The effects of foreign direct investment on the performance of small-medium enterprises: The case of Vietnam

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Abstract. Foreign direct investment (FDI) is one of the most important elements influencing countries' international economic integration. FDI establishes direct, consistent, and long-lasting interconnections between economies as well as encouraging innovative technology and know-how transmission across territories while allowing host economies to offer their goods more extensively on global markets. FDI is also a source of investment financing that creates the climate for appropriate policies. Aside from the obvious advantages for all economic sectors, attracting FDI in small and midsize enterprises (SMEs) has a variety of additional benefits. For example, an opportunity to participate in the global supply chain for parts and components; an opportunity not yet wholly established in most developing nations but is critical for industrialization and improving income distribution through job creation for low-skilled employees. This study compared the impact of FDI on the performance of SMEs in Vietnam to that of a group of ASEAN nations with comparable economic structures including Indonesia, Malaysia, and Thailand. The empirical evidence indicates that FDI has a negative effect on the performance of SMEs in the group of four ASEAN member countries while having a positive influence on Vietnamese SMEs.

Keywords: FDI, SMEs, globalization
JEL Classification: G21, L26, O16

1. INTRODUCTION

By now, SMEs have undoubtedly shown their importance in the global economy. However, nowadays, a large number of SMEs in most sectors of the economy face increased competition due to globalization (OECD, 2020). Even SMEs with a primarily local business orientation have been increasingly forced to enter international markets in order to elevate their competitiveness and assure their survival (Faridi et al., 2021). As the global financial system becomes more and more integrated, globalization and FDI transactions are forecast to expand worldwide (Spencer, 2008). Therefore, an additional source of financing to promote development is an essential requirement for small company success.

Foreign direct investment is known to be a significant source of capital for a country's economic growth. FDI not only helps the host country accumulate capital and expand its production rate, but it also facilitates the transfer of technology and organizational skills as well as export performance (Vu & Ho, 2020; Lee & Fernando, 2020). Furthermore, FDI has a favorable influence on the balance of payments and is a valuable instrument for governments' economic integration efforts (Tülüce & Doğan, 2014; Tsaurai, 2022; Aswar et al., 2022; Ali & Salameh, 2023; Al-Faryan, 2022). The Organization for Economic Co-operation and Development (OECD) considered FDI in a study that focused on maximizing its advantages while recognizing potential costs and strategies to reduce them (OECD, 2002). The prospective advantages for host economies include enhanced capital supply, technology, and knowledge transmission, new jobs and human resources, and the influence on firm performance via partnerships and spillover effects. Different financing types are obviously critical in nations where financial limitations are a significant obstacle to growth. Relationships with FDI investors, in reality, generate economic prospects for local enterprises. For developing and transitioning economies, attempting to exploit these opportunities may help establish a rational structure of firm size in the economy, where economies of scale are combined with the adaptability of SMEs (Smallbone, 2006; Aden, 2021).

Furthermore, FDI has specific effects on the local SME sector. Regarding technology and knowledge transfer, FDI in emerging regions can help local suppliers by providing technical support, training, and knowledge transfer. As a result of adaptation and competitiveness, it could also increase the speed of implementation of new technologies by local industries (Smallbone, 2006). Small and medium firms that receive FDI have the possibility to become a part of the supply chain for machinery components and support equipment, accelerating the industrialization process (Faridi et al., 2021). In terms of employment, FDI investors can directly create new positions, but they can also help raise skill levels because their skill needs may be greater than those of local enterprises. At the same time, it has been analyzed that the amount to which MNEs genuinely promote such spillovers in practice varies among industries and situations (OECD, 2002). Besides, FDI will assist SMEs in expanding their business and employing more from the local workforce with limited experience and education, consequently assisting in better income distribution (Urata & Kawai, 2000).

In addition, positive outcomes also result from MNEs providing information, technical support, and training to help suppliers improve the quality of their goods and services. It has been reported that certain MNEs also assist local producers in acquiring raw materials and intermediate goods as well as modernizing or upgrading production facilities (OECD, 2002). Because MNEs are a primary worldwide source of capital and technology, their presence might facilitate the transfer of entrepreneurial know-how and innovation, resulting in higher productivity and competitiveness among local SMEs. These impacts emerge from establishing partnerships with international and domestic firms that perform as suppliers or customers or
by importing qualified foreign labor to work in domestic businesses. MNE establishment can also boost competition, forcing native businesses to adapt and innovate (Tülüçe & Doğan, 2014; Biswas et al., 2019).

Vietnam, in particular, and ASEAN in general, are appealing locations for global FDI flows. Furthermore, in the ASEAN group, Indonesia, Malaysia, and Thailand share certain parallels with Vietnam in terms of economic size and structure. (ASEAN Secretariat & UNCTAD, 2021). Thus, this article will concentrate on the role and impact of FDI on the performance of SMEs in Vietnam in comparison with the overall situation in this group of four ASEAN countries.

2. LITERATURE REVIEW

For all developing countries, foreign direct investment is one of the essential external financings for growth. It generates capital for the host country and facilitates a transfer of technology and know-how. The significance of FDI in boosting economic growth has consistently been highlighted in many developing nations’ FDI liberalization policies, as well as in the perspectives of the World Bank and the IMF (de Mello, 1997; Dunning, 1992, cited by Tülüçe & Doğan, 2014).

According to the OECD (2020), the FDI-SME relationship may be considered as a business collaboration between MNEs and domestic SMEs. The relationship might be horizontal (between enterprises at the same production phase) or vertical (between enterprises at various phases in the production process). By collaborating with FDI businesses, local SMEs may gradually modernize technology to match the expectations of international partners as well as acquire knowledge about possible export/import prospects.

The effect of FDI on economic growth was identified by Blomström and Kokko (1998) as having two types of effects: productivity spillovers and market access spillovers. Productivity spillovers occur when the presence of MNEs in a host country results in increased productivity or performance in domestic businesses. Market access spillovers arise when MNEs encourage local firms' access to international markets.

Regarding the productivity effect, FDI may significantly strengthen economic growth in general and SMEs in particular by increasing capital accumulation and advancing technology. According to neoclassical theories, new technical advancements can enhance long-term growth, whereas capital accumulation has only a short-term benefit (Tülüçe & Doğan, 2014). On the other hand, recent growth models look at the role of capital in creating technological advancements and regard technology as an endogenous element (Romer, 1990; Szemere et al., 2021). Increased investment spending will encourage the development of new knowledge and skills which will aid in the advancement of technology inside enterprises and across the economy as a whole. These factors contribute to the continuous advancement of technology which is required to promote long-term growth. It implies that capital – including FDI – may have a long-term impact on production through increased investment in technology and know-how, hence raising the economy’s total level of knowledge and technology.

It is suggested that MNE engagement can assist the exchange of knowledge and organizational know-how, resulting in higher productivity and competitive spirit among local SMEs because MNEs provide considerable foreign capital and technology. These impacts are generated by establishing supplier-customer relationships between international and domestic enterprises. MNE entrance could also enhance competitiveness; forcing local businesses to adapt and innovate. These firm-specific characteristics might lead to a technology transfer from the parent corporation to its affiliate in the local country of investment, as well as spillover effects in the economy (Tülüçe & Doğan, 2014). When individuals migrate to existing SMEs or create their enterprises, they may also transfer technical and managerial expertise that improves the performance or efficiency of domestic firms. Advantages would be tremendous if accumulated in sectors beyond the native business’s key strengths, provided the firm is ready to receive and adapt to this new
knowledge. To be employed within international enterprises also allows latent businesspeople to establish working relationships that will be essential to the performance of their future ventures. This direction to entrepreneurship may be critically valuable during recessions when employees are fired by overseas companies and attempt to start their own businesses. This is an indirect linkage, with labor skills and knowledge, including management skills, being transferred to the SME sector through new business formations (Thompson and Wang, 2015; Govender and Hassen-Bootha, 2022; Shkarupa et al., 2022).

OECD (2002) supposed that FDI supports economic growth via technical assistance, with MNEs transmitting technology directly or indirectly to the host country. International firms could accelerate the development of new intermediate product types, strengthen quality standards, improve global R&D collaboration, and adopt new dimensions of human capital by transferring technology to their affiliates and technological spillover to local enterprises in the host economy (Dorożyński et al., 2020). According to Spencer (2008), overseas enterprises had a positive spillover effect on local businesses concentrated on SMEs. Faridi et al. (2021) recognized that FDI boosts productivity in the host nation by providing technological and efficient spillovers for local businesses, stimulates SMEs to innovate, accelerates technology adoption, and develops skilled workers. Other empirical literature has found that FDI positively affects the productive capacity of host nations beyond what local investments would generate (Keller, 2003, cited by Subair and Salihu, 2011). Research revealed that policies that promote domestic technology and resources, such as education, technical training, and R&D, increase the accumulated rate of technology transfer from FDI, and trade policies are crucial requirements for supporting FDI which would minimize the technology gap between industrialized rich and developing poor nations. Furthermore, according to Fons-Rosen et al. (2017), depending on the technological level of SMEs in the host countries, the productivity spillover from FDI might be notably favorable, neutral, or even harmful. The impact will be favorable if technologies are shared from MNCs to local SMEs, whereas the impact will be harmful if the products of domestic and overseas enterprises are identical, but the foreign company’s manufacturing technique is superior.

For market access impact, FDI benefits native businesses through exports and global economic integration (Costa and de Queiroz 2002, cited by Tüliece and Doğan, 2014). Domestic enterprises, particularly SMEs, might cooperate by providing components, spare parts, or outsourced services at MNEs’ regional or worldwide manufacturing bases.

Participation in these partnerships can also enable local firms to access international markets. In industries such as automotive, mechanical, electronics, and textiles, expanding global/regional manufacturing linkages is a priority (Aldaba and Aldaba, 2010; Gupta et al., 2021; Korneyev et al., 2022).

Several articles have investigated the influence of FDI on a business’s trade activity. According to Aitken et al. (1997), FDI firms can deliver previously unavailable materials, enabling domestic firms’ participation in the export industry. They also suggested that proximity to FDI companies is favorably associated with a firm’s likelihood of exporting. Greenaway et al. (2004) used data from 1992–1996 to assess the effect of FDI on domestic business exports in the United Kingdom. Empirical model results revealed that links with FDI businesses assist local enterprises in capturing knowledge about overseas markets, hence increasing export operations. Research by Ruane and Sutherland (2005) also shows a positive impact of FDI on the export capacity of domestic SMEs. When foreign firms enter the domestic industry, they push local firms into market rivalry; forcing them to adapt and improve which indirectly supports the country’s exports. Furthermore, FDI promotes exports of not just entities in the same sector but of those in other industries of the host country via vertical integration. The participation of FDI businesses in the same sector and geographical area might stimulate corporations to expand into new markets (Kneller and Pisu, 2007, cited by Nguyen et al., 2021). According to the World Bank (2017), in 2015, 46% of FDI-linked SMEs imported inputs, whereas just 21% of non-linked companies did. Statistics from other economies, including those of
China, Malaysia, and Thailand, reflect a similar pattern, with a strong association between interconnection and the company’s import. It may be illustrated that certain materials are of poor quality and inaccessible in the local market. Therefore, FDI-linked enterprises prefer to import more to fulfill the requirements of FDI counterparts. It implies that the status of companies’ links with FDI enterprises could influence their behavior on both exports and imports.

While there are supporting assumptions for the vital interest of FDI-SME interconnections between firms as a strategic plan in transition and emerging nations and some good case studies, empirical research reveals that the expected advantages sometimes may not materialize (Smallbone, 2006). When foreign businesses enter a country, they may increase the impact of competitiveness in the local market in terms of competition for consumers and factors of production, notably, labor. The competitiveness impact of FDI has two adverse implications for business. For starters, it generates competition for consumers, lowering the relative productivity of business operations compared to the money earned from working for others. Established SMEs and potential entrepreneurs considering entrance may be driven into less economical and less creative segments neglected by foreign MNCs in order to avoid competition from them (Thompson and Wang, 2015). It must also be acknowledged that specific types of relationships between suppliers and MNEs might include a significant level of provider dependency on consumers, with different extents of potentials for SME performance. This is especially true when few consumers and a massive number of possible providers may easily be swapped for one another due to a lack of unique capabilities (Smallbone, 2006).

Another disadvantage of FDI is connected to foreign enterprises’ more sophisticated technology which results in a better productivity rate, allowing them to attract highly skilled people and raise their salaries. This consequence decreases domestic business operations and SMEs’ production capabilities since talented employees have chosen positions in foreign-linked firms (Thompson and Wang, 2015). Empirical studies have indicated that a large proportion of graduates consider employment in international firms to be more appealing than careers in SMEs due to anticipated job stability and long-term career potential (Moy and Lee, 2002). SMEs also suffer when foreign firms raise employment expenses and make it difficult for them to acquire competent and qualified employees (Spencer, 2008). As a result, the competitiveness impact may lower the scale of the existent SME sector while discouraging high-quality latent startups from starting new businesses.

The OECD report of 2020 implies that FDI (measured as foreign ownership of enterprises) is correlated with local company output and employment. However, the correlation is complicated and relies on many factors, including the investment sector, investment location as well as the characteristics of local companies. Due to the low prospects of SMEs profiting from supplier partnerships, there seems to be little beneficial spillover. They may be less ready to invest in innovations, putting them at a competitive disadvantage in the face of growing competition. The increased presence of MNEs in the same industry and location tends to have a relatively minor beneficial impact on SMEs in terms of job creation. On the other hand, domestic enterprises tend to reduce their workforce when foreign-owned firms expand labor in areas other than their own.

Furthermore, according to empirical studies, when more FDI businesses enter the domestic market, the rate of entrance of local enterprises falls (De Backer and Sleuwaegen, 2003; Barrios et al., 2005; cited by Thompson and Wang, 2015). Meanwhile, Barbosa and Eiriz (2009) attempt to illustrate the impact of FDI on Portuguese firms. Their results revealed that, while there is some proof of a slightly positive impact early on, it is rapidly overwhelmed by a massive negative linkage between net entry and foreign participation in a segment. Although situational variables mitigate this, Kim and Li (2014) reveal a positive correlation between new company formation and inbound capital inflows. The availability of prominent organizations
promoting private industry, more general human resources, and more substantial political stability weakens this connection.

Nunnenkamp and Spatz (2003) disagree that poor economies should seek FDI to encourage economic growth. Because FDI statistics are not disaggregated into specific categories, the authors suggest that the economic effect of FDI is unsure. By classifying FDI and considering the compatibility of various forms of FDI with the host nation’s economic circumstances, the positive growth influence is called into question. Characteristics of the local country and the industry as well as the interaction between the two data sets of characteristics, define the effect of FDI on development in emerging economies.

Girma et al. (2001) conclude that the presence of international enterprises has little influence on the effectiveness in domestic firms, putting more doubt on the advantages of FDI for the SME sector. Regarding the regional analysis, although Haskel et al. (2007) discovered that the participation of MNEs in the same industry enhances productivity, they do not see a productivity boost from the existence of MNEs in the same geographical area.

3. DATA AND METHODOLOGY

3.1. Data

The data, originating from the World Bank database, ranges from 2000 to 2020 and includes indicators on GDP growth, foreign investment, gross national savings, international trade value, and private sector credit. OECD papers are used to construct information on the performance of SMEs in Thailand, Indonesia, and Malaysia, while data from the General Statistics Office of Vietnam is used to compile information on Vietnamese SMEs.

3.2. Model specification

This study used the empirical model developed by Faridi et al. (2021) to analyze the influence of foreign direct investment on the performance of SMEs, with independent variables being FDI (foreign direct investment), GDP (gross national product), GS (gross economic statistics), and TRADE (international trade). These factors were also examined in the research of Bekeris (2012), Rusu & Roman (2016), and Cicea et al. (2019). Furthermore, ADB’s statistics (2020) suggest that commercial bank loans are the primary source of funding for SMEs in Southeast Asia. As a result, the article includes variables CREDIT and INF that indicate the amount of capital and the cost of capital that SMEs may access.

Therefore, the empirical equation is expressed as:

\[ \text{SME} = \beta_0 + \beta_1 \text{FDI} + \beta_2 \text{GDP} + \beta_3 \text{GS} + \beta_4 \text{TRADE} + \beta_5 \text{INF} + \beta_6 \text{CREDIT} + u_i \]

A Detailed description of the variables is presented in Table 1 below:
The effects of foreign direct investment on the performance of small-medium enterprises

Table 1

<table>
<thead>
<tr>
<th>Variables</th>
<th>Description of Variables</th>
<th>Measurement unit</th>
<th>Data Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SME</td>
<td>SMEs’ contribution to GDP</td>
<td>percent</td>
<td>OECD, General Statistics Office of Vietnam</td>
</tr>
<tr>
<td><strong>Independent variable</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>Net inflows of Foreign direct investment</td>
<td>as a percentage of GDP</td>
<td>World Bank</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product growth rate</td>
<td>percent</td>
<td>World Bank</td>
</tr>
<tr>
<td>LNGS</td>
<td>Natural logarithm of Gross savings</td>
<td>billion USD</td>
<td>World Bank</td>
</tr>
<tr>
<td>TRADE</td>
<td>International trade</td>
<td>as a percentage of GDP</td>
<td>World Bank</td>
</tr>
<tr>
<td>INF</td>
<td>Consumer price index</td>
<td>percent</td>
<td>World Bank</td>
</tr>
<tr>
<td>CREDIT</td>
<td>Domestic credit to the private sector</td>
<td>as a percentage of GDP</td>
<td>World Bank</td>
</tr>
</tbody>
</table>

Source: own compilation

The least-squares model will be used to evaluate the data of Vietnamese SMEs. Meanwhile, aggregate data from all four countries (Vietnam, Thailand, Malaysia, and Indonesia) will be provided as panel data and assessed using fixed effect and random effect models.

4. EMPIRICAL RESULTS

Figure 1 indicates that the data is strongly balanced when presented as a panel data set.

```
xset Country Year  
panel variable: Country (strongly balanced)  
time variable: Year, 2000 to 2020  
delta: 1 unit
```

**Figure 1. Panel data structure**

The time duration is also distributed evenly (see Figure 2), indicating that the number of periods (21 in this case) occurs with equal probability. Panel data is produced from SME performance statistics and other economic data for four nations from 2000 to 2020, including Thailand, Indonesia, Malaysia, and Vietnam. This results in a lengthy panel data collection (that is, large T and small n).
Table 2 displays descriptive statistics for the data. Descriptive statistics offer variable properties such as mean, standard deviation, minimum value, and maximum value. According to Table 2, the average contribution of SMEs to GDP is 42.74 percent, with a standard deviation of 0.0923536. The maximum contribution to GDP by SMEs is 61.4 percent, while the lowest value of this metric is 29.3 percent.

The net FDI inflows to GDP ratio run from -3 to 9.7 percent, with a standard variation of roughly 0.022 percent. Meanwhile, other variables recorded extensive variation during the research period.

Table 3 illustrates the association between SME performance (dependent variables) and chosen macroeconomic indicators (independent variables). SME is shown to be negatively correlated with FDI, TRADE, and CREDIT while positively influencing the remaining variables.
Table 3

Correlation Matrix

<table>
<thead>
<tr>
<th>Variables</th>
<th>SME</th>
<th>FDI</th>
<th>GDP</th>
<th>GS</th>
<th>TRADE</th>
<th>INF</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>-0.4022</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>0.0238</td>
<td>0.4443</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GS</td>
<td>0.6628</td>
<td>-0.3139</td>
<td>-0.1764</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRADE</td>
<td>-0.5228</td>
<td>0.3385</td>
<td>0.1267</td>
<td>-0.4816</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INF</td>
<td>0.3413</td>
<td>0.2142</td>
<td>0.2779</td>
<td>-0.0785</td>
<td>0.0656</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>CREDIT</td>
<td>-0.7850</td>
<td>0.3014</td>
<td>-0.2561</td>
<td>-0.3146</td>
<td>0.4037</td>
<td>-0.4295</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Source: own calculation

This study conducted a regression with FEM to select a more appropriate estimation for the panel data between Pooled Ordinary Least Square (Pooled OLS) and Fixed Effect Model (FEM). The F-statistic value of this regression is as follows: Prob > F = 0.0000. This result indicates that F < 0.05, implying that the FEM is more suited to testing the dataset than the Pooled OLS. The article proceeds to employ the Hausman test to evaluate whether the FEM and the Random effect model (REM) are more appropriate in this case:

$$H_0: \text{difference in coefficients not systematic}$$
$$\chi^2(5) = 378.87; p < 0.001$$

**Figure 3. Hausman test**

Because the p-value is zero, hypothesis H0 is rejected, and hypothesis H1 is accepted, indicating that the fixed effect model is the best fit in this circumstance.

Table 4 shows the test results to detect the presence of multicollinearity for both the panel data and Vietnam’s data.

Table 4

<table>
<thead>
<tr>
<th>Variable</th>
<th>Panel data</th>
<th>Vietnam’s data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VIF</td>
<td>1/VIF</td>
</tr>
<tr>
<td>CREDIT</td>
<td>11.39</td>
<td>0.08790</td>
</tr>
<tr>
<td>LNGS</td>
<td>9.40</td>
<td>0.106367</td>
</tr>
<tr>
<td>TRADE</td>
<td>6.27</td>
<td>0.159477</td>
</tr>
<tr>
<td>GDP</td>
<td>6.12</td>
<td>0.163463</td>
</tr>
<tr>
<td>FDI</td>
<td>5.80</td>
<td>0.172496</td>
</tr>
<tr>
<td>INF</td>
<td>2.97</td>
<td>0.336866</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>6.99</td>
<td></td>
</tr>
</tbody>
</table>

Source: own calculation

Realizing that the variable CREDIT has a VIF > 10 in both panel data and Vietnam’s data, the study will exclude it from the model. The test finding after eliminating the CREDIT variable reveals that the phenomenon of multicollinearity is no longer present in both data sets (Table 5).
Table 5

Multicollinearity test after removing the variable CREDIT

<table>
<thead>
<tr>
<th>Variable</th>
<th>Panel data</th>
<th>Vietnam’s data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VIF</td>
<td>1/VIF</td>
</tr>
<tr>
<td>LNGS</td>
<td>4.58</td>
<td>0.218410</td>
</tr>
<tr>
<td>TRADE</td>
<td>4.41</td>
<td>0.226859</td>
</tr>
<tr>
<td>GDP</td>
<td>5.37</td>
<td>0.186066</td>
</tr>
<tr>
<td>FDI</td>
<td>4.19</td>
<td>0.238601</td>
</tr>
<tr>
<td>INF</td>
<td>2.21</td>
<td>0.451651</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>4.15</td>
<td></td>
</tr>
</tbody>
</table>

Source: own calculation

Autocorrelation and heteroskedasticity tests were also performed on both sets of data. The results are shown in Tables 6 and 7, respectively.

Table 6

Autocorrelation test

<table>
<thead>
<tr>
<th>Panel data</th>
<th>Vietnam’s data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modified Wald test for groupwise heteroskedasticity in fixed effect regression model</td>
<td>Breusch-Godfrey LM test for autocorrelation</td>
</tr>
<tr>
<td>H0: sigma(0)^2 = sigma^2 for all i [\text{Chi2 (4) = 123.08; p &lt; 0.001}]</td>
<td>H0: no serial correlation [\text{Chi2(1) = 0.806; p = 0.3515 &gt; 0.05}]</td>
</tr>
</tbody>
</table>

Source: own calculation

Table 7

Heteroskedasticity test

<table>
<thead>
<tr>
<th>Panel data</th>
<th>Vietnam’s data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wooldridge test for autocorrelation in panel data</td>
<td>Breusch-Pagan/Cook-Weisberg test for heteroskedasticity</td>
</tr>
<tr>
<td>H0: no first-order autocorrelation [\text{F (1, 3) = 71.973; p = 0.0034}]</td>
<td>H0: Constant variance [\text{Chi2(1) = 0.63; p = 0.4272}]</td>
</tr>
</tbody>
</table>

Source: own calculation

The findings reveal no heteroskedasticity or autocorrelation in Vietnam’s data, but both phenomena exist in the panel data. Generalized Least Squares (GLS) estimation was applied to avoid these issues. Table 8 shows the experimental outcomes after completing the GLS and OLS estimates:
The estimated results reveal that FDI negatively influences the performance of SMEs in the group of four ASEAN nations, with a significance level of 1%. Meanwhile, in Vietnam, the opposite outcome has been documented. At a 5% significance level, FDI flows positively impact Vietnamese SMEs. The disparity in the influence of FDI on the performance of SMEs in the two regression findings can be attributable to several reasons. Firstly, the growing ASEAN economies in general, and the four nations analyzed in particular, frequently have a much smaller proportion of medium-sized firms than small businesses; a segment with low worker productivity and competitiveness. This pattern is known as ‘missing between’ (Sato, 2015). As a result, it appears that the small firm sector lacks the necessary resources and facilities to capitalize on FDI benefits. Moreover, with such little competition, this group’s operations are under intense pressure from FDI businesses with more significant advantages. This outcome corresponds with the suggestions of Thompson and Wang (2015), Smallbone (2006), and Spencer (2008). However, when evaluating Vietnam particularly, this country has some strengths. According to the OECD (2021) research on SMEs and startups in Vietnam, Vietnamese managers in small and medium-sized businesses outperform their counterparts in other major emerging nations. The disparity in managerial skills among Vietnam’s medium-sized firms is far less than the OECD average. This index suggests that SMEs in Vietnam may have stronger foundations for taking advantage of FDI inflows into the nation. Thus, this sector may benefit from those capital flows.

Another factor that may contribute to the negative impact of FDI on ASEAN SMEs’ performance is foreign investors’ limited access to critical service industries. According to the OECD FDI Regulatory Restrictiveness Index, ASEAN nations are among the most restrictive of FDI. ASEAN countries also appear to have more limitations than many other growing economies (OECD, 2018). As a result, even though ASEAN has recently received substantially bigger investments in the sector, services remain under-represented in FDI inflows. Except for Singapore, the services sector has received just 40% of FDI inflows.
into ASEAN over the last five years. Despite the difficulties in evaluating productivity, efficiency, and service quality, labor productivity in services remains poor throughout most of Southeast Asia, particularly in backbone services, such as transportation, hospitality or tourism. Therefore, service utilization in manufacturing output and exports is relatively low (OECD, 2021). Nevertheless, Vietnam is one of the ASEAN region’s most open countries to FDI and is fast reaching OECD regulations (OECD, 2021). Vietnam’s FDI Regulatory Restrictiveness Index in 2020 is only 0.061, far lower than Malaysia (0.295), Thailand (0.464), or Indonesia (0.438). As a result of Vietnam’s openness to FDI, multinational investors have been able to access a wide range of service industries, enhance infrastructure and supply chains, and provide favorable circumstances for SMEs to participate in the environment and improve their performance. Consequently, the effects of FDI on SMEs in Vietnam produced more favorable outcomes than the combined research of the four nations.

Trade is another variable that is statistically significant in both regressions. However, while this variable positively influences SMEs in the group of four ASEAN nations in general, it harms Vietnamese SMEs. It may happen because, in Vietnam, the domestic private sector’s proportion of overall exports has declined substantially in recent years, and the economy has become largely reliant on foreign private-sector exports. Domestic private firms are now in a poor position in international trade; hence they seem unable to benefit from the international trade agreements signed by Vietnam. This might suggest that foreign firms in Vietnam have used the advantages generated by FTAs to strengthen their commercial operations. As a result, it unintentionally harms the domestic private sector in general and SMEs in particular.

5. CONCLUSION

FDI may have differing impacts on the performance of SMEs. FEM regression was performed on data obtained from four ASEAN nations between 2000 and 2020, including Indonesia, Malaysia, Thailand, and Vietnam, and was then adjusted using GLS. The empirical findings indicate that FDI has a detrimental impact on the performance of SMEs. This result is also consistent with the findings of other research by Thompson and Wang (2015), Smallbone (2006), and Spencer (2008), which claim that FDI can erode SMEs’ competitive edge, diminish worker productivity, and make it more difficult for them to access a highly-skilled labor force.

In contrast, data from Vietnam conveys that FDI has a beneficial impact on its SMEs. Identical suggestions may be found in the work of Keller (2003), Tülüce and Doğan (2014), and Faridi et al. (2021). They suggest that MNE investment flows also provide SMEs with access to modern knowledge and technology, ultimately increasing the production and product quality of this sector.

Due to the difficulty in collecting data in Vietnam, the number of observations available to make estimations for this country is limited. This may have an influence on the outcomes of the model’s impact on the SME variable. Future research may conduct empirical studies with greater observational scales to acquire more definite conclusions on the impact of the model’s variables on the Vietnamese SME sector.

REFERENCES


