



# Productivity, ownership, and producer concentration in transition: Further evidence from Vietnamese manufacturing

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## ABSTRACT

After controlling for firm-level factor intensities and scale, and industry-level concentration, total factor productivity differentials between MNC (multinational corporation) joint ventures or SOEs (state-owned enterprises) and private firms were usually positive and statistically significant in 2001–2006. Differentials between wholly foreign MNCs and private firms were usually positive and significant in a lagged specification but not in a contemporaneous one. Estimates of productivity spillovers from SOEs and MNCs to private firms and the productivity effects of concentration tended to be insignificant statistically. Substantial variation of estimates among industries and time periods suggests that combining heterogeneous industries or time periods biases productivity estimates.

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## 1. Introduction

There is a now a wide ranging literature examining the hypothesis that ownership modes affect firm productivity. More specifically, economists often assert that multinational corporations (MNCs) tend to be relatively efficient and that state-owned enterprises (SOEs) are generally relatively inefficient. MNCs are usually thought to possess relatively large amounts of intangible assets that facilitate efficiency (e.g., patents and other fruits of R&D, management know-how, marketing resources). Meanwhile, motivation to pursue profits and efficiency is generally believed to be relatively weak in SOEs. In addition, MNCs are often thought to generate spillovers that affect the efficiency of non-MNCs through linkages, labor mobility, and competition effects, for example. Similar spillovers can also be imagined for SOEs in transition economies like Vietnam, where SOEs are designated to play leading roles in industry. The degree of competition is another element thought to affect firm productivity and the nature of productivity spillovers.

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Vietnam provides an interesting case to study these relationships. The process of *Doi Moi* (reform) which began in 1986 has gradually transformed a command economy into a more market-oriented one. Although the reform process has been uneven, there is now substantial evidence of marked changes in ownership patterns and market structure, especially after the implementation of Enterprise Law in 2000 and subsequent, related reforms. The rapid growth of the local private sector and the marked decrease of producer concentration have been particularly conspicuous.

Firm-level data from Vietnam's enterprise surveys are available annually from 2000 and used to analyze issues raised by the following three questions:

- (1) Is there a meaningful relationship between ownership modes and firm productivity levels?
- (2) Does the presence of MNCs or SOEs affect the productivity levels in private, local firms (hereafter referred to as private firms)?
- (3) Has variation in producer concentration had an effect on firm productivity?

This paper begins with a brief review of the literature (Section 2), followed by a description of the data and key patterns observed in average productivity differentials and related variables (Section 3). Productivity differentials (Section 4) and productivity spillovers (Section 5) are then analyzed after accounting for (1) firm-level variation in factor intensities and scale, (2) industry-level variation in producer concentration, and (3) generic effects related to a firm's industry affiliation, location, and year of operation. Finally, some concluding remarks are offered (Section 6).

## 2. Productivity, spillovers, and market structure

There are two major strands of the literature examining how firm ownership relates to productivity levels and/or spillovers. One focuses on the determinants and effects of MNC behavior, while the second focuses on analysis of SOE behavior and the effects of privatization. Analyses of productivity levels and differentials also differ substantially from spillover analyses.

### 2.1. Productivity levels and differentials

The theoretical literature on MNCs often asserts that for a firm to overcome the extra costs of doing business in more than one economy, it must have offsetting cost advantages generated by the possession of firm-specific assets. These are often intangible assets such as patents or other fruits of research and development (e.g., production techniques and processes), marketing networks, and/or management abilities.<sup>1</sup> In turn, the possession of these assets in relatively large amounts should make MNCs more efficient than non-MNCs. Because MNCs possess firm-specific assets that distinguish them from non-MNCs, they are by definition heterogeneous and must therefore operate in imperfectly competitive industries. Moran (2001) also asserts that affiliates which are closely integrated with the parent company and its network, usually through high parent ownership shares and/or other means of control, are more efficient than more loosely related affiliates. On the other hand, MNC parents are generally thought to be more reluctant to share their firm-specific assets with minority-owned affiliates than with majority-owned or wholly owned affiliates.<sup>2</sup>

Many economists believe that SOE managers have weaker motives to pursue profit and efficiency than those in privately owned firms, including MNCs.<sup>3</sup> Hence SOEs are often expected to be relatively inefficient compared to other firms. Moreover, governments have often established SOEs in imperfectly competitive or highly regulated industries, where the lack of competition further weakens the pressure to instill efficiency.

Evidence from firm- or plant-level investigations of productivity differentials among ownership modes is more ambiguous than theory suggests. For example, evidence for manufacturing plants in Malaysia (Ahmad & Binti, 2010; Oguchi, Amdzah, Bakar, Zainal Abidin, & Shafii, 2002) and Thailand (Ramstetter, 2004, 2006) suggests that productivity differentials between MNCs and non-MNCs were relatively small and were often statistically insignificant.<sup>4</sup> Indonesian evidence suggests that productivity differentials were somewhat larger and statistically significant in samples of all manufacturing plants combined (with intercept dummies to capture industry effects). However, differentials often become statistically insignificant when plants are disaggregated by industry (allowing for differences in production function slopes, Takii, 2006). Evidence for China suggests significant differences in both capital- and labor-productivity when all manufacturing firms are combined (Jefferson & Su, 2006), but we know of no firm-level estimates for disaggregated industries.

For Vietnam, Nguyen, Vu, Tran, and Nguyen (2006) show that MNCs had relatively high sales per employee in three manufacturing groups (mechanics and electronics, textiles, garments, and footwear, and food processing) in 2001–2003.

<sup>1</sup> See Dunning (1993), Hymer (1960), and Markusen (1991). Other theorists (e.g., Buckley and Casson, 1992; Casson, 1987; Rugman, 1980, 1985) dispute this view, asserting that internalization is the key necessary condition for a firm to become a MNC. However, all agree that MNCs tend to possess intangible assets in relatively large amounts as evidenced by relatively high technology and advertising intensities compared to non-MNCs.

<sup>2</sup> See, for example, Caves, 2007 (Chapters 3, 7, 9) and Dunning (1993, chapters 7–9, 11).

<sup>3</sup> See Stretton and Orchard (1994) for a survey of the theoretical literature on this topic. See Jefferson (1998) for an application of the theory to issues raised by China's SOEs.

<sup>4</sup> Other evidence from Malaysia (Menon, 1998; Oguchi et al., 2002) indicates that the growth of total factor productivity (TFP) was often less rapid in MNCs than non-MNCs.

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