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IMPACT OF FDI ON ECONOMIC GROWTH FROM THE SUSTAINABLE PERSPECTIVE

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Abstract

Foreign Direct Investment (FDI) plays an important role in promoting economic growth, supplementing the investment capital, increasing the output, creating jobs and transferring technology... especially in developing countries. This study aims to assess the impact of FDI on Vietnam's economic growth from the sustainable perspective. Based on the theory of sustainability and the discussion of expert group, the authors proposed the impact of FDI on economic growth from five aspects of sustainability: economic growth, improvement of skill and quality of labour, social development, institution quality, environment improvement and protection. From the interviews with the experts, managers and FDI firms, the factors affecting the sustainable development will be investigated. Moreover, from the results of this study, the authors proposed some policy implications for FDI attraction to contribute to the sustainable economic growth in Vietnam.

Key words: Sustainable FDI, sustainable development, FDI Viet Nam

Introduction

The sustainable development has become an important issue for Vietnam and the global economy. This issue requires the participation of the managers, communities, enterprises and the foreign direct investment investors. In recent years, FDI has played an important role in the economic growth through supplying the investment capital, increasing the output, creating jobs and transferring technology... However, the actual role and contribution of FDI and the real impact of FDI on economic growth should be fully considered in many aspects. Without the objective and sufficient assessment of the impact of this fund, it will be difficult to utilize and promote the positive effects and prevent the risk of the environment pollution, loss of budget revenue and electronic waste. There have been many empirical studies assessing the impact of FDI on economic growth. However, most of these researches just used the secondary data to provide the empirical evidence. Therefore, in this study, based on the empirical survey and the interview experts and local managers, the authors try to examine the role and impact of FDI on Vietnam economy. From the result, the authors also proposed some policies to attract and manage FDI which will contribute to the sustainable economic growth in Vietnam.

Theoretical background and related studies

Theoretical background

Endogenous growth theory

Endogenous growth theory was first developed and represented by Robert E. Lucas (1988). According to the endogenous growth theory, the economic growth is stimulated through introducing new technology in the host country. FDI is assumed to be more effective than the domestic investment. Therefore, FDI contributes to the

economic growth through technological spillovers, labor mobility, management skill and organization arrangements. As a result, foreign investment can increase the productivity of the host economy and then FDI can be considered as the catalyst for the domestic investment and technological progress. According to this theory, Barro and Sala (1997), De Mello (1999) argue that FDI plays an important role in the economic growth through transferring knowledge, management skills and technological spillover in the recipient countries.

The sustainable FDI theory

According to Perić and Nikšić Radić (2011), FDI and sustainable development are taken into consideration with four dimensions: economic, social, environmental and institutional.



Fig 2. Four aspects of sustainable development

Source: According to *Investment Promotion Agencies and Sustainable FDI: Moving toward the fourth generation of investment promotion*¹

Sauvant and Mann (2017) also states that sustainable FDI includes four pillars: economic growth, sustainable environment, social development, and good governance. In particular, the economic aspects are evaluated on the criteria of employment, local linkage, technology transfer, infrastructure development...The environmental sustainability includes the resources management, pollution control, waste reduction. The social development consists of human rights, skill development, workplace safety, non-discrimination. For the institutional management, the compliance, environmental management system, environmental impact assessment, social impact assessment, human rights and corporate management will be presented.

In Vietnam, the term of "sustainable FDI" is towards "clean FDI". Nguyen Thi Lien Hoan et al. (2009), the "clean FDI" is needed to drive the sustainable economic growth and development. Specifically, it must meet the following three requirements: **Economic benefit**: FDI ensures the benefits for both investors and recipient countries, contributes to the economic growth in the host country; **Social benefit** is presented by the goal of social progress and equality; poverty reduction; job creation, increasing income, improving labor skills; **Environmental benefit** consisted the environmental and friendly production, improving the quality of the environment.

¹ Report of the findings of the VCC- Waipa Survey on Foreign Direct Investment and Sustainable Development, June 25, 2010, p.10

Related Studies

The relevant studies largely assess the role and impact of FDI on two socio-economic dimensions, in detail:

a. Economic aspects

By using the secondary data of 16 developed countries and 17 developing countries from 1970 to 1990, De Mello (1999) studied the impact of FDI on economic growth. The result shows that FDI has a positive impact on economic growth. With the multivariable regression model, John Asafu-Adjaye (2000), Antwi et al. (2013), Mohammed Ameen Fadhila et al. (2015) also gave the similar results that FDI plays a positive role in economic growth.

There are more and more studies about the sustainable development, Nguyen Thi Tue Anh et al. (2006) investigate the impact of FDI on economic growth during 1988-2003 through the investment and impact channels. The results show that FDI positively contributes to the economic growth, not only supplying the investment capital and capital assets but also increasing the investment efficiency through the impact of domestic labor productivity. Nguyen Phu Tu and Huynh Cong Minh (2010), Ho Dac Nghia (2014), Nguyen Minh Tien (2014) also showed the similar results that FDI has a positive impact on the economic growth through increasing the investment and the gross domestic product. In addition, based on the secondary data, Vu Van Huong (2007) investigated the impact of FDI on Vietnam's economic growth and exports. He found that FDI has a positive impact on the economic growth and exports.

b. Social aspects

Using the secondary data from 1975-1988, Feenstra and Hanson (1995) examined the impact of FDI on the skilled labor demand in Mexico. The results showed that FDI growth has increased the demand for skilled workers. The result shows that most of high-tech companies require the skilled workers. Slaughter (2002) used the data from 7 industries of 16 countries (both the developed and developing countries) in the period of 1982-1990 and found that FDI has a positive impact on improving skills for workers. By combining the quantitative and qualitative method, Nguyen Thi Phuong Hoa (2004) found the evidence of the impact of FDI on economic growth and the relationship between FDI and poverty reduction. The results showed that FDI has a positive impact on the world economy and contributes to the poverty reduction in some provinces in Vietnam.

Thai Son (2017) examined the impact of FDI on the economic growth in the key economic zone in the Central Vietnam from 2000 to 2014. The results showed that FDI does not have the significant positive impact the economic growth, but FDI contributed to the poverty reduction for the localities in this area. Therefore, from the perspective of sustainable development, most of these studies have just evaluated the effect of FDI on the social and economic aspects with the secondary data.

Very few studies investigate the impact of FDI on sustainable development purpose. For instance, Tran Thanh Binh (2008) examined the important contributions of FDI to the economy, such as: the economic growth, employment creation, increase income of worker, poverty reduction. Tran Thi Tuyet Lan (2014) investigated the impact of FDI in term of sustainable development in the key economic zone in the Northern part of Vietnam. However, this study also evaluated the effect of FDI by using the some basic economic and social criteria.

Therefore, it can be concluded that most of studies in Vietnam evaluated the impact of FDI on the individual aspect of sustainable development and mainly focuses on the economic and social aspects. The recent studies have focused on the sustainable FDI but only using the qualitative methods, such as: analysis and descriptive statistics. To deal with this research gap, in this study, we will examine the impact of FDI on economic growth in the sustainable approach from the point of view of managers. From the results, the authors will also propose some solutions to improve the sustainable economic growth in Vietnam.

Analytical framework

From our point of view, the nature of sustainable FDI not only assesses the contributions of foreign investors in terms of economic, social and environmental aspects but also the effect on the other aspects, such as the institution quality and human factors. These factors have a significant impact on attracting FDI and the sustainable development of a country. Therefore, the authors add two groups of factors related to the state management: institution quality, the quality and skill of laborers. In which, (i) the institution is understood to be the regulation or management of the economy of the local government which plays a very important role in the development strategy of enterprises, which, in turn, has a huge impact on the operation and quality of FDI (Oliver, 1997); (ii) in the theory of endogenous growth, human capital is considered to have a positive role in the economic growth. In particular, Nelson and Phelps (1966), Abramovitz (1986) suggested that the improvement of skills and quality of labor would enable the enterprises to quickly adapt to the technological progress. Therefore, according to the endogenous theory, this factor would contribute to the economic growth in the long run.

Therefore, based on the theory of sustainable FDI which was mentioned by Tran Thi Tuyet Lan (2014); Sauvant and Howard Mann (2017), the authors will assess the impact of FDI on economic growth from the sustainable perspective with five pillars: Economic, Social, Environmental, Institution Quality, Quality and Skill of laborer.

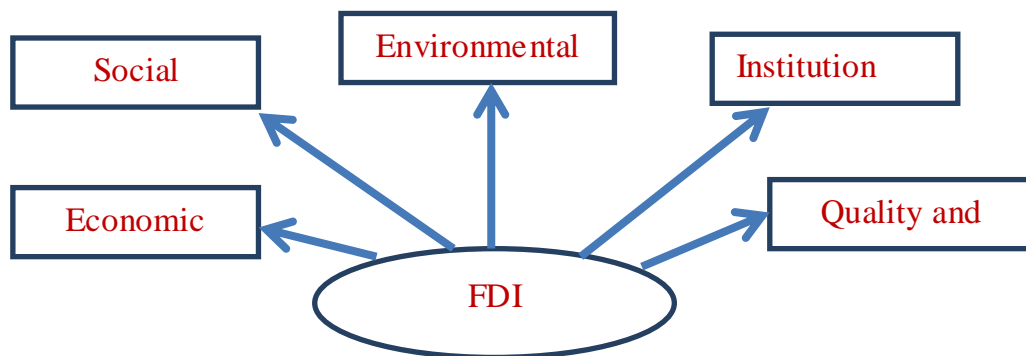


Fig. Impact of FDI on Economic growth from the sustainable perspective
In consistent with the above model, the scale is measured as follows:



Table: Factors and observed variables measuring the impact of FDI on economic growth from the sustainable perspective

Factor	Variables	Theoretical background
1. Economic growth (KT)	KT1. Contribution to GDP KT2. Contribution to Export KT3. Contribute to budget KT4. Linkage between FDI enterprises and Vietnam enterprises (consumption market, material supply, technology transfer...) KT5. Trade development and integration	Tran Thi Tuyet Lan (2014); Sauvant and Howard Mann (2017)
2. Social Aspect (XH)	XH1. New Employment XH2. Average income of labor XH3. Social security for employees XH4. Contribution to the poverty reduction	Tran Thi Tuyet Lan (2014); Sauvant and Howard Mann (2017)
3. Environment (MT)	MT1. Environment requirement MT2. Environmental Impact Assessment and Environmental protection commitments MT3. Technology Capacity MT5. Investment in equipment with the environment standard	Tran Thi Tuyet Lan (2014); CIEM (2015); Sauvant and Howard Mann (2017)
3. Institution Quality (TC)	TC1. Investment Law TC2. Capability of inspection and supervision TC3. The dynamics of the local government and the connection among the authorities TC4. Administrative procedure TC5. Competitive environment among the enterprises TC6. Quality of local labor training TC7. Enterprise support services	Youli and Jian (2009); Tran Thi Tuyet Lan (2014); VCCI (2016); Sauvant and Howard Mann (2017)
5. Quality and skill of labor (CL)	CL1. Training to improve the quality of labor CL2. Qualify and specialization of labor CL3. Profession of labor	Thai Son (2017)

Source: The author's summarization



Methodology and Results

Conclusion and implication policy

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