UNIVERSITY OF TAMPERE

SCHOOL OF MANAGEMENT

DERTERMINANTS OF FOREIGN DIRECT INVESTMENT: A CASE STUDY IN VIET NAM

Author: Bui Quang Vinh.

Student number: 410850

Email: Quang.Bui@uta.fi .

Course: Master Degree of Public Finance Management.

Supervisor: Prof. Hannu Laurila.

Date: February, 2012.

TABLE OF CONTENTS

Abstract

Acknowledgement

Figures

Tables

List of abbreviations

1. Introduction…………………………..…………………………………….……………………1

2. Characteristics of Foreign Direct Investment……………..……………………………….……….4

3. FDI in Vietnam…………………………………………………………………………………..8

3.1 Vietnamese characteristics……………………..................………………….................…8

3.2 FDI process in Vietnam………………………..……………………………….……....11

3.3 Investment policy……………………………………..……………..............................18

3.4 Investment supporting………………………….,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,…………………….……..21

4. Empirical findings…………………………………...26

4.1 A review of FDI-related literature in the world……………………………………..………..26

4.2 A FDI-related literature review in Vietnam……….…………………………………..……...30

4.3 Empirical Test……………………………………….………...35

4.3.1 Effects of FDI in Vietnam…………………………………..……………………..........35

4.3.2 Determinants of FDI in Vietnam…………………………………….……………………...38

5. Conclusions…………………………………………………………………..………………........44

References…………………………………………………………………..…………………….…47

Appendixes……………………………………………………………………….…………………..........50

ABSTRACT

University of Tampere:	Department of Economics and Accounting
Author:	Bui Quang Vinh
Title:	Determinants of Foreign Direct Investment: A case study in Vietnam
Master’s Thesis Research Plan:	61 pages and 1 appendixes
Date:	February, 2012.
Key words:	Determinant, FDI, OLI, Dunning.

FDI have more and more important role in the world, especially with developing countries, which have great demand of capital for economic development. It accounts for in the share of total of social investment and GDP of countries. Moreover, contributions of FDI are also in employment, technology transfer, and balance of payment, etc.

This paper will justify contributions of FDI in Vietnam in terms of economic growth, industrial manufacturing and export, job creation, State Budget and macroeconomic balances. Thesis also endows information about process, guarantee, supporting, and policy incentive of FDI in Vietnam.

In addition, thesis surveys Eclectic Theory developed by Dunning, J. in case of Vietnam, to find the factors influence of decision of foreign investors, when they invest in Vietnam. Thesis uses empirical analysis, namely regression analysis. The result shows that market size, labor cost, trade openness, and infrastructure are determinants of FDI in Vietnam.

Finally, thesis also provides information of economy and FDI of Vietnam.

ADKNOWLEDGEMENT

Thesis is an important part in the study schedule in all degree. It is process of serious finding and supervision of both student and tutors. In order to finish this thesis, I would to present my gratefulness to whom who contributes significantly to my thesis' success.

First, I would like to express my thanks to Professor Hannu Laurila, Department of Economy and Accounting, University of Tampere for his helpful and valuable guidance and comments.

Second, the guidance and material support of Trinh Truong, Project Coordinator, School of Management, is also excellent and appreciated. Her information and help for all of members of Public Finance Management Course is significant.

I wish I would like to show gratitude the librarian of library of Ministry of Planning and Investment for my achievement of documents.

Finally, helps and timely encourage of my parents, my wife, my friends, and my relatives are very important. Their supports will help me to concentrate to thesis to finish in correct time.

Vietnam, 29/02/2012

Bui Quang Vinh

LIST OF ABBREVIATIONS

DPI	Department of Planning and Investment
FDI	Foreign Direct Investment
GDP	Gross of Domestic of Product
GSO	General Statistic Office
M&A	Mergers and Acquisitions
MPI	Ministry of Planning and Investment
ODA	Official Development Aids
OECD	Organization for Economic Co-operation and Development
OLI	Ownership, Locational, and Internalisation
PCI	Provincial Competitiveness Index
R&D	Research and Development
UNCTAD	United Nations Conference on Trade and Development.
USA	United States American
USD	United Dollar
VND	Vietnam Dong
WTO	World Trade Organization

FIGURES

Figure 1: FDI by sector…………………………………………..………………………………..10

Figure 2: FDI by area………………………………………………..…………………………....11

Figure 3: FDI in total of social capital and GDP………………………..……………………......35

TABLES

Table 1: The Three Conditions of the Eclectic………………..……………..……………………50

Table 2: Vietnam’ FDI inflows from 1988 to 2010………………...…………………………….…51

Table 3: FDI in Vietnam by type, 2011………………………..…………………………………52

Table 4: Sectored distribution of FDI, 2011…………………….….……………………………..….52

Table 5: FDI by original countries…………………………..…………………………………….53

Table 6: Empirical analysis results………………………….……………………….......................54

1. Introduction

In economic development, capital has an important role, because it keeps key resource help economic activities conduct easily to bring beneficiaries. It also keeps an intermediary bridge for economic activities between countries. Developing countries need to find financial source for their need of growth, while some countries having strong financial source would like to invest into these by ways, such as funding, lending with low rate, and investing with some regulations, etc.

In this case, FDI has emerged as the most important source of external resource flows to developing countries over the 1990s, and has become a significant part of capital formation in the country, etc. (Kumar & Pradhan, 2002: cited in Do, T. T. (2005)). FDI existed in the primary sector and to a certain extent in manufacturing as part of colonial regimes. However, it was only after the Second World War that, as flows accelerated, FDI flows became a significant topic of research interest. FDI grew at twice the rate of global output in the 1950s and 1960s, as US outward FDI rebuilt Europe and become major beneficiaries of the import-substitution industrialization of developing countries (Dickens, 1998, p.42)[1]. It plays a significant role in a country's economic development. The capital formation, the transfer of technology and management skills, the sharing of information and ideas and market access are all extremely valuable for all countries in general and for developing countries on particular. It is thus fundamental for a country to create favorable conditions in order to attract foreign investments (Undén, 2007).

Vietnam conducted its economic reforms, called Doimoi (as renovation) in 1986. Especially, since 1992, Vietnam economy has joined well into the world economy and reached many of achievements. Of approximately 6% is the Vietnam economic growth rate in the last two years[2]. Vietnam like emerging countries in the world is willing to take advantages of resources to develop economy (it is aiming to become middle-income in 2012). Foreign Direct Investment is one of useful resources, as FDI brings not only additional capital to the Vietnamese economy, but also modern technology managerial expertise and more industries, products, and jobs. Thus, Vietnam attempts to attract more FDI from more countries, such as Taiwan, Japan, Singapore, etc. Vietnam also creates a pretty

[1] Cited in Sumner, A, (2005). Is foreign direct investment good for the poor? A review and stocktake. *Development in pratice.* Vol. 16, No. 3&4.

[2] Cited in Vietnam Ministry of Trade and Industry. (2011. June 29). Vietnam economy in the first half of 2011: Success and problems. Retrieved from http://www.vinanet.com.vn/tin-thi-truong-hang-hoa-viet-nam.gplist.286.gpopen.191568.gpside.1.gpnewtitle.kinh-te-viet-nam-6-thang-dau-nam-thanh-cong-va-van-de-dat-ra.asmx

investment environment for foreign investors, including the promulgation of Foreign Investment Law in 1987, reform of administration to create a ventilation of procedures, etc. Unfortunately, although FDI rate increases annually, allocation of economic projects between is not similar. For instance, the South East economic area of Vietnam, including Ho Chi Minh City, Dong Nai, Long An, Binh Duong, and Ba Ria Vung Tau, attracts the most FDI, accounting for nearly a half of FDI in Vietnam, while others make up small proportion[3].

FDI plays more and more important role in socio-economy of Vietnam. Thus, there is a notable need to attract FDI inflows. To do this, it is useful to be aware clearly of important factors determining FDI in Vietnam for authorities to focus on using the following factors to achieve economic growth and development in Vietnam, for example market, infrastructure, human capital, and trade openness, etc. However, it may be due to the lack of data and information in Vietnam, there is not many studies on determinants of FDI in Vietnam. Furthermore, cross-section or panel data are used in the most of former studies. Time series data is offered as an alternative approach to arrest the relationship between FDI inflow and its determinants. On the other hand, those determinants may change over time (Dunning). Thus, studies determinants of FDI should be conduct usually; more especially location-related determinants should be taken interest in.

With above reasons, I choose the topic: ‘’ Determinants of Foreign Direct Investment: A case study in Vietnam’’ as my dissertation topic.

The aims of research will consolidate the concepts of FDI, namely definitions, types, and effects of FDI. The main target of thesis is to test location-related factors attracting foreign investors to in Vietnam in 1994 to 2010, by using econometric model. The purpose of findings of empirical are hoped to not only support for theory of FDI, but also assist for decision maker in appealing more FDI in Vietnam. Thesis may also be study document of FDI.

The paper is organized as follow. In the next section, the concepts and theory of FDI are described, including definitions, types of FDI, and the Eclectic paradigm. Section 3 presents the reality of FDI flows into Vietnam, namely characteristics, situations, procedures, incentive policy of FDI, and effects of FDI. Section 4 is constructed to supply the review of previous empirical studies in FDI in both the

---

[3] This figure is due to calculation of figure in report of FDI in the first half of 2011 of Department of Foreign Investment, Vietnam Ministry of Planning and Investment. (2011).

world and Vietnam Moreover, the empirical test of thesis will be represent in this section, including research procedure, the specification of variables, data collection, and the results. Section 5 is committed to the concluding remarks, recommendations, and limitations of study.

2. Characteristics of Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country).

The International Monetary Fund's Balance of Payments Manual defines FDI as ‘an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise’.

The United Nations World Investment Report (UNCTAD, 1999) defines FDI as ‘an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)'. The term `long-term' is used in the last definition in order to distinguish FDI from portfolio investment, the latter characterized by being short-term in nature and involving a high turnover of securities. The common feature of these definitions lies in terms like ‘control’ and ‘controlling interest’, which represent the most important feature that distinguishes FDI from portfolio investment, since a portfolio investor does not seek control or lasting interest.

Turning to FDI in Vietnam, FDI is new concept in Vietnam, especially it have just appeared after 1986. According to the Law on Investment, Foreign Investment is defined as: ‘’ Foreign Investment is that that foreign investors give capital into Vietnam by cash and other legal equities to conduct investment activities under the legal of Vietnam’’. There are two kinds of Foreign Investment, including Direct and Indirect (portfolio) Investment. FDI is a form of investment, in which the investors provides investment capital in manufacturing, trade, and service factors, and participates in management of investment activities with aims of profit collections.

Regarding characteristics of FDI, first, FDI is main form of foreign investment by individual capital. Comparing with ODA and other kind of foreign investment, FDI is an efficient investment form, which has no connection of politics, burdens of economic debt for recipient countries. Moreover, it brings a practicality and high economic efficiency.

Second, foreign investors have the right to control the whole of investment activities of enterprises if these are wholly foreign capital. They also join to run joint-venture enterprises according to their capital contribution ratio, which insists on the division of rights and responsibilities as well as profits and risks between investors.

Third, through FDI, recipient countries not only receive capital, but also obtain technology, modern techniques and skills, management experiments, etc. To accept FDI does not increase debit of host countries. By contrast, it helps to exploit and use effectively domestic resources.

Finally, this capital not only is initial investment capital under authorized capital form, but also includes borrowing capital of enterprise to implement or enlarge business as well as investment capital from executive profit.

FDI can be classified from the perspective of the investor (the source country) and from the perspective of the host country. From the perspective of the investor, Caves (1971) distinguishes between horizontal FDI, vertical FDI and conglomerate FDI. Horizontal FDI is undertaken for the purpose of horizontal expansion to produce the same or similar kinds of goods abroad (in the host country) as in the home country. Hence, product differentiation is the critical element of market structure for horizontal FDI. More generally, horizontal FDI is undertaken to exploit more fully certain monopolistic or oligopolistic advantages, such as patents or differentiated products, particularly if expansion at home were to violate anti-trust laws. Vertical FDI, on the other hand, is undertaken for the purpose of exploiting raw materials (backward vertical FDI) or to be nearer to the consumers through the acquisition of distribution outlets (forward vertical FDI).

From the perspective of the host country, FDI can be classified into (i) import-substituting FDI; (ii) export-increasing FDI; and (iii) government-initiated FDI. Import-substituting FDI involves the production of goods previously imported by the host country, necessarily implying that imports by the host country and exports by the investing country will decline. This type of FDI is likely to be determined by the size of the host country's market, transportation costs and trade barriers. Export-increasing FDI, on the other hand, is motivated by the desire to seek new sources of input, such as raw materials and intermediate goods. This kind of FDI is export-increasing in the sense that the host country will increase its exports of raw materials and intermediate products to the investing country and other countries (where the subsidiaries of the multinational corporation are located). Government-initiated FDI may be triggered, for example, when a government offers incentives to foreign investors in an attempt to eliminate a balance of payments deficit. A similar, trade-related classification of FDI is adopted by Kojima (1973, 1975, and 1985). According to Kojima's classification, FDI is either trade-orientated FDI (which generates an excess demand for imports and excess supply of exports at the original terms of trade) or anti-trade-orientated FDI, which has an adverse effect on trade.

Finally, FDI may be classified into expansionary and defensive types. Chen and Ku (2000) suggest that expansionary FDI seeks to exploit firm-specific advantages in the host country. This type of FDI has the additional benefit of contributing to sales growth of the investing firm at home and abroad. On the other hand, they suggest that defensive FDI seeks cheap labor in the host country with the objective of reducing the cost of production. Chen and Yang (1999) suggested that a multinomial logic model can be used to identify the determinants of the two types of FDI in the case of Taiwan. Their empirical results indicated that expansionary FDI is influenced mainly by firm-specific advantages such as scale, R&D intensity, profitability and motives for technology acquisition. Defensive FDI, on the other hand, is shown to be influenced by cost reduction motives and the nexus of production networks. Both types of FDI are affected by the characteristics of the underlying industry[4].

In the next step, there are many of theories of FDI; however, in the frame of research, thesis will introduce the Eclectic Paradigm, which is formed and developed by Dunning, J. by several years.

Dunning (1979) expresses his dissatisfaction with these theories, arguing that they are only partial explanations of FDI. This has induced him to develop an eclectic approach to the problem. This approach relies on and pulls together different strands of economic theory to explain the ability and willingness of firms to engage in FDI rather than domestic production, exports, licensing or portfolio investment. He states that the capability and willingness of firms to make FDI depends on the possession of assets that are not available to other firms in foreign countries.

Dunning (1993) has identified and distinguished three different kinds of assets. The first group is owner-specific assets which are assumed unique to firms. Such assets include not only tangible assets like capital, manpower and natural resources but also intangibles such as technology, know-how, information and marketing. They are of the sorts specified in the first section. The second

[4] See and summarize in the book of Moosa, I. A. (2002), namely *Foreign Direct Investment: Theory, Evidence and Practice*.

consists of assets which might be specific to a certain location. These include not only natural endowment but also cultural and political factors and government policies such as tariffs. Another dimension of location-specific assets, found in Vernon's product cycle hypothesis, is that it is profitable for the firm to combine its ownership of assets specific to firms with location-specific assets in the host country. The third is the internalization of assets which arise in the presence of market failure. It is the internalization of assets that allows firms to fully exploit owner-specific and location-specific assets.

The principal hypothesis of this eclectic theory is that a firm will engage in FDI if the following three conditions are met:

1. It possesses ownership advantages over firms of other nationalities in serving particular markets. These advantages are specific to the firm.

2. Given (1) is satisfied, it must be more beneficial to the firm to exploit the advantages themselves rather than to sell or lease or license them to foreign firms, that is to internalize its advantages through an extension of its activities rather than externalizing them.

3. Given (1) and (2) are satisfied, it must be profitable for the firm to combine these advantages with some factors in the foreign countries. (Dunning 1979)

The key point of the Eclectic Theory is that any one of these advantages may be necessary but not sufficient to give rise to FDI. It is necessary to consider all three conditions together. Dunning (1993) concludes that all forms of FDI can be explained by the above three conditions. (Nguyen, (2007)). Table 1 summarizes the items of three conditions. (See more in table 1)

3. FDI in Vietnam

3.1 Vietnamese characteristics

Vietnam is a South Earth Country of Asia. The Socialist Republic of Vietnam was found in 1975, after winning in two wars against French and United State America. The country is more than 1.600 kilometers long, covers an area of 331.114 kilometers square. It has borders with Laos and Cambodia in the west and China in the North. It is known as a potential market with population of nearly 86.927.000 and young working force[5]. Moreover, it has great natural source for developing industries and agricultures, such as forest in the northern mountainous area and Central Highland, sea with valley, and oil, gas, coal, iron[6]. After centrally planned economy period, from 1986, Vietnam conducted its reform, called ''doimoi''. Vietnam's calling of investment began 1987, after the law of Foreign Investment was approved, it is able to say that it is short time if compare with other countries in the region. However, more than 20 years to attract FDI, Vietnam' FDI inflow contributed a significant role in social-economy of Vietnam, and could be divided into four phases, namely 1975-1986, 1987-1996, 1997-2001, 2001-now. Phase 1 started in 1975. After reunify, economy of Vietnam is seemly similar to model of Soviet Union Economy. At this time, Vietnam was also depended heavily foreign aids, mainly Soviet Union, to recover its economy after the wars. Soviet had invested to build infrastructure, such as dam, hydro electric station, gas and oil drilling, hospital, and road. Phase 2 was marked by the promulgation of the law on Foreign Investment in 1987. Foreign investment capital came to Vietnam dramatically, especially during 5-year period from 1990, and was high in 1996. Phase 3, however, witnessed a decline of FDI. It may be because of the financial crisis in Asia, starting at Thailand in 1997. On the other hand, some economists claimed that is because of the unattractive investment environments, such as bureaucracy, high costs, dual price system between foreign enterprises and domestic companies (Do, 2005). To recover the economy and take the picture of potential countries, Vietnam's government issued many amendments to support foreign investors. The result was the number of projects increased steadily after 1998. However, the situation of FDI was still not bright.

[5] See in website of Vietnam General Statistic Office, (15, November, 2011). Retrieved in http://www.gso.gov.vn/default.aspx?tabid=387&idmid=3&ItemID=11503

[6] The area of forest was 4.633.500 ha in the northern mountainous area and 2.925.000 ha in Central Highland in 2009. Oils is available in Eastern Sea, with 16360 thousand tons of yield in 2009. Coals are the most in Quang Ninh province, with 44078 thousand tons of production. Irons are located in various regions, with 8200 thousand tons of output in 2009. The figures was summarized in the figure published in the website of http://www.gso.gov.vn/default.aspx?tabid=387&idmid=3&ItemID=11503

During phase 4, Vietnam has continuously done numbers of reforms in the investment law (Do, 2005). Investment law was modified at this phase. The telephone, fax, internet fees, and transportation costs were reduced and had more incentives. Registered capital total increased dramatically, and played an important role in the economics restructuring of Vietnam. With the significant event of joining the WTO, Vietnam had to improve investment environment to suit with international procedures, therefore, the investment capital come to Vietnam was big (see table 2).

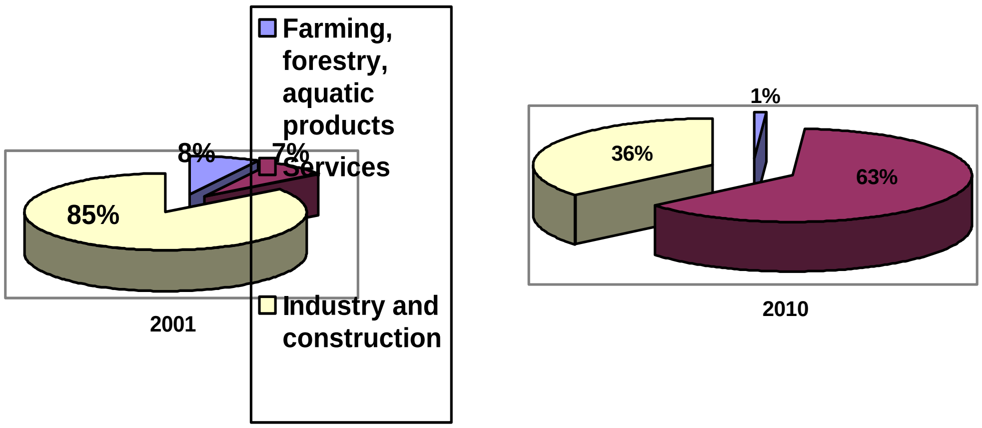
In the following texts, thesis will refer characteristics of Vietnam's FDI. First, size of capital per one project, FDI projects invest in Vietnam with size of small and medium; average of period from 1988 to 2003 is 8.3 million USD per project. Remarkably, after gaining 23 million USD per project in 1996, scale of capital of project was smaller and smaller from 2000, under 5 million USD. According to MPI, there are 80 in the total of 500 multinational companies in Vietnam; while in China are 400 multinational companies.

Second, type of equity, there are six different types of equity of FDI, recognized by the Law, namely 100% foreign owned firms, joint ventures, business cooperation contracts (BCC), build-operate-transfer (BOT) and build-transfer (BT), and build-transfer-operation (BTO), joint venture company, and the parent company. As of 2011, FDI was mainly made on 100% foreign-owned capital, accounted for 77.41% total of number of projects, 64.68% total of registered capital, and 63.8% total of implemented capital. Joint ventures were popular until the mid 1990s due to the limitation of establishment of 100% foreign-owned capital, only accounted for 19.41 % total of project number (see table 3).

Third, structure of sectored investment, there was change in the destination of FDI by sector. If oil, gas, real estate was concerned from 1988 and 1992, the mid-1990s and onwards witnessed a considerable transaction of FDI to manufacturing industries, construction of infrastructure. Agriculture, the sector in which the majority of the Vietnamese people is employed, has not attracted many FDI and accounted in 2001 for only 6% of total investment (Jenkins, 2006). FDI capital is highest in manufacturing industry, with 7,624 projects reaching 98.5 billion USD up to June, 2011, following by real estate with 361 projects and 48.1 billion USD (see table 4).

Moreover, figure 1 show the change of FDI inflows in sectors in two years 2001 and 2010. It is clearly that FDI inflow increased in service factors, and reduced in industrial and agricultural factors. FDI in service grew up dramatically from 7% in 2001 to 63% in 2010. While farming, forestry, and aquatic products is cared the least by foreign investors, with a decrease of 7%. Industry and construction are the similar situation with agriculture sectors, going down from 86% in 2001 to 36% in 2010.

Figure 1: FDI by sector

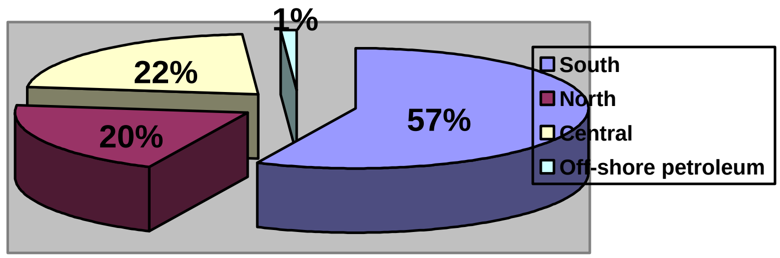


Source in GSO, 2010

Regarding region of FDI, according to VMPI, recently, FDI is in 63 provinces and cities in Vietnam. Allocation of FDI, however, is not similar in each region. The structure of project by region changed slowly. Some specific rich provinces in the north and the south of Vietnam attracts almost of FDI project. As this locations are big urban, which have favorable infrastructure, abundant and qualified labor force. Hochiminh city, Hanoi, Dong Nai, and Binh Duong had attracted more FDI inflow in Vietnam.

As can be seen in figure 2, the South of Vietnam was received the most concern of investor, with 57% in 2010, while FDI inflow investing in the North was nearly the same this in the Central, 20% and 22% respectively.

Figure 2: FDI by area in 2010



Source: VMPI, 2011.

Finally, investment partners, there are 92 countries and area having FDI project in Vietnam. In general, Asian countries accounted for a huge of mount of FDI capital. This can be explained because of the closeness of geography. According to the statistic in table 4, Taiwan is the first countries in rank with 23.2 billion USD in 2010, following by Singapore, Korea, Japan, etc. This means that Vietnam was taken interest in Asian countries, which is close Vietnam about geography.

3.2 FDI process in Vietnam

This section will provide information about the process of FDI projects in Vietnam. This means that the process from preparation to completion of a projects.

To begin with types of FDI projects, according to the Law of Foreign Invest, FDI projects can belong to one of the investment types, including establishment of economic organizations in the form of 100% domestic-owned or 100% foreign-owned, investment under contractual forms of BCC, BOT or BT contracts, investment for business development (expansion of production capacity or for technology renovation), purchasing shares or to contribute capital in order to participate in management of investment activities, investment in the carrying out of a merger and acquisition of an enterprise, and other direct investments.

Secondly, economic organizations can consist of limited liability companies with multiple members, limited liability companies with one member, shareholding companies, private companies, cooperative companies or joint economic cooperation.

The following projects will be considered for approval and granted with investment certificates by the Prime Minister. In the first place, those are investment projects regardless of capital sources, and investment scale in the following areas, namely construction and doing business of airports and air transportation, construction and doing business of national harbors, exploration, exploitation, and processing of oil and natural resources, broadcasting and television, casino, tobacco production, establishment of tertiary education institutions (universities), development of industrial, export processing, and hi-tech and economic zones.

Thirdly, investment projects, which are not listed in the previous category, regardless of capital sources and having investment scale of more than 1,500 billion dong, shall belong to the following type, consisting of business in electricity, and processing of natural resources and metallurgy, construction of basic infrastructure for railways, roads, and domestic shipping routes, and production, and doing business of alcohol and beer.

In conclusion, these are investment projects with foreign capital, namely shipping business, installation and provision of postal, express, and telecommunication and internet network; development of broadcasting and telecommunication networks, printing, publication, and press, development of independent scientific research institutes.

Provincial People's Committee shall grant investment certificates to investment projects which are located outside the industrial, processing, hi-tech and economic zones including projects which are under approvals of the Prime Minister for their investment direction or projects investing in infrastructure development of industrial, processing, hi-tech zones in locations where the Management boards of the industrial, processing and hi-tech zones are not yet established.

Management board of the industrial, processing, hi-tech and economic zones shall grant investment certificates to investment projects located in the industrial, processing, hi-tech and economic zones, including investment projects approved by the Prime Minister in terms of investment direction, and including investment projects in development of infrastructure for the industrial, processing, hi-tech zones.

In next place, thesis will provide more information about procedures for registration of investment in respect of foreign invested projects.

With respect of foreign invested projects which have an invested capital of below three hundred (300) billion Vietnamese dong and which are not included in the list of sectors of investment subject to conditions, the investors shall perform the procedures for investment registration at a provincial administrative body for investment for issuance of an investment certificate. Where an economic organization with foreign invested capital which has been established in Vietnam has a new investment project, it shall be permitted to conduct procedures to implement such investment project without the requirement to establish a new economic organization.

Foreign investors investing in Vietnam for the first time must have an investment project and perform the procedures for investment registration or evaluation of investment at the State administrative body for investment in order to be issued with an investment certificate. The investment certificate shall also be the business registration certificate. Where an economic organization with foreign invested capital which has been established in Vietnam has a new investment project, it shall be permitted to conduct procedures to implement such investment project without the requirement to establish a new economic organization.

Next, implementation of new investment projects in many sectors will be supplied as follow.

First, for investment projects requiring the use of land, investors shall contact competent land management agencies of the localities where projects are to be executed in order to carry out land assignment or land lease procedures. The process and procedures for land assignment and land lease shall comply with the provisions of land law.

Where investors have been handed over the land but fail to proceed with the projects within the prescribed time limit or use land for improper purposes, they shall have the land recovered under the provisions of the Land Law and have their investment certificates withdrawn.

Second, projects with ground preparation for construction sites, in case of the State’s land recovery under the provisions of land law, competent state agencies shall be in charge of land recovery, compensation and ground clearance before assigning or leasing to investors. The recovery of land, payment of compensations and ground clearance shall comply with the provisions of land law.

If the investors re-rent land from land users that have been assigned or leased land by the State, they shall have to organize the compensation and ground clearance by themselves.

Where investors have reached agreement with land users on compensation and ground clearance but the latter have not yet fulfilled their obligations as agreed upon, the competent People's Committees of the localities where investment projects are to be executed shall have to organize ground clearance before handing over the sites to investors in accordance with the provisions of law.

For investment projects compatible with the land use planning already approved by competent state agencies, investors may be transferred with or rent land use rights, receive capital contributed with land use rights by economic organizations, households or individuals in accordance with the provisions of land law without having to fill in land-recovery procedures.

Third, with investment projects involving the exploitation and use of natural resources and minerals, projects shall have to comply with the provisions of law on natural resources and minerals. Investors have to apply for a certificate of resource exploration if required.

Fourth, with investment projects involving construction, the formulation, evaluation and approval of technical designs, cost estimates and total cost estimates shall comply with the provisions of construction law. Investors shall take responsibility for the work quality and environmental protection.

Fifth, with projects hire of management service, investors are entitled to hire individuals, organizations to manage their investment and investment activities as required through signing contracts between investors and individuals or organizations. Management fees are agreed and decided by the involved parties and calculated as management fees of enterprises.

Next, with sale of products of projects in the Vietnamese market, investors may directly or through agents sell their products in Vietnam without being subject to any restriction on geographical areas; may act as sale agents for other organizations or individuals that have similar products made in Vietnam. Investors shall themselves decide on the selling prices of products they make or services they provide; for products and services subject to price control by the State, their selling prices shall comply with the price frame promulgated by competent state agencies.

Subsequently, with opening a bank account, investors may open foreign-currency accounts and Vietnam dong accounts at bank license to operate in Vietnam. Where it is approved by the State Bank of Vietnam, investors may open accounts at foreign banks. The opening, use and closure of accounts at domestic and foreign banks shall comply with regulations of the State Bank of Vietnam.

Finally, with insurance of investment projects, investors shall get property insurance and other kinds of insurance on the basis of insurance policies signed with insurance business enterprises operating in Vietnam in accordance with the provisions of insurance law.

Furthermore, investment projects are admended as follow.

When there is a need to adjust investment projects regarding their objectives, scales, locations, forms, capital and duration of project implementation, the investors proceed necessary procedures for the amendment of investment certificate.

To start with projects which are not required to proceed procedures for registration of necessary amendments or evaluation of amendments, those are projects without amendments to objectives, scales, locations, capital, approaches, and duration; domestic invested projects which have investment capital of less than 15 billion Vietnam dong after the adjustment and which do not belong to categories of investment with conditions; domestic invested projects which have investment capital of less than 300 billion Vietnamese dong after the amendments and which do not have any changes in objectives and locations.

Turning to projects which are required for investment project amendment, those are, first, projects after the amendment to objectives, locations, capital, approaches and duration having the following features, including foreign invested projects which have investment capital of less than 300 billion Vietnamese dong after the amendment and which do not belong to the investment categories with condition; domestic invested projects which do not belong to categories of investment with conditions or which belong to the categories of investment with conditions without any changes in objectives and still meet demands of investment conditions applied to these projects.

Last, the application for project amendments includes registration document with verification of amendment contents to investment projects, copy of the investment certificate, and amendments or modifiations of joint venture contracts or cooperative agreement or charters of enterprises (for foreign invested projects).

State management agencies in charge of investment certificate granting shall issue the investment certificate (for cases which have not received investment certificate) or adjust the investment certificate within 15 working days after receiving complete and valid dossiers.

Above all, for projects which require evaluation of the required amendment to investment projects, those are projects which belong to the following categories after having amendments to objectives, scales, locations, capital, approaches and duration, with foreign invested projects belonging to the categories of requiring an evaluation for granting an investment certificate after the amendment, and domestic invested projects belonging to categories of investment with conditions after the amendment, except for cases being appropriate to categories of registration for investment amendment.

Regading to the application of amendment evaluation, this includes a written request for amendment to the investment projects, reasons to amendments, changes compared to the current projects, report on status of projects at the time of requiring for an amendment, a copy of investment certificates, and amendments or modifications of joint venture contracts or business cooperation contracts (for projects with foreign capital).

State management agencies in charge of investment certificate granting shall grant a certificate for evaluation of amendment contents and issue the investment certificate (for cases which have not received investment certificate) or adjust the investment certificate within 30 working days after receiving complete and valid dossiers.

In the next step, referring to project transfer, investors have rights to transfer their projects to other investors with the following conditions, consisting of ensure all requirements as promulgated in the Business law and other associated legal documents; ensure appropriate ration and conditions in line with international treaties which Vietnam is a member; transfer of capital in kind of lands must be in line with the state regulation on land usage and other associated legal documents; in cases of transferring projects owned by economic factors which is not relating to the business termination of transferors, the transfer of projects shall comply with conditions and procedures of capital transfer as mentioned above; in cases of transferring projects which is relating to termination of investment activities of economic actors, the transfer shall comply with regulations on conditions and procedures of merging or purchasing enterprises or business from the prior investors; in cases of transferring projects which is relating to termination of investment activities of economic actors (transferring parties) and the receiving parties will establish new business in order to implement projects, the transferring procedures are undertaken following the state regulations.

The application for project transfer includes a written document registered for project transfer; project transfercontracts; written documents on legal status of the receiving party; a report on status of project implementation.

Within 10 working days after receiving full valid dossiers, the competent investing granting office shall grant new certificate (for cases which have not had investment certificate) or adjust the investment certificate.

Turning to temporary cancellation, cessation of projects, withdrawal of investment certificates, when temporarily ceasing their investment projects or spacing the project implementation speed influences the project timeline, investors must notify in writing such to state agencies in charge of investment in terms of reasons and duration for temporary cease of projects within 15 working days before the temporary cancellation or cease of projects. Investors are entitled to consideration for exemption or reduction of land rental fees during the project cease. When the investors re-start their operations, they shall notify the competent state agencies in writing.

In cases of the state office for granting investment certificate do not approve the cease or spacing duration of the projects, investors shall be replied in writing within 15 working days since the receipt of notification of investors.

The investment certificates shall be withdrawn if after 12 months receiving investment certificate, the investors do not implement or are not able to implement the projects following the agreed timeline and fail to provide appropriate reasons to this delay.

Referring to termination of activities and project liquidation, termination of operation of investment projects shall occur in the following cases, including upon the expiration of the operation duration stated in the investment certificate; according to the conditions for termination of operation stipulated in the contract, the enterprise's charter or the investor's agreement or commitment on the project-execution schedule; the investor shall decide on termination of operation of the project; under decision of the state agency in charge of investment or under court judgments or decisions or arbitral awards, in case of violation of law.

The state agencies of investment certificate grant shall have rights to terminate operation of projects in the following case, namely projects granted with investment certificate cannot implement activities after 12 months of being granted with certificate or are slow in implementation for 12 months compared with the project implementation timeline as regulated in the investment certificate, except for cases of being approved for temporary cease or spacing the project timeline; projects which seriously violate regulations which require termination of operations.

In cases of following arbitral awards or decisions made by courts or arbitrators to terminate of project operation since the project seriously violate regulations or laws, the state agencies of investment certificate grant shall terminate the project operations based on decisions made by courts or arbitrators.

Decisions on termination of investment shall be sent to investors and filed in the state office of investment certificate grant. The state office of investment certificate grant based on the decision on project termination to withdraw the investment certificate and notify associated agencies.

If investment project is terminated, investors shall notify state office of granting investment certificate to require for project liquidation procedures and return investment certificate as specified as follows: first, in cases of project liquidation without closing the business of investors, the liquidation shall be carried out following regulation or law on asset and contracts liquidations. Second, in cases of project liquidation together with closing of business of investors, investors shall process liquidation procedures as regulated by law on enterprises and other associated regulations.

Duration for project liquidation shall be not beyond 6 months since the date of termination of investment project. In cases of being approved by the state competent agencies, investors can lengthen timeline of project liquidation to 12 months at maximum. After the project liquidation, investors shall notify the state office of granting investment certificate and return investment certificate. During process of project liquidation, if business or enterprises are not able to pay all debts, project liquidation shall be processed following regulations and laws on bankruptcy[7].

3.3 Investment Policy

To maximize investment, Vietnam has been developing different measures for investment guarantee taking the principle of being simple and transparent in the procedures and in practice to ensure fairness among investors, effectiveness and cost-effectiveness in order to develop a stable investment

[7] Retrieved in http://investinvietnam.vn/Default.aspx?ctl=Inv&tID=4&pID=131&aID=390.

environment. Below are several policies to ensure the investment according to the 2005 Investment Law.

In the first place, guarantee for rights to the legal ownership, investment capital and legal assets of the investors are not used either for national purposes or confiscated through administrative measures.

In cases vital for national security and benefits, the Government will claim for purchasing and using assets of the investors, investors will be paid or compensated based on market values at the current time of government's buying and usage.

Payment or compensation to the investors must ensure their legal benefits and have no discrimination among different investors.

In the next place, guarantee for fairness among investors, based on the 2005 investment law, the Government of Vietnam eliminated discrimination between foreign and local investors. According to the current law, measures for investment guarantee & encouragement, rights & obligations are the same for investors.

The State ensures investors benefiting from equal investment incentives and support, based on criteria relating to investment fields and locations, not on investment sources or nationality of investors.

Third, guarantee for solutions to potential conflicts from investment activities**,** the 2005 investment Law provides solutions to any conflicts occurring which are applied to all investors regardless of their nationalities. When conflicts occur during the investment process in Vietnam, investors can select different solutions either through negotiation, reconciliation, arbitrators or through courts in accordance with legal documents.

Conflicts in which one party is a foreign investor or an enterprise with foreign capital and conflicts among foreign investors can be solved through the Vietnamese courts, Vietnamese arbitrators, foreign arbitration, international arbitrators or through the arbitrators agreed by the conflicting parties.

Conflicts between foreign investors and the State's management agencies over investment activities in Vietnam are solved through arbitrators or Vietnamese courts except for cases having agreements signed between an authorized State agency and foreign investors or as indicated in the international conventions of which the SRV is one of the members.

Fourth, guarantee for transferring profits and legal incomes from abroad, upon compliance with all financial obligations to the Government of Vietnam, foreign investors are entitled to transfer their profits abroad the following items, including profits from business; payment for providing technical services, techniques and intellectual property; capital and interest from foreign creditors; investment capitals and incomes from investment liquidation; other legal money and assets of the investors.

Foreigners working for investment projects in Vietnam are entitled to transfer their legal incomes abroad after fully complying with financial obligations to the Vietnam.

Transfer of money abroad as mentioned above can be converted into any currency applying the exchange rate at a commercial bank of choice of investors. Procedures for these transactions are applied as stated in the legal documents on foreign currency management.

Fifth, guarantee for investors' rights in aspect of changes in policies and laws, in case the new laws or new polices offering better conditions and rights to investors compared with the previous ones, investors are entitled to enjoy new benefits, conditions and rights as indicated in the new laws and policies since they are put into effects.

In case the new laws or policies which negatively influence legal rights of investors as compared with the previous ones, investors are entitled to benefit from favorable conditions as stated in the Investment certificate or entitled to one or a number of the following solutions, videlicet continue their rights and favorable conditions; being compensated through taxable incomes; being allowed to adjust operation objectives of projects; being considered for compensation in some necessary cases.

Next, Vietnam government ensures opening market and investment relating to trade. To be in line with regulations or articles stated in the international conventions which Vietnam is one of the members, the State ensures investors to open investment market in accordance with the agreed process.

Investors are not obligated to carry out the following requirements: first, that is to give priorities to purchase and use domestic goods and services, or goods and services from certain defined local manufacturers or suppliers. Second, that is export goods or services reaching a defined rate; limit quantity, value and types of goods or services which are produced or exported from local suppliers or manufacturers. Then, that is import goods with the same quantity and values as those of exported goods or self adjust foreign currency balance from exported sources in order to meet the import demands.

Next, a certain rate for localization in production is reached. Next place is to reach a certain level or certain values in research and development fields in domestic market. Then, goods and services in certain locations in local or foreign market are provided. Finally, this is to locate headquarters in a nominated location.

Continuously, investment guarantee measures are unrestricted. The State assures the rights to intellectual property in investment activities; ensures the legislation for investors in transferring technology in Vietnam according to legal documents on intellectual property and other related legal documents.

During the process of investment in Vietnam, prices and fees to goods and services controlled by the State are consistently applied to all investors.

Finally, with investment projects in infrastructure development in industrial, manufacturing, hi-tech zones, and economic zones, investors will receive the following insurances.

Based on the comprehensive plans of industrial, manufacturing, hi-tech and economic zones as approved by the Government, Ministries and Ministerial level agencies, Provincial People Committees develop investment plans and organize the development of infrastructure and societal areas surrounding the industrial, manufacturing, hi-tech and economic zones under their management.

For some areas with complicated socio economic situations, the State supports part of capital for local governments to share with investors to construct basic infrastructure inside the industrial, mechanized zones in line with the government regulations.

The state uses national budget and preferential credits to support investors in the basic socio and technical infrastructure development inside the hi-tech and economic zones, and mobilizes capital for investment in the basic infrastructure development in these zones[8].

3.4 Investment supporting

In the chapters, many items of FDI projects will be supported and favored will be furnished.

---

[8] This chapter will be seen and summarize in various Decrees in Vietnam and in the website: http://investinvietnam.vn/Default.aspx

First, Vietnam will support in technology transfer. The government creates favorable conditions and ensures legal rights and benefits of parties in technology transfer including joint capital through technology to implement investment projects in Vietnam according to legal documents on intellectual property and on technology transfer. Values of technology which is used as a type of capital of technology values which is transferred to other parties are decided by different parties and must be indicated in the contracts of technology transfer.

The government encourages investors to transfer into Vietnam the advanced, sourcing and manufacturing technology in order to increase production values, competition, quality of products, savings and efficient usages of resources, natural resources; encourages the investment for updating technology and enhancing capacity in management and utilization of technology.

Based on socio-economic development objectives, the government has policies in supporting small and medium enterprises to invest in research, implementation and transfer of technology.

Second, the government encourages and supports investors to set up a training fund from investment capital and from sponsorship of foreign and domestic individuals, organizations by the following criteria, namely training fund established is not for profits, it is entitled to tax reduction and exemption as stated in legal documents on taxation; training costs spent by economic agencies are counted as legal expenditures to calculate taxable incomes of enterprises.

Moreover, the government supports enterprises through budget allocation for training programs in human resource development, and has plans and programs in supporting for preparing and developing human resources for small and medium enterprises.

In the next place, in the development of investment services, the state encourages and supports individuals, organizations to implement the following investment support services, involving counseling or consultation in investment and management; counseling in intellectual properties and technology transfer; vocational training, technical training and management skill development; provision of information on market, techniques and sciences, on other socio-economic news as required by investors; marketing and implementing investment and trade activities; establishing and participating in social organizations, socially professional associations; establishing centers for design and experimental work to support the development of small and medium enterprises.

In the following, thesis will provide measures of investment incentives. Since the 2005 investment law, investors regardless of foreign investors or domestic investors are entitled to one investment incentives principle in order to attract investment activities and mobilize capital in Vietnam. Additionally, preferences are not only strictly regulated in the investment law, investment incentives are also accommodated by different regions, locations and industrial zones in order to promote an open and diverse environment for investors. According to regulations of Law in Investment, investors with investment projects (including expanded investment projects) in the investment incentive sectors and geographical areas stipulated in the Law, especially stimulated in the attached Decree No 108/2006/ND-CP dated 22, September, 2006 shall be entitled to the incentives[9]. Moreover, incentives of FDI are under aspects, including (1) tax incentives; (2) losses; (3) fixed assets; and (4) land use.

Regarding the tax incentives, investors having projects within the categories stipulated in the legal documents shall be entitled to preferential tax rates, the duration of entitlement to such rates and the duration of exemption from and reduction of tax in accordance with the law on tax.

Investors shall be entitled to tax incentives on that portion of income from their capital contribution or purchase of shareholding in an economic organization in accordance with the law on tax after such organization has paid in full corporate income tax.

Investors shall be exempt from payment of import duty on equipment, materials, means of transportation and other goods for implementation of investment projects in Vietnam in accordance with the Law on Export and Import taxation.

Income from activities of technology transfer applicable to projects entitled to investment incentives shall be exempt from income tax in accordance with the law on tax.

Continuously, investors are incentive to carry forward losses. If an investor suffers losses after completion of tax finalization with the tax office, it shall be permitted to carry its losses forward to the following year, and the amount of such losses shall be set off against taxable income for the purposes of corporate income tax in accordance with the law on corporate income tax. The period for carrying forward losses shall not exceed five years

[9] Retrieved in website: http://investinvietnam.vn/detail/392/Investment-Incentives.aspx

Next, in depreciation of fixed assets incentive, investment projects in investment incentive sectors and geographical areas and business projects with high economic efficiency shall be subject to accelerated depreciation of fixed assets; the maximum rate of depreciation shall not be more than twice the level of depreciation as stipulated by regulations on depreciation of fixed assets.

Finally, incentives of land use, the term of land use of an investment project shall not exceed fifty years; with respect to projects with a large amount of invested capital and a slow rate of capital recovery, projects investing in areas with difficult socio-economic conditions and projects investing in areas with specially difficult socio-economic conditions which require a longer term, the term of allocation or lease of land shall not exceed seventy years.

If at the expiry of a term of land use, investors who have good compliance with the law on land have a requirement for continued land use, the competent State body shall consider an application for extension of the term of land use in conformity with the approved land use zoning.

Investors who invest in investment incentive sectors and geographical areas shall be entitled to an exemption from payment of or a reduction of land rent and land use fees in accordance with the law on land and the law on tax.

Those are items, which investors get more incentives in investment process in Vietnam. To receive those, investors need to implement the following procedures for applying investment incentives.

In the first place, with the domestic investment projects in the category for which investment is not registered, and projects in the category for which investment is registered, investors shall base on the basis of the incentives and conditions for investment incentives stipulated by law to assess themselves incentives and conduct procedures at the competent State body for investment incentives.

Moreover, if an investor requests the certification of investment incentives, it shall conduct the procedures for investment registration in order for the State administrative body for investment to record investment incentives in the investment certificate.

In second place, with domestic investment projects in the category for which there must be an evaluation for investment and which satisfy the conditions for incentives, the State administrative body for investment shall record incentives in the investment certificate.

Lastly, with foreign invested projects which satisfy the conditions for incentives, the State administrative body for investment shall record investment incentives in the investment certificate.

All in all, investment incentives are adjusted and supplemented in following cases.

During the process of investment project implementation, if investors meet requirements of extended investment incentives, investors shall be entitled to the investment incentives and have rights to request the state office of investment certificate granting to adjust or supplement investment incentives as regulated in the investment certificate

During the progression of investment project execution, if investors fail to meet requirements for investment incentives, investors shall be not entitled to investment incentives. The state competent office in charge of investment incentives execution shall be responsible for notifying in writing to the state office of investment certificate granting.

Last but not least, investment incentives are applied in the followings case. Investors who benefit from investment incentives as regulated in the law on domestic investment promotion, law on foreign investment in Vietnam, law on cooperatives and law on tax shall be continued to benefit from these investment incentives.

Investors with investment projects under implementation and belong to applicable entities as regulated in the Article 24 of Decree No 108/2006/NĐ-CP dated 22/9/2006 shall be entitled to investment incentives for the remaining period of incentives benefits since the Decree is put into practice.

In cases new laws or policies offering better investment incentives and benefits compared to those applied previously, investors shall be entitled to apply new benefits and incentives during the remaining period of investment incentives (if necessary) since new laws or policies are in effect.

In cases of international conventions which Vietnam is a member to provide new regulations as compared to the mentioned above contents, investors shall be entitled to apply the new regulations in the international conventions.[10]

[10] Retrieved in website: http://investinvietnam.vn/detail/392/Investment-Incentives.aspx

4 Empirical findings

4.1 A review of FDI-related literature in the world.

FDI may have both advantages and disadvantages for the home country and host country. However, contributions of FDI in economy of host country are undeniable. With the following sections, thesis attempts to build up general viewpoints of scholars of donations of FDI into factors of economy in the international.

The effects of FDI on the host country can be classified into economic, political and social effects. A general characteristic of researches is to solve a specific contribution of FDI in the economy. With papers I achieved, roles of FDI are split into 5 categories, including economic growth, spillovers of FDI, FDI and export, FDI and poverty reduction, and FDI and job creation and wages. Along with these, studies of scholars are put into each group.

One of the most important aspects of FDI is its effect on growth in the host country. Therefore, role of FDI in economic growth in the host countries are concerned more of researchers. Roles of FDI are not studied in not only macro economy, but also micro economy, such as provincial level.

To start with, Borensztein, et al. (1995) tested the effect of FDI on economic growth in a cross-country regression framework, utilizing data on FDI flows from industrial countries to sixty-nine developing countries over two decades. Their results suggest the following conclusions:

1. FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than does domestic investment.

2. For FDI to produce higher productivity than domestic investment, the host country must have a minimum threshold stock of human capital.

3. FDI has the effect of increasing total investment in the economy more than proportionately, which suggests the predominance of complementarily effects with domestic firms.

Feldstein (1994) examined the effect of outward FDI on the national incomes of the home and host countries in the presences of taxes and tax credits. He argued that the national income of the home (investing) country depends on the relative importance of two factors acting in different directions: the loss of tax revenue to the foreign (host) government, and the increased use of foreign debt. He developed an analysis of these two factors in the presence of a segmented international capital market, in which most national saving remains in the country where saving arises.

One of the aspects of FDI concerned by researchers is spillovers of FDI. FDI may raise productivity levels of domestic firms in the industries which they enter by improving the allocation of resource in those industries. The presence of multinationals together with their new products and advanced technologies may force domestic firms to imitate or innovate. The threat of competition may also encourage domestic firms which might otherwise have been laggards to lock for new technology. Another route for the diffusion of technology is the movement of labour from foreign subsidiaries to locally owned firms. However, there are a lot of controversies in the literature (Gorg & Greenaway, 2004).

The next role of FDI is in export. FDI is expected to enhance exports, if between the host and home countries has substantial differences in factor endowments. Multinationals from the capital-abundant home country tends to export capital-intensive products to their subsidiaries in the labor-abundant host country in the exchange for the finish good (Nguyen, 2007). Except the trade liberalization process, FDI firms in Vietnam have been granted the trading rights to engage in export and import activities.

Finally, job creation and wages are factors, which FDI has effects.

Keynes (1936) suggested the existence of a direct relationship between investment and employment.

In general, the employment effects of FDI may be summarized as follows:

1. FDI is capable of increasing employment directly, by setting up new facilities, or indirectly by stimulating employment in distribution.

2. FDI can preserve employment by acquiring and restructuring ailing firms.

3. FDI can reduce employment through divestment and the closure of production facilities (Moosa, 2002).

The impact of FDI firms in the creation of job is controversial. First, FDI firms will bring more jobs for the employment of local countries when it was located in this area. Moreover, it helps to train the employment with requiring high ability. However, some people argue that because of the reputation of FDI firms, it attracts more employment in the location. It may lead to the phenomenon of transference of employment from domestic firm to FDI firm, so domestic firm may be pushed out of business.

In summary, these researches attempt to evaluation the contributions of FDI in the certain sectors. By the many methods, they also show that FDI has more positive than negative effect. The roles of FDI in host countries need to study more in order to suit with the reality of each country.

Many researchers conducted to study the determinants of FDI in the host countries. They attempted to find the factors having effective influence to the decision of foreign investors. In general, they found that the factors, namely market size, political stability, labor cost, openness, incentive framework, etc. affect significantly to investment decision of foreign investors.

Baibekova & Nguyen, (2010) surveyed the determinant of foreign direct investment in Ireland. They examined the determinants in term of GDP, GDP per capita, infrastructure, labor productivity, education and trade openness. First, they collected data from 1997 to 2007 of 30 OECD member states. The pooled regression helped them obtain the following results: GDP, GDP capital, infrastructure, and education have a significant effect on FDI and FDI per capita, while labor productivity and trade openness turned out to be less significant in attracting FDI to Ireland.

Ali & Guo (2005) conducted their journal on FDI in China; their paper examined the literature on FDI and focused on likely determinants of FDI in China, they used questionnaires to ask 22 firms operating in China. They found that the market size was a major factor for FDI, especially for US firms. For local, export-oriented, Asian firms, low labor costs were the main factor.

Bouoiyour, (2003), used an econometric model to investigate the determining factors of foreign direct investment in Morocco from 1960 to 2000. This period was characterized by the adoption of the adjustment plant of 1983-and the accompanying complementary measures relating a more open and flexible economy – that ushered in a radical change in Moroccan’s strategy of economic development. An empirical model using some macro-economic variables was used. This model allowed him to obtain a general characterization of FDI in Moroccan economy.

Kozlova & Smajlovic, 2008, The thesis examines the foreign direct investment (FDI) inflows in the Middle East and North Africa (MENA) region and, in order to achieve a better understanding of how

MENA economies may attract FDI, attempts to identify their possible location-specific determinants. The analysis is based on the results of the cross-section OLS regression method. The examined empirical model is based on the eclectic theory developed by John Dunning and the previous empirical studies. To test the relevant location-specific determinants of FDI inflows into MENA region, eighteen countries are sampled for the period 1996-2006. The results of the regression analysis show that physical infrastructure and trade openness are significant determinants of FDI in the MENA countries.

In 2005, Wong implemented his research in FDI of Malaysia. He discussed the location-related determinants of FDI in manufacturing industry of Malaysia using times series data. The co-integration analysis is used to examine the long-run relationship between FDI and its determinants. The results show that good education or infrastructure attracts FDI. The larger the market size or the healthier the current account balance, the more it is expected to attract FDI. On the other hand, an increase in inflation or exchange rate leads to a decrease in FDI.

Yeung, (2006), basing on 26 case studies, investigated the socio-economic causes of the inflow of FDI and its policy implications in Dongguan, China. He divided the favorable factors for foreign investors under the Dunning's OLI framework. He argued that factors other than policy incentive, such as sub-contractual and pseudo integration, were playing more important roles in attracting the inflow of FDI and maintaining the high level of economic growth in Dongguan. He also found the effectiveness of policy incentives, such as tax-breaks, implemented by the China Government as a means to attract FDI in Dongguan, China.

To attract more FDI is a vital demand of developing countries, especially in current fluctuated context of the international economy. Basing on specific situation of each country, the government gives reasonable policies to create conditions for investors to explore and penetrate market, promote investment and production.

In the first place, Brooks & Sumulong (2003) researched the role of policy of FDI in domestic and international context. They found that attracting internationally mobile factors of production requires host economies to improve the quality if their immobile assets, institutions and infrastructure. Most countries offer incentives-tax concessions, tax holidays, tax credits, accelerated depreciation, export, subsidies, import entitlement, subsidized utility rates to attract FDI.

Paul, 2000, in his book, namely foreign direct investment in Russia: A strategy for Industrial Recovery, argued that favorable legal, macroeconomic and political framework conditions alone cannot directly influence FDI in flows; they must be supplemented by:

- special incentives for FDI in designated industries and regions;
- creation of special development zones to promote particulars regions or technologies;
- establishment of an investor information system;
- promotion and image-building campaigns;
- advisory services intended for the management of leading large;
- financial engineering;
- creation of an FDI agency, which serves the regions

Jensen (2003) divided the policies that are effective in attracting FDI and generating growth into three generations. First generation is liberalization of investment policy, a second generation of promotion and facilitation, and a third generation of policies to enhance the investment environment. In third step, he concerned to the changing the Risk Side of Equation, including political stability, transparency and corruption, property right, and macroeconomic stability. Moreover, the changing the Return Side of the Equation was referred, namely skill level and education, competition policy, sectoral policy, and trade policy.

4.2 A FDI-related literature review in Vietnam

Turning to situation in Vietnam, Vietnam conducted its economic reform with the low rate of starting point. Therefore, in the demand of capital, FDI is considered as an additional capital for the investment finance of Vietnam in order to meet the demand for its development. Furthermore, as already pointed out, when multinational corporations invest in country, they bring not only finance for the host country, but also technology, managerial and marketing skills and its global network, which are believed to the growth of economy in the host countries. In fact, according to figure of GSO, in 2000, FDI accounted for 20% of 13.2 GDP of Vietnam, after increasing to 15.9 in 2005. To compare with the State sector and non-state domestic sector, it is also higher than those, with 11.4 in 2000 and 13.2 in 2005, and 7.7 and 5.0 percent in 2000, 7.3 and 8.1 in 2005 respectively.

To examined the contribution of FDI in economic growth in Vietnam, several researchers found that FDI has an important role and significant in the growth of Vietnam.

Nguyen, (2006), investigated the impact of FDI on the 8-year period from 1996 by using provincial level data. He modeled the relation the relation of FDI and economic growth in a system of equations. He used 2LS, 3LS, and GMM to estimate the system and the results are quite consistent across method used. He concluded that FDI is a significant determinant of economic growth.

Nguyen, P. H., (2002), examined the impact of FDI on provincial economic growth of the 5-year period from 1996. She estimated a pooled regression on a panel data in which annual growth rate of GDP is regressed on FDI, public investment, human capital stock, labor growth rate and some other control covariates. She also found that FDI exerts positive impacts on the economic growth rates across provinces during this period. She interacted to FDI with human capital stock and the estimated coefficient is positive and statistically significant in various specifications. She went further to argue that this is evidence that the human capital in Vietnam seems to exceed the threshold necessary to benefit from FDI. Supplemented economic evidence with her own survey, she reported that there is evidence of labor turnover leading to spillovers of technology from FDI firms to domestic enterprises.

Similarly to Nguyen, Phan and Ramstetter, (2006), focus their study on the period from 1995 to 2003. They adopted the endogenous growth model. However, instead of using the panel data, they regressed the average growth rate of GDP during 8 years on the average of conventional covariates such as GDP growth rate, human capital, export, and domestic investment. They used the FDI share of provincial GDP to capture the effect of FDI on local economic growth. To deal with the potential simultaneity between growth and FDI, they had used the instrumental variables. Their finding was that FDI is positively and significantly related to economic growth.

Vu et al, (2006), investigated the impact of FDI on economic growth for both China and Vietnam. Different from previous studies on Vietnam, they used sectoral-level panel data instead of provincial level data. They also adopted the endogenous growth model and modeled the influence of FDI on GDP through labor productivity channel by allowing the coefficient of labour to vary over time. Their result showed that FDI has a significant and positive effect on economic growth through labour productivity. They also suggested that FDI may improve the productivity of labor in Vietnam.

Müller, (2003) examined the development of FDI in Vietnam during the 90s using only macro-level data. An important conclusion from this study is that FDI has not lived up to the expectation regarding linkages and technology spillover although in the longer term there is potential for these, particularly through skill-upgrading of the labor force.

Le (2005) investigated the technological spillover effects of FDI on labor productivity in 29 sectors for Vietnam, using industry level data for two period 1995-1999 and 2000-2002. To measure the impact of FDI, she used foreign share in labor employment (percentage of foreign sector's employees of total industry's employees) in her regression. She argued that this is a better proxy than share of foreign sector output. However, using this proxy did not allow her to distinguish backward and forward linkages. She found that there is evidence of spillovers from foreign direct investment on the productivity of domestic industries in Vietnam during 1995-1999 but this effect became weaker during 2000-2002 (possibly due to the market stealing effect). She also argued that the linkage is the most notable for private sector and suggests policies to strengthen the competitive ability of private sectors.

By contrast to Le (2005), Nguyen et al, (2006), are the first researchers to use firm-level data to investigate the FDI spillover effect. In particular, they use the Enterprise Census in 2001, ignoring the data available for 2002, 2003, and 2004 on the ground of data limitation. Similar to Le (2005), Nguyen et al, (2006), investigate only the effects of FDI on labor productivity. The general conclusion from this study is that the presence of FDI improves the labor productivity of general enterprises and Vietnam's enterprises in particular.

The contribution of FDI toward export has been calculated by Nguyen and Xing (2006) who estimate that every US$2.5 of FDI will generate US$ 1 of export. To explore the nexus between FDI and growth, they adopted the gravity model framework in which the bilateral trade between two countries is proportional to growth output and negatively related to the distance between them. Nguyen and Xing (2006) then augmented the gravity model with FDI to explore the relation between FDI and export. They constructed a dataset for Vietnam's trade with 23 main trading partners for the period 1990-2004. Their results indicate that FDI in Vietnam contributed significantly to the country's export. In particular, one percent increase in FDI will increase export by 0.25 percent.

Pham, (2001) pointed out that about half of FDI into Vietnam has channeled into industries that Vietnam has comparative advantages. The exports by the FDI in these industries have increased significantly and are the main driving force behind the rapid export growth of Vietnam.

Fourthly, FDI has a positive contribution in poverty reduction. FDI can arguably have either direct or indirect impacts on poverty. The direct impact of FDI on poverty works through job creations and employment wage. The indirect of FDI on poverty is through its impacts on economic growth (Nguyen, 2007).

Nguyen Phuong Hoa, (2002) investigated the impact of FDI on poverty in 61 provinces in Vietnam for period 1996-2000. She basically regressed provincial Gini coefficient in 2000 on the GDP growth rate (between 1996 and 2000), the initial poverty level (in 1996), quality of labor, the initial Gini coefficient (in 1996), the Hunger Eradication and Poverty Reduction variable and the amount of FDI (between 1997 and 2000). She found that foreign direct investment does not have any impact on poverty. The estimated coefficient of FDI is not statistically significant across various specifications. However, pointing to the positive impact of FDI on economic growth she argued that FDI can contribute to poverty reduction indirectly.

Turning to studies of determinants of FDI in Vietnam, Nguyen (2010) conducted his research on determinants of FDI in Vietnam. He classified factors affecting the choice of foreign investors in Vietnam into four group, including economy, resource, infrastructure, policies. In four groups, each factor included small factors, namely economies include potential market and benefit of costs, resources include human resource, natural resource, and geographic position, infrastructures include technological infrastructure and social infrastructure, and policies include incentives and supporting. He sent to 300 foreign investors in many provinces in Vietnam to study that the factors are the most effect to decision of foreign investors, and was fed back of 258 foreign investors. The result is that infrastructure is the most important factor with 47.8%, and the incentives and supporting, and the benefits of costs flow, 18.8% and 15.9% respectively. Mean while geography position and social infrastructure are chosen the least, 4.3% and 0% respectively.

Like Nguyen, Hoang, (2006), explored factors that determine FDI in Vietnam from 1988 to 2005. She also bases on OLI Theory of Dunning, J. to build the model of factors influencing to decision of foreign investors. By the regressive analysis of data, her main result showed that higher market size, GDP growth, openness to trade and better infrastructure development are factors attracting FDI inflows into Vietnam. However, she had not found a strong relationship between FDI and human capital quality or the timing of joining ASEAN. She also suggested some policy for infusion of FDI into Vietnam.

In Vietnam, there are many studies about FDI and policy to attract more FDI in national-level in general and in provincial-level in particular. Dang (2007) examined the reality of FDI in Lam Dong province in Vietnam. He based the policy of FDI of Vietnam to give more policy to promote attraction of FDI inflow in Lam Dong. He gave out a group of policy solve the factors, including planning and development of infrastructure, building strategy and structure of FDI, reform of promotion and marketing of investment, promotion of administrative reform, concerning environmental issues, enhancing of human resource training, linking with the key economic areas in the South of Vietnam, and building more industrial zones.

On the other hand, Nguyen (2003) studied the investment climate in Vinh Phuc province in Vietnam. She also examined the reality of FDI in Vinh Phuc province to give an assessment of FDI climate in Vinh Phuc. She suggested many policies to attract more FDI in Vinh Phuc province, namely completing of investment policy such as land policy, and incentive policy of FDI, reform of administrative procedures, mobilizing of investment promotion, and human resource training.

In conclusion, this chapter represents the findings of researchers, who have concerned the factors of FDI. There are not many researchers conducting their study on determinants of FDI in Vietnam. According to Dunning John, the factors of FDI change by the time. Thus, the purpose of this study is to survey factors of FDI in Vietnam.

In spite of using different approaches, many researches use OLI Theory to build the model or to collect the factors suggested by Dunning to justify the main factors of FDI. Moreover, the number of factors in their evaluations is also not the same. Therefore, thesis will choose OLI paradigm as background for empirical test.

Basing on literature review, in the following sections, thesis attempts to justify the question of study, this means that to analyze the factors which influence to the decision of foreign investors when they explore investment opportunities in Vietnam. Thesis will also base on the OLI Theory of Dunning regarded in theoretical framework and three advantages provided by him as the background of promotion FDI in countries.

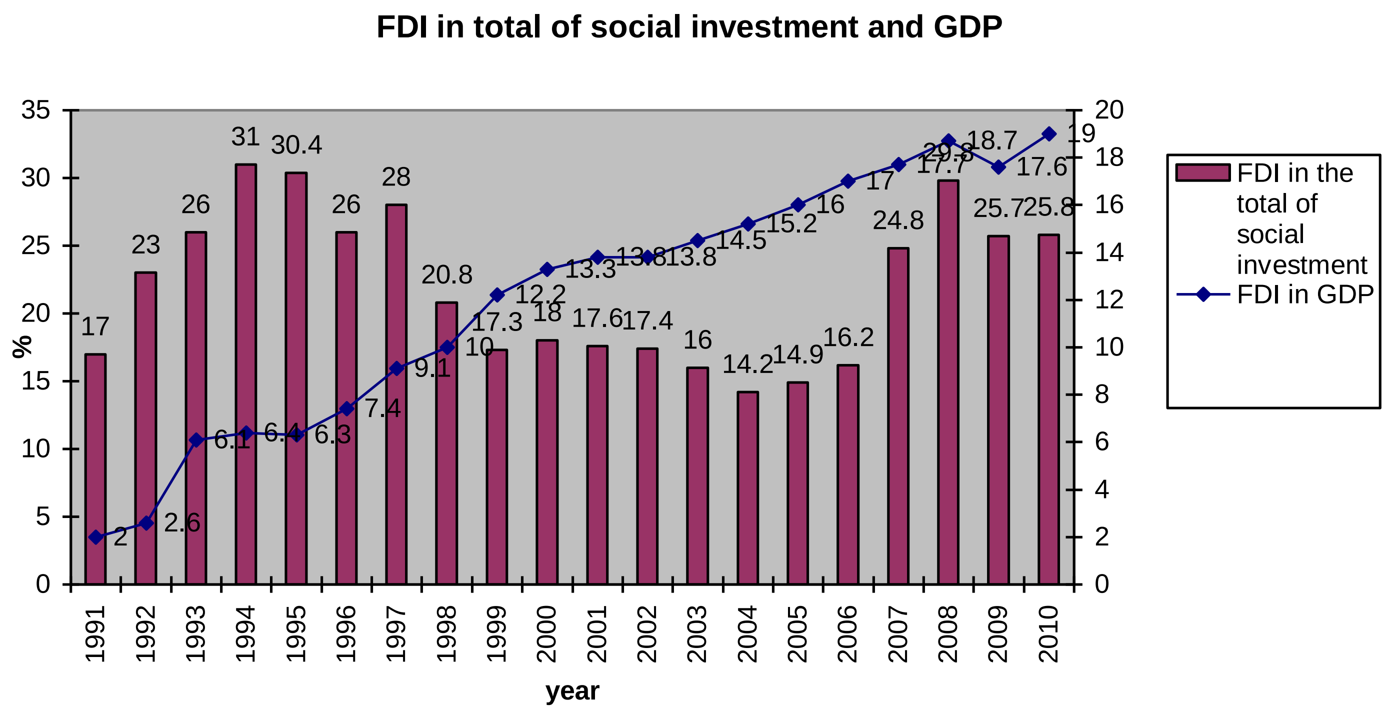
4.3 Empirical Test

4.3.1 Effects of FDI in Vietnam

Area of FDI economy is more and more important role in Vietnam economy, as FDI is additional capital in total of social investment and contributes to improve the balance of payment in this period. Besides, FDI enhance manufactured ability and technology of economies. It also clear productivity market especially in increase of exports, contributes for State Budget, and creates employments for a part of labor. Moreover, FDI has role in transfer of technology and creates a pressure for domestic firms to renew their technology and manufacturing efficiency. FDI project has positive impact to promotion of management ability and classification of labor. In next sessions, effects of FDI will be evaluated.

First, FDI and economic growth, Vietnam conducted its reform task with the low of starting point. Therefore, considering in capital demand, FDI is considered as additional important capital for domestic investment capital in order to meet the need of development investment. Contribution of FDI in social investment fluctuates dramatically, partly reflecting the erratic change of FDI as well as the change of investment of economic sectors. As can be seen clearly from figure 1 that, the period from 1994-1995, the density of FDI in total of social investment went up to 31%, being the highest rate up to now. This figure decreased gradually and reached 15.5 in 2004.

Figure 3: FDI in total of social capital and GDP



Source in: GSO, in several years.

Regarding the density of FDI in GDP, it is clearly from figure 3 that, FDI areas accounted for more and more in GDP. In 2005, FDI areas contributed 15.2% into GDP, comparing with 6.4 of these in 1994, while this figure of 19% in 2010 is the highest.

Turning to the capital to develop economy, FDI help to increase the resource of capital in Vietnam. The percent of FDI in GDP increase by the years, although the economy could face issues.

Next, thesis will evaluate effect of FDI with promotion of industrial manufacturing and export. In 20 years, FDI played an important role for the growth of industry, and becomes gradually an important source of investment in Vietnam. The growth of industry of FDI is higher than general growth of Vietnam industry, which contributes to the restructuring of economy toward industrialization and modernization. The proportion of FDI in general economy increases over the year, from 23.79% in 1991 to 41% in 2005. The production value of FDI enterprise is significant increase over years, from 41.3% in 2000 to 43.7% in 2005. As regard, FDI in Vietnam is concentrated mainly in industrial sector. Moreover, industrial manufacturing is improved significantly in terms of exploration and quarrying of oil and gas, post and telecommunication, electronics, infrastructure building, etc. In 2004, FDI area contributed 35.68% of total of industrial manufacturing value, while this figure was 25.1% in 1995. Up to now, FDI area accounted for 100% of industrial productivity, such as oil, car, washing machine, fridge, and computer tools; 60% of steels; 28% of cement; 33% of electronic tool and machine; 76% of accurate health tools, 55% of fiber, 49% of leather shoes; 25% of food and drink, etc. In general, the increasing speed of manufacturing industrial values of FDI economic area was high, and higher than general industry.

FDI also help to vary the structure of Vietnamese industry. FDI has created new industrial sector such as oil and gas, informatics technology, chemicals, automobile, motorcycle, steel, electronics, agricultural product process, footwear, textile, etc. which also more profit for export of Vietnam.

In the recent decade, the increasing speed of export of FDI was higher than general increasing speed of nation. In the 2004, export of Vietnam was 26.5 billion USD and 71 billion USD in 2010, an increase of 1.68%. In this figure, FDI accounted for highly rate, 54.6% in 2004, and 54.2% in 2010.

Last but not least, efficiency of performance of FDI enterprises is enhanced by increasing the number of business investment and expanding production scale. Concurrently, there is spillover effect other sectors of economy, through linking between FDI enterprise and domestic enterprises. This effect can be vertical or horizontal between business enterprises working together, by transferring technology and business capacity.

In the view point of job creation, FDI has also significant effect. It cannot deny that FDI firms create more jobs and help to solve big amount of employment in Vietnam. According to statistic of FMI, FDI projects use 1.9 million employees, and create millions indirect jobs.[11]

FDI also contribute to promote technology transfer into Vietnam, develop a number of significant economic sectors in country such as telecommunication, exploration and exploitation of petroleum, chemicals, mechanical engineering, electronics, information, car, etc. In general, the technological level of FDI companies is higher or as higher as available equipment in country. Most of them apply advanced management method, connected and influenced by modern management system of the parent company.

Therefore, labor in FDI is required to have technology ability and skills. They also learn more when they approach and work in advanced equipment and management systems. Therefore, Vietnam has

[11] See in website: http://tapchitaichinh.vn/tabid/56/Key/ViewArticleContent/ArticleId/3334/Default.aspx

gradually formed a team of managers, high qualified and skills technical workers with modern industrial style. Especially, Vietnam has experts can replace positions of enterprise management as well as control processes of modern technology chains.

The last point is that FDI affects to State Budget and balance of payment. With the development of FDI enterprises in Vietnam, the contribution of FDI sector in the State Budget went up gradually. For instance, period 1996-2000, except oil revenue, FDI enterprise assigned Budget 1.49 billion USD, and 3.6 billion USD in period from 2001 to 2005.

Referring to balance of payment, the increase of FDI inflow by years, with 7 billion USD in 2008 and 11 billion USD in 2009, helps to hold capital account steadily. Moreover, FDI inflow in has change from sectors having high economic value such as real estate, restaurants, hotels to sectors having more export value such as manufacturing, agriculture, and high technology. This brings more foreign exchange in order to rise up national saving and usable capital.

4.3.2 Determinants of FDI in Vietnam

In the first place, variables of empirical test of determinants of FDI will be showed.

The aims of investors when they invested may be divided into three categories, including market-seeking, resource-seeking, and efficiency-seeking.

The market-seeking investors have a tendency to exploit the new markets, after meeting the need in their countries. A market-seeking firm invests in a country in order to serve its good need. They will apply the same production activity in the location, which a firm is located in host country. The factors concerned by them may include market size and market growth of recipient countries; the access to regional and global markets, the market structure.

The resource-seeking firm as its name concerns of taking advantage abundant nature and human resource of host country. The main determinants of resource-seeking FDI including natural resources, raw materials and complementary factors of production (Baibekova & Nguyen, (2010)).

The efficiency-seeking FDI is known as investments undertaken to minimize productions cost. It takes place when market-seeking investments as well as resource-seeking investment have been already realized. This type of FDI is considered to be a vertical investment and include: sufficiently skilled labor, business related polices, trade policies and physical infrastructure (Dunning, 1997).

Furthermore, Dunning argues that location is one of the important factors of attracting FDI. Therefore, thesis will focus location-advantage to analyze the determinants of Vietnam FDI flows. The factors regarding in thesis will be identified follow location-advantage presented in table 1. Unfortunately, due to lack of data, factors will be chosen to suit with availability of information of factors.

Continuously, the description and classification of variables used in the evaluation of determinants of FDI is presented as follow. The variables are built base on the OLI paradigm, the previous study and research, and situation of Vietnam economy.

i. Market size

A country with the large and fast growing local market could be received more concern of market-seeking investors. Vietnam is a country in the area of the fastest economy growth-ASEAN. With the population of 87 billion people in 2010, Vietnam will be a potential market. Moreover, rate of GDP growth by years is very impressive. Market size has positive impact on the FDI inflows as it directly affects the expected revenue of the investment (Hoang, (2006)). Opportunities for products, sales as well as profits will be provided to foreign companies in bigger host market. Therefore, a larger host market will attract more FDI inflow. According to Hoang, to proxy for market potential, both expected market size in the term of country population and income will matter. It is not interesting to invest in a country with a high GDP per capita but with a limited amount of population. In the other hand, the same holds for a country with a large number of inhabitants, but low GDP per capita. Hence, nominal GDP is used to proxy for market size, and expected to be a positive relationship with FDI flows. It means that the larger FDI of Vietnam is the bigger FDI inflows would be attracted.

By the years, GDP of Vietnam increased dramatically, although the world economy has changes. Countries that have high and sustained growth rates receive more FDI flows than vulnerable economies, because the investors may invest to serve the domestic market. GDP growth rate will be expected positive factors determining FDI inflow in Vietnam.

***ii.* Human capital**

Human capital may represent for population and the quality of population. Vietnam has 86 million of population. The HDI of Vietnam is high rate. The country has paid great attention to the education such as twelve-year universal compulsory education. However other sectors such as managers, engineers, technicians are still in shortly supply. Some researches indicates that a more educated labor force is likely to adopt new technologies faster and at lower training cost, and indicator of the general level of education can be included among the explanatory variables to capture this effect. Moreover, the specific of workers also affects to quality of production as well as saving more money and time for training and production running. The thesis uses the number of secondary pupils per population in Vietnam representing the level of human capital. It also is expected that the higher quality of labor force has a positive effect of FDI inflow.

***iii.* Infrastructure development**

infrastructure is defined by many dimensions, including electricity, roads, harbors, airports, railways and telecommunication system, for instance internet, telephone lines, etc., and institutional development such as accounting, legal services, etc. Sufficient and modern infrastructure could lead to trading with other area easier and help process of production not pause. As result enterprises tend to choose the countries with a higher infrastructure endowment. This mean that countries with more developed infrastructure are expected more FDI. In the paper, the number of telephone per 1000 residents (TEL) is used to measure infrastructure indicator of Vietnam.

***iv*. Trade openness**

Beside other determinant, trade openness is another vital determinant. This is truer with enterprise having tendency of export and accessing to the neighbor markets. According to Dunning (2002), the greater trade openness the more favorable it is for efficiency-seeking FDIs. In this study, I will use the percentage of total export and import divided GDP and multiplied by 100. The effect of this variable expected not only attracting the foreign capital to host area, but also taking the competition between the foreign and domestic firms.

***v.* Labor cost**

This variable is measured as nominal GDP per hour of work. It determines the efficiency of labor in the economy and competitiveness between countries. Assuming that investors seek for lower cost of production, therefore, they are willing to hire workers with lower cost. Hence, the coefficient of labor cost unit is expected to be negative.

To survey the determinants of FDI in Vietnam, basing on OLI framework, an empirical model relied on previous researches referred in literature review is built. The regression model is designed to test the factors that influence FDI inflow, with FDI is dependent variable. The empirical model of FDI determinant is:

$$lnFDI_t = \beta_1 + \beta_2 lnGDP_t + \beta_3 lnTEL_t + \beta_4 lnHK_t + \beta_5 lnOPEN_t + \beta_6 lnLACO_t$$

Where $lnFDI_t$ is log of Foreign direct investment; $lnGDP_t$ is log of Gross Domestic Product; $lnTEL_t$ is log of the number of telephones per 1000 residents (TEL represent for infrastructure); $lnHK_t$ is log of the number of secondary pupils per 10000 residents; $lnOPEN_t$ is log of the percentage of total export and import divide GDP; $lnLACO_t$ is log of nominal GDP per hour of work.

The empirical analysis was presented by time series model. The time period of analysis is quarter of years from 2004 to 2010, and whole year from 1995 to 2003 due to lack of information about FDI in each quarter of year in years from 1995 to 2003 in Vietnam. Most of the data used in this empirical test is taken and calculated from Vietnam's Statistical Yearbook of Vietnam General Statistics Office.

There is deviation about monetary level between the level of trade openness variable and GDP variable. Since GDP is denominated in Vietnam Dong and imports and exports are in US Dollars. Therefore, I converted them into Vietnam Dong using yearly average of VND/USD exchange rate, gained from indicators in printed matter of VGSO.

To investigate the data, thesis utilizes the regression method for all estimations. The result of empirical analysis is presented in next section. The findings of this analysis will be discussed as well.

The following texts will supply the results of empirical study. The results not only assist for the locational advantage of Eclectic Theory in case of Vietnam, but also show that the finding is or is not equivalent with the findings of other researchers regarding in previous part. Furthermore, the findings also point the factors attracting foreign investors, which may help capital managers to give reasonable policies to create favor investment environment in Vietnam.

The results are indicated in table 6. In the result, GDP has positive sign. This is accordance with many finding of authors regarding in literature. This result could also be shown that foreign investors in Vietnam has tendency to seek market efficiency. This is could be confirmed by the significant population of Vietnam, nearly 87 million people in 2010, and the durable increase in high rate of the growth rate of GDP by each year. The size of market is big; therefore, they can explore their trading opportunities in Vietnam. Moreover, GDP increase by years; thus, the growth of potential market also interests more investors.

As expected, infrastructure (TEL) represents positive impact of FDI inflow. The result accords to Dunning's theory. This means that sufficient infrastructure lead to higher FDI inflow to locality. Foreign investors look for a region having favor conditions of foundations such as electricity, telecommunications, transports, and ports to reduce their cost. In fact, locations such as Red River Delta, South Earth Region, such as Hanoi, Hai Phong, Hai Duong, Hochiminh City, Binh Duong, and Dong Nai have favorable infrastructures also attract more FDI as refer in previous section. Furthermore, these provinces had more fund to build newly and have more policies to upgrade and reduce using cost their work grounds.

Trade openness represented by OPEN, has also positive effect in estimation. An increase of FDI is equivalent to growth rate of commerce in Vietnam. This may be true as Vietnam has cheap labor, low cost, abundant materials, as a result, the manufactured products accounted for large share of Vietnam's export. Moreover, Vietnam has trade agreements with several countries, and Vietnam also joint in many economic conference or institution. This creates easy conditions for foreign investors to join other markets with their strong products.

The proxy variable LACO has also expected to positive sign. This means that the foreign investors seek to efficiency of product, with low cost of entry, they have tendency to find area with low labor cost to invest. As annually Vietnam provide to labor market substantial amount of young labor, which has enough or lack of trained skills, labor cost in Vietnam is evaluated as having low cost of labor. Thus, FDIs in Vietnam mostly concentrate manufacturing industries, which need more workers such as garments, footwear, assembly, etc.

Lastly, human capital with proxy of LACO variable has negative sign. It is not as previous expectation. This is consistence with finding in developing countries of Hoang, (2006), Hanson (1996), and

Schneider and Frey (1985). This could be explained by the aims of investors to concentrate on market and resource, they seem to concern other factors such as cheap labor cost, and natural resource. Therefore, high quality labor does seemly not important

5. Conclusions

FDI and its impact (some researchers use effect) are still controversial. People who defend FDI argue that FDI is typically seen as a way to filling in gaps between the domestically available supplies of savings, foreign exchange, government revenue, and human capital skills and the desired level of these resources necessary to achieve growth and development target. Others who are against FDI argue that, first, multinationals typical produce inappropriate products (those demanded by a small, rich minority of the local population), stimulate inappropriate consumption patterns. Second, location resources tend to be allocated for socially undesirable projects. Multinationals use their economic power to influence government policies in direction unfavorable for development. Finally, multinational company may damage host economies by suppressing domestic entrepreneurship (Torado & Smith, 2011).

By through thesis, FDI in general and in Vietnam are studied to be summarized in the following points. In the first thing, thesis provides information of FDI inflow in Vietnam, including characteristics, process, and incentive and supporting policies of FDI. The evidence demonstrates that FDI inflow increase dramatically both sizes and partners. Furthermore, the paper tries to indicate that FDI has important roles in economy of Vietnam. However, in the frame of thesis, thesis only shows the evidence to evaluate the contributions of FDI to economic growth, industrial manufacturing and export, balance of payment, job creation.

The clearest role is in economic growth with high proportion of FDI sector in GDP of Vietnam by years, with nearly 17% in recent years. While the increase of production of industrial manufacturing and export of FDI is also impressive, with the expansion of goods and new markets. Moreover, FDI also help to stabilize the balance of payment with high foreign exchange saving from export. FDI has role in job creation. It creates more jobs as well as training more skill for Vietnam employees, which can help them to be master of modern means of production. Nevertheless, one of limitation of thesis is may not refer negative impacts of FDI in above sectors.

Secondly, thesis uses econometric model to build the test model of the determinants of FDI influencing to decisions of foreign investors, namely market size, infrastructure, human capital, trade openness, labor cost. The role of this empirical is to assist for Eclectic Theory of John Dunning. It is in line with the judgment of locational advantage in OLI paradigm. It is also equivalent with results of previous researchers such as Hoang, Bouoiyour, and Wong. Moreover, the empirical findings are also to show the FDI managers in Vietnam what factors attract more FDI inflows in Vietnam. These factors will be believed to contribute in the policies of FDI attraction as well.

The findings show that market size, infrastructure, trade openness, and labor cost have positive impact of FDI inflows in Vietnam. GDP is replacement of market size in the empirical test; and has positive sign. This point out that size of market is of prime importance of investors' decisions, which means that the more potential market, the more FDI it gets. To get more FDI, Vietnam should remain it stable development of markets to attract more market-seeking investors.

Trade openness is also of significance to the region as it stands for competitiveness with the rest of the world. After joining into the institutes of economy, Vietnam opens its market gradually as well as removes trade barriers and economic integration toward the high levels of trade protection. In addition, to open up more for foreign investors, Vietnam should introduce more trade liberalization and its measures to reduce corruption and bureaucratic red-tape.

The same conclusion can be true for infrastructure. In the test, the number of telephone per 1000 residents makes up positively significant relation to FDI inflow into the region. Nonetheless, the quality of infrastructure is not the same by area and locality; it will lead to not similar allocation in FDI capitals. Additionally, comparing with other countries in the area, Vietnam has still low infrastructure quality. Thus, Vietnam should focus more on this factor, if it is willing to rise up its competitive ability.

All in all, the labor cost (proxy by LACOS) has positive sign, while human capital is vice versa in this empirical test. It can be explained by the targets of investors; they just give attention to the market and resources such as cheap labor cost, abundant and cheap natural source, etc. However, it does not mean that Vietnam does not concern to quality of employee. Vietnam should establish training center to provide trained and high level of skill employee to meet the need of high skilled level of FDI factors.

The study of FDI factors driving FDI into the host country should be conducted usually because of cruciality of FDI for developing economies like Vietnam. The factors or determinants of FDI are weighty, as right understanding of them can help the host governments to have right policy to increase amount of FDI.

There is the first note that, thesis does not refer all of effects of FDI in recipient countries. In general, there are many of effects of FDI in the both host and recipient countries. Furthermore, these have either positive or negative characteristics. Thesis just justifies the positive effects on Vietnam general economy.

Regarding one of effects in recipient countries, effects of FDI enterprise on environment are controversial. Some people said that because Multinational companies have significant financial, political and negotiating power, they can get away with causing a lot of damage to the environment, particularly in the developing countries that are trying to attract FDI (Moosa, (2002)). Some of people who argued with this claim that with the high technology of exploitation of natural resource, and the high standard in execution and management, FDI companies will help recipients to reduce the waste in the process of exploitation and use of resources.

Second, thesis does not build all of factors in the model; thus, it cannot claim that the test can fully explain the FDI inflows. In fact, there are many others factors affecting to FDI inflows, especially in the political area, with difficulties such as instable politic, arbitrary interventions, violence, and the risk of expropriation that can prevent investors. Moreover, institutional hazards are one of the factors that has important role in attraction of FDI. Lack of transparency in the regulations of investments, weak legal system such as unfair manner and low levels of bureaucracy, and feeble administrative management may be the reasons that discourage FDI inflow into host countries.

Furthermore, policy also includes in factors influencing to the investors’ decisions. Policies should not stay in the same level in the periods and areas. If the government has flexible policy to correspond to changes of market, such as tax policy, real estate hire, etc, it could help FDI enterprises overcome difficulty in inflation and degradation of general market. In addition, some countries have policies to shorten the gap between foreign and domestic enterprise by requiring foreign investors accompany the domestic firms to realize a technology and technique transfer.

In conclusion, I would like to finish this thesis by the suggestion of further research. The first idea is how the locational determinants have changed over time. Moreover, it is very interesting to test the causality effect between these predictors and FDI to answer what affects what. In addition, other variable should be evaluated in further research such as government policy, employment and unemployment, technology spillovers, etc. Finally, the effects of FDI in one specific aspect need to reviewed, such as in export, training, trade inflow, and environment.

References:

Adewuni, S. (2006). *The impact of FDI on growth in Developing Countries*. Master thesis. Jonkoping University, Sweden.

Ali, S. & Guo, W. (2005). Determinants of FDI in China. *Journal of Global Business and Technology, Vol. 1, No. 2.*

Baibekova, K., Nguyen, T. H. A. (2010). *Determinants of Foreign Direct Investment in Ireland*. Bachelor thesis within Economic. Jonkoping University, Sweden.

Borensztein, E., De Gregorio, J. and Lee, J. W. (1995). How Does Foreign Direct Investment Affect Economic Growth? *NBER Working Paper*, no. 5057.

Bouoiyour, J. (2003). *The Determining Factors of Foreign Direct Investment in Morocco*. University of de Pau et des Pays de l'Adour, France.

Brooks, H. D. & Sumulong, R. L. (2003). Foreign Direct Investment: The role policy. *ERD policy brief.* No. 23. Economics and Research Department, Asian Development Bank.

Buckley, P. J. & Casson, M. (1996). *An Economic Model of International Joint Ventures*, Journal of International Business Studies, vol. 27.

Busse, M., & Groizard, J. L. (2006). Foreign Direct Investment, Regulations, and Growth. *Worldbank Policy Research Working Paper*, no. 3882.

Caves, R. E. (1971). International Corporations: The Industrial Economics of Foreign Investment. *Economics,* vol. 38: 1-27.

Chen, J. R. and Yang, C. H. (1999). Derterminants of FDI: Comparison between Expansion of FDI and Defensive FDI. *Taiwan Economic Review,* vol. 27: 215-40.

Chen, T. J. and Ku, Y. H. (2000). The effect of FDI on Firm Growth: The case of Taiwan's Manufacturers. *Japan and the World Economy,* vol. 12: 153-72.

Creswell, J. (2003). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. Thousand Oaks, California: Sage Publications.

Dang, T. D. (2007). *Promotion of FDI attraction in Lam Dong province in period from 2005 to 2010*. Master thesis. Ho Chi Minh City Economic University, Vietnam.

Do, T. T. (2005). *The impact of foreign direct investment and openness on Vietnamese economy*. Master thesis. Department of Economy and Society. Dalarna University, Sweden.

Feldstein, M. (1994). Taxes, Leverage and the National Return on Outbound Foreign Direct Investment. *NBER Working Paper.* No. 4689.

Gorg, H. and Greenway, D. (2004). Much a do about thing? Do Domestic Firms really benefit from Foreign Direct Investment? *The World Bank research observer.* Vol. 19, p. 171-197.

Hanson, J. R. (1996). *Human Capital and Direct Investment in Poor Countries.* Explorations in Economic History, no. 33, p. 86-106.

Hymer, S. H. (1976). The International Operations of National Firms: A study of Foreign Direct Investment, Mass: MIT press, Cambridge.

Jenkins, R. 2006. Globalization, FDI and employment in Viet Nam. *Transnational Corporations*, vol. 15, no. 1, April 2006.

Jensen, O. (2003). Investment Policies that Really Attract FDI. *Briefing paper. No 3/2003.* Center for competition, investment & economic regulation, India.

Keynes, J. M. (1936). *The General Theory of Employment, Interest and Money*. Macmillan, London.

Kojima, K. (1985). Japanese and American Direct Investment in Asia: A comparative analysis. *Hitosubashi Journal of Economics*, vol. 26: 1-35.

Kozlova, M. & Smajlovic, L. (2008). *Location-Specific Determinants of FDI: The case of the Middle East and North Africa countries.* Bachelor's Thesis Within Economics.

Le, T. T. (2005). *Technological spillovers from foreign direct investment: The case of Vietnam.* Mimeo, Graduate School of Economics, University of Tokyo.

Lipsey, R. E. (1999). The role of FDI in International Capital Flows. In Feldstein, M. (ed.). *International Capital Flows.* University of Chicago Press, Chicago.

McMillan, S. L. (2009). Looking beyond the National Level: Foreign Direct Investment attraction in U.S. States. *International Interactions.* 35, 135-178.

Moosa, I. A. (2002). *Foreign Direct Investment: Theory, Evidence and Practice*. New York, NY, USA: Palgrave Macmillan.

Muller, S. (2003). Rise and fall of Foreign Direct Investment in Vietnam and its Impact on. Local Manufacturing Upgrading. *The European Journal of Development Research.* Vol. 15, p. 44-66.

Nguyen, M. T. (2010). *The factors affecting the infusion of Foreign Direct Investment capital into a locality in Vietnam.* Science and Technology Magazines of University of Da Nang. Da Nang, Vietnam.

Nguyen, P. H. (2002). Contribution of FDI on Poverty Reduction: The case of Vietnam. Mimeo of Graduation of University of Tokyo, Tokyo.

Nguyen, P. L. (2007). Two-way relationship between FDI and economic growth. *Journal of individuality.* Retrieved from http://saga.vn/Kinhtehockinhdoanh/Kinhtehoc/13444.saga.

Nguyen, T. Q. A. (2003). *Measures to promote infusion of FDI in Vinh Phuc province.* Bachelor Thesis. Vietnam University of Foreign Trade.''.

Nguyen, T. X. and Xing, Y. (2006). Foreign Direct Investment and Exports: The experience of Vietnam. *Working paper.* No. EDP06-11. Graduate School of International Relations, International University of Japan. Japan.

Paul, F. (2000). *Foreign Direct Investment in Russia : A Strategy for Industrial Recovery*. New York, USA: Palgrave Macmillan, p 481.

Pham, H. M. (2003). The economic Impact of Foreign Direct Investment Flows on Vietnam: 1988-1998. *Asian Studies Review.* Vol. 2791, p. 81-98.

Phan, M. N. and Ramstetter, E. (2006). Economic growth, Trade and Multinational Presence in Vietnam's province. *Mimeo.* The International Center for the Study of East Asian Development, Kitakyushu University.

Razin, A., Sadka, E. and Yuen, C. W. (1990). Excessive FDI Flows Under Asymmetric Information. *NBER Working Paper.*

Report of implementation of FDI. (2009&2010). Cao Bang Department of Planning and Investment.

Report of implementation of FDI. (2011). Department of Foreign Investment, Vietnam Ministry of Planning and Investment.

Schneider, F. and Frey, B. (1985). Economic and Political Determinants of Foreign Direct Investment. *Working Development.* No. 13, p: 161-175.

Sumner, A. (2005). Is foreign direct investment good for the poor? A review and stocktake. *Development in practice.* Vo. 16, No. 3&4.

Torado, P. M. & Smith, C. S. (2011). *Economic Development.* Eleven Edition. Pearson Education Limited, Edinburgh, England.

UNCTAD (1999). *World Investment Report: Foreign Direct Investment and the Challenge of Development.* United Nations, New York.

Undén, C. (2007). *Multinational Corporations and Spillovers in Vietnam*. Master thesis. Lunds University, Sweden.

Vernon, R. (1979). International Investment and International Trade in the Product Cycle. *Quarterly Journal of Economics*, no. 80, p. 190-207.

Vietnam Ministry of Trade and Industry. (2011. June 29). *Vietnam economy in the first half of 2011: Success and problems*. Retrieved from http://www.vinanet.com.vn/tin-thi-truong-hang-hoa-viet-nam.gplist.286.gpopen.191568.gpside.1.gpnewtitle.kinh-te-viet-nam-6-thang-dau-nam-thanh-cong-va-van-de-dat-ra.asmx

Vu, B. T., Byron, G., and Noy, I. (2006). Is Foreign Direct Investment Good for Growth? Evidence from Sectoral Analysis of China and Vietnam. *Mimeo*. Department of Economics, University of Hawaii-Manoa.

Yeung, G. (2001). Foreign Direct Investment and Investment Environment in Dongguan Municipality of Southern China, *Journal of Cotemporary China*, p.125-154.

Website: http://investinvietnam.vn/Default.aspx

Website: http://tapchitaichinh.vn/tabid/56/Key/ViewArticleContent/ArticleId/3334/Default.aspx

Website of Vietnam Foreign Investment Association: http://fia.mpi.gov.vn/

Website of Cao Bang Department of Planning and Investment: http://www.dautucaobang.gov.vn/

Website of Cao Bang People’s Committee: http://www.caobang.gov.vn/wps/portal

Website of Vietnam General Statistic Office. http://www.gso.gov.vn/default.aspx?tabid=217

Wong, H. T. (2005). Determinants of Foreign Direct Investment in manufacturing industry of Malaysia, *Journal of Economic Cooperation.* Malaysia, p: 91-110.

Appendixes

Table 1: The Three Conditions of the Eclectic

Advantage	Ownership-specific	Location-specific	Internalisation-specific
	Size of firm	Distribution of inputs and markets	Reduction in search, negotiation and monitoring costs
	Technology and trade marks	Costs of labour, materials and transport costs between countries	Avoidance of property right enforcement costs
	Management and organisational systems	Government intervention and policies	Engage in price discrimination
	Access to spare capacity	Commercial and legal infrastructure	Protection of product
	Economies of joint supply	Language, culture and customs (i.e. psychic distance)	Avoidance of tariffs
	Greater access to markets and knowledge		Reduction in search, negotiation and monitoring costs
	International opportunities such as diversifying risk		

Source: Dunning (1981).

Table 2: Vietnam' FDI inflows from 1988 to 2010

Year	Number of projects	Registered capital (millions USD)	Implemented capital (millions USD)
1988	37	321.7	0
1989	67	525.5	0
1990	107	735	0
1991	152	1291.5	328.8
1992	196	2208.5	574.9
1993	274	3037.4	1017.5
1994	372	4188.4	2040.6
1995	415	6937.2	2556
1996	372	10164.1	2714
1997	349	5590.7	3115
1998	285	5099,9	2367.4
1999	327	2565.4	2334.9
2000	391	2838.9	2413.5
2001	555	3142.8	2450.5
2002	808	2998.8	2591
2003	791	3191.2	2852.5
2004	811	4547.6	2650.5
2005	970	6839.8	3308.8
2006	833	12004	4100.1
2007	1544	20347.8	8030
2008	1557	71726	11500
2009	839	23107.2	10000
2010	969	1929	11000

Source: GSO in many years.

Table 3: FDI in Vietnam by type, 2011

No	Type	Number of project	Total of registered investment capital	Chartered capital
1	100% foreign-owned capital	10,448	126,720,154,824	42,522,279,836
2	Joint venture	2,620	52,964,344,738	17,466,422,727
3	BOT, BT, BTO contract	14	5,857,317,913	1,354,797,469
4	Business cooperation contract	219	5,429,931,329	4,567,036,804
5	Joint venture company	194	4,834,100,833	1,416,573,178
6	The parent company	1	98,008,000	82,958,000
Sum		13,496	195,903,857,637	67,410,068,014

Source: GSO, in 2011.

Table 4: Sectored distribution of FDI, 2011

No	Sector	Number of project	Registered capital	Charter capital
1	Manufacturing	7624	98477510465	33573829688
2	Real estate	361	48198428474	11694188870
3	Catering service and housing	308	11747838576	3209702067
4	Construction	755	11738889218	3725907074

5	Electricity	65	7394879678	1660217338
6	Post and telecommunications	669	4828241558	3102243174
7	Arts and entertainments	126	3621468103	1097895628
8	Transportations and storages.	307	3217962685	1005721840
9	Agriculture-forestry-fishery	485	3161277739	1520416601
10	Mining and quarry	69	2974765137	2370113746
11	Whole and retail sales; vehicle repair.	577	1812876694	888718950
12	Bank; finance; insurance.	75	1321550673	1171785673
13	Health	75	1037196437	239909016
14	The scientific-technical work	1040	785819057	397799650
15	Other service	106	644201106	149522092
16	Water supply and waste treatment.	26	387478770	38658000
17	Education and training	141	345447332	120776491
18	Supporting and administrative service.	102	183373821	95283411
Sum		12911	201,879,106,523	66062689309

Source: VMPI, 2011.

Table 5: FDI by original countries in 2010

No	Countries	Number of projects	Total of registered capital (USD)
1	Taiwan	2186	23,191,011,801

2	Singapore	912	23,113,218,982
3	Korea	2810	22,959,518,706
4	Japan	1552	21,365,097,457
5	Malaysia	386	18,788,576,678
6	British Virgin Islands	495	14,804,156,400
7	USA	578	13,240,078,812
8	Hong Kong	636	8,449,504,699
9	Cayman Islands	52	7,432,182,851
10	Thailand	248	23,113,218,982

Source: GSO, 2010

Table 6: Empirical analysis results

Regression Statistic

Multiple R	R Square	Adjusted R Square	Standard Error	Observations
0.873750455	0.763439857	0.702619839	0.482154408	37

Coefficients

Variable	Coefficients	Standard error
GDP	0.966	(0.045)
TEL	0.433	(0.032)

HK	-0.258	(0.032)
OPEN	0.202	(0.045)
LACO	0.611	(0.031)