

**IMPACT ASSESSMENT OF FOREIGN DIRECT INVESTMENT (FDI) ON THE
ECONOMY OF HUNG YEN PROVINCE (1998-2010).**

A RESEARCH PRESENTED TO THE FACULTY OF GRADUATE
SCHOOL
SOUTHERN LUZON STATE UNIVERSITY LUCBAN, QUEZON,
PHILIPPINES
AND THAI NGUYEN UNIVERSITY, S.R. VIETNAM

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE
DOCTOR IN BUSINESS ADMINISTRATION

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Thai Nguyen, 2013

ACKNOWLEDGMENT

Throughout the course of research leading to the completion of this dissertation, I would like to express my deep gratitude to many people who have supported me with tremendous help in one way or another, which I think I cannot possibly acknowledge in full. The first and foremost, I would like to thank Associate Professor, Dr. Tran Chi Thien, my advisor, for his invaluable thoughts, insightful suggestions and useful guidance throughout the thesis works. My sincere appreciation also goes to the committee members for their propositions, valuable comments, and constructive suggestions, which were of substantial value to this study.

I would like to acknowledge faithfully professors of South Luzon State University (SLSU) and Thai Nguyen University (TNU) at DBA Program at Thai Nguyen University for their insightful lectures in different subjects that provide me knowledge and technique to develop a good research.

My sincere thanks are also extended to my friends for their meaningful discussion, hospitality and friendship.

Finally, I am profoundly grateful to my family: my parents and brother, who always encourage and help me in every situation. They have been a great source of encouragement and sharing, enhancing my strength to overcome difficulties during my DBA program.

TABLE OF CONTENT

Chapter I: INTRODUCTION	1
1.1 Background of the study	1
1.2 Statement of the problem	2
1.3 Hypotheses	4
1.4 Significance of the Study.....	5
1.5 Scope and limitation of the study.....	5
1.6 Definition of Terms	6
Chapter II: REVIEW OF RELATED LITERATURE AND STUDIES	7
2.1 REVIEW OF RELATED STUDIES.....	7
2.2 THEORETICAL AND CONCEPTUAL FRAMWORK.....	16
2.2.1 Theoretical framework.....	16
2.2.1.1 Provincial Competitiveness Index (PCI)	16
2.2.1.2 Foreign direct investment.....	17
2.2.1.3 Economy.....	24
2.2.1.4 FDI in Vietnam.....	25
2.2.2 Conceptual Framework	28
Chapter III: DATA AND METHODOLOGY.....	29
3.1 INTRODUCTION	29
3.2 RESEARCH DESIGN	29
3.2.1 The research approach	29
3.2.1.1 Scientific beliefs	29

3.2.1.2 Research strategies	30
3.2.2 The research approach and process design.....	31
3.3 DATA COLLECTION METHOD.....	31
3.4 DATA COLLECTION PROCEDURE	32
3.5 DATA PROCESSING METHOD	32
3.6 ANALYTICAL FRAMEWORK	43
3.7 CONCLUSION	44
Chapter IV: PRESENTATION, ANALYSIS AND INTERPRETATION OF	
DATA	45
4.1 FDI inflows in Hung Yen province.	45
4.2 The impacts of FDI on Economy of Hung Yen province	50
4.2.1 Survey analysis	50
4.2.2 Summary	68
Chapter V: FINDINGS, CONCLUSIONS AND RECOMMENDATIONS	74
5.1 Findings	74
5.2 Conclusions.....	75
5.3 Recommendations	75
References	77
Appendix	85

ABSTRACT

Foreign Direct Investment (FDI) is often seen as an important catalyst for economic growth in developing countries. It affects the economic growth of the host country by stimulating domestic investment, increasing human capital formation and facilitating technology transfer. Regional Gross Domestic Product, Taxes Generation, Export and FDI Labor are often considered the indicators to evaluate the contribution of FDI on the economy of a province.

The main purpose of the study is to investigate impacts of FDI on the economy of Hung Yen, measured by four economic indicators, i.e. Regional Gross Domestic Product, Taxes Generation, Export and FDI Labor. The study uses annual data series for the period of 1998-2010. The relationships between FDI and the indicators are analyzed by using Distributed-Lag models. The results of the study show positive and statistically insignificant relations between FDI inflows and the Regional Gross Domestic Product, Taxes Generation, Export, FDI Labor respectively in Hung Yen. Policy recommendations are suggested in the light of the results obtained, regarding the FDI in the province.

LIST OF FIGURES

Figure 1: Foreign Direct Investment in Vietnam in the period 1988-2012	26
Figure 2: Rate of the implemented FDI capita in Vietnam in the period 1988-2012.....	27
Figure 3: Conceptual Framework.....	28
Figure 4: Analytical Framework	44
Figure 5: PCI of Hung Yen province in the period of 2005-2012.....	48
Figure 6: Impact of PCI on FDI inflows in Hung Yen province	51
Figure 7: The development trend of variables	52
Figure 8: The result of the Normal Distribution test for residual in model (I).....	59
Figure 9: The result of the Normal Distribution test for residual in model (II)	60
Figure 10: The result of the Normal Distribution test for residual in model (III)	61
Figure 11: The result of the Normal Distribution test for residual in model (IV)	61

LIST OF TABLES

Table 1: Comparison of the component indicators of PCI of Hung Yen province to the highest score of the province in 2010	49
Table 2: Comparison of the component indicators of PCI of Hung Yen province to the highest score of the province in 2012	50
Table 3: Summary of ADF Unit Root Test Result.....	53
Table 4: Summary of PP Unit Root Test Result.....	54
Table 5: The result of the model (I) estimation.....	55
Table 6: The result of the model (II) estimation.....	56
Table 7: The result of the model (III) estimation.....	57
Table 8: The result of the model (IV) estimation.....	58
Table 9: The result of the Serial Correlation test in model (I).....	59
Table 10: The result of the Serial Correlation test in model (II).....	63
Table 11: The result of the Serial Correlation test in model (III).....	63
Table 12: The result of the Serial Correlation test in model (IV).....	64
Table 13: The result of the Heteroskedasticity test in model (I).....	65
Table 14: The result of the Heteroskedasticity test in model (II).....	66
Table 15: The result of the Heteroskedasticity test in model (III).....	67
Table 16: The result of the Heteroskedasticity test in model (IV).....	68
Table 17: Summary the result of the OLS estimation.....	70

Chapter I: INTRODUCTION

1.1 Background of the study

Today, globalization is more and more increasingly recognized process and becomes an inevitable trend of development in human history. When globalization and international economic integration take place more rapidly in both size and speed, competition becomes tougher in the world market. Foreign Direct Investment (FDI) is increasingly important for development of economy of nations. It is claimed that FDI can create employment, increase technological development in the host country and improve the economic condition of the country in general. FDI is a sign to evaluate the policy and economic outlook of a nation. FDI is the motivation to make extensive changes in the development of international relations such as political, economic, diplomatic, etc. Simultaneously, FDI becomes a sharp instrument for development and global integration, market extension, cost reduction and enhancement of competitive advantages of nations. Townsend (2003) said the relationship between foreign direct investment and economic growth is not so clear. There are different views by researchers on the contributions of FDI to economic growth, based on theoretical and analytical findings. Some scholars see FDI as a very important tool for economic growth especially in the less developed countries (LDCs), but others claim that the contribution of FDI to economic development is not as pronounced as most people believe, even some think FDI has no positive contribution to the economic growth of the host country. For example, Nuzhat Falki (2009) examined the Impact of FDI on Economic

Growth of Pakistan from 1980 to 2006. She concluded that FDI has negative statically insignificant relationship between GDP and FDI inflows in Pakistan in this period. Pardeep (2000) founded that the increase in FDI inflows in South Asia were associated with a many-fold increase in the investment by national investors, suggesting that there exist linkage effects between FDI and GDP. The impact of FDI on GDP growth is found to be negative prior to 1980, mildly positive for early eighties and strongly positive over the late eighties and nineties. It can be seen that there has been no consensus opinion on FDI and economic growth.

1.2 Statement of the problem

In Vietnam, the important role of FDI has been acknowledged for the last 20 years. Since the launch of market-oriented economic reforms in 1986, Vietnam has been among the fastest growing countries in Southeast Asia with the active participation of foreign investors in all fields of the economy. Vietnamese government has quickly jointed the competition for foreign direct investment into regional and global markets by restructuring the domestic economy and opening up the economy to external trade and investment (Hoang Thi Thu, 2013). The FDI capital has been supporting provinces to restructure the economy towards industrialization and modernization, to create many new industries and products. It also contributed to improving management capacity, increasing labor productivity, developing technology, expanding export markets, creating jobs, and improving living standards of workers. However, in recent years, some problems, which related to FDI, occurred in Vietnam. For example, Vedan company discharged the waste to the ThiVai River, over 100 golf course projects were licensed,

capacity of cement plants increased rapidly to levels that exceed the domestic demand, etc.

Hung Yen is a delta province, located in the key economic zone of Northern Vietnam. It has advantages of natural conditions and infrastructure. After the Foreign Investment Law was issued (in December, 1987), Hung Yen has attracted a flow of FDI capital to some of its key industries, and this contributed significantly to the restructuring of the province economy. The attraction and use of FDI capital not only contribute to economic development of the province, but also promote economic development of the whole key economic zone in Northern Vietnam.

Hung Yen's economy has greatly transformed since the FDI activities were implemented. Therefore, it is highly necessary to conduct assessment of the impact of FDI on the economy of Hung Yen province . This assessment would be a good basis for the authority to issue appropriate policies on economic development of the province.

In this study, the relationship between FDI and the economy in the province will be discussed, and the contribution of FDI to growth will be investigated. To perform this analysis scholarly opinions and suggestions will be discussed and empirical analysis on FDI will be carried out.

This study attempts to answer the follow questions:

1. How does FDI effect on the existing status and flow of FDI in Hung Yen province from 1998 to 2010?
2. What have the FDI inflows contributed to the economy of Hung Yen province?
3. Have the contributions been positive or not?