

Chapter 1 Listening and Responding to Businesses

Hoang Thanh Huong

Vietnam Development Forum and
National Economics University

Hanoi, the capital of Vietnam, has an ambitious goal to become an “industrial city” by the year 2015, a schedule five years ahead of the national goal of becoming a basically industrialized country by 2020¹. From the perspective of the business community, this goal can be restated as how Hanoi should transform itself as a city that can offer an attractive environment to investors. A large number of existing literature examine how local government officials listen to businesses and exercise their authority over them, which is an important determinant of provincial investment climate. Even with similar physical and socio-economic endowments, different types of local authorities’ commitments to various stakeholders produce significant differences in local economic development. In particular, government-business interaction is crucial in enabling provinces to achieve their goals in socio-economic social development. However, a close look at government-business interaction in Hanoi has so far been unavailable.

This chapter aims to shed light on the mode of interaction between the Hanoi government and businesses by focusing on *missing links*, or *gaps*, which may exist at any level, disconnecting the government and the business community. Policy options for addressing such gaps will also be explored.

¹ The Vietnamnet interview with Mr. Phung Huu Phu, Standing Deputy Secretary of the Party Committee and Chairman of the People’s Council of Hanoi, at <http://vietnamnet.vn/chinhtri/doinoi/2005/12/523013/> accessed on December 16, 2005

1. Typology of Government and Business Interaction

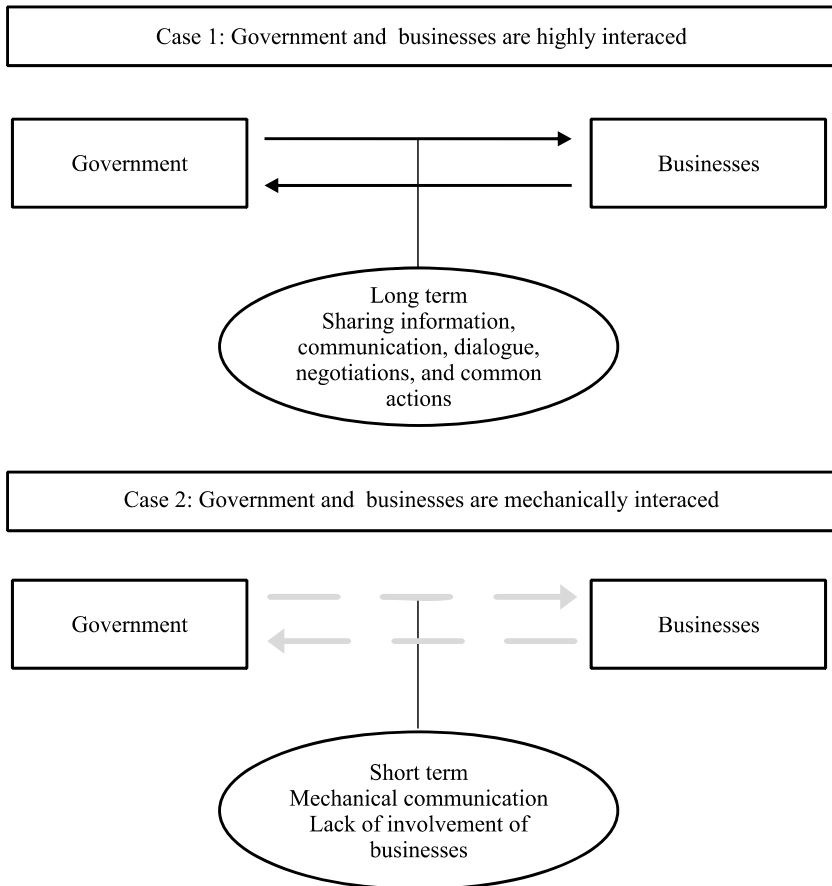
The government and the business community are two social actors which belong to the public and the private domain, respectively. The two sectors interact through a number of mechanisms. The mode of their interaction is the key to understanding their relationship. Conceptually, interaction between the government and the business community can be either intensive, organic and long-term, or fragmentary, mechanically and short-term.

At one extreme, the two actors may not meet at all or meet only erratically and formally, leaving the government to “communicate” with the business community through issuance of regulations, data collection, and other superficial ways. In such a case, the government essentially exercises its power without involvement of the business community. Interaction is one-way since the government, representing unified political power, shapes and directs the actions of private businesses through its policies. In this case, it can be said that the government and businesses are disconnected. Lack of mutual communication is likely to reduce the government’s responsiveness to businesses, and may increase undesirable non-market interventions.

At the other extreme, the government and businesses may form several mechanisms to interact with each other, for example, to promote two-way information exchange, communication and dialogue, conduct negotiations, and forge common actions. In this case, the interaction mode is one of reciprocity, mutual compromise through negotiations, or a kind of give-and-take, for example, in the case of providing financial support for certain business actions. Moreover, if their dialogue is taking place within broader networks of public and private organisations, it will most likely lead to synergy (positive-sum) rather than just a division of labour (zero-sum). Ideally, their interaction should even affect a long-term learning process through which knowledge is generated and used by concerned parties. Such interaction will increase total welfare by forming consensus among key actors.

The typology is illustrated in Figure 1. In the first case, long-term, intensive interaction between the government and businesses is depicted as bold lines. In the second case, fragmentary and mechanical interaction between them is shown as thin and broken lines, implying the existence of barriers in communication channels.

Figure 1 Typology of Government-Business Interaction Mode



However, the world is not just black and white. In reality, the mode of government-business interaction may not be at extremes but falls somewhere

between the two cases. But this typology is still useful in stating the basic problem that needs to be tackled.

Let us observe some good practices in neighboring countries.

The Malaysian government has formed a relationship with the manufacturing sector which is close to Case 1 in Figure 1. It has adopted private sector driven policies with strong business orientation. Various measures requested or initiated by the private sector have been put into practice to sustain the country's competitiveness as well as to keep Malaysia as an attractive location for both domestic and foreign investors. For example, Malaysia's Industrial Master Plans (IMPs) are drafted with active involvement of the business community. Views from businesses are absorbed in advance. The business community is deeply involved in drafting the IMP through participating in Technical Resource Groups and the first-draft brainstorming sessions. Businesses raise many issues, while the Ministry of International Trade and Industry (MITI) tries to add long-term policy concerns (VDF, 2006). Through this process, the government and the business community share visions and concerns, and develop additional institutions which allow deep involvement of the business community in the entire process of policy formulation and implementation. As a result, business environment in Malaysia is ranked as one of the best in the world.

Regarding the way the government listens to the business community, Thailand under the Thaksin administration also offers a good example. Thai industrial policy formulation is characterised by the depth of involvement of the private sector. Policy design, implementation and adjustment are conducted through close and continuous cooperation between the government and the business community, with the private sector taking the lead. The work on an industrial master plan begins with the government listening to the private sector. The content and targets of the master plan are proposed by the business community. At every stage of implementation, revision and problem-solving, the private sector has many opportunities to voice its opinions. For this reason, there is very little dispute among stakeholders once the master plan is agreed. Unlike master plans drafted by Vietnam's Ministry

of Industry, Thai master plans do not require any official approval to become effective. While the official author is the Ministry of Industry, ideas are shared among all in the process of drafting.

In recent years, Thailand has followed a top-down approach with a clear vision provided by Prime Minister Thaksin. He wants to run the country as if it were a business enterprise. It is said that, in many cases, official decision making is now faster than private sector decision making, and dialogue among concerned ministries, domestic and foreign firms, and international partners has been greatly activated.

In addition, the Thai government has established industry-specific government committees for key industries. At these committees, current situations are evaluated, new issues are identified, and special subcommittees are set up to draft required solutions. Since the master plan sets only broad objectives and since each committee continuously adjusts the implementation of the master plan, there is no need to revise the master plan itself. This is in sharp contrast to Vietnam where, as the following sections show, meetings between the government and investors are formal, infrequent and hardly interactive.

These examples suggest that the mode of interaction between the government and the business community is a crucial factor in improving business climate. Effective interaction is characterised not only by the extent to which the business community is involved in policy making, but also by the attitude of the government toward the private sector, its commitment to private sector development, and concrete and swift actions it takes to build necessary institutions.

Returning to the case of Hanoi, it should be noted that Hanoi is different from Thailand and Malaysia for several reasons. The first apparent difference is in the level of government, national versus municipal, which affects the scope and degree of autonomy in policy making. More importantly, comparison with these neighboring countries makes it clear that Hanoi's policy formulation is in a developing stage with much room for further

improvement. Hanoi needs to reform government-business channels toward the first type of interaction in Figure 1. This is the precondition for the city to become an attractive location for investors.

The following sections analyse the case of Hanoi more closely by looking at channels that the government uses to influence the business community as well as channels that the business community uses to influence the government.

2. How the Government Influences the Business Community

The importance of government-business interaction has been recognized by the Vietnamese government, as stated officially by its delegates to the UN Conference in Trade and Development in Sao Paulo in 2004:

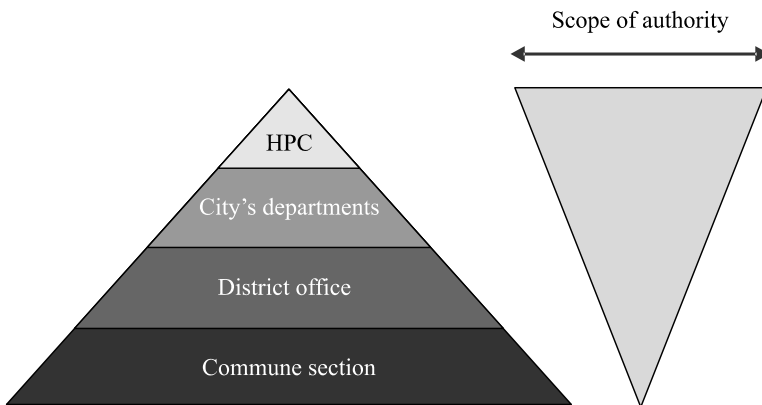
Government and private sector interaction as well as enterprises partnership should be promoted and strengthened... We pay particular attention to building partnership with combination of partners such as government, business sector, regional groups, non- governmental organizations, academic and research institutions etc.” (Truong Dinh Tuyen’s speech at UNCTAD XI, see United Nations (2004))

In Hanoi, terms such as “partnership” or “promoting government-business interaction” are not explicitly mentioned in the legal documents of the Hanoi government. Instead, these ideas are incorporated at the policy level in the effort of creating an attractive business environment. The Hanoi government argues clearly in its long-term strategy that it aims to be the “heart of the country, the national political-administrative center, a big cultural, scientific, educational, economic and international transactional center” (Hanoi People’s Committee, 2000). It is then stated that the local government will be a catalyst for promoting business development so that Hanoi will become a large economic center in the region.

Like other provinces, the Hanoi government has long adopted the top-down approach and centralized decision making. The Hanoi People's Committee is responsible for formulating policy details and organising policy implementation within its locality. This is true in a wide range of areas, with the notable exceptions of taxation and local personnel matters. The Hanoi People's Committee is responsible for drafting both long-term and annual socio-economic development plans, and presenting them to the Hanoi People's Council for approval and the government for endorsement. It is also required to participate in the drafting of general economic plans by the central government and ministries, and to organise and implement policies assigned by them.

In Vietnam, there are line representatives of central organizations at every administrative level. They include departments at the provincial and municipal level, offices at the district level, and sections at the commune level. The scope of authority diminishes quickly as one travels from top to bottom of this administrative pyramid. Figure 2 shows this schematically.

Figure 2 Structure of the Hanoi Government



The mode of government-business interaction is decided basically by the government side, especially by government structure and the government's

attitude toward businesses. In this sense, it may be said that Hanoi has much room for improving government-business interaction. We will examine concrete interactions to find solutions.

Is interaction intensive?

Interaction between the Hanoi government and the business community is fairly intensive at the implementation level. At higher levels, however, the Hanoi government and businesses meet infrequently and in a formal way, mostly in the form of issuing regulations, data collection or supervision. In such circumstances, the notion of shared vision or common concern has not emerged. There is a high possibility that the views of investors are not adequately absorbed in the policy making process.

The case of licensing may be cited. Research on licensing in Vietnam conducted by the Government's Research Team and the VCCI finds that licenses and sub-licenses significantly hamper business development. The number of licenses in the country has increased from 194 in 2002 to 246 in 2003 and to 298 in 2004. Moreover, 55 percent of licenses are issued by provincial authorities, and another 22 percent by local authorities at district, commune or village levels, a fact that seems to contradict the stipulation of the Enterprise Law. According to their findings, authorities are more likely to exercise their power over enterprises rather than try to support them. One case from Hanoi is cited in this research. A director of a private company complained that the validity of licenses was too short, forcing enterprises to spend unnecessary time and money to renew them. For example, a concrete mixer truck serving construction sites in Hanoi needs a license to travel within the city (moreover, travel is permitted only at night). A license for this must be issued for each construction site and is valid for one month only. Since most construction works take much longer than a month to finish, enterprises are compelled to go to the authority a number of times to get new licenses (VCCI, 2005).

At the city's level, the Hanoi Authority for Planning and Investment is the key interface between the government and actual and potential investors.

However, this actor does not have the proper structure or mandate to respond fully to the diverse demands of foreign investors. One reason is that the main function of its foreign investment department is to attract FDI and issue licenses. Therefore, many of the demands by foreign investors who are already in Hanoi fall out of its jurisdiction. Some provincial governments in Vietnam have created new local organizations to serve foreign investors. The Investment and Trade Promotion Centre (ITPC) of HCMC is a good example. It is one of the two organizations in Vietnam which are recognized as trade promotion organizations and included in the Profiles of Trade Promotion Organizations published jointly by the International Trade Centre, UNCTAD and WTO, and also in the Directory of Trade and Investment-related Organizations of Developing Countries in Asia and Pacific Area published by ESCAP, a regional organization of the UN. To promote exports and attract FDI into HCMC, ITPC has provided local and foreign businesses with updates in trade and investment information, match-making and consulting services, and an efficient bridge between local enterprises and foreign counterparts. Since 2002, it organized a forum modeled after the Vietnam Business Forum. Hanoi, on the other hand, does not have such an organization as ITPC. Without it, Hanoi finds it difficult to listen and respond to foreign investors quickly and effectively.

Is administrative intervention widening the gap?

In addition, some interventions by Hanoi authorities are administrative and not market-oriented, which damages Hanoi's business climate. The case of land and housing control policy is notable. Investors in housing projects are required to allocate 20% of the built area for Hanoi's Land Fund and make additional 50% of housing available for sale to government officials and other groups specified by the government. It is commonly observed that most governments intervene in the land market. However, this kind of interference makes the real estate market more complex and increases the price of land and housing. It is much better for the government to talk with investors in land and housing as well as other stakeholders to reconcile different interests.

Another example that can be cited is Hanoi's ban on motorbike registration, which was a very hot issue in the last months of 2005. This case was somewhat different from the cases above. The Hanoi government decided to temporarily stop the processing of motorbike registration in its four inner districts in 2003 to tackle the problem of traffic jam and traffic accidents which were rising at an alarming rate. In 2004, it extended the temporary ban to the three other districts, covering the whole city. In this case, it can be said that local authorities resorted to "rule by convenience" rather than developing a full policy framework to reconcile different interests in a multi-stakeholder economy. As a result, motorbike producers and dealers, especially scooter producers, were distressed.

For example, Yamaha, the largest scooter producer in Vietnam, had been selling 25 percent of its products in Hanoi. Yamaha's sales and marketing manager stated that, if the ban was approved, the company's production might drop 20 percent that year, Yamaha would be forced to turn to rural markets where scooters, costing more than ordinary motorbikes, hardly sold, and most of its twenty dealers in Hanoi might be closed. Other major motorbike producers, such as Honda and SYM, shared Yamaha's concern. A prominent motorbike trader in Hanoi feared that the "golden era of luxury scooters will end" if the ban took effect. The ban threatened not only up-market models but also cheap domestic ones. Besides an abrupt shrinking of the urban market, it increased competition in rural markets. A director of a domestic company worried that they would have to face more competition when most producers tried to sell their motorbikes in rural areas. An official of the Vietnam Bike and Motorbike Association predicted that most of the association's 43 members would face a tough time following the ban. (Vietnam News, Feb. 5, 2004)

To conclude, it is evident that the local government is communicating with the business community mostly in a mechanical and formal way. It often tries to influence business behavior through regulations and administrative interventions, which create missing links between the government and the business community. There may be two causes for this. First is the possibility that the notion of shared vision between the government and businesses is not

really recognized or appreciated. In this case, the gap stems from the conceptual level since the sense of urgency in building an effective bridge between investors and the local government is lacking. Second, administrative, non-market interventions which adopt “rule by convenience” without long-term solutions contributes little to the government’s responsiveness to businesses. In fact, such policy reaction surely leads to more difficulties for the business community.

3. How the Business Community Influences the Government

Under *Doimoi*, policy reforms have brought significant changes in business environment. In addition to the national government, policies of provincial governments also have shaped business environment in each province. As demand for change increased, systematic consultation between the state and the business sector has taken place to address business constraints. Under such circumstances, there is more room for the business community to influence policies of provincial governments. Channels for influence are as follows:

Vietnam Business Forum - FDI firms can voice their views by participating in a forum hosted by the World Bank and MPI. The Vietnam Business Forum (VBF), held twice a year in conjunction with the Consultative Group meetings, provides an opportunity to discuss business constraints with the government. At VBF, foreign investors normally present a list of demands. A publicly announced matrix of problems they have faced in Vietnamese regulations is used to grade the government’s efforts on reducing them. A broad range of issues are taken up at VBF from administrative procedure to land use rights, infrastructure, tax laws, and dispute settlement procedure. The efforts of provincial governments have not been explicitly evaluated by VBF, but they are aware of the matrix and their reputation among the investor community. Many foreign investors located in Hanoi have joined VBF.

Domestic mechanisms—The domestic private sector has increased pressure for more business-friendly policies after the enactment of the Enterprise Law in 2000. As with some other provincial governments, Hanoi has organisations to hear the voices of domestic business people. For example, the SME Support Center opened in October 2005. The center, under the Hanoi Authority for Planning and Investment, offers suggestions to city authorities in designing and adjusting SME development policy. The center also provides legal information to businesses. Besides government organisations, more independent business organizations have also emerged to represent the interests of the emerging private sector. The Vietnam Chamber of Commerce and Industry (VCCI) is the largest and most prominent national business organization with most of its members belonging to the private sector. Established by the government in 1960, VCCI’s original objective was to promote economic relations between Vietnam and the rest of the world. According to its current statutes, it is an “independent, non-governmental organization” operating on the basis of financial autonomy, but carrying out its activities “with the support and under the supervision of the Vietnamese state.” VCCI currently has 5,270 members, of which 1,394 are SOEs. Its officials are public sector employees, and about a fifth of funding is provided by the government. Other relevant associations include:

- The Vietnam Cooperative Alliance (VCA), sponsored by the government, has its staff appointed from government officials. VCA has branches in all provinces including Hanoi. Any cooperative can become a member.
- The Union of Associations of Industry and Commerce (UAIC) was created by reorganizing business organizations which had existed in the South prior to reunification, such as the General Association of Industrialists of Saigon. In 1989, with the encouragement of the Fatherland Front and the permission of the provincial government, the Association of Industrialists of HCMC was established by a group of business people who had operated since the pre-reunification time. This was the first business association for private sector members. It was later reorganized into a number of sectoral organizations which now count twelve. Originally, UAIC membership consisted of private enterprises

only, but recently the Association has opened its door to SOEs as well. At present, UAIC has approximately 1,800 members.

- Young Business Associations and Clubs are active in many provinces. The majority of members are private companies. The first to be established was the HCMC Youth Union. Others started very informally. The Young Entrepreneurs' Club in Hanoi was launched by about ten of the first private company directors of Vietnam in the early 1990s. The group initially met mainly to network and socialize. Gradually, it became a forum where members could discuss experiences and make business connections. The Club has 390 members at present.
- The Hanoi SME Association was started in 1995 as a club for SMEs in Hanoi. In 2000, its name was changed to Hanoi SME Association.
- There are also a number of sectoral associations, whose members are predominantly from the state sector. The Vietnam Leather and Footwear Association (LEFASO), for example, was created out of an earlier production alliance by SOEs, whereas the Vietnam Textile and Garment Association (VITAS) emerged from a General Corporation².

In sum, there are a number of channels through which the business community may influence the local government. However, the list above does not tell us how effective such channels really are.

How deep is business involvement in policy making?

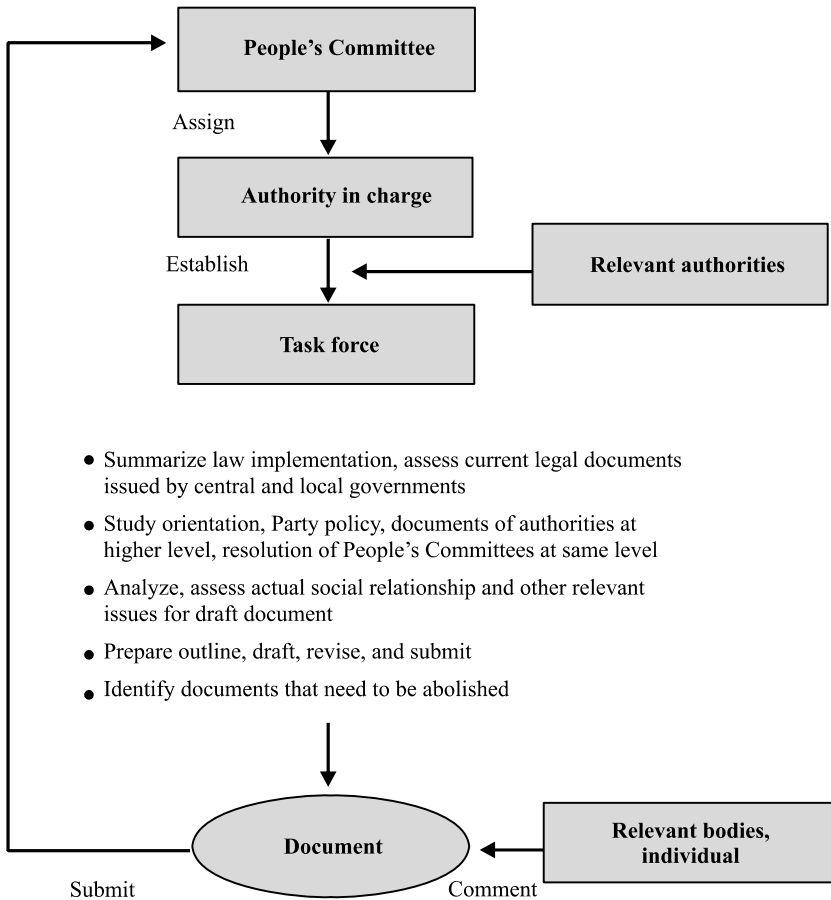
In this section, we examine concrete involvement of businesses in the policy making process. We first look at the drafting of legal documents of Hanoi's government.

The process of drafting legal documents is depicted in Figure 3. Assuming that the top leaders of Hanoi have correct orientation, the quality of formulated policy depends on two factors: (i) capability of authority in charge, and (ii) the process of policy formulation. The former is beyond the scope of this paper, but the latter deserves attention. The terms of external

² Trang Quynh Phuong Nguyen and Jonathan A. Stromseth (2002), and ADB (2005)

consultation are not explicitly spelled out in this process. Stakeholders, including businesses, can get involved only by making comments on drafted documents in the final stage. Thus, involvement is quite limited and can hardly be considered as sufficient participation of the business community.

Figure 3 Policy Making Process of Hanoi



The diagram shown here applies to the case of Hanoi's socio-economic development plan 2001-2010. Hanoi made great effort in drafting this plan.

Forty-two reports on various topics were prepared as background papers. A large number of universities, researchers and experts were mobilized in the drafting of the plan. However, participation of the business community was not incorporated explicitly in the process.

In 2005, we conducted a small survey on twenty enterprises located in Hanoi, including both large FDI firms and small domestic private enterprises. The results show that none of them had ever heard of the plan. Moreover, when asked if they wanted to look at this document, all of them said “No.” Theoretically, the development plan of the local government is among the most important macro environment factors that enterprises should carefully research in designing their business strategies. However, the document does not serve this purpose in Hanoi and the private sector does not expect much from it. Clearly, the two actors government and businesses are separated in their vision and interests. They do not understand each other and their interaction, if any, remains unproductive.

More recently, Hanoi assigned the Hanoi Authority for Planning and Investment (HAPI) to compile the socio-economic development plan 2006-2010. The schedule for this process was instructed as follows (Hanoi People’s Committee, 2006a):

- February 2006-HAPI prepares the draft version of the plan and submits it to relevant bodies such as Hanoi’s departments, industries, districts, and communes.
- March 2006-HAPI submits the revised draft to the Hanoi People’s Committee for consideration.
- April 2006-HAPI completes the report and submits it to the Hanoi People’s Committee, receiving comments from the Party Committee of the city.
- May 2006-HAPI receives comments from public including the business community.
- June-July 2006-HAPI submits the final draft to the Hanoi People’s Committee for approval.

This process is basically the same as that of drafting the previous master plan. Compared with the cases of Thailand and Malaysia cited earlier, three points

should be noted about Hanoi's policy making in general and the process of drafting plans in particular. First, involvement of the business community is shallow. Investors' views are not reflected in the early stages and they are allowed to raise voices only when the plan is nearly finished. Second, the importance of business participation in decision making is not widely recognized, unlike in Thailand or Malaysia. This may be partly caused by the lack of substantive prior interaction between the city's higher management and businesses. Lastly, the capacity of business associations is still weak. They cannot serve as organizations to promote the common interests of the business community.

Can Information and Communication Technology help?

Can information and communications technology (ICT) help the government and the business community to get closer? To answer this question, let us look at the Hanoi Portal website located at www.hanoi.gov.vn. This portal aims to provide and disseminate information of the Municipal Administration to government agencies, organizations, enterprises, and citizens. It is intended as one of the key steps in developing e-government services. However, in practice, this portal remains less effective than expected. The number of news updated on the website is not large. As reported in the Hanoi People's Committee's official document 262/UB-KT dated on 19/01/2006, none of Hanoi's departments had provided more than 20 updates in their news, except the Hanoi People's Committee Office and the Department of Culture and Information. In addition, there were only three out of 392 questions raised by the public that had been answered by departments. This response rate is very low. That is why, on January 2006, the Hanoi People's Committee asked its departments and districts to seriously review their information dissemination through Hanoi Portal. Obviously, ICT can be used effectively only if strong commitment from top leaders is adequately transmitted to lower management levels. Adoption of e-government cannot ensure success if relevant departments are not ready to be transparent and responsive.

4. FDI inflow and the Provincial Competitiveness Index

In 2005, Hanoi attracted 159 FDI projects worth more than \$1.56 billion. Hanoi was the leading city in FDI attraction that year, accounting for 33 percent of newly-licensed or additional foreign investments in Vietnam. Compared with the previous year, Hanoi recorded a 42-percent increase in the number of projects and a 5.3-time jump in capital. Approved 159 projects and \$1.56 billion in 2005 far exceeded preset goals (HAPI, 2006). This was the first time Hanoi overtook HCMC in FDI attraction. While a large FDI inflow should be celebrated, it is important to examine the factors that attracted so much FDI. It is very difficult to say that this achievement was the result of the local government's responsiveness and initiatives. It appears that increased interest in Hanoi was mainly due to a number of advantages Hanoi had over southern provinces including location, lower wages and lower infrastructure costs. The crucial fact is that Hanoi is very close to China. A *Time Asia* article, citing a large number of foreign investors, concluded that Hanoi was one of the best locations if an investor wanted to sell his products to China (Johnson, 2006). Rising attraction of Hanoi in recent years largely reflect the importance of untapped markets in China and the improvement of transport infrastructure connecting Hanoi to China. In January 2006, a new highway from Hanoi to the Chinese border was completed, cutting travel time to the Chinese industrial city of Nanning from two days to seven hours. It is undeniable that Hanoi is experiencing high FDI inflows, but the contribution of local government's responsiveness is unclear.

One way to assess Hanoi's responsiveness is through the perceptions of investors. This is the approach adopted by PCI of the VNCI and the VCCI. PCI tries to quantify business environment in which private firms operate. Indicators are selected by reviewing the literature on competitiveness as well as the factors highlighted by researchers and practitioners in Vietnam.

Specifically, nine sub-indexes which cover (i) entry costs, (ii) access to land, (iii) transparency and access to information, (iv) time costs and regulatory compliance, (v) informal charges, (vi) implementation of policies, (vii) state sector favoritism, (viii) proactivity of provincial leadership, and (ix) private sector development policies, are constructed to compute PCI 2005³. PCI 2005, constructed as above, is a comparison of voices of 2,000 enterprises from 42 provinces. In PCI 2005, Hanoi ranked 14th among 42 provinces surveyed. It received low marks in transparency and access to information and informal charges. In PCI 2006, the Hanoi's position was significantly lower, at the 40th among 64 provinces. From 2005 to 2006, the only sub-index to improve in Hanoi was transparency. All others worsened and some of them significantly, such as entry costs, access to land, proactivity of provincial leadership, and private sector development policies. Hanoi also scored quite low in the two new indices of PCI legal institution and labor training relative to its peers, with firms expressing distrust in provincial legal institutions. This evidence hardly supports the view that Hanoi's responsive is improving.

In short, information from various sources suggests that much care should be taken in interpreting the fact that Hanoi is regarded as a good investment destination. Foreign capital is attracted to Hanoi mainly because of its

³ For PCI 2005, three main sources of information were used to compute the sub-indices. The first was a mail-out survey of 16,200 enterprises in 42 provinces, directly asking entrepreneurs to report their perceptions. The second was available statistics on such indicators as the state share of output, and the variation in the number of provincial SOEs over time. The third was a set of subjective assessments by the research team, for instance regarding the overall quality of provincial governments' websites. These three sources were combined through a two-stage process. In the first stage, more than 40 detailed indicators were constructed, each of which was standardized on a ten-point scale, and related indicators were averaged to become the nine sub-indexes. In the second stage, the overall PCI was constructed as the weighted average of these sub-indexes. Weights were derived from a statistical analysis of the importance of the sub-indexes as determinants of private sector investment per capita. PCI may have two problems. First, it is not representative of the experiences of all enterprises (i.e. potential sample bias). Second, indicators and weights constructed by the research team are not objective. PCI 2006 basically follows PCI 2005 but has a number of improvements. PCI 2006 has a larger sample of businesses surveyed covering all 64 provinces with new weights and modification of sub indices.

location, infrastructure and cheap labor rather than the city's initiatives and proactiveness. There is much room for improvement in Hanoi's government-business interaction, which is a vital factor for sustaining its good business environment.

5. Concluding Remark

Our analysis has shown that there are missing links between the local government and the business community in Hanoi. They hamper the local government's responsiveness in particular, and Hanoi's business climate in general. It was concluded that Hanoi has to improve its government-business interaction by addressing these missing links. Our concern is that the present responsiveness of Hanoi's government is not commensurate with its ability. Hanoi's responsiveness may be considered adequate by some criteria, such as FDI inflows, but it can do much better and maximize its many advantages mentioned above.

To address missing links, greater involvement of businesses in policy making, in a transparent manner, is urgently required. The voice of the business community should be taken into account from the earliest stage of policy cycle. For this purpose, the role and capacity of business associations should be strengthened to serve as an effective bridge between the government and businesses that they represent. In addition, policy makers should reconsider the way in which decisions are made. If local authorities have strong business orientation, they should be able to make decisions that truly address the problems faced by the business community. The mechanism to incorporate the views of investors should also be installed and enhanced. Without a clear and efficient mechanism for hearing them, the involvement of the business community is likely to remain inadequate.

Besides business associations, government-business interaction should be strengthened by establishing other bridging institutions. Whether they are governmental organizations or NGOs does not matter much. They should promote information exchange and dialogue, and even forge common action between the government and businesses. SMEs may become a focal point for bridging domestic investors and the local government if their organization is strongly business oriented. Regarding FDI firms, the example of the Investment and Trade Promotion Centre (ITPC) of HCMC provides a very good lesson.

Last but not least, interaction should be substantive at all levels of municipal management. In particular, higher leaders should interact more frequently with the business community through bridging institutions or common activities.

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