

# **Urban Planning and the Place Marketing Model: An Application to Cities and Provinces in Viet Nam**

By

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## Declaration

I, Van Thi Thanh Hoang, declare that the PhD thesis entitled *Urban Planning and the Place Marketing Model: An Application to Cities and Provinces in Viet Nam*, is no more than 100,000 words in length including quotes and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

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Van Thi Thanh Hoang

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Date

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*Nam Mô Thường Tinh Tấn Bồ Tát Ma Ha Tát*

## **Abstract**

In the past three decades many cities and regions around the world have applied a marketing approach to place planning and to attracting development resources. Several scholars have analysed this trend in order to define a new approach to the economic planning of places based on the principles of marketing, now called 'place marketing'. This thesis sets out to clarify the key concepts and the implementation model of place marketing, and to examine the effectiveness of place marketing activities in Vietnam to date and the relevance of improved methods of place marketing to the country. To these ends it seeks to clarify the key concepts involved, to build an implementation model of place marketing and to analyse empirically, by statistical analysis and case studies, the practice and effectiveness of place marketing in Vietnam.

Place marketing can have different characteristics in each type of place, so that applying the concepts and models developed to Vietnam raises specific questions. In Viet Nam, the foundations of the market economy are weak and place marketing is in an early stage, so that in many cases the methods used are still simple and focused on creating place products. A large number of Vietnamese cities and provinces are currently making efforts to create attractive attributes of places by removing barriers, mostly administrative ones, to access for investors to the resources. These efforts can be measured by the Provincial Competitiveness Index (PCI). Nevertheless, an analysis across provinces shows that, after allowing for initial conditions, place marketing as measured by PCI has had a significant impact on economic performance at the provincial level. This broad conclusion is confirmed by a further consideration of eight Red River Delta provinces and by case study analyses of Hanoi, Ha Tay and VinhPhuc. These analyses also show the critical role of leadership in effective place marketing, the dangers to this process arising from official corruption and from a weak national legal system and enforcement methods. The application of place marketing to an economic model such as Viet Nam is possible and necessary for economic growth. But the research results suggest that profound reforms of the institutional platform and of national laws are needed for an effective and sustained application of successful models.

## Table of Contents

<b>Declaration.....</b>	<b>i</b>
<b>Acknowledgements .....</b>	<b>ii</b>
<b>Abstract .....</b>	<b>iv</b>
<b>Table of Contents .....</b>	<b>v</b>
<b>List of Tables .....</b>	<b>x</b>
<b>List of Figures.....</b>	<b>xii</b>
<b>List of Maps .....</b>	<b>xiii</b>
<b>List of Boxes.....</b>	<b>xiii</b>
<b>List of Acronyms .....</b>	<b>xiv</b>
<b>Chapter 1 Introduction.....</b>	<b>1</b>
1.1 Globalisation, place competition and place marketing .....	1
1.2 Research issues and research design.....	5
1.2.1 Research issues .....	5
1.2.2 Research design .....	8
<b>PART 1 BUILDING THE MODEL OF PLACE MARKETING MANAGEMENT ....</b>	<b>12</b>
<b>Chapter 2 Place Marketing Practices: The Case of New South Wales .....</b>	<b>13</b>
2.1 Introduction to worldwide and Australian place marketing .....	13
2.1.1 The context of place marketing internationally .....	13
2.1.2 Introduction to Australian place marketing .....	15
2.2 Place marketing in Australia: Case study of New South Wales .....	17
2.2.1 Darling Harbour Project as a start of marketing Sydney .....	17
2.2.2 Continued marketing of Sydney .....	21
2.2.3 Sydney's advantages and the choice of target markets .....	30
2.3 Place marketing practices: Success, failure and questions .....	33
2.4 Concluding remarks .....	42
<b>Chapter 3 Key Concepts of Place Marketing.....</b>	<b>44</b>
3.1 Introduction.....	44
3.2 Place product.....	44
3.3 Place products and place resources.....	50

3.4 Consumption and the selling-buying process of place products.....	55
3.5 Place product price.....	57
3.6 Place marketing and place marketing management.....	59
<b>Chapter 4 Model of Place Marketing Management .....</b>	<b>60</b>
4.1 Introduction.....	60
4.2 Urban planning and place marketing .....	61
4.3 Place marketing process.....	63
4.3.1 Place audit.....	64
4.3.2 Vision and goals .....	66
4.3.3 Strategy formulation .....	68
4.3.4 Action plans .....	75
4.3.5 Implementation and control.....	76
4.4 Cost-revenue assessment and the cycle of using public resources in place marketing .....	80
4.4.1 Cost-revenue assessment as a management tool of place marketing .....	80
4.4.2 Cycle of using public resources and the role of government agencies in doing place marketing .....	83
4.5 Influence of external environment on provincial place marketing .....	87
 <b>PART 2 EVALUATION OF THE APPLICABILITY OF THE MODEL TO VIETNAMESE PROVINCES.....</b>	 <b>90</b>
<b>Chapter 5 Empirical Methodology .....</b>	<b>91</b>
5.1 Introduction.....	91
5.2 PCI as an indicator of provincial place marketing management .....	93
5.2.1 The Provincial Competitiveness Index (PCI).....	93
5.2.2 Using the PCI as an indicator of place marketing .....	98
5.3 Measuring outcomes .....	102
5.3.1 Various outcome indications: Investment, enterprise profit, GDP and PIO... 102	
5.3.2 The issue of initial advantages.....	102
5.4 Empirical methodology: Statistical analysis and the case study approach.....	104
5.4.1 Statistical evidence of the impact of the PCI on selected outcome indicators104	
5.4.2 Limitations of the PCI and the related analyses .....	105
5.4.3 The case study approach.....	105

<b>Chapter 6 Urban Planning and Place Marketing in Vietnam: An Overall Evaluation of the PCI's Effects on Economic Outcomes.....</b>	<b>108</b>
6.1 Introduction: The objectives and structure of the analysis .....	108
6.2 The PCI research team approach to initial advantages .....	109
6.3 Using the measure of initial advantages .....	118
6.4 PCI and selected outcomes: Cross-section results .....	122
6.5 PCI and the growth of private industrial outcomes per capita (PIO).....	124
6.6 Conclusion .....	127
<b>Chapter 7 Impact of the PCI in Red River Delta Provinces .....</b>	<b>128</b>
7.1 Introduction: The Red River Delta provinces.....	128
7.2 The limitations of existing measures of initial condition .....	133
7.2.1 Limitations of the PCI research method .....	134
7.2.2 Problems in collecting data and accurateness of data.....	136
7.3 Transport and initial conditions .....	137
7.4 Analysing the relation between PCI, initial advantages and DPIO, DPIO+FIO .....	145
7.4.1 Bac Ninh and Hung Yen.....	146
7.4.2 Thai Binh .....	146
7.4.3 Ha Tay .....	147
7.4.4 Nam Dinh.....	147
7.4.5 Hai Duong.....	148
7.4.6 Vinh Phuc .....	148
7.5 Conclusion .....	149
<b>Chapter 8 Impact of PCI and Factors Conditioning PCI: A Study of Ha Noi.....</b>	<b>151</b>
8.1 Introduction.....	151
8.2 The analysis of PIO.....	152
8.3 Ha Noi's PCI and growth in number of enterprises.....	160
8.4. PCI and the national institution .....	166
8.4.1 Leadership and PCI sub-indices .....	166
8.4.2 Ha Noi's PCI and the national institution.....	172
8.5 Conclusion .....	182
<b>Chapter 9 An Evaluation of the Applicability of the Model to Vietnamese Provinces</b>	<b>183</b>
9.1 Introduction.....	183



9.2 Vinh Phuc province: A success in planning and implementing the model of place marketing? .....	184
9.2.1 Place Audit – Vision and Goal: Distinguishing actual or potential strengths and identifying the target market .....	184
9.2.2. Strategy, action plan and implementation: Marketing strategies.....	190
9.3 Ha Tay province: Hoa Lac urban development – the failure of the projects of a scientific city during 1996-2007 .....	202
9.3.1 Good vision and good strategic planning .....	202
9.3.2. Determination of the Vietnam top leaders and the failure in deploying the project in the period 1998-2007 .....	210
9.4 Success, failure and conditions for effectively applying the model of place marketing .....	215
9.4.1 Success factors of Vinh Phuc .....	215
9.4.2 Causes hindering the implementation of Hoa Lac projects .....	219
9.4.3 Conditions for effectively applying the model of place marketing .....	219
<b>Chapter 10 Conclusion .....</b>	<b>224</b>
<b>Appendix 1: Detailed Description of Component Indicators.....</b>	<b>228</b>
<b>Appendix 2: Ranking of Provincial Competitiveness Index (PCI) by Province .....</b>	<b>229</b>
A2.1 PCI 2005 – forty-two cities and provinces .....	229
A2.2 PCI 2006 – sixty-four cities and provinces.....	232
A2.3 PCI 2007 – sixty-four cities and provinces.....	235
A2.4 PCI 2008 – sixty four cities and provinces .....	238
<b>Appendix 3: Status and Network of the NR in the Red River Delta region.....</b>	<b>241</b>
<b>Appendix 4: Assessment of the extended initial advantages of Red River Delta provinces.....</b>	<b>245</b>
A4.1 Ha Tay.....	245
A4. 2 Bac Ninh .....	246
A4.3 Hai Duong.....	247
A4.4 Nam Dinh.....	248
A4.5 Hung Yen.....	249
A4.6 Vinh Phuc.....	250
A4.7 Ninh Binh.....	251

A4.8 Thai Binh .....	252
<b>Appendix 5: Summary of Interviews in Vinh Phuc.....</b>	<b>253</b>
A5.1 Interview with Vinh Phuc Management Board of Industrial Zones and Attracting Investment.....	253
A5.2 Interview with Vinh Phuc Investment and Planning Department .....	254
<b>References.....</b>	<b>257</b>

## List of Tables

Table 2.1: Top 50 cities for Business Index 2007.....	35
Table 2.2: Sydney amongst best in the world for quality of living.....	36
Table 2.3: Total visits to Darling Harbour.....	38
Table 6.1: Factor analysis with varimax rotation of initial conditions.....	110
Table 6.2: Linear regression on average profits per employee (2000-03) against measures of initial conditions.....	119
Table 6.3: PCI of cities/provinces, by average profit level relative to that predicted on the basis of structural conditions.....	121
Table 6.4: Linear regression on economic outcome variables (2000-03) against measures of initial conditions and the unweighted PCI.....	123
Table 6.5: Regression analysis of the determinants of the distribution of PIO per capita across 42 Vietnamese provinces.....	125
Table 7.1: PIO per capita, PCI and initial advantages, eight Red River Delta provinces, level and deviation from the national average.....	131
Table 7.2: Summary and evaluation of the initial advantages of the Red River Delta provinces.....	140
Table 7.3: Ranking of provinces in terms of transport and other conditions.....	145
Table 8.1: Ha Noi and HCM City, DPIO per capita.....	153
Table 8.2: Ha Noi and HCM City, PCI sub-indices, 2006-2007.....	154
Table 8.3: Ha Noi, PCI informal charge sub-index, 2006-2007.....	156
Table 8.4: PIO per capita, top ten provinces, and PCI and initial advantages.....	158
Table 8.5: Number of enterprises per population, Red River Delta and southeast regions.....	161
Table 8.6: The four basic facts of Ha Noi.....	162
Table 8.7: Interaction between transparency and informal charges, impact on predicted number of enterprises per 10,000 citizens.....	163
Table 8.8: Ha Noi, dimensions of transparency sub-index, 2006.....	164
Table 8.9: Ha Noi, two components of pro-activity of provincial leadership.....	171
Table 8.10: HCM City, two components of proactivity of provincial leadership.....	171
Table 8.11: Comparison of Ha Noi and HCM City, leadership.....	172
Table 8.12: Ha Noi and HCM City, legal system in dealing with corruption behaviour, legal institutions, percentage of firms perceiving that the legal system in the province provided mechanism for firms to appeal officials' corrupt behaviour.....	176
Table 8.13: Ha Noi, two questions of transparency sub-index.....	177

Table 8.14: Proactivity of leadership sub-index 2006, comparison between Ha Noi and some provinces in the same ranking tier of leadership.....	179
Table 8.15: DPIO per capita 2006, top ten provinces .....	180
Table 8.16: Top ten provinces in PIO per capita, 2007 .....	181
Table 9.1: Sub-index of Vinh Phuc’s proactivity of provincial leadership 2005-2008 .....	195
Table 9.2: Other PCI sub-indices for Vinh Phuc, 2005-2008 .....	195

## List of Figures

Figure 1.1: Summary of thesis structure .....	11
Figure 2.1: Darling Harbour as a working port, early 1980s .....	19
Figure 2.2: Darling Harbour as a central attraction of Sydney .....	21
Figure 1.3: Australian unemployment rates, 1978-2007 .....	34
Figure 4.1: The place marketing process .....	80
Figure 4.2: The place marketing process and the cost-revenue assessment.....	82
Figure 4.3: Place marketing and the public resource cycle.....	86
Figure 4.4: The model of place marketing management.....	88
Figure 6.1: Ranking development level (human capital) by region.....	112
Figure 6.2: Ranking quality of infrastructure/urbanization by province/city.....	115
Figure 6.3: Ranking proximity to markets by province/city .....	116
Figure 6.4: Ranking provincial initial advantages for development by province .....	117
Figure 6.5: Ranking provincial initial advantages for development by regions .....	118
Figure 6.6: Actual and predicted average profit per firm.....	120
Figure 6.7: Interaction between the PCI and initial advantages.....	124
Figure 6.8: Difference between actual and predicted PIO per capita, ten selected provinces, 2008 ..	127
Figure 7.1: PIO per capita 2008 and PCI 2005, eight Red River Delta provinces: Difference from the national average (million VND and index points respectively).....	132
Figure 7.2: Difference between actual and predicted PIO per capita, eight Red River Delta provinces, Ha Noi and Ho Chi Minh City, 2008.....	133
Figure 7.3: Difference between actual and predicted PIO per capita, eight Red River Delta provinces, 2008 .....	146
Figure 8.1: Star graphs on PCI sub-indices of Ha Noi, HCM City and Binh Duong .....	159
Figure 9.1: Farm and house in HHTP area in 2005 .....	212
Figure 9.2: Marketing mix of Vinh Phuc province .....	218

## **List of Maps**

Map 2.1: Map of Sydney, attractions .....	18
Map 2.2: Map of Darling Harbour area .....	18
Map 7.1: The North of Vietnam, location of the eight provinces in the Red River Delta region .....	129
Map 7.2: Master planning for Ha Noi capital region .....	139
Map 9.1: Ha Tay in the late 1990s .....	203
Map 9.2: Strategic location of the Hoa Lac High-tech Park (HHTP) .....	205
Map A3.1: Map of national transport network in the Red River Delta Region .....	244

## **List of Boxes**

Box 5.1: An example of PCI use by provincial governments .....	95
Box 5.2: An example of PCI use by donors .....	95
Box 8.1: Diseases of state offices .....	174
Box 9.1: Vinh Phuc Government and improvement of transport system .....	193

## **List of Acronyms**

(AE/p)	Ratio of active enterprises to population
DOLISA	Department of Labour, Invalid and Social Assistance
DPI	Domestic Private Investment
DPIO	Domestic Private Industrial Output
FIO	Foreign Industrial Output
IA	Initial advantage
JICA	Japan International Cooperation Agency
MOF	Ministry of Finance
MPI	Ministry of Planning and Investment
NSW	New South Wales
NR	National Road
PCI	Provincial Competitiveness Index
PIO (= DPIO + FIO)	Private Industrial Output
PPC	Provincial People's Committee
SMH	Sydney Morning Herald
VCCI	Vietnam Chamber of Commerce and Industry
VNCI	Vietnam Competitiveness Initiative

## **Chapter 1**

### **Introduction**

#### **1.1 Globalisation, place competition and place marketing**

When facing economic difficulties over the past decade, a large number of cities or regions (hereafter described as ‘places’) around the world have applied a marketing approach to planning to enhance their competitive capacity and to boost their local economies, in an effort to find a new way to grow (Kavaratzis 2007). This approach is called ‘place marketing’. The place marketing approach implies that the place adopts a marketing philosophy to draw development strategies and applies marketing techniques and solutions to identify its target markets (which can bring development resources – such as desired investors, tourists and human resources – to the place) and then to create and market offerings, which the place believes may satisfy the target market’s needs in a better manner than other places can do, to the target markets (Colomb 2011; Eshuis, Braun & Klijn 2011; Gertner 2011; Hospers, G 2011; Kavaratzis 2007; Kotler & Gertner 2012; Kotler et al. 2002).

Place marketing is said to be both a consequence of, as well as a necessity for, increased competition among places for development resources. The concept of city marketing has gained increasing attention as a means of enhancing the competitiveness of cities (Paddison 1993 cited in Short & Kim 1998). “In the effort to respond to the demands of competition and to attract the desired target groups, place administrators have recognised in marketing theory and practice a valuable ally” (Kavaratzis 2005, p. 329). Some scholars point out that competition among places is not new. Cities have always existed within a market context of one sort or another, and they compete with others for resources, activities, residents and services (Ashworth & Voogd 1990, p. 2). Many examples of marketing solutions (mainly promotional measures) which cities used in much earlier times are provided in Ward (1998). However, these early place marketing activities were intuitive and random (Kavaratzis 2005; Ward 1998), whereas a more focused, integrated and strategic implementation of place marketing has been evident in recent decades (Kotler et al. 2002). The reason given for this change is increased competition among places as a response to fundamental changes in markets, investment and technology, as a result of a common trend labelled ‘globalisation’, in



which people, capital and companies have become more footloose (Kotler et al. 2002; Short & Kim 1998).

In any stage of development, to maintain their economic position and to grow, places need to retain and develop resources. In earlier stages of development, retaining and developing resources could be supported to a greater degree by non-competitive factors such as protectionism, domestic market growth suitable for local industries, the dependence of enterprises on conditions in a particular country or region, and technical difficulties in investment and labour mobility. For some countries, such factors might have been so strong that international competition played a relatively weak role. However, while they are still relevant, the influence of these non-competitive factors has decreased during the progress of globalisation, as a result investment flows (enclosed by technology, managerial know-how, working capital and cultural factors) have become increasingly mobile. The strong flow of traditional industries from cities in developed economies to those in developing countries has been well documented, as has its impact on the growth of these developing cities.

One influential discussion of these issues is that of Ohmae (1995), who described these changes in terms of ‘the four Is’. The first is *investment*. Investment flows move across borders, with the cross-border flows driven by the quality of the investment opportunity: the investment will go to where the best opportunities are to be found. The second is *industry*. The strategies of modern multinational corporations are shaped and conditioned by the desire – and the need – to serve attractive markets wherever they exist, and to tap into attractive pools of resources wherever they sit. The movements of both investment and industry have been greatly facilitated by the third “I” – *information technology*. This technology makes it possible for a company to operate in various parts of the world, resulting in “the shrinkage in the space – time networks” (Short & Kim 1998, p. 55). Finally, *individual consumers* have also become more global in orientation. With better access to information about lifestyles around the globe, consumers are much less likely to want to buy American or French or Japanese products merely because of their national associations. They increasingly want the best and cheapest products, no matter where they come from (Ohmae 1995). This opens more opportunities and pressures for investment and industry flows, by exposing more local markets to outside suppliers. The effects of these four factors have become stronger over time and are often referred to in many works, such as (e.g. Kotler et al. 2002; Short & Kim 1998).

These global trends open up opportunities for many different places, but is a complex process to make an opportunity into a reality. In particular, the increased mobility of the factors of production and the need to relocate traditional manufacturing industries provide great opportunities for places in developing economies. But, although the pressure to move these industries to developing countries is strong, these flows will not of course come to all developing cities. As a rule, they will come to, and concentrate in, places where investors can maximize their benefits, i.e. to the places which are able to offer the best solution to investors. It is necessary to note that the best solution is that as perceived by the investors, not as seen by the place authorities. The opportunities will turn into reality only for the cities or regions that can provide a high quality solution to investors.

Post-industrial cities, despite being hurt seriously by this relocation of industries, have opportunities to build on the foundation created in the industrialization period to develop hi-tech industries, for both goods and services, which promise high value added. An advanced base of technique, science and education and a high level of management and organisation are advantages that post-industrial cities possess in developing high-tech industries. Although the potential of post-industrial cities to develop hi-tech goods and services industries is significant, these high technology industries will not come by themselves. To develop and then apply them, cities need resources (investment and human capital) and the right strategies. As in the case of developing cities, investment flows come to and concentrate on locations where investors can maximise their benefits. Moreover, the high-tech developments have a higher degree of locational flexibility, because they are more concerned with access to information than with closeness to traditional resources (such as coalfields or sources of power) (Short & Kim 1998), although they have tended to cluster around high quality knowledge resources. But the situation in both developing and post-industrial cities in the face of globalisation is driven by the common rule: global investment and industry flows will go to where investors can get the greatest benefits.

With the more limited role of non-competitive factors which prevents the mobility of investment, competition has become unavoidable and a major means for places to retain and/or obtain the necessary resources. With the progress of globalisation, an increasing number of places/cities participate in this competition, and the movement of global factors

can create the potential for even small places to take part in the competition (Kotler et al. 2002). It is now regularly the case that products which are made in small places in developing countries are penetrating supermarkets in the cities of Australia or of other industrialised countries. The participation of these small places in the world market means that they are also participating in the competition among places. Although their names might not be widely known, thousands of such small competitors have drawn big investors away from developed economies, leaving gaps in employment and in the tax base in post-industrial cities. The shift of the former socialist economies from closed markets and centralized planning systems towards a market economy and to participation in global trade has made the competition among places even more intense.

In addition to the severity of this competition, a mounting number of cities in emerging economies are able to compete to attract resources for developing high-tech industries. For example, Intel has announced that it will open a wafer fabrication facility in China in 2010 to produce chipsets first, and then possibly other types of chips, after negotiating with the Chinese Government and also getting U.S. government approval. The project, costing around US\$2.5 billion for building the plant and located in the north eastern city of Dalian, is referred as a significant milestone for both the industry and China<sup>1</sup> (Barboza 2007; Kanellos 2007). Despite being limited by strict US regulations in putting cutting-edge chipmaking equipment in production overseas,<sup>2</sup> Intel's intention to move to China reflects China's rise as the world's second largest information technology market, likely to become the number one market by 2010. This process of setting-up a global network of production reveals the strong benefit-maximizing dynamic behind the moves of corporations and the great efforts of China and other countries to attract advanced technology design and manufacturing. Manufacturing this type of chip is not the most advanced technology, but a US\$2.5 billion chip manufacturing plant is certainly attractive for both developing and post-industrial cities as well. The competition is, therefore, not only among developing places or among post-industrial cities but also between developing places and post-industrial cities, which has resulted in more aggressive and complex forms of competition. As a consequence of the

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<sup>1</sup> There are only seven other Intel wafer fabrication facilities like it in the world, mostly in western United States. The move could open the door to even more advanced chip technology moving into China (Barboza, 2007).

<sup>2</sup> The decision to concentrate on chipsets, rather than flash memory or processors, derives from U.S. regulations that prevent domestic companies from bringing cutting-edge chipmaking equipment to China. Generally, U.S. companies can only bring in so-called N-2 equipment, or equipment that's two generations behind the most advanced contemporary standard (Kanellos, 2007).

increasingly wide-ranging and aggressive competition, a place marketing strategy for retaining and attracting footloose investment has become essential.

Such a strategy must meet two requirements. To attract investment, the place must provide strong offerings in terms of maximising the benefits to investors. At the same time, the strategy must deliver real development benefits to the place. This is the primary goal of the strategy. Satisfying the local benefits requirement is also necessary to meet the first requirement, because if the place cannot grow, it cannot guarantee to provide the necessary conditions for maximising investor benefits. In respect of achieving this goal – retaining and attracting investment through competition – place marketing can be considered as the means. However, the allocation of the scarce investment resources of a place to create place products that maximise investor profits requires the adoption of a principle for allocating social resources in the light of market mechanisms. Assuming that the movement of the four global factors mentioned above, which drive the competitive process of resource allocation on the global scale, is an inevitable and long-term trend, pursuing such a new principle will become an important component of development strategies responding to that movement.

## **1.2 Research issues and research design**

### **1.2.1 Research issues**

As noted above, in the new competitive context, places around the world have been applying marketing techniques and increasingly adopting a marketing philosophy to meet their operational and strategic goals. Many academics have judged this approach as an essential tool for the growth of urban or regional economies in the global context (e.g. Ashworth & Voogd 1990; Barke & Harrop 1994; Fretter 1993; Gold 1994; Hall, T & Hubbard 1998; Hospers, GJ 2004; Kavaratzis 2007; Kotler, Haider & Rein 1993; Kotler et al. 2002; Rainisto 2003; Ward 1998; Wells & Alvin 2000; Youcheng & Zheng 2007; Young 2005). They have generalized and conceptualized these marketing activities in an effort to build an academic sub-discipline of ‘place marketing’ by applying or developing marketing concepts and processes (e.g. Ashworth & Voogd 1990; Fretter 1993; Haider 1992; Kavaratzis 2005; Kotler et al. 2002), by analysing place marketing practices and by demonstrating the relevance of this approach with empirical research (e.g. Hospers, GJ 2004; Rainisto 2003; Ulaga, Sharma & Krishnan 2002; Young 2005). Place marketing consists of a process of developing and

implementing strategies by which a place can reach its growth objectives through identifying its target markets, and then meeting the needs of the target markets through the provision of place products that the place can offer and which are of value to the target market. A place's target markets are, in a broad definition, all of those which promise increased employment, income, trade, investment and growth such as businesses (headquarters offices, industrial plants, etc.), tourists and residents (Kotler et al. 2002). Ashworth and Voogd even argue that market planning, i.e. place marketing or urban marketing (explained by them in another paragraph), should not be considered as "a specific procedure, one of many instruments available to the urban planner, to be applied in appropriate situations", but it is "a pervading philosophy of planning, a way of identifying, defining and solving urban problems, in brief a distinctive way of managing cities" (Ashworth & Voogd 1990, p. 44).

However, a literature review points out that place marketing is a theory in progress, which has been formed only as a *general framework*. Kavaratzis (2007) concludes that "despite the accumulated experience, however, many issues surrounding the application of city marketing remain in need of further theoretical development and practical clarification". As evidenced and analysed in detailed in Chapters 2, 3 and 4 of this thesis, place marketing's concepts and implementation models have not yet been developed comprehensively, and such theoretical limitation is one of the causes of weaknesses in employing place marketing. This is one reason for scepticism about place marketing at the theoretical level, as well as for criticism of it on practical grounds (see the following chapters). Although cities have been doing lots of place marketing, 'doing it right', which implies an understanding of what city marketing is and how it might best be done, is not commonly achieved (Kavaratzis 2007). A model of managing and implementing place marketing with a systematic development of concepts, principles and procedures is, therefore, necessary to fill this knowledge gap and meet the practical requirements.

Vietnam has moved to the market mechanism and has increasingly become integrated into the world economy through building multilateral trade and investment relationships and by joining regional and international economic organisations such as WTO, ASEAN and APEC. As a result, Vietnam is no longer beyond the impacts of the global factors, and its provinces and cities are also involved in the global competition for development resources.

Vietnamese cities in recent years have become increasingly divergent in their economic and social situation. Many cities remain in an entangled situation with relatively low growth and are making every effort to seek a way out. But a few cities with special advantages have been growing relatively fast, recording industrial growth rates of 20-30% per annum for the period 2000-2006 (Vietnamese General Statistics Office 2006, 2007d). For example, Ho Chi Minh City (HCM) alone contributes one-fifth of national GDP and one-third of the national budget (Dao 2007). However, signs of a 'boom and bust' economy, such as a rapid increase in real estate prices, degradation of infrastructure and rising income inequality have been recognized in these rapidly growing cities. The 2003-2005 surveys conducted in 28 cities in Asia by Japan External Trade Organization - JETRO show that office rentals in Vietnam's two largest cities of Hanoi and HCM are 1.4 times as high as Jakarta, twice that of Kuala Lumpur and Bangkok and three times that of Manila (Japan External Trade Organization - JETRO 2006). In appraisals as the background for its ODA strategy, Daisuke Matsunaga, Minister Embassy of Japan in Vietnam, remarked that, although having achieved high growth rates, Vietnam is facing difficult challenges. The lack of urban infrastructure may be worsened by economic growth and that growth does not resolve environmental degradation or urban congestion (Daisuke 2006). The PCI reports (e.g. Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006; Ray 2006) based on the large surveys on provincial governance practices, with the participation of a large number of private firms (see Chapter 6 for the details of the surveys), indicate that, although Vietnam proclaims its orientation toward a market economy and its commitment to supporting private businesses, not many of its provinces have put a business-friendly environment into practice.

Both the international competitive conditions driven by the mobility of global factors of production and the internal dynamics of Vietnamese cities require their authorities to reorient their thinking towards more strategic planning of development resources. Moreover, starting from a low-level economy with very low domestic savings, Vietnamese cities need an efficient approach to attract external resources and to exploit their internal potential. Many cities in Vietnam have been exercising some form of place marketing activities. The hypothesis about the role of place marketing, and its efficiency in bringing investment and economic growth to cities and provinces, need to be assessed in the Vietnamese case.

In theory, Vietnam's cities and provinces have the two basic conditions assumed for place marketing – a market economy and a competitive context for development resources. In

practice, however, Vietnam is a transition economy with a special economic and political structure. Although Vietnamese cities have not been without strategic planning, much of this has featured a restriction of cooperation between the public and private sectors and a heavy dependence on the central government, both in terms of subsidies and of decision-making. The applicability of a place marketing management model in such a special context needs to be considered, and the applicability of such a model should be judged in terms of improving the efficiency of investment in Vietnamese cities and provinces. The assessment of the place marketing's efficiency and the applicability of the model to Vietnam would contribute to the knowledge base of the place marketing approach, and have practical implications for transition economies like Vietnam.

In brief, the research questions addressed in this thesis are:

- 1. What is an appropriate framework for developing and implementing a place marketing approach, i.e. the key concepts and an implementation model of place marketing?*
- 2. What can be said about the effectiveness of place marketing in Vietnamese provinces to date in terms of investment outputs?*
- 3. How could the application of an implementation model of place marketing management enhance the effectiveness of investment in Vietnamese provinces?*

### **1.2.2 Research design**

In pursuing these three research questions, the research design is in two parts. In Part 1, the thesis aims to contribute to the efforts to generalise and conceptualize place marketing activities and to build a sound base for the analysis of these activities in Vietnam, by developing the key concepts and a model of place marketing management to apply at the provincial level. It starts with Chapter 2 by exploring some examples of place marketing practices outside Vietnam, focusing on the case of New South Wales, to provide some foundation for the analysis in terms of the worldwide realities of place marketing. In the next two chapters, on the basis of both the experience of place marketing and of the existing theories, a set of the key concepts of place marketing is built as a foundation for the analysis (Chapter 3) and a model for the implementation of place marketing is proposed (Chapter 4).

Part 2 aims to assess the effectiveness of place marketing activities and the applicability of the model to Vietnamese cities and provinces. Chapter 5 introduces the empirical methodology and the design of chapters in Part 2, which is based on the reasonings of the concepts and the model of place marketing in chapters 3 and 4. Then Part 2 moves gradually from the overall to a detailed look at the reality of place marketing practice in Vietnamese cities and provinces.

This starts with Chapter 6, an overall evaluation of the impact of the place marketing management, which is measured by the PCI as argued later in Chapter 5, on investment outputs of the 42 cities and provinces. Although the available data for the 42 provinces and cities is good enough for the general assessment, it overlooks a number of important influential factors, and thus the capability of reasoning of Chapter 6 was limited, especially when looking at some specific cities and provinces.

For that reason, Chapter 7 moves to a study of the eight selected provinces in the Red River Delta region in which additional data of influential factors is collected and taken into consideration. This also means a move to the practical context in which these effects occur. Chapter 7 provides an adjustment for the evaluation in Chapter 6 and the two chapters together provide an accurate assessment of the effects of place marketing management on economic outputs.

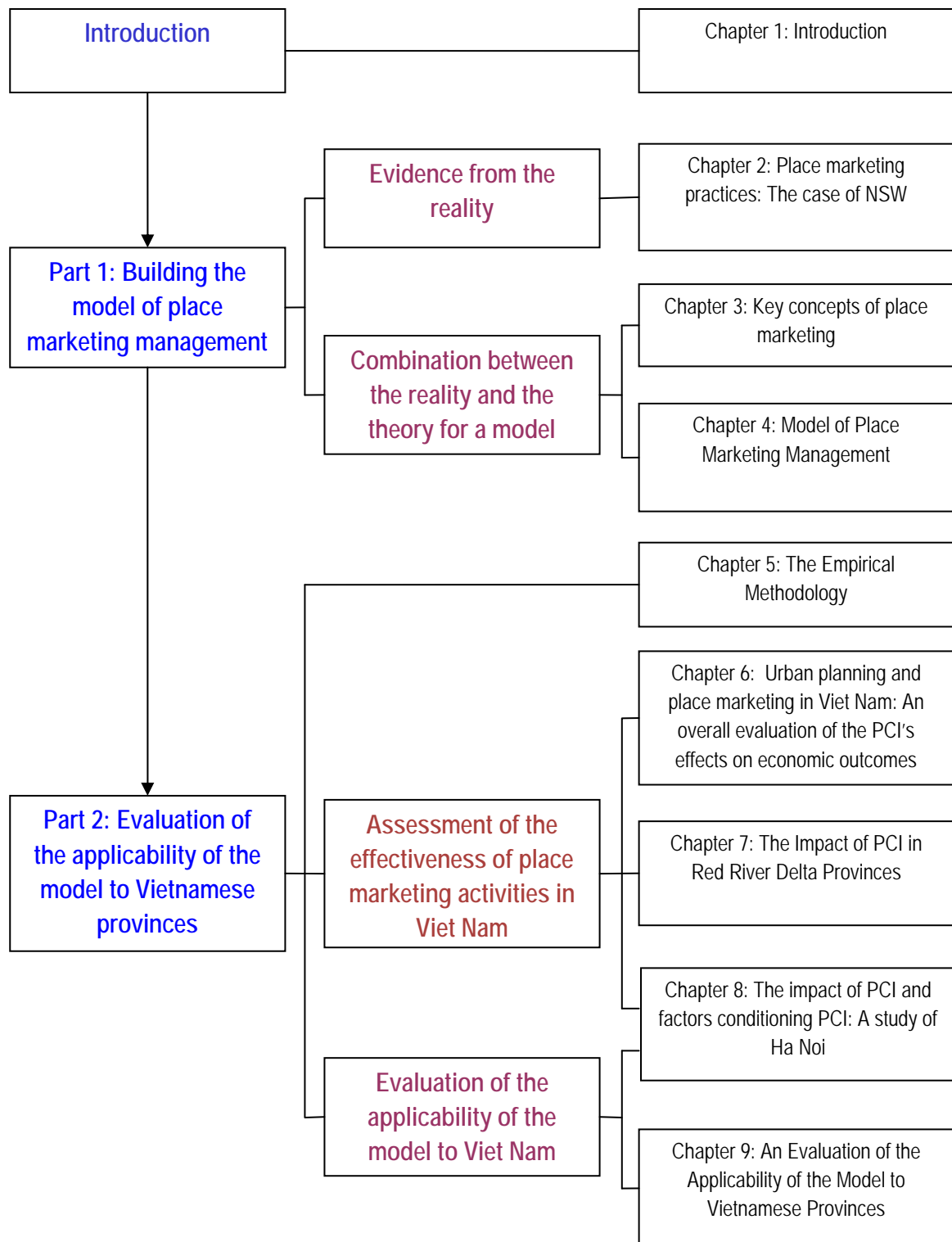
Chapter 8 is a continuation of a closer look, to be able to see more details of different activities of place marketing management (the components of the PCI), the interaction between them, as well as some underlying factors conditioning these activities. With this goal, Ha Noi, a large city and a nationally economic and politic centre with huge potential for place marketing activities, is chosen for an in-depth case study. The research results in chapters 6, 7 and 8 highlighting two critical cases: Vinh Phuc and Ha Tay as two opposite outcomes, success and failure.

Chapter 9 is designed to carry out a comprehensively detailed look at the implementation of place marketing management by exploring these two case studies in their naturally-occurring contexts in comparison with the principles and processes that are built and proposed in the concepts and the model of place marketing (chapters 3 and 4). The success and failure factors as well as the conditions necessary for the application of the place marketing model are



presented in this chapter. Throughout chapters 6, 7, 8 and 9, the effectiveness of the implementation of place marketing approach and the applicability of the model of place marketing management are evaluated to provide the basis for the conclusion at the end. A more detailed presentation on the research design and methodology of Part 2 will be provided in Chapter 5. A summary of the research structure is presented in Figure 1.1.

**Figure 1.1: Summary of thesis structure**



**PART 1**  
**BUILDING THE MODEL OF**  
**PLACE MARKETING MANAGEMENT**

## **Chapter 2**

### **Place Marketing Practices: The Case of New South Wales**

#### **2.1 Introduction to worldwide and Australian place marketing**

##### **2.1.1 The context of place marketing internationally**

Most academics and practitioners see the emergence of “urban crises” in the post-industrial cities in the developed countries in the 1970s as the main reason for initiating the current round of place marketing in the public governance area. Faced with evidence of a rapid decline of traditional industries, a high level of unemployment, a very poor tax base and deepening social problems, the place marketing approach was seen as an important means to address these urban crises. This process has been documented in many publications (e.g. Ashworth 1994; Ashworth & Voogd 1990; Hall, T 1998; Kotler, Haider & Rein 1993; Short & Kim 1998; Ward 1998). Short and Kim view the place marketing approach is “an imprint of changes in urban governance from the welfare-state model towards an economic-development model” (Short & Kim 1998, p. 57).

In fact, phenomena bearing signs of place marketing or place selling have long existed. Ward, in *Selling Places: The Marketing and Promotion of Towns and Cities 1850-2000* (Ward 1998), reviewed this long history in Western countries, identifying three main stages. The first was the agricultural colonisation stage, in which place selling sometimes played a central role, with use of advertising and other promotional devices, to draw both farmers and town dwellers to new land releases and townships. The second stage was the selling of the tourist resort or the promotion of the residential suburb, which were characteristics of the increasingly mature urban system. The third stage was the selling of industrial towns during the depressed conditions of post-industrialisation in many cities. This was different from the previous stages, as in it the selling and promotion of the city became common, as were key parts of the city’s efforts to seek new wealth resources to replace what had gone, in other words to help solve the “urban crises”. Kavaratzis, when undertaking a literature review of the place marketing approach, noted that: “A more focused, integrated and strategically oriented implementation of place marketing was evident largely in the last three decades”

(Kavaratzis 2005). Because of the importance, as well as the new manner of implementation of place selling in this third period, it is widely referred to as the beginning of the place marketing approach.

In turn, the recent evolution of place marketing can be divided into two stages. The first stage started in the late 1970s with the participation of many post-industrial cities. Place marketing practices developed vigorously under the ideology of neo-liberalism, particularly post-Keynesian urban policies (Thatcherism and Reaganomics) in the USA, Europe and Australia, to deal with urban crises. The common paradigm of place marketing in this stage was to regenerate and expand inner city areas by boosting tourism and service industries (Gleeson & Low 2000; Murphy & Watson 1997; Taylor 1998; Ward 1998). There are remarks that “the use of tourism as a mechanism to regenerate urban areas through the creation of desirable middle-class leisure-tourism environments appears almost universal in Western society” (Hall, CM 1999). The centre of the place marketing strategy is the ‘promotion’ of city images: a single city finds itself in a severe competition to create a more attractive ‘city image’ than that of other cities. The attribute of the ‘entertainment’ provided by a city is emphasised. One can see this emphasis in mottos or snappy slogans such as ‘Making Cities Fun’ (Sydney) (Hall, CM 1999), ‘I ♥ New York’ (then so much copied that becoming a formula: ‘I ♥ X’), ‘Glasgow’s Miles Better’ (Glasgow Smiles Better), ‘a day out of this world’ (Glasgow), “the Pride of Baltimore”, “Turning the Tide on Merseyside”, “the Big Heart of England’ (Birmingham), and many of the like (many authors cited in Ward 1998). Cities have made concerted efforts in foraging their assets (such as heritage, natural landscape and culture) to find a basis for creating attractions. Large amounts of money have been poured into promotional campaigns and projects to turn these assets into attractions, as well as to make new attractions (Hall, CM 1999; Philo & Kearns 1993; Ward 1998).

In recent years, as mentioned in Chapter 1, the place marketing approach has been applied by various economies, including cities in developing and transition countries. The progress of technology and investment flows has gradually laid a new development impetus: hi-tech industries. While city promotion is still employed intensively to boost the tourist industry, especially in cities which possess strong advantages for attracting tourists, place marketing is now also focused toward attracting resources for high value-added industries, such as hi-tech industries, financial and banking service industries, telecommunication services, high-tech based entertainment industries and real estate investment. This is a major development trend

in post-industrial cities in developed countries, while the major trend in developing cities is that of receiving traditional technology industries transferred from advanced economies, although these two trends have recently become more mixed together. On the grounds of this new impetus, which allows cities to have more options, as well as the lessons of the previous stage, place marketing strategies in a number of cities have become more comprehensive and sophisticated. The place marketing approach is not only practiced as a means to solve the 'urban crises' of post-industrial cities, but also has a place in the development model of many developing countries, given the role for place governance in the globalisation context as mentioned in Chapter 1. Actually, such a view was suggested earlier by some pioneer academics, and clearly has been employed in a variety of economies throughout Europe, America, Asia and Australia (Barke & Harrop 1994; Fretter 1993; Fulong & Jingxing 2007; Gleeson & Low 2000; Hospers, GJ 2004; Kavaratzis 2005; Kotler, P et al. 1999; Kotler et al. 2002; Lodge 2005; McGuirk 2005; Morgan, Pritchard & Pride 2004; Murphy & Watson 1997; Philo & Kearns 1993; Ulaga, Sharma & Krishnan 2002; Youcheng & Zheng 2007; Young 2005).

Although there have been differences in implementation in different places, almost all the place marketing practices share a number of basic common features:

*Major objective:* to create and enhance place/city competitiveness, thereby securing place position in the global flow of capital and other development resources.

*Measures:* entrepreneurialism: encourage local businesses and attract investment from global market; close partnership with private investors; and application of marketing approaches in building strategies and marketing techniques and tools for use in encouraging and attracting investment, especially promotional tools (designing and delivering place images).

*Role:* Place marketing activities are judged as a central activity of city planning.

### **2.1.2 Introduction to Australian place marketing**

As a Western-style economy, Australian cities have experienced a range of problems in the post-industrial period since the late 1970s (generally later than the US and Europe). Australia lost several hundred thousand manufacturing jobs between 1971 and 1981 (Forster 2004, p. 29), Australian cities entered a period of economic recession and restructuring. The economic base has changed fundamentally. Employment in the service sector – particularly in business,

finance, and community services – grew rapidly but was not sufficient to fill the gap created by the decline of manufacturing. Unemployment rates rose sharply from two per cent or less in 1971 to 10 per cent or more in the early 1990s and many workers suffered a loss in real income (Forster 2004, p. 55) (also see Figure 2.3 below).

In the Australian context, cities have been shaped by three levels of government: federal, state and local. The federal government controls macro-policies such as immigration, industry protection and some large projects. Urban planning and development control are constitutionally the responsibility of the states (Forster 2004; Gleeson & Low 2000; Murphy & Watson 1997; Searle & Bounds 1999), i.e. place marketing activities in cities are mainly formulated and implemented by state governments. State governments faced challenges in the wake of the 1970s: how to reduce mounting unemployment and government debts due to the rapid decline in traditional industries, which meant that the cities were losing resources for growth. These difficulties placed state governments under pressure to compete to retain and attract development resources (Gleeson & Low 2000; Hall, CM 1999; McGuirk 2005; Searle & Bounds 1999). Meanwhile, as noted by Searle and Bounds, the Australian federal system itself has created a climate for interstate competition for investment (Searle & Bounds 1999). This interstate competition for investment has increasingly become central for state governments, underpinning state economies and jobs (Gleeson & Low 2000; Murphy & Watson 1997; Searle & Bounds 1999).

During the long boom prior to 1974, each city was still largely independent, the unquestioned economic and administrative leader of its semi-closed state economy. But since the 1970s, more than ever before, the cities have competed against one another – and against the rest of the world – as state governments strive, with few holds barred, to attract capital investment and employment (Forster 2004, p. 37).

Many publications cited in the works of McGuirk (2005) and Searle and Bounds (Searle & Bounds 1999) provide evidence of the emergence, since the 1980s, of an ‘entrepreneurial city paradigm’, in which governance and planning were recast to replace regulatory mechanisms with facilitative approaches for businesses, with state capacity being directed towards the coordination of private sector investment to secure a city’s repositioning. Place marketing in Australian cities has been implemented throughout the different state governance models since the 1980s: Managerialism (also known as “Corporate Management” – CM) during the

1980s, Corporate Liberalism (CL) during the 1990s and the current period of post-CL (Gleeson & Low 2000; McGuirk 2005). Place marketing activities started in the managerialism model and were strongly employed in the CL model, which might make one think that the place marketing approach is a product of these models, especially of the CL model. Consequently, some failures in place marketing activities and then the end of the CL period might raise questions about place marketing's efficiency and whether it would continue to be used. However, the role of place marketing has not diminished, and place marketing has developed further in terms of both the scale and scope of its application. These claims will be illustrated in the case study of New South Wales below.

## **2.2 Place marketing in Australia: Case study of New South Wales**

In the 1970s, New South Wales (NSW) was one of the first to develop a place marketing approach to emerging post-industrial issues in the capital, Sydney, and some of these initiatives will be reviewed briefly here. The main focus will be on the Darling Harbour Project, which was the earliest and perhaps the largest such initiative.

### **2.2.1 Darling Harbour Project as a start of marketing Sydney**

Darling Harbour is situated next to Sydney's traditional central business district. The locality extends from Chinatown, along both sides of Cockle Bay, to King Street Wharf on the east, and to the suburb of Pyrmont on the west (see maps 2.1 and 2.2).



### Map 2.1: Map of Sydney, attractions



Source: <http://www.lonelyplanet.com/maps/pacific/australia/new-south-wales/sydney/>

### Map 2.2: Map of Darling Harbour area



Source: [http://www.scec.com.au/content/dh\\_map\\_04\\_Base.pdf](http://www.scec.com.au/content/dh_map_04_Base.pdf)

During the 1980s, the state government of New South Wales (NSW) led by Neville Wran of the Australian Labor Party (ALP), had a vision of positioning Sydney as a world city, a centre for the new regional financial system and for tourism. The Darling Harbour project was considered the first move in achieving this goal (Daly 1987 cited in Gleeson & Low 2000, p. 81). Before becoming a famous place, Darling Harbour had been an obsolescent waterside industrial area with no resident population. It was originally part of the commercial port of Sydney, including the Darling Harbour Railway Goods Yard (see Figure 2.1).

**Figure 2.1: Darling Harbour as a working port, early 1980s**



Source: <http://commons.wikimedia.org/wiki/Image:Darling-harbour-as-working-port-early80s.jpg>

Darling Harbour, which was designed to become a first class convention, exhibition, market and tourist centre, was a big change to the area. The first attempt was made in 1980, with plans to develop Darling Harbour as a site for an international expo to be held in 1988, but the plan was not supported by the then Federal Government (Liberal and National Parties, LNP). The next attempt was in 1983, following a victory of the Labor Party in the federal election. The Darling Harbour project, with a focus on tourism, was backed by the Federal Government for both political and economic reasons. Promoting tourism as a growing industry was an important point in the Federal Government's agenda (Gleeson & Low 2000,

p. 81). As a result, the Darling Harbour development was intensively implemented, and the implementation process is summarized as follows.

*a) Organisational pattern and costs*

The Darling Harbour Authority was constituted under the *Darling Harbour Authority Act 1984*, (Act No. 103, 1984). The Act gave the Authority the legislative framework “to promote, encourage, facilitate and carry out the development of land within the Darling Harbour Development Area (known as Darling Harbour)” (*State Records Authority of New South Wales-Archives Investigator* 2007). The area comprised about 50 ha of land and 12 ha of water. The *Darling Harbour Authority Act, 1985* (Further Amendment Act) granted the Author the right under “Scheduled Works” to install and operate the Monorail, which was to be constructed beyond the Darling Harbour area, connecting it to the centre of the city. These Acts provided the Authority with absolute planning controls, exempting them from the *Environmental Planning and Assessment Acts* and other Acts which control such issues as heritage conservation and the height of buildings. The Authority had powers greater than those of the Sydney City Council and the State Planning Department (Gleeson & Low 2000, p. 82; Hall, CM 1999). The Authority’s powers were placed under the Minister’s control only in the manner that its acquisition, management and disposal of land as well as its other development activities were “in accordance with plans approved by the Minister on submission by the Authority” (*State Records Authority of New South Wales-Archives Investigator* 2007). In return, the Authority was given an extremely tight timetable to complete the development. Detailed information of the project was not revealed to public and no meaningful consultation with the wider community was conducted (Hall, CM 1999).

The Darling Harbour development was carried out by a public-private partnership. As announced in 1984, the public-private joint venture cost \$1 billion, including the overhead monorail through Sydney’s CBD to bring people to the site and to a casino, costing \$750 million, which was expected to be “the principal money-spinner for the government” (Gleeson & Low 2000). But actually, according to the Darling Harbour Authority (1996), the NSW Government directly invested at least \$950 million into the project and subsequent private sector investment totalled \$1,431 million (Hall, CM 1999).



Laurie Brereton, the Minister responsible, also signed an agreement with the unions to ensure that the project was completed quickly, in time for the 1988 Bicentennial and, perhaps more importantly, for the election of the state government in 1987 (Gleeson & Low 2000, p. 82).

b) *Outcome*

The project was the subject of furious public objection and academic debate in terms both cost efficiency and of the way in which it was undertaken (Gleeson & Low 2000; Hall, CM 1999). The union troubles added pressures and obstacles to the project implementation. In fact, the idea of the casino was abandoned (but later revived), leaving \$450 million in public sector costs. Premier Wran retired from politics for personal reasons. The Labor Party lost in the 1987 election to the Liberal-National Coalition and the Darling Harbour project was considered a major factor in that loss. The project was officially opened by the Queen for the Bicentennial in May 1988, but it was only half-finished (Gleeson & Low 2000).

**Figure 2.2: Darling Harbour as a central attraction of Sydney**



Source: <http://conferences.computer.org/avss06/Venue.html>

## **2.2.2 Continued marketing of Sydney**

Darling Harbour can be seen the starting point of a long-term and large program of marketing Sydney, which has been implemented by successive NSW governments. The way Darling Harbour was governed and undertaken follows the model of Managerialism (also as known

as ‘Corporation Management’ or CM) under the influence of neo-liberalism ideology with the state governments practicing measures to encourage private investment within a framework of market prices. Managerialism was applied in almost all states of Australia during 1980s (Considine 1990; Gleeson & Low 2000). The place marketing approach started in this model when the economic welfare of cities and other regions became the focus of government agendas, and governments began taking the role as a key actor in building and promoting a place’s competitive image. The NSW government succeeding that of the ALP – the LNP Coalition (1988-1995) – continued the neo-liberalism ideology, but at a greater and more intensive level in the corporate liberalism model (CL).

Corporate liberalism assumes that the state, in response to trends in global business, needs to have a main function of creating the conditions for attracting investment, such as low taxes, financial stability and subsidies to business. Place marketing was enhanced in this period and was considered as a main objective of reforms. Gleeson and Low viewed that Corporate Liberalism is a combination of managerialism and the neo-liberalism ideology. Neo-liberalism developed into the dominant ideology of government during 1990s (Gleeson & Low 2000).

For this content, planning tends to become place marketing. Private entrepreneurial ventures and public-private projects, which were supposed to improve the attractiveness of the place through capital investment and to create entertainment facilities, were supported and subsidized by the governments (Gleeson & Low 2000, pp. 73, 92-101; Hall, CM 1999; Searle & Bounds 1999). The role of competition and market mechanisms was extended to cover many public areas in this period. Under corporate liberalism, public expenditures were cutback to critical and sensitive areas, such as school and hospital budgets. The managerial reforms in public governance were carried out in order “to create an institutional framework for government which resembles the market as closely as possible’ (Greiner 1985) with an assumption that these reforms would cut down public expenditures and improve the city’s attractiveness to investors. Searle and Bounds remark about these reforms and their relation to place marketing as follows:

This change [from CM to CL] was driven by a perceived need for services and infrastructure to be provided as efficiently as possible to attract investment via lower charges, and to reduce government debt. This would retain the state’s AAA investment rating, almost essential to

attracting international finance for its capital needs in the absence of adequate national saving in Australia and the global movement against higher taxes. (Searle & Bounds 1999)

In such a model, Sydney was more strongly marketed to tourists and multinational corporations. In the work '*Surface City: Sydney at the Millennium*' Murphy and Watson (1997) used the two headlines in the *Sydney Morning Herald* (SMH) (16 June 1994) as representatives of Sydney's choice of target markets. The first was 'Australia is as cheap as chips: just ask IBM', which referred to IBM's decision to set up a \$30 million regional computer service centre. The second was the annual Gay and Lesbian Mardi Gras and the economic benefits from this event (Murphy & Watson 1997, p. 37), which were estimated to generate \$38 million additional private expenditure (Marsh & Greenfield 1993 cited in Murphy & Watson 1997).

In general, the NSW government's strategy on marketing Sydney was directed at Sydney's position as an financial, cultural and leisure city of global significance (Wirth & Freestone 2003). Its choice of target market can be illustrated by the above two events. The strategy assumed that Sydney's economic future would be driven by transnational corporations (TNCs) and that international tourists had become dominant. Under this assumption, Sydney had to compete with other cities, both national and international, for investments and tourists. Attracting mobile flows of investment funds and to boost the tourism industry has been the NSW government's mission, so that "government strategies to market the city have exploded" (Murphy & Watson 1997, p. 37; 40). Particularly, Sydney was targeted to become home of TNCs' global and regional headquarters. The functions of the headquarter office are to perform the TNCs' command and control activities. To undertake this function, the headquarters needs to be assisted by a service system ranging from advanced services such as legal consultation, accounting, tax, computing, marketing research and marketing, to less demanding services like office cleaning, office security and data entry. The establishment of a number of headquarter offices would, therefore, create a business cluster of support services. The IBM regional computing service was expected to create initially 189 skilled jobs, but it was also expected to generate many more jobs in businesses servicing the corporation (Murphy & Watson 1997, p. 50). Sydney's growth, supposedly, was based on renting offices, expanding business support clusters and earning income from tourists.

To boost Sydney's tourism, to attract corporate headquarters and to create Sydney's image as a world entertainment city, the NSW government developed a series of projects involving facilities, amenities and marketing tools, as a basis for campaigns to market Sydney. This process was also expanded to Sydney's suburbs.

#### ***2.2.2.1 Amenity and facility construction***

##### **Eastern Creek Raceway**

One of the key components of strategies for tourism in Australia since the early 1980s has been the hosting of mega-events (Hall, CM 1999; Searle & Bounds 1999). In the late 1980s, NSW had established its position as the leading commercial centre in Australia. While tourism was widely promoted as providing new vigour for Australian cities and it was believed that big sport or entertainment events would bring large revenues to host cities, most of these big events had been traditionally held in Victoria, the major rival of NSW. For both economic and political reasons, NSW attempted to win an international event. An opportunity came when Victoria, which had been hosting the Australian Motor Cycle Grand Prix (the Australian round of the 500cc GP series), issued new anti-tobacco promotion laws. These laws did not allow tobacco companies to advertise without health warnings, and tobacco companies were among the chief sponsors of and advertisers at the Grand Prix event. The NSW Premier was enthusiastic about a proposal from a consortium, and offered an A\$20 million low-interest loan to build a motor raceway and a further loan to pay out Victorian creditors of the Australian Motor Cycle Grand Prix promoter, so that NSW could bid for the race. In September 1989, the Premier announced that the raceway would be built in Western Sydney using reserve government land (SMH, 19 September 1989). To be able to bid for the 1990 race, the completion deadline was set by the Federation Internationale du Motorcyclisme (FIM) for 31 December 1989, just around three months prior to the Premier's announcement. The NSW government executed 'frenetic activity' (as described by Searle & Bound 1999). Eastern Creek was selected for the reason that it was largely owned by government.

Pleading that the project needed to be fast-tracked, regulatory procedures of planning were scrapped and large amounts of money were spent, as is highlighted in the following paragraphs.

### *Costs and benefits as initially estimated*

In the initial statements, the estimated costs and benefits were outlined by the authorities as follows:

- A net economic benefit to NSW of A\$248 million over 20 years, provided that major international event was staged each year, according to a NSW Treasury report (SMH, 23 February 1990; 17 March 1990).
- The prospect of hosting the race offered a major opportunity to place Sydney more strongly on the global consciousness: up to 300 million viewers around the world were expected to be watching the Motor Cycle Grand Prix (SMH, 10 January 1990).
- The raceway would also enable NSW to bid for other motor racing events.

### *Initial actual costs*

The government began to incur costs in the months after the announcement. As informed by the media, by 1990, the amount of costs were rather large:

- a loan of A\$20 million was given to the development consortium; in return, the consortium would take a long-term lease on the circuit at a rental equal to 1.25% of gate receipts (SMH, 26 January 1990 and 27 January 1990);
- a loan of A\$5.5 million to the race promoter was guaranteed (SMH, 26 January 1990 and 27 January 1990);
- a cost of A\$8 million was incurred for the acquisition of most of the private land on the raceway site (SMH, 26 January 1990 and 27 January 1990); and
- A\$8 million was provided to divert an arterial road which ran through the raceway site (SMH, 24 October 1990).

### *Continued actual costs*

Further costs were incurred as the project developed:

- another A\$2 million was provided to a promoter even though his company was technically insolvent, otherwise the 1991 race would not have been staged (SMH, 4 July 1991);
- a further A\$4.5 million was lent to the development consortium (SMH, 4 July 1991);
- A\$2 million was provided to cover non-payments and to complete the drag racing and go-cart tracks (SMH, 4 July 1991); and



- an annual fee was incurred, beginning at US\$2 million (A\$2.7 million), to pay the international entrepreneur controlling grand prix motor racing (SMH, 29 September 1992).

#### *Review of total actual costs*

By mid-1991 the government had invested A\$43.4 million in the project, and the government's total costs and liabilities for the project by then were A\$73.4 million (SMH, 4 July 1991). A year later, the Auditor-General reported that government spending had totalled A\$63 million on the project (SMH, 30 September 1992). By 1995 when the race was taken back by Victoria for a ten-year deal from 1997, the NSW government's total costs for the Eastern Creek Raceway had increased to A\$140 million (Searle & Bounds 1999). Thus the actual costs greatly exceeded the expected costs. In contrast to this picture of the costs, revenue outcomes were much lower than expected. The promoter's forecast at the beginning of the project was for attendance of 150,000 on race days and up to 100,000 on each of the three days before the race (SMH, 10 January 1990), with a spirit of 'big crowds and big money' (SMH, 27 January 1990). Actually, by 1993 only 37,000 people watched the grand prix though this was an increase on the 1992 figure (SMH, 29 March 1993).

According to the then active regulations, the planning controls of the site for raceway construction were still with the local council (Blacktown). Due to potential impacts on surrounding areas, the project was immediately in danger of being delayed. The government tried to find a way to take over full approval powers and to ignore objections, with some parts of the construction being carried out over both day and night. However, the track did not meet the requirement at the deadline and it was rejected by the FIM for the 1990 Motor Grand Prix, but it held the race from 1991. Because the problem of tobacco advertising on the Victorian track remained, the Eastern Creek Raceway retained the race for six years from 1991. In 1995, the Labor Party, who won the election of 1995, refused to put any further money into the project. Meanwhile, the Victorian government, with undisclosed financial inducements, recaptured the Motor Cycle Grand Prix for ten years (*The Australian*, 5 May 1995), and the race is now committed to Victoria until 2016. The Eastern Creek Raceway has, however, hosted some other races for cars, bikes and superkarts. It has recently been used for the A1 Grand Prix Championship, which is a nation-based open wheel car racing event, for three seasons (2005-2006, 2005-2007 and 2007-2008). It has also been the venue for a number of rock concerts and festivals.

The comparison between the initially estimated cost and benefits and the actual costs and benefits suggests that the government may have relied on the promoter's calculations and reasoning rather than on any more thorough necessary rationale. Another supposition is that the government used the estimated figures to justify pursuing a project aimed at increasing public support, but was not able to actually implement that project. Sydney gained a global special event but at a high cost.

### **Other facility projects and spatial and social-economic changes**

Sydney's image is coupled with images of beautiful beaches and a waterfront city. This is the effect of Sydney's natural advantages as well as the outcomes of the NSW government's programs which have regenerated foreshore areas and marketed them. A series of redevelopments has led to drastic changes in the spatial and socio-economic structures of Sydney's foreshore and bays. Quiet areas have turned into commercial waterfront cities, entertainment centres or high-income residential regions. The Darling Harbour development is a big project amongst them, but other projects have continued to be implemented. The Sydney casino was built in Pyrmont, an inner-city, bay-side suburb, located two kilometres south-west of the Sydney central business district, which had always been home to a working class community.

The idea of building a world class casino in Sydney had been planned in Darling Harbour Project previously, but it was dropped following widespread opposition from the public. However, the idea was revived in the early 1990s. Besides the legitimisation of boosting international tourism and creating jobs, the casino was expected to bring significant revenue to the government through gaming taxes, casino licence fees and government asset sales (e.g. selling government lands). Following the stock exchange crash and the economic recession in the early 1990s, the search for revenues had become more urgent to the government (Gleeson & Low 2000; Hall, CM 1999; Searle & Bounds 1999). In February 1993, the government announced that a casino and hotel complex would be built on the site of the former Pyrmont power station, which was a government asset which had not been used, on the periphery of Darling Harbour near the CBD (Searle & Bounds 1999). Sydney's Star City Casino project was implemented in a very similar manner to the Eastern Creek Raceway (Hall, CM 1999; Searle & Bounds 1999). Pyrmont was also designed to become the location for high-rise

luxury units and corporate headquarters. It is now home to several corporations, such as Vodafone, Nokia Australia, the Network Ten studios and the Seven Network production studios and radio stations. Woolloomooloo is another harbour-side, inner-city eastern suburb of Sydney, next to the Sydney central business district. This area has historically been a poor working class district of Sydney. It has been regenerated to become a city area for high-income residents (Kirkby 1998).

Bondi Beach is a central point of the city's image for tourists now. But until the 1980s it was a quiet area with a few of hotels and bars bearing an old, familiar style and with a large stock of blocks of flat occupied by low-income tenants. It had been a working class suburb for very long period. The selling Sydney program of the government replaced the old hotels, bars and stores with commercial buildings and flashy cafes and restaurants. The Holiday Inn built at Coogee Beach, to the south of Bondi, was higher and bulkier than the NSW government's planning guidelines allowed for. To make way for the development, the state government changed the rules in spite of local objections. The rent increases forced low-income tenants to move out of the area (Murphy & Watson 1997, pp. 42-8).

Similar changes can be recognized throughout Sydney. These changes have been toward meeting the two target markets: tourists and businesses. The capacity of Sydney (Kingsford Smith) International Airport was expanded with the opening of a third runway in mid-1994 (Murphy & Watson 1997), keeping Sydney International Airport as the busiest airport in Australia. It was handling 32.7 million passengers in 2007-2008 while Melbourne Airport had 23.9 million, Brisbane Airport 18.3 million, Perth 9.0 million and Adelaide 6.6 million (Bureau of Infrastructure - Transport and Regional Economics 2009).

#### ***2.2.2.2 Using promotion and other tools of marketing***

Promotion tools and the techniques of marketing have been applied widely in the Sydney program, and the public media as well as the government's media machine has operated actively in promoting Sydney. Promotional brochures, logos and posters of Sydney's symbols, such as the Harbour Bridge and Opera House and other marketing images, are evident at Sydney airport and all over Sydney. Advanced communications systems were used to spread the message around the world that Sydney-based companies benefit from direct, reliable access to global facilities and trading systems using the city's modern international

telecommunications networks (Murphy & Watson 1997). The information and service systems were developed to bring improved convenience to customers.

Policies, assistance networks and incentives have been brought together in a set of tools for marketing Sydney. A program to provide newly established regional headquarters with a one-off tax rebate of \$300,000 was initiated by the NSW government, while the Australian Government also provided a wider range of concessions (Murphy & Watson 1997, p. 56). Government's agencies such as the Department of State and Regional Development (now part of Industry and Investment NSW) have deployed many activities in cooperation with other agencies to promote NSW in key overseas markets and to attract international investment to the State. The main operations include:

- networks which:
  - work collaboratively with industry groups across NSW regions;
  - work closely with the Australian Trade Commission in the promotion of NSW overseas; and
  - work with the Australian Government on a major campaign to attract investors, headquarters offices and tourists to Sydney;
- assistance activities which:
  - identify international business and export opportunities;
  - develop and implement targeted programs to assist Sydney to become internationally competitive and increase exports or decrease imports;
  - gather a significant amount of information and matching of local investment opportunities with visiting overseas delegations of government officials and business people; and
  - establish offices overseas.

In brief, economic policies, financial considerations and place marketing have dominated the field of urban policy in NSW since the 1980s (Caulfield & Painter 1995, p. 239; Department of Infrastructure Planning and Natural Resources NSW 2004; Gleeson & Low 2000). The change in governance models from managerialism to corporate liberalism, and then to a stage beyond corporate liberalism in the late 1990s led to an adjustment in the unpopular aspects of the corporate liberalism agenda and a shift to a model which gives greater consideration to the environment, education, and social issues (Gleeson & Low 2000; McGuirk 2005).

However, the strategy for expanding and marketing Sydney has continued as an indispensable trend, as shown in the development strategies of NSW (2004; Knowles 2004), and as observed in practice. Statements about the objective to “strengthen the State’s global competitiveness, promote investment and job creation and build business capability” (Department of State and Regional Development NSW 2009) or the like can be seen reflected in a large range of activities of the NSW government with different emphases. Sydney has been reshaped in both spatial and socio-economic structures through a convergence of the market forces of gentrification and the entrepreneurial initiatives of government.

It needs to be recorded that a similar place marketing approach has been applied in other Australian state capital cities, especially Melbourne (Department of Planning and Housing VIC 1992; Gleeson & Low 2000; Government of Victoria 1984). Southbank, formally a neglected industrial area, was rejuvenated in the early 1990s to become a retail, entertainment and office precinct.

The area stretches along the southern bank of the Yarra River within reach of Melbourne CBD. This area is featured by cultural designs (Southgate Arts and Leisure Precinct, the Victorian Art Centre and theatres), exhibitions (the Melbourne Exhibition and Convention Centre), a high-density residential precinct with some skyscrapers including a five-star hotel, and a commercial mall (a pedestrian plaza and many stylish shops, restaurants, trendy cafes, food courts). One central feature of the Southbank area is the Crown Entertainment Complex, a casino and entertainment precinct. Like the case of Sydney, the casino was the subject of much controversy and press speculation and it was also expected to bring large revenues to the government (Brady & Miller 1995 cited in Gleeson & Low 2000).

### **2.2.3 Sydney’s advantages and the choice of target markets**

Sydney has many advantages which have become crucial in globally competition for investment and tourists. At the regional level, Sydney is competing against Singapore, Hong Kong and on a lesser level to some other Asian central cities. Within Australia, Sydney competes Melbourne and then with the other state capital cities. Singapore and Hong Kong, with their special geographical positions as well a historical development, were the obvious hubs of the Asian growth economies. In addition, levels of individual and company income taxes in Singapore and Hong Kong were relatively low. However, their advantages have been

eroded by a rapid decrease in telecommunication costs, and an increase in quality and convenience of airlines linked to Sydney. In mid 1994 The capacity of Sydney (Kingsford Smith) International Airport was expanded with the opening of a third runway to be able to offer 500 flights a week to more than 100 destinations, with non-stop flights for critical airlines to the United States, Japan, Korea, Hong Kong and South-East Asia (Murphy & Watson 1997, p. 52). Since then the passenger numbers has increased continuously, from 19.9 million passengers in 1995-1996 to 29.0 million in 2005-2006 and to 32.7 million in 2007-2008 (Bureau of Infrastructure - Transport and Regional Economics 2009).

The low levels of taxation in these competing locations were offset by higher costs of renting office and residential space and of professional, skilled and managerial labour. While Sydney's CBD and the newly established facilities provided a spectacular setting for office accommodation, these costs were relatively low compared with Singapore and Hong Kong. Average monthly rentals for executive housing in 1995 were A\$2,700 in Sydney, compared with A\$11,447 in Singapore and A\$18,355 in Hong Kong (Murphy & Watson 1997, p. 53). According to the NSW government's documents, while Sydney had ability to provide a substantial workforce of internationally-experienced professionals for support services for HQs' operations, labour costs for these services was relatively cheap. An accountant in Sydney might cost \$55,000 a year but \$75,000 in Hong Kong or Singapore. There were similar differentials in wages for office managers, systems analysts, engineers and plant managers (Department of State and Regional Development NSW 1996). In addition, with a large land foundation Sydney is able to expand at a relatively low cost, while this is difficult to do in Singapore or Hong Kong. The reason why IBM spent \$30 million to set up its regional computer services centre in Australia, and why some other corporations moved their offices to Sydney, it was said to be that costs in Sydney were lower relative to those Hong Kong and Singapore:

Cathay Pacific recently announced the move of its computerised passenger bookings to Sydney. Now IBM has joined in to remind us that places like Singapore are increasingly pricing themselves out of the regional headquarter business. Rents and the costs of servicing the housing and recreational needs of expatriate executives, as well as the salaries of locally hired executives and skilled staff, have soared out of sight. In Hong Kong they are horrendous, in Singapore merely sky-high. (Sydney Morning Herald, 16 June 1994 cited in Murphy & Watson 1997, pp. 37-8)

As a big city with modern facilities for businesses, it also provided a good environment and culture for living. Australia is located near to Asia, with a spatial proximity but offering a rather different atmosphere with a multi-cultural society, an ideology and a lifestyle originating from Western countries, and with natural space not far from urban centres. These features, in conjunction with high security, created an exclusive feature, which was hardly found in Asian central cities, which often was crowded with people and transport. These Asian cities' possibility to expand on space is limited. All these factors generated a magnetism of Australian cities to international tourists, especially from Asia. Among the Australian cities, Sydney with its attributes could be dominant. The combination of its two target markets, tourists and businessmen, bringing together the CBD and the tourist features, together with high-quality resorts and residential suburbs, differentiated Sydney from its competitors. A bank chairman commented on Sydney: "It is possible to live in green countryside only 20 minutes away from the central city, and be totally relaxed" (Blue 1990), which was almost impossible to do in Hong Kong or Singapore. This was also a significant point to attract human resources for knowledge industries and managers of various levels, including CEOs. On the other hand, the achievement of service sector expansion to large scale would enable Sydney to enjoy economies of scale. Darling Harbour is a world class venue for conventions, exhibitions, and markets but it also a place for people, a much loved one of tourists and residents.

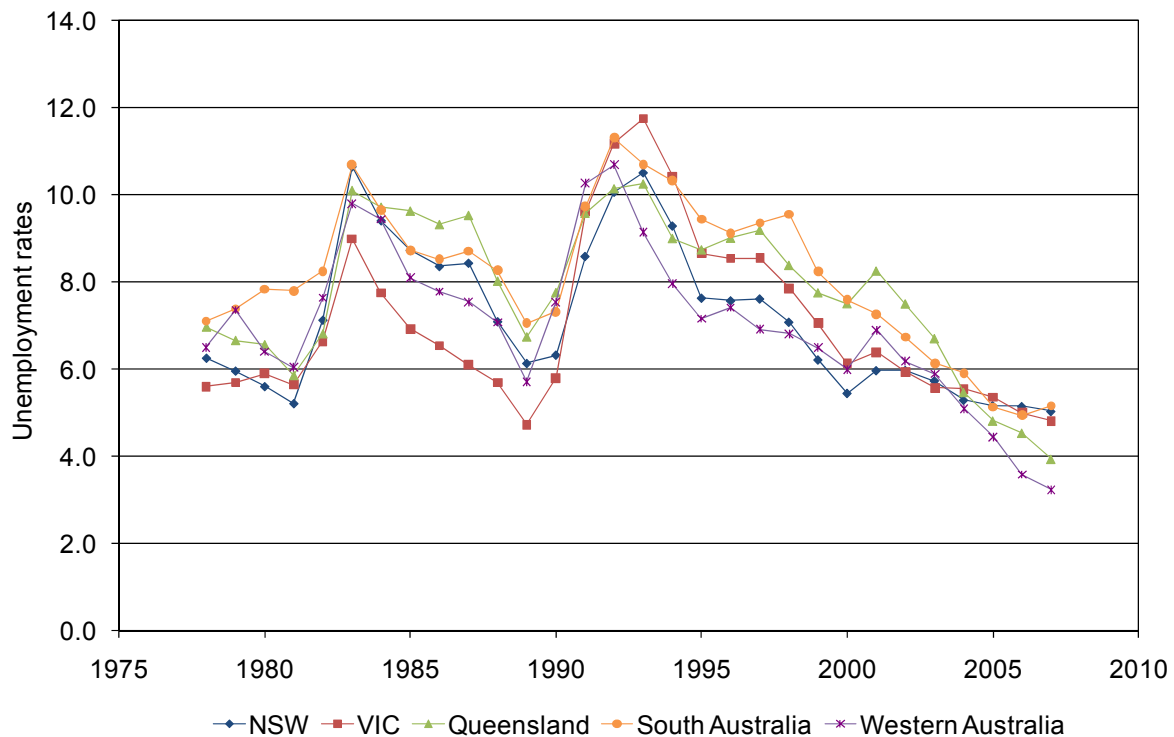
### **2.3 Place marketing practices: Success, failure and questions**

Is the place marketing approach able to bring success to a place/city? Certainly, there is no consistent answer. The reasons are: firstly, in term of methodology, it is an approach that means that success is not guaranteed but is subject to how it is applied in specific situations; secondly, there is a lack of statistical evidence with which to evaluate the effectiveness of place marketing strategies across different economies; thirdly, as shown by Young, there is a complete lack of any systematic cross-national criteria on which to base for evaluation of practice (2005). As a theory in progress, a complete set of criteria to measure the effectiveness of place marketing has not yet been developed. In general, the economic growth of a city or region, and its ability to attract and develop businesses, is used by many academics as criteria to gauge success of this approach. But the economic growth or the attractiveness of a place/city can be argued to be the result of various factors.

However, the evidence given by a variety of authors and from many different sources referring to different economies, suggests a common phenomenon that most cities which employ this approach, especially those cities with sophisticated strategies, are likely to be dynamic and achieve high growth rates of investment, unemployment reduction or other economic development, not whether they are post-industrial cities (e.g. Hospers, GJ 2004; Kotler, P et al. 1999; Murphy & Watson 1997; Parkinson & Harding), developing cities (Kotler et al. 2002) or transition (post-socialist) economies (Turnock 2005; Young 2005). Whether or not this is a causal link, with the causality going from place marketing activity to rapid growth, is a complex issue which is beyond the scope of this thesis.



**Figure 1.3: Australian unemployment rates, 1978-2007**



Source: (Australian Bureau of Statistics 2008).

Sydney is a leading city in Australia. The NSW strategy of marketing Sydney to global tourists and businesses seems to have helped to improve the economy of Sydney and NSW. Since the mid-1990s Sydney's economy has recovered strongly from the recession of the early 1990s. By 2004 its regional economy accounted for 23% of the nation's value-added wealth, and its population growth equalled that of the 1960s population boom, with an average increase of 47,700 per annum between 1997 and 2002 (2004). The unemployment rate of NSW in 2000 was 5.45%, with a slight fluctuation of the rates in the 5.5-6% range during the 2000s (see Figure 2.3). There has been a concentration of high-income earners within Sydney. In 2001, 11% of the Sydney metropolitan workforce received more than \$1,500 weekly personal income, compared to just 6% of the Australian workforce overall (McGuirk 2005).

In the report of *Top 50 Cities for Business Index 2007*, MasterCard Worldwide Research (2007) exploring the strategic role of cities in driving global commerce<sup>3</sup>, shows Sydney holds

<sup>3</sup> The index was compiled from research by a panel of top independent economic, urban development and social science academics from around the world. It rated cities according to their legal and

fourteenth position, while Hong Kong is fifth, Singapore sixth and Melbourne thirty-fourth. The other state capitals of Australia are not in the list (see Table 2.1). A research network centred in the Geography Department at Loughborough University, UK, considered Sydney an alpha+ world city,<sup>4</sup> ranking seventh among the top cities in the world in 2008, mainly based on economic criteria (GaWC Research Network 2008).

**Table 2.1: Top 50 cities for Business Index 2007**

Rank	City	Aggregate Score	Political Legal Framework	Economic Volatility	Ease of Doing Business	Financial	Knowledge / Info Flows	Business Centre
1	London	77.79	84.11	84.11	87.87	82.86	52.72	71.75
2	New York	73.80	86.60	86.60	87.36	68.58	61.55	62.13
3	Tokyo	68.09	83.88	83.88	85.52	53.39	55.94	59.54
4	Chicago	67.19	86.60	86.60	86.08	55.84	50.71	53.88
5	Hong Kong	62.32	77.57	77.57	87.07	38.06	27.31	71.89
6	Singapore	61.95	88.12	88.12	88.24	32.59	28.78	66.16
7	Frankfurt	61.34	84.68	84.68	82.64	53.50	25.67	50.91
8	Paris	61.19	74.43	74.43	82.15	43.22	39.57	55.21
9	Seoul	60.70	74.63	74.63	73.83	53.00	42.95	51.37
10	Los Angeles	59.05	86.60	86.60	87.30	18.80	46.03	56.19
11	Amsterdam	57.30	82.49	82.49	82.41	32.89	28.04	53.03
12	Toronto	57.11	85.83	85.83	88.85	30.79	27.26	49.14
13	Boston	56.47	86.60	86.60	86.77	21.94	46.51	41.48
14	Sydney	56.26	82.58	82.58	84.56	37.61	23.24	47.54
34	Melbourne	48.89	82.58	82.58	83.47	8.00	22.47	45.20

Source: (MasterCard Worldwide 2007).

Table 2.2 show the assessment of Mercer<sup>5</sup> under the criteria of quality of living for 2006-2010 (Mercer 2007, 2008b, 2009, 2010). Section A points out that Sydney far surpassed the regional and national competitors. It is ranked in the top ten group, while Melbourne is the seventeenth or eighteenth, Singapore the twenty sixth to the thirty fourth. Hong Kong is not even in the list of the top 50 cities. Sydney also affirmed its position and its image as a business city with a high quality of life in comparison to the worldwide central business cities. Section B of Table 2.2 shows the position of 11 cities, which were ranked at higher places than of Sydney in the list of top 50 business cities mentioned above. Except for Frankfurt, most of these cities were far behind Sydney in terms of 'most liveable cities'. The Australian dollar has rather strengthened against the US dollar, which has pushed Sydney up

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political framework, economic stability, ease of doing business there, financial flows, standing as a business centre and as a centre of knowledge and information (MasterCard Worldwide, 2007).

<sup>4</sup> The research ranks cities in the world. The highest ranking is alpha++ (New York and London in 2008).

<sup>5</sup> Mercer's Quality of Living Survey is released annually, comparing more than 200 cities based on 39 criteria. New York is given a baseline score of 100 and other cities are rated in comparison. Important criteria are safety, education, hygiene, health care, culture, environment, recreation, political-economic stability and public transportation (<http://www.mercer.com>).

in the rankings of the world's most expensive cities, but as found by Mercer's 2008 Worldwide Cost of Living Survey, Sydney remained an internationally competitive location to send employees, and establish and grow business (Mercer 2008a).

**Table 2.2: Sydney amongst best in the world for quality of living**

	City	2006	2007	2008	2009	2010
A In comparison with the national and regional competitors	Sydney	9	9	10	10	10
	Melbourne	17	17	17	18	18/
	Brisbane	31	32	34	34	36
	Perth	21	21	21	21	21
	Adelaide	29	30	29	30	32
	Singapore	34	34	32	26	28
	Hong Kong	Out of top 50 cities				
B In comparison with the worldwide business cities	London	39	39	38	38	39
	New York	46	48	49	49	49
	Tokyo	35	35	35	35	40
	Chicago	41	44	44	44	45
	Frankfurt	7	7	7	8	7
	Paris	33	33	32	33	34
	Seoul	Out of top 50 cities				
	Los Angeles	Out of top 50 cities				
	Amsterdam	13	13	13	13	13
	Toronto	15	15	15	15	16
	Boston	36	36	37	35	37

Source: Mercer Global Index 2006-2010 (Mercer 2007, 2008b, 2009, 2010).

*The Economist* (Economist.com 2008) also ranked Sydney ranks the top 10 most liveable cities in the world. The figures are compatible with Sydney's motto "Place to invest – Place to live" and suggest that the consistent marketing and positioning Sydney as a world city, and a regional centre for economic and investment activities in high-value added areas, may have generated considerable benefits.

However, while believing that the application of the place marketing approach can bring growth to places, many authors have also highlighted the limitations of place marketing practices, and there have even been some pessimistic evaluations of this approach. An inquiry into competitive bidding between cities conducted by the Australian Government's Industry Commission noted that:

States engage in competitive bidding for major investments and events because they perceive a gain for their State in terms of employment and income. Gains from providing assistance at the State level are largely an illusion. Most assistance has little or no positive effect on the welfare of Australians. States find it difficult to abstain because of the perceived economic and political cost of losing out to other States. (cited in Murphy & Watson 1997, p. 57)

Also since the early 2000s, there have been some signs of recession in city life in Sydney although there have also been periods of recovery. One issue is a continuing crisis in the availability of development land. Land reserved for future development has quickly run out:

By early 2000, the green field stocks which had been identified in the 1988 plan to absorb population expansion were 80% full and a new land release program, introduced in 2001, has struggled to identify sufficient land to address the growing demand. (McGuirk 2005)

House and property price have increased rapidly. Within 10 years from 2004, Sydney's median house price has topped \$500,000, having increased by 177% since 1994 (Real Estate Institute of NSW 2004 cited in McGuirk 2005) and also risen further after 2004. The expansion to the outer-metropolitan regions has been proposed as a solution to absorb the bulk of the anticipated population growth. Yet this has provided challenges to the New South Wales Government. Many of these areas are far from self-contained in terms of employment and service provision, and indeed are critically under-provided with basic transport infrastructure. The two target markets of regional headquarters and international tourists also present limitations. They are likely to create jobs in the CBD and in inner city areas, and indeed may lead to labour shortages in the inner city areas. But the poor accessibility of these jobs from outer regions has generated patterns of socio-spatial polarisation and locational disadvantage (McGuirk 2005). Sydney's competitive advantages have been eroded both absolutely and relatively by its rapid expansion.

The section below will review some of the major limitations of place marketing practice and the questions arising, based on the case of NSW, with the aim of providing practical materials for building key concepts and a model of place marketing implementation in the next chapters.

### ***Economic efficiency/cost effectiveness***

The large amounts of public money spent on the redevelopment of Sydney raise questions of cost effectiveness (Murphy & Watson 1997; Searle & Bounds 1999). The Darling Harbour development and the Eastern Creek Raceway provide typical examples. In the second reading of the NSW Parliament in 2nd June 1998 to legislate the Darling Harbour Authority Amendment and Repeal Bill, the Labor Government provided notable figures about Darling Harbour: Darling Harbour is Sydney's third most popular tourist destination; more than 150

million people have visited Darling Harbour since 1988; it hosts more than 700 separate events each year; it employs almost 4,000 people and the Sydney Convention and Exhibition Centre alone contributes more than \$200 million to the economy each year (Shaw 1998). Darling Harbour is a great work but it should not have been built at any cost. Also in this session of the NSW Parliament questions about, and evidence of, Darling Harbour's economic efficiency came from members of parliament. If Darling Harbour is Sydney's third most popular tourist destination, why has it constantly lost money? It is still not paying its way and has created an enormous debt (Kirkby 1998). In the years following its opening, it experienced difficulties in attracting conferences to the conference and exhibition centre, and sufficient expenditure by visitors to the retail complex (Gleeson & Low 2000; Hall, CM 1999).

Table 2.3 displays an official breakdown of visits to Darling Harbour during 1988-1995. According to the Darling Harbour Authority (1996), Sydney residents made up 70% of visitors, those from outside Sydney but within Australia 23% and overseas visitors 7%. The Darling Harbour area generates direct employment of approximately 4,000 per annum (Darling Harbour Authority 1996 cited in Hall, CM 1999). However, the question should be asked as to whether these jobs and other costs were paid for by revenue from Darling Harbour, or from other sources. If the costs measured in money terms while benefits measured in terms of other criteria (such as social benefits or jobs) there can be problems in monitoring and assessing the projects.

**Table 2.3: Total visits to Darling Harbour**

Year	Visits (million)	Year	Visits (million)
1988	13	1992	14.61
1989	10.1	1993	14.23
1990	13.2	1994	13.78
1991	15.25	1995	13.7

Source: (Darling Harbour Authority 1996 cited in Hall, CM 1999).

If Sydney residents made up 70% of visitors to Darling Harbour this raises the question of whether visitors could bring to Sydney the anticipated tourist dollars. With these figures one might suppose that the Darling Harbour Development was successful as a public place to satisfy the needs of Sydney residents, rather than as a marketing place project with the objective of generating funds to reduce the government's debts and of creating growth as expected. The costs and benefits in the case of Eastern Creek Raceway, as mentioned above

also raise the same question. The great disparity between expected and actual costs and benefits of Eastern Creek Raceway reveals vulnerability in the way the NSW government undertook its Sydney marketing program. The Darling Harbour Development was implemented in the 1980s managerialism model by the Labor government, while the Eastern Creek Raceway was implemented in the 1990s by the Liberal government under the corporate liberalism model.

However, it can be argued that the returns on such big projects should be accounted for over long time periods and that the success of place marketing should be evaluated as a whole, not on the basis of an individual project. Given these arguments and the objective of place marketing projects, the managerial requirement is that planning for the projects such as Darling Harbour or the Eastern Creek Raceway needs to show long-term benefits, net of costs in comparable measures, and also demonstrate their relationship to the entire program of marketing of Sydney.

### ***Managerial issues***

The Darling Harbour development and the Eastern Creek Raceway were executed in a special management model, in which planning controls were relaxed and handed over to special authorities such as the Darling Harbour Authority. This management model was also applied to other developments. In 1993 there were at least such six consent authorities identified in the central Sydney area (1998). It was argued that such a management model causes social and environment problems as well as public expenditure management problems, when large amounts of public money were given to private contractors on the basis of a deal between the government top leaders and private contractors (Kirkby 1998; Murphy & Watson 1997). Protests and demonstrations from communities also derived from this private-public partnership and were often ignored (Gleeson & Low 2000; Murphy & Watson 1997; The Audit Office of NSW 2000). The Darling Harbour Authority was dissolved after completing the basic construction activity and then Darling Harbour was placed under normal public management mechanisms (1998). However, the question that arises here is whether the conventional mechanisms are appropriate to implement and manage the exploitation of Darling Harbour. Basically Darling Harbour has been designed to be a 'product' to be marketed to specific target markets. Transferring its use values to users would follow commercial rather than the convention channels, such as are used for normal community recreation centres. This specific type of project requires a flexible decision-making process

and its own assessment criteria. Is the conventional mechanism, with many ties to administrative systems as well as detailed controls arising from laws and regulations, effective or do place marketing projects need a mechanism compatible with their commercial characteristics? The matter will continue to be analysed in the subsequent chapters of this thesis, concerned with building the implementation model of place marketing and with the Vietnamese case studies.

### **Environment, social justice and welfare**

Although a lot of public money was used and public lands were sold off to assist development, many groups of residents did not see their share of the benefits from the development. The public objections also derived in part from this inequality. The Bondi Beach development pushed low-and-medium-income persons out of the area, which was their area of residence for generations. It also divided local communities. While shop owners might obtain large benefits from the change, most residents received little except being forced to move out of the place if they were tenants and not able to pay higher rents or, if they could stay, they would face a degradation of the living environment: crowded roads, lower security, little suitable public space for children and the community, increased noise, and the like (Darling Harbour Authority 1998; Murphy & Watson 1997). Such effects could be seen in projects over the foreshore of Sydney and in other developments.

Apart from public housing, which was still retained as a result of constant local effort, the residents of Woolloomooloo would be those on very high incomes – not normal, middle-salary incomes. The price of the apartments started at \$2.95 million in 1998 (Kirkby 1998), and the development removed public and community amenities. The high-rise buildings destroyed the face of Pyrmont and left little open space for leisure activities (Kirkby 1998). The third runway at Sydney Airport opened in 1994 expanded the capacity of Sydney Airport to meet the rapidly growing demand for airline access to Sydney. The results were, as above mentioned, that Sydney's competitive advantages were enhanced but "many Sydneysiders now face deafening noise every few minutes. Conversation over a cappuccino in Leichhardt is punctuated by deafening roars, as the train of thought is interrupted" (Murphy & Watson 1997).

Sydney is not a special case in which the issues of environment, social justice and welfare are almost excluded from place marketing practices. As summarised by Griffiths, this has been

one of the three major themes of critical discussion of place marketing strategies (Griffiths 1998 cited in Kavaratzis 2007). It is the result of the issue being managed through the allocation mechanisms of the market (Gleeson & Low 2000; McGuirk 2005). How are these issues to be tackled while cities apply the place marketing approach, especially when this approach is considered as a planning model for city development (Ashworth & Voogd 1990) or as “a form of governance” (Young 2005), and the place marketing programs require substantial resources from both the public and private sectors?

The Darling Harbour development and the Eastern Creek Raceway, as typical examples, show the vulnerability of the NSW place marketing programs. This vulnerability has been a share feature of the worldwide place marketing practices. Another theme of critical discussion of place marketing strategies reviewed by Griffiths is the highly speculative nature of these strategies: “investments in major entrepreneurial projects are contingent, for their success, on a multitude of factors over which an individual city will usually have little if any control” (Griffiths 1998, p. 56 as cited above).

Given these constraints, one can argue whether the benefits from marketing a city are often offset by social and environmental costs. The Australian Government’s Industry Commission’s assessment was based on figures of over 10 years ago. Place marketing has progressed much since then but the question about the effectiveness of place marketing still needs to be clarified and the methodology for such evaluation is still under question. And such assessment would also be based on a comparison between the results of action and what would have been the case if that action had not been taken. It cannot be assumed that without the action, the previous situation would have remained unchanged. This assumption is not reasonable, especially in contemporary trends. In the context of economies being globalised, change has happened rapidly. Given robust growth in the Asia-Pacific region and the great advances of some Asian economies, the gap between Australia and other economies in the region, as well as between Sydney and Asian cities, has been reduced. Given the rapid decline of traditional industries as an inevitable trend, NSW faced high unemployment and budget deficits.

The question is: what would Sydney be if the previous models of governance and development had remained intact instead of the Sydney marketing strategy being implemented? There may have been a rapidly declining trend, with Sydney’s growth far



surpassed by that of other cities in national, regional and international contexts. In addition, NSW, as a national industrial centre was more likely to be seriously harmed by the decline of traditional industries. The NSW planning practitioners can dispute whether, given that downward trend, Sydneysiders would have had opportunities to enjoy a peaceful atmosphere or would have had to worry about employment and daily necessities instead, since unemployment would have been higher than it was?

The worldwide place marketing activity has similar shortcomings. Examining the place marketing literature and practice, Kavaratzis (2007) in *City Marketing: The Past, the Present and Some Unresolved Issues* comments:

There is a definite need to critically re-examine issues such as the ‘right of entry’ into city marketing partnerships and who actually gets it, the implicit goals of certain city marketing programmes and whose interests they actually serve, the distribution of any financial or other profits achieved by such programmes and who actually benefits. (p. 705)

He also notes that these issues were questioned in the 1980s but they have not yet received a satisfactory answer. While contending that such limitations deserve “much thought and attention by everybody involved in city marketing theory or practice” Kavaratzis argues that these points “could be equally valid for many other forms of economic development programmes” and “they are all arguments against the way marketing has been implemented so far and are not intrinsic characteristics of city marketing itself”.

## **2.4 Concluding remarks**

The government land holdings and assets, urban planning and development power have been used by the NSW governments as the main instrument to attract desired investment and residents. The political context and the change of governance model have not affected the general trend of applying the place marketing approach. However, the place marketing plans often built on a ‘tenure of office’ basis and for the incumbent political party might cause inefficiencies for specific place marketing projects and then for a long-term strategy.

The NSW governments’ Sydney marketing practice to turn Sydney into a regional centre for tourism and corporate headquarters has drawn a new resource to the local economy. However, the NSW as well as worldwide place marketing practice shows a number of

shortcomings which can be summarised on the three issues: economic efficiency; managerial issue; and environment, social justice and welfare.

Although there are some limitations and criticism, place marketing has been applied more commonly over time. In 2007, Kavaratzis (2007) remarked that “no matter what the answer is to the above question, reality shows that cities all over the world actively chose to engage and invest in city marketing”. Because of the increase of application, the development of theoretical basis for applying this approach has become more essential. From the analysis of the shortcomings of place marketing practice and the gaps of existing place marketing theory (as mentioned in Chapter 1 and will be analysed in detail in the next chapters), the two most important theoretical bases, in this research’s view, are to clarify the nature of place marketing and build a model on how place marketing should be implemented. To make a contribution to approaching these objectives, Chapter 3 is devoted to building key concepts and Chapter 4 proposes an implementation model of place marketing management which deals with how place marketing is done.

## **Chapter 3**

### **Key Concepts of Place Marketing**

#### **3.1 Introduction**

Place marketing is an application of the marketing approach to the place planning area, i.e. its operation is based on the concepts and principles of marketing. Ashworth and Voogd argued that “the selling of places within a market can and must be related to a set of basic concepts rooted principally in marketing science” (Ashworth & Voogd 1990). However, place marketing has considerably different features from many other forms of marketing, in terms of the nature of the product which is marketed, the nature of the organisation that does marketing and the objective of marketing. Thus effective place marketing requires that place marketing theory develop a relevant set of key concepts to guide practice in this area. This chapter aims to contribute to the elaboration of these key concepts.

#### **3.2 Place product**

The concept of the ‘place product’ must be considered as a primary one in place marketing theory, for the simple reason that without a product there would not be any business or marketing activity. Correspondently, if there is no clear concept of a place product, place marketing theory has no firm foundation and cannot be adequately developed. A clear understanding of the place product is also necessary in practice: a program of place marketing is not likely to succeed if the marketer does not have a clear understanding of what he is marketing.

As mentioned in earlier chapters, the large number of published works on this topic mirrors the explosion in activities of selling places that has occurred in practice. One common theme of many of these studies, and of the practical activities reviewed in them, is the frequency with which cities or other places are offered and advertised as marketable products with the common words ‘selling the city’ or ‘selling places’ (Ashworth & Voogd 1990; Barke & Harrop 1994; Fretter 1993; Hall, T 1998; Philo & Kearns 1993; Short & Kim 1998; Ward 1998). It is also recognised that programs of selling places have been similar throughout

many post-industrial cities: renovating downtown centres, theatres, museums, or building new convention and entertainment clusters with advertising messages which were not much different from each other. It might be said that such limited differentiation of programs is the consequence of a vague perception of what is exchanged, the place/city or specific place products. By using the city as a commodity to market, Western cities in the post-industrial stage have implemented very similar programs of selling cities, because these cities have many similar attributes.

But a place should not be considered as a product or commodity. The values, attributes and assets a place possesses need to be seen as 'resources' that the place can use to produce variety of place products. This idea was mentioned in *Selling the City: Marketing Approaches in Public Sector Urban Planning* by Ashworth and Voogd (1990). However, the concept of place product and related issues, such as the place product strategy, have not been developed adequately nor are given the necessary importance, whereas by contrast the subject of what is a product and what the product strategy is, are considered to be the foundations of company marketing theory.

To build the concept of a place product, we should start from the primary concept of a product in marketing theory. In *Principles of Marketing* in 1999, Kotler and his co-authors defined a product as follows:

People satisfy their needs and wants with products. A product is anything that can be offered to a market to satisfy a need or want ... The concept of product is not limited to physical objects – anything capable of satisfying a need can be called a product ... Broadly defined, products also include other entities such as persons, places, organizations, activities and ideas. (Kotler, Philip et al. 1999, p. 11)

In a later edition of *Principles of Marketing* (2008), the authors explain about the marketing of 'other entities' that:

In addition to tangible products and services, in recent years marketers have broadened the concept of a product to include other marketing offerings – organizations, persons, places and ideas ... Organization marketing consists of activities undertaken to create, maintain or change the attitudes and behaviour of target consumers toward an organization. Both profit and not-for-profit organizations practice organization marketing. Business firms sponsor public relations or corporate image advertising campaigns to polish their images and market themselves to various publics ... Similarly, not-for-profit organizations, such as churches,

colleges, charities, museums, and performing arts groups, market their organizations in order to raise funds and attract members or patrons. Person marketing consists of activities undertaken to create, maintain or change attitudes or behaviour toward particular people. People ranging from presidents, entertainers, and sports figures to professionals such as doctors, lawyers, and architects use person marketing to build their reputations. And business, charities and other organizations use well-known personalities to help sell their products or causes ... Place marketing involves activities undertaken to create, maintain, or change attitudes or behaviour toward particular places. Cities, states, regions, and even entire nations compete to attract tourists, new residents, conventions, and company offices and factories. Texas advertises “It’s Like a Whole other Country” and New York state shouts, “I love New York!”. The Iceland Tourist Board invites visitors to Iceland, partners with the tourist board to sell world travellers on the wonders of Iceland – everything from geothermal spas and glacier tours to midnight golf and clubbing. (Kotler et al. 2008, p. 222)

By this explanation, Kotler et al. (2008) view a place as a product as many other authors do. Some even believe that a place is a product like any other. As reviewed by Ashworth and Voogd, these authors suggest that the theory and techniques for place marketing have long existed and therefore “the task is simply one of direct transference to the marketing of places of the skills, methods and personnel already well practised in the marketing of other goods and services”. The remaining task of place marketers is to deal with “a matter of detail such as the monitoring of the use and effectiveness of these transferred instruments and procedures” (Ashworth & Voogd 1990, p. 16). Ashworth and Voogd criticised it as a ‘naive simplification’. Certainly many questions arise about it, as well as about the statements of Kotler et al. (2008). Marketing is not only selling, marketing includes selling. An organization or a person undertakes activities to create, maintain or change the attitudes and behaviour of target consumers toward themselves, but the purpose is not literally to sell themselves but to sell or exchange certain goods or services which the organisation or the person wants to offer to their customers. The products but not the organization or the person per se satisfy their customers. Similarly, a place is not, in the normal course of events, putting itself up for sale. It must sell certain products, although the products that a place has to offer might be hard to define. In the case of a company, an organization or an individual, both sellers and buyers clearly identify the products to be exchanged, and there is little room for vagueness or confusion between the organization and its products or the individual and his products to create problems in practice. Yet with the case of place marketing this is a serious issue.

The first area of difficulty is with operational issues. A place is an entire entity, “the multi-layered meaning”, containing much spiritual and cultural value. Hence, the perspective of turning a place “into a one dimensional marketable commodity” (Ward 1998, p. 4) might make people think it is an extreme ideal, attempting to bring all the spiritual and cultural values into a market framework. While attempting to sell these critical values, what would a place receive in return. In fact, selling places became a common phenomenon in post-industrial cities which were regenerating their cities in order to attract tourists and investment. Such programs of selling places have not solved budget and job problems for most post-industrial cities and their residents (Taylor 1998; Ward 1998), and their influence on these cities has been hard to measure. Moreover, those assets and entertainment facilities had previously been developed to satisfy the local residents and but were then developed for the purpose of selling places, and were designed to attract external visitors. In some cases a majority of residents found themselves neglected and not able to share in the benefits. This has made it difficult for place selling programs to be accepted by the general public, even though they are public programs and needs public consent and approval. These issues of public disapproval and of related political problems have been a cause of the interruption of place selling programs in the case of Darling Harbour Development (see Chapter 2) and in many other cases in worldwide (Taylor 1998; Ward 1998).

A number of other operational questions have arisen about the view of a place as a marketable product. In general, the operational questions can be reviewed as follows. What value is exchanged in selling a place? How does the exchange happen? How is the consumption of a place (as a product) achieved and how does this consumption affect the place? What is the benefit to the place in selling itself and how should one measure that benefit? These are questions about how to organise, control and assess place marketing activities, and it is difficult to get adequate answers in terms of selling a place. Even on the matter of monitoring alone, the lack of clarity in what value is exchanged and how to measure that value would be a problem of monitoring itself, whereas these are very clear when the exchange of normal products is being considered.

Behind these operational questions are more fundamental conceptual questions in terms of marketing and economics. A place is an entire entity. If you sell the place, then is it the place such as a city to be offered to a tourist (one kind of customer) and is it also the same city (the

same product) to be offered to an investor (a very different kind of customer)? If so, marketing theory is meaningless to apply to the case. How does one price a city? What values does each side receive through the exchange? How do those values work to reproduce conditions for the next exchange, or rather to ensure continuous exchange cycles? With questions of this type unanswered, the most basic marketing theories of customers, market segments, pricing and the like have no fulcrum. With these conceptual problems, the theory of place marketing cannot be developed into a convincing and credible theory. This is one reason why some have believed that the marketing of places is insubstantial: “there is a widespread belief that place marketing has advanced little further than a slogan of the ‘I love New York’ variety and that much of the practice was based on very dubious theoretical premises” (Ashworth & Voogd 1990, p. 17). Although since the 1990s, place marketing has progressed significantly in terms of both practice and theory, yet these conceptual problems remain a weakness of place marketing.

One of the basic principles of marketing is that markets create products, not the reverse (Ashworth & Voogd 1990; Kotler, Philip et al. 1999). A market, in the sense of this principle, should be construed as an area of need, rather than the market for a particular product. The principle suggests that the consideration of what is a place product from the side of buyers would help us have a better understanding about this concept. It is helpful to examine some simple cases. When an investor considers a location for his investment or a tourist thinks about a destination, he weighs up whether or not that place is able to provide him with a set of specific attributes, which can satisfy his need. Each investor or tourist might have his own need. Investor A selects a world city, i.e. this modern city, which has attributes that meet (or at least meet better than other places) his needs in terms of an investment location. Those attributes could be an advanced infrastructure, a critical position, a high-quality labour force, an entrepreneurial environment, good public services for business or the like. This implies that, for him, a certain place product, which is constituted by a set of attributes functioning to satisfy his need, exists. Meanwhile, Investor B chooses a city in a developing country for his investment location. His selection of this city, rather than others, implies that, for him, a certain place product also does exist. This place product might consist of a collection of features such as a cheap labour force, a growing market, an adequate infrastructure, investment incentives which are different from those in the case of Investor A but which have the same function of satisfying some needs. Similarly, different choices of tourists imply the existence of different place products.

Another example is that of an investor and a tourist who both decide to choose the same city. However, it is easily seen that their criteria for selection are quite different. This shows the presence of many place products in a same place. All these examples reveal the fact that behind such decisions is the existence of different place products. In this perspective, place products existed and were exchanged in practice long before the theory of place marketing takes shape.

*A place product is a set of attributes of a place which is able to satisfy the needs or wants of the place's customers.* All attributes of a place which influence the decision of place customers are viewed as components of a place product for those place customers, no matter what sources they come from, from the natural factors such as geographical position and natural landscape, or from the governance efficiency such as planning, policies and public services.

Because the needs of place customers for place products are highly diversified, place products cover a large variety of attributes. A place product might contain a wide range of attributes from tangible features, such as transport networks, to intangible characteristics, such as cultural values, entrepreneurial spirit and investment policies. Under other criteria, a place product might be constructed by attributes derived from existing values and assets as well as those created or able to be created (expected attributes) by the place. The created attributes of a place might be economic policy, industrial parks and labour training programs for investors. They might be new entertainment centres for tourists and new schools, hospitals or social security policies for potential residents.

Nevertheless, there is possibly a mix between the needs of different customers. A potential resident can be interested in industrial zones and economic development policies for job reasons, while an investor might pay much attention to the quality of life or to education. There is a current trend that investors are more concerned about quality factors, such as the quality of workforce, quality of life and quality of education (Kotler et al. 2002; Ulaga, Sharma & Krishnan 2002). The degree of concern is quite different and would be subject to the investment issues. For example, for investors with the need for their headquarter offices, R&D locations or hi-tech plants, or so, it is important to ensure that they can get and retain the highly qualified labour. This concern would be likely less in the case of investment in



labour-intensive industries. The implication is that the place must be aware of needs and wants of its specific customer segment in designing its place products, as “place buyers differ over which attractions they find salient and important” (Kotler et al. 2002, p. 124). The ability to meet certain needs of different customers with the same attribute also suggests the importance of the combination of place products, which allows the place to save resources.

Unlike normal commodities in which all the characteristics of products are produced and controlled by the producer, some important attributes of place products such as geographical position and natural conditions are inherent in the place. They naturally bring some certain advantages or disadvantages to the place. These can be called ‘static’ attributes since they are hard to change and would often keep a ‘static’ role if there is no dynamic factor acting on them. Attributes which are created by the place’s activities such as the vision of the place leaders, investment policies, tax regulations, legal framework, public services and labour training programs can be labelled ‘dynamic’. They are able to be changed and might exert a big influence on enhancing advantages or reducing disadvantages of the static factors. Such a classification would be useful for place product strategies. Usually, the attraction of a place product for investors will include both static and dynamic attributes.

For designing right place products, attributes of a place product can be classified into two groups: core attributes which are the decisive criteria for the customer choosing a place, and additional attributes which the customer might consider when he chooses a place but they are not decisive. These core attributes can be very diverse. Sometimes, this shows a new and controversial thinking about what a place could offer. For example, in the case of the annual Gay and Lesbian Mardi Gras in Sydney, the most core attribute may be the public tolerance which helps make the event attractive to a large number of tourists. Whether an attribute is core or additional may vary among target market segments. An attribute that is ‘additional’ for one target market, might be ‘core’ for another target market and vice versa.

### **3.3 Place products and place resources**

The existing attributes and assets of a place, in this perspective, are considered as ‘primary resources’ that the place can exploit to create various product lines for its target markets. The resources of a place include all the attributes and assets of that place, while a place product consists of a certain set of attributes and assets. Some of the place resources might have been

identified and exploited, while some might not have been recognized yet or still be potential only. But a particular place product's attributes need to be specific and clear in mind of the place marketers and in their messages to customers. This is especially so for business customers, who will only make a decision on an investment location when they know well benefits he can obtain from the location. Ashworth and Voogd note that, in response to different demands, the same resources of a place might be valued in different ways and used in the shaping of different products and that "although products are shaped from resources, the terms are not synonyms despite being used as such in many urban and regional plans" (Ashworth & Voogd 1990, p. 67). They give an example of an historic city, as a place product constructed from a selected set of urban historical resources on a contemporary market. Studying the behaviour of business customers can reveal more clearly the difference between place products and place resources. An investor is concerned with present matters, especially the place's ability to develop in the future, rather than with purely historical issues. In other words, while inherited resources might be important, he is likely to place more emphasis on creatable attributes – dynamic attributes – such as the vision of the place leaders, investment policies, tax regulations, legal framework, public services and labour training programs. The existing resources of a place would be in a 'static' state or in a slow evolution without active action to create dynamic attributes. Singapore would not have been a financial centre and a favoured location for company headquarters without Lee Kuan Yew's extraordinary development plans. Research on the Vietnamese cities in Part 2 also illustrates the vital role of dynamic attributes in attracting investors. Such dynamic attributes are produced or created rather than packed from existing resources.

This viewpoint of place product and place resources, on the one hand, solves the conceptual problem. The concept of a place product lays a foundation for product strategy development and for other marketing strategies. On the other hand, it clarifies the ability of the place to offer different place products to different customers. The view of a place as a commodity might limit marketers to what is available in the place. The view of a place as the primary resources for creating place products gives a distinct vision for positioning and differentiating strategies. Firstly, a place can simultaneously offer different 'place products' in response to different market demands. Secondly, cities, in despite of holding similar primary resources, are able to create different place products by different combinations of attributes. All this shows that the marketing principles are working.

One could question why the concept of a place product has been vague for such a long time in the history of selling places. There have been some historical reasons. In the early stages, selling place activities were carried out on an intuitive and individual basis, and only in the recent times have these activities become more focused (Kavaratzis 2005). Since the late 1970s, post-industrial cities have confronted a rapid reduction in jobs and in their tax base, resulting from the decline of a great number of manufacturing industries. They found themselves struggling to find substitutable resources (Ashworth & Voogd 1990; Kavaratzis 2005; Levine 1998; Ward 1998). In these circumstances, tourism might become a good solution to retain some revenue for the place budget and some income for residents. Many post-industrial cities, therefore, have turned their attention to tourism with similar agendas of exploiting cultural factors in programs of selling cities. Culture is no longer the “icing on the cake”, but has become “cake itself” (Ward 1998) or become appreciated as a resource for economic growth (Philo & Kearns 1993).

In the late twentieth century it is well known that many post-industrial cities are busily investing in ‘high’ culture as a deliberate promotional strategy, to draw in tourists and encourage business investment. (Ward 1998, p. 3)

Promotion plays a crucial role for the success of such programs to exploit cultural endowment. In reality, cultural factors are formed and accumulated over long periods of time. Promotion helps tourists learn about the place’s existing cultural attributes and assets, and the place can have a range of activities to enhance these cultural values or to provide amenities and convenient services. Values the tourist expects are ‘experience’, ‘emotion’ or ‘feeling of something new and strange’. A professional promotion of a place image could boost ‘experience’, ‘emotion’ or other values under the culture umbrella, and bring success to the place.

*Heritage* therefore is, like any other urban product, an assemblage of selected resources which in this case are bound together through *interpretation*, i.e. its presentation to customers through various communications media. (Ashworth & Voogd 1990, p. 67)

Tourism might underpin the economies of some cities, which have special conditions and cultural heritage. However, it is evident that high unemployment and budget deficits still continue in a great number of post-industrial cities, even after tourism promotion plans have been implemented (Taylor 1998; Ward 1998). In the previous stages of selling places, the plan of investment attraction was for tourism development, but the current competition for

investment has been enhanced, both in degree and in depth. Competition for business location or relocation and for foreign investment has evidently become stronger in recent years, and is not limited to post-industrial cities but is global in scale (Kotler et al. 2002; Ohmae 1995). When the selling of places becomes targeted to businesses in such a way as to attract business investment and location, the matter has changed. The required characters of a place as a business location are quite different from those of a place as a tourist destination. The behaviour of an investor in choosing a business location and that of a tourist in picking a tour destination are quite distinct. An investor does not look for an 'experience' or 'emotion'. He does not choose his investment location by being touched by a slogan like "I love New York" or by glistening images of the place. A promotional program of a place image, even if perfect, is not convincing enough for him. He has his own specific criteria to select a location for his new business, or for the relocation of his business or plant which might be experiencing problems such as market saturation or uncompetitive costs in its present location. To be able to secure his investment, the place must offer him a place product with a set of attributes and assets that meet his criteria or, in other words, give him a solution to his problem. More than ever, the success of place marketing is dependent on its place products and the concept of place product, therefore it needs to be defined clearly. 'Selling places' has been moving to 'marketing places', requiring a theory and a practice based on a foundation of place product strategy and a marketing mix, not only promotion.

Marketing is not solely advertising or selling ... Selling and advertising are only the tip of the marketing iceberg. Although they are important, they are only two of many marketing functions, and often not the most important ones ... Real marketing is less about selling and more about knowing what to make! Organizations gain market leadership by understanding customer needs and finding solutions. (Kotler, Philip et al. 1999, p. xv & 9)

This principle of marketing needs to apply to place marketing.

Another reason for confusing place products with place resources may be that almost all authors approach the issue from the seller's angle. What the seller holds in their hands is a place, such as a city. Their conventional mission is to manage the place as a whole. Approaching it from this angle may obscure the fact that place products are, despite sharing common features, distinct and separate from each other.

Practitioners of place marketing often consider issues from the seller's perception. A more recent study about place marketing for plant placement in France reveals that place

marketers, when making programs, base their marketing program on their own subjective ideal rather than on research about customer needs and behaviour, and about the key factors in the customer's decision-making process.

The question of how their customers make decisions was not articulated by the senior managers ... Most marketing practices were ad hoc; there was little consideration of customers' needs. The strategies were more "seat of the pants," rather than customer centric. A manifestation of this attitude was that all place marketers suffer from a lack of knowledge of how to measure the success of their own marketing activity. (Ulaga, Sharma & Krishnan 2002, p. 395)

The research referred to indicate that, as a result of this shortcoming, the segmentation strategies were not well developed: "If probed, place marketers felt that differential strategies were not needed for different segments" (Ulaga, Sharma & Krishnan 2002, p. 395). Behind these undifferentiated strategies there would be an unclear perception of what a place product is.

The view that place buyers would buy a place such as a city as a whole might make a place offering fail. For example, a city possesses high quality amenities. To maintain those high quality amenities, it needs the financial resources which often come from a high tax level. Because the city can provide investors with those high quality amenities, it supposes that the investors would pay for these high quality amenities and it applies a high tax rate to investors. But many potential investors would not choose to locate in the city. Many existing businesses would abandon it for another place. Those investors are not willing to pay for high quality amenities, because they are not needed for their business. Only investors who need these characteristics will choose this city. This situation could be observed in the strong trend of manufacturers leaving post-industrial cities for places in developing countries in the past decades. One of the major causes was high costs, including high taxes and fees. The choice of developing cities demonstrates that high quality amenities are not core attributes of a place product for those investors. The perception of a place as a whole in making offerings to customers can be misleading; the place needs to offer its place products from the customer's perspective.

The criteria for choosing place products are likely to be different among different customer groups. Therefore, the place might need a variety of particular place products to meet

different needs. Two of Sydney's main corporate customer groups are tourists and company headquarters, associated with particular service business clusters. The tourist group includes different segments with different needs. Sydney, consequently, needs to offer different specific place products to different tourist segments. Similarly, Sydney's company headquarters and business clusters might include different segments. A place has to make sure that one place product is not harmful to another. By contrast, its place products should be supportive of each other. That does not only make sense in terms of economy in using its resources but also helps it differentiate its competitive advantages. Sydney has pursued this by an offering a large green environment and an entertainment centre, to attract both tourists and headquarter offices. This is intended to be part of its competitive advantage relative to Hong Kong and Singapore.

### **3.4 Consumption and the selling-buying process of place products**

There is a view that selling/marketing places ends when the place buyer makes the decision to choose the location. The next exchanges do not belong to the selling/marketing place process:

Many (such) exchanges may occur as a result of the selling of the city, as tourists buy souvenirs or hire hotel beds, but these are ancillary market exchanges that occur after the city has been sold in our sense of the term. (Ashworth & Voogd 1990, p. 66)

This might be a result of the view that centres place promotion on the city as a whole as the product. In terms of place promotion, the customer's selection of location might be the outcome and the ending. However, in terms of place marketing, this view is not explicable in different aspects. On the buyer side, even for an easy-going tourist, what he considers most about a destination is the 'experience' he would have during the time he stays there. This is his main objective. In the sense of the main objective, his arrival is only a means and should be considered as his starting point. For an investor customer, this can be seen more clearly. What is the investor's major need? The investor's major need is not only the implementation of profitable business activities but the maximisation of profit. For that reason, he needs a location which is able to meet the requirements of his business and helps him to achieve his goals. This is a problem for him. A place, to have his business, must give him a certain place product as a solution for his problem. Business registration and the like are only necessary procedures. In sense of his goals, these procedures, if essential, do not yet solve his problem.

On the seller side, the objectives and benefits have not been reached after the buyer's decision to select a location. Job creation, tax increases or other benefits are basically generated during the time the buyer stays in the place. In terms of definition, selling is a process of value exchange. The value that the place product seller and buyer want to exchange has not been created until the buyer has activities at the place. In the logic of the process, when a buyer makes a decision, he evaluates all facets of the place product, including characteristics he would use during his stay, for example, the convenience of public transport, availability of hotel beds at a reasonable price and quality for a tourist, or tax level, infrastructure costs and opportunities to access markets for an investor. Buyers 'pay' for those things and through direct or indirect channels, the place receives tax revenues and others; local residents have income by getting jobs. The buyer's decision, therefore, should be considered as a kind of commitment to, or a starting part for, an ongoing process of buying and selling rather than a one-off transaction.

When an investor, the place product buyer, makes a decision to select a location, he starts a continuous process of buying and selling. This is similar to selling products such as internet access, in which the seller, to sell their products and receive gains derived from that sale, must be engaged in this ongoing process. But the important difference between selling internet access and place products is that many of the benefits that the place product seller can receive, such as taxes, fees and residential income, depend on the outcome of the activities of the buyer and the investor, in using the place product. Therefore, the place product seller must not only get involved, but also must take positive action in helping or working together with the investor during the period he uses the place products, that is, the period during which he practices his business at the place. This is, in economic terms, the place product consumption process.

Unlike ordinary goods, some attributes of the place product might be non-rival, in the sense that they are not used up by the consumption process, and can still be used by others. They may be strengthened during the time the buyer uses the place product. For example, the 'entrepreneurial' characteristic of a place would be built up more when business activities are consolidated in the place. The cultural values might also be enhanced: "The visual and physical consumption of places also shapes the cultural meaning attached to spaces and places" (Wirth & Freestone 2003). Policies or a leadership style can help build up the

attributes for a place. Unlike infrastructure, these attributes are not depleted or eroded by the use of the buyer, and indeed may be reinforced. However, they should be continuously renewed or improved since they could become less relevant over time. That can help the place to capture customer value in a process “to efficiently create more promising new value offerings” (Kotler, Keller & Burton 2009).

### 3.5 Place product price

It seems to follow that, if place products exist and they are exchanged in markets, then some price must exist as a mechanism to ensure exchanges do happen, not as random activities but as equilibrium exchanges. But unlike normal goods, the price of a place product is hard to determine and measure. So far, the price of place products in particular, or the guarantee mechanism for exchange in general, has been hardly mentioned in the publications of place marketing, even in the works of the well-known authors in the field such as Ashworth or Kotler. It is still a conceptual problem. The price issue is also the reason why some authors suppose that place marketing is impossible. They believe that the concept of price is not suitable for the objective when a place does place marketing. Ashworth and Voogd claim:

... it is clear that the selling of the city, in the sense of this book, is significantly different from the simple archetypal commercial market transaction where a product or service is exchanged for a price. (Ashworth & Voogd 1990, p. 65)

They argued that place marketing could be implemented on some occasions without a price. The reason for this claim, as corrected later by Ashworth, is that *Selling the City* was written at a time when to attempt any such pricing was seen as unacceptably commercial<sup>6</sup>. If a place product is not exchanged for a price, then the first question is for what is it exchanged? In economic theory price plays a role of determining the equilibrium at which sellers and buyers match up, making supply meet demand. Without this condition, a price mechanism, the exchange is not likely to take place. If the price mechanism is not suitable for exchange of place products, then the second question would be what mechanism ensures the supply meets

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<sup>6</sup> Regarding this argument of the thesis, Asworth explains that *Selling the City* was written at a time when to attempt any such pricing was seen as unacceptably commercial. Actually, he has always argued for the importance of pricing, without which there is no exchange mechanism within markets and the result is what he has condemned as “marketless marketing”



the demand at equilibrium? If prices exist then how should they be determined and measured? Is the model of supply, demand and equilibrium inappropriate for place marketing?

Let us start again with a primary principle of marketing, addressing the problem from the customer's view. For example, observation of investor behaviour in choosing locations (buying place products) discloses the simple fact that investors are concerned about costs they have to pay, including direct costs such as taxes, fees, wages, land rents, infrastructure services. They are also concerned about indirect and hard to measure costs relating to the business environment, such as the possibility of risks for their assets, contingent costs and informal costs. An increase or decrease in these costs (both direct and indirect) could have decisive impacts on their decision (the buying decision). An increase in the costs results in a decrease in number of investors choosing to invest in the place and vice versa. These costs can be seen as the ingredients of the price that investors have to pay to the place. When more similar, substitutable place products are provided in the market, the price tends to decrease. This is the phenomenon in which many places supply analogous offerings and compete for investors by giving incentives (discounts of the place price), such as exemption/reduction of tax, land rent or subsidises in various forms (as seen in the case of Sydney in Chapter 2 or the Vietnamese cases in the next part). However, the effect of price in the place product market is not as easily detected as in ordinary commodity markets. The price elasticity of demand for place products is low because investment, as the demand for place products, is not as easy to switch from one place (product) to another as the demand for other normal goods, especially in earlier times. But now, when investment flows become more movable and more places attend to the supply market for place products (i.e. more substitute products), this price elasticity tends to increase. The responsiveness of investors for to change in the price of a place product can be more easily observed in the market. The issue of place product price will be referred again in the next chapter when considering aspects of pricing place products.

In brief, the observation of activities occurring in this area implies the existence of the place product price and that the price mechanism is working underlying the transactions. In a simple definition, the price of a place product is all direct and indirect costs an investor has to pay to the place to get conditions for his business operation at the place. Direct costs would be taxes, fees, wages, land rents and infrastructure service cost. Indirect costs might be informal costs, contingent costs and unexpected expenses.

Nevertheless, the issues surrounding the price of place products are complicated and require further research on essential questions, such as how to measure the price of a place product and what pricing methods sellers can apply to set the price of their place products. Because of limitations of time and resources, this matter is not explored further in this thesis.

### **3.6 Place marketing and place marketing management**

Place marketing is a process in which a place creates and markets its place products to its customers. Place products exist and had been exchanged for a long time, but the widespread nature and the intensity of the competition between places, and the enhanced role of success in attracting and retaining investors for economic development in the recent decades, means that it is an essential requirement to manage this process effectively. *Place marketing management* starts when the place is aware of the role of place marketing and makes efforts to seek models and means to improve the efficiency of exchange. Practices and theories have developed from ‘selling places’ to ‘place marketing’, and from unsophisticated to more sophisticated strategies.

In the view of marketing performance, we can define *place marketing management* as the task of identifying target markets and then creating, communicating, delivering and exchanging place products that meet the needs of the target markets in a better way than those of its competitors.

Given the growing importance of place marketing and the need to manage that process effectively, the next chapter proposes a model of place marketing management. At the same time, the next chapter also aims at finding more explanations for the above operational and conceptual questions.

## Chapter 4

### Model of Place Marketing Management

#### 4.1 Introduction

This chapter aims to build an implementation or management model for application of a marketing approach to place management at a level lower than the national level. This might be the state, province or city level, subject to the administrative system of each country. Place marketing activities involve many actors such as governmental agencies, residents, promotion agencies, community organizations, business associations and individual businesses. However, the government is the key actor and more importantly the actor in charge of managing all these activities. The target of this research, therefore, is a management model which the provincial or city government can apply to its planning and management tasks.

There are several categories of customers that might be targeted in place marketing: tourists, business investors and residents. The model is not designed to manage place marketing activities to all types of customers but only to business investors. That is, we are concerned with how a place should manage its activities to retain and attract businesses by using the place marketing approach.

The model is constructed by a drawing on a combination of empirical studies, which bring out the lessons to be learned from past practices, and of existing theories of place marketing and other relevant theories. As an implementation model, it should both define the *internal process* of place marketing, covering such matters as: determining and describing the necessary steps of the process and links between steps; showing how the steps should be performed; setting principles and operating patterns which, if applied, would lead to the desired process performance; and providing explanations about the rationale of steps and principles. It should also include the identification of the *external environment* of the process model and highlight the influence of external factors on the operation of internal processes.

## 4.2 Urban planning and place marketing

In some respects, place marketing can be considered as a decision making process in which a place decides where it ought to be positioning itself in a competitive world among other places? Which alternatives and action plans for using its resources should be selected to move toward the desired position? However, the process does not end when decisions have been made. The selected plans need to be implemented and various alternative plans may need to be implemented before the place can reach the desired position. This is a planning and implementation process in which the provincial or city government is a key player.

From the concept of a place product, it can be recognised that, in the regional government's perspective on planning, place products for investors would include different groups of attributes:

- planning of space and infrastructure;
- planning of socio-economic policies, including management of the institutions relating to shaping the investment environment; and
- planning of and creating cultural values, and good quality living and working environments.

From the perspective of the regional government, these might well be the different spheres, implemented by different government agencies. In the conventional viewpoint, the first group is urban/town planning activities. The second group is the area of economic development policies. The third group might be created by both the former groups and community activities. However, from the perspective of investors, these groups of basic attributes are not separated at all and they constitute place products as packages. Consequently, they should be seen and monitored as a whole in close coordination. Place marketing, therefore, is planning in which spatial development plans match up to socio-economic and cultural development programs in order to create competitive place products to market to investors. A corporation, when renting an office in Sydney (see the case of NSW in Chapter 2), may consider the office's spatial structure, infrastructure services, relevant human resources (created by educational and social policies), economic policies (tax, government supports, etc.) and liveable and working conditions.

Place marketing, as such, covers a broader area than the conventional concept of urban planning. Studying the evolution of urban planning theory and practice at national and local levels, some authors claim that urban planning has been expanded and become place marketing since the 1970s and the 1980s, when urban planning was no longer limited to spatial and infrastructure structure, but economic factors became vital in urban programs (Ashworth 1994; Ashworth & Voogd 1990; Fretter 1993; Gleeson & Low 2000; McGuirk 2005; Taylor 1998).

Since the 1970s and the 1980s, the fundamental political and economic context of Western countries, and therefore of town planning, has changed fundamentally, as discussed in the previous chapters. As a result, the nature of town planning has significantly changed. Before this period, the primary role of planning was viewed as guiding the development of the place through the provision of basic public infrastructure (roads, schools, leisure facilities, council housing) (Forster 2004; Fretter 1993) and the use of planning controls to direct and to limit private sector development (Fretter 1993). The widespread decline of many traditional manufacturing sectors made this role become insufficient and almost obsolete. In many cases, the decline of the private sector led to serious deficits in resources with which to fund the provision of public infrastructure, and large decreases in incomes of residents. Planning, therefore, needed to take a reverse role: to find ways to have and retain private resources for development, including for the provision of infrastructure. The job of the governmental planner changed from 'spending money' to 'getting money', or rather to 'getting money' before 'spending money'. In that situation, "the selling of places was starting to become big business" (Fretter 1993, p. 165).

The function of planners was re-defined as that of actors in the market mechanism and the planning became demand and customer-oriented rather than supply-oriented as before. Ashworth and Voogd explained this as follows:

A city marketing plan is inseparably linked with spatial policy and especially with the physical structure plan which is largely instrumental in determining the dimensions of the future 'product' ... Physical planning is, at least in practice, to a considerable degree 'supply-oriented', i.e. the attention is usually focused on investigating the constraints and physical possibilities ('design') of the existing built environment. Marketing planning, however, is much more 'demand-oriented', i.e. the city and possible changes of the urban facility structure

are considered from the perspective of the actual and potential consumers. (Ashworth & Voogd 1990, p. 23)

Selling places was a vital activity of city management. This role has been further enhanced in the more recent stage of place marketing, with many countries around the world participating in it. Place marketing is viewed not as just an additional instrument for the solution of an intractable planning problem but, increasingly, as a philosophy and method of place management and planning: how places would be used and how they would be managed (Ashworth 1994; Ashworth & Voogd 1990).

Place marketing has thus become much more than merely selling the area to attract mobile companies or tourists. It can now be viewed as a fundamental part of planning, a fundamental part of guiding the development of places in a desired fashion. (Fretter 1993, p. 165)

### **4.3 Place marketing process**

Kotler and his co-authors (Kotler, Haider & Rein 1993; Kotler et al. 2002) formulated a five-stage process of place marketing as follows: i) place audit; ii) vision and goals; iii) strategy formulation; iv) action plan; and v) implementation and control. It is easily recognized that this five-stage model is a modified pattern of 'Rational Comprehensive Planning', a popularly applied model in the area of urban planning. Haider recommends a five activity process that he expresses in marketing terms: i) analysing marketing opportunities; ii) researching and selecting target markets; iii) designing marketing strategies; iv) planning marketing programmes; and v) organising and implementing the market effort (Haider 1992). Likewise, Fretter suggests seven essential elements of place marketing: i) vision; ii) know yourself; iii) define your customers; iv) adapt and improve your product to customer requirements; v) know your competitors; vi) find a real point of difference; and vii) one voice (Fretter 1993). Ashworth and Voogd (1990) give a more complex process of place marketing: i) analysis of markets; ii) formulation of goals and planning strategies; iii) determination of geographical marketing mix; and iv) elaboration and evaluation.

Aiming at constructing an implementation model for the sphere of place marketing, this chapter will use Kotler's formulation as a framework for the process since it is easily applicable in the planning area, while taking also the other authors' suggestions, arguments

and empirical research of place marketing into consideration for building up the content of the place marketing management model. The whole process is summarised in a series of increasingly complex figures (see Figure 1.4).

#### **4.3.1 Place audit**

Fretter (1993) calls this stage ‘know yourself’, i.e. knowing exactly what you have to offer. The place needs to review and to evaluate all the resources it is holding. The resources are assessed relative to those of other places. Both Kotler et al. (2002) and Fretter (1993) suggest the use of SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis for evaluation. To apply the SWOT analysis, the place should carry out the following steps. Firstly, the place must understand the actual context and anticipate the major development trends which would affect it. For example, the place might ask itself questions such as “what is the tendency of multi-national companies in expanding and locating or relocating their businesses?” or “what industries would be favoured or not favoured by the technology development tendency?” The questions can also come from more immediate environments such as national development planning, environmental laws or the domestic private sector’s capacity to expand. This step can help the place to become aware of *general opportunities and threats*. Vietnamese provinces can see that the relocation movement of manufacturing to developing countries for cost-cutting is an opportunity for them. The search by multinational corporations for growing markets and their expansion strategies are another opportunity. These trends drive even high-tech corporations such as Intel to look for their plant locations in emerging economies like Vietnam. The national government’s support policies for industries such as the automobile industry can be a favourable condition for this industry’s domestic market growth. However, behind these opportunities the province or city needs to answer the question about what are the specific needs and wants of these potential customers for a location. Based on their particular needs and wants, they are classified into different *market segments*. At the same time, the province or city has to be aware of what factors in the macro-environment limit or facilitate it in meeting the needs of the market segments.

Secondly, all its resources and attributes need to be reviewed and classified in the basic categories as strengths or weaknesses (attractive factors or unattractive factors) in the context of general trends. The answer to what constitutes a strength or a weakness needs to be defined from the investor’s perspective. One useful way might be to question, for a

characteristic of the place, whether this characteristic helps to satisfy the investor's needs or to increase the preference of investors more for the place (e.g. by giving them more benefits). If so, it can be viewed as a strength. A characteristic which is likely to reduce the satisfaction of the investor (such as one which increases costs) is a weakness. This principle must be kept in mind throughout the place marketing process.

Thirdly, these strengths and weaknesses need to be weighed up in comparison to other places (competitors), especially with its competitors who might have similar resources. They are weighed up in interaction among the factors. The degree of strength and weakness has to be assessed and measured. Capacity to provide benefits or advantages to investors measures the degree of strength, whereas the possibility of incurring costs or creating disadvantages measures the degree of weakness. However, this is a relative assessment. For example, all taxes are costs for investors, but a convenient tax system and a lower tax level than other places can be a strength of the province or city. The degree of strength and weakness should be grouped into integrated criteria rather than single factors in the second step. In this step, the base for selecting target markets starts to shape.

In using SWOT, Fretter (1993), based on his knowledge and experience in executing place marketing in some places in Britain, suggested that the place should look for independent consultants because, in practice, public agencies who often work so closely with the 'product' might have a biased analysis. Kotler states a similar view:

A place needs to take an outside-in approach and identify which of its characteristics represent a major strength, minor strength, neutral factor, minor weakness or major weakness in light of what specific investors are seeking. (Kotler et al. 2002, p. 162)

Fourthly, the place needs to identify *specific opportunities and threats* for itself. This is a triangular comparison and weighing-up process: general opportunities/threats – province/city's strengths/weaknesses – competitors' strengths/weaknesses. The province or city needs to answer the question: which target markets is it able to satisfy better than other places? The answer provides a specification of its opportunities. An opportunity for a place is defined by Kotler as "an arena for action in which a place has a fairly good chance to achieve a competitive advantage" (Kotler et al. 2002, p. 165). The Chinese city of Bo Hai Rim identified its opportunity, which combines a number of its inter-supportive strengths and this



combination, not single strengths, makes Bo Hai Rim stronger than its competitors (Kotler et al. 2002).

#### **4.3.2 Vision and goals**

This step sets a choice of what a province or city wants to be in the distant future (possibly up to or more than 20 years). The triangular comparison and weighing-up process would produce some different scenarios. For example, Ho Chi Minh City (HCM City) has both the history and the present reality of being a big industrial city with a rich variety of industries. Holding a vital position in the nation in the context of present international and regional development trends, HCM City might examine four alternatives:

- to remain a centre for a variety of industries;
- to become a high-tech city;
- to become a national and regional centre of finance and commerce; and
- to become a complex of high-tech industries, commercial and financial services.

The choices are not limited to these options. The leadership might develop other scenarios or make these scenarios more specific. Each scenario has different requirements and also promises different outcomes. Scenario 1 does not require much in terms of resources and effort. Scenario 2 is a challenge in terms of resources, timing and the City's capacity to govern. On the one hand it would be required to mobilize resources to create and market successfully its place products to high-tech investors. On the other hand, not less importantly, it would need to rearrange existing industries and to cope with the challenge of employment problems when high-tech industries replace the existing labour-intensive industries. Scenarios 3 and 4 provide further perspectives and greater challenges, but they cannot be immediately ruled out as impossible. Vietnam may be able to play a role as a bridge between the huge Chinese market and ASEAN and, with more dynamic ability than Ha Noi, HCM City could get to this position. The city leadership has to choose one of the scenarios based on their vision about which is the best scenario for the city. This choice determines the goals of the city and the future of the city as well.

What does a vision mean? Many places think that their future is shaped by the resources currently available to them. Small cities are disappointed because big cities have many more resources and advantages than they do. A vision means that the future of a place is not shaped

in a fixed manner by its resources and a vision can make a change. In some cases, a great vision and an effective deployment of action plans can bring in amazing results. Singapore is such a world case and, on a smaller scale, Binh Duong and Vinh Phuc provinces are such Vietnamese cases (see Part 2). Many city leaders are puzzled in trying to locate a differentiation strategy, since they find that a lot of places have similar resources or advantages to their city. The picture of strengths and weaknesses might differ substantially under different visions. A vision implies that, with similar resources, different places can pursue different strategies. The province or city takes its vision into account when it analyses the possible interaction between dynamic factors and static factors, and the possible effects of positive activities on existing resources to enhance strengths or to create a new combination of strengths (which might be unique). This means that, to some extent, the province or city takes its subjective ideas and vision of the future as another ‘resource’ that contributes to shape its real future. This is a flexible resource for differentiation strategies.

With an emphasis on the importance of *Vision*, Fretter (1993) supposes that *Vision* is the first step in the place marketing process and *Place Audit* is the second. He claims “the first prerequisite of successful place marketing is a clear understanding of what is desirable, of what you want to achieve’ (Fretter 1993, p. 165). But one can argue that if you do not know who you are and what you have, what you want to achieve might be far from what you are able to achieve. The order of these two steps is not important except for one thing – it indicates that this is a simultaneous process in which *Place Audit* and *Vision* are hard to separate. The SWOT analysis to identify opportunities and threats (*Place Audit*) implicitly assumes a vision of leadership. In the *Vision* step, the place is still continuously audited. *Place Audit – Vision* needs to be kept in mind throughout the place marketing process. In these first stages it should be repeated through various layers. Each layer is a filter to come up to the final choice (the best opportunity) which combines the advantages of the place and is built by a long-term vision of what the province or city wants to be. Therefore, it could be stated that the outcome of *Place Audit – Vision* is to find a *Distinguishing Strengths Combination* and to identify *Target Markets*, exposing the province or city’s decision of which *market segments* of investors it chooses and what strengths are being assembled to differentiate itself from other places.

However, the empirical research on this area gives evidence that identifying target markets is not often given much attention and not many places have a set of distinguishing attractions.

Analysing the pursuit and implementation of this approach in the US during the 1970s and 1990s, some researchers refer to this as a ‘race to the bottom’, lowering living standards of millions of working Americans and exacerbated inequality (Levine 1998). The causes were argued to be the lack of specific businesses targeted, the use of easily copied measures and failure to build real competitive advantages throughout many American cities or states.

Untargeted business incentives offer few clear public benefits and represent a significant ‘opportunities cost’ of resources that could be directed toward pressing social needs. Moreover, since such incentives are easily duplicated, no lasting competitive advantage accrues to any particular state offering them. (Levine 1998, p. 135)

Holcomb in a work published in 1994 remarked that “the marketing of cities tends to be generic and repetitive” (Holcomb 1994 cited in Kavaratzis 2007). Kavaratzis in 2007 reviewed that “this conclusion is unfortunately as valid as ever in contemporary city marketing practice, despite the years of experience and the accumulated knowledge ...” (Kavaratzis 2007). He claimed that “in fact, precisely this point has been one of the main arguments against city marketing”. The competition between Sydney and Melbourne, with similar agendas, might also reduce the effectiveness of their competitive programs and be the subject for criticisms of the place marketing application (Gleeson & Low 2000).

In another piece of research, which was conducted in eastern France in the early 2000s, the data collected from place marketers for plant locations led the researchers to find a common lack of deliberate and targeted strategies. Place marketers conducted activities which were “seat of the pants” rather than a strategy planned on the basis of a long-term vision (Ulaga, Sharma & Krishnan 2002).

### **4.3.3 Strategy formulation**

Strategy formulation is the process of translating the vision into strategies for action, particularly in terms of strategies for place product creation, place product pricing and promotion of the place and place products. These are each discussed below.

#### ***4.3.3.1 Creating place products: Place product strategy***

Product strategy is always a fundamental one for other strategies in marketing. Because of features of the behaviour of investor customers, the position of place product strategy in place

marketing is more important. Kotler, when comparing the roles of place product improvement and place promotion emphasizes:

Many marketers believe that marketing a place means promoting it. Promotion is, ironically, one of the least important marketing tasks. Promotion alone does not help a troubled place. In fact it only helps place buyers to discover early on how troubled a place really is. Place marketing means designing a place to satisfy the needs of its target markets. (Kotler et al. 2002, pp. 181-3)

The attributes which form a place product may be naturally available or created. Available attributes exist in forms of existing resources. Only when attributes are combined in a package which can meet the needs of customers do they form a place product. The utility of an attribute can be enhanced depending on interaction with other attributes in a package. Sydney's establishments for headquarters offices would be less attractive without a large green environment and entertainment centres. Thus *place product strategy* is viewed as a creative task of combining different attributes to create a unique and stronger place product under the guidance of a vision and of an orientation towards the needs of the target markets. The design of Hoa Lac Hi-Tech Park in Ha Tay province of Vietnam is compatible with this discipline (see Chapter 9). Hoa Lac Hi-Tech Park was designed in a large cluster in which the Park was not only supported by leading universities, research institutions and service centres, but also amenities to ensure a high quality of life. Dong Mo Ecotourism and Entertainment and the Village of Tourist and Cultural Preservation in the same region enhance the ability to attract and retain high quality human resources which are a vital factor for the development of a hi-tech park. The natural beauty of a large attractive cluster of mountains, forests and lakes come together with enclosed services to be able to meet the needs for the life of well-educated human resources. These features in combination with a strategically geographical position make Hoa Lac Hi-Tech Park an exceptional advantage. Nonetheless, this vision has not come to reality because of the problems in action plans and implementation.

Place products should be designed in different levels: general and specific. A *general place product* has shared attributes, while a *specific place product* would include shared attributes and some particular attributes which are combined in an offering to specific customer groups or specific customers. At the most general level, a general place product is an immediate deployment of the vision of *Distinguishing Strengths Combination*. At the most specific level, a specific place product may include terms and conditions of negotiation between the

place and an investor. Hoa Lac Hi-Tech Park can offer their customers general attributes, such as common infrastructure for operations within the Park as well as services to ensure high living standards. However, Hoa Lac Hi-Tech Park has investor groups in various areas such as service and urban developers, R&D investors, hi-tech manufacturers, universities and research institutes. Each area may include different industries. The needs of investors in different areas and industries will be different, both in terms of physical conditions, such as spatial settings or infrastructural supplies, and of other conditions, such as compatible regulations and policies. In addition, each investor with his potential and position, as well as capacity to bring benefits for the place, has his own power in negotiations. Investors would consider specific offerings to make decisions rather than general place products. In this sense, the creation of specific place products has become vital. In the same vein, private-public cooperation has also become a key factor (discussed in the next section) and the ability to communicate and to negotiate has become an essential requirement for the public planner (as mentioned above). By designing specific place products to market to specific investors, the role of public agencies for investors has changed. Instead of the provision of basic public infrastructure, they are doing place marketing which produces particular products for particular customers.

In brief, there are two major criteria in designing a place product. Firstly, it has to meet the needs of target customers. Secondly, it must be able to compete with the place products of competitors. A differentiation strategy is usually necessary to be effective in competition.

#### ***4.3.3.2 Place product pricing strategy***

Given the rationale of pricing in marketing theory and the characteristics of place products, this section will consider the necessary factors of setting place product prices. There are three objective factors to be considered in pricing place products.

- (i) *Demand*: Demand is one aspect of the market issues. The assessment of market demand starts in the first steps *Place Audit – Vision and Goals*, when the place evaluates trends in the market and finds out general opportunities. In *identifying target markets*, the capacity of its target markets is estimated. In this step, the market demand schedule needs to be determined specifically. The market demand will be a function of the price, so that along a given schedule a lower price will generate greater demand. But if the demand schedule is higher (higher demand for

a given price level) this will allow the place to charge a higher price to attract a given level of demand.

(ii) *Competition/supply*: Competition is another aspect of the market issue. If more places are offering similar place products (a higher level of potential supply), investors are more powerful in choosing and negotiating. The market price tends to decrease. This is a market law and it does not exclude place products. This effect can be easily recognised in economies at any level, from advanced to developing economies. In bidding wars as described by Levine (1998), cities and states in the US attempted to lure footloose investment by putting together attractive incentives packages. The war for General Motors' Saturn plant in 1985 involved over 120 cities and states, and seven Governors played 'Let's make a deal' with GM officials on national television (Levine 1998). When places do not have highly competitive products, the increase in incentives is hardly avoidable, leading to the 'race to the bottom'. There is evidence of a 'discount race' between Vietnamese provinces and cities in recent years, with a series of measures such as tax and land rent exemptions and reductions; land grant and subsidises for land clearing; and in willingness to accept investors who pay low wages. In 2005 according to the Ministry of Finance, 33 out of 65 provinces and cities had investment incentives which did not comply with the national legal regulations (Nguyen Huong 2005). The 33 provinces include almost all the provinces and cities engaged in place marketing activities. Citing Schumpeter's classical definition of entrepreneurship as the creation of opportunities for surplus profit through 'new combinations' or innovation, Jessop found that most of the self-styled 'entrepreneurial' cities have lacked innovation in productivity and in the other conditions of structural and systemic competitiveness which secure sustainable dynamic competitive advantages (Jessop 1998). Investment incentives such as price reductions not based on innovation or on 'new combinations' can not create competitive capacities for the place.

(iii) *Costs*: the consideration of the cost aspect in setting prices is to ensure a vital principle of place marketing programs as an investment activity: expected revenues at least must cover all costs. Unlike normal products, the price of a place product (determined by the willingness to pay of investors) might be partly unrelated to costs. Provinces or cities that have endowment advantages such as a favourable position can set high prices, whereas disadvantaged provinces or cities

find it hard to offer high but competitive prices, although their place products may require high costs to create. This is a big challenge for them in respect of both creating and pricing place products. To deal with this challenge, a premise is often suggested as: to develop these provinces or cities, the central government should have compatible policies and significant subsidies. This premise is necessary but not enough. The place marketing approach sets another additional premise – the place must have a good investment plan and capacity to implement its plan. Without the second premise, the national government's subsidies are likely to be just a form of support for the local government's spending rather than an investment.

Before coming to the final decision on pricing issues, the place should look at its primary objectives and its place marketing program as a whole. Individual costs and revenues and other benefits should be reassessed and prices should be adjusted to achieve the objectives.

A place can set its place product price by many measures such as planning controls, approval authorities for land purchase and project development, policies and regulations to encourage or limit investment, and particular terms and conditions provided to investors. The price of place products is also dependent on the national laws and on the central government's regulations such as national laws and regulations concerning taxes, maximum wage levels and land ownership. As attributes of place product and tools to set prices, regulations and applications should be flexible because situations in the market are largely diversified. However, flexibility in regulations and applications might lead to problems in practice.

#### ***4.3.3.3 Place and place product promotion strategy***

Promotion is the earliest and most widely discussed component of place marketing. It has drawn much interest both in practice and in theory, and there is a wide range of both works and activities involving this subject. A great deal of valuable knowledge, tools, skills and techniques related to promotion strategy has been developed. The section below, therefore, presents some key points which are built up on reasoning drawn from empirical research and which are compatible with the concepts and processes developed above.

The principle, which should be noted, is that promotion must be based on reality, i.e. the place promotes what it actually has and what it is able to deliver. If a place does otherwise, it may well get the reverse effect. This principle is emphasized by Fretter as follows.

You must describe them [unique selling points/attractions of a place] fairly and honestly. There is nothing more damaging than giving promises that you cannot deliver. “Disappointed customers are often lost forever, and your credibility in the market place will take a lot of winning back. (Fretter 1993, p. 172)

The discipline is right for any type of customer, but it is more important for investor customers. A place might be successful in advertising an imaginative image and selling tours to some easy-going tourists, but it would not persuade an investor to locate his business in the place by unrealistic advertisements or promises.

There are two levels that a place promotes: ‘place’ and ‘place products’. *Place promotion* is promoting a place as a whole, based on the *Distinguishing Strengths Combination*. The reality of the place promotion is the general place products. Hoa Lac Hi-Tech Park can promote its image as ‘A science city’ or ‘A convergence of hi-tech investors’, and the messages express the vision of the leaders, but it also must show investors advanced infrastructure, high quality services, an entrepreneurial environment and the like. *Place product promotion* is promoting specific packages to specific investor groups or single investors. The reality of this promotion is the specific place products. Hoa Lac Hi-Tech Park can promote itself to urban developers as “big projects, big profits” to attract their resources for building up the Park. It can promote itself to investors in R&D and software, or to universities or hi-tech manufacturers, by using different messages.

For each level, the place needs to undertake two promotional tasks: *designing images* and *communicating images*.

#### **4.3.3.4 Designing images**

To communicate the attributes of products to customers, the attributes need to be converted into promotional pieces such as messages, brochures, logos, slogans and themes which generate an image of place in customers’ minds. This is the task of designing images.



For place promotion, the criteria for designing images, as suggested by marketing disciplines, should be: easily understandable (not leading to confusion); attractive (eye-catching or the like); suggestive (of the reason to take the place); and distinctive (making the place distinguishable from the crowd). Over the last decades, many tools, skills and techniques have been developed and applied to promoting place images. Promotion practices have become much more sophisticated and larger in size. Place images are integrated into events of any kind, such as culture, sports, diplomacy and politics.

While other criteria require mainly promotional techniques, making the place distinguishable from the crowd needs to meet further requirements and is the most important one. As noted by many academics, this is a common weakness of place promotion practices. Fretter describes the situation in some advanced economies, which are the home of place marketing with highly skilful promotion activities, as follows:

This is an area where most local authorities fall down completely. Just look at an assortment of adverts, brochures or videos. If you took the name off the front, would you know the place that was being described? Almost everywhere is described as the centre of England, the United States or Europe; everywhere has a track record of success and has excellent communications, as well as a skilled and adaptable workforce with a high quality of life. (Fretter 1993, p. 171)

Some other authors shared this remark (Barke & Harrop 1994; Philo & Kearns 1993). Reviewing the evolution of place promotion activities, Kavaratzis states that these remarks are still suitable “it is almost identical messages that cities are trying to send to their target-markets” (Kavaratzis 2007, p. 709).

This weakness usually results from a strategic problem rather than from the promotional matter itself, that is a lack of distinctive place products. Without a vision of a distinguishing attraction combination, the promotion, even if skilful and creative, cannot create a distinctive image. The number of places which practice strategic place marketing has increased over time and more efforts have been placed on creating unique attractions.

For specific place products, promotional pieces need to be designed to contain specific information. The *Distinguishing Strengths Combination* and attributes of specific place products must be converted into *certain benefits* to investors. The benefits likely to draw

most interest of investors should be highlighted. The information to investors needs to be classified, systematic and clear (Fretter 1993; Kotler et al. 2002).

#### ***4.3.3.4 Communicating images***

Communicating images is choosing the manner and means to communicate to investors. The communication manner and means require appropriate designs of promotion. Place images are promoted effectively through the media and forms of widespread information, whereas place products require more individual relationships and contacts.

To be able to conduct effective promotion, marketers must understand the decision making process of investors in relation to location, and the factors that are influential at each stage of the process (the rule of ‘understanding the buying decision’ in marketing). This understanding helps marketers to design promotional pieces and to choose the right persons to promote. The research on plant relocation in eastern France (cited above) discloses that the reasons for the lack of deliberate and targeted strategies is a lack of understanding of customer decision-making processes and of the differences in decision making in different segments (Ulaga, Sharma & Krishnan 2002). This research also finds that the location decision-making is conditioned by size of firms, with the process standardized in the larger companies but ad hoc in the smaller firms. The close cooperation with local development authorities and the personal assistance of the place marketers were essential to the plant location decisions of small firms. Large firms used consultancy services to assist them. In this case the role of the place marketers in providing information and personal assistance during the site location process was not required.

#### **4.3.4 Action plans**

Having formulated strategies, the place must elaborate these strategies into action plans. Ashworth’s view of a marketing mix (geographical marketing mix) is practical in planning and monitoring place marketing. He notes that a marketing mix may be a combination of at least four marketing measures and that a plan should be some combination of these measures as part of the strategies. The four measures are: i) promotional measures; ii) spatial-functional measures; iii) organisational measures; and iv) last, but of considerable importance, financial measures (Ashworth & Voogd 1990, p. 36).

Action plans address all the necessary actions to implement strategies. Normally, an action plan includes: i) objectives/goals of the action plan; ii) tasks, steps and associated time frames in details; iii) organizations taking responsibility for managing and executing each task; iv) necessary resources for completing tasks; and v) mechanisms and resources to solve contingent problems and risks.

#### **4.3.5 Implementation and control**

Implementation is often the most critical step of public planning. Studying the history of planning in various stages, Taylor referred to the fact that planning agencies had many plans which had not been implemented, even some containing very good ideas. This reflects the difficulties in turning plans into reality. The reasons pointed out by the theorists of planning are the separation between the task of making plans and the problem of implementing plans. Most planners received no training in implementation, and therefore lacked any practical skills. The problem of implementation only arises when plans start to be implemented. Public agencies are setting objectives and *making* plans, but they are not able to achieve their objectives by acting alone (Taylor 1998). In the case of place marketing, private resources, proper procedures and public consent are the central problems of implementation. These problems require interpersonal and practical skills on the part of planners. Through bargaining and reaching agreements with other actors, who have the resources to invest in development (such as through partnerships with private sector agencies and developers), planners can secure implementation. Through participating, debating, negotiating with public or non-government organizations, plans can be made or adjusted so as to obtain public consent.

Given the actual gap between plans and implementation as well as suggestions from planning theories, the place marketing approach assumes an important role for *Private-Public Cooperation* throughout all the stages of the planning process, not only for implementation but also for crucial inputs in shaping visions and strategies.

##### **4.3.5.1 Private-Public Cooperation**

In fact, virtually all cities or other places, when employing forms of the place marketing approach, emphasize the importance of a cooperative relationship with the private sector. In theory, cooperation is assumed to have a number of important roles. On the one hand, this

cooperation brings in resources for place marketing programs. Firstly, the private sector provides resources to retain existing businesses and to finance new investments. These resources are vital, especially in the early stage of place marketing if the city or place faces large budget deficits. Secondly, the participation of private businesses as experienced and skilled actors in designing and delivering promotion programs is viewed as a security for place marketing. On the other hand, the cooperation brings an understanding of the real needs of businesses, as well as what are the most influential factors in the decisions of investors about business location. Without this understanding, the place cannot understand its customers' values. As noted above, understanding customers must be an essential input for shaping *Vision* and *Strategies*. Furthermore, the collaboration between the private and public sectors is, as stated by Ward, "a litmus test for the reception a future investor might expect, a sign of the degree of local friendliness to external business investors" (Ward 1998, p. 194). A good relationship, therefore, is itself a good promotion to potential investors.

In almost all cases, the cooperation takes the form of a partnership. This can be seen in the models used by cities in Western countries such as the US, Britain and Australia (Gleeson & Low 2000; Levine 1998; Searle & Bounds 1999; Taylor 1998; Ward 1998). The city leaders have attempted to build a fruitful relationship between themselves and business leaders. The model of private-public partnership was applied first in the US in the 1950s and the 1960s. This organizational model is considered as "the secret essence of success" in the place selling activities of reinvented American cities such as Boston and Baltimore. Then the British cities tried to follow this American approach as "a way of regenerating Britain's cities using private sector funds" under the Thatcher Conservative Government (Ward 1998). The model has been applied in Australian cities since the 1980s (see Chapter 2). All the applications were under the umbrella of the so-called 'entrepreneurialism', with a spirit of cooperation between the public and private sectors. The presence and the role of this close cooperation can often be seen in the post-industrial cities which have been renovated and have grown (Kotler, P et al. 1999; Kotler et al. 2002; Short & Kim 1998; Ward 1998).

The formation of partnerships in all the cities referred to in the works above cited, faced political obstacles which put programs of place marketing at risk. Ward cited a number of studies to support the comment about partnerships in Britain that "there was precious little enthusiasm for public-private partnership amongst the political leaders of many British cities" (Ward 1998, p. 196). This political atmosphere explained why the formation of partnerships

in many British cities was not spontaneous. They developed under the pressure coming from the central government's programs (Taylor 1998; Ward 1998). American cities experienced similar problems, with even some as successful as Boston experiencing a 'rocky' political road (Ward 1998). Australian cities also faced public suspicion and objections to private-public partnerships (Gleeson & Low 2000; Hall, CM 1999).

The political problems had social and economic causes. The partnership, usually between the city government and the business elite and led by businesses, in employing selling places could not solve the original urban problem of the post-industrial period – jobs to replace industrial jobs – by the selling places approach. As Ward notes when studying the effect of public-private partnerships and place marketing in the US and Britain: "What was there to replace the harbour, warehousing and industrial jobs? In truth, there was, as all post-industrial cities eventually found, very little" (Ward 1998, p. 195). Together with the jobs problem, it was evident that public resources were being given to private businesses through large subsidises, while regenerated downtown or inner-city areas brought benefits only to a small part of the community. All this was leading to social fragmentation and political obstruction. This fact was mirrored in many studies of this subject in different countries (Levine 1998; Taylor 1998; Ward 1998) and one of the questions raised about NSW place marketing (see Chapter 2).

The political problem as an obstacle for implementing place marketing plans has been recorded in many studies as mentioned above. According to another study, which approached the issue by a different method – a survey to get direct opinions of place marketers about what were the factors of success for their tasks – the place marketers identified three key factors. The most important factor was a stable political environment in which a long-term philosophy and orientation, rather than short-term strategies, was in place. The senior managers held the view that consensus among the political interests in an given area was decisive (Ulaga, Sharma & Krishnan 2002).

The role of public-private cooperation suggested in the model of place marketing does not necessarily imply that a dominant role in the partnerships is always taken by business. Nor does it mean an extensive privatisation of public services. These patterns with a dominant role for business are products of particular contexts rather than matters of principle. The post-industrial cities built their partnership with the private sector and quickly carried out their

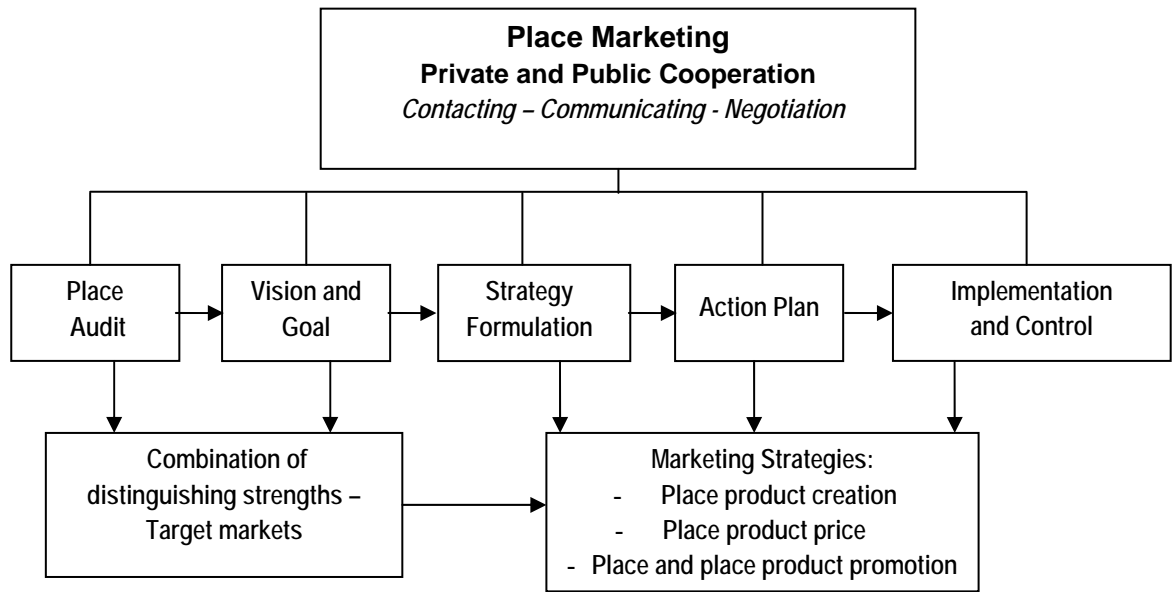
programs of selling cities under the pressure of budget deficits and high unemployment. Under that pressure, the cities, especially the less advantaged ones, were put in a disadvantaged situation in negotiating with business leaders. This disadvantage, together with the government officials' lack of knowledge and experience of market activities, was likely to make the city follow the ideas of, and readily accept the conditions of, businesses.

In the model, public-private cooperation needs to have a broader meaning. The significance of the cooperation needs to be seen partly in terms of understanding and capturing the investor's needs and of improving the capacity of public officials to implement place marketing. The supportive programs for the private sector need to extend to businesses of various sizes and types rather than just to the business elite. Small and medium enterprises (SMEs) are an important source of job creation. Moreover, in a context in which market segments tend to become narrower, the development of SMEs is critical for developing narrow market segments. Along with expanding the number of beneficiaries, the support activities should also develop more compatible forms so that a balanced partnership can keep an important role, i.e. a reasonable use of public resources. These orientations of the cooperation are to ensure a more effective place marketing program, as well as a political environment for implementing place marketing. If more jobs are created and there is a reasonable use of public resources, this can help ensure a better political atmosphere for place marketing.

Analysing the progress of place marketing both in theory and in practice, Kavaratzis (2007, p. 710) concludes it is necessary to develop stronger public-private cooperation going along with integrated actions "from the fragmentary and sporadic activities of the past, we have now moved to an age of orchestrated efforts and strong public-private cooperation".

In brief, the place marketing process described so far can be illustrated in a diagram as follows (see Figure 4.1).

**Figure 4.1: The place marketing process**



## **4.4 Cost-revenue assessment and the cycle of using public resources in place marketing**

### **4.4.1 Cost-revenue assessment as a management tool of place marketing**

Place marketing is a market process. Selling a place product is an exchange complying with the fundamental exchange condition, that each party is free to accept or reject the exchange offer and the exchange actually takes place when both parties can agree on terms that will leave them both better off, or at least not worse off, than before (Kotler & Keller 2006, pp. 6-7). The liberalisation of trade and investment and the globalisation of many aspects of socio-economic life have facilitated such exchanges. Places as well as investors are more equal (free to accept or reject) in the exchange process. As such, to enable exchange to occur, place products must make the customers (investors) better off or at least not worse off. A place can recognize and measure this through the level of its target markets' satisfaction and preference. At the same time, the place must be better off, or at least not worse off, by the exchange, i.e. the benefits that investors bring to the place must be higher than, or at least equal to, the costs involved in place marketing. This is the condition for an exchange occurring.

However, place marketing, as a major measure to improve public budgets and residential incomes, is not a one-off exchange but a continuous exchange. If the place's ability to provide place products decreases, the businesses may be in difficulty. At the same time, the place's objectives, in terms of budget revenue and residential income, may be difficult to reach. For both sides to achieve their goals in exchanging place products, the creation and exchange of place products must be constantly performed throughout the business cycle. Maintaining a non-stop provision of place product to investors should enable the place to obtain an amount of revenue which can cover all costs and provide the necessary resources for the maintenance. This implies that the revenues need to be higher than the costs. Another importance is that place marketing works in a competitive environment, that is, the enhancement of competitive capacity is the condition to exist. To enhance the competitive capacity of the place to retain existing businesses and attract more investors, the revenues must be higher than the costs. This is the condition for non-stop exchanges occurring.

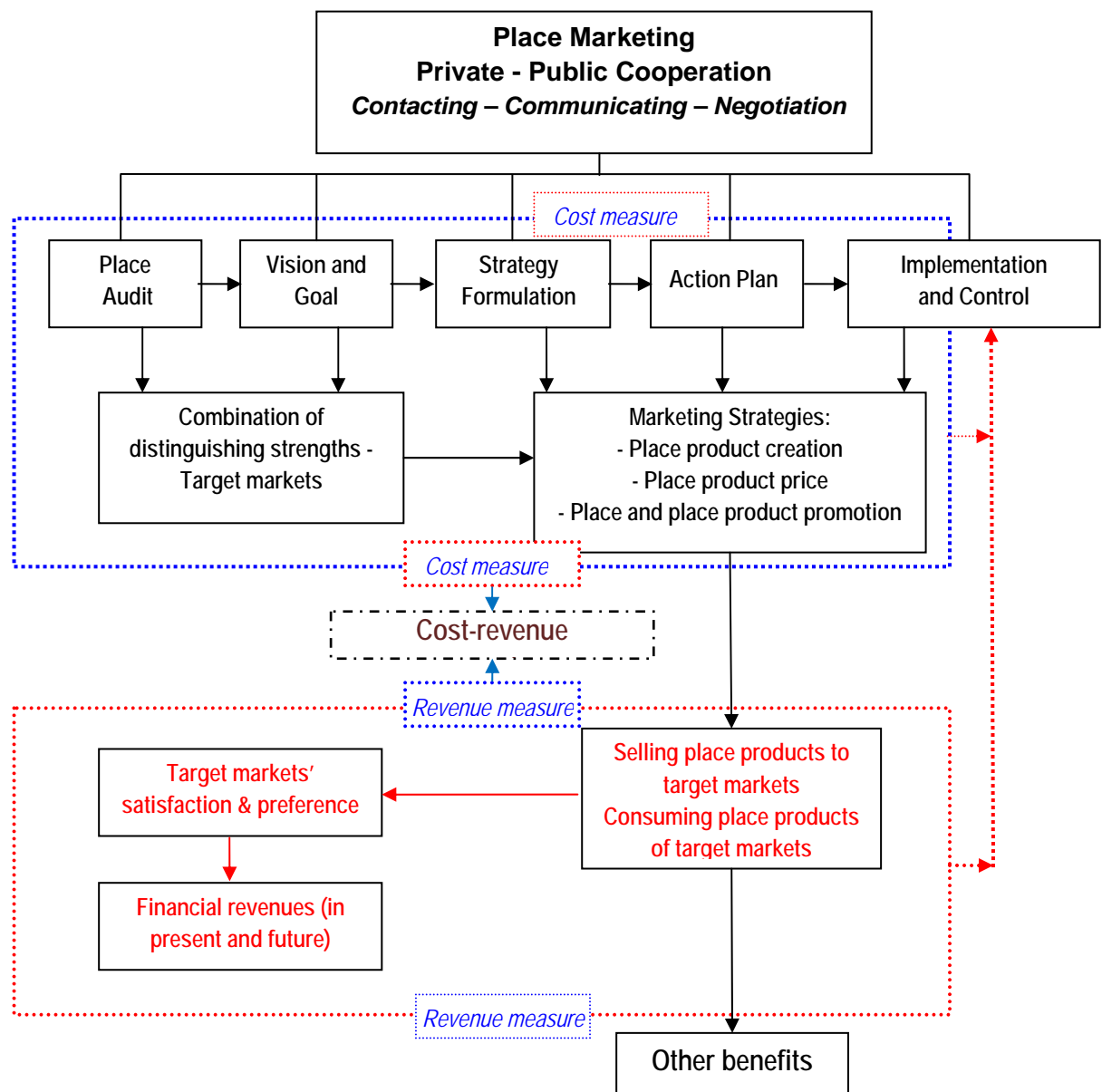
All of the points above imply that measuring and assessing costs and revenues are a vital task in *place marketing management*. This is an essential tool for monitoring implementation, and for controlling and adjusting plans and strategies of place marketing. The level of the differential between costs and revenues can be a key criterion to gauge the success of place marketing. Many places have spent large amounts of money on a race to win a sporting event or an investor. Big incentives have been given away. Eastern Creek Raceway in New South Wales and the war for General Motors' Saturn plant are not rare examples. Many similar cases have been described in the literature of place marketing (e.g. Levine 1998; Ward 1998). However, only one competitor wins, that is, other places have no returns. Even for winners, the question should be raised as to whether the winning could bring the place returns in excess of costs. It can be argued that the absence of a cost-revenue comparison, as a necessary tool to plan and monitor place marketing, leads places to be misled in competition. A place marketing plan with a vision of market segments, differentiation strategies and a cost-revenue assessment method as a management tool will direct places to more effective activities of place marketing. With such an approach, the place can avoid ineffectual races and social resources can be used productively for really enhancing the competitive capacity by offering better and more cost effective place products.

Taking these arguments and evidence into consideration, the cost-revenue comparison has been incorporated into the model of place marketing process. Figure 4.2 demonstrates this



developed model in which the ideas of cost-revenue assessment as an essential instrument are included. Implementation of the place marketing process (as presented in the last section) involves costs, and selling and consuming the place product bring revenues. The reasoning of place product price above is a base for cost-revenue measurement and comparison. However, the critical issue which needs further study is to construct relevant measuring methods, techniques and tools.

**Figure 4.2: The place marketing process and the cost-revenue assessment**



#### **4.4.2 Cycle of using public resources and the role of government agencies in doing place marketing**

When doing place marketing, public budgets and resources are used to create and promote ‘place products’ in order to facilitate and encourage the target markets – some part of the private sector. Subsequently, these target markets use ‘place products’ to seek their own profits. To this extent, public resources might be seen as not being for the common good. Spending public budgets and resources on place marketing, therefore, needs to be considered as *an investment* which aims at getting returns in which financial returns are critical, not only for place marketing’s continuous operation (as referred to above) but also for public expenditure. This provides the basis for fairness in using public resources. Without this fairness, place marketing plans are likely to face political problems and have difficulty in obtaining public consent.

As such, in terms of objectives, manner of implementation and results, doing place marketing in itself is doing business. The essence of place marketing implies that governments and some public agencies, by utilizing public resources in this way, are exercising a function different from their conventional functions. In their basic conventional functions, governmental and public agencies spend funds and invest in public goods to provide conditions for social and business activities. Now, when involved in place marketing, they aim at deriving a return, making it a kind of business which drives increased values. As a business activity, place marketing, to be implemented effectively, needs to satisfy two conditions:

- (i) *Revenues higher than costs.* This is a key condition for achieving the goal of place marketing as also mentioned above. The costs of doing place marketing might include spending from public budgets and elsewhere on matters such as workforce development, social and natural resources, land, infrastructure and other assets. The return consists of residential incomes and public revenues. The components of residential incomes might be wages/salaries and other incomes. These incomes must be sufficient to maintain, reproduce and develop human resources. The public incomes include taxes, fees, public services charges, rents and other proceeds. They are for maintaining, reproducing and developing the resources used, ensuring social security and covering environment fees, state management costs and the like.

(ii) *The presence of an ongoing liquid capital flow with sufficient funds to maintain the activities of place marketing.* It is not necessary to maintain the first condition at all times, since a place should have a long-term investment strategy, i.e. be seeking long-term returns and not immediate cost matching. In contrast, the second one is a permanent condition.

The question whether place marketing activities are compatible with government agencies' roles and missions has been debated for many years. Some argue that they are, but others object. This is evident from the extract below from Ashworth and Voogd's frequently cited publication, which is considered as one of the first conceptual foundations of place marketing.

The assumption is that places are generally marketed by public or semi-public agencies, whereas marketing was at least originally developed to serve the requirements of private firms and the objectives of the two sorts of organisations are necessarily fundamentally different. This difference has been assessed by some (for example, Gaedeke 1977) ... as so wide as to deny the very possibility of place marketing. Neither assumption is necessarily always correct, but this is no solution to the central problem that those who usually market places have goals other than a direct financial profit for the organisation conducting the marketing. Some have claimed that this in itself renders the marketing approach invalid either because the absence of a direct financial nexus between customer and firm renders marketing impossible to monitor (Fine 1981) or because the attempt to create such a relationship will so distort the objectives of public authorities that they will cease to operate in the public sector in all but name. (Ashworth & Voogd 1990)

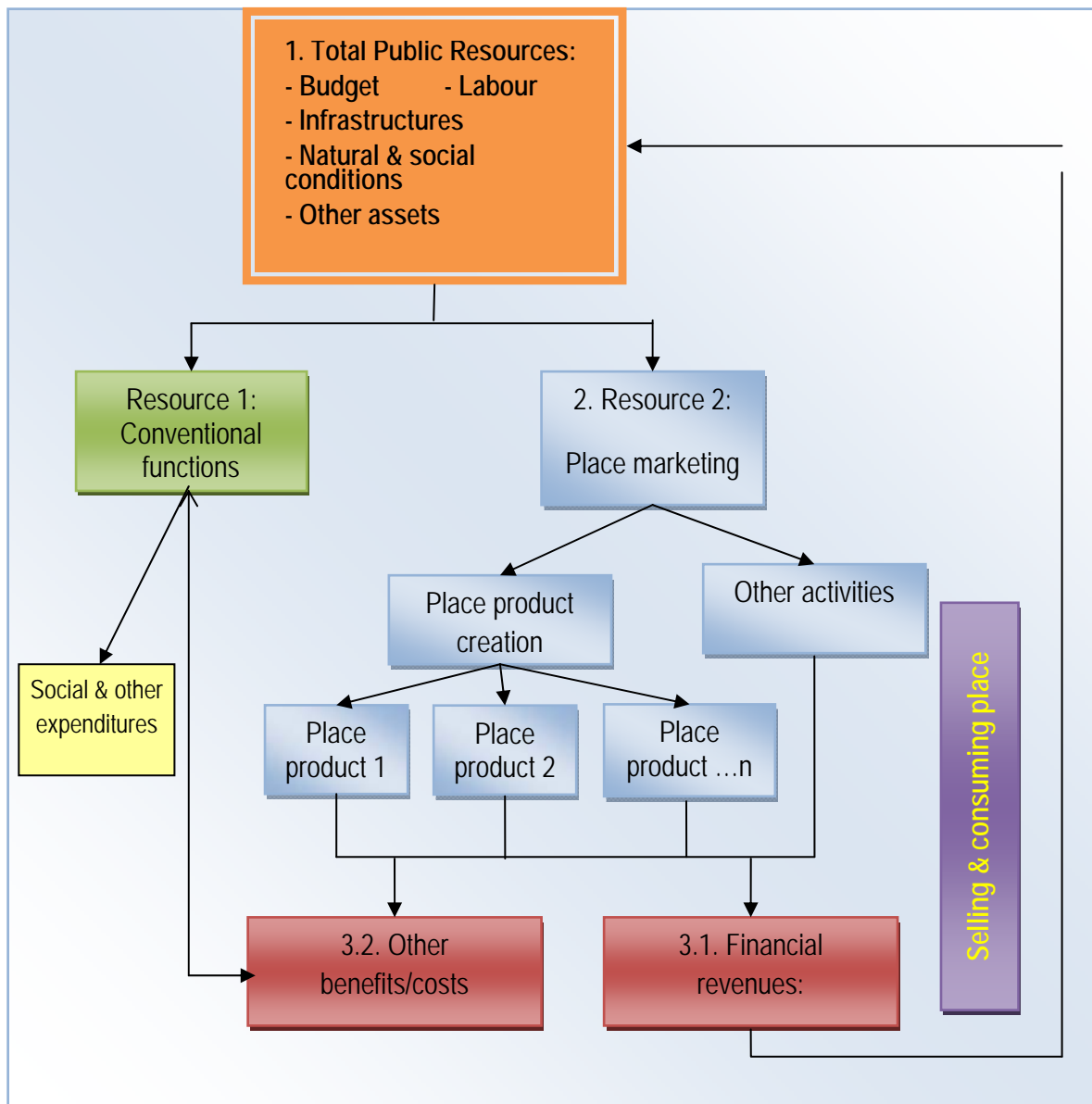
Some have argued positively that the marketing approach can be applied. Ashworth and Voogd in this publication adduced marketing in non-business organizations or social marketing to solve the issues of objectives and to prove that, despite the absence of direct profit, place marketing is necessary and the marketing approach is still able to be applied. However, when doing place marketing, government agencies do not act as non-business organizations in essence; neither are they conducting jobs of social marketing, although in some cases there is an overlap. The major differences between place marketing and the marketing undertaken by these organisations are about objectives, resources and operational mechanisms. These organisations are often operated by funds such as aids, subsidies, and charities with the aim of resolving individual social or environment problems. These activities do not always require a non-stop process as a compulsory condition. Obviously, the

aim of doing place marketing is to create incremental values. No matter what these incremental values are called, 'profits' or not, the nature of the issue does not change. The difference is simply that, these incremental values belong to stakeholders, who are private in the case of private investment (and so these incremental values called 'profit') and public in the case of place marketing.

Government agencies, as such, have a new function. This does not mean that this new role of the government excludes its conventional functions. They still have to perform the indispensable functions which cannot be covered in place marketing. Governments can play simultaneously various roles. These two functions should be performed by different government agencies. In the relation between the two functions, the new function plays a role to create resources for undertaking the traditional functions (see Figure 4.3). The final goal of government agencies does not change, that is, for social development and prosperity. A notable difference, which is relevant to the management task, is that in the conventional functions, the spending and gathering of public budgets are two separate activities. In place marketing, the flow of these values should be an ongoing cycle.

The view of place marketing (the whole process) as a philosophy in managing and developing a place, or as mentioned above – a major measure to bring prosperity to a place – is demonstrated in Figure 4.3. The city planning as well as the city budget system simultaneously performs two functions.

**Figure 4.3: Place marketing and the public resource cycle**



One challenge in managing this budget system as well as the cost-revenue assessment (as mentioned above) is to build appropriate techniques. Cost-benefit analysis (CBA) might be a helpful technique. However, CBA is typically used to evaluate the efficiency of a given intervention. The costs and benefits of the impacts of the intervention are evaluated in terms of the improvements generated in terms of outcomes, incomes and welfare (benefits) and the costs that are incurred to achieve these benefits. CBA, basically, can be used as an appraisal of a spending program of the government, assessing whether the spending was effective in bring the desired to the beneficiaries. However, CBA is often used for appraising single projects and there would be many complexities in extending it to a whole place marketing program. There are some other evaluation techniques, such as Social Return on Investment

(SROI) analysis, cost-effectiveness analysis and economic impact analysis that might be used. Place marketing is very different, in nature and scale, from the cases to which these analytic techniques are normally used. While maintaining the utility of these techniques and the applicability of the economic concepts used in them, the cost-revenue analysis in place marketing requires the development of a compatible evaluation system.

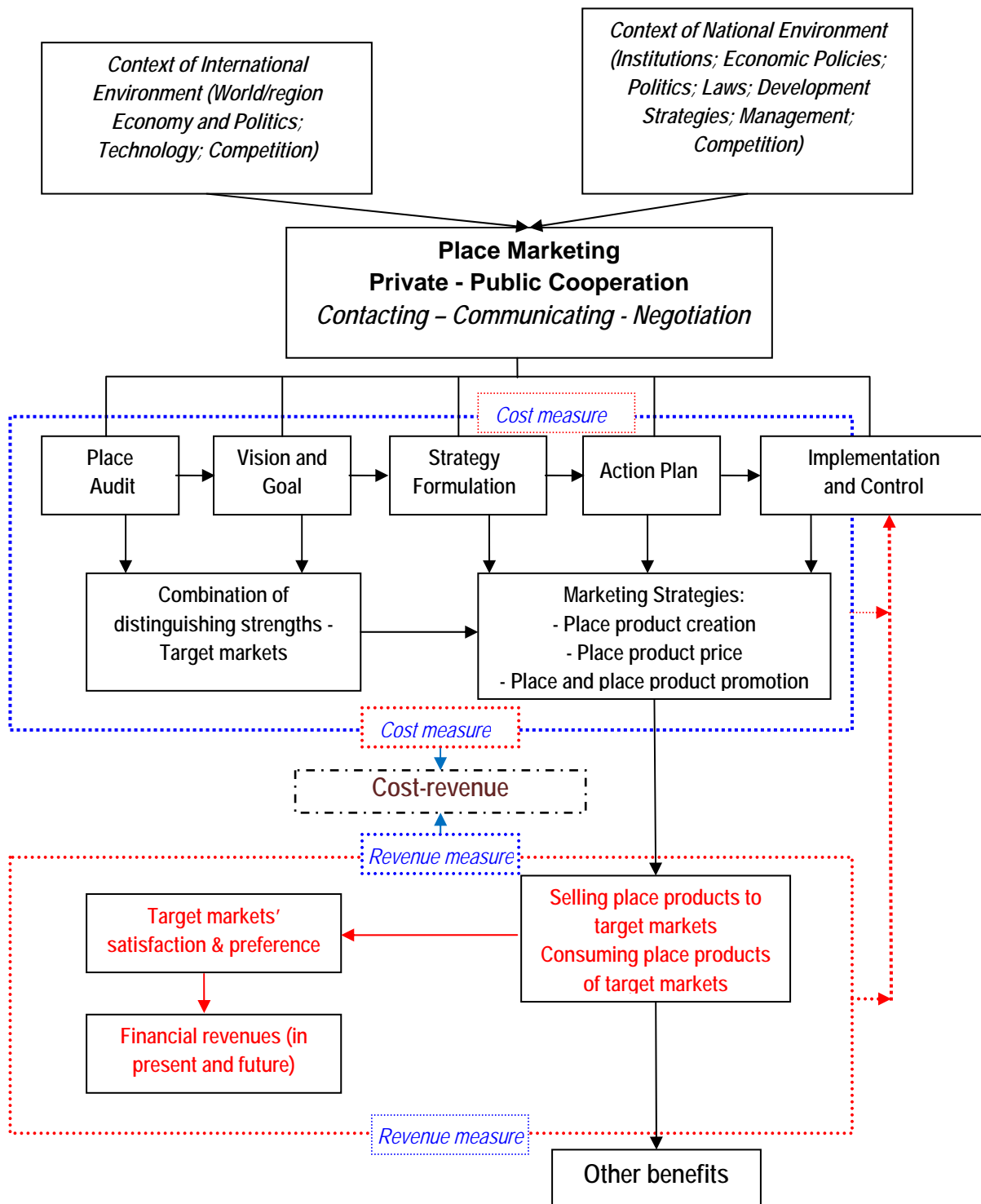
#### **4.5 Influence of external environment on provincial place marketing**

Provincial place marketing within this research refers to the competition amongst cities or provinces for investment. Provincial place marketing is strongly influenced by international and national conditions. It can be seen that, in the macro aspect, global political and economic conditions shape the formation and evolution of place marketing in each country and each city or province. The shifts from the managerialism to entrepreneurialism and to the more balanced forms of planning now common, the changes in overall thinking exert strong influences on the exercise of place marketing in countries and cities. Other strong influences arise from the changes in the development of technology and in world markets. In particular, trends and changes in world politics and in the global economy are important inputs for SWOT analysis, for shaping visions of opportunities and for crafting strategies and action plans for place marketing at provincial level. Changes in the international environment also require adjustments during the implementation of place marketing. In brief, these international factors shape the international context of competition.

The national environment has a more direct effect on provincial place marketing activities. To ensure a united nation, the nation-state holds economic and political control to a significant degree. The national framework, from the national planning framework, laws, trade policies, regulations to particular subsidy packages, all have important effects on the conditions in which a province's place marketing operates. The extent of the effect is subject to the national institutions of each nation. Other influential national factors are the management capacity of the central government and the competitive competency and strategy of other provinces. All these shape the national context for the competition.

The complete model of place marketing which meets the requirements for an implementation model as set out in the beginning of the chapter is illustrated by a diagram in Figure 4.4.

**Figure 4.4: The model of place marketing management**



The concepts and the model of place marketing management are built on the basis of both the knowledge and experience drawn from practicing place marketing where the market and the technology has developed at a high level. However, Viet Nam lacks the context of a developed technology and market, even has no foundation of a market economy. How is Viet Nam implementing place marketing? What distinct characteristics does place marketing in Viet Nam have? Is the application of the concepts and the model of place marketing to cities and provinces in Viet Nam possible and effective? What conditions are necessary to apply successful place marketing to Viet Nam? Part II seeks answers to these questions.



**PART 2**  
**EVALUATION OF THE APPLICABILITY OF THE MODEL TO VIETNAMESE**  
**PROVINCES**

## **Chapter 5**

### **Empirical Methodology**

#### **5.1 Introduction**

As mentioned in the previous chapters, place marketing has been commonly applied in the contemporary context of urban planning. This part of the thesis explores and evaluates the effectiveness of place marketing management as it has been practiced to date by provincial governments in Vietnam. Then it considers the applicability of the model to cities and provinces of Vietnam.

According to some researchers (e.g. Logan 2002), Vietnam has almost no tradition of urban planning, especially urban planning in relation to market mechanisms. The simple and easily-recognized reasons are that Vietnam has experienced long periods of war and of a highly centralised economy, and that there is low capacity for market economic management in general and for urban planning in particular. The fact is that almost all the cities and towns were destroyed in the wars and the economy stagnated during the immediate post-war period.

The two main areas of urban planning in a market economy are spatial and infrastructure planning and policy planning. Both need to match each other and to conform to market rules. The infrastructure and spatial characteristics of urban areas in Vietnam changed little over the decades of the wars and the stagnant economy. Many urban areas are still based on the infrastructure left from the French colonial period. Over the last ten years or so, a number of central cities have changed quickly and significantly as a consequence of rapid industrialization and urbanization, most typically Ho Chi Minh City and Ha Noi. Nevertheless, as shown by experts and admitted by the Vietnamese authorities (Song Ha 2009), recent changes in urbanization patterns in Vietnam have basically been spontaneous. The intervention of governments at different levels has been a reaction to the urgent needs of rapid development rather than a process of planning for a stable, long-term and well-orientated urban development. In contrast to a number of the central cities which have changed rapidly, most of the provincial cities have moved slowly, challenging the efforts and desires of provincial leaders. Both the rapid, spontaneous urbanization in a number of the

central cities and the slow growth in most provincial cities illustrate the need for a development planning model. For the dynamic cities, the question is how to sustain growth and solve successfully the urban problems caused by the growth. This part of the thesis will examine whether the approach of place marketing can and does play a part in meeting these requirements.

While the advanced economies can apply sophisticated strategies of place marketing, Vietnam, with a lower level of urban management, has so far been employing only the basic activities of place marketing. The cities have currently been dealing with the matter of improving their business environment, and making it more attractive and supportive to enterprises. The intention is to improve the efficiency of provincial economic governance by removing regulatory barriers, and changing the public sector's attitudes and the quality of their service to enterprises. These we regard as the basic activities of place marketing, and more sophisticated concepts – such as the idea of designing sophisticated place products and then professionally promoting them to specific market segments via deliberately designed channels – are still far from the minds of most provincial leaders.

The question then arises in the Vietnamese context as to whether implementation of these basic activities of place marketing has brought improved growth to individual provinces as is widely assumed. What have been the effects of these basic place marketing activities to date? These questions will be dealt with by investigating the effects of place marketing implementation, first in general in Chapter 6 and then in some specific cities and provinces in chapters 7 and 8. Subsequently, and given the findings of that investigation, the question to be addressed is how the implementation model developed earlier could be applied in Vietnam to enhance the effectiveness of place marketing. Investigations for this question are initiated in Chapter 7 and continued in Chapter 8 by searching for information on the causes of the differences in the performance of, and in the effect of, place marketing management. Then, Chapter 9 devotes all to this issue by investigating whether the application of this model is appropriate for Vietnam and searching for necessary conditions for the application of the model.

To evaluate the effect of place marketing management, two types of indicators are needed: i) indicators to measure the quality of place marketing management, called *performance indicators*; and ii) indicators to measure the outcome of this managerial activity, called

*outcome indicators*. The research studies the relationship between the level or quality of place marketing activity in a given province or city and the outcomes that might be attributed to that activity. Data drawn from several large surveys covering provinces in Vietnam for the Provincial Competitiveness Index (PCI) are used as the performance indicators. The major indicator used to measure the outcome of the performance is the private industrial output per capita (PIO), both domestic (DPIO) and foreign (FIO). In addition, the study also considers other indicators: GDP, enterprise profits, investment growth. The data on the growth of investment and profits and on DPIO and FIO are gathered from official statistical sources. The next section explains the nature and source of these indicators and why they can be used to measure the effect of place marketing management in Vietnamese provinces.

## **5.2 PCI as an indicator of provincial place marketing management**

### **5.2.1 The Provincial Competitiveness Index (PCI)**

The PCI has been developed by the Vietnam Chamber of Commerce and Industry (VCCI) in conjunction with the USAID funded Vietnam Competitiveness Initiative (VNCI). As presented in the various PCI reports (Malesky 2006b; Malesky et al. 2007; Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006; Malesky et al. 2008), the PCI is primarily the result of the largest-ever and most comprehensive mail-out surveys ever undertaken of the perceptions of the Vietnamese private sector of provincial economic governance (soft data), together with the assembly of credible and comparable data from official and other sources (hard data) regarding provincial conditions. The mail-out survey was an appropriate method for retaining confidence so as to obtain objective results, by ensuring that enterprises were not afraid of answering sensitive questions, such as about transparency and informal charges. The hard data were gathered from statistical yearbooks, interviews with third-parties such as state-owned banks or real estate firms, or collected from business associations.

The PCI data used in this research comes from the surveys conducted for four years, 2005-2008. In 2005, the PCI team assessed and ranked forty-two provinces, accounting for a total of 89% of the Vietnamese national GDP and with the participation of 2,020 private firms (out of 16,200 firms mailed). As presented in the PCI reports, the methodology for constructing the PCI was been implemented by a group of experienced experts and has been acknowledged internationally (Malesky 2006b). When announced, the 2005 PCI results

caused a shock throughout the country, with much controversy and many different responses. However, the undistorted voice from enterprises as well as objective data collected was not to be denied, forcing provincial leaders to re-evaluate their economic governance. The Vietnam National Television Channel VTV1 selected the PCI as one of Top Ten Economic Events of 2005 (Business Forum Electronic Newspaper 2006).

Strongly supported by business communities, research institutes and the larger public, the research team made a further effort to improve the methodology and the process of data collection. Consequently, the 2006 survey gained much more comprehensive data. According to the PCI reports (Malesky, Tran, Dau, Le, Huynh, Do et al. 2006), the survey covered all the sixty-four provinces in Vietnam with the participation of over 6,300 private sector firms (out of over 31,000 firms mailed), allowing for much stronger and more reliable data analysis. In 2007 and 2008, the survey was carried out on a larger scale and involved consultation with many national and international experts. In practical terms activities, the PCI has become an important instrument and a key criterion used by many provincial governments as well as donors to facilitate and drive governance reforms, through identifying issues that need to be improved in each province (Business Forum Electronic Newspaper 2006; Ray 2006) (see boxes 5.1 and 5.2). The large, four-year surveys with a set of around 80 questions or question groups provide a very rich source of data for researchers and policy makers. This thesis uses the integrated PCI and this rich survey data resource (both called the PCI data for short) as a main data source to analyse effects of place marketing performance.

### Box 5.1: An example of PCI use by provincial governments

Provincial authorities were quick to respond to PCI 2005, embarking on a number of initiatives to improve their regulatory environments for private sector development. Soon after the release of PCI 2005 and its provincial rankings, various provincial authorities invited the PCI team to present a customized diagnostic analysis of their province's performance in the PCI. These diagnostic workshops, where the PCI team outlined key strengths and weaknesses of the province's PCI performance, and put forward broad recommendations for action and reform, were typically chaired by The People's Committee Chairman or Vice Chairman, and facilitated by the Department of Planning and Investment. As of mid-2006, diagnostic workshops had been held in An Giang, Bac Ninh, Binh Dinh, Binh Thuan, Hai Duong, Nam Dinh, Quang Binh, Quang Nam, Tien Giang, Vinh Long and Vinh Phuc.

Important commitments and initiatives have resulted from these diagnostic workshops. These include: i) new measures to promote business participation and feedback in the policy and planning process; ii) greater efforts to streamline and rationalize business licensing and land access procedures; iii) improved mechanisms for the dissemination of investor related information; and iv) better coordinated institutional responses to improve the treatment of private sector entrepreneurs and investors.

Source: Extracted from the PCI report 2006 (Malesky, Tran, Dau, Le, Huynh, Do et al. 2006, p. 2).

### Box 5.2: An example of PCI use by donors

Mekong Private Sector Development Facility<sup>7</sup> used the PCI as the background for its operation programs. The following paragraph is cited from one of its programs:

In 2005, with help from a USAID-funded project, the Vietnam Chamber of Commerce and Industry (VCCI) launched a Provincial Competitiveness Index (PCI) that ranked provinces according to the domestic private sector's perceptions on the business environment – a sort of sub-national Doing Business. The PCI drew wide media coverage and created a stir throughout the country, prompting the more reform-minded officials in some provinces to actively seek assistance to overhaul their existing business regulations and procedures. Despite their strong interest in reform, however, many local authorities lacked the tools or information to know where to start ... MPDF has taken the lead in Vietnam to design and pilot a Provincial Simplification Program, aimed at helping provincial governments develop and implement effective business reforms.

Source: (International Finance Corporation 2008a).

The PCI rates provinces on a 100-point scale based on factors that the previous research has shown to be important determinants of private sector growth and prosperity. The overall

<sup>7</sup> IFC-MPDF (International Finance Corporation - Mekong Private Sector Development Facility) is a multi-donor funded initiative set up by the International Finance Corporation in 1997 in Vietnam, Cambodia, and Lao PDR, to reduce poverty through sustainable private sector development. The Facility works through six interrelated programs that: seek to improve the business environment; develop the financial sector; improve managerial capacity; and increase sustainable business practices in three sectors that are central to economic growth and poverty reduction – tourism, agribusiness, and garments. IFC-MPDF's donors are the Asian Development Bank, Australia, Canada, Finland, IFC, Ireland, Japan, New Zealand, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom.

index was comprised of nine sub-indices in the 2005 PCI report (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006). In years 2006-2008, the PCI was reviewed and amended by placing more weight on the post-registration environment. For example, the weight of the *Entry Costs* sub-index declined sharply, from 17.1% to 5% and the two added sub-indices were *Labour Training* and *Legal Institutions* (see below), both of which are critical to the operation of enterprises. At the same time, the sub-index, *Implementation of Policies and Consistent Application* was removed from the list for being reflected by other sub-indices. The overall index from 2006 contains ten sub-indices as follows (Malesky 2006b; Malesky et al. 2007; Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006):

1. *Entry Costs*: A measure of the time it takes firms to register, acquire land and receive all the necessary licenses to start business; the number of licenses required and the perceived degree of difficulty in obtaining all the required licenses and permits.
2. *Land Access and Security of Tenure*: A measure combining two dimensions of the land problems confronting entrepreneurs: how easy it is to access land and the security of tenure once land is acquired. The first dimension comprises whether firms possess their official land use rights certificate; whether they have enough land for their business expansion requirements; whether they are renting from SOEs; and an assessment of land conversion efforts. The second dimension includes perceptions of various tenure security risks (such as expropriation, unfair compensation values or changes in the lease contract), as well as the duration of tenure.
3. *Transparency and Access to Information*: A measure of whether firms have access to the proper planning and legal documents necessary to run their business, whether these documents are equitably available, whether new policies and laws are well communicated to firms and implemented predictably, and the business utility of the provincial web page.
4. *Time Costs and Regulatory Compliance*: A measure of how much time firms expend on bureaucratic compliance, as well as of how often and how long firms must shut their operations down for inspections by local regulatory agencies.
5. *Informal Charges*: A measure of how much firms pay in informal charges, how much of an obstacle those extra fees pose for their business operations, whether payment of those extra fees results in the expected results or ‘services’, and whether provincial officials use compliance with local regulations to extract rents.
6. *SOE Bias (Competition Environment)*: A measure of the competition regime confronting private business, focusing on the perceived bias of provincial

governments toward state owned enterprises (SOEs) and equitized firms, notably in terms of incentives, policy and access to capital.

7. *Pro-activity of Provincial Leadership*: A measure of the creativity and astuteness of provinces in implementing central policy, designing their own initiatives for private sector development, and working within (sometimes unclear) national regulatory frameworks to assist and interpret them in favour of local private firms.
8. *Private Sector Development Services*: A measure of provincial services for private sector trade promotion, provision of regulatory information to firms, business partner matchmaking, provision of industrial zones or industrial clusters, and technological services for firms.
9. *Labour Training*: A measure of the efforts by provincial authorities to promote vocational training and skills development for local industries, and to assist in the placement of local labour.
10. *Legal Institution*: A measure of the confidence of the private sector in the provincial legal institutions, whether firms regard provincial legal institutions as an effective vehicle for dispute resolution, or as an avenue for lodging appeals against corrupt behaviour by officials.

Each sub-index includes a number of indicators of the management performance of provincial governments across provinces in Vietnam. These indicators are presented in Appendix 1 at the end of this thesis. To construct the overall index, the sub-indices are weighted by their relative contribution to private sector development (only the contribution controlled by provincial governments, not by the central government) to enhance the ability of PCI in explaining the influence of provincial governments on private sector development (Malesky 2006b; Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006). To measure this contribution, the PCI research team examined the influence of each sub-index on the following three key economic performance variables<sup>8</sup> which have been supposed to be the most important ones to measure private sector development by researchers and practitioners in Vietnam:

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<sup>8</sup> All economic performance variables were calculated based on the General Statistical Office's 2000-2003 Enterprise Census (noted by Malesky in the PCI reports).



- *The ratio of private enterprises that completed registration procedures per thousands of provincial citizens 2003* (including Sole Proprietorships, Partnerships, Limited Liability Companies, and Joint-Stock Companies).
- *Average private sector long-term investment per capita (2000-2003)*: this variable was chosen to gauge the size of the risk entrepreneurs were willing to make. The assumption is that private entrepreneurs will be more willing to make sizable investments in more conducive regulatory environments, where they can more accurately assess the long-term potential risks.
- *Average profit per firm (in millions of VND) (2000-2003)*: this variable was selected as a measure of the success of individual firms over the Post-Enterprise Law period<sup>9</sup> (Malesky 2006a, p. 7).

Using multivariate regression analysis, the research team determines the relative contribution (or ‘weight’) of each sub-index to the above economic performance variables while controlling for the initial advantages of quality of human capital, infrastructure, and proximity to markets. By this design, the PCI provides a measure of the differences in provincial regulatory frameworks and business environment which are the results of provincial governance (Malesky 2006a, p. 1). The PCI data is a huge data collection based on responses from enterprises gathered through the PCI surveys for the four years (2005-2008). With a large scale and a scientific method for carrying out the surveys, as presented in the PCI reports, this is a reliable data source for our research purposes. Data on the aggregate PCI index by province is presented in Appendix 2.

### **5.2.2 Using the PCI as an indicator of place marketing**

This section explains why the PCI can be used to measure the extent and quality of place marketing management of Vietnamese provinces. To be an effective measure, the PCI must provide a measure of the main activities that provincial or city governments undertake to make their region more attractive to private firms and support firms’ business activities. It should not include factors that are not, at a particular stage of development, under the control of the relevant governments. It is argued here that these conditions are met, although in the future other place marketing activities might be undertaken or conditions currently not under the effective control of regional governments (such as infrastructure) might become so.

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<sup>9</sup> The Business Law was issued in 2000 (noted by author).

As presented in the PCI content and methodology discussion above, the PCI concentrates to measuring how good the provincial government's activities are, in terms of making the province attractive to investors and of supporting enterprises during their operations. The PCI researchers tried to remove factors which are other than these government activities. For example, the sub-indicator of effective land wait days (*Entry Cost* sub-index) is determined by government efforts after supply/demand conditions are separated out (see Appendix 1). These government's activities influence the investor's decision of choosing location and the subsequent effectiveness of the business. In accordance with the concept of place product (Chapter 3), the ten sub-indices of PCI are considered as attributes of the place product. A province's values on the PCI sub-index measures provide a measure of the perception and evaluation of customers (private enterprises), and how good these attributes of the place product are. These government's activities, therefore, are considered as place marketing activities, that is, activities to create and market the place product.

The PCI, with its concentration on the effectiveness of governance, certainly overlooks some important attributes of the place product, but does so in a way that is relevant to this research objective. As argued in Chapter 3, the place product includes some attributes which it is difficult for the province/city to create or to change (static attributes) or beyond the ability/authority of the province to control. To evaluate the effectiveness of provincial place marketing management, factors which are beyond the province's control and capacity should not taken into account. The PCI does not reflect the conditions of infrastructure (including soft infrastructure such as education also), location and natural endowments. Although these factors (called initial conditions) obviously play important roles in attracting and promoting private sector development, they are not within the province's control and capacity at the present time. The regulation of state budget revenues and expenditure, and reports of state budget allocations (e.g. Ministry of Finance 2008), show that the major resources for infrastructure have been controlled by the central government for a long period of time up to the present. These central resources are also limited because the domestic saving is small. The resources for infrastructure have recently been enhanced by overseas development aid. However, these resources are also controlled by the central government. Almost all of the provinces in Vietnam are underdeveloped, so that their own capacity for capital accumulation for infrastructure improvement is weak. Besides these factors, the central government retains

the authority to issue, and to control the application of, laws and regulations relating to the infrastructure area.

The natural position of a place is difficult to change although, to some extent, infrastructure is able to reduce the disadvantages of natural position, such as shortening distances by a speedy transport system or by advanced communications. As a consequence of difficulties of infrastructure investment, disadvantages of natural location cannot be reduced much by the provincial government. In addition, the management capacity of most provincial governments is limited. Similarly, the natural endowment is not likely to be exploited well with the lack of resources and the limitations of managerial capacity. These factors explain why, in practice, what most of the Vietnamese provincial governments use to create competitive advantages in attracting investment is improving the efficiency of provincial governance, which is measured by the PCI sub-indices. Moreover, Vietnam, as an economy in transition from a socialist system, has retained many barriers to private sector development in its managerial system and regulatory framework, as well as retaining unofficial obstacles such as attitudes or informal charges. These facts are demonstrated by the PCI survey data, the PCI documents (VNCI & VCCI) and the actual situation of many provinces analysed in the following chapters of this thesis. In the Vietnamese context, therefore, improving governance is not only a feasible form of place marketing at the current time, but also needs to be regarded as a prerequisite for more sophisticated forms of place marketing.

This analysis matches the points on the significance of the dynamic attributes of the place product made in Chapter 3. The place product consists of two attribute groups: *static* and *dynamic*. The static attributes are the *hard-changeable* ones, such as the initial conditions mentioned above. The dynamic ones are the more *easily-changeable* ones, such as the indicators of the PCI. Rationally, static advantages should be preferred by investors since they are difficult to change and hence are low risk. However, dynamic attributes can become static ones if they can prove their hard-changeable characteristics. This means that stability in the way the local government manages (in both directions, positive or negative) could bring equal or even better advantages or disadvantages than those deriving from infrastructure or natural position. Moreover, the potential of dynamic factors to create change is not limited, whereas that of static ones is restricted to some extent and partly depends on dynamic factors. The study in the next chapter on the interaction between the PCI and initial advantages in encouraging investment will verify this point. Furthermore, dynamic factors can change static

ones in due course. A good leadership which is able to mobilize investment for infrastructure improvement is one such case. A far-sighted vision could change the foundations of the education of a society, although this might take a long time. It is also worth noting that the VCCI and VNCI carried out large surveys to build up the PCI. In the view of the PCI researchers, implementers and consultants<sup>10</sup>, improvements in the PCI are a feasible solution that provincial governments are able to implement in the short-term for enhancing their competitiveness, whereas, as expressed by Malesky (2006a, p. 2), “for most cash-strapped and underdeveloped Vietnamese provinces”, improvements in infrastructure are “a long-term dream rather than a medium-term solution to their development dilemmas”.

However, it is necessary to note that, although major resources for infrastructure come from the central government, a good management of provincial place marketing (i.e. a high PCI), as suggested in the model, can motivate private resources by a good private-public cooperation and can also bring revenues for reinvesting in improving infrastructure. Improvements in infrastructure as a result of provincial efforts need to be considered as an indicator of the effectiveness of provincial governance, and this view will be adopted during the process of evaluation. In practice, a few provinces have started to invest in infrastructure from their own resources.

In the viewpoint of place marketing as well as in the Vietnamese milieu, the PCI is a relevant indicator to measure the level and quality of place marketing management across provinces. With the activity surrounding the PCI and its further influence on government behaviour, it seems that the basic principle of place marketing has started working in Vietnam. Place product sellers are under pressure to design their products toward meeting buyers’ needs and wants. These needs and wants are spelled out by the buyers, not perceived by the sellers as before.

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<sup>10</sup> They are both Vietnamese and foreigners. Almost all of them have worked for a long time in Vietnam in positions which help them understand well the Vietnamese actuality (see information of the PCI project at <http://www.pcivietnam.org/index.php?lang=en>).

## **5.3 Measuring outcomes**

### **5.3.1 Various outcome indications: Investment, enterprise profit, GDP and PIO**

As shown in the model in Chapter 4, the outcomes are supposed to be the target markets' satisfaction and preference and financial revenues for the locality. It is assumed that an increase or decrease in investment expresses the level of the target market's preference for the locality. Similarly, the level of enterprise profit would measure the level of satisfaction of investors. GDP per capita is a reasonable measure for possible financial revenues for both, the investor and the locality. The PCI team studied the relationship between the PCI and these three indications with controlling the effect of other factors on them. The PCI research results will be used in Part II. Hence, firstly, the methods used by the PCI team will be reviewed to see the reliability of the PCI research on these issues. Next, the research will take an examination with the outcome indication: private industrial output (PIO) by both domestic (DPIO) and foreign firms (FIO). Particularly, the research uses PIO (sometimes DPIO and FIO separately) per capita to measure the gains which are supposed to be brought when investors consume place products. DPIO and FIO might not measure the entire benefits and revenues created by enterprises operating in localities. However, in terms of financial revenues, it is the major source of the tax base for local governments and of incomes to residents. Another reason for using DPIO and FIO reflects the availability of data over the relevant time-frame. Thus, the level and growth of DPIO and FIO are selected as the criteria representing 'financial revenues' in the model.

### **5.3.2 The issue of initial advantages**

A challenge emerging along with the use of these variables to measure the outcomes of place marketing is that these criteria are the end result of a combination of different factors of which the PCI is only one component. Among these the critical factors are:

- i) natural position and distance to the attractive and high profitable markets (domestic and international);
- ii) initial infrastructure;
- iii) labour quality;
- iv) subsidies from the central government to enterprises;
- v) business capacity of enterprises themselves (building strategy, capacity for innovation or so); and

- vi) other factors such as industry or business life cycle or international and regional factors.

To be able to analyse the PCI's effects on these outcomes, it is necessary to separate or control for the influences of these factors. The three latter factors (iv-vi) have little impact when DPOI and FOI are measured and compared between the provinces. Most of the subsidies from the central government (iv) have been poured into state-run enterprises, not into the private sector. If anything, these subsidies tend equally to private enterprises of the provinces because the central government applies common policies. The capacity of enterprises for managing operations, for building strategies or for innovation (vi) is obviously vital for the growth of investment and especially for DPIO. Malesky acknowledges that "some Vietnamese firms in Ha Noi and Ho Chi Minh City have improved the sophistication of their business operations substantially", but when conducting a large scale survey he remarked that:

... most surveyed entrepreneurs have little knowledge or understanding of these processes. Variance on these factors would be minimal across Vietnamese provinces ... for most of the firms in the survey, assessing these factors is rather premature. (Malesky 2006a, p. 2)

If there is a considerable gap, it should be between provinces that have big differences in development level. It is likely that the business level of enterprises in Ho Chi Minh City or Ha Noi is better than those in remote areas such as the Ha Giang or Tuyen Quang provinces. To deal with this matter, the analysis of DPIO and FIO in chapters 7 and 8 uses the method of grouping provinces of similar level together for comparison. Comparison between different levels might be conducted when necessary to highlight a consequence that is opposite to what might be expected. For instance, a province such as Ha Noi or Ho Chi Minh City is expected to get better results than a province with a lower level of development but is, in fact, getting worse results. In particular, there are two groups for which this method is used: the Red River Delta provinces (Chapter 7) and Ha Noi - HCM City (Chapter 8).

The effects of the other factors under (vi) are also likely to be small. The Vietnamese private enterprises have been at an immature level, with small size and low degrees of specialization. This can be seen in all the provinces with private enterprises covering largely diversified kinds of products. In these circumstances, the issues of industry life cycles or business cycles are likely to have, in practice, slight effects. Furthermore, not many Vietnamese private

enterprises have direct relationships with international or regional markets, so that the impact of changes in the world or regional economies on them, through the common macro business environment, can be assumed to be reasonably uniform across provinces.

In contrast to the three latter factors, the first three can be expected to have significant and unequal impacts on business growth across provinces. In this research, they are analysed as initial advantages because they change little over time or are very difficult for provincial governments to change. Proximity to major markets or dynamic centres (i) is a natural advantage and not a consequence of governance activities, although disadvantages of these conditions can be changed in the long term by some activities such as improving infrastructure. Infrastructure (ii) and labour quality (iii) also require a long time to change, and that change is partly as a result of development. Moreover, in the Vietnamese system, these factors are largely under control of the central government.

Controlling for the influence of initial advantages is a prerequisite for evaluating the effect of PCI on the outcome variables. Because the appropriate methods are dependent on the aim and the level of exactness required by the evaluation method in each chapter, this task will be performed in the following chapters.

## **5.4 Empirical methodology: Statistical analysis and the case study approach**

### **5.4.1 Statistical evidence of the impact of the PCI on selected outcome indicators**

The statistical evidence of the impact of the PCI on selected outcome indicators will be considered in the research. The PCI research team uses statistical methods for three tasks: by regression analysis, the weights to be applied to the ten elements on which data have been collected to create a reliable index of governance performance; by factor analysis of the twelve inter-related initial condition variables, three uncorrelated factors that can be used to measure the initial advantages of different provinces; and regression analysis using the PCI and the initial conditions variables to separate out the effects of variations in governance performance across provinces on outcome variables, such as investment and profitability. The findings of the PCI researchers on this latter matter are reviewed in Chapter 6, in the context of their other analyses. This chapter also reports on new regression analyses undertaken by

the researcher, looking at the impact of variations in the PCI across provinces on total PIO, over the period 2005-08.

#### **5.4.2 Limitations of the PCI and the related analyses**

While the methods adopted by the PCI team are deemed acceptable for aggregate analysis, there are a number of limitations to their approach when a detailed investigation of the position of individual provinces is being undertaken. Several of these limitations are canvassed in these empirical chapters, and particular attention is given in Chapter 7 to one omission, the failure to take account of differences in transport<sup>11</sup> and some related infrastructure across provinces. This matter is examined in Chapter 7 particularly in relation to the Red River Delta provinces.

#### **5.4.3 The case study approach**

The case study approach will be applied in chapters 7, 8 and 9. Chapters 7 and 8 are a closer look at reality and move more closely to concepts and processes of place marketing proposed in the previous chapters – the PCI effects on DPIO and FIO in case studies (selected provinces). The method moves to case-study analysis with an extension and a focus of following measuring criteria:

1. *Performance indicators*: The meaning of the PCI from Chapter 7 is broadened to considering the PCI sub-indices and the primary data gathered in the PCI surveys. As an overall index, the PCI can contain a possible bias which might derive from the methodology developed by the PCI research team to build up the PCI. By taking the PCI sub-indices and primary PCI data into account, this possibility of bias would be reduced and the assessment accesses more to reality
2. *Outcome indicators*: Chapter 6 considers various outcome indicators: investment growth, enterprise profits, GDP per capita, as well as PIO per capita in an overall evaluation. In the case study approach from Chapter 7, the focus outcome indicators are PIO per capita. The reasons are: i) while the growth of investment measures investors' preferences, the PIO is able to measure actual results of investment. As argued in Chapter 3, both sellers and buyers' benefits in exchange of place products

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<sup>11</sup> The transport in Viet Nam is classified into three levels according to the administration levels: national transport managed by the central government, provincial transport managed by the provincial government and district/commune transport managed by the provincial or district or commune governments. Among them, the national transport is the most critical for the function to link a province to other provinces and economic centre. The national transport was not taken into account in the PCI research 2005-2008.



are generated during a process, in which investors consume place products, or in other words investors, do their business in the city/province. The PIO is the outcomes of this consumption. These outcomes are major sources for growth of local economies and businesses as well; ii) while GDP measures the whole economy, the PIO as the outcome of the private sector is more appropriate to the PCI, which measures economic governance for private sector development. For these reasons, PIO can reflect more directly and accurately the effect of the PCI.

Still for the objective of examining the effects of place marketing management in a profound manner, chapters 7 and 8 also investigate the question of how the implementation model could be applied in Vietnam by searching causes behind the effect. The case-study method is applied for a detailed and in-depth study by exploring processes within their naturally-occurring context(s) (*in situ*). Cross-case analysis helps to find underlying factors while exploring the processes. Specific features and advantages, which have significant influence on the attractiveness of a place and on the outcome, but skipped in the PCI research, are taken into consideration. The initial advantages and the possible impact of other factors are reassessed. In particular, Chapter 7 examines the PCI's effects on DPIO and FIO and searches for underlying factors causing the effect in a group of eight provinces of the Red River Delta region. In general, these provinces have good development conditions. They have many similar features and initial conditions. Such a grouping continuously separates out the effect of similar initial advantages and therefore, the impact of the PCI is evaluated more accurately. Applying the same discipline, Chapter 8 studies the case of Ha Noi in comparison with HCM City, another big city with special advantages for place marketing. This chapter is a further investigation of the effects of the PCI and the PCI critical sub-indices on DPIO and FIO. Especially, Chapter 8 also traces back to the underlying factors, which impact on the PCI and explain the growth of the number of enterprises and investment in Ha Noi. The detailed investigation on the biggest cities, where nationally economic hubs are concentrated and the effect is complicated and multidirectional, is carried in out the last chapter (Chapter 9), to provide useful findings for an extended consideration of national institutions, economic policies and the legal system, which condition the operation of the model of place marketing.

The selection of provinces with high advantages derives from the fact that: i) the disadvantaged provinces in Vietnam find it are hard to perform an effective place marketing program due to restrictions of resource and management capacity, and hence they could not

provide enough data for an analysis; ii) as shown in the PCI reports, place marketing in high advantage provinces is being implemented in various levels. This is a good situation to examine whether the difference in PCI results in a difference in the outcome. Moreover, while other provinces lack resources for development, the high advantage cities/provinces need to play a role of a growing drive for the entire economy. Under this perspective, the selection has a practical significance. There are some other reasons for selecting the Red River Delta provinces for the research. In general, the provinces/cities possessing high advantage are located in the Southeast (the South) and Red River Delta (the North) regions. This fact is also shown in the PCI research (see figures 6.4 and 6.5). There might be differences between the South and the North in the background such as culture, people, nature and education which are possibly underlying factors influencing private business development and these factors are hardly scored exactly. For that reason, it would be a better solution to compare provinces within individual region. Secondly, the next chapter is an in-depth research of Ha Noi. Ha Noi is located in the Red River Delta region. The study of the Red River Delta province serves as a common background for moving further to the case of Ha Noi. During the investigation, Ha Noi and the Red River Delta could be compatible to making some comparisons without encountering regional deviation. Last, but not least, information of the Red River Delta provinces are easier to gather for the researcher.

Taking the evidence, findings provided by the previous chapters and looking back at the concepts and the model of place marketing management, Chapter 9 applies a synthetic evaluation method to consider:

- the factors and processes which are referred to as the internal processes in the model; and
- the issues in the national scale, which are referred as the external environment in the model.

Chapter 9 ends with conclusions on the applicability of the model to Vietnamese cities and provinces. It includes recommendations on necessary improvements that the central and provincial governments in Vietnam should implement to apply the model effectively.

## **Chapter 6**

### **Urban Planning and Place Marketing in Vietnam: An Overall Evaluation of the PCI's Effects on Economic Outcomes**

#### **6.1 Introduction: The objectives and structure of the analysis**

The objective of this chapter is to review the evidence that can be assembled, through empirical analysis of the available provincial level data rather than by detailed case studies of individual provinces, on the impact of the provincial competitiveness index (PCI) on economic outcomes at the provincial level. As previously argued, this can be taken as evidence of the impact of the initial phase of place marketing on those outcomes, currently in place in Vietnam. There are two main issues that need to be addressed in undertaking this task. First, as discussed in Chapter 5, the PCI research team collected data on a wide range of indicators of provincial management performance, from the point of view of their service provision to private firms, and from 2006 summarised these in ten sub-indices. To create a single PCI indicator for each province, it is necessary to establish weights for these sub-indices. This was done by weighting the sub-indices in terms of their relative contribution to three measures of economic development over the 2000-03 period (private enterprises per capita, investment per capita and profits per firm), with the weights being estimated by multivariate regression analysis and controlling for the initial advantages of each province. Thus the construction of the PCI index contains a link to economic development, is entirely appropriate from the point of view of using PCI as a measure of place marketing activity: place marketing activities can be seen as the set of government management activities directed at the economic development of the province.

Secondly, many factors other than place marketing activity determine economic outcomes at the provincial level. While new factors may emerge over time, for an analysis of a given period these factors can be summarised in terms of different initial conditions or advantages at the beginning of the period. Thus the approach that the PCI team take is to collect detailed data on initial conditions at the provincial level, broadly over periods ranging from 1995 to 2002, and use that data to construct measures of initial conditions. With such a measure it is then possible to undertake regression analysis to estimate the impact of PCI levels, and

changes in those levels, on selected economic outcome variables. Clearly the adequacy of those measures in capturing the factors other than the PCI influencing the diversity of outcomes will be critical to assessing the impact of the PCI/place marketing on those outcomes.

In this chapter, we firstly review the methods used by the PCI team to measure initial conditions, and the results that they obtain. This is followed by a summary and assessment of the analyses undertaken by that team to assess the impact of the PCI on economic outcomes across provinces, focusing on variables such as GDP per capita, the number of private enterprises per capita, private investment per capita and profits per firm. In the light of some of the limitations detected in the analyses reported by the PCI team, the results of new regressions relating to initial conditions and the level and change in the PCI to total PIO per capita are presented. The chapter concludes with an overall assessment of the strength of the evidence about the impact of the PCI on economic outcomes across provinces.

## **6.2 The PCI research team approach to initial advantages**

In order to critically use the PCI team's research results, in this section we review their approach to measuring initial advantages. The basic methods they used were established for the initial 2005 report, but were adjusted and, in some respects simplified, in successive reports for 2006-2008. In the 2005 report the PCI research team (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006) evaluated the initial conditions by collecting data over the 42 provinces of Vietnam on twelve of the most commonly cited measures of initial conditions, as shown in Table 6.1 in the 'variable' column'.

Collecting data on these 12 measures does not in itself provide an index of initial advantages – the different measures are likely to be of different degrees of importance, and some of them will without doubt be highly correlated with one another. It is not, therefore, satisfactory to simply sum up the 12 measures to obtain a single score for the integrated initial advantages of a city or province. The technique of factor analysis<sup>12</sup> was used by the PCI researchers in the 2005 report to reduce the twelve interrelated variables to a smaller number of uncorrelated variables.

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<sup>12</sup> Factor analysis is a statistical technique that reduces a data set from a group of interrelated variables into a smaller set of uncorrelated (i.e. unrelated) factors. It is a useful technique that allows for the explanation of something using the smallest number of uncorrelated explanatory variables.

**Table 6.1: Factor analysis with varimax rotation of initial conditions**

No.	Variable	1. Level of Development (Emphasis on Human Capital)	2. Quality of Infrastructure /Urbanization	3. Distance from Large Markets
1	Labor Quality from MOLISA <sup>13</sup> :	0.934	0.138	-0.087
2	Mean score on World Bank Achievement Test of 5 <sup>th</sup> Graders in Math and Reading (2002)	0.822	0.227	0.098
3	Percentage of communes with roads to provincial capital (VLSS 2002)	0.689	0.165	0.025
4	Percentage of communal roads that are paved (VLSS 2002)	0.468	-0.067	-0.431
5	Average percentage of population living in urban areas (1995-2002)	0.059	0.946	0.042
6	Average telephones per thousand people (1995-2002)	0.186	0.862	-0.187
7	Millions of tons of freight transported on provincial roads per kilometer (1995-2002)	0.208	0.707	0.029
8	Agricultural output/GDP 2002	0.585	-0.676	-0.086
9	National-level city in 2004 or shares border with national level city (Dummy variable)	0.159	0.471	-0.366
10	Distance in kilometres from Ha Noi or HCMC	-0.039	0.067	0.889
11	Costs of shipping a 40-square foot container from provincial capital to Tokyo	0.096	0.417	-0.722
12	Average retail sales as a percentage of GDP (1995-2002)	-0.249	0.352	0.498
	Eigenvalue	4.64	2.24	1.84
	<b>Cumulative variance explained</b>	<b>35.70%</b>	<b>53.00%</b>	<b>67.10%</b>

Source: (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006).

Table 6.1 shows the factor loadings for the twelve variables for three identified factors, named *Level of Development*, *Quality of Infrastructure/Urbanization* and *Distance from Markets*, which account for 67.1% of the variance in the 12 variables as a whole. The variables used for each factor, with the factor loadings, are shown in the shaded cells. The reduction of the number of variables allows for a sharpening of the measures of the initial conditions and significantly facilitates analysis, because it is much easier to interpret the impact of three uncorrelated factors than that of twelve variables that have a complicated pattern of interrelationships. The three factors are discussed below.

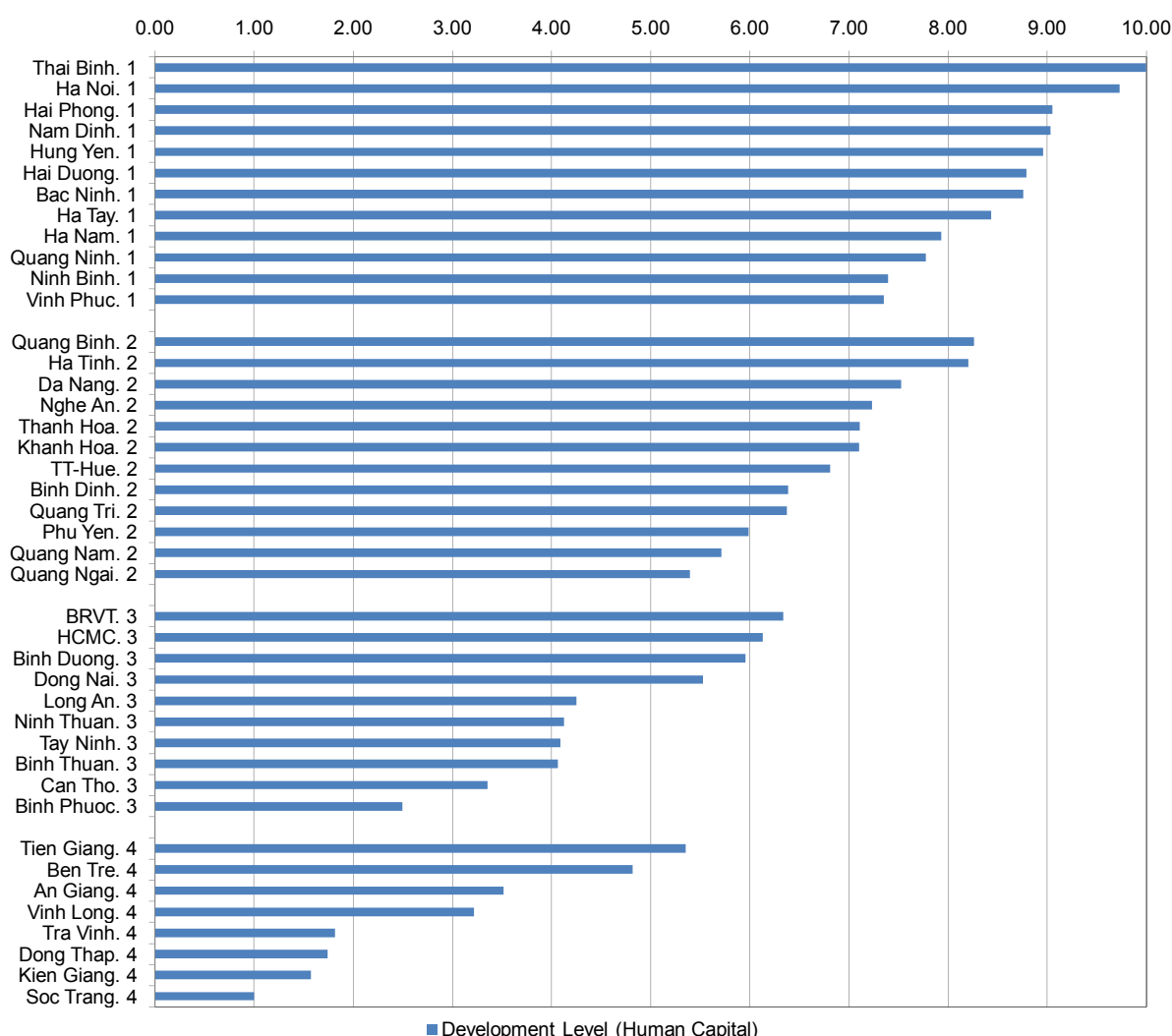
*Level of Development* is basically constituted by four indicators, with the values for each of these for the year 2002 being chosen. The first two indicators belong to the education sphere:

<sup>13</sup> MOLISA: Ministry of Labour, Invalids and Social Affairs, Vietnam. The labour quality measure is the weighted score based on the percentage of provincial full-time labourers who are illiterate, literate, primary school graduates, and secondary school graduates (2002).

i) labour quality, based on the school education level of the provincial full-time workforce; and ii) school education quality, based on the World Bank Achievement Test of 5<sup>th</sup> Graders in Math and Reading. The PCI researchers selected two standard variables to measure labour quality based on educational level and quality. The private sector, which mostly consists of small and medium sized enterprises, uses a lot of low-skilled labour provided by the general workforce. Hence, using measures of the quantity and quality of general education is reasonable enough for almost all provinces and allows the measure to cover provinces all over the whole country. However, if vocational, tertiary and post-tertiary education are taken into account, the metropolitan cities, especially Hanoi and HCMC, would be more highly ranked. The other two indicators included in this factor refer to the actual state of the intra-province transport system: i) the percentage of communes with roads to provincial capital (2002) and ii) the percentage of communal roads that are paved (2002). The table shows that education contributes a bigger part than transport to the factor. It is also apparent that the presence of the indicator ‘agriculture output/GDP’ is relatively significant. However, as this indicator plays a bigger role in the second factor *Quality of Infrastructure/Urbanization*, it is counted for the second factor. The rankings of the provinces by the *Level of Development* factor are shown in Figure 6.1.

The PCI research results for the *Development Level* factor appear to be realistic. This factor emphasizes school education. Although the central government’s investment has been relatively equal across the provinces, the school education outcomes vary between provinces.

**Figure 6.1: Ranking development level (human capital) by region**



Notes: 1= Red River Delta; 2 = Central Coast; 3 = Southeast; 4 = Mekong Delta.

Source: (VNCI & VCCI 2006b).

The level of education attained not only depends on programs and investment from the state but also on the local population's perception of the importance of education and on their willingness to spend in education. This issue relates to the long cultural development history of the country. Over a long period of time in its earlier history, Vietnam had expanded from the north to the south. The northern area is the old land, 'the home of scholars', with a high priority placed on education. This awareness has been strengthened by the socialist regime, which saw universalizing education as the first national priority. The south is the later reclaimed land, with priority given to everyday practice and business affairs. As seen in Figure 6.1, this factor has the value going downward from the North to the South, from the Red River Delta to the Mekong Delta. Residents' income is also critical but not decisive.

Quang Binh, Ha Tinh, Nghe An or Thanh Hoa are very poor compared with HCM City, Ba Ria-Vung Tau (BRVT), Binh Duong or Dong Nai, but their *Development Levels* are much higher.

Another contribution to the *Development Level* factor is the percentage of communes with roads to provincial capitals and the percentage of communal roads that are paved. Once again, these indicators favour the North. Many village roads and some town roads in the North were built by local budgets or totally or partly by the contribution of local populations. This depends not only on the population's income but also on habits and living environment. Because they more regularly face severe natural conditions (rains and storms), people living in the North need to give greater attention to infrastructure, resulting in better towns and communal roads. If one were investigating housing in the Red River region (the North) and Mekong River region (the South), the result is likely to be similar. The Northern villages are separated from rivers by dykes which have been retained for hundreds of years. Dykes prevent floods from destroying community infrastructure in the Red River region, whereas the Mekong River Delta has a flood season every year but is without dykes. The Mekong River Delta residents have no strong motivation to build community infrastructure, as it may well be swept away by floods. Moreover, the Mekong region has a plentiful natural canal system. This land has been well-known for 'floating markets' on water and 'monkey bridges'. Travel and goods exchange via canals have been a feature of this part of the country. Even up to today, small traders still use canals to gather up agriculture commodities and to trade in floating markets. This is why roads have not been given a special importance. However, the canal system is not suitable for the requirements of industrialization, and this is a big restriction for industrialisation in the Mekong River region. The region stands at the bottom of the ranking table in the PCI team's research and this position is realistic.

In brief, in terms of the general trend, the research results of *Level of Development* are consistent with most reports of regional education and infrastructure as well as the practice. However, there can inevitably be some doubts about the accuracy of the measure for specific provinces. Another question could be about efficiency of the education system for private sector development, and research on this issue could lead to some interesting findings. Nevertheless, it is beyond the scope of this thesis.



*Quality of Infrastructure/Urbanization* is composed primarily of five variables (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006, p. 60):

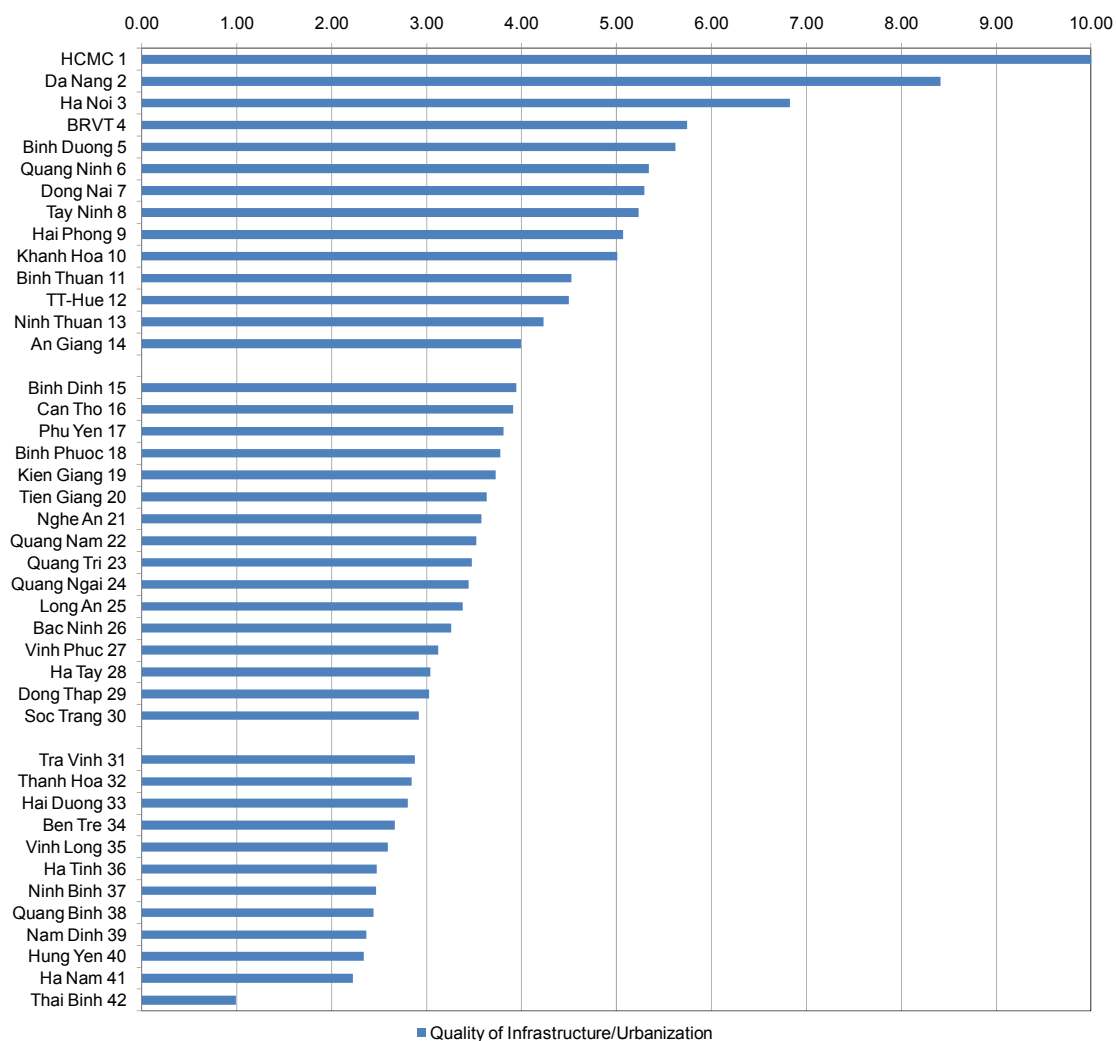
- the percentage of the population living in urban areas: with most of the population living in the rural areas, it is supposed that the higher rate of urbanisation in a province the more favourable are the conditions for business development;
- the number of telephones per population: which refers to a primary level of communication;
- the usage level of provincial roads as measured by millions of tons of freight shipped per kilometre: this is an indicator of the scale of the province's trade transactions, on both an intra-province and an external basis, and also indicates conditions of provincial transport system;
- the percentage of agriculture output versus GDP: this indicator plays a similar role to the first indicator above, but in reverse; and
- whether a province is or shares a border with one of the five national level cities (Ha Noi, HCM City, Hai Phong, Da Nang and Can Tho): this is a dummy variable,<sup>14</sup> and the research report does not detail about how this indicator was made up but gives an explanation that the indicator “picks up not only urbanization but also the benefits of the special infrastructure allotments that go along with the national-level city designation”.

It is necessary to note that there is a great difference of advantages between Ha Noi, HCM City and Da Nang, Can Tho (Hai Phong is somewhere in the middle) and therefore between sharing a border with Ha Noi, HCM City and with Da Nang, Can Tho. Particularly, it is significant for a province if it borders on Ha Noi or HCM City, but it is much less significant if it borders on Da Nang or Can Tho. Ranking this difference or not, or how to rank must influence the research outcome. But the ranking is not seen in the PCI research report. The research outcome of this factor is illustrated in Figure 6.2.

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<sup>14</sup> A dummy variable is a numerical variable used in regression analysis to represent subgroups of the sample in a study. In research design, a dummy variable is often used to distinguish different treatment groups. Dummy variables are useful because they enable us to use a single regression equation to represent multiple groups. This means that we don't need to write out separate equation models for each subgroup (noted by Van T. Hoang.)

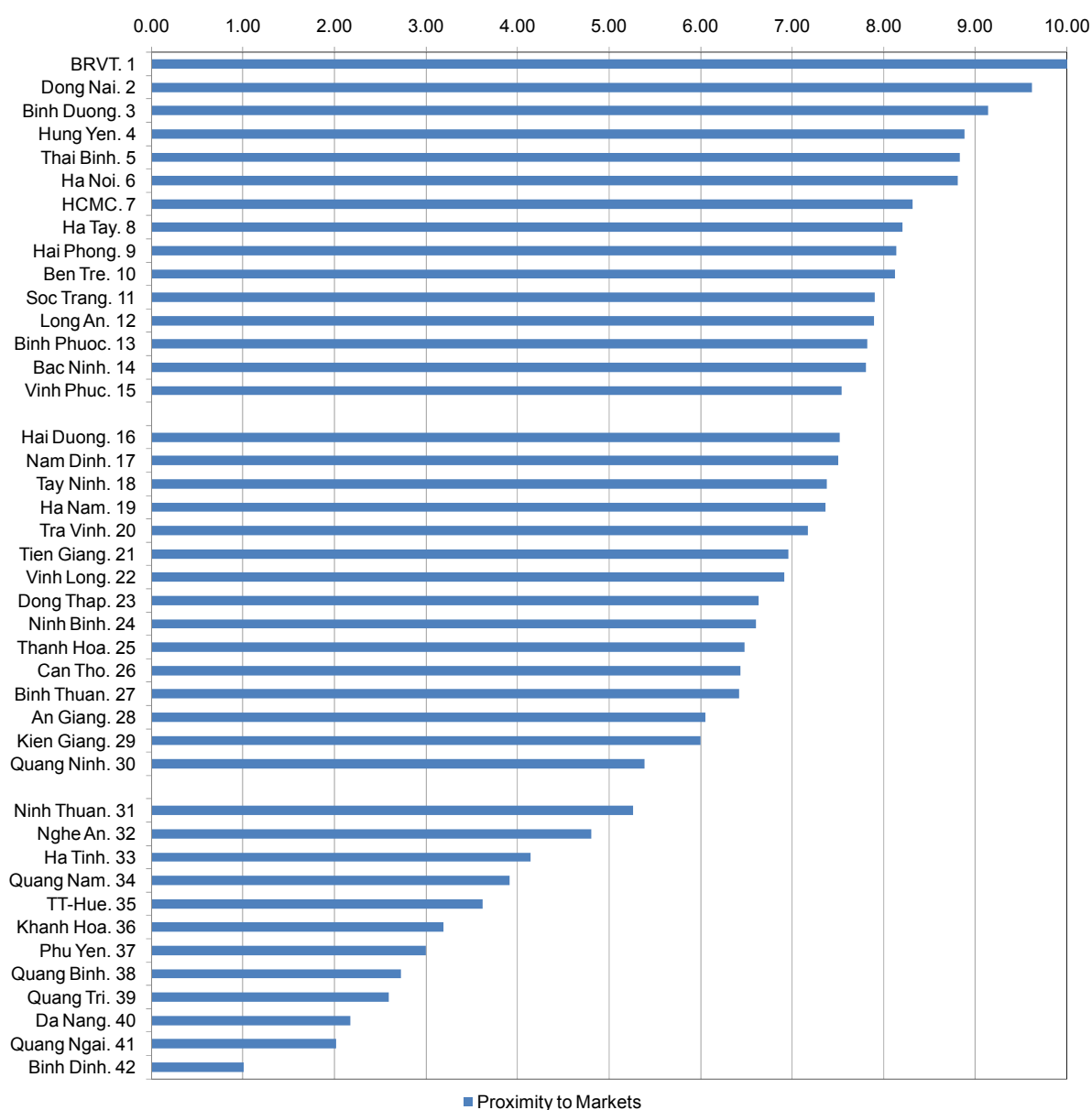
**Figure 6.2: Ranking quality of infrastructure/urbanization by province/city**



Source: (VNCI & VCCI 2006b).

*Distance from Markets* covers the matters of market and the role of these indicators is not complicated: i) distance from Hanoi or Ho Chi Minh City, the two biggest and profitable domestic markets; ii) the cost of shipping a 40-square foot container to Tokyo which captures the costs of access to export markets; and iii) average retail sales of GDP which measure the size of the intra-provincial market. The research result for this factor is illustrated in Figure 6.3.

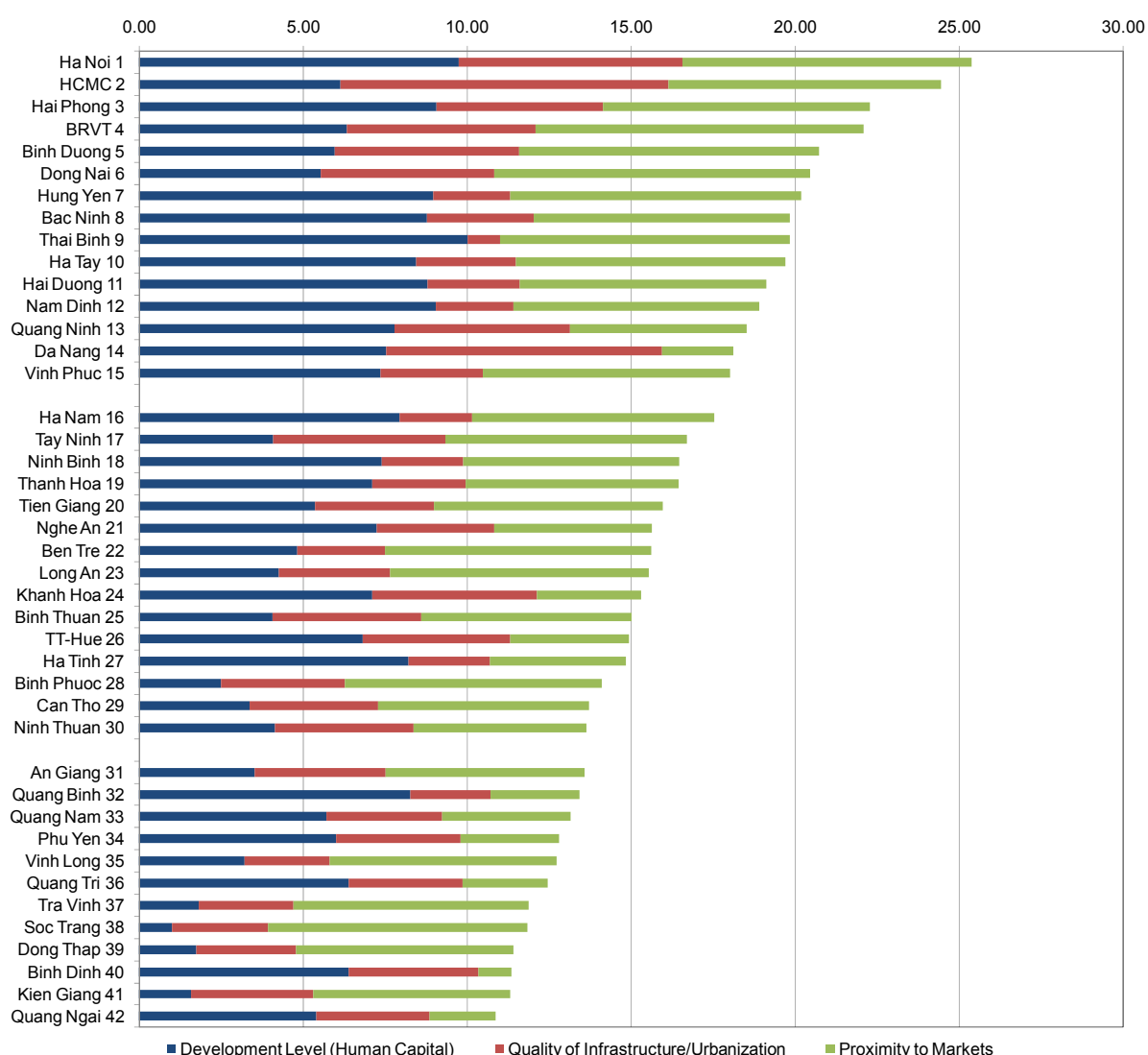
**Figure 6.3: Ranking proximity to markets by province/city**



Source: (VNCI & VCCI 2006b).

While the *Development Level* factors seem generally realistic, the PCI team's research outcomes on *Quality of Infrastructure/Urbanization* and *Proximity to Markets* raise many questions about their accuracy. Looking at the twelve variables in Table 6.1 also shows that some key initial conditions are not taken into account in the PCI research, and this issue will be taken up further in Chapter 7.

**Figure 6.4: Ranking provincial initial advantages for development by province**

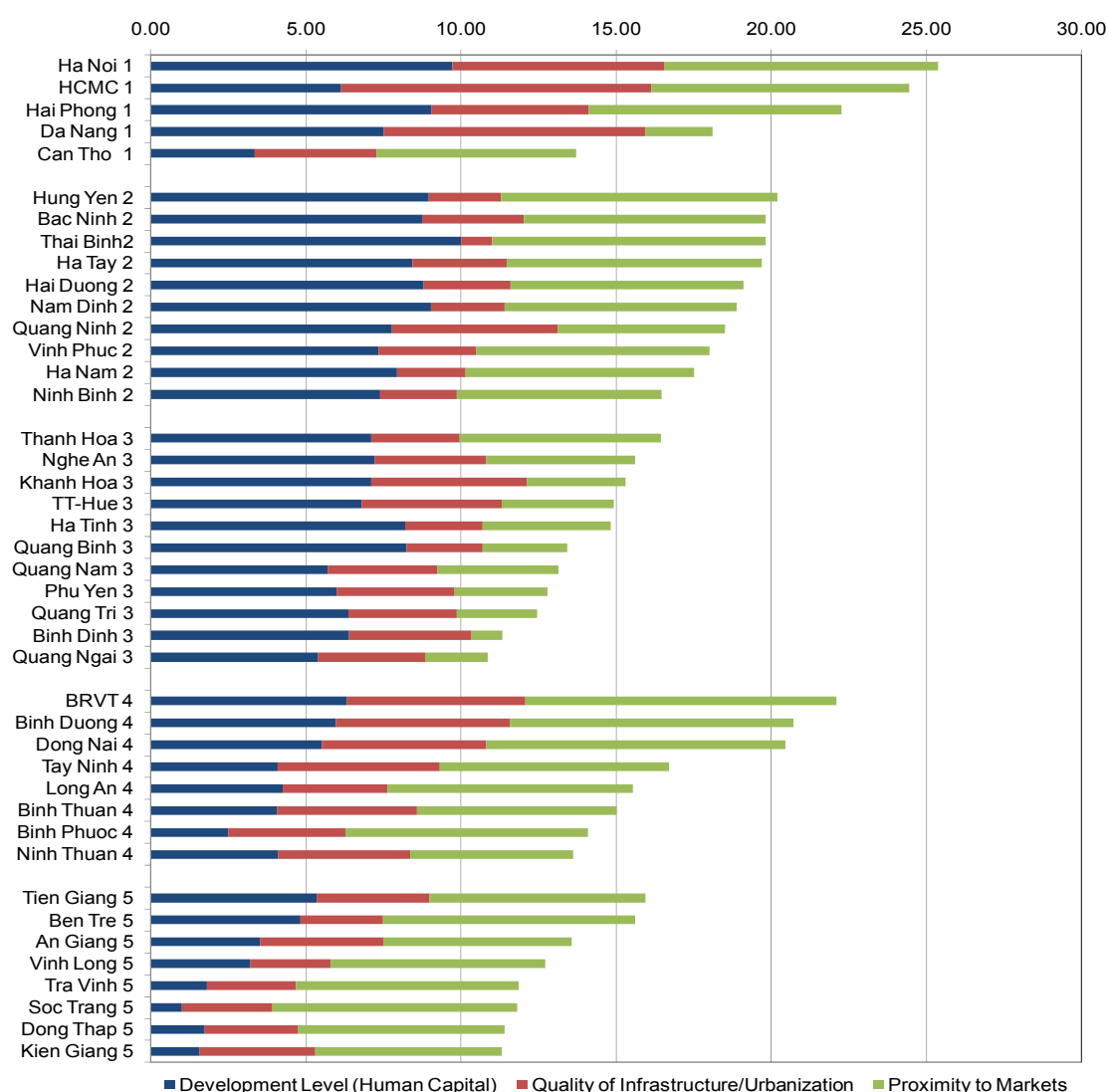


Source: (VNCI & VCCI 2006b).

In spite of these doubts, the overall integrated result of the three factors are presented in Figure 6.4, and ranked by region in Figure 6.5, some broadly consistent with the practice in Vietnam. The three national cities of Ha Noi, Ho Chi Minh City and Hai Phong are the top three in terms of initial advantages. Big cities, almost all the provinces in the Red River region and some provinces in the Southeast region that would be regularly identified as having good initial advantages, are ranked in the top fifteen. It can be concluded that, for the purposes of making an overall evaluation of the impact of governance and the PCI at an aggregate provincial level, the measures derived from the PCI research on initial advantages may well be sufficiently accurate. However the issue of accuracy will be addressed again in chapters 7 and 8 when the research turns to an analysis of the PCI's effect on economic

outcomes in specific cases, in which context aspects of the initial advantages will be reconsidered and reassessed.

**Figure 6.5: Ranking provincial initial advantages for development by regions**



Source: (VNCI & VCCI 2006b).

### 6.3 Using the measure of initial advantages

In the 2005 report the PCI research team used the measure of initial advantage detailed above for two purposes:

- to control for initial advantages in regressions to establish weights for the PCI components in constructing the final *weighted* PCI index; and
- to control for initial advantages in regressions to estimate the effect on economic outcomes of the *unweighted* PCI index.

In the 2006 and subsequent reports, a less rigorous approach to measuring initial advantages is used, with just three variables used for the three factors described above: the percentage of secondary school graduates as a share of the population in 2000 for the *Development Level* factor, the number of telephones per capita in 1995 for the *Quality of Infrastructure* factor and the distance in kilometres from the provincial capital to Ha Noi or HCHM for the *Proximity to Markets* factor (Malesky, Tran, Dau, Le, Huynh, Do et al. 2006). For this study we mainly concentrate on the 2005 analysis, as this is the most substantial. Given that regression analysis on economic outcomes, allowing for initial advantages, is used to establish the weights for the PCI, it is not appropriate to use the weighted PCI in analyses to study the impact of the PCI on outcomes over the same data period. Two forms of analysis are then possible: analyses for the initial data period using only the unweighted PCI index, and analyses using the weighted PCI index for periods later than that used in estimating the weights. Both of these are considered below.

One problem in many of the analyses undertaken in the reports of the PCI team is that the coefficients on many of the critical variables in the regressions are not significant, even at the 10% level. This means that the relevant coefficients are not well defined, and there must be serious qualifications to any conclusions drawn by use of those coefficients. One example is the illustration provided in the 2005 report (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006) of the deviation across provinces of average profit per enterprise, relative to what would be predicted solely on the basis of initial conditions (sometimes called structural conditions). We summarise below the use that the PCI team makes of that analysis, the details of which are provided in Table 6.2.

**Table 6.2: Linear regression on average profits per employee (2000-03) against measures of initial conditions**

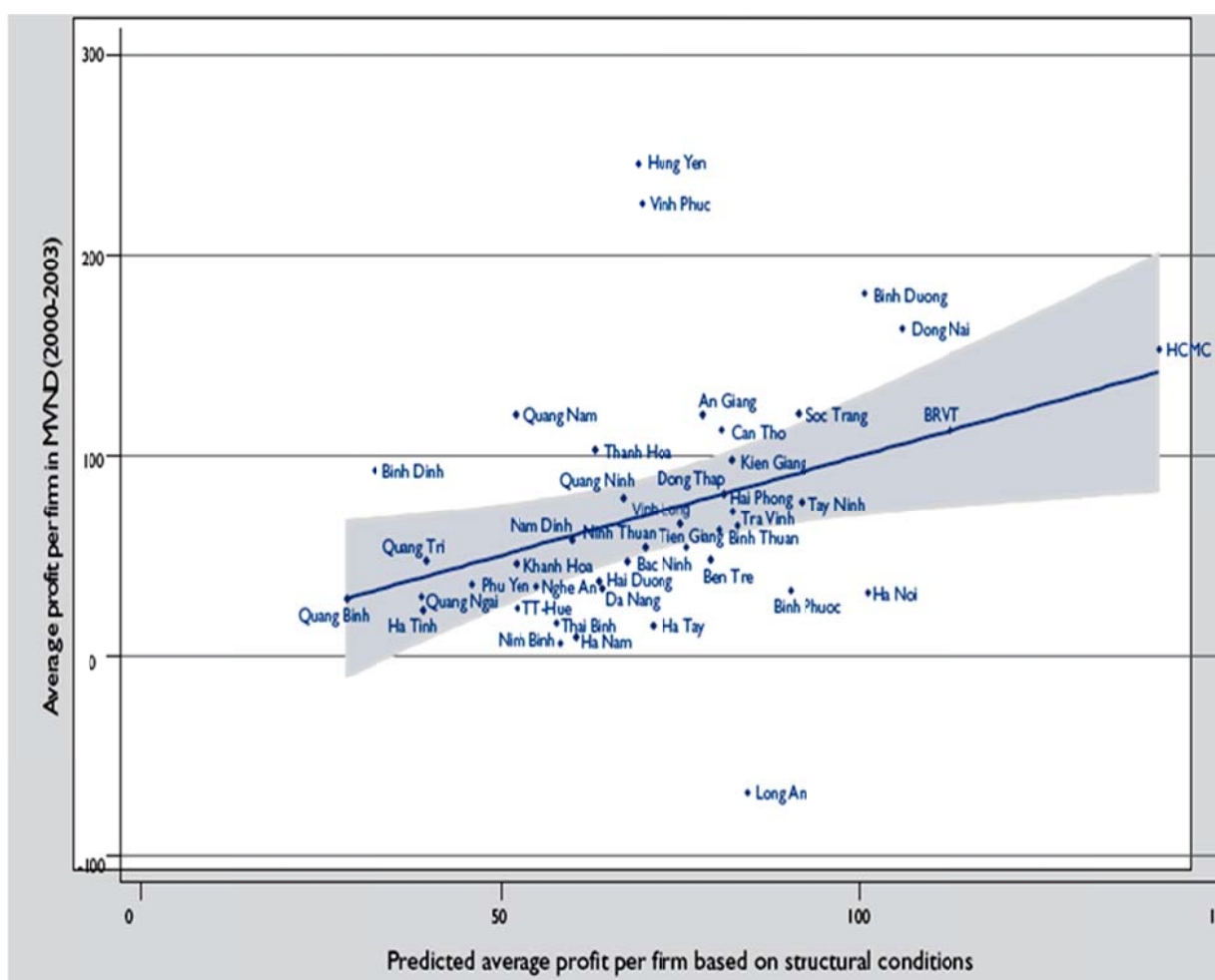
	Constant	Development level	Infrastructure	Distance from markets	Number of observations	R bar <sup>2</sup>
Model 2 (Factors)	71.3 (7.9)***	-7.3 (0.8)	12.6 (1.4)	17.1 (1.9)*	42	0.14

Notes: Figures in brackets are Student's t statistics: \* significant at the 10% level; \*\*\*significant at the 1% level.  
Source: (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006, p. 73 Table 16) .

Figure 6.6 compares the actual average profit per enterprise 2000-2003 (as measured by the General Statistical Office's Enterprise Census 2000-2003) and predicted average profit per

firm based on initial conditions (including human capital, infrastructure, and proximity to markets) according to the relationship shown in Table 6.3. Provinces above the line are out-performing their structural conditions, while provinces below the line are under-performing their structural conditions. When studying Figure 6.6 and the PCI, it is noticeable that almost all the provinces with profits above the line had a PCI ranking in 2005 and 2006 in the higher tiers of the PCI, whereas most of those where profits were well below the line were ranked in the middle or lower tiers (see Table 6.3). This may suggest that a high PCI, i.e. good provincial governance, can assist firms to earn high profits, and hence to grow and expand their enterprises. Similarly, it may also suggest that a low PCI score is likely to be indicative of lower than expected profits.

**Figure 6.6: Actual and predicted average profit per firm**



Source: (Malesky 2006a, p. 2).

A critical case in Figure 6.6 is Ha Noi. With many special initial advantages, Ha Noi's enterprises should be expected to earn profits. However, Ha Noi's actual profit per enterprise was very low. As shown in Figure 6.6, Ha Noi is far lower than the line. The use of 'profit average per firm' could lead to a biased result for the reason of enterprises size. Enterprises of big cities like Ha Noi tend to be bigger than those in small provinces and correspondingly the average profit per firm may tend to be higher than that of small provinces. The bias is true when a single average is assessed. But this problem is neutralized when we compare the two averages as in Figure 6.6. For example, considering the argument, Ha Noi should move right and up by equal distances to a new position. However, the distances from the new position and from the old position to the line are similar.

**Table 6.3: PCI of cities/provinces, by average profit level relative to that predicted on the basis of structural conditions**

PCI: Provinces most noticeably above the line			PCI: Provinces most noticeably below the line		
Province	PCI 2005 Rank (42 cities/ provinces)	PCI 2006 Rank (64 cities/ provinces)	Province	PCI 2005 Rank (42 cities/ provinces)	PCI 2006 Rank (64 cities/ provinces)
Hung Yen	15	16	Long An	22	39
Vinh Phuc	5	8	Ha Tay	42	62
Binh Duong	1	1	Ha Noi	14	40
Dong Nai	6	5	Binh Phuoc	37	52
Binh Dinh	12	3	Ha Nam	31	49
Quang Nam	16	14	Ninh Binh	41	18
			Thai Binh	8	37

Source: (Malesky, Tran, Dau, Le, Huynh, Do et al. 2006; Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006).

The evidence provided by Table 6.3 is indicative only and, as previously noted, faces one serious difficulty, namely that the coefficients in the regression equation used to generate Figure 6.8 (Model 1, Table 16, p. 73 in Malesky 2005) are generally not significant (see Table 6.2). Initial conditions are represented by the three variables described in the previous section, but the coefficient on the development level and infrastructure variable are not significant at the 10%, while only that of distance from markets is significant, but only at the 10% level. Thus the coefficients are not at all well determined, and the results must be treated with considerable caution. Nevertheless this indicative analysis does provide a rationale for more rigorous analysis to explore links between PCI and economic outcomes at the provincial level. The sections below report and assess the analyses undertaken by the PCI team and then report the results of a new econometric analysis.



## 6.4 PCI and selected outcomes: Cross-section results

The PCI research team also explored in 2005 the relation between the PCI and the growth of investment and other economic variables, after taking account of the presence of initial advantages. This was done by using cross-section regressions over 42 provinces, with the initial advantages and economic outcome variables being for years about 2003 and the unweighted PCI measure for 2005 used as one of the explanatory variables. The key regression results are provided in Table 6.4. In terms of simple statistical tests these equations are relatively good, although in some cases non-significant variables are retained, with only a low proportion of the variance in the dependent variable. But in cases such as those for investment or GDP per capita, most of the relevant coefficients are highly significant and the share of variance explained ( $R^2$ ) is quite high.

The PCI team interpret these regression results as follows. After excluding structural endowments, the equation suggests that a simple one point improvement in the 2005 PCI (i.e. raising the score on any single sub-index by one point), from the mean non-weighted score of 52.4, generates:

- a 2.8% increase in average private sector investment per capita;
- a 3.2 million VND increase in profits per firm;
- an extra two enterprises for every 100,000 citizens;
- 92 million VND for every 1,000 citizens in registered investment (52 million VND of which would be implemented); and
- an increase in GDP per capita, equivalent in value to an extra 11 bowls of Pho<sup>15</sup> per year for every citizen.

As presented above, the PCI is weighted by the relative contribution of each sub-index to private sector development. As a consequence, an extra point of weighted PCI would generate higher outcomes than the above numbers (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006, p. 15).

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<sup>15</sup> Pho is a popular noodle in Vietnam. As cooked and served at hand, it is not a rotating good, likely to be used for Purchasing Power Parity. Bowls of Pho represent social welfare/income measured by purchasing power parity (PPP).

**Table 6.4: Linear regression on economic outcome variables (2000-03) against measures of initial conditions and the unweighted PCI**

	Constant	Development level	Infrastructure	Distance from markets	Unweighted PCI	Number of observations	R bar <sup>2</sup>
Dependent variable: Average private investment per capita (2000-03)							
Model 5, Table 15	11.5 (14.8)***	0.2 (2.9)*	0.5 (4.0)***	-0.3 (3.3)**	0.03 (1.9)*	42	0.67
Dependent variable: Average profits per firm (2000-03)							
Model 5, Table 16	95.5 (1.2)	-3.9 (0.4)	7.5 (0.8)	-16.5 (1.9)*	3.2 (2.1)**	42	0.23
Dependent variable: Number of active private enterprises per 1000 people (2003) <sup>1</sup>							
Model 5, Table 17	-0.6 (1.8)*	0.05 (1.3)	0.3 (5.3)***	-0.02 (0.6)	0.02 (3.6)***	42	0.90
Dependent variable: Registered and implemented investment per 1000 people (2000-04) <sup>2</sup>							
Model 4, Table 18	-2111.2 (2.0)*	147.0 (1.3)	358.2 (2.4)**	-261.1 (2.3)**	52.0 (2.6)**	42	0.75
Dependent variable: GDP per capita (2003) <sup>3</sup>							
Model 5, Table 19 (Factors)	31.4 (0.2)	63.6 (3.1)***	131.8 (5.9)***	33.2 (1.6)	8.8 (3.1)***	42	0.93

Notes: Figures in brackets are Student's t statistics. \*, \*\* and \*\*\*: coefficient significant at the 10%, 5% and 1% levels respectively.

<sup>1</sup>Includes HCMC and Ha Noi dummy; coefficient value 1.8 (8.1)\*\*\*.

<sup>2</sup>Includes HCMC and Ha Noi dummy; coefficient value 3258 (4.6)\*\*\*.

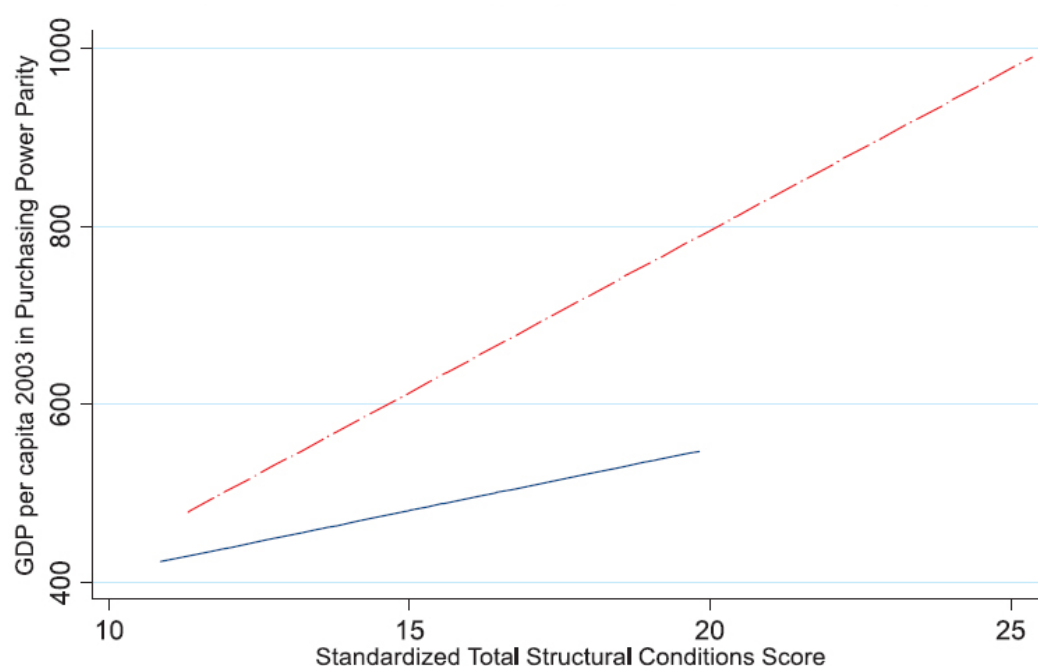
<sup>3</sup>Includes Ba Ria-Vung Tau dummy; coefficient value 2340.8 (16.6)\*\*\*.

Source: (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006, p. 73 Table 16) .

These results suggest that, for the period prior to 2005, both initial advantages, or improvements in structural conditions, and provincial governance (as measured by the PCI) have constructive consequences in promoting business and raising social welfare. In this aspect, the PCI plays a role of leverage on the impact of initial structural conditions.

Figure 6.7 shows the interaction between the PCI and the structural conditions to influence GDP at the provincial level in 2003, derived from relationships such as those shown in Table 6.4. Provinces with high PCI (above the average) gain higher GDP per capita at every level of structural conditions. The difference becomes bigger when structural conditions are improved. What does the difference mean? It implies that for provinces possessing high initial advantages, an increase in their PCI, i.e. an economic governance improvement of provincial governments, would lead to a multiplier improvement of living standard. It also means that during the development process, so that it effectively improves its initial conditions, a province can enjoy high benefits if it can maintain a high level of PCI.

**Figure 6.7: Interaction between the PCI and initial advantages**



Source: (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006, p. 39).

There are undoubtedly grounds on which the work of the PCI team in the 2005 report can be criticised, notably the limitations of some of the measures of initial conditions and the use of equations with insignificant variables. But, in spite of those limitations, the cross-section regression analysis reviewed above does provide evidence that, for the period prior to and up to 2005, both the level of initial conditions and of place marketing performance, as measured by the PCI, had significant and mutually reinforcing effects on economic outcomes at the provincial level.

## **6.5 PCI and the growth of private industrial outcomes per capita (PIO)**

In subsequent reports the PCI team has provided some regression analyses examining the impact of the PCI in the period after 2005, and hence beyond the period for which the PCI weights are estimated. For example, in the Malesky et al. 2009 report (Malesky et al. 2010, p. 95) they report the results of multiple regression analysis of governance and growth in provincial GDP per capita, and find a significant PCI effect. But the regressions reported in that analysis contain many other variables which are not at all significant, and it is difficult to know what meaning can be attached to them. They are not considered further here.

In Table 6.5 the results of a new regression analysis are reported, to study the determinants of the distribution of PIO per capita (that is both domestic private output (DPIO) and output from foreign firms operating in Vietnam (FIO), but excluding output of state-owned enterprises) in 2008 across 42 Vietnamese provinces. Three variables are used, based on the data assembled by Malesky et al.: initial conditions, as described above and shown in Figure 6.4 (IA); the level of the PCI in each province in 2005; and the change in the PCI for the province over 2005-2008. Three dummy variables are also used, to take account of the special conditions that prevail in some provinces (namely Ba Ria-Vung Tau (BRVT), Binh Duong and Dong Nai). For example, BRVT is the location of most of Vietnam's oil reserves and hence particular factors influence foreign investment in BRVT for oil recovery. An examination is also undertaken for autocorrelation in the residuals, and where this is present an autoregressive lag variable is used as a correction.

**Table 6.5: Regression analysis of the determinants of the distribution of PIO per capita across 42 Vietnamese provinces**

Eq.	Constant	IA	PCI <sub>2005</sub>	$\Delta$ PCI <sub>2005-08</sub>	D <sub>BRVT</sub>	D <sub>Binh Duong</sub>	D <sub>Dong Nai</sub>	II Output (-1)	R bar <sup>2</sup>
1	-35.9 (4.0)***	0.83 (2.8)***	0.46 (3.4)***	0.29 (1.8)*				0.40 (3.3)***	0.65
2	-42.6 (5.3)***	0.97 (4.0)***	0.58 (4.4)***	0.26 (1.7)*	20.5 (3.5)***				0.64
3	-32.2 (3.9)***	1.03 (4.6)***	0.37 (2.7)***	0.24 (1.6)		25.3 (4.3)***			0.67
4	-34.7 (3.8)***	0.77 (2.5)***	0.45 (3.3)***	0.28 (1.8)*			6.1 (0.8)	0.49 (3.0)***	0.66
5	-25.9 (4.1)***	0.79 (4.6)***	0.32 (3.2)***	0.17 (1.5)	23.1 (5.6)***	27.8 (6.3)***			0.83
6	-40.0 (5.1)***	0.88 (3.7)***	0.55 (4.3)***	0.27 (1.8)*	21.4 (3.8)***		11.3 (2.0)**		0.65
7	-28.5 (3.6)***	0.94 (4.4)***	0.33 (2.6)***	0.23 (1.7)*		27.0 (4.8)***	12.7 (2.5)**		0.72
8	-21.2 (4.1)***	0.67 (4.7)***	0.26 (3.2)***	0.17 (1.9)*	24.3 (7.3)***	29.8 (8.3)***	14.7 (4.5)***		0.89

Notes: Dependent variable: PIO per capita, 2008. \*, \*\* and \*\*\*: coefficient significant at the 10%, 5% and 1% levels respectively. Student's *t* statistic in brackets.

Source: Author estimates.

Equation (1) in Table 6.5 above, suggests that each of the three variables play a significant role in explaining PIO per capita across Vietnamese provinces in 2008, with the use of any dummies but with an autoregressive term to correct for autocorrelation. That is, each of the initial conditions, the level of the PCI in 2005 and the change in the PCI over 2005-08, contribute to explaining the pattern of PIO, with about two thirds of the variance (65%)

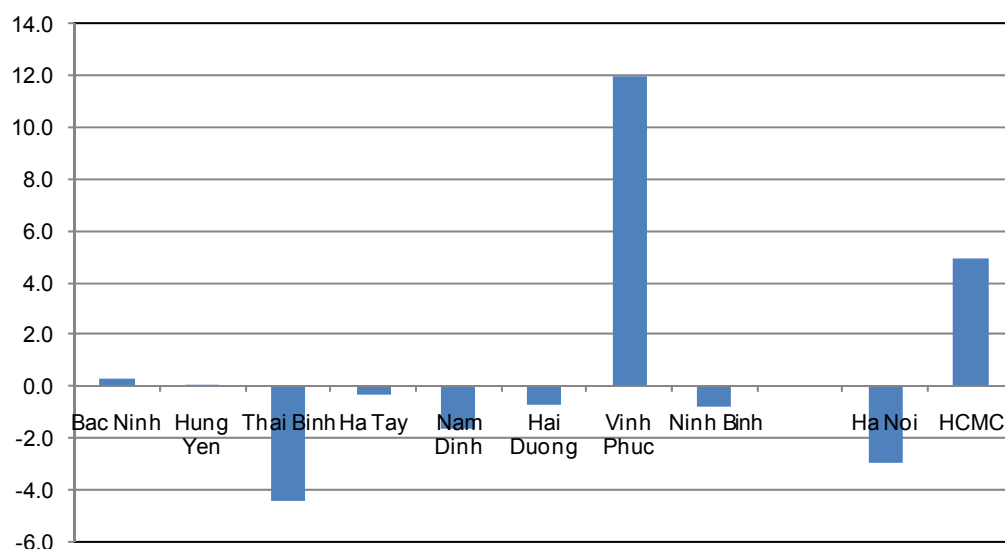
explained. This basic result persists through the various experiments with provincial dummies shown in Table 6.6. Equation (8) shows that, even after using dummies to correct for the experience of the three provinces, a strong relationship between PIO and the three variables persists in the remaining 39 provinces. On statistical grounds this is the preferred equation, with an  $R^2$  value of 0.89.

This equation implies that, after taking account of the special conditions in the three provinces, provincial variations in investment per capita in 2008 are well explained by initial conditions, the level of the PCI score in 2005 and the change in PCI between 2005 and 2008. This equation also implies that, again as one would expect, there is a delay in the response of the increase in PCI score in terms of increased output – the coefficient on the  $\Delta PCI_{2005-08}$  term is significantly less than that on  $PCI_{2005}$  (0.17 as opposed to 0.26), implying that it takes time for the full effect of a one point increase in PCI on investment to build up.

Given that equation (8) is the preferred equation, it can be used to estimate what the level of PIO for each province would be in 2008 given its IA and PCI characteristics if the estimated average relationship held for the province. For the eight provinces of the Red River Delta and for Hanoi and Ho Chi Minh City the results are presented in Figure 6.8, which shows the difference between the actual level of investment per capita in 2008 and the predicted level. A positive figure thus suggests that the province is above what the average relationship would predict, while a negative figure suggests that it is below.

This calculation suggests that, of the eight Red River Delta provinces, Vinh Phuc is well above predicted levels but several others, notably Thai Binh and Nam Dinh, are well below the expected level. Ho Chi Minh City is also well above the expected level, and Hanoi well below it. It is necessary to make a note that all Ha Tay and some districts of Vinh Phuc, Hoa Binh provinces merged into Ha Noi in 2008. This would reduce Ha Noi PIO 2008 per capita. However, if we used Ha Noi PIO 2007, the basic status of Ha Noi would not change but be less below. These differences drive the case study analyses undertaken in chapters 7 and 8.

**Figure 6.8: Difference between actual and predicted PIO per capita, ten selected provinces, 2008**



Source: Author estimates with data from (Vietnamese General Statistics Office 2009a, 2010a, 2010b).

## 6.6 Conclusion

The objective of this chapter has been to review the evidence that can be assembled, through empirical analysis of the available provincial level data rather than by detailed case studies of individual provinces, on the impact of the Provincial Competitiveness Index (PCI) on economic outcomes at the provincial level. It has been shown that, in spite of some limitations in the data on initial advantages and some qualifications to the regression results reported, there is nevertheless good evidence of the impact of provincial governance, as measured by the PCI, on the economic outcomes of individual provinces. But the limitations are significant, and the level of aggregation is high, so it is to be expected that more detailed analysis on a case-by-case basis might generate further understanding of the role of provincial governance, and hence of this form of place marketing.

## **Chapter 7**

### **Impact of the PCI in Red River Delta Provinces**

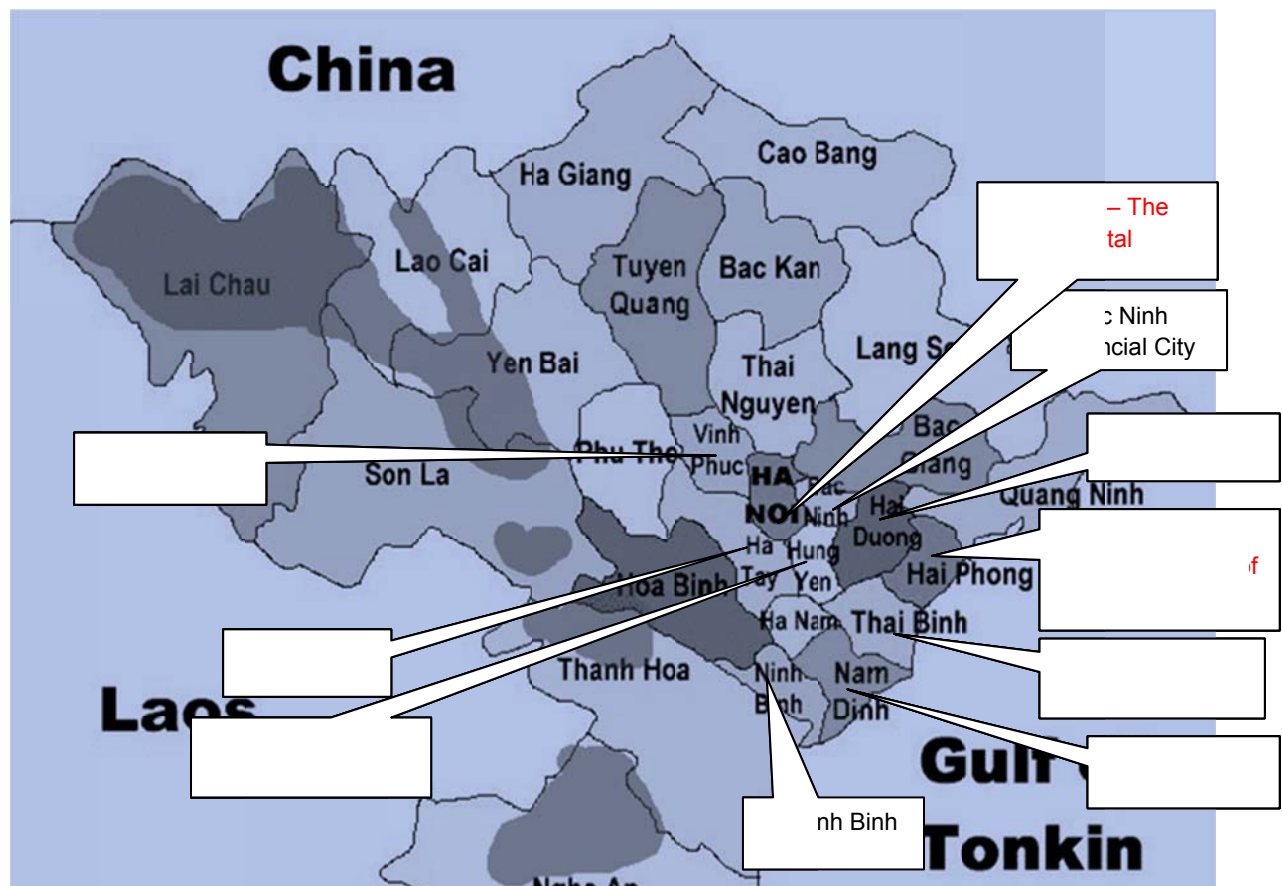
It was shown in Chapter 6 that there is evidence that both the PCI, and changes in it over time, impact strongly on the pattern of economic outcomes across the provinces and major cities of Vietnam, after correcting for initial conditions. In this thesis this is interpreted as evidence that the basic level of place marketing, in the form of improved governance in dealing with the private sector, had significant economic effects. But there were identified limitations in these analyses, in terms of both econometric issues and the measurement of initial conditions, and it may well be that the relationship between the PCI and outcomes may be more complex than the simple linear one used. For example, it may be non-linear, with a more than proportional impact of a deviation of the PCI score from the national average on economic outcomes. Or there may be interactive effects between initial conditions and the PCI so that, for example, a given PCI level is more effective in conjunction with strong rather than with poor initial conditions.

To take the analysis further, and to throw light on the conditions in which the model of place marketing outlined in Chapter 4 might be implemented, the next three chapters examine place marketing and the PCI in some individual provinces and cities, using more of a case study methodology. In this chapter eight provinces in the Red River Delta are examined and in Chapter 8 the special case of Ha Noi is considered, while Chapter 9 addresses the applicability of the model to Vietnamese provinces, with special reference to the contrasting experiences of Vinh Phuc and Ha Tay.

#### **7.1 Introduction: The Red River Delta provinces**

This chapter will examine how the PCI affects PIO per capita in a group of eight Red River Delta provinces. This group excludes Hai Phong, since this city has special advantages as the main port city for northern Vietnam and hence special factors influence its output. Specifically, the eight provinces for inspection are Hai Duong, Ha Tay, Bac Ninh, Hung Yen, Nam Dinh, Ninh Binh, Thai Binh and Vinh Phuc. The geographical positions of the provinces in the North are shown in Map 7.1.

**Map 7.1: The North of Vietnam, location of the eight provinces in the Red River Delta region**



Source: [http://thai-blancs.info/index.php?option=com\\_content&view=article&id=4&Itemid=4&lang=vi](http://thai-blancs.info/index.php?option=com_content&view=article&id=4&Itemid=4&lang=vi)

For accuracy reasons, the research should take into consideration, as far as is possible, the influential factors which build up a province's initial advantages. For a comparative study, common initial advantages can be excluded because these advantages are not likely to influence differences in outcomes. As they are located in the same geographic area, the Red River Delta provinces share some common features:

- similarity in sharing a long history, with a rich culture and customs;
- similar natural conditions of climate, hydrography and terrain, although a few of differences in terrain will be analysed in specific cases; and
- plentiful labour force with a good educational background:
  - The highest population density, far surpassing that of other regions in the country. The population densities of the Red River Delta are 1086 persons/km<sup>2</sup> in 1995, 933 person/km<sup>2</sup> in 2008, while these numbers are 408 persons/km<sup>2</sup> and 543 persons/km<sup>2</sup> for South East; 432 persons/km<sup>2</sup> and 436 persons/km<sup>2</sup> for Mekong River Delta respectively. Furthermore, population density is fairly equal across



the provinces in the region (except Ninh Binh and Vinh Phuc) (Vietnamese General Statistics Office 2007a, 2009b).

- High rate of labour force participation: 50-55% of the total population of working age are in the labour force (Vietnamese General Statistics Office 2007a).
- The highest percentage of school enrolments graduating from upper secondary education in the country: the percentage of students graduating from high schools in the Red River Delta was 92.76% in the school year 2007-2008 (Vietnamese General Statistics Office 2010d). In addition, the proportion of children going to school in this region is the highest in the country (Vietnamese General Statistics Office 2010c).
- Both the access to and the quality of school education is rather equal among provinces in the region, as a consequence of the central government's education policies and the awareness in the communities of the importance of education.
- There has been a similar basic structure of higher education and training across the region from the 1990s: a vocational school (providing technicians for provincial industry) and a college of pedagogy (providing teachers for provincial schools), except Thai Binh with a university of medicine. The numbers of students enrolled in these institutions are limited to the quotas allotted by the central government.
- The electricity system providing energy to the eight provinces is a common one, with power provided by the Power Company No1 (*News of Electricity Industry (Tin ngành điện)* 2009).

Despite the many similarities between the eight provinces noted above, their performance on the key variables of interest here, especially PIO per capita and the PCI, is very different. This is so even though their initial advantages as assessed by the PCI team are relatively similar, and in all cases above the national average. Relevant data are summarised in Table 7.1 and figures 7.1 and 7.2.

**Table 7.1: PIO per capita, PCI and initial advantages, eight Red River Delta provinces, level and deviation from the national average**

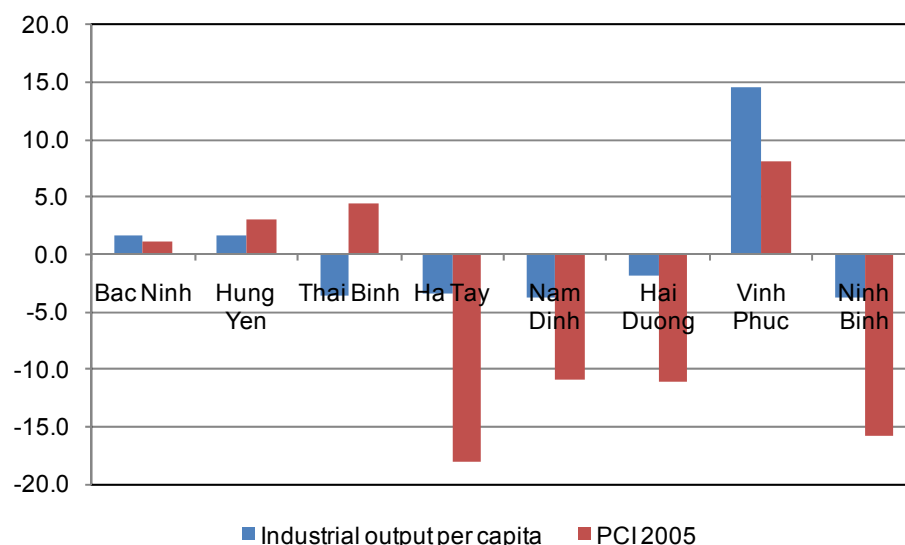
Province	Private industrial output per capita 2008 (VND million)	PCI 2005	Initial conditions (PCI team estimates)	Deviation from the national average		
				PIO per capita 2008 (VND million)	PCI 2005 (index points)	Initial conditions (index points)
Bac Ninh	7.9	58.1	19.82	1.7	1.1	3.5
Hung Yen	7.8	60.0	20.18	1.6	3.1	3.9
Thai Binh	2.6	61.4	19.82	-3.6	4.4	3.5
Ha Tay	2.9 <sup>16</sup>	38.8	19.69	-3.4	-18.1	3.4
Nam Dinh	2.5	46.0	18.90	-3.7	-11.0	2.6
Hai Duong	4.3	45.8	19.11	-1.9	-11.2	2.8
Vinh Phuc	20.7	65.1	18.01	14.5	8.1	1.7
Ninh Binh	2.4	41.2	16.46	-3.9	-15.7	0.1
Unweighted national average	6.2	57.0	16.3			

Source: Author estimates with the data from (Vietnamese General Statistics Office 2009a, 2010a, 2010b; VNCI & VCCI 2006b).

In terms of PIO per capita, the levels across the eight provinces in 2008 range from 2.4 million VND per capita in Ninh Binh and 2.5 million in Nam Dinh to 20.7 in Vinh Phuc, with a vast deviation around the national average of 6.2 million VND per capita. Consistent with the analysis of the previous chapter, there is also sharp variation across provinces in their 2005 PCI scores, and this is true of later years also. Relative to a national average PCI score in 2005 of 57.0, Ha Tay had the lowest score of 38.8 while Vinh Phuc had the highest score of the eight provinces with 65.1. These differences relative to the national average, for both PIO and PCI, are illustrated in Figure 7.1, and in the graph some positive association between the two variables is evident.

<sup>16</sup> In 2008, all Ha Tay merged into Ha Noi. The PIO data for Ha Tay 2008 is estimated on the basis of prior trends by the author. Assume, for DPIO and FIO separately, that the modest upward trend of earlier years continued in 2008, to 2.1 and 0.75 respectively and hence the total, 2.85.

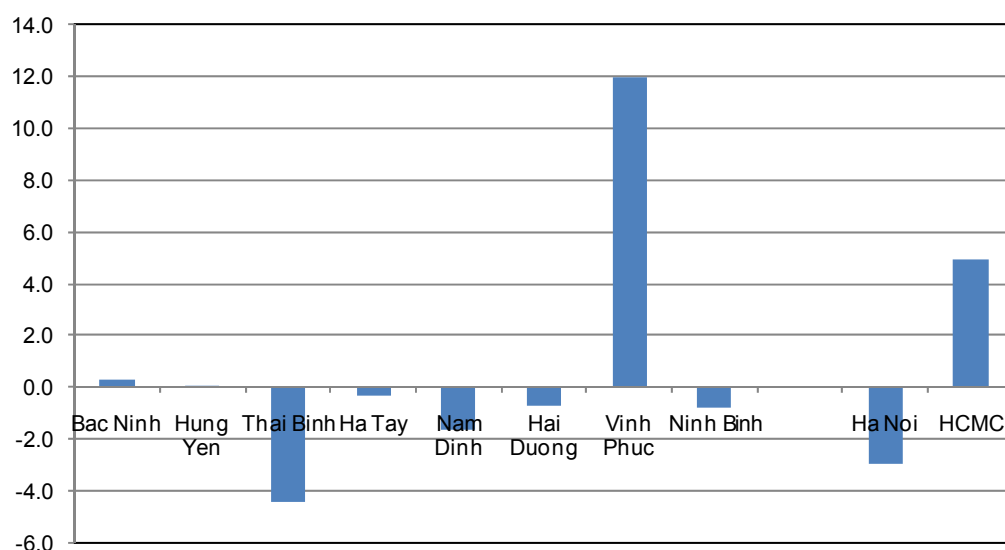
**Figure 7.1: PIO per capita 2008 and PCI 2005, eight Red River Delta provinces: Difference from the national average (million VND and index points respectively)**



Source: Author estimates with the data from (Vietnamese General Statistics Office 2009a, 2010a, 2010b; VNCI & VCCI 2006b).

In the econometric analysis of the relationship between PIO, the PCI and initial conditions as assessed by the PCI team in the previous chapter, the preferred equation (equation 8) demonstrated a statistically significant relationship between these variables. Figure 7.2 reports the results of using that preferred equation to predict PIO per capita for the eight provinces given the actual values of the independent variables, and shows the difference between the actual and predicted values of PIO per capita for the eight provinces and also for Ha Noi and Ho Chi Minh City. While for many provinces the actual level is quite close to the predicted one, there still remain some major discrepancies, notably in the case of Vinh Phuc and Thai Binh. It is also interesting to note, especially in relation to Chapter 8, that PIO per capita in HCMC is well above that predicted by the preferred relationship, while that in Ha Noi is well below it.

**Figure 7.2: Difference between actual and predicted PIO per capita, eight Red River Delta provinces, Ha Noi and Ho Chi Minh City, 2008**



Note: Figure here is same as Figure 6.8, repeated here for ease of reference.

Source: Author estimates with data from (Vietnamese General Statistics Office 2009a, 2010a, 2010b).

To understand more fully the relationship between place marketing activities and economic outcomes in these provinces, this chapter first reviews the limitations of the PCI team's measure of initial conditions and then examines critical elements, related to transport and position, that are not adequately covered by this measure. In the light of this information the position of each of the eight provinces is considered in some detail, with special emphasis on the interaction between place marketing activities, the fuller reality of initial conditions and other factors which influence PIO per capita.

## 7.2 The limitations of existing measures of initial condition

As previously noted, the measures of initial advantages developed by the PCI researchers are valuable for identifying general trends, but may not be exact enough for a province-by-province analysis. Looking at specific provinces can raise questions of exactness. For example, in Figure 6.1 of '*Development Level (Human Capital)*' Thai Binh is ranked first. Thai Binh is an agricultural province in the Red River Delta region (see also *Re-assessment of initial advantages for individual provinces* for Thai Binh's conditions in this chapter). While acknowledging Thai Binh's achievements in terms of primary and secondary

education, it is hard to accept that Thai Binh is better than Ha Noi and much better than HCM City in terms of *Human Capital*.

The PCI research result shown in Figure 6.3 '*Ranking Quality of Infrastructure/Urbanization by province/city*' also has limitations. In terms of urbanization level as an initial advantage, it is not convincing when Ha Noi is lower than Da Nang, Hai Phong (the second development centre and the biggest sea port of the North with a long history) is lower than Binh Duong, Dong Nai and Quang Ninh (the emerging provinces), and even lower than Tay Ninh, a semi-mountainous province with no special advantages. Similar issues can be found in the case of Hai Duong, a rather developed province in the Red River Delta, which is far lower on this measure than Quang Tri, a poor province in the middle of the country.

The indicator of advantage in terms of access to markets (Figure 6.5: '*Ranking proximity to markets by province/city*'), also raises similar questions. For example, Hung Yen and Thai Binh leaving all the metropolitan cities (Ha Noi, HCM City, Hai Phong and Da Nang, Can Tho) far behind is hardly realistic. Recently, Thai Binh is still called 'an isolated island' since it is surrounded by the big rivers and the sea. Although the link between Thai Binh and other provinces has been much improved, it is not really convenient so far (see also *Re-assessment of initial advantages for individual provinces* for Thai Binh's conditions). Hung Yen is just a small province without any special position (see also *Re-assessment of initial advantages* for Hung Yen's conditions). Another example is Soc Trang, being able to access markets better than Hai Duong. Soc Trang is located 231 kms from HCM City and its transport facilities are not really convenient, whereas Hai Duong is located on the strategic national transport network, linking Ha Noi to Hai Phong port, with easy access to Ha Noi, only about an hour and a half by both road and railway.

These inaccuracies can be explained by the reasons presented in the following section.

### **7.2.1 Limitations of the PCI research method**

- i) The PCI researchers used quantitative methods in their research. Quantitative methods tend to skip over the specific characteristics of cases, e.g. special advantages of Ha Noi and HCM City. This results in Thai Binh being ranked higher than Ha Noi in terms of *Development Level* (Human Capital) (Figure 6.1).

- ii) In the PCI research, some key factors such as the national road system were not taken into account. The national roads are critical as they connect a province to the rest of the country and to overseas. They are especially important for provinces with a limited provincial market. Moreover, the investment in the national system has come from the national budget. Thus it is really an important initial advantage. Overlooking such key factors might lead to unconvincing results, e.g. Vinh Phuc is ranked above Ha Tay under *Quality of Infrastructure/Urbanization* (Figure 6.3) (see the material below and in Chapter 9).
- iii) The PCI research took the two factors of *Average percentage of population living in urban areas (1995-2002)* and *Agricultural output/GDP 2002* into consideration to build the *Quality of Infrastructure/Urbanization* indicator. Both are likely to measure the same factor, implying double-counting which impacts most on typically agricultural provinces like Thai Binh, a province with only 5.8% of its population in urban regions. This is a reason why Thai Binh is ranked last in *Quality of Infrastructure/Urbanization* (Figure 6.3).
- iv) The level and quality of school education is supposed to be an important factor for private sector development. This assumption is widely acknowledged and, in general, is applicable to Vietnam. However, it is necessary to add that in practice Vietnamese education programs have been deficient in providing students with practical skills and knowledge, i.e. its application is not high. Moreover, labour can move easily from one province to another. Hence, the advantages of a high quality of education in terms of employment are not likely to be high as supposed. On the other hand, since some vital factors, for example national roads in provinces, are not taken into consideration, the weight of education in the PCI research's *Level of Development* is very high (Table 6.1). Also the *Level of Development* plays the main role in explaining initial conditions, accounting for 35.7% of the total cumulative variance explained out of the total of 67.1% explained by the three factors, with the other two factors (*Quality of Infrastructure /Urbanization* and *Distance from Large Markets*) making up less than half of the explained variance (see Table 6.1). Consequently, a province with a high percentage of primary and secondary graduates is seen to possess great initial advantages. Taken together with the weakness of Vietnamese education in

terms of application implies that there may be considerable bias in some cases in the estimate of initial advantages.

- v) The PCI research used ‘average retail sales as percentage of GDP’ to measure the size of the intra-provincial market. With gaps of GDP between provinces, the percentage of GDP does not express the exact size of intra-provincial markets. This size depends more on absolute GDP. In some poor provinces, the retail sales percentage of GDP might be high (since people have to use almost all their incomes for their basic needs), but that does not mean the size of intra-provincial market in these provinces is large.

### **7.2.2 Problems in collecting data and accurateness of data**

It is commonly acknowledged that the Vietnamese statistical data system is inadequate for the purpose of research and making policy. Researchers have often experienced problems with collecting necessary data. In addition, even statistical data collected by the Government’s professional agencies has not fully achieved the necessary exactness. Mr. Bui Ba Cuong, the Head of Department of Accounting Systems of the Vietnamese General Statistical Office, admitted that the statistical methodology is not yet of a high standard and the implementation is not good enough because of a lack of supervision and verification (Tu Giang 2008).

Given these problems and limitations, it is necessary to reassess initial comparative advantages. The national roads and other specific factors will be taken into account in evaluating the impact of the PCI on PIO in provinces, and the data need to be cross-checked from various sources.

Particularly, the section below will assess the following factors:

- *Transportation system*, particularly the national transportation. As a common rule seen in industrialized economies, industrialization often starts at the large metropolitan centre and then spreads out to the immediate surroundings, before spreading further to more outlying districts through the transport system. Vietnam is at the beginning of a period of industrialization and has also started this trend. As a

result, the national road system<sup>17</sup> and, more importantly, its ability to promote business activity in a particular province, is a key focus in assessing transport advantages, while the provincial and district transport systems are not exclusive.

- *Position advantages* (partly evaluated in the PCI research), including natural position advantages, as well as position advantages deriving from national development strategies planned by the central government. Investments from the central government for infrastructure systems and other support are based on this planning. Proximity to the capital Ha Noi is seen as a great advantage. Ha Noi draws together all the political, cultural and socio-economic aspects of the country. As the second biggest market in the country, it is also the hub for marketing, information and technology transfer. Provinces near Ha Noi tend to have the benefit of the infrastructure advantages invested in by the central government and the advantages of forming natural business clusters based on or as a result of the government's planning. Ha Noi and the other two angles of the Growth Triangle (Hai Phong and Quang Ninh) would have an impact directly on the economic structure and growth of the provinces in the Triangle.
- *Land foundation*, that is the availability of low cost land which can be transferred for the use of industries and businesses, is also an important factor.
- *Special features* of individual provinces, if any, may also be relevant.

### 7.3 Transport and initial conditions

Building a transportation line can stimulate investment, even when projects are still on paper with waiting-in-front investments to take 'first-move' advantages. However, usually it takes a couple of years for a transportation development to have influence on a criterion of output value like DPIO, if it is well supported by a good existing transportation system, a good

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<sup>17</sup> Based on the criteria of functionality and capacity of transport, the road system in Vietnam was basically classified into various levels. Highways are for high speed traffic between large and important cities. Roads Level I with four lanes and up are to serve direct traffics between the important economic, political, cultural centers. Roads Level II with two lanes are for direct traffics between the big economic, political, cultural centers or connecting these centers with roads Level I or highways. Roads Level III are for traffics between towns and local economic, political, cultural centers or connecting them to main road networks and highways. They might be national or provincial roads. Roads Level IV and under are local ways, for transport between the districts and communes (source: [http://khcn.mt.gov.vn/tieuchuannganh/uploads/2A7\\_Chuong5.pdf](http://khcn.mt.gov.vn/tieuchuannganh/uploads/2A7_Chuong5.pdf) viewed on 03 February 2009). Normally, national roads are Level III and above. They are managed and maintained by the central government. Provincial and local roads (Level III, IV and under) are managed and maintained by the provincial and local governments.

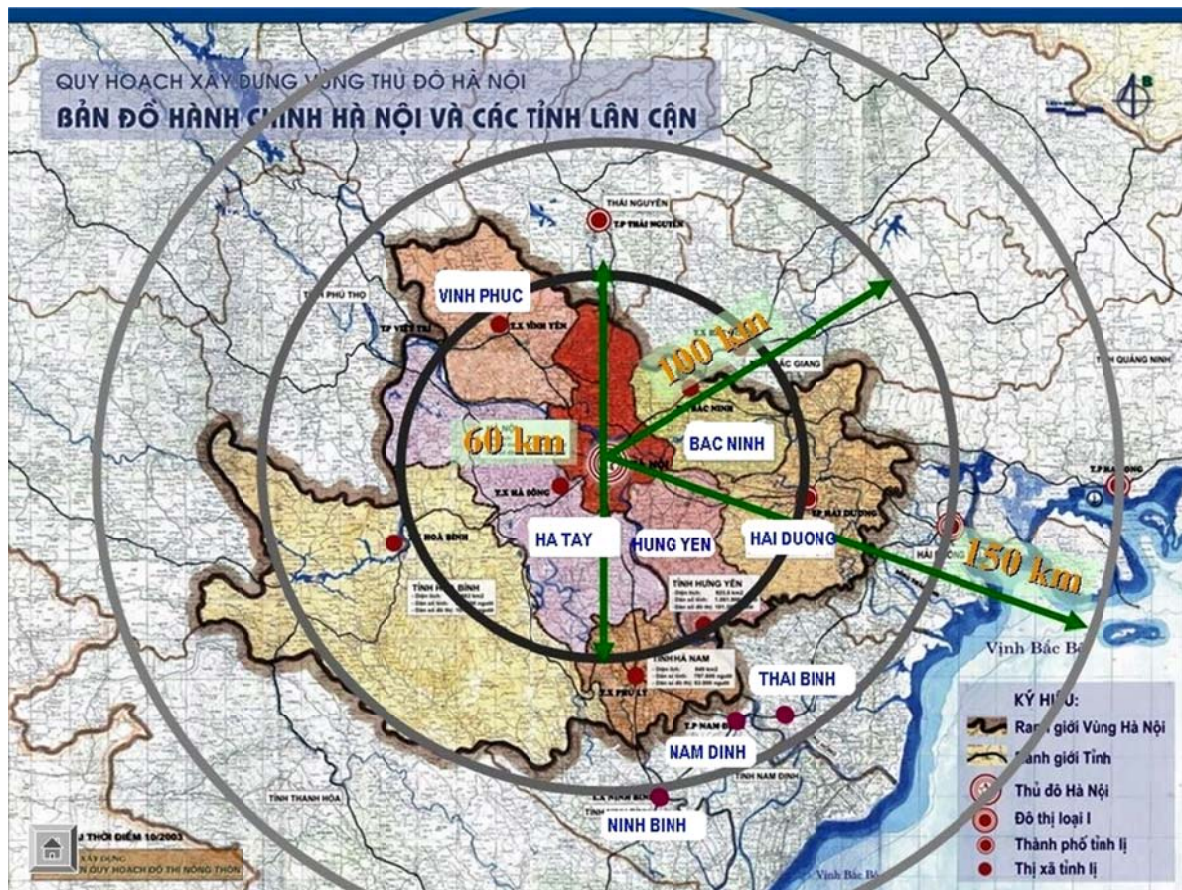


location and/or good policies to encourage investment. It would take more time if it does not have good support. The transportation status from the early 2000s backward, therefore, will be considered as initial advantages.

This research collects various resources to evaluate the factors mentioned above. Until the early 2000s, Vietnam's transport still relied on the old traffic network formed long before. Almost all the roads were in a similar state of degradation due to the lack of maintenance and no upgrading for many years. The railways were in a similar situation. However, a number of roads have recently been upgraded and extended by ODA and the state budget. The status and the network of the NR in the region is reviewed in Appendix 3. Taking Ha Noi as the centre, the location of the eight provinces is illustrated in Map 7.2. Table 7.2 summaries the assessment of individual Red River Delta provinces while the assessment is presented in detail in Appendix 4.

To compare between provinces, the assessment on these individual criteria needs to be estimated in an integrated score. Since the position, transport system and other factors have an echoing or exclusive relation, when scoring each factor and then summing them up, the final score would not reflect exactly the advantages that these factors brought together. A transportation system built in an area possessing a good position and other favourable factors certainly create resonant advantages. Ha Tay province as investigated below is supposed to have these resonant advantages. Conversely, a transportation system built or upgraded in an area where other factors for the development are not available (e.g. located in an underdeveloped area, with a lack of human resources, a long distance from the key markets or so on), the role of such a transportation system in promoting business will be reduced considerably and needs much more time to have an impact. This might be the case of upgrading NR10 and the provinces of Nam Dinh, Thai Binh. Therefore, the score will be based on the estimate of the integrated impact of the factors. Ha Tay, which possesses the most advantages, is given a maximum score of 20 and other provinces are estimated in comparison. The estimation is shown in the last column of Table 7.2.

Map 7.2: Master planning for Ha Noi capital region



Source: <http://thethaovanhoa.vn/132N20091205050844385T0/quy-hoach-ha-noi-do-thi-mo-rong-nhu-the-nao.htm>.

**Table 7.2: Summary and evaluation of the initial advantages of the Red River Delta provinces**

Province	Area	Pop.	GDP/capita 2005	Transport system						Comments	Score
	Km <sup>2</sup>	Persons '000	VND '000	N R Km	P R Km	D R Km	NR/ Km <sup>2</sup>	PR/ Km <sup>2</sup>	RW Km		
Ha Tay	2196.3	2525.2	3630.6	230	347		0.105	0.158	28	<p><b>Position:</b></p> <ul style="list-style-type: none"> <li>- Having a long boundary on Ha Noi's developed site, 17 kms from Ha Noi Central; the whole province within Ha Noi's 40-50 kms</li> <li>- Being the only province which is not obstructed to access to Ha Noi's developed sites by the big rivers</li> <li>- On the strategic region of the national transport system.</li> <li>- The administrative centre located in the development potential area</li> <li>- Planned in the Northern Key Economic region in the late 2004 by the central government<sup>18</sup></li> </ul> <p><b>Transport system:</b></p> <ul style="list-style-type: none"> <li>- Network: highest NR/km<sup>2</sup> (1); new roads with large potentials to promote business</li> <li>- Quality: good</li> </ul> <p><b>Others:</b></p> <ul style="list-style-type: none"> <li>- a great number of traditional trade villages</li> <li>- rich resources for tourism with the ability of putting into exploitation soon</li> </ul>	20
Bac Ninh	822.7	998.3	4793.3	69	250	277	0.084	0.304	20	<p><b>Position:</b></p> <ul style="list-style-type: none"> <li>- Bordering Ha Noi, 31 kms from Ha Noi Central; the whole province within Ha Noi's 60 kms</li> <li>- 20 kms on the traditional trading way to China (NR1) and in the Economic Triangle Ha Noi-Hai Phong-Quang Ninh</li> <li>- The administrative centre (Bac Ninh) located in the development potential area</li> <li>- Planned in the Northern Key Economic region in the late 2004<sup>19</sup></li> </ul>	18

<sup>18</sup> The first plan for the Northern Key Economic Region was in 1998, included the only five provinces/cities: Ha Noi, Hai Phong, Quang Ninh, Hai Duong, Hung Yen. In 2004, along with the overall planning for the whole country and the strategic economic corporation with China, the central government extended the Northern Key Economic Region to an extra three provinces: Ha Tay, Vinh Phuc and Bac Ninh.

Province	Area	Pop.	GDP/capita 2005	Transport system						Comments	Score
	Km <sup>2</sup>	Persons '000	VND '000	N R Km	P R Km	D R Km	NR/ Km <sup>2</sup>	PR/ Km <sup>2</sup>	RW Km		
										<b>Transport system:</b> - Network: high NR/km <sup>2</sup> (3); convenient - Quality: fairly good <b>Others:</b> - Many traditional trade villages - Having a tradition of trading	
Hai Duong	1648.0	1711.5	4920.8	112	258	354	0.065	0.157	74	<b>Position:</b> - Not bordering Ha Noi but Hai Phong, 58 kms from Ha Noi central, 45 kms from Hai Phong - 44 kms on the strategic road NR5 Ha Noi – Hai Phong; situated in the Economic Triangle Ha Noi-Hai Phong-Quang Ninh. - The administrative centre (Hai Duong city) located in the development potential area. - Planned in the Northern Key Economic region from 1997 <sup>20</sup> <b>Transport system:</b> - Network: low NR/km <sup>2</sup> (7) but good network (including railway) to the development centres (Ha Noi, Hai Phong, Quang Ninh) and other provinces - Quality: good - Roads with potentials to promote business <b>Others:</b> - Some industrial establishments left from the previous period	16
Nam Dinh	1641.3	1965.4	3254.0	116			0.071		47	<b>Position:</b> - Not bordering Ha Noi nor Hai Phong, located rather far from the development centres, 90 kms from Ha Noi Central - Not listed in any important central economic planning - The central government had an intention to promote it as a nuclear of the North Little Red River Delta region <b>Transport system:</b> - Network: rather low NR/km <sup>2</sup> (5); fair convenient	14

<sup>19</sup> See footnote 18.

<sup>20</sup> See footnote 18.

Province	Area	Pop.	GDP/capita 2005	Transport system						Comments	Score
	Km <sup>2</sup>	Persons '000	VND '000	N R Km	P R Km	D R Km	NR/ Km <sup>2</sup>	PR/ Km <sup>2</sup>	RW Km		
										<ul style="list-style-type: none"> <li>- Quality: low</li> </ul> <b>Others:</b> <ul style="list-style-type: none"> <li>- Used to be the second biggest industrial centre in the Northern for long</li> <li>- Many industrial establishments and rich workforce left from the previous period</li> </ul>	
Hung Yen	923.1	1125.5	4719.8	85	193	351	0.092	0.209	20	<b>Position:</b> <ul style="list-style-type: none"> <li>- Bordering Ha Noi, 68 kms from Ha Noi Central; almost the whole province within Ha Noi's 60 kms</li> <li>- 22.6 kms on the strategic way NR5 Ha Noi-Hai Phong</li> <li>- The administrative centre (Hung Yen town) located - far from the development potential area.</li> <li>- Planned in the Northern Key Economic region from 1997<sup>21</sup></li> </ul> <b>Transport system:</b> <ul style="list-style-type: none"> <li>- Network: high NR/km<sup>2</sup> (2); fair convenient;</li> <li>- Quality: fairly good</li> <li>- Most of the NRs was low potential to promote industries or business</li> </ul> <b>Others:</b> <ul style="list-style-type: none"> <li>- The ability to attract high quality human resources is not high.</li> <li>- No special conditions of natural and social resources</li> </ul>	14
Vinh Phuc	1371.5	1166.4	5351.3	109	251	274	0.079	0.183	41	<b>Position:</b> <ul style="list-style-type: none"> <li>- Not really good</li> <li>- Bordering Ha Noi but on Ha Noi's poor area, 55 kms from Ha Noi, ½ the province within Ha Noi's 60 kms (see map 2)</li> <li>- Being the start of the mountainous and hilly region, an underdeveloped region.</li> <li>- The administrative centre (Vinh Yen city) is rather far from the development potential area.</li> <li>- Thang long – Noi Bai</li> <li>- Planned in the Northern Key Economic region from the late 2004<sup>22</sup></li> </ul>	13

<sup>21</sup> See footnote 18.

Province	Area	Pop.	GDP/capita 2005	Transport system						Comments	Score
	Km <sup>2</sup>	Persons '000	VND '000	N R Km	P R Km	D R Km	NR/ Km <sup>2</sup>	PR/ Km <sup>2</sup>	RW Km		
										<b>Transport system:</b> - Network: rather low NR/km <sup>2</sup> (4); not really convenient - Quality: low - Most of the NRs are still low potential to promote industries or business. <b>Others:</b> - 63.5% is the mountainous and hilly area. - having tourism potentials for the future - Toyota settled a big factory in 1995 mainly by the central government arrangement	
Ninh Binh	1384.2	915.7	3516.4	92	155		0.066	0.112	20	<b>Position:</b> - Not bordering Ha Noi nor Hai Phong, 93 kms from Ha Noi - On the NR1 (trans-Vietnam) - The administrative centre located on the national roads (NR1 and NR10) - Not listed in any important central economic planning <b>Transport system:</b> - Network: low NR/km <sup>2</sup> (6); rather poor and inconvenient - Quality: low - Most of the NRs was low potential to promote industries or business <b>Others:</b> - The mountainous and hilly area accounts for 70% of the natural area with a complicated topography. - Rich tourism resources for the future.	11
Thai Binh	1546.0	1850.9	3487.7	89			0.058		None	<b>Position:</b> - Not bordering Ha Noi but Hai Phong on Hai Phong's underdeveloped area. - Located far from the development centres: 110 kms from Ha Noi central and 70 kms from Hai Phong - Used to be isolated from the development centres and other provinces by rivers with ferries for long (some fairies replaced by bridges around 2002) - Not listed in any important central economic planning	10

<sup>22</sup> See footnote 18.

Province	Area	Pop.	GDP/capita 2005	Transport system						Comments	Score
	Km <sup>2</sup>	Persons '000	VND '000	N R Km	P R Km	D R Km	NR/ Km <sup>2</sup>	PR/ Km <sup>2</sup>	RW Km		
										<b>Transport system:</b> - Network: lowest NR/km <sup>2</sup> ; no railway; trouble network to other provinces - Quality: low - Low potential to promote industries or business <b>Others:</b> - The ability to attract high quality human resources is not high - Potential for development of agricultural-aquatic processing industries. - Natural gas mines	

Notes: S = area; Pop = population; NR = national road; PR = provincial road; DR = district road; RW = railway.

Source: Author.

## 7.4 Analysing the relation between PCI, initial advantages and DPIO, DPIO+FIO

In the light of this analysis of the position of the eight provinces in respect of their standing in the national transport system and in terms of other locational conditions, we consider what further can be said on the likely impact of the PCI and initial advantages on industrial outcomes on a province-by-province basis. The starting point is our preferred estimation of the relationship between the PCI level in 2005, changes in the PCI over 2005-08 and initial advantages as measured by the PCI team to private output per capita in 2008 (equation 8 in Table 6.4 in Chapter 6). For convenience the basic data are summarised again in Table 7.3, which also includes both the predicted level of PIO per capita in each of the provinces in 2008 and the differences between actual and predicted levels. Table 7.3 also provides the ranking of the provinces in terms of transport and other conditions generated above, while Figure 7.3 illustrates the difference between actual and projected output levels in 2008. The situation in the individual provinces is now discussed in turn.

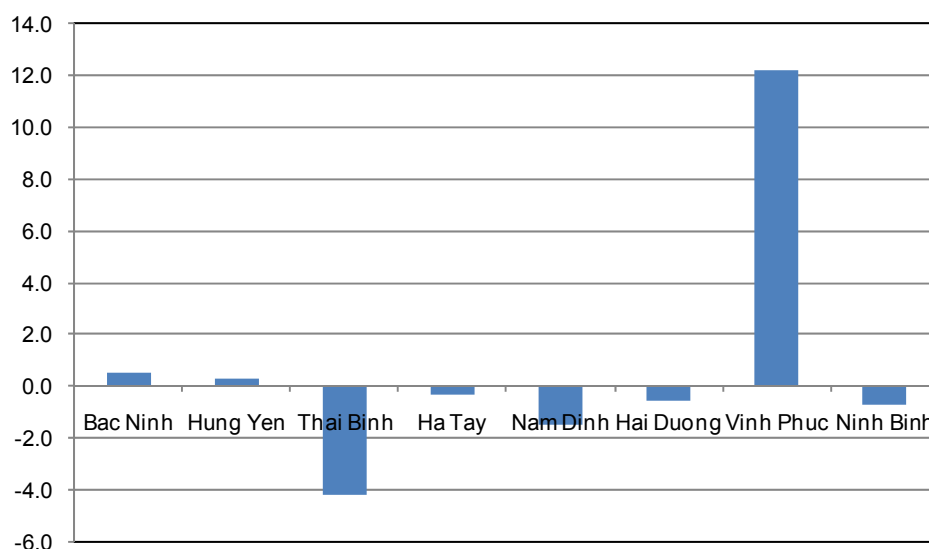
**Table 7.3: Ranking of provinces in terms of transport and other conditions**

Province	National transport and other conditions, author ranking	Initial advantages, PCI team assessment	PCI 2005	Change in PCI 2005-08	PIO per capita 2008	Estimated relationships (equation 8)	
						PIO per capita 2008	Actual less predicted output per capita
Bac Ninh	18	19.82	58.06 (23 <sup>rd</sup> )	1.51	7.92	7.43	0.49
Hung Yen	14	20.18	60.03 (15 <sup>th</sup> )	-2.50	7.78	7.51	0.27
Thai Binh	10	19.82	61.39 (8 <sup>th</sup> )	-7.12	2.62	6.83	-4.21
Ha Tay	20	19.69	38.81 (42 <sup>nd</sup> )	6.28	2.85	3.15	-0.30
Nam Dinh	14	18.9	45.97 (38 <sup>th</sup> )	3.55	2.52	4.02	-1.50
Hai Duong	16	19.11	45.79 (39 <sup>th</sup> )	8.28	4.33	4.92	-0.59
Vinh Phuc	13	18.01	65.09 (5 <sup>th</sup> )	4.28	20.68	8.52	12.16
Ninh Binh	11	16.46	41.21 (41 <sup>st</sup> )	14.93	2.37	3.08	-0.72

Source: Authors estimates; (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006; VNCI & VCCI 2006b).



**Figure 7.3: Difference between actual and predicted PIO per capita, eight Red River Delta provinces, 2008**



Source: Author estimates with data from (Vietnamese General Statistics Office 2009a, 2010a, 2010b; VNCI & VCCI 2006b).

#### **7.4.1 Bac Ninh and Hung Yen**

Bac Ninh and Hung Yen have high levels of PIO per capita, being well above the national average and the highest in the sample of eight being considered here other than Vinh Phuc. Both have good initial advantages as assessed by the PCI team and good PCI scores in 2005. Their PIO levels in 2008 are well explained by the preferred relationship, with the actual being somewhat above predicted in both cases, more especially for Bac Ninh. As discussed above, Bac Ninh's transport and other location advantages are very strong, and these are not fully reflected in the PCI team estimates. Such stronger conditions than included in the equation (8) data could explain higher than predicted levels of PIO.

#### **7.4.2 Thai Binh**

Thai Binh is the province for which the predicted level of the PIO variable according to equation (8) exceeds the actual level by the greatest amount. According to the preferred relationship, PIO in 2008 should be 6.8 million VND but it was only 2.6 million VND. The high predicted level of PIO reflects its high PCI score in 2005 (8<sup>th</sup> in the country) and the high level of initial advantages assessed by the PCI team, and is in spite of the fact that its PCI score has fallen significantly over 2005-08. But, as has been argued above, the PCI estimates seriously overestimate the initial advantages of Thai Binh, both because of poor

transport and location conditions and because Thai Binh's very high ranking in terms of *Development Level (Human Capital)* overstates the importance of Thai Binh's high schooling level in terms of economic development. The over-prediction by equation (8) of PIO in Thai Binh can be explained by these over-estimations of Thai Binh's initial advantages – in terms of the coefficients of the equation, a reduction of 32% in terms of Thai Binh's initial advantage score would be sufficient to eliminate the over-prediction.

#### **7.4.3 Ha Tay**

Ha Tay provides a case of great interest. It has strong initial conditions, even on the PCI team's estimates, but had low PIO per capita in 2008 (only 2.85 VND million per capita, less than half the unweighted national average) and the lowest PCI in 2005 in all of the 42 provinces assessed in that year, although it increased significantly over 2005-08. As pointed out above, Ha Tay has very strong initial advantages, the strongest among the eight provinces being studied here, and probably stronger than assessed by the PCI team.

While equation (8) again performs relatively well in the case of Ha Tay, the actual level of PIO is still about 10% below the predicted level, and the extent of over-prediction would be increased if a more realistic assessment of Ha Tay's initial advantages was included. It is clear that the dominant factor in Ha Tay's poor performance is the very low level of the PCI, and indeed the Ha Tay case (as also that of Nam Dinh and Vinh Phuc below) suggests that the relationship between the PCI and PIO may be non-linear around the mean – that is that large variations above or below the mean generate more than proportional variations in PIO.

#### **7.4.4 Nam Dinh**

A similar point applies to Nam Dinh, which has initial advantages, by both measures, in the middle range, a low PCI in 2008 (45.97, 38<sup>th</sup> out of 42 provinces) and only a modest improvement over 2005-08, and a low PIO in 2008 (2.52 VND per capita, only about 40% of the national average). Equation (8) again over-predicts PIO in 2008, in the case of Nam Dinh by nearly 60%. This again suggests non-linearity in the PCI coefficient, with a very low level of place marketing having a more than proportional effect on PIO, perhaps in the context of only average initial conditions.

#### **7.4.5 Hai Duong**

Hai Duong has reasonably strong initial advantages as assessed by the PCI team, and these do not include the high quality transport links that it possesses, with good links to Ha Noi and to the international port at Hai Phong, discussed above. Its PCI score in 2005 was relatively low (45.79, 39<sup>th</sup> out of 42) but it has increased strongly (8.28 points) over 2005-08. Taking account of these factors equation (8) over-predicts PIO output in Hai Duong in 2008 (4.33 VND million per capita) by about 14%. This deviation is interpreted as being largely due to the high quality transport links not included in the PCI measure, especially in the light of more than half of Hai Duong's PIO in 2008 being produced by foreign enterprises.

#### **7.4.6 Vinh Phuc**

Two things stand out in the case of Vinh Phuc: its high PCI scores and its very high level of PIO per capita. The province's PCI score in 2005 was 65.09, fifth among the 42 provinces, and the score increase to 69.47 by 2008, placing Vinh Phuc third among all Vietnamese provinces in that year. By 2008 Vinh Phuc's PIO level was 20.7 VND million per capita, placing it fourth among all Vietnamese provinces. Vinh Phuc's initial advantages are modest at best, as it is the second lowest of the eight Red River Delta provinces on the PCI team's assessment and it is also in the lower group of the eight in terms of national transport infrastructure and other locational issues discussed above (Table 7.3)

Equation (8) predicts a high level of PIO in Vinh Phuc in 2008, 8.5 VND million per capita, but this is well below the actual figure of 20.7. Several points seem relevant here. It is likely that the simple equation underestimates the impact of sustained high quality governance and place market, in part because the effects of success are likely to be cumulative. If firms invest in a province and have a successful and profitable experience, this will not only induce them to invest further but also provide a demonstration effect to other firms. It is also notable that in 2008 nearly 90% of Vinh Phuc's PIO was produced by foreign firms, and it may well be the case that the impact of sustained, high quality place marketing is particularly effective with foreign firms.

The case study of Vinh Phuc in Chapter 9 indicates that the key problems of infrastructure and the establishment of dynamic and cooperative relationships with investors were addressed early by the Vinh Phuc government, and that their programs were developed and

enhanced over the years. The analysis of successful factors in place in Vinh Phuc, and consideration of how compatible these factors are with the model of place marketing developed in Chapter 4, will be undertaken in detail in Chapter 9.

## **7.5 Conclusion**

In examining the experiences of these provinces in the Red River Delta, the relationship developed in Chapter 6 is broadly confirmed. According to this relationship PIO per capita in 2008 is determined by initial conditions, by the opening level of the PCI (in 2005) and by the change in PCI over the period 2005-08. Excluding two provinces where special factors (Vinh Phuc and Thai Binh) appear to be at work, the estimated relationship explains 76.2% of the variation between actual PIO per capita in 2008 and the average of all provinces in that year. In other words, for these six provinces initial conditions and the PCI explain over three quarters of the difference in output per capita in these provinces relative to the all-province average. In terms of the two excluded provinces, Vinh Phuc has a much higher PIO than predicted, while that of Thai Binh is much lower than predicted.

However, a theme of this chapter has been that the measures of initial conditions prepared by the PCI team are inadequate, in that they do not take sufficient account of the key role of transport and related infrastructure conditions in facilitating economic development within provinces. A brief review of these conditions for the eight provinces was undertaken, and assessments were developed by the author for the relative position of the eight provinces in terms of transport and related conditions. These assessments, and the supporting analysis, show that the provinces differ substantially in this regard, from Ha Tay with the strongest transport facilities and Thai Binh with the poorest in terms of accessibility to the major markets and development centres, and do suggest that their exclusion from the PCI team measures is a significant omission.

There are a number of specific conclusions from the consideration of the transport and location assessments in the context of the previous relationship between output, initial conditions and the PCI. First, the lower than predicted level of output per capita for Thai Binh may be explained in good part by its very low level of transport infrastructure. Secondly, the above average (and above predicted) level of output per capita in Bac Ninh has been assisted by a high level of transport infrastructure, and this is the case to a lesser degree also for Hung

Yen. Thirdly, however, the transport scores accentuate the puzzles about Ha Tay and Vinh Phuc. Ha Tay has the best transport facilities of any of the eight provinces reviewed, and is quite high in terms of other initial conditions but has a very low level of PIO per capita, both in actual terms (less than half the national average in 2008) and relative to predicted levels. It did, however, have a very low PCI value in 2005, although this has increased somewhat over time. By contrast, Vinh Phuc has a very high level of PIO per capita, both in actual and predicted terms, but is one of the poorer of the eight provinces in terms of both transport and other initial conditions. However it has a consistently high PCI score, being one of the leaders in the country.

These findings both reinforce the need to consider transport infrastructure and location seriously as part of initial conditions and the role of place marketing/PCI in influencing PIO. They also suggest that there might be lags and/or non-linearities in the output/initial conditions/PCI relationship not captured in the analyses reported in Chapter 6. That is, provinces with low initial conditions and PCI values may find it difficult to grow rapidly even with good policy, while the impact of either very good PCI scores (Vinh Phuc) or of very low scores (Ha Tay) may be larger and more enduring than suggested by the simple linear relationships discussed in Chapter 6. It is clear that a fuller understanding of the cases of Vinh Phuc and Ha Tay may throw further light on the role of place marketing implementation models in Vietnam, and this issue is taken up in Chapter 9.

## Chapter 8

### Impact of PCI and Factors Conditioning PCI: A Study of Ha Noi

#### 8.1 Introduction

As the most important economic and political centre of the country, Ha Noi possesses favourable initial conditions for economic development. As shown in the figure of initial advantages (Figure 6.4), Ha Noi is ranked at the top. In addition to the favourable conditions covered in that figure, Hanoi has other special advantages. It has been the capital city for a long period and has received a large amount of subsidies and investment on many spheres from the central government. With these special advantages included, it far surpasses all other provinces and cities except HCM City. Specifically, Ha Noi's special advantages are:

- possessing one of the only two international airports in the country;
- being the location of 67% of the universities and academies of the North, including the best ones (*The List of Vietnamese Universities and Colleges* 2009), and most national research institutes are also situated in Ha Noi;
- possessing the best road system nationally, connected to the whole country;
- having the most advanced information systems, linked internationally and nationally;
- possessing facilities and relationships for holding international and national conferences, trade fairs and exhibitions;
- having widespread relationships, both international and national, individual and organizational; and
- receiving a high priority in social and cultural programs.

As such, in terms of the initial advantages, Ha Noi is the most promising city in which to do effective place marketing. But, in fact, its PCI scores are rather poor, ranking between 27th and 40th among 64 provinces and cities in the country for the three year 2006-2008 (VNCI & VCCI 2006c, 2007, 2008a) . The level of PIO (both domestic and foreign) per capita in Ha Noi is not high (Table 8.4), and much lower than comparable provinces. In 2006, on this measure Ha Noi lagged far behind Binh Duong and Dong Nai, two southern provinces with much fewer advantages. Even Vinh Phuc, a northern midland province, which was poor and had many disadvantages in 1997 (see Chapter 7), was ahead of Ha Noi by a considerable

distance in 2006 in terms of PIO per capita. The comparison of these indexes in 2007 and 2008 reveals that the distance between them has increased.

As we have seen in the previous chapter (Figure 7.2), an analysis using the PCI team's measure of initial advantages and our preferred relationship between the PCI, initial advantages and PIO (equation 8 in Chapter 6) showed that the actual level of PIO in Ha Noi in 2008 was significantly lower than the predicted level. Thus while the relatively low level of the PCI in Ha Noi in 2005 and fall in the PCI between 2005 and 2008 help to explain the level of PIO, they do not fully do so in terms of that particular relationship. If the true level of Ha Noi's initial advantages were included, the gap between actual and predicted would be even greater. This matter requires further examination.

This chapter uses Ha Noi as a case study for two research objectives. The first is to investigate further the impact of the PCI on PIO and on the growth in the number of enterprises of Ha Noi. The second is to examine the factors hindering the achievement of higher PCI scores in the case of Ha Noi, by looking more closely at the critical sub-indices of PCI and tracing the issues back to the relationship between national factors and place marketing at the provincial level. As assumed in the model of place marketing, national factors (part of the external environment) affect the planning and implementation processes of provincial-level place marketing. The model also assumes that the extent of this impact depends on the structure of the state apparatus and of the national institutions (see Chapter 4). With national institutions in which power is centralised in the national authorities, the influence of national factors is assumed to be very strong. The analysis directed at the first objective starts from the general influence of the PCI on economic outcomes, as discussed in chapters 6 and 7, and further explores the relationship in the case of Ha Noi. This in turn provides the rationale for the second objective, to understand the reasons for the low level of the PCI in Ha Noi.

## **8.2 The analysis of PIO**

Among the metropolitan cities of Vietnam, HCM City is closest to Ha Noi in terms of initial conditions. HCM City has similar special advantages to those of Ha Noi. It is the other political and economic centre of the country. For this reason, HCM City is used as the main comparator in studying the impact of PCI on PIO in the case study of Ha Noi.

There is a big difference between DPIO per capita in Ha Noi and HCM City. As seen in Table 8.1, HCM City's DPIO per capita was 2.3 times that of Ha Noi in 2006. Since the introduction in 1989 of the policy of 'Renovation' (Doi moi) up to the issue of the Business Law<sup>23</sup> in 2000, Ha Noi's private sector activity had grown slowly. Consequently, the level of Hanoi's DPIO per capita was 0.66 million VND in 2000, whereas HCM City's was 2.53 million VND, 3.84 times higher. After the Business Law was put in place, activity in Ha Noi increased rapidly. Its DPIO increased to 1.5 million VND/capita 2003 and 2.8 million VND by 2006. This growth was quite common in provinces of Vietnam (Vietnamese General Statistics Office 2007c). It, therefore, is likely to be an effect of the Business Law 2000 rather than of the Ha Noi government's efforts. Meanwhile, HCM City still proved more dynamic. Despite starting with much higher absolute values of DPIO in 2000, the growth rate of DPIO in HCM City was high and the gap between HCM City and Ha Noi remained significant in 2006 and 2007.

**Table 8.1: Ha Noi and HCM City, DPIO per capita<sup>24</sup>**

Province	DPIO per capita (million VND)				
	1995	2000	2003	2006	2007
Ha Noi	0.37	0.66	1.51	2.8	3.22
HCMC	1.47	2.53	4.18	6.2	7.44
Ratio (HCMC to Ha Noi)	3.9	3.8	2.8	2.3	2.3
	FIO per capita (million VND)				
			2005	2006	2007
Ha Noi			4.18	5.37	7.12
HCMC			4.98	5.72	6.60
Ratio (HCMC to Ha Noi)			1.19	1.07	0.93

Source: (Vietnamese General Statistics Office 2009a, 2010a, 2010b).

It is recognized that there was a big difference in the PCI scores of the two cities in 2006 and 2007 (see Table 8.2), and that this continued into 2008. In 2006, the difference was 13.04 points, and HCM City was ranked 7/64 (the seventh among sixty-four provinces), whereas Ha Noi was 40/64. In 2007 the gap fell to 8.10, and HCM City was ranked 10/64 whereas Ha Noi was 27/64 (VNCI & VCCI 2006c, 2007). In 2008 the difference was 6.4 points with the rankings at 12/64 and 27/64 respectively, but the scores of both major cities fell significantly in that year.

<sup>23</sup> Before 2000, Vietnam had the Company Law.

<sup>24</sup> Industrial output value at constant 1994 prices.



In both 2006 and 2007, Ha Noi was below HCM City in 9 out of 10 sub-indices, and the two cities were fairly similar to one another. While PCI scores vary over time, and that of Ha Noi has been declining over time, it is reasonable to take the PCI scores in 2006 and 2007 in these two cities as indicative of how they had been governing the private sector for some years. Therefore, both their PCI and DPIO/capita can be considered as a reflection of long accumulated patterns. According to the PCI research team's evaluation, a one-point increase in the mean non-weighted PCI score generates a 2.8% increase in average private sector investment per capita (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006), and the analysis in Chapter 6 also provides evidence of a strong PCI effect. Consequently, a large divergence in PIO per capita can be explained by the big gap in the PCI results.

**Table 8.2: Ha Noi and HCM City, PCI sub-indices, 2006-2007**

	Province	2006			2007		
		Ha Noi	HCMC	Difference (HCMC-Ha Noi)	Ha Noi	HCMC	Difference (HCMC-Ha Noi)
1	Entry Costs	5.73	7.07	1.34	6.3	6.99	0.69
2	Land Access and Security of Tenure	4.19	5.07	0.88	4.32	5.89	1.57
3	Transparency and Access to Information	5.60	6.97	1.37	6.47	7.15	0.68
4	Time Costs and Regulatory Compliance	5.25	5.12	-0.14	5.38	6.24	0.86
5	Informal Charges	5.21	6.02	0.81	5.36	5.79	0.43
6	SOE Bias (Competition Environment)	4.70	6.35	1.65	5.19	6.01	0.82
7	Pro-activity of Provincial Leadership	4.23	6.18	1.94	5.19	6.00	0.81
8	Private Sector Development Services	6.12	7.63	1.51	7.12	8.73	1.61
9	Labor Training	5.24	7.35	2.11	5.65	6.59	0.94
10	Legal Institutions	3.39	3.81	0.42	3.66	3.54	-0.12
	Weighted PCI 2006	50.34	63.39	13.04	56.73	64.83	8.10

Source: (VNCI & VCCI 2006d, 2006e, 2007).

This can be made more evident by an analysis of the sub-indices of the PCI (Table 8.2). In both years Ha Noi was strikingly below HCM City in key indicators intimately related to the development process, such as entry costs, land access and security of tenure, transparency and access to information, bias towards SOEs, pro-activity of provincial leadership, private sector development services and labour training. With such a relatively low performance on key factors likely to influence private sector decisions, a relatively low level of private activity is to be expected.

However, one can argue that besides the initial advantages and the quality of governance, there is another significant influence on private sector development – ‘entrepreneurial spirit’. It is supposed that the ‘entrepreneurial spirit’ of HCM City, which is derived from a long

cultural background, is better than that of Ha Noi. Ha Noi is in the cultural cradle of the Red River Delta, the Northern old land. HCM City is the centre of the Southern new land which potentially generates entrepreneurial spirit, daring to take risks in business. In addition, Ha Noi is presumed to be a city of state officials with a dense bundle of central and Ha Noi government bodies.

According to the responses of private enterprises as captured in the PCI surveys, informal expenses in Vietnam are common, and Ha Noi almost always takes the worst ranking in indicators of informal charges (VNCCI & VCCI 2006b, 2006c, 2007, 2008a). Table 8.3 shows the five components of the Informal Charge sub-index. On the three components directly relating to the extent of corruption (requirement for bribes, paying over 10% of revenue in extra payments and extraction of extract payments for compliance approval) Ha Noi was above the median in all cases in both years, and on two of the three measures was the worst in the country, or close to the worst, in both years.

With a high and common level of corruption and other potential gains from holding office (see evidence from the survey of the Central Party Division in seven provinces/cities below), being a state official might have been seen as a better occupation than being a businessman. Apart from managing the private sector, government agencies hold authority for approving and managing overseas development assistance (ODA) and state budget projects, and Vietnam has been receiving huge ODA resources. In this area, corruption levels are more serious and there have been major scandals with foreign donors such as PMU18 (Project Management Unit 18)<sup>25</sup> or PCI (Pacific Consultants International).<sup>26</sup> There is reason to believe that many scandals have not been brought to light yet and this is why the Vietnamese government puts the anti-corruption fight in the first rank of priority.

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<sup>25</sup>The PMU18 scandal is about a transport ministry road-building unit whose officials embezzled millions of US\$ of ODA and bet much of it on football matches. The then inquiry showed the scandal was related to many senior governmental officials.

<sup>26</sup> The PCI scandal refers to the case in which Pacific Consultants International (Japan) bribed HCM City's governmental officials in exchange for a consultation contract for an ODA Project of building the West-East road in HCM City.

**Table 8.3: Ha Noi, PCI informal charge sub-index, 2006-2007**

Indicator	Value	Minimum	Median	Maximum
<b>2006</b>				
Percentage of firms that believe that extra payments are an obstacle	22.73	22.73	42.59	65.09
Percentage of firms that felt that enterprises in their line of business were subject to bribes from provincial authorities	80.85	53.57	70.00	84.62
Percentage of firms paying over 10% of their revenue in extra payments	13.83	4.35	12.99	34.38
Percentage of firms indicating that officials use compliance with local regulations to extract payments	76.74	22.86	39.76	76.74
Percentage of firms agreeing that informal charges delivered expected results	44.76	20.83	47.89	65.93
<b>2007</b>				
Percentage of firms that believe that extra payments are an obstacle	14.29	13.95	26.03	43.40
Percentage of firms that felt that enterprises in their line of business were subject to bribes from provincial authorities	81.13	40.00	68.25	82.72
Percentage of firms paying over 10% of their revenue in extra payments	16.67	1.39	11.54	26.19
Percentage of firms indicating that officials use compliance with local regulations to extract payments	79.41	17.44	38.21	79.41
Percentage of firms agreeing that informal charges delivered expected results	59.80	29.03	48.28	59.80
Percentage of firms that believe that extra payments are an obstacle	14.29	13.95	26.03	43.40

Note: The three right hand columns provide the index numbers for the lowest province, the median and the highest province out of the 64 provinces covered, for the particular indication in question.

Source: (VNCI & VCCI 2006e, 2007).

This situation might lead to the following effects:

- generating an environment favouring rent-seeking<sup>27</sup> enterprises (this point will continue to be analysed below) and obstructing fair competition;
- orienting society towards values in which healthy business is not appreciated; and
- attracting a large number of capable and well-trained human resources to fight for a position in the state offices instead of competing in business.

All these prevent ‘entrepreneurial spirit’. Above all the other cities/provinces, Ha Noi is the location of headquarters of all the central government agencies.

<sup>27</sup> Rent seeking:

- Rent seeking occurs when an individual, organization or firm seeks to make money by manipulating the economic and/or legal environment rather than by trade and production of wealth (noted by Hoang Thanh Van).
- Rent-seeking behaviour: The expenditure of resources in order to bring about an uncompensated transfer of goods or services from another person or persons to one’s self as the result of a “favorable” decision on some public policy. The term seems to have been coined (or at least popularized in contemporary political economy) by the economist Gordon Tullock. Examples of rent-seeking behavior would include all of the various ways by which individuals or groups lobby government for taxing, spending and regulatory policies that confer financial benefits or other special advantages upon them at the expense of the taxpayers or of consumers or of other groups or individuals with which the beneficiaries may be in economic competition ([A Glossary of Political Economy Terms, http://www.auburn.edu/~johnspm/gloss/rent-seeking\\_behavior](http://www.auburn.edu/~johnspm/gloss/rent-seeking_behavior)).

Thus Ha Noi's 'entrepreneurial spirit' might be influenced by two factors: tradition and problems in governance. The traditional 'entrepreneurial spirit' is not convincing as an explanation of the significant difference between Ha Noi and HCM City and key provinces in terms of PIO per capita. It is not further able to explain the difference in DPIO/capita between HCM City, Ha Noi, and Binh Duong or Vinh Phuc. Binh Duong is located in HCM City's peripheral area and Vinh Phuc is located in Ha Noi's peripheral area. In terms of entrepreneurial spirit, HCM City and Ha Noi, both with long traditions as an economic centre, must be superior to Binh Duong<sup>28</sup> and Vinh Phuc (for Vinh Phuc's advantages, see chapters 7 and 9), the recently emerging provinces. In terms of initial advantages, Binh Duong and Vinh Phuc are not nearly as high as HCM City and Ha Noi. Paradoxically, Table 8.4 shows that Binh Duong has left HCM City and Vinh Phuc left Ha Noi far behind in PIO per capita. The gap has been growing over 2005-2008. With Vinh Phuc passing HCM City in 2007, both the small provinces have outpaced the two economic and industrial centres of the country. While there is a strong case that successes and failures in governance have contributed to these outcomes, there is little evident role for a traditional 'entrepreneurial spirit'.

Why can small provinces with much fewer initial advantages achieve higher levels of PIO per capita than the major cities? Again the most plausible explanation lies with the nature of provincial governance and place marketing as captured in the PCI. Binh Duong has remained in the first position in the PCI ranking for the three years 2005, 2006 and 2007, and the second position in 2008. Vinh Phuc remained in the top ten of the country ranking and the first position of the Red River Delta region (including Ha Noi, Hai Phong, Quang Ninh). The PCI index for 2006 and 2007 was boosted by the addition of two more sub-indices, namely Labour Training and Legal Institutions. The weights used for compiling the integrated PCI were also adjusted to make the PCI measure the provincial governance performance more exactly. In 2008 the PCI scores of both Binh Duong (71.8) and that of Vinh Phuc (9.4) were well above those of Ha Noi (53.7). It should be noted that the case of BRVT is special, as it is the province that contains most of Vietnam's oil resources.

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<sup>28</sup> Like Vinh Phuc, Binh Duong is located in the transition area between the plateau and the Mekong River Delta. It was the starting place of an underdeveloped region. Binh Duong was a fierce battlefield during the long war and a poor land in the post-war period. It has developed rapidly since the provincial government started investment attracting policies in the 1990s, after the central authorities announced the '*doi moi*' policy in 1989.

**Table 8.4: PIO per capita, top ten provinces, and PCI and initial advantages**

Province	Initial Advantage *	PCI				PIO per capita			
		2005	2006	2007	2008	2005	2006	2007	2008
Binh Duong	20.72	76.82	76.23	77.2	71.76	27.14	31.76	36.4	41.88
BRVT	22.09	59.15	55.95	65.63	60.51	35.34	36.27	34.81	33.71
Dong Nai	20.44	64.14	64.64	62.33	59.62	13.54	16.69	19.66	23.36
Vinh Phuc	18.01	65.09	61.27	66.06	69.37	8.12	10.55	14.66	20.68
<b>HCMC</b>	<b>24.45</b>	<b>59.61</b>	<b>63.39</b>	<b>64.83</b>	<b>60.15</b>	<b>10.39</b>	<b>11.91</b>	<b>14.04</b>	<b>15.88</b>
Hai Phong	22.26	59.4	49.98	53.19	47.68	7.56	8.99	10.36	11.75
<b>Ha Noi</b>	<b>25.36</b>	<b>60.32</b>	<b>50.34</b>	<b>56.73</b>	<b>53.74</b>	<b>6.31</b>	<b>8.18</b>	<b>10.34</b>	<b>7.61**</b>
Hung Yen	20.18	60.03	55.97	57.47	57.53	4.05	5.33	6.66	7.78
Bac Ninh	19.82	58.06	54.79	58.96	59.57	3.78	4.92	6.42	7.92
Can Tho	13.71	61.29	58.3	61.76	56.32	3.47	4.84	6.42	7.95

Notes: \*Initial advantages in the PCI research.

\*\* Ha Tay merged into Ha Noi in 2008, which would have the effect of reducing the value of this measure (see also the notes in the last chapters on this issue).

Provinces are ranked in terms of PIO per capita in 2007.

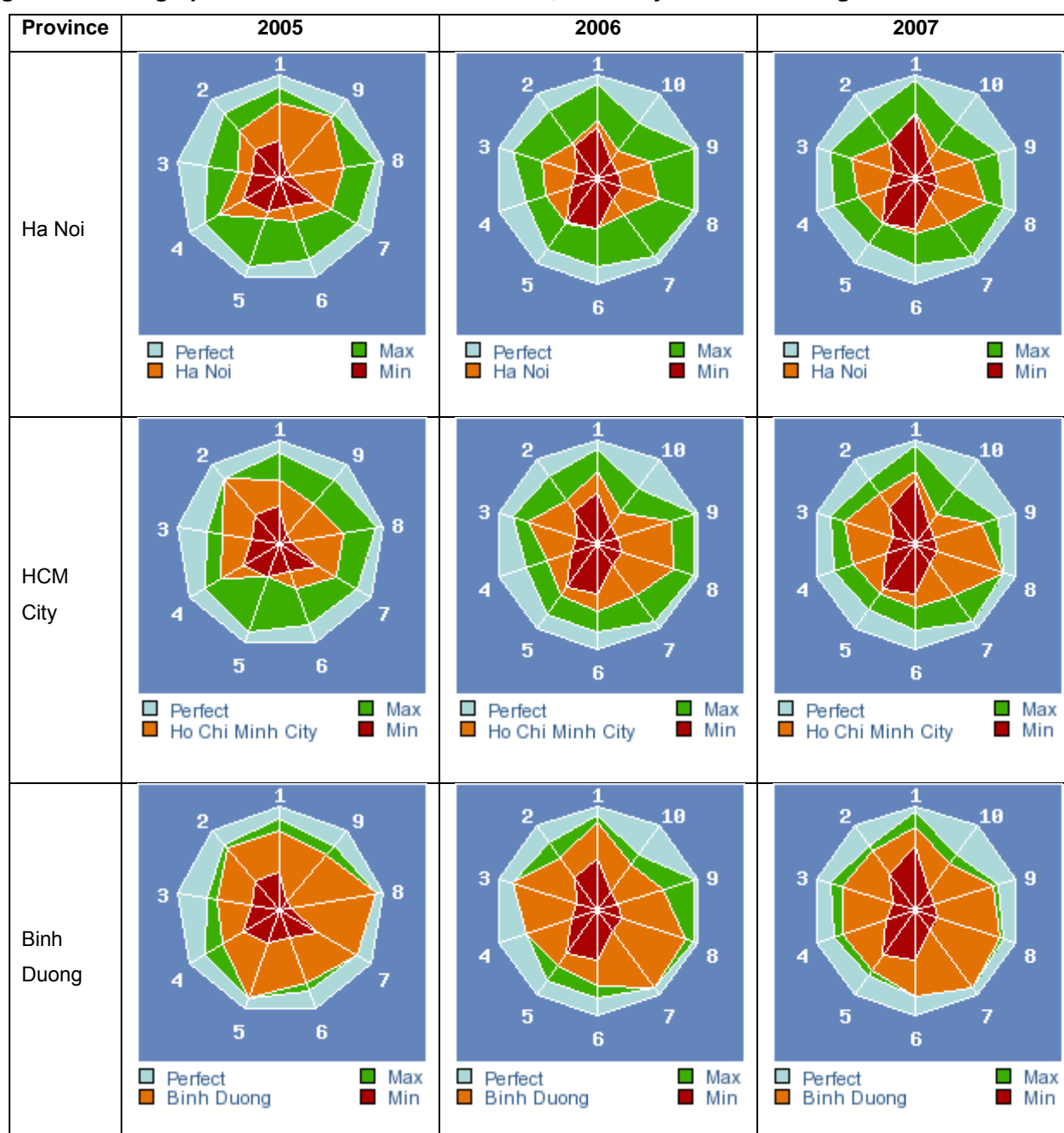
Source: (Vietnamese General Statistics Office 2009a, 2010a, 2010b; VNCI & VCCI 2006b, 2006c, 2007).

Figure 8.1 compares the performance of Binh Duong, Ha Noi and HCM City by star graphs, which illustrate the performance of the provinces in each sub-index over 2005-07. Since Binh Duong's performance has been comprehensive (expressed by rather round and larger star graphs), its number one position was not changed and its scores were stable for the three years. As shown in the graphics for three years, Binh Duong's Informal Charges (Sub-index 5) are the best, or almost the best, whereas the special cities have the worst or almost the worst. In 2008 Binh Duong had the highest, or almost the highest level in the country, on sub-indices 5-9 (*informal charges, SOE bias, pro-activity of provincial leadership, private sector development services and labour training*), and had scores well above Ha Noi on the other five sub-indices. Clearly firms perceive provinces such as Binh Duong as providing a much more supportive development environment than Ha Noi, in spite of the capital's many advantages, are taking decisions accordingly. The comparison of Ha Noi and other provinces in the top ten group will be continued as the role and components of Proactivity of Leadership are examined subsequently.

The comparison between Ha Noi and HCM City relative to Binh Duong and Vinh Phuc gives further indication of the impact of the PCI on the output indicators. This ground can be further enhanced once we have a closer look at the PCI sub-indices, which reflect more directly the perception of businesses of Ha Noi's governance and measure this governance in

different aspects. By analysing the interaction between the sub-indices, the research explains why Ha Noi could attract a greater number of enterprises while its PCI remains low.

**Figure 8.1: Star graphs on PCI sub-indices of Ha Noi, HCM City and Binh Duong**



Notes:

2005: (1) Entry Costs; (2) Access to Land ; (3)Transparency and Access to Information; (4) Time Costs of Regulatory Compliance; (5) Informal Charges; (6) Implementation and Consistency of Policies; (7) State Sector Bias; (8) Proactivity of Provincial Leadership; and (9) Private Sector Development Policies.

2006-2007: (1) Entry Costs; (2) Access to Land ; (3)Transparency and Access to Information; (4) Time Costs of Regulatory Compliance; (5) Informal Charges; (6) State Sector Bias; (7) Proactivity of Provincial Leadership; (8) Private Sector Development Policies; (9) Labour Training; and (10) Legal Institutions).

Source: (VNCI & VCCI 2006d, 2006e, 2007).

### 8.3 Ha Noi's PCI and growth in number of enterprises

We have considered above both the relatively low scores that Ha Noi has achieved in terms of the PCI and the potential impact of that on PIO in the city. However, as the national capital is a complicated institution and Vietnam has questionable governance practices, Ha Noi's manifestations are intricate. One can question whether the PCI is a reliable indicator by quoting the evidence that Ha Noi had the highest rate of growth in the number of active enterprises per capita over 2000-06. By this evidence, it could be argued that Ha Noi was preferred by businesses, and then it must be misleading to say Ha Noi's business environment is not good.

There are two milestones for the growth in the number of active enterprises in Vietnam. The first was the year 2000 when the Business Law was issued, removing a lot of barriers to business creation; the second was the year 2005, when this Law was amended and complemented, taking a further step in facilitating the establishment of private businesses. The Vietnamese General Statistic Office's data shows that Ha Noi had the highest ratio of number of enterprises per capita during 2000-06. In 2000 Ha Noi had 3.2 times the national average in terms of enterprise per capita, while in 2006 it had 4.3 times the national average. It should be noted that, while the output measure discussed above covers PIO, this enterprises measure covers all industry sectors and includes both the public and private sectors. The PCI survey includes only private firms, but in all sectors of the economy.

Table 8.5 makes a comparison of the ratios of active enterprises to population (AE/p) and the annual growth rate of AE/p for the two regions having most potential for development in the whole country, namely the Red River Delta and the Southeast Region. Ha Noi's AE/p level was far above those of all the other provinces in both 2000 and 2006 in the two regions, although the Southeast Region has the most developed provinces. Ha Noi's AE/p level was also a little higher than that of HCM City in 2000 and about 12% higher in 2006. As seen in Table 8.5, although Ha Noi's AE/p was very high, the growth rate of Ha Noi's AE/p was the virtually the highest in the country. For the period 2000-06, the number of enterprises in Ha Noi increased at an average annual rate of 25.7%, exceeded in the sample covered in Table 8.5 only by Ha Nam (28.9%) and well above the high national growth rate of 19.3% per annum. It should be noted that the growth rate was also very high for most provinces but all these provinces had low starting points, except HCM City.

**Table 8.5: Number of enterprises per population, Red River Delta and southeast regions**

Provinces	Active enterprises/Population (thousand)			Annual Growth (%)	
	2000	2005	2006	2000-2006	2005-2006
Whole country	0.54	1.36	1.56	19.3	14.7
Red River Delta	0.52	1.69	1.98	25.0	17.2
Ha Noi	1.71	5.78	6.76	25.7	17.0
Vinh Phuc	0.22	0.7	0.85	25.3	21.4
Bac Ninh	0.38	1.12	1.26	22.1	12.5
Ha Tay	0.27	0.6	0.67	16.4	11.7
Hai Duong	0.3	0.87	1.03	22.8	18.4
Hai Phong	0.64	1.76	2.07	21.6	17.6
Hung Yen	0.21	0.63	0.71	22.5	12.7
Thai Binh	0.19	0.54	0.55	19.4	1.9
Ha Nam	0.17	0.66	0.78	28.9	18.2
Nam Dinh	0.21	0.59	0.69	21.9	16.9
Ninh Binh	0.28	0.87	0.97	23.0	11.5
Southeast	1.12	3.02	3.51	21.0	16.2
Ninh Thuan	0.35	0.69	0.72	12.8	4.3
Binh Thuan	0.97	0.7	0.78	-3.6	11.4
Binh Phuoc	0.36	0.65	0.79	14.0	21.5
Tay Ninh	0.42	0.83	0.99	15.4	19.3
Binh Duong	1.42	3.16	3.73	17.5	18.0
Dong Nai	0.66	1.29	1.6	15.9	24.0
Ba Ria - Vung Tau	0.79	1.3	1.58	12.2	21.5
Ho Chi Minh City	1.65	5.29	6.04	24.1	14.2

Source: (VNCI & VCCI 2006d, 2006e, 2007).

One might argue that AE/p might not be a suitable indicator for Ha Noi's private sector since Ha Noi has a lot of state-owned enterprises. However, the number of state-owned enterprises was being reduced in the period 2000-2006, in line with the programs to reform and consolidate state-owned enterprises in Vietnam. Increases in the number of enterprises in this period, therefore, almost certainly represent increases in private enterprises (domestic and foreign). It might be not convincing enough if there is no explanation as to why, in such an investment environment, Ha Noi had such a high rate of growth in the number of enterprises.

To simplify a position of Ha Noi, the four basic facts concerning Ha Noi for this matter are summarized in Table 8.6.



**Table 8.6: The four basic facts of Ha Noi**

	Criteria	Fact
1	Initial competitive advantages	Very good, first ranking
2	PCI	- Integrated score: medium score - Especially low on <i>Leadership, Transparency and Informal Charges</i>
3	DPIO and FIO	- Low in comparison with its potential - Lower than those of some other provinces with much less initial competitive advantage than Ha Noi
4	AE/p and growth of AE/p in 2000-2006	The highest level and rate of growth

Source: Author, from general sources.

Thus the analysis below will be directed to answer the two questions that arise in this context:

- i) Why should the AE/p increase so rapidly if the business environment in Ha Noi is unfriendly?
- ii) Why would an increase in the AE/p in Ha Noi not bring with it a proportional increase in PIO?

Econometric research<sup>29</sup> by the PCI team (Malesky 2006a, p. 3) on the relation between the two PCI sub-indicators of Transparency and Informal Charges and the number of enterprises per capita suggested that higher informal charges in a low transparency environment result in a larger number of private enterprises per capita, than do lower charges in such an environment. As shown in Table 8.7 (shaded boxes), for provinces with a lower than average level of transparency, the predicted number of enterprises per 10,000 citizens was 7.13 for high informal charge provinces by comparison with 6.15 for provinces with low informal charges, a difference of 16.5%. By contrast, higher informal charges in a high transparency environment cause a much lower number of enterprises (Table 8.7, non-shaded boxes). Thus there are two options for achieving a relatively high number of enterprises per capita: low informal charges and high transparency, or high charges and low transparency. As is to be expected, the combination of high charges and high transparency is likely to be unattractive, if only because charges paid are likely to become public. Given high informal charges, Malesky's work implies that below average transparency generates about 20% more firms per capita than above average transparency.

<sup>29</sup> The research used multivariate regression, controlling for structural conditions.

**Table 8.7: Interaction between transparency and informal charges, impact on predicted number of enterprises per 10,000 citizens**

	Below average score on transparency sub-index	Above average score on transparency sub-index
Higher than average Informal charges	7.13 firms	5.92 firms
Lower than average Informal charges	6.15 firms	7.91 firms

Source: (Malesky, 2005).

As Malesky put it:

The ability of a certain type of entrepreneur to thrive in non-transparent provinces. They are able to do this because they excel at the skills necessary to survive in markets characterized by informal payments – “rent-seeking environments”. These firms are likely to have close connections with local officials and are perfectly aware of how much they should pay in informal charges and to whom. They are able, for example, to exploit their connections to receive insider information about where new infrastructure projects are to be built and are often offered the first bids at local government procurement. Such entrepreneurs are usually not concerned with legal obstacles, because they believe they can bribe their way around them. In non-transparent provinces, these types of business have thrived, which is why the number of private enterprises is highest when scores on informal charges are the worst. (Malesky 2005, p. 65)

It is argued here that this analysis explains the above average rate of growth of firms in Ha Noi since 2000, for Ha Noi has been precisely such an environment with high informal charges and low transparency.

In terms of transparency, the Transparency Sub-Index is constituted by four dimensions and is illustrated in Table 8.8 for Ha Noi in 2006. Three out of four of Ha Noi’s transparency scores were extremely low, putting Ha Noi’s ranking in the bottom tier of all the provinces. These scores support the conclusion that Ha Noi has one of the least transparent governance regimes in the country. But, by contrast, Ha Noi had a very high score in Openness, ranking 6/64. However, this indicator differs from the three other dimensions in that it is not built up by collecting the views of businesses but by gathering hard data on Ha Noi Government’s webpage. Considering the way the Openness indicator is designed, (Malesky 2006b, p. 10) recognises that this method would not really assess the usefulness of the webpages for businesses and had a bias in favour of big cities or provinces. Thus Ha Noi’s openness score was especially high, but its score in terms of access to planning and legal documents

(dimension 1) was the worst in the country. In terms of technology, Ha Noi has the most potential to use high-tech systems, of which the webpage is one aspect to provide information to enterprises. Ha Noi's webpage score reflects this, but for the score in terms of access to information reflected the content of the webpage, if the webpage had been effective, it should have provided this kind of information. Thus the first three dimensions of transparency, rather than the presence of a technically superior web-site, seem to indicate the reality of Ha Noi's very low level of transparency.

**Table 8.8: Ha Noi, dimensions of transparency sub-index, 2006**

	Dimension	Value	Minimum	Median	Maximum	Ranking
1	Transparency (access to planning and legal documents)	1.92	1.92	5.13	8.68	64/64
2	Equity and consistency of application	4.19	2.37	5.71	8.94	55/64
3	Implementation regulations and laws	2.89	1.24	4.77	9.30	62/64
4	Openness	9.50	0.00	5.50	18.00	6/64

Source: (VNCI & VCCI 2006e).

The issue of Ha Noi's poor ranking in terms of the Informal Charges sub-group was discussed above, with data for the overall sub-index provided in Table 8.2 and on the components of the sub-index in Table 8.3. In 2006, for example, Ha Noi's sub-index score was 5.21 (whereas for all provinces the minimum was 5.05, the median was 6.33 and the maximum was 8.35), leaving Ha Noi ranked 60/64. In 2006, HCM City's score was well above that of Ha Noi, with a score of 6.02 and a ranking of 47/64.

As shown in Table 8.3, the percentage of firms believing that enterprises in their line of business were subject to bribes from provincial authorities was at a high level exceeding 80% over the two years 2006-07. Above all, the percentages of firms that believed that extra payments were an obstacle were the lowest level, around 14-22% for all the three years, while the percentages of firms agreeing that informal charge delivered expected results was high, being at the highest level of this indicator (59.8%) of any province in 2007. This means that most of the enterprises thought that extra payments would help them. There might be a trend that the authority machine had been more and more 'lubricated' (bôi trơn) and worked more 'effectively' in the expectation of rent-seeking enterprises. All this evidence and analysis of Ha Noi backs the assumption that certain kinds of enterprises were thriving in a rent-seeking environment. With a low Transparency and Informal Charge, Ha Noi was in the

top left corner of Table 8.7. In such a context, Ha Noi's special advantages would work as leverage to encourage this kind of enterprises. Undoubtedly, with a cluster of businesses in which there were many rent-seeking ones, Ha Noi's business productivity cannot be high.

Evidence from other sources of information also supports this finding. Media reports, as well as reports from authorities of different levels, about 'ghost' firms/projects or speculative projects on some 'right' (e.g. the right of land use) point out that this kind of enterprises gather in big cities. Cases are common in which enterprises are established so that its owners, by some relationship, could win a project: when the project finishes, the enterprise finishes with no further activity, waiting for another similar opportunity. This is a sort so-called 'grabbing away' business culture, which is still rather common in big cities where there are a lot of opportunities for these types of enterprises.

Looking at the investment structure of Ha Noi's private sector also gives an answer to the above questions. Information from the Ha Noi Industry Department shows that most of its domestic private enterprises invested in the spheres quickly generating profits and with low capital requirements, such as commerce or services. There was a small number of enterprises investing in spheres such as manufacturing technology, construction technology and high-tech or clean agriculture (The Centre for Agriculture and Rural Area Development Information 2007) . The data from the Ha Noi Department of Planning and Investment website reveals that foreign enterprises, with more powerful potential than domestic private enterprises, have invested in the area of real estate (building new residential and commercial development areas, rental apartments), commercial services (entertainment, restaurants, hotels and the like) (Ha Noi Department of Investment and Planning 2008). Based on these data, calculations show that these projects account for around USD4 billion, making up 50% of the total foreign investment in Ha Noi, of which 93.8% is real estate projects (accounting for 46.25% of the total investment). That these kinds of projects are able to be implemented on a large scale relies on the high income level of Ha Noi residents and partly on expectations in the real estate market in Vietnam, which has been very abnormal, particularly in the biggest cities. The question arises as to what proportion of Hanoi residents' income has been derived from informal charges. Through various channels, this income is spreading and becoming a driving force for many kinds of derivative industries, and is partly creating Ha Noi's prosperity.

Following the real estate projects were telecommunication projects, of which the two biggest projects, accounting for 89% of the total investment, were ranked No. 2 and No. 4 in Ha Noi's top ten projects with foreign investment. Noticeably, they were business cooperation contracts with the state enterprises in the monopolist area of providing telecommunication services for the whole country. It can be questioned whether Ha Noi could attract this big foreign investment if it wasn't for the monopolist area bringing in super-profits for investors.

This analysis provides a reasonably clear interpretation of the Ha Noi situation. It is likely that, in addition to the revisions to the business law, the rapid growth in the number of enterprises in Ha Noi was derived in good part from its initial and continuing advantages and from the opportunities for rent-seeking provided by a high level of effective informal charges implemented in a non-transparent environment. Thus it is not inconsistent with the relatively poor governance and place marketing activities in Ha Noi, as revealed by its PCI scores, nor with the relatively low level of PIO per capita that can be linked in part to those failures of governance.

## **8.4. PCI and the national institution**

### **8.4.1 Leadership and PCI sub-indices**

From the point of view of place marketing, the most important sub-index of all may well be Pro-activity of Provincial Leadership. The attributes reflected in this sub-index not only have direct influences on private sector development, but could also influence other sub-indices in the short term or the long term. For example, local government's initiatives could quickly reduce the level of Entry Costs or speed up the spread of legal and regulatory information, thereby raising the sub-index of Transparency. Leadership vision and the long-term planning of human resources or the reformation of the operational mechanisms of provincial governments could lead to basic and sustainable changes in the sub-indices of Transparency, Informal Charges and Labour Training. Leadership vision and local initiatives could have effects even on sub-indices which are supposed to be mainly controlled by the central government, such as Land Access and Security of Tenure and Legal Institutions. Given the actual situation that the Vietnamese national legal system is insufficient, complicated and not synchronised, local dynamism and initiatives become vital for facilitating practical business activities. Specifically, the common actuality of Vietnam is:

- When a law is issued and becomes nominally effective, it often takes a long time to be effective in practice because a range of further documents – such as implementation guides from different levels of government, normally ranging from the Prime Minister and the relevant national minister to the provincial level – are required. For less dynamic provinces, it is common behaviour of government officials to wait for such documents to be produced. The time gap between the end of the old law and the implementation of a new law is a difficult period for businesses. This is one of reasons that lead businesses to bribe – *lubricate* (*bôi trơn*) – the authority machine. (*Bôi trơn* is a very common phrase in Vietnam when referring to the relation between businesses and governments.)
- Many of the terms and other specifications in laws, regulations and implementation guides are not clear enough or are inconsistent. For less dynamic provinces, the government officials often wait for the opinion of superiors or for adjustments to be issued. In other cases, this provides grounds for a decision unfavourable to businesses, and provides another source of corruption. For dynamic provinces, with more transparency and a friendly attitude toward businesses, the interpretation has a tendency to favour firms.
- On the other hand, there are some positive laws or regulations issued by the central government, which are neutralized in practice. The two main reasons are:
  - The lack of capacity of provincial legal officials, which occurs more often in small or remote provinces.
  - Corruption through deliberately wrong interpretations for individual gain, which is common in big cities and provinces where relationships are often complicated and, more importantly, where the gains that can be derived from an incorrect interpretation are large.

The International Finance Corporation (IFC), an organization which has undertaken business-promoting activities for many years in Vietnam, remarks about this issue as follow:

The World Bank and International Finance Corporation's (IFC) *Doing Business 2006: Creating Jobs* cited Vietnam as one of the world's top reformers in 2004, based on the fact that the central government reformed a number of policies and regulations that impacted on five of the 10 different *Doing Business* indicators. In 2005, Vietnam enacted new Investment and Enterprise Laws, aimed at further improving the business environment and encouraging more investment. ... However, as is the case all over the world, well-intentioned policy does

not always translate into good practice. Businesses in Vietnam register, operate and are regulated at the provincial level – and many entrepreneurs find that while central government policies aim to make doing business easier, local government implementation can be a very different story. In many provinces, overly controlling and restrictive measures such as cumbersome or out-dated regulation, excessive licensing requirements and arbitrary inspections cost companies time and money, deter investors, deny job opportunities to local communities and impede efforts towards achieving poverty reduction. (International Finance Corporation 2008a)

The role of provincial leadership for all the above issues is vital by: i) selecting officials for key positions; ii) training its government staff; and iii) reforming its regulations and administration machine.

Apart from the important role in reshuffling the provincial government apparatus and reforming regulations, and of policies with the aim of improving the quality of public services in general, the leadership vision and local initiatives are vital for encouraging the entrepreneurial spirit. The Vietnamese North had never experienced a developed commodity economy. After 1954<sup>30</sup>, it moved from a feudal-colonial regime to a centralized economy. The Vietnamese South had experienced an economy with a rather developed private sector during the period 1954-1975.<sup>31</sup> However, this was an economy driven in wartime conditions, with plentiful sources of goods and finance available from the US. The war machine in the Vietnamese South generated large demands for the development of a number of industries. The war was thus one of the factors fostering this economy. When the war ended in 1975, a large number of big entrepreneurs moved overseas, and the post-war transformation of industry and commerce removed almost all the foundations of the private sector, integrating the South's economy into the North's centralised economy until 1989, when private enterprises were allowed to re-open.

Considering this history, it can be said that Vietnamese private business effectively started just two decades ago. Vietnam had been for years in a centralised economy, with an ideology hostile to the private sector and a “beg-give” (“xin-cho”) mechanism<sup>32</sup> applied to all spheres,

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<sup>30</sup> The war between France and Vietnam ended 1954.

<sup>31</sup> The war between the US and Vietnam in the South of Vietnam ended in 1975.

<sup>32</sup> The ‘beg-give’ mechanism is an informal phrase referring the power centred in state management and resource allocation in which the higher level of government plays a role of the giver and the lower level plays a role of the beggar. The lower level makes a plan (‘begging plan’) and the higher level is very powerful in deciding to

being big barriers to business start-ups. Although two decades have passed, the “beg–give” and the unfriendly attitude to businesses remains common. The PCI surveys show how common this unfriendly attitude remains to the present time. The problems of the “beg–give” are still hot topics in question time in the National Assembly and solving them is an important objective in many documents and resolutions on the state administrative reform at the present time. In this context, a strong provincial leadership can change this attitude toward businesses and reduce the effects of “beg–give” applied locally. At a senior level, strong leadership can generate confidence about the security of property. All this, plus a transparent and effective government, will promote the entrepreneurial spirit.

Furthermore, leadership vision and local initiatives are more important for big cities. Most of the Vietnamese private enterprises are local, small or medium. However, in big cities some have been growing quickly, and are strong enough to expand or to leave their cradle to find a more beneficial location. In this sphere, Ha Noi and HCM City are the main competitors in a rivalry in which HCM City has surpassed Ha Noi for many years. It is observed that the migration of workers and businessmen from Hanoi (or the North in general) to HCM City (or the South in general) is very large. The Vietnamese have a family reunion tradition on the Lunar New Year Holidays (Tet), and this festival is the longest holiday of the year. Trains before Tet from the South to the North are usually very crowded, in spite of extra train trips being added, whereas trains from the North to the South are not crowded. After Tet, the situation is the reverse. Tickets to the South are usually booked many days in advance. Flights, which are usually used by business persons and those with high incomes, are also in a similar situation. Records of sale promotion campaigns from airlines and railways exhibit this reality (VietnamNet 2006; VnExpress 2004).

Besides, there is a trend for businesses to move from these biggest cities to their peripheral provinces. Vinh Phuc, Bac Ninh, Ha Tay, Hung Yen have some more attractive attributes than Ha Noi, particularly in terms of the cost of access to land, which is a very sensitive matter for small and medium sized businesses. Similarly, Dong Nai and Binh Duong are HCM City’s considerable rivals. Moreover, these peripheral provinces compete with the two big cities not only in attracting the domestic private sector, but also FDI (Table 8.4). The statistical data show higher total (domestic and foreign) output per capita in Vinh Phuc than

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give (how much and when) or not. A similar way is applied to transactions between the government and businesses or citizens.



Ha Noi, and in Dong Nai and Binh Duong than in Ho Chi Minh City (Vietnamese General Statistics Office 2007d) (Table 8.4). Leadership is not only necessary for encouraging the local entrepreneurial spirit, but also for retaining and attracting businesses and potential businesses. Leadership not only encourages local entrepreneurial spirit, but also draws businessmen from other provinces. For the big cities with special advantages, the leaders need to have strategies to create an inward flow of businesses and to create an environment for business start-ups in high-value-added fields to compensate for the outward flow of low- or medium-tech businesses to peripheral provinces.

In general, HCM City's leadership has been much better than that of Ha Noi (see Table 8.2). The Pro-activity of Provincial Leadership sub-index is based on the answer to the four following questions in the surveys:

- Provincial officials know enough about the present national law to find opportunities within existing law to solve the problems of firms (*% Strongly Agree or Agree*).
- Provincial officials work within the national law to solve problems of private sector firms (*% Strongly Agree or Agree*).
- All good initiatives come from provincial government, but the centre frustrates firms (*% Strongly Agree or Agree*).
- No good initiatives come from the provincial level, all important policy comes from the central government (*% Strongly Agree or Agree*) (Malesky 2006b; Malesky et al. 2007; Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006).

The first two questions could reveal provincial governments' creativity and activity within the national law framework, whereas the last two questions were rather extreme. They could be confusing to respondents since, in practice, good initiatives are likely to come from both the central and provincial governments. For that reason, this research will focus analysis on the response to the first two questions. The key data are summarised in tables 8.9 to 8.11.

**Table 8.9: Ha Noi, two components of pro-activity of provincial leadership**

Indicator	Value	Median	Maximum
2005			
Percentage of firms agreeing that provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problems	67.27	76.93	94.29
Percentage of firms agreeing that provincial officials are creative and clever about working within the national law to solve the problems of private sector firms	59.26	63.27	85.71
2006			
Percentage of firms agreeing that provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problems	56.82	74.44	93.48
Percentage of firms agreeing that provincial officials are creative and clever about working within the national law to solve the problems of private sector firms	46.43	61.88	88.64
2007			
Percentage of firms agreeing that provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problems	63.37	71.74	92.47
Percentage of firms agreeing that provincial officials are creative and clever about working within the national law to solve the problems of private sector firms	55.45	58.12	87.91

Source: (VNCI & VCCI 2006d, 2006e, 2007).

**Table 8.10: HCM City, two components of proactivity of provincial leadership**

Indicator	Value	Median	Maximum
2005			
Percentage of firms agreeing that provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problems	71.88	76.93	94.29
Percentage of firms agreeing that provincial officials are creative and clever about working within the national law to solve the problems of private sector firms	67.74	63.27	85.71
2006			
Percentage of firms agreeing that provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problems	70.20	74.44	93.48
Percentage of firms agreeing that provincial officials are creative and clever about working within the national law to solve the problems of private sector firms	65.15	61.88	88.64
2007			
Percentage of firms agreeing that provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problems	66.48	71.74	92.47
Percentage of firms agreeing that provincial officials are creative and clever about working within the national law to solve the problems of private sector firms	56.40	58.12	87.91

(Source: VNCI & VCCI 2006d, 2006e, 2007).

**Table 8.11: Comparison of Ha Noi and HCM City, leadership**

Indicator	2005		2006		2007	
	Ha Noi	HCM City	Ha Noi	HCM City	Ha Noi	HCM City
Percentage of firms agreeing that provincial officials are knowledgeable enough about present national law to find opportunities within existing law to solve firm problems	67.27	71.88	56.82	70.20	63.37	66.48
Percentage of firms agreeing that provincial officials are creative and clever about working within the national law to solve the problems of private sector firms	59.26	67.74	46.43	65.15	55.45	56.40

Source: (VNCI & VCCI 2006d, 2006e, 2007).

It is acknowledged without doubt that Ha Noi possesses the most highly qualified officials, so it is to be expected that its scores on these two questions would be high. However, it turns out that the reverse is the case. As seen in Table 8.9, throughout the three years, Ha Noi's scores were very far from the maximum and indeed all of the scores were much lower than the median score. A total of 33% to 43% of Ha Noi private firms did not believe that the government officials were knowledgeable enough about national laws to find opportunities within existing laws to solve their problems. A higher percentage of such firms, between 41% and 54% over the three year period, did not agree that the provincial officials in Ha Noi were creative and clever in solving the problems of private sector firms within the national law. HCM City was better than Ha Noi, but its scores in most cases were still below the median score. In the final section of this chapter, we try to identify some of underlying causes of this problem of poor performance on the part of the Ha Noi local government.

#### **8.4.2 Ha Noi's PCI and the national institution**

Some argue that the problems of the big cities, Ha Noi and HCM City, are much more complicated and difficult to deal with than those of smaller cities, and this is true in practice. However, a deeper question should be raised from this point: what has caused the complexity and difficulties in the big cities? Is the complexity and intricacy derived from the problematical governance mechanism and relationships, in the big cities themselves? The current section will consider this issue.

Ha Noi and HCM City need to be analysed in the general context of the whole country. In fact, the state institutions and administrative apparatus have some severe problems nationally. Firstly, the administrative mechanisms are burdensome and potentially cause further troubles.

Enterprises have to undertake a huge number of procedures and regulations (both ones in the normal regulatory framework, as well as ones arising from time to time) during the registration and operation process. A survey conducted by IFC in Bac Ninh and Thua Thien–Hue showed that, to establish a factory, enterprises on average had to take 243 steps, to get 48 documents and to wait 399 days for land (Nguyen Huong 2008). This was so, even though Bac Ninh and Thua Thien-Hue are assessed as places with a favourable business environment, and in which land resources are not scarce. The IFC made this comparison in 2006. The business start-up process, which entails registration, obtaining a tax code, getting an official company stamp and buying tax invoices, took a total of 126 detailed steps over about 32 days on average in Bac Ninh and 51 days in Ha Noi. These processes took just six days in Singapore and only three days in Canada, where starting a business is assessed by the IFC as being faster than anywhere else in the world. The IFC used the words “indeed cumbersome” to describe this process in Vietnam (International Finance Corporation 2008b).

Secondly, public services provided by a system of state agencies which are weak and infected with negative behaviour are hardly likely to play their role in promoting private sector development. The problem of the ‘race’ for positions and power (*chạy chức, chạy quyền*<sup>33</sup>) in the state offices was emphasized by the former Prime Minister Phan Van Khai in a report to the National Assembly five years ago (Huu Khoi 2008). Now it is now recognised as a common evil and a state senior expert described it as a major problem in state offices (see Box 8.1). Infected with this disease, the state administrative apparatus (*Bộ máy hành chính*) is named by the populace the ‘people-bothering-machine’ (*Bộ máy hành dân là chính*), a sort of paronomasia in Vietnamese (word play which exploits various meanings of the words involved).

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<sup>33</sup> ‘Chạy chức’ refers to a kind of behaviour in which assigning positions in offices is based on the relationship or bribery.

### Box 8.1: Diseases of state offices

There has been a wave of talented public officials leaving state offices during recent years. VnExpress<sup>1</sup> interviewed a Member of the National Assembly (a representative of Ha Noi), Dr. Dao Ngoc Nguyen (Nguyễn Ngọc Đào), Deputy Director of the Faculty of In-service Public Servant Training of the National Academy of Public Administration<sup>2</sup>.

*Q: What are the underlying causes for capable civil servants leaving state offices, according to you?*

A: There are many reasons, but mainly the salary and the working environment are poor. A chief of a department of a state bank only receives an overall wage of salary of US\$200 per month, while he can receive US \$2000-3000 per month if he works for a private bank.

The working environment here means the operating mechanism, the relationship between bosses and staff, between employees and other employees, and the working style ... Many people are leaving offices not for salary reasons but because they hate the working style of state agencies. It is the working modalities of lack of responsibility, low standard of public service, envy, 'race' for position (chạy chức)<sup>3</sup>, 'race' for power and so on. There are people who are very talented but not brave enough to lose their dignity to beg for a position. They feel offended when the authority appoints insufficiently capable persons to govern them.

*Q: As an expert, how do you assess the current public sector working environment?*

A: We are training civil servants but surveys point out that the acquirement and application of the these civil servants in practice is little. Professional ethics is not satisfactory yet. I find three limitations. The first is the 'race' (chạy) for position and power, which is no longer uncommon and which makes talented persons disappointed. They respond by leaving and being uncooperative. The second is civil servant ethics, expressed by the relationship between bosses and staff, which is autocratic. The third is poor working conditions. It is necessary to understand now that working conditions cover not only the physical conditions but also the human environment. Besides, another limitation is unreasonable salaries. Yet this is difficult because of budget limitations.

*Q: Provinces have had policies to attract talented people over many years. How do you assess these policies?*

A: Actually, our talent attraction programs are only formalistic. Attracting talented people is not just a matter of getting them in office but must facilitate the development of their capacity. The latter clause is yet to be seen as important. Presently, provinces take them in while their salary and working environment are still poor. Talented people are given the job of making the tea for the 'lao lang'<sup>4</sup> (lão làng) of the office.

Source: (Hong Khanh 2008) (*Translated from the Vietnamese original source by the author*).

Notes:

<sup>1</sup> VnExpress is an electronic newspaper with the most readers in Vietnam. It is published by the Ministry of Technology and Science.

<sup>2</sup> The National Academy of Public Administration is an organization of the Ministry of Home Affairs and under the management of the Minister of Home Affairs. It performs the function of organizing training courses on knowledge and skills of state administration and management for state staff, civil servants and public employees in all authorities, as well as consulting with the state on related policies. It has the seal of the National Coat of Arms.

<sup>3</sup> 'chạy chức' means lobbying for position or buying position

<sup>4</sup> 'lão làng' refers to persons who have been in the office for a long time and are often holding power in the office.

Thirdly, although Vietnam has a legal system, the validity of the laws and courts in Vietnam is low. In the report of the People's Supreme Court President Nguyen Van Hien to the National Assembly in 2006, it was acknowledged that there were 9700 cases in which a

wrong judgement had been given. A large number of Members strongly believed that this number must have been much higher in practice, since many people did not have enough money to continue their cases and were not confident that the courts could bring justice. Evidence was provided by the Members that it is not just a few cases in which judges “trample on the law to go” (đạp trên pháp luật mà đi) (Le Nhung 2006). Also in this Question Time, some of the Members gave views (supported by many other Members) about the fact of the “easily-recognized negativeness in recruiting for courts, a problem known well by people at almost all localities” (tiêu cực nhãn tiền trong tuyển dụng nhân sự ở toà án, vấn đề mà ở địa phương hầu như ai cũng biết rõ) (Le Nhung 2006). Acknowledging that the lack of good officials was one of the causes, the most pressing questions of society reflected by the Members in the Question Time was derogation and abuse in the law enforcement agencies (Duy Thanh 2006; Le Nhung 2006; The Electronic Labour Newspaper 2006). Enforcement of court orders is in a similar situation due to lack of enforcing institutions and an epidemic of bribery.

The Deputy Chief of the Central Party Division of the Interior, Lan Van Le (Lê Văn Lâm), also announced the results of a recent survey in seven provinces/cities (Ha Noi, HCM City and some provinces including poor and mountainous one) and three ministries (Transport, Construction and Industry). According to the survey, the giving and receiving of a “commission” happened in the civil authority offices or public service bodies of all the surveyed provinces. On average for a transaction, the minimum commission was VND 94,000 for a birth registration and the maximum was VND 2.1 million for job application procedures (N.V.Hai 2005; Viet Anh 2005a), while the regulated minimum monthly wage was VND 290,000 in 2004 (*Government Resolution* 2004) and VND 350,000 in 2005 (*Government Resolution* 2005). This level of wage was enough to cover 2-4 ordinary transactions like a birth registration. The report of the survey revealed that 30% of the civil servants interviewed admitted receiving commissions, and more than 40% of the civil servants interviewed witnessed the behaviour that “those who have position and authority intentionally cause difficulties in resolving the work to force those who need the work resolved to pay money or provide gifts” (Viet Anh 2005a). This survey just revealed the tip of the iceberg of corruption. It only measured commissions for everyday transactions between the people and junior civil servants. It did not touch the big corruption in sharing public resources, such as in approving projects or “clearing crimes” (chạy tội) in law enforcement agencies.

The weakness of the legal system and corruption problems have an interactive relationship, and this interaction makes both worse. The private sector's confidence in its ability to use the legal system against the corrupt behaviour of government officials is very low across the country. At the median, only 23.22% of enterprises in 2006, 33.74% in 2007 and 32.74% in 2008 believed that they could do so (see Table 8.12). Corruption and bribery make the legal and regulatory system, which are questionable themselves, ineffective. Noticeably, while this indicator for the whole country improved in 2007, for Ha Noi and HCM City it decreased significantly. In 2007, HCM City was the lowest in the country at 20%, and in Ha Noi the figure was only 25.71%. The decreasing trend continued in 2008, and Ha Noi was the lowest in the country with 19.25%. The year 2006 was the year in which the anti-corruption fight launched by the central government was in a high tide, typified by bringing the PMU18 scandal (Ha Noi) to light. This might be the reason why this indicator in 2006 was higher than that in 2007.

**Table 8.12: Ha Noi and HCM City, legal system in dealing with corruption behaviour, legal institutions, percentage of firms perceiving that the legal system in the province provided mechanism for firms to appeal officials' corrupt behaviour<sup>34</sup>**

Year	Ha Noi	HCM City	Minimum	Median	Maximum
2006	38.46	28.07	11.25	23.22	41.46
2007	25.71	20.00	20.00	33.74	52.31
2008	19.25	???	19.25	32.74	53.62

Source: (VNCI & VCCI 2006e, 2007, 2008b).

The national legal system has two weaknesses: i) troublesome, unclear and inconsistent legal terms; and ii) ineffectiveness in dealing with legal violations due to the different application of national laws and regulations across provinces. Generally, the provincial application of national laws is highly unpredictable for enterprises in general. Table 8.14 indicates the percentage of firms in the whole country answering that the provincial implementation of central rules, laws and regulations being always or usually predictable was 14.91%, 9.49% and 7.96% for 2005, 2006 and 2007, respectively.

<sup>34</sup> The Legal Institution sub-index consists of:

- the percentage of firms confident in legal institutions;
- the firm assessment of the use of legal institutions as a primary mode of dispute resolution; and
- the percentage of firms perceiving that the legal system in the province provided mechanism for firms to appeal officials corrupt behaviour.

Number of cases (where claimant was not SOE or foreign) per 100 active firms.

**Table 8.13: Ha Noi, two questions of transparency sub-index<sup>35</sup>**

Indicator	Value	Minimum	Median	Maximum
2005				
Percentage of firms answering that the provincial implementation of central rules, laws and regulations which materially affect their business is always or usually predictable for them	18.64	4.35	14.91	60.38
Percentage of firms agreeing or strongly agreeing that negotiations on tax payments with the tax authority were an essential part of doing business	75.44	52.17	75.22	96.15
2006				
Percentage of firms answering that the provincial implementation of central rules, laws and regulations which materially affect their business is always or usually predictable for them	3.23	2.76	9.49	37.88
Percentage of firms agreeing or strongly agreeing that negotiations on tax payments with the tax authority were an essential part of doing business	74.73	47.17	61.05	86.96
2007				
Percentage of firms answering that the provincial implementation of central rules, laws and regulations which materially affect their business is always or usually predictable for them	8.11	1.89	7.96	18.28
Percentage of firms agreeing or strongly agreeing that negotiations on tax payments with the tax authority were an essential part of doing business	61.32	24.18	44.74	73.17

Source: (VNCI & VCCI 2006a).

What are the reasons for this high level of unpredictability in the application of rules, laws and regulations across provinces? Looking back the indicator of enterprises' confidence in using the legal system to deal with the corrupt behaviour and looking at the second indicator in Table 8.13, 'the percentage of enterprises strongly believing that negotiation with the tax authority is an essential part of doing business', suggest a motivation behind the provincial misapplication while admitting that this situation has resulted partly from the poor capacity of a number of provincial officials.

<sup>35</sup> The sub-index of Transparency includes:

- web page score;
- percentage of firms answering that provincial leaders always or usually discuss changes in laws with them;
- percentage of firms answering that the provincial implementation of central rules, laws and regulations which materially affect their business, is always or usually predictable for them;
- percentage of firms agreeing or strongly agreeing that negotiations on tax payments with the tax authority were an essential part of doing business;
- percentage of firms agreeing or strongly agreeing that friends/family are important for negotiations with provincial officials;
- percentage of firms agreeing that a relationship with someone in the provincial government is important or very important for facilitating access to the above documents; and
- percentage of firms answering that services provided by provincial public agencies-consulting on regulatory information are good or very good.



Considering all the above evidence, the problems at the provincial level would be seen to be rooted in:

- the problematic national and provincial operation institutions;
- the provincial governments' misapplication of central rules, laws and regulations for negative purposes such as corruption and authoritarianism; and
- the lack of an adequate number of state officials, particularly capable and virtuous ones.

The problematic institutions probably yield negative effects in their own right and also provide a favourable environment for misapplication, while also making it difficult to find redress against these problems. This issue will be analysed in detail in the next chapter when evaluating the model's applicableness to Vietnam and necessary conditions to ensure an effective application.

It is reasonable to deduce that for the big cities like Ha Noi, the main cause of these problems is not the lack of capable human resource. With a density of universities, research institutes and internationally co-operative programs of training, Ha Noi currently has high quality human resources available. That implies that (i) and (ii) are likely the major causes of the complexity and negativity in this case.

This deduction is supported by Ha Noi's poor scores on the sub-index of Transparency shown in Table 8.13. The percentage of firms appraising the provincial government's implementation of central rules, law and regulation as usually predictable was surprisingly low, whereas the percentage of firms believing that negotiation on tax payments with the tax authority being an essential part of doing business was very high. The former percentage was only 18.64% in 2005, but in 2006 and 2007, with much larger scale and more exact surveys, this percentage was down to 3.23% and 8.11% respectively. In this situation, it is easy to understand why the latter percentages were high. During the three years the percentage of Ha Noi firms that thought that it was necessary to negotiate with the tax authority were around 61-75%, even though Vietnam has a national tax law.

Why was Ha Noi Government's implementation of central rules, law and regulation so unpredictable? Why was negotiation on tax payments with the tax authority an essential part of doing business? It is logical to judge that they are signs of, or are effects resulting from, causes (i) and (ii), and behind them lie the weaknesses of the national legal system and the courts. The senior state officials and the experts' admissions on the state of state offices, as well as the limitations of legal system, coincide with the enterprises' appraisal of provincial governance.

**Table 8.14: Proactivity of leadership sub-index 2006, comparison between Ha Noi and some provinces in the same ranking tier of leadership**

Ranking	Province	Province is good at working within central laws	Province is creative and clever in solving business problems	Good initiatives at provincial level but center frustrates	No initiatives at provincial level, all policies come from center	In coming up with new laws & regulations, provincial government never/seldom involves firm input	Proactivity Sub-Index
....	...	...	...	...	...	...	...
42	Cao Bang	70.27	57.35	26.47	39.13	67.07	4.38
43	Son La	77.32	66.32	24.71	39.13	54.93	4.37
44	Lai Chau	70.97	62.50	22.58	41.94	67.42	4.32
45	Quang Tri	78.43	57.43	23.71	39.39	59.62	4.26
<b>46</b>	<b>Ha Noi</b>	<b>56.82</b>	<b>46.43</b>	<b>36.59</b>	<b>25.93</b>	<b>61.63</b>	<b>4.23</b>
47	Bac Lieu	60.66	53.57	35.29	43.14	71.43	4.17
48	Dak Nong	66.67	62.22	28.89	44.68	65.74	4.15
49	Tay Ninh	60.47	55.81	40.48	48.84	70.59	4.11
50	Ca Mau	78.57	65.00	22.50	47.37	60.17	4.10
51	Bac Kan	71.43	60.34	19.30	39.66	62.60	4.02
52	Lam Dong	68.09	50.55	21.35	32.22	59.26	3.82
...	...	...	...	...	...	...	...

Source: (VNCI & VCCI 2006a).

A comparison between Ha Noi and other provinces lays an additional foundation for this deduction. Looking at the Proactivity of Leadership sub-index for the whole country in 2006, it is paradoxical that Ha Noi was ranked 46/64 in a group which includes many provinces that are poor or remote, and where there were often few highly qualified officials and limited development resources (Table 8.14). Considering the first two important components of Proactivity of Leadership as mentioned above, Ha Noi was the last one of the group of eleven provinces shown in Table 8.14, with a quite significant gap to the next lowest province. In the country ranking, Ha Noi was ranked 62/64 in the first component and 59/64 in the second

component. The reasons (i) and (ii) can explain why a city of great potential like Ha Noi fell into this situation.

These two components of Proactivity of Leadership can also explain the abnormality in DPIO per capita of Ha Noi. Binh Duong, Bac Ninh, Hung Yen and Ca Mau are small provinces, with far less resources than Ha Noi in all aspects of initial advantage, but their DPIOs per capita levels were much higher than those of Ha Noi. Bac Ninh and Hung Yen are located in Ha Noi's peripheral area (see Table 8.15). Ca Mau is a rather remote province.

**Table 8.15: DPIO per capita 2006, top ten provinces**

Rank	Regions and Provinces	DPIO/capita 2006 (million VND)	PCI 2006
	<b>Whole Country</b>	1.77	
1	Binh Duong	9.55	76.23
2	Ho Chi Minh City	6.14	63.39
3	Can Tho**	4.37	58.30
4	Hai Phong	3.84	49.98
5	Bac Ninh	3.44	54.79
6	Hung Yen	3.25	55.97
7	Ca Mau	2.75	43.99
<b>8</b>	<b>Ha Noi</b>	<b>2.64</b>	<b>50.34</b>
9	Khanh Hoa	2.48	55.33
10	Soc Trang	2.25	55.34

Source: (Vietnamese General Statistics Office 2007a, 2007c).

As a big city with special advantages, Ha Noi has the potential to develop the foreign economic sector. Table 8.16 presents the top ten provinces in attracting private investment, both foreign and domestic, in which Ha Noi was ranked No. 7. It is not surprising that Ba Ria–Vung Tau<sup>36</sup> and HCM City were ranked higher than Ha Noi. There might also be some reason to explain why Hai Phong, a traditional industrial city, had a much higher level than Ha Noi. However, as mentioned before, among the six provinces above Ha Noi, Binh Duong, Dong Nai and Vinh Phuc are small provinces. Binh Duong and Dong Nai are located close to HCM City. Vinh Phuc is close to Ha Noi. In the PCI ranking of Structural Endowment, Ha Noi was No. 1 with a score of 25.36/30, Binh Duong No. 5 with a score of 20.72/30, Dong Nai No. 6 with a score of 20.44/30 and Vinh Phuc No15 with a score of 18.01/30. However,

<sup>36</sup> Ba Ria–Vung Tau owns the major oil resources of Vietnam. Foreign investment is mainly in exploring oil and gas.

if Ha Noi's special advantages were fully taken into consideration, the difference would be much bigger. Besides, some of the initial advantages of these small provinces counted in the PCI ranking were the result of development based on their own efforts rather than on special positions and huge subsidies from the central government such as in Ha Noi or HCM City.

**Table 8.16: Top ten provinces in PIO per capita, 2007**

Ranking	Province	DPIO/ capita 2007	FIO/ capita 2007	FIO+DPIO/ capita 2007	PCI	
		(million VND)	(million VND)	(million VND)	2006	2007
1	Binh Duong	9.88	26.52	36.40	76.23 (1)	77.20 (1)
2	BRVT	3.82	30.98	34.81	55.95 (17)	65.63 (8)
3	Dong Nai	2.27	17.39	19.66	64.64 (5)	62.33 (16)
4	Vinh Phuc	1.73	12.93	14.66	61.27 (8)	66.06 (7)
5	HCMC	7.44	6.60	14.04	55.95 (7)	64.83 (10)
6	Hai Phong	4.29	6.07	10.36	49.98 (42)	53.19 (37)
7	Ha Noi	3.22	7.12	10.34	50.34 (40)	56.73 (27)
8	Hung Yen	4.01	2.65	6.66	55.97 (16)	57.47 (26)
9	Can Tho	5.66	0.75	6.42	58.30 (10)	61.76 (17)
10	Bac Ninh	4.68	1.73	6.42	54.79 (22)	58.96 (20)

Note: Numbers in () are the ranking order among the sixty-four provinces.

Source: (Malesky 2006b; Vietnamese General Statistics Office 2007a, 2007b, 2007c; VNCI & VCCI 2007).

One reasonable explanation of this phenomenon is the PCI, as discussed in the section on PCI-PIO analysis above. The Proactivity of Leadership sub-index gives a precise explanation of the source that creates the difference. In the same region of the Southeast, Binh Duong and Dong Nai, with higher scores of PCI and the two components of Proactivity of Leadership than HCM City, produced a PIO per capita much higher than HCM City's, especially Binh Duong as shown in Table 8.16. Similarly in the north, Vinh Phuc, a midland province with a far worse infrastructure than Ha Noi, outstripped Ha Noi in terms of PIO per capita as well as PCI. Hung Yen and Bac Ninh were better in terms of DPIO and have started to compete with Ha Noi for FDI. In 2007, Bac Ninh ranked sixth and Hung Yen ranked seventh in the country in attracting FDI (Hung Yen Business Portal 2008). All these five provinces left Ha Noi and HCM City far behind in Table 8.14.

The above analysis and evidence indicate that while sharing the same national institutions, the complicity of the big cities originates from "diseases of state offices", corruption and the weak provincial leadership. Both these causes belong to the field of state governance.

‘Diseases of state offices’ and regular corruption make state offices themselves unable to provide good public services to enterprises and the society. More seriously, they mobilize the staff’s capacity toward a wrong direction. The two biggest cities, where state officials could receive big gains from negative behaviour, have been in a worse situation. Weak provincial leadership cannot treat these problems. By contrast, weak provincial leadership continues to generate a working environment in which there are pressures to force capable and moral staff to leave (see Box 8.1). It could issue more dubious institutions. This finding raises deeper questions about what causes ‘diseases of state offices’ and whether a strong provincial leadership could avoid being infected by these diseases while it operates in the common state institution?

## **8.5 Conclusion**

The case of Ha Noi again proves the strong impact of PCI on DPIO and FIO. The rapid growth in the number of enterprises in Hanoi does not reflect the actual situation of the investment environment and the efficiency of governance. The case study points out the ability of ‘rent-seeking’ enterprises to thrive where the transparency in governance is low. That thriving does not bring a genuine growth of the economy gauged by the output indicators of DPIO and FIO. This denotes that the view, which is derived from the concepts of place marketing, of using the outcome indicators such as DPIO or FIO to measure the efficiency of governance, allows a more accurate assessment, leading to the right direction for improving the investment environment.

Looking more closely at the critical sub-indices of PCI shows the relationship between these sub-indices, especially *Proactivity of Leadership* and the output indicators. The poverty of the sub-index of Ha Noi is derived from the problematic national institution and legal framework. The context of a major economic centre, the hub of state management activities as Ha Noi, enhances the hindering level of the national institution and legal framework to investment environment improvement and growth at the provincial level.

## **Chapter 9**

### **An Evaluation of the Applicability of the Model to Vietnamese Provinces**

#### **9.1 Introduction**

This chapter will explore two case studies which arise from the discussion of Chapter 7, in their naturally-occurring contexts. The first case study is that of Vinh Phuc province, which may be seen as a success in planning and implementing the model of place marketing. The second case study is that of Hoa Lac Urban Development, which may be seen as a failure in deploying a good vision for developing a large and highly prospective area of land. Hoa Lac Urban Development is located in Ha Tay province. It includes a variety of projects, the backbone of which is the two national key projects: the Hoa Lac Hi-Tech Park and the Vietnamese National University of Ha Noi.<sup>37</sup> These two national key projects aim to turn that land into a modern science city with the first national hi-tech park, first-class universities, research institutes and a cluster of service complexes providing a variety of facilities for scientific and business activities, as well as providing the amenities for everyday life. These project have been expected to attract big investors and bring in large revenues, as well as create momentum for the province and the nation. Both Vinh Phuc and Ha Tay are in the group of selected eight Red River Delta provinces in Chapter 7.

Vinh Phuc has suffered initial disadvantages, but is the leading member of the eight Red River Delta provinces in terms of both PCI and PIO per capita. The chapter investigates Vinh Phuc's planning and implementation, with the central questions being, what are the success factors for Vinh Phuc and whether Vinh Phuc's success can be attributed to the presence of a good application of the model of place marketing. In contrast, Ha Tay possesses many advantages but its PCI was very low and its PIO per capita remained low. The Hoa Lac Urban Development is a key national development program, and the analysis seeks to analyse the factors hindering the implementation of such a program. In particular, the central question for Hoa Lac is whether the failure derives from the absence of an appropriate place marketing

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<sup>37</sup> The Vietnamese National University of Ha Noi is currently located in Ha Noi.

approach or a wrong application. The cross-comparison between Vinh Phuc and Ha Tay is intended to highlight the key success and failure factors. The analysis is undertaken within the framework outlined in the implementation model of place marketing provided in Chapter 4.

Once these questions have been answered, the chapter will move to a conclusion on the ability to apply the principles and processes of the place marketing model, including the effectiveness as well as the possible limits of the application of this approach, to the context of Vietnam's provinces. The assessment of the limitations will raise questions for further study and recommend conditions that Vietnam should put in place to ensure the effective application of this approach in the current period, as well as in the future.

## **9.2 Vinh Phuc province: A success in planning and implementing the model of place marketing?**

### **9.2.1 Place Audit – Vision and Goal: Distinguishing actual or potential strengths and identifying the target market**

As described in the implementation model, the process begins with the province identifying a combination of distinguishing strengths and identifying its target markets. This stage (Place Audit – Vision and Goal) is usually presented in master planning or long-term plans for socio-economic development<sup>38</sup>. The imprint of planning and implementing the development approach of place marketing can be seen in the 'Vinh Phu Master Planning for Socio-Economic Development to 2010' issued in 1996 (Vinh Phuc was then not yet apart from the Vinh Phu province) (People's Committee of Vinh Phu Province 1996; 1996). This is a master planning document which marked Vinh Phuc's decisive movement towards the market mechanism and an open economy. Although a planning document is a very short (approximately ten pages or 9000 words covering all areas of the economy, society, culture and others) and presented in an unprofessional format and writing, is the earliest statement, in a sense of a market economy, evaluating Vinh Phuc's strengths and weaknesses and determining a vision, strategies and essential solutions for Vinh Phuc's development in the future. As such it has been the guideline throughout Vinh Phuc's development plans and programs since 1996. The objective of the master planning is stated clearly in the document:

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<sup>38</sup>All the planning documents in this chapter are translated from the Vietnamese originals by the author.

The basic objective of the master planning for socio-economic development to 2010 is to create the basis for the formulation of development policies, investment and cooperation plans, for anticipating opportunities suitable for specific conditions of the province to speed up development in integration with the key area of the Northern region... The planning to 2010 is a comprehensive study (including natural, economic, social and environmental areas), which focuses on key issues and breakthrough investment. (People's Committee of Vinh Phu Province 1996, p. 2)

The section below will review the planning process by comparison with the model of place marketing.

### ***Place Audit***

This step is called “know yourself” and the target that needs to be reached is “knowing exactly what you have to offer”. The technique suggested in the model is a SWOT analysis with four steps:

*Step 1. Knowing the existing contexts and anticipating the major development trends which would affect the province.*

There is little review and analysis of general trends and of the possible influence of these trends on Vinh Phuc’s development in the planning document. However, it does include a simple evaluation of an overall trend: “trends show that the key area of the North will rapidly develop and Southwest China is a big market with a high population, so Vinh Phu<sup>39</sup> will make use of these opportunities to develop” (1996).

*Step 2. Reviewing and classifying the resources and attributes in the two basic areas of strengths and weaknesses.*

Under the title “Assessment of the resources, advantages, limitations and challenges”, the planning document includes nearly three pages highlighting the advantages and disadvantages of geographical location, natural resources, society, infrastructure and the market for economic development. In particular, the auditing reviews the following advantages briefly:

- It is near Ha Noi.

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<sup>39</sup> Vinh Phu included Vinh Phuc and Phu Tho then. Phu Tho was separated later.



- The province does not have special resources, but “there is much land for construction, forming industrial zones, industrial clusters and urban development to the scale of thousands of hectares”, and it is also noted that there is some potential for tourism as “there are a large number of historical heritages, being one of the provinces which can attract tourists” (1996).
- A particular deficiency is seen as a potential opportunity: “The province has a few foreign industrial establishments or licensed foreign investment. There is a possibility that foreign investment enterprises will increase rapidly in the future. This is a very important premise, facilitating Vinh Phu’s accelerated economic development” (1996).

A number of weaknesses are considered and can be summarised as follows:

- Infrastructure degradation and obsolete equipment and technology.
- High unemployment, while the demand for health, education and cultural development and other social issues is high, putting pressure on many aspects, especially on the budget .
- A serious lack of funds and capital for development investment; 49.4% of the budget expenses in 1994 were subsidised by the central government.
- Lack of marketing knowledge and management experience; the government’s staff, especially the economic and state management staff, have limited skills and capabilities.
- Very low economic level: GDP per capita in 1994 was USD\$150, equal to 70% of the country average; exports per capita in 1995 were USD\$13.02, equal to 22% of the country average.

This concise presentation focuses on the points whose impacts on economic development are clear. In terms of “help to satisfy the investor’s needs or make investors more likely to prefer the place” (see Chapter 4), Vinh Phuc’s advantages do not appear to have great potential, and the possibility that they might produce benefits and profits for investors is not easily foreseen. Some other provinces in the Red River Delta have advantages which seem more likely to generate profitable investment opportunities (see Chapter 7). This can explain why it had been hard for Vinh Phuc to find investors for infrastructure in planned industrial zones. In terms of “likely to

reduce the satisfaction of the investor” (Chapter 4), Vinh Phuc’s weaknesses are big obstacles in generating attributes which satisfy investors.

*Step 3. Weighing up the strengths and weaknesses in comparison to other places (competitors), especially with its competitors who might have similar resources.*

The result of the implementation of Step 3 was not seen in Vinh Phuc’s planning in 1996. In fact, the competition between provinces in attracting investment was not strong at that stage.

*Step 4. Identifying specific opportunities and threats.*

Identifying specific opportunities and threats can be seen in Vinh Phuc’s development orientation, in other words, its vision for 2010.

### ***Vision***

The vision which dominates all the development of Vinh Phuc since then is summarised in the planning document with four main points as follows:

- Change quickly the development direction, based on exploiting the advantages of the resources of each region, linked to innovation in technology and equipment.
- Attract external capital (including domestic and foreign) and integrate with the process of dynamic development of the Northern key area of Vietnam.
- Develop modern areas which have potential to hold key roles. Small and medium-scale firms with modern technological equipment are emphasised, in accordance with natural conditions and available capital.
- Encourage all economic sectors, inside and outside the province, and foreign partners to participate in economic development.

The first point shows the determination to shift direction. The next three points are the means with which to perform the shift: attracting external capital, choosing small-medium scale operations and encouraging all economic sectors. The fact is that Vinh Phuc has big limitations in terms of capital and other conditions. Vinh Phuc has taken the advantages as the solution to these limitations. The combination of the three strengths – proximity to Hanoi,

large tracts of land for industrial development and a few established foreign businesses<sup>40</sup> – is viewed as a basis for attracting external capital (especially foreign capital as determined in some other documents) and as being the main solution. This is a reasonable choice.

It can be seen clearly that there are logical links between the place audit and the vision, as the place audit serves as a foundation to build up its vision. The vision helps Vinh Phuc to position itself. Nearby Vinh Phuc, Ha Noi, with its special advantages, has the ability to attract high value-added industries such as services and hi-tech, and to attract large companies. The Ha Tay province might well be the next in the region having this ability. Without special advantages, Vinh Phuc chooses ordinary industries.

The objective of *Place Audit* and *Vision* is to identify a combination of distinguishing strengths and the target markets. The combination of the three strengths above (existing attributes), plus providing a good investment environment (created attributes) prove the distinguishing strengths of Vinh Phuc (see the next sections). The target markets are external investors, especially foreign investors with the major area of ordinary manufacturing industries, and small to medium-scale firms. This is a good and clear vision. However, the success depends on the ability of the province in translating the vision into strategies, action plans and implementation.

This master planning document was drawn up in 1996 when Vinh Phuc was called Vinh Phu (i.e. including Phu Tho province). It marks a breakthrough in the planning process, redirecting development in terms of the vision, strategies and fundamental solutions that have guided the development of Vinh Phuc since then. As shown above, this master planning document bears the clear imprint of thinking about an open local economy, where attracting investment from outside is considered as a major driving force of development. With that orientation, the place marketing approach is a necessity for planning and implementation.

A later master planning document *Adjustment of the Master Planning for Socio-Economic Development of Vinh Phuc Province to 2010 and Orientation to 2020* (2005) has made significant progress in terms of planning methodology. It was prepared on the basis of the methodology and methods of overall planning for socio-economic development issued by the

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<sup>40</sup> Toyota's investment marked a big event to Vinh Phuc. Toyota was licenced by September 1995 (Kavaratizis 2010c).

Institute of Development Strategy, Ministry of Planning and Investment (2005). The Institute was also directly involved in formulating the master planning paper as a consultant. The document comprises over 100 pages in which the place marketing approach is expressed more clearly as follows:

*Place Audit:* Under the title “The National Development Orientation Affecting the Socio-Economic Development Strategy” and “The Effects of the International Context on the Socio-Economic Development Strategy of Vinh Phuc”, factors in the macro environment, both national and international, have been taken into account to construct the strategies. For example, Vinh Phuc considered the fact that “Vietnam continues to implement policies to attract foreign investment and continues to promote multilateral relations in trade and investment cooperation” (2005, p. 58) as a basis for Vinh Phuc’s further policy to rely on the capital and capacity of foreign investors. Other policies of the central government, as well as international conditions, have been evaluated in detail. These include the fact that Vinh Phuc is planned as one of the eight provinces of the Northern Key Economic Region, the opening of trade routes with China and the opportunities and challenges arising when Vietnam continues to implement the commitments for international and regional integration (e.g., the U.S.–Vietnam Trade Agreement, WTO Accession, the completion of AFTA/CEPT in 2006 and the introduction of the ASEAN Investment Area in 2010). All assessment and analysis is supported by data sets and an analysis of the actual situation (2005, pp. 4-57). The assessment leads to identifying the opportunities and challenges for Vinh Phuc (2005, pp. 59-60). However, the planning does not give much consideration to the various forms of competition that the province is likely to face.

*Vision and Goal (to 2010):* The determination of a direction is made by the process of, first, building two different scenarios and then choosing the preferred one. By analysing the advantages and disadvantages, as well as the feasibility and efficiency, of each alternative, Vinh Phuc selected the alternative of continuing the current orientation: to concentrate on industrial development and to attract external investment.

This planning methodology has spread rapidly in Vietnam in recent years. It can be seen in the application of the methodology in Bac Ninh’s planning process in 2005 (The People’s

Committee of Bac Ninh province 2005) as well as in the progress made in the planning activities of other provinces such as Ha Tay (2006) and Nam Dinh (*Nam Dinh - New Image in Century XXI* 2005; Vietnamese Prime Minister 2008) towards this model of planning. The spread might be in part the result of the development process. Economic development itself poses problems and practical experience can provide solutions. On the other hand, it is also the result of the support of central government and foreign organizations. The central government has issued guidelines for planning. In recent years Viet Nam, with the assistance of foreign organizations (e.g. Fulbright, UNDP and AUSAID), has organized many training programs in building capacity for local officials, and in these programs this planning methodology is often a key item of content. Vinh Phuc is one of the provinces which regularly send attendees to these training courses. The place marketing approach has also penetrated into the curricula and research activities of economics and management faculties, as well as into practical activities. There were around 459,000 hits for place marketing ('marketing địa phương') from pages written in Vietnamese searched by Google (viewed by 14 April 2010).

However, the methodology only provides technical support. Success lies in the application of the methodology to draw up the appropriate vision and strategy for the local region. Other key success factors are the ability to find solutions to problems and to implement strategies in practice.

## **9.2.2. Strategy, action plan and implementation: Marketing strategies**

### ***9.2.2.1 Place product strategy***

#### **Place product design**

Vinh Phuc's place product has two main attributes, the creation of industrial zones and of an attractive investment environment.

*Industrial zones:* As a result of the vision, Vinh Phuc places very high priority on developing industrial zones. This objective is viewed as the major investment of the province. Upgrading the NR2<sup>41</sup> was a top priority, since all industrial zones were planned along this road. Other key priorities were:

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<sup>41</sup> NR2 is the main road linking Vinh Phuc to Ha Noi and other provinces (see Appendix 2).

- planning the industrial zones and clusters in different locations with different prices to match different groups of investors: the first phase is the construction of industrial zones near Hanoi, then continuing to develop other industrial zones and to cluster them in areas further out; and
- planning to construct roads connecting industrial zones and clusters to the main transport networks and to provide other infrastructure (e.g. electricity, water and telecommunications) to industrial zones.

*Investment environment:* Administrative reform was determined as an important solution to creating a favourable environment to attract resources for development investment (Nguyen Ngoc Phi 2007). Messages from Vinh Phuc to investors express strong commitments of:

- good public services: simplifying procedures, not troubling enterprises, providing necessary and helpful information;
- sharing risks and being proactive in helping enterprises overcome difficulties;
- a friendly and supportive attitude and behaviour of local government at all levels towards to investors; and
- investment incentives and encouragement policies. (*Vinh Phuc - Comparative Advantages & Investment Opportunities* 2003; Nguyen Ngoc Phi 2005, 2007, 2010)

Vinh Phuc's place product is the combination of existing and created attributes or static and dynamic attributes. This combination makes a differentiated product and this differentiation aims to get investors' preference. Vinh Phuc's PCI remained high for the four years from 2005-2008, and this indicates how Vinh Phuc has been appraised by enterprises. The rapid growth in both domestic and foreign industrial output shows the extent to which Vinh Phuc is preferred by investors.

## **Place product implementation**

### *Building industrial zones*

The major matters in building industrial zones are capital and the acquisition of land. In the late 1990s, the provincial budget and domestic savings were very limited, while investors did not want to invest in infrastructure in Vinh Phuc (see Appendix 5). Vinh Phuc is near to Hanoi, but in comparison with other provinces surrounding Hanoi it had fewer advantages. It

has far fewer natural and special advantages to attract investors than Ha Noi or Ha Tay. Vinh Phuc is not in “the Dynamic Development Triangle”, nor on the important Ha Noi-Hai Phong road like Hai Duong and Hung Yen. It does not have a trade tradition and is not on the trade route between Vietnam and China as Bac Ninh is (for further information of Vinh Phuc’s advantages in comparison with other provinces in the Red River Delta see Chapter 7). It is a starting location for the Northern midland and mountainous area, which is an underdeveloped region. Investment in infrastructure requires large amounts of capital and private investment is made possible by investors collecting infrastructure fees in return for their investment. The possibility of many enterprises coming to industrial zones in Vinh Phuc was not foreseen. Nor, because of the poor provincial budget, were private investors likely to get financial support from the province if some adverse events occurred.

This entire situation meant that investment in building industrial zones in Vinh Phuc was unpromising. In that situation, Vinh Phuc was not able to call for applications for investors to bid to invest in infrastructure. Instead, it searched for investors through various channels and relationships, mainly resorting to the introduction of other provinces, since Vinh Phuc did not have big local investors who had sufficient capacity for large scale investment (see Appendix 5). This is the process that Vinh Phuc’s planners practiced “Contacting–Communication–Negotiation”. Vinh Phuc government’s willingness to share the difficulties and risks not only helped the investors to complete their work, as the case of NR2 improvement (see Box 9.1), but also convinced other investors to come to Vinh Phuc. In addition to efforts to find investors for the construction of industrial zones, Vinh Phuc focused its meagre budget on building roads to industrial zones and clusters and ensuring the provision of other infrastructure (e.g. electricity, water and telecom) in the zones (see Appendix 5).

The second matter in constructing industrial zones is the acquisition of land. Although Vinh Phuc has large tracts of land for industrial development, almost all the land was being used for agriculture or forestry. The various levels of local government cooperated with investors in taking over land and compensating residents whose land was taken. A Board of Land Acquisition was established in the districts where there were key projects, such as Me Linh and Binh Xuyen (Nguyen Ngoc Phi 2007). The communications to convince people to quickly hand over land to investors was also conducted very well (Le Xuan Dinh 2006). In addition, Vinh Phuc applied supportive policies of finance and procedure to assist investors to acquire land (Nguyen Ngoc Phi 2007) (see Box 9.1).

### **Box 9.1: Vinh Phuc Government and improvement of transport system**

The Vinh Phuc government has made a great effort to improve the transportation system. As it was separated from Vinh Phu province in 1997, the traffic network was poor and of low quality (Rural Areas in Reformation 2004). Determining the transport system as the life-line for socio-economic development, the government saved a large portion of the local budget for the construction of transportation. The total investment for building basic infrastructure in 7 years (1997-2003) was VND 327,766 million in which the provincial capital was 237,375 million, accounting for 72.4%. This capital resource was for improvement of the provincial roads to reach 60.6% asphalted and concreted, the district roads to reach 58.8% asphalted, and the commune roads to reach 30.3% asphalted or concreted (Rural Areas in Reformation 2004).

The NR2 road is almost the only way for Vinh Phuc to trade with other provinces. However, the NR2, as well as the other national roads in Vinh Phuc, had not been maintained and upgraded properly by central government investment, while Vinh Phuc's economy had grown rapidly since the separation, with a good start by Toyota locating its factory in Phuc Yen town (Vinh Phuc) in September 1995 and officially operating in October 1996.

Until February 2005, the project of improving NR2 with a length of 22 kms from Noi Bai (Hanoi) to Vinh Yen town (Vinh Phuc Central) started. This is the first BOT (Build-Operate-Transfer) project in the North. The financial resource did not come from the state budget or from ODA as did other infrastructure projects, but was contributed by investors, which also means it was not in the fast-track list of the central government and subject to risks raised by the investors' ability to mobilize the capital. The total initial investment as planned was VND 541.6 billion, including VND536 billion of BOT capital, and 5.6 billion of support capital from the State Budget. After the completion, the investors would collect tolls to recover capital costs. As designed, the NR2 reached the standard of Level 2 for the speed of 80 kms/h, the width of the road surface was 23- 25m, including 4 lanes for cars and 2 lanes for bikes or the like. The period of construction was 30 months (Do Huu Luc 2006; Ha Le 2007; Tran Quyet 2007).

While executing the project, travel between Vinh Phuc and Hanoi became more difficult. NR2 is also the main road connecting the two other provinces with the Hanoi capital. Consequently, the need for travelling on the road is very great, while there was no road for a temporary replacement. A period of 30 months as planned was too long for upgrading such an important 21.9 kms long road, while the construction was a big obstacle for the activities of the enterprises and the people in the province. However, the project's progress was much more delayed than the plan (Do Huu Luc 2006; Ha Le 2007; Phung Suong 2007; Tran Quyet 2007). According to the evaluation of the Ministry of Transport in April 2007, i.e. the time planned for the project to be nearly finished, the project had only achieved more than 50% of the construction and 80% of the land acquisition (Ha Le 2007).

The delay in construction was due to three main reasons: i) land acquisition; ii) capital mobilization and organization of implementation; and iii) the approval procedures of the central government. Many of the causes were the responsibility of the BOT investors and the central management bodies such as the Ministry of Transportation and the related authorities in charge of the approval procedures and supervision. For example, the road of just 21.9 kms was divided into five packages for the five different executive units, and done with very different time frames, making the entire road cut into rough pieces and dangerous for travellers during the construction period (Ha Le 2007; Phung Suong 2007). The media made a lot of reports and comment on the road conditions. Vinh Phuc had many times requested the responsible bodies to review the design or to apply necessary measures to ensure the traffic, traffic safety and living environment, but the situation was not improved



for years (Do Huu Luc 2006; Tran Quyet 2007). On the capital issue, the investors only mobilized VND 416 billion (instead of VND 536 billion as approved and signed in the contract). By April 2007, the cost of construction had increased by VND 133,466 billion extra (Ha Le 2007; Phung Suong 2007). All this put Vinh Phuc's enterprises in a difficult situation, suffering losses, and Vinh Phuc's attraction to potential investors decreased.

However, instead of waiting for the bodies responsible to resolve problems with a common sense "that's not our responsibility" (often found in the state agencies), the provincial government was positively searching for solutions to the three problems. Vinh Phuc was always evaluated as a positive and effective province in acquiring land. Besides the responsibility of the local government to work together with the investors in organizing the land acquisition, Vinh Phuc loaned the investors VND 191 billion of the total VND 199 billion costs for this task (Phung Suong). During the project implementation, as the input costs had increased and the project was not longer feasible, Vinh Phuc People's Committee requested the central government to support the project by VND 123.1 billion from the state budget. The request was approved by the Prime Minister in January 2006. When the Prime Minister's decision was delayed due to the administrative bureaucracy of the central ministers, the Vinh Phuc government and the investor together applied active measures to facilitate procedures. This effort was acknowledged by the investors. Mr Tran Quoc Bien, the director of BOT NR2 Company said: "The project cannot succeed without the support and the direct participation of the local governments at all levels. The People's Committee of Vinh Phuc is not only interested in the site clearance (100% land on the site of Vinh Phuc cleared and assigned to the contractor), but also proactively loaned the investors VND 200 billion" (Le Van Chien 2008).

This case is an illustration of the dynamism and co-operative spirit of the authorities of the Vinh Phuc province in resolving problems arising out in the operation of investors. It shows why Vinh Phuc's PCI and DPIO were remarkably high whereas the case of Ha Tay gives a reverse image and Ha Tay's PCI and DPIO was also the opposite.

### *Investment environment improvement*

The investment environment is measured clearly in the PCI. During the four years 2005-2008, Vinh Phuc remained in number 1 position among the eight provinces of the Red River Delta region studied in chapter, and was also above Hanoi and Hai Phong, being ranked in the top 10 of the national ranking table. The dynamism and creativity of the provincial government in removing barriers for enterprises has been appreciated by enterprises. The sub-index of Proactivity of Provincial Leadership for 2005-2008 remained in number 1 position, with a big gap between its scores and the lowest score among the studied eight provinces of the Red River Delta, (Table 9.1). It was also well above the scores in both Ha Noi and HCM City.

**Table 9.1: Sub-index of Vinh Phuc's proactivity of provincial leadership 2005-2008**

2005		2006		2007		2008	
Vinh Phuc	Minimum	Vinh Phuc	Minimum	Vinh Phuc	Minimum	Vinh Phuc	Minimum
8.12	1.2	7.74	2.53	7.32	4.28	8.23	4.11

Note: 'Minimum' here refers to the lowest score of the eight Red River Delta provinces.

Source: (VNCI & VCCI 2006b, 2006c, 2007, 2008a).

Although the pace of industrialization, as well as the increase in the number of investment projects in Vinh Phuc has been very fast, the three sub-indices potentially sensitive to this growth – *Entry Cost*, *Access to Land*, and *Transparency and Access to Information* – were maintained well and increased over time in Vinh Phuc, with the 2008 values for each of the three being much higher than those in 2005 (Table 9.2). This illustrates Vinh Phuc's success in providing 'good public services' to investors. Practical examples of the impact of measures to improve the investment environment can be seen in different government activity areas. For example, Vinh Phuc is a pioneer in implementing the "one door, one clue" policy, shortening by two-thirds the time taken to grant investment licenses relative to that laid down by the Central Government (Nguyen Ngoc Phi 2007).

**Table 9.2: Other PCI sub-indices for Vinh Phuc, 2005-2008**

PCI sub-indices	2005	2006	2007	2008
Entry Cost	7.46	7.31	7.59	8.37
Access to Land	5.71	6.30	6.75	6.47
Transparency and Access to Information	5.37	6.27	7.00	7.39

Source: (VNCI & VCCI 2006b, 2006c, 2007, 2008a).

According to "the Policy of Investment Incentives in the location of Vinh Phuc province", besides preferential policies promulgated by the State, Vinh Phuc also issued more preferential policies.<sup>42</sup> The land rental rate for foreign projects was the minimum price as regulated by the current regulations of the State. The People's Committee might also gave additional support and incentives for some special projects (2002).

### **9.2.2.2 Place Pricing**

With industrial parks and clusters located in different locations, created with different levels of capital cost, Vinh Phuc could offer different prices in accordance with the needs and

<sup>42</sup> Vinh Phuc is one of the thirty-three 'tearing the fence' provinces in terms of investment incentives. This means that these provinces have given more incentives to investors than those allowed under the central government or national regulations (Nguyen Huong 2005).

capabilities of different investors. The pricing policy of Vinh Phuc was similar to that of firms ‘to penetrate the market’ or ‘to introduce products’. Prices were set at the lowest level with some incentives exceeding levels permitted by the central government (so-called “tearing the fence” (xé rào)). Since not many investors wanted to invest in building industrial zones while the provincial budget was limited, the reduction or exemption of land rent over a certain number of years has helped Vinh Phuc to convince investors. However, long-term-investors or big investors often rate other factors more highly than investment incentives (such as land rent exemption or a reduction of taxes in a certain number of years) since these investment incentives only help them in the short term (see also Appendix 5). These incentives might be attractive to small businesses, whose resources are often very limited. There are 33 provinces in the list of ‘tearing the fence’ provinces (including Nam Dinh, Thai Binh, Hung Yen, Bac Ninh) (2005a), but not many of them can attract much investment. Hence, it can be said that the Vinh Phuc strength must rely not only from incentives.

### ***9.2.2.3 Place and place product promotion***

#### ***Designing the image and the central message to investors***

The central messages to investors were expressed clearly, concisely and consistently in the open letters from the chairman of Vinh Phuc People’s Committee to investors, and have been reconfirmed strongly by all of the different holders of this office. Before The People’s Committee’s Electronic Portal was established in 2004, Vinh Phuc had issued publications in Vietnamese and English to promote itself. The letter from the chairman of The People’s Committee, Trinh Dinh Dung, was often placed in the first page of these publications. With a short letter (approximately 360 words), the chairman sent a message to investors (*Vinh Phuc - Comparative Advantages & Investment Opportunities* 2003):

- to clarify that Vinh Phuc appreciated the role of investors:
  - the title of the letter, “Dear Investors and Readers”, defined clearly that investors were the target subject; and
  - by saying “In recent years, the economy of the province has developed at high growth rates, with an annual average of 16%, an achievement argely contributed to by investors”.
- to inform potential investors on the distinguishing attributes of Vinh Phuc’s place product, such as ‘investment environment improvement’ and encouraging “all economic sectors” the following information was provided:

- Vinh Phuc's commitment: "we are fully aware that it is most important to improve the investment environment to attract the inflow investment and at the same time mobilise the resources from all economic sectors of the province"; and
- data of current foreign and domestic investment in Vinh Phuc were used as evidence for investors' preference for Vinh Phuc, which verified Vinh Phuc's capacity to implement its commitments to investors. For potential investors, these data were considered as the most important index in terms of reliability, and was an effective advertisement.

The letter ended with a motto which has become a rule of action for Vinh Phuc throughout this time: "We regard the success of investors as our own and sincerely wish you every success".

The outstanding achievements over a number of years have brought Vinh Phuc to a new position. Through working with partners and investors, Vinh Phuc leaders have gained experience and a broader vision. The executive capacity and knowledge of the government staff has also been improved. The spirit of the central message employed at a higher level reconfirms the determination of Vinh Phuc's leaders towards investors. All of this was expressed in another letter from the Chairman of Vinh Phuc People's Committee, Nguyen Ngoc Phi (the successor of Trinh Dinh Dung from 2004). The letter was concise (approximately 900 words in Vietnamese version and 500 words in English version) (2010):

- Vinh Phuc reconfirmed a friendly and appreciative attitude towards investors:
  - The letter was placed in the first heading of the official website of The People's Committee. Although the website's function is for all the various areas of the government's activity, the letter's major target was still investors ("Dear investors and readers").
  - The letter overviewed the data on the growth of the province and in the number of enterprises in recent years, and kept insisting that "the achievement was largely contributed by the investors and the enterprises operating in the province" (in the Vietnamese version) or "The achievement was largely contributed by the foreign enterprises" (in the English version targeting

foreign investors). The data on the rapid growth of the province was also an effective advertisement for the attractiveness of Vinh Phuc.

- The letter reviewed briefly and honestly Vinh Phuc's advantages, showing readily acceptable evidence and reasoning on the natural advantages and at the same time introduced a new advantage, that of becoming "one of the eight provinces in the Northern key economic region and being in the area of the national development plan for tourism".
- A clearer introduction of the distinguishing attributes of Vinh Phuc place product could be seen in the letter:
  - Stronger commitment to provide a good investment environment: "Vinh Phuc province is endeavouring to improve the investment environment ... Vinh Phuc province's policy is always consistent and concerned with reforming administrative procedures to meet the requirements of the business ...; timely settling of proposals and administrative procedures for citizens and businesses; further improvement in the mechanism of investment incentives" (in the Vietnamese version).
  - Commitment to provide infrastructure for industrial zones: "the first thing is to promote planning and preparation of investment; focusing investment on building necessary infrastructure to the fence of industrial parks" <sup>43</sup>. This commitment also aims at calling upon investors for constructing infrastructure inside industrial zones, The commitment to, and more importantly the implementation of, this 'sharing' policy has helped Vinh Phuc to find investors in a situation in which not many investors wanted to invest in infrastructure in Vinh Phuc.
  - Commitment to create new attributes of Vinh Phuc's place product by "training human resources; developing urban areas, services, tourism", which meet the current and future needs of investors. In marketing terms, this is to capture customer value in a process "to efficiently create more promising new value offerings" (Kotler, Keller & Burton 2009) (see Chapter 3).

A similar spirit was conveyed in the English version with a more concise statement "To reach that target, one of the most important solutions is to continue improving the investment environment, the preferential treatment of investment for sustainable socio-economic

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<sup>43</sup> That is if investors invest in infrastructure inside the industrial zone, the provincial government guarantees to provide the infrastructure connecting the industrial zones to the outside.

development, attracting the inflow investment and at the same time mobilising the resources from all economic sectors in our province”.

The letter ended with the mottos:

- Completely match with the target market of investors coming from foreign countries and other provinces. “Honour businesses and businessmen by specific action”. The central motto from the previous chairman was confirmed and strengthened, “All investors in Vinh Phuc are Vinh Phuc’s citizens. Success in business is Vinh Phuc’s success and pride” (in the Vietnamese version).<sup>44</sup>
- Deeply express the willingness to share success and difficulties with investors: “With the motivation “enterprises are prosperous, Vinh Phuc will be prosperous”, Vinh Phuc welcomes you, the investors and looks forward to sharing successes, sharing the difficulties to together build Vinh Phuc as increasingly prosperous and civilized” (in the Vietnamese version). “We are always imbued with our former Prime Minister Phan Van Khai’s words “Talented investors make the nation prosperous”. We are looking for more and more talented investors to invest in Vinh Phuc province” (in the English version).

There are some differences between the English and Vietnamese versions. The two versions were aimed at two different groups of customers. The messages, hence, were adjusted appropriately. The letter, for example, in the English version for foreign investors, cited the former Prime Minister Phan Van Khai’s words stating that not only Vinh Phuc’s government but also the central government appreciated the role of investors. This point was crucial for foreign investors. Before settling on a specific province, they consider the policies and attitudes of the central government first. Vinh Phuc was well informed about the process of decision making by foreign investors.

All the slogans and messages attempted to distinguish Vinh Phuc from the crowd. Bias against private businesses and businessmen became one consequence of the ideology of a centralized economy. Although the central government, as well as many provincial governments, announced a move toward the market economy, the role of private sector was not always recognized properly, especially in practice. The PCI survey results demonstrate the fact that private enterprises face many obstacles from local authorities (VNCI & VCCI

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<sup>44</sup> The slogan in the English version is: “All investors are citizens of Vinh Phuc. Benefits and good performance are the pride of province”.

2006b, 2006c, 2007, 2008a). The motto: “honour businesses and businessmen” has separated the image of Vinh Phuc from this commonly negative image. Vinh Phuc commits to do this “by specific actions” to differentiate its image from the mass of ‘saying but not doing’. This meets the image of a place that investors expect. Investors prefer practical and specific offerings.

### ***Communicating the image and the central message***

The image and the central message have been communicated and enhanced through different varieties of promotional channels and occasions, as noted below.

- *Investment conferences or meetings:*
  - Holding annual business conferences (Nguyen Ngoc Phi 2007).
  - The leaders regularly schedule meetings with enterprises and are willing to receive potential investors, even over weekends (People's Committee of Vinh Phuc Province 2010).
- *Attitude:* A friendly, dedicated and truthful attitude to investors in meetings (e.g. the annual meetings on the occasion of the New Year) (Nguyen Ngoc Phi 2005).
- *Provincial website:* The provincial electronic portal has been designed so that it is able to convey the messages and to provide useful information to investors<sup>45</sup> (see the Vinh Phuc Portal).
- *Publications:* Promotional documents are delivered in investment conferences, meetings or through Vietnamese Chambers of Commerce, in overseas business visits by the provincial leaders and businessmen (Appendix 5).
- *Existing investors:* Investors operating in Vinh Phuc are appreciated as a very effective promotional channel for Vinh Phuc (Appendix 5). The information and assessment of their position as provided by them is reliable and highly compelling information for potential investors. Furthermore, with the condition that the budget for promotional activities is very limited (see Appendix 5), particularly for activities overseas, this channel becomes the major form of advertising Vinh Phuc to potential foreign investors (Appendix 5). Vinh Phuc often calls upon investors to introduce their partners and friends to Vinh Phuc (Nguyen Ngoc Phi 2005) (see also Appendix 5).

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<sup>45</sup> See Vinh Phuc Portal at <http://www.vinhphuc.gov.vn/en/render.userLayoutRootNode.uP> and <http://www.vinhphuc.gov.vn/render.userLayoutRootNode.uP>

Surveys of the needs of enterprises, and assessment of the satisfaction of enterprises with Vinh Phuc's offerings, are made through annual conferences and meetings (Nguyen Ngoc Phi 2005, 2007).

### ***Evaluating the Place and Place Product Promotion of Vinh Phuc***

Vinh Phuc has executed the three marketing principles in the construction and transmission of images: one voice, repetition and reality. The messages are appropriate, consistent and clear on all promotional pieces and communication channels (letters, publications, website and the like). The one-voice messages are repeated and consolidated across the different time periods. More importantly, the messages rely on the design and implementation of the product strategy, i.e. they are realistic. In general, Vinh Phuc meets the criterion of dealing "fairly and honestly", and does not "give promises that you cannot deliver", thus avoiding "the common weakness of place promotion practices" (see Chapter 4). The image of an entrepreneurial province has been built up for Vinh Phuc. Once the image has been tested over time and by events, and become the perception of the public, it develops into a place product attribute. With the commitment that "we always extend our sincere feeling, and respect our commitments and our reputation to the investors" (Nguyen Ngoc Phi 2010), Vinh Phuc is well aware of the value of this.

Vinh Phuc has met three of the four criteria for designing images suggested in the model (see Chapter 4): easily understandable (not leading to confusion); suggestive (the reason to take the place); and distinctive (making the place distinguishable from the crowd). However, the criterion of providing *attractive* (e.g. eye-catching) images is not met by Vinh Phuc. The promotional publications (e.g. Vinh Phuc – Potentialities for Economic Development and Investment Opportunities for Cooperation) lack impressive images and logos concisely expressing the messages to viewers. Vinh Phuc has not got many different physical designs to express the contents which need to be conveyed. However, this weakness is technical in nature rather than strategic. Since the target of the promotion is investors, this weakness is not as critical as in the case in which the target is tourists.



### **9.3 Ha Tay province: Hoa Lac urban development – the failure of the projects of a scientific city during 1996-2007<sup>46</sup>**

#### **9.3.1 Good vision and good strategic planning**

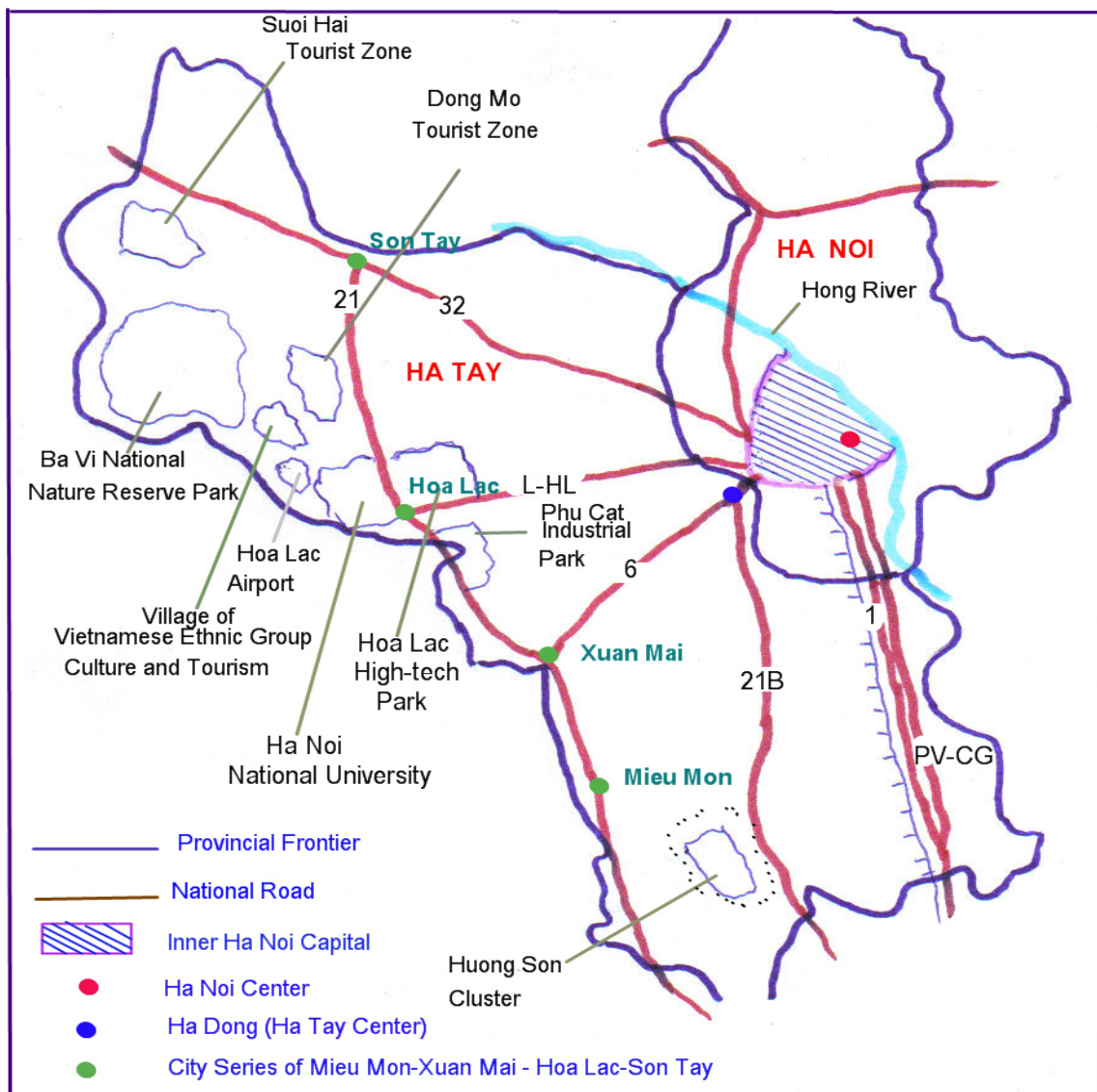
##### ***9.3.1.1 Initial advantages***

Hoa Lac is a land full of potential. It is not far away from Hanoi, about 30 kms (see maps 9.1 and 9.2), and hence not far from the national economic development centre, leading universities, schools and research institutes, Noi Bai International Airport, as well as head offices of the central government and state. However, before the 1990s the land area had been very underdeveloped and was sparsely populated by mostly ethnic minorities. This is the result of a wet rice monoculture and of the absence of any industry for very long time up until the 1990s. Hoa Lac was a land of hills and mountains alternating with small pieces cultivatable wet rice land. For a long time, it had been very difficult for the government to encourage people to migrate to this hilly area, in the so-called “building new economic zones” programs, because people did not know what to cultivate, except growing a few plants with low economic value such as cassava and tea. The people who were mobilized to the new economic zones were often very poor in rural areas. They lacked capital and knowledge while the government, with the very limited budget of the post-war and trade-embargo period, did not give them the necessary support. Some areas were still uncultivated. However, this low value land use was a big advantage in developing non-agricultural projects. Hoa Lac hilly terrain is good for construction. A vast land, sparsely populated, with many abandoned areas, is a major advantage in easily acquiring land for projects. With the addition of a location adjacent to Hanoi, Hoa Lac had unique advantages for developing into a modern science city.

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<sup>46</sup> Some raw materials and ideas not used yet in the file ‘case of Ha Tay 2’.

**Map 9.1: Ha Tay in the late 1990s**



Source: Sketched by the author in reference to Carographic Publishing House 2006 and other sources.

### ***9.3.1.2 Initial vision and strategic planning of the projects***

#### ***Hoa Lac Hi-Tech Park (HHTP), Lang–Hoa Lac Highway and Ha Noi’s satellite cities***

The idea of HHTP was formed in the mind of the leaders of the central government in 1992 (Viet Dung 2008). Although capital resources as well as the capacity to manage and implement such a project were limited then, the steps for putting the idea into practice still went ahead as an illustration of the central government’s determination. By January 1996, the project was formed (*The Prime Minister Nguyen Tan Dung visited the Hoa Lac Hi-tech Park* 2006; Vu & Thanh 2007) and then JICA<sup>47</sup> was invited as the consultant. At the same time in 1996, the Lang–Hoa Lac Highway started to be built (see Map 9.1), to kick-off the development of this large area of land, which was still in agricultural-forestry uses or uncultivated land at that time. The highway was designed with 8 car lanes, a maximum speed of 80 kms/h, and traffic capacity of 1,500 to 2,000 cars/day (see also Appendix 3). As a kick-start for the national key projects, the Lang–Hoa Lac Highway received priority for capital investment at that time, and was directed from the central government. The capital for its Phase 1 was mobilized by 40% funding from the national state budget and 60% from a loan of the Maritime Bank with a direct intervention of the central government (Ministry of Transportation & Ministry of Finance 1997). In 1997, the Prime Minister, by the Decision 327/TTg (2 June 1997), approved the planning of the urban series of Mieu Mon–Xuan Mai–Hoa Lac–Son Tay, all within Ha Tay’s territory (see Map 9.2) (Nguyen Trang An 2009), the earliest plan of Ha Noi’s satellite cities. By 1998, JICA submitted the feasibility study report on the 1,650ha of the Hoa Lac High-tech project (Vu & Thanh 2007). By August 1998, the State Verification Council of Investment Projects verified and submitted the project to the Prime Minister. The planning of the HHTP designed by JICA was a good plan, ensuring the working functions of a modern high-tech park. In the original plan,<sup>48</sup> the HHTP included the following main functions:

- *Software Park* was the area for businesses in the field of software production and business.
- *Research and Development (R&D)* was the centre for research, applied implementation of high technology, and training of talented individuals for the high technology sector.

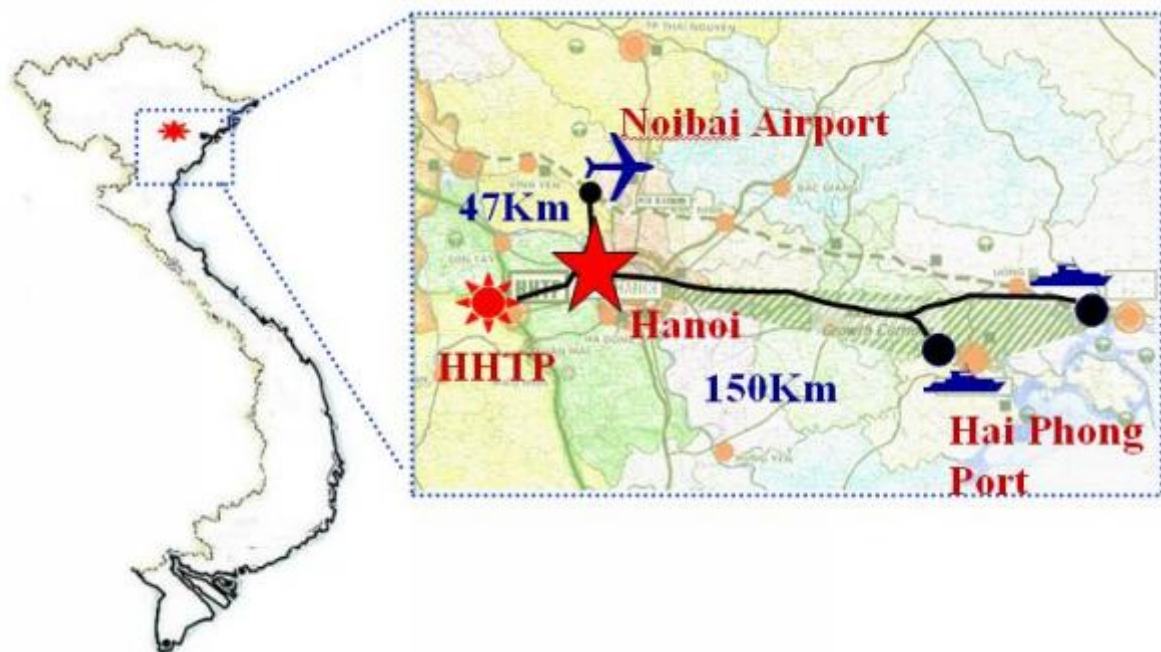
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<sup>47</sup> JICA (Japan International Cooperation Agency) is the operating agency of the Japanese Government’s ODA.

<sup>48</sup> The original plan was adjusted in 2008.

- *Hi-Tech Industrial Zone* was the concentration of manufacturing high-tech products. The Hi-Tech Industrial Zone was planned to have a bonded warehouse to provide services for export and import.
- *Local Education and Training* was the area for universities, centres for education, and vocational training to provide high qualified staff.
- *Centre Area* was the arrangement for public services such as administrative buildings, office work, conference centres, information centres and museums.
- *Services Centre* provided a range of services, including trade, business, supermarkets, restaurants, hotels and health services (Hoa Lac Hi-tech Park 2009).

**Map 9.2: Strategic location of the Hoa Lac High-tech Park (HHTP)**



Source: (Hoa Lac Hi-tech Park 2009).

By October 1998, the Prime Minister approved the master planning and Phase I and Step 1 of the project. In this decision, the function of HHTP was officially determined as follow:

The HHTP is an important factor to promote the industrialization and modernization of the regional and national economy, with a role of bridging point to receive high-tech transfers and to advance toward creating new high-tech products; it is an experiment, a pilot for experiences to promote the development of high-tech zones in the whole country. (Vietnamese Prime Minister 1998c)

The HHTP was divided into three stages. Phase I was 800 hectares, planned to be completed in 2005, and within it Step 1 was 200ha (Viet Newspaper 2005c; 1998c). As approved, Step 1 of Phase I was funded by the capital from the state budget for the technical infrastructure and the other categories of construction were funded from multi-capital sources (state budgets, BOT, FDI and others) (Viet Newspaper 2005c; 1998c). Aside from defining the important function of the HHTP in this decision the Prime Minister also directed that:

The HHTP is eligible for financial incentives at the highest level under the Law on Encouragement of Domestic Investment and the Law on Foreign Investment, and for other priorities at the highest level according to the current regulations. (1998c)

### ***Vietnam National University Ha Noi (VNU Hanoi): The University City***

The national university was a special model of university in Vietnam. The two National Universities (Hanoi and HCM City) were designed to become the two international-level centres for higher education and scientific research. Many national resources and efforts were been reserved for this goal. The VNU Hanoi was founded in 1993 by the Decree No 97/CP dated 10 December 1993 (cited in Vietnamese Prime Minister 1994). The regulations on its organization and operation were promulgated by the decision of the Prime Minister in 1994 (1994). This decision placed the university in an exceptional position. Particularly, it regulated that the VNU Ha Noi had legal status with a seal bearing the national coat of arms. The Director of the VNU Hanoi is appointed and removed by the Prime Minister and is responsible to the Prime Minister and the Minister of Education and Training. His function was also determined by this decision:

The VNU Hanoi is a centre for multidisciplinary and interdisciplinary training and scientific research, an important hub of cultural and scientific exchange, and holds a special position in the university system of the Socialist Republic of Vietnam... The VNU Hanoi functions to train senior scientific and technological experts ... The National University Hanoi is responsible for assisting other universities to improve the quality of training and scientific research... The National University Hanoi is also given priority by the state in terms of staff, facilities and equipment in order to renovate the training activities of tertiary education, postgraduate studies and scientific research to meet the requirements of the country's development. (1994)

With such a target, building new infrastructure for the VNU Hanoi became a national key project. In 1995, the Prime Minister Vo Van Kiet signed the decision to use 1000 hectare in

Hoa Lac (Ha Tay)<sup>49</sup> for constructing the VNU Ha Noi (1995b). In January 1998, the master planning was approved by the Prime Minister Phan Van Khai (Vietnamese Prime Minister 1998b). The decision in 2001 by the Prime Minister on the planning of the university and college network 2001-2010 directed that there should be a “concentration of investment for building the two national universities at the locations approved by the Prime Minister” (Vietnamese Prime Minister 2001).

If the HHTP was the dream and the vision of the Vietnamese leaders of a high-tech model, the national university was the dream of a model of training scientists and high-level scientific research. The two dreams were set in the same area for the purpose of supporting each other, with Vietnam having a science city, right next to the capital (see Map 9.1).

### ***Other projects***

#### *Village of Vietnamese Ethnic Group Culture: Tourism (the Village of Culture)*

As mentioned above, the locations near Ha Noi which have a large land availability and the richness of many cultures are prospective locations for a type of cultural tourism. In 1997 the Prime Minister Vo Van Kiet approved the master planning for the Village of Vietnamese Ethnic Group Culture – Tourism in Dong Mo (Ha Tay) (see Map 9.1), with an area of 830 hectares (385 hectares of land and 445 hectares of water). This is a part of the overall structure of an urban series in the region. The target of the project is determined in the decision as follows:

Building the Village of Vietnamese Ethnic Group Culture and Tourism as a centre for national cultural activities which recreates, preserves, develops and exploits the heritage of the traditional culture of 54 ethnic family groups<sup>50</sup> to introduce to the people of the country and to international visitors; and to meet the demands of healthy entertainment and sports activities. Through cultural and art activities with diversified, attractive and strong ethnic identity content and forms to educate the love of nature, country and people, it will improve the people’s standard of knowledge and fulfil the people’s desire for the genuine, the good, the beautiful. At the same time these activities will bring revenues to provide some return on investment in the maintenance and development of the Village. The Village is a big project cluster, a priority investment. (Vietnamese Prime Minister 1997a)

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<sup>49</sup> At that time, this area was a state – run farm, that is the ownership and the use right belongs to the State (1995b)

<sup>50</sup> Vietnam has 54 ethnics groups.

As such, with the Village of Vietnamese Ethnic Group Culture and Tourism, this area plays not only an important role of scientific and technological development but also a role in terms of national culture. In the master planning of Vietnam tourist development 1995-2010, the Village was reconfirmed as a priority for investment (Vietnamese Prime Minister 1995a). In October 1999, the Prime Minister conducted the opening ceremony of the building of the Village. In the national tourism development strategy of the period 1995-2010, Ha Tay was classified as a priority area (1995a).

#### *Dong Mo International Golf Island: Dong Mo Tourism Zone*

This was a private project. Located at the foot of the Ba Vi Mountain (Ba Vi National Nature Reserve Park) (see Map 9.1), the golf island was built in 1993, with the first investment capital of USD21,850,000, in an area of 350 hectares of land and 1,500 hectares of the surrounding lakes (Ha Tay Newspaper 2007). Along with the golf course, the charming river and the mountain landscape, it was in a quiet area which gave guests space to relax comfortably. The small islands scattered on the lake are a natural feature of the resort. Having a large area, it was designed to become a tourism cluster, including a system of services. Favoured by its natural beauty and located in a good position, it was an ideal place to meet the needs for rest and relaxation of the high income class in the Ha Noi and Hoa Lac urban area.

#### *North Phu Cat Industrial Zone*

Apart from these three national key projects, the North Phu Cat Industrial Zone (see Map 9.1) was another infrastructure project with a total area of 1200 hectares; Phase I was 306 hectares (Vietnam Industrial Zone 2008). In August 1997, it was in the list of priority investment projects approved by the Prime Minister (at the same time as the Kim Hoa industrial zone of Vinh Phuc) (Vietnamese Prime Minister 1997b). The North Phu Cat Industrial Zone is a particular function of Hoa Lac urban area.

At the same time as planning the Hoa Lac area, the central government also planned the development of Ha Noi Capital to the west to connect with this area of Ha Tay. The decision by the Prime Minister on the Ha Noi Capital Master Planning to 2020, referred to the position of Ha Tay as follows:

Space planning structure (for Ha Noi) includes Hanoi Centre and the surrounding cities belonging to Ha Tay, Vinh Phuc, Bac Ninh and Hung Yen with an influential radius of 30 to 50 kms. Ha Noi's long-term development direction is mainly the West, with forming urban chains of Mieu Mon - Xuan Mai - Hoa Lac - Son Tay (Ha Tay); the North with the urban clusters of Soc Son (Ha Noi) - Xuan Hoa - Dai Lai - Phuc Yen (Vinh Phuc) and other urban areas to exploit the advantages of geographical location, natural conditions, transport and infrastructure ... The airports Gia Lam, Bach Mai (Ha Noi) and Hoa Lac (Ha Tay) are the domestic airports. In the future, the international airport will be built in Mieu Mon (Ha Tay). (Vietnamese Prime Minister 1998a)

As such, by this decision, almost all Ha Tay's territory belongs to Ha Noi's space planning structure and is the first main long-term development direction of Ha Noi. A range of projects for urban development and other infrastructure have been planned and implemented on Ha Noi's territory, along the Lang-Hoa Lac highway, such as the first National Sports Complex with an area of 247 hectares started to be built in Tu Liem District in November 2000 and completed in 2003.

The Lang-Hoa Lac Highway and the state big infrastructure projects created a strong stimulus to further investment (both state and private). Investors competed for an investment location in this area. A series of projects was formed with a variety of industries and sizes along along the Lang-Hoa Lac Highway.

#### ***9.3.1.3 Remarks on vision and strategic planning***

The idea of a high-tech park in a modern urban series with full services in the future – connected well with the capital Hanoi, the Noi Bai International Airport and the Hai Phong port, and supported by a long-standing system of the top-ranking universities and, research institutes in Ha Noi, where there is a concentration of 60% the country's capacity of science and technology which could provide a rich source of high level human resources (Hoa Lac Hi-tech Park 2009), is a visionary idea. As designed, it brings together a cluster of new establishments of high quality training and education, typified by the planning and building of a new establishment for the model of the VNU Ha Noi, at the same time as building the HHTP. This area is a lever for the development of science, technology and economics throughout the country and especially in the Northern area.



The selection of a large area of land west of Ha Noi with a good stratum structure for industrial construction and supported by other natural and economic advantages provides an ideal location to perform the mission of the HHTP and of the Vietnam National University (Ha Noi), with a minimum initial investment cost. This idea, and the plans which it created, reflected a strategic vision of building the foundation for the future of Vietnam's science, technology and economy.

### **9.3.2. Determination of the Vietnam top leaders and the failure in deploying the project in the period 1998-2007**

The project made little progress from its inception through to 2005-2007. The delay was in the first phase of implementing the project, the land acquisition. Pursuant to the regulations and normal practices, the land acquisition was assigned to the Ha Tay government. However, due to the serious problems with this issue, in March 2002, the Prime Minister decided to set up a separate Steering Committee of Acquiring Land with the attendance of the senior officials of the central government “to help the Prime Minister direct all the activities related to compensation, migration, resettlement and land clearance for the areas planned to build the HHTP, the VNU Hanoi and the Village of Vietnamese Ethnic Group Culture and Tourism” (Vietnamese Prime Minister 2002). The decision appointed a Steering Committee whose members included:

- Chief: Chairman of Ha Tay People's Committee.
- Deputy Chief: Deputy Chairman of Ha Tay People's Committee.
- The Committee members:
  - Deputy Minister of Science, Technology and Environment, as Director of Management of the HHTP Project;
  - Deputy Minister of Culture – Information, the Director of Management of the Village of Culture Project;
  - Deputy Director of VNU Hanoi, as Director of Management of the VNU Ha Noi project;
  - Deputy Minister of Construction; and
  - Deputy Director of Vietnam General Land Registry Office.

The decision demonstrated the central government's determination to implement the three key projects. This committee was responsible directly to the Prime Minister. The reason for

the central government's direct intervention was that these were important national projects, but they were delayed by the inefficient administration of the Ha Tay government. Besides being Vietnam's "take off" dream and proving the motto "take short-cuts to the front" (đi tắt, đón đầu) repeated in almost all the Party's resolutions and the government's documents, Vietnam also placed big economic expectations on the HHTP. Nguyen Van Lang, the Director of HHTP, in an interview of the media in April 2007, said "To answer the question why the Prime Minister Nguyen Tan Dung has been very interested and directed drastically for the construction and development of the HHTP, I would refer to some data as follows. One of Taiwan's hi-tech parks (with an area of 655 hectare, the total investment capital of USD35 billion and 113,000 technical workers) in the single year of 2005 made USD30.7 billion. We know that, the whole Dong Nai province with more than 20 industrial parks, nearly 630 invested projects, about 67% of the industrial parks filled, some filled up to 98%, with 223,000 workers, but only created less than USD5 billion (at the time in 2005 it was USD3.8 billion)" (Vu & Thanh 2007).

However, HHTP was a typically slow-moving project and land acquisition has remained a problem. By 2005, which was the planned completion date for the 800 hectares Phase I, the project had acquired less than 200 hectares land, with only a few small projects built (Viet Newspaper 2005c). Figure 9.1 shows the image of a part of the HHTP area in 2005, showing that the houses and agricultural surroundings were completely untouched. It is also notable that in 2005, the Internet was not available at the HHTP site. A staff member of the HHTP management board explained that the internet connection port was accessible, but due lack of demand the equipment had not yet been installed (Viet Newspaper 2005b). It wasn't until 2006 that the HHTP website started operating and providing information on the HHTP.

**Figure 9.1: Farm and house in HHTP area in 2005**



Note: The house (still there) and the farm of the household of Nguyen Thanh H. spread nearly 6,000m<sup>2</sup> in the Tan Xa commune, Thach That district in 200 hectares planned for Step 1, Phase 1 of the HHTP.

Source: (Viet Newspaper 2005c).

Thus until early 2005, the HHTP was not able to provide even the basic infrastructure and facilities for investors' operations. With the attraction of being the first hi-tech part of Vietnam cited in a unique location, the 'waiting-list' for HHTP included many potential investors. Among them were nationally and internationally first-ranked investors in the field of hi-tech or high value added production. However, the fact above provides the readily understandable reasons why the investors, who had proposed their investment project and investment intentions, were not able to go ahead. Intel Corporation (USA) proposed a project for an Assembly and Test Manufacturing (ATM) factory with an area of 40 hectares and an investment of around USD400 million. The Vietnam Posts and Telecommunications Group (VNPT) proposed a project of 100 hectares to build a complex of production and business of telecommunications equipment (USD350 million). VINACONEX Corporation, the Ha Noi Construction Corporation, Charmvit Group (South Korea) proposed to invest in the entertainment area, in the urban and commercial district and in new residential developments. Hanoi City People's Committee proposed a project in the software park. The Vietnam

Shipbuilding Industry Corporation (VINASHIN), the General Ship Company VN, the Bank for Investment and Development of Vietnam and many other investors had also proposed investment projects. In practice, none of the above projects could be implemented (Viet Newspaper 2005b).

This does not only mean that the HHTP lost the opportunities, but also that the potential investors suffered losses in terms of costs and time. Many investors had to choose another location, not only because the HHTP could not provide them with the basic infrastructure at the time they wished to invest, but more importantly because the progress of the HHTP did not provide investors with confidence. While the large enterprises and the research and training establishments, which are run by the state or have a close relation with the state, remained on the waiting list, the foreign or private investors could select other locations or even give up their intention to invest in Vietnam altogether.

Intel is an example. It is an investor that is sought by many countries. As detailed by Mr. Brian Krzanich, of Intel Vietnam, Intel had been searching for a site for the construction of its factory in Vietnam since 2002. The reason for selecting Vietnam was very clear. Vietnam has a young and dynamic population, the education system has been increasingly improved, the workforce is plentiful and the government has a modern point of view (Sai Gon High-tech Park 2008). At that time, the HHTP was the only hi-tech park approved in Vietnam, but Intel could not deploy its idea there. The Sai Gon Hi-Tech Park's planning was approved on 23/05/2003 (Sai Gon High-tech Park 2006), five years after the HHTP. As a result of its ability to move quickly after being approved, in February 2006 the Sai Gon Hi-Tech Park attracted Intel's project, with an initial investment of USD300 million. By November 2006, Intel decided to expand the factory and raised its investment to USD one billion, bringing this project to be its largest ATM in the world in terms of size. As planned it went into production in 2009 with the employment of 4000 workers and estimated exports of USD5-6 billion per year (Sai Gon High-tech Park 2008). Hoa Lac lost a great opportunity. It was only in late 2005 (05/10/2005), that the HHTP granted the first investment licence to Noble Electronic Limited Company Vietnam, a branch of the Teikoku Tsushin Kogyo Information Industrial Company, with the initial capital investment of nearly USD5 million (T.An 2005).

According to the official inspection of Prime Minister Nguyen Tan Dung in his first visit to the HHTP in August 2006 (two months after he came into office), the project had only

achieved a few tasks of Step 1 of Phase I, 8 years after the date of the approving decision as follows:

- acquisition of 200 hectares out of the 800 hectare land of Phase 1;
- construction of some inner roads, the power stations, the water supply station; and
- six small projects licensed with total capital of over USD7 million. (*The Prime Minister Nguyen Tan Dung visited the Hoa Lac Hi-tech Park 2006*)

By April 2007, the HHTP had only attracted a few more small projects to increase the total invested capital to nearly USD7 million (Vu & Thanh 2007). In an interview with the press in April 2007, Nguyen Van Lang, the Director of HHTP, admitted the problems of the HHTP as follows:

Because some activities have not been organized well, the land was not acquired and cleared or was done very slowly, leading to low investment in infrastructure. So far, only 8 kms of road and a few of the smaller facilities have been done ...I should also say that the most current difficulty for us is still to acquire the land. (Vu & Thanh 2007)

The project of the National University, Hanoi, has been in a similar situation. According to the schedule, the project would complete the construction of phase 1 in 2007 and about 40% of the university units would settle in the location at that time. But by the end of 2008, the land clearance was still only half finished (*Hanoi National University "explains" about 130ha of land abandoned 2009*).

This land area was supposed to be easily acquired. At the time the project was approved, most of the area for the HHTP and the Village of Culture project was ‘new economic land’, where people were encouraged to come to reclaim the land, by planting tea and cassava. Each household was allocated by the local government an area for housing and cultivation. In addition, depending on the capacity of households, they could be assigned a hilly area to look after or to plant forest and were paid by the government in some way through the governmental program of “Greening bold hills” (phủ xanh đồi trọc). The VNU Ha Noi was located in the area of a state-run farm, i.e. it was fully owned and used by the state. In these conditions, the acquisition of land, with compensation and resettlement for the people involved, should not have required as high cost or as complex procedures as most projects in urban areas or on agricultural lands where the population density was high and cultivation has been underway for a long time. The resettlement process was also supposed to be easy as the

number of households was not that great, while the surrounding land foundation was large. However, the actual outcome was completely different.

What are the reasons for this? The inspection of the Central Government Office on the management and use of land in Hoa Lac Hi-tech Park concluded that the local government had for many years governed loosely and made violations in land management, compensation and clearance, particularly unauthorised land allocation and illegal transfer of land use rights. It also permitted land encroachment for many years without it being detected, corrected or resolved in a timely manner (Viet Anh 2005b). Media investigations revealed a series of such cases and the motivation behind them was often large amounts of money (e.g. Thuy Duong 2009; Viet Anh 2005b). The PCI of Ha Tay studied earlier substantial documentation provided about these problems, as they reflected in the perspectives of private firms.

## **9.4 Success, failure and conditions for effectively applying the model of place marketing**

### **9.4.1 Success factors of Vinh Phuc**

#### ***9.4.1.1 Good leadership: Strong, creative, unified and dedicated***

‘Breakthrough’ vision and ‘first move’ planning were generated by a creative leadership. Difficulties, obstacles and contradictions were reviewed in an objective and realistic assessment, leading to early and accurate determination of the breakthrough vision that was to develop industrial zones and clusters by mobilizing resources from outside the province. In terms of implementation, the three key issues were identified and resolved successfully by a strong, unified and dedicated leadership: businesses environment improvement, capital for building infrastructure of industrial zones and site clearance and land acquisition. Vinh Phuc leaders abandoned the ideology of ‘self-help for self-improvement’ to shift to ‘cooperationism’. At the same time, Vinh Phuc moderated the count on the resources and the direction of the central government, and actively carried out local initiatives.

#### ***9.4.1.2 Presence of place marketing approach***

The presence of the place marketing approach in developing a vision in the 1996 planning paper can be recognized by Vinh Phuc identifying its development capability based on attracting and meeting the needs of outside investors. This presence was absolutely clear as

Vinh Phuc deployed this vision into a marketing mix in which the components of the mix are designed and implemented compatibly with each other and together they work towards creating an effective response to the target market. The marketing mix is summarized in Figure 8.15. Limited initial advantages did not allow Vinh Phuc to pursue a target market of industries of high technology or high value added, and its ability to develop the local private sector was low because the savings of the population were small. Therefore, its target market was outside investors of conventional technology industries.

Construction of industrial zones to provide space, infrastructure and a transparent business environment were essential for investors from outside. Setting the prices at a low level was consistent with the place product, as well as the target market of investors in medium technology industries. It was suitable for the introduction or initial market penetration stage. The low and variable prices allowed Vinh Phuc to bring its offerings to more small and medium investors. This was necessary for capital and capacity accumulation in the initial phase, as well being a necessary condition to nurture local investors or investors growing rapidly in the local area. Such investors may stay for the long-term in the locality that is maintaining customer loyalty and creating the potential for sustainable growth. Promotional activities with the central motto “All Investors in Vinh Phuc are Vinh Phuc’s Citizens - Enterprises’ success is Vinh Phuc’s success and pride” matched perfectly with the target market and the place product decision. When a number of other provinces in the region started to implement this approach, Vinh Phuc had already positioned itself and made efforts to maintain that position by continuing to improve the investment environment, adding more value to its place product so that it could deliver its place product better than other provinces could. Vinh Phuc’s PCI score is a measure of the effectiveness of these efforts.

Good leadership was a prerequisite for the successful implementation of the place marketing approach in Vinh Phuc. The absence of an innovative vision, the lack of the ability to improve the investment environment or to convince investors to invest in industrial zone construction would have destroyed Vinh Phuc’s ability to deliver investors the place product that it did. A unified leadership allowed the province to maintain the stability needed to implement effective place marketing strategies. A study mentioned in Chapter 4 reveals that the most important factor for successfully implementing place marketing to investors is a stable political environment, with a consensus among the political interests, in which a long-term philosophy and orientation rather than short-term strategies is a decisive dimension

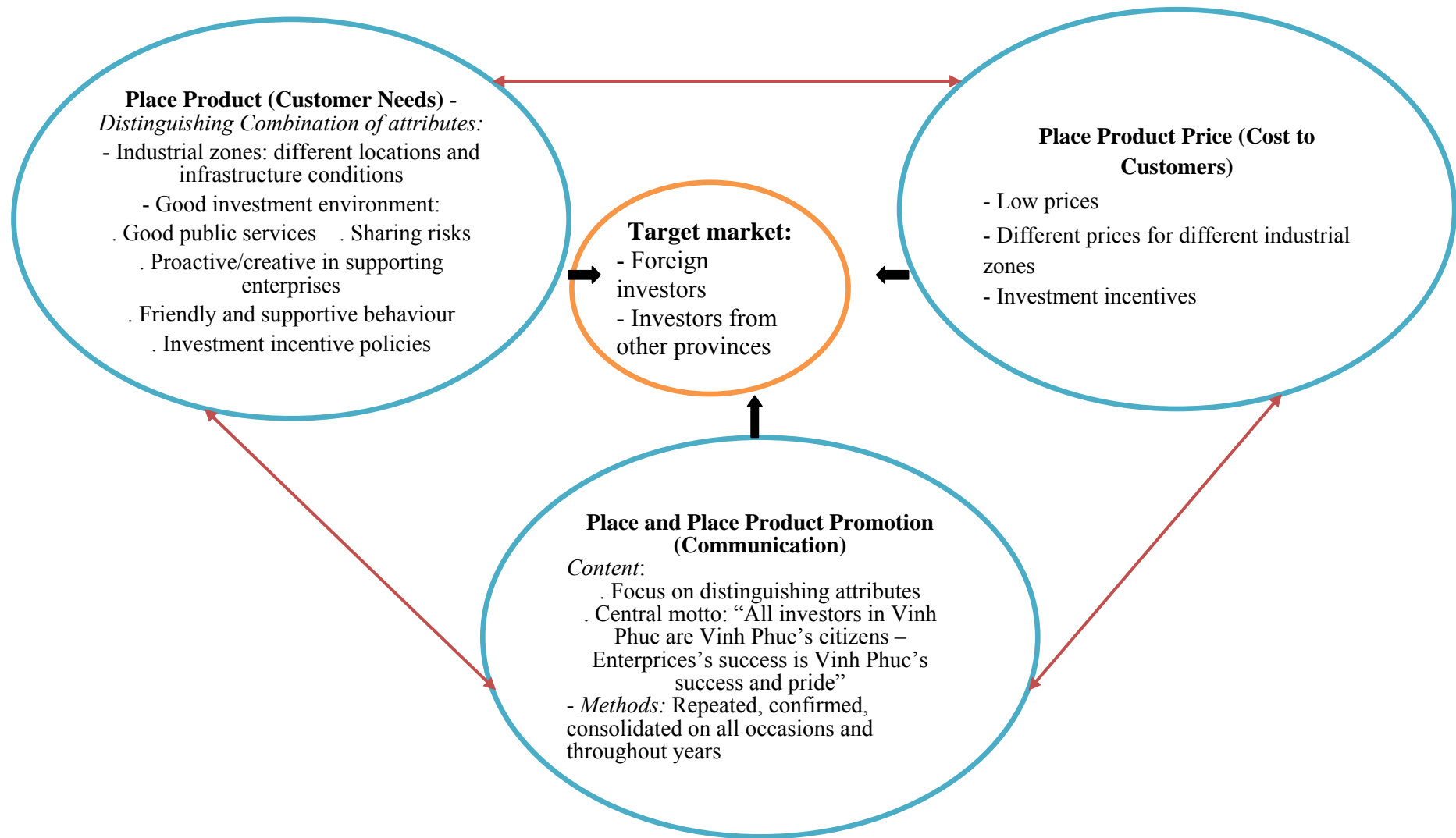
(Ulaga, Sharma & Krishnan 2002). The case study of Vinh Phuc presents an illustration of this claim.

The role of the leadership for Vinh Phuc's success can be summarised by the following remark:

The success, tracing back to the primary cause, is thanks to the unanimity of the leaders, especially amongst the key leaders of the province. The secret is all the thought, capacity and brainpower of government officials, centred on fulfilling the mission. (Le Xuan Dinh 2006)



Figure 9.2: Marketing mix of Vinh Phuc province



#### **9.4.2 Causes hindering the implementation of Hoa Lac projects**

The obvious cause of the delay in the Hoa Lac projects was the failure in resolving the issue of site clearance. In that failure can be seen the absence of a strong, creative, unified and dedicated leadership, the Vinh Phuc's leadership style. Throughout the years, the local government, in the broad management of projects, failed to provide effective solutions to speed up land acquisition for them. Conversely, the presence of a series of the "negative cases" – violation of laws and regulations of the local authorities from the communal to the provincial authorities – multiplied the problem. When people became aware of the negative cases, opposition to land acquisition increased. Even households who had handed their land over to the projects became opposed to the transfer, contributing to the problem of re-encroachment. This situation accumulated over many years and made the problem become virtually unsolvable. The poor leadership of Ha Tay for the period was measured by the PCI for 2005, in which Ha Tay's 'proactivity of leadership' as assessed by the enterprises, was the worst among the 42 provinces and cities surveyed (Minimum (Ha Tay): 1.2; Maximum (Binh Duong): 9.3) (Malesky, Tran, Dau, Le, Huynh, Ha et al. 2006) (see also Chapter 7 for more Ha Tay PCI).

There was also evidence of the absence of the place marketing approach in Ha Tay, especially the period before 2005. As argued in Chapter 3, place products exist and are exchanged with and without the action of place marketing management. Place marketing management starts when the place is aware of the role of place marketing and makes efforts in seeking models and means to improve the efficiency of exchange. The Ha Tay authorities and the management boards of Hoa Lac projects made few effective efforts in these regards. The overall PCI score refers to the performance or performance effectiveness of place marketing management. As cited in the previous chapters, the Ha Tay overall PCI was also extremely low. The initial attraction of Hoa Lac as a place product, supported by many factors including the regions initial advantages, could not be delivered in practice.

#### **9.4.3 Conditions for effectively applying the model of place marketing**

Both cases above, of success and of failure, show the key role of two factors: leadership and site clearance. In the case of Vinh Phuc, good leadership helped it to draw up a good

development strategy. Along with the success of site clearance, good leadership was the necessary condition for success in implementing the decisions on place marketing, effectively delivering a good place product with attributes highly appreciated by enterprises, as shown by the PCI scores and the investment by enterprises. In the case of Ha Tay, the absence of good leadership and the failure of site clearance blocked the impact of the initial advantages. Chapter 8 also revealed the low value of Ha Noi's PCI sub-indices of Proactivity of Leadership, Transparency and Informal Charges, and the correlation of this with the limited attraction of Ha Noi to investors.

To evaluate the effective applicability of the model of place marketing to the provinces and cities in Vietnam, given that the good leadership and the success of site clearance are the necessary conditions, it is necessary to answer the following question:

- 1) What conditions allowed Vinh Phuc to build and to maintain good leadership during the recent period? Could there come to be a Vinh Phuc leadership style in the context of Ha Tay, Ha Noi and other provinces and cities?
- 2) What is the possibility for Vinh Phuc to maintain good leadership in the future? Assuming that "a Vinh Phuc Leadership Style" can be maintained then: Is such leadership able to cope and continue to successfully solve the problems posed in the process of economic growth?
- 3) What conditions allowed Vinh Phuc to successfully resolve the problem of site clearance? Is it possible to apply such conditions to Ha Tay and the other provinces?

A full discussion of these important questions is beyond the scope of this thesis, but some initial comments are provided below.

Chapter 8 refers to the reality of the 'disease of state offices' and the weaknesses of the national legal system and enforcement methods. As argued in Chapter 8, these problems tended to be worsened by the interaction of several weaknesses in the context of Ha Noi, where the implementation of 'negative behaviour' brought large incomes to some of those implementing such behaviour. The interaction of these factors accumulated over the years to make the problems become more complex and more difficult to solve. Applying this point to the cases of

Ha Tay and Vinh Phuc shows that the advantages of geographical location, and especially the planning and the construction of key national projects, has pushed Ha Tay to the context where the implementation of ‘negative behaviour’ can bring large profits to those involved. The land market in Ha Tay has become active and complicated, with prices for transferring land use rights increasing rapidly. According to the regulations in Vietnam, the land is under public ownership “the land is owned by the public, and the State represents the owner” (“Đất đai thuộc sở hữu toàn dân do Nhà nước đại diện chủ sở hữu”) (*Vietnamese Land Law* 2003) . The people were given land use rights, but the State can revoke the land use rights to lease or grant those land rights to a particular project, either both private or public. In such cases, the people receive compensation, with the value of the compensation set by the State. For abandoned land areas, the State may assign or lease them to citizens and to businesses, and the compensation or allocation is made by the authorized government officials. As the price of transferring land use rights increases (or is likely to increase) quickly, holding the land use right for a certain piece of land also means owning something of real value. This also means that state officials administer the distribution of very valuable resources. Along with the weaknesses of the legal system in dealing with ‘negative behaviour’, this context is an environment conducive to this negative behaviour, such as the abuse of executive authority or even the violation of that authority, for the purpose of personal gain and to thrive. In addition, the race for positions of power in state offices has been increasing and become common (see Chapter 8).

Together, these factors generate an environment in which good leadership is difficult to form and to maintain. Even if there are qualified leaders, a weak legal system cannot give them the necessary tools to establish and maintain a good and strong leadership role. Similarly, the requirement that “all the thought, capacity, brainpower” should be “centred on fulfilling the mission” is unlikely to happen. Under those conditions, much thought and capacity would centre on the race for positions of power or negative behaviour. Ha Tay could be used as evidence. The secret of Vinh Phuc, therefore, is not readily applied to the context of Ha Noi and Ha Tay. For provinces with similar conditions as Vinh Phuc, there is still the difficult question: How to select those who have good abilities and qualities for leadership positions? The regulations on selection and promotion of state officials belong to the national institutions. It is one of the most difficult problems which has been questioned in many recent National

Assembly sessions (Hong Khanh 2009; Hong Linh 2008), particularly when the race for positions and power in state offices has become common.

Vinh Phuc started as a poor province, where there were few opportunities to get large amounts of income from the abuse of power or the violation of regulations. Relationships and transactions were fairly simple. Initially, the province had dedicated and visionary leaders. In the past decade, Vinh Phuc's industry has developed rapidly, but it is not yet a wealthy province. The land market is not as heated as that of Ha Tay. Compared with Ha Tay and Ha Noi, these are probably still good conditions for Vinh Phuc to maintain a leadership which is strong, dedicated and honest enough to implement strategic decisions and maintain the confidence of investors. However, growth will gradually bring Vinh Phuc to face the problems of Ha Tay and Ha Noi if the weaknesses in national institutions are not corrected in time.

The success of Vinh Phuc in terms of site clearance was significantly influenced by good leadership and by the objective factor that the market for land of Vinh Phuc has not changed as rapidly as that of Ha Tay. But, as pointed out above, there are major limitations in the application of the Vinh Phuc's leadership style to other provinces, as well as in maintaining this leadership style in Vinh Phuc. The growth rate of land prices of a region would go along with the economic growth or economic growth potential of the region where the control or intervention on the land market is mainly regulated by the State rather than by the provincial government. Even in Vinh Phuc, according to the Vinh Phuc Management Board of Industrial Zones and Attracting Investment, the acquisition of land was easy in the past, but has recently become difficult. The people do not want to hand over their land for unreasonable compensation compared with the market price, and are concerned about being without a job and about cultural matters such as the psychological fear of losing land and of changing traditions. As these aspects have become more prominent over time, complaints and difficulties are increasing (see Appendix 5).

Looking at the other provinces and cities, land acquisition is a critical and common difficulty for almost all the projects (Le Xuan Dinh 2006). As reported by investors under the Ministry of Transport, nearly 40 key national transport infrastructure projects over the country have been

delayed by site clearance problems (The People 2010). Some have been seriously delayed. For example, the construction of the 10 kms Mai Dich–Phap Van piece of the Phap Van Highway has not completed for more than ten years because 170 households do not agree to the amounts of compensation. Thanh Tri Bridge (across the Red River, Ha Noi) was completed, but the road to link the Bridge to the existing transport network was not implemented due to difficulties of site clearance, leading to the situation that no investor participated in the next bidding package of the project. Another key construction project, the Nhat Tan Bridge (also across the Red River, Ha Noi), faces a similar threat. Such seriously delayed projects are not uncommon. Many other similar cases have been listed in the reports of the Department of Transportation or in the media (Dinh Tinh 2010; The People 2010). Site clearance remains the most difficult aspect of the Hoa Lac projects, although there were big changes in the Ha Tay leadership and in the management boards of the projects. Up to February 2010, the cleared area has been estimated at more than 50% (Tu Nguyen 2010). The implementation progress of HCM City Hi-tech Park is better than that of the Hoa Lac Hi-tech Park, but it has not been excluded from facing site clearance problems (Viet Newspaper 2002).

The commonness of site clearance problems suggests some root cause which would be in the national mechanism. This suggestion as well as the not-yet-fully-answered questions above requires further research on conditions for successfully applying the model and sustaining achievements.

## **Chapter 10**

### **Conclusion**

In the past several decades place marketing has been implemented in many places around the world. In each type of place, place marketing can have different characteristics. It was once considered a cure for post-industrial cities that were plunged into crisis, although place marketing in this stage focused primarily on promotion. In a later stage, it has been implemented in a more focused, integrated and strategically oriented way. As in the history of development, place marketing develops most effectively when both the market economy and the technology employed have developed to a high level.

Place marketing in Viet Nam lacks the context of developed technology and market institutions, and few of the foundations of a market economy are available. With limitations in terms of both place product and promotional skills, Vietnamese cities and provinces began by building place products, initially in terms of simple place products. In a process of coming out of a subsidized economy where the barriers were erected in many places, policy focused on removing the barriers preventing the access of investors to the resources and on building attributes viewed positively by private investors. Obviously this is not place marketing in its full meaning. It is considered the first stage of place marketing, because removing barriers also means that attributes of a place product are created on purpose. The recognition of what the barriers are and how to remove them began to be seen from the perspective of the customer, i.e. the investor. This is a basic principle of marketing place.

Chapters 3 and 4 above contain an extensive analysis of the key concepts of place marketing and develop a model of place marketing management (summarised in Figure 4.4). This conceptual framework and management model provides the context in which both the current effectiveness of place marketing in Vietnamese cities and provinces and the value of moving to a more sophisticated application of place marketing can be assessed.

The overall examination of the 42 cities and provinces with components of the PCI as the measure of place marketing performance and other variables as the measure of the resulting economic outcomes (after excluding the influence of other factors on the outcomes) reveals the effects of good place marketing. In the cities or provinces where the place marketing activities are poor, the derived economic outcomes are low. The examination also points out an interaction between the PCI and initial advantages in generating outcomes. For provinces possessing high initial advantages, an improvement in their place marketing would have a bigger effect than in a province with lower initial advantages, and lead to a multiplier growth of economic outcomes. This higher economic growth can, in its turn, lead to a further improvement in initial conditions. By increasing the quality of place marketing, a place can achieve a higher economic growth. An economic growth circle can therefore be created in this way.

The more focussed assessment on the eight provinces in the Red River Delta, with more specific methods ensuring more accurate research results, shows a bolder and clearer picture. The conclusions about the effectiveness of good place marketing on the DPIO and FIO indicators, as well as the multiplier relationship between place marketing and initial advantages, are further strengthened. Despite the expectations of local leaders, initial advantages do not mean much unless you undertake good place marketing. Place marketing seems to be a prerequisite for gaining benefit from those initial advantages.

The case of Ha Noi once more shows the strong impact of place marketing on DPIO and FIO. Ha Noi, as a major economic centre, has a large number of initial advantages but its economic outputs are much lower than expected. Ha Noi's poor place marketing performance can contribute much to an explanation of this lower than expected performance. This case also highlights an important point, that low transparency in governance contains the risk of the rapid growth in the number of 'rent-seeking' enterprises which do not bring genuine growth of the local economy. Searching for underlying factors behind this phenomenon we find that the root causes are derived from problematic national institutions and legal framework. Ha Noi is growing at the cost of other cities and provinces, and the national economy could pay a price for this in the future.



A detailed and comparative inspection at the two cases of Ha Tay and Vinh Phuc provinces reveals the causes of success and failure in implementing place marketing. The two important success factors for Vinh Phuc province are good leadership and good place marketing, while the failures in the case of Ha Tay (Hoa Lac Urban Development) seem to derive from the absence of these two factors. These conclusions are in line with the assessment results on Hanoi and other provinces.

Tracing the root causes of the weakness of leadership and the absence of place marketing suggests risks to the sustainability of success in many Vietnamese cities and provinces. The more growth is achieved, the more the success factors are at risk and obstacles increasingly appear. Successful models tend to shift gradually to failure models in the process of economic growth and development of market mechanisms. The national institutions and laws have little ability to prevent this trend and are, on the contrary, the source of the phenomenon. The provincial leadership is to a large extent shaped by the national institutions, and the national institutions do not currently have the ability to encourage the efforts of local leaders. The motivation for the good leadership of the pioneer provinces is derived from the individual efforts of provincial leaders rather than from the institutions. This motivation and good leaders are very easily removed or replaced by corruption, and by the problem of the ‘race’ for positions and power (chạychức, chạyquyền<sup>51</sup>) in the state offices.

In summary, the analysis and evaluation allows to conclude that the application of place marketing to an economic model such as Viet Nam is possible and necessary for economic growth. However, there are numerous limitations. Profound reforms of the institutional platform and of national laws are required for an effective and sustainable application of successful models of place marketing.

More generally, this research on Vietnamese cities and provinces supports the position that place marketing is both a consequence of, as well as a necessity for, increased competition

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<sup>51</sup>‘Chạychức’ refers to a kind of behaviour in which assigning positions in offices is based on the relationship or bribery.

among places for development resources. This approach is an essential tool for planning the growth of urban or regional economies in the global context.

## Appendix 1: Detailed Description of Component Indicators

<p><b>1 Entry Costs</b></p> <ul style="list-style-type: none"> <li>■ % of firms waiting over 01 month to start a business</li> <li>■ % of firms waiting over 03 months to start a business</li> <li>■ Effective land wait days (determined by government efforts, not supply/demand conditions)</li> <li>■ Length of business registration in days</li> <li>■ Length of business re-registration in days</li> <li>■ Number of licenses and permits required to operate</li> <li>■ % of firms having difficulty to obtain all licenses/permits to start a business</li> </ul> <p><b>2 Land Access and Security of Tenure</b></p> <ul style="list-style-type: none"> <li>■ <i>Land Access</i> <ul style="list-style-type: none"> <li>- % of firms with LURCs or in the process of receiving them</li> <li>- If land is easier to obtain, business would expand</li> <li>- % of firms without LURCs that rent land from the state sector</li> <li>- Firm rating of provincial land conversion policies</li> <li>- % of total land with LURCs*</li> </ul> </li> <li>■ <i>Security of land tenure</i> <ul style="list-style-type: none"> <li>- Risk of expropriation</li> <li>- Perception of fair compensation values</li> <li>- Risk of change in lease contract</li> <li>- Perception of fair process for disputing changes in lease contracts</li> <li>- Duration of tenure</li> </ul> </li> </ul> <p><b>3 Transparency</b></p> <ul style="list-style-type: none"> <li>■ <i>Transparency #</i> <ul style="list-style-type: none"> <li>- Transparency of planning documents</li> <li>- Transparency of decisions and decrees</li> </ul> </li> <li>■ <i>Equity and consistency of application</i> <ul style="list-style-type: none"> <li>- Importance of "relationship" to get access to these provincial documents</li> <li>- Importance of family and friends when dealing with government officials</li> <li>- Negotiations with tax officials are an essential part of doing business</li> </ul> </li> <li>■ <i>Predictability and consistency</i> <ul style="list-style-type: none"> <li>- Predictability of local implementation of laws</li> <li>- Provinces discuss regulatory changes with firms</li> <li>- Services provided by provincial public agencies on business consulting on regulatory information</li> </ul> </li> <li>■ <i>Openness: Assessment of provincial webpage. Note that this is worth 40% of the sub-index.</i></li> </ul> <p><b>4 Time Costs of Regulatory Compliance</b></p> <ul style="list-style-type: none"> <li>■ Days reduced dealing with bureaucracy since the Enterprise Law</li> <li>■ % of firms spending over 10% of time dealing with bureaucracy</li> <li>■ Median number of inspections and median tax hours</li> <li>■ Decrease in inspections since the Enterprise Law</li> </ul> <p><b>5 Informal Charges</b></p> <ul style="list-style-type: none"> <li>■ Informal charges are a major obstacle to doing business</li> <li>■ Firms in the same line of business make extra payments</li> <li>■ % of firms paying over 10% of revenue in informal charges</li> <li>■ Officials use compliance with local regulations to extract rents</li> <li>■ Informal charges delivered expected results</li> </ul>	<p><b>6 SOE Bias (Competition Environment)</b></p> <ul style="list-style-type: none"> <li>■ <i>Perception of bias toward SOEs</i> <ul style="list-style-type: none"> <li>- Provincial government is biased toward SOEs</li> <li>- Provincial government is biased toward equitized companies</li> <li>- Provincial attitude toward the private sector</li> <li>- Attitude to the private sector is improving</li> <li>- Monetary contributions influence attitude toward the private sector</li> <li>- Firm rating of provincial equitization effort</li> </ul> </li> <li>■ <i>Hard indicators of bias toward SOEs</i> <ul style="list-style-type: none"> <li>- The ratio of local SOE share of liabilities to their share of revenue*</li> <li>- % change in number of local SOEs (2000-2004)*</li> <li>- Average proportion of bank loans to state sector*</li> </ul> </li> </ul> <p><b>7 Pro-activity</b></p> <ul style="list-style-type: none"> <li>■ Province is good at working within central laws</li> <li>■ Province is creative and clever in solving problems confronting business community</li> <li>■ Good initiatives at provincial level but center frustrates</li> <li>■ No initiatives at provincial level</li> <li>■ Province involves firm input in coming up with new laws and regulations</li> </ul> <p><b>8 Private Sector Development (PSD) Services</b></p> <ul style="list-style-type: none"> <li>■ <i>Perception of quality of services provided by provincial public agencies</i> <ul style="list-style-type: none"> <li>- Market information and trade promotion</li> <li>- Technology and technology-related services</li> <li>- Match-making for business partners</li> <li>- Export promotion and trade fairs</li> <li>- Industrial zones</li> </ul> </li> <li>■ <i>Hard indicators of PSD activities</i> <ul style="list-style-type: none"> <li>- Trade fairs held by province (2004-2005)*</li> </ul> </li> </ul> <p><b>9 Labor Training</b></p> <ul style="list-style-type: none"> <li>■ Education services provided by provincial public agencies</li> <li>■ Labor vocational training services provided by provincial public agencies</li> <li>■ Labor exchange services provided by provincial public agencies</li> <li>■ Number of vocational schools adjusted for provincial differences in population*</li> </ul> <p><b>10 Legal Institutions</b></p> <ul style="list-style-type: none"> <li>■ Legal system provided mechanism for firms to appeal officials' corrupt behavior</li> <li>■ Firm confidence in legal institution</li> <li>■ Use of legal institutions as primary mode of dispute resolution</li> <li>■ Number of cases (where claimant was not an SOE or an FIE) per 100 active firms*</li> </ul> <p><i>Note: The first three soft indicators worth 60% of the sub-index and the last one hard indicator worth 40%.</i></p> <p><b>Notes:</b> * denotes component uses only hard data # derived from factor analysis</p> <p>In all sub-indices, each primary component is given equal weight unless otherwise noted. New indicators in PCI 2006 are highlighted.</p>
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Source: (Malesky 2006b).

## Appendix 2: Ranking of Provincial Competitiveness Index (PCI) by Province

### A2.1 PCI 2005 – forty-two cities and provinces

Ranking	City/ Province	Provincial Competitiveness Sub-Indices									Weighted PCI (Max =100)
		Entry Costs	Access to Land	Transparency	Time/ Inspections	Informal Charges	Implementation	SOE Bias	Proactivity	Private Sector Dev. Policies	
1	Binh Duong	7.65	7.88	6.05	6.29	8.85	7.39	8.53	9.3	6.92	<b>76.82</b>
2	Da Nang	8.77	6.9	6.72	8.24	4.87	6.35	5.26	7.18	7.54	<b>70.67</b>
3	Vinh Long	5.66	7.5	5.58	5.52	7.21	6.62	7.35	8.56	7.84	<b>68.56</b>
4	Ben Tre	7.02	6.73	4.92	7.75	6.77	6.83	6.29	7.5	5.5	<b>65.24</b>
5	Vinh Phuc	7.46	5.71	5.37	6.5	7.17	6.62	5.87	8.12	5.18	<b>65.09</b>
6	Dong Nai	6.52	6.42	5.19	7.88	6.88	5.3	6.3	7.74	4.58	<b>64.14</b>
7	Quang Ninh	6.49	6.41	7.12	6.32	4.58	6.47	6.09	6.74	5.41	<b>62.93</b>
8	Thai Binh	5.39	5.9	5.13	7.77	5.57	7.53	7.38	6.78	5.45	<b>61.39</b>
9	Can Tho	6.13	6.01	5.15	6.75	7.01	5.97	5.4	5.62	8.14	<b>61.29</b>
10	Kien Giang	6.44	6.28	4.74	7.26	7.28	7.68	6.29	6.39	5.05	<b>61.13</b>
11	Quang Tri	6.48	5.76	4.72	7.22	6.89	5.95	6.51	5.13	7.35	<b>61.09</b>
12	Binh Dinh	5.5	6.4	6.04	5.92	6.04	7.05	5.85	7.11	5.45	<b>60.6</b>
13	Phu Yen	6.56	6.35	5.84	4.17	6.4	6.56	5.76	6.72	6	<b>60.44</b>
14	Ha Noi	7.28	6.05	4.12	6.78	3.97	4.32	5.72	6.23	7.73	<b>60.32</b>
15	Hung Yen	7.73	6.57	5.34	6.28	7.96	5.4	5.37	6.01	3.08	<b>60.03</b>
16	Quang Nam	6.23	6.22	4.65	5.23	5.04	8	5.92	7.01	7.03	<b>59.72</b>
17	HCMC	6.23	8.32	5.57	6.56	3.38	4.55	6.28	6.11	4.99	<b>59.61</b>

Ranking	City/ Province	Provincial Competitiveness Sub-Indices									Weighted PCI (Max =100)
		Entry Costs	Access to Land	Transparency	Time/ Inspections	Informal Charges	Implementation	SOE Bias	Proactivity	Private Sector Dev. Policies	
18	Nghe An	7.15	4.18	5.55	6.52	6.25	5.82	6.01	5.61	5.82	<b>59.56</b>
19	Hai Phong	7.02	5.68	5.69	6.42	6.01	4.69	5.98	5.32	5.29	<b>59.4</b>
20	BRVT	5.33	7.06	4.69	6.43	6.7	6.54	5.8	6.54	5.93	<b>59.15</b>
21	Dong Thap	6.27	6.76	4.72	5.6	7.87	6.01	6.29	5.91	4.53	<b>58.65</b>
22	Long An	7.24	6.37	3.51	6.23	6.91	5.34	6.22	5.89	5.17	<b>58.49</b>
23	Bac Ninh	6.19	6.21	5.37	8.35	5.29	6.62	4.68	7.53	2.39	<b>58.06</b>
24	Tay Ninh	5.21	7.22	3.25	6.32	6.85	6.26	6.78	4.95	7.8	<b>57.44</b>
25	TT-Hue	6.31	5.56	4.49	6.48	6.32	5.52	5.15	5.07	6.93	<b>56.77</b>
26	Tra Vinh	4.53	7.96	3.8	4.01	8.39	7.61	6.72	6.2	5.54	<b>56.25</b>
27	Tien Giang	6.4	6.71	3.23	6.58	8.1	8.27	6.19	5.51	3.72	<b>55.89</b>
28	Soc Trang	7.35	6.03	4.03	5.26	4.21	6.97	6.15	5.79	4.8	<b>55.63</b>
29	Khanh Hoa	6.22	6.05	3.33	5.46	6.43	6.3	5.85	5.62	5.09	<b>54.08</b>
30	Binh Thuan	6.18	6.48	6.14	7.66	5.86	5.81	4.17	3.13	4.91	<b>53.97</b>
31	Ha Nam	7.37	4.4	2.9	5.17	7.18	6.21	6.04	5.4	4.4	<b>53.36</b>
32	Quang Binh	5.77	6.54	4.01	6.41	5.97	8.2	5.42	4.58	5.06	<b>53.07</b>
33	Ha Tinh	4.66	6.09	4.52	5.8	5.98	5.6	5.9	4.62	5.06	<b>51.67</b>
34	An Giang	6.36	7.07	4.1	4.64	3.44	7.96	4.75	5.61	4.18	<b>50.9</b>
35	Thanh Hoa	4.86	5.05	4.54	7.06	6.27	4.17	5.27	3.65	4.3	<b>49.29</b>
36	Quang Ngai	5.27	5.32	3.85	5.65	5.88	5.67	5.33	4.13	3.96	<b>47.99</b>
37	Binh Phuoc	4.05	6.08	2.78	5.16	4.37	6.99	5.67	5.28	5.27	<b>47.06</b>
38	Nam Dinh	5.82	4.23	4.19	7.41	7.08	2.77	5.85	1.6	2.56	<b>45.97</b>

Ranking	City/ Province	Provincial Competitiveness Sub-Indices									Weighted PCI (Max =100)
		Entry Costs	Access to Land	Transparency	Time/ Inspections	Informal Charges	Implementation	SOE Bias	Proactivity	Private Sector Dev. Policies	
39	Hai Duong	4.5	5.26	4.18	6.18	6.43	6.62	5.39	3.39	2.93	<b>45.79</b>
40	Ninh Thuan	3.64	6.08	3.29	4.52	6.31	5.96	5.66	3.57	4.67	<b>44.45</b>
41	Ninh Binh	4.99	5.08	2.97	8.25	5.78	6.05	4.92	2.15	1.05	<b>41.21</b>
42	Ha Tay	4.27	3.67	3.75	6.1	6.87	4.84	4.27	1.2	3.27	<b>38.81</b>

Source: (VNCI & VCCI 2006b).

## A2.2 PCI 2006 – sixty-four cities and provinces

Ranking	City/ Province	Provincial Competitiveness Sub-Indices										Weighted PCI 2006
		Entry Costs	Land Access and Security of Tenure	Transparency and Access to Information	Time Costs and Regulatory Compliance	Informal Charges	SOE Bias (Competition Environment)	Pro-activity of Provincial Leadership	Private Sector Development Services	Labor Training	Legal Institutions	
1	Binh Duong	8.49	6.21	8.50	7.12	6.46	7.24	9.08	8.86	6.52	5.46	<b>76.23</b>
2	Da Nang	9.17	4.70	7.68	5.83	6.18	6.47	6.38	9.62	9.60	6.38	<b>75.39</b>
3	Binh Dinh	7.16	6.86	7.97	4.93	6.88	7.50	6.64	8.15	6.18	3.95	<b>66.49</b>
4	Vinh Long	8.44	6.80	6.25	4.91	6.80	7.33	5.10	7.50	7.96	4.86	<b>64.67</b>
5	Dong Nai	7.02	6.27	6.18	4.95	6.99	6.31	6.00	7.76	8.45	3.79	<b>64.64</b>
6	Lao Cai	7.78	5.93	7.80	4.33	6.78	8.40	6.59	7.01	6.46	3.52	<b>64.11</b>
7	HCMC	7.07	5.07	6.97	5.12	6.02	6.35	6.18	7.63	7.35	3.81	<b>63.39</b>
8	Vinh Phuc	7.31	6.30	6.27	3.25	6.13	6.36	7.74	6.31	6.98	4.03	<b>61.27</b>
9	An Giang	7.64	6.37	6.64	4.57	7.00	6.43	7.59	7.06	4.55	3.38	<b>60.45</b>
10	Can Tho	6.55	6.70	6.83	4.87	5.70	6.57	3.52	8.68	5.56	3.80	<b>58.30</b>
11	Dong Thap	7.92	6.38	5.81	3.87	7.44	7.43	6.06	6.30	6.14	3.20	<b>58.13</b>
12	Yen Bai	7.20	6.32	5.99	5.70	6.90	8.30	6.38	4.49	5.12	3.81	<b>56.85</b>
13	Tra Vinh	6.85	6.35	5.79	3.81	6.86	6.46	6.31	6.14	5.85	3.63	<b>56.83</b>
14	Quang Nam	7.76	5.55	4.44	4.32	5.27	6.96	6.61	5.26	5.70	6.31	<b>56.42</b>
15	Bac Giang	8.18	6.01	5.81	4.78	6.32	6.66	4.89	5.31	6.41	4.00	<b>55.99</b>
16	Hung Yen	6.65	6.91	6.49	5.36	7.64	7.82	5.82	5.53	3.89	3.52	<b>55.97</b>
17	BRVT	7.49	5.38	5.43	5.59	5.85	5.70	5.46	5.82	5.56	4.73	<b>55.95</b>
18	Ninh Binh	7.87	5.92	5.11	5.87	6.29	6.17	5.64	4.78	6.60	3.63	<b>55.82</b>
19	Soc Trang	7.82	7.98	5.78	4.00	6.30	7.20	7.31	4.50	4.16	4.06	<b>55.34</b>
20	Khanh Hoa	8.23	5.30	6.02	5.37	6.51	6.36	5.11	6.12	5.08	3.27	<b>55.33</b>
21	Phu Yen	8.83	7.03	6.09	2.64	5.35	6.58	5.09	6.49	5.44	3.73	<b>54.93</b>
22	Bac Ninh	7.25	6.06	6.09	3.04	6.24	6.76	5.75	4.60	6.53	4.14	<b>54.79</b>
23	Nghe An	7.85	5.56	5.78	5.06	6.29	6.15	4.69	4.28	6.53	4.53	<b>54.43</b>

Ranking	City/ Province	Provincial Competitiveness Sub-Indices										Weighted PCI 2006
		Entry Costs	Land Access and Security of Tenure	Transparency and Access to Information	Time Costs and Regulatory Compliance	Informal Charges	SOE Bias (Competition Environment)	Pro-activity of Provincial Leadership	Private Sector Development Services	Labor Training	Legal Institutions	
24	Phu Tho	8.32	6.50	5.35	4.73	6.61	6.96	4.59	5.70	5.56	3.70	54.42
25	Quang Ninh	6.81	6.31	4.77	4.74	6.47	6.46	6.03	5.25	4.74	4.30	53.25
26	Ben Tre	7.65	6.20	4.90	3.73	8.35	5.99	6.38	4.42	5.47	3.54	53.11
27	Gia Lai	7.08	6.16	6.03	3.26	7.32	6.36	4.91	5.77	5.06	3.68	53.06
28	Thai Nguyen	7.02	5.66	6.08	3.66	6.18	6.66	3.53	5.25	6.64	4.05	52.71
29	Hai Duong	6.19	6.15	5.81	4.23	5.70	7.28	5.84	5.09	4.52	3.91	52.70
30	Binh Thuan	6.39	5.92	6.71	4.22	7.27	7.06	4.47	4.58	5.64	3.02	52.66
31	Hau Giang	7.67	6.01	5.12	3.97	7.74	6.08	6.79	3.98	4.67	4.06	52.61
32	Lam Dong	7.20	6.97	5.54	4.83	6.56	6.37	3.82	6.39	4.19	3.93	52.25
33	Tien Giang	5.85	6.43	4.48	4.59	7.25	6.65	5.31	5.76	5.05	3.60	52.18
34	Quang Tri	8.83	5.67	4.93	4.79	6.52	6.85	4.26	4.12	6.78	3.32	52.18
35	Dak Lak	6.48	5.95	4.99	4.83	6.03	6.74	5.87	5.27	4.19	3.74	51.65
36	Kien Giang	7.87	7.72	4.86	4.42	6.63	6.01	5.60	4.88	3.89	3.89	51.27
37	Thai Binh	6.89	5.46	5.27	6.13	6.62	7.17	4.81	3.73	5.13	2.92	50.54
38	TT-Hue	7.52	4.99	5.43	4.40	5.98	6.23	4.63	4.68	5.79	2.98	50.53
39	Long An	7.88	7.07	3.62	3.88	5.68	7.02	5.59	5.63	4.85	3.16	50.40
40	Ha Noi	5.73	4.19	5.60	5.25	5.21	4.70	4.23	6.12	5.24	3.39	50.34
41	Hoa Binh	6.62	6.57	5.13	5.02	7.39	7.30	4.61	3.51	5.16	3.62	50.17
42	Hai Phong	7.38	4.48	6.07	4.41	5.54	5.85	3.76	4.98	5.83	2.98	49.98
43	Lang Son	6.87	4.39	5.65	5.17	6.21	6.50	3.30	5.20	5.07	3.65	49.64
44	Nam Dinh	7.40	5.71	3.63	4.84	6.65	7.54	5.16	4.75	4.48	3.37	48.89
45	Bac Kan	7.21	4.34	3.18	4.60	6.47	7.04	4.02	3.28	6.21	6.55	48.73
46	Ha Giang	7.39	6.19	5.03	3.44	6.01	6.44	4.92	4.87	4.52	3.04	48.49
47	Tay Ninh	8.49	6.26	4.56	3.70	6.12	6.06	4.11	4.42	4.30	5.09	48.35
48	Quang Binh	8.02	6.07	5.46	4.05	7.22	6.17	3.55	3.84	4.92	3.46	47.90
49	Ha Nam	6.58	5.58	6.48	3.90	6.51	6.29	4.79	4.39	2.87	3.09	47.27
50	Tuyen Quang	8.59	5.13	4.04	4.09	6.47	7.02	4.57	5.30	3.43	3.50	47.21



Ranking	City/ Province	Provincial Competitiveness Sub-Indices										Weighted PCI 2006
		Entry Costs	Land Access and Security of Tenure	Transparency and Access to Information	Time Costs and Regulatory Compliance	Informal Charges	SOE Bias (Competition Environment)	Pro-activity of Provincial Leadership	Private Sector Development Services	Labor Training	Legal Institutions	
51	Cao Bang	7.65	4.83	4.62	4.70	6.30	7.44	4.38	3.07	5.10	3.07	<b>46.63</b>
52	Binh Phuoc	4.96	6.82	4.36	5.28	6.12	6.37	4.72	4.36	4.13	2.52	<b>46.29</b>
53	Ninh Thuan	7.50	6.66	5.39	3.48	6.08	5.52	2.60	3.84	5.50	3.47	<b>45.82</b>
54	Thanh Hoa	7.83	5.95	4.63	4.73	5.24	6.79	3.11	4.61	3.73	3.53	<b>45.30</b>
55	Son La	7.78	5.94	3.95	3.50	5.82	7.40	4.37	4.65	3.44	3.63	<b>45.22</b>
56	Quang Ngai	6.73	5.99	5.24	4.42	5.44	5.79	2.36	4.57	4.94	2.13	<b>44.20</b>
57	Ca Mau	5.99	5.74	5.07	4.33	6.97	5.73	4.10	3.47	3.65	3.00	<b>43.99</b>
58	Bac Lieu	5.67	6.91	2.53	4.24	6.34	5.60	4.17	4.32	4.30	3.41	<b>42.89</b>
59	Ha Tinh	7.36	5.93	2.86	4.93	5.05	6.22	3.09	3.99	5.10	2.59	<b>42.35</b>
60	Dien Bien	8.82	5.72	4.38	4.19	6.45	5.60	3.24	3.42	3.50	2.99	<b>42.28</b>
61	Kon Tum	8.73	4.95	4.28	3.22	5.17	6.09	3.43	3.33	3.60	3.74	<b>41.38</b>
62	Ha Tay	6.12	4.92	5.56	4.28	5.07	6.70	2.53	3.60	2.92	3.13	<b>40.73</b>
63	Dak Nong	5.56	4.82	2.15	3.81	6.66	5.07	4.15	2.40	4.11	4.83	<b>38.91</b>
64	Lai Chau	7.99	3.84	2.46	3.06	5.20	7.10	4.32	2.96	1.99	4.05	<b>36.76</b>

Source: (VNCI & VCCI 2006c).

### A2.3 PCI 2007 – sixty-four cities and provinces

Ranking	City/ Province	Provincial Competitiveness Sub-Indices										Weighted PCI 2007
		<i>Entry Costs</i>	<i>Land Access and Security of Tenure</i>	<i>Transparency and Access to Information</i>	<i>Time Costs and Regulatory Compliance</i>	<i>Informal Charges</i>	<i>SOE Bias (Competition Environment)</i>	<i>Pro-activity of Provincial Leadership</i>	<i>Private Sector Development Services</i>	<i>Labor Training</i>	<i>Legal Institutions</i>	
1	Binh Duong	7.95	7.02	7.44	7.34	7.17	8.29	9.20	8.38	7.75	5.48	<b>77.20</b>
2	Da Nang	9.17	5.84	7.19	7.61	6.84	7.28	6.26	8.39	8.34	5.49	<b>72.96</b>
3	Vinh Long	8.02	6.67	7.54	6.20	6.43	8.24	6.71	6.98	8.05	5.33	<b>70.14</b>
4	Binh Dinh	9.26	6.47	7.72	6.05	6.86	7.99	7.22	7.92	6.24	4.47	<b>69.46</b>
5	Lao Cai	8.23	6.27	8.56	4.80	6.36	7.85	6.90	6.27	6.24	5.84	<b>66.95</b>
6	An Giang	7.76	6.63	6.93	6.93	6.57	6.94	7.71	7.44	4.94	5.05	<b>66.47</b>
7	Vinh Phuc	7.59	6.75	7.00	4.48	7.58	6.83	7.32	6.92	7.36	4.31	<b>66.06</b>
8	BRVT	7.59	5.50	7.21	7.80	6.96	7.08	5.74	6.84	6.31	5.13	<b>65.63</b>
9	Dong Thap	8.09	7.06	7.12	6.49	6.64	7.20	5.99	6.39	6.40	5.07	<b>64.89</b>
10	HCMC	6.99	5.89	7.15	6.24	5.79	6.01	6.00	8.73	6.59	3.54	<b>64.83</b>
11	Soc Trang	9.10	6.78	5.82	7.35	5.96	7.07	7.11	5.92	5.91	5.73	<b>64.68</b>
12	Tien Giang	8.81	7.10	6.39	7.49	7.71	7.76	6.76	5.44	4.97	6.10	<b>64.63</b>
13	Quang Nam	8.76	5.90	6.63	6.26	6.13	6.73	6.89	6.67	5.02	5.08	<b>62.92</b>
14	Ben Tre	8.85	7.23	6.53	7.90	7.63	5.92	6.07	4.70	5.78	5.54	<b>62.88</b>
15	TT-Hue	8.47	5.53	6.61	7.19	6.41	7.24	5.88	6.13	6.67	3.52	<b>62.44</b>
16	Dong Nai	8.46	6.61	5.80	6.42	6.65	6.02	6.03	6.05	7.33	4.21	<b>62.33</b>
17	Can Tho	8.50	6.49	5.95	6.74	6.63	6.17	4.57	6.86	6.67	5.06	<b>61.76</b>
18	Yen Bai	7.36	6.70	5.98	6.25	6.65	7.19	5.52	5.17	6.70	4.50	<b>59.73</b>
19	Hau Giang	6.23	7.17	5.71	6.66	6.53	5.73	7.12	4.99	5.43	5.05	<b>59.41</b>
20	Bac Ninh	7.12	7.16	5.64	6.63	6.80	6.62	5.91	4.62	5.94	5.32	<b>58.96</b>
21	Long An	8.28	7.71	6.32	6.69	7.04	6.70	5.76	3.61	5.75	5.10	<b>58.82</b>
22	Quang Ninh	8.73	6.06	5.29	6.86	7.22	7.35	5.10	5.12	5.27	5.62	<b>58.34</b>
23	Phu Yen	7.56	6.82	5.71	5.20	6.72	7.35	5.03	5.56	5.96	5.05	<b>57.87</b>

Ranking	City/ Province	Provincial Competitiveness Sub-Indices										Weighted PCI 2007
		Entry Costs	Land Access and Security of Tenure	Transparency and Access to Information	Time Costs and Regulatory Compliance	Informal Charges	SOE Bias (Competition Environment)	Pro-activity of Provincial Leadership	Private Sector Development Services	Labor Training	Legal Institutions	
24	Ninh Binh	9.29	5.78	5.79	6.08	7.00	7.13	5.80	3.99	5.58	5.27	<b>57.67</b>
25	Binh Thuan	7.92	5.89	5.91	7.96	6.78	6.96	4.32	6.03	4.87	4.23	<b>57.66</b>
26	Hung Yen	7.19	6.85	7.07	6.60	7.71	6.59	5.25	5.44	4.74	2.95	<b>57.47</b>
27	Ha Noi	6.30	4.32	6.47	5.83	5.36	5.19	5.19	7.12	5.65	3.66	<b>56.73</b>
28	Tra Vinh	7.75	7.15	5.32	5.65	6.09	6.32	6.78	3.95	5.17	5.17	<b>56.30</b>
29	Ca Mau	7.12	6.05	6.35	7.76	6.07	6.66	4.67	4.28	5.26	4.64	<b>56.19</b>
30	Gia Lai	8.81	5.93	6.41	5.31	6.82	6.96	5.86	5.33	4.17	3.94	<b>56.16</b>
31	Thai Binh	6.97	6.07	6.30	7.25	6.16	7.32	5.09	4.94	5.23	3.16	<b>55.99</b>
32	Phu Tho	8.04	7.02	5.84	6.21	6.87	6.87	4.86	4.39	5.35	4.36	<b>55.64</b>
33	Bac Giang	7.49	6.46	5.15	5.16	6.92	6.89	5.19	4.54	6.59	4.24	<b>55.48</b>
34	Ha Giang	7.30	6.57	6.16	5.33	6.60	7.52	5.50	4.21	4.29	5.04	<b>54.59</b>
35	Tay Ninh	7.47	6.78	6.34	5.48	6.99	5.73	4.74	4.60	4.65	4.48	<b>53.92</b>
36	Hai Duong	7.92	5.84	5.39	6.24	6.74	6.99	4.64	4.98	4.67	3.73	<b>53.23</b>
37	Hai Phong	8.09	5.33	5.81	7.56	6.39	6.31	3.23	5.56	4.90	3.31	<b>53.19</b>
38	Thanh Hoa	8.30	6.49	5.99	6.12	6.15	6.46	4.32	4.62	4.02	4.58	<b>52.82</b>
39	Kien Giang	6.45	6.59	5.78	6.67	5.89	4.88	4.17	4.53	4.22	6.20	<b>52.82</b>
40	Khanh Hoa	7.95	5.32	5.18	7.13	5.38	6.66	3.63	5.93	4.53	3.74	<b>52.42</b>
41	Ha Tay	8.33	5.30	4.88	8.18	7.02	6.79	5.56	4.22	3.42	3.22	<b>52.24</b>
42	Tuyen Quang	8.79	5.60	5.96	5.49	7.11	6.24	4.24	4.71	4.66	3.41	<b>52.13</b>
43	Thai Nguyen	8.04	6.28	5.26	5.71	6.43	5.24	3.75	4.72	6.49	2.96	<b>52.02</b>
44	Nam Dinh	7.49	6.24	6.13	7.57	6.91	5.12	4.28	4.12	4.38	2.96	<b>51.76</b>
45	Quang Ngai	7.43	5.97	5.75	6.48	5.57	6.53	3.82	4.19	5.03	3.97	<b>51.39</b>
46	Ha Nam	6.66	6.94	6.57	5.77	7.07	6.15	4.29	4.42	4.08	3.07	<b>51.29</b>
47	Quang Tri	9.49	6.41	5.61	5.73	6.08	6.00	3.42	4.03	5.87	2.99	<b>51.10</b>
48	Dak Lak	7.32	6.01	6.31	5.30	6.31	6.52	3.30	5.01	4.72	3.65	<b>51.05</b>
49	Binh Phuoc	7.96	7.16	5.00	5.45	6.72	5.94	4.56	4.03	3.93	4.76	<b>50.38</b>
50	Son La	8.22	7.63	5.03	4.75	6.90	6.84	4.29	5.13	4.04	3.05	<b>50.35</b>

Ranking	City/ Province	Provincial Competitiveness Sub-Indices										Weighted PCI 2007
		<i>Entry Costs</i>	<i>Land Access and Security of Tenure</i>	<i>Transparency and Access to Information</i>	<i>Time Costs and Regulatory Compliance</i>	<i>Informal Charges</i>	<i>SOE Bias (Competition Environment)</i>	<i>Pro-activity of Provincial Leadership</i>	<i>Private Sector Development Services</i>	<i>Labor Training</i>	<i>Legal Institutions</i>	
51	Hoa Binh	7.62	6.72	4.09	7.00	6.35	6.85	3.67	4.56	4.79	3.76	<b>50.18</b>
52	Lam Dong	7.82	5.96	5.17	5.60	6.38	6.45	3.87	4.25	4.30	4.57	<b>49.85</b>
53	Nghe An	7.58	5.83	5.64	5.91	5.66	5.84	2.84	3.81	5.27	5.06	<b>49.76</b>
54	Quang Binh	7.63	6.11	6.01	5.95	5.92	6.73	4.06	3.66	4.36	3.23	<b>49.51</b>
55	Ninh Thuan	7.73	6.46	5.63	6.26	5.88	6.17	3.04	3.24	5.06	2.50	<b>47.33</b>
56	Bac Kan	7.72	5.26	4.10	3.65	5.72	6.93	4.30	2.89	4.33	6.57	<b>46.47</b>
57	Ha Tinh	7.11	6.01	5.83	6.10	5.55	5.74	3.37	2.48	4.98	2.25	<b>45.56</b>
58	Kon Tum	8.87	6.02	5.64	3.90	6.09	7.43	3.25	3.07	3.70	2.94	<b>44.54</b>
59	Lang Son	8.04	5.47	3.63	4.39	6.71	6.47	2.36	3.77	4.71	3.80	<b>43.23</b>
60	Bac Lieu	6.56	6.44	4.40	5.29	5.82	6.06	3.37	2.26	3.84	3.96	<b>42.49</b>
61	Dien Bien	7.40	6.21	4.79	4.23	7.27	6.92	3.16	2.48	2.83	3.69	<b>41.70</b>
62	Cao Bang	8.42	5.24	4.71	4.40	6.10	7.02	2.30	2.44	3.73	2.62	<b>40.18</b>
63	Lai Chau	7.15	5.00	3.80	2.99	6.30	7.11	5.17	2.42	1.92	2.44	<b>38.19</b>
64	Dak Nong	6.45	5.29	2.24	4.60	6.44	4.79	3.49	2.94	2.36	5.33	<b>37.96</b>

Source; (VNCI & VCCI 2007).

## A2.4 PCI 2008 – sixty four cities and provinces

Ranking	City/ Province	Provincial Competitiveness Sub-Indices										Weighted PCI
		<i>Entry Costs</i>	<i>Land Access and Security of Tenure</i>	<i>Transparency and Access to Information</i>	<i>Time Costs and Regulatory Compliance</i>	<i>Informal Charges</i>	<i>SOE Bias (Competition Environment)</i>	<i>Pro- activity of Provincial Leadership</i>	<i>Private Sector Development Services</i>	<i>Labor Training</i>	<i>Legal Institutions</i>	
1	Da Nang	9.36	5.52	7.92	5.93	6.58	7.90	7.40	6.30	8.40	6.55	72.18
2	Binh Duong	8.50	7.74	7.72	6.25	6.98	8.08	8.45	6.14	6.76	6.24	71.76
3	Vinh Phuc	8.37	6.47	7.39	4.99	7.94	8.17	8.23	5.95	7.37	5.50	69.37
4	Vinh Long	8.59	7.35	7.45	6.25	7.10	7.93	6.94	4.39	7.93	5.16	66.97
5	Dong Thap	7.96	8.05	7.21	5.48	7.33	7.85	7.52	4.60	6.78	6.39	66.64
6	Long An	8.20	7.59	7.22	6.02	7.02	7.89	6.95	4.08	5.92	6.37	63.99
7	Ben Tre	7.97	7.38	6.78	6.40	7.36	6.75	6.92	3.80	6.04	5.97	62.42
8	Lao Cai	8.51	7.14	7.04	3.80	6.59	8.29	7.81	5.21	4.63	5.12	61.22
9	An Giang	7.64	7.33	7.00	4.62	6.65	7.32	7.63	4.87	4.90	5.44	61.12
10	TT-Hue	7.45	5.18	6.86	5.44	6.71	7.55	6.03	4.76	6.27	5.94	60.71
11	Binh Dinh	9.03	7.21	7.18	5.62	7.02	8.21	7.11	4.53	5.14	3.39	60.67
12	BRVT	8.52	6.51	6.89	5.67	7.23	6.79	6.09	5.17	5.33	5.11	60.51
13	HCMC	8.11	5.36	6.98	5.07	6.19	6.86	6.64	6.35	5.19	4.07	60.15
14	Quang Nam	8.99	6.41	6.75	5.51	7.05	8.09	7.14	3.76	4.85	5.45	59.97
15	Dong Nai	8.18	6.45	6.80	6.27	7.20	7.09	5.89	4.67	6.02	3.81	59.62
16	Bac Ninh	8.69	7.38	6.41	5.62	7.20	7.55	6.60	3.67	5.55	5.20	59.57
17	Binh Thuan	7.78	7.19	7.67	5.23	6.35	7.39	6.27	3.65	4.77	5.60	58.75
18	Ca Mau	8.40	7.12	7.07	4.77	6.63	7.31	6.28	4.60	5.74	3.60	58.64
19	Yen Bai	8.67	6.70	5.77	5.90	7.68	8.45	6.60	3.31	4.75	5.48	57.79
20	Hung Yen	7.47	7.65	6.68	5.98	8.30	7.81	6.61	3.79	3.72	4.74	57.53
21	Tien Giang	9.13	6.64	6.74	5.99	6.86	7.53	5.64	4.09	4.63	4.56	57.27
22	Can Tho	8.55	6.92	6.41	5.72	6.15	7.02	4.56	4.05	5.79	5.08	56.32
23	Ninh Binh	8.63	6.47	5.76	4.86	6.55	7.70	6.04	4.14	5.89	3.85	56.14
24	Hau Giang	8.72	7.21	6.09	5.49	6.12	6.96	6.95	3.09	4.00	5.16	55.36

Ranking	City/ Province	Provincial Competitiveness Sub-Indices										Weighted PCI
		Entry Costs	Land Access and Security of Tenure	Transparency and Access to Information	Time Costs and Regulatory Compliance	Informal Charges	SOE Bias (Competition Environment)	Pro- activity of Provincial Leadership	Private Sector Development Services	Labor Training	Legal Institutions	
25	Tra Vinh	8.85	8.01	5.69	4.64	6.45	7.79	4.95	3.37	5.30	6.00	55.17
26	Ha Nam	8.74	6.92	7.15	4.26	6.83	7.54	6.00	3.68	4.29	4.18	55.13
27	Quang Ninh	8.34	6.74	5.53	5.61	6.86	8.11	6.06	3.22	4.31	5.40	54.70
28	Thai Binh	7.52	7.16	6.36	5.55	6.97	7.78	5.93	3.21	4.21	4.44	54.27
29	Soc Trang	8.51	8.01	3.65	5.60	6.77	7.35	6.45	3.68	4.94	5.23	54.24
30	Hai Duong	7.81	6.91	6.38	6.36	7.60	7.52	5.07	3.26	3.99	4.73	54.07
31	Ha Noi	8.08	4.73	6.60	5.27	6.37	7.08	4.70	5.62	4.79	2.79	53.74
32	Binh Phuoc	7.21	7.54	5.99	6.52	6.32	7.31	5.22	2.57	3.86	6.55	53.71
33	Dak Lak	7.58	6.22	6.34	4.63	6.49	7.34	6.34	3.70	4.13	4.11	53.33
34	Phu Tho	7.54	6.91	6.44	4.49	7.00	8.07	5.60	2.67	3.61	5.78	52.49
35	Kien Giang	8.21	6.79	5.81	6.01	6.95	6.88	5.91	2.36	2.78	6.54	52.25
36	Khanh Hoa	8.26	5.88	6.40	5.50	6.66	7.25	4.83	3.68	4.50	3.49	52.12
37	Tuyen Quang	8.83	5.50	6.69	5.32	6.67	7.08	3.93	3.37	4.16	5.41	52.00
38	Gia Lai	8.24	6.29	5.79	4.72	6.96	7.58	5.71	2.77	2.98	6.70	51.82
39	Phu Yen	9.00	6.95	5.92	4.49	5.73	8.11	4.01	3.52	6.02	2.64	51.24
40	Quang Tri	9.02	5.81	5.30	5.80	6.51	7.81	4.85	2.34	4.37	5.05	50.72
41	Quang Ngai	8.53	5.60	6.28	6.04	6.42	7.73	4.91	2.78	3.20	4.11	50.05
42	Nam Dinh	8.26	6.80	5.31	5.72	6.30	7.48	4.11	3.33	4.02	4.23	49.52
43	Nghe An	8.73	5.51	6.48	6.04	6.29	7.24	4.51	2.01	3.57	3.69	48.46
44	Hoa Binh	7.82	6.68	4.16	5.48	6.63	7.61	5.25	3.63	3.99	2.95	48.35
45	Ha Giang	8.26	6.37	5.07	4.66	6.43	8.77	5.82	2.37	2.83	4.48	48.18
46	Lam Dong	7.79	6.56	5.35	4.97	7.00	7.47	4.63	2.78	3.06	5.00	48.10
47	Ninh Thuan	7.87	6.90	5.80	4.79	6.65	6.56	3.74	2.53	4.10	4.80	47.82
48	Hai Phong	8.00	5.43	6.30	5.58	5.97	7.10	4.43	2.83	3.28	3.58	47.68
49	Ha Tinh	8.50	6.55	6.65	4.73	5.85	7.57	5.12	2.14	3.29	2.72	47.48
50	Bac Giang	6.31	6.61	6.35	4.65	6.60	6.91	4.89	2.85	3.79	2.76	47.44
51	Son La	8.43	7.13	5.45	4.16	6.85	7.52	3.72	3.30	2.79	4.59	46.60
52	Thanh Hoa	7.77	6.67	5.54	5.92	6.47	7.92	4.83	2.22	2.45	3.34	46.22

		Provincial Competitiveness Sub-Indices										
Ranking	City/ Province	Entry Costs	Land Access and Security of Tenure	Transparency and Access to Information	Time Costs and Regulatory Compliance	Informal Charges	SOE Bias (Competition Environment)	Pro- activity of Provincial Leadership	Private Sector Development Services	Labor Training	Legal Institutions	Weighted PCI
53	Thai Nguyen	8.42	5.65	3.38	4.81	6.15	7.60	4.02	2.67	4.94	4.78	46.03
54	Lang Son	8.42	5.53	5.58	4.69	6.81	7.20	2.95	2.72	4.02	4.04	45.63
55	Ha Tay	7.68	6.03	4.33	4.41	6.92	7.39	5.38	3.40	2.51	3.24	45.09
56	Tay Ninh	7.28	7.17	4.15	5.99	6.96	6.56	4.27	3.21	3.21	2.85	45.09
57	Quang Binh	8.02	6.13	6.17	4.96	6.34	6.85	3.25	1.53	3.18	4.37	44.17
58	Lai Chau	8.79	6.54	3.90	3.48	6.06	7.57	5.53	1.99	2.36	5.32	43.95
59	Kon Tum	7.91	6.83	5.15	3.62	6.15	7.61	3.42	2.20	2.70	3.87	41.94
60	Cao Bang	8.11	6.22	4.67	4.35	6.52	7.59	3.57	1.79	3.26	2.50	41.02
61	Dak Nong	7.92	6.03	2.99	3.79	7.14	6.69	5.05	1.55	3.02	4.40	41.01
62	Bac Lieu	7.02	7.47	4.45	4.61	6.46	5.99	3.35	1.40	3.37	4.00	40.92
63	Bac Kan	8.16	5.98	4.33	4.52	5.70	6.74	2.32	1.70	4.29	3.01	39.78
64	Dien Bien	9.17	6.11	4.11	2.85	6.12	6.44	2.51	1.56	1.84	4.57	36.39

Source: (VNCI & VCCI 2008a).

### Appendix 3: Status and Network of the NR in the Red River Delta region

Road	Description
<b><i>Phap Van – Cau Gie Highway</i></b>	<ul style="list-style-type: none"> <li>• A new road, parallel NR1A 30 kms long, from Ha Noi – Ha Tay (28 kms in Ha Tay's territory); start building 4/9/1998.</li> <li>• Designed to be a new highway, level I, 25m wide for 4 car lanes with speed 100 kms/h with a function to support NR1; will be extended to 6 car lanes.</li> <li>• Phase I put into service since 1/2002.</li> </ul>
<b><i>Lang – Hoa Lac Highway</i></b>	<ul style="list-style-type: none"> <li>• 30 kms long from Ha Noi to Ha Tay.</li> <li>• Is a new highway: <ul style="list-style-type: none"> <li>○ To develop the west of Ha Noi, which has the potential to become a series of satellite cities with urban developments, national high-tech areas, industrial areas, and tourism zones in Ha Tay territory.</li> <li>○ To create a new link between Ha Noi and the northwest of the country.</li> <li>○ To connect Ha Noi and the second trans-Vietnam road (HCM Road), which is being constructed.</li> </ul> </li> <li>• Designed to be a highway with 8 car lanes (level I), max-speed 80 kms/h, and traffic capacity from 1,500 to 2,000 cars/day.</li> <li>• Lane 1 (phase I) finished and put into use in 1999.</li> <li>• Phase II started 2005.</li> </ul>
<b><i>NR1 (NR1A)</i></b>	<ul style="list-style-type: none"> <li>• 2301 kms long, being the Trans-Vietnam Road, from the Vietnam – China Friendship Border Gate (the most important trade border gates with China) to Ca Mau (a extremely southern province of the country), going along the east, through 31 provinces and cities, including provinces of the Red River Delta region (for the part of the road in the Red River Delta region see Map 7.2).</li> <li>• Level III for almost the whole road.</li> <li>• Before the HCM road (Phase 1) was put into use in April 2008 (used partly before), NR1A was the only the Trans-Vietnam Road. However, its important role remains. It goes along the east and links the development centres and cities while the HCM road goes along the west to help remote and underdeveloped regions to integrate the national transportation network. Interaction between these two roads creates opportunities for backward regions. Locating on NR1 or easy access to NR1 is an advantage due to the ability to link and exchange goods with almost all the provinces, as well as to provide services for transportation activities on this way.</li> <li>• The NR1 stretch of Ha Noi – Lang Son (China-Vietnam border gate route) recently upgraded in 2000 with a 2 car lane, 12m wide, 160 kms long in which the new stretch Ha Noi – Bac Ninh 20 kms, Level I.</li> </ul>
<b><i>NR2 (NR2A)</i></b>	<ul style="list-style-type: none"> <li>• 313 kms long to link Ha Noi to Vinh Phuc and then to the three northern mountainous provinces, going 39 kms within Vinh Phuc territory.</li> <li>• Started to upgrade in 2005; designed 2 car lanes, max-speed 80 kms/h; put into use in late 2008.</li> </ul>

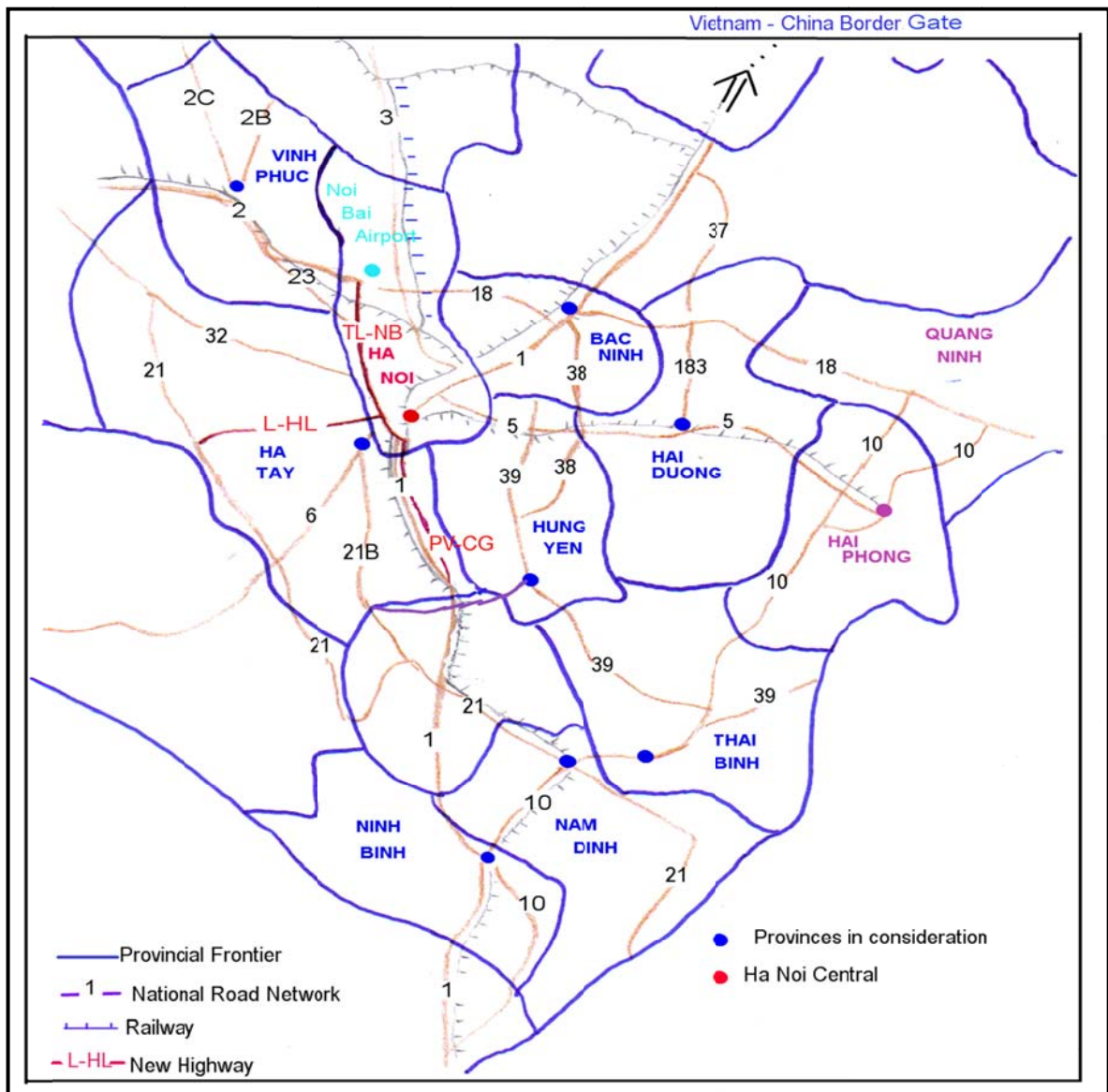


<b>NR2B</b>	<ul style="list-style-type: none"> <li>• 25 kms from Vinh Yen City to Tam Dao landscape (in Vinh Phuc's territory).</li> </ul>
<b>NR2C</b>	<ul style="list-style-type: none"> <li>• 60.4 kms from Vinh Yen City to Tuyen Quang province, 30 kms within Vinh Phuc.s</li> </ul>
<b>NR5</b>	<p>(NR5 – also called NR5A to distinguish from NR5B, an in-building highway parallel to NR5A):</p> <ul style="list-style-type: none"> <li>• 106 kms long, from Ha Noi (NR1A) to Hai Phong Port, going though Hung Yen and Hai Duong provinces (see Map VII-2).</li> <li>• Is a strategic road with the function of transporting almost all imports and exports via Hai Phong Seaport (the main port of the North for many years). Also being the vessel road to link Ha Noi – Hai Phong – Quang Ninh, (three provinces making up 'the Growth Triangle' – the main economic dynamism for the whole Northern region).</li> <li>• Upgraded to Level I in 1998 with a network of supportive roads. Almost all the road surface is 18-20m for four lanes with a separate range of 1.2-1.5m, ensuring 'no traffic jam' for both the rainy and sunny seasons.</li> <li>• The central government had a plan to build NR5B highway with 8 car lanes, the max-speed 120 kms/h in 2006, started in early 2009.</li> </ul>
<b>NR6</b>	<ul style="list-style-type: none"> <li>• 504 kms long, through 28 kms in Ha Tay's territory to connect Ha Noi with the three northwest provinces: Hoa Binh, Son La and Dien Bien.</li> </ul>
<b>NR10</b>	<ul style="list-style-type: none"> <li>• 230 kms long from Quang Ninh to Thanh Hoa province to link the six northern coastal provinces (Quang Ninh, Hai Phong, Thai Binh, Nam Dinh, Ninh Binh, Thanh Hoa) together and to the NR network.</li> <li>• Upgraded during 2000-2002 to Level III; some critical bridges built such as Tan De Bridge 1.048 kms (Nam Dinh – Thai Binh), Kien Bai Bridge 1.180 kms (Hai Phong); Non Nuoc Bridge (Ninh Binh); a new stretch of 34 kms long, Quang Ninh – Hai Phong (Vietnamese Prime Minister 1998d).</li> <li>• The improvement of NR10 in order to generate development opportunities for the northern provinces of the Red River Delta (Thai Binh, Nam Dinh and Ninh Binh) and to make the most of the dynamic role of Hai Phong, Quang Ninh.</li> </ul>
<b>NR12B</b>	<ul style="list-style-type: none"> <li>• 60 kms long, 30 kms in Ninh Binh's territory, mainly to connect Ninh Binh's flat districts with its highland districts and with some districts of Thanh Hoa and Hoa Binh.</li> </ul>
<b>NR18</b>	<ul style="list-style-type: none"> <li>• 310 kms long (before being upgraded and extended in 2005) to link the three provinces: Bac Ninh – Hai Duong – Quang Ninh.</li> <li>• Upgraded to Level III in the early 2000s (almost the road), 10-11m wide or above.</li> <li>• When Quang Ninh was planned as an angle of the Growth Triangle Hanoi – Hai Phong – Quang Ninh, and Bac Ninh and Hai Duong was set in the North Key Economic Region, NR 18 was planned to become an important road to serve this development. It was designed as a highway with 4 car lanes (Level I) to connect the Noi Bai International Airport (Ha Noi) with the Cai Lan Deep Sea Port (Quang Ninh) and Mong Cai Border Gate (Quang Ninh) with China. It was extended in both ends: Noi Bai - Bac Ninh and Quang Ninh centre – Border Gate. The road has been improved, building some more bridges. The link between</li> </ul>

	NR18, NR5, NR1 and NR10 and the improvement create a more convenient transportation network for forming industrial zones and business activities in the region. Lane 1 Noi Bai – Bac Ninh was put into use in early 2005. The three other lanes were completed and have been used since 2008.
<b>NR21 (21A)</b>	<ul style="list-style-type: none"> <li>• Going through Ha Tay, Hoa Binh, Ha Nam and Nam Dinh.</li> <li>• It intersects NR6 and NR32 within Ha Tay to create a NR network for Ha Tay's west districts. It integrates NR1 in Ha Nam, NR10 in Nam Dinh.</li> <li>• Within Nam Dinh NR21 connects the coastal districts with Nam Dinh City.</li> </ul>
<b>NR21B</b>	<ul style="list-style-type: none"> <li>• 45 kms from Ha Dong City (NR6 intersection) running north-south through the three districts of Ha Tay and Ha Nam. It intersects with NR1 in Ha Nam and NR38. This is the main road to connect Ha Noi Centre with the famous Chua Huong landscape (Ha Tay).</li> </ul>
<b>NR23</b>	<ul style="list-style-type: none"> <li>• 27 kms from Ha Noi to Vinh Phuc, intersecting NR2 at Phuc Yen town (Vinh Phuc), 15 kms within Vinh Phuc territory.</li> </ul>
<b>NR32</b>	<ul style="list-style-type: none"> <li>• 417 kms to connect the five northwest provinces: Phu Tho, Yen Bai, Lai Chau, Son La to Ha Noi through Ha Tay (going along though the six Northern districts of Ha Tay, 48 kms) in Ha Tay.</li> </ul>
<b>NR37</b>	<ul style="list-style-type: none"> <li>• To connects Hai Duong to the five highland provinces: Bac Giang, Thai Nguyen, Tuyen Quang, Yen Bai and Son La. Going 12.4 kms, Level I and III in Hai Duong, starting from Chi Linh district to serve for Con Son – Kiep Bac Tourist Zone.</li> </ul>
<b>NR39</b>	<ul style="list-style-type: none"> <li>• Being the main inner route (44 kms long in Hung Yen, ungraded to Level III in 2000 in the stretch Hung Yen City to NR5). Its function is to connect: <ul style="list-style-type: none"> <li>○ Hung Yen City to the districts.</li> <li>○ Hung Yen to Ha Noi and Hai Phong by intersecting NR5 in the north of the province.</li> <li>○ Hung Yen to the neighbourhood provinces of Bac Ninh and Ha Nam.</li> </ul> </li> </ul>
<b>NR45</b>	<ul style="list-style-type: none"> <li>• 10 kms in Ninh Binh's territory, mainly connecting Ninh Binh's highland districts with its flat districts and with other districts of Thanh Hoa and Hoa Binh.</li> </ul>

Source: Collection of Vietnam Roadway Map (*Collection of Vietnam Roadway Maps* 2006) and others sources.

Map A3.1: Map of national transport network in the Red River Delta Region



Source: (Drawn by the researcher in reference to *Collection of Vietnam Roadway Maps* 2006 and other sources).

## Appendix 4: Assessment of the extended initial advantages of Red River Delta provinces

The section below presents the extended initial advantages of the eight provinces. The assessment of each province will refer to Map 7.2 Master planning for Ha Noi Capital Region and Appendix 3.

### A4.1 Ha Tay<sup>52</sup>

Ha Tay's centre, Ha Dong, is a City Type III,<sup>53</sup> located 15 kms from the centre of Ha Noi, 35 kms from Noi Bai International Airport. The basic information in 2005 was: Area of 2196.3 km<sup>2</sup>; Population of 2,525,200 people; and GDP per capita (at constant price 1994) of 3,630,000VND (Ha Tay Office of Statistics 2006). Compared with other provinces in the Red River Delta region, Ha Tay had most the advantages of any kind.

#### Position and transport system

Ha Tay's capital is adjacent to Ha Noi, just 15 kms away from centre of Ha Noi and 3 kms from a Ha Noi inner district, which has a cluster of the top ranking universities. Most of the entire territory is within 30-50 kms of Ha Noi. The border with Ha Noi is the longest. Most of this border line is lying on Ha Noi's inner districts or potential suburb districts, which have been developed and urbanised rapidly, whereas the other provinces next to Ha Noi (Vinh Phuc, Bac Ninh, Hung Yen) have boundaries with Ha Noi's agricultural or hilly suburb districts. Ha Tay has been the gateway to Ha Noi for a long time. There are seven gates into Ha Noi's Centre, Ha Tay possesses five (Le Tan & Hong Van 2005). Most trade goods come from the northeast region (9 provinces), northwest region (6 provinces), China and a number of the Red River Delta provinces (Hai Phong, Hai Duong, Hung Yen) gathered in Ha Noi, and then go through the Ha Tay's gates before going down to the rest of the provinces, mainly through NR1. Particularly, the road network includes NR1 (28 kms); Phap Van–Cau Gie Highway (28 kms, high transport capacity); Lang–Hoa Lac Highway (26 kms, high transport capacity); NR32 (48 km); NR6 (28 kms); NR21A (51 kms); and NR21B (45 kms). Besides, Ha Tay has 28 provincial routes of 347 kms long, rather good quality (*Collection of Vietnam Roadway Maps* 2006; 2004). As such, Ha Tay has been well connected to Ha Noi and the national transport system, especially since Lang–Hoa Lac and Phap Van–Cau Gie highways were constructed, whereas the other provinces next to Ha Noi are separated from Ha Noi by the big river, limiting the transport capacity to two bridges. Its NR/km<sup>2</sup> is highest (0.105) among the eight provinces (see Table 7.2). Thanks to the favourable geographical location, as well as support from the national development project, the road system of Ha Tay, in general has a great ability to promote business.

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<sup>52</sup> All Ha Tay's territory was merged with Ha Noi in August 2008.

<sup>53</sup> It was a town (City Type IV) for many years, until recently acknowledged as a city (City Type III) in 2006.

### **Other conditions**

*Human resources:* Being next to Ha Noi with convenient transport, Ha Tay has the potential to attract young and high quality human resources, educated and trained from universities and training institutions, with the ability to cooperate with universities and research institutes in Ha Noi.

*Land availability:* Ha Noi's land price is very high and the land availability is limited, while Ha Tay's land availability is huge. The natural land total is 2196.3 km<sup>2</sup>, much bigger than Ha Noi and other seven provinces, almost within 40-50 kms of Ha Noi's centre, where agricultural land accounts for 55.7%, forest 6.88%, residential land 5.88%, land for other use (offices, roads, defence, schools, etc.) 18.14% and uncultivated land 13.38% (People's Committee of Ha Tay Province 2006). This means that the land available to convert to industrial and commercial land is large and potentially will bring greater value in the near future.

*Natural and social resources:* Ha Tay has a number of famous geographical areas and landscapes, as well as a rich culture from architectural clusters of temples, pagodas and Buddha statues to folk festivals; from Kinh's customs featuring the long culture of the Red River Delta to ethnic minorities' custom. Together with a position adjacent to Ha Noi, it has a big potential for various types of tourism and services. In addition, Ha Tay is featured by a great number of traditional trade villages. This is a potential for local private sector development.

Because of its unique location and natural advantages, Ha Tay received early subsidies and priorities from the central government through infrastructure projects. It was planned as a priority area for developing Ha Noi capital's satellite cities and one province in the Northern Key Economic Region (see *Ha Tay Province* in Chapter 9).

### **A4. 2 Bac Ninh**

Bac Ninh's capital, also named Bac Ninh, is City Type III,<sup>54</sup> located 31 kms from the centre of Ha Noi. The basic information in 2005 was: Area 822.7 km<sup>2</sup>; Population 998,300 people; and GDP per capita (at constant price 1994) 4,920,800 VND (Ha Tay Office of Statistics 2006).

#### **Position and transport system**

Bac Ninh is located in a favourable position. It has a long boundary with the development suburb district of Ha Noi, 45 kms from Noi Bai International Airport, and 110 kms from Hai Phong Seaport with a convenient transport system. It is in two key economic regions: the Ha Noi–Hai Phong–Quang Ninh Growth Triangle, and the Northern Key Economic Region. It has been situated on the crucial trade route between Vietnam and China for a long time (both the roadway and the railway). The transport network formed many years ago, and is distributed fairly equally among the districts. The NR system has been upgraded. Particularly, Bac Ninh has 89.2 kms long national roads, including NR1A

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<sup>54</sup> It was a town (City Type IV) for many years, until recently acknowledged as a city (City Type III) in 2006.

(good transport capacity: Old NR1A: 20 kms recently upgraded to Level III; New NR1A: 20 kms Level I, built in 2000); NR18 (26 kms upgraded to Level III early 2000s); and NR38 (23 kms). The NR/km<sup>2</sup> was rather high (0.084, third ranking) (see Table 7.2). Besides, Bac Ninh has 12 provincial routes of 250.5 kms long. The inner city and district roads are 277.5 kms long. Most provincial roads are level 5 and the district roads are level 6 (People's Committee of Bac Ninh Province 2005). In addition, Bac Ninh has 20 kms on the Ha Noi–Lang Son (China border gate) line.

#### **Other conditions**

*Human resources:* The proximity to Ha Noi, Bac Ninh has the potential to attract high quality human resources.

*Land availability:* The majority of its territory is delta area. Agricultural land makes up 64.4%, forest 0.8%, specialized land<sup>55</sup> 17.4%, residential land 6.5% and unused land 10.9% (Bac Ninh Portal 2008). Bac Ninh's high population density might makes it difficult to convert agricultural land to industrial land.

*Natural and social resources:* Bac Ninh has no special natural resources. It has a great number of trade villages. Located in the Vietnam-China trading route, commercial exchange has been traditionally developed for years. Minor trading has been a common livelihood for many Bac Ninh residents, which provides potential resources for local private sector development. Bac Ninh's culture is seen as one of the most open-minded cultures in the Red River Delta region. Together with the tradition of trading, this culture can produce a high 'entrepreneurial spirit'.

#### **A4.3 Hai Duong**

Hai Duong's capital, also called Hai Duong, was acknowledged as a city Type III in 1997, located 58 kms from Ha Noi and 47 kms from Hai Phong. The basic information in 2005 was: Area 1648 km<sup>2</sup>; Population 1,711,500 people; and GDP per capita (at constant price 1994) 4,920,800 VND (Ha Tay Office of Statistics 2006).

##### **Position and transport system**

Hai Duong is positioned in the middle of the Northern Key Economic Region and the Ha Noi–Hai Phong–Quang Ninh Growth Triangle. It is sited on the two links of Ha Noi–Hai Phong (NR5) and Ha Noi–Quang Ninh (NR18). It has no boundary with Ha Noi, but does with Hai Phong. The transport system in Hai Duong is convenient. Particularly, the NR network includes the NR5 (44 kms, Level I); NR18 (20 kms, Level III); NR183 (22 kms, Level III); NR37 (12.4 kms, Level I and III); and NR38 (5 kms Level III). It also has 258 kms (Level III) of 13 provincial routes, 352 kms of district roads. In addition, Hai Duong is supported by two railway lines Ha Noi–Hai Phong, Kep–Bai Chay (transporting local forest-agricultural goods from the southern mountainous provinces to overseas through the Cai Lan Deep Sea Port and returning with imports for these provinces)(Collection of

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<sup>55</sup> Specialized land is any land identified as being destined for uses other than agriculture, forestry, and habitation.

Vietnam Roadway Maps 2006; People's Committee of Hai Duong Province 2005). It is trouble-free to get to Ha Noi, Hai Phong and Quang Ninh from Hai Duong.

Although the rate of NR/km<sup>2</sup> is low (0.065, seventh ranking) (see Table 7.1), the national transport system has the potential to promote industries and business. The strategic NR5, going through the four districts and Hai Duong City has been a favourable condition for building industrial zones and developing businesses along this road in the past. Recently, this advantage was improved by upgrading NR5. NR18 is a crucial road to link to Ha Noi (Noi Bai Airport) and Quang Ninh (Cai Lan Seaport). NR5, NR18, NR183 and NR37 generate a convenient network for the northern mountainous area, where there is relatively plentiful mineral resources. The southern districts are connected to the provincial centre and the national road by fairly good provincial roads.

#### **Other conditions**

*Human resources:* located in the development area with convenient transport, Hai Duong has the potential to attract high quality human resources.

*Land availability:* Hai Duong has a natural area of 1,662 km<sup>2</sup>, divided into 2 regions: the hilly and delta regions in which the hilly area accounts for 11%, delta region 89%, agricultural land 63.1% (People's Committee of Hai Duong Province 2005). With large land availability for industry and a convenient transportation network, Hai Duong has potential to develop industry, even in the hilly districts.

*Natural and social resources:* The hilly area contains some mineral resources for the construction material industry. Some industrial establishments have remained from the past which might be another advantage.

#### **A4.4 Nam Dinh**

Nam Dinh's capital, also called Nam Dinh, is a City Type II,<sup>56</sup> located 90 kms from the centre of Ha Noi. The basic information in 2005 was: Area 1641.3 km<sup>2</sup>; Population: 1,965,400; and GDP per capita (at constant price 1994) 3,254,000 VND (Ha Tay Office of Statistics 2006).

#### **Position and transport system**

Compared with the other Red River Delta provinces mentioned above, Nam Dinh is not located in a favourable position. It is rather far from the two dynamic centres of the North, Ha Noi and Hai Phong. It is surrounded by the small provinces, Ninh Binh, Thai Binh and Ha Nam, which is not a rapid growth region due to some disadvantages. The NR system includes NR10 (38 kms, Level III) and NR21A (78 kms). The NR/km<sup>2</sup> was rather low (0.071, fifth ranking) (see Table 7.2). Besides this, there is a road network to the districts from its capital, Nam Dinh City. In addition, Nam Dinh is the main station of the only trans-Vietnam North-South Railway Line, with a stretch of 47 kms in Nam Dinh's territory (Collection of Vietnam Roadway Maps 2006). Nam Dinh's transport network is rather convenient. However, in general, the roads have been seriously

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<sup>56</sup> Acknowledged in 1998.



[degraded. The NR10 was upgraded to Level III in 2002 by the Central Government and provides opportunities for the northern provinces of the Red River Delta \(Nam Dinh, Thai Binh and Ninh Binh\) to develop.](#)

#### **Other conditions**

*Human resources:* the ability to attract high quality human resources is not high. However, Nam Dinh has some good condition of human resources (see below).

*Land availability:* The natural land total is 1641.3 km<sup>2</sup> in which almost all is still agricultural land. Like Bac Ninh, Nam Dinh's population density is high.

*Natural and social resources:* Nam Dinh City was established in 1921 under the French Era and since then it has always been an industrial centre of textile. During the economic re-orientation, Nam Dinh's industries (state-run enterprises) lost their ground and fell into decay, causing serious difficulties. However, the remnants of the state-run enterprises left Nam Dinh some endowment: industrial facilities (workshops, equipment and the like) and a rich labour force. This labour force, with some basic skills and knowledge of techniques, is likely to be quickly retrained to meet new requirements. It has been already gathered, settled and ready for use. Nam Dinh, therefore, would not have many problems in attracting the necessary labour and in dealing with the settlement of workers. With a long coast, Nam Dinh has the potential to develop a maritime economy.

#### **A4.5 Hung Yen**

Hung Yen's capital, also called Hung Yen, is a City Type III (acknowledged in 2009), located 66 kms from Ha Noi Centre. The basic information in 2005 was: Area 923.1 km<sup>2</sup>; Population: 1,125,500; and GDP per capita (at constant price 1994): 4,719,800 VND (Ha Tay Office of Statistics 2006).

##### **Position and transport system**

[Hung Yen borders the Gia Lam district, a suburb district of Ha Noi. Almost the entire province is within 60 kms of Ha Noi. It is situated on the critical Ha Noi–Hai Phong way \(NR5\), in the Key Northern Economic Region. The NR network includes the NR5 \(22.6 kms, Level I\); NR39 \(44 kms, Level III\); and NR38 \(18 kms, being upgraded to Level III\). The NR/km<sup>2</sup> is high \(0.092, second ranking\) \(Table 7.2\). Besides, Hung Yen has a provincial road system of 193 kms in length. Some are being upgraded to Level IV or Level III. Its district road system is 351.5 kms \(People's Committee of Hung Yen Province 2008\). In addition, it has more than 20 kms of the Ha Noi–Hai Phong railway line.](#)

The two extreme northern districts, adjacent to Ha Noi and on the NR5 and the railway line have good conditions for growth, but they are far from Hung Yen City, the location of the provincial government. This implies that the development resources are not concentrated. Normally, transport and advanced telecommunication were not really good in a small province like Hung Yen, especially in the before the early 2000s. Moreover, the state budgets for provincial government officials' travelling and communication costs have been very limited. Under these circumstances, distance is a difficulty. Hung Yen City is separated from Ha Nam and Thai Binh by the big rivers. The transport across the rivers was improved in 2003-2004 with bridges instead



of ferries. The NR38 and NR39 were upgraded to Level III at that time. The new transport system gives Hung Yen a new opportunity to grow.

#### **Other conditions**

*Human resources:* for conditions of the 2000s, the ability to attract high quality human resources is not high.

*Land availability:* Like Nam Dinh and Bac Ninh, almost all the natural land of Hung Yen is agricultural land and its population density is high. Most of the inhabitants are living off agricultural activities.

*Natural and social resources:* Hung Yen has no special conditions of natural and social resources.

### **A4.6 Vinh Phuc<sup>57</sup>**

Vinh Phuc's capital, Vinh Yen, is a city Type III (acknowledged in 2006), located 55 kms from Ha Noi centre, 30 kms from Noi Bai Airport. The basic information in 2005 was: Area 1519.2 km<sup>2</sup>; Population 1,166,400 people; and GDP per capita (at constant price 1994): 5,351,300VND (Ha Tay Office of Statistics 2006).

#### **Position and transport system**

Compared with some other Red River Delta provinces, Vinh Phuc is not located in a very favourable position. It is the start of the northern mountain and midland areas. For a long time, this area has not been a development region because of unfavourable social and natural conditions. Vinh Phuc borders the two suburb districts of Ha Noi, Soc Son (a mountainous, poor district) and Dong Anh (recently still an agricultural area). It is not located on any important transport route. The NR network includes the NR2A (39 kms); NR2B (25 kms); NR2C (30 kms); and NR23 (15 kms). The NR/km<sup>2</sup> was medium (0.079, fourth ranking) (see Table 7.2). Besides, Vinh Phuc has 251 kms of provincial roads and 274 kms of district roads. In addition, Vinh Phuc has 41 kms of the Ha Noi–Lao Cai Line. The road network is in poor condition. Even the NR2, the only gateway of Vinh Phuc to the development region, is also seriously degraded. Only recently, it was upgraded and put into use in late 2008. Vinh Phuc has no significant role in the regional and national planning of the central government<sup>58</sup>.

#### **Other conditions**

*Human resources:* Vinh Phuc has no special condition of human resources.

*Land availability:* Vinh Phuc has three types of terrain: mountains, hills and plain areas. The mountainous area makes up 40.1% of the natural area of the province, the hilly area 23.4%, and the plain area 35.65% (The Committee for Ethnic Minorities Viet Nam 2007). Vinh Phuc's land availability for industry and business is large with the stratum structure of the hilly area good for industrial construction. The conversion of the land use rights in hilly areas is likely to be easier and less costly than that in delta areas. However, most of the area near Ha Noi, which has the high potential to attract investors, is the agricultural land.

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<sup>57</sup> See also Section 9.2 (Vinh Phuc Province: A success in planning and implementing the model of place marketing for Vinh Phuc's details).

<sup>58</sup> Until 2004, Vinh Phuc was planned by the central government as a province in the Northern Key Economic Region after a rapid growth of Vinh Phuc.

*Natural and social resources:* At the beginning, Vinh Phuc province was poor and underdeveloped, especially in the mountainous areas, compared with other Red River Delta provinces mentioned above. The provincial capital had poor infrastructure. The provincial budget and the savings of the people were very limited. It had no tradition of trade or business (see Section 9.2 *Vinh Phuc Province – the success in planning and implementing the model of place marketing*). However, Vinh Phuc has the potential for tourism resources of natural and cultural heritage with many archaeological relics, vestiges bearing historical marks, spiritual values and a special folklore. The culture of Vinh Phuc is the result of interrelationship between the Red River Delta culture and the mountainous culture. Compared with the other Red River Delta provinces, Vinh Phuc residents are less tied by strict rituals and customs. Spreading over three different terrain areas allows Vinh Phuc to provide diversified tourism products. It has many landscapes. Some are famous such as the Tam Dao National Forest and Resort,<sup>59</sup> and the Ban Long Waterfall. Most of this potential is concentrated in areas far from Ha Noi. With difficulties in infrastructure, investment and distance from the Ha Noi market, the ability to exploit this potential in the near future is very limited.

#### **A4.7 Ninh Binh**

Ninh Binh's capital, also called Ninh Binh, is a city Type III (acknowledged in 2007), located 93 kms from Ha Noi. The basic information in 2005 was: Area 2196.3 km<sup>2</sup>; Population 2,525,200; and GDP per capita (at constant price 1994): 3,630,000VND (Ha Tay Office of Statistics 2006).

##### **Position and transport system**

Ninh Binh is situated in an unfavourable position, far from Ha Noi and Hai Phong. The NR includes the NR1 (20 kms); NR10 (32 kms, upgraded to Level III 2002); NR12B (30 kms) and NR45 (10 kms) (*Collection of Vietnam Roadway Maps* 2006). Although located on the NR1, the stretch of NR1 in Ninh Binh is not long and is in a bad condition with a narrow lane, serious degradation of the bridges and traffic jams (Ninh Binh Online 2008). The national road managed by the central government was only 35 kms of the total 92 kms (Committee for Ethnic Minorities Affairs 2007). The national roads managed by the provincial government are normally unimportant routes and the state budget for them is very limited. The NR/km<sup>2</sup> was low (0.066, sixth ranking) (see Table 7.2). The inner province transport is rather poor. The North–South Railway Line goes through Ninh Binh on only 25 kms. However, Ninh Binh is a small station. The ability to promote business with this transport system was low.

##### **Other advantages**

*Human resources:* Ninh Binh has no special condition of human resources.

*Land availability and natural-social resources:* Although in the Vietnam administrative system, Ninh Binh is classified as a delta province, in fact, it is located in the extreme north of the Red River Delta region, it is a semi-mountainous province. The mountainous and semi-mountainous areas account for 70% of the natural area with a complicated topography. These areas are located dispersedly and alternately with the plain areas (The Portal of Ministry of Planning and Investment). That generates difficulties in travelling and requires big investments for transport. The mountainous areas are underdeveloped. However, Ninh Binh has a big potential for tourism with many landscapes and a rich history. But like Vinh Phuc, with the difficulties of infrastructure, investment and distance from the main markets of tourism (big cities), the ability to exploit this potential in the near future is very limited. Ninh Binh has also the potential for a maritime economy.

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<sup>59</sup> Tam Dao means 'three islands', referring to the three high mountains emerging from the range of the high mountainous area. Because of its naturally special beauty, in the early 20<sup>th</sup> century the French built a resort town there with 163 villas, scattered around the flanks, looming in the clouds.

#### A4.8 Thai Binh

Thai Binh's capital, also called Thai Binh, is a city Type III (acknowledged in 2004), located 110 kms from Ha Noi and 70 kms from Hai Phong center. The basic information in 2005 was: Area 1546 km<sup>2</sup>; Population: 1,850,900; and GDP per capita (at constant price 1994): 3,487,700 VND (Ha Tay Office of Statistics 2006).

##### **Position and transport network**

Thai Binh is situated in an unfavourable position in the Red River Delta region. It is far from the growth centres. Despite having a boundary with Hai Phong, it is not close to Hai Phong central or Hai Phong's dynamic areas. The NR includes NR10 (42 kms, upgraded to Level III in 2002); and NR39 (47 kms). Thai Binh has no railway. The transport network to link Thai Binh to the outside is very poor. As shown in Map 7.2, the three entries are through Nam Dinh (NR10), Hai Phong (NR10) and Hung Yen (NR39). Before some bridges (Tan De to Nam Dinh; Trieu Duong to Hung Yen; Quy Cao and other bridges to Hai Phong) were built in 2002-2003, Thai Binh, separated by the rivers, was nicknamed 'isolated island'. The three ways of entry were troubled by the ferries with low transport capacity. The most critical entry to Ha Noi and NR1 was through Nam Dinh by the NR10, Tan De Ferry, which used to be a bottleneck. Tan De Ferry went across the main stream of the Red River, near the river mouth to the sea, i.e. a large water flow. In the rainy season, its water flow reaches 30,000 m<sup>3</sup>/s at its mouth (*Overall Aspects of the Basin Systems of Red and Thai Binh Rivers (Vài nét tổng quan về hệ thống lưu vực sông Hồng - sông Thái Bình)* 2006). The NR/km<sup>2</sup> was lowest (0.058, the eighth ranking) (see Table 7.2). Thai Binh has no railway. The geographical position and the difficulty in transport is supposed to be the main reason obstructing trade activities and retaining Thai Binh as an 'net agricultural province' and 'home of paddy'. The NR/km<sup>2</sup> was lowest (see Table 7.2). The transport system had low potential to promote business. Thai Binh was not listed in the important economic planning of the central government.

##### **Other conditions**

*Human resources:* Thai Binh has no special conditions for human resources. The ability to attract high quality human resources is not high.

*Land availability and natural and social resources:* Almost all the natural area is agricultural land. Fertilized by the four big rivers and the sea, Thai Binh had the potential for development of agricultural-aquatic processing industries. The area for aquaculture and fisheries is relatively plentiful (People's Committee of Thai Binh Province 2005). However, agricultural products will not possibly bring good outcomes for Thai Binh with their conditions of difficulties in transport and a high population density. Thai Binh has the Tien Hai natural gas mines, providing raw materials for the construction material industry.

## Appendix 5: Summary of Interviews in Vinh Phuc

### A5.1 Interview with Vinh Phuc Management Board of Industrial Zones and Attracting Investment

*Interviewer: Van Thanh HOANG*

*Interviewee: Mr Nhan – an official of the Management Board of Industrial Zones and Attracting Investment (hereafter called Management Board).*

*Date of Interview: 20 October 2006*

1. Methods of investing and pricing of the industrial zones: for the seven industrial zones all, investors build infrastructure and collect infrastructure service charges. Infrastructure service charge levels are based on the negotiation between investors and the Management Board. The industrial zones have their own operating charters.
2. All seven industrial zones are built by domestic investors, except for the Ba Thien by Taiwan investors. Vinh Phuc does not apply the tender process because not many investors want to invest in infrastructure in the Vinh Phuc industrial zones. Vinh Phuc has tried to find investors by asking other provinces to introduce and recommend investors. The People's Committee makes decisions of approval on the basis of investors' capital and capacity.
3. Promotion: Vinh Phuc introduces and promotes itself:
  - through publications delivered in workshops, conferences, meetings, exhibition;
  - the Foreign Investment Department (Ministry of Planning and Investment) introduces and promotes Vietnam including Vinh Phuc to potential foreign investors;
  - investors refer to other investors; and
  - through the portal of the province (website).
4. Use of independent investment consulting organizations: In 2004, the Board proposed to use an independent investment consulting organization with a mechanism of bonuses, where once investors start to invest, the consulting company gets a share of the bonus. Once investors start to operate, the consulting company gets the rest. The fund for that is taken from taxes collected from enterprises. But the People's Council disagrees with this because it may create "loopholes" and is difficult to manage.
5. The budget for investment promotion: the budget for promotion of investment is very limited. This year the Board is allocated more than VND100 million, regularly used for receiving guests. In the case of publications or working abroad, The People's Committee approves case by case.
6. Evaluation of attractions/limitations of Vinh Phuc for investors:
  - Advantage of location: this is important and Vinh Phuc has this advantage.
  - a. Labour: cheap labour is not important but labour meeting requirements is important. Vinh Phuc has an abundance of unskilled workers, meeting the requirements of industries such as garment and footwear manufacturing, but does not satisfying other industries, even mechanical engineering. This is due to the gap between education and practical requirements. Discipline of employees is not high. This is a difficulty in transferring agricultural or forestry land to industrial/commercial projects. The provincial policies give a priority to provide jobs to residents whose land is taken but they are not often able to meet this requirement.
  - Business environment: this is a very important point, Vinh Phuc has done this very well.
  - Investment incentives: not important.

- Quality and life: this is not very important.
7. The matter of transferring agricultural/forestry land to industrial/commercial projects:
    - a. Acquisition of land for industrial projects was easy in the past, but this has become difficult in the last two years. The people do not want to receive compensation due to: unreasonable compensation, joblessness, psychological fear of losing land and other reasons. The difficulties arise because of corruption and the increase in complaints.
    - Vinh Phuc implements policies to support employment training for residents of the area where land is acquired. The province gives 300-400 thousand VND/ labour to businesses employing local workers.
  8. Possible risks deriving from the dependence on big investors (e.g. Toyota, Honda) when Vietnam participates in AFTA and integrates with the world economy: Honda's production costs are very low so there is no real concern for integration and cutting import taxes.
  9. The Board's activities in assisting businesses and business cluster formation: for example, the Management Board has introduced satellite producers to the Honda Company and given priority to these manufacturers to acquire land close to Honda.
  10. Local businesses: there are not many local businesses. Vinh Phuc has no tradition of making business.
  11. Other information about the industry:
    - Ba Thien Industrial Zone, 10 kms from Binh Xuyen district centre, intended as a high-tech park. Taiwan investors requested Vinh Phuc to build the provincial road to the IT Park. The province approved.
    - The road to Quang Minh Industrial Zone was built by the provincial budget.
    - Hop Thinh Industrial Zone and Chan Hung Industrial Zone have just started.

## **A5.2 Interview with Vinh Phuc Investment and Planning Department**

*Interviewer: Van Thanh HOANG (the researcher)*

*Interviewee: Mr Khai – Head of General Office of Vinh Phuc Investment and Planning Department*

*Date of Interview: 21 October 2006*

1. The training programs for the officials of the Department:
  - a. The department assigned the officials to attend various training programs such as the Fulbright Program in Ho Chi Minh City (each course of 10 months), the training program of the Ministry of Planning and Investment (MPI) or the training projects by foreign donors. Vinh Phuc is one of four provinces in the project "Building Capacity of Project Management and Public Finance for Local Government" funded and organised by the United Nations in coordination with the MPI. The office staff also attended most of the training and retraining programs, and training in new decrees and laws. In addition, a number of the officials have been sent to study master programs.
  - Put in place policies to encourage training: the officials who attend masters and doctorate degrees, are entitled to half a month extra salary during the attendance period.
  - The department officials could not attend all the available courses because staffing is limited while the workload is high. However, the Department pays great attention to and organizes regular training to update and upgrade the knowledge of the staff.
2. Process of planning:
  - Annual plan: The Prime Minister always gives the directive. Then, the MPI has a conference to guide the implementation (with a variety of materials and samples). In the

provinces, the Department prepares a directive on behalf of the provincial People's Committee and the guidance of the Department to submit to the PPC for approval and signature. The provincial Chairman signs, and then sends the documents to the relevant departments and divisions. The department and divisions send reports. The Department sums up and makes a plan. Then the province sends it to MPI and MOF to consider (in accordance with the national planning and plan to allocate the national budget to provinces) for approval. After that, the Department consults with the PPC to make a plan of distributing the resources to towns and districts, and the departments, divisions and branches (as the hubs to receive the resources). The PPC submits the plan to the provincial People's Council for approval by a resolution.

- Five-year and other long-term plans: Planning for five years is based on the long-term plan for ten years. The process is similar to one described above, but with seminars, discussions and comments.
- Vinh Phuc is one of the provinces which is piloting the application of 2001 IZO. The consultancy unit helps to develop the process, and then applies the implementation.

3. Participation in planning of long term plans:

- The department and consultants develop alternatives, and then present them in seminars to choose from.
- At the seminar on the alternatives or the draft plan, both the consultants and the Department are responsible for clarifying the points in the draft. There are points to be brought up to debate among consultants, executives and leaders. In Vinh Phuc discussing this is very open and non-autocratic.

4. The participation of the private sector in planning:

- There is not yet participation from the private sector in the planning process. The province itself carries out planning of the industrial parks, since investors (foreign and out-provincial) come only when industrial zones are available. The process is that Vinh Phuc builds 10 industrial zones. Investors choose whatever they like. If they take Quang Minh, near Ha Noi, the infrastructure rent is higher. If they take Binh Xuyen, the price is lower. If they choose the highland district, Tam Duong, Tam Dao, the province gives some incentives.

5. Evaluation of Vinh Phuc's attractions for investors:

- Location: Vinh Phuc achieves 4/5 points. Vinh Phuc is one of the industrial parks near Hanoi. Businesses can go to work in Vinh Phuc in the morning, and return to Ha Noi in the evening. While businesses pay only the land price of Vinh Phuc, they enjoy the services of Hanoi.
- Labor: as well as other provinces, Vinh Phuc has abundant young labor. However, there are some industries that require highly qualified workers, which Vinh Phuc might not meet. One other problem is the residents, whose land is taken, do not meet the job requirements. Thus, workers from other provinces or from other parts of Vinh Phuc move in. For households whose land is taken, the province has a policy to support the training of the workforce.
- Business environment: Vinh Phuc achieved 5/5 points:
  - i. All government offices in Vinh Phuc carried out a policy of "one door", with friendly service and open, fast handling administrative processes.
  - ii. Businesses appreciate this. The PCI in 2005 and 2006 in Vinh Phuc was high.

- iii. It is very common for the provincial Party Secretary or the provincial People's Committee Chairman to regularly meet investors in Vinh Phuc. The leaders are willing to make time for investors, and require the involved departments at the front desk to see what investors want and require, and give quick solutions and required information. The departments and divisions are assigned clear missions in the process of investment projects.
  - iv. Find investors: Vinh Phuc finds investors through various ways:
    - the introduction of brokers, partners, relatives, friends;
    - the province's website;
    - published materials sent overseas through the Chamber of Commerce and Industry, and Trade Offices in Vietnamese Embassies in foreign countries;
    - conferences to call for investment; and
    - foreign trips with the Prime Minister.

All forms of investment promotion, which can be done, Vinh Phuc has done. In my point of view, Vinh Phuc performs this job quite well.
  - v. Vinh Phuc reserves annual budgets for printing advertising materials. Every year, on the occasion of the New Year, the leaders meet businesses to reward and honor them for their contribution to the province and to listen to see what they say and what they need. What is within the province's authority and what does the province need to ask the central government? The provincial leaders often say "the businesses who do business in Vinh Phuc are Vinh Phuc's citizens". For example, if investors want to buy land, buy a house to settle in Vinh Phuc, Vinh Phuc facilitates favourable conditions in the framework the law.
  - vi. Investment incentives are not important. Large businesses also believe incentives are not important, but small businesses need them. Vinh Phuc is one of more than 30 provinces which were 'lightly reminded' by the Prime Minister about 'tearing the fence' in investment incentives. Vinh Phuc has adjusted. Vinh Phuc is currently waiting to adopt a new framework under the promulgated investment law.
  - vii. For the big investors such as Honda, the most important issues is that all administrative procedures must be expedited; demand for infrastructure (such as water, traffic outside the plant, electricity) must be immediately met.
  - b. Quality of life and services: Vinh Phuc can reach 4-5/5 points. The reason is that Vinh Phuc is not far from Hanoi. Vinh Phuc can meet the needs of investors in all banking, transportation and telecommunications services. To meet the future living requirements of investors and the labor force, Vinh Phuc has projects to build villas and apartments to deal with the housing issues. Regarding medical services and education, Vinh Phuc is located in the Red River Delta region, where these services have been well developed.
6. Foreign investors often learn about Vinh Phuc through friends. For example, Japanese and Korean investors have invested in Vinh Phuc and they then introduce Vinh Phuc to their friends. Investors often come here in this manner: they get information from their friends or from other channels and they decide to explore the possibilities of investments in Vinh Phuc. They inform themselves about Vinh Phuc. Depending on the partners, Vinh Phuc can arrange for the most senior leaders to welcome them, even on weekends if necessary. Actually, finding investors is like fishing, not always getting fish immediately, but one must be patient, enthusiastic and friendly. The investment conditions in the Vinh Phuc province are provided in a straightforward and clear manner to investors.

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