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# Exports and Firm survival: The first evidence from Vietnam private manufacturing SMEs

Huong Vu
*Waikato University*

Steven Lim
*Waikato University*

## Abstract

This study contributes to the literature by investigating for the first time linkages between export behaviour and firm survival in Vietnam. Using an unbalanced panel dataset from 2005-09, our study shows no difference in the survival probability among exporters only, importers only, or two-way traders with non-traders. However, by digging deeper into export status, the results indicate that the probability of firm survival has a positive association with continuous exporters, but is negatively linked with export stoppers. Furthermore, our results also indicate that SMEs pursuing an indirect export mode exhibit a higher probability of survival than SMEs that export directly. These findings are robust to various econometric specifications.

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**Contact:** Huong Vu - vhv1@waikato.ac.nz, Steven Lim - slim1@waikato.ac.nz.
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## 1. **Introduction**

Since introducing the 'Đổi mới'[1] policy in 1986, Vietnam has shifted away from a centrally planned economy to a market-oriented one. The reform has involved the introduction of a series of policies and legal frameworks. Examples include the Private Enterprise law issued in 1990, the Enterprise law in 2000, and especially the Unified Enterprise law in 2005 (Thanh & Anh, 2006). These changes have paved the way for the development and growth of private enterprises. However, private domestically-owned firms still face many constraints to their growth and survival. The inequality in the business environment between private and state firms is a significant challenge (Hakkala & Kokko, 2007). Another disadvantage is a lack of accessibility to land (Carlier & Tran, 2004). Furthermore, as indicated by Benzing, Chu, and Callanan (2005), private enterprises face limited access to capital for their growth and survival due to complicated procedures and preferences for state companies.

More importantly, the inaccessibility of private domestically-owned firms to output markets may become the main obstacle for their growth and survival. As revealed by Hakkala and Kokko (2007), Vietnam is a developing country with low purchasing power of domestic consumers. Hence, this becomes a push factor for domestic SMEs to seek opportunities in export markets. There are at least two reasons why export participation may improve the survival probability of firms. First, as explained by Wagner (2013), sales in both foreign and home markets may help firms diversify and reduce risks in the presence of a negative demand shock in domestic markets. Second, the productivity and profit levels of exporters often allow them to meet sunk costs and overcome entry barriers to foreign markets (Bridges & Guariglia, 2008). Therefore, exporters may gain a higher survival probability than non-exporters. However, most private domestic SMEs in Vietnam are small sized and face credit constraints (Rand, 2007). They may not have the financial capability of participating in or maintaining their positions in the export market. In addition, most do not have appropriate strategies to take advantage of the deeper integration of Vietnam to the global economy (Kokko & Sjöholm, 2005). The recent global economic crises have also had negative impacts on the survival and growth of firms, especially for exporters. As a consequence, participating in exporting markets may create additional risks for the development of Vietnamese private SMEs.

This argument raises a question as to whether the presence of SMEs in exporting market makes them more vulnerable or helps them to develop better than their non-exporting counterparts. A key motivation for our research stems from the fact that although there is an emerging literature of the effect of export participation on firm survival, the evidence often varies greatly across different contexts**.** Some scholars indicate a positive role of export participation in the fate of firms (e.g., Esteve-Pérez, Mánez-Castillejo, & Sanchis-Llopis, 2008). However, other studies do not find or find a negative linkage between export participation and the firm survival (e.g., Giovannetti, Ricchiuti, & Velucchi, 2011; Wagner, 2013). Consequently, it is hard to make generalised inferences**.** Using an unbalanced panel dataset from 2005-09, this paper contributes to the literature by providing the first evidence of the effect of export participation on the survival of Vietnamese SMEs.

Another important contribution that differentiates our study from the previous research is that we focus on linkages between export mode and the firm survival. There are various views on considering how the choice of export mode affects the probability of firm survival. On the one hand, some authors indicate that indirect exporters can gain a higher

[1] "Renovation process"

survival probability than direct exporters since using export intermediaries may help firms to reduce knowledge gaps and uncertainty in the foreign markets, and to lower risks and resource commitments (Hessels & Terjesen, 2010; Johanson & Vahlne, 1977). On the other hand, Blomstermo, Sharma, and Sallis (2006) argue that using trade intermediaries imposes risks in losing control of firms. Empirical investigations have not yet taken into account the effect of the export mode on firm survival, perhaps due to data limitations relating to export mode. We find that there is no difference in survival probability between exporters and non-exporters. However, indirect exporters gain a higher survival probability than direct exporters. These results are robust to different estimations and specifications.

The remainder of the paper is in three parts. Section 2 displays data sources and methodology. Section 3 discusses the empirical results. The final section summarises the main findings and provides some policy implications.

## 2. The data and methodology

### 2.1 The data source

This study uses information drawn from a recent micro dataset of non-state domestic small and medium enterprises in 2005, 2007, and 2009. The dataset was produced by the Institute of Labor Science and Social Affairs (ILSSA) in collaboration with Central Institute for Economic Management (CIEM) and Copenhagen University, Denmark. [2]

The inherent advantages of the dataset are as follows. Firstly, this is a uniquely rich dataset surveyed from ten provinces within three regions of Vietnam: the North, Centre and South. It covers all the major manufacturing sectors, namely food processing, wood products, fabricated metal products and other sectors. The original dataset comprised 2821 enterprises that were interviewed in 2005, with 2635 firms interviewed in 2007 and 2655 in 2009**.** Secondly, the dataset contains the main information on export status of the enterprise, the number of labourers, productive capital, location, economic indicators, and innovative activities. This enables a test of export status on firm survival.

In order to clean the data, we excluded missing values and checked the consistency of time-invariant variables among the three survey rounds. In addition, since our interest focused on manufacturing industries and private SMEs, firms that did not meet these criteria were excluded. [3] To calculate the firm survival rate, we followed the normal procedure employed by previous studies (e.g., Hansen, Rand, & Tarp, 2009; Nunes & Serrasqueiro, 2011). More specifically, the information of identity of firm (ID) was the foundation that allowed us to observe the status of firm survival through the study period. Firms in 2007 and 2009 that were not surveyed previously in 2005 were excluded from the dataset. Consequently, from 2687 observations in 2005, we followed these firms over time. Finally, there were 2144 and 1783 surviving firms in 2007 and 2009, respectively.

A potential problem with time variant data is that it is often expressed in current prices. Therefore, our data on current variables are deflated to 1994 prices using the GDP deflators to avoid biases that might arise because of inflation. More information about the dataset, statistical description of variables in the regression analysis is presented in the appendix.

[2] The data used in the paper have been kindly shared by Professor John Rand (University of Copenhagen). All the do- files running on Stata version 11.1 are available from the corresponding author on request.
[3] For the most updated definition of Vietnamese SMEs, see http://www.economica.vn/Portals/0/MauBieu/eedeb5241be5a5e74eb1bda4f7906563.pdf

## 2.2 Model specification and estimation method

The empirical specification of the role of export behaviour in firm survival is presented as below:

$$Y_{it} = \varphi_0 + \varphi_1 X_{it} + \varphi_2 Z_{it} + \varphi_3 EX_{it} + u_{it} \quad (1)$$

where $Y_{it}$ is firm survival taking the value 1 if firms are in the market and 0 if they exit the market. Among the independent variables, $X_{it}$ is a vector of firm characteristics. Firstly, firm size and firm age are included in the model because they represent the differences in efficiency among firms (Jovanovic, 1982). Firms with higher efficiency are assumed to be positively associated with higher survival. In addition, firm size and firm age are also captured in the squared forms to consider the non-linear relationship between them and firm survival. Beyond this, innovative activities of firms, such as the application of new technology and improvement in products, are also considered as an independent variable in the model. Based on empirical findings (e.g., Cefis & Marsili, 2012), it is expected that innovators have a higher survival probability than non-innovators. Thirdly, the index of Return on Assets (ROA), as measured by the net profit to total assets, has also been incorporated as an independent variable in the model based on a link between the ability of firms to create profits and the probability of failure (e.g., Bridges & Guariglia, 2008; Tsoukas, 2011).

Vector $Z_{it}$ includes other characteristics that have in part been identified by previous studies. Ownership type is found to be an important factor influencing firm survival (e.g., Shiferaw, 2009). To account for this, we include a dummy variable of household ownership taking the value 1 and 0 for household ownership otherwise**.** As argued by Konings and Xavier (2002), different sectors have differences in production technology, customer demand and market concentration, and hence the characteristics of sectors may affect the survival of firms differently. We account for these characteristics by adding a dummy for low technology sectors to compare them with firms in high and medium technology industries.[4] In addition, the location of firms is also included in the model to capture the fact that provinces in Vietnam are relatively autonomous (Malesky, 2010). We model location using a dummy variable with a value of 1 for urban regions, and 0 for rural provinces.

With regard to the variable of main concern, export participation ($EX_{it}$) is used as a dummy variable to capture the role of export activities on firm survival. A positive association is expected between export participation with firm survival since exporters often are financially healthier than non-exporters (Greenaway, Guariglia, & Kneller, 2007). By investigating further the role of export behaviour, we also consider export participation at different stages in the linkage with firm survival. According to Sharma and Mishra (2011), we define continuous exporters as firms that export through the sample period, whereas starting exporters are enterprises that do not export in year t-1 but export in year t. Exporting stoppers are firms that export in year t-1 but do not export in year t, and non-exporters are firms that have not exported. Moreover, a dummy variable is created with direct exporting (1) and indirect exporting (0) to capture the role of export mode for firm survival. Finally, other independent covariates that also reflect the international trade activities of firms have been controlled for. In particular, imports are considered as a dummy equal to 1 if firms have imported inputs or machinery, and 0 otherwise. This index is incorporated as an independent variable in the model based on the argument that using inputs from domestic markets may be

[4] See Vu et.al (2013) for the classification of technology levels in Vietnam.

more expensive and less advanced in technology than imported inputs (Wagner, 2013). Hence, importers may be expected to gain a higher survival probability than non-importers. The index of two-way trade is another dimension in the international trade situation of firms. This index is measured as a dummy with a value of 1 if firms both export and import, and 0 otherwise. This index is included based on findings that there is a positive linkage between two-way trade and the survival probability of firms (e.g., López, 2006).

Firm survival is measured as a dummy variable, and therefore a binary framework of model logit or probit can be used. However, these models may not deal with survival time data very well in three aspects: censoring, time-varying covariates and structural modelling (Jenkins, 2005). As a result, following recent studies of firm failure (e.g., Esteve-Pérez et al., 2008; Spaliara & Görg, 2009), the estimation of our empirical models uses the complementary log-log model. [5]

## 3. Empirical results and discussion

As displayed in column 1 of Table 1, exporters only, importers only or two-way traders have a statistically insignificant association with the survivability of firms. These results are inconsistent with some previous findings (e.g., Esteve-Pérez et al., 2008; López, 2006). However, the picture changes totally when the linkage between firm survival and whether the firm exports continuously, stops exporting or starts exporting are considered. More specifically, compared to non-exporters, the regression results indicate that being a continuous exporter provides a 7.33% higher survival probability, while export stoppers have a 14% lower survival probability, keeping other factors constant. These results are in line with the majority of empirical results from other studies and confirm the role of continuous exporting in raising the survival probability (e.g., Harris & Li, 2010; Spaliara & Görg, 2009). As claimed by Greenaway et al. (2007), continuous exporters are firms with the best financial health compared to export starters, export stoppers and non-exporters. However, export stoppers may be firms that lack financial capability to maintain exporting activities in highly competitive foreign markets. Hence, it is not surprising when continuous exporters have a lower probability of exit, but export stoppers have a higher probability of failure than non-exporters.

Regarding the role of export mode in firm survival, column 2 of Table 1 shows that SMEs pursuing an indirect mode of exporting gain a higher probability of survival than direct exporters. This may be explained by the fact that SMEs in Vietnam often have limited finance, small scale and unsuitable strategies in approaching international market (Kokko & Sjöholm, 2005; Rand, 2007). In that context, using intermediaries for export activities may be an appropriate strategy since it can help SMEs overcome the entry barriers of exporting markets with lower fixed costs as well as reduce risks in unknown markets. This in turn may improve their probability of survival.

[5] This model is a type of the proportional hazard model which is suitable for discrete data. However, the estimated results can be driven by unobservable heterogeneity (or frailty). As a result, a discrete-time duration model in complementary log-log form with a frailty term that is distributed normally is estimated in the model. As shown by Cefis and Marsili (2012), the statistical value of Chi-square from the estimation results is used to test a pair of hypotheses; the null hypothesis is that the "Rho" statistic, defined as "the ratio between heterogeneity variance to one plus the heterogeneity variance", will be equal to zero, while the alternative hypothesis is that the ratio will not be zero. When failing to reject the null hypothesis, Jenkins (2005) shows that the regression results will not be affected significantly by unobserved heterogeneity.

**Table 1: Estimates of complementary log-log model without unobserved heterogeneity [6]**

| Variables | (1) | (2) | (3) |
|---|---|---|---|
| Exporters only | -0.0027 | | |
| | (0.038) | | |
| Direct Exporters | | -0.0864+ | |
| | | (0.050) | |
| Continuous exporters | | | 0.0748* |
| | | | (0.037) |
| Starting exporters | | | 0.0174 |
| | | | (0.062) |
| Stopping exporters | | | -0.138* |
| | | | (0.062) |
| Importers only | -0.0085 | -0.0107 | -0.0084 |
| | (0.015) | (0.015) | (0.015) |
| Firms that export and | -0.0256 | 0.0089 | -0.0102 |
| import | (0.040) | (0.042) | (0.053) |
| Firm size | 0.0013* | 0.0014** | 0.0012* |
| | (0.000) | (0.000) | (0.000) |
| Firm size squared | -8.57e-06** | -9.00e-06** | -7.79e-06** |
| | (0.000) | (0.000) | (0.000) |
| Firm age | 0.001 | 0.001 | 0.0011 |
| | (0.001) | (0.001) | (0.001) |
| Firm age squared | 0.00002 | 0.00002 | 0.00002 |
| | (0.000) | (0.000) | (0.000) |
| Innovation dummy | 0.061** | 0.0611** | 0.0611** |
| | (0.012) | (0.012) | (0.012) |
| Year 2007 | 0.0247* | 0.0249* | 0.0181 |
| | (0.011) | (0.011) | (0.011) |
| Household ownership | 0.0693** | 0.068** | 0.0702** |
| | (0.016) | (0.016) | (0.0167) |
| Urban dummy | -0.0285* | -0.0282* | -0.0266* |
| | (0.012) | (0.012) | (0.012) |
| Low tech | 0.032** | 0.0326** | 0.0303** |
| | (0.011) | (0.011) | (0.011) |
| ROA | 0.0003 | 0.0003 | 0.0003 |
| | (0.003) | (0.003) | (0.003) |

*Notes: Cluster robust standard errors at firm level in parentheses; statistically significant at 10% (+), at 5% (*), and at 1% (**). The marginal effects of estimated coefficients are reported. Dependent variable is a dummy variable which takes value of 1 if SME is in the market, and 0 if has left the market.*

With regard to the linkages between location, ownership legal structure and firm survivability, the estimated coefficients in Table 1 show that household enterprises gain around a 7% higher probability of survival than their counterparts, keeping other covariates equal. This result may be partly explained by the fact that household firms are less influenced by the crisis than firms with other ownerships (Coung, Rand, Silva, Tam, & Tarp, 2010). Moreover, urban firms have a higher probability of failure than rural enterprises. As explained by Hansen et al. (2009), urban enterprises in Vietnam often face fierce competition, while the existing rural firms receive protection from local governments by administrative and structural entry barriers.

As regards the role of firm characteristics for firm survival, Table 1 shows no statistically significant relationship between the number of years in business and firm

[6] As a robustness check, we try different scenarios. First, firm size is replaced by log firm size. Second, the above specification is re-estimated by Pooled Probit, Random Probit, and complementary log-log model with unobserved heterogeneity. However, qualitatively similar results are yielded in all cases. These imply that our results are not driven by unobserved heterogeneity and are insensitive to changes in regression specification. Some results are available in Appendix 1; others are available upon request.

probability of closure, and that larger firms have a higher probability of survival than smaller enterprises. These results agree with many previous empirical results (e.g., Hansen et al., 2009). In addition, innovation activities such as improvement in existing products and the introduction of new products play an important role in firm survival. This finding confirms the findings from the majority of previous empirical studies (e.g., Cefis & Marsili, 2012). This may be explained by the fact that firms with innovative activities may respond appropriately to changes in market demand and policies, and therefore increase the chance of survival (Hansen et al., 2009).

## 4. Summary and policy implications

In an attempt to contribute to a small but growing empirical evidence of the determinants of SMEs survival, our work goes beyond the existing literature by not only considering the linkage between export participation and firm survival, but also exploring the role of export mode for the fate of firms. Based on the empirical results, some main findings are as below.

First, regarding traditional firm survival determinants, our findings are mostly consistent with theory and other empirical studies internationally. For example, we find that a higher probability of firm survival is associated with innovator and firms with larger size. In addition, while there is not a linkage between firm age and the fate of firms, household-owned firms have a higher survival probability than their counterparts. Furthermore, as expected, there is a strongly positive link between rural firms and the probability of firm survival.

Second, in terms of the role of the international trade activities of firms, our results reveal that there is no difference in survival probability among exporters only, importers only or two-way traders with non-traders. However, export continuity, stopping, etc, have various effects on the failure probability of firms. Specifically, there is a positive and statistically significant association between continuous exporting and firm survival probability, a positive relationship is observed between exporting stoppers and firms' probability of failure. More importantly, SMEs pursuing a direct export mode have a lower probability of survival than their counterparts with an indirect export mode, leading to interesting policy implications. This finding suggests that using trade intermediation in the export of goods can be a useful solution for Vietnamese SMEs that are characterised by small scale, limited capital and little experience in international trade. Hence, policymakers should pay more attention to setting up or improving indirect exporting channels for SMEs by supporting and finding trade intermediaries, that in turn help firms to improve the their probability of survival.

## Appendices

### Appendix 1: Cloglog with unobserved hetegeneity and Random probit[7]

| VARIABLES | Cloglog with unobserved hetegeneity | Cloglog with unobserved hetegeneity | Cloglog with unobserved hetegeneity | RE-Probit | RE-Probit | RE-Probit |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Exporters only | -0.0014 | | | 0.0009 | | |
| | (0.041) | | | (0.037) | | |
| Direct exporters | | -0.0923+ | | | -0.0807+ | |
| | | (0.054) | | | (0.048) | |
| Continuous exporters | | | 0.0957* | | | 0.0825* |
| | | | (0.042) | | | (0.035) |
| Starting exporters | | | 0.0242 | | | 0.0226 |
| | | | (0.069) | | | (0.06) |
| Stopping exporters | | | -0.1526* | | | -0.1266* |
| | | | (0.073) | | | (0.062) |
| Importers only | -0.0087 | -0.0111 | -0.0086 | -0.0086 | -0.011 | -0.008 |
| | (0.016) | (0.016) | (0.018) | (0.015) | (0.015) | (0.016) |
| Firms that export and import | -0.0255 | 0.0106 | -0.0123 | -0.0243 | 0.007 | -0.0174 |
| | (0.042) | (0.043) | (0.058) | (0.038) | (0.038) | (0.051) |
| Size | 0.0014* | 0.0016* | 0.0014* | 0.0012* | 0.0013** | 0.001* |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| Size squared | -9.11e-06** | -9.53e-06** | -8.77e-06 ** | -7.68e-06 ** | -7.96e-06** | -6.94e-06** |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| Firm age | 0.0011 | 0.001 | 0.0011 | 0.0009 | 0.0009 | 0.001 |
| | (0.002) | (0.002) | (0.02) | (0.002) | (0.001) | (0.001) |
| Firm age squared | 0.00002 | 0.00002 | 0.00002 | 0.00002 | 0.00002 | 0.00002 |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| Innovation dummy | 0.0656** | 0.0653** | 0.0701** | 0.0629** | 0.0632** | 0.0637** |
| | (0.017) | (0.017) | (0.017) | (0.012) | (0.012) | (0.013) |
| Year 2007 | 0.0134 | 0.0147 | -0.0076 | 0.0253* | 0.0251* | 0.0152 |
| | (0.033) | (0.031) | (0.035) | (0.011) | (0.012) | (0.03) |
| Household ownership | 0.0752** | 0.0733** | 0.0828** | 0.0692** | 0.0681** | 0.0708** |
| | (0.023) | (0.023) | (0.024) | (0.016) | (0.017) | (0.018) |
| Urban dummy | -0.0318* | -0.0311* | -0.0331* | -0.0291* | -0.0289* | -0.0285* |
| | (0.015) | (0.015) | (0.016) | (0.012) | (0.012) | (0.013) |
| Low tech | 0.035* | 0.0354* | 0.0363* | 0.0332** | 0.0338** | 0.0322** |
| | (0.015) | (0.014) | (0.015) | (0.011) | (0.011) | (0.012) |
| ROA | 0.0003 | 0.0003 | 0.0002 | 0.0003 | 0.0003 | 0.0002 |
| | (0.002) | (0.003) | (0.003) | (0.003) | (0.003) | (0.003) |
| Observations | 4,849 | 4,849 | 4,849 | 4,849 | 4,849 | 4,849 |
| Chi squared | 0.16 | 0.14 | 0.85 | 2.2e-03 | 0.01 | 0.03 |
| Pvalue | 0.347 | 0.352 | 0.179 | 0.481 | 0.469 | 0.436 |

*Notes: Robust standard errors in parentheses; statistically significant at 10% (+), at 5% (*), and at 1% (**). The marginal effects of estimated coefficients are reported. Dependent variable is a dummy variable which takes value of 1 if SMEs is in the market, and 0 if has left the market.*

[7] The probability of rejecting the null hypothesis is 0.347, 0.352, 0.179, 0.481, 0.469 and 0.436 respectively. This means that the null hypothesis cannot be rejected and the estimated results in the model are not driven by unobserved heterogeneity.

**Appendix 2: Summary Statistics for variables in the model**

| Variables | Total | | 2005 | | 2007 | |
|---|---|---|---|---|---|---|
| | Mean | SD | Mean | SD | Mean | SD |
| Firm survival (yes=1) | 0.807 | 0.394 | 0.798 | 0.401 | 0.82 | 0.384 |
| Exporters only (yes=1) | 0.026 | 0.158 | 0.027 | 0.161 | 0.024 | 0.154 |
| Direct Exporters (yes=1) | 0.025 | 0.167 | 0.024 | 0.152 | 0.027 | 0.162 |
| Importers only (yes=1) | 0.181 | 0.384 | 0.186 | 0.389 | 0.174 | 0.38 |
| Firms that both export and import (yes=1) | 0.03 | 0.170 | 0.032 | 0.177 | 0.027 | 0.162 |
| Continuous exporters (yes=1) | 0.026 | 0.159 | | | | |
| Starting exporters (yes=1) | 0.010 | 0.099 | | | | |
| Stopping exporters (yes=1) | 0.019 | 0.139 | | | | |
| Firm size (number of employees) | 16.62 | 30.47 | 16.701 | 30.99 | 16.51 | 29.83 |
| Firm age (years) | 12.59 | 9.97 | 11.557 | 9.273 | 13.88 | 10.65 |
| Innovation (yes=1) | 0.582 | 0.493 | 0.666 | 0.471 | 0.478 | 0.499 |
| Household ownership (yes=1) | 0.697 | 0.459 | 0.693 | 0.461 | 0.702 | 0.457 |
| Urban dummy (yes=1) | 0.571 | 0.495 | 0.576 | 0.494 | 0.563 | 0.496 |
| Low tech sectors (yes=1) | 0.527 | 0.499 | 0.504 | 0.50 | 0.556 | 0.496 |
| ROA (ratio) | 0.266 | 1.605 | 0.23 | 1.387 | 0.31 | 1.83 |
| Total observations | 4849 | | 2687 | | 2162 | |

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