CHAPTER I

1. INTRODUCTION

1.1 Background

The socialist Republic of Vietnam is a South East Asian country with a unique and rich history. After launching a political and economic renewal campaign (Doi Moi) in the 1986, the country began to open its doors to world’s economy, heralding a new era of transformation and challenge. Today Vietnam is seen as an emerging market belonging to the most dynamic economies of the world.

Vietnam stretches the length of the Indochinese Peninsula and spans from the capital of Hanoi and the Red River Delta in the north through Ho Chi Minh City and the southern expanse of the Mekong Delta. It is bordered by China, Laos and Cambodia.

Vietnam is one of Asia’s fastest growing economies and may emerge as one of the world’s most compelling investment opportunities in terms of potential long-term growth. Of Vietnam’s 90 million inhabitants, half are younger than 25.1 a young demographic combined with stabilizing politics, accession to the World Trade Organization and a government commitment to pro-market reform is a recipe for potential future growth. Improved living standards, by way of rising disposable incomes, have underpinned local demand for consumer goods. Economic development within the recent past has spurred urbanization and industrialization.

Vietnam is in transition. The country is rapidly adapting new production technologies, modernizing its economy, increasing growth, and diversifying from Asian to global markets. As Vietnam turns towards the West, tremendous and newly-secure investment opportunities open to Western investors.

The government has a new openness to privatization of large stakes (equalization in local parlance) of major telecommunications, petroleum, shipping, and mining enterprises. Deeper measures aimed at improving the business climate for foreign investors in Vietnam are also underway. Significant challenges still exist; including inflation, corruption and foreign ownership regulations, but the government is taking steps to decrease these burdens on investors.

Present opportunities in Vietnam are also defined by favorable macroeconomic conditions. Inflation in Vietnam has dropped substantially since a 2011 high of 18.7%, and 4.5% this year and to hold steady in 2015. The country has posted strong productivity gains, averaging 5.4% in recent years, and GDP growth is still strong at an estimated 5.7% this year. Net exports are stronger than at any time in the last decade. Vietnam exports to reach $150 billion by the end of 2014. Government debt will likely decrease from privatizations, and non-performing loans (NPLs) decreased from 17% in 2012 to 5.4% this year. The Prime Minister Nguyen Tan Dung will make good on his goal to decrease NPLs to 3% by December 2015.
Vietnamese partners have done extensive research on debt and equity privatization opportunities in Vietnam. From the 432 opportunities identified by the government in 2014, plus our own, we selected the best 31 deals. These deals range from $7 million USD to $4.3 billion, and cover entities with values of $14 million to $9.4 billion. The proposed debt and equity deals offer stakes from 20% to 75%, and include infrastructure, petroleum, manufacturing, and finance sectors.

Recent government efforts to improve the Vietnamese economy and investment environment include improved economic diversification, global integration, investment legislation, and economic policy. According to the 2015 World Bank Ease of Doing Business rankings, Vietnam beats major investment destinations such as China, India, and Brazil. We predict additional steps to improve investor confidence in Vietnam, including through rational, methodical, and selective privatization that unlocks sector potential but protects local communities, the environment, and government value. The government attention to price stability and corruption, will unlock major gains in foreign direct investment and GDP growth that will reverberate from 2015 to 2030.

Vietnam enters the world economy at an unpropitious time. World prices for the nation’s top export—crude oil and rice remain weak, and are not expected to rebound anytime soon. Vietnam hopes to develop its copious mineral wealth over the latter half of the decade, but volatile and unpredictable world prices for minerals may render the investments unprofitable, in the fact weak world commodity prices. Vietnam plan to rapidly shift its export composition toward more light-manufactured goods. This is where the cheap and abundant labor force comes into the equation. But even this highly touted competitive advantage cannot be counted on to lead Vietnam’s long-term development. This is because Vietnam enter the world economy.

Sectors that offer the greatest investment opportunities include information and communication technologies (ICT), mining, tourism, manufacturing, education, and infrastructure (including energy). These sectors all offer a good combination of high global and domestic demand and a myriad of investment incentives, such as tax breaks.

As an emerging market, Vietnam naturally faces some challenges, including corruption, low levels of education and skills, poor infrastructure, bureaucratic backlogs, and limited transparency and predictability. Foreign firms have recommended a few keys to success when establishing a presence in Vietnam: take the time to find the right local partner; hire local accounting and legal firms to facilitate your investment (and help you obtain the appropriate certificates and licenses); and build strong and positive relationships with senior-level government officials, key business influencers, associations and chambers of commerce.

Vietnam’s propitious attributes are made even more attractive by policies designed to promote trade and investment. The economy is in transition, shedding the stifling tenets of command economics in favor of free-market reform, Doi Moi, or economic renovation, lies at the core of Vietnam’s program to unshackle the economy. Since 1986, the inception of (Doi Moi), prices have been decontrolled, the agricultural sector deregulated, and state enterprises overhauled. More
heartening for Western companies, trade and foreign-investment regulations have been dramatically loosened; the nation’s economic performance over the past years has been nothing short of remarkable.

1.2 Purposes of the Study

To study the point out in progressing of the regional Economic institution even though World economy has been struggling to overcome the global crisis

The purpose of the study is to know about the role of international on economic growth in the Regional institution by using endogenous growth model for the period in history. The period after war cold,

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 ✓ Regeneration and Governance
 ✓ Social Enterprise and Community Development
 ✓ Enter prose and minorities
 ✓ Development and Innovation
 ✓ Access to finance
 ✓ Employment and Labour Market

In addition, in order to strengthen my estimation results about impact of the law system on economic growth, the role of VIOB in domestic investment for money market and money market is also tested to consider whether VIOB stimulate or substitute domestic investment and thus contribute to economic growth in Vietnam

1.3 Benefit of Study

1.3.1 It will make me deeply review all subjects that had already learned, those that relate to this independent study section.

1.3.2 More understanding on business, investment, the trend of economic growth, movement and demand of banking system in recent day.

1.3.3 It will make me confident to play as business man by employing the theory of managerial economic, Human Resource, vision of domestic and international business target, International financial effect and management information system.

1.4 Scope of Study

To study on examines the link between foreign direct investment and economic growth in Vietnam after renovation
(Doi Moi) in 1986 to present day.

Foreign direct investment (FDI) influences the host country economic growth through the transfer of new technologies and know-how, formation of the human resources, integration in global markets, increase of the competition, and firms’ development and reorganization. A variety of studies considers that FDI generate economic growth in the host country. However, there is evidence that FDI is also a source of negative effects for the host country. Existing literature also emphasizes the ambiguity of the results, and mentions that this ambiguity can be explained by the existence of a gap in the research concerning the ways through which FDI influences the host country economic growth.

Foreign direct investment (FDI) has taken an important role in Vietnam’s development process since the launch of Renovation in 1986. After Vietnam’s accession to the World Trade Organization (WTO), a large amount of FDI capital flowed into the country, up to 143,950.3 million USD. Wherein, there was a switching of FDI capital from the manufacturing sector to the service one in tandem with a downward trend in the agriculture. Like the previous duration, Vietnam’s FDI capital sources came mostly from Asia-Pacific region and European economies (net capital, technology exporters) probably caused by Vietnam’s integration emphases on dynamic Asia-Pacific region. Geographical location of FDI was characterized by a concentration on the three main key economic regions: the Red River Delta (surrounding Ha Noi, Hai Phong, and Quang Ninh), the Central region (surrounding Da Nang), and the Southeast of the country (surrounding Ho Chi Minh City) owing to good infrastructure, abundance of skillful labor force, and large market size. By constructing a gravity model, using descriptive, quantitative methods and applying them to recent data set by Vietnam’s authorities and the international organizations during the period from 1995 to 2011 of 18 Vietnam’s major country partners, the author finds evidence broadly consistent with the prediction that the WTO has had a positive impact on FDI flows to Vietnam.

1.5 Organization of the Study

This study is organized into five chapters. Chapter 1: is the introduction which includes statement of the problem, the objective and scope of the study. Chapter 2: Vietnam Economy Overview, and Vietnam geography and climate. And Vietnam is a development success story. Political and economic reforms (Doi Moi) launched in 1986 have transformed Vietnam from one of the poorest countries in the world. Chapter 3: The Impact of the World Trade Organization (WTO) Regime on Foreign Direct Investment (FDI) Flows to Vietnam: Chapter 4: Land Issues, Foreign trade and investment have increasingly influenced economic development. In chapter 5: Gives out the Conclusion and Recommendation. The last Appendix and Biography