

## Response to the Referee 1

We are very grateful to the Referee for her/his remarks, comments, suggestions and questions. They have helped us to substantially improve our previous version.

In what follows, we will present our response for each point of the Referee's report. The numbering of our answers is corresponding to the one used by the Referee.

1. **Referee's comment and suggestion:** There should be at least one paragraph explaining why export-platform FDI is particularly relevant for Vietnam. In this specific case, I am not convinced that it is more of an offshoring story within a trade agreement area rather than export-platform FDI as in the case mentioned in the introduction (e.g. Ireland, Holland, and Belgium). For instance, the authors could motivate the choice of Vietnam by showing that FDI is mainly driven by non-FTA countries while exports are directed to FTA members.

*Our reply is the following:* The following sentences will be included in the first paragraph of Section 3 (page 4) of the revised version.

“Particularly in this country, FDI is mainly driven by non-FTA or non member of Vietnam-U.S. trade agreement or Vietnam-EU Corporation Agreement countries as South Korea, Japan, Taiwan, Virgin Island or Hong Kong. During the period 1989-2015, the investment level of these countries counted about 54.8% of total FDI in Vietnam. Among the top five foreign investor in Vietnam during this period, Singapore (third investor with 12.8% of total FDI after South Korea and Japan) is the sole country which belongs to a FTA with Vietnam.”

2. **Referee's comment and suggestion:** The authors should provide more details in the main text on the data they are using
  - How many industries? Number of firms per industry? Etc.
  - Is the information on type of firm ownership (i.e. foreign or domestic) included in the survey? What are the shares across sectors?

*Our reply is the following:*

There are 33 supporting industries in the sample. The number of industries is figured at the bottom of each table under the name “Number of groups”. The latter should be changed and become ‘Number of industries’ in the new version. The list of these industries as well as that of export-oriented industries are reported in Appendix.

Otherwise, since the purpose of this research is the impacts of Export-platform FDI on backward linkages, we only focus on production at industrial level. That is why we did not display the number of firms per industry. However, the type of firm ownership (foreign, private, public) is available in the survey and this information is used to carry out the foreign and domestic demands in Section 3.

3. **Referee's comment and suggestion:** How are the supporting industries selected? Are those the most important industries supplying to the export-oriented industries?

*Our reply is the following:*

The supporting industries are selected through the 2007 Input-Output Matrix. At the first step, any industry which supplies the export-oriented industries is chosen. At the second step, we exclude all industries which supply themselves or are figured in the list

of export-oriented industries. Hence, 33 supporting industries are selected as described above.

Obviously, from the Input-Output Matrix, we can know what supporting industries are the most important to a given export-oriented industry. For example, Chemical industries are very important in terms of suppliers for Plastic products manufacturing since 24% of inputs used in the latter industries are chemical products.

4. **Referee's comment and suggestion:** What is the criteria for a sector to be export-oriented? Do you consider a sector to be export oriented if more than 50% of its output is exported in at least 1 year, in all years, or it is a time-varying definition?

*Our reply is the following:* we follow the Decree No.24/2000/ND-CP about the law on foreign investment in Vietnam to have the list of export-oriented industries. Detail of this decree can be consulted in the following link:

[http://www.moj.gov.vn/vbpq/en/lists/vn%20bn%20php%20lut/view\\_detail.aspx?itemid=8907](http://www.moj.gov.vn/vbpq/en/lists/vn%20bn%20php%20lut/view_detail.aspx?itemid=8907)

Indeed, the list of exported-oriented industries in this research is selected by combining the list of industries displaying in this decree with the Vietnam Standard Industry Classification (VSIC). For more detail about FDI and export-oriented industrialization strategy in Vietnam, please see Lim (2011).<sup>1</sup>

5. **Referee's question and comment:** Results in Table 1. What is the correlation between Domestic demand and Foreign demand? The results in column (3) and (4) could be driven by collinearity. This, for instance, would be the case if both domestic and foreign owned exporters experience similar shocks.

*Our reply is the following.*

You are right, the correlation between Domestic demand and Foreign demand is high as can be seen below.

Variables	Domes. demand	For. demand	Indus. size	Indus. invest.	Labor qualifi.
Domestic demand	1.000				
Foreign demand	0.888	1.000			
Industrial size	0.053	-0.034	1.000		
Industrial investment	0.198	0.167	0.441	1.000	
Labor qualification	0.335	0.407	-0.006	0.329	1.000

However, we decided to keep the two variables in the regression for two reasons. First, domestic and foreign demands are interdependent and it is unsurprising that they have a high correlation, particularly in panel data. Second, including the two variables allows us to show the low demand of foreign producers in export-oriented industries. To have a closer look at such effect, we will add an alternative estimation in Table 1 (the two last columns) in which foreign demand is separately considered. Table 1 in the revised version becomes as below

<sup>1</sup>Lim D., 2011. Export and FDI-driven industrialization strategy and employment in Vietnam. Hanoi: ILO Country Office for Viet Nam. ([http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-hanoi/documents/publication/wcms\\_171372.pdf](http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-hanoi/documents/publication/wcms_171372.pdf))

Table 1: Export FDI and production of supporting industries

Variable	Label	(1) RE	(2) FE	(3) RE	(4) FE	(5) RE	(6) FE
		Coefficient Std. Err.	Coefficient Std. Err.	Coefficient Std. Err.	Coefficient Std. Err.	Coefficient Std. Err.	Coefficient Std. Err.
Domestic demand	DBK	0.24*** 0.05	0.35*** 0.09	0.0003 <sup>ns</sup> 0.09	0.041 <sup>ns</sup> 0.13		
Foreign demand	FBK			0.22** 0.07	0.24** 0.07	0.22*** 0.05	0.24*** 0.07
Industry size	indus_size	0.17*** 0.04	0.14** 0.05	0.17*** 0.04	0.13** 0.05	0.18*** 0.04	0.14*** 0.05
Industrial investment	indus_inves	0.27*** 0.03	0.24*** 0.03	0.25*** 0.03	0.24*** 0.03	0.26*** 0.03	0.24*** 0.03
Labor qualification	w	0.15*** 0.02	0.13*** 0.02	0.13*** 0.02	0.12*** 0.02	0.13*** 0.02	0.12*** 0.02
Constant		5.55*** 0.76	4.51*** 1.05	6.14*** 0.81	5.68*** 1.15	6.14*** 0.63	5.6*** 1.2
Observations	N		382		382		382
Number of groups	n		33		33		33
R <sup>2a</sup>		0.7921	0.7649	0.799	0.7754	0.7986	0.7699
Breusch et Pagan' test	LM	415.9***		430.26***		423.57***	
Ficher' test	F		92.38***		75.36***		73.31***

Significant levels : \* :  $p < 0.05$  \*\* :  $p < 0.01$  \*\*\* :  $p < 0.001$  <sup>ns</sup> : not significant <sup>+</sup> :  $p < 0.1$

Standard errors are robust.

<sup>a</sup>: R<sup>2</sup> within for fixed effects model and R<sup>2</sup> between for random effects model

Hence, Table 1 reports small coefficient associated with variable FBK. It follows that foreign producers in Export-oriented industries only creates small demand for inputs resulting in a net negative impact on backward linkages.

## 6. Referee's question and comment: Results in Table 2.

- Why do you use log FBL (foreign demand) to “identify impacts of LCR” (local content requirement)? The relationship between these variables, if it exists, is not self-evident and should be explained.

*Our reply is the following:*

Indeed, variable  $FBL2 = \log FBL * \log FBL$  is used to identify impacts of LCR. Such identification is to illustrate our discussion associated with Proposition 4 in Section 2 (page 10). We have showed in our framework that LCR, measured by parameter  $\lambda$ , has ambiguous impacts on the level of backward linkages. In the case of Vietnam, the coefficient associated with  $FBL2$  appears to be negative implying that the higher LCR, the higher the production level of Vietnamese supporting industries.

- It is not clear how to interpret the coefficient in column (5) and (6). All the “size” variable are actually interaction terms between log of GDP and the relevant trade agreement dummy variables (i.e. WTO or US BTA). I do not know if the GDPs or trade agreements are driving these results. You should include them separately in your regressions.

*Our reply is the following:*

Impacts of trade agreement are separately reported in columns (3) and (4). Hence, we state a positive effect of WTO and US BTA that allow us to valid Hypothesis 3. However, in columns (5) and (6), we would like to investigate impacts of third

market size under the presence of a BTA. In other words, with the creation of a BTA, is third market size big enough to ensure a positive influence on production in supporting industries. That is why we used the interaction term between log of GDP (a measure of third market size) and the relevant trade agreement dummy variables.

### Minor comments

7. **Referee's question and comment:** The introduction should provide the intuition of how the model works and what its main implications are. Similarly, more discussion of the data and empirical results would be useful.

*Our reply is the following:*

You are right. A paragraph will be included in the introduction to describe how the three-country model works. A more detail discussion about the data and empirical findings would be also developed. In addition, we will add a discussion about policy implications before the conclusion section.

8. **Referee's question and comment:** Try to be consistent in how you label your variables and tables. DBL and FBL become DBK and FBK in Table 1. In the text you refer to Table 2 as Table B1

*Our reply is the following:* Those mistakes will be corrected in the revised version.

9. **Referee's question and comment:** The placement of Figures and Tables in the paper could be improved. Table 2 is in the conclusion section.

*Our reply is the following:*

Indeed, we used Latex to write our article and the placement of Figures and Tables is automatically generated. Obviously, such placement will be improved in the revised version.