FOREIGN DIRECT INVESTMENT, FIRM PRODUCTIVITY AND EXPORT PARTICIPATION – THE CASE OF VIETNAM'S MANUFACTURING SECTOR

Nguyen Van Chien

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By

NGUYEN VAN CHIEN

ABSTRACT

In the background of the global economic integration, the presence of foreign investment enables the host country to get benefits, by bringing international capital flows, advanced technology and know-how, knowledge and modern managerial skills. To be more precise, numerous developing and emerging countries and countries in transition have attempted to absorb this investment flow in order to minimize the gap with the developed countries.

Passing 30-year-long Vietnamese struggle to achieve independent and reunification in 1975, Vietnam had started rebuilding the economy and faced a number of challenges; the goods and services shortage hyperinflation has been accelerated to 487.2% in 1986 and 301.3% in 1987. There had also been high trade deficit, balance of payment crises, inability to control public pending and money creation. In agreement with the changes of a market-oriented economy instead of a planned economy, Vietnam declared the first foreign investment law in 1987 to adapt to a market economy and integrate with the world.

Supported by a tremendous economic reform in 1986 and numerous trade agreements, in particular the Trans-Pacific Partnership agreement, Vietnam has experienced such a huge FDI inflows and export performance. Despite the negligence over foreign investment during the period of 1988-1990, Vietnam had received a great volume of FDI inflows of US$27.8bn in the years 1991-1996. The World Trade Organization

accession and the Trans Pacific Partnership negotiation have significantly created investment opportunities to Vietnam. International inflows have occupied a significant share of the economy of the country and Vietnam had been able to welcome US$224.7bn FDI inflows, in consistent with an annual average US$24.6bn in the years 2006 - 2016.

On the path of the economic reform, Vietnam had been able to rapidly increase exports since 1986, from US$823mn in 1986 to US$1970mn in 1990 at an annual growth rate of 19.1 percent. Exports have been performed fromUS$1.97bn in 1990 to US$210bn in 2017 at an annual growth rate of 21.9 percent. Vietnam has now been the 24th largest exporter in the world with US$210bn worth of goods and services exports in 2017, stepping toward an export-oriented economy.

It is also observed that the foreign firms are more productive than purely domestic firms and partially owned foreign affiliates at the firm level. About FDI spillover effects, foreign investment to the host countries has accelerated the productivity of domestically-owned firms in the same industry. Second, the positive spillovers to a greater extent occur through backward linkages. This also implies that the enterprises benefit from externalities through foreign enterprises that downstream their operations. In terms of forward spillovers, the productivity of domestic customers are not improved by FDI spillovers through forward linkages, even a negative effect took place. Finally, it is argued that the establishment of industrial park has insignificantly but positively increased to the productivity of individual firm. When there is a 10 percent significance, the effects occur.

It is also noted that the foreign investment brings benefits to the host countries by generating the volume and the value of exports. Multinational firms have a greater tendency to overcome sunk costs for the survival and the access to the exporting markets. In addition, the more productive firms export more than that of the less productive firms.

Despite smaller firms, the larger firms are often more efficient as they get the opportunity to gain from economies of scale. However, a large firm show less inclination to participate at the international market. Vietnamese old manufacturers do not show interest in export than young manufacturers in the period of 2006 – 2009. With regard to the effect of physical capital, a higher level of physical capital in the form of modern equipment at the firm level is expected to be in negative consistent with the export participation during the period of 2009-2012.

Vietnam's education has not been able to provide the required knowledge and skills for the young generation to enter into the labor market, though it has also been a country mostly of export low-value high-intensive intensity goods that discourages the need for the hike in the skilled workforce. It is therefore concluded that a higher level of human capital is expected to be negatively associated with the probability of exporting in addition to, the higher level of innovative activity that is not expected to be in line with export performance.

As in the context of other neighbor countries, there is a greater possibility for a firm located inside of industrial parks or economic zones to become an exporter. However, a firm in Ho Chi Minh's cluster is less likely to export between 2002 and 2009, but Hanoi's region has occasionally increased more export during 2002 – 2005. In line with Western countries' public debt crisis in 2010 and the high ratio of bad debts held by commercial banks and real estate in 2010, Vietnam's economy had been into depression. Accordingly, the economic recession has repeatedly affected on the export performance at the firm level in Vietnam.