

# Chapter 9

## Investment Climate under Economic Integration in Vietnam Case Studies in Danang and Ho Chi Minh City

**Dinh Hien Minh**

Department for Trade Policy and International Integration Studies, Central Institute for Economic Management, Vietnam.

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## Chapter 9

### Investment Climate under Economic Integration in Vietnam Case Studies in Danang and Ho Chi Minh City

*Dinh Hien Minh<sup>1</sup>*

#### Abstract

*This paper is about the role of the investment climate in Viet Nam to plug its industries into the regional production network. A standard questionnaire were administered to firms in Danang and Ho Chi Minh City. Findings from the survey are as follows: (1) All the five sectors such as physical infrastructure, institutions, human resources, logistics and development of IZs/SEZs related to business setup and business operation are of fair status. Among them investment incentives have the lowest average where business set up has the highest score.(2) Physical infrastructure is a major concern, specifically electricity and land/road transportation.(3)Quality of governance, policy formulation and implementation, quality of government services and quality of legal systems still remain low. (4) Easiness of recruitment of workers and labor costs as well as employee retention are considered business challenges. (5) procedures for import of raw materials/ parts and components, custom clearance, tariff barrier; non-tariff barrier, drawbacks of import duty and value added tax, trade regulation, and foreign exchange regulation are still a concern of enterprises. All this shows that Viet Nam still has a lot to accomplish if it is to achieve its goal of plugging its industries into the regional production network.*

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<sup>1</sup> Dinh Hien Minh is Deputy Director of Dept for Macroeconomic Policy & Integration Studies  
Central Institute for Economic Management

## **INTRODUCTION**

This investment climate survey in Danang City and Ho Chi Minh City (HCMC) aims to determine the bottlenecks to investment with the focus on East-West Economic Corridor (EWEC) and industrial zones (IZs), since they are instrumental in attracting foreign direct investment (FDI) and setting up production networks in East Asia. Local small and medium enterprises (SMEs) may become suppliers to foreign firms, if industrial clusters are developed in Vietnam. The study concludes with policy recommendations for the local governments, as well as for the central government: (1) to utilize effectively EWEC and IZs to attract industries (2) to develop industrial clusters; (3) to participate in production networks in East Asia.

This paper is organized as follows. Section 2 discusses the conduct of an investment climate survey in Danang City and HCMC. Section 3 presents the survey findings and overall evaluation. It also examines some of the findings relating to certain issues about industrial cluster policy. Section 4 concludes the paper by proposing policy implications to improve investment climate in Vietnam in order to plug its industries into the regional production network.

### **1. CONDUCT AND RESULT OF INVESTMENT CLIMATE SURVEY**

The survey investigated business environment for manufacturing industry. The research team has conducted the survey of 65 firms in Viet Nam engaged in international businesses. Foreign investment firms and local firms located inside industrial zones were given priority while the respondents consisted of high-ranking managers. The survey areas were carried out in two cities that had extensively benefited from the EWEC, namely, Danang City in the central area and HCMC in the southern part of the country. In the

survey, a five-scale rating was used in the questionnaire: 1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good and 5 = Excellent.

In Danang City, 30 firms were covered by the survey. Of these, 16 firms belonged to the garments/leather/footwear industry. The rest were in mechanics, electronics, and electrical equipment production. Most of the firms were small and medium-sized. A total of 19 firms were based in industrial zones and 13 were FDI enterprises.

In HCMC, 35 firms participated in the survey. Of these, 14 firms were in garments/leather/footwear industry; three in aqua processing industry; three in food (other than aqua products) processing; two in pharmaceutical industry; two in wood processing; and others in mechanics, electronics and electrical equipment production. Seventeen out of 35 firms were FDI enterprises; 10 firms were located in IZs and export processing zones (EPZs).

The surveyed enterprises evaluate business environment related to physical infrastructure, institutions, human resources, logistics, IZs/EPZs/ special economic zones (SEZs).

### **1.1. Physical Infrastructure**

In HCMC and Danang City physical infrastructure have been much invested and improved over time. Recent economic development of both cities remains still required a huge investment. Physical infrastructure is still not comprehensive to meet that demand of economic development and its usage is costly. It is one of reasons to lead Vietnamese goods to become more expensive to compete with other countries. This fact can be recognized from the survey. Almost respondents in Danang were concerned about electricity, transportation and gas/fuel supply. These obtained an average score of 3.10, 3.13 and 3.24, respectively. Those businesses in HCMC cited water supply, industrial estates, and gas/fuel supply, with an average score of 3.03, 3.06, and 3.23, respectively. Of the respondents in Danang City, 23 percent said electricity supply and transportation system are either poor or very poor while 23 percent of those in HCMC considered water supply poor or very poor.

Relating to electricity, businesses, especially businesses in Danang City complaint about the regular electricity cutoff, especially cutoff without early notification. And sometimes, the cutoff lasted too long and hugely affected their production. Moreover, some enterprises also complains about the price of electricity is little high, and push the production cost increased slightly.

Enterprises in HCMC complain about the lack of water supply and poor quality of water supply due to the monopoly in water supply. Not only was water supply of inadequacy and of poor quality, water waste system in the industrial estates was also very out-of-date. The infrastructure in industrial zones is not comprehensive as what the developers promised when the enterprises established their production facilities

Accommodations for foreigners are the biggest concerns of businesses, both in HCMC and in Danang City. The average score, 3.06, is slightly higher than the average score of 3.

**Table 1: Infrastructures: Average Rating by City\***

<b>Indicators</b>	<b>Vietnam</b>	<b>Danang</b>	<b>HCMC</b>
Electricity	3.54	3.10	3.91
Water	3.32	3.64	3.03
Gas/Fuel	3.23	3.24	3.23
Transportation	3.32	3.13	3.49
Telecommunication	3.46	3.57	3.37
Industrial estates	3.19	3.35	3.06
Accommodation for foreigners	3.06	3.05	3.08

*Note: \* Investment climate survey in Danang and Ho Chi Minh City*

*(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)*

*Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)*

In both HCMC and Danang City, businesses are dissatisfied with the current state of the land transportation system in terms of cost, efficiency and reliability, compared to other transportation modes such as sea/river and air. They assessed these three factors at average scores of 2.87, 2.98 and 3.07, respectively. It's not surprised that land

transportation is a major problem for businesses in HCMC, where traffic jams are frequent objects of complaint in Ho Chi Minh

Businesses in Danang City and HCMC were generally satisfied with the cost, efficiency and reliability of telecommunications. These were rated 3.28, 3.30 and 3.33, respectively, which are higher than average score of 3.

**Table 2: Cost Competitiveness, Efficiency and Reliability of Transportation and Communications Average Rating by City\***

<b>Condition of Transportation and Communications Cost Average Rating</b>			
	<i>Total</i>	<i>Danang</i>	<i>HCMC</i>
Land transport	2.87	3.05	2.75
Sea / River transport	3.12	3.17	3.09
Air transport	3.10	3.08	3.11
Communications	3.28	3.35	3.24
<b>Condition of Transportation and Communication Efficiency Average Rating</b>			
	<i>Total</i>	<i>Danang</i>	<i>HCMC</i>
Land transport	2.98	3.15	2.84
Sea / River transport	3.28	3.30	3.26
Air transport	3.34	3.33	3.34
Communication	3.30	3.37	3.24
<b>Condition of Transportation and Communication Reliability Average Rating</b>			
	<i>Total</i>	<i>Danang</i>	<i>HCMC</i>
Land transport	3.07	3.21	2.94
Sea / River transport	3.41	3.43	3.38
Air transport	3.56	3.72	3.44
Communications	3.33	3.41	3.27

*Note: \* Investment Climate Survey in Danang and Ho Chi Minh City  
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)*

*Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)*

## **2.2. Institutions**

In general, firms do not have any problem with *setting up a business*. However, businesses rated two indicators - collecting information on business environment, which is necessary to make an objective decision on investment; and investment regulations - rather low compared with other indicators, namely, collecting information on the regulatory framework and legal procedures for setting up businesses; obtaining licenses

and permits; and effectiveness of one-stop service. Businesses in HCMC also rated the collection of information on regulatory frameworks and legal procedure low. This is reflected in the proportion of firms who rated such indicators either difficult or very difficult. For example, more than 15 percent of the respondents in HCMC felt that collecting information on the regulatory framework and legal procedures for setting up the business was fairly difficult; 14 percent agreed that obtaining licenses and permits was not smooth.

**Table 3. Business Setup Average Rating by City \***

<i>Indicators</i>	<i>Total</i>	<i>Danang</i>	<i>HCMC</i>
Collecting information on the business environment – information necessary to make an objective decision on investment	3.35	3.30	3.39
Collecting information on the regulatory framework and legal procedures for setting up the business	3.63	3.93	3.39
Obtaining licenses and permits	4.13	4.27	4.00
Effectiveness of one-stop service (if any)	3.61	3.46	3.75
Investment regulation	3.37	3.40	3.33

*Note: \* Investment Climate Survey in Danang and Ho Chi Minh City*

*(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)*

*Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)*

On average, businesses rated *macroeconomic issues* at a little bit higher than the average score of 3. This is due to low ratings of two indicators: macroeconomic issues and corruption. In fact, currently high inflation and the likelihood of an economic downturn in Viet Nam make enterprises worried about the macroeconomic stability, based on an average score of 2.94. Twenty percent and 17 percent of the firms in HCMC and Danang City, respectively, considered the macro economy unstable. Corruption is also a serious problem, especially in HCMC, where 19 percent of enterprises considered it either serious or very serious .

Although the other indicators such as governance, quality of policy formulation and implementation, quality of government services and quality of legal systems have the average score higher than average score of 3, the rate is not high, i.e. the proportion of those who consider such indicators are good and very good is low.

In general, the proportion of respondents in HCMC suggested that the current macro economy is not so good for their businesses is just a little higher than that in Danang City. Hence the lower-than-average scores among businesses in HCMC.

**Table 4: Macroeconomic Issues  
Average Score by City\***

<i>Indicators</i>	<i>Viet Nam</i>	<i>Danang</i>	<i>HCMC</i>
Macroeconomic stability (low inflation, stable exchange rate)	2.94	2.90	2.97
Governance: Crime, theft and disorder	3.45	3.43	3.46
Quality of policy formulation and implementation	3.31	3.30	3.31
Quality of government services	3.16	3.17	3.15
Quality of the legal system	3.25	3.33	3.17
Corruption	2.93	3.03	2.84

*Note: \* Investment Climate Survey in Danang and Ho Chi Minh City  
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)*

*Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)*

Businesses seem to be just satisfied with the *current regulatory framework* of Viet Nam. All the indicators rated higher than the average score of 3. However, the average score for the regulatory frameworks obtained from the survey is slightly higher than 3. That means the country needs to do more to improve its regulatory frameworks.

The biggest concerns of businesses, according to respondents, are tax rates, land regulation and intellectual property rights (IPR) protection. According to businesses, tax policy change fast and unpredictable, not follow the initial commitment at the time, when they set up their business. Moreover, there is some kind of tax such as tax imposing on the inputs to produce sample is irrational. While they have submitted tax on time, the tax offices are slow to repay their tax return/rebate. A tenth of enterprises in Danang City and

9 percent of those in HCMC said IPR protection is not good enough. Therefore, they are hesitant to put new products into the domestic market. Regarding to land regulation, in Danang City, where the industry have not developed strongly as in HCMC and where there are still ample land for industry development, firms don't view land regulation is a big problem for them, while firms in HCMC felt that land regulation is not good and fast changing.

**Table 5: Regulatory Frameworks - Average Rating by City\***

<i>Indicators</i>	<i>Viet Nam</i>	<i>Danang</i>	<i>HCMC</i>
Business licensing and operating permits	3.42	3.62	3.26
Tax rates	3.23	3.27	3.20
Tax administration	3.28	3.30	3.26
Labor regulation	3.25	3.27	3.23
Land regulation	3.17	3.20	3.14
Finance regulation	3.28	3.30	3.26
Intellectual property right (IPR) protection	3.10	3.17	3.03

*Note: \* Investment Climate Survey in Danang and Ho Chi Minh City*

*(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)*

*Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)*

Businesses are not satisfied with *current investment incentives*, which score low. Subsidies only rated 2.86 and access to low cost financing 2.89. Other indicators such as rent-free or subsidized land; exemption from trade restrictions; exemption from remittance restrictions, exemption from foreign ownership restrictions; prioritized supply of utility services such as electricity, telecommunication scored around 3, which is slightly higher than average score of 3.

**Table 6: Investment Incentives - Average Rating by City\***

<i>Indicators</i>	<i>Total</i>	<i>Danang</i>	<i>HCMC</i>
Tax incentive (e.g. tax holiday)	3.29	3.30	3.29
Subsidies	2.86	2.85	2.88
Rent-free or subsidized land	3.02	3.04	3.00
Access to low-cost financing	2.89	2.86	2.93
Exemption from trade restrictions	3.00	2.96	3.03
Exemption from remittance restrictions	3.09	3.14	3.06
Exemption from foreign ownership restrictions	3.11	3.10	3.13
Prioritized supply of utility services	2.97	3.00	2.94

*Note: \* Investment Climate Survey in Danang and Ho Chi Minh City  
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)*

*Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)*

### **2.3. Human Resources**

Among the labor-related indicators, employee retention (frequency of movement of workers in and out of a company) is the biggest issue confronting businesses in both HCMC and Danang City, which scored it an average of 2.87 and 2.89, respectively.

Easiness of labor recruitment and labor costs are also considered major challenges for businesses. Businesses in HCMC and Danang City considered easiness of recruitment of workers as their second biggest problem, giving it an average score of 2.86 and 3.13, respectively. A fourth of firms in Ho Chi Minh claimed recruitment of labor is either difficult or very difficult.

Businesses scored “labor cost” low, averaging 3.13 in Danang and 3.15 in HCMC, but most of them considered labor cost fair.

Quality of workers is the third biggest issue facing businesses in HCMC, with an average score of 3.11. But like their counterparts in Danang City, they are satisfied with the quality of middle management and engineering in their businesses. On average, the score for quality of middle management and engineers in HCMC are 3.50 and 3.39, respectively, while the corresponding figures in Danang City are 3.40 and 3.41,

respectively. More than 40 percent of businesses perceived quality of middle management and quality of engineers as either good or excellent.

**Table 7: Quality of Labor - Average Rating by City\***

<i>Indicators</i>	<i>Viet Nam</i>	<i>Danang</i>	<i>HCMC</i>
Quality of workers	3.18	3.27	3.11
Quality of middle management	3.45	3.40	3.50
Quality of engineers	3.40	3.41	3.39
Labor cost	3.14	3.13	3.15
Easiness of recruitment of workers	2.98	3.13	2.86
Labor turnover	2.88	2.87	2.89

*Note: \* Investment Climate Survey in Danang and Ho Chi Minh City  
(1 = Very Poor, 2 = Poor, 3 = Fair, 4 = Good, 5 = Excellent)  
Source Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)*

Most middle managers and engineers have higher degree of education, while most workers only have certificates of secondary school. Hence the respondents' satisfaction with the quality of middle management and engineers in their businesses.

In Danang City, about 68 percent of workers have at least finished high school. Of these, 20 percent have vocational training. In HCMC, the proportion of workers with at least high school education is only 52 percent. Of which only 11 percent graduated from vocational school. In general, the proportion of workers with vocational education is only 12.5 percent while those with only elementary and secondary education is quite high, at 38.7 percent.

In Danang City, the proportion of middle managers with at least vocational training is very high, at about 90 percent. Of which, more than half (60 percent) have college or university education. In HCMC, nearly 30 percent of middle managers either have no vocational training or college or university degrees. This figure is much higher compared with that in Danang City. In general, in both cities nearly 20 percent of middle managers have only either secondary or high school degree. Engineers may have only vocational school or college/university (BA) or graduate (MA/PhD) degrees.

**Table 8: Educational Background of your Workers, Middle Management and Engineers\***

	<b>Worker (%)</b>	<b>Middle management (%)</b>	<b>Engineer (%)</b>
<b>Viet Nam</b>			
No formal schooling			
Elementary school	6.6		
Middle-high school	32.1	3.7	
High school	42.6	15.6	
Technical/vocational school	15.2	24.7	32.69
College/university (BA)	3.5	56	43.94
Graduate school (MA/PhD)			23.37
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Danang City</b>			
No formal schooling			
Elementary school	2.0		
Middle high school	26.5	1.0	
High school	47.5	9.0	
Technical/vocational school	20.0	30.0	30.2
College/university (BA)	4.0	60.0	47.4
Graduate school (MA/PhD)			22.4
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>HCMC</b>			
No formal schooling			
Elementary school	11.0	0.1	
Middle high school	37.0	6.0	
High school	38.0	21.4	
Technical/vocational school	11.0	20.4	35.2
College/university (BA)	3.0	52.2	40.5
Graduate school (MA/PhD)			24.3
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Note: \* Investment Climate Survey in Danang and Ho Chi Minh City

Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)

Although in general, the educational level of workers and middle managers in HCMC is lower than that in Danang City, the *average monthly salary* per laborer in HCMC (VND 3.587 million/month) is much higher than that in Danang City (VND 1.623 million/month).

The *turnover rate* in Ho Chi Minh seems higher than in Danang. Enterprises in Ho Chi Minh have suffered a turnover rate of 4.85 percent compared to 3.83 percent in Danang. In overall, the turnover rate of enterprises who participated in the survey is 4.38 percent.

## **2.4 Logistics**

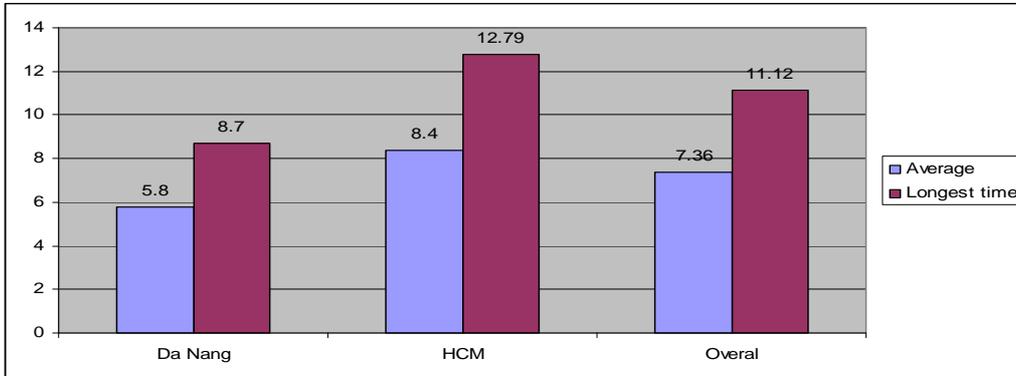
In Danang City, 23 of 30 enterprises have *export activities*. Only 9 percent of enterprises, which participated in exports, have exported goods to ASEAN. In HCMC, 33 of 35 enterprises have export activities. Only 30 percent of enterprises said that they exported their products to ASEAN countries. Therefore, EU and US are two major markets for exports of firms in HCMC and in Danang City. Only 21 percent of firms participated in the survey exports their products to ASEAN countries.

Regarding *import activities*, only 2 firms in Danang City do not import anything for production. 71 percent of enterprises admit that they import something from China. Only 11 percent of enterprises import something from ASEAN. 30 of 35 enterprises in HCMC import something for production. The import markets seem more diversified than in Danang City. But, China is still the most important suppliers for HCMC, about 43 percent of enterprises import something from China. Interestingly, in HCMC more than one third of enterprises import from ASEAN. In general, more than 57 percent of enterprises participated in the survey imported goods from China, 37 percent imported from ASEAN.

*Sea transportation* is the mode of transportation that enterprises in both HCMC and Danang City use for imports as well as for export.

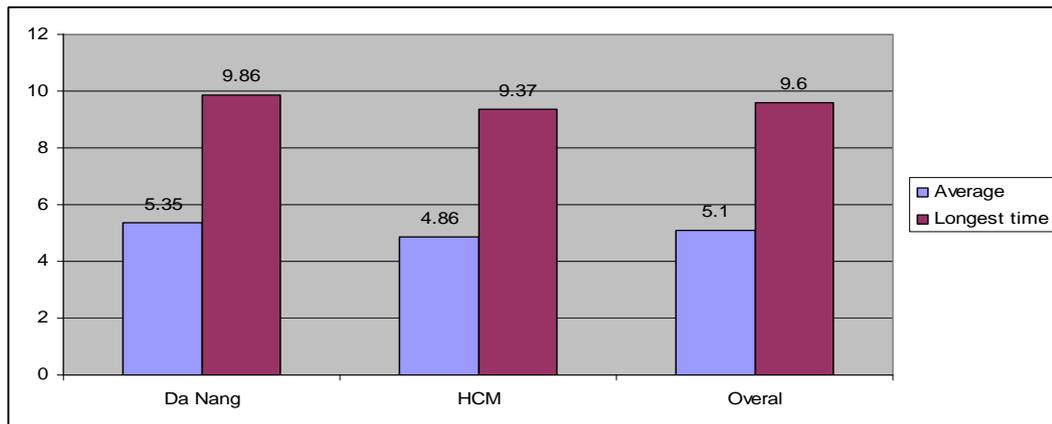
On average, it took 7.36 days to deliver imported goods from the port to the business storage is rather long. Moreover, in HCMC, which have Vietnam's biggest international seaport it took nearly 8 days and a half to truck goods from ports to business facilities. The average days to truck goods from business to port is little bit lower than that for imports. On general, it took more than 5 days to do so. And the average time for goods exporting from HCMC is little bit shorter than in Danang City.

**Figure 1: Time Span on Transportation for Import**



Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)

**Figure 2: Time Span on Transportation for Export**



Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)

With an underdevelopment of supporting industry, it's not surprised that quality of local based supplier gets the lowest score among indicators relating to *domestic procurement* (collecting information about local suppliers, quality of local supplier base and access to capable international suppliers).

There is a big different between HCMC and Danang City when assessing the *foreign procurement* - including procedures for import of raw materials/ parts and components, custom clearance, tariff barrier; non-tariff barrier, drawbacks of import duty and value added tax, trade regulation, and foreign exchange regulation. While businesses in HCMC assessed these indicators are rather low, businesses in Danang City gave such indicators much higher score. In HCMC businesses rated average score lower than average score of 3 for every indicator, with only two indicators are assessed as little better than average. Therefore, it can be understood that it take longer time to import goods from port to business storage in HCMC.

**Table 9: Foreign Procurement: Average Rating by City\***

<i>Indicators</i>	<i>Total</i>	<i>Danang City</i>	<i>HCMC</i>
Procedures for import of raw materials/ parts and components	3.25	3.50	3.00
Custom clearance	3.24	3.40	3.09
Tariff barrier	3.11	3.28	2.97
Non-tariff barrier	3.07	3.22	2.97
Drawbacks of import duty and value added tax	3.08	3.28	2.91
Trade regulation	3.11	3.30	2.94
Foreign exchange regulation	3.10	3.17	3.03

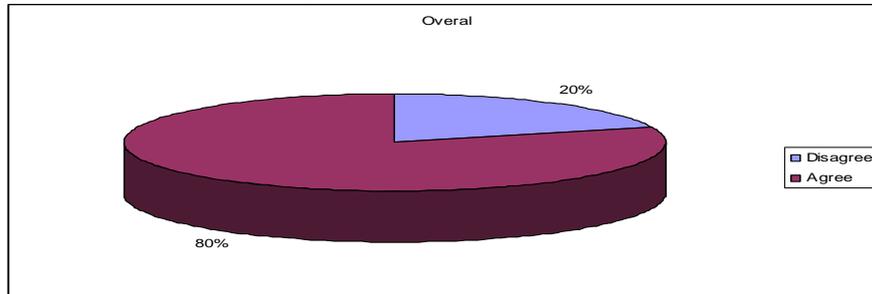
*Note: \* Investment Climate Survey in Danang and Ho Chi Minh City*

*Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)*

## **2.5 IZs/ SEZs**

Over time in Vietnam IZs/SEZs have been built with relatively good package of investment incentives in order to attract investors to come in. However, it is noted that from the survey, most respondents (eighty percent in both HCMC and in Danang City) agreed that the establishment of IZs/SEZs is necessary to improve the investment environment.

**Figure 3: Opinions of the Establishment (or improvement) of IZs/ SEZs will be effective or necessary to improve the investment environment in Vietnam\***

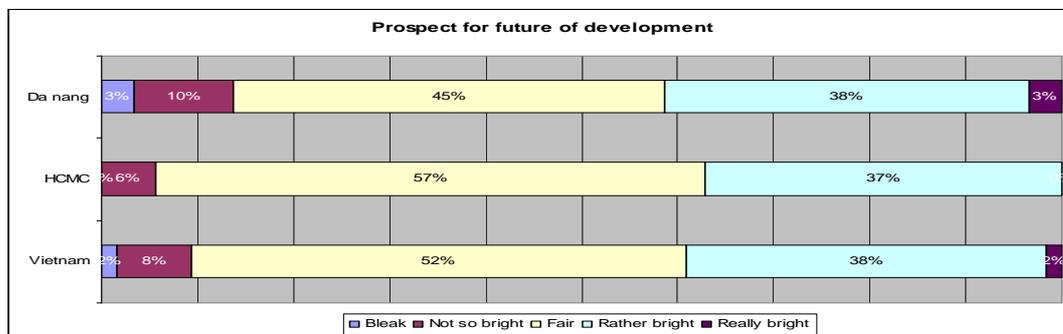


Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)

The majority of businesses surveyed in both cities (75 percent in HCMC and 79 percent in Danang) admit that the establishment of IZs/SEZs would result in better infrastructure for the investment environment. In fact, they expected it to be the biggest benefit to emerge from the setting up of SEZs and IZs. Better custom clearance was ranked second in the list of the benefits, followed by one-stop service and faster procedures for starting a business.

On the prospect of future development, the average score for HCMC is 3.31, slightly higher than that for Danang City (3.28). Most enterprises at least have positive view on the prospect of future development of their industry (90 percent of enterprises). Enterprises in HCMC seem to be more positive than enterprises in Danang City, and they also are not extreme as business in Danang City.

**Figure 4: The Prospect of Future Development**

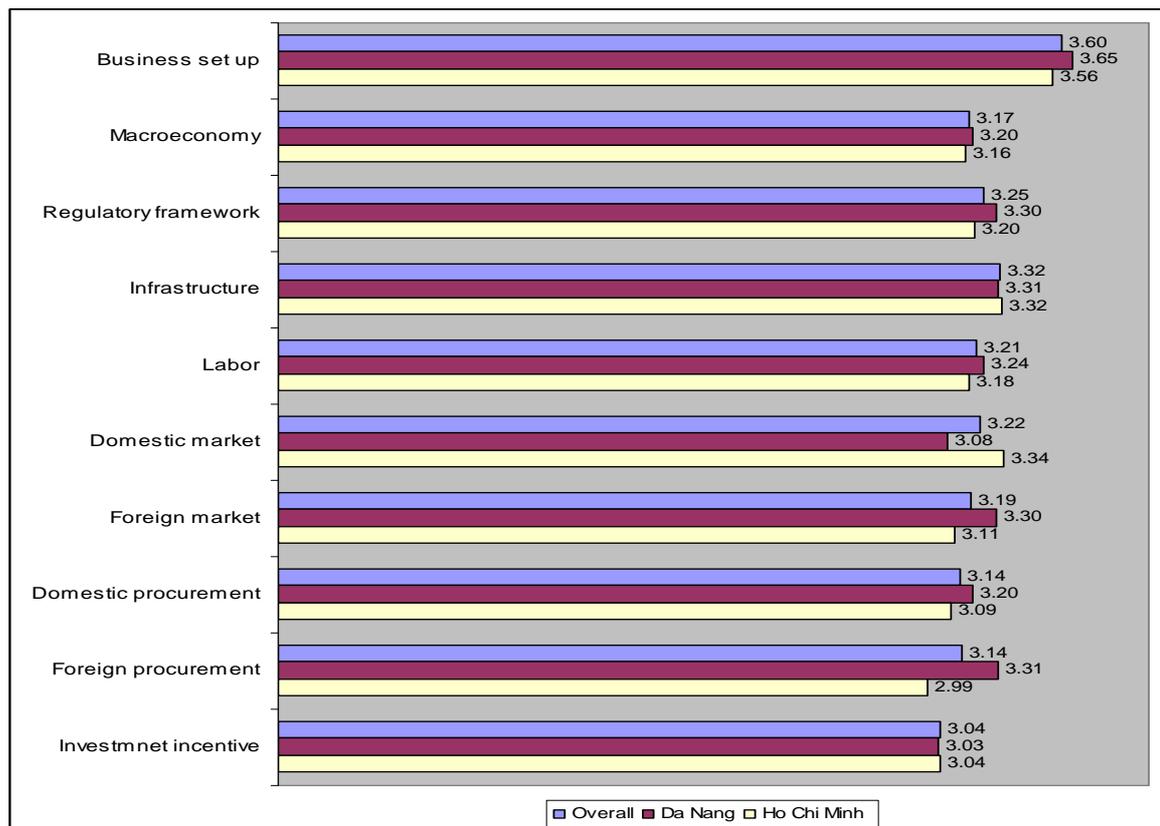


Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)

## 2. MAIN FINDINGS ON HINDRANCES TO INVESTMENT FROM THE SURVEY

The survey has five main parts in order to assess the investment environment by 5 rating scales. All the five sectors such as physical infrastructure, institutions, human resources, logistics and development of IZs/SEZs related to business setup and business operation are of fair status, but almost indicators are around the average score of 3. Among them investment incentives have the lowest average where business set up has the highest score of 3.6.

**Figure 5: Evaluation of The Survey Findings**



*Source: Dinh Hien Minh, Trinh Quang Long and Nguyen Minh Thao (2008)*

*Physical infrastructure* is a major concern for the respondents, specifically electricity and land/road transportation. Moreover, road system is not at good quality and international standard, but enterprises feel payment for its usage costly, inefficiently and unreliably. With respect to *institutions* on average, businesses indicate that recently the macro economy in Viet Nam is not stable due to the global economic downturn and corruption still is a serious problem. Quality of governance, policy formulation and implementation, quality of government services and quality of legal systems still remain low. Indicators relating to the current state of regulatory framework in Viet Nam such as tax rates, land regulation and intellectual property rights protection reflect a need to improve .

On *human resources*, easiness of recruitment of workers and labor costs as well as employee retention are considered business challenges. The quality of workers is also a major issue. Monthly average salaries in HCMC are higher than in Danang. This is understandable, since the former is more developed than the latter. The formation of more industrial clusters in Danang should mean higher salaries and therefore better quality of life for the city.

*In terms of logistics*, the EU and US market are main trading partners of Vietnamese enterprises in terms of export, while china is a main trading partner in terms of imports.. As a result Vietnamese enterprisses depend much on them in terms, if is a shock in these markets. For imports and for export the mode of transportation that enterprises in both HCMC and Danang City use is sea transportation. However, it seem procedures for import of raw materials/ parts and components, custom clearance, tariff barrier; non-tariff barrier, drawbacks of import duty and value added tax, trade regulation, and foreign exchange regulation are worried by enterprises.

Businesses considered the establishment of *IZs/SEZs* very important, because they could bring better infrastructure inside as well as outside IZs.

### **3. POLICY RECOMMENDATIONS**

The main objective of the investment climate survey is to explore the current perception of business on the current situation of investment climate in Vietnam. And, then it aims to determine the bottlenecks to investment and to recommend policy measures to Vietnamese policy makers in order to reach the goal on plugging enterprises into regional production network. To attract Vietnam industries into regional production blocks, service link costs, network set-up costs, and production cost per se must be reduced. Setting up of IZs/ SEZs is effective to attract industries which require better investment environment. Therefore, investment environment in Vietnam should be improved as follows:

#### **a) Infrastructure**

In comparison with other groups of indicators related to investment climate in Danang City and HCMC, indicator “infrastructure” is rather better, but a large proportion of businesses share the view that if there is better infrastructure, development of industrial zones would be much better. Therefore, Danang City and HCMC should:

- Develop the land transportation system and it should be given a priority.
- Have deep water port in order to reduce the cost (cut the middle fee when freighting goods to Singapore, Taiwan and Hong Kong to go to the importing countries)
- Develop the domestic logistics system (from transportation, to storage)
- Build more power plants, especially in the central area where there is any big power plant yet. This will reduce the dependence of the area on the power transmitted from the North and South, where the electric shortage is becoming serious.
- Should pay attention to build a system of housing and other social services that serve the recreational activities of workers and their daily life, when developing

industrial zones,. In other words, to make the workers feel home when working in the industrial zone, or in other provinces that are not their origin.

**b) Institutional reforms**

- Policy making process should be transparent, consistent, and readily enforceable. There is a need to involve business person in the process.
- Regulation regarding land, tax, especially in the period of economic downturn should be more flexible.
- Although much information is available, for example on the internet, business still found it difficult to access. It's due to (i) the way that authority distributes the information are not synchrony with the way businesses people receive information; (ii) sometimes information provided on the internet make businesses more confused; it is not usually clearly explained. Local authorities should have different methods to provide information for businesses. For example, weekly newsletters sent to businesses about regulation updates with clearly explanation about how the new updates will be applied.
- Although the country has an IP law, it's regularly broken. It's partly due to (i) the law is not strict enough to punish those who break the law and (ii) it is implemented effectively; (iii) it's not adequately caught up with the new, fast development of science, technology and business innovation. A new, update, Law with stronger mechanism to deal with IP violation should be issued.

**c) Human resource**

The process of training and retraining the labor forces should be fasten in order to meet the demand of businesses. Especially skilled labor and professionals need to be trained at international standards to solve the lack of skilled labor and professionals as well as to reduce recruitment of foreign skilled labor and professionals.

**d) Logistics**

- Procedures for import of raw materials/ parts and components, tariff barrier; non-tariff barrier, trade regulation, and foreign exchange regulation should be clear and transparent.

- Custom clearance should be smoothly and convenient and short in terms of time.
- Drawbacks of import duty and value added tax, should be improved to meet doing business time

**e) IZs/SEZs**

To attract more investments, the government has considerable work to do. Part of this should be to give businesses a sense of certainty that the investment climate is at least better than average.

**REFERENCES**

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