



Role of Foreign Direct Investment Enterprises for Economic Growth: A Case Study of Tien Giang Province, Vietnam

Ngo Thanh Phong*

Department of Economics and Law, Tien Giang University, Vietnam

*Corresponding author: Ngo Thanh Phong, Department of Economics and Law, Tien Giang University, Vietnam; E-mail: ngoanhphong@tgu.edu.vn

Abstract

After more than 30 years of reforming the country, the foreign direct investment (FDI) sector has increasingly affirmed its important role in the economic development of Vietnam in general as well as localities in particular, through the contribute to important growth factors such as additional investment capital, increase in output, technology transfer, job creation, etc. The article uses descriptive statistical method to express the relationship between FDI capital and economic growth of Tien Giang province (Vietnam) to assess the outstanding effects and propose recommendations to collect FDI attraction in Tien Giang province (Vietnam) in the near future.

Keywords: Attraction; Economic growth; Foreign direct investment; Tien giang

JEL codes: F15, F21, F63

Introduction

In the context of globalization, under the great impact of the scientific and technological revolution, all countries must participate in the process of international integration and international integration has become an inevitable trend. In which, international economic integration has been a major, consistent and cross-cutting policy of our Party and State for many decades. After more than 30 years of international economic integration and attracting foreign investment, Vietnam has attracted more than 23,000 FDI projects with a total registered capital of over 300 billion USD, of which implemented capital is estimated at 161 billion USD [1]. Along with the whole country, the journey to attract FDI in Tien Giang province has also achieved many important achievements. Implementing the Law on Foreign Investment in Vietnam in 1987, Tien Giang province began to receive the first FDI project. The highlight for the transformation of Tien Giang Industry was the establishment of BGI Alcohol and Beer Joint Venture Company in 1992, followed by a series of joint venture companies. FDI enterprises increasingly assert their important role in economic growth in Tien Giang province when contributing to supplementing investment capital, increasing

exports, transferring technology, creating jobs, etc. In addition to remarkable contributions to economic growth, FDI investment in Tien Giang province in recent years still has many challenges. The article analyzes the current situation of FDI attraction as well as the contributions of this economic sector in recent years, on that basis, some recommendations on policies to promote FDI attraction in Tien Giang province (Vietnam) are proposed.

Theoretical Overview

Legal basis for foreign direct investment activities in Vietnam

Foreign direct investment into Vietnam is the total amount of lawful money and in-kind that foreign investors have brought into Vietnam and made investments in approved projects, in the form of: Money, machinery, equipment, supplies, raw materials, fuel, finished goods, semi-finished goods, value of industrial property rights, technical know-how, technological processes, technical services technology, intellectual property rights and other legal assets. To implement the economic reform policy of the 6th Congress of the Central Executive Committee of the Communist Party of Vietnam in 1986, many economic policies were

Received date: 19 July 2021; **Accepted date:** 23 July 2021; **Published date:** 29 July 2021

Citation: Ngo Thanh Phong (2021). Role of Foreign Direct Investment Enterprises for Economic Growth: A Case Study of Tien Giang Province, Vietnam. SunText Rev Econ Bus 2(3): 138.

DOI: <https://doi.org/10.51737/2766-4775.2021.038>

Copyright: © 2021 Ngo Thanh Phong. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

promulgated. In particular, with the aim of encouraging foreign investment, the Law on Foreign Investment in Vietnam was promulgated at the end of 1987 as one of the Laws that started the period of economic renewal of the country, creating a favourable environment for the economy. Legal documents to attract foreign investment capital into Vietnam. In 2005, in the trend of globalization and international integration, in order to create an equal business environment among economic sectors, the National Assembly promulgated the Law on Investment to replace the Law on Foreign Investment. The Law on Investment has eliminated discrimination, created an equal environment for both domestic and foreign investors, ensuring the legitimate rights and interests of investors. Since its inception, the Law on Investment (2005) has accelerated the process of attracting investment capital in all fields, especially attracting FDI. However, after Vietnam joined the World Trade Organization (WTO), the 2014 Investment Law amending a number of articles of the 2005 Investment Law, including regulations on expanding investment freedom to attract foreign investment into Vietnam. And from January 1, 2021, regulations on business investment activities in Vietnam are implemented in accordance with the Law on Investment 2020. The Law on Investment 2020 was promulgated with the basic goal of improving the quality. The quantity and efficiency of investment attraction is consistent with the planning and development orientations of the sectors, fields and regions, on the basis of ensuring security, national defence, sustainable development and environmental protection; continue to ensure the full and consistent implementation of the right to freedom of business of people and enterprises in industries not prohibited by the Law, and at the same time remove obstacles and create more favourable conditions for investment activities, manufacturing business. Thus, the legal basis for foreign investment activities in Vietnam has been initiated since Vietnam began to integrate into the international economy. Through each period, Vietnam's investment guidelines and policies are constantly improved in the following years to suit the new situation. Although the world economy has undergone many changes in recent years, Vietnam's policy of economic integration and foreign investment attraction has been consistent and throughout history. This is a premise to help Vietnam in general and localities in particular mobilize maximum resources to serve local socio-economic development and has brought about many great achievements in recent years.

Theoretical basis for research

The role of investment capital in economic growth has been mentioned a lot in economic theories and models. In the 40s of the twentieth century, two economists, Roy Harrod and Evsay Domar, jointly proposed a model to explain the relationship between economic growth and the basic factors of capital and

labor. In it, Harrod and Domar argue that the source of capital is from national savings. If this savings source is limited, it is possible to use foreign capital, also known as foreign investment capital. After Harrod and Domar, in 1956, economist Rober Solow introduced a new economic growth model (Solow model or neoclassical model) showed: in addition to capital, labor also has more technology. These are the inputs for economic growth. However, Solow only considers factors in terms of numbers and thinks that these are exogenous variables (exogenous models). Developing this model, endogenous growth theory has shown that capital promotes long-term economic growth through technology transfer, capital accumulation, export enhancement, capacity building and job creation. Nowadays, there are also many studies on the relationship between FDI and economic growth. According to, FDI plays an important role in the economic growth of the host country, through it can encourage the use of new technologies and contribute to the transfer of knowledge and skills to workers [2]. The factors that positively affect FDI attraction in Vietnam are domestic investment, market opening and secondary education while inflation is believed to have a negative impact on economic growth. From there, the Vietnamese government should improve regulations governing business activities, facilitate business start-ups, control prices, and increase investment in education to promote economic growth [3]. According to, for developing countries like Vietnam, FDI provides a significant source of capital for economic growth, and points out that trade openness and economic crisis are two factors affecting FDI inflows and economic growth. While in South Asian countries, FDI has a significant influence on economic growth through variables such as human capital, infrastructure and capital. However, population, technology gap and inflation have negative effects on economic growth. For countries in the European Union, said that there are many factors affecting the economic growth of countries, but FDI is the factor that has a significant influence on growth [4-7]. The study also shows that the impact of FDI on economic growth does not depend on the human capital of the host country. With economic theories and models, economists have found an endogenous relationship between economic growth and FDI. In particular, FDI inflows have a 2-way effect, both directly affecting the economic growth of the country, on the other hand, FDI inflows are also affected by the level of economic development of that country.

Research methods

Secondary data research method: Used to review, systematize and summarize the results of theories related to economic growth and development. Methods of systematization, synthesis and analysis include: qualitative analysis, comparison, statistical analysis. This method is used in synthesizing information and single data from the Statistical Yearbook, systematizing and chaining by problem

group; On the basis of available information and data, it will be generalized to build a framework to analyze the role of FDI in Vietnam's economic growth. Comparative method: Used to compare data between years, periods, between factors in the same year to evaluate and analyze the relationship between economic growth and FDI capital.

Overview of FDI Capital of Tien Giang Province

From a practical perspective, from 1996 to 2000 was the period when state-owned, non- state-owned and FDI enterprises were gradually formed, developed rapidly and strongly, creating significant innovation of the production force. The province's economy had a very important development, the average annual GDP growth rate in this period reached 8.1%/year, and the industrial production value reached 14.2%/year. The next step, attracting FDI into Tien Giang begins to accelerate.

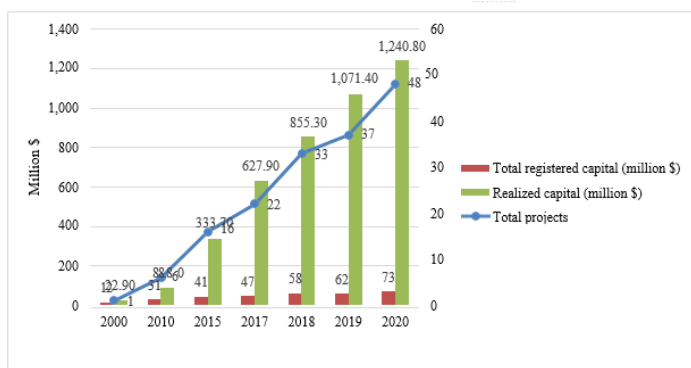


Figure 1: FDI in Tien Giang province 2000-2020.

In 2007, Tien Giang has attracted 31 foreign direct investment projects with a total investment capital of 342 million USD. Accordingly, the capital of the partner is a foreign investor is 304 million USD, accounting for 89%, the contributed capital of the Vietnamese party only accounts for 11%. Out of 31 projects, there are 13 projects established in the form of joint ventures, 18 projects established in the form of enterprises with 100% foreign capital. In recent years, investment attraction in the province has

increasingly flourished. In terms of FDI, in the 2016-2017 period, the province has attracted 20 new projects, with a total registered investment capital of more than 407 million USD, reaching 27% more than the target of the 2016- 2020. In 2017, the province had 109 valid FDI projects in operation, with a total registered investment capital of 1.99 billion USD. According to the general assessment, the province's FDI attraction ranks fourth in comparison with other provinces and cities in the Mekong Delta, only after the provinces of Long An, Kien Giang and Tra Vinh. If only in 2017, FDI projects in the province contributed nearly 96 million USD to the budget, with the industrial production value reaching nearly 60,000 billion VND. Along with the trend of increasing investment capital in Tien Giang, the average investment capital for a project has also increased over time, the average investment capital in 2010 is 14.8 million USD/project has increased 25.9 million USD/project in 2020. It shows that more and more large-scale FDI enterprises are investing in Tien Giang, making an important contribution to the process of promoting economic growth in Tien Giang province (Figure 1).

According to the Department of Planning and Investment of Tien Giang province, for the 2016-2020 period, the province has attracted 122 projects, with a total investment capital of 34.918 billion VND (including 44 foreign direct investment projects), with a total investment capital of 18.853 billion VND; 78 projects with domestic investment capital, with a total investment capital of 18.065 billion VND, an increase of 23 projects, an increase of 70% in investment capital compared to the period 2011-2015. Particularly, attracting foreign investment is 2.5 times higher than in the previous period, with 131 FDI projects up to now, becoming a province attracting high FDI capital in the Mekong Delta [8-10].

Attracting FDI by investment partners of tien giang province

In recent years, Korea, China and Hong Kong are the three largest investment partners in Tien Giang province.

Table 1: Foreign direct investment by major investment partners in Tien Giang province.

Country/territory	Project number	Total Capital (Million \$)
Korea	30	266
China	30	745.5
Hong Kong	12	503.7
Singapore	10	101.9
Taiwan	8	118.3
England	7	133.8
Japan	5	20.7
Thailand	4	51.5
...

Source: Statistical Yearbook of Tien Giang province in 2020
Based on Table 1, it shows that, although China is the country with the highest amount of investment capital in Tien Giang, the average capital size for a project is about 24.85 million USD/project, lower than the average capital size of Hong Kong, reaching 49.9 million USD/project.

The proportion of investment capital of these three countries accounts for more than 50% of total FDI capital. Investment partners of Tien Giang are still mainly Asian countries. The fact that Vietnam has just signed a Free Trade Agreement with the European Union (EVFTA) is expected to boost FDI attraction in

this market to Vietnam in general and Tien Giang in particular in the coming time (Table 1).

Attracting FDI by sector of Tien giang province

By 2020, FDI capital tends to focus more and more on a few key industry groups, associated with a roadmap to cut tariffs and open up attractive investment areas according to Vietnam's commitments upon integration. The registered capital in Tien Giang province focuses on the manufacturing and processing industries with 91.1% of the total registered capital (Table 2).

Table 2: Foreign direct investment by economic sector in tien giang province.

Field	Project number	Total registered capital (Million \$)
Agriculture, forestry and fisheris	1	0.5
Manufacturing and processing industry	116	1,958.1
Accommodation and catering services	5	82.1
Real estate business	1	100.0
Art of amusement and entertainment	2	1.6
...
Total	130	2,149.2

In contrast to the top FDI-attracting industry group, the FDI attraction of other industries is still limited, most notably agriculture, forestry and fisheries. Although, Tien Giang's population is concentrated mainly in rural areas (about 85.8%), labourers working in this area account for about 63.9% of total social workers and agriculture contributes about 38.9% of the province's gross product (Tien Giang Statistical Yearbook, 2020) but FDI capital invested in this field only accounts for 0.77% of total projects and 0.02% of total FDI in the province. From that, it can be seen that, in recent years, FDI capital has not played an important role in the development of agriculture and rural areas of the province [11-14].

Impact of FDI on the Economy of Tien Giang province

Additional investment capital

Additional investment capital is one of the major impacts when Tien Giang province attracts foreign direct investment. Since the Law on Foreign Investment Attraction was promulgated, along with the implementation of commitments in international economic integration, the attraction of foreign investment capital to Tien Giang province has continuously increased, both in terms of the number of countries participating in the investment, the number of projects and the size of capital. Along with that, the opportunity to receive technology, management experience, etc.,

allowing Tien Giang enterprises to participate in global production chains will also increase, contributing to socio-economic development in recent years (Figure 2).

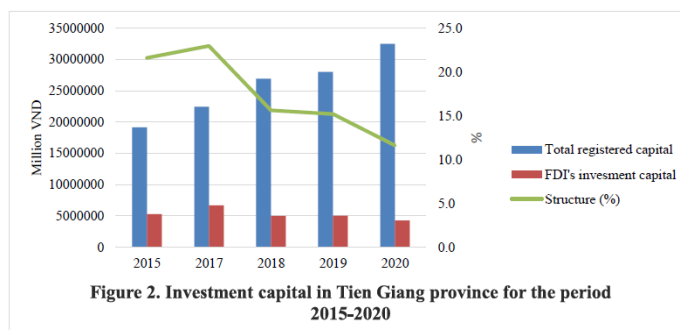


Figure 2: Investment capital in Tien Giang province for the period 2015-2020.

Source: Author's calculation from Tien Giang Provincial Yearbook 2020 Although FDI capital invested in the province has decreased in recent years (accounting for 21.6% in 2015, down to 11.6% in 2020), but on average in the period 2015-2020, investment capital of FDI nearly 17%. Achieving this result shows the confidence of foreign investors in the investment environment and the implementation of commitments when Vietnam integrates into the international economy in general and Tien Giang province in particular.

Increase in export turnover

Increasing export turnover is one of the great impacts of FDI enterprises on the economy of Tien Giang province. According to the Department of Industry and Trade of Tien Giang province, in 2018 export turnover reached 2.7 billion USD, an increase of 8.3% compared to 2017, of which FDI enterprises accounted for 75% of export turnover. By 2020, Tien Giang's export turnover of goods will reach 3 billion USD, an increase of 4.7% over the previous year, with more than 78% of the total export turnover of 2020 in the foreign-invested sector. In the period 2010-2020, FDI enterprises in Tien Giang province always make positive contributions in increasing export turnover of the province. According to the analysis of Tien Giang Department of Industry

and Trade, the province's export turnover still relies heavily on foreign-invested enterprises, specifically, the FDI sector still accounts for 75-80% of the export turnover of the province. This shows that the role of FDI enterprises is very large in increasing export value for Tien Giang province in recent years [15-18].

Promote economic growth

Enterprises in the FDI sector contribute to promoting economic growth in Tien Giang province when their total product continuously and increasingly accounts for a high proportion in the total production structure, contributing to the economic restructuring in a positive direction, in line with the policy of industrialization and modernization of the country (Table 3).

Table 3: Foreign direct investment enterprises' contribution to the gross domestic product of Tien Giang province (at current prices).

Year	Unit	2015	2017	2018	2019	2020
Gross domestic product	Billion VND	64,740.2	80,673.7	88,779.6	96,347.7	99,544.4
Gross domestic product of the FDI sector	Billion VND	6,272.3	9,868.2	12,186.7	13,584.7	14,067.1
Structure	%	9.7	12.2	13.7	14.1	14.1

Source: Statistical Yearbook of Tien Giang province in 2020 FDI capital plays an important role, promoting Vietnam's economic growth when the contribution of the FDI sector to gross domestic product was 9.7% in 2015, this ratio has increased and accounts for 14.1% of the total product in the area in 2020.

In addition to attracting FDI, contributing to economic growth, FDI enterprises also create jobs for a part of labor in Tien Giang province. The number of employees working in FDI enterprises has increased rapidly over the years. In 2015, FDI enterprises solved 48.3% of jobs for workers, by 2020 they have solved 51.9%, contributing to job creation and raising per capita income for labor (Table 4).

Human resource development and job creation

Table 4: Number of employees in active enterprises with business results as of December 31 every year in Tien Giang province.

Year	2015	2017	2018	2019	2020
Total number of employees	158.1	175.1	185.9	188.4	190.5
Labor in the FDI sector	76.3	88.5	93.2	97.2	98.9
Structure (%)	48.3	50.5	50.2	51.5	51.9

Source: Statistical Yearbook of Tien Giang province in 2020 The FDI sector also has a positive impact on human resource development of Tien Giang province through investment projects in the field of education and training. Employees working in FDI enterprises have the opportunity to learn and improve their professional qualifications when accessing advanced technology and management skills. This is considered a potential human resource to develop local businesses.

enterprises have increasingly affirmed their great role in the economic growth of Tien Giang province in recent years, such as promoting economic growth, increasing export turnover, supplementing social investment capital and contributing to job creation and income improvement for workers. In the coming time, in order to attract high-quality FDI, Tien Giang needs to focus on the following issues: One is to focus on investing in building a synchronous infrastructure system, especially traffic, electricity and water, etc. to create attractiveness in attracting investment and creating favourable conditions for investment and production development. Tien Giang focuses on synchronous investment in bridges and roads connecting with provinces in the Southern Key Economic Zone, the Mekong River Delta, in addition to national highways and provincial roads. The second is to focus on reforming administrative procedures, improving the

Conclusions and Recommendations

In the process of globalization, international economic integration is an inevitable and objective trend. In particular, opening up the economy, attracting FDI capital has helped Tien Giang province mobilize more resources for economic development and FDI

investment and business environment, reviewing and simplifying as much as possible procedures related to investment and business development. Educating, inspecting and improving the ethics of civil servants and public employees in the performance of their official duties, especially the department in contact with investors and businesses. Promoting the role of the Business Association, the Investment Promotion Center and supporting enterprises in investment promotion, new business development, and expansion of the scale of existing enterprises. The third is to train human resources to meet the requirements, strengthen the consolidation and improve the quality of the system of education and training institutions in the province such as: Tien Giang University, Tien Giang College, and vocational training institutions, in order to train human resources to meet the needs of industrial production, business and service development. At the same time, focus on taking care of the health and life of workers and employees. Fourth, build and regularly update the list of projects calling for investment in the province with all relevant information and organize public announcement through mass communication channels for investors' convenience. Surveying and collecting opinions of enterprises on the business investment environment; focus on researching and promptly removing difficulties of enterprises and investors; perform well the supervision and evaluation of investment to coordinate to solve difficulties for each investment project. Over the past 30 years, the presence of FDI enterprises in Tien Giang province has made certain contributions to the local economic growth. However, besides the positive effects of FDI enterprises on the economy, there are also risks affecting the environment. Typical negative impacts include degradation and pollution of water sources, air pollution, soil degradation and erosion, increase in greenhouse gas emissions, etc. In the coming time, Tien Giang province needs to continue to boost revenue attract FDI capital to have more resources for socio-economic development but absolutely cannot harm the environment. Therefore, when attracting FDI, it is necessary to focus on selectively attracting projects with modern and environmentally friendly technologies, ensuring sustainable development in the future.

References

1. Mai N. Finding a way to expand the spread of FDI to domestic enterprises. *Econ Forecasting J*. 2018.
2. Mahembe E, Odhiambo N. Foreign direct investment and economic growth: a theoretical framework. *J Governance Regulation*. 2014; 3.
3. Nam HT, Quynh NMA. The impact of foreign investment on economic growth: evidence from Vietnam. *Developing Country Studies*. 2015; 5.
4. Duc HV, Chi HM. Foreign investment, economic growth, and environmental degradation since the 1986 Economic Renovation in Vietnam. *Environ Sci Pollution Res*. 2021; 28.
5. Chinh HQ, Chi DT. Analysis of foreign direct investment and economic growth in Vietnam. *International J Bus Econ Law*. 2018; 15.
6. Moudatsou A. Foreign direct investment and economic growth in the European Union. *J Econ Interation*. 2003; 18.
7. Behname M. Foreign direct investment and economic growth: evidence from southern Asia. *Atlantic Review Econ*. 2012.
8. Alzaidy G, Ahmad MNB, Lacheheb Z. The impact of FDI on economic growth in Malaysia: the role of financial development. *Int J Economic Financial Issues*. 2017.
9. Baiashvili T, Gattini L. Impact of foreign direct investment on economic growth: the growth of country income levels and institutional strength. *EIB Working Paper*. 2020.
10. Summary report on socio- economic development of Tien Giang province 2020. Tien Giang Statistical Office. 2020.
11. Katerina L, John P, Athanasios V. Foreign direct investment and economic growth in transition economies. *South Eastern Europe J Econ*. 2004; 1.
12. Mamingi N, Martin K. Foreign direct investment and growth in developing countries: evidence from the countries of the organization of eastern Caribbean state. 2018.
13. Mehic E, Silajdzic S, Hodovic VB. The impact of FDI on economic growth: some evidence from southeast Europe. *Emerging Markets Finance Trade*. 2013; 49.
14. Othman J, Jafari Y, Sarmidi T. Economic growth, foreign direct investment, macroeconomic conditions and sustainability in Malaysia. *Applied Econ Int Development*. 2014; 14.
15. Solow R. A contribution to the theory of economic growth. *Quarterly J Econ*. 1956; 70: 65-94.
16. Suleiman NN, Kaliappan SR. Foreign direct investment and economic growth: empirical evidence from Southern Africa Customs Union Countries. *Int J Econ Management*. 2013; 7.
17. Statistical yearbook of Tien giang province. 2020.
18. Trang DTH, Duc HV. Foreign direct investment and economic growth in the short run and long run: empirical evidence from developing countries. *J Risk Financial Management*. 2019; 12.