions costs imposed by provincial officials. In addition to the tax office, the firm was inspected by the environmental office two or three times a year, and by the market control office an additional two or three or times a year. The company had been fined by both the environmental office and the market control office, and has had to hand out small gifts to others. Recently, it was fined five million VND (about one year's profits) for bottling its product with another company's serial number. The fine was levied as 5% of the total quantity of bottles in stock. The firm admitted that the fine was legitimate, though quite steep—its workers made a mistake and mixed up the bottles. Over the few months prior to the interview, the company had been trying desperately to get the market control office to break the fine up, into smaller, more affordable pieces. But it had been unsuccessful, which raises a difficult conundrum. The company may have to shut down operations until it can somehow raise enough money to pay the fine, but does not know how it will raise the money without selling more products.

Table 25 accumulates all the direct costs that could be ascertained from the CEO interviews. It is quite difficult to differentiate between high performing and periphery provinces on these indicators. Thanh Hoa and Hai Phong officials are likely to use regulation to extract rents from firms, but so are officials in Ha Noi. Officials in Dong Nai, Da Nang, and HCM City—all high performing provinces—are more likely to seek rents than those in Nam Dinh and Long An. Interestingly, Ha Tay firms, which claim their local governments do not seek rents at all, give the most "gifts" per firm. Similarly, TT Hue firms, which also have a 0% score on rent seeking, paid the highest amount of unofficial payments as a percentage of sales. Discovering a pattern from this information is quite difficult, because of our limited understanding of these processes. Nevertheless, some recent work has suggested that a high percentage of foreign direct investment in a province may increase the "extra-curricular" costs of doing business there for domestic enterprises.<sup>26</sup> The logic here is that numerous foreign companies may be willing to 'grease the wheels' of local bureaucrats, in a bid to quickly move forward with their investments. Consequently, they accidentally create a culture of such payments, and so others must be willing to pay them too, in order to win the same level of attention.

<sup>26</sup> See Hellman et. al (2000).

Province	Local Government uses compliance with regulations to extract rents (%)	Firm estimate of unofficial payments as % of sales (mean)	Mean sales reported to tax authority (% of actual sales)	Licenses and Permits required (md.)	Number of 'gifts' during inspection per firm (md.)	Estimated amount of gifts in VND (md).
North						
Ha Noi	50.7	0.636	90.57	2	1.5	375000
Ha Tay	0	0	99.93	1	3	175000
Hai Phong	57.1	3.750	99.09	1.50	.	.
Nam Dinh	8.3	0.200	89	1	.	.
Central						
Da Nang	30.4	1.788	95.21	1	1	50000
Thanh Hoa	74	2.929	89	1	.	.
TT-Hue	0	7.383	99.44	2	1	50000
South						
Binh Duong	6.7	0.800	100	2	1	50000
Dong Nai	26.7	1.254	91.89	2.50	1.5	150000
HCMC	37.6	2.433	93.47	1	1	250000
Long An	7.0	0.040	91.67	2.50	.	.
Total Sample	27.0	3.32	94.20	2	1	50000

## 5.5 Dispute settlement mechanisms

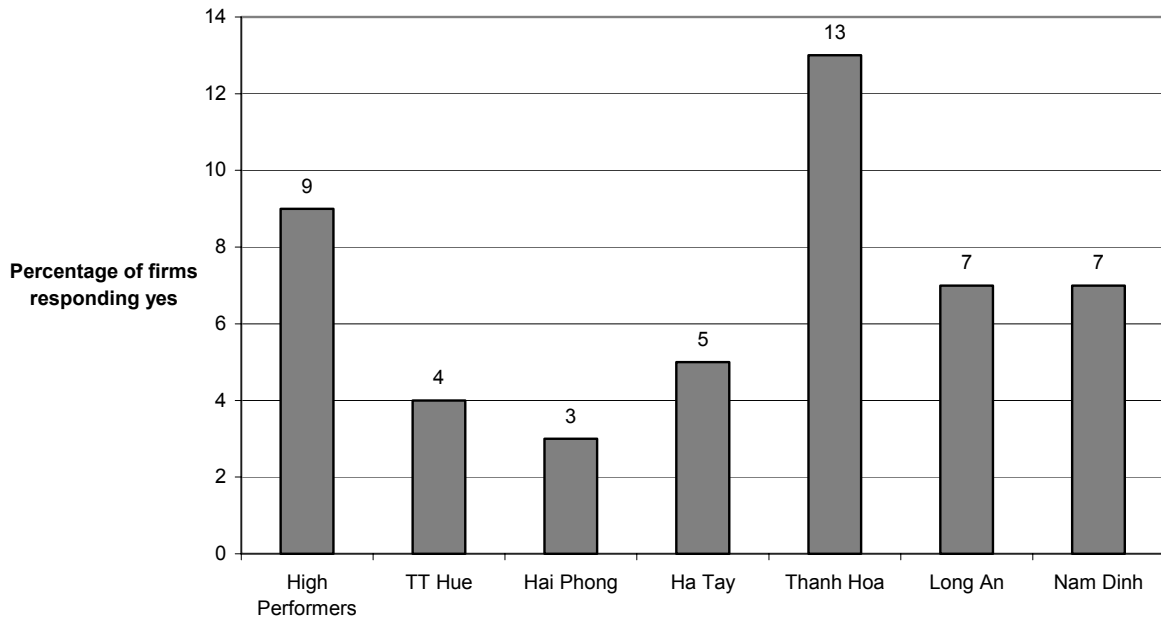
Another factor of local governance that has begun to receive a great deal of attention is the importance of dispute resolution mechanisms at the provincial level. One of the ultimate goals of Vietnam's intense efforts to develop a more formal legal system is to develop a business climate where firms feel safe in their investments, and can appeal to higher authorities to protect their property rights.<sup>27</sup> When legal institutions become more important than relationships, Vietnam has an opportunity to put to rest the accusation of the early 1990s that its business people are culturally risk averse or less entrepreneurial than in other states.<sup>28</sup>

This survey can only give us a glimpse of this facet of governance. Very few firms in the sample claim to have contract disputes, and even fewer have opted to use formal institutions to resolve their predicaments. Figure 17 shows what percentages of firms in the periphery provinces have had a contract dispute over the last 5 years. The amount was very small across the sample; less than 8% of the total population of firms had contract disputes. Thanh Hoa's 13% was the only amount worthy of note.

<sup>27</sup> This has been evident by the annual Legal Needs Assessment, which lists the next steps in Vietnam's formalization efforts.

<sup>28</sup> This and other reasons for slow growth of the private SME sector are discussed in Riedel (1997).

Figure 17: Percentage of firms with contract disputes over the past five years



Of the firms that acknowledge having had contract disputes, an even smaller percentage have been willing to turn to formal institutions as intermediaries. Table 26 tracks responses in more detail, although too few firms responded to this question to yield any significant results. Listed in table 26 is the number of firms from each province that used various institutions to resolve their contract disputes. In the last column, is the number of firms who answered that in the case of a dispute they would rather negotiate directly with their counterpart. In all cases, this was equal to or greater than the number of firms who actually used any of the institutions. It is revealing that 58% of court cases occurred in the provinces included in the southern region, much greater than the 47% using state institutions or the 29% of firms preferring to negotiate directly. This may be due to the historic legacy of market institutions in these provinces.

Province	The Court	Friends/ Family	State Bodies	Business Associations	Directly with counterpart
TT Hue	3	1	2	0	5
Hai Phong	3	0	0	0	5
Ha Tay	0	1	0	0	4
Thanh Hoa	2	0	1	0	
Long An	3	0	0	0	3
Nam Dinh	0	1	1	1	5
High Performers	18	4	13	0	48
Total Sample	29	7	17	1	70

Reasons for not using the court system varied across the periphery provinces (see Table 27). Firms in TT Hue and Nam Dinh were most concerned about damaging business relations, while firms in Ha Tay and Long An felt the process was too complicated and time consuming. Firms in Hai Phong were split between those two factors, and weak enforcement of decisions. Firms in the high performing provinces were more likely than others to be concerned about time lost than about damaged business relations. Nevertheless, all the results in this section must be considered speculative—there are simply not enough observations to draw out anything more than educated guesses.

Province	Fear of damaged business relations	Complicated and time consuming process	Weak enforcement	Unfair adjudication	Too expensive
TT Hue	4	1	1	0	0
Hai Phong	3	3	3	1	0
Ha Tay	1	3	1	0	0
Thanh Hoa	0	0	0	0	0
Long An	1	4	1	0	0
Nam Dinh	5	0	2	0	2
High Performers	41	64	42	3	13
Total	55	75	50	4	15

## 5.6 Provincial Dynamism

Recent work has demonstrated that the single biggest factor in promoting provincial economic development is the pro-activity and dynamism of provincial authorities. In the CEO interviews, private sector firms were asked this question: In situations where there is a lack of clarity in central law, does your local government:

1. Interpret it against your business
2. Postpone a decision until central laws have been changed
3. Interpret it in your favor

There is a positive correlation between dynamism and the size of the private sector, but it is not statistically significant. Dynamism is clearly important for the growth of firms in Dong Nai, Binh Duong, Long An, and even TT Hue, yet its impact is modified by initial conditions in the form of a large urban market to spur private sector activity. The four major metropolises of HCMC, Ha Noi, Da Nang, and Hai Phong all have larger firm sizes than their dynamism scores would indicate. Though even here we have some important correlation if we pair the cities by relative population size and economic importance. HCMC is more dynamic and has a larger private sector than Ha Noi. Similarly, Da Nang is more dynamic and has a larger private sector than Hai Phong. This question is a helpful first-cut, because it demonstrates a provinces' commitment to economic growth and its willingness to find clever and innovative ways to promote it.

Throughout the *doi moi* period, there have been many cases of provinces demonstrating dynamism in exactly this way. Some examples include Vung Tau province asking for special permission to let local businesses use land rights as collateral for bank loans; Song Be (Binh Duong) province

importing wood from Laos, and selling it below the high tariff inflated prices to local businesses; HCM City and Binh Duong beginning a “one door, one stamp” procedure to reduce the number of stops a firm has to make to get its license; Binh Duong and a multitude of provinces pushing beyond the 1993 Land Law, to improve transfers among private firms before the new Land Law of 1998 made these formal.

Ha Noi does not benefit, due to its proximity to the seat of government. Central government officials are only a motorbike ride away, thus creating a very difficult environment for re-interpreting central laws. Ha Tay's dynamism is similarly constricted.