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THE ROLE OF FOREIGN DIRECT INVESTMENT IN SOCIO-ECONOMIC DEVELOPMENT - A CASE STUDY OF VIETNAM DURING THE TRANSITION PERIOD

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ABSTRACT

The role of Foreign Direct Investment (FDI) in the socio-economic development of developing countries, especially countries in transition toward a market-oriented economy, has been the topic of debate between several schools of thought, notably the mainstream and radical views.

The mainstream view argues that FDI flows cover the savings-investment, foreign exchange, technological and fiscal gaps in developing countries, and hence promote economic growth. In contrast, the radical view argues that FDI flows are detrimental to socio-economic development, they have not supplemented but substituted for domestic savings, and thus they have deteriorated the balance of payments and failed to address poverty problems in developing countries. In reality, FDI flows have provided positive impacts on socio-economic development in some developing countries, especially Asian newly industrialising countries (NICs), but generated many detrimental effects in other developing countries. In Asian NICs, FDI flows tend to be useful and have fewer detrimental effects because the governments of those countries have intervened appropriately and created favourable environments for FDI through implementing export-oriented industrialisation strategies.

In the case of Vietnam, about $35.3 billion of FDI was committed, of which $14.2 billion was implemented, over the 1988-1998 period. Such large amounts of FDI flows have created significant impacts on the socio-economic development of Vietnam. Over the 1988-1998 period, FDI flows have accounted for around one-third of Vietnam’s investment, over 20 percent of Vietnam’s exports in 1998 and overall, between 1 percent to 1.5 percent of annual GDP growth. However, the unequal allocation of FDI flows between regions and provinces in Vietnam may promote socio-economic development in some regions and provinces but also widen the gap between rich and poor regions.

The overall success of attracting and utilising FDI flows in Vietnam has been attributed to the role of government policies that maximise the positive impacts and minimise the detrimental effects of FDI flows. Government’s tax preference policies and domestic protection policies have been found to play an important role in the performance of foreign-invested enterprises.
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ABBREVIATIONS

$: United States dollar
AFTA: ASEAN Free Trade Area
APEC: Asian Pacific Economic Co-operation
ASEAN: Association of Southeast Asian Nations
BCC: Business Cooperation Contract
BOP: Balance of Payments
BOT: Build-Operation-Transfer
BT: Build-Transfer
BTO: Build-Transfer-Operation
CU: Custom Union
DFI: Direct Foreign Investment
EC: European Community
EOI: Export-Oriented Industrialisation
EPZs: Export Processing Zones
EU: European Union
FDI: Foreign Direct Investment
FIEs: Foreign Invested Enterprises
FIPs: Foreign Invested Projects
FTA: Free Trade Area
GDP: Gross Domestic Product
GOV: Government of Vietnam
GSO: General Statistical Office
ICOR: Incremental Capital Output Ratio
IMF: International Monetary Fund
IOCR: Incremental Output Capital Ratio
ISI: Import Substitution Industrialisation
ISO: International Organisation for Standardisation
IZs: Industrial Zones
MNCs: Multi-national Corporations
MOSTE: Ministry of Science, Technology and Environment
MOT: Ministry of Trade
MPI: Ministry of Planning and Investment
NAPES: National Asia Pacific Economic and Scientific Database
NICs: Newly Industrialising Countries
ODA: Official Development Assistance
SOEs: State Owned Enterprises
SRV: Socialist Republic of Vietnam
TNCs: Transnational Corporations
UNDP: United Nations Development Program
VND: Vietnam Dong
VTA: Vietnam Tourism Authority
WB: World Bank