For the last eight years, the Vietnam Chamber of Commerce and Industry (VCCI) has released its Provincial Competitive Index Report (PCI). The annual survey reveals how each of Vietnam's Provinces rank in a variety of categories that would interest potential investors. With 63 provinces ranked in a wide variety of categories, analyzing important information from the results can be complicated. In this issue of *The Vietnam Resort Report*, we will focus our attention on the coastal provinces and the categories which are most important to investors of Vietnamese coastal tourism.

We'll provide an overview of each coastal province, and then rank the provinces using weighted averages from three different investment scenarios.

The Provincial Competitive Index and Coastal Tourism Investing

THE VIETNAM RESORT REPORT

December, 2013

MGT Management Consulting

Quantify Your Strategy

The Vietnam Resort Report is a paid monthly newsletter for stakeholders and potential investors in Vietnam's coastal tourism industry. Subscriptions are $100 USD for a year. To subscribe, send an email to info@mgtmanagement.com

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The Vietnam Resort Report – December 2013

Introduction

Back in April 2012, we looked at various coastal locations and identified their competitive advantages and disadvantages. The considered factors were;

1. Climate/Ocean/Beach
2. Tourism infrastructure/cultural activities/entertainment
3. Provincial government's policies and performance

To those not familiar with resort investing in Vietnam, factoring in provincial level government may not seem that important. However, in Vietnam, most decisions and almost all government interaction happens at the provincial level, and each province has its own level of competence. We also strongly feel that the closer a project is to the province capital, the more support it will receive.

As always, only provinces from Hue down to the south are included in our analayis. We also skip the Mekong Delta provinces . That leaves us eleven different provinces to compare and rank. Starting north and moving south; first, we'll summarize each provinces strengths and weakness and their three year trend in the standings. Then we'll rank the provinces using three different weights for the individual categories that make up the composite score.

In general, all eleven of the provinces scored in the "High" or "Mid-high" tier. Binh Dinh scored the highest of this group and 4th overall (63.06) and Phu Yen was the lowest (53.36) and 52 out of 63.

Thu Thien – Hue

	2012	2011	2010		
Overall	57.12	60.96	61.31		
Rank	30	22	18		
	Entry Cost	**Land Access**	**Transparency**	**Time Cost**	**Informal Charges**
By Category	9.2	5.43	6.67	5.24	5.78
	Proactivity	**Bus. Support Service**	**Labor Training**	**Legal Institutes**	
By Category	5.23	3.66	4.64	3.79	

Hue's relative competitiveness has dropped in the last two years. The Provinces' strength is "Entry Cost"; the amount it takes to complete permits and for companies to receive Land Use Rights Certificates (LURC). Its weaknesses seem to concern providing existing businesses support.

Danang

	2012	2011	2010		
Overall	61.71	66.98	69.77		
Rank	12	5	1		
	Entry Cost	**Land Access**	**Transparency**	**Time Cost**	**Informal Charges**
By Category	9.12	5.67	6.58	6.03	6.77
	Proactivity	**Bus. Support Service**	**Labor Training**	**Legal Institutes**	
By Category	5.71	4.78	5.57	3.05	

In the past, Danang was consistently #1 or #2 in the PCI survey. A significant reason it is dropping in the rankings is the "Land Access" category where it ranked 55 of 63. This makes sense as it is a popular province for international investors The firms polled expressed concern about receiving adequate compensation and high risk of land expropriation. It also has a low percentage of firms in possession of an LURC. These are actually positives for larger international investors who can promise large capital inflows as the Danang Provincial government is willing to provide the needed land at below market cost. Small investors with land and no LURC are worried.

Quang Nam (Hoi An)

	2012	2011	2010		
Overall	60.27	63.40	59.34		
Rank	15	11	26		
	Entry Cost	Land Access	Transparency	Time Cost	Informal Charges
By Category	9.02	5.82	5.72	7.18	7.75
	Proactivity	Bus. Support Service	Labor Training	Legal Institutes	
By Category	4.02	5.09	4.73	4.7	

Quang Nam scored relative high in the categories "Legal Institutions", and "Business Support Services". But like its neighbor to the north, scored lower in the "Land Access" category.

Quang Nam Province demonstrates that the VCI survey should not be the only source for evaluating government performance when considering tourism investment. The province has done an excellent job of understanding and preserving its culture and charm of Hoi An, making it a must see for inbound tourists. This benefits the tourism industry much more than other business categories.

Quang Ngai

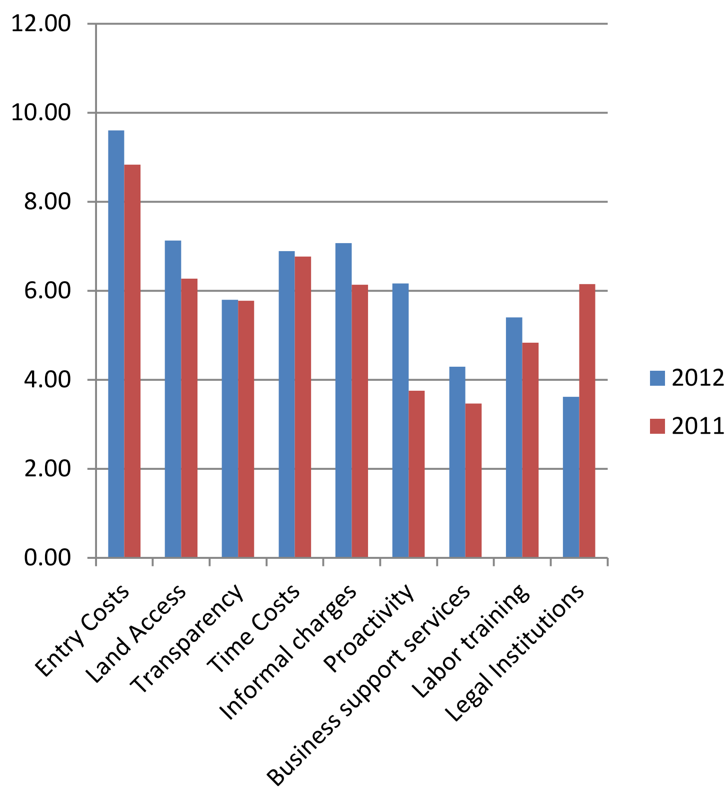
	2012	2011	2010		
Overall	58.33	62.24	52.21		
Rank	27	18	55		
	Entry Cost	Land Access	Transparency	Time Cost	Informal Charges
By Category	9.30	6.37	5.71	5.96	7.64
	Proactivity	Bus. Support Service	Labor Training	Legal Institutes	
By Category	5.20	3.85	4.63	2.92	

Its hard to get too excited about this province's rankings. It is not the worst, and not the best in every category.

Binh Dinh (Quy Nhon)

	2012	2011	2010		
Overall	63.06	58.14	60.37		
Rank	4	38	20		
	Entry Cost	**Land Access**	**Transparency**	**Time Cost**	**Informal Charges**
By Category	9.60	7.12	5.79	6.89	7.07
	Proactivity	**Bus. Support Service**	**Labor Training**	**Legal Institutes**	
By Category	6.17	4.29	5.4	3.61	

Binh Dinh Province jumped a remarkable 34 places in 2012, becoming the highest rated coastal province in Vietnam and #4 overall. With one exception, there was noticeable improvements across the board. The province was particularly strong in "Entry Cost" and "Proactivity" so it appears they are actively trying to bring in new investors.



Phu Yen

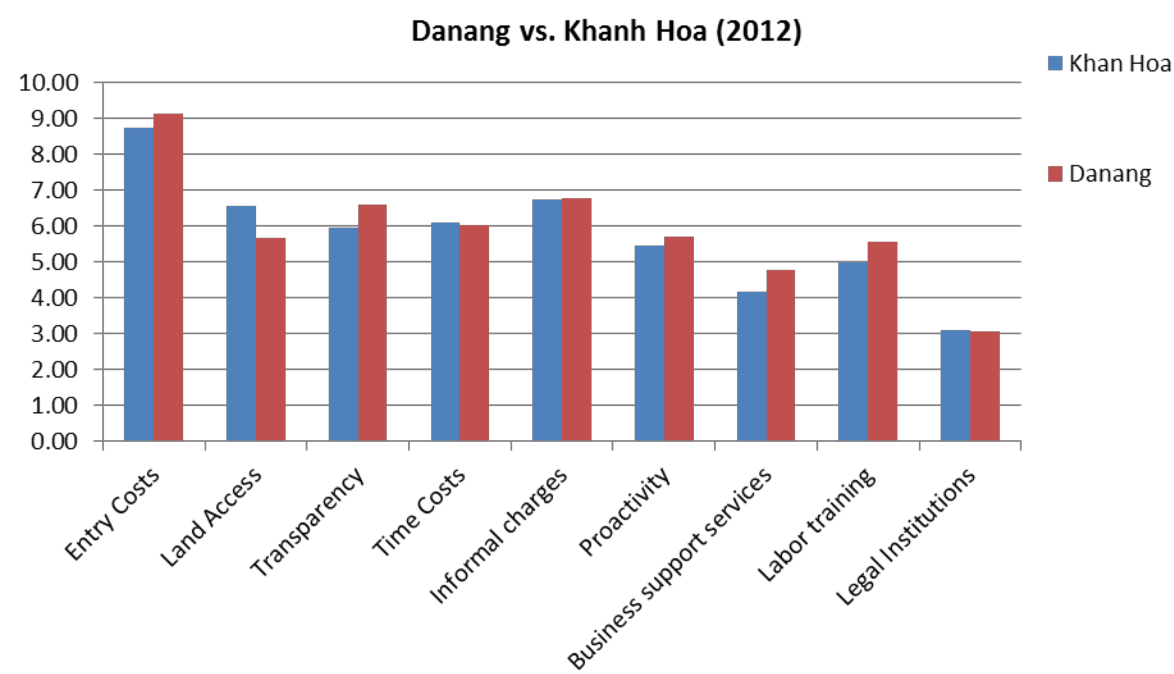
	2012	2011	2010		
Overall	53.36	55.15	58.18		
Rank	52	50	31		
	Entry Cost	Land Access	Transparency	Time Cost	Informal Charges
By Category	9.08	5.94	5.28	5.79	5.90
	Proactivity	Bus. Support Service	Labor Training	Legal Institutes	
By Category	3.91	4.03	4.20	3.66	

Consistently towards the bottom of all provinces, Phu Yen is the lowest ranked coastal province for the 2nd year in a row. In 2010, Phu Yen ranked ahead of similarly developed Ninh Thuan and Quang Nhai Provinces. However, while the governments of those other two provinces have improved, Phu Yen's has not.

Khanh Hoa (Nha Trang & Cam Ranh)

	2012	2011	2010		
Overall	58.82	59.11	56.75		
Rank	24	34	40		
	Entry Cost	**Land Access**	**Transparency**	**Time Cost**	**Informal Charges**
By Category	8.72	6.56	5.96	6.09	6.73
	Proactivity	**Bus. Support Service**	**Labor Training**	**Legal Institutes**	
By Category	5.43	4.18	4.97	3.11	

Despite being an early choice for tourism investment in Vietnam, Khanh Hoa's Provincial Government has not been a top performer. It is easy to speculate that the difference in performance of the provincial governments could be a significant reason Danang's beaches are full of internationally branded resorts and Cam Ranh's Long Beach is still in the early development stage.



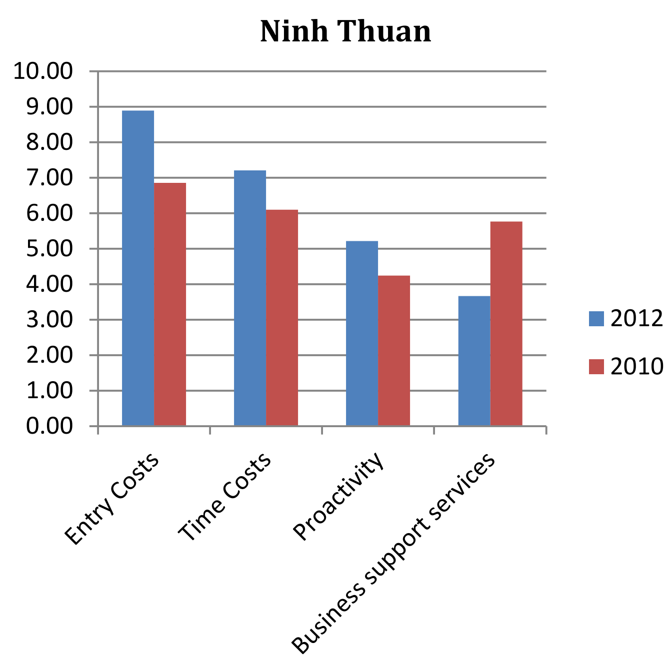
Ninh Thuan (Ninh Chu Bay)

	2012	2011	2010		
Overall	59.16	57.00	56.61		
Rank	18	46	41		
	Entry Cost	**Land Access**	**Transparency**	**Time Cost**	**Informal Charges**
By Category	8.69	6.84	5.63	7.21	5.78
	Proactivity	**Bus. Support Service**	**Labor Training**	**Legal Institutes**	
By Category	5.22	3.67	5.27	4.06	

Ninh Thuan was the first provincial government to hire foreign consultants to help plan and implement policies to encourage investment. They hired Michael Porter's firm, *The Monitor Group* in 2010 as well as the UK urban planners, *Arup*. The Monitor Group made increasing the province's competitive ranking a priority, and even implemented benchmarks against other economies worldwide[i]

At the consultant's advice, the province set up an Economic Development Office (EDO) which became a one-stop department for investors and potential investors. EDO works as an investor liaison to all the departments. Rather than business having to work with many departments, they just contact EDO.

The chart to the right shows how successful these changes have been. Improvements in "Entry Cost", "Time Costs", and "Proactivity" are the drivers behind the province's improvement. Interestingly, "Business Support Services" has declined, but drilling down to the details shows that it is because of a lack of trade shows and marketing held by the province, rather than the government agencies themselves.



[i] PCI 2012 Report Page 56

Binh Thuan (Phan Thiet/Mui Ne)

	2012	2011	2010		
Overall	54.08	57.62	58.45		
Rank	47	40	28		
	Entry Cost	Land Access	Transparency	Time Cost	Informal Charges
By Category	8.91	6.54	5.48	5.30	5.32
	Proactivity	Bus. Support Service	Labor Training	Legal Institutes	
By Category	5.13	4.05	4.61	2.56	

Binh Thuan Province ranked nearly last of all provinces in providing legal process and conflict resolution for businesses in 2012. In 2011 they scored 6.20; meaning it fell 58% in 2012. With the province choosing to exploit titanium reserves on the coast (discussed in last month's report), investors could see significant risk by not having much legal recourse if accidents, pollution, or expropriation occur.

Ba Ria – Vung Tau

	2012	2011	2010		
Overall	59.14	66.13	60.55		
Rank	21	6	19		
	Entry Cost	Land Access	Transparency	Time Cost	Informal Charges
By Category	9.34	6.35	5.78	5.41	6.02
	Proactivity	Bus. Support Service	Labor Training	Legal Institutes	
By Category	6.11	4.12	5.51	3.50	

The coastal province closest to HCMC dropped 15 points in 2012. They scored relatively well in "Labor Training", but in all other categories they were average or below average for our group.

Kien Giang (Phu Quoc)

	2012	2011	2010		
Overall	62.96	59.98	58.90		
Rank	6	28	27		
	Entry Cost	**Land Access**	**Transparency**	**Time Cost**	**Informal Charges**
By Category	9.54	8.84	5.03	7.21	8.61
	Proactivity	**Bus. Support Service**	**Labor Training**	**Legal Institutes**	
By Category	6.34	3.70	4.53	4.51	

The performance of Kien Giang in the survey is perplexing for us. From discussions with foreign resort investors, media reports, and the fact the Central Government has established a new administrative zone for Phu Quoc, the sixth place ranking is quite a surprise.

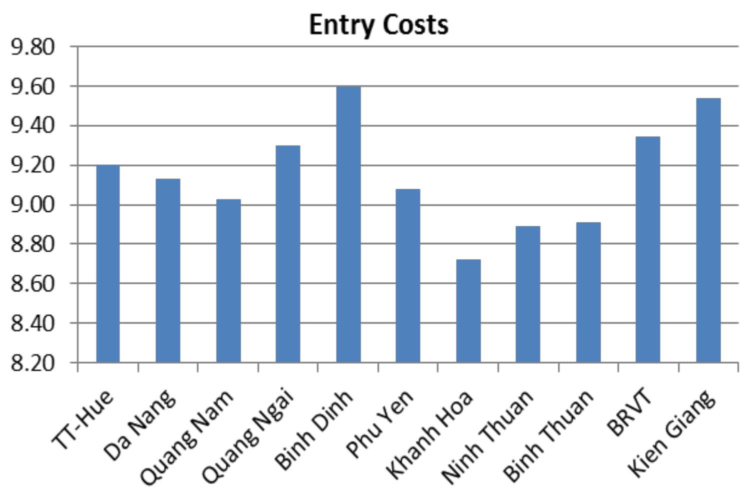
Looking closer, the province received 20% higher score than the other ten provinces for “Land Access”. That category rewards firms who already have their LURC; which makes land clearance for new developers more difficult. Probably not coincidentally, they also scored much higher than the other provinces in the category of “Informal Charges”.

Watch closely how this province does in the 2013 survey. The government has begun taking land away from owners who have not begun developing their resorts. Kien Giang could see a big fall if this is negatively reflected in the new survey. Ironically, taking land away from speculators who don’t have the funds to develop could hurt Kien Giang in the rankings but be very beneficial to the economy of the province.

Rankings by Category

(Note: Y-axis scale changes)

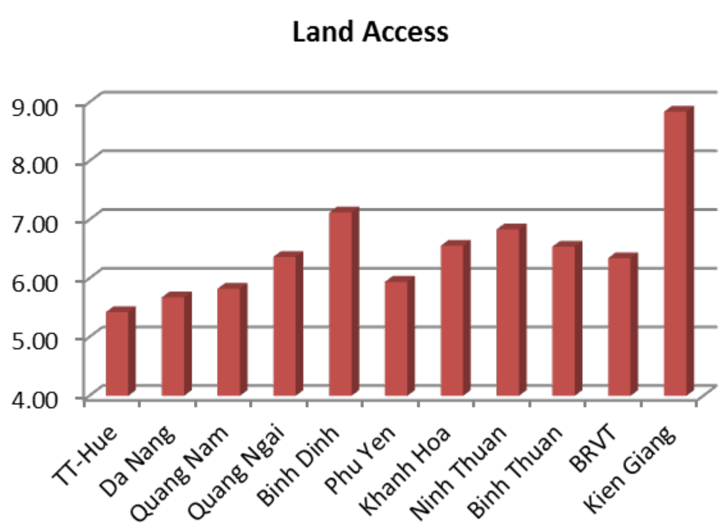
1. *Entry Costs*



Sub-categories

- Length of business registration and Re-registration in days.
- Number of licenses and permits necessary to start operations .
- Wait for Land Use Rights Certificate.
- Percentage of firms waiting more than a month to complete all steps necessary to start operations.
- Percentage of firms waiting more than three months to complete all steps necessary to start operations.
- Percentage of firms having difficulty obtaining all licenses and permits necessary to do business.

2. *Land Access*

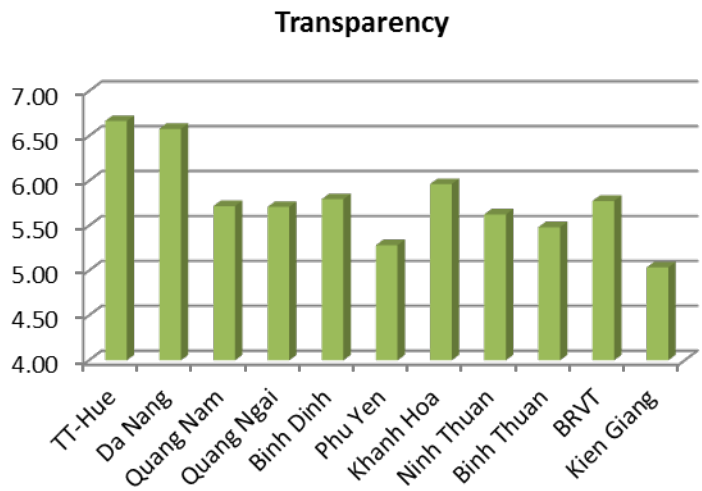


Sub-categories

- Percentage of firms in possession of an LURC.
- Total land in province with official LURCs.
- Firm rating of expropriation risk
- If land expropriated, firms receive fair compensation
- Changes in government land prices reflect changes in market prices
- Firm checked no land problems after list of possible problems.

Rankings by Category

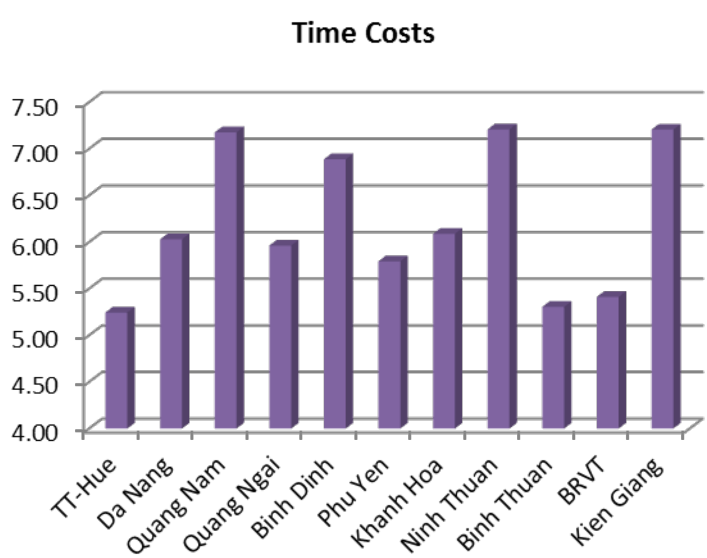
3. *Transparency*



Sub-categories

- Transparency of planning documents.
- Transparency of legal decisions and decrees
- Relationship important or very important to get access to provincial documents
- Negotiations with tax authority are an essential part of doing business
- Predictability of implementation of central laws at the provincial level
- Openness of provincial webpage score
- Do Business Associations play an important role in advising and countering provincial polices

4. *Time Costs*

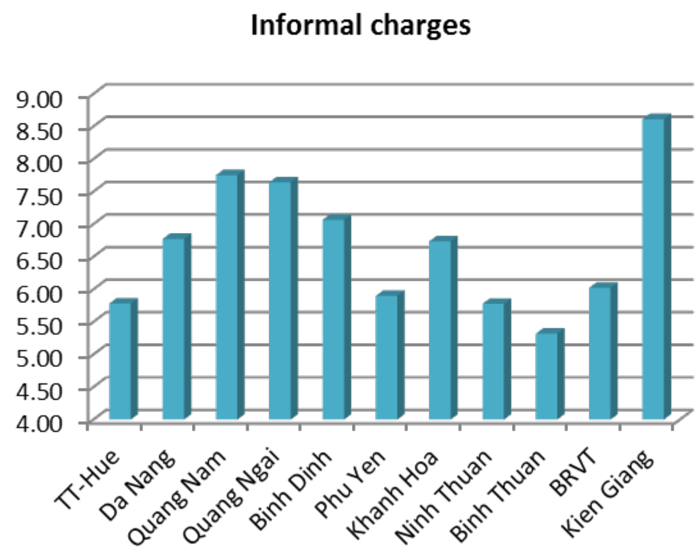


Sub-categories

- Percentage of firms spending over 10 percent of their time dealing with bureaucracy or bureaucratic regulations.
- Median number of inspections (all agencies)
- Median tax inspection hours
- Government officials have become more effective under PAR
- Trip to obtain stamps and signatures reduced under PAR
- Paperwork reduced under PAR
- Fees reduced under PAR
- Nothing change under PAR

Rankings by Category

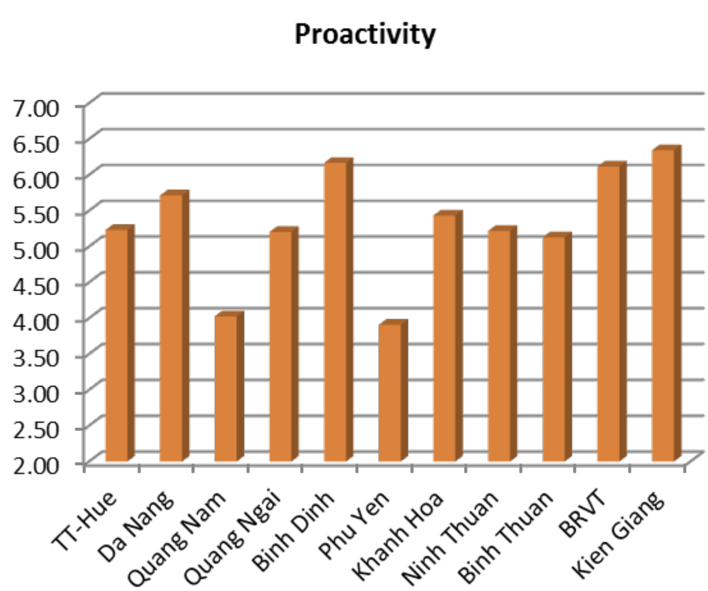
5. Informal Charges



Sub-categories

- Percentage of firms that felt that enterprises in their line of business were subject to bribe requests from provincial authorities.
- Percentage of firms paying over 10 percent of their revenue in extra payments.
- Government uses compliance with local regulations to extract rents
- Informal charges delivered expected result
- Do firms pay commissions on government contracts?
- Firms pay informal charges when register

6. Proactivity

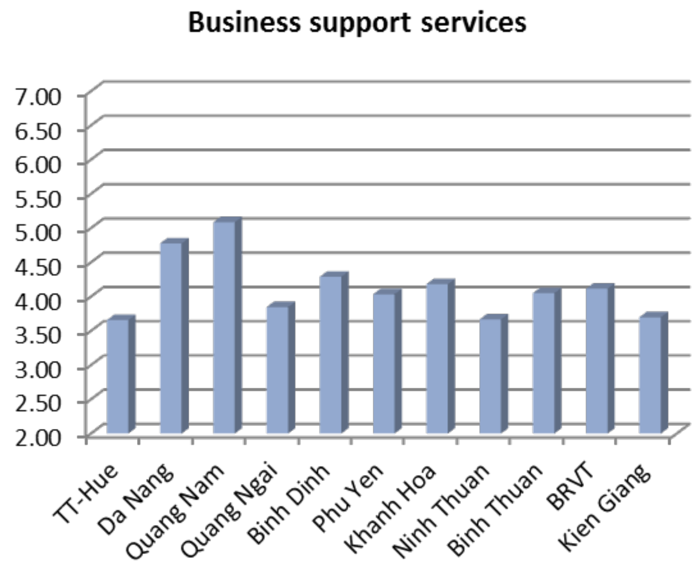


Sub-categories

- Provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problems
- Provincial officials are creative and clever about working within the national law to solve the problems of private sector firms
- Perceived attitude of provincial government toward private sector

Rankings by Category

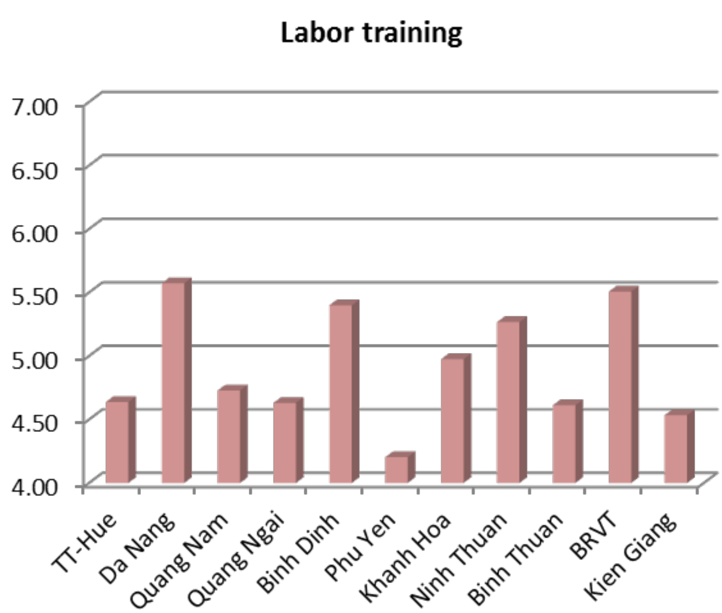
7. Business Support Services



Sub-categories

- Trade fairs held by province in previous year and registered for present year.
- Number of private public service providers in province
- Usage of business information search services
- Usage of consulting on regulatory information
- Usage of business match making services
- Usage of trade promotion services
- Usage of technology related services

8. Labor Training



Sub-categories

- Services provided by provincial agencies: general education
- Services provided by provincial agencies: labor vocational training
- Firm has used labor exchange services
- Firm used private provider for above labor exchange services
- Firm intends to use above service provider again for labor exchange services
- Percentage of total business costs spent on labor training.
- Percentage of total business costs spent on recruitment.
- Percentage of Firms satisfifed with labor quality
- Vocational training school graduates/ untrained laborers.
- Percentage of secondary graduates/total workforce

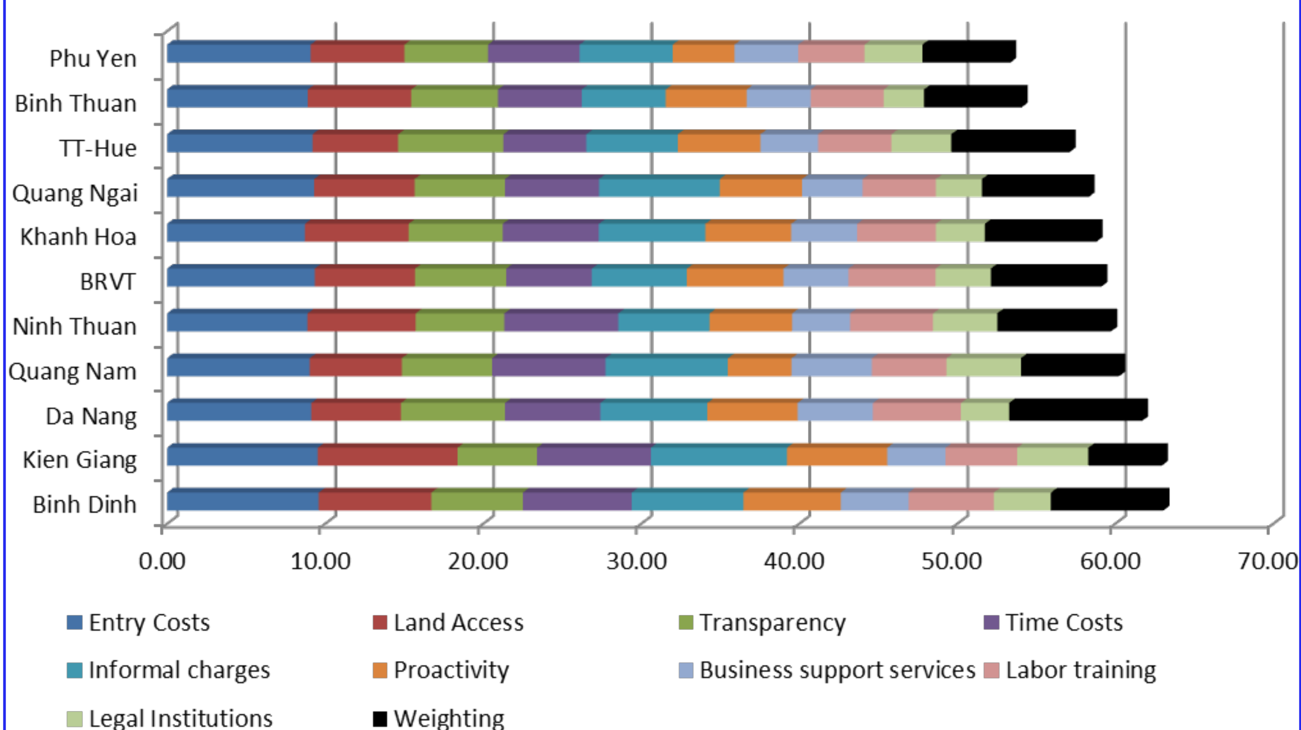
Rankings by Category

9. Legal Institutions

Sub-categories

- Legal system provided mechanism for firms to appeal officials' corrupt behavior
- Firm confident that legal system will uphold property rights and contracts
- Cases filed by non-state entities at Provincial Economic Court per 100 firms
- Non-state claimants as a percentage of claimants at Provincial Economic Court.
- Business used courts or other legal institutions to resolve disputes
- Median months to resolve court cases
- Median formal and informal costs as a percentage of case

TOTAL POINTS (2012)



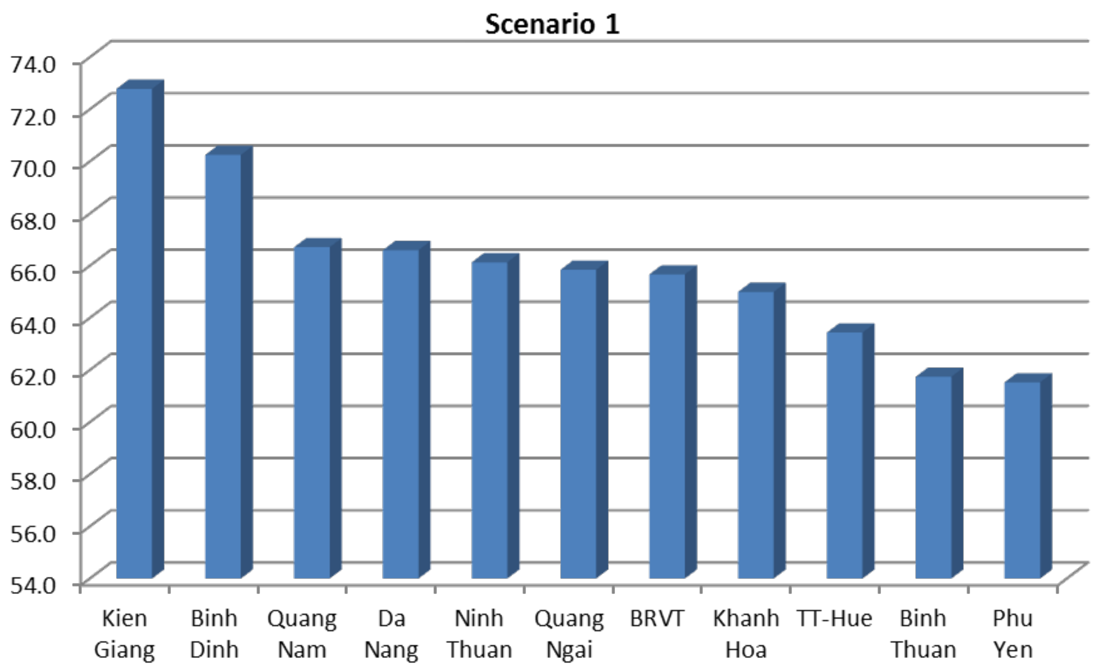
Note: VCCI uses weighted averages rather than total points (represented by the black bar).

Investment Scenario Comparisons

The PCI tries to give a broad overview of each province's government for all stages and types of business. However, investors in different stages of development will value some categories more than others.

We attempt to rank the provinces for resort investors in three different stages of development. Admittedly this is not scientific. We allocated 100 points between the nine categories depending on how important each is for the investment scenario.

1. New investor looking to acquire coastal land to develop a resort.



Obviously in this scenario, the Entry Cost is most important. Land Access must be considered even though it may drive the price of the land up, since there isn't much point of getting land if it is going to be taken away later. Everything else is important, but as the survey shows, provinces can improve over time.

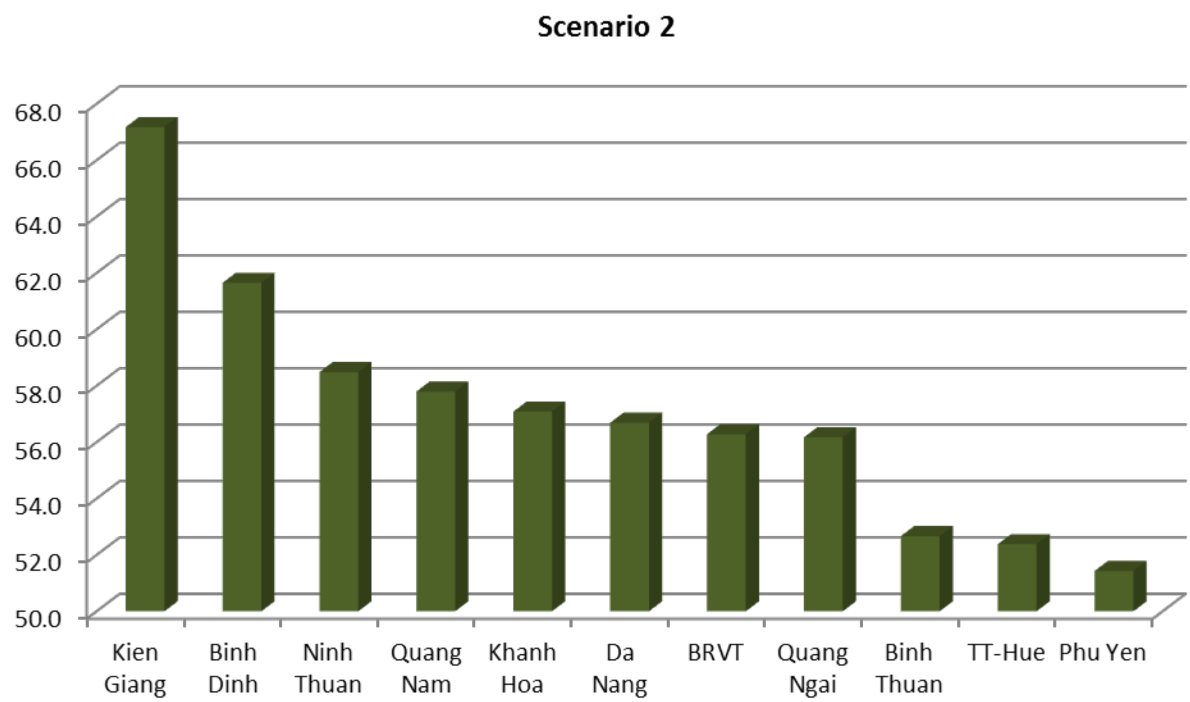
Category Weights:

Entry Costs	Land Access	Transparency	Time Costs	Informal charges	Pro-activity	Business support services	Labor training	Legal Institutions
26	14	14	12	9	7	5	8	5

Conclusion:

Kien Giang and Binh Dinh are significantly ahead of the rest in this scenario.

2. Investor has land but has not begun to build.



Having land without an operating business makes Land Access the most important category. Labor Training, Legal Institutions, Proactivity, and Time Costs become more important as building begins.

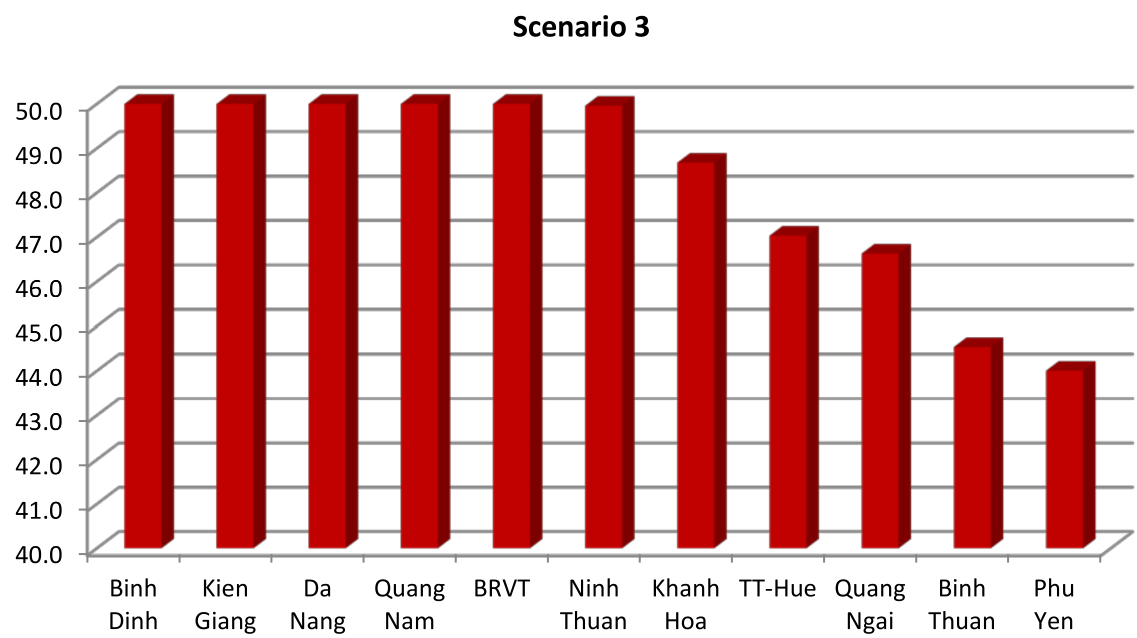
Category Weights:

Entry Costs	Land Access	Transparency	Time Costs	Informal charges	Pro-activity	Business support services	Labor training	Legal Institutions
1	27	11	13	11	10	7	11	9

Conclusion:

It's no surprise that Kien Giang is far away the leader in this scenario since it had a large lead in the "Land Access" category. Once again, it will be interesting to see what happens in the 2013 survey after the province has threatened to take land back from land speculators.

3. Investor has an operating resort



Once the resort is running, then Labor Training, Legal Institutions, Proactivity, and Business Support Services become the most important categories. Land Access and Entry Costs are not very relevant.

Category Weights:

Entry Costs	Land Access	Transparency	Time Costs	Informal charges	Pro-activity	Business support services	Labor training	Legal Institutions
1	2	8	9	4	17	21	20	18

Conclusion:

Surprisingly, there is not a lot of difference between the top six provinces. We expected the more established provinces such as Danang to have a significant advantage in this scenario.

Conclusion

While definitely not the main factor to consider when choosing a resort location in Vietnam, the provincial government will have an effect. The Provincial Competitive Index provides interesting information about the day-to-day operations of the government, but it is much less important than how the province develops its infrastructure.

In the past the survey was probably a better predictor of the province's chance of successful development. Danang consistently was the top province in Vietnam for many years and they also effectively provided the infrastructure investors needed. Now, the less developed provinces are using the survey to benchmark and improve their services to business and thus, catch up in the survey. While making these improvements is good, it doesn't mean that they will effectively build infrastructure like Danang did in the last ten years. The Vietnam Chamber of Commerce and Industry acknowledges this in the survey.

Notes:

The survey can be found here:
http://www.pcivietnam.org/uploads/report/PCI%202012%20Report_final.pdf

The data can be found here:

http://www.pcivietnam.org/reports_home.php

In The News This Month

Tet in Danang – 4,000 Chinese tourists per day expected to visit:

http://www.vietmaz.com/2013/12/chinese-tourists-to-arrive-in-droves-in-danang-at-tet/

The number of chartered flights from China to Danang has increased to 16.

Chinese delegation visits Nha Trang to scout tourism facilities:

http://www.baokhanhhoa.com.vn/english/tourism/201312/nha-trang-promotes-to-attract-more-chinese-tourists-2279579/

In the first 10 months of 2013, only 20,000 Chinese tourists visited Nha Trang (the 9th most of any foreign country). Our opinion is Nha Trang is going to see a huge increase next year and the following year. The Cam Ranh strip will be developed with the potential China market in mind.

Red sludge from titanium mine spills over into Mui Ne resorts

http://vietnamnews.vn/environment/247856/red-mud-sludge-spills-from-binh-thuan-reservoir.html

Within a week of sending our last report about potential environmental dangers, Binh Thuan had another "accident" with its titanium mining industry.