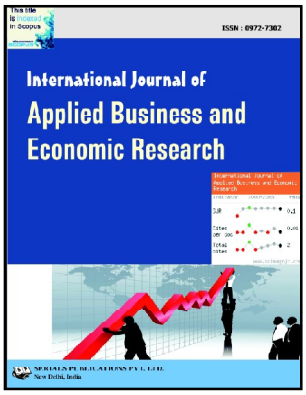

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The Relationship between Exports and Economic Growth Empirical Evidence in Viet Nam

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Abstract: The mentioned problem is whether export promotion leads to higher economic growth or economic growth promotes exports. Thus, this study reinvestigates the dynamics of the relationship between exports and economic growth for Vietnam over the period 1970 to 2015. In this period, Vietnam economic has grown mainly in breadth, based on the predominance of young labor, on the exploitation of raw resources, etc.. Vietnam's industries continues to rely on processing and assembly; structure of export products is not good, there are many semi – processed products and the added value of the products is very low. FDI accounts for 50 per cent in 2015 of Vietnam industrial production and accounts for 70 per cent in 2015 of Vietnam exports, however this sector does not generate much added value for domestic revenue; the FDI and the domestic sector which aren't unified to make the entire national economy. Applying time series econometric techniques of co-integration and vector error correction estimation, there is undirectional causality from exports to economic growth in the short -run but the study didn't find the existence of long-run equilibrium relation between them, and finally, the study rejects both growth – driven exports hypothesis and export- led growth hypothesis for Vietnam.

Keywords: Export - led Growth Hypothesis, Gross Real Domestic Product (GDP), Granger Causality, Vector Autoregression Estimates (VAR), Vector Error Correction Model (VECM).

1. INTRODUCTION

The first opinion orients to export-led growth hypothesis while the other opinion advocates for growth-driven export hypothesis. In addition, the existing literature also provides the evidence that export promotion leads to economic growth and economic growth leads to export promotion, i.e., the bi-directional causality between exports and economic growth.

In the period 2010-2015, Vietnam's Government strongly conducted transition from the subsidized economy to the market economy, reformed administrative procedures in the field of customs, export credit incentives..; thanks to this the average annual export turnover increased 15.75 per cent, GDP at that time prices increased on average 10.75 per cent. This is a relatively high growth rate compared to the other countries in Asia. Revenues from exports created foreign currency to import raw materials, production machinery and equipment needed for production; on the other hand the high economic growth also contributed to the creation of products, services for export to markets such as the US, EU, etc.

With the above features, researching the relationship between EX and GDP is necessary, that is whether export promotion leads to economic growth or economic growth leads to export promotion, i.e., the bi-directional causality between exports and economic growth.

With:

EX: Export turnovers of goods (US$ million)

GDP: Gross Real Domestic Product (US$ million).

GDP in 2015 increased by 3.77 per cent over 2014; in which the industry and construction contributes 3.2 percentage points, the service contributes 2.43 percentage points, the agriculture, forestry and fishing contributes 0.4 percentage points. The size of GDP at current price reached 4,192.9 trillion VND, equivalent to US$193.24 billion. The economic structure continued to shift but slow; in which the agriculture, forestry and fishing accounted for 17.00 per cent, the industry and construction accounted for 33.25 per cent, the service accounted for 10.02 per cent

Exported goods include domestic goods and re – exported goods which are exported to the rest of the world to subtract from the stock of material resources of the country. Exported turnovers of goods in 2015 reached US$173.2 billion, increased by 15.7 per cent over 2014, of which export turnovers of FDI sector (including crude oil) was US$113.3 billion, make up 70.5 per cent; exported turnovers of domestic economic sector was US$46.5 billion. Regarding the structure of export commodity group, share of heavy industrial products and minerals accounted for US$73.3 billion, made up 45.58 per cent of export turnovers, light industrial and handicraft products US$65.1 billion, 40.48 per cent. In 2015, the United States was the biggest export market of Vietnam (made up 20.7 per cent of the total export turnover). EU was the second one (made up 19.1 per cent) and the following were traditional market in Asia of which ASEAN countries (11.3 per cent), China (10.6 per cent), Japan (8.7 per cent), Korea (5.5 per cent) …

2. LITERATURE REVIEW

The opinion of the neo-classical economists is that competition in international market promotes economies of scale and increases efficiency by concentrating resources in sectors in which the country has a comparative advantage. These positive externalities promote economic growth.

Darrat (1986) researched in four Asian countries, (Hong Kong, South Korea, Singapore, and Taiwan) and found no evidence of unidirectional causality from exports to economic growth in all the four economies. In the case of Taiwan, however, the study detected unidirectional causality from economic growth to export growth.

Xu (1996) confirms rejection of the export –led growth hypothesis for India but Ghatak and Price (1997) conclude that growth of exports is caused by output growth in India.

Erfani (1999) examined the causal relationship between economic performance and exports over the period of 1965 – 1995 for several developing countries in Asia and Latin America. The results found the significant positive relationship between exports and economic growth. This study confirms the evidence of export-led growth hypothesis.

In case of India, Chandra (2000; 2002) found bi-directional causal relationship between growth of exports and GDP growth which is a short-run causal relation, as cointegration between growth of EX and GDP growth was not found.

Mah (2005) studied the long-run causality between exports and economic growth for China with the help of the significance of error correction term EC_{t-1}. This study indicates that export expansion is insufficient to explain the patterns of real economic growth.

Dash (2009) analyzes the causal relationship between growth of exports and economic growth in India for period 1992 to 2007, and the results find that there is a long – run relationship between output and exports, and it is unidirectional, running from growth of exports to output growth.

Mishra (2010) reinvestigated the dynamics of the relationship between exports and economic growth for India in the period 1970 to 2009. Using cointegration test and vector error correlation estimation, the study found the existence of long – run equilibrium relation between them and the rejection of export – led growth hypothesis in India. Performing more detail, the estimates of the VECM indicate the existence of unidirectional causality running from real GDP to exports in the long – run, but not in short – run.

In Vietnam there are only a few studies on the relationship between economic growth and exports, but the results were mainly explained by qualitative methods; or a few studies considering the fluctuations of economic growth and exports through the time series models as Ngoc *et al's* (2003), Hiep (2016). In which, Ngoc *et al.* (2003) study about exports and long –run growth in Vietnam for period 1975 -2001 and derive that there are not evidences to confirm the exports affect to the economic growth; Hiep (2016) analyzes the relationship between growth of exports and economic growth in Vietnam for period 1999 - 2014, and the study find the bi-directional causality between exports and economic growth in all the long – run and the short –run.

The above literature pointed out the different results about the relationship between economic growth and export. A number of studies support the export-led economic growth while others do not. Therefore, this paper is an attempt to investigate the exports-economic growth nexus for Vietnam.

3. DATA AND METHODOLOGY

The study uses the annual data for the period 1970 to 2015, published by World Bank. In that, the variable GDP is used as the proxy of economic growth in Viet Nam and the variable EX is used as the proxy for export value in Viet Nam.

EX: Export turnovers of goods (US$ million)

GDP: Gross Real Domestic Product (US$ million)

The variable EX and GDP are taken in their natural logarithms to avoid the problems of heteroskedasticity. The estimation methodology employed in this study is the cointegration and vector error correction modeling technique.

3.1. Unit Root Test

The equation of Augmented Dickey-Puller (ADF) and Phillips – Perron (PP) tests were used to determine the presence of unit roots in the data sets. The ADF can be expressed as follows:

$$\Delta Y_t = \alpha_0 + \alpha_1 t + \alpha_2 Y_{t-1} + \sum_{j=1}^{p} \alpha_j \Delta Y_{t-j} + \varepsilon_t$$

In this ADP procedure, the test for a unit root is conducted on the coefficient of the regression. The null hypothesis *(H_0)* is not rejected (the series is non-stationary or not integrated of order zero, 1(0)) when the calculated value of ADF statistic is higher than McKinnon's critical values. Alternatively rejection of the null hypothesis implies stationary. If the time series (variables) are non-stationary in their levels, they can be integrated with 1(1), when their first differences are stationary.

3.2. Cointegration Test

Johansen's cointegration test is used to identify cointegrating relationship among the variables. The Johansen approach to cointegration test is based on two test statistics, viz., the trace test statistic, and the maximum eigenvalue test statistic.

3.2.1. Trace Test Statistic

The trace test statistic can be specified as: $\tau_{trace} = -T \sum_{i=r+1}^{k} \log(1-\lambda_i)$, where l_i is the *ith* largest eigenvalue of matrix P and T is the number of observations. In the trace test, the null hypothesis is that the number of distinct cointegrating vector(s) is less than or equal to the number of cointegration relations

3.2.2. Maximum Eigenvalue Test

Johansen's cointegration test is very sensitive to the choice of lag length. Usually, the Akaike Information Criterion (AIC), Schwarz Criterion (SC) and the Likelihood Ratio (LR) test are used to select the number of lags required in the cointegration test.

In this study the error correction model as suggested by Hendry (1995) has been used. The general form of the VECM is as follows:

$$\Delta X_t = \alpha_0 + \lambda_1 EC^1_{t-1} + \sum_{t=1}^{m} \alpha_i \Delta X_{t-1} + \sum_{j=1}^{n} \alpha_j \Delta Y_{t-j} + \varepsilon_{1t}$$

$$\Delta Y_t = \beta_0 + \lambda_2 EC^2_{t-1} + \sum_{t=1}^{m} \beta_t \Delta Y_{t-1} + \sum_{j=1}^{n} \beta_j \Delta X_{t-j} + \varepsilon_{2t}$$

Where Δ is the first difference operator; EC_{t-1} is the error correction term lagged one period; e is the white noise. The error correction coefficient (λ) *is* very important in this error correction estimation as the greater co-efficient indicates higher speed of adjustment of the model from the short-run to the long-run

The error correction term represents the long-run relationship. If both the coefficients of error correction terms in both the equations are significant, this will suggest the bi-directional causality. If only λ_1 is significant, this will suggest a unidirectional causality from Y to X, implying that Y drives X towards long-run equilibrium but not in the other way around. Similarly, if λ_2 is significant, this will suggest a unidirectional causality from X to Y, implying that X drives Y towards long-run equilibrium but not in the other way around.

On the other hand the lagged terms of ΔX_t and ΔY_t, appeared as explanatory variables, indicating a short-run cause/and effect relationship between the two variables. Thus, if the lagged coefficients of ΔX_t, appear to be significant in the regression of ΔY_t, this will mean that X causes Y. Similarly, if the lagged coefficients of ΔY_t appear to be significant in the regression of ΔX_t, this will mean that Y causes X.

4. EMPIRICAL ANALYSIS

The variables under study are found to be normally distributed as shown in Table 1. The mean to median ratio of each variable is approximately 1, the range of variation between maximum and minimum is also suitable. Std. Dev. of each variable is low, compared to the mean showing a small coefficient of variation. Kurtosis in each variable is smaller than 3 which confirms near normality.

Table 1
Descriptive Statistics

	LNEX	*LNGDP*
Mean	8.942712	9.834032
Median	8.825289	9.939639
Maximum	12.06388	12.17169
Minimum	6.189233	7.541497
Std. Dev.	1.846115	1.397436
Skewness	0.221041	0.160544
Kurtosis	1.664962	1.765086
Jarque-Bera	3.378679	2.781352
Probability	0.184641	0.248907
Sum	366.6512	403.1953
Sum Sq. Dev	136.3256	78.11304
Observations	41	41

To determine the order of integration for each of the two variables used in the analysis along with their stationary tests, the Augmented Dickey-Fuller unit root test and Phillips-Perron test have been used. At 10, 5 and 1 per cent levels of significances, the variables LNEX are stationary into the same order I(1) and the variables LNGDP are stationary into the same order I(1). Results of unit root test and Phillips-

Perron test are reported in table 2, they show that both LNGDP and LNEX are integrated of order 1 for Vietnam.

Table 2
Results of Augmented Dickey - Fuller Unit Root Test

Variables	*ADF Statistic*	*PP Test*	*Critical Values*	*Decision*
D(LNEX)	-4.556077	-4.352836	At 1% = -3.610453 At 5% = -2.938987 At 10% =-2.607932	Reject Null hypothesis of no unit root
D(LNGDP)	-4.442090	-4.178477	At 1% =-3.610453 At 5% = -2.938987 At 10% =-2.607932	Reject Null hypothesis of no unit root

The Johansen's Trace and Maximum Eigenvalue tests are used to consider the cointegration between the stationary variables. The results of these tests are shown in Table 3a and Table 3b.

Table 3a
Results of Johansen's Cointegration Test

Hypothesized Number of Cointegrating Equations	*Eigen Value*	*Trace Statistics*	*Critical Value at 5% (p-value)*	*Prob.***
None	0.310705	15.03791	15.49471	0.0585
At most 1	0.013411	0.526579	3.841466	0.4680

Trace test indicates no cointegration at the 0.05 level

Table 3b
Results of Johansen's Cointegration Test

Hypothesized Number of Cointegrating Equations	*Eigen Value*	*Maximum Eigenvalue Statistics*	*Critical Value at 5% (p-value)*	*Prob.***
None*	0.310705	14.51133	14.26460	0.0457
At most 1	0.013411	0.526579	3.841466	0.4680

Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level

When there are the different results between trace statistics test and Max- eigenvalue test, Johansen and Juselius (1990) suggest that the maximal eigenvalue test is more powerful than the trace test. Empirical results from Table 2b show that maximum eigenvalue test has its value greater than the critical values at 5 percent level of significance. Therefore, there is 1 cointegrating eqn(s) at the 0.05 level between LNEX and LNGDP. The estimation of a Vector Error Correction Model (VECM) requires selection of an appropriate lag length. To determine lag length of variables LNEX and LNGDP, Akaike Information criterion (AIC), Final prediction error (FPE) and Hannan-Quinn information (HQ) criterion were selected. The appropriate lag length is 2 (Table 4).

Table 4
Lag Length

VAR Lag Order Selection Criteria
Endogenous variables: LNGDP, LNEX
Exogenous variables: C
Included observations: 39

Lag	*LogL*	*LR*	*FPE*	*AIC*	*SIC*	*HQ*
0	-39.92326	NA	0.029428	2.149911	2.235222	2.180520
1	52.67620	170.9529	0.000313	-2.393651	-2.137719*	-2.301825
2	58.69406	10.49268*	0.000283*	-2.497131*	-2.070577	-2.344087*

* indicates lag order selected by the criterion

Then, an error correction model with the computed t-values of the regression coefficients is estimated and the results are reported in Table 5.

Table 5
Estimates for VECM Regression

Vector Error Correction Estimates
Included observations: 43 after adjustments
Standard errors in ( ) & t-statistic [ ]

Independent Variable	*D(LNEX)*	*D(LNGDP)*
EC$_{t-1}$(p-value)	EC^1_{t-1} = 0.193459	EC^2_{t-1} = 0.548959
	[0.46444]	[1.48249]
	(0.41654)	(0.37030)
D(LNEX(-1))	0.026123	0.165995
	[0.04753]	[0.33971]
	(0.54966)	(0.48864)
D(LNEX(-2))	0.027747	0.039814
	[0.05175]	[0.08353]
	(0.53615)	(0.47663)
D(LNGDP(-1))	0.374944	0.287419
	[0.61490]	[0.53022]
	(0.60977)	(0.54207)
D(LNGDP(-2))	-0.188321	-0.114435
	[-0.32094]	[-0.21938]
	(0.58678)	(0.52164)
Constant	0.101915	0.050703
	[1.91123]	[1.06958]
	(0.05332)	(0.04740)

The coefficient of the error term in D(LNEX) equation is statistically insignificant based on Standard t-test (t_{qs}<$t_{0.025}$(38-6)) and Prob. = 0.6455 (Table 6), which means that the error term (EC^1_{t-1}) doesn't contributes to explain the changes in economic growth in the long run.

Table 6
Model D(LNEX)

Method: Least Squares (Gauss-Newton / Marquardt steps)
Included observations: 38 after adjustments
D(LNEX) = C(1)*(LNEX(-1) - 1.35550886826*LNGDP(-1) + 9.30134070068)
+C(2)*D(LNEX(-1)) + C(3)*D(LNGDP(-1)) +C(4)*D(LNEX(-2))
+C(5)*D(LNGDP(-2)) + C(6)

	Coefficient	*Std. Error*	*t-Statistic*	*Prob.*
C(1)	0.193459	0.416539	0.464444	0.6455
C(2)	0.026123	0.549660	0.047525	0.9624
C(3)	0.374944	0.609767	0.614898	0.5430
C(4)	0.027747	0.536152	0.051752	0.9590
C(5)	-0.188321	0.586783	-0.320939	0.7503
C(6)	0.101915	0.053324	1.911227	0.0650
R-squared	0.127101		Mean dependent var	0.126811
Adjusted R-squared	-0.009290		S.D. dependent var	0.245981
F-statistic	0.931888		Hannan-Quinn criter.	0.278057
Prob(F-statistic)	0.473492		Durbin-Watson stat	2.035356

The estimated coefficient of error-correction term (EC^2_{t-1} =0.548959) in the D(LNGDP) equation is statistically insignificant (Prob. =0.1480, $t_{qs}<t_{0.025}(38-6)$) (Table 7), which confirms that there isn't the existence of long – run equilibrium relation from export to economic growth.

Table 7
Model D(LNGDP)

Method: Least Squares (Gauss-Newton/Marquardt steps)
Included observations: 38 after adjustments
D(LNGDP) = C(7)*(LNEX(-1) - 1.35550886826*LNGDP(-1) +9.30134070068)
+C(8)*D(LNEX(-1)) + C(9)*D(LNGDP(-1)) + C(10)*D(LNEX(-2))
+ C(11)*D(LNGDP(-2)) + C(12)

	Coefficient	*Std. Error*	*t-Statistic*	*Prob.*
C(7)	0.548959	0.370295	1.482490	0.1480
C(8)	0.165995	0.488637	0.339711	0.7363
C(9)	0.287419	0.542072	0.530223	0.5996
C(10)	0.039814	0.476629	0.083533	0.9339
C(11)	-0.114435	0.521639	-0.219376	0.8278
C(12)	0.050703	0.047404	1.069584	0.2928
R-squared	0.210410		Mean dependent var	0.094081
Adjusted R-squared	0.087036		S.D. dependent var	0.229919
F-statistic	1.705472		Hannan-Quinn criter.	0.042699
Prob(F-statistic)	0.161780		Durbin-Watson stat	2.016427

Breusch- Godfrey test is used to inspect heterskedasticity phenomenon of model D(LNEX) and D(LNGDP). In Table 8a, F_{qs}=0.45<F(0.05, 6, 31), then model D(LNEX) doesn't contain heterskedasticity phenomenon. In Table 8b, F_{qs}=0.42<F(0.05, 6,31), model D(LNEX) doesn't also contain heterskedasticity phenomenon

Table 8a
Heteroskedasticity Test: Breusch-Pagan-Godfrey for Model D(LNEX)

F-statistic	0.450355	Prob. F(6,31)	0.8391
Obs*R-squared	3.046720	Prob. Chi-Square(6)	0.8030
Scaled explained SS	19.86512	Prob. Chi-Square(6)	0.0029

Table 8b
Heteroskedasticity Test: Breusch-Pagan-Godfrey for Model D(LNGDP)

F-statistic	0.420900	Prob. F(6,31)	0.8594
Obs*R-squared	2.862464	Prob. Chi-Square(6)	0.8259
Scaled explained SS	23.31597	Prob. Chi-Square(6)	0.0007

Implementing Granger Causality Tests with two variables LNGDP, LNEX

Table 9
Pairwise Granger Causality Tests Between LNEX and LNGDP

Pairwise Granger Causality Tests
Sample: 1975 2015. Lags: 2

Null Hypothesis	*Obs*	*F-Statistic*	*Probability*
LNGDP does not Granger Cause LNEX	39	0.88938	0.4203
LNEX does not Granger Cause LNGDP		2.73188	0.0794

Hypothesis H_0: LNGDP does not Granger Cause LNEX, having P(F)=0.42 >5%. Accept H_0

Hypothesis H_0: LNEX does not Granger Cause LNGDP, having P(F)=0.079<5%. Then reject H_o, accept H_1. This means that there has the short – run causality relation running from LNEX to LNGDP.

Table 10
Variance Decomposition of LNEX

Variance Decomposition of LNEX:Period	*S.E.*	*LNEX*	*LNGDP*
1	0.240012	100.0000	0.000000
2	0.386260	99.98268	0.017320
3	0.494354	99.29742	0.702578
4	0.573314	98.04462	1.955381
5	0.635363	96.64656	3.353443
6	0.688422	95.43584	4.564157
7	0.737184	94.51628	5.483722
8	0.784079	93.85592	6.144084
9	0.830137	93.37982	6.620176
10	0.875635	93.02009	6.979912

Cholesky Ordering: LNEX LNGDP

Table 11
Variance Decomposition of LNGDP

Variance Decomposition of LNGDP:Period	*S.E.*	*LNEX*	*LNGDP*
1	0.212405	91.44500	8.555003
2	0.348343	96.16088	3.839119
3	0.436056	97.41878	2.581216
4	0.493984	96.98691	3.013093
5	0.536240	95.91559	4.084412
6	0.571188	94.85213	5.147868
7	0.603247	94.03679	5.963210
8	0.634571	93.47265	6.527354
9	0.665946	93.08521	6.914789
10	0.697440	92.80099	7.199005

Cholesky Ordering: LNEX LNGDP

Here, the sensitivity of the variables is considered. In doing this, we employ a ten year forecasting (in – sample forecast) time horizon and observed the relevance of the variable over time horizon. From Table 10 & 11, we find that unexpected shock in LNEX has a big impact on LNGDP. In the third period, 97.41% of the total change on the variance of LNGDP is due to LNEX. This percent reduces lightly over the time and even in the tenth periods it only gets 92.80%. In case of LNEX, we see that in the fifth periods 95.91% of the total change on the variance is due to LNEX and this percentage decreases smartly in the next period, getting 93% in the tenth period.

5. SUMMARY

In recent years, Vietnam's economy has made positive changes, engaged in economic agreements with many countries and gradually integrated into the world economy. The question is that Vietnam's economic growth leads to its export growth or Vietnam's export growth affects its economic growth.

The results of the Cointegration test based on Johansen's procedure indicate the existence of the cointegration between LNEX and LNGDP, but there is no long - run relationship between them. The Granger causality test indicates that there is an undirectional causal relationship running from LNEX to LNGDP in the short-run. In other words, this study provides the evidence of rejecting both the growth - driven exports hypothesis and the export - led growth hypothesis.

These results are opposite to the researches of Hiep (2016), Ngoc et al (2003), Dash (2009), Mishra (2010).

We could explain this situation as below*:*

- In the period 1986 -2015, Vietnam economic has grown mainly in breadth, based on the predominance of young labor, on the exploitation of raw resources, etc.. Vietnam's industries continues to rely on processing and assembly; structure of export products is not good, there are many semi – processed products and the added value of the products is very low.
- The Vietnam economy no longer depends heavily on natural resources exploitation, growth relies considerably on foreign direct investment (FDI) sector. FDI accounts for 50 per cent in

2015 of Vietnam industrial production and accounts for 70 per cent in 2015 of Vietnam exports However, apart from job creation, this sector does not generate much added value for domestic revenue. Notably, the production value of the sector depends on several FDI enterprises; so economic growth is very sensitive to their business results. On the other side, foreign investors are reluctant to pour money into high-tech industries or transfer modern technology to Vietnam. Only 5% of foreign –invested enterprises adopt high technology, 80% are medium -technology firms. Low technology has not contributed much to industrialization and modernization. Technology and business knowledge of the FDI sector does not spread to the entire economy.

- Vietnam's imports were worth US$174.8 billion in 2016. Of this, FDI enterprises accounted for US$102.44 billion and the domestic sector US$72.4 billion. Considering, the total value of Vietnam's GDP of US$200 billion in 2016, Vietnam is among a few countries in the world whose total import – export value is bigger than her GDP. In other words, Vietnam's economy depends largely on export. Aside from several imports to be used entirely domestically which have remarkable value – such as fuel (US$5.08 billion) , pharmaceuticals (US$2.56 billion) and automobile parts (US$3.57 billion). Most prominent among them are in the group of machinery, equipment and tools imported for the domestic market whose value is US$13.03 billion; next come fabric (US$3.94 billion) and plastic materials (US$3.18 billion). If the local production was able to replace imports, Vietnam could save amounts of foreign currency to invest on social – eco infrastructure. Regrettably, state and private enterprises have largely ignored this market segment to focus on real estate and banking.
- Depreciated value of exchange rate (local currency) in Viet Nam during the 1986 -2015 period, this makes import expensive and export cheap, and hence may bring the difficulties to foreign investors in importing materials, machines for product. As long as the domestic corporate sector does not fare better and the hope rests entirely on foreign invested enterprises (FIEs), the export growth of the country will never be sustainable. Once the foreign side thinks that the advantage of low cost labor can no longer be exploited, resources cannot be drawn on anymore. Then, Vietnam's export would certainly be seriously affected.
- The shortage of corporation between domestic enterprises and foreign investors. The foreign joint venture projects with local investors only are 17 per cent of the total number of FDI projects (the end of 2015), because there are very weak linkages between FDI and domestic enterprises, the linkages can lead to many economic risks. Domestic enterprises are unable to supply components and intermediate goods for FDI firms, the Vietnamese state has no policy to choose FDI matching, with the long-term development needs of the country. The FDI and the domestic sector, which aren't unified to make the entire national economy. If this situation does not change, the economy of Vietnam will be split into two separate areas: The FDI and the domestic sector.

6. RECOMMENDATIONS

Our study suggests some solutions as follows:

First, the possibility of reducing exports to ASEAN market: Vietnam will remove 97 per cent tariff lines on products imported from ASEAN markets in 2018 compared to the current 90 per cent. Meanwhile,

the ASEAN 6 blocks of Indonesia, Thailand, Singapore, the Philippines, Malaysia and Brunei have applied zero tax rates on 99.4 per cent of products imported from Vietnam since 2010. Therefore, Vietnam would not have many opportunities to boost its exports to AEC markets because of tax exemptions. These noted that other ASEAN countries can produce almost all products which Vietnam has at lower costs. So, Vietnam will have to focus more on cutting production costs and exporting products to the markets outside ASEAN, especially after the AEC becomes operational.

Second, to improve the competitiveness of Vietnam's key exports. The policies must aim to enables Vietnam's firms to participate in the global supply chain in several stages of high added value; in which agro, forestry and fishery exports are expected to increase rapidly, hi –tech products such as phones, computers, cameras and machinery are also identified as advantageous products for export.

Third, changes in export market profile and need the shift in the structure of export items. In the period 2010 -2015, many raw items are still mainly exported to China, the low value and the slow growth have led to a reduction in their share of total exports. Contrary to this trend, more and more high - value industrial goods are shipped to the US and the EU, triggering breakthroughs in turnover and improvement in proportion. In this direction, exports will be less dependent on a particular market.

Fourth, the Government should accelerates the economic restructuring associated with the reform of growth model, focusing on increasing productivity in large economic hubs like Hanoi and HoChiMinh City. Vietnamese enterprises must invest and apply scientific advances, invest heavily in research and development, have plans of advanced management and professional operation.

Fifth, According to an examination by the working group of Vietnam Prime Minister, companies in Vietnam spend a combines 28.6 million days and VND14.3 trillion (US$636 million) a year on sector – specific checks on import – export goods during the customs clearance process but just 0.1% of the inspection detect violations. Because, there is very necessary to reduce the inspection procedures to make life easier for businesses and the Vietnam Government has just requested ministries and agencies to reduce the proportion of inspections in the customs clearance process to 15% (the current figure is 30-35%).

Sixth, in the short run the Vietnam Government needs to make solutions to rise economically, implementing expanded monetary policy to increase capital for the economy, thereby promoting growth; issuing Government bonds to mobilize financial resources, to ensure the balance for the State budget.

Seventh, Vietnam's economy is still at the first stage of development with a quite low income. Policy makers should not be proud of the growth achievement. The Government should be resilient in its efforts to improve the business environment so as to spur growth of domestic enterprises. Incentives should be given to domestic enterprises to participate more in the production chain of the FDI sector and to take advantage of its technology.

Eighth, reforms to the financial system and more importantly to the position and status of SOEs are increasingly urgent. Aside from the Government's spending tightening and budget allocation measures in order to maintain the speed of rapid economic growth and reduce the nation's public debt.

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