



International Journal of Applied Business and Economic Research

ISSN : 0972-7302

available at <http://www.serialsjournals.com>

© Serials Publications Pvt. Ltd.

Volume 15 • Number 23 (Part 2) • 2017

The Determinants and Impacts of Foreign Direct Investment in Viet Nam

Le Duc Toan¹, Nguyen Huu Phu², Le Nguyen Ngoc Anh³ and Tran Dang Minh⁴

¹Graduate School, Duy Tan University, Danang City, Viet Nam

²Duy Tan University, Danang City, Viet Nam. Email: nhphung@yahoo.com

³Fellow Ph.D, La Trobe University, Australia

⁴Fellow Ph.D, Duy Tan University, Viet Nam

ABSTRACT

This study examines the determinants and impact of foreign direct investment in Viet Nam from 1990 to 2015. The study uses the Vector Error Correction Model (VECM) to examine this issue. The macroeconomic variables as foreign direct investment (FDI), gross domestic product (GDP), gross fixed capital formation (GFCF) and openness of the economy (OPN) are the major factors that determine the inflow of FDI into Viet Nam during these periods. There is long run causality running from FDI to variables as GDP, OPN and GFCF; 32.93% of FDI fluctuation is explained by the fluctuations of other variables in the past and the speed of adjustment toward long - run equilibrium is about 1.5 year. The study also points out that the Vietnam Government should reform growth model and rises to the capacity of macro –eco management, restricts the budget deficit of under 5-6% of GDP every year and prevents trade deficit, especially to China.

Keywords: FDI, Gross Domestic Product, Openness of economy, Vector error correction model (VECM).

1. INTRODUCTION

In 1991-2016, Vietnam attracted US\$151 billion worth of foreign direct investment (FDI). Disbursement has improved. In 2011-2016 (the third period), disbursement amounted to US\$12.2 billion per annum, or 2.09 times that of the 2000 -2010 period, with an increasing number of projects worth US\$1 billion or more.

About 80 countries and territories invest in Vietnam, with Asian countries accounting for almost 70% of the projects and European countries claiming 20%. Some positive impacts of FDI as:

- Offering a channel of Capital to support socio - economic development. Foreign direct investment (FDI) at present accounts for 50% of Vietnam's industrial output and 70% of her manufactured export sales. In some industries, the ratio of export revenue of foreign players is as high as 100%. Cell phones set an example of that.
- Expanding markets and enhancing import - export capabilities, as well as global integration (FDI's share of export turnover jumped from a few percentage points at first to 70% at present).
- Supplementing the local supply of goods: When foreign currency supply was limited and the flow of products from communist countries was reduced, the emergence of products made by joint ventures between Vietnam and other countries brought diversity to the market.
- Creating jobs, training human resources and transferring technology.

Viet Nam has abundant manpower but scarce capital due to shortage of domestic savings mobilization which places limitations on capital formation and economic development. FDI becomes the channel of supplying capital for developing countries and it helps these countries to fulfill their investment - savings gap. The greater inflow of FDI will accelerate the economic growth and mobilization of domestic capital as well as improvement in the balance of payments. FDI stimulates product diversification through investments into new businesses, stimulates employment generation, increase wages and accelerate declining market sectors of the host economies (Aremu, 2003). But the FDI's attraction of emerging economy is also affected by many macro and micro factors as environment, policy, capital formation, openness of economy, exchange rate v.v...

In Vietnam, we don't yet find whatever study about the determinants and impact of FDI, there are only a few studies on the relationship between economic growth and exports, between FDI and export; then it is indeed necessary to study the determinants and impact of foreign direct investment in Viet Nam. This study used annual time series data covering the period 1990 – 2015 and tries to contribute to economic literature by empirical analyzing.

2. THE REVIEW OF RELATED LITERATURE

FDI is a direct investment into production or business in a country by an individual or company of another country. FDI is an investment made to acquire a long term ownership and controlling interest (at least one-tenth of the equity) in firm operating outside the investors' own country (World Bank, 1996). There are many precious studies about the determinants and impacts of FDI to host country as:

Rascuite (2006) states that local market size, economic, legal environment and macroeconomic stability are the important factors that determine where and how most multinationals channel their investments. Todaro and Smith (2004) perceive FDI as the channeling of capital or the creation of a firm in host country; it implements movement of technical know-how, culture, taste, management skills and cutting-edge business practices. Caves (1996) opined that reasons about attracting more FDI is based on the fact that FDI impacts positively on the developmental challenges of host economies.

Findlay (1978) reports that FDI increases rate of technological development in most emerging economy through the business practices of multinational corporations. As the motivating factors, host economy's governments usually provide special incentives and enabling environment to encourage

multinational companies to establish firms in their countries. Pulstova (20)6) studied the effects of FDI and firm export on economic growth in Uzbekistan. Using the data of the period 1990 – 2014, he found that FDI's increase may cause firms to accelerate their export of products. Muntah, Khan, Haider and Ahmad (2015) examined the impact of FDI on economic growth of Pakistan in the period 1995 to 2011. They used regression analysis in the study and they found that FDI impacts positively on economic growth of Pakistan.

Anyanwu (1998) identified change in domestic investment, change in domestic output or market size, freedom policy and change in openness of the economy as major determinants of FDI; and these problems made Nigeria's economy development so as to be able to attract more FDI. Ahmed E. and Ajao, Mayowa G. (2012) examined the determinants and impact of FDI in Nigeria in the period 1970 – 2009, this study used macroeconomic variables as exchange rate, inflation, gross domestic product, government size, return on capital and openness of the economy. The results found that FDI is an important catalyst of economic development through cutting-edge management practices and technological transfer. The results also indicated that have mixed relationship between FDI and relevant macroeconomic variables used. One period lagged of trade openness, interest rates, government size and GDP exert positive influence on FDI while there is a negative relationship between FDI and exchange rate which may be attributed to currency depreciation during this period.

Melnyk, Kubatko and Pysarenko (2014) researched the impact of FDI on economic growth in post-communism transition economies. They found a significant FDI influence on economic growth of host countries. They stated that FDI is important capital resource for developing host country, FDI can be a source of valuable technology and know-how while fostering linkages with local firms, which can help to jumpstart an economy. They recommended that transition economies should make more attention to the business climate and positive institutional changes.

Despite having the positive effects to host countries, some researches such Bolbol and Sadiq (2001) discovered that emerging economies should be careful of overdependence on the benefits of FDI as means of ensuring economic development. It is sometimes questioned whether FDI contributes to the broader aspects of economic growth as well as reinvestment of income in host economies. Akinlo (2004) found that foreign capital has a statistically insignificance on economic growth in Nigeria. Aremu (2003) and Aitken and Harrison (1999) who showed that FDI could force domestic firms to produce less output; push up their average cost curves, thereby reducing net domestic productivity despite having technology transfer from foreign firms.

3. METHODOLOGY AND EMPIRICAL DESIGN

3.1. Variables Description

This study uses the data for the period 1990 to 2015, obtained from Vietnam General Statistics Office and National Accounts Main Aggregates Database. The data and their relationships are defined thus:

- (a) The Gross Domestic Product (GDP - in US Dollars): This is employed to indicate market size. A large market size is as a factor attracting foreign investors and a means of measuring the impact of FDI in the host countries.

- (b) Foreign Direct Investment (FDI - in US Dollars): Capital investment made to acquire a long term controlling interest in a firm operating in another country other than that of investors' country.
- (c) Openness of the economy (OPN): This is value of imports plus value of exports. This is one of the factors that influence FDI flows to host countries.
- (d) Gross fixed capital formation (GFCF - in US Dollars): To indicate fixed asset size used in economic activity.

All the variables are taken in their natural logarithms to avoid the problems of heteroskedasticity.

3.2. Models Specification

This research's aim is to find out the determinants and the impact of FDI on economic growth (GDP) in Vietnamese economy for the years 1990 to 2015. The basic estimating equation is determined as follows:

$$\text{LNFDI} = \alpha_0 + \alpha_1 \text{LNGDP} + \alpha_2 \text{LNGFCF} + \alpha_3 \text{LNOPN} \quad (1)$$

where, $\alpha_0, \alpha_1 - \alpha_6$ are parameters to be estimated

4. EMPIRICAL RESULTS

4.1. Descriptive Statistics

Table 1
Descriptive statistics

	<i>LNFDI</i>	<i>LNGDP</i>	<i>LNGFCF</i>	<i>LNOPN</i>
Mean	24.68788	24.42148	23.04356	24.52600
Median	24.36872	24.28044	23.11372	24.45228
Maximum	26.59426	25.98720	24.58704	26.56812
Minimum	22.15835	22.56275	20.50260	22.02189
Std. Dev.	1.269550	1.051646	1.256348	1.391501
Skewness	-0.029450	-0.162386	-0.629806	-0.227088
Kurtosis	1.894162	2.014340	2.394503	1.970944
Jarque-Bera	1.379639	1.211628	2.197405	1.423387
Probability	0.501667	0.545630	0.333303	0.490812
Sum	666.5728	659.3801	622.1761	662.2019
Sum Sq. Dev.	41.90569	28.75496	41.03867	50.34313
Observations	27	27	27	27

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 one. The standard deviation of each variable is also low, compared to the mean showing a small coefficient of variation, while the range of variation between maximum and minimum is also reasonable. The coefficient of flatness (kurtosis) in each variable is smaller than 3 which confirms near normality. Heteroskedasticity test for used data, the result finds out that $F_{\text{obs}} = 1.6684 < F_{0.025}(12,11)$. Then, accept H_0 , this means that model has no heteroskedasticity (Table 2).

Table 2
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.668400	Prob. F(12,11)	0.2026
Obs*R-squared	15.48958	Prob. Chi-Square(12)	0.2157
Scaled explained SS	18.37324	Prob. Chi-Square(12)	0.1048

4.2. Stationary Results

Each of the variables in the model has been controlled to determine whether it is stationary or its order of integration. To implement this, the Augmented Dickey-Fuller (ADF) and the Phillips –Perron (PP) are applied. The results of ADF and PP are presented in Table 3 and Table 4 below.

Table 3
ADF Test

<i>Variables</i>	<i>ADF Statistic</i>	<i>Critical Values</i>	<i>Prob.*</i>	<i>Decision</i>
D(LNFDI)	-3.841879	At 1% level = -3.724070 At 5% level = -2.986225 At 10% level = -2.632604	0.0076	Reject Null hypothesis of no unit root
D(LNGDP)	-4.221954	At 1% level = -3.831511 At 5% level = -3.029970 At 10% level = -2.655194	0.0044	Reject Null hypothesis of no unit root
D(LNGFCF,2)	-4.348547	At 1% level = -3.737853 At 5% level = -2.991878 At 10% level = -2.635542	0.0024	Reject Null hypothesis of no unit root
D(LNOPN)	-4.412840	At 1% level = -3.724070 At 5% level = -2.986225 At 10% level = -2.632604	0.0020	Reject Null hypothesis of no unit root

*MacKinnon (1996) one-sided *p*-values.

Table 4
Phillips - Perron Test

<i>Variables</i>	<i>PP Statistic</i>	<i>Critical Values</i>	<i>Prob.*</i>	<i>Decision</i>
D(LNFDI)	-3.803071	At 1% level = -3.724070 At 5% level = -2.986225 At 10% level = -2.632604	0.0083	Reject Null hypothesis of no unit root
D(LNGDP,2)	-6.357399	At 1% level = -3.737853 At 5% level = -2.991878 At 10% level = -2.635542	0.0000	Reject Null hypothesis of no unit root
D(LNGCF,2)	-4.425196	At 1% level = -3.737853 At 5% level = -2.991878 At 10% level = -2.635542	0.0020	Reject Null hypothesis of no unit root
D(LNOPN)	-4.418469	At 1% level = -3.724070 At 5% level = -2.986225 At 10% level = -2.632604	0.0020	Reject Null hypothesis of no unit root

In ADF test the GDP got the different stationary test but having the contrast in PP test. Therefore, this gives more credence to PP test because of its validity even if the disturbances are serially correlated

and heterogeneous. With the unit –root properties of the mentioned variables, we implement to establish whether or not there is long –run cointegrating nexus among the variables by using the Johansen method (Johansen and Juselius, 1990).

4.3. Cointegration Test

Johansen’s cointegration test is made to identify cointegration relationship among the variables. The Johansen method applies the maximum likelihood procedure to determine the presence of cointegration vectors in non-stationary time series. The testing hypothesis is the null of non-cointegration against the alternative of existence of cointegration using the Johansen maximum likelihood procedure. The Johansen approach to cointegration test based on two test statistics, viz, the Trace test statistics and the Max eigenvalue test statistics. Table 5 presents the result of Johansen cointegration test. Accordingly, the Eigen value statistics and likelihood ratio detect three co integrating relationship at 5% level of significance.

Table 5
Johansen Cointegration Test

<i>Hypothesized No. of CE(s)</i>	<i>Eigenvalue</i>	<i>Trace Statistic</i>	<i>Critical Value at 5% (p-value.**)</i>	<i>Max-Eigen Statistic</i>	<i>Critical Value at 5% (p-value)</i>
None *	0.882483	97.12715	47.85613 (0.0000)	51.38821	27.58434 (0.0000)
At most 1 *	0.663130	45.73893	29.79707 (0.0003)	26.11340	21.13162 (0.0091)
At most 2 *	0.530104	19.62553	15.49471 (0.0112)	18.12587	14.26460 (0.0117)
At most 3	0.060574	1.499667	3.841466 (0.2207)	1.499667	3.841466 (0.2207)

Included observations: 24 after adjustments

Series: LNFDI LNGDP LNGFCF LNOPN

Lags interval (in first differences): 1 to 2

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level

Max-eigenvalue test indicates 3 cointegrating eqn(s) at the 0.05 level

**Denotes rejection of the hypothesis at the 0.05 level*

***MacKinnon-Haug-Michelis (1999) p-values*

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.

Table 6
VAR Lag Order Selection Criteria

<i>Lag</i>	<i>LogL</i>	<i>LR</i>	<i>FPE</i>	<i>AIC</i>	<i>SC</i>	<i>HQ</i>
0	2.581977	NA	1.32e-05	0.113442	0.308462	0.167532
1	116.3762	182.0708	5.38e-09	-7.710099	-6.734999	-7.439648
2	148.1881	40.71914*	1.70e-09*	-8.975046*	-7.219865*	-8.488233*

Variables: LNFDI LNGDP LNGFCF LNOPN

Exogenous variables: C. *Included observations:* 25

**indicates lag order selected by the criterion*

4.4. Vector Error Correction Model (VECM)

VECM is estimated to model the long run causality and short run dynamics. The purpose of VECM model is to indicate the speed of adjustment from the short run equilibrium to the long run equilibrium state. The greater the coefficient of the parameter the higher the speed of adjustment of the model from short - run to long - run. VECM is a restricted VAR designed for use with non-stationary series that are known to be cointegrated. Once the equilibrium conditions are imposed, the VECM describes how the examined model is adjusting in each period towards its long run equilibrium state. Since the variables are supposed to be cointegration, then in the short run, deviations from this long run equilibrium will feedback on the changes in the dependent variables in order to force their movements towards the long run equilibrium state. The cointegration term is known as the error correction term since the deviation from long run equilibrium is corrected gradually through a series of partial short run adjustments. The size and statistical significance of the coefficient of the ECM measures the tendency of each variable to return to the equilibrium. A significant coefficient implies that past equilibrium errors play a role in determining the current outcomes.

Considering our base equation (1), the VECM model is specified as follows:

$$\begin{aligned} \Delta \text{LNFDI}_t = & \alpha_0 + \alpha_1 \sum_{i=1}^n \Delta \text{LNFDI}_{t-1} + \alpha_2 \sum_{i=1}^n \Delta \text{LNGDP}_{t-1} + \alpha_3 \sum_{i=1}^n \Delta \text{LNOPN}_{t-1} \\ & + \alpha_4 \sum_{i=1}^n \Delta \text{LNGFCF}_{t-1} + \beta_i \text{ECM}(-1) + \varepsilon_t \end{aligned} \quad (2)$$

where, Δ is the first difference operator, ε_t is the error term, $\text{ECM}(-1)$ is the error correction term, β_i captures the long run impact. The error correction coefficient β_i is very important in this error correction estimation as the greater coefficient indicates higher speed of adjustment of the model from the short run to the long run. The vector error correction model allows modeling adjustments that lead to a long run equilibrium relationship among the variables where a unidirectional long term causal flow runs from changes in LNFDI to other variables in Viet Nam.

Table 7
Vector error correction model (VECM)

Variable	Coefficient	Std. Error	t-statistics	Prob
ECM(-1)	-0.719908	0.23347	-3.08349	0.0095
D(LNFDI(-1))	0.560696	0.22872	2.45141	0.0305
D(LNFDI(-2))	0.513361	0.32577	1.57586	0.1410
D(LNGDP(-1))	2.742362	0.92090	2.97791	0.0115
D(LNGDP(-2))	0.974275	1.03814	0.93848	0.3665
D(LNGFCF(-1))	-0.104027	0.49419	-0.21050	0.8368
D(LNGFCF(-2))	0.108335	0.45271	0.23931	0.8149
D(LNOPN(-1))	-1.835618	0.64048	-2.86602	0.0142
D(LNOPN(-2))	-0.975788	0.67677	-1.44183	0.3665
C	-0.042579	0.09851	-0.43225	0.5732

Diagnostic Statistics: R-Squared = 0.6501, Adjusted R-Squared = 0.3293.

ECM (-1) = -0.719908 and *p*-value = 0.0095. This coefficients are statistically significant, there is the long –run relationship between LNFDI and other variables (LNGDP, LNGFCF, LNOPN).

To investigate whether there is serial correlation or not, LM test is used Table 8.

Table 8
Breusch-Godfrey Serial Correlation LM Test

F-statistics	1.668400	Prob. F(12,11)	0.2026
Obs*R-squared	15.48958	Prob.Chi –Square (12)	0.2157
Scale explained SS	18.37324	Prob.Chi –Square (12)	0.1048

$nR^2 = 15.48958 < CHIINV(0.05,12) = 21.02$. Accept Null hypothesis. The results have suggested the acceptance of null hypothesis i.e. there is no serial correlation, it means that the disturbance term relating to any variable has not been influenced by the disturbance term relating to another variable

4.5. Causality Test

Table 9
Pairwise granger causality tests
Lags: 3

<i>Null Hypothesis</i>	<i>Obs</i>	<i>F-Statistic</i>	<i>Prob.</i>	<i>Decision</i>
LNGDP doesn't Granger Cause LNFDI	25	2.11448	0.1469	Reject
LNFDI doesn't Granger Cause LNGDP		5.73398	0.0108	Accept
LNGFCF doesn't Granger Cause LNFDI	25	0.24130	0.7879	Reject
LNFDI doesn't Granger Cause LNGFCF		5.10506	0.0162	Accept
LNOPN doesn't Granger Cause LNFDI	25	1.67875	0.2119	Reject
LNFDI doesn't Granger Cause LNOPN		4.18897	0.0302	Accept

With $F_{\alpha}(k - 1, n - k) = F_{0.05}(2,22) = 3.4433$, these results (in Table 9) show the Pairwise Granger causality test among the variables analyzed. In the short –run, the results indicate that there are unidirectional causality relationships running from GDP, GFCF and OPN to FDI.

Table 10
Variance Decomposition of FDI

<i>Variance Decomposition of LNFDI: Period</i>	<i>S.E</i>	<i>LNFDI</i>	<i>LNGDP</i>	<i>LNGFCF</i>	<i>LNOPN</i>
1	0.1536	100.0000	0.0000	0.0000	0.0000
2	0.2621	93.3727	3.5264	0.1703	2.9305
3	0.3326	81.7651	14.951	0.9599	2.3230
4	0.3822	76.7360	18.5325	1.4780	3.2533
5	0.4148	73.6031	20.8595	1.9355	3.6018
6	0.4368	69.4920	23.8093	2.3060	4.3925
7	0.4507	66.4051	25.9728	2.4472	5.1747
8	0.4598	64.3254	27.6579	2.4456	5.5709
9	0.4672	62.6140	29.2053	2.3872	5.7933
10	0.4739	61.2252	30.5439	2.3196	5.9111

We employ a ten year forecasting time horizon and observed the relevance of the variables over time horizon. Table 9 gives the fraction of the forecast error vector variance that is attributed to its own innovation and to innovations in other variables. The own shocks of FDI ranged from 100% to 61%. Ten years after, variance in FDI are accounted by GDP (30.54%), GFCF (2.31%) and OPN (5.91%). The salient feature is that predominant source of variation in FDI are GDP (Table 10).

Figure 1 reports impulse responses:

- In appendix shows that the impulse response of GDP on FDI is positive and mildly decreases as time passes on.
- The shocks given to the openness of economy immediately reduce FDI and from third year they rise FDI.
- The shocks of GFCF reduce FDI and gradually restore from the sixth year

Overall, the impulse response function traces positive influence of the response variables on the FDI of Vietnam.

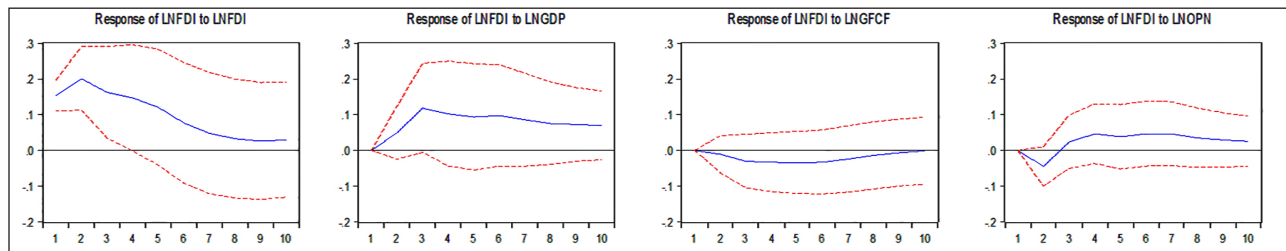


Figure 1: Response to Cholesky One S.D. Innovations ± 2 S.E

There is also a positive and direct relationship between GDP and FDI. GDP's increase may cause firms to accelerate their exports of products; the more FDI in Viet Nam, the higher the level of economic growth and development. Host governments usually provide special prefers and enabling environment to encourage foreign investors, openness policy affects to attract FDI. And the foreign capital sector also persuade to host government must improve the legal system in a transparent, open and stable manner. Viet Nam Government should tighten the government current expenditure to accumulate the capital resources for building society - economy infrastructure, these things are considered necessary and enough conditions for strength FDI.

5. CONCLUSION

FDI has the role as the channel of supplying capital for emerging economies and it helps these countries to reduce their investment – saving gap. FDI has confirmed as a catalyst of economic growth through investments into new firms, mobilization of domestic capital, technological transfer, cutting – edge management practices and solve jobs. The study finds out that there is bidirectional causality between FDI and other variables of model in the long – run.

The value of ECM $(-1) = -0.719908$, this reveals that speed of adjustment toward long run equilibrium is about 1.5 year. There is long run causality running from FDI to variables as GDP, OPN, GFCF. In model D(LNFDI), the adjusted coefficient of determination (R^2) at 0.3293 shows a medium explanatory

capability of the model. In the other word, 32.93% of FDI fluctuation is explained by the fluctuations of economic growth, GFCF and OPN in the past. In the one period lagged, the changes in lagged LNFDI is positively related to all other variables; the effectiveness of FDI in bringing the economic growth may be constrained by the level of GFCF and OPN, $D(LNGDP(-1))$ are positively related to LNFDI but $D(LNOPN(-1))$ are negatively related to LNFDI, $D(LNGFCF(-1))$ is positively related but no statistic significant. Considering the two period lagged, all the variables aren't related to LNFDI in different level. The changes in two period lagged, LNFDI isn't related to all other variables.

In the short –run, the results from Pairwise Granger causality test indicate that there are unidirectional causality relationships between GDP, GFCF, OPN to FDI.

With the openness policy, foreign investors can receive facilities in business, save the cost of product and gain special prefers and enabling environment in Viet Nam. And GDP increases, the Vietnam Government has financial resources to establish social - eco infrastructure and which creates the good conditions for foreign companies processing product activity. However, in the last years Vietnam always suffers trade deficit with the largest figure recorded from China (about US\$25 billion per annum). The trouble is the country could not urge the foreign parties to purchase more of Vietnam's key products in return. The majority of imports from China were raw materials and accessories used to manufacture exports, which technically means Vietnam is exporting their raw and accessories facilitated by local workers, giving Chinese goods a shortcut and a buffer against troubles caused by trade protectionism. The increasing in Government's development expenditure can lead budget deficit of 5-6% of GDP every year and when the public debt exceeds the safety threshold, it becomes bad debt and the economy may slide into a crisis.

In the past three decades, 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. However, as these resources are gradually depleted, the growth motivation is gradually being narrowed, the risk of falling into the average income trap is present. On the other side, FDI at present accounts for 50% of Vietnam's industrial output and 70% of her manufactured export sales but 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. Depreciated value of exchange rate (local currency) in Viet Nam during the 1990 -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.

This finding corroborates the findings of Anyanwu (1998), Salako and Adebusuyi (2001) which observed that infrastructural development, openness and domestic market size are major determinants of FDI in Nigeria. This results also support the state of Findlay (1978), Pulstova (2006) about the effects of FDI and firm export on economic growth.

6. RECOMMENDATION

From the above research results, the research suggests some recommendations as follows:

- (a) Vietnam's economy is highly dependent on FDI, not only in terms of industrial production (FDI accounts for 50 per cent in 2016) or exports (70 per cent in 2016), but also ownership structure by enterprises with foreign capital (now mostly 100 per cent foreign capital); the foreign joint venture projects with local investors are few, only 17 per cent of the total number of FDI projects by the end of 2016). 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. If this situation does not change, the economy of Vietnam will be split into two separate areas: The FDI and the domestic sector, which are not unified to make the entire national economy, technology and business knowledge of the FDI sector does not spread to the entire economy. The Government should accelerate 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.
- (b) In the case of emerging economy, the government facing many problems of socioeconomic development should implement the preferential investment policies to attract foreign capital and tighten the Government's regular spending to have the finance resources for economic development, repelling high inflation or deflation, establishing socio – eco infrastructure.
- (c) The Vietnam National Assembly approved economic- growth target of 6.7% and inflation is forecast at 4.3-4.5% in year 2017. However, it is very difficult to rein in inflation below 4% due to wage hikes and higher food prices caused by unfavorable weather conditions at the end of 2016. In addition, recovering world oil price will pile pressure on fuel prices on the domestic market and a possible power tariff hike will push up inflation. The Government also focuses on removing difficulties, bottlenecks, completing and developing kinds of markets, including markets of commodity-service, capital, real estate and labor. The Government should improve the efficiency of public investment, stopping the status of spreading investment, preventing loss and wastage, implementing special and drastic measures to develop the economy.
- (d) The increase in public debt, especially that incurred by the Vietnam Government, can be attributed to rising budget spending, which often leads to a huge budget deficit. The Government should set up the specific plan for gradually reducing domestic and foreign borrowing, for suspending guarantees to new domestic and foreign loans.

Reference

- Ahmed E. and Ajao, Mayowa G. (2012). The Determinants and Impacts of Foreign Direct Investment in Nigeria. *International Journal of Business and Management*, 7 (24), 67 -78.
- Aitken, B., Harrison, A, E., & Lipsey, R. (1999). Do Domestic Firms Benefit from Foreign Direct Investment? *American Economic Review*, 89, 605-618. <http://dx.doi.org/10.1257/aer.89.3.605>

- Akinlo, A. E. (2004). Foreign Direct Investment and Growth in Nigeria: An Empirical Investigation. *Journal of Policy Modelling*, 26, 627-639. [http://dx.doi.org/10.1016/S0161-8938\(04\)0057-2](http://dx.doi.org/10.1016/S0161-8938(04)0057-2)
- Anyanwu, J. C. (1998). *An Econometric Investigation of Determinants of Foreign Direct Investment in Nigeria*. In Investment in the Growth Process: Proceedings of the Nigerian Economic Society Conference 1998 (pp. 219-240). Ibadan, Nigeria.
- Aremu, J. A. (2003). *An Overview of Foreign Private Investment in Nigeria*. Presented at the 12th Annual Conference of the Regional Research Units, Central Bank of Nigeria, Abuja, Nigeria.
- Asiedu, E. (2003). Capital Control and Foreign Direct Investment. *World Development*, 32(3), 479-490. <http://dx.doi.org/10.1016/j.worlddev.2003.06.016>
- Bolbol, A. A. & Sadiq, T. A. (2001). Capital Flows, Foreign Direct Investment and Technology Spill-over Evidence from Arab Countries. *World Development*, 29, 2111-2125. [http://dx.doi.org/10.1016/S0305-750X\(01\)00083-3](http://dx.doi.org/10.1016/S0305-750X(01)00083-3)
- Caves, R. E. (1996). *Multinational Enterprise and Economic Analysis*. Cambridge: Cambridge University Press.
- Dickey, D. A., & Fuller, W. A. (1981). Likelihood Ratio Statistics for Autoregressive Time Series with a Unit Root. *Econometrica*, 49, 1057-1072, <http://dx.doi.org/10.2307/1912517>
- Findlay, R. (1978), Relative Backwardness, Direct Foreign Investment and Transfer of Technology: A Simple Dynamic Model. *Quarterly Journal of Economics*, 92, 1-16. <http://dx.doi.org/10.2307/1885996>
- Granger, C. W. J. (1988). Some Recent Developments in a Concept of Causality. *Journal of Econometrics*, 39, 199-211. [http://dx.doi.org/10.1016/0304-4076\(88\)90045-0](http://dx.doi.org/10.1016/0304-4076(88)90045-0)
- Johansen, S. & Juselius, K. (1990). Maximum Likelihood Estimation and Inference on Cointegration with applications to demand for money. *Oxford Bulletin of Economics and Statistics*, Vol 52, pp.169-210.
- Melnyk, L. Kubato, O. & Pysarenko, S. (2014): The Impact of Foreign Direct Investment on Economic Growth: Case of Communism Post – transition Economies. *Problems and Perspectives in Management*, vol. 12, Issue 1.
- Muntah, S., Khan, M., Haider, N. & Ahmad, A. (2015): Impact of Foreign Direct Investment on Economic Growth of Pakistan. *American Research Journal of Business and Management*, vol. 1, Issue 1.
- Pulstova, M. (2016): Effects of Foreign Direct Investment and Firm Export in Economic Growth: Evidence from Uzbekistan. *European Journal of Business and Management*. Vol 8, No.3.
- Rascuite, S. (2006). An Empirical Investigation of the Determinants of Foreign Direct investment in the Central and Eastern Europe using Multi-level Data. *Loughborough University*.
- Salako, H. A., & Adebuseyi, B. S. (2001). Determinants of Foreign Direct Investment in Nigeria: *An Empirical Investigation*, *CBN Economic and Financial Review*, 39(1), 20-39.
- Todaro, M. P., & S. C. (2003). *Economic Development*. Pearson Education Ptc, Delhi India.
- World Bank. (1996). World Debt Tables: External Financing for Developing Countries. *The World Bank, Washington D.C.*
- Vakubu, M. U. (2005). Foreign Direct Investment (FDI) Flows to Nigeria: Issues, Challenges and Prospects. *CBN Bullion*, 29(4), 54-64.