

COMPLETION REPORT

Technical Efficiency of Firms: Experiences from Japanese FDI (Foreign Direct Investment) Firms and Lessons for Vietnam

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Vietnam has become one of favourable destinations of foreign direct investment of the world. This is a result of preferential policies for FDI projects, political stability, human resources with improving quality of the country. According to General Statistics Office of Vietnam (2013), Japan is the biggest investor in terms of total registered capital and ranked third regarding number of projects. Japanese firms in Vietnam are seen as model for Vietnamese domestic enterprises because of their performance and efficiency. Evaluating the performance of Japanese firms in Vietnam and making comparison with other enterprises in the country is an interesting exercise. Furthermore, lessons from Japanese enterprises' performance will benefit Vietnam domestic enterprises in the context of fierce competition and globalization process.

This study looks at the foreign direct investment from Japan and investigates the technical efficiency of Japanese foreign invested enterprises in Vietnam. The research also compares the performance of other foreign invested and domestic enterprises in term of the technical efficiency. Findings from this research will provide policy makers with support policies to improve the efficiency of domestic enterprises based on the analysis of Japanese firms. Also, Vietnam domestic firms can benefit from the experience of Japanese firms on how to operate efficiently through analysis of the research.

The analysis of the research shows that Japanese FDI firms in Vietnam enjoy a better performance than other firms in the country. There are close links among Japanese FDI firms in Vietnam. The linkages between Japanese FDI firms in Vietnam and domestic firms are limited, due to the high requirements of the Japanese FDI firms in Vietnam in terms of quality of products and competitive costs structure. Also, it is due to the policy of prioritizing Japanese firms over other firms by Japanese FDI firms in Vietnam. However, once getting into the network domestic firms are confidence on the long term relationship with Japanese FDI firms in Vietnam. Kaizen is the working model used by Japanese FDI firms in Vietnam and is encouraged to use by domestic firms.

The study uses quantitative analysis which utilizes the maximum likelihood random-effects time-varying inefficiency effects model to estimate technical efficiency of manufacturing enterprises in Vietnam, a panel data, from 2010 to 2013. Moreover, the paper also uses the propensity score matching method to compare the technical efficiency between Japanese FDI enterprises and the rest. The results shows that technical efficiency of Japanese FDI enterprises are higher 8%, 11%, 11%, 10%, and 2% than state-owned, private, domestic, and other FDI enterprises, respectively. The study uses the maximum likelihood random-effects time-varying inefficiency effects model to estimate technical efficiency of manufacturing enterprises in Vietnam, a panel data, from 2010 to 2013. Moreover, the research also uses the propensity score matching method to compare the technical efficiency between Japanese FDI enterprises and the rest.

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