FACTOR DETERMINANTS OF FDI INFLOWS INTO VIETNAM.

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SECTION 1: INTRODUCTION.

ABSTRACT:

Each country and each economy zone have its own different advantages in location, natural resources and socie-economics features that able to attract enormous investment capital flow from huge global investors, therefore, each of them also has a certain competitive advantage. Since Vietnam' accession to the World Trade Organization (2007), it has marked its new position in the global community as a committed and sustainable trade partner. FDI attractiveness closely belonging with sustainable economic development has become an essential strategy in recent years.
***Key findings*: economic zone, World Trade Organization, global investor, Foreign Direct Investment, sustainable.**

1. REVIEW OF THE RELATED TOPIC.

1.1. Main factor affecting the FDI flow in the context of integration.

There are the two factors including ***external and internal*** factors that could affect the FDI flow in Vietnam and ASEAN in general. In our study, we are mainly focus on *the* ***group of inside factors*** within an economic region. Each region has different characteristics and the various level of impact of factors attracting on FDI flow as a whole capital:
The primarily internal important factors affecting FDI are ***'Investment climate'*** includes overall conditions and policies that affect the ease of doing business in a country (corruption, macroeconomic environment, legal system, infrastructure) and ***'Market potential for growth'*** which affects the supply and demand of the market, like investing in countries with growing markets and abundant resources can boost sales and revenue for investors and reduce dependence on foreign markets. ***'Political and security'*** factors are related to the stability and transparency of the political and legal system in the country (Political Stability and Absence of Violence/Terrorism: Percentile Rank; …); association of the unstainable political in specific region affect the efficiency of using FDI capital. However, some factors are less important than those mentioned but also play a significant role in the FDI flow of Viet Nam like ***'Tax rates'***, affecting the profitability of the investment in the country (lower corporate tax rates, as well as other tax incentives and exemptions), ***'Labor costs and skills'*** is the quality (education, training, and skill) and availability of human capital in the country, **'*Exchange rate*'** illustrates how the impact on the value of the currency in the country (low inflation and interest rates).

1.2. The case of 9 selected countries.

Argentina have been floatable for recent years. Argentina has seen a substantial increase in M&A in recent years, with a total of USD 1.1 billion expected in 2021, primarily driven by investments in technology firms.
Chile had an increase in FDI inflow in 2021, primarily due to investments in mining and hydrocarbons. FDI flows to Chile increased by 32% to USD 13 billion (from USD 8.4 billion

in 2020), owing to several big acquisitions and revived interest in the mining industry. One of the greatest of these projects is the USD 3 billion ammonia production plant with onshore wind farm, electrolysis, and port facilities.

India is the biggest host in the sub-region and is ranked fifth out of the top 20 nations that attract FDI. Historically, India has attracted 70–80% of all FDI into the area. While the construction and industrial sectors saw significant investments, the renewable energy sector had the greatest number of projects.

FDI flows to ***Saudi Arabia*** had gradually declined due to political factors and lower oil prices; however, economic diversification and new projects outside the oil and gas sector helped reverse the trend. The investments are mainly oriented towards the chemical industry, real estate, fossil fuels, automobiles, tourism, plastics, and machinery.

The United States, China, the United Kingdom, Singapore, and Japan are traditionally the main investors in the ***Philippines***, while inflows are concentrated in the transportation and storage, electricity, real estate, manufacturing, and construction. Other sectors that attract the highest levels of investment are information and communication, and administrative and business support services activities. Moreover, the country relaxed the local employment requirement for workers of foreign investors.

FDI inflows into ***Laos*** rose to USD 1,072 million in 2021, up from USD 968 million the previous year, but remained below the three-year average prior to the epidemic (USD 1,267 million in 2017-19). Projects in hydraulic energy production and mining resource exploitation account for almost 80% of total foreign investment during the last ten years.

The shift in foreign direct investment (FDI) in ***Malaysia*** from the colonial pattern of primary product dominance to export-oriented manufacturing has highlighted the role of government policy in influencing FDI and its impact on structural transformation and economic growth. Country-specific advantages in mineral and agricultural resources were the main source of foreign direct investment during the colonial era.

Foreign direct investment is an important element of ***Thailand's*** economic development, and the country is one of the major FDI destinations in its region. However, the global economic crisis triggered by the Covid-19 pandemic has affected the country's attractiveness. Manufacturing and financial and insurance activities attract almost 70% of all FDI inflows.

2. THE PURPOSE OF THE REPORT.

2.1. Methodology/ Data collection:

The dataset that was served this report was gained from World Bank. Due to some missing values from data features in the source, our team decided to select 10 countries that have a huge available source as well as being closely related to Vietnam FDI correlation at some point. This report would not be a fully comprehensive view of the surveyed literature, but it provides broad perspectives of the topic.

2.2. Scope of the report:

The focus on this topic is the FDI flows in the Vietnam market and relevant aspects over the past decades from 1990 to 2022, although few available data does not cover the entire period.

Whenever the term “FDI Flow" is mentioned, it is in reference Vietnam’ FDI flow. When the information refers to another state, it will be noticed. In this case, our group will alter Singapore performances to Lao PDR ones due to uncovered data sources in Singapore.

2.3 Main question:

Part 1: General FDI patterns:

- What are the general trends of FDI inflows into Vietnam from 1990 to 2022?
- How has Vietnam’s accession to the WTO in 2007 impacted its FDI inflows?
- What are the most significant sectors attracting FDI in Vietnam over recent decades?

Part 2: Comparative analysis:

- How does Vietnam’s FDI inflow compare to that of other ASEAN countries like Indonesia, Laos, Malaysia, the Philippines, and Thailand?
- Why does Vietnam attract more FDI than Laos despite Laos having higher political stability in some indexes?
- What advantages has Vietnam had over Thailand in attracting FDI in recent years?
- Which factors that might possibly be influent to the FDI’s flow?

SECTION 2: EMPERICAL FINDINGS.

DESCRIPTIVE ANALYSIS

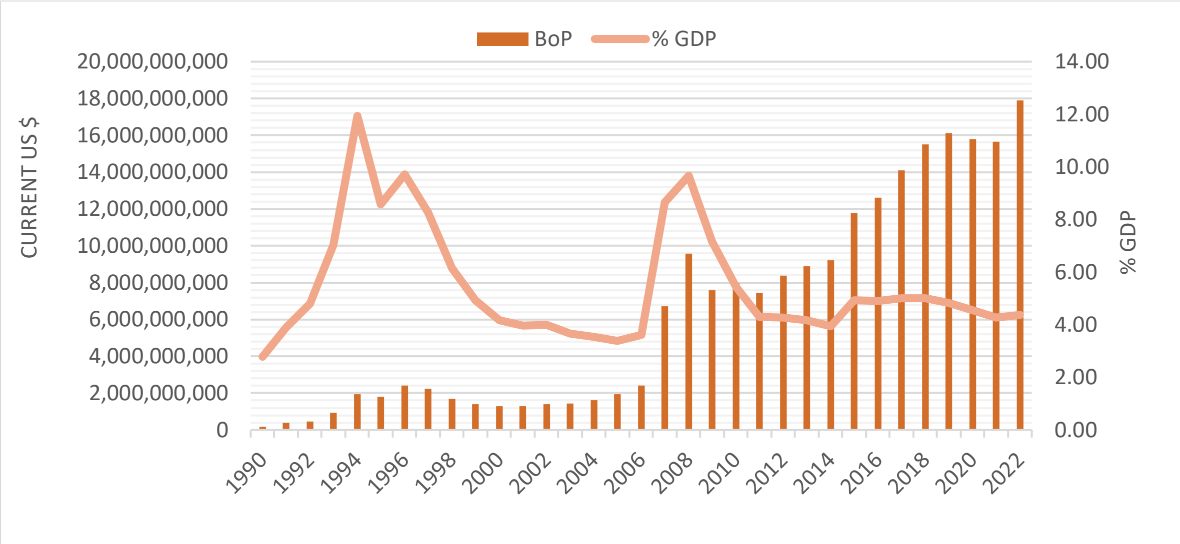

Figure 1: Foreign direct investment, net inflow in Viet Nam (1990-2022).

Vietnam started economic reforms in the 1990s, open its nation doors to foreign investment since the promulgation of Foreign Investment Law (1987). FDI inflows into Vietnam were very low at this time (1990 – 2006) following the chart, *reaching 2.395 billion in 1996* and eventually started to increase significantly near the end of the decade. Clearly, FDI in this period do not really affect the socio-economic situation at this stage when the mean FDI flow only accounts for 4,97% of the total Vietnam' GDP

FDI (% GDP) - (1988 - 2006)	
Mean	4,975415165
Standard deviation	3,0342179

During the first decade of the new reformation, economic structural transformation in Vietnam still took place modestly compared to developing countries including Argentina, Chile, and India (*Figure 1.1*); the investment structure of FDI was also in that state, and investment priorities in high technology (Access to electricity), logistic technology (Railways, goods transported), high quality services (Employers), education and training (Expenditure on primary education), research and development do not meet expectations. *

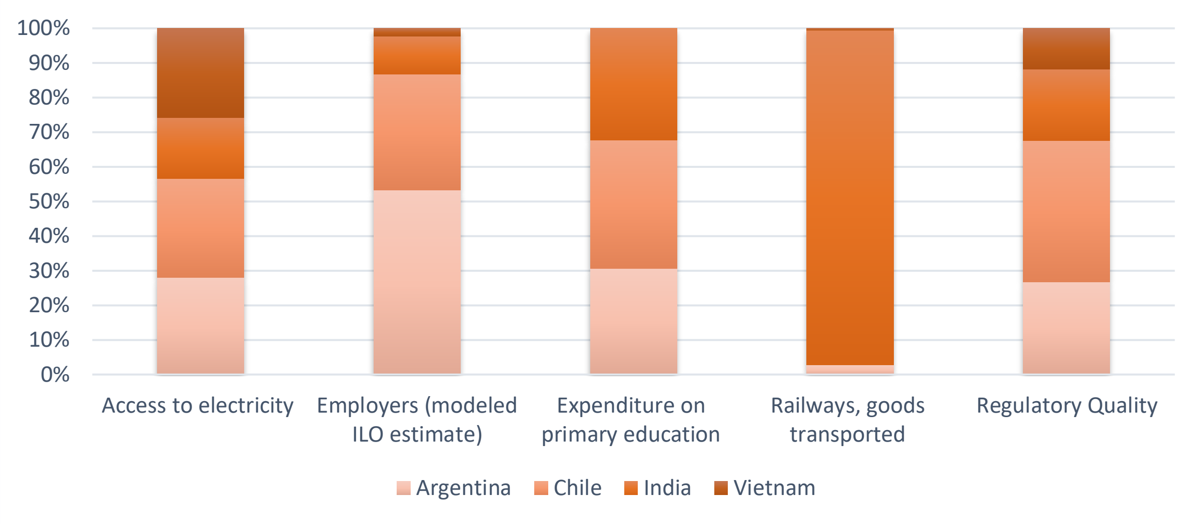

Figure 2: Economic structural transformation context in 2000.

1.SITUATION OF FDI IN VIET NAM OVER THE PAST FEW DECADES

FDI Flow (billion)	*Descriptive statistic*
Mean	6.001.688.737
Standard Error	979.727.710
Median	2.395.000.000
Mode	#N/A
Standard Deviation	5.796.147.297
Sample Variance	33.595.323.490.950.300.000
Range	17.895.930.000
Minimum	4.070.000
Maximum	17.900.000.000
Sum	210.059.105.785
Count	35
Confidence level (95%)	1.991.046.259

Table 1 shows the set 36 data from the value export of the external trade export in Malaysia from year 2018 to 2020.

From 1985-2022, FDI inflows into Vietnam have surpassed all previous records. Vietnam attracted almost $6 billion on average with:

σ = 5.8 billion.

The lower and upper limit of interval:

$$\mu \pm z\left(\frac{\alpha}{2}\right) s/\sqrt{n}$$

Interval = $6.001.688.737 \pm 1.96\,\frac{5.796.147.297}{\sqrt{35}}$

Interval = (4.081422426; 7.921955048)

For the value 95% confidence level, FDI flow Vietnam falls between 4.08 and 7.92. 95% of all mean FDI in Vietnam value of 35 sample years are between that calculated lower an upper value.

2. FDI FLOW OF SELECTED COUNTRIES IN THE CURRENT CONTEXT

2.1. FDI flow in ASEAN Nations.

The milestone points in attracting FDI in Vietnam should be counted when joining the World Trade Agreement (WTO) since 2007, because at that time, FDI in Vietnam increase very significantly and quickly, making Vietnam become one of the largest FDI attracting nation in Southeast Asia (ASEAN) region.

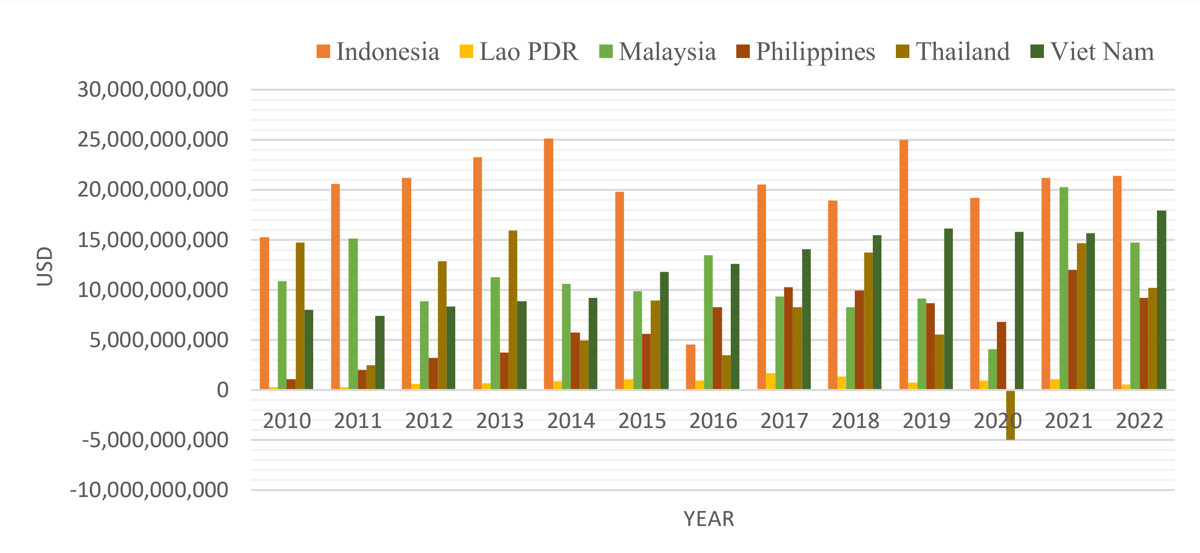

Figure 3: FDI Flow (current US) in ASEAN nations from 2010-2022

Year	VN's Rank	Level up
2010	4	0
2011	3	(+1)
2012	4	(-1)

2013	4	0
2014	3	(+1)
2015	2	(+1)
2016	2	0
2017	2	0

2018	2	0
2019	2	0
2020	2	0
2021	3	(-1)
2022	2	(+1)

Table 2.

In 2015, Vietnam was assessed by many foreign organizations and investors as having a business and investment environment that continued to improve and stabilize, creating solid confidence for investors. Evidence of this, the Vietnam's FDI sector has been recorded at an average of about 22% (*) of total ASEAN's GDP sources in the 6 years 2011 – 2016.

$$\text{Calculation: } X = \frac{26{,}521}{118{,}400} \cong 22\% \ \ (\textit{Table 2.0})$$

This has contributed positively to economic integration, promoting innovation in administrative procedures. reform and perfect market economic institutions, improve the level of human resources for corporate governance in Vietnam…

Country	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Indonesia	2,303	2,310	2,551	2,820	2,298	0,487	**12,769**
Lao PDR	3,437	6,061	5,686	6,534	7,471	5,878	**35,066**
Malaysia	5,074	2,829	3,494	3,141	3,271	4,471	**22,281**
Philippines	0,857	1,228	1,316	1,929	1,840	2,599	**9,769**
Thailand	0,667	3,245	3,791	1,221	2,225	0,843	**11,992**
Viet Nam	4,305	4,278	4,165	3,941	4,932	4,901	**26,521**
Total	**16,643**	**19,950**	**21,004**	**19,587**	**22,036**	**19,179**	**118,400**

Table 3 show that value of FDI flow (% GDP) among 6 region in ASEAN.

Along with the above results, **2015** was also a year of outstanding progress in perfecting the legal system related to investment.

<u>Hidden fact:</u> the 2014 Investment Law took effect from July 1, 2015, replacing the Investment Law (2005) with many important changes, especially regulations on investment bans, conditional investments, and reform of administrative procedures on investment. These outstanding advances have contributed to promoting FDI growth in the last 5 months of 2015. *(Investment Laws Navigator | UNCTAD Investment Policy Hub. (n.d.)*

2.2. Comparision between Viet Nam and Indonesia

In ASEAN, Indonesia's FDI is bigger than Vietnam's because the country has a bigger annual population growth of 1.0423 times and the total population age from 15-64 is 2.7644 times that compared to Viet Nam which means the market in Indonesia is bigger, therefore Indonesia people will have more demand for Goods and Services.

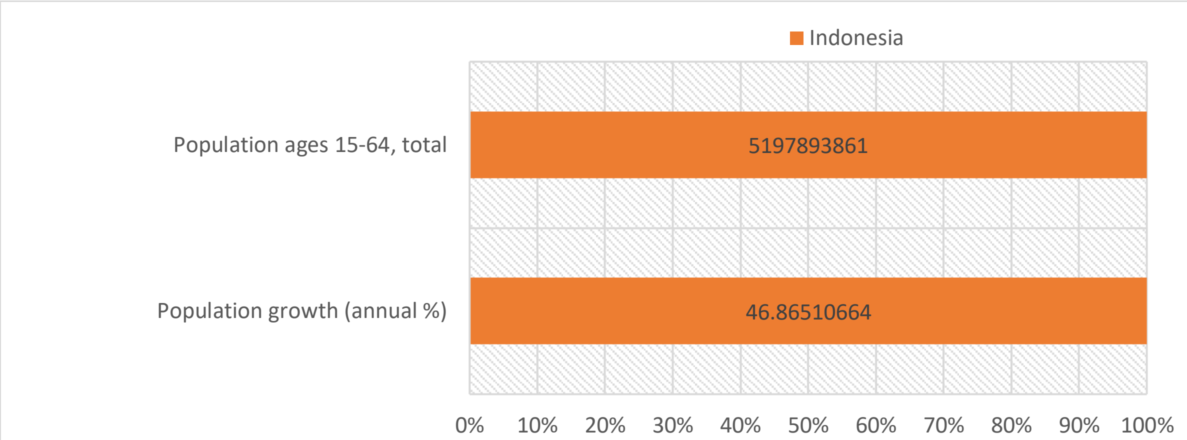

Figure 4: The value of 2 factors of Vietnam and Indonesia economy.

Besides, Indonesia also had a *higher real interest rate (R.I.R)* signaling a strong and stable economy than Viet Nam's economy. The following chart demonstrates that the real interest rate in Indonesia fluctuated stabilize beginning in 2012 and has reached almost 10 compared to Vietnam which has more fluctuated in 2020 and since then has fallen. Below the graph, the formula Standard Deviation (population) of Indonesia is smaller than Viet Nam mean that the country's economic in general is steadier.

Inflation (%)	Indonesia	Viet Nam
σ	2.0599597	5.9753110

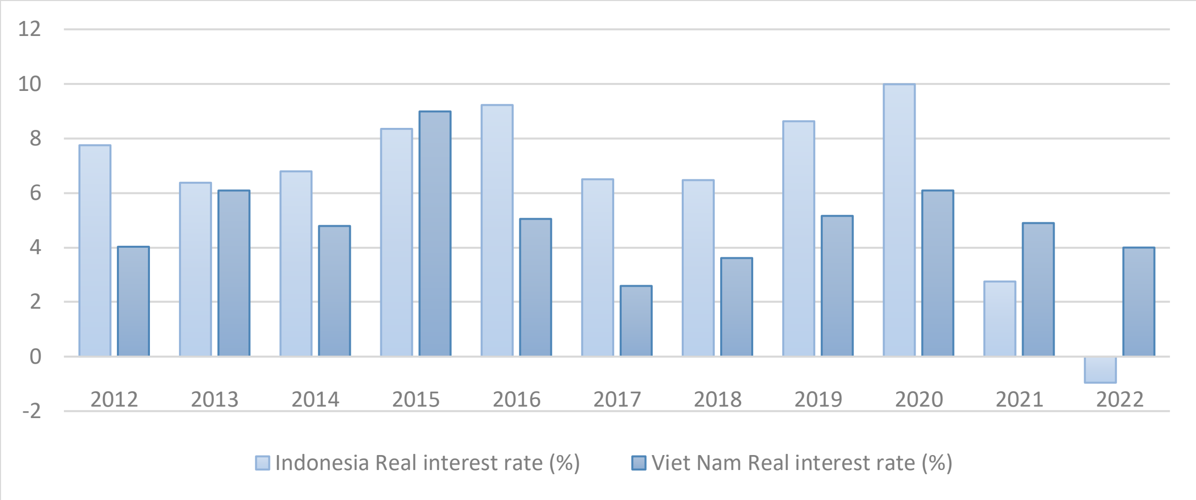

Figure 5: Real interest rate in 2 countries.

High recomendation:

Since the R.I.R in Viet Nam was weaker than Indonesia, the country needed to have a tighter monetary or raising its policy rate like Indonesia have done the BI 7-Day (Reverse) Repo Rate, several times in 2022 and 2023: by increase loanable funds, with a lower rate of interest, foreign investors would be attracted forward the country, therefore the money demand could increase by exchanging foreign currency for domestic currency. So, facing a down on domestic money supply, the interest rate needs to rise to balance the market. Thus, domestic currency in this situation will be more appreciated which could increase the real interest rate rather than the inflation rate.

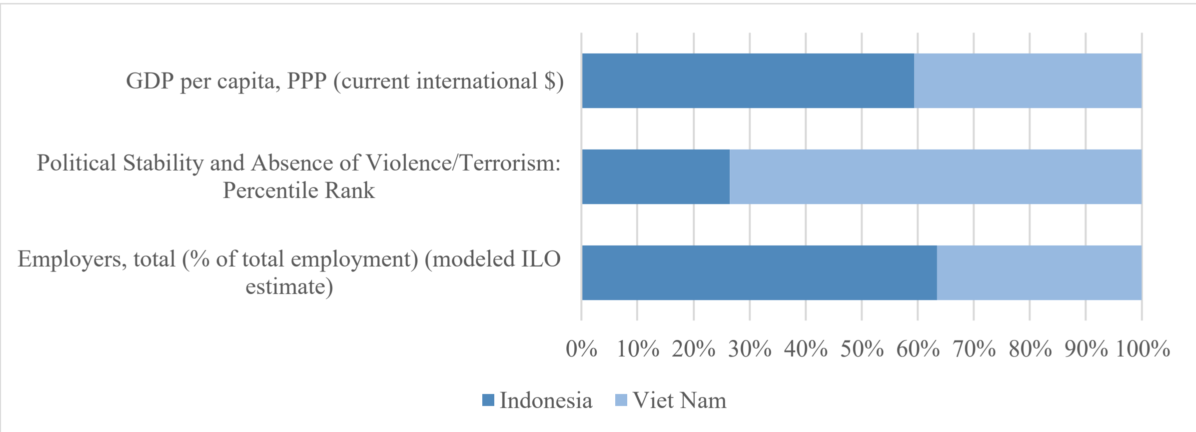

Figure 6: Political and Labor Characteristics.

Political and Labor factors (Figure 6) are another reason why Indonesia's FDI is higher than Vietnam's. The graphic shows that the Indonesian government is not as effective as Vietnam's, however, with a higher rate of GDP per capita in purchasing power parity and a greater employment ratio than Viet Nam, the countries have larger domestic markets, more huge demand with diversified economic make the FDI inflows to Indonesia have increased in recent years, and Indonesia ranked first among the ASEAN countries.

Although the net inflow of FDI as a percentage of GDP (*Figure 6*) in Vietnam has been greater than in Indonesia for many years, the country still faces important difficulties, such as labor quality (skill, knowledge, education), that can affect FDI and cause Vietnam to drop behind Indonesia. As a result, the net inflow of percentage of GDP in Indonesia accounts for only a minor portion of FDI because most of Indonesia's FDI comes from their big domestic market, stable economy through their real interest rate, and other labor and political factors, meanwhile Vietnam accounts for most of it.

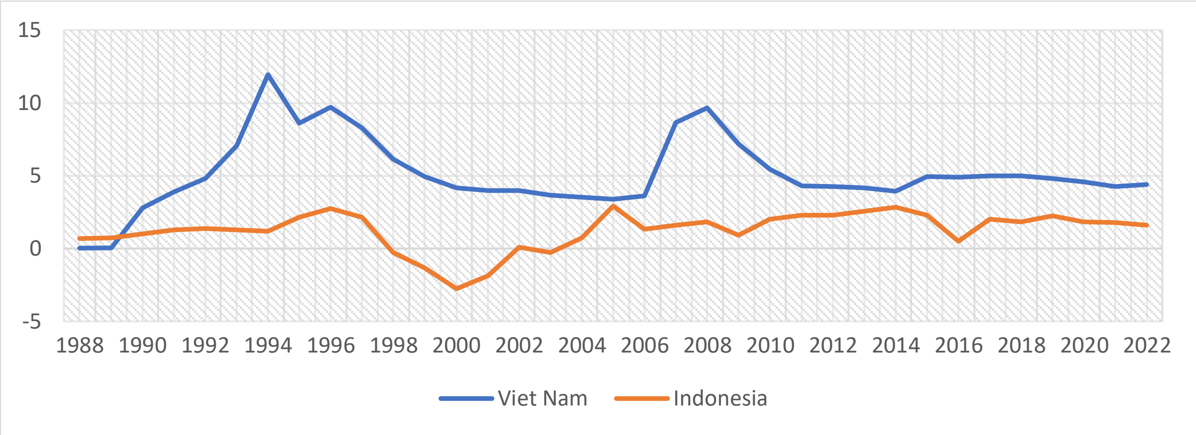

Figure 7: Foreign Direct Investment, net inflow (% GDP) in Viet Nam (1998-2021)

2.3. Comparision between Viet Nam and Lao.

According to the provided figures, Vietnam's mean net inflow (BoP) of FDI is 6,001,688,737, while Laos stands at 368,683,973.1. This indicates that Vietnam's FDI inflow is significantly larger than Laos, with a difference of approximately 16 times. Similarly, when considering the median net inflow, Vietnam's figure of 2,395,000,000 is approximately 15 times larger than Laos' 159,800,000. These statistics demonstrate Vietnam's substantial advantage in terms of FDI inflows compared to Laos, both in terms of the mean and median values

	Lao	Vietnam
Mean	390846638.2	73.45971875
Median	4.031491814	2395000000

Table4: Mean and Median Lao & VN's FDI.

factors/country	Vietnam	Laos
total population	98,186,856.00	7,529,475.00
population growth (annual %)	0,734	1.396
GDP growth (annual %)	8.02	2,7
.Human capital development năm 2020	0,689	0,46

Table 5: Influenced factors in both contries

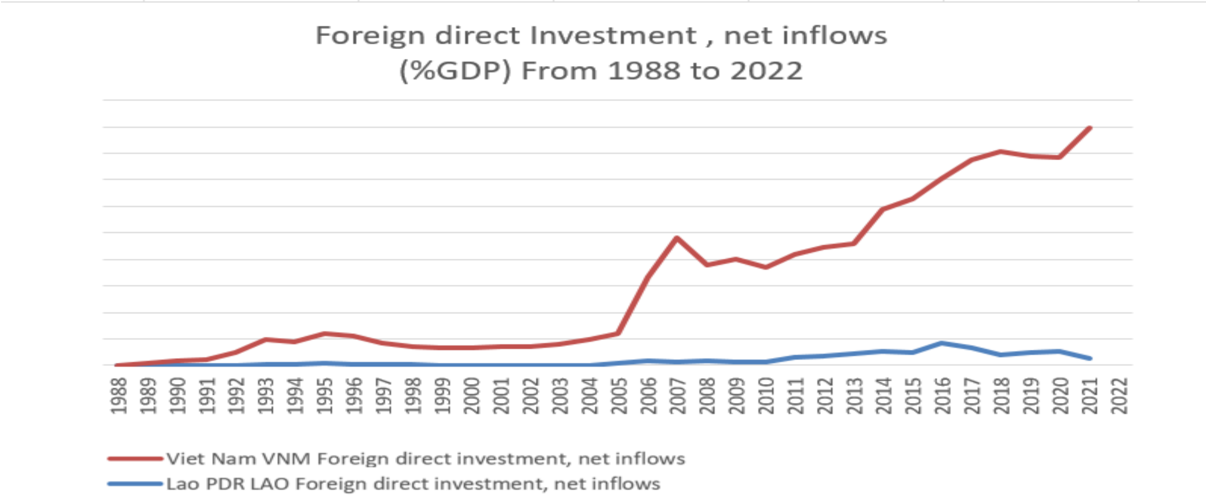

Figure 8: FDI, net inflows (% GDP) from 1988 to 2022

It is worth noting that the net inflow of FDI as a percentage of GDP in Vietnam has historically been greater than in Laos. Vietnam's reliance on FDI as a driving force for its economy differs from Laos, which may rely more on other factors such as domestic market conditions, political stability, and labor factors to attract investment.

On the side of policy stability and government control, Laos has such a higher rank. However, as in the data, Laos' FDI is less than Vietnam's and it can be due to some popular factors. Firstly, because its total population is less than 0,076 times that of Vietnam. Similarly, the population age range of 15–64 in Laos is just as 0,073 as in Vietnam. In specific, Vietnam's labor force is constantly growing along with the increase in population. As of 2018, this energy is 55 million people, using about 60% of the population. On average each year, about 500 - 700 people increase their working energy. Along with economic development, more and more jobs are created, and the employment rate is maintained at a high level. Also, labor force participation rate and human capital development are also in the same scenario.

2.4. __Comparision between Viet Nam and Thailand.__

According to the data, Vietnam's FDI is higher than Thailand's (Table 6) and it can be due to a variety of factors. From 2016, Thailand faced many challenges including the slow recovery of the economy:

- the aviation industry is facing difficulties;
- the fishing industry is subject to EU fines for illegal fishing;
- gas and oil reserves have declined continuously for a decade;
- agricultural output decreased due to drought.

Vietnam's population and structure of society are undergoing transformation, according to the World Bank. Furthermore, the working age (15-64 years old) in Thailand is lower by 0,27 times than in Vietnam and the population growth is expected to be 0,735 in Vietnam and 0,13 in Thailand.

This is because the maternity policy in Vietnam's 1988 supports citizens to have 2 children by providing more days off for maternity leave, allowance, and reduced income tax payment (*Panda, R. (2025, June 11). Vietnam abandons Two-Child policy amid demographic challenge – analysis. Eurasia Review*).

Criteria/Country	Thailand	Vietnam
Population, total	71.697.030	98.186.856
Population ages 15-64, total	49.663.033	67.251.030
Population growth (annual %)	0,13	0,735
GDP growth (annual %)	2,59	8,020
Consumer price index (2010 = 100)	120,60	177,306
Foreign direct investment, net inflows (BoP, current US$)	17.900.000.000	10.196.091.866

Table 6: Factor affecting FDI in both contries.

In comparison to Thailand and other Southeast Asian countries, Vietnam is rapidly increasing its competitive advantage through the signing of many free trade agreements (FTAs). Furthermore, as the first Southeast Asian country to sign a trade agreement with the European Union, EVFTA Vietnam has significantly increased its economic advantages over Thailand and encouraged the relocation of manufacturing and services to Vietnam. The inflation index in both countries is nearly the same (3,86% vs 4,71%) and the stability in politics is a little bit higher for Vietnam as can be seen in two factors: Political Stability and Absence of Violence/Terrorism and Government Effectiveness.

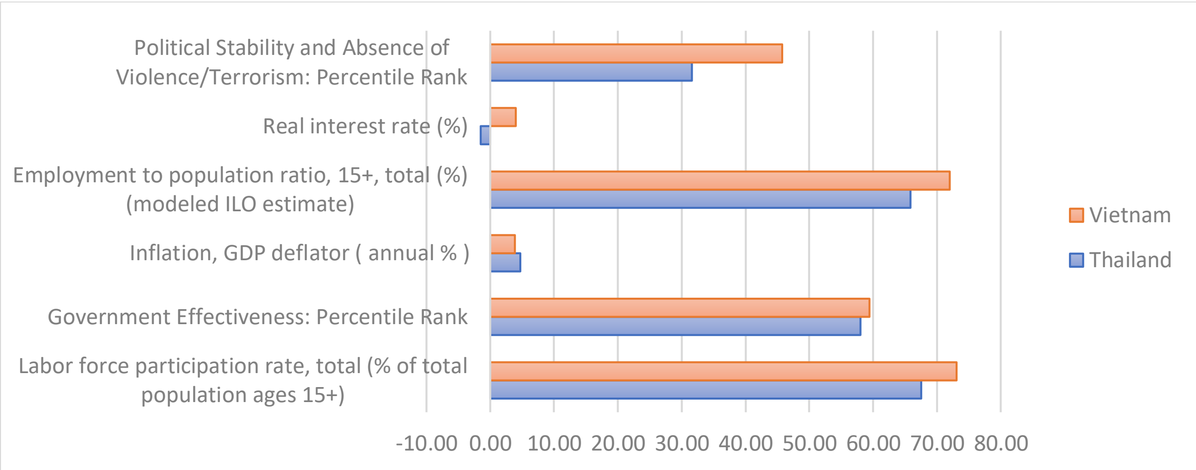

Figure 9: Bar chart show the factors affect to FDI Flow in both nations.

Because COVID-19 raised Thailand's social discontent, which had been aggravated by years of internal conflict. Because the epidemic had a significant impact on areas influenced by political instability, such as private sector investment and consumer spending. The success of Vietnam in attracting international investment can be due to an excellent financial management system that encompasses accounting, taxation, and currency regulation.

In conclusion, according to the research by Dr. Son pointed out a huge challenge for Vietnam. With an average GDP per capita growth of 7% or more, Vietnam can catch up with average countries in Southeast Asia such as Thailand or Malaysia.

INFERENTIAL STATISTIC

1.MULTIPLE REGRESSION

The research model has the following form:

Y_FDI = B0 + B1*X1_GDP + B2*X2_POP + B3*X3_TRADE + B4*X4_INF + B5*X5_EX + B6*X6_IRI + B7*X7_POL + B8*X8_CORR + B9*X9_TIME + B10*X10_LABOR

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0,995223383
R Square	0,990469582
Adjusted R Square	0,982527568
Standard Error	744340929,2
Observations	23

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	10	6,90962E+20	6,90962E+19	124,7126353	1,52281E-10
Residual	12	6,64852E+18	5,54043E+17		
Total	22	6,97611E+20			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	-11571419114	29554851355	-0,391523509	0,702273809	-75965908427	52823070198	-75965908427	52823070198
X1_GDP	1583037,605	803818,7094	1,969396317	0,07243413	-168332,9113	3334408,122	-168332,9113	3334408,122
X2_POP	65,86190424	508,0648207	0,129632877	0,899004453	-1041,116245	1172,840054	-1041,116245	1172,840054
X3_TRADE	6420928,884	8164488,486	0,786445948	0,44685934	-11367963,38	24209821,15	-11367963,38	24209821,15
X4_INF	-123169418,2	110547425,9	-1,11417717	0,287021816	-364031568,1	117692731,7	-364031568,1	117692731,7
X5_EX	-365521,916	331667,5979	-1,102073034	0,292043113	-1088163,534	357119,7016	-1088163,534	357119,7016
X6_RIR	-161373180,9	162626427,9	-0,992293706	0,340642125	-515705728,5	192959366,7	-515705728,5	192959366,7
X7_POL	-825339,992	14145405,07	-0,058346862	0,954432701	-31645530,05	29994850,07	-31645530,05	29994850,07
X8_CORR	-6,401895085	1,708853885	-3,746309232	0,00278968	-10,12516785	-2,678622316	-10,12516785	-2,678622316
X9_TIME	-19659008,35	14072077,65	-1,397022447	0,187705029	-50319431,67	11001414,97	-50319431,67	11001414,97
X10_LABOR	132335487,7	274223822,7	0,482582025	0,638076063	-465146895,3	729817870,7	-465146895,3	729817870,7

Table 7: Show the result of multiple regression.

In there:

- X1_GDP: GDP per capita, PPP (current international $), representing for *market growth potential*.
- X2_POP: Population, total, also representing for *market potential (market size).*
- X3_TRADE: Trade (%GDP), representing one factor in macroeconomics - *the openness of the market.*
- X4_INF: Inflation, GDP Deflator, representing one factor in *macroeconomic stability.*
- X5_EX: Official exchange rate (LCU per US$, period average).
- X6_RIR: Real interest rate.
- X7_POL: Political Stability and Absence of Violence/Terrorism: Percentile Rank.
- X8_CORR: Control of Corruption: Estimate, representing *for political and security*.
- X9_TIME: Time required to start a business (days), representing for *structural procedures.*
- X10_LABOR: Employment to population ratio, 15+, total (%) (modeled ILO estimate), representing *for market labor force*.

# of observation	Mean	Standard Deviation	Max	Min
23	$ 8.550.826.087	$ 5.631.125.631	17900000000	1298000000

In addition, the problem may exist in the model due to some incomplete data (some missing from the secondary data in the original sources and unbalanced panel structure from 10 specific countries (Argentina, Saudi Arica, Thailand, Indonesia, Thailand, Malaysia, Philippine, Lao) in the period 2007 to 2022. The remaining number of observations is 167 obs, including 23 observations for Vietnam.

2.RESEARCH RESULT

This multiple regression model interprets the significance relationship between:

- The dependent variable (Y_FDI)
- The independent varibale (X2_POP).

Overall, the results of the date set model are statistically relevant and consistent with our team estimated research before. At the first glance, based on the table, the intercept (B0) of the formular is negative, **(β = -11571419114).**

we possibly conclude that hen all independent variable such as GDP, POP, TRADE... are equal, that is, FDI flows into our country are very low too. *It is simplified when there are no factors to attract FDI, investors will not see the potential such as the labor market or the consumer market, they will not pour enormous investment into sunk nations.*

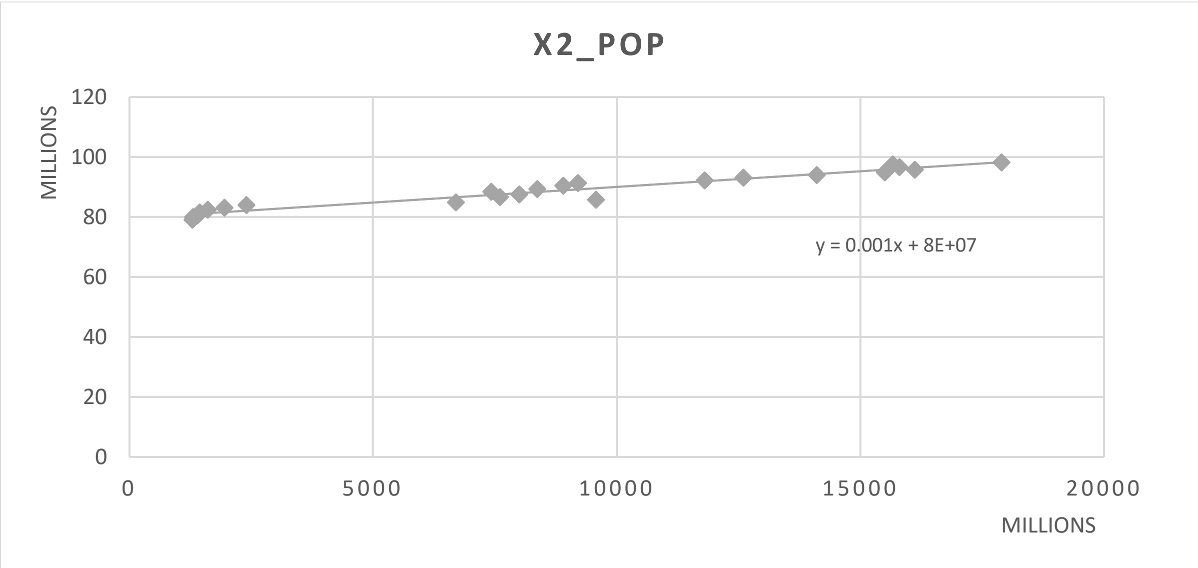

*Figure 10: The orrelation between **Population** and FDI.*

<u>2.1 Group of these factors which have an estimated positive impact on FDI Flow in Vietnam.</u>

*** GDP and Population: X1_GDP; X2_POP**

One of the key determinants found to have a significant impact on attracting FDI in the model was GDP and total population representing market size, which model insight show the positive sign to FDI.

Obviously, when Vietnam's GDP increases by 1 unit ($), the average FDI flow increases by $1583038.61, similarly, each of 1 million people increase lead to level up $65.86 millions in FDI capital. (table 7)

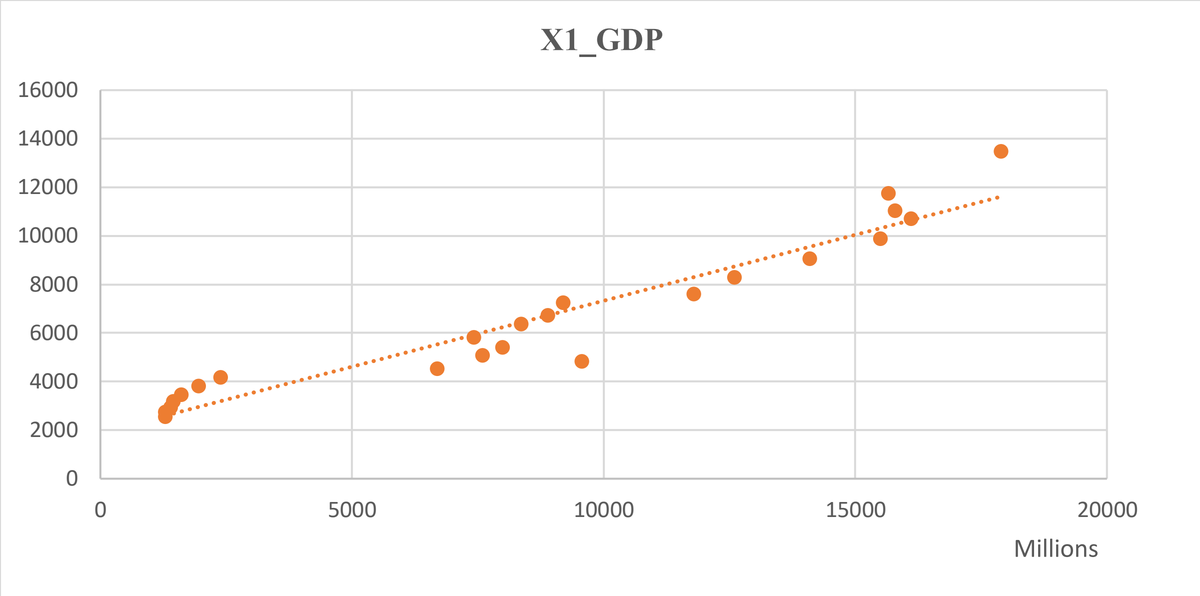

*Figure 11: the correlation **btw GDP** and FDI Flow.*

Correlation analysis using correlation coefficient:

	GDP	POP	
Covariance:	*1,72E+13*	*3,31E+16*	*positive correlation*
Correlation Efficient:	*0,960972611*	*0,971625291*	*positive correlation, strong*

Table 8

<u>*Hidden cause*</u>: The need for a large market for the efficient use of resources and harnessing the size of the economy has a positive influence on FDI. A large market will have high demand and large consumption capacity is a condition to attract foreign investors. The research results show that foreign businesses invest in developing countries in search of market expansion opportunities. Here when referring to the size of the economy: "the larger the economy, when other factors are equivalent – its foreign trade with all other countries will be even greater." refers to scientific research published in FTU's journal.

*** Trade: X3**

The results of the model corresponding to Trade var represent the openness of the economy.

At a significant level 1%, when Trade increases by 1% in Vietnam's GDP, the average FDI Flow will increase by 6.42 million of USD. (table 7)

<u>*Hidden cause*</u>: Import-export turnover also reflects the health of the macro economy, whether it creates long-term confidence for foreign investors. The work of attracting foreign investment (FDI) has been carried out very well over the years thanks to the openness of the Vietnamese economy since it began opening trade.

The question here is, in addition to improving the quality of openness of the economy, how much openness will be appropriate for Vietnam's situation in the general context of the world today. In fact, in 2023 we have had certain achievements but are still struggling to overcome difficulties after the pandemic period. The need to maintain high growth rates seems to go against the desire for stability in the face of external influences. The research results are consistent with Regina Castro's research, The Impact of FDI and Trade Openness on the Economic Growth of the Transition Economies.L52

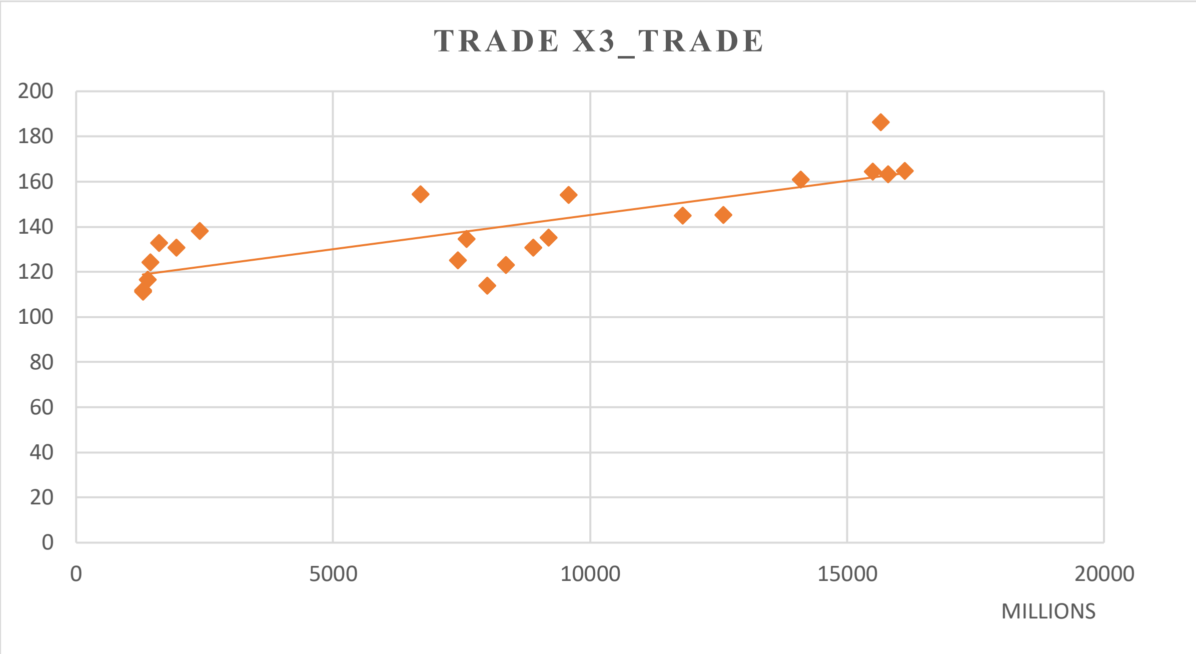

*Figure 12: the correlation btw **the openness of the market** and FDI Flow.*

2.2 Group of factors which have an estimated negative impact on FDI Flow in Vietnam.

***Inflation rate: X4_INF**

Inflation, consumer prices (% annual) of country i in year t, represents a macroeconomic stability factor.

A 1% annual increase in inflation would result in a decrease of 123.16 million USD FDI flow.

Hidden Cause: Usually, it is shown that inflation has positive implications for FDI attraction, the reason is that FDI invested in SEA is a type of FDI seeking profit. High inflation will be accompanied by high economic growth and high rates of return. However, the model shows that inflation has a negative impact on FDI capital flowing into Vietnam. High inflation is expected to bring risks to post-pandemic growth expectations in Vietnam and many other countries. Especially in developing countries like Vietnam, investors often focus on long-term goals, especially the stability of the host economy. Fluctuations in inflation and other financial factors will increase financial risks when investing for foreign investors, which reduces the attraction of FDI capital flows.

	Vietnam	Indo	Malay	Philipin	Lao	Thailand
STD	11,2262836	4,941450908	3,896877757	1,884931659	4,775827373	1,681836

*Table 9: standard deviation of **inflation rate***

Among 6 nations in Asian area, Vietnam has the most dispersed standardize deviation is synonymous with inflation rate in Vietnam has witnessed a changeable fluctuation over past 20 years, considerably affecting Vietnam's FDI attractiveness.

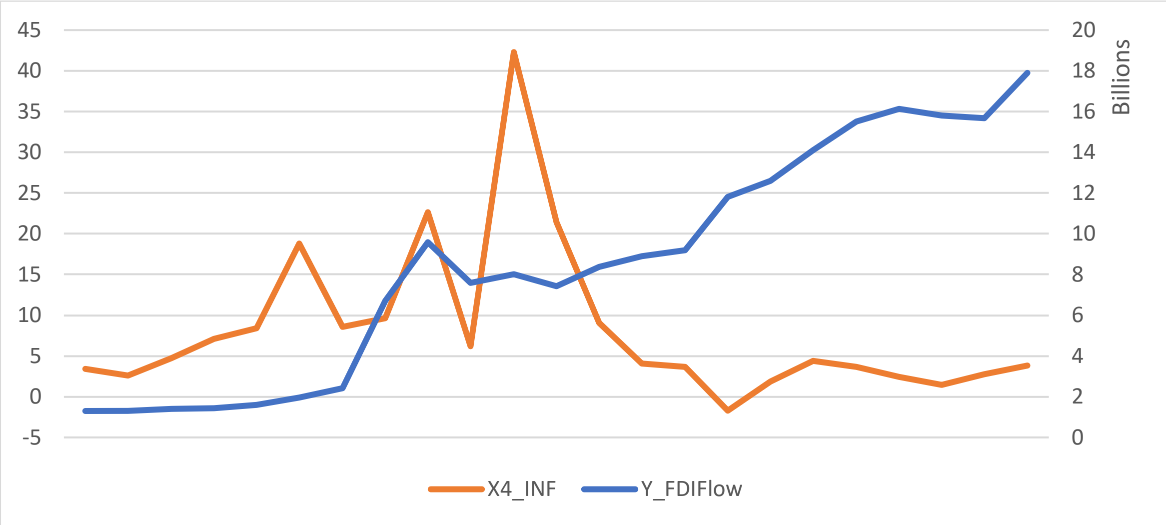

Figure 13: Fluctuation of Vietnam's Inflation rate and FDI from 2000 to 2022.

***Time to start a business: X9_TIME.**

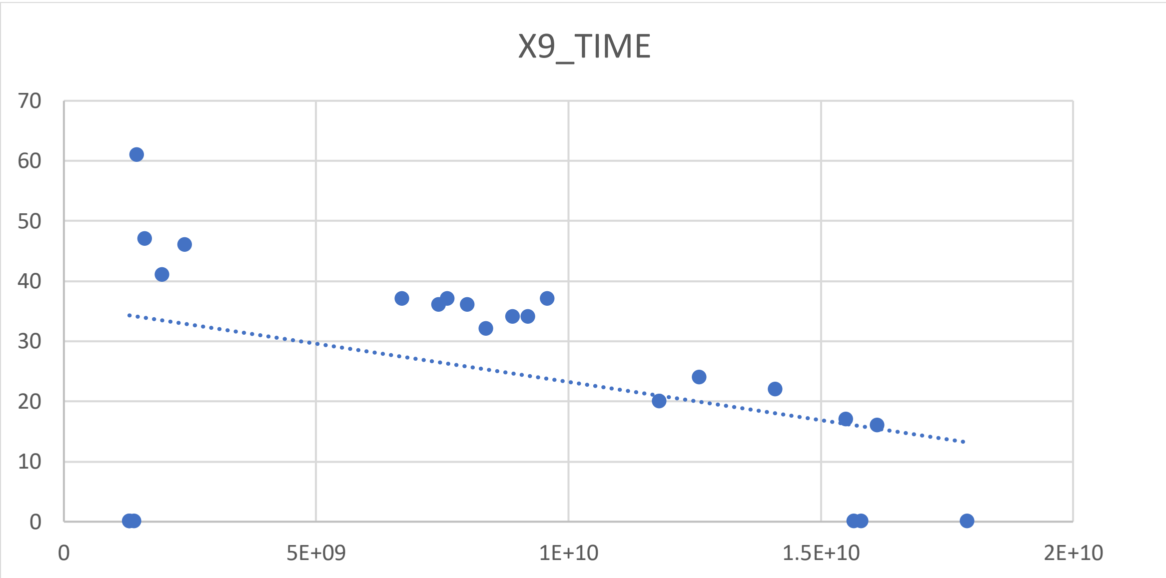

*Figure 14: the correlation btw **Time Var** and FDI Flow*

Covariance:	*-40317893281*	*<0*	*negative correlation*
Correl	*-0,393274515*	*<0*	*negative correlation*

Table 10.

When the time to register for operations increases by 1 day, it is estimated that FDI inflows will decrease by 19.66 million (table 7).

Hidden cause: This is consistent with the nature of foreign investment as business activities, a favorable institutional environment will reduce risks and costs incurred, thereby creating motivation for FDI to participate in the market. In this case, an investor needs to have a business license and not be put on the waiting list for a backlogged license in an ununified regime. Component index reflects post-business registration policies and regulations at the local level: transparency is a measure to know whether businesses have access to legal documents and related documents, planning necessary to operate their business or not.

SECTION 3. CONCLUSION AND POLICY IMPLICATION

1. CONCLUSION

Based on the points mentioned above, it can clearly see that FDI in Vietnam has grown significantly and has an important role in global economics. Factors influencing foreign direct investment (FDI) include the "investment climate," which encompasses general policies and conditions that impact a nation's ease of doing business (corruption, macroeconomic environment, legal system, infrastructure), and the "market potential for growth," which impacts the market's supply and demand. Some factors are less significant than those mentioned but still have a significant impact on the flow of foreign direct investment into Vietnam, such as "tax rates," "human rights," "rule of law," and protection of property rights. "Political and security" factors are related to the stability and transparency of the political and legal system in the country.

Vietnam’s technical innovation is falling behind other nations, which presents a serious challenge as global demands shift to include greater criteria for quality, environmental responsibility, and sustainable value. Because of the changes in production, higher degrees of technology and innovation are needed. Our analysis revealed that Vietnam's potential for innovation is still low, with both domestic and foreign direct investment (FDI) spending little on research and development (R&D).

2. RECOMMENDATION

a. Shift concentration to exchange rate factors:

According to Dr. Nguyen Tu Anh, Director of the Center for Economic Information, Analysis and Forecasting (Central Economic Committee), Vietnam is becoming a "magnet" to attract FDI. It should be emphasized that foreign investors only pour capital into Vietnam when the exchange rate is kept stable.

- Exchange rate fluctuations can impact the relative prices of goods and services between countries, affecting the ability of domestic businesses to compete in global markets.
- Changes in production costs, trade flows and income levels can affect a country's attractiveness for foreign investment.
- Exchange rate fluctuations can affect the expected return and risk of foreign investment, which can impact investment decisions

b. Security environment careness.

Foreign investors are highly interested in Vietnam due to its numerous advantages in attracting FDI. Since starting activities in Vietnam requires security environment:

- Vietnam's commercial investment climate is evolving annually to bring it into compliance with global norms.
- Enhance law enforcement capabilities
- Boost economic viability and foster investment climates, ease corporate operations, and responsibly and thoroughly carry out global responsibilities.

c. Make use of geographic advantages.

Furthermore, it is evident that Vietnam's geographic location draws foreign direct investment (FDI) given its advantageous position for global trade and its status as a connecting hub.

d. Develop the system of labor and employment laws and policies.

- Particularly, research on matters pertaining to pay, labor disputes, labor contracts, collective labor agreements, and modifying and supplementing the Labor Code is required
- In addition, rules to protect workers' interests and grassroots trade union officials should be added to the sector collective labor agreement signing process.
- The government is constructing a network of standard vocational training schools, developing a trained, skilled workforce, and supporting more in the fields of education and training through a number of policies and methods. work.
- Organizations must take a more proactive approach to enhancing their own labor resources as well as forming partnerships with labor supply organizations and vocational training.

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