

FDI and Growth in Vietnam: A Critical Survey

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Abstract

More than ever, countries at all levels of development seek to leverage FDI for development and adopt measures aimed at improving their investment climate. Despite the exhaustive literature on the topic however, results on growth effects of FDI still remain controversial. Notwithstanding the absence of any robust conclusions on the direction of causality between FDI and growth, most developing countries continue however to pursue policies aimed at encouraging more FDI inflows.

This paper provides an overview of economic reforms related to foreign investment in Vietnam as well as the main trends and patterns of FDI inflows. It discusses the literature on FDI, summarizes the main studies which have analyzed the impacts in Vietnam and suggests some research directions.

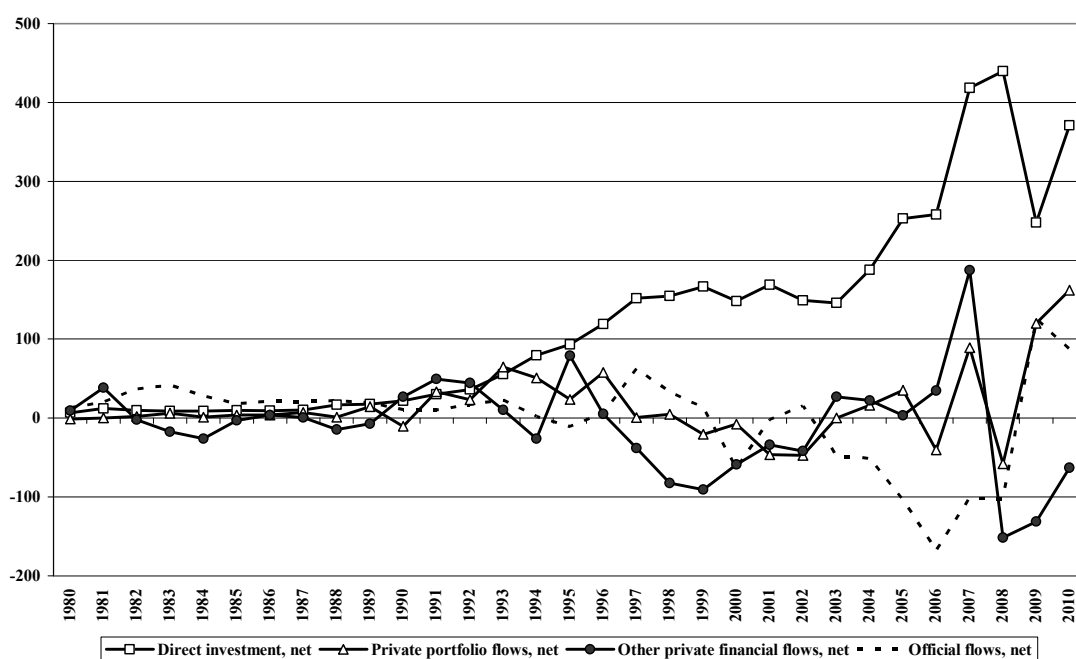
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1. Introduction

Foreign Direct Investment (FDI) has become increasingly important in the developing world, replacing from 1994 onwards official resource flows (Official Development Aid and loans from multilateral organizations) as the main source of external finance (Figure 1). In 2010, the share of FDI inflows reached 51% of total capital flows to developing countries, while their inward stock of FDI amounted to about one third of their Gross Domestic Product¹ (GDP) compared to just 10% in 1980 (UNCTAD, 2011). For many observers, this worldwide trend is the most visible dimension of globalisation (Addison et al., 2006). On the one hand, the strong international mobility of both goods, services and intangible assets, together with greater flexibility and divisibili-

ty of the production process, has made the entrance of Transnational Corporations (TNCs) in manufacturing and services the key vehicle of international integration. On the other hand, trade and FDI have given a specific dimension to the rapidly growing East Asian countries by contributing to the acceleration of industrial growth and structural change along their development process. Such a successful experience has reinforced policy prescriptions of the international organizations in favor of trade liberalization and the opening of domestic markets to foreign capital. From the point of view of developing countries, globalization has thus been perceived as a process whereby access to markets of the North and inflows of FDI are considered essential to successful integration into the world economy. From the

Figure 1: Composition of net capital flows to developing countries, 1980-2010 (in billions of dollars)



Source: extracted from UNCTAD (2011), p. 30

point of view of transition countries, attracting FDI would accelerate a far-reaching transformation from an inward-looking planned economy to one that is globalized and market-based.

Within the space of three decades, from the country's reunification in 1975 to its accession to the World Trade Organization (WTO) in 2007, Vietnam has gone through deep systemic changes regarding production, investment, distribution, and trade in goods and services. The *Doi Moi* ('Renovation' in Vietnamese) inaugurated by 1986 enabled Vietnam to shift from one of the poorest countries in the world (with per capita GDP of US\$98 in 1990) to a Lower-Middle-Income (LMI) country (with per capita income of US\$1,130 in 2010) in less than 20 years. The domestic economy has grown at an annual average rate of 7.3% from 1990 through 2010, outpacing other countries in the Asian region (World Bank, 2011). The ratio of population in absolute poverty has fallen from 58% in 1990 to 10.6% in 2010, while most indicators of welfare have improved. Lastly, structural change has involved the shift of workers from low productivity agriculture to labor intensive manufacturing: in 2010, the share of agriculture in GDP was only 20.6% while industry and construction reached 41.1%.

Foreign capital attraction and participation to international trade is perceived to be central to the prospects for Vietnam's long-run growth. They are expected to have an important role to play in the implementation of Vietnam's Socio-Economic Development Strategy (SEDS) 2011-2020. With a pro-active integration into the regional and world econo-

my, it is hoped that the country will be embarked on a path of development similar to its Asian neighbours.

A large number of theoretical and empirical studies have been devoted to the relationship between FDI and growth. However, their results have been far from conclusive, enabling the FDI-growth nexus to become one of the most controversial debates among researchers. Despite the exhaustive literature on the topic, the growth effects of FDI remain ambiguous, while the direction of causality from FDI to economic growth does not find empirical evidence. Nonetheless, this raises two concerns. Firstly, the methodological issues inherent to the causal relationship between FDI and growth are crucial from a policy perspective (Chawdhury and Mavrotas, 2006; Hansen and Rand, 2006). Under the assumption that FDI causes growth, such conclusion may justify the substantial efforts and incentives devoted by governments to attracting FDI. In the case of a reverse causation however, this casts some doubts on the validity of policy guidelines which emphasize the importance of FDI attraction and trade openness on overall economic growth. Secondly, the process of global economic integration followed by financial and trade liberalization has exacerbated balance of payments deterioration and high current account deficits in most of the developing countries. More than ever, the developing world (including the 'emerging' economies) has experienced balance of payments crises and more than anywhere else, it is in the Low- and LMI countries that the balance of payments constitutes a structural problem (Bagnai et al., 2012).

Concern in this regard has become particularly acute in Vietnam: with rapid growth and massive capital inflows, the country has experienced growing macroeconomic turbulence in recent years. Net positive capital inflows have led to demand pressures and subsequent changes in relative prices. The government addressed these macroeconomic imbalances by relying almost exclusively on tight monetary policy. From our point of view however, substantial current account deficits and the rising capital inflows to finance them played a significant part in disturbing macroeconomic stability. Based on these stylized facts and the available literature, our paper reviews the role and impacts of FDI both at the macro- and micro-economic levels.

The rest of the paper is organized as follows: Section 2 provides an overview of economic reforms related to foreign investment in Vietnam. Section 3 presents the main trends and patterns of FDI inflows and Section 4 discusses the literature on FDI as well as the impacts in Vietnam. Section 5 concludes and suggests some research directions.

2. Economic reforms and FDI in Vietnam

Within a process of both transition and development, Vietnam has embarked in major changes since the initiation of economic reforms in the mid-1980s. At the specific FDI concerns, the opening up of Vietnam to foreign investment began in 1987. Since then, the regulatory regimes governing FDI have been progressively liberalized. The cornerstone of this trend was 2000, culminating with the country's accession to WTO in 2007.

The first Law on Foreign Investment in Vietnam was dated 29 December 1987 and

marked the first step towards renovation (the so-called *Doi Moi*) of the domestic economy. For the first time, the law established a regime under which FDI could enter Vietnam. However, despite the substantial efforts devoted by the government to improve the investment climate, the inflows of FDI were under expectations and the actual implementation of projects had fallen short of the plans (Kokko et al., 2003). This disappointing result was greatly attributable to the US embargo on trade and investment that hit Vietnam until 1994. Additionally, one might question the reliability of FDI data before the early 1990s².

In response to this context, Vietnam strengthened its international integration by entering discussions about bilateral, regional and multilateral agreements (Nguyen and Tran, 2010). In 1992, Vietnam signed a trade agreement with the European Union (EU). It was followed by a bilateral agreement including investment-related provisions that entered into force by 1996. In 1995, the country joined the Association of Southeast Asian Nations (ASEAN) and committed itself to fulfilling by 2001 the agreements under the ASEAN Free Trade Area (AFTA) which removes trade barriers throughout the region. In complement, an ASEAN Investment Area (AIA) agreement was signed in 1998 aimed at attracting FDI through better access to an enlarged regional market. Vietnam applied also for WTO membership in 1995 and became member of the Asia Pacific Economic Cooperation Forum (APEC) by 1998. In preparation to WTO negotiations, the United States and Vietnam normalized economic relations by signing a Bilateral Trade Agreement (US-VN BTA) in

December 2000. By providing to the country all benefits from Most Favoured Nation (MFN) status in trade and investment, the 1990s decade was focused on improving market access and national trade capacity through mainly bilateral agreements. By contrast, Vietnam's economic integration in 2000-2010 relied more heavily on Free Trade Agreements (FTA) under the objective of more comprehensive development cooperation with other countries.

Parallel to international economic integration, the government pursued domestic reforms to improve the investment climate. Further efforts were devoted to restructuring the State Owned Enterprises (SOEs), the banking and financial system, and tax administration. Several amendments were made to the first Law on Foreign Investment in 1992, 1996, 2000, and it was replaced in 2006 by a Unified Investment Law that integrates both domestic and foreign investment. These changes and amendments aim to remove obstacles against the operation of foreign investors in Vietnam. They are expected to provide more tax incentives, to simplify investment licensing procedures, and to promote transfer of technology.

The FDI law amendment in 1992 granted foreign investors with more rights and incentives, allowing FDI in construction of infrastructure facilities, giving the same tax treatment between wholly-owned foreign firms and Joint Ventures (JVs), and providing foreign firms with longer operation duration. This amendment has encouraged foreign firms to set up wholly-owned affiliates when entering the Vietnamese market. Moreover, under the

1987 FDI Law, a foreign enterprise could open Vietnamese and foreign currency bank accounts at the Bank for Foreign Trade of Vietnam, or at the branch of a foreign bank established in Vietnam. This would need approval from the State Bank of Vietnam (SBV). In the 1992 Law, these enterprises were able to open bank accounts at any bank operating in Vietnam, and could open loan capital accounts at overseas banks with approval from the SBV.

In 1996, the FDI law was modified to allow for new forms of investment including BOT (Build-Operate-Transfer), BTO (Build-Transfer-Operate) and BT (Build-Transfer) contracts. The modification also gave more rights and incentives to investors, such as the right to assign the contributed capital to other parties. Moreover, before 1996, pre-licensing evaluation procedures applied to all foreign investment projects. During the evaluation process, the Ministry of Planning and Investment (MPI) of Vietnam could request any necessary documents apart from those stipulated by law. The time it took to acquire an investment was supposed to be three months from the date of receiving a completed application dossier. However, in reality this usually took much longer, possibly even years. The FDI law amendment in 1996 has reduced procedures for registration. Most importantly, another important amendment of the FDI law has decentralized some policy responsibilities to provinces and has given them some autonomy in issuing investment licenses for foreign investment projects up to specified sizes. Such administrative decentralization has created opportunities for entrepreneurial-minded local

authorities to push forward economic reform, and foster the development of both local businesses and foreign investment. However, it has also implied that provincial authorities may vary in how they use their newly gained responsibilities to develop innovative ways of dealing with foreign investors (Nguyen et al., 2006). Accordingly, the implementation of laws and decrees at local levels may not meet the intentions of the legislators. This may be slow and inconsistent, leading to divergent amounts between registered and implemented capital.

In 2000, the Law was modified again to acknowledge the right of foreign investors to split, merge and acquire companies and branches. In special cases approved by the SBV, a foreign enterprise can mortgage assets attached to the land and use the value of the land-use rights for borrowing loans from credit institutions operating in Vietnam. This has allowed former JVs to be converted into 100% foreign ownership. Prior to 2000, Foreign Invested Enterprises (FIEs) were not considered independent entities. By this date however, the Vietnamese government recognized the importance of the private sector (both local and foreign) as the main engine for economic growth and job creation. Efforts were made to improve the regulatory environment of the sector and to eliminate existing discriminations against private owned enterprises. This was expressed by a new Enterprise Law in 2000, which permits greater participation of the private sector with formal acknowledgement by the Fifth Plenum of the Ninth Party Congress in March 2002.

Another turning point for FDI policy

occurred in 2005. In preparation to fulfil WTO obligations, a new Unified Law on Enterprises was approved on 29 November 2005, followed by a Unified Law on Investment that came into force on 1 July 2006. These amendments cancel all previous laws and regulations that discriminated foreign firms in relation to domestic firms and aim to treat them equally according to the WTO principle of national treatment (which consists in giving others the same treatment as one's own nationals). Most importantly, they insist upon the attraction of FDI as a key strategy to promote growth and development in the country. As a result, various forms of FDI entry are formally allowed, including Mergers and Acquisitions (MAs), and not just greenfield projects (Menon, 2009).

Besides amendments of the FDI law, the government has also passed several other laws in order to create a good business environment for foreign investment. Remarkable are the amendments of the Land Law and the Domestic Investment Promotion Law issued in 1998 that encourage provinces with little available land to construct industrial zones and publish information about available land. By doing this, the government has increased land supply and foreign investors may have easier access to land, therefore making it unnecessary to seek JVs as a means to access land-use rights (Meyer and Nguyen, 2005). The Competition Law or the Bankruptcy Law were approved by the National Assembly in 2004, and contributed to clarify the status of private enterprises in Vietnam. To increase attractiveness of industrial zones, the government has issued some tax incentives applied for firms locating in these places. The standard profit

tax rate is 28% and preferred rates range from 10% to 20% if the investment is located in priority areas or satisfies certain investment promotion criteria. In 1991, the government issued the first regulation on export processing zones (EPZs). An EPZ specializes in the production of export goods and in the provision of services for the production of export goods and export activities. Enterprises operating in EPZs enjoy a profit tax rate at 10% and 15% in respect of production and service enterprises. Industrial zones (IZs) have been established since 1994. An IZ is a concentrated zone specializing in the production of industrial goods and services for industrial goods production. Enterprises operating in IZs enjoy profit tax rates at 15%, 10%, and 20% respectively for production, exporting and service enterprises. A high-technology (HT) zone concentrates HT industrial enterprises and units providing HT development services, including scientific technological research and development, training and other related services. Enterprises operating in HT zones have to pay 10% of profit tax rate after an eight-year tax holiday from the first year in which the enterprises are profitable.

Vietnam formally completed WTO accession in late 2006, culminating a long process of efforts to integrate the national economy into global markets. A decree added to the Law on Investment in 2007 further clarified and liberalized the FDI inflows through MAs. In many aspects, all these achievements to fulfil WTO obligations have contributed to make the investment regime more in line with international standards and more favourable to foreign investors. This long way toward market-

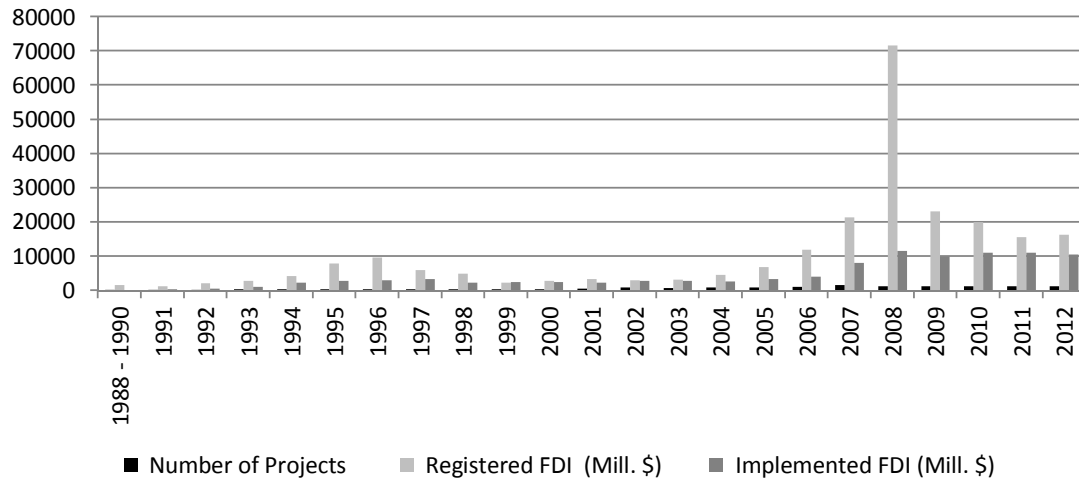
oriented investment climate has had dramatic implications for trade and investment flows.

3. The main characteristics of FDI in Vietnam

Among the ASEAN member states, Vietnam experienced a dramatic increase in FDI inflows in the second half of the 1990s (both in terms of the number of projects and the amounts), attesting to the successful implementation of trade and investment reforms (Figure 2). Consistent with other countries in the Southeast Asian region, registered FDI decreased during the financial crisis of 1997-98, but they rebounded quickly in 2001 as countries in the region recovered from the crisis and the US-VN BTA was signed. The trend of FDI inflows has grown uninterrupted since then and has increased dramatically when Vietnam became a formal member of the WTO. After twenty years of issuing the first Law on Foreign Investment, FDI flowing to Vietnam in 2008 achieved the highest record with US\$71.7 billion of registered capital, US\$11.5 billion of implemented capital and 1171 new investment projects. Registered FDI in the period 2000-2010 was four times more than that in the previous decade. By the end of 2012, the country accumulated US\$246 billion of total registered capital (primarily greenfield investment) from 15904 FDI projects, though the total implemented capital amounted to only US\$100.6 billion³.

As predicted by the "Flying Geese Paradigm" which draws waves of industrialization experiences in the region in relation to the dynamics of comparative advantage, Vietnam is increasingly viewed as an alternative destination to countries such as China or

Figure 2: Trend in FDI in Vietnam, 1991-2012



Source: Foreign Investment Agency (FIA), Vietnamese Ministry of Planning and Investment (MPI)

Thailand. Due to its advantageous location in a rapidly growing region, the surge in FDI inflows by 2007-2008 attests to investor expectations in the overall business climate with Vietnam's accession to the WTO. Vietnam has then overtaken the Philippines and Indonesia to become the third largest recipient of FDI inflows in the ASEAN, behind Singapore and Malaysia (Nguyen and Nguyen, 2007). What is striking, however, is

that FDI in Vietnam shows a greater magnitude than in the other countries of East Asia: in 2006, inward FDI reached 11.5% of fixed capital formation and 54.8% of GDP in Vietnam, compared to respectively 10.7% and 26.8% for the East Asian area as a whole. The similar measures were 8.2% and 11.1% for China.

Before 2005, the Foreign Investment Law allowed foreign investors to enter Vietnam in

Table 1: FDI distribution by type of investment, from 1988 to 2007 (in millions USD)

Forms of Investment	Number of projects	Investment capital	Registered capital	Executed capital
100% foreign capital	6743	52 437	21 476	11 324
Joint-Venture	1640	24 575	9 292	11 145
BCC	226	4 579	4 128	5 661
BOT, BT, BTO	8	1 711	456	727
Joint Stock Company	66	1 658	451	363
Mother-Subsidiary company	1	98	83	14
Total	8684	85 058	35 877	29 234

Notes: BCC: Business Cooperative Contracts

BOT: Build-Operate-Transfer; BT: Build-Transfer; BTO: Build-Transfer-Operate

Source: Foreign Investment Agency (FIA), Vietnamese Ministry of Planning and Investment (MPI)

only three forms: enterprises with 100% foreign ownership, JVs and Business Cooperation Contracts (BCCs). In the early years of the Foreign Investment Law, foreign participation in oil exploration or communication projects was strictly limited to BCCs. JVs were also the most common form of investment: due to little or no financial resource, most Vietnamese partners in JVs contributed their part of the capital in the form of land and expertise. However, in a context of discriminations against private-owned enterprises, SOEs were the only legal partners for foreign investors. Moreover, the various privileges (access to commercial land or to formal credit institutions, protection in import-substituting sectors), as well as the political contacts favoring SOEs, contributed significantly to their attractiveness as JV partners⁴. Consequently, the number of investment projects, as well as the amount of licensed capital in the form of JV grew steadily, with a peak in 1995-96 (Table 1). Much of the early FDI was then JVs with SOEs in highly protected sectors.

Wholly-owned affiliates were rather small in number and allowed only under special circumstances primarily relating to policy priorities for domestic industrial development. They started to increase by 1992, once the Foreign Investment Law gave them the same status as JVs (Kokko et al., 2003). But it was the reforms of 2000 and subsequently which made a major impact on foreign firms. The relative importance of wholly-owned FIEs changed radically when the use of the JV form was no longer stipulated when foreign investors apply for an investment license (UNIDO, 2012). In 1991, wholly-owned affiliates accounted for about 20% of total invested capital and 10% of the number of projects; by 2000, these proportions had risen to 90% and 83% respectively and for the first time, the licensed capital for wholly-owned projects was larger than that of JVs. Together with the increase in registered capital and investment projects, the number of FIEs entering Vietnam's market increased over time, from 1525 enterprises in 2000 to 4897 in 2011 (GSO)⁵. However, the data shows that

Table 2: Top ten FDI countries updated to 31 December 2012 (in millions USD)

Rank	Country	Number of projects	Registered capital
1	Japan	1555	24381.7
2	South Korea	2960	23695.9
3	Taiwan	2223	23638.5
4	Singapore	1008	22960.2
5	British Virgin Islands	503	15456.0
6	Hong Kong	658	11311.1
7	Malaysia	398	11074.7
8	The USA	609	10431.6
9	Islands Caymen	53	7501.8
10	Thailand	274	5853.3

Source: GSO

most investors prefer the form of 100% foreign ownership: in 2011 the wholly-owned foreign enterprises accounted for 77.1% of the total FIEs in Vietnam.

Table 2 depicts the distribution of FDI by top investors in Vietnam. In contrast to the early years of implementation of the Foreign Investment Law, East Asia is now the most important source of capital in the country. The bulk of FDI inflows mainly originate from the neighboring countries in search of cost reduction and regional location complementation in manufacturing activities. The number of investors from East Asian countries accounted for 78.7%, Europe 11.6%, and America and Caribbean 5% of the total FIEs. As predicted, Japan and the first-tier NICs⁶ are the top five foreign investors (also trans-shipping through the British Virgin Islands) as they account for 53.2% of total registered investment. This predominance of regional investors greatly explains the sharp drop of FDI in Vietnam following the onset of the East Asian crisis. Unsurprisingly, the main investor outside of East Asia is the United States after the embargo was lifted in 1994 and the coming into

effect of the US-VN BTA in 2001. France and the European Union as a whole lag far behind the Asian investors with only about 10% of the number of projects and 15% of total investment.

Regional integration in East and Southeast Asia has intensified with the current global crisis. A further step has been taken forward to transform the AFTA into a single market with the establishment of an ASEAN Economic Community by 2015 (Bagnai et al., 2012). Meanwhile, subsequent bilateral FTA between ASEAN and respectively China, South Korea and Japan (that is, ASEAN+3) was launched in 2005, 2007 and 2008, followed by India, Australia and New Zealand (the ASEAN+6 grouping). This trend played an increasing role in FDI flows to Vietnam: by the end of 2012, the seven largest foreign direct investors came from Japan and the first-tier NICs, followed by Malaysia.

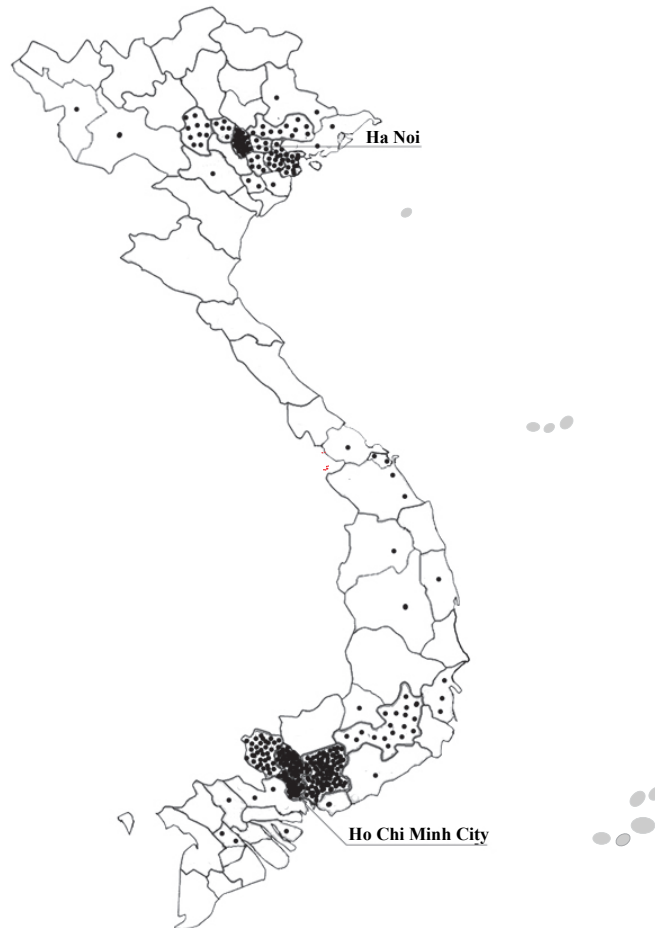
The geographical distribution of FDI is highly concentrated in the Southeast region (with Ho Chi Minh City, Dong Nai, Ba Ria-Vung Tau and Binh Duong) and Hanoi (in the Red River Delta). For instance, in 2011 these

Table 3: Regional distribution of foreign enterprises in Vietnam (%)

Regions	2006	2007	2008	2009	2010	2011
Red River Delta	22.7	20.5	20.7	20.5	20.7	20.2
Northeast	2.0	1.9	2.5	2.9	3.2	3.0
Northwest	0.3	0.2	0.2	0.3	0.3	0.4
North Central Coast	1.1	0.8	0.8	1.0	1.0	0.9
South Central Coast	3.7	3.4	3.4	3.4	3.0	2.7
Central Highlands	2.2	1.7	1.5	1.6	1.6	1.9
Southeast	64.5	68.5	68.1	67.6	67.7	68.8
Mekong River Delta	3.5	3.0	2.8	2.8	2.6	2.3

Source: The Enterprise Surveys in Vietnam 2000-2011, GSO

Figure 3: Distribution of newly created foreign firms in Vietnam, 2011



Source: Based on the data of enterprise survey in Vietnam, GSO

two regions accounted for 89% of the total number of foreign firms (Table 3). Similarly, Figure 3 shows the distribution of newly created foreign firms in Vietnam in 2011. The investors' nationality is related to the geographical location of investments. While most investors from Taiwan or the United States preferred to locate in some provinces of the Southeast region such as Ho Chi Minh City, Binh Duong and Da Nang provinces, Japanese

or Chinese investors were likely to choose some provinces of the Red River Delta region such as the cities of Hanoi and Hai Phong.

Such spatial distribution of FDI is quite consistent with empirical studies on the location determinants of FDI in Vietnam and reflects the effects of agglomeration. Common factors such as market potential, labor-related factors (availability, costs, quality of the workforce) and infrastructure reduce transaction costs and

reinforce the role of Hanoi and Ho Chi Minh City as the main hubs of the country (Nguyen and Nguyen, 2007). This uneven distribution of FDI across provinces is seen as a problem by the government and results in significant efforts devoted to attracting FDI in remote regions outside the metropolitan areas. Financial or tax incentives, as well as construction of industrial or export-processing zones in the poor rural areas are expected to balance the geographical distribution of FDI⁷. But the attempts to attract FDI outside the main urban areas have not proved successful yet.

FDI is not uniformly distributed across economic sectors: initially concentrated in oil and gas exploitation or construction, foreign investors have moved rapidly to light and heavy industries over the years (Table 4). Chemicals (plastic products), construction materials and electrical equipment have become important while reliance on export-oriented production has channeled FDI inflows into light industries (agro-processing, textiles and wearing apparel). In the services sector, transportation and telecommunications, as well as construction and real estate (hotel and tourism, office and apartment, infrastructure) are predominant. Since 2000, the majori-

Table 4: FDI, exports and production in Vietnam by production sector before 2006

Sectors	Structure of FDI (%)	Exports in % of production	Share in total production (%)	Share in total exports (%)
1995-2000 (on average)	100	100	100	100
Heavy industries	19.63	20.93	13.75	19.80
Light industries	9.57	17.02	19.04	22.40
Food industries	5.13	3.01	14.69	3.12
Oil and Gas	14.64	29.34	5.93	12.41
Agriculture, forestry and fisheries	7.04	12.80	21.44	19.77
Services ^(a)	5.87	11.12	22.83	17.95
Other sectors ^(b)	38.13	3.66	21.59	5.00
2001-2006 (on average)	100	100	100	100
Heavy industries	38.57	22.23	19.17	23.87
Light industries	23.37	18.84	26.38	27.87
Food industries	4.74	6.66	16.08	6.00
Oil and Gas	0.58	50.61	5.24	14.29
Agriculture, forestry and fisheries	7.85	13.88	14.76	11.41
Services	5.90	10.96	17.21	10.68
Other sectors	18.98	5.92	17.61	5.88

Notes: ^(a) Insurance, Finance, Public administration, Education

^(b) Construction, Hotels and restaurants, Transports and communications, Real estate services

Source: Authors' calculation from data of IMF, UNSD and GSO

Table 5: FDI by kinds of economic activity since 2006 (%)

Sector	2006	2007	2008	2009	2010	2011	2012
Agriculture, forestry and fishing	1.4	0.3	0.5	0.6	0.2	0.9	0.6
Mining and quarrying	1.2	1.2	0.3	1.7	-	0.6	1.0
Manufacturing	68.9	51.0	54.3	17.1	30.1	49.9	71.6
Electricity, gas, steam and air conditioning supply	-	-	0.1	0.8	14.8	16.2	0.6
Water supply, sewerage, waste management and remediation activities	-	-	-	-	0.1	2.1	-
Construction	5.3	4.7	0.7	2.8	9.1	8.3	2.1
Wholesale and retail trade; Repair of motor vehicles and motorcycles	1.2	0.6	0.2	1.1	2.3	3.2	4.7
Transportation and storage	0.4	1.7	0.9	1.3	4.4	0.5	1.4
Accommodation and food service activities	4.2	9.2	3.7	39.6	1.6	3.1	0.7
Information and communication	-	-	3.4	0.0	0.5	5.8	2.6
Financial, banking and insurance activities	0.3	0.2	0.2	0.4	0.3	-	-
Real estate activities	15.2	28.6	32.6	33.8	34.3	5.6	12.1
Professional, scientific and technical activities	-	-	0.2	-	0.4	1.7	0.6
Administrative and support service activities	-	-	0.1	-	-	-	0.0
Education and training	0.2	0.1	0.1	0.1	0.4	0.1	0.6
Human health and social work activities	0.1	0.5	0.6	0.1	1.0	0.6	0.9
Arts, entertainment and recreation	1.6	1.9	1.5	0.5	0.3	1.0	0.4
Other activities	0.1	-	0.8	0.1	0.1	0.5	0.1

Notes: “-” means the data is not available or is too small

Source: Foreign Investment Agency (FIA), Vietnamese Ministry of Planning and Investment (MPI)

ty of FDI in Vietnam goes into manufacturing industries both in terms of the number of projects and implemented capital.

On the eve of the country's WTO accession, the economic sectors with growing shares in total production were also the ones with the same trend in total exports. This highlights a shift from domestic market-seeking to efficiency-seeking export-oriented production, and from heavy capital-intensive to light labor-intensive goods. Factor-cost advantages create the attractiveness of Vietnam compared with neighboring countries especially in textiles, garment and footwear, furniture, computers and electronics (mostly components), and other manufacturing industries. Vietnam's exports rely significantly on FIEs: official GSO statistics highlight that export values emanating from the latter increased by 17.1% annually from 2005 to 2010, accounting for 55.8% of the total export value in 2010 (UNIDO, 2012). However, this pattern started to change around 2006, when the distribution of FDI inflows changed markedly and when land speculation took place. As mentioned in the previous section, amendments of the Land Law and the Domestic Investment Promotion Law have created an incentive for private investors to shift investment from manufacturing industries to real estate services. An asset bubble was emerging, which triggered speculators to buy more property for future resale. This boosted consequent FDI in property-related developments (Menon, 2009). Data from Table 5 shows that FDI in the manufacturing sector accounted for 71.6% of the total FDI inflows to Vietnam in 2012. But during the period 2006-2010, the share of real estate activities grew regularly and reached almost

one third of total FDI inflows, thereby surpassing the manufacturing sector in 2009-2010. This suggests that capital inflows in Vietnam, fueled by the prospects of a more market-oriented investment climate, went predominantly to the non tradable sector in the early years of WTO accession.

4. A review of the literature

4.1. The theoretical and empirical background

There is a vast literature bringing strong support to the relationship between FDI and economic growth. As documented by Chawdhury and Mavrotas (2006), the FDI-growth nexus has been investigated through four main channels: (i) determinants of growth (how does FDI affect growth?), (ii) role of foreign firms or TNCs in host countries, (iii) determinants of FDI, and (iv) direction of causality between the two variables.

The theoretical literature identifies a number of channels through which inward FDI may be beneficial to the host country. The most popular arguments giving prominence to the positive role of FDI on growth and exports are that FDI is an important source of capital, which complements domestic private investment in developing productive capacity. It has the potential to generate employment and raise factor productivity *via* knowledge and skill transfers, adoption of new technology (de Mello, 1997). FDI benefits the domestic economy by stimulating development of the local industry through technological spillovers. Furthermore, it enhances non-price export competitiveness in the host country as the goods produced by foreign firms result from a better technology, and can then be sold more easily abroad. The brands they propose are

also more popular and satisfy the quality standards required by the international market. Lastly, the role of FDI derives from better management and marketing strategies that foreign firms can bring with them (Pacheco-Lopez, 2005). All these points contribute to upgrade the host country's export performance⁸.

Notwithstanding these direct effects, FDI may be beneficial to the host country's exports through the indirect and spillover effects derived from competitive interaction between foreign and domestic firms. Higher productivity, better quality of goods and services produced and supplied by foreign firms may spread to local producers, thereby improving their own productivity and competitiveness. However, this channel is highly ambiguous and depends on many factors, frequently with an undetermined effect. More specifically, the intensity of competition as well as the inter-linkages between domestic and foreign firms is subjected to the type of FDI. The possibility for positive spillovers from FDI are likely to arise when TNCs are located up or down the supply chain, so as local firms in downstream or upstream industries would benefit from inter-industry linkages ("vertical" spillovers). On the contrary, findings on "horizontal" spillovers (*i.e.* TNCs and local firms are located in the same industry) have been rather inconclusive (Gorg and Greenaway, 2004). Barrios et al. (2005) note that the spillover and indirect effects of FDI are more likely to dominate when domestic firms are export-oriented; however, they are downplayed when FDI is located in enclaves such as EPZs.

Overall, FDI may contribute to the long-term economic growth of the developing coun-

try through large productive capacity and positive spillover effects on the export-oriented sector. In view of these arguments, the conventional approach seems to suggest that the direction of causality runs from inward FDI to exports and growth.

Besides that, the determinants of FDI in developing countries have been well analyzed in the literature. The emphasis is on the quality of physical infrastructure, skills levels and labor costs, the access to finance, taxation, macroeconomic policies, the regulatory and legal framework governing FDI and sound institutions. Others suggest that trade protection or development orientation may affect the growth effects deriving from FDI. In particular, the import substituting strategy might be negative as it reduces competition in the domestic market and efforts to improve efficiency among the domestic firms (Balasubramanyam et al., 1996). In contrast, outward orientation and the rapid growth of exports may attract foreign firms in search of price competitiveness. One of the major incentives for foreign firms to invest in a country is the lower costs of production, allowing them to be more competitive in the world market, regardless of the local market size. In a regional context, countries' participation to FTAs may then attract foreign investors when they are motivated either by better utilization of location complementation that facilitates regional production network ("efficiency-seeking") or by access to enlarged market ("market-seeking").

In light of the above, the trade effects of FDI as well as the impact of outward orientation on FDI are intimately connected with underlying motivations of FDI behavior. This has led the

theory of trade and multinational firms to develop jointly. The most commonly cited motivation for FDI is as a substitute for exports to a host country: servicing the same market with affiliate sales from FDI allows one to substantially lower costs compared to exports. However, the fragmentation of the production process has motivated TNCs to engage in trade and to exploit international factor price differentials. Recent studies on the topic then suggest three main motivations for FDI: to access markets in the face of trade frictions (horizontal FDI), to access low wages for part of the production process (vertical FDI), or to follow an export platform strategy where FDI is placed into a host country to serve as a production platform for exports to a group of (neighboring) host countries (Blonigen, 2005).

An underlying issue to the discussion above is on the determinants of location choice by foreign investors. Two important theories throw light on the locational determinants of FDI: factor endowments-based trade theory argues that FDI is drawn to countries with lower wages and more abundant natural resources, while the new trade theory suggests that economies of scale are a driving force of FDI and that agglomeration effects (the positive influence of a firm's location choice on the probability that the subsequent firms make the same choice) play a crucial role (Head et al., 1995). The evidence of the latter implies that relationships between firms (such as vertical linkages of suppliers of inputs to assemblers) have the power to affect FDI location.

Although a large number of empirical studies have been devoted to the relationship between FDI and economic growth, their results have been far from conclusive,

enabling the FDI-growth nexus to become one of the most controversial debates among researchers. Most studies stress threshold effects: that is, for FDI to have positive impacts on growth, the host country must have attained a level of development that helps it reap the benefits of higher productivity (de Mello, 1997). Assuming that one accepts the positive association between FDI and growth, there is still ambiguity with respect to the direction of causality. Basu et al. (2003) emphasized trade openness by addressing the question of the two-way link between FDI and growth: a more open trade regime is supposed to be conducive to stronger growth effects in the host country, thereby attracting more FDI. However, the authors explored the issue within a cross-country panel framework and with aggregate FDI data. In doing so, they submit the causal relationship between FDI and growth to a considerable degree of heterogeneity among host countries. This claims for host country-specific studies (Carkovic and Levine, 2005; Chawdhury and Mavrotas, 2006).

More generally, the failure of empirical studies to evidence the FDI-growth nexus can be attributed to several causes. Firstly, the unclear idea of how FDI contributes to growth is attributable to the econometric approach adopted and the sample used (Addison et al., 2006). The impact of FDI vary significantly by the sector in which the FDI is made, the form it takes, the country of origin as well as the motives of foreign investors. Secondly, the conditions in the host country (institutional and legal framework, macroeconomic background, policy regime, growth pattern) are predominant in determining the growth effects of FDI. Accordingly, Carkovic and Levine

(2005) suggest conducting more individual studies since causality between FDI and growth is subject to country-specific effects. Thirdly, macro-econometric studies often fail to adequately account for endogeneity of FDI inflows. As Brillet and Tran (2009) suggested, most of the existing studies examine only one side of the causality and fail to consider the econometric equilibrium as a whole: however, one can expect that FDI is itself subject to endogenous variables.

4.2. The FDI debate in Vietnam

The literature on FDI activity in Vietnam has expanded rapidly in recent years. Until the late 1990s, the empirical research was limited: this is partly because of data availability, the reliability of existing data and the quality of information on firm-level business activity. Vietnam did not publish many data on the operations of foreign affiliates, and the statistical office did not undertake regular surveys of foreign investors. It was therefore impossible to conduct comprehensive analyses of foreign investment in a long-term perspective (Kokko et al., 2003). However, since 2000, a growing number of surveys on enterprises have been implemented by the GSO⁹ in all provinces of Vietnam. The World Bank as well as other international organizations has also started to conduct enterprises surveys at various levels. We believe that these surveys will create good conditions for research on FDI in Vietnam.

The FDI inflows have been considered as an important source of Vietnam's economic development during its transition from a planned to a market oriented economy. This explains the early efforts to quantify the impacts of FDI. At the *macroeconomic level*, FDI benefits the Vietnamese economy in terms

of GDP growth and domestic investment (Le Viet Anh, 2002; Nguyen Phi Lan, 2006), job creation (Mirza and Giroud, 2004) and labor productivity (Pham Xuan Kien, 2008), export expansion (Schaumburg-Muller, 2003; Nguyen and Xing, 2006), and poverty reduction (Nguyen Thi Phuong Hoa, 2004). Drawing on the literature and available statistics, the UNCTAD (2008) was the first report which provided a comprehensive evidence of the positive impact of FDI on Vietnam's economic development. Among the macroeconomic impact of FDI, it is suggested that in 2010, FIEs contributed around 20% of current GDP, 55.8% of total exports, 3.4% of employed labor and 25.8% of total investment, while the corresponding shares in 2005 were respectively 16%, 47%, 2.6% and 14.9% (UNIDO, 2012). Gangnes et al. (2007) found that the growth effects of FDI are not equally distributed across economic sectors (FDI has only a consistently positive effect in manufacturing industries); however, it is estimated that FDI had a significant contribution to increase the proportion of manufactured products in total exports. Using data at the macroeconomic level, Vo and Nguyen (2011) assessed the impact of FDI on Vietnam's exports in 1995-2009. They suggested that a 1% rise in FDI disbursement tends to increase exports by 0.14% in the short term and by 0.99% in the longer term. The greater long term impact is due to FDI spillover effects on exports of other domestic enterprises. In the same manner, when the additional employment generated indirectly by FDI in domestic firms is included, we should find an even greater contribution of FDI to total employment.

However, a critical assessment of the role of

FDI in boosting exports has risen in recent years. Firstly, exports depend much more on imported inputs in the FDI sector than they do in the domestic one. Riedel and Pham (2010) indicate that the ratio of value-added to gross output in the export sector declined by about 20% from 2000 to 2008. Secondly, any increase of export activity by the FIEs will drive imported inputs, thereby increasing the country's trade deficit. Between 2005 and 2007, the current account deficit increased from 0.9% to 9.8% of GDP while the capital account surplus increased even faster, from 4.8% to 24.6% of GDP (World Bank, 2008). Thirdly, FDI has shifted recently from manufacturing toward real estate and other non-tradable activities. As FDI is a financial flow that is commonly regarded as unconditional, this shift implies macroeconomic risks and low potential for export expansion or employment generation. Lastly, it is also estimated that income tax from foreign invested firms accounted for 18.4% of total government budget revenue in 2010, far below expectations when compared to actual operational performance. This modest contribution may be due to transfer pricing mechanisms which help reduce the total tax liabilities: the very fact of increased investment or registered capital and the large number of foreign firms reporting losses while these firms have high revenues gives a signal of transfer pricing. This concerns especially foreign investors from Hong Kong, China, South Korea and Japan (UNIDO, 2012).

There are also a large number of papers analyzing the *microeconomic impact* and spillover effects of FDI. They examined spillovers in terms of wage levels from FIEs to domestic

counterparts (Le Quoc Hoi, 2007), the development of local industries stemmed by technological spillovers or backward-forward linkages (Nguyen et al., 2008; Nguyen Phi Lan, 2008), skills level or local human capital (Nguyen Thi Phuong Hoa, 2004; Nguyen et al., 2006). By quantifying the growth effects of FDI in Vietnam's provinces, Nguyen Thi Phuong Hoa (2004) concludes that the spillover effects of FDI on Vietnamese enterprises improved over time and were greater than in other countries. Nguyen et al. (2006) focused on three groups of processing industries (textiles and garment, food processing, mechanics and electronics) and found conversely, that there is little evidence of positive spillover effects in the surveyed industries at the firm-level.

Based on a comprehensive enterprises survey, the UNIDO's report (2012) contributed most recently to the discussion by evaluating the micro-economic impact of foreign investment activity in the manufacturing sector. Their findings are however less evident. The report indicates that the average labor productivity (as measured by the value of value added per worker) is rather low in foreign invested firms as most of them depend heavily on capital and imported inputs to produce low value-added products in key export industries. Their indirect impact on improving labor skills remains low due to weak forward and backward linkages with local suppliers and buyers, as was already highlighted by enterprises Censuses conducted by the GSO between 2007 and 2010. Lastly, many of these foreign invested firms operate at the manufacturing and processing stage in the production network of overseas parent companies. This

implies that domestic firms are hardly involved in foreign enterprise production chains and distribution networks.

In sum, the very important findings about the microeconomic impact of FDI are that Vietnamese enterprises would benefit from FDI depending on the ownership structure (JVs impact more positively than wholly-owned foreign enterprises), the labor movements and on the extent of production linkages and sharing experience between FIEs and local enterprises. When these linkages remain limited, there will be few skills and technology transfers allowing improvement in the production efficiency.

Some of the studies mentioned above share the finding that FDI generates different spillover impacts in different locations. This enables the literature to introduce a geographical aspect to investigations on FDI, encouraging the government to improve the attractiveness of disadvantaged regions or remote areas. With respect to the empirical works on location choices, most of them explore the reasons why foreign firms choose Vietnam to invest or why a specific region within Vietnam is preferred by foreign investors over the others. These studies introduce conventional variables reflecting location advantages such as labor costs, labor productivity, market size and growth, infrastructure, government policies, political stability, and geographical proximity.

Mirza and Giroud (2004) surveyed TNCs operating in the ASEAN countries and found that Vietnam is chosen as a destination of FDI because of its political stability, large population, quality of labor force and diversified industrial base. The authors stated that around 45% of firms investing in Vietnam do so with

the motive of market-seeking, only 14% can be regarded as efficiency-seeking, and the other motives are mixed depending on contingencies. Hsieh (2005) studied the determinants of FDI inflows into the Southeast Asian transition economies (Cambodia, Laos, Myanmar and Vietnam) during the period 1990-2003 and found that the most important determinants are the lagged FDI inflows, GDP per capita, and the degree of openness.

Once the firms have decided to invest in a particular country, the location-specific characteristics and policies of local authorities can affect their decisions. Meyer and Nguyen (2005) found that foreign investors are interested in the existence of IZs and the friendly policies of local authorities. Moreover, the provinces with larger population, better transport infrastructure, higher GDP growth and better educational system can attract more FDI. The location decisions by foreign firms are also driven by agglomeration effects that are proxied by the lagged FDI stock. Nguyen Thi Phuong Hoa (2004) estimated the regional determinants of FDI distribution across provinces in Vietnam during the period 1990-2000 and revealed that market size presented by provincial GDP, technical workers, GDP per capita and IZs are the most important determinants of FDI distribution. Government tax incentives, on the other hand, do not make any significant impact on attracting FDI flows to poor and remote provinces. Similarly, Nguyen Phi Lan (2006) used conventional variables with the data at provincial level to show that economic growth, market size, human capital, labor cost, infrastructure conditions, domestic investment and internal exchange rate affect the location decisions by

foreign firms. Nguyen and Nguyen (2007) added institutional performance of local authorities proxied by the Vietnamese Provincial Competitiveness Index 2006, but without conclusive results on this aspect. In the related literature however, one questions the effectiveness of IZs in developing the growth impacts of FDI. Nguyen Thi Tue Anh (2009) focused on the case study of Que Vo IZ (Bac Ninh City), which is a striking example of the Government policy to attract FDI projects with high technology. Due to their isolation, the absence of forward and backward linkages between foreign firms and domestic counterparts are the key impediments to skills and technology transfers.

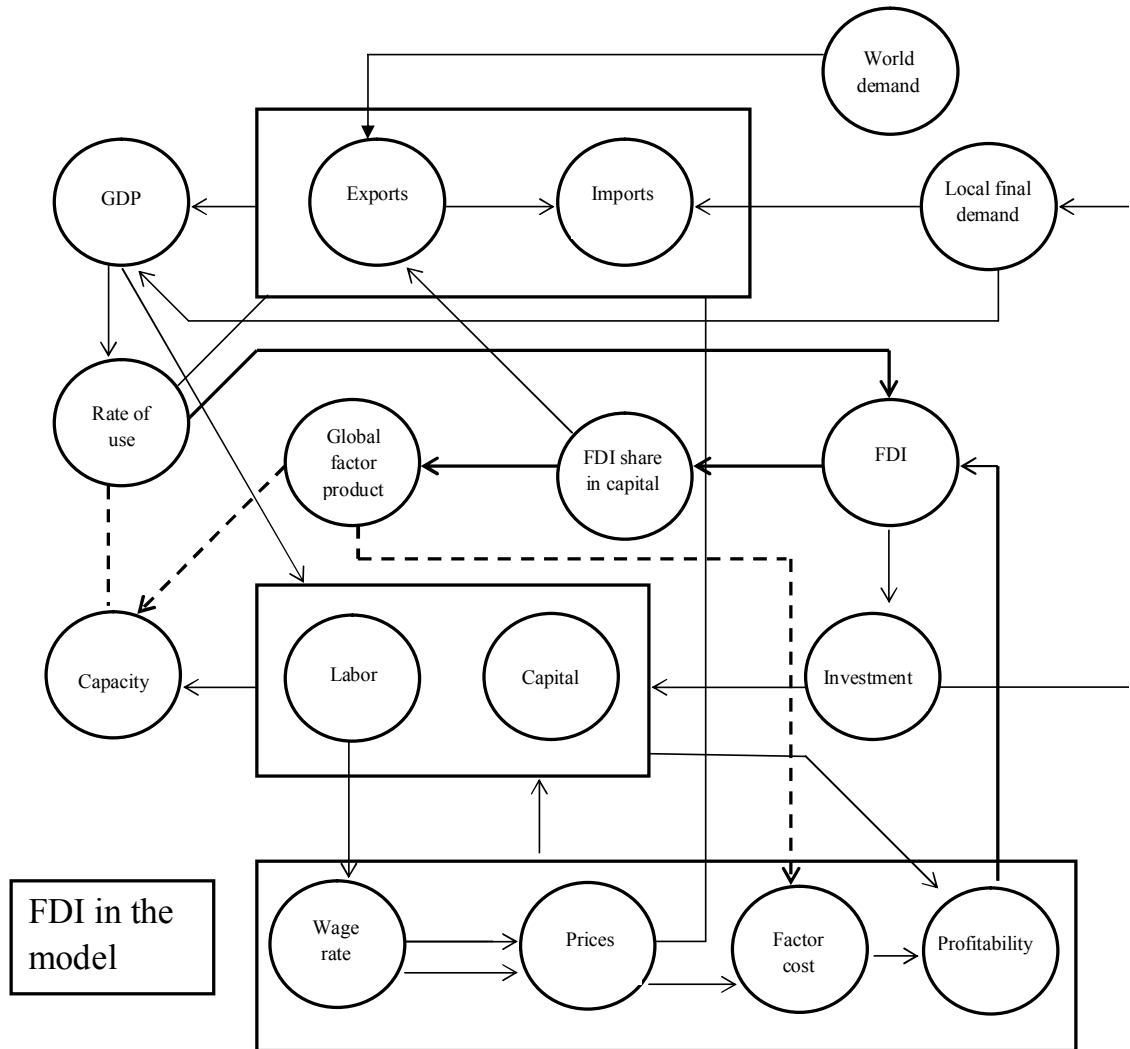
To sum up, empirical studies on Vietnam resulted in unclear and divergent effects of FDI, and the reasons are the same as the ones mentioned in the previous section. Interestingly, the direction of the FDI-growth nexus has been rarely studied. Only Nguyen Phi Lan (2006) examined the causal relationship and found a two-way linkage between FDI and economic growth, arguing that FDI and economic growth are important determinants of each other. While most of the existing studies on Vietnam and other developing countries examine only one side of the causality, Brillet and Tran (2009) developed a model in which FDI is both dependent on local features and impacts the local economy. Their modeling approach addressed the mechanisms associated to FDI by providing an extensive description of the macroeconomic equilibrium, including elements having no direct connection with FDI. They observed all the channels through which FDI plays its role, including quite long causality chains and even feed-

backs. The whole framework is summarized by Figure 4, in which the green arrows represent the determinants of FDI, and the red ones its impact, be it direct (plain lines) or indirect (dotted lines).

One interesting implication of the theoretical model is the causality running from GDP to FDI. Vietnam's high growth rates contribute to widening the potential of domestic market for consumption goods. Together with international integration, domestic absorption has expanded, facilitating the business and production activities of enterprises. Foreign investors also benefit from a high domestic demand for sensitive service fields like banking, finance, transportation, construction, telecommunications and tourism. Led by market and profitability factors, the huge increase in FDI inflows encouraged further short term inflows of capital which had begun even prior to WTO accession. In 2007 alone, US\$17.5 billion in FDI, portfolio investments, banking credit and ODA entered the country. If remittances are added, total inflows reached US\$24 billion. This is the equivalent of 33.7% of GDP. To give a sense of perspective, capital inflows in 2007 were four times higher relative to GDP than anything China had experienced since the beginning of its own reform process (World Bank, 2008). These net positive capital inflows led to demand pressures and subsequent changes in relative prices. Inflation rates averaged 16% a year between 2008 and 2011, asset price bubbles emerged while the country was coping with persistent pressures on its currency, loss of international reserves and capital flight resulting from speculative attacks.

Some argue that Vietnam's brief currency crisis in 2008 is interpreted as such a case of

Figure 4: Introduction of FDI in a macro-econometric model



Source: Brillet and Tran (2009)

premature opening of the capital account, where the domestic economy was not prepared for the volume of capital that flooded into the country (Riedel and Pham, 2010). On the other hand, Menon (2009) suggests that Vietnam's rapid growth fuelled by large capital inflows can be assimilated to the Dutch Disease phe-

nomenon. This is reflected in current account deficits and foreign liabilities, real exchange rate appreciation (which reflects an increase in the price of non-tradable relative to tradable goods) or low investment returns resulting from bad allocation of capital resources. However, the consequences of FDI inflows on

deteriorating macroeconomic stability have been largely ignored in the existing studies. Recent works initiated by Nguyen Thanh Nga (2011), Vo and Pham (2010) allow us to believe that a new assessment of FDI impact at the macroeconomic level has to be deeper investigated.

5. Conclusion

Vietnam has made important progress in achieving economic and social development over the past two decades. The country's accession to the WTO paved the way to greater market liberalization and foreign investment inflows. The legal system of policies on foreign investment has been improved to ensure a complete, transparent, spacious legal framework for investment and business. A high economic growth has made Vietnam be well-evaluated by the international community as a safe investment location. In view of this, there are important *a priori* expectations that FDI will be a positive determinant and driver of industrial competitiveness within the SEDS 2011-2020 (UNIDO, 2012).

However, the growth effects of FDI remain ambiguous in the literature. The unclear idea of how FDI contributes to development is attributable to methodological issues, ambivalence over spillover effects, uncertainty over FDI's contribution to capital accumulation, threshold effects and ambiguity with respect to the direction of causation (Addison et al., 2006). According to Carkovic and Levine (2005), the problem is that macroeconomic studies often fail to adequately account for endogeneity of FDI inflows and country-specific effects. This suggests the need for more individual studies of countries since causality between FDI and growth is also country spe-

cific. Hence, a comprehensive study on the FDI-growth nexus should be conducted for Vietnam. Recent developments of FDI in Vietnam suggest the following research directions.

Firstly, the role of outward-orientation on growth should be investigated by focusing on the relationship between FDI and trade. Indeed, export-led growth strategy postulates that export is the main channel through which outward orientation can affect the output level and consequently the rate of GDP growth. But as Dritsaki et al. (2004) suggested, "*The best interpretation of the empirical relationship between openness and economic growth should contribute not only to the understanding of the role of FDI to economic growth but also should facilitate the interpretation of the relationship between trade and FDI*" (p. 230). For example, it is clear that Vietnam's export base is dependent on imported inputs for export production, causing very high trade deficit. But the trade pattern may be determined by the characteristics of FDI (ownership structure, country of origin, sector location).

Secondly, the available evidence implies that a country's pattern of exports could be as important as openness to international trade in determining the strength of FDI inflows (Hausmann et al., 2007; Rodrik, 2006). In line with this argument, only Chakraborty and Nunnenkamp (2008) conducted such investigation in India by applying cointegration and causality analyses on the basis of industry-specific data. One research perspective for Vietnam is to investigate the role of export pattern on attracting FDI and shaping its impact.

Thirdly, though rapid growth attests to the

successful outward-oriented development strategy pursued by the Vietnamese government, trade and FDI may conversely imply greater vulnerability to macroeconomic risks. The country's balance of payments problems come from its integration into global and regional economies with large capital inflows. Hence, one should analyze the macroeconomic consequences of FDI on Vietnam's current account balance and relative prices. The impact of FDI is expected to be positive on the trade balance, but this can take time as it increases the import of equipment goods in the short run. When capacities build up, they will be more productive, more profitable, and create more export potential. However, as the lower costs spread to other firms, a higher disinflation has a cost on the terms of trade.

Fourthly, it is suggested that a significant share of recent implemented FDI in Vietnam (as much as 70 to 80%) is raised in the domestic capital market (Riedel and Pham, 2010). Therefore, FDI does not translate fully into global investment as it can substitute to local investment. Is there any crowding effect of FDI on domestic investors in Vietnam?

The macroeconomic impact identified for FDI is expected to be positive and significant. Nonetheless, it is possible that the aggregate results may mask important differences in the effect of FDI on economic performance across individual sectors and firms. At the microeconomic level, The UNIDO's report suggests many other issues which need deeper investi-

gations in order to raise the "quality" of FDI inflows as measured in terms of its positive externalities. Among them, we can include:

- An ineffective technology transfer process from foreign-invested enterprises to domestic counterparts. What are the determinants and factors at play?

- The measures and incidence of transfer pricing activities. How such mechanisms can be evaluated?

- The sectoral determinants of FDI attraction. Empirical studies on the determinants of FDI in Vietnam at national or provincial level only exploit the spatial distribution of FDI inflows. The future work should go further by looking at the specific sector location factors of FDI at the firm level, thereby reflecting more exactly what may influence FDI efficiency in Vietnam.

- A last point opening up research is to disaggregate the productive sector to allow for sector-specific effects of FDI on growth. The subsequent structural changes which can be expected from international trade integration are the most questionable and the most critical for successful transition and development in Vietnam.

The relationships between trade and FDI are at the core of globalization. But with large FDI inflows and rapid economic growth, much has to be done in Vietnam for those wishing to explore the impact that FDI may have on a host country.

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Notes:

1. All developing economies excluding China.
2. Between 1988 and 1990, only 211 projects for a capital amount of US\$1602 million were licensed (see Table 1). However, none were implemented before 1991.
3. In recent years, the implementation of FDI in Vietnam has been quite positive, resulting in smaller gaps between registered and implemented FDI over time (UNIDO, 2012).
4. According to Kokko et al. (2003), one explanation for the high failure rates observed for JVs in the early period were difficulties in cooperating between the foreign investors and their Vietnamese partners.
5. Part of the data used for the analysis are taken from the website of the Vietnam's General Statistics Office (GSO) and from their surveys on enterprises operating in Vietnam (available for the period 2000-2011).
6. Namely South Korea, Taiwan, Singapore and Hong-Kong (China).
7. One can illustrate such motivation by the building of a petroleum refinery with Russia in Dung Quat, in the Central region of Quang Ngai (one of the poorest provinces of Vietnam).
8. Adams et al. (2006) argued that FDI has been a critical consideration in upgrading China's export structure and supplying products that meet world market specifications.
9. One should mention that in the Census statistics provided by the GSO, FDI is defined as an investor resident in one economy who owns 30% or more of the voting power of an enterprise resident in another economy. This diverges from the OECD definition, which considers a 10% benchmark as sufficient to ensure that the investor has enough influence in the enterprise's management (UNIDO, 2012). Therefore, the foreign ownership is more strictly defined in the GSO statistics, and any analysis relying on those statistics should be taken with caution.

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