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Abstract

Political connection 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 which have access to information from the government have higher chances of being direct exporters. However, firms which 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 in the promotion of exporting activities. In contrast, political connection increases the chance of importing materials and parts, possibly because high productivity is necessary for exporting, but not importing.

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

JEL classifications: F14, D73, P16

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1. Introduction

A pattern that politically connected firms and individuals gaining more inputs, especially financial resources, is observed in many countries from different parts of the world (Boubakri, Cosset, and Saffar 2008, Boubakri, Cosset, and Saffar 2012, Faccio, Masulis, and McConnell 2006). Diwan, Keefer, and Schiffbauer (2015) find that there is a correlation between political connection and bank loans along with other benefits such as trade protection, energy subsidies, regulatory enforcement and access to land and industrial zones in Egypt. Khwaja and Mian (2005) using 90,000 Pakistani firm-level data find that politically connected firms borrow 45 percent more and have 50 percent higher default rates especially with government banks. While there is sizable and robust evidence showing the value of political connection and its influence on the firm's access to credits and on 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. Yet, 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). 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 along with 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 on the internationalization of firms because export growth is associated with economic growth and high productivity (Balassa 1978, Feder 1983, Hallaert 2006). It is well known that productivity is a major 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 which determine their decision to participate in the international market. In fact, many developing countries are suffering from various trade obstacles which 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 foreign buyers (Allen 2014, Eaton et al. 2011). 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 context. Thus, we aim to look at the role of political ties on international trading step by step: whether politically connected SMEs receive more financial support and informational support, and if so, if these additional resources lead to more willingness to trade and successful export performances.

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 they are politically connected. However, not many studies shed light on the role of information collected via political connection in spite of its value for firm performances.

Second, this paper identifies the political connection of the SMEs. Unlike large companies of which names of major shareholders, top officers and board of directors are publicly open, information about political connections of privately-owned SMEs is not readily available. We detect connections with politically powerful persons through a questionnaire asking blood relationship to avoid 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 the government supports and increase the chance of 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 to find possible differences between importing and exporting. Importing firms also have to be productive enough to bear the fixed costs which are estimated to be similar magnitude as those of exports (Muûls and Pisu 2009).

Our results show that political connection 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 is 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 largely depend on the intention to import unlike exporting activities which largely depends on productivity and connections to buyers. Theoretically, there is a simultaneous two-way relation between importing and productivity: importing requires high productivity which makes 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 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.

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. Section 6 concludes with some policy implications.

2. Literature of Political Connection as Social Capital

Many international business and entrepreneurship literatures have dealt with advantages of political connections as social capital for firm performance in developing countries. Most find that social networks benefits 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 which is a single-party state but turned into a market economy in 1987. 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 firms conduct business only with acquaintances and neighbors.

Lack of government's initiative in Vietnam to make information and relevant data more public for the private uses is also observed in comparison of open data initiative among 93 countries (OpenDataBarometer 2015). Vietnam ranked 57th out of 93 countries in 2015, with the score of 18.3 out of 100. Individual scores which make up the Open Data Barometer, shown in Table 1, offer a more detailed insight of the role of the Vietnamese government 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 and

that it is quite difficult for entrepreneurs to create new business opportunities using the information provided by the government. Therefore, it can be said that valuable information is something difficult to access in the current business environment in Vietnam.

Despite of the insufficient information provision by the government in Vietnam, the value of business information is found to be quite high. For example, 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. Malesky, McCulloch, and Nhat (2015) show that public posting of planning documents is strongly associated with higher investment. Therefore, firms are required to rely on informal social capital to obtain valuable business information. 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 a crucial alternative source of information in Vietnam where the government does not sufficiently provide necessary business information to the public through formal institutions.

In addition to provision of information, another important benefit from political connection is 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 such 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 be applicable to the firms.

It is also worth noting that numerous studies prove politically connected firms in China have better access to credit market, avoid red tape, obtain reduction in taxes and fees, are more protected by the legal system, as the Chinese political system is quite similar to that of Vietnam. For example, Ding, Fan, and Lin (2018) show politically connected firms gain a comparative advantage in financially dependent sectors, mostly 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.

A particular activity of SMEs that may be influenced by political connection is international trade. Paul, Parthasarathy, and Gupta (2017) categorize exporting challenges faced by SMEs into two: internal (micro) problems and external (macro) problems. External barriers include lack of trade and legal

institutions. These environmental characteristics are common in developing countries. SMEs' own 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 as critical resource bases for exporting activities in SMEs (Ellis 2011). Firms with political connections may increase the chance to import with a same logic to exporting. Importing also requires sunk cost to find potential sellers and learn and execute customs process. With political connections, firms enjoy better access to credits and information; thus, be able to afford fixed costs of importing. In addition, Sequeira (2016) finds that small bribes can significantly reduce tariffs in Southern Africa. Thus, political connections may help firms to avoid administrative costs and tariffs associated with importing.

3. 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 are more likely to be engaged in international trade, i.e., both exporting and importing activities.

To test these hypotheses empirically, we consider the following structural equations:

$$TRADE_{it} = \rho TRADE_{it-1} + \beta_1 INFO_{it} + \beta_2 FIN_{it} + \delta X_{it-1} + \alpha_j + \varepsilon_{it} ,$$
(1)

$$INFO_{it} = \lambda_1 POL_{it} + \lambda_2 X_{it-1} + \lambda_j + \varepsilon_{it}^I ,$$
(2)

$$FIN_{it} = \mu_1 POL_{it} + \mu_2 X_{it-1} + \mu_j + \varepsilon_{it}^F ,$$
(3)

where $TRADE_{it}$, $INFO_{it}$, FIN_{it}, and POL_{it} 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 to estimate 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 focus on political connection through 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 that is created by the intention to receive public support or export.

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 reduced form of equation (1) when we examine the effect of political connection on exporting activities:

$$TRADE_{it} = \rho TRADE_{it-1} + \theta POL_{it} + \delta X_{it-1} + \alpha_j + \varepsilon_{it},$$

(4)

4. Data

4.1. 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. We chose SMEs in the apparel and textile industry because they 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 (Figure 1). For each of the 16 villages, we obtained the full 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 their products directly.

In December 2014 and January 2015, we requested face-to-face interviews with owners, managing directors, or highly ranked managers of the 354 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. 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 survey of the 296 firms in July and August 2015. A total of 284 firms, or 96 percent of the

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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 others were confirmed to have moved to other locations or could not be found probably because they had moved.

In this paper, we utilize 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.

4.2. 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 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.

Other key variables are *FIN* and *INFO*, or dummy variables to show whether the focal firm receives financial and informational support from the government, respectively. 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. As mentioned in Section 2, 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 Markusen and Tarp (2014). For example, the dummy is one when the manager's parent or grandparent is a political person. However, the dummy is zero when the manager's spouse or parent in law is a political person. By defining so, we can treat the dummy as an exogenous variable.

We define persons with political power in various ways, 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 (Wescott 2003). 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, 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.

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 cost of information as well as cost of trade. This index ranges from 1 to 4 where 1 is 'no obstacle' and 4 is 'major obstacle' in terms of transportation. 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.

4.3. Descriptive statistics

Descriptive statistics for the key variables and controls are shown in Table 2. 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. Seven and 22 percent of firms in our sample received financial and informational support from the government. The share of firms which received information from the government is moderately high at 60 percent. This share did not change much between 2014 and 2015.

The dummy for whether the firm has received any type of supports including tax holidays and land provision has a mean value of 20 percent. In 2014, the share was 19 percent while in 2015, the share slightly increased to 21 percent. Comparing the two dummies, it is easier to get information than 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, whereas 47 percent have any political connection mentioned above. 35 percent of firms are connected with any member of the Communist Party through blood relationship.

Firms are relatively young. The average registration year was 2006. The oldest firm was registered in 1989, the year of Doi Moi when the private sector was first recognized by the country. 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 an informal enterprise. The variance of the number of subcontractors and workers are large due to some big outliers. Thus, the natural logged variables are included in the estimation equation. Again, the sample firms are small and medium sized as their mean value for the workers including both permanent and temporary workers are 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 ranges from 1 to 5. 1 means transportation is not an obstacle while 5 means it is a very severe obstacle to trade. This is a proxy for the 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.

5. Results

5.1. 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 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 any type does not 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. Interestingly, only the result in column (4) 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 determined by the commune government.

5.2. 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.

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) are 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.

Finally, we turn to importing activities. First, 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 national and provincial levels, 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, Serti, and Tomasi 2010), importing may require political connections of relatively high level such as central government.

6. 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 particularly focus on connection to persons with political power through blood relationship 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, most possibly with bureaucrats increases firms' probability of receiving valuable information from the government while political connections with People's Committee at commune level is 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 has 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 support nor financial support helps firms to engage in indirect exporting activities, although

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they are more willing to export. Finally, politically connected firms are indeed 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 valuable resource particularly in developing countries like Vietnam, is provided to less productive but politically connected firms. This finding is consistent with Kinghan and Newman (2015) who 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, political ties have allowed more resources but due to managerial inefficiency, firms did not use the inputs efficiently (Ding, Fan and Lin, 2018). Thus, our findings along with previous literature imply inefficient allocation of resources due to political connection in Vietnam. 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 export promotion 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. Some previous literature such as Mobarak and Purbasari (2006) and Rijkers, Baghdadi, and Raballand (2015) observes that being connected to politics also increases the likelihood of importing through various means. Either through receiving an import license relatively easier compared to the firm's competitors or through evading tariffs by reducing the unit price, politically connected firms enjoyed more imports. Although we cannot detect the clear mechanisms on how connections help firms to import more than firms without connection, the results are consistent in that political connection allow 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); Schor (2004); Kasahara and Rodrigue (2008)), 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 operate in the international market based on political rents without enhancing firm's productivity level. However, such privileges are limited to firms with connection to high levels of the government. Connection to members of the Communist Party or of

People's Committee at the district or commune level does not help to promote import, possibly because only higher-level officials can access to information and resources about 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 cause even more biased distribution of resources. Firms connected with politicians and bureaucrats are more likely to receive financial and informational support for exporting activities from the government and be more advantageous then firms without any ties. Faster economic development may be possible if firms without political connection could access to an equal amount of information and receive an equal amount of public support. To ensure such equal distribution of resources, stronger accountability by government is officials required. In addition, increasing open information leads to transparency of the 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. 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. However, more appropriate identification of political connection is left to future research.

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Table 1. Vietnam's Open Data Barometer Scores in 2015

To what extent is there a well-defined open data policy and/or strategy in the country?	1/10
To what extent is there a consistent (open) data management and publication approach?	1/10
To what extent is there a well-resourced open government data initiative in this country?	1/10
To what extent are city or regional governments running their own open data initiatives?	0/10
To what extent is training available for individuals or businesses wishing to increase their skills or build businesses to use open data?	2/10
To what extent is government directly supporting a culture of innovation with open data through competitions, grants or other support?	2/10
To what extent does the country have a functioning right-to-information law?	1/10
What extent are entrepreneurs successfully using open data to build new businesses in the country	0/10
(Secondary data): UN E-Government Survey, Government online services index (2014 edition) Entrepreneurs and businesses	0.42/1
A list of registered (limited liability) companies in the country including name, unique identifier and additional information such as address, registered activities. The data in this category does not need to include detailed financial data such as balance sheet etc.	15/100

Source: Open Data Barometer (2015), retrieved from http://opendatabarometer.org/3rdEdition/data/

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

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

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	0.099	-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

Notes: Standard errors are in parentheses. *, **, and *** signify significance at the 10-, 5-, and 1-percent levels, respectively.

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

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
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. *, **, and *** signify significance at the 10-, 5-, and 1-percent levels, respectively.

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

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Dependent variable	Direct export dummy		Log (%of direct export)		Indirect export dummy		Log (% of indirect export)		Willingness to trade dummy	
Informational support	0.093**		0.358**		-0.011		-0.162		0.177**	
	(0.04)		(0.15)		(0.06)		(0.20)		(0.08)	
Financial support		-0.018		-0.014		0.042		0.181		0.292**
		(0.07)		(0.25)		(0.10)		(0.33)		(0.14)
Log(# of subcontractors 2014)	0.008	0.004	-0.012	-0.028	-0.011	-0.011	-0.064	-0.057	0.033	0.025
	(0.01)	(0.01)	(0.04)	(0.04)	(0.02)	(0.02)	(0.06)	(0.06)	(0.02)	(0.02)
Log(# of workers 2014)	0.010	0.010	0.020	0.019	0.026	0.025	0.056	0.049	0.082**	0.075**
	(0.02)	(0.02)	(0.06)	(0.06)	(0.02)	(0.02)	(0.08)	(0.08)	(0.03)	(0.03)
Number of professional memberships in 2015	-0.007	-0.005	-0.105	-0.096	0.072*	0.072*	0.086	0.084	0.032	0.042
	(0.03)	(0.03)	(0.10)	(0.10)	(0.04)	(0.04)	(0.14)	(0.14)	(0.06)	(0.06)
Dummy for having non-professional membership in 2015	-0.005	-0.010	-0.127	-0.148	-0.058	-0.056	-0.141	-0.126	-0.177*	-0.178*
	(0.05)	(0.05)	(0.17)	(0.17)	(0.07)	(0.07)	(0.23)	(0.23)	(0.10)	(0.10)
Transportation as obstacles for business in 2016 (1:no obstacle, 5. very severe obstacle)	-0.018	-0.013	-0.051	-0.035	0.012	0.009	0.021	0.005	-0.040	-0.047
	(0.02)	(0.02)	(0.08)	(0.08)	(0.03)	(0.03)	(0.11)	(0.11)	(0.05)	(0.05)
Dummy for using Facebook for business	-0.006	-0.003	0.044	0.062	-0.010	-0.009	0.009	0.007	0.076	0.091
	(0.04)	(0.05)	(0.15)	(0.15)	(0.06)	(0.06)	(0.20)	(0.20)	(0.09)	(0.09)
Age of the owner	-0.003	-0.003	-0.004	-0.004	-0.006**	-0.006**	-0.016*	-0.017*	-0.002	-0.003
	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)
Education level of the owner	0.015	0.013	0.053	0.047	0.018	0.019	0.065	0.069	0.018	0.017
	(0.02)	(0.02)	(0.06)	(0.06)	(0.02)	(0.02)	(0.08)	(0.08)	(0.03)	(0.03)
Lagged dependent variable	0.403***	0.410***	0.543***	0.555***	0.220**	0.220**	0.392***	0.392***	0.215***	0.223***
	(0.09)	(0.09)	(0.06)	(0.06)	(0.10)	(0.10)	(0.07)	(0.07)	(0.07)	(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	0.658	0.648	0.778	0.770	0.297	0.298	0.403	0.402	0.302	0.302

Notes: Standard errors are in parentheses. *, **, and *** signify significance at the 10-, 5-, and 1-percent levels, respectively.

Table 6. The Effects of Political Connection on Exporting

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

	(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

	(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

	(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

Notes: Standard errors are in parentheses. *, **, and *** signify significance at the 10-, 5-, and 1-percent levels, respectively. The control variables used in Table 5 are also used in the estimations here, but the results are not presented for brevity of presentation.

Table 7. The Effects of Information and Financial Supports from the Government on Import

Dependent variable: Import dummy

	(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. *, **, and *** signify significance at the 10-, 5-, and 1-percent levels, respectively.

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

	(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	0.359***	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: *, **, and *** signify significance at the 10-, 5-, and 1-percent levels, respectively. The control variables used in Table 7 are also used in the estimations here, but the results are not presented for brevity of presentation.
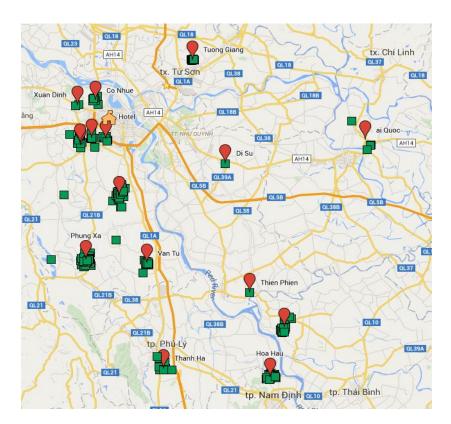
Figure 1. Map of 10 Provinces in the Red River Delta and 6 Provinces of Study Areas

Figure 2. Map of Location of Firms