EASE OF DOING BUSINESS IN INDONESIA AND VIETNAM: A COMPARATIVE LITERATURE REVIEW OF REGULATORY QUALITY, INVESTMENT CLIMATE, AND ECONOMIC GROWTH

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BACKGROUND

Business environment determines private sector development, investment decisions, and national competitiveness.

Clear regulations and efficient administrative procedures reduce transaction costs.

Regulatory uncertainty and bureaucratic complexity discourage investment.

Business environment reform is a strategic priority for developing economies to attract Foreign Direct Investment (FDI).

“Business environment quality influences investment attractiveness and economic performance.”

Evolution of Business Environment Assessment

Doing Business *(World Bank)*

- Former **global benchmark** for business regulation.
- Discontinued in **September 2021** due to data irregularities.

Business Ready *(B-READY)*

- Introduced in **2024** as a new **assessment framework.**
- Evaluates business environments through **three pillars:**

Regulatory Framework	Public Services	Operational Efficiency

- Covers **ten topics** across the business life cycle.

Indonesia vs Vietnam

Regulatory Reform and Business Environment



Indonesia

- Simplification of **licensing and regulations.**
- **Job Creation Law** (2020; reinstated through Law No. 6/2023).
- Risk-based **Online Single Submission (OSS).**
- **Challenges:** regulatory consistency, central–regional coordination, and implementation.



Vietnam

- Market-oriented reform since **Đổi Mới (1986).**
- Trade liberalization and **export-oriented industrialization.**
- Active **investment promotion.**
- Deep integration into **international production networks.**
- **Challenges:** productivity gaps and limited technological spillovers.

THEORETICAL

Institutional Theory – North (1990)

- Institutions shape economic interaction.
- Regulatory certainty and institutional quality influence transaction costs and investment.
- Effective implementation requires administrative capacity and coordination.

Eclectic Paradigm (OLI) – *Dunning (1988)*

- Explains international production through Ownership, Location, and Internalization advantages.
- Focus: Location advantages, including infrastructure, market size, labor, and regulatory conditions.

Endogenous Growth Theory – *Romer (1990)*

- Technological progress and knowledge accumulation drive long-term growth.
- Investment contributes to growth through technology transfer, productivity, and industrial upgrading.

Research Framework

Research Gap

- **Formal regulatory improvement** does not automatically generate **productivity gains** or sustainable economic growth.
- **Business environment reforms** need to be examined alongside investment quality and industrial transformation.

Research Questions

1. How do **Indonesia** and **Vietnam** differ in regulatory reforms and business environment improvement?
2. How does **regulatory quality** relate to **investment climate** and **economic growth**?
3. What **institutional and policy lessons** can Indonesia draw from Vietnam?

Research Novelty

- Integrates **institutional quality**, **regulatory reform**, **investment climate**, and **economic growth**.
- Moves beyond procedural simplification toward **productive investment**.
- Emphasizes **technological advancement** and **domestic industrial linkages**.

Research Objective

- Provide **policy insights** for strengthening Indonesia's **investment climate** through a **qualitative comparative literature review**.

DATA SYNTHESIS & COMPARATIVE ANALYSIS

Thematic Analysis *(Braun & Clarke, 2006)*

Four Main Themes:

1. Regulatory Quality & Institutional Effectiveness.
2. Business Environment & Investment Facilitation.
3. Foreign Investment & Industrial Development.
4. Investment Productivity & Economic Growth.

Comparative Analysis

- Comparing Indonesia and Vietnam.
- Identifying institutional similarities and differences.
- Evaluating policy implications.

Theoretical Framework

- Institutional Theory — North (1990).
- Eclectic Paradigm (OLI) — Dunning (1988).
- Endogenous Growth Theory — Romer (1990).

Regulatory Quality and Business Environment Reforms

Indonesia

- Regulatory harmonization, simplification of business licensing, and digital public services (Job Creation Law & OSS).
- Aims to **reduce administrative** barriers and facilitate investment.
- Challenges: regulatory inconsistencies, overlapping institutions, and weak coordination.
- World Bank (2024b): progress, but continued reform needed.

Vietnam

- Đổi Mới reforms and trade liberalization supported **regulatory** change.
- Strengthened private sector development and foreign investment, especially in manufacturing and exports.
- Further improvement needed to relax productivity constraints (Piatkowski et al., 2024).

Key Insight

Regulatory reform is a continuous process, requiring: **consistent implementation, administrative capacity, transparency**, and **inter-agency coordination.**

Investment, Productivity, and Economic Growth

Investment drives economic growth through capital accumulation, employment, and technological development — provided that its **quality and allocation** enhance **productivity** and deliver sustainable benefits.

Endogenous Growth Theory
(Romer, 1990)

Investment leads to sustained growth when accompanied by technological progress and human capital development.

Three Institutional Mechanisms

Regulatory Predictability
Reduces uncertainty in business decisions.

Administrative Efficiency
Lowers the time and cost of doing business.

Institutional Effectiveness
Ensures reforms yield real economic impact.

B-READY Framework
(World Bank, 2024a)

Regulatory Framework, Public Services, and Operational Efficiency.

Indonesia



- Challenge: Improving productivity from investment.
- Needs: Greater competition, higher value-added investment, and consistent regulatory implementation.
- Source: World Bank (2024b).

Vietnam



- Challenge: Turning investment success into broader productivity gains.
- Needs: Stronger domestic linkages and industrial participation.
- Source: IMF (2025).

Key Insight: Regulatory quality is essential to connect investment with higher productivity and long-term economic growth in both Indonesia and Vietnam.

Investment Attractiveness in Indonesia and Vietnam

Indonesia



- Advantages: large domestic market, abundant natural resources.
- Reforms: Job Creation Law & risk-based OSS to simplify licensing.
- Challenges: regulatory requirements, local content, and implementation (U.S. Department of State, 2024).
- Key factors: legal certainty, bureaucratic efficiency, incentives (Adam, 2025).

Vietnam



- Profile: export-oriented manufacturing and global value chains.
- Foreign investment fuels manufacturing, employment, and exports.
- Limitations: low domestic value added, weak supplier base (World Bank, 2017).
- Need: stronger local linkages and productivity (IMF, 2025).
- Spillovers: heterogeneous, often limited (Ni et al., 2017; et al.).

Key Insight

- Indonesia: investment strengths in domestic market and resources.
- Vietnam: investment driven by export manufacturing and global networks.
- Long-term benefits depend on institutional effectiveness and domestic linkages.

Both countries offer great investment opportunities, with success hinging on strong institutions and deeper domestic economic linkages.

Policy Implications and Lessons for Indonesia

Prioritize Implementation Effectiveness

Regulatory reform should go beyond simplifying procedures, focusing on clear regulations, institutional coordination, and transparent administration.

Integrate Investment with Industrial Strategy

Investment facilitation should be aligned with industrial development, as Vietnam's experience shows the need to link foreign investment with stronger domestic capabilities.

Strengthen Linkages with Domestic Firms

Promote supplier development, workforce training, and technology cooperation to increase domestic value added.

Emphasize Investment Quality

Focus on projects that drive technological upgrading, productive employment, and sustainable economic growth.

Key Takeaway: Indonesia should adapt these lessons to its own economic characteristics, considering market size, industrial structure, geography, and institutional context.

Conclusion

- Indonesia and Vietnam pursue **regulatory reforms**, with different approaches.
- Investment drives growth, but requires **implementation** and **domestic linkages**.
- Key contribution: **integrated view** of regulation, investment, and growth.
- **Limitation:** reliance on secondary sources.
- **Future research:** quantitative analysis.

THANK YOU

