

# The Origin of FDI and Domestic Firms' Productivity—Evidence from Vietnam

Bin Ni\*

*The Institute of Asia-Pacific Studies, Waseda University*

Mariana Spatareanu

*Department of Economics, Rutgers University*

Vlad Manole

*Department of Economics, Rutgers University*

Tsunehiro Otsuki

*Osaka School of International Public Policy, Osaka University*

Hiroyuki Yamada

*Faculty of Economics, Keio University*

April 2016

Abstract:

Technological spillovers from foreign direct investment are thought to be vehicles for economic growth. This study examines how the origin of foreign investors affects the degree of horizontal and vertical technological spillovers, using firm-level panel data from Vietnam 2002-2011. We examine if foreign investment from different continents has different impact on domestic firms' productivity. The results show a positive association between the presence of Asian firms in downstream sectors and the productivity of Vietnamese firms in the supplying industries, and no significant relationship in the case of European and North American affiliates. Within Asian area, we find that foreign direct investment (FDI) from China and Taiwan generates positive spillover to increase Vietnamese suppliers' productivity, which coincides with the fact that multinational firms whose origins are these two countries turn to local-sourcing actively, whereas firms from other regions do not have significant impact. FDI from the major Asian regions all generate negative horizontal spillovers to Vietnamese firms, indicating a potential "crowding-out" effect. Various robustness checks that account for heterogeneity in both domestic and foreign firms are performed.