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**Working Paper**

## Corruption and the business environment in Viet Nam: An exploratory survey

ARTNeT Working Paper Series, No. 179

**Provided in Cooperation with:**

Asia-Pacific Research and Training Network on Trade (ARTNeT), Bangkok

*Suggested Citation:* Maruichi, Daisuke; Abe, Masato (2018) : Corruption and the business environment in Viet Nam: An exploratory survey, ARTNeT Working Paper Series, No. 179, Asia-Pacific Research and Training Network on Trade (ARTNeT), Bangkok

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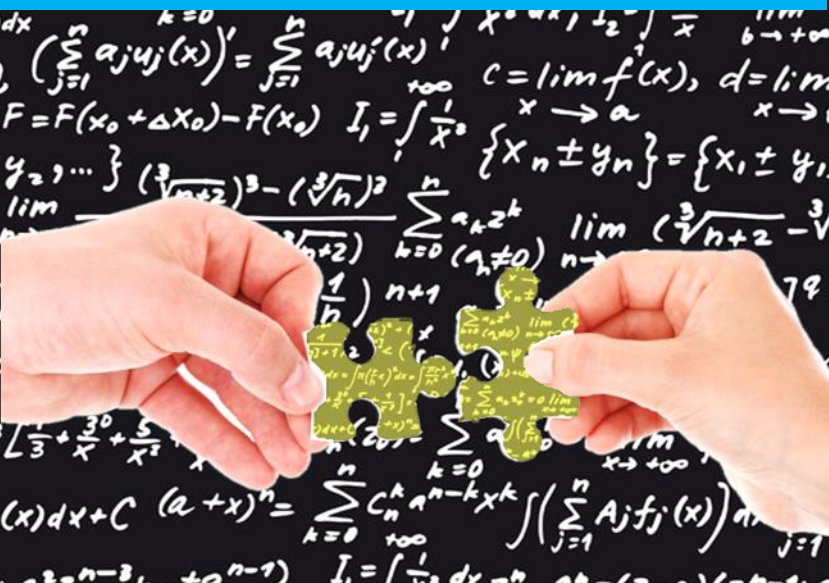
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**Corruption and the business  
environment in Viet Nam:  
An exploratory survey**



**Daisuke Maruichi  
Masato Abe**

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

# Working Paper

NO. 179 | 2018

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**Corruption and the business environment in Viet Nam:  
An exploratory survey<sup>†</sup>**

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**Please cite this paper as:** Daisuke Maruichi and Masato Abe (2018),  
“Corruption and the business environment in Viet Nam: An exploratory  
survey, No. 178, April 2018, Bangkok, ESCAP.

**Available at:** <http://artnet.unescap.org>.

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<sup>†</sup> The authors are grateful for the Vietnam Chamber of Commerce and Industry (VCCI) for their kind support to conduct this survey in the three cities of Viet Nam: Hanoi, Hung Yen, and Vinh. The opinions expressed in this paper are those of the authors and not necessarily reflect the view of Columbia University, the United Nations, or any of their affiliates.

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## **Abstract**

This paper examines the effect of corruption on the business environment in Viet Nam. Our survey of firms operating in Viet Nam suggests that corruption is perceived as the most severe business constraint for their operation. Also, corruption has a significant negative association with the overall satisfaction of the business environment in Viet Nam. Such results support the hypothesis that corruption has a “sand the wheel” effect on firms’ business activities. While this paper sheds light on the importance of corruption, it would be useful to conduct follow-up studies to examine corruption and its impact in more detail. Such studies could be conducted in those segments that most severely suffer from corruption according to our survey, i.e., medium-sized enterprises, hotel/restaurant and construction sectors, Hanoi based, and Vietnamese owned firms.

**Keywords:** business environment, business constraint, corruption, Viet Nam

**JEL Codes:** H11, L20

## Contents

Abstract .....	i
1. Introduction .....	1
2. Literature review.....	3
2.1. Corruption .....	4
2.2. Shortage of skilled labour .....	7
2.3. Access to finance (access to capital, interest rate, and access to external finance).....	8
2.4. Government related activities (supply of water; supply of electricity; business registration, licensing and permit; tax collection process; and relationship with public authorities) .....	8
3. Conceptual framework .....	9
4. Data analysis and results .....	11
4.1. Sample profile .....	11
4.2. Descriptive analysis .....	14
4.3. Association between overall business environment and business constraints .....	21
5. Conclusion: Implications, limitations, and future studies .....	25
5.1. Implications .....	26
5.2. Limitations and future studies .....	27
References.....	28
Appendix .....	34
Appendix 1: Variable names, measures, and definitions .....	34
Appendix 2: Questionnaire form .....	35

## **List of figures**

Figure 1: Sampled firms by industrial sector .....	11
Figure 2: Sampled firms by size .....	12
Figure 3: Location of sampled firms .....	12
Figure 4: The nationality of ownership.....	13
Figure 5: Distribution of the years of firms' operations (percentage of firms) .....	13
Figure 6: Overall business conditions.....	14
Figure 7: Unofficial charge to authorities (percentage of firms) .....	15
Figure 8: Corruption by firm size .....	16
Figure 9: Unofficial charge by firm size .....	16
Figure 10: Firms paying unofficial charge by firm size (percentage of sampled firms) .....	16
Figure 11: Corruption by sector .....	17
Figure 12: Unofficial charge by sector.....	17
Figure 13: Firms paying unofficial charge by sector (percentage of respondents) ...	18
Figure 14: Corruption by city .....	19
Figure 15: Unofficial charge by city .....	19
Figure 16: Firms paying unofficial charge by city (percentage of respondents).....	19
Figure 17: Severity of corruption perceived by nationality .....	20
Figure 18: Unofficial charge by nationality.....	20
Figure 19: Firms paying unofficial charge by nationality (percentage of respondents) .....	21
Figure 20: Severity of business constraints.....	24

## **List of tables**

Table 1: The results of the Mann-Whitney U-test on the associations between overall business environment and business obstacles.....	22
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# 1. Introduction

Viet Nam's dynamic economy goes on a stable growth path, driven by robust domestic demand and export-oriented manufacturing (IMF, 2017). Viet Nam is a member of the Association of Southeast Asian Nations (ASEAN) and the Greater Mekong Subregion (GMS) and a dynamic driving force in the development and integration of the region. Because of the growing economic reforms and openness in Viet Nam, the poverty rate has declined rapidly, living standards have improved, and trade, tourism, and foreign investment have all increased. PricewaterhouseCoopers (2017) estimates that Viet Nam will be the fastest growing economy in the world with average annual GDP growth rate of 5.1 per cent during 2016-2050. This rapid economic growth will bring up Viet Nam to the 20th largest economy in the world in 2050 from 32nd in 2016.

During past years, the Vietnamese government has paid considerable attention to improve the business environment to address challenges from both global and domestic economies. The term “[b]usiness environment is the aggregate of all conditions, events and influences that surround and affect [the business community]” (Davis, 1975, p. 116). In 2014, the government issued Resolution No. 19/NQ-CP—*Major Tasks and Solutions for Improving the Business Environment and National Competitiveness*, which aims to improve the business environment and enhance national competitiveness (Ministry of Planning and Investment, 2015). At the same time, the government instructed on the intensive and consolidated implementation of various reforms in the administrative processes, such as taxation, customs, social insurance, construction license, land registration, access to electricity, corporate establishment and dissolution, and investment procedures (Ministry of Planning and Investment, 2015).

Despite the rapid economic growth and the efforts made by the government, the business environment of Viet Nam does not seem to support the business sector fully. First, the World Bank's ease of doing business ranking of Viet Nam in 2017 was 86th out of 190 countries (World Bank, 2017a).<sup>3</sup> When it comes to starting a

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<sup>3</sup> World Bank's ease of doing business ranking measures the quality of the overall business environment and its dimensions at the national level.



business, the ranking remains particularly low at 121st out of 190. The Index of Economic Freedom by the Heritage Foundation (2017) also underpins this point showing that Viet Nam ranks 147th out of 180 countries for its economic freedom and categorizes Viet Nam as a “mostly unfree” economy. Also, The Economist (2014) ranks Viet Nam’s business environment at 59th out of 82 countries surveyed for the 2014-2018 period. The present status of the business environment in Viet Nam shows no sign of improvement and the necessity of further reforms.

Corruption is an important issue in Viet Nam even though it is not among the targets of the reforms. Despite improvement over the past years, corruption is still considered widespread throughout the country, and Viet Nam still lags behind other Asian countries regarding control of corruption and most governance indicators (Transparency International, 2012). The business sector is also affected by cumbersome legislation, which provides both incentives and opportunities for corruption (Transparency International, 2012). However, relatively little literature has been published on corruption in Viet Nam especially with its effect on the business environment while international studies suggest that corruption affects the business environment both positively and negatively (e.g., Dang, 2016; Méon and Weill, 2010; Nguyen, *et al.*, 2016; Welter and Smallbone, 2011). Tackling corruption is also essential to improving governance, which has been identified as one of four key components to channeling trade and investment into sustainable development (United Nations ESCAP, 2017).

The primary objective of this study is to analyze the present status of the business environment in Viet Nam and identify specific business obstacles for further intervention. This study intends to complement and enrich the previous studies and hence allow policymakers the opportunity to identify the key issues around the business environment in Viet Nam. Among the business obstacles in Viet Nam, special attention is paid to corruption, whose importance and effect are often controversial. This study attempts to find the effect of corruption on the business environment in Viet Nam, together with other major business constraints, including shortage of skilled labour, access to finance, and government related activities. This paper also serves as a policy guide for the future improvement of the Vietnamese business environment.

For this study, an exploratory survey of 79 firms in three different cities of Viet Nam, namely Hanoi, Hung Yen, and Vinh, is conducted. The fundamental questions are designed to identify firms' evaluation of the overall business environment in Viet Nam and severity of specific business obstacles firms are facing. The responses collected are utilized for econometric analysis to present key findings.

## **2. Literature review**

The business environment contains the external factors that create opportunities and threats to the business such as socioeconomic conditions, technology, and political conditions (Jauch and Glueck, 1988). The World Bank Enterprise Survey (2015) lists 15 obstacles in business environment namely: access to finance; access to land; business licenses and permits; corruption; legal enforcement; crime, theft and disorder; customs and trade regulations; access to electricity; inadequately educated workforce; labour regulations; political instability; practices of the informal sector; tax administration; tax rates; and transportation. The World Economic Forum (2016), for the purpose of identifying the most problematic factors of doing business, uses 16 indicators namely: inadequately educated workforce; policy instability; tax regulations; tax rates; access to financing; poor work ethic in national labour force; corruption; inefficient government bureaucracy; inadequate supply of infrastructure; inflation; foreign currency regulations; crime and theft; restrictive labour regulations; government instability; insufficient capacity to innovate; and poor public health. The Economist (2014), for its business environment ranking, also examines 10 categories: political environment; macroeconomic environment; market opportunities; policy towards free enterprise and competition; policy towards foreign investment; foreign trade and exchange controls; taxes; financing; labour market; and infrastructure.

The important role that the business environment plays in promoting growth, employment, and well-being has been well addressed (Abe, *et al.*, 2012). Some studies have also attempted to reveal the relationships between the business environment and business performance. Gani (2011) finds that better business environment enhances trade activities. A friendly business environment is one that

encourages firms to innovate and to increase productivity (World Bank, 2015). A more productive business, in turn, expands employment and contributes to tax revenue necessary for public investment in health, education, and other governmental services. In sum, governmental action to create a sound, predictable regulatory environment is central to whether firms perform well and whether that performance is sustainable in the long run (World Bank, 2017a).

Among the components of the business environment, this study takes a close look at corruption, which is the abuse of entrusted power for private gain (Transparency International, 2016a). Corruption takes forms of shady deals, weak enforcement of rules, and other illicit practices that undermine good governance, ethical business, and positive social norm at large. It also undermines people's trust in political and economic systems, institutions, and leaders and is considered as one of the most severe obstacles to conducting business (Abe, *et al.*, 2012; Transparency International, 2016a).

Other elements of the business environment are also included in the study as serious obstacles for doing business in Viet Nam. The surveys conducted by the World Bank (2015) and the World Economic Forum (2016) find shortage of skilled labour and access to finance as two major business constraints in Viet Nam. According to the World Bank's indicators on government effectiveness (World Bank, 2017b), Viet Nam is at 55 percentile rank, which is relatively lower than two of its neighbours, Malaysia and Thailand, which position themselves at 77 and 66 percentile ranks, respectively. Therefore, various government related activities, namely supply of electricity, supply of water, business registration, licensing and permit, tax collection process, and relationships with public authorities, are also included in the study for close inspection.

## **2.1. Corruption**

Corruption affects an economy in a number of ways. The cost of providing public goods and services increases due to leakage for private gain or through the provision of substandard goods (such as roads and telecommunications) that should be replaced frequently (Bardhan, 1997; Reinikka and Svensson, 2004). It also undermines the rule-of-law and the government's ability to correct externalities such

as pollution (Olken and Pande, 2011). Corruption reduces investment and lowers growth rates while it negatively impacts on efficiency which is measured by the ratio of change in investment to the change in GDP (Campos, *et al.*, 1999; Mauro, 1995; Swaleheen, 2007). Also, corruption hinders development through reducing investment, diverting resources away from productive sectors, and reducing human capital (Lambsdorff, 2003; Rady, 2016). In this line, Rady (2016) suggests that corruption is shown to have the ability to decrease the productivity of a nation and reduces the effectiveness of foreign aid which can reap a country from the benefits of free trade in absence from good institutions. Transparency International (2014) also points out that the lack of transparency, accountability, and oversight in government and business interactions undermines fair competition and stifles economic growth. Corruption also associates with inefficient bureaucracies that offer more leverage for corrupt public officials: the longer the queue for a public service, the higher the incentive for citizens to bribe the officials to get what they want (OECD, 2014). Researchers often call these adverse effects of corruption on economic development as “sand the wheel” effect (Meon and Sekkat, 2005; Wei, 2001). Both anecdotal and empirical evidence suggests that corruption is more prevalent in developing countries than in developed ones (Olken and Pande, 2011). At the firm level, corruption increasingly absorbs the returns from business activities and distort entrepreneurial spirit and behaviour (De Jong, *et al.*, 2012; Tu, 2012; Van Dut, 2015). Firms that involve in corruption report higher costs and greater uncertainty that ultimately impact their strategic and investment decisions (Olken and Pande, 2012). It is estimated that corruption increases the cost of business undertaking by 10 per cent on average (OECD, 2014). Corruption is also negatively correlated with firm’s innovation and growth (Asiedu and Freeman, 2009; Chadee and Roxas, 2013; Fisman and Svensson, 2007). Regarding foreign direct investment (FDI), corruption impacts on foreign firms’ decision to choose an investment destination and thus reduces FDI flows (Egger and Winner, 2006; Javorcik and Wei, 2009). FDI in countries that are perceived as corrupt is almost 5 per cent lower than in countries that are relatively corruption-free (OECD, 2014).

On the contrary, researchers also argue that corruption could in some cases facilitate business activities, development, and economic growth (e.g., Dreher and Gassebner, 2011; Méon and Weill, 2010; Welter and Smallbone, 2011). This is often

referred to as “grease the wheel” effect. Lui (1985) suggests that most efficient firms pay the highest price to get served by the authorities, hence making the economy more efficient. Scholars further argue that corruption can speed up the wheels of commerce and has a positive impact on firm’s development by providing the possibility of overcoming bureaucratic barriers and burdensome processes (Kaufman and Wei, 2000; Meon and Sekkat, 2005; Welter and Smallbone, 2011). In this sense, corruption also facilitates firm’s entry in highly regulated economies that may not happen otherwise (Dreher and Gassebner, 2011; Leff, 1964; Méon and Weill, 2010). Given exogenously determined suboptimal bureaucratic rules and regulations, corruption may counteract government failure and promote economic growth, both in the short and long run (Akai, *et al.*, 2005).

Several studies examine the determinants of corruption. Democratic systems and press freedom reduce the level of corruption (Brunetti and Weder, 2003; Chowdhury, 2004; Lederman, *et al.*, 2005; Treisman, 2000). Trade openness and ensuing competition are also associated with reduced corruption (Ades and Di Tella, 1999; Kreuger, 1974; Treisman, 2000). Institutional structure is found to be important as more decentralized states have a lower level of corruption (Arikan, 2004; Fisman and Gatti, 2002). Social norms and culture are expectedly important determinants of corruption although they can be hard to measure (Soans and Abe, 2016).

In Viet Nam, corruption also causes negative effects on its economy and businesses. Ann, *et al.* (2016) suggest that corruption undermines Viet Nam’s economic performance. Nguyen and van Dijk (2012) analyzed a sample of Vietnamese firms and found that corruption hampered the growth of private enterprises but not the state-owned ones. Rand and Tarp (2010), drawing on a survey of small and medium-sized enterprises (SMEs) for the 2005-2007 period, found that bribery hurts firm performance, while CIEM, *et al.* (2012) show that bribe-paying SMEs do not grow significantly faster or slower than others but are significantly more likely to exit the market. Corruption has a negative impact on private investment, employment, and per capita income at the provincial level (Dang, 2016). It also has harmful effects on Vietnamese firm’s strategic capability by eroding cultural integrity, demotivating innovation, and risking the firm’s reputation (Nguyen, *et al.*, 2016).

On the other hand, Nguyen, *et al.* (2016) found that informal payments by Vietnamese firms encouraged overall innovation and product improvement but commonly accepted benefits of corruption such as transactional benefits or access to business opportunities, i.e., “greasing the wheel,” hold true only for a small number of firms. De Jong, *et al.* (2012) also found that in Viet Nam, corruption has an inverse U-shaped relationship with firm performance as measured by revenue, and argue that a firm may gain benefits when they pay a bribe, but the benefits of paying a bribe are subject to diminishing returns.

Finally, corruption in Viet Nam is perceived differently from survey to survey. Transparency International’s Corruption Perception Index, which measures the corruption level of 176 countries worldwide, ranks Viet Nam 113th out of 176, indicating a relatively higher level of corruption (Transparency International, 2016b). The World Economic Forum also points out corruption as the seventh out of 16 problematic factors of doing business in Viet Nam in their Executive Opinion Survey in 2016 (WEF, 2016). However, corruption does not appear as a crucial business constraint in Viet Nam in the World Bank Enterprise Survey, as only 2.6 per cent of sampled Vietnamese firms responded that corruption is the largest of all business obstacles, placing it near the bottom of all the 15 obstacles listed in the survey (World Bank, 2015).

## **2.2. Shortage of skilled labour**

Another key business obstacle in Viet Nam is shortage of skilled labour. The World Bank Enterprise Survey has ranked the shortage of skilled labour as the third most problematic obstacle in Viet Nam (World Bank, 2015). Skilled labour refers to highly educated individuals having graduated at the tertiary level of education and/or experienced individuals employed in an occupation for which a high qualification is normally required (World Bank and OECD, 2013). Skilled labour can contribute to firm’s growth and development by generating new knowledge, developing incremental innovations, identifying new business opportunities, and transferring knowledge to co-workers (World Bank and OECD, 2013). In Viet Nam, shortage of skilled labour increasingly constrains growth in productivity and employment (Manning, 2010). Vietnamese organizations recognize the importance of education and training for their young workers to solve the shortage of skilled labour. To

achieve this goal and ensure effectiveness, additional government and business association support is required (Goodwin, *et al.*, 2014).

### **2.3. Access to finance (access to capital, interest rate, and access to external finance)**

In Viet Nam, access to finance appears as the most significant business obstacle (World Bank, 2015).<sup>4</sup> Financial services to firms are provided in various areas such as payment facilitation, deposit management, short-term loans for working capital, and long-term loans for fixed assets (World Bank, 2015). Insufficient access to finance hinders business growth while the large capacity of firms to invest using debt or equity leads to significant increases in productivity (Ayyagari, *et al.*, 2005; Khan, 2001). In both developing and developed countries, smaller firms have less access to institutional finance and more constraints in their operation and growth (Berger and Udell, 1998; Galindo and Schiantarelli, 2003). In Viet Nam, cumbersome procedures, long appraisal time, physical distance from a bank, strict requirements of collaterals, and administrative documents are some of the reasons many firms do not apply for loans (Lainez, 2014). Since the term “finance” deals with various financial services, this study investigates three key finance related variables, namely access to capital, interest rate, and access to external finance.

### **2.4. Government related activities (supply of water; supply of electricity; business registration, licensing and permit; tax collection process; and relationship with public authorities)**

In this study, government related activities are defined as a set of business obstacles that comprise of public services and administrative procedures in which a government is engaged. The efficiency of government related activities has been regarded as a key component of the business environment (e.g., World Bank, 2017a). For example, extreme bureaucracy imposes disproportionate bureaucratic burdens on firms and creates both incentives and opportunities for bribery and corruption (Aristovnik and Obadic, 2015). Specific variables include: supply of water; supply of electricity; business regulation, licensing and permit; tax collection process; and relationship with public authorities.

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<sup>4</sup> Access to finance is one of the largest business obstacles in many business surveys in Asia-Pacific developing countries (and beyond) (cf., ADB and ADBI, 2015; Soans and Abe, 2015; World Bank, 2015).

The literature clearly suggests that business obstacles such as shortage of skilled labour, access to finance, and government related activities have a negative impact on the business environment. On the other hand, the empirical evidence on the economic consequences of corruption is not as straightforward as other business obstacles (Svensson, 2005). It is still unclear whether corruption brings positive or negative consequences to the business environment in specific settings. In addition, the significance of corruption in business environment appears to vary by each study (Transparency International, 2016b; WEF, 2016; World Bank, 2015). Therefore, this study focuses specifically on investigating the impact of corruption on the business environment, while examining the relationships with other business obstacles, namely shortage of skilled labour, access to finance, and government related activities.

### **3. Conceptual framework**

This study aims to identify the obstacles which policymakers should recognize and prioritize to improve the overall business environment in Viet Nam. It examines sampled firms' perceptions of both the overall business environment and severity of selected business obstacles together with their associations. Ten business obstacles of interest in this study are, as appeared in the literature review: corruption; shortage of skilled labour; access to capital; interest rate; access to external finance; supply of electricity; supply of water; business registration, licensing, and permit; tax collection process; and relationships with public authorities.

For this study, the following null and alternative hypotheses are tested:

**Null hypothesis (Ho):** There is no significant difference in the overall business environment as the 10 business constraints become more severe.

**Alternative hypothesis (Ha):** There is a significant difference in the overall business environment as the 10 business constraints become more severe.



If the null hypothesis can be rejected, the degree of severity in a business constraint is associated with the overall business environment.

In developing a structured survey questionnaire, the procedure followed Dillman's (1978) total design method for surveys to make them appear "easy to complete" and "professional" to enhance the quality of the data while also increasing the response rate. A number of industrial and country experts were consulted, and many existing business survey questionnaires, which were previously conducted by international and bilateral agencies and academics in Viet Nam and South-East Asia, were reviewed (e.g., JETRO, 2009 and 2012; OECD, undated; Soans and Abe, 2015; World Bank, 2013).

In the questionnaire, the business environment is measured as sampled firms' perceptions of the overall business conditions in Viet Nam. Responses are recorded on a six-point Likert-scale which ranges from "very unfavourable" to "very favourable." The 10 business obstacles are also measured on a six-point Likert-scale which ranges from "no obstacle" to "very severe obstacle." In addition, this study outlined a specific question anticipating to figure out the amount of "unofficial charges" that firms are typically required to pay in order to obtain a business registration, license, or permit. Thus, the final questionnaire contained 12 questions covering overall business conditions and obstacles. Appendix 1 provides variable names, definitions, and measures, while Appendix 2 outlines the English questionnaire form that was distributed to the participants. This questionnaire was initially developed by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in English and subsequently translated by the Vietnam Chamber of Commerce and Industry (VCCI) to Vietnamese.

The data collection was conducted by ESCAP with the support of VCCI. Seminar sampling, which is a non-probability sampling method, was used to minimize the cost of the survey while maximizing the number of responses and the accuracy of the survey. Questionnaires in the Vietnamese language were distributed at three business seminars entitled "Financial Solutions to Strengthen the Participation of Business into Global Value Chains," which were conducted by VCCI in Hanoi, Hung Yen, and Vinh, respectively. This seminar sampling obtained 79 responses from the

participated businesses. During the data cleaning process, responses that were not logical were either omitted or modified.

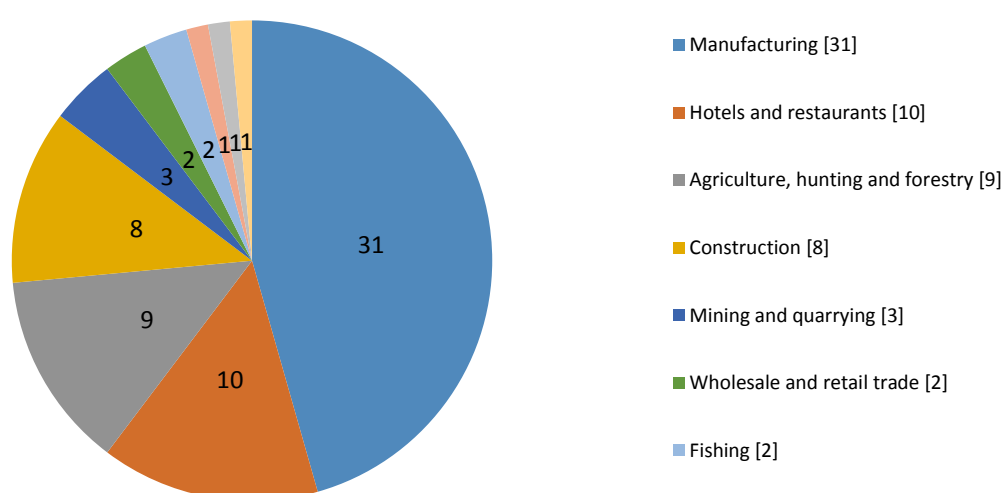
## 4. Data analysis and results

This study first presents a profile of 79 respondents, followed by a descriptive analysis demonstrating how sampled firms evaluate the current overall business environment, corruption, and unofficial charge to the authority. Then, the study conducts nonparametric analysis to review the associations between the overall business environment and corruption, together with other business obstacles.

### 4.1. Sample profile

The characteristics of firms surveyed are illustrated below in Figures 1, 2, 3, 4 and 5. Figure 1 shows that manufacturing accounts for the largest share of the firms surveyed. Other sectors with relatively large sample size are hotels and restaurants; agriculture, hunting and forestry; and construction. The share of each industrial sector in this study may not reflect the actual sectoral distributions in Viet Nam.

**Figure 1: Sampled firms by industrial sector**



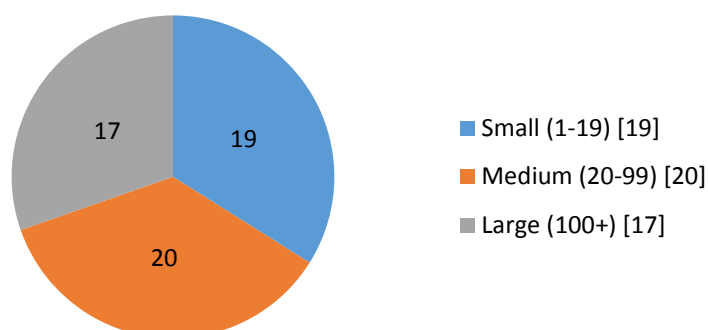
*Note:* The numbers in square brackets suggest the numbers of sampled firms in an industrial sector.

*Source:* Authors.

Figure 2 presents the size of firms surveyed. For the classification purpose, we specify firms with 1-19 employees as small, 20-99 employee as medium, and more

than 100 employees as large firms. We have almost equal representations from small, medium, and large sized firms.

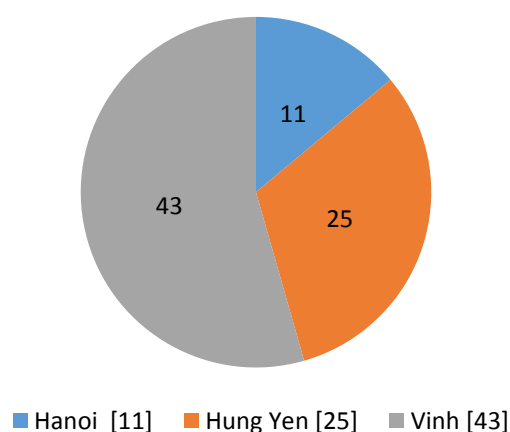
**Figure 2: Sampled firms by size**



*Note:* The numbers in square brackets suggest the numbers of sampled firms in a size group.  
*Source:* Authors.

Figure 3 shows the location of firms surveyed. Hanoi, the capital of Viet Nam, accounts for a relatively small percentage of the entire firms surveyed. More than half of the firms are from Vinh, the largest city and economic and cultural centre of the north central coast of Viet Nam. Hung Yen, the capital city of Hung Yen Province near Hanoi, also has a relatively large representation in this study.

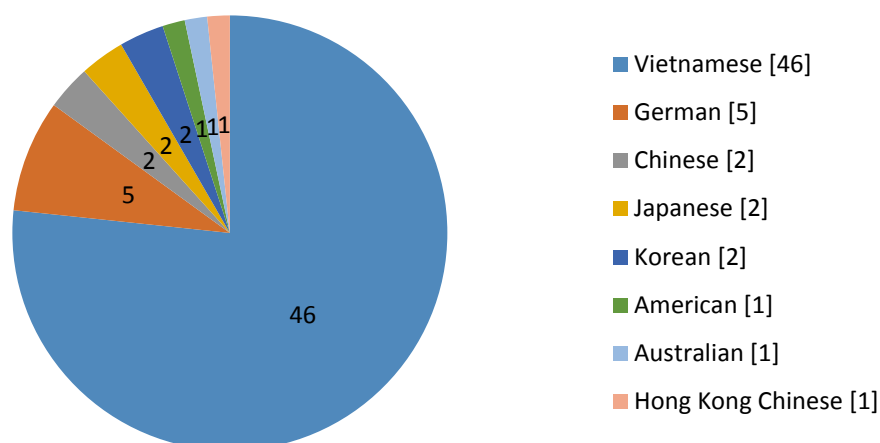
**Figure 3: Location of sampled firms**



*Note:* Hanoi includes one sample from its neighbouring city, Thái Nguyên.  
*Source:* Authors.

Figure 4 presents the nationality of sampled firms. More than 75 per cent of the firms surveyed are Vietnamese owned. Other salient nationalities are German (5), Chinese (2), Japanese (2), and Korean (2).

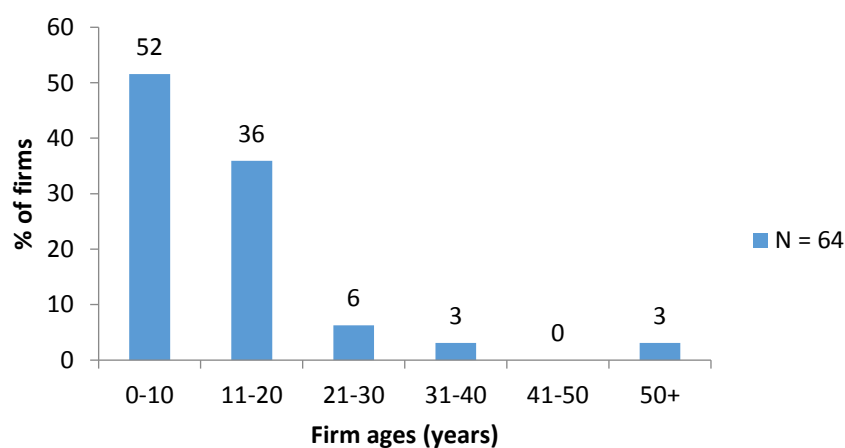
**Figure 4: The nationality of ownership**



*Note:* The numbers in square brackets suggest the numbers of sampled firms in a nationality group.  
*Source:* Authors.

Figure 5 shows the years of firms' operations. More than 50 per cent of firms surveyed were established within the past 10 years. The firm's age between 11-20 years accounts for 36 per cent of all the firms surveyed. These two groups account for nearly 90 per cent of the firms in the survey.

**Figure 5: Distribution of the years of firms' operations (percentage of firms)**



*Source:* Authors.

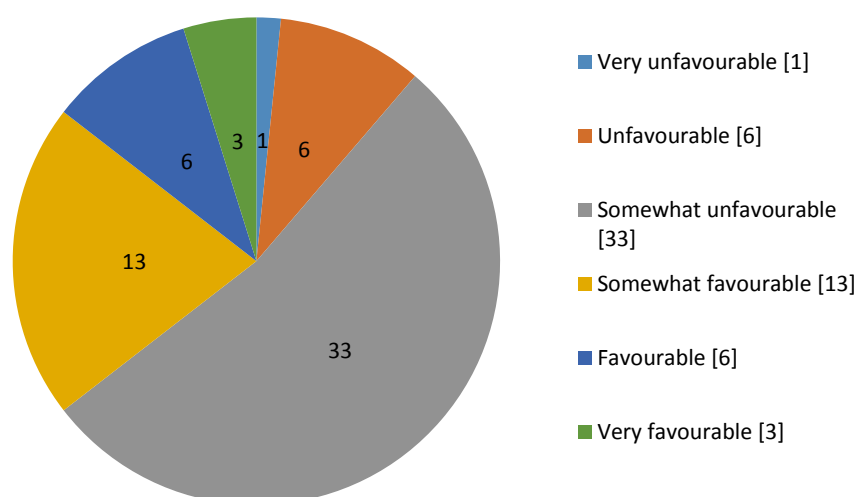
It should be noted, however, that the sampled firms are not similarly distributed to the subcategories of target population such as firm size, industrial sector, location, and nationality of ownership. The sample size is also relatively small, and the rate of missing value remains high and within the range of 22-46 per cent. These facts are likely to put a limitation on this study's findings and its key implications.

## 4.2. Descriptive analysis

This subsection presents a descriptive analysis of the business environment and business obstacles. First, the analysis is undertaken with a focus on overall business conditions rating, corruption, and unofficial charge paid by firms. Then, cross-sectional analysis of corruption and firm size, sector, city, and nationality is conducted to closely inspect how corruption differently behaves in each category.

From the descriptive analysis, it becomes apparent that most of the sampled firms consider the overall business conditions in Viet Nam somewhat unfavourable (Figure 6). About 65 per cent of firms in the survey respond either very unfavourable, unfavourable, or somewhat unfavourable.

**Figure 6: Overall business conditions**



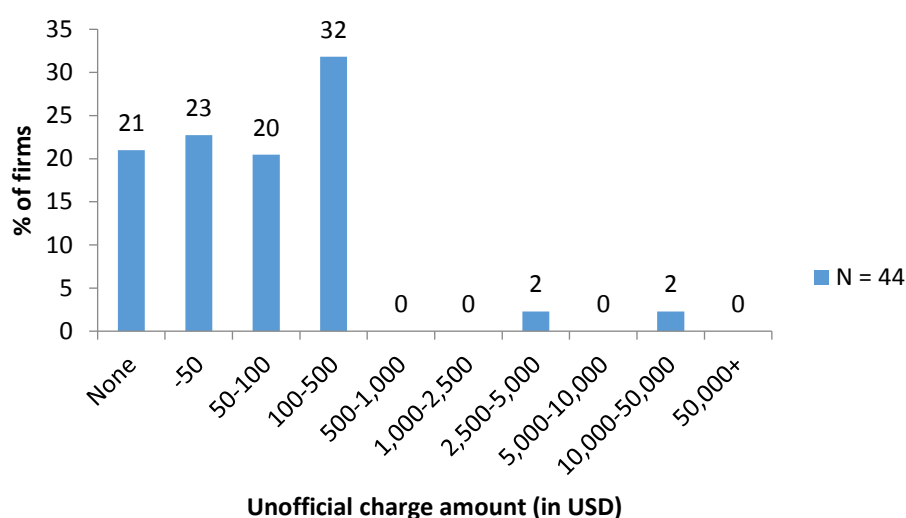
*Note:* N=62.

*Source:* Authors.

Most of the sampled firms (approximately 80 per cent) report that they pay unofficial charge to authorities to obtain a business registration, license, or permit (Figure 7).

This result is larger than a similar business survey conducted in Myanmar in which 60 per cent of firms were reported to pay unofficial charge (Soans and Abe, 2015). In particular, 23 per cent of the firms surveyed paid up to USD 50 of unofficial charge, 20 per cent paid between USD 50–100, and 32 per cent paid somewhere between USD 100–500. On the higher end, two per cent of firms paid between USD 2,500–5,000 and additional two per cent of firms paid between USD 10,000–50,000.

**Figure 7: Unofficial charge to authorities (percentage of firms)**

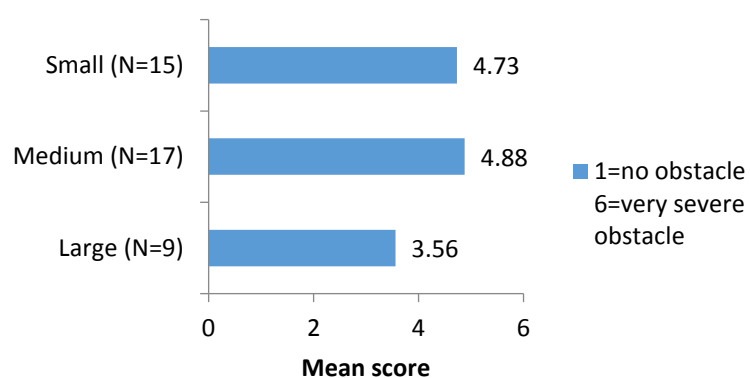


Note: N=44.

Source: Authors.

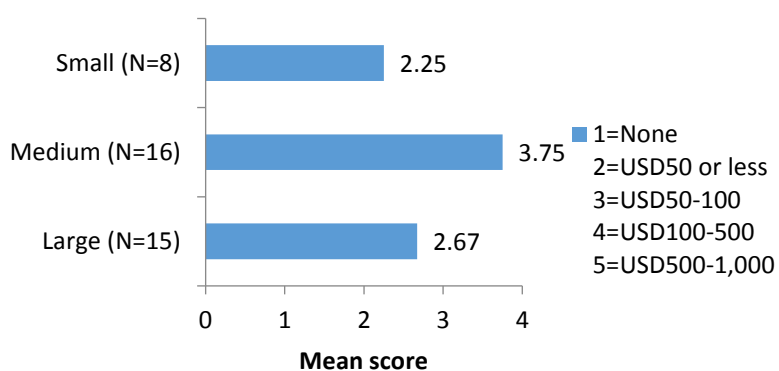
Corruption affects medium-sized enterprises the most, both in terms of severity and in payments of unofficial charges (Figures 8 and 9). Also, medium-sized enterprises are more likely to pay unofficial charge than small-sized and large enterprises (Figure 10). The difference in paying unofficial charge between medium-sized enterprises and large-sized enterprises is statistically significant by Mann-Whitney U-test ( $p=0.0127$ ). This is in contradiction with an argument of Rand and Tarp (2010) that large enterprises are more likely to pay bribes in Viet Nam. This could indicate that, as Svensson (2003) argues, medium-sized firms in Viet Nam might have more “ability to pay” and less “refusal power” than smaller- or larger-sized firms.

**Figure 8: Corruption by firm size**



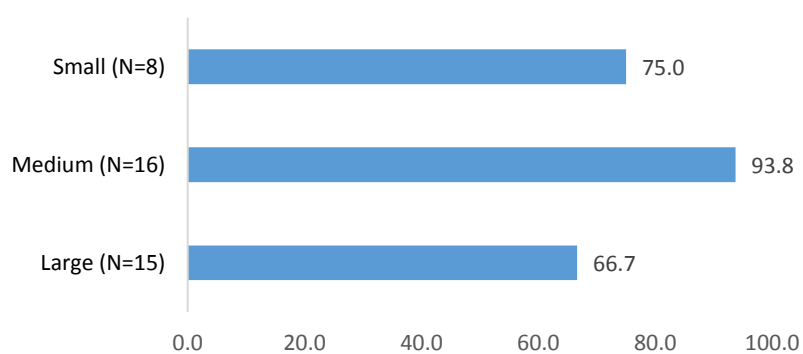
Source: Authors.

**Figure 9: Unofficial charge by firm size**



Source: Authors.

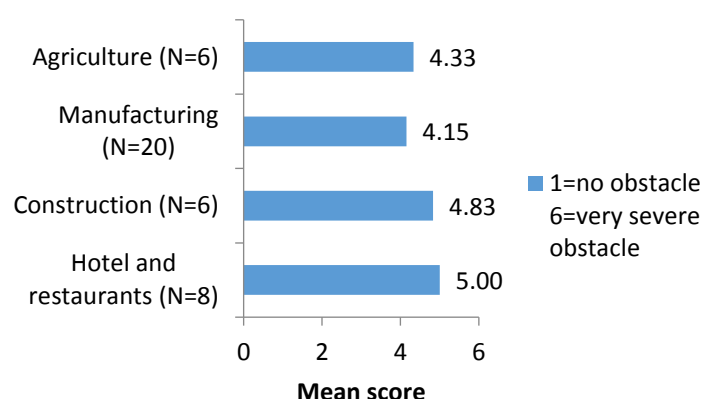
**Figure 10: Firms paying unofficial charge by firm size (percentage of sampled firms)**



Source: Authors.

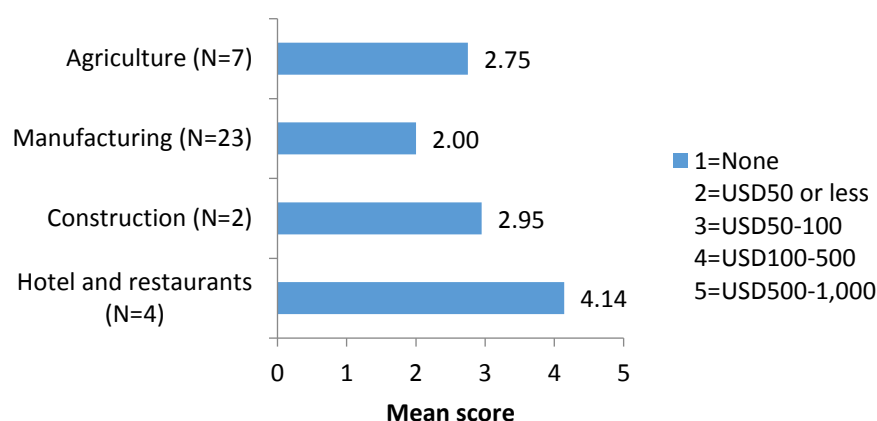
In this survey, as shown in Figures 11 and 12, corruption affects the hotel and restaurant sector the most, both in terms of severity and unofficial charge amount. These are followed by construction, agriculture, and manufacturing sectors. As hotel/restaurant and construction sectors are more likely to have contact with public authorities than other sectors, this result seems to be well explained by Svensson (2003) who argues that the higher interactions firms have with government officials, the more they are prone to corruption.

**Figure 11: Corruption by sector**



Source: Authors.

**Figure 12: Unofficial charge by sector**



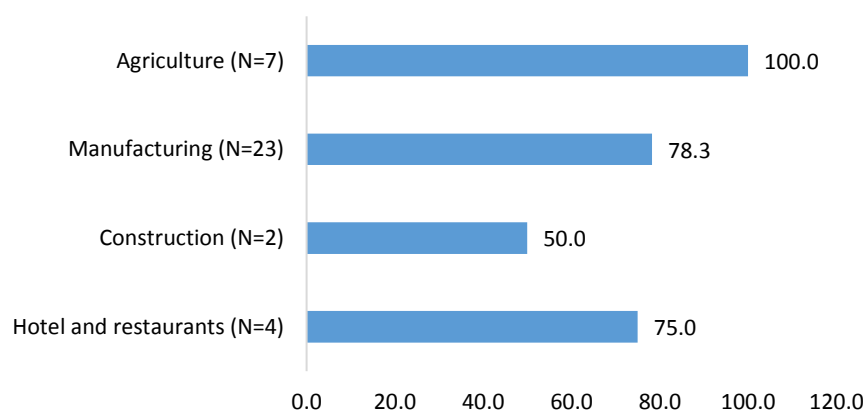
Source: Authors.

Figure 13, however, suggests that the percentage of firms paying unofficial charge is higher in the agriculture and manufacturing sectors, while they perceive less severity



on corruption than construction and hotel/restaurant sectors. The construction sector, which is highly exposed to bureaucrats and officials, had the lower number of firms paying unofficial charges, although the sample sizes of those sectors were limited. A possible explanation for this finding might be that unofficial charge is so prevalent and common in the agriculture and manufacturing sectors, that firms might not view this as a constraint. Also, the amount of unofficial charge these sectors typically pay is smaller than the amount paid by the construction and hotels/restaurants sectors. Hence, they might not perceive it as a critical issue. It should also be noted that the number of firms responded from the construction and hotel/restaurant sectors was relatively small and might not reflect the tendency of the target population in Viet Nam.

**Figure 13: Firms paying unofficial charge by sector (percentage of respondents)**

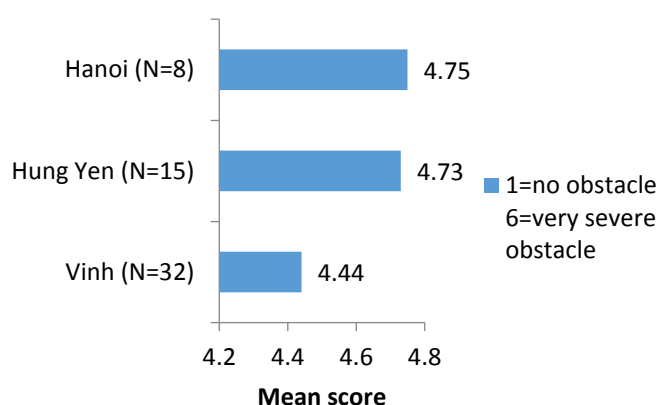


Source: Authors.

The extent of corruption varies by different cities. As shown in Figure 14, among the three cities surveyed, Hanoi perceives corruption most severely. As for the amount of unofficial charge and the possibility of firms paying it, Vinh and Hung Yen exceed Hanoi (see Figures 15 and 16). These might be because corruption is relatively common in Vinh as more than 85 per cent of firms pay some amount of unofficial charge, and therefore might not consider corruption as a serious issue but more commonly as part of their daily life. The opposite case might be true for Hanoi. The differences in corruption among cities might exist because some regions have more pressing concerns such as basic infrastructure or public services. Therefore, the

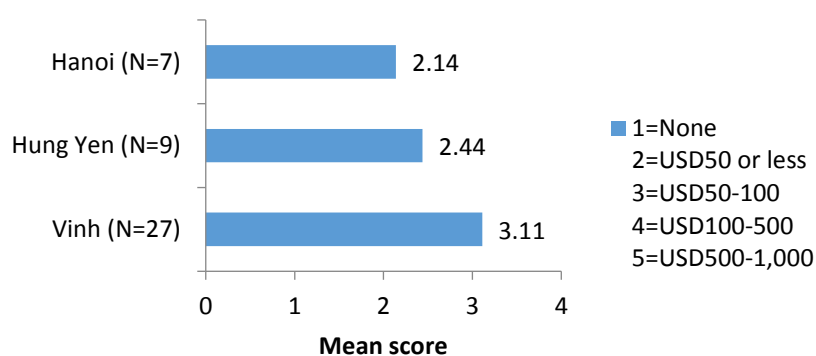
firms rate the level of corruption relating to those public services as higher, or administrative departments in some cities are better managed than others (Soans and Abe, 2016).

**Figure 14: Corruption by city**



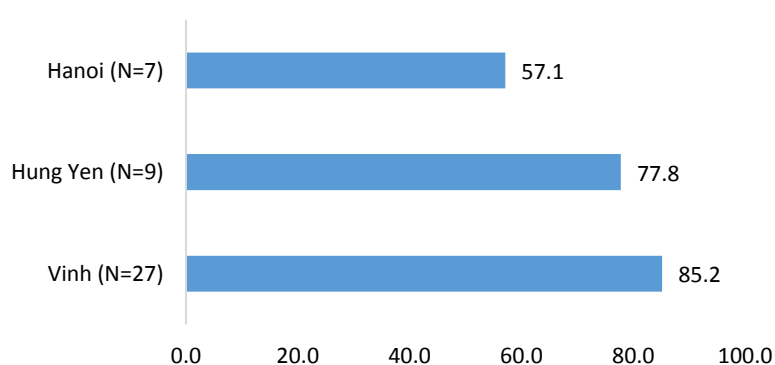
Source: Authors.

**Figure 15: Unofficial charge by city**



Source: Authors.

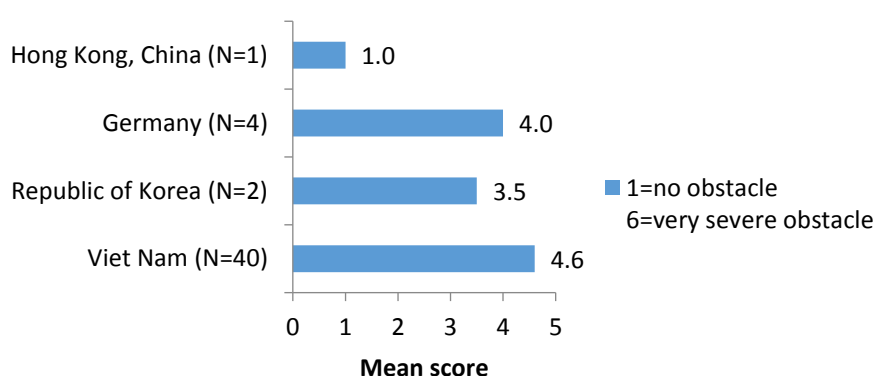
**Figure 16: Firms paying unofficial charge by city (percentage of respondents)**



Source: Authors.

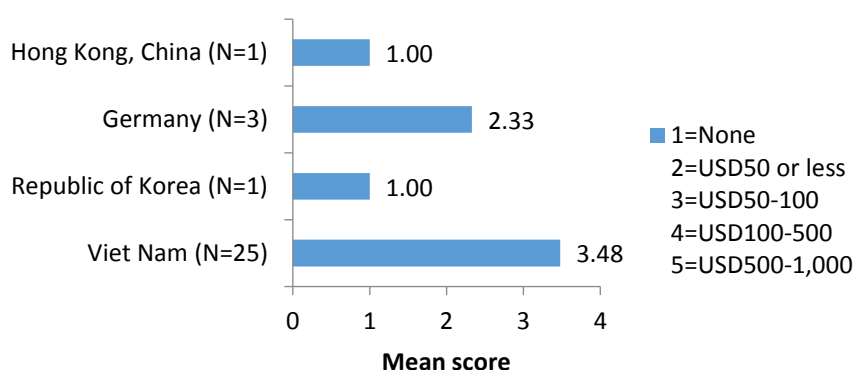
Vietnamese owned firms are the main ones to be affected by corruption, in both severity and actual amount (Figures 17 and 18). They are also more likely to pay unofficial charge than foreign owned firms (Figure 19). This seems to be against Gaviria (2002) who argues that no statistical difference is found on the corruption perceptions between domestic owned and foreign owned firms. It should be noted again, however, that the sample size of firms with foreign ownership was limited in this survey, and further investigation is required for this topic.

**Figure 17: Severity of corruption perceived by nationality**



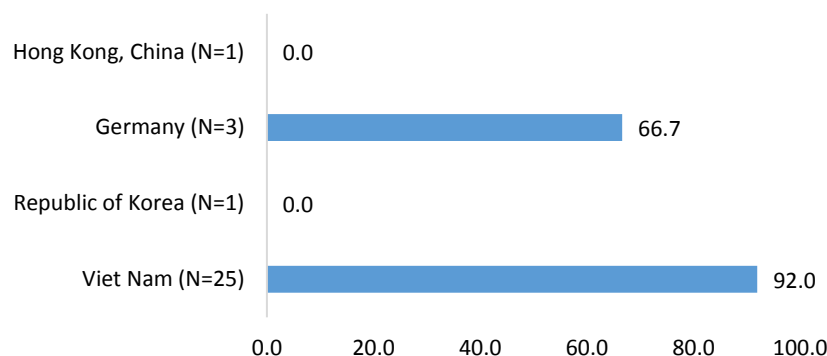
Source: Authors.

**Figure 18: Unofficial charge by nationality**



Source: Authors.

**Figure 19: Firms paying unofficial charge by nationality (percentage of respondents)**



Source: Authors.

Descriptive and cross-sectional analyses disclose that most of the firms surveyed are not satisfied with the current business environment in Viet Nam. Corruption appears as the largest business obstacle in the three cities of Viet Nam, and the overwhelming majority of firms pay an unofficial charge to public authorities to facilitate their business. Moreover, corruption turns out to be most problematic for firms that are medium sized, in the hotel/restaurant and construction sectors, Hanoi based, and Vietnamese owned.

#### **4.3. Association between overall business environment and business constraints**

As the present study has a relatively small sample size (79 respondents) and there is a group whose number of respondents falls below 15 (i.e., the high score group on inadequate access to external finance; see Table 1), parametric tests are not appropriate for the econometric analysis of this study (Frost, 2015). Instead, a nonparametric test, i.e., Mann-Whitney U-test, between overall business rating (a numerical variable) and 10 business obstacles (dummy variables between a high score group and a low score group) was conducted. The authors specifically follow a Mann-Whitney U-test model used by Machado, *et al.* (2016).

Within each business obstacle, a high score group and a low score group are divided so that the two groups have the similar number of respondents. For example, respondents to corruption are grouped into two with one group consists of 31 respondents that scored between one and four on a six-point Likert-scale for the

severity of corruption (low score group) and the other group consists of 25 respondents that scored either five or six (high score group). Dummy variables for each business obstacle are created to distinguish these two groups: low score and high score. Also, the mean scores of the overall business environment for both high group and low group are compared to examine the vector of differences (Machado, *et al.*, 2016).

The results of the Mann-Whitney U-test that present the associations between the overall business environment and business constraints are summarized in Table 1. The first column of the table displays business obstacles. The second column shows the mean scores of the overall business environment for the high score group in each business obstacle, while the third column presents the mean scores of the overall business environment for the low score group in each business obstacle. The fourth column lists the *p*-values resulted from the Mann-Whitney U-test that is conducted to verify if the two groups are significantly different.

**Table 1: The results of the Mann-Whitney U-test on the associations between overall business environment and business obstacles**

<b>Business obstacles</b>	<b>High score group (mean)</b>	<b>Low score group (mean)</b>	<b>P-value</b>
Corruption	3.00	3.57	0.0231**
Shortage of skilled labour	3.25	3.34	0.3935
Access to capital	3.17	3.50	0.2922
Interest rate	3.13	3.41	0.3791
Inadequate access to external finance	3.15	3.52	0.1929
Supply of electricity	3.00	3.81	0.0077***
Supply of water	3.00	3.89	0.0020***
Business registration, licensing and permit	2.95	3.67	0.0043***
Tax collection process	3.12	3.47	0.1995
Relationships with public authorities	3.18	3.69	0.0175**

*Note:* \*, \*\*, and \*\*\* indicate significant difference at  $p<0.05$ ,  $p<0.025$ , and  $p<0.01$ , respectively.

*Source:* Authors.

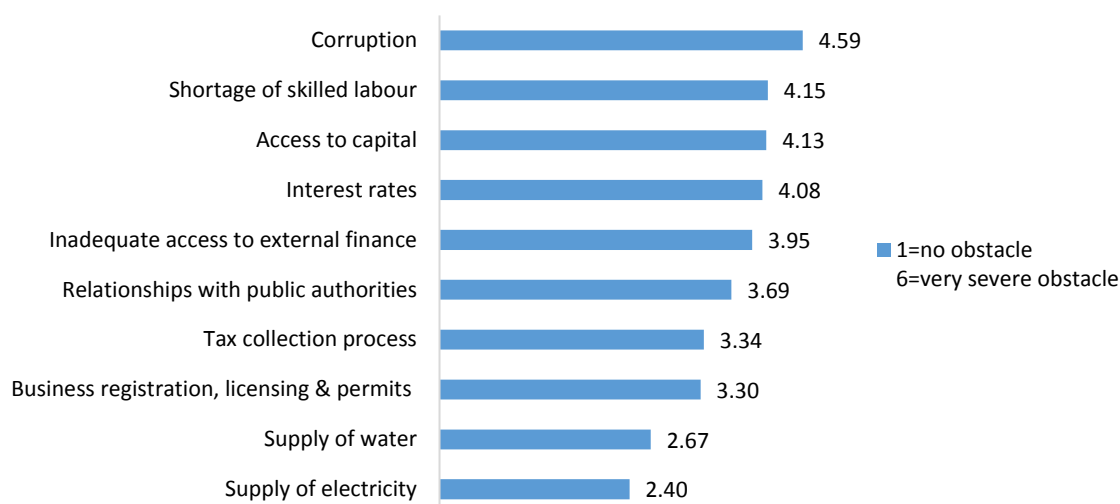
Table 1 indicates that the ratings of the high and low score groups on the overall business environment are significantly different for six business obstacles, namely: corruption; supply of electricity; supply of water; business registration, licensing and permit; and relationships with public authorities. For these six business obstacles, the high score groups rate significantly lower in the overall business environment. This study, therefore, confirms that some business obstacles are negatively associated with the overall business environment in the three cities of Viet Nam.

On the other hand, some of the business obstacles that are conceived as the most severe ones by literature such as shortage of skilled labour and access to finance, show no significant impact on the business environment. This indicates that business obstacles related to governmental activities are more closely associated with the perceptions of the overall business environment.

Subsequently, the mean scores of the 10 business obstacles are compared and found out that corruption (4.59), shortage of skilled labour (4.15), access to capital (4.13), interest rate (4.08), and inadequate access to external finance (3.95) are the five most severe business obstacles for firms surveyed (Figure 20). While shortage of skilled labour and access to finance (including access to capital, interest rate, and inadequate access to external finance) correspond with the findings from the World Bank Enterprise Survey, the findings are different in a way that corruption appears as the most severe business obstacle in this survey albeit it does not appear in the World Bank Enterprise Survey (World Bank, 2015). It should also be noted that the severity of government related activities obstacles is relatively smaller than some other business obstacles (see Figure 20 again). This finding strongly suggests that firms are generally less concerned about these government related activities than other major business obstacles such as corruption, shortage of skilled labour, and access to finance; however, some sampled firms face crucial situations due to the severity of those governmental activities that are supported by the Mann-Whitney U-test (see Table 1 again). Government related activities have a more significant influence on the perceptions of the overall business environment, and interventions

to these issues may require a tailor-made approach to meet with individual firms' needs. Otherwise, putting extra efforts to reduce the government related obstacles might have an only limited impact on firms' operations.

**Figure 20: Severity of business constraints**



Source: Authors.

Finally, the Mann-Whitney U-test also suggests that there is a significant difference between Vietnamese firms (N=46) and non-Vietnamese firms (N=14) in their perceptions of corruption ( $p=0.0336$ ). Vietnamese firms perceive the severity of corruption more than non-Vietnamese firms do (also refer Figure 17 again). One explanation could be that officials are focusing requests for bribes at local firms as opposed to foreign owned firms as they perceive more risks in dealing with foreign owned firms. Soans and Abe (2016) argue that foreign owned firms have the higher concern of breaking bribery laws in the host country and avoid their involvement in corruption cases with the officials. Again, the number of respondents is relatively small especially for foreign owned firms and therefore the validity of the results could be limited.

This nonparametric analysis shows that high level of severity in corruption, supply of electricity, supply of water, business registration, licensing and permit, and relationships with public authorities are associated with low satisfaction with the overall business environment. Interestingly, the severity of major business obstacles

found in this survey including shortage of skilled labour, access to capital, interest rate, and access to external finance is found to be not significantly associated with the overall business environment. At the same time, it becomes clear that firms are relatively satisfied with government related business obstacles. The series of results leave us a finding that corruption is the only business obstacle that is both closely associated with the overall business environment as well as perceived as a very severe obstacle for their business.

## **5. Conclusion: Implications, limitations, and future studies**

Despite its exploratory nature, the results of the study revealed interesting relationships between the overall business environment and business obstacles in Viet Nam that have important implications for policymakers in facilitating business operations in the country. The study also revealed its limitations and the possible areas for future study.

Corruption and government related activities, such as supply of electricity; supply of water; business registration, licensing and permit; and relationships with public authorities, have negative associations with the level of the overall business environment. The more these obstacles get severe, the less firms tend to be satisfied with the overall business environment. However, it is also found that firms are not as concerned about governmental activities (i.e., supply of electricity; supply of water; business registration, licensing and permit; and relationships with public authorities) as other major business obstacles such as corruption, shortage of skilled labour, and access to finance.

This study has also found some differences from previous studies. The most important finding is that corruption plays a significant role in the Vietnamese business environment, which was not fully supported by the previous studies (cf., Transparency International, 2016b; WEF, 2015; World Bank, 2015). One possible explanation for the notable difference in the impact of corruption is that most previous studies were conducted jointly with the local authorities while this study did not allow their involvement in the survey. With the participation of the authorities in a



survey, it is likely that firms hesitate to report their candid opinion on the level of corruption with the officials and raise it as a crucial business obstacle.

### **5.1. Implications**

Given the fact that corruption is the only business obstacle in this survey that is both associated significantly with the overall business environment and viewed most crucial to business with its “sand the wheel” effect, the Vietnamese public authorities should set tackling corruption among its top priorities. Although Viet Nam’s *2005 Anti-Corruption Law* requires government officials to declare their assets and sets strict penalties for corrupt practices, enforcement remains problematic (U.S. Department of State, 2014). Viet Nam ratified the *United Nations Convention on Anti-Corruption* in 2009 but has not signed the *OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*, and anti-corruption efforts in Viet Nam so far have a limited impact on corruption (U.S. Department of State, 2014). Considering the significance of corruption in the Vietnamese business community, it is necessary for the Vietnamese government to accelerate the anti-corruption campaign and action at the national level.

It turned out that shortage of skilled labour and access to finance, the two most frequently mentioned business constraints in Viet Nam, are also critical in this survey. However, their associations with the overall satisfaction of firms with the business environment are limited and statistically not significant. Yet, it is still important that the government continues its efforts to mitigate the negative consequence of these business constraints.

It is apparent that firms in the survey are not much concerned about governmental activities or services such as quality of utilities compared with other issues: corruption, shortage of skilled labour, and access to finance. However, the quality of those government’s activities and services are linked with the perceptions of business conditions in Viet Nam. These results do not allow the government to ignore the importance of these issues since the results indicate that firms’ perceptions toward the level of governmental activities vary among firms and impact their perceptions toward the business environment significantly. These implications

further suggest that the government undertake tailor-made approaches to improve its activities and services according to the needs of individual firms and industries.

## **5.2. Limitations and future studies**

This study succeeds in raising awareness of the importance of corruption in the Vietnamese business community. However, the study presents some limitations. The sample size of this survey is relatively small, and the rate of missing value for the questions of concern remains relatively high within the range of 22 per cent to 46 per cent. The sample of firms does not accurately represent the target population, firms operating in Viet Nam, in terms of sector, size, location, or nationality. In this survey, more than 40 per cent of firms are from the manufacturing sector while only a few come from the services sector, which accounts for 40 per cent of annual output in Viet Nam (Breu, *et al.*, 2012). Due to these constraints on data size and quality, the validity of the analyses is limited. The results should, therefore, be confirmed by future studies, with larger sample size and broader geographical coverage.

Moreover, it would be useful to conduct follow-up surveys to examine the details of corruption. Firms that most severely suffer from corruption are medium-sized enterprises, in the hotel/restaurant and construction sectors, Hanoi based, and Vietnamese owned. While this study neither closely inspects these sub-categories nor finds the root cause of high-level corruption, a future study may examine, for example, why medium-sized enterprises or the hotel/restaurant and construction sectors are struggling much more with public corruption than other sectors. A survey may also be conducted among major commercial centres throughout the nation to examine geographical deviations on corruption to provide more practical recommendations to the public sector. It is our sincere hope that more research is conducted to identify the problems and find the solutions to eradicate corruption, and other business obstacles, in Viet Nam.

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## Appendix

### Appendix 1: Variable names, measures, and definitions

Variable name	Measure/Definition
Overall business conditions	Rating from 1 (very unfavourable) to 6 (very favourable) on whether overall business conditions in Viet Nam is favourable to the current operations of the firm
Corruption	Rating from 1 (no obstacle) to 6 (very severe obstacle) on whether corruption is an obstacle to the current operations of the firm
Shortage of skilled labour	Rating from 1 (no obstacle) to 6 (very severe obstacle) on whether shortage of skilled labour is an obstacle to the current operations of the firm
Access to capital	Rating from 1 (no obstacle) to 6 (very severe obstacle) on whether access to capital is an obstacle to the current operations of the firm
Interest rate	Rating from 1 (no obstacle) to 6 (very severe obstacle) on whether interest rate is an obstacle to the current operations of the firm
Inadequate access to external finance	Rating from 1 (no obstacle) to 6 (very severe obstacle) on whether inadequate access to external finance is an obstacle to the current operations of the firm
Supply of electricity	Rating from 1 (no obstacle) to 6 (very severe obstacle) on whether supply of electricity is an obstacle to the current operations of the firm
Supply of water	Rating from 1 (no obstacle) to 6 (very severe obstacle) on whether supply of water is an obstacle to the current operations of the firm
Business registration, licensing and permits	Rating from 1 (no obstacle) to 6 (very severe obstacle) on whether business registration, licensing and permit are an obstacle to the current operations of the firm
Tax collection process	Rating from 1 (no obstacle) to 6 (very severe obstacle) on whether tax collection process is an obstacle to the current operations of the firm
Relationships with public authorities	Rating from 1 (no obstacle) to 6 (very

	severe obstacle) on whether relationships with public authorities is an obstacle to the current operations of the firm
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## Appendix 2: Questionnaire form

1. How would you rate the overall business conditions in Viet Nam? Circle the most appropriate.

Very unfavourable			Very favourable		
1	2	3	4	5	6

2. To what degree does each of the following issues present an obstacle to the current operations of your firm? Circle the most appropriate.

	No obstacle				Very severe obstacle	
a. Supply of electricity	1	2	3	4	5	6
b. Supply of water	1	2	3	4	5	6
c. Business registration, licensing & permits	1	2	3	4	5	6
d. Tax collection process	1	2	3	4	5	6
e. Access to capital	1	2	3	4	5	6
f. Interest rates	1	2	3	4	5	6
g. Corruption	1	2	3	4	5	6
h. Inadequate access to external finance	1	2	3	4	5	6
i. Shortage of skilled labour	1	2	3	4	5	6
j. Relationships with public authorities	1	2	3	4	5	6

3. How much would a firm like yours have to offer, in addition to official charges to the authorities, to obtain a business registration, license or permit? Circle the most appropriate range (US dollars).

None	50 USD or less	50 – 100 USD	100 – 500 USD	500 – 1,000 USD	1,000 – 2,500 USD	2,500 - 5,000 USD	5,000 – 10,000 USD	10,000 – 50,000 USD	Over 50,000 USD
1	2	3	4	5	6	7	8	9	10

\* This questionnaire form was distributed in the Vietnamese language.



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