A COMPARISON OF FDI DETERMINANTS TO VIETNAM AND THAILAND
BASED ON PEST ANALYSIS

By

NGUYEN Thi Quynh Trang

51213608

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Supervisor

Professor KIM Sang Ho

Graduate School of Asia Pacific Studies

Ritsumeikan Asia Pacific University, Japan

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LIST OF ABRREVIATIONS

ASEAN	Association of Southeast Asian Nations
BOI	Board of Investment
BOT	Built-Operation-Transfer
CPI	Consumer Price Index
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
OECD	Organization for Economic Co-operation and Development
M & A	Mergers and Acquisitions
R & D	Research and Development
PEST	Political, Economic, Social and Technological
PESTLE	Political, Economic, Social, Technological, Legal and Environment
STEEPLED	Political, Economic, Social, Technological, Legal, Environment, Ethics and Demography
TI	Transparency International
WTO	World Trade Organization

ASTRACT

This report gives a full picture of the investment environment of the two neighboring countries in the Southeast Asian region, Vietnam and Thailand as two most attracting destinations of foreign direct investment.

The background of the report was based on the concern of how foreign investors decide to invest in a specific country. Why did a company choose Thailand over Vietnam to build its factory? With the effort to explore the reason behind the different performance of the two countries, PEST analysis was utilized as the main tool to list, categorize and assess all the factors that can be take into account when an investor pour money into a country.

The results show that Vietnam is more appreciated in the indicators of health and basic education, labor market efficiency than those of Thailand. On the other hand, Thailand is better in infrastructure, institutional factors, market size, favourable policies to protect investors and access to technology which are considered as key determinants for investors to take into account when deciding to invest in a particular country. That is the reason why, Thailand, despite long lasting political instability, still receive more FDI than peaceful Vietnam.

The report also gives some recommendation for Vietnam to improve its investment environment and also point out areas in which further research can be conducted.

INTRODUCTION

Significance

In the era of globalization, Foreign Direct Investment, shortly called FDI, plays an important role in the development process of almost all countries, regardless developed countries or developing countries. In consequence, FDI attracting policy is of strategic concern in the long-term development plan of each country. In the case of Vietnam, in the last two decades, it can be said that the country has gained certain success in attracting FDI. However, compared to other countries in the world, especially the neighboring countries in the ASEAN region, Vietnam FDI attraction is still modest in the number of projects and capital commitments. Successful countries in attracting FDI in ASEAN region include Singapore, Thailand and Indonesia. In particular, Thailand is a country that shares many similarities with Vietnam in terms of geography, culture and people but possesses impressive achievement in attracting FDI. So what factors have made Thailand so successful in the tournament of attracting FDI? Do these factors, called determinants, differ from those of Vietnam? What can Vietnam learn from Thailand's experience? With the desire to answer the mentioned questions, a research of "A comparison of FDI determinants to Vietnam and Thailand" was conducted.

Literature Background

There were some researches on the issue of the investment environment of Vietnam and Thailand, from both the views of national scholars and international ones.

With the concern of the FDI environment of Thailand, Brimble (2002) had conducted a pilot study "Foreign Direct Investment: Performance and Attraction – The case of Thailand" which focuses specifically on FDI in Thailand to find out the impact of technology transfer in attracting FDI and proper policy orientation to promote technology transfer and attract FDI. Besides, the study also examined the overall impact of FDI on the macroeconomic environment of Thailand. The author then gave the lessons to Thailand and recommendations on strategies to attract FDI to other countries.

Ishida (2012) made a comparison research on FDI attraction of ASEAN countries and China, which draws experiences for each country. The author assessed the impacts of FDI, both positive and negative ones and pointed out the differences on FDI attracting policy before and after 1980s in the ASEAN region. She found that before the 1980s, the governments of those countries did not have many policies to attract FDI. Moreover, having fear of the influence of foreign companies on the manufacturing industry, those governments even built up protection barriers for the domestic market. However, after the positive impact that FDI brings to receiving countries, those countries had made change in vision and conducted abolition of restriction and developed their FDI attracting policies. The study also gave examples of successful countries in attracting and using FDI, such as Malaysia, Thailand and Indonesia, and analyzed positive and negative effects that FDI had brought to these countries.

On the political issues of Thailand, Dautrey (2010), in the paper "Foreign Direct Investment and Thailand's color-coded politics: The Thai Paradox – Will it endure?",

focused on analyzing the political situation in Thailand, considering the impacts of the political unrest on Thailand's economy which had certain effects on the process of attracting and using FDI in the context of Bath's fierce competition with other countries.

In the case of Vietnam, there were not many researches focusing on analyzing the investment environment of FDI. One of the comprehensive papers was that of Al-Swidi *et.al* (2012) titled "Some reflections on Foreign Direct Investment flows and the Vietnam's Economy" which put into concern the investment trends of FDI into Vietnam from 2001 to 2011 in the context of ASEAN. Generally, the paper analyzed the assessment parameters of business environment in Vietnam and gave suggestions to policy makers to improve the Vietnam's competiveness in the race of attracting FDI.

Le (2012) conducted a study of the investment environment in Thailand in the period of 2000-2010 and generalize strengths and weaknesses of the investment climate in Thailand which was analyzed according to the factors of politics, administration, economy, law, infrastructure and technology. However, this study simply analyzed the factors of politics, law and economy of Vietnam to make recommendations; and the methodology was only analysis and comparison based on general statistics rather than a generalized comprehensive analytical model.

Vuong (2012) conducted a pilot research about the determinants of Japanese foreign direct investment in Asia with the case study of Vietnam, Thailand and China. The study was based on the surveys about Japanese firms' ideas about the environment in

Vietnam, Thailand and China. The author found out that in comparison with Thailand and China, Vietnam was considered more cost saving, more abundant of human capital and more politically stable to invest. Hoang, Tran and Nguyen (2013), in their study on New theory of FDI with the evidence from Vietnam, using Gravity model to test whether or not the index of countries' similarity in size induces FDI inflows into Vietnam in the period from 1995 to 2011.

In general, there are some studies on the FDI environment of ASEAN countries, including Vietnam and Thailand. However, in term of methodology, these studies have not given a comprehensive model and detailed comparison of the investment environment in Thailand and Vietnam. Therefore, this study is conducted with the purpose of filling in such gap by using PEST analysis model to analyze systematically the investment environment in Thailand and Vietnam, giving a full picture of similarities and differences of the two countries.

Research Questions

First, the study tries to answer the question: "Do the investment environment of Vietnam and Thailand differ? If yes, what make the differences?"

After reviewing and analyzing the investment environment in Vietnam and Thailand, the study will consider the opportunity of Vietnam in promoting the advantages it has to attract FDI investment and find response to the questions "Can Vietnam overcome Thailand to become a major destination of FDI in ASEAN region?"

Report Structure

Beside the introduction and conclusion, the report includes:

Chapter 1: Overview. This chapter gives general concept of international investment, international direct investment and other forms of international investment. Also, the situations of FDI attraction in Vietnam and Thailand will be described in details.

Chapter 2: Research Methods. This chapter will explain the methodology used in this study – the PEST model.

Chapter 3: Research Results. Based on the PEST model, a system of factor assessment will be built to make comparison and judgment on the investment environment of the two countries Vietnam and Thailand.

CHAPTER 1: INTRODUCTION TO GENERAL CONCEPTS

1.1. International Investment

"Investment is the use of a certain amount of assets such as capital, technology, land… on a specific economic activity in order to create one or more than one products which contribute to the social profit (Phung, 2012). In particular, the party who invests in an activity is known as investor or owner. Investors can be an individual, an organization or even government of a country.

International investment is an international form of capital movement, in which capital moves from a country to a country to perform one or several projects for the sake of benefit of both parties. In essence, international investment is a form of export and import of capital in search of profits. Generally, foreign investment has all characteristics of investment. However, there are some differences, for example, capital owners are foreigners; investment factors move across country borders; capital is calculated by currency.

Basically, international investment is divided into Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FDI, as defined by WTO, occurs when an investor from a country (host country) possesses assets as well as the right of management of the assets in another country (receiving country). The right of management is FDI's unique characteristics to distinguish itself from other types financial instruments.

According to research purpose, there are two major forms of investment: Vertical Investment and Horizontal Investment. Horizontal Investment is suitable for investors who have competitive advantages in technology, management techniques… in the production of a certain product. The purpose of this form is to expand and conquer new foreign markets with the same kind of products having competitive advantages in foreign countries. Meanwhile, Vertical Investment is a form of investment which aims at exploiting natural resources, raw materials, land, cheap labor force… When making decision to invest abroad, investors have to put into account the competitive advantages of inputs in the production of a product in the international division of labor. Therefore, these products are usually assembled in the recipient country.

According to investment strategy, FDI has two main forms: Green Investment and Acquisition and Mergers (M&A). Green Investment is the form of investment in which investors make a new business from beginning: building manufacturing facility, grassroots marketing, new administration base, which is completely different to the acquisition of available business. Acquisition is the action of investing into or purchasing an operating company or manufacturing facility. Merger is a special form of acquisition in which two companies join together to form a new and larger company. Merger is more common amongst companies of the same size because they have ability to merge their activities on the basis of relative balance. Like venture, merger can create numerous positive outcomes, including resource sharing amongst partners, increasing economic benefits of scale, reducing costs by eliminating redundant operations, wider

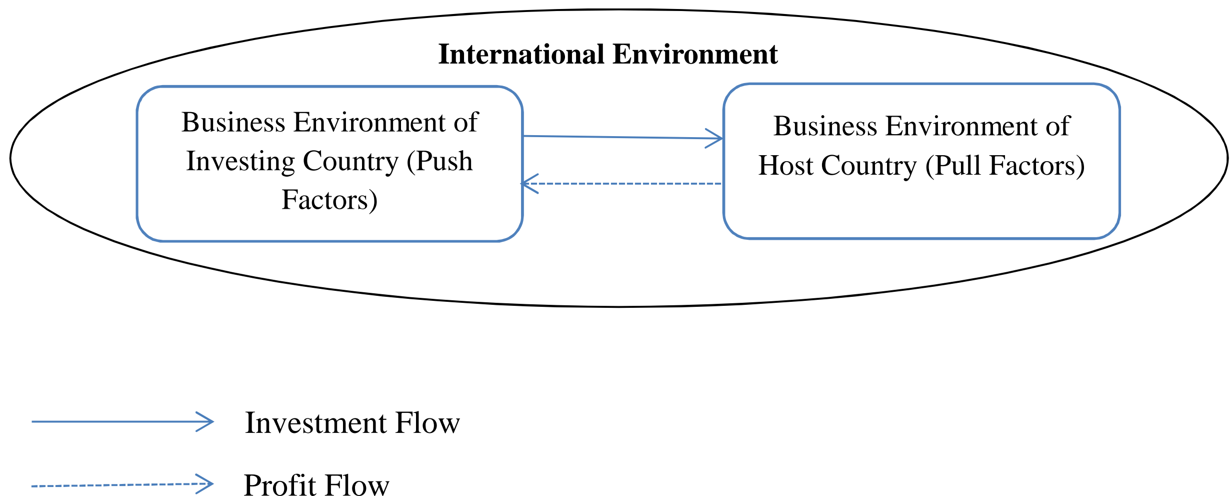
range of products, and larger market. However, the cross-border mergers have to face many challenges due to the differences in culture, competition policy, corporation values and modes of operation between nations.

According to the ownership, FDI is divided into 100% foreign investment; joint venture; business cooperation contract; BOT (Build-Operate-Transfer); joint-stock company with capital of foreign direct investment; Parent – Subsidiary companies; M&A and branches of foreign companies. In addition, investors can take form of market penetration by not holding equity, for example, Franchising, Licensing, Outsourcing…

1.2. International Investment Environment

International investment environment is constituted by foreign investment environment of host country, business environment of investing country and international environment.

Figure 1.1. International Environment



For investors or leaders at macro level, it is very important to choose the appropriate investment environment. Therefore, they have to make numerous careful researches on receiving countries' business environment to come up with right decision on the destination for their investment. Good investment environment is the environment which can bring high profits and minimum risks to investors, which can be assessed through scoring method. Investment environment capable of bringing high profits can have following factors: the ability to extract information about the investment climate (transparency); procedures and administration costs related to license and implementation; infrastructures and service costs; corruption; supporting conditions for foreign investors; tax impacts to business operations; exemption conditions; quality of human resources; and salary costs…

Investment environment research has to reflect different aspects of the environment including political-social condition, cultural environment, legal environment, administration, economic condition, doing business environment as well as international environment.

1.3. Overview of FDI in Vietnam and Thailand

According to annual report of United Nation Conference on Trade and Development (UNCTAD, 2015), in 2013 approximately 1,260 billion USD of FDI was circulated globally and the number was forecast to increase by 5%-8% in 2015, which proves the

increasing growth of FDI. In recent years, attracting FDI has been considered as one of the top most priority strategies in the development process of developing countries.

1.3.1. Overview of FDI in Vietnam

FDI attraction in Vietnam has been started since late 1980s and early 1990s. By 1991, total FDI into Vietnam was very modest with 213 million USD. However, the number of registered FDI had experienced dramatic increase since 1992 and reached the peak in 1996 with the total registered capital being up to 8.6 billion USD. A fast increase in FDI was observed in Vietnam during the period of Renovation because of huge changes in the economy of the country, especially the opening of one of the biggest and most potential markets in South East Asia with abundant and cheap labour force, the most important determinant of FDI attraction at that time.

FDI in the first one decade can be divided into two phases with two different trends: before and after 1996. Before 1996, FDI underwent a constantly increasing pattern in both numbers of projects and registered capital which reached to 8.6 billion USD in 1996. In addition, during this period, the average annual growth rate of FDI came up to approximately 50% per year. FDI had increased substantially from 37 projects with 342 million USD in 1989 to 326 projects with total registered capital being 8.6 million USD in 1996. Since 1997, due to the adverse impacts of the Asian Financial Crisis, FDI into Vietnam started declining. The crisis had caused big concern about the instability of Asian market which directly made it become less attractive. In the period of 1997-2000,

Vietnam had experienced dramatic decline in FDI, average of 24% per year. Total registered capital fell from 8.6 billion USD to 1.9 billion USD in 2000.

Since the Foreign Investment Law was enacted in 1987 to 8/2001, Vietnam has licensed 3628 projects with total investment of approximately 46.5 billion USD, including increasing capital of granted projects, 33 projects of which had expired (0.3 billion USD) and 703 projects with a total dissolution of about 9 billion USD. Among licensed projects, by the end of 8/2001, 21 billion USD was disbursed, accounting for 45% of total registered capital.

FDI sector has contributed to nearly 60% of Vietnam's annual GDP. Over the last two decades, FDI has played an important role in bringing foreign capital and advanced technology into Vietnam. At the same time, it also has positive impacts on the restructure of the economy towards the process of industrialization and modernization as well as economic development.

When it comes to investors, the majority of FDI into Vietnam is from Asian countries. Foreign investors from Taiwan, Hong Kong, Japan, Singapore, Korea, Malaysia and Thailand accounted for about 60% of registered capital and disbursed capital. The rest is invested by European countries (20%), American countries (13%) and Oceania (3%). Industrialized countries, say Western Europe, America and Japan, prefer investing in oil and gas, automotive, communications… In contrast, investors from newly industrialized countries in East Asia and ASEAN focus on light industry, food processing, textile,

footwear and service. FDI inflows (including registered capital and implemented capital) in Vietnam had declined significantly since the Asian Financial Crisis which resulted the depreciation of currencies of largest economies in Asia, namely Hong Kong, Japan, Singapore, Korea, Malaysia, Thailand and Taiwan. These countries accounted for the largest proportion of FDI in Vietnam. However, since 2000, FDI from Taiwan and Japan began showing signs of recovery. Also, in recent years, investment from European countries such as Britain, the Netherlands, Russia has increased.

Foreign investment mainly concentrates in manufacturing industry, oil and gas, hotel construction, textile and footwear, food processing, infrastructure development… By the end of 2000, total foreign investment reached 20 billion USD, of which industry making up for 54.8% of the total implementation (11 billion USD), construction industry accounting for 10.7% (2.1 billion USD); agriculture, forestry and fisheries possessing 6.5% (1.3 billion USD) and service sector contributing to 28% (5.6 billion USD). While finance-banking, agro-forestry, oil and gas, heavy industry and processing industry had the realized capital ratio of over 50%, other industries gained the rate at 30-40%.

During the period of 2000-2007, the amount of FDI in Vietnam experienced increasing pattern and reached a record in 2007 with 21.3 billion USD of total registered capital and 8.03 billion USD of realized capital. The average scale of investment was 9.4 million USD per a project, higher than that of 2005 (4.6 million USD per a project).

1.3.2. Overview of FDI in Thailand

Before 1980s, the FDI inflow into Thailand was also small and primitive. Since early 1980s, Thailand began focusing on attracting FDI but it was still in small scale and fluctuated due to instability in international economy and domestic economy. Since 1987, FDI inflows into Thailand began growing strongly thanks to the increase in labor costs and the appreciation of the currencies of Japan and newly industrialized economies in Asia. However, a decline in FDI into Thailand was seen after 1990 due to a series of adjustment in manufacturing base of Japan and the newly industrialized countries as well as the shortage of human resources and infrastructure. Also, Thailand's FDI pattern was substantially affected by the business cycle of Japanese companies.

In the period of 1997-2000, after the currency system of Thailand broke out due to the financial crisis, the Baht was floated, which resulted in a significant increase in FDI flow into the country. To be more specific, the Baht was devalued by 38%, which increased the purchasing power of foreign investors and encouraged acquisition.

From 2001, FDI in Thailand continued the increasing trends which stalled in 2008 and 2009 due to the global financial crisis. However, this stagnation ended very fast and the economy began recovering from 2010. According to the Central Bank of Thailand, in 2012, Thailand had attracted more than 550 billion Baht, equivalent to 18 billion USD,

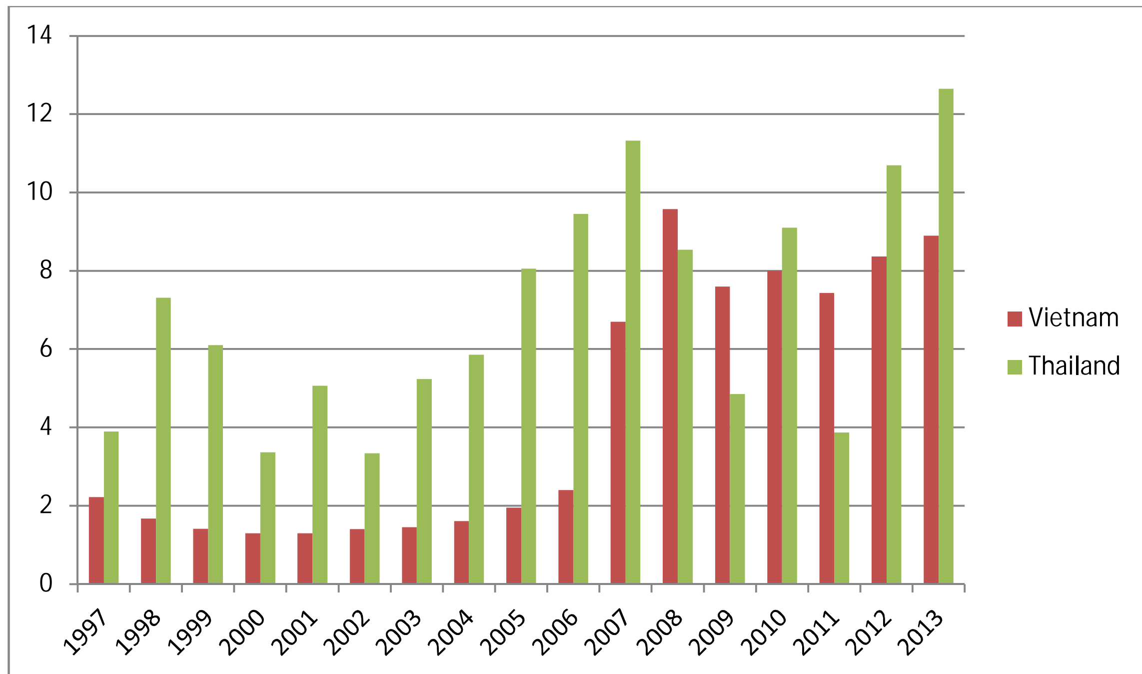
which was also the record in FDI attraction of the country so far. It should be noted that in 2011, FDI into Thailand was only 8.5 billion.

In 2012, there were 336 more foreign companies allowed to invest in Thailand. International companies have created jobs for more than 9,000 Thai people and, 168% increase over the same period of 2011. In term of investment value, an increase of 55% over the same period of the previous year was also recorded.

In the third quarter of 2013, the Board of Investment of Thailand (BOI) has licensed 351 projects, both in small and medium-sized business, with a total value of more than 19 billion Baht. Total FDI attraction in the first three quarters of 2013 reached 757 billion Baht. Services and public utilities are still the industries with highest investment value in 2013, followed by iron and steel, machinery and transport equipment.

Japan is the largest investor into Thailand, making up to 46% of FDI inflows into Thailand in 2012, followed by The USA with 12% (Thailand's Economic Fact Sheet, 2013)

Figure 1.2. Foreign Direct Investment, Net Inflows into Vietnam and Thailand (1997-2013)



Source: World Bank Database

Graph by the author

It can be seen that Thailand has still overcome Vietnam in the FDI attraction tournament. Despite some periods of slight and short-term declines, Thailand quickly recovered and proved itself as a bright spot in the ASEAN investment, as said by Athukorala (2003).

CHAPTER 2: RESEARCH METHODOLOGY

As said in the introduction, in order to analyze and compare the similarities and differences of FDI investment environments of Thailand and Vietnam, PEST model is utilized as the main tool in this report.

2.1. What is PEST model?

PEST model is often used to study the impacts of factors from the macro environment. These factors are for letters from the name of the model: P stands for Political (Institution – Law), E stands for Economic; S stands for Socio-cultural (Culture – Society); and finally T stands for Technological.

P (Political): For this factor, institutional or legal factors are analyzed, for example type of government, political stability, employment law, environmental law, consumer protection, tax policy, trade and customs control, level of corruption…

E (Economic): With economic factors, determinants of business cycle, growth index, inflation, exchange rate and exchange rate policy…

S (Social): For society and culture related factors, population growth, lifestyle, culture, health index, education level, religions… must be put into account.

T (Technological): This factor refers to the impact of the emerging technologies, the role of the spread of Internet and its pace of development, cost of R&D (Research and Development), impacts of technology transfer…

Nowadays, PEST model has been expanded to cover more factors. For instance, expanded PESTLE and STEEPLED, besides four traditional factors, analyze L (Legal), E (Environment), E (Ethics) and D (Demographic). However, in this report, the traditional PEST model with four factors (Political, Economic, Social and Technological) will be applied.

The PEST tool is used to analyze various subjects, from business segments, industries, a particular market to the whole economy. Therefore, it helps to give a full picture of the driving determinants from the macro scale (Recklies, 2006). Literally speaking, PEST identifies drivers that were of high importance in the past, indicates to what extend they might change in the furture and how this will interfere with the organization or the whole economy.

PEST has more meaning applications rather than a mere list of drivers. It helps to sort all the avalaible drivers into catagories, which works as a starting point fot further analysis of the external environment (Recklies, 2006). For instance it is possible to identify different external drivers for change with the help of the PEST. These are such drivers that will influence and change the industry structures or market structures in all likelihood. For example, the combination of the factors deregulation of trade barriers,

improvement of communication technology, increasing competitive pressure on local markets and converging customer preferences are likely to be drivers for further globalisation. To summarize, PEST is useful for (1) compiling and structuring of information. Sorting information into the four PEST categories can help to get the general idea and will serve as a starting point for further structuring of the relevant pieces of information. Used in this way, the PEST will naturally comprise comprehensive and detailed lists; (2) being a mean of presentation. Here it can serve as an executive summary and offers an easily comprehensible presentation structure since it is widely known and easy to understand.

2.2. PEST factors

In the report, these factors will be put into consideration:

Political	**Economic**	**Social**	**Technological**
- Environmental Regulations - Tax Policies - International Trade Regulations - Contract Enforcement Law - Employment Law	- Economic Growth - Market Size - Interest rates and monetary policies - Government Spending - Unemployment Policy	- Income Distribution - Population Growth - Labor Market Efficiency - Lifestyle - Work Attitudes	- R&D Expenditure - Industry Focusing on Technology - New Inventions and Development - Rate of Technology Transfer

- Government Organization - Competition Regulation - Political stability - Investor Protection	- Favorable Taxation for Investors - Exchange Rates - Inflation Rates - Stage of business cycle - Investor Confidence - Infrastructure - Natural Conditions	- Entrepreneurial spirit - Education - Fashion and Trends - Health and Welfare - Living Conditions	- Life Cycle of Technology - Energy Use and Cost - Changes in IT Usage - Internet Penetration - Number of Mobile Users - Innovation - Technological Readiness

2.2.1. Political Factors

Institutional and legal factors have substantial influence on all kind of business on a territory, undeniably. In other words, any change in institution or law can endanger or favor the viability and development of any industry. When running business on a country, investors have to comply with the institutional and legal regulations of the country. Such institutions and laws can refer to the following factors:

(1) Political stability

Political conflicts or diplomacy of a legal institution are important factors when assessing the investment environment of a country. Institutional stability will create better conditions for business activities, and on the contrast, an institution with high instability or permanent conflict will have negative impacts on all business activities on the territory.

(2) Tax Policy

Policies on export and import tax, consumption tax or income tax will have effect on the revenue and profit of a business.

(3) Relevant Laws: Law on Investment, Business Law, Labor Law, Antitrust Law, Anti-dumping Law…
(4) Macroeconomic Policy: Trade Policy, Development Policy, Economic Development, Tax Policy to regulate competition and to protect consumers…

2.2.2. Economic Factors

When an investor wants to enter a country, he should pay attention to the economic factors in short term and long term as well as the intervention of the government on the economy. Typically, companies will give investment decision based on the economic factors.

The state of the economy: Any economy has its cycle and it is important for a company to have appropriate decision at a certain stage of the economic cycle.

Factors affecting the economy: Interest rates, inflation and exchange rates.

Economic policies of the government: Law on Salary; Economic Development Strategy of the government; Incentives for industry; Tax Cuts; Subsidies…

The economic outlook: Growth rate; Increase in GDP; Rate of GDP on investment…

2.2.3. Social Factors

Every country or territory has its own cultural value and characterized social factors which create unique features of customers. Such cultural values play a role in fostering the existence of a society. Therefore, common cultural elements are usually protected very carefully, especially the spiritual culture. However, it is undeniable that in the globalization era, there is a wave of acculturation amongst different cultures on the world. In this situation, interference can change consumers' psychology, lifestyle and hence, create prospect for foreign investors.

Beside the cultural factors, social characteristics are also of enterprises' concern when doing market research. Social factors will divide the community into groups of customers based on characteristics, psychology or revenue: average life expectancy, health, nutrition or diet, average income, income distribution, lifestyle, knowledge, attitudes about aesthetic, psychological life, living conditions…

2.2.4. Technological factors

The world is in the revolution of technology with new technology being introduced everyday and integrated into products and services. If 30 years ago, a computer was just a tool used to calculate, nowadays, it has enough functions to replace human work completely and independently. Especially, in the field of information technology, modern communication technology has played an important role in shortening the geographical distance and made it from impossible to possible for company to have the headquarter in one country and factories in several different countries. Technological factors can be categorized:

(1) Government and enterprise expenditure on R&D (Research and Development)

First of all, let's take Japan as a successful example of a country which has made all of the world admire for its dramatic leap in economic development, mostly thanks to the focus on high human resources and the adaptation of new technology. Currently, Japan is still the country which has the highest rate of investment on new research to GDP. Nobody can deny the power of technology on the development of the economy. And the more developed a country is, the more attractive it becomes in the eyes of investors. Better technology background makes it easier to start new business.

(2) Speed and cycle of technology, technology backwardness rate

If it used to take two to four years to double the speed of a processor, now, a new computer, after half of a year can do so.

In addition to the basic elements mentioned above, when doing market research, enterprises must put globalization into consideration. Nobody can deny that globalization is the trend now which creates business opportunities for companies and development chance for countries. However, at the same time, it creates competition. The process of integration will make business have to adapt to the comparative advantages and the division chain of labor of the world.

Importantly, in integration, trade barriers will be removed gradually and enterprises will have the opportunity to trade with partners from geographically distant areas. Customers will be not only from domestic market but also from all over the world. To know what make a country become comparatively attractive than others in the eyes of investors is very important. In this case, PEST analysis is a useful tool to help us understand the overall picture of investment environment from perspectives of politics, economy, culture and technology.

CHAPTER 3: RESULTS

3.1. Political Factors

3.1.1. Laws and Tax Policies

Table 3.1. Comparison of Tax Policies of Vietnam and Thailand

Vietnam	Thailand
- Corporate income tax rate: 20% applied for industrial zones' enterprises operating in service sector in 10 years since the project begins production or for normal projects as defined in the Investment Law. - Corporate income tax rate: 15% applied in 12 years since manufacturing starts for projects listed in the encouraged project list, or projects in areas which have difficult socio-economic conditions, or projects in service sector in export processing zones and industrial parks with export rate of over 50%, or projects	- Thailand has the Board of Investment of Thailand (BOI) which is specialized in considering incentives for each project and classifying investment projects based on the impacts of them on the country level, not only on region level. - Investment incentives are classified into 2 groups: Group A (with field of preferential corporate income tax) and Group B (no preferential corporate income tax but may enjoy other privileges). - Group A includes A1 (projects having great importance for the country in R&D

which transfer assets without compensation to the government of Vietnam after the end of business time. - Corporate income tax rate: 10% in 15 years since projects begin operation for special projects in encouragement list or projects in areas with extreme constraints in socio-economic conditions or projects which aim to develop infrastructures of industrial parks or export processing zones or projects in the fields of health care, education and training and scientific research. - From 07/01/2013, private companies with total turnover up to 20 billion enjoy the tax rate of 20%. Other favourable policies were also applied, for instance: broadening the targets enjoying tax incentives and adjusting the level of exemptions and tax incentives,	and promoting country's competitiveness); A2 (projects using high technology, high capital level and protecting the environment, but the project must be unprecedented in Thailand); A3 (similar to A2 but projects had been invested in Thailand and need to call for more investment); and A4 (projects without high technology but having importance in improving the competitiveness of Thailand in the global supply chain). A1 and A2 projects will enjoy tax exemption for the first 8 years, while A3 and A4 will be exempted for 5 years and 3 years respectively. These projects also enjoy tax-free for import of machinery, equipment or materials for the manufacture of export products. - Group B includes the areas of local investment incentives which do not enjoy the preferential tax. However, they enjoy

particularly for the agricultural sector, areas of scocialization, activities for non-profit purposes, for areas with special geographical, economic and social conditions…; providing additional incentives for expanded investment or tax incentives for industrial sector…; amending incentive target according to types of projects so as to suit with investment conditions and the provisions of Investment Laws.	the right to own land or supported visas or work permits for foreign workers (easier and there is no restriction as normal projects). In some cases, these important projects can be exempted from import and export duties. - In addition to tax incentives, Thailand also reduces taxes for projects in remote areas and projects in industrial zones. Particularly, Bangkok and 6 surrounding provinces are coded as Zone 1, followed by Zone 2 and Zone 3 with the preference reducing according to the distance to Bangkok. For example, if a project of Group A is done in Zone 3 or in industrial zones, it will enjoy 50% of tax reduction for more 5 years after the expiration of the original tax exemption. Projects in Zone 2 may be exempted for 2-7 years.

Source: Law on Investment of Vietnam & Foreign Investment Law of Thailand

As can be seen above, both countries have very favorable tax policies for foreign investors. However, in the case of Thailand, tax incentives were regulated very clear and seem more attractive for investors. The BOI has divided clearly groups of projects and given specific incentives for each group. In particular, more priority was given to projects in rural and remote areas than Bangkok and surrounding areas. Thanks to proper policies, Thailand can encourage more FDI investment into underdeveloped areas, creating conditions for economic development.

Meanwhile, in Vietnam, the new tax policy framework just only encourages paying tax according to implementation time. Vietnam has not has clear policies to attract and take advantages of FDI into remote areas which have investment shortage to boost the economy. Therefore, FDI projects in Vietnam are mainly invested in key economic areas and in infrastructure sector, which causes uneven development in regions.

In Thailand, the promulgation of law regulation to FDI took place earlier than in Vietnam thanks to the priority and perception of the importance of FDI to the economy of the country. According to the Global Competitiveness Report in 2011-2012, in term of the effectiveness of the legal framework in settling disputes, Vietnam ranked 67th with 3.7, while Thailand ranked 53rd with 4.0.

However, favourable tax policies are also a double-edged knife which FDI investors can take advantage. In the case of Vietnam, recently, one of the largest retailers in Vietnam, Cash & Cary had been involved in tax evasion and transfer pricing. The General

Department of Taxation of Vietnam has revealed that Cash & Cary had not paid taxes for 12 years and the amount was estimated to reach 507 billion VND (equivalent to 23.32 million US dollars) (Ho, 2015). However, it does not mean that the country should reduce or restrict tax incentives. The issue requires a better procedure of monitor and management in tax system to improve the effectiveness of the legal framework.

3.1.2. Organizational structure of the government, foreign policy and politics

Table 3.2 Comparison of Organizational Structure and Foreign Policy of Vietnam and Thailand

Vietnam	Thailand
Organizational Structure: Socialist Republic: republican form of government of the communist state. Parliament is selected by people and then has right to elect the Government. Therefore, the people are indirectly involved in the state through the sole representative of the national parliament. Communist Party and Congress possess the full control of the country.	Organizational Structure: Constitutional Monarchy: form of state organization which has a King who mostly does not hold real power. The controlling power, in fact, is in the hand of the parliament with the head coming from the party having the majority of chairs. Every party has the right itself or can alliance with other parties to form the government with Prime Minister being a member of that party. In countries with constitutional monarchy in

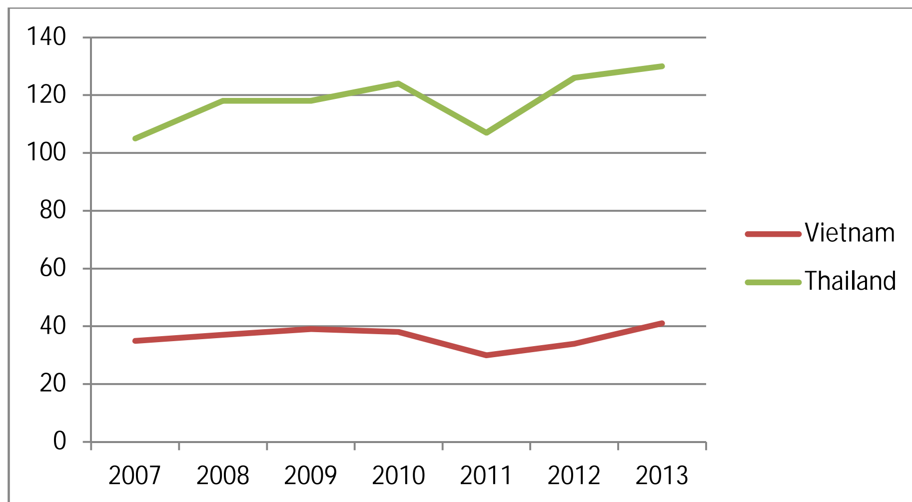
	general and in Thailand in particular, the supreme power of the country is given partly to the head of the country and partly to a senior agency, such as the parliament in the capitalist state. As the head of the country, the King is only a symbol representing the tradition and the unity of the country but does not hold the authority. In other words, the King reigns but does not govern.
Foreign Policy: Proactive integration with the world based on respect for sovereignty, national independence on the basis of compliance with international law.	Foreign Policy: Thailand was most known to pursue so-called "bamboo diplomacy". However, Thailand now is trying to become a more proactive factor not only in South East Asia but also on the world stage, with the aim to become a linking bridge between various levels of regional co-operation (Pongphisoot, 2012)

It can be seen clearly that Vietnam is more advantageous to have one sole leading party, consistent with the guidelines and policies to attract investment. However, practice has shown that despite of the fact that Thailand has numerous political turmoil compared

with Vietnam, the amount of FDI into Thailand has not been affected. It can be explained that the awareness of Thai people is relatively high. For example, they can take action coup to oppose the government but they respect facilities as well as activities of foreign investors. Therefore, despite political turmoil, foreign investors still feel secure when investing into Thailand.

According to the ranking of the Institute for Economics and Peace in the world, in 2013, the Peace Index of Thailand was only 2.38 points, ranking 130th out of 162 countries. Meanwhile, Vietnam ranked 41st with 1.77 points. Vietnam is usually commented as a peaceful country with relatively high stability while Thailand has undergone unrest frequently, which is said to make investors shift to neighbor countries, for example Vietnam or Indonesia (Janes, Suhartono & Liau, 2014).

Figure 3.1. Global Peace Index Rankings of Vietnam and Thailand (2007-2013)



Source: Institute for Economics and Peace (2014)

Besides Peace Index, Corruption Index is also a useful indicator to assess the political situation of countries. Since 1995, Transparency International (TI) has announced Corruption Perceptions Index (CPI) according to the level of corruption whose existence is aware amongst civil servants and politicians. The organization defined corruption as the "abuse of public office for private gain".

According to the research conducted by the organization in 177 countries, Vietnam and Thailand are among the countries with the highest corruption index. Specifically, in 2012, Thailand ranked 88th out of 177 countries while Vietnam ranked 116th. In 2013, Vietnam stayed at the same rank of 116th while Thailand plummeted to 102nd place. In the period of 2007-2013, Thailand had continuously fell down in the ranking of corruption level. Vietnam, on the other hand, performs stably but always on the top of the water with high level of corruption.

Table 3.3. Corruption Perceptions Index of Vietnam and Thailand (2007-2013)

Year	Vietnam	Thailand
2007	123	84
2008	121	80
2009	120	84
2010	116	78
2011	112	80
2012	123	88

2013	116	102

Source: Transparency International

3.1.3. FDI Attraction Orientation

Related to FDI attraction orientation, Thai government has a way to attract FDI into sectors in a certain direction in sync with the overall direction of the country's development. Specifically:

Thailand 1.0: Development of modern agriculture and products of high added value. For this purpose, Thailand prefers projects of food processing projects and biotechnology.

Thailand 2.0: Development of light industry, outsourcing to foreign investment as well as abroad. Thailand gives priority for projects which produce less pollution, projects of textile accessories, medical equipment and abroad investment project in areas which Thailand is no longer advantageous of labor force.

Thailand 3.0: Investment in heavy industry: automobile, petrochemical, and increase of R&D in factories to produce world-class products. Thailand gives priority for projects producing highly technological materials for the construction industry, automobile and ship building projects, engine manufacturing, car parts, fertilizers, paper…

Thailand 4.0: Development of knowledge-based and service-based economy. Thailand has set a target of attracting investment in the electronics industry, high technology,

building R&D to create new energy development, service industries, such as tourism, air transport, sea transport, logistics…

On the other hand, Vietnam used to focus on attracting FDI as much as possible with no attention to the quality of FDI. However, after the downturn of the global economy in 2008, there was a need for the country to target more high quality projects, which can help to develop the economy more stable.

3.1.4. Administrative Procedures

To start a business in Vietnam, investors need to complete a procedure of 9 steps while in Thailand, it is 05 steps. On average, to establish an enterprise, it takes 44 days in Vietnam and 29 days in Thailand.

In term of export procedures, Vietnam has not much improve than Thailand. In 2006, Vietnam and Thailand had same days to export. Vietnam had a little more documents required. However, by 2012, Thailand had achieved greater improvement in both days to export and number of documents required.

3.1.5. Level of investor protection

In addition to offering favorable policies to attract investment, to retain investors is also an important factor. Therefore, in the Doing Business report of World Bank, the indicator of "Investor Protection" was mentioned. The investor protection index is constructed based on four criteria:

(1) Extent of disclosure index (1-10): level of transparency of information in the transaction
(2) Extent of director liability index (1-10): liability of investors
(3) Ease of shareholder suits index (1-10): the ability of shareholders suing the administration of misconduct
(4) Strength of investor protection index (1-10)

Table 3.4. Investor Protection Criteria of Vietnam and Thailand

Indicators	**2014**			
	Vietnam	**Thailand**	**East Asia and Pacific**	**OECD**
Extent of disclosure index (1-10)	7	10	5	7
Extent of director liability index (1-10)	1	7	5	5
Ease of shareholder suits index (1-10)	2	6	6	7
Strength of investor protection index (1-10)	3.3	7.7	3.3	6.2

Source: Doing Business 2014 (World Bank, 2014)

Compared with Southeast Asia, the Pacific, OECD and Vietnam, Thailand has the highest index of investor protection. In particular, Thailand of the absolute point in the

criteria of disclosure – the degree of capturing information of investors, which proves that the level of clarity and transparency of information provided to investors in Thailand is very high. In other indicators, Thailand also got more than 6 points each. This demonstrates that Thailand has put many efforts in protecting investors while they are doing business in Thailand. Meanwhile, in Vietnam, all criteria got very low score some of which were of the lowest in the world, for instance, the extent of director liability index got 1 out of 10. Even though the criteria of transparency (extent of disclosure) got highest point (7/10), it was still low compared with Thailand, which shows the weakness of Vietnam in protecting investors.

Table 3.5. Investor Protection Ranking of Vietnam and Thailand

	Vietnam			Thailand		
	2014	2013	Change	2014	2013	Change
Investor Protection	157/189	169/189	+12	12/189	12/189	-

Source: Doing Business 2014 (World Bank, 2014)

It can be seen that Vietnam has made positive changes in policies to encourage and protect foreign investors through the improvement in ranking (from 169 to 157 out of 189). However, it is still very low and belongs to the lower group of the rank. Moreover, compared to its rival, Thailand which stably stays at high position (12 out of 189 in two continuous years), Vietnam still needs to continue its efforts, making more comprehensive changes to catch up with Thailand.

3.2. Economic Factors

3.2.1. Natural Conditions and Infrastructures

3.2.1.1. Geographic Location and Natural Conditions

Vietnam and Thailand are two nations in Southeast Asia which have many similarities in terms of geography and natural conditions.

Table 3.6. Comparison of Geographic Locaion and Natural Conditions of Vietnam and Thailand

Vietnam	Thailand
Vietnam is located in the east of the Indochina peninsula, the center of Asia. The territory consists of two parts: the land with the total area of 330.991 km^2 and a 3.260 km long coastal line, which is very favorable to develop marine-based economy. Vietnam is located on the very important crossroad of maritime and international aviation, creating favorable conditions for Vietnam to trade with other countries in the region and the world.	With an area of 514.000 km^2 (equivalent to the total area of Vietnam and Laos), Thailand is the third largest country in Southeast Asia after Indonesia and Myanmar. Thailand is home of many different geographic regions, corresponding to the economic area. Like Vietnam, Thailand belongs to the tropical monsoon climate characterized by hot weather and heavy

Moreover, Vietnam is also the exit gate of import and export for Laos, Northeastern Thailand, Cambodia and Southwestern regions of China. Located at the junction between the continent and the ocean adjacent to the living mineral belt of Pacific Ocean and the Mediterranean Sea, on the trail up and migration of many species, Vietnam are downed with abundant mineral, aquatic and biological resources. The position and the wide-spreading shape of the country have important contributions to the natural diversity between the North and the South, between mountainous areas and river delta, coastal and islands. Favorable geographical location and rich natural resources contribute to the development of the economy, facilitate the implementation of the opening-economic	rain. Located in the heart of Southeast Asia, Thailand is considered the gateway to access the emerging economies of the Mekong River Region. The strategic geographic position of the country has had effects on many aspects of the society as well as the culture of Thailand due to the migration of people over centuries.

policy, integrate Vietnam with other countries on the world and make Vietnam become more potential in the eyes of foreign investors.	

3.2.1.2. Infrastructure

With the policy of "diplomatic reed", Thailand was not encountered from wars while Vietnam had undergone numerous and long-going war in the history. Thus, in term of infrastructure, Thailand has more advantages than Vietnam which was totally ruined after the wars. According to the classification of the level of favorable investment environment of the World Bank, Thailand's infrastructure ranked 47/148 while Vietnam stayed at 81/148 countries. Infrastructure is an important condition for attracting investment into a country. Being aware of that, in recent years, Thailand has continued investing into infrastructure with very strategic plans. 48% of GDP is expected to be invested into three portions (1) Annual on-budget investment which includes short-term projects that can be finished within a fiscal year, for example: infrastructure maintenance, short road construction… (2) Water management infrastructure projects which is about 6% of the total investment plan, equivalent to 3% of GDP in total; (3) Infrastructure connectivity program which is estimated to take 18% of GDP. Vietnam is also investing in infrastructure. However, with starting point lower than Thailand,

Vietnam needs to put more effort in finding the proper policy to develop infrastructure in pace with the development and the need of the economy.

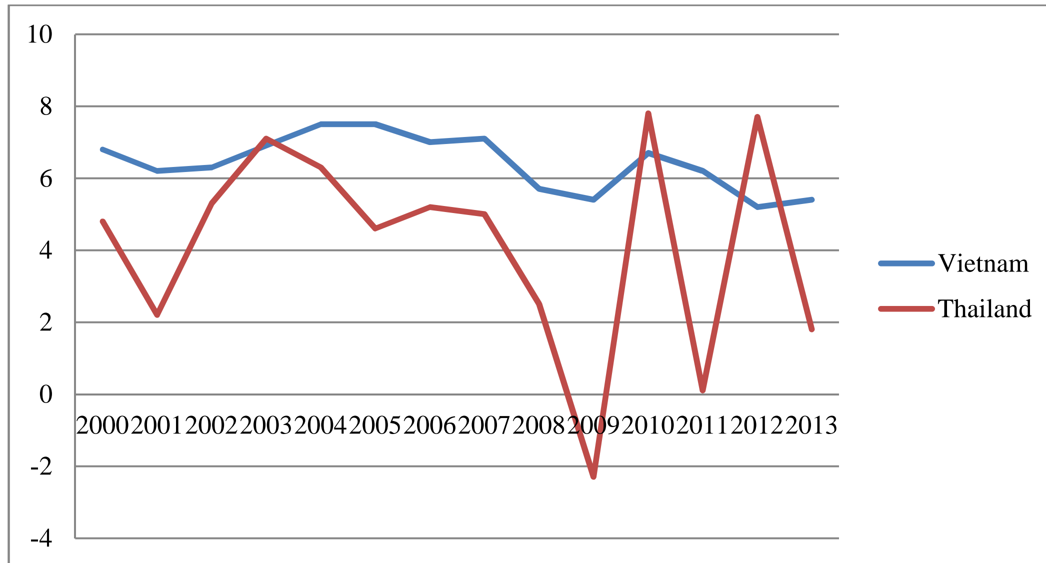
Table 3.7. Infrastructure Index of Vietnam and Thailand

Criteria	Vietnam		Thailand	
	Rank	Score	Rank	Score
Infrastructure	82/148	3.69	47/148	4.53
Transport Infrastructure	81/148	3.35	30/148	4.83
Electricity and Telephone infrastructure	85/148	4.02	74/148	4.23

Source: The Global Competiveness Report 2013-2014

3.2.2. Economic Growth

Figure 3.2. GDP growth rates of Vietnam and Thailand (2000-2013)



Source: World Bank Database

Graph by the author.

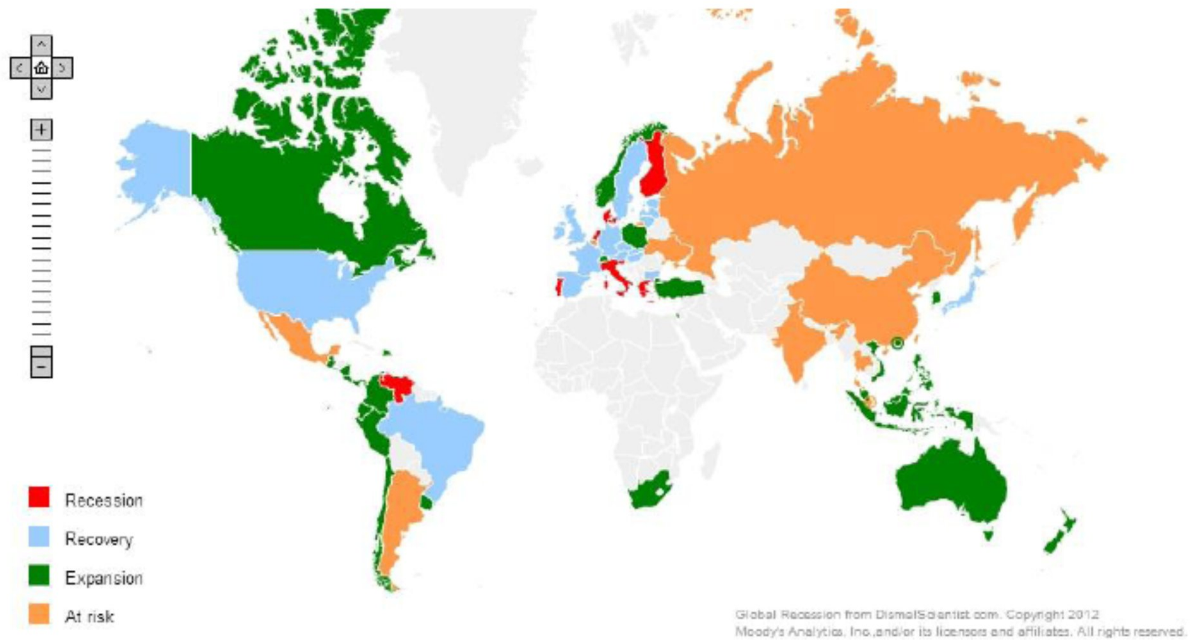
When it comes to economic growth, it can be seen that Vietnam has achieved relatively stable and high growth speed from 2000 to 2013 than Thailand. To be specific, average growth rate was approximately 6%, which is said to be one of the highest rates during the period. Meanwhile, Thailand has been undergone fluctuating pattern of economic growth. Even it is not shown in the graph, the well-known Asian Financial Crisis which occurred in Thailand had left the most drastic consequences on the economy of the country, which can be seen through the -1.4% and -10.5% of GDP growth rate in 1997 and 1998, respectively. After that, the economy of Thailand gradually recovered but

still showed its vulnerability to the change of the global economy. The Global Financial Crisis caused the rate fall down to -2.3% in 2009. On the other hand, Vietnam has experienced positive and stable growth rate for a long period of time as mentioned above. However, growth rate itself cannot reflect fully how an economy is. To explain why the economy of Thailand is so vulnerable and that of Vietnam is more stable, the openness to the global economy can be a good factor. Thailand is more open than Vietnam and relies more on export as well as import. A shock in the world economy will cause a dramatic decrease of consumtion demand, which indirectly affected trade revenue. Second factor explaining why Vietnam has been enjoying high growth rate is that the scale of the economy is not yet large. An increase of 1% of GDP growth is easier to achieve than Thailand which is already of the high-middle income country group. In short, annual GDP growth rate, even though a very widely used measurement of economy development, cannot give a full picture of the economy of a country.

3.2.3. Business Cycle

In 2012, Vietnam was in said to be in state of "Expansion" which means the economy is still in period of growing and expanding. Meanwhile, Thailand was in state of "At Risk" which means the economy is instable, facing many problems and easy to fall into recession.

Figure 3.3. World Business Cycle Map (2012)



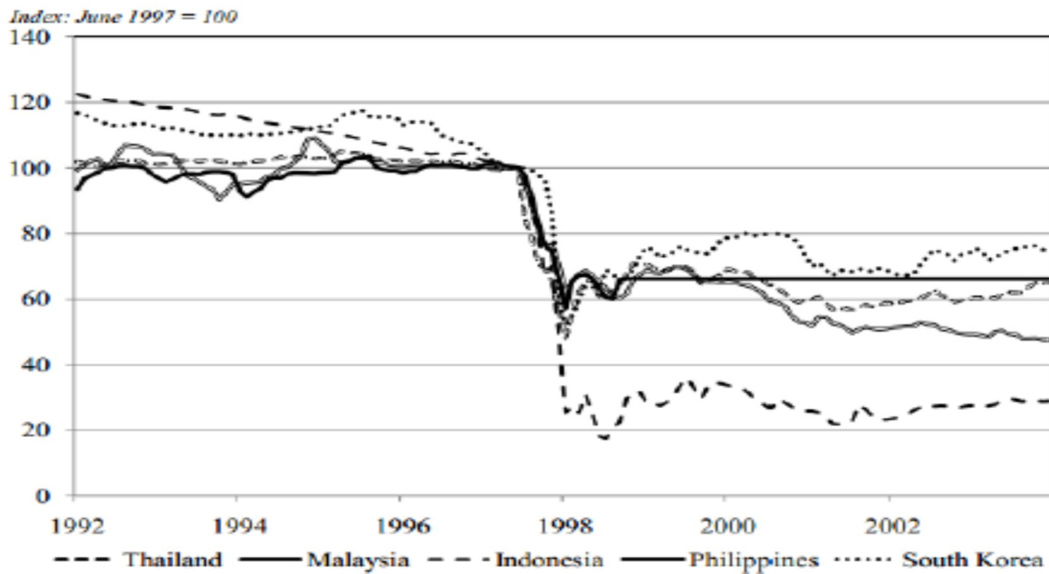
Source: Dismal Scientist

3.2.4. Exchange Rate Policy

Before the Asian Financial Crisis in 1997, Asian countries, including Vietnam and Thailand were amongst the countries under the regime of fixed currency based on the US dollar. When the crisis first occurred from Thailand, all currencies of other Asian countries began to face very fast and strong devaluation. During that time, the government of Thailand, with the purpose of stimulating export and try to escape the crisis, depreciated the Baht by almost 100% against the US dollar in merely six months, from July 2 1997 to January 1998. Specifically the baht went from 25 baht to 54 baht per US dollar (Sharma, 2003)

About the exchange rate policy of Vietnam, in recent years, the country has had many changes in the exchange rate mechanism from managed floating exchange rate to fixed mechanism (2008). The coordination mechanism of the exchange rate and monetary policy has an important role in boosting trade of a country. Monetary policy in fixed dollar makes the economy vulnerable to the fluctuation of the economy, or so-called stochastic shock as well as differences in business cycles. Therefore, in general, Vietnam's economy is highly susceptible to the world economy and a low exchange rate will make the country become less attractive to FDI investors because capital tends to flow to higher exchange rates.

Figure 3.4. Exchange rate of countries most severely affected by the Asian Financial Crisis 1997



Source: International Financial Statistics of IMF

In Thailand, in1997, having undergone the direct impacts of the crisis, Thailand implemented Baht devaluation. Since 1998, Thailand has maintained a floating exchange rate policy which helped to regulate inflation as well as make market control, forecast and valuation.

Table 3.8. Exchange Rate Policies of Vietnam and Thailand (2003-2012)

Country	2003		2008		2012	
	Exchange Rate Mechanism	Monetary Policy	Exchange Rate Mechanism	Monetary Policy	Exchange Rate Mechanism	Monetary Policy
Vietnam	Managed Float Exchange Rate Regime	Fixing the VN Dong value to the US Dollar	Fixed Exchange Rate Regime	Fixing the VN Dong value to the US Dollar	Exchange Rate Stability	Mixed
Thailand	Managed Float Exchange Rate	Inflation Targeting	Managed Float Exchange Rate	Inflation Targeting	Managed Float Exchange Rate	Inflation Targeting

	Regime		Regime		Regime	

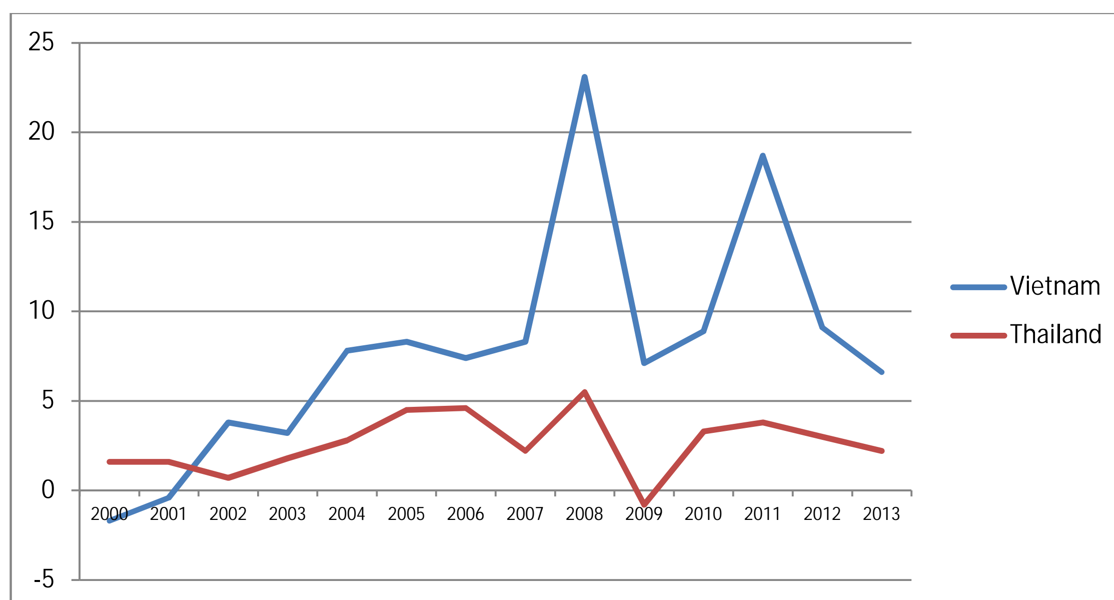
Source: Compiled by the author.

Exchange rate policy of Thailand is an advantage to help the country attract more foreign investment. In the case of Vietnam, at current level of development, the country does not have enough resources to pursue the same policy as Thailand has done. The reason is Vietnam still does not have derivatives policy and the financial market is not strong enough to manage the policy (Tran, 2013).

3.2.5. Inflation

With the regulated floating exchange rate policy, Thailand has been successful in maintain inflation at low level in recent years. Specifically, in 2007-2012, Thailand's inflation rate is consistently below 5% per year. This is a desirable number of Vietnam when the country is experiencing dramatically high and erratic inflation. During 2008 to 2011, the inflation rate of Vietnam was roughly 20% per year. Vietnam's government has put many efforts in reducing inflation but it seems the measures were not really effective when the figures still remained volatile in recent years.

Figure 3.5. Inflation Rates of Vietnam and Thailand (2000-2013)



Source: World Bank Database

Graph by the author

3.2.6. Market Factors

Table 3.9. The Efficiency of Markets of Vietnam and Thailand

Factors	Vietnam		Thailand	
	Rank /148	Score (1-7)	Rank /148	Score (1-7)
The Efficiency of Financial Market	93	3.76	32	4.61
The Efficiency of Good Market	74	4.25	34	4.67
The Efficiency of Labour Market	56	4.5	62	4.35

Market Size	36	4.64	22	5.1
Level of Business Development	98	3.68	40	4.22

Source: The Global Competitiveness Report 2013-2014

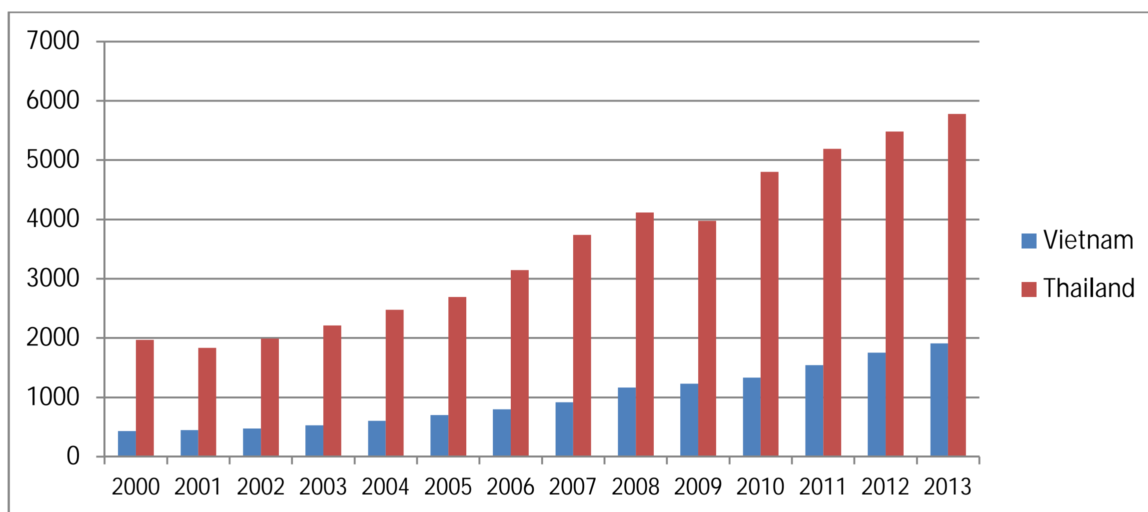
In terms of scale and level of the efficiency of the financial markets, goods and labor in Vietnam and Thailand, it can be seen that Thailand has larger market size (22/148) which is relatively well developed. In comparison, Vietnam has smaller market size (36/148). Market size and effectiveness of the internal market structure is an important factor in the eyes of investors. The index reflects the operation of the economy in general and the market in particular. The higher the index is, the greater the preference of investors become.

3.3. Social Factors

3.3.1. Per Capital Income

On average per capita income of Thailand is higher than that of Vietnam. In the period of 2007-2012, per capita income in Thailand was two to three times higher than Vietnam. Only in 2012, per capita income in Thailand was 5480 US dollars compared to 1755 US dollars of Vietnam.

Figure 3.6. GDP per capital of Vietnam and Thailand (2000-2013)



Source: World Bank Database

Graph by the author

According to the Vietnam Development Report 2009 by the World Bank, the per capita income of Vietnam was lagging 51 years behind Indonesia; 95 years behind Thailand and 158 years compared to Singapore. Per capita income is the indicator of the standard of living of the people of a country. It has very substantial impacts on the investment decision of investors. A higher income country is more promising in consumption market as well as has more favorable infrastructure conditions for investment.

3.3.2. The population growth rate

In terms of total area, Thailand is 1.5 bigger than Vietnam (513,120 square kilometres compared to 331,210 square kilometres). However, Vietnam's population is 1.4 times compared with that of Thailand (World Bank, 2012). The growth rate of Vietnam population in 2012 was 1.05%, ranking 111th out of 187 countries worldwide. Meanwhile, Thailand ranked 147th with the population growth rate of 0.54%. In short, being a smaller countries, Vietnam has more population and higher population growth rate than those of Thailand, which results in huge constraints on the development of the economy.

3.3.3. The indicators of living conditions

Lifestyle: Thailand and Vietnam are the countries with the main religion is Buddhism. The two countries have historical and cultural development of the oldest and the cultural elite, its own national identity.

The indicators on health and education by Vietnam and Thailand:

Table 3.10. The criteria on health, education of Vietnam and Thailand

Criteria	Vietnam		Thailand	
	Rank	Score (1-7)	Rank	Score (1-7)
1. Health and primary	67/148	5.78	81/148	5.52

education				
1.1. Health	88/148	6.42	74/148	6.5
1.2. Education	63/148	5.15	95/148	4.55
1.3. Efficiency enhancers	74/148	3.98	95/148	4.55
2. Higher education and training	95/148	3.69	66/148	4.29
2.1. Quality of Education	98/148	3.63	76/148	4.46
2.2. Quantity of Education	83/148	3.93	65/148	4.11
2.3. On-the-job training	114/148	3.52	54/148	4.29

Source: The Global Competitiveness Report 2013-2014

With the tradition of good education, Vietnam has considerable investment in basic education, on which Vietnam ranked 63rd out of 148 countries. In this area, Thailand only ranked 95th out of 148 countries worldwide. But when it comes to health care, Thailand, with position of 74th out of 148 countries, was highly evaluated than Vietnam, which stood on the stage of 88th.

On the other hand, Thailand had better higher education and training, ranking 66/148 while Vietnam ranked 95/148. In the investment world, Vietnam is praised to have plentiful, hardworking, diligent and eager to learn labour force. However, the majority are unskilled and relatively poor qualified workers. This is a very serious problem that Vietnam has to put more focus and effort to tackle if it wants to catch up with Thailand

in the investment race. Many investors, especially in the high technology field, despite Thailand's higher labour cost, still choose Thailand to invest instead of Vietnam. The very easy to understand reason is Vietnam's workers are not yet capable to handle high-tech manufacturing process.

To conclude, overall, Vietnam and Thailand are two Asian countries with many similarities. However, in term of society, Thailand shows that it is more developed than Vietnam. Therefore, living standards and living conditions are far better than those of Vietnam, which, in turn, affects the efficiency of investment activity.

3.4. Technological Factors

3.4.1. Investment for Research and Development

Research and Development (or shortly called R&D) is one of the most important keys to success of a company as well as of a country (Griliches, 1979). R&D activities are comprised of investing, conducting and/or trading new technology invention which is applied into manufacturing process, as well as discovering new knowledgement in various fields, especially on manufacturing sector. Regardless a company or a country, if it wants to become a leader, the focus on the development of R&D is a crucial strategy in its development policy.

Thailand and Vietnam are two Asian countries which joined the field of R&D much later than the rest of the world but gained many achievements in recent years.

Table 3.11. R & D policies of Thailand and Vietnam

Vietnam	Thailand
- The newly-established company in the field of high technology, science, research and technology are reduced 10% tax rate in 15 years (4-year tax exemption and a 50% tax rate in the next 9 years). This can last up to 30 years if approved. - In addition, the Government also facilitated a year tax exemption for income from R&D activities, the sale of products in the production process testing, and products made from new technology applied for the first time in Vietnam. - Companies which invest 25% or more of their turnover into R&D investment in the project will be exempted from import duties for five years.	A 200% deduction is available for reasonable expenses in R&D activities in Thailand made by the company that provides R&D services in Thailand. The company provides R&D services are private companies or government agencies approved by the Revenue Department of Thailand. The company providing R&D services may be eligible to enjoy the following benefits: - Exemption from corporate income tax (unlimited amount) for eight years, irrespectively of region. - Double deduction transport costs, electricity and water costs - Exemption from import duty on

- Enterprises are exempt from import duties on goods imported for direct use for R&D. - Program funding for training programs, R&D and manufacturing test costs.	machinery, regardless of region - Free, reduced raw material or essential used in the manufacture of products for export

Both Thailand and Vietnam have gradually planned and developed specific routes leading to R&D. Annually, Thailand government spends about 0.2% of GDP for R&D activities. Percentage of researchers in Thailand was 9.5 researchers over 10 thousand people. Of these, about 20% of the study participants working in the business field. In the future, Thailand target ratio of 30 researchers on 10 thousand people with 80% of the researchers involved directly in the business sector. In addition, Thailand also has policies to encourage foreign investors to invest in research in this country.

Meanwhile, Vietnam has moved into recent market economy after decades of war and the centralized planning economy. Vietnam higher education has lagged behind neighboring countries and now Vietnam is also actively investing in R&D and offers more favourable incentives for foreign investors in this activity. On 2011, it is said that Vietnam government had invested 0.21% GDP in R&D activities. The ratio of researchers per one million people in Vietnam dramatically small – 0.0007 – if noting that the ratio is 4,650 in the US (in 2007), 936 in China (2011), 5,451 in South Korea (2010), Singapore 6,307 (2010) and Malaysia 1,643 (2011) (Le, 2014).

According to the World Bank, the number of patents in Vietnam and Thailand are also low compared to other countries and other regions. In 2012, in Vietnam patent number of people residing in Vietnam ss 382, while in Thailand, it is 1020. The number of patents of non-residents in Vietnam and Thailand are 3423 and 5726, respectively.

Table 3.12: Numbers of patents in Vietnam, Thailand and other regions of the world in 2012

Country/ region	Patent Application Filed		Trademark Applications Filed
	Residents	Non-residents	
Thailand	1020	5726	44963
Vietnam	382	3423	34341
Worldwide	1430327	739805	4075279
Low Income Countries	-	-	-
Middle Income Countries	568,115	232,880	2,680,796
Lower-Middle Income Countries	14,278	47,625	358,282
Upper-Middle Income Countries	553,837	185,255	2,322,514
Low and Middle Income Countries	576,817	233,456	2,723,165
East Asia and Pacific	546,346	135,350	1,736,251
Europe and Central Asia	11,679	3,624	240,060
Latin America and Caribbean	7,185	48,374	431,332

Middle East and North Africa	-	-	38,609
South Asia	9,716	35,487	225,169
High Income Countries	853,510	506,349	1,352,114
EURO area	82,197	19,015	297,877

Source: World Bank (2012)

Research and Development activity and FDI have interactions between each another. A country which has a strong and stable R&D base will have more advantages in attracting FDI, undeniably, becauce it is able to provide investors more favourable conditions to set up and doing business. On the other hand, especially for developing countries, FDI projects, mostly from more developed countries, with high technology are chances to go on short-cut to R&D. That is the reason why every country prefers and always offers incentives for high technology FDI projects. Obviously, Thailand is far more developed than Vietnam in the field of R&D, which makes the former more preferred by investors.

3.4.2. The level of Internet and Telephone Use

Internet penetration in Vietnam has reached the proportion of 36.5%. In 12/2012, it was estimated that there were 5.3 million broadband Internet subscribers. 40% of Internet users were aged from 14 to 24. 85% of Internet users used the Internet to read news, 77% to check mail, 71% for browsers, 69% for work and research, and 66% for entertainment. Online video entertainment has become quite popular in recent years,

with the level of penetration of the video on the website up to 90.2%. Facebook is now the most popular social network website in Vietnam with the increase of penetration rate up tp 88% in 10/2012 (Do, 2012). According to the General Statistics Office of Thailand, the level of Internet penetration in the country had reached 26.5% in 2012, increasing by 8.3% compared with 2008. The number of broadband Internet subscribers reached the number of 4,5 million in the second quarter of 2013. This figure corresponds to 6.7% penetration rate of 22.7% of the population and households (The National Telecommunications Commission of Thailand). This figure is relatively modest growth from 2012, when the number of subscribers reached 4.3 million with a 6.3% population penetration and 21.5% of households (Sakawee, 2013).

The level of internet and telephone use indirecly reflects the development of a country's infrastructure, which in turns, reflects how favourable a country is for investors to do business. Besides, a country with a high level use of internet and telephone allows residents to have easy access to information, which is also a factor that foreign investors always put into consideration when decide to invest in a particular country. In term of this, Vietnam does not perform worse than Thailand. Statistics show that both countries have developed internet and telephone lines at a certain level.

3.4.3. Innovation and technological readiness

Through attracting FDI to take advanced technology is an important factor to assess the business environment of a country. In this category, Vietnam was outstripped by

Thailand in the rankings. While Thailand ranked among medium (78/148), Vietnam was located in the lower group of the countries receiving the technology (102/148). As can be seen in the previous criteria, even though Vietnam has a considerably higher degree of mobile and internet usage than Thailand, the majority of Internet use was served for recreational purposes and social networks. While investors will appreciate the ability to apply the technology of a nation in the process of receiving new technology.

Table 3.13: Availability reception and pioneering technology of Vietnam – Thailand

	Vietnam		Thailand	
	Rank	Score (1-7)	Rank	Score (1-7)
Technological Readiness	102	3.14	78	3.56
Technological Adoption	128	3.86	57	4.95
ICT Use	78	2.41	89	2.17
Innovation	76	3.14	66	3.24

Source: The Global Competitiveness Report 2013 – 2014

As explained in the chapter of methodology, PEST model works as a comprehensive list of factors that affect on the decision making process. However, in reality, investors will only focus on analyzing several popular indicators, for example infrastructure,

institution, health and educatin, the level of innovation and technology readiness… In a nutshell, Vietnam is more appreciated in the indicators of health and basic education, labor market efficiency than those of Thailand. However, in comparison with other determinants, they are not the very important ones to attract FDI. For foreigner investors, infrastructure, institutional factors, market size, favourable policies to protect investors and access to technology are considered as key determinants for investors to take into account when deciding to invest in a particular country. That is the reason why, Thailand, despite long lasting political instability, still receive more FDI than peacefull Vietnam. Thailand has higher level of investor protection; better infrastructure due to earlier development and more strategic development plan; smaller population but with higher living standard. Those factors together guarantee a favourable investment environment to reassure investors to pour capital into Thailand instead of Vietnam.

In addition, The World Bank aslo indicates how favourable a country is to attract foreign investment in its annual so-called Doing Business Report.

Table 3.14. Scores of business environment of Vietnam and Thailand (2013-2014)

Topics	Vietnam			Thailand		
	2014	2013	Change	2014	2013	Change
Starting a Business	109	107	-2	91	86	-5
Dealing with Construction Permits	29	29	0	14	13	-1
Getting Electricity	156	155	-1	12	12	0

Registering Property	51	48	-3	29	26	-3
Getting Credit	42	40	-2	73	71	-2
Protecting Investor	157	169	12	12	12	0
Paying Taxes	149	145	-4	70	97	27
Trading Across Borders	65	66	1	24	25	1
Enforcing Contracts	46	46	0	22	22	0
Resolving Insolvency	149	150	1	58	58	0

Source: Doing Business 2014 (The World Bank)

As can be seen the the table, amongst criteria, Protecting Investor, as a Political/ Institutional determinant, is very crucial. In addition, the criteria of administrative procedure (the possibility of opening a new business, licensing procedures, settlement of bankruptcy…) and criteria of access to electricity, registering property are also considered by investors. According to those criteria, Vietnam is far lower than Thailand. This explains why despite the political instability, Thailand still remains as a good investment environment, attracting more FDI than Vietnam.

CHAPTER 4: POLICY RECOMMENDATIONS

Overall, the less favourable business environment of Vietnam has caused hindrances for foreign investors to enter and do business in Vietnam, compared with other countries in the regions, especially its direct competitor – Thailand. In order to attract more FDI, particularly projects at higher stage of the global value chain, what Vietnam should concentrate on now is to improve its business environment by continuing promoting adhere advantages and overcoming difficulties and limitations. Thus, at the present time, it is very difficult for Vietnam to compete and win over Thailand in the tournament of attracting FDI. Fairly speaking, elements that Vietnam is more advantageous than Thailand are not really important ones having remarkable effects on decision of investors. However, it does not mean that Vietnam cannot not catch up and overrun Thailand in the future. To realize it requires Vietnam to actively and positively put more efforts in making investment climate better, specifically in areas as follows:

4.1. To perfect the legal system and administration

As stated above, one of the weakest factors of Vietnam is the flawed and imperfect law systems, which makes investors confused when they first consider to invest money. Therefore, it is necessary to perfect the Investment Law, especially those related to foreign investment, attracting foreign investment and the right of workers.

Second, as can be seen, Vietnam has a poor performance in Corruption Perceptions Index, belonging to the lower group of the world. It is due to the old and inefficient

administration organization. Vietnam government has been aware of this weakness and put great efforts in improve its administration system by changing the servant entrance test, revising the salary system… In the future, there is requirement to reform administration more positively; to simplify the administration procedures into a more transparent and consistent with the general trend of the world; and improve the quality as well as the qualification of staff involved in the implementation of invesment projects.

Third, in the information technology era, there is also necessity to improve the communication system, especially enhance to access to information.

Fourth, even though Vietnam is said to be a peaceful country with stable political conditions, there is need to continue to stabilize the political situation in the country against incitement, violence from extremists as well as hostile forces, both inside and outside the country.

Fifth, as indicated in previous result chapter, Vietnam has not had a systematic and strategic attracting policies as Thailand has had developed. Therefore, it is urgent to build a strategy to attract FDI in specific areas, in line with the overall development objectives of the country, focusing on the quality rather than the quatity of projects. In addition, to provide more favourable policies to attract investment from foreign investors can also work as an efficient incentive.

4.2. To stabilize the economy

Vietnam economy is still in the progress of development and integration into the world economy. Every change of the world economy will have great effects to the economy of the country. In order to have a strong and stable economy requires the government to implement policies toward a stable macro economy, restrain inflation and maintain positive growth rate; to stabilize and expand the financial market, commodity market, labour market as well as technology market.

Second, there is necessity to promote investment and development into supporting industry, which can strenthen the position and role of Vietnam in the global value chain.

Third, Vietnam has a very favourable geographical position which ia located in the gate of South East Asia. To take advantage of it, the country should gradually improve the quality of infrastructure, for example, roads, bridges and ports…

4.3. To improve the society

Even though Vietnam is high appreciated in general education, its labour skills are said to be low and not in line with investors' need. Therefore, the country has to improve the education level in general, especially those in technology; build a strategic human resource development policy in line with the development of the country, focusing on developing high quality human resources; to invest in long-term vocational training, at the same time, ensure the situation of labour shortage not happen.

In order to improve the society, the government also needs to ensure equity by implement a comprehensive wealthfare system to people.

4.4. To improve technology

First, the importance of Research and Development has been indicated in sections above. If Vietnam wants to developmet its economy as well as attract more investment, the country should continue encouraging investment into high technology areas and to have preferential policies for the implementation of Research and Development.

Second, it is time for Vietnam to call for investment selectively, focusing on the quality of projects instead of quantity as it has done before. To do so, the government should enact comprehensive regulations on technology requirements for investment projects to restrict and reject projects with outdated technologies which can harm the environment. Along with it, there is need to focus on training high quality human resources in order to meet the development of technology, being ready to receive new technology.

CONCLUSION

To conclude, the report has (1) systemized theories related to investment, international investment and particularly foreign direct investment, how the business environment of host countries affect the efficiency of attracting FDI to the countries (2) updated the recent status of Vietnam and Thailand's activities of attracting FDI (data updated up to 2013) (3) based on PEST model, developed a set of criteria to compare the investment environment of Vietnam and Thailand, giving evaluation, comparison and comment on the cases of both coutries (4) based on the comparison results, made comments whether Vietnam can attract FDI from countries investing in Thailand and also offered some policy recommendations for Vietnam government to improve its investment environment.

Due to the limited time and efforts, the report could only address the issue in a general point of view without very in-depth and comprehensive studies. Besides, due to limited resources, some indicators were not well explained and clarified, for example, the impact of technology transfer on the enhancement of technology in the host countries, or factors of ecological environment, or how the system of laws of the two countries affect the decision of foreign investors. The investment climate is an inevitably crucial factor in attracting investment, hence, the author hope that there will be further studies which can address these issues.

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