

# The Relationship between Foreign Direct Investment and Local Economic Growth: A Case Study of Binh Dinh Province, Vietnam \*

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## Abstract

This study aims to investigate the relationship between foreign direct investment (FDI) and economic growth at the provincial level by using time-series data in Binh Dinh from 1997 to 2019. We applied the quantitative approaches Vector Autoregression (VAR) and Autoregressive Distributed Lags (ARDL) in the model, which includes economic growth, real foreign direct investment capital, ratio of trained workers, and infrastructure. The results show that all these variables are stationary at the first difference. In ARDL analysis, we found that the economic growth positively affects FDI attraction. However, there is no evidence of the effect of FDI on economic growth in the condition of low capital implemented. Moreover, findings also show that the impact of FDI on economic growth is influenced by two factors: infrastructure and human capital. The lack of human capital, which is trained personnel and infrastructure, is the main barrier hindering and inhibiting FDI's contribution to local economic growth. In order to improve the efficiency of FDI on economic growth in the future, it is suggested that the Binh Dinh government should have proper policies in terms of the infrastructure, the human capital investment. They would allow Binh Dinh to enhance the capital absorptive capacity and capital efficiency.

**Keywords:** Foreign Direct Investment, Economic Growth, Infrastructure, Human Capital, Binh Dinh, Vietnam

**JEL Classification Code:** F23, O47, E22, C32

## 1. Introduction

Foreign direct investment (FDI) is an important resource for economic development in many developing countries. The reality in Vietnam also shows that the FDI sector plays a huge role in economic growth. However, the contribution

of the FDI sector to the local economy is still a subject not settled (Tien et al., 2020); the evidence on the relationship between FDI and economic growth is still controversial and inconsistent among the existing studies, which really causes difficulty for managers to make decisions on policies to attract FDI and promote economic growth. In particular, many studies show that the effect of FDI on economic growth depends on the local FDI attraction as well as the conditions and capacity of absorbing FDI in each host locality. While studies in Vietnam today mostly evaluate this relationship from an investment perspective, very little research is concerned about the role of conditional factor in this relationship. Most studies about this interest are at the national level; it is very limited at the local level. Therefore, this study focuses on the relationship between FDI and full economic growth in both sides (investment capital and absorption capacity) in a specific locality, which is the novel contribution of this research.

Binh Dinh is one of the five provinces in the key economic region in Central Vietnam, with a favorable geographical location and many advantageous factors to attract investment. In recent years, along with the general development trend of Vietnam, Binh Dinh has deployed many efforts to attract

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