

# The Impact Foreign Direct Investment on Economic Growth in Vietnam

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**Abstract:** After Vietnamese economic reforms in 1986, Vietnam's economic is one of countries growing in Asia. Vietnam have been attractive foreign direct investment to reduce poverty of population and Vietnam people more than ninety percent was exited poverty that the policy of government to impact foreign direct investment, Vietnam government expected to benefit the developing countries and implement of the policy "Doi Moi" reform was successful average 8 percent of GDP growth annually. However, each developing country has different initial conditions and distinctive institutional setups.

The forward of this independent of research study is to examine the role of FDI on economic growth in Vietnam by using data in the time series over the period 1968-2006. The period includes the 1990s, when Vietnam launched economic reform Doi Moi (or renovation) and financial liberalization process. The economic indicates that there exists a long-run communication between FDI and economic strong growth up. Our need to research that both FDI and human capital has positive effects on economic growth. The domestic investment in developed by FDI. Nevertheless, the negative effects of interaction terms between FDI and human capital on economic growth show that the low labor skills in Vietnam restrict the contribution of FDI to economic growth.

The Government has strategy a long-time on FDI benefit. This will help clear guidelines for foreign investors about government priority given to FDI in short, medium and long term. Some point the lack of clear strategy on FDI that the generated unnecessary confusion for foreign investors determining their long term plans for doing business in Vietnam. The reason why a considerable of number of foreign investors invested in Vietnam for getting short term benefits and immediately, withdrawn their investment when the situation became less favorable.

The purpose improvement of the infrastructure some of in poor provinces will be enhancing by attractiveness to FDI investors. The purpose of government need to build infrastructure such as transportation, energy water and also human resource been good service to attractive larger of amount of FDI.

**Keyword:** the impact Foreign Direct Investment on Economic Growth in Viet Nam.

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## I. INTRODUCTION

Vietnam is one of country success to developed countries in of East Asia, following its adoption of Doi Moi (renovation) policies in 1986. Rapid economic growth was achieved almost right after the adoption of policies; however growth proved to be unstable. After twenty five years, Vietnam is still one of the poorest countries in the world, and the economic impact of Doi Moi is under scrutiny.

Vietnam is one of agriculture country, behind that the government Vietnam change policy as "Doi Moi" (Renovation) that the function of government was done GDP growth and eliminate poor of population, as Doi Moi of Vietnam: an uncertain journey 2 years of independence, or Japanese firms have Korea was in the early 1950s (Akkemik, 2009) Vietnam, on the contrary was under American trade embargo until 1993 (thoburn. 2009)

General features of Doi Moi and Doi Moi is an industrial policy, one of the most successful and significant aspect of doi moi policies was the gradual removal of price controls on agriculture goods in 1987 and 1988, and allowance of farmers to engage in trade of surplus agriculture products (clewwe, 2004,.) this a resulted increasing incomes for the farmers as price of agriculture produce increase, and price of fertilizers declined-price deregulation in agricultural sector,

accompanied with trade liberalization resulted in Vietnam becoming the second biggest exporter of rice in 1999, by 4.2 million tons (Dinh, 200).

Agriculture approach slowly resulted in a unification of the exchange rate followed by devaluation of the Vietnamese dong. As well as Vietnam made the development strategy of United Nations industrial development organizational and the ministry of planning and investment of Vietnam is about the creation of prosperity and Vietnam's strategy develop economy industry has grown rapidly since the country opened its economy in the 1980s, and today foreign direct investors consistently rank it as one of the most attractive investment destination in Asia.

After many years of protracted wars, political isolation and economic stagnation, Vietnam is now rapidly getting integrated with the global economic and political mainstream, Since 1986, Vietnam has embarked upon a policy of "Doi Moi" (Economic Renovation) to introduce market economy. In a liberal investment climate, investors from all parts of the world are evincing ever-growing interest in Vietnam.

Vietnam's annual GDP growth has been 8-9% over the decade till 1997. However due to the Asian economic crisis, the growth came down to 5.8% in 1998, 4.7% in 1999, after which it again started showing up, registering 6.7% in 2000, 7% in 2002, 7.7% in 2004, 8% in 2006, and 8% in 2007. Industrial growth has averaged 12-14% over the past decade of so. The 10<sup>th</sup> Party Congress held in 2005 formulated the following key economic targets for the 2006-2010 Five Year Socio-Economic Development Plan.

GDP growth rate: from 7, 5% to 8% p. a witch :

- Agriculture, forestry & fishery : 3% to 3.2% p. a
- Industry & construction 9% to 10.2% p. a
- Service 7.7% to 8.2% p. a

Industrial output growth rate:

- Agriculture, forestry & fishery : 45% p. a
- Industry & construction 15.2% to 15.5%
- Service 11% to 11.5%

Import turnover growth rate 16% p. a

Economic structure by 2010

- Agriculture, forestry & fishery : 15% to 16% GDP
- Industry & construction 43% to 44% GDP
- Service 40% to 41% GDP

Vietnam is considered by investors as the second most attractive destination in the region after China. During the first seven month of 2008, Vietnam has licensed US\$45.9 billion worth of registered FDI capital, the overall industrial sector posted growth of 7% in the first half, down from 9.9% in the first half of 2007.

## **II. OBJECTIVE OF STUDY**

The objectives of this study are to investigate how the current promotion activities affecting the destination attribute and to explore what the destination attribute attracting the Foreign Direct Investment (FDI) promotion, Furthermore; this study contributes to how promotion activities and destination attribute affecting overall destination images. Finally this study aims to accomplish FDI development by strategically collaborating with the public sectors and tactically coping with the private sectors. Therefore, the contribution of critical factors of the promotion activities approaching in this study will be of both practical and academic values. The practical value indicates that managers seem to use the practical suggestions of such efforts and the implication of this study in their relationships with stakeholders. The academic value contributes to the academic knowledge by an examination of FDI theory in the context of Vietnam.

### ***The Benefits of the Study***

After I have learning the FDI makes me have more understood organization of FDI, can explain the FDI field, know how to develop FDI and how to make a good service of infrastructure aims at economic development, including job creation for the people. Study the policy “Doi Moi” development of FDI as studying and economic sector, FDI has its own features which are the linkages with various sectors, localities and a large number of stakeholders and the requirements for a high standard of quality of services provides. Therefore, development of human resources in FDI is of great importance, especially to make GDP growth.

### **III. LITERATURE REVIEW**

#### ***The Period of DOI MOI to attractive FDI***

The result of 15 years of doi moi reform is the Vietnamese economy has rapidly grown and overcome its earlier period of stagnation. The outstanding achievement of this transformation include its high growth rate and macro-stability, the reduction of inflation, and the rapid increase of export turnover, averaging more than 20 percent annually, As a mark of this new period of growth, after 1989, Vietnam became one of the big three global rice exporters, along with Thailand and the US. If we look at this transformation in more detail, it can be divided into three short periods:

From 1986 to 1991, the most decisive shift to a market economy took place. The growth rate during this early period of doi moi was still low with an average GDP growth rate of 4. percent, of which sector I (Agriculture, Forestry and Fishery) was 2.7 percent, sector II (industry and construction) 5.7 percent; and sector III (services) 6.4 percent. During the same period the population growth rate was 2.09 percent, or 2.2 times lower than the GDP growth rate, and inflation was still high at 260.2 percent.

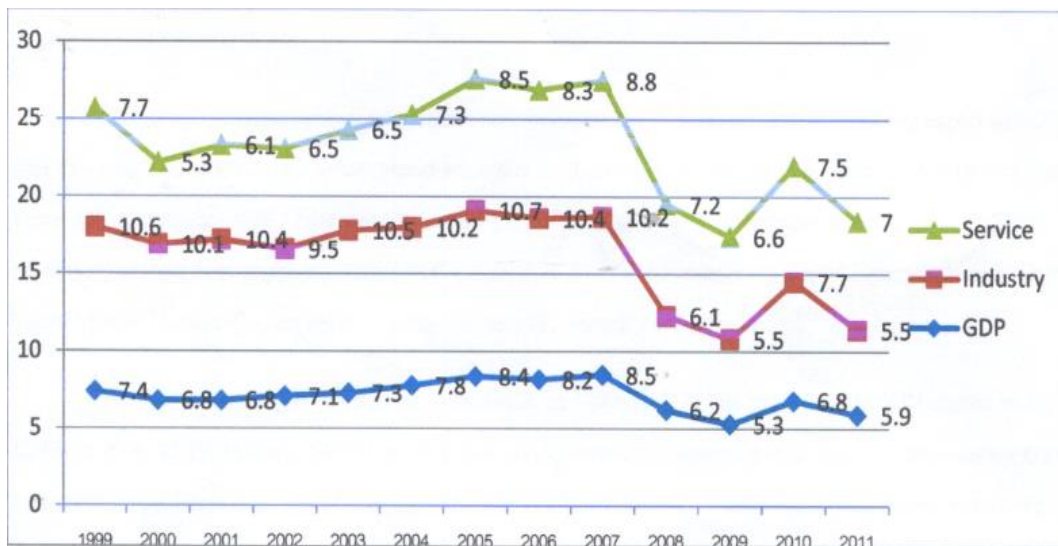
From 1992 to 1996, the economic situation clearly began to show the benefits of the reform of economic policy. GDP increased annually by an average of 8.9 percent, sectors II by 13.9 percent, and sector III by 9.1 percent. Meanwhile, the average population growth rate was 2.15 percent, or 4.2 times smaller than the growth of GDP, and inflation averaged 10.9 percent. In short, this was a period of stable growth across all sectors of the economy. Comparable with the high growth rate of East Asian NIEs (Hong Kong, South Korea, and Singapore) in the take off period of the 1970s and 1980s, and China and other dynamic Asian economies in the 1980s and 1990s. Although the average per capita GDP was still low because of the high economic growth rate, there were nevertheless some improvements. In 1996s, for instance, per-capita GDP increase 1.6 figures. The number of poor households, as measure by Vietnamese poverty standards, has also been sharply reduced, decreasing to 19.3 percent from 28 percent from 1993 to 1996 (or by 2.8 million households containing more than 13 million. People). Infrastructure has been improved and most families have electric power. National communications have developed rapidly; the postal system serves more than 75 percent of the country. The mass media reaches nearly all rural areas, and about 50 percent of agricultural household have a radio set, and 20 percent own a television. A library system has developed, and education and health care have greatly improved.

Viet Nam’s economic growth performance in the last two decades can be considered one of the most spectacular in the developing world. During the past two decades the country has achieved an average annual growth rate of around 7%. The main reason for this growth is its adoption and implementation of market reforms and opening to the world economy.

Table 1 shows the annual growth rate of GDP and its components by sectors (agriculture, industry and services) in the period 1990-2008. Vietnam had one of the highest economic annual growth rates in the world. Industry is the fastest growing sector, while agriculture is the slowest despite its impressive average annual growth rate of 4%. Industry’s share in total GDP increased from 25.2% in 1990 to 41.6% in 2010. Both the agriculture and service sectors have seen their share in GDP is a clear indicator of the country’s strong pace of industrialization.

The annual growth rate of industrial output accelerated from 13.4% in the period 1996-1999 to 22% during the last ten years. The manufacturing sub-sector grew much faster than the mining sub-sector and those sectors which are technically more advanced, such as electronic equipment; computer and communication equipment tended to show higher output growth rates than the others. Export-oriented industries such as garments and footwear showed even stronger growth in the early years of the decade, before the global financial crisis in 2008 (Vu, 2008). Therefore, in terms of output growth, Vietnam succeeded in taking bold steps towards industrialization and modernization. A temporary drop in the industrial sector’s share in 2010-11, as the table shows GDP growth, 1990-2011.

Year	Annual Growth Rate (%)		
	GDP	Industry	Service
1999	7.4	10.6	7.7
2000	6.8	4.6	5.3
2001	6.8	10.4	6.1
2002	7.1	9.5	6.6
2003	7.3	10.5	6.5
2004	7.8	4.4	7.3
2005	8.4	10.7	8.5
2006	8.2	10.4	8.3
2007	8.5	10.2	8.8
2008	6.2	6.1	7.2
2009	5.3	5.5	6.6
2010	6.8	7.7	7.5
2011	5.9	5.5	7.0



### FDI and Development

The main connections between FDI and development are the effects on capital accumulation and the balance of payments, the possibility of technology transfer and the effect on competition.

### The potential foreign direct investment in Vietnam

For several years Vietnam has been receiving attention as an attractive business location for foreign companies. Vietnam also experience challenges, e.g. connected to bureaucracy and corruption, the potentials and challenges for foreign companies on the Vietnamese labor market and education levels, productivity, wage levels.

Foreign direct investment has been of great importance for the economic developments of Vietnam's economic growth is still lagging behind pre-crisis levels, and inflows of foreign direct investment have been stagnating on behind that Vietnam get more net capital, creates jobs to expanding industries. The quality of potential as pays higher wages and has higher productivity to get high technology and development human resource.

### Literature Review on Effects of FDI on Economic Growth

Studies on the effects of FDI on economic growth have been rather diversifying, in terms of methodology, objectives and research scopes and come up with diversifying conclusion on the role of FDI on economic growth.

In Vietnam, despite of the vast literature on FDI, in-depth research on the relationship between FDI and economic growth, especially using quantitative methods, are still limited in number. Among them is Nguyen Mai (2003), which considers the effect of FDI on economic growth, both vertically and horizontally, based on Vietnam's FDI statistics from 1988 to

2003, with additional forecasts to 2005. According to him, FDI has positive effect on economic growth at the national level, and therefore, Vietnam need to expand the market and seek new parities in order to attract more FDI inflows.

**Important Contribution to Export**

The policy on encouraging foreign investment in export has facilitated Vietnam in raising export capacity, Vietnam after Doi moi, total commodity import-export turnovers in 2010 reached USD 157 bn, up by 23.6% as compared to 2009. Trade deficit stood at USD 12,6 bn, equivalent to 17.5% of export value (in comparison to 22.5% of 2009). Vietnam’s commodity exports were expanded from 130.8% of GDP to 67.9% and commodity import turnover share in GDP increased from 67.3% to 74.6% reflecting the increasing openness of Vietnam’s economy.

The GDP Vietnam growth rate and composition, in 1990-2011, in this figure to show FDI impact on export growth 22.8% in 2006, 22.1% in 2007, 29.00% in 2008, but on the contrary economic world crisis, Vietnam cannot export such as countries Europe, Unite State and 2009 export Vietnam was down-9.10%. Vietnam was policy reform to export growth 26.50% in 2010, 22.30% in 2011.



GDP in 2006-2011 GDP growth more than 8.0 2006-2007, but 2008 the economic world crisis so impact FDI in Vietnam. The reason economic GDP growth rate because the government Vietnam change political reform as “Doi Moi” (renovation) as well as Vietnam government have been attractive inflow from FDI more than two dedicate. Vietnam is one of biggest export countries in ASEN, both FDI and export that the factors to support GDP growth rate as to show in from this figure.

**IV. CONCLUSION**

Since the promulgation of law on Foreign Investment, Vietnam has achieved quite impressive performance in attracting FDI inflows. Together with the magnificent GDP growth.

**VI. RECOMMENDATION AND POLICY IMPLICATIONS**

Vietnam has achieved vast reforms to improve its legal and regulatory framework for investment over the two decades. This integration into the world economy by joining TWO in 2007, the continuous process of reforms and the perspectives it opened to foreign investors have also allowed Vietnam to attractive significant levels of FDI, Vietnam has also succeeded in deriving important benefits from the involvement of foreign investors in its economic development.

Vietnam has only gradually opened to FDI, foreign investor have represented a major force in the process of economic transformation. They have underpinned the rapid development of the manufacturing sector and the strong increase in output, crease more than one million jobs, offered higher-than-averages, generated high levels of export, transferred knowledge and skills.

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