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IDE DISCUSSION PAPER No. 152

Improving the Foreign Direct Investment Capacity of the Mountainous Provinces in Viet Nam

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Abstract

The main purpose of this research is to suggest policies to improve the foreign direct investment attraction capacity in Northern Mountainous Provinces of Vietnam in short and medium-term. Though this region has huge potentials to develop, but poor infrastructure, remote location and bad FDI climate have hindered the FDI inflows. This research focuses on FDI climate factors, pays attention on region's constraints, and suggests policy for three levels consisting of national, regional and provincial levels.

Keywords: international investment, long-term capital movements

JEL: F21, O18

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1. Introduction

Foreign direct investment (here and below will be abbreviated as FDI) may bring positive externalities to economic development in host economies. Nevertheless, Việt Nam's Northern Mountainous Provinces have attracted little FDI, in both registered and implemented volumes as well as in number of projects. There are some causes, including the bad FDI climate there.

The purpose of this paper is to investigate how the bad FDI climate can affect the FDI attraction performance in Việt Nam's Northern Mountainous Provinces (here and below will be abbreviated as NMPs). The reason for choosing mountainous provinces in the North Việt Nam is my experience in field studying in this region.

Though in this paper, I would like to suggest some measures to improve the FDI attraction capacity in NMPs, the impetus for the paper, however, did not come from the belief that FDI inflows can help narrow the development gap between NMPs and provinces in delta regions of Việt Nam. Due to limitation of space, a discussion of all FDI attraction measures is not possible here. I am not concerned in this paper with measures those which attract FDI inflows into NMPs may distort the resource allocation in whole nation economy such as a massive investment on transport infrastructure in the region. Besides, measures which help attract FDI inflows but those inflows do not bring positive impact to the region's economy are also not be discussed.

This paper is a qualitative study and includes three parts in which the first part will illustrate the background on NMPs including their real situations of FDI attraction performance. The part will review how poor is the FDI attraction performance situation in NMPs by volume, sector, and types of FDI.

The main objective of the second part is to answer the question of what factors in the region are the causes of that poor performance with focusing attention on the FDI climate in the region. I am accepting the Asian Development Bank's definition that "FDI climate" includes FDI environment and FDI regimes (policies).

The third part of this paper will present some policy suggestions on how to attract more quality FDI into the region. I am using the quality FDI term to refer those FDI have positive impact on economic development in NMPs. All suggested measures are for the short- and mid-term period and toward three levels including national (or central government), regional and provincial ones. Some valuable lessons from Okinawa Prefecture of Japan in investment attraction are also introduced in the third part.

2. Background on Northern Mountainous Provinces

(1) General Background

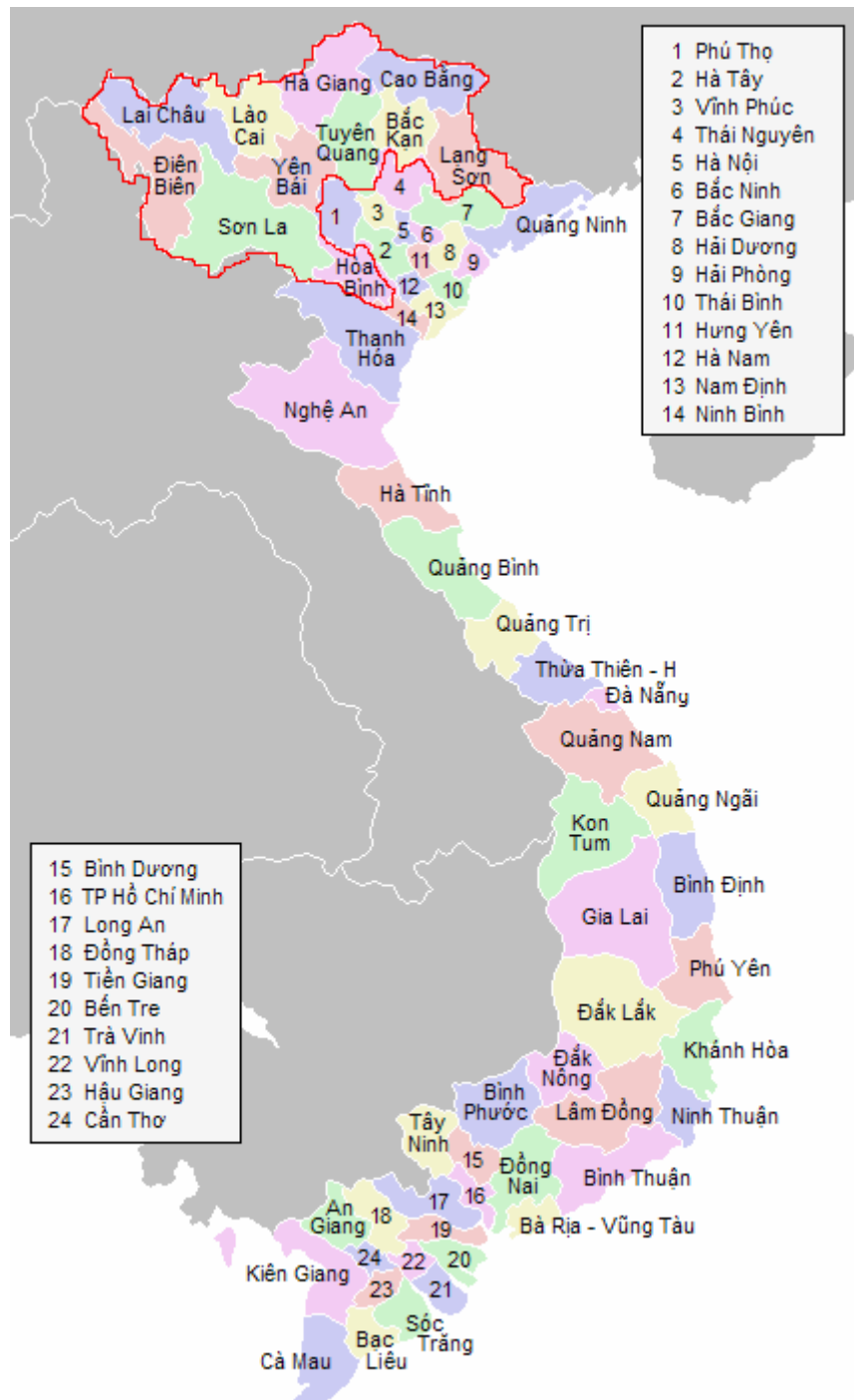
The NMPs include eleven provinces that are averagely 500 meters above the sea level. Except Hòa Bình, they all remote from Hà Nội, the commercial center in the North Việt Nam. Seven of them are bordered with People's Republic of China or Lao People's Democratic Republic. The NMPs are characterized by the rugged upland terrain, poor infrastructure, low levels of urbanization, large ethnic minority population, low population density, incidence of poverty, and importance of the agricultural sector.¹

After twenty years of reforms, Việt Nam achieved some crucial progresses in economic growth and international as well as regional economic integration. People's living standards in every region have been raised. The development gaps between the upland regions and delta regions and between the Kinh ethnics and other ethnics, however, have been widened. The monthly per capita expenditures by 1996 in the Southeast region (Hồ Chí Minh city and surround provinces) and Hồng river delta region are 1.9 and 1.3 times respectively higher than those in Northern mountainous and hilly region. The gap increased to 2.5 and 1.7 respectively between two most developed regions and the Northwest region.² Other researches such as Takahashi (2007) and Baultch et al (2001) also reveal this development gap widening trend between regions in Việt Nam. It should be noted that if three wealthier hilly provinces of Bắc Giang, Phú Thọ and Thái Nguyên as well as the coastal Quảng Ninh (which in fact is in the Northern pivotal economic area) are excluded so that only eleven NMPs left, then the gap between regions will be larger.

¹ International Food Policy Research Institute and Japan Bank for International Cooperation (2003).

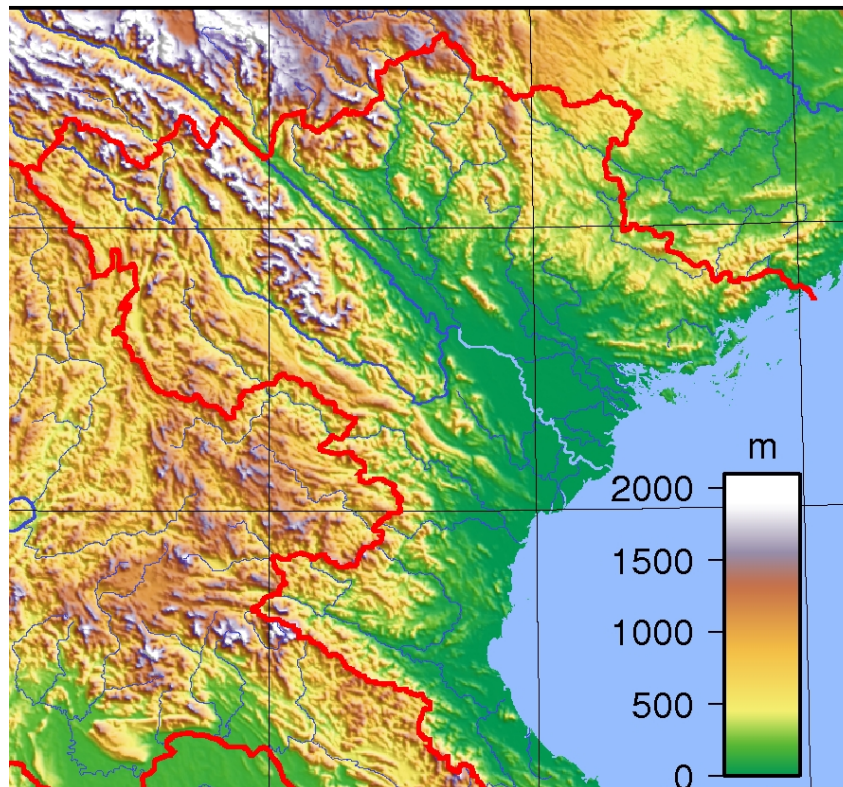
² Calculation by the author based on data from the GSO (1999) and GSO (2004).

Map 1: Administrative map of Vietnam with Northern mountainous provinces are bounded by the thin line



Source: Wikimedia Commons (the image is released into the public domain)

Map 2: Topographic map of Vietnam



Source: Wikimedia Commons (the image is released into the public domain)

According to a clarification by Việt Nam's Government in 2006, provinces of Bắc Kạn, Cao Bằng, Điện Biên, Hà Giang, Lai Châu and Sơn La are members of the group of provinces in serious difficult socio-economic conditions. Lào Cai province with exception of Lào Cai city is also in that group. Other NMPs have their districts (second tier of local government in Việt Nam, below province) are in difficult or in serious difficult socio-economic conditions.³

Believing that income and standard living gaps may result in potential ethnic conflicts that in turn cause political instabilities and erode the national security and so block the sustainable progress and the long-run economic development, Việt Nam's Government pay its concern with accelerating the economic growth in NMPs. The political report of Central Committee of Communist Party of Việt Nam in its tenth national congress confirmed the necessary of sustainably and fast advancing the mountainous regions through policy measures such as investment in infrastructure, human resource building, investment in economic sectors and establishments, especially the manufacturing sector.

³ See the Appendix II of Decree No. 108/2006/NĐ-CP.

Table 1

Indexes on Northern Mountainous Provinces

Provinces (11)	Population (thousand persons in 2006)	Population density (persons/square d km in 2006)(*)	Number of ethnic groups	Share of ethnic peoples not Kinh (percent, in 1999)(**)
Bắc Kạn	301.5	62	23	86.7
Cao Bằng	518.9	77	28	95.32
Điện Biên	459.1	48	23	83.14
Lai Châu	319.9	35		
Hà Giang	683.5	86	22	87,9
Hòa Bình	820.4	175	30	72.27
Lạng Sơn	746.4	90	28	n.a
Lào Cai	585.8	92	27	66.82(***)
Sơn La	1,007.5	71	12	82.58
Tuyên Quang	723.3	125	23	51.79(***)
Yên Bái	740.7	107	34	46

Source: 1) GSO (2007), Vietnam Statistical Yearbook 2006.

2) Official website of Committee for Nationalities at

<http://www.cema.gov.vn/modules.php?name=Content&mcid=2035>

Note: (*) For comparison, the national average population density in 2006 is 254 persons/squared km.

(**) The Kinh people (or Vietnamese people) are the majority ethnic group of Vietnam, comprising 86% of the population as of the 1999 census.

(***) However, King people are still the largest group in these provinces.

(2) FDI Attraction Performance

NMPs believe that the major obstacles to their FDI attraction are the under-development and mal-planning of transport infrastructure. Therefore, beside of national policy on FDI, NMPs commit to implement their own support measures and incentives such as support on land clearing, urban infrastructure development, labor training, trade promotion, simplification of administrative procedures, information, consultation and fiscal incentives including the lower land price and lower corporate income tax rates (even tax exemption).

How is the real situation of FDI attraction performance in NMPs? The answer is that NMPs have achieved the poorest performance in comparison to other regions of Việt Nam.

Up to October 2007, there are 116 FDI projects are registered in NMPs with capital volume of

588.151.474 US dollars. The share of NMPs in whole nation is only 1 percent by number of projects and 0.3 percent by capital volume. The disbursed capital volume, however, is only 114,702,079 US dollar or 0.45 percent of total Việt Nam's disbursed volume or 19.5 percent of NMPs' registered volume.

Table 2

List of provinces by accumulated actual FDI amount (1988-October 2007, in US dollar)

Rank in country	Province	Number of project	Accumulated approved	Accumulated actual
1	Ho Chi Minh	2,378	15,601,546,370	6,598,373,503
2	Dong Nai	863	10,040,979,826	4,224,935,132
3	Ha Noi	938	11,115,836,459	3,944,997,936
4	Binh Duong	1,480	7,299,413,490	2,095,455,157
5	Ba Ria-Vung Tau	159	6,111,349,896	1,354,919,334
6	Hai Phong	261	2,498,801,921	1,277,583,463
7	Thanh Hoa	29	739,132,144	477,796,460
8	Quang Ninh	91	651,042,560	448,750,850
9	Long An	160	1,699,683,294	443,948,767
10	Vinh Phuc	139	1,866,195,001	441,526,996
11	Hai Duong	163	1,674,830,423	438,120,480
12	Kien Giang	10	457,358,000	397,410,402
13	Khanh Hoa	76	573,166,086	377,606,029
14	Tay Ninh	144	538,587,853	244,555,223
15	Tien Giang	14	115,366,723	218,554,982
16	Ha Tay	71	1,305,025,048	218,528,786
17	Phu Tho	41	313,217,987	205,655,466
18	Bac Ninh	99	770,007,501	194,541,428
19	Da Nang	105	1,354,395,789	185,866,590
20	Thua Thien-Hue	40	791,439,810	172,675,618
21	Hung Yen	108	587,281,890	138,704,141
22	Phu Yen	38	275,576,438	123,827,280
23	Nghe An	20	262,175,001	112,515,923
24	Binh Dinh	28	365,586,000	88,946,832
25	Lam Dong	92	318,397,045	88,897,749
26	Quang Nam	54	522,871,371	64,624,841
27	Can Tho	44	145,390,361	55,626,805
28	Thai Nguyen	16	293,205,472	52,653,325
29	Bac Lieu	7	34,142,476	38,905,652
30	Gia Lai	9	74,934,616	33,925,540
31	Binh Thuan	54	245,407,183	33,161,940
32	Hoa Binh	16	62,060,391	32,155,192
33	Quang Binh	4	32,333,800	25,490,197

Rank in country	Province	Number of project	Accumulated approved	Accumulated actual
34	Son La	7	25,620,000	25,095,898
35	Lao Cai	31	300,502,040	23,536,321
36	Dak Lak	2	16,668,750	21,902,000
37	Lang Son	30	98,593,876	20,754,810
38	An Giang	4	15,161,895	20,460,534
39	Binh Phuoc	54	171,504,440	19,376,506
40	Vinh Long	12	50,995,000	14,276,630
41	Nam Dinh	15	74,699,022	14,047,500
42	Bac Giang	41	86,165,820	13,925,893
43	Quang Ngai	14	1,124,528,689	12,026,572
44	Ha Nam	16	112,459,490	11,007,156
45	Tra Vinh	12	43,937,701	10,797,147
46	Ninh Thuan	14	143,125,566	9,459,281
47	Ben Tre	9	34,969,048	8,308,621
48	Ninh Binh	12	469,214,910	7,665,143
49	Kon Tum	2	10,130,000	7,428,043
50	Yen Bai	7	17,147,688	7,213,631
51	Quang Tri	13	47,759,500	6,238,840
52	Dak Nong	5	15,499,000	6,224,738
53	Thai Binh	20	105,808,921	6,180,326
54	Bac Kan	6	17,572,667	3,220,331
55	Soc Trang	5	24,583,000	3,055,617
56	Dong Thap	13	36,113,037	2,700,741
57	Ha Tinh	10	41,695,000	1,745,000
58	Cao Bang	11	19,600,812	1,200,000
59	Hau Giang	5	630,763,217	1,054,000
60	Ca Mau	3	1,875,000	933,322
61	Ha Giang	3	15,925,000	900,625
62	Lai Chau	2	3,000,000	496,271
63	Dien Bien	1	129,000	129,000
64	Tuyen Quang	2	26,000,000	0

Source: Department of Foreign Investment, Ministry of Planning and Investment of Vietnam.

Listing in descending all sixty four provinces in Vietnam by disbursed FDI capital volume, NMP divided into two groups, one in the bottom including eight provinces of the list and one in the middle including three provinces (Hòa Bình, Lạng Sơn and Lào Cai). At first glance, one may think that Sơn La is in the middle group by disbursed volume, but when the number of project is also considered this province is in the bottom group.

All FDI projects in Bắc Kạn, Điện Biên, Lai Châu and Tuyên Quang are in mining sector. Hà Giang and Sơn La also have attracted some mining FDI project. Cao Bằng and Yên Bái, however, have not successfully attracted any mining project though these provinces have abundant of mineral resources.

Agricultural (including foresting and fishing) sector plays an important role in NMPs' economies, but there are few projects in this sector. Five of NMPs even have not successfully attracted any agricultural project.

It seems that the heavy industry and chemistry (including electronics and automobiles assembling) is the most FDI attractive sector in NMPs. Lạng Sơn and Lào Cai have attracted a number of project related to electronics and automobiles assembling. Hòa Bình has attracted five Japanese FDI projects in electronic devices and precious machine tools manufacturing.

Table 3

FDI Projects in NMPs by Province and by Sector
(up to 10/2007)

	Bắc Kạn	Cao Bằng	Điện Biên	Hà Giang	Hòa Bình	Lai Châu	Lạng Sơn	Lào Cai	Sơn La	Tuyên Quang	Yên Bái
Agriculture		3			2		2	4	3		2
Mining	2			1		2	1		2	1	
Light industry		2					2	7			
Food processing		1	1		1		1	4			
Heavy industry		1			5		5	9			
Chemistry								2			1
Construction					2		1	1			1
Service		3		2	3		12	6			
		1									
Cộng	2	11	1	3	16	2	24	33	7	2	7

Source: Department of Foreign Investment (Vietnam's Ministry of Planning and Investment).

In tourism sector, there are few projects. The provinces those have attracted FDI projects in constructing and operating hotels, restaurants, resorts, casino and golf courses are Hà Giang, Hòa Bình, Lạng Sơn and Lào Cai. Other provinces have not successfully attracted any tourism project though Bắc Kạn, Điện Biên, Tuyên Quang and Yên Bái have large potentials in tourism and the last two provinces does not remote from Hà Nội.

In seven border provinces, only Cao Bằng, Lạng Sơn and Lào Cai have attracted some projects in trade and logistics.

Except in the border trade, there are few FDI projects in the important sectors to NMPs' economies such as agriculture, agro-processing and tourism. Even some provinces have not successfully attracted any project in those sectors. In NMPs, only Hòa Bình, Lạng Sơn and Lào Cai are provinces that have attracted FDI in various sectors. Here one can see again two groups in NMPs by attraction performance.

3. Causes of Poor FDI Attraction Performance in NMPs

What local factors cause the poor performance in FDI attraction in NMPs? There are four local factors including the remote location from a commercial center of the country, under developed infrastructure, weak FDI policy and unfavorable FDI environment in comparison with other regions in Việt Nam. The first two factors are quite clear and well documented. Right in NMPs, provinces of Hòa Bình, Lạng Sơn and Lào Cai with more advantage in location and better infrastructure have attracted more FDI. But it is possible that thanks to the advantageous locations and infrastructures, the market economies in those three provinces are more developed and then their FDI environments are better. That are the better FDI environments help the three provinces have attracted more FDI in comparison to other NMPs.

This part will examine the last two factors on FDI climate in the NMPs.

(1) FDI Policy

The shortcomings and weaknesses in FDI policies in the NMPs show in the FDI incentive related indistinct announcement, the amateur FDI promotion activities, the inconvenient approval procedure and lacking of measures to make the approved projects into implementation.

Firstly, the incentive measures are not distinct. Presently, the Government provide incentives by region, sector and by inside and outside the industrial clusters. The Government categorizes districts in the country into those have serious difficult socio-economic conditions, those have difficult socio-economic conditions and those have not difficulties. The investment projects (both domestic and foreign) into first two categories are granted incentives in difference. At the same time, the Government divided economic industries into three groups that include special priority industries, priority industries and others. Investment projects into each group are granted each incentive package respectively. Moreover, investment projects which are inside an industrial cluster will be granted more incentives in comparing with those are outside. Thus one may argue that when conditions for incentive are combined there will be different seventeen cases of incentives granting. The government does not, however, articulate on how investors are granted incentives in each case when several conditions of incentives are simultaneously satisfied. That is why every province has its own interpretation the incentive policy and there is a gap between tax authorities and provincial governments in understanding the policy.

Besides, while the list of districts in difficult or serious difficult conditions and the list of industries in priority or special priority is attached into the Decree No. 108/2006/NĐ-CP (issued in 2006), the regulation of corporate income tax reduction with detailed tax rates is

mentioned in the Decree No. 24/2007/NĐ-CP (issued in 2007) attached to the Law of Corporate Income Tax. This hence is not convenient for investors, especially the foreign investors, in mastering what incentives they are entitled to receive.

All FDI fiscal incentives in Việt Nam are based on corporate income taxes and land using tax and land leasing charge. The corporate income tax is in fact a national tax while land using tax is a local tax. In any case, however, the tax rates are decided by the central government and collected by local tax authorities who are in fact the Government's representatives in locality. Hence even the provincial governments would like to exempt or reduce taxes to attract investment they are not able to do. There are evidences that some FDI enterprises are requested by provincial tax authorities to pay the taxes amounts which provincial governments committed to deduce as incentive granting to enterprises.

The land leasing charge in Việt Nam is calculated as a ratio of land price. Central government controls the land price through a "land price quotation" with reference to geographical characteristics and designated land using purpose. It also constrains the ratio between 0.5 percent and 2 percent.⁴ For that reason, provincial governments only have a small room to use land leasing charge as a FDI incentive measure. The matter, however, is not the land leasing charge but the availability of land leasing as will mentioned below.

Some NMPs have provided local public services under their control with low price to investors. These incentives are not attractive enough because there are few local services under the provincial governments' control.

Several kinds of incentives promised by local governments in Vietnam are labor training support, industrial cluster inside and outside infrastructure development support. But these promises are rarely realized just because NMPs' governments have not fund to do.⁵ Most of NMPs are poorest provinces in Việt Nam, so it is obviously difficult to them to provide those kinds of support. Some provinces think that they can support investors by deducting the enterprises' labor training costs from taxable corporate income. But the tax matters are not, as mentioned above, in the hand of provincial governments. That is why NMPs are not able to provide labor training support to investors. Điện Biên, Lai Châu, Sơn La and Tuyên Quang are worst provinces in Việt Nam in providing labor training support. Other NMPs are not better

⁴ According to the Circular No. 120/2005/TT-BTC and the Circular No. 141/2007/TT-BTC issued by the Ministry of Finance (Việt Nam).

⁵ Nguyễn Bình Giang (2004) demonstrates that every province in Việt Nam depends on fiscal transfer from central government. Many of them have the share of central transfer in total budget revenue larger than 70 percent.

than country median level.⁶

Secondly, there is a lacking of professional FDI promotion policy in NMPs. The provincial governments often depend on central government's FDI promotion mission, but the central government usually proposes most attractive projects in Việt Nam to investors and answers the questions on Việt Nam's business environment in general. Up to now, only Hòa Bình has sent a delegation to Japan and Republic of Korea in 2007 to promote FDI.⁷ Lạng Sơn and Lào Cai have also done some FDI promotion activities at abroad, but they just were within the scope of provincial governments' friendship visits to Yunnan and Guangxi provinces of China. Regarding to FDI promotion measures at home, Lạng Sơn and Lào Cai have established FDI promotion websites in English and Chinese. The Lạng Sơn's web sites are, however, very stub and not updated since 2005 (English version) or 2006 (Chinese version). The Lào Cai's website is still under construction since 2006 up to now. Cao Bằng has established a site in English, but that site is not better than Lạng Sơn's sites.⁸ Other NMPs have no FDI promotion website in foreign language or have those website but in Vietnamese. There are no any earnest activities of FDI promotion by NMPs in other foreign language mass media.

Thirdly, the approval procedures in NMPs are not convenience to investors. Law on Investment allows provincial governments a large jurisdiction in approving almost FDI projects.⁹ This means the provincial governments' approval have a considerable impact on FDI inflows.

⁶ See the survey on Provincial Competitiveness done by the Việt Nam Chamber of Commerce (VCCI) and Industry and the USAID-funded Vietnam Competitiveness Initiative (VNCI).

⁷ <http://www.doanhnghiep24g.com.vn/cms/detail.php?id=18847>

⁸ The Cao Bằng's FDI promotion website has been established in 2005. The amended Law on Corporate Income Tax reduced the tax rate on projects in region like Cao Bằng to 15-20 percent. The website does, however, still announce the old tax rate of 20-25 percent. Moreover, although the tax on remittance of profits aboard by FDI enterprises has been abrogated since 2004, the website does still announce that province government will reduce this tax rate to investment projects in Cao Bằng.

⁹ Except projects in the following domains: 1) (Irrespective of the scale of investment) building and commercial operation of airports; transportation by air; Building and commercial operation of national seaports; Exploration for, exploitation and processing of oil and gas; exploration for and exploitation of minerals; Radio and television broadcasting; Casino business; Production of cigarettes; Establishment of university-level training establishments; Establishment of industrial parks, export processing zones, hi-tech parks and economic zones; Ocean shipping business; Establishment of networks for and provision of postal, delivery, telecommunications and Internet services; establishment of wave transmission networks; Press printing and distribution; publishing; Establishment of independent scientific research institutions; and 2) (having an investment capital of below 1,500 billion Việt Nam Đồng or 94.1 million US dollar) Electricity business; mineral processing; metallurgy; Building of railway, road and inland waterway infrastructure; Production and business of alcohol and beer.

Up to now, there is not any NMPs apply an automatic (on-line) approval procedure. This weakness plus the remote location of NMPs may make foreign direct investors hesitate to registry. The approval procedure in NMPs has also cost times to investors. A survey done by VCCI and VNCI has shown that the average number of days for approving in NMPs is 22 days. In Lào Cai particular, domestic investor needs spend 41 days in average for waiting his investment certificate being approved. For foreign investors the wait time may be much longer.

Fourthly, there are obstacles to bring approved projects into effectuation in NMPs. One of characteristics of FDI attraction in Việt Nam is that the proportion of approved FDI be effectuated is small. There are many causes, but two major causes from Việt Nam side are number of licenses and permits required to operate, difficulties in land accessing. Six of NMPs require a number of licenses and permits larger than the median value of whole country. Four of those six provinces require a number of licenses and permits larger than the third quartile value.

Regarding to the land for investment projects and security of tenure, the survey done by VCCI and VNCI has demonstrated that NMPs are ranked in lower positions by province. Eight of NMPs are in lower than the median value. On land conversation policy, especially, eight of NMPs are ranked lower than the first quartile value. The risk of change in lease contract in Cao Bằng, Điện Biên, Lai Châu and Sơn La are graded higher than the third quartile value. Most of NMPs are criticized on the most inflexibility in adjusting of land using purpose and on the highest risk of expropriation when making a comparison among 64 provinces. Domestic investors in NMPs need wait about from one month to three months for land introduction by provincial governments. It is no doubt that foreign investors may have to wait longer.

Table 4 Ranking of NMPs in the country by labor training services

Rank in the country	Province	Services provided by provincial public agencies-education are good or very good	Services provided by provincial public agencies-vocational training for labor are good or very good	Services provided by provincial public agencies-labor exchange services are good or very good	Locally Established Vocational Schools per 100,000 Citizens	Labor Training Index
	Max	88.52	73.17	74.68	2.09	9.60
12	Lào Cai	73.53	62.14	48.45	1.24	6.46
14	Bắc Kạn	64.91	44.26	32.14	2.03	6.21
	Third quartile	76.94	60.07	56.68	0.96	5.93
	Medium	72.00	55.05	48.77	0.74	5.20
29	Hòa Bình	72.03	52.76	42.98	0.87	5.16
31	Yên Bái	73.68	53.57	48.62	0.69	5.12
32	Cao Bằng	75.34	49.32	34.29	0.98	5.10
	Median	72.73	55.44	48.62	0.71	5.10
35	Lạng Sơn	72.45	46.67	59.00	0.68	5.07
44	Hà Giang	76.79	54.10	46.43	0.30	4.52
	First quartile	69.60	49.88	42.35	0.38	4.27
59	Điện Biên	80.00	48.78	20.51	0.23	3.50
60	Sơn La	67.07	55.81	35.71	0.10	3.44
61	Tuyên Quang	69.32	47.67	41.18	0.14	3.43
64	Lai Châu	50.00	31.25	16.67	0.65	1.99
	Min	50.00	31.25	16.67	0.10	1.99

Note: Statistics consist of maximum, third quartile, medium, median, first quartile and minimum values are for 64 provinces in Việt Nam and are calculated by the author.

Source: VCCI and VNCI (2007).

(2) FDI Environment

FDI environment in NMPs are not favorable as demonstrated in the result of annual surveys done by VCCI and VNCI. NMPs except Lào Cai are of less transparency provinces in Việt Nam. And six of them are of least transparency provinces. The major weakness of NMPs is revealed in their website establishments. There are provinces have not established official websites. Some of NMPs have official websites but it is difficult to access (failing access or taking too long to respond due to the server errors). The websites' contents, especially the information on provincial economies, economic regulation and policies are very stub and rarely updated. The foreign language versions of websites are even worse. Moreover, the unfair in information accessing in NMPs are very high and most of NMPs are ranked below the country median value. Hòa Bình, Lạng Sơn and Yên Bái are provinces where investors claimed that they should considerably depend on families and friends in order to get the necessary information to their doing business. What and who should foreign investors rely on for the information in NMPs?

Concerning to the time cost that investors in NMPs have to bear, Hà Giang, Lai Châu and Sơn La are among top provinces where investors felt time consuming. Working with tax authorities and understanding the regulations are most time consumed. Ten of NMPs are ranked in upper the country median value of number of hours spent for tax inspection. Seven of them are even ranked in upper the country third quartile value.

NMPs' governments are criticized as being not proactive. They, particularly Hà Giang, Lào Cai, Sơn La and Tuyên Quang seldom or even never involve input from enterprises when come up with new law and regulation. Điện Biên and Lạng Sơn are bad in working within central laws and not creative in solving business problems. Weakness legal institutions also contribute to the bad FDI environment in NMPs. Most of NMPs' governments, particularly those of Bắc Kạn, Cao Bằng, Điện Biên, Lào Cai and Tuyên Quang, rarely use legal institutions to resolve dispute related to business.

Table 5 Ranking of NMPs in Country by Entry Cost

Rank in Country	Province	Length of business registration in days	Number of licenses and permits required to operate	Time to receive land using right certificate (Days)	Length of Negotiations to purchase land (Days)	Length of time for land introduction by People's Committees (Median Days)	Effective land wait days	Entry Cost Index
	Max	58.44	7.47	338.91	1087.05	300.00	1318.12	9.17
4	Điện Biên	12.61	3.31	47.17	39.75	30.00	86.92	8.82
6	Tuyên Quang	20.86	2.31	195.08	111.48	45.00	306.57	8.59
14	Lai Châu	20.48	3.83	87.46	77.67	45.00	165.13	7.99
	Third quartile	24.36	4.00	168.92	135.68	90.00	340.15	7.87
22	Lào Cai	41.08	2.71	78.78	195.88	90.00	274.65	7.78
23	Sơn La	21.76	3.94	82.89	87.48	60.00	170.36	7.78
27	Cao Bằng	14.85	6.16	167.75	94.22	80.00	261.97	7.65
	Median	20.34	3.57	121.14	84.37	55.00	231.53	7.39
33	Hà Giang	18.41	6.13	62.07	70.52	30.00	132.59	7.39
	Medium	21.90	3.68	140.74	122.10	64.94	262.84	7.36
38	Bắc Kạn	17.02	4.23	148.75	46.50	60.00	195.25	7.21
40	Yên Bái	37.11	3.05	78.68	76.91	30.00	155.59	7.20
47	Lạng Sơn	20.72	4.12	83.21	156.38	90.00	239.59	6.87
	First quartile	15.95	3.11	83.13	45.53	30.00	153.70	6.84
52	Hòa Bình	19.46	3.11	167.98	177.84	30.00	345.82	6.62
	Min	11.71	2.31	40.26	18.78	10.50	65.03	4.96

Note: Same as Table 4

Source: Same as Table 4

Table 6 Ranking of NMPs in Country by Land Access and Security of Tenure

Rank in Country	Province	Provincial land conversion policies are good or very good	Risk of expropriation (5 = very low)	Compensation values for expropriated land are fair	Risk of change in lease contract (5 = very low)	The process for disputing changes in lease contracts is fair	Length of land using right certificate in years	Land access and security of tenure index
	Max	82.14	3.05	58.33	4.00	69.70	108.30	7.98
13	Hòa Bình	36.75	2.84	58.10	3.50	50.00	68.70	6.57
	Third quartile	64.35	2.72	44.76	3.33	53.71	78.10	6.37
19	Yên Bái	52.04	2.71	55.67	3.43	69.70	70.43	6.32
26	Hà Giang	46.15	2.27	46.43	3.07	56.25	76.42	6.19
	Median	53.45	2.49	40.00	3.10	44.44	70.56	6.00
36	Sơn La	64.10	2.53	40.26	2.83	17.39	77.07	5.94
38	Lào Cai	78.89	2.31	41.18	3.52	40.00	84.49	5.93
	Medium	55.10	2.53	39.90	3.16	42.67	72.28	5.92
42	Điện Biên	40.00	2.22	42.42	2.92	23.08	75.38	5.72
	First quartile	46.47	2.39	34.08	2.93	33.90	65.40	5.53
52	Tuyên Quang	33.73	2.75	43.86	3.16	68.42	78.29	5.13
57	Cao Bằng	36.36	2.53	30.00	2.81	50.00	71.64	4.83
61	Lạng Sơn	38.64	2.26	35.53	3.08	20.59	68.42	4.39
62	Bắc Kạn	34.62	2.41	27.27	3.19	34.78	77.78	4.34
64	Lai Châu	41.94	1.96	58.33	2.80	20.00	38.34	3.84
	Min	33.73	1.95	21.43	2.55	0.00	38.34	3.84

Note: Same as Tables 4, 5

Source: Same as Tables 4, 5

4. Improving the FDI Attraction Capacity in NMPs

(1) Defining the constraints in NMPs

There are two major constraints to NMPs in attracting FDI: they lack of some necessary resources, and they have advantages in only some but not all sectors in comparison with other provinces in Việt Nam. The constraints imply that if NMPs spread their resource to attract FDI into all sectors, then the efficiency of FDI attraction will be low.

NMPS are among poorest provinces in Việt Nam. Due to the small tax bases, NMPs' budget revenues are so small and the central government has to transfer a part of its revenue to provincial governments. It has been shown in Nguyễn (2004)'s study that the local tax revenue can meet only about from one tenth to one seventh of local expenditure needs and the gap is must to be financed by intergovernmental fiscal supplements. In this situation, the lowering land leasing charge is obviously not a clever policy because it will reduce the provincial revenue and make NMPs depend further on the transfer from central government. It is difficult for the NMPs, due to the same reason, to support investors through inside and outside industrial cluster infrastructure development. Lowering the price of local public services under the control of provincial governments is also a policy that deteriorates the NMPs' budget revenues and do not bring much benefits to investors. UNCTAD has summed up experiences on using incentives in the world and suggested to take various cost aspects into account.¹⁰ The NMPs should use incentives for the sake of encouraging enterprises to diffuse the technologies, to employ more labors and not to harm the environment.

Another resource constraint which NMPs face is the shortage of quality human resource, especially at the management level. Talents tend to work at the centers of the country, while NMPs are remote from those centers. This constraint hinders NMPs from efficiently promoting FDI.

Because the investors love profits, they will choose to invest into the location which brings them the highest rate of profit. In other words, if a project in NMPs does not bring to them higher rate of profits than in other provinces, investors will not choose NMPs to invest in. Unfortunately, not in all sectors NMPs have advantage so that can brings the highest rate of profit to investors. Attempts to attract investors into disadvantage sectors may result in wasting scared fiscal and human resources in NMPs.

On the other hand, due to various causes both from the host sides and the donor sides, not all FDI projects can bring positive externalities to host economies. Some projects even

¹⁰ UNCTAD (2003).

Table 7 Ranking of NMPs in Country by Transparency

Rank in Country	Province	Access to Planning Documents	Access to Legal Documents	Relationship is necessary	Families and friends are important	Negotiations with tax officials are an essential part of doing business	Predictability of local implementation of laws	Provinces discuss regulatory changes with firms	Services provided by provincial agencies consulting on regulatory information	Web-site Index	Transparency Index
	Max	0.68	0.35	77.14	82.35	86.96	37.88	20.90	60.94	18.00	11.61
1	Lào Cai	0.684	0.112	67.86	58.56	58.42	19.27	20.72	56.07	15	11.61
2	Hà Giang	0.418	0.266	72.73	53.03	58.73	37.88	20.90	52.38	0	11.11
5	Yên Bái	0.255	0.276	65.12	51.18	55.74	15.75	18.94	49.59	7	9.15
13	Lạng Sơn	-0.095	0.141	61.67	50.00	56.19	11.30	15.00	51.40	8	8.04
15	Hòa Bình	0.259	0.026	70.86	52.38	61.31	15.28	14.47	51.11	5.5	7.98
	Third quartile	0.17	0.12	66.24	62.25	67.69	12.46	11.81	53.21	13.00	7.89
	Median	-0.02	0.01	62.50	57.21	61.05	9.49	8.84	48.05	9.00	7.33
	Medium	0.00	0.00	61.65	57.79	62.21	10.24	9.17	47.34	9.16	7.18
37	Sơn La	0.296	-0.021	64.36	61.62	61.05	17.17	15.69	45.98	0	7.04
40	Cao Bằng	-0.016	-0.011	71.43	64.37	61.84	16.28	6.90	41.56	7	6.99
46	Tuyên Quang	0.124	0.048	68.87	61.17	47.83	12.87	13.33	54.84	0	6.57
48	Điện Biên	0.033	-0.390	66.04	70.00	52.17	11.32	7.69	45.24	7	6.23
	First quartile	-0.14	-0.14	58.61	52.73	54.84	7.00	6.65	43.58	7.00	6.22
60	Bắc Kạn	0.167	-0.237	66.67	59.42	66.67	10.29	9.59	43.55	0	5.00
61	Lai Châu	0.290	-0.354	77.14	82.35	68.75	17.65	5.71	29.41	0	4.74
	Min	-0.40	-0.45	31.48	37.74	47.17	2.76	0.00	24.49	0.00	2.50

Note: Same as Tables 4, 5, 6

Source: Same as Tables 4, 5, 6

Table 8 Ranking NMPs in Country by Time Cost

Rank in Country	Province	Time reduced since Law on Enterprise	Median number of inspections	Median hours of tax inspections	Inspections reduced since Law on Enterprise	Time costs and regulatory compliance Index
	Max	60.87	2.00	40.00	73.91	7.12
5	Yên Bái	45.61	1.00	15.00	56.10	5.70
11	Lạng Sơn	48.91	1.00	8.00	46.30	5.17
14	Hòa Bình	47.62	1.00	12.00	47.73	5.02
	Third quartile	45.05	1.00	12.13	50.17	4.93
28	Cao Bằng	38.03	0.00	12.50	43.24	4.70
29	Bắc Kạn	45.28	1.00	8.00	55.00	4.60
	Medium	41.10	1.05	9.23	45.51	4.47
	Median	41.72	1.00	8.00	45.52	4.42
36	Lào Cai	45.26	1.00	24.00	46.43	4.33
43	Điện Biên	44.44	1.00	16.00	34.62	4.19
44	Tuyên Quang	53.93	1.00	30.00	28.07	4.09
	First quartile	36.36	1.00	4.00	37.82	3.89
56	Sơn La	41.86	1.00	24.00	36.21	3.50
58	Hà Giang	43.08	1.00	16.00	37.78	3.44
62	Lai Châu	48.28	2.00	4.00	30.43	3.06
	Min	23.94	0.00	1.00	28.07	2.64

Note: Same as Tables 4, 5, 6, 7

Source: Same as Tables 4, 5, 6, 7

Table 9 Ranking NMPs in Country by Pro-activity of Provincial Governments

Rank in country	Province	Province is good at working within central laws	Province is creative and clever in solving business problems	Good initiatives at provincial level but center frustrates	No initiatives at provincial level, all policies come from center	In coming up with new law & regulation, provincial government never/seldom involves firm input	Pro-activity Index
	Max	93.48	88.64	61.54	48.84	83.70	9.08
8	Lào Cai	90.74	81.13	38.95	21.43	46.48	6.59
10	Yên Bái	85.48	74.17	28.57	20.54	60.00	6.38
	Third quartile	82.42	69.92	34.03	39.20	66.17	5.90
	Medium	74.35	62.69	29.84	32.38	61.96	5.00
30	Hà Giang	83.33	59.09	32.76	31.48	51.59	4.92
	Median	74.44	61.88	29.07	32.88	62.48	4.85
38	Hòa Bình	81.56	63.43	22.95	40.63	61.46	4.61
40	Tuyên Quang	72.92	64.89	16.85	26.14	56.44	4.57
42	Cao Bằng	70.27	57.35	26.47	39.13	67.07	4.38
43	Sơn La	77.32	66.32	24.71	39.13	54.93	4.37
44	Lai Châu	70.97	62.50	22.58	41.94	67.42	4.32
	First quartile	67.65	54.51	23.67	26.05	57.83	4.14
51	Bắc Kạn	71.43	60.34	19.30	39.66	62.60	4.02
58	Lạng Sơn	67.65	46.94	19.78	44.79	66.67	3.30
59	Điện Biên	60.42	54.35	30.23	46.34	59.22	3.24
	Min	51.61	40.00	16.04	14.63	45.71	2.36

Note: Same as Tables 4, 5, 6, 7, 8

Source: Same as Tables 4, 5, 6, 7, 8

Table 10 Ranking NMPs in Country by Legal Institutions

Rank in country	Province	Legal system provided mechanism for firms to appeal officials' corrupt behavior	Provincial gov't would uphold firm's contracts and property rights in business dispute	Use of Legal Institutions to Resolve Dispute	Legal Institutions Index
	Max	41.46	94.32	208.87	6.55
1	Bắc Kạn	24.59	80.70	70.24	6.55
14	Lai Châu	34.48	84.38	94.44	4.05
	Third quartile	27.21	88.25	115.59	4.01
17	Bac Giang	30.51	88.33	78.22	4.00
23	Yên Bái	22.22	91.60	95.19	3.81
	Medium	23.78	83.38	98.29	3.77
31	Lạng Sơn	18.37	80.00	102.63	3.65
32	Sơn La	31.76	83.51	76.69	3.63
	Median	23.22	83.99	94.82	3.63
35	Hòa Bình	18.94	91.11	88.19	3.62
39	Lào Cai	26.53	88.35	65.95	3.52
41	Tuyên Quang	26.67	87.23	69.96	3.50
	First quartile	19.51	80.00	76.26	3.30
54	Cao Bằng	21.33	88.24	53.43	3.07
55	Hà Giang	26.23	79.37	77.08	3.04
58	Điện Biên	27.91	82.22	47.51	2.99
	Min	11.25	67.03	47.51	2.13

Note: Same as Tables 4, 5, 6, 7, 8, 9

Source: Same as Tables 4, 5, 6, 7, 8, 9

Table 11 Ranking NMPs in Country by Business Environment

Rank in country	Province	Entry Costs	Land Access and Security of Tenure	Transparency and Access to Information	Time Costs and Regulatory Compliance	Informal Charges	SOE Bias (Competition Environment)	Pro-activity of Provincial Leadership	Private Sector Development Services	Labor Training	Legal Institutions	Weighted PCI
	Max	9.17	7.98	8.50	7.12	8.35	8.40	9.08	9.62	9.60	6.55	76.23
6	Lao Cai	7.78	5.93	7.80	4.33	6.78	8.40	6.59	7.01	6.46	3.52	64.11
12	Yen Bai	7.20	6.32	5.99	5.70	6.90	8.30	6.38	4.49	5.12	3.81	56.85
	Third quartile	7.87	6.37	6.07	4.93	6.79	7.04	5.90	5.90	5.93	4.01	55.96
	Medium	7.36	5.92	5.34	4.47	6.36	6.59	5.00	5.19	5.20	3.77	52.45
	Median	7.39	6.00	5.43	4.42	6.33	6.48	4.85	4.88	5.10	3.63	52.21
41	Hoa Binh	6.62	6.57	5.13	5.02	7.39	7.30	4.61	3.51	5.16	3.62	50.17
43	Lang Son	6.87	4.39	5.65	5.17	6.21	6.50	3.30	5.20	5.07	3.65	49.64
45	Bac Kan	7.21	4.34	3.18	4.60	6.47	7.04	4.02	3.28	6.21	6.55	48.73
46	Ha Giang	7.39	6.19	5.03	3.44	6.01	6.44	4.92	4.87	4.52	3.04	48.49
	First quartile	6.84	5.53	4.62	3.89	6.00	6.17	4.14	4.31	4.27	3.30	47.74
50	Tuyen Quang	8.59	5.13	4.04	4.09	6.47	7.02	4.57	5.30	3.43	3.50	47.21
51	Cao Bang	7.65	4.83	4.62	4.70	6.30	7.44	4.38	3.07	5.10	3.07	46.63
55	Son La	7.78	5.94	3.95	3.50	5.82	7.40	4.37	4.65	3.44	3.63	45.22
60	Dien Bien	8.82	5.72	4.38	4.19	6.45	5.60	3.24	3.42	3.50	2.99	42.28
64	Lai Chau	7.99	3.84	2.46	3.06	5.20	7.10	4.32	2.96	1.99	4.05	36.76
	Min	4.96	3.84	2.15	2.64	5.05	4.70	2.36	2.40	1.99	2.13	36.76

Note: Same as Tables 4, 5, 6, 7, 8, 9, 10

Source: Same as Tables 4, 5, 6, 7, 8, 9, 10

bring in negative impacts.¹¹ The technology gap should also be taken into account when

NMPs expect technology diffusion from FDI enterprises. The larger the gap is, the more difficult the technologies are diffused. All of NMPs are, in fact, technologically backward provinces in Việt Nam.

Hence it is necessary for NMPs to concentrate their resources to attract FDI into those sectors characterized by the potentially high profitability to investors, the positive impact to local economies, and the need of FDI to develop. If domestic investment can considerably contribute to the development of certain sectors, it is no need to attempt to attract FDI because FDI attraction is more difficult and more costly than domestic investment attraction.

The Strategy for Social-Economic Development 2001-2010 by Communist Party of Việt Nam names several 'pivotal' sectors that Northern mountainous and hilly provinces have comparative advantages and being drivers for accelerating the economic development in these regions. They are mining and agro-processing industries, services, and border gate economy. In order to realize this guideline under many constraints faced by NMPs, the region should concentrate further on specific industries. Based on endowments and potentials in NMPs, those industries include fruits and vegetable planting and processing, industrial crops and trees for woods; brocade textile, bamboo and rattan handicrafts; motorbike and electronics goods assembling as well as textile and garment; eco- and trekking and cultural tourism, border trade, logistics, industrial cluster and economic zone infrastructure development. Mining and mineral processing industry development should be taken carefully into account. If NMPs attract investors with no eco-friendly technologies, then their ecosystem and scenery may be harmed which in turn bring adverse impacts to their agriculture, agro-processing and tourism developments. Attempts to attract investors with eco-friendly technologies in mining and mineral processing may not get results because applying those technologies will raise the production costs and hence make NMPs be not attractive anymore.

While these specific industries are still in its infancy and have abundant endowments and hence can bring high profits to investors, they are labor intensive industries that are necessary to NMPs. In order to develop them, however, not only capitals are needed but also technologies and management skills which domestic investors may not be able to provide. In tourism, the construction and operating hotels

¹¹ See International Institute for Sustainable Development (2002), Moran Th. H., Graham E. M. and Blostrom M. (2006).

and resorts are projects that require large capitals and management know-how. In order to develop agriculture, forestry and agro-processing industry, NMPs need new varieties and breeders, cultivating and rearing technologies as well as know-how, preserving and processing technologies for organic and safety products, marketing skills. In NMPs' traditional handicraft industry, there is a need of combination between modern and traditional technologies as experiences from traditional handicraft industry development in Okinawa Prefecture of Japan. The textile process includes fabricating, dyeing and sewing stages. In the case of brocade textile, the first and last stages are in traditional way, but the dyeing stage should be modernized. Meanwhile, the bamboo and rattan arts need modern technologies in material processing, designing, figuring, varnishing, wrapping and marketing stages. Industrial cluster and economic zone infrastructure development require large capitals and planning. The need for attracting FDI into these industries, for that reasons, is obvious.

What types of FDI should be concerned to attract into these industries? There are three types of FDI by motives may show their interests into industries in NMPs including resource-seeking FDI, efficiency FDI and market-seeking FDI.

According to UNCTAD (2003), the factors that attract resource-seeking FDI include the raw material sources, low-skilled but cheap labors, skilled labors, created assets, investment platforms (such as industrial clusters, communication networks, negative lists, and FDI-related regulations). NMPs are endowed with abundant agricultural and forestry resources, wonderful eco- and minority ethnic cultural tourism sites, and cheap labors. They are, however, lack of skilled labors and investment platforms. Resource-seeking FDI may come from both developed and developing economies and may go into agriculture, forestry and mining in NMPs.

Efficiency-seeking FDI are attracted by the low costs for inputs, for taxes and for waste treatments. While the cost related to materials, labors and taxes are low in NMPs, other costs such as land accessing, electricity, telecommunication, transaction fees and other informal charges are still high. Efficiency-seeking FDI may go into manufacturing, agriculture and agro-processing industries.

For the last type of FDI, crucial factors that affect their investment decisions are the infancy or huge markets accessing possibility. Several sectors in NMPs are quite infancy markets such as tourism, infrastructure development, logistics, etc. Besides, NMPs are bordered with China's huge market and Lao PDR's infancy market which are opportunities to market-seeking investors. There are ten border gate economic zone

where investors are provided preferences and incentives.^{12, 13} There are also two sub-regional transport (and economic in planning) corridors connect Yunnan and Guangxi of China to Northern Vietnam and the South China Sea. One of them, the Kunming-Haiphong Corridor funded by Asian Development Bank and Japan Special Fund is fast developed. The major obstacles to market-seeking FDI attraction in NMPs are, however, the custom procedures that take long and result in some informal cost to investors.¹⁴ Market-seeking FDI tends to go into manufacturing, tourism, trade and logistics. It rarely goes into other service industries such as financial services in NMPs.

As Nunnenkamp and Spatz (2003) points out, a favorable business environment is a necessary in order to attract effectively market-seeking and efficiency-seeking FDI into manufacturing sector and make them have positively impacts to local economic development. This research concludes that efficiency-seeking FDI will bring more impact to growth of manufacturing sector than market-seeking. Besides, positive growth effects of FDI are more likely when the technological gap is relatively small. This implies that NMPs should concentrate their scarce fiscal and human resources to promote FDI from countries or foreign enterprises those have or agree to transfer technologies that catchable to NMPs.

(2) Policy Suggestions to Central Level

Under the current decentralization in Việt Nam, in order to NMPs can attract FDI more efficiently, the central government should clarify concretely the FDI incentives scheme for investors in NMPs. It is necessary to issue a separate legal document which mentions on what incentives the investors entitled to receive when bringing their capitals, technology and management skills into NMPs, into national priority sectors in NMPs, into particular priority industries of NMPs, and into industrial clusters or economic zones in NMPs. Vietnam can refer the experience from China and Thailand. In Thailand, the Board of Investment issued the “Policies and

¹² For details, see the Decision No. 53/2001/QĐ-TTg by Việt Nam’s Primer Minister on policies toward border gate economic zones, the English translation is available on-line at http://www.dncustoms.gov.vn/web_Eglish/english/nghi_dinh/QD_53_2001_QD-TTg.htm

¹³ Lạng Sơn has two and Cao Bằng has three border gate economic zones. Each of Điện Biên, Hà Giang, Lai Châu, Lào Cai and Sơn La has one while other provinces has not any border gate economic zone due to being not border provinces.

¹⁴ Further readings on this matter include two articles in *Lao Động Newspaper* (available on-line at <http://www.laodong.com.vn/Home/kinhte/2007/7/45031.laodong>) and *Tuổi Trẻ Newspaper* (available on-line at <http://vnmedia.vn/NewsDetail.asp?Catid=26&NewsId=96143>).

Criteria for Investment Promotion” in 1993. Criteria are clearly clarified and attached by summary matrix table that is easy to read and understand. In China, the National Development and Reform Commission and the Ministry of Commerce jointly issued the Catalogue of Priority Industries for Foreign Investment in the Central and Western Regions in 2000 and amended this Catalogue in 2004.

Technical colleges and junior colleges are important labor training establishments in provinces. The set up and management of these colleges, however, are of the authority by central government. Hence the establishing public technical colleges and junior colleges as well as facilitating private colleges in NMPs will be necessary institutional measures at national level to support NMPs in attracting investment including FDI. The central government should attach special importance to colleges for training of tour guides, hotel restaurant staffs with specialization to serve in cultural and eco-tourism. Presently, there is no such college in NMPs while the demand quality for this labor force is big and will bigger if FDI inflows to tourism sector in the region.

An important measure that likely actuates FDI into NMPs is transport infrastructure development, especially the national as well as provincial highways. Due to the designing, implementation and funds for these highways are expenditure assignments of central government under the current fiscal decentralization scheme in Việt Nam, the progress and quality of highway development projects in NMPs should be particularly noticed by the central government. Telecommunication infrastructure is also very crucial to tourism development, hence it is a precondition to attract FDI into the sector as well other service sectors in NMPs.

Above two measures shouldered by central government will bring considerable positive impacts to not only FDI attraction but also economic development in NMPs. While the infrastructure development requires long implementation time and huge funds which Việt Nam currently depends on official development assistants by foreign governments and international financial institutions, the skilled labor training college development is at comparatively low cost. Besides, because of the large gap in humane resource endowments between NMPs and the flat provinces, investment for labor training will less distort the resource allocation among regions in attach special importance Việt Nam than the infrastructure development does.

The Department of Foreign Investment (Ministry of Planning and Investment) should improve its FDI promotion structure. Presently, the Department has a Northern center for FDI promotion which promotes FDI into twenty one provinces in North Việt Nam including mountainous provinces as well as hilly and flat provinces. In order to more efficiently promote FDI into NMPs, there is a necessary to improve the

specialization and concentration in promotion by setting up a separate promotion center for particular NMPs under the Department.

(3) Policy Suggestions to Regional Level

The rationale for regional level policies is the scarce fiscal and human resource in NMPs so that they should join their resources to attract FDI.

Teaming up to promote FDI is the most important regional policy. Each individual of NMPs has not enough suitable human resource to promote FDI. Though there is already a center for FDI promotion into North Việt Nam and there is the above proposal to set up a separate center for FDI promotion into NMPs, but it is worth to notice that NMPs may not influence to those central agencies so there is a possibility of not beneficence in serving NMPs. NMPs should take initiative in all works except those assigned to central government by current decentralization scheme. In 2007, Bắc Kạn, Cao Bằng and Lạng Sơn jointly held a FDI promotion conference. This kind of initiatives should be expanded.

NMPs should jointly establish and fund a “Northern Mountainous Region FDI Promotion Corporation” and request the support to this corporation from the separate promotion center for particular NMPs proposed above. The Corporation will provide services through its own website and call center as well as other formats of documents to broadcast the potentials and opportunities for investors in NMPs, provide information on economic situation, labor resources, FDI incentives. The Corporation will organize tours for foreign investors to visit and learn about the investment opportunities in NMPs. It will study the flagship MNEs in the sectors which are pivotal to NMPs and contact to and convince them of investing into NMPs. This targeting of FDI will be very necessary in the light of NMPs’ development priorities. Other missions by the Corporation include consultation on investment registration and FDI promotion activities in abroad such as participating in international exhibitions, etc.

The regional-level policy that NMPs should do imminently is to organize frequent courses of training provincial cadres and improving their skills related to FDI attraction in general and FDI attraction into NMPs in particular. These courses are necessary because of specific characteristics and separate priority sectors of NMPs in comparison with other regions in Việt Nam. They should be organized frequently so that provincial cadres can alternately attend courses and knowledge about FDI regulation be updated.

(4) Policy Suggestions to Provincial Level

With their assigned authorities and responsibilities, NMPs’ governments can improve their FDI attraction performance through enhancing the FDI climate including FDI policy and FDI environment.

As mentioned above, NMPs have weakness in approval process. In order to make good the weakness, NMPs should apply the automatic approval system and shorten the approval period. Automatic approval system is not new in Việt Nam and studying how to apply them is likely not difficult to NMPs. Shortening the approval period, however, is not easy. Under the Decree 108/2006/NĐ-CP the approval period must not above 15 days and in fact there is a province has shortened its approval period to only 11 days. NMPs, especially Lào Cai and Yên Bái, should shorten their FDI approval period as much as possible. The major obstacle to NMPs in this process is the shortage of specialist cadres who have high professional skills and are good in foreign languages. That is why NMPs should train their cadres and one of several ways is sending cadres to training courses as proposed in the regional policy suggestions.

Number of licenses and permits required to operate should be decreased in order to encourage investors to implement the projects and in order to reduce the burden to licenses and permit granting authorities in NMPs. Regarding this, other NMPs, especially Cao Bằng and Hà Giang, should study the experience from Tuyên Quang where investors needs least licenses or permits in average. Besides NMPs, especially Điện Biên, Lai Châu and Sơn La, should facilitate investors' land accessing. Commitments on the consistence in land leasing and being fair in the process for disputing changes in lease contracts are also crucial.

To ensure that investors can receive all entitled incentives, NMPs' governments should proactive and be considerate granting them certificates on incentive entitling status at the same time with grating the approvals. It is a need to set up a contact system between provincial governments and tax offices in NMPs in order to ensure that tax offices have enough information on incentive entitled investors in their areas. This measure does not only stimulate investors to implement their approved projects but also enhance the FDI environment when complications and time-wasting are reduced.

NMPs should to speed up and complete the master planning of border gate economic zones and industrial clusters and invite investments to develop infrastructure in those zones. Master planning of those zones as well as of infrastructure in NMPs should be extensively propagated not only in Vietnamese but also in foreign languages so that investors in general and foreign investors in particular can easily access. NMPs' provincial governments should do their best to make their social and economic policies and regulations transparent. Once again, official websites are strongly suggested as a mean to raise the transparence because of both easiness and fairness to access. All changes in economic policies, regulations and master-planning should be announces to foreign investors through English and other foreign languages. The contents of those changes should be easily obtained in downloadable formats.

Attending upon foreign investors will more difficult than upon domestic investors; hence NMPs should take more efforts. Regular and periodical meetings between FDI provincial management authorities and foreign investors, activated email addresses are ways to understand the problems which foreign investors face and to discuss on solutions. It will better if there sites similar to customer support sites by businesses. Foreign investors can register to become member of the sites in order to receive on-line newsletters related to their businesses and to post up their queries and comments. Of course, when NMPs' governments understand the problems faced by investors, they should take initiative and do their best to help investors resolve.

Experiences from other provinces in Việt Nam reveal that the role of Provincial Department of Foreign Affairs is crucial. These departments help provincial governments in making information transparent through foreign languages, promoting FDI, contacting with foreign investors. They also facilitate the visa granting for investors. Presently Bắc Kạn, Hòa Bình, Tuyên Quang and Yên Bái are provinces which have not any Department of Foreign Affairs and Lai Châu has only Office of Foreign Affairs with limited assignments. Hence, NMPs should ask permission of central government on establishing or upgrading their own Department of Foreign Affairs.

(5) Lessons from Okinawa Prefecture of Japan

Okinawa Prefecture is a remote region to the mainland of Japan. That is the disadvantage location is one of major factors that hinder the development of manufacture sector in the prefecture. Since the beginning of 2000s, however, thanks to the considerably increasing investment flows from the mainland and oversea, Okinawa's economy has been growing very fast. Okinawa is on the road to become a hub for information technology and finance not only in Japan but also in the world. Some experiences on recent investment attraction by Okinawa prefectural government are useful to NMPs.

First, Okinawa prefectural government and municipal governments are very proactive in designing policies and measures to develop industries and sectors that they have comparative advantages. Supports and incentives that the local governments (prefectural government and municipal governments) provide to investors include: transport and telecommunication infrastructures, high tech parks and industrial zones, labor training, etc. The fiscal incentives such as tax exemption, wage subsidies, business offices leasing subsidies. (Okinawa Prefecture Government, 2007)

Second, the investment attraction authorities in Okinawa efficiently negotiate with local budget authorities so that the development of transport and telecommunication infrastructure, high tech parks, industrial zones as well as the

training of labors could be brought into the basic fiscal needs (basic budget expenditure) in prefectural and municipal budget estimation. In the case of the gap between the basic fiscal needs and fiscal capacity (revenue) be widened, with the defined policies and measures in its hand, the prefectural government could persuade the central government to provide Okinawa the fiscal transfers. Not only funds for development of investment platforms, Okinawa government with its defined economic policies could persuade the central government to reduce the corporate tax (a national tax) while the Okinawa's investment attraction authorities could persuade the local tax authorities to reduce or even to exempt some local taxes (such as business tax and office tax) to investors in priority sectors and clusters in Okinawa.¹⁵

Third, in order to ensure that investors can receive their entitled tax incentives, all investors in priority sectors and clusters in Okinawa are granted the incentive entitlement certificates and their factories or offices are attached the bonded signboard (houzei).

¹⁵ According to the interviews by the author to Okinawa Prefecture Government officers during the field trip in Okinawa in March 2008.

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