

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

Nguyen Thi Binh、陳美玲

E-mail: 381842@mail.dyu.edu.tw

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 (Gorge, 2004), promoting import and export activities (Pham, 2001). The Vietnam Government can still plan to turn their gear towards to increasing FDI, if the abovefields 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 in 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.

Table of Contents

摘要	iii
ABSTRACT	iv
ACKNOWLEDGMENTS	v
TABLE OF CONTENTS	vi
LIST OF FIGURES	viii
LIST OF TABLES	ix
Chapter I: Introduction	1
1.1 Background and Motivations	1
1.2 Objectives	9
1.3 Chapter Outline	9
Chapter II: Literature Review	11
2.1 The Impacts of FDI	11
2.2 The determine Factors of FDI	14
Chapter III: Data Description and Methodology	20
3.1 Data Description	20
3.2 Methodology	21
3.2.1 Unit Root Test	21
3.2.2 Regression Equation	23
3.2.3 Granger Causality tests	23
3.2.4 Cointegration Test	26
Chapter IV: Empirical Results	28
4.1 Descriptive Statistics	28
4.2 Analysis of Unit Root Test	30
4.3 Granger Causality Test	32
4.4 Cointegration Test	34
4.4.1 The optimal lag terms	34
Chapter V: Conclusions and Suggestions	37
5.1 Conclusions	37
5.2 Suggestions	39
5.2.1 Suggestions to promote and attract more FDI inflow	39
5.2.2 Suggestions for future researches	41
References	42

REFERENCES

- Alvin G. Wint, Densil A. Williams (2002). Attracting FDI to developing countries: A changing role for government? *International Journal of Public Sector Management*, Vol. 15 Iss: 5 pp. 361 – 374.
- Andrew J. Abbott, Glauco De Vita, (2011). Evidence on the impact of exchange rate regimes on bilateral FDI flows, *Journal of Economic Studies*, Vol. 38 Iss: 3 pp. 253 – 274.
- Anthony Kyereboah-Coleman, Kwame F. Agyire-Tettey (2008). Effect of exchange-rate volatility on foreign direct investment in Sub-Saharan Africa: The case of Ghana, *The Journal of Risk Finance*, Vol. 9 Iss: 1 pp. 52 – 70.
- Alfaro, L., Areedam, C., Sebnem, K., & Selin, S. (2001). FDI and economic growth: The role of financial markets. Working Paper 01-083. Harvard Business School.
- Aseidu, E. (2006). Foreign direct investment in Africa: The role of natural resources, market size, government policy, institutions and political instability. *The World Economy* 29(1), 63-77.
- Balasundram Maniam, Amitava Chatterjee (1998). The determinants of US foreign investment in India: implications and policy issues, *Managerial Finance*, Vol. 24 Iss: 7 pp. 53 – 62.
- Bevan, A. A., & Estrin, S. (2004). The determinants of foreign direct investment into European transition economies. *Journal of Comparative Economics*, 32, 775 – 787.
- Biswas, R. (2002). Determinants of foreign direct investment. *Review of Development Economics*, 6, 492 – 504.
- Cuyvers, L., Soeng, R., & Van Den Bulcke, D. (2006). Foreign direct investment and the development of less developed economies: The case of Cambodia's garment, textiles, tourism, furniture and tourism. CAS discussion paper no. 49. Belgium: Centre for ASEAN Studies, University of Antwerp.
- Dierck Herzer (2010). Outward FDI and economic growth, *Journal of Economic Studies*, Vol. 37 Iss: 5 pp. 476 – 494.
- Dimitrios Kyrkilis, Pantelis Pantelidis (2003). Macroeconomic determinants of outward foreign direct investment, *International Journal of Social Economics*, Vol. 30 Iss: 7 pp. 827 – 836.
- Dunning (2001). The Eclectic (OLI) Paradigm of International Production: Past, Present and Future, *Int. J. of the Economics of Business*, Vol. 8,

No. 2, pp. 173- 190. Glauco De Vita, Khine S. Kyaw (2008). Determinants of capital flows to developing countries: a structural VAR analysis, *Journal of Economic Studies*, Vol. 35 Iss: 4 pp. 304 – 322. Hoang Thi Thu (2005). Determinants of foreign direct investment in Vietnam. Hsieh Wen-Jen and Hong Min-Ching (2002). The Determinants of Foreign Direct Investment in Southeast Asian Transition Economies. Jose I. Galan, Javier Gonzalez-Benito (2001). Determinant factors of foreign direct investment: some empirical evidence, *European Business Review*, Vol. 13 Iss: 5 pp. 269 – 278. Kwang W. Jun, Duc Minh Pham, Victoria Kwakwa, Kyle Peters, Jr., Thang-Long Ton (1997). “ Foreign capital flow in Vietnam: Trend, Impact, and Policy Implications ” . Le Dang Doanh (2002). Foreign Direct Investment in Viet Nam: Results, Achievements, Challenges and Prospect International Monetary Fund, Conference on Foreign Direct Investment. Le Viet Anh (2004). Locational Determinants of Foreign Direct Investment: The Case of Vietnam ” , Presentation at JVEC ’ s Meeting. Liu, L., Chow, K., & Li, U. (2007). Has China crowded out foreign direct investment from its East Asian neighbours. *China & World Economy*, 15, 70 – 88. Magnus Blomstrom& Ari Kokko (2003). The economics of Foreign Direct Investment incentives, Working Paper 168. Meyer, K. E. (1995). Direct foreign investment in Eastern Europe: The role of labor costs. *Comparative Economic Studies*, 37, 69 – 88. Nguyen Ngoc Anh and Nguyen Thang, Le Dang Trung, Pham Quang Ngoc, Nguyen DinhChuc, and Nguyen DucNhat (2008). Foreign Direct Investment in Vietnam: Is There Any Evidence Of Technological Spillover Effects, Working Paper Series No. 2008/18. Nguyen Ngoc Anh and Nguyen Thang (2007). Foreign direct investment in Vietnam: An overview and analysis the determinants of spatial distribution across provinces. Nguyen Phi Lan (2006). Foreign Direct Investment and Its Linkage to Economic Growth in Vietnam: A Provincial Level Analysis. ” Pain, N., & Van Welsum, D. (2003). Untying the Gordian knot: The multiple links between exchange rates and foreign direct investment. *Journal of Common Market Studies*, 41, 823 – 846. PantelisPantelidis, DimitriosKyrkilis (2005). A cross country analysis of outward foreign direct investment patterns, *International Journal of Social Economics*, Vol. 32 Iss: 6 pp. 510 – 519. Pham Thi Hong Hanh (2012). Determinants of FDI into China andVietnam: A comparative study. PiyaphanChangwatchai (2010). The determinants of FDI inflows by industry to ASEAN (Indonesia, Malaysia, Philippines, Thailand, and Vietnam). RecepKok, BernurAcikgozErsoy (2009). Analyses of FDI determinants in developing countries, *International Journal of Social, Economics*, Vol. 36 Iss: 1 pp. 105 – 123. Robert E. Morgan, Constantine S. Katsikeas (1997). Theories of international trade, foreign direct investment and firm internationalization: a critique, *Management Decision*, Vol. 35 Iss: 1 pp. 68 – 78. SajidAnwara and Nguyen Phi Lan (2010). Foreign direct investment and economic growth in Vietnam, *Asia Pacific Business Review* ,Vol. 16, Nos. 1 – 2, 183 – 202. SarumiAdewumi (2006). The Impact of FDI on Growth in Developing Countries. Shinji Takagi, Zongying Shi (2011). Exchange rate movements and foreign direct investment (FDI): Japanese investment in Asia, 1987 – 2008, *Japan and the World Economy*. Usha C.V. Haley, George T. Haley (1997). When the tourists flew in: strategic implications of foreign direct investment in Vietnam's tourism industry, *Management Decision*, Vol. 35 Iss: 8 pp. 595 – 604. Wei, Y., and Liu, X. (2001). Foreign direct investment in China: Determinants and impact. Cheltenham: Edward Elgar.