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

A thesis submitted in fulfillment of the requirements for the degree of

Doctor of Philosophy

at Massey University, Turitea Campus, Palmerston North
New Zealand

PHAM HOANG MAI

2001

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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.

ACKNOWLEDGEMENTS

In the process of completing this thesis, I have received invaluable help from several people. In particular, I would like to thank my supervisors, Professor John Overton and Dr. Donovan Storey, for their constant encouragement and many useful comments.

My special thanks are also due to Associate Professor Gerald Tan, of the Flinders University of South Australia, for inspiring me to become interested in the topic of development economics and giving me invaluable comments. I wish to express my appreciation to Dr. Suiwah Leung, of the National Centre for Development Studies, Australian National University and her colleagues for assisting me in selecting the appropriate econometric model and for useful advice.

This thesis would not have been completed without funding from the NZODA Postgraduate Scholarship granted by the Ministry of Foreign Affairs and Trade of New Zealand.

I would like to thank all friends of mine, both in Vietnam and in New Zealand, for their support.

I also wish to express my gratitude for the tremendous support of my Parents, my special Kiwi supporters, Paul and Wivian. Finally, my biggest thanks are due to my wife Huong, our dear daughter, Nhung and our oncoming baby for giving me the encouragement, advice and motivations to complete this thesis.

While thanking all the above for the help that they have given me, I hasten to add that this thesis does not reflect the opinion of any other person or my office in Vietnam and the final responsibility for the content of the thesis rests with me alone.

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