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Impact of Foreign Direct Investment and International Trade on Economic Growth: Empirical Study in Vietnam

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Abstract

The study aims to assess the impact of foreign direct investment (FDI) and international trade (export and import) on Vietnam's economic growth for the 2000-2018 period. Secondary data is taken from the General Statistics Office of Vietnam. Ordinary least-square method is used in analyzing the impact of FDI, export and import on economic growth of Vietnam. Empirical test results show that FDI and international trade are related to Vietnam's economic growth. However, each economic variable has a different impact. FDI has a positive and statistically significant influence on economic growth of Vietnam. Export also has positive and statistically significant impact to the economic growth, while import has a negative but not statistically significant effect. The result is useful for the policy makers of Vietnam on foreign economic relations. In order to improve the effect of FDI and international trade on growth of the economy, the government of Vietnam should: (1) continue applying preferential policies to attract FDI; (2) select foreign investors aiming to quality, efficiency, high technology and environmental protection; (3) continue pursuing export-oriented policy; (4) enhance the added value of exported goods and control the type of imported goods; (5) further liberalize trade through signing and implementation of international trade commitments.

Keywords : FDI, International Trade, Economic Growth, Vietnam

JEL Classification Code: F10, O12, O24, P45.

1. Introduction

Vietnam has been reforming the economy since the end of 1986. From a poor country, Vietnam has now become a lower-middle income country (about USD2,800 per capita per year) and gained important achievements in health, education which are similar to many countries with higher income level. Vietnam has maintained a relatively stable and high economic growth rate. Many factors have contributed to Vietnam's economic growth, including FDI and international trade.

FDI and international trade are in the field of foreign economic relations. These activities affect the economy in different tendencies which can be positive or negative.

Identifying the impact of these economic activities on the economic activities on the economy, thereby recommending the appropriate policies is an important priority for countries to achieve a high and sustainable economic growth. For Vietnam, FDI and international trade are conducted in association with the process of opening the economy. Despite the late implementation of open-door policy and economic reform, Vietnam has achieved many results in attracting FDI inflows and commercial transactions with other countries. In 2018, FDI accounted for 24.4% of the total social investment. Trade openness (i.e. the ratio of import-export turnover to GDP) tends to increase, currently reaching 208%. Vietnam's international trade has been continuously in surplus, thereby contributing to the improvement of the balance of payment. The government of Vietnam has been continuing to reform the economy towards greater and deeper integration into the regional and world economy. Many economic solutions have been applied to attract FDI and promote international trade. However, it is necessary to have an in-depth and practical assessment for the impact of external economic activities on the Vietnamese economy in order to have an

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appropriate policy-making fundamental ground.

This study will use ordinary least-square method to assess the impact of FDI and international trade (including export and import) on Vietnam's economic growth. There are 4 main questions posed: (1) Do FDI and international trade have relationship with Vietnam's economic growth? (2) Does FDI have a positive and statistically significant impact on Vietnam's economic growth? (3) Does export have a positive and statistically significant impact on Vietnam's economic growth? (4) Does import have a positive and statistically significant impact on Vietnam's economic growth?

Empirical results will answer the above questions. Based on the research results, the author will propose some recommendations to the government to improve the effect of FDI and international trade on the economy of Vietnam.

2. Literature Review

The economy of a country is always linked to the world economy through external economic activities such as foreign investment and foreign trade. The topic of FDI and international trade has always drawn the attention of many scholars with different approaches. The empirical research results may not be completely consistent, but the common point is that FDI and international trade are related to the national economic growth.

Ali and Hussain (2017) asserted on the theory that FDI was considered as a key driver of global economic integration. Scholars used correlation and multiple regression analysis techniques with time series data for the period 1991-2015 to study the correlation between FDI and economic growth of Pakistan. The results showed that FDI had a positive impact on Pakistan's economic growth. Ali and Hussain recommended the government of Pakistan to increase FDI attraction to boost the economy. Using the ordinary least square method to assess the relationship between FDI and economic growth in Malaysia, Mun, Lin and Man (2008) also got quite similar results on positive relationship between FDI and the economy of Malaysia. In the period 1970-2005, when FDI increased by 1%, Malaysia's economy would grow by 0.046072%.

Sokang (2018) had a different approach where he used the two-stage least squares method to assess the impact of FDI on the Cambodian economy. With series data of the period 2006-2016, Sokang demonstrated the positive impact of FDI on Cambodia's economic growth. Sokang reckoned that FDI boosted Cambodia's economy growth thanks to transfer of modern technology, promotion of learning by doing and training of labor. Sokang proposed the government of Cambodia to continue reforming its economy to attract more FDI in Cambodia. Marobhe (2015)

also studied the relationship between FDI and economic growth of Tanzania in the period 1970-2014. The results revealed that FDI had a positive impact on economic growth. Marobhe appreciated the role of FDI in economic growth of developing countries like Tanzania. Through FDI, developing countries received technology, capital and had conditions to improve their laborer's working skills. He suggested the government of Tanzania to issue preferential policies to attract FDI such as tax incentives, infrastructure improvement, political stability and improvement of working skills of laborers. Mohamed Mustafa (2019) examined the contribution of FDI and tourism receipts to GDP of Sri Lanka for the period 1978-2016. Using Eviews 10 econometrics software, the author concluded that two variables including FDI and tourism receipts had positive and statistically significant effect on GDP of Sri Lanka in the long run.

Like FDI, the relationship between international trade and economic growth has also been studied by many scholars. Mogoe and Mongale (2014) asserted international trade as one of the top issues discussed not only in South Africa but all over the world. These scholars conducted an assessment on the impact of foreign trade on South Africa's economic growth in the period 1990Q1-2013Q2. The results showed that export had a positive effect on GDP, while import had a negative influence on GDP. Mogoe and Mongale were of the opinion that export expanded infrastructure and had a potential boost to South Africa's economic growth. Javed, Qaiser, Mushtaq, Saif-ullaha and Iqbal (2012) used ordinary least-square technique to evaluate effects of international trade on economic growth of Pakistan. With time series data from 1973 to 2010, scholars concluded that international trade played a vital role to enrich Pakistani economy. 1 unit increase in export led to 0.32 units boost in GDP. 1 unit increase in import led to 0.18 units increase in GDP.

Azeez, Dada and Aluko (2014) got similar results when evaluating the impact of international trade on economic growth of Nigeria. Scholars also used the ordinary least-square technique with annual time-series data from 2000 to 2012. The statistical testing results showed that international trade has a positive impact on economic growth. A unit increase in import and export caused GDP of Nigeria to rise by 0.359 units and 0.635 units, respectively. Çevik, Atukeren and Korkmaz (2019) studied the impact of international trade (from a trade openness perspective) on Turkey's economic growth. The researchers also reiterated the economic rationale about the potential effect of trade openness on economic growth in key areas such as: improvement of the efficiency of scarce resource allocation, technology spillover effects from developed countries to developing countries, learning-by-doing effects, etc. Experimental research results in Turkey

showed that for the period 1950-2014, the trade openness had a positive impact on economic growth and conversely, economic growth has a positive effect on trade openness. This relationship was called “sequential feedback” by Çevik, Atukeren, and Korkmaz.

Hye, Wizarat, and Lau (2016) used the autoregressive distributed lag (ARDL) cointegration technique and rolling regression method to assess the relationship between trade openness and China's economic growth for the period 1975-2009. The empirical findings showed that trade openness had a positive relationship with economic growth in both long-term and short-term. This result also confirmed that trade openness was important for the sustainable development of China's economy.

Many studies examined the effects of many economic variables, including FDI and international trade on the economic growth of one or a group of countries. The results were quite diverse. Boakye and Gyamfi (2017) used ordinary least-square method to assess the impact of foreign trade, FDI, external debt per capital, gross capital formation, inflation, remittances per capita on Ghana's economic growth. The results showed that all variables were related to GDP. Export had a positive and significant impact on Ghana's economic growth. A unit increase in export could on average increase GDP by 2.085751. FDI also had a positive impact on GDP but insignificant. A 1% increase in FDI would lead to a 2.676054% increase in economic growth of Ghana.

Adhikary (2011) stated that in theory, FDI, trade openness and capital formation had a positive relationship with GDP. He conducted an assessment of the relationship between these economic variables in the period 1986-2008 in Bangladesh. The study revealed a strong long-run equilibrium relationship among FDI, trade openness, capital formation and GDP. The volume of FDI and level of capital formation had a positive and clear impact on Bangladesh's economic growth. However, trade openness had a significant negative, but a diminishing effect on economy. In his opinion, the main reason which led to the negative impact of trade openness was the exchange rate depreciation, large volume of imported materials and negative trade balance position. Adhikary recommended the government of Bangladesh to promulgate policies to encourage FDI and ensure higher degree of capital formation to promote economic growth.

Afolabi, Danladi, and Azeez (2017) assessed the impact of international trade on Nigerian economic growth for the period 1981-2014. Scholars used the ordinary least-square technique with GDP as dependent variable and 6 independent variables being exchange rate, government expenditure, interest rate, FDI, import and export. The statistical test results showed that the 4 variables of government expenditure, interest rate, import and export

had positive and clear effects on economic growth, while FDI and exchange rate had negatively insignificant effect on Nigerian economy.

Abdullahi, Safiyanu, and Soja (2016) used the economic software of STATA 10.0 version to assess the impact of international trade on economic growth of 16 out of 17 countries in West Africa in the period 1991-2011. The variables studied by scholars in relation to GDP were export, import and exchange rate. The regression result showed that the model population was statistically significant, but the impact of variables on economic growth were different. Export had a positive and significant impact on the economic growth of West Africa countries. A 1% increase in export would lead to 5.11% increase in GDP growth. Import also had a positive effect on GDP, a 1% increase in import would cause 0.4115808% increase in GDP growth. However, the impact of import on the economic growth of West Africa countries was statistically insignificant. Exchange rate had a negative but statistically significant impact on economic growth. With such research results, scholars affirmed the significance of export promotion on economic growth.

Nantharath and Kang (2019) examined the effects of FDI, human capital, trade openness, and institutional quality on the economic growth of Lao People's Democratic Republic (Lao PRD) in the period of 1993-2015. The empirical results showed that FDI and trade openness had positive effect on economic growth of Lao PRD while the human capital and institutional quality had negative impact. Based on the result of the research, the authors recommended the government of Lao PRD continue promoting FDI, attract better quality and more sustainable FDI to attain the sustainable growth rate in the long run. Besides, the government of Lao PRD should prioritize improving economic competitiveness regionally and globally. Erum, Hussain, and Yousaf (2016) used Fixed Effects Model to access the impact of FDI, domestic investment, labour and government expenditures on economic growth of South Asian Association of Regional Cooperation countries for the period 1990-2014. The authors proved that the domestic investment and FDI had positive impact on the economic growth. The labour had positive relation and significant to GDP while government expenditures had negligible impact on the economic growth.

3. Research Methodology and Empirical Results

3.1. Research Methodology

Ordinary least-square method is used in analyzing the impact of FDI, export and import on economic growth of

Vietnam in the period 2000-2018. Secondary data is taken from the General Statistics Office of Vietnam. A regression model is built where independent variable is GDP and three dependent variables are FDI, export and import.

$$GDP = F(\text{FDI}, \text{EXP}, \text{IMP})$$

where:

GDP: Gross Domestic Product

FDI: Foreign Direct Investment

EXP: Export

IMP: Import

The model is expressed as follow:

$$GDP = \beta_1 + \beta_2 \text{FDI} + \beta_3 \text{EXP} + \beta_4 \text{IMP} + u$$

where:

β_1 : Regression constant.

$\beta_2, \beta_3, \beta_4$: Coefficients to be estimated. They measure the effects of FDI, EXP and IMP on GDP, respectively.

u : stochastic error term.

Four hypotheses are set up based on regression results to test the impact of FDI, export and import on the economy.

Hypothesis 1: Whether the population regression function is significant or not

Hypothesis 2: Whether FDI impacts GDP or not

Hypothesis 3: Whether EXP impacts GDP or not.

Hypothesis 4: Whether IMP impacts GDP or not.

3.2. Empirical Results

Based on the data collected from the General Statistics Office of Vietnam from 2000 to 2018 and using Eviews 10.0, the regression result of the impact of FDI, export and import on economic growth of Vietnam is shown in the following Table 1.

Table 1: Empirical results

Dependent Variable: GDP Method: Least Squares Sample: 2000 2018 Included observations: 19				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	354284.6	88583.07	3.999462	0.0012
FDI	11.41243	3.212493	3.552516	0.0029
EXP	3.410100	1.008162	3.382492	0.0041
IMP	-3.439255	1.277375	-2.692439	0.0167
R-squared	0.989963	F-statistic		493.1361
Adjusted R-squared	0.987955	Prob(F-statistic)		0.000000
S.E. of regression	188509.1	Mean dependent var		2315157.
Sum squared resid	5.33E+11			
Log likelihood	-255.5053			

$$GDP = 354284.6 + 11.41243 \text{ FDI} + 3.410100 \text{ EXP} - 3.439255 \text{ IMP}$$

Hypothesis 1: Whether the population regression function is significant or not

$H_0: R^2 = 0$ (The population regression function is not significant)

$H_1: R^2 \neq 0$ (The population regression function is significant)

F-statistic is used to test. With number of observations (n) = 18, number of variables (k) = 3, and significance level (α) = 0.05, the result of F is $493.1361 > F_{\alpha}(k-1; n-k) = 3.68$.

Based on above results, H_0 is rejected, therefore, H_1 is accepted. The significance of regression function shows that FDI, EXP and IMP have significant effect on GDP. The regression results also indicate that independent variables included in the model (FDI, EXP and IMP) explain about 98.9963% (R-squared = 0.989963) variations

in the dependent variable (GDP). Hence, only 1.0037% variability in GDP is explained by other factors outside FDI, EXP and IMP.

Hypothesis 2: Whether FDI impacts GDP or not

$H_0: \beta_2 = 0$ (FDI does not impact on GDP)

$H_1: \beta_2 \neq 0$ (FDI impacts on GDP)

T-statistic is used to test. With number of observations (n) = 18, number of variables (k) = 3, and significance level (α) = 0.05, the result of T is $3.552516 > t_{\alpha/2}^{(n-k)} = 2.131$.

The result indicates that H_0 is rejected, thereby confirming that explanatory variable FDI has positive effect on explained variable GDP.

Hypothesis 3: Whether EXP impacts GDP or not

$H_0: \beta_3 = 0$ (EXP does not impact on GDP)

$H_1: \beta_3 \neq 0$ (EXP impacts on GDP)

T-statistic is used to test. With number of observations (n)

=18, number of variables (k) = 3, and significance level (α) = 0.05, the result of T is $3.382492 > t_{\alpha/2}^{(n-k)} = 2.131$.

The result indicates that H_0 is rejected, thereby confirming that explanatory variable EXP has positive effect on explained variable GDP.

Hypothesis 4: Whether IMP impacts GDP or not

$H_0: \beta_4 = 0$ (IMP does not impact on GDP)

$H_1: \beta_4 \neq 0$ (IMP impacts on GDP)

T-statistic is used to test. With number of observations (n) =18, number of variables (k) = 3, and significance level (α) = 0.05, the result of T is $-2.692439 < t_{\alpha/2}^{(n-k)} = 2.131$.

The above result indicates that H_0 is not rejected, which means that there is insufficient evidence to confirm H_1 . It is not sufficient to confirm that import has a positive impact on Vietnam's economic growth.

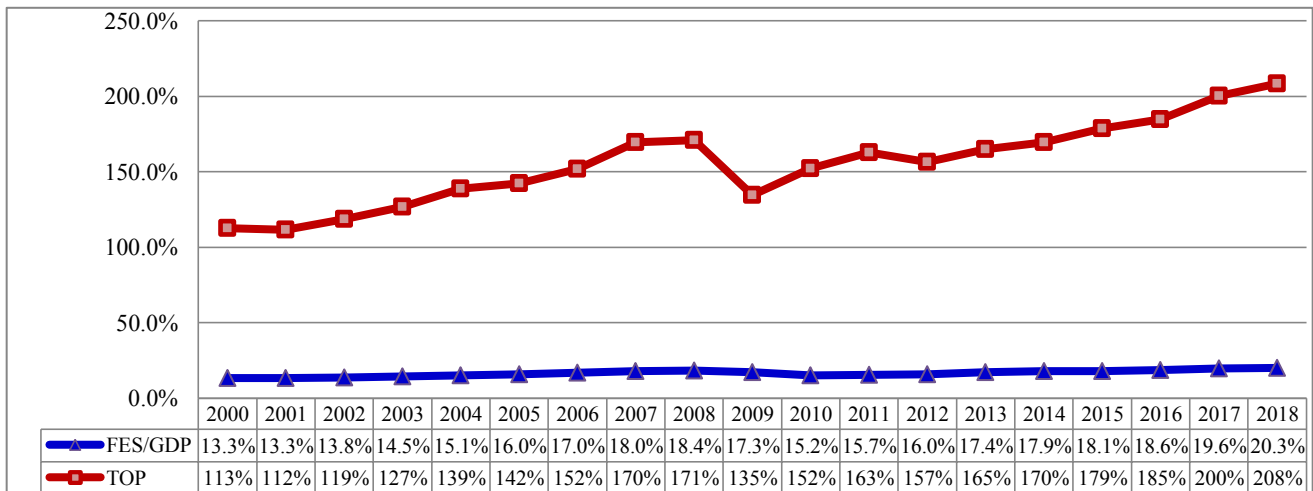
In summary, the test results of the statistical hypotheses show that in the period 2000-2018, in general, FDI, export and import impact on Vietnam's economic growth. In separate considerations, the effects of the three variables, FDI, export and import are different. While FDI and export have a positive and statistically significant effect on GDP, import has a negative and statistically insignificant impact on economic growth.

4. Discussions

The above test results conclude that in the period 2000-2018, the economic variables: FDI, export and import are

related to Vietnam's economic growth. The contribution of foreign-invested economic sector to GDP and trade openness is increasing, which reflects the deepening level of international economic integration of Vietnam (see Figure 1). Vietnam's economy has been increasingly tied to the world economy. Vietnam has been applying many measures to attract FDI and implementing export-oriented policy to take advantages of foreign resources to promote its economic growth.

With the main objective of broadening the economic relations with foreign countries, developing the economy, boosting export on the basis of effectively exploit of natural resources, labor and other potentials of Vietnam, on 29 December 1987, Vietnam promulgated the Law on Foreign Investment in Vietnam. Up to now, Vietnam has had more than 30 years of FDI attraction. Although newly formed, the foreign-invested economic sector has grown rapidly, gradually becoming an economic sector playing an important position in Vietnam's economy. In 2018, the FDI sector contributed 20.3% of Vietnam's GDP (see Figure 1). The test result for the period 2000-2018 shows that FDI has a positive and statistical impact on Vietnam's economic growth. This result is consistent with the practical research results of many scholars such as Mun, Lin, and Man (2008); Marobhe (2015); Adhikary (2011); Erum, Hussain, and Yousaf (2016); Boakye and Gyamfi (2017); Ali and Hussain (2017); Sokang (2018); Mohamed Mustafa (2019); Nantharath and Kang (2019). However, this result conflicts with the research of Afolabi, Danladi and Azeez (2017).



Source: General Statistics Office of Vietnam

Figure 1: Foreign-invested economic sector's contribution to GDP ratio and trade openness of Vietnamese economy

Note: (i) FES/GDP: Foreign-invested economic sector's contribution to GDP ratio

(ii) TOP: Trade openness

Over the past years, activities of FDI enterprises have made a lot of contributions to Vietnam's economy, expressed in some key aspects as below:

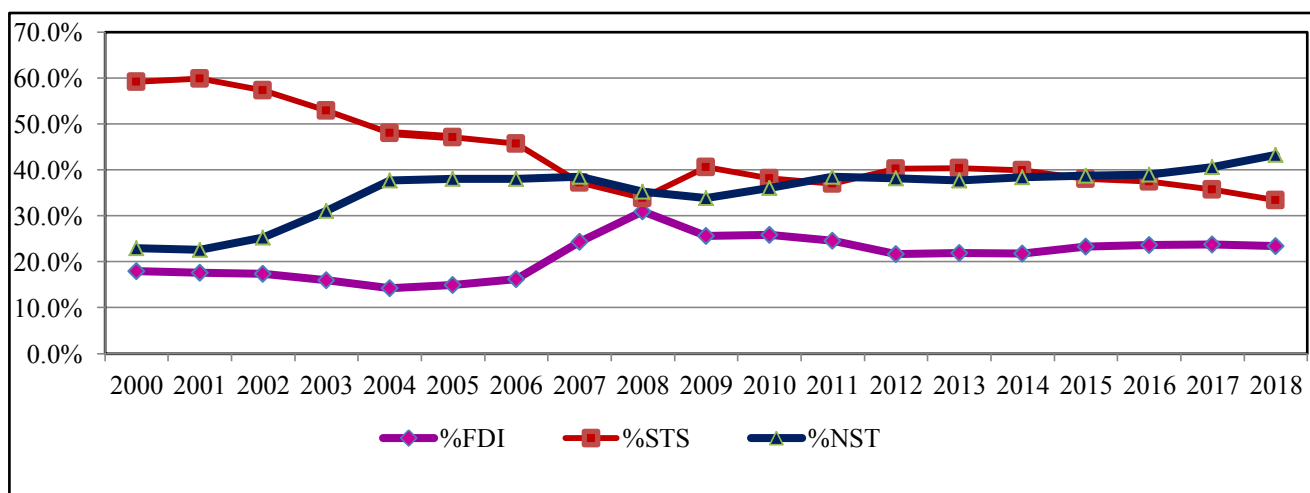
Firstly, FDI provides important capital to improve Vietnam's economic growth. The FDI inflows into Vietnam have created a boost for Vietnam's economy in the context of low savings of economy for investment. In the period 2000-2018, FDI accounted for an average rate of 21.3% of the total investment of the economy (see Figure 2). The average growth rate of FDI reached 18.3%, higher than the average growth rate of the total investment of the economy (15%).

Secondly, FDI creates jobs for Vietnamese laborers. Up to now, there are more than 4 million direct employees in FDI enterprises. Besides, FDI enterprises also have pervasive influence and create significant indirect jobs for the Vietnamese economy. By means of working in FDI enterprises, Vietnamese laborers also receive advanced foreign business knowledge and management skills from

foreign investors, thereby increasing their capacity.

Thirdly, FDI enterprises contribute to promoting export, expanding foreign economic relations and improving Vietnam's competitiveness in the process of international economic integration. FDI enterprises have a large export turnover, accounting for about 75% of the country's total export turnover up to now.

Fourthly, FDI activities contribute to the transfer of advanced and high technology to Vietnam. FDI is an effective technology transfer channel that many countries, especially developing countries, have paid attention to and issued many policies to encourage in order to achieve the goal of strengthening national technological capacity. For Vietnam, through attracting international investment flows, Vietnam has the opportunity to receive source technology from developed countries. Many economic sectors of Vietnam have received and approached the world's modern technology such as banking, post and telecommunications, oil and gas, transportation, etc.



Source: General Statistics Office of Vietnam

Figure 2: Investment capital in Vietnam by economic sectors

Note: (i) %FDI: Proportion of FDI capital to total investment of the economy
(ii) %STS: Proportion of state sector's capital to total investment of the economy
(iii) %NSS: Proportion of non-state sector's capital to total investment of the economy

Despite these positive results, FDI inflows to Vietnam still reveal some limitations affecting the efficiency of this investment capital flow.

First, the scale of investment project is small. Out of more than 27 thousand investment projects, the number of projects with investment capital of less than USD5 million accounts for 76%; the number of projects of under USD1 million accounts for 45%. The small scale of project limits the competitiveness of FDI enterprises in the international business environment.

Second, many FDI enterprises do not operate in compliance with Vietnamese laws. Many FDI enterprises

take advantages of the loophole of the law and the loose management in order not to comply with the law on environmental protection, adversely affecting the environment of Vietnam. In addition, many FDI enterprises violate regulations on labor, wages, social insurance, taxes, etc. The phenomenon of transfer pricing is becoming more sophisticated and tends to increase.

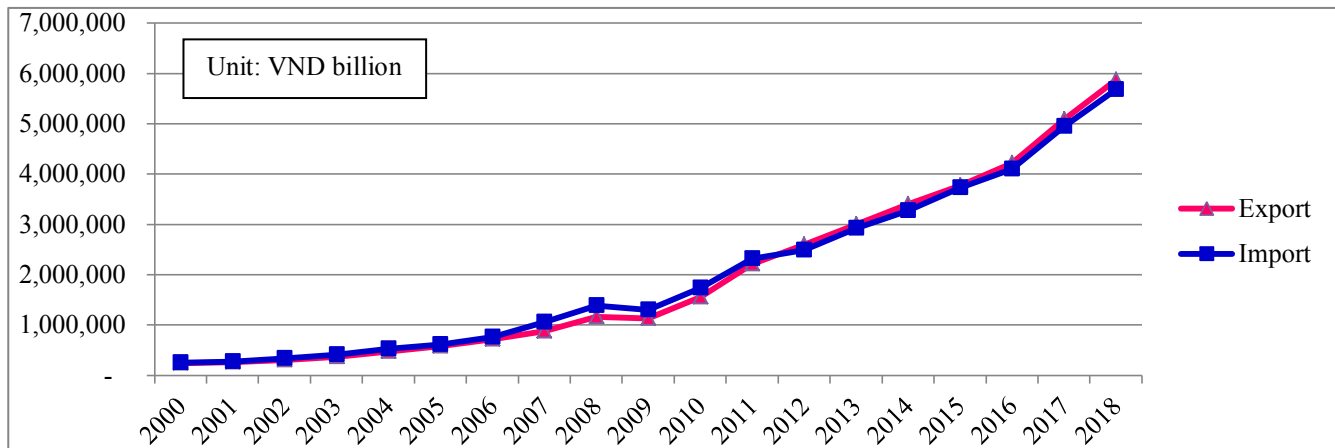
Third, many FDI enterprises use less modern technology in comparison with existing technology in Vietnam. Foreign investors still tend to invest in labor-intensive projects, which have not created a positively pervasive impact to domestic enterprises operating in the same field.

The localization rate is not high.

Fourth, many foreign investors registered to invest but did not implement the project. The proportion of realized invested capital in the total registered investment capital is still low. In the period 2000-2018, only about USD191 billion is realized by foreign investors, accounting for 46% of total registered investment capital amounted to USD415 billion.

International trade activities have also received attention and been promoted since Vietnam opened its economy. The

trade openness has been increasing, from 113% in 2000 to 208% in 2018 (see Figure 1). Up to now, Vietnam has had trade relations with most countries and territories in the world. Vietnam joined the WTO in 2007 and has signed many free trade agreements with other countries and regions. As a result, Vietnam's international trade has continued to grow, despite the slowdown in international trade in recent years. Vietnam had a trade deficit in the period 2000-2011, but it has had a trade surplus since 2011 (see Figure 3).



Source: General Statistics Office of Vietnam

Figure 3: International trade of Vietnam in the period 2000-2018

Note: (i) Export: Total export turnover of Vietnam
(ii) Import: Total import turnover of Vietnam

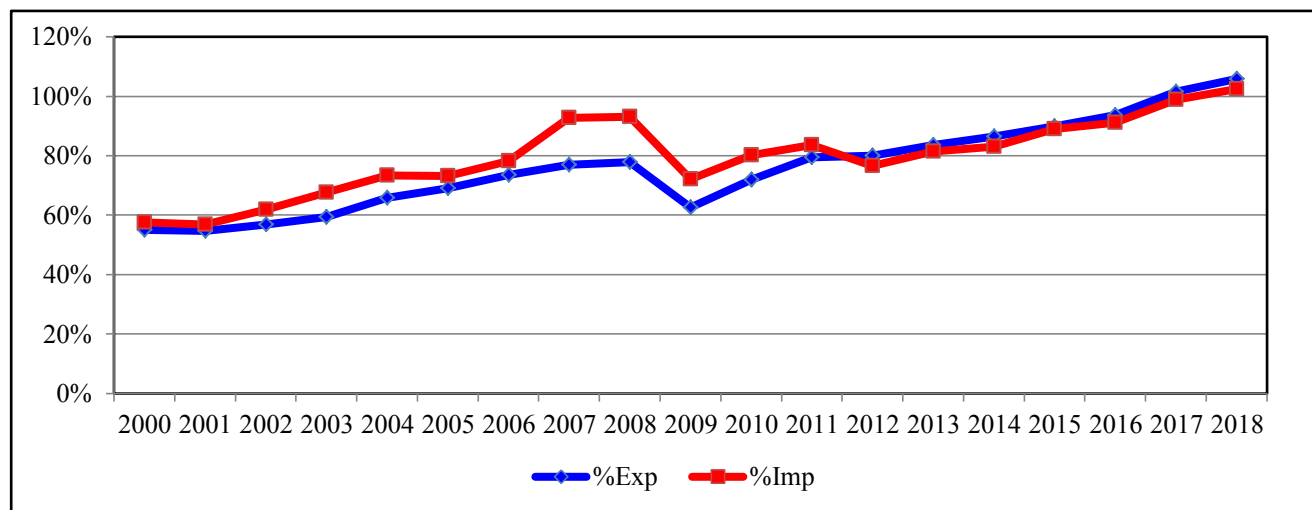
With the export-oriented international trade strategy of Vietnam, Vietnam's export has been achieving many positive results, contributing to promoting economic growth, improving balance of payment, stabilizing macro-economy, controlling inflation, creating pervasive effects to promote production, jobs and foreign reserves. The export achieved an average growth rate of 20% per year in the period 2000-2018, much higher than Vietnam's economic growth in the same period. Vietnam's export turnover in 2000 reached USD14.5 billion, equivalent to 55% of GDP and increased to USD259.52 billion, equivalent to 106% of GDP in 2018 (see Figure 4). Since 2017, the total export turnover of Vietnam has surpassed GDP. Vietnam has gradually developed key export products. Up to now, there are 5 products with export turnover of over USD10 billion, namely telephones and components; textile; electronics, computers and components; machineries, equipment; and footwear. The policies that encourage domestic and foreign investment have significantly contributed to creation of production capacity of Vietnamese enterprises for exports. The international trade commitments that Vietnam has signed also have created a favorable environment and had positive effects to promote export activities of enterprises.

The statistical tests confirmed Vietnam's export had a positive and statistically significant impact on Vietnam's economic growth in the period 2000-2018. This result was consistent with the research of Mogoe and Mongale (2014); Javed, Qaiser, Mushtaq, Saif-ullaha and Iqbal (2012); Azeez, Dada and Aluko (2014); Boakye and Gyamfi (2017); Afolabi, Danladi, and Azeez (2017); Abdullahi, Safiyanu and Soja (2016).

Import is also paid much attention by Vietnam towards importing goods for production, improving technology and meeting consumption demands of the economy. Vietnam's import turnover in 2000 reached USD15.2 billion, equivalent to 57% of GDP and increased to USD256.01 billion, equivalent to 102% of GDP in 2018 (see Figure 4). 2018 also marked Vietnam's total import turnover exceeding GDP. The import achieved an average growth rate of 19% per year in the period 2000-2018. The import growth rate has been reasonably controlled and lower than the export growth rate in recent years. As a result, Vietnam's trade balance tends to be in surplus. Vietnam has a trade surplus with some major markets such as the US, EU, Australia and New Zealand. The statistical tests for the period 2000-2018 show that import has a negative but not

statistically significant impact on the economy. This result is basically consistent with the research of Mogoe and Mongale (2014), but contrary to the research of Javed,

Qaiser, Mushtaq, Saif-ullaha, and Iqbal (2012); Azeez, Dada, and Aluko (2014); Afolabi, Danladi and Azeez (2017); Abdullahi, Safiyanu, and Soja (2016).



Source: General Statistics Office of Vietnam

Figure 4: Total export turnover and import turnover to GDP ratio of Vietnam in the period 2000-2018

Note: (i) %Exp: Export-to-GDP ratio
(ii) %Imp: Import-to-GDP ratio

Vietnam's international trade activities reveal some limitations affecting its economic growth, in particular:

Firstly, Vietnam's exported goods have low added value. Goods with large export turnover such as footwear, textiles, etc. are mainly processed goods. Vietnam also exported a lot of raw materials, especially unprocessed minerals, which does not bring high benefits for the economy.

Secondly, agricultural and seafood products are Vietnam's strengths, but their export capacity is low. These products also face difficulty in entering large markets with high requirements on quality and food safety such as the EU and US. In addition, outdated technology and lack of branding are also obstacles for exporting these products and positioning Vietnam's potential in high demanding markets.

Thirdly, the structure of types of goods imported into Vietnam is not appropriate. Vietnam imports many types of consumer goods that can be produced domestically or items that their consumption are discouraged such as alcohol, beer, cigarettes, etc.

5. Recommendations

In order to improve the effect of FDI and international trade on Vietnam's economic growth, some recommendations for policy makers are proposed as follows:

Firstly, preferential policies to attract FDI need to be maintained, implemented and further developed. Vietnam should have many outstanding preferential and internationally competitive policies to attract strategic investors, leading multinational corporations to invest in large-scale projects in Vietnam.

Secondly, FDI policies should be selective, taking quality, efficiency, technology and environmental protection as the top goals. Vietnam should have policies that prioritize projects with advanced and clean technology, modern management, high added value, and pervasive effects, global connection between production and supply chains.

Thirdly, free trade agreements should be further negotiated and concluded to create a favorable environment for foreign trade activities. Vietnam needs to continue affirming and implementing trade liberalization policies through active and full participation in signing international trade commitments.

Fourthly, the export-oriented economic development policy needs to be persistently pursued. Vietnam should continue to identify and invest in developing key commodities with highly competitive advantages to boost export.

Fifthly, benefits from import and export activities need to be enhanced. Vietnam should increase the added value of exported goods and restrict the export of raw materials, resources and minerals, control types of goods imported

into Vietnam, shift from import of consumer goods which can be produced domestically to import of raw materials for production, advanced technology, and domestically unavailable goods or insufficient production to meet domestic demand.

6. Conclusions

This study used the ordinary least-square method to assess the impact of FDI, international trade (export and import) on Vietnam's economic growth for the period 2000-2018. The statistical test results show that FDI and international trade are related to economic growth, however economic variables have different impacts. FDI and export have a positive and statistically significant effect on economic growth. Import also has a negative but not statistically significant impact on economic growth. Identification of the above-mentioned directions of impacts helps the government to have appropriate policies to improve the effect of FDI and international trade on Vietnam's economic growth.

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