

Misallocation, Productivity, and Trade Liberalization: The Case of Vietnamese Manufacturing

Doan Thi Thanh Ha

Graduate School of International Social Sciences, Yokohama National University

and

Faculty of International Economics and Business, Foreign Trade University

Kozo Kiyota¹

Keio Economic Observatory, Keio University

This paper attempts to measure the contribution of resource misallocation to aggregate manufacturing TFP in the case of Vietnamese manufacturing. We utilize Vietnamese firm-level data covering the period from 2001 to 2009, including the year 2007 when Vietnam joined the World Trade Organization. Our research questions are threefold: 1) To what extent are resources misallocated in Vietnam? 2) How much the productivity gains will be without distortions? 3) Did misallocation decline after the entry to the WTO? The answers to these questions are as follows. First, misallocation in Vietnam is comparable to those in China and India. Second, there would be sizeable improvement in aggregate TFP if distortions are removed. Finally, misallocation did not decline after the accession to the World Trade Organization (WTO). However, this result does not necessarily mean that there are no gains from trade liberalization. Although trade liberalization contributed to reduce the distortions in output market, it was offset by the increasing distortions in capital market, which are possibly attributable to the global financial crisis. These results together suggest that trade liberalization is not a panacea. Further reforms in capital market could improve aggregate TFP in Vietnam through the reduction in misallocation.

¹ Corresponding author: Keio Economic Observatory, Keio University, 2-15-45, Mita, Minato-ku, Tokyo 108-8345, Japan; E-mail: kiyota@sanken.keio.ac.jp; Tel: +81-3-5427-1480.