Relationship between Foreign Direct Investment Inflows and Foreign Trade in Vietnam

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ABSTRACT

The main purpose of this study is to analyze the relationship between foreign direct investment (FDI) inflow and import – export in Vietnam from the period of 1991 to 2017. FDI inflow has increased investment capital for production of export goods, contribute a great deal to increase export-import value, shift the structure of export goods, and expand export-import market for Vietnamese goods. However, the transfer of technology from FDI to domestic enterprises is still limited, the technology of FDI enterprises is backward, and investment capital of projects is not large. These are the constraints that FDI has had a negative impact on Vietnam's foreign trade. Foreign trade also affects FDI inflow through Vietnam's expansion of export markets, especially to large markets such as the United State (US) and the European Union (EU), which has prompted Asian investors, especially China, South Korea, Hong Kong, Taiwan (China) invest in Vietnam to take advantage of opportunities to promote exports to these large markets.

Keywords: FDI, Export, Import, Foreign Trade, Vietnam.

1. Introduction

The process of international integration has created a great opportunity for Vietnam to expand its economic relations around the world. According to the Vietnamese Ministry of Industry and Trade, by the end of 2017, Vietnam has trade relations with 187 countries, of which the US, EU, Japan and China are highest trade partners. Vietnam attracted 24748 FDI projects with a total registered capital of 318,72 billion USD, out of the total registered FDI projects only 54% got implemented. Foreign investors from 125 countries across globe have invested in 19 out of 21 sectors as per national economic classification system of Vietnam, of which the manufacturing and processing industries account for the highest proportion, followed by real estate, production and distribution of electricity gas & water. South Korea is biggest investor in Vietnam, Japan ranked second, followed by Singapore and Taiwan, British Virgin Islands, Hong Kong. (Vietnamese Ministry of Plan and Investment (MPI), 2017).

Many studies have shown that FDI inflow and foreign trade are closely related. In Vietnam, foreign trade and FDI have contributed positively to economic growth over time. However, there is little research on the interaction between FDI inflow and Import - Export in Vietnam in the 1991 - 2017 period.

2. Research Objective

FDI inflow and foreign trade are becoming major factors of Vietnam's economic growth. The aim of this paper is to determine the relationship between these two factors, indicating the role of FDI inflow in foreign trade growth and the role of foreign trade in FDI attraction in Vietnam in period of 1991 to 2017. To reach the aim of the study, the following tasks are set: to examine the theoretical FDI and foreign trade aspects; to analyze FDI and foreign trade volumes in Vietnam; and to analyse the impact of FDI on import - export as well as the impact of foreign trade on FDI inflow in Vietnam during the period of 1991 - 2017.The above analysis will provide the basis for proposing suitable policies for Vietnam to attract FDI and promote Vietnam's international trade in the coming time.

3. Literature Review

3.1 Foreign Direct Investment

According to Organization for Economic Co-operation and Development (OECD) (1999), The United Nations Conference on Trade and Development (UNCTAD) (1999) and International Monetary Fund (IMF) (2011), FDI may be understood: FDI is an investment by an economic entity or individual in a country, itself or in conjunction with an economic organization or individual in another country, to invest money or property in that country through certain forms of investment. They are either directly or jointly responsible for managing and operating their production and business operations as well as business results based on the percentage holding their control and ownership of the investment projects.

Dunning (1977), Overseas Development Institute (ODI) (1997), UNCTAD (1998), Bevan, A. and Saul Estrin (2000), Charkrabarti (2001), etc. have shown that the determinants of FDI focus on a number of factors: (1) international investment environment factors such as globalization, regional economic integration, growth

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rapidly of TNCs; the trend of peace and stability, focus on economic development of countries in the world; and the international macroeconomic context. (2) The elements of the investment country (home country). Macroeconomic policies of the country include: monetary and fiscal policies that affect real interest rates, inflation, etc.; import and export policy and foreign exchange management; the policy of promoting investment abroad of the governments of the investment countries makes a big decision to invest abroad of investors. (3) The factors dependent on receiving countries (host country). These factors including: natural resources; human resources (high quality labor, cheap labor); market size; geographical location; active investment attraction policy; openness of the economy (ability of international integration), infrastructure, tax, macroeconomic situation, political stability.

3.2 Foreign Trade

There are many studies on foreign trade (It is also called as International trade, External trade or Inter-Regional trade) and concepts of Foreign Trade. This study uses the concept of some research It has recently been suggested that there is a full understanding of Foreign Trade, in which: (1) Foreign trade is the exchange of capital, goods and services (Smiriti Chand, 2011). (2) Foreign trade consists of imports, exports and entrecote. The inflow of goods in a country is referred to as import trade. The outflow of goods from a country is called export trade. Entrepot trade is also known as Re-export. It refers to the purchase of goods from one country and then selling them to another country after some processing operations (Gaurav Akrani, 2011).

In line with the definition of foreign trade, researchers also came to the conclusion of the factors affecting foreign trade. In 2013, a series of studies by economists, based on the theory of David Ricardo and the Heckscher-Ohlin model, the World Trade Organization (WTO) published the study "Fundamental economic factors affecting international trade ", in which the factors that influence foreign trade include: (1) Demographic change. Changing demographics related to change in the aging population, migration, education improvement and women's participation in the labor force will affect the comparative advantage of nations and the need to enter. Export goods, thereby affecting trade. (2) Investment. Foreign investment helps to host countries increase investment capital for production, expand export and import markets, connect with global supply chains, and increase comparative advantage for these countries in global competition, thereby boosting the trade of the receiving and investing countries. (3) Technologies. Technologies and Foreign Trade have a two-way impact. On the one hand, the application of science and technology will have a direct impact on enterprises to reduce production costs, increase value for export goods, create products new; indirectly improve the level, skills of the workers and the ability to manage effectively, thereby promoting quantity and quality trade. On the other hand, the expansion of trade creates the pressure to constantly strengthen the technology and innovate to meet the increasing demand of consumers. This is a factor that puts pressure on increasing R & D and technology transfer through FDI. (4) Energy and other natural resources. Energy and natural resources affect production costs, change the structure of production, and affect the comparative advantage of some countries in some areas. Water resources scarcity and depletion of natural resources in developing countries have altered their ability to provide food and agricultural products, even though this will be the main import market for these commodities from developed countries. (5) Transportation cost. This is the cost that affects comparative advantage in foreign trade. Low transport costs, convenient transportation systems for trade in goods, will promote trade between countries. (6) Institutions. Reducing trade barriers, limiting administrative procedures that can increase trade costs, boosting trade incentives, investing in transport infrastructure and logistic areas, will promote commercial activities.

3.3 Relationship between FDI and Foreign Trade.

FDI has impacts on foreign trade such as: (1) helping the host country to shift its export products structure. Rodríguez-Clare (2001) studied in Costa Rica show that foreign investors investing heavily in the high-tech sector have helped the country shift its export structure from textiles to high value exports. Similarly, studies in Malaysia, China, Mexico, the Czech Republic, Thailand, etc., show that foreign investors are heavily invested in sectors such as electronics, telecommunications, automobiles, mechanical engineering, etc. This helped these countries to shift the structure of exports to foreign-made items (Tunea, 2006, Nag et al. (2007), Economist Intelligence Unit (2010), Singh, Harinder and Kwang W.Jun. (1999)). (2) FDI helps to connect host countries in the global value chain. Arnold and Javorcik (2009) study in Indonesia concluded that FDI inflow have contributed to enhancing the integration of Indonesian companies into the global economy through increased exports and greater reliance on imports from intermediate inputs. Baldwin (2012) points out that thanks to the Japanese companies' investment in Korea, Taiwan, Hong Kong (China) and Singapore in the 1970s, these countries have entered to the global supply chain by specializing in production of components and assembly of products, thereby expanding their commercial activities. (3) Iacovone et al. (2011) studied in Mexico, Rodríguez-Clare (2001) studied in Costa Rica, Rodrik (2006) studied in China, and Javorcik (2004) studied in Indonesia; Blalock and Gertler (2008) study in Lithuania, etc. show that direct and indirect technology transfer from foreign investors to the host country has improved quality and competitiveness of export product in those countries. At the same time, the level of labor and the ability of management in domestic enterprises have quickly met the common standards and similar to foreign investors. (4) FDI inflow contributes to expanding markets for recipient countries. Markusen (1984), arguing that foreign investors investing in home-grown commodities and services in the country then exporting back to their home countries has made it easier for host country to access the home market. In addition, Grossman et al (2006) argues that the branches of multinationals produced in one country and exported to a third country near their markets will help the host countries in expanding markets to third countries. (5) Foreign trade has also had an impact on FDI inflow. Konya (2004),and Arthar (2012) show that export growth improves resource allocation, encourages FDI inflows and technology transfer, thereby enhancing skills of workers and management skills, create jobs and improve production capacity of the economy. Portes and Rey (2005) argues that in addition to being an important source of information for investors to promote offshore investment, if the country has a large export market and export value, it will stimulate investors. Private investment in export-oriented sectors in these countries. Obstfeld and Taylor (2004) assert that foreign investors promote FDI in the export sector in order to protect their export markets.

In Vietnam, Nguyen Phi Lan (2006), Le Xuan Ba (2006), Nguyen Thi Tue Anh (2006), Trinh Hoai Nam, Nguyen Le Quynh Anh (2015), etc.. Show that FDI has had a positive impact on Vietnam's economic growth. In addition, the authors has demonstrated the effectiveness of FDI in domestic enterprises and has a positive impact on Vietnam's exports, contributing to domestic investment and transfer of technology, skills and knowledge from FDI enterprises to domestic enterprises.

4. Research Methodology

Data for analysis used in this study were collected from Vietnam General Statistics Office (GSO), Ministry of Planning and Investment (MPI), the World Bank (WB) and the International Trade Centre (ITC) in the period of 1991 to 2017. Qualitative research methodology (synthesis method, comparative method) is used to analyze relation of FDI and total export – import value, the structure of exports - import; on the productivity, quality, cost and technology of the export product; on the expansion of Vietnam's export market; and impact of Foreign Trade on FDI inflows in Vietnam

5. Data Analysis

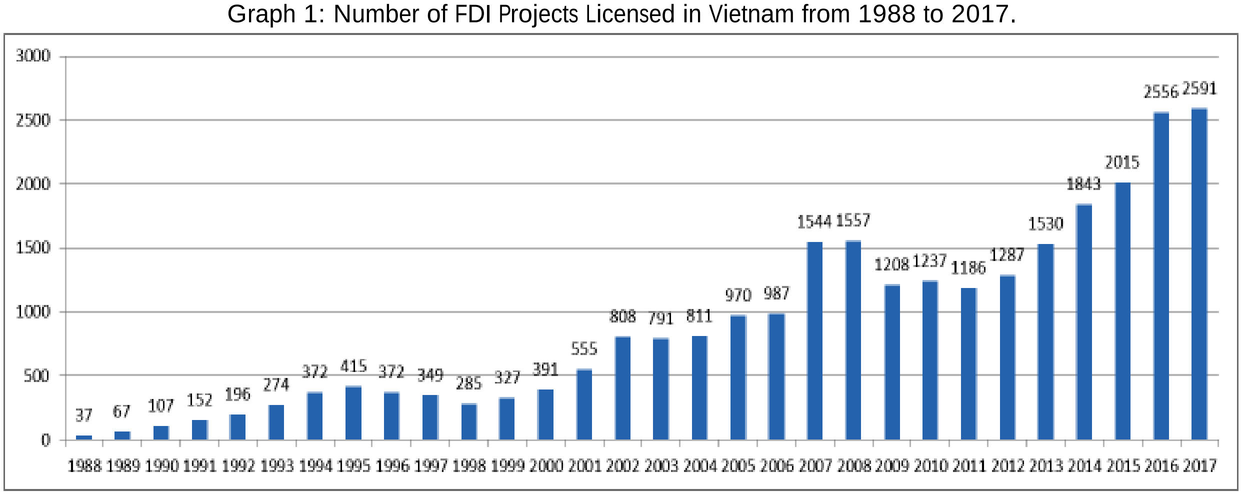
5.1 FDI inflows in Vietnam from 1988 – 2017

The country's policies to attract FDI in general was displayed in Vietnam's Law on Foreign Investment in 1987 and was continuously modified and completed in the years of 1990, 1992, 1996, 2000 and 2005. The common tendency of these plans is to increasingly create more favorable conditions for foreign investors and narrow the differences in policies between foreign and domestic investment.

5.1.1 Issuing investment licenses

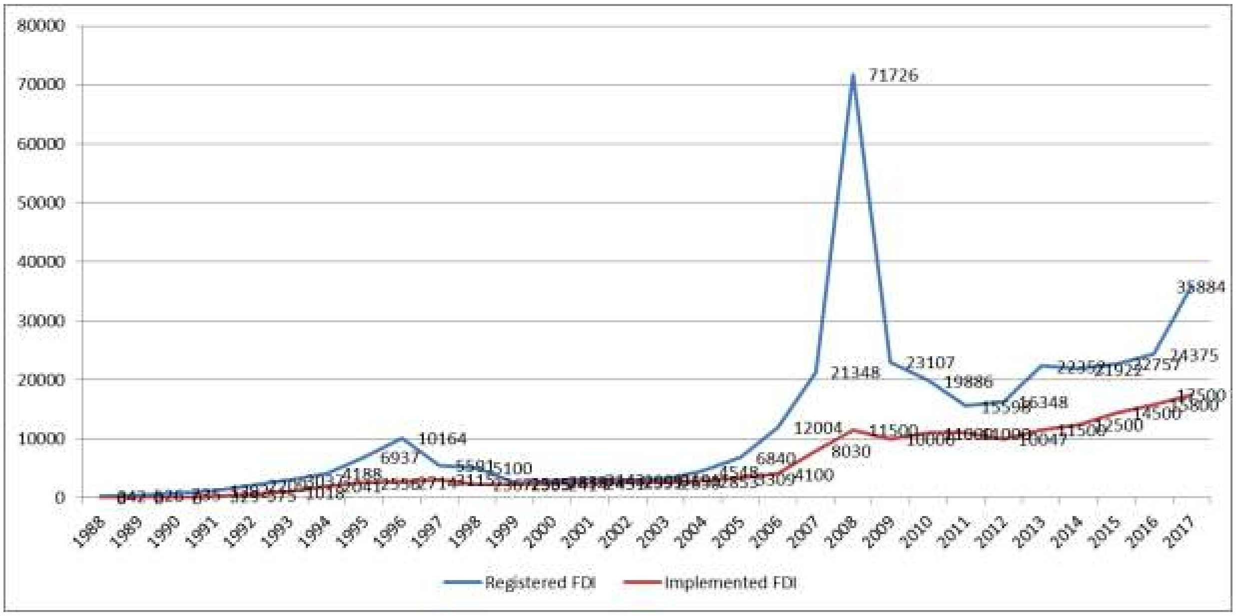
After the introduction of the Vietnam's Law on Foreign Investment in 1987, Vietnam has attracted a large number of FDI projects. By the end of December 2017, the number of FDI projects licensed in Vietnam was 24748 projects, with a total registered capital of US $ 318722.62 million, an average of US $ 12.878 million per project.

Graph 1: Number of FDI Projects Licensed in Vietnam from 1988 to 2017.



(Source: Vietnamese Ministry of Plan and Investment (MPI) http://fia.mpi.gov.vn)

Graph 2 : FDI registered and implemented in Vietnam *(Million USD)*



(Source: Vietnamese Ministry of Plan and Investment (MPI) http://fia.mpi.gov.vn)

The results in Graph 1 and 2 show that:

From 1988 to 1991. The Vietnam's Law on Foreign Investment had just came into effect in 1988. Foreign investors did not know much about the benefits of this Law nor had much information about the investment and business environment in Vietnam to promote investment. At the same time, the US has not lifted the embargo against Vietnam. Therefore, the number of FDI projects attracted this stage is not much, only attract 363 projects with a total registered capital of 2895 million USD, an average of about $ 7.875 million USD per project. However, in 1991 the registered capital was disbursed at $ 329 million USD, relatively small compared to the total registered capital.

From 1992 to 1994. After Vietnam normalized relations with China and expanded diplomatic relations with other countries and international organizations (establishing diplomatic relations with South Korea (1992), the US removed the embargo on Vietnam (1994) and the normalization of relations with Vietnam (1995)). At the same time, Vietnam amended the constitution and promulgated the socio-economic development strategy of the period excess. Therefore, Vietnam has attracted a large number of investment projects. Specifically, in this period, Vietnam attracted 842 FDI projects, with a total registered capital of 9434 million USD, the average capital increase reached 50%, and disbursed capital reached 3634 million USD (accounting for 38.52% of registered capital).

From 1995 to 2000. There is a tendency to increase investment in emerging and transition economies like Vietnam. Therefore, in 1995 - 1996, Vietnam attracted a large number of foreign investors. However, since 1997, due to the financial crisis in Asia began to have negative impact on the investment activities of foreign investors in Asia, which is the major investors in Vietnam. While Vietnam has not yet changed its policy of attracting foreign investment, especially administrative procedures, as well as timely adaptation to world and regional changes, therefore the attraction FDI in 1997 decreased abruptly, affect the next year. However, the period 1999 - 2000 started to stabilize as the capital disbursed remained respectively at 2335 and 2414 million USD.

From 2001 to 2007. The recovery after the Asian financial crisis; Vietnam and the US signed the Bilateral Trade Agreement (BTA) in 2000; Particularly, The US granting permanent norms of permanent trade relations with Vietnam (PNTR) and Vietnam's accession to the World Trade Organization (WTO) in 2006, it marked making the investment environment of Vietnam attractive. In addition, Vietnam has made considerable domestic reforms in line with the international economic integration process and is also aiming at attracting more FDI. Therefore, from 2001 to 2007, 6466 FDI projects have been attracted, with a total newly registered capital of 54073 million USD, an average of $ 8.36 million, disbursement reached nearly 50% of total registered capital FDI.

From 2008 to 2011. In 2008 was the most successful year in FDI attraction when the number of registered projects reached a record of 1557 projects, the highest registered capital so far with the number of 71726 million USD and disbursement reached $ 11500 million. However, since

2009, the situation has suddenly changed due to the financial crisis and economic recession occurring strongly in the US and most countries in the world. Moreover, the public debt crisis took place in Europe and the macroeconomic situation in Vietnam and many countries have been unstable, inflation has increased, economic growth has declined, bad debt and large public debt ... The result, FDI attraction continues to decline, year lower than last year, with a total of 3631 projects and registered capital of 58.591 billion USD (less than 2008) while disbursements reached 32,000 million USD.

From 2012 to now. The world economy is gradually going into stability and growth; Vietnam's macroeconomic stability is also more stable, etc. Therefore the attraction of FDI is recovering. This period, total FDI projects attracted 11822 projects, with registered capital reaching 143638 million USD, on average a project reached 12.15 million USD, implemented reached 81.874 billion USD accounted for 57% of registered capital.

5.1.2 Form of FDI

FDI inflow in Vietnam exists in various forms, including: 100% Foreign capital; Joint -Venture; BOT, BT, BTO; and Cooperation Contract.

Table 1: Form of FDI in Vietnam (1988-2017)

STT	Form of FDI	Number of project	Proportion	Total of registered capital (Mill. USD)	Proportion
1	100% Foreign capital	20719	83.72%	231204.38	72.54 %
2	Joint – Venture	3775	15.25%	68306.03	21.43 %
3	BOT,BT,BTO	15	0.06%	13281.24	4.17 %
4	Cooperation contract	239	0.97%	5930.97	1.86 %
Total		24748	100%	318722.62	100.0%

(Source: Vietnamese Ministry of Plan and Investment (MPI) http://fia.mpi.gov.vn)

Most foreign investors investing in Vietnam want to establish a 100% foreign owned company (100% foreign capital), because they find it unnecessary to link investment with their domestic counterparts as in previous periods. At the same time, they also want to avoid the risk of running the business in the form of joint ventures with domestic partners. BOT, BT, BTO are relatively few registered foreign investors.

5.1.3 The Foreign investment partners

Vietnam has attracted thousands of corporations and businesses from 103 countries and territories in the world to invest in Vietnam. Foreign investors in Vietnam mainly comes from countries in Asia such as Japan, South Korea, Singapore, Hong Kong, China etc. (where the technology is not high) accounts for about 75% of total FDI. Meanwhile, attracting investors from the US, Canada and EU (where there are many large investors, high technology, and source technology) is limited. This may be limited to Vietnam in the process of utilizing modern technology transfer for the development of the country.

Table 2: FDI into Vietnam by partner

STT	Partner	Number of Projects	Total of registered) capital (Million USD	Proportion
1	South Korea	6532	57659.54	18.09 %
2	Japan	3599	49463.37	15.52 %
3	Singapore	1967	42230	13.25 %
4	Taipei (China)	2535	30911.72	9.7 %
5	British VirginIslands	749	22576.85	7.08 %
6	Hong Kong (China)	1275	17756.82	5.57 %
7	Malaysia	568	12187.37	3.82 %
8	China	1812	12084.31	3.79 %
9	The United States	857	9875.62	3.1 %

10	Thailand	486	8640.42	2.71 %
11	Netherland	305	8173.96	2.56 %
12	Samoa	206	7188.61	2.25 %
13	Cayman Islands	104	6957.01	2.18 %
14	Canada	161	5104.67	1.6 %
15	The United Kingdom	317	3461.41	1.09 %
16	France	512	2783.7	0.87 %
17	Switzerland	133	2515.63	0.79 %
18	Luxembourg	46	2338.11	0.73 %
19	Australia	407	1808.44	0.57 %\
20	Germany	293	1759.26	0.55 %
21	Others	1855	13246	4.16%
Total		**24748**	**318722.62**	**100%**

(Source : Vietnamese Ministry of Plan and Investment (MPI))

Table 2. Shows that Vietnam has not attracted big countries to contributing to the economic development of Vietnam. It has not attracted many hi-tech projects; has not attracted human resources, advanced technology, technology and advanced management skills from the US, the Europe and other developed countries. Therefore, FDI has not created a strong spillover to the socio-economic development of Vietnam and the world.

5.1.4 The investment location

Basically, most provinces and cities in Vietnam have attracted FDI with different forms of investment, many of which became the center of FDI projects. However, localities with better infrastructure has been attracting larger FDI, such as Dong Nai, Binh Duong, Ho Chi Minh City, Hanoi, and Hai Phong. While rural and mountainous areas are less attracted to FDI projects, the imbalance in FDI attraction in Vietnam. Foreign investors often invest in some provinces that have good infrastructure and have not invested equally in the provinces, which disproportionately allocates investment to the balance of economic conditions all regions in the country.

Table 3: Investment Location of FDI during 1988 - 2017

STT	Location (province)	Number of Projects	Proportion	Total of registered capital (Mil. USD)	Proportion
1	Ho Chi Minh City	7301	29.50 %	44008.95	13.81%
2	Binh Duong	3295	13.31 %	30186.85	9.47%
3	Dong Nai	1469	5.94 %	27342.26	8.58%
4	Hanoi	4489	18.14 %	27288.70	8.56%
5	Ba Ria – Vung Tau	363	1.47 %	26867.46	8.43%
6	Bac Ninh	1135	4.59 %	16080.92	5.04%
7	Hai Phong	604	2.44 %	15143.03	4.75%
8	Others	6092	24.62 %	131804	41,35%
Total		**24748**	**100%**	**318722.62**	**100%**

(Source: Vietnamese Ministry of Plan and Investment (MPI) http://fia.mpi.gov.vn)

5.1.5 The investment sector of FDI

Table 4: Investment Sector of FDI during 1988 - 2017.

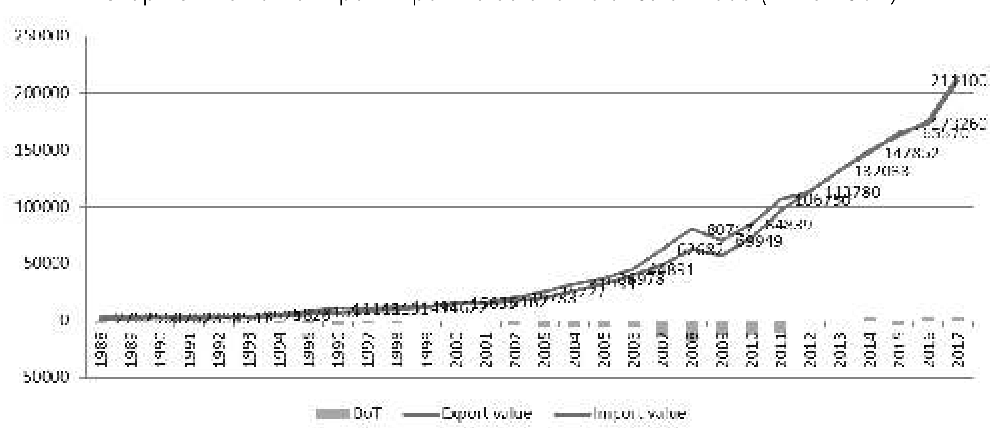
Sectors	Number of Projects	Proportion	Total of registered capital (Mil. USD)	Proportion
Agriculture, forestry and fisheries	511	2.06%	3518.96	1.1 %
Mining Industry	104	0.42%	4914.15	1.54 %
Processing industry, manufacturing	12456	50.33%	186127.82	58.40 %
Manufacture and distribution of electrical products, air and air conditioning.	182	0.74%	22840	7.17 %
Construction	1478	5.97%	10729.10	3.37 %
Wholesale and retail, repair	2790	11.27%	6186.38	1.94 %
Business real estate	1274	5.15 %	65174	20.45 %
Logistics and Telecommunication	2313	9.35%	7959	2.5 %
Finance, Banking and Insurance	81	0.33%	1498.36	0.47 %
Others	3559	14.38 %	9775	3.07%
Total	**24748**	**100%**	**318722.62**	**100%**

(Source: Vietnamese Ministry of Plan and Investment (MPI) http://fia.mpi.gov.vn)

Table 4 shows that FDI has been present in almost all economic sectors in Vietnam, of which the manufacturing and processing sector have the largest number of projects and investments. The sectors related to service industry, professional activities, science and technology, etc. All have large investment projects in comparison with other sectors. However, notably real estate business, the number of projects only accounted for 5.15 % but the registered capital accounted for 20.45%. Many large-scale projects have invested in services, real estate, not related to science-technology, engineering, etc. Therefore, imbalance in the investment sector.

5.2 Vietnam's Foreign Trade in the period of 1991 – 2017

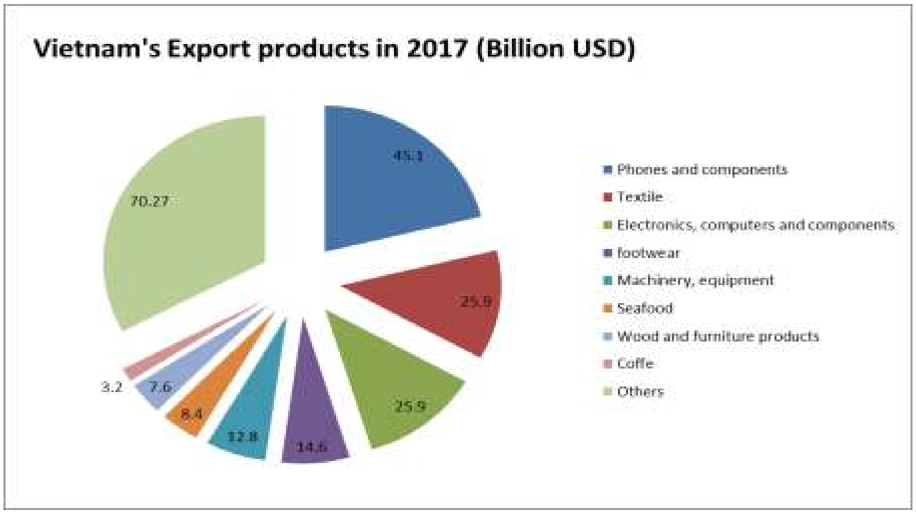
Graph 3: Vietnam's Import-Export Value and Balance of Trade (*Million USD*)



(Source: Vietnam General Statistics Organization - GSO)

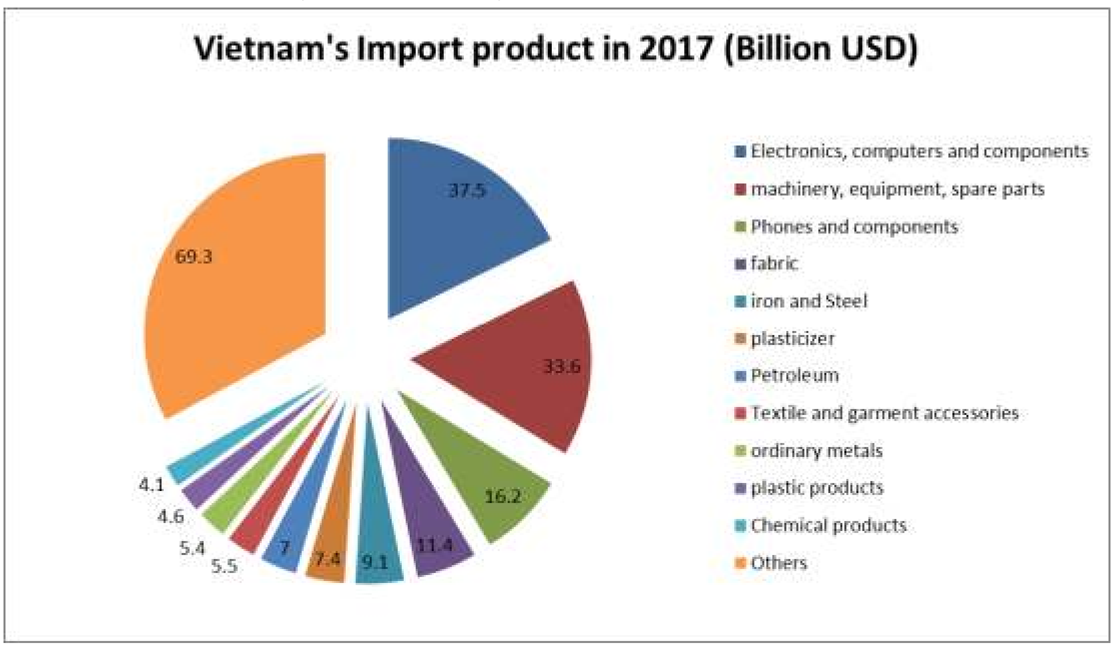
Graph 3 shows that the value of Vietnam's exports and imports in the period 1988 - 2017 has been steadily increasing, declining only in the period 2008-2011. This is also the period of financial crisis and world economic downturn took place, causing the export market of Vietnam to decline. However, Vietnam's exports and imports continue to increase, even in 2012, 2014 and 2016, 2017, Vietnam has a trade surplus.

Graph 4: Vietnam's Export Products in 2017 (Billion USD)



(Source: General Statistics Office (GSO) www.gso.gov.vn)

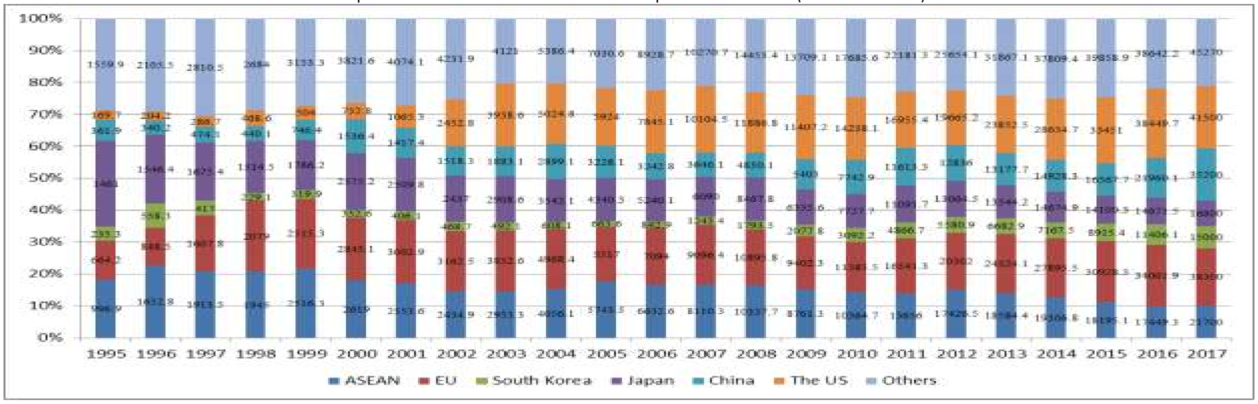
Graph 5: Vietnam's Import Product in 2017 (billion USD)



(Source: General Statistics Office (GSO) www.gso.gov.vn)

The above graph 4 and 5 show that high export value industrial products are dominant in Vietnam's total export commodities, especially for phones and components, electronics, computers and components.etc. This is the contribution of FDI enterprises, such as the project of Samsung (South Korea), Intel (USA), etc. The share of Vietnam's main imports relative to Vietnam's exports is similar. This shows that the level of supply of materials and equipment for production of FDI enterprises from the domestic market is very low.

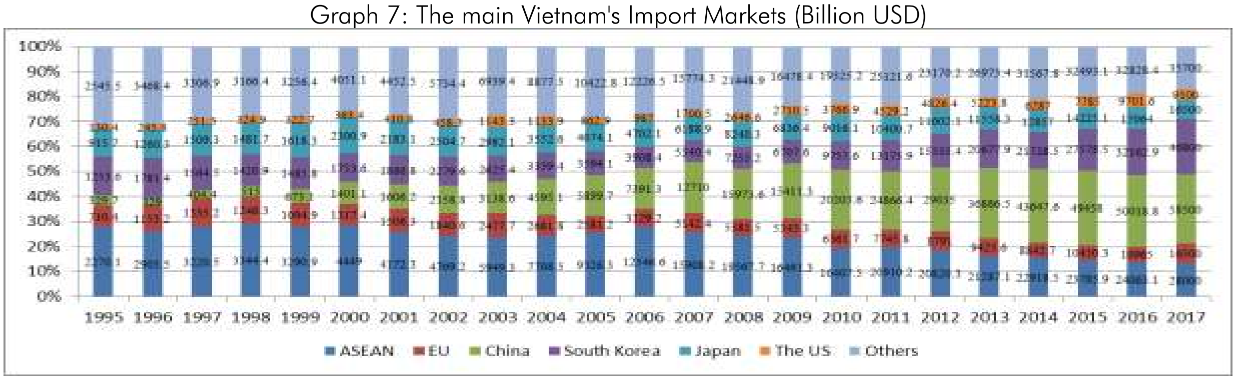
Graph 6: The main Vietnam's Export Markets (Billion USD)



(Source: General Statistics Office (GSO) www.gso.gov.vn)

The graph above shows that Vietnam has expanded its export markets to many countries and regions in the world, especially, the US, EU and Japan have become the biggest export market of Vietnam.

Graph 7: The main Vietnam's Import Markets (Billion USD)



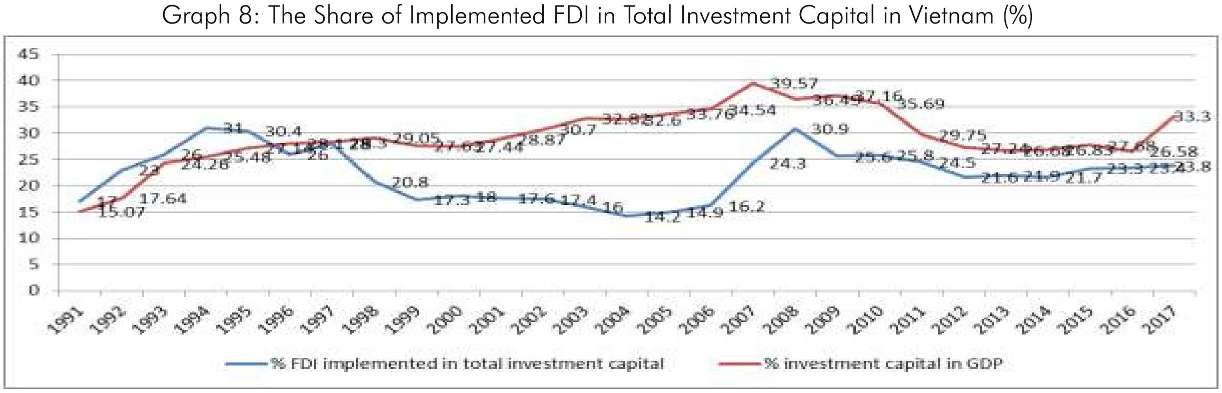
(Source: General Statistics Office (GSO) www.gso.gov.vn)

Graph 7 shows that the value of imports from industrialized countries such as the US, EU, Japan and S.Korea are rising, including imports of machinery, equipment and materials. However, the proportion of imports from ASEAN countries and China is very large, especially the proportion of imports from China increased rapidly. ASEAN and China have lower technological levels than those of EU, US, Japan and S.Korea. Therefore, FDI enterprises' import of machinery and equipment from ASEAN, China will have negative affect on the export activities and the productivity of export goods.

5.3 Relationship between FDI inflow and Foreign Trade in Vietnam

5.3.1 FDI inflow and total investment capital for production.

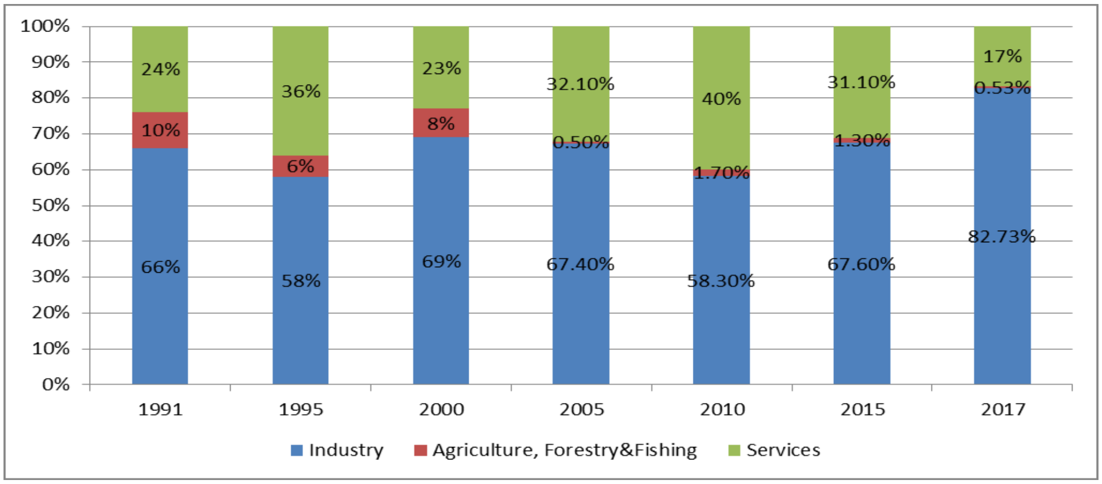
Graph 8: The Share of Implemented FDI in Total Investment Capital in Vietnam (%)



(Source: General Statistics Office (GSO) www.gso.gov.vn)

Graph 8 shows the share of implemented FDI in total invested capital for economic development in Vietnam in the period of 1991 - 2017.

Graph 9: Share of Implemented FDI by Sector (%)

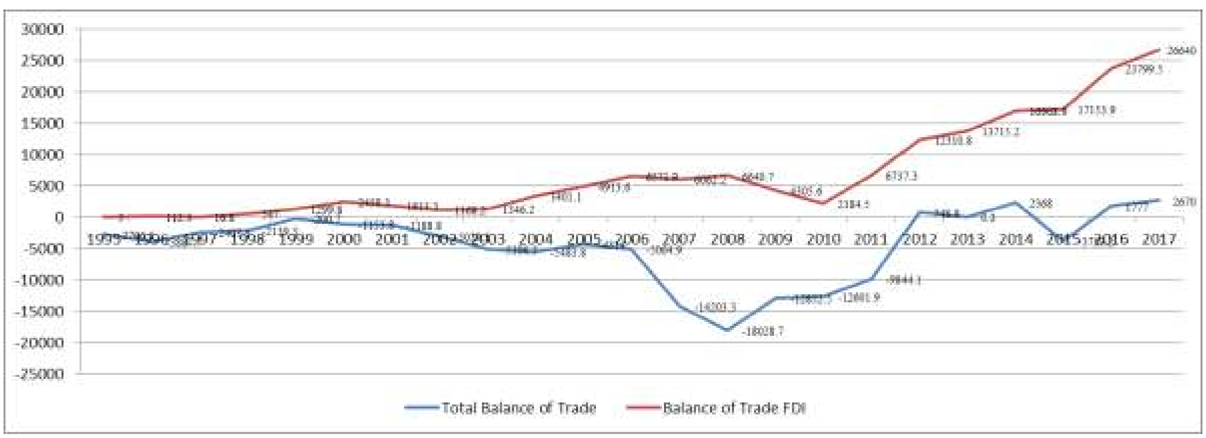


(Source: General Statistics Office (GSO) www.gso.gov.vn)

The graph 9 shows that most of the FDI in Vietnam is invested for production for export. In which, the proportion of agricultural, forestry and fishery products is declining; Industrial production increased; light industry and processing always accounted for about 40% in the period from 2000 to now. Notably, this change corresponds to this change in the proportion of FDI inflows to Vietnam as FDI mainly invests in the industrial sector, especially in the manufacturing and processing industries. This is the driving force behind the restructuring of Vietnam's exports.

5.3.2 FDI inflows and Export value and Balance of Trade in Vietnam

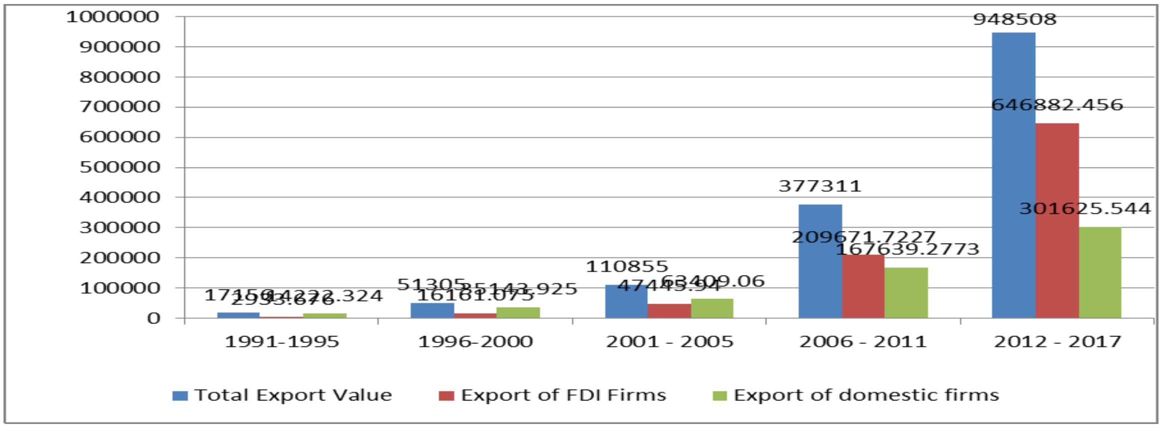
Graph 10: Balance of Trade in General and of FDI in Particular *(million US)*



(Source: Source: The Author analysis from GSO and WB data)

Graph 10 shows that Vietnam has been reporting trade trade surpluses more frequently as exports growth have been stronger than imports, since long. In 2017, trade deficits were recorded with South Korea, China, Taiwan, Thailand, Singapore and Argentina. Vietnam recorded trade surpluses with the United States, Netherlands, Hong Kong, United Kingdom, United Arab Emirates and Austria.

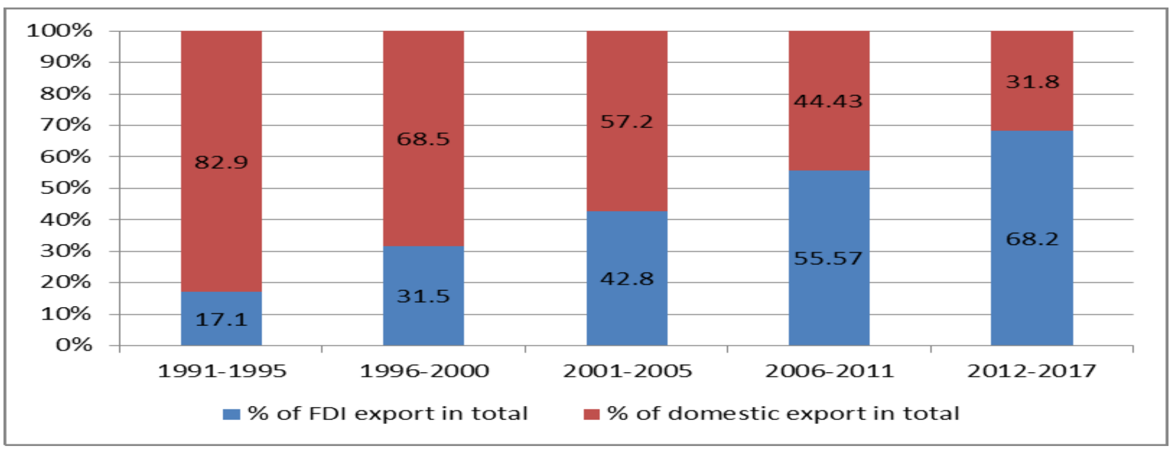
Graph 11: Export value of Vietnam by Economic Sector *(Million USD)*



(Source: The Author analysis from GSO data)

In the growth of Vietnam's exports over the past years, FDI enterprises have contributed a large proportion and increased over time.

Graph 12: Share of Export Value of FDI enterprises in Vietnam's total exports (%)



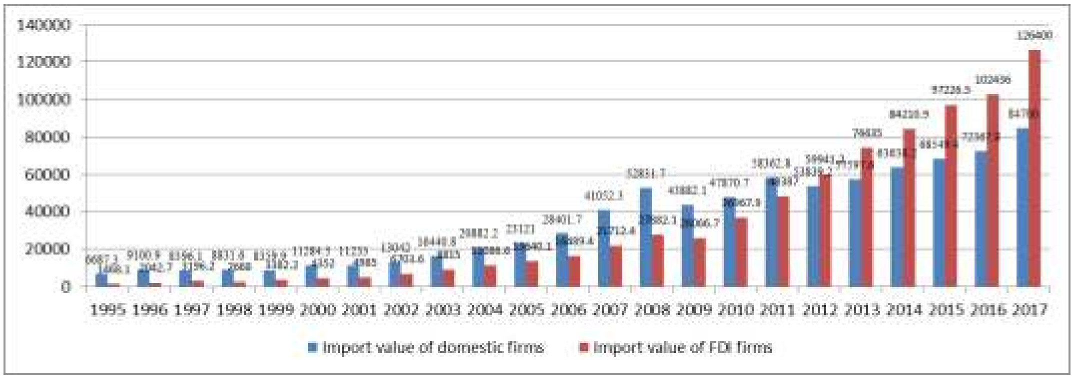
(Source: The Author analysis from GSO data)

Graph 12 shows that the value of Vietnam's exports is increasing and that FDI enterprises are contributing significantly to the total export value in Vietnam. During the period 1991-1995, Vietnam's total export was very small, reaching only 17156 million USD, of which FDI enterprises (although started disbursing in 1991) accounted for 17.1%. However, in subsequent periods, Vietnam's exports increased 8 to 10 times compared with the 1991-1995 period, of which, the share of FDI enterprises also increased, accounting for 68.2% in period of 2012-2017.

5.4 FDI inflow and restructuring export items in Vietnam

Graph 13 shows that the export structure of Vietnam is moving from agricultural goods to industrial goods, of which light industrial products (processing, manufacturing) are increasing rapidly. This result is consistent with the structure of FDI inflows in Vietnam, as shown in Figure 4 and Graph 9. This shows that FDI in industry has contributed to a shift in Viet Nam's export structure from agriculture products to the industry.

Graph 13: Vietnam's Export Product Structure (%)



(Source: General Statistics Office (GSO) www.gso.gov.vn)

Graph 15 shows that the import value of FDI enterprises is increasing and accounts for a larger share of import value from domestic enterprises. This shows that Vietnam's pre-2012 import value is dominated by domestic firms, but from 2012 onwards it is dominated by FDI firms. With the increasing number of imported machinery, equipment and production materials, FDI enterprises affect export products of Vietnamese goods, especially in the period of 2012-2016.

5.6 FDI inflows and Labor productivity in Vietnam

Table 5: Labor Productivity in Vietnam by Kind of Industry (Million Vietnam Dong)

	1996	2000	2005	2010	2015	2016
Agriculture, forestry, fishery	9.595	11.285	14.548	16.334	19.886	20.958
Mineral	990.778	892.477	827.996	742.177	1012.045	1165.891
Industrial processi ng and manufacturing	33.593	41.701	49.443	42.036	54.759	56.124
Construction	67.629	56.804	46.226	42.669	50.112	50.258
Services electricity, water, gas	133.432	167.909	206.326	310.291	479.172	519.768
Retail, wholesale, hotel services	42.303	40.904	45.429	34.488	40.646	43.261
Logistics	34.688	36.102	38.109	48.957	58.638	63.775
Real estate, finance services	971.941	951.27	893.675	697.603	585.034	544.589
Other services	24.926	34.809	33.772	41.635	51.382	54.217

(Source: Author calculated from IMF and GSO data)

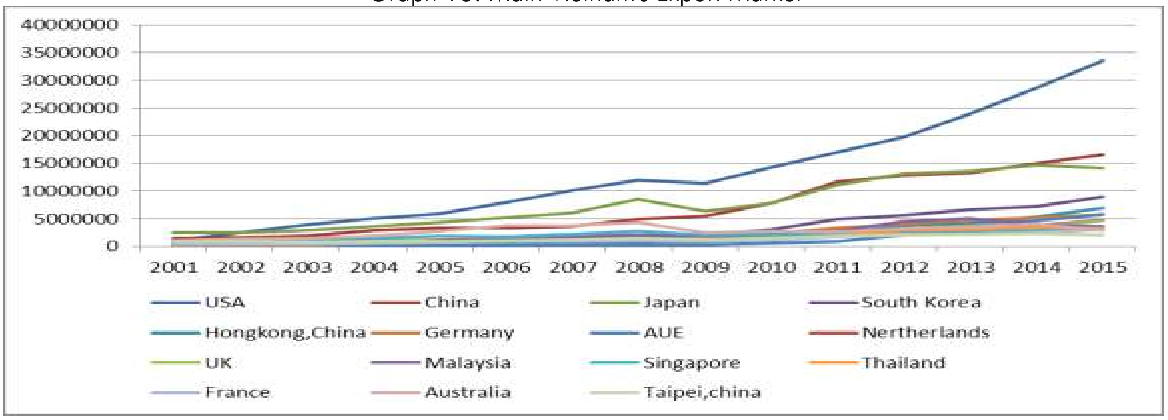
From the table 5, labor productivity in the major FDI sectors has increased, but the growth rate is not large. The sector with increased productivity is the electricity, water and gas supply. Meanwhile, the manufacturing and processing industries have increased but not as high as the level of FDI in this sector. This shows that the impact of FDI on labor productivity in Vietnam is not significant, which may be due to the low level of technology transfer and labor training of FDI enterprises in Vietnam.

From Figure 2. Shows that the biggest foreign investors in Vietnam, by project number, are still valid until 2017 mainly from: Korea, Japan, Taiwan, Singapore, China, Hong Kong, USA, Malaysia, France and Thailand. This is mainly for investors from Asia, especially China and ASEAN, where technology is backward compared to investors from the US and EU (while the US and the EU invest in Vietnam very little). Thus, when investing in Vietnam, these investors bring in machinery, equipment and technology that are not advanced, leading to low labor productivity in Vietnam.

5.7 FDI inflow and process of expand export market

The main markets of Vietnam are: the US, China, Japan, South Korea, Hong Kong, Germany, UAE, Netherlands, UK, Malaysia, Singapore, Thailand, France, Australia and Taipei. Meanwhile, major export markets of Vietnam's major investors include.

Graph 16: Main Vietnam's Export Market



(Source: ITC)

Table 6: Main Export Markets of Vietnam's Largest Investors[1]

	S.Korea	Japan	Taipei	Singapore	China	Hongkong	USA	Malaysia	France	Thailand
1	China	USA	China	China	USA	China	Canada	Singapore	Germany	USA
2	USA	China	Hongkong	HongKong	HongKong	USA	Mexico	China	Spain	China
3	Hongkong	S.Korea	USA	Malaysia	Japan	India	China	USA	USA	Japan
4	Vietnam	Taipei	Japan	Indonesia	S. Korea	Japan	Japan	Japan	Italy	Hong Kong
5	Japan	Hongkong	Singapore	USA	Germany	UK	UK	Thailand	UK	Australia
6	Singapore	Thailand	S.Korea	Taipei	Viet Nam	Taipei	Germany	Hong Kong	Belgium	Malaysia
7	Taipei	Singapore	Vietnam	Japan	India	Thailand	S.Korea	India	China	Viet Nam
8	India	Germany	philippines	S.Korea	Netherlands	Singapore	Netherlands	Indonesia	Netherlands	Singapore
9	Mexico	Australia	Malaysia	Thailand	UK	Viet Nam	HongKong	Australia	Switzerland	Indonesia
10	Malaysia	UK	Germany	Viet Nam	Singapore	Switzerland	France	Viet Nam	Poland	Philippines
11	Australia	Vietnam	Thailand	India	Taipei	Germany	Belgium	S. Korea	Turkey	India
12	Philippines	Malaysia	Nertherland	Australia	Malaysia	S. Korea	Brazil	Germany	Japan	Switzerland
13	UK	Nertherland	UK	Netherlands	Russia	Netherlands	Singapore	Netherlands	Singapore	S.Korea
14	Indonesia	Indonesia	Australia	Philippines	Australia	UAE	Taipei	Taipei	HongKong	Germany
15	Germany	Philippines	Indonesia	Germany	Thailand	Macao, China	Switzerland	Philippines	Algeria	Netherlands

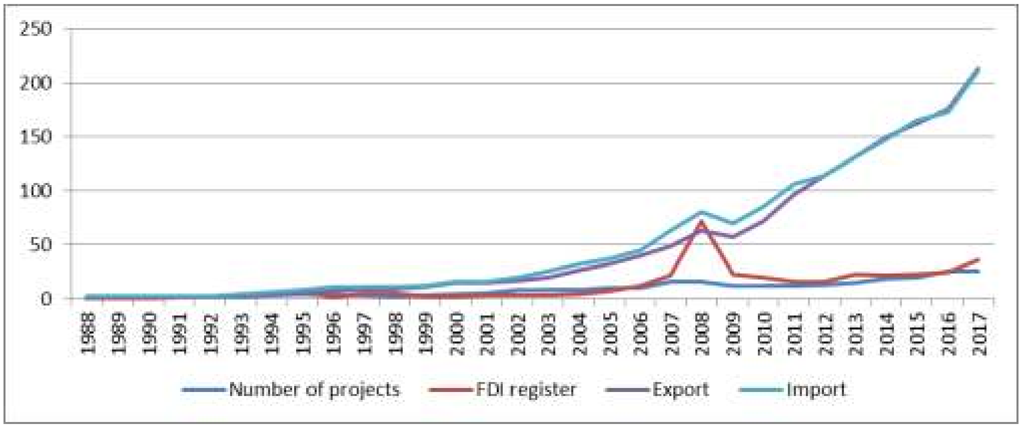
(Source: author analysis from ITC data)

The table 6 shows: (1) Vietnam's biggest FDI investors are also Vietnam's largest export market; (2) most of Vietnam's largest export markets are also the largest export markets of Vietnam's biggest FDI investors; (3) Vietnam is one of the 10 biggest export markets of 8 of the 10 Vietnam's biggest FDI investors. Thus, along with the process of FDI investment, foreign investors have not only increased bilateral trade and investment between Vietnam and their country, but also support Vietnam to expand exports to large markets. These markets are also the main export market of foreign investors. Through the promotion of Vietnam's export products export to the major markets, FDI has contributed to increase the Vietnam's export value.

[1] *Yellow color represents market similarity with export markets of Vietnam*

5.8 Expanding Foreign Trade and FDI inflow in Vietnam

Graph 17: Comparison of Foreign Trade and FDI inflow in Vietnam



(Source: MPI and GSO)

Figure 7: Number of FDI projects (number) and Total FDI register capital (million USD) by partner in the period of 1988 – 2017 in Vietnam.

	1988-2000		*2001 - 2005*		*2006 - 2010*		*2011 - 2017*	
	Projects	Total FDI register	Projects	Total FDI register	Projects	Total FDI register	Projects	FDI register
China	61	251.438	292	482.239	396	2451.045	1063	8899.591
Honking	161	2704.748	193	1002.91	252	4084.476	669	9964.686
Taiwan	557	53780.142	845	2553.431	744	14882.959	389	8097.313
ASEAN	361	9122.751	388	1816.224	932	40293.662	1710	13972.070
Other	3988	41875.2951	1926	8703.967	6299	142344.133	12535	125799.224

(Source: Author calculated from MPI data)

Graph 17 and Figure 7 show that the number of registered FDI projects and the registered capital in Vietnam fluctuate in the same way as imports and exports in Vietnam from 1988 to 2017. From 1988 to 1994, when the US when the US has not lifted the embargo against Vietnam, it is unlikely that the trade value of Vietnam will be very low, as well as the low level of registered FDI in Vietnam. However, from 1995 up to now, with the economic integration on a large. Notably, after each period of Vietnam reached trade agreements and joined new international economic organizations (after Vietnam and the US signed BTA in 2001, and in 2006 when Vietnam joined the WTO) the number of projects and registered FDI increased, especially FDI inflow from China and ASEAN countries. The number of projects and FDI capital from China, Hong Kong, Taiwan and ASEAN countries has increased rapidly from 2001 to 2017. Especially, in the period of 2006 - 2017, information from Vietnam's accession to the WTO (2006) and participation in the negotiation of the Trans – Pacific Partnership (TPP) agreement with the US and the 10 major economies of the Asia-Pacific region has made investors from China, ASEAN, Honking, Taiwan poured FDI capital into Vietnam to prepare to take advantages of trade that WTO and TPP will bring to Vietnam. This shows the link between trade and FDI in Vietnam.

6. Conclusion

The analysis shows that foreign trade affects FDi and FDI affects foreign trade. Vietnam needs to further build its foreign investment policy to atatrct more FDI. Vietnam should facilitae more smooth processing of FDI investment and adjust and eliminate the cumbersome procedures to facilitate foreign businesses to invest in Vietnam. Foreign Investment, trade and broader GDP expansion together work even more closely than in most markets. FDI now accounts for approximately 70% of exports.

Foreign investment is expected to play an important role in the development of Vietnam's export-sector, aligning capital and expertise to expand value-added industries. Vietnam requires FDI to facilitate growth in its various sectors especially its nimble low-cost sectors. Further

Vietnam should continue formulating and strengthening its policies to attract FDI, focusing on the following issues: (i) on FDI partners: focus on attracting large investors with modern technology such as the US and EU by developing strategies to attract investment for each partner with preferential policies, investment promotion methods dedicated to each partner; (ii) on investment sector: encourage foreign investors invest in hi-tech industries and products, and product that Vietnam has export strengths such as electronics, telecommunications and biotechnology, etc. A single legal framework that governs all forms of investments and eliminates discriminatory treatment would be highly attractive to prospective foreign investors

Enhancing technology transfer from foreign investors to local firms. In which, regulations will be set up when investors register to invest in Vietnam in charge of technology transfer and labor training for Vietnamese laborers. In addition, it is necessary to develop and publish the standards of FDI projects to eliminate backward investment projects in Vietnam. At the same time, continuous review of investment projects being implemented in Vietnam to strongly remove the project has backward technology, negative impact on the environment.

Cooperate with international partners both bilaterally and multilaterally to promote existing trade and investment commitments and agreements between Vietnam and its partners. It will enhance direct dialogue and promote intra-ASEAN cooperation such as ASEAN, CLMV, Indo-Pacific, APEC, etc., along with the promotion of regional and inter-regional cooperation with partners. Such as ASEAN - India, ASEAN - China, etc.

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