

Chapter 2 The Nationality Factor in Assessing Hanoi’s Investment Environment

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Foreign Direct Investment (FDI) is an important source of economic development of localities, but it does not come automatically. FDI inflow depends on natural factors such as geography, climate and endowment of natural resources, as well as on human and social factors such as the policy mechanism and infrastructure of each locality. “How to become an attractive destination for investors” is a question for not only the central government but also for cities and provinces of Vietnam. While Hanoi has received a relatively large proportion of total FDI inflow into Vietnam, the amount still falls short of its potential or people’s expectation.

From the marketing viewpoint, we assume that each investor or investing country has its own strengths and weaknesses as well as its own objectives and interests in searching investment opportunities in any particular destination, including Hanoi. To target certain types of investors, it is necessary to find their specific needs, desires, and goals, and also know their assessment of Hanoi. This research reviews Hanoi’s FDI performance in the context of global and national FDI situations, and studies the requirements and evaluation of investors by nationality.

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The chapter is organized as follows. The first section explains *place marketing*, a concept that plays a key role in this study. Section 2 reviews the current situation of FDI flows into Vietnam in general and Hanoi in particular. Section 3 summarizes the evaluation of Hanoi's investment environment by experts and Hanoi leaders. Section 4 reports the result of the VDF survey on the place marketing of Hanoi as perceived by investors. Section 5, also based on the VDF survey, classifies investors' views by group of territory. The last section concludes.

1. Place marketing

The concept

Marketing is a concept-we may even call it a philosophy-that has been widely shared by businesses, researchers and officials in the developed world. The core idea of marketing is to understand customers' needs and wants, and use the most effective approach to fill them. Marketing contributes to businesses by proposing the most effective method, within limited resources, to achieve defined targets. It solves the problem of suppliers by offering solutions to customers. With the help of marketing, businesses compete with each other through the value of interest and solution rather than physical products. The importance of marketing is clearly recognized by the business sector in market economies. Nowadays, marketing is applied all around the world, in many areas outside business such as politics, social studies, and even building national identity. Marketing can also help localities to attract foreign investment.

Place marketing encompasses a range of activities to assist local economic development by improving the competitive advantage of a locality⁵. These activities include (i) comprehensive changes in the form, formality, and awareness of the role and functions of local authorities, (ii) the use of financial incentives, and (iii) organizational changes in the way that enables a

⁵ Young Florida State University, USA, <http://www.egs.mmu.ac.uk>

locality to build new and more attractive images. Place marketing aims to distinguish and improve “artificial” features of a locality rather than natural features such as geography or resource endowment. Places with effective marketing will become more attractive than others in the eyes of the targeted group-investors, politicians, tourists, consumers, professionals, or skilled workers. Thus, place marketing is a system of local action programs to improve the locality’s socio-economic status.

In place marketing, a place is defined as a geographical area bounded by administrative borders or natural terrain. It may be a commune, district, province, region, nation or a wider area. A place has particular characteristics in culture, history and tradition. A place also has a psychological attribute which influences the manner of relations and behaviors of the habitants. It is managed by an administrative system with legislative, executive and judiciary bodies. For development, a place must have organizations and businesses that create institutional foundations and jobs for its habitants.

Place marketing is not really a new concept. Development of a nation is often accompanied by the acquisition of technologies that facilitate the building of the national socio-economy. In today’s world with fierce international competition, each locality should carry out a strategic marketing plan to take full advantage of technologies that helped other countries to develop. Place marketing combines internal and external forces to create benefits. External forces here mean targeted customers which means, in this chapter, foreign investors. A locality should specify its targeted customers first, and construct a suitable strategy for each customer.

Place marketing performers are those who take part in marketing activities. They include virtually everyone living or working in a locality. Among them, local authorities are the ones who initiate and take the largest responsibility in local planning and development. The public administration system, policies and visions greatly influence customers’ awareness of the place. State-owned and private businesses, and other organizations in the business sector, provide products and services to fulfill common demands of the society in general and targeted customers in particular. Their serving attitude and the quality of

service directly impact the level of customer satisfaction. Local inhabitants, with their life style and behavior, also influence the external image of the place. For example, the existence of beggars, criminals and street littering reduce the place's attraction.

The customers of place marketing are those who are targeted. There are four possibilities of targeted customers in place marketing: (i) tourists who come to the place for sightseeing or visiting relatives or friends, (ii) workers who enrich the place and add to its social environment, and their families and relatives⁶, (iii) investors and their surroundings⁷ who come to create value with brain power, technology and money, and (iv) export markets which buy local products. Each customer type may be subdivided into groups with different characteristics and ability to benefit the place. Thus, a place may choose to approach some customer groups, rather than all, to maximize benefits. In this chapter, the theory of place marketing is applied to the third category, namely foreign investors in the Hanoi market segment.

After determining targeted customers, an important thing that a place must do is to create its marketing strategy for the targeted customers based on local identity and image orientation. Ascertaining local identity and image means deciding how the place wants its customers to think of itself. Analysis of strengths and weaknesses is indispensable for choosing a suitable image. Image orientation strategy will help the place to define activities to attract customers (foreign investors).

Identity and image of a place are not natural facts. They are formed jointly by physical infrastructure, institutional superstructure and the behavior of local habitants and organizations. In today's competitive world, leaders of a place should, for instance, upgrade the education and training system, promote exports, and mobilize local resources to overcome the globalization challenges. Place marketing theory tells us that these efforts must be made not unilaterally but with explicit consideration of targeted customers and their

⁶ It is impossible to attract only professional employees because of human being.

⁷ Investors come to the place together with their supporters, family members and trading partners.

needs and assessments. In the development process, latecomers can learn from the experiences of other countries that have succeeded and are moving ahead. To emphasize the importance of marketing effort, the following words of place marketing researchers are cited to conclude this first section.

Some places may prosper through luck, accident, or initially strong endowments without applying strategic market planning principles. However, market forces keep changing and do not forgive the complacent. In fact, even though when does not possess rich natural resources, those places that make use of basic marketing principles in building their development strategy always get better chance for success⁸.

Place marketing in FDI attraction

FDI contributes to development for the following reasons.

- FDI provides financial sources for local economic development. It expedites construction of infrastructure, information systems and other basic conditions for development.
- It brings advanced technology and management skills which are, over time, transferred to local managers and workers.
- Investment projects create jobs and income.
- Through working with FDI, the locality can improve its ability in institutions, human resources, marketing, etc. to achieve competitiveness.

Like any marketing strategy, a marketing strategy to attract FDI also includes four P's-Products, Price, Place and Promotion. Among them, products play the central role as explained below.

Products in place marketing should be understood as not just policies but more broadly as investment environment itself. Everything that investors face in the locality, including objective factors such as geographic location, infrastructure and natural resources which are difficult to change in the short

⁸ Kotler, Rein and Haider (1999a:4), *Marketing Place Europe*, Prentice Hall

run, and subjective factors such as policies, mechanisms, attitude and the level of human resources which can be changed by proper effort.

In place marketing, the concept of *price* is also broader than that of common products. Price is inclusive of all costs of investment borne by investors, which affect their ability to achieve targets. Investors are concerned about both official costs and unofficial ones. In fact, unofficial costs often seriously and negatively affect investors' decision in selecting an investment location. However, these costs are in large part determined by the products (investment environment) offered by the place. In this sense, products and price are intertwined in place marketing.

Place-or more commonly, *distribution channels*-should not be interpreted as a location of product distribution but whether and how the place delivers, and investors receive, the benefits that are promised to be provided. Obviously, if the distribution channel does not operate or operate ineffectively, all marketing efforts become meaningless because products do not reach customers. In this sense, the distribution channel depends critically on the interaction of two parties, namely the place and investors. Again, the distribution channel cannot be separately considered from products themselves. If investors judge the products of place marketing (investment environment) to be good, the distribution channel must be operating effectively.

As to *promotion* (or more commonly, *communication*), place marketing must have a way to communicate to investors information on what has been done to help them attain their targets. Communication should be done in such a way that investors can clearly understand local investment environment and what they can get by investing and what should be done to receive these benefits. The place should engage in dissemination through such medias as newspapers, international magazines, internet, literature, tourists, conferences, and trade and investment fairs. Besides the government, communication activities by local organizations and businesses are also an effective means of local image building.

Previously, places often advertized their natural advantages and resources to attract customers and achieve quantitative targets without taking investors' needs into account. At present, with the innovation in thinking, marketing should start from defining investors' desire. Under globalization and international competition, investors only care about the benefits they are interested in and go to places where these benefits can be had. To attract investors, a place must understand them better and try to fulfill their needs⁹.

2. FDI situations in Vietnam and Hanoi

Global trend

According to UNCTAD's *World Investment Report*, global FDI in 2004 showed the sign of recovery from three consecutive years of decline. Global FDI inflows increased from USD653 billion in 2003 to USD755 billion in 2004.

Asia is an area that attracts much attention of investors and receives the largest amount of FDI among developing regions. China headed the list of the largest FDI recipients of the world in 2003, followed by Hong Kong, Singapore, India and Korea. In 2004, FDI inflows into Asia-Pacific reached USD166 billion, an increase of 55 percent compared with the year 2003. Among the reasons for renewed FDI into the Asia-Pacific Region were strong growth in key economies, better and improving investment environment and regional integration, which together stimulated intra-regional investment and prompted multinational corporations to extend

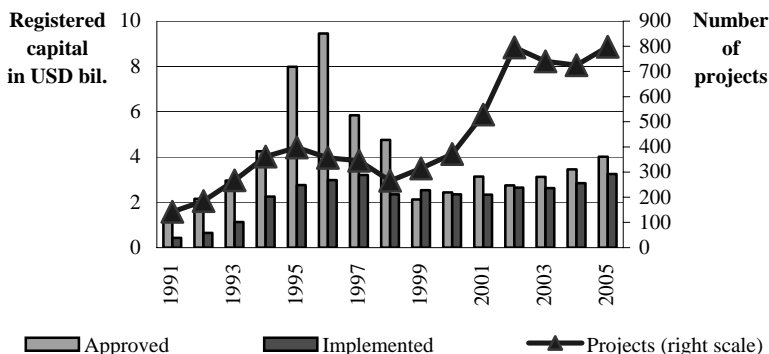
⁹ Ireland, with an FDI inflow of USD 100,000 per capita, is a very successful country in attracting FDI following this guideline. To achieve this result, the Irish FDI committee has applied a wise marketing strategy. The committee members went around the world to directly approach more than 700 leading multinational corporate groups and asked the question, "what should Ireland do to make foreign investors come to invest there?" After receiving answers, they went home to find ways to meet these demands as much as possible. Through this effort, although Ireland is not the place that investors think of first, it has become the final choice of many big investors. In 2005, Ireland was chosen as Europe's most competitive country above Denmark, Switzerland and Luxembourg.

production networks. FDI in Southeast Asia increased rapidly despite the negative affect of SARS epidemic in the region, and concentrated in services, electrical and electronic products, and tranport vehicles.

FDI in Vietnam

During the last two decades of renovation, FDI inflows into Vietnam have undergone three stages¹⁰. Figure 1 shows FDI into Vietnam in the period 1991-2005.

Figure 1 FDI Inflow to Vietnam



Source: MPI, 2006

In the first stage, from 1988 to 1996, FDI inflow accelerated from a low base. In these nine years, 1,998 projects were registered with total capital reaching USD30.4 billion, which accounted for 48.2% of total registered capital in the last 17 years. The annual average inflow was USD3.4 billion.

In the second stage, from 1997 to 2002, newly registered and additional capital declined significantly. In these six years there were 2,695 newly licensed projects with total newly registered and additional capital of USD10.9 billion. The annual average was USD1.8 billion.

¹⁰ All data quoted in this subsection comes from the MPI website

In the third stage, from 2003 to now, resurgence was seen in total newly registered and additional capital. From 2003 to 2005, there were 1,920 newly licensed projects with total newly registered and additional capital of USD12.6 billion amounting, in just three years, to 41.3% of total capital of the first stage and more than the total of the second stage. The annual average reached over USD4.0 billion, the highest ever.

Despite fluctuations, FDI inflow into Vietnam has increased significantly in both number of projects and investment volume. However, the implementation rate, at 49 percent, is relatively low. Vietnam has also attracted some investors that are very large, such as the joint-venture project for constructing a CDMA mobile phone network with a registered capital of USD665 million. Moreover, many existing FDI projects are applying for re-investment, especially in industrial and service sectors. As Table 1 shows, among Vietnam's cities and provinces HCMC takes the lead with 1,834 projects and registered capital of USD12.2 billion as of March 2006.

Table 1 Cities and Provinces Receiving Largest Amounts of FDI

(Cumulative to March 2006, in USD million)

	Province	# of projects	Registered capital	Investors' capital	Implementation
1	HCMC	1,834	12,208	5,856	6,058
2	Hanoi	646	9,227	3,948	3,385
3	Dong Nai	696	8,442	3,316	3,831
4	Binh Duong	1,055	4,933	2,057	1,855
5	BR-VT	120	2,892	1,031	1,250
6	Hai Phong	185	2,010	840	1,228
7	Coastal (oil)	27	1,891	1,384	4,556
8	Vinh Phuc	93	765	302	414

Source: MPI, 2006

Table 2 lists the largest source countries of FDI in Vietnam. Taiwan, Singapore, Japan, Korea and Hong Kong have largest amounts of registered capital. The number of investors from the US, Australia and Luxembourg

increased rapidly in recent years. However, investments from Luxembourg, which rose sharply in the last two years, mostly reflects investments originating from other countries using Luxembourg as a tax shelter. There is also a tendency for Japanese FDI to shift from China to Vietnam and other ASEAN countries after the anti-Japanese movement in 2005, which increased the risk for Japanese firms to do business in China.

Table 2 FDI in Vietnam by Nationality

(Cumulative to end 2005, in USD million)

	Territories	# projects	Registered capital	Investors' capital	Implementation
1	Taiwan	1,408	7,932	3,414	2,939
2	Singapore	395	7,599	2,821	3,620
3	Japan	590	6,194	2,810	4,513
4	Korea	1,029	5,279	2,284	2,463
5	Hong Kong	354	3,697	1,561	1,992
6	China	352	732	406	182
7	The US	260	1,456	759	728
8	Australia	115	665	197	342
9	Luxembourg	15	811	726	21

Source: MPI, 2006

According to National Center for Socio Economic Information & Forecast of MPI Vietnam, UNCTAD, World Bank... reports, in 2005, Vietnam was one of the most potentially attractive FDI destinations in Asia, ranking second after Thailand. This means that the international business community already has a high opinion of and great interest in Vietnam. If such a favorable sentiment is fully realized in actual projects, FDI inflow into Vietnam should be greater, perhaps on the order of USD5 billion per year or more, than the current level.

FDI in Hanoi

Foreign investment in Hanoi started to increase in 1989 and reached a peak in 1996. Subsequently, it declined sharply until 2000. Then a slow recovery began. The year 2005 was the most successful year of Hanoi in attracting FDI with 113 new projects registered totally, valued at USD1.2 billion. The total registered FDI projects in Hanoi so far has reached the number of 634 with the total value of USD9.32 billion. In that year, Hanoi was leading FDI inflow in Vietnam. Table 3 and Figure 2 summarize Hanoi's performance in FDI attraction. According to the Hanoi Department of Planning and Investment (HAPI), by the end of 2005, the largest proportion (59 percent) of FDI in Hanoi was in the service sector including the construction of post and telecommunication systems, office buildings, hotels, entertainment, consultation, banking, insurance, and other industrial supporting services. On the other hand, FDI in the industry sector accounted for 38.9 percent of the total registered capital, and concentrated in the development of infrastructure and industrial zones, car and motorcycle production, high-tech industries, and textiles. FDI in agriculture and forestry was less than 3 percent of total.

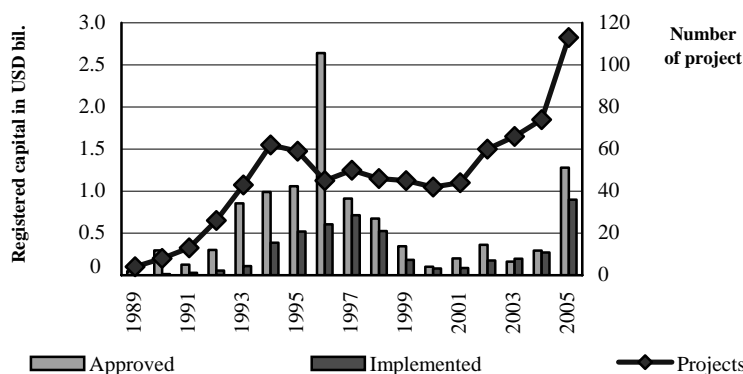
Table 3 Overview of FDI in Hanoi

(Cumulative to March 2006)

Number of ongoing projects	646
Total registered capital	USD9.3 billion
Implemented capital	USD3.3 billion
Number of source countries and areas	42
Total sales	USD12 billion
Export earnings	USD3.25 billion
Number of employees in FDI projects	48,000 persons

Sources: HAPI and MPI, 2006

Figure 2 FDI Performance of Hanoi



Sources: HAPI and MPI, 2006

Table 4 shows FDI performance of Hanoi in relation to national performance over time. Hanoi's position has tended to decline in the number of projects while its share of registered capital is on the rise. This is because Hanoi increasingly receives large projects using high technology in comparison with the national average. FDI operations have played an important role in the economic development of Hanoi and surrounding provinces¹¹. Table 5 shows the contribution of FDI to Hanoi's economic performance.

Table 4 Hanoi's FDI in Comparison with National Performance

Stage	Number of projects			Registered capital (USD mil.)		
	Vietnam	Hanoi	HN/VN	Vietnam	Hanoi	HN/VN
1988-1990	213	12	5.6%	1,793	343	19.1%
1991-1995	1,330	203	15.2%	16,683	3,332	20.0%
1996-2000	1,672	227	13.5%	20,623	4,672	22.6%
2001-2005	3,522	322	9.0%	10,629	2,964	27.8%

Source: HAPI, 2005

¹¹ For reference, Chapter 6, Le Ha Thanh

Table 5 Contribution of FDI to Hanoi's Economic Development

	1990-1995	1996-2000	2001-2005
Capital formation/social investment	45%	26%	15%
Employment	23%	15%	10%
Export revenue	28%	46%	21%
Tax revenue	12%	15%	10%
Industrial production	30%	41%	34%
Municipal GDP	17%	23%	15%

Source: HAPI, 2005

At present, there are forty-two nations and territories investing in Hanoi, led by Singapore with 42 projects and total registered capital of USD2.53 billion. After Singapore, largest investors are Japan, Korea, Australia, Thailand, Hong Kong, Sweden and France in the descending order of registered capital.

Japan has the largest number of FDI projects in Hanoi, but Japan's invested capital is not as large as Singapore's. Many Japanese projects are joint ventures in which the Japanese side contributes only part of the total capital. Japanese FDI firms also include a number of small producers which come to Vietnam to supply parts to Japanese large assemblers. In terms of average capital per project, China is the smallest at USD1.5 million while Luxembourg is the largest at USD54 million.

3. Hanoi in the eyes of Experts and Local authorities

Experts' viewpoint

In the assessment of experts and investors, Hanoi's main strength is large market potential backed by a large population with relatively high income. On the other hand, its weaknesses come from the bureaucratic mechanism,

regulatory policies, high cost of investment compared with other cities and provinces, and problems in coordination and allocation of responsibility between the central and Hanoi government. Nevertheless, experts generally agree that various reforms in recent years have improved Vietnam's business environment considerably. At the national level, legal reforms in business and property registration, investor protection, contract compliance, and bankruptcy procedure as well as serious negotiation for WTO accession are helping to improve investment environment of Vietnam, including Hanoi.

Investors searching for a location to invest are interested in many factors. A study by the VCCI has constructed nine indices covering (i) market accession costs, (ii) business land and premises, (iii) transparency and responsibility, (iv) time cost of implementing state regulations, (v) unofficial expenses, (vi) implementation of state policies at the location, (vii) policy preference towards state-owned businesses, (viii) flexibility and pioneer spirit of provincial leaders, and (ix) policies for private sector development. Researchers used these indices to compare competitiveness among different provinces in the eyes of small and medium enterprises. The VCCI study in 2005 ranked Hanoi at 14th out of 42 cities and provinces surveyed in that year with the score of 60.32 out of 100, which was considered fairly good. Hanoi was below Binh Duong, Da Nang, Vinh Long, Dong Nai, and Quang Ninh but above HCMC, BR-VT, and Hai Phong. In 2006, however, Hanoi's competitiveness index fell sharply from the 14th place among 42 provinces and cities to the 40th place among all 64 provinces and cities, with nine out of ten indices of Hanoi below national average¹². However, since this research focused on small and medium businesses, its results may not be directly applicable to foreign investors' assessment.

In a separate study in 2004, Dr. Vu Minh Khuong of the Mekong Private Sector Development Facility (MPDF) also used the same nine indices to compare competitiveness of Hanoi, HCMC and Hai Phong. The main objective of his research was to identify basic conditions and policies for fast economic development. It covered 544 businesses in three largest cities

¹² Provincial completion indices, VCCI and VNCI implemented in 2005 and 2006

mentioned above. The results showed that, in general, Hanoi is better than Hai Phong but far below HCMC in competitiveness. Hanoi was marked highly in the quality of financial and human resources, macro-policies, and infrastructure. However, Hanoi was inferior to HCMC in the amount of competition within the city, supporting industries, openness, institutions and technologies. This research also did not target FDI as it surveyed only three locations and considered all types of businesses.

According to UNCTAD and UNDP, however, Hanoi has recently attracted businesses by strong reforms on investment procedures (especially concerning land), better transportation linkage with other Northern cities and provinces, and growth of supporting industries and services. If this assessment is correct, “products” offered to investors by Hanoi have been improving.

Transparency and responsibility of management agencies in Hanoi are generally evaluated as poor. In addition, problems which are common throughout the country are creating barriers for business operation, including a weak banking system which fails to satisfy international standards, tariff structure which defy global practices, and protection of domestic production which discourages foreign investors¹³.

Hanoi has not yet brought its potential strength into full play or linked research with technology transfer to businesses¹⁴. In addition, general planning of Hanoi has been characterized by insufficient quality and administrative sectionalism. As a result, no vision has been presented to surrounding provinces to build socio-economic policy cooperation, create satellite cities to meet long-term development needs, and so on. The lack of coordination among functional departments and disconnected responsibility among them wear out investors in dealing with administrative issues.

¹³ E.g: Import duties of automobiles. After adjustment (which came to effect on 1st May 2006), in addition to fixed absolute import duties, imported automobiles of all kinds will be levied special consumption tax of 60% while domestically produced automobiles are taxed at 40%.

¹⁴ Mr. Phan Van Khai’s (Former Prime Minister) speech in the meeting session of the People’s Committee of Hanoi, July 2004

Relatively large unofficial expenses are another cause of low quality of Hanoi's business environment, as indicated in the Provincial Competitiveness Index of VCCI mentioned above. Other issues that are common in Vietnam, such as cumbersome application procedure for investment licenses, high telecommunication and transportation costs, and inability to access official financial resources, also exist in Hanoi.

The viewpoint of local authorities

In meeting and exchanging views with the press and investors, Hanoi's top leaders always affirm that Hanoi's business environment is open with specialized, realistic and unambiguous institutional systems to meet investors' demands. It is stated that "investors who enter Hanoi can see what the city has done for them and how they can stay and develop here¹⁵". Departments and branches are instructed to shorten the time required for granting investment licenses to seven days, instead of two weeks as before. A campaign to reduce the pestering of civil authorities is also on. Hanoi bears all "external construction expenses" for electricity, water, and streets. Hanoi assists businesses in recruiting and training high-quality labor. Daily administrative tasks concerning taxation and public order are given due attention to create a secure environment for long-term business operation. Under the intensifying competition to attract FDI among Northern cities and provinces, Hanoi is always proud of being in compliance with state's laws and regulations in FDI attraction. Thus, "Hanoi should be recognized as a model locality".

Hanoi's website lists the following eight comparative advantages over other cities and provinces in Vietnam.

- Being the capital and an international trading center with rich cultural tradition
- Having stable politics and safe business environment

¹⁵ Mr. Nguyen The Quang's (Vice-chairman of Hanoi People's Committee) opening speech with Vietnam Investment Review Report, posted in Vietnam Investment Review, Monday, July 18th, 2005

- High quality and well-trained work force
- Large market size
- Infrastructure which is upgraded daily
- Lower costs of social services and real estate acquisition than other localities
- Many industrial zones
- Easy and convenient administrative procedures

These are self-evaluation of the Hanoi authorities. Evidently, they are rather subjective. The Hanoi authority does not seem to have recognized the importance of applying a comprehensive marketing strategy for local development. Hanoi is indeed a potential FDI market but this does not automatically guarantee continuous attraction of foreign investors into the future. Relatively, the distance between Hanoi and contiguous cities and provinces is closer. The two expert studies¹⁶ mentioned above note that, when other localities are vigorously welcoming investors with various measures, Hanoi cannot just sit still and wait for development without making effort.

4. Hanoi in the eyes of Investors: the Marketing approach

According to the theory of place marketing explained at the outset, it is necessary to analyze the problem of FDI attraction from the viewpoint of *customers* (investors), with government authorities playing the role of providers of the *product* (investment environment). This and the next section look at investors' needs and their assessment of Hanoi's marketing activities. Information contained in these sections come from the VDF survey conducted from September to December 2005. A questionnaire was sent out

¹⁶ VNCI's and Vu Minh Khuong's researches, already mentioned above.

to over 100 foreign-invested companies in Hanoi as well as other cities and provinces. Foreign companies outside Hanoi were also included to investigate the reason why they had chosen another location instead of Hanoi. There were 68 valid returns, including 55 companies in Hanoi and 13 companies from other cities and provinces¹⁷. In addition, semi-structured interviews were conducted with seven companies in Hanoi and two companies in HCMC. Companies in the sample came from nine nationalities¹⁸. This section examines the *product*, *price*, *place* (distribution channel) and *promotion* (communication programs) of Hanoi's place marketing as perceived by its customers.

Information for selecting investment location

There are many factors that influence investors locational decision. According to the VDF survey, local market's potential is at the top of the list, followed by offers of partners, FDI attraction policy of the locality, and the transportation system. Investors also care, albeit to lesser degrees, about the financial and banking system, level of legal compliance, human resources and supporting industries. At the bottom of the list is the government's suggestion. Clearly, effort in attracting FDI should emphasize factors that investors consider important, rather than telling them what officials think are important. In the marketing approach, what customers think is crucial while the government can play a guiding role, if it properly understands customers' needs.

¹⁷ These include Ha Tay, Vinh Phuc, Bac Ninh, Hai Duong, Hai Phong, Dong Nai, and HCMC. Two answers were received from each city or province, except Bac Ninh which had one valid return.

¹⁸ Nationalities in this study are classified by distinct business style rather than the legal state concept. They break down as follows: Japan (10), Korea (10), EU (9), China (8), Taiwan (8), Singapore (7), Hong Kong (6), the US (6), and Australia (4).

Table 6 Importance of Various Factors in Selecting Investment Location

Factor	Mean	Min	Max	SD
Potential of local market	4.18	3	5	0.65
Partners' offer	3.99	3	5	0.76
Local FDI attraction policy	3.96	3	5	0.63
Transportation system	3.94	2	5	0.73
Financial and banking system	3.87	2	5	0.62
Legal compliance	3.87	3	5	0.64
Quality and attitude of work force	3.82	2	5	0.83
System of supporting industries and services	3.76	2	5	0.76
Premises and costs	3.68	2	5	0.82
Labor costs	3.51	2	5	0.87
Corruption level	3.50	2	5	0.74
Amount of competition within locality	3.46	2	5	0.78
Level of caring for environment	3.24	2	5	0.77
Vietnamese government's suggestion	2.66	1	4	0.73

Source: VDF survey, 2005

Note: The importance is indicated by a number ranging from 1 (least important) to 5 (most important)

The main motive for investors to select Hanoi is its market potential. Clearly, Hanoi's large population and high income is attractive to investors. At the same time, disadvantages also exist such as the lack of space in existing industrial zones, high land lease, and official intervention. As noted earlier, FDI projects in Hanoi are concentrated in services and industries. In our survey, 59 percent of respondents were in the industry sector, 35 percent were in the service sector, and only 6 percent were in agriculture and forestry. Moreover, two of the four projects in agriculture and forestry were considering a change to other business lines. Table 7 shows the current and interested sectors of the companies in the sample.

Table 7 Current Business and Future Intension

		Interested sector for future			Total
		Agri-forest	Industry	Service	
Current Sector	Agri-forest	2	2	-	4 (6.1%)
	Industry	-	33	6	39 (59.1%)
	Service	-	3	20	23 (34.8%)
	Total	2 (3.0%)	38 (57.6%)	26 (39.4%)	66 (100.0%)

Source: VDF survey, 2005

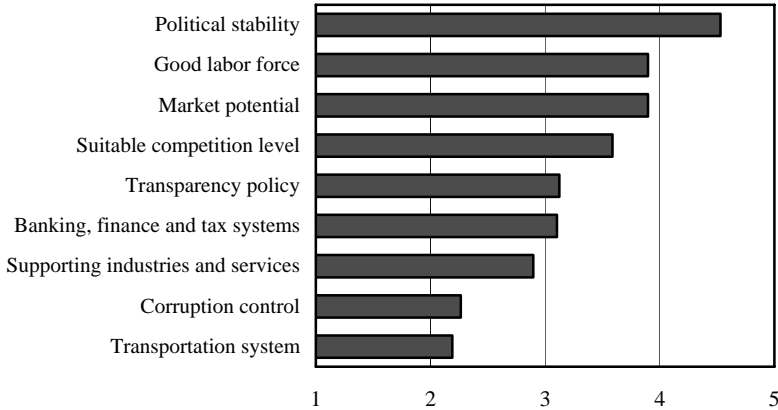
Total number is 66 since two respondents did not answer this question.

“Product” - investment environment

Virtually all investors stated that a strong advantage of Hanoi in particular and Vietnam in general was political stability. In Vietnam, they do not have to worry about political upheaval or terrorism. Some investors in the service sector said that market potential and work force in Hanoi were fairly good. This is because they see great potential in Vietnam’s service market, and supply is currently under-developed relative to the growing demand. Some businesses that produce goods for the domestic market also consider Vietnam as a promising market with increasing demand. Regarding labor force, Vietnam is well known for relatively intelligent and diligent workers. A newspaper interview with Isclue, a software company, sums up this advantage¹⁹. To the question, “*why Isclue decided to invest in Vietnam?*” the director replied, “*a nation that have people with such working spirit is the place for Isclue to invest.*”

¹⁹ *Tuoi Tre Newspaper*, October 14, 2005

Figure 4 Hanoi’s Investment Environment as Seen by Investors



Source: VDF survey, 2005
Investors were asked to give a grading from 1 (poor) to 5 (excellent).

However, Hanoi also has many shortcomings in the areas of transportation, corruption or supporting industries and services. These factors are considered to be problems that need to be amended to create a more attractive business environment. Financial and tax issues and transparency are also given relatively poorer marks.

Shortage of labor force was mentioned by some businesses but this phenomenon does not seem to be widespread, as Hanoi is supposed to be a training center of the country. However, during interviews a number of businesses noted that Hanoi’s workers did not have good qualifications or strong attachment to the job. According to them, there is a problem of “redundancy of teachers but shortage of trainees”. Investors generally remarked that finding white-collar workers was easy but finding qualified engineers or skilled workers was very difficult. In addition, workers are not disciplined, and most of them are like farmers who “work when they like to and take a rest any time they want to”. Nevertheless, investors still highly evaluate the working style of Hanoi’s workers, which is far better than some other localities in Vietnam.

An official list of projects calling for FDI is not appreciated by investors because the contents and implementation of these projects do not coincide with investors' interests. They are usually designed without care and have low feasibility. Project planners are often unexperienced and do not have enough knowledge for the task.

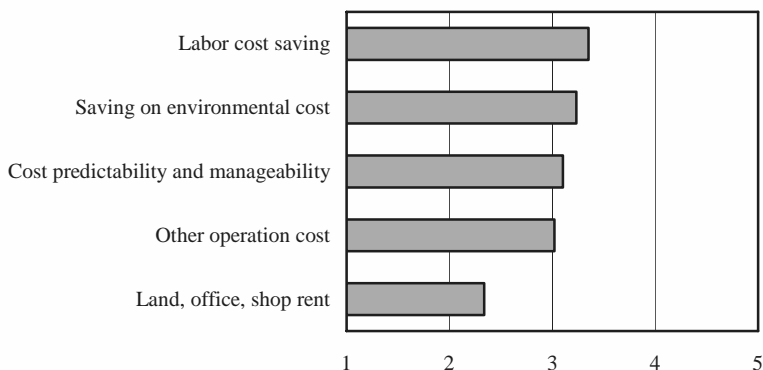
Hanoi's policies are considered to lack transparency with a large number of ambiguities and loopholes that invite corruption. While corruption exists everywhere, serious corruption is one of the key factors that significantly lower the investors' assessment of the place.

Hanoi's transportation and infrastructure systems are considered very poor. Investors are forced to spend more time and money to make up for the absence of good infrastructure. Some investors stated that this was the main reason why they planned to move to other localities where transportation was more convenient.

“Price” - the cost of doing business in Hanoi

According to the Hanoi authority, business expenses in Hanoi are much lower than in foreign cities. However, investors do not agree. They grade Hanoi's expenses as very high, even at the highest or the second highest in the world, because they have to bear many unofficial expenses.

Figure 5 Cost Advantages in Hanoi



Source: VDF Survey, 2005

Investors rated these factors from 1 (no advantage) to 5 (great advantage).

In interviews, businesses said that corruption at the provincial level was higher than at the central level. Some added that it existed at every level but higher payments were required at higher levels. Corruption damages the country's competitiveness and is also the main reason for Vietnam's low standing in the Index of Economic Freedom published by the Heritage Foundation and the Wall Street Journal, where Vietnam was ranked 142nd among 157 countries in 2006, down five places from 2005. Many business people in Vietnam in general and Hanoi in particular find it very hard to control their costs due to the unpredictable behavior of government officials and policemen. This shortcoming must be overcome quickly.

Low labor cost is one of the factors that attract investors to Vietnam. Labor cost in Hanoi is regarded as acceptable. But this cannot be counted as one of Hanoi's strengths vis-à-vis other cities and provinces which have lower wages.

Another weakness of Hanoi is expenses related to land use, especially for factories and infrastructure construction. Investors frequently face high rent,

high cost of land clearance and resettlement, and project delays. Uncertainty in the final total cost and the timeliness of project completion seriously discourages investors.

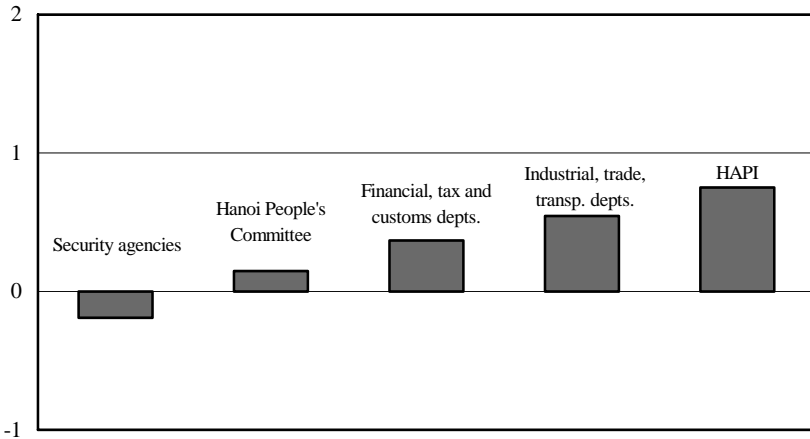
“Place” - the distribution channel

Many investors did not get what Hanoi said it offered. Though Hanoi has an encouraging and supportive policy orientation in principle to help investors to do business, goodwill of Hanoi’s leaders in wishing to improve its investment environment is undermined by ineffective distribution channels and poor coordination among concerned agencies. As many as 87 percent of interviewed companies said that they were usually “bothered” by procedures and paperwork. This is a structural problem of not only Hanoi but also many other levels and provinces of Vietnam.

Investors, who are doing business in the competitive global economy, at the same time must buy or otherwise try hard to access unofficial information through hidden procedure in Vietnam, because it is not automatically provided to them. Sometimes they cannot access and therefore do not know the policies that crucially affect their investments. This is the result of the multi-door management mechanism, or the “single-door” mechanism with many locks, that Vietnam in general and Hanoi in particular still maintain, partly to protect existing interests.

Additionally, Vietnam’s policy structure is uncertain, complex and inconsistent with too many sub-licenses, making administrative procedures hard to understand for investors. Positive interaction of the government with businesses is regarded as generally insufficient, as shown in Figure 6.

Figure 6 Level and Quality of Positive Interaction with Businesses



Source: VDF Survey, 2005.

Investors are asked to grade the involvement of Hanoi authorities to assist business operation from -2 (poor) to 2 (excellent).

The contribution of Hanoi's various agencies is not positive (in this question, answers between 1 and 2 are considered "positive"). Their interaction with businesses is perfunctory and is not very supportive. HAPI receives the best assessment among Hanoi agencies but even its score is not very high at 0.75 on a scale from -2 to 2.

"Promotion" - communication programs

Hanoi has made much effort in enhancing communications with stakeholders, but its programs remain ineffective. As investors do not find useful information in Hanoi's investment promotion activities, they often have to gather such information through ad hoc and undisclosed procedure. In the age of information technology, there seem to be many ways and sources to collect information on investment location. But specific and crucial information is often hard to obtain. Investors said that they receive such information from four groups of information sources.

The first source includes unpublished information from business partners, other investors, and foreign embassies in Vietnam. Based on real

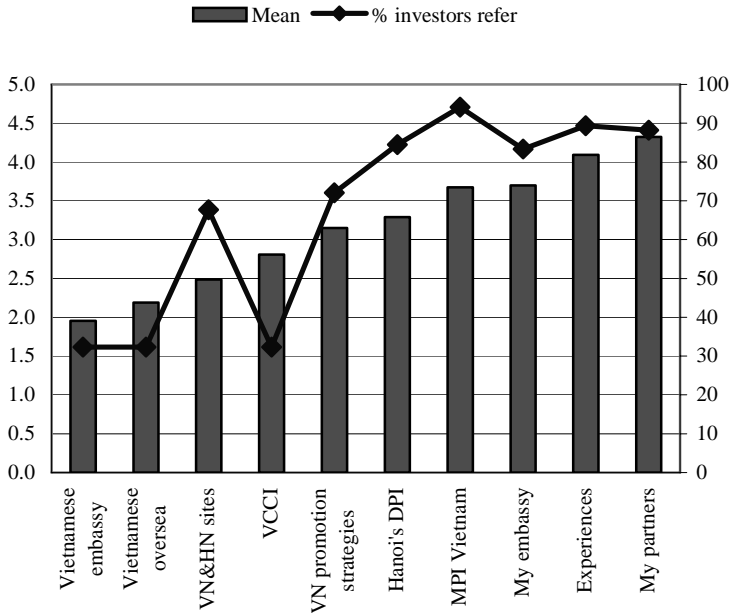
experiences, these are considered to be highly reliable sources of information in selecting investment location.

The second source is the MPI. To understand Vietnam's FDI policy, almost all investors collect information from MPI, including information on FDI policies of different localities in Vietnam.

The third source includes the HAPI and investment promotion strategies of Hanoi and Vietnam. While 70 percent of investors said that they referred to these sources, the quality of information was not considered very good, just at "above average" level.

The fourth source includes VCCI, the websites of Hanoi and Vietnam, overseas Vietnamese, and Vietnamese embassies abroad. Investors often access these sources and websites, but their quality is not regarded highly due to the lack of frequent updating and guarantee of accuracy.

Figure 7 Popularity and Perceived Quality of Information Sources



Source: VDF survey, 2005

The line (right scale) shows the percentage of investors who refer to the Source. The bars show the quality of the source in the eyes of investors from 1 (poor) to 5 (excellent).

Investors rely heavily on information supplied by business partners. Foreign embassies in Vietnam also provide information on investment location to investors from their countries. Thus, offering information to foreign embassies in Vietnam may be an effective marketing channel. After receiving sufficient information, investors normally visit proposed sites to confirm the information with their own eyes.

VCCI, Vietnam's embassies abroad and overseas Vietnamese associations are not regarded as very reliable sources. This is rather surprising since these are official and unofficial organizations on the Vietnamese side that are supposed to disseminate useful information to foreign investors. The HAPI is regarded as only moderately useful. For investors, HAPI is just an office that issues licenses and manages investment projects. In fact, HAPI is unable to do much beyond these administrative tasks due to limitation in staffing and budget.

It must be admitted that Hanoi has so far tried to improve business environment in an ad hoc and unprofessional way without a solid strategic framework. It has not yet recognized the importance of the marketing approach based on customer needs. Activities based on the idea of place marketing have not been considered or implemented. Investors who come to Hanoi face two major problems, namely *mechanism* and *people*. However, the issue of mechanism, which is structural and widespread, is much more serious than the issue of people such as finding good partners and staff. Uncoordinated and cumbersome management mechanisms breed corruption and arbitrary intervention, and local officials become troublesome to businesses instead of serving them through their specified functions.

Hanoi does not seem able to “cross the line” and embrace a new method as rapidly as some other cities and provinces which are more innovative. Hanoi, as the capital of the nation, considered itself as an “obedient child” of the management mechanism in the past, and tends to lag behind fast changing circumstances. Hanoi is learning from other cities and provinces to improve its civil administration system. But there are still many things Hanoi needs to do to create a more attractive investment environment, by reducing the cost

of doing business and becoming more responsive to business needs and concerns.

5. National differences among foreign investors

The analysis up to now treated all foreign investors as if they belonged to one group. However, in reality, investors from different countries have different strengths and weaknesses and different needs and concerns. While personal characteristics are surely important, there is no denying that human behavior is strongly influenced by the culture, customs and rules of the home country. We assume that nationality matters, and that investors from one country have similar behavioral patterns which are different from investors from other countries. Nationality should be highly correlated with preferences in investment size, sectors, location and policy environment.

To be effective, place marketing must reflect this fact and prepare a set of specific marketing strategies targeted to each type of investors. This section reports the results of our survey in comparing foreign investors by nationality. Both individual countries and country groups will be mentioned. Country grouping, as discussed immediately below, is based mostly on the similarity of business lines since this factor seems most important in defining national characters.

Sector and size

In terms of sector and size, foreign investors can be classified into three groups. Generally speaking, investors from Japan, Singapore and Hong Kong produce industrial goods, consumer electronics and electrical devices using high technology. In addition, Japan is interested in building infrastructure, whereas Singapore and Hong Kong are active in the construction of offices and commercial and apartment complexes. Their projects on average have medium to large size. By contrast, investors from EU, the US and Australia are concentrated in services such as banking, finance, consultancy, insurance, hotels and tourism. The average size of these projects is relatively large.

Meanwhile, investors from Korea, Taiwan and China are mostly interested in industrial production which uses unskilled labor intensively, such as garment, footwear, animal feed, cosmetics and seafood. These sectors coincide with those that often cause environmental damage. The average size of their projects is relatively small. However, Koreans are now shifting to production with high technology and Chinese are investing in health-care services such as medical examination and treatment.

Why Hanoi was selected?

All investors, except Singaporean, agree that market potential is an important consideration in choosing location. In our sample, Singaporean investors are special in the sense that they are all exporters not interested in the Hanoi market.

Similarly, there is virtual unanimity among nationalities in the low assessment of the “Vietnamese government’s suggestion” in deciding investment location. Almost all say that it does not affect their choice. The only exception is Japanese investors, who are moderately affected by it with the score of 3.5 on a scale ranging from 1 to 5.

Investors from Australia, the US and EU are highly interested in the availability of supporting industries and services as well as the level of corruption. Meanwhile, investors from China, Korea and Taiwan are less sensitive to these issues. For the latter group, the most important factor is low cost. One reason for not worrying too much about corruption is that Chinese and Taiwanese investors generally know how to “overcome” corruption better than others and can prevent it from increasing their costs significantly. On the contrary, investors from EU and the US genuinely dislike corruption as a matter of principle.

Transparency is of interest to all investors. However, Chinese, Korean and Taiwanese investors are interested in this problem in a different way. They think that a business environment which lacks openly shared information can

still provide an opportunity to do business. Meanwhile, investors from EU, the US and Australia do not accept the idea of buying or using undisclosed information.

According to Singaporean and American investors, suggestion of business partners was an important reason to choose Hanoi. Compared with others, Japanese investors are relatively more willing to hear the suggestion of the Vietnamese government, as noted earlier. Investors from Australia, EU and China ignore suggestions of both their business partners and the Vietnamese government.

Investors from Japan and Hong Kong state that labor is a factor that crucially affect their decision to come to Hanoi. They note that they can save labor cost while taking advantage of Vietnam's diligent and skillful workers.

“Product” offered by Hanoi

Following the marketing approach, let us examine the evaluation of various investors on the *Four P's* provided by Hanoi. As for the *product* (investment environment), the pattern of overall assessment is basically the same across investor groups. But some differences are also observable among nationalities (Figure 8).

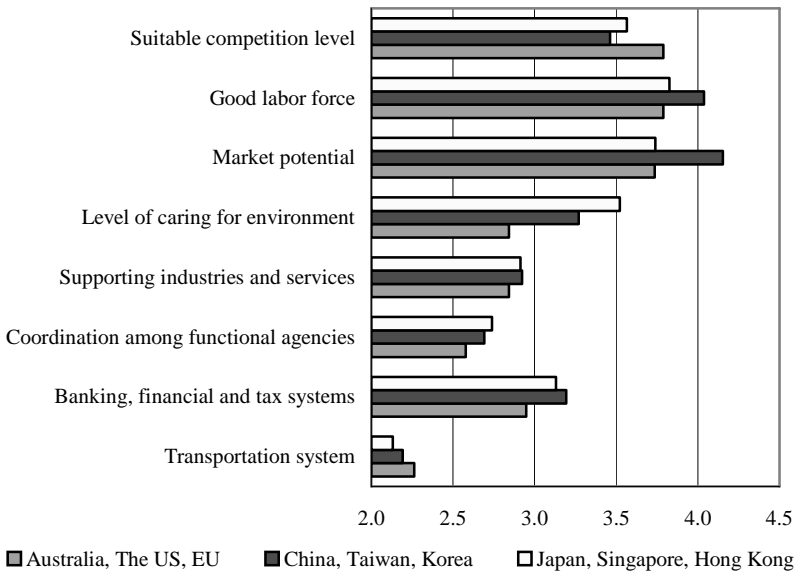
To repeat, market potential is a great concern, and Hanoi is evaluated highly in this respect among all investors, except for Singaporean investors who rated Hanoi moderately, at 3.1. In contrast, Chinese, Taiwanese and Korean investors are very sanguine about Hanoi's demand potential.

The quality of labor force is assessed at a relatively high level. Investors from Hong Kong, EU and China attach much importance to this factor than others. By contrast, Taiwanese investors consider this factor only as moderately important. There is a wide gap among nationalities in the assessment of worker discipline. American investors highly appreciate the working spirit and discipline of Hanoian workers while Singaporean, Taiwanese and Korean

employers find them lacking. This is because American investors hire properly trained workers and offer them regular training courses which boosts workers' incentives to perform well. Besides that, salary levels of workers at US projects are generally higher than elsewhere. It may be also said that Americans evaluate workers according to overall performance instead of micromanaging their daily tasks.

Almost all investors find Hanoi's poor transportation infrastructure to be a factor that negatively influenced their investment decision. Japanese and Singaporean investors are particularly sensitive to the lack of good transportation systems. However, for some Japanese investors who want to work with government or ODA projects in the transportation sector, poor infrastructure means a business opportunity. Similarly, some Japanese investors are looking for an opportunity to participate in environmental control projects.

Figure 8 Assessment of Hanoi's Investment Environment by Group of Territories



Source: VDF survey, 2005. Attractiveness of Hanoi's investment environment is rated from 1 (poor) to 5 (excellent).

“Price” offered by Hanoi

Chinese, Hong Kong, Korean and Taiwanese investors attach great importance to all kinds of labor cost. On the contrary, investors from Australia, Japan, EU or the US are less concerned about labor cost.

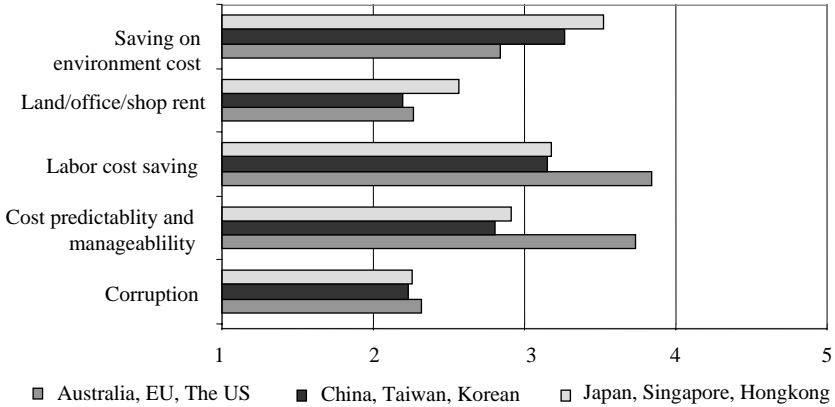
Expenses related to environmental protection is a great concern of Chinese investors because one of the main reasons why they invest in Vietnam is cost saving. Cost incurred in environment protection and waste treatment is one of the expenditure items that these businesses want to save.

Corruption is a serious problem in Hanoi as well as in Vietnam in general. Payments related to corruption reduces the ability of investors to control their expenditure. Although such payments are normally unrecordable in the accounting books, they may constitute a large part of expenditure that investors actually have to bear. This situation certainly puts a damper on the mind of investors.

Businesses are levied higher taxes, water and electricity charges, and other service expenses when investing in Hanoi instead of other cities and provinces. Moreover, Hanoi's land rent for business premises is far more expensive than surrounding provinces. Issues related to land such as offices, premises and housing affect Chinese and Korean investors noticeably, but they do not get much attention from Australian and Hong Kong investors.

On the other hand, companies located in Hanoi can minimize the time and cost of product delivery to customers (if their customers are in Hanoi). The prestige of “Made in Hanoi” products is also an advantage, especially with Vietnamese consumers. Japanese, Singaporean and Hong Kong investors have tended to concentrate their investments in Hanoi rather than other Northern locations.

Figure 9 Evaluation of Factors Affecting the Cost of Doing Business



Source: VDF survey, 2005

Investors were asked to rate these factors from 1 (poor) to 5 (excellent)

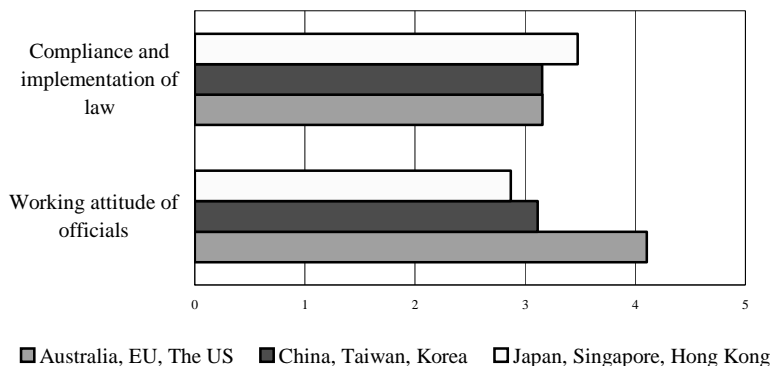
“Place” aspect of Hanoi

As argued earlier, the success of “distribution policy” in place marketing is gauged by the perceived values of services provided by the locality. To see this, we compare the assessments of investors on legal compliance and implementation and the serving attitude of local officials.

As for legal compliance and implementation, Japanese, Singaporean and Hong Kong investors are slightly more pleased with the situation than the rest. However, absolute levels of satisfaction, including these nationalities, are not very high.

Regarding the serving attitude of Hanoi officials, there is a large gap between the group of EU, American and Australian investors and other investors. While Western investors praise officials’ attitude and give a very high mark, Asian investors from Japan, Singapore, Hong Kong, China, Taiwan and Korea are unimpressed and even annoyed by Hanoi officials’ unwelcoming attitude. This gap may be partly explainable by the general attitude of the Vietnamese which reveres and attaches much importance to “foreign imports,” which means the West. Investors from the neighboring Asian countries may not be given the same respect as their western competitors.

Figure 10 Assessment of “Distribution Policy”



Source: VDF survey, 2005
Indicators range from 1 (poor) to 5 (excellent)

“Promotion” - Hanoi’s marketing communication

We evaluate communication by customers’ views on local FDI policy, and values attached to the suggestion of business partners as well as that of the government.

Local FDI attraction policies have significant impact on Australian, EU, Taiwanese and the US investors. EU, the US and Australian investors always try to comply with local laws and therefore prefer countries or localities which have clear and consistent FDI policy and rules.

Investors from Japan, Korea and Taiwan listen to the suggestion of business partners, which is often used to decide investment location. However, this is not true with Chinese investors. The difference may be due to the way foreign investments are made. Japanese investors in Vietnam generally have active interaction with Japanese organizations such as JICA, JBIC and JETRO. Moreover, large Japanese investors often bring or encourage the investments of their suppliers from Japan. These situations are not observable with Chinese investors, who tend to act more independently.

Australian, Japanese and Korean investors are active users of information supplied by their embassies in Vietnam, while investors from China and EU are not. Chinese investors regard Vietnam's investment promotion strategies as useful but EU investors consider this source as poor.

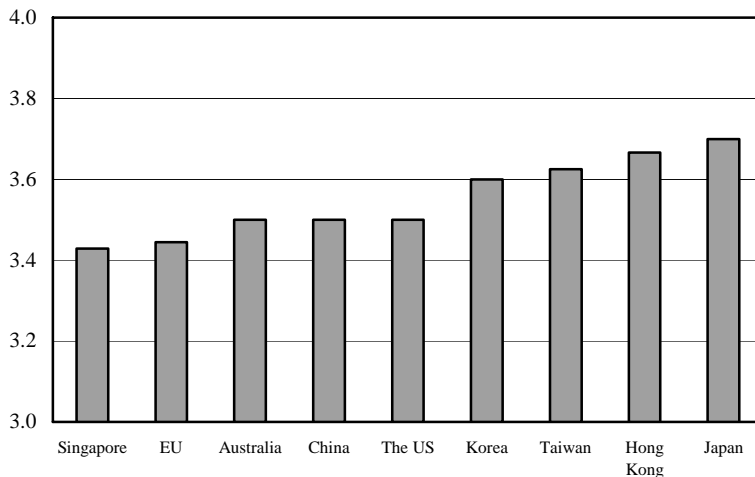
The suggestion of the Vietnamese government does not have much weight on the selection of investment location, especially for Hong Kong and EU investors. However, Singaporean and Japanese investors are relatively more interested in what the Vietnamese government says. This partly explains why many Japanese and Singaporean projects are located in the North. However, this difference among nationalities is not a big one.

While most investors discount overseas Vietnamese as a useful source of information, only the US investors appreciate it, a fact also confirmed by the trade representative at the US Embassy in Hanoi. In addition, the US investors highly value information provided by MPI but consider information from websites and VCCI as poor. Generally speaking, information from VCCI is considered poorest among alternative information sources.

Overall satisfaction

As analyzed above, there is a large gap between the self-assessment of Hanoi's authorities and the assessment of foreign investors regarding Hanoi's investment environment. This gap causes discrepancy between investors' prior expectation and what they really get from Hanoi. However, the size of discrepancy also depends on nationality.

Figure 11 Satisfaction in Doing Business in Hanoi



Source: VDF survey, 2005

The range of response is from 1 (very dissatisfied) to 5 (very satisfied).

Generally, foreign investors in Hanoi are “moderately satisfied.” All of their ratings fall between the range of 3.4 to 3.7 (note that vertical scaling of Figure 11 is narrower than other figures). Among them, investors from Japan seem to be the happiest, followed by HongKong, Taiwan and Korea. Singaporean investors are least satisfied. However, these differences are subtle and should not be exaggerated.

Table 8 Three Groups of Investors: A Summary

	Japan, Singapore, Hong Kong	EU, the US, Australia	Korea, Taiwan, China
Main concern in selecting location	Potential market, diligent workers	Potential market	Low cost
Preferred sectors	Construction, electrical and electronics, heavy industries	Services, tourism, banking, insurance	Healthcare service, beauty care, pesticide, trading,
“Products” (investment environment)	Clear and transparent policy Properly trained workers		Staffs with friendly attitude
	Keep high requirement for entrant competitors	Reduce the control from governments	Reduce taxes
“Price” (cost in a broad sense)	Minimize all kinds of unexplainable expenses Transparency of all kinds of costs		
“Place” (distribution channels)	Officials with customer-oriented working attitude Improve legal compliance and implementation		
	Strengthen cooperation between local authority and businesses		
“Promotion” (marketing communication)	Strengthen cooperation among public agencies	Increase information through overseas Vietnamese	Fully disclose information on different kinds of expenses and assure manageability of expenses
	Enhance legal transparency	Reassure equal conditions for all FDI regardless of nationality	
	PR strategy mobilizing qualified human resources	Build image of Vietnam as “Asian tiger”	

6. Conclusion

Vietnam is a developing country with high political stability, and Hanoi is proud to be its capital. But this does not guarantee the position of leadership among other countries and cities competing for FDI. The fact that there is no war or serious social conflict only allows Vietnam to join the list of candidates for FDI attraction. The list of addresses is shortened when investors take other factors of the political system into account, such as transparency of the legal system and public administration. Then, economic factors such as macroeconomic stability and the level of economic integration and openness, which are required for free, predictable and efficient business activities, further narrow down the list. Although Vietnam and Hanoi have made much progress in improving policies, these factors still receive very low marks. Deeply ingrained mentality to intervene in the decisions of enterprises reduces the attractiveness of Vietnam and Hanoi. Political pressure is still at play to maintain the old system and mentality. Being the capital city, such inertia seems stronger in Hanoi than in many other cities and provinces.

International investors are always in search of conditions that make their businesses competitive, and they naturally flock to places that offer such conditions. Locations that continuously listen to investors and supply what they want become winners, not those that have internally consistent planning. From the viewpoint of place marketing, this chapter argued that Hanoi needs a fundamental shift in the way it drafts its development strategy. The mindset must change beyond a certain critical point. When this is done, there are many specific actions that are needed to make Hanoi the final place to be chosen, not the first place to be considered. Since it is impossible to satisfy all requirements with limited time and budget, selectivity is required. Hanoi's authority must understand the diverse characteristics of investors by sector and nationality, carefully target customers, and devise concrete measures to attract them. The VDF survey has shown different national preferences and assessments. It is hoped that this information, albeit preliminary, will be an input to a more sophisticated place marketing.

Ultimately, investors do not come to Hanoi for an attractive environment. Their final goal is to realize the benefit of investing in Hanoi, which was expected when they made the decision to come. Various components of investment environment discussed in this chapter are of course important, but the most important thing is to let investors enjoy positive fruits of their projects. If the FDI attraction race is understood this way, it becomes necessary to design FDI policy flexibly and strategically. Even if a locality lacks many strengths that other countries or provinces have, there may be a way to satisfy customers. Instead of trying to offer everything at once, a place must set selected but clearly defined targets, and achieve them in pre-announced realistic steps. While the details of strategy must be worked out and implemented by the authority, initial ideas must always come from customers. Investors would surely appreciate the effort of Hanoi, if it acted this way.

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