

International Trade and Firm Productivity:
Evidence from Vietnam

by

Kim Toan Vu

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International trade and firm productivity:

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Abstract

This thesis examines the link between trade liberalization and firm productivity in Vietnam. In the thesis, the relationship between exporting activity and firm productivity in Vietnam is also examined.

Chapter 2 gives an overview of Vietnam's economy from the pre-reform period to the reform process that was introduced in 1986. Chapter 3 and Chapter 4 introduce the related theoretical and empirical literature. Chapter 5 examines the relationship between trade liberalization and firm productivity in Vietnam, using micro-level data of the Vietnamese manufacturing firms from 2000 to 2003. The results given in the study show that a decrease in output tariffs and input tariffs increases firm productivity in Vietnam, implying that trade liberalization has a positive impact on firm productivity levels and economic growth in Vietnam. The results given in the study are confirmed in both fixed-effects and first-differences models. The study also employs the instrumental variable method to control for the possible endogeneity between productivity and trade liberalization.

Chapter 6 examines the relationship between the firm's decision to export and firm-specific characteristics in Vietnam by using the Vietnamese manufacturing and services firm data. The study also examines the country-of-origin effects of foreign

investment on a firm's export decision. The empirical results given in this study support the evidence of the positive effects of firm productivity on a firm's export decision, implying that the most productive firms self-select into export markets. Interestingly, the results show the negative effect of capital intensity on a firm's export decision, consistent with the situation in Vietnam owing to Vietnam's comparative advantage in labour-intensive sectors. Sunk entry costs are also an important determinant of the export decision for firms in Vietnam. In addition, foreign ownership status could have a positive effect on a firm's decision to export, but the magnitude of the effect is different across countries of origin of foreign investment such as Japan, Korea, Singapore, Taiwan and Hong Kong (China), the top five sources of FDI in Vietnam.

In Chapter 7, the study examines the effect of learning by exporting in both manufacturing and services sectors in Vietnam, allowing for the self-selection effects. To identify the learning effect, the study uses the propensity score matching techniques and differences-in-differences method. This methodology has the advantage of reducing heterogeneity between exporters and non-exporters and therefore allows the study to identify the learning effects from exporting. The findings given in the study indicate that the entry into export markets increases productivity growth and this expands as the firm continues to export. The effect of exporting on employment growth and profit growth, however, is less evident. Once the matching technique is used separately for each subsector, the effects of exporting on productivity growth are also less evident.

Finally, Chapter 8 concludes the thesis by summarizing the main findings, contribution and limitations of the thesis.

Declaration

I, Kim Toan Vu certify that this work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text.

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Kim Toan Vu, 29th September 2012.

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