

Participation in global value chains and rent sharing at small firms in Vietnam

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Abstract:

It is well documented that firms that are a part of global value chains (GVCs) exhibit better firm performance, maintaining higher profitability compared to those without such connections. This paper asks the novel question of whether higher profits being connected to GVCs are shared with employees. We investigated this rent sharing, using a matched employer-employee dataset of Vietnamese small firms surveyed in 2011, 2013 and 2015. Consistent with the literature, we found that positive profits would feed into individual wages after accounting for the firm and employee attributes, but this is only found for those small firms without any involvement with GVCs. Rent sharing, on the other hand, is completely absent in GVCs participating firms. We take this as evidence that GVC firms provide both higher wages and insurance against demand fluctuations.

Keywords: Global value chains (GVCs), rent-sharing, profits, outsourcing, multinational enterprises, Vietnam, microenterprises, small and medium enterprises (SMEs)

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