기업의 정치적 연계와 수출성과의 관련성: 베트남 사례를 중심으로*

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Are Politically Connected Firms More Likely to Export? Evidence from Vietnam

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Abstract

Political connections may facilitate firms' exporting activities, particularly in developing countries, because politically connected firms may be more likely to receive informational and financial support, allowing them to overcome barriers to export. We test this hypothesis using a unique, firm-level dataset from traditional apparel and textile clusters in the Red River Delta Region in Northern Vietnam. We find that political connection of certain types increases the chance of receiving valuable information or financial support from the government. Moreover, those firms that have access to government information have higher chances of being direct exporters. However, firms that receive financial support from the government are not necessarily engaged in exporting activities. Although politically connected firms are more willing to export, they do not necessarily engage in more exporting activities than firms without such connections. These results suggest that the misallocation of information and financial resources to politically connected but insufficiently productive firms leads to a failure to promote exporting activities. In contrast, political connection increases the chance of importing materials and parts, possibly because high productivity is necessary for exporting, but not for importing.

Keywords: political connection, information, export, small and medium enterprises, Vietnam
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Ⅰ. Introduction

A pattern that politically connected firms and individuals gain more resources is observed in many countries regardless of their political context and level of economic development (Boubakri, Cosset and Saffar, 2008; Boubakri, Cosset and Saffar, 2012; Faccio, Masulis and McConnell, 2006; Diwan, Keefer and Schiffbauer, 2015; Khwaja and Mian, 2005). While there is sizable and robust evidence showing the value of political connection and its influence on the firm's access to credits and performances, most of the empirical studies mainly focus on large companies (Fisman, 2001), relying on the companies' list of shareholders, board of directors, or top officers to detect firms' political connections (Faccio, 2006).

On the contrary, the effect of political connection on small and medium-sized enterprises (SMEs) are relatively less known due to lack of data. However, the importance of SMEs in terms of the number of firms, the number of job opportunities and economic growth is undeniable (Beck, Demirguc-Kunt and Levine, 2005). Morevoer, the effect of political connections may be greater for SMEs since most of SMEs suffer from lack of capital, technology, and management skills (Paul, Parthasarathy and Gupta, 2017) and these shortfalls may be filled via social capital (Coviello and Munro, 1997; Lages, Silva and Styles, 2009).

In this regard, this paper seeks to empirically analyze the effect of political connections on SMEs' easiness of international trading activities and access to financial support and informational support. Using unique firm-level data collected from SMEs in the Red River Delta region in Vietnam, we identified family ties of the firm owner or the top manager to the government. We focus on the role of political connections in the internationalization of firms. Despite the importance of international trade, there have not been many quantitative studies looking at the effect of political ties on firms' international activities, especially in SMEs. Thus, we aim to look at the role of political ties on international trading step by step: first, we examine if politically connected SMEs receive more financial support and informational support; second, if so, if these additional resources lead to more willingness to trade and successful export performances. Due to Vietnam's political environment being a single-party country, we hypothesize that political connection plays a significant role in firms' access to various resources such as financial and information resources.

The uniqueness of our analysis is threefold. First, we consider access to information as one of the benefits of political connections, in addition to financial resources. As mentioned before, evidence has been found that both SMEs (Fu, Shimamoto and Todo, 2017) and large companies (Faccio, Masulis and McConnell, 2006) receive more financial resources if politically connected. However, not many studies shed light on the role of information collected via personal political connection despite its value for firm performances.

Second, this paper identifies the political connection of SMEs. Unlike large companies, names of major shareholders, top officers and board of directors are not publicly open, so that information about political connections of privately-owned SMEs is not readily available. Furthermore, identifying political connections may be difficult due to respondents' tendency to underreport or even hide as they are afraid of being accused of corruption. To overcome the problem with the data reliability, we detect

connections with politically powerful persons through a questionnaire asking about blood relationship. This identification also allows us to avoid the endogeneity of political connections. Thus, we expect this to be one of the first few papers which focus on the role of political connections on SMEs with less than 300 employees in developing countries rather than large shareholding companies.

Finally, the main outcome variable is related to international trading activities of politically connected firms. While there is a well-established thread of literature discussing the role of political connections on firm value or performance, it is not clear how politically connected firms benefit from government support and increase international trade. Along with access to capital and information, we examine the effect of political connection on firm managers' willingness to export, and their actual engagement in international exporting activities. We additionally investigate the effect of political ties on the importing of material and inputs as there may be some differences between importing and exporting with respect to the impact of political ties. Importing firms also have to be productive enough to bear the fixed costs estimated to be similar magnitude as those of exports (Muûls and Pisu, 2009). Thus, we expect those firms with political ties to have higher chances of importing and exporting via additional resources given through political ties.

Our results show that the political connection of certain types increases firms' probability of receiving valuable information from the government and/or financial supports, which can be helpful for them to engage in exporting and importing activities. However, politically connected firms are not necessarily more likely to engage in exporting activities, although they are more willing to export. These results imply that valuable information and financial resources are provided to politically connected but possibly unproductive firms, leading to inefficient allocation of resources. Finally, politically connected firms are more likely to engage in importing activities, possibly because importing activities depend on the intention to import, unlike exporting activities which depend on productivity and connections to buyers.

The rest of this paper is structured as follows. Section 2 reviews the literature on the effect of political connections and provides empirical hypotheses. Section 3 explains the estimation method of the paper. Section 4 describes the data and key variables, and Section 5 presents results and discussion. Finally, section 6 concludes with some policy implications.

Ⅱ. Literature of Political Connection as Social Capital

Many international business and entrepreneurship literatures have dealt with the advantages of political connections as social capital for firm performance in developing countries. Most find that social networks benefit SMEs by providing knowledge of market opportunities (Ellis, 2000), experiential learning and referral trust and formal business linkages; thus, social interactions with politically related persons are positively linked to profits and export performances (Zhou, Wu and Luo, 2007).

The importance of political ties to firms as their social capital resources can be even more critical in countries such as Vietnam, a single-party state. It turned into a market economy in 1987 but the government

continues to exert power over many aspects of its economy. McMillan and Woodruff (2002) evaluate that formal institutions which could provide capital and information to the private sector were almost non-existent during the early transition period in Vietnam. Due to such lack of efficient formal market supporting institutions, firms heavily rely on credits from suppliers and personal connections. Also, it is hard to expand their scope of business as entrepreneurs have limited information about suppliers and customers. Thus, the authors observe from data that most of the firms conduct business only with acquaintances and neighbors. On the top of the single-party system, the complicated legal system in Vietnam creates room for flexible interpretation and gives local authorities more power (Tran, Grafton and Kompas (2009).

Weak government's initiative in Vietnam to make information and relevant data more public for private uses is also observed in the comparison of open data initiatives among 93 countries (OpenDataBarometer, 2015). Vietnam ranked 57th out of 93 countries in 2015, with a score of 18.3 out of 100. Individual scores that make up the Open Data Barometer offer a more detailed insight into the Vietnamese government's role as information provider. For example, it is shown that the government's action and policy for making valuable information more public is insufficient or missing. In such situation, it is difficult for entrepreneurs to create new business opportunities using the information provided by the government. Therefore, it can be said that valuable information is difficult to access in the current business environment in Vietnam.

Despite the insufficient information provided by the government in Vietnam, the value of business information is found to be significant for the private sector. For example, Malesky, McCulloch and Nhat (2015) show that public posting of planning documents is strongly associated with higher investment. However, due to the lack of a public platform for information collection, firms have no choice but to rely on informal social capital to obtain valuable business information. According to Tran, Grafton and Kompas (2009) who review various surveys targeting Vietnamese companies, information deficiency was pointed as one of the most important constraints to firm growth. Steer and Sen (2010) find that the most important source of trading partner search for Vietnamese enterprises was informal institutions such as friends, family and personal relations. While 67% of the respondents rely on personal ties for information, people who choose the government agency as a source of business partner information are only 4%. Thus, informal social links, including personal links with politically powerful persons, are crucial alternative sources of information in Vietnam where the government does not sufficiently provide necessary business information to the public through formal institutions.

In addition to the provision of information, another significant benefit from the political connection is the provision of credit. Markussen and Tarp (2014) estimate the effect of having a relative in a position of political power on household's investment in land improvements. The effect is positive and significant because family ties strengthen land property rights and give more access to credit and transfers through gifts. Their results from household-level data hint that the same logic can apply to the firms.

Along with many studies on the role of political connections in Vietnam, it is also worth noting that numerous studies prove

politically connected firms in China have better access to the credit market, avoid red tape, obtain a reduction in taxes and fees, are more protected by the legal system, as the Chinese political system is similar to that of Vietnam. For example, Ding, Fan and Lin (2018) show that politically connected firms gain a comparative advantage in financially dependent sectors, primarily because financial resources from local governments or government banks favor those with connections. Li et al. (2008) focus on how the Party membership of private entrepreneurs has a positive effect on the performance of their firms because it helps private entrepreneurs to obtain loans from banks or other state institutions. Lu (2011) shows that domestic trade into other administrative areas within China can be promoted by political connection at a sufficiently high hierarchical level, because the jurisdiction of administrative units determines the boundary of property protection and contract enforcement a government official can exercise. To sum, weak formal institutions in finance or legal enforcement make informal social capital more critical for Chinese companies. Expanding Lu (2011)'s idea, we assume that the influence of political connections is not limited to domestic but also to international trade, particularly for the SMEs.

A particular activity of SMEs that may be influenced by political connection is international trade. It is well known that productivity is a significant determinant of exporting activities because only firms with a sufficiently high level of productivity can afford to pay the initial costs of exporting and be profitable in export markets (Melitz, 2003). However, even if the productivity of firms is sufficiently high, there are several other factors that determine SME's decision to participate in the international market. In fact, many developing countries suffer from various trade obstacles that hinder them from realizing the potential benefits of trade (Stiglitz and Charlton, 2006). To illustrate, if firms are credit-constrained, they may not be able to finance the initial costs of exporting and thus cannot start exporting, as evidenced by Manova (2012). In addition, informational barriers caused by poor transport and communication infrastructure and lack of social networks can be an obstacle to exporting, because they are positively associated with the initial costs of searching for foreign buyers (Allen, 2014). Paul, Parthasarathy and Gupta (2017) categorize exporting challenges faced by SMEs into two: internal (micro) problems and external (macro) problems. External barriers include a lack of trade and legal institutions. These environmental characteristics are common in developing countries. SMEs' micro-level barriers include lack of negotiating power, poor management, inability to access information and lack of capital and resources. SMEs in developing countries, without legal or institutional means, naturally heavily rely on their network relationships to overcome barriers of internationalization. Thus, social capital resources, such as political connection, are considered a critical channel for acquiring resource necessary for exporting activities of SMEs (Ellis, 2011). Firms with political connections, especially with politically powerful persons, may increase the chance to import with the same logic. Importing also requires sunk cost to find potential sellers and learn and execute customs processes. With political connections, firms enjoy better access to credits and information; thus, be able to afford fixed costs of importing. In addition, political connections may help firms to avoid

administrative costs and tariffs associated with importing. For instance, Sequeira (2016) finds that small bribes can significantly reduce tariffs in Southern Africa.

III. Estimation Method

Based on the literature described above, we hypothesize that firms with political connections are more likely to receive financial and informational support from the government than firms without any political connection. Accordingly, firms with political connections may be more likely to be engaged in international trade, i.e., both exporting and importing activities.

$$TRADE = \rho TRADE_{-1} + \beta_1 \infty O \\ + \beta_2 FIN + \delta X_{-1} + \alpha_i + \epsilon \tag{1}$$

$$\infty O = \lambda_1 POL + \lambda_2 X_{-1} \\ + \lambda_j + \epsilon^I \tag{2}$$

$$FIN = \mu_1 POL + \mu_2 X_{-1} + \mu_j + \epsilon^F \tag{3}$$

$$TRADE = \rho TRADE_{-1} + \theta POL \\ + \delta X_{-1} + \alpha_j + \epsilon \tag{4}$$

To test these hypotheses empirically, we consider the following structural equations: where TRADEit, INFOit, FINit, and POLit represent a dummy variable for engaging in exporting or importing activities, for receiving informational and financial support from the government, and for having any political connection, respectively, of firm i in year t. X is a vector of attributes of firms and owners that may affect decisions to engage in international trade. In an alternative specification for equation (1), we experiment with a dummy variable that indicates the firm's willingness to export, rather than actual exporting behaviors.

An obvious econometric issue with estimating equations (1)-(3) is that the variable for political connection, POL, is endogenously determined. For example, unobserved characteristics of firms may be related to both political connection and receipt of public support. Then, the ordinary least squares (OLS) estimates are biased. To avoid this endogeneity, we limit political connections to only blood relationships. That is, POL is one if and only if the manager or owner of the focal firm is connected with any politician or bureaucrat through blood relationship. In other words, POL does not include political connection created by the intention to receive public support for trade. This definition, therefore, excludes friends, neighbors, and family ties established through marriage.

Another concern about measuring political connection is the under-reporting of the respondents. The respondents may feel insecure and hide the personal information related to their family members. However, this can only underestimate the effects of having political ties. It is unlikely that the respondents will make up the false family ties so that the results may be biased downward.

Accordingly, to test the structural equations (1)-(3), we may employ two-stage least squares (2SLS) estimations in which equations (2) and (3) are the first-step estimations whereas (1) is the second step. However, as we find that instruments in the 2SLS estimations are quite weak, we rely on the following equation (4) when we examine the effect of political connection on exporting activities:

Ⅳ. Data

1. Data source

The target of this study is SMEs in village industrial clusters serving the apparel and textile industry in the Red River Delta surrounding Hanoi, the capital city of Vietnam. Since this region has a more rigid political environment and closed communities due to history, geography and the legal system, firms are expected to suffer more from a lack of regulatory information and market information than firms in the South (Tran, Grafton and Kompas. 2009).

We chose village clusters which is a unique feature of Vietnamese manufacturing. Each village has naturally developed into a cluster of firms producing similar products. For example, most firms in a towel village produce towels and most firms in a silk village produce silk products. Thus, there is little product heterogeneity. Also, since they are located within the smallest administrative unit called commune, their locational characteristics such as distance to major ports or major roads are relatively homogeneous. Thus, within the same village cluster, it is easy to detect the impact of political ties. We excluded government-designed export processing zones or industrial zones since these firms receive government support regardless of their political ties. We chose SMEs in the apparel and textile industry because exporters in these industries account for a modest yet non-negligible share of current exports, approximately 10 percent. To identify such village clusters, we utilized data from the Vietnam Enterprise Survey (VES) of 2010. The VES is conducted annually by the General Statistical Office of Vietnam (GSO) and covers all foreign-owned firms, all domestically owned firms with 30

employees or more, and randomly selected domestically owned firms with 10-29 employees. We selected 16 villages or communes, the smallest administrative unit, with more than five registered firms in the textile and apparel industries (i.e., industry codes 13 and 14 of the Vietnamese System of Industry Classifications) in the 6 provinces in the Red River Delta in the VES data (Hanoi, Bac Ninh, Hai Duong, Thai Binh, Ha Nam, and Hung Yen). For each of the 16 villages, we obtained the complete list of registered firms from the municipal government. The number of registered firms for each village varies from one to 74, %and the total number of firms is 354. We focus on registered firms because only registered firms with a tax code can export or import directly.

In December 2014 and January 2015, we requested face-to-face interviews with owners, managing directors, or highly ranked managers of all 354 registered firms and obtained responses from 296, corresponding to a response rate of 84 percent. The questionnaire consisted of standard firm characteristics, such as sales, number of workers, main products, and ownership type. In addition, we asked questions related to trade activities, such as experiences in exporting, knowledge of e-customs, and the perception of trade. We also conducted the second-round survey of the 296 firms in July and August 2015. A total of 284 firms, or 96 percent of the sample from the previous round, responded to the second survey. Five of the 12 missing firms had been closed in the interim, and seven firms refused to respond to the second survey. Then, we conducted the third survey in February and March 2017, two years after the seminars. A total of 231 firms, or 78 percent of the sample in the first round, responded. Among the 53 firms dropped from the second survey,

30 were closed, 13 refused to respond or could not be contacted, and the other 10 were confirmed to have moved to other locations or could not be found probably because they had moved.

This paper utilizes panel data from the second and third round of our survey, which collect information on firm attributes in 2014 and 2016, respectively. Although 231 firms were surveyed in the third round, our estimations rely on 180 for which complete data are available.

2. Construction of variables

Our key dependent variable in equation (1), TRADE, indicates the firm's engagement in international trade. When we examine the effect of political connections on exporting activities, we distinguish between direct export and indirect export, i.e., export through traders, and utilize either a dummy variable for engaging in direct export, the ratio of direct exports to total sales in logs, a dummy variable for engaging in indirect export, or the ratio of indirect exports to total sales in logs. An alternative specification utilizes a dummy variable for willingness to export reported by the respondent, i.e., a highly ranked manager or owner of the firm, to examine whether political connections affect the perception of the manager and owner. Finally, we also investigate the effect of political connections on import of inputs, using a dummy variable for engaging in any importing activity.

FIN and INFO are other key variables expressed as dummy variables to show whether the focal firm receives financial and informational support from the government. These dummies are constructed directly from survey questions, "Do you receive any financial subsidies (including tax holiday)

from the government?" and "Can you obtain valuable and important information from the government?"

Our final key variable, POL, indicates firms' political connection through blood relationships. This dummy variable is one if the general manager or owner of the focal firm is connected to any person with political power defined in detail below through blood relationship, following the definition of Markusen and Tarp (2014). For example, the political tie dummy is one when the manager's parent, sibling, parent's sibling, or grandparent is a political person. However, the dummy is zero when the manager or owner's spouse or parent-in-law is a political person. By defining so, we can treat the dummy as an exogenous variable, as blood relationship is predetermined. Unlike most of previous research which measured political connection of board members or shareholders, we only focus on the owner's political connection since our sample is SMEs mostly owned by family members (See Table 1).

We categorize persons with political power in different levels, following Lu (2011). First, we focus on core members in the executing political units at each of various hierarchical levels, i.e., officials in the central government and members of the People's Committees of each province, district, and commune. The People's Committee is an executive wing at three local levels while the People's Council is a legislative wing. The two local governing apparatuses can have overlapping members. We decide to focus on the executive body because it controls the local departments and executes the local budget approved by the Council. Next, we also consider persons with any other position in the government, including bureaucrats working for ministries and members of People's Councils, or assemblies,

Table 1. Definition of Political Connections

Research	Sample	Definition of political connections
Boubakri, Cosset and Saffar (2008)	245 privatized firms in 27 developing and 14 developed countries	politicians or ex-politicians on the board of directors
Faccio (2006)	20202 publicly traded firms in 47 countries	at least one of its top officers or a large shareholder being head of state, a government minister, or a member of the national parliament
Boubakri, Cosset and Saffar (2012)	234 firms in 12 developed and 11 developing countries	same as Faccio (2006)
Faccio, Masulis and McConnell (2006)	450 politically connected firms from 35 countries	same as Faccio (2006)
Diwan, Keefer and Schiffbauer (2015)	385 firms under the Mubarak regime in Egypt	firms owned by or had a major sharholders who had high political positions in the ruling party or in the government or who were long-term friends or close members of the Mubarak family
Khwaja and Mian (2005)	90,000 firms in Pakistan	firm's director participates in an election
Fisman (2001)	Firms listed in Jakarta Stock Exchange (JSX) and their group affiliations	subjective assessments of firms' dependency on political connections for its profitability
Fu, Shimamoto and Todo (2017)	296 firms from Manufacturing Industry Directory of Indonesia	board members of the firm is employed by the central or local government, or the central or local government owns shares in the firm.
Zhou, Wu and Luo (2007)	129 SMEs from Zhejiang SME Directory in China	ties with local government agencies
Markussen and Tarp (2014)	2026 households in Vietnam	Having a public official in the family (either blood-relative or through marriage)
Ding, Fan and Lin (2018)	1205 listed manufacturing firms in China	At least one member of top management team belonging to the Chinese People's Congress or the Chinese People's Political Consultative Conference at the national or the provincial level
Li et al. (2008)	2324 private firms in China	Party, Congress, Consultative Conference membership, previous work experience as a manager of a public firm or as a government cadre
Lu (2011)	1603 private firms in China	a deputy to the Chinese People's Congress at town, county, prefecture, and region level

at various levels. Finally, we define politically powerful persons as members of the Communist Party of Vietnam, because Vietnam is essentially governed by the Party. It should be noted that members of the Communist Party are not necessarily in a government position but may work in the private sector, yet participate in the decision-making process of the Party.

Control variables include the number of subcontractors, the number of workers, the number of business-related association membership, the dummy for other types of membership, and the perception of transportation as a trade obstacle. The number of subcontractors and workers control for the size of firms as well as productive capacity. Although productivity is a major determinant of exporting activities, our dataset does not include reliable information about productivity measures, such as total factor productivity or even sales per worker. The number of business association membership and other types of membership control for the alternative source of personal ties and business information. Perception of transportation as an obstacle to trade is used as a proxy for trade cost and information gathering cost. This index ranges from 1 to 5 where 1 is 'transportation is no obstacle' and 5 is 'transportation is a very severe obstacle' in terms of trade. Also, a dummy for whether the company uses Facebook for their business controls for the alternative channel of information and open data. Finally, owners' personal characteristics such as age and education level which may determine the managerial skills and attitude towards exporting are included.

3. Descriptive statistics

Descriptive statistics for the key variables and controls are shown in Table 2. Our dependent variable, the share of direct and indirect exporters and importers is 14, 12, and 6 percent, respectively, in 2016. 61 percent of firms were willing to export, meaning that there are many firms which are willing to export but cannot due to various obstacles.

The variables of interest, government support and political connections are as follows. Seven percent of firms received financial support from the government while 22 percent received informational support from the government in 2016. Comparing the two dummies, it is easier to get information than financial support because spreading information does not incur much fixed cost as well as marginal cost for an additional firm compared to giving physical support such as land and capital. The share of firms with managers or owners who are connected with any person in the central government and member of People's Committee of the province, district, and commune through blood relationship is 3, 9, 12, and 17 percent, respectively. 14 percent of firms have personal connection to family in any other government position. In total, 47 percent have at least one type of political connections mentioned above. 35 percent of firms are connected with any member of the Communist Party through blood relationship.

Other firm and the owner characteristics which are used as controls give a general picture of our sample. Firms are relatively young. The average registration year was 2006. The oldest firm was registered in 1989, the year of Doi Moi when the country first recognized the private sector. The most of firms were registered after the Enterprise Law of 2000, the more concrete legal foundation for private entities entitling legal rights. However, the interviews with some firms suggest that they have been in the business longer as informal enterprises. The variance of the number of subcontractors and workers are large due to some big outliers. Thus, the natural logged variables are used in the estimation equation. Again, the sample firms are small and medium-sized as their mean value for the workers including both

Table 2. Summary statistics

Variable name	N	Mean	S.D.	Min.	Max.
Do you have any blood-relative in the central government?	213	0.03	0.18	0.00	1.00
Do you have any blood-relative in the People's committee of the province?	212	0.09	0.29	0.00	1.00
Do you have any blood-relative People's committee of the district?	213	0.12	0.33	0.00	1.00
Do you have any blood-relative People's committee of the commune?	213	0.17	0.38	0.00	1.00
Do you have any blood-relative holding any other position at the government?	217	0.14	0.35	0.00	1.00
Do you have any blood-relative who is a member of the Communist Party?	219	0.35	0.48	0.00	1.00
Do you have the Party membership?	220	0.06	0.24	0.00	1.00
Did you export directly in 2016?	231	0.14	0.35	0.00	1.00
Did you export indirectly in 2016?	231	0.12	0.33	0.00	1.00
Did you import in 2016?	231	0.06	0.25	0.00	1.00
Does your company want to trade internationally (or continue to trade in the future)	216	0.61	0.49	0.00	1.00
Log (% of sales from direct export+1) in 2016	231	0.59	1.47	0.00	4.62
Log (% of sales from indirect export+1) in 2016	231	0.45	1.24	0.00	4.62
Log (number of workers in 2016)	230	3.02	1.12	0.69	6.80
Log (number of subcontractor in 2014+1)	230	1.43	1.56	0.00	5.71
Log (number of workers in 2014)	223	2.82	1.26	0.00	6.91
How many memberships do you hold for any professional union/association	222	0.51	0.68	0.00	4.00
Are you a member of any other union/association	220	0.15	0.36	0.00	1.00
Is transport Obstacle to trade (1 no obstacle – 5 very severe obstacle)	227	1.41	0.82	1.00	5.00
Are you using Facebook for business?	224	0.23	0.42	0.00	1.00
Age	222	44.29	9.75	27.00	68.00
Years of Education	222	11.55	2.59	6.00	18.00
Can you obtain valuable and important information from the government?	223	0.22	0.41	0.00	1.00
Do you receive any financial subsidies (including tax holiday) from the government	231	0.07	0.26	0.00	1.00

permanent and temporary workers is less than 50. The respondents have 0.5 memberships at a business-related association in average. There are only 14 percent of respondents holding membership at non-business association such as sports club. Perception of transportation as trade obstacles portrays the transportation infrastructure quality surrounding the firm. For this reason, this can also be a proxy for cost of traveling, cost of getting information in person, and cost of export. The average firm owner feels transportation is either a no obstacle or a minor obstacle as its mean value was 1.41.

Table 3. The Effects of Political Connection to Getting the Information from the Government Dependent variable: Dummy for Getting Valuable Information from the Government in 2016

Model	(1)	(2)	(3)	(4)	(5)	(6)
Definition of political connection	Central government	People's Committee at province level	People's Committee at district level	People's Committee at commune level	Any other government position	Member of Communist Party
Political connection	0.099	−0.080	−0.116	0.063	0.247***	0.130*
	(0.17)	(0.11)	(0.09)	(0.08)	(0.09)	(0.07)
Export Dummy in 2014	−0.044	−0.068	−0.063	−0.045	−0.044	−0.022
	(0.18)	(0.18)	(0.18)	(0.18)	(0.17)	(0.18)
Log(# of subcontractors 2014)	−0.045*	−0.048*	−0.046*	−0.047*	−0.037	−0.051**
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Log(# of workers 2014)	−0.000	0.005	0.005	0.004	−0.008	−0.003
	(0.04)	(0.04)	(0.03)	(0.04)	(0.03)	(0.03)
Number of professional memberships in 2015	0.043	0.040	0.051	0.039	0.042	0.045
	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
Dummy for having non−professional membership in 2015	−0.117	−0.107	−0.108	−0.113	−0.135	−0.114
	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
Transportation as obstacles for business in 2016 (1:no obstacle, 5. very severe obstacle)	0.046	0.043	0.044	0.044	0.053	0.049
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Dummy for using Facebook for business	0.070	0.065	0.081	0.065	0.046	0.060
	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)	(0.08)
Age of the owner	−0.002	−0.003	−0.002	−0.003	−0.002	−0.003
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Education level of the owner	−0.027	−0.028	−0.030	−0.030	−0.034	−0.033
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Commune dummies	YES	YES	YES	YES	YES	YES
Observations	179	179	179	179	179	179
R−squared	0.160	0.161	0.166	0.161	0.197	0.178

Note: Standard errors are in parentheses. * p $<$ 0.1, ** p $<$ 0.05, *** p $<$ 0.01.

Ⅴ. Results

1. Effect of political connection on informational and financial support

We start with the OLS estimation of equation (2) to examine the effect of political connection on informational support from the government and show the results in Table 3. In each column, we utilize a distinct type of political connection: In columns (1), (2), (3), (4), (5), and (6), political connection is measured by connection with any person in the central government, the People's Committee of the province, district, and commune, and any other position in the government, and with membership of the

Table 4. The Effects of Political Connection to Getting the Financial Supports from the Government Dependent variable: Dummy for Getting Financial Supports from the Government in 2016

Model	(1)	(2)	(3)	(4)	(5)	(6)
Definition of political connection	Central government	People's Committee at province level	People's Committee at district level	People's Committee at commune level	Any other government position	Member of Communist Party
Government connection	−0.057	0.097	0.021	0.110**	0.074	0.025
	(0.10)	(0.07)	(0.06)	(0.05)	(0.05)	(0.04)
Export Dummy in 2014	−0.234**	−0.211**	−0.225**	−0.204*	−0.223**	−0.220**
	(0.11)	(0.10)	(0.10)	(0.10)	(0.10)	(0.11)
Log(# of subcontractors 2014)	0.003	0.006	0.003	−0.000	0.005	0.002
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Log(# of workers 2014)	0.029	0.023	0.027	0.032	0.025	0.027
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Number of professional memberships in 2015	−0.038	−0.034	−0.039	−0.044	−0.038	−0.037
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Dummy for having non−professional membership in 2015	−0.041	−0.048	−0.045	−0.049	−0.052	−0.045
	(0.06)	(0.06)	(0.06)	(0.05)	(0.06)	(0.06)
Transportation as obstacles for business in 2016 (1:no obstacle, 5. very severe obstacle)	0.055**	0.058**	0.057**	0.058**	0.059**	0.057**
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Dummy for using Facebook for business	−0.022	−0.018	−0.024	−0.033	−0.029	−0.023
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Age of the owner	0.001	0.002	0.001	0.001	0.002	0.001
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Education level of the owner	−0.002	−0.001	−0.001	−0.005	−0.003	−0.003
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Commune dummies	YES	YES	YES	YES	YES	YES
Observations	178	178	178	178	178	178
R−squared	0.180	0.189	0.179	0.204	0.188	0.180

Notes: Standard errors are in parentheses. * p ⟨ 0.1, ** p ⟨ 0.05, *** p ⟨ 0.01.

Communist Party, respectively.

When we focus on political connection with the central and local governments in columns (1)-(4) of Table 3, we find that none of the ties significantly raise the probability of receiving informational support from the government. By contrast, the result in column (5) indicates a positive and highly significant effect of having blood relationship with any other government official, suggesting that firms with political connection are 25 percent more likely to receive valuable information from the government than those without any connection. In addition, blood relationship with a member of the Communist Party is found to have a positive effect, raising the probability of receiving informational support from the government by 13 percent, although the effect is statistically significant only at the

10-percent level. These results suggest that at least certain types of political connection can facilitate flows of valuable information from the government to firms.

Unlike family political connection, other professional networks such as professional membership at any industry association or chamber of commerce did not increase the chance of receiving information from the government. Non-professional membership such as sports clubs also did not have any significant effect (Table 3).

Table 4 shows the results on the effect of political connections on receiving financial support from the government. Unlike receiving important information from the government, we do not see a clear correlation between political connection and financial support except for the result in column (4) which shows a positive and significant effect of political connection at the 5-percent level. This result indicates that firms whose manager or owner has a blood family member in the People's Committee of the commune are 11% more likely to receive financial supports from the government than otherwise. It can be inferred that personal connections with person at a higher level of the government, i.e., national, province, or district, may not be necessary for receiving financial supports. One possible explanation is that most of financial supports from the government are made through loans from local branches of state-owned banks located in each commune and thus connections with the commune government, rather than that of higher level, matter for the financial support.

2. Effect of political connection on international trade

We now examine determinants of exporting activities. Here, the export performances are measured both in export status using dummy variables and in share of firms' total sales from export. Also, two modes of export, namely direct export by the firms and indirect export through intermediaries are considered.

First, we estimate the effect of informational and financial support from the government applying OLS estimations to equation (1). Because whether firms receive informational and financial support from the government is endogenously determined, as shown in equations (2) and (3), the OLS estimates may be biased and should be interpreted as correlation, rather than causality.

Column (1) of Table 5 signifies that the firms which received some information from the government are 9 percent more likely to engage in direct exporting. Also, column (3) shows that their share of sales from direct exporting are 36 percent higher. Nonetheless, financial supports from the government are not connected to direct export both in terms of dummy and share as shown in columns (2) and (4). Neither information nor financial supports are linked to indirect export, as shown in columns (5)-(8). In addition, we estimate how willingness to export of the manager or owner of the focal firm is determined. Columns (9) and (10) of Table 5 indicate that receiving informational and financial support from the government is positively and significantly correlated with willingness to export. This finding is in line with Kinghan and Newman (2015), suggesting that because politically connected firms have better access to government support, they are willing to take more risks and more eager to expand their business.

Table 5. The Effects of Information and Financial Supports from the Government on Export Performance

Model Dependent variable	(1) Direct export dummy	(2) Direct export dummy	(3) Log (% of direct export)	(4) Log (% of direct export)	(5) Indirect export dummy	(6) Indirect export dummy	(7) Log (% of indirect export)	(8) Log (% of indirect export)	(9) Willingness to trade dummy	(10) Willingness to trade dummy
Informational support	0.09** (0.04)		0.36** (0.15)		−0.01 (0.06)		−0.16 (0.20)		0.18** (0.08)	
Financial support		−0.02 (0.07)		−0.01 (0.25)		0.04 (0.10)		0.18 (0.33)		0.29** (0.14)
Log(# of subcontractors 2014)	0.01 (0.01)	0.00 (0.01)	−0.01 (0.04)	−0.03 (0.04)	−0.01 (0.02)	−0.01 (0.02)	−0.06 (0.06)	−0.06 (0.06)	0.03 (0.02)	0.03 (0.02)
Log(# of workers 2014)	0.01 (0.02)	0.01 (0.02)	0.02 (0.06)	0.02 (0.06)	0.03 (0.02)	0.03 (0.02)	0.06 (0.08)	0.05 (0.08)	0.08** (0.03)	0.08** (0.03)
Number of professional memberships in 2015	−0.01 (0.03)	−0.01 (0.03)	−0.11 (0.10)	−0.10 (0.10)	0.072* (0.04)	0.072* (0.04)	0.09 (0.14)	0.08 (0.14)	0.03 (0.06)	0.04 (0.06)
Dummy for having non−professional membership in 2015	−0.01 (0.05)	−0.01 (0.05)	−0.13 (0.17)	−0.15 (0.17)	−0.06 (0.07)	−0.06 (0.07)	−0.14 (0.23)	−0.13 (0.23)	−0.18* (0.10)	−0.18* (0.10)
Transportation as obstacles for business in 2016 (1:no obstacle, 5. very severe obstacle)	−0.02 (0.02)	−0.01 (0.02)	−0.05 (0.08)	−0.04 (0.08)	0.01 (0.03)	0.01 (0.03)	0.02 (0.11)	0.01 (0.11)	−0.04 (0.05)	−0.05 (0.05)
Dummy for using Facebook for business	−0.01 (0.04)	0.00 (0.05)	0.04 (0.15)	0.06 (0.15)	−0.01 (0.06)	−0.01 (0.06)	0.01 (0.20)	0.01 (0.20)	0.08 (0.09)	0.09 (0.09)
Age of the owner	0.00 (0.00)	0.00 (0.00)	0.00 (0.01)	0.00 (0.01)	−0.01 (0.00)	−0.01 (0.00)	−0.02* (0.01)	−0.02* (0.01)	0.00 (0.00)	0.00 (0.00)
Education level of the owner	0.02 (0.02)	0.01 (0.02)	0.05 (0.06)	0.05 (0.06)	0.02 (0.02)	0.02 (0.02)	0.07 (0.08)	0.07 (0.08)	0.02 (0.03)	0.02 (0.03)
Lagged dependent variable	0.40*** (0.09)	0.41*** (0.09)	0.54*** (0.06)	0.56*** (0.06)	0.22** (0.10)	0.22** (0.10)	0.39*** (0.07)	0.39*** (0.07)	0.22*** (0.07)	0.22*** (0.07)
Commune dummies	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	180	180	180	180	180	180	179	179	180	180
R−squared	0.66	0.65	0.78	0.77	0.30	0.30	0.40	0.40	0.30	0.30

Notes: Standard errors are in parentheses. * p 〈 0.1, ** p 〈 0.05, *** p 〈 0.01.

Next, we estimate the effect of political connection on exporting activities using the reduced form of equation (4) and present the results in Table 6. Panels (A), (B), and (C) respectively show the effect on direct export, indirect export, and willingness to export. The results in panels (A) and (B) clearly show that political connection does not necessarily raise the probability of engaging in either direct or indirect export. However, we find in panel (C) that political connection with members of People's Committee at the national or provincial level enhances managers' willingness to export.

Table 6. The Effects of Political Connection on Exporting

(A) Effect on the dummy for engaging in direct export

Model	(1)	(2)	(3)	(4)	(5)	(6)
Definition of political connection	Central government	People's Committee at province level	People's Committee at district level	People's Committee at commune level	Any other government position	Member of Communist Party
Political Connection	−0.090	−0.025	−0.028	−0.019	−0.024	−0.024
	(0.09)	(0.06)	(0.05)	(0.04)	(0.05)	(0.05)
Observations	182	181	182	182	186	186
R−squared	0.631	0.629	0.629	0.629	0.620	0.633

(B) Effect on the dummy for engaging in indirect export

Model	(1)	(2)	(3)	(4)	(5)	(6)
Definition of political connection	Central government	People's Committee at province level	People's Committee at district level	People's Committee at commune level	Any other government position	Member of Communist Party
Political Connection	0.110	−0.013	−0.038	0.042	0.040	0.025
	(0.12)	(0.08)	(0.07)	(0.06)	(0.06)	(0.05)
Observations	182	181	182	182	186	186
R−squared	0.321	0.317	0.319	0.320	0.317	0.301

(C) Effect on the dummy for willingness to export

Model	(1)	(2)	(3)	(4)	(5)	(6)
Definition of political connection	Central government	People's Committee at province level	People's Committee at district level	People's Committee at commune level	Any other government position	Member of Communist Party
Political Connection	0.453**	0.222*	0.052	0.008	0.038	−0.063
	(0.19)	(0.12)	(0.11)	(0.09)	(0.10)	(0.07)
Observations	172	171	172	172	174	175
R−squared	0.296	0.283	0.271	0.270	0.263	0.272

Note: Standard errors are in parentheses. $*\ p < 0.1$, $**\ p < 0.05$, $***\ p < 0.01$. The control variables used in Table 6 are also used in the estimations here, but the results are not presented for brevity of presentation.

Finally, we turn to importing activities. Theoretically, there is a simultaneous two-way relation between importing and productivity: importing requires high productivity which enables firms to afford sunk costs (self-selection) while importing foreign intermediaries increase productivity (learning-by-importing) (Wagner, 2012). Although importing inputs contribute to firm's productivity (Halpern, Koren and Szeidl, 2015), we regard that a higher chance of importing for politically connected firms is

Table 7. The Effects of Information and Financial Supports from the Government on Import
Dependent Variable: Import Dummy

Model	(1)	(2)
Informational support	0.150***	
	(0.05)	
Financial support		0.014
		(0.08)
Log(# of subcontractors 2014)	−0.025*	−0.031**
	(0.01)	(0.01)
Log(# of workers 2014)	0.022	0.022
	(0.02)	(0.02)
Number of professional memberships in 2015	0.033	0.037
	(0.03)	(0.03)
Dummy for having non−professional membership in 2015	0.070	0.062
	(0.05)	(0.05)
Transportation as obstacles for business in 2016 (1:no obstacle, 5. very severe obstacle)	−0.036	−0.030
	(0.03)	(0.03)
Dummy for using Facebook for business	−0.007	0.000
	(0.05)	(0.05)
Age of the owner	−0.005**	−0.005**
	(0.00)	(0.00)
Education level of the owner	−0.030	−0.032*
	(0.02)	(0.02)
Lagged dependent variable	0.272***	0.289***
	(0.09)	(0.09)
Commune dummies	YES	YES
Observations	180	180
R−squared	0.265	0.215

Notes: Standard errors are in parentheses. * p < 0.1, ** p < 0.05, *** p < 0.01.

not due to productivity enhancement because we do not see the same impact on exporting which would also increase if productivity would have improved. Rather, access to import may be another form of political benefits given to connected firms regardless of firm productivity.

From the OLS estimation of equation (1), we find in Table 7 that firms which received information from the government are 15 percent more likely to import material or inputs from abroad, although financial support is not significantly correlated to importing activities. Then, we estimate the reduced form of equation (4) and find in columns (1) and (2) of Table 8 that the effect of connection with members of People's Committee at the high level, i.e., at the

Table 8. The Effects of Political Connection on the Import Dummy

Model Definition of political connection	(1) Central government	(2) People's Committee at province level	(3) People's Committee at district level	(4) People's Committee at commune level	(5) Any other government position	(6) Member of Communist Party
Political Connection	0.359***	0.148**	0.099*	0.019	0.103**	−0.023
	(0.09)	(0.06)	(0.05)	(0.05)	(0.05)	(0.04)
Observations	182	181	182	182	186	186
R−squared	0.236	0.189	0.177	0.160	0.182	0.183

Note: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. The control variables used in Table 7 are also used in the estimations here, but the results are not presented for brevity of presentation.

national and provincial levels on the importing status, is highly significant and large in size. Specifically, having a connection with any person in the central government raises the probability of engaging in importing activities by 35 percent. Further, column (4) of Table 8 presents significant effects of political connection with other government position on importing activities. Given the nature of importing which is more concentrated among fewer firms and has stronger self-selection effects than exporting (Castellani and Serti and Tomasi, 2010), importing may require political connections of relatively high level such as the central government.

Ⅵ. Discussion and Conclusion

This paper investigates how political connection of firms promotes their engagement in international trade through receiving informational and financial support from the government, using a unique dataset for SMEs in rural Vietnam. We select trade as our outcome variale since trade is associated with economic growth and high productivity, posing important policy implications for developing countries (Balassa, 1978; Feder,

1983). We focus on connection to persons with political power through blood relationships to avoid endogeneity of political connection. Further, we employ various types of political connection at different levels.

Our results can be summarized as follows. First, political connection increases firms' probability of receiving valuable information from the government while political connections with the People's Committee at commune level are positively correlated with getting financial supports. Both channels can promote firms to engage in exporting and importing activities. Second, those firms which receive informational support from the government have a higher chance of direct export as well as higher intensive margin represented by percentage of sales from direct export. Third, financial support from the government does not have a significant relationship with direct export. Fourth, neither informational or financial support helps firms engage in indirect exporting activities, although firms are more willing to export if they receive government support. Finally, politically connected firms are more likely to engage in importing activities but not exporting activities.

The first, third and fourth results suggest that while firms with political connection

receive more financial resources from the government and are more willing to export, they fail to engage in exporting activities possibly because their productivity is not sufficiently high. In other words, financial resources, which is a scarce resource particularly in developing countries like Vietnam, is provided to less productive but politically connected firms. This finding is consistent with and Ding, Fan and Lin (2018). find that having a relative in a political or bureaucratic position increases the chance of running the business but those who have a relative in the government experience lower profitability. Similarly, Ding, Fan and Lin (2018) find that political connection has two opposing effects on firm's exporting activities. While political ties give firms a comparative advantage in contract intensive and financial dependent sectors by allowing firms to participate, ties also lead to managerial inefficiency in the international trade. In sum, the role of political connection on firm's exporting activity is ambiguous or may be different across sectors. Thus, our findings along with previous literature imply inefficient allocation of resources due to political connection in Vietnam. The insignificant or sometimes even negative impact of political connections may be a sign of hidden cost or market distortion so that politicians and bureaucrats should be more accountable and transparent when choosing firms for government-sponsored programs.

Nevertheless, we found some positive relationships of information from the government on firms' direct export measures. In particular, with the help of development in information and communication technology (ICT), it does not entail a big variable cost to run informational programs for export promotion. Therefore, the government should encourage the open data

initiative and make the policy documents and data more available to the public as valuable and credible information from the government can foster firms' engagement in direct exporting.

In contrast to no effect on export, our results show a positive effect of political connection on import. For instance, Rijkers, Baghdadi and Raballand (2015) observes that being connected to politics also increases the likelihood of importing through various means. Their studies refer to cases where connected firms import more easily by receiving an import license relatively easier compared to the firm's competitors or by evading tariffs by reducing the unit price. Although our data cannot detect the clear mechanisms on how connections help firms import more than firms without connection, the results are consistent that political connection allows firms to afford for the importing trade costs. While there are many empirical studies that importing raises firm productivity (Fan, Li and Yeaple, 2015; Halpern, Koren and Szeidl, 2015; Kasahara and Rodrigue, 2008; Schor, 2004), our results that political connections do not affect export but only import imply that political connection may have allowed those who are not productive enough to buy from the international market based on political rents without enhancing firm's productivity level. However, such import privileges are limited to firms with connection to high levels of the government. Connection to members of the Communist Party or People's Committee at the district or commune level does not help promote import, possibly because only higher-level officials can access information and resources necessary for importing. It must be noted, however, that the number of importers in our sample is small.

Overall, our results suggest misallocation

of informational and financial resources for firms' internationalization because of political connection. Poor governance and corruption may worsen the biased distribution of resources. Firms connected with politicians and bureaucrats are more likely to receive financial and informational support from the government and be ny ties. Yet, if firms without political connection could equally access to information and receive an equal amount of public support, social welfare may increase. To ensure such equal distribution of resources, stronger accountability by government is officials required. In addition, increasing open information leads to transparent government which is a critical factor of economic growth.

One caveat of this paper is that we rely on self-reporting by firms to identify their political connection. As a result, there may be biases in their self-reports, because they may underreport their political connection to hide benefits they receive unfairly from it. If this is the case, our results most likely underestimate the effect of political connection.

Another limitation of this study is that we do not identify whether the financial and information support from the government is directly related to export. Hence, it is unclear what kind of information and the financial support each firm received. Firms may seek for additional resources not for export but for domestic expansion. However, as more than 60% of firms are willing to export, we assume that the firms may seek to export and import if additional resources are given. In addition, regardless of their intention, if firms achieve sufficiently high productivity via additional resources, they can be drawn into indirect exporting by intermediary firms. More appropriate identification of political connection and valid support channel directly linked to trade is left to future research.

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