

The role of business environment policies in Vietnam's competitive repositioning

Does one size fit all?

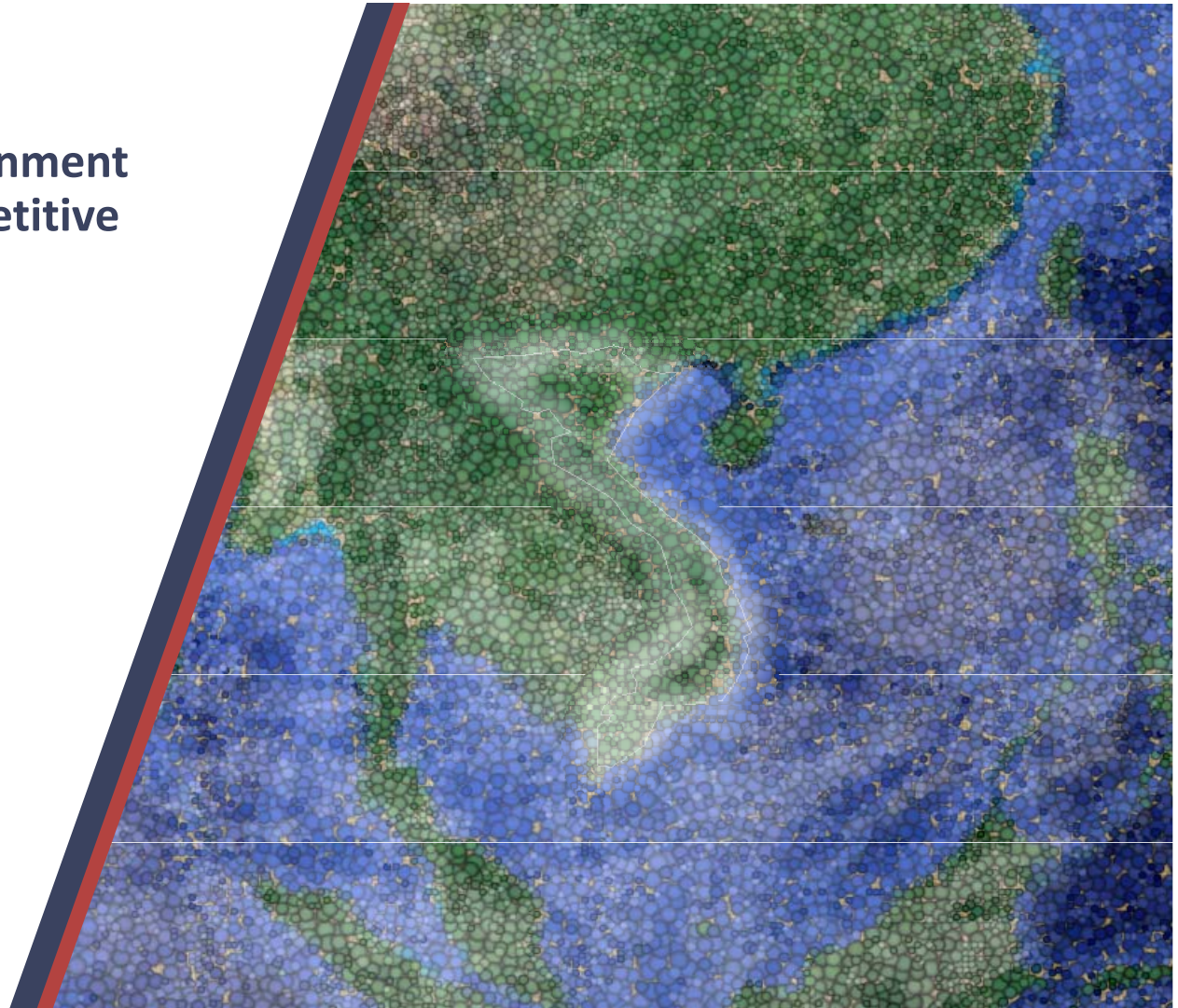
Antonio Angelino

Università degli studi di Ferrara

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Structure of the research

1. Industrialization and Development in East Asia: dynamics, models and theories

Achievements:

- 1) Investigation of the **determinants/ interpretations** of the **East Asian Development model**
- 2) Attempt to situate the **Vietnamese industrialization experience** in the EAST Asian Development framework

2. Economic Transition and Structural Transformation in Vietnam

Achievements:

- 1) Identification of the **main crossroads of the Vietnamese transition** process
- 2) Dynamic analysis of the **main factors of the country's industrial transformation and structural change**

3. Evolution of the Industrial Policy Formulation

Achievement:

- Categorization of the **alternative industrial policy approaches** implemented by the government:
- Market-stimulating policies vs Selective Interventions

4. Empirical analysis: Firms' heterogeneity and business constraints

Achievements:

- 1) Assessed how **firms characteristics** do matter in determining the **nature and the severity of the constraints** at firm-level.
- 2) Identification of a **dualistic structure** of the Vietnamese industry with respect to the **business environment constraints**

OVERALL ACHIEVEMENTS

- 1) Definition of a **Political economy of Industrial Development** in Vietnam
- 2) Evaluation of the **transition choices** in the light of the country's competitive stance in the regional division of labour
- 3) Identification of the country's **future challenges in terms of economic growth and industrial transformation**

East Asian Development as a laboratory: a graphical synthesis

Rise of
NEOLIBERALISM
↓
Washington Consensus
Catalogue

DEVELOPMENTAL
State

- Krueger, 1974
- Williamson, 1990
- Johnson, 1982
- Amsden, 1989
- Wade, 1990

POST WASHINGTON CONSENSUS

DISENTANGLING POST-WASHINGTON CONSENSUS

- a) New Institutional Theory
- b) Spence Commission of R&D
- c) **Middle-Income Trap**

- a) ADB, 1999; He, 2007
- b) Gill and Kharas, 2007
- c) WB, 2008

East Asian
MIRACLE

From the Miracle to
debacle:

NEW CONSENSUS

- Functional vs distortive interventions
- NIEs vs ASEAN 3
- ASIAN CRISIS (1997-98)
- DIVERGING TRENDS

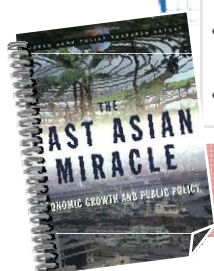
- WB Report, 1993
- Jomo, 1997
- Booth, 1999
- Stiglitz, 2001
- Rodrik, 2006



CHINA MODEL

>> **Selective approach**

- Ramo, 2004
- Di Tommaso et al., 2013
- Gabusi et al., 2017



1980

1990

2000

2010

How situate Vietnam in this story?

- **Reunification and socialist industrialization (1976-1985)**
- ***Doi Moi* political shift (1986)**
 - ✓ Liberalization of the domestic market (*Contract System, SOEs, FDI Law*)
 - ✓ Integration in the regional market (ASEAN 1995)
- **Asian crisis (1997-98) and regional repositioning**
 - ✓ Export hub for labor-intensive manufacturing production
 - ✓ Relocation FDI from South Korea and Taiwan
- **Market opening and intensification of the outward-oriented strategy (2000s)**
 - ✓ VNUSBTA (2001), WTO (2007)
 - ✓ Enterprise Laws (2000, 2005)

Coexistence of two policy approach

«MARKET-STIMULATING POLICIES»

- ✓ Enterprise Laws (2000, 2005), Budget Law 2002, Land Law 2003, Law on Competition 2004, *Law on Investment* 2015
- ✓ Progressive abolition of the *TRIMs*
- ✓ Business Environment Policies (*SMEs Development Plan 2006-2010; HERA 2006-2020; Transport Strategy 2020*)

LONG-TERM ORIENTED SELECTIVE PLANNING

- ✓ Strategy for Socio-Economic Development 2001-2010/2011-2020
- ✓ Strategy for Mechanical Industry Development to 2010
- ✓ Strategy for Automotive Industry to 2010

Industrial Policy in Vietnam: does one size fits all?

DEFINITION OF THE HYPOTESIS:

Assess whether policy interventions have a divergent impact on social agents rather than having uniform effects on the whole society?

TESTING THE HYPOTESIS:



What is Business environment? How does it affect growth?

Business Environment: combination of policy, legal, institutional, infrastructural and regulatory conditions that influence the returns and the risks associated with investment in a specific location (Stern, 2002)

- Distinction in:
 1. **Macroeconomic strategies** (fiscal, monetary, exchange rate policies affecting investors' returns);
 2. **Governance, institutions and political stability;**
 3. **Infrastructure** necessary for productive investment (Xu, 2011)
- Additional elements highlighted in the literature include: **quality of the workforce, access to finance, social conditions and services** and **cultural, attitudinal and religious influences** (Harrison, 2016).



Business environment reforms in Vietnam

- **Quality of Workforce** (Higher Education Reform Agenda 2006-2010; Vietnam Education and Training Development Strategy)
 - *Approach aimed at addressing the higher flexibility, mobility and qualification demands expressed by the most dynamic segment of firms; no interventions aimed at mitigating the social, territorial and productive gaps*
- **Financial Sector Development** (Financial Strategy until 2020; Scheme to Restructure the System of Credit Institutions during the period 2011–2015; Microfinance Development Strategy 2011-2020)
 - *Overall reconfiguration of the financial markets has not been primarily oriented to mitigate access to finance constraints characterizing the most marginal firms*
- **Informal Competition** (Enterprise Law; *Decision 88/2006/ND-CP on Business Registration*)
 - *Schemes of indirect interventions do not provide explicit support to the economic agents that are more vulnerable with respect to the informal competition practices*
- **Transport** (Adjusted Strategy for Vietnam’s Transport Development towards 2020; Masterplan on Development of Vietnam’s Road Transportation; Masterplan on Development of Vietnam’s Railway Transport; Masterplan on Development of Vietnam’s Seaport System)
 - *Transport policies seem to perpetrate the strongly polarized configuration of the Vietnamese productive system rather than mitigating the economic and geographical gaps that characterize the country*

Business Environment in Vietnam

Research Questions

Business environment reforms do not discriminate between different agents (small vs large, domestic vs foreign, export vs non-export, innovative vs backward, urban vs rural) in the definition of the targets



ONE-SIZE-FITS-ALL APPROACH

RESEARCH QUESTIONS

- ▶ Has the business environment **uniform or differentiated effects** across firms, sectors, locations?
- ▶ Analysis of **different business environment dimensions** and of the related **constraints**
- ▶ Whether and to what extent firms with **different observable characteristics** are likely to face **divergent degrees of severity of the business environment constraints**
- ▶ Business environment measured with firms' subjective assessments (Batra et al., 2003; Ayyagari et al., 2005; Aterido et al., 2011)

Data

- **WB Vietnamese Enterprise Survey 2015** → collects data related to firms' characteristics, performances and various dimensions of business environment
- **Data from 996 firms distributed in four regions.** It is structured in different sessions providing information about firm's **size, sector, ownership, legal status, sales, sales destination, input origin, production activities and costs, innovation and training**
- In addition, the questionnaire reports data related to **managers' subjective assessments** about the **major obstacles to business activity** (15 dimensions of business environment)

Sample question:

"To what degree is [e.g. Inadequately Educated Workforce] an obstacle to the current operations of the establishment?"

Respondents must choose **one alternative** among the following five **ordered outcomes**:

"no obstacle", "minor obstacle", "moderate obstacle", "major obstacle", "very severe obstacle".

Some descriptive statistics

Severity of the Obstacles

Business Environment dimension	Frequency	
	Non-Significant Obstacle*	Significant Obstacle**
Access to finance	73.08	26.92
Access to land	83.11	16.88
Business licensing and permits	90.53	9.46
Corruption	78.77	21.23
Courts	93.66	6.33
Crime, theft and disorder	90.89	9.10
Customs and trade regulations	87.24	12.75
Electricity	83.60	16.40
Inadequately educated workforce	73.16	26.84
Labor regulations	83.15	16.85
Political instability	84.04	15.96
Informal competition	61.83	38.17
Tax administration	83.73	16.27
Tax rates	77.96	22.04
Transport	74.97	25.03

(*) Absent or Minor Obstacle (**) Moderate, Major and Very Severe Obstacle

Model and Identification strategy

$$y_i^* = X_i' \beta + u_i \quad i=1, \dots, n$$

where X_i is a vector of explanatory variables and β is a vector of unknown parameters.

In addition,

$$U_i \sim N(0, \sigma^2) \quad \text{and} \quad y_i^* \sim N(X_i' \beta, \sigma^2)$$

if $y_i^* > 0$ then $y_i = 1$, and if $y_i^* \leq 0$ then $y_i = 0$.

Given the restriction $\sigma = 1$, imposed to allow for the identification of the β vector separately from the parameter σ , we obtain the following standardized probit index:

$$\text{prob}(y_i=1) = \Phi\left(\frac{X_i' \beta}{\sigma}\right) = \Phi(X_i' \beta)$$

In this framework, y_i^* is unobserved, while X represent the vector of covariates to be estimated that we have described before and $\Phi(\cdot)$ denotes the cumulative distribution function operator for the standard normal.

Outcomes and Set of explanatory Variables

DEPENDENT VARIABLE

aggregation of the five outcomes of each business environment dimension into a binary variable which takes:

- **The value of 1** “Significant Obstacle” if the outcome expressed by the firm corresponds to “Moderate Obstacle”, “Major Obstacle”, “Very Severe Obstacle”
- **The value of 0** otherwise (“Non Significant Obstacle”)

COVARIATES

FIRMS CHARACTERISTICS:

- *small*, it is a dummy variable and takes the **value of 1** if the firm has less than 15 employees, **0** otherwise
- *large*, it is a dummy variable and takes the **value of 1** if the firm has more than 250 employees, **0** otherwise
- *foreign*, it is a dummy variable and takes the **value of 1** if the firm is wholly foreign-owned, **0** otherwise
- *public*: it is a dummy variable and takes the **value of 1** if the government owns more than 50% of the firm’s equity share, **0** otherwise
- *urban*: it is a dummy variable and takes the **value of 1** if the firm is located in Hanoi and Ho Chi Min city, **0** otherwise
- *firmage*: it is a continuous variable that represents the number of years elapsed since the company started its operations up to 2015.

Set of explanatory Variables

SECTOR:

categorization in *traditional inward-oriented sector* (Food), *Textile and garments, resource-based manufacturing* (Wood, Paper, Non metallic min products), *Heavy industry, higher value-added manufacturing and export-oriented industry* (Electronics and Machinery) and *Service sector*

COMPETITIVENESS AND PERFORMANCE:

- *lnsales*, it is the natural log of the total sales in Vietnamese Dong registered by the firm in the year before the interview
- *export*, it is a dummy variable and takes the value of 1 if the firm exports all its production, 0 otherwise
- *Indirexport*, it is a dummy variable and takes the value of 1 if the firm produces for export markets without directly exporting, 0 otherwise
- *main_product*, it is a dummy variable and takes the value of 1 if the firm sells one product, 0 otherwise

CONTROLS:

- *region*
- *manager characteristics* (gender, experience, education)

Results overview : One size doesn't fit all!

Independent Variables	Dependent Variables			
	Inadequately Educated Workforce	Informal Competition	Access to Finance	Transport
Small	-0.148**	-0.013	-0.030	-0.023
Firmage	-0.003*	-0.001	0.002	0.002
Foreign	0.014*	-0.183**	-0.245**	-0.211**
Public	0.170	0.353**	0.037	0.140
Sector_Textile	0.090**	0.003	-0.032	-0.135***
Sector_Resbase	0.114	0.088	-0.010	0.064
Sector_Heavy	0.151***	-0.077*	0.023	-0.032
Sector_Electron	0.150**	-0.121*	0.114	-0.043
Sector_Service	0.126	0.008	-0.003	0.026
Lnsales	-0.008	-0.040***	-0.039***	-0.007*
Export	0.114*	-0.124*	-0.093*	-0.008*
Indirexport	0.101*	-0.007	0.053	0.076
Res_Dev	0.112***	0.153**	0.056	0.103***

Segment of Foreign, Export, Innovative, Higher Value-Added firms: more penalized in inadequately educated workforce and less penalized in access to finance, informal competition and transport.

Segment of SMEs (<total sales) operating in the domestic market: less penalized in inadequately educated workforce and more penalized in access to finance, informal competition and transport.



Conclusions and Policy Implications

DEVELOPMENT MODEL

- Definition of a **Political economy of Industrial Development** in Vietnam
- Evaluation of the **transition choices** in the light of the country's competitive stance in the regional division of labour
- Identification of the country's **future challenges in terms of economic growth and industrial transformation**

INDUSTRIAL POLICY IN A CHANGING COMPETITIVE SCENARIO

- The achievement of the **middle-income status** and the increasing trade integration make difficult to benefit from the traditional growth levers of cheap labour cost and structural change

INDUSTRIAL POLICY AND TARGETING THE DIVERGENCE CONSTRAINTS OF SOCIAL AGENTS

- Moving beyond the top-down **one-size-fits-all** reform approach
- Identification of appropriate policies, based on specific targets and formulated on the basis of the **firm-specific constraints**

Thank you!

**Questions are
welcome**

