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Overview of the Provincial Competitiveness Index

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Abstract

The provincial assesses the quality of economic governance and business environment of provinces and cities in Vietnam from the perspective of enterprises. In recent times, Vietnam has seen many reforms from the authorities of provinces and cities. The effective implementation of policies and laws and the dynamism and creativity in solving problems arising from practice are the driving forces

for investment and business activities in Vietnam. For enterprises, a favorable business environment will help them operate stably and develop while also attracting new investors to enter the market, thereby creating more jobs and contributing to the socio-economic development of the country as well as enhancing national competitiveness.

Keywords: Provincial Competitiveness Index (PCI), Overview

1. What is the provincial competitiveness index (PCI)?

With the assistance of the United States Agency for International Development (USAID), the Vietnam Chamber of Commerce and Industry (VCCI) conducts the provincial competitiveness index. A team of domestic and foreign experts from VCCI implements the PCI. The PCI is the acronym for the Provincial Competitiveness Index, an index that measures and assesses the quality of economic governance, the level of convenience and friendliness of the business environment, and the efforts of administrative reform by the authorities of provinces and cities in Vietnam, thereby promoting the development of the private economic sector. Built from the data of the largest annual business survey, conducted in the most elaborate manner in Vietnam today, the PCI is a "collection of voices" of the private business community about the business environment in provinces and cities in Vietnam.

The PCI aims to understand and explain why some provinces and cities surpass others in terms of private economic development, job creation, and economic growth, thereby providing useful information for the leaders of provinces and cities to identify the areas and ways to implement economic governance reforms most effectively. By surveying enterprises in the private economic sector about the business environment of a province or city in which they are operating, combined with officially published data from ministries and sectors about localities, the PCI quantifies the quality of economic governance of provinces and cities on a 100-point scale according to groups of factors that are of great significance to the growth and prosperity of the private economic sector. Specifically, a province or city has good PCI results when: (1) Market entry costs are low; (2) Land access is easy and land use is stable; (3) The business environment is transparent and business-related information is publicly available; (4) Time costs for administrative procedures and inspections are low; (5) Informal costs are low; (6) The business environment is equal among economic sectors; (7) The government is dynamic and creative in creating a favorable business environment; (8) Business support services are developed and of high quality; (9) Labor training policies and services are good; and (10) Dispute resolution for businesses is fair, efficient, and ensures safety for businesses during the production and business process.

2. Characteristics of the Provincial

The Provincial Competitiveness Index (PCI) consists of 10 component indices, covering the main areas of economic governance in provinces and cities related to business development. A locality is assessed as having a good governance index when it has all 10 of these indices: (1) Low market entry costs; (2) Easy land access and stable land use, (3) Transparent business environment and public business information, (4) Low informal costs, (5) Fast time for inspections, checks, and the implementation of administrative procedures and regulations, (6) Equal competitive environment, (7) Dynamic and creative provincial government in solving problems for businesses, (8) Business support policies, (9) Good labor training policies, (10)

Fair and efficient dispute resolution procedures and maintenance of security and order.

The implementation process of the PCI includes the following milestones: Year: Number of provinces assessed
Implementing and supporting agencies 2005: 42 provinces and cities VCCI and USAID, through the Vietnam Competitiveness Initiative (VNCI) Project managed by the Asia Foundation (TAF) and DAI Consulting (USA). 2006–2008: 64 provinces and cities (including Ha Tay, before merging into Hanoi): VCCI and USAID, through the Vietnam Competitiveness Initiative (VNCI) Project managed by the Asia Foundation (TAF) and DAI Consulting (USA). 2009–2012, 63 provinces and cities VCCI and USAID, through the Vietnam Competitiveness Initiative (VNCI) Project managed by DAI (USA). 2013–present: 63 provinces and cities VCCI and USAID, in which VCCI directly manages and implements the project with the support of USAID.

3. Role of the Provincial Competitiveness Index (PCI)

PCI changes the mindset about governance. If in the past, localities still thought that geographical location, infrastructure development, etc. were important, the PCI has affirmed that improving the quality of governance will create a driving force for the development of the business sector and attract investment.

PCI creates an effective monitoring tool: Through PCI, the voice of businesses is emphasized. The important goal of the government in governance and providing public services is to aim for the satisfaction of people and businesses. This is the ultimate goal of all reforms. PCI is the first research project in Vietnam to quantify indicators of business satisfaction with government authorities, as it can provide important information for effectively monitoring the government's efforts to improve the business environment.

PCI is a driving force for change. The results of PCI research and publication promote changes not only in attitudes but also in the specific activities of the government in creating a favorable business environment for businesses. Many reform initiatives have been implemented by localities through the PCI. §

PCI promotes cooperation and sharing. Over the years, PCI has helped spread good experiences and successful reform lessons in localities in Vietnam. The initiative to build the District Competitiveness Index and/or Sector Competitiveness Index (DCI) to measure the effectiveness of the work of districts, towns, and sectors has spread from Kien Giang, the Provincial Competitiveness Index 17 Lao Cai, to Vinh Phuc, Quang Ninh, Tuyen Quang, Bac Giang, Thai Nguyen, and many other provinces and cities. §

PCI contributes to building the image and reputation of localities as well as Vietnam by creating a favorable investment and business environment. The assessments of the very businesses operating in each province and city are information from practice and have important reference value for investors. Therefore, PCI has become an important source of information, helping many provinces and cities build their image and reputation by attracting investment. Not only that, PCI also contributes significantly to building a friendly image of Vietnam's investment environment. PCI has become a "made in Vietnam" product that has been

consulted and implemented in many countries around the world, including those with strong reforming economies such as India, China, Malaysia, Indonesia, Sri Lanka, Bangladesh, Salvador, Kosovo, Myanmar, Laos, etc., and the list is growing.

4. Methodology for constructing the Provincial Competitiveness Index (PCI)

With the assistance of the United States Agency for International Development (USAID) in Vietnam, the Vietnam Chamber of Commerce and Industry (VCCI) conducts the Provincial Competitiveness Index (PCI). The PCI is approached and constructed from the actual practices of Vietnam and designed in a way that provinces and cities can easily apply economic governance reform measures. Specifically, the construction method will include a three-step process:

Step 1: *Collect information from survey data and other published data sources.*

To ensure objectivity, data is collected from two sources:

Through survey sources, questionnaires were sent to tens of thousands of enterprises in the private economic sector operating in 63 provinces and cities nationwide. The enterprises selected for the survey are random but still ensure that they are relatively representative of all other enterprises in the locality in terms of industry, field of operation, type, and age of the enterprise.

Through published sources: General Statistics Office, Ministry of Planning and Investment, Ministry of Natural Resources and Environment, Ministry of Industry and Trade, Ministry of Labor, War Invalids and Social Affairs, Supreme People's Court, and information pages of provinces and cities.

The results obtained from the survey and research process are indicators such as the number of days to register a business and the percentage of enterprises that consider the quality of vocational training to be good or very good.

Step 2: *Calculate 10 component indices and construct on a 10-point scale.*

The indicators, after being collected, will be standardized on a 10-point scale. Accordingly, the province with the best indicator in the country will receive a score of 10, and the province with the worst indicator will receive a score of 1.

Component index = 40% × average of "hard" indicators (indicators published by ministries and sectors) + 60% × average of "soft" indicators (indicators obtained through the PCI survey).

Step 3: *Assign weights and calculate the composite PCI score as the weighted average score of the 10 component indices on a maximum scale of 100.*

In this step, the component index is assigned an additional weight. There are three levels of weights, respectively high (15–20%), medium (10%), and low (5%), reflecting the level of contribution and importance of each index to the development of the number of enterprises, investment capital, and profit. After that, the final weighted PCI score is calculated.

Based on the results of this score, the provinces will be ranked, with the highest composite PCI score at the top and the lowest composite PCI score at the bottom.

Provincial Competitiveness Index (PCI) rankings of Vietnam in 2022

Province	Score	Rank
Quang Ninh	72.95	1
Bac Giang	72.80	2
Hai Phong	70.76	3
Ba Ria-Vung Tau	70.26	4
Dong Thap	69.68	5
Thua Thien-HHue	69.36	6
Bac Ninh	69.08	7
Vinh Phuc	68.91	8
Da Nang	68.52	9
Long An	68.45	10
Lao Cai	68.20	11
Hau Giang	68.12	12
Ben Tre	68.04	13
Hung Yen	67.91	14
Lang Son	67.88	15
Khanh Hoa	67.74	16
Lam Dong	67.62	17
Ha Tinh	67.18	18
Can Tho	66.94	19
Ha Noi	66.74	20
Binh Dinh	66.65	21
Quang Nam	66.62	22
Nghe An	66.60	23
Phu Tho	66.30	24
Thai Nguyen	66.10	25
Tra Vinh	66.06	26
Ho Chi Minh City	65.86	27
Thai Binh	65.78	28
Dong Nai	65.67	29
Ninh Thuan	65.43	30
Nam Dinh	65.29	31
Hai Duong	65.22	32
Quang Ngai	65.18	33
Soc Trang	65.17	34
Bac Kan	65.15	35
Binh Duong	65.13	36
Kon Tum	64.89	37
Dak Nong	64.87	38
Phu Yen	64.80	39
Ninh Binh	64.40	40
Binh Thuan	64.39	41
Ha Giang	64.39	42
Binh Phuoc	64.32	43
Ninh Binh	64.22	44
Gia Lai	64.00	45
Ha Nam	64.00	46
Thanh Hoa	63.67	47
Quang Binh	63.41	48
Son La	63.22	49
Tien Giang	63.17	50
Yen Bai	63.09	51
Tuyen Quang	62.86	52
Hoa Binh	62.81	53
An Giang	62.37	54
Tay Ninh	62.31	55
Kien Giang	62.24	56
Lai Chau	62.05	57
Ca Mau	61.60	58
Quang Tri	61.26	59
Dak Lak	60.91	60
Bac Lieu	60.36	61
Dien Bien	59.85	62
Cao Bang	59.58	63

Source: According to PCI 2022 report

5. Conclusion

The construction of the PCI index is not intended for purely scientific research or for comparison between provinces with high or low PCI scores. The significance of constructing the PCI index is to understand and explain why some provinces and cities can surpass others in terms of private economic development, job creation, and economic growth. The results of the PCI, which are published annually, will be a useful source of reference for leaders of provinces and cities in particular, as well as for policymakers in general. This will allow them to identify bottlenecks in economic management and develop appropriate solutions to carry out economic development activities most effectively.

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