

The relationships between foreign direct investment, export and economic growth

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CHRONICLE

Article history:
Received: November 20, 2020
Received in revised format:
January 30 2021
Accepted: April 1, 2021
Available online:
April 1, 2021

Keywords:
Foreign direct investment
Export
Economic growth
Dong Nai
Vietnam

ABSTRACT

This study aims to examine the causal relationship between foreign direct investment, exports and economic growth in Dong Nai province, Vietnam from 1999 to 2019. The study uses several economic models such as Vector Auto Regression - VAR (p), Vector Error Correction Model (VECM) and Granger causality tests to evaluate relationships between research model variables. The results show that foreign direct investment and exports have the positive effects on Gross Regional Domestic Product (GRDP). Therefore, this study recommends some policy implementation to simulate the foreign direct investment. Particularly, the policy makers in Dong Nai province should be aware of the role of foreign direct investment and export incentive policies, which is an important driving force for the socio-economic development of Dong Nai province, Vietnam.

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1. Introduction

Vietnam has implemented the Law on Foreign Direct Investment since December 1987 in the context of socio-economic development with many difficulties, poor infrastructure, outdated science and technology, and poor quality of human resources, etc. Meanwhile, the need for socio-economic development requires investment capital, advanced technology, etc. Therefore, the application of the Law on Foreign Investment is considered an important solution for the country's socio-economic development at that time. Besides, in order to attract FDI capital in each period of Vietnam's socio-economic development, the Law on Foreign Direct Investment of Vietnam was continuously revised in 1990, 1992, 1996 and 2000. The FDI has been identified as one of the most important pillars of Vietnam's economic growth. The role of FDI is demonstrated by its contribution to important factors of Vietnam's economic growth such as complementing investment capital, boosting exports, transferring technology, developing human resources and creating employment opportunities. In addition, FDI also positively contributes to generating revenue for the national budget and promoting Vietnam's economic integration into the global economy (Law Library, 2021). According to the General Statistics Office of Vietnam, the realized capital of the FDI sector in 1997 was 3.1 billion USD, and as of December 20, 2019, newly registered capital, registered capital and the value of capital contribution and share purchase by foreign investors increased to 38 billion USD, achieving an average growth rate of 12.07% per year (Ministry of Planning and Investment, 2020).

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