

How Will the Origin of FDI Affect Domestic Firms' TFP?—Evidence from Vietnam

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Abstract:

This is by far the first study to use firm-level panel data from Vietnam to examine how the origin of foreign investors affects the degree of spillovers in both horizontal and vertical ways. Firstly, we would like to verify if the investment from different continent might have various impacts on domestic firms' productivity. Secondly, the sourcing pattern is likely to be affected by preferential trade agreements, especially in transitional economy like Vietnam, e.g. the tariff rates on imported goods into Vietnam are totally different from ASEAN (Association of South-East Asian Nations) and Non-ASEAN countries. There is difference even within Asian countries. This means that on average Non-ASEAN investors may have a greater incentive than ASEAN investors to source from Vietnam and hence present a greater potential for spillovers. We want to check if this is also another major factor that might influence Vietnamese firms.

The empirical analysis produces evidence consistent with this hypothesis. The results show a positive association between the presence of Asian companies in downstream sectors and the productivity of Vietnamese firms in the supplying industries and no significant relationship in the case of North American affiliates. While *Horizontal_Asia* is always negative, indicating that Asian investors tend to crowd out domestic counterparts in the same industry. Within Asian area, we found that East Asian investors excluding Japan tend to have the most vertical spillover impact on increasing Vietnamese suppliers' productivity. In the horizontal way, ASEAN, East Asian and European investors all show negative impact, indicating that they are driving Vietnamese counterparts away.

JEL classification: D22, F14, F21, F23, O33

Keywords: FDI, spillover, Total factor productivity, Vietnam

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