The Determine Factors and Influence Analysis of Foreign Direct Investment (FDI) in Vietnam after Financial Tsunami

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ABSTRACT

In this paper, we re-examined the relationship between FDI and economic growth. We used industrial production index (IPI) to replace GDP in Vietnam. The result show that FDI has no effect to economic growth in Vietnam from 2008-2012. It is an important conclusion to Vietnam at this moment. Vietnam Government should find out other methods to boom up economic growth instead of using FDI. As we mention above, FDI has no impact to economic growth of Vietnam but from another view, FDI has also effect to other fields such as increasing global integration (Hoang, 2005), creating jobs (Doan, 2003), transferring technology (George, 2004), promoting import and export activities (Pham, 2001). The Vietnam Government can still plan to turn their gear towards increasing FDI, if the above fields are its objectives. This paper found the significant determine factors of FDI in Vietnam are infrastructure, labor cost, the level of openness, exchange rate, and interest rate. We concluded that high degree development of infrastructure and the openness of economy, along with a depreciate of exchange rate, a decrease of interest rate in Vietnam in the five recent years is a significant advantage for foreign investors to bring FDI into Vietnam and cause an increase in economic growth. While an increase in labor cost has negative effect to FDI inflow into Vietnam meanwhile reduce the economic growth of Vietnam. Referring to these results, we can rely on the past behavior of selected variables to predict the behavior of FDI inflow into Vietnam.

Keywords: FDI, determine factors, Cointegration test, Granger Causality test, VAR model.

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