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Impacts of FDIs and Suggestions for Attracting FDIs

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ABSTRACT

Through the regression analysis method based on data on FDI and labor productivity of 63 provinces/cities in the period from 2010 to 2021, the results allow to confirm that FDI has an impact on local productivity in 4 aspects. Specifically, creating favorable conditions and environment for investors, proposing support packages to encourage FDI projects with large capital scale, using a large number of employees, and achieving high revenue efficiency. And this paper also suggests some solutions to attract FDI in terms of both quality and quantity of FDI projects.

Keywords : FDI, foreign direct investment, investment capital, labor productivity

I. INTRODUCTION

The figures in 2022 on the amount of FDI into Vietnam show that Vietnam is an attractive country for foreign investors. Specifically, in 2022, the total newly registered capital, adjusted and contributed capital to buy shares, buy capital contributions from foreign investors reached nearly 27.72 billion USD. Along with that, the labor productivity of the whole country also recorded a steady increase over the years, specifically, the average labor productivity of Vietnam in the period 2016-2020 increased by 5.8% per year, higher than the period 2011- 2015 (reaching 4.3%) (GSO, 2022). This result is achieved thanks to the significant contribution of FDI; observable through actual data; However, empirical studies are still needed to test this relationship between FDI and labor productivity.

FDI is the movement of capital from the FDI-investing country to the FDI-receiving country for the purpose of profitable business; capital can be money, technology, equipment, machinery or any other asset (IMF, 1993; OECD, 1996). In terms of modalities, FDI includes the acquisition of controlling shares, through the acquisition of enterprises or the establishment of new enterprises abroad; Increasing capital of a foreign subsidiary or lending a subsidiary capital is also a form of foreign direct investment (Boghean & State, 2015).

Therefore, this study chooses the research topic on "The role of foreign investment (FDI) in labor productivity: an empirical study in Vietnamese localities". The study focuses on analyzing the impact of FDI on labor productivity in localities, and based on the obtained results, proposes solutions to attract FDI to contribute to increasing labor productivity.

II. Methodology

Data collection

In 2021, despite facing difficulties due to complicated developments of the Covid-19 epidemic, FDI into Vietnam reached 31.15 billion USD, up 9.2% compared to 2020. This shows that Vietnam The South is an attractive investment environment for foreign investors. Although realized FDI capital of FDI projects in 2021 compared to 2020 decreased by 1.2%; Both newly registered and adjusted FDI capital increased compared to 2020, in which adjusted capital increased sharply by 40.5% (GSO, 2022).

In the localities, according to the statistics of accumulated FDI capital still active by the end of 2021, the 10 provinces/cities attracting the most FDI capital include: Ho Chi Minh, Binh Duong, Hanoi, Dong Nai, Ba Ria - Vung Tau, Hai Phong, Bac Ninh, Thanh Hoa, Long An, Ha Tinh. In which, Ho Chi Minh City ranked first in the country with 52.92 billion USD, accounting for 12.6% of the total registered and operating FDI capital in the country; the number of accumulated FDI projects still in operation reached 10,394, accounting for 30.15% of the whole country. In second place is Binh Duong with total active registered capital of 37,791.6 accounting for ...% of the whole country and the number of active accumulated FDI projects is 4.02 accounting for ...% of the whole country. Hanoi is ranked 3rd in the 10 localities attracting the most FDI in the period to 2021 with a total accumulated registered capital of 37,582.1 million USD, accounting for 8.95% of the whole country and the number of FDI projects. active accumulated is 6,700, accounting for 19.4% of the whole country (GSO, 2022).

Table 1: Top 10 localities attracting the most FDI in the period up to 2021

no	Province	Total active accumulated registered FDI capital (million USD)	Number of active accumulated FDI projects
1	Hồ Chí Minh	52.921,6	10.394
2	Bình Dương	37.791,6	4.022
3	Hà Nội	37.582,1	6.700
4	Đồng Nai	33.999,3	1.796
5	Bà Rịa - Vũng Tầu	33.014,4	517
6	Hải Phòng	23.609,1	897
7	Bắc Ninh	22.485,2	1.717
8	Thanh Hóa	14.715,3	168
9	Long An	12.270,7	1.253
10	Hà Tĩnh	11.739,2	79
	Country	**419.884,1**	**34.479**

Source: General Statistics Office (2022)

Analytical methods

To test the impact of the contributing aspects of FDI on the productivity of local labor receiving investment, the article uses a linear regression method. The regression model is built as follows:

$$Y = a_0 + a_1{*}X1 + a_2{*}X2 + a_3{*}X3 + a_4{*}X4 + a_5{*}X5 + a_6{*}X6 + a_7{*}X7 + \varepsilon$$

In there:

a0 to a7: coefficients to find;

Y: Local labor productivity, measured by the average GDP of workers;

X1, .., X6: independent variables on local FDI;

X7: control variable for local economic growth;

ε: error.

Using software Stata 16

III. Main findings

3.1 FDI and its relationship with labor productivity

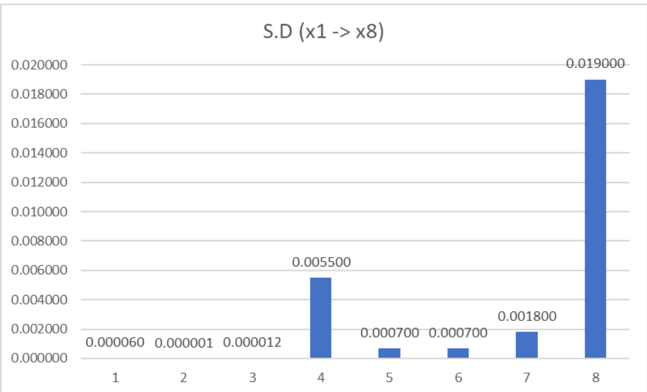
Besides the direct impact from the superior labor productivity of FDI enterprises, indirect effects are also found in the economies of countries receiving FDI inflows. Blomström & Sjöholm (1999) observed that FDI inflows can reduce the technology gap between foreign and domestic firms in developing countries and facilitate their access to technology. of developed countries. Singh (2017) pointed out that FDI offers learning opportunities for local firms; allows to reduce innovation costs and improve labor productivity in enterprises in particular and in the country or locality where the investment is received in general.

Specifically, FDI indirectly affects labor productivity in the host country through vertically linked supplier and distributor relationships (Saurav & Ryan, 2020). FDI enterprises have greater technological capacity and thus produce products of higher quality and are more widely available. Indigenous firms accessing these intermediate goods and services from FDI firms can benefit by an improved mix of inputs.

3.2 Quantitative Results

Assessing the size of FDI capital, the regression results show that the variable X1 - the proportion of cumulative registered FDI compared to GDP has no significant impact on labor productivity (variable Y) in localities at the confidence threshold. 95% with statistical coefficients B = -0.00043 & p = 0.453 > 0.05

Chart 1 - standard dev



(source: author analysis)

Specifically, the higher the on-going FDI capital account for the total investment capital in the local economy, the higher the labor productivity of that locality. In fact, an increase in the proportion of deployed FDI capital means that the FDI sector is more significant, directly contributing positively to the efficiency of local production and business on the basis of the outstanding labor productivity of this sector. Through the internal training system in the enterprise or association with training institutions, the FDI sector has contributed to improving the quality of human resources, thereby helping to increase labor productivity. On the contrary, many registered FDI projects may never be implemented, which will have no impact on the local socio-economics.Regarding the economic growth control variable, the regression results show that the variable X7 has a negative negative impact on the value of labor productivity (variable Y) at the 95% confidence level with B = -0.010523 &p = 0.000 < 0.05. This surprising result implies that as local economic growth increases, labor productivity decreases. The reason may be due to the number of migrants moving to large, fast-growing cities; resulting in a sharp increase in the population in these localities, while the number of immigrants coming to the country is mostly unskilled workers with low labor productivity; leading to a decrease in average labor productivity in fast-growing localities. In contrast, localities with slow growth rate, large numbers of idle or inefficient migrants leaving the locality for big cities, grow rapidly because of many jobs; resulting in a decrease in the population in these localities and an increase in labor productivity in the short term.

IV. Discussion and conclusion

Regarding labor productivity, according to the General Statistics Office (2022), in the period of 2016-2020, the growth rate of 5.8%/year is higher than the rate of 4.3%/year of the previous period 2011-2015. In terms of the overall economy, Vietnam's labor productivity has increased 2.5 times, from 70.3 million VND/worker in 2011 to 171.8 million VND/worker in 2021. In the period 2011- In 2020, the labor productivity growth rate will reach 6.0%, exceeding the planned target of 5.0%, although Vietnam's labor productivity is still much lower than that of other countries in the region. area. In 2021, Vietnam's labor productivity growth rate is about 4.7%, the highest among ASEAN countries. However, the labor productivity level of Vietnam is still low and has a long distance compared to other countries in the region and the world.

In general, besides the specific solutions mentioned above, localities need to establish protection strategies and priorities for foreign investors and foreign workers. Specifically, it is necessary to have policies and regulations for the recruitment of foreign workers such as regulations on the total number of employees to be recruited, on the types of residence for foreign workers as well as eligible subjects. work in the host country. Localities need to establish regulations on necessary occupations that are allowed to recruit foreign workers; guarantee of intellectual property rights: one of the conditions to stimulate and encourage investors is that the ownership of patents and trademarks is guaranteed; priority for government investors: one of the incentives to investors is loans or support from the government. At the same time, it is necessary to set out regulations on land incentives for investors such as: being allowed to own or use land for a reasonable period of time, reduce land rent...; exemption and reduction of a number of taxes such as: capital tax exemption, tax rate exemption, royalty exemption, corporate income tax, import capital goods tax, good income tax exemption and reduction; propose support packages and subsidies from the Government for projects using a large number of workers.

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Conflicts of interest

There is no conflict of interest

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V. REFERENCES

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