

# **Study of Foreign Direct Investment Environment in Ha Tinh Province**

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German Technical Cooperation

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## Study of Foreign Direct Investment Environment in Ha Tinh Province

### 1. Introduction

My work in Ha Tinh lasted about one month, between March 13, 2002 and April 10, 2002. During that time, I performed structured interviews with 12 local government officials, 3 foreign invested joint ventures (JVs), and the management boards of the 2 business zones. I collected local decisions, documents, and data related to economic reform and foreign direct investment attraction. I also made use of the extensive library of the GTZ PDP project in Ha Tinh to supplement my data collection. Ms. Thao of the PDP office was of invaluable help to me, accompanying to all my interviews, taking notes, and assisting with translation when conversation became too complex for language skills. This project would not have been possible without the support of PDP Ha Tinh and the hard work of Ms. Thao.

I also found DPI to be extremely helpful in facilitating my research. They arranged all my interviews, were proactive about making arrangements, and continually kept me informed about schedule changes. The research endeavor was quite successful, but with a few glaring problems. A list of data was requested in both English and Vietnamese that DPI never responded too. (compared to the situation in other provinces!?) Most importantly, provincial level data on the 1991-1996 period was never forthcoming, though Ha Tinh city level data was available. This results in a rather constrained time series of data, which restricts analysis. The second glaring hole is the land use data, which was to be provided with the provincial land authority. I would like to have studied the distribution of land by type of ownership and by length of time period between 1991 and 2001, but the land authority had trouble producing such numbers.

In the following report, I will detail my research methodology, present brief synopsis of each meeting, and offer conclusions on Ha Tinh's FDI climate and development trajectory in comparison with other provinces in the region and nationally. The final section of the report provides a proposal for next steps to further research, including some ideas of how to proceed on the very important analysis of household sector data.

### 2. Methodology

In Ha Tinh, I used the same structured survey design as I have used in 10 other provinces. The only difference was that the extended length of my trip in Ha Tinh, allowed me to add more questions on FDI and more detailed open-ended questions on decision-making.

The survey is divided into four major sections. I interviewed the same set of provincial decision-makers in every province and selected foreign invested businesses and registered private sector firms.<sup>1</sup>

- **General:** The first section probes general features of the Ha Tinh economy. In this section, I seek to establish, the role of the particular institution in provincial decision making, their priorities in terms of provincial economic development, and what they

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<sup>1</sup> See Appendix 2 for more detailed contact information on interviewees.

see to be the major obstacles to FDI attraction and private sector development

- **FDI attraction:** Basic statistical data is asked for in relation in regard to major industries, performance over time, and locations. Next, I ask about the policy history and future plans. Third, I probe major difficulties for investors, channels of communicating those difficulties to local institutions, and the way those issues are resolved. Finally, I ask specific questions in regard to land use, tax policies, local inspections, and specific targeted incentives to firms (for instance reduced land fees to the Hikosen Garment Joint Venture).
- **Inter-government relationships:** In this series of questions, I am particularly interested in two sets of relationships. First, I look at the issue of dual subordination. What types of decisions can be made at the local level and which decisions require central approval? How proactive and initiative generating is the province? Do they devise policies themselves and send them up to the central level for approval or are they more likely to be policy takers. If the institution is a department (DPI, DOI, DOF, etc.), who is more important for their everyday work, reporting, and promotions, the provincial people's committee or their central line ministry? What role do they play in generation of the 10-year, 5-year, and 1-year master plans?
- **Private sector development:** Like the FDI section, this probes policy history, difficulties, channels of communications, and incentives. In addition, it looks at informality in on two major issues to probe the quality and commitment of the local government. First, I try and understand reasons for the lack registration of the household sector at DPI. Have they been pushed in to the informal sector by tax policies and frequent inspections? Second, I look at sources of capital? Are most enterprises receiving capital to expand their businesses through informal channels?

### 3. Important findings and comparative analysis from interviews of local officials in Ha Tinh Province.

**Mar. 20, 2002: Provincial People's Committee**  
 The People's Committee (PCOM) of Ha Tinh province is competent and aware of issues and new policies in economic development. Despite their professionalism, they see it as out of their jurisdiction to answer detailed questions regarding statistics and implementation of registration and inspection changes under the Enterprise Law. They defer most of these questions to the DPI to answer, which they refer to as the "Little People's Committee."

The Ha Tinh PCOM places increasing industrial production, food production, and exports at the top of their priority list. In addition, they feel that their socioeconomic concerns are poverty eradication, infrastructure improvements, and extending education to a wider percentage of communities. By every measure, they have made great progress along these lines. As Table 1 shows, they outperform their peers in the North Central Coast on these measures.

**Table 1: Socio-economic Comparisons**

Province	Percentage of People Living Under Poverty Line	Combined Human Development Index	Economic Growth (1995-2000)
Ha Tinh	46	0.677	4.800
Nghe An	52	0.669	4.860
Quang Binh	50	0.642	6.080
Quang Tri	54	0.643	5.890
Thanh Hoa	46	0.659	4.870
TT-Hue	46	0.658	4.740

Source: National Human Development Report 2001

The PCOM as well as most officials in Ha Tinh province, blame the majority of their development problems on issues related to their separation from Nghe An province in 1991. According to this logic, Nghe An received the vast majority of the infrastructure and natural resources. Ha Tinh found itself with little in the way of roads, bridges, water supply or electricity. Their distance from Hanoi is also v disadvantageous. It is difficult and expensive to get their products to market and they have trouble attracting foreign investors who want to live and educate their children in big cities. As a result, PCOM Ha Tinh has invested the majority of their efforts into infrastructure and market improvements. The business zone at the Huong Son Border Gate, Ho Chi Minh road, and Ky Anh industrial zone and port are examples of these efforts. But how big a problem were these initial conditions for investment attraction?

Figure 1 and Table 2 compare Ha Tinh's neighboring provinces (and a few selected other provinces!) Explain selection criteria on several dimensions of initial conditions. As we can see, Ha Tinh does not score that badly relative to its neighbors. In fact, post 1997 Ha Tinh had one of the highest percentages of communes with roads and

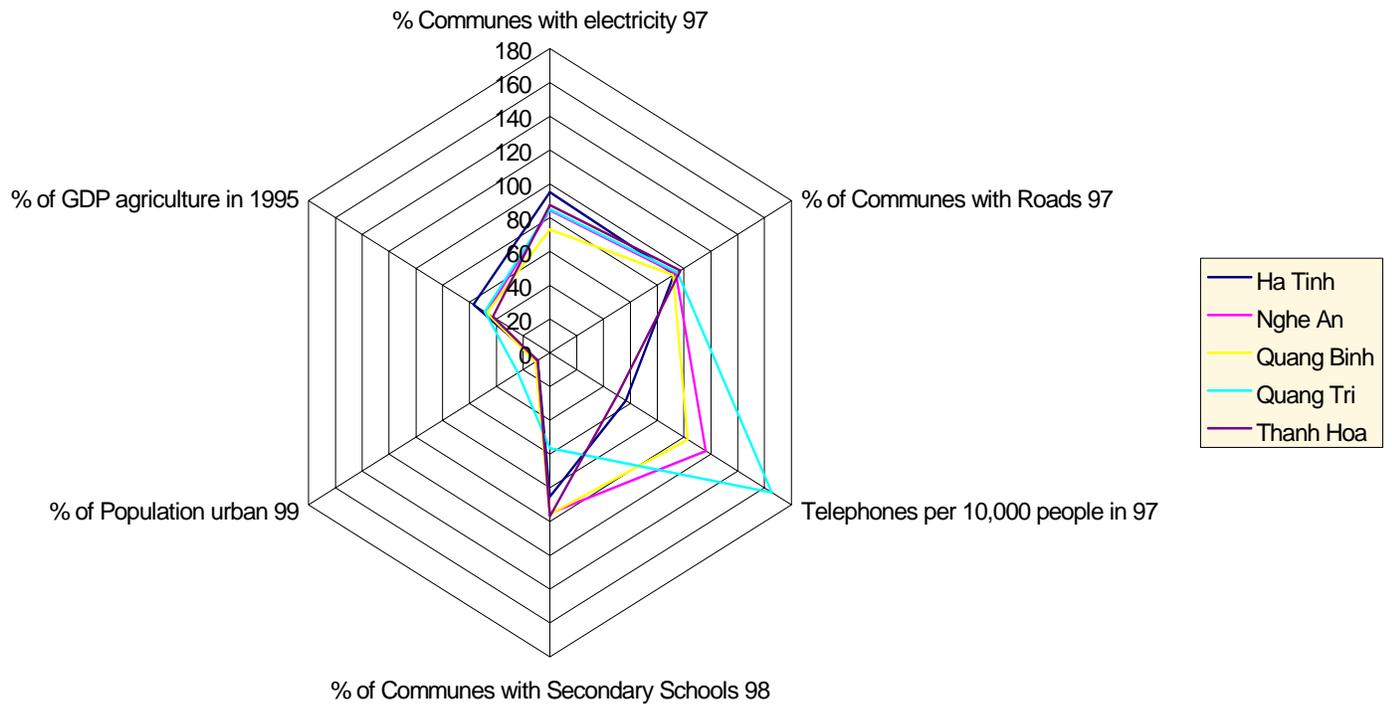
electricity in the country, near the perfect range of super stars Binh Duong and Dong Nai. Ha Tinh is weak in three vital areas, number of residents connected with telephones and its distance from major markets. In this rapidly globalizing world, these are major handicaps. The third area where Ha Tinh is handicapped is the small size of its urban population, which shrinks the market for its product and hinders economies of agglomeration and clustering. Of course, Ha Tinh's neighbors also do quite poorly on this scale and Binh Duong's urban population is also relatively small compared to Dong Nai and Vinh Phuc.

**Table 2: Infrastructure and Initial Conditions**

Province	% Communes with electricity 97	% of Communes with Roads 97	Telephones per 10,000 people in 97	% of Communes with Secondary Schools 98	% of GDP agriculture in 1995	% of Population urban 99
Ha Tinh	95.1	92.6	56.7	85.1	57.1	9
Nghe An	84.4	93.7	116	95.1	47.4	10.1
Quang Binh	72.8	91.9	102.7	95.6	47.2	10.9
Quang Tri	84.9	95	165.5	56.4	48.6	23.9
Thanh Hoa	87.4	97.2	50.1	96.9	42.7	9.3
TT Hue	81.5	95.2	18.750	47.5	27.6	32.2
Binh Duong	100	100	26.7	57.6	33.4	27.9
Dong Nai	100	100	22.0	82.0	30.7	49.6
Vinh Phuc	100	100	6.9	97.8	10.3	65.2
Long An	86.4	86.4	13.5	59.3	16.6	64.1
Province	Distance from Hanoi in km	Distance from Da Nang	Closest Large Market (HN, DN, SG)			
Ha Tinh	340	419	340			
Nghe An	291	468	291			
Quang Binh	488	271	271			
Quang Tri	580	179	179			
Thanh Hoa	153	606	153			
TT Hue	654	105	105			
Binh Duong (SG)	1749	1030	30			
Dong Nai (SG)	1697	889	22			
Vinh Phuc (HN)	64	645	64			
Long An (SG)	1766	1057	37			

Source: National Human Development Report 2001

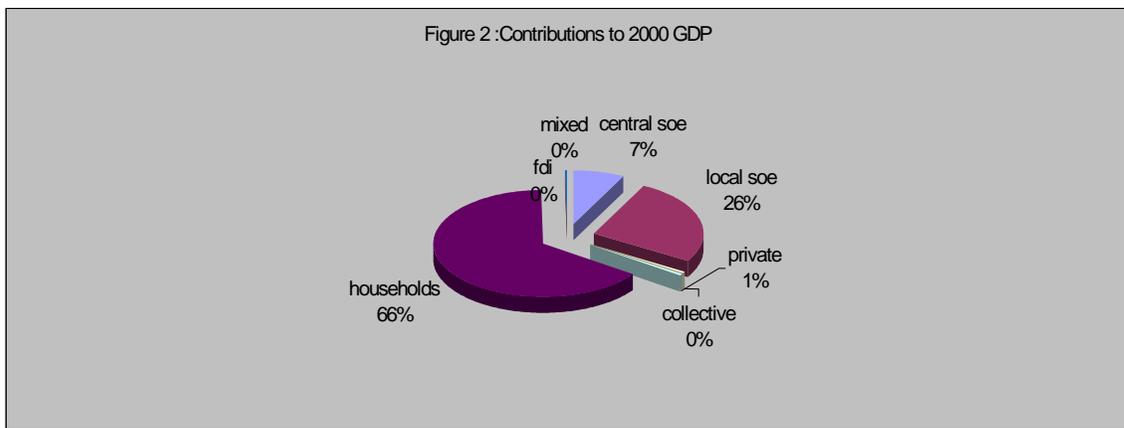
Figure 1: Infrastructure and Initial Conditions



The PCOM hopes that its new infrastructure policies will enhance their two top priorities of industrialization and foreign direct investment attraction. Enhancing the State Sector, though not ruled out, does not engender a great deal of excitement, as the weak performance of the state sector has left most Ha Tinh officials skeptical about its ability to generate growth and employment creations.<sup>2</sup> FDI has had very little impact on socioeconomic improvement, economic growth, or provincial policies, as of the limited number of successful projects. Of the 8 projects, originally signed to distribute money in Ha Tinh: 4 never disbursed money; one closed production after a high profile dispute with its partner; 2 are doing poorly and are bordering on financial disaster, and the final one is brand new expecting to export for the first time this year. Moreover, all these projects have been in the form of joint ventures.

Private sector development ranks a low third on the priority efforts of the PCOM. With its deficit in initial conditions, heavy competition from its neighbors for FDI attraction, and lackluster FDI history, private sector should rank ahead of FDI attraction. Because of its low priority, the Ha Tinh PCOM appears to invest little effort into innovative ideas to develop the sector compared to its peers. They are willing to implement national regulations, but put comparatively little effort into the interesting and new ideas of other provinces. There is limited interaction to hear and understand the problems of the private sector. The PCOM has one annual meeting, but seminars and training sessions on new laws, technology, or accounting procedures are rare, by the PCOM's own admission. In high performing provinces, they are quite common.

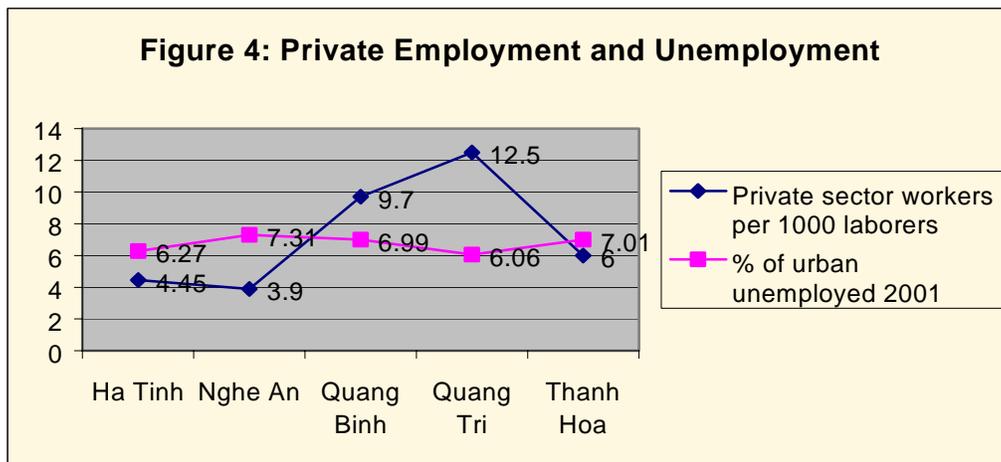
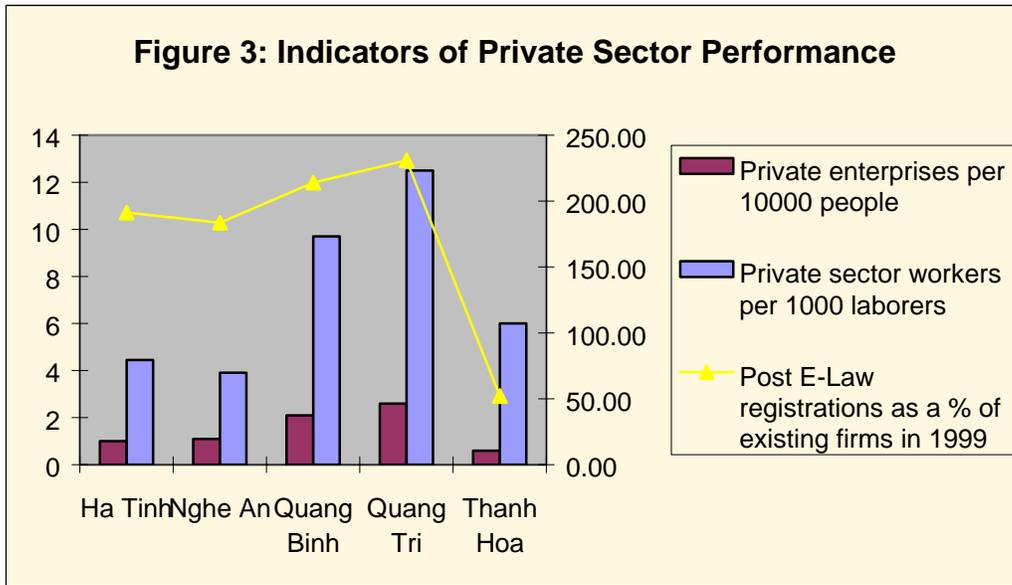
Moreover, little effort has been made to register or help incorporate the very large household sector (presently accounting for 66% of provincial GDP). The household sector's lack of understanding is blamed, rather than a deep look at the institutional problems that are contributing to this dilemma (ie. tax policies, poor access to information, fears that registration will increase inspections and "friendly visits.") As will be detailed in future steps, a detailed study of the household sector will be necessary to correctly diagnose these problems.



<sup>2</sup> See Appendix 1 for more detailed information on the state sector in Ha Tinh and its neighbors

**Mar. 21, 2002: Department of Planning and Investment -- Private Sector**

As the primary interface with the private sector, the DPI has done a great deal to implement the Enterprise Law and have seen relative success. Between 1992 and 1999, there were 125 registered enterprises in Ha Tinh (110 individual firms and 15 limited liability companies). After the enactment of the enterprise law, Ha Tinh has registered 232 individual companies, 56 two members limited liability companies, 4 one-member limited liability companies, 7 joint-stock companies, and 1 business practice (a new type of registration). Three of the joint stock companies have been equitized and four are new registrations that had not registered before. The single member LLC is a new form to protect large investors from full responsibility in the case of bankruptcy. Though Ha Tinh ranks near the bottom in enterprises per capita and percentage of labor in the private sector in the North Central Coast, it is third in improvement of registrations post Enterprise Law.



Source: PDP information center

**Inspections:** In regard to inspections, DPI claimed that they inspect to make sure that companies have the actual capital reported in their registration and they visit firms to make sure their locations are the same as reported. In regards to inspection of other agencies, they claimed that most firms are visited less than once a year. And that this was true both before and after the enterprise law, though before the Enterprise Law there was less local government oversight. In the opinion of DPI, firms very rarely complain about burdensome inspections and checks. This confirms the findings of the OXFAM Ha Tinh survey (see literature list!). Most firms felt that were visited rarely. In terms of gifts and "phong bi tinh cam," DPI said that the fees, taxes, and gifts were not a problem, and the gifts were primarily to "trao doi vui ve" or share happiness. At the time that question was raised, other DPI officials in the room thought this answer was very funny and began laughing hysterically. This also confirms the OXFAM study, which found that firms were not terribly burdened by the gift and found it mostly an annoyance. On the other hand, the situation does raise questions about overall commitment to the private sector.

**Relationship with PCOM:** Students of the Vietnamese government often talk about "dual subordination," the concept that departments of Central Ministries report to both the Ministry and the People's Committee. In practice there is a great deal of variance in how dual subordination is carried out in practice at the provincial level. In comparison to other provinces, the DPI in Ha Tinh operates much more autonomously of the PCOM than DPIs in other provinces. Alternatively, it shares a closer relationship with MPI. As they put it in written answers to my questions about relationships, "DPI is the expert agency of the PCOM, charged with advising the PCOM on the implementation of Central policies at the local level. DPI manages comprehensively tasks allocated to it by the PCOM, while simultaneously supplying concrete guidance and orientation on the specifics of MPI (Written answers of Mr. Thanh).

The local PCOM does not concern itself in full with the efforts and outcomes of its "mini-PCOM." Issues of Enterprise Law and Foreign Investment Law implementation are completely left to the discretion of DPI, including registration, licensing, and land use rights certificates. DPI also considers that one of its key roles is to advise the provincial PCOM on the needs and goals of MPI. In the few cases where local policies are developed to encourage FDI, DPI is the main organization responsible for the committee, branches of other line ministries do the research, and the PCOM simply investigates and decides upon the recommendations of DPI.

In other provinces (especially in the South), promotions from DPI are usually to the PCOM. But the DPI stressed that in Ha Tinh promotions out of DPI were distributed equally between the PCOM and MPI. Generally, promotions in Ha Tinh were based on the individual goals of the employee. Those, with technical expertise aimed for promotion to the MPI, while those with local political aspirations asked for promotions to the PCOM.

Part of Ha Tinh DPI's unique subordination situation is determined by its relationship to central institutions. The Director of DPI is a member of the local party secretariat, which has some supervisory powers over the PCOM and a separate budget. Secondly, for many years the head of the SCCI (the precursor to MPI)<sup>3</sup>, Nguyen Mai, was from Ha Tinh province.

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<sup>3</sup> State Committee for Cooperation and Investment.

**Mar. 21, 2002: Department of Planning and Investment (Mr. Thanh written comments)**

The written comments of DPI in regard to FDI attraction were quite banal. It detailed plans for the port and border gate zones, but mentioned none of the investment incentives outright. Moreover, it attributed all local incentive policies to central policies, writing that "it is simply the job of the local government to administer those policies." Any role for innovation in planning at the local level was specifically ruled out by DPI. The three normal channels for provincial innovation were denied. In other provinces, these are: interpreting a lack of clarity in the favor of local and foreign investors, creatively implementing central laws to meet local needs, or requesting and lobbying for special incentives in one and five-year master plans.

**Hikosen and Land Taxes:**

There is one interesting case of what appears to be local level innovation in Ha Tinh province, though it was difficult to discover information on this formally. Both the Department of Finance and some officers at DPI were under the impression that the Hikosen JV was paying land taxes at half the national rate of \$0.38 per square meter. It was difficult to actually locate the written local decision that made this possible. My interview with Hikosen management revealed that Hikosen was paying a land tax below the national rate of \$0.30 per square meter.

But upon closer inspection, this may not be a case of local innovation. Rather, it is likely the case of a central exception given to Ha Tinh. The President of the Japanese JV partner Mistusnori Okuyama, stated at the opening ceremony of the project that he originally sought to invest in a garment factory in Hanoi or Hai Phong "because these two cities have more experience than Ha Tinh in dealing with foreign investors. But in the end I chose Ha Tinh for the simple reason that Ha Tinh is one of the provinces with the least foreign invested projects in Vietnam. Now should anyone ask me, I would add that Ha Tinh is the native place of the leaders of the State Committee for Cooperation and Investment." (VIR, September 12, 1994).

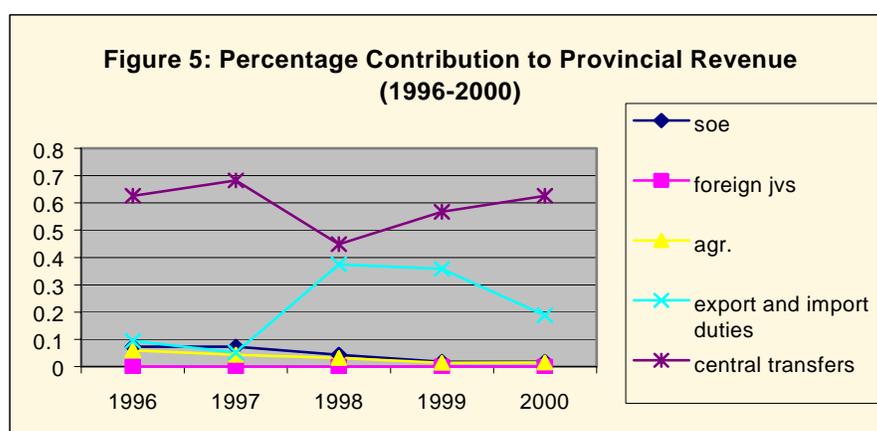
This should lead us to expect that any relaxation of a Central Policy for the JV was due to that relationship rather than innovation by local institutions.

In short, Ha Tinh provincial DPI is an institution highly dependent on MPI. It does not have the policy making space to be innovative at the local level. All important initiatives come from the center with minimal local level interaction to make sure central initiatives correspond to local needs.<sup>4</sup>

To see Ha Tinh's autonomy in a comparative mode, I place Ha Tinh next to its North Central Coast peers and a few other geographically dispersed provinces on few measures of local autonomy in Table 3. The content analysis picks up how many times a provincial government has taken actions that are not included in central laws or actually violate central laws. Corrupt actions by provinces are ruled out, by eliminating all articles where the individual actor benefits materially from the decision. These are only articles on central policy decisions. The second measure looks at transfers from

<sup>4</sup> This is true of the border gate business zone, which was originally described in Prime Ministerial Decision 177 in 1998. This was followed by Ministry of Finance circular 162, which laid out the strategic plan and financing as well as incentive principles. More substance was added in Prime Ministerial Decision 53, which outlined more clearly incentives and the responsibilities of each institution. Finally, the PCOM of Ha Tinh responded to central directives with their own decision 789, creating the management board of the border-gate zone and the policies for implementing the central initiatives.

the central government as a percentage of locally generated revenue. The third measure of fiscal independence ranks province on a scale of 5-1, as to whether they are net donors to the central governments to whether they are net recipients of 200% or more. Level 5 provinces are the most fiscally independent. As can be seen, Ha Tinh has the highest fiscal independence in the North Central Coast after Hue, but ties Nghe An for the least innovative actions. Nevertheless, the entire North Central Coast ranks far worse than the higher performing provinces on all these measures. Ha Tinh may outperform its regional peers on fiscal independence, but its locally generated revenue has never been greater than expenditures and Figure 5 shows, central transfers have consistently accounted for over 60% of provincial revenue. Moreover, the Department of Finance confirms Ha Tinh has often missed its fiscal target.



Province	Newspaper articles on innovation and independence	Central Transfers/Locally Generated Revenue	Fiscal Independence
Ha Tinh	9	162%	2
Nghe An	9	308%	1
Quang Binh	10	415%	1
Quang Tri	12	200%	1
Thanh Hoa	22	191%	2
TT-Hue	21	132%	2
Binh Duong	52	5%	5
Dong Nai	34	5%	5
Vinh Phuc	32	52%	4
Long An	43	86%	3
<i>National Mean</i>	21.5	216%	2.25
<i>Standard Deviation</i>	20.2	225	1.27

Source: National Human Development Report 2001

**Mar. 22, 2002 Department of Industry**

One thing that became quite clear in this interview is that it is difficult to separate personality from institutional constraints. In Long An, Thanh Hoa, Ha Tay, Nam Dinh, and Binh Duong, where I have performed

**PCOM Decision 900, regarding the roles and responsibilities of DPI**

DOI provided me with a copy of Ha Tinh provincial decision number 900 in accordance with national law on the organization of PCOM and PCs. The decision deals specifically with the roles and responsibilities, as of July 22, 1997. They are:

- 1.) To assist the PCOM in the implementation of national decrees and laws.
- 2.) To assist the PCOM with planning and strategies as they relate to the development of industry.
- 3.) Researching production techniques and movements in industrial units to help MOI and the PCOM make changes in the contents of policies to help industry.
- 4.) The creation of standards for economic levels, technology, and industrial safety to be followed at the district level and ratified by the PCOM. Along with this, they should organize checks of production and business units in every industrial sector to make sure they have implemented these new arrangements.
- 5.) Coordinate with every branch of industry to manage the quality of their industrial products according to the regulation so both the province and the government.
- 6.) Manage and sound out the exploitation and protection of natural resources, including licensing provision.

structured interviews, the DOI usually emerges as the most innovative institution in regard to local development and FDI attraction. They are usually at the forefront of policies designed to attract investors into industrial zones and they are also generally most aware of the importance of the private sector and FDI for meeting national revenue targets. In Ha Tinh, however, Mr. Quyen was positive about FDI and the private sector calling them top goals, but he was surprisingly uninformed about the details of incentive policies and statistics. Like the PCOM, he deferred all questions on these issues to DPI. He was also unable to recall the contribution of the private sector to the industries he believed would be key to the future development of Ha Tinh Province (construction, manufacturing, and aquaculture). Finally, he did not have much knowledge about the strategies and policies of other provinces, demonstrating a very insular approach to economic development. One thing that has been clear in other interviews, is that high performing provinces and those that have shown improvement recently usually have a great deal of knowledge about the work of the peers and may have even taken study tours to provinces known as best practitioners.

Mr. Quynh's lack of information may not be due to any fault of his own. Industrial production contributes only 13.4% of GDP of the province, likely limiting the bargaining strength and consulting role of the institution. Moreover, DOI Ha Tinh functions according to very specific mandates given it by the Ha Tinh PCOM in Decision 900, July 22, 1997. We were presented with these mandates and it is quite clear that the role of DOI is highly constrained by the PCOM. In short, it plays a consulting role to the PCOM on how to implement national laws, but it has no independent policy generating role of its own. This became clear when DOI was asked to place Ha Tinh on a three-point scale. Was it a province: 1) that followed national laws to the tee without question; 2) negotiated with central authorities to make sure national laws fit local objectives; or 3) a province that sometimes went beyond national laws in situations where they disagreed or central laws were unclear? The DOI of Ha Tinh chose 1, before a DPI official intervened to correct that answer. This demonstrates the lack of flexibility of the DOI in Ha Tinh *vis a vis* the DPI.

DOI does participate in the planning process of the province, but in a highly stylized manner. Their yearly plans are usually the compilation of their monthly reports on industrial development in the province. Their 10-year master plan, however, follows the rigorous national guidelines and is submitted to the PCOM and DPI, which will incorporate it into the detailed overall master plan of the province. Usually, this involves some negotiation and bargaining to iron out details. In regards to dual subordination DOI was predictably neutral. There is no difference at all between importance of the PCOM or MOI at all in DOI's work.

On key dimensions of provincial economic development, DOI's opinions were as follows.

- **Inspections:** Though under Decision 900, DOI is obliged to control environmental damage, natural resource exploitation, and health and safety standards, and product safety, they inspect very rarely as part of this power.
- **Licenses:** Firms involved in natural resource exploitation must still receive a license. The Enterprise Law did not remove this important certification process and all provinces still maintain it.
- **SOE crowding out:** Despite earlier comments about the competition in the construction industry between the state sector and private sector, Mr. Quynh believed strongly that the state sector has exerted a positive influence on the private sector. In fact, he used the word "*keo su*" or to pull forward, meaning the state sector has created opportunities for private provision of services and intermediate goods. He felt that the playing field was very fair with SOE advantages mostly coming in the form of experience, scale, and capital (but not easier access to capital according to DOI, just the amount of capital).<sup>5</sup> Moreover, SOEs are more confident and comfortable with production. Figures 6 and 7 that I derived from the Ha Tinh statistical appendix (cite in Literature list!), however, do clearly show that the non-state sector of Ha Tinh has expanded their contribution to industry much more than neighboring provinces. This growth has been most likely been in the registered private construction companies. The charts also reveal that foreign investment growth in industry has been minimal.
- **Equitizations** have also had very little impact as there have been so far few completed in Ha Tinh.
- **Channels of communication with the foreign and private sector:** The only interface between DOI and the non-state sectors are annual meetings organized by the PCOM. Seminars and training have been infrequent and rare. Though, DOI does argue fairly that contact with foreign investors does not need formal institutions, as there are only three remaining, it is easy to just pay them a visit when issues arise. This does not necessarily mean that visits by representatives of these companies to the DOI are similarly uncomplicated, as our closer look at the problems of these companies will reveal. Nor is a lack of institutions for dealing with foreign investors very forward looking. It may work now, given a paucity of investment, but how well will it work if Ha Tinh is successful in attracting more enterprises.
- **Obstacles:** Lack of communication with the private sector proved to impede DOI's ability to properly assess the obstacles they faced. DOI cited three factors limiting

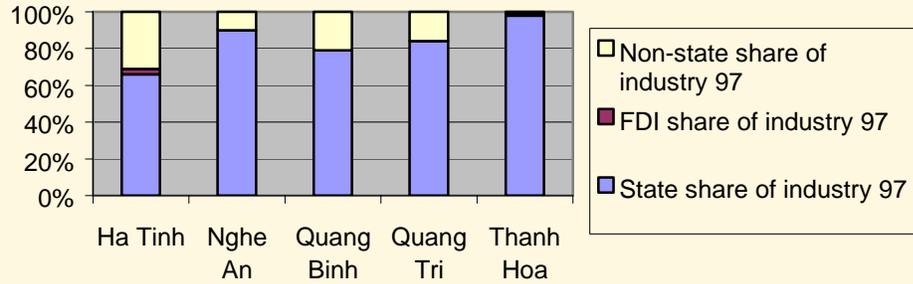
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<sup>5</sup> I am not sure that these two concepts can so easily be separated.

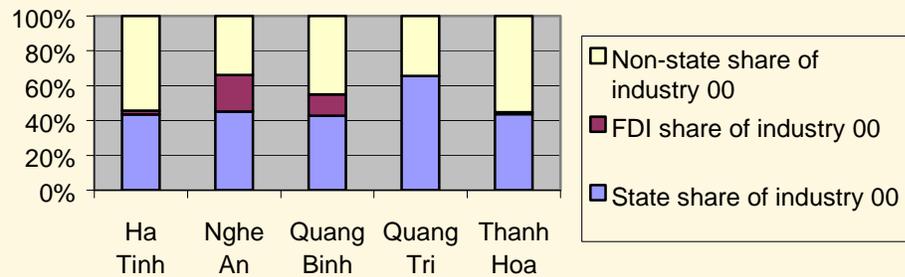
private sector development. First, they believed that poverty decreased the ability of locals to invest in businesses, but strangely did not believe that access capital was a factor at all. Second, DOI cited a lack of understanding of and access to markets, which led to low product quality and stockpiles of unsold product. Nevertheless, the third obstacle was considered to be a need to increase production in the private sector. It was unclear whether DOI recognized the inherent contradiction in these second two obstacles. Wouldn't production increases lead to more stockpiling without first working on market access and information? There is a clear need for sequencing to address these obstacles (first work in market information then on increasing production), but I was uncomfortable with DOI's unawareness of this factor.

Despite citing the achievements of the household sector in industry, DOI did not have much knowledge of why many household companies have yet to register formally at DPI. DOI's answer to this question was, "Ask the tax authority."

**Figure 6: Contribution of types of ownership to Industry in 1997**



**Figure 7: Contribution of types of ownership to Industry in 2000**



**Mar. 25, 2002 Department of Finance**

My overall impression of this agency was that it was a very competent and professional local institution. The Department organized officers from every functional office in the department to answer my questions, and responded frankly and with a great deal of data. There are nine different offices in the department of finance, so it has tremendous responsibility. In fact, it ranks itself as second only to DPI in its importance at the provincial level. Their major responsibilities are putting together the provincial budget and implement national budgeting regulations. The DOF is responsible for reporting to the PCOM once a year and also for reporting to the MOF once a year. They also advise the PCOM on changes in national finance laws. Their most important role is distributing provincial funds, which are placed in a central account for them as part of central redistribution. In terms of their responsibilities, they did not believe that it was possible for the MOF and PCOM to disagree. Finance rules and budgeting was very precise and the PCOM was expected to abide by these regulations. Any misunderstanding or local level complications could be easily ironed out.

Contrary to DOI above, the DOF classified Ha Tinh as a province that tries to follow national objectives, but will sometimes negotiate above if national regulations are not responsive to local needs. One example of this is was a central plan for export duties that didn't fit with local needs and needed to be amended in the case of Ha Tinh, specifically in the case of HT? (I asked for a copy of this amendment, but did not receive it). Another was the case of the JV Hikosen. Other examples are details related to the construction of the port. DOF claimed that these are important examples of local level decision-making, but they are quite small in scale compared to the autonomy and bargaining strength demonstrated by other provinces.<sup>6</sup>

The DOF was keenly aware of competition to attract investment with other provinces and though admitting that they would like to see all of VN develop, they have said that Ha Tinh has tried to compete with both its neighbors and geographically dispersed provinces at other levels of development. For example, in the port industrial zone their land rental rates are 10% below Nghe Ann's rates.

**Mar. 26, 2002 Tax Authority**

Ha Tinh should be very pleased with the quality and competence of its Tax Authority. These officials had a comprehensive understanding of national level laws and a healthy sense of self-criticism for weakness in the work of the local Tax Authority.

The Tax Authority is basically responsible for organizing the collection of taxes in accordance with central laws. Taxes below 800 USD can be collected directly by the Tax Authority. Over that amount taxed must be delivered to the provincial treasury directly or deposited in a bank account administered by the Tax Authority. In actuality, the Tax Authority is not supposed to collect any taxes, as all money should be delivered directly to the provincial Treasury. According to Ha Tinh's understanding of the law, the tax receipts of the registered private sector should never touch the hands of the Tax Authority. In the case of household enterprises, Tax Authority officials may visit that enterprise and negotiate a rate, if household accounting records are not well kept.

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<sup>6</sup> According to my dissertation theory, these are likely examples of Ha Tinh's limited national level bargaining strength (Malesky, 2001).

Sometimes, if the enterprise is far away, they may collect the tax on behalf of the Treasury, as the Treasury does not have the capacity to send representatives to the districts. The Tax Authority is also responsible for reporting to the national General Tax Authority and the leaders of the province on tax collection efforts and policies in the province. This leads to their crucially important participation in the negotiation in the decision on the annual tax target of the province.

Constitutionally, the Tax Authority is a unique local institution. It is considered to be national institution, not subject to the dual subordination of other local departments. With more centralized control over taxes, Vietnam hopes to avoid the problems that Russia has endured with annually declining tax receipts from its republics. But this does not mean that the Tax Authority is independent of the Provincial PCOM. It follows national regulations on taxes, but always is responsive to the PCOM's needs. They report to the PCOM once every three months regarding tax collection results. They also advise the PCOM on issues related to budget calculations at the provincial and district level. Promotions generally follow the career goals of the candidate. Some opt for promotion to the PCOM. Others opt for promotion centrally. They generally coordinate with the Department of Finance and work together on technical issues whenever necessary. They realize that tax is one of the many responsibilities of the DOF and admit that there is some overlap in responsibilities. Nevertheless, the relationship of the Tax Authority with DPI is only one of coordination. They do not need to report to DPI or consult on the Master Plan. In fact, the tax authority stressed rather strongly "the Tax Authority and DPI? are equal before the PCOM and Central Government."

**Tax rates by different types of ownership:** Tax rates across all ownership types have been standard since 1999. Before that, Ha Tinh only differentiated between the state and non-state sector. The tax officials admit openly that the tax environment was not fair at the time, benefiting state companies much more. Before, 1989 one official even commented that the situation was "*mat binh dang*" or specifically tilted away from the private sector. After the Tax Laws of 1999, the corporate income tax is 32% and the VAT is 10%. Household companies, without proper accounting records, negotiate their taxes individually with the tax authority representatives. Presently, there are a specific set of policies to give foreign investors lower rates at 25, 15, and 10% depending on the labor, capital, and cultural contributions to Ha Tinh province.<sup>7</sup> Recently, the tax authority has also recommended that land be sold in the port industrial zone for 300 USD per hectare, substantially below the nationally legislated rate of 7.2 dollars per square meter. Decisions like this usually are made after a report by the PCOM to the PM's office requesting permission to take this step.

**Inspections:** The Ha Tinh Tax Authority does inspect firms if there are signs of tax code violations, reported by district level authorities, other businesses, or irregularities are noticed in the tax receipts of those companies. They do not have normal inspections of firms to avoid causing difficulties and work stoppages for the firms. In general, the tax authority inspects firms about once or twice a year. Though it is never a requirement that firms must pay fines, fees or gifts at the time of inspections, there have been cases where some tax officials have asked for gifts. When such activities are uncovered, these officials were punished immediately. The honesty that such situations do take place and the immediate punishment mechanism for such infractions was refreshingly different from other Ha Tinh institutions and other provincial tax authorities, which have a

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<sup>7</sup> This information is available in Decision number 25 of the Ha Tinh People's Committee.

tendency to deny such problems outright.

**Household sector:** Ha Tinh like other underdeveloped provinces has a huge skew in non-state sector business statistics. Ha Tinh has roughly 129 active private firms (208 registered at DPI), but about 14,000 household enterprises. Some of these firms can be quite big, with 15 or more employees and up to 80 million VND in capital. One of the clues to provincial development may be uncovered with a thorough analysis of why these firms choose not to register (see chapter 5 for details). For such a research endeavor, the Provincial Tax Authority will be the most important ally. All firms must register independently with the tax authority and receive a tax number in order to operate a business of any size. This list includes all companies registered at DPI and all 14,000 household firms. Of this number, only 6,000 of the households actually have to pay taxes every month. 8,000 are exempted from taxes because of central policies to encourage production in particular industries or segments. There are 26 of these categories, which include salt production, agriculture, and forestry. 7,000 of the households alone are exempted because they take part in salt production. The total list is available at the tax authority, but for details on labor, production, and ownership one must ask the individual tax authorities at each district. In my research, I was able to obtain the list of these household firms from Thach Ha and Ky Anh districts. Information available on these lists includes, the address of the owner, business segment, sales receipts, and amount paid in different types of taxes. Ky Anh also includes the list of households that individually negotiated their taxes rather than paid set rates, allowing for comparison between the two groups.

When asked about why many of these firms have not yet registered, Ha Tinh's Tax Authority stressed that many firms have registered recently. Improvements in tax policies and an equal playing field have made it conducive to register and authorities have clearly seen an upward trend. Those firms, who still haven't registered, may not understand registration procedures or accounting enough to understand why it might be in their interests to register.

**Mar. 28, 2002 Union of Cooperatives and Small and Medium Size Enterprises**

In comparison to other provinces, VICOOPSME Ha Tinh considers itself to be young and weak, as it was only established 5 years ago. Presently, they have 606 members, 306 of which are SMEs. Of these, 30% have been efficient and are producing profits, while 70% are having difficulties.

According to VICOOPSME, six factors account for the poor performance of so many firms. First, VICOOPSME highlights the role of the major wars, which dampened the business environment. Second, the CEOs ? company

**The major responsibilities of VICOOPSME Ha Tinh presently include.**

- 1.) Training: VICOOPSME HT presently sponsors 10 classes on management knowledge and technology (4 are on management and 6 on technology for farmers). All members participate in these 7-day classes which take place over 18 months.
- 2.) They loan money to money to 28 companies. The largest is about 200 million VND (received by 7 companies) and the smallest is 50 million VND. The interest rates are 0,4% over 2 years. Presently, they have a 100% return rate on those loans. Most loans go for water resources or to buy fertilizer.
- 3.) They have strategies for helping companies get their projects to the market. One example is sponsoring companies to take part in trade fairs in Hanoi. So far, they have sponsored nine companies in sea products, manufacturing, ceramics, fruit processing, woodcarvings, and silk products. They pay about 8 million VND per company and choose the companies that they believe have the ability to produce exportable products.
- 4.) They act as the main representative of SMEs to local officials. Issues they cover include inspections, taxes, local agencies causing difficulties, or any negative influences on the rights of enterprises. They inform the enterprises of their function and if a firm runs into difficulties they intervene according to the demands of the firm. One example of this type of situation was a union of sea products producers who agreed to borrow capital as incentive to invest from the state. But the investment office wouldn't directly accept their application. VICOOPSME had to intervene and help them receive their loan

managers of the firms do not have much experience or knowledge of how to run a business. Reasons three, four, and five are the common explanations of infrastructure, distance from markets, and lack of capital. But the sixth reason is highly original and certainly differs from other local institutions. According to VICOOPSME, **"The local government has not created an encouraging atmosphere for small businesses."** This is not about the normal obstacles of business development. In his experience, enterprises have struggled with taxes, inspections, or land. Their problems are primarily about a lack of encouragement and incentives that do not favor the private sector. Some examples of these stronger policies are: Better business training of heads of companies, improving infrastructure as soon as possible, and loaning money at lower interest rates, as poor companies don't have enough collateral to get loans.

Officials at VICOOPSME announce readily that the 2000 Enterprise Law has been extremely useful to their member companies. Registration procedures are fast and efficient. Before the law, firms often faced problems with registration, land acquisitions, and mobilization of capital (especially the requirement of confirming the size of their capital to banks). Now, these are just minor difficulties.

VICOOPSME Ha Tinh usually meets with PCOM officials about three times a month, either at their request or the request of the PCOM, who may have some need for VICOOPSME's expertise in resolving some local business issues. Requests for meetings are about equal. The most important subjects during these meetings are fees, expenditures, and infrastructure. Similarly, VICOOPSME officials meet with Mr. Hung, the registration official at DPI, about once every 3 months to discuss new laws.

Sometimes in meetings with DPI, VICOOPSME requests more assistance on training and raising capital for their member businesses.

In comparison to other provinces (particularly Thanh Hoa, Kien Giang, and HCMC), VICOOPSME believes that the PCOM is not even moderately interested in the health of the private sector or the performance of its member companies. In VICOOPSME's opinion, provincial priorities are more interested in the construction of fancy building projects, the development of the agricultural sector, attracting investment, and expanding the state sector to create jobs -- But not assisting the local SMEs!! As yet there is no real competition between the SOE sector and private; nor are there any mutually reinforcing business relationships between the two sectors. Big central investment projects are bid for, but VICOOPSME believes there is very little open and fair bidding. Relationships determine most of the contracts. "In a competition between two products of equal quality the priority would be the products of the state." And in cases where a private sector firm does win, VICOOPSME believes it is because of a better relationship and not the quality of the application.

**Household sector:** VICOOPSME has some interesting contributions to make on the decisions of the household sector not to become more official. First and most importantly, they don't need it. The size of their production is just too small. Second, the scope of their trading is too small to require official stamps, a benefit of registration. Secondly, registering might bring about complications with taxes. For instance, a sales booth at the town market is compelled to register, but the taxes she paid will be expensive compared with her tiny amount of capital. On the other hand, in the wood trade village called Thai Yen there are enterprises who collect 70 million VND in capital but don't register. Sometimes, they get big, rich, and disappear after a year. VICOOPSME is also researching why this may be.

"In the tool village of Trung Luong you may have companies producing products that need standardization, such as paddles for duck (paddle) boats, or sporting guns, but stop their production because of market difficulties, lack of capital, or difficulties with authorities. Now, they are only producing products that are coarse like knives. They will quickly turn their capital around in order to make a quick buck but won't register."

### ***Mar. 29, 2002 Land Authority***

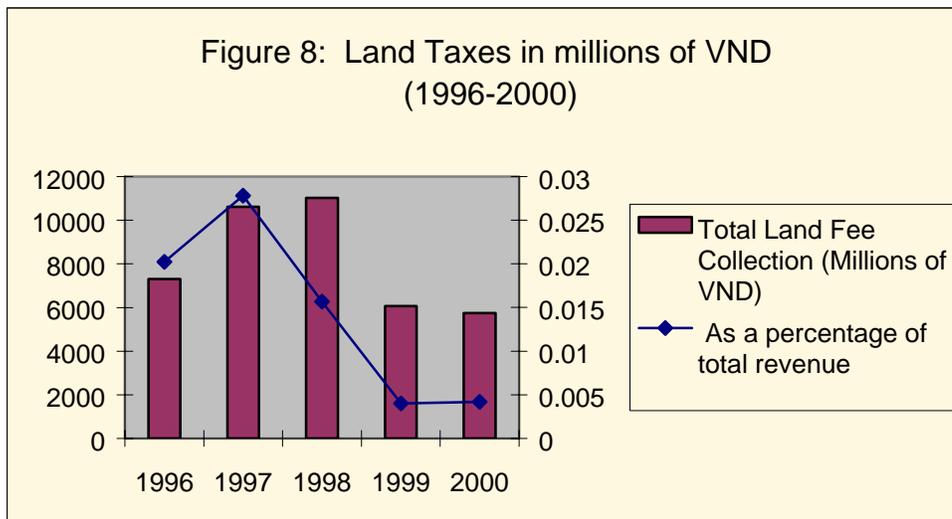
Of all local agencies in Ha Tinh, this one proved to be least helpful and most problematic in conducting research on economic governance. It specifically disavowed any true responsibility for land policy in Ha Tinh and offered little statistical support for many of the claims they made over the course of the interview. Moreover, when detailed questions were posed regarding the use of land in master plans, payment was requested to process this data. Later during my time in Ha Tinh, I was promised the data by the Director of the Land Authority, but his staff members, still felt it was too much of a burden to give it to me.

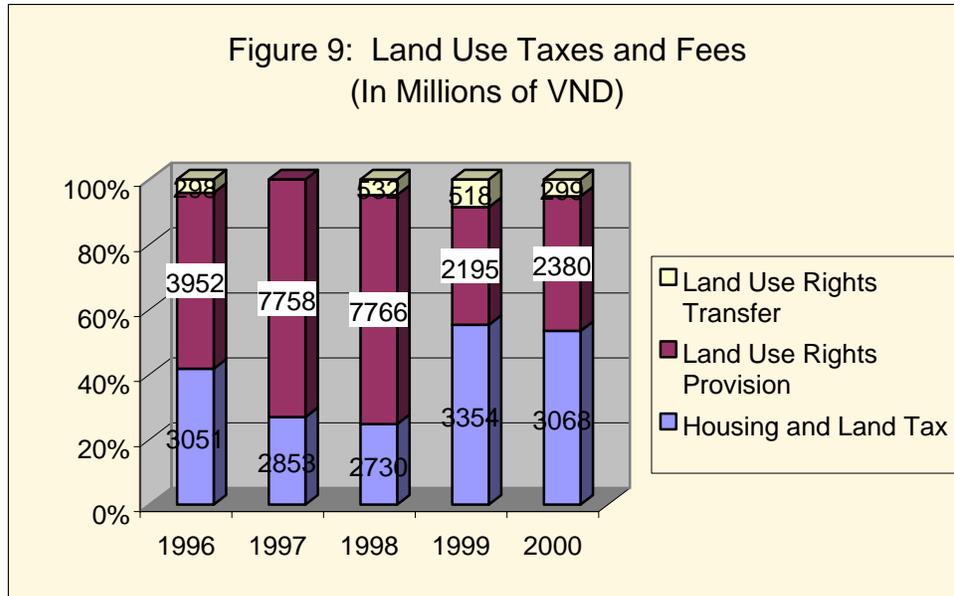
An example of the rather unco-operative attitude to this research was that in contrast to other land authorities Ha Tinh did not forward a copy of land use applications. Here is just one example of the. In all land authorities, I asked whether I could have copies of land use applications. By the 2000 Enterprise Law, all firms are required to apply to the PCOM for land, whereupon the PCOM must respond with a decision in 15 days or less.

But new firms or foreign firms visiting Ha Tinh may not know that. An accommodating land authority can make things less complicated and ease transaction costs for wayward firms unaware of the Enterprise Law, by having applications on site. The applications are standard across the country and very simple, asking simple questions about the type of business and name of owner. With them, an entrepreneur is required to submit an investment license, a business plan, a sketch of the area to be invested in, and land extract from the land authority maps. Though the actual package may be proprietary, the application itself is not sensitive in the least. *Nevertheless, Ha Tinh land authority chose not to release the application until talking with their superiors.* And even after DPI agreed to the release, the documents were still not forthcoming.

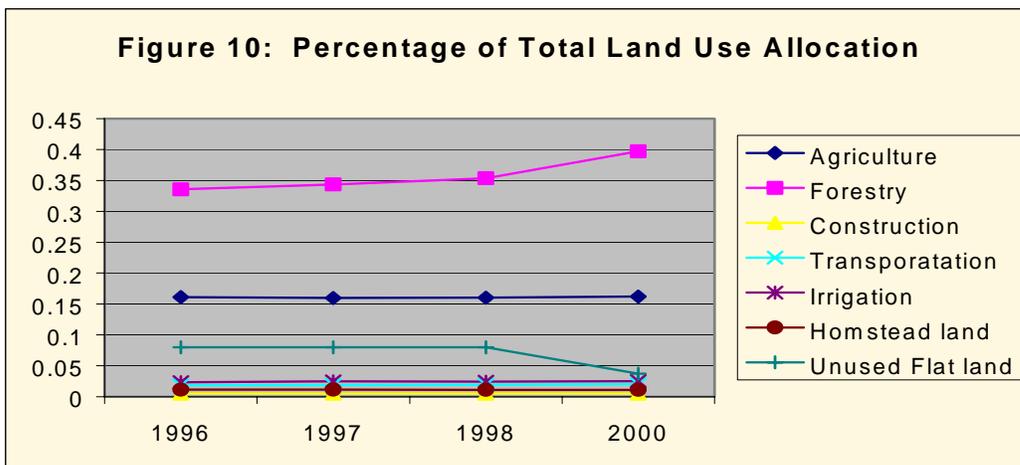
The land authority considers their responsibility to be four-fold. First, they receive the land fees for land use rights provision and the transfer of land use rights certificates or red books. Transfers involve two different sorts of transactions. Those who recently purchased land from other parties and those who want to convert unofficial land use rights certificates into formal ones. The Land Authority claims it does not attempt to make a profit off these fees, only charging a small 100,000 VND administrative fee. But these fees account for an important source of provincial revenue that peaked in 1997-1998 (see graph?) but has declined thereafter, as demonstrated in Figures 8 and 9. The magnitude of these fees becomes more obvious, when one realizes that these fees do need to be sent back to central authorities like other forms of revenue, they are "own fees" to be retained locally.

Second, they advise the People's Committee on various issues related to land policy.





Ha Tinh land authority has 20 experts, who coordinate with the department of construction, architectural office, and agriculture office to make decisions about land use allocation. They then advise the PCOM on what they believe are the land use based allocation decisions based on economic and socioeconomic grounds. Figure 10 shows the results of these decisions based on the Ha Tinh statistical compendium. Interestingly, forestry land has increased overtime (a big achievement of environmental NGOs in the province), while allocation of land for construction and transportation remain very small. As Table 4 shows, Ha Tinh allocates more land than its peers do to construction and transport, but less than the high performing economies.



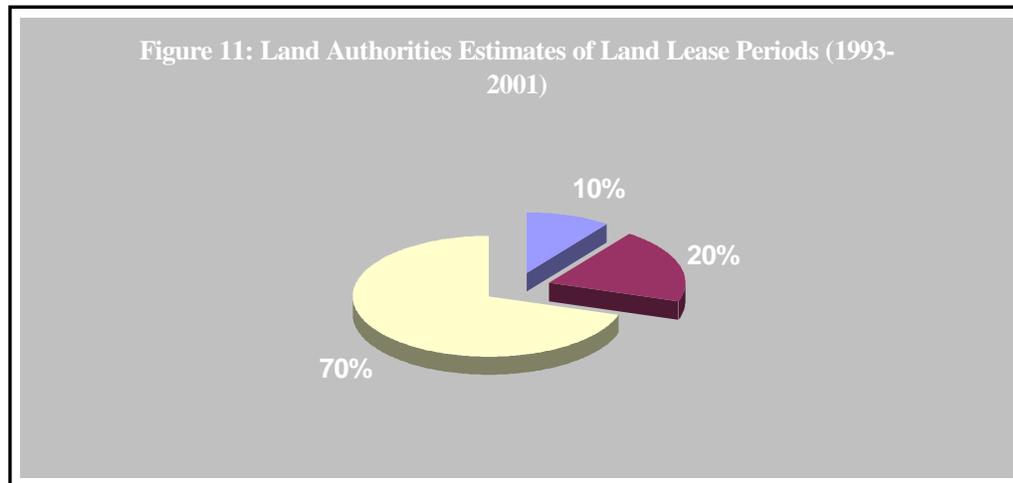
**Table 4: Percentage Land Use Allocation 2000**

Province	Agriculture	Forestry	Construction/ Transport	Residential	Unused
Ha Tinh	16.22	39.71	7.55	1.12	35.40
Nghe An	11.88	41.58	3.59	0.90	42.05
Quang Binh	7.89	61.02	2.47	0.52	28.10
Quang Tri	14.52	31.56	3.86	0.76	49.30
Thanh Hoa	21.59	38.75	6.04	1.74	31.87
Binh Duong	79.93	4.82	8.38	2.15	4.71
Dong Nai	51.37	30.50	11.54	1.80	4.80
Vinh Phuc	48.72	22.17	13.64	3.79	11.67
Long An	73.75	10.11	6.37	2.45	7.32

Third, they implement decisions of the central government. These decisions include the original Land Law in 1993 and the subsequent amendments in 1998 and 2001 that meet with trends and levels of development including the changes in the administrative system. The most important of these changes was the distribution of administrative jurisdictions. Local polices include the guarantee of the right of people to rent and use land, and receive the papers for issuing land papers in the shortest amount of time. In Ha Tinh, the Land Authority relies on the state management documents related to land use and development. In regard to the port at Ky Anh, the land authority assisted in the decisions about the allocation and rental of land.

**Distribution of land ownership:** Because the Ha Tinh land authority did not want to provide statistical evidence, it was very difficult to verify the claims they made in regard to land use allocation. The first was their claims about lack of discrimination in land use allocation. According to the land authority, there is no discrimination in regard to land use policy. New SOEs must apply for land in the same manner as foreign companies and domestic investors. No information was provided on the allocation of land by property type to prove this fact. If it was provided, one would simply need to track changes in the percentage of land received by the private sector and foreign sector over time. Anecdotal evidence from the joint ventures seems to dispute this finding. VINAFOR, the central state owned partner in the VIJACHIP HA joint venture, said specifically that obtaining land was easy because of their knowledge and previous work in the region. They did not have to bother with many of the normal procedures of leasing land. Moreover, foreign investors who want to invest and rent land work with PCOM and are advised on the best possible land for that investment. This was certainly the situation in the case of Hikosen, which was encouraged to take a large, open piece of land not far from the city center.

A second and equally important claim was that most enterprises who wanted them had the official red books (*bia do*) for their land for as long as 50 years. This is a very important statement, as land not only impacts ability to expand their businesses, but also to use collateral in loans from banks. The OXFAM survey of small businesses found that many small business owners lacked the important red book and thus were disadvantaged in obtaining credit (OXFAM, 2000). Similarly, Huong Son province complained that 30% of its household enterprise sector did not have proper certificates and thus could not expand their businesses. But the Ha Tinh Land Authority was convinced that most private firms in Ha Tinh were operating with 50-year official land use rights certificates. His estimated of land use rights periods are recorded in the Figure 11 below

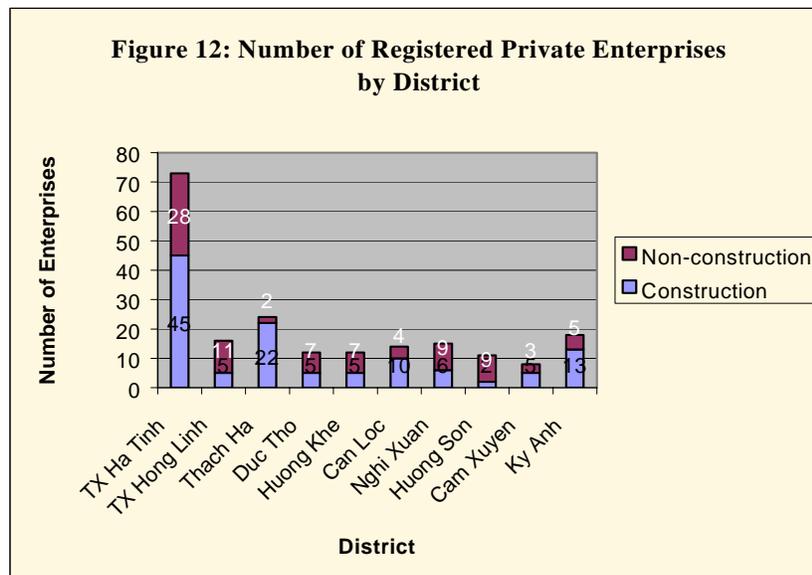


### **3 District People's Committees and Tax Authorities (Huong Son, Thach Ha, Ky Anh)**

The purpose of meeting with District PCOM Chairmen and Tax Authorities was to assess their role in future economic development, as well as their commitment to and understanding of the Enterprise Law. Huong Son and Ky Anh were chosen because of the presence of the border gate business and port zone in these districts. Over the course of the interviews, however, it became quite clear that the districts had very little say at all over what happened in these zones. Ky Anh actually had a map with the commune containing the industrial zone blocked off, as decisions made in that commune were entirely the responsibility of central and provincial authorities. Both zones have special committees in Ha Tinh working on their planning and contract decisions.

There was no FDI at in all the three districts. The state sector is ? also very small in all of these areas, between 5 and 6 units, as is the size of the registered private sector, as is shown in Figure 12. As can be seen Thach Ha has a particular strange distribution of registered enterprises; 22 out of 24 are in the construction industry. According to the District PCOM, only 12 of these have begun operations, all in the construction industry. The majority of business activity in these provinces is provided by the household and agricultural sectors. For instance, Ky Anh has 727 household enterprises operating with 2.6 billion VND in sales receipts. In Ky Anh, the largest sectors are transport and

trading, together accounting for 663 of the enterprises. Thach Ha has 1,553 enterprises, but only 550 have businesses substantial enough to pay the VAT. Huong Son has close to 680 household enterprises.



Mention Source!

The important findings from meetings with district level officials were:

- District tax authorities have the most comprehensive lists of all household enterprises.
- There is clear variance in the understanding and implementation of the Enterprise Law. Huong Son PCOM officials were under the impression that businesses should register with them first before registering at the provincial DPI. Huong Son's private sector authority also mentioned a host of certificates that should have been removed under the Enterprises Law. Both Thach Ha and Ky Anh officials understood correctly that they should direct business registration to the provincial level DPI. They felt their primary business role was to introduce unused land to the enterprises and make sure that before commencing operations they receive a tax number from the district.
- In regard to inspections of the few registered enterprises and household enterprises, there was also a great deal of variance. Tax officials in Huong Son and Thach Ha visit firms once or twice a year, for about three days per visit, while Ky Anh visits once or twice every six months.
- All provinces cite access to capital as the primary bottleneck to firm development. Loans are too small and for short time periods (around 6 months), which restrict long-term investment planning. Moreover, collateral judgements of banks are only 60% of 70% of the actual value.
- District officials often conflated aid from international and bilateral donors (ODA), with foreign direct investment. When asked about investment attraction, Thach Ha

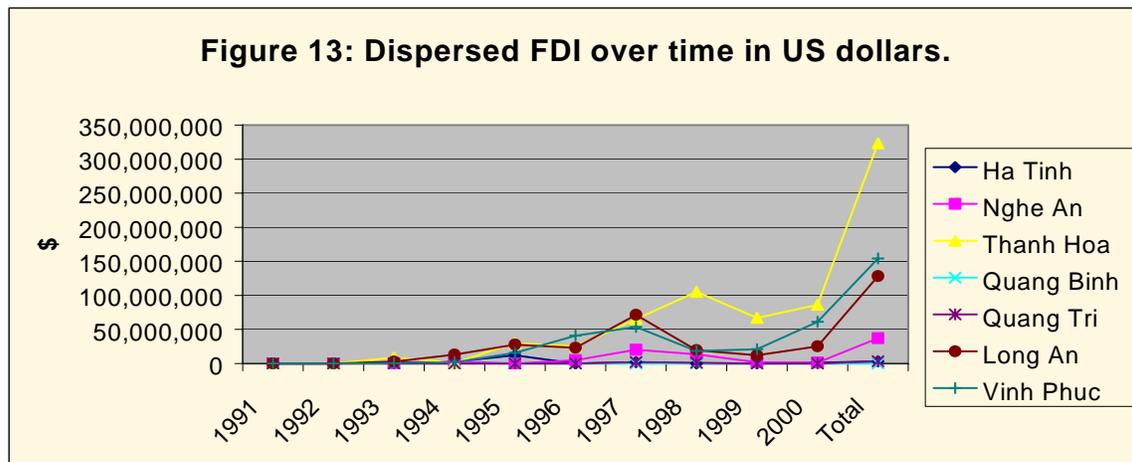
officials spent several minutes bragging about their ability to win projects from the World Bank, Oxfam, GTZ, and UNDP. Huong Son discussed investment in much the same way. This finding raises very important concerns.

First, attracting ODA and FDI are two different and in many ways contradictory skills. Aid projects are predominantly allocated after intensive negotiations at the central level. Winning aid projects is a matter of extensive lobbying and also learning to advertise the weaknesses in a province. **Attracting FDI is a matter of putting the best face of the province forward, creating incentives and policies that appeal to the business sense of investors, building competent local institutions to work with investors when they come to visit.** Secondly, the two have different impacts on provincial development. FDI creates opportunities for private firms to supply intermediate goods and services to the FDI company. FDI also can raise provincial revenue and decrease dependence on central transfers, creating policy space for local leaders. Aid offers comparatively little opportunity for local private business enhancement. **Moreover, it is likely to increase dependence on the center, as aid contracts are usually negotiated centrally.**

- All districts have potential to attract investment and expand their corporate sectors. Ky Anh clearly intends to promote aquaculture and food processing, using their new port to export. Thach Ha has benefited tremendously from central construction projects, but will need to look to expand the household companies doing well in metal products production and other consumer nondurables. Huong Son hopes that the border gate business zone will expand its service sector, but also looks toward its manufacturing and food processing industries

#### 4. The Foreign Investment Climate.<sup>8</sup>

As the Figures 13 and 14 demonstrate, Foreign Direct inflows into Ha Tinh have been quite jerky and small in compared to its neighbors and a few selected medium-performing provinces. Moreover, a good deal of the investment committed to Ha Tinh has never been dispersed. It languished in the bank accounts of foreign joint venture partners.

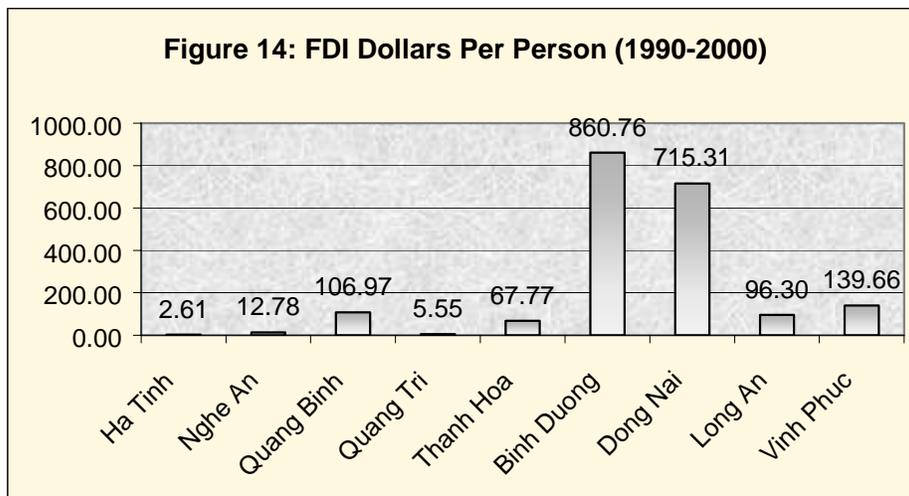


Officials in Ha Tinh attribute this lack of success to poor infrastructure and its distance from markets. While one cannot deny there is some validity to these assertions, it certainly is not the entire story.

**Table 5: FDI in Ha Tinh Province (US \$)**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Committed	0	33,500,000	0	12,390,000	0	0	0	0	0	45,000
Dispersed	0	0	1,440,000	2,930,345	12,230,800	0	2,177,000	0	0	1,160,000

<sup>8</sup> In addition to archival work, information from this interview was obtained through interviews with representatives of Ha Lin, VIJACHIP, Hikosen, and the management boards of the Border Gate Zone and Port Industrial zone.



First of all, poor infrastructure does not explain why investors committed in the first place. Surely, they must have researched, performed cost benefit analysis, and been confident of the potential of Ha Tinh before signing their names. Of course, some investment was directed to Ha Tinh by the SCCI, but even on these occasions one would have expected investors to be cautious about the risks involved. Second, as I have shown above, the reach of Ha Tinh's infrastructure is actually broader in many respects than its neighbors. Its main weakness is telephone lines, but that is more of a problem for rural residents than an investor likely to set up headquarters in Ha Tinh town. Third, from the investors' perspective, the idea that Ha Tinh is a poor investment environment developed late in the 1990's. Before that many investors made their way to Ha Tinh committing several million dollars in FDI. In fact in 1996, Ha Tinh had 4 foreign invested operations, giving it exactly half of the foreign businesses or JVs in the entire North Central Coast. Thanh Hoa, Nghe An, and Hue combined had 4 active operations. A 1994, Vietnam Investment Review described Ha Tinh in this manner

"LAST year, Ha Tinh counted an economic growth rate of ten per cent as against the average national economic growth rate of 7.5 per cent. Machinery, cement, steel, fertiliser, and silk industries were the backbone of the province's 1993 economy. The total foodstuff output was 307 tonnes, increasing 43 per cent over 1992 and exceeding the annual plan by 17,000 tonnes. The total export value reached US\$10.3 million as against the planned level of US\$10 million.

"Ha Tinh in 1994 promises new opportunities for development," said Le Duy Phuong, chairman of the province's Planning Committee. We hope to attract international aid and foreign investment - an important factor in overcoming the shortage of capital necessary for economic development," Phuong added," (VIR, January 17, 1994)

It wasn't just government officials describing Ha Tinh in such glowing terms. Foreign investors were competing heavily to enter Ha Tinh. Two main natural resource deposits were attracting tremendous attention. Ha Tinh's ilmenite (black sand) deposits received attention from firms in Australia, Japan, the Czech Republic, and Malaysia, with two companies from Australia (Westralian Sands) and Japan (Marubeni) receiving the go ahead to offer bids on development. Westralian Sands won the bid and formed a three-

sided joint venture between with Mideco<sup>9</sup> General of the Ministry of Heavy Industry and Meteco<sup>10</sup> of Ha Tinh province called Austinh. The total investment registered for the project was US\$18 million. Westralian Sands held a 60 per cent stake while Meteco and Mideco held 30 and 10 per cent respectively. Austinh promised to raise ilmenite production from 60,000 tons in 1994 to 100,000 tons by 1997 (VIR, June 28, 1993).

Iron deposits, Ha Tinh's second key resource Thach Khe district proved attractive enough to lure German company Krupp and Lonhro. The Ha Tinh pre-investment study found that the mine held 300 million tons of economically exploitable iron ore. As a result, Krupp envisioned annual production of 10 million tons, earning \$320 million a year in exports and a return rate of 17.3%. This would allow them to recoup their initial investment in 4.43 production years. The company's fears revolved around expensive de-watering of the site, which was close to the shore and below sea level, as well as a pelletizing plant that would push costs up to \$950 million. The German firm offered to put up \$872 million, while Ha Tinh received visits from Japanese and Australian companies also interested in competing for the project (VIR, April 12, 1993).

Thai, British, and Japanese companies had all put forth extensive research effort to study the feasibility of bridge building opportunities in Ha Tinh. One Japanese company successfully bidding to build the Cho Thoug bridge in Ha Tinh along the Ha Noi-HCMC railway (VIR, March. 28, 1994).

Also in 1994, Hikosen a Japanese garment company, which already was reaping the gains from a 1991 JV in Vung Tau province, committed \$50 million to a JV with Thanh Cong state owned company. They also promised to supply 500,000 new sewing machines. Ha Tinh won out over Ha Noi and Hai Phong, as the site of investment, due in no small part to the hard work of natives of Ha Tinh province in SCCI. But Thanh Cong itself was an attractive partner, as they had already been exporting garments to Korea for the past two years (VIR, September 12, 1994)

Finally, Ha Tinh's own forests and its proximity to the robust wood deposits in Laos were winning the attention of a different set of investors. In 1994, Ha Lin a JV between a Taiwanese firm Rolin and the centrally state owned Viet Ha. The Taiwanese partner committed \$1.2 million in capital, while Viet Ha put up its land in Hong Linh town to constitute its 33% share in the company. Before 1995, the company sought to produce large wood products, such as bed and doors. They purchased a great deal of expensive Italian equipment to that end.

**The slide downward:** Nevertheless by 1999, Ha Tinh ranked second from the bottom in the North Central Coast, with only 2 operations remaining. Thanh Hoa (3), Nghe An (3), and Hue (5) had all surpassed it. Moreover, Ha Tinh had dropped far behind its peers in licensing new projects. Between 1998 and 2000 only 8 projects were licensed at about \$6 million a piece. Thanh Hoa had nearly 10 times the registered capital. Of those 8 projects in Ha Tinh, performance has been somewhat less than stellar. Four, including Singaporean, Korean, and Taiwanese companies, never established operations. One foreign investor pulled out the JV, leaving it to the state companies to manage, and two are on the verge of bankruptcy. One company, VIJACHIP, a Japanese wood chip processing JV has only recently began production and this May has its first export

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<sup>9</sup> Mineral Development General Corporation reporting to the Ministry of Heavy Industry.

<sup>10</sup> Mineral Exploitation and Trading Company of Ha Tinh Province.

To some extent, exogenous factors, outside the control of the Ha Tinh government, played a role in the reduced interest and performance in Ha Tinh, post 1996. New research in 1997 on the iron ore by Krupp and firms from South Africa and Japan, re-evaluated the project. The multinationals found that, "Drilling samples indicated "increased geological and chemical variability, increased structural complexity and a decrease in mineral resource... Additionally, surveys found that the deposit carried an unacceptably high zinc content, which complicates current steel making procedures." As a result, the project was cancelled and has yet to be revived (VIR, September 15, 1997). Officials in these firms, however, remain bitter that Ha Tinh did not provide them with better information prior to their exploratory work. They felt that the potential of the mine had been exaggerated.

Similarly, Ha Lin suffered from two major research mistakes, involving their raw materials and overseas market. The wood in Ha Tinh was not of high enough quality to make the large products they originally intended. In 1997, they switched to manufacturing plywood and began importing Laotian wood to meet their overseas demand. They figured they could still make money, because as 100% exporters, they would not be subject to income taxes.

Ha Lin's major downfall, however, resulted from central government policy. In 1997, it imported 10,000 cubic meters of wood from Laos, but were unable to export it immediately. Because wood was considered to be a strategic product, a Prime Minister's signature was needed in order to export. But the central government took too long to decide and the wood rotted during the wet monsoon season for three months. By the time permission was granted to export, the wood had lost 50% of its value. Ha Lin only blames itself for the mistake, but the situation caused them major financial problems from which they have yet to recover. They still operate but at a much smaller level with minimal profits. The Taiwanese partner, busy with other businesses, is very rarely on site.

While this was not the fault of the Ha Tinh's PCOM directly, it does demonstrate one crucial difference between their business sense and other provincial leaders. Ha Tinh authorities made very little effort to intervene on behalf of Ha Lin during this time, despite appeals from the company management. By contrast, when French foreign investor Schneider was saddled with a customs difficulty making the cost of its imported inputs higher than the final product, Binh Duong authorities accompanied their management to Ha Noi to negotiate with customs officials and the Ministry of Trade. Their efforts led not only benefited Schneider, but led to a change in national importing laws.

**Hikosen's struggles:** Hikosen's Vietnamese partner refuses to blame the Ha Tinh government for their financial woes. As discussed above, they received preferential treatment on land and felt that the difficult licensing process was eased on their behalf. In fact, their company was registered in lightning quick (even by HCMC standards) two to three days. Their main explanation for declining sales, exports, and losses, is that the divorce of the Japanese CEO distracted him and hindered his management skill. Besides the lack of business acumen involved in this explanation, logic also rules out its validity. The Japanese director's wife, who manages the Vung Tau operation, thrived under these conditions, recording stellar profits by selling to HCMC market. Moreover, the divorce was finalized in 1992, while ground wasn't broken in Ha Tinh until 1994 and losses were not recorded until 1996. Hikosen actually was making money in the 1994

and 1995 period. By 1998, losses equaled 800 million VND and Hikosen responded by cutting production in its factory. It now operates at less than 15% capacity, with some of that work taken home by employees. Hikosen also cites infrastructure, traffic, and distance from markets as contributing factors. Distance from markets doesn't make much sense, as the operation was designed to be 100% exporting company and received tax benefits to that end. This JV barely even engaged the VN market, while the Vung Tau operation expressly concentrated on it. It is true that Hikosen was hurt by its distance from the Hai Phong port and the transport costs of getting their products up North, including customs fees at every provincial border. But the real damage to their business came from declining orders from the Hikosen mother company, who bought 100% of their product.

Declining orders could only have resulted from two factors. First, less demand abroad due to the Asian Financial Crisis and changes in taste. But remember the Vung Tau company continued to prosper during this time. Thus the second reason, a conscious shifting of orders away from the Ha Tinh plant, is the likely culprit. Distance from ports was a contributing factor in raising the marginal cost of Ha Tinh products, which led to Hikosen shifting its orders to other factories. Low quality and expensive inputs as well as poorly trained employees may also have contributed to rising marginal costs. The only problem with these ex-post explanations is, why didn't Hikosen calculate these factors before plunking down \$50 million? There must be something more to the explanation.

Rumors abound that Hikosen never really wanted to be in Ha Tinh. They agreed to invest there, only in the hopes that it would convince SCCI to license their Vung Tau operation. Surely, the Japanese director's statement (quoted in box above) seems to demonstrate that SCCI was persuasive in the decision. Perhaps then, Hikosen never really intended to do well in Ha Tinh. Proving such conjecture, however, is extremely difficult, if not absolutely impossible.

**The end of the ilmenite venture:** Austinh's debacle is much more a matter of governance, but establishing culpability is very difficult and beyond the scope of this paper. All parties involved in the three-pronged JV made major mistakes along the way and acted outside the spirit of their JV agreement. It is clear that the Ha Tinh local government was clearly acting on behalf of the project early on. Nguyen Ky, Chairman of Ha Tinh People's Committee, set the tone, when he noted that the Vietnamese side had also put considerable effort into arranging the joint venture and was determined that the venture would succeed. "This is the first JV in our province...It's a good start, and now our task is to ensure its smooth operation as we are also looking for other foreign-invested projects," (VIR, March 8, 1993). Indeed, a \$40.5 million state power project in 1993, connecting Cam Xuyen to Ky Anh districts gave priority usage to Austinh (VIR, March, 29, 1993). Moreover, when PM Vo Van Kiet attempted to intervene and grant them mining license to a Thai firm rather than Westralian Sands, Ha Tinh officials argued vigorously that they would rather have the Australian company rather than inexperienced Thai firms.

Trouble developed shortly before Austinh began prospecting the mines in June of 1993. The joint venture was supposed to have exclusive mining rights to the Cam Hoa site, but Mideco, the Centrally State Owned Partner, violated its own ministries regulations and contracted 6,531 tons of ilmenite to Sumitomo, a major Japanese customer of Westralian Sands. Official sources claimed that Mideco General agreed to sell the load

to Sumitomo at the price of US\$85.35 per ton, 3.75 dollars below the existing price fixed by Meteco Ha Tinh. The shipment, which represented over 10% of Austinh's planned production, was clearly an attempt of the central partner to cash in quickly before the JV took over. Rather than receiving 10% of the cut as they would a month later, they received 100%. The office of the VN Prime Minister condemned the actions and Mideco General was forbidden from any further exportation of Ha Tinh ilmenite. Its exporting permits No 10/XNK and 11/XNK, granted by the Ministry of Commerce on 24 April, 1993 were rescinded. Austinh, in accordance with decision 3006/QHQT released by the Vice-Chairman of the Government's office Doan Manh Giao, was compensated by being granted the right to export the 3,150 tons of the illicit ilmenite shipment already loaded onto the ship. The remainder was sold off to Austinh (VIR, June 28, 1993).

The thwarted shipment severely damaged relations between all the joint venture partners. The two injured parties in the JV Vo Kim Cu, of Meteco and now General Director of Austinh, and Westralian Sands Clive Pearson now Austinh's Chairmen of the board, expressed amazement and shock at the violation of the spirit of the JV. Despite the fact, that its own SOE had been hurt by Mideco's actions, the Ha Tinh People's Committee was fairly silent in this first bust up. Westralian Sands used the incident as an excuse to defend their future more protective actions.

By 1995, the JV was in total disarray. The Management Board attempting to unite such disparate parties was having major communication problems. As a result, problems developed in four key areas. First, the General Director Cu forfeited his ownership of the company bank account, though by Vietnamese law he should have been the legal owner. Moreover, without placing it in the JV agreement, Westralian Sands stipulated that two members of the board, including at least one expatriate, must sign all bank account withdrawals (VIR, July 17, 1995). *Lao Dong* newspaper in May of 1996, claimed this created a loophole where the foreign party could withdraw money without the consent of the Vietnamese party. Meteco representatives fumed that their money was tied up. Westralian Sands responded that this action was completely legitimate, given the JV's need to retain working capital.

The second issue arose after the Board of Management of Austinh unanimously agreed to take out a \$4.5 million dollar loan to buy equipment for Phase 1 of the prospecting. Later *Lao Dong* would argue that only Meteco's (or Ha Tinh's) assets were used as collateral to borrow the money and thus the foreign party was taking advantage of the VN partner. But the JV contract stated that equipment would only be purchased through sales revenue and loans. Moreover, all board members signed the loan agreement. The machinery purchased was cutting edge and brand new, but was impounded at Hai Phong Port and was regarded as an illegal shipment. Westralian Sands was exasperated with this arrangement, as they felt they had followed the letter of the law. In early February, they had submitted a list of products to be imported to the General Department of Customs, receiving conformation that the list was in conformity with regulations of the Department of Commerce. At the same time, this list was sent to the General Director Cu. By March 3<sup>rd</sup>, Cu sent an official letter to the Ministry of Commerce, requesting approval of the import plan. Westralian Sands went ahead and shipped the expensive equipment, believing that all was set to go, only to learn that approval had not been granted and the anti-smuggling division of Hai Phong considered the equipment to be illegal imports (VIR, July 17, 1995).

The third area of friction arose when the SCCI determined that General Director's Cu's role was too circumspect and limited. He should have been given much more responsibility according to VN law. In addition, to ownership of the Bank of Account, the SCCI ruled that Cu should have more authority over the accounting reports and ability to sign labor contracts. When SCCI sent Austinh official letters to rectify this problem, rather than granting Cu more authority, Pearson Chairmen of the Board assumed the role of General Director as well. This led to even more discord on the board and severely hamstrung competition (VIR, July 17, 1995).

The fourth issue was one of delayed capital contribution and tardiness in building the plant. The Vietnamese parties and the authors of *Lao Dong* viciously attack Westralian Sands tardiness. The highly rhetorical argument in *Lao Dong* claims that Westralian Sands agreed to contribute \$1.95 million in capital "to the VN Government's budget"<sup>11</sup> in exchange for mining 60% of the mine's output for over 20 years. The foreign party was accused of delaying its payment over that time, and thus absconding with Ha Tinh's property for only the initial deposit of \$20,000. *Lao Dong* states accusingly,

"It is clear that they did not contribute immediately, but they divided their contribution into 8 payments over 24 months. That's why, after only paying a US \$20,000 deposit they usurped US\$ 2,000,000 from payment without any interest for a year."

A look at the actual JV contract in the venture is revealing. Article 4.3.iv says "Installment payments of \$250,000 should be made each three months following the payment in Article 4.3.iii above or such earlier installment payment dates as determined by unanimous decision of the Board of Management of the Joint Venture Company," (Copy of official JV contract). Westralian Sands was only following the JV agreement in breaking up its payment; it was certainly trying to do anything pernicious. Indeed, they claim that they completed the payments within the two-year schedule, except for the last one, because Ha Tinh PCOM had not fulfilled their reciprocal contribution commitment of equipment. Eventually, this payment was also made.

The partnership ended in a ridiculous comedy after a dispute about an external audit of the company. Australians claimed that Ha Tinh officials refused the external audit, while Ha Tinh officials point to meeting minutes, which showed otherwise. During the debate about the validity of the minutes, Westralian Sands members claimed to be under House Arrest in Ha Tinh, their mother company began a huge publicity campaign in Australia, and requested Embassy Staff assistance in facilitating the release. Embassy officials note off the record, that Ha Tinh did not detain the executives and simply asked them to remain until the dispute could resolved. In May 1996, the Australians withdrew from the partnership leaving their \$2 million contribution and \$4 million of equipment behind. Cu took over the management of Meteco and the plant. Under his now state owned leadership, the company recorded a small profit and \$760,000 in tax contributions for Ha Tinh in 1998. Cu was somewhat diplomatic about the failure stating in a VIR interview, "A big gap in the Vietnamese laws, incompetent Vietnamese managers and a loss of solidarity were the main reasons for the failure of the joint venture." Moreover, he even claimed to benefit from the partnership due its advanced technology, management, and marketing skill transfer.

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<sup>11</sup> Rather than the JV's bank account

Though this was Ha Tinh's first joint venture and FDI in general, and a certain degree of learning should be allowed, its failure marred the image of the province in the mind of the foreign invested mining community. Many foreigners believe that it was Ha Tinh's official's xenophobia that spoiled the project's potential. *Lao Dong* does not mollify this image, titling their article, "The end of an operation to turn a joint venture into a colony." They go on to say that, "It can be said that the Vietnamese partner (specifically Ha Tinh<sup>12</sup>), gave the whole ilmenite mine away in exchange for some unclear promises." Sometimes, the article even ventures into the incomprehensibly absurd, "Thus, by sophisticated tricks, Westralian Sands, changed the Austinh JV into a bank with unbelievably high interest rates estimated at 50% per month." As the two authors Ta Thi Xuan and To Phan, claim to draw their evidence from Ha Tinh officials, one could suspect that there was a certain fear that foreigners were stealing valuable Ha Tinh assets in the minds of those officials.

Let me put aside what Westralian Sands did wrong (though enormous)<sup>13</sup>, to concentrate on what Ha Tinh itself could have done better to improve the chances of this venture. After all, the purpose of this article is to improve the investment climate in the province.

1. Ha Tinh PCOM should have been more vocal in defending the interests of the foreign partner after the initial illicit shipment of ilmenite. Ha Tinh had been very helpful before, but its silence on this issue left the Australian partners confused and fearful of the partnerships. Many of the safeguards put in place to defend their financial interest that the SCCI would declare illegal, likely resulted from that lack of trust.
2. As General Director Cu points out, Ha Tinh PCOM should have made sure that its representatives on the board were fully aware of VN central law. In areas where the law was unclear, they should have provided better leadership to overcome difficulties. Provinces that demonstrated this kind of leadership have been successful at improving their own investment environment, culturing good relations with those investors, and developing a reputation of a province willing work with and defend their interests of foreign investors.
3. Ha Tinh officials could have been more helpful in resolving the seizure of equipment at Hai Phong. Clearly, Westralian Sands tried to follow the law and those products could only have benefited the citizens and industry of Ha Tinh. Ha Tinh authorities had every incentive to resolve that problem quickly, instead it festered for months. Eventually the Australian investors left the venture and equipment.
4. The tone of Ha Tinh officials, revealed in newspaper articles, was highly problematic for the success of the venture. Westralian Sands was depicted as a treacherous firm trying to use sophisticated accounting techniques to steal Ha Tinh's land. The idea that this was Ha Tinh's property and not the property of the JV is not an environment encouraging investors to feel safe about their future in the province.

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<sup>12</sup> Note they do not say Meteco, the JV partner. They refer only to the VN government.

<sup>13</sup> Westralian Sands was a member of a very small group of firms in the ilmenite business (akin to a cartel) and their primary objection to the illicit shipment was that the cartel-negotiated price was undercut. The Australian company should have been much more careful about following Vietnamese central laws rather than negotiating around them. Whether or not the Vietnamese parties agreed, Westralian Sands definitely put their investments at risk from the very beginning. Westralian Sands was often prone to exaggeration culminating in a massive newspaper campaign and the accusations of house arrest. Much more was likely to have been accomplished through direct negotiation with authorities themselves.

**Foreign Direct Investment Conclusions:** In sum, Ha Tinh has enormous trouble both keeping investors and keeping them producing successfully. To a large extent, Ha Tinh's troubles can be attributed to infrastructure and distance from markets. Ha Tinh has done much to correct these limitations. The plans for the new port and industrial zone in Ky Anh, the business zone at the Huong Son Laotian border-gate, and the newly built Highway 8 Ho Chi Minh Road have been major efforts to correct these issues. From these efforts, they have seen some early success. This success came in the form of the new investment of VIJACHIP, which had made use of the land in the Ky Anh port zone to build a high-tech factory and unloading dock.

But success is still limited, the border gate is unfinished and only two plots in the port industrial zone have been assigned, the other to a centrally state owned pineapple processor. Moreover, Ha Tinh should be wary that their port, though deeper, will effectively, be competing against neighboring provinces of Nghe An and Thanh Hoa. Depth is only one element to the success of the port the other important ingredient is frequency of ships. Successful exporters need high frequency of container ships visiting, in order to make sure they can meet the pressing deadlines of customers. It is unreasonable to expect that international shippers will make four expensive stops along the Central Vietnamese coast, including Da Nang. If Ha Tinh is going to make the port successful, they need to work vigorously to assure investors and shippers of a high frequency of exports. Ha Tinh's work with its Laotian neighbors to open the border and ease exports between Laos and Ha Tinh is a great idea. They also assert correctly that the Ky Anh port is closer to Northern Thailand than Bangkok. But that does not mean that the Ky Anh port is cheaper or easier to reach than the Bangkok port. If Thai exporters are going to use Ky Anh, they need to be assured that their transaction costs will not be raised by less modern roads through Laos and Ha Tinh and payments (both direct and indirect) to custom officials at each border crossing. Ha Tinh officials must work with their own agents and Laotian agents to assure smooth crossing.

Ha Tinh could also do more to develop stronger relations with foreign investors. Institutions need to be arranged to immediately hear and respond to investor concerns. The present ad-hoc arrangement is simply not working. Moreover, Ha Tinh can also improve the softer elements of the investment of environment. Provide better maps and tourist information brochures to visitors, so they feel they have a more intimate understanding of the province. Provide potential investors with investment booklets detailing the land and tax policies in Ha Tinh industrial zones. Create a web-site listing priority Ha Tinh projects for investment and update it regularly. Finally, give investors English language translations of the master plan, so they are aware of prospective provincial projects and construct their strategic plans accordingly.

From the stories of the successes of enterprises, one also can see quite quickly that the second factor missing for Ha Tinh to have investment success is the trust of investors. Ha Tinh officials have simply not been proactive about defending the interests of investors in their province, when they are faced with legal problems or disputes. In the case of Ha Lin and the illicit ilmenite shipment, Ha Tinh was too quiet and in the later developments in the Austinh venture far too xenophobic. Investors don't want to steal Ha Tinh property; they want to work with Ha Tinh companies, so everyone can become richer. This project was about making money through exports not theft. Another way to improve trust would be for Ha Tinh to be up front and honest about the quality of natural resources it possesses. Though Ha Tinh cannot do the type of high tech exploration that foreign firms are capable of, it certainly could have saved Krupp millions of dollars by

identifying zinc in the deposit initially. Similarly, the ilmenite mine was estimated to by Ha Tinh to contain 10 million tons of black sand, while exploration after the venture reduced that estimate to 1.7 million tons. This is a significant drop and surely would have altered the financial decisions of the foreign parties. In short, infrastructure is only the first step. Ha Tinh needs to work on improving its reputation abroad and engendering the trust of foreigners who come to the region.

Very much true: Ha Tinh has to learn about the importance of "soft" locational factors if it wants to be more successful in attracting FDI in future! Here it can learn considerably from other provinces in Vietnam and also other countries in the region. The way Ha Tinh provincial authorities "see and treat" staff of foreign assisted projects especially those who are living in Ha Tinh is another example were Ha Tinh should carefully consider to learn from old mistakes. Indifference to upfront hostility is the best way to spoil the overall "investment image" of the province profoundly. Correcting this image will be costly and difficult!

A third suggestion for Ha Tinh is to move toward attracting more 100% owned foreign enterprises. Every single project in Ha Tinh thus far has been in the form of a joint venture. Overall in Vietnam, joint ventures have had little success and can too easily erupt in friction on management board which waylays development. Though, 100% foreign ventures will not enhance the state sector and the PCOM directly like JVs with locally owned companies, they will certainly pay significant revenue over the long term. If this pushes Ha Tinh above its revenue targets, allowing them to invest the surplus revenue back into more infrastructure and social programs.

## **5. Recommendations for Conduct of a Household Economy Survey**

Overall, I find the Ha Tinh local government is competent and extremely professional. Several local institutions demonstrate a great deal of skill and a comprehensive understanding of the Ha Tinh predicament. The Tax Authority, Department of Finance, and VICOOPSE should be particularly credited for their integrity and work. The Ha Tinh government, however, is not a dynamic provincial government and is not proactive about learning about or solving the problems of foreign and private sector firms. For the most part, Ha Tinh authorities consider themselves to be implementers of central laws. This is most obvious in their lack of understanding of the needs of the private sector and lack of intervention when foreign faced difficulties with central officials.

In addition, the DPI is the single most important local institution for policy making. It has the best available data and plays the key role in advising the PCOM on strategic planning and policies. I also learned that the DPI operates much more autonomously than other provinces and is considered to be a little PCOM by the Ha Tinh authorities. As a result, its relationship with MPI is much tighter and the overall autonomy of Ha Tinh province is limited compared to its competitors.

Outside of Ha Tinh town, district authorities have very little state owned, private, or foreign activity. Their major sources of revenue are the household sector and agriculture. Nevertheless, district officials vary considerably in their understanding and implementation of the Enterprise Law.

The thorough analysis of FDI in Ha Tinh revealed that infrastructure and distance from markets cannot be the only factors explaining the minimal and jumpy flow of FDI into Ha Tinh. Before 1996, Ha Tinh was the leader in the North Central Coast in terms of operating foreign ventures. This investment has dropped off considerably and firms that did not fail have had trouble making ends meet. Ha Tinh has done much to improve infrastructure and now must only work on making sure that the infrastructure pays dividends. Key among these will be ensuring greater frequency of shipments out of its port and working closely with its own and Laotian officials to minimize the transaction costs of those intending to move their products through Ha Tinh road to the port. Nevertheless, the most crucial missing element for Ha Tinh to turn this trend around is for it to **improve its reputation and acquire the trust of foreign investors**. This will require a change of attitude on the part of officials. Ha Tinh must change from a province simply trying to lure investors to a province actively defending the interests of investors within its borders. It must work to help investors overcome difficulties at the local level and develop institutions to facilitate communication between investors and the local government. Ha Tinh must preempt difficulties faced by investors rather than reacting to them. As Binh Duong and Vinh Phuc, it should constantly asking how it can make the investment experience as easy and hassle free as possible. As the Vinh Phuc PCOM Chairmen likes to say, "**We consider our investors to be of Vinh Phuc origins.**" Ha Tinh too can adopt this attitude.

### **The Household Enterprise Survey**

The single most important discovery over the course of the research projects in order to assist the development of Ha Tinh, researchers need to understand better the economic structure of the province. 66% of the economy and 14,000 household are involved in the unregistered household enterprise sector. A clear picture of this sector is crucial for any future work that will be done in the province. To create better partnerships and suppliers for potential foreign direct investment, Ha Tinh officials need to have a better grasp of where these enterprises are concentrated and what they are producing. Planners wishing to develop infrastructure would benefit from having a better grasp of the needs of these sectors and their exact locations. Tax and DPI officials encouraging registration surely need to understand in a much more sophisticated manner why these small firms have yet to register. Any recommendation for helping Ha Tinh products reach markets and achieve better access to raw materials needs to study where the network of relations that household enterprises have been built up.

With this in mind, it is recommended that the PDP project of GTZ in Ha Tinh initiate a thorough study of this sector in Ha Tinh. PDP Ha Tinh should proceed as follows:

1. Begin background research by assembling previous data and studies of households in Ha Tinh province. These include all census data and the 1992/1993 and 1997/1998 Vietnamese Living Standards Surveys (VLSS). This data will allow researchers to develop baseline and control data for constructing the survey, such as present household incomes, varieties of employment, and basic needs. Secondly, it will also allow survey designers to duplicate questions from the VLSS, giving them three time points, spread roughly 5 years apart to assess growth and development.
2. The tax authorities of all 8 Ha Tinh Districts and 2 Ha Tinh towns should be asked to supply their lists of household enterprises under their jurisdiction. These lists are a

wealth of useful data including, the name of the owner, addresses, communes, industry sector, and sales receipts. This information will provide the background information for sampling and contacting firms.

3. Once a complete list is arranged, one could to construct a stratified sample of about 350 firms, 2.5% of the total population. This number is vastly more than is needed for statistical significance and will allow for flexibility if response rates are low or if lists are not exact. Sampling should be calculated to reflect the proportions of firms in each district, industry sector, and urban versus rural. A mathematical formula can be created that randomly selects firms from an excel spreadsheet given those criteria. Given the goals of the project, researches may want to over-sample in target industries or in the vicinity of the business and industrial zone, to see the impact of those projects.
4. A project leader should be chosen, who possess both survey design skills and statistical expertise for data analysis. That researcher should put together a team of 5 to 10 local researchers to perform interviews. It would be best if this team did not include young officials at DPI. Their presence may intimidate and bias the answers of firms, who do not want to endanger their business prospects.
5. The survey instrument should be designed. I recommend a face to face interview style survey, which asks four types of questions:
  - a. Basic information on capital, profits, sales, turnover, and taxes
  - b. Five -point likert scale questions, moving from strongly disagree to strongly agree to ask questions about business design, major difficulties (such as land and capital) and governance questions.
  - c. Multiple choice questions to ask firms about their biggest competitor, supplier, and network.
  - d. Open-ended questions asking firms to estimate their extra fees, transactions cost, or how many days they spend dealing with local government officials. These data can be used to create indices of obstacles and governance.

The recent World Bank/IFC private sector study has many questions that could be adjusted for the household sector in Ha Tinh.

6. Once the survey is designed it should circularly translated. A native Vietnamese speaker should translate it into Vietnamese and different native speaker should translate it back to English. Any differences between the original and second translation should be corrected and subjected to the same circular process.
7. Team members should undergo extensive training (at least two days) in how to administer the survey. They should be walked through the instrument question by question, so they understand the research goals of every element. Any misunderstanding resulting from language or misunderstanding of business or governance concepts, should be handled immediately. The team should also be instructed to record all problems during the interviews. For example, questions that are not working or causing interviewees to be uncomfortable. In addition, any time they do not trust the validity of the answer interviewers should write down the numbers, because it was vague or the interviewee was prompted, these should be

recorded.

8. The study should be field tested on a sub-sample of Ha Tinh town. The data should be analyzed and all team members debriefed. All problems with the survey instrument should be corrected at this point.
9. The study should commence and can be carried out over a two-week to month period. No individual team member should ever carry out more than three interviews per day. It is simply too difficult to maintain concentration and record answers correctly if the interviewer is tired or bored.
10. A database program should be created using Microsoft Access created for entering data. A codebook describing all questions should be written by the team leader and submitted to all members. This process that all questions are recorded uniformly.
11. Simple descriptive and frequency data should be run to capture all miscoded data and missing values. Afterwards, the data set should be cleaned and recoded to correct for these mistakes.
- 12.** The team leader can begin analyzing the data in the way they see fit. He should also write a technical report summarizing the methodology, limitations, findings, and conclusions. An impact paper should also be written, demonstrating how this data can be used in effective provincial planning and policy making.

## 6. Appendixes

### Appendix 1: State Owned Enterprise Performance

Table 3 : State Sector Indicators

Provinces	Total SOE contribution to 2000 GDP	CSOE contribution to 2000 GDP	LSOE contribution to 2000 GDP	Growth in csoe sector (95-00)	Growth in lsoe sector (95-00)
Ha Tinh	0.331	0.067	0.264	0.813	0.894
Nghe An	n/r	n/r	n/r	n/r	n/r
Quang Binh	0.349	0.099	0.25	2.143	1.292
Quang Tri	0.2661	0.0861	0.18	2.271	0.100
Thanh Hoa	0.287	0.147	0.14	0.619	0.640
Provinces	State Inv. As a percent of total dev. Investment	Restructured SOEs	Equitized local SOEs	Percentage of local SOEs equitized	
Ha Tinh	0.65	8	5	0.13	
Nghe An	0.7	33	22	0.35	
Quang Binh	0.78	4	4	0.24	
Quang Tri	0.69	4	3	0.23	
Thanh Hoa	0.39	35	35	0.67	

**Appendix 2: Official Ha Tinh Contacts**

<b>Name</b>	<b>Position</b>	<b>Institution</b>	<b>Phone (039)</b>	<b>E-mail</b>
Nguyen Duy Tan	Vice Director	Ha Tinh Rural Development Project	858-993	
Tran Dinh Vong	Chief	Tax Authority	856-692	
Nguyen Trung Kien	Chief Accountant	VIJACHIP VA	855-946	Vijachip_vamrkien@hn.vnn.vn
Tran Nhat Thanh	Vice Director (FDI)	Dep. Of Planning and Investment	857-525	Tnt-pd-cbrid@hn.vnn.vn
Nguyen Thanh Son	Expert (Foreign Relations)	DPI	881-267	
Nguyen Ngoc Cuong	Vice Chairmen	VICOOPSME	855-629	
Nguyen Dinh Quyen	Manager Technical Economics	Dep. Of Industry	855-367	
Nguyen Trong Tuan	Chief of Gen. Admin	Bordergate Zone Management Board	857-843	
Nguyen Chi Thanh	Vice Chief	Ky Anh Seaport Industrial Zone Management Board	881-298	
Vo Van Phuc	Director General	Hikosen Ha Tinh	09135544506	
Vo Hung Hai	Office Manager	Ha Tinh People's Committee	0913294039	
Phan Son	Planning Department	Land Authority	857-962	
Mr. Tai	Chairmen	Dept. of Finance		
Mr. Hieu and Mr. Tung	Tax Authority and Planning Specialist	Thach Ha District PCOM		
Mr. Oanh, Mr. Phuong, Mr. Chuong	Tax Authority and Planning Specialist	Huong Son District PCOM		
Mr. Ngo	Director	Ha Lin JV	835-488	
Mr. Hung and Mr. Sam	Head of private sector registration	DPI	881-267	
Vo Kim Cu	General Director	Mitraco		10 Phan Dinh Phung Rd.
A.C. Pearson	Manager	Westralian Sands		
Truong Dinh Long	Mideco			6 Pham Ngu Lao, HN, Viet Nam

